

GUIDELINE ON RISK CLASSIFICATION OF ASSETS, PROVISIONING AND LIMITATION ON INTEREST RECOVERABLE ON NON-PERFORMING LOANS (CBK/PG/04)

CONTENTS

PART I: Preliminary

- 1.1 Title
- 1.2 Authorization
- 1.3 Application
- 1.4 Definitions

PART II: Statement of Policy

- 2.1 Purpose
- 2.2 Scope
- 2.3 Responsibility

PART III: Specific Requirements for Loans and Advances

- 3.1 Loan Review
- 3.2 Classification of Loans and Advances
- 3.3 Classification Categories
- 3.4 Classification of Renegotiated Loans and Advances
- 3.5 Re-classification of other Non-Performing Loans and Advances
- 3.6 Provisioning Requirements
- 3.7 Treatment of Collateral
- 3.8 Examiner's Review
- 3.9 Write-Off of Loans and Advances

PART IV: Other Assets

PART V: Requirements on limitations of Interest Recoverable on Non-performing loans and advances.

PART VI: Reporting Requirements

PART VII: Remedial Measures and Administrative Sanctions

- 7.1 Remedial Measures
- 7.2 Administrative Sanctions

PART VIII: Effective Date

- 8.1 Effective Date
- 8.2 Supersedence

PART I: PRELIMINARY

1.1 Title

Guideline on Risk Classification of Assets, Provisioning and Limitation of Interest on Non-Performing Loans.

1.2 Authorisation

1.2.1 The Guideline is issued under Sections 33(4) and 44A of the Banking Act, which empowers the Central Bank to issue guidelines, advise and direct business of institutions for the general carrying out of the purposes and provisions of the Banking Act (Cap.488).

1.2.2 Sections 20, 31 and 44A of the Banking Act place the following requirements upon institutions:

- Section 20 requires institutions to maintain adequate provisions for bad and doubtful debts prior to declaring profits or dividends.
- Section 31 (3) (b) requires institutions to exchange information on non-performing loans.
- Section 44A limits the amount of interest institutions may recover on non-performing loans.

1.3. Application

All institutions licensed under the Banking Act and approved Non-Operating Holding Companies.

1.4. Definitions

Terms used in this Guideline are as defined in the Banking Act and as further defined below:

1.4.1 “Bullet Repayment” means that repayment of the entire principal is in a single lump sum on maturity. Interest may be paid during the period.

1.4.2 “Concessions” are special contractual terms and conditions provided by a lender to a counterparty facing financial difficulty so that the counterparty can sufficiently service its debt. The main characteristic of these concessions is that a lender would not extend loans or grant commitments

to the counterparty, or purchase its debt securities, on such terms and conditions under normal market conditions.

1.4.3 “Defaulted exposures” – is defined for risk weighting purposes as one that is past due for more than 90 days or is an exposure to a defaulted borrower. A defaulted borrower is a borrower in respect of whom any of the following events have occurred:

- (i) Any material credit obligation that is past due for more than 90 days. Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstandings;
- (ii) Any material credit obligation is on non-accrued status (e.g. the lending bank no longer recognises accrued interest as income or, if recognised, makes an equivalent amount of provisions);
- (iii) A write-off or account-specific provision is made as a result of a significant perceived decline in credit quality subsequent to the bank taking on any credit exposure to the borrower;
- (iv) Any credit obligation is sold at a material credit-related economic loss;
- (v) A distressed restructuring of any credit obligation (i.e. a restructuring that may result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or (where relevant) fees) is agreed by the bank;
- (vi) The borrower’s bankruptcy or a similar order in respect of any of the borrower’s credit obligations to the banking group has been filed;
- (vii) The borrower has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of any of the credit obligations to the banking group; or
- (viii) Any other situation where the bank considers that the borrower is unlikely to pay its credit obligations in full without recourse by the bank to actions such as realising security.

All defaulted exposures should be classified as non-performing.

1.4.4 “Expected credit losses (ECL)” is the probability-weighted estimate of credit losses, that is, the present value of all cash shortfalls over a twelve-month period or the remaining life of a financial asset.

1.4.5 “Forbearance” is a concession granted to a counterparty for reasons of *financial difficulty* that would not be otherwise considered by the lender. Forbearance recognition is not limited to measures that give rise to an economic loss for the lender.

- 1.4.6 “Fully secured loan”** means that a credit facility where collateral used to secure the facility has a value that is sufficient to cover the carrying amount of the loan. Such security is perfected in all respects and has no prior encumbrances that could impair its value or otherwise prevent obtaining clear title.
- 1.4.7 “Gross loan”** in a loan or group of loans is the face or principal amount, taking into **account** payments applied to reduce principal, and adjusted to reflect accrued but uncollected interest, charge-offs, unamortized premium or discount (i.e., a difference between acquisition cost and principal) and unamortized loan fees and costs.
- 1.4.8 “Grouping of accounts”** means loans and advances to related companies and **individuals** are grouped together and recognized as a single borrowing in completing returns under this guideline; loans to a company or individual are to be grouped together with loans to their associated companies and individuals. Associates are defined in Section 2 of the Banking Act.
- 1.4.9 “Guarantee”** is an irrevocable undertaking by a bank to pay a beneficiary a specified amount if the principal fails to meet contractual obligations.
- 1.4.10 “Hardcore”**: an outstanding debit balance in an overdraft account that shows little or no fluctuations, over a period of 12 consecutive months, or such other period as the Central Bank of Kenya may determine;
- 1.4.11 “Impaired loan”** is a loan which has deteriorated in the credit quality such that it is probable that the institution will be unable to collect, or there is no longer reasonable assurance that the institution will collect, all amounts due **according** to the contractual terms of the loan agreement(s).
- 1.4.12 “Interest in Suspense”** is interest accrued on non-performing loans that is not recognized as income in institution’s income statements.
- 1.4.13 “Interest owing”** for purposes of section 44A (6) of the Banking Act, this refers to the interest accrued in accordance with the contract between the debtor and the institution but not paid by the date the requirements for the limitation of interest recoverable on non-performing loans came into operation.
- 1.4.14 “Letter of Credit”** is a promise by a bank or other issuer to a third party to make payment on behalf of a customer in accordance with specified conditions.

1.4.15 “Limitation of interest recoverable on non-performing loans” refers to the restrictions imposed by section 44A of the Banking Act.

1.4.16 “Loans and loans advances” may be used inter-changeably to mean a financial asset resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, usually with interest. Loans comprise business and personal lending, overdrafts, credit card lending, asset finance, Hire purchases, Residential and Commercial Mortgage, Project Finance, finance lease, mobile loans, digital loans and other financing arrangements that are in substance loans.

1.4.17 “Moratorium” means, for the purpose of this guideline, a period of time in the loan term whereby after the restructuring of a credit facility, a borrower is allowed not to pay the bank for a certain period for reasons related to difficulties in meeting financial obligations;

1.4.18 “Net Loan” is gross loan less interest in suspense less provisions for loans.

1.4.19 “Non-performing loans and advances” - for purposes of Sections 20, 31 and 44A of the Banking Act means:

1.4.19.1 In respect of loan accounts and other credit extensions having pre-established repayment programs, when any of the following conditions exist:

- principal or interest is due and unpaid for more than 90 days; or
- interest payments for more than 90 days or have been re-financed, or rolled-over into a new loan.

1.4.19.2 In respect of current accounts (overdrafts) and other credit extensions not having pre-established repayment programs, when any of the following conditions exist:

- balance exceeds the customers approved limit for more than 90 consecutive days;
- the customers borrowing line has expired for more than 90 days;
- interest is due and unpaid for more than 90 days;

1.4.19.3 In respect of off balance sheet items, when the off balance sheet items crystallizes and the customer's account is debited and the principal and interest is thereafter unpaid for more than 90 days.

