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EXTRAORDINARY

The Government of the Republic of Liberia announces that the Central Bank of Liberia (CBL), pursuant to its mandate under the Central Bank of Liberia Act of 1999 and its authority under the Financial Institutions Act of 1999, and specifically consistent with Section 55 of the said Central Bank of Liberia Act of 1999 and Section 39 of the Financial Institutions Act of 1999, has issued on July 1, 2014, its Regulation No. CBL/RSD/005/2014 amending Section 3.15 of Regulation No. CBL/SD/007/2011 and including two new sections (3.16 and 3.17):

**CONCERNING  
PRUDENTIAL REGULATIONS FOR ASSET CLASSIFICATION,  
PROVISIONS FOR LOAN LOSSES AND SUSPENSION OF INTEREST ON  
NON-PERFORMING LOANS AND ADVANCES**

BY ORDER OF THE PRESIDENT

AUGUSTINE KPEHE NGAFUAN  
MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS  
MONROVIA, LIBERIA

JULY 1, 2014

**PRUDENTIAL REGULATIONS FOR ASSET CLASSIFICATION, PROVISIONS FOR LOAN LOSSES AND SUSPENSION ON INTEREST ON NON-PERFORMING LOANS AND ADVANCES**

**1.00 INTRODUCTION**

In accordance with the provisions of Section 14(2) and Section 20(7) of the New Financial Institutions Act of 1999 and without prejudice to the requirements of the International Accounting Standard (IAS), all licensed banks shall be required to adhere to the regulations enunciated in this circular. The following regulations are the minimum requirements that all licensed banks shall observe and banks which already have more stringent policies and practices in place should continue with them.

The amendment herein refers to section 3.15 with regard to Restructured or Roll-over Loans, section 3.16 Restructured and Performing Loans and section 3.17 on Write-Off Loans.

**2.00 CREDIT RISK MANAGEMENT**

Licensed banks shall be required to maintain sound and acceptable policies and practices to prudently manage and control their credit portfolio and exposure to credit risks. The credit risk management should provide, at minimum, a credit policy and credit review process.

**2.10 Credit Policy**

The credit policy should be clearly documented, should contain as minimum, the following:

- a) General Areas of Credit which include types of loans and advances and borrowers, sectors, etc.
- b) Delegation of Authority indicating appropriate levels for credit approvals, portfolio concentration limits, provisions or write-offs.
- c) Procedure for evaluation, grant, documentation and Collection of credits.
- d) Requirements for Credit File. A credit file should be maintained in such manner as to facilitate proper review of the credit to permit assessment of the borrowers' repayment prospects. It should contain, at a minimum, the identification of the borrower (name, type of business, connected parties, etc), evidence of the authority to borrow, financial statements, purpose and terms of credit, details of collateral, credit authorization, repayment history and internal credit reviews.
- e) Internal Credit Inspection & Audit.

**2.20 Credit Portfolio Review**

Licensed banks shall establish adequate procedures to effectively monitor and control their credits so as to be aware of the borrowers' current financial condition, ensure that the collaterals are adequate, ascertain that the credits are in compliance with the terms &

conditions of grant, and to provide early identification and classification of potential problem credits.

The licensed banks shall, therefore, review their credit portfolios continuously [at least once in a quarter] with the view to recognizing any deterioration in credit quality. Such reviews should systematically and realistically classify the banks' credit exposures based on the perceived risks of default. In order to facilitate the classification of the credit portfolio, the assessment of risk of default should be based on criteria which should include, but are not limited to repayment performance, borrower's repayment capacity on the basis of current financial condition and net realizable value of collateral.

### 2.30 **Loan Payments**

Loan or authorized overdraft payments may be made from checking/deposit accounts of customers. However, there shall be no loan payment applied to unfunded checking/deposit accounts. This means that loan payment through checking/deposit accounts shall be allowed only to the extent of the amount in the customer's account. The unfunded portion of the loan shall remain part of the outstanding loan amount, and not converted into an overdraft.

### 3.00 **ASSET CLASSIFICATION**

The loans and advances subject to this regulation shall include Loans and Advances, Overdrafts, Commercial Papers, Bankers Acceptances, Bills Discounted, Lease Financing, Hire Purchase Loans and Off-Balance Sheet Items.

