

Rwanda

Regulation on Credit Concentration and Large Exposure Regulation 5 of 2008

Legislation as at 10 January 2011

FRBR URI: /akn/rw/act/reg/2008/5/eng@2011-01-10

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PDF created on 21 February 2024 at 13:22.

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Rwanda

Regulation on Credit Concentration and Large Exposure

Regulation 5 of 2008

Published in Official Gazette 2 on 10 January 2011

Assented to on 5 September 2008

Commenced on 10 January 2011

[This is the version of this document from 10 January 2011.]

Pursuant to Law N° 55 /2007 of 30/11/2007 governing the Central Bank of Rwanda, especially in articles 53, 56, 57 and 58;

Pursuant to Law N° 007/2008 of 08/04/2008 concerning organization of organization of Banking, especially in articles 35 and 36;

The National Bank of Rwanda hereafter referred to as “Central Bank”, decrees:

Chapter One

General provisions

Article one – Purpose

This regulation aims at establishing norms relating to credit concentration and large exposures

Article 2 – Definition of terms

In this Regulation, unless the context requires otherwise:

1. **Credit:** an operation whereby a person, in exchange for compensation, lends or promises to lend funds to another person, or accepts in that person’s interest a signed pledge such as a guarantee, security deposit, or any other personal collateral.
2. **Exposures:** all types of credits, credit openings, letters of credit, advances, debt securities and similar forms of credits or credit commitments granted by a bank to a client, as well as shares, participation in the capital, and other types of investments in an undertaking.
3. **Large Exposure:** exposure, which is equivalent to, or exceeds 10% of the Net Worth.
4. **Net Worth:** all funds constituted by the capital base and additional equity (or supplementary capital) as defined by Central Bank regulations on Capital Adequacy Regulation.
5. **Placement:** sum of money deposited by one bank in another bank or financial institution within or outside Rwanda for a specified period outside the normal banking or correspondent banking transactions.
6. **“Group of related clients”:** two or more natural persons or legal entities that are regarded as constituting a single interest because they have at least one of the following relationships:
 - (a) One controls the other or the entire group, directly or indirectly;
 - (b) They are so interrelated that, if one of them were to experience financial problems, the other or all of the others would encounter repayment difficulties.

7. **Bank Related Party:** any natural person or legal entity that maintains with the bank at least one of the following relationships:
- (a) a person who is a member of the Board of Directors or management, or is a senior official of the bank;
 - (b) person who has a direct or indirect qualifying holding in the bank;
 - (c) person who is a member of the Board of Directors or management of an enterprise covered by b, g or h of this paragraph;
 - (d) any spouse, family member up to the second degree of any of the persons mentioned under a, b, or c of this paragraph;
 - (e) any enterprise in which any of the persons mentioned under a, b, c, or d is a member of the Board of Directors or management;
 - (f) any enterprise in which any of the persons mentioned under a, b, c, or d above holds directly or indirectly, alone or with others, at least ten (10%) percent of the shares or voting rights;

Chapter II Prudential rules

Article 3 – Single borrower’s limits

A bank shall not grant or promise to grant to a single person or to related parties, an advance, credit or commitment which is more than 25% of its Net Worth.

Article 4 – Collaterals

A bank may grant an advance or credit facility in excess of 25% but not more than 50% of its Net Worth, if its maturity does not exceed 5 years and adequately secured by the following collaterals or securities:

1. Rwanda Government or Central Bank securities;
2. Fixed deposits held by the lending bank
3. Guarantees issued by the World Bank or other similar multilateral lending organizations;
4. A financial guarantee issued by a reputable and highly rated foreign financial institution acceptable to the Central Bank;
5. A guarantee issued by a parent financial institution where the parent institution is highly rated and is acceptable to the Central Bank.

Article 5 – Limits in aggregate large exposure

A bank shall not have large exposures which, in the aggregate, exceed 8 times its Net Worth.

Article 6 – Placements

Placements by a Rwandan bank within an affiliated banks or financial institutions outside Rwanda shall be subjected to the regulation on banking placement.

Article 7 – Reporting and computation of credit concentration and large exposure

Every bank shall have sound administrative and accounting procedures and adequate internal control mechanisms for the purpose of identifying, recoding and monitoring all large exposures and subsequent changes to them, in order to ensure compliance, at a consolidated level, with the limits on credit concentration and large exposures.

Every bank shall submit, on a quarterly basis, to the Central Bank, a return titled “Credit Concentration and Large Exposure” as indicated in appendix 1.

Article 8 – Disclosure of loans granted to insiders

The Bank shall disclosure detailed insider related loans in audited annual financial statements. The non performing component should be clearly stated in the report. The external auditor should also give an opinion in the financial statement on the insider related loans.

Insider related loans should not be secured by the bank’s own shares.

Chapter III Remedial measures and penalties

Article 9 – Penalties

Where the Central Bank determines that a bank is not in compliance with the limits on credit concentration or large exposure, it may invoke any or all the corrective measures specified in articles 65 and 68 of the Banking Law.

Article 10 – Administrative sanctions

In addition to the remedial measures prescribed by article 9, the Central Bank may impose all or any of the following administrative sanctions on a bank that fails to comply with these Regulations:

1. requirement of the infusion of additional capital; prohibition from declaring or paying dividends;
2. prohibition of the payment of bonuses, salaries incentives, management fees or other discretionary compensation to directors or officers;
3. suspension from establishment of new branches and extension into new banking activities;
4. suspension of access to the Central Bank’s credit facilities;
5. suspension of lending operations;
6. suspension of opening of letters of credit;
7. suspension of acquisition of new deposits;
8. suspension of acquisition of fixed assets.

Chapter IV Final provisions

Article 11 – Transitional provisions

A bank which is not in compliance at the time of the publication of this regulation must take remedial measures.

The bank must submit to the Central Bank, 30 days after publication of this Regulation, a detailed remedial plan.

Article 12 – Repealing provisions

All previous provisions contrary to this Regulation are hereby repealed.

Article 13 – Commencement

This regulation shall come into force on the date of its publication in the Official *Gazette* of the Republic of Rwanda.

Appendix 1

Quarterly report on credit concentration and large exposures

Name of the bank _____ Month-end date _____

Name (s) of borrower (s)	Outstanding amount (including all credit facilities equal to 10% of the Net Worth)	% of Net Worth	Classification	Collateral (Amount)	Description
TOTAL					

Nom _____ Signature _____ Fonctin _____ Date _____