

PART 1: PRELIMINARY PROVISIONS

1. Introduction:

These Credit Union Regulations (hereinafter referred to as “Regulations”) have been issued by the Central Bank of Liberia in exercise of powers conferred on it by Section 4(6) of the Central Bank Act of 1999 which empowers the Bank to regulate, monitor and supervise all bank financial institutions and non-bank financial institutions. The purpose of these regulations is to provide minimum regulatory requirements, prudential standards and operational guidelines required of credit unions which seek to offer savings deposit and loans services to their members.

2. Citation:

These Regulations shall be cited as ***Regulation No. CBL/RSD/001/2015 “Regulations for the Licensing and Operations of Credit Unions in Liberia”***.

3. Definitions:

In these Regulations, unless the context otherwise require:

“Affiliates” means One entity is affiliated with another entity if:

- i) One of them is a subsidiary of another;
- ii) Both are subsidiaries of the same entity; or
- iii) Each one of them is controlled by the same person or entity; and
- iv) If two entities are affiliated with the same entity at the same time.

“CBL” means the **Central Bank of Liberia**.

“Credit exposure” Means the amount at risk arising from the extension of credit by a Credit Union and is stated as the maximum loss that a Credit Union might suffer if a counterparty fails or loss that may be experienced due to realization of assets”.

“Credit Union” means a mutually owned non-bank financial organization established for mobilization of savings from members for the purpose of the promotion of the welfare and economic interests of its members, and licensed by CBL under the financial Institutions Act of 1999 with the objective of promoting thrift and the creation of a source of credit for its members.

“Deposit” Means a sum of money paid on terms under which it shall be repaid, with or without interest or premium, and either on demand or at a time or in circumstances agreed to by or on behalf of the person making the credit union to receive it at the risk of the credit union receiving it.

“Entity” Means a body corporate, whenever incorporated, a Credit Union with limited liability, a trust, a partnership, a fund or an unincorporated organization.

“Insolvent” In relation to a Credit Union denotes the circumstance in which the realizable value of the Credit Union’s assets is less than the sum of its liabilities and accumulated surplus.

- “Institutional Capital” Means the sum of the credit union’s Regular Reserve Account plus its non-withdrawable shares and any other items the CBL classifies as “institutional capital”
- “Capital Adequacy Ratio” Means the ratio of the credit union’s “Institutional Capital” to its total assets.
- “Delinquent loan” Means any loan which the principal or interest remains unpaid after the due date and/or as may be defined in a Regulation issued by the CBL.
- “Ownership Share” means an amount held by a member and established by the credit union as the member’s ownership stake in the assets of the credit union.
- “LCUNA” Means the Liberia Credit Union National Association, the registered apex body that coordinates and promotes the activities of credit unions in Liberia.
- “Member” Includes a person, entity or cooperative joining in the application for the registration of a Credit Union admitted to membership after registration, in accordance with the by-laws of that Credit Union and holding at least one share of the Credit Union.
- “Board of Directors” Means individual members of a credit union elected by the general assembly to conduct the affairs of the credit unions.
- “Member of the board of Directors” Means any person by whatever name he/she may be called, carrying out the same function in relation to the direction of the financial organization elected by the general assembly to conduct the affairs of the credit union.
- “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.
- “NBF” Means Non-Bank Financial Institution
- “Officer” Means a chairman, president, secretary, treasurer, member of a committee, manager or servant of a credit union.
- “Related Party” Means:-
- I. A director or officer of the Credit Union;
 - II. A spouse, child or relative of a person defined above;
 - III. An entity in which a person or related person(s) mentioned above has an investment.
- “Statutory management” means the procedure the CBL administers to take immediate possession and control of a Credit Union’s business due to unsafe and unsound practices.
- “Secondary Body” Means a second tier association that provides financial services to Credit Unions.
- “Substantial Investment” Means an interest held or investment by a licensed Credit Union in an entity which exceeds or shall exceed five (5%) percent of the voting securities of or equity interest in the entity.

PART II: APEX BODY

- (1) The Liberia Credit Union National Association (LCUNA) shall be the Apex body

- of all credit unions in the Republic of Liberia. As an Apex for credit union, LCUNA shall be required to obtain a license from the CBL.
- (2) LCUNA shall be directed by a board of directors elected by member credit unions at the annual meeting. The bylaws shall prescribe the duties of the officers and the organizational structure of the organization.
 - (3) LCUNA shall perform delegated supervisory functions as may be determined by the CBL.
- (3) All credit unions must submit a written application to LCUNA for affiliate membership. A credit union shall obtain an affiliation certificate issued by LCUNA and renewable annually upon the payment of the proper member affiliation fees in order to receive services from LCUNA. This member affiliation rule is applicable to all registered credit unions.
 - (4) LCUNA shall conduct an inspection to verify and validate the provided information.
 - (4) LCUNA shall determine a credit union training program for the members and officers.
 - (5) LCUNA shall advise and assist its credit unions by providing programs and services that will enable credit unions to more effectively serve members. These may include, but not be limited to, such areas as education and training, management consultation, accounting and auditing services, standardized systems, brokering of investments, supplies and forms, marketing and procurement, risk management, payment and settlement systems, insurance, liquidity management and advocacy of credit unions before the government and the general public.
 - (6) LCUNA shall restrict the affiliation certificate to credit union under certain circumstances, such as where the Credit Union has failed to comply with the requirements of the affiliation set up by LCUNA. The certificate shall be restricted by the imposition of conditions deemed necessary for the protection of members' savings, including but not limited to:
 - a. Requiring the Credit Union to take specified corrective action endorsed by the CBL;
 - b. Limiting the granting of loans and the acceptance of shares or deposits in keeping with approved standards or regulations issued by the CBL;
 - c. Limiting any other business activities in which the Credit Union may be engaged in keeping with approved standards or regulations issued by the CBL.
 - (7) In other circumstances, such as where the Credit Union remains in violation of a directive issued by the CBL or by LCUNA with the approval of the CBL or has ceased carrying on the business of a Credit Union, LCUNA shall recommend to CBL

to revoke its license.

