REVISED PRUDENTIAL GUIDELINES FOR COMMERCIAL BANKS

BANK OF SIERRA LEONE
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TABLE OF CONTENTS PAGE

REVISED PRUDENTIAL GUIDELINES FOR COMMERCIAL BANKS

1.0 Preliminary

1.1 **Authorization** – These Guidelines are issued pursuant to S***ection 48*** of the Banking Act 2011, which empowers the Bank of Sierra Leone to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system.

1.2. **Application** - Banks licensed to conduct banking business in Sierra Leone under the Banking Act 2011.

1.3. **Definitions** - Terms used in these guidelines are as defined in the Banking Act 2011.

2.0 LICENSING OF BANKS

2.1 Purpose – This Guideline is intended to ensure that institutions engaged in banking business in Sierra Leone: **-**

i) hold valid a licence issued by the Central Bank

ii) have all directors and senior management that are 'fit and proper persons' to man the affairs of the banks.

2.2 Application for Banking Licence – Institutions wishing to carry on banking business in Sierra Leone shall apply to the Bank of Sierra Leone in accordance with Section 10 of the Banking Act 2011 and the Licensing Guidelines.

2.3 Information Required for Opening Branch Office, etc. – Every licensed institution wishing to open branch office, sub office, booth, agency, cash point, mobile unit etc. in Sierra Leone or abroad shall submit to the Central Bank the following information: **-**

(a) A feasibility study of the proposed locality;

(b) Details of other licensed institutions having branches, offices or sub offices in that locality;

(c) Projected profit and loss (figures and statements) for the first three years of operations of the branch, office, sub office, booth, agency or mobile unit

(d) Projected capital investment in the branch, office, sub-office, booth, agency or mobile unit;

(e) Details of staffing requirements in the branch, office, sub-office, booth, agency or mobile unit.

2.4 Information Required for Closing of Branch Office, etc. – Every licensed institution wishing to close a branch, office, sub-office, booth, agency, cash point, mobile unit etc. in Sierra Leone shall submit to the Central Bank the following information: -

(a) Net operating results of the branch, office, sub-office booth, agency or mobile unit for the previous five years or such lesser period as may be applicable;

(b) Latest general ledger abstract of the branch, office, sub-office, booth, agency or mobile unit;

(c) Details of other licensed institutions' branches, offices, sub-offices, booths, agencies or mobile units in the locality;

(d) Details of plans for the relocating customers; and

(e) Details of staff transfer, relocation or otherwise.

(f) Reasons for closing the branch.

2.5 Information Required for Relocation of Branch Office, etc.

Banks shall submit the following to the Bank of Sierra Leone for the processing of an application for relocation of branch office etc.: -

(a) The net operating results of the branch, office, sub-office, booth, agency, cash point, mobile unit etc. for the five years preceding the relocation or such lesser period as may be determined by the Central Bank;

(b) The last general ledger abstract of the branch, office, sub-office, booth, agency, cash point, mobile unit etc.;

(c) Details of other licensed institutions' branches, office, sub-offices, booths, agency, cash point, mobile unit etc. in the locality;

(d) Reasons for relocating; and

(e) Projected capital investment to be made in the relocation.

2.6 **Notice to be given to the Central Bank**

(a) A licensed institution shall before opening, closing or relocating any branch, give the Central Bank six months notice of the proposed opening, closing or relocation.

(b) A licensed institution shall before opening, closing or relocating any sub-office, booth, agency, cash point, mobile unit etc. give the Central Bank three months notice of the proposed opening, closing or relocation.

2.7 "**Fit and Proper Persons Test" –** Board members and persons proposed for management positions in any bank must be fit and proper and shall together meet the criteria in Section 17 of the Banking Act 2011 including the under mentioned minimum criteria and those contained in Schedule 1 herein: -

(a) Possess relevant academic or professional qualification;

(b) Possess relevant technical competence;

(c) Have adequate and relevant work experience;

(d) Portray good character and display high record of integrity.

2.8 Approval for Directors and Executive Officers

No person shall become a director or executive officer of any bank, whether on initial licensing or after without the bank obtaining the prior approval of the Bank of Sierra Leone.

2.9 Restrictions on Ownership of Banks

a) No person, acting directly or indirectly, alone or in concert with another person, shall become a significant shareholder in a bank without obtaining prior written authorization from the Bank of Sierra Leone

b) No significant shareholder, acting directly or indirectly, alone or in concert with another person, shall increase its percentage of the capital or voting stock of a bank above five percent.
Every subsequent increase shall require the prior authorization of the Bank of Sierra Leone.

c) **Holding of Equity Interest in banks**

An application shall be made for prior authorization to hold, directly or indirectly, a significant ownership interest in a bank in Sierra Leone.

(i) **Form of Application**

The original and two complete official copies of the application and all required information must be submitted to the Central Bank in writing and in English. If two or more persons are acting in concert to acquire a significant ownership interest in a licensed institution, each person must submit a separate application. The application must be signed by the proposed significant shareholder, if an individual, or by at least two authorized officers, if a legal person.

(ii) **Information required**

The following list of information must be submitted to the Central Bank as part of the application. Prior to making a determination on an application, the Central Bank may, by notice in writing, require additional information or documents –

1. Name of licensed institution,
2. Date of the proposed acquisition,
3. Name, address and telephone number of the proposed significant shareholder.

Individuals –

(i) Country identification or passport number and data

(ii) Current employment and position held

Legal persons –

(i) Legal status

(ii) Persons owning 10% or more, or who are otherwise in control.

All persons -

(i) Signed financial statements for the past three years, audited if available.

(ii) Names, addresses and amount and percentage of shareholding of companies, firms and other business concerns in which they have interest as principal shareholders, directors, partners, proprietors or guarantors, as the case may be.

(iii) Balance sheet and profit and loss statements of the business concerns for three years immediately preceding the date of application, audited if available.

(iv) The nature of participation in the management of the business concerns.

(v) Bankers' credit reports in respect of the business concerns.

(vi) Knowledge or experience in the management of licensed institutions.

(vii) History of ownership of at least 10% or more of the stock, or a previous position as director, senior management, officer or chairman in any bank located anywhere in the world.

(viii) Details of pending litigation, if any.

(ix) Details of previous or pending insolvency or bankruptcy proceedings, if any.

4. State the number of shares of the licensed institution authorized, number of shares currently outstanding, and number of shares projected to be outstanding subsequent to the proposed acquisition.

5. State the number and type of shares now held by the proposed significant shareholders, number and type of shares to be acquired, and number and type of shares proposed to be held following consummation of the proposed acquisition. Present each number as a percentage of the total shares outstanding at the licensed institution. Indicate whether, and how many, shares will be issued by the licensed institution.

6. State the purchase price per share, and the total purchase price. Provide the current book value per share and the current market value per share. Indicate the source and date of the market value information.

7. Identify each transferor of shares proposed to be acquired. State the total number of shares currently held by each, the total number of shares to be transferred, and the total number of shares to be held by each following consummation of the proposed acquisition. Present each number as a percentage of the total shares of the bank.

8. Describe the proposed acquisition in detail and provide copies of all agreements and the documents related to the acquisition, including all invitations or tender offers to shareholders.

9. Provide complete information on the source of funds to be used for the acquisition. Indicate the amount of funds required and the specific source(s) of funds.

(i) If assets will be sold, provide complete information on the proposed sale, including copies of pertinent documents.

(ii) If funds will be borrowed, provide complete information on the loan including identification of the lender, amount to be borrowed, amount of the loan as a percentage of the total purchase price collateral to be pledged, and all terms of the transaction. Specifically identify how the loan will be repaid. If dividends, salary or any other income from the licensed institution are anticipated to be used to serve the debt, provide complete details.

10. Identify all persons who would become “affiliates” or “controlling persons” of the licensed institution, as those terms are defined in the Central Bank’s *Regulation on Transactions with Affiliates and Controlling Persons*, as a result of the proposed acquisition.

11. Describe the reason(s) for the proposed acquisition. Describe general plans for the future operation of the licensed institution. Provide specific and complete information regarding the intention of the person (or persons acting in concert) making the acquisition to introduce significant changes in the licensed institution, such as: -

    (i) Sale of assets;
    (ii) Merger with another licensed institution or acquisition by other persons;
    (iii) Material changes to the activities of the licensed institution;
    (iv) Changes in management of the licensed institution; and
    (v) Changes in the corporate structure of the licensed institution.

12. If no material changes are planned, then a copy of the licensed institution’s existing business plan should be submitted accompanies by a signed statement that the proposed significant shareholder has studied the existing business plan and organizational structure and that no material changes are anticipated following acquisition.

13. If material changes in the licensed institution’s activity, management, or structure are planned, submit a five-year business plan which provides a clear understanding of the future financial activity of the licensed institution. The business plan should consist of three parts: -

    (i) Report on market survey of the banking and financial sectors;
    (ii) Narrative in which the subjects listed below and the changes in operation planned subsequent to the proposed acquisition are fully discussed;
    (iii) Detailed financial projection for the next five years.

    Introduction – State the objectives for the business. Provide a basic statement on the nature and scale of the proposed deposit-taking business, development plans for the business, and arrangements for the management of the business.

Assumptions – Discuss all assumptions used in the preparation of the business plan and financial projections such as general economic conditions in Sierra Leone, level of competition, growth forecasts, interest rates on earning assets (such as loans and investments) and liabilities (deposits, borrowed funds).

Organizational Structure – Describe all anticipated changed to the structure of the organization and management of the licensed institution. Address 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.

Financial Activities – Discuss the types and scale of deposit-taking and other financial activities envisaged based on the proposed significant shareholder's plans for the operation of the licensed institution. This presentation should be supported by information which clearly shows the capability to undertake those activities in terms of management, expertise, systems support, organization and staff. Specifically address changes to: - (1.) the types of loans to be offered, targeted economic sectors, and plans for diversification; (2) planned deposit and borrowing activity; (3) method for pricing loans and deposits; (4) proposed off-balance sheet activities; and (5) correspondent and agency arrangements.

Financial Projections – Incorporate proposed changes in the licensed institution's operations and provide support for the business plans, financial projections for asset and liability growth, profitability, maintenance of an adequate level of unimpaired paid-up capital as prescribed by the Central Bank, and dividends.

Risk Management – Describe the risk management processes: risk identification, measurement, monitoring and control. Describe plans for controlling the following risks, and specifically address the changes proposed in the licensed institution's operations by the proposed significant shareholder: (1) liquidity, interest rate, and maturity risk (asset and liability management); (2) credit risk; (3) operational risk; (4) market risk; and (5) all other risks to which the licensed institution will be exposed when engaged in the financial activities proposed in this business plan.

With regard to credit risk, specifically address proposed changes to: - (1) credit policies, and plans for loans to affiliates and controlling persons of the licensed institution; (2) plans to minimize concentration risk through diversification and limitations on exposures to individual and groups of related borrowers; and (3) asset quality considerations such as underwriting, loan classification system, and provisioning for bad and doubtful loans.

Infrastructure – Provide information on the suitability of the premises. Address plans for future expansion, including branch offices. Describe any changes to the operations systems, including corporate policies and procedures, accounting standards, record-keeping, reporting (including to management, board of directors, shareholders and the Central Bank), computerization (including hardware, software, and maintenance), risk measurement and controls, and internal audit and controls. Provide evidence and the licensed institution's systems are capable of producing all required reports to the Central Bank in an accurate and timely fashion.

Other – Discuss plans for any transactions with affiliates and controlling persons. Indicate any plans to change the licensed institution's independent, external auditor.

Financial Statement Projections – Based upon the preceding narrative section, submit a pro forma balance sheet and income statement (and any necessary supporting schedules) for five years following the acquisition.

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

2.10 Notice of intent to transfer equity interest in a licensed institution organized in Sierra Leone

A **Form of notice**

The original and two complete official copies of the notice and all required information must be submitted to the Central Bank in writing and in English. The notice must be signed by the significant shareholder, if an individual, or by at least two authorized officers, if a legal person.

B. **Information required**

The following list of information must be submitted to the Central Bank as part of the notice. Prior to making a determination on whether to object to a proposed transfer, the Central Bank may, by notice in writing, require additional information or documents: -

1. Name of licensed institution.
2. Type of equity transfer.
3. Date of the proposed equity transfer.

For disposition of equity interests: -

4. Name, address and telephone number of the significant shareholders.
5. As a result of the proposed equity transfer, my holding of equity interest in the licensed institution will be reduced below the following level (tick one): -

_____50%, or so the licensed institution would cease to be a subsidiary

_____33%

_____20%

6. State the number of shares of the licensed institution authorized and number of shares currently outstanding.

7. State the number and type of shares now held by the significant shareholder, the number and type of shares to be disposed and the number and type of shares to be held following the disposition. Present each number as a percentage of the total shares outstanding at the bank.

8. State the sales price per share, and the total sales price. Provide the current book value per share and the current market value per share. Indicate the source and date of the market value information.

9. Identify each proposed acquirer. State the total number of shares to be transferred to each person, and as a percentage of the total shares of the bank.

10. Describe the proposed transfer in detail and provide copies of all agreements and documents related to the transfer of shares.

For acquisitions of equity interests: -

11. Name, address and telephone number of the significant shareholder.

12. As a result of the proposed equity transfer, my holding of equity interest in the licensed institution will increase to, or exceed, the following level (tick one): -

______20%

______33%

______50% or less if the licensed institution would become a subsidiary

13. State the number of shares of the licensed institution authorized and number of shares currently outstanding.

14. State the number and type of shares now held, number and type of shares to be acquired, and number and type of shares to be held following the acquisition. Present each number as a percentage of the

total shares outstanding at the licensed institution. Indicate whether, and how many, shares will be issued by the licensed institution.

15. State the purchase price per share, and the total purchase price. Provide the current book value per share and the current market value per share. Indicate the source and date of the market value information.

16. Identify each transferor of shares proposed to be acquired. State the total number of shares to be acquired from each person, and as a percentage of the total shares of the licensed institution.

17. Describe the proposed acquisition in detail and provide copies of all agreements and documents related to the acquisition, including all invitations or tender offers to shareholders.

18. Submit signed financial statements for the past three years, audited if available.

19. Provide complete information on the source of funds to be used for the acquisition. Indicate the amount of funds required and the specific source(s) of funds.

    (i) If assets will be sold, provide complete information on the proposed sale, including copies of pertinent documents.

    (ii) If funds will be borrowed, provide complete information on the loan including identification of the lender(s), amount to be borrowed, amount of the loan as a percentage of the total purchase price, collateral to be pledged, and all terms of the transaction. Specifically identify how the loan will be repaid. If dividends, salary or any other income from the licensed institution are anticipated to be used to service the debt, provide complete details.

20. Identify all persons who would become “affiliates” or “controlling persons” of the licensed institution.

21. Describe the reason for the proposed acquisition. If no material changes to the operation, management, or structure of the licensed institution are planned, state so. Otherwise, describe general plans for the future operation of the licensed institution. Provide specific and complete information regarding the intention of the person (or persons acting in concert) making the acquisition to introduce significant changes in the licensed institution, such as: -

    (i) sale of assets;
    (ii) merger with another licensed institution or acquisition by other persons;
    (iii) material changes to the activities of the licensed institution;

(iv) changes in management of the licensed institution; and
(v) changes in the corporate structure of the licensed institution.

