ANNUAL REPORT
AND
STATEMENT OF ACCOUNTS
For the year ended 31st of December 2017

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ABBREVIATIONS

AfDB	African Development Bank
BIS	Bank for International Settlement
BOP	Balance of Payments
BSL	Bank of Sierra Leone
CFC	Customers Foreign Currency
CIF	Cost, Insurance and Freight
CPI	Consumer Price Index
ECOWAS	Economic Community of West African States
EMSL	Eclipse Microfinance Sierra Leone
GDP	Gross Domestic Product
GFER	Gross Foreign Exchange Reserves
GoSL	Government of Sierra Leone
GW/hr	Giga-Watts per Hour
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFAD	International Fund for Agriculture Development
IMF	International Monetary Fund
M2	Broad Money
MER	Monthly Economic Review
MFI	Microfinance Institutions
MoFED	Ministry of Finance and Economic Development
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NMA	National Minerals Agency
ODC	Other Depository Corporation
OFID	OPEC Fund for International Development
OIN	Other Items Net
OPEC	Organization of the Petroleum Exporting Countries
PTMO	Precious Minerals Trading Office
RM	Reserve Money
SDF	Standing Deposit Facility
SLF	Standing Lending Facility
SSA	Sub-Saharan Africa
WAIFEM	West African Institute for Financial and Economic Management
WB	World Bank
WTI	West Texas Intermediate

REGISTERED ADDRESS

Registered Office:	30 Siaka Stevens Street, Freetown
Solicitors:	Yada Williams & Associates
Secretary to the Board:	Ms Hawa Kallon
Auditors	Office of the Auditor General Lotto house Tower hill Freetown
Delegated Auidtors:	BDO Regent House 12 Wilberforce Street Freetown

FOREWORD BY THE GOVERNOR

The year 2017 was a challenging year as some of the economic gains realized in 2016 were reversed against the background of slowdown in iron ore mining operations, supply side constrains and fiscal challenges. Reflecting the above challenges, real GDP growth was estimated at 3.8 per cent in 2017, compared with a growth rate of 6.3 per cent in 2016. The slowdown in growth observed in 2017, was necessitated by the contraction in iron ore production, driven mainly by transportation difficulties, coupled with the fall in the prices of iron ore, which continued to weigh down investment in the iron ore mining sector.

The conduct of monetary policy in 2017 was aimed at achieving an end year inflation target of 15.0 per cent, ensuring adequate provision of credit to meet private sector needs, maintaining stability of the exchange rate and keeping gross international reserves at a level equivalent to at least three months of imports of goods and services.

Monetary policy implementation was faced with a number of challenges, which included fiscal dominance, supply-side shocks, depreciation of the Leone and external shocks. These challenges exerted significant pressure on domestic prices thereby limiting the Bank's attainment of the end year inflation target. In response to the inflationary pressure, the Bank of Sierra Leone adopted a tight monetary policy stance in 2017, with the Monetary Policy Rate (MPR) being raised cumulatively by 350 basis points to 14.5 per cent in December 2017 from 11 per cent in December 2016. The objective was to reign in the second round effect of the supply-side induced inflationary pressures, and anchor medium to long term inflation expectations to levels consistent with the Bank's inflation target. The maintenance of the tight monetary policy stance contributed in part to the downward trend in inflation observed after the first quarter of 2017.

External sector performance improved in 2017, as reflected in the significant improvement in the overall balance of payment position. However, the gross foreign exchange reserves declined marginally to USD500.80mn from USD503.79mn in 2016, but was sufficient to cover 3.5 months of imports.

During the review period, the Bank continued to enhance its supervisory oversight of the financial system with the objective of maintaining financial stability. The banking sector continued to demonstrate resilience, as all commercial banks remained adequately capitalised, liquid and profitable. The asset quality of the commercial banks, as measured by the NPL to gross loans improved significantly to 14.64 per cent in 2017 from 22.65 per cent in 2016, but was above the tolerable limit of 10 per cent.

In 2017, the BSL also embarked on wide ranging reforms aimed at improving the Bank's operations and policy processes to tackle emerging risks and keep pace with recent developments in central banking issues across the globe. It was against this background that the Bank updated its strategic plan for 2014 - 2019 and launched a three-year strategic plan 2018 - 2020. In a bid to strengthen both the independence and accountability of the BSL, and broaden the mandate of the Bank to include a financial stability function, the Bank initiated the review of the BSL and the Banking Act in line with international and regional best practices.

The Bank continued to support the government's inclusive growth agenda through the continued rollout of its financial inclusion strategy. In collaboration with development partners the Bank during the review year launched the country's first FinTech challenge, aimed at promoting financial innovation and local FinTech entrepreneurs in the financial inclusion space.

In conclusion, I wish to extend my appreciation to the Board of Directors of the Bank of Sierra Leone for their support during the year. I am also indebted to all stakeholders for the various roles they have continued to play in our combined efforts to stabilize the economy. I would also like to express my gratitude to management and staff for their immense contributions in pursuit of BSL's objectives.

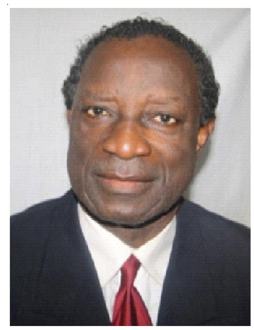
Patrick Saidu Conteh (Dr.)
Governor

Board of Directors as at 31st December 2017

Dr. Patrick S. Conteh
Governor and Chairman of the Board

Dr. Ibrahim L. Stevens
Deputy Governor
Member

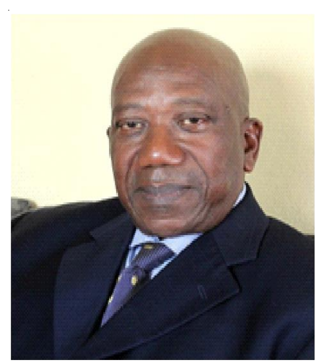
Mr. S. N. Dumbuya
Member



PC Mohamed D. Benya V
Member

Mr. Winstanley Bankole Johnson
Member

Mrs. Rosaline Y. Fadika
Member



Dr. Richard C. M'Bayo
Member

MANAGEMENT OF THE BANK AS AT 31ST DECEMBER 2017

Dr. Patrick S. Conteh
Governor

Dr. Ibrahim L. Stevens
Deputy Governor

Mr. Ibrahim K. Lamin
Director, RES
Governor's Office

Mr. Tapsiru L. Dainkeh
Senior Director, FSS
Governor's Office

Mr. Abu Bakarr Jalloh
Director, Special Assignment
Governor's Office

Mrs Hannifa Addai
Director, Banking
Supervision Department

Ms. Jenneh Jabati
Director, General
Services Department

Mr. Ralph Ansumana
Director, Banking

Mr. Richard J D Sowa
Director, Secretary's

Mrs. Mary May Kargbo
Director, Special

Mr. Abdul Aziz Sowe
Director
Finance Department

Mr. Abdul Bundu
Acting Director
Internal Audit Department

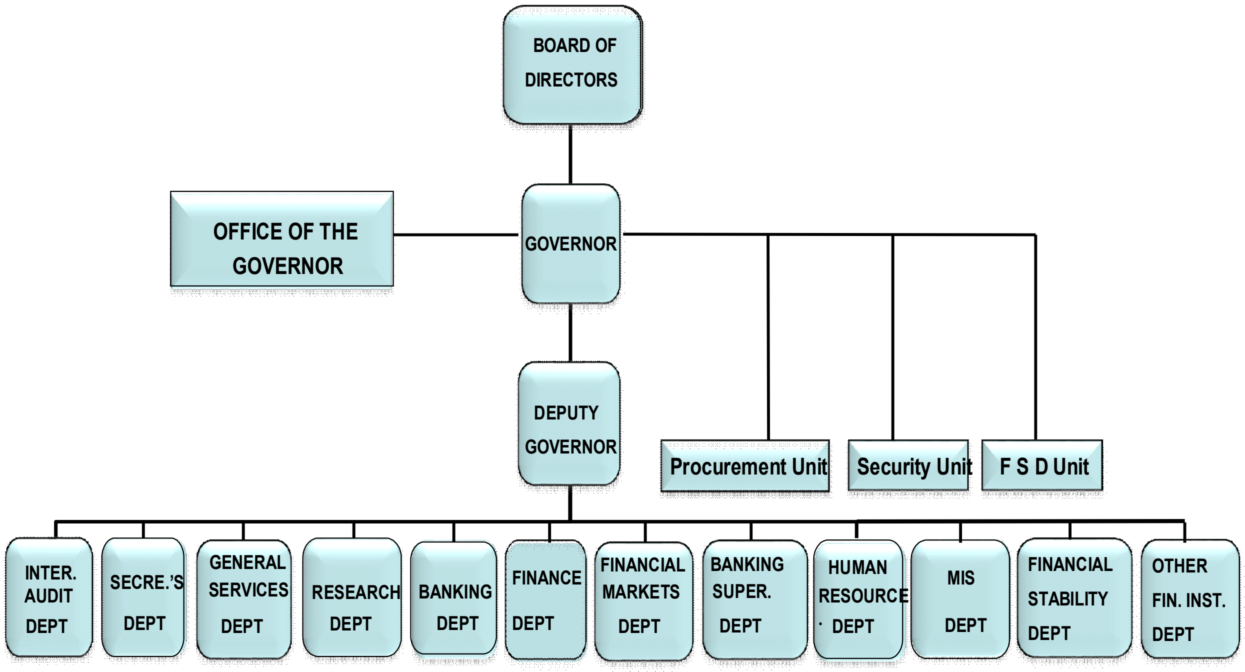
Ms. Hawa E. Kallon
Acting Director
Human Resources Department

Mr. Gibao Flee
Acting Director
Financial Markets Department

Mr. Morlai Bangura
Acting Director
Research

Ms. Fatima Mansaray
Acting Director
Management Information Systems Department

BANK OF SIERRA LEONE
ORGANIZATIONAL STRUCTURE - 2017



VISION STATEMENT

To create a modern, effective and dynamic Central Bank that serves the overall financial, growth and development requirements of Sierra Leone

MISSION STATEMENT

To formulate and implement monetary and supervisory policies to foster a sound economic and financial environment.

OBJECTIVES AND FUNCTIONS OF THE BANK

(1) The main objective of the Bank as specified in Section 4 of the Bank of Sierra Leone Act 2011, is to achieve and maintain price stability.

(2) Without prejudice to subsection (1) the Bank shall:

(a) Formulate and implement monetary policy, financial regulation and prudential standards;

(b) Act as banker, adviser and fiscal agent of the Government;

(c) Formulate and implement the foreign exchange policy of Sierra Leone;

(d) Conduct foreign-exchange operations;

(e) Own, hold and maintain the official international reserves including the reserves of gold;

(f) Issue and manage the currency of Sierra Leone;

(g) Establish, promote, license and oversee sound and efficient payment and securities settlement systems;

(h) License, register, regulate and supervise financial institutions as specified in this Act or any other enactment;

(i) Act as a depository for funds from international organizations.

1. GOVERNANCE

1.1 The Board of Directors

The Bank of Sierra Leone (BSL) Act 2011 provides for a Board of Directors which shall consist of the Governor as the Chairman, the Deputy Governor and five Non-Executive Directors, all of whom shall be appointed by the President subject to approval by Parliament.

The Governor and the Deputy Governor shall each be appointed for a term of five years and shall be eligible for reappointment for another term only.

The Directors of the Board, who shall be persons with experience in economics, finance, banking, accounting and law, shall hold office for a term of three years and shall be eligible for reappointment for another term only.

As at end December 2017, the Board comprised the following:

Dr Patrick S. Conteh	-	Governor (Appointed 17th July, 2017)
Dr Ibrahim L Stevens	-	Deputy Governor (Appointed 24th July, 2014)
PC Mohamed D Benya V	-	Reappointed 3rd June, 2017
Mrs Rosaline Y Fadika	-	Reappointed 3rd June, 2017
Dr Ritchard T M'bayo	-	Reappointed 12th June, 2017
Mr Winstanley R. B. Johnson	-	Appointed 19th April, 2016
Mr David Bertin	-	Appointed 1st December, 2017

1.1.1 Functions of the Board of Directors

According to Section 17 of the Bank of Sierra Leone Act 2011, the functions of the Board are:

a) determine the organization of the Bank, including the establishment and location of branches, representative offices and operations facilities;

b) determine the general policies and adopt internal rules applicable to the administration and operations of the Bank;

c) approve the annual budget of the Bank;

d) approve the audited accounts, annual reports and other formal reports and financial statements of the Bank;

e) determine denomination and design of banknotes, coins and their issuance and handling;

f) appoint committees consisting of members of the Board or members of the Bank's staff and determine their responsibilities;

g) assess risks and formulate contingency plans for the on-going operations and security of the Bank;

h) adopt the rules of procedure for meetings of the Board;

i) exercise all powers that are not specifically reserved for the Governor; and

j) Perform other functions prescribed by the Act.

	Board Meetings held in 2017		Dates
1.	Emergency Meeting	-	Tuesday, 7th March, 2017
2.	Emergency Meeting	-	Wednesday, 22nd March, 2017
3.	498th Board Meeting	-	Monday 5th June, 2017
4.	498th Board Meeting (Continued)	-	Tuesday 6th June, 2017
5.	498th Board Meeting (Continued)	-	Tuesday 20th Iune, 2017
6.	499th Board Meeting	-	Tuesday 22nd August, 2017
7.	500th Board Meeting	-	Thursday 9th November, 2017
8.	Emergency Meeting	-	Friday 1st December, 2017

Audit Committee Meetings in 2017

1. 20th January, 2017
2. 10th February, 2017
3. 24th April, 2017
4. 22nd June, 2017
5. 31st August, 2017
6. 8th December, 2017

1.2 The Monetary Policy Committee

The BSL Act 2011, grants the Bank operational independence in the conduct of its monetary policy. In this regard, the Act provides for the establishment of a Monetary Policy Committee (MPC), comprising the Governor, the Deputy Governor, three members appointed by the Governor and two members appointed by the Minister of Finance and Economic Development.

The MPC formulates and determines the monetary policy stance through adjustment in the monetary policy rate. The decisions of the MPC are based on an assessment of international and domestic economic developments and their potential impact on the outlook for inflation for Sierra Leone.

The MPC meets on a quarterly basis and held four meetings in 2017. The decisions on the monetary policy stance is communicated through a monetary policy statement, which is published on the Bank's website and local newspapers, 48 hours after the MPC meetings.

As at end December 2017, the MPC comprised:

- Dr Patrick Saidu Conteh, Governor, Bank of Sierra Leone;
- Dr Ibrahim L Stevens, Deputy Governor, Bank of Sierra Leone;
- Mr Edmund Koroma, Financial Secretary, Ministry of Finance and Economic Development;
- Mr Ibrahim K Lamin, Senior Director, Governor's Office, Bank of Sierra Leone.
- Mr. Morlai Bangura, Acting Director, Research Department, Bank of Sierra Leone

2. DEVELOPMENTS IN THE GLOBAL ECONOMY

2.1 Global Output Growth

Global output growth surged to 3.6 per cent in 2017, from 3.2 per cent in 2016. Growth in advanced economies increased to 2.2 per cent from 1.7 per cent in the preceding period; while growth in Emerging Market and Developing Economies edged up to 4.6 per cent from 4.3 per cent in 2016. Performance in Sub-Saharan Africa (SSA) also improved considerably in 2017, with a growth estimate of 2.6 per cent against the growth of 1.4 per cent in 2016 (IMF WEO, October 2017). Economic recovery in the United States returned to normal in 2017, with output growth estimated at 2.2 per cent against 1.5 per cent in 2016. Similarly, growths in the Euro Area and Japan rose to 2.1 and 1.5 per cent in 2017, from 1.8 per cent and 1.0 per cent in 2016 respectively.

Brazil and Russia recovered from economic recession in 2017, growing by 0.7 and 1.8 per cents from the contractions of 3.6 and 0.2 per cents in 2016 respectively. In China, output growth edged up to 6.8 per cent in 2017 from 6.7 per cent in 2016, driven by policy easing and supply-side reforms. However, growth in India dropped to 6.7 per cent in 2017 from 7.1 per cent in 2016 due to persistent disturbances related to the currency exchange initiative introduced in November 2016.

The Nigerian economy recovered from recession in 2017 recording a growth rate of 0.8 per cent compared to the contraction of 1.6 per cent in 2016. Growth in South Africa also increased to 0.7 per cent in 2017 from 0.3 per cent in 2016 following improvements in commodity export prices and strong agricultural output. In Sierra Leone Economic growth is estimated at 3.8 per cent in 2017 relative to the 6.3 per cent in 2016.

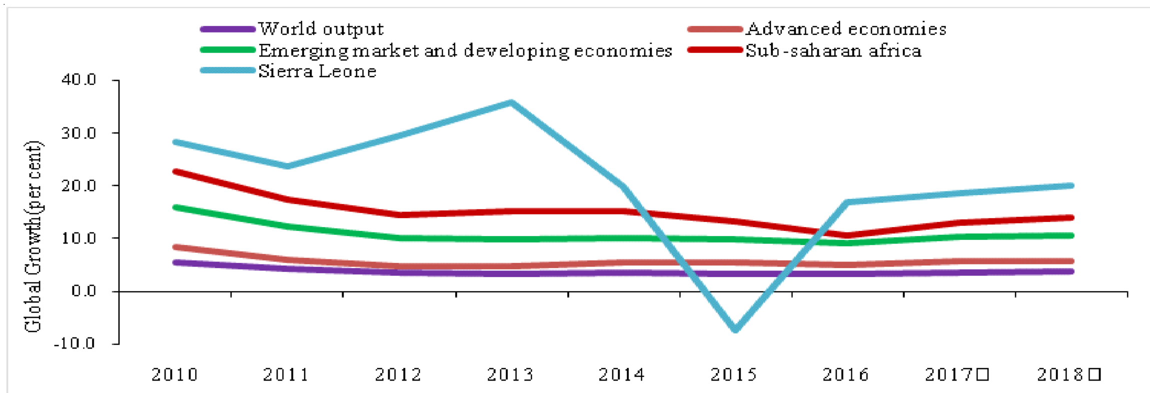
Table 1: Global Growth

	2010	2011	2012	2013	2014	2015	2016	2017[e]	2018[f]
World Output	5.4	4.2	3.5	3.4	3.5	3.4	3.2	3.6	3.7
Advanced Economies	3.1	1.7	1.2	1.3	2.0	2.1	1.7	2.2	2.0
United States	2.5	1.6	2.2	1.7	2.4	2.6	1.5	2.2	2.3
Euro Area	2.1	1.5	-0.9	-0.3	1.2	2.0	1.8	2.1	1.9
Japan	4.2	-0.1	1.5	2.0	0.3	1.1	1.0	1.5	0.7
EMDEs	7.4	6.3	5.4	5.1	4.7	4.3	4.3	4.6	4.9
Brazil	7.5	4.0	1.9	3.0	0.5	-3.8	-3.6	0.7	1.5
Russia	4.5	4.0	3.5	1.3	0.7	-2.8	-0.2	1.8	1.6
India	10.3	6.6	5.5	6.5	7.2	8.0	7.1	6.7	7.4
China	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.8	6.5
Sub-Saharan Africa	7.0	5.0	4.3	5.3	5.1	3.4	1.4	2.6	3.4
Nigeria	11.3	4.9	4.3	5.4	6.3	2.7	-1.6	0.8	1.9
South Africa	3.0	3.3	2.2	2.5	1.7	1.3	0.3	0.7	1.1
Sierra Leone	5.3	6.3	15.2	20.7	4.6	-20.5	6.3	5.6	6.1

e =Estimate; f =Forecast

Source: World Economic Outlook, October, 2017

Figure 1: Global Growth



Source: World Economic Outlook, October 2017

2.2 Global Inflation

Global consumer price inflation rose to 3.1 per cent in 2017 from 2.8 per cent in 2016 driven by stronger energy prices and inflation expectations in advanced economies, as they adopt accommodative monetary policies. In Advanced Economies, inflation increased to 1.7 per cent in 2017 from 0.8 per cent in 2016. Conversely, inflation rate in Emerging Markets and Developing Economies (EMDE) dropped to 4.2 per cent in 2017 from 4.3 per cent in 2016. On the back of exchange rate stabilization, inflation rate in Sub-Saharan Africa dropped to 11.0 per cent against the 11.3 per cent in 2016, while Sierra Leone's inflation dropped to 16.26 per cent compared to the rate of 17.4 per cent in 2016. Global inflation is expected to rise to 3.3 per cent as domestic demand and energy prices continue to strengthen (Table 2).

Table 2: Global Inflation

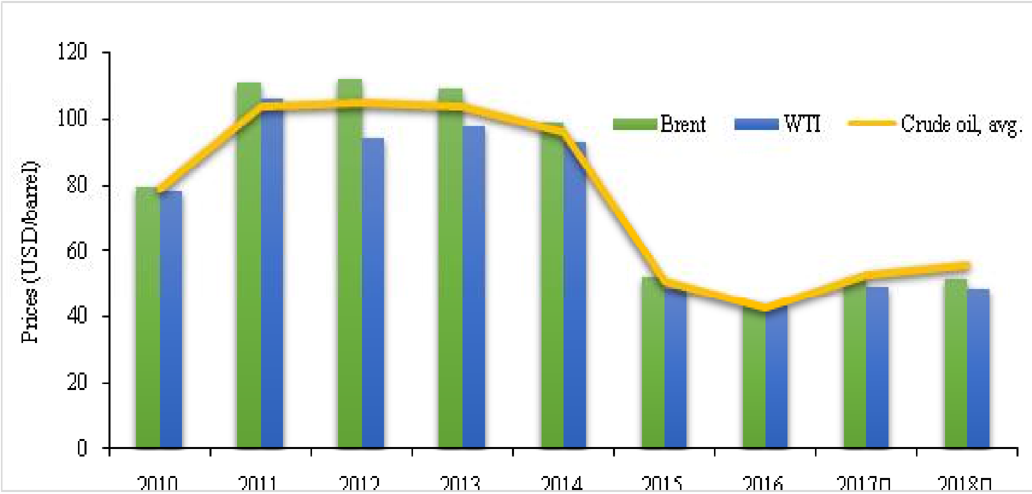
Consumer Price Inflation	2010	2011	2012	2013	2014	2015	2016	2017e	2018f
Global Inflation	3.7	5.0	4.1	3.7	3.2	2.8	2.8	3.1	3.3
Advance Economies	1.5	2.7	2.0	1.4	1.4	0.3	0.8	1.7	1.7
EMDEs	5.6	7.1	5.8	5.5	4.7	4.7	4.3	4.2	4.4
Sub-Saharan Africa	8.1	9.4	9.3	6.6	6.3	7.0	11.3	11.0	9.5
Sierra Leone	17.8	16.6	6.2	5.4	4.6	8.4	17.4	15.3	9.5
e =Estimate; f =Forecast									

Source: World EconomicOutlook, October, 2017

2.3 Global Commodity Prices

After consistently falling for the past four years, crude oil average price rose by 23.8 per cent to USD53/barrel in 2017, from USD42.8/barrel in 2016. The prices of both Brent and West Texas Intermediate (WTI) increased to USD51/barrel and USD49/barrel in 2017 relative to the USD44 and USD43 per barrel in 2016 respectively. This rise in crude oil prices was associated to strong demand, falling inventories and greater compliance by OPEC and non-OPEC producers with production targets that began in January 2017. The average price of Crude oil was projected to rise up to USD56/barrel in 2018 subject to expected strong demand and restraint in OPEC and non-OPEC production (Figure 2)

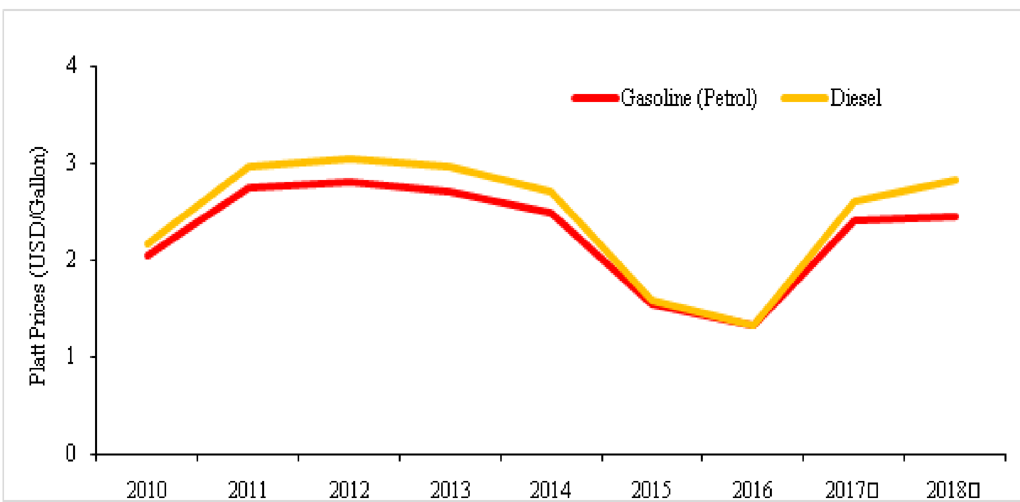
Figure 2: Crude Oil Prices (USD/barrel)



f = Forecast; Source: World Bank Commodity Market Outlook, October 2017

Platt prices of petroleum products - Petrol and Diesel - rose to USD2.40/gallon and 2.60/gallon in 2017 from USD1.33/gallon and USD1.32/gallon in 2016, respectively. Prices are forecast to increase marginally to USD2.45/gallon and USD2.83/gallon in 2018 respectively. (Figure 3)

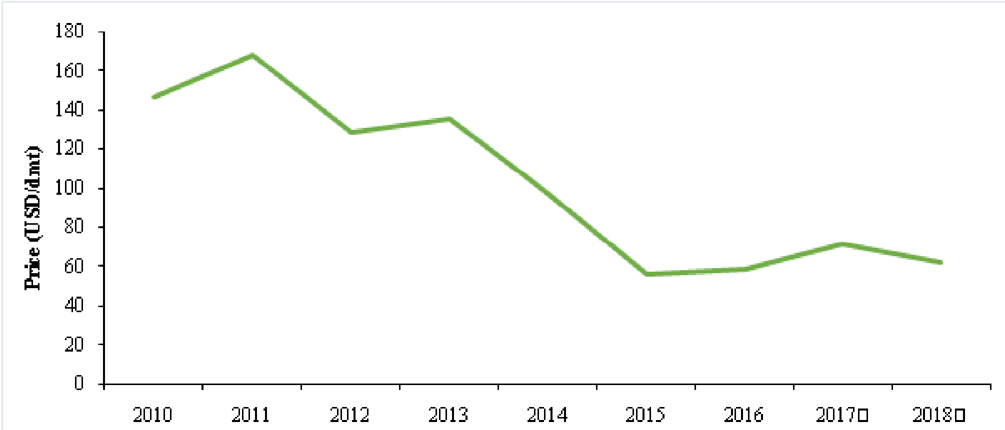
Figure 3: Platt Prices (USD/gallon)



Source: U.S. Energy Information Admin, October 2017

Following the strong demand coming from China's infrastructure and manufacturing sectors, iron ore price strengthened significantly in 2017 selling at USD71.69/dmt against USD58.57/dmt in 2016. However, the price has been forecast to drop to USD57/dmt in 2018, predicated on changing demand and supply dynamics in the market (Figure 4).

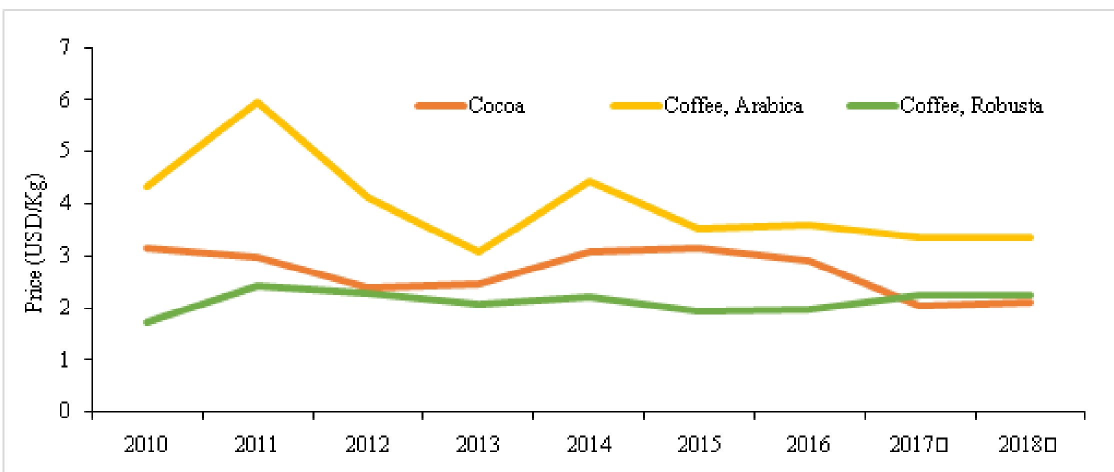
Figure 4: Iron Ore Price (USD/dmt)



***f*=Forecast; Source: World Bank Commodity Market Outlook, October 2017**

Cocoa and Arabica coffee prices dropped in 2017 to USD2.05/kg and USD3.35/kg compared to the prices of USD2.89/kg and USD3.61/kg in 2016, respectively; while the price for Robusta coffee surged to USD2.23/kg above the USD1.95/kg in 2016. This mixed development was largely due to market fluctuations. Notwithstanding, prices are projected to stabilize in 2018 contingent on market normalization (Figure 5).

Figure 5: Cocoa and Coffee Prices (USD/kg)



Source: Commodity Market Outlook, October 2017

2.4 Implications for the Sierra Leone Economy

The improved global economic performance in 2017 had some spillover on demand for Sierra Leone's commodities, as reflected in the significant improvements in export receipts, which supported the stability in the exchange rate. However, the uptick in energy prices exerted pressures on the import bill, thereby worsening the overall trade deficit in 2017.

The surge in iron ore prices if sustained could support investment in the iron ore sector and boost the country's export receipts in the medium to long term.

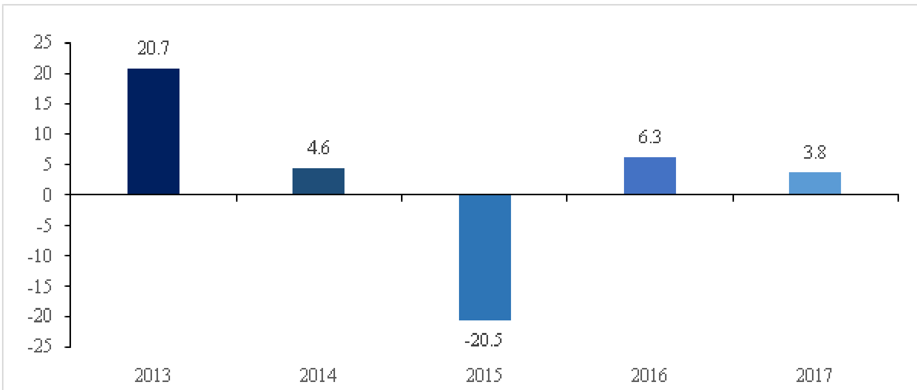
3. DOMESTIC ECONOMIC DEVELOPMENTS

3.1 REAL SECTOR

3.1.1 Economic Growth

After recording a strong growth of 6.3 percent in 2016, the pace of domestic economic activity slowed down to 3.8 percent in 2017. The growth slowdown was mainly on account of contraction in iron ore production, from a projection of 9 million metric tons to an outturn of 6.5 million metric tons in 2017. This development reflected transportation difficulties coupled with the fall in the price of iron ore which continued to weigh down investment in the iron ore mining sector.

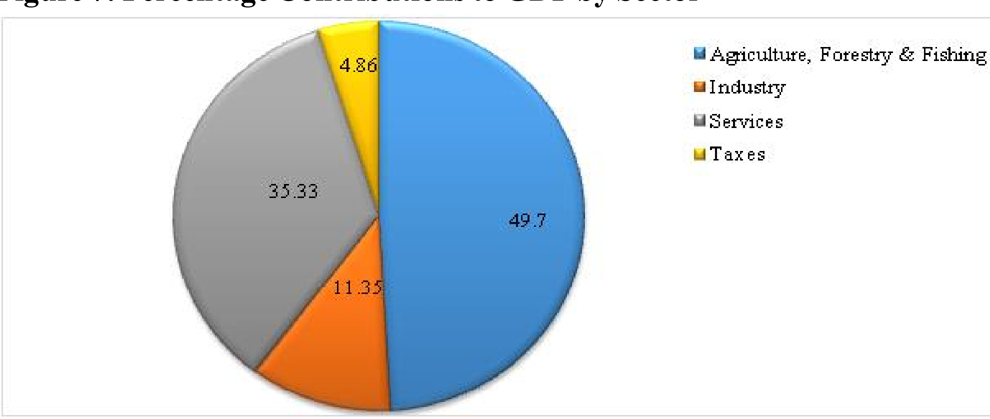
Figure 6: Real GDP Growth



Source: Statistics Sierra Leone

Real growth rates by sector in 2017 showed that, the industry sector grew by 14.05 per cent (from 27.4 per cent in 2016), services sector growth was 4.97 per cent (from 4.99 per cent in 2016) and agriculture sector growth was 4.81 per cent (from 3.84 per cent in 2016). Growth in the industrial sector was driven mainly by iron ore mining; services sector growth was driven by trade & tourism; while agriculture growth was related to crops, mainly rice. In terms of contribution to GDP, agriculture contributed 49.94 per cent, industry accounted for 10.94 per cent and services sector contributed 35.93 per cent.

Figure 7: Percentage Contributions to GDP by Sector



Source: Statistics Sierra Leone

Agriculture

To promote government's diversification programme in agriculture, Le 63.3 billion was allocated to the Ministry of Agriculture, Forestry and Food Security, of which, Le 48.6 billion was for the Food Security Programme and the fisheries sector. Development partners including IFAD, IDB, World Bank and JICA, committed Le260.1 billion to support various agricultural projects, aimed at increasing the production of food crops, export of cash crops and promoting value-addition activities.

Manufacturing

The performance in the manufacturing sector posted improvements during 2017. Production increases were experienced in beer and stout, acetylene, oxygen, soft drinks and paints, due to increased demand for the products against the background of available raw material inputs. Beer & stout production grew by 73.75 per cent to 1,250.34 thousand cartons, acetylene and oxygen rose by 7.36 per cent to 240.59 thousand cubic feet and by 9.21 per cent to 480.39 thousand cubic feet respectively, soft drinks increased by 12.55 per cent to 949.47 thousand crates, while paint production expanded by 350.13 per cent to 1,042.54 thousand gallons.

On the other hand, production declines were recorded for maltina, confectionary, and common soap, explained by demand and supply dynamics. Maltina production fell by 3.46 per cent to 298.87 thousand cartons, confectionary slowed by 3.35 per cent to 2,912.97 thousand pounds, and common soap decreased by 4.70 per cent to 416.13 thousand metric tons.

Construction

Activities in the construction sector, proxied by cement and paint production recorded mixed trends during the year. Paint production increased by 350.13 per cent to 1,042.54 thousand gallons while cement production declined by 27.74 per cent to 228.37 thousand metric tons.

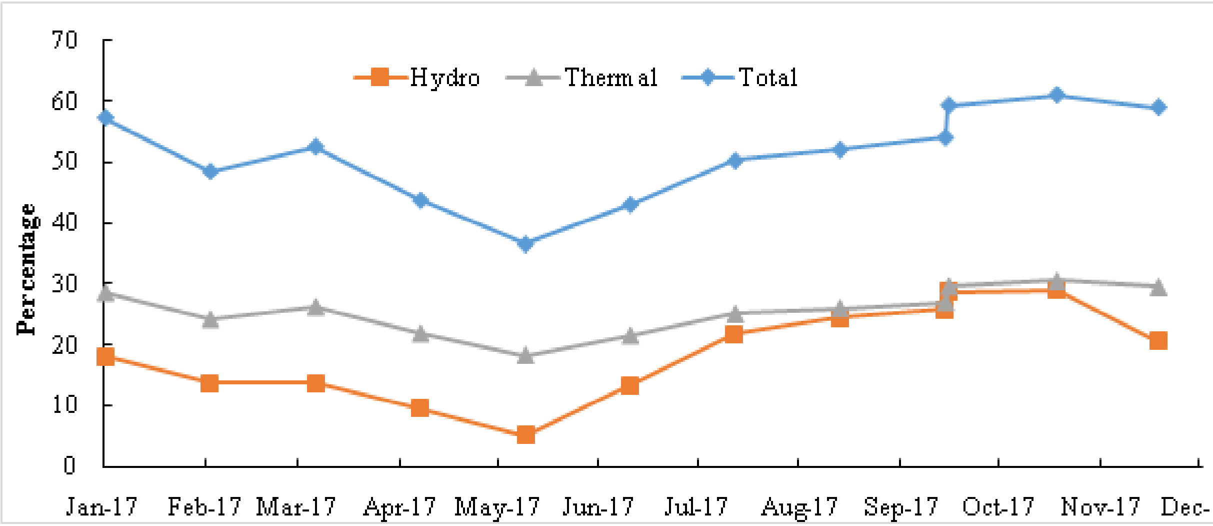
Mining

Production in the mining sector experienced low performance during the year, with diamond, gold, zircom and iron ore recording low output, while bauxite, rutile and ilmenite recording increases. Diamond production dropped by 47.51 per cent to 288.24 thousand carats, comprising 122.38 thousand carats of industrial diamond and 165.86 thousand carats of gem diamond. Gold production decreased by 24.32 per cent to 4.57 thousand ounce, Zircom production fell by 32.36 per cent to 0.90 thousand metric tons and Iron ore production dropped by 14.91 per cent to 5,255.10 thousand metric tons. In contrast, bauxite production grew by 22.85 per cent to 1,756.26 thousand metric tons, rutile increased by 32.36 per cent to 168.10 thousand metric tons, and ilmenite production went up by 96.42 per cent to 55.20 thousand metric tons.

Electricity Generation

In a bid to support the energy sector, the government allocated Le173.0 billion from the domestic capital budget, of which Le 128.0 billion was to support the rural electrification programme in 2017, while Le 42.30 billion was allocated to rebuild and improve the distribution network. Total electricity generated in 2017 increased by 5.06 per cent to 308.99Gw/hr, and comprised of 72.5 per cent hydro power generation and 27.5 per cent thermal plant generation. The increase in the overall generation was on account of improved generation from both hydro power and thermal. Hydro power generation grew by 2.7 per cent to 223.92Gw/hr while thermal plant generation rose by 11.8 per cent to 85.07Gw/hr.

Figure 8: Total Electricity Generation (2017)



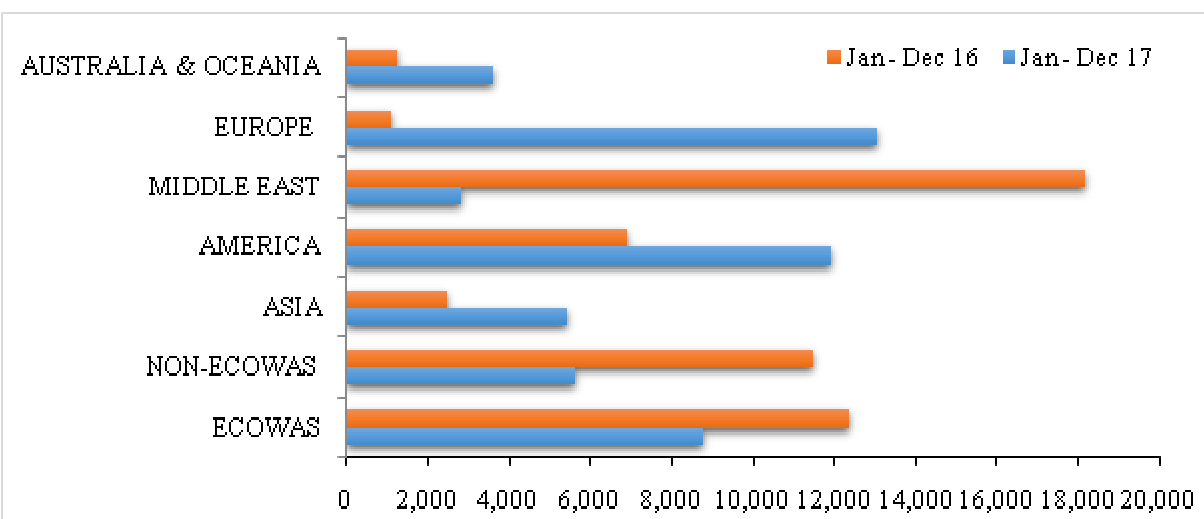
Source: Bank of Sierra Leone

Of the hydro power generation, Bumbuna plant accounted for 93.2 per cent, while Goma contributed only 6.8 per cent of the generation for the year. Of the thermal plant generation, Freetown plants contributed 78.7 per cent while the provincial plants accounted for 21.3 per cent.

