GOVERNMENT GAZETTE

OF THE

REPUBLIC OF NAMIBIA

N$6.00 WINDHOEK - 20 October 2021 No. 7665

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General Notice

BANK OF NAMIBIA

No. 590 2021

DETERMINATION ON POLICY CHANGES IN RESPONSE TO ECONOMIC AND FINANCIAL STABILITY CHALLENGES AS A RESULT OF THE COVID-19 PANDEMIC: BANK INSTITUTIONS ACT, 1998

In my capacity as Governor of the Bank of Namibia, and under the powers vested in the Bank by virtue of section 71(3) of the Banking Institutions Act, 1998 (Act No. 2 of 1998) as amended, I hereby issue the *Determination on Policy Changes in Response to Economic and Financial Stability Challenges as a Result of the COVID-19 Pandemic (BID-33)*.

J. !GAWAXAB
GOVERNOR Windhoek, 30 September 2021

BANK OF NAMIBIA

Determination No. BID-33

POLICY CHANGES IN RESPONSE TO ECONOMIC AND FINANCIAL STABILITY CHALLENGES AS A RESULT OF THE COVID-19 PANDEMIC

PART I: PRELIMINARY

1. **Short Title** – COVID-19 Relief Measures

2. **Authorisation** – Authority for the Bank to issue this Determination is provided in terms of section 71(3) of the Banking Institutions Act, 1998 (Act No. 2 of 1998) as amended.

3. **Application** – This Determination applies to all banking institutions authorised by the Bank to conduct banking business in Namibia.

PART II: STATEMENT OF POLICY

4. **Purpose** - This Determination is issued to provide policy and regulatory changes amid economic challenges as a result of the COVID-19 pandemic in Namibia.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

5. **Policy and Regulatory Changes**

5.1. **Credit Policy Measures**

(a) **Loan Repayment Moratorium**

In accordance with the Determination on Asset Classification, the Suspension of Interest and Provisioning (BID-2), the Bank granted relief to banking institutions for a capital payment moratorium, whereby a holiday is allowed on the principal amount for a period ranging from one (1) month to a period not exceeding twenty four (24) months based on a thorough assessment of the economic and financial conditions of individual borrowers and the impact of the COVID-19 pandemic on each borrower. This comprehensive assessment must be conducted at the initial extension of any loan moratorium as well as at each subsequent extension or rollover of any loan moratorium.

Loan moratoria will be viewed cumulatively from the date of initial extension. During the repayment holiday period, interest may be capitalised subject to the condition that burden sharing shall apply during the repayment holiday period, however, capitalised interest must not amount to punitive interest as a result of benefitting from a loan moratorium. Banking institutions are prohibited from increasing interest rates above the initial contractually agreed upon interest rate subsequent to any loan moratorium provided. Banking institutions are further prohibited from charging administration fees and charges on loan moratoria extended following the initial extension. As such, clients of banking institutions may only be charged for a loan moratorium once and shall not be charged for subsequent assessment or administrative fees applicable to any rollover of this facility. This is necessary to prevent the accumulation of interest amounts and to maintain a no-borrower-worse-off principle in terms of which no borrower is placed in a worse-off position at the end of the moratorium period. The manner of burden sharing, which is not limited to reduced interest rates or a simple interest calculation, is not prescribed in this Determination but must comply with the no-borrower-worse-off principle and be demonstrable to the Bank. Each banking institution must ensure that the elected manner of burden sharing is captured within their credit administration policies and procedures and must be reviewed by the Internal Audit function during the audit review cycle.

A general payment moratorium granted to a client or group of clients shall not automatically result in an adverse classification of the loan or loan portfolio. For the purpose of this Determination, the extension of a general payment moratorium shall not be construed as the restructuring of a distressed client loan or loan portfolio under the following conditions:

(i) The moratorium was granted in response to the COVID-19 pandemic;
(ii) The moratorium is applied and is available to a broad range of defined borrowers or group of borrowers within a particular industry or market segment borrowers;
(iii) The moratorium offers the same conditions to a group of borrower; or
(iv) The moratorium does not apply to new loans granted after 1 April 2020, being the publication of the initial Determination in the Government Gazette. To this end, the use of existing credit lines or the renewal of revolving loan facilities shall not be construed as a new loan.