All defaulted exposures should be classified as non-performing.

1.4.20 “Off balance sheet item” means an asset or a debt or a financing activity that does not appear on the institution's balance sheet. Such items include guarantees, acceptances, performance bonds, letters of credit, and other off balance sheet items deemed to constitute credit risk by the Central Bank of Kenya.

1.4.21 “Other Provisions” is provision other than provision for loans losses.

1.4.22 “Overdraft” is a loan which can be transacted without any specific repayment schedule but has a limit and an expiry date for repayment.

1.4.23 “Past due” or “overdue” - means any loan for which:

- principal or interest is due and unpaid for more than 30 days; or
- interest payments equal to more than 30 days interest have been refinanced, or rolled-over.

Current accounts (overdrafts) and other credit extensions are considered “past due” when any of the conditions below exist:

- balance exceeds the customers approved limit for more than 30 consecutive days;
- the customers borrowing line has expired for more than 30 days;
- interest is due and unpaid for more than 30 days; or
- the account has been inactive or credits are inadequate to meet the outstanding interest for more than 30 days.

The balance outstanding (not just the amount of delinquent payments) is used in calculating the aggregate amount of “past due” loans.

1.4.24 “Performing loans and advances” - for purposes of Sections 31 and 44A, means loans and advances which are otherwise not defined as non performing under this guideline.

1.4.25 “Principal owing” – for purposes of section 44A of the Banking Act, this refers to the loan and advance that is still outstanding or unpaid excluding interest accrued when the loan and advance becomes non-performing.

1.4.26 “Provisions for loan” or “allowance for loan” - is the amount that reduces the gross loan in a loan or a group of loans to the carrying amount on the balance sheet.

- ***Specific provision*** is a provision that is established against a loss that is identified in an individual loan.
- ***General provision*** is a provision that is established for latent losses that are known to exist, but cannot yet be ascribed to individual loans.

1.4.27 “Public entity” means the Government, a local authority or a public body declared by the Cabinet Secretary to be a public entity for the purposes of the Banking Act;

1.4.28 “Renegotiated loans and advances” may be used **interchangeably with “restructured loans and advances”** to mean loans and advances where the lender, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. Restructured troubled loans and advances are loans and advances for which the lender has granted a concession to the borrower due to a deterioration of the borrower’s financial condition. The restructuring may include:

- A modification of terms, e.g., a reduction in the interest from that originally agreed or a reduction in the principal amount.
- The transfer from the borrower to the bank of real estate, receivables from third parties, other assets, or equity interest in the borrower in full or partial satisfaction of the loan.

However, this excludes any other commercial renegotiation or modification of the loan agreement not resulting from financial difficulty of the borrower unless the new arrangement triggers the extension of the term period of the existing contract;

PART II: STATEMENT OF POLICY

2.1 Purpose

- 2.1.1 This guideline is intended to ensure that all assets are regularly evaluated using an objective internal grading system which is consistent with this guideline and that timely and adequate provisions and write offs are made to the provisions account in order to accurately reflect the true and fair financial condition of the institutions. It is also intended to encourage institutions to develop effective workout plans for problematic assets in accordance with this guideline.
- 2.1.2 This guideline is intended to ensure that institutions do not charge interest that is more than the principal owing at the time the loan becomes non-performing.

2.2 Scope

This guideline applies to all assets held or reflected in an institution's books, including off balance sheet items.

2.3 Role of the Board and Senior Management

The Board of Directors of each institution shall be responsible for establishing:

- 2.3.1 an asset review system, which is consistent with this guideline, which accurately identifies risk, assures the adequacy of the provisions for non-performing assets, and properly reflects such results in the financial statements of the institution.
- 2.3.2 a system to ensure that interest accrued on non- performing loans and advances does not exceed the principal owing at the time the loan becomes non performing.

In the exercise of its prerogatives as the highest policy making body of the institution, the Board of Directors of every institution shall prescribe in writing:

- a) a credit policy specifying the criteria and procedures in the evaluation, processing, approval, documentation, and disbursement of credits. Such policy should include the procedures for loan administration and recovery, the recording of transactions and maintenance of appropriate credit and document files. The levels of discretion given to approving executive officers or committees must be

defined in such credit policy or in a separate resolution of the board of directors. The credit policy should also outline circumstances and conditions under which loans may be restructured.

- b) a system of reviewing the entire asset portfolio including contingent accounts or off balance sheet items and adequate provisioning for losses at periodic quarterly intervals. Such a review system should be made part of the credit policy mentioned.
- c) a system of review of each extension or renewal of credit, identifying, and classifying troubled credits as weaknesses become evident without waiting for the scheduled periodic review. Such review system should likewise be made part of the credit policy mentioned.
- d) a system for identifying loans and advances as when they become non-performing and the outstanding balance at the time.

2.3.3 Further, the Board of Directors is responsible to, inter alia:

- i) Develop the bank's credit risk appetite, in conjunction with senior management, taking cognizance of the institutional, local and global risk factors which may arise over various time horizons, and the bank's ability to manage these risks as they arise;
- ii) review and approve, at least annually, the bank's credit risk management strategy and related policies;
- iii) ensure that the institution maintains an effective Management Information System (MIS) for credit risk management that enables timely identification, classification, aggregation, monitoring, provisioning, and reporting of credit exposures, including non-performing and off-balance sheet exposures, at borrower and group level, and supports regulatory reporting, risk measurement, and decision-making.
- iv) ensure that the credit underwriting function is being properly managed by senior management and credit exposures are within levels consistent with prudential standards and internal limits;
- v) oversee all large exposures and ensure periodic review of all material credit exposures which have been categorized as watch or non-performing;
- vi) ensure policies and procedures for collateralization (including sound and prudent valuations) are approved, sufficiently robust and commensurate with the risk appetite of the bank;
- vii) provide oversight for timely identification and management of potential and actual problem credits which include reviews and approvals of all material changes to problem credit management strategies, policies, procedures and

- system of controls, providing recommendations and workout solutions, where necessary;
- viii) ensure periodic review and assessment of the reasonableness and prudence of provisioning levels;
- ix) oversee proper implementation of write-off policies with respect to uncollectible balances; and
- x) The board shall exercise adequate oversight on classification, provisioning and write-off of credit exposures. In this respect minutes of Board meetings should document in reasonable detail the discussion to reflect Board members' views and concerns on the level and direction of credit exposure quality, adequacy of provisions held, pace of recoveries and write-offs. The minutes of board meeting with respect to the review of policies relating to classification and provisioning of credit exposures shall document how the lessons learnt from observed impairment, defaults and write-offs may be reflected in financial institution's business strategy, credit risk appetite, credit risk management, collateral management, provisioning, credit risk rating and risk pricing.

2.3.4 Senior management is responsible to, inter alia:

- i) Implement the Board approved credit risk management strategy and appropriate policies, procedures and controls for managing credit risk;
- ii) report to the Board, at least quarterly, on the state of the credit portfolio. The report should include, at minimum, status update on new and ongoing nonperforming and impaired exposures, the level of provisioning held against those exposures and the impact on the bank's capital, as well as large exposures.
- iii) communicate to all relevant staff the bank's strategy, policies and procedures for credit granting, approving and managing credit risk, and be accountable for complying with the established policies and procedures;
- iv) ensure that this guideline is incorporated into the bank's policies and procedures;
- v) ensure that entire portfolio reviews are conducted at least annually;
- vi) provide quarterly reports to the Board on all credits placed on the watchlist and exposures under enhanced monitoring.
- vii) establish robust policies and procedures to validate the accuracy and consistency of its Expected Credit Losses (ECL) models and to ensure that ECL estimates are continuously reviewed and in line with the level of credit risk exposures; and
- viii) ensure that the value of assets pledged as collateral and other credit risk mitigants, are evaluated in a timely manner, considering prevailing market conditions, such as the time taken and the cost for liquidating the asset.

