FOREIGN EXCHANGE RISK MANAGEMENT POLICY-2026

Agrani Bank PLC.

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List of Acronyms

FX	Foreign Exchange
BoD	Board of Director
STP	Straight Through Processing
BFIU	Bangladesh Financial Intelligence Unit
IPO	Import Policy Order
STR	Suspicious Transaction Report
FEPD	Foreign Exchange Policy Department
FRTMD	Forex Reserve & Treasury Management Department
ALCO	Asset-Liability Committee
PD	Primary Dealer
NOP	Net Open Position
FCY	Foreign Currency
SDF	Standing Deposit Facility
CRR	Cash Reserve Ratio
SLR	Statutory Liquidity Ratio
OMR	Out of Market Rate
CDD	Customer Due Diligence
CCS	Cross Currency Swap
GFET	Guidelines for Foreign Exchange Transaction
LCY	Local Currency
MCO	Maximum Cumulative Outflow
VaR	Value at Risk
EAR	Effective Annual Interest Rate
MM	Money Market
MIS	Management Information System
BAFEDA	Bangladesh Foreign Exchange Dealers' Association
DIBOR	Dhaka Inter-Bank Offer Rate

Chapter 1: Policy Statement

1. Introduction

Modern banks engage in a wide range of complex financial activities, all of which involve inherent risks. These risks are defined as potential events that may lead to financial, physical, reputational losses or create uncertainty about the future of the bank. Proper risk management is essential to safeguard against potential adverse outcomes.

The success of a foreign exchange trading business depends on the ability to effectively identify and manage the various risks encountered in the foreign exchange trading environment. To achieve this, an organization's policies and processes must be developed over time for ensuring that risk management is carried out in a structured and controlled manner.

The key risk areas of a bank, though not limited to these, can be broadly categorized into:

a. Market Risk
b. Liquidity Risk
c. Credit Risk
d. Operational risk
e. Legal, Regulatory and Compliance Risk
f. Reputational Risk
g. Strategic Risk

The bank faces a variety of risks between the execution of an FX trade and its final settlement. These risks vary depending on the type of pre-settlement and settlement arrangements. The risks associated with settlement risk include principal risk, replacement cost risk and liquidity risk. Additionally, there is a presence of operational and legal risks between trade execution and final settlement and also the various pre-settlement and settlement arrangements and their impact on risks.

For the purposes of clarification, the risks are described from the point of view of a bank and a failed FX counterparty of that bank., focusing on a single FX trade between the two parties. While risk is an inherent part of bank, it must be actively and prudently managed to minimize adverse consequences and to capitalize on profitable opportunities. Effective risk management typically involves the following steps:

- Risk identification
- Risk measurement
- Application of Risk management tools
- Risk management

1.1. Market Risk

The Board of Directors of Agrani Bank PLC. determine the overall risk appetite and exposure limits in relation to its market risk strategy. Based on these tolerances, the senior management of the bank establish appropriate risk limits. These limits should be set for individual business units of the bank and it must be consistent with the strategic objectives, risk management frameworks and risk tolerance levels of the bank. The limits should be approved and periodically reviewed by the Board of Directors and/or independent risk management unit with changes in market conditions or resources prompting a reassessment of limits.

Agrani Bank PLC. needs to ensure consistency between the following types of market risk limits:

- **Gap or Maturity Limits*:*** Gap or Maturity limits are put in place to monitor and manage exposures that arise from differences in maturity dates or re-pricing dates of assets and liabilities. Maturity gaps can be calculated for specific time bands, such as 3 months, 6 months, 9 months, 12 months, etc. to avoid maturities concentrating in a particular maturity band. Such limits can be used to reduce the volatility by staggering the maturity and/or repricing and thereby smoothing the effect of changes in market factors affecting price. Maturity limits are required to monitor and manage the liquidity risks as well as repricing risks.
- **Notional or volume trigger:** Notional or volume trigger needs to be monitored based on the notional amount of the total outstanding FX contracts. This helps to guard against any unusual transaction pattern in the dealing room. This trigger does not capture any price risk or market volatility risks.
- **Stop loss limits:** Stop loss limits are established to avoid unrealized loss in a position from exceeding a specified level. When these limits are reached, the position must either be liquidated or hedged. Typical stop loss limits include those relating to accumulated unrealized losses for a day, a week or a month. This limit can be given to individual dealers or to a trading desk as a whole.
- **Value at Risk limits (VAR):** VAR is generally accepted and widely used tool for measuring market risk inherent in trading portfolios. It follows the concept that reasonable expectation of loss can be deduced by evaluating market rates, prices observed volatility and correlation. VAR summarizes the predicted maximum loss over a target horizon within a given confidence level.

  Generally, there are three ways of computing VAR

    - Parametric method or Variance covariance approach
    - Historical Simulation
    - Monte Carlo method

Agrani Bank PLC. needs to set limits, including operational limits, for the different trading desks and/or traders which may trade different products, instruments. Limits need to be clearly understood and any changes clearly communicated to all relevant parties. Risk Taking Units must have procedures that monitor activity to ensure that they remain within approved limits at all times.
Limit breaches or exceptions must be promptly reported to the appropriate senior management without delay.

1.2 Liquidity Risk

Liquidity risk is considered a major risk for banks. It arises when a bank is unable to meet its funding obligations (including in foreign exchange) when due either from own sources, wholesale market sources or from the sources of the lender of the last resort. Liquidity risk is particularly significant because it can quickly escalate into a crisis and potentially lead to insolvency or damage of reputation.

The condition of funding from the wholesale market depends upon the overall liquidity conditions of the market. In a tight liquidity scenario, banks facing a shortage may be forced to undertake transactions at significantly higher costs, leading to reduced earnings or even losses. In the worst-case scenario, severe liquidity shortages can prevent a bank from executing transactions altogether, even at prevailing market prices, potentially resulting in bankruptcy. To mitigate such risks, Agrani Bank PLC must establish appropriate liquidity limits that align with the risk appetite of the bank and are tailored to various market conditions and forecasts. These limits determined by the Board of Directors, Senior Management or the Assets Liabilities Risk Management Committee (ALCO) of the bank.

The prerequisites for effective liquidity risk management include an informed board, capable management and staff having relevant expertise and efficient systems and procedures. It is primarily a duty of the Board of Directors to understand the liquidity risk profile of the bank and the tools used to manage liquidity risk. The board needs to ensure that the bank has necessary liquidity risk management framework and that the bank is capable of managing any uncertain liquidity scenarios. The board of the bank is responsible to:

- Position the bank's strategic direction and tolerance level for liquidity risk.
- Formulate the Asset Liability Risk Management Committee (ALCO) who is responsible to manage the liquidity risks of the bank.
- Continuously monitor the bank's performance and overall liquidity risk profile.
- Ensure that the liquidity risks are identified, measured, monitored and controlled.

Agrani Bank PLC. utilizes the flow measures to determine their future funding requirements including in foreign exchange. A cash flow projection of the bank estimates the inflows and outflows and thus net deficit or surplus (GAP) over a time horizon. This will enable the bank to better it's position even during crises.

1.3. Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the Bank's clients may be ambiguous or untested. This risk exposes the bank to fines, payment of damages, the voiding of contracts, etc. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and an inability to enforce contracts.

Agrani Bank PLC. will fully conversant with compliance regulations relevant to the foreign exchange business of the bank. All audit recommendations arising from internal and external audits or from regulators must be regularly reviewed by departmental executives to ensure that recommendations covering their area of operations have been implemented and maintained.

The following indicators will be used when assessing the quality of compliance risk management:

Strong	Management fully understands all aspects of compliance risk and exhibits a clear commitment to compliance. The commitment is communicated throughout the bank.
	Authority and accountability for compliance are clearly defined and enforced.
	Management anticipates and responds well to changes of a market, technological, or regulatory nature.
	Compliance considerations are incorporated into product and system development and modification processes, including changes made by outside service providers or vendors.
	When deficiencies are identified, Management promptly implements meaningful corrective action.
	Appropriate controls and systems are implemented to identify compliance problems and assess performance.
	Training programs are effective, and the necessary resources have been provided to ensure compliance.
	Compliance management process and information systems are sound, and the bank has a strong control culture that has proven effective.
	The bank privacy policies fully consider legal and litigation concerns.
Satisfactory	Management reasonably understands the key aspects of compliance risk. Its commitment to compliance is reasonable and satisfactorily communicated.
	Authority and accountability are defined, although some refinements may be needed.
	Management adequately responds to changes of a market, technological, or regulatory nature.
	While compliance may not be formally considered when developing products and systems, issue is typically addressed before they are fully implemented.
	Problems can be corrected in the normal course of business without a significant investment of money or management attention.
	Management is responsive when deficiencies are identified.
	No shortcomings of significance are evident in controls or systems. The probability of serious future violations or noncompliance is within acceptable tolerance.
	Management provides adequate resources and training given the complexity of products and operations.
	Compliance management process and information systems are adequate to avoid significant or frequent violations or noncompliance.
	Bank privacy policies adequately consider legal and litigation concerns.

Weak	Management does not understand, or has chosen to ignore, key aspects of compliance risk. The importance of compliance is not emphasized or communicated throughout the organization.
	Management has not established or enforced accountability for compliance performance.
	Management does not anticipate or take timely or appropriate actions in response to changes of a market, technological, or regulatory nature.
	Compliance considerations are not incorporated into product and system development.
	Errors are often not detected internally, corrective action is often ineffective, or Management is unresponsive.
	The likelihood of continued violations or noncompliance is high because a corrective action program does not exist, or extended time is needed to implement such a program.
	Management has not provided adequate resources or training.
	Compliance management processes and information systems are deficient.
	Bank privacy policies are nonexistent or do not consider legal and litigation concerns.

1.4. Reputational and Fraud Risk

Reputational risk should be regarded as a generic term embracing the risks, from any source, that can negatively impact reputation of the bank, and not as a category of risk in its own right. Regulatory noncompliance, loss of customer data, unethical employee behavior, or an unexpected profit warning can all damage the reputation and stakeholder confidence which may eventually result in a credit downgrade as well. These risks must also be addressed by Agrani Bank PLC.

1.5. Credit Risk

Credit risk arises from a failure of an obligor to perform as agreed. An investor is at risk if a borrower defaults on a financial obligation. This can be divided into two categories. Agrani Bank PLC. has Credit Policy regarding selection of counterpart to minimize the credit risk. Agrani Bank PLC. uses the ratings of independent credit rating agencies and their important financial ratios to judge the credit worthiness of counterparty to ensure safety of funds. Agrani Bank PLC must properly manage these risks.

1.6. Operational Risk

Operational Risk is defined as the risk of losses resulting from inadequate or failed internal process, people and systems or from external events. Operational Risk can arise from both internal and external factors, some of which are as below:

Internal

- Operational errors
- Non-compliance with banking regulations, legal requirements etc.
- Non-compliance with internal guidelines
- Infrastructure failure, including technological ones

- Launching new products without adequate operational support
- Late or incorrect payments
- Staff fraud
- Inadequate or incorrect documentation etc.

External

- Adverse legal judgments
- Deliberate external fraud attempts against the Bank
- Money laundering
- Outsourced activities
- Natural disaster, fire, theft etc.

Agrani Bank PLC. needs to properly identify, assess, monitor and control its operational risks. The bank must also ensure that its systems support appropriate risk management controls and have sufficient capacity, scalability and resiliency to handle foreign exchange volumes under normal and stressed conditions.

1.6.1. Key Considerations

a. Agrani Bank PLC. must ensure that its operational risks are appropriately represented in the bank's operational risk management framework and confirm trades in a timely manner, using electronic methods and standard settlement instructions, where practicable.

b. Agrani Bank PLC. must have a robust capacity management plan to ensure that its systems have sufficient capacity and scalability to handle increasing and high-stress FX trading volumes. The plan should include the timely monitoring of trading volumes and capacity utilization of key systems to prevent it from approaching critical levels. The bank should also have robust business resiliency and continuity plans to manage its operational risks and complete its FX settlement obligations.

1.6.2. Operational Risk Management Framework

a. Agrani Bank PLC. should establish an operational risk management framework that identifies, assesses, monitors and controls the operational risks of the bank. The framework should address the accuracy, capacity and resiliency of the operational processes of bank and systems for FX settlement. The bank should periodically reassess its operational risks, including risks that stem from changes in its FX portfolio.

b. The operational risks can arise from deficiencies in information systems, internal processes, personnel or disruptions from external events. These risks can lead to inadequacies in the accuracy, capacity and resiliency of the bank's operations and cause delays or errors in trading data or confirmation of FX trades. Further, operational risks can lead to losses resulting from the bank's failure to meet obligations on time and create or exacerbate other risks like liquidity risk and reputational risk. Agrani Bank PLC. should have appropriate plan to minimize the above risks.

c. Agrani Bank PLC. should maximize the use of Straight Through processing (STP) by employing systems that automatically feed transactions, adjustments and cancellations from trade execution systems to other internal systems, such as operations and credit-monitoring systems. STP helps to ensure that data is disseminated quickly, accurately and efficiently throughout the bank and allows for effective monitoring and control of risks from trade execution to settlement. For example, STP can facilitate the timely confirmation of trades with counterparties and eliminate errors from manual processing. Maximizing the use of STP, however, does not fully eliminate operational risk. In addition, STP systems require monitoring and sufficient capacity and scalability. In the event that STP systems are disrupted, a bank should have contingency procedures to continue its operations.

d. Agrani Bank PLC. should establish processes and procedures that allow it to confirm or positively affirm FX trades as soon as practicable after execution to reduce the potential for losses from market risk or other sources. Bank should use electronic methods and standard settlement instructions to maximize the use of STP and allow for prompt confirmation and affirmation. Escalation procedures should be in place to resolve unconfirmed transactions. Trade confirmations and affirmations should be transmitted in a secure manner to mitigate the possibility of fraudulent correspondence.

1.6.3. Capacity

a. Agrani Bank PLC. should have a robust capacity management plan for its FX systems, including trading, credit monitoring, operations and settlement systems. When assessing capacity needs, Agrani Bank PLC. should consider the sufficiency of FX systems and operational personnel.

b. Agrani Bank PLC. should ensure its FX systems have sufficient capacity and scalability to handle increasing and high-stress FX volumes. The capacity plan of the bank should include forecasting of expected and high-stress capacity needs. The forecasts should consider the FX trading behavior of the bank and its clients.

c. Agrani Bank PLC. should ensure its FX systems are designed appropriately for the scale of its current and expected FX business activity. Further, the bank should design its FX systems to accommodate the potential for large trading spikes in stress situations, as appropriate. Finally, FX systems of the bank should be flexible enough to meet changing operational needs.

d. The capacity plan should include timely monitoring of trading volumes and capacity utilization of key systems. The bank should monitor trading volumes in a timely manner to prevent them from reaching a critical level and assess the potential for large FX trading spikes.

1.6.4. Contingency Planning

Agrani Bank PLC. should develop and test its business resiliency and continuity plans to ensure continued operations following a disruption. The bank should identify and address various plausible events that could lead to disruptions in their FX-related operations and should have appropriate systems, backup procedures and staffing plans to mitigate such disruptions. Business continuity plans should be documented and periodically reviewed, updated and tested by proper authority.

1.7. Settlement Risk

Foreign exchange settlement risk arises when a bank in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought. Due to counterparty default, operational problems, market liquidity constraints and other factors, foreign exchange settlement risk may take place in the foreign exchange market which involves both credit risk and liquidity risk. The risk may be greater if there is an adverse price fluctuation between the contract price and the market price. From the point of view of credit risk dimension if a bank cannot make the payment of the currency, it sold conditional upon its final receipt of the currency it bought, it may face the possibility of losing the foremost value of the transaction. Usually, the duration of settlement is an intraday phenomenon in some cases it may be even longer i.e. overnight/over weekend or can last for several days. The receiving bank may be in liquidity risk if unsettled funds are required to meet obligations to other parties and this may be severe if the unsettled amount is larger or the alternative source of fund may be lift up at short notice in the unreceptive market. An important dimension of foreign exchange settlement risk is the systematic risk aspect which relates with the size of the bank’s foreign exchange exposures and their capital as a result of failure of one counterparty could lead to that banks insolvency.

The procedures for managing the foreign exchange settlement risk of the bank should be according to the range and scope of its activities. FX settlement risk management should initiate from the highest levels of the organization with a policy on it from the bank’s board of directors which should be an integral and consistent part of the bank’s overall policy towards counterparty risk. It should be regularly reviewed and modified to take into account of new circumstances and changes in the scale and nature of the bank’s FX operations or in the method of settlement used.

Agrani Bank PLC. must have prudent counterparty limits for foreign exchange settlement exposures. An FX settlement limit should be established for each counterparty i.e. the maximum exposure the bank is willing to take with a particular counterparty should be determined. The limit structure depend on credit risk policy of the bank as well as target market criteria. Limits set by the bank should strictly be followed in case of foreign exchange settlement risk exposures for each counterparty. Prior approval from the line management of Treasury is required for any planned excess over the settlement limit. Exposure measures should be updated promptly as new deals are struck or when exposures from existing trades last longer than expected. Agrani Bank PLC. should develop effective monitoring system which enables them to observe developments in real time in case of not to exceed the settlement limits with large exposures for the better management of foreign exchange settlement risks. Even the bank should put additional emphasis on those exposures which are large or with less credit-worthy counterparties or in case of a series of fails indicates an underlying credit- worthiness problem. In general, a review by the credit risk management personnel should take place for necessary corrective actions if any unauthorized limit excess still occurs despite these precautions.

1.7.1. Operational and Legal Risk Management Relating to Settlement

The bank may also face FX settlement-related risks caused by weaknesses in its own operations and weaknesses in the legal enforceability of contractual terms and the governing law applicable to its transactions. If a bank has inadequate operational capabilities or if there are weaknesses in the legal basis for the pre-settlement and settlement arrangements, it can face increased principal risk, replacement cost risk and liquidity risk relating to counterparty failure.