Where a banking institution applies any form of individual remedy, renegotiates or restructures a loan based on borrower specific factors, such measures will be construed as distressed restructuring. This prolonged or exacerbated distress may be a result of market or industry specific factors, business specific factors or general economic factors. In these cases, the specific loan or portfolio of loans may be classified as bearing a significant increase in credit risk under regulatory or accounting provisioning. Distressed restructuring must not be used to postpone the recognition of inevitable losses. Distressed restructuring should only be considered for borrowers who are cooperative and who, despite their current financial distress, demonstrate future viability and performance in accordance with the revised payment schedule evidenced by a rigorous and documented assessment. Distressed restructuring is thus viewed as a separate process and treatment to a general loan moratorium.

(b) Loan Classification

Any single loan, or portfolio of a client as applicable, which is duly assessed and granted an initial general loan moratorium of a period of one (1) to twenty four (24) months as applicable, shall not be adversely classified under regulatory loan classification. Any loan or portfolio of loans which has been granted an initial general loan moratorium must be regularly assessed throughout the duration of the moratorium in accordance with the banking institutions credit risk monitoring practices and at a minimum, quarterly for a moratorium of twelve (12) months or less and every six months for a moratorium of twelve (12) months or more.

Where a client who has been granted an initial loan moratorium seeks an extension or rollover of such a moratorium for any period, this rollover or extension must be supported by a comprehensive assessment. Further, the extension or rollover must be considered to demonstrate an increase in credit risk which warrants an adverse shift in both regulatory and accounting classification once the loan moratorium amounts to twelve (12) months cumulatively.

Any loan or portfolio of loans which was classified as non-performing under the regulatory classification before 1 April 2020 will not be eligible for a general loan moratorium as the inability to service the loan in accordance with the contractual obligations predates the advent of the COVID-19 pandemic. Such loans may only benefit from distressed restructuring and must be classified accordingly.

A positive change of the classification and provisioning status of any loan or portfolio of loans can only be made when new facility terms are established, conditions of reclassification to accrual status are agreed upon, and where both the conditions of the Determination on Asset Classification, the Suspension of Interest and Provisioning (BID-2), on the expected full repayment of interest and a sustained record of performance for a period of at least six months, are satisfied.

(c) Write Offs under the Loss Category

The Bank has resolved to amend the Determination on Asset Classification, the Suspension of Interest and Provisioning (BID-2) to lengthen the period before loans should be written off. In this regard, it was decided that any asset, which is overdue for three hundred and sixty (360) days, or more shall be classified as “Loss” and must be written-off within three (3) years after being classified as a “Loss” against the provision for loan losses account unless such loan is:

(i) well secured;

(ii) in the process of collection; and

(iii) the time needed to realise the collateral <u>does not exceed three (3) years</u> after judgement.

This change will significantly lengthen the process and the value of the collateral may deteriorate over the period. Where judgement is passed in a competent court regarding a loan that has been classified as Loss and the conditions mentioned in paragraph 5(c) have been satisfied, a period of three (3) years will be allowed for recovery to be completed failing which the loan must be written off. With pertinence to an estate being administered or the liquidation of a commercial entity, once judgement has been obtained the period of recovery may be extended to five (5) years failing which the loan must be written off.

The Bank has resolved that, at the time an asset is classified as Substandard, a banking institution shall apply a haircut of thirty (30) percent on the value of the collateral at a minimum. Further mitigation of the risk of the loss of value to collateral for the duration the asset will remain on the books of the banking institution, i.e., the recovery period, is to be addressed in accordance with the International Financial Reporting Standards (IFRS) 9 accounting models which must discount collateral by an appropriate model-based haircut. Each banking institution must submit, on an annual basis, a report from its external auditors detailing the computation and considerations of the collateral discounting applied under the IFRS 9 model

Further guidance regarding the Statutory Reporting requirements for any additional provisions raised as a result of this Determination is provided under Annexure 1.

5.2. Liquidity Relief Measures

Following industry monitoring and consultation, the outlook on liquidity indicates a deteriorating trend. Certain banking institutions have flagged liquidity risk as a concern from a forward-looking perspective. Further, industry reporting has demonstrated breaches of the mismatch position. The Bank will thus reinstate the relief on the mismatch limits for the duration of this Determination.