PART III CATEGORIZATION OF CREDIT UNIONS

CUs are categorized into Tier 2a, Tier 2b and Tier 2c based on their minimum capital requirements.

(1) Tier 2a will include all CUs whose assets reach the threshold of equal or greater than 1,000,000 US Dollars (or its equivalent in Liberian Dollars).

(2) Tier 2b will include all CUs that shall hold an initial minimum paid up capital of equal or greater than 50,000 US Dollars (or its equivalent in Liberian Dollars) and is less than 1,000,000 US Dollars (or its equivalent in Liberian Dollars).

(3) Tier 2c will include all CUs whose assets reach the threshold of equal or less than 49,999 US Dollars (or its equivalent in Liberian Dollars).

PART IV: LICENSING

(1) No person/institution shall operate a Credit Union without a license from the CBL. The CBL shall issue a final license to an applicant to operate as a credit union that has satisfactorily met all requirements or may issue a provisional license to an applicant that has not met all of the licensing requirements. The provisional license shall be subject to the terms and conditions specified in Sections 12-13 below.

(2) In keeping with Section 8 (1-2) of the New FIA of 1999, a person or institution wishing to establish or operate a credit union shall apply in writing to the Executive Governor of the Central Bank of Liberia and meet the requirements as stated under Section 4(1) of the New FIA of 1999 and/or in these regulations. To the extent not provided for herein, prudential requirements and applicable laws shall apply, in order to operate a credit union in Liberia.

3) Any credit union which was in existence before these regulations came into force must apply for a license within 90 days of this regulation coming into force. Such credit union may continue carrying on business during the 90-day period during which it shall ensure to obtain a final license from the CBL.

4) Any person or institution which fails to apply and obtain a license as provided in Section 1 above shall cease to carry on such credit union business.

(5) Applicant for credit union license shall submit to the CBL a completed application form as prescribed by the CBL. The completed application form shall be accompanied by the following:

- a) A Letter of Application addressed to the Executive Governor of the Central Bank;
 - b) The Letter of Application shall state the specific category it is applying for as per Part III of these Regulations (Tier 2a, Tier 2b or Tier 2c) be accompanied by information regarding the legal structure, ownership, and management structure of the proposed Credit Union;
 - c) Bylaws of the credit union;
 - b) Certified copy of a current LCUNA affiliation certificate;
 - c) A business plan with financial projections and forecasts for a minimum of three years and the underlying assumptions for the projections. The Business Plan should incorporate the proposed market segment, corporate governance and risk management analysis. It should also include a copy of the accounting policies to be adopted by the credit union.
 - d) The most recent audited financial statements (where applicable);
 - e) Curriculum vitae, including details of nationality or residence, certified financial position, business interest and performance of the business concerns under their control for the senior management (i.e. proposed directors, senior executive officers) of the credit union; and
 - f) Any other documents in support of the application, as may be requested by the Central Bank of Liberia.
- (6) In determining an application, the CBL shall take into account all the requirements of these regulations or applicable sections of the New FIA of 1999, and in particular, matters relating to:
- a) the character and fitness of the directors and officers or proposed directors and officers of the applicant, which shall conform to the standards defined by the Central Bank;
 - b) Whether the application and bylaws conform to the requirements of these Regulations;
 - b) the adequacy of the applicant's capital structure in relation to the nature and scale of the proposed business;
 - c) the financial position and financial history of the applicant as well as its board of directors and manager; and
 - d) whether the interest of potential members will, as far as can reasonably be ascertained, be detrimentally affected by the manner in which the applicant proposes to conduct its business.
- (7) An applicant for a credit union license shall be required to pay the following fees:
- (a) A license fee of not less than L\$6,000 for applicants for Head office and L\$3,000 per window. This amount must be paid to the CBL before the granting of a final license.
 - (b) Each licensed Credit Union shall be required to pay an annual operating levy of L\$4,000 for Head quarter and L\$2,000 per window, for each subsequent year of operation.
- 8) A license for credit union shall be valid for a maximum period of (1) one year commencing from the date of issuance and thereafter renewable on an annual

basis, subject to payment of annual operating levy as stated in (b) above and other prudential requirements of the CBL. The annual renewal shall be granted on or before January 31st of each year.

