BANK OF SIERRA LEONE

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Abbreviations

AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
BOP	Balance of Payments
CAR	Capital Adequacy Ratio
ECOWAS	Economic Community of West African States
EMDE	Emerging Market and Developing Economies
EVD	Ebola Virus Disease
FSAs	Financial Services Associations
FSDP	Financial Sector Development Plan
FSI	Financial Soundness Indicators
GDP	Gross Domestic Product
GFSR	Global Financial Stability Report
HHI	Herfindahl-Hirschman Index
IMF	International Monetary Fund
LIC	Low-income countries
MCM	Monetary and Capital Markets
MFI	Micro-Finance Institution
MoFED	Ministry of Finance and Economic Development
MPR	Monetary Policy Rate
MSME	Micro, Small, and Medium Enterprises
MTI	Ministry of Trade and Industry
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NPL	Non-Performing Loans
NSFI	National Strategy for Financial Inclusion
OFI	Other Financial Institutions
ROA	Return on Assets
ROE	Return on Equity
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
vRegCoSS	Valtech’s Regulatory, Compliance & Supervision System
WAMI	West African Monetary Institute
WAMZ	West African Monetary Zone
WEO	World Economic Outlook

GOVERNOR'S FOREWORD

The Bank of Sierra Leone (BSL) has a pleasure to present to the public the first edition of the Financial Stability Report (FSR), which analyses the conditions and performance of the Sierra Leone banking sector and assesses risks to the stability of the banking industry as a whole.

In 2017, Sierra Leone was characterized with a slowdown in economic growth to 3.8 per cent from 6.4 per cent in 2016, attributed mainly to weak performance in the mining sector and a serious negative effect of accumulation of government procurement arrears in the construction and distributive trade sectors. Though inflation was trending downward over the year, the monetary policy was tightened throughout 2017 due to domestic and external inflationary pressures. Yet, on the back of firm recovery in global growth and international commodity prices, there was a slight improvement in both export earnings and import bills, leading to relatively stable exchange rate and gross foreign reserves. However, macroeconomic challenges such as volatility in exchange rate, inflation pressures and drop in iron ore prices are still evident.

Despite macroeconomic challenges, the key financial soundness indicators show that banking sector was well capitalized, liquid, profitable, and with a continuous downward trend in non-performing loans (NPLs). While the banking sector remains overreliant on investment in government securities and exposed to high sectoral concentration of loans, and relatively high level of NPLs, the stress test results for credit and profitability arising from interest rate drop and foreign exchange devaluation revealed strong resilience of the banking industry to potential shocks with adequate capital buffers.

The FSR will be published yearly and as progress on upgrading of financial sector regulatory framework materializes, such as the passage of the various Acts giving the Bank of Sierra Leone the Financial Stability mandate, the report will be enriched with more in depth analysis of macro-prudential indicators and analysis of linkages within the financial sector including linkages with the rest of the economy. Subsequently, the periodicity on financial stability reporting and communication will be increased.

By publishing regularly its FSR, the BSL aims to increase its transparency and stimulate professional debate among policymakers, financial market participants and the general public and to promote policy reforms that enhance the resilience of the financial system and its contribution to the economic development of Sierra Leone.

Kelfala Morana Kallon, Prof
GOVERNOR

EXECUTIVE SUMMARY

The global output is estimated to have grown by 3.7 per cent in 2017, whereas the growth forecasts for 2018 and 2019 have been revised upward by 0.2 percentage point. (World Economic Outlook (WEO), January 2018). At the regional level, the growth in Sub-Saharan Africa (SSA) for 2017 is estimated at 2.7 per cent, partly attributed to the stronger commodity prices and improved world trade. Overall, prices of various commodities were mixed in 2017, with most prices firming up. Inflationary pressures remained subdued in 2017, despite strong commodity prices, rising energy prices, and decreased food production due to weather-related shocks.

During 2017, Sierra Leone economy was marred by both upside and downside risks. On the downside, the decline in iron ore price (end of 2017) reduced inflows from iron ore export thus reducing both the government revenues and the gross foreign exchange reserves, with potential challenges for the stability of the exchange rate. Moreover, the increase in Platt prices for petroleum products fueled inflationary pressures (petroleum imports), hence seriously undermined the monetary policy objective of price stability.

The financial system is largely bank based. The banks are the main players in the chain of payments, money and foreign exchange markets and they play an important role in the government securities market. The asset of the banking sector of Sierra Leone was 17.36 per cent in 2017 compared to 19.8 per cent in 2016, whereas overall deposits grew by 3.91 per cent. The share of foreign currency deposits in the total deposits in 2017 was 37.15 per cent, a slight decrease compared to its share in 2016 (39.29%). While banking sector investment in government treasury bills increased by 26.1 per cent, the growth of the credit to the private sector in 2017 was very modest (2.13%) and continued to be concentrated around the sectors of commerce and finance, and construction. Though one bank license has been granted during 2017, the banking market remains moderately concentrated.

The core financial soundness indicators show that, despite challenges from other sectors of the economy, the banking sector remained relatively stable and sound during 2017. The NPL ratio is trending downwards, recording 14.6 per cent as at end 2017 from 22.7

per cent in December 2016. Prospects are high for this ratio to be within the tolerable limit of 10 per cent going forward. In addition, the banking sector remained strongly capitalized with a capital adequacy ratio (CAR) of 33.61 per cent as at end 2017 and operated with solid liquidity and profitability.

Although the banking sector in Sierra Leone is relatively stable and sound, it continues to be exposed to risks from other sectors of the economy. The high sectoral loan concentration, slightly higher NPL ratio in terms of the limit and high degree of dollarization remains key transmission channels of the risks from real sector to the banking sector. Regarding the external sector, a decline in iron ore prices remain a challenge, whereas on the fiscal front, the accumulation of government arrears remains key challenge to the quality of the commercial banks' loans. Fiscal dominance has crowded out credit growth to the private sector. In addition, the lack of economic diversification represents also one of the drivers of shocks to the financial sector.

Based on these macro-financial linkages, a plausible scenario for stress testing has been introduced. The stress test results indicate that banking sector is able to withstand plausible shocks to credit, thanks to the large capital buffers it holds. In the case of the macro financial linkages, shocks originate mainly from the external sector, in the form of commodity prices fluctuations or through the real sector from loan concentration risk, increase in NPL and high dollarization stemming from fiscal dominance and building up of domestic arrears. The increase in dollarization triggers vulnerability to exchange rate fluctuation brought about by reduced inflow of foreign exchange stemming from falling commodity prices.

The regulatory framework and payments infrastructure continued to advance during 2017. The review of the BSL and Banking Acts is in progress together with introduction of the risk based supervision and macro-prudential oversight framework.

1.0 OPERATING ENVIRONMENT

1.1 Global Economic Developments and Outlook

1.1.1 Global Output and Outlook.

The pick-up in global economic activity that began in mid-2016 continued in 2017, as the year ended on a firm upward growth trajectory. Seemingly, 2018 is expected to take a similar trend buoyed by a promising outlook. In this regard, global growth for 2017 was estimated at 3.7 per cent (WEO), depicting improved global trade, strong commodity prices and improved economic fundamentals in some of the regional blocks, especially emerging markets and developing economies as well as advanced economies. Looking forward, global growth is projected to increase to 3.9 per cent in 2018 and 2019, largely driven by supportive financial conditions, accommodative monetary policy and expansionary fiscal policy in the United States, firming commodity prices, increased global trade and a projected increase in growth in emerging market and developing economies as well as a robust growth in advanced economies.

1.1.2 Advanced Economies.

Growth in advanced economies was estimated at 2.3 per cent in 2017 and expected to level at that point in 2018, before declining to 2.2 per cent in 2019. The projections for 2018 and 2019 were revised up by 0.3 and 0.4 per centage points, driven in part by the pick-up in growth in some advanced economies, especially Europe.

1.1.3 Emerging Market and Developing Economies.

Growth in emerging market and developing economies (EMDE) is forecasted to remain broadly unchanged at 4.8 per cent, reflecting an unbalanced growth outlook amongst countries within the region. In China, growth is projected to modestly improve in 2018 and 2019 with the forecast revised up by 0.1 per centage point to 6.6 per cent and 6.4 per cent respectively. The economic drivers behind the forecasts for emerging and developing Europe and Latin America include a favorable external environment, eased financial conditions, stronger commodity prices and export demand.

1.1.4 Sub-Saharan Africa

In Sub-Saharan Africa (SSA), growth for 2017 was estimated at 2.7 per cent. This modest increase was in part driven by stronger commodity prices and improved world trade. The outlook for the region on the other hand, is forecasted to be sluggish, shown by the downward revision (0.1 per centage point) in the projection to 3.3 per cent for 2018. From a country perspective, growth is projected to pick up in Nigeria, while the South African economy on the other hand, is expected to slow, amidst increased political uncertainty.

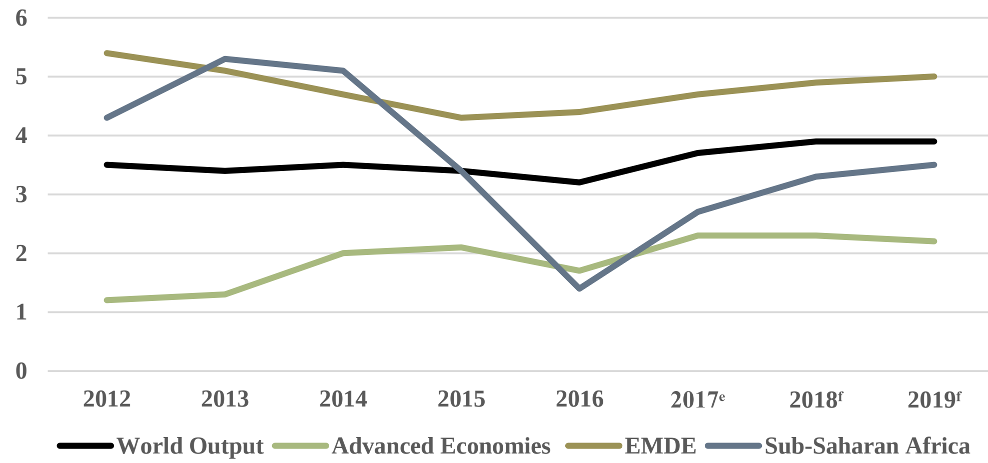
Table 1: Global Growth

	2012	2013	2014	2015	2016	2017[e]	2018[f]	2019[f]
World Output	**3.5**	**3.4**	**3.5**	**3.4**	**3.2**	**3.7**	**3.9**	**3.9**
Advanced Economies	**1.2**	**1.3**	**2**	**2.1**	**1.7**	**2.3**	**2.3**	**2.2**
United States	2.2	1.7	2.4	2.6	1.5	2.3	2.7	2.5
Euro Area	-0.9	-0.3	1.2	2	1.8	2.4	2.2	2
Japan	1.5	2	0.3	1.1	0.9	1.8	1.2	0.9
EMDE	**5.4**	**5.1**	**4.7**	**4.3**	**4.4**	**4.7**	**4.9**	**5**
Brazil	1.9	3	0.5	-3.8	-3.5	1.1	1.9	2.1
Russia	3.5	1.3	0.7	-2.8	-0.2	1.8	1.7	1.5
India	5.5	6.5	7.2	8	7.1	6.7	7.4	7.8
China	7.9	7.8	7.3	6.9	6.7	6.8	6.6	6.4
Sub-Saharan Africa	**4.3**	**5.3**	**5.1**	**3.4**	**1.4**	**2.7**	**3.3**	**3.5**
Nigeria	4.3	5.4	6.3	2.7	-1.6	0.8	2.1	1.9
South Africa	2.2	2.5	1.7	1.3	0.3	0.9	0.9	0.9
Sierra Leone*	**15.2**	**20.7**	**4.6**	**-20.5**	**6.3**	**3.8**	**3.7**	**5.5**

Source: World Economic Outlook, January 2018; e =Estimate; f =Forecast;

**IMF World Economic Outlook database, October 2018*

Figure 1: Global Growth



Source: World Economic Outlook, January 2018; e =estimate; f =forecast;

Figure 2: Sierra Leone GDP Growth

Source: IMF World Economic Outlook database, October 2018; e =estimate; f =forecast;

1.1.5 Economic growth in WAMZ.

There was a slowdown in economic growth in the West African Monetary Zone (WAMZ) in 2017, which was largely driven by the lagged effects of falling global commodity prices and sluggish global growth. Inflationary pressures remained elevated in the WAMZ (with most countries registering double digits inflation), reflecting the passthrough effect of the zonal depreciation of the exchange rates of most countries in the zone as well as supply constraints.

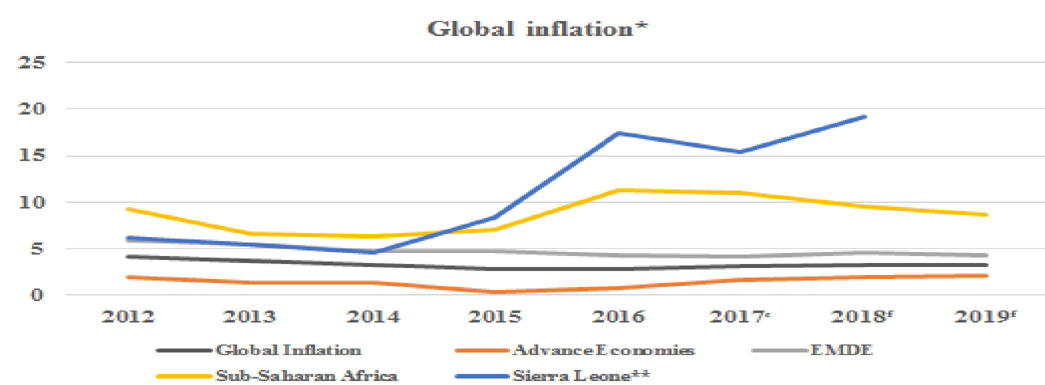
1.1.6 Global Inflation

Inflationary pressures remained subdued in 2017, despite strong commodity prices, rising energy prices, and decreased food production due to weather-related shocks. Consequently, global headline inflation for 2017 was estimated at 3.1 per cent (2.8 per cent: 2016). In 2018, inflation is expected to increase to 3.3 per cent and remain at the same level in 2019.

