SWORD AND SHIELD FOR FIGHTING OFF BANK INSOLVENCY: THE EFFECTIVE USE OF CREDIT RISK MANAGEMENT IN BANK MANAGEMENT

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Abstract

The level of non-performing loans (NPLs) in Ghana has remained high in recent years, posing risks to the solvency of banks and the stability of the broader financial system. The severity of the issue has prompted the Bank of Ghana to revise its policy on problem-loan management to mitigate the related risks.

This paper offers practical insights for reducing NPLs through a disciplined approach to credit portfolio construction that simultaneously supports business growth and sustainable revenue generation. It underscores some of the links between sound lending practices and economic stability. Drawing on the author's professional practice as a Chief Risk Officer, with extensive experience across multiple functions and international banking environments in two jurisdictions, the paper advances a structured and integrated framework for effective credit risk management. The topics discussed include credit governance, target marketing, credit origination, and credit approval, as well as credit maintenance, problem-loan management, and credit portfolio oversight.

It concludes that credit risk remains, arguably, the most critical risk on a typical commercial bank's balance sheet, and its effective management is fundamental to institutional resilience. It urges all stakeholders involved in bank management to appreciate that credit portfolio management demands technical skill, disciplined execution, ethical judgment, and commercial common sense.

SECTION A

1. INTRODUCTION

The Sword and Shield Imagery

Long before the advent of firearms and bunkers, swords and shields were essential weapons in warfare - swords for offense and shields for defence. Originally made from arsenical bronze, wood, animal hide, and woven reeds, these tools have evolved with advances in science, technology and metallurgy. Symbolically, swords and shields represent the balance of offence and defence - action and protection, necessary for a warrior's success. This article borrows that imagery to illustrate the dual positioning of a credit function in a bank: as a sword to generate revenue and a shield to protect capital.[1] Together, these two roles of credit strengthen a bank's resilience and equip it to fight off insolvency that arises from non-performing loans.

An effective credit risk management function must lean forward, sharp and poised, to serve customers and beat competition, while fiercely defending the bank from credit risks. This disciplined posture supports revenue generation through interest on loans and advances, and fees and commissions on non-funded transactions. These must be founded on sound policies, due process, and a disciplined approach to portfolio management.[2]

This paper outlines the critical role of credit and its link to bank sustainability. It details the credit management policies, processes and portfolio management necessary to protect a bank's earnings, defend capital and make it resilient. Furthermore, it proposes a framework for the effective management of credit in a typical commercial bank to minimize non-performing loans and guard against insolvency.

The Role of Credit

The essence of banking is about attracting deposits to lend. In this sense, the core of banking is credit - lending either through direct funding in the form of loans and advances, or through contingent exposures

[1] The importance of capital to banking and the related detailed requirements are spelt out in Bank of Ghana, *Basel II / BOG Capital Requirements Directive (CRD) Final – 27 June 2018* (PDF) https://www.bog.gov.gh/wp-content/uploads/2022/05/Basel-II-BOG-CRD-Final-27-June-2018-Basel-Committee-BSD.pdf (accessed 30 November 2025).

[2] For a helpful view of the need for portfolio management see Bank of Ghana, *Explanatory Notes on Guidelines on Management and Measurement of Credit Concentration Risk* (September 2025).

like letters of credit, bonds and guarantees. This simplified view of banking correctly highlights the central role of credit.

Credit is the primary source of revenue for banks, for which reason loans and advances dominate most bank balance sheets. It provides the liquidity and capital that fuel most consumption and investment and promotes maturity transformation and liquidity creation.[3] Credit's relationship with the economy is organic and strong. It powers economic development by driving financial inclusion, innovation and growth, and facilitates resource transfer across sectors to improve economic efficiency and diversify risk. Through the credit process, resources are efficiently allocated to the most credit worthy projects in line with economic priorities. Lending activities support monetary policy transmission by influencing borrowing costs, consumption, and investment decisions. They play a role in the staging and evolution of economic phases, namely expansion, peak, contraction, and recovery. During expansion, banks typically count on improved borrower financial conditions to support the expansion of their productive bases. When the economy slows, lenders tighten their appetite, especially for perceived high-risk sectors. Thus, a satisfactory appreciation of credit trends across the economic phases is essential for the business community, policy formulators and bankers among others.

