The Sierra Leone Gazette

Published by Authority

Vol. CLXV | THURSDAY 26TH SEPTEMBER, 2024 | No. 79

CONTENTS

Freetown 26th September, 2024

Govt. Notice No. 447

APPOINTMENT

MINISTRY OF HEALTH AND SANITATION

Wurie, Adama, Senior Staff Nurse, 1.2.23.

Kassim, Adisatu, Senior Staff Nurse, 1.2.23.

Conteh, Mariatu, Senior Staff Nurse, 1.2.23.

Scott, Rebecca, Senior Staff Nurse, 1.2.23.

Conteh, Wullamatu, Senior Staff Nurse,1.2.23.

Bhagwani, Khadijah, Senior Staff Nurse, 1.2.23.

Sesay, Hannah N., Senior Staff Nurse,1.2.23.

Jalloh, Fatmata B., Senior Staff Nurse, 1.2.23

Kamara, Fatmata, Senior Staff Nurse, 1.2.23.

Kpaka, Amie, Senior staff Nurse, 1.1.23.

Baker, Samuel Halker, Registrar, 1.1.22.

Alpha, Alice Y., Senior Staff Nurse, 1.1.23.

Sesay, Isatu F., Senior Staff Nurse, 1.2.23.

Rogers, Princess, Senior Staff Nurse, 1.2.23.

Bundu, Kadijatu, Staff Registered Nurse, 1.2.23

Sesay, Franklyn A., Senior Staff Nurse, 1.2.23.

Bendu, Merilyn C., Senior Staff Nurse, 1.2.23.

Kamara, John, Medical Officer, 1.3.17.

PRINTED AND PUBLISHED BY THE GOVERNMENT PRINTING DEPARTMENT, SIERRA LEONE
Annual Subscription:–Inland–Le900,00 Overseas–Le5,000,00
To be purchased from the Government Bookshop, Wallace Johnson Street, Freetown. Price:–Le20,00 G.P.O/211/24/400/9.24.

Govt. Notice No. 449

GUIDELINES ON LENDING IN FOREIGN CURRENCY BY COMMERCIAL BANKS

1.0 AUTHORISATION

The Bank of Sierra Leone (BSL) empowered under section 65 of the Bank of Sierra Leone Act 2019 and section 53 of the Banking Act 2019, hereby issues the Guidelines on Foreign Currency Deposits, Loans and related transactions.

2.0 APPLICATION

These Guidelines shall apply to all banks licensed to conduct banking business in Sierra Leone by the Bank of Sierra Leone under the Banking Act 2019.

3.0 INTERPRETATION

In these Guidelines, unless the context otherwise requires-

"**Participating Commercial Bank**" means a bank authorized by the Central Bank to conduct foreign exchange business.

"**Central Bank**" means the Bank of Sierra Leone.

"**Correspondent Bank**" means a foreign bank or other institution including parent, subsidiary or affiliate outside Sierra Leone that holds deposits or performs correspondent banking or financial services for and on behalf of a financial institution in Sierra Leone.

"**International Rating Agencies**" as recognized by the Central Bank include Fitch Ratings, Standard and Poor's and Moody's and any other rating agency that may be approved by the Central Bank.

"**Loans**" has the same meaning in these Guidelines as "Credit Exposures" as defined in the Banking Act, 2019.

"**Mid-rate**" means the BSL mid exchange rate.

"**Natural Hedges**" means in particular the cases where permitted borrowers receive minimum of 70% of income in foreign currency (e.g. remittances/export receipts)

"**Permitted Borrowers**" are private and public limited companies and sole proprietorships which carry on the businesses as indicated in Annex I. (See attached) and meet the conditions of a natural hedged borrower.

"**Term loan**" means a loan that has a specific principal amount, a fixed or variable interest rate, and a specified repayment schedule over a set length of time."

4.0 OBJECTIVES

The objectives of these Guidelines are as follows: -

4.1 To facilitate and regulate extension of Loans in foreign currency by participating commercial banks.

4.2 To ensure that participating commercial banks have put in place adequate risk management policies, procedures and systems that enable them to manage the additional credit and counterparty risk, foreign exchange and currency risk, liquidity and maturity mismatch, and interest rate risk in those foreign currency loans, through a robust on-site supervision and off-site surveillance by BSL.

4.3 To identify foreign exchange exposures as an integral and significant component of the participating commercial bank's risk profile and require participating commercial banks to put in place credit policies, internal controls and overall foreign exchange risk management systems.

