Bank of Sierra Leone

Annual Report
and
Statement of Accounts

for the year ended 31 December 2012

A. ANNUAL REPORT 2012

1. Review of the Economy

Sierra Leone's macroeconomic performance improved further during 2012 underpinned by the implementation of policies by the Government to strengthen public financial management and prudent monetary policy management by the Bank of Sierra Leone (BSL).

The Executive Board of the IMF, on September 17, 2012 concluded the Fourth Review of Sierra Leone's economic performance. The successful conclusion of the review enabled the country to benefit from a total disbursement of SDR 4.44 million, equivalent to about US$6.93 million. This brought total disbursements to Sierra Leone under the ECF arrangement to SDR 22.2 million (about US$34.4 million).

Real GDP inclusive of iron ore is estimated to grow by 18.0 percent in 2012, compared to the growth rate of 6.3 percent recorded in 2011. The strong growth was largely due to increased activities in the mining subsector, with iron ore as the main driving factor. Real GDP excluding iron ore, is however, estimated to grow at 6.3 percent in 2012, owing to increased activities in the agriculture, non- iron ore mining, construction and other services, supported by improved power supply. In terms of sectoral contribution to the GDP, agriculture accounted for 41.98 percent, services 27.72 percent and industry 27.26 percent

The national year-on-year inflation rate declined throughout the review period, moving from 16.64 percent in December 2011 to 11.41 percent in December 2012. Similarly, the annual average inflation rate declined to 12.87 percent from 16.06 percent in 2011. The deceleration in the rate of inflation was due to the tight monetary policy stance of the Central Bank, relative stability of the exchange rate, increased availability of local food items in the market and government policy to maintain the fixed pump price of petroleum products during the election year.

Fiscal performance improved during the review period, with the fiscal deficit (including grants) declining to Le469.7bn (2.9 percent of GDP), compared to Le581.2bn (4.61 percent of GDP) recorded in 2011. The deficit was however, higher, when compared to the budgeted target of Le181.49bn (1.22% of GDP) for 2012. The deficit was largely financed from domestic sources amounting to 2.38 percent of GDP, with banking sector as the main source. External financing was lower in the review period, accounting for only 0.98 percent of GDP.

Monetary aggregates expanded during the year, with broad money growth rate increasing by 23.13 percent, compared to 21.61 percent in 2011. Also, reserve money expanded by 18.53 percent, as against 12.97 percent recorded in 2011. The growth in money supply largely reflected increased Government borrowing from the banking system as the central bank adhered strictly to its statutory limit on direct financing of the budget. Private sector credit by the banking system also expanded marginally as banks continued to implement cautious lending policies against the backdrop of a high ratio of non-performing loans. The Monetary Policy Rate remained unchanged throughout the review period at 20.00 percent. Nonetheless, yields on treasury bills as well as interbank market rates exhibited declining trends, reflecting excess liquidity in the market.

Through strengthened supervision by the central bank and enhanced regulatory environment, the banking sector remained relatively safe and sound during the review period. The total number of commercial banks operating in the country remained unchanged at thirteen (13) as at end December 2012. The total number of commercial bank branches however increased from eighty six (86) at end December 2011 to eighty nine (89) as at end December 2012. There are currently two (2) discount houses operating in Sierra Leone, thirty nine (39) licensed foreign exchange bureau, with fifty five (55) branches throughout the country. During the review period, the Bank of Sierra Leone granted licenses to four (4) community banks, while the International Fund for Agricultural Development (IFAD) established twelve (12) Financial Services Associations (FSAs).

Although global demand remained weak in 2012, reflecting high unemployment rates particularly in the developed economies, the deadlock on the fiscal cliff in the United States (US), the lingering Euro zone financial and economic crisis, as well as the slowdown in output growth in the key emerging Asian economies, the external sector of the Sierra Leone economy recorded improved performance in 2012. This was largely a result of increased inflow of foreign direct investment mainly in the mining sub-sector (iron ore) and the agriculture sector. As a result, the gross external reserves of the Bank of Sierra Leone increased by 10.91 percent to US$417. 93mn in 2012, representing about 3.1 months of import cover. Furthermore, the exchange rate of the Leone to major international currencies remained stable during the year, supported in part, by increased foreign exchange inflows as well as the tight monetary policy stance of the Bank. The trade account deficit narrowed from US$1,367.34mn in 2011 to US$495.00mn in 2012, due to a 217.43 percent expansion in exports, relative to a marginal increase (6.58 percent) in imports. Merchandise export increased significantly, with mineral exported (largely iron ore) accounting for 71.47 percent of total exports value. The stock of external debt increased by 8.62 percent to US$966.80mn in 2012, due mainly to disbursement of new loans by donor partners.

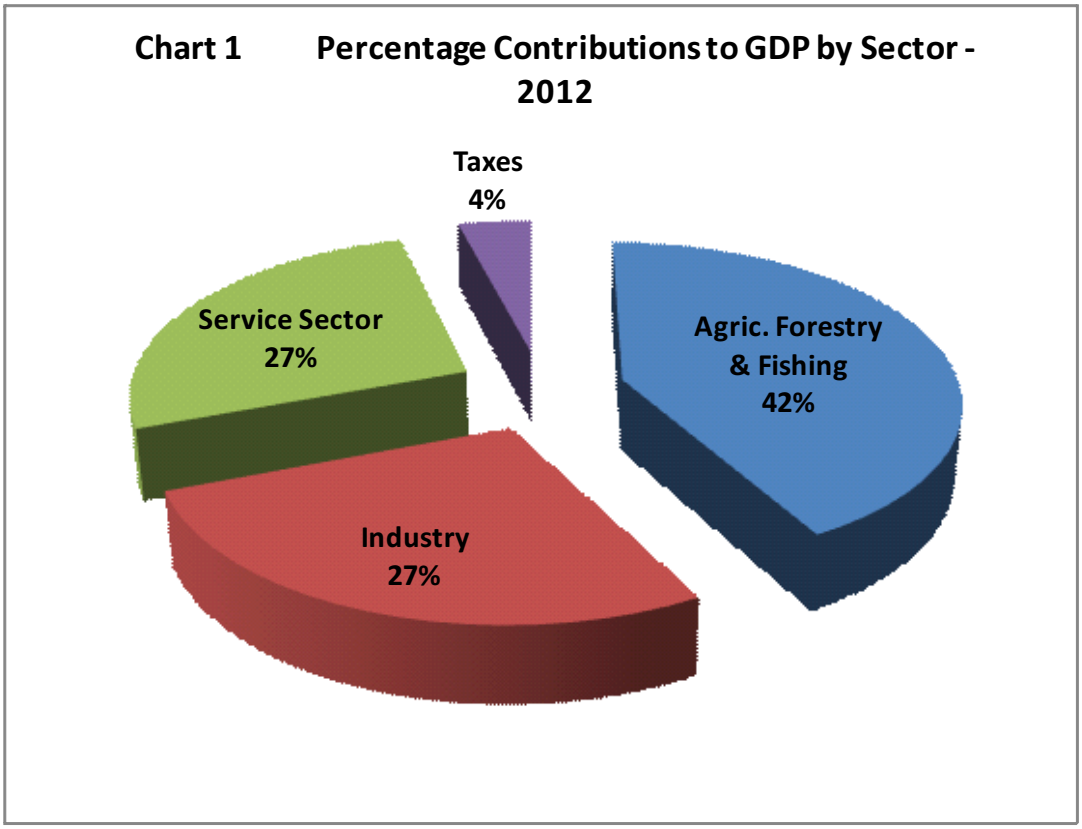
Sierra Leone's performance under the WAMZ Convergence Criteria at end December, 2012 indicated that the country satisfied two out of the four primary criteria (central bank financing of fiscal deficit as a percentage of the previous year's tax revenue and gross external reserves in months of import cover). The country also satisfied one out of the six secondary criteria (Public Investment from domestic receipts of not less than 20 percent). This indicates an improvement on the 2011 performance, when only one primary criterion and one secondary criterion were met. The country continued to breach the criterion on single digit inflation, though the national year-on-year inflation steadily declined from 16.64 percent at end December 2011 to 11.41 percent in December 2012.

2. Real Sector Developments

Real sector activities in the review period recorded mixed performance. The tourism and transport sub-sectors as well as the mining sector performed impressively. However the manufacturing and construction sub-sectors exhibited low performance during the reporting period.

2.1 GDP

Real GDP growth rate for the economy in 2012 is estimated at 18.0 percent boosted by a combination of growth drivers including mining activities, agricultural activities, services sector and infrastructure investments. The agricultural sector remained the backbone of the economy contributing 41. 98 percent of GDP. The services sector is the second largest contributor to the GDP and accounted for 27.72 percent, while the industry sector accounted for 27.26 percent, with diamond and iron ore as the main contributors. The non-iron ore GDP growth rate is estimated at 6.3 percent, against the backdrop of agricultural growth,



non-iron ore mineral growth, enhanced electricity and water supply, continued government investment in infrastructure and expansion of services in the economy.

2.1.1 Agriculture

Agriculture remained one of the key sectors supporting the *Government's Agenda for Change*, employing nearly two-thirds of the labour force in Sierra Leone. An amount of Le130.4bn was allocated to the Agriculture sector in the 2012 national budget. *(10 percent of the Government's total expenditure)* This amount included Le21bn to be sourced from the recurrent budget, for agricultural services including food security activities. Food security activities included the procurement of about 35,000 bags of fertilizers, 15,000 bushels of seed rice and 5,000 bushels of ground nut seeds. In addition, Government financed the training of over 1,000 Farmer Based Organizations and established and, equipped over 500 Agriculture Business Centres (ABCs).

The sector also received increased assistance from development partners in the review period. Development partners disbursed Le129.3 billion 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 African Development Bank (AfDB) under the *Support to Agricultural Research for Development of Strategic Crops in Africa* (SARD-SC) approved US$63.24 million as a resource package for the implementation of a five-year project, aimed at enhancing productivity and income generation from strategic crops in Africa. Under the Public Investment Programme (PIP), Government provided Le6.3 billion as counterpart contribution towards the implementation of various projects in the agriculture sector. Total production of cocoa increased significantly by 253.05 percent in 2012, compared to a decline of 8.65

Table 1

Production					
		Jan-Dec '11	Jan-Jun'12	Jul-Dec'12	Jan-Dec '12
1	2	3	4	5	6
Minerals					
Diamonds	*000' carats*	355.34	212.68	319.87	532.56
Gem	*'000 carats*	*215.97*	*147.87*	*261.65*	*409.52*
Industrial	*'000 carats*	*139.37*	*64.81*	*58.22*	*123.03*
Bauxite	*000' M tons*	1,457.51	549.61	184.88	734.48
Rutile	*000' M tons*	67.97	42.61	51.88	94.49
Ilmenite	*000' M tons*	14.58	10.32	11.09	21.40
Gold	*000' Ounces*	5.28	2.72	1.81	4.53
Zircon	*000' M tons*	8.35	-	0.61	0.61
Iron Ore	*000' M tons*	339.33	2,733.32	2,470.17	5,203.49
Other Minerals	*'000 M Tons*	-	-	219.21	219.21
Agriculture					
Coffee	*M tons*	3.79	3.10	0.07	3.17
Cocoa	*M tons*	18.00	9.61	53.94	63.55
Manufactured Goods					
Beer and Stout	*000' Cartons*	932.93	380.08	411.84	791.92
Maltina	*000' Cartons*	294.33	183.89	139.32	323.21
Acetylene	*000' cu.ft*	198.57	91.40	99.21	190.61
Oxygen	*000' cu.ft*	267.36	122.50	116.24	238.74
Confectionery	*000' lbs*	3,469.52	1,784.92	1,379.58	3,164.50
Common Soap	*000' M tons*	480.40	338.31	384.89	723.20
Soft drinks	*000' crates*	1,881.15	938.11	990.87	1,928.98
Paint	*000' gals*	203.86	98.12	103.95	202.07
Cement	*000' M tons*	310.90	156.39	153.68	310.07
Flour	*000' M tons*	14.12	2.97	-	2.97
Services					
Electricity	*GW/hr*				
Unit Generated	*GW/hr*	175.64	98.17	80.20	178.37
Industrial Consumption	*GW/hr*	31.93	17.18	9.25	26.42
Domestic Consumption	*GW/hr*	20.99	18.56	12.46	31.02
Commercial Consumption	*GW/hr*	13.99	10.00	8.30	18.30

Sources: Manufacturing Establishments

percent in 2011. Notwithstanding this improvement, the estimated value added by the commodity in the reporting year was lower than that in the preceding year. Coffee production registered a decrease by 16.29 percent to 3.17 thousand metric tons. The highest production of coffee occured in the first half of the year, recording a level of 3.10 thousand metric tons.

Data on most agricultural output were unavailable during the review period. However, anecdotal evidence from the Ministry of Agriculture, Forestry and Food Security indicated that output of most major agricultural output increased in the review period. Cocoa production increased by 253.05 percent to 63.55 thousand metric tons in the review period. The huge expansion in cash crop production was made possible with the establishment of the small-holder commercialization project by the government. The Government also

supplied farmers with farm inputs, including improved seedlings, fertilizers and tractors among others. Lack of good road networks in the farming areas remains a challenge to increase in agricultural output.

2.1.2 Manufacturing

The manufacturing sub-sector recorded low performance characterized by declines in the overall production levels of most products in 2012. Output of acetylene and oxygen dropped by 4.01 percent to 190.61 thousand cubic feet and by 10.7 percent to 238.74 thousand cubic feet respectively, in 2012. Confectionery dropped by 8.79 percent to 3,164.5 thousand pounds, paint by 0.88 percent to 202.07 thousand gallons, cement by 0.27 percent to 310.07 thousand metric tons and flour by 79 percent to 2.97 thousand metric tons. Similarly, output of beer & stout declined by 15.11 percent to 791.92 thousand cartons in 2012. The decline in production levels of these items was attributed to, among other things, limited supply of material inputs and a fall in consumer demand. The decline in production of cement, paint, acetylene and oxygen indicated a lull in activities related to construction, welding and repairs during the year under review. Half-yearly comparison indicates that beer & stout, soft drinks, acetylene, common soap, and paint increased in the second half of the year.

Increases in production were however recorded for maltina drink (9.81 percent to 28.88 thousand cartons), soft drinks (2.54 percent to 47.84 thousand crates) and common soap (50.54 percent to 242.8 thousand metric tons), which may be due to the lack of competition from imported products during the year.

2.1.3 Mining

The mining sub-sector was a key source of expansion in economic activities in the economy during the review period. In January 2012, the Government launched an online repository of all mining activity in the country. This new transparency initiative enabled the verification of holders of mining sector licenses as well as the type and coverage of license held, in addition to the fees paid to government. In April 2012, the National Minerals Agency was legally established and the National Minerals Agency Act 2012 enacted to efficiently monitor and enforce mining laws through surveillance.

The sub-sector received huge foreign direct investment inflows in support of iron ore mining activities. However, output in the sub-sector was lower than expected in 2012, due mainly to reduced output levels attributable to production difficulties in a key mining company, as well as deterioration in the international market price of iron ore..

Out of the 27.26 percent contribution of Industry (Mining, Manufacturing & Handicraft, Electricity & Water supply and Construction) to real GDP, during the review period, the mining sub-sector accounted

Table 2

Mineral Production (2007 - 2012)

Year	Gold (ounces)	Diamond (Carats)	Bauxite (M tons)	Rutile (M tons)	Ilmenite (M tons)	Zircon (M tons)	Iron Ore (M tons)
2007	6,816.59	603,698.18	1,169,036.08	82,805.00	15,750.00		
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

for about 19.93 percent. Iron ore production significantly increased in 2012 with total output volume recorded at 4,649.0 thousand metric tons compared to 339.32 thousand metric tons in 2011. This represented a jump of about 1270.06 percentage points attributable to increased output by both London Mining and Africa Minerals Ltd.

Diamond production, as reported by the Government Gold and Diamond Department (GGD), increased by 49.9 percent, from 355.34 thousand carats in 2011 to 532.55 thousand carats in 2012. Total volume of diamond production during the year comprised 123.03 thousand carats of industrial diamond and 409.52 thousand carats of gem diamonds. The increase in total diamond production reflects increased mining activities in the review period.

Rutile and ilmenite also recorded production increases during the year, attributable to new investments in existing production assets, including the dry mining project implemented by Sierra Rutile Limited. Rutile production increased by 39.02 percent to 94.49 thousand metric tons, while ilmenite production totaled 21.40 thousand metric tons, representing a 46.82 percent increase over the performance in 2011. Bauxite, gold and zircon recorded declines in production levels during the year, Bauxite production was recorded at 734.48 thousand metric tons representing a 49.61 percent decline. The drop in the production of bauxite was due to the shutdown of one of the dredges during the year, to allow overhauling and replacement of critical dredge components. Gold production dropped by 14.19 percent to 4.53 thousand ounces and zircon by 92.67 percent to 0.61 thousand metric tons.

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2.1.4 Electricity Generation

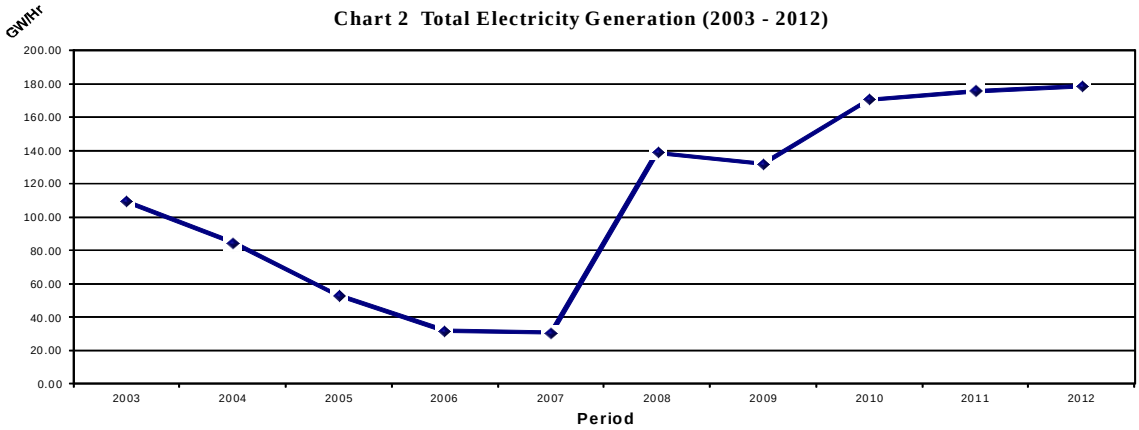
The energy sub-sector also continues to receive significant boost from both the Government and development partners during the review period. To promote an efficient, competitive and financially viable energy sector as a necessary condition for a reliable, high quality and economically efficient supply of electricity, the Government allocated Le82.8bn to the energy sector, under the Public Investment Plan (PIP). Sierra Leone also benefited from a US$144.5mn zero interest financing and a grant of US$31.5mn for two projects under the West Africa Power Pool (WAPP) to increase electricity supply and reduce energy cost in Cote d'Ivoire, Liberia, Guinea and Sierra Leone.

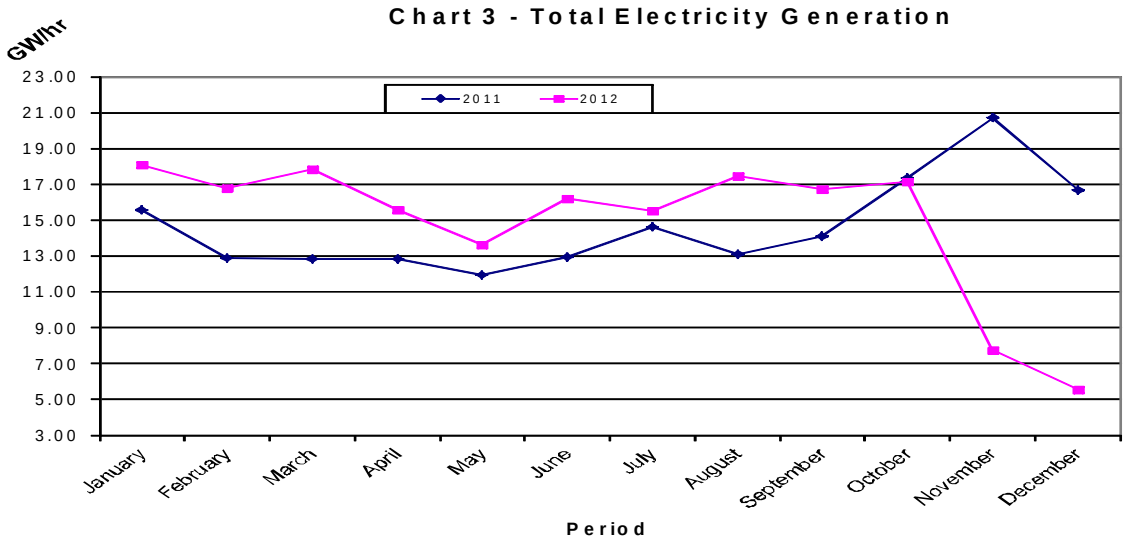
During the review period, total units of electricity generated amounted to 178.37 GWh, representing a 1.55 percent increase in generation compared to 2011. Power generation was highest in January (18.12 GWh), while December recorded the lowest output of 5.56 GWh. Power generation from the two thermal plants was higher in 2012 than in 2011, suggesting increased utilization of the plants. Contribution from the Bumbuna hydropower was however lower than in the previous year, suggesting low utilization owing to operational difficulties. Of the total power generated in 2012, the Bumbuna hydropower accounted for 66.1 percent, while thermal power accounted for the rest, with Niigata Nos. 7 & 8 contributing 14.69 percent and Wartsila Nos. 1 & 2 contributing 19.21 percent. The total units of electricity consumed during the reporting

Table 3

Electricity Generation(Gw/h)

Year	Total Units Generated
2003	109.39
2004	84.82
2005	53.21
2006	31.98
2007	30.68
2008	138.78
2009	131.98
2010	170.64
2011	175.64
2012	178.37





year were recorded at 99.86 GWh. Of this, 30.24 Gwh were consumed by the industrial sector, 15.84 Gwh by the public sector and 53.79 Gwh by domestic/commercial consumers.

2.1.5 Transport

Performance in the transport sector was impressive during the review period. The number of vehicles registered by the Sierra Leone Road Transport Authority (SLRTA) in 2012 totaled 30,198, representing 14 percent growth rate. This comprised 2,803 private cars, 16,354 motor cycles, 1,372 taxis, 6,523 utility vans and station wagons, 4,364 vans/buses carrying up to 18 passengers, 406 buses carrying above 18 passengers, 1,609 trucks with six tyres, 818 trucks with more than six tyres, and 662 tractors and trailer units. There were increases in registration for all categories of vehicles, with the exception of buses carrying above 18 passengers, trucks with more than six tyres, and tractors & trailer units.

Total vehicle licenses recorded at 55,739, represented an increase of 10 percent during the reporting period. The total number of licensed vehicles included 19,591 private cars, 6,973 taxis, 17,996 motor cycles, 21,716 utility vans and station wagons, 9,800 vans/buses carrying up to 18 passengers, 934 buses carrying above 18 passengers, and 3,399 trucks with six tyres, 1,368 trucks above six tyres and 929 tractors and trailer units. The increase in the number of licenses was mainly attributed to the significant rise in the number of private cars, utility vans and station wagons and trucks with six tyres licensed over the period. The overall increase in both vehicle registration and licenses was indicative of increased activity and revenue generation within the transport sector.

2.1.6 Tourism

Tourism has been identified as a potentially key foreign exchange earner for Sierra Leone, due to its vast potential and growth over the years. Coupled with the inflow of foreign direct investment during the review period, the country is regaining its place as a prefered tourist destination. The tourism sector benefited from a US$3mn funding for the implementation of a 3 year Sustainable Tourism Development and Promotion project. The National Tourist Board was the principal recipient for the implementation of

Table 4

Monthly Visitors Arrival by Air 2012

(By Place of Residence)

Month	Africa		Asia	America	Middle East	Europe	Australia & Oceanean	TOTAL
	ECOWAS	Non-ECOWAS						
January	920	366	449	1,009	284	1,519	349	4,896
February	1,083	404	566	1,157	419	1,477	378	5,484
March	1,041	574	668	1,355	334	1,949	288	6,209
April	1,033	728	743	872	481	1,386	265	5,508
May	1,255	633	678	1,022	438	1,446	528	6,000
June	1,002	428	473	805	244	1,223	325	4,500
July	1,043	234	454	774	285	888	266	3,944
August	767	366	415	549	332	548	241	3,218
September	853	413	410	441	206	891	541	3,755
October	1,138	344	463	624	198	1,404	363	4,534
November	1,227	791	577	693	267	1,225	409	5,189
December	1,083	971	493	1,271	627	1,711	337	6,493
Jan - Jun	*6,334*	*3,133*	*3,577*	*6,220*	*2,200*	*9,000*	*2,133*	*32,597*
Jul - Dec	*6111*	*3119*	*2812*	*4352*	*1915*	*6667*	*2157*	*27,133*
Jan - Dec 2012	*12,445*	*6,252*	*6,389*	*10,572*	*4,115*	*15,667*	*4,290*	*59,730*
Jan - Dec 2011	*11,054*	*4,598*	*5,360*	*10,474*	*3,485*	*13,807*	*3,664*	*52,442*
% Change	12.58	35.97	19.20	0.94	18.08	13.47	17.09	13.90

Table 5

Monthly Visitors Arrival by Air 2012 (By Purpose of Visit)						
Month	Holiday	V.F.R.*	Business	Conference	Others	Total
January	621	1,713	1,664	381	517	4,896
February	662	1,343	2,338	529	612	5,484
March	896	1,275	2,645	613	780	6,209
April	1,157	952	2,120	520	759	5,508
May	1,343	945	2,399	732	581	6,000
June	649	1,046	2,048	453	304	4,500
July	659	1,100	1,267	366	552	3,944
August	536	921	985	269	507	3,218
September	368	978	1,860	201	348	3,755
October	464	1,241	2,239	273	317	4,534
November	712	1,236	2,166	500	575	5,189
December	1,397	1,324	1,888	1,197	687	6,493
Jan - Jun	***5,328***	***7,274***	***13,214***	***3,228***	***3,553***	***32,597***
Jul - Dec	***4,136***	***6,800***	***10,405***	***2,806***	***2,986***	***27,133***
Jan - Dec 2012	***9,464***	***14,074***	***23,619***	***6,034***	***6,539***	***59,730***
Jan - Dec 2011	***11,146***	***9,483***	***18,480***	***5,337***	***7,996***	***52,442***
% Change	-15.09	48.41	27.81	13.06	-18.22	13.90

* Visiting Friends and Relatives

the Sustainable Tourism Development and Promotion Project (STDPP) under TIER 2 of the Enhanced Integrated Framework of the World Trade Organization based in Geneva.

In terms of tourist/visitor arrival, the tourism sector recorded a 13.9 percent growth to 59,730 in 2012. This performance indicated the potential for an increase in revenue from the tourism industry that may impact positively on national development. Of the total arrivals, 26.23% were from Europe, 20.84% from ECOWAS, 17.7% from America, 7.18% from Australia &Oceana, 10.7% from Asia, 10.47% from Non-ECOWAS, and 6.89% from the Middle East. Classified by purpose of visit, holiday visitors accounted for 15.84%, 23.56% for visiting friends & relatives, business 39.54%, conferences 10.1% and others 10.95%.

