BANK OF MAURITIUS

Guideline on Classification, Provisioning and Write-off of Credit Exposures

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Introduction

While the Bank of Mauritius recognises the importance of the IFRS 9 standard which underpins a forward-looking approach to credit risk management, it is also cognisant that Expected Credit Loss (ECL) models and frameworks for write-off of non-performing exposures may differ across financial institutions.

Purpose

The purpose of this Guideline is to outline the minimum prudential requirements with regard to asset classification, provisioning and write-off of credit exposures with a view to ensuring comparability across financial institutions. It is intended to complement the requirements under accounting standards by providing a prudential backstop for credit classification and provisioning and ensuring write-off of non-performing exposures in a timely manner.

Authority

This Guideline is issued under the authority of section 50 of the Bank of Mauritius Act 2004 and 100 of the Banking Act 2004.

Scope of application

This Guideline shall apply to all deposit-taking financial institutions licensed by the Bank hereinafter referred to as ‘financial institutions’. It supersedes the Guideline for the write-off of non-performing assets and the Guideline on Credit Impairment Measurement and Income Recognition.

Effective Date

This guideline shall come into effect on 15 December 2023.

Interpretation

"**Bank**" means the Bank of Mauritius established under the Bank of Mauritius Act 2004;

"**board**" means the board of directors of a financial institution except for branches of foreign banks where "board" means the local advisory board/committee. For branches of foreign banks with no local advisory board, the responsibilities assigned to the board shall rest on the Chief Executive Officer of the branch.

***"*concessions**" are special or modified 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 characteristics 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.

All concessions may not lead to a reduction in the net present value of the loan and therefore a concession may not necessarily lead to the recognition of a loss by the lender. There is no concession when the counterparty is not in financial difficulty. When a counterparty is assessed as experiencing financial difficulty, examples of potential concessions are:

i. extending the tenor of a loan;
ii. rescheduling or deferring the dates for repayment of principal or interest or other amounts due;
iii. granting new or additional periods of non-payment (grace period or repayment holiday);
iv. reducing the interest rate or providing facilities below ongoing commercial terms for similar credit exposure to similar counterparty;
v. capitalising arrears;
vi. forgiving, deferring or postponing principal, interest or other amounts;
vii. changing an amortising loan to an interest payment only;
viii. allowing the conversion of debt to equity of the counterparty;
ix. deferring recovery/collection actions for extended periods of time;
x. easing of covenants;
xi. releasing collateral or accepting lower level of collateral; and
xii. refinancing an existing exposure with a new contract, even if the terms of the new contract are no more favourable for the borrower than those of the existing transaction.

"**contractual payment"** refers to specified amount of payment(s) which is (are) to be made to the financial institution by a counterparty on a specified date (s) or within a specified period, as set out in the contractual agreement. This includes payment of principal, interest, commission, fees, penalties, amounts for which the repayment dates might not be set in the contract but which might become due based on certain contingencies or any other financial obligations.

"**control functions**" mean those functions that have a responsibility independent from business line management to provide objective assessment, reporting and/or assurance to top management and Board. This includes the risk management function, the compliance function and the internal audit function.

"**counterparty**" refers to a natural or legal person with whom a financial institution has a financial contract that has given rise or can give rise to an exposure.

"**credit exposures**" refer in this Guideline to loans and advances, leasing facilities, investment in government and central bank securities, balances held with the Bank and other Central Banks, other investments and placements (includes balances with banks), investment in debentures, bonds and fixed dated securities, investment in equity and quasi equity and off-balance sheet exposures that cannot be unilaterally cancelled. Credit exposures includes principal, interest, commission, fees, penalties or any other financial obligations.

"**financial difficulty"**: Financial difficulty can be identified even in the absence of arrears on an exposure. The following list provides examples of possible indicators of financial difficulty, but is not intended to constitute an exhaustive enumeration of financial difficulty indicators:

i. A counterparty is currently past due on any of its material obligation.
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 bank providing a concession on the existing credit facilities, 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. Financial Analysis on the basis of actual performance, estimates and projections indicate that 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 credit categorisation scheme within a bank's internal credit rating system.
vi. The counterparty is in non-performing status or would be categorised as nonperforming without the concessions provided by the bank.
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.

"**financial analysis of non-retail counterparties"**, may include, as appropriate, the following ratios: leverage ratio; debt/EBITDA ratio; interest coverage ratio; current liquidity ratio; or ratio of (operating cash flow + interest expenses)/interest expenses; loan-to-value ratio; and any other relevant indicators.

"financial analysis of retail counterparties", may include consideration of debt service coverage ratio, loan-to-value ratio, credit scores and any other relevant indicators.

"**independent appraiser"** refers to an individual or a firm that is suitably qualified and is recognised by a government, a reputable institute or an appropriate local/ foreign authority for appraisal of properties and has:

i. no direct or indirect interest in the property being appraised, or in the transaction involving the financial institution in respect of that property;

ii. no credit granting or investment decision-making authority within the financial institution; and
iii. no conflict of interest which may affect the valuation.