Inflation in advanced economies was estimated at 1.7 per cent in 2017. In the near term, headline inflation is projected to rise to 1.9 per cent and 2.1 per cent in 2018 and 2019 respectively. In emerging economies, inflation rose modestly in the last quarter of 2017, but on average, receded to 4.1 per cent in 2017 from 4.3 per cent in 2016. The forecast indicates that inflation will increase to 4.5 per cent in 2018 but projected to recede to 4.3 per cent in 2019.

In Sub-Saharan Africa, stable exchange rates to a large extent contributed to the modest decline in inflation to 11.00 per cent in 2017 from 11.3 per cent in 2016. Going forward, inflation is projected to decline further to 9.5 per cent and 8.6 per cent in 2018 and 2019, respectively.

Figure 3: Global Inflation



\/. Source: World Economic Outlook, January 2018; e =estimate; f =forecast;
***/. Source: Statistics Sierra Leone (Headline inflation, y-o-y, actual data)*

1.1.7 Commodity Prices.

Overall, prices of various commodities were mixed in 2017, with most prices firming up. We focus on a selected list of commodity prices (see Table 2) that have impact on imports (crude oil, rice) and exports (iron ore, palm oil) of Sierra Leone. On the back of falling inventories, strong demand, OPEC production cut agreement and firming USA shale oil production, crude oil prices on average peaked at US$54.3/bbl, which is 19.3 per cent above the level of US$45.5/bbl in 2016. This was also reflected on the Platt prices of various petroleum products including gasoline, diesel and kerosene, which registered upswings in prices.

Table 2: Selected commodity price forecasts in constant US$ (2010=100)

Commodity		Selected commodity price forecasts in constant US$					
		Unit	**2015**	**2016**	**2017**	**2018f**	**2019f**
Imports	**Crude oil,avg**	*$/bbl*	51.9	45.5	54.3	67.3	66
	Rice, Thailand 5%	*$/mt*	394	421	410	435	428
Exports	**Iron ore**	*$/dmt*	57.1	62.1	73.8	66.3	60.9
	Palm oil	*$/mt*	636	745	735	715	716

Source: World Bank Commodity Market Outlook, April 2018; f=forecasts

Overall, the price for metals strengthened in the last quarter of 2017, supported by strong demand from China’s property, infrastructure and manufacturing sectors as well as various supply bottlenecks. Hence, the price of iron ore increased in 2017 by 18.8 per cent to US$73.8/dmt from US$62.1/dmt in 2016, but it is projected to decelerate by 10.1 per cent in 2018 in response to reduced demand and an oversupplied market. Agricultural prices in general remained unchanged, but based on the World Bank Agriculture Price Index, prices are expected to rise by 2.2 per cent in 2018 and 1.3 per cent in 2019. However, the outlook of prices of Sierra Leone agricultural exports in 2018 is mixed as the prices of coffee (both Arabica and Robusta) are projected to decline, whereas cocoa prices are expected to increase.

1.1.8 Global Financial Stability

According to the IMF's Global Financial Stability Report (GFSR April 2018), the global financial conditions, have slightly tightened during 2017, reflecting the ongoing monetary policy normalization in some advanced countries, the incidence of equity volatility as well as a decline in the prices of risky assets – in response to the imminent shift to protectionism in some countries.

At the regional level, under the benign financial conditions, some emerging market economies have managed to address imbalances and build buffers, but in some of them, vulnerabilities have continued to build. In addition, a considerable number of low-income countries and other small non-investment-grade issuers have experienced a sharp deterioration in debt sustainability. In addition, a more complex creditor composition in these countries is posing policy challenges for current and future debt restructuring. Despite several steps undertaken by regulators in China, the risks in China's financial system remained elevated.

At regional level, despite weak macroeconomic fundamentals (latest data as of end of 2016), the WAMZ financial system was sound and adequately capitalized. Banking Supervision and Regulation under the direction of the WAMZ College of Supervisors (CS-WAMZ) continued to record substantial improvement and transformation both in terms of implementation of institutional and legal reforms, as well as deepening the regional financial integration process. At the same time, the implementation of the Payments System Development Project, funded by the African Development Bank (AfDB) was successfully completed in The Gambia, Guinea, Liberia and Sierra Leone. However, the increasing trend in non-performing loans (NPLs) continued to pose serious challenges for the banking system amongst member states. The table below presents selected financial soundness indicators (FSI) of the banking industry in WAMZ.

Table 3: Selected FSIs of the Banking Industry in WAMZ, in %

Indicators	The Gambia			Ghana			Guinea			Liberia			Nigeria			Sierra Leone		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Asset Based Indicators																		
NPL/total gross loans	7	6.5	9.3	11	14.7	17	4.9	4.7	7.4	18.7	22.4	36.9	2.8	4.9	12.8	33.4	31.7	22.6
Liquid Assets (core) to total assets	85	93.4	101.3	43.3	27.3	45.5	54.4	43.5	47.5	32	25.3	31.8	11.4	16.3	16.3	10.3	9.4	8.4
Liquid Assets (core) to short-term liabilities	80	88.4	97.5	50.5	53.8	97	73.4	57.5	63.5	49	35.6	37.5	16.7	25	24.5	11.7	10.7	9.5
ROA	11	2.1	2	6.5	4.5	3.8	2.5	2.2	2.2	0.1	-2.9	1.4	3.1	2.3	1.5	2.6	3.2	2.9
Capital Based Indicators																		
Regulatory capital to risk-weighted assets	30	57.6	68	17.9	17.8	18	18.3	16.4	34.4	20.3	20.9	27.7	17.2	17.6	15	30.2	34	30.7
NPLs net of net of provision to capital	-3	-2.1	-2.4	21	27.4	30	3	2	7	58	62.3	12.3	4.1	7.4	38.4	41.7	31.9	24.8
ROE	76	13.8	12.2	32.3	21.4	17.3	15.4	22.3	20.6	1	-26	2.6	21.2	19.8	12.5	14.9	18.3	22.3
Income and Expense Based Indicators																		
Interest margin to gross income	43	45.5	51.5	12.2	13.8	22.9	64.8	19.6	37.2	44	7.5	48.5	51.2	65	50	35.6	33.8	46.5
Non-interest expenses to gross income	54	57.2	58.7	35.8	41.3	65.1	62.1	62.1	31.8	67.6	67.6	81.2	56.9	64.7	63.8	63.6	63.8	58.5

Source: WAMI Annual Report, 2016

Efforts were made by member states at ensuring adequate and appropriate supervision of their banking system in order to increase resilience and enhance the capacity for intermediation and other pertinent banking roles. The decline in commodity prices and the resultant impact on foreign reserves portended risks to banking system stability through increase in non-performing loans. In addition, lending rates remained high, underlying the increase in net interest rate spread. Looking at individual countries, the latest data on Nigeria (majority of commercial banks operating in Sierra Leone are subsidiaries from Nigeria), show that the capital adequacy ratio (CAR) of the Nigerian banking sector declined to 10.6 per cent (by the 3rd quarter of 2017) down from 16 per cent in the 1st quarter of 2016. Also, the asset quality (NPL ratios) deteriorated to above 15.1 per cent (by the end of 2017), up from 9.7 per cent in the 1st quarter of 2016, whereas 45 per cent of the banks' loan book is exposed to the oil and gas sector (*2018 African Economic Outlook Country Note on Nigeria, African Development Bank Group*).

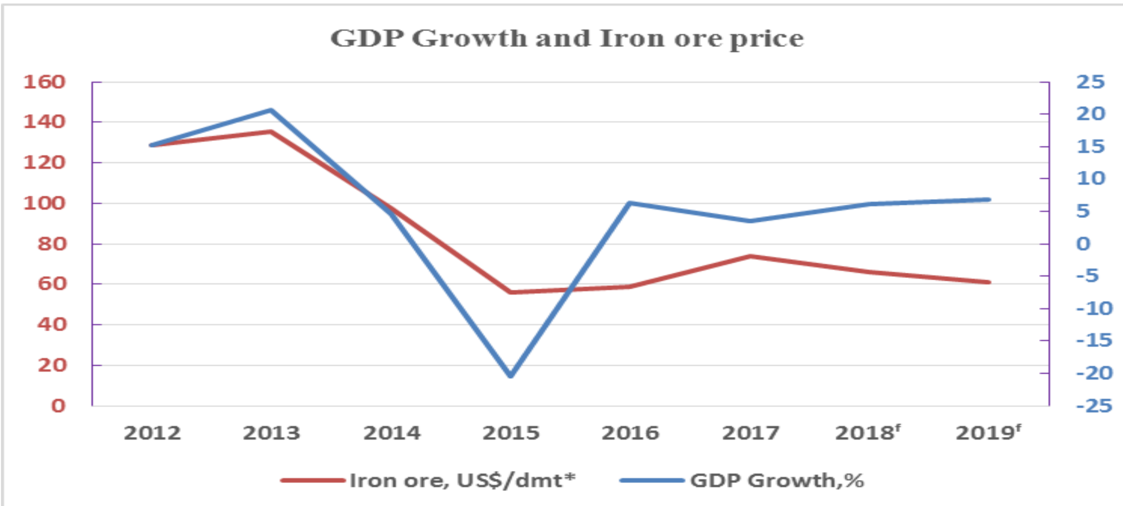
In Sierra Leone, the CAR of the banking system remained far above the 15.0 per cent minimum requirement, although it declined to 30.7 per cent in December 2016 from 33.9 per cent as at end-December 2015 but increased to 32.21 per cent in 2017. The industry's non-performing loans (NPL) remained high, though it significantly declined to 15.0 per cent in 2017 from 22.7 per cent as at December 2016.

1.2 Domestic Macroeconomic Developments

1.2.1 Real GDP Growth

The economy of Sierra Leone in 2017 grew at 3.5 per cent, which is 2.8 per centage points lower than the growth in 2016 (6.3 per cent). The sluggish output growth was largely driven by the reduced outturn in the construction and mining sectors, especially output from iron ore production, which declined significantly in 2017 due to the technical and operational difficulties encountered by iron ore mining companies.

Figure 4: GDP Growth (constant prices)



**/. Source: World Bank Commodity Market Outlook, October 2017 and April 2018; f=forecasts*

Over the period, the iron ore contribution to industry growth has dropped significantly from 51 per cent (2012) to 9 per cent (2017).

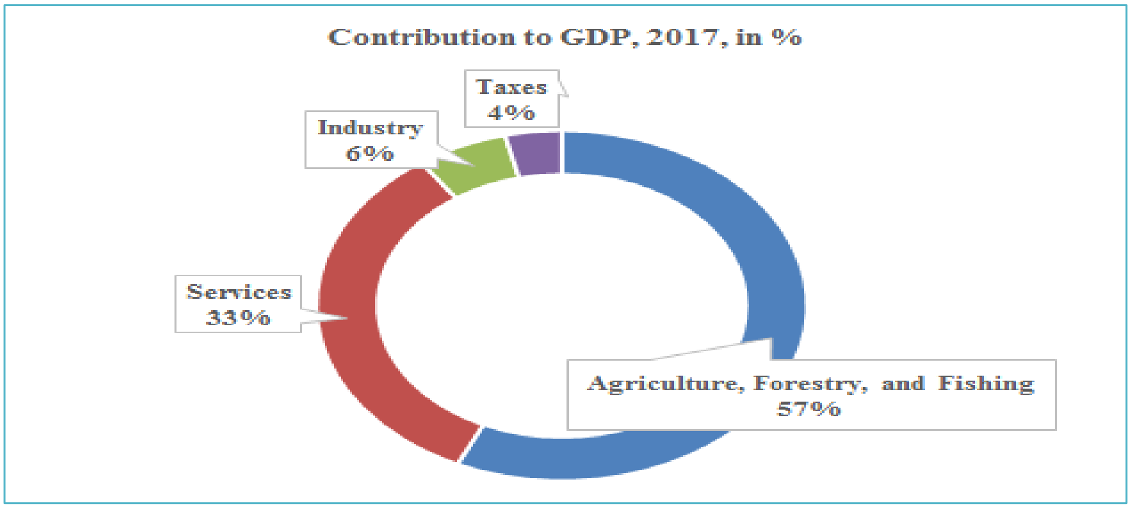
Table 4: GDP Growth by Sectors

Sectors	2012	2013	2014	2015	2016	2017
Agriculture	3.90	4.60	0.80	3.50	3.80	4.81
Industry	127.50	97.50	13.50	-75.10	28.80	14.05
o/w: Iron ore	51.01	47.18	12.42	-340.28	16.35	9.00
Services	6.09	6.14	1.80	1.56	4.14	4.97
Real GDP Growth (%)	**15.20**	**20.72**	**4.56**	**-20.60**	**6.30**	**3.50**

Source: SSL ‘forecast

In terms of sectoral contribution to GDP, agriculture remains the largest contributor with 57 per cent, followed by services sector with 33 per cent and industry with 6 per cent (see figure 5).

Figure 5: Contribution to GDP in 2017, by sectors, in %

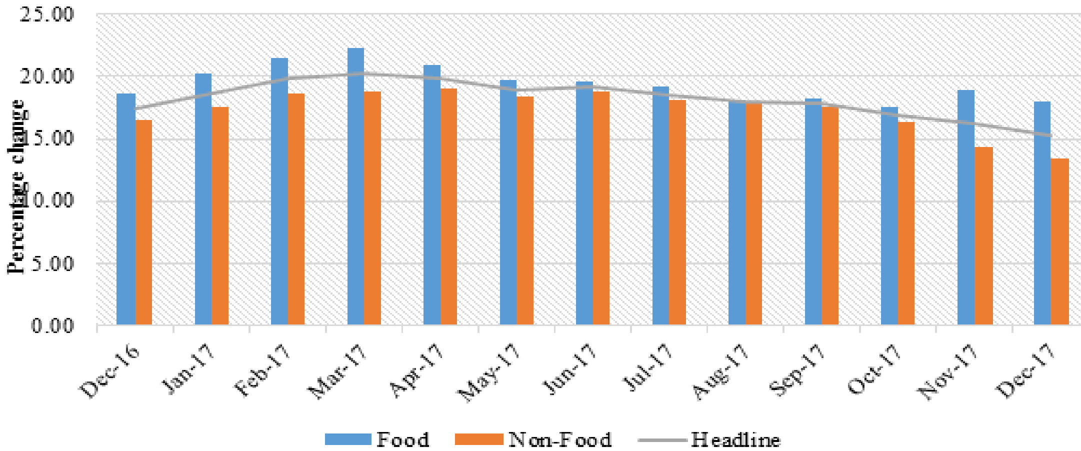


Source: BSL

1.2.2 Price Developments

On a year-on-year basis, inflationary pressures receded in 2017, though inflation remained elevated at 15.33 per cent at the end of 2017, down by 2.1 per centage points compared to end of 2016 (17.4%). The decline in inflation was partly driven by the modest stability of the exchange rate and the tight monetary policy stance of the BSL. Disaggregating into food and non-food showed that increase in both components slowed. Food inflation fell from 18.24 per cent quarter three) to 17.93 per cent (quarter four). Similarly, non-food inflation slowed to 13.45 per cent (quarter four) from 17.53 per cent (quarter three) as shown in Figure 6.

