Bank of Sierra Leone

FINANCIAL STABILITY REPORT

2018

March 2020

FINANCIAL STABILITY REPORT

2018

Number 02

March | 2020

Published by: Bank of Sierra Leone

Siaka Stevens Street, Freetown, Sierra Leone

Tel: +232 22 226501

Fax : +232 22 224764

Email : info@bsl.gov.sl

Website: www.bsl.gov.sl

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF BOXES

ABBREVIATIONS

ACH	Automated Clearing House
AfDB	African Development Bank
AFF	Agricultural Finance Facility
AFI	Alliance for Financial Inclusion
ATM	Automated Teller Machines
BOP	Balance of Payments
CAR	Capital Adequacy Ratio
CBs	Community Banks
CET	ECOWAS Common External Tariff
COMFI	Credit-Only Microfinance Institutions
CPS	Consumer Protection Section
DLT	Distributed Ledger Technology
DB	Defined Benefit
DTMFI	Deposit Taking Microfinance Institutions
ECOWAS	Economic Community of West African States
EMDE	Emerging Market and Developing Economies
ETLS	ECOWAS Trade Liberalisation Scheme
EVD	Ebola Virus Disease
FSA	Financial Services Associations
FSR	Financial Stability Report
FSDP	Financial Sector Development Plan
FSI	Financial Soundness Indicators
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
GIS	Geographic Information System
HIPC	Highly Indebted Poor Countries
HHI	Herfindahl-Hirschman Index
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
KYC	Know Your Customer
LIC	Low-income countries
LLP	Loan Loss Provision
MCM	Monetary and Capital Markets
MDAs	Ministry Department and Agencies
MFI	Micro-Finance Institution
MIX	Microfinance Information Exchange
MoFED	Ministry of Finance and Economic Development
MPR	Monetary Policy Rate
MSME	Micro, Small, and Medium Enterprises
MTI	Ministry of Trade and Industry
NAC	National Approval Committee
NCRA	National Civil Registration Authority
NDA	Net Domestic Assets
NFA	Net Foreign Assets

NCCUA	National Cooperative Credit Union Association
NPL	Non-Performing Loans
NSFI	National Strategy for Financial Inclusion
OFI	Other Financial Institutions
POS	Point of Sale
PPG	Public and Public Guaranteed
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
SDF	Standing Deposit Facility
SLF	Standing Lending Facility
SLICOM	Sierra Leone Insurance Commission
SSA	Sub-Saharan Africa
T-bills	Treasury bills
USA	United States of America
WAMI	West Africa Monetary Institute
WAMZ	West Africa Monetary Zone
WEO	World Economic Outlook

GOVERNOR'S FOREWORD

The Bank of Sierra Leone (BSL) has the pleasure to present to the public the second edition of the Financial Stability Report for Sierra Leone, which covers key developments in the financial system during 2018, including an elaboration on macro-financial linkages and resilience of the banking sector under different stress test scenarios.

Despite uncertainties in the global environment and domestic economic challenges the financial system of Sierra Leone continues to grow and remains stable. The total assets of the financial system in 2018 grew by 15 per cent with all components of the financial system recording growth in assets. Domestic deposits continue to grow and remain the main source of banks' funding, which reduces banking sector dependence on external sources and exposure to risks from the international environment.

The banking sector, which represents around 80 per cent of the total assets of the financial system, concluded the year 2018 with solid performance, as evidenced by key financial soundness indicators. Overall, the banking sector remained well capitalised, liquid, and profitable. However, the loan to deposit ratio continues to be very low, the cost of financial intermediation remains high, thus having consequences for economic growth. In addition, the banking sector remains highly concentrated on investments in government securities, and lending is mainly concentrated to the commerce & finance and construction sectors. These sectors also account for the lion share of non-performing loans (NPLs). Despite the continuous decline, the overall NPL ratio is still slightly above the prudential threshold, and as such remains a matter of supervisory concern.

The recently amended BSL Act, Banking Act, and the Borrowers and Lenders Act are expected to further strengthen BSL's mandate on financial stability, including risk-based supervision, macro-prudential and resolution frameworks in line with best international practice. The planned establishment of the BSL's Financial Policy Committee will enhance cooperation and coordination amongst key stakeholders in the financial system including Sierra Leone Insurance Commission and National Social Security and Insurance Trust whose contributions to this report is highly appreciated. Furthermore, we expect that the Financial System Stability Review mission of the IMF, planned to take place by the end of 2019, will help to address most of the financial system challenges indicated in this report.

The BSL is confident that the current state of financial stability will support further sustainable expansion of the financial system and contribute to economic development. To safeguard the financial system stability, the BSL will continue with its risk-based supervision and macro-prudential measures, closely monitor developments related to the financial stability, invest in capacity building and, strengthen the financial system regulatory framework and infrastructure.

Kelfala M. Kallon
Governor

EXECUTIVE SUMMARY

The global financial conditions remain broadly accommodative and supportive of growth in the near term, even though financial conditions in some emerging market economies have tightened since the April 2018 Global Financial Stability Report (GFSR). This development has been driven by a combination of country-specific factors, worsening of external financing conditions, and trade tensions. As a result, near-term risks to financial stability have increased modestly, while medium-term risks remain elevated because of persistent financial vulnerabilities linked to high debt levels and stretched asset valuations.

Recently published financial stability report for West African Monetary Zone (WAMZ) indicates that the financial sector of the region continues to show sound and adequate capitalisation despite weak macroeconomic fundamentals (latest data as of 2017). However, increasing trend in NPLs in Ghana, Guinea, and Nigeria continues to pose serious challenges for the banking sector.

The banking sector in Sierra Leone remained liquid, sound and profitable in 2018, as reflected by the performance of key Financial Soundness Indicators (FSIs). In comparison with 2017, the pace of growth in the industry's total assets increased, both at domestic and foreign fronts. The industry's income statement recorded an improved performance in December 2018 when compared to 2017, which is mainly from increased growth in banks' gross operating income and net income. However, asset quality remained a downside risk as the industry's NPL ratio remained above the tolerable limits, even though it edged down in 2018. There is expectation that the NPL ratio will continue to improve as banks charge off loans in the loss category by implementing the Credit Write-Off Directive. Furthermore, banks will enhance their credit underwriting standards and improve on their credit risk management practices.

There has been no significant changes in the landscape of the financial system in Sierra Leone. As at end 2018, the number of licensed banks remained at fourteen (14). Of the fourteen (14) licensed banks, four (4) are domestically owned, while the remaining ten (10) are subsidiaries and foreign-owned, mainly from Nigeria. As at end 2018, the branch network of the banks stood at 115, distributed across the country.

There was an increase in deposit concentration and asset concentration in the banking sector in Sierra Leone. Expressed as a ratio of the assets of three and five largest banks in the sector, the banking concentration level increased from 38 per cent in 2017 to 43 per cent in 2018 for the three largest banks, while the five largest banks' asset concentration moved from 64 per cent in 2017 to 65 per cent in 2018.

The risk profile of the financial system in Sierra Leone remains the same as reported in the first edition of the financial stability report. At the macro-financial level, high loan concentration and high degree of dollarization remain key risks from real sector to the banking sector, whereas commodity price shocks and fiscal dominance remain key risks from external and fiscal sector, respectively. In particular, Government arrears to suppliers and contractors amounted to Le 3.3 trillion (8.75 per cent of GDP) continues to be an important source of the buildup of NPLs and subsequently a deterrent to the recovering of the supply of credit to the private sector. Nevertheless, the stress test results presented in the report show strong resilience of the banking sector under all three scenarios (increase in NPLs, exchange rate depreciation, and liquidity risk).

The Bank of Sierra Leone (BSL) is increasingly focusing its attention on assessing emerging vulnerabilities and structural changes in the banking sector. The growing and evolving role of technology has the potential to further alter the financial landscape. In this regard, the BSL has been inviting Fintech companies to test their products that support efficient financial intermediation under a controllable environment. The risks and opportunities of such products are being carefully examined by the BSL's Regulatory Sandbox team. The BSL will continue to undertake any appropriate policy and/or supervisory measures to mitigate such risks, with a view of enhancing financial stability.

There has been mixed developments in the performance of the non-bank financial institutions as highlighted by key performance indicators. Overall, the non-bank financial sector is growing in terms of number of institutions, clients, deposits, and loans. The microfinance industry expanded rapidly in 2018, thus becoming an important provider of financial services to Micro, Small, and Medium Enterprises (MSME) and the lower income segments of the country's population.

The National Social Security and Insurance Trust (NASSIT) registered a considerable number of institutions and employees that are now members of the scheme. However, there is still much to be done to get the informal sector and the self-employed on board as the informal sector accounts for over 85 per cent of the active work force. The NASSIT has initiated measures to provide an attractive scheme for workers in the informal sector. Also, the introduction of Social Health Insurance and Employment Injury Insurance to the existing three contingencies is expected to improve social protection coverage/benefits for NASSIT members.

The performance of the insurance industry was mixed during the last three years. The investment yield, retention ratio, and return on assets continue to improve year after year. At the same time, though at solid levels, the return on equity as well as combined ratio have slightly deteriorated. The SLICOM has also rolled out several initiatives in order to improve on its oversight function of the operations of the sector to enhance their efficiency.

The banking sector is expected to undergo significant reforms, including compliance with the new three-year minimum paid up capital plan commencing in 2019 to strengthen the industry's capital base.

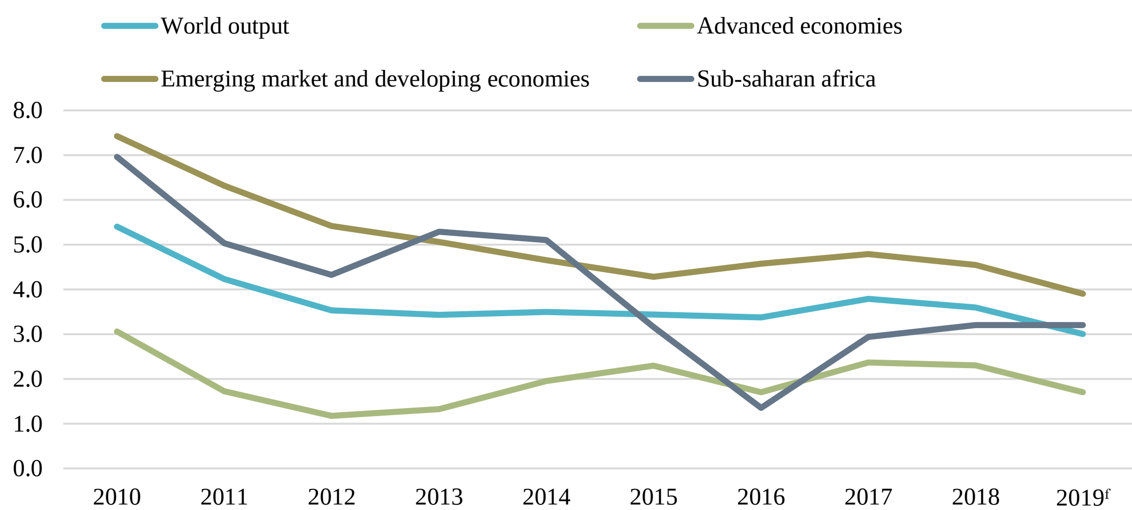
1.0 OPERATING ENVIRONMENT

1.1 Global Economic Developments and Outlook

Global output growth was estimated at 3.7 per cent in 2018, down by 0.1 percentage point from 3.8 per cent in 2017, partly driven by elevated trade tensions, idiosyncratic factors (such as, natural disasters in Japan), political and policy uncertainties in some countries and tighter financial conditions.

In 2019, global growth was projected to decline to 3.5 per cent from 3.7 per cent in 2018, on the backdrop of persistent trade and geopolitical tensions and softened commodity prices.

Figure 1: Global Growth



Source: World Economic Outlook October 2019

1.1.1 Advanced Economies

Economic growth in advanced economies declined to 2.3 per cent in 2018 from 2.4 per cent in 2017.The growth outcome in 2018 was largely attributed to the decline in growth in the Euro area and Japan to 1.8 and 0.9 per cent in 2018 from 2.4 per cent and 1.9 per cent in 2017 respectively. However, the growth in the United States of America (USA) increased to 2.9 per cent in 2018, from 2.2 per cent in 2017.

1.1.2 Emerging Market and Developing Economies

Economic growth in Emerging Market and Developing Economies (EMDE) declined by 0.3 percentage point to 4.5 per cent in 2018 from 4.8 per cent – largely on account of a slowdown in the Chinese economy, due to the tightening of financial regulations and intensified trade war with the USA. Although growth accelerated in Brazil, Russia and India in 2018 compared to 2017, it was insufficient to boost growth in the EMDEs.

1.1.3 Sub-Saharan Africa

Economic growth in Sub-Saharan Africa (SSA) improved by 0.3 percentage point from 2.9 per cent in 2017 to 3.2 per cent in 2018. This is underpinned by increase in external demand, higher commodity prices and improved access to capital. The Nigerian economy continued to grow in 2018, with growth estimated at 1.9 per cent, up by 1.1 percentage points from 0.8 per cent in 2017, supported largely by improved economic activity in the non-oil economy. However, growth in South Africa declined to 0.8 per cent in 2018 from 1.4 per cent in 2017 as policy uncertainty held back investment.

Table 1: Global Growth

	2016	2017	2018[e]	2019[f]	2020[f]
World Output	3.4	3.8	3.6	3.0	3.4
Advanced Economies	1.7	2.4	2.3	1.7	1.7
USA	1.5	2.2	2.9	2.4	0.1
Euro Area	2.0	2.4	1.9	1.2	1.4
Japan	1.0	1.9	0.8	0.9	0.5
EMDEs	4.6	4.8	4.5	3.9	4.6
Brazil	-3.5	1.1	1.1	0.9	2.0
Russia	-0.2	1.5	2.3	1.1	1.9
India	7.1	7.2	6.8	6.1	7.0
China	6.7	6.8	6.6	6.1	5.8
Sub-Saharan Africa	1.4	2.9	3.2	3.2	3.6
Nigeria	-1.6	0.8	1.9	2.3	2.5
South Africa	0.6	1.4	0.8	0.7	1.1
Angola	-2.6	-0.2	-1.2	-0.3	1.2

(e =Estimate; f =Forecast)

Source: World Economic Outlook, October, 2019

1.2 Economic growth in West African Monetary Zone[1]

Macroeconomic developments and convergence in the West African Monetary Zone (WAMZ) in 2018 showed that, real GDP growth improved to 2.6 per cent as of December 2018, compared to 2.1 per cent in 2017. This reflected adjustment in domestic policy, increased momentum in global economic activities and a pick-up in commodity prices. Inflation in the WAMZ moderated to 11.3 per cent in 2018, from 14.1 per cent in 2017. Countries also showed relative stability in their foreign exchange markets.

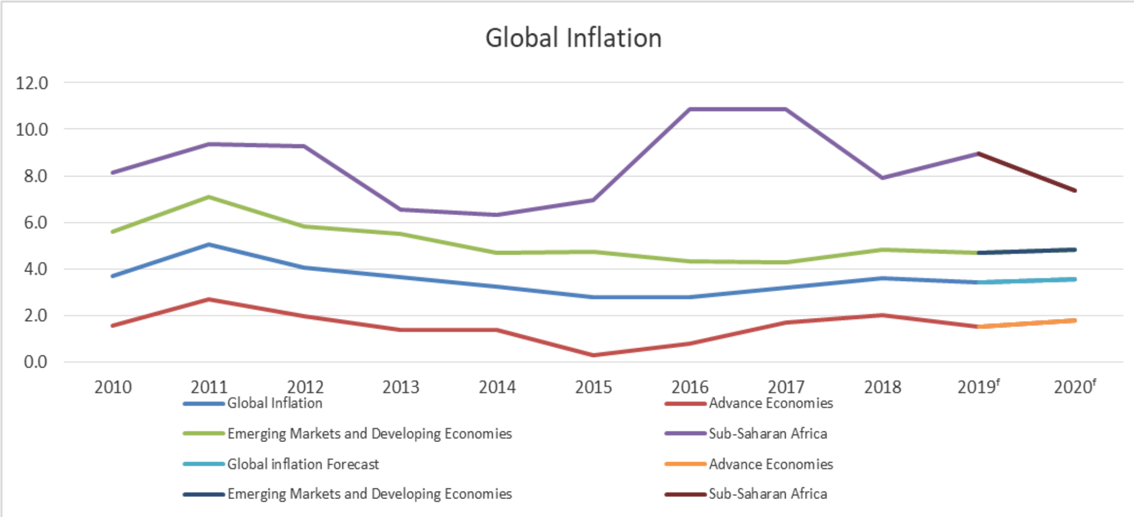
The performance of WAMZ's member states was mixed on the fiscal front, while price stability remained the focus of monetary policy in all member states. However, the stance of monetary policy varied across the zone. The monetary policy stance in The Gambia, Ghana and Liberia was accommodative, but remained tight in Sierra Leone, while in Guinea and Nigeria, it remained neutral.

1.3 Global Inflation

Consumer price inflation increased to 3.8 per cent in 2018 from 3.2 per cent in 2017 on account of the pass-through of currency depreciations to prices. Regionally, inflation in advanced economies increased to 2.0 per cent in 2018 from 1.7 per cent in 2017, on the backdrop of higher energy prices especially in the first half of 2018. Similarly, headline inflation in the EMDEs increased to 4.9 per cent in 2018, from 4.3 per cent in 2017, reflecting the effect of exchange rate depreciation in some of the EMDEs.. Headline inflation in SSA declined to 8.6 per cent in 2018 from 11.0 per cent in 2017, induced in part by the relative stability of the exchange rates for some SSA's countries.

[1]As part of fast-tracking the integration process, heads of state of five countries in West Africa decided in Accra, Ghana, on April 20, 2000 to establish a second monetary zone known as the West African Monetary Zone (WAMZ). These countries, namely The Gambia, Ghana, Guinea, Nigeria and Sierra Leone, signed the '*Accra Declaration*', which defined the objectives of the WAMZ, as well as incorporating an action plan and institutional arrangements to ensure speedy implementation of their decision. However, in February 2010, Liberia was acceded to becoming a member of the WAMZ.

Figure 2: Global Inflation

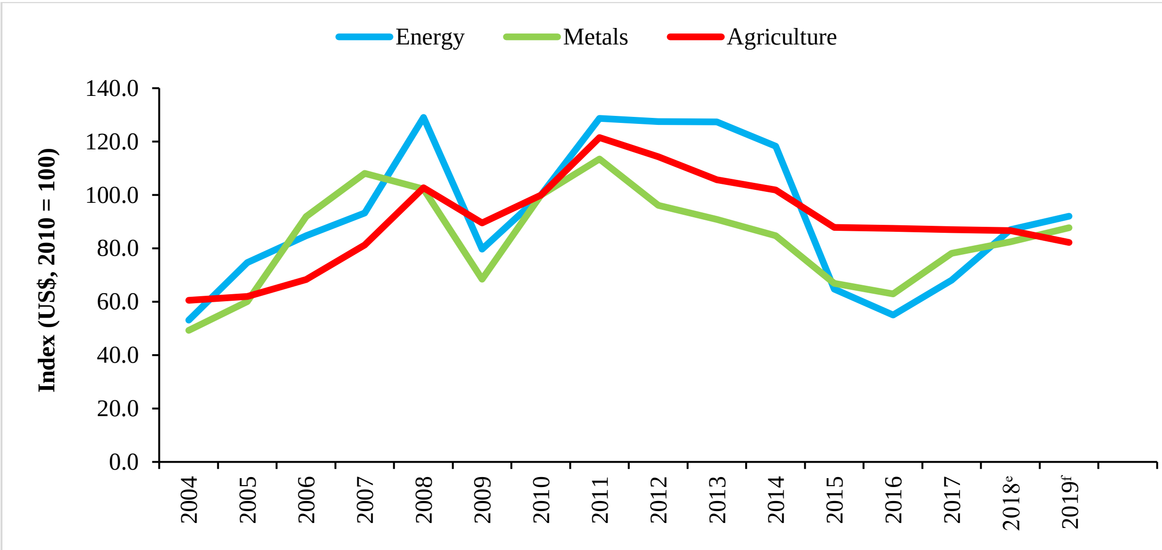


Source: World Economic Outlook, October 2019

1.4 Commodity Prices

Developments in commodity prices in 2018 varied. Energy prices on average strengthened in 2018, with the index increasing by 27.8 per cent to 87.0, from 68.1 in 2017. This was underpinned by falling supply and geopolitical concerns. The index is projected to increase in 2019 despite moderating in the fourth quarter of 2018. Similarly, the metals and minerals price index increased by 5.5 per cent to 82.5 in 2018, from 78.2 in 2017, but projected to decline modestly in 2019. Nonetheless, there is the risk of heightened volatility in prices on the back of China’s environmental policies and trade tensions between the USA and China. The latter’s policy responses were aimed at spurring the Chinese economy and moderating the impact of tariff negotiations. The agriculture price index, however, declined modestly, driven in part by supply and demand factors, as well as the trade pressures between the USA and China (Figure 3).

