

**OPERATING GUIDELINES**

**FOR**

**FINANCE LEASING  
INSTITUTIONS**

**BANKING SUPERVISION DEPARTMENT  
BANK OF SIERRA LEONE  
FREETOWN**

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## **OPERATING GUIDELINES FOR FINANCE LEASING INSTITUTIONS**

### **1.0 AUTHORITY**

These guidelines are issued by the Bank of Sierra Leone (hereinafter referred to as “the Bank”) in exercise of the powers conferred on it by Section 53 of the **Other Financial Services Act 2001**.

### **2.0 DEFINITION**

- (a) “Group” in these guidelines means a set of business companies or concerns under joint control or associated together or subsidiaries of a holding company.
- (b) “Finance Leasing” means a contract between two parties whereby a lessor gives the lessee possession and use of a specific asset (or portfolio of assets) in consideration for payment of rentals over a given period in which the lessor retains ownership/title with the intention to transfer ownership of the said assets to the lessee upon termination of the said finance lease.
- (c) “Leasing” as defined in Section 2 of the Other Financial Services Act, 2001.

### **3.0 APPLICATION FOR LICENCE**

No person shall be eligible to apply for a licence to operate a finance leasing business unless that person is:

- (a) A registered company whose name has not been struck off the register of companies under the Companies Act, 2009;
- (b) A society registered under the Co-operative Societies Act 1977 and whose name has not been struck off the Register of Co-operative Societies; or
- (c) A statutory body.

#### **3.1 INFORMATION ON THE PROPOSED LEASING INSTITUTION**

Any promoter(s) seeking a licence to carry out a finance leasing business in Sierra Leone shall apply in writing to the Central Bank as prescribed by Section 4 of the Other Financial Services Act, 2001. Such application shall be accompanied by the following:-

- (a) Minutes of the meeting of the Board of Directors of the applicant authorizing the application for license.
- (b) A copy of the Memorandum and Articles of Association together with the Certificate of Incorporation and Certificate of Registration.

- (c) Copies of audited balance sheet for the last three years of the institution, where applicable.
- (d) The capital structure of the proposed finance leasing institution as of the date of the application.

## **3.2 FORM OF APPLICATION**

An application for license must be in writing and in English. The application must be signed by an authorized officer of the applicant and shall be in a form or names as prescribed by the Bank.

## **3.3 DESIGNATION OF SPOKESPERSON**

The applicant should identify an English-speaking spokesperson to act on its behalf regarding the application. The spokesperson's name, address, and telephone number should be provided in the application. During the processing of the application, any change to the name, address or telephone number of the spokesperson must be communicated to the Bank. All communications between the Bank and the applicant will be directed to the spokesperson.

## **3.4 INFORMATION ON CONTROLLING PERSONS**

### **3.4.1 SHAREHOLDERS etc**

For each person who is, or proposed to be, a shareholder, promoter, or sponsor of the proposed leasing institution, the following information shall be submitted as part of the application:-

- (a) Name
- (b) Address
- (c) (i). Physical persons: country identification or passport number and bio data  
(ii). Legal persons: identification of persons owning ten percent (10%) or more, or who are otherwise in control.
- (d) Number and type of shares held or to be subscribed in the proposed leasing institution, price per share, total price, resulting percentage ownership;
- (e) Membership in other companies, partnerships, associations and groups of persons acting together with a common purpose, whether or not organized or registered as a formal business concern;

- (i) The names and addresses of companies, firms, and other business concerns in which they have an interest as principal shareholders, directors, partners, proprietors or guarantors, as the case may be.
- (ii) The amount and percentage of shareholding or stake-holding.
- (iii) The balance sheet and profit and loss accounts of the business concerns for a period of three years immediately preceding the date of application.
- (iv) The nature of their participation in the management of business concerns; and
- (v) The bankers' credit reports in respect of the business concern.
- (f) Knowledge or experience in the management of financial institutions.
- (g) History of ownership of at least ten percent (10%) or more of the stock of other financial institutions.
- (h) The sources of funds used, or to be used, to fund the interest in the proposed leasing institution. If assets were (or will be) sold, or if funds were (or will be) borrowed, provide full information.
- (i) Details of pending litigation, if any.
- (j) Details of previous or pending insolvency or bankruptcy proceedings, if any.
- (k) Copy of the tenancy/ lease agreement between the promoters of the leasing institution and the landlord of the proposed premises.

