

# PRUDENTIAL REGULATIONS FOR MICROFINANCE DEPOSIT TAKING INSTITUTIONS (MDIs)

## Part 1: GENERAL

### INTRODUCTION

Pursuant to the provisions of Part II, Section 3, of the New Financial Institutions Act of 1999 and the Microfinance Regulatory and Supervisory Framework for Liberia, the Central Bank of Liberia (hereinafter referred to as “the Central Bank”) hereby promulgates and issues these regulations to regulate the establishment, operations and business conduct of microfinance deposit-taking institutions (MDIs) that seek to take deposits from the public and engage in microfinance lending.

#### 1.0 TITLE

This regulation shall be cited as Prudential Regulations for Micro-Finance Deposit-taking Institutions, Regulation No. CBL/RSD/004/2012.

#### 2.0 DEFINITIONS AND INTERPRETATIONS

In these Regulations, unless the context otherwise requires:

- i) “A **Microfinance Deposit-taking Institution**” (MDI) shall mean any person licensed to carry on the business of providing microfinance services, such as savings, loans, domestic funds transfer, and other financial services approved by the Central Bank that is targeted at the economically active, micro, small and medium enterprises and low-income earners.
- ii) “**Microfinance clients**” shall refer to low-income group who use financial services to finance their businesses, manage emergencies, acquire assets, improve homes and fund consumption by means of microfinance services or products.
- iii) “**Microfinance loans**” shall refer to unsecured loans up to US\$7,000 or its equivalent in Liberian dollars as defined in the Amended Prudential Regulations for Asset Classification, Loan Loss Provisions and Suspension of Interest on Non-performing loans, extended by any microfinance institution, or a commercial bank authorized to provide such services based on non-traditional assets-based collateral requirements.

- iv) **“Net worth”** means the paid-in-capital of a financial institution plus any reserves held by the institution, including those required by law or regulation, and any undivided profits;
- v) **“New FIA”** means the New Financial Institutions Act of 1999;
- vi) **“Central Bank”** means Central Bank of Liberia (CBL);
- vii) **“Related persons”** to a MDI are (i) any officer or director of the MDI or any person who alone or together with one or more other has the authority to enter into commitments for the account of the MDI, (ii) any principal shareholder of the MDI and (iii) any persons who is related to such officer, director or principal shareholder by marriage, consanguinity to the second degree or business interest. **“Related person”** to any officer, director or principal shareholder of a MDI means any person who is related to such person by marriage, consanguinity to the second degree or business interest;
- viii) **“Officer”** means the Chief Executive Officer (CEO), the Principal Officer (PO), any person (s) in a management role who reports directly to the CEO or PO, the internal auditor and the risk manager; and
- ix) **“Significant shareholding”** is a holding of or control over five percent or more of the voting shares of a MDI.

### 3.0 PROHIBITED ACTIVITIES

A Microfinance Deposit-taking Institution shall not:

- i) Engage in foreign exchange transactions or international commercial papers or corporate finance, international electronic funds transfer, cheque clearing activities;
- ii) Obtain any credit facility or enter into transactions using its own shares or the shares of its holding company, as security;
- iii) Engage in any business other than that for which it was licensed; and
- iv) No MDI shall engage in or finance any activity in any way related to gambling, betting or any other speculative venture or any other socially or economically undesirable activities.

## **Part 2: LICENSING**

### **4.0 REQUIREMENT TO OBTAIN A LICENSE**

- 4.01 No person shall carry on the business of a MDI without first obtaining license from the Central Bank if it has 150 clients or above and a total loan portfolio of LD10,000,000 or greater.
- 4.02 A MDI that was operating without a license because it had not reached the threshold but subsequently reaches it, must apply for a license within 90 days of reaching the threshold. The MDI may continue to operate while its application is being considered by the Central Bank.
- 4.03 An applicant for a license to conduct MDI business shall meet all the requirements of section 4 (1) of the New FIA and any other requirements set out in these regulations.

