



Frequently Asked Questions and Answers (Q & A)

Below are the most frequently asked questions received from the commercial banks with regard to the handling of loans since COVID-19.

Question 1: How do I treat loans that were granted a moratorium extension after the initial six (6) months granted by the CBCS?

Answer 1: The CBCS no longer encourages further extensions of payment moratoria in the context of its prudential regulations.

However, financial institutions can continue supporting their customers on a case-by-case basis. If a further moratorium is/was granted as part of a restructuring and/or a renewed formal agreement about payments in the context of the loan, these exposures should be treated as non-performing loans starting 90 days from the date the client should have restarted payment. In case a moratorium has been given without a change in the loan conditions, these exposures should be treated as non-performing loans starting 90 days from September 30, 2020. In these cases, 100% loan loss provisions must be taken for uncollateralized exposures. For collateralized loan exposures, please refer to section IV.5.A (Provisioning policy concerning SPL, except for consumer installment loans) in our Supervisory Regulation IV – *Regulation concerning General and Specific Provisions for Loan Losses of credit institutions*¹ (“SR IV”) to determine the percentage of specific provision to take. In all cases when a financial institution recognizes that it probably would be unable to collect all amounts due, including both interest and principal, these loans should be immediately impaired.

Question 2: How do I treat loans that were not granted a further moratorium extension after the initial six (6) months granted by the CBCS?

Answer 2: Financial institutions must ensure it remains in compliance with the applicable prudential framework, including SR IV.

Question 3: Should loans be restructured after the moratorium period ends?

Answer 3: Financial institutions are encouraged to restructure loans on a case-by case basis within the existing prudential framework after an assessment of the debtor’s financial situation and credit worthiness.

However, the restructuring of loans is not mandatory.

¹ <https://www.centralbank.cw/legislation-guidelines/credit-institutions/supervisory-regulations>

Question 4: Are blanket restructuring of loans permitted?

Answer 4: No. Financial institutions must reassess their loan exposures on a case-by case basis, taken into account the characteristics of the counterpart.

Question 5: Should loans that receive the initial moratorium be classified as non-performing after the initial moratorium period?

Answer 5: Financial institutions should not immediately change the classification of loan exposures that have received the initial moratorium. The application of the moratorium in itself should not lead to reclassification of the loan exposure unless the exposure has already been classified as performing or non-performing when the moratorium was granted.

Question 6: When should financial institutions change the loan classification of a loan?

Answer 6: As financial institutions get more certain and reliable information on the financial situation of their debtors and their ability to repay based on the loan's modified terms, they should assess whether there is a need to change the loan classification. For further treatment of these loans please refer to our SR IV.

Question 7: When should financial institutions start counting days past due for loans that received the initial moratorium?

Answer 7: Financial Institutions should start counting days past due from September 30, 2020, for loans that received the initial moratorium. For further treatment of these loans, please follow SR IV.

Question 8: When should financial institutions start counting days past due for loans that were restructured after the initial moratorium?

Answer 8: Financial Institutions should start counting days past due based on the revised loan modified terms for loans that were restructured. For further treatment of these loans please follow section IV.5.C.2 (Provisioning policy concerning restructured troubled loans) in our SR IV.

Question 9: Did the CBCS change the requirements on loan loss classification and provisioning requirements due to COVID-19?

Answer 9: No. Due to COVID-19 and the current economic climate, financial institutions should continue to regularly assess the creditworthiness of its borrowers and to exercise sound judgement. Adequate loan loss provisions must be taken according to SR IV and should be complemented with the requirements under IFRS9 taking into consideration the economic outlook implications and the reassessment of the valuation of collaterals.

Question 10: When should a financial institution impair its loans due to COVID-19?

Answer 10: In all cases, when a financial institution recognizes that it probably would be unable to collect all amounts due, including both interest and principal, these loans should be immediately impaired.