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TO ALL BANKS

Guideline on Large Exposure, Credit Concentration and Connected Lending

1.0 Introduction

Section 29(1) of the Financial Institutions Act, 2004 as amended (FIA) states that “no financial institution shall without the prior written approval of the Central Bank extend one or more credits to any one customer or group of closely-related customers for amounts aggregating more than 25 percent of such financial institution’s core capital or such lower percentage as the Central Bank may prescribe.” Furthermore, section 29(3) of the FIA makes provisions for the Central Bank to issue guideline to financial institutions, clarifying who is considered a customer and group of closely related customers, including credit computation of credit concentration and factors to be taken into account by the Central Bank in granting or refusing to grant an approval. The Central Bank hereby provide supervisory guidance in line with sections 29(3) and 40 of the FIA on the matter and the change in process for exceptions in line with section 29(1) of the FIA.

2.0 Definition of credit

Further to the definition contained in the FIA, for clarification purposes, the following are considered as credit:

- 1) Credits and credit participations (such as loans and overdrafts);
- 2) Credit substitutes (such as guarantees, acceptances, letters of credit, finance lease receivables);
- 3) Debt securities;
- 4) Securitised assets and other transactions with recourse; and
- 5) Off-balance sheet and contingent liabilities (such as commitments to advance credit).

3.0 Computation of credit concentration

The amount of a bank’s exposure to a customer or group of closely-related customers is calculated using the following steps:

- 1) Derive the sum of credit as defined above in section 1.0.
- 2) From that sum, deduct the amount by which any of the credits are irrevocably secured by the following forms of collateral:

- Cash deposits placed with the bank; and
- Notes, bonds, treasury bills, and similar certificates of indebtedness issued by the Government of Seychelles or the Central Bank.

3) Divide the amount by core capital as defined for capital adequacy purposes.

4.0 Processing of requests for credits exceeding credit concentration limit

A bank may request the prior written approval of the Central Bank to increase the amount of an exposure to a customer, or group of closely-related customers, to a level which is 25 percent or more of core capital. The exception request in line with section 29(1) of the FIA should be supplemented with an analysis justifying that the granting of this exception will not pose undue risk to the financial institution. The decision of the Central Bank whether or not to grant a request shall take the following factors into account, but not necessarily be limited to these factors, which should be reflected in the analysis:

- 1) the nature, including the reason, and time period of the request to exceed the limitation;
- 2) confirmation that the counterparty to the exposure shall not be a connected person or a group of closely-related persons of which a connected person is a member;
- 3) the quality of the security to be pledged on such credit;
- 4) impact to the bank's capital adequacy taking into account capital adequacy ratios;
- 5) the bank's overall asset quality and financial condition, any enforcement (remedial or corrective) action outstanding or pending against the bank;
- 6) the sector to be financed and including a comment or the bank's view on:
 - the exposure to the sector;
 - the quality of existing loans in the sector;
 - how the sector is performing and will perform going forward;
 - how the counterparty is expected to perform in the sector; and
 - the impact on the sector;
- 7) the quality and quantity of concentrations above the limitations at the time of the request; and
- 8) the bank's history of compliance with the limitations, accuracy of reporting large exposures and credit concentrations, and frequency of obtaining the Central Bank's approval to exceed limitations.

In addition to the analysis that the financial institution has submitted in supporting the granting of this exception, the Central Bank will also consider any other supervisory concerns such as, but not limited to:

- 1) the adequacy of the bank's written risk policies, procedures, and management information systems; and
- 2) whether the bank has the necessary financial, managerial, and organizational resources to handle the increased exposure and resulting increase in credit concentration risk.

5.0 Reporting Requirements

Each bank must have an adequate system with regards to all credit exposures to:

- Accurately identify all exposures to each customer and to groups of closely-related customers;
- Aggregate the exposures in order to apply regulatory and policy limitations; and

- Report on large exposure, credit concentration and connected lending on a timely and regular basis to administrators and the Central Bank.

For monitoring purposes, statistics regarding large exposures, credit concentration and connected lending need to be submitted electronically to the Central Bank, on a monthly basis, but not later than 15 days after the end of the respective month:

CR (i) Large exposures

Where credit facilities meet or exceed 10 percent of core capital but represent less than 25 percent of core capital, such facilities are to be reported as “large exposure” in the return CR (i). For banks which have less than 10 facilities representing large exposures, the 10 largest exposures must be reported.

CR (ii) Credit Concentrations

Where credit facilities meet or exceed 25 percent of core capital, such facilities are to be reported as “credit concentrations” in the return CR (ii). The aggregate credit concentrations of a bank should not exceed 600 percent of the bank’s core capital. As a memo item, the facilities that are exempted from the limitations under section 29(4) of the Act also need to be disclosed.

CR (iii) Connected Lending

Return CR (iii) captures exposures to the bank’s administrators, the administrators’ close relations and any company or undertakings in which the administrators or their close relations have substantial interests *and* exposure to persons holding substantial interests in the bank, their close relations and any company or undertakings in which the persons holding substantial interest or their close relations have substantial interests. The aggregate of all credits made in relation to the former, should not exceed 10 percent of the bank’s core capital. The aggregate of all credits made in relation to the latter should not exceed 20 percent of the bank’s core capital. Their combined aggregate however, should not exceed 25 percent of the bank’s core capital.

In calculating the percentages called for in the aforementioned returns, the core capital figure is to agree with the capital adequacy (RWCR) return for the same period.

This set of Guideline supersedes and replaces the Directives on Large Exposure, Credit Concentration and Connected Lending issued on August 5, 2009.

Yours faithfully,

 Caroline Abel
Jul 4 2023 9:00 PM

C. Abel (Ms)
Governor