### **5.0 PERMISSIBLE ACTIVITIES**

Every person seeking to be licensed as a MDI shall be permitted to do so on a “stand alone” basis and be strictly limited to solely engaging in MDI business as defined in Section 2 above.

### **6.0 LICENSING REQUIREMENTS IN RELATION TO MDIs IN EXISTENCE BEFORE THIS REGULATION WAS PROMULGATED.**

A MDI that was in existence before these regulations came into force and has more than 150 clients and a loan portfolio greater than LD 10,000,000 must apply for a license within 90 days of the date on which the regulation came into force. The MDI may continue carrying on business during the 90 days period and/or up to the granting the final license.

### **7.0 APPLICATION FOR A MDI LICENCE**

In order to obtain a MDI license, the applicant will apply in writing to the Central Bank and will provide all the information specified in Section 4 (1) of the New FIA including but are not limited to the following:

- i) Resolution of the Board of Directors of the proposed MDI authorizing the investment;
- ii) A letter of interest to engage in microfinance service business addressed to the Executive Governor of the Central Bank;

- iii) A non-refundable application fee of US\$100.00 in bank draft or by cheque, payable to the Central Bank;
- iv) A feasibility report including a business plan and financial projections for the first three (3) years. The feasibility report shall disclose the following:
  - (a) Precise nature of the business;
  - (b) Description of activities;
  - (c) Name, address and contact information of promoters and/or significant shareholdings of at least 5%, directly or indirectly and the names and addresses of bankers (not post office addresses); and
  - (d) Ownership structure.
- v) The business plan should incorporate the proposed market segment, corporate governance, risk management analysis, financial statements and projections for a period of at least three years. It should also include a copy of the accounting policies to be adopted by the proposed MDI and the underlying assumptions;
- vi) A copy of the draft Certificate or Articles of Incorporation;
- vii) A statement of location and address in Liberia;
- viii) Name and address of registered agent in Liberia (if applicable);
- ix) Names and Curriculum Vitae (CVs) of the proposed members of the Board of Directors and officers including their background, financial position, business interests and particulars of other business concerns under their control or management. The CVs must be personally signed and dated by each of proposed Board members or officer;
- x) Undertaking by the organizers/ promoters that the proposed MDI will be adequately capitalized at all times and will comply with all national laws and regulations;
- xi) Technical Management Agreement with the parent company or significant shareholders (where applicable);
- xii) Most recent audited financial statements (where applicable) of the applicant;

- xiii) A letter of intent signed by each shareholder indicating his/her commitment to subscribe to the shares allotted to each shareholder of the proposed MDI; and
- xiv) The deposit of the statutory minimum capital requirement of US\$1 million (or as may be determined by the Central Bank from time to time) in an escrow account in favor of the subject MDI in a bank acceptable to the Central Bank prior to undertaking any organizational work. The deposit held in escrow shall be released to the MDI for use in its business if a final license is granted or returned to the applicant if the application is unsuccessful or is withdrawn.
- xv) Any other information or document as may be required by the Central Bank.

## **8.0 ASSESSMENT OF LICENSE APPLICATIONS**

In determining an application, the Central Bank shall take into account all the requirements in Part II Section 4 of the New FIA of 1999, and in particular, matters relating to:

- i) Character and fitness of the directors and officers of proposed directors and officers of the applicant who shall conform to the standards defined by the Central Bank.
- ii) The adequacy of the applicant's capital structure in relation to the nature and scale of the proposed business;
- iii) The financial position and financial history of the applicant; and
- iv) Whether the interest of potential customers will, as far as can reasonably be ascertained, be detrimentally affected by the manner in which the applicant proposed to conduct its business.

## **9.0 PROVISIONAL LICENSE**

Upon fulfillment of the requirements in section 7.0 of these regulations, the Central Bank may grant a provisional license to the applicant for a period of six months during which time the organizational process shall be completed. The MDI shall not perform or conduct any financial services during the provisional period. The provisional license may be extended by the Central Bank for justifiable reason as it may deem necessary.

