



BANK OF MAURITIUS

Guideline on Credit Concentration Risk

**March 2000
Revised December 2008
Revised March 2011
Revised December 2011
Revised September 2013
Revised November 2013
Revised January 2015
Revised August 2015**

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INTRODUCTION

This guideline takes into account the provisions of the Banking Act 2004, the recent developments in management and measurement of credit concentration risks and the specificities of financial institutions operating in Mauritius.

Purpose

The Bank of Mauritius (hereinafter referred to as the "Bank") enunciates through this guideline the regulatory credit concentration limits and the basic framework of credit concentration risk management to be put in place by financial institutions.

Authority

This guideline is issued in terms of section 29 (Limitation on concentration of risk) and section 100 of the Banking Act 2004, and section 50 of the Bank of Mauritius Act 2004.

Scope of application

This guideline applies to all banks and non-bank deposit taking institutions (NBDTIs) licensed under the Banking Act 2004 (referred to as 'financial institutions' for the purpose of this guideline).

Previous guideline superseded

This guideline supersedes the *Guideline on Credit Concentration Limits* of March 2000.

Effective date

This guideline shall come into effect on 1 January 2009.

Interpretation

1. In this guideline,
 - "capital base¹" has the same meaning as in the Guideline on Scope of Application of Basel III and Eligible Capital or the Guideline on Capital Adequacy for Non-Bank Deposit Taking Institutions, as the case may be.²
 - "credit exposure/facility³" means the provision of or commitment to provide funds or substitute of funds, including leasing facilities, investment in equity, and off-balance sheet funds by a financial institution to a customer or group of closely related customers⁴ on a secured or unsecured basis.

¹ Capital base of the bank entity or the banking group, as the case may be.

² Revised in August 2015

³ For computation of exposure, please see Annex I.

⁴ As explained in Annex II.

- “credit concentration risk” means part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential of producing losses which are substantial enough to affect the financial soundness of a financial institution.
- “customer” means a natural person, a body corporate, trust, partnership, unincorporated association or organisation, fund, joint venture, an agency of the Government of Mauritius, or an agency of a foreign government.
- “large credit exposure” means all exposures to a customer or a group of closely-related customers in Mauritian Rupees or foreign currencies or both which are over 15 per cent of the financial institution’s capital base.

Structure of the guideline

This guideline is divided into four sections:

- | | | |
|-------------|---|---|
| Section I | - | Board and Senior Management Responsibilities |
| Section II | - | Regulatory Credit Concentration Limits and Set Offs |
| Section III | - | Regulatory Reporting and Supervisory Review |
| Section IV | - | Transitional Provision |

SECTION I – BOARD AND SENIOR MANAGEMENT RESPONSIBILITIES

2. The board of directors of a financial institution incorporated in Mauritius, shall:
 - (a) establish, assess and approve the credit concentration risk policy;
 - (b) review at least once a year the credit concentration risk policy and related techniques, procedures and information systems;
 - (c) ensure through audit and inspection, adherence to the credit concentration risk policy; and
 - (d) review all significant exposures to credit concentration risk.
3. In the case of the branch operation of a foreign institution, the head office or the local advisory board/committee⁵ shall assume the above role of the board of directors.
4. A financial institution shall develop credit policies which shall, *inter-alia*, comprise the credit concentration risk policy. This should include the principles and objectives governing the extent to which they are willing to accept credit concentration risk. The policy shall set out prudent rules and internal limits for granting credit to a single customer and its related parties, which shall not exceed the regulatory limits stipulated therein.
5. A financial institution shall also develop prudent rules and internal limits to industry sectors, and interlinked borrowers who may not have any common shareholding like sugar plantation and sugar manufacturing, tea plantation and tea processing, hire purchase and automobile trading.
6. There will be no limit on the exposure which a financial institution can take on a bank through guarantee, co-acceptances, etc. issued by that bank, or through placements. However, the board should develop internal limits for these exposures. Subsidiaries and branches of foreign banks may opt not to have an internal limit for the exposures to their parent bank.
7. A financial institution shall develop and implement information systems and procedures and techniques that accurately and continually identify, measure and monitor credit concentration risk in its credit portfolio.
8. A financial institution shall at least once a year conduct stress tests of its major credit risk concentrations and review the results of those tests to identify and respond to potential changes in market conditions that could inversely impact the financial institution's performance. The results of the stress test shall be made available to the Bank for examination.

