

## **A. ANNUAL REPORT 2013**

### **1. Review of the Economy**

Spurred by sustained implementation of sound macroeconomic policies and continuing favourable relationship with its development partners, the overall performance of the Sierra Leonean economy in 2013 was impressive. Growth in real Gross Domestic Product (GDP) in 2013 is estimated at 20.1 percent compared to 15.2 percent in 2012. This was driven mainly by expansion in iron ore production and other mining activity supported by strong growth in agriculture, construction and services. Growth in the manufacturing sector was adversely affected by difficulties in power supply occasioned by technical challenges at the Bumbuna hydroelectric power station. Growth in non-iron ore GDP is estimated at 5.5 percent in 2013 up from 5.2 percent in 2012. The economy also experienced a steady decline in consumer price inflation attributable to the relative stability in the exchange rate and international commodity prices, a tight monetary policy and increased domestic food production. Domestic interest rates hit a new record low, and export performance strengthened as inflows of foreign direct investments increased during the reporting year.

Real sector activities during the review period recorded mixed performance as reflected in increases in output levels in the mining, agriculture, and services sub-sectors. Electricity generation declined by 7.98 percent from 178.38 GW/hr in 2012 to 164.13 GW/hr in 2013 which had adverse implications for output in manufacturing.

The national annual inflation rate as measured by the year-on-year change in Consumer Price Index (CPI) declined from 11.41 percent in December 2012 to 8.23 percent in December 2013. Headline inflation attained single digit of 9.5 percent in July 2013, being the first time after a fairly long period of time. It declined consistently thereafter to close the year at 8.23 percent. This phenomenon which was largely reflective of stability in the international prices of food and petroleum products was mainly attributable to the relative stability of the exchange rate, improved domestic food supply and the proactive tight monetary policy stance of the Central Bank of Sierra Leone, supported by prudent fiscal policy.

Fiscal consolidation continued with the Government's Budget for 2013 containing measures for socio-economic reforms to improve pro-poor service delivery and strengthen public expenditure management. Total revenue including grants decreased to 12.87 percent of GDP in 2013 compared to 13.66 percent in 2012. Domestic Revenue as a percentage of GDP also fell to 10.86 percent in 2013 from 11.35 percent in 2012. Government spending was recorded at 13.62 percent of GDP in 2013 compared to 16.51 percent recorded in 2012, resulting in the narrowing of the budget deficit including grants from 2.85 percent in 2012 to 0.75 percent of GDP in 2013. The deficit excluding grants also narrowed to 2.77 percent of GDP in 2013 from 5.16 percent in 2012.

The primary objective of monetary policy during 2013 was to deliver on single digit inflation consistent with overall economic growth and financial stability. In line with the strong growth in real GDP recorded in 2013, Monetary Policy during the reporting period remained expansionary, as monetary aggregates continued to grow during the review period, though at a slower pace compared to the preceding year. Broad Money growth rate declined from 23.13 percent in 2012 to 11.13 percent in 2013 while Reserve Money growth rate similarly declined from 18.53 percent in 2012 to 17.57 percent in the review period. The Monetary Policy Rate (MPR) was adjusted significantly downwards in stages from 20

percent in December 2012 to 10 percent in December 2013 on account of the favourable outlook to inflation, the declining trends in money market rates, and to support broad based macroeconomic growth.

The financial system at end 2013 comprised the Central Bank, thirteen (13) commercial banks, two (2) discount houses, seventeen (17) community banks, fifty one (51) Financial Services Associations (FSAs), ten (10) licensed microfinance institutions (2 Deposit-taking & 8 Credit-only) and thirty nine (39) registered foreign exchange bureaux. The banking sector continued to remain safe, stable and sound, thereby reflecting the impact of robust financial sector reform measures put in place during the year. Credit to the private sector by commercial banks expanded by 11.32 percent, from Le888.06bn at end December 2012 to Le988.55bn at end December 2013, reflecting growth in economic activity despite Government's temporary suspension of new borrowing during the first half of the year 2013.

In spite of developments in the global environment in 2013, the external sector performance of the country during the review period improved significantly resulting in a marked yearly trade surplus of US\$134.13mn in 2013, compared to a trade deficit of US\$495.00mn in the previous year. This represented a US\$792.21mn (70.62%) expansion in export earnings which more than offset the 11 percent increase in spending on imports. The exchange rate of the Leone viz-a-viz the United States Dollar was relatively stable throughout the reporting year. The difference in premium between the Official exchange rate and the Parallel market rate narrowed by 0.78 percent. It moved from Le35.21/US\$1 in 2012 to Le33.69/US\$1 in 2013. The gross external reserves position of the Bank of Sierra Leone improved by 13.65 percent from US\$417.93mn recorded in December 2012 to US\$474.96mn in December 2013, sufficient enough to cover at least 3 months of imports. The increase was due to excess of cumulative inflows (US\$170.13mn) over outflows (US\$116.24mn) during the review year. The stock of external debt increased further from US\$932.20mn at end December 2012 to US\$1,026.00mn at end December 2013.

The Executive Board of the International Monetary Fund (IMF) approved in October 2013, the country's new three-year economic and financial programme supported under the Extended Credit Facility (ECF) arrangement in an amount equivalent to US\$ 95.9 million. The programme aims to scale-up investment in infrastructure, energy and provide adequate basic social services while implementing policies that consolidate macroeconomic stability. In a related development, the European Union (EU) and the United Nations Children's Fund (UNICEF) signed a Memorandum of Understanding with the Government of Sierra Leone for a grant in the sum of •24 million, for reduction of child mortality and overall improvement in the health status of children and women in Sierra Leone. Also, the African Development Bank (AfDB) approved the sum of US\$28 million in support of the Ministry of Health and Sanitation's project to provide medical equipment, consumables and communication equipment for the ministry. The United Nations Population Fund (UNFPA) is the implementing partner of the project.

Sierra Leone's performance under the WAMZ Convergence Criteria in 2013 indicated that the country satisfied all four primary criteria: *single digit inflation; fiscal deficit excluding grants as a percentage of GDP not exceeding 4%; Central Bank Financing of Fiscal Deficit as a percentage of previous year's tax revenue not exceeding 10% and Gross External Reserves (in months of imports) of at least 3 months.* The country also met one of the secondary criteria –*Public investment from tax revenue of at least 20%.*

## 2. Real Sector Developments

Real sector activities during the review period recorded mixed performance. In the mining sector, except for bauxite and gold, output levels of all other minerals increased relative to the preceding year, 2012. In the agriculture sector, indications were that food self-sufficiency was broadly achieved during the year but for the negative effect of structural challenges, such as processing and transportation of produce to the market, which adversely affected the overall outcome. Estimates from the Ministry of Agriculture, Forestry and Food Security indicated that paddy rice production, cassava, sweet potato, maize and groundnut, all reflected increased output. In the manufacturing sector, most of the products except maltina and common soap increased in their output levels compared to that in 2012. The number of arrivals used as a proxy for tourism also indicated positive growth. Electricity generation declined by 7.98 percent from 178.38 GW/hr in 2012 to 164.13 GW/hr in 2013. Major strides were recorded in the communication sector both at the domestic and international levels with the ‘go live’ of the fibre optic project. SIERRATEL, a state-owned telecommunications company, is currently running underground cable connections from their office location in Freetown to the landing site in Aberdeen, for distribution of the fibre optic cables in the city of Freetown and the rest of the country. In another development, SIERRATEL provided the EVDO internet service, described as a high speed internet access service. The launching of the fibre optic cable has therefore doubled the country’s internet speed and efficiency of service provision during the review period.

### 2.1 Gross Domestic Product (GDP)

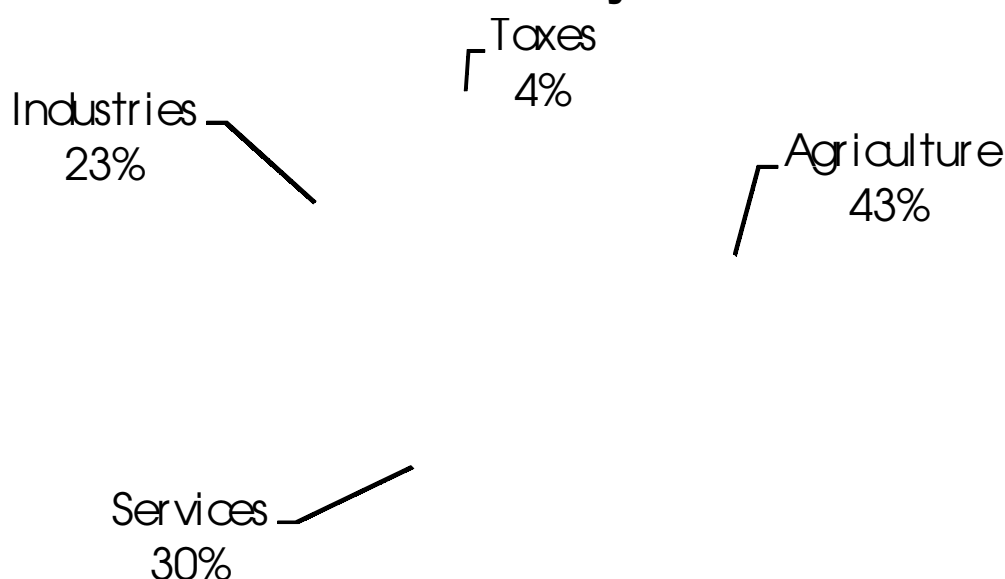
Economic expansion in Sierra Leone in 2013 resulted in estimated real GDP of Le 10,133.85bn, representing a growth rate of 20.1 percent, compared to 15.2 percent in 2012. The expansion was broad-based, registering positive growth by all sectors of the economy (Table 1). The Industry sector recorded 62.44 percent growth rate followed by the Services sector with a growth rate of 5.63 percent while Agriculture sector grew by 4.48 percent. Expansion in the Industry sector was mainly attributable to the 84.16 percent growth in the mining sub-sector of which, iron ore production grew by 112.74 percent. The Manufacturing sub-sector grew by 8.71 percent. Growth in the Services sector was attributable to the 10.56 percent expansion in administration of public services and the 7.73 percent growth in Trade and Tourism. The Agriculture sector growth on the other hand, was boosted by a 5.05 percent growth in crops production. Non-Iron Ore GDP growth rate in 2013 is estimated at 5.2 percent compared to 5.3 percent in 2012 and 5.8 percent in 2011.

**Table 1**

### **Gross Domestic Product by Sector** (Annual percentage change)

<b>S e c t o r</b>	<b>2 0 1 1</b>	<b>2 0 1 2</b>	<b>2 0 1 3</b>
Agriculture	4.89	3.85	4.48
Industry	10.16	127.47	62.44
Services	6.51	6.08	5.63
G D P	6.00	15.20	20.10

Non-Iron Ore GDP growth rate in 2013 is estimated at 5.2 percent compared to 5.3 percent in 2012 and 5.8 percent in 2011.

**Chart 1 – Share of GDP by Sector - 2013**

In terms of share to GDP, agriculture, being a key economic activity in Sierra Leone, recorded a 43.01 percent share, services sector had the second largest share of 30.07 percent while industry, despite it recording the highest annual percentage change had a share of 23.81 percent.

### 2.1.1 Agriculture

Agriculture remains the backbone of the economy providing significant opportunities for investment, employment for over 70 percent of the population, revenue generation and economic growth. Agriculture constitutes the bedrock for achieving food security in the country. Consequently, government's allocation to agriculture in 2013 amounted to 10 percent of total government expenditure for the year. Le24.5 billion was allocated from the recurrent budget to agriculture, of which Le17.7 billion was meant to support food security activities. In addition, Le13.2 billion was allocated as transfers to Local Councils to support agricultural activities in rural areas. Furthermore, disbursements in the sum of Le129.3 billion was expected from the country's development partners, to support the implementation of various agricultural projects including the Small Holder Commercialization Programme, the Agriculture Sector Rehabilitation Project, the Nerica Rice Dissemination Project, and the Rural and Private Sector Development Project. The Small Holder Commercialization Programme which is a government initiative seeks to uplift the status of Sierra Leonean farmers from subsistence farming to one of small and/or large scale commercial farming with a view to increasing market surplus and enhanced income.

Cocoa production during the year declined by 35.28 percent to 41.13 thousand metric tons, down from 63.55 thousand metric tons reported in the previous year. The drop in cocoa production was largely indicative of unfavorable weather conditions, coupled with the ageing of existing cocoa trees.

According to production estimates for rice and other crops from the Ministry of Agriculture, Forestry and Food Security (MAFFS), paddy rice production is projected to increase by 10 percent to 1.26 million metric tons, from 1.14 million metric tons in 2012. Cassava production is projected at 3.81 million metric tons, 5 percent up from 3.59 million metric tons in the preceding year; while sweet potato, maize and groundnut are projected to grow by 2 percent. Sweet potato production was recorded at 0.23 million metric tons; maize production at 0.04 million metric tons and ground nut

production at 0.08 million metric tons. The increased growth in production of the various crops was explained by interventions such as support to Farmer Based Organizations with fertilizers, tractors and financial services, rehabilitation of feeder roads linking producers to markets, provision of improved seedlings, and intensive cultivation methods using tractors and power tillers.

<b>Production</b>					
		<b>Jan-Dec '12</b>	<b>Jan-Jun'13</b>	<b>Jul-Dec'13</b>	<b>Jan-Dec '13</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Minerals</b>					
Diamonds	000' carats	532.56	331.47	273.27	604.74
<i>Gem</i>	'000 carats	409.52	121.44	187.17	308.61
<i>Industrial</i>	'000 carats	123.03	210.03	86.10	296.13
Bauxite	000' M tons	734.48	358.32	185.06	543.38
Rutile	000' M tons	94.49	51.99	68.36	120.35
Ilmenite	000' M tons	21.40	14.96	17.39	32.35
Gold	000' Ounces	4.53	1.77	1.33	3.10
Zircon	000' M tons	0.61	1.31	1.64	2.95
Iron Ore	000' M tons	5,203.49	3,165.30	8,729.28	11,894.57
Other Minerals	'000 M Tons				
<b>Agriculture</b>					
Coffee	M tons	3.17	-	-	-
Cocoa	M tons	63.55	0.72	40.41	41.13
<b>Manufactured Goods</b>					
Beer and Stout	000' Cartons	791.92	391.64	443.95	835.59
Maltina	000' Cartons	323.21	155.48	117.63	273.11
Acetylene	000' cu.ft	190.61	111.64	123.51	235.15
Oxygen	000' cu.ft	238.74	125.50	147.40	272.90
Confectionery	000' lbs	3,164.50	1,350.69	1,796.10	3,146.79
Common Soap	000' M tons	723.20	222.91	326.63	549.54
Soft drinks	000' crates	1,928.98	1,301.53	1,785.00	3,086.53
Paint	000' gals	202.07	132.08	100.82	232.90
Cement	000' M tons	310.07	179.23	134.15	313.38
Flour	000' M tons	2.97	-	-	-
<b>Services</b>					
Electricity	GW/hr				
Unit Generated	GW/hr	178.37	76.75	87.65	164.39
Industrial Consumption	GW/hr	26.42	10.41	18.53	28.94
Domestic Consumption	GW/hr	31.02	4.78	4.23	9.01
Commercial Consumption	GW/hr	18.30	7.18	6.34	13.52
Government Consumption	GW/hr	-	8.94	8.46	17.40

Sources: Manufacturing Establishments

### 2.1.2 Manufacturing

Performance in the manufacturing sector was mixed during the year, with most items recording growth in their production levels. The production of beer & stout increased by 5.51 percent to 835.59 thousand cartons, whilst soft drinks production grew by 60.01 percent to 3,086.53 thousand crates. The increases in production of beer & stout and soft drinks were explained by the increase in consumer demand for beverages. Similarly, production increases were recorded for acetylene and oxygen, reflecting increased welding activities during the year. Acetylene production rose by 23.37 percent to 235.15 thousand cubic feet, while oxygen upped by 14.31 percent to 272.90 thousand cubic feet. Paint and cement also posted increases in production levels, on account of availability of raw material inputs. While paint production grew by 15.26 percent to 232.90 thousand gallons, cement production was up by 1.07 percent to 313.38 thousand metric tons during the year.

Meanwhile, declines in production levels were also recorded for maltina, confectionery and common soap, on account of limited supply of raw materials coupled with increased competition from imported brands. The production of maltina was recorded at 273.11 thousand cartons, down by 15.50 percent; common soap production fell by 24.01 percent to 549.54 thousand metric tons, and confectionery by 0.56 percent to 3,146.79 thousand pounds.

Half yearly performance report indicated that production of most manufactured items recorded increases in the second half of 2013. Products such as beer & stout, acetylene, oxygen, confectionery, common soap and soft drinks posted higher production levels in the second half of 2013, whilst maltina, paint and cement recorded high production levels in the first half of 2013.

Year	Gold (ounces)	Diamond (Carats)	Bauxite (M tons)	Rutile (M tons)	Ilmenite (M tons)	Zircon (M tons)	Iron Ore (M tons)
2008	6,152.69	371,285.31	954,370.01	78,908.00	17,258.00	-	-
2009	5,356.46	400,371.72	742,817.00	63,864.00	15,201.00	-	-
2010	8,690.22	437,552.04	1,089,131.00	68,198.00	18,206.00	-	-
2011	5,284.15	355,337.18	1,457,505.66	67,970.00	14,576.00	8,354.00	339,327.00
2012	4,534.53	532,555.62	734,483.00	94,493.00	21,401.02	612.00	4,648,977.07
2013	3,099.41	604,739.85	543,378.39	120,349.00	32,350.00	2,951.00	11,894,574.00

- not applicable

SOURCE: Government Diamond Department

### 2.1.3 Mining

During the review period, the National Minerals Agency (NMA) was launched on 7<sup>th</sup> March 2013. The purpose of establishing the NMA is to ensure transparency and sustainable development in mining sector activity as well as maximize revenues and other receipts from the sector for the benefit of all Sierra Leoneans. The sector continued to record positive contributions to growth in the economy, largely attributable to expansion in iron ore mining during the year.

Diamond production in 2013 was recorded at 604.74 thousand carats, according to the Government Gold and Diamond Department (GGD), reflecting a 14.50 percent increase over 2012. This total was made up of 308.61 thousand carats of gem diamonds and 296.13 thousand carats of industrial diamonds.

The overall growth in diamond production during the year was largely driven by the strong performance of Koidu Holdings Company Limited, the country's main diamond producer, coupled with general expansion in diamond activities as world market prices of diamond improved during the year.

Rutile, ilmenite, iron ore and zircon also recorded increases in production levels during the year. Rutile production grew by 27.37 percent to 120.35 thousand metric tons; ilmenite by 51.17 percent to 32.35 thousand metric tons; zircon was up by 2.34 thousand metric tons to 2.95 thousand metric tons; and iron ore by 128.59 percent to 11,894.57 thousand metric tons.

The increase in production of rutile, ilmenite and zircon was a result of improved maintenance and repair works carried out on the plants. Sierra Rutile Ltd, the main producer of rutile, shut down its operations for 21 days in April 2013, to overhaul its dredge and floating plant, and finished fine-tuning its new Lanti Dry Mining operations. As a result, the new Lanti Dry Mining started operating in excess of its designed capacity output of 3.5 million tons per annum. The significant increase in iron ore production was indicative of expansion in iron ore mining activity by the two main production companies - African Minerals Limited and London Mining Plc. Furthermore, the increase in production was driven, in part, by the 5.52 percent increase in the average annual price of iron ore, which in 2013 was estimated at US\$135.36 per dry metric ton. However, bauxite and gold production declined during the year. Bauxite production fell by 26.02 percent to 543.38 thousand metric tons, while gold production fell by 31.58 percent to 3.1 thousand carats in response to the 15.41 percent fall in the average annual global price of gold to US\$1,411.71/troy oz.

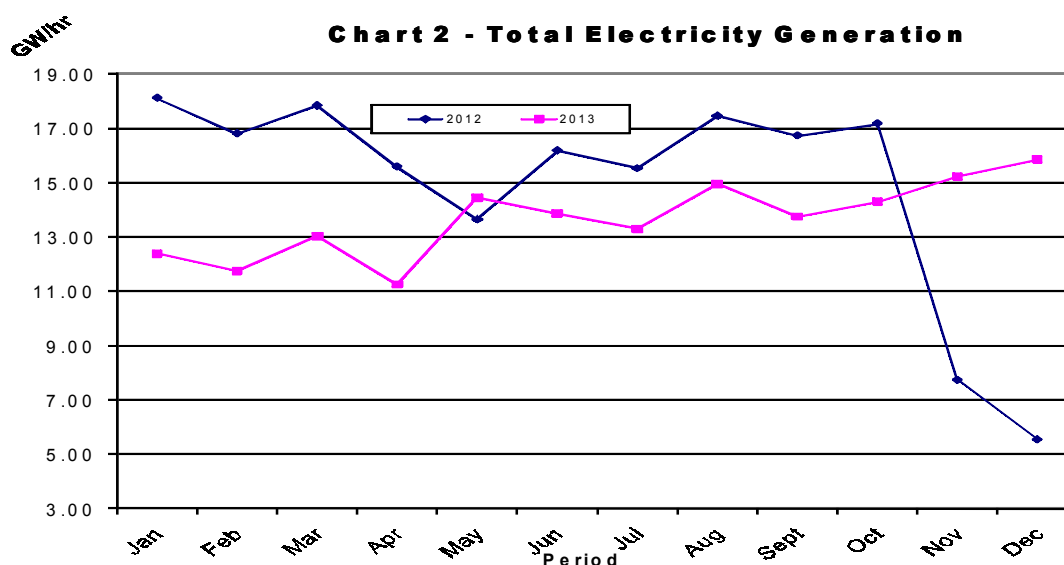
Comparative analysis of performance on half yearly basis revealed that production levels for diamond, bauxite and gold were higher in the first half of the review period than in the second, while that for rutile, ilmenite, iron ore and zircon were higher in the second half than in the first half of the year.

#### 2.1.4 Electricity Generation

An improved energy sector that enhances access to electricity constitutes an important driver of economic growth. To minimize the problems of sparse coverage, limited and unreliable electricity services in Sierra Leone, the World Bank approved the Energy Access Project on 31<sup>st</sup> January 2013. Subsequently, on 20<sup>th</sup> June 2013, the Government of Sierra Leone signed a grant agreement in the sum of US\$16 million with the World Bank for the improvement of Electricity Supply in Freetown and to also pilot rural electrification projects. The funding is an IDA grant from the Infrastructure Development funded under the Energy Access project which consists of three components; upgrading of the national grid in terms of capacity; enhancing an effective distribution network and a rural electrification component.

**Table 4**  
**Electricity Generation(Gw/h)**

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



The government of Sierra Leone allocated Le82.8 billion to the energy sector under the Public Investment Programme (PIP) to boost operations in the sector.

Electricity generation in 2013 amounted to 164.39 GW/hr, reflecting a 7.98 percent drop in performance compared to 2012. The decline in electricity generation during the year was mainly on account of delays in repairs and maintenance of malfunctioning turbines at the Bumbuna Hydroelectric Dam. The turbines were not operational at the end of 2012 causing erratic supply of electricity during the reporting year.

In terms of individual performance in power generation, the thermal plants combined, accounted for 36 percent of total electricity generation whilst the Bumbuna hydroelectric power accounted for 64 percent.

Electricity consumption for the year totaled 68.87 million kilowatt hours (kwh). Of which, government consumption amounted to million 17.40 million kmh, industrial consumption totaled 28.94 million kwh, domestic consumption was 9.01 million kwh and commercial consumption was 13.52 million kwh.

### 2.1.5 Transport

Performance in the transport sector, represented by the number of newly registered and licensed vehicles improved during the reporting year. The number of newly registered vehicles as reported by the Sierra Leone Roads Transport Authority (SLRTA) grew by 19.36 percent to 36,044. This total comprised 3,858 private cars, 17,844 motor cycles, 1,879 taxis, 5,768 utility vans and station wagons, 3,345 vans/buses carrying up to 18 passengers, 306 buses carrying above 18 passengers, 1,462 trucks with six tyres, 557 trucks above six tyres, and 1,025 tractors and trailer units.

The number of licensed vehicles increased by 23.44 percent to 68,802 including 15,688 private cars, 4,975 taxis, 19,969 motor cycles, 16,098 utility vans and station wagons, 7,592 vans/buses of up to 18 passengers, 469 buses above 18 passengers, 2,228 trucks with six tyres, 748 trucks above six tyres and 1,035 tractors and trailer units. The overall increase in licensed vehicles was on account of the growth in the number of private cars, motor cycles, utility vans and station wagons, vans/buses above 18 passengers and trucks with six tyres licensed.



Overall, the increase in the number of newly registered and licensed vehicles represented increased revenue generation from the transport sector.

**Table 5**

<b>Monthly Visitors Arrival by Air - 2013</b>						
<i>(by Purpose of visit)</i>						
<b>Period</b>	<b>Holiday</b>	<b>V.F.R.</b>	<b>Business</b>	<b>Conference</b>	<b>Others</b>	<b>TOTAL</b>
January	1,553	1,228	2,724	675	1,401	7,581
February	1,464	1,358	3,149	1,085	953	8,009
March	1,063	816	3,442	740	1,172	7,233
April	1,060	1,196	2,280	1,071	1,318	6,925
May	1,106	719	2,959	437	1,319	6,540
June	774	614	2,730	399	1,015	5,532
July	720	472	2,389	395	1,043	5,019
August	889	667	2,763	330	1,480	6,129
September	815	690	3,019	487	1,262	6,273
October	756	656	3,383	421	1,231	6,447
November	960	805	3,020	655	1,106	6,546
December	2,178	1,966	2,963	623	1,286	9,016
Jan - Jun	7,020	5,931	17,284	4,407	7,178	41,820
Jul - Dec	6,318	5,256	17,537	2,911	7,408	39,430
Jan - Dec	13,338	11,187	34,821	7,318	14,586	81,250

**2.1.6 Tourism**

Performance of the Tourism sector in 2013, using the number of tourist arrivals as proxy, indicated positive growth. Total arrivals during the review period numbered 81,250, reflecting a 36.03 percent increase over 2012. Of total arrivals, 31.52 percent were from Europe, 18.11 percent from ECOWAS, 24.53 percent from America, 3.03 percent from Australia, 8.96 percent from Asia, 8.7 percent from Non-ECOWAS, and 5.14 percent from the Middle East.

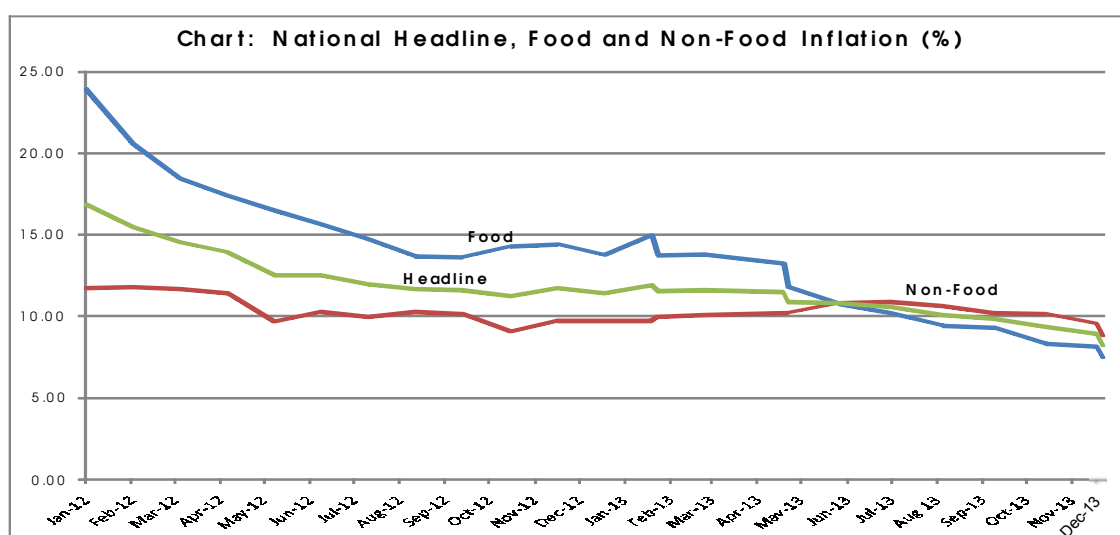
When classified by purpose of visit, 16.8 percent of arrivals were on vacation, 41.3 percent on business, 17.2 percent on other purposes, 14.2 percent on visit to friends, and 10.5 percent on conferences.

**Table 6****Monthly Visitors Arrival by Air 2013 (By Place of Residence)**

<b>MONTH</b>	<b>AFRICA</b>		<b>Asia</b>	<b>America</b>	<b>Middle East</b>	<b>Europe</b>	<b>Australia</b>	<b>Total</b>
	<b>ECOWAS</b>	<b>NON-ECOWAS</b>						
January	1,331	573	620	1,817	374	2,414	452	7,581
February	1,315	820	673	1,834	539	2,466	362	8,009
March	1,152	737	692	1,810	289	2,253	300	7,233
April	1,065	433	476	2,177	277	2,183	314	6,925
May	1,250	532	592	1,574	274	2,202	116	6,540
June	1,113	547	516	1,528	303	1,424	101	5,532
July	1,125	467	438	1,372	295	1,230	92	5,019
August	1,328	494	747	959	483	1,941	177	6,129
September	1,319	421	623	1,223	483	2,084	120	6,273
October	1,272	693	710	1,352	307	1,960	153	6,447
November	1,178	677	686	1,355	273	2,269	108	6,546
December	1,270	677	507	2,933	281	3,181	167	9,016
Jan-Jun	7,226	3,642	3,569	10,740	2,056	12,942	1,645	41,820
Jul-Dec	7,492	3,429	3,711	9,194	2,122	12,665	817	39,430
Jan-Dec	14,718	7,071	7,280	19,934	4,178	25,607	2,462	81,250

**Table 7****Inflation Rates 2013**

PERIOD	National (2007 Base Yr.)			Freetown (1992 Base Yr.)		
	CPI	Year-on-year % Change	Monthly % Change	CPI	Year-on-year % Change	Monthly % Change
January	206.16	11.91	0.95	1779.58	11.32	2.11
February	208.83	11.41	1.30	1821.54	10.63	2.36
March	211.27	11.63	1.17	1837.52	10.89	0.88
April	212.52	11.47	0.59	1842.98	11.16	0.30
May	213.65	10.86	0.53	1849.08	10.28	0.33
June	214.61	10.81	0.45	1855.88	10.14	0.37
July	215.90	10.58	0.60	1870.28	9.52	0.78
August	216.87	10.11	0.45	1870.65	9.34	0.02
September	218.15	9.85	0.59	1881.30	9.07	0.57
October	219.18	9.38	0.47	1888.80	8.93	0.40
November	220.06	8.96	0.40	1883.69	8.71	-0.27
December	221.02	8.23	0.44	1891.35	8.53	0.41

Source: *Statistics Sierra Leone***2.2 Price Developments**

The main objective of monetary policy in 2013 was to contain inflationary pressures in the economy with the specific desire to deliver single digit inflation at the end of period, with a view to support growth. From 11.4 percent in December 2012, national headline inflation rose to 11.91 percent in January 2013, before declining steadily thereafter, within the double digit range in the first eight months of the year to attain 10.14 percent in August 2013. Headline inflation thereafter hit the single digit target at 9.85 percent in September and continued to decline consistently to close the year at 8.23 percent. The sustained decline in inflation was reflective of the combined effects of prudent fiscal policy and a tight monetary policy, supported by improved domestic food production and relative stability of the exchange rate.

Food inflation was recorded at 14.93 percent in January 2013 but declined progressively to 10.18 percent in July, and thereafter attained single digits where it stayed throughout the remaining months to end the year at 7.46 percent. Non-food inflation on the other hand, was recorded at single digits in the first two months of the year. It fluctuated in the second and third quarters peaking at 10.86 percent in July before declining consistently thereafter to 8.79 percent in December 2013.