## **10.0 CONDITIONS OF A PROVISIONAL LICENSE**

Upon the issuance of provisional license the organizers or promoters of the proposed MDI should satisfy the following requirements:-

- i) Undertake to ensure that organizational costs or preoperational expenses shall not exceed 25% of the statutory minimum capital;
- ii) Submit a plan of utilization of the portion of statutory minimum capital covering the organization cost or pre-operating expenses
- iii) Submit to the Central Bank regular monthly progress reports on organizational set-up.
- iv) Recruit other staff for the MDI;
- v) Ensure that the proposed MDI will not advertise or display its name until a full license is issued; and
- vi) Commit to ensure compliance with the minimum capital requirement at all times.

## **11.0 MINIMUM REQUIREMENTS FOR PREMISES**

The premises where a MDI is licensed to operate shall meet the following minimum requirements:

- i) Evidence of a lease agreement where the premises are on lease or a Certificate of Title where the premises are owned by the MDI;
- ii) Adequate security measures in keeping with the Central Bank's Directive on Vault Security and Surveillance System of Financial Institution; and Any other requirements as may be advised by the Central Bank.

## **12.0 USE OF NAME**

- i) No MDI shall be granted license under a name which so closely resembles the name of the holder of an existing licensed financial institution as would likely mislead the public. When this happens or upon investigation by the Central Bank, the Central Bank shall request the last grantee of a license to change its name.
- ii) No MDI shall alter or change its licensed name without the prior approval of the Central Bank.

### **13.0 GRANTING OF FINAL LICENSE**

An applicant for a MDI license shall be required to meet all of the requirements stated in 7.0 & 10.0 above and payment of a license fee of US\$5,000 (or such other amount as may be determined from time to time by the Central Bank,) before obtaining a final license.

Where the requirements under Section 10.0 above have been fulfilled, and the Central Bank has issued a provisional license, the applicant shall be required to provide evidence of fulfillment of the minimum requirements of its premises. When the premises are ready, the Central Bank shall conduct a pre-opening inspection.

After satisfying itself of the applicant's compliance with all outstanding requirements based on the pre-opening inspection report, the Central Bank may grant a final license.

### **14.0 CONDITIONS ON A LICENSE AND VALIDITY OF A LICENSE**

When a license is granted, it is subject to a number of conditions as may be imposed by the Central Bank and is valid until revoked by the Central Bank or surrendered by the MDI. A MDI license is not transferable or assignable.

### **15.0 GROUNDS ON WHICH THE CENTRAL BANK MAY REVOKE A LICENSE**

For the grounds and process for revoking a license, Sections 11 and 12 of the New FIA shall apply to MDIs.

In addition to Sections 11 and 12, the grounds for revoking a license granted to a MDI may be any or all of the following:

- i) Where the MDI has failed to fulfill or comply with the terms and conditions stipulated in the license;
- ii) Submission of false information/data during and/or after the processing of the application for license;
- iii) Engaging in functions/activities outside the scope of its license as specified in Section 3.0 of these regulations;
- iv) Failure to comply with requests for information/data in the form required/specified by Central Bank;

- v) Engaging in any activity involving money laundering, financing terrorist activity or any other financial crime;
- vi) Failure to commence business within 6 months of being granted a final license;
- vii) Failure to redeem matured obligations to customers;
- viii) Failure to comply with any directives, regulations or guidelines issued by Central Bank;
- ix) Failure to pay the annual operating levy; and/or
- x) Any other act(s) which in the opinion of Central Bank constitute(s) a violation or serious infringement of the law or regulation.

#### **16.0 DECISION TO RECONSIDER A LICENSE OR REFUSAL TO GRANT A LICENSE**

Where the Central Bank refuses to grant a license it shall notify the applicant in writing and may give reasons for its decision.

The applicant, as the case may be, may apply to the Central Bank in writing seeking a review of the decision. Any application for review must address the reasons given by the Central Bank in its initial decision. The Central Bank may uphold or reconsider its initial decision.