When times of credit expansion are not aided with enhanced governance and a strong credit culture, growth in non-performing loans is inevitable. This can lead to a deterioration in systemic risk profile. When inadequately managed, credit can pose significant damage to the broader economy by destroying both businesses and banks.[4] Often, rapid portfolio expansion with no commensurate strengthening of the credit management function leads to deterioration of credit portfolios and a higher likelihood of bank instability. Weak credit processes are frequently linked to bank collapses, and so competitive efforts to grow bank balance sheets must be supported with strong underwriting standards and robust credit governance.

Credit extension is important for households, businesses, banks and the broader economy, and holds a dominant place in determining the fortunes and stability of a bank. It must therefore receive priority attention

[3]For an example of the impact review of frameworks on bank liquidity and capital, see Basel Committee on Banking Supervision, *Basel III Monitoring Report* (Bank for International Settlements, 2024) https://www.bis.org/bcbs/publ/d599.pdf accessed 30 November 2025.
[4]For a view of the management of the interaction between credit risk and other risk categories, and their impact on an entire financial system, see Bank of England, *Financial Stability Report: July 2025* (July 2025) https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2025/financial-stability-report-july-2025.pdf accessed 30 November 2025.

from bank managers, regulators, customers and investors alike. This article proposes a framework for the effective management of credit in a typical commercial bank to generate quality profits, minimize non-performing loans, defend capital and guard against insolvency.

SECTION B

THE CREDIT MANAGEMENT FRAMEWORK

1. Link between Credit and Organisational Manifesto

The structural set up and attitudinal disposition of the credit function must be aligned with the organizational manifesto - the philosophy, vision, mission, core values, focus and peculiar distinctives. This foundational alignment is often overlooked. For example, a regional bank focusing on emerging markets with a full-service offering is significantly different from a systemically important domestic bank with a mandate to drive national economic growth. In the same way, a Pan-African bank focused on inclusive financing, drives business differently from a digital bank that seeks to lead in selected segments by offering convenience through innovative products. The point is this – the core identity, mandates and distinctives of the bank must permeate its lending discipline. The guiding principles of a bank should be clear and woven into its credit management strategies and practices. Every effort must be made to avoid a disconnect between philosophy and principle on the one hand, and practice and procedure on the other. The key principles to clarify may include the following:

- Treatment of customers, communities, shareholders and staff.
- Alignment of lending with funding, earnings and capital management.
- Asset selection processes and how they relate to target marketing, KYC, internal skills development and resource provision.
- The balance between risk and reward, and the underwriting response to facility purpose, certainty of cash flow source and collateral management.
- Independence of the risk management function and transparency across credit initiation, approval, disbursement and recoveries.

- Compliance with laws, regulations, ethics, ESG standards, and internal policies.

2. The Credit Risk Management Framework

The credit risk management framework[5]encompasses policies, systems, structures and staff involved in the entire credit process. The bank should implement credit policies, processes and procedures that are internally consistent, coherent and tailored for each significant business segment. These should be embedded in systems, models, templates and tools used for transaction origination, decision-making, customer service, portfolio management, monitoring and reporting. There should be a well-designed organisational structure to support efficient credit extension, while respecting controls and enabling the overall strategy. These should be managed by a cohort of well-trained personnel who embody the bank's values and are responsible for credit decisions. All staff with credit responsibilities, including directors and executives, must receive adequate training and be held accountable for their credit decisions.

The framework must push a risk-awareness culture and support the management of all material credit and related risks in a holistic manner.[6]

3. Credit Governance – Structure, Roles and Responsibilities

The Board is the highest decision-making body and should include members with banking, risk management and, ideally, credit risk experience.[7] They should approve the governance structure, business strategy, risk framework and risk appetite.

A Board Credit Committee typically approves the credit risk policies, monitors their relevance and adequacy, and enforces compliance. The work of the credit committee should be coordinated with other committees like the ESG, Audit and Risk committees.

[5] An effective Credit Risk Management framework must be in alignment with the banks overall risk management framework. See Bank of Ghana, *Risk Management Directive* (May 2022) https://www.bog.gov.gh/wp-content/uploads/2022/05/BoG-Risk-Management-Directive-Final.pdf

[6] For how to generate a risk culture that is supportive of business opportunities and mindful of organisational capabilities see Alex Sidorenko and Elena Demidenko, *Guide to Effective Risk Management 3.0* (Risk Academy Publishing 2023).

