

Tanzania

Banking and Financial Institutions Act

Management of Risk Assets Regulations, 2001

Government Notice 38 of 2001

Legislation as at 31 July 2002

There may have been updates since this file was created.

PDF created on 24 February 2025 at 14:41.

Collection last checked for updates: 31 July 2002.

[View online](#)



About this collection

The legislation in this collection has been reproduced as it was originally printed in the Government Gazette, with improved formatting and with minor typographical errors corrected. All amendments have been applied directly to the text and annotated. A scan of the original gazette of each piece of legislation (including amendments) is available for reference.

This is a free download from the TanzLII website and is presented in collaboration with the Laws.Africa Legislation Collection, a collection of African legislation that is digitised by Laws.Africa and made available for free.

www.tanzlii.org | info@tanzlii.org

www.laws.africa | info@laws.africa

FRBR URI: /akn/tz/act/gn/2001/38/eng@2002-07-31

There is no copyright on the legislative content of this document.

This PDF copy is licensed under a Creative Commons Attribution 4.0 License (CC BY 4.0). Share widely and freely.

Management of Risk Assets Regulations, 2001 (Government Notice 38 of 2001)

Contents

Part I – Preliminary provisions (regs 1-4)	1
1. Short title	1
2. Application	1
3. Interpretation	1
4. Maintaining public confidence	3
Part II – Management of risk assets (regs 5-9)	3
5. Prescriptions shall be in writing	3
6. Amount and period of credit	4
7. Charging off loans and accounting for recoveries	5
8. Portfolio review guidelines as minimum requirement	5
9. Submission to the bank of the portfolio review system	5
Part III – Classification of loans and other risk assets (regs 10-19)	5
10. Quarterly review of loans and other risk assets	5
11. Criteria on past due loans and advances	5
12. Submission of past due loans report	6
13. Qualitative appraisal of loans and advances	6
14. Unclassified loans	6
15. Classified loans	6
16. Classification of other property and assets in settlement of loans	9
17. Classification of other assets	9
18. Assets in Nostro and Loro accounts	9
19. Review and appraisal of the off balance sheet items	10
Part IV – Provisioning for losses (regs 20-25)	10
20. Allowance for probable loss	10
21. Treatment of allowance for probable losses	11
22. Provisioning for temporary investment	11
23. Booking of and provisioning for losses on equity investment	11
24. Provisioning for contingent or off balance sheet items	11
25. Annual review by the bank	11
Part V – Accrual of interest (regs 26-27)	12
26. Non-accrual of income on past due loans	12
27. Repeal	12

Tanzania

Banking and Financial Institutions Act

Management of Risk Assets Regulations, 2001

Government Notice 38 of 2001

Published in Tanzania Government Gazette

Commenced on 1 May 2001

[This is the version of this document at 31 July 2002.]

[Note: This legislation was revised and consolidated as at 31 July 2002 and 30 November 2019 by the Attorney General's Office, in compliance with the Laws Revision Act No. 7 of 1994, the Revised Laws and Annual Revision Act (Chapter 356 (R.L.)), and the Interpretation of Laws and General Clauses Act No. 30 of 1972. All subsequent amendments have been researched and applied by Laws.Africa for TANZLII.]

[G.N. No. 38 of 2001]

Part I – Preliminary provisions (regs 1-4)

1. Short title

These Regulations may be cited as the Management of Risk Assets Regulations.

2. Application

These regulations shall apply to all licensed banks and financial institutions.

