



Financial Stability Department
Bangladesh Bank
Head Office
Dhaka

Website: www.bb.org.bd

FSD Circular No. 01

Date: 10 Poush, 1422
24 December 2015

Chief Executives
All Scheduled Banks and Financial Institutions in Bangladesh

Dear Sir,

Setting up of Central Database for Large Credit (CDLC)

Bangladesh Bank has adopted a series of reform measures to strengthen its supervisory and prudential framework for enhancing financial discipline and establishing a robust financial system in line with the international best practices. As a result, a considerable progress has been made in credit discipline and recovery initiatives. A portion of loans may, however, turn into bad/loss that making stress on financial soundness, e.g., earnings, and capital adequacy of an individual bank or Financial Institution (FI), thereby leading to financial system instability. Indeed, a large exposure could appear as burdensome for an individual bank or FI and create instability in the whole financial system. Though the low quality credit portfolio is not that significant yet, it may create stress on the individual bank or FI in particular and the financial system in general if left unaddressed.

Bangladesh Bank, in this context, has decided to introduce a new oversight framework for large exposures to identify and manage the low quality assets well ahead of time before they appear as a cause to financial distress. The framework will involve all concerned banks and FIs to initiate joint or individual, as the case may be, prompt corrective efforts for managing those assets. At this onset, Bangladesh Bank has decided to establish a Central Database for Large Credit (CDLC) to monitor the large exposures in a more structured way. The procedures of setting up of the CDLC and reporting process are as follows:

1. Setting up of CDLC for Early Recognition of Low Quality Assets

- 1.1 A CDLC shall be created to collect, store and share credit data among the concerned banks and FIs. The data shall include banks' and FIs' all types of exposures to person(s), counter party(s) or group(s) including investments in bonds/debentures/commercial papers issued by those borrowers/obligors.
- 1.2 Banks and FIs are instructed to report all of their exposures (funded and non-funded) to person(s), counter party(s) or group(s) and investments in bonds, debentures or commercial papers having an aggregate exposure of BDT 50 (Fifty) Crore and above. Banks and FIs are advised to follow the definition of person(s), counter party(s) or group(s) as specified in the BRPD Circular No. 02 of 16 January 2014 and other concerned circulars of Bangladesh Bank.
- 1.3 Banks and FIs are also instructed to identify the budding stress in their exposures by splitting the Standard category into following four sub-categories for the purpose of reporting under this circular before turning those to Special Mention Accounts (SMA) in accordance with BRPD Circular No. 14 of 23 September 2014, FID Circular No. 08 of 03 August 2002 and all subsequent amendments:

Sub-category	Basis of Category
Standard-0	Regular/Renewed/Rescheduled/Restructured
Standard-1	Overdue between 01-29 days
Standard-2	<i>Signals of budding:</i> Overdue between 30-59 days
Standard-LQ*	As described in paragraph 1.4

*LQ=Low Quality

1.4 Categorizing Standard-LQ through Qualitative Measures:

- i. Delay of 30 days or more in (a) submission of stock report and other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financial statements.
 - ii. Actual sales or operating profits falling short of projections accepted for loan sanctioned by 40% or more; or a single event of non-cooperation/prevention from conduct of stock audits by banks/FIs; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds for unapproved purpose(s); or drop in internal risk rating by 2 or more notches in a single review.
 - iii. Return of 3 or more cheques/debit instructions/electronic debit instructions issued by borrowers in 30 days on ground of non-availability of balance/DP in the account or return of 3 or more bills/cheques discounted or sent under collection by the borrower.
 - iv. Devolvement of Deferred Payment Guarantee (DPG)/ its installments or Letter of Credit (LC) or invocation of Bank Guarantee (BG) and its non-payment within 15 days.
 - v. Third request for extension of time for creation of charges/mortgage of securities beyond the time specified in original sanction terms or non-compliance with any other terms and conditions of sanction.
 - vi. Frequent overdrawn in loan accounts.
- 1.5 Banks and FIs should identify these early warning signs of weaknesses in the borrower's accounts with a view to rectifying those deficiencies at the earliest. They must put in place a proper management information and reporting system so that any account having principal or interest overdue for 30 days or more gets reported as Standard-2 on the 30th day itself.
- 1.6 As soon as an account of a borrower is reported to CDLC as Standard-2 or Standard-LQ, concerned banks and FIs should form a Lenders' Committee with a signed agreement called Joint Lenders Forum (JLF) with a Convener and formulate a Corrective Action Plan (CAP) for that account.
- 1.7 The existing consortium arrangement may serve as the JLF where the lead bank or FI shall act as the Convener. For accounts with multiple banks or FIs, the bank or FI with the highest exposure (funded and non-funded) shall convene the JLF meeting at the earliest and facilitates exchange of information on that account.

2. Credit Risk Management

- 2.1 Banks and FIs shall carry out their independent credit appraisal in all cases and must not depend on the credit appraisal report(s) prepared by outside consultants, especially the in-house consultants of the borrower.
- 2.2 Banks and FIs may carry out sensitivity tests/scenario analyses, especially for large projects, which could, *inter alia*, include project delays and cost overruns. This will aid in taking a view on viability of the project at the time of deciding the CAP.

- 2.3 Banks and FIs should ascertain the source of equity capital brought in by the promoters/shareholders to avoid multiple leveraging as it may effectively camouflage the financial ratios, leading to adverse selection of the borrowers.
- 2.4 Banks and FIs shall verify whether the name of individual, proprietor, partner, director, guarantor or trustee of the organization or company appear in the list of defaulters with reference to the National Identification Number (NID), Electronic Taxpayer's Identification Number (e-TIN), etc. while carrying out the credit appraisal. Furthermore, in case of any doubt arising on account of identical names, concerned bank or FI shall verify the identity of the individual, proprietor, partner, director, guarantor or trustee of the organization or company.
- 2.5 With a view to ensuring proper end-use of funds and preventing diversion of funds by the borrowers, banks and FIs shall engage auditors for specific certification purpose without relying on the certification given by borrowers' auditors. However, this does not, in any way, substitute bank's or FI's basic due diligence in this regard.

3. Board Oversight

- 3.1 The Board of Directors of banks and FIs should proactively use the CDLC for early recognition of deterioration in asset quality and taking necessary steps to halt it and focus on improving the credit risk management system.
- 3.2 The Board should put in place a policy for timely submission of credit data to the CDLC, prompt formation of the JLF, monitoring the progress of the JLF and review the status of exposure reported to the CDLC on quarterly basis.

4. Reporting

Financial Stability Department (FSD) of Bangladesh Bank shall make the required reporting formats available to the banks and FIs in due course. Banks and FIs are advised to submit their returns as per specified MS Excel format (soft copy only) to FSD until further order. The reports shall have to be submitted in the following way:

- 4.1 The first reporting month will be December 2015 and the first report to be submitted by 29 February 2016.
- 4.2 The second report (i.e., report of January 2016) to be submitted by 15 March 2016.
- 4.3 Subsequent reports to be submitted, based on the balance of the last day of the reporting month, within the last working day of the following month (i.e., report of February 2016 to be submitted by 31 March 2016).
- 4.4 All banks and FIs should take utmost care about the data accuracy and integrity while submitting the data on large credit to Bangladesh Bank.

Above instructions are issued in accordance with Section 45 of the Banking Companies Act, 1991, Section 12 of the Financial Institutions Act, 1993 and Article 43(a) of the Bangladesh Bank Order, 1972.

Yours sincerely,



(Debashish Chakraborty)

General Manager

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