Inadequate skills and insufficient processing capacity may increase potential exposures. These weaknesses can cause operational delays, inaccurate confirmation and reconciliation or an inability to quickly correct or cancel payment instructions. Legal risk occurs when a counterparty's contractual FX obligations are non-binding, unenforceable and subject to loss because:

i. The underlying transaction documentation is inadequate.

ii. The counterparty lacks the requisite authority or is subject to legal transaction restrictions.

iii. The underlying transaction or contractual terms are impermissible and/or conflict with applicable law or regulatory policies.

iv. Applicable bankruptcy or insolvency laws limit or alter contractual remedies.

Legal problems may affect settlement of a foreign exchange transaction. Legal issues may compromise the legal robustness of netting, the enforceability of unilateral cancellation times or certainty about the finality of the receipt of currency.

Pre-settlement risk:

The risk that a client defaults on its agreement with the bank before the settlement day. Whilst the bank has not paid away any funds, it still has to replace the contract at the current market rates, which might have moved against. In this case the bank is exposed to possible adverse price fluctuations between the contract price and the market price on the date of default or final liquidation. The bank's loss would then be the difference between the original contract price and the current market price on the date of default.

To mitigate settlement risk and prevent fraud, Agrani Bank PLC. uses authenticated electronic trading platforms (such as SWIFT or Bloomberg) for settling foreign exchange related transactions including LC issuance, LC advising, LC amendments, LC confirmations, Reimbursement Authority, and Reimbursement Amendment Authority.

Agrani Bank PLC. must have appropriate counterparty limits in place for their treasuries. The limit structure will depend on the credit risk appetite of the bank based on the credit risk policy as well as target market criteria. All such credit risk limits should be set by the credit risk approving unit of the bank which is independent from the treasury dealing function. Any excesses of pre-settlement risk limits must be escalated to management immediately. Traders should make special and/or interim limits request on a prior basis in cases of any foreseeable limit excesses and/or for needs to transact higher amounts for specific reasons.

Settlement Risk Arisen from UNSC Sanction:

As a member of the United Nations, Bangladesh is obliged to comply with the instructions of the resolutions adopted by the Security Council under Chapter-VII of UN Charter. The instructions contained in the United Nations Security Council (UNSC) Resolution 1288 (1999) and its subsequent resolutions and other resolutions have to be complied and if any account/transaction operated in the name of the persons or institutions listed in those resolutions or in the name of institutions owned or controlled directly or indirectly by them; the accounts have to be frozen without delay and the same have to be reported to Bangladesh Financial Intelligence Unit (BFIU). Any transaction operated in the name of the persons or institutions listed in Resolutions relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing, adopted by the Security Council under United Nations Charter-VII, or in the name of institutions owned or controlled directly or indirectly by them; the accounts have to be frozen without delay.

Necessary measures have to be taken by collecting the list prepared under those resolutions proactively from the UN website (http://www.un.org/sc/committees/index.shtml).

Agrani Bank PLC. will not engage in any dealing or transaction with the following:

- Parties on the Domestic Sanctions List as prescribed by BFIU. The list is known as Domestic Sanctions List of Bangladesh available in BFIU website.
- Importing any goods, those are restricted in Import Policy Order (IPO), produced in restricted/sanctioned countries and/or goods carried in the flag vessels of those countries. All visible and invisible items from those restricted/sanctioned countries will be included as well.
- Agrani Bank PLC. will not open or operate account of any gambling or betting sites or establishments of any restricted Assets Service Providers in any segment. In applicable case, the necessary transactions will be reported as STR to BFIU.

1.8. Strategic Risk

Strategic risk in the foreign exchange (FX) business of banks refers to the potential losses or adverse outcomes arising from poor business decisions, ineffective strategies or failure to adapt to market changes. Unlike market or credit risk, strategic risk stems from long-term management decisions, competitive positioning and business model vulnerabilities.

Agrani Bank PLC. needs to proactively manage strategic risk in FX by aligning business models with market realities, leveraging technology and maintaining strong compliance. Failure to do so can lead to financial losses, regulatory penalties or reputational damage.

Chapter-02: Functions and Organizational Setup

Agrani Bank PLC. engages a wide range of activities, from the basic services e.g., import, export and remittance to more complex operations e.g., derivatives and complex structured products. The later activities require a high degree of expertise and these operations are housed in a separate department named 'Treasury Division'. Treasury activities can normally be categorized into four areas:

i. **Money Market**
This refers to the day-to-day activities where the Agrani Bank PLC. addresses its short-term cash requirements by either lending/investing its excess liquidity or borrowing to cover liquidity short-falls.

ii. **Foreign Exchange Market**
This refers to the buying and selling of funds denominated in various currencies, where the Bank may dispose of its excess stock or purchase its operational requirements (e.g., to settle L/C transactions).

iii. **Fixed Income Securities**
This refers to a sub-set of the investment universe where instruments with fixed pricing are the traded commodities.

iv. **Asset-Liability Management**
This refers to the Treasury functions that are associated with the execution of ALM strategies. The Asset-Liability Management (ALM) desk plays a vital role in ensuring financial stability, liquidity, and profitability by managing ALM risks.

2.1. Functions of Treasury

The functions of treasury can be categorized as follows:

- Foreign Exchange Market
- Money Market
- Asset Liability Risk Management
- Fixed Income Security Trading
- Derivatives
- Other Investments

Some of the typical products that would fall under treasury's functions of Agrani Bank PLC. are listed as follows. Certain products/transactions require prior approval from Foreign Exchange Policy Department, Bangladesh Bank on a deal specific basis:

- Cash/Tom/Spot Foreign Exchange
- Forward Foreign Exchange
- FX SWAP, Currency SWAP (Plain Vanilla, Cross Currency SWAP etc.)
- Interest Rate SWAP (Plain Vanilla, Collar, Cap, Cap Spread, etc.)
- Forward Rate Agreement (FRA)
- Non-deliverable Forward Exchange
- FX Options (Plain Vanilla, Seagull, Range forward etc.)
- Overnight Deposits
- Term Deposits
- Structured Deposits
- Coupon Securities

- Discounted Securities
- Commodity Trading and Hedging (SWAP, Collar, Put, Cap, Cap Spread, Put Spread etc.)

At present the treasury functions of Agrani Bank PLC. are performed by the following three distinct offices under separate supervision:

i. Front office
ii. Mid-office.
iii. Back office

The location of all three offices (Front office, Mid office and Back office) of the bank must be within the geographical boundary of Bangladesh.

Functions of Treasury Front office, Mid office and Back office of Agrani Bank PLC. are as follows:

2.1.1. Functions of Treasury Front Office

- Statutory management
- Optimization of risk return through specialization and management
- Funding and management of the Balance Sheet at optimum prices
- Proposing interest rate matrix to the ALCO
- Proposing various investment options to the ALCO
- Analyze various economic trends and propose Balance Sheet Strategy to the ALCO
- Quotation of various foreign exchange and interest rates to customers
- Corresponding banks and exchange houses
- Dealing in foreign exchange for position covering as well as for own account trading
- Various funding activities through various derivatives
- Provide structured treasury solutions to customer
- Remain vigilant for any arbitrage opportunities
- Marketing activities for future business growth
- Estimate daily P&L and work with reporting unit in resolving any difference
- Record/maintain all foreign exchange and money market positions and check for differences with system generated/back-office reports
- Sending dealing information to Back Office through deal slip (if the deal is not done through automated system)
- Performing money market activities
- Security/fixed income trading (As a Primary Dealer (PD) Bank)
- Management of Net Open Position (NOP).

2.1.2. Functions of Treasury Mid Office

- Limits monitoring and managing limits
- Adherence to various internal as well as regulatory policies
- Minimization of all risks
- Monitoring & reporting of various foreign exchange and money market positions
- Monitoring & reporting of various cash flows and cash positions
- Proposals/ renewals for various internal limits
- Monitor for trader’s adherence to various internal and regulatory limits
- Monitor for trader’s adherence to various counterparty limits

- Prepare, monitor and manage all balance sheet gaps
- Report any occurrence of crossing limit
- Various internal and regulatory reporting
- Rate appropriateness function for all confirmed deals.

2.1.3. Functions of Treasury Back Office

- Input, verification and settlement of deals
- Receiving and sending of deal confirmation certificates
- Preparation of currency positions (of previous day-end) and report to traders prior to commencement of day's dealings
- Reconciliation of currency positions
- Revaluation of all foreign exchange positions at a pre-determined frequency
- Managing discrepancies and disputes
- Daily calculation for adherence to statutory maintenance
- Reconciliation of Nostro accounts
- Reconciliation of Vostro accounts
- Claim/ pay good value date effect of late settlements
- Preparation & reporting of daily exchange position.

2.2. Organizational Setup

In performing all the above listed functions in an appropriate manner and depending on the nature of business of the bank and its size, Agrani Bank PLC. determines the appropriate organizational structure for its treasury and treasury back-office functions. However, irrespective of the size and nature of business, all treasury functions require to have clear demarcation between dealing and settlement/support functions i.e., the "treasury" that would be involved only in dealing activities and the "treasury support unit" (commonly known as the treasury back-office) that would be responsible for all related support functions including settlement of all transactions. This is required for control reasons i.e., different persons/departments should be responsible for the dealing and the settlement, measurement, reporting etc. Ownership & direct reporting line for all 3 offices (i.e., Treasury Front, Mid & Back Office) should be within Bangladesh. In order to monitor and manage the risks arising from treasury activities in a more detailed level, Agrani Bank PLC. has an additional unit named as the "treasury mid-office".

Pursuant to the "Foreign Exchange Risk Management Guidelines" of Bangladesh Bank, Agrani Bank PLC. has set up:

Front Office: Involved only in dealing activities

Back Office: Be responsible for settlement & support functions

Mid Office: Be responsible to monitor and manage organization's balance sheet risk in a more detailed level.

2.3. Centralized Foreign Exchange and Money Market Activities

The balance sheet of a bank is formed from its core activities. However, as perfection in the balance sheet is almost impossible, banks require access to the wholesale market to plug gaps and mismatches. Though wholesale activities are primarily for managing gaps and mismatches, this is also done for proprietary trading and arbitrage purposes. As the two types of wholesale activities i.e., foreign exchange and money market are heavily interdependent, these are required to be housed in the same area. This means that the foreign exchange and money market activities of a bank are to be unified in the same department for efficiency. Under these circumstances and the above-mentioned functions of treasury, the foreign exchange and money market activities of Agrani Bank PLC. has centralized under a single division named 'Treasury Division' and foreign exchange and money market activities are reported through the Head of Treasury.

2.4 Separate Trading and Risk Management Units

The traders are required to operate their trading within a prescribed risk limit framework where a different department will be responsible for identifying the risk areas and their appropriate limits. The Front Office of the bank is doing the trading business and Mid Office has been entrusted with the responsibility of identifying the risk areas and their appropriate limits. The roles and responsibilities of these two departments in term of controlling and managing risk are:

2.4.1. Traders/Risk-Taking Units

- Maintain compliance with the market risk limit policies and always remain within their approved independent market risk limit framework
- Ensure no limit breaches and arrange for pre-approval of any higher limit requirements
- Inform the market risk management unit of any shifts in strategy or product mix that may necessitate a change in the market risk limit framework
- Seek approval from the market risk management unit prior to engaging in trading in any new product.

2.4.2. Market Risk Management

- Review policy at least annually and update as required
- Independently identify all relevant market risk factors for each risk-taking unit
- Develop proposals for the independent market risk limits/ triggers, in conjunction with the risk-taking units
- Ensure that limits/ triggers are appropriately established
- Independently monitor compliance with established market risk limits/ triggers
- Ensure ongoing applicability of the market risk limits/ triggers; formally review framework at least annually
- If applicable, review and approve limit frameworks, as well as limit change requirements
- Review and approve any temporary limit requirements
- Recommend corrective actions for any limit excesses
- Maintain documentation of limit breaches, including corrective action and resolution date.

2.5. Organizational Chart

An organizational chart has been drawn mentioning the possible roles and functions that are currently applicable to the market of Bangladesh. To strengthen the control mechanism and to ensure monitoring of balance sheet risks the organogram of treasury of Agrani Bank PLC. have been restructured detailed shown in Annexure-V.

The organizational chart of Agrani Bank PLC. depicts that the reporting lines for the officers maintaining the treasury front office and back office are separated. This is an ideal structure that needs to be in place for control reasons. These two offices would report their activities according to their existing structure/policy. Agrani Bank PLC. has a strong mid office function with separate reporting line.

2.6. Job Descriptions

Based on the organogram of treasury of Agrani Bank PLC. in Annexure-V, the job description of the treasury Front Office, Back Office and Mid Office are as follows:

2.6.1. Treasury Front Office

Treasury Division of Agrani Bank PLC. performs the treasury front office operations.

2.6.1.1. Head of Treasury

- Overall responsibility of all treasury front office activities and ensure required oversight on dealers and managers
- Responsible for the treasury financial plan
- Determine overall treasury business and risk strategy within internal and regulatory limits
- Set individual trader dealing limits from limits approved by management
- Monitor all traders' positions and ensure traders adhere to all internal, regulatory as well as trader specific limits
- Decide on particular positions during adverse situations
- Continuous development of systems, processes, business strategies, etc.
- Membership in the ALCO
- Propose overall balance sheet strategy to the ALCO
- Ensures a robust control environment for the treasury functions including dealers code of conduct, Chinese wall between the private and public side
- Responsible for FX price risks and FCY liquidity management
- Direct control over all FCY inflow& outflow including remittance business
- Clearance before making any foreign currency commitment.

2.6.1.2. Cross Currency Trader

- Forming Market Views
- Monitoring exchange positions
- Monitoring counterparty limits
- Collating all the cross-currency positions
- Remaining within all given internal and regulatory limits
- Remaining within all counterparty limits at all times
- Trading/squaring the positions within approved limits.

2.6.1.3. USD/BDT Trader

- Trading spot and forward positions arising from import/export/remittances etc.
- Collating the whole Bank's USD/BDT positions
- Remaining within all given internal and regulatory limits
- Remaining within all counterparty limits at all times
- Trading/squaring the positions within approved limits.

2.6.1.4. Securities and Statutory Management Trader

- Investment in securities portfolio as appropriate
- Policy Rate (Repo rate), SDF (Standing Deposit Facility) activities
- Propose to the ALCO through the head of treasury of statutory investments.

2.6.1.5. LCY & FCY Money Market Trader

- Overnight/Call money activities
- Term market activities
- Maintenance of CRR and SLR
- Policy Rate (Repo rate), SDF activities
- Currency swaps
- FCY placements
- MM pricing of FCY
- Nostro funding
- Spot any arbitrage opportunities and take advantage as per regulations
- Remaining within all counterparty limits at all times
- Operating within all given balance sheet gap limits
- Profitably trading/ squaring the positions.

2.6.1.6. Balance Sheet Manager

- Managing all balance sheet gaps
- Monitoring of market factors
- Interest rate and market forecasts
- Analysis of risk reports for presentation to ALCO
- Daily reports to senior management.

2.6.1.7. Corporate Dealer/Sales Manager

- Managing Client Relationships
- Checking Dealing Appropriateness
- Ensuring all appropriate documentation in place before dealing
- Preparing FX and IR Rate sheets
- Ensuring compliance with Credit/Risk Limits.

2.6.1.8 Fixed Income Trader

- Take positions in Securities
- Quote price to clients
- Manage the trading portfolio of securities
- Ensure compliance with Regulations
- Manage client purchase/sale, both local and foreign, in T-bonds/bills.

2.6.1.9 FX Remittance – Dealers

- FX deal with all correspondents
- Bank will lay down the process.

2.6.2. Treasury Back Office

The Treasury Back Office of Agrani Bank PLC. provides necessary checks to prevent unauthorized FX Dealing and minimize the potential error and fraud. The role of the Back Office is to check, confirm, settle and reconcile the FX Deals conducted by the Treasury Front Office and possibly provide management information. In short, Treasury Back Office deals with processing and execution of deals done by Treasury Front Office.

2.6.2.1. Head of Treasury Back Office

- Overall responsibility of all treasury back-office activities
- Responsible for all relevant regulatory reporting
- Ensure compliance with Regulatory limits and escalate any excesses
- Escalate reconciliation related issues
- Discuss Treasury Risk issues with the Management
- Responsible for accuracy and timeliness of all back-office reports and MIS.

2.6.2.2. Manager-Local Currency Reconciliation

- Reconcile all local currency accounts on a day-to-day basis
- Immediately advise money market trader and balance sheet manager of any discrepancy
- Track reconciliation of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements
- Send chasers for any unsettled items until it is settled.

2.6.2.3. Manager-Nostro Reconciliation

- Reconcile all nostro accounts on a day-to-day basis
- Immediately advise USD/BDT or cross currency trader of any discrepancy
- Track reconciliation of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements
- Send chasers for any unsettled items until it is settled.

2.6.2.4. Manager-Vostro Reconciliation

- Reconcile all vostro accounts on a day-to-day basis
- Immediately advise money market trader and balance sheet manager of any discrepancy
- Track for reconcilement of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements
- Send chasers for any unsettled items until it is settled.

2.6.2.5. Manager-Foreign Currency Position Reconciliation

- Receive copies of USD/BDT and cross currency traders' position blotters
- Reconcile all foreign currency positions between accounted for records and USD/BDT & cross currency trader blotters on a day-to-day basis
- Immediately advise USD/BDT or cross currency trader of any position discrepancy
- Investigate and match unreconciled amounts
- Advise USD/BDT and cross currency traders of correct currency positions prior to commencement of day's dealing activities.

2.6.2.6. Manager-Local Currency Position Reconciliation

- Receive copies of position blotters from money market trader
- Reconcile all local currency positions between accounted for records and money market traders' blotters on a day-to-day basis
- Immediately advise money market trader of any position discrepancy
- Investigate and match unmatched amounts
- Advise money market trader of correct positions prior to commencement of day's dealing activities.

