Bank of Sierra Leone

Annual Report
and
Statement of Accounts

for the year ended 31 December 2014

A. ANNUAL REPORT 2014

1. Review of the Economy

During the January to December, 2014 review period the economy of Sierra Leone was adversely affected by two severe shocks: the outbreak of Ebola Virus Disease (EVD) in May, 2014 which subsequently reached crisis proportion during the year and the sharp decline in global commodity prices including iron ore, which contributed to the closure of the two leading iron ore mining companies - African Minerals Limited (AML) and London Mining Company (LMC). Notwithstanding the severe disruptions caused by the Ebola shock to activities in agriculture, tourism and transport sectors during the second half of 2014, initial impact of the outbreak was partially offset by the strong output growth recorded in the iron ore subsector with production levels outstripping its half yearly target thereby compensating for the sharp decline in global iron ore prices. This development coupled with enhanced inflows of donor support from the countryô s development partners contributed to the increase in real GDP growth estimated at 7.1 percent in 2014 compared to 20.0 percent in 2013. Real GDP growth in the non iron ore economy was estimated at 1.0 percent compared to 5.5 percent in 2013.

The national headline inflation rate as measured by the year-on-year change in Consumer Price Index (CPI) declined from 8.23 percent in December 2013 to its lowest level of 6.39 percent in April 2014 before rising again to record 7.85 percent in December 2014. The steady decline in inflation rate was mainly attributable to improved domestic food production, relative stability of the exchange rate within the first five months of the year, coupled with prudent monetary policy stance of the Bank of Sierra Leone. Inflationary pressures during the second half of the year were driven largely by exchange rate depreciation, food supply shocks due to lower agricultural output and disruptions to cross border trade activity with neighbouring Liberia and Guinea.

Total revenue including grants increased significantly to 16.19 percent of GDP in 2014 compared to 12.87 percent in 2013. Domestic Revenue as a percentage of GDP rose to 16.19 percent in 2014 from 10.86 percent in 2013. Government expenditures were recorded at 12.55 percent of GDP in 2014 compared to 10.33 percent in 2013. This resulted in widening of the budget deficit including grants from 0.75 percent of GDP in 2013 to 3.9 percent in 2014. The deficit excluding grants increased from 2.77 percent of GDP in 2013 to 9.57 percent in 2014.

Monetary aggregates were expansionary during the review period. Broad Money (M2) grew by 16.54 percent compared to 16.71 percent in 2013. Reserve Money (RM) expanded by 30.08 percent in 2014 compared to 17.72 percent in 2013. The Monetary Policy Rate (MPR) remained unchanged at 10 percent in December 2014.

The financial sector of the economy at end December 2014 comprised the Central Bank at its apex, thirteen (13) commercial banks with a total number of 97 branches in operation throughout the country, two (2) discount houses, seventeen (17) community banks, fifty one (51) Financial Services Associations (FSAs), eleven (11) licensed microfinance institutions (2 Deposit-taking and 9 Credit-only) and forty three (43) registered foreign exchange bureaux. The Bank of Sierra Leone continued to adopt appropriate prudential measures in the supervision of financial institutions aimed at ensuring a safe, stable and sound financial system in the country. Credit to the private sector by commercial banks expanded by 5.06 percent, from Le988.55bn at end December 2013 to Le1,038.54bn at end December 2014.

Developments in global economic activity remained subdued during the review period. Nonetheless, there were challenges to external sector performance during the reporting period as a result of the outbreak of Ebola Virus Disease in the country, particularly during the second half of 2014. Annual trade surplus increased by 89.98 percent to US$262.95mn in 2014 compared to US$137.03mn in 2013. This was reflective of the 11.90 percent contraction in import payments which more than offset the 4.61 percent decline in export receipts. The exchange rate of the Leone to the United States Dollar came under pressure for the greater part of 2014 after it had remained relatively stable throughout 2013 as a result of the tight monetary policy stance of the central bank, coupled with increased inflow of foreign exchange across key sectors of the economy. The depreciation of the exchange rate during the second half of 2014 was on account of demand pressures generated by Ebola related import requirements. The premium between the official exchange rate and the parallel market rate significantly widened by 4.80 percent as it moved from Le30.63/US$1 in 2013 to Le217.25/US$1 in 2014. The gross external reserves position of the Bank of Sierra Leone improved by 16.5 percent from US$474.96mn recorded in December 2013 to US$553.51mn in December 2014, sufficient to cover at least 3 months of imports. The increase in foreign exchange reserves was attributable to excess cumulative inflows (US$311.47mn) over outflows (US$213.51mn) during the reporting year. The stock of external debt increased by 5.41 percent from US$1,026.04 mn at end December 2013 to US$1,081.56mn at end December 2014.

During the month of January 2014, a grant in the sum of forty million Dollars (US$40mn) was received from the World Bank Groupøs International Development Association (IDA/WBG) in support of the countryøs poverty reduction and growth efforts through the establishment of a strong national electricity distribution grid with better technical performance, financial viability and improved delivery systems.

On 24th February 2014, the House of Parliament of the Republic of Sierra Leone ratified several loans and grants agreements between the Government of Sierra Leone and the African Development Bank (AfDB), the African Development Fund (ADF) and the European Union Africa (EU-Africa) Infrastructure Trust Fund in respect of Ivorian, Liberian, Sierra Leonean and Guinean electricity network connection project. This project is aimed to facilitate sustainable electricity power and energy supply in the four Mano River Union (MRU) participating member countries. The total amount of loans and grants were estimated at US$331 million.

An International Monetary Fund (IMF) mission visited Sierra Leone from March 17 to April 01, 2014 to hold discussions with Government authorities and major Stakeholders in respect of the first review of the IMF supported Extended Credit Facility (ECF) program. In another development, the Board of Executive Directors of the World Bankøs International Development Association (IDA) approved a grant of US$7 million in support of Sierra Leoneøs efforts to implement a strong social safety net mechanism that will identify and assist poor and vulnerable households, beginning with a pilot program covering four (4) districts and twelve thousand (12,000) households. On 11th March 2014, Parliament ratified a loan agreement in the sum of US$63.8 million signed between the Government of Sierra Leone and the Korean Export and Import Bank for financing the construction of a fifteen storey building for the Freetown City Council.

On 10th May 2014, the West Africa Power Pool (WAPP), under the purview of the Economic Community of West African States (ECOWAS) approved a grant of US$21.8 million to the National Power Authority (NPA), to improve electricity supply in the country. Similarly, on 10th May 2014, the European Commission approved a ú107 million grant for the rehabilitation of the 100 kilometre stretch of road linking Liberia and Sierra Leone. As part of Governmentøs effort to mitigate poverty, particularly among those who were adversely affected by the protracted civil conflict, the House of Parliament on 29th May 2014 approved a US$7 million Social Safety Net grant agreement signed between the Government of Sierra Leone and the World Bank Group. On 30th May 2014, the Government of Sierra Leone also received a US$25 million (twenty five million United States Dollars) in budgetary support grant from the World Bank's International Development Association (IDA/WB).

On 19th June, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the first review of Sierra Leone's three-year economic program under the Extended Credit Facility (ECF) arrangement. The completion of the review triggered the disbursement of SDR 8.89 million (about US$13.69 million) for Balance of Payments support, bringing total disbursements under the ECF arrangement to SDR 17.78 million (about US$27.39 million) as of June 2014.

During the European Union (EU) and African, Caribbean and Pacific Group of States (ACP) Joint Ministerial Council meeting held in Nairobi between 19th and 20th June, 2014, the European Union (EU) and the Government of Sierra Leone officially signed the National Indicative Programme through which Sierra Leone will receive ú376 million (over Le2.2 trillion) annually between 2014 and 2020 to focus on good governance, education, sustainable agriculture and food security and infrastructure development.

On 19th August 2014, the Sierra Leone House of Parliament approved two grant agreements in the sum of US$2.3million for the improvement of the learning environment and opportunities in targeted areas and to strengthen educational service delivery between the Government of Sierra Leone and the World Bank's International Development Association (IDA/WB).

On 14th September 2014, the Government of Sierra Leone requested an augmentation of access from the IMF under the ECF program to support the government's budget in view of the additional financial needs generated by the outbreak of the Ebola Virus Disease (EVD). To this end, SDR25.92m (US$39.84m) was disbursed by the IMF under the program, as budgetary support.

On 16th September 2014, the Board of Executive Directors of the World Bank Group (WBG) approved a US$105 million grant to finance Ebola-Response efforts in Guinea, Liberia and Sierra Leone, help families and communities cope with the economic impact of the crisis, and rebuild and strengthen essential public health systems in the three worst-affected countries to guard against future outbreak of the disease. This grant was part of the US$200 million Ebola emergency mobilization support first announced by the WBG in early August 2014.

On 26th September 2014, the Executive Board of the International Monetary Fund (IMF) approved an emergency financial assistance to Guinea, Liberia, and Sierra Leone in the sum of US$130 million to help respond to the Ebola crises in the three countries. The IMF support was shared among the three countries in amounts of US$41 million for Guinea, US$49 million for Liberia and US$40 million for Sierra Leone to help cover part of their balance of payments gaps and fiscal needs previously estimated at about US$100 million for each country.

The President of the African Development Bank Group and representatives of Liberia, Sierra Leone, Guinea and Cote d'Ivoire on October 1, 2014, signed loan and grant agreements in the amount of US$152 million in Abidjan, designed to fight back the Ebola crisis in West Africa. The signing ceremony took place immediately after the Fight Back Ebola Budget Support Programme was approved by the Board of Directors of the AfDB Group, in recognition of the urgent needs for liquidity in the concerned countries.

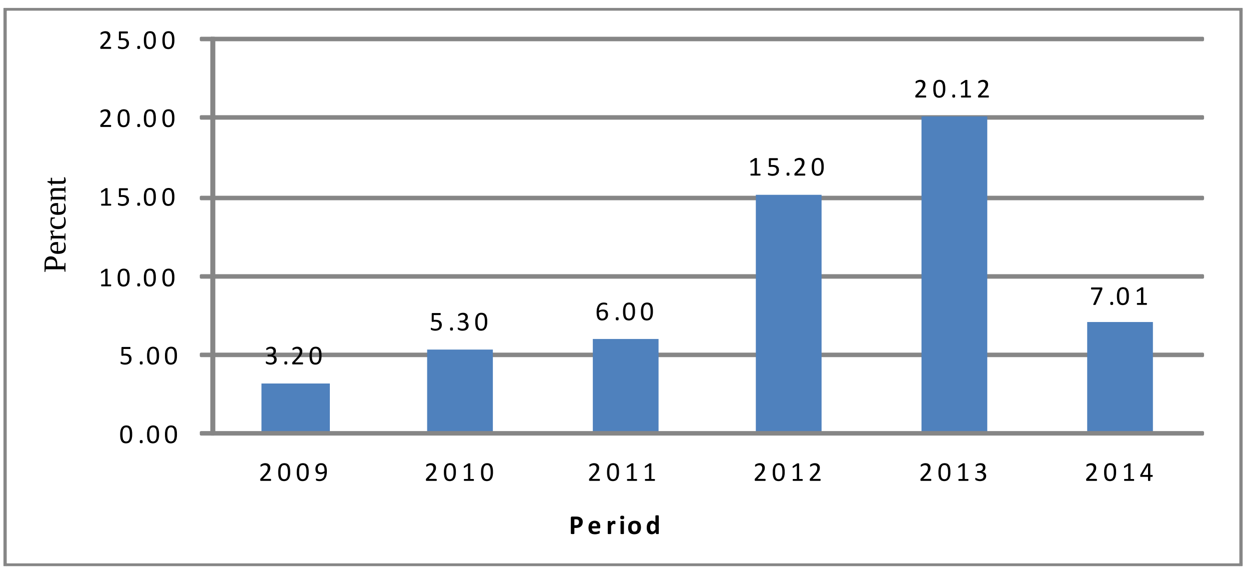
The funds were to be allocated to the three most affected countries of Liberia, Sierra Leone and Guinea, with Cote dðIvoire as a preventative measure. The financial package consists of a loan in the sum of US$121 million and a grant of US$30 million (US$60 million for Liberia, US$50 million for Sierra Leone, US$32 million for Guinea, and US$9 million for Cote dðIvoire).

Sierra Leoneðs performance under the WAMZ Convergence Criteria in 2014 indicates that the country met three out of the four primary criteria*: single digit inflation; Central Bank Financing of Fiscal Deficit as a percentage of previous year's tax revenue not exceeding 10 percent and Gross External Reserves (in months of imports) of at least 3 months.* The country also satisfied one of the secondary criteria - *Public investment financed from domestic receipts.*

2.0 Real Sector Developments

Real GDP growth in 2014 was recorded at 7.01 percent compared to 20.12 percent in 2013. The significant contraction in GDP growth during the review period was largely on account of the disruptive effect of the Ebola outbreak on activities in key economic sectors including mining, agriculture, tourism services etc. which culminated in the closure of the two largest iron ore mining companies - African Minerals Limited (AML) and London Mining Company (LMC). Activity in the industry sector which is dominated by iron ore production remained subdued during the review period, resulting in a decline in its growth rate from 94.18 percent in 2013 to 22.35 percent in 2014.

Chart 1: Real GDP Growth Rates (2009-2014)

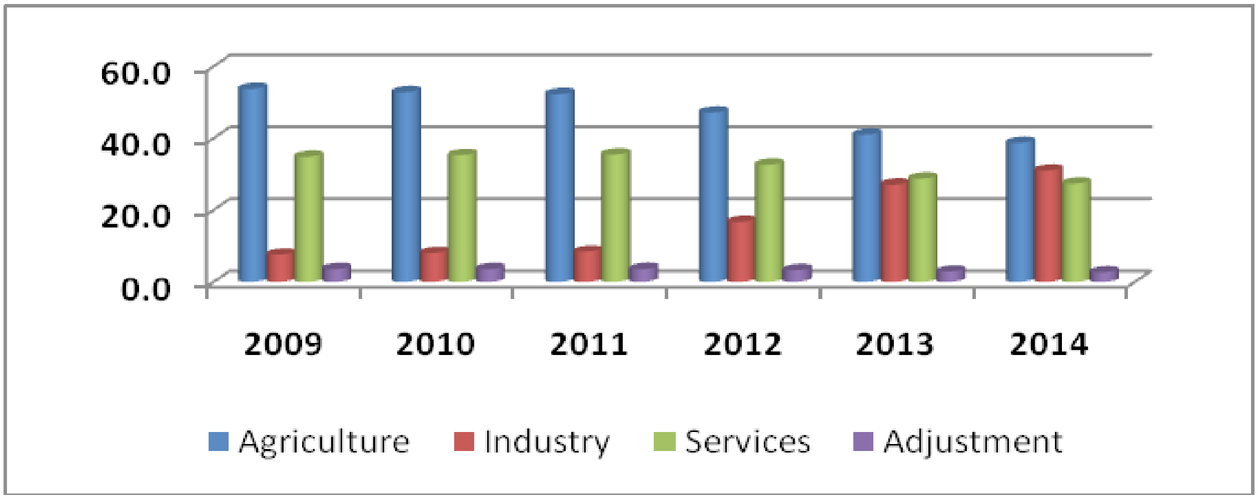


Source: SSL

Despite iron ore being the key driver of overall growth in the economy during the review period, its output growth was recorded at 27.14 percent compared to 129.51 percent posted in 2013. Agriculture grew by 1.01 percentage points compared to 4.55 percent in 2013, while services grew by 1.82 percent in 2014 as against 6.04 percent in 2013.

In terms of sectoral contributions to GDP, agriculture accounted for 38.74 percent in 2014 compared to the 41.04 percent contribution in 2013.

Chart 2: Sectoral Contributions to GDP (2009-2014)



Source: SSL

Industryôs share of GDP increased from 27.16 percent in 2013 to 31.05 percent in 2014, boosted by the 24.34 percent contribution of iron ore during the year compared to 19.83 percent in 2013. The contribution of the services sector to GDP fell marginally from 28.84 percent in 2013 to 27.44 percent in 2014.

2.1 Agriculture

The contribution of agriculture to GDP during the review period was estimated at 38.74 percent. Agriculture remained the key employment sector which accounted for nearly half the growth in the economy. Against this background, government is making efforts to diversify the economy and removed supply-side constraints to expand productivity and enhanced export performance as well as attract foreign direct investments. The government allocated Le32.1bn towards the agricultural value chain, food production and processing, livestock development and extension in services to achieve food security.

Cocoa production significantly improved during the review period by 133.87 percent to 8.49 thousand metric tons compared to 3.63 thousand metric tons in 2013. The increase in cocoa production was, in part, attributable to the early harvest during the rainy season which occurred as a result of the early onset of Ebola in the country. Coffee production was down 86.31 percent to 0.35 thousand metric tons as against an increase of 2.54 thousand metric tons in 2013. This was attributable to the impact of governmentôs internal travel restrictions imposed under the state of Public Health Emergency declared due to fear of the spread of the disease which curtailed both harvesting and marketing activities.

2.2 Manufacturing

The contribution of the manufacturing subsector to GDP fell marginally from 1.85 percent in 2013 to 1.6 percent in 2014.

Production in the manufacturing sector recorded faster growth rate during the review period. However, production of beer & stout and soft drinks declined in the reporting period on account of the restrictions imposed by government on the movement of goods and persons under the public health emergency law as a strategy to combat the spread of Ebola across the country. This therefore, accounted for the decline in aggregate demand and the subsequent reduction in sales. Beer and stout production dropped by 15.46 percent to 706.40 thousand cartons, whilst Soft drinks production plummeted by 49.90 percent to 1,546.36 thousand crates.

On the contrary, production of Maltina grew by 18.14 percent to 322.65 thousand cartons; Acetylene rose by 26.18 percent to 296.72 thousand cubic feet; Oxygen increased by 6.12 percent to 289.59 thousand cubic feet; Paint improved by 11.38 percent to 259.41 thousand gallons and Cement upped by 6.86 percent to 334.89 thousand metric tons.

Growth in production of Acetylene, oxygen, paint and cement was a reflection of the boom in activities in building and construction coupled with welding across the country. This resulted in increases in outputs of confectionery and common soap by 11.79 percent to 370.94 thousand pounds and 30.64 percent to 168.39 thousand metric tons respectively.

2.3 Mining

The mining sector in Sierra Leone, which continued to be dominated by iron ore production, was hard-hit in 2014 by the sharp decline in global iron ore prices and the negative impact of the Ebola crisis resulting in a 39.0 percent slump in activity. When combined with the financial challenges that faced the two biggest iron ore producing companies during the period, matters were brought to ahead for the sector. Iron ore prices tumbled in 2014 owing partly to the contraction in iron ore demand by China, the worldôs largest consumer, as growth in that country slowed.

In Sierra Leone, the mining sector remains significant to the growth of the economy as its contribution to sustaining fiscal revenue generation remains significant. The government established a Transformation and Development Fund (TDF) to facilitate prudent management of mining revenues. This was evidenced by the fact that government provided financial support to formulate and review mining policies that will foster expansion and inclusive growth in the sector.

Diamond production contracted by 1.72 percent to 594.37 thousand carats during the review period. Of this, industrial diamonds declined significantly by 69.46 percent to 90.43 thousand carats, whilst gem diamonds grew by 63.30 percent to 503.94 thousand carats.

Other minerals output recorded an increase of 48.00 percent to 4,091.41 thousand metric tons. This constitutes ores and concentrates of tin, molybdenum and sliver as generated by ASYCUDA++ at the Customs Department.

Table 1

Production					
		Jan-Dec '13	Jan-Jun'14	Jul-Dec'14	Jan-Dec '14
1	2	3	4	5	6
Minerals					
Diamonds	*000' carats*	604.74	312.29	282.29	594.37
Gem	*'000 carats*	*308.61*	*263.51*	*240.43*	*503.94*
Industrial	*'000 carats*	*296.13*	*48.78*	*41.64*	*90.43*
Bauxite	*000' M tons*	543.38	707.93	470.64	1,178.57
Rutile	*000' M tons*	120.35	56.06	59.02	115.08
Ilmenite	*000' M tons*	32.35	15.28	20.56	35.84
Gold	*000' Ounces*	3.10	0.98	0.50	1.47
Zircon	*000' M tons*	2.95	1.42	0.99	2.42
Iron Ore	*000' M tons*	11,894.57	11,838.92	7,469.07	19,307.99
Other Minerals	*'000 M Tons*	4,099.42	1,967.92	2,123.49	4,091.41
Agriculture					
Coffee	*M tons*	2.54	0.17	0.18	0.35
Cocoa	*M tons*	3.63	2.51	5.98	8.49
Manufactured Goods					
Beer and Stout	*000' Cartons*	835.59	428.19	278.21	706.40
Maltina	*000' Cartons*	273.11	182.80	139.86	322.65
Acetylene	*000' cu.ft*	235.15	156.02	140.70	296.72
Oxygen	*000' cu.ft*	272.90	144.73	144.86	289.59
Confectionery	*000' lbs*	3,146.79	1,836.14	1,681.59	3,517.73
Common Soap	*000' M tons*	549.54	363.74	354.20	717.94
Soft drinks	*000' crates*	3,086.53	980.74	565.61	1,546.36
Paint	*000' gals*	232.90	148.67	110.74	259.41
Cement	*000' M tons*	313.38	196.00	138.90	334.89
Services					
Electricity	*GW/hr*				
Unit Generated	*GW/hr*	164.39	76.75	117.95	199.44
Industrial Consumption	*GW/hr*	28.94	19.14	20.65	39.79
Domestic Consumption	*GW/hr*	9.01	11.16	11.86	23.02
Commercial Consumption	*GW/hr*	13.52	16.74	17.79	34.53
Government Consumption	*GW/hr*	17.4	16.41	17.93	34.34

Sources: Manufacturing Establishments

2.4 Electricity Generation

The energy sector constitutes one of the key sectors which contribution is critical to promoting growth and development in the country. In this regard, the government allocated Le80.6 billion to the energy sector to upgrade electricity supply in the country. Also, the World Bank, the European Union Commission, the African Development Bank, the United Nations Industrial Development Organisation (UNIDO) and others including China Exim Bank were committed to providing an amount in the sum of US$206.9 million in support of various energy sector projects.

On 14th May 2014, the government signed a Power Purchase Agreement (PPA) with a private partner, Copper belt Energy Cooperation (CEC), to provide 128 megawatts of thermal electricity plant in a bid to continue with the improvement on the countryôs energy sector performance. Electricity generation in 2014 totalled 199.44 Gw/hr, representing a 21.51 percent increase compared to the 164.39 Gw/hr generation in 2013.

Table 2

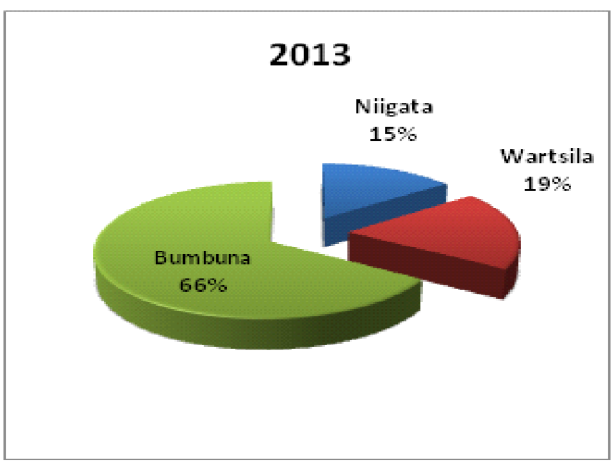
Electricity Generation(Gw/h)

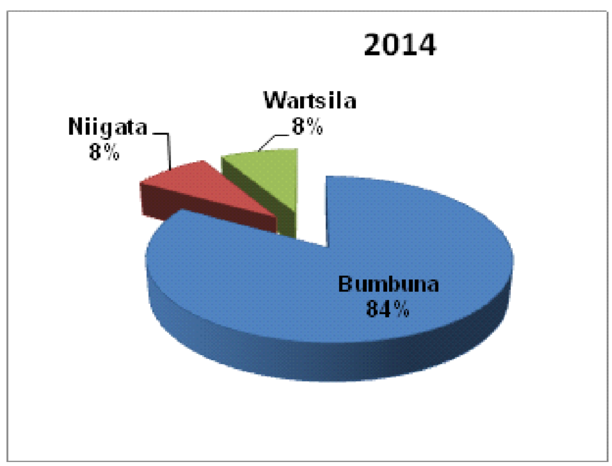
Year	Total Units Generated
2004	84.82
2005	53.21
2006	31.98
2007	30.68
2008	138.78
2009	131.98
2010	170.64
2011	175.64
2012	178.37
2013	164.13
2014	199.44

The growth in electricity power generation was driven exclusively by the improved performance of the Bumbuna hydro plant during the reporting period. Electricity production from the hydro plant accelerated by 40.8 percent to 166.5 Gw/hr, while production from the thermal plants (Niigata and Wartsila) dropped by 37.1 percent to 16.5 Gw/hr and 52.2 percent to 16.4 Gw/hr respectively. The low performance of the thermal plants was reflective of the reduced usage of thermal energy in 2014 compared to 2013.

Disaggregating installed power generation capacity, the thermal plants accounted for 16 percent while the Bumbuna hydroelectric power generated 84 percent, being the major contributor to electricity power during the year under review.

Chart 3: Electricity generation by Hydro and Thermal Plants





Meanwhile, demand for electricity improved significantly during the reporting period with consumption rising to 131.68 Gw/hr, reflecting a 91.22 percent increase over the previous period. Overall consumption comprised of government, in the amount of 34.34 Gw/hr, industry, in the amount of 39.79 Gw/hr, domestic, in the amount of 23.02 Gw/hr and commercial in the amount of 34.53 Gw/hr.

2.5 Building and Construction

The key performance indicator in the building and construction sector is cement production and consumption. Cement production grew by 6.86 percent from 313.38 thousand metric tons in 2013 to 334.9 thousand metric tons in 2014. This performance reflected increased road construction and building activities undertaken mostly during the first half of 2014, prior to the outbreak of Ebola.

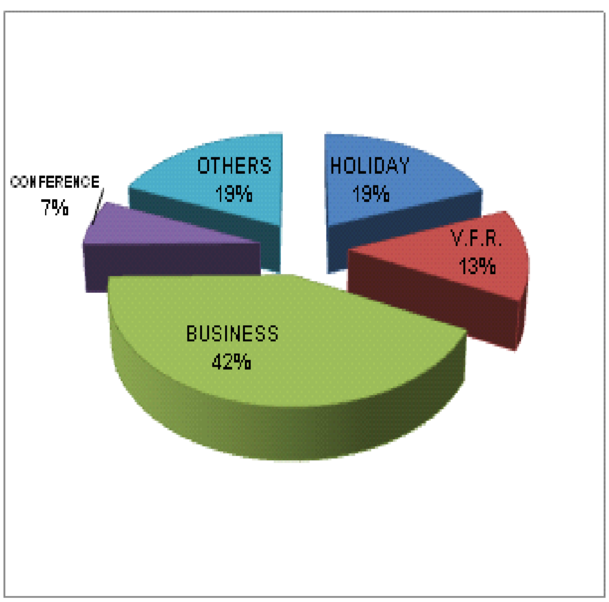
2.6 Tourism

The tourism sector recorded a decline of 19.42 percent in 2014 compared with a growth rate of 6.57 percent in 2013, reflecting the dampening impact of the Ebola epidemic on the sector. There was a significant decline in demand for hotel and restaurant services, compounded by the suspension of airline operations due to adverse travel advisories generated by the authorities of originating countries on the high risks of contracting the Ebola Virus Disease by visitors coming to Sierra Leone.

Overall performance of the sector in terms of tourist arrivals deteriorated significantly by 46.18 percent to 43,731 arrivals compared to a growth rate of 36.03 percent in 2013. The decline in number of arrivals was attributable to the uncertainties created by the Ebola crisis that resulted in loss of business confidence and safety concerns. Arrivals by region of origin included 35 percent from Europe, 22 percent from America, 15 percent from ECOWAS, 11 percent from Non-ECOWAS, 9 percent from Asia, 5 percent from the Middle East and 2 percent from Australia & Oceania.

When classified by purpose of visit, 42 percent were on business, 19 percent on holiday, 13 percent on visit to friends and relatives, 7 percent on conferences, and 19 percent on other purposes.

Chart 4a: Arrivals by Purpose



4b: Arrivals by place of Residence

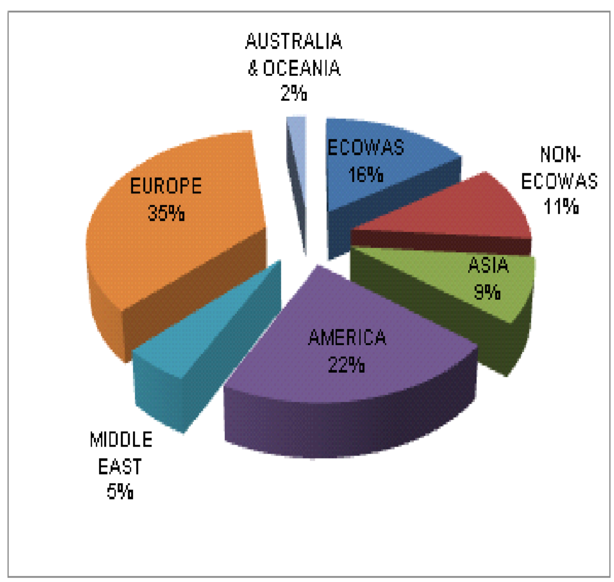


Table 3

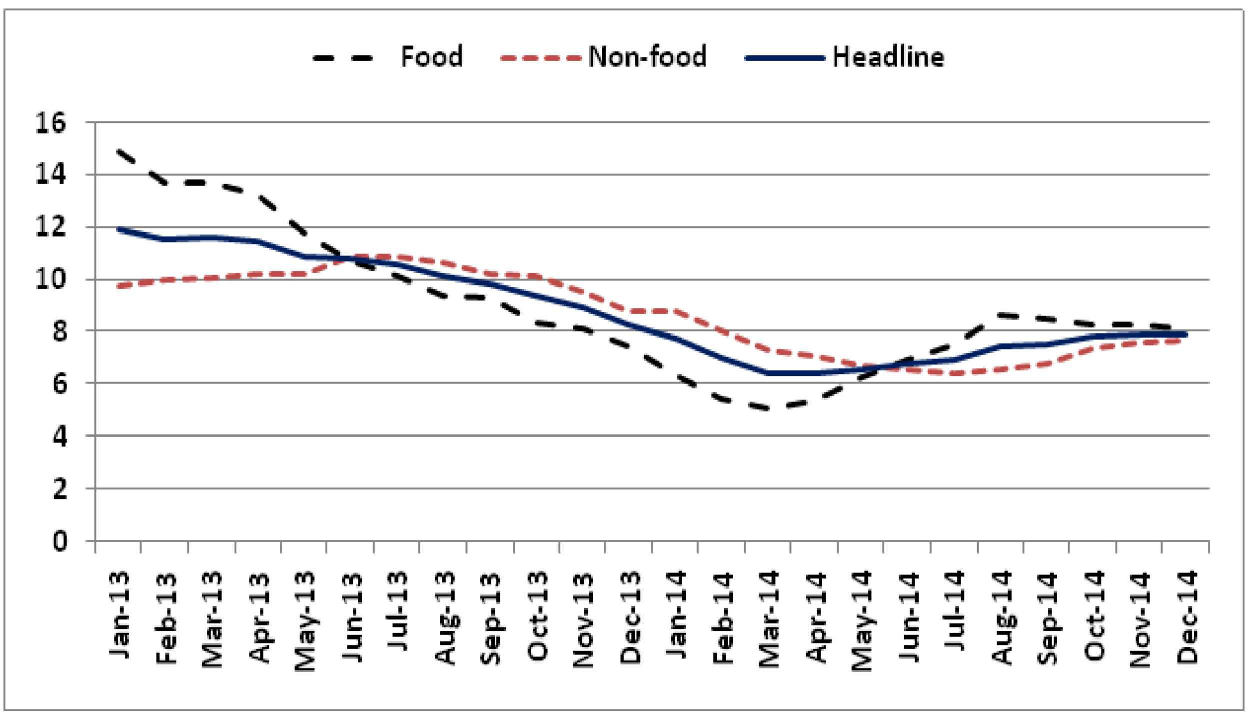
Monthly Visitors Arrival by Air - 2014 (by Purpose of visit)						
Period	**Holiday**	**V.F.R.**	**Business**	**Conference**	**Others**	**TOTAL**
January	1,532	1,077	2,094	221	1,333	**6,257**
February	849	700	2,226	464	1351	**5,590**
March	1,135	706	3,063	408	982	**6,294**
April	1,474	1,134	3,575	735	1,412	**8,330**
May	581	299	1,427	168	530	**3,005**
June	712	480	1,576	201	499	**3,468**
July	368	278	1,168	215	397	**2,426**
August	245	176	890	175	410	**1,896**
September	212	146	840	142	353	**1,693**
October	206	292	1,376	151	547	**2,572**
November	191	197	724	163	327	**1,602**
December	17	244	273	9	55	**598**
Jan - Jun	***6,283***	***4,396***	***13,961***	***2,197***	***6,107***	**32,944**
Jul - Dec	***1,239***	***1,333***	***5,271***	***855***	***2,089***	**10,787**
Jan - Dec	**7,522**	**5,729**	**19,232**	**3,052**	**8,196**	**43,731**

2.7 Domestic Price Developments

On the domestic front, inflationary pressures somewhat, eased during the first four months of the year, driven largely by declining food prices associated with improved domestic production of rice and other essential food commodities. This was reinforced by the tight monetary and prudent fiscal policy measures implemented during the period. The national year-on-year headline inflation rate declined steadily from 8.2 percent in December 2013 to a low of 6.4 percent in April, 2014, before rising again to peak at 6.54 percent in May, 2014, coinciding with the onset of Ebola. It continued to rise consistently thereafter, to 7.88 percent in November before closing the year at 7.85 percent in December 2014. The upward trend in inflation performance during the second half of the year was driven mainly by food supply shocks attributable to lower agricultural production, as farmers abandoned their farms due to the ravages of Ebola; the marked depreciation in the Leone exchange rate relative to the US Dollar; restrictions on the movement of goods and persons imposed by the authorities under the national public health emergency and suspension of weekly markets that contributed to a reduction in trade in basic food and other commodities.