2.4 Information System for Credit Risk Management

The bank's information systems should ensure timely identification, recognition, classification and write-offs of non-performing exposures and should, among others, be capable of:

- i) tracking regulatory limits pertaining to credit risks, as outlined in the guidelines,
- ii) identifying and aggregating exposures to the same borrower across the financial institution, including off-balance sheet exposures and determining the prudential classification at the level of each borrower;
- iii) identifying and aggregating exposures to connected groups across the financial institution, including off-balance sheet exposures.
- iv) identifying and aggregating classification by economic sector;
- v) determining the prudential classification on an ongoing basis based on number of days the credit exposures are past due and other relevant indicators;
- vi) ensuring that interest accrued on non-performing loans and advances does not exceed the principal owing at the time the loan becomes non performing.
- vii) identifying and compiling details of restructuring at the level of each borrower and exposure type, including details of repeated restructuring;
- viii) identifying and compiling details of repossessed assets by type of assets;
- ix) identifying and compiling the details and valuation of security available to the financial institution at the level of each borrower and exposure type;
- x) computing prudential provisions held at the level of each borrower and exposure type, including discounting of collateral;
- xi) compilation of key risk management metrics such as default rates by type of borrowers, by types of exposures, by economic sectors, by geographic regions, among others.
- xii) Creation of a memorandum of accounts for written off facilities, at the general ledger level, for monitoring and reporting purposes.

PART III: SPECIFIC REQUIREMENTS FOR LOANS AND ADVANCES

3.1 Loan Review

At least monthly, banks must review their loan portfolio comprising both on-balance sheet and off-balance sheet exposures, for the purposes of credit classification and determining the adequacy of provisioning.

Institutions must incorporate in their credit policies the review requirements, which should at a minimum include:

- (i) facilities' performance against agreed terms.

- (ii) borrowers' financial condition (by way of assessing financial statements and other relevant financial and non-financial information);
- (iii) the adequacy of any collateral including whether valuation, insurance coverage and legal assignment arrangements are all in place and up to date;
- (iv) changes in the economic condition specific to the market in which the borrower operates;
- (v) in the case of a group of related borrowers, the status and performance of other facilities also being serviced within the group; and
- (vi) significant changes to the ownership and/or management of the company.

(a) Objectives

Each institution's loan review function shall ensure that:

- The lending function conforms to a sound and written lending policy which has been adopted and approved by the board of directors;
- Management and the board of directors are adequately informed regarding portfolio risk;
- Problem accounts are properly identified on a timely manner and internally classified appropriately, in accordance with the classification criteria as given in this guideline as a minimum;
- Adequate level of provisions for potential loss are made and maintained at all times;

(b) Frequency and Reporting

The management of each institution shall ensure that a review of its loan portfolio is made at least on a monthly basis. Such reports shall provide sufficient information that will enable the board to deliberate and direct management to take timely and necessary remedial action within a specified time frame.

3.2 Classification of Loans

(a) Criteria for Classification

In the determination of the classification for loans and advances, performance will be the primary consideration. The performance will generally show the repayment capability of the borrower. An institution could develop and implement its own loan classification system based on internal risk rating

methodologies, however at minimum loans shall be classified into the five categories using the criteria provided in this Guideline

Loans classified as sub-standard, doubtful and loss shall be considered as non-performing loans (NPLs).

- Normal
- Watch
- Sub-standard
- Doubtful
- Loss

Where an institution is using its own internal risk rating system there should be a proper process to map the internal rating to classification provided in this guideline.

(c) Central Bank's Classification

Upon completion of an on-site examination, the Central Bank of Kenya will provide a list of reclassified accounts, some of which will be downgraded from categories earlier classified by the institution. No account from this list will be upgraded by the institution without sufficient justification.

It is a requirement that, before the quarterly and year-end accounts are finalized and published, institutions take into account the provisions recommended in the latest Central Bank inspection report. Where necessary, tripartite meetings may be held between the institution, Central Bank of Kenya and the external auditors.

3.3 Classification Categories

(a) Normal

These are well-documented facilities granted to financially sound customers where no weaknesses exist. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are normally fully protected by the current sound net worth and paying capacity of the borrower.

Performance

- (i) Term loans:
Up to date repayments;

- (ii) Overdrafts:
 - i. Operates within limit and receiving sufficient credits each month to cover interest.
 - ii. The facility is not hardcore.
- (iii) Bills Discounted
Bill not yet due.
- (iv) Off Balance Sheet items
Off balance sheet items that have not yet crystallised.

(b) Watch

Loans in this category may be currently protected and may not be past due but exhibit potential weaknesses which may, if not corrected, weaken the asset or inadequately protect the institution's position at some future date. Examples of such weaknesses include, but are not limited to: inability to properly supervise the debt due to an inadequate loan agreement; deteriorating condition or control of collateral; deteriorating economic conditions or adverse trends in the borrower's financial position which may, if not checked, jeopardize repayment capacity, risk potential is greater than when the loan was originally granted. This category should not be used as a compromise between Normal and Substandard.

Performance

(i) Term Loans

These are loans, which display one or all of the following characteristics:

- Principal or interest is due and unpaid for more than 30 days but not exceeding 90 days.
- Interest payments are outstanding for more than 30 days but not exceeding 90 days or have been refinanced or rolled over.
- For loans paid in installments:

Mode of payment	Installments in Arrears
Monthly	Less than 3 months
Quarterly	1 (not paid within 3 months)
Semi-annually	1 (not paid within 3 months)

Annually	1 (not paid within 3 months)
Bullet	not paid within 3 months after maturity

i) Current accounts (overdrafts)

Current accounts (overdrafts) and other credit extensions are considered “Watch” when any of the conditions below exist:

- overdraft exceeds the customers approved limit for more than 30 to 90 consecutive days.
- the customer’s credit line has expired and has not been renewed for more than 30 to 90 days from the date of expiry.
- interest is due and unpaid for more than 30 to 90 days.
- the account has been inactive for more than 30 to 90 days or credits are inadequate to meet all the outstanding interest during the period.
- the customer’s credit line has been extended administratively in line with the institution’s documented policy for more than 90 days from the date of expiry, on condition that, during the period of extension, it is performing as per contract terms.
- there is evidence of facility being hardcore for more than 30 days to 90 days.

(iii) Bills Discounted

Overdue for more than 30 to 90 days.

(iv) Off Balance Sheet items

Off balance sheet items that have crystallised and remain unpaid for up to 90 days.

An off-balance sheet item is said to have crystallised after occurrence or non-occurrence of anticipated events leading to existence of an asset or liability which was previously uncertain.

(c) Substandard

Loans in this category are not adequately protected by the current sound net worth and paying capacity of the borrower. In essence, the primary sources of repayment are not sufficient to service the debt and the institution must look to secondary sources such as collateral, sale of fixed assets, refinancing or additional capital injections for repayment.

Any loan, which is past due for more than 90 days but not exceeding 180 days shall be classified as Substandard, at a minimum.