2.0 CONDITIONS OF A PROVISIONAL LICENSE

- (1) A Provisional license shall be issued to a registered applicant by the CBL subject to conditions and requirements of the CBL. The credit union shall be required to satisfy the conditions of the provisional license within the stipulated timeframe provided by the CBL. Failure on the part of an applicant to satisfy the requirements of the provisional license shall lead to automatic revocation of the provisional license upon expiration of the license.
- (2) The Provisional license shall be valid for a term not to exceed six months from the date of its issuance.
- (3) Upon the issuance of provisional license, the board and management of the credit union should:
 - Submit to the Central Bank of Liberia monthly progress report on organizational set-up as applicable.
 - Recruit other key management staff for the credit union as applicable.
 - Provide a monthly status/progress report to the CBL as applicable

Membership: A credit union must have a minimum of 300 members to be issued a final license.

3.0 MINIMUM REQUIREMENTS FOR PREMISES

The CBL shall conduct an inspection of the premises/offices of a credit union before granting a final license. The premises of a credit union licensed to operate must meet the following minimum requirements:

- (a) Possess a lease agreement, where the premises are on lease or a Certificate of Title, where the premises are owned by the credit union;
- (b) Display the name of the credit union prominently on the building in which it is housed;
- (c) Have in place adequate security measures;
- (d) Any other requirements, as may be required by the CBL.

4.0 CONDITIONS ON A LICENSE AND VALIDITY OF A LICENSE

1. When a license is granted, it is subject to a number of conditions and is valid until revoked by the CBL or surrendered by the Credit Union.
2. Once a credit union is registered and licensed, it becomes subject to the regulatory and supervisory authority of the Central Bank of Liberia as provided for in the New FIA of 1999. 3. A credit union must also adhere to regulatory and prudential

requirements relating to, inter alia, reserves, capital adequacy, liquidity, restrictions on lending and exposures to insiders as defined herein, and as may be determined by the Central Bank from time to time.

3. Where the CBL refuses to grant a license to an applicant, it shall notify the applicant in writing, and may give reasons for its decision.

5.0 Revocation of License:

1. For purposes of revocation of license, Sections 11 & 12 of the New FIA of 1999 shall apply to all licensed credit unions.

2. In addition to Sections 11 and 12 of the New FIA of 1999, the below-listed reasons shall constitute sufficient reasons for the revocation of a license of a credit union:

a) Where the institution has failed to fulfill or comply with the terms and conditions stipulated in the license or provisional license;

b) Wherein the CBL has been provided with false, misleading or inaccurate information by or on behalf of the credit union or, in connection with an application for a license, by or on behalf of a person who is or is to be a director or other senior officer of the credit union;

c) Where the credit union is found to be involved in money laundering and terrorist financing activities or any other financial crimes;

d) Where the interest of the credit union's members or potential members are threatened, whether by the manner in which the credit union is conducting or proposes to conduct its affairs;

e) Where the credit union has failed to commence business within six months from the date of the issuance of the final license;

f) Where the credit union is insolvent such that its assets are insufficient to cover its liabilities; and

g) When the credit union persistently fails to comply with CBL guidelines, regulations or other directives.

3. The CBL may vary the condition of a license or may impose new or additional condition to grant a license. When the CBL decides to vary the previous conditions, impose a new or additional condition(s), or revoke a license, it shall, before exercising such power, give notice of its intention to the institution concerned and give such institution an opportunity to make representation to the Bank.

6.0 USE OF NAME

1. Every credit union organized under these Regulations must include the words “credit union” in its official name. Only a credit union registered under these Regulations or a credit union authorized by CBL to do business in Liberia in accordance with these Regulations may use a name or title containing the words “credit union” or any abbreviation thereof, represent itself as a credit union, or conduct business as a credit union.
2. No credit union shall be granted or continue to hold a license under a name which so closely resembles the name of the holder of an existing license of a financial institution or another credit union as would likely mislead the public. When this happens or upon investigation by the CBL, the CBL may request one of the parties to modify or change its name preferably the last grantee of a license.
3. No licensed credit union shall alter or change its licensed name without the prior approval of the CBL.

7.0 Establishment of a branch or window

A credit union wishing to establish an outlet or a window shall apply in writing to the CBL for approval to commence the lease process or construction of outlet or window and the application shall contain the following information:

- a) A three-year financial projection of the branch, outlet or window; and
- b) Satisfy the minimum requirement for premises as stated in section 3.0 above.

PART V: BUSINESS OF A CREDIT UNION

PERMISSIBLE ACTIVITIES OF CREDIT UNIONS

- i) **Deposit taking:** Accepting deposits, including share deposits from members, on such terms and conditions as prescribed in these regulations, other regulations that may be issued by the CBL, and standards approved by the Credit Union Board of Directors.
- ii) **Loans:** Granting of loans and other credits to members on such terms and conditions as prescribed in these regulations, and other regulations that may be issued by the CBL, and standards/approved by the Credit Union’s Board of Directors.
- iii) **Mobilize deposits and borrow:** Mobilize deposits and borrow in an aggregate amount not to exceed a multiple of capital as prescribed in the prudential standard established by these Regulations (Part VIII Prudential Criteria) and CBL;
- iv) **Investment:** Credit Union may invest in any other financial services on behalf its members.
- v) **Money Transfer Services:** Carry on money remittance services, including the provision of mobile money services within Liberia, subject to approval of the CBL.
- vi) Exercise those incidental powers as may be useful or convenient to enable it to carry out effectively the purposes for which it is organized.

Perform any other services that may be approved by the CBL.

