Bank of Sierra Leone

Annual Report and Statement of Accounts

for the year ended 31 December 2011

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and
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A. ANNUAL REPORT 2011

1.0 Review of the Economy

Macroeconomic performance in Sierra Leone during 2011improved significantly compared to 2010, the second half of which was characterised by expansionary fiscal and monetary policies due to the scaling up of government investment in infrastructure development. The turnaround in the country's economic performance was achieved through implementation of prudent macroeconomic policy measures including tight fiscal and monetary policies adopted by the authorities as a strategy to correct the imbalances of the previous year. Under the IMF supported Extended Credit Facility (ECF) programme, fiscal policy was tightened by limiting domestic financing of the budget deficit (bank and non-bank) to 1 percent of GDP compared to the programme target of 1.9 percent of GDP. Enhanced revenue performance was therefore the key driver in financing the fiscal deficit to support government's infrastructure development spending during the period. This was combined with prudent expenditure rationalization measures. On account of the tight monetary policy, a limit was set on the annual flow of direct credit from the Bank of Sierra Leone to government to 5 percent of the actual domestic revenue in the previous year. The Bank purchased government securities for monetary policy purposes only in the secondary market. Real GDP growth during the review period was estimated at 5.3 percent, compared to a growth rate of 5.0 percent in 2010. The growth in GDP during the year was driven largely by continuing investment in mining, agriculture and food security, basic infrastructure, electricity generation and services. Annual inflation as measured by the year-on-year change in Consumer Price Index declined from 17.84 percent in December 2010 to 16.64 percent in December 2011. Inflation performance during the review period was driven in part, by external supply shocks and domestic policies to ensure full pass-through of international prices of petroleum products and food commodities to the domestic economy. Private sector lending by commercial banks expanded during the reporting period.

During the review period, the Government of Sierra Leone continued to benefit from its international development partners in the form of Budgetary and Non-Budgetary external inflows to support the country's economic programmes. Non-Budgetary support took the form of either Balance of Payments disbursements or Development Project/Programme support channelled to the various sectors of the economy. In December 2011, the Executive Board of the International Monetary Fund approved the immediate disbursement of SDR8.8million (US$13.8million) to Sierra Leone, being balance of payments support, following the satisfactory conclusion of the second and third reviews of the country's performance under the three year IMF supported Extended Credit Facility (ECF) programme which was approved by the Fund's Executive Board in June 2010. Total disbursement under the arrangement is currently SDR17.76mn (about US$27.6mn). In concluding the reviews, the Board granted waivers for the country's non-compliance with the performance criteria on net domestic bank credit to Government and net domestic assets of the Central Bank as at end 2010, as well as for the continuous non-observance of the ceiling requirement on non-concessionary external debts. Additionally, the Board accepted the adjustments on the performance criteria on net domestic bank credit to the central bank, net domestic assets of the central bank and gross foreign exchange reserves of the central bank, as a reflection of the envisaged changes in fiscal and monetary policies.

Agriculture continues to attract substantial donor support from the country's development partners as a priority sector for enhancing growth, food security and poverty reduction. During the period, the World Bank and the Government of Japan approved grants in the sum of US$42 million for two projects [West Africa Agricultural Productivity Program (WAAPP) and Rural Private Sector Development Project (RPSDP)] to boost production and trade in agricultural produce in the country. In another development during the year, the Sierra Leonean Parliament ratified a non-project grant of ¥900mn for economic co-operation from the Japanese Government, as well as a US$72mn grant from the International Fund for Agricultural Development (IFAD). Of the latter, US$50mn was in support of the Small Farmers Commercialization Programme under the Global Agricultural and Food Security Programme and US$22mn as assistance to the West African Agricultural Productivity Programme.

Performance in the agriculture sub-sector was largely driven by the priority status the Government has accorded it as a key vehicle for delivering growth, food security and poverty reduction. It was also due to the substantial support the sector received from the country's international development partners. Agricultural development strategy in 2011 took the form of implementation of a number of agricultural programmes/projects including the Small-Holder Commercialization Programme, which seeks to increase marketable surpluses and incomes of small holders. The National Sustainable Agricultural Development Programme (NSADP), also seeks to boost agricultural output through the provision of subsidized inputs and machinery as well as training of a large number of farmers. Consequently, in line with the incentives created by the increase in world market prices of commodity during the year, the volume of both coffee and cocoa exported in 2011 increased by 17.82 percent and 18.81 percent respectively. Total production of coffee beans rose by 26.87 percent in 2011 relative to production in 2010. Output of cocoa, on the other hand, declined by 8.65 percent during the same period.

The mining sub-sector remained a key driver of economic activity in 2011, mainly due to the discovery of large deposits of iron ore in Northern Sierra Leone and the commencement of operations of two new foreign owned iron ore mining companies – the *African Minerals Ltd* and the *London Mining Company Ltd*. The African Minerals Limited Company (AML), on 11th August 2011 signed the final agreements with its Chinese counterpart, Shandong Iron and Steel Group (SISG), that would lead to the investment of an additional US$1.5 billion towards the development of phase II of the Tonkolili iron ore project in the country. The Sierra Rutile Mining Company also paid thirteen million Euros (•13mn) to the government, as part amortization of its subsidiary loan obtained from the Government of Sierra Leone in 2005, to restart mining activity. Sierra Leone qualified for a US$15.7 million grant under the African Development Bank's (AfDB) Fragile States Facility, to finance the second Economic Governance Reform Program (EGRF), which aims at strengthening public financial management and revenue governance in the mining and energy sectors.

Total output of diamonds fell by 18.8 percent to 355.28 thousand carats in the reporting year, attributable to weak international demand resulting from the recent global economic crisis in the Euro-zone. Similarly, output of gold declined by 15.1 percent, in spite of the incentives created by the increase in world market price of the minerals. This phenomenon could be partly attributable to low activity in gold mining during the review period. The value of total mineral exports in 2011 amounted to US$240.73mn, which was 20.0 percent higher than the US$200.65mn recorded in 2010, largely due to increases in the export values of diamonds, bauxite, illmenite and zircon. During the reporting year, an estimated volume of 137 thousand metric tons of iron ore concentrates, valued at US$15.3mn was exported for the first time in more than three (3) decades.

In the Telecommunications sector, Parliament ratified a long term concessional loan agreement for US$15.314 million between the Government of Sierra Leone and the Export Bank of China, to fund the Sierra Leone Dedicated Security Information System Project. The project aims at improving the national telecom and security systems in the country. The seventeen thousand miles Fibre-Optic Cable Network, under the Africa Coast to Europe (ACE) Project, landed in Freetown in October, 2011. The project which is financed mainly by the World Bank and the Islamic Development Bank is expected to improve Sierra Leone's broad band capacity and enhance private and public sector information and communication needs, as well as facilitate the country's transformation from its currently limited satellite system of communication to a high-speed modern cable communications system.

During the review period, Parliament also ratified the Credit Reference Act 2010, which supports the collection of vital credit information on individuals and business entities, in an effort to address the problem of information asymmetry, and ensure increased flow of credit to the private sector.

Real sector outturn during the period was mixed, with the agriculture sector and mining sub-sector exhibiting significant improvements over the preceding year's performance, while the manufacturing sub-sector continued to remain largely sluggish.

In the energy sub-sector, overall electricity generation in 2011 improved compared to the previous year. This development was largely attributable to the growth in electricity generation powered mainly by the Bumbuna hydroelectric dam. Total units of electricity generated in 2011 recorded 175.67 million kilowatt hours (kwh), indicating a growth rate of 3.07 percent compared to 170.43 million kilowatt hours (kwh) in 2010. This went to support the increased scale of mining activities in the country.

On May 1 2011, the Government introduced the metric system of measurement for marketing of petroleum products with the litre now representing the unit of measurement in place of gallons. Simultaneously, the pump prices of petroleum products were revised upwards by 17 percent to reflect a full pass-through of international petroleum prices there by reducing the growing subsidies in the budget. The pump price of petroleum products were initially set at five thousand Leones (Le5,000) a litre before it was subsequently revised downwards to Le4,500 per litre on 27th May 2011. Also, during the year, the ten percent (10%) import duty on rice was temporarily suspended to cushion the impact of high global market prices of rice on domestic consumption. The foregoing developments had serious implications for inflation performance in Sierra Leone in 2011. As measured by the year-on-year changes in national Consumer Price Index (CPI) inflation fell from 17.84 percent in December 2010 to 16.64 percent in December 2011 and continued to remain in double digits throughout the reporting year, due to a combination of factors ranging from supply shocks attributable to hikes in domestic and international prices of food and fuel, the part removal of Government's subsidy on petroleum products and the continued depreciation of the Leone against the United States Dollar.

Outturn of fiscal operations in 2011 was a deficit of Le667.46bn, representing 6.97 percent of Gross Domestic Product (GDP), which was in breach of the benchmark of 4.0 percent of GDP or less (< 4% of GDP) as prescribed under the West African Monetary Zone (WAMZ). The deficit was also above both the budget target of Le375.27bn (3.92% of GDP) for the year and the preceding year's deficit of Le523.52bn (6.89% of GDP). The expansion in the deficit, relative to both periods was on account of the marked increase in total outlays during the review period.

The Bank of Sierra Leone continued to maintain a tight monetary policy stance during the reporting period through strict enforcement of the limit on direct financing of government deficit and active Open Market Operations (OMO). The objective was to neutralize the impact of expansionary fiscal policy arising from government expenditures on infrastructure development, particularly in the area of energy supply, health and roads construction. To further enhance monetary policy management, the Bank of Sierra Leone also introduced the Monetary Policy Rate (MPR) in February 2011, to signal its monetary policy stance and benchmark for other market rates with a view to anchor inflation expectation. Monetary aggregates were expansionary in the review period, with Broad Money (M2) and Reserve Money (RM) expanding by 21.61 percent and 12.97 percent, respectively. However, the growth rates of M2 and RM at end December 2011 were lower than the corresponding growth rates of 32.73 percent and 34.61 percent recorded respectively at end December 2010. Also, M2 and RM breached their respective ceiling targets of 13.75 percent and 3.94 percent respectively, at end December 2011.