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



Source: Statistics Sierra Leone

1.3 External Sector Developments

Developments in the external sector in 2017 were broadly mixed. The current account deficit widened by 54.5 per cent to US$262.18mn in 2017 from US$169.71mn in 2016, reflecting a deterioration in the trade balance and income account.

While imports outpaced exports, transactions in the capital and financial account improved significantly during 2017. The Leone continued to depreciate against the US dollar at a declining rate and was relatively stable when compared to 2016. The gross foreign exchange reserves stood at US$500.80mn in 2017, down by 0.59 per cent relative to the level of US$503.79mn at end-December 2016.

1.3.1 Fiscal Developments

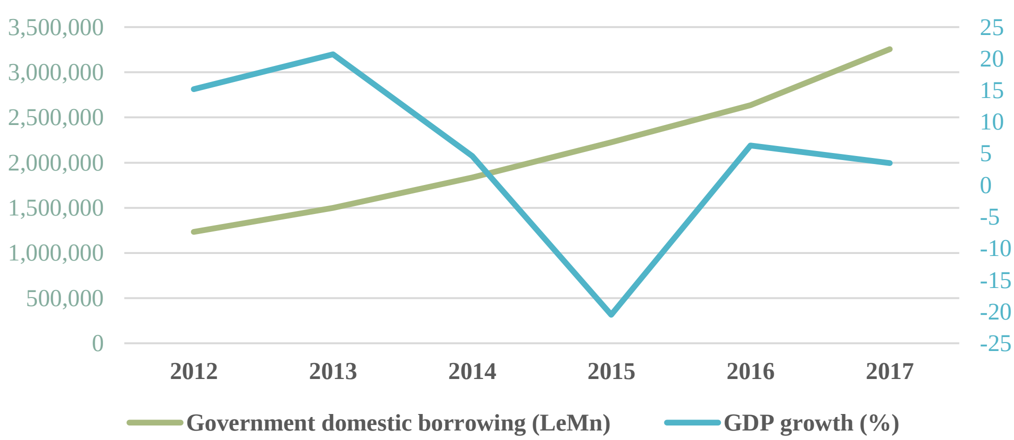
Owing to huge capital expenditure outlays amidst lower revenue collections, the resultant overall deficit was Le2.5 trillion, equivalent to 26.6 per cent of GDP.

Table 5: Government borrowing from commercial banks

Government borrowing from commercial banks and nonbanks, LeMn							
Institutions	**Government securities**	**Dec-12**	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**
Commercial banks	**T-bills (total)**	**802,714**	**1,141,885**	**1,575,963**	**1,943,445**	**2,207,282**	**2,785,829**
	3 months	*64,382*	*71,766*	*69,892*	*21,722*	*16,958*	*6,000*
	6 months	*292,096*	*441,882*	*244,151*	*195,751*	*59,658*	*22,532*
	1 year	*446,236*	*628,237*	*1,261,920*	*1,725,972*	*2,130,666*	*2,757,297*
	Treasury bonds	**1,166**	**0**	**6**	**3,000**	**10,000**	**0**
	Total Government securities	**803,880**	**1,141,885**	**1,575,969**	**1,946,445**	**2,217,282**	**2,785,829**
Non-banks	**T-bills**	**340,172**	**220,108**	**140,233**	**152,374**	**283,108**	**338,518**
	3 months	*152,127*	*85,344*	*28,074*	*21,057*	*10,636*	*12,596*
	6 months	*84,918*	*56,625*	*46,152*	*26,596*	*9,850*	*7,360*
	1 year	*103,127*	*78,139*	*66,007*	*104,721*	*262,622*	*318,562*
	Treasury bonds	**89,541**	**138,008**	**120,563**	**127,273**	**134,402**	**131,574**
	1 year	*89,541*	*97,521*	*80,076*	*70,536*	*36,578*	*0*
	2 years	*0*	*40,487*	*40,487*	*56,737*	*56,752*	*40,502*
	5 years	*0*	*0*	*0*	*0*	*41,072*	*91,072*
	Total Government securities	**429,713**	**358,116**	**260,796**	**279,647**	**417,510**	**470,092**
Commercial banks + non-banks	**Total T-bills**	1,142,886	1,361,993	1,716,196	2,095,819	2,490,390	3,124,347
	3 months	*216,509*	*157,110*	*97,966*	*42,779*	*27,594*	*18,596*
	6 months	*377,014*	*498,507*	*290,303*	*222,347*	*69,508*	*29,892*
	1 year	*549,363*	*706,376*	*1,327,927*	*1,830,693*	*2,393,288*	*3,075,859*
	Total bonds	**90,707**	**138,008**	**120,569**	**130,273**	**144,402**	**131,574**
	Grand Total	**1,233,593**	**1,500,001**	**1,836,765**	**2,226,092**	**2,634,792**	**3,255,921**

Source: BSL

Figure 7: GDP growth rate and Government domestic borrowing



Source: BSL

1.3.2 Monetary Developments

Monetary policy in 2017 was aimed at achieving the end year inflation target of 12 per cent, reduce volatility in the exchange rate and keep gross international reserves at levels adequate to cover at least three months of import.

However, monetary policy management was challenged by persistent inflationary pressures driven by external and domestic factors. Subsequently, as shown below (Table 6), the BSL's monetary policy stance was tight throughout the year 2017.

Table 6: Monetary Policy Stance, in per cent

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Monetary Policy Rate	11	12	13	14	14.5
Standing Lending Facility	12	13	16	17	19
Standing Deposit Facility	5.5	6.5	9	10	12
Interbank Market rate	9.66	10.05	10.69	11.92	13.22

Source: BSL

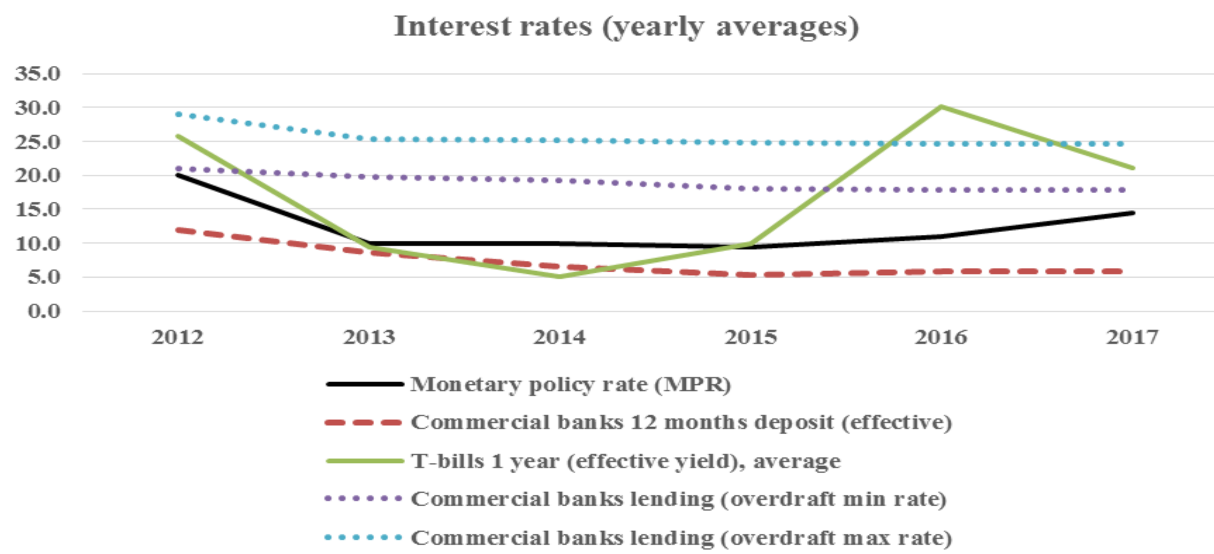
During 2017, the BSL suspended its weekly foreign exchange auctions to build reserves and limits its intervention only to smoothen exchange rate volatility. The exchange rate stabilized with depreciation slowing down from 29.07 per cent in December 2016 to 4.18 per cent in December 2017.

1.3.3 Interest Rates

The interbank market rate became responsive to movements in the MPR and moved from 9.66 per cent in 2016 to 13.22 per cent in 2017, whilst the weighted average lending and commercial banks` saving deposit rates remained at 21.35 per cent and 2.38 per cent respectively, during the same period.

Yields on government securities declined across all tenures during the period under review. The yield on the 91-days treasury bills fell from 9.38 per cent in December 2016, to 8.22 per cent in December 2017. The yield on the 182-days treasury bills also decreased from 16.17 per cent in December 2016 to 9.68 per cent in December 2017. Similarly, the yield on the 364-days treasury bills dropped from 30.22 per cent to 21.17 per cent in the same period.

Figure 8: Key interest rates (yearly averages)



Source: BSL

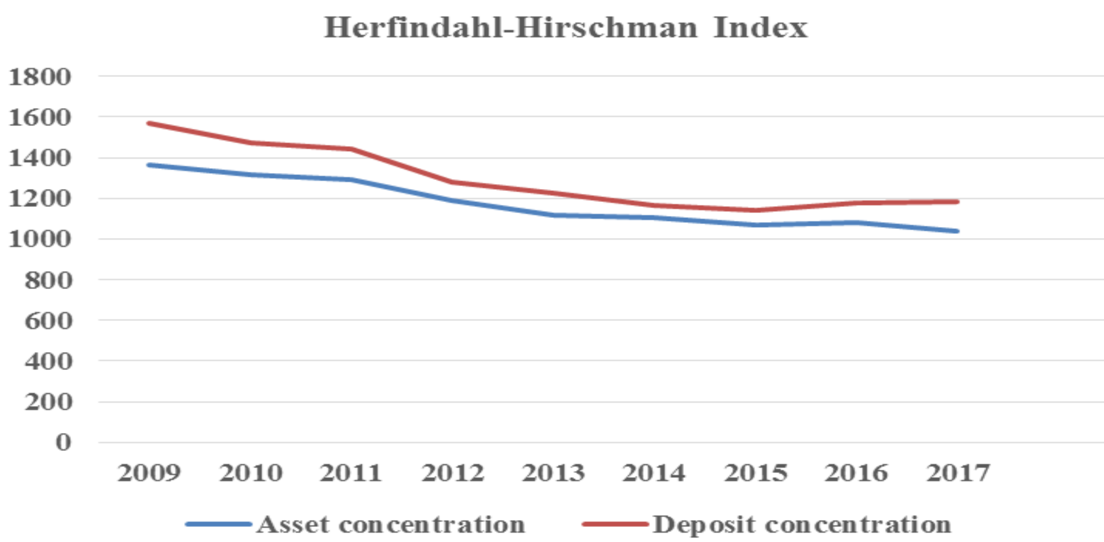
1.3.4 Concentration in the Banking Sector

In 2017, the banking sector in Sierra Leone marked a decline of the banking concentration rate. Expressed as a ratio of the assets of three largest banks of the sector, the banking concentration level declined from 55 per cent in 2009 to 38 per cent in 2017. Expressed as a ratio of deposits of three largest banks of the sector, the banking concentration level also declined from 62 per cent in 2009 to 45 per cent in 2017.

The competition in the banking sector has been improving as observed through the continuous decrease of the Herfindahl-Hirschman Index[1] (HHI), as shown in the figure below (Figure 9).

[1] The HHI represents the sum of the squares of the bank sizes measured as market shares (e.g. total assets, total deposits, household deposits, corporate deposits, household loans, corporate loans, etc.).

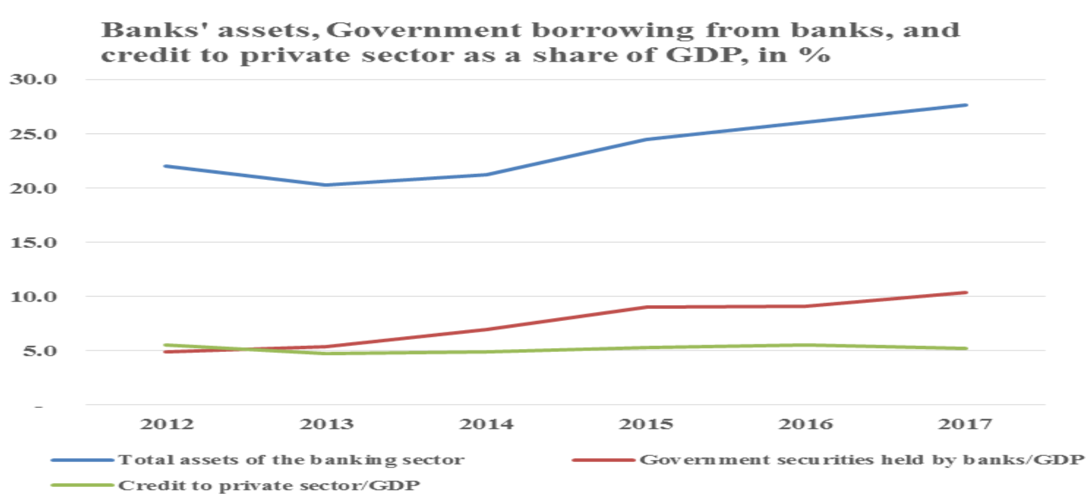
Figure 9: The Herfindahl-Hirschman Index



Source: BSL

During 2009 - 2017, while there was no significant entries and exits, or mergers in the banking market, it is evident that the banking sector in Sierra Leone remains competitive, especially taking into considerations the evolution of the Government borrowing from commercial banks and credit to the private sector (see Figure 10).