Of annual inflation rate, food inflation first, declined steadily in the first quarter of the year, reaching a low of 5.09 percent in March, 2014 before climbing steadily throughout the rest of the three quarters ending the year at 8.11 percent. Non-food inflation on the other hand, declined consistently during the first two quarters of the review period before rising in August to close the year at 7.66 percent.

Chart 5 Inflationary Trends (%)

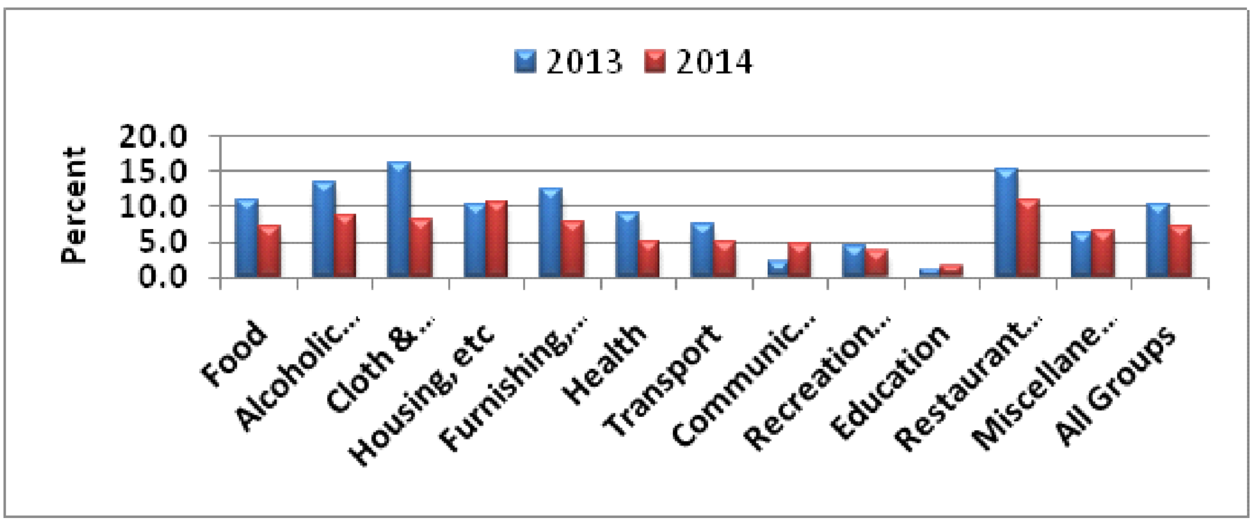


Inflation by Group

Developments in the sub-categories of the consumer basket indicated benign inflationary pressures in most sub-groups. While communication, education, miscellaneous goods & services, and housing, water, electricity, gas & other fuels collectively contributed in driving headline inflation up, the remaining sub groups recorded low inflation in 2014. Food and Non-Alcoholic beverages recorded 7.1 percent in 2014, down by 370 basis points, compared with 10.8 percent in 2013.

In the Non-Food category, restaurants & hotels recorded the highest inflation rate of 10.9 percent in 2014, down 430 basis points compared to 15.2 percent in the previous year. This was followed by housing, water, electricity, gas & other fuels which, was recorded at 10.5 percent, up 20 basis points, from 10.3 percent in the previous year. Alcoholic beverages, tobacco & narcotic, was recorded at 8.8 percent,down 450 basis points from 13.3 percent in the previous year. Clothing and foot wear, was recorded at 8.2 percent, down 790 basis points compared to 16.1 percent in the previous year. Furnishing, householdequipment & maintenance, was recorded at 7.8 percent, down 480 basis points compared to 12.6 percent in the previous year. Miscellaneous goods & services were recorded at 6.4 percent, up 20 basis points from 6.2 percent in the previous year. Health was recorded at 5.1 percent, down 380 basis points from 8.9 percent in the previous year. Transport was recorded at 5.0 percent, down 240 basis points from 7.4 percent in the previous year. Communications was recorded at 4.8 percent, up 270 basis points from 2.1 percent in the previous year. Recreation & culture, was recorded at 3.6 percent, down 80 basis points compared to 4.4 percent in the previous year. Education was recorded at 1.5 percent, up 40 basis points from 1.1 percent in 2013.

Chart 6: Inflation Rates For Goods and Services



Contributions to the Annual Inflation

An analysis of the contributions to the 7.19 percent inflation in 2014 showed that Food and Non-alcoholic Beverages group contributed 2.97 percent, down from the 4.54 percent recorded in 2013. The Non-Food group accounted for the remaining 97.03 percent, up from the 95.46 percent contributed last year, suggesting an increase in the significance of non-food inflation in 2014.

Within the non-food group, housing, water, electricity, gas and other fuels accounted for 1.44 percent of the overall inflation, clothing & footwear contributed 0.60 percent, health contributed 0.58 percent, furnishing household equipment accounted for 0.46 percent, whilst transport contributed 0.39 percent.

3.0 Fiscal Developments

The 2014 budget, being the first plan under the **Agenda for Prosperity,** focussed on charting the road map to prosperity and a middle income country status. In particular, the pro-poor budget was based on building the foundation to diversify the economy and enhance human development and poverty reduction.

However, the shortfall in revenue performance combined with the higher than projected recurrent expenditures, mostly due to overruns in wages and salaries during the year, affected the overall fiscal programme. Government's budgetary operations in 2014 resulted in an overall deficit (including grant) of Le832.44bn or 3.9 percent of GDP, compared to Le160.99bn or 0.75 percent of GDP recorded in 2013. This deficit represented a significant 417 percent expansion compared to the previous year, but however, remained within the target amount of Le863.08bn or 4.04 percent of GDP. Excluding foreign grants, the budget deficit was recorded at Le2,043.45bn or 9.57 percent of GDP compared to Le590.9bn or 2.77 percent of GDP in 2013. This was 27.45 percent in breach of the ceiling requirement of Le1,603.3bn. During the review period, 90.7 percent of the budget financing came from domestic sources compared with 39.4 percent in the previous year and the targeted 20 percent for the year.

3.1 Government Fiscal Operations

Government receipts (including foreign grants) grew by 25.82 percent to Le3,457.71bn (16.19% of GDP) during the year 2014, comprehensively outpacing the budgeted amount of Le3,352.86bn by 3.13 percent. The major components of total receipts were Tax revenue in the amount of Le1,841.69bn (53.3% of total receipts), Non-Tax Revenue in the sum of Le405.01bn (11.7% of total receipts) and Grants amounting to Le1,211.02bn (35% of total receipts). The growth in total government receipts was exclusively the result of the significant increase in foreign grants disbursed during the review period.

Tax revenue grew by 0.58 percent but was 11.12 percent below the budgeted target of Le2,072.03bn. The growth in tax revenue was on account of increased collections from Customs and Excise taxes as well as Goods & Services Tax.

Collections from **Customs and Excise** taxes increased by 3.3 percent to Le491.13bn (2.3% of GDP), but still fell 11.47 percent short of the budgeted target of Le554.77bn. Revenue generation from import duty rose by 11.5 percent to Le290.25bn exceeding the Le289.45bn target by 0.28 percent. Despite this development, the value of imports during the year dropped sharply, attributable to the decline in the values of most of the classes of imports. However, the increase in import duty somewhat explained the increase in Customs and Excise collections. Excise on petroleum recorded an underperformance in the order of 6.13 percent to Le187.07bn and consequently was 20.53 percent below the target of Le235.39bn.

Revenue from **Income Tax** fell slightly by 1.91 percent to Le893.36bn (4.18 percent of GDP) and was 11.98 percent short of the Le1,014.9bn target for the year. Personal income tax was the main contributor to this decline in the overall income tax receipts. Revenue performance from personal income tax declined by 12.14 percent to Le615.32bn and missed the target requirement of Le720.53bn by 14.6 percent. Corporate income tax collections grew by 33.03 percent to Le272.25bn but less than offset the decline in income tax. Consequently, corporate income tax receipts were recorded at 3.95 percent below the budgeted target of Le283.43bn.

Revenue generation from **Goods & Services Tax (GST)** increased by 2.78 percent to Le457.21bn (2.14 percent of GDP), which was 8.99 percent short of the budgeted target of Le502.36bn. The increase in GST receipt was reflective of Domestic expenditure related GST collections which grew by 8.37 percent to Le178.79bn, but missed the Le183.84bn target by 2.75 percent. Meanwhile, revenue collections

Table 4

Government Fiscal Operations

(In Millions of Leones)

	2013	2014	Budget 2014
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	**2,748,080**	**3,457,714**	**3,352,858**
DOMESTIC REVENUE	**2,318,175**	**2,246,695**	**2,612,637**
Of which:			
Customs & Excise	**475,421**	**491,128**	**554,774**
Import Taxes	260,314	290,252	289,454
Excise on Petroleum	199,284	187,070	235,390
Other Excise Duties	13,443	13,535	27,840
Freight Levy from Marine Administration	2,380	271	2,090
Income Tax Department	**910,768**	**893,355**	**1,014,900**
Company Tax	204,645	272,248	283,430
Personal Income Tax	700,326	615,316	720,530
Other Taxes	5,797	5,791	10,940
Goods and Services Tax	444,827	457,207	502,360
Import GST (Import Sales Tax)	279,851	278,420	318,518
Domestic GST	164,976	178,787	183,842
Miscellaneous	**418,983**	**325,293**	**427,742**
Mines Dept.	**328,319**	**245,619**	**299,579**
Royalty on Rutile	4,965	16,002	2,932
Royalty on Bauxite	3,399	4,317	4,057
Royalty on Diamond and Gold	35,954	48,810	55,821
Royalty on Iron Ore	107,294	129,665	180,716
Licences	176,707	46,826	56,053
Other Departments	90,664	79,674	128,163
Royalty on Fisheries	10,313	23,865	15,870
Parastatals	0	0	5,022
Other Revenues	80,351	55,808	107,261
Road User Charges	**68,176**	**79,712**	**112,861**
GRANTS	**429,905**	**1,211,018**	**740,221**
Programme	**157,051**	**788,618**	**317,821**
HIPC Debt Relief Assistance	0	0	0
Japanese Food & Oil Aid	0	0	0
Global Fund Salary Support	0	0	0
Kuwaiti Fund Refund	0	45,114	32,094
UK (DFID)	90,060	92,610	0
EU	66,991	60,118	89,121
AFDB	0	84,672	61,602
WB	0	109,278	26,654
Peace Building Fund	0	0	108,350
Emergency Power Programme	0	0	0
Others (projects)	0	0	0
Development Projects	272,854	422,400	422,400

Table 4 contd...

Government Fiscal Operations
(in Millions of Leones)

	2013	2014	Budget 2014
TOTAL EXPENDIUTRE & NET LENDING	**2,909,070**	**4,290,149**	**4,215,941**
Of which:			
Current Expenditure	**2,205,097**	**2,680,097**	**2,550,676**
Of which:			
Wages & Salaries	1,063,286	1,382,342	1,149,619
Domestic Interest	309,065	191,987	192,357
Foreign Interest	43,649	36,668	40,137
Goods & Services	345,735	482,713	611,302
Transfers to Local Councils	85,051	71,437	71,437
Fuel Subsidies	0	0	0
Social Outlays	154,300	279,639	224,677
Grants to Education Institution	125,775	140,032	132,318
Transfer to Road fund	68,176	79,712	112,861
Elections & Democratisation	10,060	15,960	15,968
Development Exp. & Net Lending	703,973	1,610,052	1,665,265
Foreign Loans & Grants	395,513	1,056,101	1,056,100
Loans	122,659	633,700	633,700
Grants	272,854	422,400	422,400
Domestic	407,058	536,469	660,739
Lending Minus Repayment	-98,598	17,482	-51,574
CURRENT BALANCE+/- (Including grants)	**542,983**	**777,617**	**802,182**
ADD DEVELOPMENT EXPENDITURE	-703,973	-1,610,052	-1,665,265
Basic Primary Balance	167,392	-742,737	-298,742
OVERALL DEFICIT/SURPLUS +/-(Incl. grants)	**-160,990**	**-832,435**	**-863,083**
FINANCING	**590,895**	**2,043,453**	**1,603,304**
Domestic	**232,971**	**1,852,318**	**319,917**
Of which:			
Bank Financing	**299,573**	**1,553,819**	**244,767**
Bank of Sierra Leone	-59,538	92,164	112,716
Commercial Banks	359,111	1,461,655	132,051
Non-Bank Financing	-68,322	285,097	66,049
Privatisation Receipts	1,720	13,402	9,101
External	**57,683**	**651,961**	**591,785**
Of which:			
Loans	139,645	763,720	694,376
Project	122,659	633,700	633,700
Programme	16,986	130,020	60,676
Amortisation	-81,962	-111,759	-102,591
Debt Relief	0	0	0
Others*	**300,241**	**-460,826**	**691,602**

Revenue generation from **Goods & Services Tax (GST)** increased by 2.78 percent to Le457.21bn (2.14 percent of GDP), which was 8.99 percent short of the budgeted target of Le502.36bn. The increase in GST receipt was reflective of Domestic expenditure related GST collections which grew by 8.37 percent to Le178.79bn, but missed the Le183.84bn target by 2.75 percent. Meanwhile, revenue collections from imports related GST declined marginally by 0.51 percent to Le278.42bn and was12.59 percent lower than the targeted budget of Le318.52bn. The underperformance of import related GST revenue was clearly reflective of the decline in imports during the year under review.

Non-Tax Revenue contracted by 22.36 percent to Le325.29bn, which was 23.95 percent short of the target requirement of Le427.74bn. The decline in revenue was largely attributable to the drop in collections from the mines department, of which, revenue from licenses recorded a significant 73.5 percent drop to Le46.83bn. Generally, all the main categories of revenue collections fell short of their respective targets, with non-tax revenue recording the biggest short fall during the year. Overall, the underperformance of domestic revenue generation could mainly be due to the decline in global commodity prices particularly iron ore, low import volumes and a slowdown in economic activities associated with the Ebola epidemic.

Grants

Foreign grants received in 2014 were recorded at a high of Le1,211.02bn (or 5.67 percent of GDP), representing a significant 181.69 percent increase or Le781.11bn which overshot the budgeted target of Le740.22bn by 63.6 percent.

Overall grants comprised Le788.62bn in respect of programmed grants for budgetary support and Le422.4bn for development projects. Programme grants for budgetary support grew by 402 percent which was 148.13 percent in excess of the target of Le317.82bn. This amount comprised disbursements from the United Kingdom through the Department for International Development (Le92.61bn), European Union (Le60.12), African Development Bank (Le84.67bn), World Bank (Le109.28bn), and an amount of Le396.83bn in respect of HIPC Debt Relief Assistance.

3.2 Expenditure

Government expenditures for the year grew by 47.47 percent to Le4,290.15bn, which was 1.76 percent in breach of the Le4,215.94bn ceiling requirement. This was a combined outcome of the increases in recurrent and capital expenditures and net lending. As a percentage of GDP, total expenditure and net lending was recorded at 20.09 percent compared with 13.62 percent in 2013.

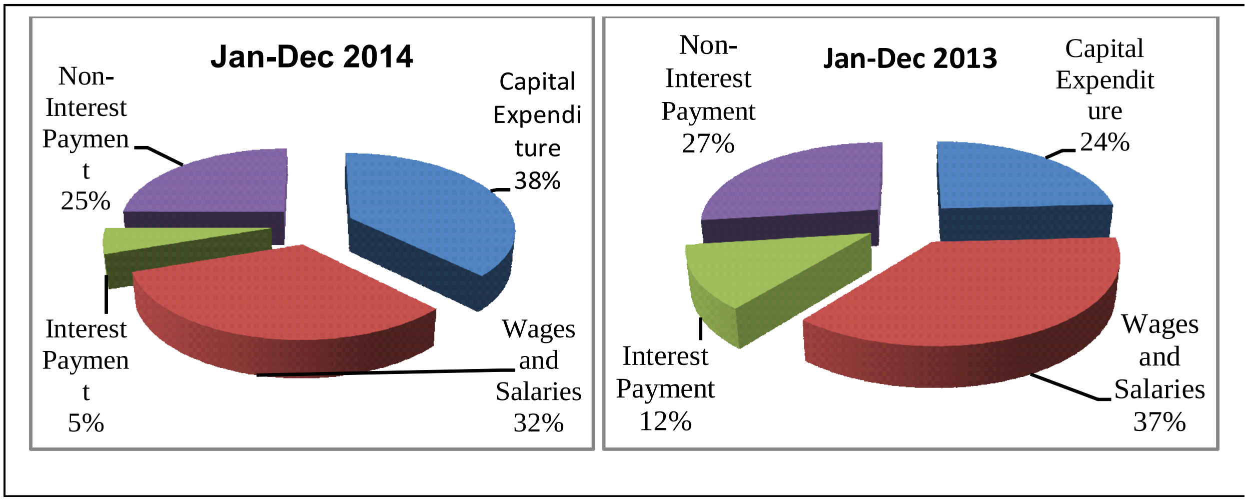
Recurrent Expenditure increased by 21.54 percent to Le2,680.1bn, exceeding the ceiling requirement of Le2,550.68bn by 5.07 percent. In terms of percentage of GDP, recurrent expenditure accounted for 12.55 percent during the year under review compared to 10.33 percent in the previous year. The increase in recurrent expenditure was reflective of high payments of wages and salaries and non-interest expenditures. Payments in respect of wages and salaries grew by 30.01 percent to Le1,382.34bn which exceeded the ceiling requirement of Le1,149.62bn by 20.24 percent. The increase in wage bill was mainly due to new recruitments in the health sector, relative to Ebola as well as other government services. The share of wages and salaries in total recurrent expenditure was 51.6 percent in 2014 compared to 48.2 percent in 2013.

Interest Expenditures declined during the year, with foreign interest payments decreasing by 15.99 percent to Le36.67bn while domestic interest expenditures contracted by 37.88 percent to Le191.99bn. Both foreign and domestic interest payments fell short of their respective targets of Le40.14bn and Le192.36bn. The overall decline in interest payment was reflective of the low domestic borrowing and the associated drop in debt service cost due to excess liquidity.

Although **non-interest expenditures** rose by 35.48 percent to Le1,069.1bn (5.01 percent of GDP), it was well within the budgeted ceiling of Le1,168.56bn. The main drivers of non-interest payments are payments for goods and services, social outlays, and grants to educational institutions. Payments for goods and services grew by 39.62 percent to Le482.71bn but were still within the ceiling requirement of Le611.3bn; while Social Outlays and Grants to Educational Institutions grew by 81.23 percent to Le279.64bn and 11.34 percent to Le140.03bn respectively. They were all within their respective targets.

Capital Expenditures amounted to Le1,610.05bn (or 7.54 percent of GDP), representing a growth rate of 128.71 percent. The increase in capital expenditure was reflective of governmentôs continued investment in infrastructure development projects. Greater attention was also paid by the government to the establishment of health centres in an effort to combat the Ebola epidemic throughout the country.

Chart 7. Composition of Government Expenditure



Source: Ministry of Finance & Economic Development

Nonetheless, capital expenditures fell 3.32 percent short of the budgeted limit of Le1,665.27bn, reflecting lower than budgeted domestically financed capital receipts. Government was faced with the challenge to suspend capital spending in favour of recurrent in order to set up the infrastructures needed for the implementation of the Emergency Ebola Response plan.

3.3 Budget Deficit and Financing

The overall budget deficit in the sum of Le2,043.45bn was a result of the significant shortfall in government revenues as against overruns in recurrent expenditures and increase in capital expenditures. This deficit, including a financing gap of Le460.83bn resulted in a financing requirement of Le2,504.28bn, which was defrayed partly from domestic sources (74%) and partly from external sources (26%).

Domestic financing amounted to Le1,852.32bn, representing an increase of Le1,619.35bn which was 479 percent higher than the target requirement of Le319.92bn. Of total domestic financing, bank financing amounted to Le1,553.82bn, Non-Bank financing Le285.1bn, and Privatisation receipts Le13.4bn. Bank financing grew by 418.68 percent which was 534.82 percent higher than the ceiling requirement of Le244.77bn. This represented the combined outcome of the Le92.16bn borrowing from the Bank of Sierra Leone and the Le1,461.66bn borrowing from the commercial banks. Accordingly, the share of bank financing to total domestic financing was 83.9 percent while non-bank financing accounted for 15.4 percent.

Net Foreign financing amounted to Le651.96bn, reflecting an increase of Le594.28bn which was 10.17 percent in breach of the Le591.79bn ceiling requirement. This amount reflected loan inflows in the sum of Le763.72bn and debt amortization in the amount of Le111.76bn. Loan inflows comprised project loans amounting to Le633.7bn and programme loans in the sum of Le130.02bn.

Table 5

Stock of Government securities outstanding by Holders (in Million Leones)			
	2013	**2014**	**Change**
91-DAYS TBs	**242,830.20**	**106,992.30**	**-135,837.90**
BSL	85,720.85	9,026.85	-76,694.00
COM. BANKS	117,021.10	69,891.85	-47,129.25
Non-Bank Public	40,088.25	28,073.60	-12,014.65
NASSIT	0	0	0
182-DAYS TBs	**506,305.80**	**316,267.60**	**-190,038.20**
BSL	7,798.90	25,964.75	18,165.85
COM. BANKS	441,882.15	244,150.50	-197,731.65
Non-Bank Public	56,624.75	46,152.35	-10,472.40
NASSIT	0	0	0
364-DAYS	**707,475.15**	**1,337,800.25**	**630,325.10**
BSL	1,099.85	9,873.30	8,773.45
COM. BANKS	628,236.75	1,261,919.85	633,683.10
Non-Bank Public	58,138.55	46,007.10	-12,131.45
NASSIT	20,000.00	20,000.00	0.00
TBOND	**145,353.30**	**128,810.15**	**-16,543.15**
BSL	7,385.70	8,241.45	855.75
COM. BANKS	0	6.00	6.00
Non-Bank Public	97,480.60	80,075.75	-17,404.85
NASSIT	40,487.00	40,487.00	
TOTAL	**1,601,964.45**	**1,889,870.30**	**287,905.85**
BSL	99,005.30	53,106.35	-45,898.95
COM. BANKS	1,187,140.00	1,575,968.20	388,828.20
Non-Bank Public	252,332.15	200,308.75	-52,023.40
NASSIT	60,487.00	60,487.00	0.00

Source: Policy and Domestic Debt Division, Banking

4.0 Monetary Developments

The Bank continues to pursue price stability as the primary objective of monetary policy during the review period. The framework strategy is monetary targeting. The Bank also continued to enforce the statutory limit - of no more that 5 percent of previous yearôs domestic revenue - on direct financing to government. Given the uncertainties created by the Ebola epidemic, monetary policy focused on minimizing the downside risks to inflation while safeguarding the economy by maintaining the monetary policy rate at 10 percent in order not to destabilize an already difficult economic environment. The Bank continued to remain vigilant in monitoring second round effects of the Ebola crisis on domestic prices, before it scales up its Open Market Operations (OMO) in the secondary market for government securities via repurchase (repo) and reverse repo auctions.

The Bank continued to implement a managed floating exchange rate regime that was consistent with achieving external balance and providing flexibility to address both internal and external shocks. As the Ebola epidemic intensified, demand pressures built up in the foreign exchange market, resulting in a depreciation of the Leone against the US Dollar. To meet the requirements of the increased demand for imports, particularly of food, pharmaceutical and petroleum products, the Bank increased its weekly auction size of Forex from US$ 0.5 million in June to US$3.0 million in October; as well as implemented two wholesale Forex operations in the amount of US$10 million in October and December 2014.

4.1 Monetary Aggregates

Monetary aggregates were expansionary during the review period. Broad Money (M2) grew by 16.54 percent compared to the projected growth rate of 15.2 percent for the year. This was however lower than the 16.71 percent growth rate posted in the preceding period. The expansion in M2 was due to increases in both the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the Banking system.

The increase in NFA derived from inflows including export receipts, external budgetary support and aid disbursements in support of Government efforts to contain the Ebola Virus Disease (EVD). The growth in NDA was mainly on account of the increase in Government borrowing from the banking system.

Reserve Money (RM) recorded an annual growth rate of 30.19 percent during the review period which was higher than both the 2014 projections of 11.6 percent and the preceding yearôs growth rate of 17.72 percent. The growth in RM was driven mainly by increased demand for money in order to cope with Ebola related inflationary pressures and supply side shocks as evidenced mainly by the increase in both Currency Issued (24.64%) and Bankersô Deposits (54.84%).

Chart 8. Composition of Money Supply (M2)

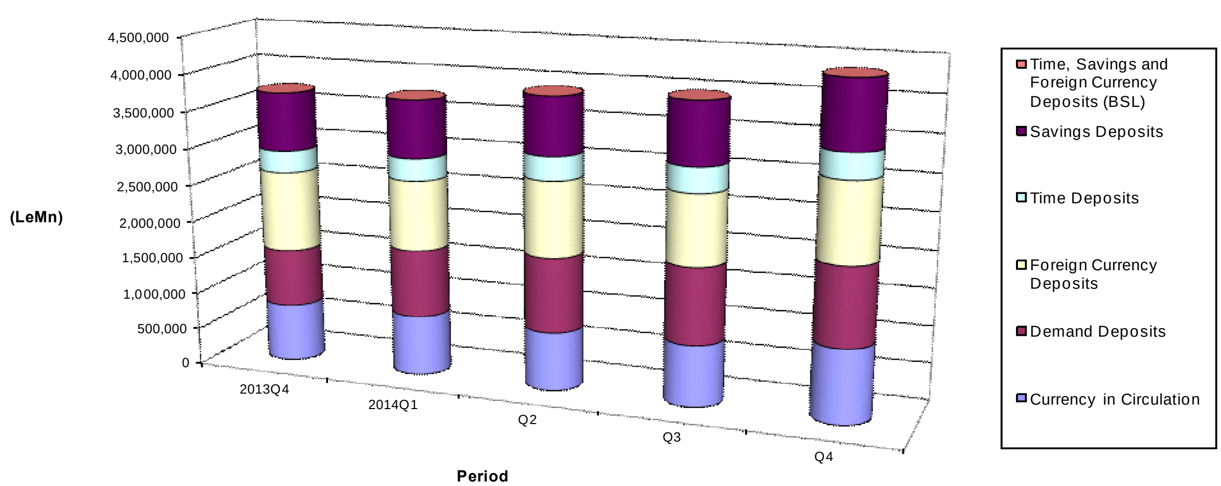


Table 6

Monetary Survey (Million Leones)					
	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
1	2	3	4	5	6
Reserve Money	**1,199,514**	**1,320,443**	**1,352,142**	**1,291,004**	**1,560,388**
Broad Money	**4,228,613**	**4,249,943**	**4,487,234**	**4,551,043**	**4,928,202**
Broad Money*	**3,144,135**	**3,306,145**	**3,470,915**	**3,602,165**	**3,863,586**
Narrow Money	**1,557,220**	**1,723,866**	**1,796,919**	**1,854,792**	**2,050,732**
Currency in Circulation	*781,166*	*815,550*	*791,029*	*828,068*	*996,338*
Demand Deposits	*776,053*	*908,316*	*1,005,890*	*1,026,724*	*1,054,395*
Quasi Money	**2,671,394**	**2,526,077**	**2,690,315**	**2,696,251**	**2,877,470**
Foreign Currency Deposits	*1,084,478*	*943,798*	*1,016,319*	*948,878*	*1,064,615*
Time Deposits	*296,001*	*300,064*	*317,868*	*232,767*	*339,705*
Savings Deposits	*784,171*	*771,824*	*776,317*	*829,770*	*893,787*
Other Deposits	*504,769*	*508,446*	*577,858*	*582,883*	*577,410*
Time Savings and Foreign Currency dep. (BSL)	*1,975*	*1,945*	*1,952*	*1,952*	*1,952*
Net Foreign Assets	**2,832,321**	**2,754,668**	**2,909,707**	**2,858,672**	**3,253,603**
Bank of Sierra Leone	**1,526,584**	**1,586,921**	**1,688,092**	**1,698,747**	**1,958,256**
Assets	*2,086,055*	*2,144,064*	*2,230,757*	*2,319,245*	*2,773,287*
Liabilities	*559,470*	*557,143*	*542,666*	*620,497*	*815,031*
Commercial Banks	**1,305,737**	**1,167,747**	**1,121,615**	**1,159,925**	**1,295,346**
Assets	*1,320,984*	*1,182,024*	*1,234,303*	*1,172,159*	*1,308,041*
Liabilities	*15,247*	*14,277*	*12,688*	*12,234*	*12,695*
Domestic Credit	**2,484,235**	**2,612,855**	**2,802,740**	**3,023,917**	**3,209,143**
Claims on Central Govt. Net	**1,241,220**	**1,373,845**	**1,542,870**	**1,733,058**	**1,910,966**
of which:					
BSL	**22,821**	**87,069**	**107,733**	**123,724**	**275,202**
Total Claims	***22,188***	***86,936***	***107,179***	***122,734***	***273,876***
Treasury Bills	*12,819*	*9,275*	*6,187*	*9,470*	*44,865*
Treasury Bonds	*7,346*	*8,041*	*9,857*	*11,023*	*8,241*
Ways and Means Advances	*1,285*	*68,873*	*91,108*	*102,215*	*39,058*
BSL losses for conversion	*712*	*720*	-	-	-
Stock of NNNIB	-	-	-	-	-
BSL Holdings of 3-Year Medium Term Bond	-	-	-	-	-
5YR Bonds for Recapitalization	-	-	-	-	-
Government Departments	*27*	*27*	*27*	*27*	-
Deposits	**(632)**	**(134)**	**(554)**	**(990)**	**(1,325)**
Treasury Income and Expenditure(net)	*(1,152)*	*(654)*	*(1,074)*	*(1,510)*	*(1,845)*
HIPC (MDRI)	*512*	*512*	*512*	*512*	*512*
Blocked Account	*8*	*8*	*8*	*8*	*8*
Commercial Banks	**1,218,399**	**1,286,776**	**1,435,137**	**1,609,333**	**1,635,764**
Total Claims	**1,218,866**	**1,287,147**	**1,435,556**	**1,609,920**	**1,636,222**
Treasury Bills	*1,141,885*	*1,209,987*	*1,358,487*	*1,526,885*	*1,546,667*
Treasury Bearer Bonds	-	-	-	-	-
Loans and Advances	*76,981*	*77,160*	*77,160*	*83,036*	*89,555*
Deposits	**467**	**371**	**420**	**587**	**457**
Government Treasury Accounts	*467*	*371*	*420*	*587*	*457*
Claims on Non Financial Public Sector	*200,060*	*198,262*	*191,429*	*199,458*	*199,242*
Claims on Private Sector	*1,002,996*	*1,000,077*	*1,022,717*	*1,043,209*	*1,056,870*
of which					
Commercial Banks	**988,548**	**977,391**	**1,003,467**	**1,025,881**	**1,038,540**
Claims on Non-Banking Inst.	39,963	40,672	45,724	48,193	42,065
Other Items (Net)	**(1,087,947)**	**(1,117,580)**	**(1,225,213)**	**(1,331,546)**	**(1,534,544)**

Net Claims on Government by the banking system grew by 54.85 percent over the review period and was higher compared to the preceding yearӳ growth rate of 34.51 percent. This represents increased financing of the governmentӳ budget deficit by the banking system owing to shortfalls in domestic revenue performance due to the Ebola crisis coupled with delays in external budgetary support disbursements.

Growth in Net Claims on Government by the banking system was driven by the Le219.48bn expansion in Net Claims on Government by the Bank of Sierra Leone coupled with the Le446.66bn increase in Net Claims on Government by commercial banks. Growth in Net Claims on Government by the Bank of Sierra Leone was on account of the Le 32.05bn increase in their holdings of treasury bills, the Le37.77bn utilization of Ways and Means Advances by the Government and the disbursement of Le181.71bn in

GOSL/IMF Budget Financing. Growth in Net Claims on Government by Commercial Banks was mainly on account of Le434.78bn increase in their holdings of Treasury Bills.