2.2 Price Developments

The National 12 month Consumer Price Index inflation rate steadily declined throughout 2012. Inflation in January 2012 was recorded at 16.82 percent but declined steadily to 11.25 percent in October 2012, before increasing marginally to 11.70 percent in November 2012 and then dropped to 11.40 percent in December 2012. The declining trend in the inflation rate during the review period was largely attributed to the relative stability of the exchange rate, coupled with the tight monetary policy stance of the central bank, improvement in the supply of domestic food products in the market, and the Government's policy intervention of temporal removal of customs duty on petroleum products in an effort to keep domestic pump prices of petroleum products unchanged. Monthly inflation rate indicated mixed trends in 2012, recording positive figures of between 0.5 percent and 1.63 percent. The annual average inflation, decreased to 12.87 percent in 2012 from 16.06 percent in 2011, thereby confirming the downward trend in inflation performance during the review period. Inflation is projected to decline to a single digit in the near future. However, the planned removal of subsidies by the Government poses a challenge to achieving single digit inflation in the near future.

During the review period, the declining trend in inflation was mainly driven by the food component in the consumer basket. The 12 month food inflation indicated downward trend in the movements of the general

Table 6

Inflation Rates 2012

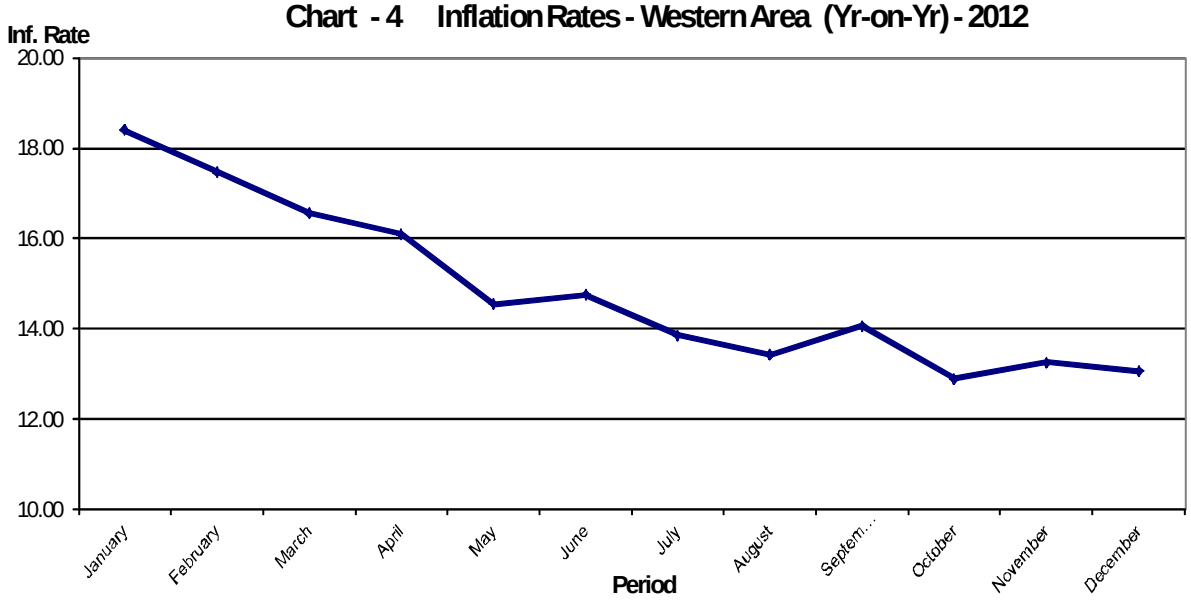
PERIOD	NATIONAL			WESTERN AREA		
	CPI	Year-on-year % Change	Monthly % Change	CPI	Year-on-year % Change	Monthly % Change
January	184.22	16.82	0.50	186.80	18.40	0.66
February	187.22	15.45	1.63	190.93	17.48	2.21
March	189.26	14.51	1.09	192.46	16.56	0.80
April	190.65	13.91	0.73	193.77	16.09	0.68
May	192.72	12.52	1.09	196.19	14.54	1.25
June	193.68	12.50	0.50	196.78	14.75	0.30
July	195.25	11.96	0.81	198.88	13.85	1.07
August	196.97	11.69	0.88	200.73	13.42	0.93
September	198.57	11.61	0.81	203.16	14.05	1.21
October	200.38	11.25	0.91	205.03	12.89	0.92
November	201.96	11.70	0.79	207.12	13.25	1.02
December	204.21	11.40	1.11	209.82	13.06	1.30

Source: *Statistics Sierra Leone*

inflation rate during the year. From 23.89 percent in January 2012, food inflation fell gradually to reach13.63 percent in September 2012. Thereafter, food inflation ended up at 13.74 percent in December 2012.

The non-food inflation also showed a decreasing trend during the review period, reflecting lower purchasing capacity of consumers on non-food items. Non-food inflation was 11.73 percent in January 2012; it fell consistently during the period attaining a low of 9.06 percent in October 2012 and thereafter 9.71 percent in December 2012. The annual average CPI inflation decreased in all the regions. Between 2011 and 2012, inflation in the Western Area fell from 15.92 percent to 14.79 percent, 15.33 percent to 11.24

Chart - 4 Inflation Rates - Western Area (Yr-on-Yr) - 2012



percent in the Northern Region, 16.30 percent to 11.32 percent in the Southern Region and 15.17 percent to 14.37 percent in the Eastern Region.

3.0 Fiscal Operations

The main objectives of fiscal policy in 2012 were maintaining macroeconomic stability, sound fiscal policy and medium to long term debt sustainability. At the core of it was enhancement of revenue mobilization to finance infrastructure development expenditures and provision of basic social services geared towards the attainment of the Millennium Development Goals (MDGs). These include provision of basic services in health, education, water and sanitation, as well as implementation of public sector reforms for the efficient delivery of public services consistent with the Agenda for Change. The government also established a high level Cash Management Committee (CMC) in March 2012 to help rationalize weekly spending priorities with available revenue.

3.1 Revenue

Government revenue, including grants, increased by 3.52 percent to Le2,247.26bn (15.05% of GDP), 9.78 percent below the budgeted position of Le2,490.97bn (16.68% of GDP) for 2012. The increase in overall revenue and grants was attributed mainly to the strong performance in domestic revenue mobilization drive by the National Revenue Authority. Domestic revenue of Le1,867.64bn (12.51% of GDP) generated during 2012 represents a 27.74 percent growth rate and was 3.67 percentage points below the Le1,938.78bn (12.98% of GDP) budgeted for 2012.

Revenue collection from Customs & Excise declined marginally by 0.67 percent to Le341.43bn (2.29% of GDP), but however exceeded the target of Le337.32bn by 1.22 percent. This performance was partly on account of the suspension of discretionary duty waivers and the restoration of excise tax on petroleum products following the implementation of the two-tier petroleum formula. Consequently, import tax receipts

Chart 5 - Composition of Government Revenue - 2012

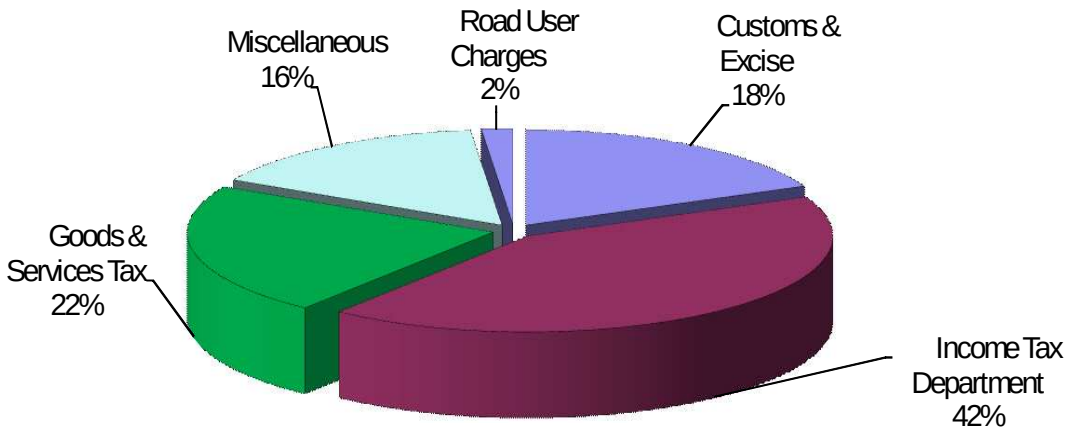


Table 7

Government Fiscal Operations

(In Millions of Leones)

	2011	2012	Budget 2012
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	**2,170,759**	**2,247,260**	**2,490,974**
DOMESTIC REVENUE	**1,462,100**	**1,867,643**	**1,938,779**
Of which:			
Customs & Excise	**343,736**	**341,433**	**337,319**
Import Taxes	282,413	295,064	250,888
Excise on Petroleum	55,311	45,262	80,895
Other Excise Dutties	0	1,107	2,322
Freight Levy from Marine Administration	6,012	0	3,214
Income Tax Department	**473,150**	**788,851**	**780,932**
Company Tax	73,432	101,735	124,444
Personal Income Tax	393,456	681,567	649,993
Other Taxes	6,262	5,549	6,495
Goods and Services Tax	351,449	417,624	434,130
Import GST (Import Sales Tax)	129,549	273,658	292,733
Domestic GST	221,900	143,966	141,397
Miscellaneous	**270,864**	**288,944**	**359,378**
Mines Dept.	**202,344**	**232,877**	**291,760**
Royalty on Rutile	684	29,210	9,446
Royalty on Bauxite	0	0	0
Royalty on Diamond and Gold	15,435	914	2,234
Royalty on Iron Ore	0	3,994	66,000
Licences	186,225	198,759	214,080
Other Departments	68,520	56,067	67,618
Royalty on Fisheries	11,851	7,776	11,111
Parastatals	0	0	2,553
Other Revenues	56,669	48,291	53,954
Road User Charges	**22,901**	**30,791**	**27,020**
GRANTS	**708,659**	**379,617**	**552,195**
Programme	**280,223**	**267,312**	**300,452**
HIPC Debt Relief Assistance	21,941	17,698	21,018
Japanese Food & Oil Aid	0	33,389	33,389
Global Fund Salary Support	13,851	12,048	21,927
Kuwaiti Fund Refund	1,685	21,926	0
UK (DFID)	105,278	83,320	79,076
EU	61,416	67,971	75,348
AFDB	40,467	30,960	29,604
WB	10,727	0	13,157
Peace Building Fund	24,857	0	26,932
Emergency Power Programme	24,857	0	26,932
Others (projects)			
Development Projects	428,436	112,305	251,743
TOTAL EXPENDIUTRE & NET LENDING	**2,751,949**	**2,716,957**	**2,672,465**
Of which:			
Current Expenditure	**1,602,821**	**2,020,312**	**1,916,482**
Of which:			
Wages & Salaries	681,346	935,912	898,589
Domestic Interest	226,137	253,531	254,314
Foreign Interest	24,082	28,980	33,664
Goods & Services	396,252	289,295	262,234
Transfers to Local Councils	76,058	88,708	74,043
Fuel Subsidies	95,444	0	0
Social Outlays	0	175,150	126,726
Grants to Education Institution	48,414	104,695	104,695
Transfer to Road fund	12,282	30,791	27,320
Elections & Democratisation	42,806	113,250	134,897
Development Exp. & Net Lending	**1,149,128**	**696,645**	**755,983**
Foreign Loans & Grants	786,980	232,464	479,882
Loans	358,544	120,159	228,139
Grants	428,436	112,305	251,743
Domestic	362,148	464,181	367,973
Lending Minus Repayment	0	0	(91,872)
CURRENT BALANCE+/- (Including grants)	**567,938**	**226,948**	**574,492**
ADD DEVELOPMENT EXPENDITURE	(1,149,128)	(996,645)	(755,983)
Basic Primary Balance	(201,844)	(221,089)	169,071
OVERALL DEFICIT/SURPLUS +/-(Incl. grants)	**(581,190)**	**(469,697)**	**(181,491)**

Table 7 contd…

Government Fiscal Operations
(in Millions of Leones)

	2011	2012	Budget 2012
FINANCING	**581,190**	**469,697**	**181,491**
Domestic	**154,859**	**355,824**	**188,640**
Of which:			
Bank Financing	**66,597**	**222,141**	**132,820**
Bank of Sierra Leone	9,917	(94,148)	(13,279)
Commercial Banks	56,680	316,289	146,099
Non-Bank Financing	**54,121**	**125,078**	**33,278**
Privatisation Receipts	**34,141**	**8,605**	**22,542**
External	**304,630**	**146,355**	**253,325**
Of which:			
Loans	358,544	223,932	331,912
Project	358,544	120,159	228,139
Programme	0	103,773	103,773
Amortisation	(53,914)	(77,577)	(78,587)
Debt Relief	0	0	0
Others*	**121,701**	**(32,482)**	**(260,474)**

*** Others include resheduling/write off, financing gap, privatisation net & unaccounted amounts**

Source: Budget Bureau, MOF

grew by 4.48 percent to Le295.06bn, exceeding the target of Le250.89bn by 17.61 percent while excise on petroleum recorded at Le45.26bn was 44.05 percent below the target of Le80.9bn. The contribution of customs & excise revenue to domestic revenue however fell from 23.51 percent in 2011 to 18.28 percent in 2012.

Income tax receipts grew by 66.72 percent to Le788.85bn (5.28% of GDP) and surpassed the Le780.93bn target by 1.01 percent. The increase in income tax collections resulted from the impressive growth in personal income tax and corporate tax. Receipts from personal income tax reached a level of Le681.57bn, representing 73.23 percent growth exceeding the Le649.99bn target by 4.86 percent. Collections from company tax amounted to Le101.74bn; representing a 38.54 percent increase, which was 18.25 percent short of the Le124.44bn target. The significant increase in personal income tax was attributed to the increase in payment of advance PAYE by mining companies as well as an increase in the wage bill, whilst company tax growth was a reflection of increased corporate profit. The income tax contribution to domestic revenue increased from 32.36 percent in 2011 to 42.24 percent in 2012.

Collections from Goods and Services Tax (GST) stood at Le417.62bn (2.8% of GDP), reflecting an 18.83 percent growth which was 3.8 percent below the Le434.13bn target for 2012. The rise in GST receipts was explained by the outstanding performance in import GST (import sales tax) which posted a growth rate of 111.24 percent to Le273.96bn. This amount was however 6.52 percent below the target

of Le292.73bn. Domestic GST fell by 35.12 percent to Le143.97bn. It was 1.82 percent above the target of Le141.4bn. The contribution of GST to domestic revenue for the period under review was 22.36 percent compared to 24.04 percent in 2011.

Receipts from miscellaneous sources in the sum of Le288.94bn (1.94 percent of GDP), represented a 6.67 percent increase compared to the previous year. It fell short of the Le359.38bn target by 19.6 percent. Collections by the Mines Department increased by 15.09 percent to record Le232.88bn which was short of the target of Le291.76bn by 20.18 percent. The failure of the mines department to meet its revenue target was due, among other things, to the failure of some government licensed companies to pay their petroleum signature bonuses coupled with the low receipts from royalties arising from the lower than anticipated production performance from the key iron ore mining companies. Fees, licenses and other charges collected by other Government Departments amounting to Le56.07bn fell short of the target of Le67.62bn by 17.08 percent. Receipts from Road User Charges amounting Le30.79bn exceeded the target of Le27.02bn by 13.96 percent, reflecting an increase in vehicle licenses during the period under review.

The performance of domestic revenue (boosted by the growth in receipts from income tax and goods and services tax) represented a remarkable success in revenue mobilization efforts by the National Revenue Authority (NRA). There was an overall increase in the collection effort reinforced by the formation, at the beginning of the fourth quarter, of the Emergency Revenue Task Force. Intense media campaigns, and aggressive recovery of debts were among the activities that helped boost revenue mobilization.

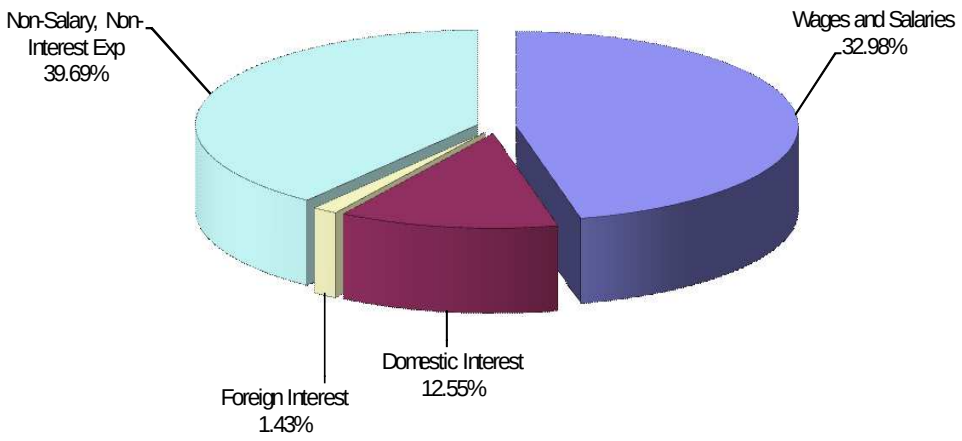
External grants for the year totaled Le379.62bn (2.54% percent of GDP), of which Programme grants amounted to Le267.31bn and Development project funds totalled Le112.31bn. This was 46.43 percent below the 2011 total of Le708.66bn and 31.25 percent below the budget target of Le552.2bn. The fall in the overall grants was mainly on account of the lower than anticipated receipts in respect of development projects, as there were no project funds in the second half of the year. The total programme grants meant for budgetary support were received from the following: United Kingdom (UK) Le83.32bn, European Union Le67.97bn, Japanese Food & Oil Aid Le33.39bn, African Development Bank (AfDB) Le30.96bn, Kuwaiti Fund Refund Le21.93bn, HIPC Debt Relief Assistance Le17.70bn and Global Fund Salary Support Le12.05bn.

3.2 Expenditure

Total Government expenditure and net lending to the sum of Le2,716.96bn (18.2% of GDP) was 1.27 percent lower than the amount for 2011, but 1.66 percent above the ceiling requirement of Le2,672.47bn.Recurrent expenditures amounted to Le2,020.31bn (13.53% of GDP), representing a 26.05 percent increase, which was 5.42 percent in breach of the Le1,916.48 programmed ceiling. Recurrent expenditures accounted for 74.36 percent of total expenditures in 2012, compared to 58.24 percent in 2011. The increase in recurrent expenditures was mainly on account of overruns in the wage bill. The wage bill for 2012 increased by 37.36 percent to Le935.91bn (6.27% of GDP), which was 4.15 percent in breach of the target of Le898.59bn. The increase in the wage bill was explained, in part, by the full effect of the multi-year pay reform, which started at the end of 2011, benefit payments to ex-military officers wounded in action and partial payment of gratuities to outgoing members of Parliament.

Recurrent expenditure included interest payments on public debt totaling Le282.51bn (1.89% of GDP), which represented a 12.91 percent growth. Of total interest payment, domestic interest payment increased

Chart 6 - Composition of Government Recurrent Expenditure - 2012



by 12.11 percent to Le253.53bn but was well within the Le254.31bn ceiling; while foreign interest payment rose by 20.34 percent to Le28.98bn, within the Le33.66bn ceiling. The growth in domestic interest payment could be attributed partly to increases in interest rates on short and medium term treasury bills, and partly by the payment of interest on the accumulated Ways and Means Advances at the end of 2012.

Non-Salary, non-interest recurrent expenditures stood at Le801.89bn (5.37% of GDP), exceeding the previous year's amount of Le671.26bn by 19.46 percent and breaching the Le729.92bn ceiling by 9.86 percent. Non-salary, non-interest recurrent expenditure was made up of Transfers to Local Councils amounting Le88.71bn, expenses for Goods & Services of Le289.3bn, Social Outlays of Le175.15bn, Elections and Democratization of Le113.25bn, Transfer to Road Fund of Le30.79bn and Grants to Education Institution amounting to Le104.7bn.

Capital expenditures was recorded at Le696.65bn (4.67% of GDP), which reflected a 39.38 percent decrease compared to the amount in the previous year and was also within the budgeted ceiling of Le755.98bn. As a share of total expenditure and net lending for 2012, capital expenditure accounted for 25.64 percent compared to 41.76 percent in 2011. The fall in capital expenditure was mainly on account of the decline in expenditures funded by foreign loans and grants. Expenditures funded by foreign loans dropped by 66.49 percent to Le120.16bn while those funded by foreign grants declined by 73.79 percent to Le112.31bn. Total expenditure funded by foreign loans and grants fell by 70.46 percent to Le232.46bn and was well within the ceiling of Le479.88bn. However, expenditure funded from domestic sources increased by 28.17 percent to Le464.18bn and was 26.15 percent in breach of the Le367.97bn ceiling.

3.3 Budget Deficit

Fiscal operations during the review period resulted in an overall deficit (including grants) of Le469.70bn (2.90% of GDP), compared to the programme deficit of Le181.49bn (1.12% of GDP and the 2011 deficit of Le581.19bn (4.62% of GDP). This implied that it decreased by 19.18 percent relative to the 2011 position but exceeded the target by 158 percent. Fiscal deficit (excluding grants) for the review amounted to Le849.31bn (5.25% of GDP), compared to the programme deficit of Le733.69bn (4.54% of GDP) and the 2011 deficit of Le1,289.85bn (10.26% of GDP). The deficit excluding grants decreased by 34.15 percent relative to the 2011 position but exceeded the target by 15.76 percent.

The deficit was largely financed from both domestic and external sources, with domestic sources accounting for the larger share. The domestic component of financing the deficit amounted to Le355.82bn (2.38% of GDP) and included bank borrowing in the sum of Le222.14bn, Non-Bank borrowing in the amount of Le125.08bn and privatization receipts amounting Le8.61bn. Domestic borrowing for 2012 was 88.63 percent in breach of the budgeted amount of Le188.64bn. The foreign financing component of the budget deficit amounted to Le146.36bn (0.98% of GDP), and was made up of project loans to the tune of Le120.16bn, programme loans amounting Le103.77bn and Amortization of Le77.58bn. Of the project loans are World Bank Le57.15bn, AFDB Le35.01bn and ECOWAS Bank for Investment and Development Le28.00bn

4.0 Monetary Developments

The primary objective of monetary policy in 2012 was to achieve and maintain price stability conducive to high and sustainable economic growth. The Bank also seeks to enhance financial sector stability and growth through strengthened supervision and robust regulatory framework.

In pursuit of the goal of price stability, the Bank continued to conduct Monetary Policy within the context of a monetary targeting framework. Monetary policy operations were conducted mainly through Open Market Operations (OMO), in the secondary market using repurchase and reverse repurchase transactions to deepen the inter-bank market and maintain interest rates at levels consistent with low and stable inflation.

Since its introduction in February 2011, the Monetary Policy Rate (MPR) signals the Bank's Monetary Policy stance. The MPR serves as an anchor for inflation expectation and a benchmark for all the other market rates. The Monetary Policy Committee (MPC) sets the MPR based on its assessment of the monetary and economic conditions, as well as its outlook for inflation.

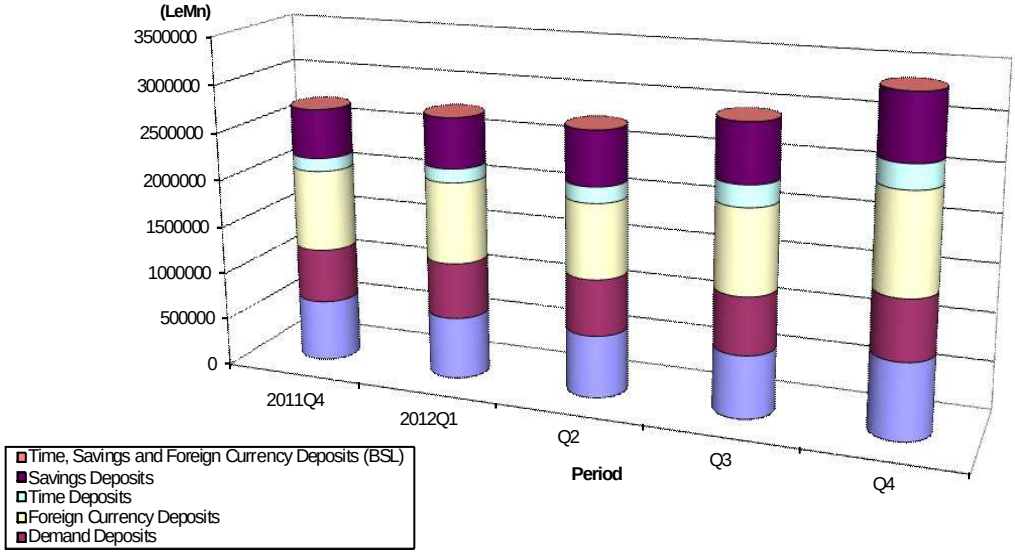
4.1 Monetary Aggregates

Monetary aggregates were expansionary in the review period. The growth of Broad Money (M2) was 23.13% in 2012, compared to the preceding period's growth rate of 21.61 percent. The expansion in M2 was due to the increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). NFA grew by 21.04 percent compared to the projected increase of 15.29 percent. The increase in NFA stemmed from inflows including receipts of external budgetary support, payment of taxes from mining companies and increase in commercial banks claims on foreign banks. NDA rose by 29.55 percent as against a growth target of 31.16 percent for end December 2012. The growth in NDA was a result of the increase in Government borrowing from the banking system and expansion in credit to the private sector by commercial banks.

Reserve Money (RM) registered an annual growth rate of 18.53 percent, higher than both the 2012 projection of 13.61 percent and the preceding period's growth rate of 12.97 percent. The growth in RM was driven mainly by demand for money to match the GDP growth, which resulted in Le195.44bn increase in Currency Issued outweighing the decrease of Le15.47bn (14.15%) in Bankers' Deposits and Le20.65bn (48.30%) in Private Sector Deposits put together.

Net Claims on Government by the banking system grew significantly over the review period by 20.08 percent and was higher compared to the corresponding growth rate of 0.80 percent in 2011. The growth

Chart 7. Composition of Money Supply (M2)



reflects increased financing of government operations by the banking system owing to shortfalls in domestic revenue collection and delays in external budgetary support disbursement.

The growth in Net Claims on Government by the banking system was driven by the 95.27 percent (Le316.29bn) increase in Net Claims on Government by commercial banks . This was however moderated by the 17.71 percent (Le94.15bn) decrease in Net Claims on Government by the Bank of Sierra Leone. The growth in Net Claims on Government by commercial banks was on account of the 63.23 percent (Le310.94bn) increase in their holdings of Treasury Bills, which was however moderated by the 15.01 percent (Le35.90bn) buildup in Government Deposits.

Net Claims on Government by Bank of Sierra Leone declined on account of the 88.41 percent (Le117.08bn) decrease in their holding of Treasury Bills and the 59.70 percent (Le9.39bn) buildup in Government Deposits. However, the Utilization of Ways and Means Advances by the Government recorded a 78.97 percent (Le21.23bn) increase from Le26.89bn in December 2011 to Le48.12bn in December 2012.