"material obligation": Financial institutions shall establish board approved criteria for material obligation which should not be higher than 5% of the financial institution's exposure to the counterparty or (MUR 100,000 for retail counterparties and MUR 1,000,000 for non-retail counterparties), whichever is lower.

"non-accrual status" refers an account where the bank is no longer accruing interest.

"**past due**" refers to a contractual payment (interest, principal, fee or other amount) which has not been made as of its due date. In this respect, a credit exposure would become 'past due' from the first day when, in the case of:

- A revolving credit facility, such as an overdraft or a credit card where the financial institution has granted an approved limit,
  - (i) the outstanding amount, including interest, breaches the approved limit; or
  - (ii) counterparty has been advised of a limit smaller than current outstanding.

- A current account, when the account becomes overdrawn.

- A credit facility with periodic contractual payments, the amount due and payable (interest and/or instalment of principal and/or fees) is not paid in full by the due date;

- A facility that has been allowed to a customer without the approval of the designated authority; and

- Any other financial obligations, where the amounts due are not settled by their due dates.

"**Restructuring**" refers, in this Guideline, to a **distressed restructuring**, which occurs when a counterparty is experiencing financial difficulty in meeting its financial commitments and the financial institution grants a concession that it would not otherwise consider whether or not the concession is at the discretion of the bank and/or the counterparty. A concession is at the discretion of the counterparty (debtor) when the initial contract allows the counterparty (debtor) to change the terms of the contract in its own favour (embedded concession clauses) due to financial difficulty. Restructuring includes concessions that are granted due to the counterparty's financial difficulty on any exposure regardless of the measurement method for accounting purposes. Restructuring is identified at the individual facility level to which concessions are granted due to financial difficulty of the counterparty.

"Retail counterparties" refer to natural persons and small businesses with an annual turnover of not more than MUR 50 million.

"Significant exposure": Financial institutions shall establish board approved criteria, including thresholds, for identifying significant exposures for retail and non-retail counterparties, such that aggregate significant exposures constitute at least 75% of the respective total credit exposures.

PART 1 - Governance and Risk Management Framework

Responsibility of the Board

1. The board shall approve and periodically (at least annually) review policies relating to classification and provisioning of credit exposures and write-off of non-performing credit exposures that ensure early identification and management of deteriorating asset quality, and efficient management of non-performing exposures (NPEs), including recovery in written-off exposures.

2. The board shall approve the delegation of approval authorities for classification and provisioning of credit exposures and ensure that there is no conflict of interest.

3. The board shall ensure that it receives timely and appropriate information (at least on a quarterly basis) from the Risk Management Committee regarding classification, provisioning, restructuring, recovery and write-off of credit exposures. Such information shall, inter alia, cover:

    i. details on the number and value of (a) Non-Performing Exposures, (b) restructured exposures, (c) repossessed assets and (d) exposures which have been written off, on an aggregate basis and by economic sectors and by country;
    ii. details of the movement in (a) non-performing exposures (within non-performing categories, and between performing and non-performing), (b) restructured exposures, (c) repossessed assets, (d) provisions held for non-performing exposures and (e) write-offs;
    iii. an assessment of the quality of the credit exposures, with relevant details on the proportion and trend of non-performing exposures and the quality of the underlying collaterals;
    iv. forecast of the expected deterioration in the quality of credit exposures, losses expected to be incurred, and assessment of the adequacy of current provisions and reserves held against these estimated losses;
    v. information on significant exposures that are either non-performing or are likely to become non-performing;
    vi. review of collateral effectiveness and collateral management, including recoverability, cost and timeliness of recovery and collateral concentration; and
    vii. an assessment of the impact of various stress scenarios on the credit exposures to determine expected credit losses and adequacy of provisions.

4. 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 details 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 bank’s business strategy, credit risk appetite, credit risk management, collateral management, provisioning, credit risk rating and risk pricing.

5. The board shall ensure appropriate oversight and coverage by the control functions taking into consideration the requirements of this Guideline.

6. The board shall ensure that there are appropriate policies and procedures to validate models and assumptions used to determine provision for incurred and expected credit losses. The board shall also ensure that such models are robust and take into consideration the effect of changes in historical, current, reasonable and supportable forward-looking information and macroeconomic factors.

7. The board shall ensure that the Risk Management Committee promptly apprise it of any development that could have a material impact on the quality of banks' credit exposures and expected or incurred credit losses.

Documentation

8. Financial institutions should document the policies and procedures for the determination of asset classification, accounting provisioning requirements, prudential provisioning requirements and the actual assessments in sufficient granularity.

Approval Authorities

9. Financial institutions shall ensure that the approvals for classification of exposures, provisioning requirements and write-off of credit exposures are duly documented and are in line with the delegated authority set by the board.

10. Financial institutions shall implement adequate and clear segregation of duties to avoid any potential conflict of interest/responsibilities with respect to approval of credit facilities, their classification, provisioning, repossession, recovery and write-offs and the evaluation of the effectiveness of the related policies, systems, processes and procedures.