2.6.2.7. Manager-Foreign Currency Settlements

- Settle for all foreign currency deals done by USD/BDT, cross currency and the FCY money market traders
- Send and receive confirmations of all deals done by USD/BDT, cross currency and FCY money market traders
- Check nostro statements for settlements of major items
- Advise traders of any discrepancy in settlement for the prior dealing day
- All related accounting entries
- Generate various MIS.

2.6.2.8. Manager-Local Currency Settlements

- Settle for all local currency deals done by LCY money market traders
- Send and receive confirmations of all deals done by LCY money market traders
- Check local currency statements for settlements of major items
- Advise traders of any discrepancy in settlement for the prior dealing day
- All related accounting entries
- Generate various MIS.

2.6.2.9. Manager-Vostro Settlements

- Settle for all vostro transaction
- Check vostro statements for settlements of major items
- Advise dealers of any discrepancy in settlement for the prior dealing day
- All related accounting entries
- Generate various MIS.

2.6.2.10. Manager-Regulatory Reporting

- Send all required regulatory reports as per reporting schedule and as specifically required by the regulators
- Respond to various queries from regulators regarding reports
- Coordinate with other departments in receiving required information for reporting purpose
- Create awareness among various related departments of the importance of effective and accurate reporting.

2.6.3. Treasury Mid Office

Agrani Bank PLC. has a strong mid office function in International Trade & Foreign Currency Management Division of the bank with separate reporting line.

2.6.3.1. Head of Treasury Mid Office

- Overall responsibility of all treasury Mid Office activities
- Responsible for all relevant Risk reporting
- Measure for compliance with Regulatory/Internal limits and escalate any irregularities
- Escalate regulatory and internal policy breaches by Front and Back Office
- Monitor Treasury Risk issues for both front and back office with Management
- Responsible for accuracy and timeliness of all reports as well as MIS.

2.6.3.2. Manager - Risk Reporting

- Monitor limit utilizations against all internal and regulatory risk limits
- Reporting of limit excesses etc.
- Stop loss/ cumulative loss limits monitoring and reporting
- Monitoring of daily P&L
- Measuring the off-balance sheet gaps
- Measuring the mark to market gain/loss
- Identify and escalate cancelled/amended deals
- Identify and escalate rate exceptions against off market rates
- Generate various MIS.

2.6.3.3. Manager - Risk Management

- Monitor Key risk indicators of front and back office
- Identify future risk and design solutions as necessary
- Confirm risk management capabilities of the bank prior to introducing any new treasury product
- Ensure compliance with all action plans
- Prepare report detailing the risk management strategy for Treasury
- Responsible for accuracy and timeliness of all MIS.

2.7. Individual Trader Dealing Mandate

Each dealer should have a dealing mandate approved by the management of Agrani Bank PLC. The dealing mandate describes the list of products the dealer is authorized to deal in, the individual limits authorized for each individual dealer etc. The mandates should be reviewed and updated at least annually or more frequently if needed.

2.8. Restrictions

There are certain activities that are restricted by dealers and back-office staff of Agrani Bank PLC. These are listed below:

2.8.1. Treasury Front-Office Staffs are restricted from

- Deal processing
- Accounting entries
    - Sending/ receiving deal confirmations
    - Issuing/ receiving any cheques
    - Sending settlement instructions
- Generating revaluation rates
- Running the revaluation process
- Regulatory reporting
- Involvement in raising rate appropriateness
- Setting up/approving counterparty credit limits
- Setting up/approving market risk limits.

2.8.2. Treasury Back-Office Staff are restricted from

- Dealing activities
    - Decide on exchange rates/ quoting prices
    - Striking deals with counterparties
    - Raising deal slips
    - Altering deal details
- Updating position blotters
- Deciding on nostro funding
- Approving counterparty credit limits
- Approving market risk limits

2.8.3. Treasury Mid-Office Staffs are restricted from

- Dealing activities
    - Decide on exchange rates/ quoting prices
    - Striking deals with counterparties
    - Raising deal slips
    - Altering deal details
- Updating position blotters
- Deciding on nostro funding

Chapter-03: Process

3.1. Process Flow Description

In a proper treasury setup, a dealer strikes a deal in the market and maintains his/her own record for monitoring the exchange position. Within a reasonable time (30 minutes), s/he passes on the detailed information of the deal to the treasury back office through the middle office. The back office arranges for the deal confirmation with the counterparty, arranges settlement, reconciles exchange positions and advises to treasury and runs the valuation on a periodic basis. A detailed flowchart of this function is shown in Annexure-VI.

The dealing function requires the dealers to make very quick decisions either for taking advantages of any market movements or for unwinding an unfavorable position. Also, the treasury dealing is a wholesale function that involves large lot sizes. In a treasury dealing the job of a dealer requires:

- Proper information sources e.g. Reuters Money Eikon, Bloomberg and other financial TV channels, etc.
- Adequate and dedicated communication tools e.g., a sophisticated Dealing System (optional), e-platform (optional), telephone, fax, internet facilities etc.
- Specially designed dealing desks to appropriately accommodate the various information and communication tools
- Quick decision- making authority (properly delegated authority by the management)
- Independent decision- making authority
- Specific task allocations.

In order to achieve an optimum level of efficiency, returns and most importantly controls, there are certain processes that the management of the bank must put in place. The very basic things that would be related to the market environment are explained below:

3.2. Dealing Room

Since the dealers have access to global live prices of various products through their various communication tools, their desks are required to be access restricted. As a result, dealers are typically housed inside a covered room known as the "dealing room" where the access is generally restricted only to the dealers and the related personnel. Access to this dealing room should be restricted through electronic access control system.

3.3. Taped Conversation

In many occasions, the dealers conclude deals over the phone. This is particularly applicable where deals are done on the local market where dealers are mostly known to each other and they feel comfortable dealing by talking to other dealers over phone. Such deals over the phone do not have any hard evidence and in a fast-dealing environment, there is risk of mistakes of currency, purchase or sales, rates, amounts or value dates etc. As a result, all telephonic conversations taking place in the dealing room are required to be taped.

Taped conversations can assist in resolution of any disputes that may arise. As such, all telephone lines of the dealing rooms, may it be a direct line or a connection through the PABX, must be taped. This means that dealing over the mobile phones must be restricted. However, if the management feels that there is any specific need for dealing on mobile phones, this must be properly documented and recorded/tapped where specific dealers may be allowed to engage in dealing on mobile phones under specific circumstances. In some jurisdictions, it is required to advise all dealers of other counterparty beforehand that their conversation would be taped.

3.4. Deal Recording

The job nature of a dealer is highly demanding and the environment of a dealing room is very fast moving. In such an environment when a dealer continues to conclude deals, his/her focus remains on the market. As such there is a risk of a dealer completely forgetting about a deal or part of a deal or making a mistake in recording that deal. To eliminate this risk, a dealer must record the deal immediately after it is concluded. The deal recording needs to be done in two ways:

i. Position Blotter

Immediately after a deal is done, the dealer has to record the deal on the position blotter and update his position. The dealer should remain aware of his position at all times. This is required to capture any immediate opportunity or to be in a position to immediately react to any adverse situation. Position Blotter of Agrani Bank PLC. is shown in Annexure-VII.

Banks with automated or integrated dealing systems, where deals are input directly and no deal slips are generated, have their blotter in electronic form and no paper deal slip is generated.

ii. Deal Slip

A slip or memo on which the details of the deal is recorded is known as the deal slip or deal ticket. The bank who has implemented treasury automated systems, the deal slips are electronic and are through inputs into their automated systems. A typical deal slip contains details of payment instruction counter party, value date, currencies, amounts, rate etc.

The deal slip must be passed on to the treasury back office at the earliest for their further processing of the deal. Ideally, all deal slips should be pre-numbered for control reasons and the treasury back-office must monitor for any breakage in sequence. Where pre-numbered deal slips are in place, any cancelled deal slips must also be forwarded to treasury back office for appropriate record keeping/filling. The deal slip of Agrani Bank PLC. is shown in Annexure-VIII. For Banks using electronic deal capturing systems, where deals are entered directly into a software system, no paper deal slip is generated by the front office.

3.5. Deal Delay

There are no integrated systems for deal processing in Agrani Bank PLC. and dealers generate manual deal ticket. In this case, the deal delay period should be maximum 30 minutes. On the other hand, banks with integrated systems where deals input by front office in an electronic platform automatically flows into the back-office settlement systems and no manual deal ticket is generated, dealers will ensure that deals are entered into system within 10 minutes.

In case the deviation from the above-mentioned times delays is in excess of 30/10 minutes, the concept of the deal delay process would be defeated. For monitoring of the proper functioning of this process, treasuries where manual deal slips are raised, must use time stamping on deal tickets. In environments where treasury automated systems are used, the time stamping may not be required since the systems are capable of take care of time logging automatically.

The following table depicts the FX deal capture standards for Agrani Bank PLC.:

Product	Time Limit for Deal Slip Preparation/System Input	Time Limit to Reach the Deal Slip in Back Office
Spot FX	Within 10 minutes	Within 25 minutes
Forward FX	Within 15 minutes	Within 30 minutes
FX SWAP	Within 15 minutes	Within 30 minutes
Foreign Currency Deposits	Within 10 minutes	Within 25 minutes
Other FX Products	Within 15 minutes	Within 30 minutes

3.6. Counterparty Limits

The issue of counterparty limits arises from the risk that a customer with whom an organization has a reciprocal agreement default. Credit risk is the risk that the counterparty to a financial transaction (for example, a foreign exchange contract) may be unable to perform as per its obligation. The extent of risk depends on whether the other party's inability to pay is established before the value date or is on the same value date of the foreign exchange contract. Bank must have prudent counterparty limit for foreign exchange exposure i.e., the maximum exposure the bank is willing to a particular counterparty should be determined. The counterparty limit is applicable for products such as FX products, FX SWAP, FCY Placement, Nostro Funding etc. The FX counterparty limit of Agrani Bank PLC. is shown in Annexure-XII which may be revised with the changing circumstances.

3.7. Triggers

A trigger is a level of a position at which an organization decides that the management should be made aware of. This may be in terms of a market value of a position or an unusual trading volume etc. This is a predetermined level given by the management. When a trigger is hit, the management needs to be informed of the same. Upon advised of a trigger, the management usually decides on closer monitoring of the particular situation. In cases of a loss trigger, the amount is generally set at a lower level than the stop loss limit at which the position has to be covered.

Agrani Bank PLC. allocated the following trigger level for the dealers which may be changed with the changing circumstances:

Designation	Trigger Level
Head of Treasury	USD 1,500
DGM/AGM	USD 1,500
Senior Principal Officer	USD 1,200
Principal Officer	USD 1,000
Senior Officer	USD 1,000
FX Chief Dealer	USD 1,500

3.8. Stop-Loss Orders

It is an order placed with the dealing room to buy or sell once the currency price reaches a certain price. A stop-loss order is designed to limit the traders' loss on a FX position. The high degree of volatility commonly found in the forex market can offer dealers the potential to make big gains, but also to suffer large losses. For this reason, treasury should employ an effective trading strategy that includes stop loss orders to manage risks. A stop loss order allows a dealer to set the minimum or maximum price at which s/he would have to buy or sell a currency.

A dealer with a long position has to set a limit order at a price below the current market price to attempt to cap the loss on the position. On the other hand, a dealer with a short position sets a price above the current price as the initial target to manage risk. There are no hard and fast rules that regulate how treasury can use stop loss limit order to manage its risks. Deciding where to put these limits is its own decision because each treasury has a different risk tolerance. Some treasuries may decide that they allow incurring 30 to 40-pips loss on a particular deal, while other treasury may limit themselves to only a 10-pips loss.

A stop-loss limit for a product is generally a certain percentage of the organization's prior year's profit from that product. For example, if an organization's FX trading revenue for the year 2024 was USD "A". The management, through its Risk Management Division, may decide to accept a maximum of a 10% loss of that amount "*A*" during the current year. In this case, the stop-loss limit for that organization for 2025 would be *A* X 10%. In managing the business within stop-loss limit, Treasury has the overnight positions within their overnight limits where may have the appropriate overnight watch order.

3.9. Appropriateness of Dealing

While transacting with a client, a dealer should be aware of the counterparty's dealing style and product mix and assess prior to concluding a deal whether the customer is dealing in an "appropriate" manner. A dealer should have the responsibility to ensure that the volumes of activity and types of products transacted by a particular client are appropriate for them and aligned with their business needs. Also, the dealer should ensure that the risks of these transactions are clearly understood by the client. Prior to conclusion of any deal, a dealer needs to ensure that the counterparty is authorized to enter into such a transaction both from counterparty's internal and regulatory perspective.

To address the appropriateness issue and in order to ensure that the client is fully aware of any risks associated with the associated transaction, Agrani Bank PLC. need to get an appropriateness agreement signed with clients. This can also be addressed through obtaining the board resolution of client that states the list of products and authorized persons for their transactions. Such an agreement can be drafted by BAFEDA and can be made mandatory for all members to sign.

3.10. Rate Appropriateness

This exercise is carried out by the treasury mid office of the bank to check if all deals have been dealt at market-based rates. Any deals done at off-market rates must be raised to the respective dealer for a satisfactory explanation and brought to the notice of the chief dealer. In case of an unacceptable justification provided by the dealer, the bank may decide to conduct further investigation. This monitoring process needs to be in place to guard against the application of any inappropriate rates.

Treasury front office of Agrani Bank PLC. primarily uses Reuters/Refinitive for pricing of its products and treasury operations should also collect most of the data for their independent verification process from the same source.

The treasury division Agrani Bank PLC. publishes FX rate sheet for the daily FX transactions at the counter levels based on the market levels of USD/BDT as well as the other cross currency rates available from Refinitive Workspace/ Reuters Eikon system. For determination of these rates, directives issued by Bangladesh Bank time to time must be meticulously followed by treasury division of the bank.

It may be mentioned that all customer transactions are based on the principle of a positive spread. Any negative spread generating from a customer FX transaction must be highlighted as exceptions for explanations and approvals.

3.11. Deals Outstanding Trigger

The total deals outstanding of the treasury will be monitored by the treasury back office to check against any unusual volumes of activity. Treasury of Agrani Bank PLC. has its own volume trend and the treasury back office will monitor whether all activities are being carried out within usual trend.

The management of the bank may set a trigger point for all outstanding FX contracts at any given point of time. If the trigger is exceeded, the treasury back office should escalate it to the attention of the head of treasury. This is an optional trigger that banks may consider if they wish to take a more conservative approach. Banks with integrated systems, where the front office captures deal in a software platform and back office can monitor deal outstanding in real time, can readily identify changes in deal volume trend, so a trigger may not be required.

In a fast-dealing environment, dealer may make a mistake and execute a deal with an additional zero that would make the dealt amount much higher than intended. Deal outstanding will be monitored by mid office and this would be highlighted and brought to the attention of the senior management like General Manager (International Division), Deputy Managing Director (Treasury) or Managing Director for any appropriate action. This mistake can also be readily identified if deal confirmations for all deal done are exchanged with counterparty back office on the same day. Back office will compare deals in system/deal tickets with counterparty confirmations and identify any discrepancies and escalate them.

3.12. Daily Treasury Risk Report

The treasury back-office is required to summarize all daily positions, particularly the end-of-day positions on a report format for the information of senior management. Such report should contain information about:

- Outstanding open position against limit
- The different currency-wise outstanding exchange positions (against limits if applicable)
- Outstanding foreign exchange forward gaps in different tenors
- Tenor-wise MCO report
- Interest rate exposures of the balance sheet
- Counterparty credit limits usage
- The day's P&L against trigger & stop-loss limits etc.

3.13. Conversation Language

All dealing related conversations taking place in the treasury must be in an understandable and commonly spoken language for operational clarity. To elaborate, all conversations on the Dealing System must in English and all conversions over telephone must be restricted to Bengali and/or English.

Chapter-04: Dealing Environment

4.1. Dealing Limits

Agrani Bank PLC. will assign the dealing room a set of specific limits. These may include:

- **Dealing Room FX Position Limit**
    - **Individual Trader Position Limit:** The total position a dealer may take, in USD million. Individual dealer position may be broken up by currency and Tenor if required.
    - **Individual Currency Position Limit**: Each dealer can have individual currency wise limit assigned to their name for FCY/BDT or FCY/FCY positions. These limits can be further divided by tenor:
        1. **Intraday Limit**: The maximum position volume per currency an individual dealer can take between Opening and closing each day.
        2. **Overnight limit**: The maximum position per currency an individual dealer can carry into the next day.
    - **By FX Product** (Spot FX dealer, Forward FX dealer and FX Options dealer etc.) individual limits.
    - **By Tenor** (Intraday, O/N and Forward limits)
    - **Product List**: Not all FX products may be dealt by all banks or all dealers. Dealing Mandates should reflect the FX Products that the dealing room or trading desk or an individual dealer can deal in.

The Bank taking a more conservative approach have the option to monitor the following limits:

- **FX Deal Limit:** the bank can limit the individual FX deal size to a certain volume per day and per individual deal for individual dealers and the dealing room.
- **Deal Outstanding limit:** the bank can limit the overall daily deal outstanding limit in equivalent USD. Bank with integrated systems and e-platform has instant access to trade flow volume data and can use this method easily.

The Dealing Limit of Agrani Bank PLC. is shown in Annexure-XIII which may be revised with the changing circumstances.

4.2. Mandatory Leave and Training

The dealing functions are extremely sensitive and stressful involving wholesale and large amounts with exposures to adverse market movements. There is also risk of mistakes not being unearthed. As a result, for a particular dealer's functions to be run by a different dealer, all dealers of Agrani Bank PLC. are required to be away from their desks for a certain period of time at one stretch during a year.

During this period, dealers are expected not to contact with their colleagues in the treasury area and the bank will not to contact the dealers for any reason. **Typically, this period is defined as a continuous two-week period.** This should be monitored and reported to top management. Any exceptions, including contacting a dealer on block leave, should be done with prior approval of Head of Treasury. Dealers going on leave must ensure all relevant information is handed over to their backup.