[7] See Bank of Ghana, *Corporate Governance Directive 2018 Final* (2018). https://www.bog.gov.gh/wp-content/uploads/2019/09/CGD-Corporate-Governance-Directive-2018-Final-For-PublicationV1.1.pdf (accessed 30 November 2025).

There should be a clear definition of roles and responsibilities of business and credit units, credit officers and relationship managers, to avoid conflicts and ambiguities.

A most potent safeguard against credit losses is ensuring that every credit request follows the approved process – no short cuts! There needs to be a clear credit process that is relevant, flexible and meets the needs of the different business units and customer segments. Customers generally fall into two broad categories:

- Corporate entities with credit requests that are subjected to detailed individual analysis and approved based on judgmental expert decision-making.
- Individuals and relatively smaller businesses in the micro-small-medium scale segments, with similar characteristics and needs, who lend themselves to volume-based credit processing.

4. Target Marketing

A target market plan is necessary because no bank should attempt to be 'all things to all men'. It answers the question 'who do we want to lend to?' and provides clarity on the risk acceptance criteria for lending to these target names. The initial hunt for potential clients could begin with identifying prospects through referrals from existing and previous clients, direct marketing or cold calling through business associations or published business lists. The target market document entails clear screening criteria for clients by business type, industry, revenue, and credit rating. It should set minimum lending rules and criteria including maximum facility amounts, product eligibility, tenor limits, collateral, documentation and covenant requirements, and risk-reward terms. This process should be aligned to the overall strategy of the bank.

The document should come with clear criteria for approval and management of exceptions. The output of the process should lead to planning the portfolio, with indications of various concentration limits.[8] These limits should be based on appropriate factors that group borrower categories based on how similar their responses are to economic, marketing or political factors. Typically, the limits may be set based on client type, industry, geography or product type, and they should serve as the basis for appropriate mandates and scales for doing business and constructing the credit portfolio.

[8] See Bank of Ghana, *Large Exposures Directive* (September 2025). (bog.gov.gh)

5. Credit Origination

Once a customer in the target market is identified, it is critical to proceed by process to obtain appropriate credit approval. The bank that permits influences, be they competitive, cultural, political or any other, to circumvent the credit process, risks growing non-performing loans and potential insolvency. The typical credit origination process will follow the path of greenlighting, due diligence, financial analysis[9], credit analysis[10], and structuring.

For significant transactions, it may be helpful for Relationship Managers to embark on “greenlighting” – a process to bring relevant seniors from say business, credit, treasury, and finance into the transaction for early indication of appetite, guidance, and direction on how to proceed. There is no need for detailed analysis at this point. The key issues for discussions may relate to due diligence, deal structuring and documentation requirements.

Due diligence will entail collecting relevant borrower information to support assessment and thorough investigation. The information to collect will include financial, banking, ownership and strategy information. At times, a site visit may be necessary for collecting business information, addressing any ESG concerns, and obtaining information by way of checkings. The financial analysis should go beyond historical ratio and trend analysis, to address projected cash flows covering the proposed loan tenor. Credit analysis should identify what can go wrong with the credit. The factors to consider will include the structure of the borrowing entity and its ownership, governance, and management. Others are the competitive landscape, industry, business strategy, and E&S risks. From this point on, the credit should be structured to mitigate any gaps identified. Key considerations should include the purpose of the facility, the tie between the adequacy and timing of cash flows, repayment type, collateral considerations, and lending covenants. The credit memorandum and relevant attachments should pay due attention to internal standards of presentations, formatting, and general administration so as not to delay the approval process. At this stage, the credit application should be ready for approval. Disbursements must be based on fulfilment of all conditions precedent as duly approved. Deferrals of conditions must be kept to a minimum and approved in line with

[9] Droussiotis, C. & Shelly, S., *Credit Risk Management and Analysis*, Cognella Academic Publishing, San Diego, 2023.
[10] Jean Dermine, *Bank Valuation and Value-Based Management: Deposit and Loan Pricing, Performance Evaluation, and Risk*, 2nd edn (New York: McGraw-Hill, 2023).

the credit policy with timelines for resolution. As much as possible, waivers of approval conditions must be avoided.