Responsibilities of the Chief Risk Officer

11. The Chief Risk Officer shall be responsible for the following:

    i. establishing and maintaining the board approved policies;

    ii. ensuring the development of relevant systems, processes and procedures for implementing the board approved policies for classification, provisioning, recovery and write-off of credit exposures;

    iii. ongoing monitoring of credit risk exposures and timely identification and reporting of non-performing credit exposures to the Risk Management Committee;

    iv. submitting quarterly reports to the Risk Management Committee and promptly notifying it of any material change in status of significant exposures, including their level, classification, provisioning, repossession, recovery and write-offs; and

    v. ensuring that classification, provisioning and write-offs are appropriate, timely and adequate and are based on relevant, reasonable and supportable information and include forward-looking information and macroeconomic indicators.

Role of the control functions

12. Financial institutions should ensure that the appropriateness and effectiveness of the framework for credit exposure classification, provisioning, repossession, recovery and write-offs are reviewed at least annually.

13. Financial institutions shall ensure that such reviews are undertaken by an independent function or persons unconnected with the origination and administration of the credit exposure and by persons who possess adequate credit risk management experience and judgment.

14. The compliance function shall periodically assess compliance with requirements of this guideline.

15. The internal audit and credit risk management function shall evaluate the effectiveness and adequacy of policies, procedures, systems and processes for review, classification, provisioning, repossession, recovery and write-off of credit exposure on a periodic basis.

Policies for Classification and Provisioning of Credit Exposures

16. Financial institutions shall establish a comprehensive board-approved policy for Classification and Provisioning of Credit Exposures, either as a stand-alone document or integrated within relevant existing policies.

17. The policy shall be risk-based and shall, as a minimum, take into consideration the requirements stipulated in this Guideline.

18. The policy shall be reviewed at least on an annual basis or at such higher frequency as may be required in anticipation of or subsequent to material events.

19. The polices should be commensurate to the financial institution's risk profile and systemic importance.

20. The policies shall inter alia cover the following:

    i. criteria for classification of credit exposures based on their credit quality and for computation of accounting and prudential provisions;

    ii. measures to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions;

    iii. criteria for identifying eligible counterparties for granting moratorium and for restructuring of credit exposures;

    iv. measures to ensure timely identification, classification provisioning and management of problem exposures;

v. reporting lines for timely (at least quarterly) reporting of information and for escalation of significant matters to Chief Risk Officer, the Risk Management Committee and to the board, as relevant;

vi. criteria for assessment and determination of Net Realisable Value of eligible collaterals; and

vii. safeguards for prevention of any circumvention of the classification and provisioning standards.

Early Identification of problem exposures

21. Financial institutions shall establish internal policies and procedures to monitor and identify indicators of financial difficulty, promptly classify credit exposures into relevant classification category and determine and raise the required level of provisions.

22. The policies and procedures should ensure that

i. all significant performing exposures are subject to monitoring and identification of indicators of financial difficulty on a quarterly basis at counterparty level;
ii. all other performing exposures are subject to monitoring and identification of indicators of financial difficulty on a quarterly basis at portfolio level comprising of exposures with homogenous characteristics; and
iii. all non-performing and Special Mention Accounts (defined in sections 38-40) are subject to quarterly reviews at counterparty level.

23. Financial institutions should, upon identification of indicators of financial difficulty promptly conduct an assessment to determine the classification category and provisioning requirement. The results of the assessments should be duly documented and approved according to the approval authority set by the board of directors. The assessment should be conducted at an individual obligor level for significant exposures.

24. Between quarterly reviews, if a financial institution gains knowledge of any adverse change in the quality of a credit exposure, then the credit exposure must be promptly assigned to the new classification category that properly reflects its status.

25. These reviews shall also include an assessment of the net realizable value of the collaterals.

Information System for Credit Classification, Provisioning and Write-offs

26. The internal information systems should ensure timely identification, recognition, classification and write-offs of non-performing exposures and should, among others, be capable of:

i. determining the prudential asset quality classification on an ongoing basis based on number of days the credit exposures are past due or non-performing and based on other indicators of unlikeliness to repay in full;

ii. eliminating the scope to delay or postpone the identification and write-off of non-performing exposures (NPEs);

iii. identifying and aggregating exposures to the same counterparty across the bank, including off-balance sheet exposures and determining the prudential asset quality classification and accounting classification at the level of each counterparty;

iv. identifying and aggregating asset quality classification and accounting classification by economic sector;

v. identifying and compiling details of restructuring at the level of each counterparty and exposure type, including details of repeated restructuring;

vi. identifying and compiling details of repossessed assets by type of assets;

vii. identifying and compiling the details and valuation of security available to the bank at the level of each counterparty and exposure type;

viii. identifying and compiling the details of prudential provisions/ reserves and accounting provisions held at the level of each counterparty and exposure type; and

ix. compilation of key risk management metrics such as default rates by type of borrowers, by types of exposures, by economic sectors, by geographic regions, by internal ratings and by external ratings.