22. If material changes in the licensed institution's activity, management, or structure are planned, submit a five-year business plan which provides a clear understanding of the future financial activity of the licensed institution. The business plan should consist of three parts: -

(i) Report on market survey of the banking and financial sectors;
(ii) Narrative in which the subjects listed below and the changes in operation planned subsequent to the proposed acquisition are fully discussed;
(iii) Detailed financial projection for the next five years.

Introduction – State the objectives for the business. Provide a basic statement on the nature and scale of the proposed deposit-taking business, development plans for the business and arrangements for the management of the business.

Assumptions – Discuss all assumptions used in the preparation of the business plan and financial projections such as general economic conditions in Sierra Leone, level of competition, growth forecasts, interest rates on earning assets (such as loans and investments) and liabilities (deposits, borrowed funds).

Organizational Structure – Describe all anticipated changed to the structure of the organization and management of the licensed institution. Address 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.

Financial Activities – Discuss the types and scale of deposit-taking and other financial activities envisaged based on the proposed significant shareholder's plans for the operation of the licensed institution. This presentation should be supported by information which clearly shows the capability to undertake those activities in terms of management, expertise, systems support, organization and staff. Specifically address changes to: - (1.) the types of loans to be offered, targeted economic sectors, and plans for diversification; (2) planned deposit and borrowing activity; (3) method for pricing loans and deposits; (4) proposed off-balance sheet activities; and (5) correspondent and agency arrangements.

Financial Projections – Incorporate proposed changes in the licensed institution's operations and provide support for the business plan's, financial projections for asset and liability growth, profitability, maintenance of an adequate level of unimpaired paid-up capital as prescribed by the Central Bank, and dividends.

Risk Management – Describe the risk management processes: risk identification, measurement, monitoring and control. Describe plans for controlling the following risks, and specifically address the changes proposed in the licensed institution's operations by the proposed significant shareholder: (1) liquidity, interest rate, and maturity risk (asset and liability management); (2) credit risk; (3) operational risk; (4) market risk; and (5) all other risks to which the licensed institution will be exposed when engaged in the financial activities proposed in this business plan.

With regard to credit risk, specifically address proposed changes to: - (1) credit policies, and plans for loans to affiliates and controlling persons of the licensed institution; (2) plans to minimize concentration risk through diversification and limitations on exposures to individual and groups of related borrowers; and (3) asset quality considerations such as underwriting, loan classification system, and provisioning for bad and doubtful loans.

Infrastructure – Provide information on the suitability of the premises. Address plans for future expansion, including branch offices. Describe any changes to the operations systems, including corporate policies and procedures, accounting standards, record-keeping, reporting (including to management, board of directors, shareholders and the Central Bank), computerization (including hardware, software, and maintenance), risk measurement and controls, and internal audit and controls. Provide evidence that the licensed institution's systems are capable of producing all required reports to the Central Bank in an accurate and timely fashion.

Other – Discuss plans for any transactions with affiliates and controlling persons. Indicate any plans to change the licensed institution's independent, external auditor.

Financial Statement Projections – Based upon the preceding narrative section, submit a *pro forma* balance sheet and income statement (and any necessary supporting schedules) for five years following the acquisition.

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

3.0 CAPITAL REQUIREMENT

3.1 Purpose - This Guideline is intended to ensure that each institution maintains a level of capital which -

(i) is adequate to protect its depositors and creditors,
(ii) is commensurate with the risk associated with activities and profile of the institution, and
(iii) promotes public confidence in the institution.

3.2 Responsibility - The Board of Directors of each institution shall be responsible for establishing and maintaining, at all times, an adequate level of capital. The capital standards herein are the minimum acceptable for institutions that are fundamentally sound, well-managed, and which have no material financial or operational weaknesses. Higher capital ratios may be required for individual institutions based on circumstances listed under section 3.3.3 below: -

3.3 Minimum Capital Requirement

3.3.1 Minimum Paid-Up Capital

Banks' minimum paid-up capital levels will be monitored on a continuous basis by the Bank of Sierra Leone. These levels will apply to all institutions and may be reviewed from time to time.

Banks are however encouraged to maintain a higher level of capital commensurate with their risk profile.

Capital raised externally shall be remitted to Sierra Leone in a freely convertible currency or shall be held in deposit with the Central Bank in the form of cash or unencumbered securities of the government.

Banks can also raise capital locally.

Capital raised externally can be channelled through the NOSTRO Accounts of the commercial banks.

3.3.2 Capital Adequacy Ratio

Section 20(1) of the Banking Act 2011 provides for the maintenance of minimum capital adequacy ratios by banks. This shall be measured as a percentage of the capital base of a bank to its risk-weighted assets in accordance with regulations or directions, which the Central Bank may from time to time prescribe.

Banks shall submit to the Bank of Sierra Leone not latter than 10 (ten) days after the end of every month a return on Capital Adequacy in the form set out in this guideline. The Central Bank may require such other information as is necessary to evaluate compliance with this guideline and may call for adjustments to capital where necessary.

Unless a higher minimum ratio has been set by Bank of Sierra Leone for an individual institution based on Section 20(2), every institution shall, at all times, maintain: -

(a) A core capital of not less than seven and a half per cent (7.5%) of total risk weighted assets plus risk weighted off -balance sheet items; and
(b) A total capital of not less than fifteen per cent (15%) of its total risk weighted assets plus risk weighted off- balance sheet items.

The above ratios are subject to review and may be changed from time to time.

No bank shall make distribution, including payment of dividends, if the bank does not or will not, after making the distribution, have the minimum capital base or minimum capital adequacy ratio.

3.3.3 Criteria for Higher Minimum Capital Adequacy Ratio

The Central Bank may require higher minimum capital adequacy ratios for an individual institution based on, but not limited to any one or more of the following criteria: -

a) The institution has incurred or is expected to incur losses resulting in a capital deficiency;
b) The institution has significant exposure to risk, whether credit, concentration of credit, market, interest rate, liquidity, operational, or from other non-traditional activities;
c) The institution has a high or particularly severe volume of poor quality assets;
d) The institution is growing rapidly either internally or through acquisitions;
e) The institution has deficiencies in ownership or management (i.e. shareholding structure; composition or qualifications of directors or senior officers; risk management policies and procedures).

3.3.4 Risk Weights

Risk based approach to capital adequacy measurement applies to both on and off - balance sheet items. The focus of this framework is credit risk, namely the potential risk of counter party default.

Apart from the credit risk, there are other significant risks which institutions should guard against. In particular, these include interest rate risk, market risk, operational risk, concentration risk and even underlying collateral risk. Institutions must assess and provide for these risks in the evaluation of their respective capital adequacy levels.

(i) **On-Balance Sheet Items**

This framework uses only four weights, i.e. 0%, 20%, 50% and 100%. Credit exposures are risk weighted and classified into the four categories according to their relative risk.

Risk weight	Category on on-balance sheet asset
0%	**Cash**
	Claims on central government and central banks denominated in national currency and funded in that currency
	Other claims on OECD central governments and central banks
	Claims collateralized by cash of OECD central-government securities or guaranteed by OECD central governments
20%	Claims on Multilateral Development Banks (MDBs) and claims guaranteed by or collateralized by securities issued by such banks
	Claims on banks incorporated in the OECD and claims guaranteed by OECD incorporated banks.
	Claims on securities firms incorporated in the OECD subject to comparable supervisory regulatory arrangements, including in particular risk-based capital requirements and claims guaranteed by these securities firms.
	Claims on banks incorporated in countries outside the OECD with residual maturity of up to one year, claims with a residual maturity of up to one year guaranteed by banks incorporated in countries outside the OECD.
	Claims on non-domestic OECD public-sector entities, excluding central government and claims guaranteed by or collateralized by securities issued by such entities.
	Cash items in process of collection.
50%	Loans fully secured by mortgage on commercial and residential property that is or will be occupied by the borrower or that is rented.
100%	Claims on the private sector
	Claims on banks incorporated outside the OECD with a residual maturity of over one-year.
	Claims on central governments outside the OECD (unless denominated and funded in national currency)
	Claims on commercial companies owned by the public sector.
	Premises, plants and equipment and other fixed assets.
	Real estate and other investments (including non-consolidated investment participations in other companies).
	Loans less cash collateral less 50% legal mortgage.
	All other assets

(ii) **Off-Balance Sheet Items**

(a) Off-balance sheet items which represent risk to the bank are assigned to a risk category in a similar manner as with on-balance sheet assets. First, however, off-balance sheet exposures must be converted to a "Credit Equivalent". Then each converted off-balance sheet exposure is assigned to a risk category.

Multiply the off-balance sheet item by the Credit Conversion Factor found in the table below to obtain the Credit equivalent. Then the Credit equivalent is assigned to one of the five risk weight categories as for on-balance sheet assets.

Credit Conversion factor	Instruments
100%	Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances).
50%	Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions).
20%	Short-term self-liquidating contingent items (such as documentary credits collateralized by the under-lying shipments related to particular transactions).
100%	Sale and repurchase agreements and asset sales with recourse, where the credit risk remains with the bank.
100%	Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain draw down.
50%	Note issuance facilities and revolving underwriting facilities
50%	Other commitments (e.g. formal standby facilities and credit lines) with an original maturity of over one year.
0%	Similar commitments with an original maturity of up to one year, or which can be unconditionally cancelled at any time.

(b) Forwards, swaps, purchased options and similar derivative contracts are treated differently from the off-balance sheet accounts included in the previous section, because banks are not exposed to credit risk for the full face value of these contacts, but only to the potential cost of replacing the cash flow if the counterpart defaults.

In order to determine the Credit Equivalent of these off-balance sheet items, apply one of the following two sets of conversions factors to the notional principal amounts of each instrument according to the nature of the instrument and its maturity. Then, assign the Credit equivalent to one of the five risk weight categories as for on-balance sheet assets. Instruments traded on exchanges may be excluded where they are subject to daily receipt and payment of cash variation margin.

Original maturity	**Interest rate contracts**	**Exchange rate contracts and gold**
One year or less	0.5%	2.0%
Over one year to two years	1.0%	5.0%
For each additional year	1.0%	3.0%

3.4 RESTRICTIONS

3.4.1 Single Borrower Limits

(a) An institution shall not grant to any person or permit to be outstanding any advance, credit facility or give any financial guarantee or incur any other liability on behalf of any person, so that the total value of the advances, credit facilities, financial guarantees and other liabilities in respect of that person at any time exceeds 25% of the bank's capital base for secured exposures and 10% for unsecured exposures.

(b) Subject to the approval of the Central Bank, the limit for transaction between licensed financial institutions shall not exceed 30% of the capital base of either institution undertaking the transaction, whichever is lesser.

(c) The term "person" includes that person and his associates. For this reason, facilities for the person and the associates shall be aggregated and the 25% and 10% of the capital base rule shall apply to the aggregate amount.

(d) Where a credit facility is non-performing, the outstanding balance should be net of provisions for purposes of determining the single borrower exposure.

3.4.2 Facilities to Insiders

An institution shall not grant or permit to be granted: -

(a) Any advance or credit facility against the security of its own shares.

(b) Any advance or credit facility in excess of two percent of the institution's capital base to any firm or company or group of firms or companies in which any of that institution's directors or other officials is interested as a partner or guarantor or is one of the principal shareholders; and in the case of any unsecured loan or credit facility any amount which in the aggregate exceeds two thirds of one percent of the institution's capital base.

(c) Any unsecured advances in respect of any of its employees or their associates. However, facilities granted to staff members within schemes approved by the board, and are serviced by salary through a check-off system are allowed.

(d) Any advances, loan or credit facilities, which are unsecured, or advances, loans or credit facilities, which are not fully secured to: -

(i) Any person of whom or of which any of its officers has an interest as an agent, director, manager or shareholder.
(ii) Any person of whom or of which any of its officers is a guarantor.

(e) For purposes of this section, where facilities to insiders are secured by guarantees, these guarantees must be supported by tangible or other securities with proven market value that are duly charged and registered in favour of the institution.

3.4.3 Ownership of Share Capital of an Institution

(i) To diversify ownership of an institution for the purpose of prudent management, direct or indirect share-holding of an institution shall be restricted to a maximum of 10% to any one person above which approval of the Central Bank shall be sought except: -

a) another institution
b) the Government of Sierra Leone, or the Government of a foreign sovereign state.
c) a state corporation (Government parastatals), or
d) a foreign company, which is licensed to carry on the business of an institution in its country of incorporation.

(ii) An institution is required to disclose to the Bank of Sierra Leone natural persons behind nominee companies and/or any other company.

3.4.4 Advances for Purchase/Improvement/Alteration of Land

A bank is restricted from making advances or loans for the purchase, improvement or alteration of land so that the aggregate is in excess of 25% of the amount of its total deposit liabilities.

3.5 INSTRUCTIONS FOR COMPUTING CAPITAL TO RISK WEIGHTED ASSETS RATIO (BSD 5)

3.5.1 CAPITAL COMPONENTS
3.5.1.1 CORE CAPITAL (TIER 1)

(a) **Paid-up ordinary share capital/Assigned Capital**
This is the nominal value of the issued, fully paid, unimpaired, ordinary and perpetual non-cumulative preferred shares.

(b) **Non-repayable share premium/(discount)**
This is the difference between the nominal price and purchase price of shares, which is not refundable/ recoverable.

(c) **Retained Earnings/Accumulated losses**

These are retained earnings or accumulated losses from the profits/losses of the prior years. They should however exclude reserves arising from revaluation of investment properties and cumulative unrealised gains and losses on financial instruments.

(d) **Non-cumulative irredeemable preference shares**

These are shares, which have a standing claim on the company every year, but the claim is not carried forward in event of not being paid and they are not redeemable.

(e) **Statutory Reserves**

The reserve fund is required to be maintained by Section 24 of the Banking Act, 2012. The statutory reserve funds should be only adjusted when the transfer is made for the purposes of the statutory accounts.

(f) **Other reserves**

These are other reserves which have not been included above. Such reserves should be permanent, unencumbered, un-callable and thus able to absorb losses. Further, the reserves should exclude cumulative unrealised gains and losses on available-for- sale-instruments.

(g) **Sub-total**

Enter in this line the sub-total of all the items from 3.5.1.1(a) to 3.5.1.1(f).

3.5.1.2 DEDUCTIONS FROM CORE CAPITAL

(a) **Investments in subsidiary institutions and equity instruments of other institutions**

To prevent multiple uses of the same capital resources in different institutions both in Sierra Leone and abroad, the institutions should deduct any investment in subsidiaries conducting banking business and equity instruments of other institutions.

(b) **Goodwill**

This is the difference between the value of the business as a whole and the aggregate of the fair values of its separable net assets at the time of acquisition.

(c) **Other intangible assets**

These are assets without physical existence, e.g. patents, copyrights, formulae, trademarks, franchise etc. However, computer software should not be deducted.

(d) **Current year un-audited losses**

This is the current year to date un-audited losses.

(e) **Total deductions**

This is the total of all the items from 3.5.1.2(a) to3.5.1.2 (d).

(f) **Core Capital**

Core Capital is the deduction of line 3.5.1.2(e) from line 3.5.1.1(g).

3.5.1.3 SUPPLEMENTARY CAPITAL (TIER 2)

(a) **Revaluation reserves**

This is the revaluation reserves of fixed assets, land and buildings based on independent and professional appraisal as to the market value of such assets. Only **25%** of revaluation reserves should be included after obtaining the approval of Bank of Sierra Leone.