Credit to the private sector by commercial banks grew by 6.17 percent (Le59.00bn) from Le955.90bn as at end December 2011 to Le1,014.90bn as at end December 2012 which was lower than the 22 percent recorded in 2011 and the15.7 percent projection for 2012. The slowdown in the growth of private sector credit reflected the crowding out effect of Government borrowing from the banking system, coupled with the positive impact of the operations of the Credit Reference Bureau which provides credit information thereby minimizing risky credit ventures by commercial banks.

The structure of the market interest rates during the review period indicated mixed trends. The monthly average annual yield on 3-months, 6-months and 12-months Treasury Bills declined by 443, 407 and 280 basis points from 23.42, 29.55 and 28.63 percents as at December 2011 to 18.99, 25.48 and

Table 8

Monetary Survey (Million Leones)					
	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
1	2	3	4	5	6
Reserve Money	**859,604**	**848,636**	**853,515**	**880,595**	**1,018,924**
Broad Money	**2,719,741**	**2,751,602**	**2,748,317**	**2,951,391**	**3,348,717**
Broad Money*	**1,868,262**	**1,901,936**	**1,969,625**	**2,072,044**	**2,319,661**
Narrow Money	**1,209,324**	**1,230,537**	**1,236,188**	**1,243,395**	**1,407,436**
Currency in Circulation	*641,832*	*646,226*	*650,634*	*649,717*	*790,138*
Demand Deposits	*567,492*	*584,311*	*585,554*	*593,678*	*617,298*
Quasi Money	**1,510,417**	**1,521,065**	**1,512,129**	**1,707,996**	**1,941,281**
Foreign Currency Deposits	*851,479*	*849,666*	*778,692*	*879,347*	*1,029,056*
Time Deposits	*138,734*	*143,211*	*165,618*	*221,326*	*246,536*
Savings Deposits	*515,694*	*524,860*	*564,612*	*603,864*	*661,829*
Other Deposits	*2,468*	*1,287*	*1,168*	*1,422*	*1,955*
Time Savings and Foreign Currency deposits(BSL)	*2,041*	*2,041*	*2,039*	*2,037*	*1,905*
Net Foreign Assets	**2,053,066**	**2,088,129**	**2,031,604**	**2,086,088**	**2,485,030**
Bank of Sierra Leone	**1,117,916**	**1,161,459**	**1,159,541**	**1,130,652**	**1,302,577**
Assets	*1,661,061*	*1,701,369*	*1,666,977*	*1,673,169*	*1,828,214*
Liabilities	*543,145*	*539,910*	*507,436*	*542,517*	*525,637*
Commercial Banks	**935,150**	**926,670**	**872,063**	**955,436**	**1,182,453**
Assets	*949,227*	*940,111*	*920,605*	*991,073*	*1,193,365*
Liabilities	*14,077*	*13,441*	*48,542*	*35,637*	*10,912*
Domestic Credit	**1,932,040**	**1,977,608**	**1,989,973**	**2,178,848**	**2,201,088**
Claims on Central Govt. Net	**879,751**	**886,450**	**917,866**	**1,058,666**	**1,056,412**
of which:					
BSL	**585,498**	**512,556**	**471,869**	**541,164**	**481,835**
Total Claims	***601,222***	***570,948***	***506,719***	***567,361***	***506,943***
Government Securities Issued obo BSL	-	-	-	-	-
Treasury Bills	*132,435*	*129,935*	*34,462*	*68,345*	*15,351*
Treasury Bonds	*11,009*	*12,145*	*15,788*	*21,085*	*19,694*
Ways and Means Advances	*26,886*	-	*32,172*	*54,166*	*48,117*
2010 Ways and Means Advances Stock A/C	-	-	-	-	-
SDR Bridge Loan	-	-	-	-	-
BSL losses for conversion	*6,998*	*5,109*	*538*	-	-
Stock of NNNIB	*81,801*	*81,801*	*81,801*	*81,801*	*81,801*
BSL Holdings of 3-Year Medium Term Bond	*77,516*	*77,516*	*77,516*	*77,516*	*77,516*
5YR Bonds for Recapitalization	*264,430*	*264,430*	*264,430*	*264,430*	*264,430*
Government Departments	*147*	*12*	*12*	*18*	*34*
Deposits	**15,723**	**58,392**	**34,850**	**26,197**	**25,108**
Treasury Income and Expenditure(net)	*2*	*37,996*	*(47)*	*(49)*	*(129)*
Departmental Accounts	*15,201*	*19,877*	*34,377*	*25,726*	*24,717*
HIPC (MDRI)	*512*	*512*	*512*	*512*	*512*
Blocked Account	*8*	*8*	*8*	*8*	*8*
Kenema Branch Deposits	-	-	-	-	-
Commercial Banks	**294,253**	**373,894**	**445,997**	**517,502**	**574,577**
Total Claims	**533,460**	**610,981**	**696,010**	**762,179**	**849,683**
Treasury Bills	*491,773*	*565,138*	*651,178*	*717,479*	*802,713*
Treasury Bearer Bonds	*15,448*	*14,798*	*5,769*	*2,466*	*1,166*
Loans and Advances	*26,238*	*31,045*	*39,063*	*42,234*	*45,804*
Deposits	**239,207**	**237,087**	**250,013**	**244,677**	**275,106**
Demand Deposits	*182,039*	*172,250*	*170,909*	*175,963*	*195,322*
Savings Accounts	*15,073*	*16,722*	*21,389*	*25,583*	*31,115*
Time Deposits	*42,095*	*48,115*	*57,715*	*43,131*	*48,669*
Claims on Non Financial Public Sector	**53,507**	**58,920**	**67,546**	**71,122**	**74,927**
Claims on Private Sector	**962,751**	**985,852**	**962,407**	**1,002,137**	**1,023,482**
of which					
Commercial Banks	**955,897**	**970,795**	**949,789**	**991,506**	**1,014,899**
Claims on Non-Banking Inst.	**36,031**	**46,386**	**42,154**	**46,923**	**46,267**
Other Items (Net)	**1,265,366**	**1,314,135**	**1,273,260**	**1,313,545**	**1,337,401**

** Excludes Foreign Currency Deposits at the Commercial Banks*

Source: Bank of Sierra Leone and Deposit Money Banks

Table 9

Average Interest rates (Percent)					
	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
1	2	3	4	5	6
Treasury Bills (3-months)	23.42	23.39	23.25	22.64	18.99
Treasury Bills (6-months)	29.55	28.75	27.64	27.59	25.48
Treasury Bills (1-Year)	28.63	29.58	29.14	28.66	25.83
Treasury Bonds (1-year)	20.00	20.00	20.00	20.00	20.00
Savings^	6.42	6.42	6.42	6.42	6.42
1 Month	9.16	9.16	9.16	9.16	9.16
3 Months^	9.75	9.75	9.75	9.75	9.75
6 Months^	10.39	10.39	10.39	10.39	10.39
9 Months^	10.25	10.25	10.25	10.25	10.25
12 Months^	11.91	11.91	11.91	11.91	11.91
Lending (Prime)	21-29	21-29	21-29	21-29	21-29
National Inflation Rate*	16.64	14.51	12.50	11.59	11.41

^ Revised data effective Aug-02 due to the incorporation of FIB
** The base year was revised from 2003 to 2007.*
N.A - Not Available

25.83percent respectively as at December 2012. Average Interest rate on Savings, 1 month 3 months 6 months, 9 months and 12 months Time Deposit remained unchanged at 6.42, 9.16, 9.75, 10.39, 10.25 and 11.91 percent, respectively. The Interest rate on 12 months Treasury Bonds remained unchanged at 20 per cent. Lending rate on overdraft remained unchanged in the range of 21-29 per cent.

4.2 Monetary Operations

During the review period, the market was characterised by over subscription in the primary market for government securities and liquidity surge primarily from the banking system. This was driven by changes in NFA on account of foreign receipts from the development partners, unprogrammed resources paid in by Sierra Rutile Limited and advance PAYE tax from African Mineral Limited, which were all spent. Against this backdrop, the Bank adopted a tight monetary policy stance and strengthened its monetary operations.through secondary market operations. To sterilize the changes in NFA, BSL sold in the secondary market Le170.59bn of its holdings of government treasury securities, complimented by further sale of foreign exchange.

Market demand for government securities continued to shift towards the long-dated instruments in line with easing inflation expectations. The period also registered over borrowing by government from the banking system, to support budget execution in the light of delays in programmed disbursement and shortfalls in revenue from the mining sector. Total outstanding government securities increased from Le955.30bn as at end December 2011 to Le 1,268.64bn as at end December 2012. Following the receipts of some of the programmed resources, government in Q3, 2012 adopted a redemption plan which was challenged by the bunching up of maturities and increase demand for money. In that regard, a total of Le 38.93bn was redeemed but later suspended, due to the need for government to borrow more.

Table 10

Stock of Government securities outstanding by Holders (in Million Leones)			
	2011	**2012**	**Change**
91-DAYS TBs	**204,435.75**	**217,002.90**	**12,567.15**
BSL	16,641.50	494.00	-16,147.50
COM. BANKS	99,803.40	134,085.40	34,282.00
Non-Bank Public	85,090.85	82,423.50	-2,667.35
NASSIT	2,900.00	0	-2,900.00
182-DAYS TBs	**365,148.15**	**380,682.85**	**15,534.70**
BSL	50,062.60	3,669.00	-46,393.60
COM. BANKS	257,804.10	292,096.00	34,291.90
Non-Bank Public	48,884.30	84,917.85	36,033.55
NASSIT	8,397.15	0	-8,397.15
364-DAYS	**276,794.10**	**560,551.30**	**283,757.20**
BSL	65,731.05	11,188.05	-54,543.00
COM. BANKS	171,983.65	446,235.85	274,252.20
Non-Bank Public	9,579.40	48,289.95	38,710.55
NASSIT	29,500.00	54,837.45	25,337.45
TBOND	**108,923.00**	**110,400.45**	**1,477.45**
BSL	11,008.65	19,693.70	8,685.05
COM. BANKS	15448.35	1,016.10	-14,432.25
Non-Bank Public	82,466.00	89,690.65	7,224.65
NASSIT	0	0	
TOTAL	**955,301.00**	**1,268,637.50**	**313,336.50**
BSL	143,443.80	35,044.75	-108,399.05
COM. BANKS	545,039.50	873,433.35	328,393.85
Non-Bank Public	226,020.55	305,321.95	79,301.40
NASSIT	40,797.15	54,837.45	14,040.30

At end 2012, new government securities issued amounted to Le313.34bn. The average annual yield on the 91 days treasurybills declined by 356 basis points from 22.69 percent in December 2011 to 19.13 percent by end December 2012 and 182 days decline by 334 basis points from 28.9 percent in December 2011 to 25.56 percent by end December 2012. Also the average annual yield on the 364 days treasury bills decreased by 254 basis points from 28.39 percent in December 2011 to 25.85 percent in December 2012. The average nominal interest rate on T-Bonds was maintained at 20.00% during the period.

In the secondary markets, a total volume of Le338.82bn was supplied by the Bank via the reverse repo standing facility during 2012, reflecting a decrease of Le918.07bn from Le 1,256.89bn in 2011. Thevolume of repo transactions decreased by Le33.19bn from Le420.08bn in 2011 to Le386.89bn in December

2012. All repo transactions were conducted at the MPR. The volume of interbank transactions decreased by Le202.67bn from Le794.66bn in 2011 to Le591.99bn in 2012.

During the period under review, Commercial Bank holdings of government securities increased by Le328.39bn from Le545.04bn in 2011 to Le 873.43bn in 2012. Non-bank holdings (including NASSIT) also increased by Le93.34bn from Le266.82bn in 2011 to Le360.16bn in 2012. BSL holding on the other hand decreased by Le108.4bn from Le143.44bn in 2011 to Le35.04bn in 2012. This was as a result of the sale of the Bank's holdings of securities in the secondary market to support active monetary operations.

4.3 Challenges to Monetary Policy Management

During 2012, monetary policy management was challenged by the combined effects of fiscal expansion and an increase in net foreign capital inflows.

The expansionary fiscal outcome was a result of shortfalls in domestic revenue collections coupled with delays in external budgetary support disbursements. Total grants received by Government in 2012 were short of the programmed amount by 31.25 percent and contributed to the fiscal deficit recorded by Government, which was financed by the banking system. Consequently, the ceiling on Net Domestic Bank Credit to Government under the IMF supported ECF program was breached. However, the targets for Net Domestic Assets of the Central Bank and Gross Foreign Exchange Reserves of the Central Bank were met with comfortable margins.

The Bank adopted a two track approach to addressing the liquidity challenges that arose from the fiscal outcome by maintaining its MPR at 20.00 percent throughout 2012 and at the same time strengthening monetary operations through active OMO operations. This was done in an effort to encourage interbank transactions, curb excess liquidity and contain inflation. Additionally, the Bank ensured that statutory limits on direct financing to Government were strictly adhered to, throughout 2012, consistent with the provisions of the BSL Act 2011.

Monetary Policy was also challenged by the increase in foreign Capital Inflows, arising from foreign financed budget spending and significant foreign investments in the mining, agriculture and banking sector of the economy. Although the increase in foreign capital inflows provides a buffer against adverse external shocks, it presents a potential downside risks to macroeconomic stability. The immediate impact of the huge capital inflows was a slight appreciation of the real exchange rate which likely affects international competitiveness. Secondly, huge capital inflows lead to excess liquidity in the banking system through the substitution effects of foreign currency conversion to local currency. Responding to these challenges; the Bank intensified its monetary operations through the sale of its holdings of securities to sterilize the foreign induced excess liquidity. However, the Bank was constrained in its intervention to sterilize the excess liquidity due to inadequate volume of securities.

As a result of these challenges, outturns in monetary aggregates were expansionary. Reserve Money (RM) growth of 18.53 percent exceeded its target of 13.9 percent, while Broad Money (M2) growth of 23.13 percent exceeded its target of 20.4 percent. Notwithstanding these developments, inflation declined on a year on year basis, from 16.64 percent in 2011 to 11.41 percent in 2012, in line with its target of less than 12 percent growth for 2012. This outturn suggests that instead of increasing prices, monetary expansion seems to have contributed to increase in output and therefore reduction in prices. This phenomenon was

reflected in the rapid growth of GDP to the tune of 18.00 percent in 2012 as against the 6.3 percent growth recorded in 2011. The lower inflation was also supported by the relative stability of the exchange rate and low inflation expectation.

5.0 External Sector Developments

The global economic environment in 2012 remained weak with the greatest risks to recovery being the high unemployment, the deadlock on fiscal cliff in the United States (US), the lingering Euro zone financial and economic crisis, as well as the slowdown in output growth in the key emerging Asian economies. The debt crisis in the Euro zone has had significant impact on global trade and business confidence. According to the IMF World Economic Outlook (WEO) Report, global growth projection for 2012 dipped to 3 percent compared to an initial projection of 3.4 percent, with a high probability of the final global growth figure falling below 2.0 per cent for 2012.

Despite these developments, the external sector of the Sierra Leone economy experienced a significant boost in 2012, following the increase in Foreign Direct Investment (FDI) inflows, the scaling up of iron ore mining and the improved market conditions for rutile. The trade deficit narrowed as a result of the significant increase in FDI and a decline in imports levels. The exchange rate remained stable during the year, supported in part by increased foreign exchange inflows as well as the tight monetary policy stance. Gross External Reserves increased to US$417.92mn at end-December 2012, enough to cover 3 months of imports. Gross External Debt Stock (including interest and principal arrears) stood at US$932.2mn as at end December 2012.

5.1 International Trade

Following the increase in economic activity during the review period, Sierra Leone's total merchandise trade (i.e. exports plus imports) amounted to US$2,712.06mn representing an expansion of US$603.22mn relative to 2011. The merchandise trade deficit, however, narrowed considerably to US$495.00mn in the review period from US$1,367.34mn in the previous year, reflecting the combination of an expansion in exports receipts by US$759.31mn(217.43%) and a marginal decline in imports bills by US$113.03mn(6.58%).

5.1.1 Exports

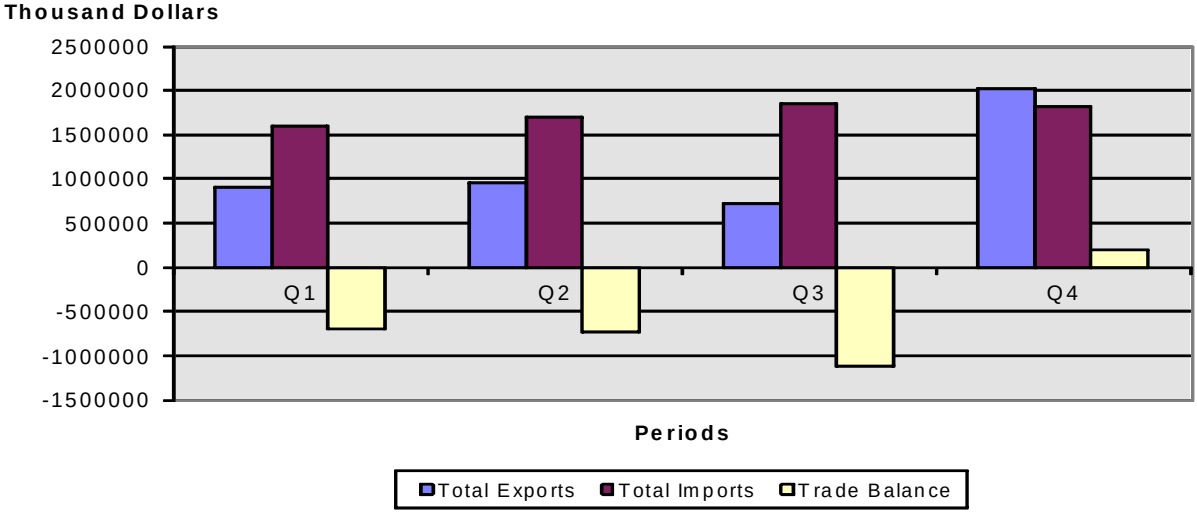
The period under review recorded total export receipts of US$1,065.47mn, which was a marked improvement on US$349.22mn recorded in 2011. The increase in export receipts was attributable largely to improvement in earnings from mineral exports, namely diamond, rutile and iron ore complemented by the huge jump in earnings from other exports. Earnings from the mineral sector accounted for 70.67 percent of total export receipts increasing from US$240.24mn in 2011 to US$752.95mn in 2012. Within the mineral sub-sector, a total of 532.56 thousand carats of diamond worth US$161.72mn were exported, reflecting an increase of 52.06 percent in volume terms and 24.62 percent in value terms over the previous year's record. Gem diamonds accounted for most of the growth in total diamond export rising by 89.62 percent and 32.04 percent in both volume and value terms, respectively. The volume and value of Industrialdiamond exports however declined by 11.21 percent and 45.69 percent respectively. Export volumes of bauxite, gold and ilmenite decreased during the year from 1,421.76 thousand metric tons, 5.28 thousand ounces, and 19.09 thousand metric tons in 2011 to 715.53 thousand metric tons, 4.53 thousand ounces and 10.01 thousand metric tons respectively in 2012. Corresponding values also decreased by 56.19 percent to US$17.08mn, 21.15 percent to US$5.74mn and 15.53 percent to US$3.75mn, respectively. Export value of zircom decreased to US$3.44mn in the review period from US$10.45mn in 2011 while the volume of zircom export increased from 13.03 thousand metric tons in the reporting year

Table 11

International Trade and Reserves (US$'000)				
	Jan - Dec'11	**Jan-Jun'12**	**Jul-Dec'12**	**Jan - Dec'12**
1	2	3	4	5
Merchandise Imports	**1,716,557.6**	**757,189.3**	**846,341.7**	**1,603,531.0**
Food *of which*	245,883.5	152,337.5	153,709.5	306,047.0
Rice	84,726.5	56,951.8	54,466.4	111,418.2
Beverages and Tobacco	33,141.5	14,699.9	13,797.4	28,497.3
Crude Materials	18,469.6	16,976.6	16,434.5	33,411.2
Mineral Fuels and Lubricants of Which	275,758.2	163,748.9	182,821.9	346,570.8
Fuel	243,703.7	155,580.5	166,525.2	322,105.7
Animal and Vegetable Oils	9,629.9	4,009.8	5,999.2	10,009.0
Chemicals	67,039.4	53,032.6	53,952.9	106,985.6
Manufactured Goods	175,716.6	94,087.2	75,217.8	169,305.0
Machinery and Transport Equipment	756,262.4	200,304.6	285,625.8	485,930.4
Other Imports	134,656.5	57,992.2	58,782.6	116,774.8
Merchandise Exports	**349,215.4**	**459,522.5**	**649,005.0**	**1,108,527.5**
Mineral Exports	**240,239.7**	**405,202.0**	**387,054.5**	**792,256.6**
Diamonds	129,766.2	69,376.9	92,342.7	161,719.6
Buaxite	38,998.0	10,458.1	6,626.0	17,084.1
Rutile	34,436.6	109,287.6	94,456.4	203,744.0
Gold	7,280.0	3,363.3	2,376.9	5,740.2
Ilmenite	4,441.7	-	3,751.9	3,751.9
Iron Ore	14,863.0	201,186.3	155,816.0	357,002.3
Zircom	10,454.2	1,389.8	2,048.5	3,438.3
Agricultural Exports	**46,779.4**	**19,632.8**	**10,297.9**	**29,930.7**
Coffee	2,000.8	3,425.0	327.5	3,752.5
Cocoa	44,022.0	15,836.4	9,873.5	25,709.9
Piassava	10.1	-	-	-
Fish and Shrimps	746.6	371.4	96.9	468.3
Others	**28,997.3**	**15,255.2**	**210,998.4**	**226,253.6**
Re-exports	**33,199.0**	**19,432.4**	**40,654.2**	**60,086.6**
Trade Balance	**(1,367,342.2)**	**(297,667)**	**(197,337)**	**(495,003.5)**
Foreign Reserves ($mn)	**376.79**	**382.74**	**417.92**	**417.92**

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

Chart 8. External Trade - 2012



to 19.38 thousand metric tons in preceding year. Export of Rutile and Iron Ore registered significant increases in both volume and value terms in 2012. From a volume of 44.62 thousand metric tons, valued at US$34.44mn in 2011, rutile exports receipts increased to 245.98 thousand metric tons, valued at US$203.74mn in 2012.

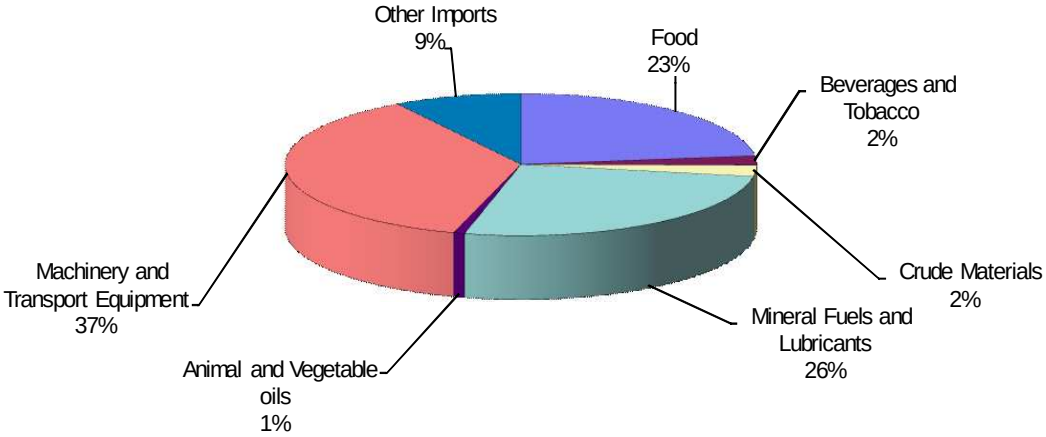
Similarly, export of iron ore increased significantly from 339.33 thousand metric tons in volume-terms, valued at US$14.86mn in 2011 to 5,203.49 thousand metric tons, valued at US$357.00mn in 2012.This notwithstanding the foregoing, iron ore exports in 2012, fell short of the initial target of approximately 11million tons due to operational difficulties at the main mining site in Tonkolili. Exports of mineral concentrates amounted to US$29.64mn in the review period.

Export of Rutile and Iron ore registered significant increases in both volume and value terms in 2012. From a volume of 42.62 thousand metric tons, valued at US$34.44mn in 2011, Rutile exports receipts decreased to 246.14 thousand metric tons, valued at US$203.74mn in 2012.

Earnings from the Agricultural Exports in 2012 decreased by 36.02 percent to US$29.93mn, partly on account of a drop in receipts from export of cocoa beans constituting over 80 percent of agricultural earnings. The volume of cocoa beans exported in 2012 amounted to 65.55 thousand metric tons with an estimated value of US$25.71mn which was a significant increase in volume terms than was recorded in 2011 while there was 41.60 percent drop in value terms compared to the preceding year. Total volume of coffee decreased by 16.29 percent to 31.71 thousand metric tons in 2012, while the estimated value increased by 87.55 percent to US$31.71mn in 2012. Proceeds from export of fish & shrimps decreased from US$0.75mn in 2011 to US$0.47mn in 2012.

Earnings from other exports increased by more than expected (681.00%) from US$29.00mn in 2011 to US$226.47mn in 2012, reflecting increased domestic capacity utilization in the manufacturing sector. The value of re-exports also increased significantly to US$60.09mn in 2012 from US$33.20mn in 2011.

Chart 9. Composition of Imports 2012



5.1.2 Imports

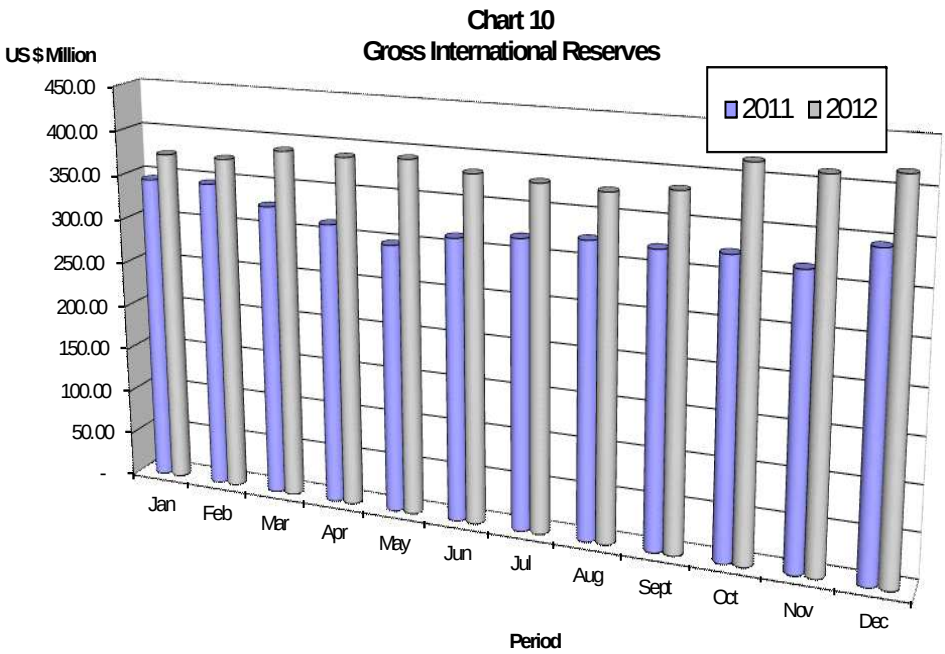
Aggregate import payments for the year under review decreased by 6.58 percent to US$1,603.53mn, from US$1,716.56mn, mainly as a result of decreases in payments for "manufactured goods" and "Machinery and transport and equipments". The bills for "consumer goods", "intermediary goods", "mineral fuel and lubricants" and "fuel" however registered upwards trends. The total bill for consumer goods increased by 19.37 percent to US$344.55mn, reflecting a rise in payments for food sub category which accounts for over 88.82 percent of consumer items. Payments for 257.06 thousand metric tons of rice imported during the reporting period amounted to US$111.42mn, representing a 31.50 percent increase on the 155.41 thousand metrics tons valued at US$84.73mn in 2011. Import payment for "Animal and Vegetable oils" also increased to US$10.01mn in the review period from US$9.63mn in the previous year, while bills for "Beverages and tobacco" decreased by 14.01 percent to US$28.50mn in 2012.