Figure 3: Commodity Price Indices



Source: World Bank Commodity Market Outlook, October 2019

1.5 Global Financial Stability

While global financial conditions remain broadly accommodative and supportive of growth in the near term, the financial conditions in some emerging market economies have tightened since the publication of the October 2019 Global Financial Stability Report (GFSR). This tightening has been driven by a combination of country-specific factors, worsening external financing conditions, and trade tensions. As a result, near-term risks to financial stability have increased modestly, while medium-term risks remain elevated because of persistent financial vulnerabilities, linked to high debt levels and stretched asset valuations. Looking ahead, a further escalation of trade tensions, as well as rising geopolitical concerns and policy uncertainty in major economies, could lead to deterioration in risk sentiment, thereby triggering a broad-based correction in global capital markets and a sharp tightening of global financial conditions.

Financial conditions in emerging markets have tightened since mid-April 2018, driven by a stronger USA dollar, political and policy risks, and an escalation in trade tensions. Market pressures have been more pronounced in countries with larger external imbalances and weaker policy frameworks, or in those more exposed to escalating trade tensions. Although overall vulnerabilities in emerging market economies remain moderate compared with historical levels, external leverage has continued to rise across most countries. In the near term, the external environment will likely remain challenging: with the normalisation of monetary policy in advanced economies gaining pace, while emerging and frontier markets are likely to face reduced portfolio flows. In the event of a sharp deterioration in global risk sentiment, portfolio outflows could intensify.

The WAMZ's financial sector continue to show sound and adequate capitalization, despite weak macroeconomic fundamentals. Increasing trend in NPLs in Ghana, Guinea, and Nigeria continued to pose serious challenges for the banking sectors amongst member states (Table 2).

1.6 Credit Growth in Sub-Saharan African Countries

The NPLs remained high in many SSA countries and continued to rise, particularly in some countries where the ratio is already high such as countries in the Central African Economic and Monetary Community. The high NPL levels reflect the legacy of the 2014 commodity shock, weak risk management practices, and government arrears (Central African Republic, Chad, Equatorial Guinea, and Sierra Leone). In Ghana, write-offs are helping to reduce the NPL overhang as the system wide NPL ratio reached 18.2 per cent in 2018. More generally, high NPL levels are depressing credit growth and encouraging banks to hold more government securities.

Despite some improvements in capital adequacy ratio, visible signs on the risk of vulnerability remain. Banks' capital has increased as a ratio to risk-weighted assets in several countries (Chad, Republic of Congo, Equatorial Guinea, Gabon, Ghana, Malawi, Namibia, and Sierra Leone), though the zero-risk weighting of government securities could mask underlying capital coverage in the event that sovereign risk materialises.

In many countries, capital increases reflect recent measures to raise minimum capital requirements, to resolve insolvent banks, or to support illiquid ones (Ghana, Kenya). However, in several countries, a few small banks remain undercapitalized (Kenya, Nigeria, Togo), while in a few cases, systemic banks remain undercapitalised as well. Other sources of concern for the health of banks' balance sheet include foreign currency liquidity mismatches (Angola), high loan concentration (Benin, Equatorial Guinea, Malawi, Namibia, and Sierra Leone), insufficient provisioning (Angola), and increased household and corporate debts (Tanzania).

1.7 Selected Financial Soundness Indicators in the West African Monetary Zone

The Financial Soundness Indicators (FSI) in the WAMZ showed that the region is generally stable with the core indicators showing positive trend.

Table 2: Selected FSIs of the Banking Sector in WAMZ, in per cent

Indicators	The Gambia			Ghana			Nigeria		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Asset Based Indicators									
NPL/total gross loans	9.30	7.20	3.20	17.00	22.00	18.19	12.80	14.80	11.70
Liquid Assets (core) to total assets	101.30	53.40	57.40	45.50	25.96	27.57	16.30	18.50	22.64
Liquid Assets (core) to short-term liabilities	97.50	90.00	94.80	97.00	53.26	37.28	24.50	27.20	34.15
ROA	2.00	2.30	2.00	3.80	4.00	3.00	1.50	3.10	2.18
Capital Based Indicators									
Regulatory capital to risk-weighted assets	68.00	35.80	37.70	18.00	18.00	22.00	15.00	10.23	15.26
NPLs net of net of provision to capital	-2.40	0.50	0.20	30.00	36.30	19.50	38.40	45.00	21.00
ROE	12.20	15.80	11.80	17.30	19.00	18.00	12.50	29.20	22.31
Income and Expense Based Indicators									
Interest margin to gross income	51.50	48.70	47.30	22.90	11.00	9.50	50.00	61.30	40.70
Non-interest expenses to gross income	58.70	59.00	61.20	65.10	55.00	57.05	63.80	58.20	42.20

Source: WAMI Annual Report, 2018

Table 2 (*cont*): Selected FSIs of the Banking Sector in WAMZ, *in per cent*

Indicators	Guinea			Liberia			Sierra Leone			WAMZ		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Asset Based Indicators												
NPL/total gross loans	7.40	8.75	12.00	36.90	16.00	14.00	22.60	14.64	12.73	14.13	14.27	11.97
Liquid Assets (core) to total assets	47.50	49.58	51.00	31.80	30.00	26.00	8.40	12.44	12.55	35.89	31.65	32.86
Liquid Assets (core) to short-term liabilities	63.50	64.00	66.00	37.50	42.00	36.00	9.50	14.48	14.80	58.93	48.49	47.17
ROA	2.20	2.17	2.00	1.40	0.27	1.30	2.90	5.30	6.11	2.11	2.67	2.72
Capital Based Indicators												
Regulatory capital to risk-weighted assets	18.00	17.00	15.00	31.00	27.00	27.00	30.70	34.20	38.44	30.00	23.71	25.90
NPLs net of net of provision to capital	7.00	38.33	31.00	12.30	34.00	18.00	24.80	12.10	10.12	27.50	27.46	16.65
ROE	20.60	18.17	23.00	2.60	1.60	7.00	22.30	25.60	27.25	13.93	16.43	18.23
Income and Expense Based Indicators												
Interest margin to gross income	37.20	30.00	35.00	48.50	47.00	49.00	46.50	57.19	53.08	41.86	39.70	39.10
Non-interest expenses t gross income	31.80	39.00	40.00	81.20	78.00	57.00	58.50	52.45	45.62	60.03	53.93	50.51

Source: WAMI Annual Report, 2018

The WAMZ's member states continue to make efforts in attaining adequate and appropriate supervision of their banking sectors in order to improve or maintain resilience and enhance the capacity for intermediation and other pertinent banking roles. Lending rates remained high, underlining the increase in net interest rate spread. From a country perspective, latest data on Nigeria, shows that the capital adequacy ratio (CAR) of the banking sector increased to 31.3 per cent in 2018, from 11.7 per cent in 2017. Also, the asset quality (NPL ratio) improved to 11.7 per cent by the end of 2018, from 14.8 per cent in 2017.

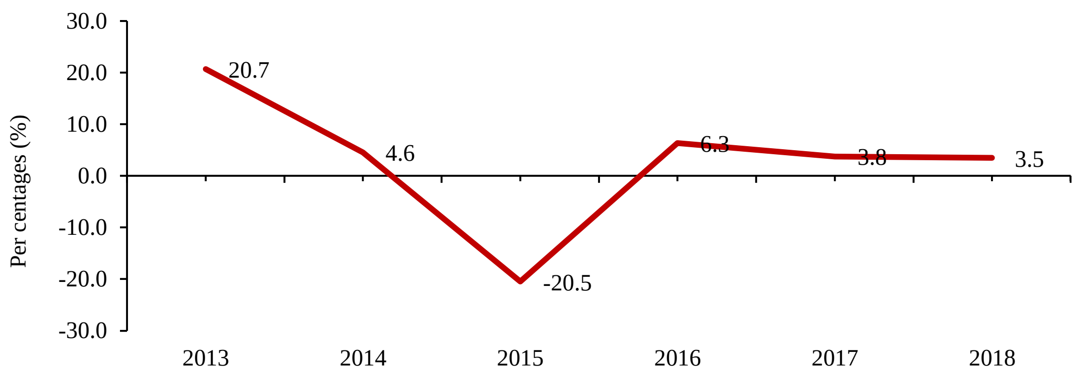
In Sierra Leone, the CAR of the banking sector was 38.44 per cent in 2018 compared with 34.2 per cent in 2017, which is well above the statutory minimum requirement of 15 per cent. The NPL ratio has been declining over the past three years moving from 22.60 in 2016 to 12.73 in 2018. (Table 2), but it still remains slightly above the prudential requirement of 10 per cent.

2.0 DOMESTIC MACROECONOMIC DEVELOPMENTS

2.1 Real GDP Growth

Real GDP growth declined by 0.3 percentage point to 3.5 per cent in 2018 from 3.8 per cent in 2017, largely due to the suspension of iron ore mining activity, coupled with underperformance in the key sectors of the economy.

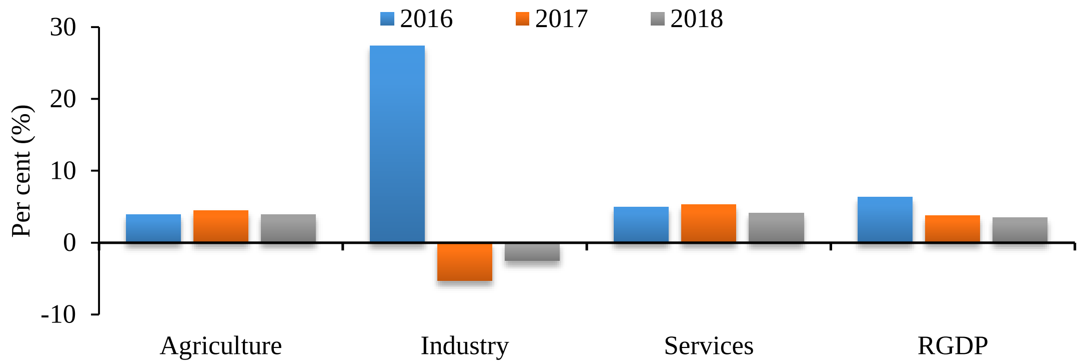
Figure 4: Sierra Leone Real GDP Growth Rates 2014-2018



Source: Statistics Sierra Leone

In terms of sectoral growth in 2018, output in agriculture, forestry & fishing sectors declined by 3.91 per cent compared to 4.48 per cent in 2017, services sector declined by 4.10 per cent compared to 5.29 per cent in 2017, while the industrial sector output improved to -2.51 in 2018 from -5.31 per cent in 2017, (See Figure 5).

Figure 5 : Sierra Leone GDP Growth by Sectors 2013 – 2018



Source: Statistics Sierra Leone

In terms of sectoral contribution to GDP, agriculture accounted for 59 per cent, followed by the services sector accounting for 31 per cent and industry sector 5 per cent.

2.2 Public Debt

Total public and publicly guaranteed (PPG) debt stood at 41.2 per cent of GDP in 2017, dropping to 38.6 per cent in 2018 (See Table 3). Debt owed to multilateral creditors dominated the external debt portfolio (about 76 per cent), followed by bilateral creditors (24 per cent of total external debt) and pre-HIPC arrears to commercial creditors. Domestic public debt increased to 22.2 per cent of GDP in 2018 from 16.4 per cent in the previous year.

Table 3: Public Debt, as % of GDP

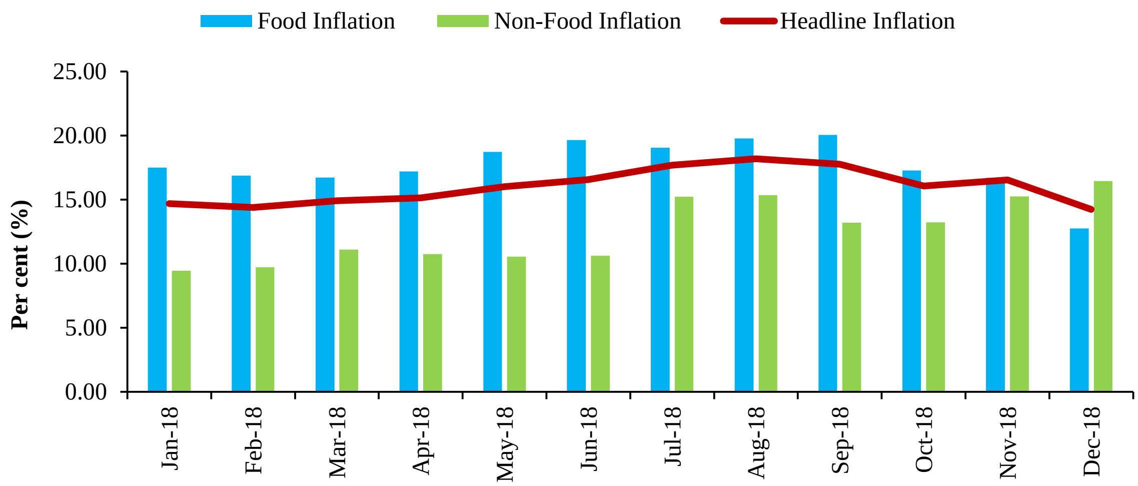
Components of debt	**2016**	**2017**	**2018**
External debt	41.1	41.2	38.6
Official Creditors	35	35.9	-
Bilateral	5.3	4.9	4.55
Multilateral	39.7	31	29.39
Private Creditors	6.1	5.3	-
Suppliers	6.1	5.3	-
Domestic debt	14.4	16.4	22.2
Total	55.5	57.6	60.8

Source: Ministry Of Finance

2.3 Price Developments

Headline inflation on a year-on-year basis declined to 14.25 per cent in December 2018 from 15.33 per cent in December 2017 and was within the end-year target of 18 per cent. For the most part of the year, headline inflation fluctuated, hitting a high of 18.19 per cent in August 2018 before receding gradually to 14.25 per cent in December 2018. The development in domestic prices was reflected in both food and non-food prices. Food inflation fell to 12.77 per cent in December 2018 from 17.93 per cent in December 2017. Non-food inflation rose to 16.46 per cent in December 2018 from 10.56 per cent in December 2017.

Figure 6 : Headline, Food, and non-food inflation



Source: Statistics Sierra Leone

2.4 External Sector Developments

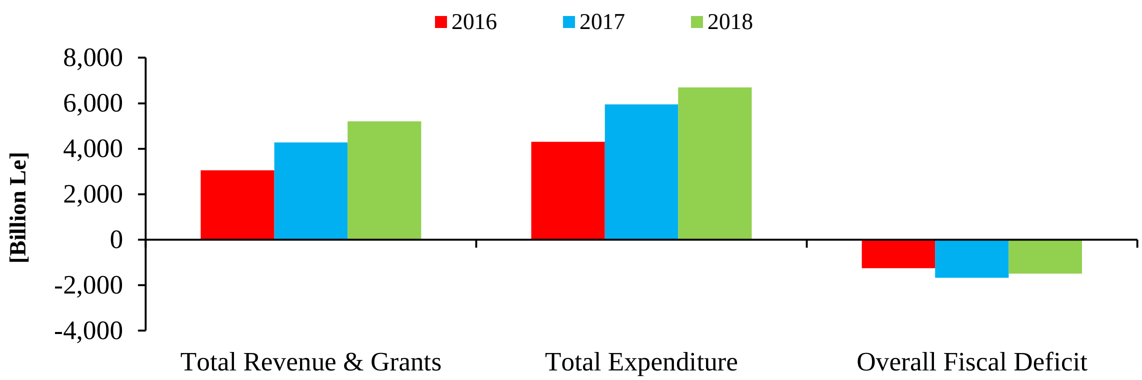
The overall balance of payments deficit expanded to US$34.9mn (0.9 per cent of GDP) in 2018 from US$6.1mn (0.2 per cent of GDP) in 2017. The deterioration in the overall balance of payments position was due to deterioration in the current, capital and financial accounts. The current account recorded a deficit of US$564.2mn in 2018, compared to US$535.2mn in 2017, largely due to the deterioration in trade balance as well as the services balance.

The net inflow in the capital account decreased by 13.9 per cent to US$131.6mn in 2018 from US$153.0mn in 2017, underpinned by a decline in official capital transfers. The net inflow in the financial account decreased by 2.01 per cent to US$347.7mn in 2018 from US$354.4mn recorded in 2017, on account of a reduction in other investment.

2.5 Fiscal Developments

Government budgetary operations resulted in an overall deficit (including grants) of Le1, 491.51bn (4.70 per cent of GDP), which is lower when compared to the budgeted deficit of Le1, 778.43bn (5.61 per cent of GDP) and the deficit of Le1, 855.11bn (6.77 per cent of GDP) in 2017. Overall deficit (excluding grants) amounted to Le2, 338.73bn (7.37 per cent of GDP). The deficit was financed mainly from domestic sources, especially by the banking sector, as shown in Table 4.

Figure 7 : Government Budgetary Operations for 2016-2018



Source: Budget Bureau, Ministry of Finance

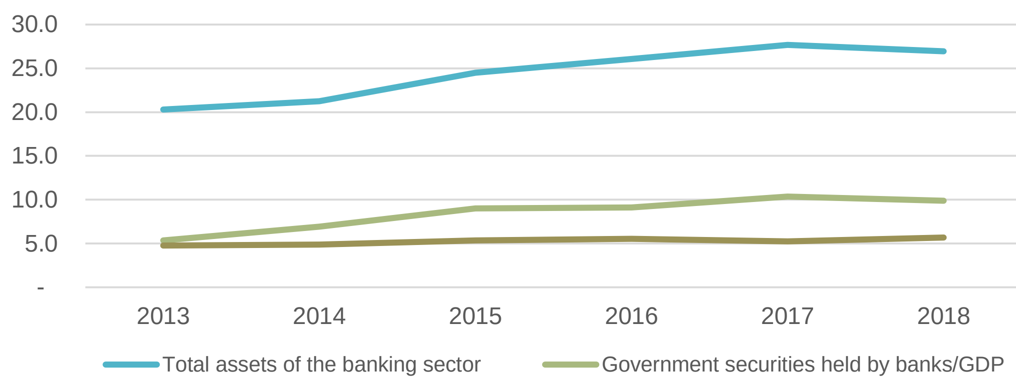
Table 4: Government borrowing from commercial banks and non-banks, LeMn

Government borrowing from commercial banks and nonbanks, LeMn							
Institutions	**Government securities**	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Dec-18**
Commercial banks	**T-bills (total)**	**1,141,885**	**1,575,963**	**1,943,445**	**2,207,282**	**2,785,829**	**2,936,416**
	3 months	*71,766*	*69,892*	*21,722*	*16,958*	*6,000*	*7,124*
	6 months	*441,882*	*244,151*	*195,751*	*59,658*	*22,532*	*1,500*
	1 year	*628,237*	*1,261,920*	*1,725,972*	*2,130,666*	*2,757,297*	*2,927,793*
	Treasury bonds	**0**	**6**	**3,000**	**10,000**	**0**	**198,154**
	Total Government securities	**1,141,885**	**1,575,969**	**1,946,445**	**2,217,282**	**2,785,829**	**3,134,570**
Non-banks	**T-bills**	**220,108**	**140,233**	**152,374**	**283,108**	**338,518**	**393,748**
	3 months	*85,344*	*28,074*	*21,057*	*10,636*	*12,596*	*5,990*
	6 months	*56,625*	*46,152*	*26,596*	*9,850*	*7,360*	*7,311*
	1 year	*78,139*	*66,007*	*104,721*	*262,622*	*318,562*	*380,447*
	Treasury bonds	**138,008**	**120,563**	**127,273**	**93,330**	**242,337**	**81,737**
	1 year	*97,521*	*80,076*	*70,536*	*36,578*	*0*	*0*
	2 years	*40,487*	*40,487*	*56,737*	*56,752*	*40,502*	*40,487*
	3 years	*0*	*0*	*0*	*0*	*62,013*	*0*
	5 years	*0*	*0*	*0*	*41,072*	*91,072*	*0*
	10 years	*0*	*0*	*0*	*0*	*48,750*	*41,250*
	Total Government securities	**358,116**	**260,796**	**279,647**	**376,438**	**580,855**	**475,485**
Commercial banks + non-banks	**Total T-bills**	1,361,993	1,716,196	2,095,819	2,490,390	3,124,347	3,330,164
	3 months	*157,110*	*97,966*	*42,779*	*27,594*	*18,596*	*13,114*
	6 months	*498,507*	*290,303*	*222,347*	*69,508*	*29,892*	*8,811*
	1 year	*706,376*	*1,327,927*	*1,830,693*	*2,393,288*	*3,075,859*	*3,308,239*
	Total bonds	**138,008**	**120,569**	**130,273**	**103,330**	**242,337**	**279,891**
	Grand Total	**1,500,001**	**1,836,765**	**2,226,092**	**2,593,720**	**3,366,684**	**3,610,055**

Source BSL

The total assets expressed as a ratio to GDP showed a moderate decrease to 27.0 per cent in 2018 from 27.7 per cent in 2017, despite the increase in the credit to private sector as a share to GDP at 5.7 per cent in 2018 from 5.3 per cent in 2017.

