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Date: August 05th, 2009

TO ALL BANKS

Directives on Large Exposure, Credit Concentration and Connected Lending

1.0 Introduction

These Directives are issued in line with sections 29(3) and 40 of the Financial Institutions Act 2004 as amended (henceforth referred to as the Act) and apply to each bank individually, and on a fully consolidated basis to its holding company, and members of its group, if applicable. They are aimed at the following:

- Clarifying the definition of credit (section 29(3));
- Explaining the computation of credit concentration (section 29(3));
- Listing the factors that will be taken into consideration in arriving at the decision of whether or not to grant approval for credit concentration, in line with section 29(1) of the Act (section 29(3)); and
- Stating reporting requirements for large exposure, credit concentration and connected lending (section 40).

2.0 Definition of credit

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

- (i) Credits and credit participations (such as loans and overdrafts);
- (ii) Credit substitutes (such as guarantees, acceptances, letters of credit, finance lease receivables);
- (iii) Debt securities;
- (iv) Securitized assets and other transactions with recourse; and
- (v) 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 2.0.
2. From that sum, deduct the amount by which any of the credits are irrevocably secured by the following forms of collateral:
 - (i) Cash deposits placed with the bank; and
 - (ii) 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% or more of core capital. The decision of the Central Bank whether or not to grant a request shall take the following factors into account:

- i. The nature, including the reason, and time period of the request to exceed the limitation;
- ii. 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;
- iii. The quality of the security to be pledged on such credit;
- iv. The bank's capital adequacy taking into account capital adequacy ratios;
- v. The bank's overall asset quality and financial condition; provided that, there is no enforcement (remedial or corrective) action outstanding or pending against the bank nor is the bank otherwise subject to supervisory concern;
- vi. The sector to be financed;
- vii. The quality and quantity of concentrations above the limitations at the time of the request for the Central Bank's approval;
- viii. The bank's history of compliance with the limitations, accuracy of reporting large exposures and credit concentrations, and frequency of obtaining Central Bank's approval to exceed limitations;
- ix. The adequacy of the bank's written risk policies, procedures, and management information systems; and
- x. 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 Central Bank as per the attached forms, 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

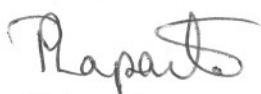
Where credit facilities meet or exceed 25 percent of core capital, such facilities are to be reported as “credit concentrations” in the return CR (ii). The aggregate credit concentrations of a bank should not exceed 600 percent of the bank’s core capital. As a memo item, the facilities that are exempted 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 Directives supersedes and replaces the Directives on Large Exposures and Connected Lending issued on April 21, 2005. Moreover, Circular BS 4 dated July 1st, 2005 is no longer applicable since the approval for facilities deemed connected lending no longer requires the Central Bank’s prior approval but is at the discretion of the board of directors of the respective bank.



P. Laporte
Governor

Large Exposures*

CR (i)

**To: Financial Services Supervision Division
Central Bank of Seychelles**

Bank:	
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As at:

Core Capital**:	
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Notes

*Credit facilities to a single customer or closely related group, that represent 10% or more, but less than 25% of the financial institution's core capital. For institutions which have less than 10 large exposures, the institution's 10 largest exposures should be reported irrespective of the 'amount outstanding to core capital' ratio.

**The figure which needs to be specified in the adjacent box relates to core capital as reported for capital adequacy purposes.

*** The aggregate large exposures should represent the sum of all exposures that represent 10% or more, but less than 25% of the financial institution's core capital. Please note that exposures representing less than 10% should not be aggregated.

- (a) Specify the name of the single customer or the parties of the closely related group, to which the financial institution is exposed.
- (b) State the aggregate amount outstanding of the exposure to the single customer or closely related group in thousands of Rupees.
- (c) The ratio will be calculated automatically, as long as figures have been entered for ** and b.
- (d) Specify the number of facilities that the single customer or the parties of the closely related group, have taken out.
- (e) to (i) provides the breakdown of the aggregated figures in (b) and (d). For each facility, specify the type of the exposure e.g. overdraft, loan, Letter of Credit etc. (e), amount outstanding in thousands of Rupees (f), security value in thousands of Rupees (g), limit of the exposure in thousands of Rupees (h) and maximum remaining months for the facility to be repaid (i).