Training (Specially ACI Dealing Certification Course/Bourse Course) should be ensured for the treasury personnel. Only trained personnel should be engaged in treasury activities.

Treasury Bench Strength

Dealers are specialists in their jobs and the treasury of the bank should develop backup personnel for all job positions. This would ensure that a dealer on mandatory leave need not be contacted as his/her backup can take care of duties.

4.3. Stop Loss Limits

Based on the comfort on each dealer and/or the treasury as a whole, the management allocates dealing limits. However, there is always risk of adverse market movements and no organization is in a position to absorb/accept unlimited losses. This results in organizations putting in place "stop loss limits". Stop loss limits can either be dealer specific or only be specific to the treasury as a whole as specified by the management. They can be:

- For each Individual Deal
- For each Individual dealer during each working day/ week/ month
- For each working day for any treasury unit as a whole
- Over a specific working period for any treasury desk (e.g. FX, ALM, Fixed Income etc.).

Agrani Bank PLC. has set the following stop loss limit where the dealers must close the position to stop incurring further losses:

Designation	Stop loss limit
Head of Treasury	USD 2,500
DGM/AGM	USD 2,500
Senior Principal Officer	USD 2,000
Principal Officer	USD 1,500
Senior Officer	USD 1,250
FX Chief Dealer	USD 2,500

The dealing room of the bank may additionally have specific Management Action Triggers (MAT) that are set at levels below the stop loss levels to highlight the loss situation to the attention of the management for their decisions/instructions if any.

4.4. FC Position Reconciliation

All dealer positions must be reconciled with the positions provided by the treasury back-office. This must be done daily prior to commencement of the day‘s business and before closing the day‘s business. Unreconciled positions may lead to real differences in actual positions exposing the bank to adverse market changes and real losses. Dealers should reconcile their dealing recorded on daily blotter (electronic or otherwise) prior to close of business as a good practice. Deals done using e-platforms should be reconciled against communications from e- platform provider by back office.

4.5. After-hours Dealing

After-hours deals are ones that are initiated at a time that is after the normal business hour of the day. Locally, business hours are from 10.00 A.M. to 6.00 P.M. For specific business reasons, bank has taken steps to allow the dealers to do after-hours deals within existing dealing limits, thus, deals after 6.00 P.M. may be treated as after-hour deals. All such transactions are to be properly entered in FX blotter and Foreign Currency Control Ledger (FCCL). Deal slips are to be handed over to the Treasury Back Office through Mid Office as early as possible after holding positions.

4.6. Off-premises Dealing

A transaction done by a dealer who is not physically located in the dealing premises (irrespective of the time of day) is referred to as an "off- premises" deal. This type of deal needs to be treated separately from a deal done within the dealing room, as it utilizes communication tools that are not as special as those of the dealing room. For example, an off-premises deal done on the phone is generally not recorded and thus there is no record in case of any future dispute. The back office is not in a position to take immediate action (confirmation, settlement, etc.) in case of off-premises deals. For this reason, Agrani Bank PLC. has decided that such activity should not be encouraged and may be undertaken only upon satisfaction of the following conditions:

- Treasury must have a procedure of accounting for any off-premises deal transactions on a case-to-case basis.
- Head of Treasury must specifically designate, in writing, particular dealer(s) with the authority for such transactions.

4.7 Deal Cancel and Amendment

Deals input in the system may need to be amended due to various reasons, i.e. information error (price, volume currency, settlement date inaccuracy, etc.), client request, system error or any other reason. Treasury of bank have to maintain the deal cancellation record with reason and a monthly report regarding deal cancellation capturing the reason for deal cancellation and amendment need to be submitted to the senior management of the bank.

Chapter-05: Code of Conduct for FX Dealers

Due to the special nature of job that dealers engage in, they are expected to act in a professional and ethical manner. The principles constituting the ethical conducts for dealers of Agrani Bank PLC. are detailed in Annexure-IX.

The Detailed Dealers Code of Conduct of Agrani Bank PLC. outlines the standards for professional behavior of all Dealing Room Staff. Key areas covered in Dealers Code of Conduct include:

- **Business Ethics**
  Dealers of Agrani Bank PLC. must maintain the highest ethical standards in all foreign exchange transactions and market dealings.
- **Market Interaction**
  Dealers of Agrani Bank PLC. must engage with counterparties, clients and interbank markets with professionalism, transparency, and adherence to regulatory standards.
- **Risk Management and Exception Escalation Procedures**
  Dealers of Agrani Bank PLC. must proactively identify, measure and mitigate risks in all foreign exchange transactions. Dealers must immediately escalate breaches or unusual events to senior management.

Compliance with these guidelines is mandatory to ensure integrity, transparency and accountability in all dealing activities. For any deviations from the Dealers Code of Conduct must be notified to the senior management immediately.

Chapter 6: Electronic System and Data Safeguards

6.1. Electronic System and Data Safeguards

Dealers of Agrani Bank PLC. use various systems including spreadsheets for managing day-to-day business. All such systems are ideally be password protected for the reason of data safety. To protect the data and maintain discipline, the following measures need to be ensured:

- The system access given to the dealers should be periodically reviewed by the Head of Treasury to see if their job descriptions and dealing mandate justify the system access. Redundant access rights will be removed.
- Dealers should not share individual passwords unless the system provider is unable to give individual password (Like Refinitive/Reuters).
- The Generic files used by Dealers (example: Excel file to prepare Daily Rate sheet or to price forwards) should be password protected and be designed according to a standard format endorsed by the Head of Treasury. The IT&MISD of the bank will assist in protecting the specific cells of the file that contain formula. Any changes/updates to the files should be logged.
- An authorized list should be maintained for entities where e-mail communication is sent regularly using common e-communication platforms (Yahoo mail/Hotmail/ Gmail). This list should be regularly updated. However, this does not apply to communications to the Regulators/ BAFEDA.
- Confidential information should not be sent to third party over common e-mail without prior authorization.
- Dealing Rooms dealing in inside information (Private side bond issue, IPO, Capital Market issues etc.) should set up process to prevent data leakage both through physical and electronic means.
- Agrani Bank PLC. should comply all other relevant laws and regulations in force in relation to data sharing/outsourcing/storage.

6.2. Dealing Room Access Log

The Dealing Room of Agrani Bank PLC. is restricted areas where the access is controlled for unauthorized persons. To ensure these restrictions, security access doors equipped with electronic swipe cards has been installed. Access rights is be periodically checked and updated as needed.

6.3. Risk Limit Management

The Risk unit of Agrani Bank PLC. provides Risk Limits (VaR, EaR, PV01, etc.) according to Regulations, Internal Policy and Risk appetite for dealing room which are approved by management. In compliance with all such limits and escalation procedure is in place for the dealing room.

The risk exposure is calculated daily by Mid Office/Risk unit/Finance and communicated to Management. Risk Management limits are included and are not restricted to:

6.3.1. PV01 limit

Price Value of a Basis Point - the Price level that results from 1 basis point movement in product price. The FX Forward Positions are evaluated using the PV01 limits. The Dealing room is assigned an overall PV01 limit and individual PV01 limits for each currency the dealing room is authorized to deal in FX Forward purchase and sale. Net open forward position of the unit is to be within the PV01 and the bank's NOP limit.

6.3.2. Value at Risk Limit

Value at Risk, commonly referred to by its acronym VAR, is a statistical measure of the worst probable loss on a position or portfolio of positions that can be expected over a specified period of time to a given level of confidence. Value at Risk (VAR) related terms and calculation are shown in Annexure-III.

6.3.3. Straddle Gap/MCO Limit

Based on the annual FX inflow/outflow and balance sheet strengths, Agrani Bank PLC. choose to limit FX forward exposure for certain tenors. For example, Board of Directors of Agrani Bank PLC. may authorize a next FX exposure of US$ 30 million up to three months, but US$ 20 million for 1 year.

6.3.4. Out of Market Rate (OMR) Tolerance Limit

Agrani Bank PLC. sets OMR Tolerance Limit for daily deal rate deviations from market rate. For example, if Agrani Bank PLC. sets the OMR Tolerance Limit at 1% of the daily market range, any deal rate that crosses that limit has to be reported to Head of Treasury/ General Manager or Deputy Managing Director of Treasury and explanation is obtained from dealing room.

6.3.5. Net Open Position Limit

The limit of open (overbought/oversold) exchange position for Agrani Bank PLC. set by Bangladesh Bank is USD 52.24 million (Long/Short) vide the Bangladesh Bank letter no-FEPD/(FEM&LIM/03/2022-3520 Date-14.07.2022. Agrani Bank PLC. must ensure compliance with the prescribed open position limit and prevent any breaches.

To ensure compliance with Bangladesh Bank's limit, Agrani Bank PLC. sets a conservative internal threshold of 4.00%. Accordingly, the bank's internal risk limit (Trigger Limit) for NOP is set at USD 50.15 million (Long/Short). This will ensure the proactive monitoring and prevent accidental breaches of the USD 52.24 million cap. In case of a breach of the NOP limit on any particular day, the treasury must notify the issue to the Managing Director/Board of Directors. Agrani Bank PLC. will ensure adequate capital in line with the risk exposure as defined in the Guidelines on Risk based capital adequacy, 2014.

Chapter 7: AML/CFT Risk Management in Foreign Exchange

7.1. AML Compliance During Transactions

For complying AML/CFT risk in foreign exchange transactions, Agrani Bank PLC. needs to ensure that the bank will transact only with those customers whose appropriate identity is established by conducting due diligence to the risk profile of the client in accordance with the instructions/guidelines issued by Bangladesh Financial Intelligence Unit (BFIU). No transaction is to be made in the name of any person or entity listed under United Nations Security Council Resolutions (UNSCRs) or their close alliance adopted under Chapter VII of the Carter of UN on suspicion of involvement in terrorist or terrorist financing activities and proscribed or enlisted by Bangladesh Government. 'Person or entities listed under various resolutions of United Nations Security Council' (UNCS) can be downloaded from *http://www.un.org/sc/committees/list_compend.shtml* and the list of Bangladesh Government can be found at the schedule of Anti-Terrorism Act, 2009. For effective implementation of Targeted Financial Sanctions (TFS) relating to Terrorism Financing (TF) and Proliferation Financing (PF), Agrani Bank PLC. has automated screening mechanism that can prohibit any listed individuals or entities to enter into the banking channel. Agrani Bank PLC. must operate in such system whether the bank could detect any listed individuals or entities prior to establish any relationship with them. In particular, Agrani Bank PLC. emphasizes on account opening and any kind of foreign exchange transaction through an automated screening mechanism so that any listed individuals or entities cann ot use the formal financial channel like SWIFT.

7.2. AML Compliance During Establishing and Maintaining Nostro & Vostro Account

Before establishing any Cross Border Correspondent Banking Relationship (RMA) Agrani Bank PLC. must have to satisfied about the nature of the business of the correspondent or the respondent bank through collection of information as per instructions/guidelines issued by BFIU. Agrani Bank PLC. will also obtain approval from Managing Director before establishing and continuing any correspondent relationship. Agrani Bank PLC. must be sure about the effective supervision of that foreign bank by the relevant regulatory authority. Bank will not establish or maintain any correspondent relationship with any shell bank and not to establish or maintain any relationship with those correspondent or respondent banks that establish correspondent banking relationship or maintain accounts with or provide services to a shell bank. Agrani Bank PLC. will pay particular attention or conduct Enhanced Due Diligence (EDD) while establishing or maintaining a correspondent banking relationship with banks incorporated in a jurisdiction that do not meet or have significant deficiencies in complying international standards for the prevention of money laundering and terrorist financing such as the countries and territories enlisted in High–Risk and Non-Cooperative Jurisdictions in the Financial Action Task Force's Public Statement.

Detailed information on the beneficial ownership of such banks and extensive information about their policies and procedures on preventing money laundering and terrorist financing shall have to be obtained. If any respondent banks allow direct transactions by their customers to transact business on their behalf (i.e. payable through account), the corresponding bank must be sure about the appropriate Customer Due Diligence (CDD) of the customer has done by the respondent bank. Moreover, it has to be ensured that collecting the information on CDD of the respective customer is possible by the respondent bank on request of the correspondent bank. Here, 'Payable through accounts' refers to "Corresponding accounts that are used directly by third parties to transact business on their behalf".

7.3. AML Compliance During Wire Transfer

As per prevailing law and regulation, full and accurate information of the originator has to be collected, preserved and has to be sent to intermediary/beneficiary bank in case of threshold cross-border wire transfers. For providing money of cross-border wire transfers to beneficiary, full and meaningful beneficiary information has to be preserved. Where several individual cross- border wire transfers from a single originator are bundled in a batch file for transmission to beneficiaries, the batch file has to contain required and accurate originator information and full beneficiary information as per instructions/ guidelines issued by BFIU.

Chapter 8: Nostro Account Reconciliation

8.1. Nostro Account Reconciliation

Agrani Bank PLC. maintains various nostro accounts in order to conduct operations in different currencies including Bangladesh Taka. General Manager (International Division) of Agrani Bank PLC. set limits for handling nostro account transactions that include time limits for the settlements of transactions over the various nostro accounts and the time and amount limits for items that require immediate investigation after receipt of the account statements. In defining these limits, consideration must be given to the transit and processing times of the various types of transactions. Responsible officials in nostro reconciliation activities must follow the following instructions:

i. The time and amounts limits, if exceeded, require referral to the Reconciliation, In-charge for appropriate action.

ii. Persons reconciling nostro accounts are to be independent of originating, responding to, authorizing or booking transactions and must not reconcile the same accounts for a continuous period of more than twelve months. However, after the lapse of at least the next monthly reconcilement process immediately following the twelve-month period, these persons can be reassigned with the same duties.

iii. The process of matching open items must be performed each time statements are received and must ensure a true match (e.g. dates, amounts and transaction identity).

iv. All matches must be cross-referenced between 'our book' and the foreign bank's statement.

v. Entries that make up a partial or incomplete match are to be suitably cross-recorded so that a clear audit trail is provided. The current 'our book' records and foreign bank's statements are to be maintained under control and custody of persons in charge of reconcilements.

vi. As frequently as deemed necessary but not less than once a month, a 'Reconcilement Balancing Report; must be prepared for each 'our book' which must include the 'our book' balance, the related statement balance and a listing of all open items (all differences and unprocessed items).

vii. Tracers must be sent if the open item exceeds the established time or amount limits.

viii. Reconciliation, In-charge must review all reconciliation balancing reports to evaluate the status and progress of eliminating open items and to ensure that investigation and follow-up efforts are satisfactory and tracers are sent on a timely basis.

ix. Reconciliation, In-charge establishes limits for monthly accrual of interests on overdrafts in 'our book' maintained with other branches and correspondents. Overdraft interest for 'our book' must be calculated for each day the branch is in overdraft in accordance with its records.

x. At least quarterly, a comprehensive review of all 'our book' must be made by an officer independent of transaction processing and authorization functions to ensure that each account continues to be operated with a valid business purpose and that reconciliations and other controls continue to be in place and are effective.

xi. The maximum time limit after which unmatched items must be referred to the Reconciliation, In-charge is shown in Annexure X.

8.1.1. Operational Loss/Write Off/Late Receipt Charge/Liquidation

The Reconciliation In-Charge sets the time and amount limits for liquidation of open items or differences found unreconcilable as authorized by management according to regulations and internal policies. These items must be investigated as far as is practicable and if they are found unreconcilable, the Reconciliation In-Charge may authorize liquidation through appropriate entries as established as per their accounting policies. However, the items in question must be amply identified and corrective steps taken to prevent recurring differences.

Due to operational issues (SWIFT system down, late receipt of funds etc.) the bank may suffer loss. These should be written off (when applicable) or realized from counterparty (when applicable) as soon as possible. All late receipt charges due to delayed payments need to be adjusted within the year and not carried forward. Exceptions will be escalated with explanations as to why the charges had not been cleared annually. Bank should have a policy to monitor and settle such issues.

A detailed flowchart of the reconciliation process has been shown in Annexure-IV.

8.2. Mark-to-Market

Mark-to-Market is a process through which the treasury back-office values all outstanding positions (Spot and Forward, on and off-balance sheet as detailed by Risk management policy/regulations) at the current market rate to determine the current market value of these positions. This exercise also provides the profitability of the outstanding contracts. The treasury back office of the bank gathers the market rates from an independent source i.e. other than dealers (Reuters/Bloomberg, BAFEDA, calling other bank back offices) of the same bank which is required to avoid any conflict of interest. Back office can also check with dealers if needed. Revaluation will be done daily and the p/l impact adjusted accordingly.

Dealers are required to have their own P&L estimate which must be tallied with the ones provided by the treasury back-office. Any unacceptable difference between these two must be reconciled to an acceptable level.

8.3. Valuations

The process of revaluing all positions at a pre-specified interval is known as valuation. Through this exercise, bank will determine the profit or loss it would incur if it were to liquidate all its positions at a given time.

This function is to be carried out by the treasury back-office by gathering revaluation rates. The treasury back-office will gather such rates from sources other than from the dealers of the same bank to avoid any conflict of interest.

8.4. Model Control Policy

To generate valuations used in financial statements and to produce market risk measurements used by independent risk managements in monitoring risk exposures, Treasury of the bank uses the following quantitative models:

i. All financial models that are used for updating organization's independent risk monitoring, must be validated and periodically reviewed at least annually by qualified personnel independent of the area that creates such models. The models include valuation and risk measurement systems that are developed in-house, certain models on spreadsheets and models within vendor systems.

ii. Model validation is the process through which models are independently and comprehensively evaluated by reviewing underlying assumptions, verifying mathematical formulae, testing the models to verify proper implementation and assessing any weaknesses, and ensuring appropriate application. The validation process of a model reduces the risks associated with using a model that has flaws in the underlying assumptions, errors in its implementation and/or is used inappropriately.

iii. The originator of a model must ensure that it is documented, resides in a control environment, and that any change to an existing model is documented and reported. Treasury units using the financial models, in conjunction with their systems support group, are ultimately responsible for ensuring that all models reside in controlled environments.

iv. A model validation process is not applicable to financial models which only perform simple arithmetic operations. On the other hand, the process must be applied to the following: value-at-risk calculations, earnings at risk (Annexure-II) calculations, interest accrual calculations, and aggregation or consolidation of risk exposures to compare against risk limits.