Figure 8: Banks' assets, Government borrowing from banks, credit to private sector, in per cent of GDP



Source: BSL

2.6 Monetary Developments

During the year 2018, the conduct of monetary policy was focused on pursuing end year inflation target of 18 per cent, preserving the value of the Leone through robust market-based instruments, while also maintaining the external reserves of the country to enhance the resilience against external and internal shocks.

In 2018, monetary policy implementation was challenged by tight liquidity conditions in the interbank market, reflecting low revenue outturn, delayed disbursement of donor inflows, and accumulation of arrears. To enhance liquidity conditions in the banking system, the BSL entered into foreign currency swap arrangement with commercial banks amounting at USD50mn.

2.6.1 Interest Rates in the Money Market

The Monetary Policy Rate (MPR) was raised successively from 14.50 per cent at end December 2017, to 15 per cent in May 2018, and further to 16.50 per cent in June 2018, and remained unchanged at end December 2018. Accordingly, the Standing Lending Facility (SLF) and the Standing Deposit Facility (SDF) rates were raised from 19.00 per cent and 12.00 per cent to 20.50 per cent and 13.50 per cent, respectively. Consequently, the interbank rate increased from

13.22 per cent in December 2017, to 16.62 per cent in December 2018, but remained within the policy corridor, indicating an improvement in monetary transmission on the wholesale market front.

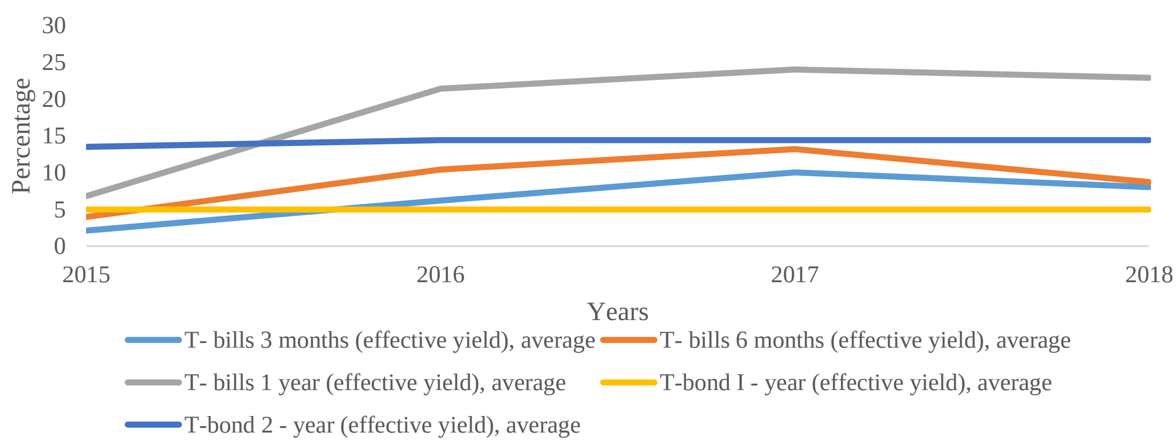
Table 5: Monetary Policy Rates and the Interbank Rate, in %

Interest Rates	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Monetary Policy Rate	14.50	14.50	15.00	16.50	16.50
Standing Lending Facility	19.00	19.00	19.00	20.50	20.50
Standing Deposit Facility	12.00	12.00	12.00	13.50	13.50
Interbank Market Rate	13.22	13.53	13.66	14.76	16.62

Source: BSL

Yields on treasury bills (T-bills) showed mixed trends. The yields on 91-days and 182-days T-bills decreased from 8.22 per cent and 9.68 per cent in December 2017 to 7.30 per cent and 8.14 per cent in December 2018, respectively. However, the yield on the 364-days T-bills increased from 21.17 per cent in December 2017 to 23.23 per cent in December 2018. The spread between the 364-days and the 182-days T-bills rates widened from 11.49 per cent in December 2017 to 15.09 per cent in December 2018, while the spread between the 364-days and 91-days T-bills rates widened from 13.99 per cent in 2017 to 15.93 per cent in 2018. The demand for government securities continued to be skewed towards the 364-days tenure during the period under review.

Figure 9 : Treasury bills and bond rates (yearly averages, in %)



Source: BSL

2.7 Foreign Exchange Market Developments

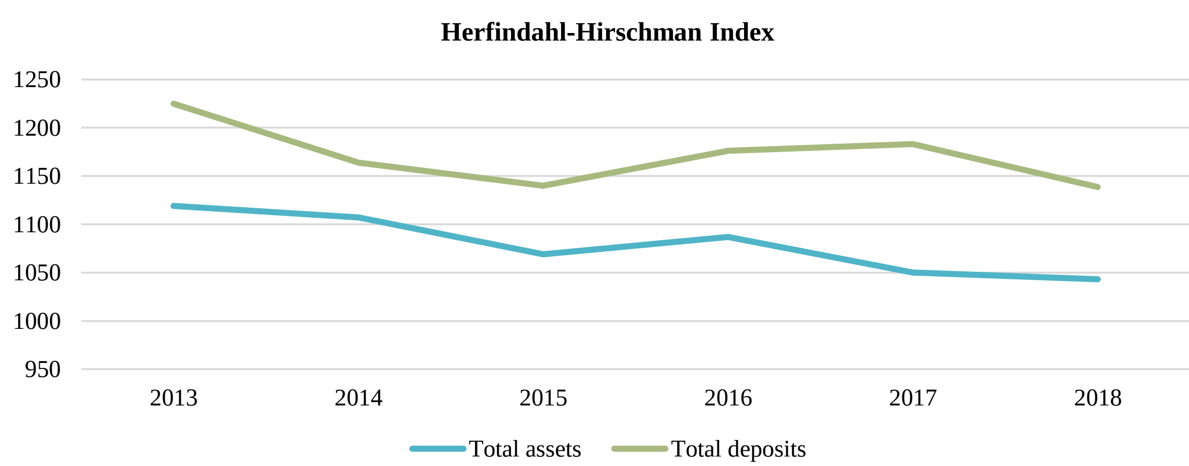
In the first half of 2018, the foreign exchange market was relatively stable as a result of increased inflow of foreign currency against the reduction in demand for foreign currency for the importation of goods and services. However, in the second half, there were increasing challenges in the foreign exchange market, thus, exerting pressure on the exchange rate which resulted in the continuous depreciation of the Leone against major international currencies, especially the USA dollar. The domestic currency depreciated by 7.16 per cent against the USA dollar in 2018 from a depreciation of 17.4 per cent in 2017.

2.8 Concentration In The Banking Sector

The banking sector in Sierra Leone experienced an increase in deposit and asset concentration in 2018, when expressed as a ratio to assets and deposits. For the five largest banks in the sector, the banking concentration level increased to 43 per cent and 65 per cent in 2018 from 38 per cent and 64 per cent of total assets in 2017, respectively.

The share of three largest banks in total deposits moved from 45 per cent in 2017 to 46 per cent in 2018. A similar trend was observed for the five largest banks with their share to total deposits moving from 67 per cent in 2017 to 69 per cent in 2018.

Figure 10 : The Herfindahl-Hirschman Index



Source: BSL

Between 2017 and 2018, there were no entries or exits or mergers in the banking industry. There was a slight decrease in concentration of asset and deposit in the banking sector as measured by the HHI. This slight decrease in HHI of the banking sector shows that there has been some improvements in bank competition in 2018 compared to 2017.

3.0 FINANCIAL SYSTEM IN SIERRA LEONE

3.1 The Composition of the Financial System

The number of commercial banks remained at 14 as of 2018. However, there was a nationwide increase in the number of branches to 115 in 2018 from 109 in 2017. Other financial institutions comprised 17 community banks, 11 insurance companies and 68 exchange bureaus. There was 25 Credit-only microfinance institutions (COMFIs), 4 deposit - taking microfinance (DTMFIs), 1 Apex Bank, 59 financial service associations (FSAs), 2 mobile financial services providers and a stock exchange market. There were also 28 National Cooperative Credit Union Association (NCCUA), with 610 groups operating in the financial system as at end 2018 (Table 6).

Table 6: Components of the Financial System in Sierra Leone

	Network, number of units						
Components of the financial system	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Commercial Banks	13	13	13	13	13	14	14
Community Banks	7	11	11	17	17	17	17
Insurance	10	10	11	11	11	11	11
Exchange Bureaux	39	39	43	50	58	62	68
Other Financial Institution							
Credit Only Microfinance	6	8	9	12	15	20	25
Discount Houses	2	2	2	2	2	2	2
Deposit taking Microfinance	2	2	2	2	5	5	4
Leasing Company	0	0	0	0	1	1	1
Financial Services Association	0	0	0	0	51	58	59
Apex Bank	0	0	0	0	1	1	1
Mobile Financial Services	0	0	0	0	2	2	2
Stock Exchange	0	0	0	0	1	1	1
NCCUA	0	0	0	0	0	28	28

Source: BSL

Commercial banks continue to dominate the financial system in Sierra Leone, with total assets amounting to Le 8.5 trillion, equivalent to 26.4 per cent of GDP as at end 2018 (Table 8). Additionally, the microfinance industry expanded in 2018, thus becoming an important provider of financial services to Micro, Small, and Medium Enterprises (MSME) and the lower income segments of the country's population. This was largely due to the BSL's drive to promote financial inclusion.

Table 7: Asset composition in the Financial System

	Total asset (Le Trillion)					
Financial System Components	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Commercial banks	4,329.30	4,817.69	5,287.57	6,333.16	7,432.98	8,549.11
Community banks	30.34	41.05	41.37	41.24	61.25	82.37
Pension Scheme (NASSIT)	809.76	994.25	1,180.13	1,414.49	1476.66*	1620.15**
Exchange bureaux						
Other financial institutions						
Credit-only microfinance			26.22	84.91	66.97	98.26
Discount houses	20.53	12.22	21.21	21.02	17.66	17.92
Deposit-taking microfinance	42.94	51.12	59.13	58.58	161.24	221.10
Leasing company		2.00				
FSA	-	-	29.50	37.83	47.14	55.85
Apex Bank	-	8.04	31.77	38.83	39.20	48.68
Mobile financial services	-	-	-	-	-	
Stock Exchange	-	-	-	-	-	
Total	**5,232.86**	**5,926.38**	**6,676.90**	**8,030.07**	**9,303.26**	**10,693.44**

Note: *Revised **Provisional
Source: BSL

The total assets of the financial system increased by 14.94 per cent to Le10.7 trillion as at end 2018, (Table 7). The major entities responsible for this growth included commercial banks followed by NASSIT and deposit taking microfinance institutions (DTMFIs), while community banks (CB), credit-only MFIs (COMFIs), discount houses, financial services association (FSAs) and Apex bank showed moderate contribution. The banking sector continued to perform its traditional role of deposit taking, providing loan and advances, as well as foreign exchange dealings.

Table 8: Banking sector assets as a share of Nominal GDP

Total Assets to Nominal GDP			
Year	Nominal GDP (Le Trillion)	Total assets of the banking sector (Trillion Leone)	Total assets (% of GDP)
2013	21.32	4.33	20.31
2014	22.69	4.82	21.23
2015	21.58	5.29	24.50
2016	24.29	6.33	26.08
2017	26.88	7.43	27.65
2018	32.40	8.54	26.36

Source: BSL

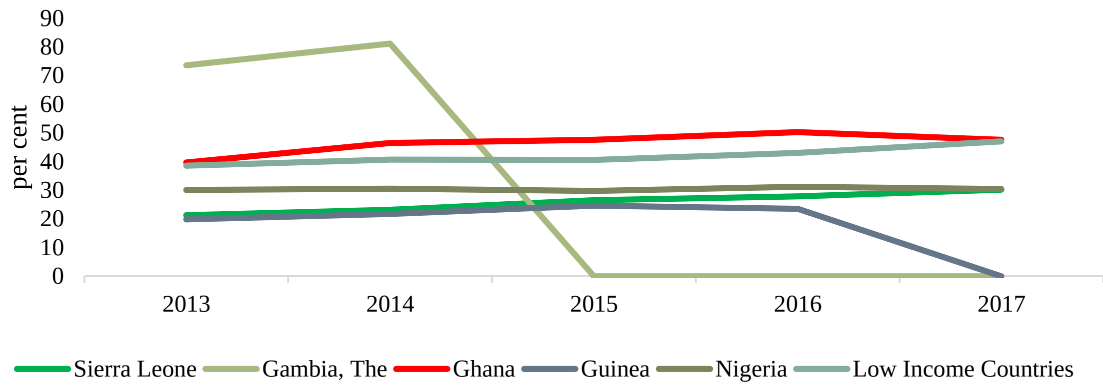
3.2 The Banking Sector Performance

The banking sector was generally sound and stable in 2018, as it remained well capitalized and profitable, despite some challenges faced by few banks. All the banks met the statutory minimum paid–up capital of Le30.0 billion at end-December 2018. The industry's CAR was 38.44 per cent at end December 2018, compared with 34.20 per cent at end December 2017, which is well above the statutory minimum requirement of 15.0 per cent.

The banking sector was liquid in 2018 as it met both the cash reserve ratio and the overall liquidity requirements. The liquidity ratio of 67.91 per cent as at end December 2018 was well above the 33.0 per cent statutory minimum limit and slightly higher than the 66.90 per cent recorded as at end December 2017. Net Loans to deposits ratio (Table 15) recorded 27.7 per cent, which is far below the prudential threshold of 80 per cent in 2018, though it increase by 153 basis points on a year-on-year, it reflects excess liquidity and low intermediation in the banking sector. Despite the downward trend, the industry's NPL remained above the 10 per cent threshold.

In Sierra Leone, though the banking sector has been generally improving, stable and sound, yet bank penetration is far below the average for low-income countries (LICs) - (See Figure 13). At the regional level, Nigeria, Sierra Leone, Guinea and The Gambia recorded banking penetration below the average of LICs, whereas Ghana was above the region's average.

Figure 11 : Banking penetration in the region



Source: IMF Regional Economic Outlook: Sub-Saharan Africa, April 2018

3.2.1 Assets

The total assets of the banking sector increased by 15.02 per cent between 2017 and 2018. At the end of 2018, the top five banks accounted for 65.12 per cent of total assets. The two-state owned banks accounted for 30 per cent, while the two domestic privately-owned commercial banks accounted for 16 per cent of total assets in the banking sector of Sierra Leone. The main contributors to the growth of assets in the banking sector of Sierra Leone continue to be investments in government securities, which accounted for 37.33 per cent of assets in 2018, which is 1.25 per cent higher than in 2017.

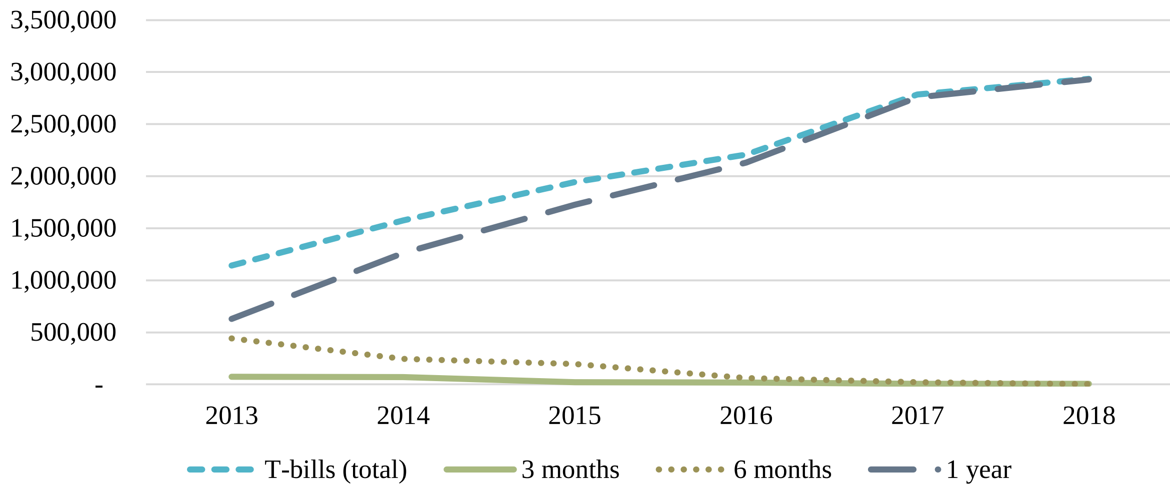
Table 9: Assets of the banking sector 2013 – 2018 (LeBn)

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Cash	186.36	200.13	296.75	282.22	454.63	408.44	482.14
Claims	1,245.63	1,522.54	1,537.46	1,619.44	1,964.78	2,260.89	2,363.92
Investment	818.94	1,156.95	1,568.26	1,921.41	2,127.36	2,681.98	3,191.40
Advances (net)	1,028.38	1,097.85	1,043.60	1,037.11	1,233.54	1,385.79	1,660.26
Others	148.65	154.48	163.88	196.34	280.92	361.84	466.52
Fixed Assets	190.65	197.35	207.75	231.05	271.92	334.04	384.87
Total Assets	**3,618.61**	**4,329.30**	**4,817.70**	**5,287.57**	**6,333.15**	**7,432.98**	**8,549.12**
In % of Total Assets							
Cash	5.15	4.62	6.16	5.34	7.18	5.49	5.64
Claims	34.42	35.17	31.91	30.63	31.02	30.42	27.65
Investment	22.63	26.72	32.55	36.34	33.59	36.08	37.33
Advances (net)	28.42	25.36	21.66	19.61	19.48	18.64	19.42
Others	4.11	3.57	3.40	3.71	4.44	4.87	5.46
Fixed Assets	5.27	4.56	4.31	4.37	4.29	4.49	4.50
Total Assets	100	100	100	100	100	100	100

Source: BSL

Investment in 1-year T- bills represented 99.0 per cent of total portfolio in 2018, similar to that recorded in 2017 (See Figure 12).

Figure 12 : Maturity profile of T- bills held by commercial banks, Le Mn



Source: BSL

3.2.2 Recent Developments in the Government Securities Market

The outcomes in the primary market auctions for Government securities pretty much remained the same as the 91-days and 182-days tenures were undersubscribed, while the 364-days tenure was oversubscribed throughout the review period. The demand for government securities, thus continued to be skewed towards the 364-days tenure.