(b) **Current year 50% un-audited after tax profits**

This is **50%** of the current year to date un-audited after tax profits. The institution must have made adequate provisions for loans and advances, depreciation, amortization and other expenses. In arriving at the applicable figure, any proposed or interim dividends have to be taken into account. This should however exclude reserves arising from revaluation of investment properties and cumulative unrealised gains and losses on financial instruments. In case of a loss, full amount should be included.

(c) **Cumulative irredeemable preference shares**

These are irredeemable shares with standing claim on the company and the claim is carried forward in event of it not being paid in the current year.

(d) **Convertible notes and similar capital investments**

Convertible notes are instruments that evidence a company promise to pay a loan on maturity, which can be converted, into shares any time before maturity date. Other similar capital investments are convertible debentures, bonds, loans etc.

(e) **Perpetual subordinated debt**

This is loan capital which is not redeemable.

(f) **Limited life redeemable preference shares**

These are preference shares with limited life of at least five years and are redeemable.

(g) **Subordinated Term debt**

This refers to loan capital, bonds, commercial paper or debt equity with original maturity period of five years and above. The combined total amount of subordinated term debt and limited life redeemable preferred shares eligible for inclusion in Tier Two Capital shall be limited to a maximum of **50%** of the amount of Tier One Capital.

(h) **Statutory Loan Loss Reserve**

These are provisions that have been appropriated from retained earnings (revenue reserves). This will only apply if provisions computed under Risk classification of Assets and Provisioning Guideline is in excess of impairment losses computed under International Financial Reporting Standards.

However, loan loss reserve qualifying as supplementary capital should not exceed **1.25%** of risk weighted assets total value.

(i) **General Provision**
This will be part of Tier 2 Capital where the bank's specific provision for bad and doubtful debts has been made to the satisfaction of the Bank of Sierra Leone. However, such general provision will be restricted to a maximum of **1.25%** of the risk weighted assets.

(j) **Total supplementary capital**
This is the sub-total of the items in line 3.5.1.3(a) to 3.5.1.3(i).

(k) **Supplementary Capital/Core Capital (%)**
This is the percentage of the supplementary capital to core capital. Total supplementary capital should not exceed core capital. Where supplementary capital exceeds core capital, then qualifying supplementary capital is limited to the amount of core capital.

3.5.1.4 Total Capital

Total capital is the sum of core capital and supplementary capital, i.e. Total of lines 3.5.1.2(f) and 3.5.1.3(j).

3.5.1.5 Capital Base

This is the total of Tier One Capital and the eligible Tier Two Capital and by deducting from that sum, investments in unconsolidated banking and financial subsidiary companies and investments in the capital of other banks and non-bank financial institutions.

3.5.2 ON-BALANCE SHEET ASSETS

(a) **Cash**
Enter in this line cash at hand (domestic only).

(b) Foreign Cash holdings
Enter in this line foreign cash holdings

(c) **Balances with Central Bank**
This includes Repos purchase with the Bank of Sierra Leone, reserve requirement and balances held in clearing accounts

(d) **Government of Sierra Leone Treasury Bills**
These are Treasury bills issued by the Government of Sierra Leone.

(e) **Government of Sierra Leone Treasury bonds**
These refer to the Treasury Bonds issued by the Government of Sierra Leone.

(f) **Lending fully secured by cash**
Enter here all other debts that are fully secured by cash and supported by signed lien documents.

(g) **Advances guaranteed by the Government of Sierra Leone and OECD[1] Central Governments**

This refers to all loans and advances duly guaranteed by the Government of Sierra Leone and OECD Central Governments.

(h) **Deposits and balances due from Local Institutions**
These are deposits and balances held with local banks, financial institutions, mortgage finance companies and building societies including overnight balances.

(i) **Deposits and balances due from foreign institutions**
These are balances held with correspondent banks, other banks and financial institutions abroad (including banks in the group)

(j) **Claims guaranteed by Multi-Lateral Development Banks (MDB's)**
These are loans, advances and capital market instruments such as commercial paper that are guaranteed by the following MDB's: -

- The International Bank for Reconstruction and Development.
- The Inter-American Development Bank.
- The Asian Development Bank.
- The African Development Bank.
- The European Investment Bank.
- African Export-Import Bank(Afreximbank)
- Ecowas Bank for Infrastructure and Development (EBID)
- The International Finance Corporation (IFC) of the World Bank
- Other MDB's in which G-10 countries are shareholding members. The G 10 member countries are Belgium, Netherlands, Canada, Sweden, France, Switzerland, Germany, United Kingdom, Italy, United States and Japan.

(k) **Loans secured by Residential Property**
These are facilities secured by a legal charge over residential properties situated within cities and municipalities in the Republic of Sierra Leone. Such facilities should only be those classified as normal under the Banking Regulations 2003 and are performing in accordance with the original terms and conditions specified in the letter of offer. In addition the security should be perfected in all respects and its current forced sale value should, cover in full, the outstanding debt with at least a 20% margin. The 50% weight will not be specifically applied to loans to companies engaged in speculative residential building or property development.

(l) **Other loans and advances**
These refer to loans and advances that are not guaranteed by the Government of Sierra Leone and not secured by cash. These also include commercial paper and corporate bonds and should be reported net of provisions. Provisions must be computed in accordance with provisioning guideline in the Banking Regulations 2003. However, provisions appropriated from retained earning should not be netted off from loans and advances.

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[1] OECD members are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom & United States.

(m) **Other investments**
These are investments in other companies other than financial institutions.

(n) **Fixed assets**
These are assets acquired for use in the operation of the business or for investment purposes, e.g. furniture, computers, freehold and leasehold land and buildings. They should be shown net of accumulated depreciation, amortized cost, or at fair value.

(o) **Amount due from group companies**
This is the claim of the reporting institution from other group companies that are not financial institutions.

(p) **Other assets**
These are other assets, which have not been dealt with above.

(q) **Total on-balance sheet assets**
Enter in this line total on-balance sheet asset i.e. total of line 4.2(a) to 4.2(q). Total deductions from core capital should also be deducted from the assets for the purposes of computing the risk weighted asset values. All interest bearing assets should be reported inclusive of interest earned.

(r) **Total Assets (as per Balance Sheet - BSD 2)**
Total asset figure as reported in the Balance Sheet (BSD 2) should be indicated in this line.

(s) **Difference**
This is the difference between total on-balance sheet assets (4.2q) and total assets (4.2r) as reported in the Balance Sheet (BSD 2). The difference should be explained in the form of reconciliation.

(t) **Off-Balance Sheet Items**
Institutions should compute credit risk equivalents for different categories of off-balance sheet transactions. The resulting amounts should be weighted against the risk weight of the counterparty as indicated in the return

(u) **Total weighted assets values**
Enter in this line the total weighted assets values, i.e. 3.6.2(a) to3.6.2(t).

3.6 CAPITAL ADEQUACY RATIO CALCULATIONS

The capital adequacy ratio is calculated as a percentage of the capital base of the bank to its risk-weighted base, that is

$$\frac{\text{Capital Base}}{\text{Risk-Weighted Asset Base}} \times 100$$

3.7 CAPITAL PLAN

The Central Bank may require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing). The Bank of Sierra Leone may require banks: -

(a) to set capital levels and manage available capital in anticipation of possible events or changes in market conditions that could have an adverse effect; and

(b) to have in place feasible contingency arrangements to raise capital or reduce exposures in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank.

3.8 GENERAL

All reported items should agree with or be capable of being derived from the figures reported in the Balance Sheet of the same period.

3.9 CORRECTIVE MEASURES

3.9.1. **Remedial measures –** If a bank fails to comply with the provisions of Sections 19 and 20 of the Banking 2011 **t**he Central Bank shall levy monetary penalties as stipulated in the Schedule of Penalties or in accordance with Section 46 of the Banking Act 2011.

3.9.2. **Administrative sanctions** - In addition to the sanctions specified in the schedule of penalties, the Bank of Sierra Leone may pursue any or all of the following administrative sanctions against a bank, its board of directors, or its officers: -

a) Prohibition from declaring or paying dividends;
b) Prohibition from establishing new branches;
c) Prohibition from engaging in new activities or from expanding existing activities;
d) Suspension of lending, investment, and credit extension operations;
e) Prohibition from acquiring, through purchase or lease, additional fixed assets;
f) Prohibition from declaring or paying bonuses, salary incentives, management fees or other discretionary compensation to directors or officers

4.0 ASSET QUALITY

4.1 Purpose

This guideline is intended to ensure that all assets are regularly evaluated using an objective internal grading system which is consistent with this guideline; and that timely and appropriate provisions and write-offs are made to the provisions account in order to accurately reflect the true condition and operating results of the institutions. It is also intended to encourage institutions to develop effective work plan for problematic assets in accordance with this guideline.

4.2 Responsibility

The Board of Directors shall be responsible for establishing an asset review system which is consistent with this guideline, which accurately identifies risk, assures the adequacy of the provisions for non-performing assets and properly reflects such results in the financial statements of the institution.

In the exercise of its prerogatives as the highest policy making body of the institution, the Board of Directors of every institution shall prescribe in writing: -

a) A credit policy specifying the criteria and procedure in the evaluation, processing, approval, documentation and disbursement of credits. Such policy should include the procedures for loan administration and recovery, the recording of transactions and maintenance of appropriate credit and document files. The levels of discretion given to approving executive officers or committees must be defined in such credit policy or in a separate resolution of the board of directors.

b) A system of reviewing the entire asset portfolio including contingent accounts or off balance sheet items and adequate provisioning for losses at periodic quarterly intervals. Such a review system should be made part of the credit policy mentioned.

c) A system of review of each extension or renewal of credit, identifying and classifying troubled credits as weaknesses become evident without waiting for the scheduled periodic review. Such review system should likewise be made part of the credit policy mentioned.

4.3 Definitions

"loans" and "loans and advances" - may be used interchangeably to include any loan, discount, advance, overdraft, export bills purchased, other bills receivable or purchased, import bills, customer's liability on off-balance sheet items or any other credit facilities extended to the customer of an institution;

"Non-performing loan" - means that a loan is no longer generating income or when it comes to the institution's knowledge that a credit facility will no longer generate income. For purposes of this regulation, loans are "non-performing" when: principal or interest is due and unpaid for 90 days or more; or

- Interest payments for 90 days or more have been re-financed, or rolled-over into a new loan.

Current accounts (overdrafts) and other credit extensions not having pre-established repayment programs are considered “non-performing” when any of the following conditions exist:

- Balance exceeds the customers approved limit for more than 90 consecutive days;
- The customers borrowing line has expired for more than 90 days;
- Interest is due and unpaid for more than 90 days;
- The account has been inactive for more than 90 days, or credits are insufficient to cover the outstanding interest during the period.

This includes all loans classified under the substandard, doubtful and loss categories.
The balance outstanding as at the time when the account is identified as non-performing (not just the amount of delinquent payments) is used in calculating the aggregate amount of “non-performing” loan.

“Off balance sheet items” mean all items not shown on the balance sheet but which constitute credit risk. Such risks include guarantees, acceptances, performance bonds, letters of credit, and other off balance sheet items deemed to constitute credit risk by Bank of Sierra Leone.

“Other Provisions” - means a balance sheet valuation account established through charges to “provision expense” in the income statement in order to reflect erosion in the value of any other assets being held by the institution.

“Past due” or “overdue” - means any loan for which -

- Principal or interest is due and unpaid for more than 30 days; or
- Interest payments equal to more than 30 days interest have been refinanced, or rolled-over.

  Current accounts (overdrafts) and other credit extensions are considered “past due” when any of the conditions below exist:

- Balance exceeds the customers approved limit for more than 30 consecutive days;
- The customers borrowing line has expired for more than 30 days;
- Interest is due and unpaid for more than 30 days; or
- The account has been inactive or credits are inadequate to meet the outstanding interest for more than 30 days.

The balance outstanding (not just the amount of delinquent payments) is used in calculating the aggregate amount of “past due” loans.

“Provisions for loan losses” or “allowance for loan losses” - means a balance sheet valuation account established through charges to “provision expense” in the income statement and against which uncollectable loan portions thereof, are written-off.

“renegotiated loan” may be used interchangeably with “restructured loan” to mean any loan that has been rescheduled or refinanced in accordance with an agreement setting forth a new repayment plan on a periodic basis occasioned by weaknesses in the borrower’s financial condition and/or inability to repay the loan as originally agreed;

4.4 Classification of Loans

4.4.1 (a) Criteria for classification

In the determination of the classification for loans and advances, performance will be the primary consideration. The performance will generally show the repayment capability of the borrower. All loans shall be classified into the four categories using the criteria provided in this Guideline.

- Current
- Sub-standard
- Doubtful
- Loss

(b) Adverse Classification

A significant departure from the primary source of repayment may warrant adverse classification even when a loan is current or is supported by an underlying collateral value. Reclassification may also be warranted if a delinquency has been technically cured by modification of terms, refinancing, or additional advances.

In cases where different classification grades may be assigned based on subjective criteria, the more severe classification should generally apply. Moreover, nothing contained in the classification definitions below shall preclude assigning a more severe grade when an analysis of a borrower's financial condition, ability, and willingness to repay justifies a more severe classification.

Upon completion of an on-site examination, the Bank of Sierra Leone will provide a list of reclassified accounts, some of which will be downgraded from categories earlier classified by the institution. No account from this list will be upgraded by the institution without sufficient justification.

4.4.2 Classification Categories

(a) Licensed banks should review their credit portfolio continuously (at least once in a quarter) with a view to recognizing any deterioration in credit quality. Such reviews should systematically and realistically classify banks' credit exposures based on the perceived risks of default. In order to facilitate comparability of banks' classification of their credit portfolios, the assessment of risk of default should be based on criteria which should include, but are not limited to, repayment performance, borrower's repayment capacity on the basis of current financial condition and net realisable value of collateral.

(b) Credit facilities (which include loans, advances, overdrafts, commercial papers, bankers acceptances, bills discounted, leases, guarantees, and other loss contingencies connected with a bank's credit risks) should be classified as either "**performing**" or "**non-performing**" as defined below: -

(1) A credit facility is deemed to be **performing** if payments of both principal and interest are up-to-date in accordance with the agreed terms;

(2) A credit facility should be deemed as **non-performing** when any of the following conditions exists: -

(i) Interest or principal is due and unpaid for 90 days or more;

(ii) Interest payments equal to 90 days interest or more have been capitalized, rescheduled or rolled over into a new loan (except where facilities have been reclassified)

(c) The practice whereby some licensed banks merely renew, reschedule or roll-over non-performing credit facilities without taking into consideration the repayment capacity of the borrower is objectionable and unacceptable. Consequently, before a credit facility already classified as "**non-performing**" can be reclassified as "**performing**" the borrower must effect cash payment such that outstanding unpaid interest does not exceed 90 days.

(d) When a loan rescheduling is agreed with a customer, the rescheduling should be treated as a new facility but provisioning should continue under the category prior to rescheduling until it is clear that rescheduling is working at a minimum, for a period of 90 days.

Reversal of interest previously suspended and provision against principal previously made should be recognized on a cash basis.

(e) Non-performing credit facilities should be classified into three categories namely, sub-standard, doubtful or loss on the basis of criteria below:

4.4.2.1 Current

These are well-documented facilities granted to financially sound customers where no weaknesses exist. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are normally fully protected by the current sound net worth and paying capacity of the borrower.