4.4 To minimize risks arising from concentration of foreign exchange placements or deposits or investments abroad.

4.5 To minimize and mitigate inherent concentration and cross-border risks that participating commercial banks are exposed to, due to the disproportionate placements of foreign exchange deposits and investments with their correspondent banks.

5.0 Lending in Foreign Currency

5.1 Participating commercial banks are allowed to lend and grant Loans denominated in foreign currency to permitted borrowers on a term loan basis.

5.2 The granting of loans denominated in foreign currency by participating commercial banks shall be subject to the following conditions:

(a) Participating commercial banks shall only grant foreign currency loans to permitted/hedged borrowers using strict underwriting criteria that demonstrate their creditworthiness, both at the beginning and throughout the duration of the loans, taking into account the repayment structure of the loans and the permitted borrowers' capacity to withstand adverse shocks in exchange rates and in the foreign currency interest rate.

(b) Collaterals denominated in currencies different from the one in which the loans are expressed or in local currency shall be valued conservatively, allowing for a buffer for exchange rate movements and providing for reappraisals in the face of eventual, but substantial exchange rate changes.

(c) Participating commercial banks shall ensure that permitted/hedged borrowers have documented foreign currency income to mitigate foreign currency risk. Income stream generated by the business in foreign currency should be sufficiently high to cover all the payments condition and should at least maintain 70% of their net cash flow in foreign currency. This is subject to adequate hedging by both the commercial banks and the permitted borrowers, as spelt out in the risk management framework of the bank.

(d) Loans in foreign currency shall have a maximum maturity of not more than one year unless the permitted borrower has a clearly defined income stream/project or export contract income in the currency of the loan that matches the maturity of the loan, which shall not exceed a maximum tenor of one year. Prior Central Bank approval is required for all Loans in excess of one-year maturity.

(e) Total loans in foreign currency shall not exceed fifty-five percent (55%) of a participating commercial bank's total foreign currency deposits at all times, while maintaining not less than fifteen percent (15%) as cash reserve requirement in all circumstances.

(f) Loans in foreign currency to a single permitted borrower shall be subject to all the requirements and compliance with the Banking Act 2019 on Credit Exposures (Section 49 on Credit Exposures and similar requirements) and shall be aggregated with exposures in local currency after converting the same into local currency at mid-rate, in calculating compliance with the prudential limits. Single Obligor Limit (SOL) capped at twenty-five percent (25%) of paid-up capital for all FX Lending.

(g) A proportion of cash reserve ratio shall be held in foreign currency at the Central Bank; In the event of default, such reserves shall be subject to the same sanctions in local currency as prescribed in the Revised Prudential Guidelines for Commercial Banks 2022, as amended from time to time. A minimum Capital Adequacy Ratio (CAR) of twenty-five percent (25%) and ten percent (10%) of core capital is proposed.

(h) Participating commercial banks shall not grant loans in foreign currency, if they do not meet the minimum capital adequacy requirements as required by the Provisions of the Banking Act 2019 on Capital Adequacy (Section 27 on Capital Adequacy and related Circulars). It is proposed that a general provisioning of 1% be made for all foreign currency lending, in addition to IFRS 9 expected credit loss provision.

(i) Participating commercial banks' foreign currency loans shall not exceed thirty-five (35) percent of the total loans of the participating commercial banks.

(j) The Central Bank has the right to restrict and direct participating commercial banks to cease lending in foreign currency in the event they fail to comply with any Central Bank Rules and Regulations. Commercial banks will also have to request for final approval from the Bank of Sierra Leone before administering the facility.

(k) Repayment of loan shall be done in the currency in which the loan was granted.

6.0 Risk Management Systems and Internal Controls

6.1 Participating commercial banks are required to have in place, the following risk management policies and systems prior to commencing lending in foreign currency:

(a) Written foreign exchange risk management policy approved by the Board of Directors, specifying limits on foreign currency exposures including limits on overnight open positions, counterparty and country limits on foreign exchange exposures. After Board approval, a copy of these policies is to be provided to the Central Bank.

(b) Adequate risk management systems and other appropriate internal control mechanisms and procedures to identify, measure, monitor and control foreign exchange loans for permitted borrowers including systems to monitor and record currency changes in valuation due to movements in exchange rates on outstanding loans and associated credit risks on both individual exposures and at portfolio level.