### 3.0 Fiscal Developments

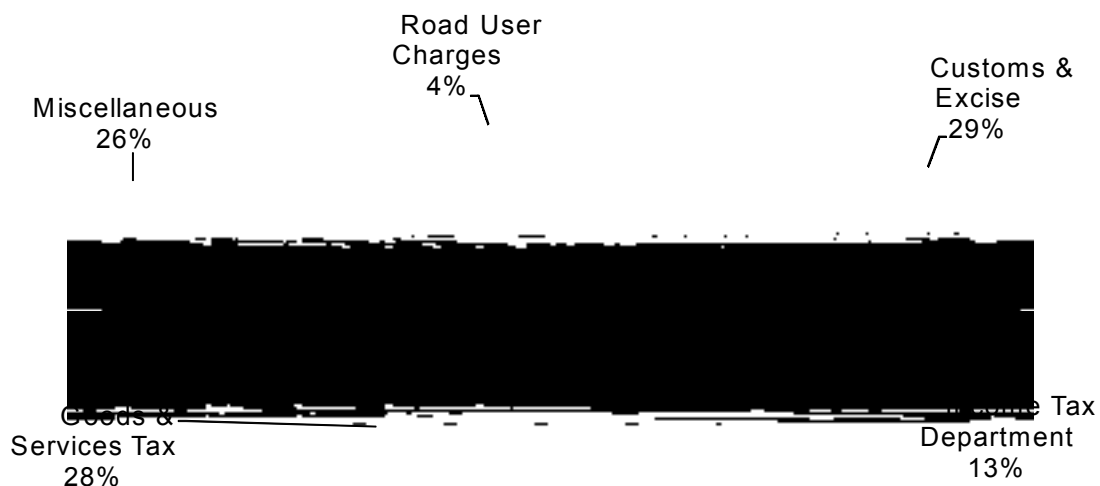
Government's fiscal policy in 2013 focused on improving the fiscal position to support macroeconomic stability and long term debt sustainability. This was to be achieved through continued fiscal consolidation efforts based on enhanced revenue mobilization and expenditure controls. Through the implementation of the *Agenda for Prosperity* over the medium term (2013-2017), the government also seeks to accelerate structural transformation for inclusive economic growth desired to reduce poverty and create employment opportunities for its vulnerable citizenry. In this regard, the 2013 Budget which was presented on the theme "accelerating structural transformation and inclusive green growth for prosperity", was anchored on creating fiscal space to support continued infrastructure development as well as promote green growth consistent with the goal to achieve the Millennium Development Goals (MDGs) by 2015. With the maintenance of macroeconomic stability being the fundamental objective of fiscal policy in 2013, it is expected that the successful implementation of the structural reforms envisaged under the *Agenda for Prosperity* will contribute towards promoting broad based economic growth and prosperity. The *Agenda for Prosperity* is firmly anchored on eight (8) sectoral pillars: (1) economic diversification to promote inclusive growth; (2) natural resources management; (3) human development; (4) competitiveness; (5) labour and employment; (6) social protection systems; (7) governance and public sector reforms; and (9) gender equality and women's empowerment.

As part of the implementation strategy under the structural reform program during the reporting period, Government undertook a critical review of the performances of contractors with a view to determining their capacity to implement projects for which funds were to be disbursed. Under the Public Financial Management (PFM) Reform Program, Government also had to strengthen the project planning, monitoring and evaluation capacity of the Ministry of Finance and Economic Development for the realization of positive results. The weekly Cash Management Committee (CMC) has to a very large extent contributed towards improvements in fiscal management and budget execution during the review period. In spite of global challenges and the downside risks faced by major developed economies, the outlook to economic growth in Sierra Leone remains favourable.

#### 3.1 Government Fiscal Operations

The fiscal operations of the central government in 2013 narrowed the budget deficit including grants by 65.72 percent to Le160.99bn (0.75 percent of GDP) compared with Le469.7bn (2.85 percent of GDP) in 2012. The budget deficit excluding grants also narrowed by 30.43 percent to Le590.90bn (3.42% of GDP) from Le849.31bn (5.16 percent of GDP) in 2012.

**Chart 4 - Composition of Government Revenue - 2013**



	<b>2012</b>	<b>2013</b>	<b>Budget 2013</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>TOTAL REVENUE (PLUS GRANTS)</b>	<b>2,247,260</b>	<b>2,748,080</b>	<b>2,827,013</b>
<b>DOMESTIC REVENUE</b>	<b>1,867,643</b>	<b>2,318,175</b>	<b>2,196,559</b>
Of which:			
<b>Customs &amp; Excise</b>	<b>341,433</b>	<b>475,421</b>	<b>548,495</b>
Import Taxes	295,064	260,314	266,602
Excise on Petroleum	45,262	199,284	249,718
Other Excise Duties	1,107	13,443	26,175
Freight Levy from Marine Administration	0	2,380	6,000
<b>Income Tax Department</b>	<b>788,851</b>	<b>910,768</b>	<b>771,349</b>
Company Tax	101,735	204,645	219,749
Personal Income Tax	681,567	700,326	546,657
Other Taxes	5,549	5,797	4,943
Goods and Services Tax	417,624	444,827	458,255
Import GST (Import Sales Tax)	273,658	279,851	262,615
Domestic GST	143,966	164,976	195,640
<b>Miscellaneous</b>	<b>288,944</b>	<b>418,983</b>	<b>325,257</b>
Mines Dept.	<b>232,877</b>	<b>328,319</b>	<b>224,736</b>
Royalty on Rutile	29,210	4,965	4,292
Royalty on Bauxite	0	3,399	2,600
Royalty on Diamond and Gold	914	35,954	37,075
Royalty on Iron Ore	3,994	107,294	99,302
Licences	198,759	176,707	81,467
Other Departments	56,067	90,664	100,521
Royalty on Fisheries	7,776	10,313	9,721
Parastatals	0	0	13,200
Other Revenues	48,291	80,351	77,600
<b>Road User Charges</b>	<b>30,791</b>	<b>68,176</b>	<b>93,203</b>
<b>GRANTS</b>	<b>379,617</b>	<b>429,905</b>	<b>630,454</b>
Programme	<b>267,312</b>	<b>157,051</b>	<b>213,254</b>
HIPC Debt Relief Assistance	17,698	0	0
Japanese Food & Oil Aid	33,389	0	0
Global Fund Salary Support	12,048	0	0
Kuwaiti Fund Refund	21,926	0	32,094
UK (DFID)	83,320	90,060	0
EU	67,971	66,991	100,938
AFDB	30,960	0	80,222
WB	0	0	0
Peace Building Fund	0	0	0
Emergency Power Programme	0	0	0
Others (projects)	0	0	0
Development Projects	112,305	272,854	417,200

<b>Table 8 contd...</b>			
<b>Government Fiscal Operations</b>			
(in Millions of Leones)			
	<b>2012</b>	<b>2013</b>	<b>Budget 2013</b>
<b>TOTAL EXPENDITURE &amp; NET LENDING</b>	<b>2,716,957</b>	<b>2,909,070</b>	<b>3,362,637</b>
Of which:			
<b>Current Expenditure</b>	<b>2,020,312</b>	<b>2,205,097</b>	<b>2,180,386</b>
Of which:			
Wages & Salaries	935,912	1,063,286	1,057,752
Domestic Interest	253,531	309,065	293,336
Foreign Interest	28,980	43,649	40,108
Goods & Services	289,295	345,735	299,084
Transfers to Local Councils	88,708	85,051	80,000
Fuel Subsidies	0	0	0
Social Outlays	175,150	154,300	188,406
Grants to Education Institution	104,695	125,775	118,437
Transfer to Road fund	30,791	68,176	93,203
Elections & Democratisation	113,250	10,060	10,060
Development Exp. & Net Lending	696,645	703,973	1,182,251
Foreign Loans & Grants	232,464	395,513	818,000
Loans	120,159	122,659	400,800
Grants	112,305	272,854	417,200
Domestic	464,181	407,058	463,037
Lending Minus Repayment	0	-98,598	-98,786
<b>CURRENT BALANCE+/- (Including grants)</b>	<b>226,948</b>	<b>542,983</b>	<b>646,627</b>
<b>ADD DEVELOPMENT EXPENDITURE</b>	<b>-696,645</b>	<b>-703,973</b>	<b>-1,182,251</b>
Basic Primary Balance	-221,089	167,392	-4,574
<b>OVERALL DEFICIT/SURPLUS +/- (Incl. grants)</b>	<b>-469,697</b>	<b>-160,990</b>	<b>-535,624</b>
<b>OVERALL DEFICIT/SURPLUS +/- (excl. grants)</b>	<b>-849,314</b>	<b>-590,895</b>	<b>-1,166,078</b>
<b>FINANCING</b>	<b>469,697</b>	<b>160,990</b>	<b>535,624</b>
<b>Domestic</b>	<b>355,824</b>	<b>232,971</b>	<b>350,247</b>
Of which:			
<b>Bank Financing</b>	<b>222,141</b>	<b>299,573</b>	<b>245,558</b>
Bank of Sierra Leone	-94,148	-59,538	45,558
Commercial Banks	316,289	359,111	200,000
Non-Bank Financing	125,078	-68,322	91,281
Privatisation Receipts	8,605	1,720	13,408
<b>External</b>	<b>146,355</b>	<b>57,683</b>	<b>453,741</b>
Of which:			
Loans	223,932	139,645	541,305
Project	120,159	122,659	400,800
Programme	103,773	16,986	140,505
Amortisation	-77,577	-81,962	-87,564
Debt Relief	0	0	0

In addition, domestic revenue rose by 24.12 percent to Le2,318.18bn (10.86 percent of GDP), thereby exceeding the target by 5.54 percent. Government expenditures, despite growing by 7.07 percent to Le2,909.07bn (13.62 percent of GDP) remained within the budgeted ceiling of Le3,362.64bn (15.75 percent of GDP).

### 3.1.1 Revenue

Total Government revenue including grants as a percentage of GDP decreased to 12.87 percent in 2013 from 13.66 percent recorded in 2012. However in nominal terms it increased by 22.29 percent to Le2,748.08bn which was 2.79 percent lower than the budgeted target of Le2,827.01bn for 2013. The increase in overall revenue performance during the review period was attributable to the intensification of the domestic revenue mobilization drive by the National Revenue Authority and the effective monitoring of the mining sector by the National Mineral Agency. Domestic revenue in the sum of Le2,318.18bn (10.86% of GDP) generated in 2013 represents a 24.12 percent growth rate and was 5.54 percent higher than the budgeted target of Le2,196.56bn (10.29% of GDP) for 2013. It was also 24.12 percent higher than the previous year's collection of Le1,867.64bn.

Revenue collected from Customs and Excise Department amounted to Le475.42bn (2.23% of GDP), representing 20.51 percent of domestic revenue. This was 39.24 percent higher than the Le341.43bn collected in 2012 but 13.32 percent lower than the budgeted target of Le548.50bn for 2013. The decline relative to the target affected all components of the Customs and Excise Department. Excise on petroleum totaling Le199.28bn was 20.0 percent lower than the target of Le249.72bn. This shortfall was mainly due to non-implementation of the full pass through policy of the pricing formula for retail fuel products. Import taxes marginally declined by 2.36 percent due to duty waiver concessions. Freight levy charges from Marine Administration in the amount of Le2.38bn declined by 60.33 percent due to nonpayment of funds generated by the Administration. Other Excise duties totaling Le13.44bn were also 48.64 percent lower than the target of Le26.18bn.

Income tax receipts grew by 15.46 percent to Le910.77bn (4.26% of GDP) exceeding the target of Le771.35bn by 18.07 percent. This improvement was mainly attributable to increased revenue generated from personal income tax with the expansion and growth in employment in the mining sector. Receipts from personal income tax totaling Le700.33bn were 28.11 percent higher than the target. Collections from company tax in the amount of Le204.65bn reflected a 101.15 percent increase over the 2012 total of Le101.74bn, even though it was 6.87 percent lower than the target of Le219.75bn. Collections from other taxes grew by 4.47 percent to Le5.80bn, which was 17.28 percent in excess of the target of Le4.94bn.

Receipts from Goods and Services Tax (GST) in the amount of Le444.83bn (0.08% of GDP) fell 2.93 percent short of its target of Le458.26bn (2.15% of GDP), even though it was 6.51 percent higher than the 2012 total of Le417.62bn. The underperformance of the GST during the period was a result of institutional and structural bottlenecks in the domestic economy. Of the collections from GST, import GST (import sales tax) grew marginally by 2.26 percent to Le279.85bn exceeding the target of Le262.62bn by 6.56 percent. Domestic GST increased by 14.59 percent to Le164.98bn, but was 15.67 percent lower than the target of Le195.64bn. The contribution of GST to domestic revenue for the period under review was 19.19 percent compared to 22.36 percent in 2012.

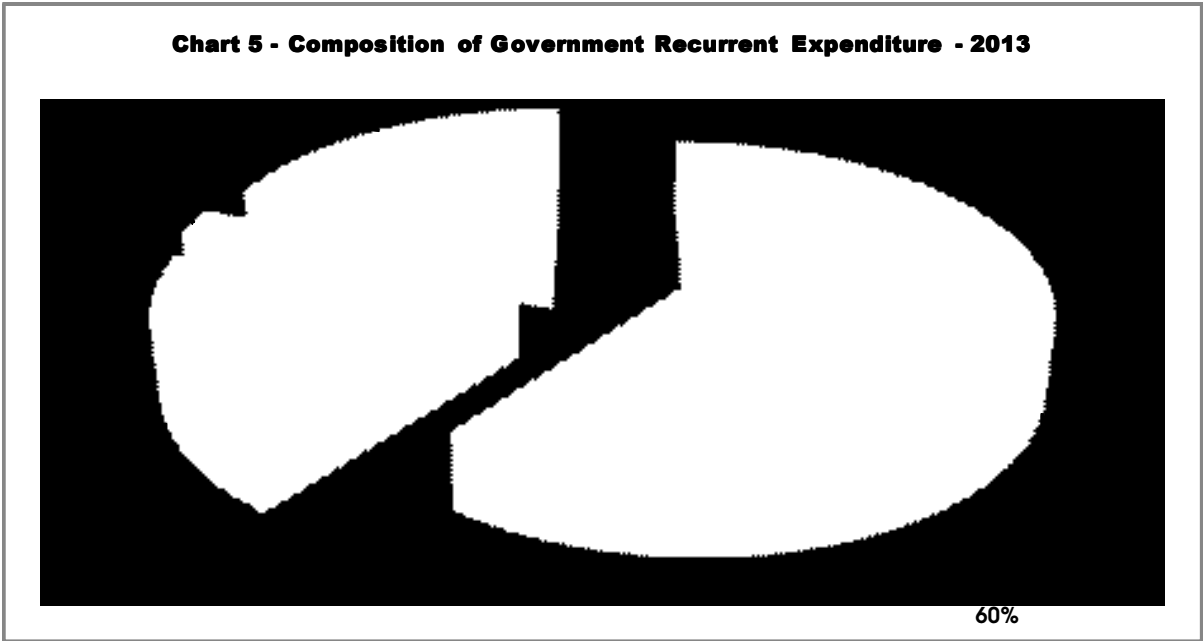
Receipts from miscellaneous sources in the sum of Le418.98bn (1.96% of GDP), represented a 45.00 percent increase compared to the previous year. It was also 28.82 percent higher than the target of Le325.26bn (1.52% of GDP). Receipts from the Mines and Minerals Department improved significantly by 40.98 percent to Le328.32bn, which was 46.09 percent higher than the program target of Le224.74bn.

The strong revenue performance in the mining sector resulted from increased activity as indicated by the growth in demand for mining licenses/certificates by exporters, particularly those from the iron ore industry. Payments of royalties from the mining companies were also on the increase during the year. Revenue collections from other Government Departments totaling Le90.66bn, were 61.71 percent higher than the 2012 total of Le56.07bn, even though it was 9.81 percent lower than the target of Le100.52bn. Revenues from road user charges rose from Le30.79bn in 2012 to Le68.18bn in 2013. It was 26.85 percent short of the budgeted target of Le93.20bn which was due to delays in payment of dues by oil marketing companies.

External grants during the review period amounted to Le429.91bn (2.01% of GDP), which was 13.25 percent higher than the 2012 total of Le379.62bn but 31.81 percent short of the 2013 target of Le630.45bn (2.95% of GDP). The aggregate amount comprised of Le 157.05bn in respect of program grants for budgetary support, and Le272.85bn being development projects grants. Disbursements in respect of program grants for budgetary support registered a shortfall of 26.35 percent relative to the projected amount of Le213.25bn, and 41.25 percent relative to the 2012 amount of Le267.31bn. Programme grants for the review period comprised of Le90.06bn from the United Kingdom’s Department for International Development and Le66.99bn from the European Union.

**3.1.2 Expenditure**

Fiscal policy was largely expansionary during the 2013 review period. Government Expenditure and Net Lending in the sum of Le 2,909.07bn (13.62% of GDP) was broadly in line with the plan for the year with spending allocations in excess of 7.07 percent compared to 2012. This amount was however 13.49 percent lower than the budgetary target of Le3,362.64bn (15.75% of GDP) for the year. Recurrent expenditure in the amount of Le2, 205.10bn reflected a 9.15 percent increase, which was 1.13 percent higher than the target of Le2, 180. 39bn. Capital expenditure and net lending in the amount of Le703.97bn represented a marginal increase of 1.05 percent which was 40.45 percent lower than the program ceiling of Le1, 182.25bn. The higher recurrent expenditures was driven by increases in wages and salaries, domestic and foreign interest payments, expenses on goods and services, transfers to local councils and subventions to educational institutions.



During the review period expenditures on wages and salaries considerably increased by 13.61 percent to Le1,063.29bn (4.98% of GDP) which was 0.52 percent in breach of its target of Le1,057.75bn (4.95% of GDP). Aggregate Interest payments on public debt reflected an increase of 24.85 percent to Le352.71bn (1.65% of GDP) compared to the Le282.51bn spent in 2012. Of total debt payments, domestic debt payment amounted to Le309.07bn reflecting a 21.90 percent increase over the 2012 position of Le253.53bn but fell 5.36 percent short of its ceiling of Le293.34bn. Foreign debt interest payments increased by 50.62 percent to Le43.65bn, and was 8.83 percent in breach of the Le40.11bn ceiling.

Non-salary, non-interest recurrent expenditures declined by 1.60 percent to Le789.10bn (3.69% of GDP) compared to the previous year's level of Le801.89bn, which was marginally in breach of the program floor. This category constitutes expenditures on Goods & Services in the amount of Le345.74bn, Transfers to Local Councils in the amount of Le85.05bn, Social Outlays in the sum of Le154.30bn, Grants to Education Institution totalling Le125.78bn, Transfers to Road Fund amounting to Le68.18bn and Elections and Democratization in the amount of Le10.06bn.

Development expenditure in the sum of Le703.97bn or 3.30 percent of GDP, though within the program target of Le1,182.25bn reflected a 1.05 percent growth rate over the 2012 position of Le696.65bn. As a share of total expenditure and net lending in 2013, capital expenditure accounted for 24.20 percent compared to 25.64 percent in 2012. Expenditure funded through foreign loans and grants increased by 70.14 percent to Le395.51bn but remained within the budgeted ceiling of Le818.00bn. Expenditure funded through external loan increased marginally by 2.08 percent to Le122.66bn and those funded through grants increased by 142.96 percent to Le272.85bn, indicating that the impact of external grants was greater. Expenditure funded from domestic sources declined by 12.31 percent to Le407.06bn and remained within the targeted ceiling of Le463.04bn.

### **3.2 Budget Deficit and Financing**

The fiscal operations resulted in a financing requirement of Le160.99bn, sourced from both domestic and foreign. The domestic financing amounted to Le232.97bn (1.09% of GDP), while external financing amounted to Le57.68bn (0.27% of GDP).

Domestic financing included bank financing in the amount of Le299.57bn, Non-Bank borrowing in the sum of Le68.32bn and privatization receipts in the amount of Le1.72bn. Domestic financing of the deficit was 33.48 percent within the budgeted target of Le350.25bn in 2013, while foreign financing was 87.29 percent below the budgeted target of Le453.74bn which constituted project loans amounting to Le122.66bn, programme loan amounted to Le16.99bn, Amortization of Le81.96bn and others amounted to Le129.66bn.

## **4.0 Monetary Developments**

Monetary policy in 2013 focused on reducing inflation to single digit. While price stability was its primary objective, monetary policy also pursued financial stability objectives through strengthened supervisory and regulatory guidelines in an effort to create the enabling environment for economic growth.

The Monetary Policy Committee (MPC) of the Bank at its regular meetings, recalibrated the Monetary Policy Rate (MPR) taking into consideration domestic and international economic and financial developments. During the review year, the Bank's MPR was reduced in steps from 20 percent in



December 2012 to 10 percent in December 2013. This downward adjustment was done in the context of declining trends in inflation rate coupled with a relatively favourable inflation outlook and the need to support broad based macroeconomic growth. The rationale for these actions was communicated to the public through a press release. The MPR signaled the Bank’s monetary policy stance and acted as a reference rate for other money market rates and indicated the direction of short-term rates in the interbank market.

The Bank continued to use Open Market Operations (OMO) as the key instrument for sterilization of excess liquidity, supplemented by the weekly foreign exchange auction. The Bank also relies on the use of Repurchase/ Reverse Repurchase transactions as a fine-tuning instrument to smooth out unexpected liquidity variations in the short-run.

**4.1 Monetary Aggregates**

Monetary aggregates during the review period were expansionary, although their growth rates were generally lower than those recorded in 2012. The growth rate in Broad Money (M2) in 2013 was recorded at 11.13 percent compared to 23.13 percent in 2012. Reserve Money grew by 17.57 percent in 2013 compared to 18.53 percent in 2012. While the targets on Reserve Money for 2012 and 2013 were breached, that on Broad Money for 2013 was met. During 2013 Broad Money expanded by Le372.60bn (11.13%) from Le3,348.72bn as at end December 2012 to Le3,721.31 as at end December 2013. The growth in M2 was on account of the increase in Net Foreign Assets (NFA) which was partly offset by the decline in Net Domestic Assets (NDA). NFA grew by 15.21 percent as a result of foreign inflows, including receipts from exports, external budgetary support, and payments of taxes in foreign currency by the mining companies as well as the increase in domestic commercial banks’ claims on foreign banks. NDA declined by 0.64 percent mainly driven by the 25.17 percent deterioration in Other Items Net (OIN) due to increases in miscellaneous liabilities in the Banks balance sheet. Domestic credit however increased by 16.26 percent during the year..

**Chart 6. Composition of Money Supply (M2)**

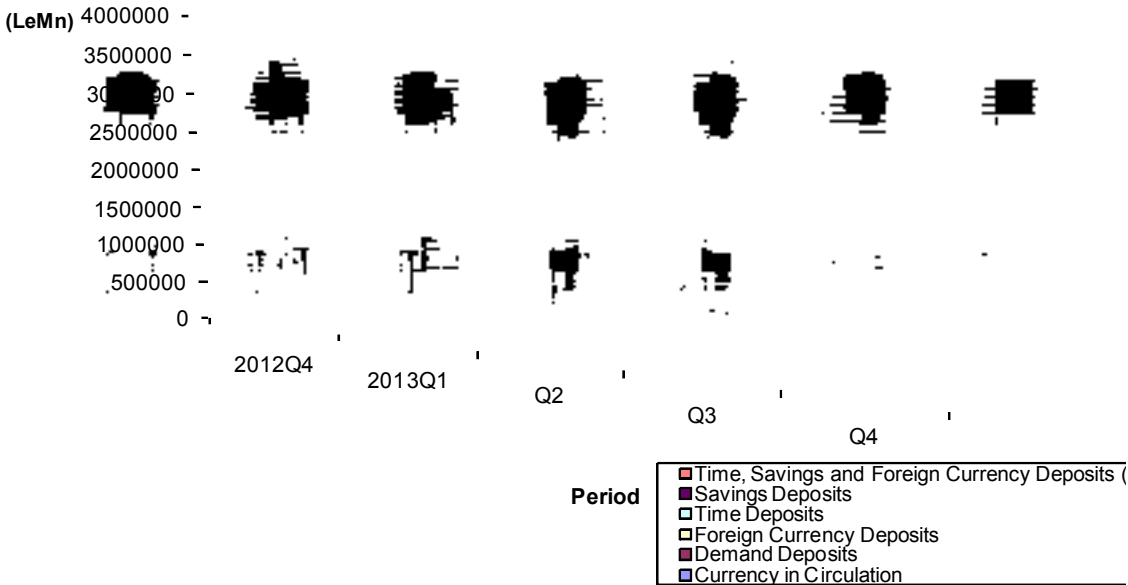


Table 9

<b>Monetary Survey (Million Leones)</b>					
	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
1	2	3	4	5	6
<b>Reserve Money</b>	<b>1,018,924</b>	<b>1,086,954</b>	<b>1,072,341</b>	<b>1,048,213</b>	<b>1,197,935</b>
<b>Broad Money</b>	<b>3,348,717</b>	<b>3,363,960</b>	<b>3,323,549</b>	<b>3,387,843</b>	<b>3,721,313</b>
<b>Broad Money*</b>	<b>2,319,661</b>	<b>2,367,205</b>	<b>2,408,388</b>	<b>2,418,435</b>	<b>2,636,835</b>
<b>Narrow Money</b>	<b>1,407,436</b>	<b>1,389,066</b>	<b>1,402,437</b>	<b>1,407,921</b>	<b>1,552,616</b>
<i>Currency in Circulation</i>	790,138	757,037	688,334	652,907	776,405
<i>Demand Deposits</i>	617,298	632,029	714,103	755,014	776,211
<b>Quasi Money</b>	<b>1,941,281</b>	<b>1,974,894</b>	<b>1,921,112</b>	<b>1,979,922</b>	<b>2,168,697</b>
<i>Foreign Currency Deposits</i>	1,029,056	996,755	915,161	969,408	1,084,478
<i>Time Deposits</i>	246,536	299,127	308,400	285,229	296,001
<i>Savings Deposits</i>	661,829	674,906	693,147	721,157	784,171
<i>Other Deposits</i>	1,955	2,128	2,427	2,153	2,072
<i>Time Savings and Foreign Currency dep. (BSL)</i>	1,905	1,978	1,977	1,975	1,975
<b>Net Foreign Assets</b>	<b>2,485,030</b>	<b>2,496,244</b>	<b>2,482,144</b>	<b>2,472,217</b>	<b>2,863,113</b>
<b>Bank of Sierra Leone</b>	<b>1,302,577</b>	<b>1,333,228</b>	<b>1,360,420</b>	<b>1,349,389</b>	<b>1,557,376</b>
<i>Assets</i>	1,828,214	1,844,978	1,859,294	1,880,682	2,084,751
<i>Liabilities</i>	525,637	511,750	498,874	531,293	527,375
<b>Commercial Banks</b>	<b>1,182,453</b>	<b>1,163,016</b>	<b>1,121,724</b>	<b>1,122,828</b>	<b>1,305,737</b>
<i>Assets</i>	1,193,365	1,175,323	1,139,499	1,139,632	1,320,984
<i>Liabilities</i>	10,912	12,307	17,775	16,804	15,247
<b>Domestic Credit</b>	<b>2,383,964</b>	<b>2,561,168</b>	<b>2,645,973</b>	<b>2,935,517</b>	<b>2,906,795</b>
<b>Claims on Central Govt. Net</b>	<b>1,365,564</b>	<b>1,397,309</b>	<b>1,399,311</b>	<b>1,668,142</b>	<b>1,665,414</b>
of which:					
<b>BSL</b>	<b>506,552</b>	<b>525,340</b>	<b>474,421</b>	<b>490,133</b>	<b>447,015</b>
<b>Total Claims</b>	<b>506,943</b>	<b>525,721</b>	<b>474,978</b>	<b>490,065</b>	<b>442,936</b>
<i>Treasury Bills</i>	15,351	6,751	766	82,545	91,620
<i>Treasury Bonds</i>	19,694	18,465	10,203	6,793	7,346
<i>Ways and Means Advances</i>	48,117	76,739	40,224	57,691	1,285
<i>BSL losses for conversion</i>	-	-	-	1,088	712
<i>Stock of NNNIB</i>	81,801	81,801	81,801	-	-
<i>BSL Holdings of 3-Year Medium Term Bond</i>	77,516	77,516	77,516	77,516	77,516
<i>5YR Bonds for Recapitalization</i>	264,430	264,430	264,430	264,430	264,430
<i>Government Departments</i>	34	19	38	2	27
<b>Deposits</b>	<b>391</b>	<b>381</b>	<b>557</b>	<b>(68)</b>	<b>(4,079)</b>
<i>Treasury Income and Expenditure (net)</i>	(129)	(139)	37	(588)	(4,599)
<i>HIPC (MDRI)</i>	512	512	512	512	512
<i>Blocked Account</i>	8	8	8	8	8
<b>Commercial Banks</b>	<b>859,012</b>	<b>871,969</b>	<b>924,890</b>	<b>1,178,009</b>	<b>1,218,399</b>
<b>Total Claims</b>	<b>859,599</b>	<b>872,455</b>	<b>925,501</b>	<b>1,178,292</b>	<b>1,218,866</b>
<i>Treasury Bills</i>	802,713	814,837	851,045	1,102,672	1,141,885
<i>Treasury Bearer Bonds</i>	1,166	-	-	-	-
<i>Loans and Advances</i>	55,720	57,618	74,456	75,620	76,981
<b>Deposits</b>	<b>587</b>	<b>486</b>	<b>611</b>	<b>283</b>	<b>467</b>
<i>Government Treasury Accounts</i>	587	486	611	283	467
<i>Claims on Non Financial Public Sector</i>	75,493	204,205	214,923	212,814	200,060
<i>Claims on Private Sector</i>	896,640	891,690	987,877	1,004,632	1,001,358
of which					
<b>Commercial Banks</b>	<b>888,056</b>	<b>875,356</b>	<b>971,653</b>	<b>991,405</b>	<b>988,548</b>
<i>Claims on Non-Banking Inst.</i>	46,267	67,964	43,862	49,929	39,963
<b>Other Items (Net)</b>	<b>1,520,277</b>	<b>1,693,452</b>	<b>1,804,568</b>	<b>2,019,891</b>	<b>2,048,595</b>

**Table 10**

<b>Average Interest rates (Percent)</b>					
	<b>Dec-12</b>	<b>Mar-13</b>	<b>Jun-13</b>	<b>Sep-13</b>	<b>Dec-13</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Treasury Bills (3-months)</b>	18.99	14.40	5.37	3.39	3.39
<b>Treasury Bills (6-months)</b>	25.48	18.48	8.14	7.05	7.50
<b>Treasury Bills (1-Year)</b>	25.83	21.99	9.69	9.24	9.47
<b>Treasury Bonds (1-year)</b>	20.00	20.00	9.00	6.00	6.00
<b>Savings ^</b>	6.42	6.42	6.19	5.13	4.73
<b>1 Month</b>	9.16	9.16	7.69	7.13	5.85
<b>3 Months ^</b>	9.75	9.75	8.18	6.93	5.57
<b>6 Months ^</b>	10.39	10.39	9.16	7.85	7.63
<b>9 Months ^</b>	10.25	10.25	10.25	6.13	7.00
<b>12 Months ^</b>	11.91	11.91	10.72	9.10	8.59
<b>Lending ( Prime )</b>	21-29	21-29	21 -29.5	19.7-26.6	19.7-25.3
<b>National Inflation Rate *</b>	11.41	11.63	10.81	9.85	8.23

<sup>^</sup> Revised data effective Aug-02 due to the incorporation of FIB

\* The base year was revised from 2003 to 2007.

N.A - Not Available

Reserve Money (RM) growth rate during the period was recorded at 17.57 percent or Le179.01bn; moving from Le1,018.93bn as at end December 2012 to Le1,197.94bn as at end December 2013. The growth in reserve money slowed down, compared to the 18.53 percent growth rate recorded in 2012. This was due to the combined effects of non-sterilization of liquidity in spite of Government's temporary suspension of new borrowing during the first half of 2013; delays in budgetary allocations during the same period and BSL's strict adherence to the statutory 5 percent limit on financing of Government deficit. These developments were reflected in increases in the components of Reserve Money at the end of the review period. Bankers' Deposits increased by 167 percent (Le157.26bn) and Private Sector Deposits by 78 percent (Le17.26bn) while Currency Issued increased marginally by 0.50 percent (Le4.49bn).

The moderate growth in money supply during 2013 was matched by a significant growth in real GDP estimated at 20.1 percent consistent with declining inflation. These developments suggest that monetary conditions in 2013 were desirable for economic growth consistent with the achievement of the country's inflation objective.

Net Claims on Government by the banking sector expanded by 21.96 percent (Le299.85bn) from Le1,365.56bn as at end December 2012 to Le1,665.41bn as at end December 2013. The increase in Net Claims on Government by the banking sector during the review period was higher when compared to the 20.47 percent growth recorded in 2012. This growth reflects increased financing of government operations by the banking system during the second half of 2013. Resort to the banking system for financing was occasioned by delays in external budgetary support disbursements. The expansion in Net Claims on Government by the banking system was mainly due to commercial banks. Net Claims on Government by commercial banks increased by 41.84 percent (Le359.38bn) which was partly offset by the 11.75 percent (Le59.54bn) decline in Net Claims on Government by the Bank of Sierra Leone.

The growth in Net Claims on Government by Commercial banks was due to the 42.25 percent (Le339.2bn) increase in their holdings of Treasury Bills and the 38.16 percent (Le21.26bn) increase in loans to Government Subvented Agencies and Project Implementation Units. The decline in Net Claims on Government by the Bank of Sierra Leone was influenced mainly by the 62 percent (Le12.35bn) decline in holdings of Treasury Bonds and the Le46.83bn reduction in Ways and Means utilization coupled with the Le4.47bn build up in Government Deposits.