Tourism

Development in the tourism sector, proxied by visitors' arrival, declined in 2017 compared to 2016. Overall tourist arrivals in 2017 decreased by 5 per cent to 51,139 from 23,713 in 2016. Of the total arrivals, 5.5 per cent were from the Middle East, 17.1 per cent were from ECOWAS, 11 per cent from Non-ECOWAS, 23.3 per cent from America, 10.6 per cent from Asia, 25.5 per cent from Europe, and 7 per cent from Australia.

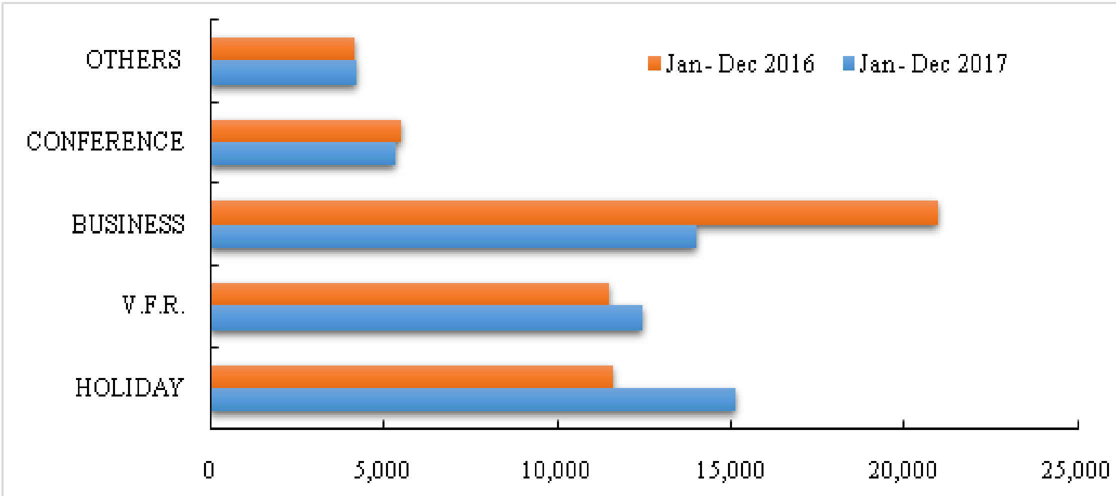
Figure 9: Tourists Arrival by Place of Residence



Source: National Tourist Board

In terms of purpose of visit, 29.59 per cent were on holiday, 27.38 per cent on business, 8.27 per cent on other purposes, 24.35 per cent on visit to friends, and 10.41 per cent on conferences.

Figure 10: Tourists Arrival by Purpose

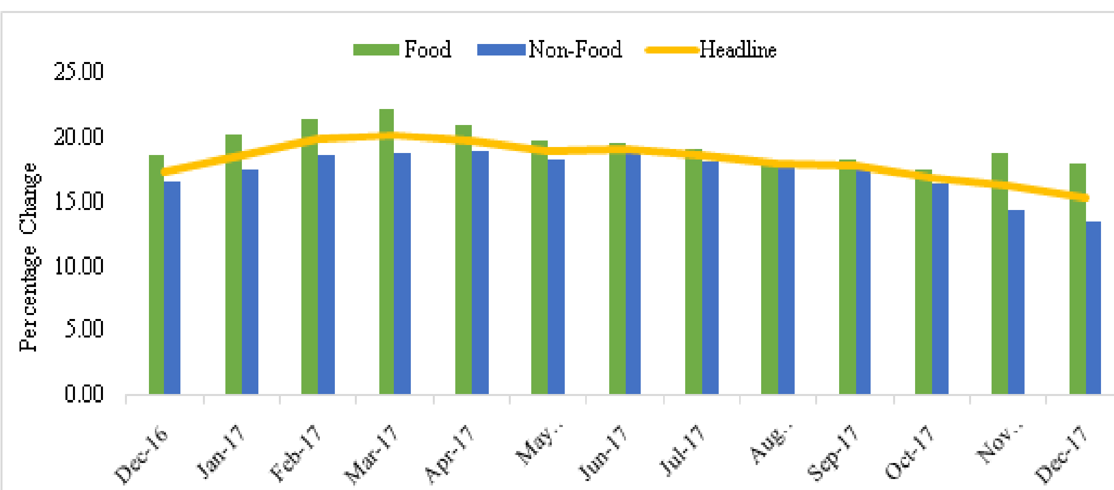


Source: National Tourist Board

3.1.2 Price Developments

In 2017, inflationary pressures persisted, with annual headline inflation reaching a peak of 20.22 per cent in March 2017, before moderating to 15.33 per cent in December 2017 from 17.41 per cent at the end of 2016. The outturn in domestic prices were reflected in both food and non-food prices. Food inflation decreased to 17.93 per cent at end 2017 from 18.63 per cent at end 2016. Non-food inflation also declined to 13.45 per cent at end 2017 from 16.54 per cent at end 2016. This development in inflation was a reflection of the relative stability of the exchange rate in the review year.

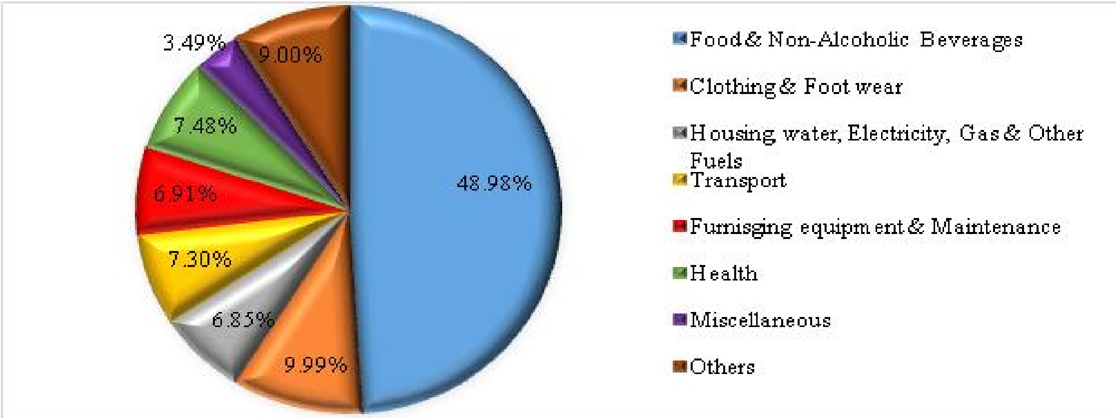
Figure 11: Headline, Food & Non-Food Inflation (year-on-year, per cent)



Source: Statistics Sierra Leone

In terms of analysis by source components, the main items contributing to the overall inflation at end 2017 were food and non-alcoholic beverages, clothing & foot wear, and others. Revolutionize

Figure 12: Percentage contributions to total inflation Dec-2017



Source: MoFED, Sierra Leone

3.2 PUBLIC FINANCE

3.2.1 Government Budgetary Operations

Government fiscal operations in 2017 resulted in an overall deficit (including grants) of Le1, 672.34bn (6.10 per cent of GDP) which was lower than the projected target of Le2, 471.01bn (9.02 per cent of GDP) but was higher than the deficit of Le1, 248.51bn (5.33 per cent of GDP) in 2016. The decline in the overall deficit was due to the combined effects of a growth in revenue mobilization which outweighed the expansion of government expenditure. Fiscal deficit (excluding grants) amounted to Le 2,327.88bn (8.50 per cent of GDP) compared to Le2, 349.22bn (10.03 per cent of GDP) in 2016 reflecting a 0.91 per cent decline; this amount breached the budgeted target of Le2, 886.49bn (10.53% of GDP) by 19.34 per cent.

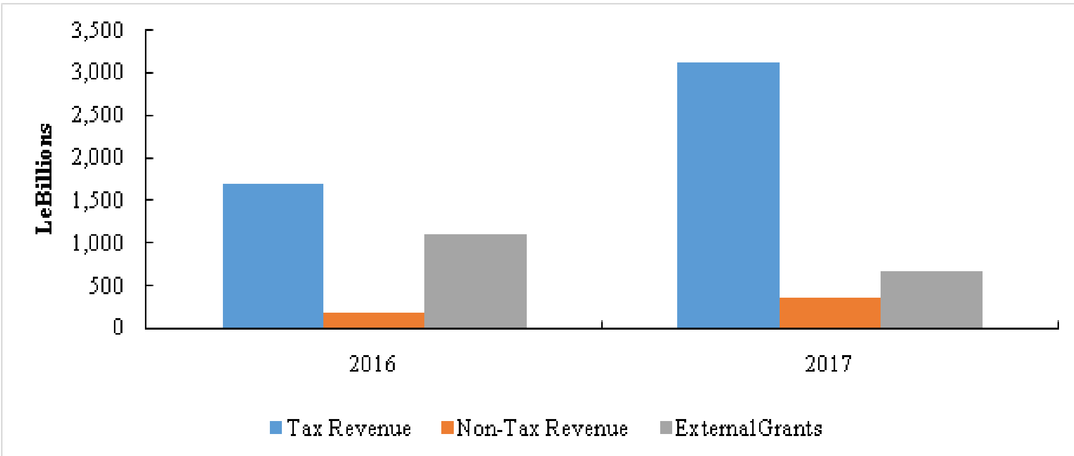
Figure 13: Government Budgetary Operations for 2015-2017

Source: MoFED, Sierra Leone

3.2.2 Government Revenues

Total government revenue (including grants) significantly increased by 40.04 per cent to Le4, 285.18bn (15.64 per cent of GDP), but was lower than the projected estimate of LeLe4, 554.34bn by 5.91 per cent. The improved performance of total revenues collected was largely attributable to higher receipts collected from both the domestic front and grants disbursed during the review period.

Figure 14: Trends in Government Revenues 2016-2017



Source: MoFED, Sierra Leone

Tax revenue grew to the tune of Le3, 119.23bn (11.60 per cent of GDP) reflecting an expansion of 84.96 per cent and was below the projected target of Le3, 154.55bn by 1.12 per cent. Tax revenue during the period accounted for 72.82 per cent of total revenue and grants compared to 55.11 per cent in 2016 this comprises of augmentation revenue collection from Income tax, Customs and Excise and Goods and Services Tax (GST).

Customs and Excise receipts significantly increased by 107.66 per cent to Le911.75bn (3.39 per cent of GDP) and was below than budgeted target of Le1, 025.24bn by 11.07 per cent. This expansion was on account of increases in receipts from freight levy from marine administration by 8,743.95 per cent to Le43.87bn, excise duties by 99.86 per cent to Le391.05bn and import taxes by 99.45 per cent to Le452.28bn.

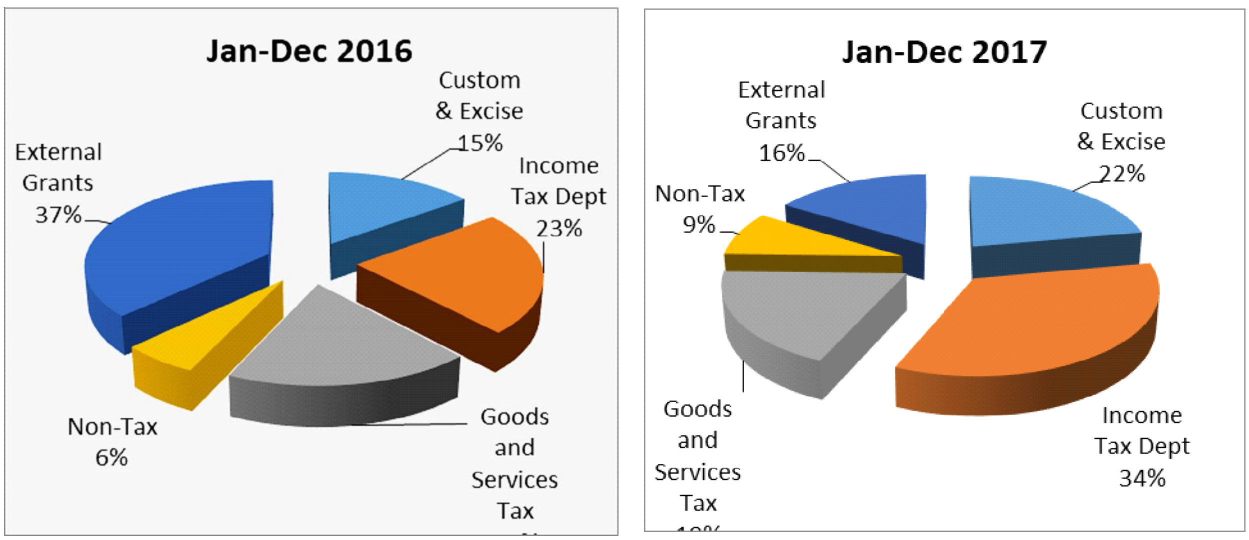
Income Tax collections grew by 11.36 per cent to Le1, 425.bn (5.30 per cent of GDP) and overshot the Le1, 280.16bn target by 11.36 per cent. The increase in income tax earnings was driven by the significant growth in personal income tax by 147.00 per cent to Le1, 131.33bn which recorded a revenue surplus of Le242.33bn when compared to the budgeted figure of Le889.00bn by 27.26 per cent. While, company tax receipts grew by 26.84 per cent to Le288.92bn but was lower than the projected target of Le379.12bn by 23.79 per cent.

Goods and Services Tax revenue improved by 7.92 per cent to Le781.93bn (2.91 per cent of GDP), but was slightly below the programmed target of Le849.15bn by 40.64 per cent. The growth in GST resulted from increase in import GST by 23.69 per cent to Le401.42bn and domestic GST went up by 64.41 per cent to Le380.51bn. Nonetheless, both import GST and domestic GST were below the estimated target by 12.93 per cent and 1.96 per cent respectively.

The improved performance of tax revenue is attributed also to the amendments of the Finance bill 2017 which includes: the Income Tax Act 2000; the Goods and Services Tax Act 2009; the Excise Act 1982; the Customs Act 2011; the Customs Tariff Act 1987; and the Payroll Act 1972.

Non-tax revenue significantly increased significantly to Le356.19bn (1.33 per cent of GDP) but 26.48 per cent lower than the projected target of Le484.49bn. The growth in non-tax revenue ensued from the increased in both receipts from mines department and other departments. Receipt from the Mines Department amounted to Le198.18bn reflecting a 131.79 per cent increase, while receipts from other departments grew by 74.36 per cent to Le158.01bn. However, both receipts from mines department and revenue from other department were below their respective targets by 22.39 per cent and 31.04 per cent. Road user charges increased by 52.14 per cent to Le147.05bn and hit the projected target of Le115.02bn by 27.85 per cent.

Figure 15: Disaggregation of Government Revenue for 2016-2017



Source: MoFED, Sierra Leone

External grants disbursed during financial year 2017 declined by 40.44 per cent to Le655.54bn (2.39 per cent of GDP) which was however 18.09 per cent below the anticipated amount of Le800.28bn. The total external grants constitute of programmed grants amounted to Le239.77bn, other projects amounting to LeLe233.54bn and development projects totalling Le182.24bn

Table 3: Government Fiscal Operation

Government Fiscal Operations 2017 (In Millions of Leones)			
MEMORANDUM	**2016**	**2017**	**2017**
	Jan. - Dec.	Jan. - Dec.	Budget
1	4	3	2
TOTAL REVENUE (PLUS GRANTS)	**3,059,879**	**4,285,185**	**4,554,342**
DOMESTIC REVENUE	**1,959,172**	**3,629,640**	**3,754,058**
Of which:			
Customs & Excise	439,068	911,754	1,025,235
Income Tax Department	691,362	1,425,550	1,280,164
Goods and Services Tax	555,961	781,926	849,147
Miscellaneous	176,125	356,192	484,491
Road User Charges	96,656	147,050	115,021
GRANTS	**1,100,707**	**655,544**	**800,284**
Programme	680,154	239,766	348,059
Development Projects	420,553	182,235	369,225
TOTAL EXPENDITURE & NET LENDING	**4,308,392**	**5,957,522**	**6,640,237**
Of which:			
Current Expenditure	2,807,592	4,268,114	4,559,947
Development Exp. & Net Lending	1,500,800	1,689,408	2,080,290
CURRENT BALANCE+/- (Including grants)	**252,287**	**17,070**	**409,567**
ADD DEVELOPMENT EXPENDITURE	(1,500,800)	(1,689,408)	(2,080,290)
Basic Primary Balance	(1,247,462)	(258,940)	(377,904)
OVERALL DEFICIT/SURPLUS +/-(Incl.	**(1,248,513)**	**(1,672,338)**	**(2,471,007)**
FINANCING	**1,248,513**	**1,672,338**	**2,471,007**
Domestic	**813,402**	**1,142,950**	**1,286,571**
Of which:			
Bank Financing	829,251	1,115,094	1,173,171
Bank of Sierra Leone	375,794	659,527	408,000
Commercial Banks	453,457	455,567	765,171
Non-Bank Financing	(15,849)	27,856	113,400
Privatisation Receipts	0	0	0
External	**462,548**	**735,278**	**919,330**
Of which:			
Loans	484,777	937,937	1,165,330
Project	484,777	693,627	848,020
Programme	0	244,310	317,310
Amortisation	36,308	(202,659)	(246,000)
Debt Relief	(58,537)	0	0
Others*	**(27,437)**	**(205,890)**	**265,106**

Source: Budget Bureau, Ministry of Finance

3.2.3 Government Expenditures

Government expenditure and net lending expanded from Le4, 308.39bn (18.40 per cent of GDP) in 2016 to Le5, 957.52bn (21.74 per cent of GDP) in 2017 and was above the ceiling of Le6, 640.55bn (24.23 per cent of GDP) by 5.98 per cent. The expansion in total expenditure was due to widening of recurrent and development spending.

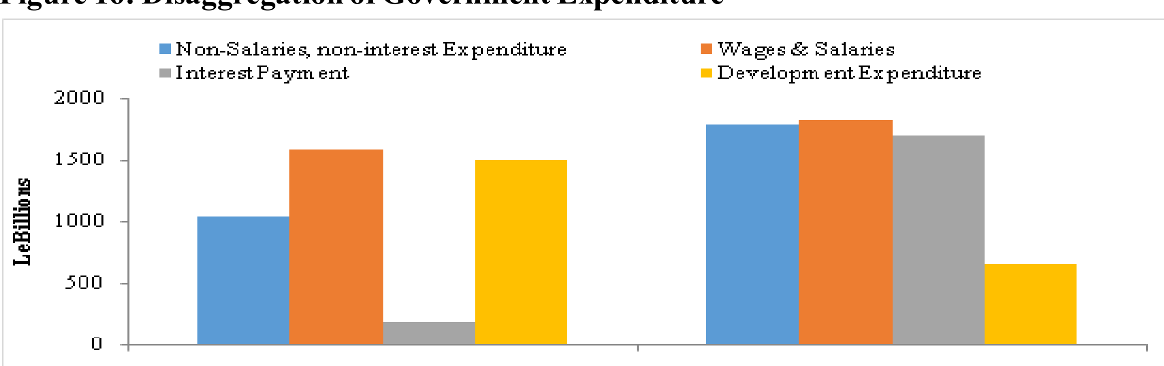
Recurrent expenditure grew to the tune of Le4, 268.11bn (15.58 per cent of GDP) from Le2, 807.59bn (11.99 per cent of GDP) in 2016 reflecting a 52.02 per cent increase and breached the budgeted ceiling of Le4, 559.95bn by 6.40 per cent. Recurrent expenditure accounted for 71.6 per cent in 2017 of the total government expenditure and net lending from a low of 50.5 per cent in 2016. The overspending of recurrent expenditure was due to the increase in personal emolument, total interest payment, and non-salary, non-interest expenditure. Personal emolument (wage bill) expenditure increased by 14.57 per cent to Le1, 820.06bn (6.64 per cent of GDP) and was within budgeted ceiling of Le1, 825.00bn by 0.27 per cent.

Total interest payment considerably grew by 263.11 per cent to Le660.32bn (2.41 per cent of GDP) which was within the ceiling of Le595.76bn by 10.84 per cent. The expansion in total interest payment was due to the significant increase in domestic interest payment to Le562.97bn resulting from excess borrowing by government from the banks thereby crowding out the private sector which negatively affected the real sector. Similarly, foreign interest payment increased significantly to Le97.37bn. Both components of total interest payment exceeded their respective ceilings by 8.26 per cent and 28.51 per cent.

Non-salary-non-interest recurrent expenditure increased by 72.38 per cent to Le1, 787.73bn (6.52 per cent of GDP) and was below the budgeted ceiling of Le2, 139.19bn by 16.42 per cent. The growth expenditure resulted from overruns in election and democratization spending as well as increase in overhead cost. Expenditure on elections and democratization increased significantly to Le173.87bn in 2017 from Le14.58bn in 2016. The growth was due to the financing of the National Electoral Commission (NEC) activities for the 2018 General Elections. Similarly, overhead cost increased by 81.11 per cent to Le820.67bn, while grants to education institutions grew by 64.07 per cent to Le226.95bn. Spending on social outlays increased by 58.73 per cent to Le363.17bn and transfer to road fund went up by 30.99 per cent to Le129.88bn. Conversely, transfers to local councils' drawdown by 24.04 per cent to Le73.18bn.

Development Expenditure increased by 12.75 per cent to Le1, 689.41bn (6.17 per cent of GDP) which exceeded the celling of Le1, 217.25bnn (6.41 per cent of GDP) by 38.79 per cent. The increase in development expenditure was mainly on account of a growth in domestic lending by 44.15 per cent to Le858.35bn, whereas expenditure on foreign loans and grants decreased by 8.20 per cent to Le831.06bn. The increase in domestic lending resulted from the overrun in expenditure on infrastructure, agriculture fisheries and tourism to promote inclusive growth.

Figure 16: Disaggregation of Government Expenditure



Source: Bank of Sierra Leone

3.2.4 Financing

The overall deficit (including grants) of Le1, 74.02bn was financed from both domestic and foreign resources.
Domestic financing of the fiscal deficit increased by 40.51 per cent to Le1, 142.95bn (4.17 per cent of GDP) and was 11.16 per cent lower than the budgeted target of Le1, 286.57bn. On the domestic front, borrowing from the banking system amounted to Le1, 115.09bn, while non-bank financing amounting to Le27.86bn. Banking system financing of the overall deficit comprises of borrowing from the Central Bank which increase by 75.50 per cent to the tune of Le659.53bn in 2017 and exceeded the projected target (Le408.00bn) by 61.65 per cent, whereas borrowing from the commercial banks rose marginally by 0.47 per cent to Le455.57bn but was lower than the projected target (Le765.17bn) by 40.46 per cent.

Foreign financing of the overall fiscal deficit expanded by 58.96 per cent to Le735.28bn (2.68 per cent of GDP) which was 20.02 per cent lower than the budgeted target of Le919.33bn. Of which project loan amounting to Le693.63bn and programme loan amounted to Le244.31bn; while amortization of debt in the sum of Le202.66bn. Other financing sources of the deficit include rescheduling of debt, financing gap and privatization net amounted to Le205.89bn.

3.3 PUBLIC DEBT

3.3.1 Debt Market Developments

The domestic debt market in Sierra Leone is generally underdeveloped as it is characterized by few money market instruments with short-term maturities of one year or less while the market for bonds is relatively non-existent or at a nascent stage. Activities in the interbank market was also relatively very limited, while secondary markets are not fully functional with most participants holding securities till maturity. The development of the debt market in Sierra Leone will extend the yield curve by issuing long-term Government securities and create more fiscal space for effective and efficient macroeconomic management. In addition, it would lower the cost of borrowing by Government and ultimately contributing to the attainment of macroeconomic and financial stability of the Sierra Leonean economy.

The Bank also introduced the Primary Dealership System (PDS) with the basic objective of covering government's borrowing needs as reasonably as possible by broadening and making the primary market more efficient. Also, under this system, the secondary market is expected to be deepened and sustainable liquidity ensured with the Primary Dealers (PD) being market makers and quoting firm 2-way prices on benchmark issue to ensure a balancing between obligation and privilege. An assessment on the PD System was done particularly with regards to PD participation level in line with their roles and responsibilities. The outcomes of the assessment suggest that there is need to review the PD Guidelines with a view to incorporating some policy guidelines to enhance the implementation of the PDS.

In this regard, the Bank in collaboration with MoFED has been making efforts in developing the debt market especially the long-end of the domestic debt market which would deepen the financial market as there will be a plethora of marketable securities and enhanced liquidity

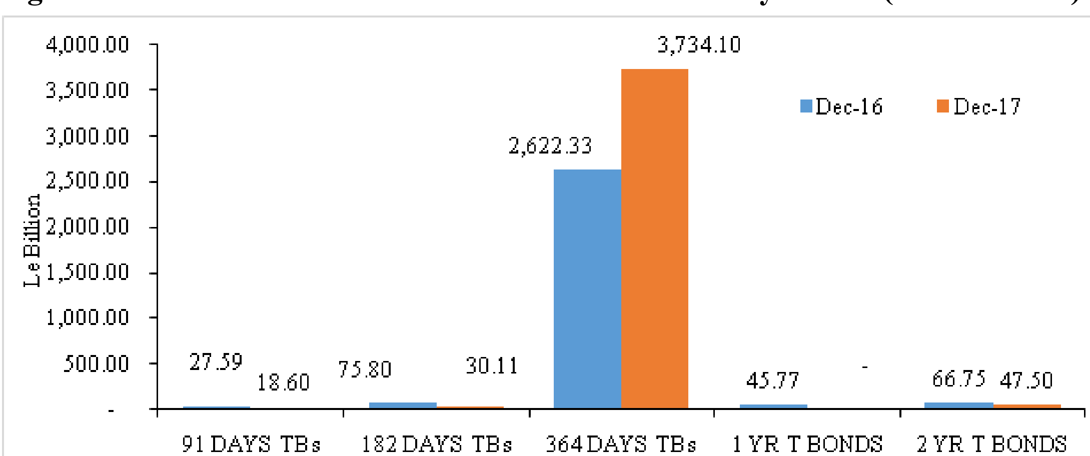
Also, the enactment of the Securities and Exchange Commission (SEC) Bill in Parliament is key to paving the way for the Stock Exchange in Sierra Leone to take off in earnest. Currently, bonds are not listed on the Stock Exchange in Sierra Leone as the Stock Exchange continued to be challenged by slow pace of privatization programme, poor sensitization and the absence of Securities and Exchange Commission (SEC) Bill among others. To this end, the Authorities concerned need to fast track the process of enacting the SEC Bill in Parliament for it to become law.

3.3.2 Stock of Government Securities

The total stock of Government securities increased by Le1,015.96bn from Le3,374.89bn in December, 2016 to Le4,390.85bn as at end December, 2017. Marketable securities accounted for Le992.05bn increase while Non-Marketable Securities accounted for Le23.91bn increase. The issuance of new marketable treasury securities were mainly to finance the budget while that of the Non-Marketable Securities was as a result of the conversion of outstanding stock of 2016 Ways and Means. The total stock of Marketable Securities as at end December, 2017 stood at Le3,830.30bn while that of Non-Marketable Securities stood at Le560.55bn. The 364 days treasury bills accounted for 97.49 per cent of the total stock of Marketable Government Securities while 91 and 182 days treasury bills accounted for 0.49 and 0.79 per cent respectively. The proportion of 2-Year Treasury Bonds on the other hand is 1.24 per cent.

The stock of 91 days T-bills decreased by Le9.00bn (32.61per cent) from Le27.59bn at end December, 2016 to Le18.60bn as at end December, 2017. Similarly, the stock of 182 days T-bills dropped by Le45.70bn (60.28per cent) from Le75.80bn at end December, 2016 to Le30.11bn as at end December, 2017. The 364 days T-bills increased by Le1, 111.77bn (42.40per cent) from Le2,622.33bn to Le3,734.10bn for the same period. Furthermore, a total amount of Le45.77bn (100per cent) 1-Year Treasury Bonds was redeemed in 2017. The stock of the 2-Year Treasury Bonds decreased by Le19.25bn (28.84per cent) from Le66.75bn at end December 2016 to Le47.50bn. It is important to note that the above change was due to redemption as no new 2-Year Bond was issued due to non-participation of market participants in the 2-Year Bond auctions. The Government also issued a Le46.92bn 5-Year Treasury Bonds to the Bank, which was converted from the outstanding stock of 2016 Ways and Means.

Figure 17: Stock of Marketable Government Securities by Tenure (Billions of Le)

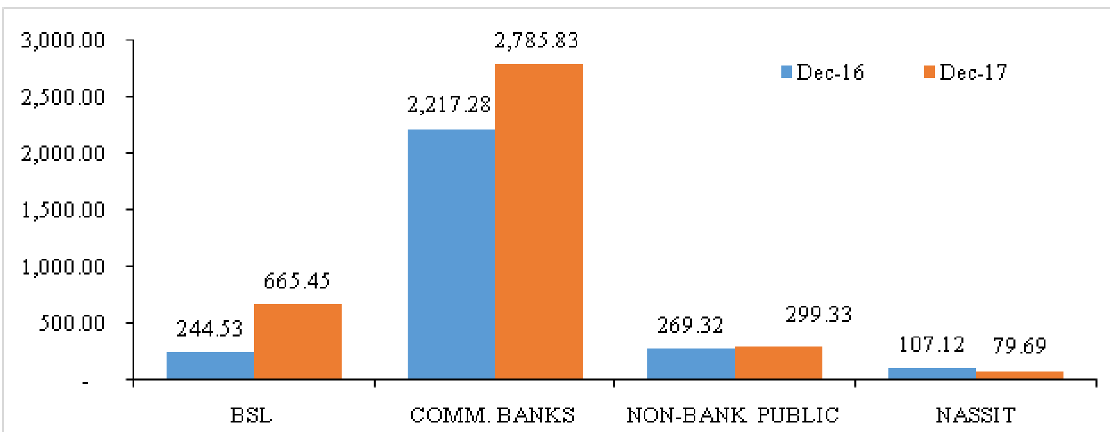


Source: Bank of Sierra Leone

3.3.3 Securities Holdings by Sector

The holdings of marketable Government Securities continue to increase in all sectors of the market except for NASSIT that had net redemption for the period under consideration. Commercial banks' holdings of Government securities increased by Le568.55bn (25.64per cent) from Le2, 217.28bn as at end December, 2016 to Le2, 785.83bn as at end December, 2017. Similarly, BSL holdings of Government securities increase by Le420.92bn (172.13per cent) from Le244.53bn as at end December, 2016 to Le665.45bn as at end December, 2017. Non-Bank Public Sector holdings (excluding NASSIT) increased by Le30.02bn (11.15per cent) from Le269.32bn as at end December, 2016 to Le299.33bn as at end December, 2018. NASSIT holdings decrease by Le27.43bn (25.61per cent) from Le107.12bn as at end December, 2016 to Le79.69bn as at end December, 2017. The huge increase in the holdings of BSL was mainly due to the outright purchase of Treasury Bills from the banks to boost liquidity in the banking system. Figure 2 below shows the holdings of marketable Government Securities by sector.

Figure 18: Holdings of Marketable Government Securities by Sector (Billions of Leones)



Source: Bank of Sierra Leone

Table 4: Stock of Government securities outstanding

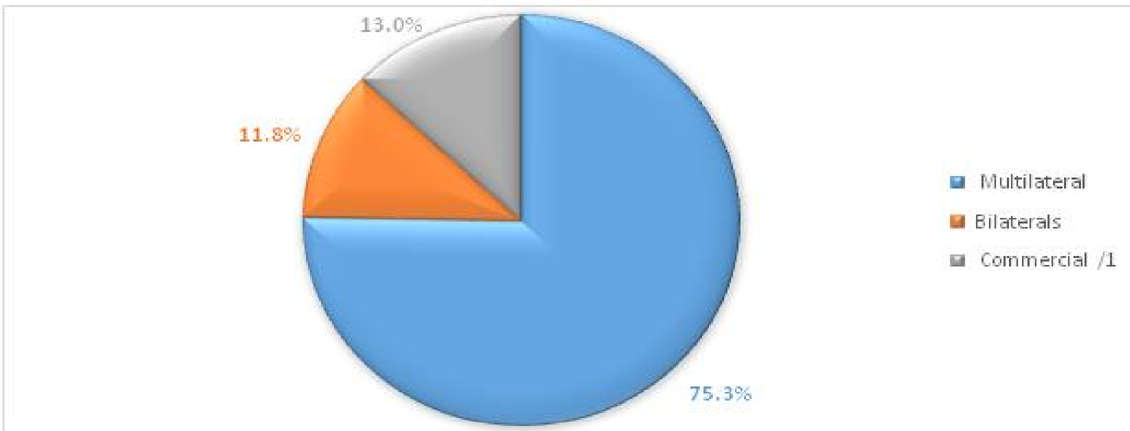
STOCK OF GOVERNMENT SECURITIES OUTSTANDING BY TENOR AND BY HOLDER (IN MILLIONS OF LEONES)			
	Dec-16	Dec-17	Change
91 DAYS TBs	**27,594.60**	**18,595.50**	**(8,999.10)**
BSL	-	-	-
COMM. BANKS	16,958.20	6,000.00	(10,958.20)
NON-BANK PUBLIC	10,636.40	12,595.50	1,959.10
NASSIT	-	-	-
182 DAYS TBs	**75,802.95**	**30,106.50**	**(45,696.45)**
BSL	6,295.15	214.15	(6,081.00)
COMM. BANKS	59,658.30	22,532.00	(37,126.30)
NON-BANK PUBLIC	9,849.50	7,360.35	(2,489.15)
NASSIT	-		-
364 DAYS TBs	**2,622,329.15**	**3,734,095.05**	**1,111,765.90**
BSL	229,041.65	658,235.95	429,194.30
COMM. BANKS	2,130,666.00	2,757,296.70	626,630.70
NON-BANK PUBLIC	206,988.20	279,362.40	72,374.20
NASSIT	55,633.30	39,200.00 -	16,433.30
1YR T BONDS	**45,773.85**	-	**(45,773.85)**
BSL	9,195.45	-	(9,195.45)
COMM. BANKS	-	-	-
NON-BANK PUBLIC	36,578.40	-	(36,578.40)
NASSIT	-	-	-
2 YR T BONDS	**66,751.65**	**47,502.00**	**(19,249.65)**
BSL	-	7,000.00	7,000.00
COMM. BANKS	10,000.00	-	(10,000.00)
NON-BANK PUBLIC	5,264.65	15.00	(5,249.65)
NASSIT	51,487.00	40,487.00	(11,000.00)
TOTAL MARKETABLE	**2,838,252.20**	**3,830,299.05**	**992,046.85**
BSL	244,532.25	665,450.10	420,917.85
COMM. BANKS	2,217,282.50	2,785,828.70	568,546.20
NON-BANK PUBLIC	269,317.15	299,333.25	30,016.10
NASSIT	107,120.30	79,687.00	(27,433.30)
3 YR T BONDS	**159,317.40**	**143,814.20**	**(15,503.20)**
BSL	159,317.40	143,814.20 -	15,503.20
COMM. BANKS	-	-	-
NON-BANK PUBLIC	-	-	-
NASSIT	-	-	-
5 YR T BONDS	**321,071.80**	**367,989.80**	**46,918.00**
BSL	280,000.00	326,918.00	46,918.00
COMM. BANKS	-	-	-
NON-BANK PUBLIC	-	-	-
NASSIT	41,071.80	41,071.80	-
10 YR T BONDS	**56,250.00**	**48,750.00**	**(7,500.00)**
BSL	56,250.00	48,750.00 -	7,500.00
COMM. BANKS	-	-	-
NON-BANK PUBLIC	-	-	-
NASSIT	-	-	-
TOTAL NON-MARKETABLE	**536,639.20**	**560,554.00**	**23,914.80**
BSL	495,567.40	519,482.20	23,914.80
COMM. BANKS	-	-	-
NON-BANK PUBLIC	-	-	-
NASSIT	41,071.80	41,071.80	-
TOTAL GOV. SECURITIES	**3,374,891.40**	**4,390,853.05**	**1,015,961.65**
BSL	740,099.65	1,184,932.30	444,832.65
COMM. BANKS	2,217,282.50	2,785,828.70	568,546.20
NON-BANK PUBLIC	269,317.15	299,333.25	30,016.10
NASSIT	148,192.10	120,758.80 -	27,433.30

Source: Bank of Sierra Leone

3.3.4 External Debt

Sierra Leone's total stock of external debt as at end December 2017 increased by 11.8 per cent to USD1,507.78mn from USD1,349.00mn recorded at end December 2016. The stock of debt continued to be dominated by debts owed to multilateral creditors, accounting for 75.3 per cent of the total, followed by commercial creditors, accounting for 13.0 per cent. The remaining 11.80 per cent was owed to other bilateral creditors. The main multilateral creditors were IMF and the World Bank with 24.4 per cent (USD367.75mn) and 18.3 per cent (USD275.68mn) respectively (Figure 19).

Figure 19: Composition of External Debt



Source: Ministry of Finance

3.4 DEVELOPMENTS IN THE MONETARY SECTOR

3.4.1 Monetary Policy

The focus of monetary policy in 2017 was to achieve the end year inflation target of 15 per cent, reduce the volatility in the exchange rate and keep gross external reserves at levels adequate to cover at least three months of imports of goods and services.

The implementation of monetary policy was challenging in 2017 as inflationary pressures remained elevated coupled with persistent pressures in the foreign exchange market. In addition, monetary policy implementation was fraught with tight liquidity conditions in the interbank market on the back of low revenue outturn, delayed disbursement of donor inflows, low budget execution leading to the accumulation of areas owed to suppliers by the government. To support the budget and reduce on the accumulation of arrears, the BSL acted to alter the liquidity conditions in the interbank market through foreign exchange SWAP deals with commercial banks, which was augmented by undertaking secondary market operations in government securities. While these operations provided greater liquidity assurance to the market and enabled commercial banks to participate fully in the domestic debt market, it was not aligned with the Bank's monetary policy stance. Thus, sending mixed signals to the market and eroding the efficacy of the transmission of monetary policy shocks on the real economy.

In response, to the inflationary pressures, the Monetary Policy Committee (MPC), at its quarterly meetings pursued a consistently tight monetary policy stance ,with the monetary policy rate being raised cumulatively by 350 basis points to 14.5 per cent in December 2017 from 11 per cent in December 2016.The objective of this policy was to curb the second round effects of the supply-side inflationary pressures and to anchor medium-to-long-term inflation expectations at levels consistent with the BSL's inflation target. In addition, the tight monetary policy stance was expected to help tame the exchange rate depreciation pressures. The maintenance of the tight monetary policy stance and the stability in the exchange rate contributed in part to the downward trend in headline inflation observed after the first quarter of 2017.

Monetary Policy Committee Meetings held in 2017

The Monetary Policy Committee (MPC) held four meetings in 2017. The tight monetary policy stance was influenced by the desire to contain inflationary pressure, anchor medium to long term inflation expectation and stabilize the exchange rate.

MPC Meeting	Policy Decisions	MPR (Per cent)
Thursday 30th March 2017	Increase the MPR by 100 basis points	12.00
Thursday 15th June 2017	Increase the Monetary Policy Rate by 100 basis points	13.00
Friday 29th September 2017	Increase the Monetary Policy Rate by 100 basis points.	14.00
Thursday 14th December 2017	Increase the Monetary Policy Rate by 50 basis points	14.50

Box 1: SUMMARY OF MPC DELIBERATIONS

March 2017 Meeting: At its first quarter meeting in 2017, the MPC observed that the global economy was expected to improve, with growth estimated at 3.4 per cent. On the domestic front, growth conditions were expected to recover and estimated at 6.1 per cent compared to an earlier projection of 4.9 per cent, supported by rebound in the primary sector, particularly the mining subsector, anticipated increased in public investment and signs of improved business confidence. In assessing the inflation outlook, the Committee observed that domestic price buildup, which commenced in the second half of 2016, spilled over into the first quarter of 2017, with headline inflation reaching its peak at 20.22 per cent in March 2017, driven mainly by food inflation and the lag effects of depreciation of the exchange rate. On the outlook for inflation, the Committee's observed that there were upside risks to inflation stemming from possible second round effects of persistent depreciation of the exchange rate and upwards adjustment of fuel and utility prices. Based on these assessments, the Committee therefore resolved to increase the policy rate by 100 basis points from 11 per cent in December 2016 to 12 per cent in March 2017.