In the financial sector, the total number of commercial banks operating in the country remained unchanged at 13 as at end December 2011. However, the total number of commercial bank branches in the country increased from 80 at end December 2010 to 86 at end December 2011. Consequently, the ratio of bank branches to population moderately improved during the review period to reflect progress in the financial inclusion programme. Most commercial banks operating in the country recorded profits, enhanced resource mobilization and expanded capital levels during the year. The banks also increased their lending operations during the period under review as well as reduced their non-performing loans from 15.61 percent at end December 2010 to 15.08 percent at end December 2011.

Developments in the foreign exchange market in 2011 indicated that with the increase in supply of foreign exchange from the commercial banks, demand pressures on the exchange rate somewhat eased especially with the Bank of Sierra Leone complementing the supply through its weekly foreign exchange auction. However, the increases in world market prices of petroleum products and other imported food commodities, which partly accounted for the rise in the general level of domestic prices and the double-digit inflation rate, partly explained the moderate depreciation of the Leone against major world currencies. Consequently, all the foreign exchange channels recorded slight depreciation of the Leone against the US Dollar during the review period. The annual average official exchange rate of the Leone to the United States Dollar depreciated by 9.33 percent from Le3,978.09/US$1 in 2010 to Le4,349.16/ US$1 in December 2011. Meanwhile, the average monthly exchange rate of the Leone against the US Dollar in the parallel market reached a high of Le4,425.85/US$1 in December 2011 compared to Le4,082.88/US$1 in December 2010, reflecting an 8.40 percent depreciation. Hence, the spread between the official and the parallel market rates narrowed by 1.76 percent to Le 76.69/US$1 in December 2011 from Le104.79/US$1 in December 2010.

External sector developments revealed unfavourable trade performance, with the annual trade deficit more than doubling in 2011 compared to the preceding year. The trade deficit moved from US$429.94mn in 2010 to US$1,336.85mn in 2011, on account of a surge in import payments in respect of mining related capital goods and machineries, which significantly outweighed export receipts during the reporting period. Gross external reserves of the Bank of Sierra Leone stood at US$376.79mn as at end December 2011, indicating an improvement of US$31.99 (9.28%) on the US$344.80mn recorded at end December 2010. In spite of the growth in gross reserves in the reporting period, its cover of imports of goods and services decreased to 2.4 months of import in 2011, compared to 4.5 months of import cover recorded in 2010. This was on account of higher imports to support domestic growth, particularly in the mining sector.

Sierra Leone's performance under the WAMZ Convergence Criteria at end December 2011 indicated that the country satisfied only one out of the four primary criteria (central bank financing of fiscal deficit as a percentage of the previous year's tax revenue) and one out of the six secondary criteria (Public Investment from Domestic Receipts of not less than 20.0%). The country continued to breach the criterion on single digit inflation, though the national year-on-year inflation rate declined from 17.84 percent at end December 2010 to 16.64 percent end December 2011.

2.0 Real Sector Developments

In spite of the disruptions caused by the global food and fuel price hikes during the period, real sector performance in 2011 continued to show signs of steady progress. Real Gross Domestic Product (GDP) is projected to grow by 5.3 percent during the year, up from 5.0 percent in 2010. The growth in real GDP is driven mainly by government investments in infrastructure as well as the positive contributions derived from agricultural, mining and services sectors.

The Government continued to emphasise the agriculture sector as a vehicle, consistent with its agenda for food security and poverty reduction. During the year, the agriculture sector benefited from increased support for the farming programs in Sierra Leone. The World Bank approved the sum of US$42 million as grant to boost agricultural production in the country. Addax Bioenergy, a wholly-owned subsidiary of the Geneva-based Addax and Oryx Group Limited (AOG), embarked on a 10,000-hectare sugar-cane plantation project in Makeni, Northern Sierra Leone which is expected to commence production of ethanol by 2013. In another development during the year, independent cooperatives of cocoa producers were established in the three Eastern Districts in Sierra Leone with a view to pool together cocoa beans for export. The cooperative network is expected to increase price sensitivity among indigenous cocoa farmers and generate competition with bigger companies, leading to higher prices and increased incomes.

The mining sub-sector, currently dominated by diamond mining activity, remained the main driver to economic growth in Sierra Leone and a major source of Government revenue. During the year under review, the World Bank and the United Kingdom Department for International Development (UK/DFID) jointly contributed the sum of US$8 million in assistance towards the enhancement of needed capacity of Sierra Leoneans to formulate and negotiate mining contract agreements, as well as to augment revenue collection, particularly in areas that had not originally been recognized under a previous project because of resource constraints. The blasting at the site of the iron ore mines in Ferengbeya village, Tonkolili District took place on the 27th January 2011, symbolising the official commencement of iron-ore mining by the African Minerals Mining Company. The year also witnessed the commissioning of the Tonkolili Phase I project, which commenced the export of iron ore from Sierra Leone in November 2011. The first shipment of iron ore in more than 30 years amounting to 40,000 tonnes was successfully made to China on 22nd November 2011 by the African Minerals Mining Company. In June 2011 a joint-venture agreement was signed between the Sierra Leone Exploration and Mining Company Ltd. (SLEMCO) and an Indian-based company (ABG Shipyard), to mine bauxite in the Port Loko District in Northern Sierra Leone. The reserves deposit of bauxite in Port Loko and parts of the Kambia District is estimated at 321 metric tons.

In the energy sector, government's emphasis, as outlined in the 2011 budget, is on improving the distribution and transmission network in Freetown as well as restoring electricity in all District Headquarter Towns, including the use of solar technology to provide electricity supply to remote rural areas. In

Table 1

Production					
		Jan-Dec '10	Jan-Jun'11	Jul-Dec'11	Jan-Dec '11
1	2	3	4	5	6
Minerals					
Diamonds	*000' carats*	437.55	210.21	145.07	355.28
Bauxite	*000' M tons*	1,087.19	788.89	668.61	1,457.51
Rutile	*000' M tons*	68.20	27.15	40.82	67.97
Ilmenite	*000' M tons*	18.21	4.79	9.78	14.58
Gold	*000' Ounces*	8.69	3.08	2.20	5.28
Zircon	*000' M tons*	-	4.64	3.72	8.35
Iron Ore	*000' M tons*	-	-	137.91	137.91
Agriculture					
Coffee	*M tons*	2.99	3.60	0.19	3.79
Cocoa	*M tons*	19.70	11.59	6.41	18.00
Manufactured Goods					
Beer and Stout	*000' Cartons*	795.48	433.28	499.64	932.93
Maltina	*000' Cartons*	203.42	152.48	141.86	294.33
Acetylene	*000' cu.ft*	201.68	103.16	95.42	198.57
Oxygen	*000' cu.ft*	273.66	137.95	129.41	267.36
Confectionery	*000' lbs*	2,947.87	1,758.84	1,710.68	3,469.52
Common Soap	*000' M tons*	416.90	153.76	326.65	480.40
Soft drinks	*000' crates*	1,962.08	994.90	886.25	1,881.15
Paint	*000' gals*	225.23	107.77	96.10	203.86
Cement	*000' M tons*	307.21	162.95	147.95	310.90
Flour	*000' M tons*	9.63	6.80	7.32	14.12
Services					
Electricity	*GW/hr*				
Unit Generated	*GW/hr*	170.43	79.04	96.60	175.64
Industrial Consumption	*GW/hr*	25.01	15.83	16.10	31.93
Domestic Consumption	*GW/hr*	48.17	12.02	8.96	20.99
Commercial Consumption	*GW/hr*	44.75	8.02	5.97	13.99
Government Consumption	*GW/hr*	11.52	6.57	4.88	11.45

Sources: Manufacturing Establishments

pursuit of this, a Memorandum of Understanding was signed between the Government and a US energy company, Joule Africa, to expand the capacity of the Bumbuna hydropower generation from 50 mw to 400 mw over the next six years. The project is expected to deliver on full power generation by 2017. Progress was also recorded in the area of renewable energy, with the commencement of construction work in November 2011 by Addax Bioenergy (a local subsidiary of the Geneva-based Addax and Oryx) on the first ethanol refinery and biomass fuel powered plant in the Northern city of Makeni. The African Development Bank (AfDB) in April 2011 approved a •25 million private sector loan to finance the Addax Bioenergy Sierra Leone (ABSL) project. In a related development during the year, the African Minerals Limited signed a Memorandum of Understanding with China Communication Construction Company (CCCC), for the construction of subsidiary hydroelectric power generation facilities at the Tonkolili iron ore project, to complement the government's efforts at expanding the Bumbuna hydro-electric power generation facilities.

During the year, the communication sector benefited from further boost, as the country secured its first fibre optic connection to the outside world in October 2011 with the landing of the Africa Coast to Europe (ACE) submarine cable in Freetown. The World Bank is expected to provide $30 million towards funding Sierra Leone's connection to the cable offshore.

The transport sector was significantly enhanced in June 2011, with the commissioning of fourteen (14) brand new buses, procured by the Melian Tours Company, a private business concern, to complement government's efforts at improving public transportation. The Government of Sierra Leone, through the Ministry of Trade and Industry, in collaboration with the Ministry of Transport and Aviation, the National Commission for Privatization, and the Sierra Leone Road Transport Corporation (SLRTC), procured forty (40) buses from the Republic of India to ease the problem of transportation countrywide. The first batch of ten of these buses landed at the Queen Elizabeth II Quay during the fourth quarter of 2011, while the remaining are expected early in 2012.

Infrastructure development, particularly road construction, remains high on the Government's agenda in 2011. In this regard, a number of major road projects were completed during the review period, linking the capital to the provincial towns. Construction of major highways and suburban roads in the main urban centres of Freetown, Bo, Kenema and Makeni, as well as feeder roads linking the productive areas in the provinces, were significantly rehabilitated during the reporting year. Simultaneously, reconstruction and rehabilitation work at the Lungi International Airport, especially on the terminals and tarmac continued to progress throughout 2011.

The national year-on-year inflation rate declined from 17.84 percent at end December 2010 to 16.64 percent at end December 2011 and remained in double digits throughout 2011. Annual average inflation rate in 2011 was 16.06 percent compared to 16.77 percent in 2010.The increase in the rate was mainly driven by high global food and fuel prices, exchange rate depreciation and growth in money supply during the year.