Loans and Advances should be classified in the following five categories which will determine the level of provisions required against the perceived or anticipated diminution in asset quality;

- a) Current or Performing
- b) Other Loans Especially Mentioned (OLEM or Cristable)
- c) Substandard
- d) Doubtful
- e) Loss

### 3.10 **Current or Performing**

Loans and Advances are deemed to be performing if the payments of both principal and interest are up-to-date in accordance with the agreed terms. An overdraft would be regarded as current if there was regular activity on the account with no sign of a hard core of debt developing.

### 3.11 **OLEM Loans and Advances**

Loans and Advances in this category are currently protected by adequate security, both as to principal and interest, but they are potentially weak and vulnerable to credit risk, although not to the point of justifying the classification "Substandard". The credit risk may be relatively minor yet constitute an unwarranted risk in the light of circumstances surrounding a specific

case. The weaknesses, may, if not checked or corrected, weaken the asset or inadequately protect the bank's credit position at some future date.

This category would include loans and advances that are unusual due to their nature, the customer or project; loans in respect of which financial information is lacking; the lending officer may be unable to supervise the loan properly because of lack of expertise; an inadequate loan agreement; the condition of and control over collateral may require improvement; or any other deviations from prudent lending practices. Banks are required to keep such loans and advances in the Watch List so as to properly and closely monitor them.

### **3.12 Sub-Standard Loans and Advances**

Non-performing loans and advances for which the principal and/or the interest remain outstanding for ninety (90) days but less than one hundred and eighty (180) days shall be classified substandard.

Overdrafts and other credits without pre-established repayment programs are considered Substandard when the advances exceed the customer's borrowing line for ninety (90) consecutive days but less than one hundred and eighty (180) days; or the borrowing line has expired for ninety (90) days but less than one hundred and eighty (180) days; or interest is due and unpaid for ninety (90) days but less than one hundred and eighty (180) days and deposits are insufficient to cover the interest capitalized during the period. The principal balance outstanding (and not the unpaid amounts) is used in determining the aggregate amount of past-due obligations.

Substandard loans and advances show clear manifestations of credit weaknesses that jeopardize the liquidation of the debt. Substandard loans and advances include loans to borrowers whose cash flows are not sufficient to meet currently maturing debts, loans to borrowers which are significantly under capitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs. Substandard loans and advances are not protected by the current sound worth and paying ability of the customer. In this respect, the bank will need to rely on the secondary sources of repayment such as collateral or fresh capital to service the debt.

### **3.13 Doubtful Loans and Advances**

Non-performing loans and advances for which the principal and/or the interest remain outstanding for one hundred and eighty (180) days but less than three hundred and sixty (360) days shall be classified doubtful.

Doubtful loans and advances display all the weakness inherent in loans and advances classified as sub-standard but with the added characteristics that they are not well secured and the weaknesses make collection or liquidation in full, on the basis of currently available information, highly questionable and improbable.

The possibility of loss is extremely high, but because of certain mitigating circumstances, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is postponed until its more defined status is ascertained.

3.14 **Loss Loans and Advances**

Non-performing loans and advances for which the principal and/or the interest remain outstanding for three hundred and sixty (360) days or more shall be classified as loss.

Loans and advances shall be classified as loss where they are considered uncollectible and of such little value that their continuation as recoverable facilities is not defensible. This classification does not imply that the facility has absolutely no recoverable value, but rather it is not practical or desirable to defer making full provisions for the facility even though partial recover in future may not be entirely ruled out. Loans and advances classified as loss include those to bankrupt companies and insolvent firms with negative working capital and cash flow or those to judgment debtors with no means or foreclosable collateral to settle the debts. **Licensed banks should not retain such facilities on their books while pursuing long-term recoveries. Losses should be taken in the period in which the surface as uncollectible.**

3.15 **Restructured or Rolled-over Loans and Advances**

Loans and advances classified as Substandard, Doubtful or Loss, shall be renewed, rolled over or returned to accrual status on a case-by-case basis, to allow greater flexibility in loan restructuring. However, loans must remain as substandard, until borrowers perform under the new repayment schedule for at least a six-month period for quarterly loan repayment schedule and three-month period for monthly or less loan repayment period.

3.16 **Restructured and Performing Loans**

Financial institutions shall on a monthly basis submit to the CBL the status of all restructured loans.