Private sector credit by the commercial banks grew by 5.06 percent (Le49.99bn), which was lower than both the 2014 projections of 6.4 percent and the proceeding yearӳ growth rate of 11.32 percent. The slowdown in the growth of private sector credit reflected, in part, crowding out effects of Government borrowing from the banking system, and the cautious lending behaviour of commercial banks due to the high level of None Performing Loans (NPLs) in the banking system.

The structure of market interest rates during the review period reflected a downward trend. The increased liquidity in the banking system and the resulting expansion in demand for Government securities, combined with reduced government borrowing contributed to the drop in yields on Government securities. The monthly average annual yield on 3-months, 6- months and 12-months Treasury Bills declined by 103, 467 and 435 basis points from 3.39 percent, 7.50 percent and 9.47 percents as at December 2013 to 2.36 percent, 2.83 percent and 5.12 percent, respectively, as at end December 2014. Average interest rate on Savings, 1-month, 3- months, 6-months, 9-months and 12- months Time Deposits declined by 150, 177, 136, 206, 112 and 200 basis points from 4.73 percent, 5.85 percent, 5.57 percent, 7.63 percent, 7.00 percent and 8.59 percent as at end December 2013 to 3.23 percent, 4.08 percent, 4.21 percent, 5.57 percent, 5.88 percent and 6.59 percent, respectively, as at end December 2014. Similarly, interest rate on treasury bonds declined by 100 basis points, from 6 percent in December, 2013 to 5 percent in December, 2014. Interest rate on Lending also declined from the ranges of 19.7-25.3 in December 2013 to 19.23-25.14 in December 2014.

TABLE 7

AVERAGE INTEREST RATES (PERCENT)

	Dec.-13	Mar.-14	Jun-14	Sept.-14	Dec.-14
1	**2**	**3**	**4**	**5**	**6**
Treasury Bills (3-months)	3.39	2.97	1.39	2.01	2.36
Treasury Bills (6-months)	7.50	7.34	1.66	3.49	2.83
Treasury Bills (1-year)	9.47	9.20	4.36	6.68	5.12
Treasury Bonds (1-year)	6.00	6.00	6.00	5.00	5.00
Savings ^	4.73	4.73	3.98	3.23	3.23
1 Month	5.85	5.85	5.01	4.08	4.08
3 Months ^	5.57	5.57	4.92	4.17	4.21
6 Months ^	7.63	7.63	6.54	5.54	5.57
9 Months ^	7.00	7.00	5.91	5.88	5.88
12 Months ^	8.59	8.59	7.64	6.51	6.59
Lending (Prime)	19.7-25.3	19.5-25.33	19.46-25.32	19.21-25.14	19.23-25.14
National Inflation Rate *	8.53	7.49	7.79	8.85	9.84

4.2 Monetary Operations

The primary market for Government securities continues to be oversubscribed despite new borrowing by the Government, thereby resulting in declines in yields on all tenures of Government securities during the first half of 2014, During the review period, the stock of Government securities increased by Le287.91bn which was mainly on account of financing of the budget deficit. As at end September, 2014 the stock increased by Le234.93bn, of which, Le158.57bn was borrowed between July and September 2014. This was mainly to finance Governmentôs extra budgetary Ebola- related expenditures occasioned by the shortfall in budgeted revenue due to the outbreak of the Ebola Virus Disease (EVD). Furthermore, demand for Government securities continued to skew towards the long end of the market with 364 days treasury bills accounting for 70.00 percent of the total stock of Government securities. During the third quarter, 2014, it was observed that yields on treasury securities gradually started rising, reflecting the change in inflation expectation due to the impact of the Ebola crisis.

During the review period, commercial banksô holdings of Government securities grew by Le388.83bn from Le1,187.14bn at end December, 2013 to Le1,575.97bn at end December, 2014. On the other hand, BSL holdings of Government securities declined by Le48.90bn from Le102.01bn at end December, 2013 to Le53.11bn as at end December, 2014. The reason for this decline was the conversion of Le81.80bn hitherto held in 91 days treasury bills, to three-year bonds for monetary operations. Similarly, Non-bank holdings (excluding that of NASSIT) declined by Le52.02bn from Le252.33bn at end December, 2013 to Le200.31bn at end December, 2014, due to the decline in yields on Government securities.

As at end June 2014, annual yield on 91 day treasury bills declined by 252 basis points, from 3.39 percent in December, 2013 to 0.87 percent in June, 2014 while that on 182 day and 364 day tenures declined by 671 and 590 basis points from 7.72 percent to 1.01 percent and 9.71 percent to 3.81 percent respectively during the same period. On the other hand, the rates on one-year treasury bonds remained unchanged at 5 percent for the same period. As at end December 2014, the market reflected some improvement in the yields, as annual yield on 91 days treasury bills declined by 90 basis points, from 3.39 percent in December, 2013 to 2.49 percent in December, 2014 while that on 182 day and 364 day tenures declined by 466 and 445 basis points from 7.72 percent to 3.06 percent, and 9.71 percent to 5.26 percent respectively for the same period. Similarly, the one year treasury bonds declined by 100 basis points from 6 percent in December, 2013 to 5 percent in December, 2014.

In the secondary market, the volume of interbank transactions declined by Le97.80bn from Le473.50bn in December, 2013 to Le375.70bn in September, 2014. This was due to the excess liquidity in the banking system. Similarly, the interbank monthly average interest rate declined by 236 basis points from 3.2 percent in December, 2013 to 0.86 percent as at end September, 2014. As at end December 2014, the volume of interbank transactions grew by Le25.80bn from Le473.50bn at end December 2013 to Le499.30bn at end December 2014, which was as a result of the tightness of liquidity in the fourth quarter. In the same vein, the monthly average yield improved slightly though it declined by 138 basis points from 3.2 percent in December 2013 to 1.82 percent in December 2014.

5.0 External Sector Developments

Global economic activity remained subdued in 2014, as the world economy continued to experience a slower growth rate of 3.3 percent compared to initial projection of 3.7 percent. Economic activity continued to be dominated by strong downside risks, including softening commodity prices, rising geo-political tensions, policy uncertainties and heightened threats to financial markets. Developments in the international oil market have also intensified the risks and vulnerabilities faced by oil exporting countries in the wake of a new episode of falling oil prices. Notwithstanding these downside risks, advanced economies grew from 1.4 percent to an estimated 1.8 percent in 2014, largely underpinned by a rebound in economic activity in the United States of America. In addition, supportive quantitative easing, robust labour market reforms, revival in investments and a reduction in the pace of fiscal tightening, increased contributions from net exports and the stabilisation of domestic demand, spurred economic recovery in the Euro-area. The recovery in advanced economies, albeit in an uneven manner, was attributed to the expansion in aggregate demand. In emerging markets and developing economies, activity is estimated to have slowed down from 4.7 percent in 2013 to 4.4 percent in 2014. Notably, the weakening of economic growth in China, from 7.8 percent in 2013 to 7.4 percent in 2014 contributed to the downside risks to recovery prospects in emerging market economies. Reflecting the deceleration of economic activity in China, one of the World's largest commodity consumers, international commodity prices softened in 2014. Against the background of declining international commodity prices, economic growth in Sub-Saharan Africa, declined from 5.2 percent in 2013 to 4.8 percent in 2014. In addition, commodity-dependent economies, particularly in Sub-Saharan Africa, including Sierra Leone, have experienced reduced export revenues, and deterioration in their balance of payments positions.

The external sector of Sierra Leone experienced unprecedented challenges following the outbreak of the Ebola Virus Disease (EVD) mainly in the second half of 2014. Total external trade (Export + Import) narrowed by 8.12 percent from US$3,696.92mn in 2013 to US$3,396.71mn in 2014. Despite the slowdown in economic activity during the second half of 2014 however, merchandise trade registered a surplus of US$260.33mn which was 89.98 percent higher than the surplus of US$137.03mn recorded in 2013. This was on account of an 11.90 percent contraction in import payments outweighing a 4.61 percent drop in export receipts. Receipts from the mineral sub-sector declined by 21 percent and constituted the main contributory factor for the decrease in total export proceeds. The significant drop in the international price of iron ore accounted for the decline in receipts from the mineral sub-sector. However, proceeds from the agriculture subsector -*notably fish & shrimps*- increased significantly, partly accounting for the expansion in the trade surplus. The level of gross international reserves was recorded at US$553.51mn as at end-December 2014, equivalent to 3 months of import cover. With the outbreak of Ebola towards the end of the first half of the year, the exchange rate of the Leone which had remained relatively stable until June, came under pressure as foreign exchange inflows especially from the mineral sub-sector contracted. These constraints were further reinforced by increased demand for foreign exchange for evacuation/relocation as well as importation of various essential commodities. The country's stock of external debt was recorded at US$1,081.56mn, at end December 2014, representing a 5 percent increase over the US$1,057.38mn recorded in 2013.

5.1 International Trade

During the year under review, the value of foreign trade declined by US$297.58mn (8.05%) to US$3,399.34mn. Notwithstanding this however, the country recorded a trade surplus of US$262.95mn, almost 92 percent above the US$137.03mn surplus recorded in 2013 mainly as a result of the disproportionate decline in merchandise import (12%) and export (4.5%) which were enough to generate a trade surplus.

Table 8

International Trade and Reserves (US$'000)				
	Jan - Dec'13	**Jan-Jun'14**	**Jul-Dec'14**	**Jan - Dec'14**
1	5	3	4	5
Merchandise Imports	**1,779,942.9**	**880,439.2**	**687,752.5**	**1,568,191.7**
Food *of which*	357,815.1	196,844.6	139,850.1	336,694.7
Rice	129,385.3	78,578.6	42,140.9	120,719.5
Beverages and Tobacco	32,538.3	17,108.4	16,449.3	33,557.7
Crude Materials	29,630.2	24,948.1	13,124.2	38,072.3
Mineral Fuels and Lubricants of Which	415,970.4	281,125.9	208,629.7	489,755.7
Fuel	376,072.0	265,139.2	186,688.8	451,827.9
Animal and Vegetable Oils	14,068.3	3,162.5	5,561.0	8,723.5
Chemicals	130,324.9	57,612.7	29,617.2	87,230.0
Manufactured Goods	145,390.7	67,662.5	48,279.3	115,941.8
Machinery and Transport Equipment	400,621.8	166,823.1	164,542.8	331,365.9
Other Imports	253,583.2	65,151.4	61,698.8	126,850.2
Merchandise Exports	**1,916,973.0**	**974,179.2**	**856,966.3**	**1,831,145.5**
Mineral Exports	**1,790,999.9**	**878,987.4**	**528,335.9**	**1,407,323.3**
Diamonds	185,667.4	105,868.1	101,921.0	207,789.1
Buaxite	13,815.9	20,767.7	18,063.5	38,831.3
Rutile	129,556.4	49,582.3	46,587.3	96,169.7
Gold	3,677.0	1,131.9	564.4	1,696.4
Ilmenite	2,920.5	4,376.4	2,402.7	6,779.1
Iron Ore	1,064,385.7	505,435.6	254,356.2	759,791.9
Zircom	723.6	211.0	109.5	320.4
Other Minerals/1	390,253.5	191,614.3	104,331.2	295,945.5
Agricultural Exports	**19,999.2**	**10,525.3**	**280,879.7**	**291,405.0**
Coffee	2,815.9	2,372.5	380.4	2,752.9
Cocoa	8,964.7	7,904.7	17,779.4	25,684.1
Piassava	15.0	-	-	**-**
Fish and Shrimps	8,203.6	248.1	262,719.9	262,968.0
Others	**80,911.9**	**53,872.9**	**16,651.4**	**70,524.4**
Re-exports	**25,062.1**	**30,793.6**	**31,099.2**	**61,892.8**
Trade Balance	**137,030.08**	**93,740.0**	**169,213.7**	**262,953.80**
Foreign Reserves ($mn)	**474.62**	**501.94**	**553.51**	**553.51**

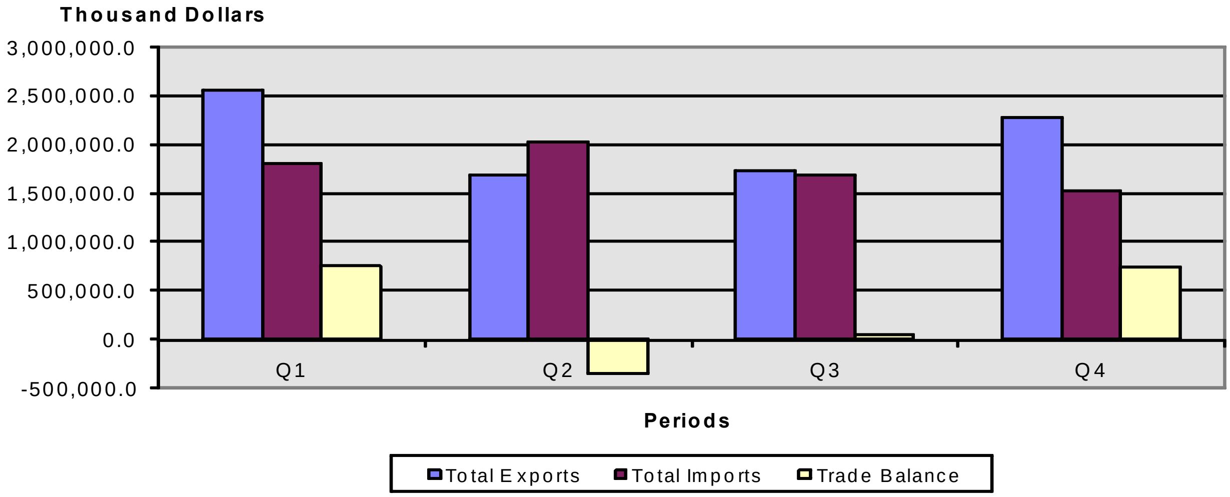
/1 Comprises ores and concentrates of Tin, Molybdenum and Silver as generated by ASYCUDA++ at Customs

Sources: Customs and Excise Department, and Gold & Diamond Department

5.1.1 Exports

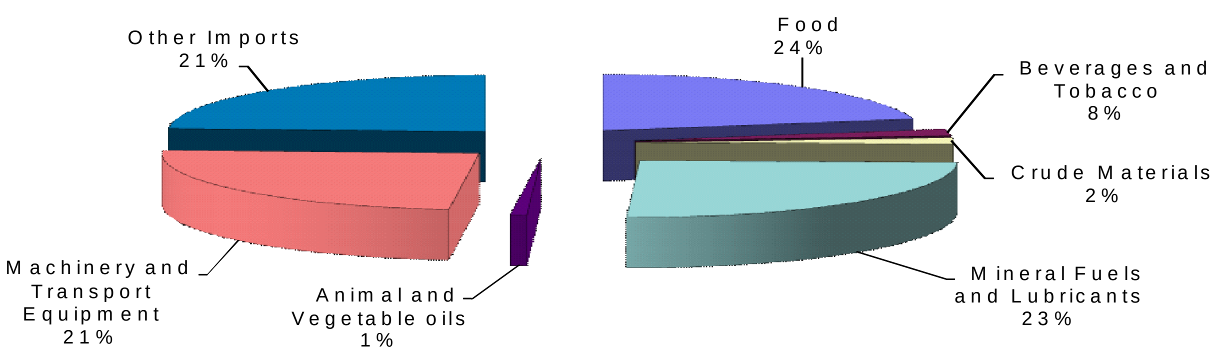
Export earnings for the review period declined marginally by 4.5 percent to US$1,831.15mn from US$1,916.97mn reported in 2013. The reduction in export earnings could be attributed to the significant decline in mineral exports; notably receipts from exports of iron ore, rutile, gold, other minerals and Zircon. Export receipts generated by the mineral sub sector was recorded at US$1,407.32mn (accountingfor 76.9 percent of total exports) reflecting a 21.4 percent reduction from US$1,791.00mn registered in 2013. A total volume of 594.37 thousand carats of diamonds valued at US$207.79mn were exported in 2014 relative to 604.74 thousand carats valued at US$185.67mn exported in 2013. This comprised 503.94 thousand carats of gem and 90.43 thousand carats of industrial diamonds, indicating that more quality diamonds were exported during the review period. The volume of iron ore export increased

Chart 9. External Trade - 2014



by39.0 percent to 18,877.45 thousand metric tons. However, corresponding aggregate receipts fell by 28.6 percent to US$759.79mn, indicating a softening of world market price for the ore. Accordingly, the share of iron ore receipts in total export value dropped to 41.6 percent in 2014 from 55.5 percent in 2013. Export volumes of rutile, gold and zircom declined during the year from 149.54 thousand metric tons, 3,099.53 ounces and 158.50 thousand metric tons to 117.90 thousand metric tons, 1,474.96 ounces and 1.6 thousand metric tons respectively, in 2014. Their corresponding values also declined by 25.8 percent to US$96.17mn, 53.9 percent to US$1.7mn and 55.7 percent to US$0.32mn, respectively. Export of ñother mineralsò (comprising ores and concentrates of Tin, Zinc. Molybdenum, Aluminium and Silver as generated by ASYCUDA++) also declined from 4,099.42 thousand metric tons valued at

Chart 10: Composition of Imports 2014



US$390.3mn in 2013 to 4,091.42 thousand metric tons valued at US$295.9mn in 2014. Export volumes of both Bauxite and Ilmenite on the other hand increased from 447.85 thousand metric tons and 12.17 thousand metric tons in 2013 to 1,145.33 thousand metric tons and 37.66 thousand metric tons in 2014 respectively. Corresponding values also increased by 181.06 percent to US$38.83mn and 132.12 percent to US$6.78mn, respectively.

Export receipts from the agricultural sector improved significantly during the review period with proceeds increasing from US$20.00mn in 2013 to US$291.40mn in 2014, representing a net increase of US$271.41mn. This performance was driven mainly by increases in fish & shrimps and cocoa exports. The volume of cocoa exports in 2014 amounted to 8.8 thousand metric tons, 142.3 percent above the 3.6 thousand metric tons recorded in 2013. The corresponding value increased by 186.50 percent to US$25.68mn. Coffee beans on the other hand declined in volume terms from 2.5 thousand metric tons valued at US$2.82mn in 2013 to 1.28 thousand metric tons valued at US$2.75mn in 2014. Export earnings generated from fish & shrimps were outstanding with a net increase of US$254.76mn from US$8.20mn in 2013 to US$262.97mn in 2014. The increase in exports receipts could possibly be attributed to the diversion of the products to non traditional markets (including Korea, China, Vietnam etc) with more flexibility in their regulations compared to the EU market which continues to impose strong restrictions on fish export from Sierra Leone.

5.1.2 Imports

Total import bill in 2014 contracted by 11.9 percent from US$1,779.9mn recorded in 2013 to US$1,568.2mn. With the exception of mineral fuels & lubricants, the import bill for all categories of imports declined during the review period. Total import bill for ñconsumer goodsò decreased by 6.3 percent to US$378.98mn, reflecting a drop in payments for the food sub-category which accounts for over 88.84 percent of consumer items. Payments for 407.16 thousand metric tons of rice imported during the reporting period amounted to US$120.72mn, representing a 6.7 percent decrease over payments for the 332.48 thousand metric tons valued at US$129.39mn in 2013. Total import bill for Animals & Vegetable oilò category at US$336.69mn was 37.9 percent lower than that in 2013. Meanwhile ñBeverage & Tobaccoò imports increased by 3.1 percent to US$33.56mn. Import values for ñManufactured goodsò declined by 39.2 percent to US$242.79mn in 2014 relative to the previous year. Import bill for ñIntermediary goodsò; (comprising chemicals and crude materials) was recorded at US$125.30mn, down 21.7 percent compared to the US$159.96mn recorded in 2013. The chemical sub-category declined by 33.1 percent to US$87.23mn while crude materials on the other hand increased by 28.5 percent to US$38.07mn. Import outlays on ñMachinery & transport equipmentò followed the same pattern, declining by 17.3 percent to US$331.37mn compared to US$400.62mn in the previous year. The import value for petroleum products (ñMineral fuel & lubricantsò) and ñFuelò increased by 17.7 percent and 20.1 percent to US$489.8mn and US$451.83mn respectively.

5.2 International Reserves

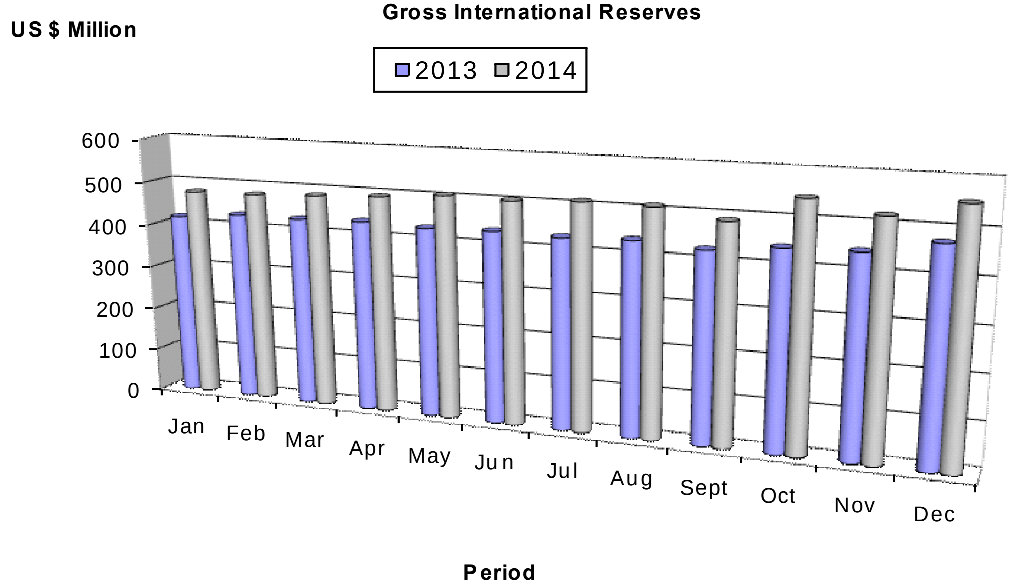
The gross external reserves position of the Bank of Sierra Leone as at end 2014 was recorded at US$553.59mn, improving by 16.5 percent over the US$474.96mn recorded in December 2013 and adequate to cover at least 3 months of import. The improvement in the reserves position was driven mainly by the increase in inflows which outpaced outflowsduring the review period. Cumulative inflows amounted to US$311.47mn and were 83.09 percent ahigher than the US$170.12mn reported in 2013. Inflows for the most part increased as a result of the significant boost to Aid disbursements, triggered principally by the countryôs development partners in support of government effort to combat the Ebola outbreak tduring the review period.

Similarly, cumulative outflows increased to US$213.51mn exceeding the US$116.24mn recorded in 2013. Outflows increased mostly on account of BSLôs intervention in the wholesale foreign exchange market to support private sector import requirements for essential commodities in the weekly auction.

Significant inflows during the year comprised aid disbursement in the sum of US$218.40mn; of which US$52.18mn was in respect of IMF disbursement under the Extended Credit Facility (ECF) program for Balance of Payments (BOP) support and the augmentation of access facility for budgetary support to ease the pressures caused by the Ebola epidemic, World Bank loan disbursements in the amount of US$61.06mn in respect of budgetary support and Ebola response, European Union (US$28.21mn) in respect of poverty reduction budgetary support, disbursement from the African Development Bank in the amount of US$30.63mn, budgetary support from UK/DFID in the sum of US$25.85mn; Other disbursements included US$11.23mn being mainly receipt of funds from the European Union by order of Sierra Rutile, other multilaterals and bilaterals (US$5.04mn), grant by G7 Timor Leste in respect of Ebola support (US$2.00mn), US$1.47mn being foreign currency purchases from IDA/World Bank and IDB disbursement of US$0.65mn for various projects. Other inflows include export receipts in the amount of US$53.19mn of which, African Minerals (US$19.53), Sierra Rutile (US$7.77mn), other mining receipts (US$8.02mn), Koidu Holdings (US$7.36mn) and London Mining Company (US$4.43mn). Diamond exportersôincome tax and license fees amounted to US$4.23mn, fishing royalty (US$1.34mn), Maritime administration (US$1.02mn), other government receipts (US$20.90) and privatization receipts US$17.10mn.

Noteworthy outflows comprised US$60.03mn being private sector support through the weekly foreign exchange auction, printing of currency (US$1.50mn), government travel and other government expenditures in the amount of US$52.45mn, wages and other allowances to Embassies and Missions (US$17.53mn), payments for electricity support to Japanese government (US$18.00mn), US$2.54mn being Bank of Sierra Leoneôs utilization for banking related issues, expenditures on government infrastructural projects (US$19.30mn), US$2.64mn being payments to AfDB in respect of Ebola response, subscription to international organization (US$1.82mn) .Other outflows included debt service payments of US$36.48mnof which; other multilaterals and bilateral creditors (US$14.23mn), IMF (US$12.18mn), OPEC/OFID (US$4.23mn), World Bank (US$3.60mn), AFDB (US$1.47mn) and IFAD (US$0.78mn) respectively.

Chart 11
Gross International Reserves



5.3 Foreign Currency Management

The Bank of Sierra Leoneõs policy objective for foreign currency management continues to remain the holding of reserves in currencies to match the SDR and to meet short term liquidity for payments in respect of goods and services, debt service payments and private sector support. Table II shows holdings of foreign currency deposits by the Bank of Sierra Leone as at end December, 2013 and 2014. As at end December 2014, 28.57 percent of foreign exchange deposits were held in SDRs, 51.88 percent in United States Dollars, 19.24 percent in Pound Sterling, 0.22 percent in Euro and 0.09 percent in Japanese Yen.

Table 9

Foreign Currency Management				
	Dec-14	% of Total Bal.	Dec-13	% of Total Bal.
US DOLLAR (Mn)	296.55	51.88	240.20	50.73
POUND STERLING (Mn)	109.98	19.24	51.90	10.96
EURO (Mn)	1.26	0.22	16.24	3.43
JAPANESE YEN (Mn)	0.51	0.09	0.62	0.13
SDR (Mn)	163.30	28.57	164.54	34.75
TOTAL BALANCES	**571.60**	**100.00**	**473.50**	**100.00**

5.4 Investment Activities

The Bankõs external investments were held in US$, GBP and SDR in compliance with the 2014 investment guidelines. During the period January to December 2014, the Bank invested in short term fixed deposits with duration ranging from one month and overnight sweep facility with the FRB. Returns on the Bankõs investment currencies were influenced by the amount invested, the rate of interest and the duration of the investment.

The GBP and SDR performed favourably while the US$ performed less favourably than what was budgeted, as a result of the decline in interest rate during the period. The GBPõs favourable performance was as a result of the slight increase in UK interest rate as against what was budgeted. Interest rate in the Euro zone remained negative for most of the period under review. The Bank also took action to sell off its Euro holdings derived from the EU disbursements to avoid loss of reserves evidenced by the depreciation of the Euro against the US$.

5.5 Exchange Rate Movement

The outbreak of Ebola Virus Disease (EVD) in May 2014 introduced greater uncertainties in the foreign exchange market, which started to show up in June 2014. Several businesses/companies especially in the mining, agriculture and tourism sectors scaled down their operations resulting in the decline of foreign exchange inflows. International Airlines suspended their flight operations in Sierra Leone, adversely affecting foreign exchange receipts from tourism as the number of tourist arrivals dropped to zero, forcing most tourist facilities to close down. Furthermore, the importation of foreign currency banknotes by commercial banks became more expensive and difficult, also impacting on the exchange rate. Nonetheless, the demand for foreign exchange increased significantly to finance the importation of essential products including medical supplies, rice and petroleum products.

The exchange rate remained relatively stable during the first half of 2014, but came under intense pressure following the outbreak of the Ebola Virus Disease (EVD) in May 2014. The nominal exchange rate of the Leone against other international currencies depreciated with increased parallel market premium and consequent pass-through effect on domestic prices. Inflows from the mineral sub-sector which accounts for the bulk of foreign exchange supply were stifled, while demand for foreign exchange increased for importation of various essential products including rice, fuel and medical supplies as well as for evacuation and relocation purposes. In July 2014, the Bank of Sierra Leone relaxed the foreign exchange controls which helped to calm the mounting exchange rate pressures but the premium remained high. To meet the increased demand for imports, particularly of food, pharmaceutical and petroleum products, the Bank of Sierra Leone (BSL) increased its weekly sale of foreign exchange from US$ 0.5million in June 2014 to US$3 million in October 2014 and conducted five wholesale foreign exchange operations amounting to US$30 million in October and December 2014.

Consistent with this development, the Leone exchange rate vis-à-vis the United State Dollar depreciated in the Parallel market by 8.67 percent, BSL auction by 5.50 percent, official market by 4.43 percent, commercial banks by 4.27 percent and bureau by 3.30 percent, averaging Le4,741.54/US$1, Le4,571.88/US$1, Le4,524.30/US$1, Le4,515.71/US$1 and Le4,477.69/US$1, respectively. Consequently, the premium between the Official and the Parallel rate widened by 4.80 percent from Le30.63/US$1 in 2013 to Le217.25/US$1 in the review period.

5.6 Sectoral Distribution of Auction Funds in 2014

The Bank of Sierra Leone in 2014 continued to provide the needed foreign exchange to support private sector activity through the weekly foreign exchange auction system in order to bolster the importation of essential commodities. As a result of the Ebola shock, the Bank increased its sales of foreign exchange to the private sector by 184.62 percent to US$82.93mn in the review period from US$29.14mn in 2013.

Table 10

Sectoral Distribution of Auction Funds (US$'000)

Sector	Jan - Dec 2014	Jan - Dec 2013	% of Total amount in 2014
Industries	16,570.77	12,361.00	19.98
General Merchandise	20,219.07	5,393.00	24.38
Oil Companies	25,505.80	1,200.00	30.76
Rice	20,629.36	10,076.00	24.88
Total	**82,925.00**	**29,030.00**	**100.00**

Chart 12
Sectoral Distribution of Auction Funds(US$'000)

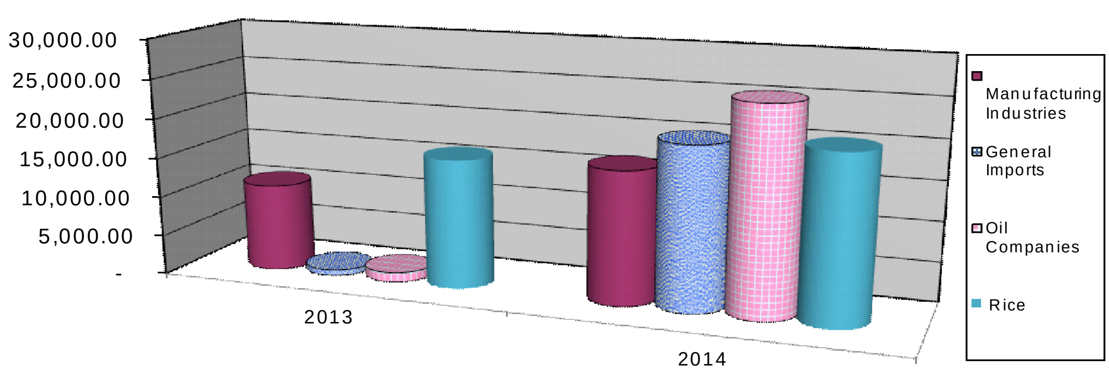


Table 11

BSL Foreign Exchange Cash Flow (in US$Mn)		
	Jan - Dec 2014	**Jan - Dec 2013**
Inflows	**314.72**	**169.98**
Receipt from exports	**53.18**	**50.12**
Rutile	7.77	7.79
Bauxite	0.20	0.00
Diamond license fees	0.15	0.43
Diamond exporters income tax	4.08	4.44
Fishing Royalty/license	1.34	0.30
Maritime Administration	1.02	0.21
Other Government /1	20.83	19.95
Others	0.84	1.02
Revenue for Infrastructural Project.		
African Minerals Mining co.	19.53	21.21
London mining	4.44	8.06
Koidu Holdings	7.35	1.66
Other Mining Receipts	8.02	5.95
Petroleum Resources	0.00	21.00
Privatization	17.10	2.62
Aid Disbursements/BOP support	**221.74**	**75.05**
IMF	13.66	13.66
IMF Budget Financing	39.84	0.00
AFDB	18.35	
AFDB (ERRP 4)	12.28	0.00
G7 Timor Leste Ebola Response	2.00	0.00
UK/DfID	25.44	21.58
World Bank	55.06	0.00
World Bank Loan for pay reform	0.00	7.70
WB Loan (fiber optic refund & social safety net)	6.00	0.00
EU	29.93	11.96
EU (Sierra Rutile)	12.03	
IDA/World Bank (Leones sold)	1.46	4.83
Other Multilaterals	5.04	0.00
IDB	0.65	0.43
HIPC Flow Relief	0.00	0.00
New SDR Allocation	**0.00**	**0.00**

Among the highest allotments, Oil companies accounted for the bulk (US$25.51mn) which was 30.76 percent of the total foreign exchange sold during the year, followed by Rice Importers in the sum of U$20.63mn (24.88%). General Importers received a total allocation of US$20.22mn (24.38%) while allotment to Manufacturing Industries totalled US$16.57mn (19.98%).

