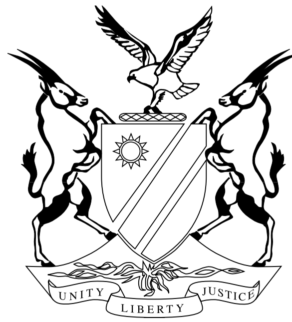

GOVERNMENT GAZETTE

OF THE

REPUBLIC OF NAMIBIA

N$8.00 WINDHOEK - 4 April 2023 No. 8061

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BANK OF NAMIBIA

No. 162 2023

BANK OF NAMIBIA: DETERMINATION ON POLICY CHANGES IN RESPONSE TO ECONOMIC AND FINANCIAL STABILITY CHALLENGES AS A RESULT OF THE COVID-19 PANDEMIC: BANKING INSTITUTIONS ACT, 1998 (ACT NO. 2 OF 1998), AS AMENDED

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, 31 March 2023

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

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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 posed by the COVID-19 pandemic in Namibia.

4.1 In respect of clients, the Determination introduces three distinct credit policy interventions which may be used separately or jointly in respect of a single client. The following policy interventions are permissible under this determination:

4.1.1 Loan Repayment Moratorium;

4.1.2 Distressed Restructuring; and

4.1.3 Prohibition on Adverse Loan Reclassification.

4.2 In respect of banking institutions, the Determination introduces relief measures relating to the following components:

4.2.1 Delayed Write-Offs under the Loss Category;

4.2.2 Concentration Risk Limit/Single Borrower Limits; and

4.2.3 Credit Bureau Reporting.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

5. Definitions - Terms used in this Determination are as defined in the Act, and further defined below, or as reasonably implied by the contextual usage.

5.1 **"Burden-sharing"** means the cost of extending a moratorium is shared between the banking institution and the client, including but not limited to reduced interest rates, and foregoing charging administrative fees in respect of credit assessments conducted.

5.2 **"Distressed Restructuring"** means any form of individual remedy, renegotiated or restructured loan, including loan payment moratorium on principal amount in respect of loans classified as non-performing, based on borrower specific factors.

5.3 **"General Loan Repayment Moratorium"** means the general legal authorisation to clients to postpone payment on either principal amount or interest or both in respect of loans classified as performing.

6. Policy and Regulatory Changes

6.1 **Credit Policy Measures**

(a) General Loan Repayment Moratorium

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 and in accordance with the Determination on Asset Classification, the Suspension of Interest and Provisioning (BID-2), the Bank hereby grants relief to banking institutions in the form of a general loan repayment 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. 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. This entails that loans with floating interest rates may be increased when the repo rate is increased, however, the spread may not be increased. 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 provided for 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 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 impact of 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; and

(iv) The moratorium is offered to new loans issued after 1 April 2020 and existing loans issued before 1 April 2020 that are classified as performing.

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.

(b) Distressed Restructuring

Distressed restructuring is viewed as a separate process and treatment to a general loan moratorium outlined in paragraph (a) above.

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 as a result of COVID-19. 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 comprehensive and documented assessment. For the purpose of this Determination, the following factors are to be considered in distressed restructuring:

(i) The distress is as a result of or was worsened by COVID-19 outbreak;

(ii) Moratorium can be extended to a restructured existing loan initially classified as non-performing, for a maximum period of six (6) months and on the principal amount only. In this regard, moratorium cannot be extended on the interest amount and full-payment of interest is expected.

(iii) A new loan can be extended to a client that is classified as non-performing if it can be demonstrated from future prospects, that such client will be in a position to honor his/her obligations on the total loan portfolio.

(iv) Moratorium can be extended to a new loan granted to a client classified as non-performing, whether the new loan is combined with the existing loans or not, for a maximum period of six (6) months and on the principal amount only.

(v) A new loan extended to a client classified as non-performing or a restructured existing loan classified as non-performing, shall retain the same classification rating as prior. A positive change of the classification and provisioning status of any new or restructured existing loan or portfolio of loans classified as non-performing, can only be considered when a sustained record of performance for a period of at least six (6) months on the expected full repayment of at least interest is established.

(c) 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 as a result of the moratorium extended. 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 institution's 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.

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; Where 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.

(d) 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, 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 does not exceed three (3) years 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 6(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.

6.2 **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). The limit 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.

6.3 **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 under the policy relief:

(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 performing clients in distress 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.

(iii) For non-performing accounts where distressed restructuring is extended, whether only on the existing loan facility or where an additional loan facility is extended, such accounts should be reported as non-performing and can only be reported as performing once a sustained record of performance for a period of at least six (6) months on the expected full repayment of at least interest, is established.

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

6.4 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. The Bank will issue guidance on the phase out requirements of the foregoing interventions 90 days prior to the expiration or revocation of this Determination.

7. Disclosure Requirements

Banking institutions are required to publish the criteria and or requirements that their clients should meet for loan moratorium consideration under both the general loan moratorium and distressed restructuring, on their websites. In addition, banking institutions may determine the appropriate medium (i.e. newspaper and/or electronic media and/or annual reports) and location to disclose the required information to the public.

8. Reporting Requirements

The banking institution shall, at the end of each month submit a return to the Bank in terms of this Determination by not later than the 26th day of the following month.

PART IV: EFFECTIVE DATE

9. 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. 668 in the Government Gazette on 16 November 2022.

The Determination comes into effect on 2 April 2023, 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 2024, or until adjusted or revoked in writing by the Bank.

Questions relating to this Determination should be addressed to:

Acting Director
Banking Supervision Department
Bank of Namibia
Tel: 061 283 5256

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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