

St. Vincent and the Grenadines
International Financial Services Authority
Statement of Guidance
Large Exposures

1. Statement of Objectives

To provide guidance to international banks on large exposures pursuant to section 31 of the International Banks Act.

2. These guidelines require a bank to establish and implement policies, practices and procedures relating to:

- i) Credit granting and investment decisions;
- ii) Large exposures to single or closely related borrowers; and
- iii) Monitoring and reporting of large exposures.

3. Definitions

- i) An exposure includes loans, securities, investments, guarantees, letters of credit or any other instrument that may expose the bank to a loss. An exposure is the maximum loss including accrued interest that a bank may suffer if a counterparty fails to meet its obligations.
- ii) A large exposure means any exposure that exceeds 25 per cent of a bank's capital base.
- iii) The capital base means the sum of Tier I and Tier II capital less goodwill and other intangible assets. The capital base usually consists of paid-up capital plus retained earnings.
- iv) A counterparty is any party with whom a bank has an exposure.
- v) A related counterparty is a counterparty that is linked to the bank and includes:
 - i. Any parent, subsidiary, or sister company that together with the bank constitutes a group;
 - ii. A natural person who is a director, controlling shareholder, senior officer, or otherwise has control of the bank, or any business partner of immediate relative of such individual; and
 - iii. Any company of which any of the persons referred to in (b) above is a director, controlling shareholder and senior officer or has control.

4. Bank's Policy Statements on Large Exposures and Credit Risk

- i) A bank must adopt internal policies and internal limits that will ensure compliance with the exposure limits set out in 5 through 8 below.

- ii) A bank must have adequate information systems to identify and measure its large exposures and identify any breaches of the policy and guideline limits.
- iii) Any breaches of these rules must be reported directly to the bank's board of directors.
- iv) A bank must assign a designated officer (e.g. compliance officer), to monitor large exposures to ensure the bank's compliance with the limits established by the guideline and the bank's internal limits.

5. Single Exposure Limits

- i) A bank must not incur exposures to an individual counterparty or group of connected parties that exceeds 25 % of its capital base, without the prior written approval of the Authority.
- ii) A bank must not invest in the shares of an entity so that the value of the investment exceeds ten per cent of the capital base of the bank without the approval of the Authority¹.

6. Related Counterparty Limits

Exposures to related parties are further restricted by the Act and this guideline as follows:

- i) Exposures to shareholders and the directors of a bank, in aggregate, may not exceed 5 % of the capital base of the bank².
- ii) Unsecured exposures to or on behalf of related parties may not exceed, in aggregate, the greater of US \$250,000 or 1 % of capital³.
- iii) Unsecured exposures to officers or employees may not exceed one year's emoluments⁴.
- iv) Investments in shares or ownership interests in entities by the bank or its subsidiaries, in aggregate, may not exceed 70 per cent of the capital base of the bank⁵.

7. Exposures secured by cash and certificates of deposit (CDs)

- i) An exposure secured by cash (including CDs issued by the bank) held by a bank is exempt from the limits contained in Section 5 of this guideline, provided that:
 - i. Both the exposure and deposit are made in the same country and currency;
 - ii. The deposit that secures the exposure must have the same or longer maturity than the exposure; and
 - iii. The bank must have a legal opinion that confirms the right of set-off between the deposit and the exposure.

8. Exposures to Regulated Banks and Insurance Companies

¹ Section 17 (f) of the International Banks Act.

² Section 17 (1)(a) of the International Banks Act.

³ Section 17(1)(b) of the International Banks Act.

⁴ Section 17(d) of the International Banks Act.

⁵ Section 18(b) of the International Banks Act.

The following exposures are exempted from the Authority's large exposure guideline;

- i) Exposures to regulated banks and insurance companies. Exposures to any one bank or insurance company are limited to 200 per cent of the bank's capital base.

9. Additional Limits

- i) Notwithstanding any limits or exemptions provided by this Guidance Note, the Authority may on a case-by case basis:
 - i. Limit and vary the availability and amount of any exemption provided by the Guidance Note.
 - ii. Require a bank to limit its exposures to any entity, country, economic sector or otherwise as the Authority may determine.