Credit to the private sector by commercial banks expanded by 11.32 percent (Le100.49bn) from Le888.06bn in December 2012 to Le988.55bn as at end December 2013. The expansion in private sector credit was indicative of support to expanding private sector activities and growth.

The interest rate structure across all tenures of Government securities plummeted in 2013. Bids for Government securities were highly competitive resulting in very low yields. The monthly average annual yield on 3-months, 6-months and 12-months Treasury Bills declined by 15.60, 17.98, and 16.36 percentage points from 18.99, 25.48 and 25.83 percent as at end December 2012 to 3.39, 7.50, and 9.47 percent respectively as at end December 2013. Likewise, the interest rate on the 12-months Treasury Bond declined by 14.00 percentage point from 20 percent as at end December 2012 to 6 percent as at end December 2013.

The monthly average interest rates on Savings, 1 month, 3 months, 6 months, 9 months and 12 months Time Deposits also declined by 1.69, 3.31, 4.18, 2.76, 3.25 and 3.32 percentage points from 6.42, 9.16, 9.75, 10.39, 10.25 and 11.91 percent as at end December 2012 to 4.73, 5.85, 5.57, 7.63, 7.00 and 8.59 percent respectively as at end December 2013. Lending rates on overdraft also declined from the range of 21-29 percent to the range of 19.7-25.3 during the review period.

## **4.2 Monetary Operations**

The primary market for government securities during the review period was characterized by over subscription, attributable in part, to the government's temporary policy of limited domestic borrowing during the first half of 2013. This phenomenon contributed to a sharp decline in yields on government securities of all tenures. As at end June 2013, the stock of government securities outstanding increased by Le40,487mn on account of the issuance of a 2-Year Bond to the National Social Security and Insurance Trust (NASSIT) in respect of the outstanding 2012 contributions owing to them. In the second half of 2013, there was a Le330,326.95mn increase in the stock of outstanding government securities on account of the conversion of the outstanding Le81,801.40mn Non-negotiable Non-interest bearing Bonds (NNIB) into marketable 91 days treasury bills for monetary operations and the issuance of Le248,252.55mn in new treasury securities to finance the budget. However, despite the new borrowing from the market, yields across all tenures of securities continued to decline as demand for government securities continued to skew towards long-term instruments, while yield at the long end remained relatively low, indicating low inflation expectations.

In the secondary markets, a total of Le126.10bn was supplied by the Bank via its reverse repo and standing facility window during 2013, reflecting a 62.80 percent decline or Le212.72bn over the Le338.82bn supplied in 2012. No repo operations were conducted during the reporting period. This was due to expectations that the available liquidity in the system should serve to meet the borrowing requirements of the fiscal authorities to finance the budget.

**Table 11**

<b>Stock of Government securities outstanding by Holders</b>			
<b>(in Million Leones)</b>			
	<b>Dec-12</b>	<b>Dec-13</b>	<b>Change</b>
<b>91-DAYS TBs</b>	<b>217,002.90</b>	<b>242,830.20</b>	<b>25,827.30</b>
BSL	494.00	85,720.85	85,226.85
COM. BANKS	134,085.40	117,021.10	-17,064.30
Non-Bank Public	82,423.50	40,088.25	-42,335.25
NASSIT	0	0	0
<b>182-DAYS TBs</b>	<b>380,682.85</b>	<b>503,305.80</b>	<b>122,622.95</b>
BSL	3,669.00	4,798.90	1,129.90
COM. BANKS	292,096.00	441,882.15	149,786.15
Non-Bank Public	84,917.85	56,624.75	-28,293.10
NASSIT	0	0	0
<b>364-DAYS</b>	<b>560,551.30</b>	<b>707,475.15</b>	<b>146,923.85</b>
BSL	11,188.05	1,099.85	-10,088.20
COM. BANKS	446,235.85	628,236.75	182,000.90
Non-Bank Public	48,289.95	58,138.55	9,848.60
NASSIT	54,837.45	20,000.00	-34,837.45
<b>TBOND</b>	<b>110,400.45</b>	<b>145,353.30</b>	<b>34,952.85</b>
BSL	19,693.70	7,385.70	-12,308.00
COM. BANKS	1016.1	0.00	-1,016.10
Non-Bank Public	89,690.65	97,480.60	7,789.95
NASSIT	0	40487	40487
<b>TOTAL</b>	<b>1,268,637.50</b>	<b>1,598,964.45</b>	<b>330,326.95</b>
BSL	35,044.75	99,005.30	63,960.55
COM. BANKS	873,433.35	1,187,140.00	313,706.65
Non-Bank Public	305,321.95	252,332.15	-52,989.80
NASSIT	54,837.45	60,487.00	5,649.55

The volume of interbank transactions declined by Le118.49bn from Le591.99bn in 2012 to Le473.50bn in 2013. Similarly, the interbank monthly average yield plunged by 15.32 percentage points from 18.54 percent in December 2012 to 3.22 percent in December 2013.

During the review period, Commercial Bank's holdings of government securities increased by Le313.71bn from Le873.43bn in 2012 to Le1,187.14bn in 2013. BSL holdings increased by Le63.96bn to Le99.01bn in 2013 as a result of the conversion of Le81.80bn from the NNIB to 91 days Treasury Bills held by the Bank for monetary operations. Conversely, Non-bank holdings (excluding NASSIT) declined by Le52.99bn from Le305.32bn in 2012 to Le252.33bn in 2013.

### **4.3 Challenges and Policy Response**

Monetary policy management during 2013 was faced with major challenges. Liquidity in the banking system grew as a result of increased inflow of FDI's into the mining and agriculture sectors, coupled with Government's temporary suspension of new borrowing from the domestic money market to finance its operations. The excess liquidity in the banking system accounted for the sharp decline in yields on government securities across all tenures.

In the face of limited supply of government securities in the books of the BSL to support the conduct of active OMO, the Bank sought Government's authorization to convert the Le81.80bn outstanding *Non-Negotiable Non-Interest-Bearing* (NNNIB) securities into marketable treasury securities for Monetary Operations. The Bank also continued to conduct weekly foreign exchange auctions to supplement monetary operations. In order to strengthen its balance sheet position in the conduct of monetary policy, the Bank requested Government for recapitalization.

## **5.0 External Sector Developments**

Global recovery in the first half of 2013 was sluggish. However, global activity and world trade picked up during the second half of 2013. Recent data suggests that global growth during this period was somewhat stronger than anticipated. Aggregate demand in advanced economies expanded broadly as expected with much of the growth was due to higher inventory demand. In emerging market economies, an export rebound was the key driver of the improved activity, while domestic demand generally remained subdued, except in China. The euro area is moving from recession to recovery. Elsewhere in Europe, activity in the United Kingdom has been buoyed by easier credit conditions and boost to confidence in the market place. Global economic headwinds moderately lowered sub-Saharan Africa's growth in 2013, but the pace is expected to pick up in 2014.

External sector developments in Sierra Leone over the review period were favourable and consistent with global trends generally experienced in 2013. The volume of foreign trade in 2013 increased by US\$971.52mn (35.65% of GDP) to US\$3,696.92mn during the review year, compared to the 2012 position. Performance in the export sector was robust registering a 70.87 percent increase over export receipts in the previous year. Imports bill also increased by 11 percent to US\$1,779.94mn, far below the receipts from export. Receipts from the mineral sub-sector recorded significant growth and constituted the main drivers of the improvement in total export proceeds, accounting for over 90 percent of total export receipts. This development resulted in a huge trade surplus in the sum of \$137.03mn. The level of gross international reserves was recorded at US\$474.96mn as at end-December 2013, equivalent to 3.5 months of import cover. The exchange rate of the Leone to the United States Dollar

was relatively stable with marginal depreciation against other major international currencies such as the British Pound Sterling and the Euro. The country's stock of external debt was recorded at US\$1,026mn at end December 2013, representing a more than 10 percent increase over the US\$932.2mn recorded in 2012.

## **5.1 International Trade**

During the period under review, there was a remarkable improvement in external trade with the country recording a huge trade surplus of US\$137.03mn. This reflected an expansion of US\$792.21mn (70.62%) in export earnings which more than offset the 11 percent increase in spending on imports.

### **5.1.1 Exports**

Spurred by the enabling policy environment and a surge in global demand, export earnings continued to register strong growth during the last three consecutive years, with total export receipts recording US\$1,916.91mn which was 70.87 percent higher than US\$1,121.87mn recorded in 2012. The growth in total export earnings was driven primarily by expansion in earnings from the mineral subsector which accounted for 93.43 percent of total export receipts. Mineral exports rose significantly by over 100 percent from US\$839.68mn in 2012 to US\$1,790.93mn in 2013. Receipts from "agricultural exports", "other exports" and "re-exports" sub-categories however declined in the review period. Performance in the mineral sub-sector in 2013 mainly reflected increased earnings in iron ore, diamonds and other minerals. Iron ore contributed the highest with 59.43 percent of total mineral exports followed by other minerals (21.8%) and diamonds (10.36%). The total volume of iron ore exported increased by 161.00 percent from 5,203.49 thousand metric tons in 2012 to 13,581.08 thousand metric tons in 2013. In value terms, iron ore exports rose by 198.15 percent from US\$357.00mn in 2012 to US\$1,064.39mn in the reporting year which is reflective of increased effects of both prices and volumes on iron ore.

The total volume of diamond exports increased by 13.55 percent to 604.74 thousand carats, valued at US\$185.67mn up from US\$161.72mn in the previous year. Gem diamonds, increasing by 15.68 percent in value terms and 12.83 percent in volume terms, accounted for most of the growth in total diamond exports. Industrial diamond exports however, increased by 15.98 percent in volume terms and declined by 5.24 percent in value terms. Receipts from other minerals exports increased significantly from 892.61 thousand metric tons valued at US\$118.07mn in 2012 to 3,248.47 thousand metric tons, valued at US\$390.25mn in 2013. Export volumes of Bauxite and gold declined during the year from 715.53 thousand metric tons and 4,534.53 ounces in 2012 to 447.85 thousand metric tons and 3,099.53 ounces, respectively in 2013. Corresponding values also declined by 19.13 percent to US\$13.82mn and 35.94 percent to US\$3.68mn, respectively. Export values for rutile declined from US\$171mn in 2012 to US\$129.56mn in the review period while ilmenite correspondingly declined from US\$3.75mn to US\$2.92mn over the same period. Correspondingly, the volume of rutile export increased by 76.15 percent to 149.54 thousand metric tons and ilmenite by 21.63 percent to 12.17 thousand metric tons. The export volume of Zircon during the review period was recorded at 158.50 thousand metric tons valued at US\$0.72mn, down from 456.35 thousand metric tons valued at US\$4.61mn in 2012.

Performance in the agriculture sub-sector deteriorated during the review period with export earnings plummeting to US\$12.11mn which is 72.38 percent lower than that of US\$43.85mn recorded in the previous year. Coffee and cocoa exports underperformed both in volume and value terms. Total volume of coffee exported declined by 21.92 percent to 2.54 thousand metric tons in 2013 with an

Table 12

International Trade and Reserves (US\$'000)				
	Jan - Dec'12	Jan-Jun'13	Jul-Dec'13	Jan - Dec'13
1	2	3	4	5
<b>Merchandise Imports</b>	<b>1,603,531.0</b>	<b>994,779.4</b>	<b>785,163.5</b>	<b>1,779,942.9</b>
<i>Food of which</i>	306,047.0	213,351.3	144,463.8	357,815.1
<i>Rice</i>	111,418.2	79,051.1	50,334.2	129,385.3
Beverages and Tobacco	28,497.3	16,242.5	16,295.8	32,538.3
Crude Materials	33,411.2	15,552.6	14,077.5	29,630.2
Mineral Fuels and Lubricants of Which	346,570.8	185,930.9	230,039.5	415,970.4
<i>Fuel</i>	322,105.7	178,871.3	197,200.7	376,072.0
Animal and Vegetable Oils	10,009.0	8,516.2	5,552.1	14,068.3
Chemicals	106,985.6	66,094.8	64,230.1	130,324.9
Manufactured Goods	169,305.0	71,595.7	73,795.0	145,390.7
Machinery and Transport Equipment	485,930.4	216,453.7	184,168.0	400,621.8
Other Imports	116,774.8	201,041.6	52,541.6	253,583.2
<b>Merchandise Exports</b>	<b>1,121,866.2</b>	<b>851,513.7</b>	<b>1,065,459.3</b>	<b>1,916,973.0</b>
<b>Mineral Exports</b>	<b>839,679.9</b>	<b>794,224.6</b>	<b>996,775.4</b>	<b>1,790,999.9</b>
Diamonds	161,719.6	102,213.1	83,454.3	185,667.4
Bauxite	17,084.1	7,393.5	6,422.4	13,815.9
Rutile	171,708.5	66,822.5	62,733.9	129,556.4
Gold	5,740.2	2,126.9	1,550.1	3,677.0
Ilmenite	3,751.9	2,920.5	-	2,920.5
Iron Ore	357,002.3	433,464.0	630,921.7	1,064,385.7
Zircon	4,605.2	723.6	-	723.6
Other Minerals /1	118,068.1	178,560.5	211,693.0	390,253.5
<b>Agricultural Exports</b>	<b>43,853.1</b>	<b>3,765.4</b>	<b>8,346.9</b>	<b>12,112.3</b>
Coffee	3,845.1	1,919.1	896.8	2,815.9
Cocoa	22,520.0	1,543.6	7,421.1	8,964.7
Piassava	-	13.1	1.9	<b>15.0</b>
Fish and Shrimps	17,488.0	289.5	27.2	316.7
<b>Others</b>	<b>197,686.9</b>	<b>31,761.2</b>	<b>57,442.3</b>	<b>89,203.5</b>
<b>Re-exports</b>	<b>40,646.3</b>	<b>21,762.6</b>	<b>2,894.7</b>	<b>24,657.3</b>
<b>Trade Balance</b>	<b>(481,664.9)</b>	<b>(143,266)</b>	<b>280,295.8</b>	<b>137,030.08</b>
<b>Foreign Reserves (\$mn)</b>	<b>417.92</b>	<b>425.99</b>	<b>474.96</b>	<b>474.96</b>

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

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

estimated value of US\$2.82mn which represents a 26.77 percent decrease over the preceding year. The volume of cocoa beans exported in 2013 dropped by 63.15 percent to 4.20 thousand metric tons with an estimated value of US\$8.96mn which represented a significant decrease compared to 11.39



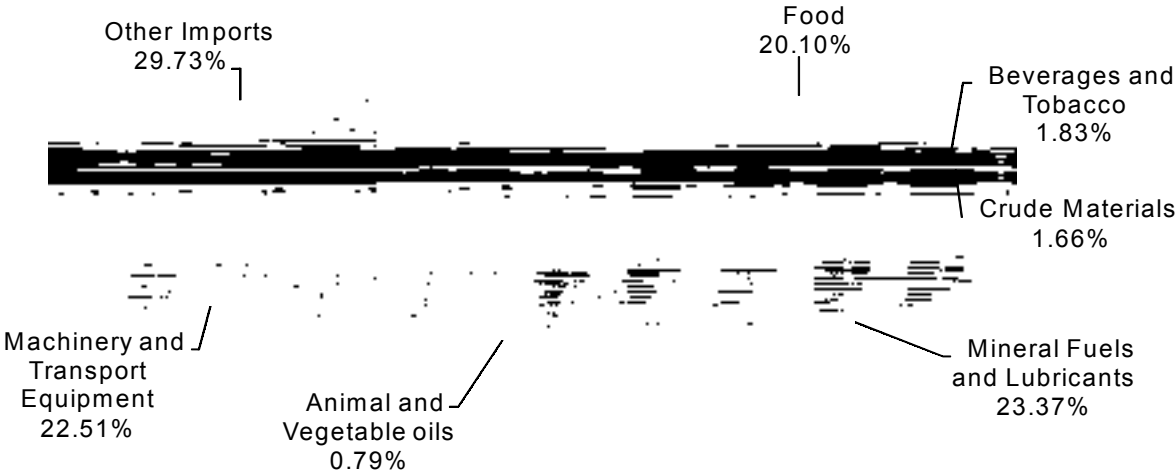
**Chart 7. External Trade - 2013**



thousand metric tons in 2012 valued at US\$22.52mn. Proceeds from export of piassava amounted to US\$0.015mn in 2013 while that from export of fish & shrimps declined significantly from US\$17.49mn in 2012 to US\$0.32mn in 2013.

Proceeds from other exports dropped by 54.88 percentage points to US\$89.20mn in 2013 compared to US\$197.69mn in 2012. The value of re-exports also declined to US\$24.66mn in the reporting period from US\$40.65mn in the preceding year.

**Chart 8. Composition of Imports 2013**



### 5.1.2 Imports

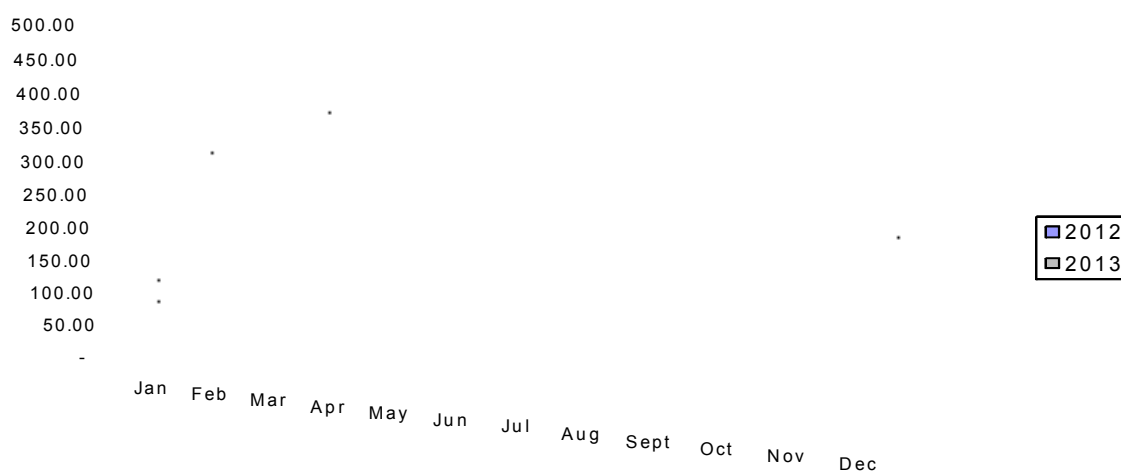
Total value of imports during the review year was recorded at US\$1,779.94mn reflecting an 11 percent increase over the US\$1,603.53mn recorded in 2012. The import bill for all categories of imports, except ‘‘machinery and transport equipment’’ grew over the period. The strongest growth was observed in the import values of Mineral fuel & lubricants constituting 23.37 percent of the total import bill. Payments for mineral fuel & lubricants imported during the review year increased by 20.02 percent to US\$415.97mn compared to US\$346.57mn in 2012. The total bill for consumer goods increased by 17.38 percent to US\$404.42mn, of which, payments for the food sub-category which accounted for over 20 percent of consumer items increased. Payments for 332.48 thousand metric tons of rice imported during the review period amounted to US\$129.39mn, reflecting a 16.13 percent increase over the 257.06 thousand metric tons imported in 2012 at an estimated valued of US\$111.42mn. Import payments for ‘‘Beverages & Tobacco’’ and ‘‘Animal & Vegetable oil’’ increased to US\$32.54mn and US\$14.07mn, respectively during the review period from US\$28.50mn and US\$10.01mn in the preceding year.

The import value of ‘‘intermediary goods’’ comprising chemicals and crude materials rose by 13.93 percent to US\$159.96mn in 2013. Crude materials however declined by 11.32 percent to US\$29.63mn while chemicals increased by 21.82 percent to US\$130.32mn. The import bill for ‘‘manufactured goods’’ and ‘‘Fuel’’ increased by 39.46 percent and 16.75 percent to US\$398.97mn and US\$376.07mn, respectively during the year under review. In volume terms, fuel import also scaled up by 20.26 percent from 280.59 thousand metric tons in the preceding year to 337.45 thousand metric tons during the reporting year. Import payments for ‘‘machinery and transport equipment’’ declined by 17.56 percent from US\$485.93mn in 2012 to US\$400.62mn in 2013.

### 5.2 International Reserves

The gross external reserves of the Bank of Sierra Leone increased by 13.65 percent (US\$57.03mn), to US\$474.96mn as at end December, 2013 from US\$417.93mn recorded in December 2012 and sufficient to cover at least 3.5 months of imports. Cumulative inflows were US\$170.13mn at the end of the review year which was below US\$194.36mn observed in 2012. Similarly, total outflows in the reporting year were US\$116.24mn, indicating a drop when compared to US\$156.02mn recorded at the previous year. It is therefore suggestive that the external reserves position of the Bank at end 2013 improved relative to 2012, as a result a significant drop in cumulative outflows which outweighed the

**Chart 9**  
**Gross International Reserves**



decrease in cumulative inflows, generating a net inflow of US\$53.89mn. Significant inflows during the year consisted of, aid disbursement totalling US\$75.59 of which the sum of US\$13.76mn, being disbursement by the IMF under the Extended Credit Facility (ECF) support program; disbursement of US\$36.36mn from both the European Union (EU) (US\$15.38mn) and UK/DFID (US\$20.98mn) in respect of poverty reduction budgetary support; World Bank disbursement of US\$7.70mn in line with pay reforms; EU support to Sierra Rutile (US\$12.10mn), Forex purchases from IDA/World Bank totaling (US\$5.25mn), and total export receipts to the tune of US\$51.01mn. Noteworthy outflows composed of: a total of US\$29.03 being amounts utilized under the weekly foreign exchange auction; government travel and other expenditures to the tune of US\$19.62mn; Embassies and Missions payments aggregated to US\$13.84mn; expenditure on various government infrastructural project to the tune of US\$8.85mn; an aggregate amount of US\$13.95 utilized by the Bank of Sierra Leone for shipment of banking related materials (US\$5.56mn) and currency printing (US\$8.39mn) respectively; and total debt service payments of US\$26.12mn to various international creditors including the IMF (US\$7.07mn), World Bank (US\$2.58mn), African Development Bank (US\$1.24mn), other multilaterals and bilateral (US\$11.03mn) and OPEC/OFID (US\$4.11mn).

<b>Foreign Currency Management</b>				
	<b>Dec-13</b>	<b>% of Total Bal.</b>	<b>Dec-12</b>	<b>% of Total Bal.</b>
US DOLLAR (Mn)	240.84	50.71	204.38	34.56
POUND STERLING (Mn)	52.06	10.96	38.95	6.78
EURO (Mn)	16.31	3.43	1.95	4.46
JAPANESE YEN (Mn)	0.63	0.13	0.77	0.25
SDR (Mn)	165.06	34.76	171.82	53.95
BALANCES	474.9	100	417.87	100

### **5.3 Foreign Currency Management**

The Bank of Sierra Leone's policy objective in foreign currency management continues to be driven by the holding of reserves in currencies to match the SDR and to meet short term liquidity needs for payments in respect of goods and services, debt service and private sector support. Composition of holdings of currencies by the Bank of Sierra Leone as at end December, 2013 and 2012 were as follows: 34.76 per cent was held in SDRs, 50.71 per cent in United States Dollars, 10.96 per cent in Pound Sterling, 3.43 per cent in Euro and 0.13 per cent in Japanese Yen.

### **5.4 Investment Activities**

The Bank's foreign exchange investments portfolios were held mainly in US\$, GBP and SDR in compliance with the 2013 foreign exchange investment guidelines. During the period January to December 2013, the Bank invested in short term fixed deposits with maturities of one month and overnight sleep facility held with the US Federal Reserve Bank (FRB). Returns on the Bank's investing currencies were determined by the amount invested, the rate of return and the duration of the investment.

Actual income received against amount budgeted for the period January to December 2013 indicated a positive performance for only the GBP. The US\$, Euro and the SDR performed lesser than what was budgeted. The favorable performance of the GBP was a result of the increased holdings from DFID budgetary support flows. The USD and the SDR recorded unfavorable performances due to the drop in interest rates during the period. Interest rates in the Euro zone remained at zero level for the most part of the period under review. The interest rates however changed during the second half of 2013 but only to a level as low as 0.01%. The Bank also took action to sell most of its Euro holdings derived from the EU disbursements to avoid further loss of reserves as evidenced by the volatility of the Euro exchange rate against the US Dollar.

Compared to the corresponding period in 2012, the Bank's income received from investments in all the foreign currencies declined in 2013. The reduction in income was mainly a result of low interest rates in all the investment currencies.

### **5.5 Foreign Exchange Developments**

During the period under review, the foreign exchange market was stable as reflected in the relative stability of the exchange rate. A tight monetary policy stance coupled with increased foreign exchange inflows supported the stability of the exchange rate. The Bank of Sierra Leone's intervention policy in the market was limited only to smoothing volatility.

The foreign exchange market showed clear signs of improvements as the overall official market turnover increased, surpassing the US\$100 million per month level. The increase in the foreign exchange market turnover was partly attributable to the significant increase in receipts from diamond exports as well as increased Foreign Direct Investment (FDI) inflows into the mining and agriculture sectors. The volume of transactions during the review period as measured by the total purchases and sales of US Dollars in the foreign exchange market, including the BSL foreign exchange auction also increased significantly.

### **5.6 Exchange Rate Movement**

The exchange rate of the Leone to the US Dollars was relatively stable in 2013 partly as a result of the tight monetary policy stance of the Bank, coupled with the sustained higher inflow of foreign exchange across key sectors of the economy. The Bank's strict adherence to the statutory limit on direct bank financing of fiscal deficit further contributed to improving inflation performance and ensured the stability of the Leone.

The annual average mid-exchange rates of the Leone to the US Dollars published by BSL and the commercial banks appreciated respectively by 0.27% and 0.29% from Le4340.56/US\$ and Le4343.34/US\$ in 2012 to Le4332.50/US\$ and Le4330.59/US\$ in 2013. The bureaux and the parallel market rates on the other hand depreciated by 0.08% and 0.3% respectively from Le4331.01/US\$ and Le4378.65/US\$ in 2012 to Le4333.71/US\$ and Le4363.13/US\$ in 2013. The yearly average auction rate of the Leone depreciated by 0.34% from Le4319.12/US\$ in 2012 to Le4333.71/USD in 2013. Exchange rates in the various segments of the market moved respectively as follows:

#### **5.6.1. Period Movement (Jan – Dec'13)**

The Le/US\$ official mid-rate depreciated by 0.51% from Le4334.11/US\$ as at end December 2012 to Le4356.37/US\$ as at end December 2013. During the corresponding period in 2012, the official Le/US\$ exchange rate appreciated by 1.00% from Le4377.71/US\$ to Le4334.11/US\$.

**Table 14**

<b>BSL Foreign Exchange Cash Flow (in US\$Mn)</b>		
	<b>Jan - Dec 2013</b>	<b>Jan - Dec 2012</b>
<b>Inflows</b>	<b>170.13</b>	<b>194.36</b>
<b>Receipt from exports</b>	<b>51.01</b>	<b>54.19</b>
Rutile	7.79	20.37
Bauxite	0.00	0.00
Diamond license fees	0.43	1.6
Diamond exporters income tax	4.43	2.9
S.L. Ports Authority	0.00	0.00
Fishing Royalty/license	0.30	0.76
Maritime Administration	0.21	0.34
Other Government /1	18.65	16.84
Others	1.05	0.84
<b>Revenue for Infrastructural Project.</b>		
African Minerals Mining co.	21.21	24.88
London mining	8.06	2.66
Koidu Holdings	1.66	0.21
Cluff Gold Mining Co	0.28	0.00
Other Mining Receipts	6.85	0.8
Petroleum Resources	21.00	25.00
Transactions with Commercial Banks	0.00	15.50
Privatization	2.62	2.00
<b>Aid Disbursements/BOP support</b>	<b>75.59</b>	<b>79.65</b>
IMF	13.76	6.86
AFDB (ERRP 4)	0.00	6.57
UK/DfID	20.98	16.28
World Bank	0.00	24.03
World Bank Loan for pay reform	7.70	0.00
WB Loan (fiber optic refund & social safety	0.00	0.00
EU	15.38	15.34
EU (Sierra Rutile)	12.10	0.00
IDA/World Bank (Leones sold)	5.25	1.60
Other Multilaterals	0.00	0.44
IDB	0.43	0.53
<b>HIPC flow relief</b>	<b>0.00</b>	<b>0.00</b>
<b>New SDR Allocation</b>	<b>0.00</b>	<b>0.00</b>

**Table 14 Contd**

<b>BSL Foreign Exchange Cash Flow (in US\$Mn)</b>		
	<b>Jan - Dec 2013</b>	<b>Jan - Dec 2012</b>
<b>Outflows</b>	<b>116.24</b>	<b>156.02</b>
<b>Payments for goods and services</b>	<b>90.12</b>	<b>127.79</b>
Embassy/Missions	13.84	13.42
BSL	5.56	3.25
Stabilization & Cooperation Fund	0.00	0.00
Capital Subscription to WACB	0.00	0.00
Printing Currency	8.39	15.28
Government Travel	2.93	2.64
Other Government /2	16.69	11.28
New Infrastructure Projects (Roads)	6.36	15.28
New Infrastructure Projects (Energy & Wat	2.49	9.04
Subscription to intl. Organizations	4.83	2.29
Electricity Support (Fuel)	0.00	8.00
Private Sector Support /3	29.03	47.31
HIPC related imports	0.00	0.00
<b>Debt Service after debt relief</b>	<b>26.12</b>	<b>28.24</b>
IMF	7.07	7.06
World Bank	2.58	1.85
AFDB	1.24	0.90
IFAD	0.09	0.03
EC/EIB	0.00	0.00
Other multilaterals and bilateral	11.03	8.33
Paris Club Creditors	0.00	0.00
OPEC (CIP Arrangement)	4.11	3.57
Other Commercial Debt	0.00	6.50
Commercial debt Buy Back	0.00	0.00
Clearing of Arrears (EEC/EIB, Badea etc)	0.00	0.00

The commercial bank's weighted average mid-rate depreciated by 0.50% from Le4334.56/US\$ as at end December 2012 to Le/US\$4356.15/US\$ as at end December 2013. During the corresponding period in 2012, the commercial bank's weighted average mid-rate appreciated by 0.84% from Le4371.28/US\$ to Le4334.56/US\$.

The parallel market mid rate depreciated by 1.26% from Le4370.00/US\$ as at end December 2012 to Le4425.00/US\$ as at end December 2013. During the corresponding period in 2012, the parallel market rate appreciated by 1.63% from Le4442.50/US\$ to Le4370.00/US\$.

### 5.6.2 Monthly Average Movement

The BSL monthly average mid rate depreciated by 0.61% from Le4330.04/US\$ as at end December 2012 to Le4356.58/US\$ as at end December 2013, while the monthly average commercial banks' rate depreciated by 0.56% from Le4332.23/US\$ as at end December 2012 to Le4356.32/US\$ as at end December 2013.

The monthly average foreign exchange auction rate depreciated by 2.05% from Le4295.27/US\$ as at end December 2012 to Le4383.19/US\$ as at end December 2013.

### 5.7 Foreign Exchange Auction

The Bank of Sierra Leone continued to conduct weekly foreign exchange auctions in a bid to improve market-based allocation of foreign exchange in a competitive, transparent and consistent manner. The foreign exchange auction policy was also informed by the need for the Bank to provide support for private sector development and by so doing, complement monetary policy management through sterilization of the excess liquidity supplied through government expenditures funded from budgetary

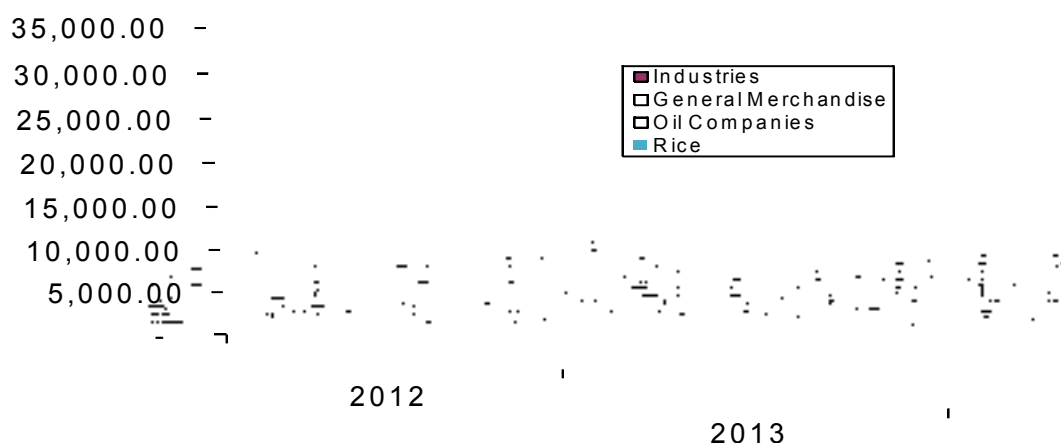
<b>Amount Offered, Demanded and Supplied in Foreign Exchange Auction (Thousand Dollars)</b>			
	<b>2013</b>	<b>2012</b>	<b>% Change</b>
Amount Offered	31,500.00	48,000.00	(34.38)
Amount Demanded	39,585.00	57,107.50	(30.68)
Amount Supplied	29,030.00	47,310.00	(38.64)

support inflows. During 2013, the BSL sold a total amount of US\$29.03mn to the foreign exchange market through the auction mechanism; this represented a 38.64 percent decline over the US\$47.31mn supplied in 2012. Nonetheless, this facilitated the supply of critical imports, particularly rice and general merchandise during the period. The demand for foreign exchange by oil companies significantly reduced during the review period, attributable perhaps to the fact that commercial banks were able to meet their needs from own funds generated through Foreign Direct Investments inflows.