6. Credit Approval

It must be a fundamental requirement that all credits must be properly approved to be valid. This is a sensitive control node in the credit risk management process, and all willful breaches of this principle must be greeted with unbending discipline. It is recommended that all credit approvals should be evidenced in writing or via some other bank approved system. The sanctioning mandate for credits may be granted to individuals or committees but in all cases, it must be based on tested experience, sound judgment and proven integrity. The individuals involved must have a sound knowledge of the bank's risk appetite and credit policies and be independent of the business units that originated the credit. The approving authorities and their limits must be clear and communicated to all who are involved in the credit process, and the individuals and committees involved must be accountable for their decisions.

7. Credit Maintenance

After disbursement, it is important to maintain regular contact with the client and monitor the progress of both the client and the transaction. The credit maintenance regime should include calling plans, regular reviews, checkings, financial and collateral information, covenant and E&S monitoring, and record keeping.

It is prudent to establish a calling routine to guide visits to the borrower's offices, sites of financed projects, and physical collateral held in support of the credit. The relationship team should own these visits, where necessary, with accompaniment from the credit risk team and an officer with relevant project, industry, or professional expertise. These are helpful for staying abreast of the borrower and their credit, and seeking opportunities for additional business. Depending on the significance of the relationship, the visits may have to include seniors from the bank. There should be inspections to verify the physical existence of assets pledged to the bank, the quality and value of these assets and subsequent confirmation that the bank's interest is duly registered with the appropriate authorities. Where real estate is pledged as collateral, it should be revalued periodically in line with policy, and equities and marketable securities should be marked to market daily. It is recommended to increase the frequency of collateral reviews for facilities under repayment stress that have a potentially significant impact on the bank's capital and reputation. Records of these visits should be detailed and kept under the appropriate folders in the borrower's file. Formal and informal checkings should be obtained from relevant sources and properly documented. The sources of these checkings may include, but not be limited to, other banks, the central bank, competitors, suppliers, and customers of the borrower.

The bank should obtain audited annual accounts and other financial information from the borrower in line with the lending covenants. These should be analysed promptly, any related insights shared with relevant senior management and then filed appropriately. It is critical to periodically verify, with relevant support from qualified legal counsel, all documentation that evidence the borrower's obligations. Lending covenants should be tracked using appropriate tools, and any breaches duly reported to the appropriate authorities for necessary action. For projects with E&S implications, an effective monitoring programme should be put in place. Where the borrower fails to comply with its social and environmental commitments under an agreed E & S action plan, the bank should not hesitate to take actions or insist on remedies, as supported by the legal documentation covering the lending relationship and the project.

Credit files are routinely reviewed by regulators, external auditors and, in some cases, investors. Their contents may have to be produced in the court of law. They should be confidential, up to date, secure and in a form that is easily retrievable. Poor filing of credit records can lead to embarrassing situations and avoidable financial losses.

7. Problem Loans Management

Lending comes with problem loans, and they begin when borrowers or transactions begin to show signs of deterioration. Problem loans can run for extended periods of time, requiring different treatments along the way. Problem recognition is the process used to identify troubling signs promptly and place problem loans in appropriate provisioning classifications. Remedial management is the process used to put in place action plans to remedy problem loans and minimise potential losses.

The roots of many problem loans can be traced to originations during times of economic expansion, business excitement, competitive exuberance, or leadership myopia. Often, during these times, the tested principles of credit are easily compromised. This tends to lead to credits with poor characteristics such as aggressive facility amounts, long tenors, unclear purpose, doubtful sources of repayment, loose covenants, inadequate collaterals, thin margins, and poor structuring. Even when credits have been properly structured and managed to the highest standards, unfavorable economic, business and financial conditions can weaken the borrower's ability to repay the loan. Unchecked weaknesses in credit management lead to painful eventualities. A bank that does not position itself to deal with them will create a weak portfolio and face potential insolvency - it is just a matter of time.

The risk culture of a bank must be built with intentionality to make everyone involved in the credit process aware of the need to be alert to early problems. Having said so, the business unit has the primary responsibility to call out problems early, and the point of contact should be the Relationship Manager.

There are warning signs that assist in the early identification of potential problem loans. On their own or in combination, they do not necessarily indicate trouble. However, there is value in keeping a watchful eye and taking prompt action where necessary. Table 1 below outlines examples of early warning signs to monitor.