The bill for import of intermediary goods comprising chemicals and crude materials rose by 64.19 percent to US$140.40mn, while import payment for "manufactured goods" and "machinery & transport equipment" dropped by 7.83 percent and 35.75 percent to US$286.08mn and US$485.93mn respectively in the year under review. The import value for petroleum products (Mineral fuel & lubricants) increased by 25.68 percent from US$257.76mn in 2011 to US$346.57mn in 2012. The import for "fuel", both in volume and value terms scaled up by 15.90 percent and 32.17 percent to 280.59 thousand metric tons and US322.11mn respectively in 2012.

5.2 International Reserves

The Gross External Reserves of the Bank of Sierra Leone increased by 10.91percent from US$376.79mn as at end December 2011 to US$417.93mn as at end December 2012 enough to cover 3 months of imports cover for goods and non factor services. The growth in the foreign exchange reserves was mainly due to a reduction in the trade gap, increased inflows from the mining companies in the form of taxes and loan disbursements mainly from the World Bank and International Monetary Fund under the Extended Credit Facility (ECF). The cumulative foreign exchange inflows and outflows in 2012, amounted to US$194.36mn and US$156.02mn respectively, representing net inflows of US$38.34mn.

Significant inflows during the year included aid/loan disbursement totaling US$79.65mn comprising International Monetary Fund(IMF) disbursement of US$ 6.86mn under the Extended Credit Facility, African Development Bank (US$ 6.57mn), budgetary support from UK/DFID to the tune of US$16.28mn,



World Bank loan disbursement of US$ 24.03mn, European Union (US$15.34mn) in respect of Poverty Reduction Budget Support; Other disbursements included US$1.60mn being foreign currency purchases from IDA/World Bank, IDB disbursement of US$0.53mn for various projects and flows from the Japanese Food Aid amounting to US$8.00mn.Total export receipts to the tune of US$54.19mn constituted contributions from Sierra Rutile (US$20.37mn), receipts from African Mineral Mining Company, London Mining Company, Koidu Holdings and other mining receipts amounted to US$ 24.88mn, US$2.66mn, US$0.21mn and US$0.80mn respectively. Diamond license fees and exporters' income tax amounted to US$4.50mn, whilst receipts from petroleum resources amounted to US$25.00mn, other government receipts (US$16.84mn) and receipts from transactions with commercial banks (US$15.50mn) and privatization receipts (US$2.00mn).

Significant outflows were in respect of US$47.31mn, being private sector support through the weekly foreign exchange auction, US$13.42mn, being embassy/mission payments, US$3.25mn, being BSL interest and commission payments, US$15.28mn, being cost of printing currency, government travel and other government outlays (US$13.92mn), expenditure on government infrastructural projects (US$24.32mn), subscription to international organizations (US$2.29mn) and payments for electricity support to the Japanese Government (US$8.00mn). Other outflows included debt service payments totaling US$28.24mn, of which, US$ 7.06mn was paid to IMF, US$1.85mn to World Bank, US$0.90mn to the African Development Bank (ADB), other multilateral and bilateral institutions (US$8.33mn), payment made to OPEC/OFID (US$ 3.57mn) and other commercial debts (US$6.50mn)

5.3 Foreign Currency Management

The Bank of Sierra Leone's foreign reserves currency composition was significantly influenced by the currency of disbursement of donor funds. Donor disbursements were denominated mainly in SDRs, US Dollar, Pound Sterling and Euro. Holdings of currencies by the Bank of Sierra Leone as at end December, 2012 and 2011 recorded 41.06 per cent held in SDRs, 48.96 per cent in United States Dollars, 9.32 per cent in Pound Sterling, 0.48 per cent in Euro and 0.18 per cent in Japanese Yen. The proportion of currency holdings by the bank continued to be skewed towards the US$ amounting to US$204.6 (48.96

Table 12

Foreign Currency Management

	Dec. 2012	% of Total Bal.	Dec. 2011	% of Total Bal.
U.S. Dollars (Mn)	204.6	48.96	142.13	37.72
Pound Sterling (Mn)	38.95	9.32	38.66	10.26
Euro (Mn)	1.99	0.48	16.98	4.51
Japanese Yen (Mn)	0.77	0.18	0.86	0.23
SDRs (Mn)	171.61	41.06	178.16	47.28
Total Balance (Mn)	**417.93**	**100**	**376.79**	**100**

per cent, an increase of 9.48 per cent). This was followed by the SDR which accounted for 41.06 per cent (SDR 171.61), Pound sterling 9.32 per cent, Euro 0.48 per cent and Japanese Yen, 0.18 per cent.

5.4 Investment Activities

The Bank of Sierra Leone continued to invest its foreign currencies in the review period. The highest income was recorded from investment in the US dollars. The second highest income was earned from investments in the Sterling zone. The low income received from SDR holdings for the period under review was as a result of the marked decrease in interest rate from 0.15% in January 2012 to 0.08% in December 2012. The decrease in income earned from the Euro zone was due to interest rate reduced to zero and the reduction of the Bank's Euro holdings, as a result of the volatility in the Euro zone.

5.5 Foreign Exchange Developments

During the period January to December 2012, the Bank continued to face challenges as a result of government's increased expenditure mainly on infrastructural projects, which required substantial foreign exchange component coupled with the general elections of 17th November, 2012. However, with increased supply of foreign currency, strong macroeconomic fundamentals coupled with tight monetary policy stance of the Central Bank, provided a favourable environment to the foreign exchange market. As a result, the leone was relative stable against major international currencies. The increased supply of foreign exchange, particularly in the commercial banks, helped to ease the demand pressure on the Central Bank as reflected in the stable exchange rate maintained throughout the regular weekly foreign exchange auctions. The main sources of the foreign exchange inflows were the mining and the agricultural sectors.

Overall official market turnover increased, surpassing the US$100m per month level. There was significant increase in the receipt from diamond exports and inflows into the mining and agricultural sectors. The volume of transactions during the review period also increased significantly. Volume of transactions is measured by total purchases and sales of US Dollar in the FX market including the foreign exchange auction.

5.6 Exchange Rate Movement

The exchange rate was largely stable in 2012 as a result of the tight and robust monetary stance of the Bank coupled with the sustained higher inflow of foreign exchange across key sectors of the economy. The strict adherence by the Bank to the statutory limit on direct financing further helped to lower the inflation rate and strengthen the stability of the Leone.

The yearly average exchange rates in all the market segments appreciated in 2012, compared to 2011. The BSL average mid-rate of the Leone against the US dollar as well as the commercial banks, bureaux and the parallel market rates appreciated by 0.20%, 0.22%, 0.43% and 1.07% from Le4352.12/US$, Le4352.37/US$, Le4347.78/US$ and Le4427.94/US$ in 2011 to Le4343.62/US$, Le4343.00/US$, Le4329.16/US$ and Le4380.34/US$ in 2011. The yearly average auction rate appreciated by 1.45% from Le4,382.12/US$ in 2011 to Le4318.72/US$ in 2012.

The rate in the various segments moved respectively as follows;

Period Movement (Jan – Dec'11)

- *The Le/US$ official mid-rate appreciated by 1.00% from Le 4377.71/US$ as at end December 2011 to Le4334.11/US$ as at end December 2012. During the previous period in 2011, the official Le/US$ depreciated by 4.28% from Le4198.01/US$ to Le4377.71/ US$.*

- *The commercial bank's weighted average mid-rate appreciated by 0.84% from Le4371.28/US$ in January 2012 to Le4334.56/US$ as at end December 2012. During the previous period in 2011, the commercial bank's weighted average mid-rate depreciated by 4.35% from Le4189.09/US$ to Le4371.28/US$.*

- *The parallel market midrate appreciated by 1.63% from Le4442.50/US$ in January 2012 to Le4370.00/US$ as at end December 2012. During the same period last year, the parallel market rate depreciated by 2.95% from Le4315.00/US$ to Le4442.50/ US$.*

Monthly Average Movement

- The BSL monthly average midrate appreciated by 1.04% from Le4375.54/US$ as at end December 2011 to Le4330.04/US$ as at end December 2012, whilst the monthly average commercial banks' rate appreciated by 0.93% from Le4372.95/US$ as at end December 2011 to Le4332.23/US as at end December 2012.

- The monthly average foreign exchange auction rate appreciated by 1.96% from Le4381.10/ US$ as at end December 2011 to Le4295.27/US$ as at end December 2012.

The flow of foreign exchange increased significantly in 2012. Total amount traded in the foreign exchange market during the review period was US$1,346.26mn, which was 23.37% higher than the total amount of US$1,091.23mn traded in 2011. The monthly average amount traded in 2012 was US$112.19mn whereas in 2011 it was US$90.94mn.

The review period witnessed a sustained inflow of foreign exchange across all sectors of the economy. Total purchases of the commercial banks in 2012 increased by 12.99% to US$552.23mn when compared to the total of US$488.74mn recorded in 2011. The average monthly purchase for 2012 was US$46.02mn whereas the average monthly purchase for 2011 was US$40.73mn. The total sale of foreign exchange by commercial banks in 2012 increased by 39.18% to US$669.36mn when compared to the total of US$480.93mn recorded in 2011. The total sales for December 2012 increased by 11.81% to US$71.59mn when compared to the amount of US$64.03mn recorded in November 2012. The average monthly sale

Table 13

Bank of Sierra Leone Foreign Exchange Cash Flow (in US$ Mn)

	JAN - DEC 2012	JAN - DEC 2011
INFLOWS:-Of which	**194.36**	**159.75**
Receipts from exports	**54.19**	**26.99**
Rutile	20.37	0.06
Bauxite	0.00	0.39
African Minerals Co.	24.88	12.84
London Mining Co.	2.66	3.52
Koidu Holdings Mining Co.	0.21	0.00
Cluff Gold Mining Co.	0.00	0.00
Other Mining Receipts	0.80	0.00
Diamond License fees	1.60	4.99
Diamond Exporters Income Tax	2.90	4.26
Fishing Royalty/License	0.76	0.93
Maritime Administration	0.34	0.19
Other Govt	16.84	6.17
Others	1.27	2.86
Petroleum Resources	25.00	33.58
Transactions with Commercial Banks	15.50	14.8
Privatization	2.00	8.00
Aid Disbursements/BOP support	**79.67**	**67.17**
IMF	6.86	13.65
AFDB (ERRP 4)	6.57	9.33
UK/DfID	16.28	23.01
World Bank	24.03	2.50
EU	15.34	14.58
IDA/World Bank (Leones sold)	1.60	3.37
Other Multilaterals	0	0.32
IDB	0.53	0.41
HIPC flow relief	**0**	**0**
New SDR Allocation	**0**	**0**
OUTFLOWS:-Of which	**156.02**	**126.07**
Payments for Goods and Services	**127.79**	**103.32**
Embassy/Missions	13.42	11.96
BSL	3.25	2.46
Stabilization & Cooperation Fund	0.00	0
Capital Subscription to WACB	0.00	0
Printing of Currency	15.28	3.74
Government Travel	2.64	2.39
Other Government	11.28	9.39
New Infrastructure Projects (Roads)	15.28	17.18
Gov Infrastructure Projects (Energy & Water)	9.04	13.34
Subscription to Intl. Organisations	2.29	1.18
Electricity Support	8.00	16.18
Private Sector Support	47.31	41.18
HIPC Related Imports	0.00	0.50
Debt Service after debt relief	**28.24**	**22.76**
IMF	7.06	5.12
World Bank	1.85	1.26
AFDB	0.90	0.78
IFAD	0.03	0.01
EC/EIB	0	0
Other multilaterals and bilaterals	8.33	6.62
Paris Club Creditors	0	0
OPEC (CIP Arrangement)	3.57	1.97
Other Commercial Debt	6.5	7

for 2012 was US$55.78mn whereas the average monthly sale in 2011 was US$40.08mn. As at end December 2012, foreign exchange inflows to support real sector activities in the mining and agricultural sectors amounted to US$176.95mn and US$38.97mn respectively.

Total purchases by foreign exchange bureaux decreased by 4.94% to US$39.41mn in 2012 when compared to the total amount of US$41.46mn recorded in 2011. The monthly average purchase by foreign exchange bureaux in 2012 was US$3.28mn and in 2011 it was US$3.46mn. Total sales by foreign exchange bureaux decreased by 2.59% to US$37.92mn in 2012 when compared to the total amount of US$38.93mn recorded in 2010. The monthly average sales by foreign exchange bureaux decreased from US$3.24mn in 2011 to US$3.16mn in 2012.

Total migrant remittance from January to December 2012 decreased by 1.45% to US$59.99mn when compared to the total of US$60.87mn recorded in 2011.

5.8 Sectoral Distribution of Foreign Exchange Auction Funds

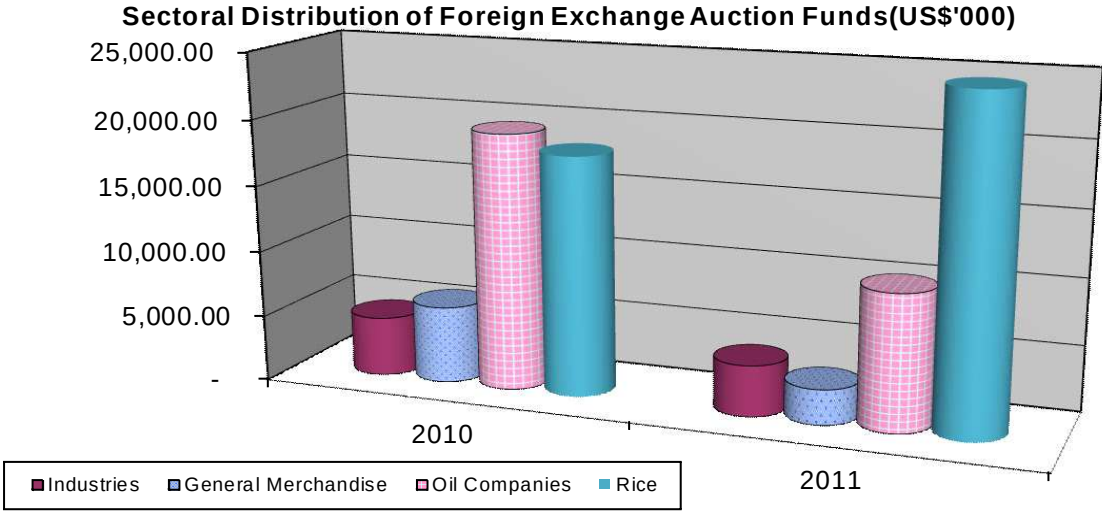
To relieve inflationary pressure in the economy and maintain exchange rate stability, the Central Bank continued to supplement the market supply of foreign currency, as well as absorb the excess liquidity contributed by foreign exchange inflows. During the review period, the volume of foreign exchange traded

Table 14

Sectoral Distribution of Foreign Exchange Auction Funds (US$'000)

Sector	2012	2011	% of Total amount in 2012
Industries	3,835.00	7,903.00	16.70
General Merchandise	2,645.00	2,170.00	4.59
Oil Companies	10,180.00	6,525.00	13.79
Rice	24,509.00	30,712.00	64.92
Total	**41,169.00**	**47,310.00**	**100**

Chart 11
Sectoral Distribution of Foreign Exchange Auction Funds(US$'000)



in the foreign exchange market increased to US$47.31mn in 2012 from US$41.17mn recorded in 2011. The increased sales in the foreign exchange auction market was attributed largely to increased utilisation by rice importers (US$30.71mn), representing (64.92%) of total foreign exchange utilised and 25.31 percent increase when compared to US$24.51mn utilised in 2011. Oil companies utilized US$6.53mn during the period, reflecting a decline of 35.90 percent below the level in the preceding year. The amount of foreign exchange sold to general importers decreased by 17.96 percent to US$2.17mn while foreign exchange utilized by manufacturing industries (US$7.90mn) more than double the US$3.84mn recorded in the previous period.

Major Non-Oil and Oil importers continue to access foreign exchange mainly from the commercial banks and through the BSL weekly foreign exchange auction. Total foreign exchange sold to Oil Companies by commercial banks during the review period was US$122.36m compared to US$93.31m recorded in 2011 and total amount sold to rice importers was US$61.92m compared to US$77.77m recorded in 2011.

5.9 Receipts from Diamond Exports

Receipts from diamond exports in 2012 amounted to US$158.74m; an increase of 28.58% when compared to the total amount of US$123.46m recorded in 2011. Foreign exchange returns received from commercial banks notably GTBank and Rokel Commercial Bank indicated that a significant amount of these receipts came through the banking system.

5.10 Foreign Exchange Auction

The Bank of Sierra Leone continued its weekly foreign exchange auction in a bid to improve market-based allocation of foreign exchange in a competitive, transparent and consistent manner. The foreign exchange auction was guided by the need to provide support to the private sector and to complement monetary operations by sterilizing excess liquidity from budgetary support. During 2012, the BSL sold a total amount of US$47.31m in the foreign exchange market; a 14.91% increase from the US$41.17m supplied in 2011. This has to a large extent facilitated the supply of critical imports, especially rice and petroleum products throughout 2012.

Table 15

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

	2012	2011	% Change
Amount Offered	42,700.00	48,000.00	12.41
Amount Demanded	48,009.00	57,107.50	18.95
Amount Supplied	41,169.00	47,310.00	14.92

The demand for foreign exchange in the auction increased during the review period by 18.95% from US$48.01m in 2011 to US$57.12m in 2012. The weighted average auction rate appreciated by 1.62% from Le4,356.77 as at end 2011 to Le4,286.23 as at end 2012.

The sectoral distribution of auction funds for 2012 show that 64.92% of auction funds were sold to rice importers. This was followed by the oil companies with 13.79% and the industry sector, which accounted for 16.70%. General merchandise accounted for 4.59% in 2012. There was no sale of foreign exchange to the auction by the public during the period under review.

As economic activities continue to expand, the demand for foreign currency has also increased, resulting in the appreciation of the auction weighted average exchange rate by 1.67%. Even though the foreign exchange auction accounts for 3% of the total volume of foreign exchange transactions in the market, it was mainly used as a reference rate by the market. However, its effectiveness was guided by the need to absorb excess liquidity from foreign inflow by complementing monetary operations.

5.11 Market Outlook

It is envisaged that there would be more and increased investment in the mining sector especially the iron ore sub-sector. This increased investment will therefore increase the inflow of foreign currency and hence maintain a steady supply of foreign exchange.

Also, increased inflows into the agricultural sector and the service industry are envisaged. The increased inflows into the economy coupled with prudent monetary policy of the Bank would impact positively on the exchange rate during 2013. 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 2012 stood at US$966.80million as compared to US$890.10million as at end December 2011. The increase of 8.62% was mainly as a result of disbursements received from the International Development Association (IDA), IMF, Exim Bank of India and the African Development Bank, which more than outweighed the principal repayments made during the period. Multilateral creditors accounted for 63.76% of the total disbursed outstanding debt, followed by commercial creditors, which accounted for 20.95%. Bilateral creditors accounted for 13.34% of the total external debt.

Table 16

Disbursed Outstanding Debt, including Principal Arrears as at End December 2012 classified by currency of liability ('000)

	Dec. 2011			Dec. 2012		
Currency	debt in Foreign Currency	total debt in Le	% of total	debt in Foreign Currency	total debt in Le	% of total
Chinese Yuan	134,444	93,376,814	3.65	130,011	90,453,700	3.21
EURO	22,536	127,404,331	4.99	20,717	118,730,390	4.21
British Pound	-	-	0.00	806	5,633,492	0.20
Japanese Yen	920,550	51,845,389	2.03	920,550	46,432,553	1.65
Kuwaiti Dinar	3,274	51,407,372	2.01	3,545	54,633,903	1.94
Saudi Riyal	47,896	55,910,455	2.19	49,813	57,567,773	2.04
United States Dollar	115,094	503,849,046	19.72	137,059	594,027,623	21.07
Special Drawing Rights	218,966	1,467,047,497	57.42	243,142	1,619,494,078	57.43
Islamic Dinar	30,484	204,236,443	7.99	34,981	232,998,347	8.26
Total		**2,555,077,347**	**100**		**2,819,971,857**	**100**

Source: External Debt Policy Section

Table 17

Principal & Interest Arrears as at end Dec-2012 (US$Mn)

	DEC. 2011		DEC. 2012	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
Total External Debt	**236.4**	**3.5**	**229.3**	**3.5**
Total Commercial Obligations & Short-Term Debt 1/	208.1	-	202.0	-
Total Long-Term Debt,	***28.3***	***3.5***	***27.3***	***3.5***
of which :				
Multilateral	**-**	**-**	**-**	**-**
World Bank Group	-	-	-	-
IMF	-	-	-	-
Others				
Official Bilateral	**8.4**	**-**	**8.4**	**-**
Paris Club	-	-	-	-
Others 1/	8.4	-	8.4	-
Other Creditors	**19.9**	**3.5**	**18.9**	**3.5**
Executive Outcome	19.5	3.5	18.5	3.5
Chatelet Investment Ltd	0.4	-	0.4	-

1/ China, Morocco, Kuwait & Saudi Fund

Consistent with the HIPC Initiative, the Government continued to be current and timely in debt service payments to all its external creditors. Principal and interest arrears are owed mainly to the commercial creditors. Discussions are still underway with the World Bank to assist in the implementation of a second debt buyback programme to settle the long outstanding arrears to the commercial creditors.

Total disbursements received from external creditors during the period amounted to US$89.08mn. Of this amount, US$37.76mn was from IDA; US$14.53mn from ECOWAS Bank for Int'l Development; US$4.31mn from ADF; US$5.73mn from Badea, and the residual of US$26.75mn was from Exim Bank of India and China, Kuwait Fund, IFAD, IDB, Saudi Fund and OPEC under various projects.

Table 18

Currency Composition of Outstanding Debt as at End December 2012

(Amounts in Thousands)

	End December 2011			End December 2012		
Currency	Debt in Foreign Currency	Total Debt in Le	Percent of Total	Debt in Foreign Currency	Total Debt in Le	Percent of Total
Chinese Yuan	134,444.11	93,376,814.10	3.65	130,010.78	90,453,699.71	3.21
EURO	22,535.88	127,404,331.22	4.99	20,717.40	118,730,389.74	4.21
British Pound	-	-	-	805.93	5,633,491.65	0.20
Japanese Yen	920,550.00	51,845,388.50	2.03	920,550.00	46,432,553.20	1.65
Kuwaiti Dinar	3,273.58	51,407,372.09	2.01	3,544.59	54,633,902.79	1.94
Saudi Riyal	47,896.43	55,910,455.39	2.19	49,812.90	57,567,772.65	2.04
United States Dollar	115,094.20	503,849,045.87	19.72	137,058.73	594,027,623.25	21.07
Special Drawing Rights	218,965.91	1,467,047,496.99	57.42	243,142.09	1,619,494,077.71	57.43
Islamic Dinar	30,483.55	204,236,443.18	7.99	34,981.11	232,998,346.75	8.26
Total		**2,555,077,347.34**	**100.00**		**2,819,971,857.45**	**100.00**

6.1 Currency Composition

The Special Drawing Rights and the US Dollar constitute the major currencies that dominate Sierra Leone's debt. They account for 57.43% and 21.07% respectively as at end December 2012. Loans to IDA and IMF are mainly denominated in SDRs, which accounted for the high percentage of the total debt. The Consistent with the HIPC Initiative, the Government continued to be current and timely in debt service payments to all its external creditors. Principal and interest arrears are owed mainly to the commercial creditors. Discussions are still underway with the World Bank to assist in the implementation of a second debt buyback programme to settle the long outstanding arrears to the commercial creditors. Total disbursements received from external creditors during the period amounted to US$89.08mn. Of this amount, US$37.76mn was from IDA; US$14.53mn from ECOWAS Bank for Int'l Development;

Table 19

Debt Indicators

(in millions of U.S. Dollars)

	2011	2012
Multilateral	524.60	524.60
Bilateral	84	84
Commercial & Short-Term Debt (arrears)	228	228
Total Stock of Debt	836.50	836.50
Debt Service Payments Due	15.51	15.51
Debt Service Payments Made (Net Amount)	22.75	28.27
Exports	630.92	1065.47
Gross Domestic Product	2897.31	4284.24

6.2 Debt Indicators and Debt Service Payment

Debt service payments increased from US$22.75mn in 2011 to US$28.37mn in 2012. This increase was mainly as a result of the increased principal repayments especially to the IMF and payments made to commercial creditors. HIPC debt relief savings decreased by 26.63% from US$3.68mn in 2011 to US$2.70mn in 2012. This reflects debt service relief from EEC and IFAD respectively. The ratio of debt stock to export reduced during the period, as a result of the increase in exports during the period under review.

The Government seeks to maintain prudent borrowing policies and to adhere to its commitments to avoid non-concessional external borrowing and maintaining long term debt sustainability.

Table 20

Debt Ratios (%)

	2011	2012
Stock of debt as a percentage of Gross Domestic Product	28.87	19.53
Stock of debt as a percentage of Export	132.58	78.51
Debt Service as a percentage of Export	3.61	2.65

Table 21
Debt Service payment made in US $Mn

	2011	2012
Bilateral:	**2.64**	**3.79**
Other Bilateral	2.64	3.79
Multilateral (Net amount)	**13.11**	**17.98**
African Development Bank/Fund	0.79	0.92
World Bank (IBRD/IDA)	1.26	1.86
International Monetary Fund	5.12	7.06
Other Multilateral		
of Which: HIPC exclude savings on	3.68	2.70
Net Amount Paid	5.94	8.14
Commercial Creditors	7.00	6.50
Grand Total	**26.43**	**30.97**
Of which: HIPC Debt relief	3.68	2.70
Net Amount	**22.75**	**28.27**

Source: External Debt Policy Section, BSL

7.0 Financial Sector Development

During the review period, The African Development Bank (AfDB) and the Government of Sierra Leone signed a US$1.2-million grant financing agreement in Tanzania, under Pillar III of the Fragile States Facility, to provide the urgently needed support to the country's Financial Sector Development Project. The grant is intended to support the provision of technical assistance and training to staff of the Bank of Sierra Leone, being the apex institution driving the process of reform in the financial sector. Of this amount, a total of US$352.49 thousand was disbursed in 2012. The IFAD disbursed the amount of US$440.21 thousand to the Bank of Sierra Leone for the recapitalization of community banks in Sierra Leone.

On the 21st August, 2012 the Government of Sierra Leone and China signed a $15mn (12 million euro) loan agreement for the installation of a fibre optic cable which is expected to reduce cost and boost Internet accessibility. The agreement is in preparation for the completion of the fibre optic installation which was expected to be operational by the end of 2012.