Performance

(i) Term loan

- Principal or interest is due and unpaid for more than 90 days to 180 days.
- Interest payments for more than 90 days to 180 days have been re-financed, or rolled-over into a new loan.
- Principal or interest is due and unpaid for more than 90 days to 180 days.
- For loans paid in installments: -

Mode of payment	Installments in Arrears
Monthly	Over 3 months to 6 months
Quarterly	2 (not paid within 3 months)
Semi-annually	1 (not paid within 6 months)
Annually	1(not paid within 6 months)
Bullet	not paid within 6 months after maturity

(ii) Current accounts (overdrafts)

Current accounts (overdrafts) and other credit extensions are considered “Substandard” when any of the following conditions exist:

- debt exceeds the customers approved limit for more than 90 days to 180 consecutive days.
- the customer’s credit line has expired for more than 90 days to 180 days.
- interest is due and unpaid for more than 90 days to 180 days.
- the account has been inactive for more than 90 days to 180 days and credits are insufficient to cover all the outstanding interest during the period.
- there is evidence of facility being hardcore for more than 90 days to 180 days.

(iii) Bills Discounted

A bill discounted is considered substandard when the bill is overdue and unpaid for over 90 days to 180 days.

(iv) Off Balance Sheet Items

Crystallised off balance sheet items that remain outstanding for over 90 days to 180 days.

(d) Doubtful

Loans in this category have all the weaknesses inherent in a substandard loan plus the added characteristic that the loan is not well secured. These weaknesses make collection in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable. The possibility of loss is high, but because of important and reasonably specific pending mitigating factors, the actual amount of loss cannot be fully determined. If pending events do not occur within 360 days and repayment must again be deferred pending further developments, a loss classification is warranted upon realization of securities held. A loan that is past due for more than 360 days may however retain a “doubtful” classification if it is backed by realisable security.

Performance

Any loan which is past due more than 180 days shall be classified as Doubtful at a minimum:

- (i) Term loan
- Principal or interest is due and unpaid for over 180 days.
 - For loans paid in installments: -

Mode of payment	Installments in Arrears
Monthly	Over 6 months but less than 12 months
Quarterly	3 (not paid within 3 months)
Semi-annually	2 (not paid within 3 months)
Annually	1(not paid within 9 months)
Bullet	not paid within 9 months after maturity

- (ii) Current accounts (overdrafts)
- Current accounts (overdrafts) and other credit extensions are considered “Doubtful” when any of the following conditions exist:
- Debt exceeds the customers approved limit for more than 180 days.
 - The customer’s credit line has expired for more than 180 days.
 - The account has been inactive for more than 180 days or credits are inadequate to meet all the outstanding interest during the period.

- Interest is unpaid and due for more than 180 days.
There is evidence of facility being hardcore for more than 180 days.

(iii) **Bills Discounted**

A bill discounted is considered doubtful when the bill is overdue for more than 180 days but not more than 360 days.

(iv) **Off Balance Sheet items**

Crystallised off balance sheet items that remain outstanding for over 180 days to 360 days.

Any loan, which is under doubtful category where the security has either been sold or discounted to zero value, shall be classified as loss unless the debt is in the process of being collected e.g. in due course or through legal action or any other means expected to result in repayment of the debt or in its restoration to current status.

(e) **Loss**

Loans, which are considered uncollectible or of such little value that their continuance recognition as bankable assets is not warranted shall be classified Loss. Losses shall be taken in the period in which they are identified.

(i) **Term loan**

- Principal or interest is due and unpaid for over 360 days.
- For loans paid in installments: -

Mode of payment	Installments in Arrears
Monthly	12 or more
Quarterly	4 or more
Semi-annually	2 (not paid within 5 months)
Annually	1 (not paid within 11 months)
Bullet	not paid within 11 months after maturity

(ii) **Current accounts (overdrafts)**

Current accounts (overdrafts) and other credit extensions are considered “Loss” when any of the following conditions exist:

- Debt exceeds the customers approved limit for more than 360 days.
- The customer’s credit line has expired for more than 360 days.
- The account has been inactive for more than 360 days or credits are inadequate to meet all the outstanding interest during the period.
- Interest is unpaid and due for more than 360 days.
- There is evidence of facility being hardcore for more than 360 days.

(iii) Bills Discounted

A bill discounted is considered loss when the bill is overdue for more than 360 days.

(iv) Off Balance Sheet items

Crystallised off balance sheet items that remain outstanding for more than 360 days.

3.3.1 Adverse Classification

A significant departure from the primary source of repayment may warrant adverse classification even when a loan is current or is supported by an underlying collateral value. Reclassification may also be warranted if a delinquency has been technically cured by modification of terms, refinancing, or additional advances.

In cases where different classification grades may be assigned based on subjective criteria, the more severe classification should generally apply. Moreover, nothing contained in the classification definitions above shall preclude assigning a more severe grade when an analysis of a borrower’s financial condition, ability, and willingness to repay justifies a more severe classification.

3.3.2 Classification of Multiple facilities

In the case of exposures to a non-retail counterparty where the bank has more than one exposure to that counterparty, the bank must consider all exposures

to that counterparty as non-performing when any one of the material exposures is non-performing. In other words, non-performing status should be applied at the level of the counterparty.

In the case of exposures to a retail counterparty, the non-performing status can be applied at the transaction level. In the case of a retail counterparty with more than one exposure from a bank, the bank should consider the non-performing or performing status of the other exposures when deciding about the status of a given exposure.

If an institution has granted multiple facilities to a group /single borrower, and any one of them is non-performing, then the institution shall evaluate every other loan to that borrower and where necessary place such loans on non-performing status.

Provisions will be made against that facility to fairly state the bank's financial position. Apportionment of joint collateral should be prorated for purposes of provisioning based on current exposure, unless the institution has formulated an alternative acceptable allocation mechanism of the collateral value to the individual non performing facility.

3.3.3 Forbearance

- (a) Forbearance includes concessions that are granted due to the counterparty's financial difficulty on any exposure in the form of a loan, a debt security or an off-balance sheet item (eg loan commitments or financial guarantees). Financial difficulties include, but are not limited to:
- i. A counterparty is currently past due on any of its material exposures.
 - ii. A counterparty is not currently past due, but it is probable that the counterparty will be past due on any of its material exposures in the foreseeable future without the concession, for instance, when there has been a pattern of delinquency in payments on its material exposures.
 - iii. A counterparty's outstanding securities have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange due to noncompliance with the listing requirements or for financial reasons.
 - iv. On the basis of actual performance, estimates and projections that encompass the counterparty's current capabilities, the bank forecasts that all the counterparty's committed/available cash flows will be insufficient to service all of its loans or debt securities (both interest

and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.

- v. A counterparty's existing exposures are categorised as exposures that have already evidenced difficulty in the counterparty's ability to repay in accordance with the supervisory categorisation scheme in force or the credit categorisation scheme within a bank's internal credit rating system.
- vi. A counterparty is in non-performing status or would be categorised as nonperforming without the concessions.
- vii. The counterparty cannot obtain funds from sources other than the existing banks at an effective interest rate equal to the current market interest rate for similar loans or debt securities for a non-troubled counterparty.

(b) Concessions can be triggered by:

- i. changes in the conditions of the existing contract, giving considerably more favourable terms for the counterparty;
- ii. a supplementary agreement, or a new contract to refinance the current transaction; or
- iii. the exercise of clauses embedded in the contract that enable the counterparty to change the terms and conditions of its contract or to take on additional loans, debt securities or off-balance sheet items at its own discretion.

(c) When a borrower is assessed as experiencing financial difficulty, examples of potential concessions are:

- i. extending the loan term;
- ii. rescheduling the dates of principal or interest payments;
- iii. granting new or additional periods of non-payment (grace period);
- iv. reducing the interest rate, resulting in an effective interest rate below the current interest rate that counterparties with similar risk characteristics could obtain from the same or other institutions in the market;
- v. capitalising arrears;
- vi. forgiving, deferring or postponing principal, interest or relevant fees;
- vii. changing an amortising loan to an interest payment only;
- viii. releasing collateral or accepting lower levels of collateralisation;
- ix. allowing the conversion of debt to equity of the counterparty;
- x. deferring recovery/collection actions for extended periods of time; and
- xi. easing of covenants.

