

THE

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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 August 3, 2011, its Regulation No. CBL/SD/006/2011 amending section 3.10 of Regulation No. CBL/SD/001/2010 herein under:

**CONCERNING LARGE EXPOSURES AND
CONCENTRATION OF CREDITS**

BY ORDER OF THE PRESIDENT

**TOGA GAYEWEA McINTOSH, PHD
MINISTER OF FOREIGN AFFAIRS**

**MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA
August 3, 2011**

REGULATION NO. CBL/SD/006/2011

PRUDENTIAL REGULATION NO. CBL/SD/008/2011 CONCERNING LARGE EXPOSURES AND CONCENTRATION OF CREDITS

The CBL, pursuant to its authority under Section 39 of the New Financial Institutions Act of 1999, hereby revises and reissues its regulation NO. CBL/SD/008/2011 as follow:

1.00 INTRODUCTION

Without prejudice to the requirements of Generally Accepted Accounting Principles (GAAP), and in accordance with the provisions of Sections 20(1), (2) (a), (3), (5), & (6) and Section 27 of the New Financial Institutions Act of 1999 (FIA), all licensed banks are required to adhere to the prudential regulations issued in this circular for reviewing and reporting their large exposures and concentration of credits, with immediate effect.

Licensed banks are advised to note that these regulations are the minimum requirements and those institutions, which already have more stringent policies and practices in place, should continue with them. The regulations are intended to also assist banks to diversify their risks and avoid reliance on single or few borrowers upon which their fortunes could be tied.

2.00 CREDIT PORTFOLIO MANAGEMENT

Each licensed bank is required to establish effective credit portfolio management program grounded in the development and implementation of clearly defined policies, formally established in writing that set out the credit portfolio management objectives and the parameters under which credit activities are to be undertaken and controlled.

Regular evaluation of the credit portfolio should be carried out by the licensed bank so as to provide an effective means of ensuring that portfolio performance and quality meet the institution's policies and objectives, and that the portfolio is not unduly concentrated by type of credit, and by single and related groups of borrowers, particularly borrowers connected to the bank.

3.00 LARGE EXPOSURES

A licensed bank must establish an efficient management information system to identify exposures to single borrowers or groups of related borrowers. Large exposure refers to any single exposure, including direct, indirect and contingent obligation that exceeds a defined limit of the bank's net worth. For purposes of clarification and to guide credit decisions, the Central Bank of Liberia hereby provides the following definitions and limits:

REGULATION NO. CBL/SD/006/2011

3.10 *Large Exposure or Single Borrower Limit*

In accordance with the provisions of Section 20 (2) of FIA, except with the approval of the Central Bank of Liberia (CBL) on such terms and conditions as the CBL may prescribe, no bank shall directly or indirectly grant to any person any advances or credit facilities or make guarantees so that the total value of the advances, credit facilities or guarantees or any other off-balance sheet commitment in respect of such a person is at any time more than twenty percent (20%) of the aggregate amount of the bank's net worth. The amount of the purchase of equity securities of a borrower by the bank in question shall be deemed to be an extension of credit.

In order to mitigate the potential risk of concentration to a single borrower or group of borrowers in the loan portfolio of individual banks, banks are required to syndicate with other banks for the financing of facilities (loans, advances or overdrafts) in excess of the 20% SOL.

The term "person" refers to any company; association or body of persons; corporate or incorporated; or any other form of business organization and its connected interests or group of affiliated legal entities connected through management, directors, direct commercial interdependency, ownership, or control by the primary borrower. Where an individual or a holding company exercises control directly or otherwise over a borrower, the individual's or the holding company's borrowing or guarantee should be aggregated with the borrower's facilities and treated as single credit risk.

3.11 *Credit Extensions Subject to Single Borrower Limit*

The credit extensions, other than those specifically exempted in Section 20 (2a) of the FIA, shall include direct loans; lease financing; overdrafts; discounts; contingent liabilities in the form of guarantees; standby letters of credit such as performance bonds and similar instruments where the bank would be irrevocably committed to lend; formal lending commitments/facilities wherein the customer is notified, a fee is paid and/or a compensation balance maintained. Bills of exchange discounted or purchased, except CBL or Government of Liberia's securities, shall also be included as credit extensions. Also, facilities granted to a single customer by a bank and its foreign affiliates and/or subsidiaries shall be aggregated for the purpose of determining the single borrower limit.