⁵ Revised in August 2015

SECTION II - REGULATORY CREDIT CONCENTRATION LIMITS AND SET OFFS

Regulatory Credit Concentration Limits

(i) Banks other than Subsidiaries and Branches of Foreign Banks

9. The credit exposure, *denominated in Mauritian Rupee and in currencies other than the Mauritian Rupee*⁶, shall be within the following limits:
- (a) for the bank entity on a stand-alone basis:
 - (i) credit exposure to any single customer shall not exceed 25 per cent of the bank's capital base;
 - (ii) credit exposure to any group of closely-related customers shall not exceed 40 per cent of the bank's capital base; and
 - (iii) aggregate large credit exposures to all customers and groups of closely-related customers shall not exceed 800* per cent of the bank's capital base.
 - (b) for a home banking group⁷ whose centre of economic interest is in Mauritius:
 - (i) credit exposure to any single customer shall not exceed 25 per cent of the group's capital base;
 - (ii) credit exposure to any group of closely-related customers shall not exceed 40 per cent of the group's capital base; and
 - (iii) aggregate large credit exposures to all customers and groups of closely-related customers shall not exceed 800* per cent of the group's capital base.

For the purpose of (b) above, credit exposure shall also include credit exposure taken through the bank's subsidiaries.

(ii) Subsidiaries of Foreign Banks

10. The credit exposure, *denominated in Mauritian Rupee*, of a subsidiary shall be within the following limits:
- (a) credit exposure to any single customer shall not exceed 25 per cent of the bank's capital base;
 - (b) credit exposure to any group of closely-related customers shall not exceed 40 per cent of the bank's capital base; and

⁶ For the purposes of sections 9 and 11, an exposure *in currency other than the Mauritian Rupee* will also include a disbursement made in Mauritian Rupees from a loan sanctioned in foreign currency so long as the borrower is obligated to repay the loan in foreign currency.

⁷ A group predominantly engaged in banking business.

- (c) aggregate large credit exposures to all customers and groups of closely-related customers shall not exceed 800* per cent of the bank's capital base.
11. The credit exposure, *in currencies other than the Mauritian Rupee*⁸, of a subsidiary of a foreign bank shall be within the following limits:
- (a) credit exposure to any single customer shall not exceed 50 per cent of the bank's capital base;
 - (b) credit exposure to any group of closely-related customers shall not exceed 75 per cent of the bank's capital base; and
 - (c) aggregate large credit exposures to all customers and groups of closely-related customers shall not exceed 1200 per cent of the bank's capital base. This limit is exclusive of the limit of 800* per cent imposed in Mauritian Rupee denominated credit.
12. In the case of subsidiaries having as parent an overseas entity, which is not a bank but is regulated by an approved financial regulator acceptable to the Bank, the Bank may consider on a case-by-case basis the applicability of the above limits for subsidiaries of overseas banks regarding their credit exposure *in currencies other than the Mauritian Rupee*. Such banks shall apply to the Bank with all relevant details regarding their promoter(s).

(iii) Branches of Foreign Banks

13. The credit exposure, *denominated in Mauritian Rupee*, of a branch of a foreign bank shall be within the following limits:
- (a) credit exposure to any single customer shall not exceed 25 per cent of the bank's capital base;
 - (b) credit exposure to any group of closely-related customers shall not exceed 40 per cent of the bank's capital base; and
 - (c) aggregate large credit exposures to all customers and groups of closely-related customers shall not exceed 800* per cent of the bank's capital base.
14. For credit exposure *in currencies other than the Mauritian Rupee*, there is no limit vis-à-vis the capital base of the branch.