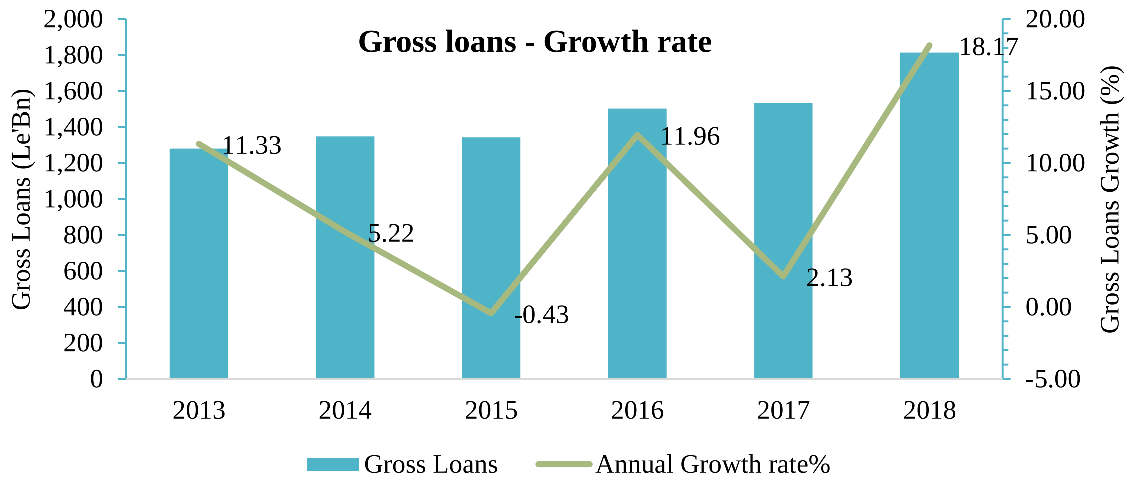
3.2.3 Stock of Government Securities

The total stock of Government securities increased by Le564.71bn from Le4,390.85bn as at end December 2017 to Le4,955.6bn as at end December 2018. The share of marketable securities in the total stock of the Government securities was 67.48 per cent, whereas non-marketable securities share was 32.52 per cent. As at end December 2018, the proportion of 91-days, 182-days and 364-days T-bills to the total marketable securities was 0.27 per cent, 0.29 per cent and 83.47 per cent respectively, while that of the 2-year Treasury bond was 2.48 per cent. With regards to non-marketable securities, the 3-year, 5-year and 10-year Treasury bonds accounted for 5.24 per cent, 7.42 per cent and 0.83 per cent respectively.

3.3 Credit Growth

Gross loans increased significantly by 18.17 per cent in 2018 from 2.13 per cent in 2017, largely driven by the increase in deposits of the banking sector, emanating from Government's payments to major contractors including road contractors (see Figure 13).

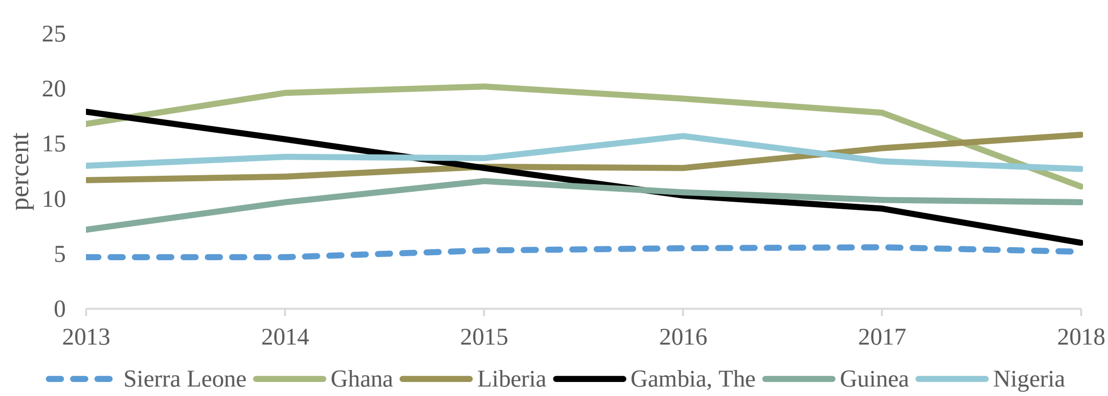
Figure 13: Banking Sector Gross Loans



Source: BSL

Credit as a share of GDP remained flat around 5 per cent over the past three years, recording 5.22 per cent in 2018. At regional level, the following share of the credit to GDP has been observed: Ghana (11.10 per cent), Guinea (9.7 per cent), Liberia (15.82 per cent), Nigeria (12.67 per cent), and The Gambia (6.02 per cent).

Figure 14: Credit to Private Sector in the Region as a share to GDP



Source: WAMI FSR 2018

3.3.1 Sectoral Distribution of Loans

The commerce & finance sector accounted for the largest share of total loans amounting to 30.04 per cent, followed by construction (21.70 per cent), business services (9.15 per cent), miscellaneous (7.71 per cent), manufacturing (7.43 per cent), transport and storage (6.51 per cent), personal services (5.72 per cent), and mining & quarrying (3.11 per cent).Communication, agriculture & forestry and utility services sectors benefited the least, from loans, accounting for 1.69 per cent, 1.27 per cent and 0.59 per cent respectively (Table 10).

The high allocation of resources to the commerce & finance, and construction sectors was in support of the private sector and increased infrastructural developments, which was going on within the country.

Table 10: Sectorial distribution of loans and advances, in per cent

Sector/Industry	2017	2018
Agriculture, Forestry	1.26	1.27
Marine Resources	0.00	0.00
Mining & Quarrying	4.62	3.11
Manufacturing	6.78	7.43
Construction	19.88	21.70
Utility Services	0.50	0.59
Commerce and Finance	33.22	30.04
Transport and Storage	5.52	6.51
Petroleum	1.47	2.04
Business Services	8.82	9.15
Personal Services	3.40	5.72
Communication	2.10	1.69
Other Services	5.36	3.05
Miscellaneous	7.08	7.71
Total	**100.00**	**100.00**

Source: BSL

3.3.2 Quality of Loan Portfolio in the Banking Sector

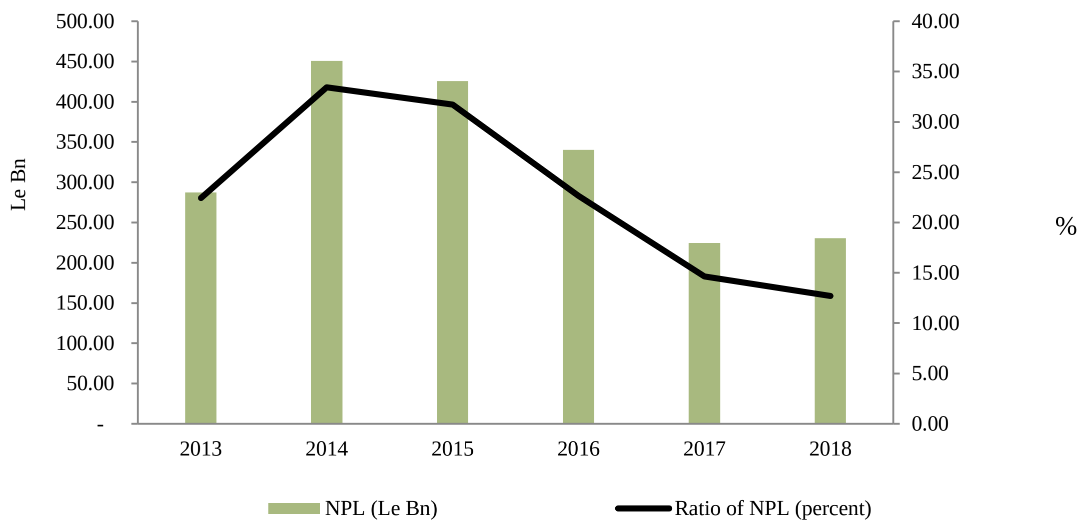
Credit risk remained a key challenge for the banking sector as evidenced by the high level of NPLs ratio over the period. Though decreasing, the NPL ratio remained above the prudential threshold, underscoring a deterioration in asset quality of key players in the industry.

Table 11: Evolution of NPLs

Evolution of non-performing loans			
	Gross Loans (Le Bn)	NPL (Le Bn)	Ratio of NPL (%)
2013	1,280.94	287.25	22.42
2014	1,347.80	450.76	33.44
2015	1,341.95	425.86	31.73
2016	1,502.40	340.36	22.65
2017	1,534.45	224.71	14.64
2018	1,813.32	230.47	12.73

Source: BSL

Figure 15: Evolution of NPLs



Source: BSL

The total non-performing loans of the banking sector stood at Le230.47 billion as at December 2018, accounting for 12.71 per cent of the total credit portfolio of Le1.81trillion. This was Le5.76 billion (2.56 per cent) higher than Le224.71 billion in 2017 but with a ratio of 14.64 per cent. The decrease in the NPL ratio was mainly due to the implementation of the loan write-off directive, as banks charged off the loss component of the non-performing facilities, which have been fully provisioned from their balance sheet. The NPL is expected to decline going forward as measures are being put in place by commercial banks to ensure that predatory borrowers honour their obligations through repayment or foreclosure on their properties pledged as collateral.

Box 1: Enhancing credit management and consumer protection

1.1. Credit Reference Bureau (CRB)

The CRB was established in 2011, following the enactment of the Credit Reference Act 2011. The major objective of the CRB is to produce credit reports to allow financial institutions to make informed judgment on the debt obligation of individuals and companies in the financial system.

The CRB receives on average one hundred requests for credit reports per day from only commercial banks, which are processed manually. Early in 2018, the CRB has also rolled out its services to microfinance institutions, community banks and financial services associations. The key challenges of the CRB relate to the lack of unique identifier and the manual processing of requests. In a bid to ameliorate the system, there is a move towards automating the CRB, as well as providing digital identification to solve the problem of identification.

The KIVA mission team made several visits, and as part of their mission conducted feasibility study of the project. This is part of a larger project, which includes working with the National Civil Registration Authority (NCRA) to provide a new national digital identification system using Distributed Ledger Technology (DLT). KIVA has completed mapping the digital ID and is currently working with the BSL to modernise the CRB. This will enable real-time processing of requests for information about loan applicants as well as connecting the CRB to NCRA database. The project is expected to be completed by December 2019.

1.2. Collateral Registry

Micro, small, and medium enterprises (MSMEs) are considered engines of economic growth, but in Sierra Leone, the MSMEs are faced with several problems that limit their contribution to prosperity and growth. One of such problem is the lack of adequate access to finance. To reduce the risks associated with extending credit to these institutions, banks would typically require movable and/or immovable assets as collateral from their borrowers. As most MSMEs own more movable and less immovable assets, the BSL and the World Bank established the Collateral Registry, which was officially launched in June 2017, following the enactment of the Borrowers and Lenders Act, 2014 and the Borrowers and Lenders (Collateral Registry) Regulations, 2016. This Act was enacted to facilitate access to credit for local businesses and as well as to stimulate responsible lending to MSMEs.

Among the features of the 2014 Borrowers and Lenders Act were; the establishment of a Collateral Registry, where charges over movable property are registered; the regulations of the borrowers and lenders rights and duties with respect to the said charges; and, establishment of the rules of priority in the event of multiple charges upon the same movable property.

However, with the passage of time, some gaps were identified in the 2014 Borrowers and Lenders Act with respect to secured transactions standards and international best practices. This prompted the BSL in collaboration with the International Finance Corporation (IFC) to hold extensive consultation with other stakeholders. In view of the voluminous changes and their importance, which emerged, the consultant decided to overhaul the entire Act by replacing it with a new Act (enacted in June 2019); this Act enables all lenders to accept movables as collateral and register security interests in the Collateral Registry under a single regime. It would also ensure that all interested parties can readily find out whether the borrower's property is subject to a security interest.

The new Act would broaden the scope of the collateral registry to include the registration of immovable assets (one-stop shop) and also enable individuals who are not licensed and supervised by the BSL to be able to register their security interest. It should be noted that the Borrowers and Lenders Act, 2014 was only operational for incorporated entities (institutions licensed and supervised by the BSL), thereby excluding non-incorporated entities and individuals, contrary to international best practice as indicated in the World Bank Doing Business Report 2018.

1.3. Consumer Protection

As part of its statutory efforts to promote public confidence in the financial system, the BSL has set up a Consumer Protection Section (CPS) in the Banking Supervision Department. The CPS is charged with the responsibility of protecting and promoting the rights of customers in the banking sector by developing an effective complaint management mechanism, where customers and the general public can lodge complaints/concerns related to services/products provided by banks. Furthermore, the CPS is also charged with conducting public education and awareness on the rights, duties and responsibilities of banks to their customers.

Since its establishment in 2018, the CPS has handled several cases involving banks and their customers. Currently, the CPS is in the process of developing a Consumer Protection Framework, which will be used industry wide, aimed at enhancing consumer confidence in the financial services industry and promoting financial stability, growth, and innovation.

Source: BSL

3.4 Liabilities

The activity of Sierra Leone's banking sector continues to be financed mainly from deposits collected within the Sierra Leone economy, which comprised 71.5 per cent of total liabilities and shareholder's fund of 15.2 per cent at the end of 2018 (Table 12).

The share of deposit to total liability, increased to 71.48 per cent in 2018 from 71.02 per cent in 2017, reflecting a moderate increase in the pace of deposit mobilization. The increase in total deposits in 2018 compare to 2017 was around 16 per cent, reflecting increased confidence in the banking sector as well as an improvement in financial awareness campaigns and new products introduced by commercial banks.

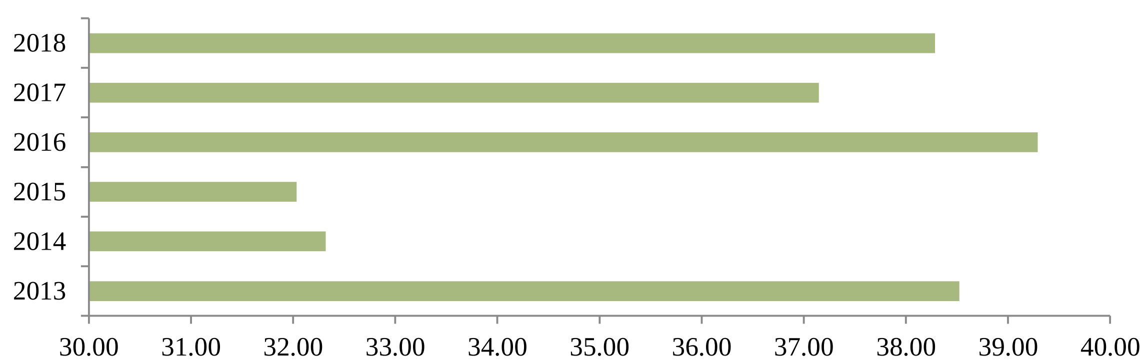
Table 12: Liabilities & own resources of the banking sector 2013 – 2018, Lebn

Banking Sector Liabilities 2013-2018 (Lebn)						
	Dec-13	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Dec-18**
Shareholder's fund	586.67	578.63	651.53	734.71	1,047.84	1,299.02
Takings and other financial institutions	0.00	0.00	0.00	0.00	0.00	32.99
Other amounts allowed as capital	4.86	5.53	5.40	4.76	0.00	0.00
Short Term Borrowings	74.16	16.36	6.28	15.36	139.80	209.28
Long Term Borrowings	22.00	20.87	14.79	14.79	114.90	99.99
Balance due to financial institutic	16.31	5.90	5.68	0.00	2.86	49.14
Deposits	3,442.38	3947.75	4,287.03	5,076.02	5,274.94	6,111.01
Special deposits	2.51	0.55	0.65	0.37	120.40	128.35
Margins Against Cont Liabs	14.39	39.69	33.52	64.81	277.56	364.90
Bills Payable	0.00	0.00	0.00	0.00	0.00	0.00
Other Liabilities:	182.33	208.31	289.02	422.35	450.49	254.43
Total liabilities	**4,329.47**	**4,817.69**	**5,287.57**	**6,333.16**	**7,432.98**	**8,549.11**
In per cent of total liabilities						
Shareholder's fund	13.55	12.01	12.32	11.60	14.10	15.19
Takings and other financial institutions	0.00	0.00	0.00	0.00	0.00	0.39
Other amounts allowed as capital	0.11	0.11	0.10	0.08	0.00	0.00
Short Term Borrowings	1.71	0.34	0.12	0.24	1.88	2.45
Long Term Borrowings	0.51	0.43	0.28	0.23	1.55	1.17
Balance due to financial institutic	0.00	0.00	0.00	0.00	0.04	0.57
Deposits	79.51	81.95	81.07	80.16	71.02	71.48
Special deposits	0.06	0.00	0.01	0.00	1.62	1.50
Margins Against Cont Liabs	0.33	0.82	0.63	1.02	3.73	4.27
Bills Payable	0.00	0.00	0.00	0.00	0.00	0.00
Other Liabilities	4.21	4.32	5.47	6.67	6.06	2.98
Total liabilities	**100**	**100**	**100**	**100**	**100**	**100**

Source BSL

The degree of dollarisation of the banking sector remains high as evidenced by the share of foreign currency deposits to total deposits, which increased from 37.15 per cent (2017) to 38.29 per cent (2018).

Figure 16 : Share of foreign currency deposits to total deposits, *in %*



Source: BSL

Table 13: Deposit concentration – by number of customers

Deposit concentration - number of customers						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Current						
Foreign	21,209	26,870	27,238	28,606	50,149	40,825
Domestic	137,549	154,330	163,068	177,561	144,217	222,122
Savings						
Foreign	3,999	5,666	34,768	5,479	6,953	8,314
Domestic	525,017	541,100	466,898	530,902	564,777	800,624
Time						
Foreign	8	4	15	7	1	2
Domestic	963	1,618	1,764	1,969	1,961	2,423

Source: BSL

3.5 Interest Rates

Commercial bank rates, which comprised savings, deposits and lending rates, remained unchanged; the spread serving as a major source of income to cover the overhead costs of banks.

Table 14: Evolution of key interest rates in the market, in per cent

Interest rates (yearly averages)	2013	2014	2015	2016	2017	2018
Commercial banks savings (effective)	4.7	3.2	2.5	2.4	2.4	2.4
Commercial banks 3 months (effective)	5.6	4.2	3.0	2.9	2.9	2.9
Commercial banks 12 months (effective)	8.6	6.6	5.3	5.8	5.8	5.8

Source: BSL

3.6 Financial Soundness Indicators and Risks to the Banking Sector

The banking sector's financial performance in 2018 remained strong, as expressed by key Financial Soundness Indicators (FSIs), see Table 15. At the end of 2018, all commercial banks met CAR of 15 per cent. The industry's average CAR was 38.44 per cent, with one bank recording the highest CAR of 261.44 per cent, mainly as a result of low quantum of risky assets.

3.6.1 Earnings, profitability and efficiency

The banking sector's profit before tax continued to be positive on year-on-year basis growing by 25.96 per cent in 2018, but lower than the growth of 76.75 per cent registered in 2017.

Similarly, the industry's net profit after tax grew by 26.25 per cent in 2018, compared with 76.52 per cent growth in 2017. The industry's net interest income also recorded slower growth of 28.11 per cent in 2018, compared with a growth of 67.12 per cent in 2017.