Part II - Classification of credit exposures under prudential norms

Computation of Exposures

27. For regulatory reporting and disclosures of credit exposures, at the level of individual counterparty and at the aggregate level, financial institutions should reckon the gross exposures that is,

i. the entire exposure amount and not just the overdue or risky portion, without deducting the value of security available to the bank and the specific provisions held against these exposures;

ii. including the entire uncancellable nominal amount of off-balance sheet commitments for non-performing exposures and Special Mention Accounts; and

iii. including the credit exposure equivalents through the use of credit conversion factors (CCFs) for standard exposures. The CCFs set out in the Guideline on Standardised Approach to Credit Risk must be applied to the notional amount of such exposures, subject to a floor of 10%.

Non-Performing Credit Exposures

28. A financial institution shall classify any credit exposure past due by more than 90 days or considered as Stage 3 under IFRS 9 as Non-Performing Exposure (NPE).

29. A financial institution shall classify the aggregate credit exposure to a counterparty as NPE where any one of the following is determined:

    i. The counterparty is past due by more than 90 days or considered as Stage 3 on any material obligation. If the counterparty has more than one credit exposures with the financial institution, the materiality threshold needs to be considered on an aggregated basis.
    ii. Any material credit obligation is on non-accrued status.
    iii. A write-off or account-specific provision is made as a result of a significant perceived decline in credit quality subsequent to the financial institution 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 is agreed by the financial institution where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or (where relevant) fees.
    vi. The counterparty's bankruptcy or a similar order in respect of any of the borrower's credit obligations to the financial institution has been filed.
    vii. The counterparty 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 financial institution.
    viii. The counterparty has exposures that are credit-impaired (in the meaning of exposures having experienced a downward adjustment to their valuation due to deterioration of their credit-worthiness) according to the applicable accounting framework.
    ix. Any other situation where the financial institution considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the bank to actions such as repossessing, realising security (if held), distressed restructuring or other risk mitigants.

30. When a counterparty belongs to a group, designating the credit exposures to the counterparty as NPE does not mandatorily lead to designating credit exposures to the other entities from the same group as NPEs. However, designating credit exposures to one of the entities in the group as NPE should be one of the inputs, along with the respective financial situation of other entities in the group, which should also be taken into account while assessing the creditworthiness and determining the performing or non-performing status of credit exposure to the other entities in the group.

31. Counterparties which form part of a group and which are connected by economic interdependencies shall be classified into same worst classification category. For counterparties which form part of a group but are not connected by economic interdependencies, financial institutions shall assess and document rationale for any different classification.

32. A financial institution shall classify a revolving credit facility, such as an overdraft or a credit card, as NPE where

    i. the exposure has been past due for more than 90 days, or
    ii. there are no credits in the account during the past 180 days, or
    iii. the credits in the account during the past 180 days are lower than the debits representing interest and other charges due to the bank.

33. The availability of security or net worth of borrower/guarantor should not be taken into account for the purpose of classifying a credit facility as NPE or otherwise.

34. A non-performing exposure need not go through each sub-category. In cases of serious credit impairment, a credit exposure should be straightaway graded as doubtful or loss as appropriate.

Classification of Non-Performing Credit Exposures under specific categories

35. Financial institutions are required to classify NPEs further into following three categories based on any one of the quantitative or qualitative criteria specified for each sub-category.

Category	**Criteria and description**
Sub-standard	A credit exposure where there are well-defined credit weaknesses in respect of the business, cash flow or financial position of the counterparty which may lead to the financial institution sustaining losses thereon, if the deficiencies are not corrected. A credit exposure which is past due by more than 90 days but not more than 180 days. The exposure is NPE for less than or equal to 90 days. The restructuring of an exposure classified as '**special mention account'**. The repeated restructuring of an exposure classified as performing exposure.
Doubtful	A credit exposure where there are weaknesses inherent in a sub-standard credit exposure as well as supplementary weaknesses that make the prospect of full recovery of the credit exposure questionable without having recourse to the collateral and loss thereon highly likely. The credit exposure is past due by more than 180 days but not more than 360 days. The exposure is NPE for more than 90 days but not more than 270 days.

Loss	The credit exposure is considered uncollectible and of such little value that maintaining it as a bankable asset is not warranted although there may be some salvage or recovery value from the security available (i.e. recoverable value of security is less than 10 per cent of total credit exposure). A credit exposure should, as a minimum, be classified as loss when: (i) The exposure is past due by more than 360 days; or (ii) The loss status has been identified by the financial institution's internal auditor or external auditor or on-site examination of Bank of Mauritius. The exposure is NPE for more than 270 days.

Performing exposures

36. All credit exposures which are not classified as NPEs, should be classified as performing exposures. This includes standard exposures and special mention accounts.

Standard Exposures

37. All performing credit exposures which are not classified as special mention accounts, should be classified as standard exposures. Credit exposures which are classified under this category do not exhibit any actual or potential weakness in repayment capability, business, cash flow or financial position.