3. Interpretation

In these Regulations unless the context otherwise requires—

"**the Act**" means the Banking and Financial Institutions Act¹;

"**the Bank**" means the Bank of Tanzania;

"**bank**" means a financial institution authorised to receive money on current account subject to withdrawal by cheque;

"**banking business**" has the same meaning as assigned to that expression in the Act;

"**classified loans**" are those loans which possess well-defined weaknesses outlined under Regulation [14](#);

"**director**" means any person by whatever title or designation known carrying out of empowered to carry out functions in relation to the direction of a bank or financial institution which are substantially the same as those carried out by a member of the board of directors of a company incorporated under the Companies Ordinance²;

"**doubtful loans**" are loans or portions thereof which have the weaknesses of loans classified as substandard with the added characteristics that the loans are not well secured or the currently existing

¹

[Cap. 342](#)

²

R.L. [Cap. 212](#)

facts, conditions and values make collection or liquidation in full highly improbable. The possibility of loss is high, but due to important factors which may lead to improvement in the quality of the loan, its classification as loss is deferred until such possibility becomes more certain;

"fit and proper person" means a person with the attributes required of a member of the board of directors and management of a bank or financial institution as per criteria set out in the First Schedule to the Banking and Financial Institutions Regulations, 1997;

"financial institution" has the same meaning assigned to that expression in the Act;

"in the process of collection" means that collection of a debt is proceeding in due course in a timely manner either through legal action, including the enforcement of judgements against the borrower or through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status through payment of the principal and interest due;

"loans" and **"loans and advances"** may be used interchangeably to include any loan, discount, advance, overdraft, export bills purchased, other bills receivable or purchased, import bills, customer's liability on acceptances or any other credit extended to the customer of a bank or financial institution excluding the undrawn or unavailed balance of any line of credit, guarantee, performance bonds, commercial letters of credit, standby letters of credit and other similar contingent accounts or off balance sheet items;

"Loro account" means a foreign currency demand deposit account maintained in a local bank or financial institution by a bank in a foreign country and is used primarily to facilitate foreign exchange transactions between the respective banks;

"loss classification" means that the loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value;

"negotiated loan" may be used interchangeably with **"restructured loan"** to mean any loan that has been rescheduled or refinanced in accordance with agreement setting forth a new repayment plan on a periodic basis occasioned by weaknesses in the borrower's financial condition or inability or both to repay the loan as originally agreed. It shall be upon the policy of the bank whether or not to impose a penalty charge to such loans;

"non-accruing loans" means that recognition of interest income on the loan has been placed on a cash basis for financial reporting purposes. Interest is no longer accrued on the books of the bank or financial institution nor taken into income unless paid by the borrower in cash but shall be recorded in a memorandum account or register. The accrual of interest on the books of the bank shall resume only if the unpaid interest is paid;

"non-performing loans" means any loan that repayment of principal and interest in whole or partial had not been effected for 90 days or more after due date or under the criteria prescribed in Regulation 12 of these regulations;

"Nostro account" means a foreign currency demand deposit account kept by a domestic bank or financial institution in a foreign bank abroad where the account is used primarily to facilitate foreign exchange transactions between the respective banks;

"off balance sheet items" means all items not shown on the balance sheet but which constitute credit risk. Such risk items include guarantees, acceptances, performance bonds, letters of credit, undrawn portion of overdrafts and other off balance sheet items deemed to constitute credit risk by the Bank;

"other risk assets" means the total assets of a bank or financial institution minus its loans, cash, gold, amount due from Bank of Tanzania, Government securities, securities issued by the Bank of Tanzania, securities issued by other Government institutions which are unconditionally guaranteed by the Government as to repayment of principal and interest at maturity date, bank premises, furniture and equipment and such other assets as may be declared by the Bank as non-risk;

"past due loans" means loans which have become due for payment and/or which possess the characteristics mentioned under regulation 14;

"substandard loans" are loans or portions thereof which involve a substantial and unreasonable degree of risk to the institution because of unfavourable record or unsatisfactory characteristics;

"unclassified loans" are loans that do not have greater than normal risk and do not possess the characteristics and weaknesses of classified loans as described in Regulation 14. The borrower has the ability to satisfy his obligation in full and no loss is anticipated;

"unsecured loan" means advances or credit facilities granted without security or in the case of any advance or credit facility granted against security, any part of such advance or credit facility which at any given time exceeds the market value of assets comprising the security given or which exceeds the valuation approved by the bank whenever the bank deems that no ascertainable market value exists for the said assets;

"well secured loan" means that the loan is secured by a collateral which is sufficient to protect the bank or financial institution from loss of principal and interest through its timely disposition under an orderly liquidation programme. Sufficiency implies the existence of proper legal documentation, a net realisable market value which is adequate to cover the amount of principal and interest outstanding as well as costs of collection and the absence of prior liens on the collateral which could diminish its value or otherwise prevent the bank from acquiring clear title.