2.1 Agriculture

Agriculture remains government's top priority sector, largely on account of the desire to achieve the first Millennium Development Goal (MDG1) of reducing poverty and hunger by 2015. In line with this objective, the Government's *Agenda for Change* emphasised increased output and productivity in the agriculture and fisheries sectors as one of the four key priorities. Consequently, an amount of Le22.4

Table 2

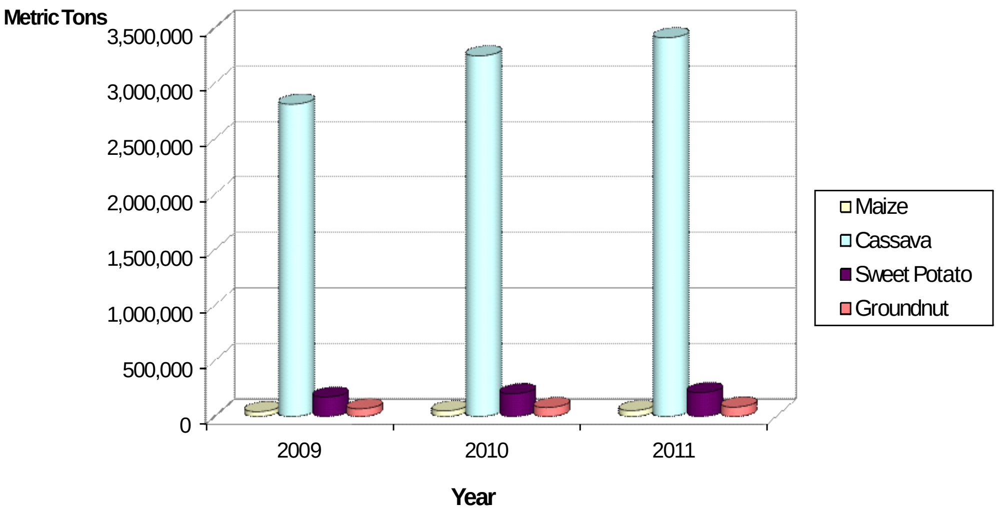
Production of Major Food Crops (2009 - 2011)

CROP	2009	2010	2011
Maize	44,460	51,388	53,957
Cassava	2,814,576	3,250,044	3,412,545
Sweet Potato	176,969	206,189	216,499
Groundnut	70,049	81,457	85,530

SOURCE: Ministry of Agriculture and Food Security

billion was allocated to the Ministry of Agriculture, Forestry and Food Security (MAFFS) in the 2011 budget, in respect of recurrent spending. Of this total, Le14.3 billion was channelled towards promoting activities geared towards enhancing food security. Furthermore, using resources from the World Bank, the European Union, the African Development Bank, IFAD, Japan and other international donors, the government established a US$400 million project under the "Small-Holder Commercialization Program" with the aim of boosting agricultural productivity and incomes of smallholders. An amount of Le13.5 billion was transferred to local councils for agricultural activities. Additionally, Le94.2 billion was allocated from the capital budget to the agriculture sector, including Le26.3 billion to facilitate the expansion of the Small-Holder Commercialization Programme. Furthermore, the government continued to implement the National Sustainable Agricultural Development Programme (NSADP) during the period, including the provision of subsidized inputs, machinery and training to an additional 20,000 farmers, as well as the construction of additional Agricultural Business Centres under the Small-Holder Commercialization Programme. To further enhance performance in the agriculture sector, the World Bank and the Government of Japan approved grants in the sum of US$42 million for two projects *[West Africa Agricultural Productivity Program (WAAPP) and Rural Private Sector Development Project (RPSDP)]* to boost production and trade in agricultural produce in the country. The grant agreement for WAPP was signed on June 1, 2011 between the Government of Sierra Leone and the World Bank.

Chart 1 - Production of Major Food Crops (2009 - 2011)



The WAPP is a regional project covering Sierra Leone, Togo, Benin, Niger, Liberia and The Gambia, with a total budget of $120 million (of which $22 million is meant for Sierra Leone). The funds are expected to generate social and economic benefits for an estimated 200,000 agricultural producers and other value chain actors, with the specific targets of increasing rice and cassava production, given the very low rice yield levels in the country. The development objective of the RPSDP is to increase production of selected agricultural commodities by 20 percent and sales by 10 percent through improvements in efficiencies along the value chain for targeted beneficiaries. The additional financing for the RPSDP is expected to improve access to markets through rehabilitation and maintenance of feeder roads, supporting cocoa marketing and strengthening farmer-based organisations in the country.

2.1.1 Agricultural Production

Estimates from the Ministry of Agriculture, Forestry and Food Security (MAFFS) indicated an overall increase in agricultural production during the reporting period compared to 2010, propelled largely by the implementation of various agricultural policies and programmes.

2.1.2 Crop Production

Production of rice was estimated at 1,078,005 metric tons in 2011, compared to 1,026,671 metric tons in 2010, reflecting a 5 percent increase. This development was largely attributable to the increase in the acreage under cultivation and the intensity of cultivation, in response to expanding domestic demand.

Cassava crop production also increased to 3,412,545 metric tons in 2011 from 3,250,044 metric tons in 2010, while output of maize increased from 51,388 metric tons in 2010 to 53,957 metric tons. Total harvest of sweet potatoes rose from 206,189 metric tons in 2010 to 216,499 metric tons in the year under review, ground nut production recorded 85,530 metric tons in 2011, from 81,457 metric tons in 2010, indicating a growth of 5.00 percent over the year.

The annual production of the country's two major traditional export crops, namely cocoa and coffee, showed mixed performance in 2011. The total volume of coffee produced in the review period was 3.79 thousand metric tons, representing 26.87 percent increase over the preceding year's total of 2.99 thousand metric tons. On the other hand, cocoa production totalled 18 thousand metric tons in 2011, representing 8.65 percent decline, compared to the 19.70 thousand metric tons in the preceding year. The fall in cocoa output was attributed to lower producer prices offered to farmers. Half yearly performance showed that both crops recorded higher output during the first half of the reporting period compared to the second half. Coffee output was 3.6 thousand metric tons in the first half and only 0.19 thousand metric tons in the second half; while cocoa production recorded 11.59 thousand metric tons in the first half and 6.41 thousand metric tons in the second half. The increase in coffee output was partly in response to the increase in world market price in 2011, which created incentives for increased production and export. The increase in output was also partly explained by the growing demand for coffee in the emerging markets, coupled with the resilience of coffee consumption during the current economic crisis. As a result of the first half being an on-season for harvesting of the beans, production of both crops were higher in the first half relative to the second half of 2011.

2.2 Manufacturing

Performance in the manufacturing sub-sector in 2011 was also varied. While increases were observed in the output levels of some industries, others recorded lower output levels relative to the 2010 output levels. The yearly production levels for flour and Maltina drink registered the highest production growth rates at 46.62 percent and 44.69 percent respectively, explained by increased demand against the backdrop of increased availability of raw materials. The volume of beer and stout produced in 2011 reflected an increase of 17.28 percent to 932.93 thousand cartons, compared to 795.48 thousand cartons in 2010. This was due to a reduction in importation of foreign brands. Output of confectionery grew by 17.7 percent to 3,469.52 thousand pounds, moving from 2,947.87 thousand pounds in 2010. Total volume of common soap produced during the period also grew by 15.23 percent to 480.4 thousand metric tons. Cement production also recorded a marginal increase of 1.2 percent to 310.9 thousand metric tons. The increases in output of these items were generally attributed to a general increase in domestic demand, among other things, coupled with the availability of material inputs and increased electricity supply. In contrast however, declines were recorded in the output levels of other products during the year, due mainly to increased competition from imported products and increased cost of inputs. Output of soft drinks fell by 4.12 percent to 1,881.15 thousand crates in the year, due largely to a shift in taste. Production of acetylene and oxygen gas dropped marginally by 1.54 percent and 2.3 percent to 198.57 thousand cubic feet and 267.36 thousand cubic feet respectively over the year, as a result of intermittent scarcity of raw materials during the period. Paint production also contracted by 9.49 percent to 203.86 thousand gallons, notwithstanding the expansion in construction activities. This was due to the importation of a large volume of various brands of paint product during the period, in anticipation of the festive season in December. On the whole, movements in output levels were indicative of a generally improved performance in the manufacturing sub-sector during 2011.

On a half-yearly basis, with the exception of beer and stout, common soap and flour which output increased throughout the year, output levels of most manufactured items were lower in the second half of the year due to competition with imported brands.

2.3 Mining

Output in the mining sub-sector contracted in 2011, in-spite of the commencement of iron-ore mining operations during the year. Output levels for almost all the minerals recorded decreases in the review period compared to their levels in 2010, with the exception of bauxite, which recorded an increase of 34.06 percent.

Table 3

Mineral Production (2007 - 2011)

Year	Gold	Diamond	Bauxite	Rutile	Ilmenite	Zircon	Iron Ore
	(000' ounces)	(000' Carat)	(000' M tons)	(000' M tons)	(000' M tons)	(000' M tons)	(000' 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	355,278.40	1,457,506.66	67,970.00	14,576.00	8,354.00	137,905.00

SOURCE: Government Diamond Department

Output of diamonds shipped during the year, as recorded by the Gold and Diamond Department (GDD), totalled 355.28 thousand carats, showing a decline by18.8 percent compared to last year. Of the total volume shipped, industrial diamonds accounted for 134.24 thousand carats, while gem diamonds accounted for 215.97 thousand carats. Production of diamonds increased to 210.21 thousand carats in the first half of 2011 but dropped to 145.07 thousand carats in the second half. This development was consistent with the trend in world market prices, following the European economic crisis. Production of bauxite expanded by 34.06 percent over the year to 1,457.51 thousand metric tons in 2011. Total output of rutile and ilmenite (a bye-product of rutile) dropped slightly by 0.33 percent to 67.97 thousand metric tons and 19.94 percent to 14.58 thousand metric tons respectively over the period, on account of the transfer of the dredging plant to a new area of the current ore body (the Lanti deposits). Output of rutile was higher in the second half of the year relative to the first, as a result of the movement of dredging operations to a higher grade area. Similarly, output of gold slumped by 39.19 percent to 5.28 thousand ounces in the reporting period, in-spite of the increases in the average world market price of gold from US$1,224.57/oz in 2010 to US$1,568.23/oz in 2011. The substantial drop in gold production was attributed to a reduction in the number of players engaged in the mining of the mineral. Production of Zircon commenced during the year, recording a total of 8.35 thousand metric tons, while production of iron ore, which also commenced during the period after more than thirty years of cessation, totalled 137.91 thousand metric tons. Although the sector's overall production performance in 2011 was low, growth prospects remain high, against the backdrop of reactivation of full scale iron ore mining and the anticipated increase in investment.