June 2017 Meeting: The MPC noted that the IMF revised global growth forecast for 2017, from 3.4 per cent to 3.5 per cent. The expected improvement raised optimism in global commodity markets as shown in the rebound in iron ore prices. This development had positive implications for the country's current accounts position, foreign exchange reserves, stability of the exchange rate and the price stability objective. In the domestic economy, there were signs of recovery, especially in the mining, agriculture and service sectors. Economic activity was supported by the Government's post-Ebola Recovery strategy, which accelerated economic diversification with foreign direct investment in critical non-growth sectors including agriculture, tourism and mining. It was however noted that pressures on domestic prices continued, partly as a result of the lag effect of the depreciation of the Leone, but was expected to moderate in the medium term. This outlook was premised on the effects of the tight monetary conditions and the relative stability of the exchange rate. Given these factors, the MPC`s view was that continuing with a tight monetary policy stance was appropriate and, subsequently increased the Monetary Policy Rate by 100 basis points from 12.00 per cent in March to 13.00 per cent.

September 2017 Meeting: The Committee noted that global growth remained broadly unchanged at 3.5 per cent in 2017 from 3.2 per cent in 2016, and the outlook remained positive in the near -term, coupled with growth prospects in the global economy. The Sierra Leone economy benefited from recovery in global demand through rebound in iron ore prices and exports, resulting in an improved trade balance, accumulation of reserves and exchange rate stability. Disbursements from IMF also reinforced the stability of the exchange rate. Domestic economic activity remained on track, although real economic activity was expected to slow down to 5.6 per cent from 6.3 per cent in 2016. Headline inflation declined to 19.14 per cent in June reflecting the relative stability of the exchange rate and impact of the tight monetary policy stance. Although inflationary pressures was likely to dissipate, the MPC noted that risks to the inflation outlook remained influenced by fiscal developments, foreign exchange availability and global commodity prices, consequently, the MPC resolved to increase the Monetary Policy Rate from 13.00 per cent to 14.00 per cent.

December 2017 meeting: The global economy was expected to continue to strengthen in 2018 and 2019. Global inflationary pressure remained subdued but was likely to rise. While there was recovery in commodity prices, the price of iron ore -Sierra Leone`s key export was projected to decrease. There was signs of weak aggregate demand mainly because of fiscal challenges in executing the budget. Overall, there was weak business confidence and sentiments, partly due to uncertainties concerning the outcome of the elections. The exchange rate continued to be stable partly due to weak demand pressure evidenced by slowdown in imports. Consequently, private sector credit slowed down, with inflation continuing to decline from 16.86per cent in October to 15.33per cent in December 2017.

3.4.2 Developments in Monetary Aggregates

Broad Money (M2) growth decelerated to 6.99 per cent in 2017, compared to 17.86 per cent growth recorded in 2016, reflecting the tighter policy stance adopted in 2017. The deceleration in M2 was on account of the 18.81 per cent increase in Net Domestic Assets (NDA) of the banking system, which was partly offset by a 10.72 per cent contraction in the Net Foreign Assets (NFA) in 2017.

The growth in NDA was on account of increased purchase of government securities by commercial banks and increased central bank financing. Net Domestic Bank Credit increased by 16.92 per cent in 2017, but was lower than the 26.83 per cent growth in Net Domestic Credit in 2016. In 2017, net central bank financing to government increased by 29.45 per cent, compared to the growth rate of 64.63 per cent recorded in 2016, while net commercial banks financing to government increased by 25.88 per cent, compared to 16.81 per cent growth in 2016.

Private sector credit expanded by 4.29 per cent in 2017, but was lower when compared to the 17.36 per cent growth in 2016. This reflected the crowding-out effect of government borrowing, stemming from the attractive interest rates on the 364 days treasury bills.

The NFA of the banking system contracted due mainly to a 44.19 per cent decrease in NFA of the BSL, compared to the contraction of 24.09 per cent recorded in 2016. This decline in NFA of the BSL was due to various foreign exchange outflows including settlement of foreign obligations, government`s financing of infrastructural projects in foreign currency, compliance with the Local Liquid Assets Ratio by commercial banks, occasional interventions through the wholesale Foreign Exchange Auction by the BSL as well as increased debt service payments.

Table 5: Money Supply and its Sources

				Jan-Dec 16		Jan-Dec 17	
	2015M12	2016M12	2017M12	Change	Change (%)	Change	Change (%)
Reserve money	**1,690.75**	**2,095.60**	**2,284.26**	**404.85**	**23.94**	**188.66**	**9.00**
Money supply (M2)	**5,172.27**	**6,096.13**	**6,522.32**	**923.86**	**17.86**	**426.19**	**6.99**
Narrow money (M1)	**2,579.13**	**2,746.65**	**3,044.04**	**167.52**	**6.50**	**297.39**	**10.83**
Currency outside banks	1,171.00	1,261.48	1,530.46	90.48	7.73	268.98	21.32
Demand deposit	1,408.13	1,485.17	1,513.58	77.04	5.47	28.41	1.91
Quasi money	**2,592.77**	**3,349.08**	**3,477.71**	**756.31**	**29.17**	**128.63**	**3.84**
o.w. Foreign currency deposit	1,280.31	1,850.81	1,751.01	570.50	44.56	(99.80)	(5.39)
Time and saving deposit	1,312.46	1,498.27	1,726.70	185.81	14.16	228.43	15.25
Net Foreign Asset	**2,354.86**	**2,439.52**	**2,178.04**	**84.66**	**3.60**	**(261.48)**	**(10.72)**
BSL	1,034.98	785.64	438.46	(249.34)	(24.09)	(347.18)	(44.19)
ODCs	1,319.88	1,653.88	1,739.58	334.00	25.31	85.70	5.18
Net Domestic Assets	**2,817.41**	**3,656.61**	**4,344.28**	**839.20**	**29.79**	**687.67**	**18.81**
Net Domestic Credit	**3,959.02**	**5,021.22**	**5,871.02**	**1,062.20**	**26.83**	**849.80**	**16.92**
Government (Net)	2,536.13	3,429.67	4,374.20	893.54	35.23	944.53	27.54
Private Sector	1,153.42	1,346.36	1,412.99	192.94	16.73	66.63	4.95
BSL	27.56	25.08	35.00	(2.48)	(9.00)	9.92	39.55
ODCs	1,125.86	1,321.28	1,377.99	195.42	17.36	56.71	4.29
Other Sectors (Net)*	269.47	245.19	83.83	(24.28)	(9.01)	(161.36)	(65.81)
Other Items (Net)	**(1,141.6)**	**(1,364.6)**	**(1,526.7)**	**(223.00)**	**19.53**	**(162.13)**	**11.88**
Money Multiplier	3.06	2.91	2.86				

Source: Research Department, BSL

From the liability front, the moderation in M2 growth was reflected in narrow and quasi money and their components, with the exception of Foreign Currency Deposits. Currency outside banks increased by 21.32 per cent, relative to 7.73 per cent growth recorded in 2016 due to the injection of domestic currency by the BSL in respect of the foreign currency SWAP arrangement with commercial banks. Demand Deposits also increased though moderately by 1.91 per cent in 2017, compared to 5.47 per cent growth recorded in 2016, while Time and Savings Deposits increased by 15.25 per cent compared to 14.16 per cent in the corresponding period. On the other hand, Foreign Currency Deposits declined by 5.39 per cent after recording a 44.56 per cent growth in 2016, reflecting the transfer of foreign currency by commercial banks to the BSL under the foreign currency SWAP arrangement.

Reserve Money (RM) increased by 9.00 per cent, compared to the 23.94 per cent growth recorded in 2016, and was within the end of year program target of 11.30 per cent.

Table 6: Reserve Money and its Components

				Jan-Dec 16		Jan-Dec 17	
	2015M12	**2016M12**	**2017M12**	Change	Change (%)	Change	Change (%)
Net Foreign Assets	**1,034.98**	**785.64**	**438.46**	**(249.34)**	**(24.09)**	**(347.18)**	**(44.19)**
Net Domestic Assets	**655.77**	**1,306.55**	**1,845.80**	**650.78**	**99.24**	**539.25**	**41.27**
Government Borrowing (net)	976.99	1,608.43	2,082.11	631.44	64.63	473.68	29.45
o.w. Securities	522.40	741.83	1,186.70	219.43	42.00	444.87	59.97
Ways and Means	63.41	111.59	120.02	48.18	75.98	8.43	7.55
GoSL/IMF Budget financing	476.77	880.82	988.95	404.05	84.75	108.13	12.28
Reserve money	**1,690.75**	**2,095.60**	**2,284.26**	**404.85**	**23.94**	**188.66**	**9.00**
o.w. 3.1 Currency issued	1,356.50	1,467.09	1,764.46	110.59	8.15	297.37	20.27
3.2 Bank reserves	333.89	628.12	519.24	294.23	88.12	(108.88)	(17.33)

Source: Research Department, BSL

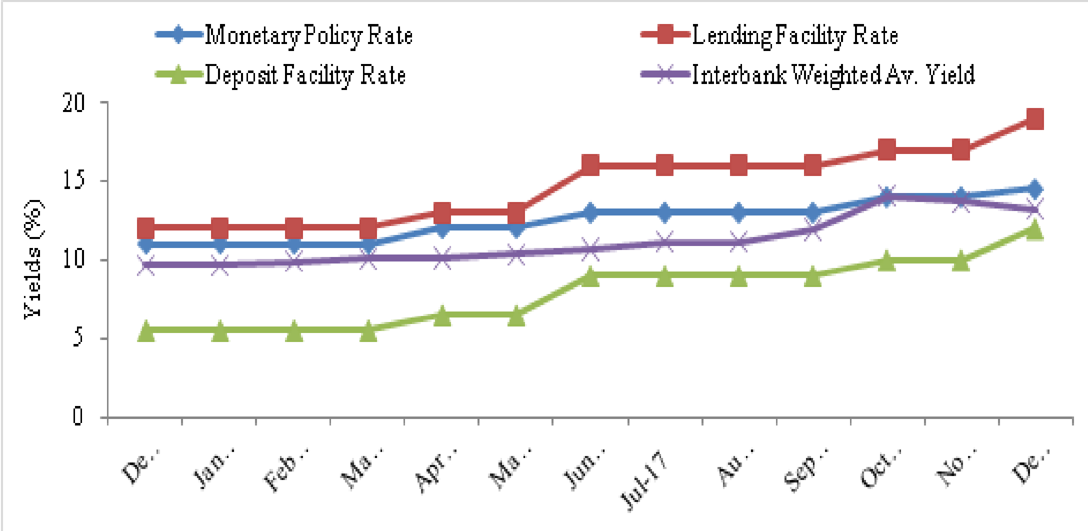
The increase in RM was on account of the growth in Currency Issued by 20.27 per cent in 2017, compared to the 8.15 per cent expansion in 2016, mainly on account of the foreign currency SWAP arrangement. The growth in RM was however moderated by the contraction in banks`s reserves by 17.33 per cent, from an increase of 88.12 per cent in the same period, as arrears to the public and contractors were settled.

3.4.3 Interest Rates Developments

Monetary Policy Rate and Interbank Rates

The Monetary Policy Rate (MPR) which signals the Bank's monetary policy stance was increased cumulatively to 14.50 per cent in December, 2017 from 11 per cent in December, 2016. The Standing Lending and Deposit Facility rates were also increased to 19 per cent and 12 per cent in December, 2017 from 12 per cent and 5.5 per cent in December, 2016, respectively. Reflecting the tight monetary policy stance, the interbank weighted average rate increased to 13.22 per cent in December 2017 from 9.82 per cent in December 2016, but continued to lie within the policy corridor.

Figure 20: Trends in BSL Policy Rates and the Interbank Weighted Average Rate

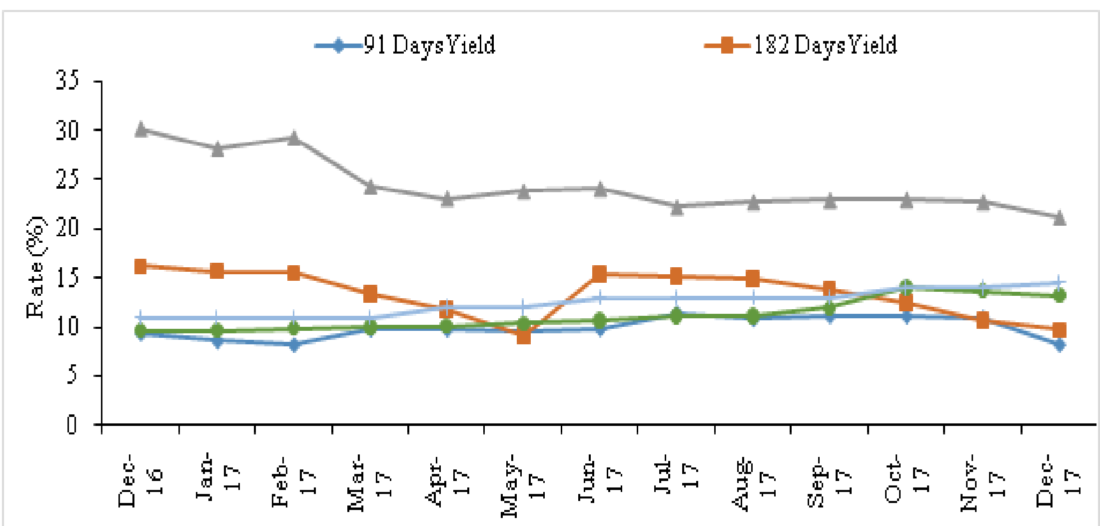


Source: Bank of Sierra Leone

Yields on Treasury Bills

Yields on government securities declined across all tenures during 2017. The yield on the 91-days Treasury bills fell from 9.38 per cent in December 2016, to 8.22 per cent in December 2017. The 182-days Treasury bills also decreased from 16.17 per cent in December 2016 to 9.68 per cent in December 2017. Similarly, the 364-days Treasury bills dropped from 30.22 per cent to 21.17 per cent in the same period. Demand in the government securities market continued to be skewed towards the 364 days tenure during the year.

Figure 21: Trends in the Yields of Government Securities in the Primary and Secondary Markets



Source: Bank of Sierra Leone

Commercial Banks Lending and Deposit Rates

The commercial banks' average lending and saving deposit rates remained unchanged at 21.35 per cent and 2.38 per cent respectively during the same period under review.

Table 7: Interest Rates

	2015M12	2016M12	2017M12
91-day Treasury bill rate	1.08	9.38	8.22
182-day Treasury bill rate	3.11	16.17	9.68
364-day Treasury bill rate	9.91	30.22	21.17
Interbank rate	2.86	9.82	13.22
Standing Lending Facility	10.50	12.00	19.00
Standing Deposit Facility	10.00	5.50	12.00
MPR	9.50	11.00	14.50
Average Lending rate		21.35	21.35
Savings deposits		2.38	2.38

Source: Research Department, BSL

Box 2: Update on the IMF ECF Program

On June 5, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for Sierra Leone. Upon approval by the Executive Board of the IMF, Sierra Leone received a disbursement of USD54.30 million which helped increase the reserves and make available foreign currency in the domestic economy to support importation of essential commodities.

The IMF Mission visited Freetown from September 18-29, 2017 to conduct discussions on the first review of Sierra Leone`s ECF arrangement with the IMF. The discussions focused on two critical issues, namely, problems with the two state owned banks and the fiscal situation of the country. On the two state owned banks it was agreed that Oversight Committees from the Central Bank oversees the operations instituting strict expenditure control measures and prudent lending policies. These lending policies include freezing of all lending, no new loans to politically exposed persons and strong loan recovery actions including a 30 day ultimatum for payment of loans by borrowers.

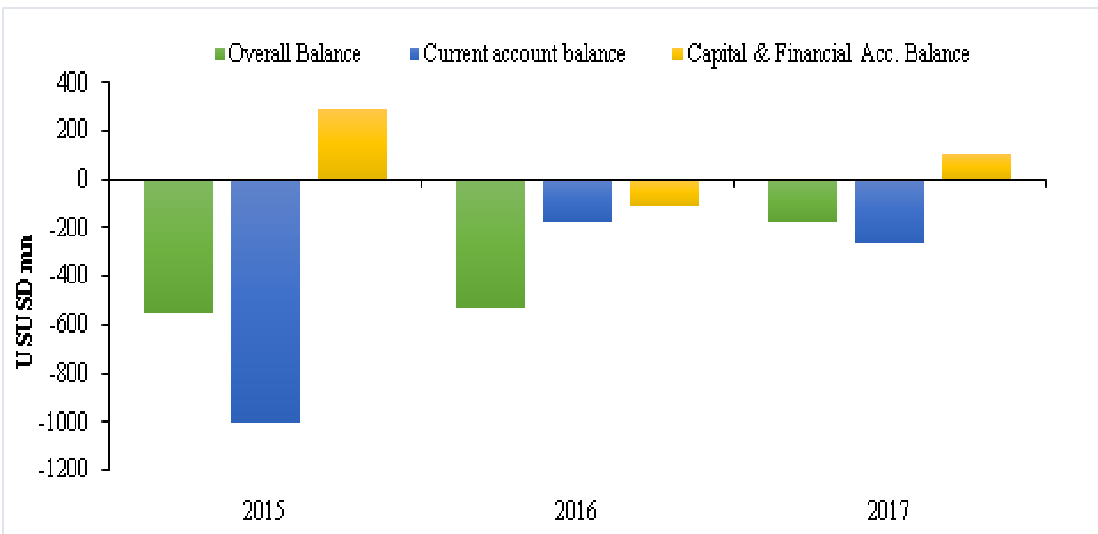
That fiscal situation has significantly deviated from the program assumptions. Firstly, there was a shortfall in projected revenue and expenditure was higher than programmed. To close the ensuing financing gap, the IMF Mission suggested that Government should come up with strong, upfront, credible and sustainable revenue generating measures. In this regard, the Mission proposed floatation of retail fuel prices, implying removal of fuel subsidy to ensure stable revenue from excise duty and reinstating the 10 per cent import duty on rice and eliminate tax exemptions as committed to under the program. Whilst the Government was committed to the implementation of the two measures, the Authorities informed the IMF that the implementation of these two measures was not feasible before the general elections given the political and social implications. Notwithstanding the fiscal challenges, two of the IMF-ECF quantitative performance criteria were met as at December 29, 2017, namely Gross Foreign Exchange Reserves of the Central Bank and Net Domestic Assets of the Central bank. However, the criterion on Net Domestic Bank Credit to the Central Government was not met due to fiscal challenges.

3.5 EXTERNAL SECTOR DEVELOPMENTS

3.5.1 Balance of Payments

In 2017, the balance of payment position improved significantly, with the estimated overall deficit contracting by USD357.72mn to USD172.35mn in 2017 from USD530.07mn in 2016. This reflected the net effect of a significant improvement in the capital & financial account, which moderated the impact of the deficit in the current account. The capital & financial account moved from a net outflow of USD106.75mn in 2016 to a net inflow of USD107.72mn in 2017, driven largely by the combined effect of increased private capital inflows in the capital account as well as a decline in net financial liabilities in the financial account. The deficit position in the current account on the other hand, reflects the net effect of a deterioration in the goods and income account. Financing the overall deficit for the period under review resulted in a drawdown in the stock of gross foreign exchange reserves, though the end period stock of USD500.80mn was sufficient to cover at least 3.5 months of import. In addition, the stock of external debt increased to USD1, 507.78mn in 2017 from USD1, 349.00mn in 2016, but remained at a moderate distress level.

Figure 22: Balance of Payments (USD Mn)

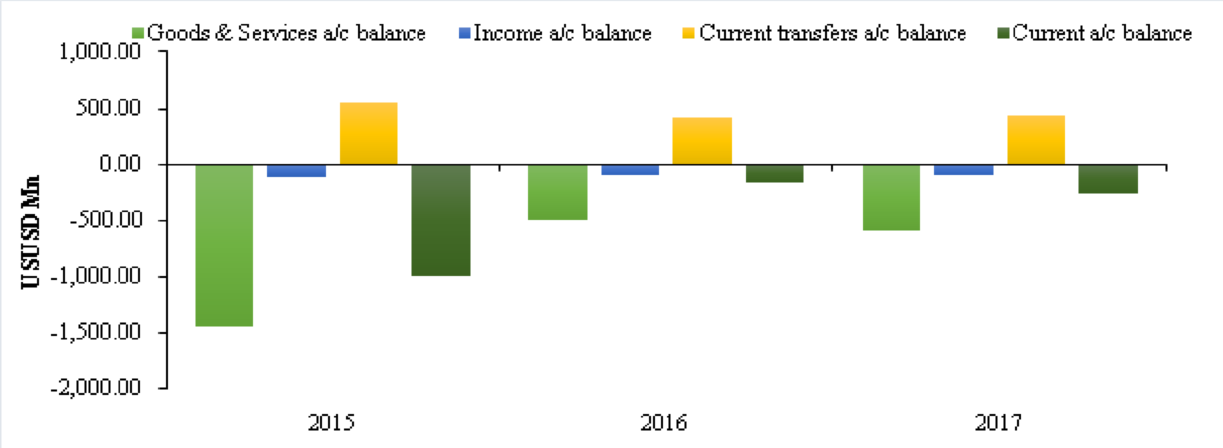


Source: Research Department, BSL

The Current Account

The current account deteriorated in 2017, with the estimated deficit widening by 54.5per cent (USD92.46mn) to USD262.18mn from USD169.71mn in the preceding period. This development reflects the net effect of a deterioration in the go ods and income account, which outweighed net inflows in the services and transfers' account.

Figure 23: The Current Account



Source: Research Department, BSL

Trade Balance

Owing to improved global conditions in 2017, both exports and imports significantly improved. However, imports outperformed exports, with the net effect being a deterioration in the trade position. Consequently, the estimated trade deficit widened by 19.9 per cent to USD594.87mn in 2017 from USD496.19mn in the preceding period.

The Goods Account:

Merchandise Exports

The aggregate value of merchandise exports in 2017 was estimated at USD772.12mn, reflecting an increase of 19.23 per cent above the level of USD647.56mn in 2016. This development was largely driven by the increase in agricultural exports as well as other exports - constituting mainly timber and palm nuts & kernels. The estimated value for mineral exports on the other hand marginally dropped, reflecting decreases in most of its components; with the exception of iron ore export, which recorded an increase.

Merchandise Imports

The aggregate value of import (C.I.F) in 2017 was estimated at USD1, 397.32mn, up by 43.64 per cent (USD424.52mn) above the level of USD972.80mn in 2016. This outturn in import bills was reflected on the increases in most of its components; including consumer goods, manufactured goods, machinery & transport equipment as well as other imports.

The Services Account

The services account indicated a net receipt of USD30.34mn in 2017 compared to a net payment of USD170.95mn in 2016, reflecting higher receipts in relation to some of the components in the services account; notably communication and travel services. Net receipts in communication services stood at USD231.96mn, representing an increase of 33.1 per cent above the level of USD174.32mn in 2017. Similarly, receipts from travel services increased markedly to USD215.11mn from USD11.70mn in 2016, reflecting the high influx of non-residents in the review period for business and private purposes. However, there were net payments on other services; including transportation, insurance and other business services.

Income and Current Transfers Account

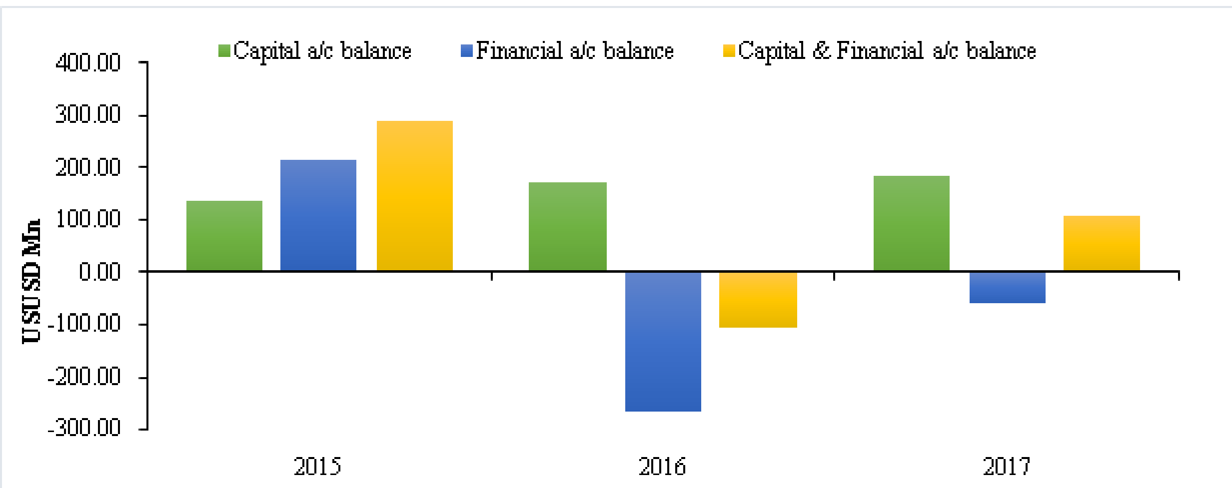
The current transfers account net inflows increased marginally to USD429.75mn in 2017 from USD425.48 in 2016, largely driven by the net effect of private remittance inflows; which increased to USD122.20mn in 2017 from USD114.34mn in 2016.

There was a modest decrease in net payments in the income account to USD97.06mn in 2017 from USD99.01mn in 2016, reflecting the effect of a marginal decrease in net outflows in the investment income account as well as net inflows in the employees' compensation account.

Capital and Financial Account

Transactions in the capital and financial account in 2017 registered a net inflow of USD107.72 from a net outflow of USD106.75mn in 2016. This development was reflected on the outturn in the capital account in the review period.

Figure 24: The Financial and Capital .Account



Source: Research Department, BSL

Capital Account

Inflows in the capital account in 2017 are estimated at USD183.09mn, increasing by 5.97 per cent relative to an inflow of USD172.78mn in 2016, largely driven by the increase in private capital inflows. Financial Account

Transactions in the financial account indicated a net outflow of USD60.58mn in 2017, which was a significant improvement when compared to the net outflow of USD267.78mn recorded in the preceding period. This improvement was in part, driven by the increase in foreign direct investment as well as an improvement in other investments. Net foreign direct investment inflows increased by 9.67 per cent to USD151.31mn in 2017 from USD137.97mn in 2016, reflecting increases in equity capital and reinvested earnings in the domestic economy. Portfolio investment assets on the other hand declined marginally to USD2.66mn in 2017 from USD2.67mn in 2017; induced by the marginal decline in debt securities, especially money market instruments. Finally, net liabilities on other investments improved markedly to USD214.55mn in 2017 from USD408.42mn in 2016, led by a decline in liabilities on loans, currency & deposits as well as other liabilities to non-residents.

3.5.2 Gross Foreign Exchange Reserves

The stock of gross foreign exchange reserves of the Bank of Sierra Leone at end-December 2017 stood at USD500.80mn, marginally declining by 0.59 per cent when compared to the level of USD503.79mn at end-December 2016. The stock at that level was sufficient to cover for at least 3.5 months of imports. The drop in the level of reserves during the review period was due to an excess of outflows over inflows, with a net flow of USD22.28mn. Movement in foreign exchange reserves during the period under review are analyzed as follows:

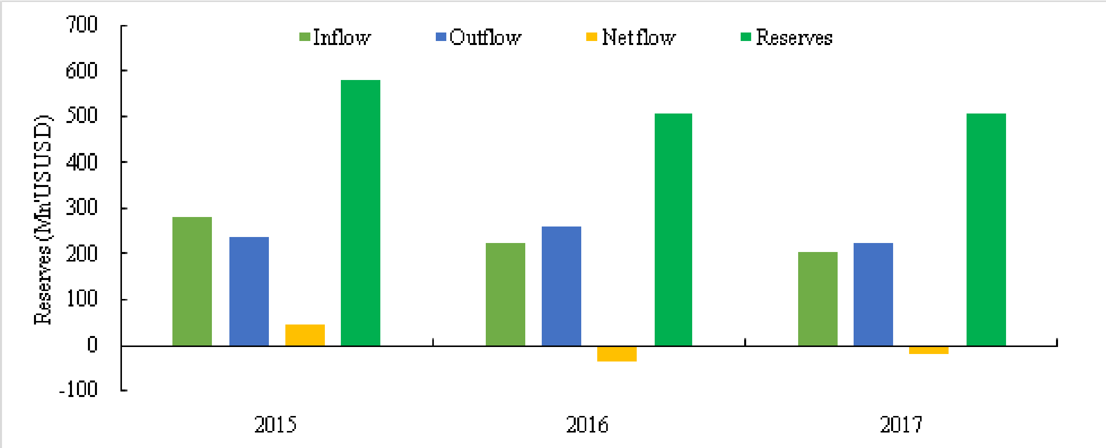
Inflows

Total foreign exchange inflows declined by 10.65 per cent to USD200.18mn in 2017 relative to the amount of USD224.05 recorded in 2016, driven in part by a drop in aid disbursement. Significant foreign exchange inflows during the year included aid disbursements/BOP support, totaling USD119.40mn: of which an aggregate of USD54.13mn was IMF disbursement under the Extended Credit Facility (ECF) for both Balance of Payment (BOP) (USD23.03mn) and budget support (USD31.10mn); World bank loan of USD41.13mn in respect of budget support; USD18.16mn being EU support for the poverty reduction budget; IDB disbursement of USD3.81mn for various projects and USD2.08mn being foreign exchange purchases from IDA/ World Bank. Export earnings for the period amounted to USD40.99mn, comprising royalty payments from Sierra Rutile (USD18.35mn), Fishing royalty and maritime administration sum up to (USD9.75mn), Shandong (USD4.32mn), privatization (USD3.41mn), Vimetco (USD2.41mn) and other export receipts amounting to USD17.71mn during the review period.

Outflows

Total foreign exchange outflows decreased by 14.48 per cent from USD260.13mn in 2016 to USD222.46mn in 2017 largely as a result of the decline in payments for goods and services. Significant foreign exchange outflows comprised USD171.52mn being payments for goods and services of which, private sector support through the weekly foreign exchange auction by Bank of Sierra Leone (BSL) amounted to USD45.30mn; government travel and other government expenditures totaling USD37.16mn; USD33.40mn being BSL's utilization for banking related issues; aggregate expenditure on government infrastructural projects of USD25.96mn; USD19.52mn was for embassy/mission payments; USD6.39mn was in respect of government subscription to international organizations and USD1.53mn being payment for the printing of currency. Debt service payments amounted to USD50.94mn during the period under review (Figure 20).

Figure 25: Foreign Exchange Flows and Reserves Position



Source: Bank of Sierra Leone

3.5.3 The ECOWAS Macroeconomic Convergence Criteria

Sierra Leone continued to participate actively in the ECOWAS Monetary Cooperation Programme. In 2017, the country's performance on the primary convergence criteria remained weak in 2017, satisfying only one of the four primary criteria, namely: gross external reserves in months of import cover, which is also the only primary criteria met at end-December 2016. The country did not meet the criteria on single digit inflation, central bank financing as a percentage of previous year's tax revenue and fiscal deficit to GDP. However, the country's performance in terms of the secondary criteria improved, meeting both criteria, namely: nominal exchange rate stability and ratio of public debt to GDP; compared to one criterion at end-December 2016 (tables 4 & 5)

Table 8: Status of Rationalized ECOWAS Primary Convergence Criteria, 2013-2017

Primary Criteria	Target	2013	2014	2015	2016	2017
Inflation(End Period)	Single digit	8.2	7.9	8.9	17.4	15.3
Inflation(annual Average)	Single digit	10.4	7.2	8.1	11.0	18.3
Fiscal Deficit incl. grants/GDP (per cent)	$\leq$ 3 per cent	1.5	3.9	4.9	5.0	9.0
Central Bank Financing of Fiscal Deficit						
as percent of previous year's tax revenue	$\leq$10 per cent	1.7	8.6	16.7	54.6	81
Gross External Reserves(in months of import cover)	$\geq$ 3 months	3.2	3.0	5.0	3.8	3.5
Number of criteria satisfied		4	3	3	1	1

Source: Bank of Sierra Leone, WAMI

Table 9: Status of Rationalized ECOWAS Secondary Convergence Criteria, 2013-2017

Secondary Criteria	Target	2013	2014	2015	2016	2017
Exchange Rate Variation	± 10	0.5	-13.5	-13.4	-29.1	4.2
Public Debt/GDP (per cent)	$\leq$ 70 per cent	28.4	35.9	69.3	55.1	59.1
Number of criteria satisfied	2	1	1	1	2	

Source: Bank of Sierra Leone, WAMI

4. DEVELOPMENTS IN THE FINANCIAL MARKETS

4.1 Developments in the Money Markets

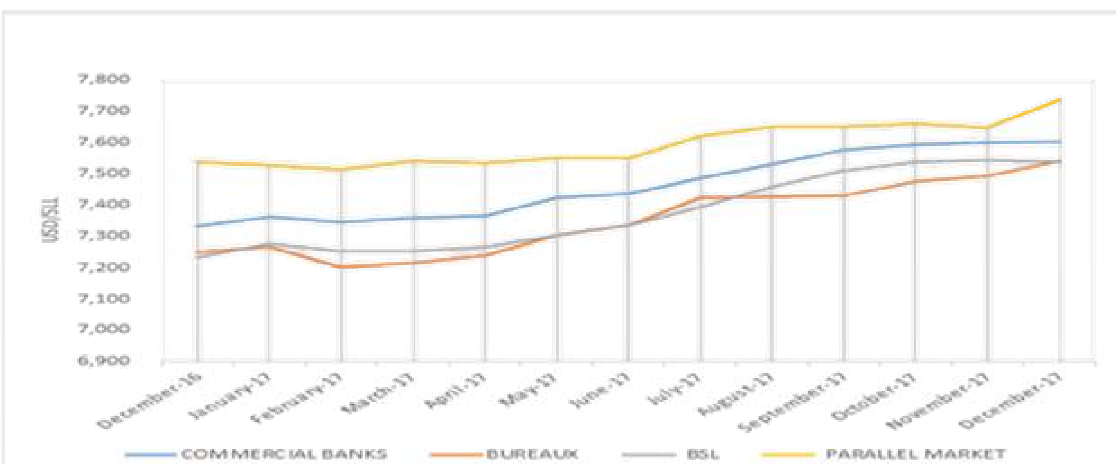
Interbank Market

The volume of interbank transactions in the secondary market amounted to Le1, 730.00bn in 2017 compared to Le1, 275.58bn recorded in 2016. This is a good signal as it depicts that Counterparties are increasingly trading among themselves. The volume of transactions in the Bank's Standing Lending Facility window amounted to Le5, 822.20bn in December, 2017 compared to Le916.50bn in 2016 reflecting liquidity tightness in the banking system.

4.2 Exchange Rate Developments

The exchange rate of the Leone vis-à-vis the US dollar depreciated across all the foreign exchange market segments, but was relatively stable when compared to the preceding and corresponding periods, reflecting a decline in market speculations and increased foreign exchange inflows from mining related activities. In 2017, the exchange bureaux rate depreciated by 18.51 per cent compared to the depreciation of 24.62 per cent in 2016. The official rate depreciated by 17.37 per cent against the depreciation of 21.64 per cent in 2016. The commercial banks rate depreciated by 16.49 per cent relative to the depreciation of 26.78 per cent in the previous year; while the parallel market rate depreciated by 12.65 per cent compared to the depreciation of 27.32 per cent in 2016. Consequently, the bureaux, official, commercial banks and parallel markets rates averaged Le7,357.39/USD1, Le7,384.43/USD1, Le7,472.00/USD1 and Le7,588.38/USD1 per dollar in 2017, respectively.

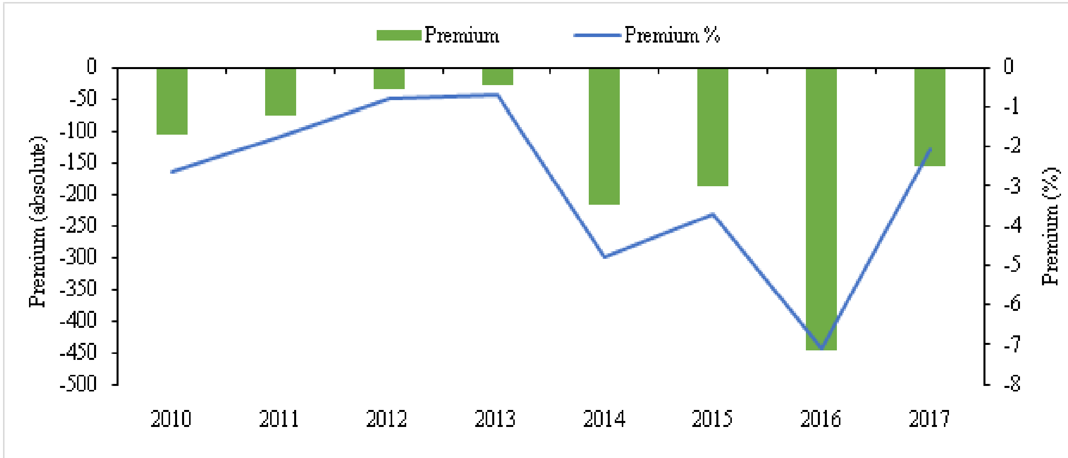
Figure 26: Trends in Exchange Rates



Source: Bank of Sierra Leone

The premium between the Official rate and the Parallel exchange rate narrowed by 2.76 per cent from Le444.44/USD1 in 2016 to Le203.94/USD1 in the review period.

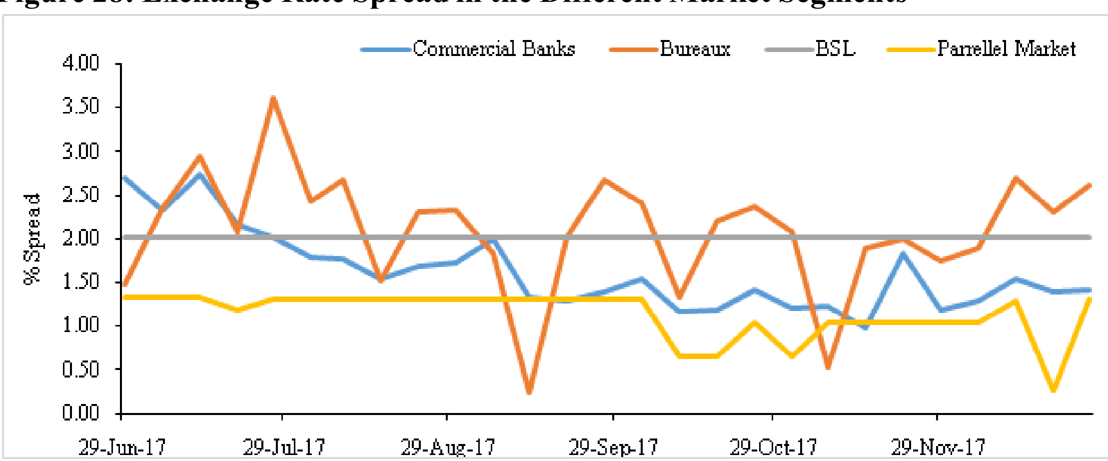
Figure 27: Premium between the Official and Parallel Exchange Rates



Source: Bank of Sierra Leone

The percentage spread in the official exchange rate remained constant at 2.00per cent during 2017. However the spreads in the commercial banks, bureau and parallel market varied. The percentage spread in the commercial banks' rate narrowed in 2017, recording a maximum spread of 2.74 per cent, compared to the maximum spread of 7.42 per cent recorded in 2016. The percentage spread in the foreign exchange bureau rate widened in 2017, with a maximum spread of 3.61 per cent, compared to the maximum spread of 2.83 per cent recorded in 2016. Similarly, the spread in the parallel market rate narrowed in 2017, with a maximum spread of 1.33 per cent, compared to the maximum spread of 3.33 per cent recorded in 2016.