5.7 Foreign Exchange Cash Flows

5.7.1 Supply/Purchases of Foreign Exchange by Commercial Banks

Total purchases of foreign exchange by the commercial banks for 2014 increased by 2.48 percent to US$679.66m compared to the total of US$663.20mn recorded in 2013. For the same period in 2013, it increased by 20.09 percent from US$552.23mn in 2012. The average monthly purchase for 2014 was US$56.64m whereas in 2013 and 2012 they were recorded respectively at US$55.27m and US$46.02m.

5.7.2 Supply/Purchases of Foreign Exchange by Forex Bureau

Total purchases by foreign exchange bureaux declined by 3.27 percent to US$32.37mn compared to a total amount of US$47.64mn recorded in 2013. Total purchase in 2012 amounted to US$39.41mn. The monthly average purchase by foreign exchange bureaux in 2014 was US$2.70 whilst that in 2013 was US$3.98mn and in 2012 it was US$3.28mn.

5.7.3 Sale of Foreign Exchange by Commercial Banks

The demand for foreign exchange is mostly for the purpose of settlement of current international transactions. The key players demanding foreign exchange includes oil marketing companies, rice importers, importers of food stuff and other manufactured goods and telecommunications companies.

Total sale of foreign exchange by commercial banks in 2014 increased by 15.76 percent to US$885.64mn compared to a total of US$765.04m recorded in 2013. In 2012, total sale was recorded at US$669.36mn. The average monthly sale for 2014 was estimated at US$73.80mn whilst that in 2013 and 2012 was put at US$63.75mn and US$55.78mn respectively.

5.7.5 Total Amount Offered, Demanded and Supplied in 2014

During the period January to December 2014, a total of US$91.50m was put on offer and US$82.93m was sold in the weekly foreign exchange auctions. The Auction offer amount was increased from US$0.5m to US$2.0m in September 2014 and to US$3.0m in October 2014 to meet the excess demand in the auction. Five wholesale auctions were carried out in the last quarter of 2014 to complement the supply of foreign exchange in the commercial banks. The weighted average auction rate depreciated by 10.05 percent from Le4,379.17 as at end 2013 to Le4,868.42 as at end 2014.

Table 14 below shows the amount offered, demanded and supplied in 2013 and 2014. It is noted that there was an increase in the amounts offered, demanded and supplied in 2014 as compared to 2013. As explained earlier, the increase was largely due to the increased demand for foreign exchange to meet critical imports amidst the EVD outbreak.

The sectoral distribution of auction funds for 2014 showed Oil companies accounted for the highest supply of 30.76 percent in 2014 compared to 4.13 percent in 2013. This was followed by Rice companies with 24.88 percent, general merchandise (including pharmaceuticals) of 24.38% and the Industry sector of 24.09 percent.

Table 11 Contd

BSL Foreign Exchange Cash Flow (in US$Mn)	Jan - Dec 2014	Jan - Dec 2013
Outflows	**116.78**	**116.78**
Payments for goods and services	**90.64**	**90.64**
Embassy/Missions	13.88	13.68
BSL	5.99	5.99
Stabilization & Cooperation Fund	0.00	0.00
Capital Subscription to WACB	0.00	0.00
Printing Currency	8.43	8.43
Government Travel	2.91	2.91
Other Government /2	16.68	16.68
New Infrastructure Projects (Roads)	6.37	6.37
New Infrastructure Projects (Energy & Water)	2.49	2.49
World Bank Healthy Emergency Ebola Response	0	0.00
AFDB Ebola Response	2.64	0.00
G7 Timor Leste Ebola Response	1.00	0.00
Subscription to intl. Organizations	2.03	4.85
Private Sector Support /3	82.93	29.03
HIPC related imports	0.00	0.00
Debt Service after debt relief	**34.81**	**26.14**
IMF	10.51	7.10
World Bank	3.60	2.59
AFDB	1.47	1.24
IFAD	0.78	0.09
Other multilaterals and bilateral	14.25	11.03
OPEC (CIP Arrangement)	4.20	4.10
Other Commercial Debt	0.00	0.00
Commercial debt Buy Back	0.00	0.00
Clearing of Arrears (EEC/EIB, Badea etc)	0.00	0.00

Of the US$885.64mn sold by commercial banks in 2014, 15.76 percent was sold to Oil marketing companies, 15.19 percent to rice importers and 4.87 percent to telecommunication companies.

As of end December 2014, total sale of US Dollar to rice importers, oil marketing companies and telecommunication companies amounted respectively to US$134.51mn, US$139.57mn and US$43.09mn whilst that in 2013 was respectively US$97.42mn, US$134.47mn and US$41.41mn.

5.7.4 Sale of Foreign Exchange by Forex Bureaux

Total sales by foreign exchange bureaux declined by 30.65 percent to US$33.04mn in 2014 compared to a total amount of US$47.64mn recorded in 2013. Total sales recorded in 2012 amounted to US$37.92mn.

5.7.6 Foreign Exchange Auction

The Bank of Sierra Leone continued to conduct weekly foreign exchange auction in a bid to improve market-based allocation of foreign exchange in a competitive, transparent and consistent manner. The foreign exchange auction mechanism was guided by the need to provide support to the private sector and to complement monetary operations by sterilizing excess liquidity from budgetary support inflows.

Table 12

Amount Offered, Demanded and Supplied in Foreign Exchange Auction (Thousand Dollars)

	2014	2013	% Change
Amount Offered	91,500.00	31,500.00	190.48
Amount Demanded	131,460.00	39,585.00	232.10
Amount Supplied	82,925.00	29,030.00	185.65

During the review period, the BSL sold a total amount of US$82.93m to the foreign exchange market, which reflected an increase of 185.65 percent, over the US$29.03m supplied in 2013. The increase in the amount supplied was driven by the increased demand for foreign exchange to meet private sector import requirements, particularly for food, petroleum products, pharmaceuticals and other general merchandise. The foreign exchange auction accounts for only 3 percent of total volume of foreign exchange supplied in the market. Nonetheless, its effectiveness is determined by the need to sterilize foreign financed budget support by complementing monetary policy management and smoothing volatility in the market.

5.7.7 Market Outlook

As a result of the increased inflow of foreign exchange to support governmentøs effort in the fight against Ebola coupled with the gradual ebbing of the crisis, confidence had slowly returned to the market and the uncertainties that hitherto characterized the outlook of investors since the outbreak of Ebola, started to fade away. Thus, the market is now showing signs of stability. However, the stability of the exchange rate will continue to be challenged by other macroeconomic fundamentals.

6.0 External Debt Management

Sierra Leoneøs total disbursed and outstanding official long-term debt, including principal arrears as at end December 2014, was recorded at US$1,081.56 million compared to US$1,057.38 million at end December 2013. Total debt outstanding continued to be dominated by debts owed to multilateral creditors, accounting for 67.24 percent of the total, followed by that owed to commercial creditors accounting for 18.12 percent. The residual 14.64 percent was owed to other bilateral creditors. The principal multilateral creditor was the World Bank with 21.95 percent of total debt owing.

The stock of principal and interest arrears owed to all creditors is shown in Table 16. A total of US$221.61 million in stock of disbursed and outstanding debt was in relation to long outstanding arrears owed to commercial creditors.

6.1 Debt Developments in 2014

In support of Sierra Leone's economic and financial program under the IMF supported Extended Credit Facility (ECF), the Executive Board of the IMF approved the disbursement of the first tranche under the ECF program in the sum of SDR8.89m (US13.74m) in July 2014. On 14th September 2014, the Government of Sierra Leone requested the IMF for an augmentation of access under the ECF program to support the government's budget operations and additional financial needs generated by the Ebola outbreak. To this end, SDR25.92mn (US$39.84mn) was disbursed by the IMF under the ECF program, as budgetary support. Sierra Leone also benefited from other donor support including the World Bank, the African Development Bank and the European Union towards the fight against Ebola.

Total programme and project disbursements received from external creditors amounted to about US$86.29mn. Of this, US$6.49million came from the World Bank's International Development Association (WB/IDA); USUS53.58 mn from the International Monetary Fund; US$13.74 mn. from the African Development Bank and the residual of US$12.48 mn from the Islamic Development Bank (IDB), the Organization of Petroleum Exporting Countries (OPEC), the International Fund for Agricultural Development (IFAD), the Ecowas Bank for International Development (IBID), the Kuwaiti Fund, EXIM Bank of Korea and BADEA under various projects. During the period under review, the Government of Sierra Leone continued to make timely debt service payments to all external creditors.

6.2 Currency Composition of Debt

The currency composition of Sierra Leone's Disbursed Outstanding Debt is shown in the Table below. It depicts the amount of debt classified by currency of liability and the Leone equivalent. The Special Drawing Rights (SDRs) and the United States Dollar (US$) continued to constitute the major currencies that dominate Sierra Leone's debt profile. The SDR accounted for 53.86 percent while the US Dollar accounted for 26.45 percent as at end 2014. Loans from IMF and IDA are denominated in SDRs which accounts for the highest percentage of SDRs in total debt.

6.3 Debt Indicators and Debt Service Payment

Debt service payments made during the reporting period increased by 36.36 percent from US$28.22 million in 2013 to US$38.48 million in 2014. This increase is mainly a result of the maturities of principal repayments falling due on most of the loans. The debt indicators in Table 15 are reflected in nominal terms.

Table 13

Disbursed Outstanding Debt, including Principal Arrears as at End December 2014 classified by currency of liability ('000)

	Dec. 2013			Dec. 2014		
Currency	Debt in Foreign Currency	Total debt in Le	% of total	Debt in Foreign Currency	Total debt in Le	% of total
Chinese Yuan	122,846.00	89,193,350.00	2.97	115,113.43	92,887,326.71	2.69
EURO	12,250.00	74,448,056.00	2.48	12,118.87	73,745,246.38	2.13
British Pound	1,715.00	12,471,398.00	0.42	3,142.66	24,468,622.52	0.71
Japanese Yen	820.00	34,335,830.00	1.14	810.67	33,967,188.32	0.98
Kuwaiti Dinar	3,351.00	52,132,047.00	1.74	3,095.84	52,836,649.26	1.53
Saudi Riyal	56,310.00	66,059,188.00	2.20	59,244.20	78,977,251.10	2.28
United States Dollar	160,334.00	705,460,388.00	23.49	182,838.46	914,717,019.51	26.45
Special Drawing Rights	258,187.00	1,731,992,640.00	57.67	259,634.69	1,862,772,461.02	53.86
Islamic Dinar	35,395.00	237,439,401.00	7.91	45,204.15	324,321,288.58	9.38
Total		**3,003,532,298.00**	**100.00**		**3,458,693,053.40**	**100.00**

Source: External Debt Policy Section

Table 14

Stock of Sierra Leone's Disbursed Outstanding Debt (incl. Principal Arrears) (In millions of U.S. Dollars)				
	2013 December	percent of Total	2014 December	percent of Total
1. Bilateral				
Paris Club	0.00	0.00	0.00	0.00
Other Bilateral	139.73	13.62	140.12	12.99
TotaL Bilateral	**139.73**	**13.62**	**140.12**	**12.99**
2. Multilateral	**672.62**	65.55	**725.11**	67.24
World Bank (IBRD/IDA)	241.50	23.54	236.72	21.95
International Monetary Fund	136.57	13.31	158.96	14.74
African Development Bank/Fund	87.17	8.50	86.81	8.05
Other Multilateral	207.38	20.21	242.63	22.50
Total Multilateral	**672.62**	**65.55**	**725.12**	**67.24**
3. Other Creditors	18.25	1.78	17.75	1.65
4. Commercial & Short-Term Debt	195.45	19.05	195.43	18.12
Grand Total (1+2+3+4)	**1026.05**	**100.00**	**1078.42**	**100.00**

The stock of debt to export ratio increased slightly and the ratio of debt service to export increased in 2014, as a result of the decline in exports.

As Sierra Leoneôs debt situation remains at a moderate risk of debt distress, the Government seeks to maintain prudent borrowing policies by relying mainly on grants and highly concessional loans.

Table 15

Debt Indicators (in millions of U.S. Dollars)		
	2013	**2014**
Multilateral	**672.62**	**725.11**
Bilateral	**139.73**	**140.12**
Other Creditors	18.25	17.75
Total Commercial & Short-Term Debt	195.44	195.44
Total Stock of Debt	***1026.04***	***1078.42***
Debt Service Payments Due	29.38	35.06
Debt Service Payments Made	28.22	38.48
Exports	1,916.97	1,828.52
Gross Domestic Product	671.00	na
Debt Ratios (in %)		
	2013	**2014**
Stock of debt as a percentage of Gross Domestic Product	152.91	na
Stock of debt as a percentage of Export	53.52	58.98
Debt Service as apercentage of Export	1.47	2.10
Debt Service Payments Made (in Millions of US$)		
	2013	**2014**
Bilateral:	**4.62**	**6.00**
Paris Club Creditors	0.00	0.00
Others Bilateral	4.62	6.00
Multilateral (Net Amount)	**19.54**	**31.98**
African Development Bank/Fund	1.24	1.47
World Bank (IBRD/IDA)	2.59	3.60
International Monetary Fund	7.76	10.41
Other Multilateral	9.93	16.50
of Which: HIPC exclude savings on debt servi	1.96	0.00
Net Amount Paid	**7.97**	**16.50**
Commercial Creditors	**2.10**	**0.50**

Table 16. PRINCIPAL & INTEREST ARREARS AS AT END DEC - 2014 (US$Mn)

	Dec. 2013		Dec. 2014	
	Pri Arr	**Int Arr**	**Pri Arr**	**Int Arr**
Total External Debt	222.1	-	219.1	-
Total Commercial Obligations & Short-Term Debt 1/	195.4	-	193.4	-
Total Long-Term Debt, of which:	26.7	-	25.7	-
Multilateral	-	-	-	-
World Bank Group	-	-	-	-
IMF	-	-	-	-
Others				
Official Bilateral	8.4	-	8.4	-
Paris Club	-	-	-	-
Others 1/	8.4	-	8.4	-
Other Creditors	18.3	-	17.3	-
Executive Outcome	17.9	-	16.9	-
Chatelet Investment Ltd	0.4	-	0.4	

7.0 Financial Sector Development

Activities during the review period were geared towards the reform of Sierra Leone's financial sector, which includes 13 commercial banks with a network of 97 branches; the reform of other financial institutions including the mortgage financial institution; a stock exchange; 2 discount houses; 17 community banks; a consumer leasing company; 8 insurance companies; 42 foreign exchange bureaus and 11 micro-finance institutions, continues to be implemented under the Financial Sector Development Program (FSDP).

During the period, FSDP continued to receive support mainly from the World Bank and the African Development Bank, to implement reform programs in the financial sector geared towards greater efficiency in the sector. Activities initiated in 2013, including the recruitment of Consultants to draft Payments Systems rules and regulations of operations as well as to review the Payments Systems Act, are well advanced. Other activities including the recruitment of both an IT and HR Consultants are also far advanced.

The outbreak of the Ebola virus disease however posed serious challenges during the review period, resulting in a slowdown in the implementation of some of the scheduled activities. It is hoped that an end to the Ebola epidemic would bring about a turnaround in the pace of implementation of reform activities and by extension, a more stable and robust financial sector.

7.1 Bank Supervision

The Bank of Sierra Leone continued to adopt appropriate measures in the supervision of financial institutions, aimed at ensuring a safe stable and sound financial system. During the review period, the timeframe for licensing of commercial banks was revised from a fixed period of five years, depending on the performance of the bank, to an indefinite period of time in accordance with Section 11(5) and Section 15(1) of the Banking Act, 2011. During the review period also, the International Commercial Bank (SL) Limited was acquired by First Bank of Nigeria Plc and renamed FBN Bank (SL) Limited.

The Bank of Sierra Leone continued to monitor the expansion of bank branches to ensure that banks did not use depositorsô funds for such investment. This exercise is assessed against the backdrop of the banks capacity to fund these projects from their shareholders funds. The total number of bank branches in operation as at end December 2014 was recorded at ninety seven (97) compared to ninety four(94) at end December 2013.

The Bank of Sierra Leone, in collaboration with other agencies, continues to screen all appointees to the Boards and Senior Management positions of banks and Other Financial Institutions to ensure that only ófit and properö persons run the affairs of these institutions. In that regard, the BSL approved the appointment of twenty-five persons to the Boards of commercial banks.

In a bid to stem the growth of Non-Performing Loans (NPLs), which in part, is attributable to the high interest cost of credit that has culminated in repayment difficulties for customers, the Bank of Sierra Leone constituted a Working Group to liaise with the commercial banks and develop a uniform platform for determination of a Base/Prime lending rate which is the minimum rate at which banks are prepared to lend to their prime customers. The Working Group requested all the commercial banks to do a presentation explaining how they price private sector credits. The committee is in the process of finalizing the uniform framework which would constitute the basis for further consultations.

The partnership between financial institutions and the telecommunication companies continues to grow in the Sierra Leone Market. Approval was granted to Ecobank Microfinance (SL) Limited to partner with Airtel Mobile Money (SL) Limited to serve as settlement account holder and dealer in the Sierra Leone Market. Approval was also granted for FBN Bank (SL) Limited to partner with Money Gram International to engage in inward money transfer business and to introduce a Hybrid Savings Account in the Sierra Leone market. Registration certificates were issued to two more Microfinance institutions: Source of Hope Microfinance Limited and Association for Rural Development (ARD), to engage in Credit-only Microfinance business in Sierra Leone.

The Bank of Sierra Leone held an informal meeting in February 2014 with the óDollar Boysô in a bid to encourage them to formalise their operations by establishing foreign exchange bureaux. During the meeting, they were assured of minimal financial costs if they were to apply for bureau licence. It was against this backdrop that licences were granted to USISK and City Hotel Foreign Exchange Bureaux.

The central bank continues to maintain a óBlack Bookô as a means of curtailing fraud in the financial system. Names of erstwhile severed (dismissed/terminated) staff of financial institutions are forwarded to the Banking Supervision Department for record purposes and to ensure that undesirable elements are not recycled in the industry. Banks are therefore required to refer to the Banking Supervision Department for clearance before recruiting new staff.

7.2 Commercial Banks

The assets base of the banks increased by 11.28 percent from Le 4.33 trillion in December 2013 to Le4.82 trillion in December 2014. This increase was mainly funded by the increase in deposit liabilities from Le3.44 trillion in 2013 to 3.95 trillion in 2014. Assets are mainly held in the form of Treasury bills investment, claims on foreign banks and loans and advances. Treasury bills represent 32.21 percent of total assets while claims on foreign banks and loans and advances represent 23.88 percent and 27.98 percent respectively.

Table 17

Commercial Banks operating in Sierra Leone (31st December 2014)

BANK	No. of Branches 2012	No. of Branches 2013	No. of Branches 2014	F/town	Waterloo	Bo	Moyamba	Pujehun	Njala	Kenema	Kono	Kailahun	Makeni	Magburaka	Lunsar	Lungi	Pepel	Bumbuna	Port Loko	Kabala	Kambia	**Total**
RCB	12	12	12	6	-	1	1	1	-	1	1	-	1	-	-	-	-	-	-	-	-	12
SLCB	13	13	13	5	1	1	1	-	1	1	1	-	1	-	-	-	-	-	1	-	-	13
SCB	3	4	4	3	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4
UTB	10	11	12	3	-	1	-	-	1	1	1	-	-	1	1	-	-	-	-	1	1	11
GTB	11	11	11	5	-	1	-	-	-	1	1	-	1	-	-	-	1	1	-	-	-	11
FIB	16	17	17	8	1	1	-	-	-	1	1	1	1	1	-	1	-	-	1	-	-	17
FBN	2	2	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
ECO	7	8	9	4	1	1	-	-	-	1	-	-	1	-	-	-	-	-	-	-	-	8
ACCESS	4	4	4	3	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	4
UBA	3	3	4	3	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	4
SKYE	1	2	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
ZENITH	4	4	4	2	-	-	-	-	-	1	-	-	-	-	-	1	-	-	-	-	-	4
KEYSTONE	3	3	3	3	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	3
Grand Total	**89**	**94**	**97**	**49**	**3**	**7**	**2**	**1**	**2**	**7**	**5**	**1**	**7**	**2**	**1**	**2**	**1**	**1**	**2**	**1**	**1**	**95**

Total deposits constituted the largest share of total liabilities representing 81.94 percent. This amount increased by 14.68 percent from 3.44 trillion in December 2013 to 3.95 trillion in December 2014. Demand deposits constituted 61.18 percent of total deposits while savings & term deposits accounted for 36.90 percent and other deposits accounted for 1.92 percent. Demand, savings & term deposits grew by 11.39 percent and 19.48 percent, respectively.

36.90 percent and other deposits accounted for 1.92 percent. Demand, savings & term deposits grew by 11.39 percent and 19.48 percent, respectively.

Shareholdersôfunds accounted for 12.01 percent of total liabilities, indicating that the industryôs assets are mainly funded by deposit liabilities as noted above. Shareholdersôfunds however declined by 1.37 percent from Le586.67 billion in 2013 to Le 578.63 billion in 2014.

Capital adequacy ratio recorded at 30.21 percent at end December 2014, was higher than both the minimum requirement of 15 percent and the 30.12 percent recorded in December 2013. Similarly, the industry tier one capital compared to risk weighted assets was 25.87 percent higher than the minimum requirement of 7.5 percent. Three banks were unlikely to meet the minimum unimpaired paid up capital requirements of Le30 billion after the conclusion of the on-going audit exercise.

Gross Loans and advances was recorded at Le 1.35 trillion in December 2014 compared to Le1.28 trillion in December 2013, reflecting an increase of 5.48 percent. The ratio of non-performing loans to total gross loans and advances was recorded at 33.44 percent compared to 22.42 percent in 2013, underscoring the continuing challenge of bad debts in the industry.

The share of import trade recorded at 19.51 percent accounted for the highest beneficiary of private sector lending by the commercial banks, followed by construction at 18.48 percent, Transport, Storage & Communication 11.10 percent, Business Services 9.19 percent, export trade 8.79 percent and Agriculture, forestry & fishing 6.37 percent. Other Trade and tourism and electricity, gas & water recorded the lowest at 1.65 percent and 1.68 percent respectively. The industry pre-tax profit was recorded at Le117.15 billion in December 2014 up 36.47 percent when compared to Le85.85 billion in December 2013.

Table 18
Commercial Banks Operating in Sierra Leone
Prudential Indicators (Unaudited)
(In Thousand Leones)

	31-Dec-13	31-Dec-14
1	3	3
Total Assets	**4,329,303,120**	**4,817,690,384**
Average Total Assets	4,092,757,343	4,401,355,218
Loans and Advances(Gross)	1,280,942,033	1,347,804,850
Bad Debt Provision	115,641,292	234,948,513
Interest in suspense	67,446,254	69,256,631
Loans and advances(Net)	1,097,854,487	1,043,599,706
Investment-TB, TBB, OFI*	1,156,953,679	1,568,259,387
Fixed Assets	197,347,591	207,753,344
Local Deposits:-	**2,062,432,369**	**2,597,879,840**
Demand	957,888,784	1,254,603,072
Savings	712,534,561	912,814,965
Time	392,009,024	430,461,803
Other Deposits	16,310,479	5,896,939
Foreign Deposits	**1,325,094,915**	**1,274,045,861**
Deposits with Financial Institutions	**38,544,532**	**69,930,298**
Capital:-		
Paid-up	403,717,542	425,583,213
Statutory & Other Reserves	120,595,555	135,920,216
Retained Earnings	62,402,642	218,763,213
Current profit	85,847,561	117,154,048
Primary Capital	473,972,580	442,484,891
Revaluation Reserves	49,687,063	49,687,063
Capital Base	485,244,446	516,671,912
Total Risk Weighted Assets	1,799,851,882	1,710,389,007
Capital Adequacy Ratio	26.96	30.21
Surplus/(Shortfall)%	11.96	15.12
Surplus/(Shortfall):Le	215,266,664	260,150,168
Average Shareholders' Fund	583,247,051	554,257,178

** TB - Treasury Bills TBB - Treasury Bearer Bonds OFI - Other Financial Institution*

Table 18Contd
Commercial Banks Operating in Sierra Leone
Prudential Indicators (Unaudited)
(In Thousand Leones)

1	31-Dec-13 2	31-Dec-14 3
Asset Quality		
Performing Loans	885,419,395	882,614,896
Non-Performing Loans	287,250,502	169,542,411
Loan Loss Provisions	(115,641,292)	(76,295,099)
Non- Performing as a % of Total Advances	22.42	14.74
Loan Loss Provisions as a % of Non-Performing	(40)	(45)
Profitability : Pre-Tax Profits	**85,847,561**	**121,442,436**
Post Tax Profits	57,561,218	86,082,875
Return on Assets	0.02	0.04
Return on Equity Funds	0.10	0.17
Liquidity:Liquid Assets		
Cash	200,130,550	186,363,543
Current Account with BSL	218,729,321	88,587,661
Treasury Bills	1,141,884,600	802,713,463
Placement with Discount Houses	10,570,162	17,771,653
Treasury Bearer Bonds	2,620,013	1,165,800
Cash Ratio	16.96	12.30
Overall Liquidity Ratio	72.45	49.08
Surplus/(Shortfall) (%)	43.16	20.34
Surplus/(Shortfall) (Le)	890,198,135	333,214,840
Foreign Assets:	**1,335,979,561**	**1,236,702,594**
Foreign Currency(cash)	69,101,938	73,560,362
Balance with Other Banks abroad	1,251,843,156	1,121,106,209
Foreign Other Assets	15,034,467	42,036,023
Foreign Liabilities:	**1,337,494,218**	**1,173,902,175**
Foreign Deposits	1,325,094,915	1,152,968,313
Foreign Other liabilities	9,346,942	14,992,696
Foreign Cash Marginal	3,052,361	5,941,166
NET FOREIGN POSITION:		
Assets- Liabilities	(1,514,657)	62,800,419

One of the thirteen banks recorded a loss in the amount of Le1.13 billion during the review period. There was an increase in returns on asset ratio which stood at 2.66 percent in December 2014 from 2.10 percent in December 2013. The increase in profit impacted positively on the returns on equity which grew by 14.90 percent in December 2014 compared to 9.87 percent in December 2013.

The statutory requirement on cash ratio was adhered to during the review period as it was recorded at a surplus of 7.13 percent in December 2014, compared to a surplus of 4.96 percent in December 2013. Overall actual liquidity ratio was recorded at 78.86 percent in 2014, reflecting a surplus of 49.20 percent. The depreciation of the Leone against major foreign currencies is likely to continue in the near term. The share of foreign currency liabilities in total liabilities was recorded at 27.81 percent. The industry continues to remain resilient to foreign exchange risk as the aggregate and single net open positions for all the currencies remain within the statutory limits of ±25 percent and ±15 percent respectively.

7.3 Other Financial Institutions (OFIs)

7.3.1 Community Banks

The operations of community banks have been marred by poor corporate governance, weak internal controls, lack of basic infrastructure, weak information and communications technology. To complement the efforts of the Bank of Sierra Leone, the International Fund for Agricultural Development (IFAD) supported the restructuring of six (6) Bank of Sierra Leoneòs pioneered community banks and has also established eleven (11) more community banks and fifty-one (51) Financial Services Associations (FSAs).The BSL continues to perform on-site examination and off-site surveillance of community banks.

On 5th February 2014, the Apex Bank was licensed to carry out first level supervision of the community banks and Financial Services Associations operating in the country. The total assets and profit before tax of fifteen out of the seventeen community banks were Le41.05bn and Le2.50 bn. respectively, as at end December 2014. Total loans portfolio of the community banks was recorded at Le14.93 bn. at end December 2014.

Table 19

Community Banks operating in Sierra Leone (31/12/14)

Bank	Location
Marampa-Masimera Community Bank	Siaka Stevens Street, Lunsar
Yoni Community Bank	Freetown Road, Mile 91
Segbwema Community Bank	Sefadu Road, Segbwema
Mattru Community Bank	Bo Road, Mattru Jong
Zimmi Community Bank	Sulima Road, Zimmi
Kabala Community Bank	Makeni Road, Kabala
Pendembu Community Bank	Old Railway Line, Pendembu
Nimiyama Community Bank	Masimgbi Road, Njaiama Sewafe, Kono
Sandor Community Bank	Koidu Road, Kayima, Kono
Nimikoro Community Bank	Kundodu Road, Njaima Nimikoro
Tongo Field Community Bank	Kenema/Tongo Highway, Tongo Field
Koindu Community Bank	Liberia Road, Koindu
Simbaru Community Bank	Blama Road, Boajibu
Madina Community Bank	Kamakwie Highway, Madina Town
Kamakwie Community Bank	Fintonia Road, Kamakwie
Sumbuya Community Bank	Koribondo Road, Sumbuya
Taiama Community Bank	New Site Gba Town, Taiama

7.3.2 Discount Houses

There are two discount houses in the financial system: First Discount House and Capital Discount House. Their consolidated assets and profits before tax were recorded at Le12.22 bn and Le0.13 bn. respectively, as at 31st December 2014.

TABLE 20

Consolidated Balance Sheet of Discount Houses Balance Sheet as at 31st December 2014		
	2013	**2014**
ASSETS	*(Le'000)*	*(Le'000)*
Cash: *Local*	*1,875*	*1,977*
Foreign	-	-
Claims On:	-	-
BSL	*1,529,904*	*1,890,724*
Other Banks	*105,484*	*1,992,351*
Cash and Bank Balances	***1,637,263***	***3,885,052***
Loans/Repo	**2,701,307**	**75,727**
Investment:	**6,278,326**	**7,207,560**
Short-term:	3,756,226	6,982,560
Treasury Bills	6,061,731	5,669,432
Treasury Bearer Bonds	156,595	1,313,128
Commercial Paper	60,000	-
Long-term:	394,340	225,000
Banker's Acceptances	-	-
Securities	-	-
Other Assets	8,909,382	442,349
Fixed Assets	607,606	607,093
Total Assets	**20,528,224**	**1,217,781**
LIABILITIES		
Placements/deposits	**1,899,756**	**1,830,532**
Borrowings	**-**	**-**
Other Liabilities	**11,872,451**	**3,526,242**
Shareholders' Funds:	**6,756,017**	**6,861,007**
Paid up Capital	3,402,513	3,868,139
Statutory Reserves	1,713,844	1,940,964
Other Reserves	838,967	838,967
Share Premium	427,759	427,759
Current Profits	390,443	127,813
Retained Profits	*(17,509)*	*(342,635)*
Total Liabilities	**20,528,224**	**12,217,781**

7.3.3 Foreign Exchange Bureaux

The number of licensed Foreign Exchange Bureaux operating in the country as at 31st December 2014 was forty-three (43). Consolidated purchases and sales of the three major foreign currencies namely; the United States Dollar, the British Pounds Sterling and the Euro are shown in the table below: -

Table 21. FOREIGN EXCHANGE BUREAUX TRANSACTIONS

	Dollars (US$)	Pounds (£)	Euro (€)
Purchases	84,358,371	8,105,268	123,645
Sales	83,991,176	8,001,260	84,700

7.3.4 Microfinance Institutions (MFIs)

7.3.4.1 Deposit-Taking Microfinance Institutions

There were initially two licensed Deposit-Taking Microfinance Institutions in Sierra Leone as of 31st December, 2014: Ecobank Microfinance (SL) Limited (EMSL) and Bank for Innovation and Partnership (BIP). Whereas BIP was licensed to operate as a deposit-taking MFI, it has currently limited its operations to one of credit-only MFI; thereby leaving EMSL as the only deposit-taking Microfinance Institution with an assets base of Le51.12 bn. and a pre-tax profit of Le 0.81 bn. at end December 2014.

7.3.4.2 Credit- Only Microfinance Institutions

Credit-only MFIs were issued certificates by the Bank of Sierra Leone as of 31st December 2014, there were nine (9) registered credit-only MFIs supervised by the Bank of Sierra Leone.