REGULATION NO. CBL/SD/006/2011

3.12 *Exceptions to the Single Borrower Limit*

Section 20 (2) (a) of the New Financial Institutions Act exempts the following transactions:

- i. Discounts or payments of drafts secured by readily marketable goods in transit in which the depository institution retains a security interest in control over the goods.
- ii. Loans secured by readily marketable goods remaining under the control of the depository institution and in which the depository institution retains a security interest.
- iii. Loans secured by deposits in the depository institution with a value of at least one hundred and twenty-five (125%) percent of the loan.
- iv. Repurchase agreements covering readily marketable government securities.
- v. Government-guaranteed securities

The collaterals in paragraphs 3.12 [i] and [ii] must be properly assigned, must be fully insured with the bank named as loss payee, and must be recently appraised/valued in good faith by a Committee of the bank. Bank credit files must make the document the basis and currency of the valuation. Receivables and Inventory, depending on the turnover, should be valued more frequently.

3.13 If the Central Bank determines that the interests of a group of two or more persons are so interrelated that they should be considered as a unit, it will require the respective bank to aggregate the total indebtedness of that group and consider such facilities as granted to a single person. This is in accordance with the provisions of Section 20(3) of the FIA.

3.14 *Aggregate of Large Exposures*

Extensions of credit to more than one borrower in the following categories of borrowers shall be combined and subject to the credit limit to one borrower;

- i. a corporation and its majority – owned or controlled subsidiaries and subsidiaries;
- ii. a partnership and its members;
- iii. a common enterprise and participants in the enterprise who borrow for that enterprises;

REGULATION NO. CBL/SD/006/2011

- iv. government entities, unless
 - a. the borrower has its own revenue sources to service the debt; and
 - b. the credit extension is for the borrower's own activities; and enterprise where one is economically dependent on the other to a substantial degree.

3.15 *Limit for the Aggregate of Large Exposures*

Licensed banks shall ensure that they do not lend significant proportion of their loan portfolios to few single or group of borrowers. Accordingly, the aggregate of the large exposures shall not exceed fifty (50) percent of the bank's total credit extensions.

3.16 *Other Risk Exposures*

With respect to all other risk exposures such as foreign exchange or funding risk, licensed banks are required to adopt written policy statements that will establish procedures and approval/control limits on such exposures.

3.17 *Net worth*

For purpose of this regulation, net worth of a licensed bank shall be the aggregate of:

- I. paid-in capital or assigned paid-in capital; and
- II. any reserves (e.g. statutory reserves, shares premium, and retained earnings) held by the bank including those required by law or regulation. The retained earnings shall be net of all provisions and other losses.

4.00 REPORTING REQUIREMENTS

All licensed banks shall furnish the Central Bank of Liberia with quarterly statements of all credits granted, with or without the approval of the CBL, to customers in excess of sums prescribed by these regulations, and the extent of their utilization during the quarter (see attached report format).

5.00 TRANSACTION ARRANMENTS

In order to regularize any transaction, entered prior to the effective date of these regulations, that is not consistent with the regulations, licensed banks are required to submit statement of such transaction to the CBL. Upon receipt of the statement, the CBL will require the bank to regularize such transactions in excess of the limitations within a specified period of time. However, during the "grace period" that may be allowed, no further draw down on such facility shall be allowed.

REGULATION NO. CBL/SD/006/2011

Fully disbursed fixed term loans with agreed repayment schedules will be allowed to run to maturity.

6.00 PENALTY FOR NON-COMPLIANCE

Any board member, officer, or employee of a licensed bank acting in contravention of any of the provisions of these regulations is guilty of a felony and shall be liable to imprisonment for a term of not less than three years and to a fine of not less than One Million (L\$1,000,000.00) Liberian Dollars. Each such individual shall make restitution of the amount of money lost as a result of the violation and he/she shall be removed from office.

7.00 This regulation replaces regulation NO. CBL/SD/001/2010.

BY ORDER OF THE PRESIDENT

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