- vii) The permissible activities in accordance with tier categorization will be as follows:
 - a. Tier 2a: Issue shares, deposits, loans, mobile money, money transfers, checks, T-bills, and foreign exchange

- b. Tier 2b: Issue shares, deposits, loans, mobile money, money transfers, checks, and T-bills
- c. Tier 2c: Issue shares, deposits, loans, and mobile money

PART VI: PROHIBITED TRANSACTIONS

- (1) Credit unions shall not engage in lending or deposit activities outside of their membership. No transaction between a related party and a Credit Union should be on terms that are less favorable to the Credit Union than would normally apply. Transactions with related parties include loans to, or guarantees for the benefit of the related party, investment in any securities of the related party, or any other form of exposure to the related party.
- (2) A credit union shall not engage in direct or indirect acquisition of land except where this is necessary for conducting its business or housing its officers or employees. Where a credit union acquires land in the course of satisfying debts due to it, such land or any interest should not be held for a period longer than three (3) years from the date of possession.
- (3) Credit unions shall not engage speculative activities, such as betting, gambling, etc
- (4) Credit unions shall not engage in foreign transactions (i.e. transactions outside of Liberia, except through a licensed financial institution).

PART VII CREDIT RISK MANAGEMENT

- (1) All RCFIs 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) Every Tier 2a Credit Union shall have a credit risk department or credit officer which should ensure that its operations conform to the law as well as, to its internal credit policy, rules and regulations.

PART VII: CORPORATE GOVERNANCE

- (1) The Board of Directors of a licensed credit union is responsible for the sound and Proper functioning of the institution and is accountable for the institution's activities and actions to its stakeholders, including shareholders, creditors, members and employees, and the regulatory authorities.
- (2) A licensed credit union shall have not less than seven (7) elected Board of Directors and three (3) elected Supervisory Committee members, all of whom must satisfy the membership requirements of the credit union as per its by-laws and be shareholders and active savers of the credit union.

- (3) Each licensed credit union shall maintain 3 minimum board statutory committees, which shall include credit, audit, and asset and liability committees, and may establish other committees as may be considered necessary for the effective oversight of the institution, subject to CBL's approval.
- (4) At least two of the Directors shall possess demonstrable expertise and experience relevant to the functions of the financial institution and the principal issues that face the financial institution;
- (5) The Board shall consist of reputable individuals appointed by the shareholders. The board of directors meets regularly as specified in the bylaws. The bylaws shall specify the quorum required to conduct meetings of the board and of committees.
- (6) The Chief Executive Officer (CEO) of the credit union shall not serve in the capacity for more than five (5) consecutive years, and may be removed from office at anytime due to unethical management practices and/or regulatory violation.
- (7) Every Director and senior managers of a credit union shall be subject to a "fit and proper" test and approval by the CBL prior to being engaged with the institution.
- (8) Non-executive directors shall not remain on the Board of a credit union continuously for more than a period of two terms of three (3) years each.
- (9) The officers, directors, and committee members owe a fiduciary duty to the credit union to operate the institution with reasonable prudence and in the best interests of the credit union and its members. The directors also owe the members a duty of fair dealing with respect to issues of membership, ownership, and corporate governance.
- (10) Licensed credit unions shall notify the CBL of any proposed changes in the membership of the Board, the CEO or Principal Officers 30 days in advance, with the reasons for such change (s). If such a change occurs for a sudden reason, the credit union shall notify the CBL within three days of such occurrence, and the reasons for such change.

PART VIII. Accounting and Auditing Standards and Procedures

- (1) Both management and the board of a licensed credit union shall ensure that proper accounting records and systems are maintained, sound operational procedures formulated and implemented and adequate internal controls in the credit union.

They shall especially ensure the following:

- (a) the accuracy and reliability of the Accounting System;
- (b) the establishment of an adequate and effective Management Information System (MIS); and

- (c) the accuracy and reliability of the operational reports and prudential returns submitted to the Central Bank .
- (2) The management of a licensed credit union shall include in their comments on the audited financial accounts, the following:
- a) The financial performance of the institution during the period under review with particular reference to:
 - (i) the reliability and composition of reported earnings;
 - (ii) the breakdown and analysis of operating costs; and
 - (iii) the liquidity and capital adequacy ratios
 - b) The accounting policies and valuation criteria applied in the preparation of the accounts.
 - c) The adequacy of provisions made against the advances portfolio, investments and 'other asset' accounts.
 - d) Re-classifications and other adjustments made by the auditor to the accounts originally submitted for audit.
 - e) Details of any areas where generally accepted accounting principles have not been in compliance or a disagreement exists between management and the external auditor.
- (3) The report of the Directors accompanying/presenting the audited annual financial accounts, such as qualifications, if any, made by the external auditors on the audited accounts to the shareholders shall highlight and comment on each item of qualifications. The reports shall also comment inter alia, on the following aspects:
- a) methods used to determine specific and general provisions and key assumptions used;
 - b) the risk management and control policies and practices adopted by the credit union, relating to credit risk, and other risks entailed in its operations;
 - c) 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;
 - d) balances of loans where accrual of interest in accordance with the terms of the original loan agreement has ceased because of deterioration in credit quality;
 - e) balances of advances and other information about the loans that have been rescheduled/renewed during the year;
 - f) information on significant concentration of credit risk; and
 - g) contractual obligations with respect to recourse arrangements and the expected losses under these arrangements.
- (6) All reporting institutions shall conform to established and internationally recognized reporting standards. These standards may change over time in line with evolving best practices and with changes in the financial environment.
- (7) A key instrument for assessing the financial condition of credit unions will be their audited financial statements by an external auditor. The auditor shall have access to all books, accounts, receipts and other documents of the credit union. Officers,

directors and committee members must furnish the auditor with any information required relative to the transactions and operations of the credit union. CBL shall therefore require that:

- a) Within three months of the close of its financial year in December, each licensed credit union shall submit to the CBL financial statements of its operations, duly audited by an external auditor, approved and prepared in accordance with International Accounting Standards.
- b) The financial statements shall include:
 - i) An income statement;
 - ii) A balance sheet; and
 - iii) Cash flow statement.