(iii) (A) Provisions applicable to both subsidiaries and branches of foreign banks

15. The application of Section (ii) *Subsidiaries of Foreign Banks* and Section (iii) *Branches of Foreign Banks* above is subject to compliance with the following criteria:
- (a) the parent bank/foreign bank is made aware of and/or has sanctioned exposures in both Mauritian Rupee and currencies other than the Mauritian Rupee, which in aggregate exceed 25 per cent of the capital base of the Mauritian subsidiary or branch;

- (b) the parent bank/foreign bank is adequately supervised, in conformity with the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision;
 - (c) the parent bank/foreign bank is, in the opinion of the Bank, a continuing source of financial strength for the subsidiary;
 - (d) there are no legal, regulatory, statutory or fiscal restrictions in the parent's/foreign bank's home jurisdiction to obtaining capital from the parent bank/foreign bank in the event the parent bank/foreign bank has to make good the losses incurred by its subsidiary or branch; and
 - (e) the branch of the foreign bank forwarding the relative approval obtained from its Head Office or a letter from its Head Office delegating its discretionary powers to a Zonal Area to the bank.
16. For customers having exposures both in foreign currency and in Mauritian Rupee, the exposures should, for the purpose of calculating the regulatory limits, be taken into account separately. For reporting purposes, the aggregate exposures in foreign currency and Mauritian Rupee should be taken into consideration.

(iv) Non-Bank Deposit Taking Institutions

17. The credit exposure of a NBDTI shall be within the following limits:
- (a) credit exposure to any single customer shall not exceed 25 per cent of the NBDTI's capital base;
 - (b) credit exposure to any group of closely-related customers shall not exceed 40 per cent of the NBDTI's capital base; and
 - (c) aggregate large credit exposures to all customers and groups of closely-related customers shall not exceed 800* per cent of the NBDTI's capital base.

Extraneous Factors

- 17(A). In the event of a financial institution's existing exposure towards any single customer or group of closely related customers exceeding the regulatory limits as a result of any extraneous factors such as merger and acquisition leading to a change in the composition of a group, the financial institution shall
- (i) not grant any additional facilities to the group.
 - (ii) operate within the existing credit limits within a period of 2 years in 2 phases as follows:
 - 1. An arrangement being made to bring the exposure to the entity (single customer) or group of entities (group of closely related customers) or both, as the case may be, within the regulatory limits within a period not exceeding 1 year.

2. After 1 year any excess over the regulatory limits being deducted from the financial institution's Capital Base and reckoning its Capital Adequacy Ratio on the revised Capital Base for all future calculations for a further period of not more than 1 year. Such Capital Adequacy Ratio should not be less than the regulatory requirement of 10% at all times. Any existing exposures of the financial institution will not be affected by the revised Capital Base.

After the abovementioned period of 2 years, any excess would be in breach of the regulation and the financial institution will render itself liable for regulatory action under the provisions of the Banking Act 2004 and the Bank of Mauritius Act 2004.

In the case of Non-Bank Deposit Taking Institutions engaged in leasing activities, leases may be allowed to run to their maturity on condition that the exposures should be brought within the regulatory limits within a period of 2 years.

- 17(B). To safeguard themselves against breach of the above requirements, financial institutions may include suitable provisions in the loan/lease agreement to
 - (i) make it incumbent on their borrowers to inform the financial institutions in advance of any potential development that could result in a change in the shareholding structure of the borrowers.
 - (ii) reserve the right to impose necessary conditions to enable the financial institutions to be in compliance with the requirements of the Guideline.