4. Maintaining public confidence

- (1) The management of every bank and financial institution is primarily responsible for maintaining public confidence of the institution it represents. Accordingly, the board of directors and executives officers of the institution should provide reasonable assurance to the public, the depositor and the creditors, shareholders, and the supervisory authorities that the lending and investment policies of the institution conform with acceptable and established norms of banking and that its loans and investments are granted, approved and are being administered with the highest degree of prudence required by public trust. Further, the management must ensure that timely and adequate actions will be taken on problem assets to prevent accumulation of portfolio losses.
- (2) In the same light, the management of every bank or financial institution is responsible for maintaining the integrity of its financial reports and the transparency of its business decisions by ensuring that assets are realistically valued and income and expenses are prudently recognised.
- (3)
 - (a) Section 15(a) of the Act requires every bank and financial institution to calculate its annual provision for bad and doubtful debts and to obtain the approval of the Bank before annual accounts are finalised.
 - (b) Such approval will not be given upon the bank or financial institution concerned presenting to the Bank balance sheet and profit and loss account, including detailed account of provisions made for bad and doubtful debts and for other assets and the Bank is satisfied that these provisions are realistic and adequate.
 - (c) The percentages of provision in Part IV of these regulations are minimum. Management of banks and financial institutions have the responsibility establishing additional to cover expected losses.

Part II – Management of risk assets (regs 5-9)

5. Prescriptions shall be in writing

In the exercise of its prerogatives as the highest policy making body of the institution, the board of directors of every bank and financial institution shall prescribe in writing:

- (a) A credit policy specifying the criteria and procedures in the evaluation, processing, approval, documentation and release 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 clearly in such a policy or in a separate resolution of the board of directors.

- (b) A system of reviewing the entire asset portfolio including contingent accounts or off balance sheet items and adequate provision for losses at quarterly intervals. Such review system shall specify the approach to be used during the review eg. qualitative or ageing. However, if any bank or financial institution has large loan portfolios then both approaches may be used, where 80% or more of the loan portfolio be reviewed through qualitative approach. Such review system should be made part of the credit policy mentioned in subregulation (1) of this regulation.
- (c) An investment policy and a policy on the diversification of credit risks, including contingent accounts or off balance sheet items.
- (d) A charge off or write off policy which will include a review system of unfavourable trend of delinquent loans and an adoption of automatic charge off procedures. The system shall also prescribe the treatment of any recoveries arising from the charged off loans.
- (e) An application to the Bank for approval, in case of any need by the Board of directors to amend any of the policies mentioned in subregulations 4(1) to 8(4) inclusive of this regulation.

6. Amount and period of credit

The credit policy referred to in subregulation (1) of regulation 4 shall take into account the following guiding principles:

- (a) A credit facility shall be granted only in the amount and for the determined purpose or project and period essential to complete the operation or project to be financed. Overdraft facilities shall be granted for working capital purpose only for a maximum duration of one year.
- (b) Before granting a loan, every bank and financial institution shall exercise proper caution to ascertain that the borrower is capable of fulfilling its commitments. With this view, the institution should demand from a loan applicant the statements of its assets and liabilities, and income and expenditures. Where the applicant represents itself to be engaged in business which has a substantial volume of transactions, revenues or assets, the submission of its audited balance sheet, profit and loss account and cashflow statement for each year during the last five years, should also be required. In addition, a copy of the applicant's official return submitted during the last two years for income taxation purpose to the income tax office should be obtained. Where the loan is intended to finance a specific or new project or to rehabilitate the business, the applicant should also be required to submit a project feasibility study which shall be reviewed in evaluating the credit application.
- (c) Every bank and financial institution shall include in the credit policy a pricing criteria to be applied in granting credit facilities. It shall be upon the policy of the bank whether or not to impose a penalty charge on negotiated or restructured loans.
- (d) Every bank and financial institution shall make a credit investigation and analysis of the character and financial capacity of each loan applicant. No loan should be granted to an applicant who lacks the capacity to repay in full even if the applicant is deemed to be financially responsible. The lending institution should require the applicant to submit acceptable collateral with sound realisable value that the bank deems to be adequate to cover any risk of default. Unsecured credit accommodation shall not be granted unless unanimously approved by all of its directors and notified in advance to the Bank.
- (e) The purpose of all loans and advances shall be stated in the loan application. Where the bank or financial institution finds that the funds have been employed, without its approval, for purposes other than those agreed upon, the institution shall terminate the loan and demand immediate repayment of the obligation unless it is satisfied with the reasons given by the borrower.
- (f) The type of credit facility granted and its repayment schedule shall be appropriate for the credit and purpose of the credit. An overdraft facility is a revolving line of the credit that self liquidates as the merchandise is sold but not for personal consumption loans or loan for the expansion or

modernisation of the plant and facilities. For this reason, overdraft facilities should be encouraged only for borrowers whose accounts swing and turn-over warrant increased working capital for their business and not fixed income individuals.

- (g) Any outstanding loan that mature or expire shall not be extended, renewed or rolled over until all interest and charges due, plus at least ten percent (10%) of the principal is paid. Matured or expired credit facilities that are not extended, renewed or rolled over may be negotiated or restructured and placed upon periodic repayment schedule of interest and principal provided they have adequate collaterals. Matured credits which are not renewed, extended, rolled over, restructured or negotiated shall be subject to aggressive collection efforts.

7. Charging off loans and accounting for recoveries

Every bank and financial institution shall charge off or write off all loans classified loss at the end of every quarterly review. Recoveries out of the charged off accounts shall be recognised as per requirement of National Board of Accountants and Auditors (NBAA) accounting standards and guidelines.

8. Portfolio review guidelines as minimum requirement

The portfolio review system required to be established subregulation (2) of regulation 5 shall include the guidelines prescribed herein as a minimum requirement.

9. Submission to the bank of the portfolio review system

The board of directors of every bank and financial institution shall cause the submission of a copy of its portfolio review policy, to the Bank, not later than thirty days after its approval by the Board.

Part III – Classification of loans and other risk assets (regs 10-19)

10. Quarterly review of loans and other risk assets

Every bank and financial institution shall review and classify its outstanding loans and other risk assets including contingent accounts or off balance sheet items at least once every quarter. The review shall take into consideration the credit review policy approved by the Board.

11. Criteria on past due loans and advances

Outstanding loans and advances reviewed by quantitative approach shall be aged according to maturity. Those which are not yet due shall be considered current and those which are not paid at maturity should be considered past due in accordance with the criteria set forth below—

- (a) Loans and advances with specific repayment due dates other than loans payable in instalments are considered past due when:
 - (i) Principal or interest is not paid seven days after the due date agreed upon; or
 - (ii) interest due has been capitalised, refinanced, rescheduled or rolled over.
- (b) Overdrafts and other credits without specific repayment due dates such as sight bills and bills purchased are considered past due when any of the following conditions exists—
 - (i) advances exceed the customer's borrowing limit for thirty consecutive days or more;
 - (ii) the customer's borrowing limit has expired;
 - (iii) deposits are insufficient to cover the interest calculated and due for the period;
 - (iv) the bill had been dishonoured; and
 - (v) the bill or account has been outstanding for thirty days or more.