PART IX: SHARES AND SAVINGS

- (1) Members' withdrawable shares and savings constitute the principal liabilities of a Credit Union and the major source of funding for their loan and investment portfolios.
- (2) Share ownership confers membership in the Credit Union inclusive of voting rights, entitles the shareholder to participate in dividend distributions.
- (3) There will be an individual member savings limit based on category of the Credit Union and the size of their assets.
 - a. Tier 2c Credit Union shall have a limit of 1000.00 US Dollar (or its equivalent in Liberian dollars).
 - b. Tier 2b Credit Unions shall have a limit of 14,000.00 US Dollars (or its equivalent in Liberian dollars)
 - c. Tier 2c Credit Union shall have a limit of 1% of assets held by the credit union as per its latest audited financial statements.

Tier 2a Credit Unions with assets over 1 million US Dollars could apply to the Central Bank to increase individual member savings in excess of the limit provided by these Regulations. The Central Bank of Liberia shall decide at its own discretion the new limit.

- (3) Deposits may be either fixed for a period of time or withdrawable on demand, and remunerated in the form of periodic interest payments and may be pledged as collateral for loans.
- (4) Deposits have a prior claim on assets and have a pre-agreed interest rate and term. A credit union must disclose the terms and rates it offers on its deposits in accordance with the Regulations.

(5). Withdrawals of Shares and Deposits

Except for fixed-term deposits and mandatory shares where applicable, all savings and

voluntary shares of a Credit Union will be withdrawable on demand or with a required period of notice where this is stated in the by-laws or contained in the terms of the agreement of the account.

(6). Members' Shares

International Accounting Standards (IAS 32) require that voluntary shares which are withdrawable be classified as liabilities rather than equity. CBL shall apply this accounting standard for regulatory purposes. Credit Unions may, if they so choose, issue permanent (i.e. non-withdrawable) shares to their members as a source of institutional capital. Such shares would be issued on terms agreed between each Credit Union and its members and stated in the by-laws, and would form part of the Credit Union's capital for regulatory purposes.

(7). Member Statements

A Credit Union should provide each member at least quarterly with a statement indicating the balance of funds standing to the member's share and/or deposit accounts and all transactions affecting the accounts since the date of the previous statement.

PART X: Dormant Accounts & Abandoned Properties

An account may be declared dormant where:

- a) There has been no activity on the account for a period of more than **one (1) year** except for the posting of dividends.
- b) A credit union is unable to contact the account holder via registered mail, sent every year at the end of its financial year requesting that the account be either activated or closed and advising of the intention to classify the account as dormant.
- c) At the end of **one year** a statement is read in Annual General Meeting or published in a daily newspaper indicating that no transaction has taken place on the account and no statement of account has been requested or acknowledged by the account holder, and requiring the account holder or his legal representative to submit a claim to the credit union within three (3) months of the publication or announcement.

Where an account becomes dormant the Board of Directors of a credit union shall take steps to transfer all shares, accounts, dividends, interest, and other claims due or outstanding to that account to the credit union's dormant members' account as a liability. The dormant accounts of a credit union shall be subject to the requirements of the Regulations on Dormant Accounts and Abandoned Properties.

The board of directors may credit the abandoned funds to a special reserve fund of the credit union.

PART XI: Payment of Dividend

- (1) No credit union shall declare or pay dividends or make any other transfer whenever such payment or transfer would result in an impairment of the capital or the minimum required balance in the statutory reserve account.

- (2) The board of directors of a credit union shall declare or propose payment of a dividend only if:
 - (a) Payment will be made from realized, ordinary, undivided surplus;
 - (b) Any impairment of the capital has been corrected;
 - (c) All allowances for impaired assets and loan losses have been fully funded;
 - (d) The accounts have been audited;
 - (e) All prior-year losses have been written off;
 - (f) Completely written-off all its capitalized expenditures; and
 - g Satisfied the minimum capital adequacy ratio requirement.
- (b) Where the payment of dividend would result in withdrawal of any part of the free reserves due to inadequacy of the profit for the year or where the statutory report of the auditors on the annual accounts of the credit union is not satisfactory, the credit union may declare any dividend on its shares only after obtaining the prior approval of the CBL.

PART XII: RESTRICTIONS ON LENDING AND INVESTMENT

The amounts and percentage below shall be calculated based on the latest audited financial statements of the credit unions.