Table 15: Financial Soundness Indicators

Financial Soundness Indicators of the Banking Sector, 2013 - 2018, *in percent , end of period*						
	2013	2014	2015	2016	2017	2018
Capital Adequacy:						
Regulatory Capital ratio*/	30.1	30.2	34.0	30.7	34.2	38.4
Regulatory tier 1 capital ratio**/	26.33	25.9	29.0	25.9	27.2	29.6
Asset Quality:						
NPL to total gross loans	22.4	33.4	31.7	22.7	14.6	12.7
NPL (net of Provision) to Regulatory Capital	31.7	41.8	31.9	24.8	12.1	9.9
Earnings and Profitability:						
Return on assets	2.1	2.7	3.2	2.9	5.3	6.1
Return on equity	9.9	14.9	18.3	22.3	25.6	27.25
Liquidity						
Ratio of net loans to total deposits	31.81	26.44	24.4	24.4	26.17	27.7
Liquidity ratio***/	72.5	78.9	83.3	85.5	66.9	67.9
Statutory minimum liquidity ratio***/****/	29.3	29.7	30.4	30.1	33.9	33.1
Share of foreign currency dep in total deposits	38.5	26.5	32.0	38.9	37.1	39.3

*/Capital requirement over risk weighted assets (solvency ratio)

**/Core capital (Tier 1) over total assets

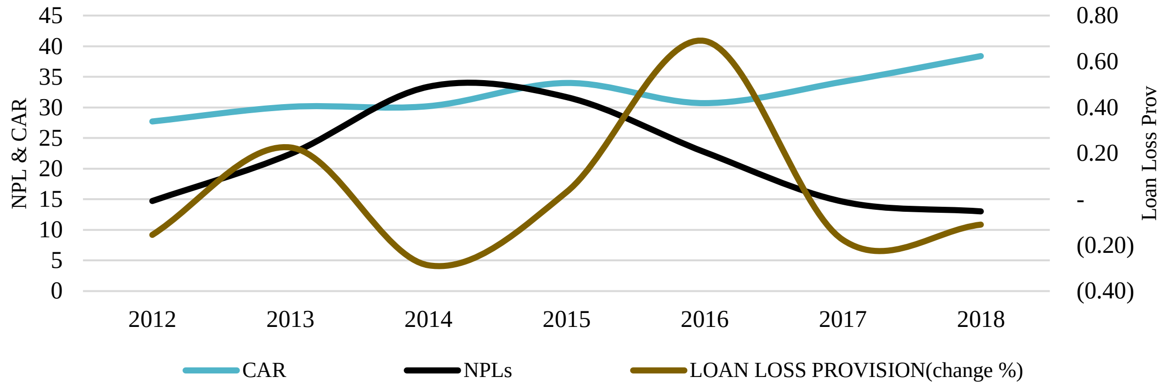
***/Calculated taking into account both domestic currency and foreign currency deposits. Liquid assets include domestic currency cash in vault, claims on the BSL, claims on discount houses, and government securities

****/Effective November 2007, minimum liquidity, includes 40 percent of demand deposits and 20 percent of quasi-money to be held either cash or treasury bills

Source: BSL

Figure 17 below, indicates that CAR has consistently improved overtime, while developments in loan loss provision ratio (LLPs) and NPLs have been mixed, with a noticeable decline in NPLs observed in recent periods.

Figure 17 : CAR, NPLs, and Provisioning



Source: BSL

Table 16 : Banking sector income and expenses, (Lebn)

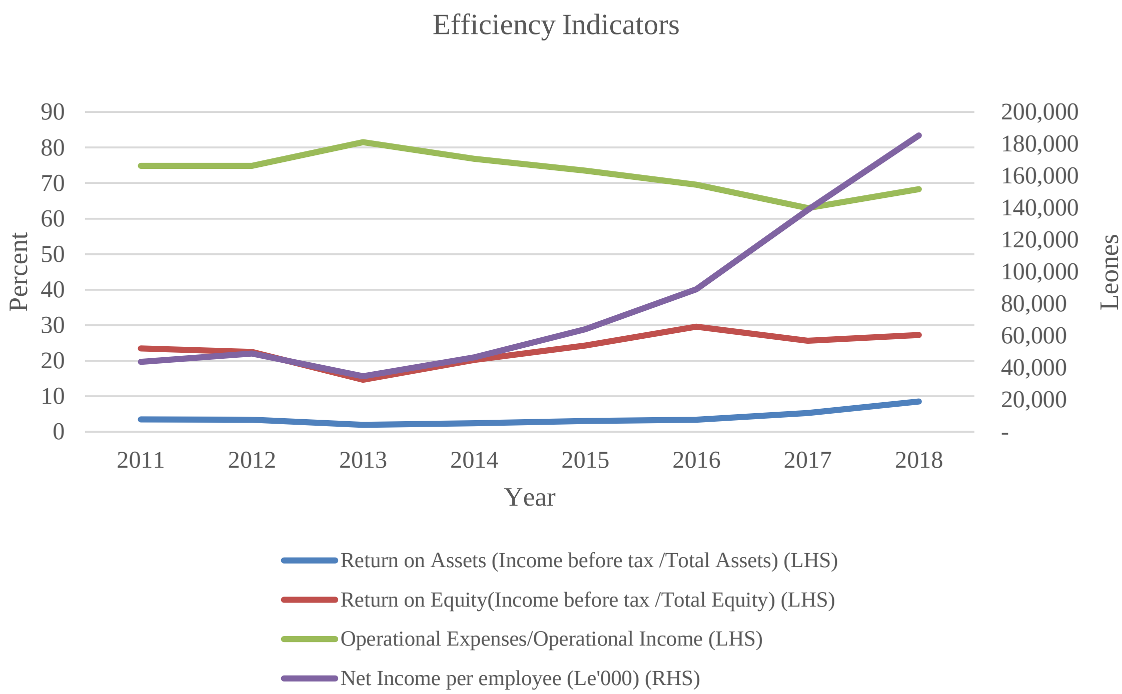
Banking sector income and expenses 2012-2018, Lebn							
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Net operating income	109.79	79.73	109.07	148.6	209.92	340.68	480.67
Total operating income	436.98	432.32	471.59	560.34	689.3	920.96	1,177.24
Other operating expenses	-327.19	-352.59	-362.52	-411.74	-479.38	-580.28	-696.57
Net intermediating income	266.26	245.22	194.38	192.25	334.74	596.59	778.45
Net interest income	293.58	280.52	219.54	218.2	378.59	632.71	810.59
Interest income	392.91	381.41	282.67	266.88	453.35	737.74	1,124.55
Interest Expenses	-99.33	-100.89	-63.13	-48.68	-74.76	-105.03	-313.96
Loan Loss Provision	-27.32	-35.3	-25.16	-25.95	-43.85	-36.12	-32.14
Other operating income	170.72	187.09	277.21	368.09	354.57	324.37	398.78
Other income	11.65	6.11	8.08	9.79	7.16	44.18	3.72
Profit before tax	121.44	85.85	117.15	158.39	217.09	383.7	484.39
Taxation	-35.36	-28.29	-34.55	-47.52	-65.13	-115.46	-145.75
Profit after tax	**86.08**	**57.56**	**82.6**	**110.87**	**151.96**	**268.24**	**338.64**
Extraordinary item	-4.21	-3.05	0	0	0	0	0
Retained profit/loss	**81.87**	**54.51**	**82.6**	**110.87**	**151.96**	**268.24**	**338.64**

Source: BSL

The banking sector remained profitable, recording an aggregate unaudited profit pre-tax of Le484.39 billion at the end of 2018, with interest income from government securities as the major contributor. All banks recorded unaudited pre-tax profit except for one bank, which recorded a loss at the end of 2018. (See Table 16).

The return on equity (ROE) increased to 27.25 per cent in 2018 from 25.6 per cent in 2017 mainly as a result of income from commissions and fees and the introduction of new financial products in the industry. The general efficiency indicator, calculated as a ratio of operational expenses to operational income, increased to 68.28 per cent in 2018 from 63.01 per cent in 2017. Also, the evolution in the net income per employee indicate that banking sector productivity has improved (Figure 18).

Figure 18 : Selected earnings, profitability, and efficiency indicators



Source: BSL

3.7 Banking Sector Key Risks

While the banking sector in Sierra Leone during 2018 was relatively stable and sound, it remained exposed to risks from other sectors of the economy as well as within the banking sector.

3.7.1 Linkages from Macro to Financial System and vice versa

A stable financial system requires macroeconomic stability, characterized by stable employment, predictable prices and high growth prospects. High unemployment and economic stagnation impact negatively on financial stability via elevated credit risk perceptions, constrained debt servicing capacity by borrowers and high interest rates risk by lenders as insurance against borrower's defaults.

Table 17: Macro-Financial Linkages

Linkages from Macro to Financial	Sierra Leone
From Real Sector through:	
Loan concentration risks	x
Increase in NPLs	
Private sector balance sheets	
High dollarization	x
From External Sector through:	
Commodity price shocks	x
Foreign capital market conditions	
Spillovers from parent banks	
From Fiscal Sector through:	
Fiscal dominance	x
Crowding out of bank credit to the private sector	*
Domestic payment arrears	x
Holdings of government debt (sovereign financial linkage)	*

Linkages from Financial to Macro	Sierra Leone
To Real Sector through:	
Asset prices	
Credit growth and allocation	
Financial deepening and inclusion	x
Banks' balance sheet	
To External Sector through:	
Exchange rate volatility	
To Fiscal Sector through:	
Recapitalization	x
Contingent liabilities	x

Source: IMF/BSL

The links and transmission channels between the financial system and the other sectors of the economy, as well as feedback loops across sectors and policies involve examining how macro shocks and policies affect the financial system (links from fiscal, external, and real sectors to the financial system), and how developments in the financial system magnify or dampen the impact of macro shocks or policies and feed back to the rest of the economy (links from financial system to other sectors of the economy). Improving the understanding of the links among the financial system, other sectors of the economy, and, ultimately, economic growth is critical for comprehensive macroeconomic analysis.

From the matrix above, it could be highlighted that several channels that affect the linkages from macro to financial and vice versa have impact on Sierra Leone financial system and overall macroeconomic performance.

Lack of economic diversification and fiscal dominance in the economy of Sierra Leone have important repercussions for financial system development and stability. Furthermore, Sierra Leone is exposed to shocks from the external sector, predominantly in the form of commodity price fluctuations such as the price of iron ore, including the impact of adverse weather conditions on agricultural production. The low level of economic diversification is considered one of the reasons of high loan concentration, which could trigger significant adverse systemic impact, particularly in a small and shallow financial system like Sierra Leone.

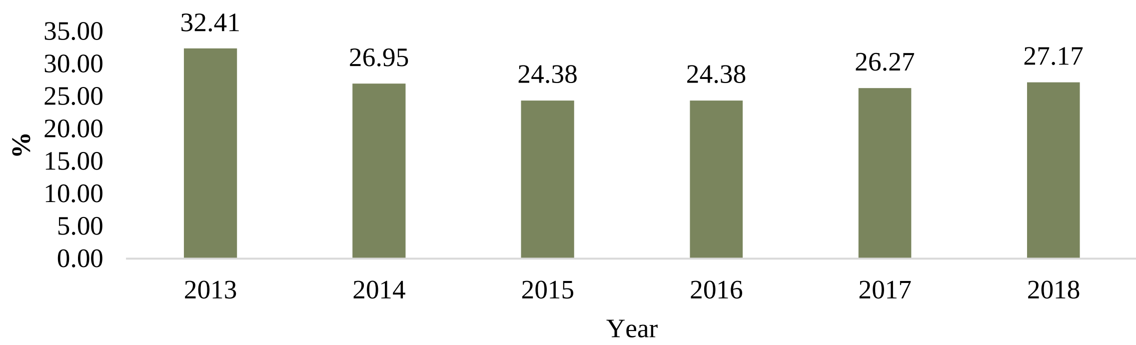
High dollarisation is particularly vulnerable to exchange rate fluctuations, which is triggered by the volatile external environment. A high level of dollarisation in Sierra Leone amplifies the negative effects of exchange rate volatility to the financial system.

Fiscal dominance has had a significant adverse effect on banking markets, triggering negative feedback on growth. Government arrears have been an important source of risk to financial system stability and a deterrent to the supply of credit in Sierra Leone. Government arrears to suppliers and contractors has led to rising NPLs and a tightening of banks' lending conditions, which also translate into reduced private credit and weakening economic growth. This cycle then feeds back into additional fiscal revenue shortfalls. Government securities are attractive to commercial banks for their relatively high yield, risk-free treatment, their often tax-exempt status and the ease with which they can be used as collateral for refinancing needs.

The depreciation of the Leone in the past years had been risky to the overall economy through instability in the foreign exchange market and heightening inflation, which put pressures on banking sector with regard to satisfying the demand for foreign currency.

The overreliance by the banking sector on T-bills investments, especially its huge concentration on investment in 1-year T-bills (2018: 99.71 per cent) has made commercial banks less active in terms of delivering on their core mandate of financial deepening and inclusion, as evidenced constantly in their record on very low loan-to deposit ratio - currently at 27.17 per cent as against the prudential threshold of 80 per cent (see Figure 19).

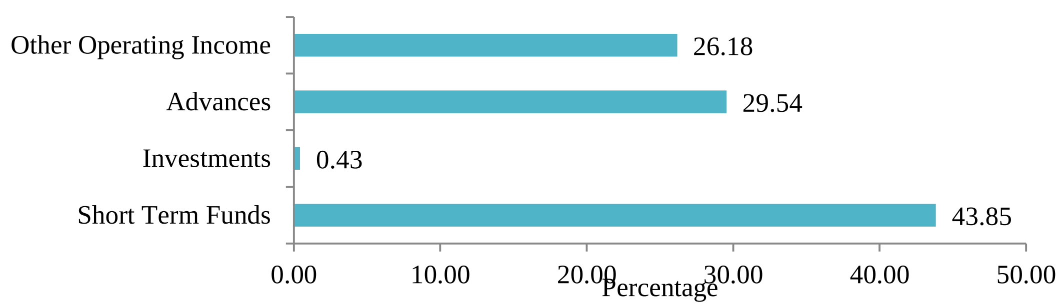
Figure 19 : Ratio of net loans to total deposits 2013 – 2018



Source: BSL

As a risk-free and highly liquid assets, T-bills have been a key driver of substantial improvement in core FSIs of the banking sector. Consequently, a summarised picture (see Figure 21) of the evolution of total assets of the banking sector including its investment in government securities and credit to private sector as a share of GDP, reveals that the business model can evolve as a potential major risk to the banking sector in the medium term, especially when taking into consideration the positive prospect of fiscal consolidation, but also the existing challenges regarding the environment for doing business[2]**.** This is illustrated by the contributions to income from the various activities (see Figure 20), in which investment in T- bills contributed the highest, amounting to 43.85 per cent of the total income in 2018.

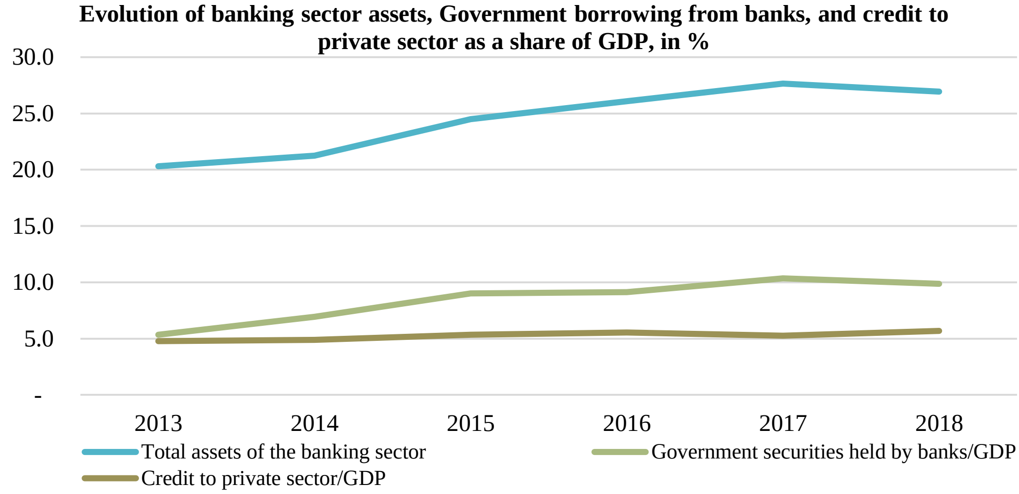
Figure 20 : The Income Composition, *as of December 2018*



Source: BSL

[2] The 2019 World Bank Doing Business report ranked Sierra Leone 163rd out of 190 for ease of doing business and 55th for starting a business. In terms of construction permits, it ranked 182nd and for trading across borders, it ranked 166th. The worst ranking, 178th is for getting electricity. This is a vivid illustration of the infrastructure deficiencies in the country. In fact, the rankings of all sub-categories mentioned are worse than those for 2016. The only exception is the ranking for starting a business, which improved to 55th position in 2019 over 99th position in 2016.

Figure 21 : Simplified current business model of the banking sector



Source: BSL

3.8 Banking Sector – Risk Outlook

In the near to medium-term, the banking sector will continue to be resilient and stable especially when considering the planned increase in minimum paid up capital (2019-2021) and government borrowing plan as agreed under the Extended Credit Facility program with the International Monetary Fund (IMF). The income generated from government securities will continue to feed in to all key FSIs.

The increase in the minimum statutory capital requirements will serve as an essential instrument in strengthening the financial stability of the banking sector. This will ensure that banks are in a better position to absorb risks, thereby improving their risk management. As they bear the costs of those risks themselves, banks will be able to reduce their risks, through efficient means of pricing. This will strengthen the banking sector as banks with a healthy business model will be able to keep up their lending as economic activities increase.

The banking sector envisages that potential foreign currency mismatch may create further pressure on the domestic currency. It was observed that foreign currency deposits in percentage terms dropped marginally over the period 2016-2018. This trend, if continued, may put further pressure on the Leone, especially in the case of unexpected foreign currency demand. Looking at sectorial allocation of loans, it is evident that loans are largely channeled towards commerce & finance. This sector is mostly involved in importation and therefore, will often need to convert its loans obtained in Leone into foreign currency and subsequently creating additional demand for foreign currency.

3.9 The State of Access to Financial Services in Sierra Leone

In an effort to achieve the goal of the National Strategy for Financial Inclusion (2017-2020), the following activities were undertaken by the Bank of Sierra Leone:

The first Sierra Leone Fintech Challenge. The Challenge was organized by the Bank of Sierra Leone in collaboration with the United Nations Capital Development Fund (UNCDF) on Mobile Money for the Poor and Financial Sector Deepening (FSD) Africa. The program is meant to encourage the development of Fintech solutions that are useful and highly relevant to the people and businesses of Sierra Leone. It also fosters collaboration between regulators, non-traditional market players, licensed financial institutions and other partners to pilot innovative products, services or solutions in a fragile state context.

The Bank of Sierra Leone Regulatory Sandbox. The Regulatory Sandbox is intended to serve as a safe space for innovators and regulators to evaluate new products and business models that do not fit neatly into existing regulatory structures. This program is important as it helps regulators to identify and mitigate potential risks to consumers and the financial system that may result from these experiments. At present, there are four participants in the BSL Regulatory Sandbox.

The Annual Providers Survey. This survey was undertaken by the UNCDF in 2018. The Survey provides key insights into the state of the digital financial services (DFS) market in Sierra Leone and is available in the UNCDF's website.

Digitization of Smallholder Commercialization. The BSL in partnership with the Ministry of Agriculture, launched the assessment of smallholder farmers to introduce DFS solutions. A task force, which comprised the BSL, UNCDF and the European Union (EU) are currently working with the Ministry of Agriculture to implement recommendations of the assessment.

Establishment of School Savings Clubs. Recognizing the significant role of the Non State Actors (NSAs), the BSL contracted two local Non-Governmental Organizations (NGOs) - Movement for Public Accountability and Development (MOPAD) and the African Youth Coalition against Hunger (AYCAH), through the NSA Secretariat, to establish twenty eight school savings clubs in secondary schools nationwide as the pilot projects. The objective was to inculcate the habit of savings into school going children at a young age. These school savings clubs are currently functioning.

The Geographic Information System (GIS) mapping. The main objective of the GIS mapping was to determine areas or sectors that were underserved and ready for financial service expansion. The mapping survey exercise was concluded in 2018 and the result, showing data on financial inclusion access points is now in the public domain on the Bank of Sierra Leone website.

