

Banking Regulation & Policy Department
Bangladesh Bank
Head Office
Dhaka.

BRPD Circular No.02

15 February, 2005

Date-----

03 Falgun, 1411

Chief Executive
All Scheduled Banks in Bangladesh

Dear Sir,

Policy on Loan Classification and Provisioning.

We invite your attention to our BRPD Circular No. 16 of 1998 and Circular No. 9 of 2001 on the captioned subject.

In recent years BB has been trying to bring the prudential norms in line with best international practices. International best practices require that a loan be classified as non-performing if its principal and/or interest are three months or more in arrears. Banks in Bangladesh are allowed to classify non-performing loans based on a time frame of six months. Early recognition of non-performing loans stimulates collection efforts and helps reduce the possibility of loss of such assets.

In order to strengthen credit discipline and bring classification gradually in line with international standards, this circular makes the following adjustments to our circular referred to above.

A Continuous credit, Demand loan or a Term loan which will remain overdue for a period of 90 days or more, will be put into the "Special Mention Account" and interest accrued on such loan will be credited to Interest Suspense Account, instead of crediting the same to Income Account. This will help banks to look at accounts with potential problems in a focused manner and it will capture early warning signals for accounts showing first signs of weakness.

Loans in the "Special Mention Account" will not be treated as defaulted loan for the purpose of section 27KaKa(3) of the Banking Companies Act, 1991 and the status of loan (Special Mention) need not be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

These instructions will be effective from March 31, 2005.

All other instructions contained in BRPD Circular No. 16 of December 06, 1998 and BRPD Circular No. 09 dated May 14, 2001 will remain unchanged.

Please acknowledge receipt.

Yours faithfully,

(Md. Jahangir Alam)
Deputy General Manager
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