

FID Circular No. **03**

Dated : 03 May, 2006

Managing Director/Chief Executive
All Financial Institutions

Dear Sir,

Policy on Loan/lease Classification and Provisioning

In recent years BB has trying to bring prudential norms in line with best international practices. International best practices require that a loan/lease be classified as non-performing if its principles and/or interest are three months or more in arrears. Financial Institutions (FIs) in Bangladesh are allowed to classify non-performing loan/leases based on a time frame of 6 months or 12 months or 18 months or time equivalent. Early recognition of non-performing loan/leases stimulates collection efforts and helps reduce the possibility of loss of such assets.

In order to strengthen credit discipline and bring classification policy in line with international standards, Bangladesh Bank has from time to time revised its prudential norms for loan/lease classification and provisioning. As part of the process, Bangladesh Bank has been introduced ``Special Mention Account" through Credit risk grading manual. A loan/lease will be put into the ``Special Mention Account" in the following ways:

Period of Loan/Lease	Overdue Period
Loan/Lease period up to 5 years	3 months or equivalent
Loan/Lease period above 5 years	6 months or equivalent
Housing Loan for any period	9 months or equivalent

It may be mention that Interest accrued on such loan/lease will be credited to Interest Suspense Account, instead of crediting the same to Income Account. This will help FIs 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. As a further move towards this end, Bangladesh Bank feels that appropriate provisioning against such accounts are necessary. Accordingly the following instructions are given :

- (1) FIs will be required to make General Provisions @ 5% on the outstanding amount of loans/lease kept in ``Special Mention Account" after netting off the amount of interest suspense.
- (2) The status of the loan/lease (SMA) should be reported to the Credit Information Bureau (CIB) of Bangladesh Bank. As such, there will be five categories of loan/lease classification (1. Standard 2. Special Mention Account (SMA), 3. Sub-standard 4. Doubtful 5. Bad/Loss) status instead of existing four for reporting to CIB. However, it is reiterated that loans/lease in the ``Special Mention Account" will not be treated as default loan.

These instructions will be effective from 30 June 2006.

All other instructions contained in FID Circular No. 8, dated : 03/08/2002 and FID Circular No.11, dated : 31/10/2005 will remain unchanged.

Please acknowledge receipt.

Yours faithfully,

(Sudhir Chandra Das)
Deputy General Manager
Phone : 7120956.