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BANK OF ZAMBIA

P.O. Box 30080 Lusaka
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16 June 1998

C B Circular No. 4/98

To: All Commercial Banks and Financial Institutions

Dear Sirs

CLASSIFICATION AND PROVISIONING OF LOANS REGULATIONS

Kindly refer to Statutory Instrument No.142 of 1996 of the Banking and Financial Services (Classification and Provisioning of Loans) Regulations. These Regulations came into effect on 1 January 1997.

All banks and financial institutions are required to make adequate provisions for potential losses based on the credit portfolio classification prescribed in the above regulations. However, as an interim measure (in addition to loans secured by cash, by a segregated deposit in the lending bank, or by a security issued by the Government of Zambia currently exempted from the provisioning requirements), the Bank of Zambia is pleased to give further relief with respect to any loan or portion of a loan that is well secured and in the process of recovery but would otherwise have been provisioned in accordance with the classification set out in Regulation 17.

In this regard, provisioning as prescribed in Part IV of the regulations shall only take cognisance of realisable tangible security (with perfected legal title) in the course of collection or realisation. The following categories of security shall be considered:

Category 1

- (a) Landed property
- (b) Mortgage Debenture (floating charge with a fixed charge over landed property)
- (c) Guarantee (supported by (a) – (c) above)

Category 2

- (a) Other Fixed Assets (not included in category 1)
- (b) Debenture – Floating charge on current assets
- (c) Guarantee (supported by (a) – (b))
- (d) Agricultural Charges

Consequently, collateral values should be recognised on the following basis:

- (i) For credit exposures where the principal repayment is in arrears by more than three months, the outstanding unprovided principal should not exceed 50% of the estimated net realisable value of the collateral security described in category 1; 20% of the estimated net realisable value of the collateral security described in category 2.
- (ii) For credit exposures where the principal repayment is in arrears by more than one year, there should be no outstanding unprovided portion of the credit facility irrespective of the estimated net realisable value of the security held

The above exemptions shall not apply for credit exposures secured by a second mortgage (where the first mortgage is another lender), life insurance policies, unsupported guarantees or letters of comfort and the provisions shall be determined in accordance with the regulations.

All the above loans, even though exempted from provisioning, should however be reported on a monthly basis in accordance with their classification properties.

Please contact the Director, Financial System Supervision for any clarification on this matter.

Yours faithfully



Dr Abraham Mwenda
DEPUTY GOVERNOR - OPERATIONS