Special Mention Accounts

38. These exposures exhibit potential weaknesses that, if not corrected in a timely manner, may adversely affect repayment by the borrower at a future date, and warrant close attention by the financial institution.

39. Characteristics of Special Mention Accounts include the following:

   i. a declining trend in the operations of the borrower that signals a potential weakness in the financial position of the borrower, but not to the point that repayment is jeopardised; and
   ii. economic and market conditions that may unfavourably affect the profitability and business of the borrower in the future.

40. Financial institutions should identify the stress in performing exposures, immediately after past due status of 30 days, but before classifying these in non-performing categories by classifying these exposures as Special Mention Accounts (SMAs). This will facilitate early identification of stress, deteriorating asset quality, and timely resolution as per the board approved policy of each financial institution. The SMAs shall be sub-categorised as under:

SMA Sub-Category	Basis for Classification - Past due status
SMA-1	31-60 days
SMA-2	61-90 days A credit exposure classified as Stage 2 under IFRS 9 A restructured ‘standard’ exposure

Restructured Exposures

41. Financial institutions should maintain proper documentation for all restructuring, including those which are not considered distressed restructuring, along with detailed rationale.

42. A restructured standard exposure should continue to be designated as a restructured exposure at least for 12 months from the date of restructuring.

43. Other restructured exposures should continue to be designated as a restructured exposure until at least 12 months after these are re-classified as “standard” exposure.

Restructuring of performing credit exposure

(a) Restructuring standard exposures

44. The restructuring of an exposure classified as ‘standard’ should immediately lead to its re-classification at least as SMA 2 as per the asset classification norms.

45. The financial institution should also assess whether the exposure meets the non-performing criteria, even if the restructuring resulted in a new exposure.

46. When the original exposure would have been categorised as non-performing at the time of restructuring, had the restructuring not occurred, the new exposure and the current exposure should be classified as non-performing, at least in ‘substandard’ category.

47. When the original exposure would have been categorised as non-performing in ‘doubtful’ or ‘loss’ category at the time of restructuring, had the restructuring not occurred, the new exposure and the current exposure should be classified in that non-performing category.

(b) Restructuring special mention accounts

48. The restructuring of an exposure classified as **‘special mention account’** should immediately lead to its re-classification as non-performing, at least in ‘substandard’ category.

49. When the original exposure would have been categorised as non-performing in ‘doubtful’ or ‘loss’ category at the time of restructuring, had the restructuring not occurred, the new exposure and the current exposure should be classified in that non-performing category.

Restructuring of non-performing credit exposure

50. A non-performing credit exposure, upon restructuring, shall continue to be classified as non-performing upon restructuring.

51. When the original exposure would have been categorised as non-performing in 'doubtful' or 'loss' category at the time of restructuring, had the restructuring not occurred, the new exposure and the current exposure should be classified in that non-performing category.

Repeated restructuring

52. When a restructured exposure is restructured once again while it is designated as a restructured exposure, this should be treated as repeated restructuring.

53. The repeated restructuring of an exposure classified as performing exposure ('standard' and 'Special mention account'), should immediately lead to its re-classification as non-performing, at least in 'substandard' category. When the exposure would have been categorised as non-performing in 'doubtful' or 'loss' category at the time of repeated restructuring, had the first or subsequent restructuring not occurred, the new exposure and the current exposure should be classified in that non-performing category.

54. The repeated restructuring of an exposure classified as non-performing exposure, should immediately lead to its re-classification in the worse non-performing sub-category than the sub-category in which it was classified at the time of repeated restructuring. When the repeated restructured exposure would have been categorised as non-performing in 'loss' category at the time of repeated restructuring, had that first or subsequent restructuring not occurred, the new exposure and the current exposure should be classified in 'loss' category.

Recategorisation of non-performing exposures as standard exposures

55. A non-performing exposure should be upgraded as standard exposure when:

    i. all arrears of interest and principal are paid by the counterparty in full;
    ii. all the outstanding credit exposures perform satisfactorily for a continuous period of at least **6 months** (i.e. interest, principal and other amounts due on all exposures to the counterparty are paid in full and on time as per the exposures' terms of payment);
    iii. the counterparty has resolved its financial difficulty such that full repayment is expected according to original or modified terms; and
    iv. the reduction in credit risk is considered sustainable.

56. A non-performing **restructured** exposure should be upgraded as a standard exposure only when:

    i. all arrears of interest and principal are paid by the counterparty in full;
    ii. all the outstanding exposures perform satisfactorily for a continuous period of at least **12 months** (i.e. interest, principal and other amounts due on all exposures to the counterparty are paid in full and on time as per the restructured terms of

payment) from the commencement of the first payment of interest or principal, on exposures under the terms of restructuring;

iii. the counterparty has resolved its financial difficulty such that full repayment is expected according to original or modified terms; and

iv. reduction in credit risk is considered sustainable.

