



**Banking Regulation & Policy
Department
Bangladesh Bank
Head Office
Dhaka
Website: www.bb.org.bd**



BRPD Circular No. 01

16 January 2022
Date: -----
02 Magh 1428

Managing Director/Chief Executives
All Scheduled Banks in Bangladesh.

Dear Sir,

Single Borrower and Large Loan Exposure Limit

Please refer to BRPD Circular No. 02 dated 16 January 2014, BRPD Circular Letter No. 14 dated 09 June 2014 and BRPD Circular Letter No. 04 dated 10 May 2016 on the captioned subject.

With a view to strengthening credit risk management of banks by limiting concentrated exposures and thereby further improving the stability of banking sector, 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 Bank Company Act, 1991, as amended.
- 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 on reporting date. In case of loans that are backed by cash and/or readily encashable securities maintained with the same bank (e.g. FDR of the same bank) under lien, exposure can be calculated after deducting the secured/covered amount from the outstanding balance of the associated loans.
- 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”** – refers to any exposure to a single person/counterparty or a group which is equal to or greater than 10% of the capital as mentioned in Paragraph 1(A) of this circular.

C. “Non-conforming Exposure” – if an exposure is within the limit [limit set forth in Paragraph 2] 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) Capital rules or the lending limits undergo changes;
- iii) Non-funded exposure (under approved limit) turns into funded exposure;
- iv) The borrower’s exposure increases due to applied interest;
- v) The borrower merges or forms a common enterprise with another borrower;
- vi) The bank merges with another bank which also holds exposures to the borrower;
- vii) Percentage of classified loan increases;
- viii) The bank’s total exposure decreases.

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” – includes any borrower and any other person, organization, or company involved directly or indirectly with that person whose financial well-being affects the financial condition of others or whose liabilities or advantages fall on others because of the existing relationships between them. Nevertheless, a public limited company, which has 50% or more public shareholdings, shall not be considered as an enterprise/organization of any group; thus shall be treated as a single person/counterparty. Furthermore, if more than one enterprise/organization is connected with such public limited company through meeting any of the criteria mentioned below, those connected enterprise/organizations shall fall under a group due to their connectedness with the public limited company even if there is no connection among those individual enterprise/organizations.

Group exists if at least one of the following criteria is satisfied:

- i) **Connectedness on the basis of Control:** 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. When at least one of the following criterion is satisfied, connectedness is established:
 - (a) The criterion for control is met automatically if one person holds more than 50% of ownership or voting rights of another person. Moreover, the criterion is met based on control through significant influence when the percentage of ownership or voting rights falls between 20% to 50%; or
 - (b) The percentage of ownership and voting rights is less than 20%, but at least one of the criterion specified below is satisfied:
 - (1) Ability to appoint or dismiss an entity’s administrative, management or supervisory body, such as the ability 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;

- (2) Ability to exert a dominant influence on management, e.g. one person has the power, pursuant to a contract or otherwise, to exercise a controlling influence over the management of another person (e.g. through consent rights over key decisions);
- (3) Participation in policy-making processes that enables to direct the activities of the other so as to obtain benefits from its activities, e.g. including participation in decisions about dividends or other distributions as well as to decide on crucial transactions such as the transfer of profit or loss of the other;
- (4) Commonality of management or interchange of managerial personnel, e.g. single MD/CEO serving different entities collectively or interchangeably;
- (5) Commonality of ownership or interchange of ownership status, e.g. same person representing as Chairman or Director of Board (other than independent director) of different companies.

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

ii) **Connectedness on the basis of Economic Interdependence:** Economic dependence of one party on another or 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. Connectedness based on economic interdependence will be established when at least one of the criterion specified below is satisfied:

- (a) At least 50 percent of one counterparty's gross receipts or gross expenditures (on an annual basis) is derived from transactions with one single counterparty or 50% of one counterparty's production/output is sold to one single counterparty;
- (b) 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;
- (c) 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;
- (d) 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;
- (e) The insolvency or default of one of them is likely to be associated with the insolvency or default of the other(s);
- (f) Significant association or relationship exists among counterparties, e.g. sharing of common facilities and/or branding platform;
- (g) One counterparty enjoys inner credit limit/combined credit limit along with other counterparty(s);
- (h) Counterparties which are enlisted in the website of a group.

Furthermore, banks shall consider other relevant aggregation criteria based on experience and judgment which may be indicative of connectedness between single counterparty and their connected persons. In case of a split in the group, having doubts about the bona fides of the split, a reference may be made to Bangladesh Bank for its final view on the matter to preclude the possibility of a split being engineered in order to prevent coverage under the Group.

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

A. Single Person/Counterparty or Group:

i) Aggregate Principal Exposure:

- (a) The aggregate principal amount of funded and non-funded exposure to a single person/counterparty or a group shall not exceed 25% of the capital at any point of time.
- (b) The aggregate principal amount of funded exposure to a single person/counterparty or a group shall not exceed 15% of the capital at any point of time.

ii) Applicable Conversion Factor:

- (a) In order to calculate aggregate principal amount [as specified in Paragraph 2(A)(i)(a)], a conversion factor of 0.50 shall be used against non-funded exposure; i.e. 100% of funded exposure and 50% of non-funded exposure shall be considered.
- (b) While calculating aggregate principal amount [as specified in Paragraph 2(A)(i)(a)] for credit facilities sanctioned 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, a conversion factor of 0.25 shall be used against non-funded exposure; i.e. 100% of funded exposure and 25% of non-funded exposure shall be taken into account.