Refinancing an existing exposure with a new contract due to the financial difficulty of a counterparty could qualify as a concession, even if the terms of the new contract are no more favourable for the counterparty than those of the existing transaction.

(d) Criteria for exit from the forbore exposures category

A forbore exposure will be identified as such until it meets both of the following exit criteria:

- i. When all payments, as per the revised contractual terms, have been made in a timely manner over a continuous repayment period of not less than one year (probation period for reporting). The starting date of the probation period should be the scheduled start of payments under the revised terms, regardless of the performing or non-performing status of the exposure at the time that forbearance was granted; and
- ii. The counterparty has resolved its financial difficulty.

(e) Interaction of forbearance with non-performing exposures

- i. Forbearance may be granted on performing or non-performing exposures. When forbearance is applied to a non-performing exposure, the exposure should remain non-performing. When forbearance is applied to a performing exposure, the bank then needs to assess whether the exposure meets the non-performing criteria, even if the forbearance resulted in a new exposure.
- ii. When the original exposure would have been categorised as non-performing at the time of granting forbearance, had the forbearance not been granted, the new exposure should be categorised as non-performing.
- iii. Banks should pay particular attention to the appropriate categorisation of exposures on which forbearance has been granted more than once. When a forbore exposure under the probation period is granted new forbearance, this should trigger a re-start of the probation period, and banks should consider whether the exposure should be categorised as non-performing.
- iv. The continuous repayment period for non-performing and the probation period for forbearance can run concurrently. All non-performing forbore exposures should remain nonperforming until they meet the criteria in paragraph 31. Thereafter, the remaining probation period for forbearance exit in paragraph 40 shall apply and the exposure should be identified as a performing forbore exposure.

- v. When a forbore exposure becomes non-performing during the 12-month probation period, the probation period starts again.

3.4 Re-classification of Non-Performing Loans and Advances

- 3.4.1 An exposure ceases to be non-performing and can be recategorised as performing when all the following criteria are simultaneously met:
 - i. the counterparty does not have any material exposure more than 90 days past due;
 - ii. repayments have been made when due as specified in Clauses 3.4.3 and 3.4.4. A longer repayment period can be required for nonperforming forbore exposures;
 - iii. the counterparty's situation has improved so that the full repayment of the exposure is likely, according to the original or, when applicable, modified conditions; and
 - iv. the exposure is not "defaulted" or "impaired" according to IFRS 9.
- 3.4.2 The following situations will not lead to the recategorisation of a non-performing exposure as performing:
 - i. partial write-off of an existing non-performing exposure, (ie when a bank writes off part of a non-performing exposure that it deems to be uncollectible);
 - ii. repossession of collateral on a non-performing exposure, until the collateral is actually disposed of and the bank realises the proceeds (when the exposure is kept on balance sheet, it is deemed non-performing); or
 - iii. extension or granting of forbearance measures to an exposure that is already identified as nonperforming subject to the relevant exit criteria for non-performing exposures.
- 3.4.3 A facility in the **Substandard** category will normally continue to be classified Substandard unless all past due principal and interest is repaid in full, in which case it may be upgraded to '**Watch**' classification.
- 3.4.4 A facility in the **Doubtful** category will normally continue to be classified Doubtful unless all past due principal and interest is repaid in full, in which case it may revert to '**Watch**' classification.

A facility which meets the above condition and has been classified as **Watch** may be reclassified **Normal** if a sustained record of performance is maintained for a period of six (6) months.

No provisions for non-performing loans may be written back unless the accounts have been upgraded strictly on the basis of the criteria under clause 3.4.

3.5 Classification of Restructured Loans and advances

3.5.1 A restructured loan and advance in the normal and watch categories will normally continue to be classified as normal or watch as the case may be unless the loans have exhibited weaknesses which may weaken the assets or inadequately protect the institution's position at some future date. Examples of such weaknesses include, but are not limited to:

- a) Inability to properly supervise the debt due to an inadequate loan agreement.
- b) Deteriorating condition or control of collateral.
- c) Deteriorating economic conditions or adverse trends in the borrower's financial position which may, if not checked, jeopardize repayment capacity, and
- d) Risk potential is greater than when the loan was originally granted.

For normal and watch loan categories to be restructured, the customer must provide sufficient justification and evidence that he/she has enough income to support the new repayment schedule. In reviewing the terms and conditions of the facility, an institution must guard against granting 'evergreen' facilities which may be used as conduits to hide non-performing facilities.

3.5.2 A restructured loan and advance in the Substandard category will normally continue to be classified **substandard** unless:

- (i) all past due principal and interest is repaid in full at the time of renegotiation, in which case it may revert to '**Watch**' classification or
- (ii) a sustained record of performance under a realistic repayment program has been maintained. A sustained record of performance

means that all principal and interest payments are made according to the modified repayment schedule.

A restructured loan which meets condition (i) above may be reclassified as **Normal** if a sustained record of performance is maintained for six (6) months from the date of renegotiation.

A restructured loan in the **Sub-standard** category, which meets condition (ii) above may be classified as '**Watch**' if the sustained record is maintained for at least six (6) months from the date of renegotiated date.

It may however qualify for '**Normal**' classification if the sustained record is maintained for at least twelve (12) months from the renegotiated date. If after a formal restructuring a loan deteriorates, it must revert to a non-performing classification status and be classified accordingly.

3.5.3 A restructured loan in the **Doubtful** category will normally continue to be classified **Doubtful** unless:

- (i) all past due principal and interest is repaid in full at the time of restructuring, in which case it may revert to '**Watch**' classification or
- (ii) a sustained record of performance under a realistic repayment program has been maintained. A sustained record of performance means that all principal and interest payments are made according to the modified repayment schedule.

A restructured loan which meets condition (i) above may be reclassified **Normal** if a sustained record of performance is maintained for a period of six (6) months from the date of restructuring.

A restructured loan in the '**Doubtful**' category, which meets condition (ii) above can be classified as '**Watch**' if the sustained record of performance is maintained for at least twelve (12) months from the date of restructuring. It may however qualify for '**Normal**' classification if the sustained record of performance is maintained for at least eighteen (18) months from the restructuring date. If after

a formal restructuring, a loan deteriorates it must revert to a non-performing classification status and be classified accordingly.

3.6 Provisioning Requirements

(a) Suspension of Interest

When a loan is classified to non-performing category, an institution should either cease the accrual of interest or continue to accrue interest suspended in accordance with the criteria set out in this guideline and should not be treated as income. Interest in suspense shall be taken into account in the computation of provisions for non-performing loans.

(b) Minimum provisioning allocations.

In determining the amount of potential loss in specific loans or in the aggregate loan portfolio, all relevant factors shall be considered including, but not limited to: historical loan loss experience, current economic conditions, delinquency trends, the effectiveness of the institution's lending policies and collection procedures, and the timeliness and accuracy of its loan review function.

The following minimum percentage amounts for provisioning are to be maintained according to assigned classifications. Where reliable information suggests that losses are likely to be more than these minimum amounts, larger provisions shall be made.

- i) for loans classified **“Normal”** 1%
- ii) for loans classified **“Watch”** 3%
- iii) for loans classified **“Substandard”** 20%
- iv) for loans classified **“Doubtful”** 100%
- v) for loans classified **“Loss”** 100%

In the case of the first two categories the above percentages shall be applied against the gross balance of a loan regardless of whether the loan is analysed individually or as part of a pool of loans. For nonperforming categories the percentages will be applied to the net balances after deduction of realisable value of security and interest in suspense.