8.5. Internal Audit

Considering the complexities of the FX Dealing, a process for an internal audit has widely been accepted as a check point to review the adequacy of the key control issues. As per the guidelines of Bangladesh Bank, the review of the internal audit will be conducted at least once a year since Agrani Bank PLC. has a fully functioning mid-office; otherwise, it will be conducted twice a year. This function can include checking for adherence to various limits, compliance requirements, statutory management etc.

In addition to regular audits at specified intervals, a concurrent audit process can be put in place to ensure the functioning of treasury in an appropriate manner on a day-to-day basis. The concurrent audit control is automatically put in place with the implementation of a properly functioning Mid Office.

Areas to Audit:

a. Limits have been followed by all concerned in all cases
b. All deals have been properly recorded
c. The Treasury Front Office ensures that all the deals are executed promptly and properly captured by the Treasury Back Office
d. Reconciliation of F.C position between Dealers' Position records and accounting system
e. Review of deal confirmation and counter confirmations
f. Completeness, correctness and timeliness of the Reporting System
g. Functional Separation
h. Valuation of FC(s)
i. Different Dealing Limits
j. Periodic/Concurrent Audit on reconciliation of Nostro A/Cs.

Foreign Currency Loan/Overdraft:

a. Foreign currency loan/OD from Local/Foreign sources should be availed up to a certain limit.
b. Prior approval to be taken in case foreign currency loan availed from abroad.
c. Interest rate should be as per guidelines of Bangladesh Bank.
d. Prior approval from Senior Management/Board of Directors is to be taken for FC loan.

Chapter-09: Derivatives Guidelines

9.1. Introduction

Derivative means an instrument, to be settled at a future date, whose value is derived from change in interest rate, foreign exchange rate, credit rating or credit index, price of securities (also called "underlying"), or a combination of more than one of them. Participants of this market can broadly be classified into two functional categories. These are:

i. Market-makers: Market-makers are all AD Banks and their overseas offices. Market-makers may undertake a transaction in any derivative structured product as long as it is permitted by Bangladesh Bank. Market-makers can undertake derivative transactions to act as counterparties in derivative transactions with users and also amongst themselves with prior permission from Bangladesh Bank where necessary. The management of derivatives activities should be an integral part of the overall risk management policy and mechanism. Market-makers should have a 'Suitability and Appropriateness Policy' vis-à-vis users in respect of the products offered, on the lines indicated in these guidelines.

ii. Users: Users are business entities with identified underlying risk exposure. Users can enter into derivatives transactions only to hedge underlying commercial exposure and not for speculative purposes. Users can undertake derivative transactions to hedge specifically reduce or extinguish an existing identified risk on an ongoing basis during the life of the derivative transaction or for transformation of risk exposure. Users can also undertake hedging of a homogeneous group of assets & liabilities, provided the assets & liabilities are individually permitted to be hedged. It is desirable that the board of directors and senior management with customer understand the risks inherent in the derivatives activities being undertaken.

Foreign Exchange Forward (Local and Foreign Currencies), Foreign Exchange Swaps (Local and Foreign Currencies) and Cross Currency Swaps are permitted subject to conditions specified in the Guidelines for Foreign Exchange Transactions, 2018, Volume-1, Chapter-1 and subsequent circular issued thereafter. Other derivative contract (not specifically mentioned in any instruction) with customer like Foreign Exchange Options, Interest Rate Swaps, Interest Rate Cap and Interest Rate Collar etc. may be exercised only with prior permission from Bangladesh Bank and subject to certain conditions detailed in the following sections:

- Foreign Exchange Forward: Local and Foreign Currencies
- Foreign Exchange Swaps: Local and Foreign Currencies
- Foreign Exchange Options: Local and Foreign Currencies
- Cross Currency Swaps: Local and Foreign Currencies
- Interest Rate Swaps: Foreign Currencies
- Interest Rate Cap and Collar: Foreign Currencies

Format of Derivatives Application to Bangladesh Bank is shown in Annexure-XI.

9.2. Risk Management Aspects in Derivatives and New Product Transactions

Market Maker: AD Banks

User: Exporters and Importers

This section sets out the basic principles of a prudent system to control the risks in derivatives and new product activities. These include:

a. Appropriate oversight by the Board of Directors and senior management of Agrani Bank PLC. in case of launching new derivatives/products.

b. Adequate risk management process that integrates prudent risk limits, sound measurement procedures and information systems, continuous risk monitoring and frequent management reporting.

c. Comprehensive internal controls and audit procedures.

d. Foreign Exchange Risk Management System of Agrani Bank PLC. will follow the instructions of Risk Management Guidelines for banks-2018 and the role of Board of Directors, Risk Management Committee of Board, Risk Management Committee of Senior Management, Chief Risk Officer (CRO), Risk Management Division set in the said guidelines. In connection to the Risk Management Guidelines for banks-2018, Agrani Bank PLC. will ensure the compliance of this guidelines.

9.2.1. Corporate Governance

- It is vital, while dealing with hedging products, such as derivatives that the board/senior management should understands the nature of the business which the bank is undertaking.
- The board of directors and senior management also need to demonstrate through their actions that they have a strong commitment to an effective control environment throughout the organization.
- The board and senior management, in addition to advocating prudent risk management, should encourage more stable and durable return performance and discourage high but volatile returns.
- The board of directors and senior management should ensure that the organization of the bank is conducive to managing risk. It is necessary to ensure that clear lines of responsibility and accountability are established for all business activities, including new derivative activities.
- The central risk control function at the head office should also ensure that there is sufficient awareness of the risks and the size of exposure of the trading activities in new derivatives & new product operations. The compliance risks in all new products and processes should be thoroughly analyzed and appropriate risk mitigation by way of necessary checks and balances should be put in place before the launching of new products. The Chief Compliance Officer must be involved in the mechanism for approval of new products and all such products should be signed off by him. The Compliance Officer should also review and approve all the existing products in light of these guidelines.

9.2.2. Board and Senior Management Oversight

Agrani Bank PLC. define the overall framework within which new derivatives activities or new product transactions should be conducted and the risks controlled. The policy framework for derivatives is as follows:

- Establish the overall appetite of the bank for taking risk and ensure that it is consistent with its strategic objectives, capital strength and management capability to hedge or transfer risk effectively, efficiently and expeditiously.
- Define the approved derivatives products and their likes and the authorized derivatives & new product activities.
- Detail requirements for the evaluation and approval of new products or activities.
- Provide for sufficient staff resources and other resources to enable the approved derivatives and new products activities to be conducted in a prudent manner.
- Ensure appropriate structure and staffing for the key risk control functions, including internal audit.
- Establish management responsibilities.
- Identify the various types of risk faced by the bank and establish a clear and comprehensive set of limits to control this risk.
- Establish risk measurement methodologies which are consistent with the nature and scale of the derivatives and new product activities.
- Detail the type and frequency of reports which are to be made to the board (or concerned committee(s) of the board). The type of reports to be received by the board should include those which indicate the levels of risk being undertaken by the institution, the degree of compliance with policies, procedures and limits, and the financial performance of the various derivatives and trading activities. Internal and external audit reports should be reviewed by a board-level audit committee and significant issues of concern should be drawn to the attention of the board.

9.2.3. Checklist for Transacting Derivatives

Suitability and Appropriateness Policy

The rapid growth of the derivatives market, especially structured derivatives have increased the focus on ‘suitability’ and ‘appropriateness’ of derivative products being offered by market-makers to customers (users) as also customer appropriateness. Market-makers should undertake derivative transactions, particularly with users with a sense of responsibility and circumspection that would avoid, among other things, miscalling. Inadequate understanding of the risks and future obligations under the contracts by the users, in the initial stage, may lead to potential disputes and thus cause damage to the reputation of market-makers.

The market-makers may also be exposed to credit risk if the counterparty fails to meet his financial obligations under the contract. The market-makers should carry out proper due diligence regarding ‘user appropriateness’ and ‘suitability’ of products before offering derivative products to users. Each market-maker should adopt a board-approved ‘Customer Appropriateness & Suitability Policy’ for derivatives business. The objective of the policy is prudential in nature: to protect the market-maker against the credit, reputation and litigation risks that may arise from a user’s inadequate understanding of the nature and risks of the derivatives transaction. Annexure-IX exhibits a Sample Suitability checklist.

Capability Checking of the Users

In general, market-makers of Agrani Bank PLC. should not undertake derivative transactions with or sell structured products to users that do not have properly documented risk management policies that include, among other things, risk limits for various risk exposures. Furthermore, structured products should be sold only to those users which follow prudent accounting and disclosure norms and are capable of ascertaining the mark to market position of these products on an on-going basis.

Documented Records

While undertaking derivative transactions with or selling structured derivative products to a user, a market-maker should document how the pricing has been done and how periodic valuations will be done. In the case of structured products, this document should contain a dissection of the product into its generic components to demonstrate its permissibility, on the one hand, and to explain its price and periodic valuation principles, on the other. The following information may be shared with the user:

a. Description of the transaction
b. Building blocks of the transaction
c. Rationale along with appropriate risk disclosures
d. Sensitivity analysis identifying the various market parameters that affect the product
e. Scenario Analysis encompassing both the possible upside as well as the downsides and analyze the expected impact of the proposed derivatives transaction on the user
f. Inform the customer of its opinion, where the market-maker considers that a proposed derivatives transaction is inappropriate for a customer. If the customer nonetheless wishes to proceed, the market-maker should document its analysis and its discussions with the customer in its files to lessen the chances of litigation in case the transaction proves unprofitable to the customer. The approval for such transactions should be escalated to highest level of authority at the market-maker as also for the user
g. Ensure the terms of the contract are properly documented, disclosing the inherent risks in the proposed transaction to the customer in the form of a Risk Disclosure Statement which should include a detailed scenario analysis (both positive and negative) and payouts in quantitative terms under different combination of underlying market variables such as interest rates and currency rates, etc., assumptions made for the scenario analysis and obtaining a written acknowledgement from the counterparty for having read and understood the Risk Disclosure Statement.
h. Guard against the possibility of misunderstandings all significant communications between the market-maker and user should be in writing or recorded in meeting notes.

Authority Check

Market maker will ascertain whether a user has the appropriate authority to enter into derivative transactions and whether there are any limitations on the use of specific types of derivatives in terms of the former board memorandum/policy, level at which derivative transactions are approved, the involvement of senior management in decision-making and monitoring derivatives activity undertaken by it.

Exposure Check

Market maker will identify whether the proposed transaction is consistent with the user's policies and procedures with respect to derivatives transactions, as they are known to the market-maker.

Terms of the Contract

Market maker ensure that the terms of the contract are clear and assess whether the user is capable of understanding the terms of the contract and of fulfilling its obligations under the contract. A term sheet detailing all the information related to trade should be signed by the client before executing any trades.

Dispute Handling

Market maker should establish internal procedures for handling customer disputes and complaints. They should be investigated thoroughly and handled fairly and promptly. Senior management and the Compliance Department/Officer should be informed of all customer disputes and complaints at a regular interval. It may also be noted that the responsibility of 'Customer Appropriateness and Suitability' review is on the market-maker.

Documentation Requirement

Market participants are advised to ensure that the documentation requirements in respect of derivative contracts are complete in all respects. For the sake of uniformity and standardization in respect of all derivative contracts, participants may use International Swaps and Derivatives Association (ISDA) documentation, with suitable modifications for continuing ongoing relationships. Counterparties are free to modify the ISDA Master Agreement by inserting suitable clauses in the schedule to the ISDA Master Agreement to reflect the terms that the counterparties may agree to, including the manner of settlement of transactions and choice of governing law of the Agreement.

The Identification of Risk

Market-makers should identify the various types of risk to which they are exposed in their derivatives activities. The main types of risk are and discussed in earlier sections:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Legal Risk

9.3. Product Guidelines

9.3.1. Spot Foreign Exchange

A foreign exchange spot transaction, also known as FX spot, is an agreement between two parties to buy one currency against selling another currency at an agreed price for settlement on the spot date. The exchange rate at which the transaction is done is called the spot exchange rate.

9.3.2. Forward Foreign Exchange

A FX forward contract or is a non-standardized contract between two parties to buy or sell a currency against another at a specified future time at a price agreed upon today. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the forward rate, which is agreed at the time when the contract is entered into.

The forward price of such a contract is commonly contrasted with the spot price, which is the price at which the asset changes hands on the spot date. The difference between the spot and the forward price is the forward premium or forward discount.

Forwards, like other derivative securities, can be used to hedge risk typically currency or exchange rate risk.

9.3.3. Forex Options

A foreign-exchange option commonly known as FX option or currency option is a financial derivative instrument that gives the owner the right but not the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. To hedge bonafide transactions, bank can exercise foreign exchange option only with prior permission from Bangladesh Bank in case-to-case basis.

Guidelines for Forex Options:

- Bank can only offer plain vanilla options and its simple variations only
- These transactions may be freely booked and/ or cancelled subject to verification of the underlying
- All guidelines applicable for FX forward contracts are applicable to cross currency option contracts also
- Cross currency options should be written by banks on a fully covered back-to-back basis. The cover transaction may be undertaken with a bank outside or inside Bangladesh or an internationally recognized option exchange. Agrani Bank PLC. desirous of writing options (i.e., not back-to-back), should obtain a one-time approval from Foreign Exchange Policy department of Bangladesh Bank before undertaking the business. Agrani Bank PLC. should clearly explain the booking, processing, risk mitigates (i.e., option Greeks like Delta hedging strategy) covering the transactions and scenario analysis of profit/loss of customer in details while seeking the approval
- Bank have to go through a robust suitability process before commencing any options related transactions with the clients
- The term sheet for the derivative transactions should also necessarily and clearly mention the following:
  - The purpose for the transaction detailing how the product and each of its components help the client in hedging
  - The spot rate prevailing at the time of executing the transaction; and quantified maximum loss/ worst downside in various scenarios.
- The pricing of all forex derivative products should be locally demonstrable at all times.

9.3.4. Forex SWAP

Clients having a foreign currency liability and undertaking a foreign currency vs BDT swap to move from a foreign currency liability to a BDT liability or vice versa is allowed given AD bank is able to examine the suitability and appropriateness of the swap and be satisfied about the financial soundness of the client.

Purpose of this is to hedge exchange rate and/or interest rate risk exposure for those having long or short-term foreign currency borrowing or to transform long or short-term BDT borrowing into foreign currency liability.

Guidelines for Forex SWAP

- The term "long-term exposure" means exposures with residual maturity of one year or more. "Short term exposure" meaning less than one-year exposures
- The swap transactions, once cancelled, shall not be rebooked or re-entered, by whichever mechanism or by whatever name called
- Agrani Bank PLC. should not offer any swap structures other than vanilla, i.e., leveraged swap
- The notional principal amount of the swap should not exceed the outstanding amount of the underlying exposure
- The maturity of the swap should not exceed the remaining maturity of the underlying exposure
- Bank will carry out due diligence regarding "user appropriateness" and "suitability" of the swap transaction
- The term sheet for the derivative transactions should also necessarily and clearly mention the following:
    - The purpose for the transaction detailing how the product and each of its components help the client in hedging
    - The spot rate prevailing at the time of executing the transaction
    - Quantified maximum loss/ worst downside in various scenarios.
- The pricing of all forex derivative products should be locally demonstrable at all times
- Buying/Selling/Swapping foreign currency against BDT or another foreign currency is allowed between resident interbank counterparties and Buying/Selling/Swapping foreign currency against another foreign currency to cover client transactions or for adjustment of own position is allowed with banks abroad if Guidelines on Managing Core Risks in Banking' (as prescribed by Bangladesh Bank vide BRPD circular 19 dated 09/10/2003). Agrani Bank PLC. is also allowed to initiate trading positions with the overseas market's banks.

9.3.5. Cross Currency SWAP

Cross Currency Swap (CCS) or Currency Swap is an agreement between two parties to exchange interest payments and principals denominated in two different currencies. Purpose is to hedge FCY borrowing or lending related interest rate and exchange rate exposure and unwinding from such hedges.

Guidelines for Cross Currency SWAP

- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan
- The maturity of the product should not exceed the unexpired maturity of the underlying loan
- The contracts may be cancelled and rebooked freely
- Bank should carry out due diligence regarding “user appropriateness” and “suitability” of the swap transaction
- The term sheet for the derivative transactions should also necessarily and clearly mention the following:
    - The purpose for the transaction detailing how the product and each of its components help the client in hedging
    - The spot rate prevailing at the time of executing the transaction
    - Quantified maximum loss/worst downside in various scenario.
- The pricing of all forex derivative products should be locally demonstrable at all times.

9.3.6. Interest Rate SWAP

An Interest Rate Swap is a financial contract between two parties exchanging or swapping a stream of interest payments for a `notional principal’ amount on multiple occasions during a specified period. Such contracts generally involve exchange of a `fixed to floating’ or `floating to floating’ rates of interest. Accordingly, on each payment date-that occurs during the swap period - cash payments based on fixed/ floating and floating rates, are made by the parties to one another. Purpose is to hedge FCY borrowing or lending related interest rates exposure and unwinding from such hedges.

Guidelines for Interest Rate SWAP

- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan
- The maturity of the product should not exceed the unexpired maturity of the underlying loan
- The contracts may be cancelled and rebooked freely as per specific predetermined policy guidelines
- Banks should carry out due diligence regarding “user appropriateness” and “suitability” of the swap transaction
- The pricing of all forex derivative products should be locally demonstrable at all times.

9.3.7. Interest Rate Cap and Collar

An interest rate cap is an interest rate option in which payments are made when the reference rate exceeds the strike rate. Analogously, an interest rate floor is an interest rate option in which payments are made when the reference rate falls below the strike rate. Purpose is to hedge FCY borrowing or lending related interest rate exposure and unwinding from such hedges.

