BANK OF MAURITIUS

Guideline for the write-off of non-performing assets

November 2018
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Introduction

The design of a framework for write-off of non-performing assets with weak recovery prospects will ensure consistency across financial institutions and at the same time, will help in bringing more transparency on the current asset quality.

Purpose

This Guideline for the write-off of non-performing assets (Guideline) sets out a broad framework for the write-off process at financial institutions so as to ensure consistency and prudence while writing-off non-performing assets in a timely manner. This should also assist financial institutions in cleaning their balance sheets. It will be mandatory for financial institutions to design and implement a board-approved write-off policy having regard to specificities of their asset portfolio, in accordance with this Guideline.

Authority

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

Scope of application

This Guideline shall apply to all banks and non-bank deposit taking institutions licensed under the Banking Act 2004.

Effective date

This Guideline shall come into effect as from 14 November 2018. Subsequent changes to this Guideline will be communicated by means of a communiqué published on the website of the Bank of Mauritius.

Interpretation

In this Guideline,

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

"bank" has the same meaning as in the Banking Act 2004;

"financial institution" refers to a bank or a non-bank deposit-taking institution;

"non-bank deposit taking institution" has the same meaning as in the Banking Act 2004;

"non-performing assets" has the same meaning as 'impaired assets' or 'defaulted assets'.

SECTION 1 - BROAD WRITE-OFF PRINCIPLES

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

2. 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 financial institution's own board approved write-off policy.

3. 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.

SECTION 2 - WRITE-OFF REQUIREMENTS FOR NON-PERFORMING ASSETS

4. All financial institutions shall devise an internal write-off policy with clear guidance on the timeliness of write-offs, which should be duly approved by their respective board of directors. This should be done at the earliest, preferably within three months from the applicable effective date of this Guideline.

5. Each financial institution shall develop a write-off policy that is appropriate to its circumstances and to the different types of assets it holds in its asset portfolio.

6. The write-off policy of a financial institution shall, as a minimum, set forth:

- **(a)** regular conduct of the recovery analysis and review of the write-off policy at least annually based on findings of time period for material recovery for different types of non-performing assets;

- **(b)** 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;

- **(c)** 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;

- **(d)** 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;

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

(f) suitable maximum time periods for the write-off of different categories of non-performing assets, which shall be based on the individual financial institution's 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;

(g) 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;

(h) 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;

(i) the policy that the write-off will not lead to removal of default data from the *Mauritius Credit Information Bureau*;

(j) 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;

(k) the requirement for the disclosure of written-off amounts in the financial institution's audited financial statements, in accordance with existing accounting standards;

(l) emphasis on pursuing recovery efforts for written-off credit facilities.

7. Banks forming part of international banking groups may develop a write-off policy in line with the policy of the group, while fulfilling the above requirements.

SECTION 3 - EXEMPTIONS / EXCEPTIONS TO THE RULE

8. It will be at the discretion of financial institutions to write-off non-performing loans falling under the Borrower Protection Act.

9. In the case of loan syndication and consortium lending, the decision for writing-off may be determined through consultation among participating lenders.

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

SECTION 4 - TRANSITIONAL ARRANGEMENTS

11. Banks had been given a timeframe of one year, as from 14 November 2018, to fully implement the write-off requirements.

12. Similarly, non-bank deposit taking institutions will be given a timeframe of one year, as from 1 July 2019, to fully implement the write-off requirements.

Bank of Mauritius
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