Figure 28: Exchange Rate Spread in the Different Market Segments



Source: Bank of Sierra Leone

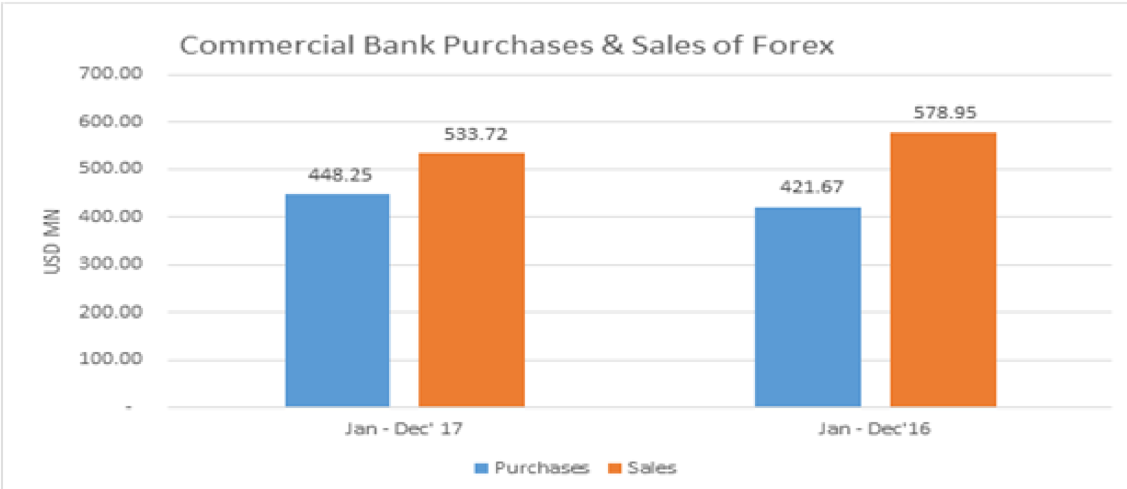
4.3 Developments in the Foreign Exchange Markets

Foreign Exchange Reserves and Investment Management

The total foreign exchange turnover was USD1.204bn in 2017, about 1.77per cent higher than the total foreign exchange turnover recorded in 2016, but 18.3per cent lower than the total foreign exchange turnover in 2015.

The monthly average foreign exchange turnover in 2017 was USD100.36mn, compared to USD98.62mn in 2016 and USD123.64mn 2015. The improvement in 2017 could be attributed to increased real sector activities.

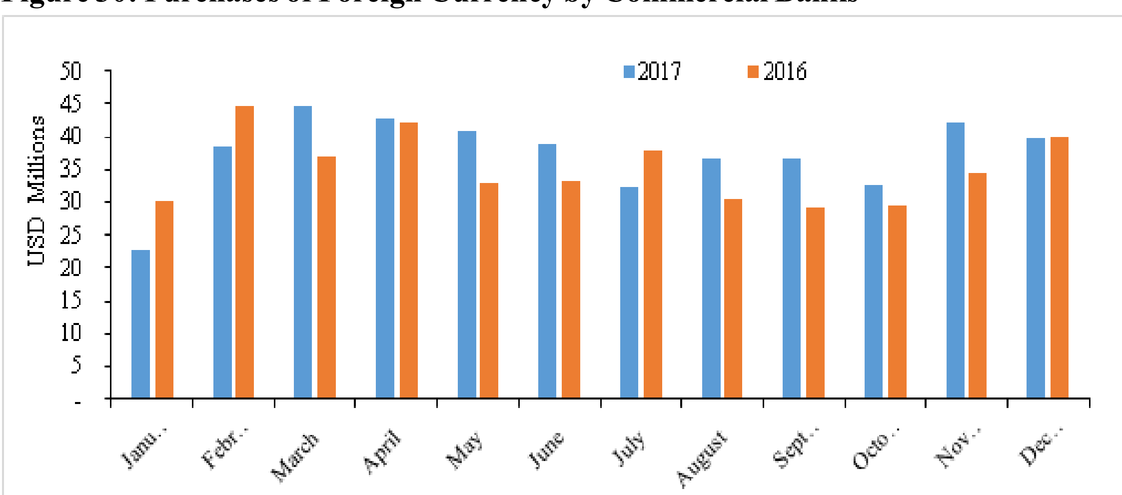
Figure 29: Commercial Banks Purchases and Sales of Forex



Source: Bank of Sierra Leone

Total foreign exchange purchased by commercial banks increased by 6.30 per cent to USD448.25mn in 2017, compared to the total purchase of USD421.67mn recorded in 2016, but decreased by 22.59per cent compared to USD579.05mn recorded in 2015. The monthly average purchase by commercial banks was USD37.35mn in 2017, an increase when compared to USD31.14 in 2016, but a decline when compared to 2015's monthly average of USD48.25. The highest commercial bank purchase was in March (USD44.55mn) and the lowest commercial bank purchase was in January (USD22.84mn). The increase in foreign exchange purchased by banks reflected increased real sector activities especially in the construction sector.

Figure 30: Purchases of Foreign Currency by Commercial Banks

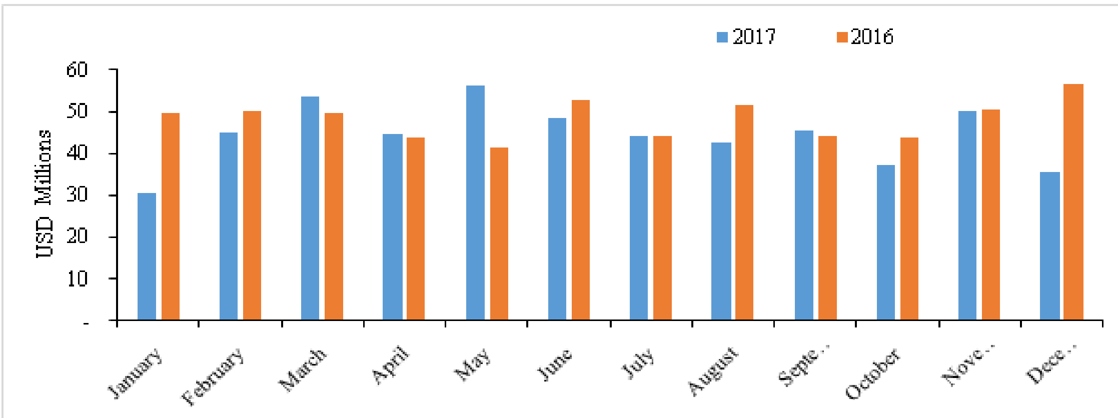


Source: Bank of Sierra Leone

Total foreign exchange sold by commercial banks decreased by 7.81per cent to USD533.72mn in 2017 compared to USD578.95mn recorded in 2016 and represent a 23.22per cent decrease when compared to the value of USD754.032015 in 2015. The monthly average of commercial bank sales for 2017 was USD44.48mn, while in 2016 and 2015 monthly averages were USD48.25mn and USD62.84mn respectively. The highest commercial bank sales were in May a total of USD56.28mn and the lowest commercial bank sales were in January a total of USD30.51mn.

During the year, decreases were observed in banks' sales of foreign exchange to importers of trade related items, rice importers, investment related activities, travel operators and telecommunication operators and more substantially logistic companies.

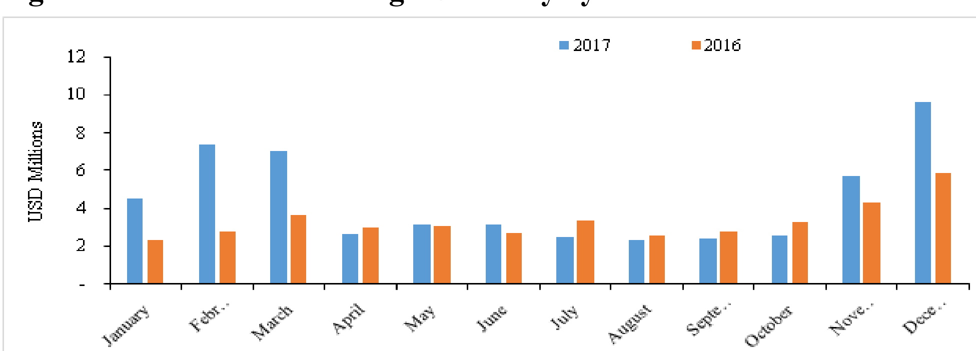
Figure 31: Sales of Foreign Currency by Commercial Banks



Source: Bank of Sierra Leone

Total foreign exchange purchased by the foreign exchange bureaux increased by 34.01per cent to USD52.93mn, compared to USD39.49mn recorded in 2016 and by a 68.61per cent when compared to USD31.39mn recorded in 2015. The average monthly purchase by foreign exchange bureaux increased to USD4.41mn in 2017 when compared to USD3.29mn in 2016 and USD2.62mn in 2015. The volume of foreign exchange purchase by bureaux was relatively high at the start of the year (USD4.51mn) but started to decline in the second quarter and reaching its lowest value (USD2.36mn) in August 2017, the same as in January 2016 which was also 2016's lowest value. The maximum purchase by foreign exchange bureaux was USD9.59mn which was recorded in December 2017.

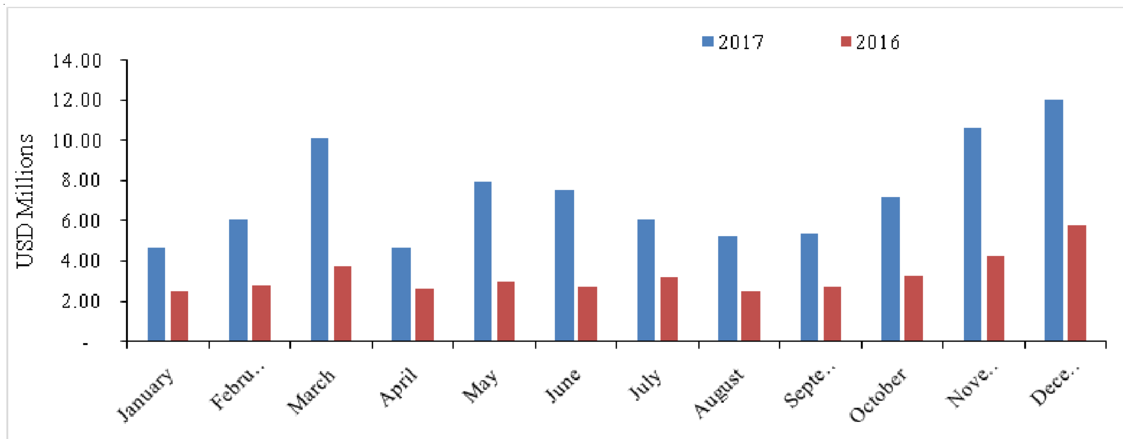
Figure 32: Purchases of Foreign Currency by Bureaux



Source: Bank of Sierra Leone

Total foreign exchange sold by bureaux increased by 123.81per cent to USD87.51mn in 2018 when compared to USD39.10mn recorded in 2016 and by a 159.46per cent increase when compared to USD33.73mn recorded in 2015. The average monthly purchases by foreign exchange bureaux increased to USD7.29mn in 2017 when compared to USD3.26mn in 2016 and USD2.81mn in 2015. Foreign exchange sales by foreign exchange bureaux reached its lowest value in April 2017 of USD4.65mn, while the maximum sales by foreign exchange bureaux was USD12.04mn realised in December 2017.

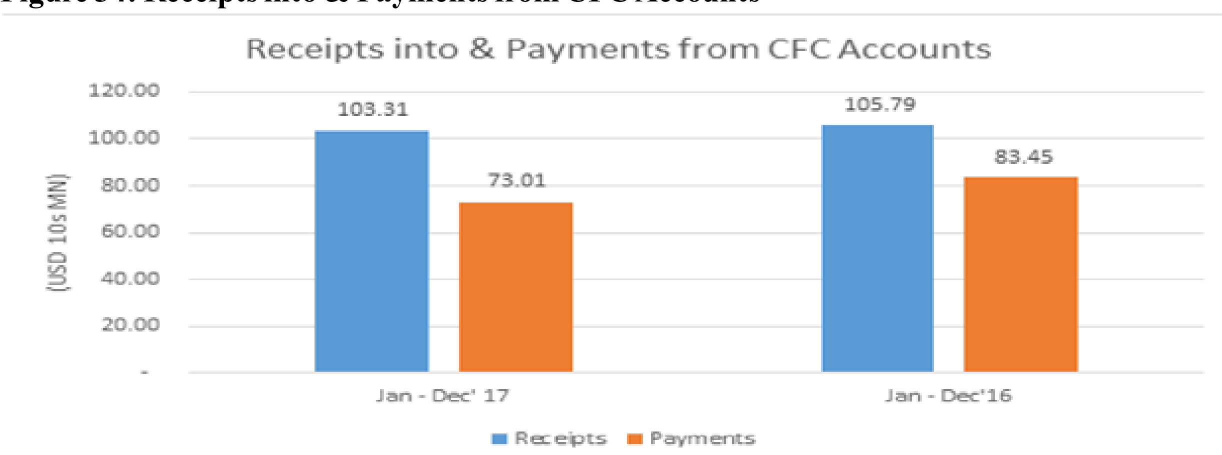
Figure 33: Sales of Foreign Currency by Foreign Currency Bureau



Source: Bank of Sierra Leone

Receipts into customer foreign currency accounts for 2017 decreased by 2.35per cent to USD1.03bn compared to the total of USD1.06bn recorded in 2016. The monthly average of receipts into customers foreign currency accounts for 2017 was USD86.09mn, while in 2016 it wasUSD88.16.

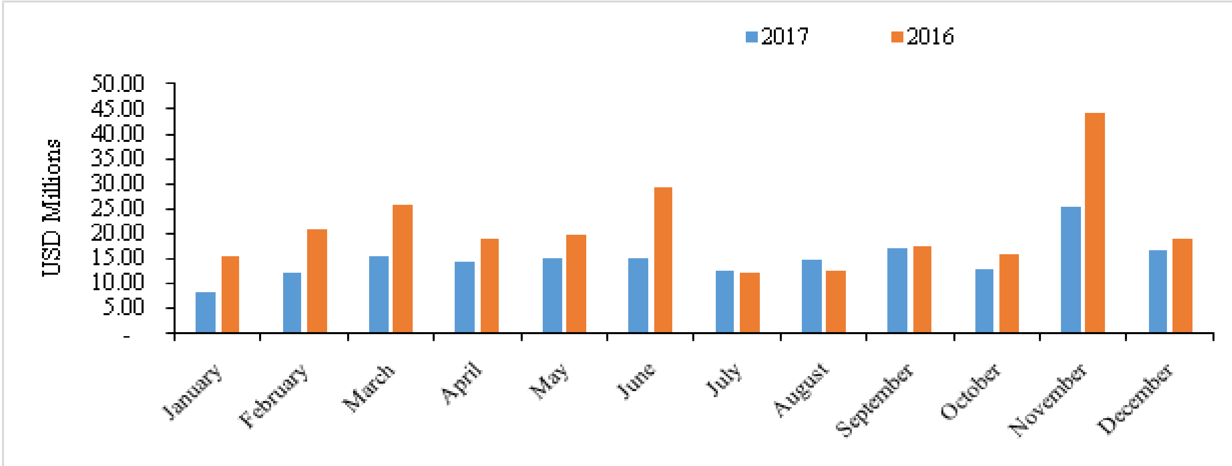
Figure 34: Receipts into & Payments from CFC Accounts



Source: Bank of Sierra Leone

The highest receipts into customer foreign currency accounts in March 2017 amounted to USD113.68mn and the lowest receipts into customers foreign currency accounts in October 2017 amounted to USD71.85mn. The categories of customers which recorded significant decreases in the foreign exchange receipts were the marine industry, agricultural companies and the manufacturing companies.

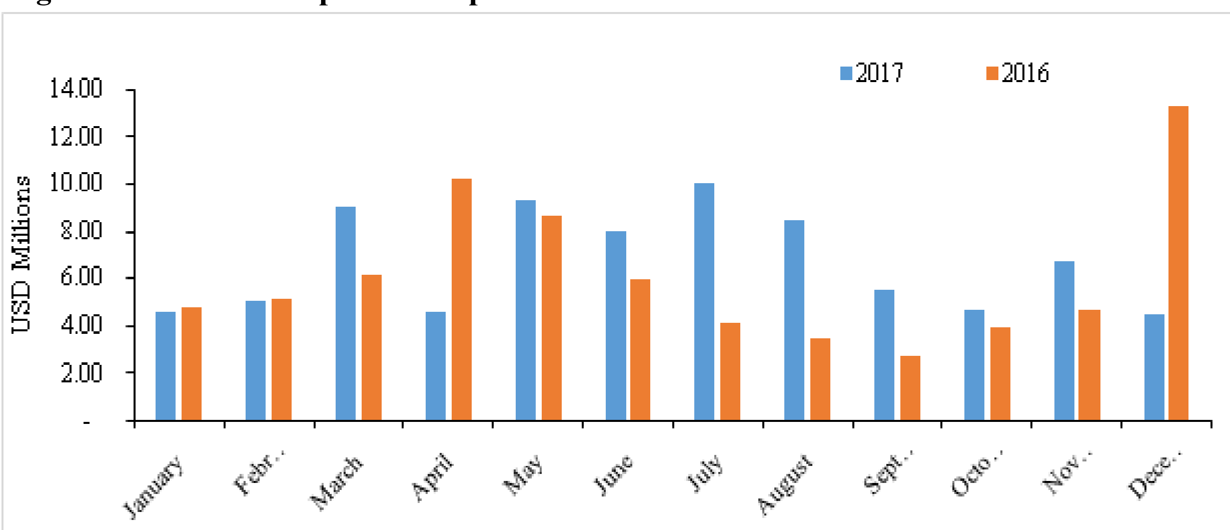
Figure 35: Receipts into Customer Foreign Currency Accounts



Source: Bank of Sierra Leone

Receipts from diamond exports amounted to USD179.96 in 2017, a decrease of 28.39per cent when compared to the total amount of USD251.32 recorded in 2016, whereas in 2015, a total amount of USD154.09 was recorded. The average monthly receipts from diamond exports was USD15.00, while in November 2017 receipts from diamond exports peaked at USD25.32mn but went as low as USD8.22mn in January 2017 . In comparison, the lowest amount received from diamond exports in 2016 was in July of USD12.16 while the highest was in November of USD44.25mn.

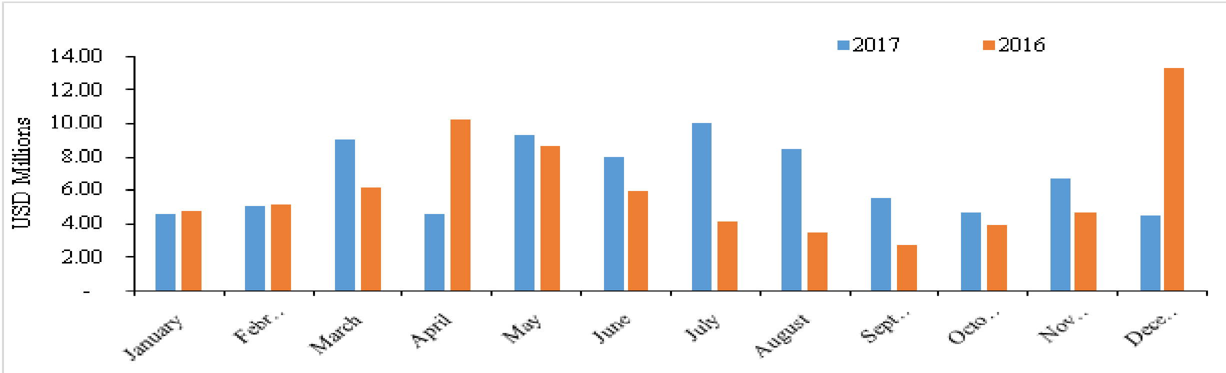
Figure 36: Diamond Exports Receipts



Source: Bank of Sierra Leone

Total diaspora remittances for 2017 increased by 10.12per cent to USD80.32mn from USD72.94mn in 2016. The average monthly remittances from the diaspora was USD6.69mn, while in July 2017 diaspora remittances peaked at USD10.06mn but went as low as USD4.46mn in December 2017. In comparison, the lowest diaspora remittances amount in 2016 was in September of USD2.74 while the highest was in December of USD13.25mn.

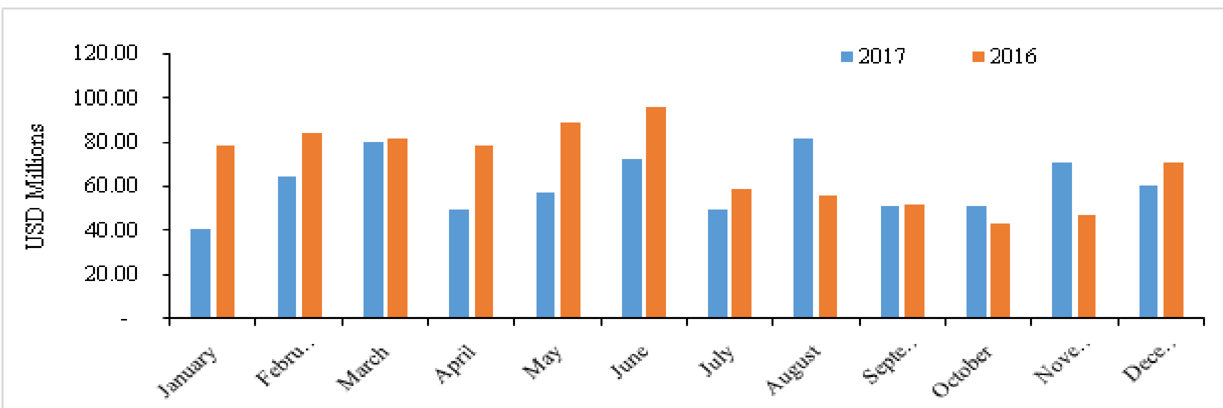
Figure 37: Diaspora Remittances



Source: Bank of Sierra Leone

Payments from customer foreign currency account for the period 2017 decreased by 12.50per cent to USD730.14mn compared to USD834.46mn recorded in 2016. The highest payments from customer foreign currency accounts were in August 2017, a total of USD81.99mn and the lowest payments from customer foreign currency accounts were in January 2017, a total of USD41.05mn.

Figure 38: Payments from Customer Foreign Currency Accounts



Source: Bank of Sierra Leone

The decrease in payments from customer foreign currency accounts was due to decreases in trade, in particular the rice importers, the marine industry, the mining sector and the agricultural companies. The weekly wholesale foreign exchange auction complements the Bank's monetary operations by providing a means through which the counterpart Leones realized from the disbursements of donor funds are sterilized. It also provides a source of supply of foreign exchange to the market. However, in May 2017 the Bank halted its weekly wholesale foreign exchange auction to allow the market to adjust to the conditions of demand and supply.

Bank of Sierra Leone's Foreign Exchange Auction

During the period January to May 2017, total amount of foreign exchange sold in the weekly wholesale foreign exchange auction was USD45.3mn, compared to USD13.0mn recorded in the same period in 2016. The main sectors that benefited from the amount sold in the auction in the review period included; rice (USD10.77mn), oil (USD3.96mn), other food and provision (USD5.26mn), other general merchandise (USD7.99mn), raw materials (USD3.82mn) and building materials (USD3.11mn).

5. FINANCIAL SECTOR DEVELOPMENTS

5.1 Overview

The year 2017 was characterized with a broad spectrum of activities in developing and maintaining the stability of the financial sector. The BSL approved the opening of Commerce and Mortgage Bank SL Plc and additional bank branches to the following commercial banks during the review period: United Bank for Africa (UBA) SL Limited in Bo in the southern province, Makeni in the Northern Province and Lumley in the Western area. Guaranty Trust Bank (SL) Limited at Wellington, Old ATC Compound.

The Bank continued to scrutinise all appointees to the Boards and Senior Management positions of banks to ensure that only 'fit and proper' persons run the affair of the banking institutions. In that regard, the BSL approved the appointment of thirty-two persons into the Boards and Management of banks

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The banking sector has witnessed an increase in the number of money transfer products in the Sierra Leone market in the last five years. Approvals were granted to FBN (SL) and UBA (SL) for Wari money transfer services a revised loan write-off policy which is aimed at reducing the level of Non-Performing Loans in banks and prevents the build-up of toxic assets in the balance sheet of commercial banks was issued in 2017 . The Bank of Sierra Leone constituted Working Groups for both the IFRS 9 and Risk-Based Supervision implementation. As implementation of IFRS 9 is taking place effective 1st of January 2018, all the commercial banks were invited to the BSL to do a presentation on their preparedness.

Also, the BSL has prepared a risk-based supervision framework and has also completed a risk-based pilot examination of two banks, Zenith Bank (SL) Limited and Key Stone Bank (SL) Limited.

To fully implement the risk-based supervision, the On-site and Off-Site supervision of banks have been separated and in addition, a quality assurance section has also been created to fulfill the precondition for a risk-based supervision.

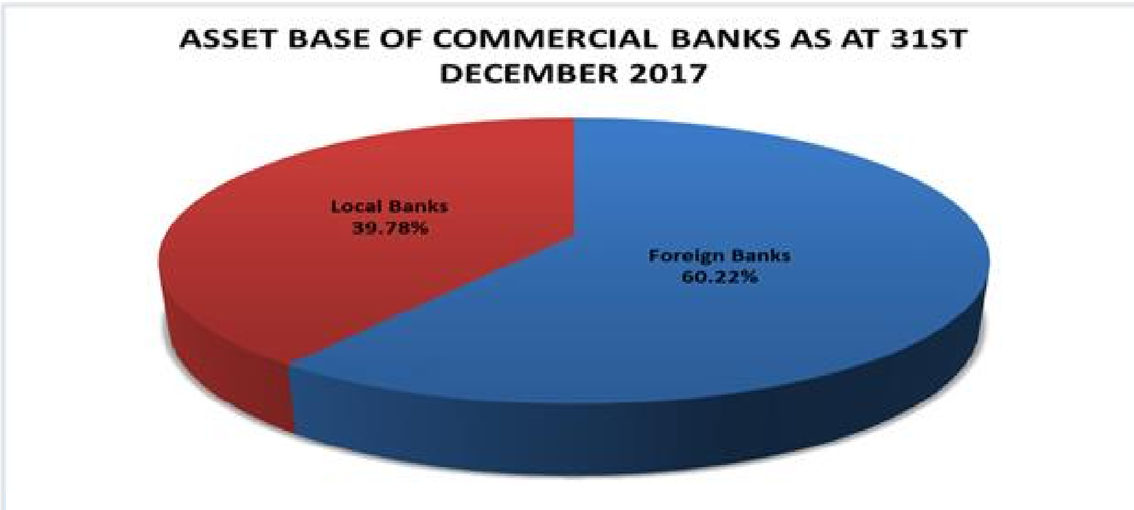
There are also new sections created to fully compliment the examination efforts of commercial banks and these includes; the Problem Banks Supervision, Deposit Insurance and consumer protection. Due to the seriousness of the issues highlighted in the most recent On-site examination reports, one bank was deemed to be a problem bank and therefore has been assigned a resident supervisor.

In addition, the Other Financial Institutions (OFIs) sector in Sierra Leone comprises all financial institutions licensed by the Bank of Sierra Leone under the Other Financial Services Act 2001. They include, five (5) Deposit-taking MFIs (DTMFIs) fifteen (15) Credit-Only MFIs, seventeen (17) Community Banks (CBs), an Apex Bank, two (2) Discount Houses, sixty two (62) Foreign Exchange Bureaux and two (2) Mobile Money network operators.

5.2 Banking Sector

The total assets in the banking sector stood at Le7.43trillion as at end December 2017. The four (4) local and ten (10) foreign subsidiaries commercial banks accounted for 39.78per cent and 60.22per cent of the industry's total assets respectively (see the figure 40 below).

Figure 39: Asset Base of Commercial Banks

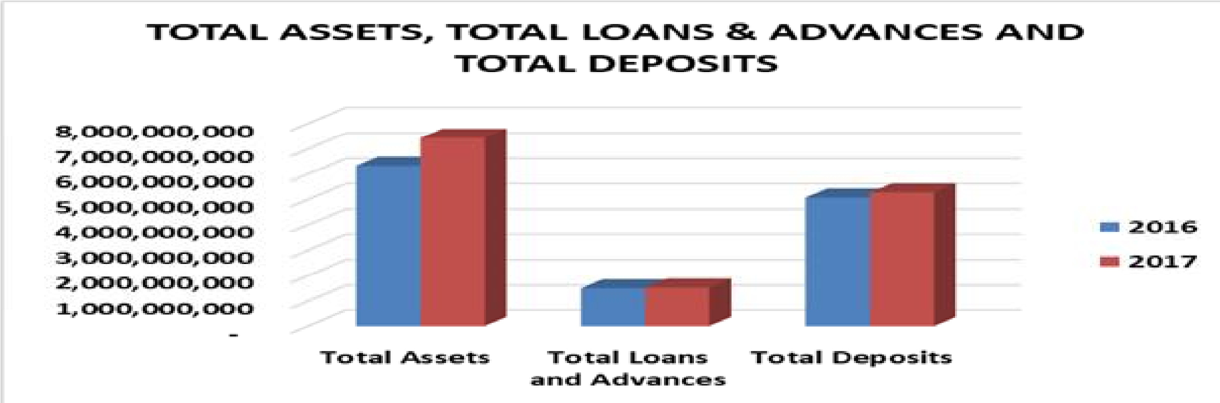


Bank of Sierra Leone

The assets of the banking industry increased by Le1.10 billion (17.37per cent) from Le6.33trillion in December 2016 to Le7.43 trillion as at end December 2017, notwithstanding the current economic situation. The growth may be attributed to Le554.62 billion (26.07per cent) increase in investment on Treasury bills from Le2.13trillion in December 2016 to Le2.68 trillion in December 2017. Investments was the key driver of growth as it constituted 36.08per cent (December 2016: 33.59per cent) of the industry's asset base as at 31st December 2017, other significant asset classes included Claims on Financial Institution and net advances constituting 30.42per cent and 18.64per cent respectively. All the banks, with the exception of four foreign banks recorded an increase in asset base. On the liability side, customers' deposits increased by Le198.95billion (3.92per cent) from Le5.08trillion as at 31st December 2016 to Le5.27 trillion end December 2017. The growth could be mainly attributed to the expected success of the financial inclusion drive which impacted positively on banks' deposit mobilization hence increase in liquidity.

Deposits continued to account for a significant portion of total liabilities accounting for 70.97per cent and 80.15per cent as at end December 2017 and December 2016 respectively. Demand deposits formed a significant proportion of total deposits as it accounted for 65.04per cent and 65.80per cent as at end December 2017 and December 2016 respectively, indicating a high volatility of deposits in the industry. During the period under review, savings and time accounted for 26.33per cent and 8.62per cent of the total deposits liability respectively. Other components of liabilities as at end December 2017 include Shareholders funds and other liabilities, accounting for 14.10per cent and 6.06per cent respectively.

Figure 40: Growth of Key financial indicator

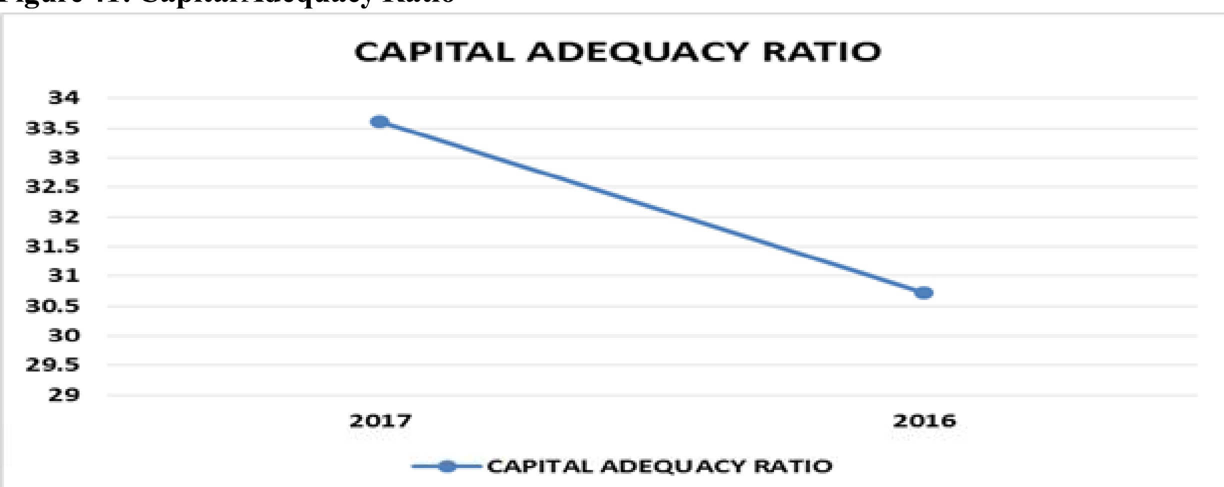


Source: Bank of Sierra Leone

Capital

The issued and paid up capital of the banking system grew by Le64.85 billion (14.09per cent) within the year from Le460.17 billion in December 2016 to Le525.02 billion in December 2017. All the banks met the minimum paid-up capital of Le30 billion for end December 2017. The industry's CAR was 33.61per cent and 30.73per cent as at 31st December 2017 and 31st December 2016 above the statutory minimum of 15per cent. All the banks met the capital adequacy ratio (CAR) of 15per cent with the exception of one bank.

Figure 41: Capital Adequacy Ratio



Source: Bank of Sierra Leone

Shareholders' Funds

Shareholders' funds grew by Le313.13bn (up 42.62per cent) from Le 734.71billion 31st December 2016 to Le1.05 trillion end December 2017. It accounted for 14.08per cent of the industry's liabilities for the review period. The shareholders' funds to deposits ratio stood at 19.84per cent and 14.47per cent for end December 2017 and end December 2016 respectively.

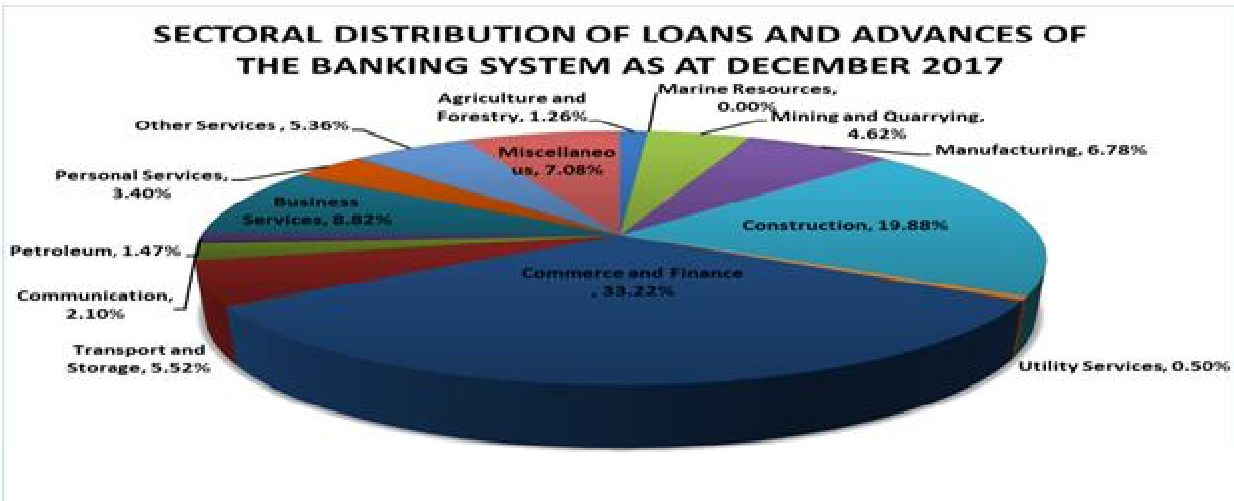
Credit Portfolio

Gross loans and advances increased by Le32.06 billion (2.13per cent) from Le1.50trillion in December 2016 to Le1.53trillion in December 2017.

Sectoral Distribution of Loans and Advances

Services Le135.30 billion (8.82per cent), miscellaneous Le108.58billion (7.08per cent), manufacturing Le104.03billion (6.78per cent), transport & storage Le84.77billion (5.52per cent), other services Le82.17billion (5.36per cent). The remaining balance of Le150.15billion (13.35per cent) was allocated to other sectors in the economy as shown on the Pie Chart below.

Figure 42: Sectoral Distribution of Loans and Advances of the Banking System



Source: Bank of Sierra Leone

Non-Performing Loans (NPLs)

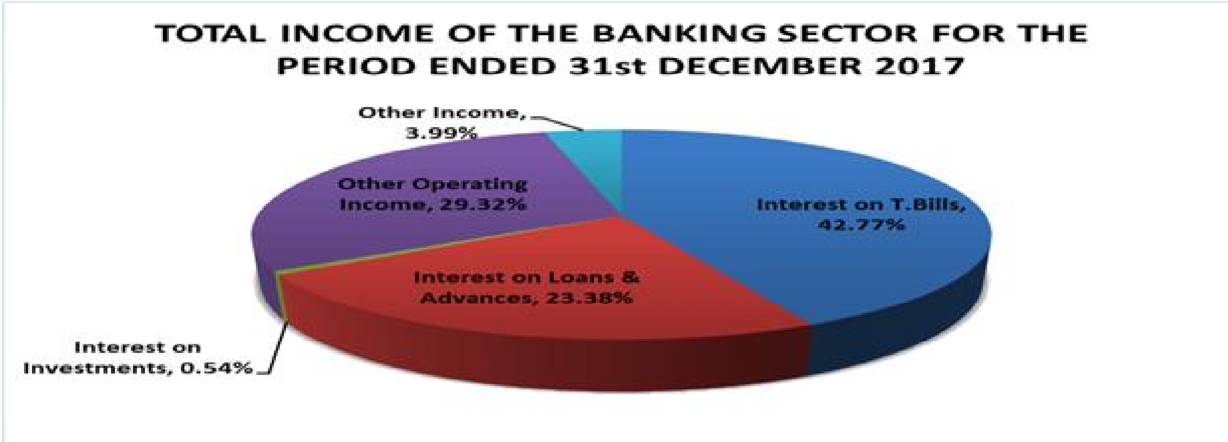
The non-performing loan ratio was 14.64per cent as at December 2017 compared to 22.65per cent in December 2016, both above the prudential limit of 10per cent. The downward trend of the NPL was due to loan write off directive and recoveries made by some banks.

Profitability

The pre-tax profits for the sector increased by Le167.78billion (77.29per cent) from Le217.09 billion end December 2016 to Le384.87 billion in December 2017. The growth was largely supported by significant increase in revenue from interest income by Le284.39bn (62.73per cent) from Le453.35billion to Le737.74billion.

For the period ended 31st December 2017, interest income accounted for more than half of the industry's total income (66.69per cent) which includes interest on T-bills 42.77per cent, interest on loans & advances 23.38per cent and interest on investment 0.54per cent, while other operating income contributed 29.32per cent and other income accounted for 3.99per cent as shown on the pie chart below.

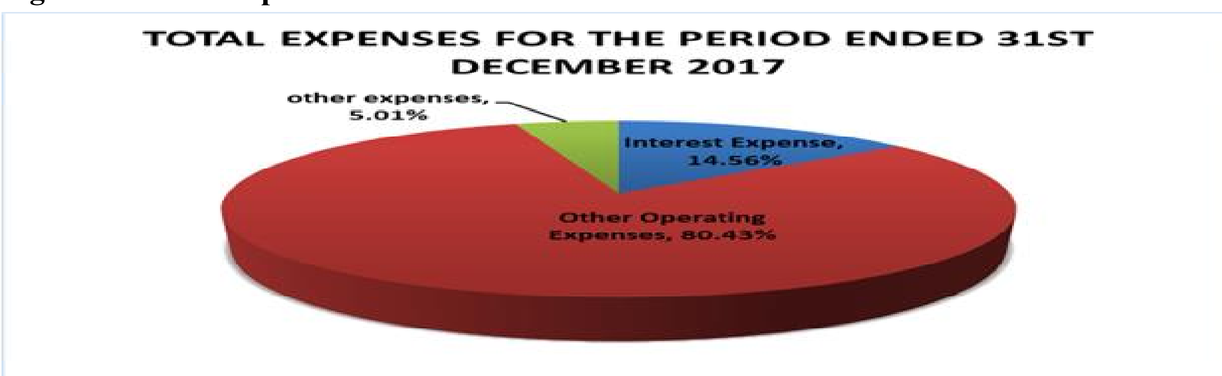
Figure 43: Total Income of the Banking Sector



Source: Bank of Sierra Leone

On the expenses side, other operating expenses accounted for a significant proportion of the industry's expenses as it accounted for 80.43per cent (Admin& other costs (52.54per cent); Staff costs(39.92per cent), interest expenses formed 14.56per cent and other expenses accounted for 5.01per cent for the period ended 31st December 2017 as indicated on the diagram below.