The Bank of Sierra Leone continues to play its supervisory role aimed at achieving a sound and robust financial system. In a bid to enhance economic activities through increased access to financial services in the country, licenses were granted to four new community banks to deepen financial activities especially in the rural area. The four new community banks were Koindu Community Bank, Nimikoro Community Bank, Tongo Field Community Bank and Simbaru Community Bank.

The Bank approved the opening of additional branches for the following commercial banks during the review period: Union Trust Bank Limited at Kabala, in the Northern Province, Guaranty Trust Bank (SL) Limited at Bumbuna, and Lungi both in the Northern Province and First International Bank (SL) Limited at Sir Samuel Lewis Road in the Western Area. The Bank also granted licence to Freetown Nominees Limited to operate as a Registrar in the Sierra Leone Stock Exchange and the licence of Pennarth Greene and Company Limited was renewed for a period of five (5) years.

The period also witnessed an increase in the number of money transfer products/facilities in the domestic Market. Approvals were granted for Ecobank Microfinance (SL) Limited to partner with Splash Mobile

Money, Standard Chartered Bank (SL) Limited to introduce Visa Gold Debit Card Product, United Bank for Africa (SL) Limited to introduce Debit Cards and Skye Bank (SL) Limited to introduce Western Union Money Transfer Service.

The Black Book was introduced by the Central Bank, with the aim of curtailing fraud in the financial system. Names of severed (dismissed/terminated) staff from financial institutions are forwarded to the Banking Supervision Department (BSL) for record purposes and to ensure that these dismissed staffs are not recycled in the industry without the knowledge of the Bank.

7.1 Legislation and Guidelines

The Anti-Money Laundering Act 2012 aimed at combating money laundering and terrorism financing was enacted in February, 2012. Also during the review period, the Revised Prudential Guidelines and Scheduled of Penalties for Commercial Banks were issued.

7.2 Commercial Banks

The resource base of the Commercial Banks increased from Le2.98 trillion as at end December, 2011 to Le3.62 trillion as at end December 2012, representing a 21.33% growth (Le636.21 billion). This growth was mainly derived from the 22.74% increase in deposits, which rose from Le2.30 trillion as at end December, 2011 to Le2.83 trillion as at end December, 2012. Demand, Savings and Time deposits recorded a total of Le1.80 trillion, Le692.94 billion and Le295.20 billion at the end of the reporting period representing increases of Le242.51 billion, Le162.18 billion and Le114.37 billion, respectively.

Shareholders' fund increased by 22.72% (Le100.08 billion) during the review period, from Le440.44 billion as at end December 2011 to Le540.52 billion as at end December, 2012. This was mainly due to the 16.10% increase in issued and paid-up capital.

The statutory capital adequacy ratio of 15% was adhered to as the banking system recorded 28.74% as at end December 2012 (an increase of 1.77% when compared to 26.97% as at end December, 2011). The adherence to this statutory requirement came about as a result of an increase in bank's minimum paid-up capital to Le27 billion as at end December, 2012.

Table 22

Commercial Banks operating in Sierra Leone (31st December 2012)

BANK	No. of Branches 2010	No. of Branches 2011	No. of Branches 2012	Ftown	Waterloo	Bo	Moyamba	Pujehun	Njala	Kenema	Kono	Kailahun	Makeni	Magburaka	Lungi	Pepel	Bumbuna	Port Loko	Kabala	Kambia	Total
Rokel Commercial Bank	11	12	12	6	-	1	1	1	-	1	1	-	1	-	-	-	-	-	-	-	12
Sierra Leone Commercial Bank	12	13	13	5	1	1	1	-	1	1	1	-	1	-	-	-	-	1	-	-	13
Standard Chartered Bank Ltd	3	3	3	2	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Union Trust Bank Ltd	8	9	10	3	-	1	-	-	1	1	1	-	-	1	-	-	-	-	1	1	10
Guaranty Trust Bank Ltd	7	10	10	5	-	1	-	-	-	1	1	-	1	-	-	1	1	-	-	-	11
First International Bank Ltd	18	16	16	7	1	1	-	-	-	1	1	1	1	1	1	-	-	1	-		16
International Commercial Bank	2	2	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
EcoBank	7	7	7	4	1	-	-	-	-	1	-	-	1	-	-	-	-	-	-	-	7
Access Bank	4	4	4	3	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	4
United Bank for Africa	3	3	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Skye Bank	1	1	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1
Zenith Bank	3	4	4	2	-	-	-	-	-	1	-	-	-	-	1	-	-	-	-	-	4
Bank PHB	1	2	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Grand Total	**80**	**86**	**89**	**46**	**3**	**6**	**2**	**1**	**2**	**7**	**5**	**1**	**6**	**2**	**2**	**1**	**1**	**2**	**1**	**1**	**89**

Table 23

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

1	31-Dec-11 2	31-Dec-12 3
Total Assets	**5,411,692,648**	**6,375,305,882**
Average Total Assets	2,737,858,722	3,259,685,563
Loans and Advances(Gross)	1,072,303,947	1,150,604,262
Bad Debt Provision	(32,334,695)	(27,011,561)
Interest in suspense	(53,308,475)	(45,932,147)
Loans and advances(Net)	939,147,099	1,028,377,016
Investment-TB, TBB, OFI*	549,301,193	818,937,665
Fixed Assets	198,724,857	190,645,084
Local Deposits:-	**1,315,870,573**	**1,637,982,996**
Demand	635,805,010	715,338,919
Savings	499,532,679	627,678,281
Time	180,532,884	294,965,796
Foreign Deposits	**956,022,036**	**1,152,968,313**
Deposits with Financial Institutions	**17,486,578**	**39,642,125**
Capital:-	**325,220,324**	**398,725,059**
Paid-up	320,935,735	372,611,828
Statutory & Other Reserves	77,069,742	90,951,860
Retained Earnings	(72,785,153)	(64,838,629)
Current profit	65,523,506	82,316,207
Primary Capital	325,220,324	408,518,014
Revaluation Reserves	49,698,741	44,143,102
Capital Base	417,702,289	481,380,237
Total Risk Weighted Assets	1,548,996,570	1,674,740,045
Capital Adequacy Ratio	26.97	28.74
Surplus/(Shortfall)%	11.97	13.74
Surplus/(Shortfall):Le	185,352,804	251,211,007
Average Shareholders' Fund	420,390,979	494,660,265

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

Table 23 Contd

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

1	31-Dec-11 2	31-Dec-12 3
Asset Quality		
Performing Loans	784,780,181	889,992,806
Non-Performing Loans	161,666,299	170,870,104
Loan Loss Provisions	79,848,373	76,295,099
Non- Performing as a % of Total Advances	15.08	14.85
Loan Loss Provisions as a % of Non-Performing	49.39	44.65
Profitability : Pre-Tax Profits	**103,385,715**	**122,524,567**
Post Tax Profits	65,523,506	86,840,366
Return on Assets	0.04	0.04
Return on Equity Funds	0.16	0.18
Liquidity:Liquid Assets		
Cash	65,688,929	112,803,181
Current Account with BSL	116,710,249	88,587,661
Treasury Bills	491,773,314	802,713,463
Placement with Discount Houses	835,583	17,771,653
Treasury Bearer Bonds	43,560,850	1,165,800
Cash Ratio	13.86	12.30
Overall Liquidity Ratio	54.61	50.16
Surplus/(Shortfall) (%)	24.94	21.16
Surplus/(Shortfall) (Le)	328,233,808	1,065,392,420
Foreign Assets:	**987,606,371**	**1,226,342,594**
Foreign Currency(cash)	55,788,617	73,560,362
Balance with Other Banks abroad	894,544,125	1,121,106,209
Foreign Other Assets	37,273,629	41,676,023
Foreign Liabilities:	**986,315,240**	**1,076,325,266**
Foreign Deposits	956,022,036	1,055,391,404
Foreign Other liabilities	3,903,867	5,941,166
Foreign Cash Marginal	26,389,337	14,992,696
NET FOREIGN POSITION:		
Assets- Liabilities	1,291,131	150,017,328

The industry recorded gross private sector credit of Le1.15 trillion as at end December 2012, reflecting an increase of Le78.30 billion (7.30%) when compared to Le 1.07 trillion recorded as at end of 2011. Key beneficiary sectors including Other services, Construction, Import trade and transport, Storage and Communication accounted for 21.07 percent, 17.54 percent, 17.52 percent and 10.19 percent of gross advances respectively, while manufacturing export trade, agriculture, forestry and fisheries, and miscellaneous sectors on the other hand accounted for 7.29 percent, 7.22 percent and 7.04 percent respectively. Financial Services, mining and quarrying, other trade and tourism and electricity, gas and water received only 3.61 percent, 2.20 percent, 1.69 percent and 0.96 percent respectively of gross advances as at end December, 2012.

The Industry's performing loans ratio increased to 77.35 percent of gross advances as at end December, 2012. Consequently, the ratio of non-performing loans to gross advances decreased from 15.08 percent at end December, 2011 to 14.85 percent at end December, 2012 (a reduction of 0.23%).

The profitability of the Commercial Banks was significantly enhanced during the period under review with unaudited post tax profit increasing by 31.32% from Le65.52 billion during the period ended December 2011 to Le86.05 billion during the period ended December, 2012. Five of the thirteen Commercial Banks recorded profits below Le5 billion totalling Le13.09 billion during the review period.

There was a slight decline of 0.02 percent in Return on Assets ratio in 2012 from 3.78% in December, 2011 to 3.76% in December 2012. Similarly, the increase in post tax profit affected the Return on Equity, as it recorded 17.56% in 2012 as against 15.59% percent in December 2011.

The statutory cash ratio requirement of 12% was adhered to with a surplus of 0.30 percent as at end December 2012. This was a decrease when compared to the surplus 1.86 percent recorded at end December 2011. The overall liquidity ratio requirement of the banking system was also achieved as the industry recorded actual liquidity ratio of 50.16 percent in 2012, representing an excess liquidity of 21.16 percent points when compared with the statutory minimum requirement of 30 percent.

7.3 Other Financial Institutions (OFI)

7.3.1 Community Banks

Community banks have been marred with numerous challenges, ranging from poor corporate governance and internal controls, paucity of qualified staff, remoteness of locations, lack of basic infrastructure, to weak information and communication technology. To compliment the efforts of the Bank of Sierra Leone, the International Fund for Agricultural Development (IFAD) supported the restructuring of the six (6) BSL-pioneered Community Banks and has established seven (7) Community Banks and forty two (42) Financial Services Association (FSAs).

Despite the drive to deepen financial outreach in the rural communities, the community-based institutions have not been able to meet regulatory prudential requirements such as capitalization, periodic reporting, liquidity and credit exposures etc, to mention a few. The Bank of Sierra Leone in collaboration with IFAD has organized workshops and created an email address as a way of improving on the compilation andsubmission of periodic returns to the Bank of Sierra Leone to facilitate offsite surveillance. Even so, the community banks continue to send delayed returns, some of which are incomplete and inaccurate.

Table 24

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

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

Notwithstanding the above, the Other Financial Institution Division, Banking Supervision Department, BSL, recorded the resource base of nine (9) Community Banks at Le22.46 billion as at 30th November 2012.

7.3.2 Discount Houses

There are only two discount houses in Sierra Leone; First Discount House and Capital Discount House. Their total resource base was Le23.37 billion as at 31st December, 2012.

7.3.3 Foreign Exchange Bureaux

As 31st December, 2012, Foreign Exchange Bureaux numbered thirty nine (39) in Sierra Leone.

TABLE 25

Consolidated Balance Sheet of Discount Houses
Balance Sheet as at 31st December 2012

	Consolidated System
ASSETS	***(Le'000)***
Cash: *Local*	*3,023.00*
Foreign	-
Claims On:	-
BSL	*313,502.00*
Other Banks	*6,614.00*
	110,347.00
	323,139
Loans/Repo	***1,814,345.00***
Investment:	-
Short-term:	-
Treasury Bills	*10,574,235.00*
Treasury Bearer Bonds	*479,293.00*
Commercial Paper	*60,000.00*
Long-term:	*394,339.00*
	11,507,867.00
Banker's Acceptances	-
Securities	-
Other Assets	*9,161,605.00*
Fixed Assets	*564,151.00*
Total Assets	***23,371,107.00***
	-
LIABILITIES	-
Placements/deposits	***4,242,711***
Borrowings	***2,000,000.00***
Other Liabilities	***10,339,523.00***
Shareholders' Funds:	-
Paid up Capital	*3,379,705.00*
Statutory Reserves	*1,437,956.00*
Other Reserves	*838,967.00*
Share Premium	*427,759.00*
Current Profits	*722,061.00*
Retained Profits	*(17,575.00)*
	6,788,873.00
Total Liabilities	***23,371,107.00***

Table 26

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

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	Monorma 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
Total Number of Bureau and Branches		**44**	**4**	**2**	**2**	**1**	**1**	**1**	**55**

7.3.4 Micro Finance Institutions (MFIs)

7.3.4.1 Deposit Taking Micro Finance Institutions

There were two licensed deposit-taking micro finance institutions in Sierra Leone as at 31st December, 2012 as follows: Ecobank Micro Finance Institution (EMSL Ltd) and Bank for Innovation and Partnership (BIP). They recorded a consolidated resource base of Le52.59 billion as at December, 2012. EMSL (SL) Ltd had a resource base of Le50.37 billion, while BIP had Le2.22 billion.

7.3.4.2 Credit-Only Microfinance Institutions

There are six (6) registered Credit Only Micro Finance Institutions in Sierra Leone.

Table 27

Credit-only Microfinance Institution with certificate issued by the Bank of Sierra Leone as at 31st December 2012		
Credit-only	**No. of Branches**	**Address**
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 Development and Microfinance Company Limited	1	350 Bai Bureh Road, Calaba
Grassroots Gender Empowerment Movement	2	57 John Street, Freetown
Deposit-Taking Microfinance Institutions with Certificate issued by the Bank of Sierra Leone as at 31st December, 2012		
Deposit-Taking	**No. of Branches**	**Address**
Ecobank Microfinance (SL) Ltd.	5	1 Rawdon Street, Freetown
Bank for International and Partnership (BIP)	1	1 Collegiate Road, Freetown

7.3.4.3 Mortgage and Savings Institutions

HFC Mortgage and Savings Company recorded a resource base of Le 78.66 billion as at end December, 2012.

A Workshop was organized by a Joint Initiative with Transnational Organized Crime Unit (TOCU), World Bank and Financial Intelligence Unit (FIU) to develop procedures for the freezing of the assets of terrorist and to identify stakeholders in the distribution of United Nations (UN) list for blacklisted terrorist.

A joint Workshop was organized to develop procedures in order to harmonize the relationship between various Law Enforcement Agencies (LEAs) deployed at the points of entry.

The FIU received funding from United Nation in support of a project for intelligence compendium on counter terrorism financing in Sierra Leone.

7.5 Credit Reference Bureau (CRB)

The Credit Reference Bureau (CRB) Unit continues to play a pivotal role in providing access to credit. The availability of reliable creditors' database has helped improve access to credit by the private sector. As at 31st December 2012, the CRB had issued six thousand and thirty two (6,032) reports on individuals and businesses.

The CRB has helped to increase lending, reduce the number of bad borrowers in the financial system, help in the recovery of loans and overdrafts already classified as loss by providing a report to commercial banks, after settlement of debts by default customer, in situations where a customer has been refused a loan, as a result of bad credit record.

The CRB has made tremendous progress and has moved 44 points to be ranked 83rd in the world. A major stride made by CRB was to be primarily responsible for Sierra Leone's recent ranking of 140 in the doing business 2013 index.

7.6 Improving Access to Finance

The Bank of Sierra Leone in 2012 signed the MAYA declaration on financial inclusion in which the Bank committed to scale up the access to financial services within specified timeframes.

In a bid to improve rural credit delivery and outreach, the Bank encouraged the development of Community Banks, FSAs and MFIs in various rural locations as a measure to monetize the informal financial sector and deliver services to the rural population at reduced costs. To this end, IFAD in partnership with the Bank, under the Rural Finance and Community Improvement Programme (RFCIP) in 2012, established three (3) Community Banks and twelve (12) Financial Services Associations (FSAs), in the rural areas, bringing the total number to thirteen (13) Community Banks and forty two (42) FSAs.

Consistent with the model approved by BSL, the Bank has also been monitoring IFAD's restructuring programme for distressed community banks in order to improve their performance and outreach. Plans are also well advanced to develop an apex institution, which would assist with first level supervision of the Community Banks and FSAs.

The Bank has also been monitoring and evaluating the performances of the community banks FSAs and MFIs to facilitate institutional sustainability and delivering of improved financial services which meet the needs of rural households and businesses.

8.0 Payments System Development in Sierra Leone

In 2012, the Bank of Sierra Leone continued with its strides towards the modernization of its payments, clearing and settlement systems, with the support of its development partners. This aims at improving the efficiency of financial intermediation, enhance the management of systemic risks, improve liquidity management and facilitate implementation of monetary policy and the general deepening of the financial sector.

The delivery and installation of both hardware and software equipment for all components (ACP/ACH, RTGS/SSS, CBA and Infrastructure Upgrade) were completed in 2012. Training (both technical and functional) was also completed in 2012. The period also witnessed remarkable progress in the construction of the Disaster Recovery Site. Work is ongoing to ensure completion of deliverables

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

The Bank of Sierra Leone together with other Central Banks continue to collaborate on a wide range of initiatives aimed at integrating payments systems, coordinating and harmonising monetary and exchange rate policies, building technical capacity in monetary policy formation and implementation and a regional approach to supervision and regulation in order to strengthen cross-border supervision and supervisory cooperation. Sierra Leone's performance under the WAMZ Convergence criteria was encouraging in the review period, with the country satisfying 2 out of 4 primary criteria (Central Bank Financing of Fiscal Deficit and months of import cover) and one secondary criterion (Public Investment from Domestic Receipts).

9.1 Primary Criteria

9.1.1 Inflation

Adverse inflationary pressures have remained subdued on the back of tight monetary policy stance, increased availability of locally produced food items in the market, stability in the exchange rate and stable international oil and world food prices. Against this background the country's year- on -year inflation has been on the decline since the start of 2012. The inflation outturn of 11.41 per cent realized in December 2012 compares favorably with 16.64 per cent recorded in December 2011. In the medium to long term, inflation developments in the domestic economy will remain inextricably bound to evolution in international oil prices, world food prices, the LE/US$ exchange rate and the level of aggregate demand in the economy.

9.1.2 Fiscal Deficit/GDP Ratio

This criterion has been difficult to meet since the inception of the WAMZ programme. However, in the review year the fiscal deficit (excluding grants) improved to 5.25 per cent of GDP from 14.20 per cent in December 2011. This improvement could be as a result of Government's fiscal operation which was strengthened during 2012, with improved performance in domestic revenue.

9.1.3 Central Bank Financing of Fiscal Deficit

Sierra Leone met the WAMZ criterion on central bank financing of fiscal deficit with the ratio declining from 15.93 per cent in December 2011 to 5.02 per cent in 2012. The improvement on this criterion stems from the effort of the Bank of Sierra Leone in ensuring that the statutory limit of financing of the budget was observed throughout 2012.

9.1.4 Gross External Reserves/Months of Import Cover

In the review period, the gross external reserves amounted to US$417.92mn, 10.91 per cent above US$376.79mn recorded in 2011. This represented 3 months of imports cover, exactly satisfying the WAMZ's threshold of 3 months of import cover. Gross reserves increased mainly on account of significant inflows realised from mining and agricultural sectors and donor inflows mainly from the World Bank.

9.2 Secondary Criteria

9.2.1 Tax Revenue/GDP Ratio

Tax revenue during the review period was 9.60 per cent of GDP compared to 12.13 per cent in 2011 which was below the benchmark of the convergence criteria (20.0 per cent of GDP). Despite the Government efforts in enhancing revenue mobilisation and rationalising public expenditure, the criterion

continued to pose a challenge for the authorities in the area of fiscal overruns stemming from the scaling up of government development projects.

9.2.2 Salary Mass/Total Tax Revenue

The wage burden (salary mass) in terms of tax revenue was 60.46 per cent during the review period compared to 58.57 per cent in 2011, which was far above the WAMZ's benchmark of 35%.

9.2.3 Public Investment from Domestic Receipts

Sierra Leone met the criterion relating to public investment financed from domestic resources, which stood at 29.99 per cent. Public investment financed from domestic resources was 27.95 per cent in 2011. The sustained performance of this criterion was due to the government's prioritization of capital expenditure to address the infrastructural deficit.

Table 28

Status of Convergence

(Primary Criteria)					
Criteria	**Target**	**2009**	**2010**	**2011**	**2012**
Inflation (end period)	Single digit	12.22%	17.84%	16.64%	11.41%
Fiscal Deficit/GDP% (excl. grants)	Less than or equal to 4%	9.88%	12.50%	14.20%	5.20%
Central Bank Financing/ Previous years tax revenue	Less than or equal to 10%	18.70%	27.90%	15.93%	5.02%
Gross External Reserves (Months of imports)	Greater than or equal to 3 months	5.8	4.5	3.0	3.0
(Secondary Criteria)					
Criteria	**Target**	**2009**	**2010**	**2011**	**2012**
Domestic Arrears	0	n.a	n.a	n.a	n.a
Tax revenue/GDP ratio	Greater than or equal to 20%	9.8%	10.3%	12.13%	9.60%
Salary Mass/Total Tax revenue	Less than or equal to 35%	64.5%	60.92%	58.57%	60.46%
Public Investment from Domestic receipts	Greater than or equal to 20%	16.51%	14.38%	27.95%	29.99%
Real Interest Rate	Greater than 0	-5.97%	-11.59%	-10.14%	-4.91%
Exchange rate	Stable +/-15%	15.77%	33.55%	41.45%	40.85%

9.2.4 Real Interest Rate

Real Interest Rate remained negative 4.91 per cent in the review year. This was an improvement from the -10.14 per cent observed in 2011, partly due to a drop in the inflation rate in the review year. Inflation was 16.64 per cent in December 2011, but dropped to 11.41 per cent in 2012 as against a sticky savings rate of 6.5 percent. .

9.2.5 Nominal Exchange Rate Stability

The exchange rate of the Leone depreciated against the central parity rate under the ERM by 40.85 per cent, thus missing the criterion of +/- 15.0 percent. Despite the fact that the criterion was not met, the exchange rate has remained relatively stable during the review period.

10.0 Human Resources Developments

10.1 Staff Strength

The Staff strength of the Bank of Sierra Leone as at end December 2012 was 475, reflecting a decrease of 4.8% from 497 as at end December 2011. The variance was recorded in the Management/Professional, Sub-Professional and Other cadres. Management staff recorded a decrease of 1 from 6 as at end December 2011 to 5 in December 2012. This was due to the retirement of 1 Head of Department.

Staff strength in the Professional cadre increased by 2 on average due to new recruitment and promotions within this category during the year. Staff in the Sub-Professional cadre decreased by 12, from 116 in 2011 to 104 in 2012. The decrease was due to severance of staff members within this cadre. Staff strength in the Other cadres decreased by 7 from 117 in 2011 to 110 in 2012. This was also as a result of the severance of staff.

The total male staff strength amounted to 337 as at end December 2012. Of this, 6 were Fixed Term Employees. The proportion of male staff including Fixed Term Employees to total staff strength was recorded at 70.9% as at end December 2012.

Chart 12
Breakdown of Staff per Category as at end 2012

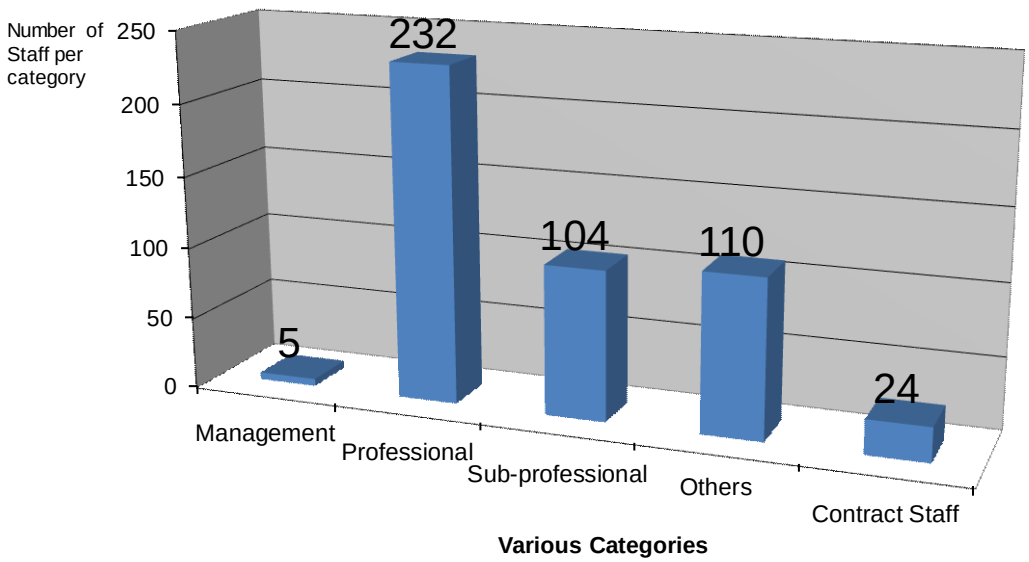


Table 29

Category of Staff by Gender (%) - 2012

CATEGORY	Total	Male (%)	Female (%)
Fixed Term Employees	**24**	**25**	**75**
Total Permanent Staff	**451**	**73**	**27**
of which:			
Management	*5*	*80*	*20*
Professional	*232*	*64*	*36*
Sub-Professional	*104*	*68*	*32*
*General Services Staff***	*110*	*97*	*3*
Total	**475**		

*** Drivers, cook/stewards, Barman Waiter, Office Assistant, Gardener, Watchman, Handyman, Lift Operator, Technician, Carpenter & Cleaner*

Total female staff as at end December 2012 was 138. Out of this, 18 were Fixed Term Employees. The proportion of female staff to total staff strength including Fixed term Employees was recorded at 29.1% in December 2012.

10.2 Severance

A total of 35 members of staff severed from the service of the Bank as shown below:

Table 30

Staff Movement as at Dec. 2011 & Dec. 2012

CATEGORY	2011	2012
Recruitment	6	17
Contract	-	1
Resignation	7	10
Vacated	-	4
Dismissal	-	-
Deceased	4	4
Termination	3	1
Retirement	11	16
Voluntary Retirement	-	2
Retirement on Medical Grounds	3	1
End of Contract	1	-

Resignation	-	10
Retirement	-	16
Termination	-	1
Deceased	-	4
Retirement on Medical Grounds	-	1
Position declared vacant	-	1
Voluntary Retirement	-	2
Total	-	35

Table 31

Training Programmes - 2012

Department	Overseas Programmes	Participants	Local Programmes	Participants
Accounts & Budget	6	8	-	-
Banking	3	7	1	1
Banking Supervision	17	20	1	2
Financial Markets	10	11	3	7
General Services	3	4	1	1
Governor's Office	1	1	-	-
Human Resources	4	3	1	2
Internal Audit	2	2	-	-
Mgt. Info. Systems	2	2	-	-
Research	15	12	2	3
Secretary's	1	1	1	1
Total	**64**	**71**	**10**	**17**

10.3 Training

In its efforts to continue building capacity in 2012, the Bank provided both local and overseas training opportunities to enhance the skills and knowledge of staff in various disciplines so as to adequately equip them to perform their duties effectively.

