BANK OF MAURITIUS

Guideline on Payment of Dividend

September 2020
Revised November 2021

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INTRODUCTION

The Guideline sets out the minimum criteria and requirements for deposit taking institutions prior to declaring dividend payments or other transfers from profits.

In terms of section 27(1) of the Banking Act 2004, no deposit taking institution shall declare, credit or pay, or transfer abroad, any dividend or make any other transfer from profits until the conditions set out thereunder are met, to the satisfaction of the Bank of Mauritius.

Purpose

The Guideline provides the regulatory framework for the declaration and payment of dividend or other transfers from profits.

Authority

The 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

The Guideline shall apply to all deposit taking institutions licensed under the Banking Act 2004.

Effective date

The Guideline shall come into effect on 24 September 2020.

Interpretation

“Act” means the Banking Act 2004;

“Bank” means the Bank of Mauritius established under Bank of Mauritius Act 2004;

“board” means the board of directors of a deposit taking institution, except in the case of a branch of a foreign bank where “board” means its local advisory board/committee;

“deposit taking institution” means a bank or non-bank deposit taking institution;

“dividend” refers to the part of profits of a deposit taking institution that is distributed to its shareholders;

“future capital adequacy or liquidity” means capital adequacy or liquidity of the deposit taking institution post distribution of profits and for the next one year from date of distribution of profits; and

“other transfer from profits” refer to any distribution of profits other than dividend, and also include issue of bonus shares out of profits.

1. Eligibility Criteria for Declaration of Dividend or other Transfer from Profits

1.1 The deposit taking institutions shall, as a minimum, comply with the following prudential requirements to be eligible to declare dividend or any other transfers from profits:

i. The capital adequacy requirements of section 20 of the Act or sections 12(5) and 12 (5A) of the Act as applicable, or liquidity requirements of section 22 of the Act;

ii. Its future capital adequacy and/or liquidity remain sound;

iii. The impairment in its amount paid as stated capital or assigned capital has been made good;

iv. Adequate provision, to the satisfaction of the Bank, has been made in respect of impaired credits;

v. It has maintained an adequate balance in its Reserve account in accordance with section 21 of the Act; and

vi. The distribution would be made out of the retained earnings after deducting:

a. any interim losses incurred since the last financial reporting period;

b. losses arising from changes in fair value upon revaluation of assets, including financial assets measured at Fair Value through Other Comprehensive Income (FVOCI), which have not been accounted for in retained earnings; and

c. any gains resulting from the revaluation of assets, including financial assets measured at FVOCI, and other unrealised gains, which have been included in retained earnings.

1.2 Payment of dividend or other transfers from profits shall normally be made once a year based on the annual closing of accounts and on full audit outcome.

2. Affirmation Process for Declaration of Dividend or other Transfer from Profits

2.1 Every deposit taking institution seeking to declare dividend or other transfers from profits shall submit to the Bank an application in writing, together with the following documents:

i. A resolution from its board authorising the payment of dividend or other transfers from profits. The amount to be paid or transferred shall be clearly specified;

ii. The latest audited financial statements of the deposit taking institution which have been approved for issue by its board, including the External Auditor's

Management Letter and the External Auditor's Report on Maintenance of Accounting and Other Records and Internal Control Systems, which have been signed;

iii. A report from the External Auditors of the deposit taking institution, in accordance with International Standard on Assurance Engagements (ISAE) 3000 confirming:

   a. the adequacy of provisions for non-performing assets and compliance with the Act, the relevant accounting standards, and Guidelines and Circulars issued by the Bank; and

   b. the solvency, capital adequacy and liquidity position of the deposit taking institution post payment of dividend or other transfers from profits;

iv. The financial forecasts (under baseline and stress scenarios) and assumptions for a period of 12 months from the date of distribution of profits[1]; and

v. A certified copy of the certificate of solvency test duly signed by the members of its board as required under section 61(3) of the Companies Act 2001.

3. Additional Criteria for Declaration of Dividend or other Transfers out of Interim Profits

3.1 Notwithstanding section 1.2, a deposit taking institution may distribute profits based on its interim accounts, subject to the approval of the Bank.

3.2 In addition to the conditions set out in section 2.1, a deposit taking institution shall meet any such terms and conditions as may be prescribed by the Bank, including but not limited to:

i. The submission of the interim accounts of the deposit taking institution and;

   a. where the External Auditors have conducted the audit of the last annual financial statements of the deposit taking institution, a report from its External Auditors, in accordance with ISRE 2410, confirming that nothing has come to their attention that causes them to believe that the interim financial information does not present fairly the financial position, performance and cash flows of the Bank in accordance with IAS34; or

   b. where the External Auditors have not conducted the audit of the last annual financial statements of the deposit taking institution, a report from the External Auditors, in accordance with ISAE 3000, confirming that the interim financial information is fairly presented in accordance with IAS34;

[1] Introduced on 5 November 2021

ii. The submission of a jointly signed declaration from the Chairperson and the Chief Executive Officer (CEO) of the deposit taking institution confirming that the interim profits have been properly stated and have taken into account the adequacy of the provisions for any expected credit losses;

iii. The deposit taking institution having a capital buffer reasonably above the minimum Capital Adequacy Ratio (CAR);

iv. The dividend payout or transfer from interim profits of the deposit taking institution be capped at 50 per cent of its interim profits; and

v. The certificate from its External Auditors required under section 2.1(iii) based on the interim accounts.

3.3 All documents submitted, except the latest audited financial statements/ Management Letter, shall not be dated more than 60 days from the date of application.

4. Board Oversight

4.1 The board shall establish a dividend policy using conservative and prudent assumptions such that the applicable regulatory requirements are still adhered to after any distribution of profits.

4.2 Dividend payments or other transfers from profits by deposit taking institutions shall be based on its dividend policy.

4.3 The board shall, inter alia, take into consideration the following aspects while deciding on the proposals for declaring dividend or other transfers from profits:

i. adherence to the eligibility criteria set out in section 1;

ii. the capital requirements as per the Bank's *Guideline on Scope of Application of Basel III and Eligible Capital*, including the capital requirement under the Internal Capital Adequacy Assessment Process (ICAAP) or the capital requirements as per the Bank's *Guidelines on Capital Adequacy Ratio for Non-Bank Deposit Taking Institutions*, as applicable;

iii. the potential losses and provisioning requirements as well as the potential impact on capital due to anticipated changes in the legal, regulatory and accounting frameworks;

iv. the latest audited accounts and interim financial statements of the deposit taking institution;

v. other risks that may affect the financial condition of the deposit taking institution;

vi. the financial forecasts (under baseline and stress scenarios) for a period of 12 months from the date of distribution of profits[2];

vii. any interim dividend paid; and

viii. the deposit taking institution’s long term growth plans.

5. Transitional Arrangements

5.1. The deposit taking institutions shall fully implement the requirements of this Guideline within three months from its effective date.

Bank of Mauritius
5 November 2021

[2] Introduced on 5 November 2021