

**Banking Regulation & Policy Department
Bangladesh Bank
Head Office
Dhaka**

BRPD Circular No. 02

January 16, 2014
Date: -----
Magh 03, 1420

Managing Directors/Chief Executives
All Scheduled Banks in Bangladesh

Dear Sir,

Single Borrower Exposure Limit

Please refer to BRPD Circular No. 05 dated April 09, 2005 on the captioned subject.

In order to comply with the recently incorporated section-26(Kha) of the Banking Companies Act, 1991 and to improve bank's credit risk management further, Bangladesh Bank is issuing this circular consolidating all instructions issued so far on the subject and making some amendments.

1) **Definition and Interpretation** – For the purpose of this circular:

- a) **“Capital”** – means the capital held by banks as per Clause (1) of Section-13 of the Banking Companies Act, 1991.
- b) **“Exposure”** – means credit exposure (funded and non-funded) and refers to all claims, commitments and contingent liabilities arising from on and off-balance sheet transactions, which include, but not limited to, outstanding loans/financing facilities, advances and receivables. These amounts comprise outstanding balance (i.e. principal amount and accrued interest/profit) which has not yet been repaid as at reporting date;
 - i) **“Funded Exposure”** – means the exposure for which the bank has provided or shall provide funds to the borrower or to a third party on behalf of the borrower;
 - ii) **“Non-funded Exposure”** – means the off-balance sheet exposure which has not yet been funded by the bank and may or may not be converted into

- funded facilities in future. Examples, letter of credit, guarantee, acceptance, commitment etc;
- iii) **“Large Loan”** – defined in Paragraph-2(b)(i) of this circular as per Clause (2) of Section-26Kha of the Banking Companies Act, 1991.
- c) **“Non-conforming Exposure”** – if an exposure is within the limit [limit set forth in Paragraph-2(a)] when made but subsequently exceeds the limit, the exposure will be treated as ‘non-conforming’ which may arise from any of the following circumstances:
- i) the bank’s capital declines;
 - ii) the borrower merges or forms a common enterprise with another borrower;
 - iii) the bank merges with another bank which also holds exposures to the borrower;
 - iv) capital rules or the lending limits undergo changes;
- d) **“Person”** – means a natural person or a legal person i.e., company, corporation, associate, trust, joint venture, partnership or other business enterprise etc.
- e) **“Group”** – two or more persons shall be deemed to be a group if one person has the ability, directly or indirectly, to control the other person(s) or to exercise significant influence over the financial and operating decisions of the other person(s), or if both persons are subject to common control or common significant influence. Group exists if at least one of the following criteria is satisfied:
- i) **Control Relationship:** When one person, directly or indirectly, has control over the other(s). To assess connectedness through control, the criterion is met automatically if one person owns more than 50% of the voting rights of another person. However, control can also be assumed when one person has significant influence (owns 20% or more but less than 50% of the voting rights) on the other person. In addition to establishing connectedness based on control, banks shall consider, at a minimum, the following criteria:
 - (1) Voting agreements (e.g. control of a majority of voting rights pursuant to an agreement with other shareholders);
 - (2) Significant influence on the appointment or dismissal of an entity’s administrative, management or supervisory body, such as the right to appoint or remove a majority of members in those bodies, or the capacity to appoint a majority of members solely as a result of the exercise of an individual entity’s voting rights;
 - (3) Significant influence on senior management, e.g. one person has the power, pursuant to a contract or otherwise, to exercise a controlling

influence over the management or policies of another person (e.g. through consent rights over key decisions);

(4) Banks are also expected to refer to criteria specified in appropriate internationally recognized accounting standards for further qualitatively based guidance when determining control.

ii) **Economic Interdependence:** Economic dependence of one party on another or more other parties results in all of them being considered connected. That is, if one of them were to experience financial problems, in particular funding or repayment difficulties, the other or all of the others would, as a result, also be likely to encounter funding or repayment difficulties. For guidance on establishing connectedness based on economic interdependence, banks shall consider, at a minimum, the following qualitative criteria:

(1) When 50 percent or more of one counterparty's gross receipts or gross expenditures (on an annual basis) is derived from transactions with the other counterparty;

(2) When one counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is so significant for the guarantor that it is likely to default if a claim occurs;

(3) When the expected source of repayment for each loan is the same and neither counterparty has another source of income from which the loan may be fully repaid;

(4) Where it is likely that the financial problems of one counterparty would cause difficulties for the other counterparties in terms of full and timely repayment of liabilities;

(5) Where the insolvency or default of one of them is likely to be associated with the insolvency or default of the other(s).