- (1) A Credit Union shall not extend or grant loan to a single borrower or a group of related borrowers in excess of 5% of its net worth.
- (2) The loan to a single group, association, cooperative, institution or enterprise for on- lending to its members shall not exceed 7% of the Credit Union's net worth.
- (2) No credit union may invest in the equity of a company, including a subsidiary, which exceed five percent (5%) of its net worth, as per its latest audited financial statement.
- (3) The credit union's equity investments (i.e. investments in the equity shares in all other companies) shall not exceed 15% of its net worth for Tier 2a and Tier 2b categories and shall not exceed 10% of its net worth for Tier 2c category.
- (4) Credit unions are prohibited from making advances or extending any other financial facilities against the security of its own shares, except for voluntary shares which are withdrawable.
- (5) The aggregate financial exposure a credit union may assume on its subsidiaries by making loans and advances or assuming any other financial commitments to one or more of the latter, together with its equity investment, shall not exceed:-
 - (a) in case of any one subsidiary, 15% for Tier 2a and Tier 2b categories, and 10% for Tier 2c category; and
 - (b) in the case of all subsidiaries and affiliates, 25% of its net worth for Tier 2a and Tier 2b categories, and 20% for Tier 2c category.

- (6) A licensed credit union shall not grant to any firm/company in which any of its directors or managers (i.e. executive officials) is interested as a partner or as a major or principal shareholder or as director or as guarantor any loan or credit or other financial facility which in the aggregate and outstanding at any time exceeds-
 - 10% of its net worth if the exposure is secured; and
 - 5% of the institution's net worth, if the exposure is unsecured (as per its latest financial statement).
- (7) A credit union shall not grant unsecured advances or other credit facilities:-
 - (a) to any of its directors, amounting to more than 2% of its networth; and
 - (b) to any of its officials and employees, amounting to more than two years of the consolidated salary of the concerned official/employee.

PART XIII PRUDENTIAL CRITERIA

1.0 CAPITAL ADEQUACY REQUIREMENTS

- (1) The CBL may prescribe a change in the minimum initial capital from time to time.
- (2) A credit union shall at all times maintain a minimum capital adequacy ratio, as defined by the CBL; and the CBL may prescribe a higher capital adequacy ratio with respect to a particular credit union based on the specific circumstances of the credit;
- (3) Every licensed credit union shall maintain a Statutory Reserve Fund into which it shall transfer, out of its net profits (profits after provision for tax but before declaring any dividend i.e. PAT) for each year, the following amounts:
 - (a) an amount of not less than 25% of net profit, until the amount in the credit union Reserve Fund is equal to the amount of the minimum paid up capital; and
 - (b) 15% of the net profit for each subsequent year after the amount in the Reserve Fund equals or exceeds the target level indicated.
- (4) Withdrawal of any amount from the Reserve Fund shall not be made without prior approval of the Central Bank.
- (5) Credit unions shall maintain a minimum capital requirement not less than ten (10) percent of total assets.

2.0 Liquidity Requirement

- (1) Each Tier 2a and Tier 2b credit union shall be required to maintain a minimum liquid assets ratio of fifteen (15) percent in relation to its total average daily assets.
- (2) Each Tier 2c credit union shall be required to maintain a minimum liquid assets ratio of fifteen (20) percent in relation to its total average daily assets.

- (2) As a safeguard against over-investment in fixed assets which normally would not be income generating, a credit union's non-earning assets should not exceed 15 percent (15%) of its total assets.
- (3) A credit union shall, at any such time and in respect of any such period as the Central Bank shall prescribe, submit to the Central Bank a report on its liquid assets and liquidity requirements.
- (4) The Central Bank may during a period of liquidity deficiency direct that a credit union discontinue or limit in a manner specified in a directive, the granting of credit, making of investments or capital expenditure, and/or not distribute dividends to its shareholders.

3.0 Assets Quality & Classification

- (1) A credit union's non-earning assets shall not exceed five (5) percent of its total assets.
- (2) Loans and credits extended to members of a credit union on which interest and/or scheduled repayment of principal (installment) has remained unpaid for 30 days from the due date shall be classified as non-performing.
- (3)
- (4)
- (5) When any of the credit facilities to a borrower becomes non-performing, the total of all outstanding credit facilities made available to that borrower shall be considered "non-performing". That is, interest shall not be accrued on any outstanding credits against the borrower, and income shall be recognized only when realized/paid in.
- (6) Every licensed credit union shall monitor its portfolio of credit/risk assets on an on-going basis and make a review at periodical intervals. A review of the credit portfolio shall be undertaken at least once in a quarter.
- (7) For the purpose of such review, the credit union shall, after taking into account the degree of well defined credit weaknesses and the extent of dependence on collateral security for realization, classify its loans and any other forms of credits into the following classes or risk grades:
 - i. Current/Standard Assets
 - ii. Specially mentioned
 - iii. Substandard Assets
 - iv. Doubtful Assets
 - v. Loss Assets

- (8) Since assets in risk grades (ii) to (iv) are non-performing, they shall be recognized on an non-accrual basis.
- (9) The criteria on which loan assets shall be classified into the above-named- risk grades/categories are:

Classification

Credit accommodations (or loan portfolio) of a credit union 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 90 days	Specially mentioned
91 to 120 days	Substandard
121 to 180 days	Doubtful
Equal and more than 181 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 30 days	Specially mentioned
31 to 45 days	Substandard
46 to 60 days	Doubtful
Equal and more than 61 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.