Figure 10: Banks' assets, Government borrowing from banks, credit to private sector, % of GDP



Source: BSL

In 2014, the twin shocks from the Ebola virus and the collapse of iron ore prices devastated the economy during 2015, resulting in a drop in GDP by more than 20 per cent. As these shocks worked their way through the economy, asset quality in the banking sector was severely affected with the buildup of domestic amounts. Consequently, the government financing gap and debt burden increased, thus leading to fiscal dominance in the economy. Therefore, as shown in Figure 9, lending to the private sector remained low for most banks[2]. Instead of performing financial intermediation, banks were simply collecting deposits and using them to fund investments in government securities, a strategy that provides an extremely attractive spread. This practice also has resulted in extremely high CARs especially for the foreign subsidiaries, due to their investment in risk free assets (government securities).

[2] The shortage of bankable projects in the private sector also exacerbates the problem of fiscal dominance.

2.0 FINANCIAL SYSTEM IN SIERRA LEONE

2.1 The structure of the financial system in Sierra Leone

2.1.1 Legal background

The Bank of Sierra Leone (BSL) was established in 1964, and since then, has played a crucial role in the financial and economic development of Sierra Leone. Most of the duties and responsibilities assigned to the BSL, as provided for in the BSL Act 2011, refer also to financial stability function. The core objective and function of the BSL as prescribed in Section 7 of the BSL Act 2011[3] are:

(1) The objective of the Bank is to Achieve and maintain price stability.

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

- *a) formulate and implement monetary policy, financial regulation and prudential standards;*
- *b) act as banker, adviser and fiscal agent of the Government;*
- *c) formulate and implement the foreign exchange policy of Sierra Leone;*
- *d) conduct foreign-exchange operations;*
- *e) own, hold and maintain the official international reserves including the reserves of gold;*
- *f) issue and manage the currency of Sierra Leone;*
- *g) establish, promote, license and oversee sound and efficient payment and securities settlement systems;*
- *h) license, register, regulate and supervise financial institutions as specified in this Act or any other enactment;*
- *i) act as a depository for funds from international organizations*

Though not explicitly stated, it is evident that the BSL has the legal power to ensure the sound and safe functioning of the financial system, including the payment and securities settlement systems, which require a good understanding of key macroeconomic trends as well as financial system developments and sources of systemic risks to the financial system[4] of Sierra Leone.

[3] The BSL Act 2011 is expected to be amended in 2018.

[4] The insurance industry in Sierra Leone is regulated and supervised by Sierra Leone Insurance Commission (SLICOM)

The list of main laws that govern the financial system of Sierra Leone is as follows: Bank of Sierra Leone Act 2011; Banking Act 2011; Borrowers and Lenders Act 2014; Credit Reference Act 2011; Other Financial Services Act 2007 (Stock Exchange); Other Financial Services Act 2001 (all other financial institutions); Payments System Act 2009; Anti-money Laundering and Combating of Financing of Terrorism Act 2012; Companies Act 2009; and Bankruptcy Act 2009. There are series of guidelines, with roots from these laws that have been developed by BSL to promote the regulation and supervision of the financial system.

Box 1. Evolution of the banking industry in Sierra Leone

Prior to Sierra Leone gaining independence in 1961 and subsequent establishment of the Bank of Sierra Leone (BSL) in 1964, the West African Currency Board (WACB) was responsible for the issue of currency in Sierra Leone. The WACB was established in 1912 and was also responsible for currencies in The Gambia, Ghana and Nigeria. Following independence, the country established its own currency. In 1963, the BSL Act was passed into law and the BSL started operations on 4th August 1964 which marked the issue of the Leone as a legal tender.

In late 1980s the financial system was comprised of the banking sector with four (4) commercial and eight (8) rural banks. The four commercial banks were Standard Charted Bank (SL) Limited, Barclays Bank (SL) Limited, Sierra Leone Commercial Bank (SLCB), and International Bank for Trade and Industry (IBTI). Standard Chartered Bank (SL) Ltd and Barclays Bank (SL) Ltd had Standard Chartered Bank PLC and Barclays Bank PLC as major shareholders, SLCB was wholly state-owned and IBTI was privately owned. There were also other financial institutions such as the National Development Bank which had a commercial banking window, the National Cooperative Development Bank, the Post Office Savings Bank, the Sierra Leone Housing Corporation, the Finance and Trust Corporation, the Alliance Housing Corporation and insurance companies.

In the early 1990s, the Bank of Credit and Commerce International (BCCI) and Meridian Bank also received licences to operate in Sierra Leone, bringing the number of commercial banks to 6. Following the intensification of the rebel war (1991-1999), some of the branches of commercial banks were closed as well as all rural banks. The First Merchant Bank (FMB) Sierra Leone Limited commenced operations in 1999 and 17 Foreign Exchange Bureaux were licensed to undertake spot transactions in foreign currencies at different dates. In 2000, the Barclays Bank PLC, the major shareholder of the Barclays Bank (SL) Limited, sold its shares to the Government of Sierra Leone. The bank was renamed, Rokel Commercial Bank (SL) Limited.

At the end of 2017 the total number of commercial bank branches was 14. Other financial institutions were also established: The First Discount House (SL) Limited, the Home Finance Company (SL) Limited and 5 foreign exchange bureaux. Three more banks and six branches were established in 2001.

2.1.2 The Composition of the Financial System

Since the beginning of 2001, there has been a number of developments in the financial system. As at December 2017, the number of commercial banks in the country has risen to 14, with 109 branches nationwide.

There are 17 community banks, 11 insurance companies and 62 exchange bureaus. In addition, there are 18 credit-only microfinance institutions (MFIs), 5 deposit-taking MFIs, an Apex Bank and 59 financial services associations (FSAs), and 2 mobile financial services providers and a stock exchange.

Out of the 14 commercial banks operating in Sierra Leone, 4 are locally owned and 10 are subsidiaries of foreign banks (majority of them from Nigeria). As relates to locally owned banks, the Government is the majority shareholder of 2 banks, whilst 2 local commercial banks are wholly private owned.

Table 7 : Components of the Financial System in Sierra Leone

Financial System	Network – Number of Units in the System					
	2012	2013	2014	2015	2016	2017
Commercial Banks	13	13	13	13	13	14
Community Banks	7	11	11	17	17	17
Insurance	10	10	11	11	11	11
Exchange Bureaux	39	39	43	50	58	62
Other Financial Institution						
Credit-only MFIs	6	8	9	12	15	18
Discount Houses	2	2	2	2	2	2
Deposit taking MFIs	2	2	2	2	5	5
Leasing Company	0	0	0	0	1	1
Financial Services Association (FSAs)	0	0	0	0	51	59
Apex Bank	0	0	0	0	1	1
Mobile Financial Services	0	0	0	0	2	2
Stock Exchange	0	0	0	0	1	1

Source: BSL

Except for one commercial bank that has been licensed in 2017, the number of commercial banks remained unchanged during the period 2012 – 2016. Yet, there has been positive developments regarding increase in the number of community banks, credit-only MFIs, deposit-taking MFIs, financial services associations (FSAs), foreign exchange bureaux and mobile financial services (see Table 7).

Table 8: Banking sector assets, % of Nominal GDP

Year	Nominal GDP, (Le Trillion)	Nominal GDP (excluding iron ore), in Le Trillion	Total Assets of the Banking Sector, in Le Trillion	Total Assets (% of GDP)
2012	16.46	15.33	3.62	21.98
2013	21.32	18.16	4.33	20.31
2014	22.69	20.54	4.82	21.23
2015	21.58	21.55	5.29	24.50
2016	24.29	23.60	6.33	26.08
2017	26.88	*28.53	7.43	27.65

**Projected*

Source: BSL

In terms of total assets of the financial system (see Table 8), the commercial banks dominate the financial system of Sierra Leone with total assets amounted at Le 7.4 trillion, equivalent to 27.7 per cent of GDP as of end 2017. In addition, during the period under review, the microfinance industry has expanded rapidly, thus becoming an important provider of financial services to Micro, Small, and Medium Enterprises (MSME) and the lower income segments of the population in the country.

During 2017, three (3) microfinance credit operators and eight (8) FSAs where granted license to operate in the financial market (see table 7). However, despite the increase in the number of non-bank financial institutions, their share in total assets of the financial system in Sierra Leone is still very low.

The total assets of the financial system increased by 14.4 per cent to Le9.21 trillion as at end 2017. The major entities responsible for this growth includes the commercial banks, community banks and deposit taking MFIs whilst the pension scheme (NASSIT), credit MFI, and discount houses showed a reverse trend between 2016 and 2017. The growth in assets was to some extent driven by increase in activities by deposit taking MFIs.

Table 9: Evolution in the composition of the assets of the Financial System

Financial System Components	Total assets (Le Trillion)					
	2012	2013	2014	2015	2016	2017
Commercial banks	3,618.60	4,329.30	4,817.69	5,287.57	6,333.16	7,432.98
Community banks	24.26	30.34	41.05	41.37	41.24	61.25
NASSIT	660.02	809.76	994.25	1,180.13	1,414.49	1,550.68
Exchange bureaux	-	-	-	-	-	-
Other financial institutions						
Credit microfinance				26.22	84.91	66.96
Discount houses	23.37	20.53	12.22	21.21	21.02	17.66
Deposit-taking microfinance	50.37	42.94	51.12	59.13	58.58	161.24
Leasing company			2.00	-	-	-
FSA	-	-	-	29.50	37.83	47.14
Apex Bank	-	-	8.04	31.77	38.83	39.36
Mobile financial services	-	-	-	-	-	-
Stock Exchange	-	-	-	-	-	-
Total	**4,376.62**	**5,232.86**	**5,926.43**	**6,676.90**	**8,030.07**	**9,377.28**

Source: BSL

The banking products and services remained basic and are largely limited to accepting deposits, granting of loans and advances and foreign exchange dealings. Financial development is a multidimensional concept that requires an outreaching framework encompassing depth access and efficiency. High informality has reduced the number of bankable firms and high operating costs and limited access to basic infrastructure has also made it difficult to expand banking services across sporadically populated rural areas. It is therefore expected that, under the leadership of the BSL and in close cooperation with MTI, MoFED, and other national and international development partners, the recently adopted NSFI 2017 – 2020 (see Box 2) will transform the financial sector to serve the under-served and un-served segments of the economy and society in Sierra Leone.

Box 2. National Strategy for Financial Inclusion in Sierra Leone

In December 2016, the Bank of Sierra Leone (BSL) launched the National Strategy for Financial Inclusion (NSFI) 2017 - 2020, which will accelerate access to financial services for over 87 per cent of the economically active population who are currently left out of the formal and regulated financial system.

The NSFI is anchored in the BSL's Financial Sector Development Project (FSDP) 2009, which recognizes access to finance as one of the key pillar for private sector growth and stability, and is also part of the national agenda to contribute to a deep, competitive and stable financial system that delivers transformative financial services: to make financial services available, accessible and affordable to all Sierra Leoneans and Micro, Small, and Medium Enterprises (MSME), and support inclusive and resilient private-sector led growth.

In 2009, the BSL joined the Alliance for Financial Inclusion (AFI) and in 2012 Sierra Leone signed the Maya Declaration, joining 50 other countries across the globe to further financial inclusion. The Government of Sierra Leone is a member of the UN's Better Than Cash Alliance – a global partnership of 55 governments, companies and international organizations committed to moving away from cash to digital payments, to reduce poverty and drive inclusive growth.

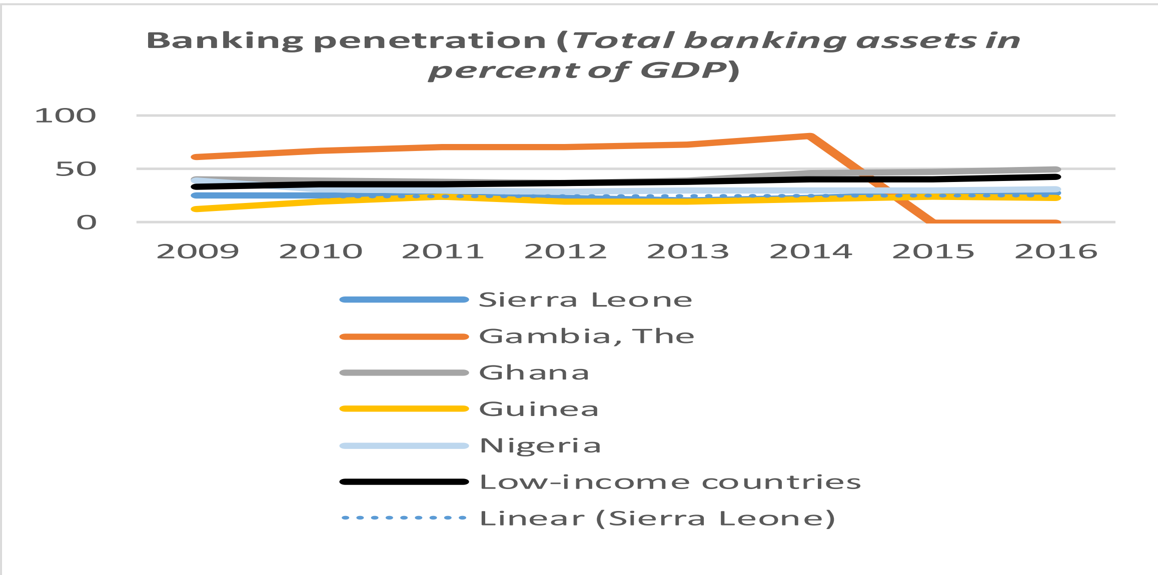
Six key areas necessary for promoting inclusive financial systems have been identified in the NSFI: (i) responsive policy, regulation, and coordinated action (ii) client-centric products and services, (iii) digital financial services (iv) access to finance for MSMEs, (v) financial literacy, education and consumer protection, and (vi) data and measurement. These key areas will govern the strategies that will serve as framework in crafting evidence-based regulations, designing and implementing demand-driven and client-centric programs, and monitoring progress relevant to financial inclusion.