57. A non-performing exposure subject to repeated restructuring should be designated as a non-performing restructured exposure and can be re-classified as a standard exposure if:

i. all arrears of interest and principal are paid by the counterparty in full;

ii. all the outstanding exposures perform satisfactorily for a continuous period of at least **18 months** (i.e. interest, principal and other amounts due on all exposures to the counterparty are paid in full and on time as per the restructured terms of payment) from the commencement of the first payment of interest or principal, on exposures under the terms of latest restructuring,

iii. the counterparty has resolved its financial difficulty such that full repayment is expected according to original or modified terms and

iv. reduction in credit risk is considered sustainable.

58. Reduction in credit risk should be considered as sustainable when the counterparty's financial position and projected cashflows indicate that the counterparty will be able to meet the scheduled payments in full and on time.

59. In addition to the above, for bullet credit facilities, the facility should be upgraded as performing only when all the outstanding exposures perform satisfactorily for a continuous period of at least **24 months**.

60. The following situations will not lead to recategorisation of non-performing exposure as performing exposure:

i. partial write-off of an existing non-performing exposure (i.e. when a bank writes off part of non-performing exposure that it deems to be uncollectible).

ii. repossession of collateral on a non-performing exposure until the collateral is disposed of and the bank realises the proceeds and has fully recovered all amounts due from the counterparty; (i.e. when the exposure is retained on the balance sheet, it should continue to be categorized as non-performing).

Treatment of Repossessed Assets

61. Repossessed assets which are recognised on the balance sheet should initially be recorded at the lower of the net realizable value and the carrying amount of the loan (net of specific provision). These assets may be classified as standard exposures in the first 6 months. In case the repossessed assets have not been disposed of within 6 months, these should be recorded as NPEs as per the table below and provision should be set aside as per the requirements of this Guideline.

Time Since Repossession	Category	Provision
Between 6 and 12 months	Sub-Standard	25%
More than 12 months	Loss	100%

Part III - Prudential provisioning requirements

Provisioning under prudential norms

62. Provision under prudential norms shall consist of General provisions and Specific provisions as outlined below.

63. General Provisions shall consist of:

i. Provision on performing credit exposures; and
ii. Macroprudential provision.

Provision on performing credit exposures

64. A financial institution shall maintain the following minimum level of provisioning on performing credit exposures:

Exposure type	Standard exposure	Special mention account
Exposures with bullet repayment with maturity of more than 2 years	1%	5%
All other performing exposures	0.5%	SMA-1: 1% SMA-2: 2.5%

Macroprudential Provisions

65. In addition to General Provisions for performing exposures, financial institutions are also required to make provisioning for exposures to certain sectors, as decided from time to time, as a macroprudential measure. At present, financial institutions shall make Macroprudential Provisions for exposures to the following sectors in Mauritius:

Type of Facility	Macroprudential Provision
Household - Housing	0.5%
Household - other than Housing	0.75%
Accommodation	1.0%
Construction (including commercial real estates)	1.0%

Specific Provisions

66. Specific Provisions shall consist of:

i. Provision on NPE;
ii. Provision on interest income recognised on NPEs but not received; and
iii. Provision for restructured exposures.

(a) Provision on NPE

67. A financial institution shall maintain a minimum level of provisioning on NPEs with regard to the prudential classification categories as follows:

<table>
<tr><th>Classification category</th><th>Regulatory Floor for Specific Provisioning</th></tr>
<tr><td>Sub-standard</td><td>100 per cent of unsecured portion of the credit exposure
and
25 per cent of secured portion of the credit exposure</td></tr>
<tr><td>Doubtful</td><td>100 per cent of unsecured portion of the credit exposure

and

50 per cent of secured portion of the credit exposure.</td></tr>
<tr><td>Loss</td><td>100 per cent of unsecured portion of the credit exposure

and

80 or 100 per cent of secured portion of the credit exposure depending upon the period for which the credit exposure has remained as NPE, as shown below.

<table><tr><th>Time as NPE</th><th>Percentage (%)</th></tr><tr><td>Less than 3 years</td><td>80</td></tr><tr><td>More than 3 years</td><td>100</td></tr></table></td></tr>
</table>

Secured portion of a credit exposure refers to the portion covered by the net realizable value of acceptable collateral to which the financial institution has a valid recourse and of which the net realisable value is estimated on a realistic basis which, at a minimum, complies with the provisions of Part VI.

(b) Provision on Exposures secured by cash on deposits or sovereign securities

68. No provision is required on the secured portion where the exposure and the collateral are denominated in the same currency, and either:
    i. the collateral is cash on deposit; or
    ii. the collateral is in the form of sovereign securities and central bank's securities eligible for a risk weight of 0%.

(c) Provision for exposures secured by collateral denominated in a different currency

69. Where the portion of the credit exposure is secured by eligible collateral denominated in a currency other than the currency of exposure, a minimum haircut of 50 per cent should be applied to the secured portion.

(d) Provision on interest accrued on NPEs but not received

70. Financial institutions shall maintain a prudential provision of 100 per cent on any amount of accrued interest on NPEs that is recognised as income but not actually received.

(e) Provision for restructured exposures

71. While restructuring a credit exposure, the financial institution should, among others, estimate the impact of the restructuring on the present value of the exposure. Where the present value of the restructured exposure is lower than the book value, the difference should be written off.