Guidelines for Interest Rate Cap and Collar

- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan
- The maturity of the product should not exceed the unexpired maturity of the underlying loan
- The contracts may be cancelled and rebooked freely
- Banks should carry out due diligence regarding "user appropriateness" and "suitability" of the Cap and Collar
- Agrani Bank PLC. can offer only those products that they can price independently. This is also applicable to the products offered even on back-to-back basis. The pricing of all forex derivative products should be locally demonstrable at all times.

9.3.8 Commodity Hedging

For Clients with Underlying Exposure (less than 1 year):
Agrani Bank PLC. may facilitate Commodity Swaps, Caps, Floors, and Collars with prior approval from Bangladesh Bank. Contracts must be non-speculative and have underlying exposure (e.g., import LC). Bank must keep copies of valid underlying documents for inspection by Bangladesh Bank. Bank must complete Appropriateness and Suitability assessment (GFET Annex). All other conditions of GFET Chapter-4, Para-14 on hedging will apply.

General Regulations for Commodity Hedging

Commodity derivatives are only for hedging genuine price risks monitored by ADs. Residents can hedge permitted commodities on international exchanges through banks operating in Bangladesh. AD bank can make margin payments or issue guarantees/standby letters of credit.

Note: For any products other than those mentioned above, approval from Bangladesh Bank will be required on a case-to-case basis before transacting. Treasury Front Office will complete the product approval form prescribed by Bangladesh Bank and submit it along with an application letter to the Director, Foreign Exchange Policy Department, Bangladesh Bank.

Chapter 10: Foreign Exchange Risk Management for Off-Shore Banking Operations

10.1. Offshore Banking

Offshore banking refers to the practice of conducting financial activities, such as banking and investment, in a jurisdiction where there is a lack of domestic foreign exchange (FOREX) regulation. In this context, offshore banking typically involves establishing accounts and engaging in financial transactions in a location that does not impose stringent regulatory controls on foreign exchange operations. This allows individuals and businesses to benefit from potential tax advantages, financial privacy and a more lenient regulatory environment for international transactions. The main functions of Offshore Banking are borrowing and lending, both short and long term and providing international banking services to the intending non-resident and eligible resident customers.

10.2. Offshore Banking Unit (OBU) of Agrani Bank PLC.

The EPZ Corporate Branch, Chattogram of the Agrani Bank PLC obtained the Offshore Banking License first among the entire commercial banks in Bangladesh via letter No.: BL/DA/5175/87 dated March 7, 1987. After getting approval, the Offshore Banking Unit (OBU) commenced its operation at EPZ Corporate Branch, Bay Shopping Center, EPZ, Chattogram, but its main activities are operated from Agrani Bank PLC., International Trade & Foreign Currency Management Division, Head Office, Dhaka.

10.3. Operations of Offshore Banking

OBU of Agrani Bank PLC. is allowed to execute transactions in freely convertible currencies declared by Bangladesh Bank in terms of Article 18 of The Bangladesh Bank Order, 1972 (President's Order No. 127 of 1972). OBU Operations of Agrani Bank PLC. are within the framework as outlined below:

i. OBU can extend admissible banking services to fully foreign owned enterprises located at specialized zones. In terms of Section 2(8) of the Offshore Banking Act, 2024, 'Specialized Zone' shall refer to an Economic zone, Export Processing Zone, Private Export Processing Zone, Hi-Tech Park or any other zone declared by the Government from time to time.

ii. OBU can extend trade finance to enterprises other than fully foreign owned ones located at specialized zones arranged through the Authorized Dealers (AD) in the form of buyer's credit, accepted bill financing etc. for the permissible tenure.

iii. OBU can extend trade finance to enterprises located at non-specialized zones arranged through the AD in the form of admissible buyer's credit, accepted bill financing etc. for the permissible tenure.

iv. OBU can allow import finance to fully foreign owned enterprises located at specialized zones for import of capital machinery up to 3 years under buyer's credit, bill accepted framework etc. Such financing is permissible to other enterprises in specialized and non-specialized zones arranged through respective AD.

v. OBU can accept deposits from fully foreign owned enterprises located at specialized zones. OBU may also accept deposits from persons resident outside Bangladesh without limiting to non-resident Bangladeshi nationals, persons of Bangladeshi origin, foreign nationals and enterprises, companies/firms registered and operating abroad, foreign institutional investors in approved foreign currency.

vi. OBU can maintain foreign currency accounts termed as International Banking (IB) accounts in approved foreign currencies in the name of persons resident in Bangladesh and any industrial establishment and any other enterprise operating in specialized zones. IB accounts will be operated by account-holders on behalf of any non-resident. IB account-holders shall act as the facilitator of the non-resident remitter. IB accounts need to be credited with inward remittances received through only banking channel. Balances held in IB accounts shall be used for (a) transferring to domestic banking units for meeting necessary payments and investments; and (b) making outward remittances including interest or profit to the remitter.

vii. OBU can issue international cards (debit/prepaid/virtual) against foreign currency accounts. All other instructions of Bangladesh Bank regarding this issue have to be followed.

viii. OBU can be allowed to offer interest/profit on banker-customer relations.

ix. OBU can be allowed to borrow from external sources. Repayment commitments may be issued in respect of the borrowing, subject to call for claims by beneficiaries up to drawdown amount.

x. OBU can extend loans/advances and investments to bank's own subsidiaries not resident in Bangladesh, subject to prior permission from Foreign Exchange Investment Department of Bangladesh Bank.

10.4. Prudential Regulations for OBU Operations of Agrani Bank PLC.

The following are the Prudential Regulations for the OBU Operations of Agrani Bank PLC.:

i. Agrani Bank PLC. has a Guidelines for OBU approved by the Board of Directors of the bank for conducting offshore banking operations in line with the instructions given by Bangladesh Bank.

ii. No dealing shall be made for any speculative purpose.

iii. Interbank fund placements of OBU is permissible.

iv. Assets and liabilities created by offshore banking operation shall clearly be recognized at the time of such creation.

v. OBU shall observe the Asset Liability Risk Management (ALM) Policy of Agrani Bank PLC. for offshore banking.
vi. OBU shall maintain separate books of accounts of it's operations which shall be used for the purpose of verifying financial and other activities.

vii. OBU are allowed to borrow funds from the Domestic Banking Units (DBUs) up to 30% of regulatory capital or the limit prescribed by Bangladesh Bank from time to time.

viii. 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.

ix. Agrani Bank PLC. does not require to maintain any Cash Reserve Ratio (CRR) with Bangladesh Bank for offshore banking operations in terms of Notification No. FE-01/2024-BB, dated February 29, 2024.

x. The instructions issued by Bangladesh Bank regarding the maintenance of Statutory Liquidity Reserve (SLR) must be followed by Agrani Bank PLC.

xi. All regulatory limits prescribed by Bangladesh Bank regarding funded and non-funded exposures shall be applicable to offshore banking operations.

xii. Agrani Bank PLC. have to maintain separate accounts relating to their offshore banking business for each OBU for assessing financial performance and other purposes. But offshore banking activities shall be included in equivalent Bangladeshi Taka (BDT) denomination while preparing solo basis financial statement of the bank treating it as a business line.

xiii. The records of exchange position in foreign currencies of the bank shall include exposures of the OBU. Agrani Bank PLC. needs to maintain the overall exposures in foreign currencies (overall exchange position) within the 'Open position limit' at the end of the day as stated therein.

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

xv. OBU are allowed to place funds to their DBU without limiting to settle the import payment of capital machinery, industrial raw materials and imports by the Government and other permissible payment obligations as per prevailing foreign exchange regulations.

xvi. OBU are subject to periodic reporting to Bangladesh Bank with regards to their offshore banking transactions in relevant statement/schedules in writing as well as report to online web portal as per instructions of Bangladesh Bank.

xvii. Agrani Bank PLC. have to report their offshore banking operations 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.

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

ixx. As Agrani Bank PLC. hold the license for Islamic Shariah based banking services, it is allowed to provide Islamic Shariah based banking services through offshore banking.

xx. In case of deferred import/export, LC/bill discounting calculation, bank shall create only funded exposure on the local borrower in its solo statement, regardless it is funded or nonfunded exposure of onshore and offshore accounts. Agrani Bank PLC. need to follow all kind of regulations/reporting related to it.

xxi. To execute the approved activities of offshore banking, OBU may open current, savings and term accounts. Necessary instruments shall be issued under 'The Negotiable Instrument Act, 1881' for the transactions of these accounts.

xxii. Agrani Bank PLC. have to comply with KYC standards and AML/CFT regulations while conducting their offshore banking business.

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

xxiv. Dividend payable to foreign shareholders against Foreign Direct Investment as per relevant FE circular may be credited to OBU accounts.

xxv. Approved remittable portion of salary & allowances of resident foreign nationals may be credited to their OBU account.

10.5. Foreign Exchange Risk Management for Offshore Banking Unit of Agrani Bank PLC.

Foreign Exchange (FX) risk management is crucial for an Offshore Banking Unit (OBU) of a bank, as it deals with cross-border transactions, multiple currencies, and exposure to exchange rate fluctuations. Effective FX risk management helps mitigate potential losses due to currency volatility.

As per the directives of Banking Regulation and Policy Department, Bangladesh Bank, Agrani Bank PLC. has formulated a ‘Guidelines for Offshore Banking Unit (OBU)’ and a ‘Operations Manual for Offshore Banking Unit (OBU)’ to perform the OBU operation of the bank. OBU book of Agrani Bank PLC. needs to have a combination of short-term and long-term liabilities to weather any liquidity stress.

Agrani Bank PLC. needs to limit the Short-term liability in OBU book. The funding arranged from DBU also needs to be assessed in line with liability profile of DBU.

Chapter 11: Conclusion

The dealers of the bank require high degree of skills and specialization in their respective areas. Certain key positions in the treasury back-office also require high level of skills and expertise. The dealers of the bank are responsible for risk management of the overall balance sheet of the bank as well as managing the capital which is a highly responsible function where the best possible decisions are expected to be made in split-second.

It is the responsibility of senior management of the bank to ensure appointment of the appropriate and deserving personnel as treasury and treasury back-office staff. They should also on a continuous basis, identify the traders training and development requirement and arrange for the same. The management should also put in place an overall trading policy for its treasury defining the scopes, policies, risk-limits, their control mechanisms as well as set up and review individual dealer mandates.

The management of the bank must appreciate that the nature of a treasury environment is ever changing where new market dynamics, products and as a result, new risks are evolving on a continuous basis. Internal policies and structures of the bank must be designed in such a manner that identification of new risk and control areas is possible at the earliest where control mechanisms can be implemented prior to taking up any significant risk.

Annexure-I: Definitions

Following are the definitions of some terminologies used in this document:

i. **Counter-party**: The other entity/bank or party with whom a transaction is concluded.

ii. **Exchange Position**: Exchange position refers to the position of foreign currency (FCY) to be reported as per prescribed format of Bangladesh Bank which indicates the total FX assets and liabilities and differences thereof.

iii. **Inter-bank Transactions**: Interbank Transactions refer to transactions between counterparties (banks and/ or other financial institutions) which participate in the inter-bank market.

iv. **Limit and Sub-Limit**: Limit and Sub-Limit express the approved aggregate value for particular currency (currency limit) either booked as asset or as liability.

v. **Merchant Transaction**: Merchant Transaction indicates those transactions which involves in-house customers e.g. exporter, importer and remitter of the Bank. These are often termed as flow transactions or internal flows.

vi. **Open Position Limit**: Open Position Limit indicates the limit approved by Bangladesh Bank for maximum long and short aggregate currency position in equivalent USD.

vii. **Position Taking**: Position Taking refers to the transactions for which dealers enter into buy/ sell transaction in a particular currency with a view to making profit.

viii. **Revaluation**: Through this process, the LCY equivalent of the FCY assets and liabilities of the balance sheet (book value) are valued at market price using the prevailing exchange rate and any difference is accounted for.

ix. **Ready/Cash Deals**: Deals where the Transaction date and the Settlement date is same.

x. **Value TOM**: Deals where the Settlement date is one working day after the Transaction date i.e. the settlement of the transaction is T+1 working day. The term ‘TOM’ here is used in a short form for ‘tomorrow’.

xi. **Value Spot:** Deals where the Settlement date is two working days after the Transaction date i.e. the settlement of the transaction is T + 2 working days, except USD/CAD where spot is T+1.

xii. **After Hour’s Dealings**: Deals concluded by the dealers at a time that is after the bank’s internally approved dealing hour.

xiii. **Off Premises dealing:** Deals concluded by dealers from outside the dealing room i.e. when the dealer is not physically located inside the dealing room.

xiv. **Stop loss limit**: A limit set by the independent market risk management department or risk management unit which a dealer must not exceed when managing and/or closing an adverse position or portfolio.

xv. **Mark to Market**: A process through which all outstanding FX positions and portfolios are valued at the current market rate to determine the current market value.

xvi. **Deal Blotter**: A listing of all the Deals that are executed over a trading day.

xvii. **Deal Slip**: The Primary document where a dealer records all the information related to an executed deal. Banks with automated front office systems writes and passes their deal slips electronically while banks without automated systems hand over a physical slip to their back office for further processing of the transaction.

xviii. **Currency Pair:** The two currencies in a foreign exchange transaction.

xix. **Spread:** The difference between the buying and selling price for foreign currency.

xx. **Overbought/Long:** If the F.C(s) purchased/FX asset(s) is/are more than the F.C(s) sold/FX liability(s), the Bank is said to have Overbought/Long position.

xxi. **Oversold/Short:** If the F.C(s) sold/FX liability(s) is/are more than the F.C(s) bought/FX asset(s), the Bank is said to have Oversold/short position.

xxii. **Square:** If the F.C(s) Purchase/FX Asset(s) are equal to F.C(s) Sales/FX liability(s), then the position is square.

xxiii. **Net Open Position (NOP):** The Net Open Position (NOP) is the residual balance of total F.C assets minus liabilities/ aggregate F.C purchase minus aggregate F.C sales.

xxiv. **Daylight/Intraday Limit:** The Daylight/Intraday Limit is the maximum position allowed by the management that can be taken during the course of the trading session by the dealers in a particular trading day.

xxv. **Money market:** The Money Market refers to the marketplace where short term resources with maturity of funds ranging from one day to one year are raised and/ or deployed.

xxvi. **Treasury Bills:** Treasury bills refer to short-term negotiable debt obligations issued by the government of Bangladesh and backed by its full faith and credit with a maturity of up to one year.

xxvii. **Policy Rate/Repo:** Repo or Repurchase Agreement refers to sale of securities with a commitment to repurchase the same securities at a pre-agreed date in the future. Presently only government securities are being dealt with under repo transactions.

xxviii. **SLF Rate/Reverse Repo:** Reverse Repo refers to purchase of securities with a commitment to sell the same securities at a pre-agreed date in the future.

xxix. **Call Money:** Call Money refers to borrowing/lending of funds which can be matured by a same day notice of either party at any given date starting from the next working day.

xxx. **Overnight Money:** Refers to funds placed/borrowed that automatically mature on the following working day.

xxxi. **Notice Money:** Notice Money refers to placement of funds beyond overnight for periods not exceeding 14 days.

xxxii. **Term Money:** Term Money refers to placement or borrowing of funds for periods over 14 days.

xxxiii. **Dealing system:** System used for conversation/dealing among the counterparts for foreign exchange dealing.

xxxiv. **Trading spikes:** The comparatively large upward or downward movement of a price or value level in a short period.

xxxv. **Shell bank:** means a bank that has no physical presence in the country in which it is incorporated and licensed and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision.

Annexure-II: Earnings at Risk

For those portfolios that are subject to accrual accounting, the Earnings at Risk methodology should be used for measuring how much the earnings might be impacted by an adverse movement in interest rates. Interest rate risk occurs when assets and liabilities reprice at different times (gaps), when assets and liabilities are subject to administered rate pricing, or when assets and liabilities reprice on different yield curves.

Earnings at Risk measures the potential pre-tax earnings impact on the non-trading portfolios for a given time period of a specified parallel movement in interest rates. The specific rate movements are statistically derived. For a portfolio without options, the Earnings at Risk for each currency are calculated by multiplying the repricing gap by the specified rate movement.

Earnings at Risk calculations are generally done for the full life of the portfolio. By convention, since there may be assets and liabilities with indefinite maturities, the calculation of full life earnings at risk is normally truncated at 5 years. The first step in calculating earnings at risk for a balance sheet without options is to construct gap schedules based on asset and liability repricing for each month and each year. Some assets and liabilities do not have contractual repricing dates or maturities, e.g., demand deposit accounts and overdraft loans: in these cases, assumptions need to be made and approved by the market risk unit.

All profit and loss items which have interest rate sensitivity, i.e., those revenues or expenses which vary with interest rate changes, must be included in the Earnings at Risk calculations. To calculate possible impact of rate changes on such positions, it is necessary to estimate the time it would take to eliminate the risk and close the gap, the defeasance period. This will obviously depend on the nature of the assets and liabilities and the availability of suitable hedging facilities. The level of change in interest rates will be determined by the length of the defeasance period. The longer it takes to rebalance the positions of the greater possible movement in interest rates.

The impact of the specified parallel shift of the yield curve is calculated for each year. The results for each year of the full life calculation are then discounted using the appropriate swap rate and are added together to provide the total change in the earnings of the portfolio.

Earnings at risk limits are to be set for all accrual portfolios, for the full life of the portfolio. Generally, the aggregate earnings at risk is PLC. to a percentage of annual budgeted earnings. The utilization of the earnings at risk against the set limits should be measured at least weekly, but procedures must be in place to ensure that the limits are not exceeded on a daily basis.