Table 22

Credit-only Microfinance Institution with certificate issued by the Bank of Sierra Leone as at 31st December 2014

Credit-only	Address
Brac Microfinance(SL) Limited	28 Old Lumley Road, Off Spur Road, Wilberforce, Freetown
A Call to Business Trading(SL) Limited	8 Off Gooding Drive, Babadorie-Lumley
Finance Salone	c/o Union Trust Bank
Salone Microfinance Trust Limited	13 Azzolini Highway, Makeni
Counterpart in Community Development and	350 Bai Bureh Road, Calaba Town, Freetown
Grassroots Gender Empowerment Movement	57 John Street, Freetown
Capital Finance Company	26A Big Waterloo Street, Freetown
Safe Microfinance	21 Suku Tamba Street, Bo Town
Association of Rural Development (ARD)	21 Liverpool Street, Freetown

Table 23

Licensed Foreign Exchange and their Branches in Sierra Leone (31/12/14)

No.	Bureaux	F/town	Bo	kenema	Makeni	Lungi	Kono	Kabala	Total
1	Afro Foreign Exchange Bureau Limited	5	1	1	1	-	1	-	**9**
2	Ayoub Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
3	Alphajor Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
4	Abu-Taraff Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
5	Albasco Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
6	Best Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
7	Blue Circle Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
8	City Centre Foreign Exchange Bureau Limited	1	1	-	-	-	-	-	**2**
9	Dem Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
10	Dev Kay Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
11	Dycar Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
12	Fadugu Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
13	Fatismed Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
14	First Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
15	Fofan Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
16	Frandia Foreign Exchange Bureau Ltd	2	-	-	-	-	-	-	**2**
17	Freetown Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
18	Galtech Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
19	Guru Nanak Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
20	Harry's Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
21	I B C Foreign Exchange Bureau	1	-	-	-	-	-	-	**1**
22	Kakua Foreign Exchange Bureau Ltd	1	1	-	-	-	-	-	**2**
23	Kallah Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
24	LeoneUK Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
25	Leigh Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
26	Malador Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
27	Manans Foreign Exchange Bureau Limited	1	1	1	1	-	-	1	**5**
28	Monorma Foreign Exchange Bureau	1	-	-	-	-	-	-	**1**
29	Navo's International Foreign Exchange Bureau	1	-	-	-	-	-	-	**1**
30	Nimo Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
31	Paramount Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
32	Pottal Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
33	Raju's Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
34	Rikban Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
35	Rumez Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
36	Sara Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
37	Tap Foreign Exchange Bureau limited	1	-	-	-	1	-	-	**2**
38	Tonisco Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
39	Vanbhari Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
40	Wickburn Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	**1**
41	Jaffa Foreign Exchange Bureau Limited	1	-	-	-		-	-	**1**
42	USISK Foreign Exchange Bureau Limited	-	-	-	-	1	-	-	**1**

Table 24

Deposit-Taking Microfinance Institutions with Certificate issued by the Bank of Sierra Leone as at 31st Dec. 2014	
Deposit-Taking	**Address**
Ecobank Microfinance (SL) Limited	1 Rawdon Street, Freetown
Bank of Innovation and Partnership Microfinance (SL) Limited	1 Collegiate Road, Off Wilkinson Road, Freetown

7.3.5 Mortgage and Savings Institutions

Home Finance Company (HFC) Mortgage and Savings (SL) Plc is the only Mortgage Company in Sierra Leone with total assets and pre-tax profit of Le137.94 bn.and Le3.65 bn.as at end December 2014 respectively.

7.3.6 Leasing Companies

The only licensed leasing company in the country is Consumer Finance and Leasing Company located at 13 Lightfoot Street, Freetown. The assets base of the company as at end December 2014 was Le2.04 bn.

7.4 Improving Access to Finance

- ✓ In a bid to improve rural financial intermediation, the Bank of Sierra Leone encouraged the growth of financial institutions, promoted financial literacy and consumer protection, reduced the vulnerability of nonperforming loans, and supported the developments of an efficient payments system, including mobile telephone-based banking, ATMs, money transfers, linkage banking and the downscaling of some commercial banksôactivities into microfinance, thus introducing new concepts/products and more competition.

- ✓ The Bank in partnership with IFAD continues to implement the second phase of the Rural Finance and Community Improvement Programme (RFCIP II) consistent with the objective of increasing sustainable access to finance. Key deliverables under the RFCIP II include the establishment of an Apex Bank to provide first level supervision to CBs and FSAs, establishment of a credit reference bureau for the CBs and FSAs and the opening of additional nine (9) CBs and twenty three (23) FSAs to serve the rural communities.

- ✓ It is however important to note that the Bank of Sierra Leone will continue to discharge its overall regulatory and supervisory responsibilities over the financial system, including the CBs, FSAs and the Apex Bank. In this regard, the Bank is currently strengthening its Research, Banking Supervision and Financial Markets Departments through capacity building and provision of logistical requirements to enable them provide adequate regulation and monitoring.

- ✓ The Bank is also considering the resuscitation of four existing financial institutions namely, the Post Office Savings Bank, the Sierra Leone Housing Corporation Savings and Loans Scheme, the National Cooperative Bank and the National Development Bank in a bid to facilitate the provision of small and medium to long term funds to particular sectors including agriculture, agro industries and manufacturing and small scale enterprises (SMEs) that are unable to secure commercial bank loans.

- ✓ Despite these initiatives by the Bank in 2014, a number of challenges still remain. These include the continuing existence of a significant number of unbanked, large informal sectors, high cost of credit and rigid conditions for credit, etc. In this regard, the Bank will continue, going forward, to promote financial literacy, introduce regulations on transparency in pricing and procedures, develop a comprehensive approach to consumer protection which incorporates the role of government, service providers and the consumers, promote capacity building and apex association by financial institutions, promote research in relevant aspects of the sector, encourage the development of new technology and agricultural products tailor made to meet the needs of the people, strengthen governance and ✓ The Bank in 2014 granted the Apex Bank license to operate and signed a memorandum of understanding with IFAD for the Apex Bank, to provide first level supervision to the CBs and FSAs. It is however important to note that the Bank of Sierra Leone will maintain itôs regulatory and supervisory responsibility over the financial system, including the CBs, FSAs and the Apex Bank.

7.5 Regulatory Framework

In the context of reform of the financial sector, the Bank continued to evaluate its prudential regulatory framework with a view to strengthen and re-orient it to have a system-wide focus, in line with international bureau for the CBs and FSAs and the opening of additional nine (9) CBs and twenty three (23) FSAs to serve the rural communities.

- ✓ The Bank in 2014 granted the Apex Bank license to operate and signed a memorandum of understanding with IFAD for the Apex Bank, to provide first level supervision to the CBs and FSAs. It is however important to note that the Bank of Sierra Leone will maintain itôs regulatory and supervisory responsibility over the financial system, including the CBs, FSAs and the Apex Bank.

7.5 Regulatory Framework

In the context of reform of the financial sector, the Bank continued to evaluate its prudential regulatory framework with a view to strengthen and re-orient it to have a system-wide focus, in line with international best practices. To this end, the Bank initiated the process of enacting the following Bills which were forwarded to the Minister of Finance and Economic Development to further the process:-

1. *The Borrowers and Lenders Bill*
2. *The Securities and Exchange Bill*
3. *The Collective Investment Bill*

The **Borrowers and Lenders Act** seeks to improve access to credit by widening the scope of collaterals usable by borrowers in their bid to obtain credit from lending institutions operating in the financial sector. Amongst the key features of this Act is the establishment of a Collateral Registry which all charges of moveable property shall be registered and searches and enquiries in respect of same will be made. It also creates the borrowers and lenders rights with respect to the said charges.

The **Securities and Exchange Act** will create the enabling environment required for the Bank of Sierra Leone to relinquish its current regulatory and supervisory role over the Stock Exchange to the Securities and Exchange Commission (SEC) and allow for greater deepening of the sector and expansion in the supply of long term capital through the Exchange in support of economic growth through private sector business. Its key features include the establishment of a Securities and Exchange Commission responsible for licensing, regulating and promoting trade through a dealership system as well as a Securities Tribunal to hear complaints and take disciplinary actions in respect of misconducts committed within the Exchange.

The **Collective Investment Scheme Act** will seek to support the establishment and operations of Collective Investment Schemes with a view to deriving benefits through synergy.

8.0 Payments System

Payments and settlement systems are crucially important to the smooth functioning of the economy. It is therefore the responsibility of central banks to promote sound and efficient payments and settlement systems.

In line with the above, aggressive strides were made by the Bank of Sierra Leone in collaboration with its partners, including the West Africa Monetary Institute (WAMI), the African Development Bank (AfDB), the World Bank and the commercial banks. The purpose was to achieve the modernisation of the Payments, Clearing and Settlement Systems, in a bid to improve on the efficiency of financial intermediation, enhancing the management of systemic risk, liquidity management, etc. The following were achieved:

8.1 Standardization of Payments instruments (Cheques)

During the period under review, standardisation of the major payment instrument (cheques) of the banking industry was finalised to facilitate the automated Clearing House facilities provided by the ACP/ACH system. Machine readable MICR encoded cheques are now being used for electronic processing and clearing of this instrument.

The introduction of standardized cheques has provided more controls over the payments process. In an integrated environment, vital data concerning cheques are now being exchanged electronically thereby minimizing the chances of fraud. It will, to a greater extent, bring about efficiency, accuracy and ensure best internal control/coverage of risk as well as reduce the turnaround time for the stakeholders.

8.2 Real Time Gross Settlement (RTGS) System

RTGS system is being introduced for large value payments in the interbank market in which commercial banks and the Bank of Sierra Leone are able to operate their accounts in real time from their own premises via computerized network between the BSL and the participating banks. Large value payments in Sierra Leone refer to payments with value above SLL50,000,000.00 (Fifty million Leones). It is also a system for settlement of clearing as well as securities transactions. This system ówent liveôon 2nd August, 2013 with the full participation of all banks in the country. Under the new arrangements, banks are now able to settle their transactions affecting their accounts at BSL (e.g. interbank lending/borrowing) immediately after the terms of the transaction have been agreed and executed between the banks. This however requires that the bank sending a debit instruction must have sufficient balance available in its account before the funds transfer takes place. The system effects final settlement of inter-bank fund transfer on a continuous, transaction-by-transaction basis throughout the processing day.

8.3 Automated Clearing House (ACH) System

This is the platform for processing low value, high volume transactions involving cheques, direct credits and direct debits. Low value payments in Sierra Leone refer to payments with value SLL50,000,000.00 (Fifty million Leones) and below. This system ówent live in Sierra Leone on 5th August, 2013 and is now up and running as a platform for processing low value, high volume transactions.

With the introduction of this system, clearing transactions are now processed within a cycle of T+1 days regardless of the location of the bank or branch as opposed to the manual clearing cycle of T+2 and T+9 days respectively for in town and inter-town cheques.

The introduction of the ACH has provided more controls over the clearing and settlement system and has greatly reduced the clearing cycle thereby making the system more efficient (processing transactions at minimum cost and at a faster rate) and creating business confidence.

8.4 Scripless Securities Settlement (SSS) System

The SSS otherwise known as the CSD (Central Securities Depository) is an electronic system for processing Government securities such as treasury bills and treasury bonds. The process involves bidding through an auction mechanism, secondary market transactions, etc. This system went live in Sierra Leone on 5th September, 2013 and has since been used for the conduct of treasury bills and treasury bonds auction as well as for secondary market transactions. This system has created efficiency in securities trading by reducing the time it takes to process these transactions as well as make available ready data for monetary policy.

8.5 Core Banking Application (CBA)

The bank, in addition to the above, also replaced its core banking system (home custom built) with a more robust and state of the art system (Temenos T24). The T24 system has created efficiency in transactions processing introducing more controls in the day to day operations of the bank.

8.6 Disaster Recovery (DR) SITE

During the review period, the Bank completed the construction of a state of the art DR Site which is now currently operational and synchronised with the main site? This site is fully powered and has direct connectivity with the main site which makes data replication seamless.

8.7 Ongoing Programs

a) Capacity Building in Payments Systems

The services of a World Bank Consultant has been contracted to assist with the development of capacity building in the Payments Systems Division which involves developing job descriptions and design of the operational procedures of the various payments systems. The Consultant is also assisting with the review of the organisational structure of the Division before making recommendations to the Bank on the way forward.

b) Development of Payments Systems Legal and Regulatory Framework

The services of a Consultant for Payments System Legal and Regulatory Framework have also been provided by the World Bank.

8.8 Outstanding Programmes

a) Development of Oversight Framework

As operator, catalyst and overseer of the Payments and Settlement Systems, the Bank is currently faced with the task of developing Payments System Oversight framework for an effective monitoring and functioning of the systems.

b) To further enhance efficiency in the timely delivery of payments services nationwide

The Bank is now working closely with the commercial banks for the establishment of a National Switching Company that would interconnect and interoperate the various payments systems of all the commercial banks.

9.0 Sierra Leone’s Performance under the West African Monetary Zone (WAMZ) Convergence Programme

Sierra Leone’s performance under the convergence criteria in 2014 indicated that the country was able to meet three out of the four primary convergence criteria - *single digit inflation, central bank financing of budget deficit and gross external reserves* - and one secondary criterion - *public investments financed from domestic receipts*.

9.1 Primary Criteria

9.1.1 Inflation **– 9.1 Primary Criteria**

9.1.1 Inflation **–** In spite of the inflationary pressures generated by the outbreak of Ebola, the criterion of single digit inflation was met as inflation was recorded at 7.85 percent at end December 2014. At the beginning of 2014, inflationary pressures moderated, reflecting a declining trend up until the second quarter before trending upwards at the rate of 6.74 percent in June 2014 to 7.45 percent in August and finally to 7.85 percent in December 2014. The closure of weekly markets, domestic travel restrictions and the fear of infection curtailed trading in food stuff which accounted for shortages leading to a general rise in the price level. Additionally, consistent depreciation of the Leone against the US Dollar during the second half of the year had a pass-through effect on prices of imported goods.

9.1.2 Fiscal Deficit/GDP Ratio **–** Given the decline in the country’s revenue generation *(mainly as a result of the sharp drop in mining revenue and the reduction in tax compliance)* coupled with increased government expenditures to finance the fight against Ebola, this criterion was missed, with fiscal balance moving from a surplus of 3.3 percent to a deficit of 10.3 percent of GDP. The recent decline in the international prices of iron ore compounded the impact of the Ebola crisis on the country’s revenue performance, which affected royalty revenues and export earnings.

9.1.3 Central Bank Financing of the Fiscal Deficit **–** This criterion was met during the review period as total central bank financing of government deficit amounted to 4.32 percent of previous year’s tax revenue which was well within the threshold of 10 percent of previous year’s tax revenue. This was mainly on account of the Bank of Sierra Leone’s strict enforcement of the limit on direct financing of government deficit within the statutory limit of not more than 5.0 percent of previous year’s domestic revenue.

9.1.4 Gross External Reserves/Months of Imports Cover **–** Gross external reserves position at end 2014 was encouraging, increasing by 16.5 percent from US$474.96mn in 2013 to US$553.59mn. The WAMZ benchmark of at least 3 months of imports cover was met as the reserves position was adequate to buffer at least 3 months of imports. This build up in reserves could partly be attributed to the continued disbursements of aid in support of the country’s effort to contain the Ebola crisis.

9.2 Secondary Criteria

9.2.1 Tax Revenue/GDP Ratio **–** The ratio of tax revenue to GDP declined from 10.21 percent in 2013 to 9.33 percent in the review period. This indicates a breach of the WAMZ target of at least 20 percent and confirms the fact that the outbreak of Ebola adversely affected tax revenue collection.

9.2.2 Salary Mass/Total Revenue **–** The ratio of wage bill relative to tax revenue criterion was missed. Its level at the end of 2014 reflected an increase of 75.06 percent over the 58.9 percent recorded in 2013. This relative increase in the wage bill reflects growth in the public sector wages while growth in tax revenue continued to be constrained by the Ebola crisis

Table 25

Status of Convergence

(Primary Criteria)					
Criteria	**Target**	**2011**	**2012**	**2013**	**2014**
Inflation (end period)	Single digit	16.9%	11.4%	8.2%	7.9%
Fiscal Deficit/GDP% (excl. grants)	Less than or equal to 4%	10.0%	8.1%	3.3%	-10.3%
Central Bank Financing/ Previous years tax revenue	Less than or equal to 10%	1.1%	0.0%	3.9%	4.3%
Gross External Reserves (Months of imports)	Greater than or equal to 3 months	2.4	3.1	3.0	3.0
(Secondary Criteria)					
Criteria	**Target**	**2011**	**2012**	**2013**	**2014**
Domestic Arrears	0	69,293	88,559	n.a	n.a
Tax revenue/GDP ratio	Greater than or equal to 20%	9.3%	9.6%	10.2%	9.3%
Salary Mass/Total Tax revenue	Less than or equal to 35%	58.4%	60.4%	5.9%	75.1%
Public Investment from Domestic receipts	Greater than or equal to 20%	28.7%	30.0%	22.55%	29.1%
Real Interest Rate	Greater than 0	10.4%	-4.9%	-3.0%	-4.1%
Exchange rate	Stable +/-15%	41.5%	40.9%	40.8%	45.3%

9.2.3 Public Investments from Domestic Receipts – The level of public investment financed from domestic resources increased from 22.55 percent in 2013 to 29.13 percent in 2014 and was higher than the WAMZ target of at least 20 percent. This improvement was mainly on account of governmentôs continued investment in infrastructure and other development activities.

9.2.4 Real Interest Rate – The positive real interest rate criterion *(measured by the difference between the average savings rate and inflation rate)* was not met. The real interest rate in 2014 was minus 4.1 percent, indicating deterioration from the minus 2.98 percent recorded in the preceding period. This development is an indication that interest rates on financial assets declined significantly during the reporting period relative to inflation rate which remained in single digit.

10.0 Human Resources Developments

10.1 Staff Strength

Total staff strength as at end December 2014 was 442, reflecting a decrease of 4.52% or 20 from 462 at end December 2013.

The variance in staff strength was recorded in the following categories:
Staff strength in the Professional, Sub-professional and Other Cadres recorded decreases as at end December 2013 to December 2014. Staff in the professional cadre decreased by 7 (seven) from 235 (two hundred and thirty five) in 2013 to 228 (two hundred and twenty eight) in 2014. Staff in the Sub-professional cadre decreased by 8 (eight) from 96 (ninety six) as at end December 2013 to 88 (eighty eight) as at end December 2014.

Staff strength in the Other cadres decreased by 8 (eight) from 106 (one hundred six) as at end December 2013 to 98 (ninety eight) as at end December 2014. The decreases was as a result of severance of members of staff in these categories

Management staff on the other hand recorded an increase of 5 (five), from 5 (five) as at end December 2013 to 10 (ten) as at end December 2014. This increase was due to the promotion of five staff from the Deputy/Assistant Director (Division Head) cadre to Head of Department (Director level).

The total permanent male staff amounted to 313 (three hundred and thirteen) as at end December 2014. Of this, 5 (seven) were Fixed Term Employees. The proportion of male staff including Fixed Term Employees to total staff strength was recorded at 70.81% as at 31st December 2014.

Total female staff as at end December 2014 was 129 (one hundred and twenty nine). Out of this, 13 (thirteen) were Fixed Term Employees. The proportion of female staff to total staff strength including Fixed Term Employees was recorded at 29.18%.

Total Fixed-Term Employees was 4.07% or 18 (eighteen) of total staff strength at end December 2014 recording a decrease of 2 (two) from 20 (twenty) as at end December 2013.

Table 26. STAFF STRENGTH AS AT DECEMBER 2013

CATEGORY	MALE	FEMALE	TOTAL
Management	4	1	5
Professional	149	86	235
Sub-Professional	65	31	96
Others	103	3	106
Total Permanent Staff	321	121	442
Fixed Term Employees	5	15	20
Grand Total	**326**	**136**	**462**

Table 27. STAFF STRENGTH AS AT DECEMBER 2014

CATEGORY	MALE	FEMALE	TOTAL
Management	7	3	10
Professional	148	80	228
Sub-Professional	58	30	88
Others	95	3	98
Total Permanent Staff	308	116	424
Fixed Term Employees	5	13	18
Grand Total	**313**	**129**	**442**

Table 28. SEVERANCE

A total of 26 (twenty-six) members of staff severed from the service of the Bank as shown below:

Resignation	6	
Retirement	14	
Deceased	1	
Retirement on Medical Grounds	1	
Voluntary Retirement	-	
End of Fixed Term Appointment	1	-
Termination	2	
Dismissal	1	
Position declared vacant	-	
Total	**26**	

Note: General Services (GS) Category refer to Driver, Cook/Steward, Barman, Waiter, Office Assistant, Gardener, Watchman, Cleaner, Handyman, Lift Operator, Technician, Carpenter & Generator Operator

Table 29. STAFF MOVEMENT AS AT DECEMBER 2013 AND 2014

CATEGORY	2013	2014
Recruitment	31	8
Contract	-	-
Resignation	14	6
Vacated	-	-
Dismissal	1	1
Deceased	4	1
Termination	1	2
Retirement	17	14
Voluntary Retirement	3	-
Retirement on Medical Grounds	1	1
End of Contract	3	1
Absorption from Contract to Permanent Staff.	2	-
Total	**77**	**34**

11.0 Board Matters

That the under-mentioned Non-Executive Board of Directors were appointed on the 5th and 7th May , 2014 in accordance with the Bank of Sierra Leone Act 2011, Section fifteen (15). The appointments will span for three (3) years and will end on the 4th and 6th May, 2017 respectively, whilst Mr. Sorie N. Dumbuya had been re-appointed for a further tenure effective 6th June, 2014.

Names of the Non-Executive Board of Directors:

	Name	**Appointment Date**
•	Mr. Sorie N. Dumbuya	6th June, 2014
•	Mrs. Rosaline Y. Fadika	5th May, 2014
•	P.C. Mohamed D. Benya V	7th May, 2014
•	Dr. Ritchard T. MôBayo	5th May, 2014
•	Mr. Shadrack E. Williams	5th May, 2014

That during the Year 2014 six, (6) Board Meetings were convened as follows:

•	487th Board Meeting	22nd April, 2014
•	Special Board Meeting	12th June, 2014
•	488th Board Meeting	26th June, 2014
•	489th Board Meeting	31st October, 2014
•	Special Board Meeting (Presentation on 2015 Consolidated Budget)	3rd December, 2014
•	490th Board Meeting	12th December, 2014

That there was an interregnum for the period 1st July to 16th July, 2014 following which was the appointment to the post of Governor and Deputy Governor for five (5) year term and as follows:

	Name	**Appointment Date**
•	Mr. Momodu L. Kargbo	17th July, 2014
•	Dr. Ibrahim L. Stevens	24th July, 2014

Bank of Sierra Leone Financial Statements
for the year ended 31 December 2014

Financial Position and Operating Results of The Bank for the year ended 31st December 2014

BACKGROUND

The Bank continues to prepare its annual accounts in line with the International Financial Reporting Standards (IFRS) as required by Section 57 of the BSL Act 2011 and current best practice.

It is worth pointing out that the Due from Government of Sierra Leone i.e. Ways and Means figure for 2013 was restated from Le21.47 billion to Le1.28 billion hence, the reduction in the total assets of FY 2013 of Le20.19 billion. This was as a result of the incorrect classification of the Treasury Main Account balance of Le20.19 billion in 2013 as a part of the Ways and Means.

Section 12(1) of the BSL Act 2011 requires the profits of the Bank to be calculated in conformity with International Financial Reporting Standards (IFRS), the effect of which is that both realized and unrealized exchange gains and losses are included in Net Profit. However, for a Central Bank, any distributions of profit in the form of dividends will be to Government which is its sole Shareholder.

In essence the distribution of unrealized 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) requires that all unrealized exchange gains are deducted from Net Profit for the purposes of calculating Distributable Earnings.

Please see below a reconciliation of the Financial Reporting Profit (inclusive of unrealized gains and losses) to the Operating Profit (exclusive of unrealized gains and losses).

In thousands of leones

		2014
Profit/(Loss) as per Audited Accounts		**143,572,073**
Less Revaluation Gains	(378,992,004)	
Add Revaluation Losses	194,203,821	
Net Revaluation Gains		(184,788,183)
Operational Profit/(Loss) for the year as per management Accounts		**(41,216,111)**

1. STATEMENT OF FINANCIAL POSITION

The Bank's overall financial performance improved with total assets increasing by 31% from Le3.43 trillion in 2013 to Le4.48 trillion as at 31st December, 2014 i.e. an increase of Le 1.05 billion.

The composition of total assets is depicted in the table below and the two pie charts that follow:

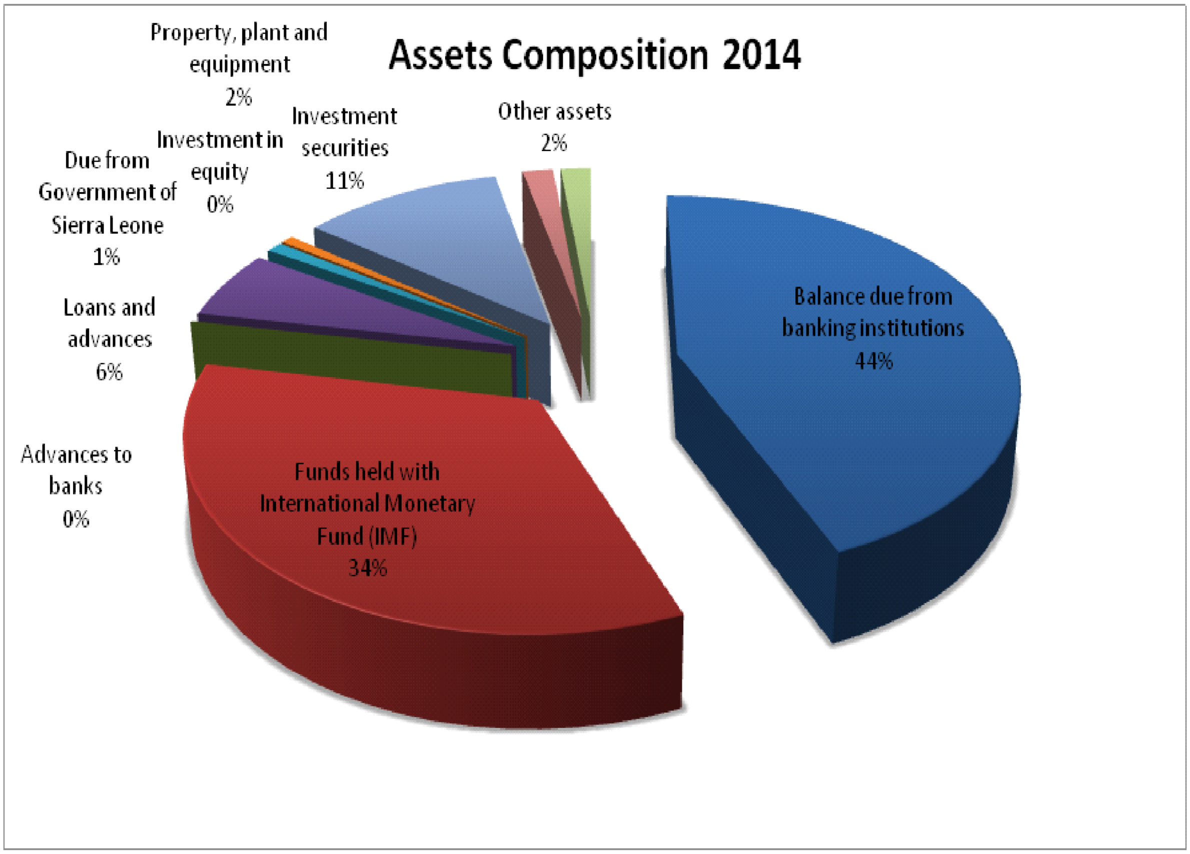
In thousands of leones

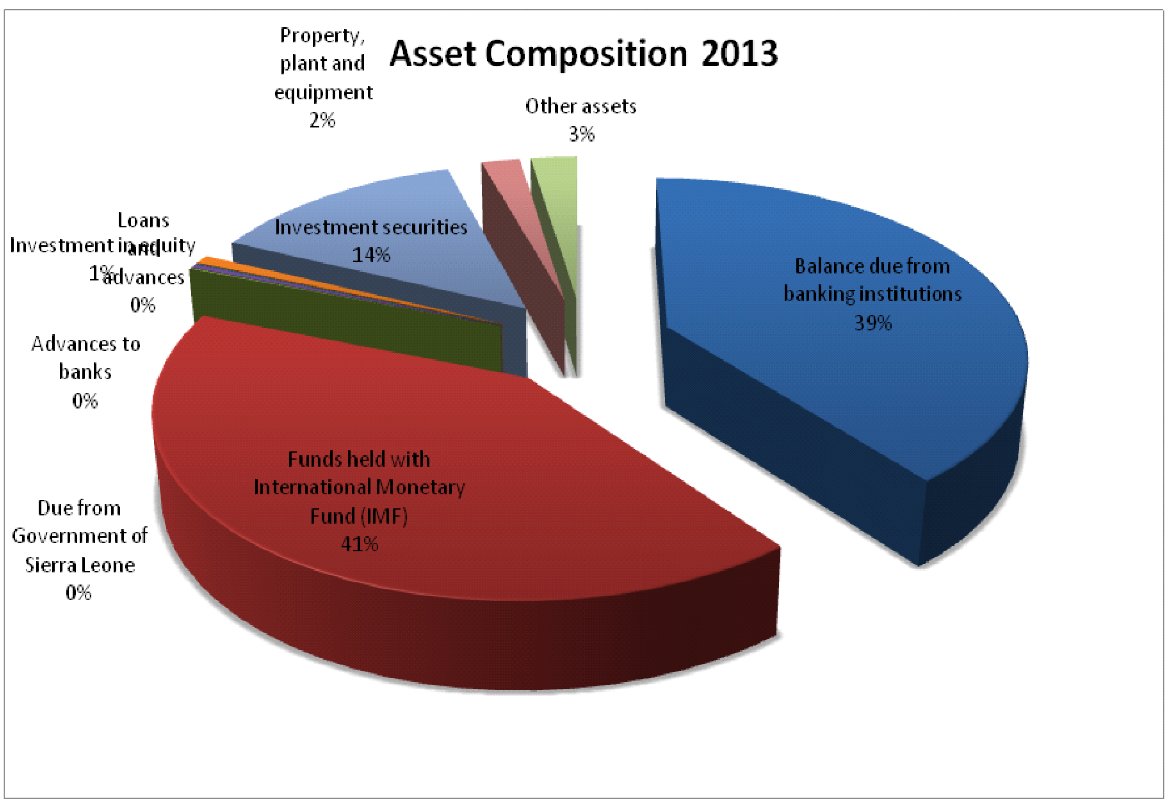
Assets	2014	2013	Changes	Changes %
Balance due from banking institutions	1,963,735,207	1,352,334,117	611,401,090	45%
Funds held with International Monetary Fund (IMF)	1,527,330,378	1,414,684,300	112,646,078	8%
Advances to banks	-	2,943,825	(2,943,825)	-100%
Loans and advances	264,168,555	12.275,365	251,893,191	2052%
Due from Government of Sierra Leone	39,057,652	1,284,803	37,772,849	2940%
Investment in equity	30,128,570	26,518,610	3,609,960	14%
Investment Securities	500,361,786	462,944,487	37,417,299	8%
Property, plant and equipment	76,595,558	70,095,846	10,499,931	15%
Other assets	75,137,494	85,434,388	(10,296,894)	-12:
Total Assets	**4,476,515,202**	**3,428,515,741**	**1,047,999,461**	**31%**

The positive change of 31% year on year was mainly due to the massive growth in Loans and Advances of 2,052% and Due from Government of Sierra Leone of 2,940%.

It is worth noting that Advances to Banks (which related to Loans made to the Community Banks) is zero or a reduction of 100% as a result of the Board making a decision to write off these amounts as a grant to the newly constituted Apex Bank.`

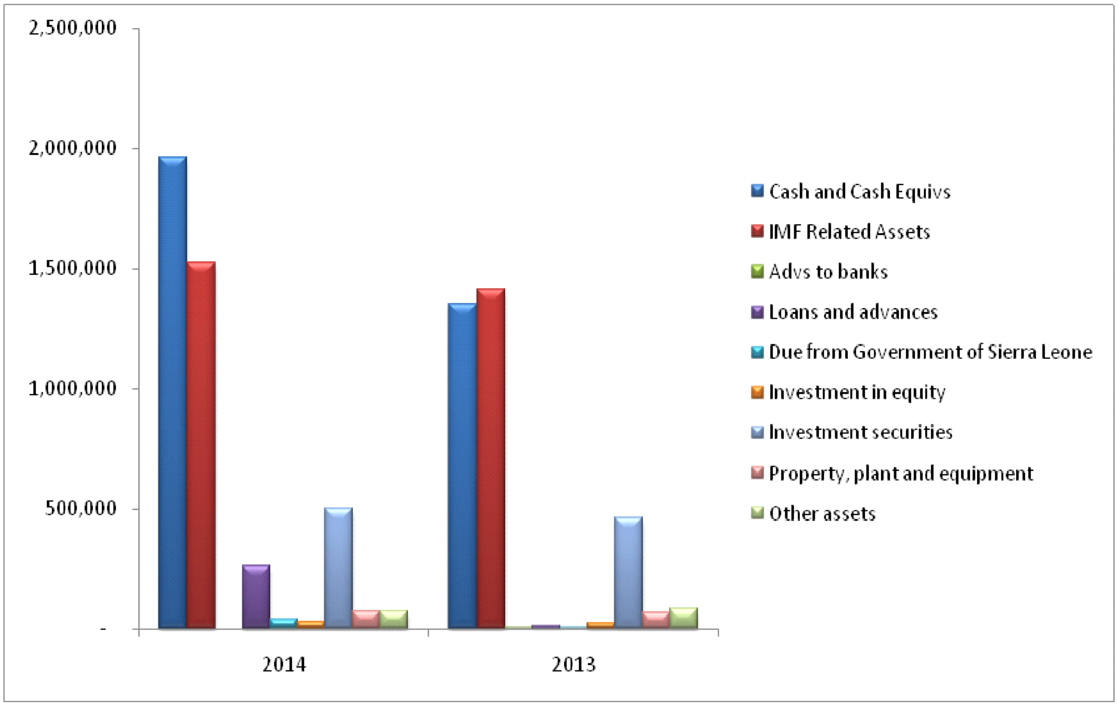
The changes are explained in much more depth in the section relating to Assets on Page 59.