2.4 Services

2.4.1 Construction

A vital indicator in assessing performance in the construction sub-sector is the level of production and consumption of cement. In 2011, cement output increased to 310.9 thousand metric tons from 307.21

Table 4

Building Permits issued for Freetown and Greater Freetown

	2008	2009	2010	2011
Residential	1909	1839	1411	1100
Commercial	63	131	199	344
Wall Fence	175	176	144	168
Schools	7	2	3	19
Churches	7	15	8	10
Mosques	3	6	2	7
Hospitals	2	2	1	5
Hoardings	0	2	0	9
Total	**2166**	**2173**	**1768**	**1662**

SOURCE: Ministry of Lands and Country Planning thousand metric tons in 2010, which is indicative of an increase in public works, such as road maintenance and construction. However, the number of building permits issued in 2011 fell from 1,768 in 2010 to 1,662, reflecting a decrease in building construction activities during the review period.

Permits for all categories of structures in 2011, with the exception of residential buildings, exceeded their levels in 2011. The total number of permits issued by the Ministry of Lands, Country Planning and the Environment for 2011 comprised 1,100 residential buildings, 344 commercial buildings, 168 wall fencing, 19 school buildings, 10 churches, 7 mosques, 5 hospitals and 9 hoardings.

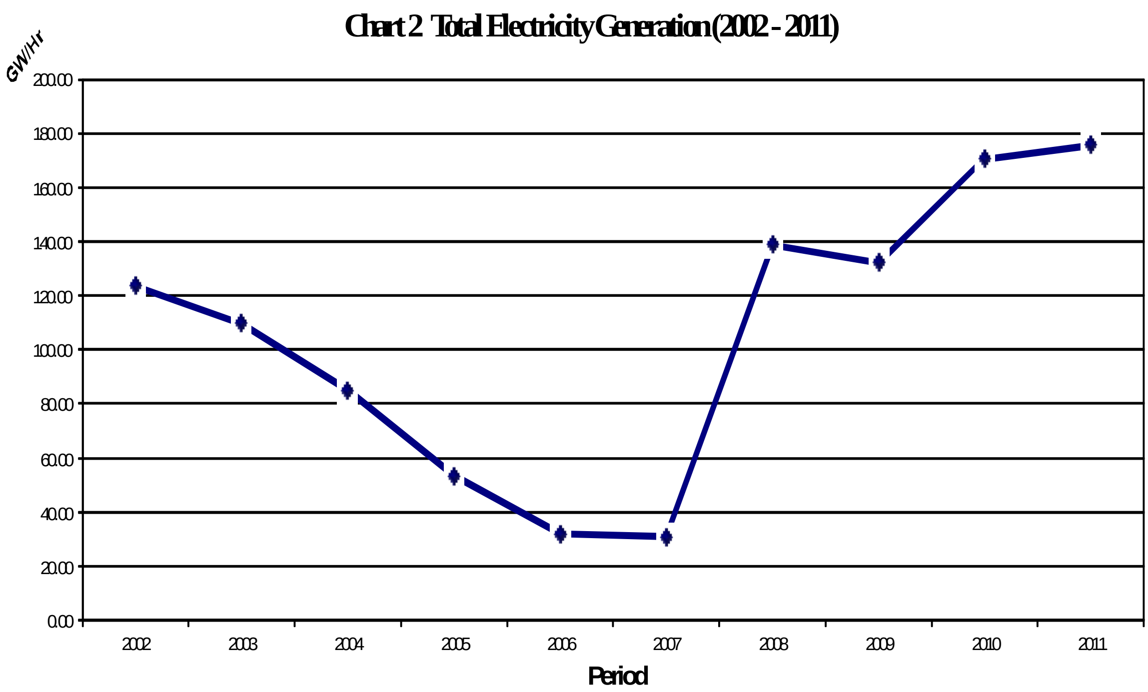
2.4.2 Electricity Generation

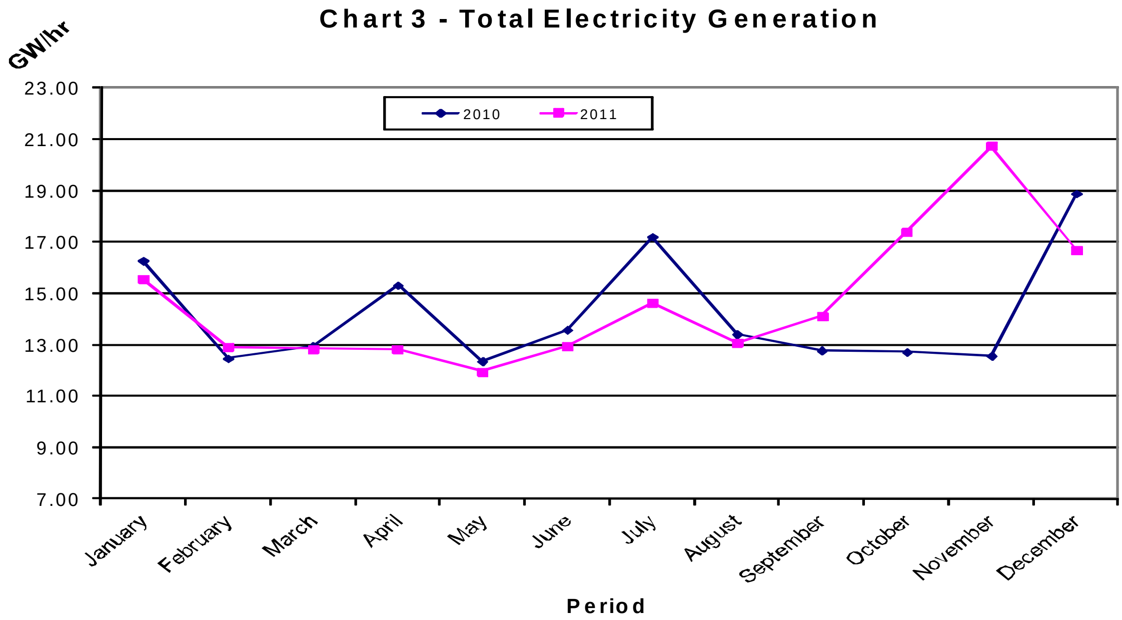
During the year, the government embarked on the development of phase II of the Bumbuna hydropower project. The first phase of the project was completed in 2009, which resulted in additional 50 mega watts (MW) of electrical power to the country's power grid. The objective of Phase II of the project, (which is being developed by Joule Africa, part of Joule Investment Group), is to extend the existing installed capacity to 400MW, with completion date by 2017. Currently, total installed capacity is 76.5 MW, following the commissioning of two thermal plants installed in the East and West of Freetown. The Bumbuna hydro power currently accounts for 50MW, while the thermal power plants contribute a total of 26.5MW (with 16.5MW from the East end and 10MW from the West end of Freetown.

Table 5

Electricity Generation(Kw/h)

Year	Total Units Generated
2002	123,499,068
2003	109,387,209
2004	84,816,249
2005	53,212,105
2006	31,980,820
2007	30,681,450
2008	138,776,007
2009	131,977,192
2010	170,637,263
2011	175,643,847





The overall power generation in the energy sub-sector showed stronger performance in 2011 than in the previous year. Total units of electricity generated in 2011 amounted to 175.67 million kilowatt hours (kwh), representing a growth rate of 3.07 percent over 2010 partly as a result of increased consumption in the mining and manufacturing sub-sectors.

Monthly movements showed aggregate electricity generation at 15.57 million kilowatt hours in January 2011 which fell gradually to a low of 11.96 million kilowatt hours in May 2011 due largely to low water levels at the Bumbuna hydropower plant. Aggregate generation rose thereafter, following the coming on stream of the thermal power plants around the second quarter of the year to reach a record high of 20.73 million kilowatt hours (kwh) in November 2011 before taking a downturn again to close at 16.67 million kilowatt hours in December 2011. Of the total power generated in 2011, Bumbuna hydroelectric power accounted for 87.38 percent, while the rest was contributed by the thermal plants- Niigata Nos. 7 & 8 installed in the West end contributed 8.11 percent and Wartsila Nos. 1 & 2 installed in the East end contributed 4.5 percent.

2.4.3 Transport Sub-Sector

Performance in the transport subsector in 2011 varied, with the number of licensed vehicles registering a significant increase, while the number of registered vehicles recorded a decline. The number of vehicles licensed by the Sierra Leone Road Transport Authority (SLRTA) grew by 183.48 percent, from 17,794 in 2010 to 50,443 in the year under review. Total licensed vehicles included private cars (5,156), taxis (15,102), motor cycles (11,563), utility vans and non- commercial station wagons (3,759), vans/buses carrying up to 25 passengers (12,127), buses carrying above 25 passengers (5,397), trucks with six tyres (364), trucks with more than six tyres (1,837), and tractors and trailer units (1,436). The increase in the number of licensed vehicles was reflected in almost all categories of vehicles.

In contrast, the number of registered vehicles in 2011 declined by 42.99 percent to 26,498. Registered vehicles were categorized as follows: private cars (2,111), taxis (10.319), motor cycles (2,981), Utility vans & station wagons (1,411), vans/buses up to 25 passengers (4,274), buses with more than 25 passengers (2,800), trucks with six tyres (249), trucks with more than six tyres (1,529) and tractors & trailer units (824). The drop in total registration was mainly reflected in the registration of private cars, motor cycle, utility vans & station wagons, and vans & buses up to 25 passengers.

2.4.4 Communications

The communications sub-sector expanded further, with mobile telecommunication experiencing increased competition within the Global System for Mobile (GSM) networks. Of the six (6) GSM operators licensed to do business in the country (Airtel, Africell, Comium, Intergroup Telecoms, Ambitel and Rawabi Dubai), only three (Africell, Airtel and Comium) were operational in 2011. The number of licensed major internet service providers as of 2011 stood at 18 (eighteen), of which 3 (three) are yet to commence service delivery to the public. The number of Frequency Modulation (FM) broadcasting radio stations totalled 66, including international media houses, the national broadcaster and commercial, community and religious radio stations. The number of SIM card registration surged from 1,752,607 in 2010 to 3,039,522 in 2011, with the wire line (fixed phone) showing a decline from 24,000 in 2010 to 10,000 in 2011.