The Bank has been proactive to meet current/future challenges and action was taken to capacitate staff in operational departments in order to promote the Bank's capacity to implement its mandate. Consequently, staff in the Banking Supervision, Financial Markets and Research Departments benefitted mostly from training programmes.

It is worth noting that staff in the General Services, Human Resources, Accounts & Budget and Banking Departments benefitted from training programmes that were sponsored by the World Bank under the Financial Sector Development Plan (FSDP).

The Bank participated in several short courses overseas which were mostly organized by the West African Institute for Financial and Economic Management (WAIFEM), in collaboration with their partner institutions including the Commonwealth Secretariat, International Monetary Fund (IMF), United Nations Economic Commission for Africa (UNECA) and the Africa Capacity Building Foundation (ACBF).

In 2012, 17 staff benefitted from various training programmes organized locally and 71 from overseas training programmes.

11.0 Board Matters

11.1 Directors of the Board

The Board of Directors consists of the Governor (Chairman), Deputy Governor and five Non-Executive Directors, all of whom are appointed by the President pursuant to the provisions of the Bank of Sierra Leone Act 2011.

The Governor and Deputy Governor are appointed for a term of five (5) years and shall be eligible for re-appointment for another term of five (5) years only. The Non-Executive Directors are appointed for a term of three (3) years and shall be eligible for re-appointment for another term of three (3) years only. Under the Bank of Sierra Leone Act 2011, the responsibilities of the Board of Directors are to manage the affairs of the Bank other than the formulation of monetary policy. This include, among others, determining the general policies of the Bank, ensuring the effective discharge of its function and efficient utilization of its resources.

The Governor participated in a meeting of the World Bank International Development Association (IDA) 16 replenishment in the capacity of Alternate Borrower Representative and co-chaired with Australia in the working group on Development Effectiveness of IDA 16.

The Members of the Board of Directors met four times during the year under review to consider various reports related to the operations of the Bank

Meeting		Date
480th	-	May 17, 2012
481st	-	September 18, 2012
Special Board	-	December 4, 2012
482nd	-	December 17, 2012

Committees of the Board

In accordance with the Bank of Sierra Leone Act 2011, the following are Committees of the Board:

- Audit Committee (Statutory Committee)
- Project Monitoring Committee

- **Audit Committee**

The Members of the Audit Committee comprise of Non-Executive Board Members and one Financial Expert from outside the Bank, who has competence in Accounting and/or Auditing. Other Members with no voting rights are co-opted from among staff of the Bank. The Audit Committee is responsible to assist the Board in ensuring effective functioning of the controls systems of the Bank, conforming with financial reporting standards, managing risks and reviewing procedures.

The Audit Committee of the Board met 6 (six) times during the year under review as follows:

May 16, 2012
June 28, 2012
August 1, 2012
November 6, 2012
December 13, 2012 (Presentation of 2013 Budget)
December 28, 2012

- **Project Monitoring Committee**

The main function of the Project Monitoring Committee of the Board is to supervise and monitor the contract cycles and progress of all projects undertaken by, or for and on behalf of the Bank.

Pension Fund

The Bank has dissolved its Pension Fund and made alternative arrangements for the migration of all staff to the National Pension Trust fund managed by the National Social Security and Insurance Trust (NASSIT) Company.

Legislative changes relevant to the Bank

The year 2012, the following legislation was enacted:

The Anti-Money Laundering and Combating of Financing of Terrorism Act, 2012

Bank of Sierra Leone Charity Trust Fund

The Charity Trust Fund was established by the Bank of Sierra Leone on 1st August 2005. It is intended to serve deserving students who achieve academic excellence in the pursuit of their academic/scholastic endeavours at the Secondary School level. The Charity is managed by an independent Board of distinguished members in their chosen profession, who act as Trustees of the Fund.

The Board of Trustees currently comprises the following members:

Profession J.A.S. Redwood-Sawyerr	-	Chairman
Mr. A. Conteh	-	Member
Dr. Christian Thorpe	-	Member
Mr M. I. Amara	-	Member
Mr Tom Lee	-	Member

Note

The Board, which was established on 4th August 2005, was inaugurated on 6th August 2005 with the following main responsibilities, among others:

- To promote the advancement of education in Sierra Leone.
- To support and subscribe to any charitable or public object and any institution or society for the promotion of education in Sierra Leone.

Bank of Sierra Leone Financial Statements
for the year ended 31 December 2012

THE BANK'S FINANCIAL POSITION AND OPERATING RESULTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2012

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 2010 figures were restated in the FY 2011 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 both IAS 21-The Effect of Changes in Foreign Exchange Rates and IAS 19-Employee Benefits, both of which were first fully complied with in the FY 2011 Accounts as shown below:

in thousands of leones	2011	Restated 2010	Original 2010	
Interest and similar income	**86,072,286**	66,136,705	66,136,705	
Interest expenses and similar charges	**(3,057,307)**	(2,165,179)	(2,165,179)	
Net interest income	**83,014,979**	63,971,526	63,971,526	
Fees and commission income				
Fees and commission expense	**29,802**	31,815	31,815	
Net fee and commission income	**29,802**	31,815	31,815	
Net exchange (loss)/gain	**(72,940,987)**	288,627,979	1,950,742	**Impact of IAS 21**
Other income	**834,597**	2,424,968	2,424,968	
Operating income	**10,938,391**	**355,056,288**	**68,379,051**	
Impairment loss on loans and advances	**(38,898)**	(7,902)	(7,902)	
Personnel expense	**(36,510,497)**	(40,301,788)	(33,576,707)	**Impact of IAS 19**
Currency	**(5,454,691)**	(36,536,574)	(36,536,574)	
Depreciation and amortisation	**(3,096,857)**	(2,405,829)	(2,405,829)	
Other expenses	**(17,443,005)**	(19,196,724)	(19,196,724)	
(Loss)/profit for the year	**(51,605,557)**	256,607,471	(23,344,685)	

The effect of this restatement was that the Operational Profit of SLL 25.33 billion made in FY 2011 was restated into a financial reporting loss of SLL 51.61 billion whilst the Operational Loss of SLL 23.34 billion made in FY 2010 was restated into a financial reporting profit of SLL 256.61 billion. Please see an analysis of this below:

(all figures in thousands of leones)	**2011**	**2010**
Profit/(Loss) as per Audited Accounts	**(51,605,557)**	**256,607,471**
Less:		
Unrealised Revaluation (Losses)/Gains	(76,932,519)	286,677,237
Prior Period effect of IAS 19 - Employee benefits		(6,725,081)
Operational Profit/(Loss) for the year as per Management Accounts	**25,326,962**	**(23,344,685)**

In the same vein, the same reconciliation was done in respect of the FY 2012 accounts and this is shown below:

(all figures in thousands of leones)	**2012**	**2011**
Profit/(Loss) as per Audited Accounts	**19,548,285**	**(51,605,557)**
Less Revaluation Gains	(165,003,187)	-
Add Revaluation Losses	121,482,949	76,932,519
Operational Profit/(Loss) for the year as per Management Accounts	**(23,971,953)**	**25,326,963**

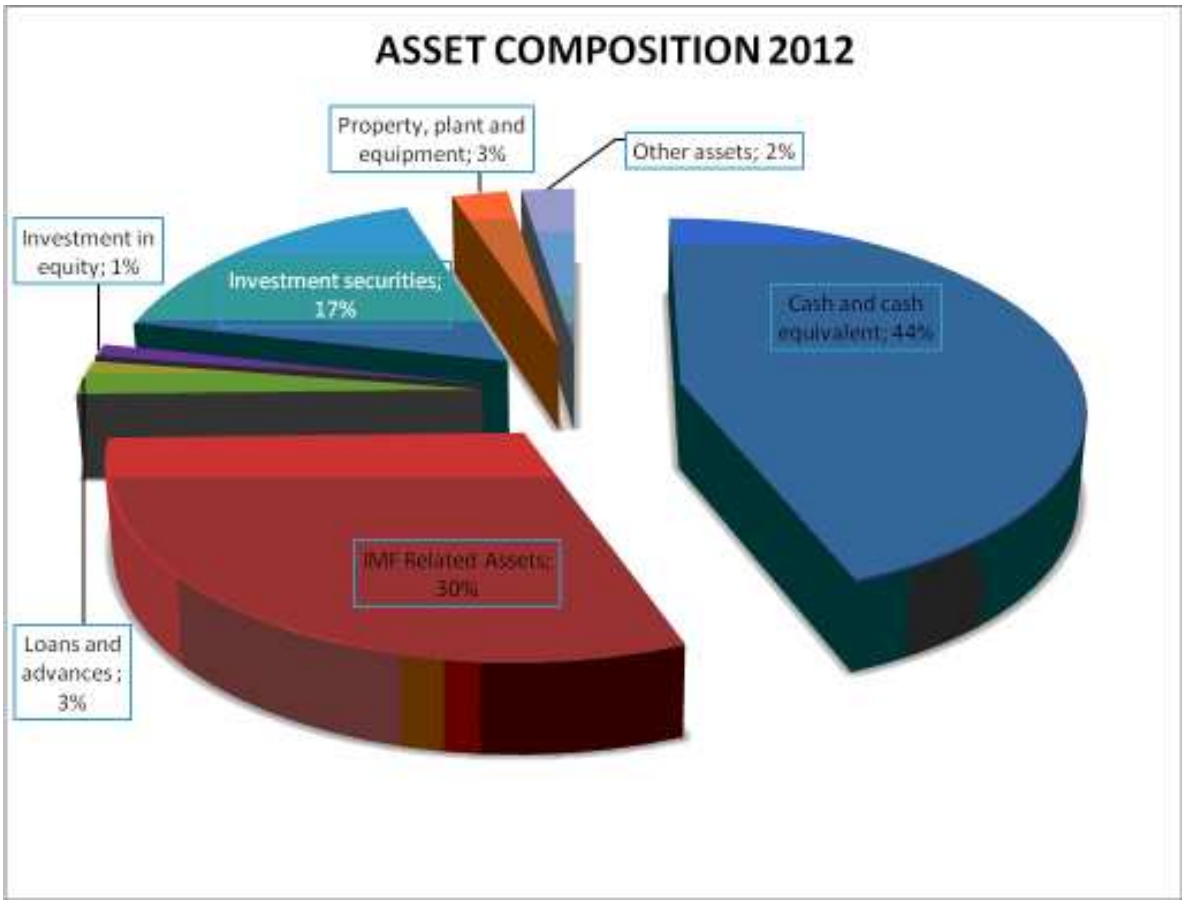
1. STATEMENT OF FINANCIAL POSITION

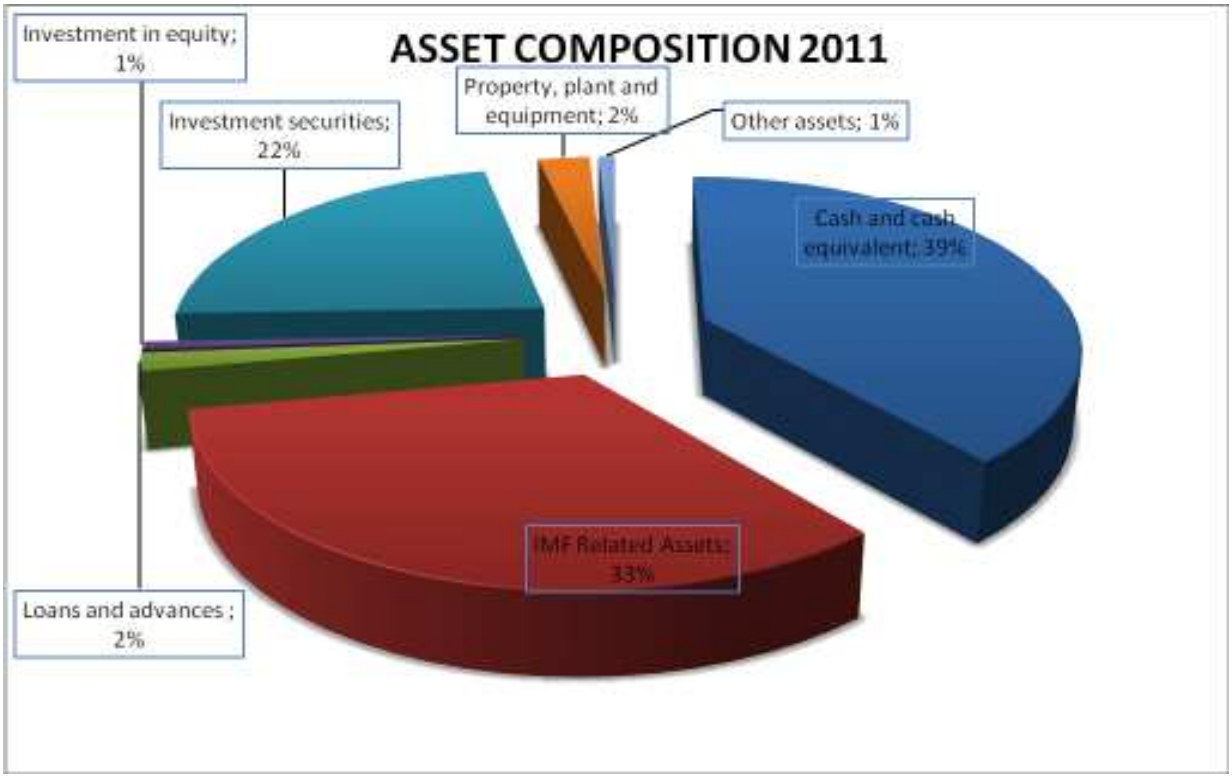
The Bank's overall financial performance improved with total assets increasing by 8% from SLL2.24 trillion in 2011 to SLL2.42 trillion as at 31st December, 2012 i.e. an increase of SLL 181 million.

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

in thousands of leones

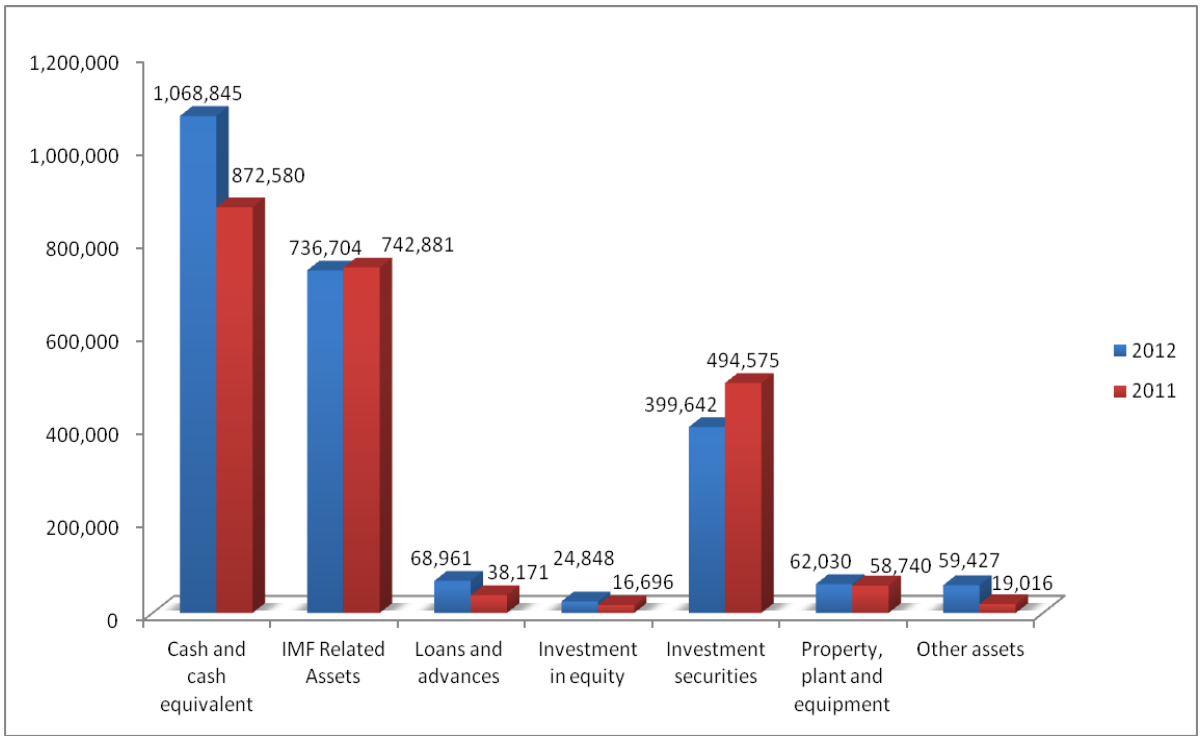
Assets	**2012**	**2011**	**Change**	**Change %**
Cash and cash equivalent	1,068,845,369	872,579,690	196,265,679	22%
IMF Related Assets	736,703,908	742,880,838	(6,176,930)	-1%
Loans and advances	68,960,690	38,170,636	30,790,054	81%
Investment in equity	24,848,467	16,696,261	8,152,206	49%
Investment securities	399,641,657	494,574,547	(94,932,891)	-19%
Property, plant and equipment	62,029,728	58,739,776	6,933,191	12%
Other assets	59,427,380	19,016,124	40,411,256	213%
Total assets	**2,420,457,199**	**2,242,657,873**	**181,442,565**	**8%**
Liabilities				
Current liabilities				
IMF Related Liabilities	1,187,561,829	1,195,774,358	(8,212,529)	-1%
Deposit from Government	25,058,305	15,489,277	9,569,028	62%
Deposits from banks	96,145,591	112,532,271	(16,386,680)	-15%
Deposit from others	19,077,333	38,948,083	(19,870,750)	-51%
Other liabilities	975,357,252	792,448,061	182,909,191	23%
End of service benefit	13,205,066	9,967,414	3,237,652	32%
Total current liabilities	**2,316,405,375**	**2,165,159,464**	**151,245,911**	**7%**


ASSET COMPOSITION 2012
Property, plant and equipment; 3%
Other assets; 2%
Investment in equity; 1%
Investment securities; 17%
Cash and cash equivalent; 44%
IMF Related Assets; 30%
Loans and advances ; 3%


ASSET COMPOSITION 2011
Investment in equity; 1%
Property, plant and equipment; 2%
Investment securities; 22%
Other assets; 1%
Cash and cash equivalent; 39%
IMF Related Assets; 33%
Loans and advances ; 2%

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 which contributed the most to total assets increased by 22% from SLL872.58 billion in 2011 to SLL1,068.85 billion in 2012. This increase can be attributed in the main to net receipts of foreign exchange by Government of approx. $40M 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 SLL742.88 billion in 2011 to SLL736.70 billion in 2012. Also the Bank's Foreign Investments in Equity increased by 49% from SLL 16.70 billion in 2011 to SLL 24.85 billion in 2012. This increase was as a result of the purchase of an additional 170 (one hundred and seventy) shares in Afreximbank through a rights issue, which if not taken up, would have led to a dilution of the Bank's Shareholding.

Loans and Advances increased significantly by 81% due to increases in Ways and Means Advances to Government of SLL21.23 billion (an increase of 79% over the last year) and Reverse Repo balance of SLL 7.80 billion (an increase of 100% over the last year). Staff Loans reduced slightly by 3% from SLL4.19 billion to SLL4.06 billion as at end December, 2012.

The Bank's Investment Securities decreased by 19% from SLL494.57 billion in 2011 to SLL399.64 billion in 2012. This decrease was mainly driven by the need to offload securities in order to mop up liquidity through Open Market Operations (OMO). The 5-year Medium Term Bonds remained the same reflecting the non conversion of Non-Negotiable, Non-interest Bearing Securities.

The total value of Other Assets (that is Non-Financial Assets including the value of gold stock and inventory items) increased by 213% from SLL19.06 billion in 2011 to SLL59.03 billion in 2012 mainly due to a sharp increase in Deferred Currency Issue Expenses (from SLL1.09 billion in 2011 to SLL24.26 billion in 2012). 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 2013.

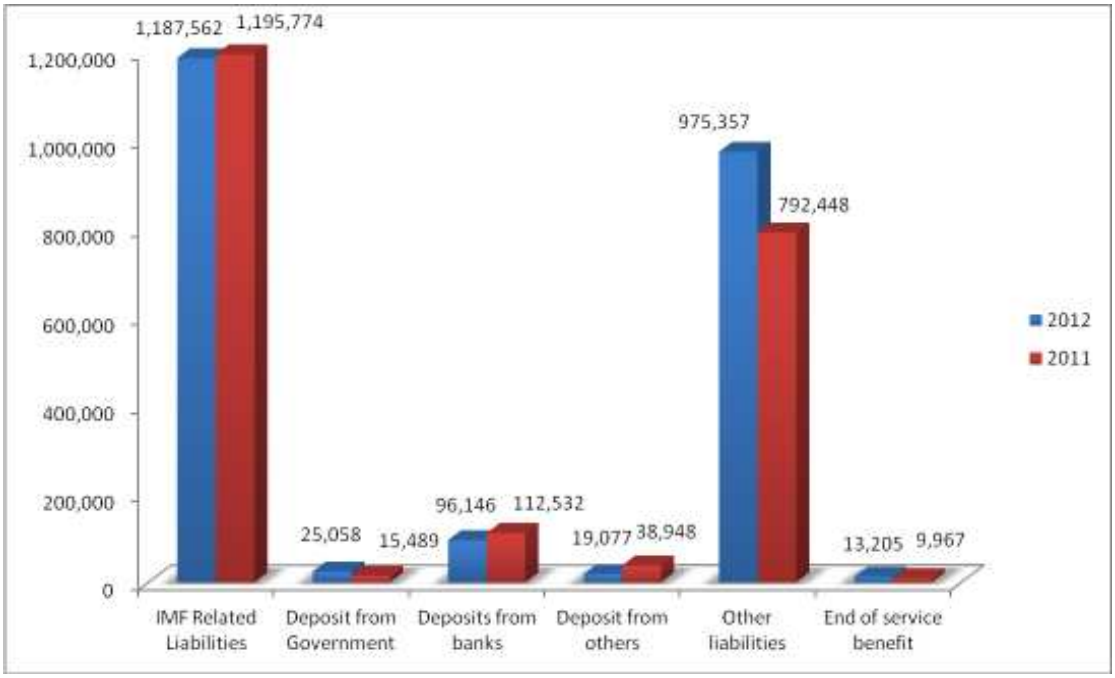
Deferred Currency Issue Expenses decreased significantly from SLL6.46 billion in 2011 to SLL 1.09 billion in 2012 as a result of a depletion of stock of notes in the vaults because of huge capital expenditures in the economy which led to an increase in the currency in circulation.

Gold Stock increased marginally by 5% from SLL612.20 million as at 31st December, 2011 to SLL645.68 million in 2012. This increase was as a result of revaluation due to the increase in the fair value of Gold in the World Markets.

The Bank's Property, Plant and Equipment increased slightly by 12% from SLL58.74 billion in 2011 to SLL62.03 billion in 2012 as a result of the new projects initiated during the year(Repairs to the Broad Walk, Disaster Recovery Site for the WAMZ Payments System, Fencing of Land at Makeni 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 7% from SLL2.16 trillion in 2011 to SLL 2.32 trillion in 2012.

IMF Special Drawing Rights (SDRs) Allocation decreased marginally by 1% from SLL1.20 trillion in 2011 to SLL1.19 trillion in 2012. 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 28% mainly due to an increase in Currency in Circulation from SLL707.61 billion as at 2011 to SLL903.05 billion in 2012. This was due to the issue of new currency during the year to alleviate the shortage of currency which arose as a result of the General Elections held in November 2012.

Deposits from Commercial and Community Banks decreased by 15% from SLL112.53 in 2011 to SLL96.15 billion in 2012. This reflects the tight liquidity experienced in the economy during the year. Accrued Charges and Other Liabilities decreased by 11% as a result of stricter budget control during the year. Government Deposits increased sharply by 62% from SLL15.49 billion in 2011 to SLL25.06 billion in 2012. This was mainly driven by Petroleum Unit Fund Receipts in respect of signature bonuses as mirrored in the increase in the Foreign Exchange Reserves that are a part of Cash and Cash Equivalents.

Reserves

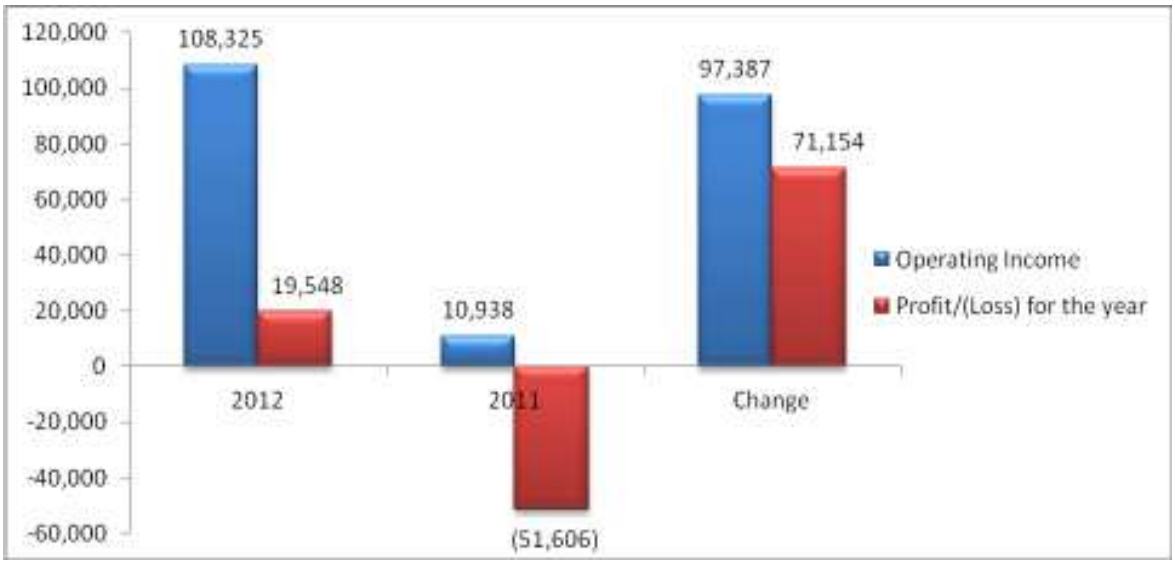
Total Reserves increased by 34% during the period from net total positive reserves of SLL77.50 billion in 2011 to net total positive reserves of SLL104.05 billion in 2012. This favorable position resulted mainly from the recognition of net revaluation gains in the Statement of Comprehensive Income instead of the Revaluation Reserves in compliance with IAS 21-The Effect of Changes in Foreign Exchange Rates.

