

**INSTRUCTION CPO/B-2000/5
LARGE CREDIT EXPOSURES**

I. AUTHORITY

This instruction is issued by the Central Payments Office of East Timor (hereinafter, “CPO”) pursuant to Sections 26.1(a) and (b), and 27 of *Regulation No. 2000/8 on Bank Licensing and Supervision* (hereinafter, the “Regulation”). This instruction applies to each bank and each of its subsidiaries on a consolidated basis.

II. DEFINITIONS

A. **Credit Exposure** to a person or a group of inter-related persons (as those terms are defined herein) means the sum of a bank’s:

1. credits, as defined in Section 49(g) of the Regulation, including participations;
2. equity interests, as defined in Section 49(k) of the Regulation;
3. debt securities, as defined in Section 49(I) of the Regulation;
4. credit substitutes such as guarantees, acceptances, letters of credit and bills, finance lease receivables;
5. securitized assets and other transactions with recourse; and
6. contingent liabilities, such as commitments to extend credit.

less an amount by which any of the above-listed items are fully and irrevocably secured by:

7. collateral in the form of cash deposits placed with the bank which extended the credit; or
8. a guarantee of the government of East Timor or of a government of an Organization of Economic Cooperation and Development country, provided that the guarantee:
 - (a) has as its only condition for the enforcement of the right resulting from the guarantee the counterparty's failure to meet his obligation toward the bank;
 - (b) is explicit in all its prerequisites; and
 - (c) can be executed so that neither the guarantor nor any other person is in a position to challenge the legal rights of the bank resulting from the guarantee.

B. **Group of Inter-related Persons** means two or more persons (as the term “person” is defined herein), whether individuals or juridical persons, holding exposures from the same

bank and any of its subsidiaries, whether on a joint or separate basis, but who are mutually associated in that:

1. one of them holds, directly or indirectly, power of control over the other; or
2. their cumulated exposures represent to the bank a single risk in so much as they are so interconnected with the likelihood that if one of them experiences financial problems the other or all of them are likely to encounter repayment difficulties. Such interconnections include, but are not limited to:
 - partnerships,
 - common ownership or control,
 - common directors,
 - cross guarantees, and
 - direct commercial interdependency which cannot be substituted in the short-term.

C. **Large Credit Exposure** means that the Credit Exposure of the bank to any person or group of inter-related persons equals ten percent (10 %) or more of the bank's Regulatory Capital.

D. **Person** is defined pursuant to Section 49(q) of the Regulation as an individual and a juridical person (a company, partnership, association, and group of persons acting together with a common purpose, whether or not organized as a formal business entity).

E. **Regulatory Capital** is defined in the Instruction CPO/B-2000/2 on Regulatory Capital.

F. **Total Credit Portfolio** means the sum of the bank's credits and finance leases less any specific allowances (established against losses identified in individual credits) and general allowances (established for latent losses that are known to exist, but which cannot yet be ascribed to individual credits).

III. REQUIREMENTS

A. The Board of Governors of each bank shall adopt, and ensure that senior management implements, a written policy covering Large Credit Exposures. This policy may be a part of the bank's overall credit policy. Processes should be established within the bank to allow the Board of Governors to monitor compliance with the policy. The Board of Governors shall review the policy on at least an annual basis. The policy, at a minimum, shall:

1. address concentrations of risk arising from individual Large Credit Exposures, the bank's aggregate Large Credit Exposures, and Credit Exposures to a group of inter-related persons; and
2. Impose strict and binding limits on Large Credit Exposures, including those to a group of inter-related persons, which do not exceed the limitations contained in this instruction.

- B. Banks shall maintain records necessary to identify all Large Credit Exposures. Banks shall have procedures in place to properly identify groups of inter-related persons.
- C. Large Credit Exposures must be approved in advance by the Risk Management Committee or Credit Committee of the bank, and by the Governing Board.

IV. LIMITATIONS

- A. The bank's Credit Exposure to a person or to a group of inter-related persons shall not exceed twenty-five percent (25 %) of the bank's Regulatory Capital.
- B. The maximum aggregate Credit Exposure that a bank shall be permitted to extend to or for the benefit of the ten persons and groups of inter-related persons with respect to whom the bank's Credit Exposure is the greatest shall not exceed forty percent (40 %) of the bank's Total Credit Portfolio.
- C. In the event of a conflict between these two limitations, the more restrictive limitation shall prevail.

V. REPORTING REQUIREMENTS

Each bank shall submit to the CPO a report as of each month-end in the format prescribed by the CPO showing all Large Credit Exposures of the bank, as well as compliance with the limitations contained in Section III above.

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REPORT ON LARGE CREDIT EXPOSURES

Name of Bank:
 CPO Identification Number:
 Report for Month Ended:

Calculation of Limitations

Instruction on Large Credit Exposures, Sections II.C. and III.A.:

Amount of Regulatory Capital as of Current Month End:
 10% of Regulatory Capital:
 25% of Regulatory Capital:

Instruction on Large Credit Exposures, Section III.B.:

Total Credit Portfolio as of Current Month End:
 40% of Total Credit Portfolio:

List all Large Credit Exposures in descending order based on size. List the 10 greatest Credit Exposures regardless of whether they qualify as “Large Credit Exposures” pursuant to Section II.C. of the Instruction on Large Credit Exposures.

Rank by Size	Identification of Counter-party (include persons and groups of inter-related persons)	Credit Exposure
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
	Sum of 10 greatest Credit Exposures	
11.		
12.		
etc.		
	Sum of all Large Credit Exposures	