Figure 44: Total Expenses



Source: Bank of Sierra Leone

Liquidity

The cash reserve ratio stood at 17.54 per cent as at December 2017 compared to 16.89per cent registered in December 2016, above the statutory minimum limit of 12 per cent recording a surplus of 0.65per cent. The industry also met the overall liquidity requirement recording 66.90per cent and 85.50per cent in December 2017 and December 2016 respectively, all above the prudential average ratios of 30per cent.

Foreign Exchange Risks

The banking sector is not susceptible to foreign exchange risk as the aggregate and single net open positions (NOP) were recorded at -14.66per cent and -14.32 per cent, within the statutory requirements of +/-25per cent and +/-15 respectively. All banks, with the exception of three banks did not meet the statutory limits of the aggregate NOP and four banks could not meet the single NOP for some of the currencies. The share of foreign currency liabilities to total liabilities was 35.14 per cent.

On site examination was carried out on five banks. An enhanced supervisory regime was put in place for the two state owned banks.

The banking sector is projected to maintain an upward trend in performance in 2018 as a result of the positive trend in the financial soundness indicators and BSLôs efforts to strengthen the legal framework which might impact positively on the asset quality and continued stability of the Banking Sector.

Table 10: Consolidated Profit and Loss Account for the Banking Industry (Unaudited) for the Period Ended 31st December 2017

	2017	2016
	Le 000	Le 000
Interest Income	737,737,281	453,345,812
Interest Expense	-105,027,925	-74,761,120
Net Interest Income	632,709,356	378,584,692
Loan Loss Provision	-36,119,609	-43,848,559
Net Intermediation Income	596,589,747	334,736,133
Other Operating Income	324,371,812	354,566,547
Total Operating Income	920,961,559	689,302,680
Other Operating Expenses	-580,279,881	-479,376,529
Net Operating Income	339,517,684	209,926,151
Other Income	44,184,988	7,161,766
Profit before Tax	384,866,666	217,087,917
Taxation	-115,460,000	-65,126,375
Profit after Tax	269,406,666	151,961,542

Source: Bank of Sierra Leone

Table 11: Consolidated Balance Sheet of Banking System as at 31st December 2017

ASSETS	Dec-17	Dec-16
Cash:	408,441,662	454,629,167
Claims On Financial Institution	2,260,894,987	1,964,784,046
Investment:	2,681,980,130	2,127,360,531
Net Advances:	1,385,787,621	1,233,537,975
Other Assets	361,841,667	280,924,114
Fixed Asset :	334,035,713	271,923,829
Total Assets	**7,432,981,781**	**6,333,159,662**
LIABILITIES		
Issued & paid -up	525,018,309	460,173,372
Statutory	244,537,448	221,241,697
Revaluation	47,452,888	47,556,781
Other(Purchase of shares & proposed Dividend)	127,326,226	132,372,553
Retained earnings	-167,245,652	-278,592,277
Current	269,406,667	151,961,542
Other amounts allowed as capital	0	4,757,953
Short Term Borrowings	139,797,071	15,357,293
Long Term Borrowings	114,901,839	14,791,645
Other Deposits	2,861,289	7,311,599
Deposit:- Financial Institution:	4,152,699	9,290,616
Local Deposits	3,317,492,824	3,087,255,523
Foreign	1,957,476,005	1,972,158,341
Special Deposit	120,401,605	367,798
Margins Against Contingent Liabs.-	277,563,416	64,807,300
Other Liabilities:	**451,773,168**	**422,347,926**
Total Liabilities	**7,432,981,781**	**6,333,159,662**

Source: Bank of Sierra Leone

Table 12: Financial Soundness Indicators of the Banking System

INDICATORS	17-Dec	16-Dec
CAPITAL ADEQUACY		
Regulatory capital to risk-weighted assets (per cent)	33.61	30.73
Primary capital to risk-weighted assets (per cent)	26.54	25.89
Capital (net-worth) to assets (per cent)	14.08	11.6
ASSET QUALITY & COMPOSITION		
Non- Performing Loans as a per cent of Total Advances	14.64%	22.65%
Loan Loss Provisions as a per cent of Non -Performing	14.64%	22.65%
PROFITABILITY AND EFFICIENCY		
Return on Assets	5.30%	2.87%
Return on Equity Funds	25.63%	22.32%
Net Interest Spread	13.66%	8.93%
Cost to income ratio	65.21%	73.37%
Operating Expenses to Operating Income	63.01%	69.55%
LIQUIDITY		
Cash Ratio	17.74%	17.20%
Overall Liquidity Ratio	66.90%	85.50%
SENSITIVITY TO MARKET RISKS		
Percentage of aggregate Net Open position to capital Base	14.66%	2.03%
Percentage of single currency open position to capital base)	14.32%	0.42%

Source: Bank of Sierra Leone

Table 13: Number of Commercial Bank Branches as at 31st December 2017

	RCB	SLCB	SCB	UTB	GTB	FIB	FBN	ECO	ACC	UBA	SKY	ZEN	KS	CMB	Total
Branches 2015	12	13	4	12	14	17	2	10	4	5	3	4	3	-	94
Branches 2016	12	13	4	12	15	17	2	10	4	6	3	4	3		97
Branches 2017	12	13	4	12	15	17	2	10	4	8	3	4	3	1	101
Freetown	6	5	3	3	7	8	2	4	3	6	3	2	3	1	50
Water loo	-	1	-	-	-	1	-	1	-	-	-	-	-		3
Bo	1	1	1	1	1	1	-	1	-	1	-	-	-		7
Moyamba	1	1	-	-	-	-	-	-	-	-	-	-	-		2
Pujehun	1	-	-	-	-	-	-	-	-	-	-	-	-		1
Njala	-	1	-	1	-	-	-	-	-	-	-	-	-		2
Kenema	1	1	-	1	1	1	-	1	-	-	-	1	-		7
Kono	1	1	-	1	1	1	-	1	-	-	-	-	-		5
Kailahun	-	-	-	-	-	1	-	-	-	-	-	-	-		1
Makeni	1	1	-	-	1	1	-	1	1	1	-	-	-		7
Magburaka	-	-	-	1	-	1	-	-	-	-	-	-	-		2
Lunsar	-	-	-	1	1	-	-	1	-	-	-	-	-		1
Lungi	-	-	-	-	1	1	-	-	-	-	-	1	-		2
Mile	-	-	-	1	-	-	-	-	-	-	-	-	-		1
Pepel	-	-	-	-	1	-	-	-	-	-	-	-	-		1
Bumbuna	-	-	-	-	1	-	-	-	-	-	-	-	-		1
Port Loko	-	1	-	-	-	1	-	-	-	-	-	-	-		2
Kabala	-	-	-	1	-	-	-	-	-	-	-	-	-		1
Kambia	-	-	-	1	-		-	-	-	-	-	-	-		1
Total	12	13	4	12	15	17	2	10	4	8	3	4	3	1	108

5.3 Other Financial Institutions

Activity and Performance: Selected Indicators

The performance of the sector in 2017 was satisfactory. However, the Portfolio at Risk (PaR) of some MFIs and CBs and the minimum paid-up capital requirement for CBs and Apex Bank continue to be a major challenge in the OFIs sector. The Portfolio at Risk (PaR) for both the CBs and MFIs is above the tolerable limit of 4.8% set by the Microfinance and Information Exchange (MIX) standard. In addition, meeting the minimum paid up capital requirement by CBs and Apex Bank is another challenge. However, with the exception of one Community Bank, all the CBs made profits for the period ended December 2017.

Capital

This parameter measures the amount of funds attributable to shareholders of the institution and the extent to which it is able to support its operations including risk assets. The issued and paid up capital highlights the amount of funds available for trading and other operations. The capital adequacy ratio (CAR) is a measure of an institution's capital, expressed as a percentage of a bank's risk weighted assets. It is used to protect depositors and promote the stability and efficiency of the financial system. The minimum paid up capital varies from one specialized institution to another as shown below.

Community Banks (CB)

The minimum paid-up capital requirement of community banks was Le1.00 billion and the minimum capital adequacy requirement is 8%. All the banks did not meet the minimum paid-up capital and six CBs did not meet the minimum capital adequacy ratio (CAR) at end December, 2017.

The institutions continue to mobilize shares in their quest to meet the minimum paid-up capital. Share mobilization to meet the minimum paid-up set by BSL has become a protracted issue due to the non-repayment of dividend since inception of the institutions. There are on-going negotiations with the World Bank to fund the Apex Bank thus, ensure that the Apex Bank achieve its objective in making it independent and sustainable. The Apex Bank will in turn fund the Rural Financial Institutions (RFIs), which will enable them operationally self-sufficient and in compliance with the Minimum required Paid-up Capital.

Deposit-taking MFIs (DTMFI)

The minimum paid-up capital requirement of Deposit-taking MFIs is Le1.00 billion. All of the institutions met both the minimum paid-up capital and CAR at end December, 2017. However, Bank for Innovation and Partnership (BIP) Microfinance which was licensed to carry out deposit-taking business has not started mobilizing deposits.

Discount Houses (DH)

The minimum paid-up capital requirement of Discount Houses is Le2.00 billion. Currently there are two discount houses and both of them have met the minimum paid-up capital.

Resource base

The resource base of CBs grew by 23.46% from Le49.61bn (December 2016) to Le61.25bn in December, 2017. This was mainly the result of an increase in total deposit to Le 21.65bn and total equity (up Le8.45bn: 63.99%) from Le13.20bn in December 2016. The increase was also reflected on the asset side as cash and bank balances increased to Le1.29bn and gross advances too increased to Le11.98bn from Le31.80bn in December 2016 to Le43.78bn in December 2017.

There was a significant growth in the resource base of DTMFIs, which grew by 175.23% (Le102.66bn) from Le Le58.58bn (December 2016) to Le161.24bn in December, 2017, owing to an increase in the number of deposit-taking MFIs from two (2016) to five in 2017.

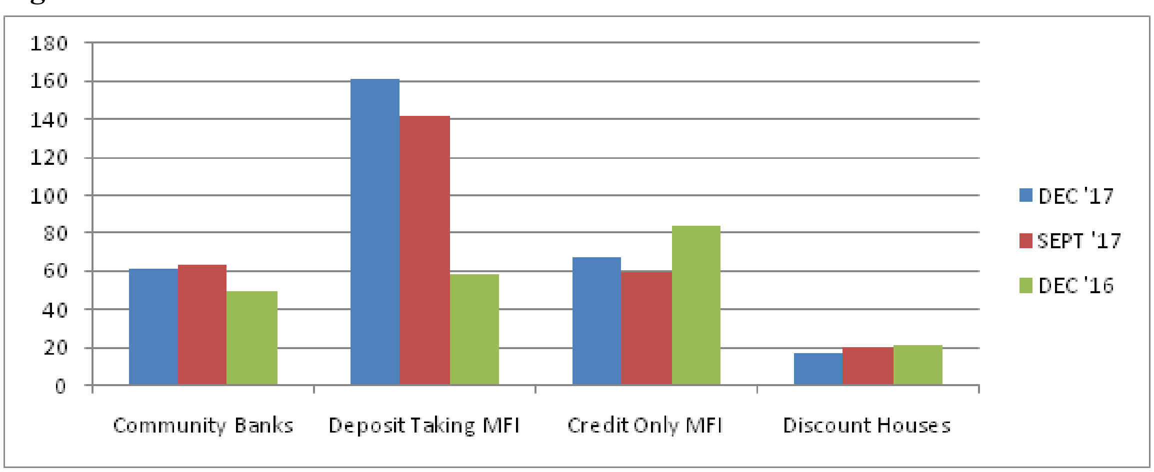
During the period December 2016 - December 2017, there was a decline in the resource base of DHs, evidenced by the decrease in scale of their operations in the money market. The resource base of DHs decreased by 15.98% over the one-year period (Dec'16/Dec'2017) and 15.98% in Q4, 2017. The tables below provide a yearly analysis of resource base of the OFIs: CBs, MFIs, and DHs.

Table 14: Resource base of selected OFIs

OFIs	Resource base, Le'bn 2016	Resource base, Le'bn 2017	Change, in%
Community banks	49.61	61.25	23.46
Deposit taking MFIs	58.58	161.24	175.25
Credit-only MFIs	84.19	66.97	-20.45
Discount houses	21.02	17.66	-15.98

Source: Bank of Sierra Leone

Figure 45: Resource Base of selected OFIs



Source: Bank of Sierra Leone`

Loan Portfolio

The loan portfolio of OFIs has increased substantially in 2017, except for credit-only MFIs as shown in the table below.

Table 15: Loan portfolio of selected OFIs

OFIs	Loan portfolio, in Le'bn		Change, in %
	2016	2017	
Community banks (CBs)	31.80	43.78	37.67
Deposit taking MFIs (DTMFIs)	63.27	92.95	46.91
Credit-only MFIs (COMFIs)	66.61	54.08	-18.81

Source: Bank of Sierra Leone

As per individual institutions, Kabala Community Bank accounted for the highest loan portfolio, whilst Sumbuya recorded the least resource base in the community banks' sector in December, 2017. Ecobank Microfinance (EMSL) accounted for 50.49% (Le'33.50bn) of the portfolio, whilst Eclipse MFI contributed the least with 0.08% of the total portfolio of the DTMFIs. For the credit-only MFIs (COMFI), the highest loan portfolio was from BRAC. It contributed 71.20% of the total portfolio while Renaissance contributed the least (0.17%) for the period under review.

Portfolio to Assets of OFIs

The primary business of these institutions is making loans and providing other financial services to micro-entrepreneurs. The Portfolio to Assets ratio shows how well the institutions allocate their assets to their primary business and, in most cases, their most profitable activity - making loans.

Table 16: Portfolio to Assets Ratio, in %

OFIs	Portfolio to Assets, in %	
	2016	2017
Community banks (CBs)	64.10	71.48
Deposit taking MFIs (DTMFIs)	61.17	57.64
Credit-only MFIs (COMFIs)	78.44	80.76

Source: Bank of Sierra Leone

The table above shows an increasing trend in the portfolio to assets ratio of CBs and COMFIs implying that these institutions deployed more funds into high yielding micro-loans. The ratio for DTMFIs showed a decreasing trend. This could be the result of an upsurge in the repayment of loans during the period under review.

Portfolio at Risk (PaR)

One of the most important tools used to assess a micro-finance institution's asset quality is portfolio at risk (PaR). It is expressed as a percentage, which represents the "proportion of an institution's total gross outstanding loan portfolio that is at default risk. All the institutions under consideration, with the exception of one community bank, have PaR above the tolerable MIX (Microfinance Information and Exchange) standard of 4.8%. The high rate of delinquency was due to either lack of willingness of borrowers to repay loans, or diversion of funds by borrowers, or poor business turnover; or improper appraisal process by credit officers.

Table 17: Portfolio at risk

OFIs	Portfolio at risk, in %	
	2016	2017
Community banks (CBs)	17.80	17.56
Credit-only MFIs (COMFIs)	5.21	33.01
Deposit taking MFIs (DTMAFIs)	10.56	14.84

Source: Bank of Sierra Leone

As shown in the table above, the quality of the loan portfolio of OFIs considerably deteriorated when compared to that recorded in December 2016 and in particular to the tolerable limit of 4.8 percent.

The increase in PaR of credit-only MFIs was attributed to the entrance of more MFIs in the system coupled with the poor loan appraisal processes and recovery actions, whilst the PaR of the deposit-taking MFIs deteriorated by 0.70 percentage point mainly as a result of customers' unwillingness or inability to repay loans granted to them.

Liquidity

Deposits - The CBs and DTMFIs are the only licensed non-bank deposit-taking institutions in the country. The deposits of these institutions have increased during the period under review.

Table 18: Deposits of CBs and DTMFIs, in Le'bn

OFIs	Deposit, in Le'bn		Change, in %
	2016	2017	
Community banks (CBs)	26.43	29.57	11.88
Deposit taking MFIs (DTMFIs)	60.69	88.58	45.95

Source: Bank of Sierra Leone

Deposits consist of funds mobilized from the general public and from the members of the institutions, payable on demand. The institutions continue the drive to mobilize deposits which had enabled them to maintain an excess liquidity over the minimum requirement. The growth in deposits of the OFIs could be attributed to the increase in the number of deposit taking microfinance institutions MFIs (DTMFIs) and the introduction of cash points by community banks (CB) in some locations in the rural areas, in addition to the increased awareness of the public as a result of the financial literacy campaign program organized by the BSL in collaboration with the UNCDF.

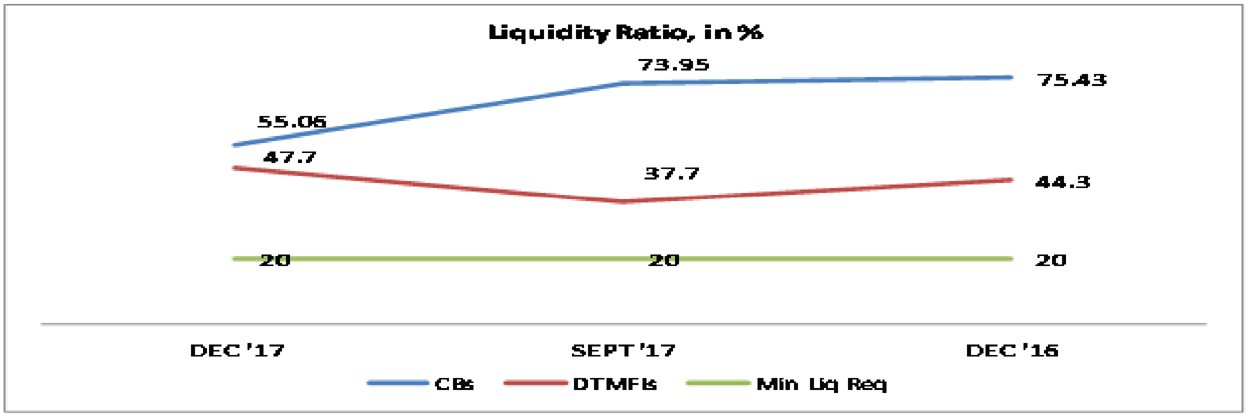
Liquidity measures the ability of OFIs to meet their cash obligations at any point in time. The CBs and DTMFIs were liquid as they met the minimum liquidity and cash requirements during the period under review, as shown below.

Table 19: Liquidity and Cash ratios of selected OFIs

OFIs	Liquidity ratio, in %		Minimum liquidity requirement, in %	Cash ratio, in %		Minimum cash requirement, in %
	2016	2017		2016	2017	
CBs	75.43	55.06	20	75.42	55.00	10
DTMFIs	44.30	47.70	20	31.94	31.05	10

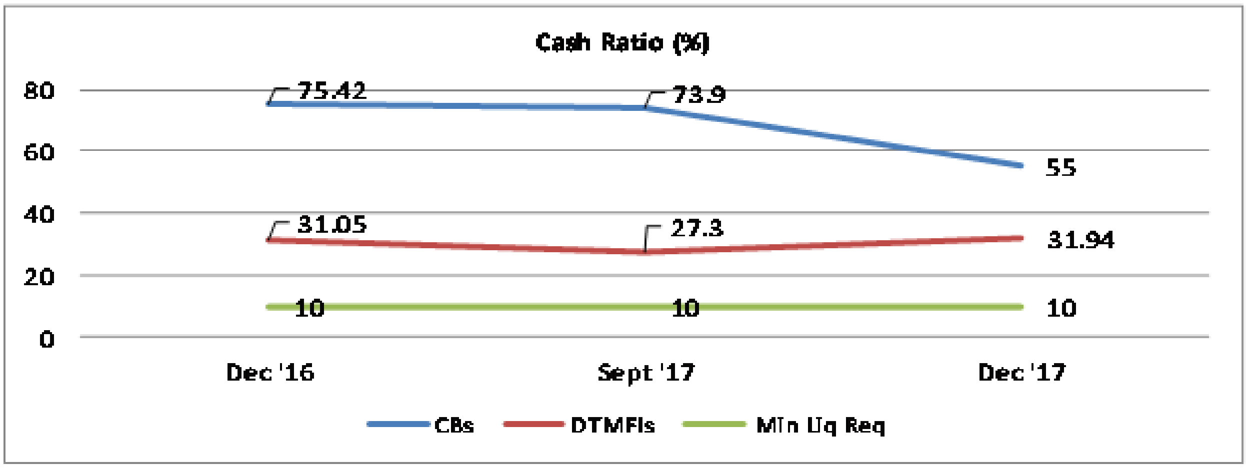
Source: Bank of Sierra Leone

Figure 46: Liquidity Ratio of selected OFIs



Source: Bank of Sierra Leone

Figure 47: Cash Ratio of selected OFIs



Source: Bank of Sierra Leone

As can be seen from the figure above, the liquidity ratio of community banks hasn't changed that much during 2017 as community banks did not invest in short term government securities.

Discount Houses

The Guidelines for the operations of Discount Houses (DH), section 7.2, requires that DHs to maintain at all times liquid assets equal to their call money and borrowings of which 60 per cent shall be in treasury bills with maturity not exceeding 91 days. The liquidity ratios of DHs are shown in the table below.

Table 20: Liquidity of Discount Houses, as at end 2017

Liquidity	FDHL	CDHL
Overall liquidity	248.34	1,894.65
Minimum, in %	100.00	100.00
Deficit/Excess	148.34	1,794.65
Actual liquidity	131.49	1,681.87
Minimum, in %	60.00	60.00
Deficit/Excess	**71.49**	**1,621.87**

Source: Bank of Sierra Leone

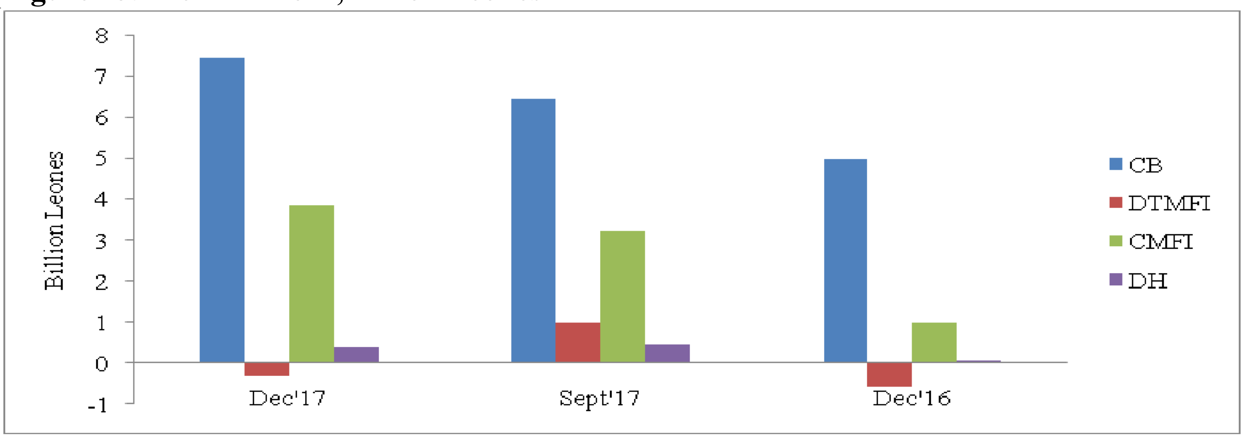
For the period under review, the DHs met the minimum liquidity requirement with large excesses liquidity, attributed to the reduction in their placements and borrowings while they continue to invest in treasury bills.

Profitability

Profitability serves as a measure of efficiency and a guide to further improvement. It is critical in determining an institution's overall health, in terms of revenues and profits. Profitability is the capacity to generate revenue from all the aspects of a business, illustrating how proficient the management is in yielding revenue by employing available resource.

The community banks' sector was profitable for the period as it made a consolidated unaudited profit of Le7.44bn in December, 2017. This showed an increase of Le2.47bn (49.17%) when compared with an unaudited profit of Le4.99bn in December, 2016. Also, the credit-only MFIs' sector was profitable for the period under review as it recorded Le 2.59.bn for December 2017 compared to Le0.93bn in December 2016, whilst for the deposit taking MFIs, the consolidated pre-tax profit was dragged down by Le 0.31bn as at end December 2017 from Le2.90 as at end 2016. Actually, most of the deposit taking MFIs made a loss during 2017.

Figure 48: Pre-Tax Profit, Billion Leones



Source: Bank of Sierra Leone

Foreign Exchange Bureaux

There were 62 (Sixty two) licensed foreign exchange bureaux as at 31st December, 2017. The table below covers 28 (twenty eight) forex bureaux that submitted returns at end December, 2017.

The amount of major foreign currencies purchased and sold for the period under review is shown in the table below.

Table 21: Purchases and Sales of major foreign currencies

Currency	Activity	Turnover		Movement, in respective currency	Change, in %
		30 Nov 2017	31 Dec 2017		
US Dollar (US$)	Purchases	13,531,208	16,705,312	3,174,104	23.46
	Sales	21,959,584	17,049,460	(4,910,124)	(22.36)
British Pound (GBP)	Purchases	1,402,113	1,827,319	425,206	30.33
	Sales	1,399,074	1,835,090	436,016	31.16
Euro (EUR)	Purchases	9,800	24,120	14,320	146.12
	Sales	1,320	24,120	22,800	1727.27

Source: Bank of Sierra Leone

From the table above, the purchases and sales of all three foreign currencies (with the exception of sales of US Dollars) recorded an increase at the end of 2017. The US Dollar, being a vehicle currency recorded the highest amount being purchased and sold during the period under review. There was an increase in the amount of USD purchased (up US$3.17 million: 23.46%) to US$16.71 million while the amount sold decreased by 22.36% to US$17.05 million in December, 2017. Though in a much smaller amounts, the GBP and Euro purchased and sold recorded increases during the period.

Mobile Money Financial Institutions

There were two licensed mobile money financial service providers in the country: Orange Money and Afrimoney. The number of active registered mobile money users as at end December, 2017 was 326,797 with 4,557 registered agents across the country. On average, the service providers conducted 1,892,227 transactions whilst the value of transaction stood at Le309, 011,382,213 as at end December, 2017.

Table 22: Mobile Money Activity

AMONEY MOBILE MONEY REPORT AS AT:				
	30-Dec-17	Mov't	%Change	30-Nov-17
Customer Base				
No. of registered customers	326,797	1,633	0.50	325,164
No. of active customers	1,180,644	97,729	9.02	1,082,915
Agency		-		
No. of Agents	4,557	(89)	(1.92)	4,646
No. of Merchant	142	-	-	142
No. of corporate	84	2	2.44	82
No. of Dealers	114	(87)	(43.28)	201
		-		
Agents' balance (Le'000)	3,630,098	437,461	13.70	3,192,637
Merchant' balance (Le'000)	6,598,854	(1,690,846)	(20.40)	8,289,700
Corporate' balance (Le'000)	2,423,569	135,727	5.93	2,287,842
Dealer' balance (Le'000)	2,762,154	(302,972)	(9.88)	3,065,126
		-		
No. of Transactions	1,892,227	(65,147)	(3.33)	1,957,374
Value of transaction (Le'000)	309,011,382,213	51,654,412,115	20.07	257,356,970,098
Deposits		-		
Opening Balance escrow account (Le'000)	29,138,591,149	3,491,975,174	13.62	25,646,615,975
Deposits into escrow account (Le'000)	13,451,189,661	(3,952,985,611)	(22.71)	17,404,175,272
Withdrawals from Escrow account (Le'000)	(12,594,792,459)	1,339,075,639	(9.61)	(13,933,868,098)
Balance on escrow account (Le'000)	29,994,988,352	878,065,203	3.02	29,116,923,149
		-		
Outstanding Remittances (Le'000)		-		
Transactional limit		-		
Frequency		-		
Values (Le)		-		
Suspicious Transactions		-		
No. of Transactions		-		
Value (Le)		-		
No. of complaints	-	(311)	(100.00)	311
Complaints resolved		-		
No., nature and value of fraud		-		
No. of fraud		-		
Nature of fraud		-		
Value of fraud (Le'000)		-		
System Uptime		-		

Source: Bank of Sierra Leone

Recent Developments

The division that was charged with the responsibility to regulate and supervise OFIs has been transformed into a department effective 1st February, 2018.

In a bid to diversify its operations due to limited operations in the money market in addition to excess liquidity, the FDHL has introduced a microfinance window in order to improve on their earnings.

The BSL is also in the process of licensing fifty nine (59) Financial Services Associations (FSAs) that were established by the National Project Coordination Unit (NPCU) of the Ministry of Agriculture, Forestry and Food Security (MAFFS), with support from International Fund for Agricultural Development (IFAD). This was done through the Apex Bank (SL) Limited, which was licensed by the BSL as first level supervisors of the CBs and FSAs.

The Other Financial Services Act 2001 is in the process of being reviewed and draft Guidelines for Agent banking and e-Money have been developed.

Outlook

The OFIs' sector is relatively stable and has a great potential to deepening and widening the financial system. The sector is profitable and it showed signs of improvement given the indicators analyzed above. Yet, it is recommended that:

- The institutions to further improve their PaR to meet the tolerable limit of 4.8%.
- The discount houses to review their business plan in order to introduce products that will increase their earnings as their operations are not too viable in the financial system.
- To further enhance the capacity of the staff of OFIs Supervision Department to strengthen the regulation and supervision of OFIs' sector.
- To train operators of OFIs on the compilation of returns and to continue the financial literacy campaign, as one of the pillars of the financial inclusion.

6. DEVELOPMENTS ON THE NATIONAL PAYMENTS SYSTEM

6.1 Overview

During the review period, the Bank of Sierra Leone (BSL) in collaboration with the National Payments Systems Committee (NPSC) continued their commitment to ensure that Sierra Leone's National Payments System (NPS) is safe and efficient. The BSL continues to effectively monitor the existing payments facilities with specific reference to the interbank payment platforms (RTGS, CSD and ACH) as well as assessing potential payment systems' solution entering the market against the objectives of safety and efficiency before they are effectively rolled out into the financial system.

6.2 National Payments System Landscape

Despite efforts made by BSL to promote payments system modernization, there still exists a dual payments system in which cash based transactions coexists with the non-cash based transactions. The latter are further categorized into Retail and Large value transactions.

Sierra Leone's current payment system landscape has the following features:

No. of direct Participants:	14 including the BSL
Indirect participants:	20 including 17 Community Banks
Other Participants:	2 Discount Houses
	2 Mobile Network Operators

Other key stakeholders in Sierra Leone's Financial Market Infrastructure include the National Revenue Authority, Office of the Accountant General, Telecommunications companies and National Telecommunications Commission (NATCOM) etc.

Payment Systems Infrastructure:

Real Time Gross Settlement System (RTGS) - for large value transactions (above Le50m million)

Automated Clearing House (ACH) - for retail value transactions (within Le 50 million)

Automated Cheque Processing system (ACP) - for the purpose of cheque imaging and cheque truncation

Scriptless Securities Settlement System (SSS/CSD) - for the conduct of Treasury bills and Treasury bonds auction and secondary market operations

The above infrastructure came into existence in 2013 and to date all interbank transactions are processed through these systems. These include cheque clearing and direct credit as well as settlement of transactions.

Retail Payments Infrastructure in addition to the ACH include ATMs, POSs, Mobile money payment system, and internet banking facility. These systems are however not interoperable. To date, six (6) commercial banks issue smartcards and operate ATMs while only four have operational POS machines with Interswitch Nigeria providing switching services for six of the thirteen commercial banks in the country.

6.3 Developments in the National Payment System Landscape

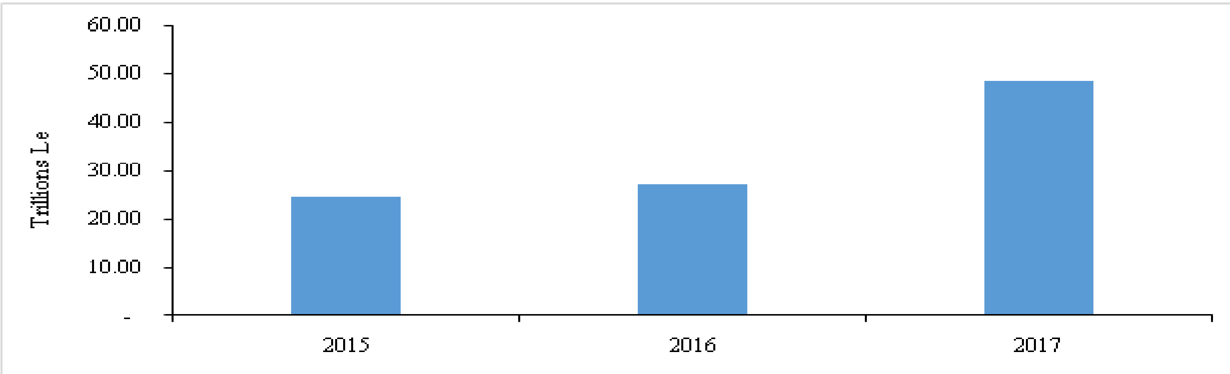
Table 23: Real Time Gross Settlement (RTGS) system

RTGS Transactions			
	2015	**2016**	**2017**
Volume	126,884.00	117,314.00	79,719.00
Value (Le)	24,503,630,617,777.00	27,146,723,577,965.00	48,465,749,314,283.00

Source: Bank of Sierra Leone

The table above shows growth in RTGS transactions for the period 2015 to 2017. This implies general acceptability of the system for the interbank transactions. This is also shown in figure 1 below.

Figure 49: Value of RTGS Transactions



Source: Bank of Sierra Leone

ACH Transactions (2015 -2017)

Table 24: Cheques

	2015	2016	2017
Volume	229,663.00	374,000.00	206,568.00
Value (Le)	2,552,225,585,356.00	2,311,833,116,173.75	2,275,034,332,992.77

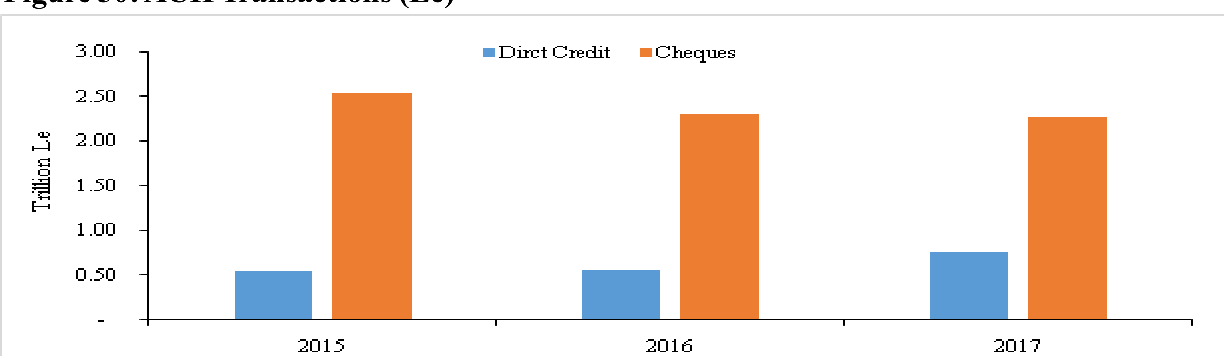
Source: Bank of Sierra Leone

Table 25: Direct Credit

	2015	2016	2017
Volume	128,483.00	246,984.00	166,003.00
Value	546,839,472,589.35	561,774,084,546.79	747,728,227,063.49

Source: Bank of Sierra Leone

Figure 50: ACH Transactions (Le)



Source: Bank of Sierra Leone

Tables 32 and 33 show ACH transactions for the period 2015 to 2017. Table 32 shows slight reduction in the value of cheque transactions while table 3 shows a slight increase in the value of direct credit transactions. This implies that the use of direct credit as a means of transactions processing is increasing over the use of paper based instruments. In other words, the level of acceptability of electronic means of interbank transactions processing over paper based instruments is gradually increasing and has a potential to create efficiency in the delivery of financial services

6.4 Other Retail Payment Systems

The growth in the value of direct credit transactions as in Table 33 above is reflected in the growth of other forms of electronic retail payment systems such as ATM and POS transactions. In Table 34 it is revealed that ATM transactions increased by 86per cent (from Le54.8tn to Le102.11tn) over the period 2013 to 2017 while POS transactions grew by some 39per cent (from Le7 tn to Le34 tn) from 2013 to 2016 but later fell to Le5.67 tn. in 2017. This further points to the gradual acceptability of electronic means of processing transactions over paper based means.

Table 26: ATMS and POSs

	2013	2014	2015	2016	2017
Number of ATMs	50	59	69	71	43
Number of POSs	20	72	130	150	32
Volume of ATM Trans.	437,761.00	303,840.00	730,803.00	370,726.00	530,342.00
Volume of POS Trans.	2,456.00	5,143.00	11,509.00	23,981.00	6,773.00
Value of ATM Trans	54,775,730.00	63,011,401.00	154,380,059.00	69,532,802.00	102,109,510.00
Value of POS Trans	7,370,646.00	13,100,662.00	25,855,913.00	34,351,419.00	5,670,955.00

Source: Bank of Sierra Leone

In line with financial inclusion Tables 33 and 34 below display regional spread of ATMs and POSs Notwithstanding the gains made by the Bank in ensuring public acceptability of electronic means of transactions processing, the spread of these financial services indicate that most of these facilities are deployed in the Western Area accounting for 89per cent of POSs and 70per cent for ATMs.

Table 27: Regional Spread on POS

Table 5: Regional Spread on POS

	2013	2014	2015	2016	2017	TOTAL
Northern Province	3	5	10	9		**27**
Southern Province	1	1	1	1		**4**
Eastern Province	1	1	1	2	1	**6**
Western Province	15	58	98	138	31	**340**
TOTAL	**20**	**65**	**110**	**150**	**32**	**377**

Source; Bank of Sierra Leone

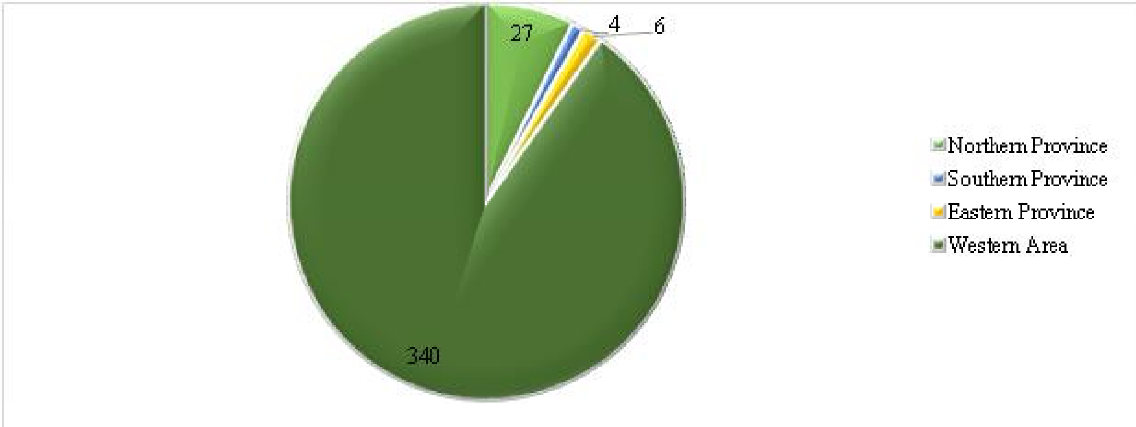
Table 28: Regional Spread on atm

Table 5: Regional Spread on atm

	2013	2014	2015	2016	2017	TOTAL
Northern Province	6	8	8	16	7	**45**
Southern Province	3	4	4	4	3	**18**
Eastern Province	1	2	2	5	4	**14**
Western Province	30	34	37	46	29	**176**
TOTAL	**40**	**48**	**51**	**71**	**43**	**253**

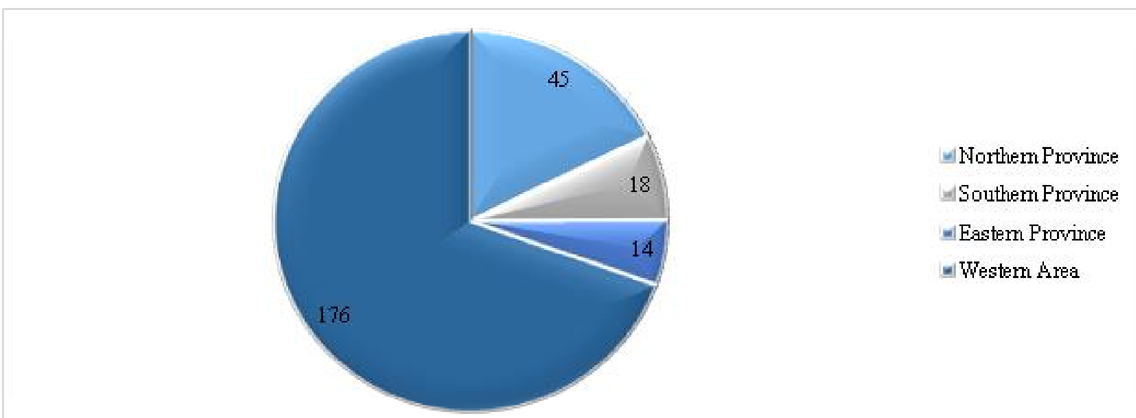
Source; Bank of Sierra Leone

Figure 51: Regional Spread POS



Source: Bank of Sierra Leone

Figure 52: Regional Spread of ATM



Source: Bank of Sierra Leone

The North accounts for 7.16per cent of POS deployment and 17.79per cent of ATM deployment while the South accounts for 1.06per cent and 7.11per cent of POS and ATM deployments respectively. Only 1.59per cent and 5.53per cent of POSs and ATMs respectively are deployed in the Eastern Province. This indicates that there is an uneven distribution of these payment services thereby financially excluding a very good number of the population.