(c) Accounting treatment for provisions for loan losses

If impairment charges computed under International Financial Reporting Standard 9 (IFRS 9) are lower than provisions required under this guideline, the excess provisions shall be treated as an appropriation of retained earnings and not expenses in determining profit and loss. Similarly, any credits resulting from the reduction of such amounts results in an increase in retained earnings and are not included in the determination of profits or loss.

Where the impairment charges computed under IFRS 9 are higher than provisions required under this guideline, the impairment charges will be considered adequate for purposes of this guideline.

3.7 Treatment of Collateral

(a) General

Classification ratings of loans do not depend on the amount or quality of collateral pledged. Collateral is regarded as a secondary source of repayment, and therefore is only used in assessing the amount of loan loss provision required for non-performing loans. This is especially true where the validity, value and ability to realize collateral is subject to significant doubt.

(b) Perfection of Securities

Where securities are obtained, they should be perfected in all respects, namely:

- Duly charged and registered.
- Adequately insured.
- Valued by a registered valuer.
- Perfected in all other areas specified in the letter of offer.

(c) Valuation of Securities

- i. For the purpose of determining the value of security in accounts, security should be valued by a registered valuer on a reasonable and regular basis. This should be clearly stated in the institutions credit policy. Examiners may discount the value of securities depending on the prevailing circumstances of each case. If the Central Bank of Kenya deems it necessary, it may require the institution to have a

valuation carried out by another valuer registered by the Institution of Surveyors of Kenya and registered at the institution's expense.

- ii. For the purpose of this guideline the value of chattels mortgage and guarantees that are not supported by tangible assets and will not be considered, while debentures will be considered at 50% of the realisable market value based on the latest valuation or the book values as per the latest audited financial statements. Examiners may discount the value of securities further depending on the circumstances of each case.
- iii. When a credit facility is collateralised by immovable assets, banks should ensure that the valuation of the collateral is carried out accurately.
- iv. Banks must have clear and documented internal policies and procedures for the valuation of collateral. The policies and procedures should specify the valuation approaches to be used by the valuer, where needed. Banks should ensure that these approaches are prudent and proportionate to the type and value of the collateral in relation to the credit agreements and are in line with the credit risk policies of the bank.
- v. Banks should ensure that the valuation of collateral held against loans is assessed by a registered valuer using full site visits taking account of the interior and exterior of the physical asset.
- vi. Banks should establish a panel (list) of accepted registered valuers having the relevant technical skills and experience in valuation and who are independent from the credit decision process.
- vii. Banks should ensure that the registered valuer provides an impartial, clear, and transparent valuation. Each valuation should have a final report providing the necessary information, at a minimum:
 - a. the purpose of the valuation (whether for the purposes of loan application, renewal or contractual adjustments, or in the case of structural changes (real estate);
 - b. the reference value of the asset;
 - c. the approach, methodology and key parameters and assumptions that have been used to assess the value;

- d. a description of the asset, including its current use or multiple uses if applicable, and the property type and quality, including age and state of preservation;
 - e. a description of the location of the asset, the local market conditions and the marketability; and
 - f. any known circumstances that may affect the value in the short term, including drawing attention to and commenting on any issues affecting the degree of certainty or uncertainty.
- viii. It is the responsibility of the banks to critically review the valuation received from the valuer, in particular, focusing on aspects such as comprehensibility (whether the approaches and assumptions are clear and transparent), the prudence of assumptions and the clear and reasonable identification of comparable assets used as a value benchmark.
- ix. Collateral (other than real estate) held against loans and advances that are classified as non performing must be subject to regular valuation. This should be clearly stated in the institutions credit policy

(d) Discounting of Securities

For the non-performing loans, the discounted value of collaterals shall be deducted from the loan balance before making provisions. The period allowable for deductions of discounted value of collaterals shall be for a maximum of five years from the period the loan becomes non-performing.

Institutions will be expected to progressively discount the forced sale value of securities over the five-year period at a discount rate of 20% p.a. However, for the purpose of reporting to Central Bank, institutions will be required to discount their securities at a rate of 5% every quarter.

For purposes of discounting, the security value will be based on the forced sale value when the loan becomes non-performing and any future appreciation in value should not affect the discount amount. For all forms of collaterals, the discounted value of securities may be deducted if transferability of title is certain and an active market exists.

An “active market” means that a bona fide sale (willing buyer/willing seller) can be achieved within a reasonable period. The effective date for starting discounting of securities shall be the date on which the underlying loan becoming non-performing.

3.8 Examiner’s review

The board of directors shall maintain adequate records supporting its evaluation of potential loan losses and the entries made to ensure adequacy of the provision for loan losses. Such records shall be available for examiners to assess management’s loss estimation procedures, the reliability of the information on which estimates are based, and the adequacy of the provision for loan losses. If the provision for loan losses is determined to be inadequate, adjusting entries will be required.

3.9 Write-Off of Loan/Advances

An institution should write off a loan or a portion of a loan from its balance sheet when the institution loses control of the contractual rights over the loan or when all or part of a loan is deemed uncollectible or there is no realistic prospect of recovery. This normally evident at a stage where-

- a) The institution loses control of the contractual rights that comprise the loan or part of the loan as determined by a court of law.
- b) All forms of securities or collateral have been called, realized, but proceeds failed to cover the entire facility outstanding.
- c) The institution is not able to collect or there is no longer reasonable assurance that the institution will collect all amounts due according to the contractual terms of the loan/advances agreement.
- d) The borrower becomes bankrupt
- e) Where efforts to collect debt are abandoned for any other reason.

Write off of facilities classified as loss should be done within 180 days of their being classified as loss if there are no recoveries within this period.

All credit policies should adequately detail the write-off procedures in order to minimise potential abuse. The ultimate authority for approval of write-offs rests with the board of directors and the memorandum accounts should be periodically audited.

PART IV: OTHER ASSETS

Apart from the loans and advances portfolio, institutions may have other assets such as deposits with institutions under statutory management and liquidation, investments in associates, subsidiaries and joint ventures and sundry debtors which may be subject to loss or diminution in value. Institutions should regularly review the other assets and make necessary provisions as need arises.

Provisions should be made where an actual loss of an asset occurs or when the recoverable amount of the asset is less than its carrying value. Provisions so made should not be lumped together with provisions for loans and advances on the CBK BS (M) but should be included under other provisions.

PART V: REQUIREMENTS ON LIMITATION OF INTEREST RECOVERABLE ON NON -PERFORMING LOANS AND ADVANCES

- 5.1 An institution shall be limited in what it may recover from a debtor with respect to a non-performing loan to the maximum amount under clause 5.2.
- 5.2 The maximum amount referred to in clause 5.1 is the sum of the following;
 - (a) the principal owing when the loan become non-performing;
 - (b) interest, in accordance with the contract between the debtor and the institution, not exceeding the principal owing when the loan becomes non-performing; and
 - (c) expenses incurred in the recovery of any amount owed by the debtor.
- 5.3 If a loan becomes non-performing and then the debtor resumes payments on the loan and then the loan becomes non-performing again, the limitation under paragraphs (a) and (b) of clause 5.2 shall be determined with respect to the time the loan last became non-performing.
- 5.4 The requirements of Section 44A shall not apply to limit any interest under a court order accruing after the order is made.
- 5.5 The limitation of interest recoverable on non-performing loans shall apply with respect to loans made before section 44A came into operation and to loans that have become non-performing before the said section comes into operation. Provided that where a loan became non-performing before this

requirement comes into operation the maximum amount shall be the sum of the following;

- (a) the principal and interest owing on the day these requirements come into operation; and
- (b) interest in accordance with the contract between the debtor and the institution accruing after the day these requirements come into operation, not exceeding the principal and interest owing on the day these requirements come into operation; and
- (c) expenses incurred in the recovery of any amounts owed by the debtor.