#### **17.0 DISPLAY OF LICENSE**

A MDI must display at a conspicuous or prominent place in its premises the license obtained from the Central Bank and the registration certificate(s) from the appropriate government entity (ies).

### **Part 3: ONGOING REQUIREMENTS**

#### **18.0 OPENING/CLOSING OF BRANCHES OF MDI**

A MDI wishing to open or close a branch shall seek the prior approval of the Central Bank, subject to the requirements of Central Bank Guidelines concerning the Expansion and Closure of Branches and/or Windows. The application for approval shall contain the following information:

- i) a three year financial projection of the branch; and

- ii) Other requirements as set out in the Directive Concerning the Expansion and Closure of Branches and/or Window.

Any MDI that fails to obtain the approval of the Central Bank before commencing any organizational work such as construction, renovation, or other related works or activities on a branch shall be in breach of the regulations and shall be subjected to appropriate supervisory sanction (s), including but not limited to non-approval of such branches.

## **19.0 ANNUAL OPERATING LEVY**

A MDI shall pay an annual operating levy of US \$2,500.00 or such other amount as may be determined by the Central Bank from time to time. Failure to pay the operating levy shall lead to the revocation of a license.

## **20.0 PROVISIONS RELATING TO ADVERTISING, MAKING LOANS OR GRANTING CREDIT**

### **20.1 DISPLAY OF INTEREST RATES**

Every MDI shall display on a daily basis in a conspicuous place at its Head Office and branches, its interest rates, related fees and commissions. Interest rates shall be applied on a monthly declining basis which requires the computation of interest on the total principal amount outstanding for each month of the tenor of the loan. Any MDI contravening this provision shall be liable to a fine of not less than L\$100,000.00 for each day of violation and/or supervisory sanctions as deemed appropriate by the CBL.

Every MDI shall be required to submit periodic reports on its lending rates to the Central Bank in a form prescribed by the Central Bank.

### **20.2 FALSE AND MISLEADING INFORMATION**

Without prejudice to sections 30,31 and 32 of the New FIA, if the Central Bank considers that information that has been conveyed either orally or in writing about the MDI or any product which is offering is or may be misleading, it may ban its publication or distribution, and order that an appropriate correction is published or distributed by a specified deadline. Any MDI that does not withdraw or amend the information as the case may be by the specified deadline shall be liable to a fine of not less than L\$100,000.00 for each day of the violation and or other supervisory sanctions as deemed appropriate by the Central Bank.

### **20.3 POTENTIAL BORROWERS' INFORMATION AND ASSESSMENT**

Prior to making a loan or granting any credit to a borrower, the MDI shall make sufficient enquiries of the financial position of the borrower to satisfy itself that under all reasonable circumstances, the borrower is able to repay the loan or the credit. Where the borrower is indebted to another financial institution(s), the MDI may make enquiries of the performance of the loan or credit from that financial institution(s) and /or the credit reference registry or bureau.

### **20.4 LOANS TO BE EVIDENCED IN A WRITTEN CONTRACT**

Each loan or credit given by the MDI shall be evidenced in a legally binding written contract executed by the MDI and the borrower. The contract shall include as a minimum:

- i) The parties;
- ii) The amount of the loan;
- iii) The date of the loan;
- iv) The term;
- v) The interest rate;
- vi) Any other charges or fees that will be applicable to the loan or credit;
- vii) The amount and frequency of the repayment;
- viii) Any securities;
- ix) The rights of the MDI to adjust interest rate (if applicable);
- x) The rights of the MDI to secure repayment if the borrower defaults on payments;
- xi) The obligations of the MDI not to act harshly and unconscionably;
- xii) The obligation of the borrower to repay as per the agreed repayments;
- xiii) The obligations of the borrower to notify the MDI of any circumstances that are preventing the borrower meeting the repayment as and when they are due;

- xiv) How the borrower can seek redress against the MDI for acting harshly and unconscionably.