2) **Exposure Limits** – The following limits shall apply:

a) **Single Person/Counterparty or Group:**

i) The outstanding amount of exposure, both funded and non-funded, to a single person/counterparty or a group shall not exceed 35% of the capital at any point of time.

ii) The aggregate outstanding principal amount of funded exposures shall not exceed 15% of the capital at any point of time.

iii) In case of export financing, the outstanding amount of exposure, both funded and non-funded, at any point of time to a single person/counterparty or a group shall not exceed 50% of the capital. However, the aggregate outstanding principal amount of funded exposures shall not exceed 15% of the capital at any point of time.

b) **Large Loan:**

- i) Large loan refers to any exposure to a single person/counterparty or a group which is equal to or greater than 10% of the capital.
- ii) The banks may sanction large loans as per the following limits set against their respective classified loans:

Rate of Net Classified Loans	Large Loan Portfolio Ceiling against Bank's Total Loans & Advances
Upto 5%	56%
More than 5% but upto 10%	52%
More than 10% but upto 15%	48%
More than 15% but upto 20%	44%
More than 20%	40%

In order to determine the above Large Loan Portfolio Ceiling of any bank, 50% credit equivalent of all non-funded credit facilities shall be included in the Total Loans and Advances (i.e., 100% funded exposures plus 50% non-funded exposures). However, the entire amount of non-funded credit facilities shall be included in the Large Loan Portfolio.

For example, let a bank's Net Classified Loans is 5%. According to the large loan policy, the bank may have large loan exposures up to 56% of its total Loans & Advances whereas total Loans & Advances is calculated as 100% funded exposures plus 50% non-funded exposures. However, while calculating Large Loan Portfolio both funded and non-funded credit facilities will be considered as 100% credit equivalent. So, the large loan portfolio ceiling formula for the bank is as follows:

$$\frac{(\text{Total Funded Large Loan Exposure} * 100\% + \text{Total Non-funded Large Loan Exposure} * 100\%)}{(\text{Bank's Total Funded Exposure} * 100\% + \text{Banks Total Non-funded Exposure} * 50\%)} \leq 56\%$$

3) **Exceptions:** In order to allow banks to accommodate prudently the genuine credit needs of creditworthy borrowers, notwithstanding anything contained in this circular, the following exceptions shall be applicable to the limits set forth:

- a) A public limited company, which has 50% or more public shareholdings, shall not be considered as an enterprise/organization of any group.
- b) In case of credit facilities provided to the government or against government guarantees and AAA rated Multilateral Development Banks' (MDBs) guarantee, the aforementioned restrictions set forth in Paragraph-2(a) shall not be applicable.

[Note: Multilateral Development Banks (MDBs) include: the World Bank Group comprising the International Bank for Reconstruction and Development (IBRD)

and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (IDB) and the Council of Europe Development Bank (CEDB).]

- c) In case of credit facilities sanctioned by the banks to the borrowers in order to produce, transmit and distribute electricity against any award provided by the Power Division of the Ministry of Power, Energy and Mineral Resources or the institutions controlled by the said division [such as – Bangladesh Power Development Board (BPDB), Rural Electrification Board (REB), Power Grid Company of Bangladesh (PGCB), Electricity Generation Company of Bangladesh (EGCB), Dhaka Power Distribution Company (DPDC), Dhaka Electric Supply Company Limited (DESCO), Ashuganj Power Station Company Limited (APSCL), West Zone Power Distribution Company (WZPDCO), North West Zone Power Distribution Company Limited (NWZPGC)], the aforementioned restrictions set forth in Paragraph-2(a) shall not be applicable.
- d) In case of interbank money market transactions with a contractual maturity of less than one year, the aforementioned restrictions set forth in Paragraph-2(a) and Paragraph-2(b) shall not be applicable.
- e) In case of loans backed by cash and encashable securities (e.g. FDR of the same bank), the aforementioned restrictions set forth in Paragraph-2(a) and Paragraph-2(b) shall not be applicable and the actual financing facilities shall be determined by deducting the amount from the outstanding of principal balance of the loans.