### **Table 16**

<b>Sector</b>	<b>2012</b>	<b>2013</b>	<b>% of Total amount in 2013</b>
Industries	7,903.00	11,023.00	37.97
General Merchandise	2,170.00	705.00	2.43
Oil Companies	6,525.00	1,200.00	4.13
Rice	30,712.00	16,102.00	55.47
<b>Total</b>	<b>47,310.00</b>	<b>29,030.00</b>	<b>100</b>

**Chart 10**  
**Sectoral Distribution of Auction Funds(US\$'000)**



### 5.8 Sectoral Distribution of Auction Funds in 2013

The Bank of Sierra Leone in 2013 continued to provide the necessary foreign exchange via the weekly foreign exchange auction amidst demand pressures from prospective importers. Foreign exchange sold in the review period amounted to \$29.03mn triggering a decrease of 38.64percent as against the \$47.31mn sold in 2012. Rice importers accounted for the bulk (\$16.21mn) which was 55.63 percent of the total foreign exchange disbursed during the year, followed by the Manufacturing sector recording \$11.02mn (37.83%). The oil companies received a total allocation of \$1.2mn (4.12%), while allotment to General importers totalled \$0.71mn (2.42%).

### 5.9 Foreign Exchange Flows

The flow of foreign exchange into the banking system increased significantly in 2013. Total amount traded in the Foreign exchange market during the review period was recorded at USD1,552.20mn, which was 15.30% higher than the total amount of US\$1,346.26mn traded in 2012. The monthly average amount traded in 2013 was US\$155.22mn as against US\$112.19mn in 2012.

#### 5.9.1 Supply/Purchases of Foreign Exchange by Commercial Banks

As a result of the stable macroeconomic environment and the improved outlook to business in the review period, there was a sustained inflow of foreign exchange across all sectors of the economy. Total purchases for 2013 increased by 20.09% to US\$663.20mn compared to US\$552.23mn recorded in 2012. The average monthly purchases recorded for 2013 was US\$55.27mn as against US\$46.02mn in 2012. As at end December 2013, foreign exchange inflows to support real sector activities in the mining and agriculture sectors amounted to US\$222.31mn and US\$59.95mn respectively compared to US\$176.95mn and US\$38.97mn, respectively in 2012.

#### 5.9.2 Supply/Purchases of Foreign Exchange by Forex Bureau

Total purchases of foreign exchange by bureaux increased by 20.88% to US\$47.64M in 2013 compared to US\$39.41 recorded in 2012. Monthly average purchase by foreign exchange bureaux in 2013 amounted to USD3.98mn as against USD3.28mn in 2012.



**5.10 Total Amount Offered, Demanded and Supplied in 2013**

During the period January to December 2013, a total of US\$31.50mn was put on offer and US\$29.03mn was sold in the weekly foreign exchange auctions. The Auction offer amount was reduced in steps from US\$1.0mn in April 2013 to US\$0.5mn by end December 2013 as a result of continuous under-subscription during the first quarter of 2013. The weighted average auction rate depreciated by 2.17% from Le4,286.23 as at end 2012 to Le4,379.17 as at end 2013.

With respect to the amount offered, demanded and supplied in 2012 and 2013, it was observed that there was a decline in the amounts offered, demanded and supplied in 2013 compared to 2012. This may be attributed to the increased foreign exchange inflows to the commercial banks, which led to the reduction in demand for auction funds.

**5.11 Receipts from Diamond Exports**

Receipts from diamond exports in 2013 amounted to US\$185.52mn reflecting a 16.87 percent increase over the US\$158.74mn recorded in 2012. Foreign exchange returns received from commercial banks indicate that a significant amount of these receipts came through the banking system. The returns also indicate that export proceeds from agricultural products and scrap metals were repatriated through the banking system.

**5.12 Migrant's Remittances**

Total migrants remittances from January to December 2013 increased by 9.85% to US\$65.90mn compared to a total of US\$59.99mn recorded in 2012.

**5.13 Sales of Foreign Exchange by Commercial Banks**

Total sale of foreign exchange by commercial banks in 2013 increased by 14.29% to US\$765.04mn compared to the US\$669.36mn recorded in 2012. The average monthly sale for 2013 was recorded at US\$63.75mn compared to US\$55.78mn in 2012. As at end December 2013, total sale of US dollar to rice and petroleum importers were US\$97.42mn and US\$134.47mn respectively compared to US\$61.92mn and US\$122.36mn in 2012.

**5.14 Sale of Foreign Exchange by Foreign Exchange Bureaux**

Total sale of foreign exchange by foreign exchange bureaux increased by 25.63% to US\$47.64mn in 2013 compared to US\$37.92mn recorded in 2012. Monthly average sale by foreign exchange bureaux also increased from US\$3.16mn in 2012 to US\$3.97mn in 2013.

**5.15 Market Outlook**

The outlook for foreign exchange inflows during the review period remained favourable with increased investment inflows to the mining sector particularly the iron ore sub-sector, which is expected to contribute towards a steady supply of foreign exchange. Inflows into agriculture and services sectors are also expected to increase. This enhanced foreign exchange inflows into the economy coupled with prudent monetary policy stance of the Bank will impact positively on the exchange rate in 2014. In the absence of severe external shocks, the Le/US\$ exchange rate is expected to remain relatively stable.

## 6.0 External Debt Management

Sierra Leone's total disbursed and outstanding official long-term debt, including principal arrears as at end December 2013, was recorded at US\$1,026.05million compared to US\$980.69million as at end December 2012. Total outstanding debt continued to be dominated by debts to multilateral creditors, accounting for 64.00 percent of the total, followed by commercial creditors of 21 percent. The residual 13.45 percent was owed to other bilateral creditors. The principal multilateral creditor was the World Bank with 23.54 percent of total debt owed.

A total of US\$239.9 million of the stock of disbursed outstanding debt was due to long outstanding arrears owed to commercial creditors.

### 6.1 Debt Developments in 2013

During the period under review, the Government of Sierra Leone continued to make timely debt service payments to all external creditors.

On October 21, 2013, the Executive Board of the International Monetary Fund (IMF) concluded an Article IV consultation with Sierra Leone and approved a three-year arrangement under the Extended Credit Facility (ECF) in support of the authorities' economic and financial program for 2013-2016. To this end, the first tranche of SDR8.88m (US\$13.76m) under the program was disbursed on 29<sup>th</sup> October 2013.

**Table 17**

<b>Stock of Sierra Leone's Disbursed Outstanding Debt (incl. Principal Arrears)</b>				
<i>(in millions of U.S. Dollars)</i>				
	<b>2012</b>	<b>percent</b>	<b>2013</b>	<b>percent</b>
	<b>December</b>	<b>of Total</b>	<b>December</b>	<b>of Total</b>
<b>1. Bilateral</b>				
Paris Club	0	0	0	0
Other Bilateral	129	14	140	14
<b>Total Bilateral</b>	129	14	140	14
<b>2. Multilateral</b>	579	286	673	344
World Bank (IBRD/IDA)	227	24	242	24
International Monetary Fund	122	13	137	13
African Development Bank/Fund	83	9	87	8
Other Multilateral	147	16	207	20
<b>Total Multilateral</b>	579	62	673	66
3. Other Creditors	22	2	18	2
4. Commercial & Short-Term Debt	202	22	195	19
<b>Grand Total (1+2+3+4)</b>	<b>932</b>	<b>100</b>	<b>1026</b>	<b>100</b>

Table 18

**Principal & Interest Arrears as at end Dec-2013 (US\$ M n)**

	D E C . 2 0 1 2		D E C . 2 0 1 3	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
<b>Total External Debt</b>	<b>248.3</b>	-	<b>240.4</b>	-
Total Commercial Obligations & Short-Term Debt 1/	221.0	-	213.7	-
Total Long-Term Debt, of which :	<b>27.3</b>	-	<b>26.7</b>	-
<b>M u l t i l a t e r a l</b>	-	-	-	-
World Bank Group	-	-	-	-
IM F	-	-	-	-
Others	-	-	-	-
<b>O f f i c i a l B i l a t e r a l</b>	<b>8.4</b>	-	<b>8.4</b>	-
Paris Club	-	-	-	-
Others 1/	8.4	-	8.4	-
<b>O t h e r C r e d i t o r s</b>	<b>18.9</b>	-	<b>18.3</b>	-
Executive Outcome	18.5	-	17.9	-
Chatelet Investment Ltd	0.4	-	0.4	-

1/ China, Morocco, Kuwait &amp; Saudi Fund

Total disbursements both programme and project received from external creditors amounted to approximately US\$60.30million. Of this amount, US\$14.95million was from the International Development Association (IDA); US\$13.76million from the International Monetary Fund; US\$4.94million from the African Development Bank and the residual of US\$26.65million was from the Islamic Development Bank, Organization of Petroleum Exporting Countries (OPEC), EXIM Bank of India and BADEA under various projects.

Table 19

Disbursed Outstanding Debt, including Principal Arrears as at End December 2013 classified by currency of liability ('000)						
Currency	Dec. 2012			Dec. 2013		
	Debt in Foreign Currency	Total debt in Le	% of total	Debt in Foreign Currency	Total debt in Le	% of total
Chinese Yuan	130,578	90,848,321	3.18	122,846	89,193,350	2.97
EURO	12,360	70,831,728	2.48	12,250	74,448,056	2.48
British Pound	731	5,111,821	0.18	1,715	12,471,398	0.42
Japanese Yen	828	41,762,344	1.46	820	34,335,830	1.14
Kuwaiti Dinar	3,545	54,633,903	1.91	3,351	52,132,047	1.74
Saudi Riyal	53,271	61,564,147	2.16	56,310	66,059,188	2.20
United States Dollar	150,184	650,913,429	22.80	160,334	705,460,388	23.49
Special Drawing Rights	245,372	1,634,345,692	57.26	258,187	1,731,992,640	57.67
Islamic Dinar	3,669	244,387,846	8.56	35,395	237,439,401	7.91
<b>Total</b>		<b>2,854,399,231</b>	<b>100</b>		<b>3,003,532,298</b>	<b>100</b>

Source: External Debt Policy Section

## 6.2 Currency Composition

The Special Drawing Rights and the United States Dollar continue to constitute the major currencies that dominate Sierra Leone's debt. The SDR accounted for 57.67% while the US Dollar accounted for 23.49% as at end 2013. Loans to IMF and IDA are denominated in SDRs which account for the higher percentage share of total debt.

**Table 20**

<b>Debt Indicators</b>		
<i>(in millions of U.S. Dollars)</i>		
	<b>2012</b>	<b>2013</b>
<b>Multilateral</b>	<b>630.73</b>	<b>672.62</b>
<b>Bilateral</b>	<b>128.96</b>	<b>139.73</b>
Other Creditors	18.9	18.25
Total Commercial & Short-Term Debt	202.1	195.44
<b>Total Stock of Debt</b>	<b>980.69</b>	<b>1026.04</b>
Debt Service Payments Due	27.27	29.38
Debt Service Payments Made	28.28	28.22
Exports	1121.87	1803.81
Gross Domestic Product	621	671
<b>Debt Ratios (in %)</b>		
	<b>2012</b>	<b>2013</b>
Stock of debt as a percentage of Gross Domestic Product	157.92	152.91
Stock of debt as a percentage of Export	87.42	56.88
Debt Service as a percentage of Export	2.52	1.56
<b>Debt Service Payments Made (in Millions of US\$)</b>		
	<b>2012</b>	<b>2013</b>
<b>Bilateral:</b>	<b>3.79</b>	<b>4.62</b>
Paris Club Creditors	0.00	0.00
Others Bilateral	3.79	4.62
<b>Multilateral (Net Amount)</b>	<b>15.28</b>	<b>19.54</b>
African Development Bank/Fund	0.92	1.24
World Bank (IBRD/IDA)	1.86	2.59
International Monetary Fund	7.06	7.76
Other Multilateral	8.14	9.93
<i>of which: HIPC exclude savings on debt service</i>	2.70	1.96
<b>Net Amount Paid</b>	<b>5.44</b>	<b>7.97</b>
<b>Commercial Creditors</b>	<b>6.50</b>	<b>2.10</b>

### **6.3 Debt Indicators and Debt Service Payment**

Debt service payments made during the review period declined marginally by 0.21 percent from US\$ 28.28 million in 2012 to US\$28.22 million in 2013. This marginal decline was accounted for by the reduction in foreign payments made to commercial creditors. The ratio of debt service to exports declined in 2013, as a result of improved export performance during the period. The ratio of the stock of debt to GDP also decreased by 3.17 percent as a result of expansion in Gross Domestic Product.

As Sierra Leone's debt situation stands at moderate risk of debt distress, the Government continues to maintain prudent borrowing policies by relying mainly on grants and highly concessional loans.

### **7.0 Financial Sector Development**

During the review period, the sum of US\$704,000 was disbursed by the African Development Bank (AfDB), under the Fragile States Facility window; additionally, the World Bank disbursed US\$450,000, all intended to provide technical assistance and capacity development support to the Bank of Sierra Leone (BSL) as it plays the lead role in reforming the financial sector under the Financial Sector Development Program (FSDP).

With availability of these resources, a total of 79 staff, 48 males and 31 females benefitted from overseas training courses in diverse areas covering administration, macroeconomic and financial management, project management, IT and payments system. The FSDP project also funded the procurement of 39 laptops, 11 desktops and other ancillaries in support of an enabling work environment for staff in the Bank.

In order to meet the demands of the rapidly changing business environment, the Bank of Sierra Leone undertook the process of recruiting a firm of consultants to help with developing a records and information management system that will modernize the management of its existing records system.

In addition to the recruitment of a project management consultant and a consultant for capacity building to support the implementation of the WAMZ Payments System modernization project, the Bank of Sierra Leone also initiated recruitment of consultants to support the Banking Supervision Department, the review of the legal and regulatory framework for the WAMZ Payments System project and the Human Resources Department during the period under review.

#### **7.1 Banking Supervision**

The Bank of Sierra Leone continues to perform its supervisory role aimed at achieving and maintaining a sound, stable and robust financial system. In a bid to enhance economic activity and promote increased access to financial services in the country, a license was granted to *Apex Bank (SL) Limited* to carry out a first level supervision of both the community banks and the Financial Services Association. Also, licenses were granted to four new community banks during the period, in an effort to deepen financial activities in the rural areas. The four new community banks include *Kamakwie Community Bank*, *Madina Community Bank*, *Sumbuya Community Bank* and *Taiama Community Bank*.

The Bank also approved the opening of additional branches of the following commercial banks during the review period: Union Trust Bank (UTB) (SL) Limited in Lunsar, Northern Province; Guaranty Trust Bank (SL) Limited in Wellington, Western Area and Ecobank (SL) Limited, in Bo, Southern Province. During the period, Standard Chartered Bank (SL) Limited was also granted approval to relocate its Wellington branch to Cline town and Ecobank Microfinance (SL) Limited to establish a branch at Signal Hill, in the Western area.

The partnership between the mobile telecommunications companies operating in Sierra Leone and the commercial banks continued to grow during the review period. Approval was granted to Guaranty Trust Bank (SL) Limited to partner with Afrimobile Money (SL) Limited, a subsidiary of Africell mobile telecommunications Company, and serve as settlement account holder and dealer in the Sierra Leone market. Approval was also granted to Access Bank (SL) Limited to partner with Airtel Money. Meanwhile, the Central Bank continued to maintain and implement the Black Book, designed to minimize fraud in the financial system and ensure that undesirable elements are not recycled in the industry. Names of severed (dismissed/terminated) staff from financial institutions are forwarded to the Banking Supervision Department for record purposes.

## 7.2 Commercial Banks

The assets of the commercial banks increased from Le3.62 trillion as at end December, 2012 to Le4.33 trillion as at end December, 2013, representing a 19.61 percent growth (Le710.70 billion). This growth was mainly derived from the 21.67 percent increase in deposits, which increased from Le2.83 trillion as at end December, 2012 to Le3.44 trillion as at end December, 2013. Demand, Savings and Time Deposits recorded a total of Le957.89 billion, Le712.53 billion and Le392.01 billion at the end of the reporting period representing increases of Le242.55 billion, Le84.86 billion and Le97.04 billion, respectively.

Shareholders' funds increased by 18.00 percent (Le88.59 billion) during the review period, from Le494.66 billion as at end December 2012 to Le583.25 billion as at end December 2013. This was mainly due to the 8.00 percent increase in the issued and paid-up capital.

The statutory capital adequacy ratio requirement of 15 percent was adhered to as the banking system recorded a ratio of 30.12 percent as at end December, 2013, representing a 2.15 percent increase compared to the 27.98 percent recorded at end December, 2012. The observance of this statutory requirement came about as a result of the increase in banks' minimum paid-up capital to Le27 billion as at end December, 2013.

Table 21

Commercial Banks operating in Sierra Leone (31<sup>st</sup> December 2013)

BANK	No. of Branches 2011	No. of Branches 2012	No. of Branches 2013	Freetown	Waterloo	Bo	Mojamba	Pujehun	Njala	Kerema	Kono	Kailahun	Makeni	Magburaka	Lunsar	Lungi	Peper	Buntuna	Port Loko	Kabala	Kambia	Total
RCB	2	2	2	6	-	1	1	1	-	1	1	-	1	-	-	-	-	-	-	-	-	2
SLOCB	3	3	3	5	1	1	1	-	1	1	1	-	1	-	-	-	-	-	1	-	-	3
SOB	3	3	4	3	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4
UTB	9	10	11	3	-	1	-	-	1	1	1	-	-	1	1	-	-	-	-	1	1	11
GTB	10	11	12	6	-	1	-	-	-	1	1	-	1	-	-	-	1	1	-	-	-	12
FIB	6	6	7	8	1	1	-	-	-	1	1	1	1	1	-	1	-	-	1	-	-	7
ICB	2	2	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
ECO	7	7	8	4	1	1	-	-	-	1	-	-	1	-	-	-	-	-	-	-	-	8
ACCESS	4	4	4	3	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	4
UBA	3	3	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
SKYE	1	1	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
ZENITH	4	4	4	2	-	-	-	-	-	1	-	-	-	-	-	1	-	-	-	-	-	4
KEYSTONE	2	3	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Grand Total	86	89	95	50	3	7	2	1	2	7	5	1	6	2	1	2	1	1	2	1	1	95

Gross private sector credit by the banking industry was recorded at Le1.28 trillion as at end December, 2013, reflecting a Le130.34 billion or 11.5 percent increase compared to the Le1.15 trillion recorded at end 2012. Key beneficiary sectors as at end December, 2013, included Construction 16.87 percent, Import Trade 19.19 percent, Transport, Storage and Communication 7.77 percent, Export Trade 7.06 percent, Other Services 7.03 percent, Manufacturing 6.81 percent, Agriculture, Forestry and Fisheries 5.48 percent and Miscellaneous 4.28 percent.

The Industry's performing loans ratio increased to 77.58 percent of gross advances at end December, 2013. The ratio of non-performing loans to gross loans and advances increased from 14.85 percent at end December 2012 to 22.42 percent at end December 2013, representing a 7.57 percent increase which was indicative of a deterioration of the banks' credit portfolio.

Profitability of the commercial banks declined during the review period with pretax profit decreased by 29.31 percent from Le121.44billion during the period ended December 2012 to Le85.85 billion during the period ended December 2013.

There was a marginal 1.63 percent decline in Return on Assets ratio in 2013, down from 3.73% in December, 2012 to 2.10 percent in December 2013.

1	31-Dec-12 2	31-Dec-13 3
<b>Total Assets</b>	<b>3,618,599,564</b>	<b>4,329,303,120</b>
Average Total Assets	3,259,680,563	4,092,757,343
Loans and Advances(Gross)	1,150,604,262	1,280,942,033
Bad Debt Provision	(76,295,099)	(115,641,292)
Interest in suspense	(45,932,147)	(67,446,254)
Loans and advances(Net)	1,028,377,016	1,097,854,487
Investment-TB, TBB, OFI*	818,937,665	1,156,953,679
Fixed Assets	190,645,085	197,347,591
<b>Local Deposits:-</b>	<b>1,637,983,196</b>	<b>2,062,432,369</b>
Demand	715,338,918	957,888,784
Savings	627,678,481	712,534,561
Time	294,965,797	392,009,024
<b>Foreign Deposits</b>	<b>1,152,968,313</b>	<b>1,325,094,915</b>
<b>Deposits with Financial Institutions</b>	<b>38,302,238</b>	<b>54,855,011</b>
<b>Capital:-</b>		
Paid-up	372,611,828	403,717,542
Statutory & Other Reserves	100,744,815	141,153,930
Retained Earnings	-64,838,629	-62,402,642
Current profit	81,873,226	54,510,067
Primary Capital	408,518,014	482,468,830
Revaluation Reserves	49,687,063	49,687,063
Capital Base	475,159,009	542,198,024
Total Risk Weighted Assets	3,772,874,585	4,517,722,510
Capital Adequacy Ratio	27.98	30.12
Surplus/(Shortfall)%	12.98	15.12
Surplus/(Shortfall):Le	220,407,120	272,220,242
Average Shareholders' Fund	494,660,265	583,247,051

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

Table 22 Contd  
**Commercial Banks Operating in Sierra Leone**  
**Prudential Indicators (Unaudited)**  
**(In Thousand Leones)**

1	31-Dec-12 2	31-Dec-13 3
<b>Asset Quality</b>		
Performing Loans	882,614,896	885,419,395
Non-Performing Loans	169,542,411	287,250,502
Loan Loss Provisions	(76,295,099)	(115,641,292)
Non- Performing as a % of Total Advances	14.74	22.42
Loan Loss Provisions as a % of Non-Performing	(45)	(40)
<b>Profitability : Pre-Tax Profits</b>	<b>121,442,436</b>	<b>85,847,561</b>
Post Tax Profits	86,082,875	57,561,218
Return on Assets	0.04	0.02
Return on Equity Funds	0.17	0.10
<b>Liquidity:Liquid Assets</b>		
Cash	186,363,543	200,130,550
Current Account with BSL	88,587,661	218,729,321
Treasury Bills	802,713,463	1,141,884,600
Placement with Discount Houses	17,771,653	10,570,162
Treasury Bearer Bonds	1,165,800	2,620,013
Cash Ratio	12.30	16.96
Overall Liquidity Ratio	49.08	72.45
Surplus/(Shortfall) (%)	20.34	43.16
Surplus/(Shortfall) (Le)	333,214,840	890,198,135
<b>Foreign Assets:</b>	<b>1,236,702,594</b>	<b>1,335,979,561</b>
Foreign Currency(cash)	73,560,362	69,101,938
Balance with Other Banks abroad	1,121,106,209	1,251,843,156
Foreign Other Assets	42,036,023	15,034,467
<b>Foreign Liabilities:</b>	<b>1,173,902,175</b>	<b>1,337,494,218</b>
Foreign Deposits	1,152,968,313	1,325,094,915
Foreign Other liabilities	14,992,696	9,346,942
Foreign Cash Marginal	5,941,166	3,052,361
<b>NET FOREIGN POSITION:</b>		
<b>Assets- Liabilities</b>	<b>62,800,419</b>	<b>(1,514,657)</b>



The statutory cash ratio requirement of 12% was adhered to with a surplus of 4.96 percent as at end December 2013. The overall liquidity ratio requirement of the banking system was also achieved as the industry recorded actual liquidity ratio of 72.45 percent in 2013, representing an excess liquidity of 42.45 percentage points over the minimum requirement of 30 percent

### 7.3 Other Financial Institutions (OFIs)

#### 7.3.1 Community Banks

The Community banks over the period have been fraught with a myriad of challenges, ranging from poor corporate governance and internal controls lapses, paucity of qualified staff, remoteness of locations, lack

of basic infrastructure, weak information and communication technology etc. To compliment the efforts of the Bank of Sierra Leone, the International Fund for Agricultural Development (IFAD) supported the restructuring of the six (6) Bank of Sierra Leone - pioneered community banks and established eleven (11) more community banks and fifty one (51) Financial Services Associations (FSAs).

Total assets and profit before tax of the seventeen community banks were recorded at Le35.81 billion and Le4.22 billion respectively as at end December, 2013.

The Banking Supervision Department continues to perform on-site examination and off-site surveillance of the community banks.

**Table 23**

**Community Banks operating in Sierra Leone (31/12/13)**

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

### 7.3.2 Discount Houses

There are still two discount houses in the financial system of Sierra Leone as at end of the review period: *First Discount House* and *Capital Discount House*. Their consolidated assets and profit before tax were recorded at Le20.53 billion and Le589.44million respectively as at 31<sup>st</sup> December, 2013.

**TABLE 24**

<b>Consolidated Balance Sheet of Discount Houses</b>		
<b>Balance Sheet as at 31st December 2013</b>		
	<b>2012</b>	<b>2013</b>
<b><u>ASSETS</u></b>	<b><i>(Le'000)</i></b>	<b><i>(Le'000)</i></b>
<b>Cash:</b>		
<i>Local</i>	3,023.00	1,875
<i>Foreign</i>	-	-
<b>Claims On:</b>		
<i>BSL</i>	313,502.00	1,529,904
<i>Other Banks</i>	6,614.00	105,484
<b>Loans/Repo</b>	<b>1,814,345</b>	<b>2,701,307</b>
<b>Investment:</b>	<b>12,441,499</b>	<b>6,278,326</b>
<i>Short-term:</i>	933,632	3,756,226
<i>Treasury Bills</i>	479,293	6,061,731
<i>Treasury Bearer Bonds</i>	60,000	156,595
<i>Commercial Paper</i>	394,339	60,000
<i>Long-term:</i>	11,507,867	394,340
<i>Banker's Acceptances</i>	-	-
<i>Securities</i>	-	-
<i>Other Assets</i>	9,161,605	8,909,382
<i>Fixed Assets</i>	564,151	607,606
<b>Total Assets</b>	<b>23,371,107</b>	<b>20,528,224</b>
	-	-
<b><u>LIABILITIES</u></b>		
<b>Placements/deposits</b>	<b>4,242,711</b>	<b>1,899,756</b>
<b>Borrowings</b>	<b>2,000,000</b>	-
<b>Other Liabilities</b>	<b>10,339,523</b>	<b>11,872,451</b>
<b>Shareholders' Funds:</b>	<b>6,788,873</b>	<b>6,756,017</b>
<i>Paid up Capital</i>	3,379,705	3,402,513
<i>Statutory Reserves</i>	1,437,956	1,713,844
<i>Other Reserves</i>	838,967	838,967
<i>Share Premium</i>	427,759	427,759
<i>Current Profits</i>	722,061	390,443
<i>Retained Profits</i>	(17,575.00)	(17,509)
<b>Total Liabilities</b>	<b>23,371,107</b>	<b>20,528,224</b>

### 7.3.3 Foreign Exchange Bureaux

The number of foreign exchange bureaux as at 31<sup>st</sup> December, 2013 was thirty nine (39), same as in 2012.

Table 25

#### Licensed Foreign Exchange Bureaux and their Branches in Sierra Leone (31/12/13)

No.	Bureaux	F/town	Bo	kenema	Makeni	Lungi	Kono	Kabala	Total
1	Afro Foreign Exchange Bureau Limited	5	1	1	1	-	1	-	8
2	Ayoub Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
3	Abu Taraff Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
4	Albasco Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
5	Best Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
6	Blue Circle Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
7	City Centre Foreign Exchange Bureau Limited	1	1	-	-	-	-	-	2
8	Dem Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
9	DevKay Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
10	Dycar Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
11	Fadugu Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
12	Fatismed Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
13	First Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
14	Fofan Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
15	Frandia Foreign Exchange Bureau Ltd	2	-	-	-	-	-	-	2
16	Freetown Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
17	Galtech Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
18	Guru Nanak Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
19	Harry s Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
20	I B C Foreign Exchange Bureau	1	-	-	-	-	-	-	1
21	Kakua Foreign Exchange Bureau Ltd	1	1	-	-	-	-	-	2
22	Kallah Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
23	LeoneUK Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
24	Leigh Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
25	Malador Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
26	Manans Foreign Exchange Bureau Limited	1	1	1	1	-	-	1	5
27	Mnorma Foreign Exchange Bureau	1	-	-	-	-	-	-	1
28	Navo s International Foreign Exchange Bureau	1	-	-	-	-	-	-	1
29	Nimo Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
30	Paramount Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
31	Pottal Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
32	Raju s Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
33	Rikban Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
34	Rumez Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
35	Sara Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
36	Tap Foreign Exchange Bureau limited	1	-	-	-	1	-	-	2
37	Tonisco Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
38	Vanbhari Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
39	Wickburn Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
<b>Total Number of Bureau and Branches</b>		<b>44</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>55</b>

### 7.3.4 Microfinance Institutions (MFIs)

#### 7.3.4.1 Deposit-Taking Microfinance Institutions

There were two licensed deposit-taking micro finance institutions in Sierra Leone as at 31<sup>st</sup> December, 2013: *Ecobank Micro Finance Institution (SL) Ltd (EMSL)* and *Bank for Innovation and Partnership (BIP) Microfinance*. Though initially the later was licensed to operate as a deposit-taking MFI, its current mode of operation is that of a credit-only MFI. As a result, EMSL constitutes the only deposit-taking institution that was operating in Sierra Leone with total assets of Le42.62 billion and a pre-tax profit of Le18.87 million as at end December, 2013.

#### 7.3.4.2 Credit- Only Microfinance Institutions

As at the 31<sup>st</sup> December, 2013 there were eight (8) registered credit - only Micro finance institutions operating in Sierra Leone as indicated by the number of certificates issued by the Bank.

**Table 26**

<b>Credit-only Microfinance Institution with certificate issued by the Bank of Sierra Leone as at 31<sup>st</sup> December 2013</b>		
<b>Credit-only</b>	<b>No. of Branches</b>	<b>Address</b>
Brac Microfinance(SL) Limited	42	28 Old Lumley Road, Off Spur Road, Wilberforce, Freetown
A Call to Business Trading(SL) Limited	1	8 Road, off Gooding Drive, Babadorie-Lumley
Finance Salone	11	c/o Union Trust Bank
Salone Microfinance Trust Limited	5	13 Azzolini Highway, Makeni
Counterpart in Community	1	350 Bai Bureh Road, Calaba
Grassroots Gender Empowerment Movement	2	57 John Street, Freetown
Safe Microfinance	1	21 Suku Tamba Street, Bo Town
<b>Deposit-Taking Microfinance Institutions with Certificate issued by the Bank of Sierra Leone as at 31<sup>st</sup> December, 2013</b>		
<b>Deposit-Taking</b>	<b>No. of Branches</b>	<b>Address</b>
Ecobank Microfinance (SL) Ltd.	5	1 Rawdon Street, Freetown

#### 7.3.5 Mortgage and Savings Institutions

HFC Mortgage and Savings Company was the only mortgage company in Sierra Leone with total assets and pre-tax profit of Le109.55 billion and Le2.27 billion respectively as at end December, 2013.

### 7.4 Credit Reference Bureau (CRB)

The Credit Reference Bureau continues to provide credit reference reports to commercial banks on their individual and business clients.

As at 31<sup>st</sup> December 2013, the CRB has issued eleven thousand eight hundred and ninety one (11,891) reports on individuals and businesses alike.

### 7.5 Improving Access to Finance

The Bank of Sierra Leone in recent years has been proactive in promoting Financial Inclusion and Literacy as a complement to its financial stability goals which lends support to “improving access to finance” as one of the objectives of the Financial Sector Development Plan.

In a bid to improve rural financial intermediation, the Bank of Sierra Leone encouraged the growth of Community Banks, Financial Services Associations and Microfinance Institutions in various rural locations as a means to monetizing the informal sector and deliver services to the rural population at reduced costs.