So far, two working groups have been established (digital financial services, financial literacy), whereas winners of the Fintech Challenge 2017 have been announced and have entered the Sandbox Regulatory Framework for live testing so that BSL will decide whether to allow the proposed product, service or solution to be introduced on a wider scale in Sierra Leone.

2.2 The Banking Sector Performance

Overall, the banking sector remained relatively stable in 2017, despite challenges in the macroeconomic and financial environment. The capital adequacy ratio was adequate, liquidity remained robust, deposits continued to grow, and the banking sector operated with profitability. However, despite a declining trend, the industry's NPL remained high, above the 10 per cent threshold. However, banking penetration is far below the average for low-income countries - LICs (see figure 11), whereas credit to private sector is far the lowest compared to the regional benchmark (see figure 13).

Figure 11: Banking penetration in the region



Source: IMF Regional Economic Outlook: Sub-Saharan Africa, October 2017

2.2.1 Assets

The assets of the banking sector have grown over the years with an average growth of 14.06 per cent between 2012 and 2017. At the end of 2017, the top five banks, by measurement of assets accounted for 63.97 per cent of total assets. The two-state owned banks accounted for 29.05 per cent and the two domestic private owned banks accounted for 10.72 per cent of total assets in the banking sector of Sierra Leone. Overall, total assets of the banking sector increased significantly in 2017, compared to 2012 (see Table

10). However, despite their growth, Sierra Leone and Guinea are below the average of banking penetration in the LICs (see Figure 10).

The main contributors to the growth of assets in the banking sector of Sierra Leone continued to be investments in government securities which accounted for (51.85 per cent) as of December 2017. The banking industry's share of investment to total asset have been increasing over the period 2012 – 2017, reaching a peak of 36.34 per cent in 2015 and slighlty down to 36.08 per cent in 2017. However, following challenges in the judiciary to enforce lender protection, including the ability to repossessed collateral in the event of loan default, banks were conservative and advances and loans decrease from 28.42 per cent (2012) to 18.64 per cent, in 2017.

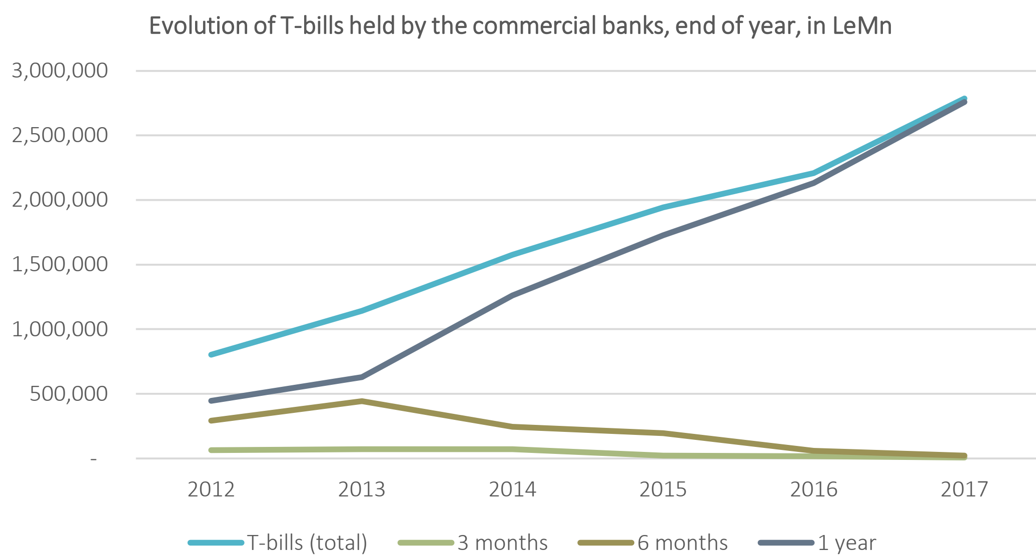
Table 10: Assets of the banking sector 2012 – 2017 (LeBn)

	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Cash	186.36	200.13	296.75	282.22	454.63	408.44
Claims	1,245.63	1,522.54	1,537.46	1,619.44	1,964.78	2,260.89
Investment	818.94	1,156.95	1,568.26	1,921.41	2,127.36	2,681.98
Advances (net)	1,028.38	1,097.85	1,043.60	1,037.11	1,233.54	1,385.79
Others	148.65	154.48	163.88	196.34	280.92	361.84
Fixed Assets	190.65	197.35	207.75	231.05	271.92	334.04
Total Assets	**3,618.60**	**4,329.30**	**4,817.69**	**5,287.57**	**6,333.16**	**7,432.98**
In % of Total Assets						
Cash	5.15	4.62	6.16	5.34	7.18	5.49
Claims	34.42	35.17	31.91	30.63	31.02	30.42
Investment	22.63	26.72	32.55	36.34	33.59	36.08
Advances (net)	28.42	25.36	21.66	19.61	19.48	18.64
Others	4.11	3.57	3.40	3.71	4.44	4.87
Fixed assets	5.27	4.56	4.31	4.37	4.29	4.49
Total Assets	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: BSL

There was a dramatic shift regarding the maturity on the investments in treasury bills, with 1-year Treasury bills representing 99.0 per cent of total portfolio of treasury bills held by commercial banks in 2017, significantly higher to their share in 2016 (96.5%), as shown in Figure 11.

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



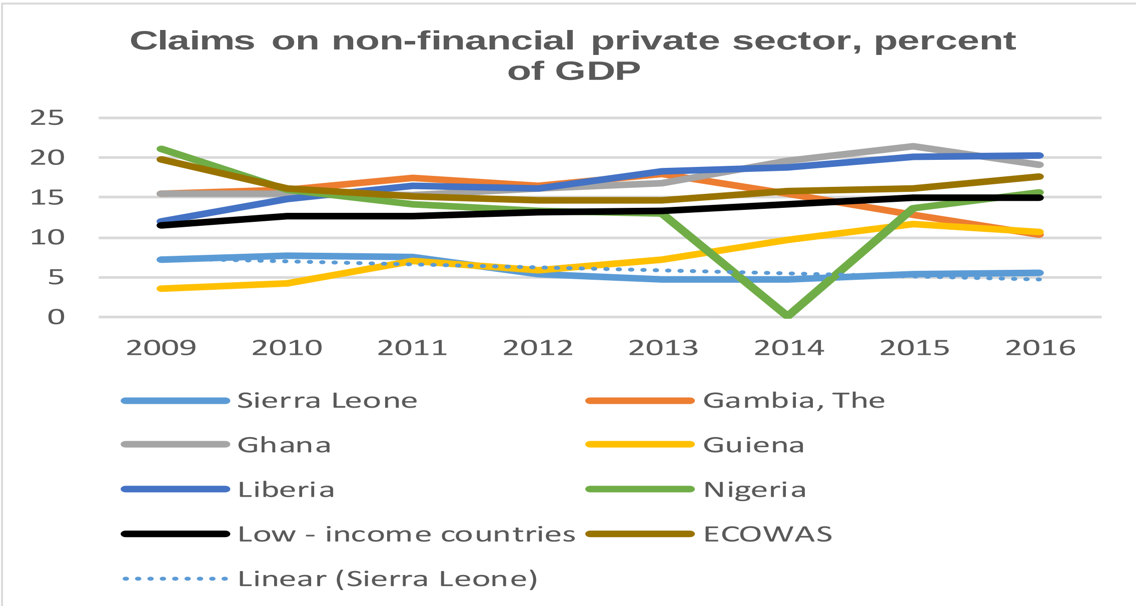
Source: BSL

As shown in Figure 11, the turning point happened in 2013 and since then, despite the continuous growth in total assets as a share to GDP, the credit to private sector remained unchanged as a share to GDP at 5.3 per cent in 2017, which is the lowest in the region (see Figure 12):

2.2.2 Credit Growth

There has not been a steady increase in the growth rate of gross loans over 2012 – 2017. Growth rate in gross loans was positive between 2012 and 2013, but slowed down between 2013 and 2015 during the outbreak of the Ebola Virus Disease (EVD), recording a negative growth rate of 0.43 per cent (-0.43%) in 2015. An increase of 11.96 per cent was recorded in 2016, but it slowed to 2.13 per cent growth rate in 2017. The main challenges to credit growth has been the buildup of huge domestic arrears, the unstable macroeconomic condition during the outbreak of the EVD, the high informality of the economy and poor business environment constrained the creation of new businesses.

Figure 13: Credit to private sector in the region as a share of GDP



***Source:** IMF Regional Economic Outlook:Sub-Saharan Africa, October 2017*

Figure 14: Banking Sector Gross Loans

Source: BSL

2.2.3 Sectoral Distribution of Loans

Between 2012 and 2016, construction, import trade, transport, storage and communication sectors accounted for the highest share of advances and loans. This allocation of resources to the construction sector, being the highest, was because of the immense infrastructural activity that was going on within the country (see Table 11).

Table 11: Sectoral distribution of loans and advances, in %

	Sectoral distribution of loans and advances, in %				
Sectors	**2012**	**2013**	**2014**	**2015**	**2016**
Agriculture, Forestry & Fishing	7.0	5.5	6.4	6.2	5.6
Mining & Quarrying	2.2	2.0	2.5	2.1	2.6
Manufacturing	7.3	6.8	4.4	4.0	5.9
Construction	17.5	16.9	18.5	19.4	19.3
Electricity, Gas & Water	1.0	1.0	1.7	1.4	2.1
Import Trade	17.5	19.2	19.5	17.9	18.1
Export Trade	8.6	7.1	8.8	4.4	5.8
Financial Services	2.7	2.1	2.1	3.5	4.1
Other Trade & Tourism	1.2	2.8	1.7	10.2	11.6
Transport, Storage & Communication	10.2	7.8	11.1	9.5	5.6
Printing Pub & Allied Products	1.9	2.3	1.5	1.4	1.4
Personal services	4.8	5.2	4.5	4.5	4.5
Business Services	10.8	12.5	9.2	7.5	6.2
Recreation Services	1.0	1.7	1.5	1.3	1.2
Other Services Incl. Government Services	2.5	3.1	2.1	1.5	1.2
Miscellaneous	3.7	4.3	4.6	5.2	4.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSL

In 2017, the sectoral classification of credit in terms of economic activity was revised. With this classification, 33.2 per cent of total credit was extended to the commerce and finance sector, followed by construction sector of 19.9 per cent and business services sector of 8.8 per cent. The marine resources sector recorded the least (see Table 12).

Table 12: Sectoral distribution of loans and advances in 2017, in per cent

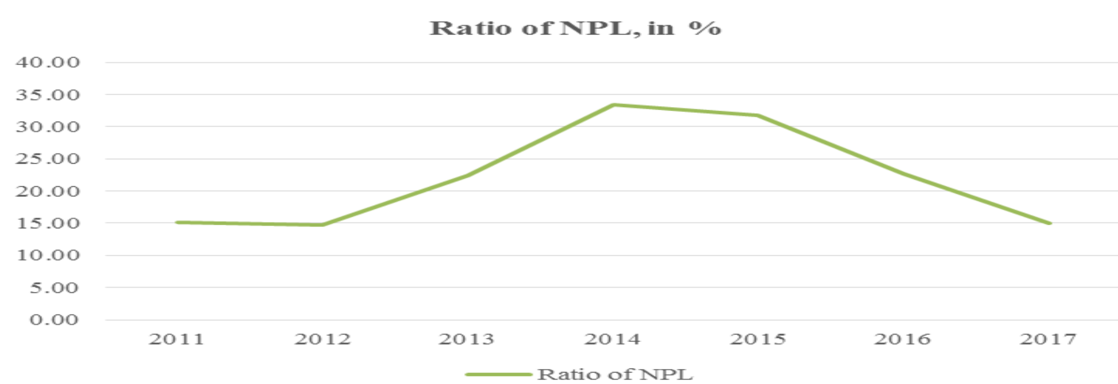
	2017
Agric, Forestry	1.3
Marine Resources	0.0
Mining & Quarying	4.6
Manufacturing	6.8
Construction	19.9
Utility Services	0.5
Commerce and Finance	33.2
Transport and Storage	5.5
Petroleum	1.5
Business Services	8.8
Personal Services	3.4
Communication	2.1
Other Services	5.4
Miscellaneous	7.1
Total loans {On-balance Sheet figures}	**100.0**

Source: BSL

2.2.4 Quality of loan Portfolio in the banking sector

Though it is continuously improving, the quality of the loan portfolio continues to be of concern, driven by weak lender protection and the ability to repossess collateral in the event of loan defaults. The ratio of non-performing loans (NPLs) to gross loans reached 14.96 per cent in 2017, substantially lower than the December 2016 ratio of 22.65 per cent, but still remains higher than the prudential limit of 10 per cent.

Figure 15: Evolution in the NPLs 2012 – 2017



Source: BSL

The NPLs showed the highest increase between 2013 and 2014 due to a slowdown in economic activities, resulting from the slowdown in iron ore prices and the outbreak of EVD. The monetary authorities had to institute mechanisms of recovering debt and commercial banks were encouraged to step up effort at strengthening the internal controls of credit management system through sustained capacity building and use of information from the Credit Reference Bureau (see Box 3). To this, a write-offs policy was instituted, including the establishment of a Collateral Registry and a Credit Reference Bureau. The implementation of the loan write-offs policy was the major driver of the drop in the NPL ratio.

Box 3. BSL Credit Reference Bureau (CRB)

The BSL's Credit Reference Bureau was set up by an Act of Parliament in 2011. The CRB is organized as a unit within the BSL and it gathers and maintains database for the formation of credit histories including publicly available information and processes the credit related data to prepare a credit reference report.

The CRB provides credit reports to financial institutions and it receives on average one hundred (100) requests per day. The credit reference bureau since inception has produced forty four thousand, three hundred and two (44,302) credit reports, of which thirty thousand, two hundred and six (30,206) were requests for credit reports by individuals applying for loans. The Credit Reference Bureau has started receiving data from Community Banks and Microfinance institutions and will start to issue credit reports to them soonest.

