

THE

LIBERIA



OFFICIAL

**GAZETTE
PUBLISHED BY AUTHORITY**

VOL. VI WEDNESDAY, AUGUST 26, 2009 NO. 5

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 26, 2009, its Guidelines No. CBL/SD/005/2009 herein under:

**CONCERNING
GUIDELINES FOR
SUPERVISORY INTERVENTION**

BY ORDER OF THE PRESIDENT

**OLUNBANKE KING-AKERELE
MINISTER OF FOREIGN AFFAIRS**

**MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA
AUGUST 26, 2009**

GUIDELINES FOR SUPERVISORY INTERVENTION

1.0 INTRODUCTION

Pursuant to the authority vested in it by Section 55 of the Central Bank of Liberia Act of 1999 (CBL Act), and Sections 25, 32, 39, and 40 of the New FIA of 1999, and without prejudice to Sections 47-55 of the said FIA, the CBL hereby prescribes, makes, and promulgates these guidelines. These guidelines replace Regulations on Supervision of Distressed Banks (Prudential Regulation No. CBL/SD/02/2005), issued on February 15, 2005.

The purpose of these guidelines is to ensure timely and transparent supervisory interventions in banks showing one or more weaknesses that threaten their safety and soundness. The guidelines set out the appropriate supervisory actions against each of the weaknesses and/or conditions that the CBL may enforce against a deficient bank. The intention of these guidelines is to safeguard and protect the banking system. In addition to the supervisory actions set out in these guidelines, the CBL may take other actions, pursuant to Sections 39 and 49 of the New FIA, to ensure a timely resolution of weaknesses or deficiencies in a bank depending upon its particular circumstances.

2.0 THRESHOLDS FOR SUPERVISORY ACTIONS

CAPITAL ADEQUACY	
Weakness/Condition	Supervisory Interventions
<p style="text-align: center;">Undercapitalized Bank:</p> <p>(1) A bank with Capital Adequacy Ratio (CAR) greater than or equal to 6 % but less than the prescribed minimum CAR of 10%; and/or</p> <p>(2) A bank that has a net worth that is less than the minimum prescribed net worth by 10% or less; and/or</p> <p>(3) A bank whose capital component rating as determined by the CBL is 3 as defined in the Bank Rating Guide.</p>	<p>All or any of the following actions may be applied:</p> <ul style="list-style-type: none"> i. Conduct special examination; ii. Require bank to inject fresh funds immediately but not exceeding a period more than three (3) months from the date of directive issued by the CBL; iii. Restrict dividend payment; iv. Restrict investment in other subsidiaries; v. Require a business plan and/or formal commitment on how funds would be injected into the bank within three (3) months; vi. Restrict investment in fixed assets; vii. Restrict branch expansion; viii. Streamline expenses; and/or ix . Restrict Assets transfers.

<p>Significantly Undercapitalized Bank:</p> <p>(1) A bank with CAR greater than or equal to 4% but is less than 6%; and/or</p> <p>(2) A bank that has a net worth that is less than the minimum net worth requirement by 11% to 15%; and/or</p> <p>(3) A bank whose capital component rating as determined by the CBL is 4 as defined in the Bank Rating Guide.</p>	<p>In addition to the measures to be implemented for undercapitalization above, all or any of the following actions may be applied:</p> <p>i. Restrict new lending to the amounts of recoveries (i.e. zero-based lending).</p> <p>If the above measures do not yield the desired results, all or any of the below actions may be applied:</p> <p>ii. Within one (1) month after the Capital call, CBL may take over Management and control of the bank by placing it under special supervision, including but not limited to placing in the bank a Resident Supervisor or an Administrator;</p> <p>iii. Invite a healthy bank to acquire or merge with it; and/or</p> <p>iv. Invite new investors to take equity stake in the bank.</p>
<p>Critically Undercapitalized:</p> <p>(1) A bank with CAR of 4% or less; and/or</p> <p>(2) A bank that has a net worth that is at least 15% less than the minimum capital requirement; and/or</p> <p>(3) A bank whose capital component rating as determined by the CBL is 5 as defined in the Bank Rating Guide.</p>	<p>In addition to the measures against significantly undercapitalized banks, all or any of the following actions may be applied:</p> <p>i. Require bank to inject fresh funds immediately but not exceeding a period more than one (1) month from the date of a directive issued by the CBL;</p> <p>ii. Dissolve Board and Management;</p> <p>iii. Revoke license; and/or</p> <p>iv. Seize and take possession of the bank.</p>
LIQUIDITY	
Weakness/Condition	Supervisory Interventions
<p style="text-align: center;">Fairly Illiquid Bank:</p> <p>(1) A bank that records a liquidity ratio that is greater than or equal to 10% but less than the prescribed minimum ratio of 15%.</p>	<p>All or any of the following actions may be applied.</p> <p>i. Invite Management for discussion on its plans to improve liquidity; and/or</p> <p>ii. Require a submission of a contingency liquidity plan and /or liquidity</p>