Following the landing of the first ever fibre optic cable in the country in 2011, further boost is anticipated for the sector. This is expected to reduce general public expenditures on communication, as the country currently depends entirely on satellite networks for international telephone connections with broadband services, which have remained extremely expensive.

2.4.5 Tourism

The tourism sub-sector experienced a gradual upturn in 2011, evidenced by the increased investment in the sub-sector especially by indigenous Sierra Leoneans, in the area of newly constructed and refurbished hotels and guesthouses throughout the country. Official statistics from the Ministry of Tourism indicate that during 2011, over 600 hotel rooms were added to the existing 3,700 stock of various classes, and about 400 seats of restaurant facilities were provided country wide. Tourist/visitor arrivals via the Lungi International Airport for 2011 numbered 52,442 accounting for 53 percent of the total passenger arrival of 99,181 through the airport during the year. The total also represents a 68 percent increase in tourist/visit arrival over 2010, partly influenced by the stability and increased confidence in Sierra Leone as a tourist destination by the international community. The classification of tourist arrivals by country of origin for the period January-December 2011, indicated that 29.85 percent came from Africa, 10.22 percent from Asia, 19.97 percent from America, 26.33 percent from Europe, 6.65 percent from the Middle East and 6.99 percent from Australia & Oceania.

Analyzed by purpose of visit, tourist arrivals on holidays accounted for 21.25 percent, those on visit to friends and relatives accounted for18.08 percent, while those on businesses comprised 35.24 percent, on conferences 10.18 percent and “others” 15.25 percent.

2.5 Inflation Developments

Headline consumer price inflation remained in double digits throughout the year, driven partly by domestic factors and largely by the spikes in international prices of fuel and food. From 13.52 percent in January 2011, the headline inflation rate rose to 14.92 percent in March 2011, increasing further to15.42 percent in April 2011 and reached a high of 17.82 percent in May 2011. The trend was reflective of the upward revision of fuel prices and its accompanying effects on food prices and transport costs.

Table 6

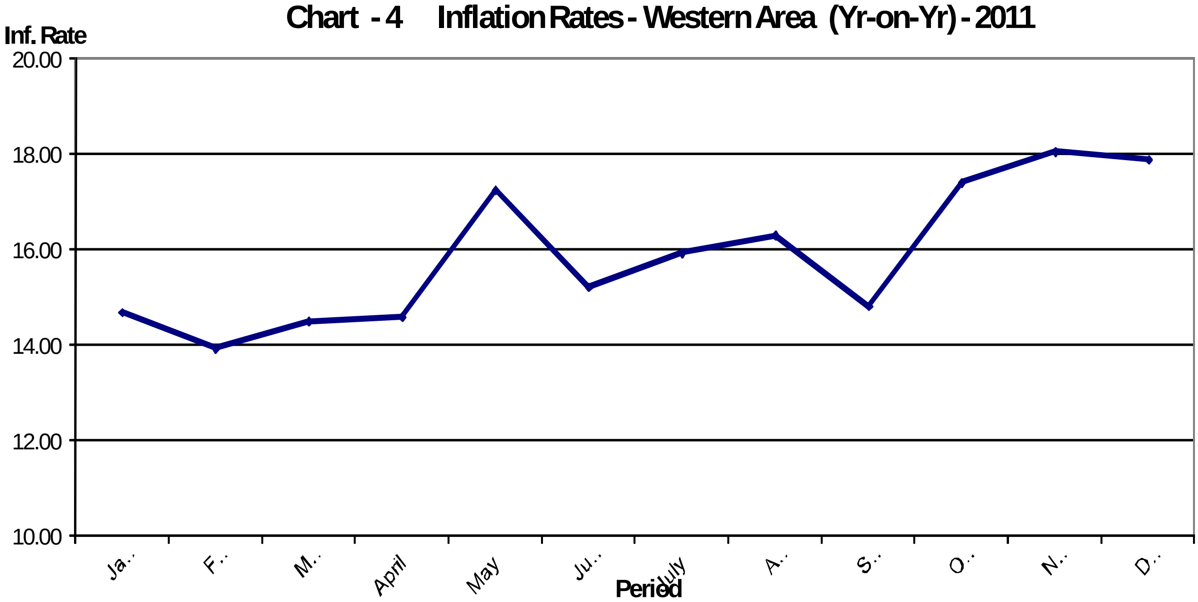
Inflation Rates 2011

PERIOD	NATIONAL			WESTERN AREA		
	CPI	Year-on-year % Change	Monthly % Change	CPI	Year-on-year % Change	Monthly % Change
January	157.69	13.53	0.34	157.78	14.69	0.23
February	162.17	13.88	2.84	162.53	13.93	3.01
March	165.28	14.91	1.92	165.09	14.50	1.58
April	167.37	15.43	1.26	166.88	14.60	1.08
May	171.27	17.82	2.33	171.26	17.25	2.62
June	172.16	16.79	0.52	171.47	15.22	0.12
July	174.39	16.82	1.29	174.67	15.94	1.87
August	176.35	16.40	1.12	176.96	16.30	1.31
September	177.94	15.70	0.90	178.13	14.82	0.66
October	180.11	17.15	1.22	181.62	17.41	1.96
November	180.80	17.24	0.38	182.89	18.05	0.70
December	183.31	16.64	1.39	185.58	17.89	1.47

Source: *Statistics Sierra Leone*

The year also witnessed the country's migration (on 1st May 2011) from the imperial system of measurement to the metric system, in line with international standards. At the same time, the pump price of petroleum products was increased to Le5,000 a litre to reflect the full pass-through of increases in the world prices for the products during the year. This development immediately prompted a general increase in prices of goods and services. As a result, the pump price was later revised to Le4,500 a litre, in order to mitigate the effect on general prices of the increase in the cost of fuel, while the 10 percent subsidy on rice imports was temporarily suspended to cushion the effect of rising world market

Chart - 4 Inflation Rates - Western Area (Yr-on-Yr) - 2011



prices of rice on the poor. Inflation pressures subsequently eased, though marginally, with the year on year inflation rate reaching 15.7 percent in September 2011. It however increased thereafter to 17.24 percent in November, due to global pressures from rising commodity prices, before settling at 16.64 percent in December 2011. This represented moderation in general price increase by 1.2 percentage points. The annual average inflation rate also declined from 16.77 percent in 2010 to 16.06 percent in 2011.

3.0 Fiscal Operations

The 2011 Government Budget and Statement of Economic and Financial Policies had as its theme: *"Scaling up infrastructure investment to support higher economic growth and widen opportunities for job creation and income generation"*. True to the theme, the budget focused on public expenditure on projects with potential material benefits to the nation, including construction of trunk and feeder roads, supply of electricity and clean water, enhancing agricultural output and food security and providing quality healthcare and educational services.

The strategic objective for 2011 was to enhance economic growth, develop and transform the social sector, while maintaining macroeconomic stability. The global economic and financial challenges were viewed as opportunities to search for and adopt innovative and bold interventions to accelerate the country's exit from acute poverty. Consistent with this outlook, the budget stipulated programmes intended to create fiscal space for accelerated capital and social spending by broadening the tax base, containing non-priority spending and raising public sector efficiency, especially in project selection and implementation.

The budget outturn for the year 2011 was an overall deficit of Le581.19bn, translating to 6.44 percent of Gross Domestic Product (GDP), compared to the budgeted deficit of Le375.27bn (3.92% of GDP) for the year and the preceding year's deficit of Le523.52bn (6.89% of GDP). The higher than programmed outturn in the fiscal deficit was attributed to a shortfall in revenue mobilisation and the lower than budgeted foreign inflows to finance aggregate spending for the year.

Total revenue and grants in 2011 amounted to Le2,170.76bn (24.06% of GDP), marginally lower (0.57%) than the budgeted figure of Le2,183.18bn but 40.03 percent higher than the preceding year's total of Le1,550.24bn. The increase in revenue receipts over the year was explained by the strong performance in domestic revenue mobilisation and the disbursement of foreign grants during the period, compared to the preceding year. The shortfall in the budget estimate for the year was entirely in relation to external receipts as domestic revenue was well above its target.

Against the budget target of Le1,425.71bn, actual domestic revenue in 2011 at Le1,462.10bn (16.2% of GDP) was 2.55 percent higher as well as 45.10 percent above the preceding year's receipts. This performance was a reflection of improved revenue mobilization effort, coupled with strengthened internal controls in revenue collection by the Sierra Leone National Revenue Authority. Consequently, the annual contribution of domestic revenue to total revenue and grants improved to 67.35 percent in 2011 from 65.0 percent in 2010.

Collections from customs and excise duties amounted to Le343.74bn (3.81% of GDP) for the period under review, representing 23.51 percent of domestic revenue. It was also 4.18 percent above the 2010 level of Le329.93bn. The total was however 5.05 percent short of its budgeted target of Le362.01bn.

Table 7

Government Fiscal Operations

(In Millions of Leones)