The CRB has been able to solve the issue of asymmetric information arising from adverse selection and moral hazard. It has helped increase lending and reduces the number of bad borrowers in the banking system. Banks have been able to recover loans written off because of the credit reports.

The NPLs in the West African sub-region showed an increasing trend during 2014 - 2016. In The Gambia, the NPLs moved from 7 per cent to 9.3 per cent, in Ghana from 10.98 per cent to 17 per cent, Guinea from 4.99 per cent to 7.37 per cent, Liberia 18.70 per cent to 36.90 per cent, and Nigeria 2.80 per cent to 12.80 per cent.

During the same period, the aggregate level of NPLs ratio for the banking sector of Sierra Leone dropped from 33.44 per cent to 22.65 per cent in 2016. During 2012-2016, the banking sector exposure to credit risk was more pronounced in economic sectors that have highest share in total loans. The commerce and finance sector led with the highest NPL ratio (33.7%), followed by business services (19.1%) and construction sector (11.3 %). Despite the reclassification of sectors in 2017 (see Table 12), the structure was still the same. The NPL for commerce and finance, construction and business services ranked the highest in 2017, whereas the miscellaneous more than doubled, reaching at 17.7 per cent.

2.2.5 Liabilities

The activity of Sierra Leone's banking sector continues to be financed mainly from deposits collected within Sierra Leone's economy, which comprised 72.2 per cent of total liabilities and shareholder's fund, at the end of 2017 (Table 13).

Table 13: Liabilities & own resources of banking sector 2012 – 2017 (Lebn)

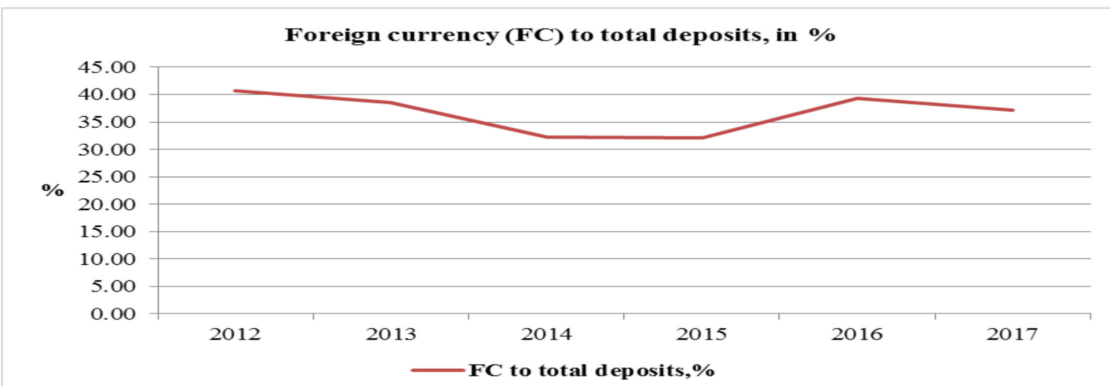
	Dec-12	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**
Shareholders Fund	540.08	586.67	578.63	651.53	734.71	1,047.85
Other allowed as capital	4.82	4.86	5.53	5.40	4.76	0.00
Short Term Borrowings	12.19	74.16	16.36	6.28	15.36	114.90
Long Term Borrowings	25.58	22.00	20.87	14.79	14.79	139.80
Deposits	2,842.71	3,444.89	3,948.30	4,287.03	5,076.38	5,274.97
Margins Against Cont.Liab.	14.63	14.39	39.69	33.52	64.81	277.56
Bill Payable	0.00	0.00	0.00	0.00	0.00	0.00
Other Liabilities	178.59	182.33	208.31	289.02	422.35	450.49
Total liabilities	**3,618.60**	**4,329.30**	**4,817.69**	**5,287.57**	**6,333.16**	**7,305.57**
In per cent of total Liabilities						
Shareholders Fund	14.93	13.55	12.01	12.32	11.6	14.34
Other allowed as capital	0.13	0.11	0.11	0.10	0.08	0.00
Short Term Borrowings	0.34	1.71	0.34	0.12	0.24	1.57
Long Term Borrowings	0.71	0.51	0.43	0.28	0.23	1.91
Deposits	78.56	79.57	81.95	81.08	80.16	72.20
Margins Against Cont. Liabilities	0.40	0.33	0.82	0.63	1.02	3.80
Bill Payable	0.00	0.00	0.00	0.00	0.00	0.00
Other Liabilities	4.94	4.21	4.32	5.47	6.67	6.17
Total liabilities	**100**	**100**	**100**	**100**	**100**	**100**

Source: BSL

As a key part of the banking sector liabilities, the share of deposits increased from 78.56 per cent in 2012 to a peak of 81.95 per cent in 2014, during the peak period of economic activities in the iron ore mining until the event of the EVD. The share of deposits, thereafter dropped to 72.2 per cent in 2017, reflecting a slowdown in the pace of savings mobilization, which therefore reinforces the need to deepen reforms aimed at creating an enabling environment for financial development, fostering the supply of a wide variety of financial services, and mitigating stability risks to the financial sector.

The share of foreign currency in total deposit, proxying the degree of dollarization of the banking sector balance sheet has generally being trending downwards. As at 2017, foreign currency deposits share in total deposits was 37.15 per cent, dropping from a position of 40.63 per cent in 2012 as a result of the drop in the price of iron ore and the EVD of 2014 and 2015.

Figure 16: Share of FC deposits in total deposits



Source: BSL

Table 14: Deposit concentration – by number of customers

	2012	2013	2014	2015	2016	2017
Current						
Foreign	20,012	21,209	26,870	27,238	28,606	50,149
Domestic	135,103	137,549	154,330	163,068	177,561	144,217
Savings						
Foreign	1,809	3,999	5,666	34,768	5,479	6,953
Domestic	442,240	525,017	541,100	466,898	530,902	564,777
Time						
Foreign	5	8	4	15	7	1
Domestic	3,685	963	1,618	1,764	1,969	1,961

Source: BSL

2.2.6 Interest Rates

Domestic money market rates generally increased while commercial banks rate on deposits declined (see Table 15). The average interest rate on savings and the average lending rate on overdraft for December 2015 and 2016 remained unchanged at 2.4 per cent and 21.34 per cent respectively. The 91-day T-bills rate decreased to 8.2 per cent in December 2017 from 9.4 per cent in December 2016. Similarly, the yield for the 182-day T-bills dropped significantly to 9.7 per cent in December 2017 from 16.2 per cent in December 2016.

Table 15: Evolution of key interest rates in the market, in per cent

Interest rates (yearly averages)	2012	2013	2014	2015	2016	2017
MPR	20.0	10.0	10.0	9.5	11.0	14.5
Savings (effective)	6.4	4.7	3.2	2.5	2.4	2.4
3 months deposit (effective)	9.8	5.6	4.2	3.0	2.9	2.9
12 months deposit (effective)	11.9	8.6	6.6	5.3	5.8	5.8
T-bills 3 months (effective yield)	19.0	3.4	2.4	1.1	9.4	8.2
T-bills 6 months (effective yield)	25.5	7.5	2.8	3.1	16.2	9.7
T-bills 12 months (effective yield)	25.8	9.5	5.1	9.9	**30.2**	**21.2**
Gov. bond 1 year (effective yield)	20.0	6.0	5.0	5.0	5.0	5.0
Gov. bond 2 year (effective yield)				13.5	14.4	14.4
Lending (overdraft rate)	*21 -29*	*19.7 -25.3*	*19.23 -25.14*	*18.12 -24.80*	*17.92 -24.77*	*17.92 -24.78*

Source: BSL

However, the years of 2016 and 2017 are characterized with huge margin (see Table 15) between the commercial banks 12 months' effective rate and the effective rate on 1-year Treasury bills (T-bills).

2.2.7 Financial Soundness and Risks to the Banking Sector

The financial performance of the banking sector during 2012 - 2017 continued to remain strong despite the slowdown in GDP growth in 2017 (3.5%) compared to the growth in 2016 (6.3 %). Overall, as expressed by selected financial soundness indicators (FSI), the banking sector had been sound and stable during the period 2012 – 2017 (see Table 16).

Table 16: Selected Financial Soundness Indicators

Financial Soundness Indicators of the Banking Sector, 2012 - 2018, in percent, end of period

	2012	2013	2014	2015	2016	2017
Capital adequacy						
Regulatory capital ratio*/	27.7	30.1	30.2	34.0	30.7	34.2
Regulatory tier I capital ratio**/	12.5	13.6	25.9	29.0	25.9	26.5
Asset quality						
NPL to total gross loans	14.7	22.4	33.4	31.7	22.7	14.6
NPL (net of provisions) to regulatory capital	19.2	31.7	41.8	31.9	20.0	12.1
Earnings and profitability						
Return on assets	3.4	2.1	2.7	3.2	2.9	5.3
Return on equity	16.1	9.9	14.9	18.3	22.3	25.6
Liquidity						
Ratio of net loans to total deposits	33.9	32.4	27.8	24.4	24.4	19.2
Liquidity ratio***/	40.7	72.5	78.9	83.3	85.5	66.9
Statutory minimum liquidity ratio***/****/	54.9	29.3	29.7	30.4	30.1	33.0
Share of foreign exchange deposits in total deposits	40.8	38.5	26.5	32.0	38.9	37.1

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

**/Core capital (Tier I) 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

****/Efffective 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

2.2.8 Earnings, profitability and efficiency

Income growth had been sustained, averaging 11.57 per cent during 2012-2017 with marked increase in 2017. Likewise, operating expenses had been in the same trajectory, averaging 9.64 per cent over the same period.

Table 17: Banking sector income and expenses (Lebn)

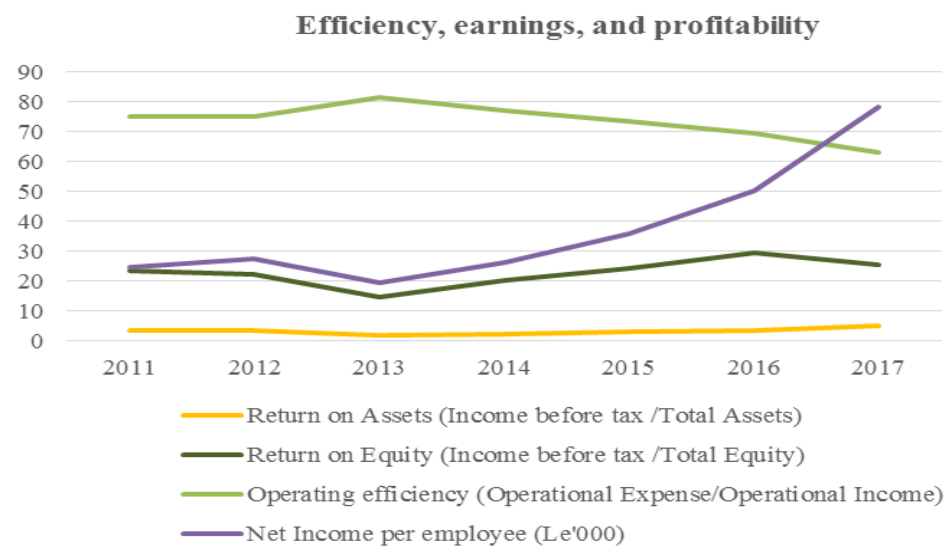
Banking Sector Income and Expense						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Net Operating Income	109.79	79.74	109.07	148.60	209.93	340.68
Total Operating Income	436.98	432.32	471.59	560.34	689.30	920.96
Other Operating Expense	(327.19)	(352.59)	(362.52)	(411.74)	(479.38)	(580.28)
Net Intermediating Income	266.26	245.23	194.38	192.25	334.74	596.59
Net Interest Income	293.58	280.53	219.53	218.20	378.58	632.71
Interest Income	392.91	381.41	282.67	266.88	453.35	737.74
Interest Expense	(99.33)	(100.89)	(63.13)	(48.68)	(74.76)	(105.03)
Loan Loss Provision	(27.32)	(35.30)	(25.16)	(25.95)	(43.85)	(36.12)
Other Operating Income	170.72	187.09	277.21	368.09	354.57	324.37
Other Income	11.65	6.11	8.08	9.79	7.16	44.18
Profit before tax	121.44	85.85	117.15	158.39	217.09	383.70
Taxation	(35.36)	(28.29)	(34.55)	(47.52)	(65.13)	(115.46)
Profit after tax	86.08	57.56	82.60	110.87	151.96	268.24
Extraordinary item	(4.21)	(3.05)	0.00	0.00	0.00	0.00
Retained Profit / Loss	81.87	22.27	82.60	110.87	151.96	269.41
% Change of income		(0.12)	(1.17)	11.91	20.90	26.32
% Change of operating expenses		5.39	(6.53)	9.09	19.49	20.76

Source: BSL

The key indicators of profitability of the banking sector were positive. The return on asset (ROA) was at 5.3 per cent in 2017 compared to 3.43 per cent in 2016, while return on equity (ROE) was at 25.6 per cent in 2017, compared to 27.55 per cent in 2016.

The improvement in the ROE after 2013 to 2016 was mainly due to an increase in income from commissions and fees and the introduction of new financial products in the industry such as Card transaction, POS machines, and mobile money transfers. The general efficiency indicator, calculated as a share of operational expenses to operational income ratio, remained low during the period, and was at 63.01 per cent in 2017. Also, the evolution in the net income per employee indicates that banking sector productivity has improved (see Figure 17).