#### **3.4.2 BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

For each person proposed to be a member of the board of directors or senior management of the proposed leasing institution, the following information must be submitted as part of the application;-

- (a) Name
- (b) Address
- (c) Country identification or passport number and bio data;
- (d) Detailed curriculum vitae;
- (e) History of ownership of at least ten percent (10%) or more of the stock of other financial institutions where applicable;

- (f) Membership in companies, partnerships, associations, and groups of persons acting together with a common purpose, whether or not organized or registered as a formal business concern;

#### **4.0 FINANCIAL OBLIGATIONS**

The financial obligations are as follows: -

	<b>Le</b>
(a) Minimum paid-up share capital	2 billion
(b) Non-refundable application fee	500,000
(c) Non-refundable licensing fee	2 million
(d) Change of name fee	1 million
(e) Opening of branch/agency/booth	1 million

These amounts may be varied by the Bank from time to time.

#### **5.0 BUSINESS PLAN**

The business plan for the proposed finance leasing institution shall include but not limited to the following:-

- (a) Report on market survey of the financial sector, or feasibility study;
- (b) A repossession policy acceptable to the Bank.
- (c) Detailed financial projections for the initial five years.
- (d) Narrative in which the subjects listed below are fully discussed.

##### **(I) Introduction:**

State the objectives for the business. Provide a basic statement on the nature and scale of the proposed finance lease business, development plans for the business and arrangements for the management of the business.

##### **(II) Assumptions:**

Discuss all assumptions used in the preparation of the business plan.

##### **(III) Organizational Structure:**

Describe the structure of the organization and management of the proposed finance lease institution. Address clearly the issue of the board of directors, permanent committees (such as the audit committee), senior management, operational and administrative divisions and their sub-divisions and functions, supervisory positions, lines of authority and reporting relationships, staff projections and manpower recruitment and training.

**(IV) RISK MANAGEMENT**

The Other Deposit Taking Institution shall:-

- a) Describe the risk management processes namely; risk identification, measurement, monitoring and control.
- b) Describe plans for controlling the following:-
  - (i) Liquidity, interest rate, and maturity risks (asset and liability management);
  - (ii) Credit risk
  - (iii) Operational risk
  - (iv) Market risk;
  - (v) Asset Risk
  - (vi) Documentation Risk
  - (vii) Concentration Risk and;
  - (viii) All other risks to which the Institution will be exposed when engaged in the financial activities envisaged by the business plan.

With regard to credit risk, the Institution shall address:-

- (a) Credit policies (which must include limitations on loans to affiliates and controlling persons)
- (b) Plans to minimize concentration risk through diversification and limitations on exposures to individual and groups of related borrowers, and
- (c) Asset quality considerations such as underwriting, loan classification system, and provisioning for bad and doubtful loans.

**(V) Business Plan Monitoring:**

Discuss the methods that the board of directors will use to regularly monitor performance under the business plan.

**6.0 OWNERSHIP STRUCTURE**

- (a) There must be clear ownership structure

- (b) No individual shall acquire more than 10% of the shares of finance leasing institution without prior approval of the Bank.
- (c) No individual shall acquire more than 5% of the finance leasing institution without prior notification of the Bank.

## **7.0 DIRECTORS AND SENIOR MANAGEMENT**

- (a) The maximum number of Directors on the Board of Finance Leasing Institutions shall not exceed seven (7) while the minimum shall be three (3) of which the majority shall be resident in Sierra Leone including the chairman.
- (b) Every Director and member of the Management team shall successfully go through the fit and proper person test in accordance with Section 6(2) of the Other Financial Services Act, 2001 and schedule to the Act before taking employment with the institution.

## **8.0 SOURCES OF FUNDS**

The Bank shall verify sources of funds of every leasing institution.

## **9.0 REPORTING REQUIREMENTS**

Every Finance leasing Institution shall submit to the Banking Supervision Department, the following Quarterly Returns not later than 15 days after the reporting date: -

- (a) Statement of assets and liabilities
- (b) Statement of income and expenditure
- (c) Statement of outstanding leases
- (d) Non-performing leases

## **10.0 PUBLICATION OF BALANCE SHEET**

**10.1** Not later than three months after the end of each calendar year, every finance leasing institution shall: -

- (a) Prepare a balance sheet as at last working day of the year and the profit and loss account for the year in line with international financial reporting standards.



- (b) The balance sheet and profit and loss account shall be audited in line with international standards on auditing.
- (c) The documents shall be signed by the Chief Executive Officer and one board member.

**10.2** Every Finance Leasing Institution shall within Four months:

- (i) Submit a copy of its audited balance sheet and profit and loss to the Bank
- (ii) Display conspicuously throughout the year in its place of business its latest audited balance sheet.