Table 1 List of Early Warning Signs in Credit Management

SN	Category		Risk Factors
1	**Economic**	i.	Significant supply and demand shocks
		ii.	GDP is significantly lower than projected
		iii.	High inflation and interest rates
		iv.	The economy is in recession
2	**Industry**	i.	Borrower's industry is beginning a downturn
		ii.	Oversupply in the industry
		iii.	Adverse government policy
		iv.	Adverse regulator's directives
3	**Financial**	i.	Reducing sales revenues
		ii.	Thinning margins
		iii.	Profit growth is significantly higher than operating cash flow
		iv.	Rising leverage
		v.	Inventory growth is significantly higher than sales
4	**Operational**	i.	Obsolete plant and technology
		ii.	Poor relations with stakeholders: e.g. employees, suppliers, customers, unions
		iii.	Relying on a few dominant suppliers, vendors and customers
		iv.	The onset of material litigation
5		i.	Unfavourable positioning against Critical Success Factors

	Strategy and Competitive	ii.	Mounting pressure from the competition
		iii.	Significant new competition
		iv.	Reducing market share
		v.	Products are becoming obsolete
6	**Management**	i.	Management's involvement in critical decision is weak
		ii.	Over involvement in routine decisions
		iii.	No response to communication from the bank
		iv.	Poor attitudes in dealing with the bank and other stakeholders
		v.	Internal wranglings among shareholders or directors
7	**Governance**	i.	Changes in auditor
		ii.	The accounts are qualified
		iii.	Lack of transparency of ownership
		iv.	Weak corporate governance
8	**Account Conduct**	i.	Late payments or past due obligations
		ii.	Major outflows that are unexpected or poorly explained
		iii.	Seasonal working capital facilities are not repaid
		iv.	Violations of lending covenants
		v.	Diversion of disbursed funds to unapproved purposes
9	**Environmental & Social**	i.	Poor management of the E &S function
		ii.	Labour unrests and poor employee relations
		iii.	Poor health and safety conditions
		iv.	Social action and complaints from neighbours
		v.	Environmental fines

Credits showing signs of weakness should be promptly classified to reflect their probability of default and potential loss given default. An effective and transparent process should be in place for making these classifications, ensuring alignment with accounting standards. All relevant senior stakeholders—across business, credit, and finance—should be informed and involved. There should be adequate resources dedicated to managing each classified exposure, with a dispassionate and objective approach adopted in formulating and executing remedial strategies. Adequate provisions must be made, and, preferably, a dedicated committee should meet regularly to review the sufficiency and management of the process and approve the impairments to be recognised for the period. All classifications must fully comply with regulatory requirements. In Ghana, the central bank provides five credit classification categories as detailed in Appendix 1 below.

The management of impaired credits is a tricky space because it has implications for financial reporting, regulatory compliance and leadership performance management. For these reasons, the process of classifying credits and taking provisions requires close attention.

All communications and approvals relating to impairment must be particularly clear, detailing reasons for new or changed classifications, justifications for chosen strategies, action plans for operationalizing strategies with target dates, frequency of reporting and triggers for reclassifications and declassifications. The reversal of previously taken impairments must be subject to scrutiny and appropriate approvals at senior levels.

It is required to place the full outstanding amounts of facilities classified as non-performing on non-accrual basis, and interest that has been accrued and unpaid must be reversed[11]. This applies to situations where loan repayments and interest accrued have been outstanding for 90 days or more. Approval requirements for classified credits must be detailed and should cover, among others, periodic reviews, disbursements, charge-offs, and write-offs.

Exposures may be fully written off once they have been fully impaired and satisfy the regulator's requirements, such as the age of the exposure in loss category. Even after write-off, recovery efforts should continue, including compromise settlement, until all recovery possibilities have been fully exhausted. The requirement to pursue all opportunities for recovery is both fiduciary and ethical. Where it ceases to be economically sensible to pursue a written-off debt, a decision may be taken to abandon the outstanding balance. Here is where the bank stops further efforts to collect the remaining debt. All such decisions must be subjected to a thorough approval process that balances factors relating to credit, business, regulatory and ethical considerations.