2. STATEMENT OF COMPREHENSIVE INCOME

Operating Income

Total net operating income amounting to SLL108.33 billion represented a sharp increase from the amount of SLL10.94 billion generated in 2011.It is worthy of note that SLL44.53 billion of net operating income relates to net unrealized revaluation gains. Also the Net Operating Profit of SLL19.55 billion is a marked contrast from the net loss of SLL 51.61 billion in 2011. This is depicted in the table and graph below:

Description	2012	2011	Change	Percentage Change
Net Operating Income	108,325	10,938	97,387	890%
Profit /(Loss) for the year	19,548	(51,606)	71,154	138%



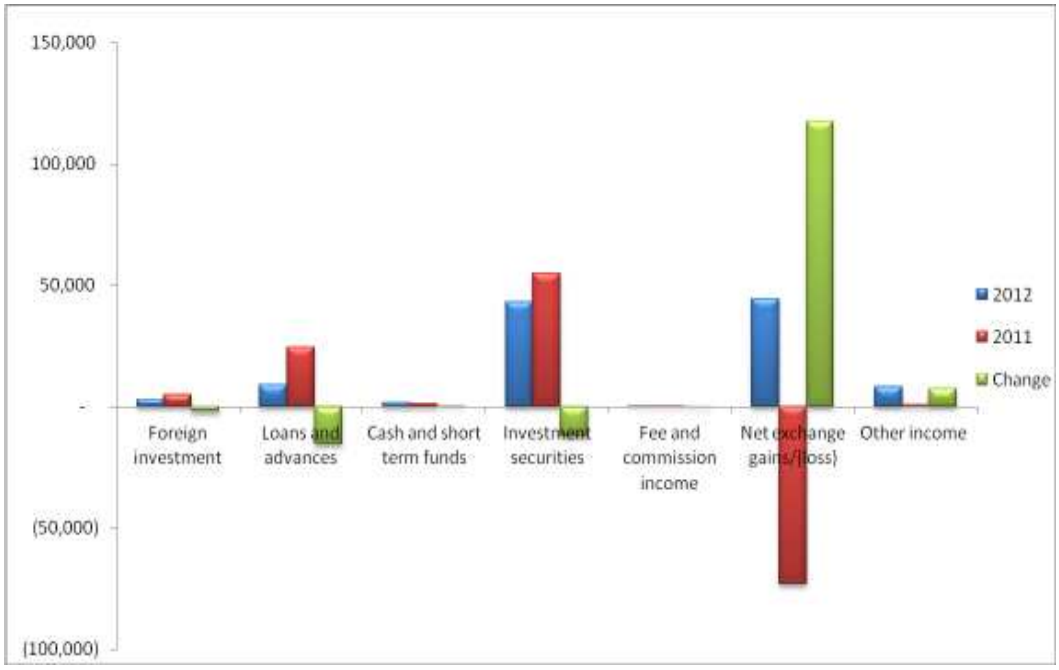
Net Interest income decreased by 33% from SLL83.01 billion in 2011 to SLL55.67 billion in 2012. The unfavorable performance of this income line was largely attributed to reductions in income from foreign investments (42%) and income from Investment Securities (22%).

The former was due to the continued poor performance of the Euro Zone where the majority of the foreign reserves are invested and the latter is due to 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 SLL43.05 billion reduced by 22%, it was the second highest contributor to total income at 39%. The major contributor to Net Operating Income was net revaluation gains of SLL44.53 billion at 41% and this was mainly due to the strengthening of the Leone over the review period.

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

All figures in SLL M Description	2012	2011	Change	% Change
Foreign investment	2,891	4,949	-2,058	-42%
Loans and advances	9,140	24,640	-15,500	-63%
Cash and short term funds	1,522	1,494	28	2%
Investment securities	43,048	54,989	-11,940	-22%
Fee and commission income	20	30	-10	-34%
Net exchange gains/(loss)	44,526	(72,941)	117,467	161%



Operating Expenses

Total operating expenses increased by 42 % from SLL62.54 billion in 2011 to SLL88.78 billion in 2012. Personnel costs amounting to SLL40.42 billion was the major item of expenditure during the period, accounting for 46% (2011: 58%) of total operating expenses although it increased by 11% over the amount spent in 2011.

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 2011 whilst Depreciation increased by 18% as a result of new vehicles and computers donated to the Bank by IFAD. SLL55.71 million was provided to cover impairment losses on loans and advances to Community Banks.

Currency costs increased sharply from SLL5.45 billion in 2011 to SLL26.04 billion in 2012. This was due to the issue of new currency to alleviate the shortage of notes during the year as a result of the increased activity in the economy.

3. Financial Reporting Profit

The Net Financial Reporting Profit of SLL19.55 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. Equity

Total equity increased from SLL77.50 billion in 2011 to SLL104.05 billion in 2012 due to an increase in the total profit (net of revaluation gains and losses) realized for the year.

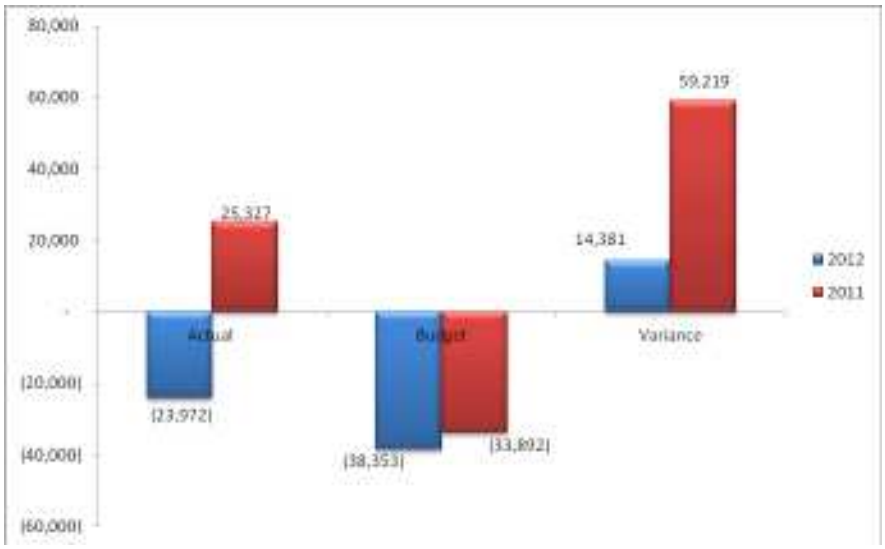
5. Budget Performance for the year 2012

For the period under review, projected total income was SLL60 billion and expenditure was SLL98 billion, with a resultant projected deficit of SLL38 billion.

In actual terms however, a net operating loss of SLL24 billion (financial reporting p rofit: 19.55 billion) was incurred which was 37% lower than the projected operating loss of SLL38 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, 2012						
FY2012 Actual SLL'M	FY 2012 Budget SLL'M	FY 2011 Actual SLL'M	Variance on Budget SLL'M	Year on Year Actual Variance	% Variance on Budget	%Year on Year Actual Variance 2
(23,972)	(38,353)	25,327	14,381	(63,680)	37%	(251)%



General information

Board of Directors	:	Mr. Sheku S. Sesay	-	Governor
		Ms. Andrina R. Coker	-	Deputy Governor
		Dr Sandy A. Bockarie		
		Mr. Dalton F. Shears		
		Mr. Harold Hanciles		
		Mrs. Marian Kamara		
		Mr. Sorie N. Dumbuya		
Registered Office	:	30 Siaka Stevens Street Freetown		
Solicitor	:	Renner-Thomas & Co. Adele Chambers 15 Lamina Sankoh Street Freetown		
Acting Secretary to the Board	:	Mr. Sheik R. Kamara		
Auditors	:	KPMG Chartered Accountants Bicentenary House 17 Wallace Johnson 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 2012.

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 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.

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 2012 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.

Share capital

Details of the Bank's share capital are shown in note 28 to these financial statements.

Results for the year

Profit for the year was Le 19.5 billion. (2011: loss of Le 51.6 billion).

Audit Committee

The Audit Committee comprising Non-Executive Directors and one Technical Expert is responsible for oversight function over the audit mechanism, internal control system and financial reporting system. The Audit committee meets quarterly to review and monitor the implementation of recommendations in the internal audit reports, external auditors' management letters 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, review exchange control regulations relating to capital account transactions, monitor 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 the Board of Directors.

Property and Equipment

Details of the Bank's property and equipment are shown in notes 20 to these financial statements.

Employment of disabled people

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

Health, safety and welfare at work

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

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 staffs are appraised and promotions and /or increments are made.

Directors and their interest

The following were directors of the Bank as at 31 December 2012:

Mr. Sheku S. Sesay	-	Governor/Chairman	(appointed	1 July 2009)
Ms. Andrina R. Coker	-	Deputy Governor	(appointed	6 October 2008)
Dr Sandy A. Bockarie	-	Director	(re-appointed	22 April, 2011)
Mr. Dalton F. Shears	-	Director	(re-appointed	22 April 2011)
Mr. Harold Hanciles	-	Director	(re-appointed	22 April 2011)
Mrs. Marian Kamara	-	Director	(re-appointed	29 April,2011)
Mr. Sorie N. Dumbuya	-	Director	(appointed	7 June 2011)

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.

Auditors

The auditors have expressed their willingness to remain in office.

The auditors, KPMG were appointed by the Auditor-General on 29 December 2010 to conduct the audit of the financial statements for the year ended 31 December 2012.

Approval of the financial statements

The financial statements were approved by the board of directors on .....12th April.....2013

....

....
Deputy Governor

....
Director **Director**

.....
Secretary

KPMG Sierra Leone
Bicentenary House
17 Wallace Johnson Street
Freetown
Sierra Leone

Telephone: 232-22-222061/2
Telefax: 232-22-228149
Email: kpmg@kpmg-sl.com

Independent auditor's report to the Government of Sierra Leone

We have audited the accompanying financial statements of Bank of Sierra Leone which comprise the statement of financial position as at 31 December 2012, 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, as set out on pages 8 to 63.

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.

12 April 2013

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 statement give a true and fair view of the financial position of Bank of Sierra Leone as at 31 December 2012, 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:

Statement of financial position

as at 31 December

In thousands of Leones	**Note**	**2012**	2011
Assets			
Cash and cash equivalents	*15*	**1,068,845,369**	872,579,690
International Monetary Fund Related Asset	*16*	**736,703,908**	742,880,838
Loans and advances	*17*	**68,853,693**	38,101,206
Investment in equity	*18*	**24,848,467**	16,696,261
Investment securities	*19*	**399,641,658**	494,574, 547
Property, plant and equipment	*20*	**62,029,728**	58,739,776
Other assets	*21*	**59,534,377**	19,085,555
Total assets		**2,420,457,200**	2,242,657,873
Liabilities			
International Monetary Fund Special Drawing Rights allocation	*22*	**1,187,561,829**	1,195,774,358
Deposits from Government	*23*	**25,058,305**	15,489,277
Deposits from Banks	*24*	**96,145,592**	112,532,271
Deposits from others	*25*	**19,077,333**	38,948,083
Other liabilities	*26*	**975,357,252**	792,448,061
End of service benefit	*27*	**13,205,066**	9,967,414
Total liabilities		**2,316,405,377**	2,165,159,464
Equity			
Share capital	*28*	**50,000,000**	50,000,000
General reserve	*29(a)*	**21,258,904**	(5,294,510)
Other reserves	*29(b)*	**32,792,919**	32,792,919
Total equity attributable to equity holders of the Bank		**104,051,823**	77,498,409
Total liabilities and equity		**2,420,457,200**	2,242,657,873

These financial statements were approved by the Board of Directors on 2013

.....) **Governor**
)
.....) **Deputy Governor**
)
.....) **Directors**
)
.....)

The notes on pages 14 to 63 are an integral part of these financial statements

Statement of comprehensive income

for the year ended 31 December

In thousands of Leones	**Note**	**2012**	2011
Interest and similar income	*7*	**56,601,728**	86,072,286
Interest expenses and similar charges	*7*	**(927,888)**	(3,057,307)
Net interest income		**55,673,840**	83,014,979
Fees and commission income	*8*	**19,560**	29,802
Fees and commission expense	*8*	-	-
Net fee and commission income		**19,560**	29,802
Net exchange gain/(loss)	*9*	**44,525,696**	(72,940,987)
Other income	*10*	**8,106,060**	834,597
Operating income		**108,325,156**	10,938,391
Impairment loss on loans and advances	*17(a)*	**(55,710)**	(38,898)
Personnel expense	*11*	**(40,415,750)**	(36,510,497)
Currency	*12*	**(26,043,527)**	(5,454,691)
Depreciation and amortisation	*20*	**(3,643,239)**	(3,096,857)
Other expenses	*13*	**(18,618,646)**	(17,443,005)
Profit /(loss) for the year	*14*	**19,548,284**	(51,605,557)
Other comprehensive income			
Fair value reserve (non negotiable non interest bearing securities):			
Net change in fair value		-	-
Net amount transferred to profit or loss		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**19,548,284**	(51,605,557)

The notes on pages 14 to 63 are an integral part of these financial statements

Statement of comprehensive income *(continued)*

In thousands of Leones	**Note**	**2012**	2011
Profit attributable to:			
Equity holders of the Bank		**19,548,284**	(51,605,557)
Profit for the year		**19,548,284**	**(51,605,557)**
Total comprehensive income attributable to:			
Equity holders of the Bank		**19,548,284**	(51,605,557)
Total comprehensive income for the year		**19,548,284**	(51,605,557)

These financial statements were approved by the Board of Directors on...12th April...2013

.....) **Governor**

.....) **Deputy Governor**

.....) **Directors**

.....)

The notes on pages 14 to 63 are an integral part of these financial statements

Statement of changes in equity

for the year ended 31 December 2012

In thousands of Leones	Share capital	Restated Foreign exchange reserve	Property revaluation reserve	Restated General reserve	Other reserve	Total
Balance at 1 January 2011	50,000,000	-	32,792,919	42,918,947	-	**125,711,866**
Total comprehensive income for the year (restated)						
Net loss for the year	-	-	-	(51,605,557)	-	**(51,605,557)**
Revaluation gain for the year	-	-	-	-	-	-
Profit on sale of marketable securities	-	-	-	3,392,100	-	**3,392,100**
Securities for prior year losses	-	-	-	-	-	-
Other comprehensive income						
Fair value reserve (non interest bearing securities)	-	-	-	-	-	-
Net change in fair value	-	-	-	-	-	-
Net amount transferred to profit or loss	-	-	-	-	-	-
Total other comprehensive income for the year	-	-	-	-	-	-
Other transfers						
Transfer to foreign exchange reserve	-	-	-	-	-	-
Total transfers	-	-	-	-	-	-
Total comprehensive income and other transfers	-	-	-	**(48,213,457)**	-	**(48,213,182)**
Paid up capital	-	-	-	-	-	-
Deposit for shares	-	-	-	-	-	-
Total contribution by and distributors owners	-	-	-	-	-	-
Balance at 31 December 2011	**50,000,000**	-	**32,792,919**	**(5,294,510)**	-	**77,498,409**

The notes on pages 14 to 63 are in integral part of these financial statements

Statement of changes in equity (continued)

for the year ended 31 December 2012

In thousands of Leones	Share capital	Restated Foreign exchange reserve	Property revaluation reserve	Restated General reserve	Other reserve	Total
Balance at 1 January 2012	50,000,000	-	32,792,919	(5,294,510)	-	77,498,409
Prior year adjustments	-	-	-	7,452	-	7,452
Total comprehensive income for the year (restated)						
Net loss for the year	-	-	-	19,548,284	-	19,548,284
Revaluation gain for the year	-	-	-	-	-	-
Profit on sale of marketable securities	-	-	-	6,997,678	-	6,997,678
Securities for prior year losses	-	-				
Other comprehensive income						
Fair value reserve (non interest bearing securities)	-	-	-	-	-	-
Net change in fair value	-	-	-	-	-	-
Net amount transferred to profit or loss	-	-	-	-	-	-
Total other comprehensive income for the year	-	-	-	-	-	-
Other transfers						
Transfer to foreign exchange reserve	-	-	-	-	-	-
Total transfers	-	-	-	-	-	-
Total comprehensive income and other transfers	-	-	-	**26,545,962**	-	**26,545,962**
Paid up capital	-	-	-	-	-	-
Deposit for shares	-	-	-	-	-	-
Total contribution by and distributors owners `	-	-	-	-	-	-
Balance at 31 December 2012	**50,000,000**	-	**32,792,919**	**21,258,904**	-	**104,051,823**

The notes on pages 14 to 63 are an integral part of these financial statements

Statement of cash flows
for the year ended 31 December

In thousands of Leones	Note	2012	2011
Cash flows from operating activities			
Profit for the year		**19,548,284**	(51,605,557)
Adjustment for:			
Depreciation and amortisation	*20*	**3,643,239**	3,096,857
Impairment losses on loans and advances		**55,710**	38,898
Net interest income	*17(a)*	**(55,673,840)**	(83,014,979)
Fixed asset write-off		**13,905**	70,606
		(32,412,702)	(131,414,175)
Changes in loans and advances		**(30,808,197)**	160,649,817
Changes in other assets		**(40,448,822)**	(11,290,735)
Changes in government deposit		**9,569,028**	(114,714,573)
Changes in other deposits/deposits from banks		**(36,257,429)**	30,355,986
Changes in other liabilities		**182,909,191**	66,669,275
Changes in end of service benefit		**3,237,652**	2,166,267
		55,788,721	2,421,862
Interest received	*7*	**56,601,728**	86,072,286
Interest paid	*7*	**(927,888)**	(3,057,307)
Net cash generated from operating activities		**111,462,561**	85,436,841
Cash flows from investing activities			
Disposal/(purchase) of Investment Securities		**94,932,889**	(59,479,698)
(Acquisition)/disposal of medium term bond		**(8,152,206)**	854,680
Acquisition of property and equipment		**(6,947,096)**	(2,729,385)
Net cash generated from/(used in) investing activities		**79,833,587**	(61,354,403)
Cash flows from financing activities			
Net change in funds from the IMF		**(2,035,599)**	166,538,082
Net movement in reserves		**7,005,130**	3,392,100
Net cash from financing activities		**4,969,531**	169,930,182
Net increase in cash and cash equivalents		**196,265,679**	194,012,620
Cash and cash equivalents at 1 January		**872,579,690**	678,567,070
Cash and cash equivalent at 31 December	*15*	**1,068,845,369**	872,579,690

The notes on pages 14 to 63 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 preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for available for sale financial assets measured at fair value.

(c) 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.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 5.

Notes to the financial statements *(continued)*

2. Basis of preparation (continued)

In particular, information about assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3g (vi), L and 17	-	Measurement of the recoverable amount of receivables
Note 3(q) and 27	-	Measurement of employee benefits
Note 3(o), 3(p), 26 and 30	-	Provision and contingencies

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements by the Bank.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(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 reported 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 period, adjusted for effective interest and payments during the period and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

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.

(b) Interest

Interest income and expenses are recognized in the income statement 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 liability (or, if appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Interest (continued)

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 liability.

Interest income and expenses presented in the income statement include interest on financial assets and liabilities at amortised cost 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 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.

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.

(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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

(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 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 in 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. 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.

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 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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

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 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 by the accounting standards, 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.

(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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

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.

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 balance sheet.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

(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.

(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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

(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.

(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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

(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.

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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

(p) Financial guarantees

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

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

(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 in profit or loss.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Employee benefits (continued)

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to 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) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

(i) IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions in relation to financial liabilities.

The IFRS 9 (2009) requirements contain two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015. Given the nature of the Bank's operations, this standard is expected to have little impact on the Bank's financial statements.

(ii) Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)

Disclosures - offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Bank will have to provide information about what amounts have been offset in the statements of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods.

Given the nature of the Bank's operations the Bank is not expecting a significant impact from the adoption of the amendments to IAS 32 and to IFRS 7.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

(iii) IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (2011)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. This standard is not expected to have any impact on the Bank as the Bank does not have any subsidiaries.

IFRS 11 is not expected to have any impact on the bank because the Bank does not have interest in joint ventures. IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests. This standard is not expected to have any impact on the Bank as the Bank does not have any interests in other entities.

These standards are effective for annual periods beginning on or after 1 January 2013.

(iv) IAS 19 Employee Benefits (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have a great impact on the Bank. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013.

(v) IAS 27 (2011) Separate Financial Statements

IAS 27 (2011) supersedes IAS 27 (2008) and carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

This amendment will not have an impact on the Bank's financial statements. IAS 27 (2011) is effective for the financial reporting period ending 31 December 2013.

(vi) IAS 28 (2011) Investments in Associates and Joint Ventures

IAS 28 (2011) supersedes IAS 28 (2008) and carries forward the existing accounting and disclosure requirements with limited amendments. These include:

- IFRS 5 which is applicable to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held-for-sale; and
- On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest should not be re-measured.

  This amendment will not have an impact on the Bank's financial statements as it has no associates or joint venture partners. IAS 28 (2011) is effective for the financial reporting period ending 31 December 2013.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

(vii) IFRS 13 Fair Value Measurement

IFRS 13 will be adopted for the first time for the financial reporting period ending 31 December 2013. The standard will be applied prospectively and comparatives will not be restated.

IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosure requirements for fair value measurements. The key principles in IFRS 13 are as follows:

- Fair value is an exit price;
- Measurement considers characteristics of the asset or liability and not entity-specific characteristics;
- Measurement assumes a transaction in the entity's principle (or most advantageous) market between market participants;
- Measurement maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs
- Price is not adjusted for transaction costs; and
- The three-level fair value hierarchy is extended to all fair value measurements.

This amendment of IFRS 13 will not have an impact on the Bank's financial statements.

(t) Comparatives

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

Notes to the financial statements *(continued)*

4. 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 Bank's management seeks to ensure that strong and effective risk management and control systems are in place for assessing, monitoring and managing risk exposure. Specialist staff conducts the Bank's local currency, foreign currency reserve management, and foreign exchange dealing operations in accordance with a clearly defined risk management framework, delegated functions and limits set by the Governor.

The Bank is subject to an annual external audit for which the Auditor General takes responsibility either by conducting the audit or appointing an auditor as prescribed in Section 59 of the Bank of Sierra Leone Act 2011. Auditing arrangements are overseen by an Audit Committee of the Board which meets regularly to monitor the financial reporting and audit functions within the Bank. The committee reviews the internal audit function and when necessary, should have direct access to the External Auditor. The committee reports to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee of the Board is responsible for monitoring the adequacy of the accounting and other records and internal control systems. Its other functions include reviewing the internal audit and management reports.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the investments in foreign debt securities and short to medium term cash deposits.

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

Credit risk (continued)

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.

Concentration analysis	**2012**	2011
Assets		
United States Dollars	**888,175,618**	642,435,510
Euro	**8,468,596**	74,170,523
Pound sterling	**168,812,489**	168,946,669
SDR	**736,703,908**	742,880,838
Leones and others	**618,296,589**	614,224,333
Total	**2,420,457,200**	2,242,657,873
Liabilities		
United States Dollars	**37,184,053**	49,068,157
Euro	**-**	-
Pound sterling	**-**	-
SDR	**1,187,561,829**	1,195,774,357
Leones & others	**1,091,659,495**	920,316,950
Total	**2,316,405,377**	2,165,159,464

Notes to the financial statements (continued)

4. Financial risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

Credit exposure by Credit Rating

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

	Credit rating	2012	% of FA	2011	% of FA
Cash balances with central banks	AAA	**610,297,846**	26.6%	559,134,598	25.8%
Other cash balances	AA	**458,547,523**	19.9%	313,445,092	14.5%
International Monetary Fund assets	NR	**736,703,908**	32.1%	742,880,838	34.3%
Loans and advances to Banks	NR	**68,853,693**	3.0%	38,101,206	1.8%
Investment in equity	NR	**24,848,467**	1.0%	16,696,260	0.8%
Investment securities	NR	**399,641,658**	17.4%	494,574,547	22.8%
		2,298,893,095	100%	2,164,832,541	100%

Impaired loans

Impaired loans are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s).

Past due but not impaired loans

Loans where 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/collateral available and/or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

4. Financial risk management *(continued)*

Credit risk (continued)

Management of credit risk (continued)

Credit exposure by Credit Rating (continued)

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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)*

4. Financial risk management (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 1.08 trillion at 31 December 2012 (2011: Le 881 billion).

31 December 2012

In thousands of Leones	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)	7,080,907	-	-	7,080,907
Total cash and cash equivalent	**7,080,907**	**610,297,429**	**458,547,940**	**1,075,926,276**
Investment securities not included in cash and cash equivalents (3-12 months)	392,560,751	-	-	392,560,751
Total cash and cash equivalents and investment securities	**399,641,658**	**610,297,429**	**458,547,940**	**1,468,487,027**

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

Credit risk (continued)

Management of credit risk (continued)

Credit exposure by Credit Rating (continued)

Cash and cash equivalents

31 December 2012

In thousands of Leones	Investment Securities	Balance with other Central Banks	Balance with other banks	Total
Cash balances	-	559,134,597	313,445,093	872,579,690
Investment securities (1-3 months)	8,535,125	-	-	8,535,125
Total cash and cash equivalent	8,535,125	559,134,597	313,445,093	881,114,815
Investment securities not included in cash and cash equivalents (3-12 months)	486,039,422	-	-	486,039,422
Total cash and cash equivalents and investment securities	494,574,547	559,134,597	313,445,093	1,367,154,237

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 1.069 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.

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

(c) 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.