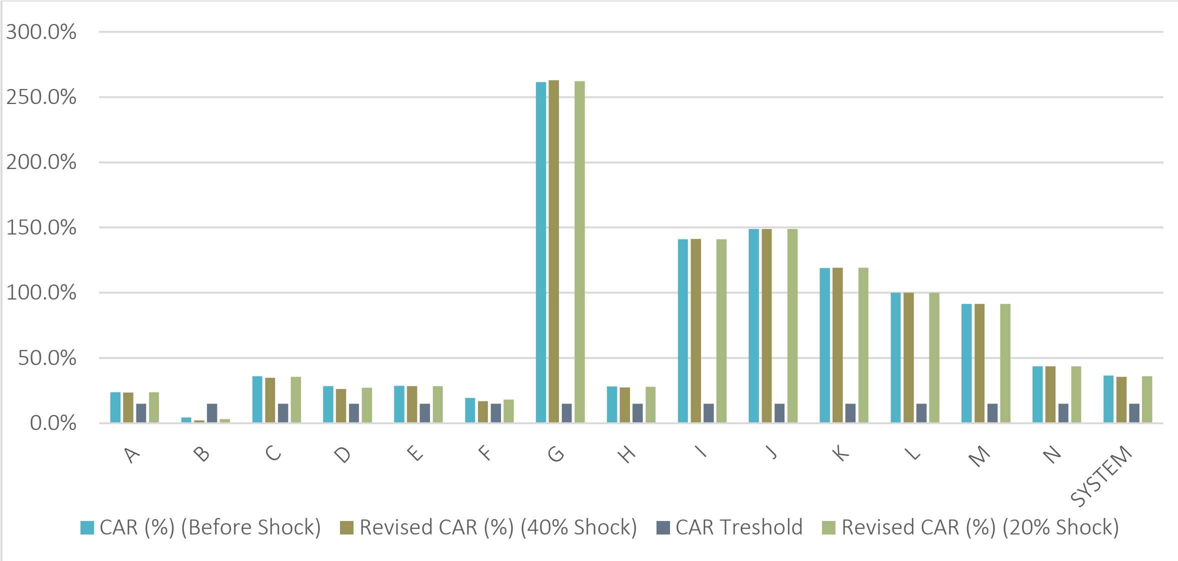
3.10 STRESS TEST ANALYSIS

The BSL carries out yearly stress test to assess the resilience of the banking sector to possible systemic risks. Shocks are applied to selected variables in a bid to determining banks' resilience on a predefined prudential threshold. The stress test has been focused on three main potential sources of vulnerabilities for the banking sector, namely credit, exchange rate depreciation, and liquidity risks.

3.10.1 Credit risk

Scenarios were used to assess the impact on the banks' capital due to potential further deterioration in asset quality. The ratio of NPLs to total loans is taken as the main measure of credit risk. The stress test scenario with credit risk assesses the resilience of banks to the highest yearly increase of 40 per cent in NPL ratio recorded in 2018 under the assumption of constant credit growth, no change in core capital, and with 20 per cent and 40 per cent provisioning of new NPLs. The result shows that the banking sector is resilient and it is stands above the threshold with CAR before and after the shock, showing 36.4 per cent (before the shock), 36.0 per cent (after 20 per cent shock) and 35.6 per cent (after 40 per cent shock).

Figure 22 : Stress Test Results on credit risk 2018

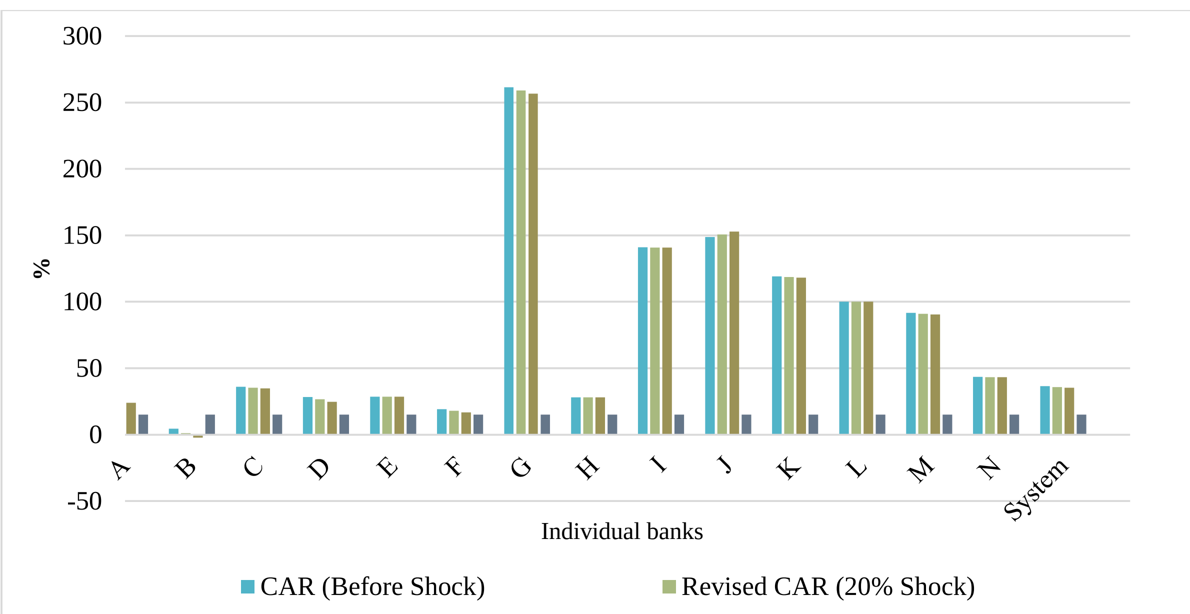


Source: BSL

3.10.2 Exchange rate risk

The CAR of the system remained resilient at 35.83 per cent and 35.23 per cent as per stress test scenario of depreciation of Leone by 20 and 40 per cent, respectively. However, one bank fell below the minimum threshold after the 40 per cent shock and recorded a negative CAR.

Figure 23 : Stress Test Results on exchange rate depreciation in 2018



Source: BSL

3.10.3 Liquidity Risk

The stress test scenario on liquidity risk assessed whether the banking sector could meet sudden demand for a large amount of cash withdrawal. In particular, the stress test shows for each bank, how many days it would withstand a liquidity drain before breaching internationally accepted liquidity ratio of 30 per cent. Commercial banks in Sierra Leone are subject to prudential minimum liquidity ratio of 40 per cent for demand deposits and 20 per cent for savings and time deposits. In this scenario we utilized minimum liquidity ratio of 30 per cent. The stress test scenario assessed how resilient are banks under a 10 per cent call on demand deposits, that is a 10 per cent daily withdrawal of demand deposits for five consecutive days. The stress test results show that the banking sector could withstand severe shocks arising from potential deposit withdrawals. However, the shock absorption capacity of the banking sector is highly dependent on the market liquidity for government securities and the behaviour of large depositors. The stress test results indicate that all banks can withstand a sizable liquidity shock (a 10 per cent withdrawal per day of call deposits) for one day (except for two banks) without going below the threshold of 30 per cent. On the third, fourth and fifth day of the same amount of withdrawal of deposits, two commercial banks join the group of illiquid banks.

Table 18 Liquidity Stress Test

Results of the Liquidity Stress Test, data as of December 2018	
Pre-shock Liquidity ratio of the banking system	
Shock: 10 per cent daily withdrawal of deposits five days	*Post shock: Number of illiquid banks*
After day 1	*2*
After day 2	*2*
After day 3	*4*
After day 4	*4*
After day 5	*4*

*/*Liquid ratio is defined as the ratio of liquid assets to liquid liabilities. Liquid assets include cash, due from other banks and government securities.*

4.0. NON-BANK FINANCIAL INSTITUTIONS

4.1 Non-bank financial institutions

4.1.1 Landscape

There has not been much change in the landscape of other non-bank financial institutions. The number of Deposit Taking Microfinance Institutions (DTMFIs) decreased from five (2017) to four (2018), while Credit-Only Microfinance Institutions (COMFIs) and Financial Service Associations (FSA) increased from 20 (2017) to 25 (2018) and from 58 (2017) to 59 (2018), respectively. While the ownership structure (foreign vs domestic) and concentration ratio remain almost the same as in 2017, the number of branches increased for both the DTMFIs and the COMFIs from 32 (2017) to 40 (2018) and 95 (2017) to 110 (2018), respectively. With respect to the number of employees in 2018, a slight decrease was observed with FSAs, a decrease of 38 employees with DTMFIs due to the revocation of license of one DTMFI and a slight increase with COMFIs and Community Banks (see Table 19).

Table 19 : Structure of other non-bank financial institutions

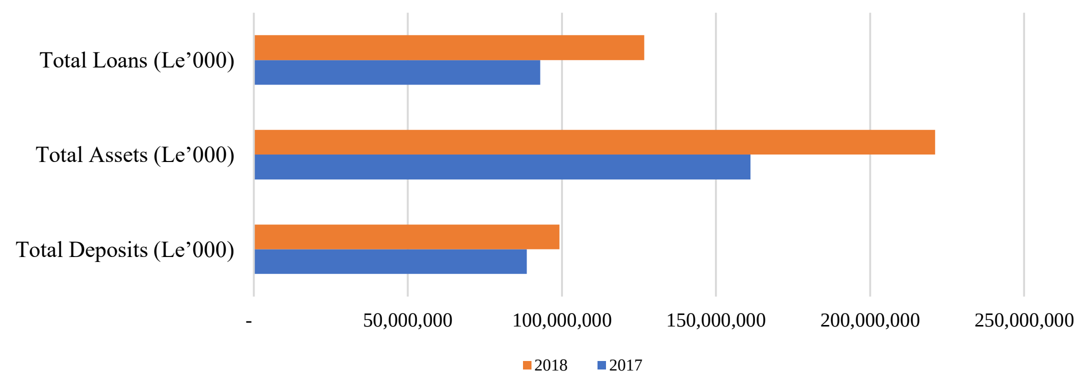
Institutions	Number		Foreign ownec		Number of branch		Number of employees		Concentration ratio %	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Deposit Taking Microfina Institutions	5	4	2	2	32	40	516	478	99.06	98.49
Credit-Only Microfinance Institutions	20	25	3	3	95	110	439	545	98.10	98.29
Community Banks	17	17	Nil	Nil	17	17	128	142	36.35	38.24
Financial Services Associations	58	59	Nil	Nil	59	59	186	185	Nil	Nil
APEX Bank	1	1	Nil	Nil	2	2	59	60	Nil	Nil
National Cooperative Cre Union Association	28	28	Nil	Nil	7,033*	8,429*	31	41	Nil	Nil

**Concentration = Assets of 3 largest non-bank financial institutions /Total Assets*
***National Cooperative Credit Union Association = Membership, not branches*
Source: Other Financial Institutions Supervision Department, BSL

4.1.2 Deposit Taking Microfinance Institutions (DTMFIs)

As at end December 2018, the resource base of the DTMFIs stood at Le221.10 billion from Le164.86 billion in December 2017. The equity of the DTMFIs was mainly responsible for the increase in the resource base as it stood at Le 43.25 billion in December 2018 from Le22.28 billion in December 2017. The DTMFIs gross loans and total deposits were Le126.71 billion and Le 92.94 billion as at December 2018 respectively, while investment in government securities was Le21.48 billion.

Figure 24 : Deposit-taking microfinance institutions deposits, loans, and assets



Source: OFISD, BSL

The increase in both the deposits and loans including total assets of the DTMFIs was driven by a 44 per cent increase in the number of clients, when compared to 2017. However, there was no change in the cost of financial intermediation by DTMFIs in 2018 as the spread remained very high (Table 20).

Table 20 : Activities of the DTMFIs

Activities	2017(Le'000)	2018 (Le'000)
Total deposits	88,580,000	99,240,000
Total assets	164,860,000	221,100,000
Total loans	92,940,000	126,680,000
Total Equity	22,282,000	43,247,000
Interest rate on loans (average), in %	30	30
Interest rate on deposits (average), in %	4-5	4-5
Number of clients	35,444	50,914

Source: Other Financial Institution Supervision Department, BSL

Table 21 shows the main performance indicators used to analyse the operations of the DTMFIs in Sierra Leone. In terms of Operational Self Sufficiency (OSS), the DTMFIs have been successful in generating revenues to cover their operating costs. All DTMFIs met the MIX requirement of 112 per cent, except for one.

Overall, the DTMFI's ROA increased to 3.73 per cent in December 2018 from negative 0.17 per cent recorded in December 2017, indicating efficiency in the use of assets in generating income. However, two out of four DTMFIs did not meet the minimum MIX requirement of 2.1 per cent.

Table 21 : Selected performance indicators for deposit-taking microfinance institutions

Performance indicators	2017	2018
Income:		
Interest Income (Le'000)	2,563,665	29,914,668
Expenditures:		
Interest Expense (Le'000)	(339,331)	4,596,138
Personnel and Administrative Expenses (Le'000)	2,675,472	28,696,614
Net Profit:		
ROA (Net Income/Total Assets), in %	(0.17)	3.73
ROE (Net Income/Capital), in %	1.17	18.94
Portfolio at Risk (PaR)≥15 days,	15.88	10.47

Source: Other Financial Institutions and Supervision Department, BSL

With regard to Return on Equity (ROE), the DTMFI's ROE in 2018 increased to 18.94 per cent, which is considerably above the MIX benchmark of 14.7 per cent, thus indicating an effective use of investment in generating earnings to sustain business operations. However, two out of four DTMFIs recorded a ROE much below the MIX benchmark.

All DTMFIs recorded a satisfactory portfolio to assets, an indication that they are performing their core function of operation. Overall, the DTMFIs portfolio to assets stood at 57.41 per cent, slightly lower when compared to 2017.

As at December 2018, DTMFI's portfolio at risk ratio stood at 10.47 per cent, which is far above the required MIX standard of 4.8 per cent. Every single DTMFI failed to meet this MIX standard implying the need for substantial improvement in credit management and loan recovery strategy.

4.1.3 Credit-only Microfinance Institutions (COMFIs)

The resource base of the COMFIs in 2018 increased to Le98.26 billion from Le66.27 billion in December 2017. As one of the key drivers of the increase in the resource base, equity rose by 50.99 per cent to Le52.04 billion from Le44.46 billion in December 2017. This increase was as a result of huge increases reported in the current year profit by 167.26 per cent to Le7.92 billion from Le2.71 billion in December 2017. The COMFIs' gross loans rose by 55 per cent to Le83.79

billion in December 2018 from Le54.08 billion in December 2017. Also, the number of borrowers increased significantly by 46 per cent compared to 2017. However, the cost of financial intermediation by COMFIs continued to remain very high.

Table 22 : Activity of COMFIs

Activities	**2017** *(Le'000)*	**2018** *(Le'000)*	**% change**
Total Loans	54,081,069	83,794,467	55
Total Assets	66,966,796	98,263,396	47
Total Equity	44,460,000	52,019,946	51
Interest Rate on Loans (Average), *in %*	30-35	30-35	0
Number of Borrowers	55,821	75,821	46

Source: Other Financial Institutions and Supervision Department, BSL

In terms of Operational Self Sufficiency, two out of five COMFIs met minimum MIX requirement of 112 per cent. One out of five COMFIs met the minimum MIX benchmark of 2.1 per cent for ROA. The yearly consolidated ROA increased to 4.72 per cent in 2018 from 3.59 per cent in December 2017.

One out of five COMFIs met the minimum MIX requirement of 13.7 per cent for ROE. Consequently, as at end December 2018, the ROE ratio of five COMFIs together was below the MIX standard, recording 9.04 per cent from 10.84 per cent in December 2017, indicating a reduction in the yearly yield on shareholders' equity.

Table 23 : Selected performance indicators of COMFIs

Income:	**2017**	**2018**
Interest Income (Le'000)	18,460,460	27,861,821
Expenditures:		
Interest Expense (Le'000)	29,146	403,600
Personnel and Administrative Expenses (Le'000)	14,860,104	17,912,014
Net Profit:		
Current year profit (Le'bn)	2.71	7.26
ROA (Net Income/Total Assets, in %	3.59	4.72
ROE (Net Income/Capital), in %	10.84	9.04
Portfolio at Risk,≥40 days	15.30	4.68

Source: Other Financial Institutions and Supervision Department, BSL

The Industry average outstanding loan was satisfactory. However, one out of five recorded a high outstanding loan, indicating ineffective loan management. Consolidated yield on gross loans was satisfactory, which accounted for 24.90 per cent in December 2018.

Portfolio at Risk > 40 days. Consolidated Portfolio at Risk (PaR) for all five COMFIs covered in this report was 4.68 per cent in December 2018, which is slightly below the MIX requirement of 4.80 per cent. Two out of five COMFIs covered in this report met the MIX requirement.

4.2 APEX Bank

The APEX Bank Sierra Leone Limited is focused on improving the quality of life of economically disadvantaged Sierra Leoneans (mostly from rural communities) through the provision of inclusive and sustainable financial services through community banking system. The APEX Bank was licensed mainly to provide financial services to a network of rural finance institutions in Sierra Leone, and it is regulated by the BSL, who provides oversight under the Other Financial Services Act 2001. The Apex bank's three core functions include:

- Administration of an Agricultural Finance Facility (AFF) and the investment of capital into the CBs by outside shareholders to improve access to rural finance;
- Provision of inspection functions and limited supervisory duties to FSAs and CBs;
- Provision of technical assistance / support, including training.

4.2.1 Activity of the APEX Bank

The APEX Bank resource base rose by Le9.48 billion to Le48.68 billion in December 2018 from Le39.20 billion in December 2017. This attributed to an increase in deposit mobilisation by Le0.3 billion to Le2.03 billion in December 2018 from Le1.73 billion recorded in December 2017. The system recorded a loan portfolio of Le14.64 billion, reflecting an increase of Le1.07 billion as at 31 December 2018 from Le13.56 billion in December 2017.

Table 24 : Activity of APEX Bank

Activity	2017	2018
Total Deposits *(Le'000)*	1,728,497	2,030,656
Total Assets *(Le'000)*	39,202,462	48,682,039
Total Loans *(Le'000)*	13,557,440	14,627,923
Interest Rate on Loans (Average), *in %*	12	12
Interest Rate on Deposits (Average), *in %*	n/a	n/a
Number of Clients	76	76

Source: Other Financial Institutions and Supervision Department, BSL

4.2.2 Performance of the APEX Bank.

APEX Bank did not meet the minimum MIX requirement of 2.1 per cent in December 2018 and December 2017 respectively in ROA. Despite an improvement in the ROA to a negative 15 per cent in December 2018 from negative 18 per cent recorded in December 2017, the use of asset to generate income remained inefficient.

Table 25 : Selected performance indicators of APEX Bank

	2017	2018
Income:		
Interest Income (Le'000)	392,263.93	938,656.74
Expenditures:		
Interest Expense (Le'000)	0.00	0.00
Personnel and Administrative Expenses (Le'000)	8,625,527	10,130,204
Net Profit:		
ROA (Net Income/Total Assets), in %	(18.00)	(15.00)
ROE (Net Income/Capital), in %	(65.00)	(67.00)
Non-Performing Loans (NPL), in %	25.4	35.4

Source: Other Financial Institutions and Supervision Department, BSL

Due to the losses that APEX Bank has been incurring, the ROE ratio deteriorated further as it went to negative 67 per cent in December 2018 from negative 65 per cent recorded in December 2017, indicating ineffective yield in investment from the shareholders' fund.

The APEX Bank's NPLs was 35.4 per cent in December 2018, an increase of 10.1 percentage points from 25.3 per cent in December 2017 far above the tolerable limit of 4.8 per cent required for non-bank financial institutions.

4.3 Community Banks (CBs)

4.3.1 Activity of Community Banks (CBs)

The community banking sector recorded a resource base of Le82.37 billion in December 2018 from Le61.25 billion recorded in December 2017. Two CBs had the largest proportion of Le15.95 billion and Le9.36 billion accounting for 19.35 per cent and 11.46 per cent respectively of the community banking sector resource base in December 2018.

The lowest proportion to the Resource base was Le1.85bn accounting for 2.25 per cent of the community banking sector. The increase in the resource base was attributed to deposit mobilization by 45.66 per cent to Le42.79 billion from Le29.47 billion recorded in December 2017. The community banking sector recorded a loan portfolio of Le57.14 billion as at end December 2018 (See Table 26).

Table 26 : Activity of Community Banks (CBs)

Activity	**2017(*Le'000*)**	**2018*(Le'000)***	**% change**
Total Assets	61,251,668	82,368,772	34
Total Deposits	29,470,000	42,786,941	46
Total Loans	43,783,209	57,139,619	31
Interest Rate on Loans (Average), *in %*	26	26	0
Number of Clients	79,665	91,855	15

Source: Other Financial Institutions Supervision Department,, BSL

The community banking sector increase its clientele base to 15 per cent compared to 2017. Yet, the cost of financial intermediation by CBs remains unchanged and high (See Table 26).

4.3.2 Performance of Community Banks (CBs).

The consolidated pre-tax profit as at end December 2018 was Le5.58 billion. All CBs made profit as at 31st December 2018, except for one that recorded a loss of Le0.39bn. However, year-on-year analysis shows a decline in operating performance as pre-tax profit recorded a decrease of Le1.86bn (24.95 per cent) from Le7.44 billion in December 2017. The profitability of CBs declined partly due to the loss made by one CB and the provisioning for the high NPLs in the community banking sector.