B. Large Loan:

- i) Aggregate Exposure:** The banks shall sanction large loans as per the following limits set against their respective classified loans:

Percentage of Classified Loan to Total Outstanding	Large Loan Portfolio Ceiling against Bank's Total Loans & Advances
Less than or equal to 3%	50%
Greater than 3% but less than or equal to 5%	46%
Greater than 5% but less than or equal to 10%	42%
Greater than 10% but less than or equal to 15%	38%
Greater than 15% but less than or equal to 20%	34%
Greater than 20%	30%

However, the aggregate amount of large loan exposure shall not exceed 400% of bank's capital at any point of time.

- ii) Applicable Conversion Factor:** In order to determine Large Loan Portfolio Ceiling of any bank, 100% of funded exposure, 50% of non-funded exposure except for power sector and 25% of non-funded exposure in power sector shall be included in total Loans & Advances as well as in large loan exposure.

For example, if a bank's Classified Loan is 3%, according to this policy, the bank may have large loan exposure up to 50% of its total Loans & Advances **provided that such exposure does not exceed 400% of the bank's capital**. Thus the large loan portfolio ceiling formula for the bank will be as below:

$$\frac{(\text{Total Funded Large Loan Exposure} + \text{Total Non-funded Large Loan Exposure except for power sector} * 50\% + \text{Total Non-funded Large Loan Exposure in power sector} * 25\%)}{(\text{Bank's Total Funded Exposure} + \text{Bank's Total Non-funded Exposure except for power sector} * 50\% + \text{Bank's Total Non-funded Exposure in power sector} * 25\%)} \leq 50\%$$

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. 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 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).]

B. In case of interbank money market transactions with a contractual maturity of less than one year, the aforementioned restrictions set forth in Paragraph 2 shall not be applicable.

4) **Prudential Norms:**

A. Banks shall collect pertinent 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 shall adopt Internal Credit Risk Rating System (ICRRS) as an integral part of credit risk management and follow accordingly while sanctioning, renewing or enhancing large loans.

C. While sanctioning or renewing large loans, banks shall 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 Audited Financial Statements, i.e. Balance Sheet, Income Statement, Cash Flow Statement and other financial statements, with a view to assessing borrower's loan repayment capacity properly.

- 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 Country Management Team (or any equivalent Committee or Team) in case of foreign banks. However, while approving proposals of large loans, among other things, compliance with this circular shall be ensured.
- F. When two or more banks collectively provide credit facility to a borrower under common arrangement (e.g. a syndicated loan), the loan limits in Paragraph 2 shall apply to the funded and non-funded facilities provided by each bank and shall represent that bank's pro rata share of the total loan.
- G. The group of connected counterparties poses a "single risk", akin to that of a single counterparty. Banks shall evaluate the relationship amongst clients, with reference to Paragraph 1(E), in order to assess the existence and the extent of a single risk. Moreover, banks shall exercise a reasonable degree of due diligence; i.e. Customer Due Diligence (CDD) 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) 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 provided that –
 - i) there is no increase in the amount of the exposure, either direct or indirect;
 - ii) security collateral, if any, is not 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 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, other Risk Management Guidelines, ICRRS for Banks and all other related policies/Guidelines 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] or given preferential treatment in terms of definition [as specified in Paragraph 1] or exposure limits [as specified in Paragraph 2], these exposures are not risk-free. Banks should have adequate procedures and controls in place to monitor these exposures as well. In addition, banks shall also ensure that its portfolios are not overly concentrated in large loans.

6) **Record Keeping:**

- A. Each bank shall submit periodic statement of large loan, in specified format, to the Department of Off-site Supervision of Bangladesh Bank as per instructions given by that department.
- B. Each bank shall establish and maintain a central database containing detailed information pertaining to large loans provided to single person/counterparty and group as defined by this circular. The database shall include, at a minimum, the information required as per the reporting format provided by the Department of Off-site Supervision.
- C. This database shall be maintained on an ongoing basis and must be updated at least quarterly.
- 7) All exposures as at the effective date of this policy which are in breach of the limits specified in Paragraph 2 shall be brought in compliance by 31 December 2022. As a special case, if exposure limit is in breach due to facility provided to Power Sector, then it can be brought in compliance by 31 December 2023. During this rationalization period, banks shall not increase its exposures to the counterparty (including its connected counterparties) that are in breach.
- 8) Instructions of BRPD Circular No. 02 dated 16 January 2014 and subsequent all Circulars/Circular letters on the captioned subject hereby stand superseded by this circular.
- 9) This directive has been issued by Bangladesh Bank in exercise of its power conferred on it under Sections–26(Kha) and 45 of the Bank Company Act, 1991, as amended.

This circular will come into force from 01 April 2022.

Yours faithfully,



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