Example of Earnings at Risk in a Commercial Lending Portfolio

Customer A – deposits Tk. 100 million for 91 days, fixed rate at 5% per annum.
Customer B – borrows Tk. 10 million for 15 days, fixed rate at 9% per annum.
Customer C – borrows Tk. 90 million for 151 days, floating rate determined monthly, currently at 9% per annum

	Outstanding Volume	Month 1 Volume	Month 2 Volume	Month 3 Volume	Month 1 Volume	Total
Assets e.g., Loans	Tk. 100 M	Tk. 100M	Tk. 20M	0	0	0
Liabilities e.g., Deposits	Tk. 100 M	Tk. 100M	Tk. 100M	Tk. 100M	0	0
Cumulative interest sensitive gap (Liabilities minus assets)			Tk. 90M	Tk. 100M	0	0
Rate Change/ Defeasance factor		55 bp	55 bp	55 bp		
Earnings at Risk			Tk. 39.9k	Tk 15.9k		Tk. 92.5k

Notes:

In month 2 the loan of 90 million is repriced, so is not included in outstanding volume. The average volume of the fixed rate loan is 20 million, i.e., 10 million x 15 days/30 days.

The defeasance period is considered to be 1 weeks, i.e., the time to come to a decision, find a suitable hedge to close the position, obtain approval and put the hedge into operation could be as long as I month. Over this period of time, the 2 standard deviation interest rate movement, for example, is derived historically to be 55 basis points. Earnings at Risk is calculated as Cumulative interest rate gap x Rate Change x Time. For example, in the second month: 90 million x 55 bps x 30/390 days = Tk. 39.9 thousand.

Earnings at Risk calculations are rarely as straightforward as the above example. Some products do not have easily defined maturities so actuarial estimates need to be used instead. Portfolios may also contain embedded options, the effect of which have to be taken into consideration.

This is an example of positive gapping: the balance sheet has been positioned to take advantage of a rise in rates, by borrowing longer term and lending shorter term.

Annexure-III: Calculation of VAR

Value At Risk (VaR)

Value at Risk, commonly referred to by its acronym *VaR*, is a statistical measure of the worst probable loss on a position or portfolio of positions that can be expected over a specified period of time to a given level of confidence. The calculation of *VAR* requires a number of inputs:

- Market value of the position
- Daily volatility of the currencies
- Holding period
- Level of confidence

Market value of position

The market value of position, expressed in US Dollars, is the base point from which expected losses are calculated. In other words, adding or subtracting (depending on whether the position is long or short) the *VaR* on a position to the market value will give the worst probable market value of the position.

Daily volatility of the currencies

Foreign Exchange volatility is calculated from the daily movements in the foreign exchange rate over a specified historic time period. A key assumption in the calculation of historic volatility is that recent events play a more significant role in determining likely rate movements in the future than events, say, which took place a year ago. As a result, recent rate movements are usually given higher weight in the calculation of volatility. An alternative method commonly used in the market is to limit the historic period used to calculate volatility, and not apply any weighting. A third method is to use implied volatility i.e. the actual volatility traded in the market.

Whatever method is used, the risk manager should be aware of the difference between implied and historic. If the difference is significant, then it may be necessary to tune the calculation of historic volatility to bring it in line with implied.

Historic volatility is calculated by simply taking the Standard Deviation of the daily changes in the rates for the historic time period selected. To compare historic to implied volatility, the daily volatility needs to be converted to an annualized basis. This is done by multiplying the daily volatility by the square root of the number of trading days in a year (say 260).

Holding period

The holding period for *VaR* refers to the liquidity of the position i.e., how long it will take to liquidate the position in terms of number of trading days. The majority of positions (regardless of size) in freely floating currencies should be able to be liquidated within a twenty-four-hour period.

For these currencies, the holding period will therefore be set to one day. However, positions in currency that is not liquid may take several days to unwind, which may depend on the size of the position or general market conditions. In these cases, the holding period should be extended appropriately.

Level of confidence

The level of confidence selected determines the probability and frequency that there will be a rate movement in excess of the predicted (i.e., *VaR*) amount.

Market volatility is quoted to one standard deviation, thereby inferring that once in every five trading days the calculated worst probable loss will be exceeded. At two standard deviations, this raised to one in every forty trading days. At three standard deviations this is increased to once in every two hundred days.

Based on the normal distribution of rate changes, the percentage of the distribution, defined by the number of Standard Deviation (σ), Level of Confidence will define the probability of a rate movement occurring outside the worst probable rate. The approximate relationship between Confidence Level and Standard Deviation is as follows:
1σ = 90% Confidence Level
2σ = 95% Confidence Level
3σ = 99% Confidence Level
However, since the concern is only with the half of the distribution that may cause a loss on a position, the Confidence Levels are raised as follows:
1σ = 90% Confidence Level
2σ = 99.5% Confidence Level
3σ = 99.5% Confidence Level
These Confidence Levels in turn can be expressed as frequency of occurrence (how frequently our expectation of worst probable rate movement will be exceeded in terms of number of trading days).
90% Confidence Level = 1 in 5 days
99.5% Confidence Level = 1 in 10 days
99.5% Confidence Level = 1 in 200 days
Market volatility is quoted to one standard deviation, thereby inferring that once in every five trading days the calculated worst probable loss will be exceeded. At two standard deviations, this raised to one in every forty trading days. At three standard deviations this is increased to once in every two hundred days.

Calculation of Foreign Exchange *VaR*

Gross *VaR*:
Gross *VaR* is calculated as follows, using the inputs discussed above:

Gross *VaR* = Market value of the position X Daily Volatility X Level of confidence X $\sqrt{\text{Holding Period}}$

Net *VaR*

Net *VaR* reduces the Gross *VaR* calculated on a portfolio of positions by taking into account the way foreign exchange rates move in relation to each other. As with volatility, this Portfolio Effect (using the Marckowitz's Portfolio Theory) or Correlation is also calculated from the same historic period. Correlations range from +1 to -1. A+1 correlation indicates that two currencies move identically to each other against the US dollar. A-1 correlation indicates that two currencies move in diametrically opposite directions to each other against the US dollar. A Zero correlation means there is no relationship between the ways the currencies move.

For example, studies reveal that there is positive correlation between Euro and Swiss Franc, which indicates that a long Euro position is hedged by the short CHF position. The Gross *VaR* calculated on each position can therefore be reduced proportionately. Just as the loss is limited, so is the profit potential in EUR/CHF position is limited.

The following table shows how positive and negative correlations between currencies affect

Net *VaR* calculation

Position A (Any currency)	Position B (Any currency)	Correlation	Correlation term sign (Effect on Net Var)
Short (+)	Short (+)	Negative (-)	Negative (-)
Long (-)	Long (-)	Negative (-)	Negative (-)
Short (+)	Long (-)	Positive (+)	Negative (-)
Long (-)	Short (+)	Positive (+)	Negative (-)
Short (+)	Short (+)	Positive (+)	Positive (+)
Long (-)	Long (-)	Positive (+)	Positive (+)
Short (+)	Long (-)	Negative (-)	Positive (+)
Long (-)	Short (+)	Negative (-)	Positive (+)

The correlation term sign indicates whether the portfolio effect will be added or subtracted in the Net *VaR* calculation. It should be noted that the *Net VaR* calculation cannot increase the aggregate of the Gross *VaR* on each position, rather reduces it to the extent of the correlation.

It should also be noted that a zero correlation does not mean that Net *VaR* will equal aggregate Gross *VaR*. There will be a reduction in Gross *VaR* on the basis that even a random movement between currency rates may to some extent reduce risk.

Calculation of Net VAR for Two Currencies:

$$Net\ VaR = \sqrt{\left(VaR_{x.a}^2 + VaR_{x.b}^2 + VaR_{y.a}^2 + VaR_{y.b}^2\right) + 2r_{x.y}\begin{bmatrix}\left(VaR_{x.a} \times VaR_{y.a}\right) + \left(VaR_{x.a} \times VaR_{y.b}\right) + \\ \left(VaR_{x.b} \times VaR_{y.a}\right) + \left(VaR_{x.b} \times VaR_{y.b}\right)\end{bmatrix}}$$

Where,

VARx.a = Gross VAR of currency 'x' in case of short position

VARx.b = Gross VAR of currency 'x' in case of long position

VARy.a = Gross VAR of currency 'y' in case of short position

VARy.b = Gross VAR of currency 'y' in case of long position

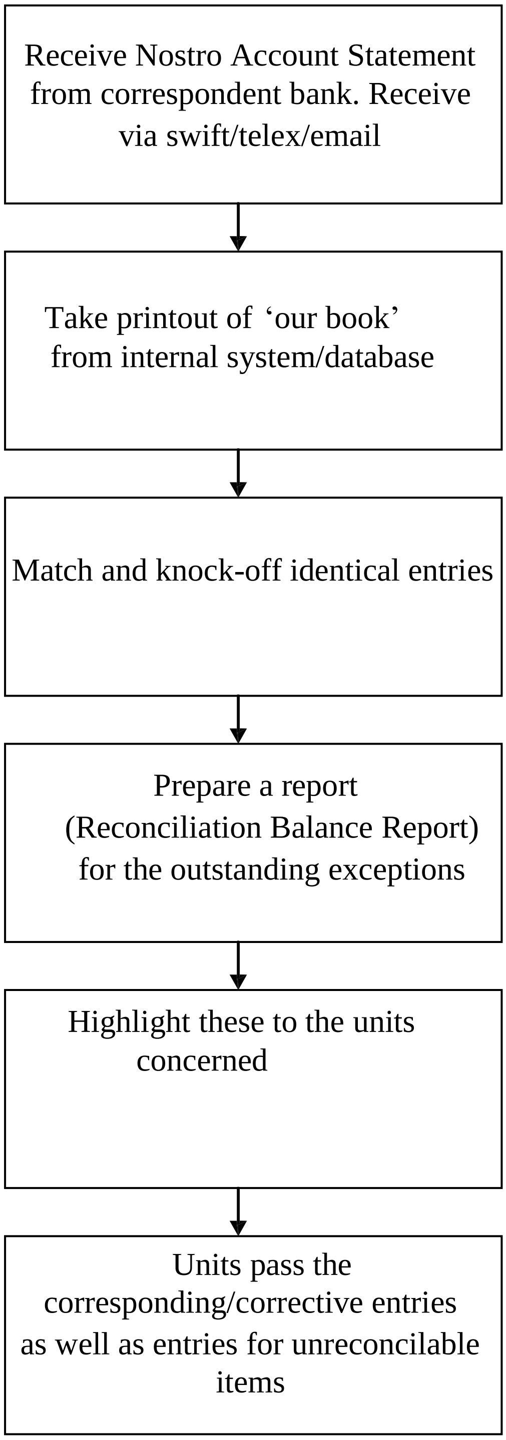
rx.y = Coefficient of Correlation between currencies 'x' and 'y'

Calculation of Net VAR for Four Currencies:

$$Net\ VaR_{w.x.y.z} = \sqrt{\begin{array}{l}(VaR_{w.a}^2 + VaR_{w.b}^2 + VaR_{x.a}^2 + VaR_{x.b}^2 + VaR_{y.a}^2 + VaR_{y.b}^2 + VaR_{z.a}^2 + VaR_{z.b}^2) + \\ 2r_{w.x}[(VaR_{w.a} \times VaR_{x.a}) + (VaR_{w.a} \times VaR_{x.b}) + (VaR_{w.b} \times VaR_{x.a}) + (VaR_{w.b} \times VaR_{x.b})] + \\ 2r_{w.y}[(VaR_{w.a} \times VaR_{y.a}) + (VaR_{w.a} \times VaR_{y.b}) + (VaR_{w.b} \times VaR_{y.a}) + (VaR_{w.b} \times VaR_{y.b})] + \\ 2r_{w.z}[(VaR_{w.a} \times VaR_{z.a}) + (VaR_{w.a} \times VaR_{z.b}) + (VaR_{w.b} \times VaR_{z.a}) + (VaR_{w.b} \times VaR_{z.b})] + \\ 2r_{x.y}[(VaR_{x.a} \times VaR_{y.a}) + (VaR_{x.a} \times VaR_{y.b}) + (VaR_{x.b} \times VaR_{y.a}) + (VaR_{x.b} \times VaR_{y.b})] + \\ 2r_{x.z}[(VaR_{x.a} \times VaR_{z.a}) + (VaR_{x.a} \times VaR_{z.b}) + (VaR_{x.b} \times VaR_{z.a}) + (VaR_{x.b} \times VaR_{z.b})] + \\ 2r_{y.z}[(VaR_{y.a} \times VaR_{z.a}) + (VaR_{y.a} \times VaR_{z.b}) + (VaR_{y.b} \times VaR_{z.a}) + (VaR_{y.b} \times VaR_{z.b})]\end{array}}$$

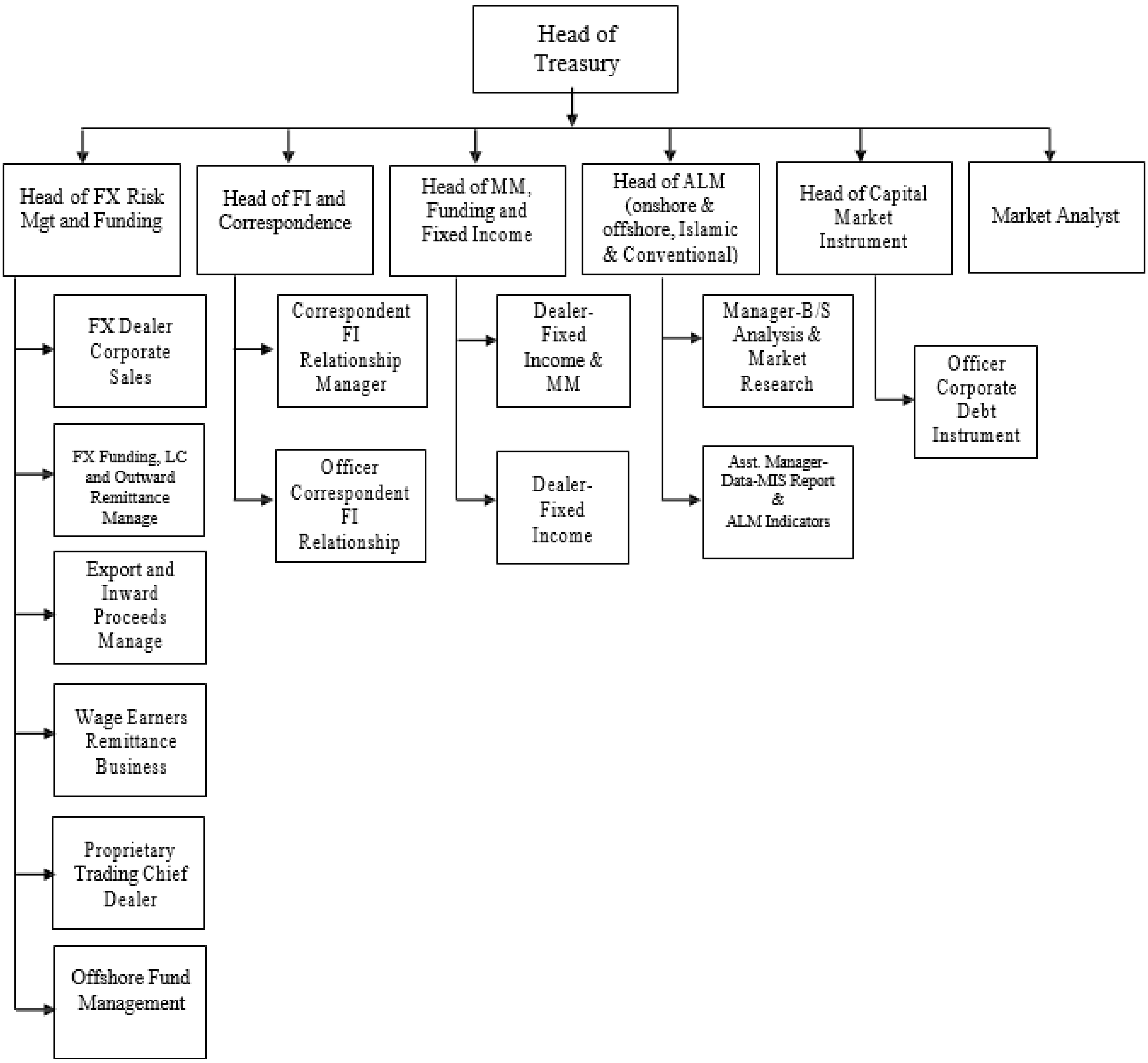
Where,
VARw,a = Gross VAR of currency 'w' in case of short position
VARw,b = Gross VAR of currency 'w' in case of long position
VARx,a = Gross VAR of currency 'x' in case of short position
VARx,b = Gross VAR of currency 'x' in case of long position
VARy,a = Gross VAR of currency 'y' in case of short position
VARy,b = Gross VAR of currency 'y' in case of long position
VARz,a = Gross VAR of currency 'z' in case of short position
VARz,b = Gross VAR of currency 'z' in case of long position
rw.x = Coefficient of Correlation between currencies 'w' and 'x'
rw.y = Coefficient of Correlation between currencies 'w' and 'y'
rw.z = Coefficient of Correlation between currencies 'w' and 'z'
rx.y = Coefficient of Correlation between currencies 'x' and 'y'
rx.z = Coefficient of Correlation between currencies 'x' and 'z'
ry.z = Coefficient of Correlation between currencies 'y' and 'z'

Annexure-IV: Reconciliation Flowchart

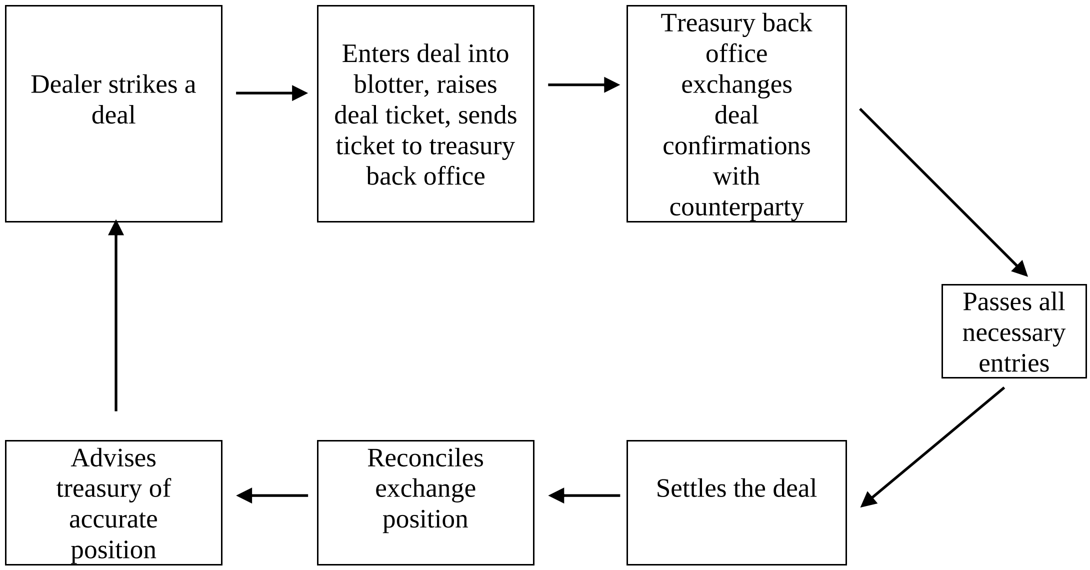


Annexure-V: Organogram of Treasury

The following is the organogram of the Treasury Division of Agrani Bank PLC, designed to ensure best practices in foreign exchange risk management. The reporting and assigned official lines are aligned with the recommended Optimal Risk Management organogram as stipulated in the prevailing Risk Management Guidelines issued by Bangladesh Bank.