Compiled By: _____

Date:

Checked By: _____

Date: _____

**To: Financial Services Supervision Division
Central Bank of Seychelles**

CR (ii)

As at:

Credit Concentrations (Not Exempted)								
Name of Borrower (a)	Aggregate amount outstanding (R '000) (b)	% of core capital (c)	Number of facilities (d)	Nature of transaction (e)	Amount Outstanding (R '000) (f)	Security Value (R '000) (g)	Limit of Commitment (R '000) (h)	Remaining terms to maturity (months) (i)
Aggregate Credit Concentration (j)								

Memo Items - Exempted Credit Concentrations								
Name of Borrower	Aggregate amount outstanding (R '000)	% of core capital	Number of facilities	Nature of transaction	Amount Outstanding (R '000)	Security Value (R '000)	Limit of Commitment (R '000)	Remaining terms to maturity (months)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Aggregate Credit Concentration (j)								

The shaded areas do not require any data.

*Credit facilities to a single customer or closely related group, that represent 25% or more of the financial institution's core capital.

**The figure which needs to be specified in the adjacent box relates to core capital as reported for capital adequacy purposes.

(a) Specify the name of the single customer or the parties of the closely related group, to which the financial institution is exposed.

(b) State the aggregate amount outstanding of the exposure to the single customer or closely related group in thousands of Rupees.

(c) The ratio will be calculated automatically, as long as figures have been entered for ** and b.

(d) Specify the number of facilities that the single customer or the parties of the closely related group, have taken out.

(e) to (i) provides the breakdown of the aggregated figures in (b) and (d). For each facility, specify the type of the exposure e.g. overdraft, loan, Letter of Credit etc. (e), amount outstanding in thousands of Rupees (f), security value in thousands of Rupees (g), limit of the exposure in thousands of Rupees (h) and maximum remaining months for the facility to be repaid (i).

(j) The sum of the aggregate amount outstanding in absolute terms and its relation to capital will be calculated automatically. Please note that the credit concentration of a financial institution should on aggregate, not exceed 600% of its core capital.

Date: _____

Date: _____

Connected Lending*

**To: Financial Services Supervision Division
Central Bank of Seychelles**

Bank:	
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As at:

Core Capital**:	
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Name of Borrower	Relationship	Nature of transaction	Approval Authority	Interest Rate (%)	Security (R '000)	Remaining terms to maturity (months)	Amount Outstanding (R '000)	% of core capital
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Aggregate Credit							-	

Notes

The shaded areas do not require any data.

*Insider lending as defined by section 30 (i) of the Financial Institutions Act, 2004. If a person has more than one facility, each should be listed in a separate row.

**The figure which needs to be specified in the adjacent box relates to core capital as reported for capital adequacy purposes.

(a) Specify the name of the borrower. Where a borrower has taken more than one credit facility, please list these separately.

(b) Give the basis for which the transaction has been deemed connected.

(c) List the type of the facility e.g. overdraft, loan, etc. that has been extended.

(d) Specify the highest authority that has approved the facility.

(e) State the interest rate applicable to the facility.

(f) State the value of the collateral backing the exposure, in thousands of Rupees.

(g) State the maximum remaining months for the facility to be repaid.

(h) State the amount outstanding of the individual facilities in thousands of Rupees.

(i) The ratio will be calculated automatically, as long as figures have been entered for ** and h.

(j) The sum of amount outstanding in absolute terms and its relation to capital will be calculated automatically. Please note that the aggregate of connected lending should not exceed 25% of the financial institution's core capital.

Compiled By:

Date: _____

Checked By: _____

Date: _____

To: Financial Services Supervision Division
Central Bank of Seychelles

CR

BANK:	
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As at:

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Aggregate Large Exposures	
Aggregate Credit Concentrations	
Aggregate Connected Lendings	