PART VI: REPORTING REQUIREMENTS

Institutions shall submit to the Central Bank of Kenya at monthly intervals CBK/PR4-1 to CBK/PR4-5. The intervals for reporting may change from time to time as the Central Bank may require. The returns should be submitted by 5th day of the subsequent month.

PART VII: REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

7.1 Remedial measures

If an institution fails to comply with this guideline, the Central Bank may pursue any or all corrective sanctions and or actions as provided for under the Banking Act.

7.2 Administrative sanctions

In addition to the use of Remedial measures noted in 7.1 above, the Central Bank may pursue any or all of the following administrative sanctions against an institution, its board of directors, or its officers:

- 1) Prohibition from engaging in any further foreign exchange activities;
- 2) Prohibition from declaring or paying dividends;
- 3) Prohibition from establishing new branches or facilities;
- 4) Prohibition from engaging in new activities or from expanding existing activities;
- 5) Suspension of access to Central Bank credit facilities;
- 6) Suspension of lending, investment, and credit granting operations;
- 7) Prohibition from acquiring, through purchase or lease, additional fixed assets;
- 8) Prohibition from accepting further deposits or other lines of credit;
- 9) Prohibition from declaring or paying bonuses, salary incentives, severance packages, management fees or other discretionary compensation to directors or officers.

PART VIII: EFFECTIVE DATE

8.1 Effective date

The effective date of this guideline shall be 1st January, 2027. However, the implementation date of the following understated section shall have a transition period and will be effective on the respective dates as specified below:

8.2 Supersedence

This guideline supersedes and replaces Prudential Guideline No. CBK/PG/04 on Risk Classification of Assets and Provisioning issued by the Central Bank of Kenya on 1st January 2013.

ENQUIRES:

Enquiries on any aspect of these Guidelines should be referred to:

Director,
Banking Supervision Department
Central Bank of Kenya
P.O. Box 60000-00200
Nairobi
TEL. 2860000 e-mail: *fin@centralbank.go.ke*

RISK CLASSIFICATION OF LOANS AND ADVANCES AND PROVISIONING												
INSTITUTION: _____ FINANCIAL YEAR: _____ START DATE: _____ END DATE: _____												
Figures in Kshs '000'												
GLOBAL												
No. Classification	LOCAL CURRENCY ASSETS				FOREIGN CURRENCY ASSETS				GRAND TOTAL			
	A No of Accounts	B % of Total	C Amount O/a	D % of Total	E No of Accounts	F % of Total	G Amount O/a	H % of Total	I(A+E) No of Accounts	J(B+F) % of Total A/c	K(C+G) Amount O/a	L(D+H) % of Total O/a
1 Normal												
2 Watch												
3 Substandard												
4 Doubtful												
5 Loss												
6 Total												
Provisioning												
7 Provisions held for normal accounts												
8 Provisions required for normal (1% of 1)												
9 Excess(shortfall) in provisions held for normal a/c's(7-8)												
10 Provisions held for watch accounts												
11 Provisions required for watch (3% of 2)												
12 Excess(shortfall) in provisions held for watch accounts(10-11)												
13 Qualifying discounted value of securities for sub-standard accounts												
14 Interest in suspense for sub-standard accounts												
15 Net sub-standard a/c's (3 -13-14)												
16 Provisions held for substandard accounts												
17 Provisions required for sub-standard accounts (20% of 15)												
18 Excess(shortfall) in provisions held for sub-std accounts(16-17)												
19 Qualifying discounted value of securities for doubtful accounts												
20 Interest in suspense for doubtful accounts												
21 Net doubtful accounts (4 -19-20)												
22 Provisions held for doubtful accounts												
23 Provisions required for doubtful accounts (100% of 21)												
24 Excess(shortfall) in provisions held for doubtful accounts (22-23)												
25 Interest in Suspense for loss accounts												
26 Net Loss accounts (5-25)												
27 Provisions held for loss a/c's												
28 Provisions required for loss accounts(100% of 26)												
29 Excess(shortfall) in provisions held for loss accounts (27-28)												
30 Total provisions held (7+10+16+24+27)												
31 Total provisions required (8+11+17+23+28)												
32 Total Excess/(Shortfall) in Provisions(30-31)												

AUTHORIZATION:
 We declare that this return, to the best of our knowledge and belief is correct.

Name of Compiling Officer:	Sign:	Date:
Name of authorizing officer (1):	Sign:	Date:
Name of authorizing officer (2):	Sign:	Date:

LOANS AND ADVANCES PERFORMANCE REPORT

Institution:	
Financial Year:	
Start Date:	
End Date:	

A. LOANS

NO.	PERIOD OF PAST DUE	LOCAL CURRENCY			FOREIGN CURRENCY			GRAND TOTAL			
		A	B	C	D	E	F	G	H	I	J
		No. of A/cs	Amount Shs'000'	% of Total	No. of A/cs	Amount Shs'000'	% of Total	No of Accounts	% of Total	Amount Shs'000'	% of Total
1	30 to 90 days										
2	More than 90 to 180 days										
3	More than 180 days										
4	More than 180 days with no security value										
5	Total past due										
6	UP-TO-DATE PERFORMING FACILITIES										
7	TOTAL (5+6)										

B. DISCOUNTED BILLS

NO.	PERIOD OF PAST DUE	LOCAL CURRENCY			FOREIGN CURRENCY			GRAND TOTAL			
		A	B	C	D	E	F	G	H	I	J
		No. of A/cs	Amount Shs'000'	% of Total	No. of A/cs	Amount Shs'000'	% of Total	No of Accounts	% of Total	Amount Shs'000'	% of Total
1	30 to 90 days										
2	More than 90 to 180 days										
3	More than 180 days										
4	More than 180 days with no security value										
5	Total past due										
6	UP-TO-DATE PERFORMING FACILITIES										
7	TOTAL (5+6)										

C. OVERDRAFTS

NO.	PERIOD OF PAST DUE	LOCAL CURRENCY			FOREIGN CURRENCY			GRAND TOTAL			
		A	B	C	D	E	F	G	H	I	J
		No. of A/cs	Amount Shs'000'	% of Total	No. of A/cs	Amount Shs'000'	% of Total	No of Accounts	% of Total	Amount Shs'000'	% of Total
1	Accounts in excess of approved limit for 30 to 90 consecutive days. Borrowing line has expired for 30 to 90 days. Interest is due and unpaid for 30 to 90 days. Account inactive for 30 to 90 days										
2	Exceeds approved limit for more than 90 to 180 consecutive days. Borrowing line has expired for more than 90 to 180 days. Interest is due and unpaid for more than 90 to 180 days. Account inactive for more than 90 to 180 days. Deposits insufficient to cover interest										
3	Exceeds approved limit for over 180 days. Borrowing line expired for over 180 days. Account inactive for over 180 days										
4	Account with permanent hard-core with no transactions. The security value is zero.										
5	Total past due										
6	ACCOUNTS OPERATING WITHIN LIMIT										
7	TOTAL (5+6)										

D. SUMMARY

NO.	PERIOD OF PAST DUE	LOCAL CURRENCY			FOREIGN CURRENCY			GRAND TOTAL			
		A	B	C	D	E	F	G	H	I	J
		No. of A/cs	Amount Shs'000'	% of Total	No. of A/cs	Amount Shs'000'	% of Total	No of Accounts	% of Total	Amount Shs'000'	% of Total
1	Total past due (A5+B5+C5)										
2	Total up-to-date performing facilities (A6+B6+C6)										
3	TOTAL LOANS AND ADVANCES										