If the Central Bank considers that a contract does not provide sufficient information for the borrower to understand his or her rights and obligations, it may ban its use, and order that an appropriate correction is made by a specified deadline. Any MDI that does not make the appropriate correction by the specified deadline shall be liable to a fine of not less than L\$100,000.00 for each day of the violation and /or other supervisory sanctions as deemed appropriate by the Central Bank.

Prior to the disbursing any loan or credit to a borrower, the MDI shall explain to the borrower his or her rights and obligations under the contract.

## **20.5 CONSUMER REDRESS**

A borrower who is aggrieved by a decision of the MDI may refer the matter to the Consumer Protection Unit of the Central Bank for redress. The Central Bank may uphold, overturn or modify the decision of the MDI or take such supervisory action as it deems appropriate. The decision of the Central Bank shall be binding on the MDI.

## **Part 4: CORPORATE GOVERNANCE**

### **21.0 PROVISIONS RELATING TO CORPORATE GOVERNANCE**

#### **21.1 COMPOSITION OF BOARD AND ELIGIBILITY OF DIRECTORS**

Each MDI shall have a Board of Directors which is responsible for the sound and proper functioning of the MDI and is accountable for its actions and activities to the shareholders and the Central Bank. The maximum number of directors on the Board of a MDI shall be seven (7) while the minimum shall be three (3). To qualify for the position of a director in a MDI, the person(s) must not be a current employee(s) or a director(s) of any bank or financial institution, except the MDI is promoted by a bank or other financial institution and that the would-be board member is representing the interest of such institution (s), in keeping with Section 9 (g) of the new FIA of 1999.

#### **21.2 APPROVAL OF DIRECTORS AND OFFICERS**

Appointment of directors of a MDI shall be done in keeping with Section 74 of the new FIA of 1999 which requires the Central Bank's written approval of such appointment.

### 21.3 CORPORATE GOVERNANCE STANDARD TO BE APPLIED TO DIRECTORS AND OFFICERS

Directors and officers are required to adhere to the corporate governance standards defined in the CBL's Corporate Governance Regulation for Financial Institutions.

### 21.4 DEALING WITH CONFLICTS OF INTEREST

Every Director or Officer of a MDI that holds any office or possesses any property whereby, whether directly or indirectly, such duties or interests might create conflict with his duties or interest as a Director or Officer of the MDI, shall declare to the full Board, the fact and the nature, character and extent of such interests. Any Director or Officer who has a conflict of interest shall not be present at any meeting at which the matter that has created the conflict is discussed or voted upon. Any Director or Officer who contravenes this provision shall be liable to a fine not exceeding L\$150,000 and/or be removed from office.

### 21.5 LIMIT ON LOANS TO DIRECTORS, OFFICERS AND EMPLOYEES OR RELATED PARTIES

A MDI may grant to any director or any related party or relation a loan or credit facility whether directly or indirectly, provided that the total indebtedness to the MDI of the Director or any related party does not exceed 1% of the net worth of the MDI.

A MDI may grant to an Officer or employee a loan or credit facility whether directly or indirectly, provided that the total indebtedness of the officer or employee to the MDI does not exceed an amount equal to one year consolidated salary of that individual.

### 21.6 THE POWER OF THE CENTRAL BANK TO REMOVE DIRECTORS AND OFFICERS

The Central Bank may, for reasonable cause-

- a) suspend or remove a director of a MDI; and
- b) suspend or remove the entire board of directors of a MDI;

For the purpose of this regulation, "reasonable cause" shall include:

- (i) failure to exercise fiduciary responsibility;
- (ii) exhibiting any act detrimental to the reputation of the MDI or its customers; and
- (iii) failure to comply with or ensure compliance of the MDI with supervisory directives.

## **Part 5: FINANCIAL, ACCOUNTING, DISCLOSURE AND AUDIT**

## REQUIREMENTS

### 22.0 SOURCE OF FUNDS

The sources of funds of a MDI shall consist of the following:

- i) Shareholders' funds – paid up share capital and reserves;
- ii) Deposits by customers;
- iii) Debenture/qualifying medium to long-term loans; and
- iv) Grants/donations from individuals, organizations, national government, and international sources.