Figure 17: Selected earnings, profitability, and efficiency indicators



Source: BSL

2.2.9 Banking Sector Key Risks

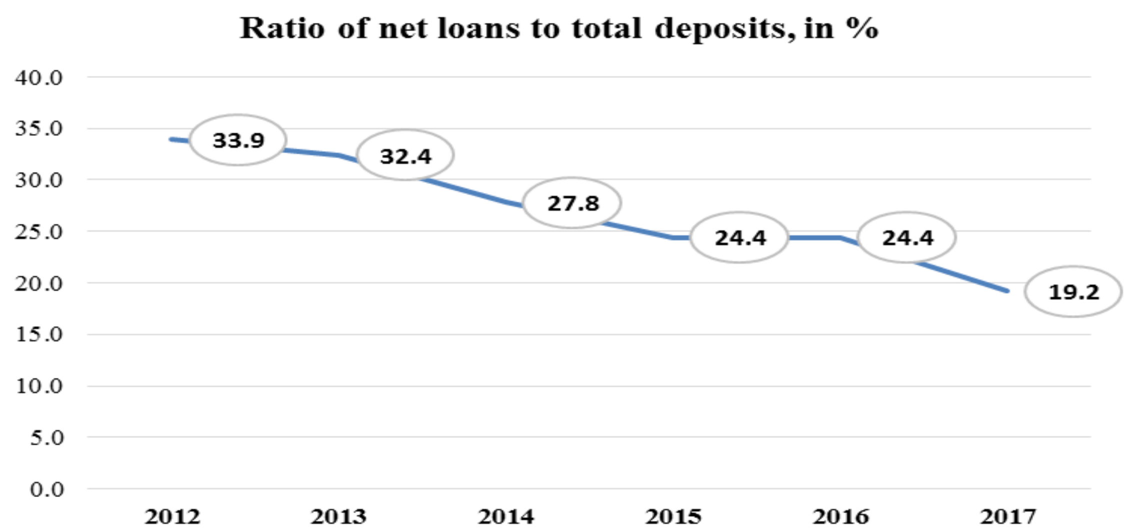
Though the banking sector in Sierra Leone is relatively stable and sound, it continues to be exposed to risks from other sectors of the economy. At the same time, some risks stemmed within the banking sector that could pose challenges to other sectors of the economy.

2.2.9.1 Linkages from Macro to Financial System and vice versa.

The high sectoral loan concentration (2017: commerce and finance 33.7 per cent; business services 19.1 per cent, and construction 11.3 per cent), relatively high ratio of NPLs (2016: 22.7 per cent; 2017: 14.6 per cent), and high degree of dollarization (2017: 37.15 per cent of deposits are foreign currency deposits) are key transmission channels of the risks from the real sector to the financial sector. As relates to the external sector, the banking sector of Sierra Leone has already experienced severe stress (economic shocks in 2014 and 2015) due to sharp decline in iron ore prices (2013: US$135.36/dmt; 2014: US$97.39/dmt; 2015: US$56.14/dmt) including most recent sharp decline in production of the iron ore. On the fiscal sector, continuous accumulation of arrears has already resulted in serious challenges to the quality of the commercial banks' loan portfolio.

As relates to the linkages from financial sector to other sectors of the economy, the overreliance of the banking sector on T-bills investments, especially its huge concentration on investment in 1-year T-bills (2017: 98.89 per cent) has made commercial banks less active in terms of delivering on their key mandate of financial deepening and inclusion. Consequently, the loan-to deposit ratio has persistently decreased since 2012 (see Figure 18).

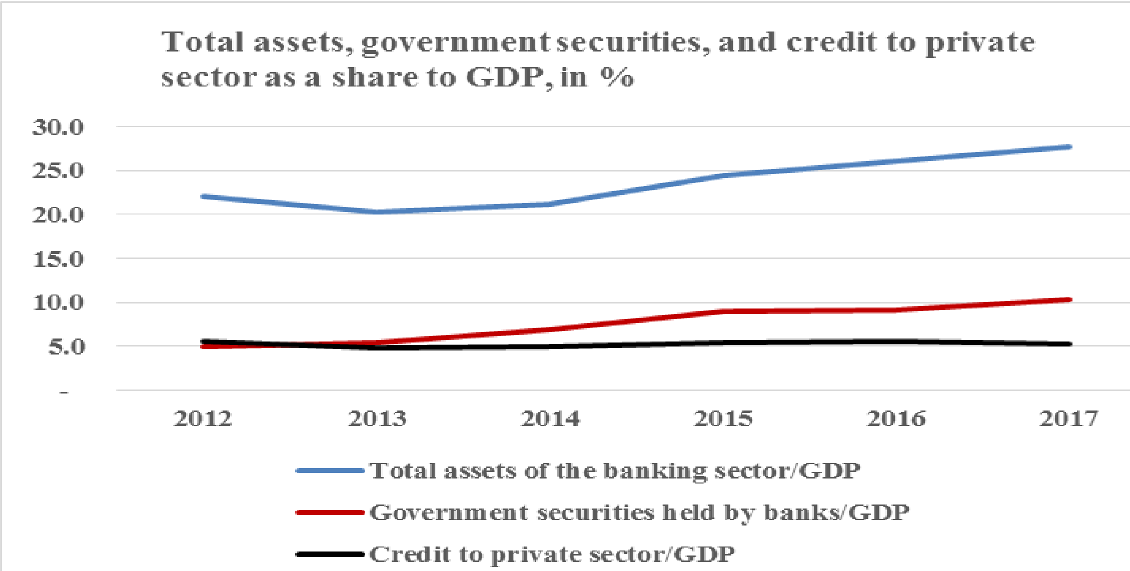
Figure 18: Ratio of net loans to total deposits 2012 - 2017



Source: BSL

Aimed at managing the potential transmission of risks from the financial sector to the fiscal sector (recapitalization), the BSL stepped in during 2017 with a prudential directive on NPLs write-offs accompanied with targeted on-site banks' examinations. Because of their treatment as risk-free and highly liquid assets, it is evident that overreliance of commercial banks on T-bills investment has been one of the key drivers of substantial improvement in core FSIs of the banking sector in Sierra Leone. However, a summarized picture (see Figure 19) of the evolution of total assets of the banking sector including its investment in government securities and credit to private sector as a share to GDP reveals that business model can evolve as a potential risk to the banking sector in the near to medium term, especially when taking into account the positive prospect of fiscal consolidation but also existing challenges regarding the environment for doing business[5].

Figure 19: Simplified current business model of the banking sector



Source: BSL

[5] The 2017 World Bank Doing Business report ranked Sierra Leone 148th out of 190 for ease of doing business and 87th for starting a business. For dealing with construction permits, it is ranked 132nd and for trading across borders, it is ranked 169th. The worst ranking, 176th, is for getting electricity. This is a vivid illustration of the infrastructure deficiencies in the country, and 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 87th position in 2017 over 99th position in 2016.

Box 4. Key Risks and Outlook to the Stability of the Banking Sector

Credit risk. Credit to private sector will resume as fiscal consolidation materializes. The decreasing trend of NPLs is encouraging. However, the slowdown in GDP growth, slow repayments of arrears and the sectoral concentration of loans remain a concern. Also, the write-offs directive may trigger 'moral hazard,' thus impacting the decreasing trend in NPLs.

Liquidity risk. Banks will continue investing in T-bills, and such investment remains solely concentrated (99.0 per cent of T-bills portfolio) on 1-year T-bills, it will reflect a *de iure* robust liquidity management, but *de facto* a risk of meeting unexpected customer withdrawals will remain. However, this T-bills conundrum is expected to decrease as fiscal consolidation materializes. The loan-to-deposit ratio is very low. In addition, banking sector is deposit based, so there are no wholesale funding liquidity risk.

Market risk. The Government is negotiating a new program (Extended Credit Facility) with IMF. An increase in foreign exchange inflows by development partners accompanied by foreign direct investments is expected to help maintain stable exchange rate. Aggregated and individual net open position in foreign currency will continue to be marginal because the foreign currency loans in Sierra Leone is at negligible level. Improvement in revenue collection has resulted in government deficits lower than budgeted. This may reduce government borrowing including interest rates on T-bills investments, resulting in decrease of banks' income.

Solvency risk. No significant risks in the near-term due to overreliance on investment in T-bills. However, potential challenges and pressures to the capital position will depend on the magnitude of the shift from investment in government securities to the credit to private sector.

Operational risk. Banks have embarked in the process of introducing technological innovations. This has increased banks' exposure to specific operational risk such as possible cyber-attacks, out servicing to third party service providers errors in systems. The BSL is monitoring these developments closely under its Financial Sector Development Plan and more specifically through operationalization of the risk based supervision and introduction of the Regulatory Sandbox that are planned for early 2018.

3.0 STRESS TEST ANALYSIS

Stress-testing has evolved into an important tool that helps assessing the sustainability of the banking sector to potential shocks in credit portfolio and liquidity position. These shocks may be originated within or outside the banking sector, dependent on country and sector specifics. With the technical assistance from IMF (MCM), the BSL has made first steps in developing the capacity for designing, developing and implementing single-factor sensitivity stress tests. Consequently, using the IMF's Stress Tester 3.0, the data of the banking sector of Sierra Leone for 2017 were used to assess the resilience of the banking sector to credit risk and forex risk. Overall, the results of stress-test analysis show satisfactory resilience of the banking sector to these risks.

3.1 Sustainability of the banking sector under the shocks to credit portfolio

Approach. The Baseline scenario analysis assumes a basic hypothetic scenario. An increase in the level of non-performing loans (NPL). We firstly assume an increase in NPL of 20 per cent and secondly by 40 per cent.

3.2 Sustainability of the banking sector under the shocks to foreign exchange depreciation

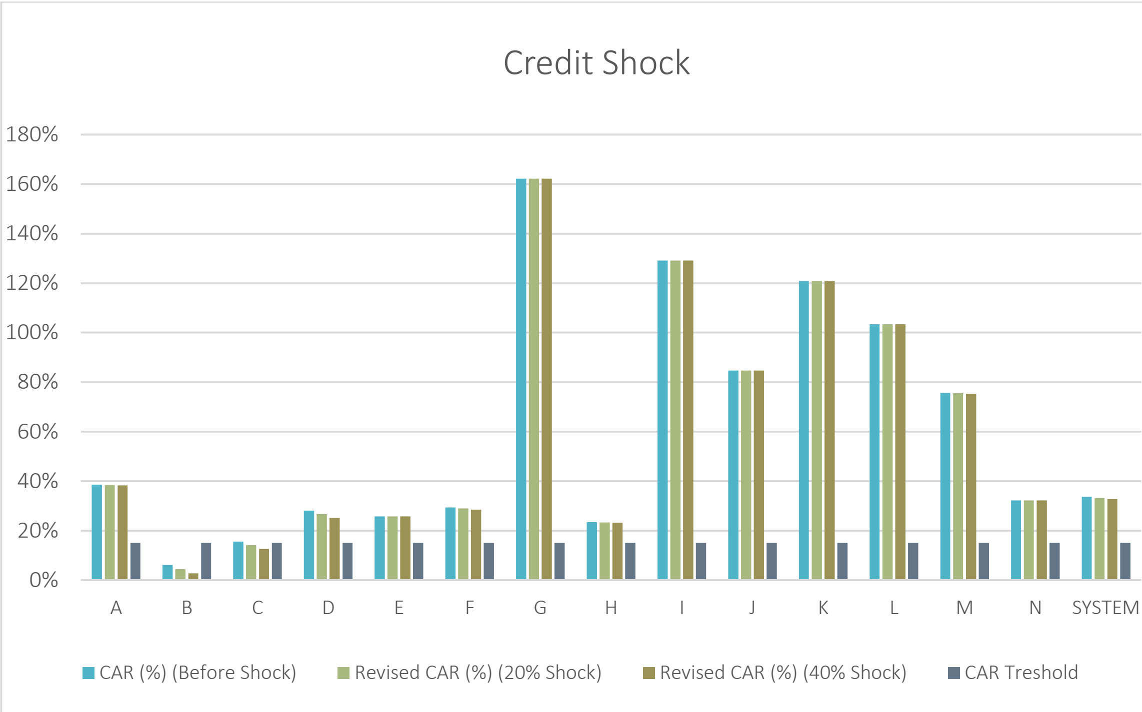
Similarly, we also assume the Baseline scenario for exchange rate assessment on the value of equity. The first and second rounds also assume 20 per cent and 40 per cent depreciation in foreign exchange.

3.3 Results

3.3.1 Credit Risk

As shown in the figure below, the state of Sierra Leone's banking sector viewed from the capitalization side remained quite resilient, with the capital adequacy ratio standing at 33.2 per cent (under the shock of 20 per cent increase in NPL) and 32.7 per cent (under the shock of 40 per cent increase in NPL). However the CAR of one bank is below the minimum threshold of 15 per cent before and after the shocks of 20 and 40 per cent, and another dropped below the threshold after the shocks. Certainly, the low level of exposure to the private sector alongside large investment in T-bills are key elements in shaping such strong capital adequacy ratio, which under both shocks, is far above the minimum regulatory requirement of 15 per cent.

Figure 20: Credit risk shock (data as of end 2017)

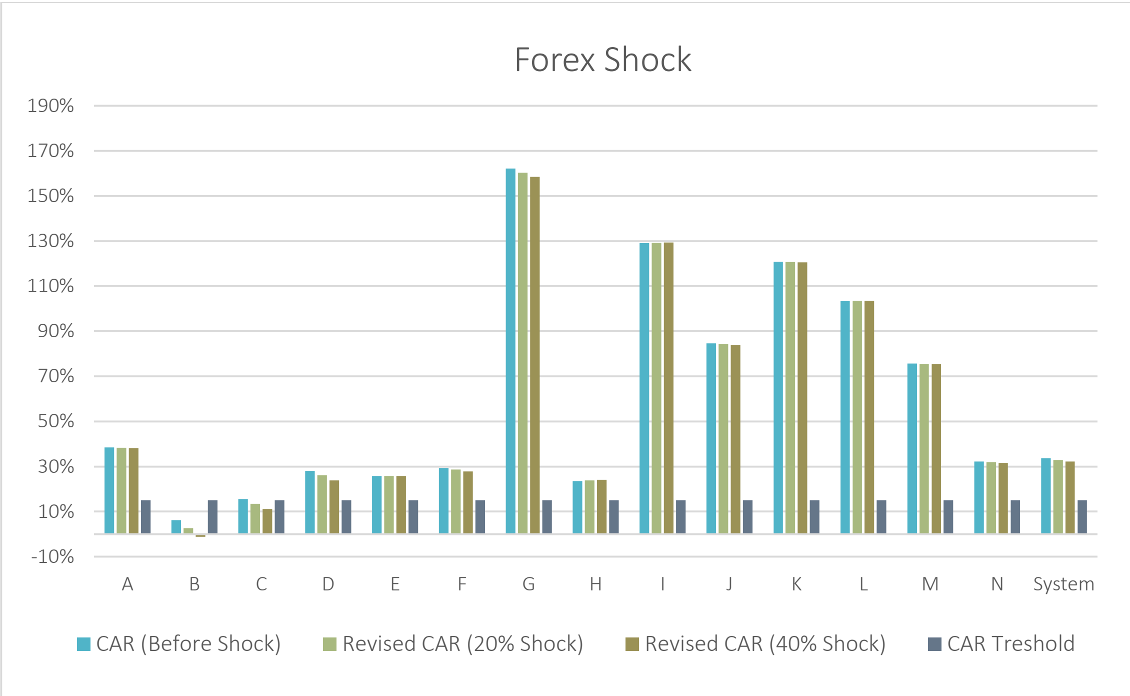


Source: BSL

3.3.2 Foreign Exchange Risk

Similarly, with the foreign exchange shock of 20 and 40 per cent, the CAR of the system remained resilient at 32.95 per cent and 32.28 per cent respectively above the minimum threshold of CAR. However, two banks fell below the minimum threshold after the 20 per cent shock and recorded a negative CAR after the 40 per cent shock.