3.17 **Write-Off Loans**

- a) As a minimum requirement, financial institutions involved in providing credit services are to write-off a loan when the loan is deemed uncollectible and additional collection efforts are non-productive or worthwhile, regardless of the number of months of delinquency. However, in no case should a loan classified as loss remain on the books of a bank for two years or more.
- b) Any loans that are determined to have been made as a result of fraudulent activities of a borrower or collusion between the borrower and the bank's relationship officer or staff member or any other type of fraud relating to acquisition of a loan must be written-off immediately.
- c) Loans which have been past due two years or more and either (i) the borrower cannot be located or there has been no contact with the borrower, or (ii) legal proceedings have

not been initiated against the borrower must be written-off. The provisions of this regulation shall take immediate effect and apply retroactively to the loan portfolio.

- d) Without prejudice to Section 3.17 above, each financial institution is required to have a well-defined and transparent write-off policy approved by its Board of Directors (BoD).
- e) Before considering/processing of a write off proposal, banks shall adhere to following minimum requirements:
  - i) ensure that reasonable efforts have been made to recover the outstanding loan amount.
  - ii) ensure that there is substantial evidence that the debt is uncollectible. There is evidence of uncollectibility if one or more of the following circumstances are present:-
    - \* the debtor is insolvent and the debt in question has been discharged in a bankruptcy proceeding;
    - \* the debtor has died leaving no assets or the assets are insufficient to repay the debt;
    - \* the debtor has become incapacitated, and has no income or income is insufficient to permit repayment of the obligation;
    - \* the debtor is a legal person that has ceased operation and has assets insufficient to pay the debt, or has suffered a crippling business loss and there is no reasonable expectation that the debtor will recover or otherwise be financially competent to repay the obligation.
  - iii) establish that all available means have been exerted to verify that the borrower(s) has not created other business interests and assets out of the non-performing loans proposed to be written off and the loan is truly irrecoverable.
  - iv) Assets held by the banks as security for these loans should be re-valued/appraised at the time of write-off. The valuation report shall clearly indicate amongst others, the present market value as well as forced sale value. The valuation should be conducted through a credible appraisal.
- f) The write-off of loans, if any, in the names of Directors, Chief Executives, shareholders of the bank or their relatives/dependents as well as related entities/institutions shall require prior approval of the Board of Directors and the Central Bank.
- g) Banks are to submit to the Central Bank of Liberia on a monthly basis, a report on loans written off with necessary details in respect of those loans.

#### 4.00 **SECURITY**

All loans and advances to customers and staff should be well secured on the grounds of prudence. Well secured means that a facility is secured by collateral that is sufficient to protect the licensed banks from loss of principal and/or interest through its timely relaxation or under a forced sale program. Sufficiency implies the availability of proper and enforceable legal documentation, a net realizable market value which is adequate to cover the principal and interest outstanding, and the absence of prior and subsisting liens and charges on the collateral which could diminish its value or otherwise prevent the licensed bank from acquiring an indefeasible title. In addition, the collateral must be tangible and amenable to foreclosure.

Given the existing credit environment where there are still challenges with foreclosure of properties held as security, only the below-listed security shall be considered in the calculation of loan loss provisions:

- cash or cash-substitutes, (e.g. treasury bills, other readily realizable securities and liens on deposit accounts); and
- the full value of security or collateral of readily marketable goods which remains under the control of the bank and for which the bank retains a security interest. The time required to realize the full value of the collateral shall not exceed one (1) year. Failure to meet this condition, the collateral shall be disallowed in the calculation of loan loss provisions.

For the purpose of making provisions for substandard and doubtful loans, real property and inventory can only be considered subject to the following conditions:

**[a] Property**

- [i] The property should be readily realizable and in the process of collection. This means legal action including enforcement of judgment against the borrower or other reasonable collection strategies which could result in to timely repayment of the facility. The time required to realize the collateral shall not exceed one (1) year from the date of the legal action.
- [ii] The outstanding un-provided portion of the loans and advances should not exceed fifty (50%) percent of the net realizable value of the collateral.

**[b] Inventories**

- [i] They shall be readily marketable goods remaining under the control of the bank for which the bank retains a security interests. The time required to realize the collateral shall not exceed one (1) year.
- [ii] The collateral must be properly assigned, must be fully insured with the bank name as loss payee, and must be recently appraised/valued in good faith by a Committee in the bank. Bank credit files must document the basis and currency of the valuation.
- [iii] The outstanding unprovided portion of the loans and advances should not exceed fifty (50%) percent of the net realizable value of the collateral.

**[c]** For loans and advances that are classified as loss (i.e. after a period of one year), the values of the property, inventories, or readily marketable goods shall not be recognized in making provisions for loans losses.