### 23.0 CAPITAL ADEQUACY REQUIREMENTS

A MDI shall maintain a minimum capital ratio of not less than 10% of risk-weighted assets or such other ratio as may be determined from time to time by the Central Bank. The items that are eligible to be included as capital, the risk weights attached to different classes of assets and the method of calculation are prescribed in CBL's Regulation Concerning Capital Adequacy. When the ratio falls below the prescribed level, the MDI shall not do any of the following without the approval of the Central Bank until the required ratio is restored:

- i) Grant credits and make further investment;
- ii) Pay dividend to shareholders; and
- iii) Borrow from the investing public or take deposits.
- iv) Any other supervisory measures deem necessary by the CBL.

In addition to the above-mentioned measures, the MDI shall be required to submit within a specified period to be determined by the Central Bank, a recapitalization plan acceptable to the Central Bank.

Failure to comply with any or all of the above may constitute grounds for the revocation of the license of the MDI or require such other penalties as may be deemed appropriate by the Central Bank. MDI are enjoined to ensure that their shareholders' funds do NOT fall below the minimum capital requirements.

## **24. TRANSFERS TO STATUTORY RESERVE**

A MDI will be required to maintain a statutory reserve account in its financials. Transfer to Statutory Reserve from profit after tax shall be at a minimum of 25% until the Statutory Reserve equals the paid-up capital and a minimum of 15% thereafter until the balance of the Statutory Reserve equals twice the paid up share capital of the MDI. The transfer will occur annually at the conclusion of the annual audit and the net profit will be that determined after the conclusion of the audit. The Central Bank may vary from time to time the proportion of net profit transferable to Statutory Reserves. The Central Bank mandates that no accretion shall be made to the Statutory Reserve or any other reserves of the MDI until the MDI satisfies the following conditions:

- i) All preliminary and pre-operational expenses have been amortized in accordance with the CBL Manual of Accounting Guidelines and International Financial Reporting Standards;
- ii) All preliminary losses have been made for loans/assets deterioration; and
- iii) All identifiable losses have been fully provided for.

## **25.0 MINIMUM LIQUIDITY**

A MDI shall be required to maintain a minimum liquidity ratio of ten per cent (10%) (or such other ratio that the Central Bank may determine from time to time) of specified liquid assets against deposit liabilities including accrued interest. Specified liquid assets shall include cash, treasury bills and domestic short-term investments with NOT more than 180 days to maturity.

A MDI which has breached the minimum liquidity requirement shall notify the Central Bank immediately it has discovered the breach and must cease making loans until the liquidity ratio is restored to the minimum required, unless authorized by the Central Bank to do otherwise.

A MDI will be required to maintain both a reserve requirement account in accordance with CBL's Regulation on the Computation and Maintenance of Reserve Requirement and also a current account at Central Bank.

## **26.0 ASSEST CLASSIFICATION**

Each MDI shall review at least once every thirty days, its loans and advances and other investments and make appropriate provisions for loan losses. A MDI shall comply with

CBL's Amended Prudential Regulation for Asset Classification, Provision for Loan Losses and Suspension of Interest on Non-Performing Loans and Advances, except that the minimum provision shall be the following in lieu of the minimum provisions prescribed in that regulation:

- *General provision* – 1% of the aggregate balance of performing loans;
- *Non- performing loans:*
- 1-30 days in arrears -----20%
- 31-90 days in arrears----50%
- >90 days in arrears---100%

Every MDI shall separately disclose in its audited financial statements the specific and general loan loss provisions made for loans.

Every MDI shall submit to the Central Bank each month a schedule of loans, showing the provisions made for losses or deterioration in the quality of its loans.

## **27.0 OTHER INVESTMENTS**

A MDI can invest funds not immediately required for its use in the following classes of assets:

- i) Securities issued by or guaranteed by the Government of Liberia with a maturity within 180 days;
- ii) Deposits with banks licensed by the Central Bank with a maturity within 180 days;
- iii) Real estate for own use; provided that the total value of real estate does not exceed 25% of the net worth of the MDI.