	<p>management strategy within a period not exceeding one month as of the date of a CBL Directive.</p> <p>If the above measures do not yield the desired results, within a timeframe specified by the CBL, the CBL may take other actions as it may deem necessary to resolve the deficiency in the bank.</p>
<p>Significantly Illiquid Bank:</p> <p>(1) A bank with a liquidity ratio greater than or equal to 5% but less than 10%; and/or</p> <p>(2) A bank that is a persistent net taker in inter-bank market and frequently requests for CBL liquidity assistance.</p>	<p>In addition to the above measures against fairly illiquid banks, all or any of the following actions may be applied:</p> <ul style="list-style-type: none"> i. Conduct spot check to investigate the problem of the bank including compliance with its own contingency plan; ii. Invite the Board and Management for discussion on immediate liquidity support; iii. Require the bank to realize assets that do not qualify for inclusion in liquidity ratio computation (if any); iv. Require the bank to embark on aggressive debt recovery; and/or v. Require bank to divest from subsidiaries. <p>If the above measures do not yield the desired results, within a timeframe specified by the CBL, the CBL may take other actions as it may deem necessary to resolve the deficiency in the bank.</p>
<p>Critically Illiquid Bank:</p> <p>(1) A bank with a liquidity ratio less than 5%; and/or</p> <p>(2) A bank that is suspended from clearing by the CBL.</p>	<p>In addition to the above measures against significantly illiquid banks, all or any of the following actions may be applied:</p> <ul style="list-style-type: none"> i. Change Management and/or Board; ii. Require the bank to divest from related companies or shut non-viable branches; iii. Freeze all insider depository accounts; iv. Require existing shareholders to inject specified minimum liquidity support to

	<p>the bank within a time frame to be determined by the CBL; and/or</p> <p>v. Invite a healthy bank having the required financial resources to acquire the bank.</p> <p>If the above measures do not yield the desired results, within a timeframe specified by the CBL, the CBL may take other actions as it may deem necessary to resolve the deficiency in the bank.</p>
EARNINGS	
Weakness/Condition	Supervisory Interventions
<p>Poor Earnings: A bank's earnings are considered to be poor:</p> <p>(1) Where a bank experiences losses for at least two consecutive quarters; and/or</p> <p>(2) Net operating income declined by 20% relative to the proceeding three consecutive months; and/or</p> <p>(3) Excessive increases in operating expenses relative to income for three consecutive months.</p> <p>The determination of the earnings performance of a bank shall be based on the assessment of the CBL.</p>	<p>All or any of the following actions may be applied:</p> <p>i. Conduct spot check/income audit to ascertain the condition of the bank;</p> <p>ii. Invite the Board or Management to discuss the condition of the bank;</p> <p>iii. Restrict dividend payment;</p> <p>iv. Streamline expenses;</p> <p>v. Restrict lending to only prime customers; and/or</p> <p>vi. Require bank to take actions to reduce bad assets and/or improve earnings within a specified time frame determined by the CBL.</p> <p>If the above measures do not yield the desired results, within a timeframe specified by the CBL, the CBL may take other actions as it may deem necessary to resolve the deficiency in the bank.</p>
INTERNAL CONTROLS/MANAGEMENT	
Weakness/Condition	Supervisory Interventions
<p>Weak Internal Control: A bank is considered to have significant internal controls weakness:</p> <p>(1) Where it is not in compliance with its manual of operations; and/or</p>	<p>All or any of the following actions may be applied:</p> <p>i. Write Management/Board to draw its attention to the lapse(s);</p> <p>ii. Conduct a targeted examination to review</p>