Performance

(i) Term loans: Up to date repayments;

(ii) Overdrafts: Operates within limit and receiving sufficient credits each month to cover interest.

(iii) Discounted Bills not yet due

4.4.2.2 Substandard

The following objective and subjective criteria should be used to identify **sub-standard** credit facilities: -

(i) **Standard Criteria**: facilities on which unpaid principal and/or interest remain outstanding for more than 90 days but less than 180 days.

(ii) **Other Criteria**: credit facilities which display well defined weaknesses which could affect the ability of borrowers to repay such as inadequate cash flow to service debt, undercapitalisation or insufficient working capital, absence of adequate financial information or collateral documentation, irregular payment of principal and/or interest, and inactive accounts where withdrawals exceed repayments or where repayments can hardly cover interest charges.

4.4.2.3 Doubtful

The following criteria should be used to identify **doubtful** credit facilities: -

(i) **Standard Criteria:** facilities on which unpaid principal and/or interest remain outstanding for at least 180 days but less than 360 days and are not secured by legal title to leased assets or perfected realisable collateral in the process of collection or realisation.

(ii) **Other Criteria**: facilities which, in addition to the weaknesses associated with sub-standard credit facilities reflect that full repayment of the debt is not certain or that realisable collateral values will be insufficient to cover bank's exposure.

4.4.2.4 Loss Credit Facilities

The following criteria should be used to identify **loss** credit facilities: -

(i) **Standard Criteria**: facilities on which unpaid principal and/or interest remain outstanding for 360 days or more and are not secured by legal title to leased assets or perfected realizable collateral in the course of collection or realization.

(ii) **Other Criteria**: facilities which in addition to the weaknesses associated with doubtful credit facilities, are considered uncollectible and are of such little value that continuation as a bankable asset is unrealistic such as facilities that have been abandoned, facilities secured with unmarketable and unrealizable securities and facilities extended to judgment debtors with no means or fore closable collateral to settle debts.

Banks are required to classify their credit portfolios in order to reflect the true accounting values of their credit facilities. Licensed banks should note that the Bank of Sierra Leone reserves the right to object to the classification of any credit facility and to prescribe the classification it considers appropriate for such credit facility.

4.5 Classification of Renegotiated Loans

4.5.1 A renegotiated loan in the substandard category will normally continue to be classified as Substandard unless: -

(i) All past due principal and interest is repaid in full at the time of renegotiation, in which case it may revert to 'Current' classification or

(ii) A sustained record of performance under a realistic repayment program has been maintained. A sustained record of performance means that all principal and interest payments are made according to the modified repayment schedule.
A renegotiated loan in the substandard category, which meets condition (ii) above, may be classified as 'Current' if the sustained record is maintained for at least six (6) months from the renegotiated date. If after a formal restructuring a loan deteriorates, it must revert to a non-performing classification status and be classified accordingly.

4.5.2 A renegotiated loan in the Doubtful category will normally continue to be classified as Doubtful unless:

(i) all past due interest is repaid in full at the time of renegotiation in which case it may revert to 'Substandard' classification.

(ii) a sustained record of performance under a realistic repayment program has been maintained. A sustained record of performance means that all principal and interest payments are made according to the modified repayment schedule.

A renegotiated loan which meets condition (ii) above may be reclassified as 'Current' if a sustained record of performance is maintained for at least twelve (12) months.

A renegotiated loan in the 'Doubtful' category, which meets condition (ii) above can be classified as 'Substandard' if the sustained record of performance is maintained for at least **six (6)** months from the renegotiated date. If after a formal restructuring, a loan deteriorates it must revert to a non-performing classification status and be classified accordingly.

4.6 Prohibition of Lending in Foreign Currency

Banks shall only extend credit facilities as defined in Section 3 of the Banking Act 2011 that are denominated in the local currency.

4.7 Ratio of Aggregate Exposure to Capital Base

The total of a bank's exposures less provisions, interest in suspense and cash collateral shall not exceed 300% of its capital base.

4.8 Re-classification of other Non-Performing Loans and Advances

4.8.1 A facility in the Substandard category will normally continue to be classified Substandard unless: -

(i) All past due principal and interest is repaid in full, in which case it may be upgraded to 'Current' classification

4.8.2 A facility in the Doubtful category will normally continue to be classified Doubtful unless: -

(i) All past due interest is repaid in full and a sustained repayment is maintained for period of **six months** in which case it may upgraded to 'Substandard' classification.

A facility loan which meets condition (i) above may be reclassified as 'Current' if a sustained record of performance is maintained for a period of **twelve (12)** months.

No provisions for non performing loans may be written back unless the accounts have been upgraded.

4.9 Non performing loan to total loans:

The tolerable limit of the ratio of non performing loans to gross loans (NPL ratio) is 10%.

1) Where the proportion of non performing credits to total credits is 10% above the tolerable limit of 10%, the following shall apply: -

   (a) The Bank of Sierra Leone shall request for action plan from management of the bank affected to address the problem within 6 months;

   (b) The Bank of Sierra Leone may conduct a special/ target examination to determine the factors responsible for the non performing credits,

2) Where the ratio of non performing credits to total credits is 20% above tolerable limit of 10% and/or 25% of non performing credits are insiders related, the Bank of Sierra Leone may direct in addition to 1(a) and 1(b) above that -

   (i) The bank should recall all improperly booked loans i.e. loans for which proper lending procedures were not followed;
   (ii) Director(s) be blacklisted for non performing insider credits;
   (iii) Further loans to subsidiary/ related companies be stopped (where the subsidiary/ related company is unhealthy);
   (iv) Loans to subsidiary/ related companies may be recalled;

4.10 Loan Loss Provisioning

4.10.1 Licensed banks are required to make adequate provisions for perceived losses based on the credit portfolio classification system to reflect the true quality of their loan portfolio. Provisions are made on the basis of perceived risk of default on specific credit facilities. Consequently, all licensed banks shall be required to make provisions for non-performing credits as specified below: -

(a) For facilities classified as Sub-Standard, Doubtful, or Loss: -

   (i) interest overdue by more than 90 days should be suspended and recognized on cash basis only.
   (ii) Principal repayments that are over due by more than 90 days should be fully provided for and recognized on cash basis only.

(b) For principal repayments not yet due on non-performing credit facilities, provision should be made as follows: -

   (i) Sub-Standard Credit Facilities: 20% of the gross loans;
   (ii) Doubtful Credit Facilities: 50% of the gross loans;
   (iii) Loss Credit Facilities: 100% of the gross loans.

4.10.2 For prudential purpose, provisioning should only take cognizance of realizable tangible security (with perfected legal title) in the course of sale, collection or realization. Consequently, collateral values should be recognized on the following basis: -

(a) For credit exposure where the principal repayment is in arrears by more than six months, the outstanding un-provided for principal should not exceed 50% of the estimated net realizable value of the collateral security.
(b) For credit exposure where the principal repayment is in arrears by more than one year, there should be no outstanding un-provided portion of the credit facility irrespective of the estimated net realizable value of the security held.
(c) For a credit exposure secured by a floating charge or by an unperfected or equitable charge over tangible security, it should be treated as an unsecured credit and no account should be taken of such security held in determining the provision for loss to be made.

4.11 Provision for non-performing facilities under "Specialized loans"

The classifications and provisioning for specialized loans such as Agricultural finance, Project finance, Object finance, Real estate Finance, SME finance and Mortgage finance takes into considerations the cash flows and gestation periods of the different loan types.

4.12 Loss Recognition

The fifty (50) largest advances which are subject to adverse classification should be detailed on the sheets.

At the time of credit classification, impairment to the value of a credit shall be recognized by reducing the book value of the credit through the provision for non-performing loan and by charging the income statement in the period in which the impairment occurs.

The aggregate amount of the provision for non-performing loan must be adequate to absorb estimated losses associated with the entire credit portfolio.

4.13 Treatment of Provisioning Between IFRS and the Prudential Guidelines

It is highly desirable for all advances made to customers and staff to be well secured. Well secured means that a credit facility has sufficient collateral to cover both principal and interest. Such security is perfected in all respects and has no prior encumbrances that could impair its value or otherwise prevent obtaining clear title.

Sufficiency implies the existence of proper legal documentation, a net realizable market value which is adequate to cover the amount of principal and interest outstanding, and the absence of prior liens on the collateral which could diminish its value or otherwise prevent the bank from acquiring clear title. In addition the collateral must be capable of foreclosure. At the current time in Sierra Leone the only security which should be taken into account when calculating provision for bad debts should be cash, government securities, and other readily realizable securities. Property and guarantees are not currently regarded as sufficient security because of the difficulty of foreclosure and collection. This shall not mean that the bank shall refrain from taking available collateral of this kind so as to benefit from any positive value of these assets.

Where a bank is successful in obtaining legal title to a property but is unable to immediately sell it, the bank should have the asset valued. Any difference between the carrying amount of the advance and the valuation of the asset should be written off/back to the bad debt provision. The asset should be carried at its new valuation.

4.14 Treatment of Interest on Non-performing Advances

All advances which are classified as sub-standard, doubtful or loss should be placed on a non-accrual basis. This means that interest applied to the account is no longer taken to income but is posted to an interest suspense account. Interest can only be taken out of suspense when it has actually been paid by the borrower. Any interest previously taken to profit but not received should be reversed when an advance is placed on a non-accrual basis.

4.15 Loans to Officers and Directors of a bank

a) In the case of violation of guidelines on an advance, loan or a credit facility to a person other than a director of the institution or a person participating in the general management of the institution, an officer shall not be so liable, provided he or she shows that, through no act or omission on his or her part, he or she was not aware that the contravention was taking place, or he or she took all reasonable steps to prevent it taking place.

b) The Bank of Sierra Leone may in the case of violation of guidelines on an advance, loan or credit facility to a director of the bank, direct the removal of such director from the Board of Directors. The Bank of Sierra Leone may direct the suspension of any other officer or employee of the institution who sanctioned the advance, loan or credit facility.

c) Any director of a bank who defaults in the repayment of any advance or loan made to him/her by the bank for three consecutive months shall forthwith be disqualified from holding office as such.

4.16 Sectoral Distribution of Non-performing Loans

Banks are to submit on a quarterly basis the distribution of their non-performing loans by sector including a detailed breakdown of “Other Services”.

4.17 Classification of Assets Other than Credit

(1) All assets of a bank other than credits shall be reviewed at least once every three months for purposes of assets classification and for determining whether any asset has suffered an other-than-temporary decline in or impairment to, value.

(2) When a bank books an asset or moves an asset to a different account on the balance sheet, it shall ensure that its records and financial statements accurately reflect the quality and condition of the asset.

(3) If, between the reviews the bank obtains new information or otherwise determines that the quality or condition of an asset has changed, the asset shall be promptly and accurately assigned to a new classification.

(4) In the event of an other-than-temporary impairment to the carrying amount of a non-credit Asset, the book value of the asset shall be reduced to the estimated recoverable amount and the loss in value shall be recognized as an expense and charged against income in the current period.

(5) The new book value shall not be changed for subsequent recoveries in value

4.18 Treatment of Interest

(A) All adversely classified assets, including assets with payments which are contractually ninety days or more past-due shall be promptly placed on non-accrual status and-

(1) The bank shall cease reflecting in its net income the accrual of interest;

(2) Uncollected interest which has previously been accrued shall be reversed; and

(3) Interest shall no longer be accounted for as income except as received in cash.

(B) An asset which has been placed on non-accrual status shall only be restored to accrual status when the contractual amount of principal and interest is deemed to be fully collectible in accordance with the terms of the contract; and

(1) The bank has received repayment of the past-due principal and interest, none of the principal is due and unpaid and the bank expects re-payment of the remaining contractual principal and interest as scheduled in the contract;

(2) The obligor has resumed paying the full amount of the scheduled contractual principal and interest for at least six months, and all remaining contractual payments (including compensation for past-due payments) are deemed to be collectable in timely manner, or

(3) The asset otherwise becomes well secured and is in the process of collection.

(4) If a bank acquires an asset in lieu of repayment of a credit, the book value of the asset shall be the lower of the net unpaid principal balance of the credit or the estimated recoverable amount of the asset acquired

(5) If the estimated recoverable amount of the asset acquired is less than the book value of the credit the deficient amount shall be charged off through the provision for bad and doubtful debts when the asset is added to the books.

4.19 Restriction

A bank shall not -

(1) Re-negotiate, roll-over or modify the terms of a credit in order to avoid an adverse classification; or

(2) Advance additional funds to enable an obligor to meet current payment obligations to the bank.

4.20 Report on Classification of Assets

(1) Every bank shall, at the end of every three months, submit a report to the Central Bank showing the classification of assets.

(2) The report shall be in the form set out below: -

Name of the bank:
BSL Identification Number:
Report for Month Ended:
Classified Assets:

Assets	**Substandard 20%**	**Doubtful 50%**	**Loss 100 %**	**Total**
Advances/leases(broken down by sector				
Securities				
Other real estate owned				
Other assets				
Total				
Provisioning for credit losses				
Amount of required provisioning				

Past-Due and non-accrual assets:
Each item on this schedule should be reported net of interest. Reportable assets should be included in either column 2 or 3, but not both.

Assets	**Assets 90 + days past- and non-accrual assets**	**Total past-due and non-accrual assets**
Advances (broken down by sector)		
Assets other than advances		
Total		

Charge-offs and Recoveries

Assets	**Charge-offs**	**Recoveries**
Advances (broken down by sector)		
Assets other than credits		
Total		

Charges in allowance for losses

	Amount Le'000
Balance from previous report	
Recoveries	
Charge-offs	
Current provisions for losses	
Prior period adjustment	
Ending balance	

4.21 **Remedial Measures and Administrative Sanction**

a) If a bank fails to comply with provisions of this guidelines, the Bank of Sierra Leone shall levy penalties as provided in the Schedule of Penalties issued by the Bank of Sierra Leone or in accordance with Section 46 of the Banking Act 2011.

b) The staff of a bank responsible for any breach of the provisions of this guideline shall be liable jointly and severally to indemnify the institution against any loss arising in respect of the contravention.

5.0 CORPORATE GOVERNANCE

5.1 Purpose - This Guideline is intended to provide the minimum standards required from directors, chief executive officers and management of banks so as to promote proper standards of conduct and sound banking practices, as well as ensure that they exercise their duties and responsibilities with clarity, assurance and effectiveness. This Guideline should not restrict or replace the proper judgment of the management and employees in conducting day-to-day business. Each institution is therefore required to formulate its own special policies (taking into account the institution's special needs and circumstances) on the duties, responsibilities and conduct of its directors, chief executive officers and management.

5.2 Responsibility - The Board of Directors of each institution shall be responsible for formulating policies, procedures and guidelines, for the effective and efficient governance of the institution.

- All directors, chief executive officers and management are made fully aware of their duties, responsibilities and code of conduct.

- All management decisions are made in accordance with prudent banking practices.

5.3 Specific Requirements

5.3.1 Shareholders

The shareholders are responsible for the appointment of a competent and dedicated board of directors and auditors and ensure that an appropriate governance structure is in place.

The shareholders shall jointly and severally protect, preserve and actively exercise the supreme authority of the bank in general meetings. They have a duty, jointly and severally, to exercise that supreme authority: -

i. To the extent that the duty is vested in general meetings, ensure that only credible persons of good standing in society who can add value to the institution's banking business are elected or appointed to the board of directors;

ii. To ensure that, in general meetings and related forums, the board is constantly held accountable and responsible for the efficient and effective governance of the banking institution;

iii. To utilize powers vested in general meetings to change the composition of a board of directors that does not perform to expectation or in accordance with the mandate of the bank.