The Bank of Sierra Leone's interest in financial inclusion points to the fact that a majority of the people are either not aware or have very little understanding of the basic financial concepts, products and services offered by the financial sector. The question therefore remained how to bring these people on board and make them more aware of the available facilities around them. In pursuit of this objective the Bank in 2013 actively embarked on public awareness raising campaigns on the financial services available and encouraged commercial banks, insurance companies and other financial services providers to design suitable products to meet the needs of their customers.

The Bank of Sierra Leone during the same year also held its first national Workshop on financial inclusion, where participants were drawn from different parts of the country and from various works of life. In addition, the Bank constituted a National Financial Inclusion Committee with the aim of developing a national agenda, thereby up-scaling the level of awareness in financial inclusion in the country.

Following its membership of the Alliance for Financial Inclusion (AFI) in August 2009 and the subsequent adoption of the Maya Declaration in December 2012, the Bank of Sierra Leone in facilitating financial inclusion programs encouraged the promotion of financial literacy campaigns and the developments of mobile telephone-based banking, ATMs, money transfers, linkage banking and the downscaling of some commercial banks' activities in microfinance, thereby introducing new concepts/products and more competition. The Bank of Sierra Leone, therefore, particularly welcomed the efforts of *Airtel Money* and *Splash* in providing these services, while in due course, it develops a comprehensive regulatory framework for this sub sector.

The Bank has also been collaborating closely with the Government, the National Social Security and Insurance Trust (NASSIT), insurance companies and the private sector to establish a specialized bank that will provide medium to long-term funds to priority sectors such as agriculture, agro - industries and manufacturing. Another target beneficiary will be the small and medium scale enterprises (SMEs) which are unable to secure commercial bank loans.

Through partnership between the Bank and IFAD, the Rural Finance and Community Improvement Programme (RFCIP) was established to improve access to rural finance in the agriculture sector through mobilization of domestic funds and provision of linkages with the commercial banks and other financial institutions. Through this mechanism six (6), distressed community banks were restructured and an additional eleven (11) Community Banks (CBs) and fifty one Financial Services Associations (FSAs) were established in the rural areas with functional and quality management and effective financial performance offering financial services to over 50,000 shareholders. The Refinancing program under IFAD has made available the sum of Le300m to 7 CBs and Le50m to 7 FSAs for on lending to the productive sectors in the rural areas of the country.

The Bank will continue to work with IFAD for the implementation of the second phase of the Rural Finance and Community Improvement Programme (RFCIP 2) consistent with the objective of increasing sustainable access to finance. Key deliverables under the RFCIP 2 include the establishment of an Apex Bank to provide first level supervision to CBs and FSAs, and the opening of additional nine CBs and twenty three FSAs to serve the rural communities.

## 7.6 Regulatory Framework

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

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

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

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

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

## 8.0 Payments System

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

In line with the above objective, 2013 witnessed aggressive strides being made by the Bank of Sierra Leone to modernize the Payments, Clearing and Settlement Systems, in a bid to:-

- To provide effective and efficient mechanisms for the exchange of value between transacting parties
- To ensure finality and irrevocability of both payment and settlement
- To enable the management, reduction and containment of systemic and other payment related risks.

Key elements of the accomplishments made by the Bank, in collaboration with its partners, the West African Monetary Institute (WAMI), the African Development Bank (AfDB), the World Bank and the commercial banks are the following:

### 8.1 Standardization of Payments Instruments (Cheques)

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

The introduction of standardized cheques provided more controls in the payments process. Vital data concerning the cheques are now being exchanged electronically, thereby minimizing the incidence of fraud. It also ensures greater efficiency, accuracy and best internal control/coverage of risks as well as reduction in the turnaround time for stakeholders.

## **8.2 Benefits of the New Payments System**

With this new Payments System, there is reduction in the time it now takes banks to clear cheques drawn on each other and financial market participants can now rely on the timely receipt of funds for all transactions. The Bank of Sierra Leone can now collate payment system data electronically, use same in their monetary policy operations and guide against exposure of its stakeholders to financial risks.

Other Benefits Include:

- Reduced operating/processing costs through reduction of the use of instruments/cheques handling
- Encourage introduction of a number of electronic payment instruments.
- Afford safety and security by way of elimination of stolen or lost cheques since movement of cheques will be curtailed.
- Elimination of settlement float thus improving efficiency in the financial system
- Effective and accurate monitoring of the liquidity in the banking system and improved risk management of payment process.
- Greater transparency within the high volume payments arena.
- Greater accuracy in the measurement of liquidity.
- The payment process will gain predictability and hence reliability,
- It provides transaction channel between the formal business and the un-banked and under-banked,
- Transactions are provided off-line or on-line making it a suitable payment option for the rural area.
- Automated payment systems are more secured than the use of cash.

## **8.3 Real Time Gross Settlement (RTGS) System**

The RTGS system was introduced for large value payments in the interbank market where commercial banks and the Bank of Sierra Leone are able to operate their accounts in real time via a computerized network between the BSL and the participating banks. Large value payments in Sierra Leone refer to payments with value above SLL50,000,000.00 (Fifty million Leones). It is also a system for settlement of clearing and securities transactions. This system ‘went live’ on 2<sup>nd</sup> August, 2013 with the full participation of all banks in the country. Under the new arrangements commercial banks are now able to settle transactions related to their accounts at the BSL immediately after the terms of the transaction have been agreed and executed between the banks. This however requires that the bank sending a debit instruction must have sufficient balances available in its account before the funds transfer takes place. The system effects final settlement of inter-bank transfer on a continuous, transaction-by-transaction basis throughout the processing day.

## **8.4 Automated Clearing House (ACH) System**

This constitutes the platform for processing low value, high volume transactions involving cheques, Direct Credits and Direct Debits. Low value payments in Sierra Leone refer to payments with value SLL50,000,000.00 (Fifty million Leones) and below. This system went live in Sierra Leone on 5<sup>th</sup> August 2013 and is now up and running as a platform for processing low value, high volume transactions.

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

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

### **8.5 Scripless Securities Settlement (SSS) System**

The SSS otherwise known as the Central Securities Depository (CSD) is an electronic system for processing of Government securities such as Treasury Bills and Treasury Bonds. The process involves bidding in an auction system, secondary market transactions etc. This system went live in Sierra Leone on 5<sup>th</sup> September, 2013 and has since been used for the conduct of Treasury Bills and Treasury Bonds operations as well as for secondary market transactions. This system has created efficiency in the securities market by reducing the time taken to process these transactions as well as making available secondary data for monetary policy analysis.

### **8.6 Core Banking Application (CBA)**

The Bank, in addition to the above modernizations also replaced its old in-house custom built banking system with a more robust and state of the art system (Temenos T24) Core Banking Application. This new application is charged with performing traditional banking activities with robust features. It hosts the current accounts of all Bank of Sierra Leone customers such as MDAs, commercial banks, special projects etc and is interfaced with all the other systems including the Bank of Sierra Leone General Ledger. The T24 system has created efficiency in processing transactions introducing more controls in the day to day operations of the Bank.

### **8.7 Infrastructure Upgrade**

For all of these Payments Solutions (ACP/ACH, RTGS 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 relates to the:

- **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

### **8.8 Disaster Recovery (DR) SITE**

During the period under review, the Bank completed the construction of 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. In the event of any disaster like fire, etc at the main site, work can continue at the DR site without any interruption. This site is equipped with computers and can house about thirty staff who can comfortably continue with their work if the need arises.



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

An assessment of Sierra Leone's performance on the WAMZ convergence scale during the second half of 2013 revealed that the country recorded significant progress towards achieving the WAMZ convergence criteria by satisfying all four primary criteria: single digit inflation; fiscal deficit excluding grants of at most 4 percent of GDP; Central Bank Financing of the Fiscal Deficit of at most 10 percent of the previous year's tax revenue; and Gross External Reserves of at least 3 months of imports cover. The country also met one of the secondary criteria – Public Investment from tax revenue of at least 20 percent.

### **9.1 Primary Criteria**

**9.1.1 Inflation** – In an environment of proactive monetary policy, a relatively stable exchange rate and a stable external environment for world commodity prices, inflationary pressures receded during the reporting period. The year-on-year inflation rate declined from 11.41 percent in December 2012 to 8.23 in December 2013. This was in compliance, for the first time, with the primary criteria of single digit inflation under the WAMZ convergence criteria. The steady improvement in inflation performance recorded during the review period was attributable mainly to the increase in domestic food production, relative stability in the exchange rate and tight monetary policy stance supported by prudent fiscal policy during the review period.

**9.1.2 Fiscal Deficit/GDP Ratio** – In previous years, the country made significant efforts to meet this criterion but the challenges were enormous. However, during the review period, the performance of fiscal deficit (excluding grants) improved significantly to 3.3 percent of GDP, down from 5.25 percent recorded in 2012, thereby meeting the WAMZ primary criterion on fiscal deficit ratio of at most 4 percent of GDP. This achievement could be attributable to the expenditure restraints exercised by the fiscal authorities in budget execution coupled with improved domestic revenue performance during the review period.

**9.1.3 Central Bank Financing of Fiscal Deficit** – This criterion was met when the Central Bank financing of fiscal deficit at end December 2013 was recorded at 4.58 percent of previous year's revenue which was below the 10 percent ceiling stipulated under the WAMZ program. This attests to the Bank's continued strict adherence to the statutory limit on fiscal deficit financing throughout the year.

**9.1.4 Gross External Reserves/Months of Imports Cover** – The gross external reserves position of the Bank of Sierra Leone as at end 2013 was recorded at US\$474.96mn reflecting a 13.65 percent improvement over the US\$417.93mn recorded in the preceding year. This represents 3.5 months of imports cover which was higher than the WAMZ minimum criterion of 3 months of imports cover. The increase in gross external reserves was due to the significant increase in FDI inflows coupled with disbursements for budgetary support and mining receipts.

### **9.2 Secondary Criteria**

**9.2.1 Tax Revenue/GDP Ratio** – This criterion requires that the revenue performance of the country as a percentage of GDP should represent at least 20 percent. Tax revenues collected during the review period increased by 6.35 percent from the 9.60 percent of GDP realized in 2012 to 10.21 percent in 2013. This represents a breach of the WAMZ minimum threshold criterion of 20 percent which indicates that the growth rate of tax revenue in Sierra Leone is relatively slower than that of real GDP.

**9.2.2 Salary Mass/Total Revenue** – The salary mass to total revenue criterion of not more than 35 percent has singularly proven very difficult to achieve over the years and the review period is no exception. The ratio as at end 2013 was recorded at 58.90 percent representing a of 2.58 percent decline relative to the 60.46 percent recorded in 2012. This indicates that wage bills are very high relative to the revenue generating capacity of the country.

**9.2.3 Public Investments from Domestic Receipts** – The ratio of Public Investments to Domestic receipts during the review period was recorded at 22.55 percent reflecting a decline of 7.44 percentage points over the 2012 position of 29.99 percent but still remained higher than the 20 percent threshold stipulated under the WAMZ Convergence program. The consistency with which this criterion has been met over the years attests to the high priority government has placed on capital expenditures for infrastructure development in recent years.

**9.2.4 Real Interest Rate** – Real Interest Rate remained negative throughout the reporting period thereby breaching the requirement under the WAMZ criteria. Real interest rate on savings in 2013 was recorded at minus 2.98 percent, representing an improvement over the minus 4.91 percent recorded in 2012. This development was in part attributable to the significant decline in inflation rate and marginal improvement in the savings rate.

**9.2.5 Nominal Exchange Rate Stability** – The nominal exchange rate of the Leone to the US Dollar continues to breach the  $\pm 15$  percent band on the central parity rate stipulated under the WAMZ Exchange Rate Mechanism (ERM) which has not been reviewed over a long period of time.

Table 27

<b>Status of Convergence</b>					
<b>(Primary Criteria)</b>					
<b>Criteria</b>	<b>Target</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Inflation (end period)</b>	Single digit	17.84%	16.64%	11.41%	8.23%
<b>Fiscal Deficit/GDP% (excl. grants)</b>	Less than or equal to 4%	12.50%	14.20%	5.25%	3.30%
<b>Central Bank Financing/ Previous years tax revenue</b>	Less than or equal to 10%	27.90%	15.93%	5.02%	4.58%
<b>Gross External Reserves (Months of imports)</b>	Greater than or equal to 3 months	4.5	3.0	3.0	3.5
<b>(Secondary Criteria)</b>					
<b>Criteria</b>	<b>Target</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Domestic Arrears</b>	0	n.a	n.a	n.a	n.a
<b>Tax revenue/GDP ratio</b>	Greater than or equal to 20%	10.3%	12.13%	9.60%	10.21%
<b>Salary Mass/Total Tax revenue</b>	Less than or equal to 35%	60.92%	58.57%	60.46%	58.90%
<b>Public Investment from Domestic receipts</b>	Greater than or equal to 20%	14.38%	28.0%	29.99%	22.55%
<b>Real Interest Rate</b>	Greater than 0	-11.59%	-10.14%	-4.91%	-2.98%
<b>Exchange rate</b>	Stable +/- 15%	33.55%	41.45%	40.85%	40.80%

## 10.0 Human Resources Developments

### 10.1 Staff Strength

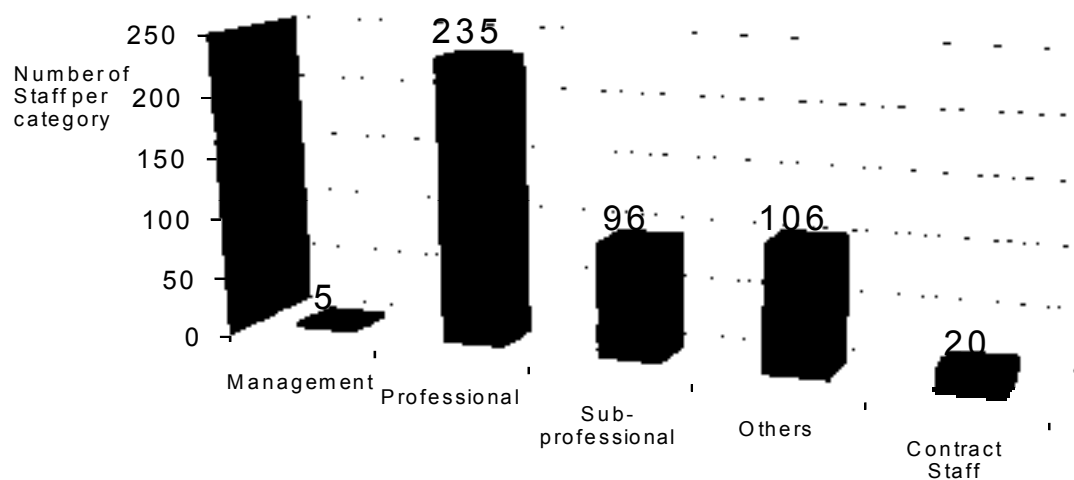
Staff strength in the Bank of Sierra Leone as at end December 2013 was recorded at 462, reflecting a 2.7 percent decline over the 475 recorded as at end December 2012. The variance was recorded mainly in the Professional, Sub-Professional and General Services cadres. As at end December 2013, staff strength in the Management cadre remained unchanged at 5, same as it was in December, 2012.

Staff strength in the Professional cadre increased by 3 (three) as at 31<sup>st</sup> December, 2013 due to recruitment of additional Banking Officers as against severance within this category during the year. Staff strength in the Sub-Professional cadre declined by 8 (eight) from 104 (one hundred and four) in 2012 to 96 (ninety six) in 2013. The decline was due to promotions of some Senior Clerks to the Banking Officer cadre, as well as severance of staff members within the cadre. Staff strength in the General Services cadres decreased by 4 (four) from 110 (one hundred and ten) in 2012 to 106 (one hundred and six) in 2013. This was as a result of the demise of 3 (three) Staff members and retirement of one within this category.

Total male staff strength was recorded at 326 (three hundred and twenty six) as at end December 2013, of which 5 (five) were fixed Term Employees. The proportion of male staff (including Fixed Term Employees) to total staff strength was recorded at 70.6% as at end December 2013.

<b>CATEGORY OF STAFF BY GENDER - 2013</b>			
<b>CATEGORY</b>	<b>M A L E</b>	<b>F E M A L E</b>	<b>T O T A L</b>
Management	4	1	5
Professional	149	86	235
Sub-Professional	65	31	96
General Service Staff* *	103	3	106
Total Permanent Staff	321	121	442
Fixed Term Employees	5	15	20
<b>Grand Total</b>	<b>326</b>	<b>136</b>	<b>462</b>

**Chart 11**  
**Breakdown of Staff per Category as at end 2013**



**Various Categories**

Total female staff strength as at end December 2013 was recorded 136 (one hundred and thirty six), of which 15 (fifteen) were Fixed Term Employees. The proportion of female staff to total staff strength (including Fixed Term Employees) was recorded at 29.4% in December 2013.

**Table 29**

**Staff Movement as at Dec. 2012 & Dec. 2013**

<b>CATEGORY</b>	<b>2012</b>	<b>2013</b>
Recruitment	17	31
Contract	1	-
Resignation	9	15
Vacated	4	-
Dismissal	-	1
Deceased	4	4
Termination	1	1
Retirement	16	17
Voluntary Retirement	2	3
Retirement on Medical Grounds	1	1
End of Contract	-	3
Absorption from Contract to Permanent Staff	-	2
<b>Total</b>	<b>55</b>	<b>78</b>

**10.2 Severance**

A total of 44 (forty four) members of staff severed from the service of the Bank as indicated below:

Resignation	-	15
Retirement	-	17
Termination	-	1
Deceased	-	4
Retirement on Medical Grounds	-	1
Position declared vacant	-	0
Voluntary Retirement	-	3
Expiration of Contract	-	3
Dismissal	-	1
<b>Total</b>		<b><u>45</u></b>

*\*\*General Services (GS) Category refers to Driver, Cook/Steward, Barman Waiter, Office Assistants, Gardener, Watchman, Handyman, Lift Operator, Technician, Carpenter and Cleaner.*

**10.3 Training - 2013**

In 2013, training opportunities provided by the Bank increased significantly and was consistent with its policy of building staff capacity to ensure high standards of professionalism. This was made possible with support received from the World Bank (WB), the African Development Bank (AfDB), under the FSDP. Staff benefitted from both local and overseas training programmes in order to enhance their skills and knowledge base in various disciplines, so as to adequately equip them to perform their duties effectively. These included short courses, study tours and attachments at sister Central Banks in Nigeria, Ghana and The Gambia.

Training opportunities were generally distributed equitably across all Departments in the Bank even though staff in certain strategic policy departments such as Banking Supervision, Financial Markets and Research benefitted more from the training programmes in an effort to strengthen the Bank's capacity to efficiently implement its mandate.

The Bank also participated in several short courses overseas under third party sponsorships from institutions such as the *West African Institute for Financial and Economic Management (WAIFEM)*, in collaboration with their partner institutions like *the Commonwealth Secretariat, the International Monetary Fund (IMF), the United Nations Economic Commission for Africa (UNECA)* and *the Africa Capacity Building Foundation (ACBF)*. As usual, WAIFEM organized the highest number of courses, totaling 21 (twenty one), 2 (two) of which were in collaboration with *the International Monetary Fund (IMF)* and *the Africa Capacity Building Foundation (ACBF)*.

For training programmes fully funded under the FSDP Project, the Bank patronized reputable training institutions in the sub-region including *the African Institute of Management Science (AIMS)* and the *International Management Training Consortium (IMTC)* as well as from the expertise of established overseas training bodies including RIPA International, *Global Training Consulting (GTC)*, the *London Corporate Training (LCT)* and *Crown Agents* in London, United Kingdom.

Training in specialized areas included staff of the various departments primarily involved in the implementation of the WAMZ Payments Systems Development Project. They include the Management Information Systems Department which benefitted from training organized by Koenig Solutions in India, the Banking Department whose staff had the opportunity to participate in study tours and the Banking Supervision Department whose staff also benefitted from training organized by VALTECH Consultants in India. Four technical staff of the General Services Department comprising of Engineers and Electricians, also benefitted from technical training on the Currency Management Equipments, organized by the Consultants, Giesecke & Devrient (G&D) in Dubai, United Arab Emirates.

The Bank also sponsored **2 (two)** staff under the FSDP Project who enrolled in Masters Degree programmes for courses which are not available locally:

- Master of Science in Audit Management and Consultancy, Birmingham City University, Birmingham, United Kingdom
- Master of Science in Information Systems, Kingston University, London, United Kingdom

**Table 30**

### Training Programmes - 2013

Department	AFDB Project Sponsored Courses	Bank's Training vote Courses	No. of Participants
Accounts & Budget	7	4	11
Banking	4	2	6
Banking Supervision	12	28	40
Financial Markets	6	17	23
General Services	6	-	6
Governor's Office	13	1	14
Human Resources	6	3	9
Internal Audit	8	2	10
Mgt. Info. Systems	7	-	7
Research	-	12	12
Secretary's	10	-	10
<b>Total</b>	<b>79</b>	<b>69</b>	<b>148</b>

In 2013, a total of **148 (one hundred and forty eight)** staff benefitted from overseas training programmes as summarized below:

Table 31

## BSL Training Programmes - 2013

<b>Bank's Training Vote Funded Courses</b>		
<b>COURSE ORGANIZER</b>	<b>NO. OF Courses</b>	<b>NO. of Participants</b>
West African Institute for Financial and Economic Management <b>(WAIFEM)</b>	19	43
West African Institute for Financial and Economic Management /International Monetary Fund <b>(IMF/WAIFEM)</b>	1	3
West African Institute for Financial and Economic Management /Africa Capacity Building Foundation <b>(WAIFEM/ ACBF)</b>	1	2
International Monetary Fund <b>(IMF)</b>	5	6
International Monetary Fund /Joint Partnership for Africa <b>(IMF/JPA)</b>	1	2
West African Bankers' Association <b>(WABA)</b>	1	1
Central Bank of Nigeria <b>(CBN)</b>	3	5
Bank of Ghana/ Bank of England	1	2
Bank Negara of Malaysia <b>(BNM-AFI)</b>	1	2
Financial Stability Institute <b>(FSI)</b>	1	3
<b>Total</b>	<b>34</b>	<b>69</b>
<b>FSDP/ AfDB-Sponsored Courses</b>		
<b>COURSE ORGANIZER</b>	<b>NO. OF COURSES</b>	<b>NO. OF PARTICIPANTS</b>
International Management Training Consortium (IMTC), <b>Accra, Ghana</b>	6	8
Global Training Consulting (GTC), <b>London, United Kingdom</b>	5	6
Valtech Consultants, <b>Bangalore, India</b>	1	4
African Institute for Management Science (AIMS), <b>Accra, Ghana</b>	7	12
Crown Agents, <b>London, United Kingdom &amp; Mombasa, Kenya</b>	4	5
Royal Institute for Public Administration (RIPA) International, <b>London, United Kingdom</b>	9	12
Boulder Institute of Microfinance, <b>Turin, Italy</b>	1	3
Bank for International Settlement (BIS), <b>Basel, Switzerland</b>	1	1
London Corporate Training, (LCT), <b>London, United Kingdom</b>	1	1
Koenig Solutions Limited, <b>New Delhi, India &amp; Dubai, UAE</b>	3	3
Bank of England, <b>London, United Kingdom</b>	1	1
EDP Center, <b>Abuja, Nigeria</b>	1	1
Study Tour at the Central Bank of Nigeria, <b>Lagos, Nigeria</b>	1	2
Study Tour at the Central Bank of Ghana, <b>Accra, Ghana</b>	1	5
Study Tour at the Central Bank of The Gambia, <b>Banjul, The Gambia</b>	1	3
SWIFT Training, <b>Lagos, Nigeria</b>	1	1
International Law Institute ( ILI), <b>Kampala, Uganda</b>	1	2
WAIFEM Business Development Unit (BDU), <b>Dubai, UAE</b>	1	1
Familiarisation Tour, AfDB Headquarters, <b>Tunis, Tunisia</b>	1	3
Giesecke & Devrient, <b>Dubai, United Arab Emirates</b>	1	4
<b>Total</b>	<b>48</b>	<b>78</b>

## **11.0 Board Matters**

### **11.1 Board of Directors**

The Directors have the pleasure in submitting their report to the Government of Sierra Leone together with the audited financial statements for the year ended 31 December 2013.

### **11.2 Principal activity**

The principal activity of the Bank is to:

- 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 international reserves policy including the reserves of gold*
- d) *Issue and manage the currency of Sierra Leone;*
- e) *Establish, promote, license and oversee sound and efficient payment and securities settlement systems;*
- f) *License, register, regulate and supervise financial institutions as specified in the Bank of Sierra Leone Act or any other enactment and;*
- g) *Act as depository for funds from international organizations.*

### **11.3 Functions of the Board:**

By Section 17 of the Bank of Sierra Leone Act, 2011, the functions of the Board are:-

- a) *determine the organization of the Bank, including the establishment and location of branches, representative offices and operations facilities;*
- b) *determine the general policies and adopt internal rules applicable to the administration and operation of the Bank;*
- c) *approve the annual budget of the Bank;*
- d) *approve the audited accounts, annual reports and other formal reports and financial statements of the Bank;*
- e) *determine denominations and design of banknotes, coins and their issuance and handling;*
- f) *appoint committees consisting of members of the Board or members of the Bank's staff and determine their responsibilities;*
- g) *assess risks and formulate contingency plans for the ongoing operations and security of the Bank;*
- h) *adopt the rules of procedures for meetings of the Board;*
- i) *exercise all powers that are not specifically reserved for the Governor; and*
- j) *perform other functions prescribed by this Act.*

### **11.4 Director's Responsibility Statement**

The Bank's Directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the



financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Bank of Sierra Leone Act 2011 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

### 11.5 Board Meetings

The Board of Directors convened a total of five (5) Meetings during the period under review viz.

Details	Date
<b>483 Board Meeting</b>	<b>12-Apr-13</b>
<b>Special Meeting</b>	<b>16-Jul-13</b>
<b>484 Board Meeting</b>	<b>3-Sep-13</b>
<b>485 Board Meeting</b>	<b>12-Dec-13</b>
<b>486 Board Meeting</b>	<b>23-Dec-13</b>

Amongst other key decisions taken at these Meetings were:

- .. *Acceptance and signing of the Bank's Financial Statement for the Year ended 31<sup>st</sup> December, 2012.*
- .. *Ratification of Management's Approval for the rehabilitation of the Bank's Buildings.*
- .. *Ratification of Payment with respect to payment of insurance premiums for the Bank's insurance policies for Year 2012.*
- .. *Approval for the procurement of banknotes to replace worn banknotes in circulation.*
- .. *Adoption of Bank of Sierra Leone Board Charter and Bank of Sierra Leone Audit Charter.*
- .. *Ratification of Staff Promotions for Year 2012.*
- .. *Approval of an increase in the Bank of Sierra Leone authorization limits.*
- .. *Approval of the Bank of Sierra Leone Recurrent and Capital Budget for the period January to December, 2014.*
- .. *Promotion of all Officers-In-Charge and Acting Directors to Directors/Heads of Department, effective January 1<sup>st</sup>, 2014.*

### 11.6 Missions Undertaken in 2013

#### (a) The Governor

- (i) Participation in the *International Development Agency (IDA) 17 Replenishment Meetings* as Borrowers' Representative for Anglophone Africa, held in Paris, France from March 19-21, 2013.
- (ii) Participation in the *Spring IMF World Bank Meetings*, held in Washington DC, USA from April 16-22, 2013.

- 
- (iii) Participation in 29<sup>th</sup> Meeting of the Committee of Governors of Central Bank of the West African Monetary Zone held in Accra, Ghana from July 25-26, 2013.
  - (iv) Participation in the 37<sup>th</sup> Meeting of the *Association of African Central Banks*, held in Mauritius from August 19-23, 2013.
  - (v) Participation in 2013 Annual Meetings of the IMF and World Bank, held in Washington DC, USA from October 4-15, 2013.
  - (vi) Chairperson, Meeting of Commonwealth Bank Governors, held in Washington DC, USA in October 8, 2013, where the Governor shared his experiences with fellow central bank Governors, on the strides Sierra Leone has made thus far, in complementing a risk management culture in the country's banking sector.
  - (vii) Participation in a WAIFEM Regional Conference on "Financing Infrastructure for Sustainable Development in West Africa" held in Lagos, Nigeria from November 3-6, 2013. The Governor delivered a Session on "Infrastructure Policies in Africa, Regional and Country Experiences".
  - (viii) Participation in the *International Development Agency (IDA) 17 Replenishment Meetings as Borrowers' Representative for Anglophone Africa*, held in Moscow, Russia from December 14-19, 2013.
- (b) The Deputy Governor**
- (i) Participation in Global Policy Forum organised by the Alliance for Financial Inclusion in collaboration with Bank Negara, Malaysia from September 10 -12, 2013.
  - (ii) Retired in October 2013.

**Financial Statements  
for the year ended 31st December 2013**

## Financial Position and Operating Results of The Bank for the year ended 31st December 2013

### BACKGROUND

The Bank continues to prepare its annual accounts in line with the International Financial Reporting Standards (IFRS) and current best practice.

It is worth pointing out that the FY 2012 figures were restated in the FY 2013 Accounts due to the requirements of **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors**. This was as a result of the Bank fully complying with the requirements of **IAS 37 Provisions, Contingent Liabilities and Contingent Assets** (in relation to the unutilized Accrued Charges of previous years and omission of Interest earned on the Stabilization and Cooperation Fund held with the West African Monetary Institute (WAMI)) and **IAS 19-Employee Benefits** (as a result of the Actuaries using actual figures for FY 2012 in the computation of the Defined Benefit Obligation). Please see below comparatives of the 2013 position, restated 2012 and original 2012 positions:

*In thousands of leones*

	Note	2013	Restated 2012	Original 2012	Change
Interest income	7	45,228,295	64,219,158	56,601,728	7,617,430
Interest expense	7	(582,322)	(927,888)	(927,888)	0
<b>Net interest income</b>		<b>44,645,974</b>	<b>63,291,270</b>	<b>55,673,840</b>	<b>7,617,430</b>
Fees and commission income	8	10,465	19,560	19,560	(0)
Fees and commission expense	8	-	-	-	-
<b>Net fee and commission income</b>		<b>10,465</b>	<b>19,560</b>	<b>19,560</b>	<b>(0)</b>
Net exchange gain/(loss)	9	45,950,541	43,514,871	44,525,696	(1,010,825)
Other income	10	5,018,412	2,873,731	8,106,060	(5,232,329)
<b>Operating Income</b>		<b>95,625,392</b>	<b>109,699,431</b>	<b>108,325,156</b>	<b>1,374,275</b>
Impairment loss	17	(2,082,093)	(55,710)	(55,710)	-
Personnel expenses	11	(46,084,519)	(40,671,392)	(40,415,750)	(255,642)
Currency	12	(22,037,930)	(26,043,527)	(26,043,527)	-
Depreciation/Amorisation	20	(3,591,629)	(3,643,239)	(3,643,239)	-
Other expenses	13	(18,048,543)	(16,819,923)	(18,618,646)	1,798,723
<b>Net Operating Profit/(loss) for the period</b>		<b>3,780,677</b>	<b>22,465,640</b>	<b>19,548,284</b>	<b>2,917,356</b>

The effect of this restatement was that the Operational Profit of **Le19.55 billion** made in FY 2012 was restated into a higher financial reporting profit of **Le22.47 billion**. There was no effect on the FY 2011 figures. Please see an analysis of the net change of **2.92 billion** overleaf:

*In thousands of leones*

	<b>Effect on 2012</b>
Decrease in personnel expenses (End of Service Benefits)	722,102
Decrease in Operating Expenses (Accrued Charges)	820,977
Increase in Income from Foreign Investment	1,374,276
<b>Increase in Operating Result</b>	<b><u>2,917,355</u></b>

The effect of this restatement was that the Operational Profit of Le19.55 billion made in FY 2012 was restated into a higher financial reporting profit of Le22.47 billion. There was no effect on the FY 2011 figures. Please see an analysis of the net change of 2.92 billion overleaf:

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

In essence the distribution of unrealized exchange gains will be counterproductive to monetary policy as it will lead to inflation in the economy. It is by virtue of this fact that Section 12 (2) requires that all unrealized exchange gains are deducted from Net Profit for the purposes of calculating Distributable Earnings. Please see below a reconciliation of the Financial Reporting Profit (inclusive of unrealized gains and losses) to the Operating Profit (exclusive of unrealized gains and losses).