## **28.0 PAYMENT OF DIVIDENDS**

A MDI shall not pay dividend until it satisfies the following conditions which are subject to verification by the Central Bank:

- i) All accumulated losses have been fully absorbed and written off;
- ii) All preliminary and pre-operational expenses have been amortized in accordance with the MDI's accounting policies and International Financial Reporting Standards;

- iii) Capital Adequacy ratio has been met;
- iv) All maturing obligations have been met; and
- v) The transfers to the Statutory Reserve as required by Section 24.0 have been made.

### **29.0 LIMIT ON LENDING TO SINGLE BORROWER OR GROUP OF RELATED BORROWERS**

The maximum amount of loan that can be extended by a MDI to any one person or group of related borrowers or maximum investment in any one venture by a MDI shall not exceed 1% of the MDI's net worth or as may be prescribed by the Central Bank from time to time. Any contravention of this requirement will attract a supervisory sanction on the MDI and/or, on the directors/officers who fail to comply with this provision.

### **30.0 ACCOUNTING**

The management of a MDI shall ensure that proper accounting records and systems are maintained, sound operational procedures formulated and implemented and adequate internal controls put in place. The management should particularly ensure:

- i) The accuracy and reliability of the accounting system in keeping with the general acceptable standards;
- ii) The establishment of an adequate and effective management information system;
- iii) The accuracy and reliability of the operational reports and prudential returns submitted to the Central Bank.

### **31.0 INTERNAL AUDIT**

Every MDI shall have an Internal Audit system (i.e. Unit, Section or Department) which should ensure that its operations conform to the law as well as, to its internal rules and regulations. Every fraud or attempted fraud must be promptly reported to the Regulation & Supervision Department of the Central Bank.

### **32.0 REPORTING AND DISCLOSURE TO SHAREHOLDERS**

The Board of Directors shall ensure the preparation of annual audited financial annual accounts for disclosure to the shareholders in accordance with the constitution or rules of the MDI and the Central Bank.

The annual audited financial accounts to be submitted to the shareholders shall be accompanied by a report of the Directors detailing the following:

- i) Method used to determine specific and general provisions and key assumptions used;
- ii) The risk management and control policies and practices adopted by the MDI, relating to the credit risk of the loan portfolio and other risks entailed in its operations;
- iii) Balances of advances, impaired loans and past due loans by major categories of borrowers and the amounts of specific and general provisions established against each category;
- iv) Balances of loans where accrual of interest in accordance with the terms of the original loan agreement has ceased because of the deterioration of credit quality;
- v) Balances of advances and other information about the loans that have been rescheduled or renegotiated during the year;
- vi) Information about significant concentrations of credit risk; and
- vii) Contractual obligations with respect to recourse arrangement and the expected losses under these arrangements.

The Management of a MDI shall include in their comments on the audited financial accounts, the following:

- i) The performance of the MDI during the period under review with particular reference to:-
  - a. The reliability and composition of reported earnings;
  - b. The breakdown and analysis of operating costs; and
  - c. Key prudential ratios including liquidity and capital adequacy ratios.
- ii) The accounting policies and valuation criteria applied in the preparation of the accounts;

- iii) The adequacy of provisions made against the loan portfolio, investments and other assets;
- iv) Reclassifications and other adjustments made by the auditor to the accounts originally submitted for audit; and
- v) Details of any areas where generally accepted accounting principles have not been complied with or disagreement exists between the management and the external auditor.

### **33.0 PUBLICATION OF AUDITED ACCOUNTS**

In accordance with Section 21 of the New FIA of 1999 and CBL Regulations Concerning Audit of Financial Institutions and Publication of Financial Statements, every MDI shall submit copy of its audited financial statements to the Central Bank for review and approval not later than three months after the end of the institution's financial year. After approval, the MDI shall publish the abridged version of the accounts in at least two (2) national daily newspapers. Every published account shall disclose in detail the penalties imposed by the Central Bank, if any.