- 10) Provisioning

Proper provisioning for credit union 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 or other collaterals, including land and personal property, 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 credit accommodations as determined by the Central Bank of Liberia.

CURRENT/STANDARD ASSET: is a loan asset

- (a) whereby no default in payment of interest or repayment of principal has occurred, or payment thereof has not been past due for 30 days , and
- (b) which does not carry more than normal risk attached to the business and does not disclose any problem.

SUB-STANDARD ASSET: is a loan asset which

- (a) displays well defined credit weaknesses that jeopardize the liquidation of the debt or loan; and
- (b) is not protected by the current (sound) net worth and payment capacity of the borrower/member.

Sub-Standard assets include:

- (a) assets classified as non-performing for a period more than 16 days but not exceeding 30 days; or
- (b) loans and credits to borrower which
 - i) Lack sufficient capital to meet their operating needs, or are
 - ii) Significantly under-capitalized, or
 - iii) Whose cash flow is not sufficient to meet maturing debts, or
- (c) loans and credits where the terms regarding interest and /or principal have been re-negotiated/rescheduled after commencement of operations until the expiry of one year of satisfactory performance under the renegotiated or rescheduled terms.

DOUBTFUL ASSET: is a loan asset which

- a) has been a non-performing asset for 31 days and more but less than 45 days, or
- b) exhibits all the weaknesses inherent in sub-standard assets/credits with the added characteristics that the credits are not well secured and the weaknesses

make collection or liquidation of the debt in full improbable on the basis of currently existing conditions/facts.

LOSS ASSET is a loan asset which:-

- (a) has remained past due/non-performing for 46 days or more, or
 - (b) is considered uncollectible and of such little value that its continuation as a recoverable asset is not warranted.
- (12) Every credit union shall separately disclose in its audited financial statements the specific and general loss provisions made for its nonperforming/ delinquent loans and standard/current assets.
- (13) To mitigate the risks arising from excessive credit exposure, a Credit Union shall grant secured and unsecured credit to a maximum of (15%) percent of its total institutional capital to any member or related party or parties.
- (14) INCOME ACCRUAL

Accrual of interest for microfinance credit accommodations shall be suspended 91 days after a customer falls behind in principal or interest amortization payment when the loan is scheduled to be paid in monthly or longer installments. Accrual of interest for microfinance credit accommodations shall be suspended 31 days after a customer falls behind in principal or interest amortization payment when scheduled to be paid in installments of less than one month or on one single payment. At these times the loan is considered to be non-accrual and it should be reported to the CBL. Interest suspended shall be reversed only after the loan is returned to a performing status.

PART XIV: EXTERNAL AUDITOR

- (1) A credit union shall appoint annually an external auditor, subject to approval by the CBL. In approving the external auditor, CBL shall certify that the external auditor:
- a) Is a practicing member, in good standing, of the Liberia Institute of Chartered Public Accountants or is the holder of a valid practicing certificate from such other professional association of accountants or auditors as CBL may prescribe;
 - b) Has knowledge and experience in the audit of Credit Unions;
 - c) Is independent of the Credit Union, affiliates and the elected officers of the Credit Union; A person is deemed not to be independent if that person or his or her business partner: i) is a spouse, business partner, director, officer or employee of the credit union; or ii) is indebted to the credit union at the time the audit is performed.
- (2) The auditor is expected to report his audit findings to the credit union directors and to highlight any material transactions or conditions which, in his view, warrant corrective action.

CBL shall require the credit union to submit on an annual basis the Management Letter

issued by the auditor, and may require access to the working papers of the audit of any credit union. The scope of the audit should be in line with Internationally Accepted Auditing Principles.

- (4) A credit union shall be required to advise CBL in writing and to provide reasons where it proposes to replace an auditor or where a person for any reason ceases to be the auditor of the credit union.
- (5) In keeping with sound corporate governance practices, no external auditing firm shall continuously provide auditing services for any financial institution for more than seven (7) consecutive years. Upon coming into force these regulations, external audit relationships that have existed in excess of this timeframe shall be granted a regulatory forbearance to continue for a period not to exceed one year as of the date of issuance of this regulation; and

PART XV: SUPERVISION

1.0 ON-SITE EXAMINATION

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

2.0 REPORTING TO THE CENTRAL BANK

Every credit union 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.

Notwithstanding the general requirements stated above,

(1) a Tier 2a and Tier 2b credit union shall provide:

- a. Weekly Returns on Liquidity
- b. The weekly Returns shall be submitted not later than the Wednesday following the week of reporting. Monthly Returns (financial statements)
 - i) A monthly return detailing its lending & deposit 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, 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.

Returns shall be due on the 10th day after each month.

c. Quarterly Returns (Institutional Profile)

All quarterly returns shall be submitted not later than fifteen days after the quarter of reporting.

(2) Every Tier 2c RCFI shall submit to the Regulation & Supervision Department of the Central Bank of Liberia the following reports in a format and at different intervals as may be specified by the Central Bank:

a. Monthly Returns (financial statements)

All monthly returns shall be submitted not later than ten days after the month of reporting.

b. Quarterly Returns (Institutional Profile).

All quarterly returns shall be submitted not later than fifteen days after the quarter of reporting.