*In thousands of leones*

	<b>2013</b>
<b>Profit/(Loss) as per Audited Accounts</b>	<b>3,780,677</b>
Less Revaluation Gains	(201,044,840)
Add Revaluation Losses	<u>154,283,575</u>
Net Revaluation Gains	(46,761,265)
<b>Operational Profit/(Loss) for the year as per Management Accounts</b>	<b><u>(42,980,588)</u></b>

## 1. STATEMENT OF FINANCIAL POSITION

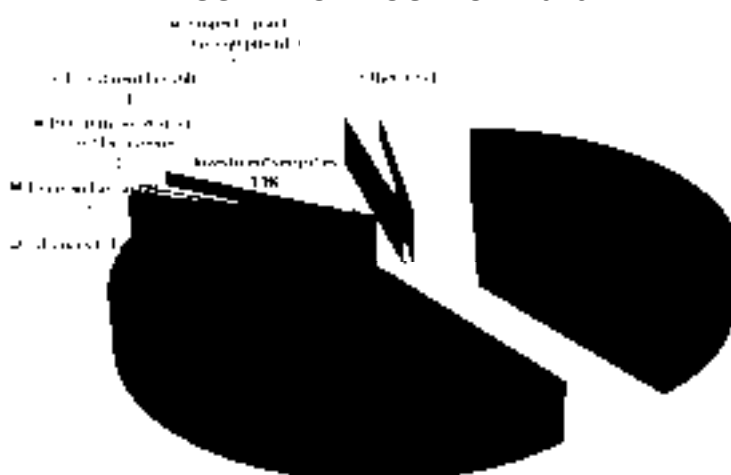
The Bank's overall financial performance improved with total assets increasing by 11% from **Le3.12 trillion** in 2012 to **Le3.45 trillion** as at 31st December, 2013 i.e. an increase of **Le 328 million**.

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

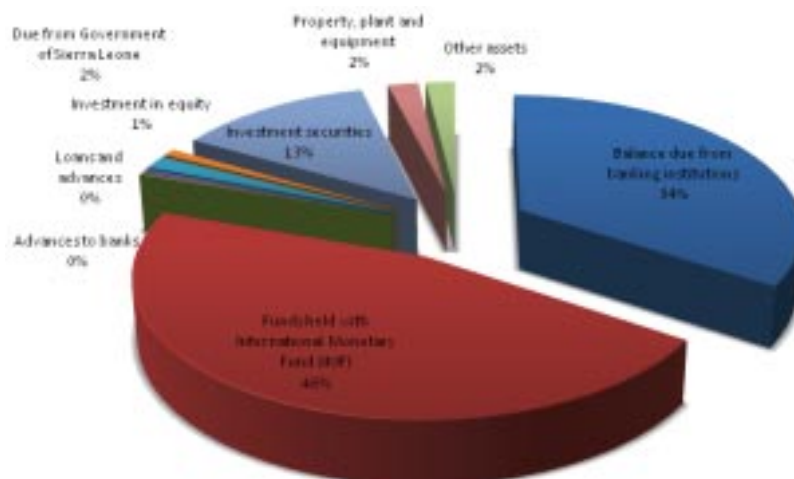
*In thousands of leones*

Assets	Note	2013	2012	Change	Change %
Balance due from banking institutions	16	1,352,334,117	1,068,845,369	283,488,748	27%
Funds held with International Monetary Fund (IMF)	17	1,414,684,300	1,435,380,060	(20,695,761)	-1%
Advances to banks	18	2,943,825	4,859,573	4,859,573	-39%
Loans and advances	18	12,275,364	15,877,330	(3,601,966)	-23%
Due from Government of Sierra Leone	18	21,470,219	48,116,790	(26,646,571)	-55%
Investment in equity	19	26,518,610	26,215,720	302,890	1%
Investment securities	20	462,944,487	399,641,657	63,302,830	16%
Property, plant and equipment	21	70,095,846	62,029,728	8,066,118	13%
Other assets	22	85,434,388	59,909,026	25,525,362	43%
<b>Total assets</b>		<b>3,448,701,156</b>	<b>3,120,875,254</b>	<b>327,825,902</b>	<b>11%</b>

### ASSET COMPOSITION 2013

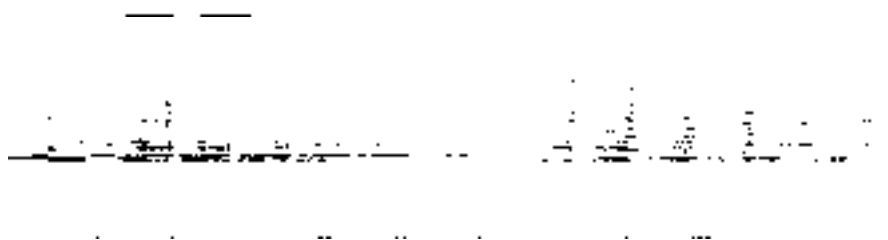


### ASSET COMPOSITION 2012



## Assets

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



Cash and Cash Equivalents with Foreign Banks increased by 27% from **Le1,068.85 billion** in 2012 to **Le1,352.33 billion** in 2013. This increase can be attributed in the main to net receipts of foreign exchange by Government of approx. \$170M from Donor Funds, Natural Resource Exports, Petroleum Signature Bonuses, privatization Receipts etc.

International Monetary Fund (IMF) Related Assets, reported on a net basis (IMF Quota less Securities and IMF No.1 Account balances plus SDR Holdings) decreased by 1% from **Le1,435.38 billion** in 2012 to **Le1,414.68 billion** in 2013 as a result of debt service payments by Government to the IMF. Also the Bank's Foreign Investments in Equity increased by 1% from **Le26.22 billion** in 2012 to **Le26.52 billion** in 2013. This increase was as a result of the receipt of dividends from Afreximbank.

Loans and Advances decreased significantly by 23% due to repayments from Staff and impairment provisions totaling **Le166m**. Ways and Means Advances to Government decreased by **Le26.65 billion** (a decrease of 55% over the last year) due to lesser use being made of Ways and Means by Government as a result of higher revenues.

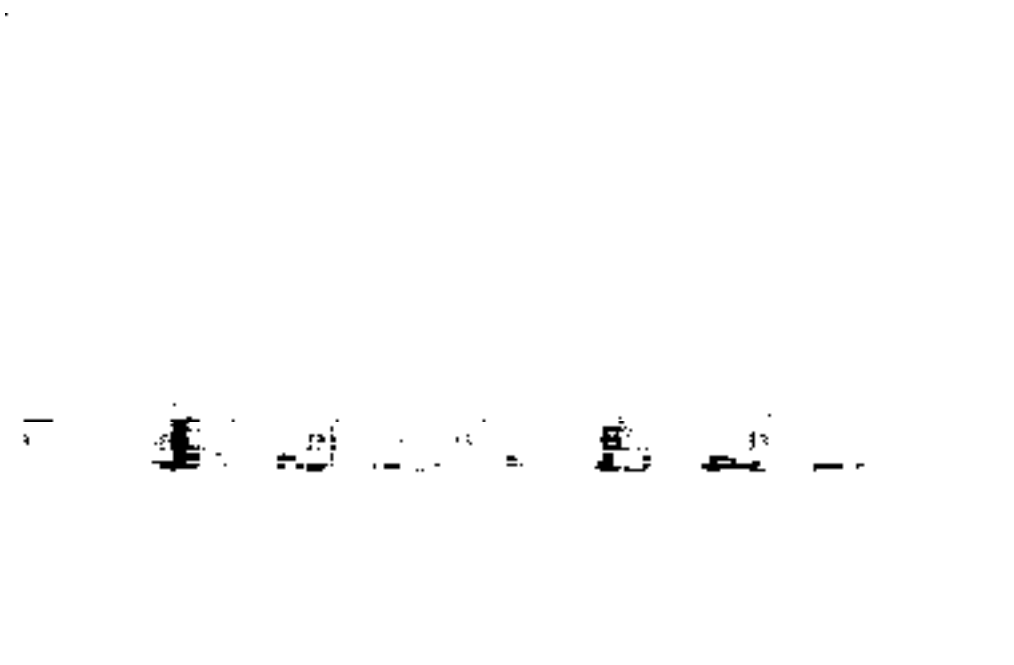
The Bank's Investment Securities increased by 16% from **Le399.64 billion** in 2012 to **Le462.94 billion** in 2013. This increase was mainly driven by the conversion of the remaining **Le81.8 billion** Non-Negotiable, Non-interest Bearing Securities into Treasury Bills for Monetary Operations.

The total value of Other Assets (that is Non-Financial Assets including the value of gold stock and inventory items) increased by 43% from **Le59.91 billion** in 2012 to **Le85.43 billion** in 2013 mainly due to a sharp increase in Deferred Currency Issue Expenses (from **Le24.26 billion** in 2012 to **Le35.81 billion** in 2013). Such an increase can be traced to an increase in Supplies and Materials in Transit which resulted from the Bank's request for reprinting of resized notes in order to boost currency stocks in preparation of the implementation of the Clean Note Policy in FY 2014.

Gold Stock decreased by 28% from **Le645.68 million** as at 31st December, 2012 to **Le465.20 million** in 2013. This increase was as a result of revaluation due to the decrease in the fair value of Gold in the World Markets. The Bank's Property, Plant and Equipment increased slightly by 13% from **Le62.03 billion** in 2012 to **Le70.10 billion** in 2013 as a result of the purchase of Currency Management Equipment, VregCoss Software and Oracle Servers and Equipment for the automation of Banking Supervision, Contribution to WAMZ Payments System Project etc.

## Liabilities

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



**Total Liabilities** increased marginally by 8% from **Le3.01 trillion** in 2012 to **Le3.25 trillion** in 2013.

IMF Special Drawing Rights (SDRs) Allocation decreased marginally by 1% from **Le1.89 trillion** in 2012 to **Le1.90 trillion** in 2013. This was as a result of an appreciation of the Leone and depreciation of the Euro during the year.

Total Non-Financial Liabilities increased by 2% mainly due to an increase in Currency in Circulation from **Le903.05 billion** as at 2012 to **Le921.04 billion** in 2013. This was due to the issue of new currency during the year to replace worn out notes in accordance with the Clean Note Policy and cater for the increase in the size of the economy.

Government Deposits increased sharply by 110% from **Le25.06 billion** in 2012 to **Le52.51 billion** in 2013. This was a direct result of the increased revenues earned by Government and the receipt of Budget Support from Donors. Deposits from Commercial and Community banks increased by 150% from **Le96.15** in 2012 to **Le240.68 billion** in 2013. This reflects the increased use of the Payments System for carrying out transactions in the economy and hence an increase in the deposit liabilities.

Other Deposits increased by 174% from **Le19.39 billion** in 2012 to **Le53.19 billion** in 2013 as a result of increases in the Deposits by Ecowas Commission, Aureol Insurance Company Ltd, National Agricultural Research Coordination (NARCC) Project etc.



Other Liabilities increased by 3% from **Le68.25 billion** in 2012 to **Le70.44 billion** in 2013. End of Service Benefits increased by 13% from **Le12.48 billion** in 2012 to **Le14.07 billion** in 2013 as a result of further provisions being made.

### **Reserves**

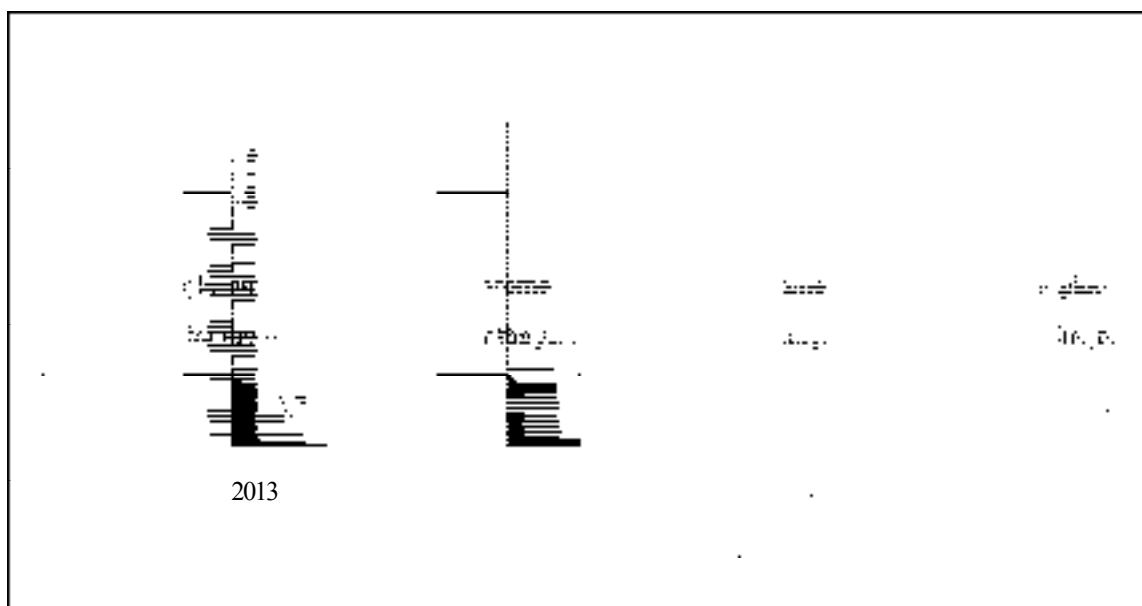
Total Reserves increased by 78% during the period from **net total positive reserves of Le110.20 billion** in 2012 to **net total positive reserves of Le196.67 billion** in 2013. This favorable position resulted mainly from the recognition of net revaluation gains in the Statement of Comprehensive Income instead of the Revaluation Reserves in compliance with **IAS 21-The Effect of Changes in Foreign Exchange Rates** and the conversion of the remaining **Le81.80 billion** of Non-Negotiable, Non-interest Bearing Securities.

## 2. STATEMENT OF COMPREHENSIVE INCOME

### Operating Income

Total net operating income amounting to **Le95.63 billion** represented a decrease from the amount of Le109.70 billion generated in 2012. It is worthy of note that **Le46.76 billion** of net operating income relates to net unrealized revaluation gains. Also the **Net Operating Profit of Le3.78 billion** is a marked contrast from the net profit of **Le22.58 billion** in 2012. This is depicted in the table and graph below:

Description	2013	2012	Change	Percentage Change
Net Operating Income	95,625	109,699	(14,074)	(13%)
Profit/(Loss) for the year	3,780	22,579	(18,799)	(83%)



Net Interest income decreased by 30% from **Le64.22 billion** in 2012 to **Le45.23 billion** in 2013. The unfavorable performance of this income line was largely attributed to reductions in income from foreign investments (57%), Loans and Advances (46%) and income from Investment Securities (23%).

This was due to the continued poor performance of the Euro zone where the majority of our foreign reserves are being held, the reduction in the use of Ways and Means by Government and the disinvestment of securities in order to mop up excess liquidity in the system through Open Market Operations (OMO) as part of Monetary Policy.

Although Interest income from Investment Securities amounting to **Le37.08 billion** reduced by 23%, it was the second highest contributor to total income at 39%.

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

All figures in SLL M				
Description	2013	2012	Change	Percentage Change
Foreign investment	1,845	4,266	-2,420	-57%
Loans and advances	5,511	10,150	-4,639	-46%
Cash and short term funds	797	1,522	-726	-48%
Investment securities	37,075	48,281	-11,206	-23%
Fee and commission income	10	20	-10	-50%
Net exchange gains/(loss)	45,950	43,514	2,436	6%

## Operating Expenses

**Total operating expenses** increased by 5% from **Le87.12 billion** in 2012 to **Le91.80 billion** in 2013.

Personnel costs amounting to **Le46.08 billion** was the major item of expenditure during the period, accounting for 50% (2012: 47%) of total operating expenses although it increased by 13% over the amount spent in 2012.

Other Expenses (including Directors remuneration, audit fees, legal and professional fees, electricity, insurance, passages and overseas allowances and repairs and maintenance) increased by 7% over the amount incurred in 2012 whilst Depreciation decreased by 1% as a result of the disposal of obsolete vehicles and furniture during the year. **Le2.08 billion** was provided to cover impairment loss on loans and advances to Community banks.

Currency costs decreased sharply from **Le26.04 billion** in 2012 to **Le22.04 billion** in 2013 as a result of lesser issues to the Financial Sector due to the increased use of the Payments System.

### 3. Financial Reporting Profit

The **Net Financial Reporting Profit of Le3.78 billion** being all unrealized has been added to the General Reserves in accordance with the requirements of Sections 12(2) of the **Bank of Sierra Leone Act 2011**.

### 4. Budget Performance for the year 2013

For the period under review, projected total income was **Le50.92 billion** and expenditure was **Le119.04 billion**, with a resultant projected deficit of **Le68.12 billion**.

In actual terms however, a net operating loss of **Le42.98 billion (financial Reporting Profit: 3.78 billion)** was incurred which was 37% lower than the projected operating loss of **Le68.12 billion**. This favorable position for the year under review was due to a combination of higher levels of income and lower levels of expenditure than projected.

Please see Table and Chart below for further analysis.

OPERATIONAL PROFIT ANALYSIS - Jan - Dec, 2013						
FY 2013 Actual SLL'M	FY 2013 Budget SLL'M	FY 2012 Actual SLL'M	Variance on Budget SLL'M	Year on Year Actual Variance	% variance on Budget	% Year on Year Actual Variance2
-42,981	-68,122	-23,972	25,141	-19,009	37%	-79%

## General information

**Board of Directors** : Mr. Sheku S. Sesay - Governor  
Ms. Andrina R. Coker - Deputy Governor (Retired 31 October 2013)  
Dr Sandy A. Bockarie - Retired 22 April, 2014  
Mr. Dalton F. Shears - Retired 22 April, 2014  
Mr. Harold Hanciles - Retired 22 April, 2014  
Mrs. Marian Kamara - Retired 22 April, 2014  
Mr. Sorie N. Dumbuya

**Senior management:** Mr Sheku Sambadeen Sesay - Governor  
Mr. Ibrahim K. Lamin - Director, Financial Markets Department  
Mrs. Olive L.A. Wellington - Director, General Services Department  
Mr. Tapsiru Dainkeh - Director, Banking Supervision Department  
Mr. Mohamed Mansaray - Director, Research Department  
Mr. Abubakarr Jalloh - Director, Banking Department  
Mrs. Hanifa Addai - Director, Management Information Systems Department  
Mr. Abdul Aziz Sowe - Director, Accounts & Budget Department  
Ms Jenneh Jabati - Director, Human Resources Department  
Mr. Ralph Ansumana - Director, Internal Audit Department  
Mr. Sullay Mannah - Director, Secretary's Department

**Registered office** : 30 Siaka Stevens Street  
Freetown

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

**Secretary to the Board** : Mr. Sullay Mannah

**Auditors** : KPMG  
Chartered Accountants  
KPMG House  
37 Siaka Stevens Street  
Freetown  
Sierra Leone

## **Report of the Directors**

The Directors have pleasure in submitting their report to the Government of Sierra Leone together with the audited financial statements for the year ended 31 December 2013.

### **Principal activity**

The principal activity of the Bank is to:

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

### **Directors' responsibility statement**

The Bank's Directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2013 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Bank of Sierra Leone Act 2011 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern in the year ahead.

### **Share Capital**

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

### **Results for the year**

Profit for the year was Le 3.7 billion. (2012: profit of Le 22.6 billion restated).

## **Report of the Directors** *(continued)*

### **Audit Committee**

The Audit Committee comprising Non-Executive Directors and one Technical Expert are responsible for oversight function over the audit mechanism, internal control system and financial reporting system of the Bank. The Audit committee meets quarterly to review and monitor the implementation of recommendations in the internal audit reports, external auditors' management reports and other oversight reports like the IMF Safeguards Assessment Reports.

### **Monetary Policy Committee**

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

### **Banking Supervision Technical Committee**

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

### **Foreign Assets Committee**

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

### **Project Monitoring Committee**

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

### **Property and Equipment**

Details of the Bank's property and equipment are shown in notes 21 to these financial statements.

### **Employment of disabled people**

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

## **Report of the Directors** *(continued)*

### **Health, safety and welfare at work**

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

There is an approved training schedule for the bank and staff are trained both locally and internationally in various areas to improve their skills and knowledge.

### **Employee involvement and training**

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

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

### **Directors and their interest**

The following were Directors of the Bank as at 31 December 2013:

Mr. Sheku S. Sesay	-	Governor/Chairman	(appointed 1 July 2009)
Ms. Andrina R. Coker	-	Deputy Governor	(retired 31 October 2013)
Dr Sandy A. Bockarie	-	Director	(retired 22 April, 2014)
Mr. Dalton F. Shears	-	Director	(retired 22 April, 2014)
Mr. Harold Hanciles	-	Director	(retired 22 April, 2014)
Mrs. Marian Kamara	-	Director	(retired 29 April, 2014)
Mr. Sorie N. Dumbuya	-	Director	(Re-appointed 7 June 2014)

The Governor and Deputy Governor were appointed on 1 July 2009 and 6 October 2008 respectively and in accordance with section 15(2) of the Bank of Sierra Leone Act 2011, they shall hold office for a term of five years each and shall be eligible for re-appointment for another term only.

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

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



**Report of the Directors** *(continued)*

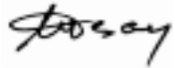
**Auditors**


The auditors have expressed their willingness to remain in office.


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

**Approval of the financial statements**

The financial statements were approved by the Board of Directors on ..... *30 June* .....2014

  
.....  
**Governor**

  
.....  
**Director**

  
.....  
**Secretary**

## **Independent Auditor's Report to the Government of Sierra Leone**

We have audited the accompanying financial statements of Bank Sierra Leone which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 79.

### **Directors' responsibility for the financial statements**

The Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Sierra Leone Act 2011, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

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

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

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the financial position of Bank of Sierra Leone as at 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank of Sierra Leone Act 2011.

**Freetown**

  
Chartered Accountants

**Date** 30 June 2014

## Statement of financial position

as at 31 December

<i>In thousands of Leones</i>	Note	2013	<i>Restated</i> 2012	2011
<b>Assets</b>				
Balance due from banking Institutions	16	1,352,334,117	1,068,845,369	872,579,690
Funds held with the International Monetary Fund(IMF)	17	1,414,684,300	1,435,380,060	742,880,838
Advances to banks	18	2,943,825	4,859,573	4,915,283
Loans and advances to others	18	12,275,364	15,877,330	6,299,893
Due from Government of Sierra Leone	18	21,470,219	48,116,790	26,886,030
Investment in equity	19	26,518,610	26,222,742	16,696,261
Investment securities	20	462,944,487	399,641,658	494,574,547
Property, plant and equipment	21	70,095,846	62,029,728	58,739,776
Other assets	22	85,434,388	59,909,026	19,085,555
<b>Total assets</b>		<b>3,448,701,156</b>	<b>3,120,882,276</b>	<b>2,242,657,873</b>
<b>Liabilities</b>				
Amounts due to International Monetary Fund (IMF)	23	1,900,087,643	1,886,301,030	1,195,774,358
Deposits from Government	24	52,505,432	25,058,305	15,489,277
Deposits from Banks	25	240,681,354	96,145,592	112,532,271
Deposits from others	26	53,190,860	19,388,933	38,948,083
Currency in circulation	27	921,043,688	903,049,168	707,610,568
Other liabilities	28	70,444,345	68,246,650	84,837,493
End of service benefit	29	14,068,600	12,482,964	9,967,414
<b>Total liabilities</b>		<b>3,252,021,922</b>	<b>3,010,672,642</b>	<b>2,165,159,464</b>
<b>Equity</b>				
Share capital	30	50,000,000	50,000,000	50,000,000
General reserve	31(a)	113,112,317	27,530,240	(5,294,510)
Revaluation reserves	31(b)	32,792,919	32,792,919	32,792,919
Other reserves	31(b)	773,998	(113,525)	-
<b>Total equity attributable to equity holders of the Bank</b>		<b>196,679,234</b>	<b>110,209,634</b>	<b>77,498,409</b>
<b>Total liabilities and equity</b>		<b>3,448,701,156</b>	<b>3,120,882,276</b>	<b>2,242,657,873</b>

These financial statements were approved by the Board of Directors on ..... 30 June ..... 2014

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

The notes on pages 81 to 145 are an integral part of these financial statements

## Statement of profit or loss and other comprehensive income

for the year ended 31 December

<i>In thousands of Leones</i>	Note	2013	Restated 2012
Interest and similar income	8	45,228,295	64,219,158
Interest expenses and similar charges	8	(582,322)	(927,888)
<b>Net interest income</b>		<b>44,645,973</b>	<b>63,291,270</b>
Fees and commission income	9	10,465	19,560
Fees and commission expense	9	-	-
<b>Net fee and commission income</b>		<b>10,465</b>	<b>19,560</b>
Net exchange gain/(loss)	10	45,950,541	43,514,871
Other income	11	5,018,412	2,873,730
<b>Operating income</b>		<b>95,625,391</b>	<b>109,699,431</b>
Impairment loss on loans and advances	18(a)	(2,082,093)	(55,710)
Personnel expense	12	(46,084,519)	(40,557,867)
Currency	13	(22,037,930)	(26,043,527)
Depreciation and amortisation	21	(3,591,629)	(3,643,239)
Other expenses	14	(18,048,543)	(16,819,924)
<b>Profit for the year</b>		<b>3,780,677</b>	<b>22,579,164</b>
<b>Other comprehensive income</b>			
Defined benefit plan actuarial gain/(loss)		887,523	(113,525)
<b>Other comprehensive income for the year</b>		<b>887,523</b>	<b>(113,525)</b>
<b>Total comprehensive income for the year</b>		<b>4,668,200</b>	<b>22,465,639</b>

The notes on pages 81 to 145 are an integral part of these financial statements



## Statement of changes in equity

for the year ended 31 December 2013

<i>In thousands of Leones</i>	Share capital	Foreign exchange reserve	Property revaluation reserve	Restated General reserve	Other reserves	Total
Balance at 1 January 2012	50,000,000	-	32,792,919	(5,294,510)	-	77,498,409
Other adjustments	-	-	-	3,240,456	-	3,240,456
Prior year adjustments	-	-	-	7,452	-	7,452
<b>Total comprehensive income for the year</b>						
Net profit for the year (restated)	-	-	-	22,579,164	-	22,579,164
Securities reserves	-	-	-	6,997,678	-	6,997,678
<b>Other comprehensive income</b>						
Actuarial loss (restated)	-	-	-	-	(113,525)	(113,525)
<b>Total other comprehensive income for the year</b>	-	-	-	32,824,750	(113,525)	32,711,225
<b>Total comprehensive income and other transfers</b>						
Paid up capital	-	-	-	-	-	-
Deposit for shares	-	-	-	-	-	-
<b>Total contribution by and distribution to owners</b>	-	-	-	-	-	-
<b>Balance at 31 December 2012</b>	50,000,000	-	32,792,919	27,530,240	(113,525)	110,209,634

**Statement of changes in equity (continued)***for the year ended 31 December 2013*

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

The notes on pages 81 to 145 are an integral part of these financial statements

**Statement of cash flows***for the year ended 31 December*

<i>In thousands of Leones</i>	<b>Note</b>	<b>2013</b>	Restated 2012
<b>Cash flows from operating activities</b>			
Profit for the year		3,780,677	22,579,164
<b>Adjustment for:</b>			
Depreciation and amortisation	20	3,591,629	3,643,239
Impairment losses on loans and advances		2,082,093	55,710
Net interest income	8	(44,645,973)	(63,291,270)
Fixed asset write-off		64,122	13,905
Profit on disposals		(101,898)	-
Fixed assets adjustments		57,831	-
Actuarial gain/(loss) on defined benefit obligation		887,523	(113,525)
		<b>(34,283,996)</b>	<b>(37,112,777)</b>
<b>Changes in:</b>			
Loans and advances to others		3,435,620	(9,577,437)
Advances to Government		26,646,571	(21,230,760)
Advances to banks		-	-
Other assets		(25,525,362)	(40,823,471)
Currency in circulation		17,994,520	195,438,600
Government deposit		27,447,127	9,569,028
Other deposits		33,801,927	(19,559,150)
Deposits from banks		144,535,762	(16,386,679)
Other liabilities		2,197,695	(16,590,843)
End of service benefit		1,585,636	2,515,550
		<b>197,835,500</b>	<b>46,242,061</b>
Interest received	8	45,228,295	64,219,158
Interest paid	8	(582,322)	(927,888)
<b>Net cash generated from operating activities</b>		<b>242,481,473</b>	<b>109,533,331</b>
<b>Cash flows from investing activities</b>			
(Purchase)/disposal of Investment Securities		(63,302,829)	94,932,889
Acquisition of medium term bond		(295,868)	(9,526,481)
Acquisition of property and equipment		(11,779,718)	(6,947,096)
Proceeds from sale of property, plant and equipment		101,916	-
<b>Net cash generated from/(used in) investing activities</b>		<b>(75,276,499)</b>	<b>78,459,312</b>
<b>Cash flows from financing activities</b>			
Net change in funds from the IMF		34,482,374	(1,972,550)
Net movement in reserves		81,801,400	10,245,586
<b>Net cash from financing activities</b>		<b>116,283,774</b>	<b>8,273,036</b>
<b>Net increase in cash and cash equivalents</b>		<b>283,488,748</b>	<b>196,265,679</b>
Cash and cash equivalents at 1 January		1,068,845,369	872,579,690
<b>Cash and cash equivalent at 31 December</b>	<i>16</i>	<b>1,352,334,117</b>	<b>1,068,845,369</b>

The notes on pages 81 to 145 are an integral part of these financial statements



## Notes to the financial statements

### 1. Reporting entity

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

### 2. Basis of accounting

The financial statements of Bank of Sierra Leone have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). They were authorised for issue by the Bank's Board of Directors on ~~30 June~~ 2014.

Details of the bank's accounting policies, including changes during the year, are included in notes 38 and 39.

### 3. Functional and presentation currency

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

### 4. Use of judgements and estimates

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

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

#### Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2013 is set out below in relation to the impairment of financial instruments and in the following notes:

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

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**Notes to the financial statements (Continued)****4. Use of judgements and estimates (continued)****Assumptions and estimation uncertainties (continued)****Impairment of financial instruments**

Assets accounted for at amortised cost are evaluated for impairment on the basis described in note 39m

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

A collective component of the total allowance is established for:

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

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

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

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

**Notes to the financial statements** *(continued)***5. Financial risk review**

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

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

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Credit risk:	
i. Analysis of credit quality	16
ii. Concentrations of credit risk	17
iii. Impaired loans and advances	19
Liquidity risk	23
Market risk	28
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**Credit risk**

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

**(i) Analysis of credit quality**

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

**Management of credit risk**

The Bank minimizes exposure to credit risk related to investment made in foreign debt securities and short term deposits by establishing limits on investments with different credit quality. Credit quality is evaluated on the basis of the ratings set by the International rating agencies. The bulk of the funds is placed with triple "A" rated Banks (i.e. Central Banks and other international financial institutions such as BIS and IMF) as approved by the Foreign Asset Committee (FAC), Management and the Board. For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

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

**Notes to the financial statements (continued)**

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

**Credit risk (continued)**

**(ii) Concentration of credit risk**

<i>In thousands of Leones</i>	Note	Loans and advances		Investment securities		Lending commitments and financial guarantees	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
<b>Maximum exposure to credit risk</b>							
Carrying amount	18	<b>36,689,408</b>	68,853,693	<b>462,994,487</b>	399,641,658	-	-
Amount committed/guaranteed		-	-	-	-	<b>154,518,483</b>	157,147,997
<b>At amortised cost</b>							
Grade 1-3: Low-fair risk	18	<b>39,099,012</b>	69,181,203	<b>462,994,487</b>	399,641,658	-	-
Grade 6: Substandard		-	-	-	-	-	-
Grade 7: Doubtful		-	-	-	-	-	-
Grade 8: Loss		-	-	-	-	-	-
Total gross amount		<b>39,099,012</b>	69,181,203	<b>462,994,487</b>	399,641,658	-	-
Allowance for impairment		<b>(2,409,604)</b>	(327,510)	-	-	-	-
Other fair value adjustment		-	-	-	-	-	-
Total net carrying amount		<b>36,689,408</b>	68,853,693	<b>462,994,487</b>	399,641,658	-	-

## Notes to the financial statements (continued)

### 5. Financial risk review (continued)

#### Credit risk (continued)

#### (ii) Concentration of credit risk (continued)

In thousands of Leones	Note	Loans and advances		Investment securities		Lending commitments and financial guarantees	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
<b>Maximum exposure to credit risk</b>							
<b>Off balance sheet</b>							
<b>Maximum exposure</b>							
Lending commitments							
Grade 1-3: Low-fair risk		-	-	-	-	154,519,483	157,147,997
Financial guarantees							
Grade 1-3: Low-fair risk		-	-	-	-		-
Total exposure		-	-	-	-	154,519,483	157,147,997
<b>Allowance impairment</b>							
Individual		1,860,646	-	-	-	-	-
Collective		548,958	327,510	-	-	-	-
<b>Total allowance for impairment</b>		<b>2,409,604</b>	<b>327,510</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**Notes to the financial statements (continued)****5. Financial risk review (continued)****Credit risk (continued)****(iii) Impaired loans**

See accounting policy in note 39(g)(vi)

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

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

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

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

**Loans that are past due but not impaired**

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

**Loans with renegotiated terms and the bank's forbearance policy**

See accounting policy in note 39(g)(vi)

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note 39(g)(vi).