Where a licensed bank successfully obtains legal title to property but is unable to sell it immediately, the licensed banks should have the asset valued. Any difference between the

carrying amount of the facility and the valuation of the asset should be written off/back to provisions for loans losses. The asset should thereafter be carried at its new valuation.

5.00 **SUSPENSION OF INTEREST ON NON-PERFORMING LOANS AND ADVANCES**

The following regulations shall apply to accrual and suspension of interest on all loans and advances classified as substandard, doubtful or loss.

- [a] All categories of non-performing loans and advances classified as Substandard, Doubtful and Loss shall be placed on non-accrual status and the interest shall not be taken as income when earned.
- [b] The previously accrued and uncollected interest on such assets but taken as income shall be reversed by debiting the profit and loss account (income statement) and crediting an "Interest-In-Suspense" account.  
Subsequent accrual of interest shall be credited to the interest in suspense account until such loans and advances are brought current by full settlement of the delinquent principal and interest.
- [c] Interest can only be taken out of suspense when it has actually been paid by the debtor. However, the funds for the repayment of the delinquent loans and advances shall not be obtained through new loans and advances from the same financial institution.
- [d] Payments made for repayment of the loans and advances should be applied first to penal and other charges, interest and then the principal.

6.00 **PROVISIONS FOR LOAN LOSSES**

The Provisions to be made against the loans and advances depend on the classification of each asset. Minimum provisions shall be made as follows;

6.10 **Specific Provisions**

Specific Provisions shall be made as follows:

- [i] For loans and advances classified as OLEM: five (5%) percent of the aggregate net unsecured outstanding balance.
- [ii] For loans and advances classified as Sub-Standard: twenty (20%) percent of the aggregate net unsecured outstanding balance;
- [iii] Doubtful Loans and Advances: fifty (50%) percent of the aggregate net unsecured outstanding balance;
- [iv] Loss Loans and advances: one hundred (100%) percent of the aggregate net unsecured

outstanding balance. The net unsecured balance is the principal outstanding less the value of readily realizable security held.

**6.11 Amendment on General Provisions**

Licensed banks are required to make a general provision of at least one (1%) percent of the aggregate outstanding balance of all current loans and advances for which no specific provisions are required to be made.

**6.12 Additional Provisions**

The CBL may, after taking in to account factors such as the bank's prior loss experience, loan growth, loan collection, quality of credit management and economic trends, require a licensed bank to make additional provisions for losses to ensure adequate levels of provisions.

**7.00 REPORTING REQUIREMENTS**

Licensed banks are required to report to the Central Bank of Liberia, on quarterly basis, the summary of classification of their credit portfolios as well as the twenty five (25) largest loans and advances which subject to adverse classification

The formats for reporting are attached as **Appendices 1 and 2**

**AMENDMENTS**

**PRUDENTIAL REGULATIONS REGARDING MICROFINANCE LENDING**

**8.00 DEFINITION**

Microfinance credit accommodations are generally considered to be unsecured loans of US\$7,000 or below its equivalent in Liberian dollar, extended by any bank or financial institution to:

- (a) households, small holder farmers, small and micro enterprises in rural and urban communities and lower income earners; and
- (b) using the security of non-traditional, unregistered collaterals (unlike the type of security described in the section 4.00 above).

Loan size of the above-defined amount or below, but fully secured by formal collateral, shall not qualify as microfinance loans.

**8.10 Repayment Documentation**

A proper customer-appraisal methodology should be established to circumvent the lack of formal financial and/or operational records on the part of the customer, such as payroll slips, balance sheets and income statements, cash flow statements, and other documentation normally

required to ascertain the repayment capacity of a customer.

9.0 **CLASSIFICATION**

Microfinance credit accommodations shall be classified on a daily basis, with the use of a computerized loan tracking system capable of daily monitoring of the status of loan releases, collection and arrearages, income accruals and any loan restructurings or refinancing; such system shall be capable of monitoring non-performing loans and portfolio at risk at an institutional, branch and loan officer levels.