Assets Composition 2014
Property, plant and equipment 2%
Investment securities 11%
Other assets 2%
Investment in equity 0%
Due from Government of Sierra Leone 1%
Loans and advances 6%
Advances to banks 0%
Balance due from banking institutions 44%
Funds held with International Monetary Fund (IMF) 34%


Asset Composition 2013
Property, plant and equipment 2%
Other assets 3%
Loans and advances 0%
Investment in equity 1%
Investment securities 14%
Balance due from banking institutions 39%
Advances to banks 0%
Funds held with International Monetary Fund (IMF) 41%
Due from Government of Sierra Leone 0%

Assets

The graph below shows the comparative analysis of the different categories of assets over the two year period.



Balances due from foreign Banks (cash and cash equivalents) increased by 45% from Le1,352.33 billion in 2013 to Le1,963.74 billion in 2014. This increase can be attributed to in the main to net receipts of foreign exchange by Government in respect of disbursements of loan proceeds by the IMF of $13.69 million after the completion of the first review under the ECF[1] Arrangement and other donations made to the Government in the fight against the Ebola Virus Disease (EVD).

International Monetary Fund (IMF) Related Assets, reported an increase of 8% from Le1,414.68 billion in 2013 to Le1,527.33 billion in 2014. (IMF Quota Subscription and Holdings on SDR Increased by 7% and 9% respectively over the previous year).

Advances to Banks reported a nil balance as compared to the balance of Le2.94 million in year 2013 because of the Board taking a decision to write-off the Debenture Loans granted to the Community Banks as a grant to the newly constituted Apex Bank.

The increase of 2,052% in the Loans and Advances to Others is mainly due to the amounts of Le71.25 billion recapitalization 10 Year Bond and Le181.71 billion GOSL/IMF Budget Financing respectively. The Bond was classified as a loan because its characteristics more closely fit the definition of a loan than a bond as per [IAS 39.46(a)] as it is being amortized on a semiannual basis over the ten year period rather than being held to maturity and there is no active market where it can be traded.

The balance due from Government of Sierra Leone increased considerably by 2,940% or Le 37.77 billion due to the increased use of the facility by Government as a result of pressures to fund Ebola related

[1] The ECF is an IMF lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

activities in the early stages of the Outbreak. The Investments in Equity increased by 14% from Le 26.52 billion in 2013 to Le 30.12 billion in 2014. This increase was as a result of the plough back of dividends receivable from Afreximbank Bank and interest receivable from WAMI in respect of the Stabilization and Cooperation Fund Contributions.

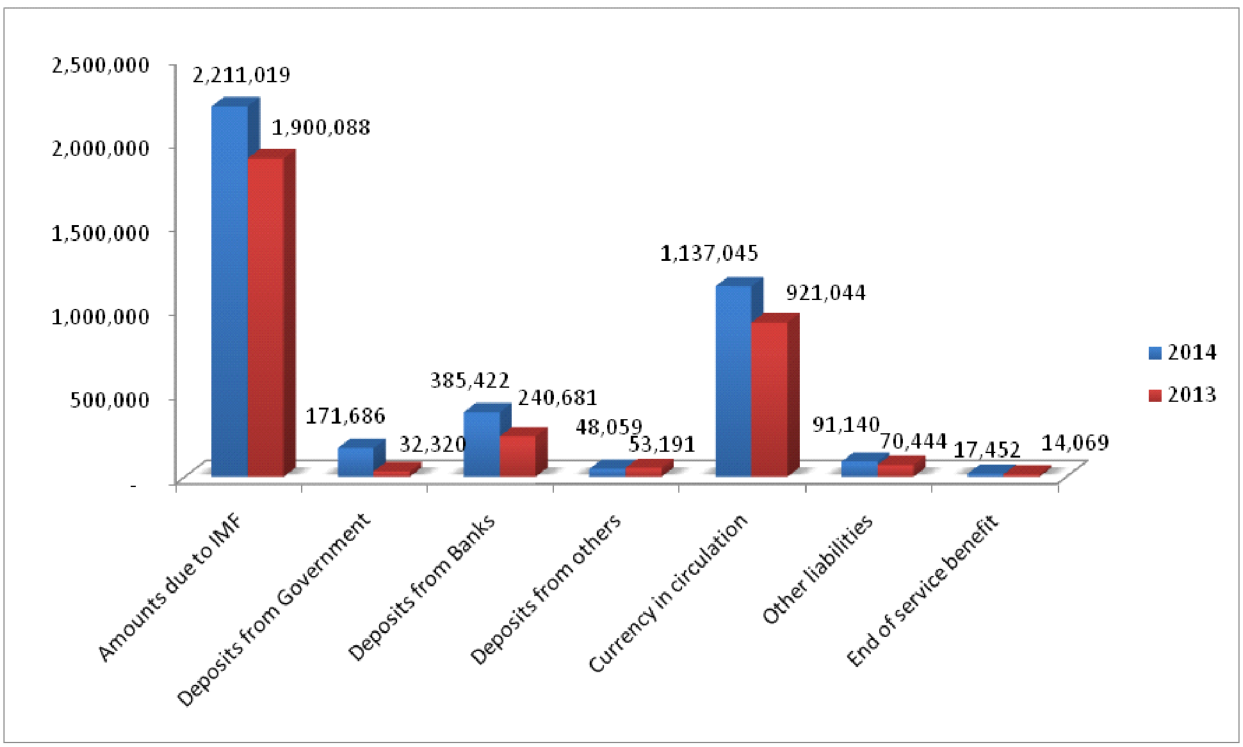
Investment Securities increased by 8% from Le462.94 billion in 2013 to Le500.36 billion in 2014 due to increased activity by the Bank in the secondary market to ease liquidity constraints in the financial system.

The Bank's Property, Plant and Equipment increased by 9% from Le70.10 billion in 2013 to Le76.60 billion in 2014 due to purchases of Generators and Application Servers for the Disaster Recovery Site.

The total value of Other Assets (Prepayments, Deferred Currency Issue Expenses, Gold Stock, value of inventory items etc.) decreased by 12% from Le85.43 billion in 2013 to Le75.13 billion in 2014 as a result of decreases in other consumables, items in transit and other receivables.

Liabilities

The graph below shows the comparative analysis of the different categories of liabilities over the two year period.



Total Liabilities increased by 26% from Le3.23 trillion in 2013 to Le 4.06 trillion in 2014.

Amounts due to the International Monetary Fund (IMF) increased by 16% from Le 1,900.09 billion in 2013 to Le 2,211.02 billion in 2014 mainly due to the receipt of SDR 25.925 or the equivalent USD 40 million Budget Support from the IMF in relation to the fight to stop the Ebola Outbreak.

Deposits from Commercial and Community banks increased by 60% from Le240.68 billion in 2013 to Le385.42 billion in 2014. There was an increase in the remittance of funds by International NGO's in the fight against Ebola which in turn led to increases the Commercial Bank Reserve Accounts Balances held with the Central Bank. The International Fund for Agricultural Development (IFAD) also put more money in the Community Banks as a part of its ongoing Project of restructuring these Banks and developing Financial Services Associations (FSA's) in a bid to increase access to finance in the rural areas.

Deposits from Others decreased by 10% from Le53.19 billion in year 2013 to Le 48.06 billion in year 2014.

Notes and coins in circulation increased by 23% from Le921.04 billion in 2013 to Le1,137.05 billion in 2014 which can be attributed mainly to the increased demand for cash in the economy especially in relation to the fight against the Ebola epidemic.

Other Liabilities increased by 29% from Le70.44 billion in year 2013 to Le91.14 billion in year 2014.

Reserves

Total Reserves increased by 111% during the period from net total positive reserves of Le196.68 billion in 2013 to net total positive reserves of Le414.69 billion in 2014.

This favorable position resulted mainly from the recognition of net revaluation gains in the Statement of Comprehensive Income instead of the Revaluation Reserves in compliance with IAS 21-The Effect of Changes in Foreign Exchange Rates and the increase of Le75 billion in the Minimum Paid Up Capital from Le50 billion to Le125 billion as required by the BSL Act 2011.

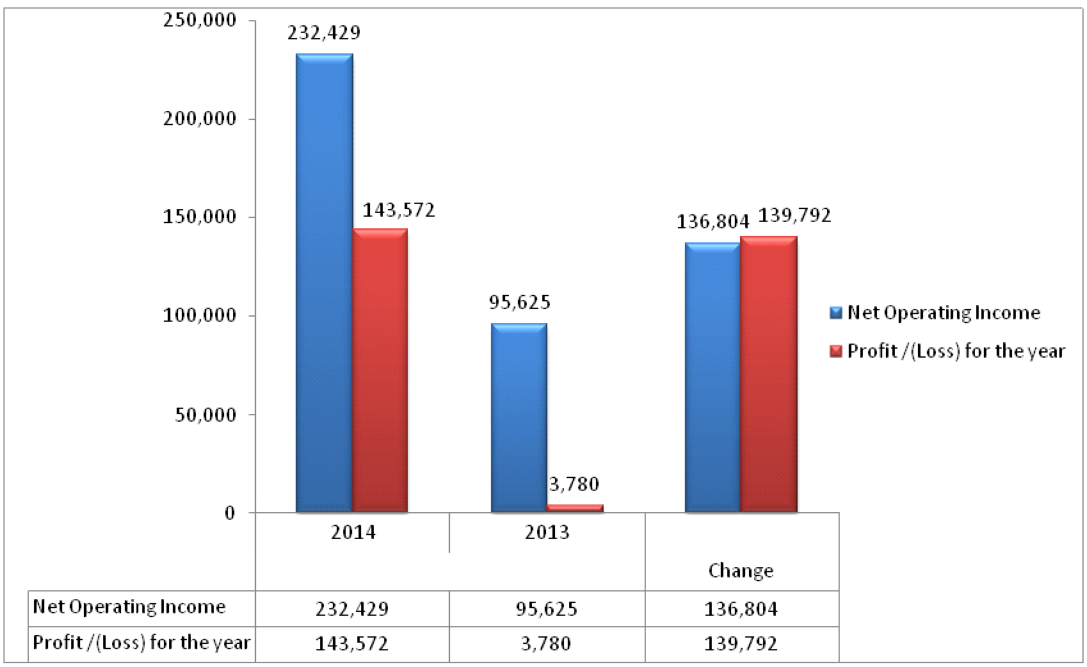
2. STATEMENT OF COMPREHENSIVE INCOME

Operating Income

The net operating income amounting to Le232.43 billion represented an increase from the amount of Le 95.63 billion generated in 2013. It is worth noting that Le 181.74 billion of Net operating income relates to unrealized revaluation gains. The Net profit of Le 143 billion is substantially higher than the net Profit of Le 3.78 billion in 2013.

This is depicted in the table and graph below:

Description	2014	2013	Change	Percentage Change
Net Operating Income	232,429	95,625	136,804	143%
Profit /(Loss) for the year	143,572	3,780	139,792	3,698%

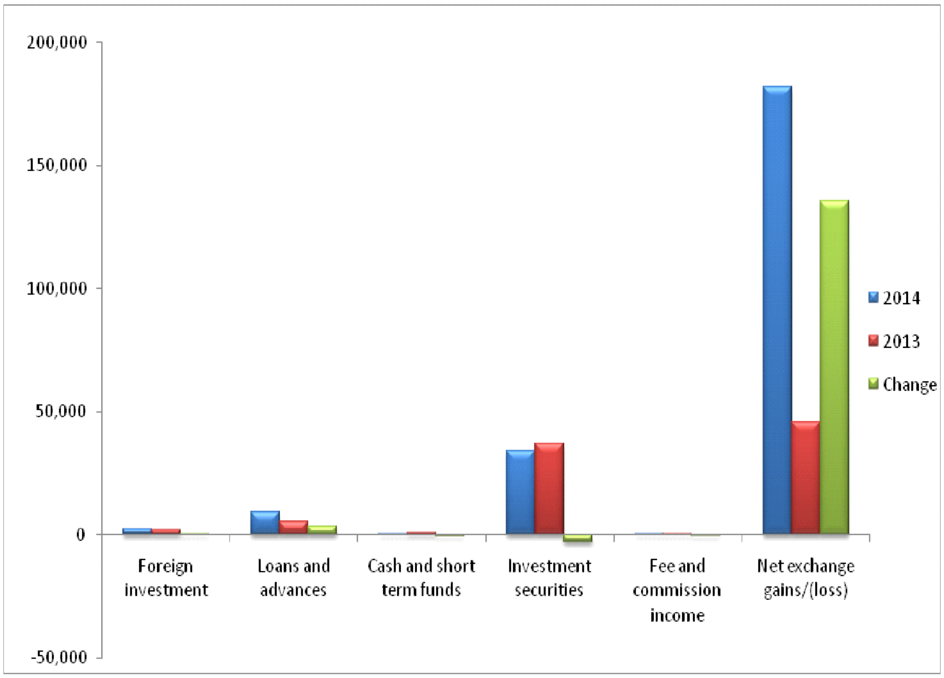


Net Interest Income decreased marginally by 0.31% from Le44.6 billion to Le44.5 billion. The unfavorable performance of this income line was attributed to a decrease in income from Cash and short term funds of 93% and fees and Commission of 50% when compared to the previous year.

Although Interest income from Investment Securities amounting to Le34.04 billion reduced by 8%, it was the second highest contributor to total income.

The table and graph below show the comparative analysis of the different categories of revenue over the two year period.

All figures in SLL M Description	2014	2013	Change	Percentage Change
Foreign investment	2,204	1,845	359	19%
Loans and advances	9,082	5,511	3,571	65%
Cash and short term funds	57	797	-739	-93%
Investment securities	34,038	37,075	-3,037	-8%
Fee and commission income	5	10	-5	-49%
Net exchange gains/(loss)	181,735	45,951	135,785	296%



Operating Expenses

Total operating expenses decreased by 3% from Le91.84 billion in 2013 to Le88.86 billion in 2014. Personnel costs amounting to Le48.06 billion were the major item of expenditure during the period, accounting for 54% (2013: 51%) of total operating expenses.

Other Expenses (including legal and professional fees, electricity, insurance, passages and overseas allowances and repairs and maintenance) increased by 30% over the amount incurred in 2013 as a result of the increased software license fees in relation to the Payments System. Depreciation increased by 11% as a result of new Generators and computers purchased for the Disaster Recovery Site.

Currency costs decreased by 39% from Le22.04 billion in 2013 to Le13.39 billion in 2014. This was due to Management's negotiation with De La Rue for significant discounts on currency printing costs.

5. Financial Reporting Profit

The Net Financial Report Profit of Le143.01 billion being all unrealized has been added to the General Reserves in accordance with the requirements of Sections 12(2) of the Bank of Sierra Leone Act 2011. Please refer to the Statement of Changes in Equity on page 75 to 76 of the Draft Financial Statements.

6. Equity

Total equity increased from Le196.67 in 2013 to Le414.69 billion in 2014 due to net changes in Revaluation Gains of Le184.79 billion, decrease in the Other Reserves of Le557 million and the increase of Le75 billion in the Minimum Paid Up Capital.

7. Budget Performance for the year 2014

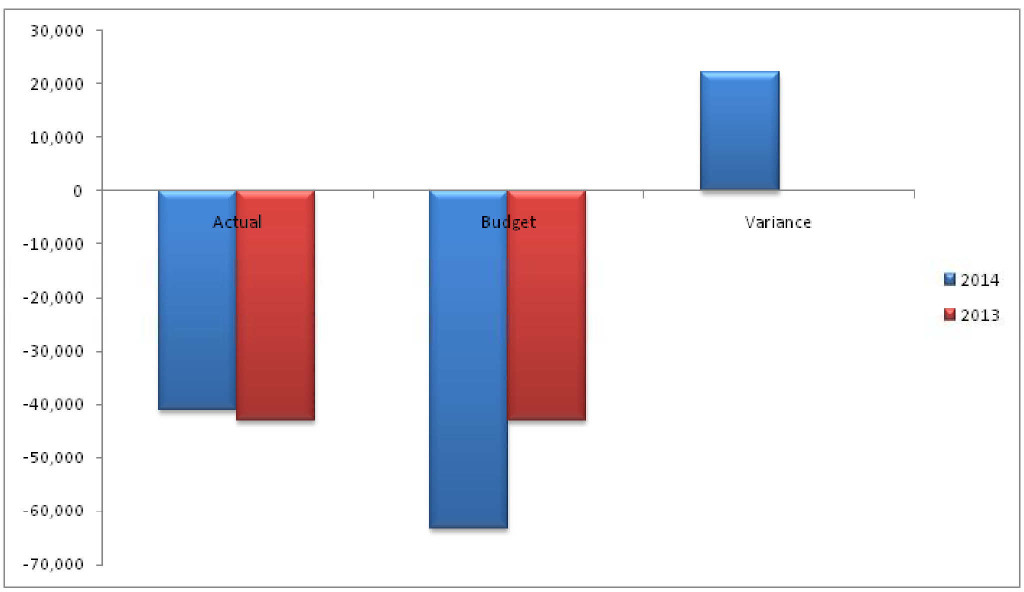
For the period under review, projected total income was Le42.36 billion and expenditure was Le105.77 billion, with a resultant projected deficit of Le63.41 billion.

In actual terms however, a net operating loss of Le41.22 billion (financial Reporting Profit: 143.01 billion) was incurred which was 35% lower than the projected operating loss of Le63.41 billion. This favorable position for the year under review was due to a combination of higher levels of income and lower levels of expenditure than projected.

Please see Table and Chart below for further analysis.

OPERATIONAL PROFIT ANALYSIS - Jan - Dec, 2014

FY2014 Actual Le'M	FY 2014 Budget Le'M	FY 203 Actual Le'M	Variance on Budget Le'M	Year on Year Actual Variance	%Variance on Budget	%Year on Year Actual Variance
(41,216)	(63,411)	(42,981)	22,195	1,765	35%	4%



General information

Board of directors :	Mr. Momodu Kargbo	- Governor (appointed 17 July 2014)
	Mr. Sheku S. Sesay	- Governor (retired 30 June 2014)
	Dr. Ibrahim Stevens	- Deputy Governor (appointed 24 July 2014)
	Professor Richard T.M'bayo	- Appointed 13 June 2014
	Mr, Shadrack E. Williams	- Appointed 6 June 2014
	P. C. Mohamed D. Benya v	- Appointed 6 June 2014
	Mrs. Rosaline Y. Fadika	- Appointed 6 June 2014
	Dr Sandy A. Bockarie	- Retired 22 April, 2014
	Mr. Dalton F. Shears	- Retired 22 April, 2014
	Mr. Harold Hanciles	- Retired 22 April, 2014
	Mrs. Marian Kamara	- Retired 22 April, 2014
	Mr. Sorie N. Dumbuya	- Reappointed 6 June 2014
Senior management :	Mr. Momodu Kargbo	- Governor
	Dr. Ibrahim Stevens	- Deputy Governor
	Mr. Ibrahim K. Lamin	- Director, Financial Markets Department
	Mrs Mary M. Kargbo	- Director, General Services Department
	Mr. Tapsiru Dainkeh	- Director, Banking Supervision Department
	Mr. Mohamed Mansaray	- Director, Research Department
	Mr. Abubakarr Jalloh	- Director, Banking Department
	Mrs. Hanifa Addai	- Director, Management Information Systems Department
	Mr. Abdul Aziz Sowe	- Director, Accounts & Budget Department
	Ms Jenneh Jabati	- Director, Human Resources Department
	Mr. Ralph Ansumana	- Director, Internal Audit Department
	Mr. Sullay Mannah	- Director, Secretary's Department

Registered office : 30 Siaka Stevens Street
Freetown

Solicitors : Renner-Thomas & Co.
Adele Chambers
15 Lamina Sankoh Street
Freetown

Secretary to the Board : Mr. Sullay Mannah

Auditors : KPMG
Chartered Accountants
KPMG House
37 Siaka Stevens 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 2014.

Principal activity

The principal activity of the Bank is to:

(a) formulate and implement monetary policy, 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) 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 organizations.

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 2014 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes 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 control 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 Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern in the year ahead.

Share Capital

Details of the Bank's share capital are shown in note 30 to these financial statements.

Results for the year

Profit for the year was Le 143 billion. (2013: profit of Le 3.7 billion restated).

Report of the Directors *(continued)*

Audit Committee

The Audit Committee comprising Non-Executive Directors and one Technical Expert are responsible for oversight function over the audit mechanism, internal control system and financial reporting system of the Bank. The Audit committee meets quarterly to review and monitor the status of the audit function including the implementation of recommendations in the internal audit reports, external auditors' management reports and other oversight reports like the IMF Safeguards 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 their implications for monetary 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 primary 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 foreign assets of the Bank's exchange control regulations relating to capital account transactions, monitors and maintain the external reserves to safeguard the internal value of the legal currency, and formulate policies that support monetary and exchange rate management.

Project Monitoring Committee

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

Property and Equipment

Details of the Bank's property and equipment are shown in note 21 to these 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 *(continued)*

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.

Employee involvement and training

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

There is an approved training schedule for staff and the Bank also has a staff performance appraisal process through which staff are appraised and promotions and /or increments are made.

Directors and their interest

The following were Directors of the Bank as at 31 December 2014:

Mr. Momodu Kargbo	-	Governor/Chairman	(appointed 17 July 2014)
Mr. Sheku S. Sesay	-	Governor/Chairman	(retired 30 June 2014)
Dr. Ibrahim Stevens	-	Deputy Governor	(appointed 24 July 2014)
Dr Sandy A. Bockarie	-	Director	(retired 22 April, 2014)
Mr. Dalton F. Shears	-	Director	(retired 22 April, 2014)
Mr. Harold Hanciles	-	Director	(retired 22 April, 2014)
Mrs. Marian Kamara	-	Director	(retired 29 April,2014)
Mr. Sorie N. Dumbuya	-	Director	(re-appointed 6 June 2014)

The Governor and Deputy Governor were appointed on 17 July 2014 and 24 July 2014 respectively, and in accordance with section 15(2) of the Bank of Sierra Leone Act 2011, they shall hold office for a term of five years each and shall be 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.

Report of the Directors *(continued)*

Auditors

The auditors, KPMG were appointed by the Auditor-General on 9 July 2013 to conduct the audit of the financial statements for the year ended 31 December 2014.

Section 63 (2) the Bank of Sierra Leone Act 2011 states that 'No External Auditor shall be appointed consecutively for a cumulative period exceeding five years, after which the audit firm is to be replaced". KPMG has carried out the audits for the years 2010-2014 and as such are not eligible for re-appointment.

As required by Section 119 (2) of the 1991 Sierra Leone Constitution, the Auditor General will be approached to appoint a new set of Auditors for the subsequent years.

Approval of the financial statements

The financial statements were approved by the Board of Directors on ......8 June......2015

é é é é é é é ....
Governor

é é é.é é é.......
Director

é é é é é .... é é é é é
Secretary

Independent Auditor's Report
to the Government of Sierra Leone

We have audited the accompanying financial statements of the Bank of Sierra Leone which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 72 to 141

Directors' responsibility for the financial statements

The Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Sierra Leone Act 2011, and for such internal control 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of Bank of Sierra Leone as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank of Sierra Leone Act 2011.

KPMG

Freetown Chartered Accountants

Date: 8 June 2015

Statement of financial position

as at 31 December

In thousands of Leones	Note	2014	2013
Assets			
Balance due from banking Institutions	*16*	**1,963,735,207**	1,352,334,117
Funds held with International Monetary (IMF)	*17*	**1,527,330,378**	1,414,684,300
Advances to banks	*18*	**-**	2,943,825
Loans and advances to others	*18*	**264,138,742**	12,275,364
Due from Government of SierraLeone	*18*	**39,057,652**	1,284,803
Investment in equity	*19*	**30,128,570**	26,518,610
Investment securities	*20*	**500,361,787**	462,944,487
Property, plant and equipment	*21*	**76,595,558**	70,095,846
Other assets	*22*	**75,167,308**	85,434,388
Total assets		**4,476,515,202**	3,428,515,740
Liabilities			
Amounts due to International Monetary Fund (IMF)	*23*	**2,211,018,697**	1,900,087,643
Deposits from Government	*24*	**171,685,982**	32,320,016
Deposits from Banks	*25*	**385,422,213**	240,681,354
Deposits from others	*26*	**48,058,613**	53,190,860
Currency in circulation	*27*	**1,137,044,588**	921,043,688
Other liabilities	*28*	**91,139,926**	70,444,345
End of service benefit	*29*	**17,451,521**	14,068,600
Total liabilities		**4,061,821,540**	3,231,836,506
Equity			
Share capital	*30*	**125,000,000**	50,000,000
General reserve	*31(a)*	**256,684,420**	113,112,317
Revaluation reserves	*31(b)*	**32,792,919**	32,792,919
Other reserves	*31(b)*	**216,323**	773,998
Total equity attributable to equity holders of the Bank		**414,693,662**	196,679,234
Total liabilities and equity		**4,476,515,202**	3,428,515,740

These financial statements were approved by the Board of Directors on ......8 June...................... 2015

é é é é é é é) Governor
)
)
é é é) Director
)
)
é é é é é é é é é é é é é) Secretary

The notes on pages 78 to 141 are an integral part of these financial statements

Statement of profit or loss and other comprehensive income

for the year ended 31 December

In thousands of Leones	**Note**	**2014**	2013
Interest and similar income	*8*	**45,381,828**	45,228,295
Interest expenses and similar charges	*8*	**(875,478)**	(582,322)
Net interest income		**44,506,350**	44,645,973
	–		
Fees and commission income	*9*	**5,296**	10,465
Fees and commission expense	*9*	-	-
Net fee and commission income		**5,296**	10,465
Net exchange gain/(loss)	*10*	**181,735,379**	45,950,541
Other income	*11*	**6,182,434**	5,018,412
Operating income		**232,429,459**	95,625,391
Impairment loss on loans and advances	*18(a)*	-	(2,082,093)
Personnel expense	*12*	**(46,186,813)**	(46,084,519)
Currency	*13*	**(13,385,404)**	(22,037,930)
Depreciation and amortisation	*21*	**(4,000,219)**	(3,591,629)
Other expenses	*14*	**(25,284,950)**	(18,048,543)
Profit for the year		**143,572,073**	3,780,677
Other comprehensive income			
Defined benefit plan actuarial (loss)/gain		**(557,675)**	887,523
Other comprehensive income for the year		**(557,675)**	887,523
Total comprehensive income for the year		**143,014,398**	4,668,200

The notes on pages 78 to 141 are an integral part of these financial statements

Statement of profit or loss and other comprehensive income *(continued)*

In thousands of Leones	**Note**	**2014**	2013
Profit attributable to:			
Equity holders of the Bank		**143,572,073**	3,780,677
Profit for the year		**143,572,073**	3,780,677
Total comprehensive income attributable to:			
Equity holders of the Bank		**143,014,398**	4,668,200
Total comprehensive income for the year		**143,014,398**	4,668,200

These financial statements were approved by the Board of Directors on.....8 June.........................2015

é é é é é é é é é é é é é é é é é é) Governor
)
)
)
é é é é é é é é é é é é é é é é é ...) Director
)
)
)
é é é é é é . . . . . é é é é é é) Secretary

The notes on pages 78 to 141 are an integral part of these financial statements

Statement of changes in equity
for the year ended 31 December 2014

In thousands of Leones	Share capital	Property revaluation reserve	General reserve	Other reserves	Total
Balance at 1 January 2013	50,000,000	32,792,919	27,530,240	(113,525)	110,209,634
Total comprehensive income for the year					
Net profit for the year	-	-	3,780,677	-	3,780,677
Securities reserves	-	-	81,801,400	-	81,801,400
Other comprehensive income					
Fair value reserve (non interest bearing securities)					
Actuarial gain	-	-	-	887,523	887,523
Total other comprehensive income for the year	-	-	85,582,077	887,523	**86,469,600**
Total comprehensive income and other transfers					
Paid up capital	-	-	-	-	-
Deposit for shares	-	-	-	-	-
Total contribution by and distribution to owners	-	-	-	-	-
Balance at 31 December 2013	50,000,000	32,792,919	113,112,317	773,998	196,679,234

The notes on pages 78 to 141 are in integral part of these financial statements

Statement of changes in equity *(continued)*
for the year ended 31 December 2014

In thousands of Leones	**Share capital**	**Property revaluation reserve**	**General reserve**	**Other reserves**	**Total**
Balance at 1 January 2014	**50,000,000**	**32,792,919**	**113,112,317**	**773,998**	**196,679,234**
Total comprehensive income for the year					
Net profit for the year	**-**	**-**	**143,572,073**	**-**	**143,572,073**
Securities reserves	**-**	**-**	**30**	**-**	**30**
Other comprehensive income					
Fair value reserve (non interest bearing securities)					
Actuarial gain	**-**	**-**	**-**	**(557,675)**	**(557,675)**
Total other comprehensive income for the year	**-**	**-**	**143,572,103**	**(557,675)**	**143,014,428**
Total comprehensive income and other transfers					
Subscribed during the year	**75,000,000**	**-**	**-**	**-**	**75,000,000**
Deposit for shares	**-**	**-**	**-**	**-**	**-**
Total contribution by and distribution to owners	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2014	**125,000,000**	**32,792,919**	**256,684,420**	**216,323**	**414,693,662**

The notes on pages 78 to 141 are an integral part of these financial statements

Statement of cash flows

for the year ended 31 December

In thousands of Leones	Note	2014	2013
Cash flows from operating activities			
Profit for the year		**143,572,073**	3,780,677
Adjustment for:			
Depreciation and amortisation	*20*	**4,000,219**	3,591,629
Impairment losses on loans and advances		**-**	2,082,093
Net interest income	*8*	**(44,506,350)**	(44,645,973)
Fixed asset write-off		**54,018**	64,122
Profit on disposals		**(52,014)**	(101,898)
Fixed assets adjustments		**8**	57,831
Actuarial (loss)/gain on defined benefit obligation		**(557,675)**	887,523
Changes in:		**102,510,279**	(34,283,996)
Loans and advances to others		**(251,863,378)**	3,435,620
Advances to Government		**(37,772,849)**	46,831,987
Advances to banks		**2,943,825**	-
Other assets		**10,267,080**	(25,525,362)
Currency in circulation		**216,000,900**	17,994,520
Government deposit		**139,365,966**	7,261,711
Other deposits		**(5,132,247)**	33,801,927
Deposits from banks		**144,740,860**	144,535,762
Other liabilities		**20,695,580**	2,197,695
End of service benefit		**3,382,921**	1,585,636
		345,138,937	197,835,500
Interest received	*8*	**45,381,828**	45,228,295
Interest paid	*8*	**(875,478)**	(582,322)
Net cash generated from operating activities		**389,645,287**	242,481,473
Cash flows from investing activities			
(Purchase)/disposal of Investment Securities		**(37,417,300)**	(63,302,829)
Acquisition of medium term bond		**(3,609,960)**	(295,868)
Acquisition of property and equipment		**(10,587,943)**	(11,779,718)
Proceeds from sale of property, plant and equipment		**86,000**	101,916
Net cash generated from/(used in) investing activities		**(51,529,203)**	(75,276,499)
Cash flows from financing activities			
Net change in funds from the IMF		**198,284,976**	34,482,374
Additional capital subscribed		**75,000,000**	-
Net movement in reserves		**30**	81,801,400
Net cash from financing activities		**273,285,006**	116,283,774
Net increase in cash and cash equivalents		**611,401,090**	283,488,748
Cash and cash equivalents at 1 January		**1,352,334,117**	1,068,845,369
Cash and cash equivalent at 31 December	*16*	**1,963,735,207**	1,352,334,117

The notes on pages 78 to 141 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 wholly owned by the Government of Sierra Leone. The address of the Bank's registered office is 30 Siaka Stevens Street Freetown. The Bank is primarily established to foster the liquidity, solvency and proper functioning of a stable market-based financial system and to license and supervise institutions that engage in the business of receiving money deposits or other repayable funds from the public and extending credits for their own account, including bureaux of exchange and foreign exchange dealers.

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). They were authorised for issue by the Bank's Board of Directors on é 8 é June é é é 2015.

Details of the bank's accounting policies, including changes during the year, are included in notes 37 and 38.

3. Functional and presentation currency

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.

4. 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 reported amounts of assets, liabilities, income and expenses. Actual reports may differ from these estimates.