To this end, the two Business-as-Usual maturity mismatch limits required in terms of the Determination on Liquidity Risk Management (BID-6) will be relaxed until the repeal of this Determination. Accordingly, this demands that a banking institution's outflows in the (0 to 7 days) time bands may exceed their inflows only by the amount equivalent to the unencumbered liquid assets buffer, which is the proportion above the ten (10) percent minimum liquid assets requirement held during the period. This entails that banking institutions that hold higher liquid asset buffers may be allowed to have wider mismatches as opposed to banking institutions with smaller buffers. In addition, for the (8 to 30 days) time band, the Boards of banking institutions may decide and set their own limit.

5.3. Capital

To further support banking institutions to supply credit to the economy, the Bank has reduced the Capital Conservation Buffer rate to 0 percent for the duration of the application of this Determination. This Capital Conservation Buffer enables Domestic Systemically Important Banks to use the capital they have built up during better financial and economic conditions during times of distress.

The release of the buffer is to allow banking institutions to boost a currently distressed economy by lending to the most vulnerable economic sectors.

5.4. Concentration Risk Limit / Single Borrower Limits

The Bank has resolved to postpone the introduction of the limit in respect of the total exposures outstanding at any time to a single person or a group of related persons in terms of the Determination on Limits on Exposures to Single Borrowers, Large Exposures and Concentration Risk (BID-4), which is currently set at twenty five (25) percent since December 2019, where the limit previously stood at thirty (30) percent of a banking institution's capital funds. In postponing the effective date of implementation of the twenty five (25) percent single borrower limit, banking institutions will be allowed further scope in lending to the most vulnerable sectors during these challenging times.

5.5. Credit Bureau Reporting

Any borrower who is granted a payment relief in the form of a general loan moratorium and is otherwise performing as agreed shall not be classified as non-performing for purposes of credit reporting. The payment holiday shall not adversely affect borrowers' credit records for the duration of the moratorium unless credit classification is required in accordance with this Determination, such as an instance whereby a moratorium rollover exceeds twelve (12) months.

Therefore, any borrower who is granted a payment relief and is otherwise performing as agreed shall not be deemed to be delinquent for purposes of credit reporting. In terms of reporting credit performance information to Credit Bureaus during the COVID-19 Pandemic:

(i) All credit performance information reporting to credit bureaus should continue.
(ii) However, for accounts where a general loan repayment moratorium or relief is granted to distressed clients as a result of the COVID-19 pandemic, the account should be reported as performing (favourable) and must not be reported as non-performing with credit bureaus for twelve (12) months.

In principle, accounts that were performing before the moratorium is granted will remain classified as performing during the relief period, whereas accounts that were in arrears before the moratorium is granted will remain classified as non-performing, unless the account is brought up to date by the data subject.

5.6. Phasing out of Interventions

The interventions introduced by this Determination will be phased out incrementally over a six (6) month period following the date of expiration or revocation of this Determination. At this time, the Bank will issue guidance on the phase out requirements of the foregoing interventions.

PART IV: EFFECTIVE DATE

6. Effective Date

This Determination repeals the Determination on policy changes in response to economic and financial stability challenges, following the fallout of the Covid-19 Pandemic (BID-33) published as General Notice No. 127 in the Government Gazette on 1 April 2020.

The Determination comes into effect on the date of the publication in the *Gazette*, with transitional arrangements allowed for 15 working days from date of publication. The regulatory changes referred to in this Determination are valid until 1 April 2023, or until revoked in writing by the Bank.

Questions relating to this Determination should be addressed to:

Director
Banking Supervision Department
Bank of Namibia
Tel: 061 283 5040

ANNEXURE 1

1. With respect to statutory reporting, the Bank provides the following guidance regarding the accounting for additional provisions under the Statutory Returns **BIR-101 Statement of Financial Position** (and subsequently **BIR-201 Statement of Comprehensive Income**) as well as **BIR-401 Consolidated Return on Capital Adequacy Ratio.**

The following is thus specifically highlighted:

1.1. Additional specific provisions, where regulatory provisions are higher than accounting provisions, should be added to the provisions in line item 81 Specific Provisions of BIR-101.
1.2. Additional general provisions, where regulatory provisions are higher than accounting provisions, should be reported under non-distributable reserves, line item 39 Non-Distributable Reserves of BIR-101.
1.3. In BIR-401, the general risk reserve, with respect to additional general provisions raised, should be reported in line 36 (Certain Loan Loss Provisions), which is capped at 1.25 percent of credit risk-weighted assets.
1.4. In BIR-401 the additional specific provisions raised are not reported separately but only reflected in a decrease in Retained Income.

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