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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 Section 55 of the Central Bank of Liberia Act of 1999, has issued on April 28, 2000, its Prudential Regulation No. CBL/SD/02/2000 hereinunder:

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

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1.00 INTRODUCTION

In accordance with the provisions of Section 14(2)(b) 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 to continue with them.

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 which 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 maintain in such manner as to facilitate proper review of the credit to permit assessment of the borrowers's 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.

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 Critisable)
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; or any other deviations from prudent lending practices. Banks are required 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 program 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; **or** the account has been inactive 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 recovery 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 judgement 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 they surface as uncollectible.

3.15 Restructured or Rolled- over Loans and Advances

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. Consequently, the loans and advances shall only be upgraded if the borrower repays the delinquent interest from his own funds prior to the roll- over such that the outstanding unpaid interest does not exceed ninety (90) days.

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 bank from loss of principal and / or interest through its timely realization on 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 spate of bank failures in Liberia in recent history, and the central role played by bad credit portfolios where property held as security could not be realized or foreclosed easily, the only safe security currently which should be taken into consideration when calculating provisions for loan losses should be cash or cash-substitutes e.g. treasury bills, other readily realizable securities and liens on deposit accounts.

For the purposes of making provisions for substandard and doubtful loans , 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 judgement 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 unprovided 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 interest. The time required to realize the collateral shall not exceed six (6) months.

[ii] The collateral 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 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, the values of the property or inventories shall not be recognized in making provisions for loan losses.

Where a licensed bank successfully obtains legal title to property but is unable to sell it immediately, the licensed bank 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 Sub-Standard, 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] Sub-Standard Loans and advances: **twenty five (25%) 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.

6.12 General provisions

Licensed banks are required to make a general provision of at least **two (2)% percent** of the aggregate outstanding balance of all current loans and advances for which no specific provisions are required to be made.

6.13 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 are subject to adverse classification. The formats for reporting are attached as **Appendix 1 and 2.**

SUPERVISION DEPARTMENT
CENTRAL BANK OF LIBERIA
APRIL, 2000

FORM SD
FORM SD

APPENDIX I

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						
1..											
2.											
3.											
.											
.											
.											
.											
.											
25.											

APPENDIX 2

FORM SD

SUMMARY SHEET
CLASSIFICATION OF ADVANCES

In L$ '000	CURRENT	OLEM	SUBSTANDARD	DOUBTFUL	LOSS	TOTAL
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

BY ORDER OF THE PRESIDENT

Monie R. Captan
MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA
DECEMBER 5, 2000