**10.3** Not later than two months after the submission of the reports to the Bank every Finance Leasing Institution shall:

- (i) Publish a copy of the audited balance sheet in at least one newspaper of general circulation in Sierra Leone.

Any licensed finance leasing institution which fails to comply with any of the above requirements shall pay a penalty of not less than Le2 million.

**11.0 DISPLAY OF LICENCE AND INTEREST RATES**

Every Leasing Institution shall display in a prominent position in its Head Office and branches:-

- (a) A copy of its current licence.
- (b) Its rates of interest.

**12.0 EXTERNAL AUDITORS**

External auditors appointed by promoters/shareholders shall be approved by the Bank

**13.0 TENURE OF LICENCE**

The tenor of a licence shall be determined by the Bank.

**14.0 PRUDENTIAL REQUIREMENTS**

**14.1 CREATION AND BUILDING UP OF RESERVE**

Every licensed finance leasing institution shall maintain a reserve fund in which transfers shall be made from its net profit for each year before it declares any dividend and after it has made provision for any taxes, as follows: –

- (a) an amount not less than twenty per cent of its after tax profits till such time the reserve fund equals the amount of the paid up capital; and
- (b) thereafter, a sum not less than five per cent of its after tax profits.

Any licensed Finance Leasing Institution which fails to comply with this section shall be liable to pay a penalty to be determined by the Bank.

**14.2 LINKAGE BETWEEN A BORROWER’S EQUITY AND TOTAL BORROWING FROM A LEASING A LEASING INSTITUTION**

A licensed financial leasing institution shall ensure, while granting any facilities, that total facilities availed by any borrower or lessee from Non-Bank Financial Institutions and banks does not exceed ten times of the equity of the borrower or lessee and obtain copy of accounts relating to the business of each of its borrower/lessee for analysis and record in the following manner, namely:

(a) <b>where the exposure exceeds two hundred million Leones</b>	Accounts duly audited by: (i) a practicing chartered accountant;
(b) <b>Where exposure exceeds fifty but less than two hundred million Leones.</b>	Accounts duly signed by the borrower or lessee and counter signed by: (i) the internal auditor of the licensed finance leasing institution; or (ii) a chartered accountant; or (iii) a cost and management accountant in case of a borrower or lessee other than a public company or a private company which is a subsidiary of a public company.
(c) <b>where the exposure does not exceeds fifty million Leones.</b>	Such documentary evidence of the means and investment of the borrower or lessee as may be determined by the management of the licensed finance leasing institution.

Notwithstanding the above, these figures and **guidelines** are subject to change by the Bank from time to time as and when **deemed** appropriate.

**14.3 MINIMUM CONDITIONS FOR GRANT OF FACILITIES**

A licensed finance leasing institution shall ensure, while granting any facility exceeding five million Leones, that:-

- (a) Current asset to current liabilities ratio of the borrower/lessee does not fall below 1:1 or any ratio as prescribed from time to time. However, this condition may be relaxed in case of facilities up to twenty million Leones by recording reasons there of.

Provided that current maturities of long term debt not yet due for payment may be excluded from the current liabilities for the purpose of calculating this ratio;

- (b) Long term debt equity ratio does not exceed 60:40 or any other ratio as prescribed; and
- (c) Due weight is given to credit report relating to the borrower or lessee and his group obtained from the Credit Reference Bureau of the Bank of Sierra Leone. If the credit reports indicate default, further facilities shall be extended only after recording reasons to do so;

#### **14.4 LIMIT ON EXPOSURE TO A SINGLE PERSON AND GRANT OF CERTAIN FACILITIES**

A licensed finance leasing institution shall not:-

- (a) make exposure to a single group for more than twenty per cent of the **Capital Base**.
- (b) allow facilities to any of its directors or to individuals, firms or companies in which it or any of its director is interested as partner, director or guarantor, as the case may be, its chief executive and its major shareholders, including their spouses, parents and children or to firms and companies in which they are interested as partners, directors or major shareholders of that concern without the approval by the directors of that licensed finance leasing institution:

Provided that the director interested in seeking such approval shall not take part in the proceedings of the approval of the facility;

- (c) allow **"unsecured"** facilities or facilities secured only by guarantees except the facilities provided against bank guarantees, the end use of which will be verified by the licensed finance leasing institution to be productive;
- (d) grant **"unsecured"** facilities to or allow facilities on the guarantees of its chief executive, directors and major shareholders including their spouses, parents, and children or to firms and companies in which they are interested as partners, directors or major shareholders of that concern;
- (e) Allow facilities for speculative purposes.