Microfinance credit accommodations shall be classified in five categories according to the aging of arrears:

- a) When scheduled to be paid in monthly or longer installments, shall be classified as follows:

No. of days past due	Classification
Current	Normal risk
Up to 30 days	Specially mentioned
31 to 60 days	Substandard
61 to 90 days	Doubtful
More than 91 days	Loss

- b) When scheduled to be paid in installments of less than one month or on one single payment (bullet loans), shall be classified as follows:

No. of days past due	Classification
Current	Normal risk
Up to 15 days	Specially mentioned
16 to 30 days	Substandard
31 to 45 days	Loss

- c) Once loans and advances are classified as Substandard, Doubtful or Loss, they shall not be reclassified or upgraded merely on the ground of rescheduling or roll- over of payment of interest and principal. The loans and advances shall only be renewed, rolled over or returned to accrual status if the borrower repays all the delinquent interest from his own funds prior to the roll-over, or renewal. Loans must remain substandard until borrowers perform under the new repayment schedule for at least a six-month period for quarterly loan repayment schedule and three-month period for monthly or less loan repayment period.

9.10 **Provisioning**

Proper provisioning for microfinance credit accommodations falls under the responsibility of the Board of Directors, who is responsible for determining and approving the amount of specific provisions for loan losses to be established for the micro credit portfolio, taking into consideration the recommendations of managers and internal and independent auditors. At a minimum, provisions shall be based on the following schedule:

Classification	Provision
Normal risk	2%
Specially mentioned	5%
Substandard	20%
Doubtful	50%
Loss	100%

Cash collaterals may be netted when establishing provisions for credit accommodations classified as specially mentioned, substandard, doubtful and loss.

Additional provisions for up to 10% of the whole loan portfolio may be established in the presence of substantial weaknesses in the financial institutions' policies, procedures and internal controls related to microfinance credit accommodations as determined by the Central Bank of Liberia.

9.11 **Income Accrual**

Accrual of interest for microfinance credit accommodations shall be suspended 31 days after a customer falls behind in principal or interest amortization payment. At this time the loan is considered to be non-accrual and should be reported to the CBL, as required in Section 11.0 below. Interest suspended shall be reversed only after the loan is returned to a performing status.

10.00 **INTEREST RATE DETERMINATION AND DISCLOSURE OF EFFECTIVE RATE**

Financial institutions engaged in microfinance lending shall accrue interest strictly on the basis of the remaining balance of the loan. All advertising related to microfinance lending products shall include examples of amounts effectively disbursed and payments to be made including principal repayment, interest and all service fees and charges. The loan contract shall include a clause containing the nominal yearly or monthly interest rate and the effective rate; computation of the latter shall be made using the internal rate of return method, where the initial amount is the loan amount net of any compulsory deposit and flat commissions (i.e. net disbursed) and the payments include repayment of principal, interest, service fees and any other charges, as well as the final value of any compulsory deposit and its respective interest accrued.

**11.0 REPORTING REQUIREMENTS**

Licensed banks engaged in micro finance lending are required to report to the Central Bank of Liberia a soft copy of classification of their loan portfolio on a monthly basis, in a format prescribed by the CBL (see **Appendix 1**) and on a quarterly basis, the summary of classification of their credit portfolios (**See Appendix 3**).

**BY ORDER OF THE PRESIDENT**

**AUGUSTINE KPEHE NGAFUAN  
MINISTER OF FOREIGN AFFAIRS**

**MINISTRY OF FOREIGN AFFAIRS  
MONROVIA, LIBERIA  
JULY 1, 2014**

SUPERVISION DEPARTMENT CENTRAL BANK OF LIBERIA

AMENDED: AUGUST 2008 APPENDIX 1 FORM SD ADVANCES SUBJECT TO ADVERSE CLASSIFICATION (25 LARGEST)

NAME OF CUSTOMER	BRANCH	FACILITY	EXPIRY DATE	AMOUNT DATE		TOTAL EXPOSURE	VALUE OF SECURITY	TYPE OF SECURITY	CLASSIFICATION	PROVISION MADE	COMMENT ON ACTION TAKEN
				PRINCIPAL	INTEREST						
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2											
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## APPENDIX 2 FORM SD

**SUMMARY SHEET CLASSIFICATION OF ADVANCES**

<b>In L\$'000</b>	<b>CURRENT</b>	<b>OLEM</b>	<b>SUBSTANDARD</b>	<b>DOUBTFUL</b>	<b>LOSS</b>	<b>TOTAL</b>
Previous Balance B/f						
Amounts Recovered						
Amounts written off						
Charges in classification from previous quarter						
Current Balance						
Security realizable & enforceable						
Provisions required percentage						

*Amounts provided in statement of Assets & Liabilities*