72. Where the financial institutions do not write-off such difference, it shall maintain a provision for any diminution in fair value caused by the restructuring of the exposure. This provisioning shall be in addition to provision determined by the classification category of the credit exposure and the macroprudential provision requirement.

73. The Bank may require higher rates of general or specific provisioning based on the gaps, weaknesses and inadequacies in the systems, processes, and practices in individual banks. While making such determination, the bank shall also consider, among others, the trend and concentrations in credit risk and risk mitigants in individual banks and across the banking system.

Part IV - Regulatory Floor

74. All financial institutions shall, over and above the requirement to comply with IFRS 9, also independently assess provision for performing and non-performing exposures under the prudential norms, as set out in Part III of this Guideline. The higher of these two figures should be regarded as the regulatory floor and should be accounted for in financial statements.

75. When accounting provisions are less than the regulatory floors, the shortfall shall be met through:

i. additional accounting provisions; or
ii. appropriation of profits to separate 'reserves for performing exposures' and 'reserves for non-performing exposures' (**non-distributable reserve**) as relevant.

76. Financial institutions shall comply with the above to be eligible to declare dividend or any other transfers from profits in line with the Guideline on Payment of Dividend.

77. Determination of the regulatory floor should be made at the following three levels:

Prudential classification	**Accounting classification**
Standard (including Macroprudential)	Stage 1
Special mention accounts	Stage 2
Non-performing	Stage 3

78. Determination of the regulatory floor should be made at exposure level for Special Mention Accounts and non-performing exposures.

Part V - Capital Treatment of Provisions and Reserves for performing and non-performing exposures

79. In line with the Guideline on Scope of Application of Basel III and Eligible Capital, provisions held by banks for performing credit exposures shall be reckoned as General Provisions and will qualify for inclusion within Tier 2 capital, subject to a maximum of 1.25 percentage points of risk-weighted assets for credit risk calculated under the standardised approach.

80. The reserves held by financial institutions for performing credit exposures and non-performing credit exposures to comply with the regulatory floor requirement shall not be eligible for inclusion in Tier 1 capital.

81. The reserves held by financial institutions for performing credit exposures to comply with the regulatory floor requirement shall be reckoned as part of General Provisions for inclusion within Tier 2 capital, subject to the prudential limits specified in Paragraph 79.

Part VI - Available Security

Eligible Security

82. Financial and physical (primary and collateral) securities which are considered as eligible collateral are detailed in Annex 1.

Net Realisable Value (NRV) of Security

83. The following conditions shall be met in determining the net realisable value of security for the purposes of this guideline:

i. The NRV of a security should be appraised on a comprehensive and regular basis. The appraisal should be based on a conservative view of current market prices, suitably discounted for price volatility, the lack of ready market for the security and the time required to realise the security. All realisation costs, including legal costs, must be taken into account.

ii. The NRV of financial collaterals included under item A of Annex 1 and other physical collateral included under item D of Annex 1, should be appraised at least once a calendar quarter based on the most recent available market prices. Where the most recent market price is more than one-month old, the financial institution should apply a discount factor of at least 25 percent, where it is more than three-month old, the discount factor should be at least 50 percent, where it is more than six-month old the discount factor should be at least 75 percent and if it is more than one year old, the security should be deemed as unavailable for prudential provisioning purposes.

iii. The NRV of financial receivables included under item B of Annex 1, should be appraised at least once a calendar quarter. Where the financial receivable has become due and is past due for more than one-month, the financial institution should apply a discount factor of at least 50 percent, where it is past due for more than three-months, the discount factor should be at least 75 percent, where it is past due for more than six-months, the security should be deemed as unavailable for prudential provisioning purposes.

iv. The NRV of security that is commercial real estate included under item C of Annex 1 should be appraised at least once every 2 years, by an independent appraiser. The NRV of any such security not appraised for more than two years should be taken as zero.

v. the NRV of security that is residential real estate included under item C of Annex 1 should be appraised at least once every 3 years, by an independent appraiser. The NRV of any such security not appraised for more than three years should be taken as zero.

vi. The NRV of security that is commercial or residential real estate should be appraised when there is significant reduction in relevant real estate prices and when there is any idiosyncratic event that has adverse material impact on its resale value.

84. In case of pari-passu or subordinated charges over the security, the extent of availability of security to a financial institution, should be well documented and supported by legal opinion.

85. If the Bank deems it necessary, it may require the financial institution to have the appraisal of a security carried out, at the expense of the financial institution, by another independent appraiser.

Part VII - Write-off of Non-Performing exposures

Broad Write-Off Principles

86. A write-off can occur before legal efforts to recover the debt have been concluded. A write-off does not signify the bank forfeiting its legal right to claim its dues. The write-off will merely shift the non-performing exposure to a memorandum account from the balance sheet of the bank.

87. The memorandum account for the written-off amount should be created at the general ledger level and used for monitoring and reporting purposes. When it is determined that no recovery is forthcoming, the removal of the entry from the memorandum account should be as per the bank's own board approved write-off policy.