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

**Notes to the financial statements (continued)****5. Financial risk review (continued)****Credit risk (continued)***(i) Credit quality analysis***Loans with renegotiated terms and the bank's forbearance policy (continued)**

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

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

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

<b>Concentration analysis</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
United States Dollars	<b>1,051,817,158</b>	888,182,640
Euro	<b>70,923,999</b>	8,468,596
Pound sterling	<b>226,830,520</b>	168,812,489
SDR	<b>1,414,684,300</b>	1,435,380,060
Leones and others	<b>684,445,179</b>	620,038,491
<b>Total</b>	<b>3,448,701,156</b>	3,120,882,276
<b>Liabilities</b>		
United States Dollars	<b>54,754,980</b>	37,184,053
Euro	-	-
Pound sterling	-	-
SDR	<b>1,900,087,643</b>	1,886,301,030
Leones & others	<b>1,297,179,299</b>	1,087,187,559
<b>Total</b>	<b>3,252,021,922</b>	3,010,672,642

**Notes to the financial statements (continued)****5. Financial risk review (continued)****Credit risk (continued)****Management of credit risk (continued)****Credit exposure by Credit Rating**

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

	<b>Credit rating</b>	<b>2013</b>	<b>% of FA</b>	<b>2012</b>	<b>% of FA</b>
Cash balances with central banks	AAA	<b>878,459,838</b>	<b>26.7%</b>	610,297,846	20.4%
Other cash balance	AA	<b>473,874,279</b>	<b>14.4%</b>	458,547,523	15.3%
International Monetary Fund assets	NR	<b>1,414,684,300</b>	<b>42.9%</b>	1,435,380,060	47.8%
Loans and advances	NR	<b>36,689,408</b>	<b>1.1 %</b>	68,853,693	2.3%
Investment in equity	NR	<b>26,518,610</b>	<b>0.8%</b>	26,222,742	0.9%
Investment securities	NR	<b>462,944,487</b>	<b>14.1%</b>	399,641,658	13.3%
		<b>3,293,170,922</b>	<b>100%</b>	2,998,943,522	100%

*Write-off policy*

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

*Settlement risk*

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

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



**Notes to the financial statements (continued)****5. Financial risk review (continued)****Credit risk (continued)****Management of credit risk (continued)****Credit exposure by Credit Rating (continued)***Cash and cash equivalents*

The Bank held cash and cash equivalents of Le 1.44 trillion at 31 December 2013 (2012: Le1.08 trillion).

**31 December 2013**

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

**Notes to the financial statements (continued)****5. Financial risk review (continued)****Credit risk (continued)****Management of credit risk (continued)****Credit exposure by Credit Rating (continued)**

Cash and cash equivalents (continued)

31 December 2012

<i>In thousands of Leones</i>	Investment securities	Balance with other Central Banks	Balance with other banks	Total
Cash balances	-	610,297,429	458,547,940	1,068,845,369
Investment securities (1-3 months)	494,000	-	-	494,000
<b>Total cash and cash equivalent</b>	<b>494,000</b>	<b>610,297,429</b>	<b>458,547,940</b>	<b>1,069,339,369</b>
Investment securities not included in cash and cash equivalents (3-12 months)	399,147,658	-	-	399,147,658
<b>Total cash and cash equivalents and investment securities</b>	<b>399,641,658</b>	<b>610,297,429</b>	<b>458,547,940</b>	<b>1,468,487,027</b>

*Exposures to higher risk Eurozone*

Significant concerns about the credit worthiness of certain Eurozone countries persisted during 2012 leading to speculation as to the long-term sustainability of the Eurozone. The Bank's exposure was mainly nostro balances amounting to Le 1.352 trillion (2012: Le 1.069 trillion) with Bank of England, HSBC, Crown Agent, Lloyds Bank, Bank of International Settlement, Commerz Bank and Bank of France which are considered less risky within the Eurozone.

**Liquidity risk**

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

**Management of liquidity risk**

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

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

## Notes to the financial statements (continued)

### 5. Financial risk management (continued)

#### Liquidity risk (continued)

##### Maturity analysis for financial assets and financial liabilities

The table below set out the remaining contractual maturities of the banks financial liabilities and financial assets

<i>In thousands of Leones</i>	Note	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	More than 5 years
<b>31 December 2013</b>								
<b>Financial liability by type</b>								
Non-derivative liabilities								
IMF Special drawing rights								
Allocation	23	1,900,087,643	1,900,087,643	-	-	676,094,727	647,653,313	576,339,603
Deposit from Government	24	52,505,432	52,505,432	52,505,432	-	-	-	-
Deposit from banks	25	240,681,354	240,681,354	240,681,354	-	-	-	-
Deposit from others	26	53,190,860	53,190,860	53,190,860	-	-	-	-
Currency in circulation	27	921,043,688	921,043,688	921,043,688	-	-	-	-
End of service benefit	29	14,068,600	14,068,600	-	-	-	14,068,600	-
Unrecognized loan commitment		-	-	-	-	-	-	-
		<b>3,181,577,577</b>	<b>3,181,577,577</b>	<b>1,267,421,334</b>	<b>-</b>	<b>676,094,727</b>	<b>661,721,913</b>	<b>576,339,603</b>
<b>Financial asset by type</b>								
Non-derivative assets								
Cash and cash equivalent	16	1,352,334,117	1,352,334,117	920,495,101	431,839,016	-	-	-
International Monetary Fund Related Asset	17	1,414,684,300	1,414,684,300	-	-	1,414,684,300	-	-
Investment securities	20	462,944,487	462,944,487	462,944,487	-	-	-	-
Investment in equity	19	26,518,610	26,518,610	-	-	-	12,515,376	14,003,234
Loans and advances	18	36,689,408	36,689,408	21,470,219	-	-	12,275,364	2,943,825
		<b>3,293,170,922</b>	<b>3,293,170,922</b>	<b>1,404,909,807</b>	<b>431,839,016</b>	<b>1,414,684,300</b>	<b>24,790,740</b>	<b>16,947,059</b>

## Notes to the financial statements (continued)

### 5. Financial risk management (continued)

#### Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

<i>In thousands of Leones</i>	<b>Note</b>	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	More than 5 years
31 December 2012								
<b>Financial liability by type</b>								
Non-derivative liabilities								
IMF Special drawing rights Allocation	23	1,886,301,030	1,886,301,030	-	-	698,739,201	662,776,055	524,785,774
Deposit from Government	24	25,058,305	25,058,305	25,058,305	-	-	-	-
Deposit from banks	25	96,145,592	96,145,592	96,145,592	-	-	-	-
Deposit from others	26	19,388,933	19,388,933	19,388,933	-	-	-	-
Currency in circulation	27	903,049,168	903,049,168	903,049,168	-	-	-	-
End of service benefit	29	12,482,964	12,482,964	-	-	-	12,482,964	-
Unrecognized loan commitment		-	-	-	-	-	-	-
		<b>2,942,425,992</b>	<b>2,942,425,992</b>	<b>1,043,641,998</b>	<b>-</b>	<b>698,739,201</b>	<b>675,259,019</b>	<b>524,785,774</b>
<b>Financial asset by type</b>								
Non-derivative assets								
Cash and cash equivalent	16	1,068,845,369	1,068,845,369	610,297,429	458,547,940	-	-	-
International Monetary Fund related asset	17	1,435,380,060	1,435,380,060	-	-	1,435,380,060	-	-
Investment securities	20	399,641,658	399,641,658	399,641,658	-	-	-	-
Investment in equity	19	26,222,742	26,222,742	-	-	-	12,347,025	13,875,717
Loans and advances	18	68,853,693	68,853,693	48,116,790	-	-	15,877,330	4,859,573
		<b>2,998,943,522</b>	<b>2,998,943,522</b>	<b>1,058,055,877</b>	<b>458,547,940</b>	<b>1,435,380,060</b>	<b>28,224,355</b>	<b>18,735,290</b>

**Notes to the financial statements (continued)****5. Financial risk management (continued)****Liquidity risk (continued)**

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

**Liquidity reserve**

	<b>2013</b>	<b>2013</b>	2012	2012
	<b>Carrying</b>	<b>Fair</b>	Carrying	Fair
	<b>amount</b>	<b>value</b>	amount	value
<i>In thousands of Leones</i>				
Balances with other central banks	<b>876,722,846</b>	<b>876,722,846</b>	610,297,429	610,297,429
Cash and balances with other banks	<b>475,611,271</b>	<b>475,611,271</b>	458,547,940	458,547,940
Other cash and cash equivalents	<b>85,720,850</b>	<b>85,720,850</b>	494,000	494,000
<b>Total liquidity reserve</b>	<b>1,438,054,967</b>	<b>1,438,054,967</b>	1,069,339,369	1,069,339,369

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

<b>2013</b>	<b>Encumbered</b>		<b>Unencumbered</b>		<b>Total</b>
	<b>Pledge as Collateral</b>	<b>Other</b>	<b>Available collateral</b>	<b>Other</b>	
<i>In thousands of Leones</i>					
Cash and cash equivalents-	-	-	<b>1,352,334,117</b>	-	<b>1,352,334,117</b>
Loans and advances	-	-	<b>36,689,408</b>	-	<b>36,689,408</b>
Investment in equity	-	-	<b>26,518,610</b>	-	<b>26,518,610</b>
Investment securities	-	-	<b>462,944,487</b>	-	<b>462,944,487</b>
Other financial assets	-	-	-	-	-
Non-financial assets	-	-	-	-	-
<b>Total assets</b>	-	-	<b>1,878,486,622</b>	-	<b>1,878,486,622</b>

**Notes to the financial statements (continued)****5. Financial risk management (continued)****Liquidity reserve (continued)**

2012	Encumbered		Unencumbered		Total
	Pledge as Collateral	Other	Available collateral	Other	
In thousands of Leones					
Cash and cash equivalents	-	-	1,068,845,369	-	1,068,845,369
Loans and advances	-	-	68,853,693	-	68,853,693
Investment in equity	-	-	26,222,742	-	26,222,742
Investment securities	-	-	399,641,658	-	399,641,658
Other financial assets	-	-	-	-	-
Non-financial assets	-	-	-	-	-
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>1,563,563,462</b>	<b>-</b>	<b>1,563,563,462</b>

**Market risks**

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

*Management of market risks*

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

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

*Market price risk*

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

*Exposure to interest rate risk - non-trading portfolios*

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

**Notes to the financial statements (continued)****5. Financial risk management (continued)****Market price risk (continued)**

31 December 2013		Market risk measures		
	Note	Carrying amount	Trading portfolios	Non-trading portfolios
<i>In thousands of Leones</i>				
<b>Assets subject to market risk</b>				
Cash and cash equivalents	16	1,352,334,117	-	1,352,334,117
Loans and advances	18	36,689,408	-	36,689,408
Investment in equity	19	26,518,610	-	26,518,610
Investment securities	20	462,944,487	-	462,944,487
<b>Liabilities subject to market risk</b>				
Deposits	24,25,26	346,377,646	-	346,377,646
31 December 2012		Market risk measures		
	Note	Carrying amount	Trading portfolios	Non-trading portfolios
<i>In thousands of Leones</i>				
<b>Assets subject to market risk</b>				
Cash and cash equivalents	16	1,068,845,369	-	1,068,845,369
Loans and advances	18	68,853,693	-	68,853,693
Investment in equity	19	26,222,742	-	26,222,742
Investment securities	20	399,641,658	-	399,641,658
<b>Liabilities subject to market risk</b>				

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**Notes to the financial statements (continued)**
**5. Financial risk management (continued)****Market risk (continued)**

<i>In thousands of Leones</i>	Note	Carrying amount	0-3 months	3-12 months	1 - 5 years	More than 5 years
<b>31 December 2013</b>						
Cash and cash equivalents	16	1,352,334,117	1,352,334,117	-	-	-
IMF fund related asset	17	1,414,684,300	-	1,414,684,300	-	-
Loans and advances	18	36,689,408	21,470,219	-	12,275,364	2,943,825
Investment in equity	19	26,518,610	-	-	12,515,376	14,003,234
Investment securities	20	462,944,487	462,944,487	-	-	-
		<b>3,293,170,922</b>	<b>1,836,748,823</b>	<b>1,414,684,300</b>	<b>24,790,740</b>	<b>16,947,059</b>
IMF related liabilities	23	1,900,087,643	-	676,094,727	647,653,313	576,339,603
Deposit from Government	24	52,505,432	52,505,432	-	-	-
Deposits from Banks	25	240,681,354	240,681,354	-	-	-
Deposits from others	26	53,190,860	53,190,860	-	-	-
		<b>2,246,465,289</b>	<b>346,377,646</b>	<b>676,094,727</b>	<b>647,653,313</b>	<b>576,339,603</b>
		<b>1,046,705,633</b>	<b>1,490,371,177</b>	<b>738,589,573</b>	<b>(622,862,573)</b>	<b>(559,392,544)</b>

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**Notes to the financial statements (continued)****5. Financial risk management (continued)****Market risk (continued)**

31 December 2012

In thousands of Leones	Note	Carrying amount	0-3 months	3-12 months	1 - 5 years	More than 5 years
Cash and cash equivalents	16	1,068,845,369	1,068,845,369	-	-	-
IMF fund related asset	17	1,435,380,060	-	1,435,380,060	-	-
Loans and advances	18	68,853,693	48,116,790	-	15,877,330	4,859,573
Investment in equity	19	26,222,742	-	-	12,347,025	13,875,717
Investment securities	20	399,641,658	399,641,658	-	-	-
		2,998,943,522	1,516,603,817	1,435,380,060	28,224,355	18,735,290
IMF related liabilities	23	1,886,301,030	-	698,739,201	662,776,055	524,785,774
Deposit from Government	24	25,058,305	25,058,305	-	-	-
Deposits from Banks	25	96,145,592	96,145,592	-	-	-
Deposits from others	26	19,388,933	19,388,933	-	-	-
		2,026,893,860	140,592,830	698,739,201	662,776,055	524,785,774
		972,049,662	1,376,010,987	736,640,859	(634,551,700)	(506,050,484)

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

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

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

*Exposure to other market risk - non-trading portfolios*

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

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

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

**Notes to the financial statements (continued)****5. Financial risk management (continued)****Market risk (continued)**

<i>In thousands of Leones</i>	200 bp (2%) Increase 2012	200bp (2%) Decrease 2012
Interest income impact	1,284,383	(1,284,383)
Interest expense impact	(18,558)	18,558
Net impact	<u>1,265,825</u>	<u>(1,265,825)</u>

The expected impact on net interest income have been based on a +/- two percent swing in interest rates that may occur during the ensuing year. The computation considered interest income on cash and short term funds, investment securities and loans and advances; and interest expense all of which are deemed susceptible to interest rate change.

**Sensitivity of reported equity to interest rate movement**

<i>In thousands of Leones</i>	<b>200 bp (2%) Increase 2013</b>	<b>200bp (2%) Decrease 2013</b>
Net interest impact on retained earnings	<u><b>892,920</b></u>	<u><b>(892,920)</b></u>
<i>In thousands of Leones</i>	2012	2012
Net interest impact on retained earnings	<u>1,265,825</u>	<u>(1,265,825)</u>

**Notes to the financial statements (continued)****5. Financial risk management (continued)****Currency risk (continued)****Concentrations of assets, liabilities and off balance sheet items**

In thousands of Leones	GBP	Euro	US\$	SDR	Other	Total
Cash and balance with the banks	226,830,520	70,923,999	1,051,810,136	-	2,769,462	1,352,117
IMF Assets	-	-	-	1,414,684,300	-	1,414,684,300
Loans and advances	-	-	-	-	36,689,408	36,689,408
Investment in equity	-	-	26,518,610	-	-	26,518,610
Investment in securities	-	-	-	-	462,944,487	462,944,487
Property, plant and equipment	-	-	-	-	70,095,846	70,095,846
Other assets	-	-	-	-	85,434,388	85,434,388
<b>Total assets</b>	<b>226,830,520</b>	<b>70,923,999</b>	<b>1,078,328,746</b>	<b>1,414,684,300</b>	<b>657,933,591</b>	<b>3,448,701,156</b>
Liabilities						
IMF drawing rights allocation	-	-	-	1,900,087,643	-	1,900,087,643
Deposit from Government	-	-	-	-	52,505,432	52,505,432
Deposit from Banks	-	-	-	-	240,681,354	240,681,354
Currency in circulation	-	-	-	-	921,043,688	921,043,688
Deposit from others	-	-	-	-	53,190,860	53,190,860
Other liability End of service benefit	-	-	37,925,654	-	32,518,691	70,444,345
	-	-	-	-	14,068,600	14,068,600
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>37,925,654</b>	<b>1,900,087,643</b>	<b>1,314,008,625</b>	<b>3,252,021,922</b>
<b>Net on-balance sheet position</b>	<b>226,830,520</b>	<b>70,923,999</b>	<b>1,040,403,092</b>	<b>(485,403,343)</b>	<b>(656,075,034)</b>	<b>196,679,234</b>
<b>Credit commitments</b>						
At 31 December 2012						
Total assets	168,840,664	8,468,596	902,082,989	1,435,461,925	606,028,102	3,120,882,276
Total liabilities	-	-	37,184,053	1,886,301,030	1,087,187,559	3,010,672,642
<b>Net on-balance sheet position</b>	<b>168,840,664</b>	<b>8,468,596</b>	<b>864,898,936</b>	<b>(450,839,105)</b>	<b>(481,159,457)</b>	<b>110,209,634</b>

**Notes to the financial statements (continued)****5. Financial risk management (continued)****Currency risk (continued)****Foreign currency sensitivity analysis**

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

**2013**

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

**2012**

<i>In thousands of Leones</i>	USD	GBP	EUR	SDR	Total
<b>Assets</b>					
Cash and balance with the banks	87,586,025	16,884,066	846,859	-	105,316,950
IMF assets	-	-	-	143,546,192	143,546,192
Investment in equity	2,622,274	-	-	-	2,622,274
<b>Total assets</b>	<b>90,208,299</b>	<b>16,884,066</b>	<b>846,859</b>	<b>143,546,192</b>	<b>251,485,416</b>
<b>Liabilities</b>					
IMF drawings	-	-	-	188,630,103	188,630,103
Other liabilities	3,718,405	-	-	-	3,718,405
<b>Total liabilities</b>	<b>3,718,405</b>	<b>-</b>	<b>-</b>	<b>188,630,103</b>	<b>192,348,508</b>
<b>Net-on-balance sheet position</b>	<b>86,489,894</b>	<b>16,884,066</b>	<b>846,859</b>	<b>(45,083,911)</b>	<b>59,136,908</b>

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

**Notes to the financial statements** *(continued)***5. Financial risk management** *(continued)***Operational risks**

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

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

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

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

Compliance with the Bank standards is maintained by the Internal Audit Department.

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**Notes to the financial statements (continued)****6. Fair value of financial instruments**

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

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

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

**(a) Valuation models**

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

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

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

**Notes to the financial statements (continued)****6. Fair value of financial instruments (continued)****(a) Valuation models (continued)**

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

**(b) Valuation framework**

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

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

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

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

**31 December 2013**

	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>In thousands of Leones</i>					
Cash and cash equivalent	16	-	1,352,334,117	-	1,352,334,117
Loans and advances to Customers	18	-	36,689,408	-	36,689,408
Investment securities	20	462,944,487	-	-	462,944,487
Investment in equity	19	26,518,610	-	-	26,518,610
<b>Total</b>		<b>489,463,097</b>	<b>1,389,023,525</b>	<b>-</b>	<b>1,878,486,622</b>

**Notes to the financial statements (continued)****6. Fair value of financial instruments (continued)****(c) Financial instruments measured at fair value - fair value hierarchy (continued)**

31 December 2012

		Level 1	Level 2	Level 3	Total
In thousands of Leones					
Cash and cash equivalent	16	-	1,068,845,369	-	1,068,845,369
Loans and advances to customers	18	-	68,853,693	-	68,853,693
Investment securities	20	399,641,658	-	-	399,641,658
Investment in equity	19	26,222,742	-	-	26,222,742
Total		425,864,400	1,137,699,062	-	1,563,563,462

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

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

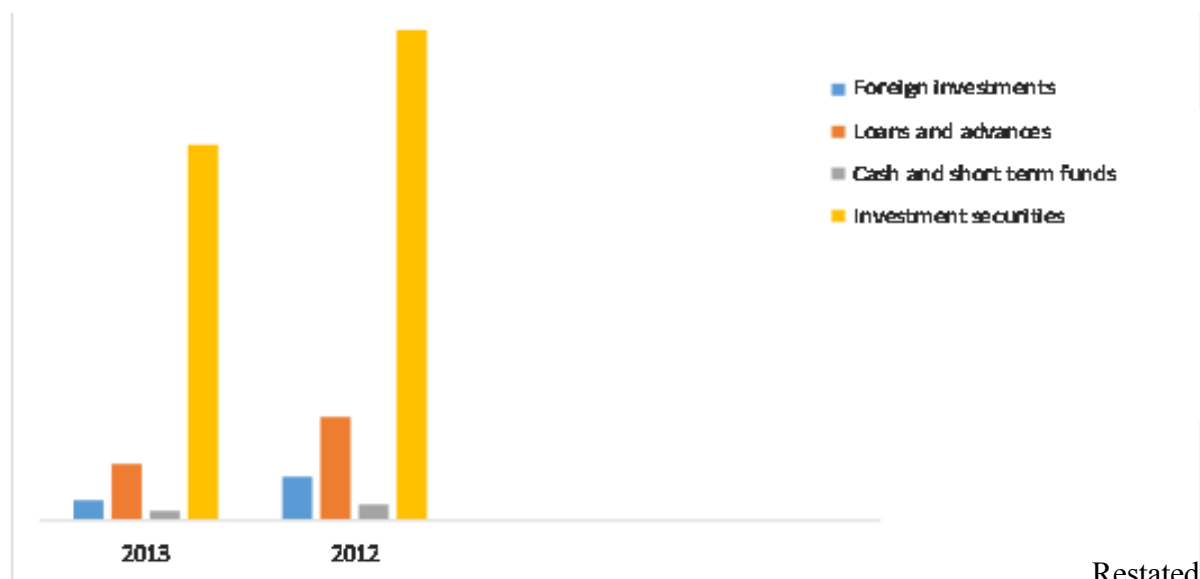
To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as vintage, loan to value (LTV) ratios, the quality of collateral, product and borrower type, prepayment and delinquency rates, and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

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

**7. Segment reporting**

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



**Notes to the financial statements (continued)****8. Net interest income***In thousands of Leones***2013**Restated  
2012**Interest and similar income**

Foreign investment	<b>1,845,418</b>	4,265,564
Loans and advances	<b>5,511,292</b>	10,150,474
Cash and short term funds	<b>796,513</b>	1,522,314
Investment securities	<b>37,075,072</b>	48,280,806
Balance at 31 December (Note 8 (e))	<b>45,228,295</b>	64,219,158

**Interest expenses and similar charges**

<i>In thousands of Leones</i>	<b>2013</b>	2012
IMF interest and charges	<b>489,353</b>	571,015
Others	<b>92,969</b>	356,873
	<b>582,322</b>	927,888
<b>Net interest income</b>	<b>44,645,973</b>	63,291,270

**8a. Foreign investment**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Interest income on Sterling investments	<b>563,648</b>	589,399
Interest income on US Dollar investments	<b>745,614</b>	2,909,368
Interest income on SDR investments	<b>536,115</b>	765,500
Interest income on other external investments	<b>41</b>	1,297
	<b>1,845,418</b>	4,265,564

The interests earned in 2012 on the stabilization and co-opt fund account (US Dollar investments account) has now been recognised in the 2012 accounts.

**Notes to the financial statements (continued)****8b. Loans and advances**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Interest on loans and advances	<b>5,349,934</b>	9,139,649
Interest on reverse repos	<b>161,358</b>	1,010,825
	<b><u>5,511,292</u></b>	<b><u>10,150,474</u></b>

**8c. Cash and short term funds**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Income from investment of BK. Funds	<b><u>796,513</u></b>	<b><u>1,522,314</u></b>

**8d. Investment securities**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Interest on SL Treasury bills	<b>1,869,465</b>	2,104,396
Interest on Treasury bearer bonds	<b>2,284,479</b>	3,279,340
Income on 1 year treasury bills	<b>472,135</b>	7,626,217
Interest on 5 year medium term bonds	<b>25,200,000</b>	25,200,000
Interest on 3 year medium term bonds	<b>6,976,440</b>	5,232,330
Interest on 182 days treasury bills	<b>272,553</b>	4,838,523
	<b><u>37,075,072</u></b>	<b><u>48,280,806</u></b>

**8e. Additional disclosure on income by source:**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Foreign investments	<b>1,845,418</b>	4,265,564
Local investments	<b>43,382,877</b>	59,953,594
Other interest earnings	<b>-</b>	-
	<b><u>45,228,295</u></b>	<b><u>64,219,158</u></b>

**9. Net fee and commission income**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
<b>Fee and commission income</b>		
Credit related fees and commission	<b>10,174</b>	19,138
Trade finance and other fees	<b>291</b>	422
	<b><u>10,465</u></b>	<b><u>19,560</u></b>
<b>Fees and commission expense</b>		
Fees and commission expense	<b>-</b>	-
	<b><u>10,465</u></b>	<b><u>19,560</u></b>
<b>Net fees and commission income</b>	<b><u>10,465</u></b>	<b><u>19,560</u></b>

**Notes to the financial statements (continued)****10. Net exchange gains/(loss)**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Foreign exchange loss (10a)	<b>(810,724)</b>	(5,367)
Revaluation gains (10b)	<b>46,761,265</b>	43,520,238
	<b>45,950,541</b>	43,514,871

**10a. Foreign exchange loss**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Exchange gain	<b>6,860,241</b>	2,322
Exchange loss	<b>(7,670,965)</b>	(7,689)
	<b>(810,724)</b>	(5,367)

**10b. Revaluation gains**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Revaluation losses	<b>(154,283,575)</b>	(121,482,949)
Revaluation gain	<b>201,044,840</b>	165,003,187
	<b>46,761,265</b>	43,520,238

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

**11. Other income**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Rent received	<b>60,748</b>	70,208
Sundry receipts	<b>4,668,206</b>	2,790,094
Profit on sale of fixed asset	<b>101,898</b>	-
Grant income	<b>187,560</b>	13,428
Interest income on GOSL SDR Bridging Fin Facility	-	-
	<b>5,018,412</b>	2,873,730

**12. Personnel expenses**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Salaries and wages	<b>37,008,327</b>	35,172,218
Social Security	<b>2,107,465</b>	1,965,843
End of service benefit	<b>3,812,906</b>	907,234
Directors remuneration	<b>1,484,894</b>	1,446,443
Others	<b>1,670,927</b>	1,066,129
	<b>46,084,519</b>	40,557,867

**Notes to the financial statements (continued)****13. Currency**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Currency management	<b>61,366</b>	130,491
Currency Issue expenses	<b>21,976,564</b>	25,913,036
	<b><u>22,037,930</u></b>	<b><u>26,043,527</u></b>

**14. Other expenses**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Occupancy cost	<b>332,518</b>	273,090
Audit fees	<b>250,000</b>	200,000
Legal and professional fees	<b>2,073,888</b>	1,408,381
Advertisement	<b>550,170</b>	408,628
Electricity	<b>2,325,582</b>	2,006,730
Insurance	<b>1,038,826</b>	1,007,562
Passage and overseas allowances	<b>2,132,540</b>	1,481,115
Repairs and maintenance	<b>679,760</b>	463,416
Write-off of property, plant and equipment	-	-
Other	<b>8,665,259</b>	9,571,002
	<b><u>18,048,543</u></b>	<b><u>16,819,924</u></b>

**15. Profit for the year**

The profit for the year has been stated after charging:

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Depreciation and amortisation	<b>3,591,629</b>	3,643,239
Directors remuneration	<b>1,484,894</b>	1,446,443
Audit fees	<b>250,000</b>	200,000
	<b><u>5,326,523</u></b>	<b><u>5,290,682</u></b>

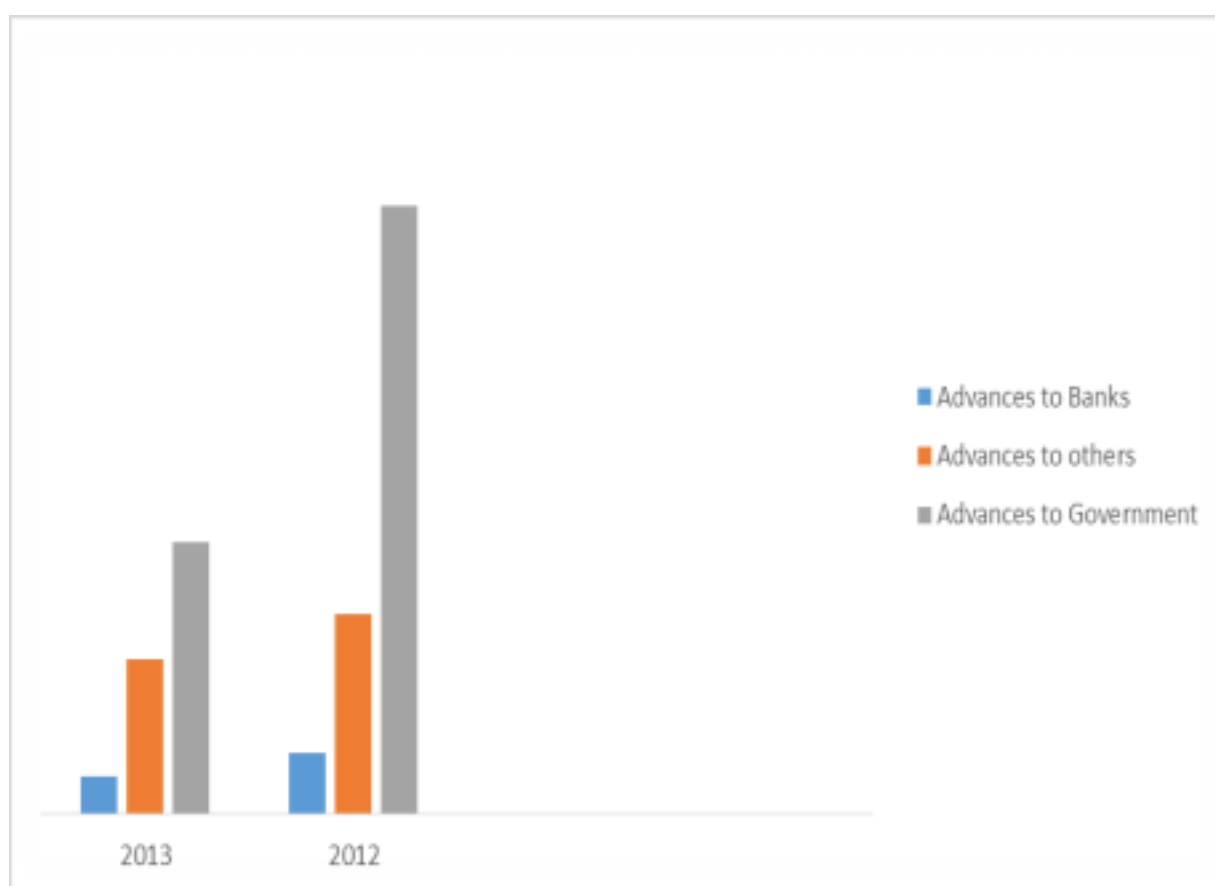
**16. Balances due from banking institutions**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Cash and balances with Banks	<b>224,192,883</b>	209,721,846
Balance with other Central Banks	<b>876,722,846</b>	610,297,429
Placement with banks	<b>251,418,388</b>	248,826,094
	<b><u>1,352,334,117</u></b>	<b><u>1,068,845,369</u></b>

**Notes to the financial statements** *(continued)***17. Funds held with International Monetary Fund (IMF)**

<i>In thousands of Leones</i>	<b>2013</b>	2012
IMF Quota subscription	<b>695,650,710</b>	690,713,553
SDR Holdings	<b>719,033,590</b>	744,666,507
	<b>1,414,684,300</b>	1,435,380,060

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



<i>In thousands of Leones</i>	<b>2013</b>	2012
Loans and advances to Banks (Note 18a)	<b>2,943,825</b>	4,859,573
Loans and advances to others (Note 18b)	<b>12,275,364</b>	15,877,330
Loans and advances to Government (Note 18c)	<b>21,470,219</b>	48,116,790
	<b>36,689,408</b>	68,853,693

**Notes to the financial statements (continued)****18. Loans and advances (continued)****18a Loans and advances to Banks**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Loans and advances to Banks	<b>5,187,083</b>	5,187,083
Less impairment allowances	<b>(2,243,258)</b>	(327,510)
	<b>2,943,825</b>	4,859,573
<b>Impairment allowances</b>		
Balance at 1 January	<b>327,510</b>	271,800
Impairment loss for the year	<b>1,915,748</b>	55,710
<b>Balance at 31 December</b>	<b>2,243,258</b>	327,510

**18b. Loans and advances to others****(i) Analysis by type**

<i>In thousands of Leone</i>	<b>2013</b>	<b>2012</b>
Staff(18(ii))	<b>4,610,490</b>	4,065,958
Reverse REPO Account (18(111))	-	7,802,200
Others (18(iv))	<b>7,831,220</b>	4,009,172
<b>Gross loans and advances</b>	<b>12,441,710</b>	15,877,330
Less: allowances for losses on loans and advances to others (18(v))	<b>(166,346)</b>	-
	<b>12,275,364</b>	15,877,330

**(ii) Staff**

<i>In thousands of Leone</i>	<b>2013</b>	<b>2012</b>
Personal loan	<b>2,612,999</b>	2,160,270
Housing Loan	<b>169,562</b>	189,387
Vehicle loan	<b>1,453,675</b>	1,715,033
Staff advance	<b>374,254</b>	1,268
<b>Balance at 31 December</b>	<b>4,610,490</b>	4,065,958

**(iii) Reverse REPO**

<i>In thousands of Leone</i>	<b>2013</b>	<b>2012</b>
Reverse REPO account	-	7,802,200

**Notes to the financial statements** (continued)**18. Loans and advances** (continued)**18b. Loans and advances to others** (continued)**(iv) Others**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Advances to contractors	<b>6,445,096</b>	2,973,043
Loan to Sierra Leone Stock Exchange Company Limited	<b>1,024,274</b>	1,000,000
Sundry	<b>361,850</b>	36,129
<b>Balance at 31 December</b>	<b>7,831,220</b>	4,009,172

**(v) Allowances for impairment**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
<b>Specific allowances for impairment</b>		
Balance at 1 January	-	-
Impairment loss for the year	<b>166,346</b>	-
<b>Balance at 31 December</b>	<b>166,346</b>	-
<b>Collective allowance for impairment</b>		
Balance at 1 January	-	-
Impairment loss for the year	-	-
<b>Balance at 31 December</b>	-	-
<b>Total allowances for impairment</b>	<b>166,346</b>	-

**18c. Advances to Government of Sierra Leone**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Ways and Means Advances brought forward	<b>48,116,790</b>	26,886,030
Advances during the year	<b>1,523,464,637</b>	735,857,420
Receipts during the year	<b>(1,550,111,208)</b>	(714,626,660)
Ways and Means Advances Carried forward	<b>21,470,219</b>	48,116,790

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

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Ways and Means Advances	<b>21,470,219</b>	48,116,790

**Notes to the financial statements (continued)****18. Loans and advances (continued)****18c. Advances to Government of Sierra Leone (continued)**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Government actual revenue in previous year	<b>2,364,852,000</b>	1,462,100,000
5% thereof	<b>118,242,600</b>	73,105,000
Deficit in Government lending	<b>(96,772,381)</b>	(24,988,210)

The Directors report deficit in lendings to the Government of Sierra Leone as at 31 December 2013 of Le 96,772,381 (2012: deficit of Le 24,988,210).