Annexure-VI: The Process Flowchart



Note:

i. No manual deal ticket is raised when using e-platform/Reuters for dealing

ii. For integrated system, no position reconciliation takes place between front and back office

iii. As good practice, counterparty front office will reconcile deals done over phone

iv. All daily deal confirmations will be sent to counterparty by end of business day

v. Back office will reconcile counterparty deal confirmation with deals to identify any discrepancies

Annexure-VII: FX Position Blotter

Agrani Bank PLC.
9/D, Dilkusha C/A,
Dhaka-1000

FX Position Blotter **Date:**

Currency: USD				
Counterparty	Purchase	Sale	Comments	Net Position

Currency: GBP				
Counterparty	Purchase	Sale	Comments	Net Position

Currency: EUR				
Counterparty	Purchase	Sale	Comments	Net Position

Currency: JPY				
Counterparty	Purchase	Sale	Comments	Net Position

NET OPEN POSITION:	

Note: Agrani Bank PLC. can add/delete currencies according to the requirement of the dealing room in the same format.

Annexure-VIII: Foreign Exchange Deal Slip

Agrani Bank PLC.
Treasury Division (Front Office)
Head Office, Dhaka

Serial No: **Deal No:**
Date:

Deal Type: Cash/Spot/Forward/Tom

Sold Currency Settlement Instruction

Currency: ....
Value Date: …..
Amount Sold: ....

Amount In Words: ....

Counterparty Name: ....

Account# ....

Bought Currency Settlement Instruction

Exchange Rate: ....

Currency: ....

Value Date: …..

Amount Bought: ....

Amount In Words: ....

Payment Receive From/Through: ....

Account# ....

....
Dealer's Signature Chief Dealer's Signature

....

Checked by Mid Office:

....
Officer Signature Mid Office In-charge Signature

....

Back Office:
Confirmation Sent: …………………

....
Officer Signature Back Office In-charge Signature

Note: There is no manual deal ticket raised where the front office and back office use integrated dealing and settlement systems.

Annexure-IX: Code of Conduct for FX Dealers

General Code

1. Purpose
The aim of the code of conduct is to set out the manner and sprit in which business should be conducted, in order to ensure that the foreign exchange market and its participants enjoy a reputation for high standards of professionalism, integrity, and ethical conduct. This is addressed not only to dealers in foreign banks, but to the management of such institutions together with relevant operational support stuff and should be well understood by each of them.

2. **Responsibility of management for dealing activities**
The responsibility of the management is to control of the activities of all personnel engaged in dealing (both dealers and the support staff). Management should therefore clearly set out, in writing, the authorities and responsibilities within which dealers and the support staff should operate. These might include:

- General dealing policy including reporting procedures
- Persons authorized to deal
- Instrument to deal in
- Limits on open positions, mismatch positions, counterparts, stop-loss limits etc.
- Confirmation and settlement procedures
- Relationships with other foreign exchange banks, brokers, and customers
- Other relevant guidance as considered appropriate

3. Responsibility of staff for dealing activities
All personnel engaged in dealing activities both dealers and support staff of Agrani Bank PLC. must observe the following code as their fundamental behavior in the dealing activities:

- The staffs for dealing activities must keep dealing activities within the responsibilities authorized by the management and observe the instruction given by the management for supervisors in each dealing section (dealing room and back office) concerned.
- Troubles which arose during dealing activities and other issues, which might cause serious troubles, must immediately be reported to the management or supervisors for their instructions.
- Full compliance with all regulations at all times.

4. Use market terminology and definitions
The management of Agrani Bank PLC. should see if its staff use common expressions, and have knowledge of their generally accepted meanings in their dealing activities in order to avoid misunderstandings.

5. Dealing Unit and Back-Office
The organizational framework of Agrani Bank PLC. separates the dealing unit from the back office where all the administrative work (payments, global position keeping) is done and from bookkeeping department which should, among others, be responsible for a timely and swift check of all incoming confirmations. A bank should not start foreign exchange trading with less than two trained and authorized people in its room designated for dealing.

6. Recording a deal

All the essential details of a deal must be written down in a dealing ticket which must be forwarding as soon as possible to the back-office for further processing. Alternatively, the information may be entered into the computer system.

7. Accounting

The back-office must work with the Agrani Bank PLC.'s accounting department to ensure that all transactions and violation changes are accounted for promptly. Because of two-day settlements, the value date accounting is inadequate for the monitoring of risk positions, and hence accounting must be established on a transaction's basis.

Code Regarding Dealing Practices

i. **Opening hours in the foreign exchange market:**
   Opening hour is 10:00 a.m. which may be changes as per Bangladesh Bank directives.

ii. **Confirming procedures:**
   Dealers of Agrani Bank PLC. must confirm verbally or other authenticated electronic means. After dealers' confirmation, it is the back-office's responsibility to carry out reconfirmation independently from those who initiated deals. Recommendation must be sent out as quickly as possible after a deal has been done, and should be addressed to the back-office of the counterparty bank. All reconfirmations should include the following information as a minimum requirement:
   - Date of transaction
   - By which means effected (phone, telex)
   - Name and location of counterpart
   - Rate amount and currency
   - Type and side of deal (buying and selling)
   - Value date, maturity date, and all other relevant dates
   - Standard terms/conditions applicable
   - All other important and relevant information.

Upon receipt, all reconfirmation must immediately be thoroughly checked, and appropriate action be taken to rectify differences. If the counterpart's recommendation is considered incorrect, it must immediately be informed. A new reconfirmation (or written agreement to a correction) must be requested from, and provided by the bank whose original reconfirmation was incorrect.

iii. **Payment/settlement instruction:**
   Payment/settlement instructions should be passed as quickly as possible to facilitate prompt settlement. The use of standardized payment instructions between counterparts who regularly deal with each other is recommended as their use can make a significant contribution to reducing both the incidence, and the size of differences arising from the mistaken settlement of funds.

iv. **Confidentiality:**
   Confidentiality anonymity are essential to the operation of a professional foreign exchange market. Participants in the market commercial clients as well as banks can expect to have their interest and to ensure that its employees can readily identify information that is confidential or situations where anonymity is essential, and instruct their employees to handle such information accordingly. Whenever confidentiality is

broken, management has to see that the institutions are issued swiftly to correct the conditions that permitted such a situation to occur.

The use of confidential information by traders for their personal benefit, or in a manner that compromiser the institution in any way, should be strictly forbidden. Dealers operating in the market are responsible for maintaining confidentiality. Without disclosed or discuss any information relating to deals transacted, in the process of being arranged except to, or with the counterparts involved. A dealer should not be permitted to pass on information outside his institution, nor should he distribute information within his institution, except on explicit permission from the parties involved. Banks should have policies to ensure electronic and hard data are secure.

8. Ethical Rules

a. Trading for personal account:

Traders will give full attention to the employing institution's business activities and not to be distracted by his own financial affairs. Any bank dealer should not be allowed to deal for their own account in any instruments since it is expected that any dealer will fulfill his institutional responsibilities objectively, unbiased by his own financial position.

b. Protection against Fraud:

All staffs should pay great vigilance to fraud attempted particularly in the following cases:

- Deals which do not include pre-agreed standard settlement institutions
- Deals whose payment is made in favor of a third party
- Inability to make reconfirmation after concluding the deal
- Other deals which have different standards than the pre-agreed.

c. Entertainment, gifts and gambling:

Neither management nor employees of Agrani Bank PLC. should offer inducements to conduct business, or solicit them from the personnel of other institutions.

9. Escalation Process

Treasury of the bank should have an escalation process to report exceptions/deviations from the code of conduct.

Annexure-X: Nostro Account Reconciliation

The following table shows the maximum time limit after which unmatched items must be referred to the Reconciliation, In-charge:

<table>
<tr><th>Type of Transaction</th><th>Transit Time (Banking days)</th></tr>
<tr><td>L/C payments</td><td>3 days, ACU - 9 days</td></tr>
<tr><td>Foreign exchange settlements</td><td>Nil. Immediately notify respective department if settlement does not occur on value date</td></tr>
<tr><td>Outward remittances</td><td>2 days</td></tr>
<tr><td>ACU cover funds sent through Bangladesh Bank</td><td>5 days</td></tr>
<tr><td>Credits to our books with insufficient details</td><td>9 days</td></tr>
<tr><td>Correspondent bank charges recoverable from our customers or otherwise</td><td>9 days</td></tr>
<tr><td>Any other credits to our books, where we have not passed corresponding debit entry</td><td rowspan="4">5 days</td></tr>
<tr><td>Any other transactions where we have debited, but they do not credit</td></tr>
<tr><td>Any other transactions where they have debited, but we do not credit</td></tr>
<tr><td>Any other transactions where we have credited, but they do not debit</td></tr>
</table>

Annexure-XI: Format of Derivatives Application to Central Bank

Applicant Bank's Name:	
Product Name:	
For which Client/s (Legal Name):	
Level of client sophistication: Seniority of the client in the business, management awareness, level of product knowledge, understanding of pricing knowledge, used to do forward transactions and other hedging solutions.	
Back-to-Back with another market maker:	☐ Yes ☐ No
If yes with which Bank?	

Target Transaction Date:	
Description of the product	
Deal flow chart (from start to end of the process)	
How many transactions required under this approval?	
Estimated volumes?	
Risk Assessment and mitigants: • System Booking capability • Tax and Legal checking • Credit Risk checking • Market Risk checking • Compliance check [any conflict with Bangladesh Bank rules and regulations]	
Board and Senior Management awareness? (For first time transaction only)	☐ Yes ☐ No
Documentations: • ISDA required ☐ Yes ☐ No [If yes, attach sample ISDA vetted by lawyer] • Term Sheet required ☐Yes ☐ No [If yes, attach sample TS vetted by lawyer] • Deal confirmation required ☐Yes ☐No [If yes, attach confirmation vetted by lawyer] • Client Suitability ☐ Yes ☐ No [If yes, attach the signed document] • Other documentations if any? ☐ Yes ☐ No [If yes, attach the document]	
Followed FX Core Risk Guideline section on Derivatives?	☐Yes ☐No

Annexure-XII: Counterparty Limits for FX Dealing

Sl. No.	Name of Bank	Limit (USD in Million)
1	AB Bank PLC.	5.00
2	Al-Arafah Islamic Bank PLC.	10.00
3	Bangladesh Commerce Bank PLC.	5.00
4	Bangladesh Development Bank PLC.	5.00
5	Bangladesh Krishi Bank	20.00
6	Bank Al-falah PLC.	5.00
7	Bank Asia PLC.	15.00
8	BASIC Bank PLC.	5.00
9	Bengal Commercial Bank PLC	5.00
10	BRAC Bank PLC.	25.00
11	City Bank PLC.	15.00
12	Citi Bank NA	20.00
13	Citizens Bank PLC	5.00
14	Commercial Bank of Ceylon	10.00
15	Community Bank Bangladesh PLC	5.00
16	Dhaka Bank PLC.	10.00
17	Dutch Bangla Bank PLC.	15.00
18	Eastern Bank PLC.	15.00
19	Habib Bank PLC.	5.00
20	HSBC	10.00
21	ICB Islamic Bank PLC.	0.00
22	IFIC Bank PLC.	10.00
23	Islami Bank Bangladesh PLC.	25.00
24	Jamuna Bank PLC.	10.00
25	Janata Bank PLC.	20.00
26	Meghna Bank PLC	5.00
27	Mercantile Bank PLC.	10.00
28	Midland Bank PLC	5.00
29	Mutual Trust Bank PLC.	20.00
30	Modhumoti Bank PLC	5.00
31	NRB Bank PLC	5.00
32	NRBC Bank PLC	5.00
33	National Bank PLC.	5.00
34	National Bank of Pakistan	0.00
35	National Credit & Commerce Bank PLC.	10.00
36	One Bank PLC.	10.00
37	Padma Bank PLC	0.00
38	Prime Bank PLC.	20.00
39	Probashi Kallyan Bank	5.00
40	Pubali Bank PLC.	20.00
41	Rajshahi Krishi Unnayan Bank	5.00
42	Rupali Bank PLC.	20.00

Sl. No.	Name of Bank	Limit (USD in Million)
43	SBAC Bank PLC	5.00
44	Shahjalal Islami Bank PLC.	10.00
45	Sonali Bank PLC.	30.00
46	Southeast Bank PLC.	10.00
47	Shimanto Bank PLC	5.00
48	Shammilito Islami Bank PLC	10.00
49	Standard Bank PLC.	10.00
50	Standard Chartered Bank	30.00
51	State Bank of India	10.00
52	The Premier Bank PLC.	10.00
53	Trust Bank PLC.	15.00
54	United Commercial Bank PLC.	10.00
55	Uttara Bank PLC.	20.00
56	Woori Bank PLC.	10.00

Annexure-XIII: Dealing Limits

Dealing Limits for Speculative Deals:

The dealing room of Agrani Bank PLC. is allocated with specific dealing limit of USD 2.50 million for speculative deal. Details are as follows:

Overall Dealing Room Limit for Total Open positions at any point of time	**US$ 2,500,000**
Total Overnight Limit for Dealing Room	**US$ 1,250,000**

Head of Treasury/ DGM/AGM/ Chief Dealer	Overall Position Limit Single Deal Limit Overnight Limit * Deal outstanding Limit Overall Stop Loss Limit Trigger Level (Defined as: Notifying dealing room supervisor if position hit a loss at this level, the MD will nominate an overall supervisor of dealing room)	US$ 1,000,000 US$ 500,000 US$ 500,000 US$ 300,000 US$ 2,500 US$ 1,500
Senior Principal Officer	Overall Position Limit Single Deal Limit Overnight Limit * Deal outstanding Limit Overall Stop Loss Limit Trigger Level (Defined as: Notifying dealing room supervisor if position hit a loss at this level, the MD will nominate an overall supervisor of dealing room)	US$ 750,000 US$ 375,000 US$ 375,000 US$ 200,000 US$ 2,000 US$ 1,200
Principal Officer	Overall Position Limit Single Deal Overnight Limit * Deal outstanding Limit Overall Stop Loss Limit Trigger Level (Defined as: Notifying dealing room supervisor if position hits a loss at this level, the MD will nominate an overall supervisor of dealing room)	US$ 500,000 US$ 250,000 US$ 250,000 US$ 200,000 US$ 1,500 US$ 1,000
Senior Officer	Overall Position Limit Single Deal Overnight Limit * Deal outstanding Limit Overall Stop Loss Limit Trigger Level (Defined as: Notifying dealing room supervisor if position hit a loss at this level, the MD will nominate an overall supervisor of dealing room)	US$ 250,000 US$ 125,000 US$ 125,000 US$ 100,000 US$ 1,250 US$ 1,000

***** N.B: For the time being, overnight limits are held in abeyance until further notice.

The following are additional guidelines regarding the front-office dealing room operations:

i. The overall dealing room limits are monitored by the back office, and the dealing room supervisor is notified immediately upon any breach of the limits by the back office-in-charge.

ii. A reporting format is prepared to report overall daily trading activities, which is submitted to the FX dealing room supervisor at the end of each day including: positions taken and squared, profit/losses and outstanding open positions.

iii. The dealing room supervisor will have the discretion to allow trading during holidays and any off-site dealing activities. All transactions should be conducted through the dealing room by using the dealing room phones. A Voice recorder for the dealing room and telephone lines are in place.

iv. The mid-office/back office should cross-verify the open position statement with the dealing room supervisor on a daily basis.

Dealing Limits for Need-based Deals:

The dealing room of Agrani Bank PLC. is allocated a dealing limit of USD 100.00 million for need-based deals (Outright, Placement, SWAP, and Forward deals). Details are as follows:

Overall Dealing Room Limit at any point of time	**US$ 100,000,000**

Head of Treasury/DGM	Overall Position Limit Single Deal Limit	US$ 50,000,000 US$ 10,000,000
Assistant General Manager	Overall Position Limit Single Deal Limit	US$ 30,000,000 US$ 10,000,000
Chief Dealer	Overall Position Limit Single Deal Limit	US$ 25,000,000 US$ 10,000,000
Senior Principal Officer	Overall Position Limit Single Deal Limit	US$ 20,000,000 US$ 5,000,000
Principal Officer	Overall Position Limit Single Deal Limit	US$ 15,000,000 US$ 5,000,000
Senior Officer	Overall Position Limit Single Deal Limit	US$ 10,000,000 US$ 3,000,000

N.B: For dealing with FRTMD, Bangladesh Bank the dealing limit will be followed as per Bangladesh Bank requirement.

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