- (c) Loans which are payable in instalments are considered past due in their entirety if any of the instalments have become due and unpaid for thirty days or more.
- (d) The quantitative approach (ageing) review may be used by bank or financial institutions management as a tool to establish loan migration rather than for establishing loan provisions. However, for banks or financial institutions with large volume of loans a benchmark may be used to age loans (of smaller values) and calculate the amount of provision.
- (e) Outstanding loans and advances reviewed by quantitative approach shall be classified as follows:

No. of days past due	Classification
91 - 180	Substandard
181 - 270	Doubtful
271 and more	Loss

12. Submission of past due loans report

Every bank and financial institution shall submit to the Bank a quantitative past due loans report in each quarter not later than the 15th day following the end of the reporting quarter.

13. Qualitative appraisal of loans and advances

In addition to classifying loans and advances as either current or past due, every bank and financial institution shall appraise the same qualitatively and group such loans and advances into either classified or unclassified.

14. Unclassified loans

Loans which are fully secured, both as to principal and interest, by cash or near-cash such as treasury bills and notes and bonds or certificates of indebtedness issued by the Bank, should be classified on the same basis as other loans save that provisions against such loans will be required only where the security itself is the object of an adverse claim.

15. Classified loans

Classified loans are subdivided into "loans especially mentioned", "substandard", "doubtful" and "loss".

- (a) Loans especially mentioned are loans that are superior in quality to those classified as substandard, but which are potentially weak and thus require closer management supervision. These loans do not have adverse credit information or factors sufficient to warrant their classification as substandard. This category includes:
 - (i) Loans with technical defects and collateral exceptions such as:
 - (aa) Unlocated collateral file and documents including but not limited to title papers and deeds, mortgage instruments and promissory notes;
 - (bb) Improper execution of supporting deed of assignment, pledge agreement, or real mortgage;
 - (cc) Unregistered mortgage instruments;

- (dd) Collateral not covered by appraisal reports or appraisal whose reports are unlocated;
- (ee) Loans where corresponding promissory notes or credit agreements were signed by a person other than the authorised officer of the borrowing firm;
- (ff) Loans secured by property the title to which bears an uncanceled lien or encumbrance;
- (gg) Collateral not insured or with inadequate or expired insurance coverage;
- (hh) Loans to companies not covered by authenticated board resolutions authorising the borrowings;
- (ii) Unsecured loans granted to Directors and officers contrary to the provisions of subsection 3(b) of section 37 of the Act;
- (ii) Loans not supported by up-to-date and adequate financial statements or credit information. Included in this group are:
 - (aa) Loans renewed, renegotiated or restructured without updated financial statements and/or income tax returns; and
 - (bb) Loans without credit investigation/analysis reports or updated credit information independently verified by the lender;
- (iii) Loans that need the attention of management for special or corrective action or both. This group includes:
 - (aa) Loans wherein efforts to collect are not evident or are deemed inadequate;
 - (bb) Loans granted beyond the discretionary limit of the approving authority;
 - (cc) Drawings or availments against an expired credit line or drawings/availments without prior approval of the appropriate Executive Officer;
 - (dd) Overdrafts to borrowers who failed to comply with the conditionalities of the loan such as, failure to operate the account satisfactorily;
 - (ee) Loans to firms with profitable operations but belonging to a distressed industry;
 - (ff) Combined indebtedness to the bank of a group of persons, firms and/or companies that are related, linked or connected to each other through common ownership, management or control or through common family or business interest where twenty-five percent (25%) or more of such combined indebtedness is past due;
 - (gg) Loans to borrower who frequently fails to respond to bank calls, visits or demand notices to pay;
- (iv) Loans the repayment of which may be endangered by economic or market conditions or other factors which in the future may adversely affect the borrowers' ability to meet scheduled repayments such as declining or fluctuating operation, illiquidity, increasing leverage trend, or declining market prices over a given period;