Table 27 : Selected performance indicators of the Community Banks

Selected indicators	2017*(Le'000)*	2018*(Le'000)*
Income:		
Interest Income	9,280,549	11,442,435
Expenditures:		
Interest Expense		
Personnel and Administrative Expenses	6,686,562	9,251,878
Net Profit:		
ROA (Net Income/Total Assets), in %	4.80	5.96
ROE (Net Income/Capital), in %	16.08	16.10
Portfolio at Risk(PaR), in %	20.82	22.44

Source: Other Financial Institution Supervision Department, BSL

In terms of Operational Self Sufficiency (OSS), seven (7) out of seventeen (17) community banks covered in this report have met the MIX standard of 112 per cent.

The ROA ratio was 5.96 per cent in December 2018, an increase of 12.37 from its level in December 2017. This ratio was above the MIX minimum requirement of 2.1 per cent. Overall, the community banking sector satisfactorily maximised the utilisation of its assets in revenue generation over the one-year period.

With regard Return on Equity (ROE*)*, no significant difference was observed between 2017 (16.08) and 2018 (16.10). Five (5) out of the seventeen (17) CBs have met the MIX standard of 13.6 per cent, indicating that some of the community banks will not be able to pay dividends to shareholders.

All CBs recorded PaR>30 days far above the tolerable limit of 4.8 per cent. One CB recorded a level as high as 71.74 per cent and another 39.63%. This implies that the loan portfolio of these CBs is at higher risks and there is potential for future losses.

4.4 Financial Services Associations (FSAs)

4.4.1 Activity of Financial Services Associations (FSAs)

The resource base of the FSAs in December 2018 increased by Le8.07 billion to Le55.85 billion from Le47.78 billion in December 2017, driven by a slight increase in ROE when compared to December 2017. Total loans rose by Le8.14 billion to Le45.75 billion as at December 2018 from Le37.61 billion in December 2017. Average interest rate on loans remains unchanged at

(27 per cent), and the number of clients of the FSAs increased by 15 per cent between December 2017 and December 2018.

Table 28 : Activity of the Financial Services Associations (FSAs)

Activity	2017	2018	%
Total Loans *(Le'000)*	37,606,702	45,752,843	22
Total Deposits *(Le'000)*	Nil	Nil	
Total Assets *(Le'000)*	47,781,828	55,850,724	17
Interest Rate on Loans (Average), *in %*	27	27	0
Number of Clients	30,684	35,228	15

Source: Other Financial Institution Supervision Department BSL

4.4.2 Performance of Financial Services Associations (FSAs)

The interest income of FSAs doubled as at 31st December 2018 when compared to December 2017. It rose from Le5.46 billion in 2017 to Le 10.87 billion in 2018 (see table 29), mainly due to increases in income from the rise in total loans and loans recovery. Interest expense on the other hand equally rose by Le0.19 billion to Le 0.24 billion in December 2018 from Le0.05 billion in December 2017. Personnel and administrative expense also rose by Le3.78 billion to Le6.62 billion in December 2018 from Le 2.85 billion in December 2017.

Table 29 : Selected Performance Indicators of FSAs

Selected performance indicators	2017	2018
Income:		
Interest Income (Le'000)	5,457,229	10,868,260
Expenditures:		
Interest Expense (Le'000)	50,821	241,882
Personnel and Administrative Expenses (Le'000)	2,847,233	6,622,997
Net Profit:		
ROA (Net Income/Total Assets), in %	6.4	7.8
ROE (Net Income/Capital), in %	19.16	22.78
Portfolio at Risk(PaR)	6.0	7.0

Source: Other Financial Institution Supervision Department BSL

The consolidated ratio of the ROA for FSAs in December 2018 was 7.8 per cent, an increase of 1.4 percentage points from 6.4 per cent in December 2017, signifying that yield from the use of assets was improving.

The consolidated ratio of the ROE increased by 3.62 percentage points to 22.78 per cent in December 2018, from 19.16 per cent in December 2017, and was above the minimum MIX requirement of 13.7 per cent, thus indicating satisfactory returns on shareholders' equity.

In terms of Non-Performing Loan (NPL), the FSAs failed to meet the MIX standard of 4.8 per cent in December 2018.The NPL was 7.0 per cent in December 2018 increasing by 16.67 per cent from 6.0 per cent in December 2017, thus indicating weak credit management.

4.5 National Cooperative Credit Union Association (NCCUA)

4.5.1 Activity of the NCCUA

The performance of the NCCUA over the period under review has been impressive, with total membership improving by 19.84 per cent from 7,033 members as at end December 2017 to 8,429 members in December 2018, which constitutes 4,145 males, 4,284 females, and 607 groups. With presence all over the country, the NCCUA have raised shares of Le1.32 billion in December 2018, representing a 17.10 per cent improvement from the Le1.09 billion in December 2017.

Table 30 : Activity of the NCCUA

Activity	**2017***(Le'000)*	**2018***(Le'000)*	**% change**
Total Loans	4,266,000	6,130,000	44
Total Savings	3,757,000	4,691,000	21
Total Shares	1,091,000	1,316,000	25
Loans Outstanding	4,266,000	6,130,000	44
Membership *(Number)*	7,033	8,429	20

Source: Other Financial Institution Supervision Department, BSL

The loan portfolio of the NCCUA amounted to Le6.13 billion in December 2018 (up by Le1.86bn or 43.69 per cent). The NCCUA provide loans only to its members, who buy shares and constantly build up their savings with the NCCUA. The total savings in December 2018 increased to Le4.69 billion from Le3.76 billion recorded in December 2017.

4.6 Mobile Money Providers

4.6.1 Activity of the Mobile Money Providers

There are two licensed mobile money financial service providers in the country. The number of active registered mobile money users as at December 2018 was 405,664, with 10,378 registered agents throughout the country as against 4,559 recorded at end December 2017. On average, the mobile money service providers conducted 464,571 transactions as at end December 2018, while the value of transactions stood at Le71, 858,883,415 as at end December 2018.

Table 31 : Activity of the Mobile Money Providers

Activity	2017	2018
Number of Agents	4,559	10,378
Number of Accounts	426,797	495,664
Number of transactions	1,892,227	464,571
Value of transactions (Le)	409,011,482,214	71,858,844,415

Source: Other Financial Institutions Supervision Department, BSL

4.7 Pension Sector: The Evolution and Operational Overview of NASSIT

4.7.1 Regulatory framework

The National Social Security and Insurance Trust (NASSIT) is a statutory Public Trust charged with the responsibility of administering Sierra Leone's National Pension scheme. According to the NASSIT Act No. 5 of 20th July 2001, the Scheme was established as a corporate body to provide retirement and other benefits to meet the contingency needs of workers and their dependents, and to provide for other related risks.

Generally, the NASSIT Scheme is a long-term insurance scheme that offers protection against risks related to old age, death and invalidity. Membership with the scheme is compulsory for all workers and optional for the self-employed persons and workers in the informal sector – meaning that it is incumbent on all employers to ensure that their workers are registered, and contributions paid on their behalf. The Scheme has the following basic features:

1) It is contributory; that is, it is financed from contributions by employers and employees.
2) It is a Defined Benefit (DB) Social Insurance Scheme, where members contribute during their working life and are paid benefits at the onset of any of the three contingencies connected with old age, invalidity and death.

As a contributory pension scheme, its revenue results from three main sources:

1) Contributions from employers and workers, including the self-employed and informal sector workers;
2) Investment income; and
3) Penalties resulting due to delays in payment of contributions or in transmission of the statements (declarations) of salary.

Overall, there are two main types of expenditures for the scheme: (i) benefits payments, and (ii) administrative expenditure (operating and investment costs).

The benefits are of three types namely, retirement benefit, survivor, and disability benefits. These benefits are long-term in nature, but there are several grants which are also paid to participants.

4.7.2 Activities of the NASSIT

Compared to 2017, the number of new entrants as well as insured membership into the pension scheme in 2018 has declined by 25.1 per cent and 7.1 per cent respectively. At the same time, the value of contributions and benefits payment has increased substantially by 14.8 per cent and 44.4 per cent respectively (see Table 32). In 2017, NASSIT initiated work on the establishment of a social security court to enforce compliance with provisions of its Act.

Table 32 : NASSIT: Key Activity Indicators 2017-2018

Indicators	**2017**	**2018**	**Growth in %**
Insured membership *(number)*	245,452	218,844	-10.8
New entrants *(number)*	12,215	9,149	-25.1
Contribution* *(Le'000)*	475,754,548	441,514,627	-7.1
Benefits payment* *(Le'000)*	128,206,440	184,847,470	44.2
Total assets* *(Le'000)*	1,476,655,482	1,620,145,041	9.7
Total liabilities* *(Le'000)*	15,728,529	11,965,855	-23.9
**Estimate*			

Source: NASSIT

The NASSIT Board, when approving any investment, takes into consideration the following criteria: (i) the safety and yield of the investment; (ii) the liquidity of the investment; (iii) the need to maintain the real value and spread of the investment;(iv) the maintenance of the fund and diversification of the portfolio of the investment; and (v) the harmony of the investment with the public interest. As shown in the Table 33, in 2018, there has been a significant shift within the treasury portfolio of instrument and class, as evidenced by an increase in the share of instruments held with commercial banks (41.49 per cent) compared to its share in 2017 (29.80 per cent). At the same time, NASSIT has reduced its exposure to the government as evidenced by a decrease in the share of instruments held with government in 2018 (58.06 per cent) compared to its share in 2017 (70.20 per cent). In 2018, there was no new investment in government securities due to the failure of government to honour matured obligations. Subsequently, the government and NASSIT have agreed to convert the existing debt liabilities into a bond. The scheme also faced the challenge of recovering contribution arrears, mainly from public institutions. The slow progress in developing the capital market continued to limit the space for long-term securities trading.

Table 33 : NASSIT's Treasury Portfolio by Instrument and Class (Le'000)

	2017	Share (%)	2018	Share (%)
Instruments with Com. Banks	149,920,796	**29.80**	249,700,101	**41.94**
Call Deposit	*7,080,000*	*1.51*	*50,080,000*	*8.76*
Fixed Deposit	*84,000,000*	*17.68*	*154,000,000*	*26.77*
Private Placements	*49,840,796*	*10.62*	*46,620,101*	*6.41*
Instruments with Government	429,599,659	**70.20**	441,806,107	**58.06**
Treasury Bills	*49,200,000*	*8.45*	-	*0.00*
2 - 5 Years Government Bonds	*88,558,800*	*18.86*	*81,558,800*	*14.27*
Govt. Arrears to be				
Converted to Serial Bond	*201,840,859*	*42.99*	*250,247,407*	*44.79*
Total	469,520,455	**100.00**	571,506,208	**100.00**

Source: NASSIT

The share of instruments in the long-term assets profile of NASSIT was broadly unchanged during 2017-2018. As shown in the Table 34, while the share of corporate debenture and equity remained the same in 2017, the share of investment in real estate property in 2018 was 27 per cent lower than the 30 per cent in 2017, whereas the share of social projects increased from 21 per cent in 2017 to 24 per cent in 2018.

Table 34 : Long-term assets profile 2017-2018 (Le'000)

Type of Instrument	2017	Share in %	2018	Share in %
Corporate Debenture	241,549,576	26	241,549,576	26
Equity (Portfolio Companies)	210,840,744	23	210,840,744	23
ETIs (Real Estate Property)	272,949,482	30	244,804,711	27
STI Social Projects (REP)	190,622,550	21	226,125,657	24
Total	**915,942,444**	**100**	**924,299,678**	**100**

Source: NASSIT

4.7.3 Challenges facing NASSIT and Associated Risks

Extension of Coverage. The Sierra Leone economy is basically rudimentary with retail trading and subsistence agriculture employing the bulk of the labour force. Such a set-up creates a large presence of the self-employed/informal sector/domestic workers that have threatened the expansion of the NASSIT Scheme over the years. The heterogeneous nature of the informal sector makes it difficult for them to be covered by the current NASSIT scheme. Over 85 per cent of the active workforce in Sierra Leone are in the informal sector economy. Although NASSIT has registered a considerable number of institutions and employees that are now members of the scheme, there is still much to be done to get the informal sector and the self-employed on board. However, NASSIT has initiated measures to provide an attractive scheme for workers in the informal sector. Also, the introduction of Social Health Insurance and Employment Injury Insurance to the existing three contingencies is expected to improve social protection coverage/benefits for NASSIT members.

Box 2: The payment of contributions (as described in the NASSIT Act)

The employer deducts 5% from the earnings of an employee at the end of every month as the employee's Social Security contribution;

i. The employer then adds 10% of the employee's earnings as that employer's contribution on behalf of the employee;
ii. The total 15% social security contribution paid to NASSIT within fifteen days after the end of the month. Late payment attracts interests and penalties
iii. The self-employed/voluntary contributors pay 15% of their declared income.
iv. If a person is concurrently employed by two or more contributing employers, all the employers must pay contributions on the wages/earnings given to that employee.
v. No employer is allowed by law to reduce, whether directly or indirectly, the earnings or other emoluments of any member of the Scheme.
vi. Contributions are charged on the employees' basic income
vii. All directors of companies are considered employees if they are engaged under a contract of service and paid a salary on top of fees.
viii. Contributions are payable for part-time/casual employees as well.

Enforcing Compliance. Full compliance with regard to the payment of social security contributions is always an uphill task for most Social Security institutions in the region. The situation in NASSIT is in no way different. Now that the work towards reforming laws to make the scheme attractive to workers in the informal sector has started, more robust and proactive measures are expected to be adopted by NASSIT to not only increase compliance in terms of payments of contributions, but also to retrieve contributions arrears. Also, NASSIT intends having a special court on compliance matters.

Effective ICT Infrastructure for Payment of Benefits. Benefits payments involve processes to ensure benefits are paid correctly. The availability and reliability of accurate information from both members and our operational system has posed serious challenge to this process. Management has, however commenced the process of developing a new and improved operating system that will overcome challenges posed by the current ICT infrastructure.

Investment Environment. The investment of the NASSIT fund is done within a macroeconomic framework as set out by the Government of Sierra Leone, which in turn is influenced by global trends in economic aggregations. Sierra Leone, like most other countries in the sub-region, has limited investment opportunities for pension funds. Also, fluctuation of macroeconomic variables has been a challenge to NASSIT's investment efforts. A depreciating Leone to major international currencies, coupled with increasing inflation, unattractive interest rates and low income of workers are serious concerns. This affects NASSIT's contributions income, investment and administrative expenditures. The financial market is still underdeveloped.

4.8 Insurance Sector

4.8.1 Regulatory and Supervisory Authority

The Sierra Leone Insurance Commission (SLICOM) is responsible for the supervision and licensing of insurance companies, brokers, loss adjusters, and agents in Sierra Leone. The *Insurance Act 2000* established the Sierra Leone Insurance Commission (SLICOM) as an autonomous body. This Act was repealed and replaced by the *Insurance Act 2016* after consultations with all stakeholders. To improve on the limitations of the old Act, the following compulsory insurance products were incorporated in the new Act.

1) Compulsory Tenantable Property Insurance.
2) Compulsory Employers Liability Insurance for Employers with more than five employees.
3) Compulsory Public Liability Insurance - all buildings above two storey under construction.
4) Compulsory Professional Indemnity Insurance for the medical profession.

Further to its objective “to ensure an effective administration, monitoring, supervision, regulation and control of the business of Insurance in Sierra Leone” and in its capacity as an insurance supervisor, the SLICOM’s foremost focus is to create the enabling environment, where public confidence could be enhanced and sustained in the insurance industry by ensuring that:

1) Policyholders are fairly treated in accordance with the terms and conditions of insurance contracts; and
2) Insurance companies operating in the Sierra Leone market are financially solvent and capable of delivering on their promises to policyholders.

In addition to the foregoing, SLICOM also ensures:

1) The insuring of government properties and assets.
2) The ECOWAS Brown Card/Pool office was established in collaboration with the Commission and the Sierra Leone Insurance Association (SLIA) is charged with the responsibility of managing the operations of ECOWAS Brown Card and Insuring of Government properties and assets with the locally registered insurance companies.
3) SLICOM has set up Complaints Bureau where aggrieved members of the public will lodge their complaints free of cost on matters of claims settlement.

4.8.2 Activity of the insurance sector

The total assets (excluding life insurance) of the insurance industry, at the end of 2018, amounted to Le274,974.07 Mn, representing 5 per cent increase when compared to 2017. The activity of the insurance industry continues to be dominated by non-life insurance, which represents 76.0 per cent of premiums of insurance market, while the remainder accounts for life insurance (see Table 35).

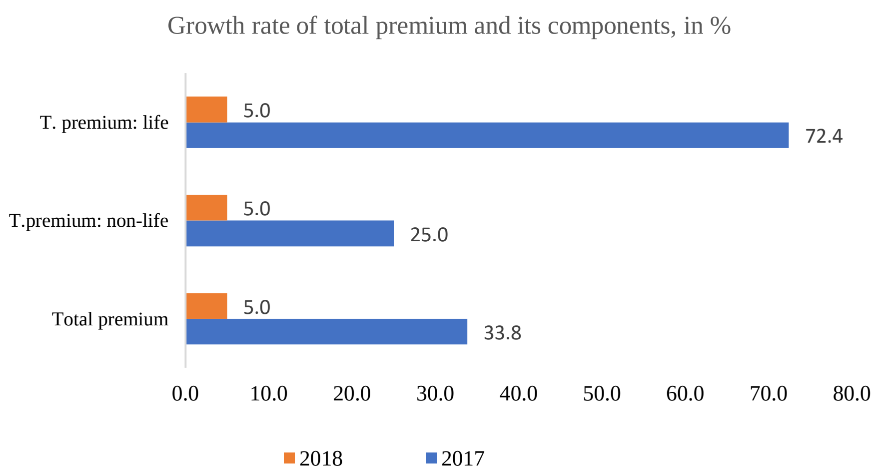
Table 35 : Activity of the insurance industry (Le millions)

Summary of key activities of insurance industry, *Le (millions)*			
	2016	2017	2018
Total assets	212,797.96	261,880.06	274,974.07
Total premium	111,400.28	148,967.65	156,416.04
Total premium: non-life	*90,574.86*	*114,229.05*	*118,890.50*
Total premium: life	*20,725.42*	*45,748.60*	*47,525.54*
Reinsurance ceded	19,898.44	27,676.96	47,464.92
Claims paid	24,519.10	24,886.86	26,141.20
Claims outstanding	7,518.19	21,664.40	22,746.47

Source: SLICOM

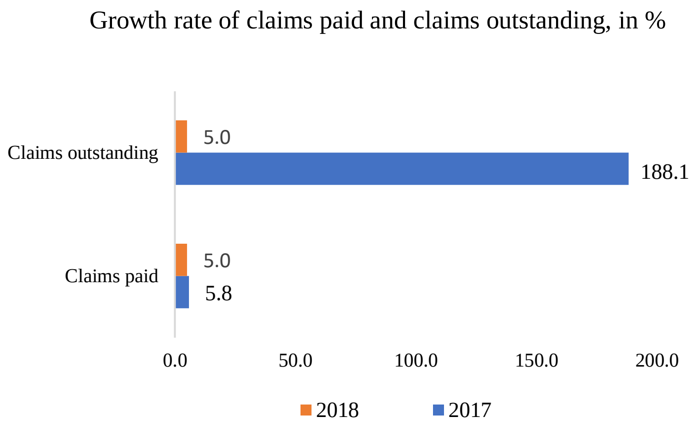
After its huge increase by 72 per cent in 2017 (compared to 2016), the life insurance premium growth rate in 2018 dropped to only 5 per cent, which is the same as the growth rate of non-life insurance premium in 2018.

Figure 25 : Evolution in premiums



Source: SLICOM

Figure 26 : Evolution in claims



Source: SLICOM

As shown in the figure 28, after significantly increasing by 188 per cent in 2017 (compared to 2016), claims outstanding growth rate in 2018 dropped to only 5 per cent, which is the same as the growth rate of claims is paid in 2018.