AUTHORIZED SIGNATORY:

Name of Compiling Officer:	Signature:	Date:
Name of authorizing officer (1):	Signature:	Date:
Name of authorizing officer (2):	Signature:	Date:

Institution:	
Financial Year:	
Start Date:	
End Date:	

Core Capital (shs '000):

(SHS '000)

[illegible]

Name of Compiling Officer:	Signature:	Date:
Name of authorizing officer (1):	Signature:	Date:
Name of authorizing officer (2):	Signature:	Date:

COMPLETION INSTRUCTIONS

FORM CBK/PR4-1: RISK CLASSIFICATION OF LOANS AND ADVANCES AND PROVISIONING

General

- This return should be completed strictly in accordance with the Prudential Guideline on Risk Classification of Loans and Advances and Provisioning.
 - The reporting institution should report loans and advances in local and foreign currency separately and the total amounts as provided for in the return.
 - The gross amounts for loans and advances should agree with or should be capable of being derived from the figures reported in other returns.
1. Enter in lines 1 to 5 the number of accounts, percentages, number of customers and the amounts in each of the categories of Normal Risk; Watch; Sub-standard; Doubtful and Loss: as per the risk classification of loans and advances and provisioning guideline provided.
 2. Enter in line 6 the gross loans and advances. (Sum of line 1 to 5).
 3. Enter in line 7 specific provisions held for normal accounts.
 4. Enter in line 8 the amounts of specific provisions required for normal accounts. The provisions required are 1% of the value of loans and advances in normal category.
 5. Enter in line 9 the difference between provisions held and provisions required for normal accounts (difference between line 7 and 8).
 6. Enter in line 10 specific provisions held for watch accounts.
 7. Enter in line 11 the amounts of specific provisions required for normal accounts. The provisions required are 3% of the value of loans and advances in watch category.
 8. Enter in line 12 the difference between provisions held and provisions required for watch accounts (difference between line 10 and 11)
 9. Enter in line 13 the qualifying discounted value of securities in substandard categories. The value of securities reported should be for those securities which are transferable and for which active market exists. In arriving at this aggregated figure, the value of securities for individual accounts should be limited to the loan outstanding.
 10. Enter in line 14 interest in suspense for substandard accounts.
 11. Enter in line 15 the net amount of substandard accounts.
 12. Enter in line 16 the specific provisions held for substandard accounts.
 13. Enter in line 17 the specific provisions required for substandard accounts. The provisions required are 20% of the value of loans and advances in substandard accounts after deducting interest in suspense and discounted value of securities.

14. Enter in line 18 the difference between provisions held and provisions required for substandard accounts (difference between line 16 and 17).
15. Enter the qualifying discounted value of securities for doubtful accounts. The value of securities reported should be for those securities which are transferable, and for which active market exists. In arriving at this aggregated figure, the value of securities for individual accounts should be limited to the loan outstanding.
16. Enter in line 20 interest in suspense held for doubtful accounts.
17. Enter in line 21 the net amount of doubtful accounts.
18. Enter in line 22 the specific provisions held for doubtful accounts.
19. Enter in line 23 the specific provisions required for doubtful accounts. The provisions required are 100% of the value of loans and advances in doubtful accounts after deducting interest in suspense and discounted value of securities.
20. Enter in line 24 the difference between provisions held and provisions required for doubtful accounts (difference between line 18 and 19).
21. Enter in line 25 interest in suspense for loss for accounts.
22. Enter in line 26 values of loss accounts net of interest in suspense.
23. Enter in line 27 specific provisions held for loss accounts.
24. Enter in line 28 the specific provisions required for loss accounts. The provisions required are 100% of the value of loans and advances in loss accounts after deducting interest in suspense.
25. Enter in line 29 the difference between provisions held and provisions required for loss accounts (difference between line 27 and 28).
26. Enter in line 30 the gross specific provisions held for normal, watch, substandard, doubtful and loss accounts.
27. Enter in line 31 gross provisions required for all categories as per the guideline.
28. Enter in line 32 the difference between gross provisions held and gross provisions required for all categories of the accounts (difference between line 30 and 31).

FORM CBK/PR 4-2: LOANS AND ADVANCES PERFORMANCE REPORT

Enter the number of accounts and amounts past due in the relevant spaces. The total figure in line D3 should agree with the total in line 6 of Form CBK/PR 4-1.

FORM CBK/PR 4-3: ADVANCES, BILLS DISCOUNTED AND OTHER FACILITIES TO ANY PERSON OR CONNECTED GROUP EXCEEDING 25% OF CORE CAPITAL

- (a) Connected group is defined as companies with common director(s)/shareholder(s).
- (b) List the accounts in each group to obtain a group total.
- (c) Other facilities include Guarantees, Letters of Credit, Acceptances, Bonds etc.
- (d) **Core capital reported** should be as computed under Guideline No. CBK/PG/03.

FORM CBK/PR 4-4: ADVANCES, BILLS DISCOUNTED AND OTHER FACILITIES TO STAFF MEMBERS, SHAREHOLDERS, DIRECTORS AND THEIR ASSOCIATES

- (a) Enter the total value of all borrowings by:
 - i) All staff members combined. In case of staff members who are directors, their credit facilities should be reported by individual name.
 - ii) Any shareholder who holds directly or indirectly or has a beneficial interest of more than 5% of the paid-up capital of the institution.
 - iii) The directors of the reporting institution.
 - iv) Any associate of any shareholder and/or director.
 - v) Any associate of the institution. An Associate is defined in Section 2(2) of the Banking Act.
- (b) Where two or more entities form part of a group, the total amount borrowed by the group should be indicated as follows:
 - i) Name of principal entity should be stated at the head of the list and
 - ii) Other individual entities within the group should be listed in a descending order depending on the amount borrowed or outstanding balance.
- (c) Group all borrowings relating to a particular director or shareholder together quoting the name of the director or shareholder at the head of the list and quote in sequence the names of the borrowers.
- (a) Off-balance sheet items include guarantees, letters of credit, acceptances and bonds.
- (b) **Core capital reported** should be as computed under Guideline No. CBK/PG/03 and reported on PR 3.

FORM CBK/PR 4-5: FIFTY LARGEST BORROWERS

- Column 1: Enter the name of the entity and the Pin Number i.e. Company or individual. In the case of a company, list the directors. For the purpose of this return, lending to a group shall be aggregated and each company's/individual's facilities listed together with the respective directors. Consequently, where two or more entities form part of a group, the total amount borrowed by the group should be treated as a single borrowing for purposes of this return.
- Column 2: Enter the name and Personal Identification Number of the directors of the borrowing entity.
- Column 3: State the nature of lending viz.: loan, overdrafts, bills discounted etc.
- Column 4: Indicate the date when the facility was granted or renewed.
- Column 5: Enter the authorized limit.
- Column 6: Enter the outstanding balance of the on-balance items.
- Column 7: Enter the outstanding balances in respect of guarantees, letters of credit, acceptances, bonds etc.
- Column 10: Enter the type of security.
- Column 11: Enter the discounted value of security.
- Column 12: Enter the amount charged.
- Column 13: Enter the date when the security was last valued.
- Column 14: Enter the name of the firm, which valued the security.
- Column 15: For the non-performing advances, enter the total interest in suspense.
- Column 16: For the non-performing advances enter the specific provisions held.
- Column 17: Additional provisions required for advances classified under substandard, doubtful and loss categories to be calculated as on-balance sheet outstanding balance less discounted realizable value of security, interest in suspense and provisions held. Where the resultant sum is negative, additional provisions should be indicated as NIL.