8. Credit Portfolio Management

Beyond the analysis of each credit application, there are further insights that are best gleaned from a portfolio management perspective. A foundation of this effort is the portfolio as planned from the target

[11] For an example of regulatory requirements concerning non-performing loans see Central Bank of Bahrain, *CBB Rulebook: Credit Risk Management Module (Vol 1, Conventional Banks, CM-1.8 Classification and Provisioning, 23 February 2023)* https://cbben.thomsonreuters.com/sites/default/files/net_file_store/Volume_1_CM_23_February_2023.pdf accessed 30 November 2025.

marketing stage. The approach and process for portfolio management should be properly defined and formalized. It should include approving portfolio limits, setting concentration limits and portfolio triggers, monitoring portfolio trends and developments, and monitoring external macro factors. The limits should include portfolio specific limits as well as those set by regulation like single obligor limits and limits for lending to connected exposures.[12] It is necessary to maintain a regime by which a governance committee, like the credit or risk committee will regularly review portfolio trends and portfolio stress tests.

SECTION C

CONCLUDING THOUGHTS

Banking is risk management called by a different name. The most critical risk on a bank's balance sheet is credit risk; an old beast often closely linked to insolvency and bank collapse. The discipline of how to tame it has been known for centuries, but it easily runs wild. It is a sword by which banks advance into markets to serve customers. The resulting portfolio is like a shield for protecting the bank's capital and preserving its long-term relevance and resilience. The skillful manipulation of credit risk management as both sword and shield is a matter of skill, discipline, ethics and common sense.

[12] Bank of Ghana, *Large Exposures Directive (Exposure Draft, December 2024)* https://www.bog.gov.gh/wp-content/uploads/2024/12/Exposure-Draft-Large-Exposures-Directive.pdf accessed 30 November 2025.

Appendix 1

Table 2 BOG Loans and Advances Classification[13]

Category	**Features**	**Provisioning**	**Age of exposure**
Current	Advances in this category are those for which the borrower is up to date (i.e. current) with repayments of both principal and interest. Indications that an overdraft is still current would include regular activity on the account with no sign that a hardcore of debt is building up.	1%	0-30 days
Other Loans Especially Mentioned (OLEM)	Advances in this category are currently protected by adequate security, both as to principal and interest, but they are potentially weak and constitute an undue credit risk, although not to the point of justifying the classification of substandard. This category would include unusual advances due to the nature of the advance/loan, customer or project, advances where there is a lack of financial information or any other advance where there is more than a normal degree of risk.	10%	31-90 days
Substandard	Substandard advances display well-defined **credit weaknesses** that jeopardise the liquidation of the debt. Substandard advances include loans to borrowers whose cash flow is not sufficient to meet currently maturing debt, loans to borrowers which are significantly undercapitalised, and loans to borrowers lacking sufficient working capital to meet their operating needs. Substandard advances are not protected by the current sound worth and paying capacity of the customer. Non-performing loans and receivables which are at **least 90 days overdue but less than 180 days**	25%	91-180 days

[13]See Bank of Ghana, *Guide for Financial Publication for Banks & Licensed Financial Institutions* (2017 V1.1) https://www.bog.gov.gh/wp-content/uploads/2019/09/Guide-for-financial-publication-2017V1.1.pdf, and Bank of Ghana, *Guide for Reporting Institutions* (Banking Supervision Department, Bank of Ghana, and Bank of Ghana, *Guide for Reporting Institutions* (Banking Supervision Department, Bank of Ghana.

	overdue are also classified substandard. In this context advances become overdue when the principal or interest is due and unpaid for thirty days or more.		
Doubtful	Doubtful advances exhibit all the weaknesses inherent in advances classified as substandard with the added characteristics that the advances are not well-secured, and the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and **improbable**. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the advance, its classification as in estimated loss is deferred until its more exact status may be determined. Non-performing loans and receivables which are at least **180 days overdue but less than 360 days** overdue are also classified as doubtful.	50%	181-360 days
Loss	Advances classified as a loss are considered **uncollectable** and of such little value that their continuation as recoverable advances is not warranted. This classification does not mean that the advance has absolutely no recovery value, but rather it is not practical or desirable to defer writing off this basically worthless advance even though partial recovery may be effected in the future. Advances classified as a loss include bankrupt companies and loans to insolvent firms with negative working capital and cash flow. Banks should not retain advances on the books while attempting long-term recoveries. Losses should be taken in the period in which they	100%	>360 days

	surface as uncollectable. Non-performing loans and receivables, which are **360 days or more overdue,** are also classified as a loss.		