Shareholders are expected to ensure that the bank applies to the Bank of Sierra Leone for approval in the following circumstances, with respect to shareholding of financial institutions: -

- Transfer of existing shareholding in excess of 5% of a bank's share capital;

- Acquisition of more than 5% of the share capital of a bank where there is fresh capital injection, or from existing shareholders.

It is similarly the banks responsibility to ensure that the above approvals relating to significant shareholders are obtained from the Bank of Sierra Leone, before allotment of shares.

The applications relating to significant shareholders should be done as specified on the seventh schedule of the Banking Regulation 2003.

No shareholder with ten percent (10%) or more shareholding in a banking institution shall be an executive director or form part of the management of the bank or ibank’s holding company.

5.3.2 Directors

There should be a formal procedure for certain functions of the board to be delegated, describing the extent of such delegation, to enable the board to properly discharge its duties and responsibilities and to effectively execute its decision making process.

5.3.2.1 Appointment of Directors

A bank shall conduct due diligence and ascertain the fitness of a proposed director before referring to the Central Bank for no objection to his appointment.

No director shall take up office without a “no objection” from the Bank of Sierra Leone. For this purpose the Curriculum Vitae, copies of educational certificates and all other supporting documents of the proposed director shall be submitted to the Bank of Sierra Leone for the “fit and proper” persons test.

5.3.2.2 Duties and Responsibilities of Directors

The major duties and responsibilities to be performed by directors of institutions include formulating policies, procedures and guidelines, to ensure that:

- There are adequate systems to identify, measure, monitor and manage key risks facing the banking institution and adopt and follow sound policies and objectives.
- There are policies and procedures governing the operations of senior executive officers.
- Every director has a duty to attend board meetings regularly and to effectively participate in the conduct of the business of the Board.
- Every member of the board shall attend at least 75% of the board meetings of a financial institution in any financial year. This is to ensure that every board member discharges his or her duties and responsibilities effectively.

5.3.2.3 Tenure of Non Executive Directors and Chief Executive Officers

In order to ensure both continuity and injection of fresh ideas, non-executive directors should not remain on the board of a bank continuously for more than a period of two terms of three (3) years each and chief executive officers not more than ten (10) years.

This provision shall be applied in retrospect with effect from the dates of appointment of the non-executive directors and chief executive officers.

5.3.2.4 Resignation/Removal of Directors

It will be the responsibility of the Board of Directors to report to the Bank of Sierra Leone the resignation and/or removal of any of its members within five (5) working days and giving reasons thereof.

5.3.2.5 Board Committees

Board should establish committees with formally determined terms of reference, with clearly agreed upon reporting procedures and written scope of authority.

Board committees assist the board and its directors in discharging its duties; however the board remains accountable for the general governance of the bank.

Board committees should be free to take independent professional decisions as and when necessary, and to invite Senior Management to provide technical advice when needed.

As a general principle there should be transparency and full disclosure from the board committee to the board.

5.3.3 Management

5.3.3.1 Major duties and responsibilities of Management

The primary responsibility of management is to operate and administer the institution on a day-today basis, paying attention to the following: -

(a) The implementation and adherence to the policies, practices and standards as laid down by the Board of Directors;
(b) The systems that have been established to facilitate efficient operations and communications;
(c) The planning process that has been developed to facilitate achievement of targets and objectives;
(d) All staff matters, particularly human resource development and training;
(e) Adherence to the established code of conduct and with all the relevant banking laws and
(f) Maintain adequate records to comply with all the reporting requirements.

5.3.4 Approvals of CEOs and Management staff by the Bank of Sierra Leone

No chief executive officer or management staff shall take up office without a “no objection” from the Bank of Sierra Leone. The bank shall submit to the Bank of Sierra Leone copies of the proposed CEOs’ and management staff CVs together with all relevant certificates of academic and professional qualifications for the “fit and proper” persons test.

The Bank of Sierra Leone shall be informed of all severance of directors and senior management staff together with the reasons for severance.

No individual shall serve in an Acting Capacity continuously in a management position of an institution for more than one year.

The Bank of Sierra Leone shall be informed of administrative decisions bothering on governance such as demotion of senior staff.

5.3.5 ‘Fit and Proper’ Persons Test

Banks shall conduct due diligence on all proposed directors and senior management to determine their suitability for the proposed position and submit a report to the Bank of Sierra Leone.

Banks are referred but not limited to Schedule 1 on ‘fit and proper’ persons test for guidance in conducting due diligence on prospective employees.

5.3.6 Recruitment of Other Staff

Banks are required to inform the Bank of Sierra Leone of all recruitments and disengagement of other staff. This should be reported to the Bank as and when they occur.

5.3.7 Maintenance of a Black Book at BSL

For the purpose of updating the Black Book and monitoring of staff behaviour in the financial system, banks shall promptly notify the Central Bank of all disengagements including reasons for severance as per schedule 2

5.4. Prescribed Code of Conduct

5.4.1 Conflict of Interest

Directors, chief executive officers and all other officials should not engage directly or indirectly in any business activity that competes or conflicts with the institution’s interest. These activities include, although not necessarily limited to, the following:

a) **Outside Financial Interest**

Where directors, chief executive officers and all other officials have a financial interest in a customer, whether a sole proprietor, shareholder, creditor or debtor, such an interest must be disclosed immediately to the management. Thereafter, the affected director, chief executive officer and management should not be directly involved in the institution's dealings with the customer so long as the interest continues to exist.

The above restriction does not apply in cases where employees have holdings of public quoted securities unless the management views the interests to be material, and that the financial interest is considered likely to impair the objectivity of the member of staff concerned. The holding of five per cent or more of the voting shares of a publicly quoted company would be regarded as material.

b) **Other Business Interests**

It is considered a conflict of interest if an executive director, chief executive officer or management conducts business other than the institution's business during office hours.

Where the acquisition of any business interest or participation in any business activity outside the institution and office hours demands excessive time and attention from the member of staff, thereby depriving the institution of the employee's best efforts on the job, a conflict of interest is deemed to exist.

c) **Other Employment**

Before making any commitment, employees are to discuss possible part-time employment or other business activities outside the financial institution's working hours with their manager or departmental head. A written approval of the manager or departmental head should be obtained before an employee embarks on part-time employment or other business activities. Approval should be granted only where the interest of the institution will not be jeopardized.

d) **Corporate Directorship**

Employees must not solicit corporate directorships. An employee should not serve as a director of another corporation without approval of the Board of Directors or Chief Executive. Employees who hold directorships without such approval must seek approval immediately, if they wish to remain as directors of other corporations.

However, employees may act as directors of non-profit public service corporations, such as religious, educational, cultural, social, welfare, and philanthropic or charitable institutions, subject to policy guidelines of the institution.

e) **Trusteeships**

Directors, chief executive officers and management must not solicit appointments as executors, administrators or trustees of customers' estates. If such an appointment is made and the employee is a beneficiary of the estate, his signing authority for the bank account(s) must be approved by the Board of Directors, who will not unreasonably withhold approval.

5.4.2. Misuse of Information

Directors, chief executive officers and management who possess insider information are prohibited from influencing any other person to deal in the securities concerned or communicating such information to any other person, including other members of staff who do not require such information in discharging their duties.

5.4.3 Integrity of Bank Officials

Directors, chief executive officers and management must not use the bank's name or facilities for their personal advantage. They and/or their relatives must also not use their connection with the institution to borrow from or become indebted to customers or prospective customers.

It is forbidden for officials of a bank to use their position to obtain preferential treatment.

Directors, chief executive officers and management must not solicit or otherwise accept inducements either directly or indirectly whether in cash or in kind when performing their official functions.

Directors, chief executive officers and management must not use the institution's facilities and influence for speculating in commodities, gold, silver, foreign exchange or securities, whether acting personally or on behalf of friends or relatives.

Directors, chief executive officers and management should also not engage in "back-scratching" exercises with employees and directors of other institutions to provide mutually beneficial transactions in return for similar facilities, designed to circumvent these ethical guidelines.

5.4.4 Integrity of Bank Records

a) Accounting records and reports must be complete and accurate. Directors, chief executive officers and management should never make entries or allow entries to be made for any account, record or document of the institution that are false and would obscure the true nature of the transaction, as well as to mislead the true authorization limits or approval authority of such transactions.

b) All records and computer files or programmes of the bank, including personnel files, financial statements and customer information must be accessed and used only to discharge official functions.

5.4.5 Confidentiality

a) Confidentiality of relations and dealings between the institution and its customers is paramount in maintaining the institution's reputation. Thus directors, chief executive officers and management must take precaution to protect the confidentiality of customer information and transactions. No member of staff or director should during, or upon and after termination of employment with the institution (except in the proper course of his duty and or with the institution's written consent) divulge or make use of any information other than to discharge official functions.

b) Business and financial information about any customer may be used or made available to third parties only with prior written consent of the customer or in accordance with the arrangements for the proper interchange of information between institutions or when legally required to do so.

5.4.6 Fair and Equitable Treatment

All business dealings on behalf of the institution with the current or potential customers, or members of staff and with the public should be conducted fairly and equitably.

5.4.7 Insider Loans

No bank shall -

a) Grant or permit to be outstanding any unsecured advances in respect of any of its employees or their associates except if such facilities are in line with the institution's schemes approved by the Board and are serviced by salary through a check-off system.

b) Grant or permit to be outstanding any advances, loans or credit facilities which are unsecured or advances, loans or credit facilities which are not fully secured to any of its officers (non-executive directors, contract staff, etc), significant shareholders or their associates.

c) Grant or permit to be outstanding any advance, loan or credit facility to any of its executive directors or other person participating in the general management of the institution unless it is: -

- approved by three-fourths (3/4) of the board of directors.
- made in the normal course of business and on terms similar to those offered to ordinary customers of the institution. The institution shall notify the Bank Sierra Leone of every such approval within five working days of the granting of the approval.

d) Grant or permit to be outstanding advances or credit facilities or give any financial guarantee or incur any other liabilities to or in favour of, or on behalf of, its associates and the persons mentioned in paragraphs **5.4.7. (a),(b) and (c)** amounting in the aggregate to more than one hundred per cent of the capital base of the institution; or

e) Grant any advance or credit facility or give guarantee or incur any liability or enter into any contract or transaction or conduct its business or part thereof in a fraudulent or reckless manner or otherwise than in compliance of the Banking Act 2011 and other related laws and guidelines.

5.4.8 Reporting of Fraud

Banks are required to immediately inform the Bank of Sierra Leone of all cases of fraud as per schedule 3.

Upon completion of the investigation, a copy of the full report should be sent to the Bank of Sierra Leone.

5.5 The Board and Director Evaluation

The Board through its nomination committee or similar board committee shall regularly review its required mix of skills and experience and other qualities in order to assess the effectiveness of the board. Such review shall be by means of peer and self-evaluation of the board as a whole, its committees and the contribution of each and every director, including the Chairman.

(a) All directors, chief executive officers and management are made fully aware of their duties, responsibilities and code of conduct.
(b) All management decisions are made in accordance with prudent banking practices.

5.6 Disclosure of Executive Directors' compensations, bonuses, profit sharing arrangements and share options

5.6.1 All compensations and bonuses paid or payable to executive directors of all banks including profit sharing arrangements and share options should be fully disclosed in the annual audited financial statements;

5.6.2 All banks are also required to disclose any profit sharing arrangements and share options with the bases for their computations in their audited financial statements. If there are no such arrangements, a statement of declaration should be made in the financial statements in this respect;

5.6.3 All compensation including bonuses, profit sharing and share options should be disclosed as a separate component of operating expenses.

5.6.4 Practices whereby executive compensations including bonuses and profit sharing arrangements and share options are charged to inappropriate accounts are prohibited.

5.7 Remedial Measures and Administrative Sanction

5.7. 1 When a staff is assessed and found to be unfit and not proper to work in an institution, the affected institution shall be required to dispense with the services of such a staff forthwith and to inform the Bank of Sierra Leone of such a decision within five working days and give reasons thereof.

5.7.2 a) If a bank fails to comply with provisions of this guidelines, the Bank of Sierra Leone shall levy penalties as provided in the Schedule of Penalties issued by the Bank of Sierra Leone or in accordance with Section 46 of the Banking Act 2011.

b) The staff of a bank responsible for any breach of the provisions of this guideline shall be liable jointly and severally to indemnify the institution against any loss arising in respect of the contravention.

6.0 PUBLICATION OF FINANCIAL STATEMENTS AND OTHER DISCLOSURES

6.1 Purpose- This Guideline is intended to enhance market discipline in the banking sector in particular. As custodian of public funds, banking institutions have the responsibility to safeguard their integrity and credibility in order to maintain public confidence.

It is under these considerations that institutions are required to periodically publish their financial statements in order to avail timely information to all stakeholders. This would also encourage institutions to enhance prudent management of their affairs and exercise self-regulation.

6.2 Specific Requirement

6.2.1 Audited Financial Statements and Other Disclosures

Not later than three months after the expiry of each calendar year, every bank shall, in respect of all business transacted by it, prepare a balance sheet, profit and loss account and cash flow statement as of the last working day of that year in a form consistent with international accounting standards.

The Central Bank may make regulations, directions or guidelines to be followed by banks in respect of accounting standards, practices, presentation of annual accounts and disclosure of information in the annual accounts.

The financial statements required above shall be under the joint signatures of three members of the Board of Directors, including the chief executive officer and the chairman of the Board.

Not later than three months after the expiry of each calendar year, every bank shall submit to the Central Bank a copy of its audited balance sheet, profit and loss account and cash flow statement together with the auditor's report and the long form audit report.

The Management Letter of the institution shall also be submitted not later than 31st May of every year.

6.3 Notes for Completion of Financial Statements and Other Disclosures:

6.3.1 General

- These completion instructions are issued to ensure uniformity of reporting by all institutions.
- No asset or liability stated in the balance sheet should be offset by deduction of another liability or asset except inter-branch balances and items in transit or where a legal right of set-off exists.
- The accounts should be prepared in accordance with International Accounting Standards/IFRS.
- All figures should be shown in thousands of Leones.
- publish only rows with values. This however does not limit the bank from disclosing qualitative information relevant to the accounts.

6.3.2 Profit and Loss Account

6.3.2.1. Interest Income

(a) **Loans & advances**

This covers interest income and discounts on loans and advances including bills and notes discounted/purchased and interest on commercial paper and corporate bonds. Interest income should not include interest on non-performing loans and this should exclude fees, commissions and penalties on loans and advances.

(b) **Government securities**

This covers interest and discount earned on all Government securities.

(c) **Deposits and placements with banking institutions**

This includes all interest earned on placements and overnight lending to commercial banks, financial institutions and, mortgage finance companies. Also include interest earned on current accounts held by financial institutions, mortgage finance companies and commercial banks. Interest on placements with collapsed institutions, should be suspended and not recognized as income.

(d) **Other interest income**

This represents other interest income not captured above including interest income on repos. Interest income doubtful of recovery should not be recognized.

(e) **Total Interest Income**

Total for items (a) to (d) above

6.3.2.2 Interest Expenses

(a) **Customer deposits**

Consists of interest expenses on all categories of deposits, both local and foreign, excluding interest on borrowed funds.