Set Offs

18. A financial institution may set-off the following against its single and aggregate large credit exposure:
 - (a) the amount of deposits pledged as security against the facility either with the lending financial institution or other financial institutions provided that the deposits pledged or assigned to the lender is legally enforceable in all relevant jurisdictions;
 - (b) claims on/or guaranteed by the Government of Mauritius;
 - (c) claims guaranteed by central governments and central banks which attract a risk weight of zero per cent for capital adequacy purposes;
 - (d) exposures which have been co-accepted or guaranteed by a bank whose rating is investment grade or better;
 - (e) Credit Default Swap (CDS) and Total Return Swap (TRS) issued by a counterparty selling a protection (insurance seller) being rated A- or better; and

- (f) Claims on domestic Public Sector Enterprises (PSEs) which are not guaranteed by Government of Mauritius provided they satisfy the following essential criteria:
- (i) the PSEs have specific revenue raising powers and specific institutional arrangements the effect of which is to reduce the risk of default;
 - (ii) the PSEs are operating in monopolistic markets and providing essential services; and
 - (iii) a declaration of bankruptcy is not possible due to their special public status, unless an Act of Parliament is passed for this purpose.

SECTION III – REGULATORY REPORTING AND SUPERVISORY REVIEW

- 19. A financial institution shall report to the Bank on a quarterly basis, as per Annex III, all information relating to its individual and large credit exposures, including exemptions permitted under this guideline.
- 20. The Bank will assess the processes, procedures and policies put in place by a financial institution to ensure that it does not face excessive concentration risk by way of over exposure to a customer, sector, interlinked industries, banks, etc.
- 21. When the risks arising from credit risk concentrations are not adequately addressed, the Bank may take appropriate action including imposing a higher capital charge.

SECTION IV - TRANSITIONAL PROVISION

- 22. Any financial institution, which is in non-compliance with the requirements of this guideline, shall within three months of the coming into effect of this guideline submit a plan showing the manner in which it shall achieve compliance.

The plan to be submitted by the financial institution should, *inter-alia*, comprise the following:

- (a) reduction in the credit facilities that have been extended, by way of normal repayments or specific accelerated repayments;
- (b) increase in capital base, by way of internal accruals or injection of additional funds; and
- (c) the time frame within which it proposes to become fully compliant with this guideline which shall not, in any event, exceed two years as from the date of this guideline.

The plan shall have to be approved by the Bank.

- 23. As from the effective date of this guideline, a financial institution shall not be allowed to take such new additional exposures which may cause the financial institution to exceed the regulatory credit concentration limits stipulated in this guideline.

24. In case of breaches of the regulatory credit concentration limits, subsequent to the approval of the plan by the Bank, a financial institution may be required to maintain a higher capital adequacy ratio as may be determined by the Bank.
25. In cases where a financial institution has, with the approval of the Bank, been allowed to take exposures, which are above the limits specified in this guideline and maturing after the effective date of this guideline, the financial institution will be permitted to maintain these exposures until maturity even if it goes beyond the period of two years.

** Revised in August 2015*

ANNEX I

Computation of Exposure

➤ ***Fund-Based***

- (i) Term loans:
 - Fully disbursed: Amount outstanding.
 - Partially disbursed: Higher of approved amounts or amounts outstanding.
- (ii) Overdraft/other working capital facilities:
 - Higher of approved limits or amounts outstanding.
- (iii) Finance Lease
 - Net Principal Amount outstanding plus unpaid interest accrued. Net Principal Amount will be the sum originally disbursed by the financial institution minus embedded principal out of instalments repaid.
- (iv) Operating Lease
 - The acquisition cost of the asset net of depreciation plus any overdue rentals.
- (v) Others
 - Cost of acquisition plus any other receivables.

➤ ***Non-Fund Based***

- (i) Guarantees, financial/performance bonds, acceptances, letters of credit and other off balance sheet assets where the financial institution is fully liable in case of default:
 - Higher of approved amounts or amounts outstanding.
- (ii) Treasury products such as foreign exchange contracts, interest rate swaps and the like:
 - Exposure is computed by multiplying the amounts outstanding/ limits by the credit conversion factors applicable under the Standardised Approach to Credit Risk.
- (iii) Others
 - Higher of approved amounts or amounts outstanding.