4. Financial risk management (continued)

Liquidity risk (continued)

Residual contractual maturities of financial liabilities

In thousands of Leones	Notes	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31 December 2012							
Non-derivative liabilities							
IMF Special drawing rights allocation	*22*	-	-	-	**662,776,055**	**524,785,774**	**1,187,561,829**
Deposits from Government	*23*	**25,058,305**	-	-	-	-	**25,058,305**
Deposit from Banks	*24*	**96,145,592**	-	-	-	-	**96,145,592**
Deposit from others	*25*	**19,077,333**	-	-	-	-	**19,077,333**
Other liabilities	*26*	**908,873,575**	-	-	**29,299,624**	**37,184,053**	**975,357,252**
End of service benefit	*27*	-	-	-	**13,205,066**	-	**13,205,066**
		1,049,154,805	-	-	**705,280,745**	**561,969,827**	**2,316,405,377**
31 December 2011							
Non-derivative liabilities							
IMF Special drawing rights allocation	*22*	-	-	-	666,676,675	529,097,683	1,195,774,358
Deposits from Government	*23*	15,489,277	-	-	-	-	15,489,277
Deposit from Banks	*24*	112,532,271	-	-	-	-	112,532,271
Deposit from others	*25*	38,948,083	-	-	-	-	38,948,083
Other liabilities	*26*	714,173,244	-	-	29,206,661	49,068,156	792,448,061
End of service benefit	*27*	-	-	-	9,967,414	-	9,967,414
		881,142,875	-	-	705,850,750	578,165,839	2,165,159,464

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

Liquidity risk (continued)

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

Liquidity reserve

In thousands of Leones	**2012 Carrying amount**	**2012 Fair value**	2011 Carrying amount	2011 Fair value
Balances with other central banks	**610,297,429**	**610,297,429**	559,134,597	559,134,597
Cash and balances with other banks	**458,547,940**	**458,547,940**	313,445,093	313,445,093
Other cash and cash equivalents	**7,080,907**	**7,080,907**	8,535,125	8,535,125
Total liquidity reserve	**1,075,926,276**	**1,075,926,276**	881,114,815	881,114,815

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

2012	**Encumbered**			**Unencumbered**	
	Pledge as Collateral	**Other**	**Available collateral**	**Other**	**Total**
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	-	-	**24,848,467**	-	**24,848,467**
Investment securities	-	-	**399,641,658**	-	**399,641,658**
Other financial assets	-	-	-	-	-
Non-financial assets	-	-	-	-	-
Total assets	-	-	**1,562,189,187**	-	**1,562,189,187**

4. Financial risk management *(continued)*

Liquidity reserve (continued)

2011	Encumbered		Unencumbered		
	Pledge as Collateral	Other	Available collateral	Other	Total
In thousands of Leones					
Cash and cash Equivalents	-	-	872,579,670	-	872,579,670
Loans and advances	-	-	38,101,206	-	38,101,206
Investment in equity	-	-	16,696,261	-	16,696,261
Investment securities	-	-	494,574,547	-	494,574,547
Other financial assets	-	-	-	-	-
Non-financial assets	-	-	-	-	-
Total assets	**-**	**-**	**1,421,951,684**	**-**	**1,421,951, 684**

(d) 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 instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

31 December 2012		**Market risk measures**		
	Note	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
In thousands of Leones				
Assets subject to market risk				
Cash and cash equivalents	*15*	**1,068,845,369**	-	**1,068,845,369**
Loans and advances	*17*	**68,853,693**	-	**68,853,693**
Investment in equity	*18*	**24,848,467**	-	**24,848,467**
Investment securities	*19*	**399,641,658**	-	**399,641,658**
Liabilities subject to market risk				
Deposits	*23,24,25*	**140,281,230**	-	**140,281,230**

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

Market price risk (continued)

31 December 2011		Market risk measures		
In thousands of Leones	**Note**	Carrying amount	Trading portfolios	Non-trading portfolios
Assets subject to market risk				
Cash and cash equivalents	15	872,579,690	-	872,579,690
Loans and advances	17	38,101,206	-	38,101,206
Investment in equity	18	16,696,261	-	16,696,261
Investment securities	19	494,574,547	-	494,574,547
Liabilities subject to market risk				
Deposits	*23,24,25*	166,969,631	-	166,969,631

In thousands of Leones	**Note**	**Carrying amount**	**0-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
31 December 2012						
Cash and cash equivalents	*15*	**1,068,845,369**	**1,068,845,369**	**-**	**-**	**-**
IMF fund related asset	*16*	**736,703,908**	**-**	**736,703,908**	**-**	**-**
Loans and advances	*17*	**68,853,693**	**58,929,430**	**2,160,270**	**6,574,606**	**1,189,387**
Investment in equity	*19*	**24,848,467**	**-**	**-**	**10,972,750**	**13,875,717**
Investment securities	*20*	**399,641,658**	**399,641,658**	**-**	**-**	**-**
		2,298,893,095	**1,527,416,457**	**738,864,178**	**17,547,356**	**15,065,104**
IMF related liabilities	*22*	1,187,561,829	-	-	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*	19,077,333	19,077,333	-	-	-
		1,327,843,059	140,281,230	-	662,776,055	524,785,774
		971,050,036	**1,387,135,227**	**738,864,178**	**(645,228,699)**	**(509,720,670)**
31 December 2011						
Cash and cash equivalents	*15*	872,579,690	872,579,690	-	-	-
IMF fund related asset	*16*	742,880,838	-	742,880,838	-	-
Loans and advances	*17*	38,101,206	33,185,923	-	4,915,283	-
Investment in equity	*19*	58,739,776	-	-	53,735,668	5,004,108
Investment securities	*20*	494,574,547	494,574,547	-	-	-
		2,206,876,057	1,400,340,160	742,880,838	58,650,951	5,004,108
IMF related liabilities	*22*	1,195,774,358	-	-	666,676,675	529,097,683
Deposit from Government	*24*	15,489,277	15,489,277	-	-	-
Deposits from Banks	*25*	38,948,083	38,948,083	-		-
Deposits from others	*26*	789,310,575	789,310,575	-	-	-
		2,039,522,293	843,747,935	-	666,676,675	529,097,683
		167,353,764	556,592,225	742,880,838	(608,025,724)	(524,093,575)

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

Market price risk (continued)

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

In thousands of Leones	**200 bp (2%) Increase 2012**	**200bp (2%) Decrease 2012**
Interest income impact	**1,132,035**	**(1,132,035)**
Interest expense impact	**(18,558)**	**18,558**
Net impact	**1,113,477**	**(1,113,477)**

In thousands of Leones	200 bp (2%) Increase 2011	200bp (2%) Decrease 2011
Interest income impact	1,721,445	(1,721,445)
Interest expense impact	(61,146)	61,146
Net impact	1,660,299	(1,660,299)

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

Sensitivity of reported equity to interest rate movement

In thousands of Leones	**200 bp (2%) Increase 2012**	**200bp (2%) Decrease 2012**
Net interest Impact on retained earnings	**1,113,477**	**(1,113,477)**

In thousands of Leones	2011	2011
Net interest Impact on retained earnings	1,660,299	(1,660,299)

e. Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Basic guidelines for the management of Bank's international reserves are set by the Board of the Bank and reviewed on a quarterly basis; the guidance prescribe the currency structure, average term of deposits and a selection of foreign banks.

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

Currency risk (continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2012. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

Concentrations of assets, liabilities and off balance sheet items

In thousands of Leones

	GBP	Euro	US$	SDR	Other	Total
Cash and balances with the banks	168,812,489	8,468,596	888,175,618	-	3,388,666	1,068,845,369
IMF Assets	-	-	-	736,703,908	-	736,703,908
Loans and advances	-	-	-	-	68,853,693	68,853,693
Investment in equity	-	-	13,875,717	-	10,972,750	24,848,467
Investment in securities	-	-	-	-	399,641,658	399,641,658
Property, plant and equipment	-	-	-	-	62,029,728	62,029,728
Other assets	28,175	-	24,632	81,865	59,399,705	59,534,377
Total assets	168,840,664	8,468,596	902,075,967	736,785,773	604,286,200	2,420,457,200
Liabilities						
IMF drawing rights allocation	-	-	-	1,187,561,829	-	1,187,561,829
Deposit from Government	-	-	-	-	25,058,305	25,058,305
Deposit from Banks	-	-	-	-	96,145,592	96,145,592
Deposit from others	-	-	-	-	19,077,333	19,077,333
Other liability	-	-	37,184,053	-	938,173,199	975,357,252
End of service benefit	-	-	-	-	13,205,066	13,205,066
Total Liabilities	-	-	37,184,053	1,187,561,829	1,091,659,495	2,316,405,377
Net on-balance sheet position	168,840,664	8,468,596	864,891,914	(450,776,056)	(487,373,295)	104,051,823
Credit commitments						
At 31 December 2011						
Total assets	168,946,669	74,170,523	642,435,511	743,172,824	613,932,346	2,242,657,873
Total liabilities	-	-	49,068,156	1,195,774,358	920,316,950	2,165,159,464
Net on-balance sheet position	168,946,669	74,170,523	593,367,355	(452,601,534)	(306,384,604)	77,498,409

Notes to the financial statements *(continued)*

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

Currency risk (continued)

Foreign currency sensitivity analysis

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

2012

In thousands of Leones	**USD**	**GBP**	**EUR**	**SDR**	**Total**
Assets					
Cash and balance with the banks	**88,817,561**	**16,881,248**	**846,859**	**-**	**106,545,668**
IMF assets	**-**	**-**	**-**	**73,670,390**	**73,670,390**
Investment in equity	**1,387,571**	**-**	**-**	**-**	**1,387,571**
Total assets	**90,205,132**	**16,881,248**	**846,859**	**73,670,390**	**181,603,629**
Liabilities					
IMF drawing rights	**-**	**-**	**-**	**118,756,183**	**118,756,183**
Other liabilities	**3,718,405**	**-**	**-**	**-**	**3,718,405**
Total liabilities	**3,718,405**	**-**	**-**	**118,756,183**	**122,474,588**
Net-on-balance sheet position	**86,486,727**	**16,881,248**	**846,859**	**(45,085,792)**	**59,129,041**

2011

In thousands of Leones	USD	GBP	EUR	SDR	Total
Assets					
Cash and balances with the banks	62,572,763	16,891,535	7,415,472	-	86,879,770
IMF assets	-	-	-	74,288,083	74,288,083
Investment in equity	1,669,621	-	-	-	1,669,621
Total assets	64,242,384	16,891,535	7,415,472	74,288,083	162,837,474
Liabilities					
IMF drawing rights	-	-	-	119,577,436	119,577,436
Other liabilities	4,906,816	-	-	-	4,906,816
Total liabilities	4,906,816	-	-	119,577,436	124,484,252
Net-on-balance sheet position	59,335,568	16,891,535	7,415,472	(45,289,353)	38,353,222

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)*

4. Financial risk management (continued)

f. Operational risks

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

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

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

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

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

Notes to the financial statements *(continued)*

5. Use of estimates and judgements

These disclosures supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in the accounting policy.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the potential loss that may be incurred given their knowledge of the customer and the history of the account. In estimating these cash flows, management makes judgements about a counter party's financial situation. Each impaired asset is assessed on its merits, and estimate of cash flows considered recoverable.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgments depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements made in applying the Bank's accounting policies include:

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances and in classifying financial assets as available for sale, the Bank has determined that it meets the description as set out in the accounting policy.

6. 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)*

7. Net interest income

In thousands of Leones	**2012**	2011
Interest and similar income		
Foreign investment	**2,891,289**	4,949,275
Loans and advances	**9,139,649**	24,639,640
Cash and short term funds	**1,522,314**	1,494,458
Investment securities	**43,048,476**	54,988,913
	56,601,728	86,072,286

Interest expenses and similar charges

In thousands of Leones	**2012**	2011
IMF interest and charges	**571,015**	2,957,202
Others	**356,873**	100,105
	927,888	3,057,307
Net interest income	**55,673,840**	83,014,979

8. Net fee and commission income

In thousands of Leones	**2012**	2011
Fee and commission income		
Credit related fees and commission	**19,138**	28,615
Trade finance and other fees	**422**	1,187
	19,560	29,802
Fees and commission expense		
Fees and commission expense	**-**	-
Net fees and commission income	**19,560**	29,802

9. Net exchange gains/(loss)

In thousands of Leones	**2012**	2011
Foreign exchange gains	**1,005,458**	3,991,533
Revaluation gains/(loss)	**43,520,238**	(76,932,519)
	44,525,696	(72,940,987)

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.

Notes to the financial statements *(continued)*

10. Other income

In thousands of Leones	**2012**	2011
Rent received	**70,208**	68,090
Sundry receipts	**2,790,094**	574,172
Loss on sale of fixed asset	**-**	(2)
Income on reverse repo operations	**5,232,330**	-
Grant income	**13,428**	45,000
Interest income on GOSL SDR Bridging Fin Facility	**-**	147,337
	8,106,060	834,597

11. Personnel expenses

In thousands of Leones	**2012**	2011
Salaries and wages	**35,503,298**	29,045,066
Social Security	**1,965,843**	1,809,257
End of service benefit	**1,841,615**	4,540,053
Others	**1,104,994**	1,116,121
	40,415,750	36,510,497

12. Currency

In thousands of Leones	**2012**	2011
Currency management	**130,491**	89,471
Currency Issue expenses	**25,913,036**	5,365,220
	26,043,527	5,454,691

13. Other expenses

In thousands of Leones	**2012**	2011
Occupancy cost	**305,275**	366,161
Directors remuneration	**1,446,443**	1,306,496
Audit fees	**200,000**	190,000
Legal and professional fees	**1,413,208**	2,385,034
Advertisement	**408,628**	255,985
Electricity	**2,141,808**	2,345,196
Insurance	**1,007,562**	1,006,771
Passage and overseas allowances	**1,481,115**	1,359,332
Repairs and maintenance	**486,468**	422,817
Write-off of property, plant and equipment	**-**	-
Other	**9,728,139**	7,805,213
	18,618,646	17,443,005

Notes to the financial statements *(continued)*

14. Profit for the year

The profit for the year has been stated after charging:

In thousands of Leones	**2012**	2011
Depreciation and amortisation	**3,643,239**	3,096,857
Directors remuneration	**1,446,443**	1,306,496
	200,000	190,000

15. Cash and cash equivalents

In thousands of Leones	**2012**	2011
Cash and balances with Banks	**209,721,846**	203,520,580
Balance with other Central Banks	**610,297,429**	559,134,597
Placement with banks	**248,826,094**	109,924,513
Cash and balances with Banks	**1,068,845,369**	872,579,690

16. International Monetary Fund Related Assets

In thousands of Leones	**2012**	2011
IMF Quota subscription	**690,713,553**	694,778,593
Securities account	**(67,390,261)**	(67,390,261)
IMF No.1 Account	**(631,285,891)**	(664,396,257)
	(7,962,599)	(37,007,925)
SDR Holdings	**744,666,507**	779,888,763
	736,703,908	742,880,838

Sierra Leone's interest in the International Monetary Fund is presented on a net basis as there is a legal right of set off between its membership accounts.

17. Loans and advances

In thousands of Leones	**2012**	2011
Loans and advances to Banks (Note 17a)	**4,859,573**	4,915,283
Loans and advances to Government and others (Note 17b)	**63,994,120**	33,185,923
	68,853,693	38,101,206

Notes to the financial statements *(continued)*

17a Loans and advances to Banks

In thousands of Leones	**2012**	2011
Loans and advances to Banks	**5,187,083**	5,187,083
Less impairment allowances	**(327,510)**	(271,800)
	4,859,573	4,915,283
Impairment allowances		
Balance at 1 January	**271,800**	232,902
Impairment loss for the year	**55,710**	38,898
Balance at 31 December	**327,510**	271,800

17b. Loans and advances to Government and others

(i) Analysis by type

In thousands of Leone	**2012**	2011
Government of Sierra Leone (Ways and Means stock)	**48,116,790**	26,886,030
Staff	**4,065,958**	4,196,634
Reverse REPO Account	**7,802,200**	-
Others	**4,009,172**	2,103,259
Gross loans and advances	**63,994,120**	33,185,923
Less: allowances for losses on loans and advances	**-**	-
	63,994,120	**33,185,923**

(ii) Allowances for impairment

In thousands of Leones	**2012**	2011
Specific allowance for impairment		
Balance at 1 January	-	-
Impairment loss for the year	-	-
Balance at 31 December		-
Collective allowance for impairment		
Balance at 1 January	-	-
Impairment loss for the year	-	-
Balance at 31 December	-	-
Total allowances for impairment	-	-

(iii) Advances to Government of Sierra Leone

In thousands of Leones	**2012**	2011
Ways and Means Advances brought forward	**26,886,030**	177,693,764
Advances during the year	**735,857,420**	456,587,229
Receipts during the year	**(714,626,660)**	(607,394,963)
Ways and Means Advances Carried forward	**48,116,790**	26,886,030

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.

In thousands of Leones	**2012**	2011
Ways and Means Advances	**48,116,790**	**26,886,030**

Notes to the financial statements *(continued)*

17. Loans and advances (continued)

17b. Loans and advances to Government and others (continued)

(iii) Advances to Government of Sierra Leone (continued)

In thousands of Leones	**2012**	2011
Government actual revenue in previous year	**1,462,100,000**	1,007,634,000
5% thereof	**73,105,000**	50,381,700
Deficit in Government lending	**(24,988,210)**	(23,495,670)

The Directors report deficit in lendings to the Government of Sierra Leone as at 31 December 2012 of Le (24,988,210) (2011: deficit of Le23,495,567).

(iv) Others

In thousands of Leones	**2012**	2011
Advances to contractors	**`2,973,043**	1,094,278
Loan to Sierra Leone Stock Exchange Company Limited	**1,000,000**	1,000,000
Sundry	**36,129**	8,981
	4,009,172	2,103,259

18. Investment in equity

In thousands of Leones	**2012**	2011
AfreximBank Capital Investment	**13,875,714**	5,004,108
AfreximBank Dividend Investment	**3**	397,151
WAMA	**10,972,750**	11,295,002
	24,848,467	16,696,261

19. Investment securities

In thousands of Leones	**2012**	2011
Investment securities at fair value through profit or loss	**-**	-
Held to maturity investment securities	**399,641,658**	494,574,547
Available for sale investment securities	**-**	-
	399,641,658	494,574,547

Notes to the financial statements *(continued)*

17. Loans and advances (continued)

Held to maturity investment securities

In thousands of Leones	**2012**	2011
Five year medium term bonds	**280,000,000**	280,000,000
Treasury bills held for monetary policy	**494,000**	16,523,641
Treasury bond held for monetary policy	**19,693,700**	11,008,650
One year treasury bills	**11,188,050**	54,561,285
182 days treasury bills	**3,669,000**	46,429,846
Others	**7,080,908**	8,535,125
BSL Holding 3 year medium term bond	**77,516,000**	77,516,000
Non negotiable interest bearing securities	**81,801,429**	81,801,429
Less: Fair value adjustment on non negotiable, non interest bearing securities	**(81,801,429)**	(81,801,429)
	399,641,658	494,574,547
Fair value reserve:		
At 1 January	**81,801,429**	81,801,429
Reduction of fair value adjustment	**-**	-
	81,801,429	81,801,429

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 date based on projected cash flows. This valuation results in a zero value.

20. Property plant and equipment

In thousands of Leones	Premises	Motor vehicle	Office furniture and equipment	Plant and machinery	Work-in progress	Total
Balance at 1 January 2011	58,920,757	5,529,846	14,254,430	4,418,975	2,805,356	85,929,364
Additions during the year	-	45,000	935,476	-	1,748,909	2,729,385
Reclassification	31,407	-	2,326,909	5,500	(2,363,816)	-
Write-off	-	-	-	-	(70,606)	(70,606)
Disposal	-	(7,875)	-	-	-	(7,875)
Balance at 31 December 2011	**58,952,164**	**5,566,971**	**17,516,815**	**4,424,475**	**2,119,843**	**88,580,268**
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)
Disposal	-	-	-	-	-	-
Adjustment	-	-	(17,102)	8,452	8,650	-
Balance at 31 December 2012	**59,251,630**	**5,974,377**	**18,254,619**	**4,432,927**	**7,599,906**	**95,513,459**
Depreciation						
Balance at 1 January 2011	9,215,592	4,395,197	10,251,854	2,888,867	-	26,751,510
Depreciation for the year	1,173,709	562,740	1,037,708	322,700	-	3,096,857
Disposal	-	(7,875)	-	-	-	(7,875)
Balance at 31December 2011	**10,389,301**	**4,950,062**	**11,289,562**	**3,211,567**	**-**	**29,840,492**
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
Disposal	-	-	-	-	-	-
Balance at 31December 2012	**11,549,294**	**5,366,678**	**13,071,537**	**3,496,222**	**-**	**33,483,731**
Carrying amount:						
As at 31 December 2011	48,562,863	616,909	6,227,253	1,212,908	2,119,843	58,739,776
At 31 December 2012	47,702,336	607,699	5,183,082	936,705	7,599,906	62,029,728

Work in progress represents amount spent on renovation of the Governors residence and furniture for the Tokeh Resource Centre

Notes to the financial statements *(continued)*

21. Other assets

In thousands of Leones	**2012**	2011
Gold stock	**645,683**	612,203
Items in transit	**33,679,000**	16,446,189
Other consumables	**382,327**	306,684
Prepayment	**444,197**	531,252
Interest receivable	**106,997**	69,431
Deferred currency issue expense	**24,257,886**	1,092,777
WAMZ Payment Systems Fund	**27,019**	27,019
Deferred Govt security certificate	**-**	141,719
Less:		
Allowances for impairment	**(8,732)**	(141,719)
	59,534,377	19,085,555

Allowances for impairment:

At 1 January	**(141,719)**	(141,719)
Impairment charge for the year	**(8,732)**	-
Written off during the year	**141,719**	-
	(8,732)	(141,719)

22. International Monetary Fund Special drawing rights allocation

In thousands of Leones	**2012**	2011
IMF Special Drawing Rights	**662,776,055**	666,676,675
IMF Poverty Reduction and Growth Facility	**524,785,774**	529,097,683
	1,187,561,829	1,195,774,358

This 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.

23. Deposit from Government

In thousands of Leones	**2012**	2011
Government special deposits/accounts	**25,058,305**	15,489,277
	25,058,305	15,489,277

Notes to the financial statements *(continued)*

24. Deposit from Banks

In thousands of Leones	**2012**	2011
Commercial Bank's reserve accounts	**83,472,630**	104,974,940
Rural and community bank's reserve accounts	**12,671,503**	7,346,529
Others	**1,459**	210,802
	96,145,592	112,532,271

25. Deposits from Others

In thousands of Leones	**2012**	2011
Other deposits	**19,077,333**	38,948,083
	19,077,333	38,948,083

26. Other liabilities

In thousands of Leones	**2012**	2011
Financial liabilities		
Other foreign currency financial liabilities (26a)	**37,184,053**	49,068,156
Accrued charges and other liabilities (26b)	**5,824,407**	6,562,676
	43,008,460	55,630,832
Non-Financial liabilities		
Currency in circulation (26c)	**903,049,168**	707,610,568
Provision for revaluation of pipeline liabilities (26d)	**29,299,624**	29,206,661
	932,348,792	736,817,229
	975,357,252	792,448,061

26a. Other foreign currency financial liabilities

In thousands of Leones	**2012**	2011
Foreign payment	**427,297**	2,819,120
Sierra Rutile/GoSL Loan	**-**	3,184,189
Bank of China US$ clearing	**36,472,275**	36,839,176
WAMA ECOWAS travellers' cheques	**-**	11,798
WAMA ECOWAS travellers' cheques clearing	**(1,169)**	(1,169)
Commission of European committee	**-**	-
WAMA settlement	**-**	-
OFID Debt Relief imprest account	**248,750**	6,215,042
Sundry liabilities	**36,900**	-
	37,184,053	49,068,156

Notes to the financial statements *(continued)*

26b. Accrued charges and other liabilities

In thousands of Leones	**2012**	2011
Accrued expenses	**5,342,776**	6,293,288
P.S. Bond in circulation	**449**	449
Retention monies	**481,182**	207,463
Trade and sundry creditors	**-**	61,476
	5,824,407	6,562,676

26c. Currency in circulation

In thousands of Leones	**2012**	2011
Notes	**893,154,095**	698,040,595
Coins	**9,895,073**	9,569,973
Balance at 31 December	**903,049,168**	707,610,568

The liability for notes and coin issued is the net liability after offsetting notes and coins held by the Bank of Sierra Leone as cash on hand, because cash held by the bank does not represent currency in circulation.

26d. Provision for revaluation of pipeline liabilities

In thousands of Leones	**2012**	2011
Balance at January	**29,206,661**	28,178,431
Revaluation loss/(gain)	**92,963**	1,028,230
Disbursement	**-**	-
Balance at 31 December	**29,299,624**	29,206,661

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.

Notes to the financial statements *(continued)*

27. End of service benefit

In thousands of Leones	**2012**	2011
Change in liability		
Balance at 1 January	**9,967,414**	7,801,147
Service cost	**1,795,636**	1,647,484
Interest cost	**1,442,016**	1,132,586
Actuarial gain	-	(135,346)
Benefits paid (including risk benefits payments)	-	(478,457)
Balance at 31 December	**13,205,066**	9,967,414

(b) Change in plan assets

Balance at 1 January	-	-
Actual return	-	-
Expected returns at 31 December	-	-
Contribution by participants		-
Member		-
Employer	-	478,457
Benefits paid	-	(478,457)
Closing balance	-	-

In thousands of Leones	**2012**	2011
(c) Funding level		
Projected benefit obligation	**13,205,066**	9,967,414
Plan assets	-	-
Net obligation reported in the statement of financial position	**13,205,066**	9,967,414

(d) Income statement

In thousands of Leones	**2012**	2011
Service cost	**1,795,636**	1,647,484
nterest cost	**1,442,016**	1,132,586
Expected return on plan asset	-	-
Curtailment (gain)/loss	-	-
Settlement (gains)/loss	-	-
Actuarial (gains)/losses during the year	-	(135,346)
Amount recognised in income statement	**3,237,652**	2,644,724

Notes to the financial statements *(continued)*

27. End of service benefit (continued)

(d) Income statement (continued)

Capitalised cost

	2012	2011
Service cost	**1,795,636**	1,647,484
Interest cost	**1,442,016**	1,132,586
Expected return on plan asset	**-**	-
Expected loss recognised	**-**	-
Actuarial gain	**-**	(135,346)
Total employee benefits cost	**3,237,652**	2,644,724

Reconciliation of financial position

Opening value	**9,967,414**	7,801,147
Employee benefits	**3,237,652**	2,644,724
Expense recognised in profit and loss	**-**	(478,457)
Benefits paid	**-**	-
Amount recognised in income statement	**-**	-
Capitalised cost	**-**	-
Closing value	**13,205,066**	9,967,414

(e) Key valuation assumptions

	2012	2011
Discount rate	**15.00%**	15.00%
Salary increase	**15.00%**	15.00%
General inflation rate	**13.00%**	13.00%

28. Share capital

In thousands of Leones	**2012**	2011
Authorised:	**100,000,000**	100,000,000
Issued and fully paid		
Balance at January and 31 December	**50,000,000**	50,000,000

Section 10(1) and 81 of the Bank of Sierra Leone Act 2011 require the Bank of Sierra Leone to maintain a minimum paid up capital of Le 125 billion, which is to be subscribed within five years from the commencement of the Bank of Sierra Leone Act (that is 24 November 2011). As at 31 December 2012 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)*

29. Reserves and retained earnings

(a) General reserve

In thousands of Leones	**2012**	2011
General reserves (a)	**21,258,904**	(5,294,510)
Other reserves (b)	**32,792,919**	32,792,919
Total reserves as at 31 December	**54,051,823**	27,498,409

In thousands of Leones	**2012**	2011
Balance at start of the year	**(5,294,510)**	42,918,947
Net loss for the year	**-**	(51,605,557)
Net profit/(loss) for the year	**19,548,284**	(51,605,557)
Profit on sale of marketable securities	**6,997,678**	3,392,100
Prior year adjustment	**7,452**	-
Balance at 31 December	**21,258,904**	(5,294,510)

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 2012, the total value of the assets of the Bank exceeds the sum of its liabilities, unimpaired issued capital and general reserves.

(b) Other reserves

(i) Property revaluation reserves

In thousands of Leones	**2012**	2011
Balance at start of the year and end of the year	**32,792,919**	32,792,919
Balance at 31 December	**32,792,919**	32,792,919

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

Notes to the financial statements *(continued)*

30 Contingencies and commitments

30a. Contingent Liabilities

In thousands of Leones	**2012**	2011
Guarantees and Endorsement	**157,147,997**	157,222,671
Promissory notes	**-**	11,053,682
	157,147,997	168,276,353

30b. Capital commitments

In thousands of Leones	**2012**	2011
Capital expenditure	**18,951,162**	4,176,987
African Export Import Bank	**7,107,957**	4,202,601
	26,059,119	8,379,588

30c. 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 Le1.63billion excluding interest at the rate of 35% per annum and solicitor's costs.

31. 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 2012, total net advances to the Government was Le48.1billion (2011: Le 26.9 billion).

The Board of Directors (including the Governor and Deputy Governor) received remuneration amounting to Le1.45 billion (2011: Le 1.30 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 2.44 billion (2011: Le 2.16 billion) and benefited from official vehicles. Outstanding loans to senior management totalled Le 170.00 million (2011: Le 22.67 million). A total of Le 156.11 million (2011: Le131.85 million) was contributed on their behalf to NASSIT.

Deposits from Government totalled Le 25 billion (2011: Le 15 billion).

32. 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.

Bank of Sierra Leone

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