The above scenario is a call for concern in the midst of plans to implement a digital financial services that would ensure smooth flow of funds especially from Government to people (G2P).

7. Human Resources Development

7.1 Staff Strength

Total staff strength as at 31st December, 2017 was 473 (four hundred and seventy three) reflecting a 1per cent decrease from 478 (four hundred and seventy-eight) as at 31st December, 2016. The variance in staff strength was recorded in the following categories.

Staff strength in the professional and sub-professional cadres increased overall by 1 (one) and 3 (three) from 264 (two hundred and sixty-four) and 102 (one hundred and two) in 2016 to 265 (two hundred and sixty-five) and 105 (one hundred and five) in 2017 respectively, due to the recruitment of 7 (seven) and severance of 6 (six) staff at the professional cadre as well the absorption of 5 (five) and severance of 2 (two) staff in the sub-professional cadre.

Staff strength in the others cadre decreased by 5 (five) from 74 (seventy-four) as at December 2016 to 69 (sixty-nine) as at 31st December 2017 due to severance of staff in that cadre.

The Management cadre remained the same 9 (nine) as at end December, 2016 and 2017 respectively, due to the appointment of one Director (Head of Department) in 2017, who also retired in 2017.

The total male staff, amounted to 340 (three hundred and forty) as at 31st December, 2017 of which 13 (thirteen) were Fixed Term Employees. The proportion of male staff, including Fixed Term employees, to total staff strength was recorded at 72per cent as at 31st December, 2017.

Total female staff as at 31st December, 2017 was 133 (one hundred and thirty-three) of which 12 (twelve) were Fixed Term employees. The proportion of female staff, including Fixed Term employees, was recorded at 28per cent as at 31st December, 2017.

Total Fixed term employees was 5per cent or 25 (twenty-five) of total staff strength as at end December, 2017 recording a decrease of 4 (four) from 29 (twenty-nine) as at end December, 2016, due to the absorption of some Fixed Term employees into the permanent service of the Bank.

Table 29: Staff Strength as at 31 December 2017

CATEGORY	MALE	FEMALE	TOTAL
Management	6	3	9
Professional	173	92	265
Sub-Professional	83	22	105
Others	65	4	69
Total Regular Staff	327	121	448
Fixed Term Employees	13	12	25
Total	**340**	**133**	**473**

Bank of Sierra Leone

7.2 Severance

A total of 19nineteen) members of staff severed from the service of the Bank as follows:

Table 30: Severance by Category

Resignation	4
Termination	-
Dismissal	-
End of Fixed Term Appointment	4
Position Declared Vacant	-
Retirement on Medical Grounds	1
Retirement	9
Voluntary Retirement	-
Deceased	1
Total	**19**

Source: Bank of Sierra Leone

Table 31: Staff Movement as at 31 December 2016, 2017

Category	**2016**	**2017**
Recruitment	33	7
Contract Appointment	16	1
Resignation	7	3
Vacated	-	-
Dismissal	-	-
Deceased	3	1
Termination	-	-
Retirement	8	9
Voluntary Retirement	-	-
Retirement on Medical Grounds	1	1
End of Contract Appointment	7	1
Absorption from Contract to Permanent Staff	19	5
Total	**94**	**28**

Source: Bank of Sierra Leone

Note: The others category includes Drivers, Cook/Stewards, Barman, Waiters, Office Assistants, Gardeners, Watchmen, Cleaners, Handymen, Lift Operators, Technicians, Plumber and Generator Operator.

Recruitment and Appraisal

A total number of 7 staff were recruited as follows: Division Head (1), Senior Manager (1), Banking Officer (5), and Contract - Division Head (1).

Appraisal

Appraisal for 2017 is not yet concluded

Manpower Planning and Career Development

Transfers - 110

In order to facilitate work at the Kenema Branch, the Bank continued to transfer staff with the requisite capacity to the branch either on two year tours or on relief duties.

Inter and intra departmental transfers were embarked upon at various levels and departments during the period under review

Absorption

The following categories of staff were absorbed into the permanent service of the Bank: Note Counters (3), Lift Operator (1), and Office Assistant (1).

The Bank's primary focus is to effectively and efficiently execute its core functions and mandate. Consequently, the enhancement of staff capacity continues to be of paramount concern to ensure that they competently execute their responsibilities and ultimately achieve the Bank's objectives.

In collaboration with other sponsoring agencies such as the World Bank, Africa Capacity Building Foundation (ACBF), African Training Institute (ATI), International Monetary Fund (IMF), AFRITAC West 2 and other Central Banks like the Central Banks of The Gambia, Mauritius, Ghana and Nigeria that accorded our staff study tour opportunities, the Bank sponsored a total number of 38 (thirty-eight) overseas short courses and two local training programmes.

The Bank is a major subscriber to the West African Institute for Financial and Economic Management (WAIFEM). The Institute organized several short courses in Nigeria, Ghana, Sierra Leone and The Gambia. The courses were mainly in the area of Banking Supervision, Monetary Policy and Macro prudential Analysis, Combating Money Laundering and Other Financial Crimes, Interest Free Islamic Banking, Financial Management and Budgeting, Financial Sector Surveillance, Financial and Economic Issues in Regional Integration, Cisco Certified Network Professional, Managing Human Resources etc., all geared towards addressing skills gaps in the Bank. Additionally, one staff who was enrolled to pursue the Chartered Financial Analysis Professional Certification Course under Full Bank Sponsorship successfully progressed to Level 2 of the programme.

On the local front, a course on Effective Report Writing and Communication Skills was organized In-house and facilitated by Sarante Consultancy twice during the review period. This was primarily to address in writing skills that was observed Bankwide.

During the period under review, 62 (sixty-two) staff attended various overseas capacity building programmes while 41 (forty-one) staff benefitted from training programmes organized In-house as summarized below:

Table 32: Training Programs Benefitted in 2017

Departments/Units	Number of staff that benefitted from Overseas Training	Number of staff that benefitted from In-House Training
Banking	2	3
Banking Supervision	7	5
Finance	5	6
Financial Markets	9	5
General Services	1	-
Governorôs Office	5	1
Human Resources	4	7
Internal Audit	5	3
Management Info. Systems	3	3
Research	18	5
Secretaryôs	3	3
Total	**62**	**41**

Source: Bank of Sierra Leone

8. EXTERNAL RELATIONS

In 2017, the Bank of Sierra Leone continued to maintain cooperation with regional and international organizations as well as other development partners. This cooperation was mainly to strengthen macroeconomic stability & bilateral relationships as well as ensuring compliance with the criteria on the various programs the country is part of. In view of this, the Bank held meetings with the IMF; with respect the ECF programme, and other regional institutions; including ECOWAS, WAMA, WAMI and AACB, on the economic and monetary cooperation programme at both Africa and ECOWAS levels.

Spring and Annual Meetings of the IMF and World Bank Group
The 2017 spring and annual meetings of the World Bank Group and the IMF were held in Washington DC from April 21 - 23, 2017 and October 13 - 15, 2017 respectively.

International Monetary and Financial Committee (IMFC)

As reflected in the communique of the IMFC, global economic recovery has been firm and continues to be on the upside, led by stronger commodity prices and receding deflation risks. The outlook is resilient, though growth is somewhat modest and susceptible to risks that are skewed to the downside - including political uncertainties.

Innovations in trade, financial integration and technology to a large extent have boosted incomes and livelihoods, hence elevating hundreds of millions out of poverty, though the benefits are unequally distributed.

The committee assured delegates of their unflinching commitment to achieving robust, sustainable, even, inclusive and job-rich growth, by utilising their portfolio of policy tools - including monetary & fiscal policies and structural reforms; both individually and collectively.

The Development Committee

The development committee basically reaffirmed the position of the IMFC, also stating that momentum in the global economy is picking up, though several downside risks are imminent. On correspondent banking, the committee emphasizes the need to attach significant priority to tackling the adverse impact of the decline in correspondent banking for many countries. The committee urged the World Bank Group and the IMF to advance policies in order to deliver the 2030 Agenda and protect the most vulnerable.

IMF Missions to Sierra Leone in 2017

In 2017, the IMF fielded two missions to Sierra Leone. The first mission in March, 2017, was to negotiate a new programme under the ECF arrangement while the second mission in September, 2017, was the first review of the new ECF programme.

During the first mission, the IMF staff team held discussions with officials of Sierra Leone on economic development and policies, following the country's request for a three-year arrangement under the ECF.

After several meetings and consultations with officials of Sierra Leone, the Executive Board of the IMF on June 5, 2017, approved a three-year arrangement under the ECF for SDR161.778 million; equivalent to USD224.2 million and constituting 78 per cent of Sierra Leone's quota, in support of the authorities' economic development efforts. The Board's decision prompted an initial disbursement of SDR39.166 million, equivalent to USD54.3 million. The remaining disbursements are to be made in phases, over the life span of the programme, subject to semi-annual reviews.

The programme was designed as a policy cushion aimed at reducing inflation and significantly raising domestic revenues, as well as to increase infrastructure spending and supporting the social safety net in the country.

The second mission was to conduct a first review on the country's performance in relation to the programme. The mission found that implementation of the programme was somewhat unsatisfactory - attributed to the country failing to meet all the quantitative performance criteria.

The discussions with officials of Sierra Leone were broadly concentrated on issues related to financial stability.In this context, the mission team together with Senior Officials of BSL agreed on short-term steps, including the appointment of BSL teams headed by Senior Directors, to oversee the recovery operations of two banks, including, by imposing strict controls on all expenses; a freeze on all lending by the banks; except that, under certain conditions, loans for self-liquidating trade finance and loans to employees will be allowed; no new loans for politically exposed persons; and strong measures to collect NPLs.

On the budget, the mission noted that the fiscal situation deteriorated with a marked deviation from programme assumptions. They further noted that the drivers for the current fiscal situation include, the failure to reduce exemption as committed under the programme, failure to expand the tax base, the decision to use market prices to determine mineral royalties; which has not generated the expected revenue, and the failure to collect significant dividends; as programmed. In addition, the higher-than-projected increase in expenditures also contributed.

The mission team and authorities agreed that to close the fiscal gap in the three months that were remaining in the year was difficult, therefore, it was impossible for the mission to complete the first review of the ECF arrangements.

The mission, however stated that the only way the completion of the review would materialize is for authorities to take strong, up front, credible and sustainable measures that would bring the fiscal situation back on track in 2018. The mission in that regard proffered three policy fixes, including: floating fuel prices, with high excise rates; eliminate the duty exemption for imported rice; and to begin eliminating exemptions as committed under the programme.

However, the mission staff did not guarantee that after applying those fixes, things will ride back to normalcy, which will then prompt the completion of the first review.

ECOWAS/WAMA/WAMI Missions to Sierra Leone

The ECOWAS Commission, West African Monetary Agency (WAMA) and the West African Monetary Institute (WAMI) conducted two joint multilateral surveillance missions to Sierra Leone from March 27 - April 3, 2017 and September 6 - 13, 2017. The objective of those missions was to assess the country's macroeconomic developments and status of convergence in 2016 as well as the first half of 2017 within the framework of the ECOWAS monetary cooperation programme (EMCP) and Article XV of the WAMZ agreement. The mission held discussions with officials of key Ministries, Agencies and Departments in the country.

From the first mission in March, 2017, it was noted that the economy of Sierra Leone recovered robustly in 2016, after contracting in 2015, reflecting the resumption of iron ore exports as well as improvements in agriculture, construction and services. They further noted that the recovery was, however, challenged by the depreciation of the Leone vis-à-vis other currencies, due to the reduction in inflows and increased demand pressures for foreign exchange as well as rising consumer prices. In addition, their findings indicated that fiscal operations were also constrained by higher spending on wages & salaries, goods & services and interest payments. As a result, the country's performance on the macroeconomic convergence scale deteriorated, only one of the four primary criteria was attained during 2016, compared to three in 2015.

In view of this, the mission saw the need to proffer several policy alternatives which must be implemented in order to boost macroeconomic performance and strengthen compliance with the convergence criteria.

On the second mission in September, 2017, the team assessed the half year macroeconomic position of the country. Their findings showed that the economy continued to maintain growth trajectory, but the continued depreciation of the exchange rate continued to threaten that recovery. They further noted that fiscal operations were also constrained by higher spending on interest payments while revenue was below target. These developments spurred a poor performance on the macroeconomic convergence scale as it remained unchanged when compared to the previous period in 2016.

African Development Bank (AfDB) Annual Meetings

The 52nd annual meeting of the African Development Bank was held on May 22 - 26, 2017 in Ahmedabad, India

In that mission, agriculture was the center of discussion, given that it is an important indicator in the United Nation's (UN) Sustainable Development Goals (SGDs) and the African Union's Agenda 2063, both of which focus on poverty reduction, overcoming hunger and food insecurity. In this regard, and also considering that agriculture in Africa is designated as one of the Bank's High 5s: Feed Africa Initiative, the theme for the annual meeting in 2017 was: "Transforming Agriculture for Wealth Creation in Africa".

In that meeting, it was noted that agriculture has the thrust of alleviating poverty, ensuring food security as well as economic transformation, hence, significant attention should be given to it. They further noted that agriculture has the potential of bridging the food supply gap - which could present a business case for private sector investment in Africa. In addition, Africa has 65per cent of the world's arable land, a youthful population; between the ages of 15 and 35 years as well as a favourable climate, thus the potential to become a global agriculture powerhouse and the setting of the next Green Revolution.

Annual General Meeting of the African Export-Import Bank (Afrexim bank)

The annual general meeting (AGM) of the African Export-Import Bank (Afrexim bank) was held on June 28, 2017 in Kigali, Rwanda. In that meeting, the Minister of Finance and Economic Planning of Rwanda called for the building of regional value chains - stating that they have the potential of generating enormous benefits for African economies. He emphasized that the creation of regional value chains in Africa along several product lines could ease the integration of African economies into global value chains. In that context, ongoing efforts to deepen regional economic blocks within Africa offers tremendous opportunities to draw on economies of scale to transcend the natural and environmental constraints imposed by geography.

Technical Assistance Missions to the Bank of Sierra Leone in 2017

In 2017, several technical assistances (TA) from various institutions; notably the IMF, Afritac West 2 (AFW2), were provided to the BSL with the sole drive of developing capacity, enhancing performance and strengthening central bank operations. These TAs focused on specific areas in the bank, covering a broad range of topics, including, International Financial Reporting Standards (IFRS), Improving Monetary Operations and Monetary Policy Analysis, Anti Money Laundering (AML)/ Countering the Financing of Terrorism, Stress Testing, Balance of Payment (BOP) Statistics Compilation and a host of others.

I n addition, with the support of FIRST Initiative (multi-donor grant facility) two IMF resident advisors were deployed in the Research and Banking Supervision Departments to undertake long term projects on Central Bank Modernization and Risk-based Supervision, respectively.

Statement of Accounts
for year ended 31st December 2017

CONTENTS	**PAGE**

GENERAL INFORMATION

BOARD OF DIRECTORS	Prof. Kelfala M. Kallon	ï	Governor (appointed 15 August 2018)
	Dr Ibrahim L. Stevens	–	Deputy Governor (appointed 24 July 2014)
	Ms Cecilia M. Demby	–	Appointed 18 October 2018
	Mr George Taylor	–	Appointed 25 October 2018
	Mr Sheikh R. Kamara	–	Appointed 31 October 2018
	Mr Sheka A. Mansaray	–	Appointed 31 October 2018
	P.C. Alhaji A. Kathenkeh II	–	Appointed 31 October 2018

SENIOR MANAGEMENT	Professor Kelfala M. Kallon	ï	Governor
	Dr Ibrahim Stevens	ï	Deputy Governor
	Mr Ibrahim K. Lamin	ï	Senior Director, Financial System Stability
	Mr Tapsiru Dainkeh	ï	Senior Director, Governor's Office (Banking)
	Mr Ralph Ansumana	ï	Director, Other Finanaial Institutions Supervision Department
	Mrs Hanifa Addai	ï	Director, Banking Supervision Department
	Mr Abdul Aziz Sowe	ï	Director, Internal Audit Department
	Ms Jenneh Jabati	ï	Director, Governor's Office (Procurement)
	Mrs Mary M. Kargbo	ï	Director, Project Management Department
	Mr Morlai Bangura	ï	Director, Research Department
	Ms Hawa E. Kallon	ï	Deputy Director, Secretary's Department
	Mrs Williana A. R. Davies	ï	Deputy Director, Human Resource Department
	Mrs Veronica Finney	ï	Deputy Director, Financial Markets Department
	Mr Chrispin Dennison-George	ï	OIC, Mananagent Information Systems Department
	Mr Abdul Bundu	ï	Deputy Director, Risk Management Unit
	Mr Mohamed S. Bah	ï	Acting Director, Finance Department
	Mr Eugene Caulker	ï	Assistant Director, Financial Stability Department
	Mr Alex Mason	ï	OIC, General Services Department

REGISTERED OFFICE

30 Siaka Stevens Street
Freetown

SOLICITORS

Lambert and Partners
40 Pademba Road
Freetown

SECRETARY TO THE BOARD Ms Hawa E. Kallon

AUDITORS

BDO
Regent House
12 Wilberforce Street
Freetown

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report to the Government of Sierra Leone together with the audited financial statements for the year ended 31 December 2017.

Principal Activity

The principal activity of the Bank is to:

(a) formulate and implement monetary policies, financial regulations and prudential standards;

(b) act as banker, adviser and fiscal agent of the Government;

(c) formulate and implement the foreign exchange policy of Sierra Leone;

(d) (d) conduct foreign exchange operations;

(e) own, hold and maintain the official international reserves including the reserves of gold;

(f) issue and manage the currency of Sierra Leone;

(g) establish, promote, license and oversee sound and efficient payment and securities settlement systems;

(h) license, register, regulate and supervise financial institutions as specified in the Bank of Sierra Leone Act or any other enactment; and

(i) act as a depository for funds from international organisations.

Directors' Responsibility Statement

The Bank's Directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2017 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the note to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Bank of Sierra Leone Act 2011 and for such internal controls as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The operability of the Bank on an on-going basis is guaranteed by the Government. Hence there are no going concern issues.

Capital

Details of the Bank's capital are given in note 30 to the financial statements.

Results for the period

Loss for the period was Le22.2 billion (2016: loss of Le17.9 billion).

REPORT OF THE DIRECTORS (Contd)

Audit Committee

The Audit Committee comprising Non-Executive Directors and one Technica Expert is responsibl for the oversight function over the audit mechanism, internal controls system and the financial system of the Bank. The Audit Committee meets quarterly to review and monitor the status of the audit function includin the implementation of recommendations in the internal audit reports external auditors' management letters and other oversight reports including the IMF Safeguard Assessment Reports.

Monetary Policy Committee

The Monetary Policy Committee is the highest policy making body in the Bank on monetary policy matters.Chaired by the Governor of the Bank, this Committee meets monthly to review developments in the economy and the implications for monetary policy management. It takes decisions on the level of the key policy rate of the Bank, the Monetary Policy Rate (MPR) to signal to the market the stance and direction of the Bank's Monetary Policy in seeking to achieve the primar objective of price stability.

Banking Supervision Technical Committee

This committee is responsible to direct and deliberate on the operations of all financial institutions in order to ensure financial stability in the economy.

Foreign Assets Committee

The Foreign Assets Committee meets quarterly and has responsibility to deliberate on issues relating to the foreign assets of the Bank, exchange control regulations relating to capital account transactions; it monitors and maintains the external reserves to safeguard the internal value of the legal currency and formulates policies that support monetary and exchange rate management.

Project Monitoring Committee

The Project Monitoring Committee is responsible to monitor on-going projects implemented by the Bank and make appropriate recommendations to Management and the Board of Directors.

Property, plant and equipment

Details of the Bank's property, plant and equipment are shown in note 21 to the financial statements.

Employment of disabled people

The Bank does not discriminate against a qualified individual with disability with regards to recruitment, advancement, training, compensation, discharge or other terms, conditions or privileges of employment.

Health, safety and welfare at work

The Bank has retained the services of a medical doctor for all employees of the Bank and a conducive office environment is maintained for staff and visitors, with adequate lighting and ventilation.

REPORT OF THE DIRECTORS (Contd)

Employee involvement and training

There are various forums where the staff meet and discuss issues that relate tothem and their progress at the work place, these include unit meetings, and regular general meetings.

There is an approved training schedule for the Bank and staff are trained both locally and internationally in various areas to improve their skills and knowledge. The Bank also has a staff appraisal process through which staff are appraised and promotions and/or increments are awarded.

Directors and their interest

The following were Directors of the Bank as at 31 December 2017:

Dr Patrick S Conteh	-	Governor/Chairman	(appointed 18 July 2017)
Dr Ibrahim Stevens	-	Deputy Governor	(appointed 24 July 2014)
Professor Richard T. M'Bayo	-	Director	(appointed 13 June 2014)
Mr Winstanley B. Johnson	-	Director	(appointed 19 April 2017)
P C Mohamed D. Benya v	-	Director	(appointed 6 June 2014)
Mrs Rosaline Y. Fadika	-	Director	(appointed 6 June 2014)
Mr Sorie N. Dumbuya	-	Director	(re-appointed 6 June 2014)
Mrs Williana A. R. Davies	-	Secretary to the Board	

On the resignation of Dr. Kaifala Marah on 6 March 2017, Dr. Patrick S. Conteh was appointed Governor of the Bank on 18 July 2017 and in accordance with section 15(2) of the Bank of Sierra Leone Act 2011, to hold office for a term of five years before being eligible for re-appointment for another term only.

The other directors are to hold offices for three years each and shall be eligible for re-appointment for another term only.

No Director had during the year or has a material interest in any contract or arrangement of significance to which the Bank was or is a party.

Auditors

The auditors, BDO, were appointed by the Auditor-General to conduct the audit of the financial statements for the period ended 31 December 2017.

Approval of the financial statements

The financial statements were approved by the Board of Directors on 15th February, 2019.

é é é é é é — Governor

é é é é é é é é — Director

é é é é é é é — Secretary

INDEPENDENT AUDITORS' REPORT TO THE GOVERNMENT OF SIERRA LEONE

Opinion

We have audited the financial statements of Bank of Sierra Leone set out on pages 9 to 73 which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Bank of Sierra Leone Act 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

The key audit matters which apply to the audit of the financial statements of the Bank are:

- Foreign exchange transactions including the respective net exchange gain/loss
- Accuracy of assets and liabilities with respect to disclosure and valuation
- Completeness of notes
- IT and other controls

<u>Foreign exchange transactions including the respective net exchange gain/loss</u>
The Bank holds international reserves in foreign currencies as well as assets and liabilities arising from its membership in the International Monetary Fund (IMF). According to the Bank's accounting policies, all foreign currency positions should be revalued daily. With respect to the IMF assets and liabilities, the policies refer to IMFs Aide Memoire "Accounting for Fund Transactions" dated August 1, 2017.

In the course of our audit we have performed a systems audit of the Bank's system used for the accounting of foreign exchange transactions. The Bank's system for accounting for foreign exchange transactions including the respective recognition of realized and unrealized gains and losses is not configured to show and work with the exchange rates at which the transactions were initiated.

Manual recomputations of the realized exchange gains and losses had to be performed and the amounts adjusted on the 2017 financial statements.

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE (CONTD)

Accuracy of assets and liabilities with respect to disclosure and valuation

The Bank holds various Balances with other Central Banks, Placement with Banks, Cash Balances with Banks, Balances due from the Government as well as Deposits from Government, Banks and Others.

In the course of the audit we undertook balance sheet confirmations in compliance with International Standards on Auditing. The counterparties had to complete a blank confirmation with account information and balances. The confirmations were posted by and returned to us. All differences have either been cleared with alternative audit procedures or have been adjusted accordingly.

Completeness of notes

Due to the dynamic nature of financial reporting standards and frameworks, the completeness and correctness of the notes had been identified as a key audit matter.

In the course of our audit we emphasized on the completeness and correctness of the notes. In order to test the completeness of the notes, we met with the Bank, scrutinized all information in detail, took the respective evidence on file and used international disclosure checklist, industry sector checklist, and the applicable accounting standards. Based on the discussions, the information received and our findings, the Bank has changed the notes accordingly.

IT and other controls

Our IT review revealed that evidence of compliance with controls was not, in all instances, available and hence we could not establish the extent to which controls were complied with. Effective controls around record keeping and processing of transactions increase assurance on the accuracy of the financial statements. In the circumstance, to mitigate the risk, we adopted sample sizes larger than the normal and extensive verification work in our audit strategy.

We have looked more specifically into aggregation of balances, the classification of line items and the completion of disclosures. Additionally work has also been done on revenue recognition.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this othe information, we arerequired to report that fact. We have nothing to report in this regard.

Responsibilitie of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentationof the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE (CONTD)

In the capacity as the Bank's sole shareholder, the continuance of the Bank's operations as a going concern is guaranteed by the Government of Sierra Leone.

Those charged with governance are responsible for overseeing the financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our Objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in thecircumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE (CONTD)

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Section 63 of the Bank of Sierra Leone Act 2011, we report that:

- we were able to examine the books and accounts of the Bank and were provided with all the information and explanations about its transactions required by us for the efficient performance of our duties, and

- key matters arising from the audit and in particular on material weaknesses in internal controls in relation to the financial reporting process have been disclosed.

The engagement partner on the audit resulting in this independent auditors' report is Samuel Noldred.

BDO

Freetown, Sierra Leone

15th February 2019

STATEMENT OF COMPREHENSIVE INCOME

In thousands of Leones

	Note	2017	2016
Interest and similar income	*8*	**180,156,784**	77,077,500
Interest expenses and similar charges	*8*	**(5,095,351)**	(2,010,949)
Net interest income		**175,061,433**	75,066,551
Fees and commission income	*9*	**2,982,002**	2,411,449
Fees and commission expense	*9*	**-**	-
Net fees and commission income		**2,982,002**	2,411,449
Net exchange (loss)/gain	*10*	**(42,775,871)**	19,027,827
Other income	*11*	**2,445,279**	1,422,549
Operating income		**137,712,843**	97,928,376
Personnel expense	*12*	**(80,505,737)**	(64,954,139)
Currency	*13*	**(28,508,945)**	(17,538,335)
Depreciation and amortisation	*21*	**(5,533,198)**	(4,960,862)
Other expenses	*14*	**(45,397,700)**	(28,461,721)
Loss for the year		**(22,232,737)**	(17,986,681
Other comprehensive income			
Defined benefit plan actuarial (loss)/gain		**(6,568,910)**	4,405,886
Total comprehensive expense for the year		**(28,801,647)**	(13,580,795)

The notes on pages 95 to 153 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

In thousands of Leones

	Note	**2017**	2016
Loss attributable to:			
Equity of the Bank		**(22,232,737)**	(17,986,681)
Loss for the year		**(22,232,737)**	(17,986,681)
Total comprehensive expense attributable to:			
Equity of the Bank		**(28,801,647)**	(13,580,795)
Total comprehensive expense for the year		**(28,801,647)**	(13,580,795)

These financial statements were approved by the Board of Directors on é .é 15th February , ... 2019.

é é é é é é é é ....é é ....) Governor

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The notes on pages 95 to 153 are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

In thousands of Leones

	Note	**2017**	2016
Assets			
Cash and cash equivalents	*16*	**3,179,781,514**	2,998,294,859
Funds held with International Monetary Fund (IMF)	*17*	**3,345,764,036**	3,031,136,496
Loans and advances to others	*18a*	**9,858,069**	9,214,194
Due from Government of Sierra Leone	*18b*	**1,108,975,178**	992,407,479
Investment in equity	*19*	**49,121,413**	46,997,540
Investment securities	*20*	**1,181,725,249**	725,063,472
Property, plant and equipment	*21a*	**157,592,440**	96,078,695
Other assets	*22*	**115,118,930**	123,280,171
Total assets		**9,147,936,829**	8,022,472,906
Liabilities			
Amounts due to International Monetary Fund (IMF)	*23*	**6,047,228,495**	5,183,182,088
Deposits from Government	***24***	**177,487,051**	121,130,686
Deposits from banks	*25*	**528,389,643**	633,552,671
Deposits from others	*26*	**26,362,892**	47,369,932
Currency in circulation	*27*	**1,764,744,883**	1,467,364,032
Other liabilities	*28*	**176,802,620**	123,224,706
End-of-service benefits	*29*	**32,213,712**	21,323,645
Total liabilities		**8,753,229,296**	7,597,147,760
Equity			
Capital	*30*	**125,000,000**	125,000,000
General reserve	*31(a)*	**239,955,287**	264,003,990
Revaluation reserve	*31(b)*	**32,792,919**	32,792,919
Other reserves	*31(c)*	**(3,040,673)**	3,528,237
Total equity		**394,707,533**	425,325,146
Total liabilities and equity		**9,147,936,829**	8,022,472,906

These financial statements were approved by the Board of Directors on é é 15th February .. **2019.**

________________________Governor

________________________Director

________________________Secretary

The notes on pages 95 to 153 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

In thousands of Leones

	Share Capital	Property Revaluation Reserve	General Reserve	Other Reserves	Total
Balance at 1 January 2016	125,000,000	32,792,919	281,990,671	(877,649)	438,905,941
Total comprehensive income for the year					
Net profit for the year	-	-	(17,986,681)	-	(17,986,681)
Securities reserves	-	-	-	-	-
Other comprehensive income					
Fair value reserve (non-interest-bearing securities)	-	-	-	-	-
Actuarial gain	-	-	-	4,405,886	4,405,886
Total other comprehensive income for the year	-	-	(17,986,681)	4,405,886	(13,580,795)
Total comprehensive income and other transfers					
Paid up capital	-	-	-	-	-
Deposit for shares	-	-	-	-	-
Balance at 31 December 2016	125,000,000	32,792,919	264,003,990	3,528,237	425,325,146

The notes on pages 95 to 153 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

In thousands of Leones

	Share Capital	Property Revaluation Reserve	General Reserve	Other Reserves	Total
Balance at 1 January 2017	125,000,000	32,792,919	264,003,990	3,528,237	425,325,146
Total comprehensive income for the year					
Net loss for the year	-	-	(22,232,737)	-	(22,232,737)
Securities reserves	-	-	-	-	-
Prior year adjustment	-	-	(1,815,966)	-	(1,815,966)
Other comprehensive income					
Fair value reserve (non-interest-bearing securities)	-	-	-	-	-
Actuarial loss	-	-	-	(6,568,910)	(6,568,910)
Total other comprehensive income for the year	-	-	(24,048,702)	(6,568,910)	(30,617,612)
Total comprehensive income and other transfers					
Paid up capital	-	-	-	-	-
Deposit for shares	-	-	-	-	-
Balance at 31 December 2017	125,000,000	32,792,919	239,955,287	(3,040,673)	394,707,533

The notes on pages 95 to 153 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

In thousands of Leones

	Notes	**2017**	2016
Cash flows from operating activities			
Loss for the year		**(22,232,737)**	(17,096,681)
Adjustment for:			
Depreciation and amortisation	*21*	**5,533,198**	(4,960,862)
Net interest income	*8*	**(175,061,433)**	(75,066,551)
Fixed asset write-offs		**5,520**	2,375
Profit on disposals		**(80,760)**	(45,496)
Actuarial (loss)/gain on defined benefit obligation		**(6,568,910)**	4,405,886
Prior year adjustment		**(1,815,966)**	-
		(200,221,088)	(83,729,605)
Changes in:			
Loans and advances to others		**(643,875)**	(1,565,973)
Due from Government of Sierra Leone		**(116,567,699)**	(452,227,719)
Other assets		**8,161,241**	(17,136,672)
Currency in circulation		**297,380,851**	110,404,100
Government deposit		**56,356,365**	35,114,720
Other deposits		**(21,007,040)**	14,711,860
Deposits from banks		**(105,163,028)**	294,705,583
Other liabilities		**53,577,914**	34,535,575
End-of-service benefits		**10,890,067**	(863,572)
		(17,236,292)	(66,051,703)
Interest received	*8*	**180,156,784**	77,077,500
Interest paid	*8*	**(5,095,351)**	(2,010,949)
Net cash generated from operating activities		**157,825,141**	9,014,848
Cash flows from investing activities			
Purchase of investment securities		**(456,661,777)**	(205,853,105)
Acquisition of investment in equity		**(2,123,873)**	(12,338,115)
Acquisition of property, plant and equipment		**(67,052,718)**	(21,345,349)
Proceeds from sale of property, plant and equipment		**81,015**	45,503
Net cash generated from investing activities		**(525,757,353)**	(239,491,066)
Cash flows from financing activities			
Net change in funds from the IMF		**549,418,867**	790,206,934
Net movement in reserves		-	-
Net cash from financing activities		**549,418,867**	790,206,934
Net increase in cash and cash equivalents		**181,486,655**	559,730,716
Cash and cash equivalents at 1 January		**2,998,294,859**	2,438,564,143
Cash and cash equivalents at 31 December	*16*	**3,179,781,514**	2,998,294,859
		==========	==========

The notes on pages 95 to 153 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Bank of Sierra Leone is domiciled in Sierra Leone and its capital was subscribed wholly by the Government of Sierra Leone. The address of the Bank's registered office is 30 Siaka Stevens Street, Freetown. The Bank is an autonomous institution, and in that respect not subject to the control or direction of any person or authority.

The objective of the Bank is to achieve and maintain price stability. The Bank's function is to:

i. formulate and implement monetary policy, financial regulation and prudential standards;
ii. act as banker, adviser and fiscal agent of the Government;
iii. formulate and implement the foreign exchange policy of Sierra Leone;
iv. conduct foreign-exchange operations;
v. own, hold and maintain the official international reserves including the reserves of gold;
vi. issue and manage the currency of Sierra Leone;
vii. establish, promote, license and oversee sound and efficient payment and securities settlement systems;
viii. license, register, regulate and supervise financial institutions as specified in the Bank of Sierra Leone Act;
ix. act as depository for funds from international organizations.

2 BASIS OF ACCOUNTING

The financial statements of Bank of Sierra Leone have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Bank of Sierra Leone Act 2011. They were authorised for issue by the Bank's Board of Directors.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

These financial statements are presented in Leones, which is the Bank's functional currency. All financial information presented in Leones has been rounded to the nearest thousand.

Details of the Bank's accounting policies, including changes during the year, as well as the adoption of new and revised International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretations Committee (IFRIC) are included in notes 37 to 39.

3 USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the bank's accounting policies and the resulted reported amounts of assets, liabilities, income and expenses. Actual effects may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

3 USE OF JUDGEMENTS AND ESTIMATES (Contd)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December is set out below in relation to the impairment of financial instruments and in the following notes:

- Note 39 (g) - determination of fair value of financial instruments with significant unobservable inputs;
- Note 39 (q) - measurement of defined benefit obligations: Key actuarial assumptions;
- Note 39 (o) - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Assumptions and estimation uncertainties (contd)

Impairment of financial instruments

Non-financial assets are evaluated for impairment on the basis described in note 39(m).

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the walkout strategy and estimate of cash flows considered recoverable are determined by management and approved by the Board.

Where appropriate, a collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and

- groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical analysis of historical data on delinquency to estimate the amount of loss.Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions at the reporting date.

Where inherent loss is apparent management may make assumptions to define the pattern of inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

4 SIGNIFICANT EVENTS FOR THE FISCAL YEAR 2017

On 5th June 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF)1 for Sierra Leone for SDR 161.778 million (about US$224.2 million, or 78 percent of Sierra Leone's quota) in support of the authorities' economic development efforts.

As a part of the arrangement, Government of Sierra Leone and the Bank of Sierra Leone issued a Memorandum of Economic and Financial Policies dated 28th March 2017and committed to adopt the measures to achieve the IMF program objectives.

The following measures had to be adopted before the program request went to the IMF Executive Board:

i Measures to generate at least 0.5 percent of GDP in additional revenue in 2017, to close the estimated financing gap in the 2017 fiscal operations:

- The eliminating of all import duty and tax exemptions except those governed by conventions, international and bilateral agreements ratified by Parliament, these took effect immediately after having been pronounced by the President and are currently implemented.
- The application of royalty rate on mineral exports using only best- available international market price in accordance with the Mines and Minerals Act, 2009 which has been implemented.
- The imposition of a luxury goods tax of 20 percent on automobiles with CIF value in excess of US$25,000 had been suggested in the Finance Act 2019 but had not been ratified by parliament. The review in the Finance Act relates to the increase in the CIF value to US$50,000 as well as a clear definition of luxury vehicles.

ii The Tax Administration Bill was submitted to Parliament in November 2018 and had been ratified.

iii The Bank stopped foreign exchange auctions in May 2017. However, due to speculative exchange rate pressure, it intervened in the Sierra Leones Interbank Foreign Exchange Market (IFEM) in August 2018 and resumed the weekly foreign exchange auctions as of this date.

iv The Financial Management and Control Bill, which mandated MDAs to domicile all their funds in the Consolidated Revenue Fund was passed by Parliament in 2018. However, the coverage was extended in 2019 to all MDA's within the Finance Bill 2019. This Bill has recently been ratified by the Parliament.

Subsequent to IMF's approval but within the fiscal year 2017, Government of Sierra Leone and the Bank of Sierra Leone adopted the following measures:

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Fiscal sector

i Government prepared a concept and implemented the Treasury Single Account (TSA) structure in order to ensure prudence and probity in the management of financial resources. Following the issuance of Executive Order 1 by the new administration, all MDAs that hitherto collected and etained government revenues were directed to transfer such revenues into the Consolidated Revenue Fund. Accordingly, the Accountant General closed the accounts held in various commercial banks and transferred the balances into the Consolidated Revenue Fund at the Bank of Sierra Leone. The coverage of the TSA was recently broadened to include more agencies.

The Government intends to continue to broaden the scope of the TSA by bringing in more agencies. To enhance the operationalization of the TSA, the Government will enter into a Memorandum of Understanding (MoU) with the Bank of Sierra Leone, as specified in the policy matrix agreed to with the World Bank. The MoU will seek to adopt a system that allows the Bank and commercial banks to (a) record and report all TSA transactions related with budget revenues (receipts) and expenditures (payments) through Cash Book payment; (b) pay surplus cash balances into the TSA at regular intervals; and (c) open credits in response to specific government needs by end-June 2019.

ii Government and the Bank are currently implementing a process that links the existing bank accounts of Ministries and Departments (MDs) and consolidates the cash resources of MDs into the main TSA account.

iii The Public Finance Management (PFM) Regulations have been ratified under the PFM Act by the Parliament in 2018 and are in use.

iv The Cabinet has approved the Ministry of Finance and Economic Development's Payroll Strategy aimed at addressing the multiple anomalies currently apparent in the public sector payroll on 12 October 2017.

v Government has submitted the revised Extractive Industries Revenue Bill (EIRB) to Parliament. It had been ratified in November 2018 and is currently being implemented.