(b) **Deposits and placements from banking institutions**

Includes interest on borrowed funds plus interest on money market borrowings, both from domestic and overseas markets.

(c) **Other interest expenses**

Consists of all other interest expenses on borrowings other than those specified in (a) and (b) above.

(d) **Total Interest Expense**s

Total of items (a) to (c) above

6.3.2.3. Net Interest Income/ (Loss)

Deduct item 6.3.2.2.(d). from item 6.3.2.1.(e) above

6.3.2.4. Other Operating Income

(a) **Fees and commission income on advances**
This includes all charges and commissions relating to lending e.g. appraisal fees, commitment fees, deposit mobilization fees and penalty interest.

(b) **Other Fees and commission income**
This includes all charges and commissions relating to account operations (e.g. ledger fees), fees received from managing other institutions/group companies, commissions earned (e.g. charges on standing orders, safe-deposit facilities and ATMs) etc

(c) **Foreign exchange trading income/(loss)**
Consists of the profit (loss) arising from the purchase and sale of foreign currency. Also include gains/loss arising from the revaluation or conversion of foreign currency balances.

(d) **Dividend income**
This income is earned from shareholding in other firms.

(e) **Other income**
This includes other income not specified elsewhere above. This income should arise from normal banking business operations.

(f) **Total Other Operating Income**
This is the total of items (a) to (e) above.

6.3.2.5. TOTAL OPERATING INCOME

Aggregate item 6.3.2.3 and 6.3.2.4. (f)

6.3.2.6. OPERATING EXPENSES

(a) **Loan loss provision**
Enter the loan loss charge for the current period. Recoveries from a loan, which had been written off, should be reported under other income.

(b) **Staff costs**
These are staff salaries and other staff benefits.

(c) **Directors' emoluments**
These are compensations, salaries and benefits to the executive directors and non-executive directors for running the institution for the period.

(d) **Rental charges**
These are rental charges

(e) **Depreciation charge on property and equipment**
This is depreciation charge on property and equipment for the period.

(f) **Amortization charges**.
Amortization charge on prepaid lease rentals, capital grants and intangible assets.

(g) **Other operating expenses**
Includes all other expenses arising from normal banking business operations that have not been specified elsewhere. When finalising the annual report and financial statements, any significant item (i.e. more than 10% of the value of items in this category) should be disclosed separately.

(h) **Total Operating Expenses**
This is the sum of items (a) to (g)

6.3.2.7 PROFIT/ (LOSS) BEFORE TAX AND EXCEPTIONAL ITEMS

Enter the difference between 6.3.2.5 and 6.3.2. 6.(h) above.

6.3.2.8 EXCEPTIONAL ITEMS

Income or expenses that arise from events or transactions that are clearly distinct from ordinary banking activities of the institution and therefore are not expected to recur frequently or regularly.

6.3.2.9. **PROFIT/ (LOSS) AFTER EXCEPTIONAL ITEMS**

Enter sum of item 6.3.2.7 and item 6.3.2.8. above.

6.3.2.10. **Current tax**
Enter tax charge for the period.

6.3.2.11. **Deferred tax**
Enter the deferred tax charge.

6.3.2.12. **Profit/(Loss) After Tax and Exceptional Items**
Enter the sum of items on 6.3.2.9 , 6.4.2.10 and 6.3.2.11 above.

6.3.3 BALANCE SHEET

A. ASSETS

1. **Cash balances**
Notes and coins (both local and foreign) held in the tills and vaults.
2. **Balances with Bank of Sierra Leone**
These include: -
   - Balances held with the Bank of Sierra Leone, including cash held for cash ratio purposes; and

- Repo purchases from the Bank of Sierra Leone, which constitute amounts lent to BSL against government securities.

3. Government Securities

These include: -

- Treasury bills
- Treasury bonds
- Sierra Leone Government stock
- Local Government securities
- Other Government Securities

These are debt securities issued by the government of Sierra Leone and are held for investment purposes and therefore exclude those held for dealing purposes.

4. **Foreign Currency Treasury Bills and Bonds**

These include government and corporate treasury bills and bonds denominated in foreign currency.

5. **Deposits and balances due from local banking institutions**

These include: -

- Placements by the reporting institution with other institutions including inter-bank placements. Placements with collapsed institutions should be disclosed among “other assets” net of provisions held, if any.
- All loans and advances granted to other institutions.
- All credit balances in current accounts held with other institutions.

6. **Deposits and balances due from foreign banking institutions**

These include: -

- Placements by the reporting institution with other institutions including inter-bank placements overseas. Placements with collapsed institutions should be disclosed among “Other assets” net of provisions held, if any.
- All loans and advances granted to other overseas institutions.
- All credit balances in current accounts held with other institutions.
- Banking institutions including other financial institutions.

7. **Sierra Leone Government & Other securities held for Dealing Purposes**

These include Government and other marketable securities held for dealing purposes, with the intention of reselling them in the short-term. e.g. Corporate bond and commercial paper which can be sold in active market.

8. **Tax Recoverable**

This is tax that is recoverable as a result of overpayment of tax in the previous periods.

9. **Loans and Advances to Customers (Net)**

These are term loans, overdrafts, bills discounted and hire purchase. The balance to be reported shall be net of provisions and interest in suspense. These also include commercial paper and corporate bonds, with fixed or determined payment and maturities.

10. **Investment Securities**

These are equity investments in both quoted and unquoted companies.

11. **Balances due from banking institutions in the group**

These are amounts due from group companies conducting banking business.

12. **Investments in Associates**

These are equity investments by the reporting institution in other companies where it has significant influence and which is neither a subsidiary nor a joint venture of the institution.

13. **Investments in Subsidiary Companies**

These include equity investments by the reporting institution in its subsidiaries.

14. **Investments in Joint Ventures**

These are investments by the reporting institution in joint ventures.

15. **Investment Properties**

This is as defined in IAS 40 as a property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation

(a) Use in the production or supply of goods or services or for administrative purposes; or

(b) Sale in the ordinary course of business.

16. **Properties and Equipment**

Comprise all the immovable and other fixed assets of the reporting institution. These are to be reported net of accumulated depreciation. They include: -

- Staff houses
- Furniture, fixtures and fittings
- Motor vehicles
- Office equipment including computer equipment
- Land and buildings (excludes leasehold land and investment property)
- Others not specified elsewhere including foreclosed assets.

17. **Prepaid lease rentals**

This relates to the cost of the leasehold land, net of accumulated amortised amount.

18. **Intangible assets**

Include all intangible assets such as goodwill, computer software, royalties, copyrights etc.

19. **Deferred Tax Asset**

These are taxes recoverable in future periods in respect of: -

- Deductible temporary difference
- The carry forward of unused tax losses
- The carry forward of unused tax credits

20. **Retirement Benefit Asset**

These are staff retirement benefit assets computed as per IAS 19.

21. **Other assets**

These include assets not stated elsewhere including amounts due from other group companies other than banks.

22. **Assets Total**

This is the total of items 1 to 21 above.

B LIABILITIES

1. **Balances due to Bank of Sierra Leone**

These include: -

- Overnight loans and advances from Central Bank; and
- Reverse REPO sales to the Central Bank against government securities.

2. **Customer Deposits**

These include all funds received from public bodies, parastatals, private enterprises, individuals and other non-profit making institutions, both resident and non-resident in Sierra Leone. To include current account balances, fixed/call deposits, and savings account balances, margins on letters of credit or any other deposit by whatever name both in local and foreign currencies whether matured or not.

3. **Deposits and balances due to local banking institutions**

These include deposits due to commercial banks, financial institutions, mortgage finance companies and building societies locally. All inter-bank borrowings should be reported here.

4. **Deposits and balances due to foreign banking institutions**

These include deposits due to commercial banks, financial institutions, mortgage finance companies and building societies overseas. All inter-bank borrowings should be reported here.

5. **Other Money Market Deposits**

These are to include deposits/financial instruments from the money market.

6. **Borrowed Funds**

These include term borrowings from the Bank of Sierra Leone, commercial banks both in Sierra Leone and overseas, companies, donor agencies and other lending agencies both in Sierra Leone and overseas. Special loan facilities covering funds received through special arrangements between the Sierra Leone Government and other foreign governments or donor agencies, for onward lending or distribution to specified sectors of the economy should be entered here.

Shareholders' loans whose original maturities are below 5 years should be classified as borrowed funds.

7. **Balances due to banking institutions in the group.**
   These include amounts owed by banking institutions in the group.

8. **Tax Payable**
   This relates to tax liability computed but not yet paid.

9. **Dividends Payable**
   These are dividends that have been declared but not yet paid.

10. **Deferred Tax Liability**
    These are taxes payable in future periods in respect of taxable temporary differences.

11. **Retirement Benefit Liability**
    These are the retirement benefits liability as accounted for under IAS 19.

12. **Other Liabilities**
    These include all other liabilities not specified elsewhere e.g.
    - Items in transit.
    - Amount due to other group companies other than banks.

13. **Total Liabilities**
    This is the total of items 1 to 12 above.

C. SHAREHOLDERS' EQUITY

1. **Paid up/Assigned Capital**
   This is the nominal value of ordinary and preference shares issued and fully paid by the shareholders.

2. **Share premium/(discount)**
   This is the difference between the nominal price and the purchase price of ordinary and preference shares, which is not refundable.

3. **Statutory Reserve**
   Refer to Sec 24 of Banking Act 2011.

4. **Revaluation Reserve**
   These are revaluation surpluses/losses arising from revaluation of fixed assets and financial instruments

5. **Retained Earnings/ Accumulated Losses**
   These are undistributed profits or losses carried forward over the years. They should also include unrealised gains/losses.

6. **Statutory Loan Loss Reserve**
These are provisions that have been appropriated from retained earnings (revenue reserves).
This will only apply if provisions computed under Risk classification of Assets and Provisioning Guidelines are in excess of impairment losses computed under International Financial Reporting Standards by the regulator.

7. **Proposed Dividends**
These are dividends that have been proposed by the Board but have not been ratified at the annual general meeting.

8. **Capital Grants**
These are grants, which are not callable.

9. **Total Shareholders' Funds**
This is the sum of items 1 to 8 above.

6.4 Corrective Measures

6.4.1 Remedial measures

a) If a bank fails to comply with provisions of this guidelines, the Bank of Sierra Leone shall levy penalties as provided in the Schedule of Penalties issued by the Bank of Sierra Leone or in accordance with Section 46 of the Banking Act 2011.

b) The staff of an institution responsible for any breach of the provisions of this guideline shall be liable jointly and severally to indemnify the institution against any loss arising in respect of the contravention.

7.0 LIQUIDITY

7.1 **The objective** of liquidity management is to ensure that an institution is able to meet, in full, all its obligations/commitments as they fall due. An institution is required to hold adequate liquid assets to fund maturing claims for prudent business management. It is therefore important for management to not only measure liquidity on an on-going basis, but also to examine ways of how to fund liquidity requirements during distress situations.

All banks should develop written liquidity management policy that covers the minimum guidelines of Bank of Sierra Leone. A copy of the approved liquidity management policy should be forwarded to the Bank of Sierra Leone.

7.2 **Purpose –**

The purpose of this Guideline is to: -

- Ensure each institution meets the minimum liquidity requirements.
- Provide guidance on compilation of liquidity returns.
- Ensure accuracy and uniformity in the computation of liquidity ratio in the banking sector.
- Ensure timely submission of liquidity and maturity analysis of assets and liabilities returns to the Bank of Sierra Leone.
- analyse changes and trends in a bank's affairs so as to know its direction and the latent risks involved.
- promote public confidence in the institution.

7.3 **Responsibility -** The Board of Directors of each institution shall be responsible for the effective management of its liquidity including the maintenance of minimum statutory requirements.

Banks may however voluntarily maintain higher percentages of liquidity than the statutory minimum requirement.

Each institution shall therefore identify its unique liquidity requirements over specific time periods and plan for appropriate funding.
Minimum Liquidity Requirement Ratio may be required for all banks as listed below.

7.4 **Specific Requirements**

7.4.1 **Statutory Requirements:** Section 22 of the Banking Act 2011 states that banks shall maintain minimum liquid assets, which shall be measured as specified in item 7.4.2.8 in this guideline.

7.4.2 **Liquidity Management:** The management of an institution should put in place mechanisms that will flag out potential funding problems in order to explore ways and means of raising additional funds of the right type and amount. Liquidity Management should, as a minimum, address the following:

7.4.2.1. Liquidity Management Strategy

This is a brief statement of an institution's longer term approach to liquidity, including management of its liquidity and maturity mismatch positions. This should be consistent with the institution's business lines and size of balance sheet.

7.4.2.2. Liquidity Management Structure and Information Systems

An institution should have an adequate information system for measuring, monitoring, controlling and reporting liquidity requirements. This system should be integrated in the overall management information systems of the institution.

To supplement the management information system, an institution should have an appropriate management reporting structure to effectively execute the liquidity strategy, with the use of appropriate policies and procedures.

7.4.2.3. Measuring and Monitoring Net Funding Requirements:

An institution should have a process of assessing cash inflows against its outflows to identify the potential for any shortfall. This should incorporate funding requirements for off-balance sheet items. Assumptions made in making cash flow projections should be clear and documented. They should be subject to frequent reviews to determine the validity of underlying factors. Less frequent, but more in-depth reviews should be carried out to re-examine and refine institution's liquidity policies and practices in the light of its experience and developments in its business and economic environments.

7.4.2.4. Contingency Planning

Contingency plans to handle liquidity crises should be put in place. The strategy should include procedures for making up liquidity shortfalls in emergency situations. Each institution should develop a back-up liquidity strategy for circumstances in which its normal approach to funding operations is disrupted.

7.4.2.5. Foreign Currency Liquidity Management

Each institution should have a measurement, monitoring and control system for its liquidity positions in major currencies traded; both in terms of aggregate foreign currency needs and for each currency individually.

7.4.2.6. Internal Controls for Liquidity Management

An institution should have an adequate system of internal controls over its liquidity management process. There should be regular, independent reviews and evaluations of the effectiveness of the system.

The internal control system for liquidity should be integrated with the overall system of internal control and it should promote effective and efficient operations, reliable financial and regulatory reporting, and compliance with applicable laws, regulatory requirements and institution's own policies.

7.4.2.7 Minimum Cash Reserve Ratio

All banks shall maintain at all times cash reserve of not less than twelve percent (12%) of total (local) deposits. Cash reserve shall be cash (local) in till, vaults, and current account with the Central Bank;

7.4.2.8 Minimum Liquidity Reserve Ratio

All banks shall at all times maintain minimum liquidity reserve ratio which shall be the aggregate of 40% demand deposit and 20% of time and savings deposit to total (local) deposit. The following liquid assets are admissible for computation of liquidity ratio: -

(i) Cash;
(ii) Balance held with the Central Bank;
(iii) **Government Securities with a maturity period of 365days or less;**
(iv) Inland bills of exchange and promissory notes which are eligible for rediscount at the Central Bank, subject to such limitations in amount as the Central Bank may determine;
(v) Any other asset as may be prescribed by the Central Bank from time to time.

7.4.2.9 Loans to deposits ratio:

All banks shall maintain a loan to deposit ratio of not more than 80%.

7.4.2.10 Local Assets ratio

The ratio of local assets to total local liabilities shall not be less than 75%.