4) **Prudential Norms:**

- a) Banks shall collect the loan information on their borrowers from Credit Information Bureau (CIB) of Bangladesh Bank before sanctioning, renewing or rescheduling loans in order to ensure that credit facilities are not being provided to defaulters.
- b) Banks must assess credit risk by adopting Credit Risk Grading (CRG) before sanctioning or renewing large loans. If the rating of a CRG turns out to be "Marginal", banks shall not sanction the large loan, but it can consider renewal of an existing large loan taking into account other favorable conditions and factors. However, if the result of a CRG is "Special Mention Account (SMA)", neither sanction nor renewal of large loans can be considered.

- c) While sanctioning or renewing of large loans, banks should assess their borrower's overall debt repayment capacity by taking into consideration the borrower's liabilities with other banks and financial institutions.
- d) Banks shall examine their borrower's Cash Flow Statement, Audited Balance Sheet, Income Statement and other financial statements to make sure that their borrower has the ability to repay the loan.
- e) Sanctioning, renewing or rescheduling of large loans shall be approved by the Board of Directors in case of local banks. Such decisions will be taken by the Chief Executive in case of foreign banks. However, while approving proposals of large loans, among other things, compliance with this circular must be ensured.
- f) When two or more banks collectively provide credit to a borrower under a common loan facility (e.g. a syndicated loan), the loan limits in Paragraph 2(a) apply only to the funds provided by each bank and represent that bank's pro rata share of the total loan.
- g) The group of counterparties poses a "single risk", akin to that of a single counterparty. Such a group is referred to as a group of connected counterparties. Banks shall evaluate the relationship amongst clients, with reference to Paragraph (1.e.i.) and Paragraph (1.e.ii), in order to assess the existence and the extent of a single risk. However, banks must exercise a reasonable degree of due diligence including the 'Know Your Customer (KYC)' principle in obtaining sufficient information on their customers to determine interconnectedness.
- h) If an exposure becomes 'non-conforming' for any reason as mentioned in Paragraph-1(c) the Chief Executive of banks are required to act promptly to bring the exposure into compliance unless doing so would be inconsistent with prudent banking practices and adversely affect the ultimate recovery of the exposure. Such non-conforming exposures may be renewed, have their maturity extended or be restructured without violating this circular provided –
 - i) there is no increase in the amount of the exposure, either direct or indirect;
 - ii) security collateral, if any, shall not be released;
 - iii) there is no change in the borrower with the exception of changes resulting from a merger of the borrower with another person;
 - iv) the renewal, extension or reschedule is not otherwise designed to avoid the requirements of existing policies, rules & regulations as determined by Bangladesh Bank;

v) Banks shall report such exposure, if any, to the Department of Off-site Supervision of Bangladesh Bank.

5) Risk Management Expectations:

- a) Banks shall follow the instructions regarding Credit Risk Management Guidelines, Risk Management Guidelines for Banks and all other related policies issued by Bangladesh Bank from time to time.
 - b) Although certain types of exposures and counterparties are excluded from the single borrower limit [as specified in Paragraph 3], these exposures are not risk-free. Banks should have adequate procedures and controls in place to monitor these exposures. In addition, banks shall also ensure that its portfolios are not overly concentrated in large loans.
- 6) Each bank shall submit the periodic statement of large loan, in specified format, to the Department of Off-site Supervision of Bangladesh Bank as per instructions given by the department (DOS).
 - 7) This circular has been issued by Bangladesh Bank in exercise of its power conferred on it under sections-26(Kha) and 45 of the Banking Companies Act, 1991.
 - 8) Instructions of BRPD Circular No. 05 dated April 09, 2005 and subsequent all Circulars/Circular letters on the captioned subject hereby stand superseded by this circular. This circular shall come into force with immediate effect.

Please acknowledge receipt.

Yours Sincerely,



(Md. Anwarul Islam)
Deputy General Manager
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