Monetary, exchange rate, and financial sectors

i As of 1 February 2018, BSL has implemented a liquidity management policy requiring a two-week reserve maintenance period.

ii The introduction and publication of leading macro-economic indicators is currently in transition. The composite index of economic activity has been computed using the expenditure approach. Work is ongoing on the computation of CIEA using the production approach. Questionnaire for the inflation expectation surveys has been completed and ready for pilot survey - which is scheduled for Q1, 2019.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

iii The Bank's measures to address weaknesses in the state-owned banks' balance sheets have reduced these risks significantly since the program began. However, to prevent are occurrence of politically motivated, loss-making lending practices, the banks should be put on a firmercommercial footing and the risk of undue influence by the Government in management decisions significantly reduced. The Government aims to finalize a strategic plan for these banks including a timetable for putting in place an independent governance framework (end-March 2019 structural benchmark). Since January 2018 the Bank has continuously implemented risk-based supervision.

iv The bank has stopped the practice of bridge financing and other forms of accommodating fiscal needs.

Other areas

i The Ministry of Planning and Economic Development reviews on a half yearly basisfiscal implications of all large-scale projects including in energy, construction, extractive, manufacturingand agriculture sector contracts/agreements. The assessment includes the direct and contingentliabilities of the projects. Respective reports are issued and sent to the IMF.

5 FINANCIAL RISK REVIEW

This note presents information about the bank's exposure to financial risks and the bank's management of capital. Further details on the Bank's policies have been provided in note 36.

(a) Credit risk

For the definition of credit risk and information on how credit risk is managed by the bank, see note 36(a).

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Credit quality

The Bank lends principally to the Government of Sierra Leone repayment of which is guaranteed by the borrower. On its investment portfolio and other assets on which it may be exposed tocredit risk, the Bank minimizes its exposure related to investment made in foreign debt securities and short term deposits by establishing limits on investments with different credit quality.Credit quality is evaluated on the basis of the ratings set by the International Rating Agencies. The bulk of the funds is placed with triple "A" rated Banks (i.e. Central Banks and other international financial institutions as approved by the Foreign Assets Committee (FAC), Management and the Board).

The following table represents the Bank's financial assets based on Standard and Poor'scredit rating of the issuer. AAA is the highest quality rating possible and indicates that the entity has an extremely strong capacity and A is an upper medium grade, indicating a strong capacity to pay in terest anprincipal BBB is the lowest investment grade rating, indicating a medium capacity to pay interest and principal.N/R indicated that the entity has not been rated by Standard and Poor.

The substantial portion of the investment held with non-rated issuers are guaranteed by the Government of Sierra Leone.

	Credit rating	2017	% of FA	2016	% of FA
Cash balances with Central Banks	AAA	1,681,576,253	18.95	1,481,968,024	26.03
Cash and balances with Banks and fixed deposits	A	1,497,917,432	16.88	1,516,326,835	20,65
International Monetary Fund assets	N/R	3,345,764,036	37.70	3,031,136,496	31.62
Advances	N/R	1,118,833,247	12.61	1,001,621,673	12.11
Investment in equity	N/R	49,121,413	0.55	46,997,540	0.66
Investment securities	N/R	1,181,725,249	13.32	725,063,472	8.93
Total		8,874,937,630	100	7,803,114,040	100

The maximum loss that the Bank would suffer as a result of a security issuer defaulting is the value reported in the statement of financial position.

The Bank writes off an advance or an investment (and any related allowances for impairment losses) when Management and the Board determine that the assets are uncollectible. This determination is reached after considering information on the probability of collectability of the said balance.

To enable it manage risk, the Bank analyses its assets portfolio and liabilities using various parameters, the result of which is the provision of information which facilitates investment decisions.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Credit risk **(Contd)**

Concentration analysis

The Bank's policy is to hold investments in fairly stable currencies to avoid losses caused by the depreciation of the Leone.

The analysis below gives an indication of the concentration by currency of the Bank's financial assets:Assets

In thousands of Leones	GBP	Euro	US$	SDR	Leone and Others	Total
At 31 December 2017						
Cash and cash equivalents	**738,480,187**	**3,080,748**	**2,433,533,299**	**-**	**4,687,280**	**3,179,781,514**
IMF assets	**-**	**-**	**-**	**3,345,764,036**	**-**	**3,345,764,036**
Advances	**-**	**-**	**-**	**-**	**1,118,833,247**	**1,118,833,247**
Investment in equity	**-**	**-**	**49,121,413**	**-**	**-**	**49,121,413**
Investment securities	**-**	**-**	**-**	**-**	**1,181,725,249**	**1,181,725,249**
Total assets	**738,480,187**	**3,080,748**	**2,482,654,712**	**3,345,764,036**	**2,305,245,776**	**8,875,225,459**
At 31 December 2016						
Cash and cash equivalents	1,091,119,882	11,429,863	1,875,299,899	-	20,445,215	2,998,294,859
IMF assets	-	-	-	3,031,136,496	-	3,031,136,496
Advances	-	-	-	-	1,001,621,673	1,001,621,673
Investment in equity	-	-	46,997,540	-	-	46,997,540
Investment securities	-	-	-	-	725,063,472	725,063,472
Total assets	1,091,119,882	11,429,863	1,922,297,439	3,031,136,496	1,747,130,360	7,803,114,040

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

(b) Liquidity risk

The risk that the Bank may not be able to meet short term financial demands which usually occur when it is unable to convert security or non-liquid assets to cash without loss of capital or revenue.

This risk is not relevant to domestic assets and liabilities because of the ability of the Bank to create Leones when required. However, liquidity risk is present with respect to the foreign assets and liabilities and the Bank mitigates this risk by fixing limits to holding sizes and maturity of its investments.

Cash and cash equivalents

To ensure it is enabled to meet its financial obligations as they fall due, the Bank closely monitors its liquid resources (cash and cash equivalents).

The value of cash and cash equivalents held by the Bank at 31 December 2017 is analysed below:

31 December 2017

In thousands of Leones	Investment securities	Balance with other Central Banks	Balance with other Banks	Total
Cash and cash equivalents	-	1,681,576,253	1,498,205,261	3,179,781,514
Investment securities (1-3 months)	7,757,981	-	-	7,757,981
Total cash and cash equivalents	7,757,981	1,681,576,253	1,498,205,261	3,187,539,495
	========	==========	==========	==========
Investment securities not included in cash and cash equivalents (3-12 months)	**214,150**	-	-	**214,150**
Total cash and cash equivalents and investment securities (available within 12 months)	7,972,131	1,681,576,253	1,498,205,261	3,187,753,645
	========	==========	==========	==========

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Liquidity risk (contd)

31 December 2016

In thousands of Leones	Investment securities	Balance with other Central Banks	Balance with other Banks	Total
Cash and cash equivalents	-	1,481,968,024	1,516,326,835	2,998,294,859
Investment in securities (1-3 months)	4,202,188	-	-	4,202,188
Total cash and cash equivalents	4,202,188	1,481,968,024	1,516,326,835	3,002,497,047
Investment securities not included in **cash and cash equivalents (3-12 months)**	**6,295,150**	**-**	**-**	**6,295,150**
Total cash and cash equivalents and investment securities (available within 12 months)	**10,497,338**	**1,481,968,024**	**1,516,326,835**	**3,008,792,197**

Maturity profile of financial assets/liabilities

The Bank manages its foreign liquidity risks through the appropriate structuring of its foreign investment portfolios, to ensure that the maturity profile of foreign currency assets sufficiently matches those of its foreign currency commitments. This is monitored and managed on a daily basis. In addition,the foreign investment portfolio of the Bank includes sufficient short-term, highly liquid investment instruments.

The table below analyses the financial assets and liabilities into relevant maturity groupings based on the remaining period at statement of financial position date to contractual maturity date and shows the mismatch.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Liquidity risk (contd)

In thousands of Leones	Note	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1 - 3 Months	3 months to 1 year	1 - 5 Years	More than 5 years
31 December 2017								
Financial asset by type								
Non-derivative liabilities								
Cash and cash equivalents	16	3,179,781,514	3,179,781,514	1,681,864,082	1,497,917,432	-	-	-
International Monetary Fund Related Assets	17	3,345,764,036	3,345,764,036	-	-	3,345,764,036	-	-
Investment securities	20	1,181,725,249	1,181,725,249	-	7,757,981	214,150	1,118,003,118	48,750,000
Investment in equity	19	49,121,413	49,121,413	-	-	-	23,917,612	25,203,801
Advances	18	1,118,833,247	1,118,833,247	-	120,023,171	-	8,747,348	990,062,728
		8,875,225,459	8,875,225,459	1,681,864,082	1,625,698,584	3,345,978,186	1,150,668,078	1,064,016,529
Financial liability by type								
Non-derivative liabilities								
Amounts due to International Monetary Fund (IMF)	23	6,047,228,495	6,047,228,495	-	-	2,220,462,451	1,065,449,407	2,761,316,637
Deposits from Government	24	177,487,051	177,487,051	177,487,051	-	-	-	-
Deposits from Banks	25	528,389,643	528,389,643	-	-	528,389,643	-	-
Deposits from others	26	26,362,892	26,362,892	26,362,892	-	-	-	-
End-of-service benefits	29	32,213,712	32,213,712	-	-	-	32,213,712	-
Unrecognised loan commitment		-	-	-	-	-	-	-
		6,811,681,793	6,811,681,793	203,849,943	-	2,748,852,094	1,097,663,119	2,761,316,637
Net on-balance sheet position		2,063,543,666	2,063,543,666	1,478,014,139	1,625,698,584	597,126,092	53,004,959	(1,697,300,108)

NOTES TO THE FINANCIAL STATEMENTS (Contd)

5 FINANCIAL RISK REVIEW (Contd)

Liquidity risk (contd)

(ii) Maturity analysis for financial assets and financial liabilities (contd)

The table below sets out the remaining contractual maturities of the Bank's financial liabilities and financial assets:

In thousands of Leones	Note	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1 - 3 Months	3 months to 1 year	1 - 5 Years	More than 5 years
31 December 2016								
Financial asset by type								
Non-derivative liabilities								
Cash and cash equivalents	16	2,998,294,859	2,998,294,859	1,482,246,325	1,516,048,534	-	-	-
International Monetary Fund Related Assets	17	3,031,136,496	3,031,136,496	-	-	3,031,136,496	-	-
Investment securities	20	725,063,472	725,063,472	-	4,202,188	6,295,150	658,316,134	56,250,000
Investment in equity	19	46,997,540	46,997,540	-	-	-	21,448,553	25,548,987
Advances	18	1,001,621,673	1,001,621,673	-	111,587,023	-	8,086,698	881,947,952
		7,803,114,040	7,803,114,040	1,482,246,325	1,631,837,745	3,037,431,646	687,851,385	963,746,939
Financial liability by type								
Non-derivative liabilities								
Amounts due to International Monetary Fund (IMF)	23	5,183,182,088	5,183,182,088	-	-	1,999,659,009	960,513,771	2,223,009,308
Deposits from Government	24	121,130,686	121,130,686	121,130,686	-	-	-	-
Deposits from Banks	25	633,552,671	633,552,671	-	-	633,552,671	-	-
Deposits from others	26	47,369,932	47,369,932	47,369,932	-	-	-	-
End-of-service benefits	29	21,323,645	21,323,645	-	-	-	21,323,645	-
Unrecognised loan commitment		-	-	-	-	-	-	-
		6,006,559,022	6,006,559,022	168,500,618	-	2,633,211,680	981,837,416	2,223,009,308
Net on-balance sheet position		1,796,555,018	1,796,555,018	1,313,745,707	1,631,837,745	404,219,966	(293,986,031)	(1,259,262,369)

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Liquidity risk (contd)

Liquidity reserve

The table below sets out the components of the Bank's liquid reserves at book and fair values:

In thousands of Leones	**2017 Carrying amount**	**2017 Fair value**	2016 Carrying amount	2016 Fair value
Cash in hand	**287,829**	**287,829**	278,301	278,301
Balance with other Central Banks	**1,681,576,253**	**1,681,576,253**	1,481,968,024	1,481,968,024
Cash and balances with Banks and fixed deposits	**1,497,917,432**	**1,497,917,432**	1,516,048,534	1,516,048,534
Total liquidity reserve	**3,179,781,514**	**3,179,781,514**	2,998,294,859	2,998,294,859

Pledged assets

None of the Bank's asset were encumbered and were therefore available to be provided as collateral to support future borrowing.

(c) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures and keep them within acceptable parameters, while optimizing the return on risk.

Overall oversight for management of market risk is vested in the Board. The Foreign Assets Committee is responsible for the development of detailed risk management policies (subject to review and approval by the Board and for the day-to-day review of their implementation).

Management of interest rate risk

The Bank holds a mixture of 1 year, 3 year and 10 year bonds as part of its local portfolio. Of these, only 1 year bonds are marketable/tradable but the Bank normally holds them to maturity becauseof the absence of an active market.

The local portfolio is made up mainly of these bonds and treasury bills purchased in the secondary market. The Bank does not normally manage its exposure to decreases in yields of these securities because its participation in the secondary market is an intervention mechanism as part of its core functions and not for a profit motive.

The Bank's foreign portfolio is largely made up of fixed deposits in the money market which can be traded prior to maturity if required. This portfolio is however subject to risk of changes in exchange rate an interest rate. The Bank's investment equity is non-tradable.

Interest rate is managed where fluctuation in interest rate will potentially reduces the Bank's income from foreign and local investment.

For foreign investments, interest rate risk is managed by holding minimum balances in currencies with falling interest rates. The foreign investments are however mainly in fixed term deposits, therefore the bank is not exposed to interest rate resetting.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

Interest rate risk (contd)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios.

The scenario that is considered on a monthly basis is a 2% basis point (bp) parallel fall or rise in market interest rates.

Sensitivity of projected net interest income (Interest rate sensitivity analysis)

	200 bp (2%)	200 bp (2%)
2017	**Increase**	**Decrease**
Interest income impact	**3,603,136**	**(3,603,136)**
Interest expense impact	**(101,907)**	**101,907**
Net impact	**3,501,229**	**(3,501,229)**
	=========	=========

	200 bp (2%)	200 bp (2%)
2016	Increase	Decrease
Interest income impact	1,541,550	(1,541,550)
Interest expense impact	(40,219)	40,219
Net impact	1,501,331	(1,501,331)
	=========	=========

The expected impact on net interest income have been based on a +/- two percent swing in interest rates that may occur during the ensuing year. The computation considered interest income on cash and short term funds, investment securities and advances.

Sensitivity of reported equity to interest rate movement

	200 bp (2%)	**200 bp (2%)**
	Increase	**Decrease**
2017		
Net Interest impact on retained earnings	**3,501,229**	**(3,501,229)**
	=========	=========

	200 bp (2%)	200 bp (2%)
	Increase	Decrease
2016		
Net Interest impact on retained earnings	1,501,331	(1,501,331)
	=========	=========

Management of exchange rate risk

The Bank had reduced its exposure to the Eurozone since 2013 due to the protracted sovereign debt crisis in Greece, Portugal and Spain. The Euro has been very volatile and fluctuating significantly against theUSD, the Bank's reporting currency for foreign reserves.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

Concentrations of assets, liabilities and off-balance sheet items

In thousands of Leones	GBP	Euro	US$	SDR	Others	Total
At 31 December 2017						
Cash and cash equivalents	**738,480,187**	**3,080,748**	**2,433,533,299**	**-**	**4,687,280**	**3,179,781,514**
IMF Assets	**-**	**-**	**-**	**3,345,764,036**	**-**	**3,345,764,036**
Advances	**-**	**-**	**-**	**-**	**1,118,833,247**	**1,118,833,247**
Investment in equity	**-**	**-**	**49,121,413**	**-**	**-**	**49,121,413**
Investment in securities	**-**	**-**	**-**	**-**	**1,181,725,249**	**1,181,725,249**
Total assets	**738,480,187**	**3,080,748**	**2,482,654,712**	**3,345,764,036**	**2,305,245,776**	**8,875,225,459**
Liabilities						
IMF drawing rights allocation	**-**	**-**	**-**	**6,047,228,495**	**-**	**6,047,228,495**
Deposits from Government	**-**	**-**	**-**	**-**	**177,487,051**	**177,487,051**
Deposits from banks	**-**	**-**	**-**	**-**	**528,389,643**	**528,389,643**
Deposit from others	**-**	**-**	**-**	**-**	**26,362,892**	**26,362,892**
End-of-service benefits	**-**	**-**	**-**	**-**	**32,213,712**	**32,213,712**
Total liabilities	**-**	**-**	**-**	**6,047,228,495**	**764,453,298**	**6,811,681,793**
Net on-balance sheet position	**738,480,187**	**3,080,748**	**2,482,654,712**	**(2,701,464,459)**	**1,540,792,478**	**2,063,543,666**
At 31 December 2016						
Cash and cash equivalents	1,091,119,882	11,429,863	1,875,299,899	-	20,445,215	2,998,294,859
IMF assets	-	-	-	3,031,136,496	-	3,031,136,496
Advances	-	-	-	-	1,001,621,673	1,001,621,673
Investment in equity	-	-	46,997,540	-	-	46,997,540
Investment securities	-	-	-	-	725,063,472	725,063,472
Total assets	**1,091,119,882**	**11,429,863**	**1,922,297,439**	**3,031,136,496**	**1,747,130,360**	**7,803,114,040**
Liabilities						
IMF drawing rights allocation	-	-	-	5,183,182,088	-	5,183,182,088
Deposits from Government	-	-	-	-	121,130,686	121,130,686
Deposits from banks	-	-	-	-	633,552,671	633,552,671
Deposit from others	-	-	-	-	47,369,932	47,369,932
End-of-service benefits	-	-	-	-	21,323,645	21,323,645
Total liabilities	-	-	-	5,183,182,088	823,376,934	6,006,559,022
Net on-balance sheet position	**1,091,119,882**	**11,429,863**	**1,922,297,439**	**(2,152,045,592)**	**923,753,426**	**1,796,555,018**

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

Foreign currency sensitivity analysis

Concentration of Leone equivalent of foreign currency denominated assets and liabilities.

The following sensitivity analysis has been based on a 10% change in the exchange rates of various currencies against the Leone.

2017

In thousands of Leones	**US$**	**GBP**	**EUR**	**SDR**	**Others**	**Total**
Assets						
Cash and cash equivalents	**243,353,330**	**73,848,019**	**308,075**	**-**	**468,728**	**317,978,151**
IMF assets	**-**	**-**	**-**	**334,576,404**	**-**	**334,576,404**
Advances	**-**	**-**	**-**	**-**	**111,883,325**	**111,883,325**
Investment in equity	**4,912,141**	**-**	**-**	**-**	**-**	**4,912,141**
Investment securities	**-**	**-**	**-**	**-**	**118,172,525**	**118,172,525**
Total assets	**248,265,471**	**73,848,019**	**308,075**	**334,576,404**	**230,524,578**	**887,522,546**
Liabilities						
IMF drawing rights allocation	-	-	-	604,722,850	-	604,722,850
Deposits from Government	-	-	-	-	17,748,705	17,748,705
Deposits from banks	-	-	-	-	52,838,964	52,838,964
Deposit from others	-	-	-	-	2,636,289	2,636,289
End-of-service benefits	-	-	-	-	3,221,371	3,221,371
Total liabilities	-	-	-	604,722,850	76,445,330	681,168,179
Net-on-balance sheet position	**248,265,471**	**73,848,019**	**308,075**	**(270,146,446)**	**154,079,248**	**206,354,367**

2016

	US$	GBP	EUR	SDR	Others	Total
Assets						
Cash and cash equivalents	187,529,990	109,111,988	1,142,986	-	2,044,522	299,829,486
IMF assets	-	-	-	303,113,650	-	303,113,650
Advances	-	-	-	-	100,162,167	100,162,167
Investment in equity	4,699,754	-	-	-	-	4,699,754
Investment securities	-	-	-	-	72,506,347	72,506,347
Total assets	192,229,744	109,111,988	1,142,986	303,113,650	174,713,036	780,311,404
Liabilities						
IMF drawing rights allocation	-	-	-	518,318,209	-	518,318,209
Deposits from Government	-	-	-	-	12,113,069	12,113,069
Deposits from banks	-	-	-	-	63,355,267	63,355,267
Deposit from others	-	-	-	-	4,736,993	4,736,993
End-of-service benefits	-	-	-	-	2,132,365	2,132,365
Total liabilities	**-**	**-**	**-**	**518,318,209**	**82,337,693**	**600,655,902**
Net-on-balance sheet position	**192,229,744**	**109,111,988**	**1,142,986**	**(215,204,559)**	**92,375,343**	**179,655,502**

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

The foreign exchange market remained relatively stable in 2017, notwithstanding the halting of the weekly wholesale foreign exchange auction in May 2017 by the Bank. Accordingly, the exchange rate remained relatively stable during the year, with marginal depreciation recorded across all foreign exchange market segments. The continued depreciation of the foreign exchange rate reflects the structural imbalance between demand for and supply of foreign exchange due to in part the sluggish recovery of real sector activities particularly the mining and agriculture sectors and mismatch between Government revenue and expenditure which was largely financed through monetary accommodation.

Classification of financial assets

The financial assets held by the Bank have been classified as indicated in the table below.
The valuation model applicable to each category has been explained in the accounting policies detailed in note 39.

In thousands of Leones	Financial assets at fair value through profit and loss	Loans and receivables	Available-for-sale	Held-to-maturity
2017				
Assets				
Cash and cash equivalents	**3,179,781,514**	**-**	**-**	**-**
IMF assets	**-**	**3,345,764,036**	**-**	**-**
Advances	**-**	**1,118,833,247**	**-**	**-**
Investment in equity	**-**	**-**	**-**	**49,121,413**
Investment securities	**-**	**-**	**-**	**1,181,725,249**
	3,179,781,514	**4,464,597,283**	**-**	**1,230,846,662**
2016				
Assets				
Cash and cash equivalents	2,998,294,859	-	-	-
IMF assets	-	3,031,136,496	-	-
Advances	-	1,001,621,673	-	-
Investment in equity	-	-	-	46,997,540
Investment securities	-	-	-	725,063,472
	2,998,294,859	4,032,758,169	-	772,061,012

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Operational risk (contd)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management of the Bank. This responsibility is supported by the development of policies for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements fo the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risk identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective;

Compliance with the Bank's policies is monitored by the Internal Audit Department.

6 FAIR VALUE OF FINANCIAL INSTRUMENTS

See accounting policy in note 39(g)(v).

The fair values of financial assets and financial liabilities are ideally based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy,which reflects the significance of the inputs used in making the measurements

- Level 1:inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd)

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e as prices) or indirectly (i.e. derived fromprices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models Assumptions and inputs used in valuation techniques include risk-free interest rates, foreign currency exchange rates and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received if the asset is sold or the entity is paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(b) Valuation framework

The Financial Markets and Finance departments are responsible for spotting any indicators of fair value adjustment and to ensure such adjustments are properly booked.

(c) Financial instruments measured at fair value - fair value hierarchy

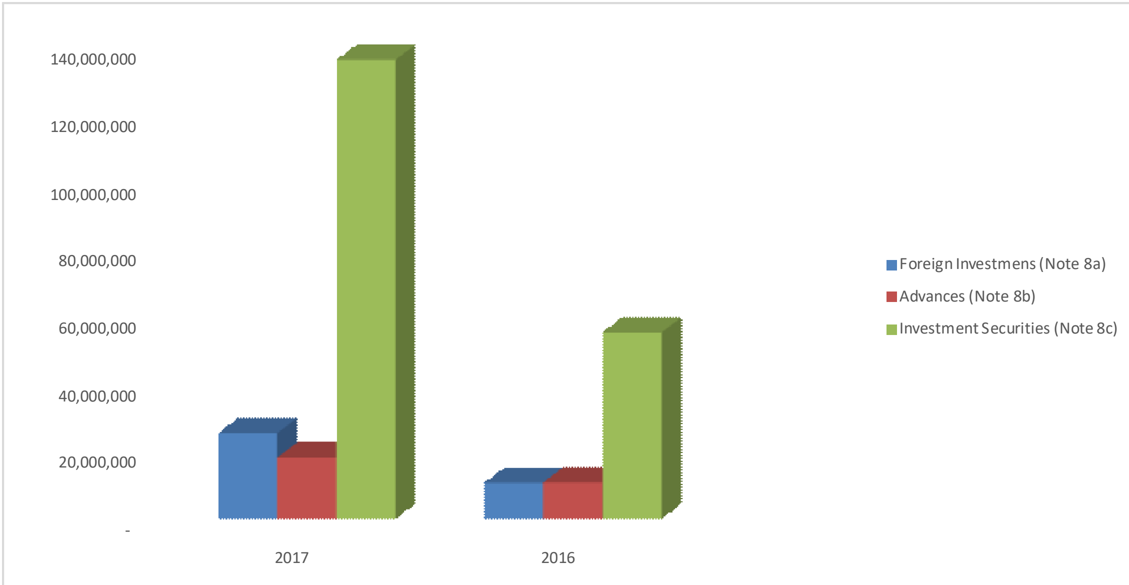
The Bank does not have financial instruments measured at fair value at the reporting date.

7 SEGMENT REPORTING

The current IT environment of the Bank is not able to reflect discrete financial information for operational segments. The Bank has planned to migrate to a new IT environment in 2018. After the migration, discrete financial will be available for the operational segments of the Bank which will facilitate segmental reporting.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

8. NET INTEREST INCOME



In thousands of Leones

	2017	2016
Interest and similar income		
Foreign investments (Note 8a)	**25,490,497**	10,751,066
Advances (Note 8b)	**18,246,657**	10,882,468
Investment securities (Note 8c)	**136,419,630**	55,443,966
Total (Note 8d)	**180,156,784**	77,077,500
Interest expenses and similar charges		
IMF interest and charges	**4,569,267**	539,573
Others	**526,084**	1,471,377
	5,095,351	2,010,949
Net interest income	**175,061,433**	75,066,551
	==========	=========

8a. Foreign investments

Interest income on Sterling investments	**1,759,868**	3,417,690
Interest income on US Dollar investments	**19,443,375**	6,882,736
Interest income on SDR investments	**4,287,254**	450,640
	25,490,497	10,751,066
	==========	===========

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

8b Advances

	2017	2016
Interest on advances	**14,651,361**	10,293,463
Interest on reverse repos	**3,595,296**	589,005
	18,246,657	10,882,468

8c Investment securities

Interest on 91-day treasury bills	**555,951**	231,852
Interest on 182-day treasury bills	**64,624**	183,909
Interest on 1-year treasury bills	**89,734,456**	12,548,098
Interest on 1-year treasury bearer bonds	**167,242**	507,251
Interest on 2-year treasury bearer bonds	**1,248,546**	-
Interest on 3-year medium-term bonds	**6,826,063**	7,014,772
Interest on 3-year bond	**4,737,892**	4,908,084
Interest on 5-year medium-term bonds	**28,834,856**	25,200,000
Interest on 10-year bond	**4,250,000**	4,850,000
	136,419,630	55,443,966

8d Additional disclosure on income by source

Foreign investments	**25,490,497**	10,751,066
Local investments	**154,666,287**	66,326,434
	180,156,784	77,077,500

9 FEES AND COMMISSION INCOME

Fees and commission income

Commissions	**11,571**	4,883
Income on ACH/CSD/RTGS	**2,970,431**	2,406,566
	2,982,002	2,411,449
Fees and commission expense	-	-
Net fees and commission income	**2,982,002**	**2,411,449**

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

10. NET EXCHANGE (LOSSES)/GAINS

	2017	2016
Realised (losses)/gains (10a)	**(12,097,126)**	2,116,837
Unrealised (losses)/gains (10b)	**(30,678,745)**	16,910,990
	(42,775,871)	19,027,827

In accounting for foreign exchange transactions including the respective recognition of realised and unrealized gains and losses, the Bank's accounting system is not configured to map the exchange rates transactions originally occurred.Manual recomputations of the realised exchangegains and losses had to be performed and the amounts adjusted in 2017.

10a. Realised (losses)/gains

Exchange gain	**5,337,355**	18,601,775
Exchange loss	**(17,434,481)**	(16,484,938)
	(12,097,126)	2,116,837

Realised exchange differences arise from the Bank's day-to-day foreign transactions in auction of foreign currencies to commercial banks, purchase and sale of foreign currencies either on behalf of the Government or institutions and re-translation of foreign currency bank balances.

10b Unrealised (losses)/gains

Revaluation losses	**(1,126,712,527)**	(1,515,333,264)
Revaluation gains	**1,096,033,782**	1,532,244,254
	(30,678,745)	16,910,990

Unrealised gains and losses relate to exchange differences arising from the retranslation of the Bank's monetary assets and liabilities in foreign currencies, as a result of changes in the

10c. Impact on loss of revaluation (losses)/gains

	2017		2016	
Loss as per audited accounts		**(22,232,737)**		(17,986,681)
Less: Revaluation losses	**(1,126,712,527)**		(1,515,333,264)	
Revaluation gains	**1,096,033,782**		1,532,244,254	
Net revaluation gains		**(30,678,745)**		16,910,990
Operational loss for the year including unrealised exchange gains		**(52,911,482)**		**(34,897,671)**

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In essence the distribution of unrealised exchange gains will be counterproductive to monetary policy as it will lead to inflation in the economy. It is by virtue of this fact that Section 12(2) of the Bank of Sierra Leone Act 2011requires that all unrealised exchange gains are deducted from net profit for the purposes of calculating Distributable Earnings. The above is a reconciliation of Financial Reporting Profit (inclusive of unrealised gains and losses) to the operating profit (exclusive of unrealised gains and losses).

11 OTHER INCOME

In thousands of Leones

	2017	2016
Rent received	**43,531**	33,435
Profit on sale of fixed assets	**80,756**	45,496
Grant income	**423,420**	291,778
Regulatory fees and charges	**1,684,150**	605,958
Reversal of excess accrued charges	**-**	229,186
Sundry receipts	**213,422**	216,696
	2,445,279	1,422,549

Grant income relates to two vehicles donated by International Fund for Agricultural Development (IFAD) costing Le203.7 million each in 2012. Included also in grant income are various computer equipment costing Le501.6 million in 2013. Both the vehicles and the computer equipment are being amortised over five years.

12 PERSONNEL EXPENSES

Salaries and wages	**54,163,514**	44,867,147
Rent allowance	**11,056,636**	7,765,316
Social security	**3,711,430**	3,169,256
Overtime	**197,807**	176,339
Training scheme	**2,318,216**	1,634,591
Staff welfare	**422,669**	396,839
End-of-service benefits	**6,083,890**	4,954,639
Medical expenses	**2,551,575**	1,990,012
	80,505,737	64,954,139

13 CURRENCY

Currency management	**8,192**	152,761
Currency issue expenses	**28,500,753**	17,385,574
	28,508,945	17,538,335

Currency issue expenses relate to the cost of the new notes and coins issued and the management expenses relate to all other expenses incurred in transporting notes and coins.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

14 OTHER EXPENSES

	2017	2016
Occupancy cost	**529,916**	341,059
Audit fees*	**1,679,944**	290,000
Legal and professional fees	**7,680,199**	5,419,836
Directors' remuneration	**2,384,638**	3,085,868
Advertisement	**126,100**	153,370
Electricity	**4,964,760**	2,056,896
Insurance	**1,191,193**	1,009,154
Passage and overseas allowances	**4,177,791**	4,554,680
Repairs and maintenance	**1,137,506**	1,306,731
Hospitality	**2,318,238**	1,190,735
Contributions to International organisations	**8,291,728**	5,063,369
General office expenses	**979,144**	639,521
Vehicle running expenses	**490,016**	359,432
Reconciliation adjustment on currency in circulation**	**4,900,926**	-
Others	**2,987,054**	2,991,070
WAMZ Meetings	**1,558,547**	-
	45,397,700	28,461,721

* Audit fees include the cost of other specific services provided by another firm.

** Adjustment on currency in circulation represents the value of the correcting entries after reconciliation of the notes destruction ledger and the balances on the system.

15 LOSS FOR THE YEAR

The profit for the year has been stated after charging:

Depreciation and amortisation	**5,533,198**	4,960,862
Directors' remuneration	**2,384,638**	3,085,868
Audit fees	**1,679,944**	290,000

16 CASH AND CASH EQUIVALENTS

Cash in hand	**287,829**	278,301
Balances with other Central Banks	**1,681,576,253**	1,481,968,024
Placement with Banks (fixed deposits)	**1,067,407,730**	895,632,116
Cash and balances with Banks	**430,509,702**	620,416,418
	3,179,781,514	2,998,294,859

17 FUNDS HELD WITH THE INTERNATIONAL MONETARY FUND (IMF)

IMF Quota subscription	**2,220,720,982**	2,000,947,498
SDR Holdings	**1,125,043,054**	1,030,188,998
	3,345,764,036	3,031,136,496

These are International Monetary Fund related assets and they represent Sierra Leone's interest in the International Monetary Fund. Sierra Leone has been a member of the International Monetary Fund (IMF) since 1962.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

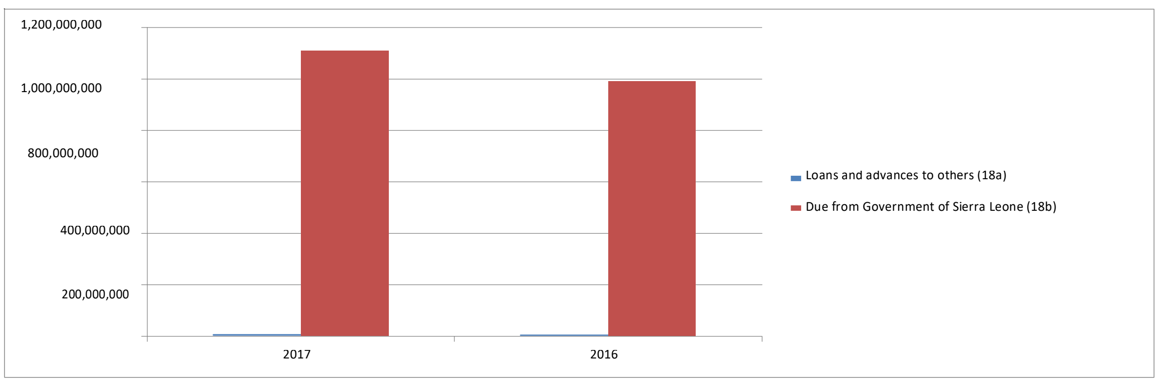
The Subscription Account reflects the initial and subsequent quota payments made by the Government to the Fund Membership in the Fund is reflected as an asset equal to a member's quota. Quota is determined upon admission to membership and is increased periodically under General Quota Reviews or an adhoc increases. The quota subscription and subsequent increases are paid in local currency (75%) and in SDR units (25%). The quota is denominated in SDRs but is expressed in local currency. Initially, the quota subscriptions are recorded at the local currency value based on historical cost. Whenever the Fund revalues its holdings of the member's currency to reflect current exchange rates, and at least once a year at the Fund's financial year-end (April 30), the member's subscription in the Fund should be revalued along with the Fund's holdings of the member's currency, at the same rate of exchange.

As at 31 December 2017 theamount of assets held in the fund was SDR 207.4 million (2016: SDR 207.4 million)

The difference being the result of increase in the quota subscription in 2016. The SDR holdings held at 31 December

2017 was SDR 105.1 million (2016: SDR 106.7 million).

18 ADVANCES



In thousands of leones

	2017	2016
Loans and advances to others (18a)	**9,858,069**	9,214,194
Due from Government of Sierra Leone (18b)	**1,108,975,178**	992,407,479
	1,118,833,247	1,001,621,673

18a LOANS AND ADVANCES TO OTHERS

(i) Analysis by type		
Staff (18ii)	**8,784,996**	8,124,346
Other (18iii)	**1,110,721**	1,127,496
	9,895,717	9,251,842
Gross loans and advances		
Less: allowances for losses on loans and advances to other (18iv)	**(37,648)**	(37,648)
	9,858,069	9,214,194
	========	========

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

		2017	2016
(ii)	**Staff**		
	Personal loan	**4,484,498**	3,817,174
	Housing loan	**1,164,864**	1,275,717
	Vehicle loan	**3,114,086**	3,015,160
	Staff advance	**21,548**	16,295
		8,784,996	8,124,346
(iii)	**Others**		
	Loan to Sierra Leone Stock Exchange Company Limited	**1,000,000**	1,000,000
	Other advances	**110,721**	127,496
		1,110,721	1,127,496
(iv)	**Allowances for impairment**		
	Specific allowances for impairment		
	Balance at 1 January	**37,648**	37,648
	Write-off during the year	-	-
	Balance at 31 December	**37,648**	37,648
	Collective allowance for impairment	-	-
	Balance at 1 January	-	-
	Impairment loss for the year	-	-
	Balance at 31 December	-	-
	Total allowances for impairment	**37,648**	**37,648**

18b DUE FROM GOVERNMENT OF SIERRA LEONE

	2017	2016
Advances to Government:		
Ways and means advances (i)	**120,023,171**	111,587,023
Others (ii)	**988,952,007**	880,820,456
	1,108,975,178	992,407,479

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

		2017	2016
(i)	Ways and means advances		
	Ways and means advances brought forward	**111,587,023**	63,405,581
	Advances during the year	**1,902,713,789**	1,924,932,093
	Receipts during the year	**(1,894,277,641)**	(1,876,750,651)
	Ways and means advances carried forward	**120,023,171**	111,587,023

Under the provisions of Section 56(5) of the Bank of Sierra Leone Act, 2011, the limit on the Ways and Means Advances that the Bank can grant to the Government shall not exceed five percent of the Government's actual domestic revenue excluding privatisation receipts in the previous year's budget.

(ii) Others

	2017	2016
World Bank Bridging Loan	-	120,000,000
GoSL/IMF budget financing	**988,952,007**	760,820,456
	988,952,007	880,820,456

The bridging loan of Le120 billion represents amount on-lent from the Bank's SDR allocation with the IMF to support the Government in liquidating non-discretionary statutory commitments. The loan accrues an annual interest equal to the variable SDR interest rate set at 0.05%. The amount has already been paid in 2017.

GoSL/IMF budget financing is a loan granted by the IMF under the Extended Credit Facility (ECF arrangement. The ECF funds has supported the fight against the Ebola outbreak through the Catastrophe Containment and Relief (CRR) Trust, budgetary and balance of payment needs and and strengthening of the international reserves.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

18b Due from Government of Sierra Leone (contd)

	2017	2016
Ways and means advances	**120,023,171**	111,587,023
Government's actual revenue in previous year	**2,639,071,438**	2,328,428,637
5% thereof	**131,953,572**	116,421,432
Buffer in Government lending	**(11,930,401)**	(4,834,409)

The Directors' report the balance of advances due from the Government of Sierra Leone as at 31 December 2017 amounting to Le120,023,171 - (2015: Le111,587,023). The balance outstanding was within the limit specified in the Bank of Sierra Leone Act 2011.

19 INVESTMENT IN EQUITY

Afrexim Bank Capital Investment	**25,203,801**	25,548,987
Afrexim Bank Dividend Investment	**2,494,647**	1,108,670
Stabilization and Cooperation Fund	**21,422,965**	20,339,883
	49,121,413	46,997,540

Afrexim investments disclosed above includes the cash received and the dividend re-invested by the Bank.

The amount of 21.4 billion (2016: Le20.3 billion) relates to the Bank's contribution to the Stabilization and Cooperation Fund managed by the West African Monetary Institute and held at the Bank of Ghana.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

20 INVESTMENT SECURITIES

The Bank's holdings of treasury investment securities comprised the following:

	2017	2016
91-day treasury bills held for monetary policy	**7,757,981**	4,202,188
182-day treasury bills	**214,150**	6,295,150
One-year treasury bills	**658,235,950**	220,803,627
364-day treasury bond held for monetary policy	-	9,195,450
Holdings of two-year bond	**7,000,000**	-
BSL holding three-year medium-term bond	**139,384,604**	154,887,804
Five-year medium-term bond	**320,325,606**	273,407,606
Holdings of ten-year bond	**48,750,000**	56,250,000
Others	**56,958**	21,647
	1,181,725,249	725,063,472

BSL Holding 3-year medium-term bond The Bank held two individual three-year medium-term bonds. This includes Le81.8 billion three-year marketable security issued at an interest rate of 6% payable semi-annually.