7.4.2.11 Local Liquid Assets ratio

The ratio of local liquid assets to total liquid assets shall not be less than 75%. For the purpose of this ratio, the composition of liquid assets shall be as follows:

i) Cash – Foreign and local
ii) Balances with the Bank of Sierra Leone
iii) Claims on other banks
iv) NOSTRO balances
v) Placement in foreign banks
vi) Government securities with 91 days to maturity

7.5 Maturity analysis in Leones and foreign currency

The maturity pattern of a bank's assets and liabilities is analysed so as to ensure that there are no mismatches which would impair its ability to meet the liabilities as and when they mature for payment. The banks are required to compile the Returns based on the residual maturity periods of assets and liabilities. It is expected that the banks would so manage their assets and liabilities that there are no mismatches which may result in liquidity crunch or expose them to interest rate risks. For example, if a bank has borrowed short to lend long resulting in a shortfall in short term assets as compared to short term liabilities, it may face liquidity crunch, if it fails to get the borrowings rolled over. Its interest margin would also suffer if the market rates rise.

7.6 Illiquidity

(a) A bank may be considered illiquid if: -

(i) the bank suffers clearing operation deficits for 5 consecutive days i.e. there was adverse clearing settlement position without adequate cover to the extent that recourse had to be made to the clearing collateral;

(ii) the bank is unable to pay maturing obligations;

7.7 Returns and Completion Instructions

An institution shall provide data on its liquidity in the prescribed format (Form BSD 1 {Cash and Liquidity Reserve Ratios}) and in accordance with the completion instructions attached, five (5) days after the reporting date. The data should be submitted on or before the Wednesday following the reporting date.

In addition to the liquidity ratio data, an institution shall provide data on maturity analysis of its assets and liabilities in the prescribed format (Form BSD 6A & 6B {Maturity Analysis of Assets and Liabilities}) on a monthly basis and in accordance with the completion instructions attached. This data should be received by BSL on or before the twentieth day of the month following the reporting date. Maturity analysis of off-balance sheet items that have cash flow implications should also be analyzed in this return. The maturity time band will depend on the management judgment based on behavioral maturity of when the commitments will be likely to be called or drawn down.

7.8 Instruction for Completion of the Form on Cash and Liquidity Ratios (BSD1)

1. **Notes and coins**

   Local

   Enter all notes and coins on the institution's premises which are legal tender in Sierra Leone.

2. **Balances with Bank of Sierra Leone**

   Balances with Bank of Sierra Leone

   Enter all credit balances with the Bank of Sierra Leone.

   All Bank of Sierra Leone balances should be reported as per institution's ledger. Reconciliation between Central Bank statement balances and institution ledger will be submitted upon request by the Bank of Sierra Leone.

3. **Balances with Financial Institutions**
Placement with Discount Houses
Enter the total of all balances (overnight, call and time) placed with the institution, whose maturities do not exceed 91 days, excluding uncleared effects. This should include accrued interest; and should agree with the total analysed in the table attached.

4. **Government of Sierra Leone Treasury Bills whose maturities do not exceed 91 days**

   Enter the amortized cost of all Government of Sierra Leone Treasury Bills investments by the reporting institution, net of encumbered Treasury Bills. Encumbered Treasury Bills are those pledged to secure any form of credit facility granted to the reporting institution. Treasury Bills held under repurchase agreements are encumbered and should not therefore be reported as part of liquid assets. Under the Repo agreement such treasury bills are to be held until maturity after which they are repurchased. Repo bills cannot therefore be negotiated/discounted during the tenure of the agreement.

5. **Government of Sierra Leone Treasury Bonds/ Bearer Bonds whose maturities do not exceed 91 days**

   Enter the amortized cost or fair value of all treasury bonds/bearer bonds including government contractor bonds traded in the Sierra Leone Stock Exchange acquired by the reporting institution directly from the government and its issuing agents and those discounted from third parties

   Treasury bills and bonds pledged as security for the Inter Bank Market Operations (IBMO) shall be considered as part of liquid assets in the computation of liquidity ratio. However, in the event of failure to settle by the reporting institution, the IBMO shall convert to an overnight facility. The underlying pledged securities shall therefore become encumbered and cease to qualify for inclusion in liquidity computation

6. **Total Liquid Assets**
Enter the sum of items 1 to 5 above

7. **Total Deposit Liabilities**
Enter total deposits (Local Currency only) from all sources, including accrued interest, but excluding uncleared effects.

8. **Cash Reserve Ratio**
   a) Total of items (1 - 2)
   b) Total Deposit Liabilities
   c) Ratio of [(a)/ (b)] x 100%

9. **Liquidity Ratio**
   a) Total of items (1 - 5)
   b) Total Deposit Liabilities
   c) Ratio of [(a)/ (b)] x 100%

7.9 Instruction for Completion of the Form on Maturity Structure of Domestic and Foreign Assets and Liabilities (BSD 6A &6B)

Assets and liabilities should be entered according to the remaining period to maturity. Though, it is prudential to match the maturities, a bank may have practical difficulties in ensuring this in time. A bank may even decide to deliberately maintain a mismatch on expectations of interest rate changes to boost its profit. But this could be tolerated if within certain limits. That is why a mismatch is measured as percentage of liabilities within the relevant band to judge the magnitude of risk. In case a bank has borrowed long and lend short, it may not face a liquidity crisis as in the reverse situation but as the long term borrowing may be at higher interest rate than what is required for matching maturity, it may suffer in interest margins. Therefore a mismatch of this type may also be not to a bank's advantage.

7.9.1 A. ASSETS

Enter all asset items as stated in the Statement of Assets and Liabilities (BSD 2)

1. **Cash Reserves**
   Enter notes and coins (both local and foreign) held in the tills and vaults.

2. **Balances with Bank of Sierra Leone**.
   Enter all credit balances with Bank of Sierra Leone including the mandatory cash reserve, repos purchase and credit balance in any other current accounts maintained with Central Bank.

3. **Balances due from Local Institutions**
   Enter balances and placements with domestic institutions and Other Financial Institutions according to their remaining period to maturity. They should be reported gross of accrued interest.

4. **Balances due from banks abroad**
   Enter balances and placements with foreign institutions according to their remaining maturity. They should include accrued interest.

5. **Government of Sierra Leone Treasury Bills**
   These should be reported at amortized cost and should be entered according to their respective remaining period to maturity.

6. **Government of Sierra Leone Treasury Bonds**
   These should be reported at amortized cost if held to maturity or at fair value if held for trading purposes and should be entered according to their respective remaining period to maturity or when payment is expected.

7. **Other investments**
   Enter equity and other local currency investments according to their respective maturity dates. Equity investments should be entered in column 8.

8. **Other foreign assets**
Enter other foreign assets including foreign equity investments and bonds according to their respective period remaining to maturity or when they can be repaid.

9. **Local currency loans and advances**
Enter net outstanding local currency loans, bills discounted and other loans. Loans should be entered according to their respective period remaining to maturity. Overdrafts should be spread out and entered in the appropriate time bands according to their respective expiry dates. Enter bills discounted in the appropriate time bands according their respective due dates. Nonperforming loans, overdrafts and bills discounted should be entered in appropriate time bands when repayment can be realistically expected. Ordinarily this should exceed one year unless the recovery process has started and the exact date of repayment is known. All past due bills should be treated as non-performing.

10. **Other assets**
Enter components of other assets under the appropriate time bands when receipts are realistically expected.

11. **Fixed assets**
Enter the net figure under item 11. These should include prepaid operating lease rentals.

12. **Total assets**
Enter the sum of items 1 to 11 for each time band.

13. **Off-Balance Sheet Assets**
Enter off-balance sheet assets that have cash flow implications. Maturity bands will depend on management judgment of when the commitments are likely to be drawn.

7.9.2 B. LIABILITIES

1. **Balances due to Bank of Sierra Leone**
Enter balances due to Central Bank including repo sales in appropriate time bands according to the remaining period to maturity or when repayment is expected. They should be reported gross of interest accrued.

2. **Balances due to local institutions**
Enter balances and deposits due to domestic institutions and building societies according to their remaining period to maturity and should be reported gross of interest accrued.

3. **Balances due to banks abroad.**
Enter balances and deposits due to banks abroad according to their remaining period to maturity.

4. **Local currency deposits**
   Enter outstanding balances of local currency deposits including accrued interest in accordance with their respective remaining period to maturity. Demand account deposits should be entered under column 1. Call and seven days deposits should be entered under column 2, but if notice of withdrawal has been given, then enter the amount to be withdrawn under column 1. Savings accounts deposits should be entered under column 2.

5. **Local currency borrowings**
   Enter outstanding balances of local currency borrowings including accrued interest in accordance with their respective remaining period to maturity taking into account rollover commitments.

6. **Foreign currency deposits**
   Enter outstanding balances of foreign currency deposits including accrued interest in accordance with their respective remaining period to maturity. Demand account deposits should be entered under column 1. Call and seven days deposits should be entered under column 2, but if notice of withdrawal has been given, then enter the amount to be withdrawn under column 1. Savings accounts deposits should be entered under column 2.

7. **Other foreign liabilities**
   Enter other foreign liabilities not specified elsewhere according to their respective period remaining to maturity or when repayment is expected.

8. **Other liabilities**
   Enter components of other liabilities under the appropriate time bands when receipts are realistically expected.

9. **Capital and Reserves**
   Enter appropriately recognizing that most of the components should ordinarily be entered in column 8.

10. **Total liabilities**
    Enter the sum of items 1 to 10 for each time band.

11. **Off-Balance Sheet Liabilities**
    Enter off-balance sheet liabilities that have cash flow implications. Maturity bands will depend on management judgment of when the commitments are likely to be called up.

7.10 Corrective Measures

7.10.1 Remedial Measures

(a) If an institution fails to comply with the provisions of Section 22 of the Banking Act 2011, the Bank of Sierra Leone shall levy monetary penalties, as provided for in the Act and in accordance with the Schedule of Penalties issued by the Bank of Sierra Leone.

(b) If an institution is unable to fund its liquidity mismatch, it shall forthwith, in writing, report its inability to the Banking Supervision Department, Bank of Sierra Leone, stating reasons for such failure and/or inability, and measures being taken to rectify the situation.

(c) Institutions submitting late and/or inaccurate returns shall be penalized in accordance with the Penalties for Violations.

7.10.2 Administrative Sanctions

The conditions to be given shall generally cover management and control of liquidity exposures, and conduct of the concerned institution's business, but may specifically include the following: -

(a) Imposition of penalties under relevant sections of the Banking Act.
(b) Suspension of lending activities and undertaking any new business.
(c) Suspension from taking new deposits to retire maturing ones.
(d) Suspension from clearing house.
(e) Prohibition of acquisition of additional non-core assets.
(f) Prohibition from declaring dividends or paying bonuses, salary incentives, and other discretionary compensation to directors and/or officers of the institution.
(g) Prohibition or suspension from any other activities that Central Bank perceives to be contributing to liquidity strain in the affected institution.

Publication of Financial Statement

(h) Prohibition from declaring or paying dividends;
(i) Prohibition from establishing new branches;
(j) Prohibition from engaging in new activities or from expanding existing activities;
(k) Prohibition from declaring or paying bonuses, salary incentives, or other discretionary compensation to directors or officers.

Supervisory Action resulting from illiquidity

(l) invite management for a discussion on its plan to improve liquidity;
(m) conduct spot check to investigate the problem of the bank;
(n) request the bank to realize assets that do not qualify for inclusion in liquidity ratio computation;
(n) advise the bank to divest from subsidiaries or related companies;
(o) suspend the bank from clearing until it makes good its clearing position;
(p) change management and/or board;
(q) provide financial support and other lender of last resort actions

8.0 SENSITIVITY TO MARKET RISKS

8.1 Net Open Position

8.1.1 Definitions

a) "**Foreign currency"** means a currency other than legal tender of Sierra Leone.

b) **Foreign exchange business**" means operating a foreign currency account, purchase or sale by means of cash, cheques, drafts, transfer or any other instrument denominated in foreign currency and the issuance of guarantees and counter guarantees.

c) **Value date**" of a transaction means the date on which it is to be executed.

d) **"Spot value"** means the transaction to which it is referred is to be executed two working days from the date it is contracted or agreed.

e) **"Spot transaction" or "spot purchase" or "spot buy" or "spot sale"** means a transaction having a spot value.

f) **"Same day value"** means the transaction to which it is referred is to be executed on the very day it is contracted or agreed.

g) **"Same day transaction" or "same day purchase" or "same day buy" or "same day-sale"** means a transaction having same day value.

h) **"Forward transaction" or "forward purchase" or "forward buy" or "forward sale"** means a transaction that is to be executed after more than two working days from the date the transaction is contracted or agreed.

i) **A net open position in a foreign currency** exists when the assets in a foreign currency do not equal the liabilities in that currency.

j) A net spot long position in a foreign currency exists when the assets in a foreign currency exceed the liabilities in that currency;

k) A net spot short position exists when the liabilities in a foreign currency exceed the assets in that currency

8.1.2 Maximum limits on open positions in foreign currencies

(1) Every licensed institution shall maintain the following maximum limits on its open positions in foreign currencies, precious metals and precious stones: -

(i) Net open position in a single foreign currency, shall not exceed 15% of the institution's capital base

(ii) Net open position of the aggregate of all foreign currencies shall not exceed 25% of the institution's capital base

(2) Every licensed institution shall submit to the Bank of Sierra Leone not later than the tenth day after the end of every month a return on the institution's foreign currency position indicating its -

(i) Net spot long position
(ii) Net spot short position
(iii) Net forward long position
(iv) Net forward short position and
(v) Net open position

8.1.3. Correction of excess foreign exchange risk exposures

Each bank shall take every reasonable action to immediately correct any and all foreign exchange risk exposures which exceed the limits set forth in this guideline and in its board-adopted policy. Failure to correct any non-complying risk exposure within five (5) working days may result in imposition of a penalty as prescribed in the Schedule of Penalties issued by the Bank of Sierra Leone.

8.1.4 Maintenance of supporting documentation

Each bank shall maintain records which are sufficient to determine at all times its single currency and overall foreign exchange risk exposures. Each bank shall also maintain a daily record showing close-of-business foreign exchange risk exposures (both single and aggregate currencies) and a reconciliation of opening-to-closing positions.

8.2 Calculation of Net Open Position

8.2.1 Calculation of Exposure on Net Open Position in a Single Currency

The measurement of an institution's exposure in a single currency involves determining if the financial institution has a long or short open position in that particular currency, and how large this position is. The open position in a currency is the sum of the net spot position and the net forward position. These are explained below as follows:

8.2.2 Net Spot Position

The spot position is simply the position which appears directly on the balance sheet. The net spot position is the difference between foreign currency assets and liabilities in a particular currency.

8.2.3 Net Forward Position

The net forward position represents all amounts to be received less all amounts to be paid in the future in a particular currency as a result of foreign exchange transactions which have already taken place. These transactions which are recorded as off-balance sheet items would include: -

(i) Spot transactions which are not yet settled
(ii) Forward foreign exchange transactions
(iii) Documentary credits, guarantees and similar commitments denominated in foreign currencies which are certain to be called upon and are likely to be irrevocable. In case of guarantees, this will arise after notice has been received by the bank.
(iv) Currency futures and Swaps

All amounts to be received less all amounts to be paid in the future as a result of transactions in currency futures, and also the principal on currency swaps, must be measured and included in the net forward position.