Figure 21: Forex risk shock (data as of end 2017)



Source: BSL

4.0 OTHER NON-BANK FINANCIAL INSTITUTIONS

4.1 Other Financial Institutions

The number of microfinance institutions (MFIs) is growing continuously and overall, the other financial institutions (OFIs) are becoming important player in providing financial services to Micro, Small, and Medium Enterprises and lower income categories in Freetown and beyond. The total assets of OFIs amounted at Le289.46bn at the end of 2017, whereas total loan portfolio (excluding FSAs) reached at Le125.49bn.

The number of MFIs has reached at 23 (5 deposit taking MFIs, and 18 credit-only MFIs). In addition, the number of Financial Services Associations has increased from 51 in 2016 to 59 in 2017. Overall, as the number of OFIs is growing, there is an increase in outreach in terms of number of borrowers who reached close to 150,000 at the end of 2017.

4.2 Pension System

The National Social Security and Insurance Trust (NASSIT) strengthened its efforts to expand its coverage, collection of social security contributions and prudent management of assets portfolio during the review period. In its drive to extend its coverage, NASSIT has carried out a nation-wide consultation with key groups of the informal sector in order to encourage participation in the scheme. A total of 2,399 new members were added to the scheme during 2016, mostly from the formal private sector workers with employees from Western Area accounting for the bulk of the membership. The total amount of social security contributions grew by 7.6 per cent to Le347.72 billion, while benefit payments amounted to Le80.26 billion. The portfolio of the trust is well diversified as following:

- On-going Real Estate projects (31.5 per cent),
- Corporate Debentures (19.8 per cent),
- Equity investment (14.4 per cent),
- Fixed Deposit (11.3 per cent),
- Government securities (12.0 per cent),
- Call Deposit (8.2 per cent) and
- Land Property (2.8 per cent).

4.3 Insurance Sector

There were 11 insurance companies operating in Sierra Leone at the end of 2017. While insurance companies are going through the process of market positioning, there has been a significant growth in the insurance premium income in both the life and non-life business. The insurance industry witnessed the passage of the Insurance Act 2016 into law in July 2016. The reviewed Act aims at introducing several reforms to improve coverage, performance, capital base and sustainability of the industry. The law is also expected to strengthen the regulatory powers of SLICOM, enhance compliance with international standards and increase the capital base of insurance companies. However, the Commission is faced with challenges of inadequate logistics and training to perform its mandated functions effectively. A draft MoU between BSL and SLICOM has been prepared with the aim of ensuring quality and timely exchange of information on developments in the insurance industry.

4.4 The Sierra Leone Stock Exchange

The stock exchange received a boost when the Commerce and Mortgage Bank (formerly HFC), a subsidiary of NASSIT, and the First discount house were listed in addition to Rokel Commercial Bank, which had been the only listed company over the years. The current market capitalization is very low and is estimated to be around USD30 million. The weekly turnover ranges reportedly between 5 and 10 million Leones. There is no corporate bond market in Sierra Leone.

Plans are on the way for two other subsidiaries of NASSIT (from the hotel industry) to be listed on the stock exchange. Also, the Securities and Exchange Bill has been drafted and awaiting the signature of the Minister of Finance before its enactment into law, which will pave the way for the establishment of an effective Securities and Exchange Commission.

5.0 FINANCIAL MARKET INFRASTRUCTURE IN SIERRA LEONE

5.1 Payments and securities settlement systems

Payments and securities settlement systems are very important to the smooth functioning of an economy. Therefore, the BSL is charged with the responsibility of establishing, promoting, licensing and overseeing sound and efficient payments and securities settlement systems. In line with the above, the BSL in 2013 made aggressive strides in the modernization of its payments and securities settlement systems with the objective of improving the efficiency of financial intermediation, enhancing the mitigation of systemic risk and liquidity management amongst others. In collaboration with its partners, WAMI, AfDB, World Bank and the commercial banks, the BSL made tremendous achievements in the automation of the following components of the WAMZ Payments Systems Development Project (see Box 5).

Box 5. Automation of the Sierra Leone Payments System

Modern Core Banking Application. The BSL core system has provided efficiency in transactions processing including adequate controls in the daily operations of the BSL. It hosts the current accounts of all BSL's customers such as Ministries, Departments and Agencies (MDAs), Commercial banks, Special Projects and other and is interfaced with all the other systems including the BSL's General Ledger.

Real Time Gross Settlement (RTGS) system. The RTGS system is operationalized for large value payments in the interbank market in which all commercial banks and BSL participate. Participants can operate their accounts in real time from their own premises via computerized network between BSL and themselves. In Sierra Leone, Large Value Payments are considered payments above Le50,000,000.00. The RTGS provides also a medium for the settlement of clearing and securities transactions. It allows secured message sending and receiving through SWIFT format messaging. Banks can settle transactions affecting their accounts at the BSL (interbank lending/lending) immediately after the terms of the transaction have been agreed upon and executed between the banks. However, before the funds transfer can take place, the bank sending the debit instruction must have sufficient balance available in its account.Settlement of interbank funds transfer in this system is final on a continuous, transaction–by–transaction basis throughout the processing day.

Automated Clearing House (ACH). The ACH which went live on 5th August 2013 is a system for the processing of low value, high volume electronic transactions involving cheques, direct credits and direct debits, with all participants (BSL and all commercial banks) fully active in this system. In Sierra Leone, low value payments refer to payments with values of Le50, 000,000.00 and below.

Automated Cheque Processing (ACP). The major payment instrument (cheques) of the banking industry was standardized to facilitate the functions of the ACH. Machine readable MICR encoded cheques are now being used for the electronic processing and clearing of these instruments. All commercial banks and BSL procured scanners for the scanning of cheques for processing and clearing in the ACH system. The introduction of standardized cheques has provided more controls in the payment process. The chance of fraud is minimized since, vital data concerning the cheques are being exchanged electronically. This has to a greater extent, brought efficiency, accuracy, and ensuring best internal control, coverage of risk and also a reduction in the turnaround time for the stakeholders.

Scriptless Securities Settlement (SSS) system. This system which is a computer based system is used to conduct auctions and settlement of securities transactions electronically in real-time on a "Delivery Versus Payment" (DvP) basis. It is a platform for processing Treasury Bills and Bonds and Bids are submitted through this system. This system has created efficiency in the securities market by reducing the time needed to process these transactions as well as making available ready data for the conduct of monetary policy.

For all of these Payments Solutions (ACP/ACH, RTGS, SSS and CBA) to work effectively, the Bank of Sierra Leone has in place the right network and physical infrastructure including monitoring tools. This is in line with international best practice as it ensures:

Availability – the payments platforms are always accessible as there is in place alternate power supply systems which render them fully operational and uninterrupted 24|7.

Security – firewalls and anti-virus systems which will protect the network from intruders and viruses/malicious attacks.

Redundancy - adequate resources backup and state of the art disaster recovery site (fully connected to all commercial banks) is in place to ensure business continuity in the event of a disaster at the main site.

Constant Connectivity with all commercial banks and the Backup/Disaster Recovery Site. Disaster Recovery (DR) Site – The BSL has a state of the art DR Site which is currently operational and synchronized with the Main Site. This Site is fully powered and has direct connectivity with the main site which makes data replication seamless.

Table 18: Payment Transactions 2015 – 2017

Payment System of Sierra Leone			
	2015	**2016**	**2017**
Real Time Gross Settlement (RTGS) System			
Volume RTGS	126,884	117,314	79,719
Value RTGS (Le trn)	24.50	27.15	48.47
Automated Clearing House (ACH) Cheques			
Volume ACH Cheques	229,663	374,000	206,568
Value ACH Cheques (Le trn)	2.55	2.31	2.28
Automated Clearing House (ACH) Direct Credit			
Volume ACH Direct Credit	128,483	246,984	166,003
Value ACH Direct Credit (Le trn)	0.55	0.56	0.75

Source: Banking Department, BSL

While the number of total payment transactions executed through RTGS and ACH (cheques and Credit Direct) has decreased from 38.74 per cent compared to the total transaction in 2016, the total value of payments executed through RTGS and ACH (cheques and Credit Direct) has been significantly higher in 2017 (71.5 per cent) compared to 2016. In particular, while the value of payments using cheques hasn't changed substantially during 2015 – 2017, the volume of cheuqes decreased significantly by 44.77 per cent in 2017 compared to the volume in 2016. In addition, the value of payment transactions using Direct Credit has been 33.1 per cent higher in 2017 compare to 2016, showing a positive shift in preference for payment instruments.

Measured by the number of Automated Teller Machines (ATM) and Point-of-Sales (POS), it is evident that payments infrastructure in the country continues to expand. However, the volume and the value of transactions using ATMs and POSs is still too low.

Table 19: Number of ATMs and POSs, volume and value of transactions

Payments infrastructure: transactions using ATMs and POSs					
	2013	**2014**	**2015**	**2016**	**2017**
Number of ATMs	50	59	69	71	43
Number of POSs	20	72	130	150	32
Volume of ATM Transactions	437,761	303,840	730,803	370,726	530,342
Volume of POS Transactions	2,456	5,143	11,509	23,981	6,773
Value of ATM Transactions (Le mn)	54.78	63.01	154.38	69.53	102.11
Value of POS Transactions (Le mn)	7.37	13.10	25.86	34.35	5.67

Source: Banking Department, BSL

5.2 Other Relevant Developments

5.2.1 Correspondent Banking Relationship

A study was conducted by the Banking Supervision Department to determine the level of impact and offer recommendations on possible solutions.

5.2.2 Local Liquid Assets Ratio (LLAR)

The Banking Supervision Department carried out a survey aimed at ensuring compliance of the commercial banks with LLAR ratio.

5.2.3 Stress Testing

A team comprising staff from the Research, Banking Supervision, and Financial Markets departments have designed a framework for stress testing on commercial banks and the financial system in Sierra Leone. The framework has been approved by the Governors. The stress testing exercise has already commenced. In addition, a two-week hands on workshop on stress testing was provided to 25 BSL' staff by the IMF/MCM expert, during July 3 – 14, 2017.

5.2.4 Regional/international conference on 'Financial Stability in Sierra Leone

A conference outlining the roadmap for financial stability in Sierra Leone was organized in Freetown, on July 3rd 2017. The agenda covered high profile of presenters from Government of Sierra Leone, BSL, IMF, and Central Bank of Nigeria. The event was attended by more than 100 participants from commercial banks, insurance industry, other financial institutions, the BSL, and local and international development partners of Sierra Leone.

5.2.5 Financial System Regulatory Framework

The BSL continued to implement key reforms to improve the financial environment with the aim of deepening financial markets and strengthen the stability of the banking sector. Some of the reforms include the following:-

- Aimed to assess its actual impact on improving transparency of loan pricing, the model for computation of the base rate was reviewed in coordination with commercial banks.

- The BSL and Banking Acts were reviewed and their amendments are expected to be approved by Parliament during 2018. In addition, the Other Financial Institutions Act, 2001 and Prudential Guidelines for banks were reviewed too. A Credit Administration Bill was also being drafted by the Bank to improve credit risk management in the banks.

- The Collateral Registry User Acceptance Tests 1 & 2 have been completed and the system has gone live, with the resultant effect of improving transparency and information disclosure in the credit market, encourage moveable asset - based lending and speedy enforcement of credit contracts, largely through extra-judicial means in line with Borrowers and Lenders Act of 2014.

- The automation of the prudential reporting to the banking supervision development was completed through introduction of the vRegCoSS software.

5.2.6 Competition and Consumer Protection

The implementation of Competition and Consumer Protection Policies continued during the review period. Cabinet had approved the Competition and Consumer Protection Policies and a bill has been submitted to parliament. The Bill provides for the establishment of a Competition Bureau and Consumer Protection Commission, which would be responsible for the implementation and enforcement of relevant legislation concerning competition and consumer protection.

5.2.7 Standards and Quality Control

The Sierra Leone Standards Bureau continued the implementation of National Quality Policy and Quality Infrastructure within the framework of the ECOWAS Standards Harmonization Model (ECOSHAM). The country had adopted and gazetted 133 out of the 250 standards of the International Standards Organization (ISO) on agriculture, food, petroleum products and services. To date, 27 Regional African Standards Organization (ARSO) in the areas of food and agriculture had been approved and adopted as national standards while 105 were at drafting stages. A Product Certification scheme had been established and a quality mark for all products that meet the approved standards was being developed.

5.2.8 ECOWAS National Coordination Committee (NCC)

The National Coordinating Committee (NCC) Secretariat remained operational under the supervision of the NCC Chairman. The Bilingual Secretary that was recruited in 2016 assumed duty in January 2017. No formal NCC sensitization activity took place during the period under review. However, major stakeholders of the NCC, including MoFED, BSL, SSL and NRA, met regularly to review and validate the economic and financial situation report of the country, compiled by the Macroeconomist. The NCC Sierra Leone had prepared its program of activities for 2017 and communicated to ECOWAS Commission.