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

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2014 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

Notes to the financial statemen ts *(continued)*

4. Use of judgements and estimates (continued)

Assumptions and estimation uncertainties (continued)

Impairment of financial instruments

Assets accounted for at amortised cost are evaluated for impairment on the basis described in note 38m

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 independently approved by the Credit Risk function.

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 methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology uses 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 and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

Notes to the financial statements *(continued)*

5. Financial risk review

This note presents information about the bank's exposure to financial risks and the bank's management of capital.

For information on the bank's financial risk management framework, see note 36

(a) Credit risk

For the definition of credit risk and information on how credit risk is managed by the bank, see note 35(b)

(i) *Analysis of credit quality*

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the bank against those assets.

(ii) *Management of credit risk*

The Bank minimizes exposure to credit risk 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 such as BIS and IMF) as approved by the Foreign Asset Committee (FAC), Management and the Board. For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

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.

Notes to the financial statements *(continued)*

5. Financial risk review (continued)

Credit risk (continued)

(iii) Concentration of credit risk

In thousands of Leones	Note	**Loans and advances** **31 December 2014**	**31 December 2013**	**Lending** **Investment securities** **31 December 2014**	**31 December 2013**	**commitments and financial guarantees** **31 December 2014**	**31 December 2013**
Maximum exposure to credit risk							
Carrying amount	*18*	**303,196,394**	16,503,992	**500,361,787**	462,994,487	-	-
Amount committed/guaranteed		-	-	-	-	-	154,518,483
At amortised cost							
Grade 1-3: Low-fair risk	*18*	**303,362,739**	18,913,596	**560,361,787**	462,994,487	-	-
Grade 6: Substandard		-	-	-	-	-	-
Grade 7: Doubtful		-	-	-	-	-	-
Grade 8: Loss			-	-	-	-	-
Total gross amount		**303,362,739**	18,913,596	**500,361,787**	462,994,487	**462,933,487**	154,518,483
Allowance for impairment		**(166,345)**	(2,409,604)	-	-	-	-
Other fair value adjustment		-	-	-	-	-	-
Total net carrying amount		**303,196,394**	16,503,992	**500,361,787**	462,994,487	**462,944,487**	154,518,483

Notes to the financial statements *(continued)*

5. Financial risk review (continued)

Credit risk (continued)

(iii) Concentration of credit risk (continued)

In thousands of Leones	Note	**Loans and advances** 31 December **2014**	Loans and advances 31 December 2013	**Investment securities** 31 December **2014**	Investment securities 31 December 2013	**Lending commitments and financial guarantees** 31 December **2014**	Lending commitments and financial guarantees 31 December 2013
Maximum exposure to credit risk							
Off balance sheet							
Maximum exposure							
Lending commitments							
Grade 1-3: Low-fair risk		-	-	-	-	**462,933,487**	154,519,483
Financial guarantees		-	-	-	-	-	-
Grade 1-3: Low-fair risk		-	-	-	-	-	-
Total exposure		-	-	-	-	**462,933,487**	154,519,483
Allowance impairment							
Individual		**128,448**	1,860,646	-	-	-	-
Collective		**37,897**	548,958	-	-	-	-
Total allowance for impairment		**166,345**	2,409,604	-	-	-	-

Notes to the financial statements *(continued)*

5. Financial risk review (continued)

Credit risk (continued)

(iv) Impaired loans

See accounting policy in note 38(g)(vi)

The bank regards a loan and advance as impaired when there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Loans that are subject to a collective IBNR provision are not considered impaired.

Impaired loans and advances are graded 6 to 8 in the bank's internal credit risk grading system (see notes 5 (ii)

Loans that are past due but not impaired

Loans that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the bank. The amounts disclosed exclude assets measured at fair value through profit or loss.

Loans with renegotiated terms and the bank's forbearance policy

See accounting policy in note 38(g)(vi)

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note 38(g)(vi).

The bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Notes to the financial statements *(continued)*

5. Financial risk review (continued)

Credit risk (continued)

(iv) Impaired loans (continued)

Loans with renegotiated terms and the bank's forbearance policy (continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank's Audit Committee regularly reviews reports on forbearance activities.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, earlier repayment or until it is written off.

Irrespective of whether loans with renegotiated terms have been derecognised or not, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

Concentration analysis	**2014**	2013
Assets		
United States Dollars	**1,461,378,287**	1,051,817,158
Euro	**5,738,599**	70,923,999
Pound sterling	**526,746,890**	226,830,520
SDR	**1,527,330,378**	1,414,684,300
Leones and others	**955,321,048**	664,259,763
Total	**4,476,515,202**	3,428,515,740
Liabilities		
United States Dollars	-	54,754,980
Euro	-	-
Pound sterling	-	-
SDR	**2,211,018,697**	1,900,087,643
Leones & others	**1,850,802,843**	1,276,993,883
Total	**4,061,821,540**	3,231,836,506

Notes to the financial statements *(continued)*

5. Financial risk review (continued)

Credit risk (continued)

Management of credit risk (continued)

Credit exposure by Credit Rating

The following table represents the Bank's financial assets based on Standard and Poor's credit 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 interest and principal. 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's.

	Credit rating	**2014**	**% of FA**	2013	% of FA
Cash balances with central banks	AAA	**1,073,710,881**	**24.83%**	878,459,838	26.85%
Other cash balance	AA	**890,024,326**	**20.58%**	473,874,279	14.48%
International Monetary Fund assets	NR	**1,527,330,378**	**35.32%**	1,414,684,300	43.22%
Loans and advances	NR	**303,196,394**	**7.01%**	16,503,992	0.50 %
Investment in equity	NR	**30,128,570**	**0.69%**	26,518,610	0.81%
Investment securities	NR	**500,361,787**	**11.57%**	462,944,487	14.14%
		4,324,752,336	**100%**	3,272,985,576	100%

Write-off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Board Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier.

Notes to the financial statements *(continued)*

5. **Financial risk review (continued)**

Credit risk (continued)

Management of credit risk (continued)

Credit exposure by Credit Rating (continued)

Cash and cash equivalents

The Bank held cash and cash equivalents of Le 1.97 trillion at 31 December 2014 (2013: Le1.44 trillion).

31 December 2014

In thousands of Leones	**Investment securities**	**Balance with other Central Banks**	**Balance with other banks**	**Total**
Cash balances	-	1,071,056,542	892,678,665	1,963,735,207
Investment securities (1-3 months)	9,026,850	-	-	9,026,850
Total cash and cash equivalent	9,026,850	1,071,056,542	892,678,665	1,972,762,057
Investment securities not included in cash and cash equivalents (3-12 months)	491,334,937	-	-	491,334,937
Total cash and cash equivalents and investment securities	500,361,787	1,071,056,542	892,678,665	2,464,096,994

Notes to the financial statements *(continued)*

5. Financial risk review (continued)

Credit risk (continued)

Management of credit risk (continued)

Credit exposure by Credit Rating (continued)

Cash and cash equivalents (continued)

31 December 2013

In thousands of Leones	Investment securities	Balance with other Central Banks	Balance with other banks	Total
Cash balances	-	876,722,846	475,611,271	1,352,334,117
Investment securities (1-3 months)	85,720,850	-	-	85,720,850
Total cash and cash equivalent	85,720,850	876,722,846	475,611,271	1,438,054,967
Investment securities not included in cash and cash equivalents (3-12 months)	377,223,637	-	-	377,223,637
Total cash and cash equivalents and investment securities	462,944,487	876,722,846	475,611,271	1,815,278,604

Exposures to higher risk Eurozone

Significant concerns about the credit worthiness of certain Eurozone countries persisted during 2012 leading to speculation as to the long-term sustainability of the Eurozone. The Bank's exposure was mainly nostro balances amounting to Le 1.964 trillion (2013: Le 1.352 trillion)with Bank of England, HSBC, Crown Agent, Lloyds Bank, Bank of International Settlement, Commerz Bank and Bank of France which are considered less risky within the Eurozone.

(b) Liquidity risk

Liquidity risk is the risk that the Bank may not be able to accommodate decreases in liabilities or fund decrease in assets in full at the time that a commitment or transaction is due for settlement. In the case of the Bank, this risk is not relevant to domestic assets and liabilities because of the ability of the Bank to create Leones when required. However, the Bank does face liquidity risk in respect of foreign assets and liabilities.

Notes to the financial statements *(continued)*

5. Financial risk review (continued)

(b) Liquidity risk (continued)

(i) Management of liquidity risk

The Bank manages its foreign liquidity risks through the appropriate structuring of its foreign investment portfolios to ensure that the maturity profile of foreign assets sufficiently match those of foreign 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 liabilities into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

Notes to the financial statements *(continued)*

5. Financial risk management (continued)

Liquidity risk (continued)

(ii) Maturity analysis for financial assets and financial liabilities

The table below set out the remaining contractual maturities of the banks 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 2014								
Financial liability by type								
Non-derivative liabilities								
IMF Special drawing rights								
Allocation	*23*	**2,211,018,697**	**2,211,018,697**	**-**	**-**	**700,954,651**	**713,911,990**	**796,152,056**
Deposit from Government	*24*	**171,685,982**	**171,685,982**	**171,685,982**	**-**	**-**	**-**	**-**
Deposit from banks	*25*	**385,422,213**	**385,422,213**	**385,422,213**	**-**	**-**	**-**	**-**
Deposit from others	*26*	**48,058,613**	**48,058,613**	**48,058,613**	**-**	**-**	**-**	**-**
Currency in circulation	*27*	**1,137,044,588**	**1,137,044,588**	**1,137,044,588**	**-**	**-**	**-**	**-**
End of service benefit	*29*	**17,451,521**	**17,451,521**	**-**	**-**	**-**	**17,451,521**	**-**
Unrecognized loan commitment		**-**	**-**	**-**	**-**	**-**	**-**	**-**
		3,970,681,614	**3,970,681,614**	**1,742,211,396**	**-**	**700,954,651**	**731,363,511**	**796,152,056**
Financial asset by type								
Non-derivative assets								
Cash and cash equivalent	*16*	**1,963,735,207**	**1,963,735,207**	**1,080,720,085**	**883,015,122**	**-**	**-**	**-**
International Monetary Fund								
Related Asset	*17*	**1,527,330,378**	**1,527,330,378**	**-**	**-**	**1,527,330,378**	**-**	**-**
Investment securities	*20*	**500,361,787**	**500,361,787**	**500,361,787**	**-**	**-**	**-**	**-**
Investment in equity	*19*	**30,128,570**	**30,128,570**	**-**	**-**	**-**	**14,270,383**	**15,858,187**
Loans and advances	*18*	**303,196,394**	**303,196,394**	**-**	**39,057,652**	**-**	**4,590,313**	**259,548,429**
		4,324,752,336	**4,324,752,336**	**1,581,081,872**	**922,072,774**	**1,527,330,378**	**18,860,696**	**275,406,616**

Notes to the financial statements *(continued)*

5. ***Financial risk management*** (continued)

Liquidity risk (continued)

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

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 2013								
Financial liability by type								
Non-derivative liabilities								
IMF Special drawing rights								
Allocation	23	1,900,087,643	1,900,087,643	-	-	676,094,727	647,653,313	576,339,603
Deposit from Government	24	52,505,432	52,505,432	52,505,432	-	-	-	
Deposit from banks	25	240,681,354	240,681,354	240,681,354	-	-	-	-
Deposit from others	26	53,190,860	53,190,860	53,190,860	-	-	-	-
Currency in circulation	27	921,043,688	921,043,688	921,043,688	-	-	-	-
End of service benefit	29	14,068,600	14,068,600	-	-	-	14,068,600	-
Unrecognized loan commitment		-	-	-	-	-	-	-
		3,181,577,577	3,181,577,577	1,267,421,334	-	676,094,727	661,721,913	576,339,603
Financial asset by type								
Non-derivative assets								
Cash and cash equivalent	16	1,352,334,117	1,352,334,117	920,495,101	431,839,016	-	-	-
International Monetary Fund								
Related Asset	17	1,414,684,300	1,414,684,300	-	-	1,414,684,300	-	-
Investment securities	20	462,944,487	462,944,487	462,944,487	-	-	-	-
Investment in equity	19	26,518,610	26,518,610	-	-	-	12,515,376	14,003,234
Loans and advances	18	16,503,992	16,503,992	1,284,803	-	-	12,275,364	2,943,825
		3,272,985,506	3,272,985,506	1,384,724,391	431,839,016	1,414,684,300	24,790,740	16,947,059

Notes to the financial statements (continued)

5. Financial risk management (continued)

(b) Liquidity risk (continued)

The table below sets out the components of the Bank's liquidity reserve

Liquidity reserve

In thousands of Leones	**2014 Carrying amount**	**2013 Fair value**	2013 Carrying amount	2013 Fair value
Balances with other central banks	**1,071,056,542**	**1,071,056,542**	876,722,846	876,722,846
Cash and balances with other banks	**892,678,665**	**892,678,665**	475,611,271	475,611,271
Other cash and cash equivalents	**9,026,850**	**9,026,850**	85,720,850	85,720,850
Total liquidity reserve	**1,972,762,057**	**1,972,762,057**	1,438,054,967	1,438,054,967

The table below set out the availability of the Bank's financial assets to support future funding.

2014

	Encumbered		**Unencumbered**		
	Pledge as Collateral	**Other**	**Available collateral**	**Other**	**Total**
In thousands of Leones					
Cash and cash equivalents	-	-	**1,963,735,207**	-	**1,963,735,207**
Loans and advances	-	-	**303,196,394**	-	**303,196,394**
Investment in equity	-	-	**30,128,570**	-	**30,128,570**
Investment securities	-	-	**500,361,787**	-	**500,361,787**
Other financial assets	-	-	-	-	-
Non-financial assets	-	-	-	-	-
Total assets	-	-	**2,797,421,958**		**-2,797,421,958**

2013	Encumbered		Unencumbered		
	Pledge as Collateral	Other	Available collateral	Other	Total
In thousands of Leones					
Cash and cash equivalents	-	-	1,352,334,117	-	1,352,334,117
Loans and advances	-	-	16,503,992	-	16,503,992
Investment in equity	-	-	26,518,610	-	26,518,610
Investment securities	-	-	462,944,487	-	462,944,487
Other financial assets	-	-	-	-	-
Non-financial assets	-	-	-	-	-
Total assets	-	-	1,858,301,206	-	1,858,301,206

Notes to the financial statements *(continued)*

5. Financial risk management (continued)

(c) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads 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 risks exposures within acceptable parameters, while optimizing the return on risk.

(i) *Management of market risks*

The Bank's separate its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Financial Markets Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

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

(ii) *Market price risk*

Market price risk is the risk of loss resulting from changes in market conditions and prices. In its monetary policy operations, the Bank is obliged to accept certain market-related risks that would not be fully compatible with pure commercial practice. The Bank, nevertheless, manages its market risk responsibly, utilising modern technology, and appropriate organisation structures and procedures. Exposures and limits are measured continuously, and strategies are routinely reviewed by management on a daily basis and when circumstances require, throughout the day.

(iii) *Exposure to interest rate risk - non-trading portfolios*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

31 December 2014			**Market risk measures**	
	Note	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
In thousands of Leones				
Assets subject to market risk				
Cash and cash equivalents	*16*	**1,963,735,207**	-	**1,963,735,207**
Loans and advances	*18*	**303,196,394**	-	**303,196,394**
Investment in equity	*19*	**30,128,570**	-	**30,128,570**
Investment securities	*20*	**500,361,787**	-	**500,361,787**
Liabilities subject to market risk				
Deposits	*24,25,26*	**605,166,808**	-	**605,166,808**

5. Financial risk management (continued)

(c) Market risks (continued)

31 December 2013	Note		Market risk measures	
		Carrying amount	Trading portfolios	Non-trading portfolios
In thousands of Leones				
Assets subject to market risk				
Cash and cash equivalents	*16*	1,352,334,117	-	1,352,334,117
Loans and advances	*18*	16,503,992	-	16,503,992
Investment in equity	*19*	26,518,610	-	26,518,610
Investment securities	*20*	462,944,487	-	462,944,487
Liabilities subject to market risk				
Deposits	*24,25,26*	346,377,646	-	346,377,646

In thousands of Leones	**Note**	**Carrying amount**	**0-3 months**	**3-12 months**	**1 - 5 years**	**More than 5 years**
31 December 2014						
Cash and cash equivalents	*16*	**1,963,735,207**	**1,963,735,207**	**-**	**-**	**-**
IMF fund related asset	*17*	**1,527,330,378**	**-**	**1,527,330,378**	**-**	**-**
Loans and advances	*18*	**303,196,394**	**39,057,652**	**-**	**264,138,742**	**-**
Investment in equity	*19*	**30,128,570**	**-**	**-**	**14,270,383**	**15,858,187**
Investment securities	*20*	**500,361,787**	**500,361,787**	**-**	**-**	**-**
		4,324,752,336	**2,503,154,646**	**1,527,330,378**	**278,409,125**	**15,858,187**
IMF related liabilities	*23*	**2,211,018,697**	**-**	**700,954,651**	**713,911,990**	**796,152,056**
Deposit from Government	*24*	**171,685,982**	**171,685,982**	**-**	**-**	**-**
Deposits from Banks	*25*	**385,422,213**	**385,422,213**	**-**	**-**	**-**
Deposits from others	*26*	**48,058,613**	**48,058,613**	**-**	**-**	**-**
		2,816,185,505	**605,166,808**	**700,954,651**	**713,911,990**	**796,152,056**
		1,508,566,831	**1,897,987,838**	**826,375,727**	**(435,502,865)**	**(780,293,869)**

Notes to the financial statements *(continued)*

5. Financial risk management (continued)

(c) Market risks (continued)

In thousands of Leones	Note	Carrying amount	0-3 months	3-12 months	1 - 5 years	More than 5 years
31 December 2013						
Cash and cash Equivalents	16	1,352,334,117	1,352,334,117	-	-	-
IMF fund related asset	17	1,414,684,300	-	1,414,684,300	-	-
Loans and advances	18	16,503,992	1,284,803	-	12,275,364	2,943,825
Investment in equity	19	26,518,610	-	-	12,515,376	14,003,234
Investment securities	20	462,944,487	462,944,487	-	-	-
		3,272,985,506	1,816,563,407	1,414,684,300	24,790,740	16,947,059
IMF related liabilities	23	1,900,087,643	-	676,094,727	647,653,313	576,339,603
Deposit from Government	24	32,320,016	32,320,016	-	-	-
Deposits from Banks	25	240,681,354	240,681,354	-	-	-
Deposits from others	26	53,190,860	53,190,860	-	-	-
		2,226,279,873	326,192,230	676,094,727	647,653,313	576,339,603
		1,046,705,633	1,490,371,177	738,589,573	(622,862,573)	(559,392,544)

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 standard and non-standard interest rate scenarios.

Standard scenerios that are considered on a monthly basis include a 2% basis point (bp) parallel fall or rise in market interest rates.

Overall non-trading interest rate risk positions are managed by Financial Markets Department, which uses investment securities, advances to customers deposits and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

(iv) Exposure to other market risk - non-trading portfolios

Credit spread risk not relating to changes in the obligor/issuer's Credit Standing on debt securities held by treasury and equity price risk is subject to regular monitoring by credit risk, but is not currently significant in relation to the overall results and financial position of the Bank.

Notes to the financial statements *(continued)*

5. Financial risk management (continued)

(c) Market risks (continued)

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

In thousands of Leones	**200 bp (2%) Increase 2014**	**200bp (2%) Decrease 2014**
Interest income impact	**907,636**	**(907,636)**
Interest expense impact	**(17,510)**	**17,510**
Net impact	**890,126**	**(890,126)**

In thousands of Leones	200 bp (2%) Increase 2013	200bp (2%) Decrease 2013
Interest income impact	904,566	(904,566)
Interest expense impact	(11,646)	11,646
Net impact	892,920	892,920

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 loans and advances; and interest expense all of which are deemed susceptible to interest rate change.

Sensitivity of reported equity to interest rate movement

In thousands of Leones	**200 bp (2%) Increase 2014**	**200bp (2%) Decrease 2014**
Net interest impact on retained earnings	**890,126**	**(890,126)**

In thousands of Leones	2013	2013
Net interest impact on retained earnings	892,920	(892,920)

Notes to the financial statements *(continued)*

5. Financial risk management (continued)

Currency risk (continued)

Concentrations of assets, liabilities and off balance sheet items

In thousands of Leones	GBP	Euro	US$	SDR	Other	Total
Cash and balance with the banks	526,746,890	5,738,599	1,431,249,718	-	-	1,963,735,207
IMF Assets	-	-	-	1,527,330,378	-	1,527,330,378
Loans and advances	-	-	-	-	303,196,394	303,196,394
Investment in equity	-	-	30,128,570	-	-	30,128,570
Investment in securities	-	-	-	-	500,361,787	500,361,787
Property, plant and equipment	-	-	-	-	76,595,558	76,595,558
Other assets	-	-	-	-	75,167,308	75,167,308
Total assets	526,746,890	5,738,599	1,461,378,288	1,527,330,378	955,321,047	4,476,515,202
Liabilities						
IMF drawing rights allocation	-	-	-	2,211,018,697	-	2,211,018,697
Deposit from Government	-	-	-	-	171,685,982	171,685,982
Deposit from Banks	-	-	-	-	385,422,213	385,422,213
Currency in circulation	-	-	-	-	1,137,044,588	1,137,044,588
Deposit from Others	-	-	-	-	48,058,613	48,058,613
Other liability	-	-	-	-	91,139,926	91,139,926
End of service benefit	-	-	-	-	17,451,521	17,451,521
Total liabilities	-	-	-	2,211,018,697	1,850,802,843	4,061,821,540
Net on-balance sheet position	526,746,890	5,738,599	1,461,378,288	(683,688,319)	(895,481,796)	414,693,662
Credit commitments						
At 31 December 2013						
Total assets	226,830,520	70,923,999	1,078,328,746	1,414,684,300	637,748,175	3,428,515,740
Total liabilities	-	-	37,925,654	1,900,087,643	1,293,823,209	3,231,836,506
Net on-balance sheet position	226,830,520	70,923,999	1,040,403,092	(485,403,343)	(656,075,034)	196,679,234

Notes to the financial statements *(continued)*

5. Financial risk management (continued)

Currency risk (continued)

Foreign currency sensitivity analysis

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

2014

In thousands of Leones	**USD**	**GBP**	**EUR**	**SDR**	**Total**
Assets					
Cash and balance with the banks	**143,124,971**	**52,674,689**	**573,859**	**-**	**196,373,51**
IMF assets	**-**	**-**	**-**	**152,733,037**	**152,733,037**
Investment in equity	**3,012,857**	**-**	**-**	**-**	**3,012,857**
Total assets	**146,137,828**	**52,674,689**	**573,859**	**152,733,037**	**352,119,413**
Liabilities					
IMF drawings	**-**	**-**	**-**	**221,101,869**	**221,101,869**
Other liabilities	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**221,101,869**	**221,101,869**
Net-on-balance sheet position	**146,137,828**	**52,674,689**	**573,859**	**(68,368,832)**	**131,017,544**

2013

In thousands of Leones	USD	GBP	EUR	SDR	Total
Assets					
Cash and balance with the banks	105,181,014	22,683,052	7,092,400	-	134,956,466
IMF assets	-	-	-	141,468,430	141,468,430
Investment in equity	2,651,861	-	-	-	2,651,861
Total assets	107,832,875	22,683,052	7,092,400	141,468,430	279,076,757
Liabilities					
IMF drawings	-	-	-	190,008,764	190,008,764
Other liabilities	-	-	3,792,565	-	3,792,565
Total liabilities	-	-	3,792,565	190,008,764	193,801,329
Net-on-balance sheet position	107,832,875	22,683,052	3,299,835	(48,540,334)	85,275,428

The above sensitivity analysis has been based on the change in the US Dollar exchange rate against the Leone. The Leone has been relatively stable for the past couple of years, but may well depreciate or strengthen against the dollar by a margin of 10 percent.

Notes to the financial statements *(continued)*

5. Financial risk management (continued)

(d) Operational risks

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.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Bank. This responsibility is supported by the development of overall Bank standards 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 for 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 standards is maintained by the Internal Audit Department.

Notes to the financial statements *(continued)*

6. Fair value of financial instruments

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

The fair values of financial assets and financial liabilities that are traded in active markets are 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.
- 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 from prices). 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, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices 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 to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps.

Notes to the financial statements *(continued)*

6. Fair value of financial instruments (continued)

(a) Valuation models (continued)

A vailability 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 Bank has an established control framework with respect to the measurement of fair values. Financial Market department monitors this function, which is independent of front office management and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations
- a review and approval process for new models and changes to models involving both Product Control and Bank Market Risk;
- quarterly calibration and back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Bank Market Risk personnel.

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

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2014

In thousands of Leones	Note	Level 1	Level 2	Level 3	Total
Cash and cash equivalent	*16*	-	1,963,735,207	-	1,963,735,207
Loans and advances to customers	*18*	-	303,196,394	-	303,196,394
Investment securities	*20*	500,361,787	-	-	500,361,787
Investment in equity	*19*	30,128,570	-	-	30,128,570
Total		530,490,357	2,266,931,601	-	2,797,421,958

Notes to the financial statements *(continued)*

6. Fair value of financial instruments (continued)

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

31 December 2013

In thousands of Leones	Note	Level 1	Level 2	Level 3	Total
Cash and cash equivalent	16	-	1,352,334,117	-	1,352,334,117
Loans and advances to Customers	18	-	16,503,992	-	16,503,992
Investment securities	20	462,944,487	-	-	462,944,487
Investment in equity	19	26,518,610	-	-	26,518,610
Total		489,463,097	1,368,838,109	-	1,858,301,206

Where available, the fair value of loans and advances is based on observable market transactions.

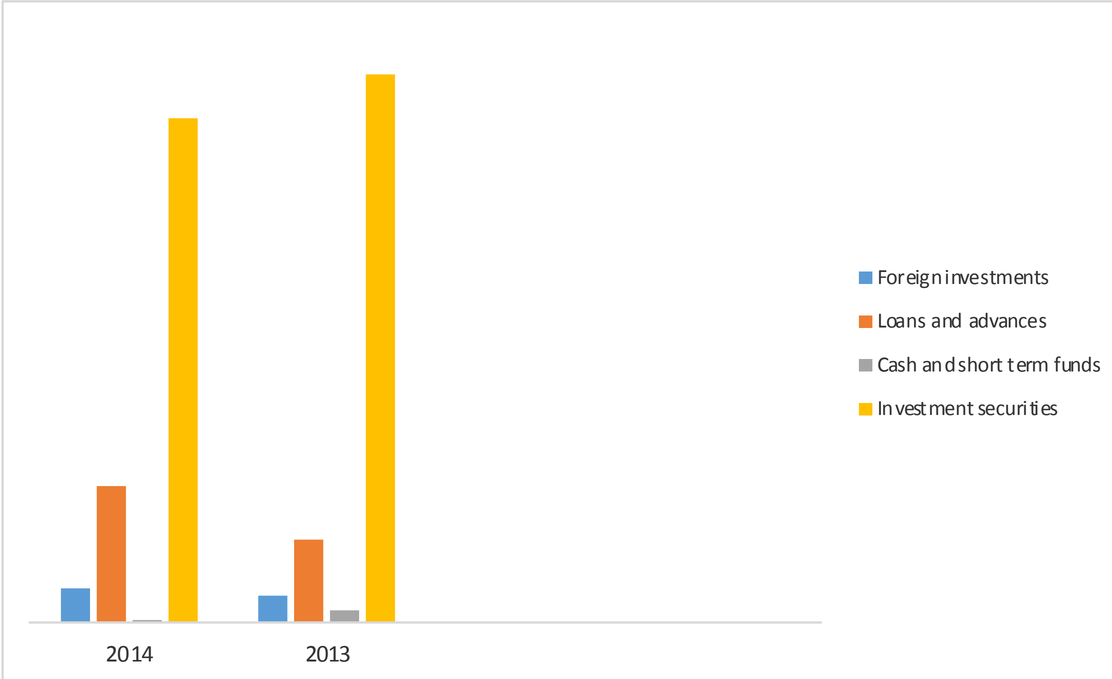
Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral.

To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as vintage, loan to value (LTV) ratios, the quality of collateral, product and borrower type, prepayment and delinquency rates, and default probability.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

7. Segment reporting

The Bank did not maintain and operate separate business segments during the year. Thus, the presentation of segmented information is not considered informative.



In thousands of Leones	**2014**	2013
Interest and similar income		
Foreign investment (Note 8a)	**2,204,375**	1,845,418
Loans and advances (Note 8b)	**9,082,138**	5,511,292
Cash and short term funds (Note 8c)	**57,435**	796,513
Investment securities (Note 8d)	**34,037,880**	37,075,072
Balance at 31 December (Note 8e)	**45,381,828**	45,228,295

Interest expenses and similar charges

In thousands of Leones	**2014**	2013
IMF interest and charges	**641,308**	489,353
Others	**234,170**	92,969
	875,478	582,322
Net interest income	**44,506,350**	44,645,973

8a. Foreign investment

In thousands of Leones	**2014**	2013
Interest income on Sterling investments	**882,498**	563,648
Interest income on US Dollar investments	**691,556**	745,614
Interest income on SDR investments	**627,878**	536,115
Interest income on other external investments	**2,443**	41
	2,204,375	1,845,418

Notes to the financial statements *(continued)*

8b. Loans and advances

In thousands of Leones	**2014**	2013
Interest on loans and advances	**1,407,559**	5,349,934
Interest on reverse repos	**43,516**	161,358
Gain/(loss) on 3 year bond	**3,681,063**	-
Income on 10 year bond	**3,950,000**	-
	9,082,138	5,511,292

8c. Cash and short term funds

In thousands of Leones	**2014**	2013
Income from investment of Bank Funds	**57,435**	796,513

8d. Investment securities

In thousands of Leones	**2014**	2013
Interest on SL Treasury bills	**797,542**	1,869,465
Interest on Treasury bearer bonds	**699,404**	2,284,479
Income on 1 year treasury bills	**171,251**	472,135
Interest on 5 year medium term bonds	**25,200,000**	25,200,000
Interest on 3 year medium term bonds	**6,963,663**	6,976,440
Interest on 182 days treasury bills	**206,020**	272,553
	34,037,880	37,075,072

8e. Additional disclosure on income by source:

In thousands of Leones	**2014**	2013
Foreign investments	**2,204,375**	1,845,418
Local investments	**43,117,453**	43,382,877
Other interest earnings	-	-
	45,381,828	45,228,295

9. Net fee and commission income

In thousands of Leones	**2014**	2013
Fee and commission income		
Credit related fees and commission	**4,841**	10,174
Trade finance and other fees	**455**	291
	5,296	10,465
Fees and commission expense		
Fees and commission expense	-	-
	-	-
Net fees and commission income	**5,296**	10,465

Notes to the financial statements *(continued)*

10. Net exchange gains/(loss)

In thousands of Leones	**2014**	2013
Foreign exchange loss (10a)	**(3,052,804)**	(810,724)
Revaluation gains (10b)	**184,788,183**	46,761,265
	181,735,379	45,950,541

10a. Foreign exchange loss

In thousands of Leones	**2014**	2013
Exchange gain	**750,389**	6,860,241
Exchange loss	**(3,803,193)**	(7,670,965)
	(3,052,804)	(810,724)

10b. Revaluation gains

In thousands of Leones	**2014**	2013
Revaluation losses	**(194,203,821)**	(154,283,575)
Revaluation gain	**378,992,004**	201,044,840
	184,788,183	46,761,265

Revaluation gains and losses relate to exchange differences arising from the revaluation of the Bank's monetary assets and liabilities in foreign currencies, as a result of changes in the exchange rate for the Leones, whilst exchange difference comprises of the sum of gains and losses made by the Bank on foreign exchange denominated transactions.

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

In thousands of Leones		**2014**		2013
Profit as per audited accounts		**43,572,073**		3,780,677
Less: Revaluation losses	**(194,203,821)**		154,283,575	
Revaluation gains	**378,992,004**		(201,044,840)	
Net revaluation gains		**(184,788,183)**		(46,761,265)
Operational loss for the year excluding unrealised exchange gains		**(41,216,110)**		(42,980,588)

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) requires that all unrealised exchange gains are deducted from net profit for the purposes of calculating Distributable Earnings. The above is a reconciliation of the Financial Reporting Profit (inclusive of unrealised gains and losses) to the operating profit (exclusive of unrealised gains and losses).