	2010	2011	Budget 2011
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	**1,550,241**	**2,170,759**	**2,183,180**
DOMESTIC REVENUE	**1,007,627**	**1,462,100**	**1,425,705**
Of which:			
Customs & Excise	**329,931**	**343,736**	**362,014**
Import Taxes	246,145	282,413	282,934
Excise on Petroleum	73,142	55,311	64,671
Other Excise Dutties	3,523	0	3,251
Freight Levy from Marine Administration	7,121	6,012	11,158
Income Tax Department	**303,026**	**473,150**	**419,891**
Company Tax	136,510	73,432	105,861
Personal Income Tax	155,237	393,456	305,053
Other Taxes	11,279	6,262	8,977
Goods and Services Tax	246,362	351,449	335,340
Import GST (Import Sales Tax)	136,705	129,549	167,045
Domestic GST	109,657	221,900	168,295
Miscellaneous	**76,336**	**270,864**	**259,436**
Mines Dept.	**24,191**	**202,344**	**185,517**
Royalty on Rutile	211	684	309
Royalty on Bauxite	976	0	1,423
Royalty on Diamond and Gold	1,856	15,435	8,656
Royalty on Iron Ore	0	0	0
Licences	21,148	186,225	175,129
Other Departments	52,145	68,520	73,919
Royalty on Fisheries	12,298	11,851	12,249
Parastatals	4,887	0	5,320
Other Revenues	34,960	56,669	56,350
Road User Charges	**51,972**	**22,901**	**49,024**
GRANTS	**542,614**	**708,659**	**757,475**
Programme	**266,360**	**280,223**	**386,672**
HIPC Debt Relief Assistance	19,855	21,941	23,785
Japanese Food & Oil Aid	27,709	0	47,292
Global Fund Salary Support	0	13,851	21,247
Kuwaiti Fund Refund	0	1,685	1,677
UK (DFID)	78,400	105,278	110,921
EU	110,958	61,416	87,920
AFDB	28,513	40,467	38,693
WB	0	10,727	10,748
Peace Building Fund	925	24,857	44,388
Emergency Power Programme	0	24,857	44,388
Others (projects)	925	0	0
Development Projects	276,254	428,436	370,803
TOTAL EXPENDIUTRE & NET LENDING	**2,073,763**	**2,751,949**	**2,558,449**
Of which:			
Current Expenditure	**1,286,476**	**1,602,821**	**1,563,556**
Of which:			
Wages & Salaries	535,669	681,346	650,317
Domestic Interest	141,930	226,137	216,026
Foreign Interest	17,249	24,082	21,160
Goods & Services	426,350	396,252	350,552
Transfers to Local Councils	78,438	76,058	81,733
Fuel Subsidies	0	95,444	95,444
Social Outlays	442	0	0
Grants to Education Institution	29,135	48,414	48,523
Transfer to Road fund	51,972	12,282	37,465
Elections & Democratisation	5,291	42,806	62,336
Development Exp. & Net Lending	**787,287**	**1,149,128**	**994,893**
Foreign Loans & Grants	432,178	786,980	758,650
Loans	154,999	358,544	387,847
Grants	277,179	428,436	370,803
Domestic	355,109	362,148	236,243
Lending Minus Repayment	0	0	0
CURRENT BALANCE+/- (Including grants)	**263,765**	**567,938**	**619,624**
ADD DEVELOPMENT EXPENDITURE	-787,287	-1,149,128	-994,893
Basic Primary Balance	-469,488	-209,844	-74,572
OVERALL DEFICIT/SURPLUS +/-(Incl. grants)	**-523,522**	**-581,190**	**-375,269**

Table 7 contd...

Government Fiscal Operations
(in Millions of Leones)

	2010	2011	Budget 2011
FINANCING	**523,522**	**581,190**	**375,269**
Domestic	**446,161**	**154,859**	**151,029**
Of which:			
Bank Financing	**454,657**	**66,597**	**73,649**
Bank of Sierra Leone	391,625	9,917	-102,733
Commercial Banks	63,032	56,680	176,382
Non-Bank Financing	**-8,496**	**54,121**	**43,239**
Privatisation Receipts	**0**	**34,141**	**34,141**
External	**161,725**	**304,630**	**334,015**
Of which:			
Loans	222,486	358,544	387,847
Project	154,999	358,544	387,847
Programme	67,487	0	0
Amortisation	-60,761	-53,914	-53,832
Debt Relief	0	0	0
Others*	**-84,364**	**121,701**	**-109,775**

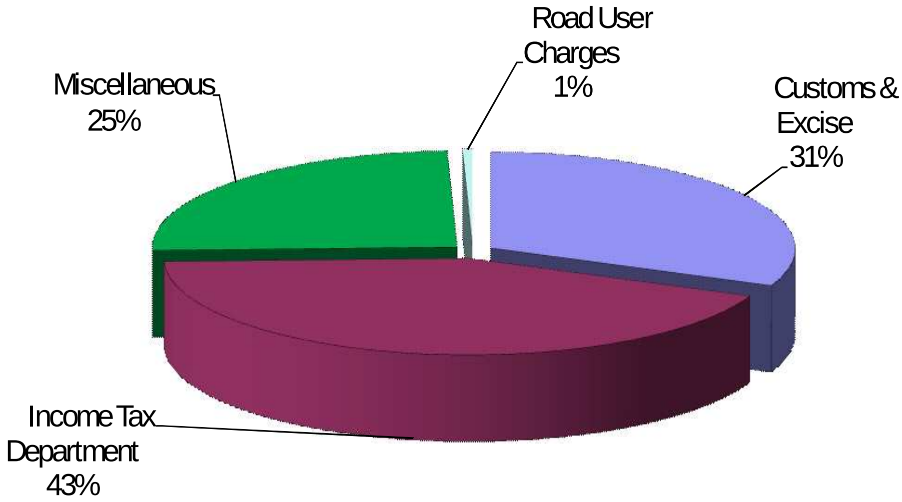
*** Others include resheduling/write off, financing gap, privatisation net & unaccounted amounts**

Source: Budget Bureau, MOF

The shortfall in revenue from customs and excise vis-a-vis its target was on account of the lower than budgeted receipts from petroleum and freight levy under the Marine Administration category, coupled with the granting of tax concessions and duty waivers. The three categories of exemptions which may be considered major sources of revenue leakages are (i) institutional exemptions for pre-defined institutions and categories of people such as diplomatic missions, members of parliament and religious institutions; (ii) exemptions granted to investors and (iii) discretionary exemptions granted by the Ministry of Finance. Excise on petroleum products shrank by 24.38 percent to Le55.31bn and was 14.47 percent below the target of Le64.67bn, partly due to delays by oil companies in the payment of excise duties and road user charges. Receipts of Le6.01bn on freight levies from Maritime Administration also fell short of its budgeted target.

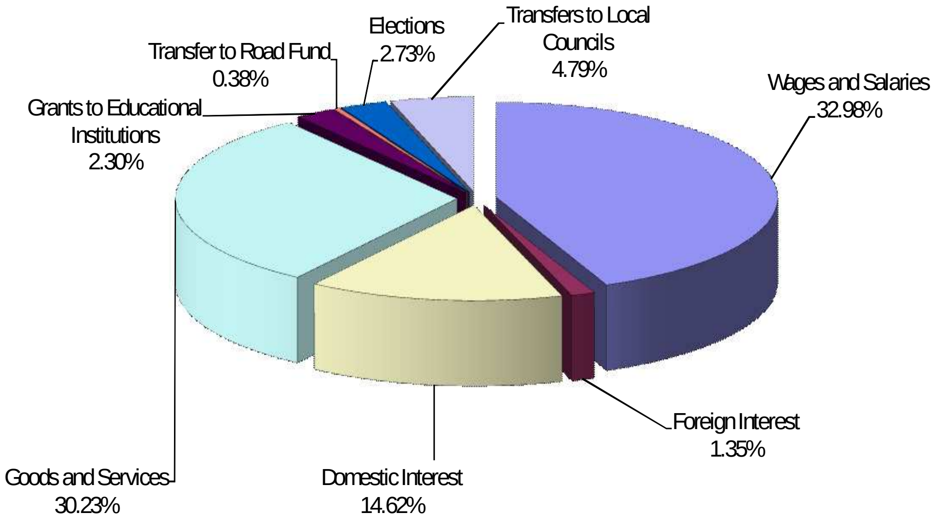
Income tax receipts grew by 56.14 percent to Le473.15bn (5.24% of GDP) over the year and also exceeded the budget estimate of Le419.89bn by 12.68 percent. The growth in income tax receipts was mainly explained by the exceptional performance in personal income tax receipts, which amounted to Le393.46bn, thereby outpacing the budgeted amount of Le305.05bn by 28.98 percent and showing a 153.46 percent increase relative to the total of Le155.24bn in 2010. In contrast, collections from company tax dropped by a significant 46.21 percent to Le73.43bn and were also 30.63 percent below the budget estimate of Le105.86bn. The contribution of income tax receipts to domestic revenue increased from 30.07 percent in 2010 to 32.36 percent in 2011.

Chart 5 - Composition of Government Revenue - 2011



Total collections of Le351.45bn (3.89% of GDP) from Goods and Services Tax (GST) in the period under review indicated a rise by 42.66 percent over the 2010 position and exceeded the budget target of Le335.34bn by 4.8 percent. The contribution of GST to domestic revenue was 24.04 percent, falling slightly by 0.41 percentage point compared to 2010. Of the total receipts from GST, Import GST (Import sales Tax) accounted for Le129.55bn (36.86%), while Domestic GST contributed Le221.9bn (63.14%). Receipts from domestic GST were however higher than receipts from import sales tax, a reflection of more imports than exports during the year. The strong performance in overall revenue generation for the year was the result of increased efficiency in the monitoring and implementation of a number of reforms by the NRA under its modernization plan, such as the roll-out of the ASYCUDA++ in customs operations and the establishment of a Domestic Tax Department and a micro tax payer regime.

Chart 6 - Composition of Government Recurrent Expenditure - 2011



Total tax revenue in 2011 amounted to Le1,168.34bn (12.95% of GDP), exceeding the total of Le879.32bn in 2010. The improved performance in tax revenue generation was attributed to increased economic activities, improved tax administration and stricter enforcement of tax legislations to enhance compliance. Notwithstanding the impressive performance, the tax revenue ratio of 12.95 percent of GDP was significantly below the criterion of at least 20 percent stipulated by the West African Monetary Zone.

Collections from "miscellaneous sources" amounting Le270.86bn (3.00 % of GDP) more than doubled the amount collected in 2010, and was also 4.40 percent above the budgeted amount of Le259.44bn. The improved performance in miscellaneous revenue relative to the budget estimate was in part driven by the receipt of signature bonuses from petroleum exploration activities and payroll taxes by mining companies. Of the total amount, collections from Mining royalties and Licenses amounted to Le202.34bn (2.24 % of GDP), which was 9.07 percent in excess of the projected amount of Le185.52bn. Collections by other Government departments totalled Le68.52bn was below the budgeted amount of Le73.92bn by 7.30 percent. On the other hand, road user charges and vehicle licenses dropped by 55.94 percent over the year to Le22.90bn in 2011 and were also 53.29 percent short of the budget estimate of Le49.02bn.

External grants of Le708.66bn (8.85 % of GDP) disbursed during the year represented an increase of 30.60 percent compared to corresponding receipts in 2010 but was however 6.44 percent short of the anticipated total disbursement of Le757.48bn for the year. This was largely due to non receipt of programmed inflows for the year. External grants received during the year comprised budgetary support of Le280.22bn and project grants of Le428.44bn for developmental activities. The amount for budgetary support reflected a 5.20 percent increase over the year but was 27.53 percent short of the budget target of Le386.67bn; while developmental project grants rose by 55.09 percent over the year and also exceeded the budget target of Le370.8bn by 15.54 percent. Grants for budgetary support were in respect of HIPC Debt Relief Assistance (Le21.94bn), support from Global Fund (Le13.85 bn), UK DFID (Le105.28bn), the European Union (Le61.42bn), the African Development Bank (Le40.47bn), the World Bank (Le10.73bn) and Peace Building Fund (Le24.86bn). The overall performance of external grants for the year was boosted mainly by increased grants for development projects.