Substandard loans

- (b) Loans classified as substandard must have well define weaknesses that jeopardise their liquidation such as weaknesses inherent in loans especially mentioned which are more severe or which have remained uncorrected over a period of ninety days or more. Such weaknesses may include adverse trends or developments of financial, managerial, economic,

or political nature, or a significant weakness in collateral. The basic characteristics of loans subject to substandard classification are as follows:

- (i) Loans which are non-performing;
- (ii) Loans which possess the technical defects and weakness of loans especially mentioned and which have remained uncorrected for ninety days or more since the occurrence of deficiency;
- (iii) Loans, whether current or past due, which have become unsound due to unfavourable results of operations of the borrower, significant under-capitalisation of the borrower, or absence of favourable track record showing borrower's financial responsibility;
- (iv) Term loans to borrowers whose cash flows are not sufficient to meet currently maturing debts and or overdrafts whose funds had been diverted or proceeds of the financed projects are not used to repay the amount outstanding;
- (v) Loans to distressed industries repayments of which are imperilled;

Doubtful loans

(c) Loans having the following basic characteristics shall be classified as doubtful:

- (i) Loans classified as substandard in the last quarterly review without any significant improvement since then in terms of full payment of interest due among other things, except where such loans are well-secured by legally enforceable collaterals, standby letters of credit, and irrevocable guarantees of top rate international banks, or the government and that legal action has commenced and realisation of collateral within one year or enforcement of the guarantees within thirty days from demand can be expected;
- (ii) Unsecured loans classified as substandard in the last quarterly review which have been extended, renewed or rolled over without repayment of all interest and charges due at least ten percent (10%) of the principal;
- (iii) Past due loans secured by collaterals such as inventories, receivables, equipment, and other chattels which have declined in value materially, without the borrower offering additional collateral and the borrower's financial condition does not justify unsecured lending;
- (iv) Past due loans secured by real mortgage title to which property is subject to an adverse claim rendering settlement of the loan through foreclosure doubtful or unviable;
- (v) Loans whose possibility of loss is extremely high but for certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until a more exact status is determined;

Loans classified "loss"

- (d) Losses should be taken in the period in which they surface as uncollectible. The basic characteristics of loans subject to loss classification are as follows:
 - (i) Loans classified as doubtful in the last quarterly review without any significant improvement since then;

- (ii) loans to borrowers whose whereabouts are unknown, or who are insolvent, whose earning power is permanently impaired and the guarantors or co-obligors are insolvent, or that their guarantees are not financially supported; and
- (iii) loans considered as absolutely uncollectible.

16. Classification of other property and assets in settlement of loans

Other property and assets owned or acquired in settlement of loans previously contracted should be classified as substandard except the following which shall be classified as loss:

- (a) The excess of the book value of the asset over the appraised value (fair value determined based on market valuation or independent professional valuation);
- (b) the entire book value of an asset or property whose title is being contested in court or is definitely lost to another party;
- (c) the entire book value of an asset or property which is worthless or not saleable;
- (d) the entire book value of an asset or property which remains unsold after one or more years, in the case of personal or movable property; and three years or more, in the case of real property;
- (e) the entire book value of an asset or property of which the bank or financial institution is deprived of actual possession or of beneficial ownership or over which the bank is unable to exercise the right of usufruct for all practical purposes as when the property is eroded by a river; and
- (f) the amount of accrued interest, and collection expenses which were capitalised to form part of the value of the asset.