**19. Investment in equity**

<i>In thousands of Leones</i>	<b>2013</b>	2012
AfreximBank Capital Investment	<b>14,003,130</b>	13,875,714
AfreximBank Dividend Investment	<b>104</b>	3
WAMA	<b>12,515,376</b>	12,347,025
	<b>26,518,610</b>	26,222,742

**20. Investment securities**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Investment securities at fair value through profit or loss	-	-
Held to maturity investment securities	<b>462,944,487</b>	399,641,658
Available for sale investment securities	-	-
	<b>462,944,487</b>	399,641,658



**Notes to the financial statements (continued)****20. Investment securities (continued)****Held to maturity investment securities**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Five year medium term bonds	<b>273,811,491</b>	269,291,972
Treasury bills held for monetary policy	<b>85,720,850</b>	494,000
Treasury bond held for monetary policy	<b>7,345,800</b>	19,693,700
One year treasury bills	<b>1,099,850</b>	11,188,050
182 days treasury bills	<b>7,798,900</b>	3,669,000
Others	<b>12,626,821</b>	23,073,116
BSL Holding three year medium term bond	<b>74,540,775</b>	72,231,820
Non negotiable interest bearing securities	-	81,801,429
Less: Fair value adjustment on non negotiable, non interest bearing securities	-	(81,801,429)
	<b>462,944,487</b>	<b>399,641,658</b>
<b>Fair value reserve:</b>		
At 1 January	<b>81,801,429</b>	81,801,429
Reduction of fair value adjustment	-	-
Converted to 91 days treasury bills	<b>(81,801,429)</b>	-
	-	81,801,429

*Five year medium term bonds*

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

*BSL Holding 3 year medium term bond*

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

*Non-negotiable interest bearing securities*

Under Section 44(2) and 7(2) of the repealed Bank of Sierra Leone (Amendment) Act 1970, the Minister of Finance and the Financial Secretary, on behalf of the Government issued on 24 June 1994 and 25 May 2000 non-negotiable, non-interest bearing securities with no fixed redemption date. As these securities have no interest rate and no fixed redemption date in accordance with International Accounting Standards they have been discounted to net present value based on projected cash flows. This valuation results in a zero value.

## Notes to the financial statements (continued)

### 21. Property plant and equipment

<i>In thousands of Leones</i>						
<b>Cost</b>	<b>Premises</b>	<b>Motor vehicle</b>	<b>Office furniture equipment</b>	<b>Plant and machinery</b>	<b>Work-in progress</b>	<b>Total</b>
Balance at 1 January 2012	58,952,164	5,566,971	17,516,815	4,424,475	2,119,843	88,580,268
Additions during the year	-	407,406	398,314	-	6,141,376	6,947,096
Reclassification	299,466	-	356,592	-	(656,058)	-
Write-off	-	-	-	-	(13,905)	(13,905)
Adjustment	-	-	(17,102)	8,452	8,650	-
<b>Balance at 31 December 2012</b>	<b>59,251,630</b>	<b>5,974,377</b>	<b>18,254,619</b>	<b>4,432,927</b>	<b>7,599,906</b>	<b>95,513,459</b>
Balance at 1 January 2013	59,251,630	5,974,377	18,254,619	4,432,927	7,599,906	95,513,459
Additions during the year	-	-	501,606	-	11,278,112	11,779,718
Reclassification	4,355,871	961,400	347,165	-	(5,664,436)	-
Write-off	-	-	(8,452)	-	(55,670)	(64,122)
Disposal	-	(858,834)	-	-	-	(858,834)
Adjustment	-	-	(48,877)	-	(1,600)	(50,477)
<b>Balance at 31 December 2013</b>	<b>63,607,501</b>	<b>6,076,943</b>	<b>19,046,061</b>	<b>4,432,927</b>	<b>13,156,312</b>	<b>106,319,744</b>
Depreciation						
Balance at 1 January 2012	10,389,301	4,950,062	11,289,562	3,211,567	-	29,840,492
Depreciation for the year	1,159,993	416,616	1,781,975	284,655	-	3,643,239
<b>Balance at 31 December 2012</b>	<b>11,549,294</b>	<b>5,366,678</b>	<b>13,071,537</b>	<b>3,496,222</b>	<b>-</b>	<b>33,483,731</b>
Balance at 1 January 2013	11,549,294	5,366,678	13,071,537	3,496,222	-	33,483,731
Depreciation for the year	1,201,069	366,190	1,772,866	251,504	-	3,591,629
Write-off	-	144	2,737	4,473	-	7,354
Disposal	-	(858,816)	-	-	-	(858,816)
<b>Balance at 31 December 2013</b>	<b>12,750,363</b>	<b>4,874,196</b>	<b>14,847,140</b>	<b>3,752,199</b>	<b>-</b>	<b>36,223,898</b>
<b>Carrying amount:</b>						
At 31 December 2012	47,702,336	607,699	5,183,082	936,705	7,599,906	62,029,728
<b>At 31 December 2013</b>	<b>50,857,138</b>	<b>1,202,747</b>	<b>4,198,921</b>	<b>680,728</b>	<b>13,156,312</b>	<b>70,095,846</b>

Work in progress represents amount spent on renovation of the Governor's residence and Bank Complex recreation Centre, furniture for the Tokeh Resource Center and rehabilitation of Head office and Kenema branch building.

**Notes to the financial statements (continued)****22. Other assets**

<b>In thousands of Leones</b>	<b>2013</b>	<b>2012</b>
Gold stock	465,203	645,683
Items in transit	34,359,629	33,679,000
Other consumables	871,892	602,836
Prepayment	143,786	444,197
Interest receivable	144,212	106,997
Deferred currency issue expense	35,807,655	24,257,886
Other receivables	13,650,743	154,140
WAMZ Payment Systems Fund	-	27,019
Deferred Govt security certificate	-	-
Less:		
Allowances for impairment	(8,732)	(8,732)
	<u>85,434,388</u>	<u>59,909,026</u>
Allowances for impairment:		
At 1 January	(8,732)	(141,719)
Impairment charge for the year	-	(8,732)
Written off during the year	-	141,719
	<u>(8,732)</u>	<u>(8,732)</u>

**23. Amounts due to International Monetary Fund (IMF)**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
IMF Special Drawing Rights	647,653,313	662,776,055
IMF Poverty Reduction and Growth Facility	576,339,603	524,785,774
IMF securities	67,390,261	67,390,261
IMF No. 1	608,643,458	631,285,891
IMF No. 2	61,008	63,049
	<u>1,900,087,643</u>	<u>1,886,301,030</u>

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

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

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

The IMF Securities Account represents part of the IMF currency holdings held in members' depository agency which contain member's nonnegotiable, non-interest bearing notes encashable on demand.

**Notes to the financial statements (continued)****24. Deposit from Government**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Government special deposits/accounts	<b>52,505,432</b>	25,058,305
	<u><b>52,505,432</b></u>	<u>25,058,305</u>

**25. Deposit from Banks**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Commercial Bank's reserve account	<b>231,677,098</b>	83,472,630
Rural and community bank's reserve accounts	<b>8,439,506</b>	12,671,503
Others	<b>564,750</b>	1,459
	<u><b>240,681,354</b></u>	<u>96,145,592</u>

**26. Deposits from Others**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Other deposits	<b>53,190,860</b>	19,388,933
	<u><b>53,190,860</b></u>	<u>19,388,933</u>

**27. Currency in circulation**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
Notes	<b>910,925,115</b>	893,154,095
Coins	<b>10,118,573</b>	9,895,073
<b>Balance at 31 December</b>	<u><b>921,043,688</b></u>	<u>903,049,168</u>

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

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

**Notes to the financial statements (continued)****28. Other liabilities**

<i>In thousands of Leones</i>	<b>2013</b>	2012
<b>Financial liabilities</b>		
Other foreign currency financial liabilities (28a)	<b>37,925,654</b>	37,184,053
Accrued charges and other liabilities (28b)	<b>2,687,530</b>	1,762,973
	<u><b>40,613,184</b></u>	<u>38,947,026</u>
<b>Non-Financial liabilities</b>		
Provision for revaluation of pipeline liabilities (28c)	<b>29,831,161</b>	29,299,624
	<u><b>29,831,161</b></u>	<u>29,299,624</u>
	<u><b>70,444,345</b></u>	<u>68,246,650</u>

**28a. Other foreign currency financial liabilities**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Foreign payment	<b>731,345</b>	427,297
Sierra Rutile/GoSL Loan	-	-
Bank of China US\$ clearing	<b>36,659,596</b>	36,472,275
WAMA ECOWAS travellers' cheques	-	-
WAMA ECOWAS travellers' cheques clearing	<b>(1,169)</b>	(1,169)
Commission of European committee	-	-
WAMA settlement	-	-
OFID Debt Relief imprest account	<b>250,027</b>	248,750
Sundry liabilities	<b>285,855</b>	36,900
	<u><b>37,925,654</b></u>	<u>37,184,053</u>

An agreement on the settlement of the balance on the clearing account between Bank of China and Bank of Sierra Leone was signed on 13th August 1993 to work for the settlement of the balance in favour of Bank of China on the clearing account maintained between Bank of China and Bank of Sierra Leone. Both sides confirm that the balance on the clearing account amounts to U.S Dollars 11,220,227.40 standing in favour of Bank of China. Bank of Sierra Leone shall settle the balance in twenty equal instalments, with each instalment amounting to U.S. Dollars 561,011.37. The first instalment payment shall be made on 15th August 1994 and thereafter shall be effective every six months on 15th February and 15th August respectively.

**Notes to the financial statements (continued)****28b. Accrued charges and other liabilities**

<i>In thousands of Leones</i>	<b>2013</b>	Restated 2012
<b>Accrued expenses:</b>		
Balance at 31 December as previously stated	-	5,342,776
Amount overstated in previous years	-	(4,061,434)
	<hr/>	<hr/>
Balance at 31 December 2012 as restated	-	1,281,342
Accrued expenses as 31 December 2013	<b>2,324,534</b>	-
P.S. Bond in circulation	<b>449</b>	449
Retention monies	<b>354,284</b>	481,182
Trade and sundry creditors	<b>8,263</b>	-
	<hr/>	<hr/>
	<b>2,687,530</b>	1,762,973
	<hr/> <hr/>	<hr/> <hr/>

Unutilised accrued expenses in prior periods had not been reversed in the books for those periods. This reversal has now been effected in the 2012 financial statements. There is no effect in the 2013 financial statements.

**28c. Provision for revaluation of pipeline liabilities**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at January	<b>29,299,624</b>	29,206,661
Revaluation loss/(gain)	<b>531,537</b>	92,963
Disbursement	-	-
	<hr/>	<hr/>
<b>Balance at 31 December</b>	<b>29,831,161</b>	29,299,624
	<hr/> <hr/>	<hr/> <hr/>

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

**29. End of service benefit**

<i>In thousands of Leones</i>	<b>2013</b>	Restated 2012
<b>(a) Change in liability</b>		
Balance at 1 January	<b>12,482,964</b>	9,967,414
Service cost	<b>2,014,492</b>	1,795,636
Interest cost	<b>1,798,414</b>	1,442,016
Actuarial (gain)/loss arising financial assumptions	<b>(187,173)</b>	-
Actuarial (gain)/loss other	<b>(700,350)</b>	113,525
Benefits paid	<b>(1,339,747)</b>	(835,627)
	<hr/>	<hr/>
<b>Balance at 31 December</b>	<b>14,068,600</b>	12,482,964
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements (continued)****29. End of service benefit (continued)****(a) Change in liability (continued)**

In 2012 the valuation of the End of Service Benefit Scheme was based on information available to the Actuary whilst valuing the 2011 benefit scheme. This value for 2012 was used in the 2012 financial statements as it captured all the information available at that material time.

In 2013 the Actuary valued the Scheme based on actual information for 2013 and 2012 respectively hence the restatement for the 2012 amount. There is no effect of this change in 2013.

**(b) Change in plan assets**

<i>In thousands of Leones</i>	<b>2013</b>	Restated 2012
Balance at 1 January	-	-
Actual return	-	-
<b>Expected returns at 31 December</b>	-	-
Actuarial gain/(loss)	-	-
Contribution by participants	<b>1,339,747</b>	835,627
Employer	<b>1,339,747</b>	835,627
Other	-	-
Benefits paid	<b>(1,339,747)</b>	(835,627)
Foreign exchange rate effect	-	-
<b>Balance at 31 December</b>	<b>-</b>	<b>-</b>
<i>In thousands of Leones</i>	<b>2013</b>	2012
<b>(c) Funding level</b>		
Projected benefit obligation	<b>14,068,600</b>	12,482,964
Plan assets	-	-
<b>Net obligation reported in the statement of financial position</b>	<b>14,068,600</b>	12,482,964
<b>Unrecognised actuarial gains/(losses)</b>		
Balance at 1 January	-	-
Amortisation of opening balance	<b>(887,523)</b>	113,525
Corridor max	-	-
Balance to be amortised	-	-
Amortisation period	-	-
New gains/(losses)	<b>887,523</b>	(113,525)
<b>Balance at 31 December</b>	<b>-</b>	<b>-</b>

**Notes to the financial statements (continued)****29. End of service benefit (continued)****(d) Balance sheet**

<i>In thousands of Leones</i>	<b>2013</b>	Restated 2012
Projected benefit obligation	<b>14,068,600</b>	12,482,964
Plan assets	-	-
Net obligation/(assets)	<b>14,068,600</b>	12,482,964
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Unrecognised transitional obligation	-	-
Unrecognised (asset ceiling)	-	-
Net obligation/(asset) to be in balance sheet	<b>14,068,600</b>	12,482,964

**(e) Income statement**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Service cost	<b>2,014,492</b>	1,795,636
Net Interest cost	<b>1,798,414</b>	1,442,016
- Interest cost	-	-
- Expected return on plan assets	-	-
- Return on asset ceiling	-	-
Interest cost	-	-
Expected return on plan asset	-	-
Change in S59 amount	-	-
Actuarial loss/(gain) recognised	-	-
Transitional obligation recognised	-	-
Past service cost recognised	-	-
<b>Amount recognised in income statement</b>	<b>3,812,906</b>	3,237,652
<b>Other comprehensive income (OCI)</b>		
Actuarial (gains)/loss	<b>(887,523)</b>	113,525
Return on plan asset not in P & L	-	-
Effect of asset ceiling not in P & L	-	-
<b>Amount recognised in OCI</b>	<b>(887,523)</b>	113,525
Initial adjustment to capital amount recognised	<b>(887,523)</b>	113,525
Cumulative amount recognised in OCI	<b>(887,523)</b>	113,525
<b>(f) Reconciliation of financial position</b>		
Opening value	<b>12,482,964</b>	9,967,414
Employee contribution	<b>(1,339,747)</b>	(835,627)
Amount recognised in income statement	<b>3,812,906</b>	3,237,652
Amount recognised in OCI	<b>(887,523)</b>	113,525
<b>Closing value</b>	<b>14,068,600</b>	12,482,964



**Notes to the financial statements** *(continued)***29. End of service benefit (continued)****(g) Key valuation assumptions**

	<b>2013</b>	2012
Discount rate	<b>12.00%</b>	15.00%
Salary inflation	<b>12.00%</b>	15.00%
Gap	<b>0.00%</b>	0.00%

**(h) Sensitivity information**

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

**30. Share capital**

<i>In thousands of Leones</i>	<b>2013</b>	2012
<b>Authorised::</b>	<b>250,000,000</b>	250,000,000
<b>Issued and fully paid</b>	<b>50,000,000</b>	50,000,000
Balance at January and 31 December	<b>50,000,000</b>	50,000,000

Section 10(1) and 81 of the Bank of Sierra Leone Act 2011 require the Bank of Sierra Leone to maintain a minimum paid up capital of Le 125 billion, which is to be subscribed within five years from the commencement of the Bank of Sierra Leone Act (that is 24 November 2011). As at 31 December 2013 the Government as the sole shareholder of the Bank had not provided the additional Le 75 billion to comply with Section 10(1) of the Bank of Sierra Leone Act 2011. However, Section 81 of the Bank of Sierra Leone Act 2011 requires this additional capital to be fully subscribed within five years from the commencement date of the Bank of Sierra Leone Act 2011 (which is 24 November 2011).

**Notes to the financial statements (continued)****31. Reserves and retained earnings**

<i>In thousands of Leones</i>	<b>2013</b>	<b>2012</b>
General reserves (a)	<b>113,112,317</b>	27,530,240
Other reserves (b)	<b>32,792,919</b>	32,792,919
<b>Total reserves as at 31 December</b>	<b>145,905,236</b>	60,323,159

**(a) General reserve**

<i>In thousands of Leones</i>	<b>2013</b>	Restated <b>2012</b>
Balance at start of the year	<b>27,530,240</b>	(5,294,510)
Other adjustments	-	3,240,456
Prior year adjustment	-	7,452
Net profit for the year	<b>3,780,677</b>	22,579,164
	<b>31,310,917</b>	20,532,562
Securities reserves	<b>81,801,400</b>	6,997,678
<b>Balance at 31 December</b>	<b>113,112,317</b>	27,530,240

Other adjustments relate to unutilised accrued charges relating to the period before 31 December 2012

Under Section 14(1) and subject to section 81 of the Bank of Sierra Leone Act 2011, where in the audited annual financial statements of the Bank, the value of its assets falls below the sum of its liabilities, its unimpaired issued capital and general reserves, the Board, on the advice of the external auditors of the Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall within a period of not more than thirty days. In the event that the Board approves the report, the Bank shall request the Minister for a capital contribution by the Government to remedy the deficit and upon receipt of this request the Government shall, within a period of not more than thirty calendar days, transfer to the Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates, as determined by the Board.

As at 31 December 2013, the total value of the assets of the Bank exceeds the sum of its liabilities, unimpaired issued capital and general reserves.

**Notes to the financial statements** *(continued)***31. Reserves and retained earnings** *(continued)***(b) Other reserves****(i) Property revaluation reserves**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at start of the year and end of the year	<b>32,792,919</b>	32,792,919
<b>Balance at 31 December</b>	<b>32,792,919</b>	32,792,919

The Bank maintains a property revaluation reserve to which is transferred revaluation gains on revaluing its properties

**(ii) Actuarial gains/(loss)**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Balance at start of the year	<b>(113,525)</b>	-
Actuarial loss on end of service benefit	-	(113,525)
Actuarial gain on end of service benefit	<b>887,523</b>	-
	<b>773,998</b>	(113,525)

**32 Contingencies and commitments****32a. Contingent Liabilities**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Guarantees and Endorsement Promissory notes	<b>154,518,483</b>	157,147,997
	-	-
	<b>154,518,483</b>	157,147,997

**32b. Capital commitments**

<i>In thousands of Leones</i>	<b>2013</b>	2012
Capital expenditure	<b>19,713,643</b>	18,951,162
African Export Import Bank	<b>10,716,670</b>	7,107,957
	<b>30,430,313</b>	26,059,119

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**Notes to the financial statements (continued)****32 Contingencies and commitments (continued)****32c. Pending law suits, legal proceedings and claims**

The Bank has pending litigations against it in relation to three former employees who are claiming damages for wrongful dismissal, upward revision of pension and payment of terminal benefits and other allowances. However, the Bank has appealed against the judgements and the matters are presently at the Court of Appeal. In the event that the appeals are not successful, the Bank would be liable to pay an amount not less than Le2.24 billion excluding interest at the rate of 35% per annum and solicitor's costs.

**33. Related parties***Parent and ultimate controlling party*

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

As at 31 December 2013, total net advances to the Government was Le 21.4 billion (2012: Le 48.1 billion).

The Board of Directors (including the Governor and Deputy Governor) received remuneration amounting to Le1.48 billion (2012: Le 1.45 billion). The Governors benefited from rent allowance and vehicles for official and domestic purposes. Board members did not benefit from any loan during the period under review. No amount was contributed to the National Social Security and Insurance Trust Scheme (NASSIT) on behalf of the Governors as they are both above the required age.

Senior management received remuneration of Le 2.4 billion (2012: Le 2.44 billion) and benefited from official vehicles. Outstanding loans to senior management totalled Le 216 million (2012: Le 170 million). A total of Le 258 million (2012: Le 156.11 million) was contributed on their behalf to NASSIT.

Deposits from Government totalled Le 52 billion (2012: Le 25 billion).

**34. Post balance sheet events**

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

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

**Notes to the financial statements (continued)****35. Retrospective restatement for 2012 results**

In 2012 unutilised accrued expenses was not reversed in the books. This reversal has now been done in order to correct this situation.

Also end of service benefit for 2012 was overstated as the actuarial valuation then was based on the information made available to the Actuary. In 2013, the actuary used actual information in 2013 and 2012 to value the scheme, hence the restatement of the 2012 amount.

In 2012 also interest income earned on the stabilisation and co-opt fund account was completely omitted from the books. This has now been incorporated to affect the 2012 accounts.

The comparative figures for accrued charges end of service benefits and foreign investments have been restated to account for these changes. The effect of the restatement on these financial statements is summarised below.

There is no effect in 2013.

<i>In thousands of Leones</i>	<b>Effect on 2012</b>
Decrease in personnel expenses (End of service benefit)	<b>722,102</b>
Decrease in operating expenses (Accrued charges)	<b>820,977</b>
Increase in foreign investments	<b>1,374,276</b>
<b>Increase in operating result</b>	<b>2,917,355</b>
Decrease in employee benefit	<b>(722,102)</b>
Decrease in accrued charges	<b>(820,977)</b>
Increase in investment in equity	<b>(1,374,276)</b>
<b>Increase in general reserves</b>	<b>(2,917,355)</b>

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**Notes to the financial statements (continued)****36. Financial risk management****(a) Introduction and overview**

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

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

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

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's framework and has established the Board Risk Committee to ensure effective discharge of its risk oversight responsibility.

The Board Risk Committee is responsible for monitoring compliance with the risk management policies and procedures, reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank, the appropriateness and effectiveness of the Bank's risk management systems and controls and also consider the implications of changes proposed to regulations and legislation that are material to the Bank's risk appetite and management of risk. The Board Audit Committee is assisted in these functions by the Head of Compliance. The Head of Compliance undertakes both regular and ad-hoc review of risk management controls and procedures, the results of which are reported to the Risk Committee.

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

**(b) Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, and sector risk).

**Settlement risk**

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

**Notes to the financial statements (continued)****36. Financial risk management (continued)****(b) Credit risk (continued)****Management of credit risk**

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

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. All facilities require the prior approval of the Bank's Credit Committee. Larger facilities require approval by the Board of Directors as appropriate.
- Reviewing and assessing credit risk the Bank's Credit Committee assesses all credit exposures, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties and industries (for loans and advances).
- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by the Credit Policy Committee/Early Alert Committee.
- Reviewing compliance with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to the Critised Assets Committee on the credit quality of loan/advances portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to promote best practice throughout the Bank in the management of credit risk.

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

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**Notes to the financial statements (continued)****36. Financial risk management (continued)****(c) Liquidity risk**

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

**Management of liquidity risk**

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

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

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

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

**(d) Market risks**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.



**Notes to the financial statements (continued)****36. Financial risk management (continued)****Management of market risks**

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

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

*Exposure to market risks - trading portfolios*

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

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

*Exposure to interest rate risk - non-trading portfolios*

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

**(e) Operational risks**

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

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

## Notes to the financial statements (*continued*)

### 36. Financial risk management (*continued*)

#### (e) Operational risks

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Bank. This responsibility is supported through the Bank's Operational Risk and Assurance Methodology Framework (ORMAF) in the following areas:

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

Compliance with Bank standards is supported by a programme of independent periodic reviews undertaken by the Head of Compliance and Assurance. The results of internal audit reviews are discussed with the management of the Bank with summaries submitted to the senior management of the Bank.

### 37. Basis of measurement

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

### 38. Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies as set out in note 39 to all periods presented in these financial statements.

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- a. IFRS 13 Fair Value Measurement.
- b. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).

## **Notes to the financial statements** *(continued)*

The nature and the effects of the changes are explained below.

### **(a) Fair value measurement**

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value, as set out in Note 39(g)(vi) prospectively. The change had no significant impact on the measurements of the Bank's assets and liabilities, but the bank has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Bank has provided the relevant comparative disclosures under those standards.

### **(b) Presentation of items of OCI**

As a result of the amendments to IAS 1, the Bank has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

## Notes to the financial statements *(continued)*

### 39. Significant accounting policies

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

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

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#### (a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising as retranslation are recognised in the profit and loss account as required by the Bank of Sierra Leone Act 2011, except for differences arising on the retranslation of available-for-sale equity instruments.

**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(b) Interest**

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

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

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

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

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

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

**(c) Fees and commissions**

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

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

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

**(d) Net exchange gains/losses**

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

**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(e) Lease payments made**

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

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

**(f) Income tax expense**

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

**(g) Financial assets and financial liabilities***(i) Recognition*

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

*(ii) Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

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

**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(g) Financial assets and liabilities (continued)****(ii) Derecognition (continued)**

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

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

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

**(iii) Offsetting**

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

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

**(iv) Amortised cost measurement**

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

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**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(g) Financial assets and liabilities (continued)***(v) Fair value measurement*

The determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotation for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include the net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

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

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

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

*(vi) Identification and measurement of impairment*

At each financial position date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.



**Notes to the financial statements** *(continued)***39. Significant accounting policies** *(continued)***(g) Financial assets and liabilities** *(continued)**(vi) Identification and measurement of impairment* *(continued)*

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

Impairment losses on assets carried at amortised cost are recognised in statement of comprehensive income and reflected in an allowance account against loans and advances.

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

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

**(h) Cash and cash equivalents**

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

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

**(i) Loans and advances**

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

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

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

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**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(j) Investment securities**

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

*(i) Held-to-maturity*

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

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

*(ii) Available-for-sale*

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

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

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

**(k) Property and equipment***(i) Recognition and measurement*

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

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

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

**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(k) Property and equipment (continued)***(ii) Subsequent costs*

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

*(iii) Depreciation*

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

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

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

**(l) Leased assets - Lessee**

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

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

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

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

**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(m) Impairment of non-financial assets (continued)**

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

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

**(n) Deposits**

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

**(o) Provisions**

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

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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

**(p) Financial guarantees**

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

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

**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(q) Employee benefits***(i) Short term benefits*

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

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

*(ii) Defined contribution plan*

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

*(iii) Defined benefit plan*

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

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

## Notes to the financial statements (*continued*)

### 39. Significant accounting policies (*continued*)

#### (q) Employee benefits (*continued*)

##### (iii) *Termination benefits*

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

#### (r) Share capital and reserves

##### (i) *Share capital*

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Sections 10(1) and 81 of the Bank of Sierra Leone Act 2011 require that the minimum paid up capital of the Bank must be Le 125bn, to be subscribed within five years from commencement of the Act (that is commencing from 24 November 2011). The capital has not been fully subscribed for as at year end.

##### ii) *Share issue costs*

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

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

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

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

When the Bank mops money from commercial banks, it creates a liability in its financial statement and secures this borrowing (liability) by assigning part of the securitised debt owing from Government to the Bank to the commercial banks it has mopped from. The Bank freezes the money mopped and pays interest at market rates on the money. The money mopped stays until maturity.

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

**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(s) Amounts repayable under Repurchase Agreement (REPOs) (continued)**

- (i) The bank treats reverse REPO as collateralised loans for accounting purposes. In this case, a reverse REPO is recognised as a secured advance and is shown separately as Advance to Banks while repurchase agreements are shown as a liability in the books of Bank.
- (i) REPOs continue to be recognised in the statement of financial position and are measured in accordance with policies for non-trading investment.
- (ii) The difference between sales and repurchase price is treated as interest expenditure and is recognised in the profit or loss.

**(t) Currency in circulation**

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

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

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

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

**(v) Gold**

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

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**Notes to the financial statements (continued)****39. Significant accounting policies (continued)****(w) Commitments on behalf of Treasury**

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

**(x) Comparative**

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

**40. New Standards and Interpretations not yet adopted**

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below.

The Company does not plan to adopt these standards early.

**IFRS 9 financial Instruments (2013) IFRS 9 financial instruments (2010) and****IFRS 9 Financial instruments (2009) (together with IFRS 9)**

IFRS 9 (2009) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and all new requirements to address the impairment of financial assets and ledger accounting.

IFRS 9 (2009) and (2010) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of these standards is expected to have an impact on the Bank's financial assets, but no impact on the Bank's financial liabilities.

The following tables lists new standards, amendments to or interpretations of standards in issue at 15 August 2013, which were not yet effective for periods beginning on 1 January 2012 and therefore may need to be considered for the first time when preparing IFRS financial statements for an annual periods beginning on 1 January 2013.



**Notes to the financial statements (continued)****40. New Standards and Interpretations not yet adopted (continued)****Newly currently effective requirements**

<b>Effective date</b>	<b>New Standards or amendments</b>
1 July 2012	Presentation of items of other comprehensive income (Amendments to IAS 1)
1 January 2013	Disclosures - offsetting financial assets and financial liabilities (Amendments to IFRS 7).  IFRS 11 Joint arrangements  IFRS 12 Disclosures of interests in other Entities  IFRS 13 Fair value measurement.
1 January 2013	IAS 19 Employee Benefits  IAS 27 Separate Financial Statements  IAS 28 Investments in Associates and Joint Ventures.

**Forthcoming requirements**

<b>Effective date</b>	<b>New Standards or amendments</b>
1 January 2014	Offsetting financial assets and financial liabilities (Amendment to IAS 32)  Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)  Recoverable amount Disclosures for non-financial assets (Amendments to IAS 36)  IFRS 9 Financial Instruments (2010)  IFRS 9 Financial Instruments (2009)

# **Bank of Sierra Leone**

**Annual Report  
and  
Statement of Accounts  
for year ended 31<sup>st</sup> December 2013**

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