Note: Wherever instruments of set off are available the exposures should be netted off when calculating the regulatory limits.

ANNEX II

“Group of closely-related customers”

1. A “group of closely-related customers” means two or more persons who, unless the financial institution demonstrates otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others as defined in the Companies Act 2001;
2. The term “customer” defined in the guideline covers a variety of persons and relationships. However, the following illustrations outline a few related group situations that might exist.

➤ Company

- (a) Credit extended to a company shall be combined with credit granted to its subsidiary and entity in which the company has control as defined in the Companies Act 2001;
- (b) In case of credit exposure to a single customer running several operationally independent units a bank may at its discretion, after having analysed the interrelationship of risks between the units, treat each unit as a single customer within a group;
- (c) Credit extended to a company shall be combined with the credit granted to other entities if the proceeds thereof are used partly or fully for the benefit of the company; and
- (d) Where a shareholder owning, directly or indirectly, more than 50 % of the shares of a company to which a financial institution has extended credit, also receives credit from the financial institution in his own name or in the name of his spouse or a child of less than 18 years of age or a corporation controlled by the spouse or child, the company, the shareholder, his spouse, the child and the corporation controlled by the spouse or child, as applicable, shall constitute a group of related parties.
- (e) Where the director/s of a company has a *de facto* controlling interest in another company, both companies shall be considered as a group of closely related customers.

A director has a *de facto* controlling interest in a company where it is reasonable, having regard to all the circumstances, to expect that he will be able, by whatever means and whether directly or indirectly, to exercise a control on the affairs of the company.

However, in the case of Global Business Category 1 (GBC1) companies, borrowing companies having a common ultimate beneficial owner who is in a position to control more than 50% of the maximum number of votes that can be exercised at a meeting of the company shall be closely related customers.

➤ Partnership

- (a) Partnership means any civil or commercial partnership, including a société not registered under the Companies Act 2001;
- (b) Credit granted to every member of a partnership shall be combined with the credit extended to the partnership; and
- (c) Credit to persons engaged in a common enterprise whether in the form of a partnership, joint venture or other association should be considered as one risk for the purposes of the guideline.

➤ Individual

Credit extended to an individual, his spouse or a child of less than 18 years of age or a corporation controlled by the spouse or child shall be aggregated for the purposes of the guideline.

3. In case of doubt on whether two or more persons are considered to be a group of closely-related customers, the matter shall be referred to the Bank.

ANNEX III

Quarterly Return on Concentration of Risk as at

Name of Financial Institution.....

Capital base:..... (Rs 000 or USD 000)

Particulars of credit exposures to any one customer or group of closely-related customers for amounts aggregating more than 15 per cent of the financial institution's capital base

Non-Exempted Exposures⁹

Name of Customer or Group of Closely Related Customers	Fund Based Exposures¹⁰	Non Fund Based Exposures¹¹	Set Offs	Total exposures after set offs	Percentage of aggregate amount of exposures to financial institution's capital base	Purpose	Status: Performing or non-performing	Collateral other than those used for set offs

⁹ Includes all facilities where the total exposures after set offs are in excess of 15 per cent of the capital base.

¹⁰ Includes term loans, overdraft facilities, leasing facilities, and others.

¹¹ Includes guarantees, financial/performance bonds, acceptances, letters of credit, forward contracts and other similar products.

Particulars of credit exposures to any one customer or group of closely-related customers for amounts aggregating more than 15 per cent of the financial institution's capital base

Exempted Exposures¹²

Name of Customer or Group of Closely Related Customers	Fund Based Exposures	Non Fund Based Exposures	Set Offs	Total exposures after set offs	Percentage of aggregate amount of exposures to financial institution's capital base	Purpose	Status: Performing or non-performing	Collateral other than those used for set offs

¹² Includes all facilities where the gross exposure is in excess of 15 per cent of the capital base but the exposure after set off is less than 15 per cent and, for branches of foreign banks, gross exposures *in currencies other than the Mauritian Rupee*.