Total expenditure and net lending targeted at Le2,558.45bn for 2011 amounted to Le2,751.95bn (30.50% of GDP), thereby breaching the ceiling by 7.56 percent and exceeding the 2010 outlays by 32.70 percent. Recurrent expenditure of Le1,602.82bn (17.76 % of GDP) reflected a 24.59 percent growth while exceeding the Le1,563.56 ceiling by 2.51 percent. Development expenditure and net lending grew by 45.96 percent to Le1,149.13bn and also exceeded the ceiling of Le994.89bn by 15.50 percent. The higher than budgeted recurrent expenditure was attributed to overruns on the wage bill, amortisation on domestic debts, fuel subsidies and expenses on goods and services. Of the total increase on recurrent spending for the period, the wage bill reflected an increase by 27.20 percent to Le681.35bn, 4.77 percent above the targeted ceiling of Le650.32bn. The higher wage bill was partly a reflection of the commencement of the new multi-year pay reform for teachers as well as other public servants, including the military, police, health sector workers and civil servants.

Total interest payments on public debts increased by 57.19 percent to Le250.22bn, of which domestic interest payments recorded at Le226.14bn, represented an increase by 59.33 percent relative to the preceding year and also 4.68 percent above the budget ceiling of Le216.03bn. The increase in domestic interest was in part explained by 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 the year. Foreign interest payments of Le24.08bn was up on the 2010 position by 39.61 percent and slightly exceeded the ceiling by 13.81 percent, due to the depreciation of the local currency against major foreign currencies.

Non-salary, non-interest recurrent expenditures totalled to Le671.26bn in 2011, thereby exceeding the preceding year's total of Le591.63bn by 13.46 percent and was however below the budget estimate of Le676.05bn by 0.71 percent. Of the non-salary & wages category, non-interest bearing recurrent expenditure of Le76.06bn was in respect of transfers to Local Councils, while Le396.25bn was for expenses on goods and services. Government's contribution to the Election and Democratisation process amounted to Le42.81bn, while fuel subsidies paid to oil marketers intended to alleviate the effects of the full pass through of higher international oil prices on the domestic pump prices amounted to Le95.44 bn and grants to educational institutions was recorded at Le48.41bn.

Capital expenditure rose by 47.15 percent from Le787.29bn in 2010 to Le1,149.13bn (12.73% of GDP) in 2011 and breached the budget ceiling of Le994.89bn by 15.50 percent. As a share of aggregate expenditure and net lending for the year, capital expenditure accounted for 41.76 percent compared to 37.96 percent in 2010. The increase in capital expenditure was entirely on account of the 82.10 percent increase to Le786.98bn in expenditure funded by foreign loans and grants. Expenditure funded by foreign loans totalled Le358.54bn, while that funded by foreign grants totalled Le428.44bn. Domestic Development Expenditure experienced a significant over-spending of Le125.91bn or 53.3 percent over the budgeted estimate of Le236.24bn, on account of greater than anticipated spending on road projects, rehabilitation of the Lungi Airport and strengthening of the district health care services. Expenditure on projects funded by foreign loans was 7.56 percent below the budget of Le387.85bn and those funded by foreign grants were 15.54 percent above the budget of Le370.80bn. Out of the Le786.98bn disbursed, Le170.14bn was disbursed on unbudgeted projects and the remaining amount was disbursed on projects that were included in the budget. Out of the Le170.14bn disbursed on unbudgeted projects, 80 percent were grants and 20 percent loans. Major donors in respect of foreign development loans and grants that were unbudgeted were International Fund for Agricultural Development (Le41.30bn), the World Bank (Le35.54bn), UK/DFID (Le33.00bn), Kuwait Fund for Arab Development (Le12.90bn), European Commission (Le12.03bn), African Development Bank (Le10.38bn), Arab Bank for Economic Development in Africa (Le8.87bn), Islamic Development Bank (Le7.03bn), OPEC Fund for International Development (Le4.03bn), Saudi Fund (Le3.36bn) and ECOWAS Bank for International Development (Le1.71bn).

The overall fiscal balance resulted in a deficit of Le581.19bn (6.44% of GDP), compared to a deficit of Le523.52bn (6.1% of GDP) in 2010, and a budget deficit of Le375.27bn. Financing of the budget deficit was from both external and domestic sources, with external source being the dominant. Financing from net external sources amounted to Le304.63bn (3.38% of GDP), 8.8 percent lower than the budget estimate of Le334.02bn but 88.36 percent higher than the preceding year's external financing. Domestic financing of the deficit was Le154.86bn (1.72% of GDP), 2.54 percent higher than the budget estimate of Le151.03bn but 65.29 percent below that of 2010. Domestic financing included bank financing of Le66.6bn, of which Bank of Sierra Leone's contribution was Le9.92bn and commercial banks' was Le56.68bn. The non-bank sector contributed Le54.12bn, and financing through privatisation receipts (i.e. proceeds from the privatisation of the Ports Authority Container Terminal) totalled Le34.14bn.

4.0 Monetary Developments

The focus of monetary policy in 2011 was to achieve price stability consistent with general macroeconomic growth while maintaining monetary and financial stability. In line with these objectives, the Bank of Sierra Leone continued to conduct monetary policy management within the framework of monetary targeting, with Reserve Money (RM) being the Bank's operating target and Broad Money its intermediate target.

To enhance monetary policy management, BSL introduced the Monetary Policy Rate (MPR) in February 2011, to signal the BSL monetary policy stance and anchor other money market rates around the MPR. The MPR guides open market operations, with active repurchase operations complemented by weekly foreign exchange auction. These complementary instruments enable the Bank to smooth out volatility of liquidity in the inter-bank market. Informed by the liquidity conditions in the interbank market and other macroeconomic and financial indicators, the MPR was periodically reviewed to signal the Bank's monetary policy stance to the market.

Monetary policy management was however challenged by fiscal outcomes arising from growth in expenditure on development projects namely, energy supply, health and road construction projects, financed by domestic and foreign borrowing as well as donor support. As a result of this fiscal injection and BSL purchases of foreign exchange from the banks, liquidity surged in the financial system during the period under review. In addition, demand for money to meet current transaction needs of the public during the festive season in the latter part of the year, led to an increase in Currency in Circulation. BSL on its part was unable to adequately sterilize the excess liquidity and bring monetary aggregates within target, which culminated in the growth of key monetary aggregates above their indicative program benchmarks.

Chart 7. Composition of Money Supply (M2)