17. Classification of other assets

Sundry debtors and other accounts receivable, arising from loans, except for accrued interest receivable, shall have the same classification as their respective loan accounts. Except accrued interest receivable, all other receivables shall be classified according to age as follows unless there is good reason for non-classification:

No. of days outstanding	Classification
31-60	Especially Mentioned
61-90	Substandard
91-180	Doubtful
181 or more	Loss

18. Assets in Nostro and Loro accounts

Inter-office or inter-branch items, suspense accounts, frauds shortages, uncleared effects, miscellaneous intangible assets including unlocated differences in Nostro and Loro accounts, and other assets not specially treated in the preceding regulations, except for investment accounts and accrued interest receivable, shall be classified as follows:

No. of days outstanding	Classification
31-60	Especially Mentioned
61-90	Substandard
91-180	Doubtful
181 or more	Loss

19. Review and appraisal of the off balance sheet items

In undertaking the review and appraisal of its off balance sheet commitments such as guarantees, indemnities, performance bonds commercial letters of credit, deferred letters of credit, and other contingent items, every bank and financial institution shall, whenever practicable, observe the same procedure and regulations prescribed for loans. Such off balance sheet items shall be grouped into unclassified and classified items. Classified items are those which possess well-defined weaknesses and are subdivided into "items especially mentioned", "substandard", "doubtful", and "loss".

Part IV – Provisioning for losses (regs 20-25)

20. Allowance for probable loss

Every bank and financial institution shall set up in its books of accounts on or before the end of each calendar quarter a valuation reserve or an asset valuation account called "Allowance for Probable Losses" at an amount equal to:

Unclassified assets:	Nil
Classified Assets—	
Loans/Other Assets Especially Mentioned:	5%
Substandard:	10%
Doubtful:	50%
Loss:	100%

21. Treatment of allowance for probable losses

The "allowance for probable losses" shall be treated as a valuation reserve against the respective asset account. Such allowance should be established through charges to "provision for bad and doubtful debts" in the case of losses on other risk assets.

22. Provisioning for temporary investment

Temporary investments in shares of companies, bonds and Government securities shall be valued at the lower of cost or market value. An "Allowance for probable Losses" equitable to at least ten percent (10%) of the book value of the investment should be set up to reflect a material major or market decline on impairment of value for securities that are not readily marketable.

23. Booking of and provisioning for losses on equity investment

Equity investments in subsidiaries or other affiliates or associated companies should be booked at cost (that is cost of acquisition of the equity shares). Where the cost is determined to be greater than the net asset (networth) in a situation where the investee company has been experiencing persistent operating losses and permanent diminution in value of its net assets to a figure below the equity cost and such a situation is not expected to reverse in the foreseeable future, the excess cost over the networth representing diminution in value of the investment shall be recognised in the profit and loss account by making a provision for diminution in value of the investment in the accounts of the holding company with adequate disclosure where amount involved is material. However, where there is an excess of net worth over the equity cost, recognition of such surplus shall not be recognized as income in the profit and loss account of a bank.

24. Provisioning for contingent or off balance sheet items

The amount of "allowance for probable losses" on contingent accounts or off balance sheet items shall be equal to—

Unclassified items:	Nil
Especially Mentioned:	5%
Substandard:	10%
Doubtful:	50%
Loss:	100%

The "allowance for probable losses-contingent accounts" should be established by debiting "provision for losses on Contingent Accounts".

25. Annual review by the bank

The adequacy of the amount of allowance for probable losses shall be reviewed by the Bank during its annual inspection of the accounts and affairs of each institution or during a snap or special inspection. When the amount of the allowance for probable losses established by the institution is found to be inadequate, the bank or financial institution concerned shall make the additional provision as may be directed by the Bank.

Part V – Accrual of interest (regs 26-27)

26. Non-accrual of income on past due loans

All banks and financial institutions shall place on a non-accrual basis all loans which remain unpaid for 90 days or more after the due date. All previously accrued but uncollected interest on loans placed on non-accrual shall be reversed and placed in memorandum record/register to avoid overstatement of income. Any loan placed on a non-accrual basis may be restored to an accrual basis upon the full settlement of all delinquent principal and interest out of funds not coming from another loan granted by the same institution. Interest on loans placed on a non-accrual shall be recorded under a memorandum of record/register.

27. Repeal

[Repeals the Guidelines on Management of Risk Assets Classification of Loans and Other Risk Assets, Provisioning for Losses and Accrual of Interest of 18.10.1991.]