### **34.0 APPOINTMENT OF EXTERNAL AUDITOR**

In keeping with Section 21 of the New FIA of 1999, every financial institution shall appoint an external auditing firm to conduct a full review of its financial condition, internal controls and risk management system for each year end. For each annual audit, the appointment of the external auditor shall require the prior approval of the Central Bank, before the commencement of any such audit.

The appointment of an auditor shall satisfy the minimum requirements stated in the Regulations Concerning Corporate Governance for Financial Institutions and Audit of Banks and the Publication of Financial Statements.

## **Part 6: SUPERVISION**

### **35.0 ONGOING EXAMINATION**

The provisions of Section 22 of the New FIA relating to examination shall apply in entirety to MDIs.

### **36.0 REPORTING TO THE CENTRAL BANK**

Every MDI shall be required to submit to the Central Bank at such intervals and in such form, returns, documents, statistics and such other information as the Central Bank may specify from time to time and in keeping with Section 24 of the New FIA.

Notwithstanding the general requirements stated above, a MDI shall provide:

- i) A monthly return detailing its lending rates in a form prescribed by the Central Bank;
- ii) A monthly report on frauds and forgeries affecting the institution and any default in meeting any obligation to lenders or investors; where no frauds/forgeries and defaults occurred during the quarter, a Nil return shall be forwarded.
- iii) A monthly schedule of loans/investments, showing the provisions made for losses or deterioration in the quality of its loans.
- iv) A monthly schedule of all investments, including details of the counterparty, the term to maturity, the purchase price and the current market value where appropriate

These returns shall be submitted on the 10<sup>th</sup> day after the month has ended.

### **37.0 PENALTIES FOR LATE OR FALSE/INACCURATE RETURNS OR OTHER INFORMATION**

For lateness in submitting returns/furnishing any information required, the penalty shall be a fine of not less than L\$75,000.00 for each day of violation. Persistent failure/refusal to render returns in the prescribed format and on time shall be a ground for the suspension and/or revocation of license.

Where the Central Bank considers it necessary, it may appoint a certified accounting firm to prepare proper books of account or render accurate returns, as the case may be, for the MDI concerned and the cost of preparing the account or rendering the returns shall be borne by the MDI.

If any director or officer of a MDI fails to take all reasonable steps to ensure that proper books of accounts are kept with respect to all transactions of the MDI or at its head office and/or branches, the Central Bank may impose on such director or officer a fine not exceeding L\$ 75,000.00. If any default in this respect is caused by the willful act of any director or officer of the MDI, the Central Bank may impose on him a fine not exceeding L\$75,000.00 or cause the removal of such director or officer in order to

protect the integrity of the institution. In addition, the Central Bank may impose on the MDI such other penalties as it may deem appropriate.

If any return/information is not supplied accurately or is misleading/false, the MDI shall pay a fine of L\$75,000.00 in respect of each day during which such violation occur. The Central Bank may revoke the license of such MDI for refusal to correct the default or failure to pay the fine or failure to submit the report.

### **38.0 RESTRUCTURING AND RE-ORGANIZATION OF MDI**

Except with the prior consent of the Central Bank, no MDI shall enter into an agreement or arrangement:

- i) which results in a change in the control of the MDI;
- ii) for the sale, disposal or transfer of the whole or any part of the business of the MDI;
- iii) for the amalgamation or merger of the MDI with any other company;
- iv) for the restructuring of the MDI; and/or
- v) to employ a management agent or to transfer its business to any such agent.

### **39.0 AMENDMENTS**

The Central Bank reserves the right to amend or revise these rules and regulations from time to time as the need arises.

### **40.0 EFFECTIVE DATE**

These regulations shall take effect upon publication in Official Gazette and shall remain in force until otherwise advised by the Central Bank.

Issued this \_\_\_\_\_ *day of* \_\_\_\_\_, A.D. 2012 in the city of Monrovia, Republic of Liberia.

By order of the President

Minister of Foreign Affairs  
Ministry of Foreign Affairs

Monrovia, Liberia

Date: \_\_\_\_\_