#### **14.5 LIMIT ON LICENSED FINANCE LEASING INSTITUTION'S EXPOSURE AGAINST LIABILITIES**

- (a) Liabilities, excluding contingent liabilities, of a licensed finance leasing institution shall not exceed seven times of its equity during first two years of its operations and ten times of the equity in the subsequent years.
- (b) Contingent liabilities of a licensed finance leasing institution shall also not exceed seven times of its equity during the first two years of its operations and ten times of the equity in the subsequent years.

## 14.6 PROVISIONING FOR NON-PERFORMING ASSETS

Every licensed finance leasing institution shall follow prudential guidelines in the matter of classification of its assets and provisioning there against as specified below:

<b>A. Short To Medium Term Facilities:- (Above One Year But Less Than Four Years)</b>		
<b>Nature Of Classification</b>	<b>For Finance Lease</b>	<b>Provisions to be made</b>
1. Overdue	Where rentals, interest or mark up or principal are overdue ( <b>past due</b> ) <b>by 120 days</b> from the due date.	No provision is to be made.
2. Substandard	Where rentals, interest or mark up or principal are overdue (past due) <b>by 120-360 days</b> but <b>less than one year</b> from the due date	Provision of 20% of the difference resulting from the outstanding balance of net investment in lease finance and principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of leased assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
3. Doubtful	Where rentals, interest or mark up or principal are overdue (past due) <b>more 360- 540days</b> from due date.	Provision of 50% of the difference resulting from the outstanding balance of net investment in lease finance and principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of leased assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation
4. Loss	Where rentals, interest or mark up or principal are overdue (past due) beyond <b>540 days</b> from the due date.	Provision of 100% of the difference resulting from the outstanding balance of net investment in lease finance and principal less the amount of liquid assets realisable without recourse to a Court of Law and forced sale value of leased assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
<b>B- Long Term Facilities:- (Four Years and Above)</b>		
<b>Nature Of Classification</b>	<b>For Finance Lease</b>	<b>Provisions to be made</b>
1. Overdue	Where rentals, interest or mark up or principal are overdue	No provision is to be made

	(past due) for one year from the due date.	
2. Substandard	Where rentals, interest or mark up or principal are overdue (past due) by one year but less than two years from the due date.	Provision of 20% of the difference resulting from the outstanding balance of net investment in lease finance and principal less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of leased assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
3. Doubtful	Where rentals, interest or mark up or principal are overdue (past due) by more than two years but less than three years.	Provision of 50% of the difference resulting from the outstanding balance of net investment in lease finance and principal less the amount of liquid assets realisable without recourse to a Court of Law and forced sale value of leased assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
4. Loss	Where rentals, interest or mark up or principal are overdue (past due) beyond three years from the due date.	Provision of 100% of the difference resulting from the outstanding balance of net investment in lease finance and principal less the amount of liquid assets realisable without recourse to a Court of Law and forced sale value of leased assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.

## 15.0 OTHER REQUIREMENTS

- (a) All changes in the senior management and board of directors of a finance leasing institution shall be subject to the prior approval of the Bank.
- (b) A finance leasing institution shall promptly notify the Bank of all changes in its shareholdings structure.
- (c) A finance leasing institution shall submit to the Bank the specimen signatures of staff assigned the function of signing all returns/correspondence submitted to the Bank.
- (d) A finance leasing institution shall develop and submit a copy of its internal leasing policy to the Bank.

**15.1** A finance leasing institution shall not enter into a leasing transaction without a written lease agreement.

**15.2** Every Finance Lease Agreement shall include:-

- (a) Identities of the lessor and lessee.
- (b) A description of the asset to be acquired under the lease, the estimated price of the asset, and the total lease rentals payable by the lessee.
- (c) The duration of the Finance Lease Agreement, residual value or the option to purchase or transfer ownership from the lessor to lessee; and
- (d) Conditions for termination of the Finance Lease Agreement.
- (e) The rights and obligation of the parties.**
- (f) A clear repossession mechanism.**
- (g) The third party rights.**

## **16.0 PROHIBITIONS**

**A licensed finance leasing institution shall not engage in any other activities other than Finance leasing business without the approval of the Bank.**

## **16.1 GENERAL**

### **Amendments**

The Bank may amend these Guidelines from time to time as and when deemed appropriate.

**BANK OF SIERRA LEONE  
JANUARY 2011**