Following instruction from the Government to convert the remaining stock of the 2010 Ways and Means Advances into three year medium-term bond at an interest rate of 9% per annum, the said investment was recognised.

Five year medium term bonds

There is a Memorandum of Understanding (MOU) between the Government of Sierra Leone and the Bank of Sierra Leone for the conversion of Non-negotiable Non-interest Bearing Securities (NNIBS) to Five-year medium term bonds at an annual interest rate of 9% to be paid semi-annually. It is subject to rollover upon maturity.

Holdings of ten-year bond

The amount of Le 48.75 billion represents the outstanding balance due to the Bank from the Government of Sierra Leone following the issue of a 10-year marketable bond at an interest rate of 8% for the purpose of fully subscribing to the minimum paid-up capital of the Bank. The bond was issued on 1 May 2014 with interest repayable semi-annually. As at 31 December 2017, Le26.25 billion had been repaid by the Government to the Bank out of the principal amount of Le75.00 billion.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

21a PROPERTY, PLANT AND EQUIPMENT

COST	Premises	Motor vehicle	Office furniture and equipment	Plant and machinery	Work-in Progress	Total
Balance at 1 January 2016	63,963,095	5,378,973	23,734,221	10,652,591	19,971,801	123,700,681
Additions during the year	-	-	-	-	21,345,349	21,345,349
Reclassification	3,814,495	-	5,598,486	1,299,538	(10,712,519)	-
Write-off	-	-	-	-	(2,375)	(2,375)
Disposal	-	(268,800)	-	-	-	(268,800)
Adjustments		-	-	-	-	
Balance at 31 December 2016	**67,777,590**	**5,110,173**	**29,332,707**	**11,952,129**	**30,602,256**	**144,774,855**
Balance at 1 January 2017	67,777,590	5,110,173	29,332,707	11,952,129	30,602,256	144,774,855
Additions during the year	-	-	-	-	67,052,718	67,052,718
Reclassification	1,083,530	1,569,387	3,522,944	9,520	(6,185,381)	-
Write-off	-	-	-	-	-	-
Disposal	-	(91,858)	(308,486)	(689,341)	-	(1,089,685)
Adjustments	-	-	(5,520)	-	-	(5,520)
Balance at 31 December 2017	**68,861,120**	**6,587,702**	**32,541,645**	**11,272,308**	**91,469,593**	**210,732,368**
DEPRECIATION						
Balance at 1 January 2016	15,249,970	4,689,899	9,495,193	4,569,029	-	44,004,091
Depreciation for the year	1,319,687	303,658	2,470,060	867,457	-	4,960,862
Disposal	-	(268,793)	-	-	-	(268,793)
Balance at 31 December 2016	16,569,657	4,724,764	21,965,253	5,436,486	-	48,696,160
Balance at 1 January 2017	**16,569,657**	**4,724,764**	**21,965,253**	**5,436,486**	**-**	**48,696,160**
Depreciation for the year	**1,387,185**	**578,406**	**2,700,949**	**1,113,733**	**-**	**5,780,273**
Disposal	**-**	**(91,858)**	**(308,231)**	**(689,341)**	**-**	**(1,089,430)**
Adjustment	**(62,739)**	**-**	**-**	**(184,336)**	**-**	**(247,075)**
Balance at 31 December 2017	**17,894,103**	**5,211,312**	**24,357,971**	**5,676,542**	**-**	**53,139,928**
CARRYING AMOUNT						
At 31 December 2016	**51,207,933**	**385,409**	**7,367,454**	**6,515,643**	**30,602,256**	**96,078,695**
At 31 December 2017	**50,967,017**	**1,376,390**	**8,183,674**	**5,595,766**	**91,469,593**	**157,592,440**

Work in progress represents amount spent on supply and installation of lift, payments for Oracle software and hardware for the ERP project, WAMZ systems project, rehabilitation of the Main Bank and Kenema Branch buildings, payment for the supply of Hardware for the Collateral Registry Programme, re-construction ofbroad walk at the Bank Complex and the architectured design and other pre-costs for the Makeni Branch Project.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

22 OTHER ASSETS

	2017	2016
Gold stock	**873,271**	742,166
Items in transit	**2,279,069**	5,620,453
Consumables	**844,265**	971,620
Prepayment	**3,393,228**	2,694,635
Advances to contractors	**26,023,701**	16,829,158
Interest receivable	**19,222,411**	24,014,178
Deferred currency issue expense	**62,323,764**	72,253,054
Other receivables	**167,953**	163,639
Reverse repo account	-	-
Less:		
Allowances for impairment	**(8,732)**	(8,732)
	115,118,930	123,280,171
Allowances for impairment:		
At 1 January	(8,732)	(8,732)
Impairment charge for the year	-	-
Written off during the year	**-**	-
	(8,732)	(8,732)

23 AMOUNTS DUE TO THE INTERNATIONAL MONETARY FUND (IMF)

IMF Special Drawing Rights	**1,065,449,407**	960,513,771
IMF Poverty Reduction and Growth Facility	**2,761,216,458**	2,222,919,091
IMF securities	**72,485,971**	75,846,659
IMF No. 1	**2,147,976,480**	1,923,812,350
IMF No. 2	**100,179**	90,217
	6,047,228,495	5,183,182,088

The IMF Special Drawing Rights and Poverty Reduction and Growth Facility accounts relate to amounts due to the International Monetary Fund (IMF) for SDRs allocated to the Bank for transactions with IMF and to support programs, strengthen balance of payments position and foster durable growth, leading to higher living standards and a reduction in poverty.

The IMF No1 Account represents part of the IMF currency holding in member's designated depository account which is used for the IMF's operations, including, inter alia, quota subscription payments, purchases, and repurchases. The No. 1 Account is a cash account. Members are required to maintain a minimum in No.1 Account equal to 1/4 of 1 percent of the member's quota at all times.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

The IMF No. 2 Account represents part of the IMF currency holdings held in member's designated depository account and it is used for the payment of administrative expenses incurred by the MF in the member's currency, e.g., expenses of the IMF representative offices.

The IMF Securities Account represents part of the IMF currency holdings held in members' depository account which contain member's non-negotiable, non-interestbearing notes encashable on demand.

24 DEPOSITS FROM GOVERNMENT

This represents Governments special deposit accounts.

25 DEPOSITS FROM BANKS

	2017	2016
Commercial banks' reserve accounts	**518,181,771**	618,187,727
Rural and community banks' reserve accounts	**8,346,627**	9,631,550
Others	**1,861,245**	5,733,394
	528,389,643	633,552,671

26 DEPOSITS FROM OTHERS

Deposits from insurance brokers	**4,185,473**	5,792,379
Multilateral organisations	**14,737,460**	33,509,754
Financial institutions	**749,353**	2,499,195
Others	**6,690,606**	5,568,604
	26,362,892	47,369,932

27 CURRENCY IN CIRCULATION

Notes	**1,749,610,834**	1,453,717,058
Coins	**15,134,049**	13,646,974
Balance at 31 December	1,764,744,883	1,467,364,032

Currency in circulation represents the face value of bank notes and coins in circulation.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

28	OTHER LIABILITIES	2017	2016
	Financial liabilities		
	Other foreign currency financial liabilities (28a)	**108,131,902**	67,962,669
	Accrued charges and other liabilities (28b)	**16,932,356**	11,642,530
		125,064,259	79,605,199
	Non-financial liabilities		
	Provision for revaluation of pipeline liabilities (28c)	**48,099,331**	43,619,507
	Provision for unrealised exchange difference on SWAP revaluation	**3,639,030**	-
		51,738,361	43,619,507
		176,802,620	123,224,706

28a Other foreign currency financial liabilities

		2017	2016
Foreign payments		**5,744,388**	59,818
Bank of China US$ clearing		**63,424,804**	60,550,223
OFID Debt Relief imprest account		**47,350**	45,204
Sundry liabilities		**38,915,360**	7,307,424
		108,131,902	67,962,669

An agreement on the settlement of the balance on the clearing account between Bank of China and Bank of Sierra Leone was signed on 13th August 1993 to work for the settlement of the balance in favour of Bank of China on the clearing account maintained between Bank of China and Bank of Sierra Leone Both sides confirm that the balance on the clearing account amounts to U.S Dollars 8.42 million standing in favour of Bank of China. Bank of Sierra Leone shall settle the balance in twenty equal instalments, with each instalment amounting to U.S. Dollars 561,011.37. The agreement provided for the first instalment payment to be made on 15th August 1994 and thereafter every six months on 15th February and 15th August respectively. The movement in the 2017 amount is as a result of exchange rate fluctuations.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

28b Accrued charges and other liabilities

	2017	2016
Accrued expenses	**8,716,892**	394,609
P.S. Bond in circulation	**449**	449
Retention monies	**2,537,544**	1,406,973
Provision for litigation	**3,024,000**	2,240,000
Trade and sundry creditors	**2,653,471**	7,600,499
	16,932,356	11,642,530

Includedin trade and sundry creditors are balances owed to Wealth Builders in 2017.

28c Provision for revaluation of pipeline liabilities

Balance at 1 January	**43,619,507**	35,632,465
Revaluation loss	**4,479,824**	7,987,042
Balance at 31 December	**48,099,331**	43,619,507

The provision for revaluation of pipelines is a contingency provision in respect of pipeline deposits. This relates to the obligation of the Bank to settle liabilities to commercial Banks in relation to money they deposited in Leones on behalf of importers in exchange for the Bank settling their foreign currency obligations. The liability as stated reflects the Leone value of identifiable liabilities to a number of commercial banks with respect to Foreign currency obligations that were not settled by the Bank.

29 END-OF-SERVICE BENEFITS

(a) Change in liability

Balance at 1 January	**21,323,645**	22,187,217
Service cost	**2,413,868**	2,568,925
Interest cost	**3,115,356**	2,385,714
Actuarial loss/(gain) - change in assumptions	**5,526,535**	(6,618,876)
Actuarial loss - experience adjustments	**1,042,375**	2,212,990
Benefits paid	**(1,208,067)**	(1,412,325)
Balance at 31 December	**32,213,712**	**21,323,645**

(b) Change in plan assets

Balance at 1 January	-	-
Actual return on plan assets	-	-
Expected returns at 31 December	-	-
Contribution by employer	**1,208,067**	1,412,325
Total contribution	**1,208,067**	1,412,325
Benefits paid by the employer	**(1,208,067)**	(1,412,325)
Foreign exchange rate effect	-	-
Total benefits	**(1,208,067)**	**(1,412,325)**
Balance at 31 December	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

(d) Balance Sheet

	2017	2016
Projected benefit obligation	**32,213,712**	21,323,645
Plan assets	-	-
Net obligation/(assets)	**32,213,712**	21,323,645
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Unrecognised transitional obligation	-	-
Unrecognised (asset ceiling)	-	-
Net obligation/(asset) to be in balance sheet	**32,213,712**	21,323,645

(e) Income Statement

	2017	2016
Service cost	**2,413,868**	2,568,925
Net interest cost	**3,115,356**	2,385,714
- Interest cost	-	-
- Expected return on plan assets	-	-
- Return on asset ceiling	-	-
Interest cost	-	-
Expected return on plan asset	-	-
Actuarial loss/(gain) recognised	-	-
Transitional obligation recognised	-	-
Past service cost recognised	-	-
Amount recognised in income statement	**5,529,224**	4,954,639

Other comprehensive income (OCI)

	2017	2016
Actuarial (gains)/loss: experience adjustments	**1,042,375**	2,212,990
change in assumption	**5,526,535**	(6,618,876)
Return on plan asset not in other comprehensive income	-	-
Effect of asset ceiling not in other comprehensive income	-	-
Amount recognised in OCI	**6,568,910**	(4,405,886)
Initial adjustment to capital amount recognised	-	-
Cumulative amount recognised in OCI	**6,568,910**	(4,405,886)

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

		2017	2016
(f)	***Reconciliation of financial position***		
	Opening value	**21,323,645**	22,187,217
	Employee contribution	**(1,208,067)**	(1,412,325)
	Amount recognised in income statement	**5,529,224**	4,954,639
	Amount recognised in OCI	**6,568,910**	(4,405,886)
	Closing value	**32,213,712**	21,323,645
		=========	=========

		2017	2016
(g)	***Key valuation assumptions***		
	Discount rate	16.00%	15.00%
	Salary inflation	15.00%	12.00%
	Gap	1.00%	3.00%

30 CAPITAL

	2017	2016
Authorised:	**250,000,000**	250,000,000
	=========	=========
Issued and fully paid		
Balance at 1 January	125,000,000	125,000,000
Subscribed during the year	-	-
	125,000,000	125,000,000
	=========	=========

Sections 10(1) and 81of the Bank of Sierra Leone Act 2011 require the Bank of Sierra Leone to maintain a minimum paid up capital of Le125 billion, which is to be subscribed within five years from the commencement of the Bank of Sierra Leone Act 2011 (that is from 24 November 2011).

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

31 RESERVES

	2017	2016
General reserve (a)	**239,955,287**	264,003,990
Revaluation reserves (b)	**32,792,919**	32,792,919
Other reserves (c)	**(3,040,673)**	3,528,237
Total reserves as at 31 December	**269,707,533**	300,325,146

(a) General reserve

	2017	2016
Balance at start of the year	**264,003,990**	281,990,671
Net loss for the year	**(22,232,737)**	(17,986,681)
Prior year adjustment*	**(1,815,966)**	-
	239,955,287	264,003,990
Securities reserves	-	-
Balance at 31 December	**239,955,287**	264,003,990

*Prior year adjustment relates to the reversal of a journal passed to correct (reduce) the amount of interest income booked in the financial year 2016. There were no tax effects.

UnderSection 14(1) and subject to section 81 of the Bank of Sierra Leone Act 2011, where in the audited annual financial statements of the Bank, the value of its assets fall below the sum of itsliabilities, its unimpaired issued capital and general reserves, the Board, on the advice of the external auditors of the Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall within a period of not more than thirty days. In the event that the Board approves the report, the Bank shall request the Minister for a capital contribution by the Governmentto remedy the deficit and upon receipt of this request the Government shall, within a period of not more than thirty calendar days, transfer to the Bank the necessary amount in currency

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

(b) Revaluation reserve

	2017	2016
Balance at start of the year and end of the year	**32,792,919**	32,792,919
Balance at 31 December	**32,792,919**	32,792,919

The Bank maintains a property revaluation reserve to which it transferred revaluation gains on revaluation gains on revaluation of its properties. The revaluation was last done in 2001.

(c) Other reserves

This comprised actuarial gains/losses and is analysed below:

Balance at start of the year	**3,528,237**	(877,649)
Actuarial loss on end-of-service benefits	**(6,568,910)**	4,405,886
	(3,040,673)	3,528,237

The movement in the other reserve accounts for actuarial loss of the provision of end-of- service benefits of Le6.57 billion.

32 CONTINGENCIES AND COMMITMENTS

32a Contingent liabilities

Guarantees and endorsement	**254,046,320**	222,902,272
	254,046,320	222,902,272

The loans in the guarantees and endorsements ledger are long outstanding debts contracted by the Government and guaranteed by the Bank in foreign currencies. There has been no claims on these guarantees over the last 10 years. The Bank holds only little information on the terms of the arrangements.

The Bank also issued a Letter of Credit (LC) for USD $1,000,000 in February 2017 on behalf of the Government of Sierra Leone. Full cash deposit collateral was taken by the Bank and as such the Bank is not considered to be exposed.

32b Capital commitments

Capital expenditure	**21,345,349**	69,125,000
African Export Import Bank	**25,230,801**	14,658,763
	46,576,150	83,783,763

NOTES TO THE FINANCIAL STATEMENTS (Contd)

32c Pending law suits, legal proceedings and claims

The Bank has pending litigations against it in relation to three former employees who are claiming damages for wrongful dismissal, upward revision of pension and payment of terminal benefits and other allowances. However, the Bank has appealed against the judgements and the matters are presently at the Court of Appeal. In the event that the appeals are not successful, the Bank would be liable to pay an amount not less than Le2.24 billion excluding interest at the rate of 35% per annum and solicitor's costs. As judgement was given against the Bank at the lower court, provision has been made in these accounts for the amounts that might become payable. The provisions have been maintained as the decision is still pending.

33 RELATED PARTIES

Although the Bank is an autonomous entity, the Government of Sierra Leone being the sole subscriber to the capital of the Bank, is in principle the owner of the Bank. The Bank continued to act as the banker and adviser to, and fiscal agent of, the Government of Sierra Leone as laid down in statutes. In the course of executing these duties, the Bank facilitates payments to the Government's suppliers and creditors, and extends credit facilities to the Government.

As at 31 December 2017, total net advances to the Government was Le120 billion (2016: Le111.6 billion).

The Board of Directors (including the Governorand Deputy Governor) received remuneration amounting to Le2.38 billion (2016: Le2.96 billion).

34 SIGNIFICANT SUBSEQUENT EVENTS

Events subsequent to the reporting date are reflected only to the extent that they relate directly to the financial statements and their effect is material.

With the Presidential elections in March 2018 and following the inauguration of a new government, Sierra Leone faced the first change of power in about eleven years.

Since then the new government has taken the following actions with the aim of reviving the program engagement with the IMF:

SIGNIFICANT EVENTS FOR THE FISCAL YEAR 2017		
No:	**FISCAL MEASURE**	**STATUS**
1	Eliminate all import duty and tax exemptions except those governed by conventions, international and bilateral agreements ratified by Parliament;	Currently being implemented. This took effect immediately after the Executive Order 1 was pronounced by His Excellency, the President

NOTES TO THE FINANCIAL STATEMENTS (Contd)

SIGNIFICANT EVENTS FOR THE FISCAL YEAR 2017

No:	FISCAL MEASURE	STATUS
2	Commence the application of royalty rate on mineral exports using only best-available international market price in accordance with the Mines and Minerals Act, 2009;	Was being implemented
3	Impose a luxury goods tax of 20 percent on automobiles with CIF value in excess of US$25,000.00.	This amendment has been passed as part of the provisions in the Finance Act 2019 which was ratified by Parliament. The review in the Finance Act relates to the increase in the CIF value to $50,000 as well as a clear definition of luxury vehicles
4	Submit the Tax Administration Bill to Parliament.	Submitted to Parliament in November 2018 and ratified
5	Halt routine foreign exchange auctions.	The Bank stopped foreign exchange auctions since April 2018. However, due to spectacular exchange rate pressure, the Bank in July August 2018 intervened in the Interbank Foreign Exchange Market (IFEM) to the tune USD 29.45million in order to smoothen short-term volatility in the exchange rates.
6	Submit to Parliament the Financial Management and Control Bill, which mandates MDAs to domicile all their funds in the Consolidated Revenue Fund.	This was done in 2018, but extended the coverage in 2019 to cover all MDAs. It was laid before Parliament as part of the Finance Bill 2019. The Bill has been ratified by Parliament.
7	Link the existing bank accounts of Ministries and Departments (MDs) and consolidate the cash resources of MDs in the separate bank account into the main TSA account. (End-December)	Currently being implemented Took effect after the pronouncement of the Executive Order 1
8	Enact the PFM Regulations made under the PFM Act. (End-December)	This was ratified by Parliament in 2018 and currently in use
9	Finalization and adoption by Cabinet of the Revised Wage Reform Strategy Paper. (End-December)	Cabinet approved the Ministry of Finance and Economic Development's Payroll Strategy aimed at addressing the multiple anomalies currently apparent in the public sector payroll on 12th October 2017. This was being implemented.
10	Submit to Parliament the revised Extractive Industries Revenue Bill (EIRB) (End-September)	This was ratified by Parliament in November 2018 and is currently being implemented

NOTES TO THE FINANCIAL STATEMENTS (Contd)

SIGNIFICANT EVENTS FOR THE FISCAL YEAR 2017		
No:	FISCAL MEASURE	STATUS
11	Monetary, exchange rate, and financial sectors: Improve the Bank's liquidity management by increasing the reserve maintenance period one to two weeks. (End-December)	The Policy of two weeks reserve maintenance period from was implemented since 1st February 2018.
12	Introduce and publish leading macro-economic indicators (e.g., inflation expectations and composite index of economic activity). (End-December)	The composite index of economic activity has been computed using expenditure approach. Work is ongoing on the computation of CIEA using the production approach. Questionnaire for the inflation expectation surveys has been completed and ready for pilot survey, which was scheduled for Quarter 1, 2018.
13	The Bank's measures to address weaknesses in the state-owned banks' balance sheets have commenced reduced these risks significantly program began. However, to prevent a reoccurrence of politically-motivated,loss-making lending practices, the banks should be put on a firmer commercial footing and the risk of undue influence by the Government in management decisions significantly reduced. The Government aims to finalize a strategic plan for these banks including a timetable for putting in place an independent governance framework (end-March 2019 structural benchmark). In the meantime, the Bank will continue to maintain its enhanced supervision of these banks to preserve the recent improvement in their financial conditions	The Bank continues to implement risk-based supervision which since the in January 2018.
14	Stop the practice of the Bank's bridge financing.	The Bank has stopped bridge financing and other forms of accommodating fiscal needs
15	Require MoFED to review the fiscal implications of all large-scale projects including in energy, construction, extractive, manufacturing and agriculture sector, contracts/agreements prior to signing. The assessment should include the direct and contingent liabilities of the projects.	This was being reviewed on a half yearly basis with reports sent to the IMF. It is currently under the Ministry of their Planning and Economic Development.

On 30th November 2018 the Executive Board of the International Monetary Fund (IMF) approved a new 43 month arrangement for Sierra Leone under the Extended Credit Facility (ECF) for SDR124.44 million (about US$172.1 million), equivalent of 60 percent of Sierra Leone's quota in the IMF, to support the country's economic and financial reforms.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

The Executive Board's decision enabled an immediate disbursement of SDR15.555 million (about US$21.5 million). The remaining amount is phased over the duration of the program, subject to semi-annual reviews.

The key program consideration were the following:

i. The objectives of the previous program remain appropriate - namely reducing inflation, mobilizing revenue to allow for much needed spending on infrastructure and social protection, safeguarding financial stability, and strengthening external resilience to shocks.

ii. Reviving the program in the form of a new ECF arrangement, entails tackling new challenges that have arisen since June 2017. In particular, addressing the fiscal slippages that caused the previous program to go off track, adjusting the medium-term framework to correct for these slippages and account for recent external shocks, and supplementing the structural agenda to better tailor it to current circumstances, including in the areas of safeguards and governance. Forceful implementation of the program, especially on revenue mobilization and expenditure control, will be essential to achieve fiscal sustainability and medium-term growth objectives.

35 COMPARATIVES

Where necessary, comparative figures are adjusted to conform to changes in presentation in the current year.

36 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's framework and has authorised the establishment of aRiskManagement Function to ensure effective discharge of its risk oversight responsibility.

The Risk Management Function would be responsible for monitoring compliance with the risk management policies and procedures, reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank, the appropriateness and effectiveness of the Bank's risk

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousand of Leones

management systems and controls and also consider the implications of changes proposed to regulations andm legislation that are relevant to the Bank's risk management activity. The Audit Committee is assisted in these functions by the Head of Internal Audit. The Head of Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Board Audit Committee is responsible for monitoring the Bank's compliance with financial accounting policies and pronouncements, keepingunder review the appropriateness of the accounting policies and internal controls systems, considering external auditors' report and also reviewing the resources, scope, authority and operations of the Internal Audit function. The Board Audit Committee is assisted in these functions by the Head of Internal Audit. The Head of Internal Audit undertakes both regular and ad-hoc reviews or audits of management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's advances and other receivables. For risk management reporting purposes, the Bank considers and consolidates all elements of the credit risk exposure including default risk.

The Bank grantsadvances mainly to the Government of Sierra Leone in its capacity as the Government's bankers. The Bank of Sierra Leone Act specifies the credit limit and the credit limit is strictly monitored to provide a safeguard against breach. The Government provides a guaranty against the risk of failure to finance the facility; therefore credit risk in this regard is considered to be minimal.

` The Bank also pays keen attention to the quality of its investment portfolio making sure the bulk of its holdings/deposits are with triple "A" financial institutions.

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial assets.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:

- Maintaining its diversified deposits base consisting of Government and multilateral agencies.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousand of Leones

Management receives informationfrom various Departments of the Bank regarding the iquidity profile of their financial assets and liabilities and details of other projected cash flows. The liquidity requirements of the Bank are met through short-term investment to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

(c) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices and foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on the investment.

Management of market risks

The Bank is exposed to exchange rate risk on its financial assets and liabilities denominated in foreign currencies. The safeguard against this risk is the holding of assets in various currencies which mitigates the risk.

The Bank is also exposed to interest rate risk on its foreign reserve deposits in instances where the contract provides for the application of floating interest rates.

(e) Operational risks

Operational risk is the risk of direct or indirect loss arisingfrom a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousand of Leones

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the risk management unit within the Bank.This responsibility includes:

- Develop, implement and continuously improve a framework to interprete the process for managing risk into the organisation's overall governance and strategy;
- The adoption of consistent processes with a comprehensive framework ensuring that the risk is managed effectively and coherently across the Bank;
- Evaluate the effectiveness in managing risks;
- Prepare appropriate risk policies for the approval of the Board;
- Set risk parameters which will be used to monitor and ensure that the risk management activities are in compliance with the policy set by the Board;
- Responsible for managing the policies, framework and processes of the risk management function as stipulated in the ISO 31000;
- Identify and treat risk throughout the Bank;
- Compliance with relevant Legal and Regulatory requirements and International norms;
- Improve the identification of opportunities and threats;
- Documentation of controls and procedures;
- Development of contingency plans;
- Ensure segregation of duties including authorisation limits;
- Risk awareness and sensitization;
- Develop and update Risk Register.
- Manage policies, framework and processes of the risk management function of the Bank.

Compliance with the Bank's standards is supported by a programme of independent periodic reviews undertaken by the Head, Internal Audit Department. The results of the internal audit reviews are discussed and clarified with the departmental heads and the clarified reports are submitted to senior management.

37 BASIS OF MEASUREMENT

The financial statements have been prepared on historical cost basis except where specific balances have been stated at fair value.

38 CHANGES IN ACCOUNTING POLICIES

There were no changes to the accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

39 SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 38 the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages noted:

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rates at that date.

Foreign currency differences arising on retranslation are recognised in the profit and loss account as required by the Bank of Sierra Leone Act 2011, except for differences arising on the re-translation of available-for-sale equity instruments.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(b) Interest

Interest income and expenses are recognized in the profit or loss account for all interest-bearing instruments on accruals basis, using the effective interest rate method.

The recognition of interest ceases when the payment of interest or principal is in doubt; interest being included in income thereafter, only when it is received.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

The calculation of the effective interest rate includes all fees and interest paid or received, transaction costs (which are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability) and discounts or premiums that are an integral part of the effective interest rate.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(c) Fees and commissions

Fees and commissions that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Net exchange gains/losses

Net exchange gains/losses comprise gains less losses related to the translation of foreign monetary assets and liabilities.

The US Dollar exchange rate policy of the Bank is flexible, which implies that the exchange rate is market determined. The exchange rate is calculated based on the weighted average rate of commercial Banks and foreign exchange bureaux for purchase transactions during the preceding five business days and the weekly auction transactions if any. The Bank applies a +/- 1% spread on the weighted average exchange rate derived to determine its official selling and buying rates.

The Bank collects/obtains the exchange rates (buying and selling) of the British Pound Sterling and other major international currencies from the Reuters website on daily basis. These are imputed into an Excel spreadsheet maintained by the Bank. This is programmed to derive the exchange rate of all international currencies reference to the US Dollar.

Foreign exchange assets and liabilities are revalued on a daily basis. For the purposes of IMF assets and liabilities the bank applies the following rules:

NOTES TO THE FINANCIAL STATEMENTS (Contd)

At least once every year, all Fund currency holdings are revalued based on the prevailing SDR exchange rate. The difference between the Fund's currency holdings translated at the previous rate and the currency holdings valued at the new rate gives rise to currency valuation adjustments (CVA) and is placed in a CVA account. This account records the amount which is payable to or receivable from the Fund depending on whether the Leone has depreciated or appreciated vis-à-vis the SDR since the last revaluation. The CVA receivable payable is also part of the Fund's holdings of currency and is also subject to maintenance of value obligations. From the Fund's perspective, the total currency holdings remain the same in SDR terms, but the differences arising from the revaluation give rise to a change in the currency terms, as reflected in the CVA account balance. The Bank records a CVA as either a payable or receivable from the Fund, with the balancing elements treated, depending on the circumstances and legal requirement, as an expense (income), a charge against a reserve account, or a charge against the Government. Cumulative maintenance of value charges should not be carried as an asset on the statement of financial position.

(e) Lease payments

Paymentsmade under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received (if any) are recognised as an integral part of the total lease expense, over the term of the lease. The Bank held no finance leases during/at the end of the year.

(f) Income tax expense

In accordance with section 70 (3) of the Bank of Sierra Leone Act 2011, the profits of the Bank are not liable to Income Tax, or any other tax.

(g) Financial assets and financial liabilities

(i) *Recognition*

The Bank initially recognises advances and deposits on the date that they are originated. All other financial assets and liabilities including assets and liabilities designated at fair value through profit or loss are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flow on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

The Bank derecognises a financial liability when its contractual obligations aredischarged or cancelled or on expiration.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(iii) *Offsetting*

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when the Bank has a legal right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of related transactions in the Bank's trading activity.

(iv) *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any differences between the initial amoun recognised and the maturity amount minus any reduction for impairment.

(v) *Fair value measurement*

The determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotation for financial instruments traded in active markets. For all other financial instruments, fair value is determined using valuation techniques which in the judgement of the Board approximate the fair value.

(vi) *Identification and measurement of impairment*

At each financial position date the Bank assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired whenobjective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset and the same can be estimated reliably.

The Bank considers evidence of impairment at both specific asset and collective level where appropriate. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Impairment losses on assets carried at amortised cost are recognised in the statemen of comprehensive income and reflected in impairment provisions account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

Any significant recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and balances with other foreign Central Banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their value and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Advances

Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(j) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of those investments as available-for-sale, and would prevent the Bank from reversing the reclassification for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income (where applicable) is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired when the balance in equity is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(K) Property, plant and equipment

(i) Recognition and measurement

All property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Bank and the cost of the items can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Major improvements are capitalised.

(iii) Depreciation

Freehold premises are depreciated over a maximum of fifty years. For leasehold properties, where the unexpired lease term is more than fifty years, depreciation is charged over fifty years. Where the unexpired lease term is less than fifty years, the value of the leasehold property is amortised over the periods appropriate to the relevant lease terms on a straight line basis.

Motor vehicles, equipment and fixtures and fittings are depreciated on a straight line basis over its estimated useful life, principally between 3 and 8 years.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(l) Leased assets - Lessee

The Bank was not a party to any finance leasing contract during or at the end of the year. Leases are operating leases and the underlying assets are not recognised in the Bank's balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(m) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting datefor any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Deposits

Deposits are initially measured at fair value including transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(o) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligationthat can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle theobligation.Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contractsis recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costof continuing with the contract. Before a provision isestablished, the Bank recognises any impairment loss on the assets associated with that contract.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(p) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

All financial guarantee liabilities are disclosed by way of notes in the financial statements and are only included in other liabilities if the liability has crystallised or becomes probable that it will crystallise.

(q) Employee benefits

(i) Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided.

A provision is recognised for the amount expected to be paid under short termcash bonus or profit sharing plans if the Bank has a present legal or constructive obligation topay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

(ii) Defined contribution plan

The Bank contributes towards a defined contribution plan. The plan is funded through payments to the National Social Security and Insurance Trust (NASSIT) Scheme. This defined contribution plan is a Pension Scheme under which the Bank pays fixed contributions into a separateentity. The Bank has no legal or constructive obligations to pay further contributions if the Scheme does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits expense when due.

(iii) Defined benefit plan

The bank provides end-of-service benefits to its retirees. The entitlement to these benefits is conditional on the completion of a minimum service period. End of service benefit is a post-employment benefit plan. The liability recognised in the statement of financial position is the present value of the end-of-service benefits obligation at the reporting date, together with adjustments for actuarial gains or losses and past service costs. The present value of the obligation is determined by discounting the estimated future cash outflows taking into account average service period and salary increases and using interest rates of Government treasury bonds that are denominated in Leones, the currency in which the obligation will be paid and that matures in one year's time. The calculation is performed by an actuary using the projected unit credit method.

The bank recognises all actuarial gains and losses for end-of-service benefits immediately in Other Comprehensive Income (OCI).

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(r) Capital and reserves

Share capital

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.Sections 10(1) and 81 of the Bank of SierraLeone Act 2011 require that the minimum paid up capital of the Bank must be Le125bn, to be subscribed within five years from commencement of the Act (that is commencing 24 November 2011). The capital has been fully subscribed for as at year end.

(s) Amounts repayable under Repurchase Agreement (REPOs)/Reverse REPOs

REPO is an arrangement involving the sale for cash, of investment security at a specified price with a commitment to repurchase the same or similar securities at a fixed price either at a specific future date or at maturity.

For monetary purposes (liquidity management), the Bank from time to time mops up money from the financial market (REPO or injects money into the market (Reverse REPO). The Bank engages in the above with commercial banks only.

When the Bank mops money from commercial banks, it creates a liability in its financial statements and secures this borrowing (liability) by assigning part of the securitised debt holding to the commercial banks it has mopped from. The commercial banks usually hold the investments to maturity.

Similarly the Bank also lends money to commercial banks (reverse repo). In this process, the Bank creates an asset in the financial statements and takes a security from the borrowing bank usually in the form of Treasury Bills or Bonds. The bank earns interest on this lending. The injected money stays with the borrowing bank until maturity.

(i) The bank treats reverse REPO as collateralised loans for accounting purposes. In this case, a reverse REPO is recognised as a secured advance and is shown separately as Advance to Banks while repurchase agreements are shown as a liability in the books of the Bank.

(ii) REPOs continue to be recognised in the statement of financial position and are measured in accordance with the terms of the agreement.

(iii) The difference between sale and repurchase price is treated as interest expenditure and is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(t) Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. Currency in circulation is recognised at face value in these financial statements. Bank notes and coins held by the Bank as cash in main vault and with cashiers at the end of the financial year are excluded from the liability of notes and coins in circulation because they do not represent currency in circulation.

Bank notes printing expenses for each denomination which include ordering, printing, freight, insurance and handling costs are initially deferred. Based on the currency issued into circulation, the respective proportional actual costs incurred are released to the profit or loss from the deferred cost account. The stock is issued on a first in first out basis. The receipt of new notes and coins are recorded in the vault register as stock and the movement accounted for as the notes and coins are issued.

(u) Special drawing rights and International Monetary Fund Related transactions

The Bank, on behalf of the Government of Sierra Leone, manages assets and liabilities denominated in Special Drawing Rights (SDRs) held with the International Monetary Fund (IMF). Exchange gains and losses arising from translation of SDRs at period ends are recognised in the statement of comprehensive income.

(v) Gold

Gold is held by the Bank as part of its foreign reserves and is classified as available-for-sale for the purpose of measurement.Gold holdings are included in the statement of financial position at the prevailing closing spot market price on the London Bullion Market on that date. Foreign exchange gains and losses on gold holdings are transferred to the revaluation account.

(w) Commitments on behalf of Treasury

The Bank issues Treasury bills and bonds and capital commitments on behalf of Treasury. These Treasury Bills and Treasury bonds are not included in these financial statements as the Bank is involved in such transactions only as an agent.

(x) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. All adjustments of comparative figures are referred to as "restatements".

NOTES TO THE FINANCIAL STATEMENTS (Contd)

40 NEW AND AMENDED STANDARDS ADOPTED BY BANK OF SIERRA LEONE

In the current year, Bank of Sierra Leone has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

i. IAS 7 Statement of Cash Flows

The IASB issued an amendment to IAS 7 Statement of Cash Flows introducing additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The effective date of this amendment is for years commencing on or after 1 January 2017. The Bank has adopted the amendment for the first time in the 2017 annual financial statements. The amendment has no material impact on the annual financial statements.

ii. IAS 12 Income taxes

In January 2016, the IASB issued amendments to clarify the requirements for recognizing deferred taxation assets on unrealized losses. The amendments clarify the accounting for deferred taxation where an asset is measured at fair value and that fair value is below the asset's taxation base. They also clarify certain other aspects of accounting for deferred taxation assets.

The effective date of this amendment is for years commencing on or after 1 January 2017. The Bank has adopted this amendment for the first time in the 2017 annual financial statements. The amendment has no impact on the annual financial statements.

There are no other new or amended standards applicable to the Bank for the financial year ended 31 December 2017.

41 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ADOPTED BY BANK OF SIERRA LEONE

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these annual financial statements. Non of these are expected to have a significant impact on the annual financial statements, except for the following:

IFRS 15 REVENUE FROM CONTRACTS FROM CUSTOMERS

The new standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensivelyand improve guidance for multiple-element arrangements.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

The effective date of the amendment is for years beginning on or after 1 January 2018. TheBank expects to adopt the amendment for the first time in the first annual period after the effective date, commencing 1 January 2018. The impact of this new standard on theannual financial statements is not expected to be significant.

IFRS 9 FINANCIAL INSTRUMENTS

A final version of IFRS 9 Financial Instruments has been issued which replaces IAS 39 Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on classification and measurement, impairment, hedge accounting and derecognition, and introduces a new approach to the classification of financial assets, which is driven by the business model in which the assets are held and their cash flow characteristics. A new business model was introduced in the standard which does allow certain financial assets to be categorised as "fair value through other comprehensive income" (FVOCI) in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39 Financial Instruments: Recognition and Measurement. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.

The new model introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" (ECL) model for the measurement of financial assets. IFRS 9 Financial Instruments contains a new model for hedge accounting that aligns theaccounting treatment with the risk management activities of an entity, it also requires enhanced disclosures that will provide better information about risk management and the effect of hedge accounting on the summarised Group annual financial statements. IFRS 9 Financial Instruments carries forward the derecognition requirements of financial assets and liabilities from IAS 39 Financial Instruments: Recognition and Measurement.

The mandatory effective date for implementation is for annual periods beginning on or after1 January 2018. The Bank expects to adopt the standard for the first time in the first annual financial period after the effective date, commencing 1 January 2018 and has undertaken a first consideration of the impact of the application of IFRS 9 on its annual financial statements.

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (FVPL). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39 Financial Instruments: Recognition and Measurement. The Bank expects the following reclassifications and remeasurements:

i. Non-marketable Sierra Leone Government bonds will be measured at amortized cost.Sierra Leone Treasury Bills will be categorized as FVPL.

ii. International Monetary Fund assets and liabilities arising from the Fund membership will be classified in the banks balance sheet in compliance with the Funds Aide Memoire for the Accounting for Fund Transactions dated August 1, 2016 at FVPL.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

iii. Investment in equity will be classified as FVPL

iv. Foreign deposits will be classified as FVPL and not amortised cost; and

v. Items measured at amortised cost (i.e. credit accommodation to the Government and banks, loans and advances, short term deposits and receivables) will be tested for impairment using the new ECL model.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, receivables, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resultin from all possible default events over th expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, and so are considered to be in default or otherwise credit impaired, are in 'stage 3'. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant tothe assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge may be more volatile. IFRS 9 may also result in an increase inthe total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

The Bank's considerations indicate that due to the short nature of the financial assets and the fact that they are mostly over collateralized; there are no major gaps in its current impairment model.

The Bank has not yet started preparations for the implementation of systems and processes to apply IFRS 9. To prepare for this implementation project, Finance Department has asked HR to recruit skilled staff. However, as of year-end 2018 the Government has sanctioned a ban on recruitment which must to be lifted before successful recruitment efforts can be realised.

Government of Sierra Leone is seeking for internal support in this respect to enable the commercial banks and the central bank to apply IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

IAS 19 EMPLOYEE BENEFITS

These amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement, and recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling.

The effective date of the amendment is for years beginning on or after 1 January 2019. The Bank expects to adopt the standard for the first time in the first annual financial period after the effective date, commencing 1 January 2019. The impact of this amendment is expected to have no significant impact on the annual financial statements.

IFRIC 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

IFRS 16 LEASES

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The effective date of the new standard is for years beginning on or after 1 January 2019. The Bank expects to adopt the standard for the first time in the first annual financial period after the effective date, commencing 1 January 2019. The impact of this new standard on the annual financial statements is not expected to be significant.

There are no other IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Bank.