Table 36 : Asset and Liability Composition of the Insurance Industry

Asset and Liability Composition-Non-Life Insurance, Le(millions)			
Type	**2016**	**2017**	**2018**
Cash	16,556	23,487	24,661
Investment	118,434	136,043	142,856
Receivables	56,008	80,532	84,559
Property, Plant & Equipment	19,075	18,098	19,003
Others	2,726	3,719	3,905
Total Assets	**212,798**	**261,880**	**274,974**
Technical Provisions	29,152	49,391	51,860
Short Term Liabilities	51,892	53,400	56,070
Long Term Liabilities	34,207	47,864	50,258
Other Liabilities	1,717	1,270	1,334
Equity	95,830	109,955	115,452
Total Liabilites and Euqity	**212,798**	**261,880**	**274,974**

Source: SLICOM

In 2018, the value of insurance companies' assets amounted to Le274,974 mn, marking an annual increase of 5.0 per cent and represented deceleration in growth when compared to the annual growth rate of 24.0 per cent in December 2017. The structure of assets of insurance companies continued to be dominated by investments, which represent 52.0 per cent of total assets. The rest is represented by receivables, cash, and property, plant & equipment (see Table 36). Within liabilities, equity represents 42.0 per cent of total liabilities, while the remainder is comprised of short-term liabilities (20 per cent) and long-term liabilities (18 per cent). When compared to 2016, technical provisions increased in 2017 by 69.0 per cent, but this growth decelerated in 2018 as technical provisions grew 5.0 per cent compare to 2017 and their share in total liabilities remains at 19 per cent.

Table 37 : Breakdown of investments, Le Mn.

Type	**2016**	**2017**	**2018**
Government securities	18,149	54,770	56,458
Equities	95,840	109,955	115,452
Fixed deposits & bonds	45,692	11,466	11,944
Mutual funds			
Investment in property	48,952	40,971	44,019
Investments in related parties	15,650	29,947	41,444
Other			
Total	**214,264**	**245,998**	**258,298**

Source: SLICOM

The above table reveals that the share of equities has been constant in last three years (45. 0 per cent), whereas the share of government securities and investments in related parties has increased from 8.0 per cent and 7.0 per cent (2016) to 22.0 per cent and 12.0 per cent (2018), respectively.

4.8.3 Performance of the insurance sector

The performance of the insurance industry was mixed during the last three years. The investment yield, retention ratio, and return on assets continue to improve year after year. At the same time, though at solid levels, the return on equity as well as combined ratio have slightly deteriorated.

Table 38 : Selected performance indicators of the insurance industry, in %

Indicators	Life insurance			Non-life insurance		
	2016	2017	2018	2016	2017	2018
Investment yield	2	2	2	4	4	4.25
Retention ratio				86	85	89.45
Prop of investments to total assets	0.45	0.55	0.60			
ROE				16	14	14.47
ROA				52	57	57
Expense ratio	45	45	45	45	49	51.48
Net insurance risk ratio				1.14	1.24	1.40
Gross insurance risk ratio				1.46	1.57	1.65
Claims reserve ratio				1.05	1.88	0.05
Claims ratio	44	44	48	14	12	12.44
Combined ratio				58	61	64.81
Growth rate in written premium				-4	44	5

Source: SLICOM

4.8.4 Insurance sector concentration, penetration, and density

The market concentration is ongoing with top insurers continuing to increase their market shares. In 2018, about 90 per cent of the life insurance premiums were underwritten by five companies, while 92 per cent of non-life insurance premiums were also underwritten by five companies.

Table 39 : Insurance industry concentration, in per cent

Type of insurer	2016	2017	2018
Life insurers			
Top five players (Premium)	92.5	86.1	90
Non-Life insurers			
Top five players (Premium)	91.42	87.41	92

Source: SLICOM

As shown in Table 39, insurance penetration and density rates in Sierra Leone remain very low and it is similar with neighboring and other countries in the region[3]

[3] According to PricewaterhouseCoopers Market Research Centre analysis based on Axco (2018), insurance penetration rate across selected countries in SSA in 2017 was as follows: Ghana (1.10 per cent), Gambia (0.67 per cent), Sierra Leone (0.41 per cent), Nigeria (0.40 per cent), and Guinea (0.04 per cent).

Table 40 : Insurance penetration and density rate

	2016	2017*	2018*
Insurance penetration *(% of premium to GDP)*	0.46	0.54	0.48
Insurance density *(premium to the total population)*	2.09	2.62	2.42
*/. Estimated			

Source: SLICOM, SSL, and BSL

4.8.5 Key challenges and recent initiatives in the insurance sector

Credit Risk: The credit control is very challenging for insurance companies. The insurance companies are losing a lot of money as a result of non-payment of the Premiums by the insuring public. This has led to the accumulation of huge outstanding premiums over the years. In order to mitigate this, the Commission (SLICOM) collaborated with the Insurance Companies for the introduction of "NO Premium, No Cover" regime in the Insurance Act 2016.

Reputational Risk: Public confidence in the Insurance sector is still low, especially in the payment of claims. The Commission has made it a mandate to ensure that genuine claims are settled promptly and equitably.

Low Capitalisation: The need to increase capital cannot be over emphasised. Adequate capital enhances growth and development of the Insurer. The Commission is determined to review the present capital requirements of insurers to meet current economic trends.

Low Capacity: Capacity in Insurance means a company's ability to cover big risks. All companies, no matter how large, require greater capacity than their own resources can provide. They secure this extra capacity through reinsurance, taking into consideration also their capital base. Adequate reinsurance arrangement is a requirement of every insurer as prescribed by the Insurance Act 2016. Low capacity is a challenge in handling large risks. Consequently, the Commission will ensure that each insurance company has solid reinsurance arrangement and will also increase the statutory Deposit and paid up capital of all insurance companies in that country.

Not enough professionals: Human resource development in Insurance remains a challenge for the sector. However, the Commission in its National Development Plan for the insurance industry has proposed the establishment of a training institute for personnel of the Industry.

Enforcement of Compulsory Insurance: A major driver of growth for the Insurance Industry in challenging economic times like these is the enforcement of the Compulsory Insurance Provision of the Insurance Act 2016. The Commission has taken steps to consolidate initiatives that will establish a sustainable framework for effective enforcement of the Compulsory Insurances. With the intervention of the Inspector General of Police and the Ministry of Finance, including other stakeholders like Fire force, NRA, City Council, Medical and Dental Council, this will be attained before the end of the year 2019.

Box 3: Different types of policies presently offered by the insurance industry

1.	*Fire Insurance*	*16.*	*Machinery Breakdown Insurance*
2.	*Motor Insurance*	*17.*	*Computer All Risk Insurance*
4.	*Workmen Compensation Insurance*	*18.*	*Electronic Equipment Insurance*
4.	*Public Liability Insurance*	*19.*	*Contractors Plant/Machinery Insurance*
5.	*Products Liability Insurance*		
6.	*Contractors All Risk Insurance*	*20.*	*Marine Hull Insurance*
7.	*Professional Indemnity Insurance*	*21.*	*Marine Cargo Insurance*
8.	*Business interruption Insurance*	*22.*	*Marine and Aviation Insurance*
9.	*Burglary Insurance*	*24.*	*Life and Health Insurance*
10.	*Fidelity Guarantee*	*24.*	*Group Life Assurance*
11.	*Bond Insurance*	*25.*	*Individual Life Assurance*
12.	*Personal/Group Accident Insurance*	*26.*	*Life and Pension Assurance*
14.	*Cash –in- Transit/Safe Insurance*	*27.*	*Endowment Policy*
14.	*Goods –in- Transit Insurance*	*28.*	*Term Assurance*
15.	*Erection All Risk Insurance*	*29.*	*Whole Life Assurance*

Risk based supervision: The financial condition reports received from some companies are being reviewed for appropriate attention. It is expected that before the end of 2019, the Commission will present reports on the assessment of their risks and solvency for the first year 2019. The road map to Risk-Based Supervision would be issued and the Commission shall work with it strictly, while amending the program as we all learn.

Information technology: To prepare the grounds for innovation and competitiveness, the Commission would set up an Information Technology Working Group that will develop a framework for balanced adoption of technology driven innovation in the Industry. The terms of reference will include addressing the risks, opportunities and strategies for cost-effective deployment of Information Technology. To this, end the Commission hopefully intends to work with the Office of the Presidential Aide on Innovation and Technology.

Review of the Motor Insurance Tariff: The Commission has realised that the current motor premium is inadequate in relation to the kind of risks covered by the insurance companies. Therefore, the Commission will work with Sierra Leone Insurance Association (SLIA) to ensure efforts are made to have the Motor Tariff revised, which will capture the automatic in-built cover for ECOWAS Brown Card. This is expected to be completed by October 2019.

Learning events for directors: The vision of the SLICOM is to create "a trusted Insurance Industry". As part of the effort to achieve this, SLICOM intends to adopt risk-based supervision and will be organising seminars for Directors of insurance companies so as to increase their awareness about risk-based supervision. Therefore, the major thrust of SLICOM's improvement in the performance of insurance institutions is enhancing the level of corporate governance in each insurance company/brokerage.

Introduction of Insurance as a subject in Junior Secondary Schools: Efforts have been made to finalise the introduction of Insurance as a subject in Junior Secondary Schools. The requisite text books have been finalised and would be distributed to Junior Secondary Schools so that the program would start during the next school year.

5.0 FINANCIAL MARKET INFRASTRUCTURE IN SIERRA LEONE

5.1 Payments and securities settlement systems

Promotion of the safe, efficient and smooth operation of the payment systems represents vital objective of the BSL's payments policy. However, the payments system in Sierra Leone is still dominated by large cash transactions. Regarding non-cash transactions, they are categorised into retail and large value transactions, which continued growing during 2018 (Table 41).

Table 41 : Real Time Gross Settlement (RTGS) Transactions in 2018

Month	Volume, number	Value, in Le
January	8354	3,655,800,090,363
February	8573	3,763,612,618,465
March	8054	3,439,610,836,186
April	7183	2,864,661,267,104
May	9691	3,792,900,255,284
June	8000	4,116,788,854,948
July	8923	2,994,276,263,614
August	9038	3,642,927,464,846
September	8032	6,118,298,129,902
October	9825	5,798,681,339,660
November	8662	3,753,086,054,404
December	9371	5,073,479,548,913

Source: Banking Department, BSL

The Automated Clearing House (ACH) is the retail payment system through which a vast number of payment transactions (both paper-based and electronic) are cleared. These are mainly low value (not more than fifty million Leones), high-volume retail payment Cheques.

Box 4: National Payment Switch

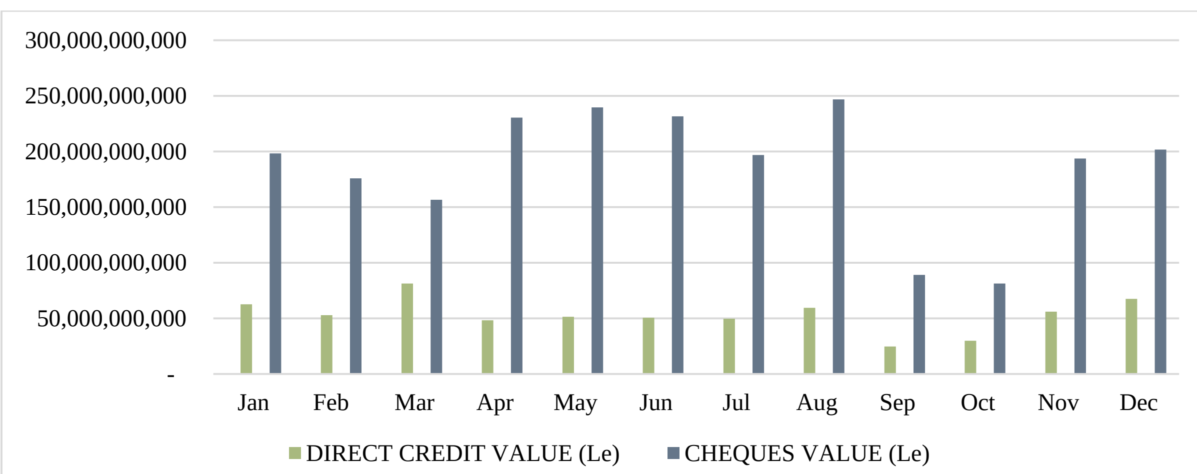
During 2018, a Draft of the Financing Agreement between Government of Sierra Leone and World Bank prepared aimed to increase the interoperability of digital payments and access to financial services in Sierra Leone. This financing Agreement is expected to support the following three components:
(1) enhancing interoperability of digital payments (introduction of a retail payment switch), (2) ensuring the viability of the payments system through increasing usage (supporting linkages to the payments system, supporting rural connectivity with the payments system, and overcoming regulatory and cybersecurity hurdles to the viability of the payments system), and (3) incorporating project implementation support (project coordinator, fiduciary support, and support to facilitate private sector engagement).

Table 42 : Automated Clearing House (ACH) Transactions in 2018

	Direct Credit		Cheques	
Month	**Volume, *num***	**Value, *in***	**Volume, *num***	**Values, *in***
January	12,605	62,442,871,636	16,901	198,057,720,32
February	11,797	52,932,376,305	15,804	175,706,782,06
March	36,108	81,183,090,228	29,964	156,577,358,88
April	22,398	48,310,339,167	39,332	230,327,317,66
May	26,038	51,473,850,363	40,702	239,554,084,03
June	22,772	50,427,189,431	40,284	231,462,951,43
July	24,910	49,767,599,077	34,644	196,774,319,07
August	29,400	59,522,638,398	39,172	246,771,826,13
September	11,348	24,786,529,878	17,392	88,950,838,90
October	16,000	29,821,154,354	14,762	81,217,026,68
November	13,196	56,080,977,404	18,257	193,511,090,54
December	17,457	67,480,412,970	18,348	201,713,706,69

Source: Banking Department, BSL

Figure 27 : Automated Clearing House (ACH) Transactions in 2018



Source: Banking Department, BSL

As shown in the Table 42 and Figure 29, the use of cheques still remains the predominant means of direct credit transactions processing. However, the level of acceptability of electronic means of interbank transactions is sustained and has a potential to create efficiency in the delivery of financial services.

5.2. Other Retail Payment Systems 2014-2018

The performance in the value of direct credit transactions is shown in Table 42 and Figure 29 above is reflected in the growth of other forms of electronic retail payment systems, such as Automated Teller Machines (ATM) and Point of Sale (POS) transactions. In table 43 it is revealed that ATM transactions increased by 324.12 per cent (from Le63.01bn to Le267.24bn) over the period 2014 to 2018 while POS transactions grew by some 236.56 per cent (from Le13.1bn to Le44.09bn) from 2014 to 2018. This further points to the gradual acceptability of electronic means of processing transactions.

Table 43 : Payment transactions through ATMs and POSs

	2014	2015	2016	2017	2018
Number of ATMs	59	69	71	43	175
Number of POSs	72	130	150	32	414
ATM Transactions, *Volume*	303,840	730,803	370,726	530,342	1,204,162
POS Transactions, *Volume*	5,143	11,509	23,981	6,773	30,537
ATM Transactions *(Le'000)*	63,011,401	154,380,059	69,532,802	102,109,510	267,237,998
POS Transactions *(Le'000)*	13,100,662	25,855,913	34,351,419	5,670,955	44,096,804

Source: Banking Department, BSL

Regarding geographical distribution of the ATMs and POSs, the data show (Table 44) a very high concentration of ATMs and POSs in the Western area (2018: 91 per cent of POSs and 68 per cent of ATMs) compared to other areas in the country. This indicates that there is an uneven distribution of these payment services, thereby financially excluding a very good number of the population.

Table 44 : Regional distribution of ATMs and POSs

Regional spread of ATMs					
	2014	2015	2016	2017	2018
Northern Province	8	8	16	14	8
Southern Province	4	4	4	6	6
Eastern Province	2	2	5	5	9
Western Area	34	37	46	69	49
Total	**48**	**51**	**71**	**94**	**72**
Regional spread of POSs					
Northern Province	5	10	9	14	6
Southern Province	1	1	1	16	11
Eastern Province	1	1	2	4	3
Western Area	58	98	138	209	211
Total	**65**	**110**	**150**	**243**	**231**

Source: Banking Department, BSL

6.0 FINANCIAL SECTOR REFORMS UNDERWAY

6.1 Framework on financial system stability

The amended Bank of Sierra Leone Act of 2019, has brought to light the financial stability mandate, which will enable the BSL exercise its macroprudential authority through developing and operationalising macro-prudential and stress testing frameworks to safeguard financial system stability. The framework will consist of macroprudential indicators and tools that will enable timely decision making in prevention of potential financial market disruptions.

The BSL is also developing a crisis management and the bank resolution framework that will lay down clear processes and procedures to deal with financial institutions that are in distress. Additionally, the BSL is in the process of developing a framework for identifying the Domestic Systemically Important Banks (D-SIBs). The objective is to put in place a reference system for assessing the systemic importance of commercial banks operating in the territory of Sierra Leone, including assessment of needed additional capital as a result of different degree of systemic importance of individual banks.

The BSL is also in the process of establishing its Financial Policy Committee (FPC) that will address policy issues relating to financial system stability, including micro and macro-prudential supervision, resolution and oversight of payment systems and other financial market infrastructure.

6.2 Risk based supervision

In 2018, the BSL has shifted away from the traditional rule based approach to regulation and supervision, and has adopted a risk-based supervision approach, which considers that regulation and supervision should be proportional to the systemic importance of the financial institution. Seven out of 14 commercial banks were examined during the pilot phase of implementation of the risk based supervision and the full adoption of the Risk Based Supervision Framework will take place in early 2019.

6.3 Risks and enterprise risk management framework

Aimed to better understand the risks faced by banks and to ensure that they are properly assessed, effectively controlled and managed, the BSL has directed commercial banks to put in place enterprise risk management framework and other necessary risk mitigation controls to manage their respective risk appetite. Banks have generally achieved the various stages of defining, implementing and enforcing some risk framework to ensure that it is commensurate with the scope and complexity of their operations. Traditionally credit risk was the major type of risk facing banks in Sierra Leone. The adoption of IT increases the importance of operational risk, while the increasing integration of the financial sector into global financial markets, through cross border banking and capital flows, also creates new sources of risk. The evolution of technology has made possible the issuance and innovation of many varied banking products including the VISA, MasterCard, online Banking, Mobile money and e-commerce.

6.4 Implementation of IFRS 9

The BSL implemented IFRS 9 in 2018 that increases bank-wide provisioning, due to the change from a backward-looking approach to recognizing impairment provisions to a forward-looking approach based on expected credit losses (ECL). Analysis of preliminary accounts as at June 2018 shows that IFRS 9 provisions were higher than those under IAS 39. The impact on capital from the audited accounts varies across banks.

6.5 Minimum Paid up Capital

To mitigate against risks and make commercial banks more resilient to potential shock, the BSL has initiated stakeholders' consultation during 2018 and subsequently decided to increase the minimum paid up capital for commercial banks in March 2019. The Minimum Paid-Up capital stood at Le30 billion as at December 2018 and it has been increased to Le45 billion. It shall further be increased to Le85 billion by end December 2021. This increase in capital will enable commercial banks to increase their resilience as well as increase the size of loans to creditworthy customers.

6.6 Non-Performing Loans.

The non-performing loans (NPLs) ratio is still high with an industry average of 12.12 per cent, which is above the prudential threshold of 10 per cent as at September 2019. Six (6) out of the fourteen (14) commercial banks recorded NPLs above the tolerable limit of 10 per cent with an average of 24.56 per cent as of September 2019. The high NPL ratio in the industry is attributed to weak credit underwriting processes and poor credit management. Unpaid credit to government contractors has been a major cause of NPLs in the financial system. The BSL and Ministry of Finance are working closely to develop a strategy to resolve the problem of payments due to government contractors. The BSL has issued a moratorium restricting banks with high non-performing loans not to do further lending until recoveries improved.

6.7 Fit and Proper Test

To enhance its regulatory framework the BSL has reviewed its Fit and Proper Persons' procedures and requires individuals holding or intending to hold Board, Trustee and Management positions to go through a vigorous 'fit and proper persons' test before occupying responsible position in any financial institution regulated by the BSL.

6.8 Guidelines on the use of Agents

The BSL will be introducing its Guidelines on the use of Agents. This Guidelines is intended to respond to changes and innovations in products, services and delivery channels of financial institutions working to reach the currently unserved or underserved by formal financial institutions.

6.9 The Government to the People (G2P) Project

In its drive to promote financial inclusion, the BSL in collaboration with the Accountant General department developed a G2P Project that was focused on creating digital products for government employees. This project kicked off in January 2019 and is still under implementation.