8.2.4 Calculations of Overall Foreign Exchange Risk Exposure

This involves measurement of risks inherent in a banking institution's mix of long and short positions in different currencies. Banking institutions will adopt the "shorthand method" for calculating the overall foreign exchange risk exposure or overall open position as follows: -

a) Calculate the net open position in each currency (as above).
b) Arrive at the sum of all net short positions.
c) Arrive at the sum of all net long positions.

Overall foreign exchange risk exposure or overall open position is the higher of (b) and (c).

8.3 Remedial Measures

a) If a bank fails to comply with provisions of this guidelines, the Bank of Sierra Leone shall levy penalties as provided in the Schedule of Penalties issued by the Bank of Sierra Leone or in accordance with Section 46 of the Banking Act 2011.

b) The staff of a bank responsible for any breach of the provisions of this guideline shall be liable jointly and severally to indemnify the institution against any loss arising in respect of the contravention.

9.0 OTHER REQUIREMENTS

9.1 Mergers, Amalgamations, Transfers of Assets and Liabilities

This guideline has been prepared to assist institutions intending to merge or amalgamate and/or transfer assets and liabilities, and facilitate transfer of significant shareholding.

9.1.1. **Definition*s*** - Terms used within this guideline are as defined below, or as reasonably implied by contextual usage.

(a) **Amalgamating or merging institutions** - the institutions contemplating effecting an amalgamation or merger;
(b) **Receiving institution** - the institution to which assets and liabilities are transferred through a transaction effected under this guideline;
(c) **Resulting institution** - the institution resulting from a merger or an amalgamation effected under this guideline;
(d) T**ransferor institution** - The institution which transfers its assets and liabilities to a receiving institution.
(e) **Acquisition** – The purchase by one institution of another, for cash, an exchange of shares, or a combination of both. The process is also referred to as a **takeover**.
(f) **Amalgamation –** The union/ fusion of two licensed institutions.
(g) **Merger –** The fusion of two or more licensed institutions.
(h) **Transfer of assets and liabilities** – The transfer of all the assets and liabilities of the transferor institution to the receiving institution.
(i) **Partial transfer of assets and liabilities -** The transfer of limited assets and liabilities as specified in the merger / amalgamation agreement, of the transferor institution to the receiving institution.

9.1.2. Specific Requirement

A. **Application Procedures**

i All institutions intending to merge/amalgamate or transfer assets and liabilities should write to the Bank of Sierra Leone, and attach all the requirements as specified below.

ii Merging or amalgamating institutions should first seek approval from the Bank of Sierra Leone for the name under which they intend to use in case of change of name. They should then ascertain with the Registrar of Companies that the name selected is available and is appropriately reserved for their use.

iii Merging or amalgamating institutions should submit a due diligence report signed by directors of the institutions involved. The report should at a minimum contain the following: -

a) An extract of minutes of the general meeting of the shareholders of each of the institutions involved passing the resolutions to merge or amalgamate and terms and conditions of the relevant agreement. Also attach a copy of resolution of the board of directors of all the participating companies approving the proposed merger or amalgamation.

b) Latest audited accounts for all the institutions involved in the merger/amalgamation. A copy of consolidated accounts of the institutions duly certified by an independent firm of auditors as at the date of application for approval. The certified accounts should meet BSL minimum disclosure requirements.

c) Memorandum and Articles of Association of merging/ amalgamating institutions.

d) A statement of the nature and objectives of the merger/ amalgamation.

e) A copy of the proposed agreement for the merger/amalgamation.
f) Financial projections for the first three years of operation after merger/amalgamation together with respective assumptions.
g) Proposed Details of the method of valuation and the valuer.
h) Proposed organization structure of the resulting institution.
i) Proposed details of senior management (A) - as per form BSD 12-1
j) Proposed shareholding structure (B) - as per form BSD 12-2
k) Proposed board of directors (C) - as per form BSD 12-3
l) Particulars of Directors Loans* (D) - as per form BSD 12-4
m) Proposed branch network (E) - as per form BSD12-5
n) Proposed staff rationalization programme. This should take into account the following: -

    i) The management structure of the resulting institution will need to be agreed upon, properly structured and where necessary job descriptions amended.
    ii) The provisions of the trade union agreement will need to be complied with. This may require advance negotiations with the union.
    iii) In respect of non-unionized staff the accumulated leave and other benefits will need to be computed and possibly transferred to the resulting institution.
    iv) An appraisal of the staff requirements will need to be done. Recruitment of additional staff in specialized areas will need to be considered.
    v) Staff pension scheme/provident fund schemes will need to be in compliance with the relevant laws and guidelines.
    vi) Any expatriate staff on work permit will require the transfer of their work permits to the new entity.
    vii) Contracts of employment will need to be transferred to the new entity or fresh ones drawn out.

viii) Salary scales, benefits and remuneration structure will need to be carefully reviewed and harmonized to avoid any inconsistencies.
ix) Staff training programmes will need to be reviewed and consolidated.
x) New personnel policies will need to be agreed upon.

o) Anticipated tax implications of the merger.
p) Operational contingencies and marketing plan.
q) Business strategy to be adopted.
r) ICT strategy and system software to be adopted.
s) Legal due diligence covering all areas of any legal concerns that may face the resulting institution. This should include current litigations and anticipated litigation.

B. Approval Procedures

The Bank of Sierra Leone shall not approve the merger/ amalgamation or transfer unless satisfied that –

(i) The merger/amalgamation shall be in public interest.`
(ii) The business the applicant proposes to conduct is that of an institution under the Banking Act.
(iii) The merger/amalgamation will be viable.
(iv) Every person proposed as a director or an officer in the new organization complies with "Fit and Proper" criteria contained in Schedule 1 of these guidelines.
(v) In case of a transfer of assets and liabilities referred to, such transfer is to another institution or person approved by the Bank of Sierra Leone for the purpose of the transfer.
(vi) The resulting institution, or in the case of such transfer of assets and liabilities, the bank or person taking over such assets and liabilities, shall have the same rights and be subject to the same obligations as those applicable prior to the merger/amalgamation or transfer.
(vii) All agreements, appointments, transactions and documents entered into, made, drawn up or executed with, by, or in favour of any of merged/amalgamated institutions and in force immediately prior to the merger/amalgamation or transfer shall remain in force and effect and shall be construed for all purposes as if they had been entered into, made, drawn up or executed with or in favour of the resulting institution.
(viii) The resulting institution shall be in compliance with the Banking Act 2011 or any guidelines issued there under and/or other applicable statutory requirements.

9.1.3. Post Merger/Amalgamation Requirements

i. **Licenses and other approvals**

a) Banking licence in the name of the new entity will be required.
b) Likewise, all other licences and approvals will need to be obtained in the name of the new entity.
c) Membership of various trade associations and other similar bodies will have to be in the name of the new entity.
d) For rented premises, the landlord's consent may be necessary.

ii. **Banking and Finance Facilities**

a) All facilities enjoyed by the merging/amalgamating companies, including correspondent banking facilities will need to be transferred to the new entity.
b) Any hire purchase or finance leases will need to be assigned or transferred.

iii. **Maintenance of Records**

a) It is essential to ensure that the right accounting systems and procedures are in place. Expert advise may be required to ensure proper consolidation of the different accounts and systems used.
b) Books of the entity being absorbed will need to be closed.
c) Closure and/or transfer of all bank accounts, income tax file, PAYE file, and others.
d) Review/consolidation of policy and procedures manual.

iv. **Miscellaneous Requirements**

The following requirements in so far as they are applicable, will need to be attended to: -

a) *C*onsolidation of insurance.
b) Transfer of lease agreements in respect of all rented premises, including premises occupied by staff.
c) Transfer of all electricity, water and telephone accounts.
d) Transfer of credit facilities from various suppliers to the new entity.

9.2 Appointment, Duties and Responsibilities of External Auditors

This guideline applies to the appointment, duties and responsibilities of External Auditors. The term '**Auditor'** means a registered public accounting firm or a partner of a registered public accounting firm.

9.2.1 Introduction - The External Auditor's opinion lends credibility to the institution's financial statements and thereby assists in promoting confidence in the financial system. The need for Bank of Sierra Leone's approval of the External Auditor arises out of the desire to ensure that the External Auditor appointed by the institutions has achieved acceptable standards of both competence and independence to enhance the supervisory role of the Bank of Sierra

Leone. This guideline is therefore intended to assist the External Auditors to discharge their functions more effectively.

Banks shall appoint external auditors for a period of three (3) but not exceeding five years.

9.2.2 Approval of Appointment

i Approval Procedures

It is important to note that the nomination and subsequent appointment of an External Auditor by an institution is done subject to the satisfaction and approval of Bank of Sierra Leone.

ii Information Required for Application

a) The application for the approval of the External Auditor should contain the following information: -

- i) Name of the registered Auditor.
- ii) Names, qualifications and experience of each partner.
- iii) Physical and postal address of the local office. In case of an international firm, full details of the head office.
- iv) Details of the partner in charge of the institution.
- v) Name, qualifications and experience of the manager to be engaged in the audit of the institution.
- vi) Details of the External Auditor’s experience in other institutions.
- vii) Details of any existing business relationship between the partner in-charge of the audit and the institution.
- viii) Copy of the practicing certificates of each of the partners in the firm.
- ix) Any other information considered necessary in support of the application.

b) The firm should keep the Bank of Sierra Leone informed of any changes in partnerships, audit managers, disciplinary actions against the firm or its partners, etc. within 30 days of the event.

(i) **Evaluation**

a) In assessing the application, the Bank of Sierra Leone will have to be satisfied that -

- i. The External Auditor has not been granted any type of facilities in the institution.
- ii. The partners of the Auditors do not have any business association with the shareholders or directors of the institution except in public quoted companies.
- iii. The firm, its partners and employees have the capacity to conduct an audit that satisfies international financial reporting standards and international auditing standards.

iv. Where the firm or its partners have been subject to any disciplinary action by any professional body, clearance has been obtained from that body.

v. The audit fees from an institution shall not exceed 10% of the total gross income of the firm.

vi. There has been no element of misconduct in the performance of the External Auditor's duties in other firms whether in its auditing, accounting, secretarial, trustee nominee services or otherwise.

vii. The firm maintains adequate quality control measures.

b) The Bank of Sierra Leone may require verifying any information submitted by the External Auditor for the purpose of the approval.

9.2.3 Duties and Responsibilities

(i) Principal Responsibilities

Traditionally, the principal role of the External Auditor is to express an opinion as to whether: -

a) All the necessary information and explanations for the audit have been obtained.

b) Proper books of accounts have been kept and maintained by the institution.

c) The accounts dealt with in the report are in agreement with the books of accounts and are in conformity with the International Accounting Standards/IFRS.

d) The financial statements derived from the books of accounts give a "true and fair view" of the institution.

(ii) Reports to Audit Committees

Each External Auditor that performs an audit for any institution shall timely report to the audit committee of that institution: -

a) All critical accounting policies and practices used or to be used;

b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the institution, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the External Auditor; and

c) Other material written communications between the External Auditor and the management of the institution, such as any management letter or schedule of unadjusted differences.

(iii) Additional Responsibilities

In order to enhance the supervisory role of the Bank of Sierra Leone, the External Auditor may also be required to: -

a) Submit such additional information in relation to its audit as the Bank of Sierra Leone may consider necessary, from time to time.
b) Carry out any other special investigation.
c) Submit a report on any of the matters referred to in (a) and (b). The institution concerned shall remunerate the External Auditor in respect of the discharge of all or any of such additional duties.

(iv) Information to be submitted to the Bank of Sierra Leone

A. The External Auditor shall immediately report to the Bank of Sierra Leone if:
   (a) There has been a serious breach of or non-compliance with the provisions of the Banking Act 2011, guidelines or other matters prescribed by the Bank of Sierra Leone;
   (b) Any criminal offence involving fraud or dishonesty has been committed by the institution or by any of its officers or employees;
   (c) Losses have been incurred which reduce the core capital of the institution by fifty per cent (50%) or more;
   (d) Serious irregularities have occurred which may jeopardize the security of depositors or creditors of the institution; or
   (e) It is unable to confirm that the claims of the depositors and creditors of the institution are capable of being met out of the assets of the institution.

B. To submit to Bank of Sierra Leone a copy of the Interim Audit Management report.

C. The Auditor in addition is required to submit directly to Bank of Sierra Leone no later than three (3) months after the financial year end: -

   (a) A copy of the final audit management letter.
   (b) A confirmation that adequate provisions for loans and advances have been made. The external auditors must base their calculation for the required provisions for loans and advances debts as a minimum, on the prescribed reporting guidelines.
   (c) Information that indicates a material breach of the institution's own policies, Articles of Association and Memorandum of Association.

9.2.4 Corrective Measures

(i) Incoming External Auditors

An External Auditor shall not be approved to audit an institution if: -

a) The firm or its partners are involved directly or indirectly with the institution in other non-audit services including:-

i. Book-keeping or other services related to the accounting records or financial statements of the audit client;
ii. Financial information systems design and implementation;
iii. Appraisal or valuation services, fairness opinions or contribution-in-kind reports;
iv. Actuarial services;
v. Internal audit outsourcing services;
vi. Management functions or human resources (including head hunting services);
vii. Broker or dealer, investment adviser, or investment banking services;
viii. Legal services and expert services unrelated to the audit; and
ix. Any other service that the Bank of Sierra Leone may specify as impermissible.

b) The partners have any business interest in association with the shareholders or directors of the institution.

(ii) Disqualification of External Auditors

a) An approved External Auditor shall be disqualified from auditing an institution if the Auditor or its partners: -

i) Fail to comply with the guidelines and regulations issued by the Bank of Sierra Leone from time to time.
ii) Fail to furnish to the Bank of Sierra Leone details on changes of partnership, audit managers, disciplinary actions against the firm or partners or any other pertinent information.
iii) Fails to meet the approval criteria set by Bank of Sierra Leone.

b) Any other information that casts doubt on the integrity and conduct of the firm or any of its partners may also be used for purposes of disqualification.

9.2.5. Change of Registered External Auditors

No institution shall remove or change its External Auditors except with the prior written approval of the Bank of Sierra Leone. In considering the proposed change, Bank of Sierra Leone shall obtain a written representation from the outgoing Auditors.

9.3 Appointment, Duties and Responsibilities and Disqualification of Internal Auditors

9.3.1 Appointment of Internal Auditor

Internal Auditors shall be appointed in accordance with Section 30 of the Banking Act 2011. They shall hold relevant academic/professional qualification and experience in banking, finance or accounting.

9.3.2 Disqualification of Internal Auditors

An Internal Auditor shall be disqualified from holding office if he is found wanting for: -

a) Lack of requite skills to perform the job. (Professional/academic qualification) e.g. ACCA, Masters in Internal Auditing
b) Incompetence in the discharge of duties.
c) Leaking of confidential information.
d) Lack of capacity to express an independent opinion.
e) Misdemeanor, felony and conviction.

9.4 Unaddressed issues in BSL Follow-up Examination Reports

Banks shall address all outstanding issues highlighted in the BSL Follow-up Reports before the next statutory examination is conducted.

If a bank fails to comply with the above provision, the Bank of Sierra Leone shall levy penalties as provided in the Schedule of Penalties issued by the Bank of Sierra Leone or in accordance with Section 46 of the Banking Act 2011.

9.5 Repeal

The Prudential Guidelines issued in November 2010 are hereby repealed.

Bank of Sierra Leone
November 2012