

Banking Regulation & Policy Department
Bangladesh Bank
Head Office
Dhaka

BRPD Circular No.02

13 January 2003
Date-----
30 Poush 1409

Chief Executives
All Scheduled Banks in Bangladesh

Dear Sirs,

Policy for Loan Write off.

In course of conducting credit operations by banks the standard of a portion of their loan portfolio, in many cases, falls and uncertainty arises in realizing such loans and advances. These loans are adversely classified as per existing rules and necessary provision has to be made against such loans. Writing off bad loans having adequate provision is an internationally accepted normal phenomenon in banking business. Owing to the reluctance of banks in Bangladesh in resorting to this system their balance sheets are becoming unnecessarily and artificially inflated. In order to avoid possible legal complications in retaining the claims of the banks over the loans written off section 28 ka has been incorporated in 2001 in the Bank Company Act, 1991. In this context the following policies for writing off loans are being issued for compliance by banks:

Procedures for Writing off Loans.

1. Banks may, at any time, write off loans classified as bad/loss. Those loans which have been classified as bad/loss for the last five years and for which 100% provisions have been kept should be written off without delay. After issuance of this circular the process of writing off all other loans classified as bad/loss should be started immediately. Under the process the oldest bad/loss classified loans should be considered first for written off.
2. Banks may write off loans by debit to their current year's income account where 100% provision kept is not found adequate for writing off such loans.
3. All out efforts should be continued for realizing written off loans. Cases must be filed in the court of law before writing off any loan for which no legal action has been initiated earlier.
4. A separate "Debt Collection Unit" should be set up in the bank for recovery of written off loans.
5. In order to accelerate the settlement of law suits filed against the written off loans or to realize the receivable written off loans any agency outside the bank can be engaged.

6. A separate ledger must be maintained for written off loans and in the Annual Report/Balance Sheet of banks there must be a separate "notes to the accounts" containing amount of cumulative and current year's loan written off.

7. In spite of writing off the loans the concerned borrower shall be identified as defaulter as usual. Like other loans and advances, the writing off loans and advances shall be reported to the Credit Information Bureau (CIB) of Bangladesh Bank.

8. Prior approval of Bangladesh Bank shall have to be obtained in case of writing off loans sanctioned to the director or ex-director of the bank or loans sanctioned during the tenure of his directorship in the bank to the enterprise in which the concerned director has interest (as per explanation contained in section 27(2) of the Bank Company Act, 1991).

These instructions shall come into effect immediately.

Meanwhile, please acknowledge receipt.

Yours faithfully,

(Md. Jahangir Alam)

Deputy General Manager
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