Notes to the financial statements *(continued)*

11. Other income

In thousands of Leones	**2014**	2013
Rent received	**48,810**	60,748
Sundry receipts	**5,453,671**	4,668,206
Profit on sale of fixed asset	**52,014**	101,898
Grant income	**261,689**	187,560
Interest income on GOSL SDR Bridging Fin Facility	**366,250**	-
	6,182,434	5,018,412

12. Personnel expenses

In thousands of Leones	**2014**	2013
Salaries and wages	**37,802,653**	37,008,327
Social Security	**2,276,896**	2,107,465
End of service benefit	3,643,771	3,812,906
Directors remuneration	**1,463,483**	1,484,894
Others	**1,000,010**	1,670,927
	46,186,813	46,084,519

13. Currency

In thousands of Leones	**2014**	2013
Currency management	**236,800**	61,366
Currency Issue expenses	**13,148,604**	21,976,564
	13,385,404	22,037,930

14. Other expenses

In thousands of Leones	**2014**	2013
Occupancy cost	349,091	332,518
Audit fees	250,000	250,000
Legal and professional fees	3,750,630	2,073,888
Advertisement	449,467	550,170
Electricity	2,287,498	2,325,582
Insurance	1,182,448	1,038,826
Passage and overseas allowances	2,457,443	2,132,540
Repairs and maintenance	482,122	679,760
Write-off of property, plant and equipment	54,018	64,122
Other	14,022,233	8,601,137
	25,284,950	**18,048,543**

Notes to the financial statements *(continued)*

15. Profit for the year

The profit for the year has been stated after charging:

In thousands of Leones	**2014**	2013
Depreciation and amortisation	**4,000,219**	3,591,629
Directors remuneration	**1,463,483**	1,484,894
Audit fees	**250,000**	250,000

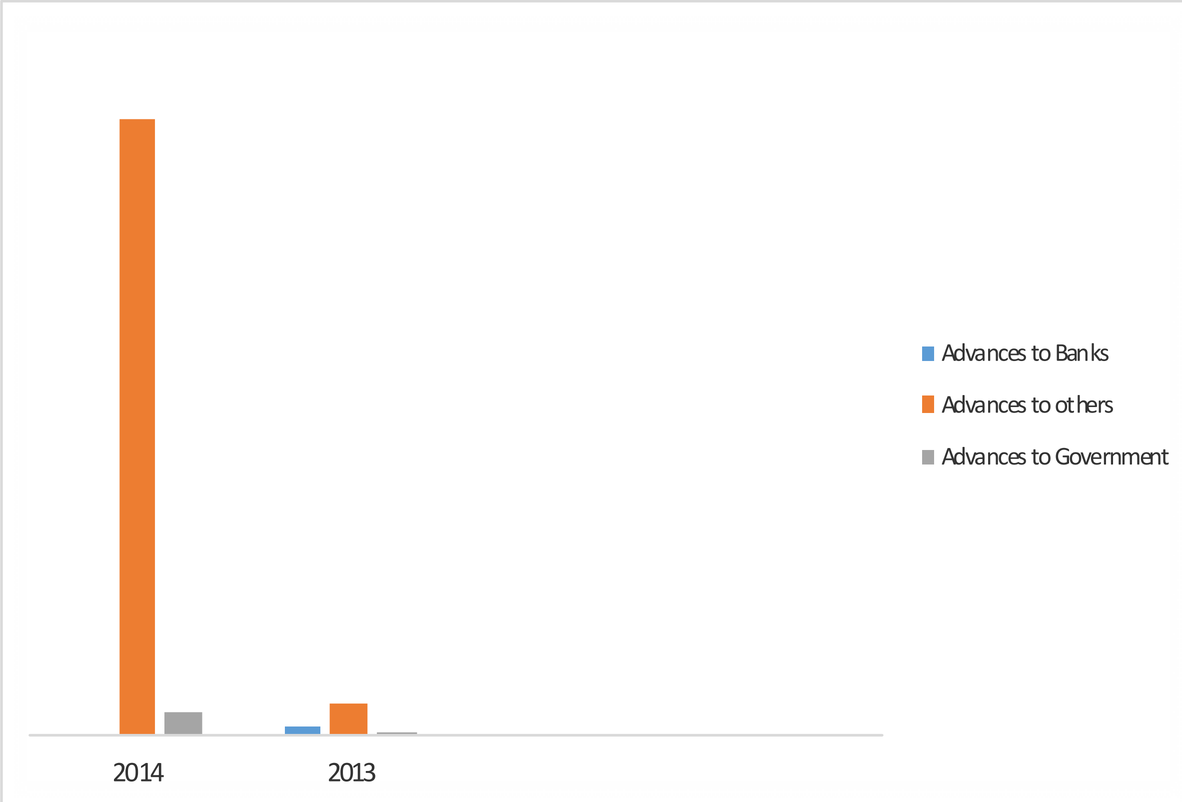
16. Balances due from banking institutions

In thousands of Leones	**2014**	2013
Cash and balances with Banks	**442,541,703**	224,192,883
Balance with other Central Banks	**1,071,056,542**	876,722,846
Placement with banks	**450,136,962**	251,418,388
	1,963,735,207	1,352,334,117

17. Funds held with International Monetary Fund (IMF)

In thousands of Leones	**2014**	2013
IMF Quota subscription	**744,004,983**	695,650,710
SDR Holdings	**783,325,395**	719,033,590
	1,527,330,378	1,414,684,300

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.



In thousands of Leones	*2014*	*2013*
Loans and advances to Banks (Note 18a)	**-**	2,943,825
Loans and advances to others (Note 18b)	**264,138,742**	12,275,364
Loans and advances to Government (Note 18c)	**39,057,652**	1,284,803
	303,196,394	16,503,992

18a Loans and advances to Banks

In thousands of Leones	**2014**	2013
Loans and advances to Banks	-	5,187,083
Less impairment allowances	-	(2,243,258)
	-	2,943,825
Impairment allowances		
Balance at 1 January	**2,243,258**	327,510
Impairment loss for the year	-	1,915,748
Impairment written back	**(2,243,258)**	-
Balance at 31 December	-	2,243,258

18. Loans and advances (continued)

18b. Loans and advances to others

(i) Analysis by type

In thousands of Leone	**2014**	2013
Staff (18(ii))	**4,590,312**	4,610,490
Reverse REPO Account (18(111))	**-**	-
Others (18(iv))	**259,714,775**	7,831,220
Gross loans and advances	**264,305,087**	12,441,710
Less: allowances for losses on loans and advances to others (18(v))	**(166,345)**	(166,346)
	264,138,742	12,275,364

(ii) Staff

In thousands of Leone	**2014**	2013
Personal loan	**2,627,035**	2,612,999
Housing Loan	**150,711**	169,562
Vehicle loan	**1,591,881**	1,453,675
Staff advance	**220,685**	374,254
Balance at 31 December	**4,590,312**	4,610,490

(iii) Reverse REPO

In thousands of Leone	**2014**	2013
Reverse REPO account	-	-

(iv) Others

In thousands of Leones	**2014**	2013
Advances to contractors	**5,690,568**	6,445,096
Loan to Sierra Leone Stock Exchange Company Limited	**1,000,000**	1,024,274
Sundry	**253,024,207**	361,850
Balance at 31 December	**259,714,775**	7,831,220

Included in sundry is an amount of Le 71.25 billion representing outstanding amount 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.

Notes to the financial statements *(continued)*

18. Loans and advances (continued)

18b. Loans and advances to others (continued)

(iv) Others (continued)

As at 31 December 2014, Le 3.75 billion has been repaid by the Government to theBank leaving an outstanding amount of Le 71.25 billion out of the principal amount of Le 75.00 billion.

(v) Allowances for impairment

In thousands of Leones	2014	2013
Specific allowances for impairment		
Balance at 1 January	**166,345**	-
Impairment loss for the year	-	166,345
Balance at 31 December	**166,345**	166,345
Collective allowance for impairment		
Balance at 1 January	-	-
Impairment loss for the year	-	
Balance at 31 December	**-**	**-**
Total allowances for impairment	**166,345**	166,345

18c. Advances to Government of Sierra Leone

In thousands of Leones	**2014**	2013
Ways and Means Advances brought forward	**1,284,803**	48,116,790
Advances during the year	**1,544,438,335**	1,503,279,221
Receipts during the year	**(1,506,665,486)**	(1,550,111,208)
Ways and Means Advances Carried forward	**39,057,652**	1,284,803

Under the provisions of Section 56(5) of the Bank of Sierra Leone Act, 2011, the limit of 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.

Notes to the financial statements *(continued)*

18. Loans and advances (continued)

18c. Advances to Government of Sierra Leone (continued)

In thousands of Leones	**2014**	2013
Ways and Means Advances	**39,057,652**	1,284,803
Government actual revenue in previous year	**2,261,992,000**	2,364,852,000
5% thereof	**113,099,600**	118,242,600
Deficit in Government lending	**(74,041,948)**	(116,957,797)

The Directors report deficit in lendings to the Government of Sierra Leone as at 31 December 2014 of Le 74,041,948 (2013: deficit of Le 116,957,797).

19. Investment in equity

In thousands of Leones	**2014**	2013
AfreximBank Capital Investment	**15,858,187**	14,003,130
AfreximBank Dividend Investment	**119**	104
WAMA	**14,270,264**	12,515,376
	30,128,570	26,518,610

20. Investment securities

In thousands of Leones	**2014**	2013
Investment securities at fair value through profit or loss	**-**	-
Held to maturity investment securities	**500,361,787**	462,944,487
Available for sale investment securities	-	-
	500,361,787	462,944,487

Notes to the financial statements *(continued)*

20. Investment securities (continued)

Held to maturity investment securities

In thousands of Leones	**2014**	2013
Five year medium term bonds	**273,407,606**	273,811,491
Treasury bills held for monetary policy	**9,026,850**	85,720,850
Treasury bond held for monetary policy	**8,241,450**	7,345,800
One year treasury bills	**9,850,994**	1,099,850
182 days treasury bills	**25,921,861**	7,798,900
Others	**19,025,222**	12,626,821
BSL Holding three year medium term bond	**154,887,804**	74,540,775
	500,361,787	462,944,487

Fair value reserve:		
At 1 January	-	81,801,429
Reduction of fair value adjustment	-	-
Converted to 91 days treasury bills	-	(81,801,429)
	-	-

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.

BSL Holding 3 year medium term bond

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

Notes to the financial statements *(continued)*

21. Property plant and equipment

In thousands of Leones **Cost**	**Premises**	**Motor vehicle**	**Office furniture equipment**	**Plant and machinery**	**Work-in progress**	**Total**
Balance at 1 January 2013	59,251,630	5,974,377	18,254,619	4,432,927	7,599,906	95,513,459
Additions during the year	-	-	501,606	-	11,278,112	11,779,718
Reclassification	4,355,871	961,400	347,165	-	(5,664,436)	-
Write-off	-	-	(8,452)	-	(55,670)	(64,122)
Disposal	-	(858,834)	-	-	-	(858,834)
Adjustment	-	-	(48,877)	-	(1,600)	(50,477)
Balance at 31 December 2013	63,607,501	6,076,943	19,046,061	4,432,927	13,156,312	106,319,744
Balance at 1 January 2014	**63,607,501**	**6,076,943**	**19,046,061**	**4,432,927**	**13,156,312**	**106,319,744**
Additions during the year	**-**	**-**	**-**	**-**	**10,587,943**	**10,587,943**
Reclassification	**81,459**	**8,400**	**3,885,767**	**2,529,951**	**(6,505,577)**	**-**
Write-off	**-**	**-**	**(1,256)**	**-**	**(52,762)**	**(54,018)**
Disposal	**-**	**-**	**(80,730)**	**-**	**-**	**(80,730)**
Adjustment	**(8,209)**	**-**	**(182,015)**	**-**	**190,224**	**-**
Balance at 31 December 2014	**63,680,751**	**6,085,343**	**22,667,827**	**6,962,878**	**17,376,140**	**116,772,939**
Depreciation						
Balance at 1 January 2013	11,549,294	5,366,678	13,071,537	3,496,222	-	33,483,731
Depreciation for the year	1,201,069	366,190	1,772,866	251,504	-	3,591,629
Write-off	-	144	2,737	4,473	-	7,354
Disposal	-	(858,816)	-	-	-	(858,816)
Balance at 31 December 2013	**12,750,363**	**4,874,196**	**14,847,140**	**3,752,199**	**-**	**36,223,898**
Balance at 1 January 2014	**12,750,363**	**4,874,196**	**14,847,140**	**3,752,199**	**-**	**36,223,898**
Depreciation for the year	**1,248,467**	**324,470**	**2,164,383**	**262,899**	**-**	**4,000,219**
Adjustments	-	-	8	-	-	8
Disposal	-	-	(46,744)	-	-	(46,744)
Balance at 31December 2014	**13,998,830**	**5,198,666**	**16,964,787**	**4,015,098**	**-**	**40,177,381**
Carrying amount: **At 31 December 2013**	50,857,138	1,202,747	4,198,921	680,728	13,156,312	70,095,846
At 31 December 2014	**49,681,921**	**886,677**	**5,703,040**	**2,947,780**	**17,376,140**	**76,595,558**

Work in progress represents amount spent on renovation of the Middle Hill Bank Governor's residence, furniture previously meant for Tokeh Resource Center. Building of sea defence wall and construction of broad walk at Bank Complex, rehabilitation and installation of new light at mai banking and Sam Bangura building.

Notes to the financial statements *(continued)*

22. Other assets

In thousands of Leones	**2014**	2013
Gold stock	**520,804**	465,203
Items in transit	**(108,404)**	34,359,629
Other consumables	**747,782**	871,892
Prepayment	**6,898,055**	143,786
Interest receivable	**84,274**	144,212
Deferred currency issue expense	**63,534,121**	35,807,655
Other receivables	**3,499,408**	13,650,743
WAMZ Payment Systems Fund	-	-
Deferred Govt. security certificate	-	-
Less:		
Allowances for impairment	**(8,732)**	(8,732)
	75,167,308	85,434,388
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 International Monetary Fund (IMF)

In thousands of Leones	**2014**	2013
IMF Special Drawing Rights	**713,911,990**	647,653,313
IMF Poverty Reduction and Growth Facility	**796,152,056**	576,339,603
IMF securities	**67,390,261**	67,390,261
IMF No. 1	**633,501,137**	608,643,458
IMF No. 2	**63,253**	61,008
	2,211,018,697	1,900,087,643

The IMF Special Drawing Rights and Poverty Reduction and Growth Facility accounts relates to amounts due to the International Monetary Fund (IMF) for amounts of SDR's 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 No. 1 Account represents part of the IMF currency holdings held in member's designated depository agency 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.

The IMF No. 2 Account represents part of the IMF currency holdings held in member's designated depository agency and it is used for the payment of administrative expenses incurred by the IMF 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 agency which contain member's non-negotiable, non-interest bearing notes encashable on demand.

Notes to the financial statements *(continued)*

24. Deposit from Government

In thousands of Leones	**2014**	2013
Government special deposits/accounts	**171,685,982**	32,320,016
	171,685,982	32,320,016

25. Deposit from Banks

In thousands of Leones	**2014**	2013
Commercial Bank's reserve account	**372,073,971**	231,677,098
Rural and community bank's reserve accounts	**16,511,334**	8,439,506
Others	(3,163,092)	**564,750**
	385,422,213	240,681,354

26. Deposits from Others

In thousands of Leones	**2014**	2013
Other deposits	**48,058,613**	53,190,860
	48,058,613	53,190,860

27. Currency in circulation

In thousands of Leones	**2014**	2013
Notes	1,126,618,116	**910,925,115**
Coins	10,426,472	**10,118,573**
Balance at 31 December	**1,137,044,588**	921,043,688

Currency in circulation represents the face value of bank notes and coins in circulation. Notes and coins held by the Bank as cash in main vault and cashier/teller at the end of financial year have been excluded from the liability of banknotes and coins in circulation because they do not represent currency in circulation. Currency banknotes and coins are issued in the following denominations:

Banknotes: 10,000, 5,000, 2,000, 1,000 and 500
Coins: 500, 100 and 50

Notes to the financial statements *(continued)*

28. Other liabilities

In thousands of Leones	**2014**	2013
Financial liabilities		
Other foreign currency financial liabilities (28a)	**55,796,903**	37,925,654
Accrued charges and other liabilities (28b)	**2,917,631**	2,687,530
	58,714,534	40,613,184
Non-Financial liabilities		
Provision for revaluation of pipeline liabilities (28c)	**32,425,392**	29,831,161
	32,425,392	29,831,161
	91,139,926	70,444,345

28a. Other foreign currency financial liabilities

In thousands of Leones	**2014**	2013
Foreign payment	**8,658,700**	731,345
Sierra Rutile/GoSL Loan	-	-
Bank of China US$ clearing	**41,683,201**	36,659,596
WAMA ECOWAS travellers' cheques	-	-
WAMA ECOWAS travellers' cheques clearing	**(1,169)**	(1,169)
Commission of European committee	-	-
WAMA settlement	-	-
OFID Debt Relief imprest account	**31,118**	250,027
Sundry liabilities	**5,425,053**	285,855
	55,796,903	37,925,654

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 11,220,227.40 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 first instalment payment shall be made on 15th August 1994 and thereafter shall be effective every six months on 15th February and 15th August respectively.

Notes to the financial statements *(continued)*

28b. Accrued charges and other liabilities

In thousands of Leones	**2014**	2013
Accrued expenses	**2,547,192**	2,324,534
P.S. Bond in circulation	**449**	449
Retention monies	**340,704**	354,284
Trade and sundry creditors	**29,286**	8,263
	2,917,631	2,687,530

28c. Provision for revaluation of pipeline liabilities

In thousands of Leones	**2014**	2013
Balance at January	**29,831,161**	29,299,624
Revaluation loss	**2,594,231**	531,537
Disbursement	-	-
Balance at 31 December	**32,425,392**	29,831,161

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 obligation. The liability as stated reflects the currency Leone value of identifiable currency liabilities to a number of commercial banks with respect to foreign currency obligations that were not settled by the bank.

29. End of service benefit

In thousands of Leones	**2014**	2013
(a) Change in liability		
Balance at 1 January	**14,068,600**	12,482,964
Service cost	**2,017,838**	2,014,492
Interest cost	**1,625,933**	1,798,414
Actuarial gain arising financial assumptions	**(78,434)**	(187,173)
Actuarial loss/(gain) other	**636,109**	(700,350)
Benefits paid	**(818,525)**	(1,339,747)
Balance at 31 December	**17,451,521**	14,068,600

Notes to the financial statements *(continued)*

29. End of service benefit (continued)

(b) Change in plan assets

In thousands of Leones	**2014**	2013
Balance at 1 January	-	-
Actual return	-	-
Expected returns at 31 December	-	-
Actuarial gain/(loss)	-	-
Contribution by participants	**818,525**	1,339,747
Employer	**818,525**	1,339,747
Other	-	-
Benefits paid	**(818,525)**	(1,339,747)
Foreign exchange rate effect	-	-
Balance at 31 December	-	-

In thousands of Leones	**2014**	2013

(c) Funding level

Projected benefit obligation	**17,451,521**	14,068,600
Plan assets	-	-
Net obligation reported in the statement of financial position	**17,451,521**	14,068,600
Unrecognised actuarial gains/(losses)		
Balance at 1 January	-	-
Amortisation of opening balance	**(557,675)**	(887,523)
Corridor max	**(557,675)**	-
Balance to be amortised	-	-
Amortisation period	-	-
New gains/(losses)	**(557,675)**	887,523
Balance at 31 December	-	-

Notes to the financial statements *(continued)*

29. End of service benefit (continued)

(d) *Balance sheet*

In thousands of Leones	**2014**	2013
Projected benefit obligation	**17,451,521**	14,068,600
Plan assets	-	-
Net obligation/(assets)	**17,451,521**	14,068,600
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Unrecognised transitional obligation	-	-
Unrecognised (asset ceiling)	-	-
Net obligation/(asset) to be in balance sheet	**17,451,521**	14,068,600

(e) *Income statement*

In thousands of Leones	**2014**	2013
Service cost	**2,017,838**	2,014,492
- Net Interest cost	**1,625,933**	1,798,414
- Interest cost	-	-
- Expected return on plan assets	-	-
- Return on asset ceiling	-	-
Interest cost	-	-
Expected return on plan asset	-	-
Change is S59 amount	-	-
Actuarial loss/(gain) recognised	-	-
Transitional obligation recognised	-	-
Past service cost recognised	-	-
Amount recognised in income statement	**3,643,771**	3,812,906
Other comprehensive income (OCI)		
Actuarial (gains)/loss	**(557,675)**	(887,523)
Return on plan asset not in P & L	-	-
Effect of asset celling not in P & L	-	-
Amount recognised in OCI	**(557,675)**	(887,523)
Initial adjustment to capital amount recognised	-	(887,523)
Cumulative amount recognised in OCI	**(557,675)**	(887,523)

(f) *Reconciliation of financial position*

Opening value	**14,068,600**	12,482,964
Employee contribution	**(818,525)**	(1,339,747)
Amount recognised in income statement	**3,643,771**	3,812,906
Amount recognised in OCI	**557,675**	(887,523)
Closing value	**17,451,521**	14,068,600

Notes to the financial statements *(continued)*

29. End of service benefit (continued)

(g) Key valuation assumptions

	2014	2013
Discount rate	**11.00%**	12.00%
Salary inflation	**11.00%**	12.00%
Gap	**0.00%**	0.00%

(h) Sensitivity information

1% Increase in medical inflation	Increase in defined benefit obligation (amount)
	Increase in defined benefit obligation (percentage)
	Increase in service cost and interest cost (amount)
	Increase in service cost and interest cost (percentage)
1% decrease in medical inflation	Decrease in defined benefit obligation (amount)
	Decrease in defined benefit obligation (percentage)
	Decrease in service cost and interest cost (amount)
	Decrease in service cost and interest cost (percentage)

30. Share capital

In thousands of Leones	**2014**	2013
Authorised:	**250,000,000**	250,000,000
Issued and fully paid		
Balance at 1 January	**50,000,000**	50,000,000
Subscribed during the year	**75,000,000**	-
	125,000,000	50,000,000

Section 10(1) and 81 of the Bank of Sierra Leone Act 2011 require the Bank of Sierra Leone to maintain a minimum paid up capital of Le 125 billion, which is to be subscribed within five years from the commencement of the Bank of Sierra Leone Act (that is 24 November 2011). As at 31 December 2014 the Government as the sole shareholder of the Bank provided the additional Le 75 billion to comply with Section 10(1) of the Bank of Sierra Leone Act 2011. This was done with the issuance of a Le75.0 billion marketable bond to be amortised over a period of 10 years at an interest rate of 8% for the purpose of fully subscribing to the minimum paid up capital of the Bank. This bond was issued on 1 May 2014 with interest payable semi-annually.

Notes to the financial statements *(continued)*

31. Reserves and retained earnings

In thousands of Leones	**2014**	2013
General reserves (a)	**256,684,420**	113,112,317
Other reserves (b)	**32,792,919**	32,792,919
Total reserves as at 31 December	**289,477,339**	145,905,236

(a) General reserve

In thousands of Leones	**2014**	2013
Balance at start of the year	**113,112,317**	27,530,240
Net profit for the year	**143,572,073**	3,780,677
	256,684,390	31,310,917
Securities reserves	**30**	81,801,400
Balance at 31 December	**256,684,420**	113,112,317

Under Section 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 falls below the sum of its liabilities, 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 Government to 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 or in negotiable debt instruments with a specified maturity issued at market-related interest rates, as determined by the Board.

As at 31 December 2014, the total value of the assets of the Bank exceeds the sum of its liabilities, unimpaired issued capital and general reserves.

Notes to the financial statements *(continued)*

31. Reserves and retained earnings (continued)

(b) Other reserves

(i) Property revaluation reserves

In thousands of Leones	**2014**	2013
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 is transferred revaluation gains on revaluing its properties

(ii) Actuarial gains/(loss)

In thousands of Leones	**2014**	2013
Balance at start of the year	**773,998**	(113,525)
Actuarial loss on end of service benefit	**(557,675)**	-
Actuarial gain on end of service benefit	-	887,523
	216,323	773,998

32 Contingencies and commitments

32a. Contingent Liabilities

In thousands of Leones	**2014**	2013
Guarantees and Endorsement	**462,933,487**	154,518,483
Promissory notes	-	-
	462,933,487	154,518,483

32b. Capital commitments

In thousands of Leones	**2014**	2013
Capital expenditure	**1,536,676**	19,713,643
African Export Import Bank	**12,185,216**	10,716,670
	13,721,892	30,430,313

Notes to the financial statements *(continued)*

32 Contingencies and commitments (continued)

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.

33. Related parties

Parent and ultimate controlling party

Although the Bank is an autonomous entity, the Government of Sierra Leone being the sole subscriber to the share 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 2014, total net advances to the Government was Le 39.1 billion (2013: Le1.28 billion).

The Board of Directors (including the Governor and Deputy Governor) received remuneration amounting to Le1.46 billion (2013: Le 1.48 billion). The Governors benefited from rent allowance and vehicles for official and domestic purposes. Board members did not benefit from any loan during the period under review. An amount of Le13.91 million (2013: Nil) was contributed to the National Social Security and Insurance Trust Scheme (NASSIT) on behalf of the Deputy Governors as he is within the required age.

Senior management received remuneration of Le 2.8 billion (2013: Le 2.4 billion) and benefited from official vehicles. Outstanding loans to senior management totalled Le 274 million (2013: Le 216 million). A total of Le 306 million (2013: Le 258 million) was contributed on their behalf to NASSIT.

Deposits from Government totalled Le 171 billion (2013: Le 32.2 billion).

34. Post balance sheet events

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

There were no such events as at the date the financial statements were signed.

Notes to the financial statements *(continued)*

35. Financial risk management

(a) 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 a Risk Management 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 management systems and controls and also consider the implications of changes proposed to regulations and legislation that are material to the Bank's risk appetite and management of risk. The Board Audit Committee is assisted in these functions by the Head of Compliance. The Head of Audit undertakes both regular and ad-hoc review of risk management controls and procedures, the results of which are reported to the Risk Committee.

The Board Audit Committee is responsible for monitoring the Bank's compliance with financial accounting policies and pronouncements, keep under review the appropriateness of the accounting policies and internal controls systems, consider external auditor's 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 th e Head of Audit. The Head of 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.

(b) 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 theBank's loans and advances to customers. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, and sector risk).

Settlement risk

The bank's activities may give rise to risk at the time of settlement of transaction and trade. Settlement risk is the risk of loss due to the failure of a company to honour its obligation to deliver cash securities or other assets as contractually agreed.

Notes to the financial statements *(continued)*

35. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Credit Committee. A separate risk management group, reporting to the Board Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Establishing the authorisation structure* for the approval and renewal of credit facilities. All facilities require the prior approval of the Bank's Credit Committee. Larger facilities require approval by the Board of Directors as appropriate.

- *Reviewing and assessing credit risk* the Bank's Credit Committee assesses all credit exposures, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties and industries (for loans and advances).

- *Developing and maintaining the Bank's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions maybe required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by the Credit Policy Committee/Early Alert Committee.

- *Reviewing compliance* with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to the Critised Assets Committee on the credit quality of loan/advances portfolios and appropriate corrective action is taken.

- *Providing advice, guidance and specialist skills* to promote best practice throughout the Bank in the management of credit risk.

The Bank is required to implement credit policies and procedures, with credit approved authorities delegated from the Board Credit Committee.

Notes to the financial statements *(continued)*

35. Financial risk management (continued)

(c) 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 a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.

- 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.

Management receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Management then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to customers, to ensure that sufficient liquidity is maintained within the Bank as a whole. 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.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Notes to the financial statements *(continued)*

35. Financial risk management (continued)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) 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 risk.

Management of market risks

The Bank's separate its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board. ALCO is responsible for the development of detailed risk management polices (subject to review and approval by Board and for the day-to-day review of their implementation).

Exposure to market risks - trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios are limits placed on open positions. Specified limits have been set for open positions which is the expected maximum exposure the Bank is to be exposed to.

The Bank uses open position limits for specific foreign exchange risks. The overall structure of the limits is subject to review and approval by the Board. Open position is measured at least daily and more regularly for days of active trade. Regular reports of utilisation of open limits are submitted to the Board/Management Committee.

Exposure to interest rate risk - non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rate. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Market Risk in its day-to-day monitoring activities.

Notes to the financial statements *(continued)*

35. Financial risk management (continued)

(e) Operational risks

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.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Bank. This responsibility is supported through the Bank's Operational Risk and Assurance Methodology Framework (ORMAF) 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 for 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 Bank standards is supported by a programme of independent periodic reviews undertaken by the Head of Compliance and Assurance. The results of internal audit reviews are discussed with the management of the Bank with summaries submitted to the senior management of the Bank.

36. Basis of measurement

The financial statements have been prepared on a historical basis except as stated elsewhere at fair value.

Notes to the financial statements *(continued)*

37. Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 38 to all periods presented in these financial statements.

The Bank has adopted the amendment to IAS 32 on disclosures - Offsetting Financial Assets and Financial Liabilities, including any consequential amendments to other standards, with a date of initial application of 1 January 2014. The nature and the effect of the amendment is explained below.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

The change did not have a material impact on the Bank's financial statements.

Notes to the financial statements *(continued)*

38. 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 that follow.

(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 retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising as 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 retranslation of available-for-sale equity instruments.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(b) Interest

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

The recognition of interest ceases when the payment of interest or principal is in doubt. Interest is 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 effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and interest paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Interest income and expenses presented in the statement of profit or loss and OCI include interest on financial assets and financial liabilities at amortised cost calculated on an effective interest rate basis.

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 income and expenses 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 income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognised on a straight line basis over the commitment period.

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

(d) Net exchange gains/losses

Net exchange gains/losses comprises gains less losses related to conversion of foreign monetary assets and liabilities and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(e) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(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 loans and 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 flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risk and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retentions of all or substantially all risks and rewards include, for example securities lending and repurchase transaction.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(ii) Derecognition (continued)

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks, and rewards of ownership of a financial asset it derecognises the assets if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain circumstances the Bank retains rights to service a transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing rights, depending on whether the servicing fee is more than adequate to cover servicing expenses (asset) or is less than adequate for performing the servicing (liability).

(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 similar transactions such as 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 amount recognised and the maturity amount minus any reduction for impairment.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(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 by using valuation techniques. Valuation techniques include the net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Bank uses probability models which usually are developed from recognised valuation models. Some or all of the inputs to these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price which is the best indication of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in the fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction.

Valuation adjustments are recorded to allow for model risks, bid risk spreads, liquidity prices, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

(vi) Identification and measurement of impairment

At each financial position date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective 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 on the asset that can be estimated reliably.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment (continued)

The Bank considers evidence of impairment at both a specific asset and collective level. 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 then 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 statement of comprehensive income and reflected in an allowance account against loans and advances.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

However, any significant recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provision attributable to time value are reflected as a component of interest income.

(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) Loans and advances

Loans and 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

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

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

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(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 all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity 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 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 and the balance in equity is recognised in profit or loss.

(k) Property 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.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(k) Property and equipment (continued)

(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 balance sheet 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

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and they are not recognised on the Bank's balance sheet.

(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 its 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.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(m) Impairment of non-financial assets (continued)

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 date for 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, with fair value plus 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 obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is 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 cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(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 crystalised or becomes probable that it will crystalise.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(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 term cash bonus or profit sharing plans if the Bank has a present legal and constructive obligation to pay 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). This defined contribution plan is a Pension Scheme under which the Bank pays fixed contributions into a separate entity. 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 expensed as an 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 financial position 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 from end of service benefits immediately in Other Comprehensive Income (OCI).

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(q) Employee benefits (continued)

(iii) 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 either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(r) Share capital and reserves

(i) 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 Sierra Leone Act 2011 require that the minimum paid up capital of the Bank must be Le 125bn, to be subscribed within five years from commencement of the Act (that is commencing from 24 November 2011). The capital has not been fully subscribed for as at year end.

ii) Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(s) Amounts repayable under Repurchase Agreement (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 statement and secures this borrowing (liability) by assigning part of the securitised debt owing from Government to the Bank to the commercial banks it has mopped from. The Bank freezes the money mopped and pays interest at market rates on the money. The money mopped stays until 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 form of Treasury Bills or Bonds. The bank earns interest on this lending. The injected money stays with the borrowing bank until maturity.

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(s) Amounts repayable under Repurchase Agreement (REPOs) (continued)

(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 Bank.

(i) REPOs continue to be recognised in the statement of financial position and are measured in accordance with policies for non-trading investment.

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

(t) Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for currency in circulation is recognised at face value in these financial statements. Currency in circulation represents the face value of notes and coins in circulation. Bank notes and coins held by the Bank as cash in main vault and 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 an off balance sheet item to account for the movement of stock through receipts and issues of notes and coins.

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

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

(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 revaluation account.

(w) Commitments on behalf of Treasury

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

Notes to the financial statements *(continued)*

38. Significant accounting policies (continued)

(x) Comparative

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

39. New Standards and Interpretations not yet adopted

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact of the Bank's financial statements.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19);
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle;
- IFRS 14 Regulatory Deferral Accounts;
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41);
- Equity Method in Separate Financial Statements (Amendments to IAS 27);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28); and
- Annual Improvements to IFRSs 2012-2014 Cycle - various standards

Bank of Sierra Leone

Annual Report
and
Statement of Accounts
for year ended 31st December 2014

Contents

A. Annual Report 2014

B. Statement of Accounts