PART XVI: WINDING UP & LIQUIDATION

1. Administrative Order

An administrative order permits the takeover of the management of a credit union's affairs, business and property by an administrator appointed by CBL. This may arise where the credit union:

- (a) Has been determined to be insolvent;
- (b) Has not complied with the FIA, 1999;
- (c) Has failed to comply with a direction;
- (d) Has not observed its own policies and procedures or any standards applicable to the credit union.

An administrative order will continue in effect until CBL either:

- i) Releases the administration and authorizes the Credit Union to resume normal operations;
- ii) Has addressed the issues causing the Credit Union to be placed under administration, but considers that the Credit Union cannot continue as a long-term, viable, stand-alone organization.
- iii) In this case the Credit Union may opt for an appropriate form of

consolidation with another Credit Union, ensuring that the members' savings and deposits are safeguarded from undue loss and that Credit Union services can continue; or

iv) Petitions the court for the winding-up of the Credit Union.

2. Winding up of a Credit Union

Where all attempts at rehabilitation, including administration, have failed CBL, in its discretion, or on the recommendation of the administrator, may determine whether a Credit Union should be involuntarily wound up. CBL may also decide to wind up a Credit Union where it finds that the Credit Union is insolvent or where CBL has revoked the license of the Credit Union. CBL may also act on the recommendation of the provisional administrator where he determines that a Credit Union should be wound up.

3. Order of Distribution upon Winding-up

CBL shall propose that the order of distribution on the winding-up of a Credit Union be similar to what is obtained in the new Financial Institutions Act.

The preferential payments should be as follows:

1. All rates and taxes due and payable within 12 months of the relevant date.
2. All wages and salaries for employees be paid (not a director) for services rendered during four months prior to the relevant date
3. Severance and terminal benefits due to employees (not directors).
- 4.

4. Voluntary Liquidation

A Credit Union shall be permitted to voluntarily wind-up its business affairs subject to prior approval by CBL. This enables CBL to ensure that winding up does not pose undue risk to members' savings or adversely affect public confidence in the financial system of Liberia.

The credit unions that voluntarily liquidate will not compensate members beyond the value of their initial shares.

5. Mergers and Transfers

For various reasons two or more Credit Unions may choose to merge their operations and form a new Credit Union. Alternatively, a Credit Union may choose to transfer its assets and liabilities to another. In either case the decision would be a purely voluntary one approved by the membership of the participating Credit Unions but approval by CBL will also be required.

In the case of a merger the Credit Unions of the participating Credit Unions will need to agree on a plan and have it approved by their respective memberships. Once this is done the participants will give notice of the merger and provide the plan to CBL. Upon approval of the merger or transfer by CBL, all property, property rights and members' interest of the merging Credit Unions shall vest in the continuing Credit Union without any instrument of transfer. All debts, obligations

and liabilities of the merging Credit Unions shall be deemed to have been also assumed by the continuing Credit Union. The rights and privileges of the members of the merging Credit Unions shall be preserved and more particularly set out in the merger agreement.

- (3) CBL, where is of the view that circumstances so warrant, may require a Credit Union to provide any additional information, including special reports, or to report more frequently on its operations.

PART XVII: PREVENTIVE AND CORRECTIVE MEASURES

- (1) CBL shall recommend preventive and corrective measures where, based on information available to it, it considers that a Credit Union may be operating in an unsafe or unsound manner, may be illiquid or insolvent, or is in violation of Central Bank of Liberia policies and regulations.
- (2) The Credit Union shall be expected to comply with the recommendations of CBL. If it fails to do so and, having been given an opportunity to be heard, does not provide a valid reason, CBL may then have recourse to its enforcement powers, including the power to issue directives and administrative orders.
- (3) CBL shall issue a directive where it is of the opinion that a Credit Union's activities or its failure to take certain actions:
- a) Violates or potentially violates the by-laws and policy and regulatory guidelines for credit unions;
 - b) Threatens the safety and soundness of the Credit Union;
 - c) Results in undue loss of members' deposits; or
 - d) Threatens the financial system of Liberia.
- (4) Directives shall also be issued where the directors, officers and employees of a Credit Union fail to meet or maintain the fit and proper criteria and where CBL is of the opinion that the Credit Union is illiquid or insolvent.
- (5) CBL may issue a directive to a Credit Union, its directors, officers, employees and agents requiring the person to whom it is addressed to comply with the by-laws and policy and regulatory guidelines for credit unions; give an undertaking to CBL to take such corrective action as CBL requires:
- i. to take certain steps or refrain from adopting or pursuing a particular course of action;
 - ii. Increase capital and provide additional liquidity, impose limitations on the activities of the Credit Union, or constrain, or place conditions on the conduct or promotion of its business;
 - iii. And to inform the members that a direction has been issued.

PART XVIII: PENALTIES FOR NON-COMPLIANCE

The Central Bank of Liberia shall impose any or all of the following administrative sanctions on any licensed credit union that fails to comply with any provision of these regulations:

- (a) Payment of a fine of not less than fifty thousand Liberian dollars for each violation or each day of violation, whichever applies;
- (b) The removal from office of any director, officer or employee;
- (c) Withdrawal of any privilege accorded under the license;
- (d) Reject request for expansion or acquisition of assets or investment or payment of dividend; and
- (e) Such other sanctions as the CBL may consider appropriate.

XIX. AMENDMENTS

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

XX. EFFECTIVE DATE

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

**DECEMBER 4, 2015
MONROVIA, LIBERIA**