88. Once an amount has been written-off from the balance sheet, there can be no write-back / reverse adjustments. In the event that there is any recovery on the account, it would be directly recognised in the income statement for the year.

Write-Off Requirements for Non-Performing exposures

89. All banks shall devise an internal write-off policy with clear guidance on the timeliness of write-offs, which should be duly approved and reviewed at least annually by their respective board of directors.

90. The write-off policy should be appropriate to the bank's circumstances and to the different types of assets it holds in its asset portfolio.

91. The write-off policy of a bank shall, as a minimum, set forth:

    i. regular conduct of the recovery analysis and review of the write-off policy at least annually based on findings of time taken for material recovery for different types of non-performing assets;

    ii. details on pre-defined roles, responsibilities and procedures in the write-off process, together with a chart of the delegated authorities and thresholds for sanctioning write-offs;

    iii. the principle that the write-off should normally be done at one level higher than the sanctioning authority and not by the same officer who approved the exposure;

    iv. policy for related party exposures, in line with the Guideline on Related Party Transactions which stipulates that write-offs of related party credit exposures shall be subject to the prior approval of the board of directors;

v. policy for different categories of assets such as secured / unsecured facilities, retail loans (excluding mortgages), mortgage loans, corporate loans, as per the requirement;

vi. suitable maximum time periods for the write-off of different categories of non-performing exposures, which shall be based on individual banks' recovery experience. However, as per the recovery data obtained from banks in Mauritius, the maximum time for the full write-off of exposures towards corporate and retail (including mortgages) should not exceed 7 years and 5 years respectively;

vii. notwithstanding the above specified periods, the requirement for a prompt write-off where there is no realistic prospect of further recoveries and in case of insolvency or fraudulent loans where recovery is bleak;

viii. the requirement for an examination of the accountability of the staff, including an examination of staff performance in complying with extant guidelines and controls for material non-performing assets in the event of an impairment or a write-off, on a case-by-case basis. The documentation on lessons learnt, identification of gaps, and corrective measures, if any, should also be part of the write-off process;

ix. the obligation for submission of information on written-off accounts with all relevant details, beyond a threshold, to the board at periodic interval for its information / observation / guidance;

x. the requirement for the disclosure of written-off amounts in the bank's audited financial statements, in accordance with existing accounting standards; and

xi. emphasis on pursuing recovery efforts for written-off credit facilities.

Exemptions / Exceptions to the Rule

92. It will be at the discretion of banks to write-off non-performing loans falling under the Borrower Protection Act. (In the case of loan syndication and consortium lending, the decision for writing-off may be determined through consultation among participating banks / financial institutions.)

93. Any other relevant cases, where there is some specific statutory / legal impediment towards write-off, banks should be guided by the relevant statutes / legal requirement.

Part VIII - Reporting Requirements

94. Financial institutions shall provide information to the Bank on classification of credit exposures, restructured exposures, provisioning, and reserves for performing and non-performing exposures, collateral, repossessed assets, recovery and write-offs in such form and manner prescribed by the Bank.

Part IX - Transitional Arrangements

95. Financial institutions shall ensure:

i. that 50% of the provisions required under prudential norms are in place by 30 June 2024 and full compliance with the provisions required under prudential norms by 31 December 2024; and
ii. full compliance with all other requirements of this guideline by 30 June 2024.

Bank of Mauritius
15 December 2023

Annex 1 – Eligible Securities

An indicative list of the eligible securities is provided below:

A. Financial collaterals:
   (i) Cash (as well as certificates of deposit or comparable instruments issued by lending bank) on deposit with the bank that is incurring the counterparty exposure.
   (ii) Gold
   (iii) Debt securities rated by a recognised External Credit Assessment Institution (ECAI) with external rating grade of 3 or above as per the Guideline on Standardised Approach to Credit Risk.
   (iv) Debt securities not rated by a recognised ECAI where these are:
      - issued by a bank;
      - listed on a recognised exchange;
      - classified as senior debt;
      - all rated issues of the same seniority by the issuing bank have external rating grade of 3 or above as per the Guideline on Standardised Approach to Credit Risk; and
      - the bank holding the securities as collateral has no information to suggest that the issue justifies an external rating grade below 3 (as applicable).
   (v) Equity securities that are included in a main index or which are listed on a recognised security exchange;
   (vi) Investments in collective investment schemes (CIS) and mutual funds where
      - the price for a unit is publicly quoted daily; and
      - the CIS or mutual fund is limited to investing in the instruments listed in the financial collaterals listed above.

B. Financial receivables with original maturity of less than or equal to one year where repayment will occur through commercial or financial flows related to the underlying assets of the borrower. Those does not include receivables associated with securitisations, sub-participations or credit derivatives.

C. Commercial real estate and Residential real estate.

D. Other physical collaterals for which there are:
   (i) liquid markets whereby they can be disposed of in an expeditious and economically efficient manner; and
   (ii) well established, publicly available market prices.