(c) Participating commercial banks shall identify, measure, monitor and control their liquidity needs in each foreign currency and to have sufficient liquidity resources to meet those needs in normal and stressed conditions.

(d) Participating commercial banks shall account for risks stemming from foreign currency lending both in their internal risk pricing and internal capital allocation systems.

(e) Credit in foreign currency to activities generating foreign currency revenue shall be categorized according to the standard classification criteria of a bank's asset portfolio, which shall include an assessment of the eventual impact of the exchange rate on profitability driven by consequent changes in relative prices.

(f) Participating commercial banks shall ensure that the following prudential limits are maintained:

(i) Single Obligor Limit

(ii) Net Open Position

(iii) Large Exposure Limits

(iv) Cash Reserve Ratios

(v) Liquidity Ratios

(vi) Non-performing Loans Ratio

(vii) Loan to Deposit Ratio

(viii) Loan to Value Ratio

6.2 List of Prerequisites

(i) The customer must generate foreign currency in their line of operations.

(ii) The bank's NPL must be in good standing (not exceeding ten (10) percent) six (6) months prior to the facility and should be always maintained thereafter.

(iii) CAR of at least 25 percent with 10 percent for core capital.

(iv) The Single Obligor Limit (SOL) should not be breached.

(v) Net Open Position (NOP) of at least 15 percent for single currency.

7.0 Foreign Exchange Risk Limit/Net Open Position

7.1 The overall foreign exchange risk exposure of participating commercial banks shall be in compliance with the maximum limits on Net Open Positions in foreign currencies (single and aggregate), which shall not exceed fifteen percent (15%) of participating commercial banks' Capital Base for single currency and twenty-five percent (25%) of participating commercial banks' capital Base for aggregate currencies, as required under all the provisions of Section 8.0 of the Revised Prudential Guidelines for commercial banks 2022, as amended from time to time.

7.2 Participating commercial banks are required to submit their net open positions on foreign currencies (single and aggregate) to the Central Bank on a daily basis, in addition to complying with the monthly reporting requirements under Section 64(3) of the Revised Prudential Guidelines for commercial banks 2022, as amended from time to time.

8.0 Requirements for Placements of Foreign Currency Deposits and Placements with Correspondent Financial Institutions

8.1 A participating commercial bank shall not place or deposit, more than twenty-five percent (25%) of its total foreign exchange placements or deposits or investments, with a parent or related group bank or correspondent bank, which has a minimum international rating of at least B- (B minus) or its equivalent by International Rating Agencies.

8.2 Participating commercial banks shall not place or deposit, more than ten percent (10%) of its total foreign exchange placements or deposits or investments, with an unrated parent or related group or correspondent bank.

8.3 The aggregate foreign exchange placement in a country other than a member of Organization for Economic Co-operation and Development shall be restricted to a maximum of twenty percent (20%) of the participating commercial banks' total foreign exchange placements.

8.4 Participating commercial banks shall provide the Central Bank with details of new accounts opened with correspondent banks or new relationship with financial institutions abroad.

9.0 Penalties for Non-compliance with these Guidelines

9.1 Without prejudice to penalties and actions prescribed by the Banking Act, 2019, and unless otherwise required in these Guidelines, the Central Bank may impose on any participating commercial bank, any of the following sanctions for non-compliance with these Guidelines as follows:

(a) Penalty of the amount to be determined by the Central Bank.

(b) Prohibition from participating in the Interbank Foreign Exchange Market.

(c) Suspension of the privilege to issue letters of credit or guarantee.

(d) Suspension of foreign lending and investment in foreign operations.

(e) Suspension from office of the defaulting director, officer or employee; and

(f) Disqualification from holding any position or office in any bank or financial institution under the supervision of the Central Bank.

10.0 Effective Date

These Guidelines shall take effect immediately upon publication in the Gazette and shall remain in force until otherwise determined by the Bank.

ANNEX I

Conditions for Permitted Lines of Business or Borrowers:

(a) Licensed and registered tourist enterprises under the Development of Tourism Act, 1990 or any successor law;

(b) Businesses that operate duty-free shops, hotels and restaurants at the Freetown International Airport;

(c) Businesses that transact mostly in foreign currency in the normal course of trading (eg. Exporters);

(d) Private or Public sector Enterprises with contracts denominated in foreign currencies;

(e) Private or Public Sector Enterprises that have contracts or capital projects that require imported inputs, including services;

(f) Any other such business carried out as may be determined by the Bank of Sierra Leone.

Bank of Sierra Leone

September 2024