<p>(2) It is experiencing rising trend of fraud or forgeries; and/or</p> <p>(3) It has failed to implement Internal Audit findings and previous examiners' recommendations.</p>	<p>the bank's internal control processes and operating manuals;</p> <p>iii. Require Management/Board to correct weaknesses within a specified time frame as determined by the CBL; and/or</p> <p>iv. In case of fraud/forgeries, require the removal of errant officer from the bank and to take other actions appropriate against the errant officer.</p> <p>If the above measures do not yield the desired results, within a timeframe specified by the CBL, the CBL may take other actions as it may deem necessary to resolve the deficiency in the bank.</p>
<p>Weak Management:</p> <p>(1) A bank operating with inadequate capital or inadequate financial, managerial, and governance resources; and/or</p> <p>(2) Where any, or a combination, of the above weaknesses are present in a bank, or if at least two component area (i.e., capital, asset quality, earnings and liquidity) has a rating of at least 3 as defined in the Bank Rating Guide.</p>	<p>All or any of the following actions may be applied:</p> <p>i. Place in a Resident Supervisor; and/or</p> <p>ii. Require the bank to submit a time-bound restructuring plan, acceptable to the CBL within a period not exceeding two months as of the date CBL Directive.</p> <p>If the above measures do not yield the desired results, within a timeframe specified by the CBL, the CBL may take other actions as it may deem necessary to resolve the deficiency in the bank.</p>
ASSET QUALITY	
Weakness/Condition	Supervisory Interventions
<p>Fairly Unacceptable Assets Quality:</p> <p>(1) Where the proportion of non-performing credits to total credits is less than or equal to ten percentage points above the tolerable limit of 10% prescribed by the CBL; and/or</p> <p>(2) A bank has deficient credit administration practices as assessed by CBL examiners.</p>	<p>All or any of the following actions may be applied:</p> <p>i. Conduct a special/targeted examination to determine the factors responsible for the non - performing credits; and/or</p> <p>ii. Require for a time-bound action plan from management to address the weaknesses identified within a period not exceeding three (3) months as of the date of CBL Directive.</p>

	<p>If the above measures do not yield the desired results, within a timeframe specified by the CBL, the CBL may take other actions as it may deem necessary to resolve the deficiency in the bank.</p>
<p>Critically Unacceptable Asset Quality:</p> <p>(1) Where the proportion of non-performing credits to total credits is greater than ten percentage points above the tolerable limit of 10% prescribed by the CBL; and/or</p> <p>(2) Where more than 10% of non-performing credits are insider related loans.</p>	<p>In addition to the above-mentioned measures, all or any of the following actions may be applied:</p> <ul style="list-style-type: none"> i. Remove from the Board/Management non-performing insider credits; ii. Blacklist non-performing insider credits from sitting on the Board of any banks, or management; iii. Restrict new lending to amount of recoveries; and iv. Restrict lending to only prime customers. <p>If the above measures do not yield the desired results, within a timeframe specified by the CBL, the CBL may take other actions as it may deem necessary to resolve the deficiency in the bank.</p>

2.1 The CBL may, at its discretion, keep in place, for as long as it deems necessary, each of these measures even after the affected bank has achieved the measures or actions prescribed.

3.0 RESOLUTION OF PROBLEM BANK

Pursuant to Section 39 and 49 of the New FIA of 1999, the CBL may take more stringent measures to resolve matters involving problem bank. For the purpose of these guidelines, a bank may be considered a problem bank where its problem assets represent more than 40% of its capital and reserves; and/or is significantly undercapitalized; and/or is significantly illiquid, as defined in Section 2 above; and/or is assigned a composite rating of three or higher as defined in the Bank Rating Guide.

4.0 REGULATORY FORBEARANCE

Any bank determined to be in non-compliance with the standards set out in these guidelines, upon coming into force these guidelines, shall have a period of three months to regularize its status with the provisions of these guidelines. Failure to do so may require such banks to be subjected to the appropriate supervisory interventions as set out in Section 2 above.

5.0 EFFECTIVE DATE

These guidelines shall take effect immediately upon publication in the Gazette, and shall remain in force, until otherwise advised by the CBL.

Issued this 26th day of August, A.D. 2009 in the City of Monrovia, Republic of Liberia.

CENTRAL BANK OF LIBERIA
MONROVIA, LIBERIA