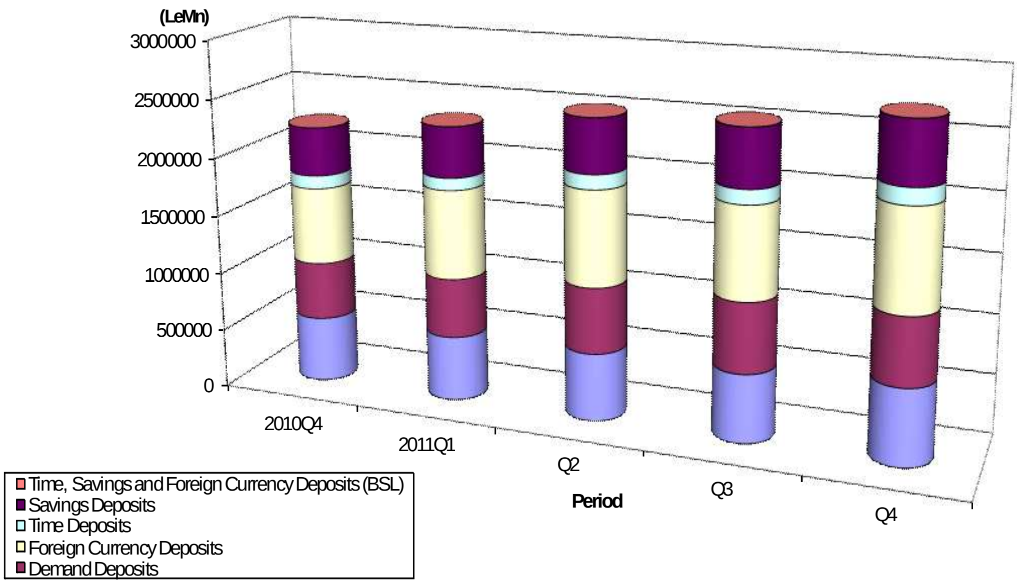


Table 8

Monetary Survey (Million Leones)					
	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
1	2	3	4	5	6
Reserve Money	760,898	725,045	741,909	787,326	859,604
Broad Money	2,236,534	2,348,558	2,528,578	2,551,955	2,719,741
Broad Money*	1,577,937	1,589,730	1,718,196	1,775,242	1,868,262
Narrow Money	1,048,055	1,053,296	1,128,497	1,164,644	1,209,324
Currency in Circulation	557,262	549,675	572,424	575,492	641,832
Demand Deposits	490,794	503,622	556,073	589,152	567,492
Quasi Money	1,188,478	1,295,261	1,400,081	1,387,311	1,510,417
Foreign Currency Deposits	658,597	758,827	810,382	776,714	851,479
Time Deposits	112,242	103,876	123,780	122,611	138,734
Savings Deposits	412,525	427,978	457,236	484,084	515,694
Other Deposits	3,062	2,527	6,631	1,855	2,468
Time Savings and Foreign Currency deposits(BSL)	2,052	2,052	2,051	2,048	2,041
Net Foreign Assets	1,644,505	1,808,982	1,826,933	1,891,616	2,053,006
Bank of Sierra Leone	959,024	1,027,181	985,518	1,056,487	1,117,856
Assets	1,458,987	1,549,107	1,486,341	1,566,486	1,661,061
Liabilities	499,963	521,926	500,824	509,999	543,205
Commercial Banks	685,481	781,801	841,416	835,128	935,150
Assets	703,456	797,414	857,237	850,950	949,227
Liabilities	17,975	15,613	15,822	15,822	14,077
Domestic Credit	1,739,468	1,790,825	1,863,188	1,940,430	1,932,431
Claims on Central Govt. Net	872,802	850,107	935,392	952,845	879,751
of which:					
BSL	574,069	568,807	574,925	595,821	585,498
Total Claims	704,307	588,306	606,387	619,962	601,222
Government Securities Issued obo BSL	-	-	-	-	-
Treasury Bills	149,389	125,318	82,895	71,269	132,435
Treasury Bonds	20,592	26,071	24,960	13,727	11,009
Ways and Means Advances	177,694	-	-	37,199	26,886
2010 Ways and Means Advances Stock A/C	-	77,516	77,516	77,516	-
SDR Bridge Loan	-		64,292	64,292	-
BSL losses for conversion	10,390	13,120	9,740	8,305	6,998
Stock of NNNIB	81,801	81,801	81,801	81,801	81,801
BSL Holdings of 3-Year Medium Term Bond					77,516
5YR Bonds for Recapitalization	264,430	264,430	264,430	264,430	264,430
Government Departments	12	51	753	1,423	147
Deposits	130,238	19,499	31,461	24,141	15,723
Treasury Income and Expenditure(net)	2	2,373	7,193	2	2
Departmental Accounts	16,717	16,607	23,749	23,619	15,201
HIPC (MDRI)	113,512	512	512	512	512
Blocked Account	8	8	8	8	8
Kenema Branch Deposits	-	-	-	-	-
Commercial Banks	298,734	281,300	360,467	357,024	294,253
Total Claims	476,127	482,844	545,029	547,073	533,460
Treasury Bills	458,226	459,097	511,214	508,487	491,773
Treasury Bearer Bonds	-	557	14,948	14,948	15,448
Loans and Advances	17,901	23,190	18,868	23,638	26,238
Deposits	177,393	201,544	184,563	190,049	239,207
Demand Deposits	109,140	130,043	100,909	126,140	182,039
Savings Accounts	20,645	13,231	14,635	13,580	15,073
Time Deposits	47,608	58,270	69,019	50,329	42,095
Claims on Non Financial Public Sector	54,025	41,956	42,475	48,479	53,507
Claims on Private Sector	790,395	873,384	860,843	903,911	963,142
of which					
Commercial Banks	783,523	860,585	849,200	894,091	955,897
Claims on Non-Banking Inst.	22,246	25,377	24,478	35,196	36,031
Other Items (Net)	1,147,439	1,251,249	1,161,543	1,280,091	1,265,697

** Excludes Foreign Currency Deposits at the Commercial Banks*

Source: Bank of Sierra Leone and Deposit Money Banks

Despite the expansionary movement in key monetary aggregates above their 2011 targets, their growth rates were lower compared to those recorded in 2010. This was due to the introduction of the MPR and tighter monetary policy stance of the Central Bank, coupled with continuous macroeconomic policy management coordination.

During 2011, Broad Money (M2) recorded a growth rate of 21.61 percent and was in breach of the 2011 target of 13.75 percent. However, the growth in M2 was lower compared to the corresponding growth rate of 32.73 percent for 2010.

The expansion in M2 was due to the increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). NFA grew by 24.84 percent compared to the projected drop of 7.92 percent. The increase in NFA stemmed from a range of inflows including budgetary support inflows, expatriate tax payments by mining companies and increases in commercial banks' claims on overseas banks. NDA rose by 17.66 percent as against a growth target of 23.97 percent for end December 2011. The growth in NDA was a result of an increase in credit to the private sector by commercial banks to pre-finance developmental projects.

RM registered an annual growth rate of 12.97 percent, significantly above the 2011 projection of 3.94 percent but lower when compared to the corresponding growth rate of 34.61 percent in 2010. The expansion in RM was reflected in all its components, with Currency Issued, Bankers' Deposits and Private Sector Deposits increasing by 12.03 percent, 20.76 percent and 10.08 percent respectively, at end-December 2011.

Table 9

Average Interest rates (Percent)

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
1	2	3	4	5	6
Treasury Bills (3-months)	24.54	26.39	23.38	23.25	23.42
Treasury Bills (6-months)	28.35	32.48	30.4	29.27	29.55
Treasury Bills (1-Year)	28.98	29.91	25.53	25.84	28.63
Treasury Bonds (1-year)	22.50	20.00	18.67	18.00	20.00
Savings^	6.19	6.35	6.62	6.42	6.42
1 Month	8.40	9.23	9.28	9.16	9.16
3 Months^	8.90	9.55	10.07	9.75	9.75
6 Months^	9.33	10.12	10.6	10.39	10.39
9 Months^	9.25	9.58	10.5	10.25	10.25
12 Months^	10.55	11.54	12.06	11.91	11.91
Lending (Prime)	21-28	21-28	21 -28	21-29	21-29
National Inflation Rate*	17.84	14.92	16.79	15.7	16.64

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

Net Claims on Government by the banking system grew over the period, albeit by a marginal 0.80 percent compared to the corresponding growth rate of 96.26 percent reported for the same period in 2010. The slowdown in the growth rate was due to tighter monetary policy stance and the enforcement of government borrowing limit from the Central Bank (BSL), coupled with prudent policy measures adopted by the fiscal authorities.

The marginal increase in net claims on government by the banking system was driven by the increase of 1.99 percent in net claims on government by BSL, (compared to a growth rate of 106.40% as at end December 2010) which was however moderated by the 1.50 percent decrease in net claims on government by the commercial banks. The increase in net claims on government by BSL was mainly on account of the drawdown in government deposits in the amount of Le114.52 bn during 2011, which was more than the decrease of Le103.09bn in treasury security holdings by BSL.

Net Claims on Government by commercial banks declined on account of a significant build-up of government deposits amounting to Le61.81bn, which outweighed the increase in the total holdings of Government securities and loans and advances (Le57.33bn) to public entities.

Credit to the private sector by commercial banks grew by Le172.37bn (22.0%) from Le783.52bn recorded as at end- December 2010 to Le955.90bn as at end-December 2011, lower than the 31.89 percent recorded in 2010. This development was in part, due to the establishment and operationalisation of a credit reference bureau during the period and the aggressive loan recovery measures adopted by banks to reduce the Non-Performing Loan (NPL) and ensure financial stability. The main beneficiaries were the Construction sub-sector, accounting for 31.47 percent of the change in total credit, followed by Commerce and Finance (30.00%) and Agriculture, Forestry and Fisheries (8.86 %).

The interest rate on treasury securities exhibited mixed trends. The average annual yield on the 3 months and 12 months Treasury Bills declined by 112 and 35 basis points from 24.54 percent and 28.98 percent in 2010 to 23.42 percent and 28.63 percent in 2011, respectively. The interest rate on the 12 months Treasury Bonds decreased by 250 basis points to 20.00 percent in December 2011, from 22.50 percent in December 2010. However, the annual yield on the 6 months Treasury Bills increased by 120 basis points from 28.35 percent in December 2010 to 29.55 percent in December 2011. The period also witnessed an increase in the commercial banks' average interest rates. Thus the interest rate on Savings Deposits and the 1 month, 3 months, 6 months, 9 months and 12 months Time Deposits increased by 23, 76, 85, 106, 100 and 136 basis points to 6.42 percent, 9.16 percent, 9.75 percent, 10.39 percent, 10.25 percent and 11.91 percent, respectively over the year. The overdraft lending rate at the Deposit Money Banks slightly increased from a range of 21-28 percent in December 2010 to a range of 21-29 percent in December 2011.

5.0 External Developments

International Trade

The global trading environment in 2011 was impacted by the sovereign debt crisis in the euro zone and fiscal developments in the US economy. According to the World Trade Organization (WTO), world trade slowed down in 2011 due to widespread fall in demand, a shortage of trade financing and an increase in protectionist measures. In-spite of these conditions, the Sierra Leonean economy remained virtually unaffected in 2011 as the country does not have strong linkages to the global financial markets.

Table 10

International Trade and Reserves (US$'000)				
	Jan - Dec'10	Jan-Jun'11	Jul-Dec'11	Jan - Dec'11
1	2	3	4	5
Merchandise Imports	**771,168.6**	**730,673.4**	**985,884.2**	**1,716,557.6**
Food *of which*	104,895.6	103,673.5	142,210.0	245,883.5
Rice	71,662.5	39,689.9	45,036.6	84,726.5
Beverages and Tobacco	19,487.8	12,798.2	20,343.2	33,141.5
Crude Materials	13,267.7	8,118.8	10,350.8	18,469.6
Mineral Fuels and Lubricants of Which	172,539.4	145,636.3	130,121.9	275,758.2
Fuel	145,889.7	133,362.2	110,341.4	243,703.7
Animal and Vegetable Oils	9,435.2	4,311.9	5,318.1	9,629.9
Chemicals	43,838.3	13,352.8	53,686.6	67,039.4
Manufactured Goods	110,536.9	87,936.8	87,779.8	175,716.6
Machinery and Transport Equipment	248,699.6	281,590.2	474,672.2	756,262.4
Other Imports	48,468.1	73,254.9	61,401.6	134,656.5
Merchandise Exports	**341,226.4**	**174,282.4**	**175,426.9**	**349,709.4**
Mineral Exports	**200,649.6**	**109,647.4**	**131,086.3**	**240,733.7**
Diamonds	113,514.7	67,470.1	62,296.1	129,766.2
Buaxite	31,061.0	18,348.2	20,649.8	38,998.0
Rutile	40,567.2	14,936.4	19,500.1	34,436.6
Gold	9,295.8	3,475.1	3,804.9	7,280.0
Ilmenite	2,653.1	1,541.1	2,900.6	4,441.7
Iron Ore	-	-	15,357.1	15,357.1
Zircom	3,557.7	3,876.4	6,577.8	10,454.2
Agricultural Exports	**38,900.0**	**32,344.6**	**14,434.8**	**46,779.4**
Coffee	1,698.2	1,564.5	436.3	2,000.8
Cocoa	37,051.2	30,515.3	13,506.6	44,022.0
Piassava	-	10.1	-	**10.1**
Fish and Shrimps	150.6	254.7	491.9	746.6
Others	**78,231.1**	**20,085.1**	**8,912.2**	**28,997.3**
Re-exports	**23,445.7**	**12,205.3**	**20,993.6**	**33,199.0**
Trade Balance	**(429,942.2)**	**(556,391)**	**(810,457)**	**(1,366,848.2)**
Foreign Reserves ($mn)	**345.22**	**344.59**	**376.79**	**376.79**

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

Chart 8. Composition of Exports 2011

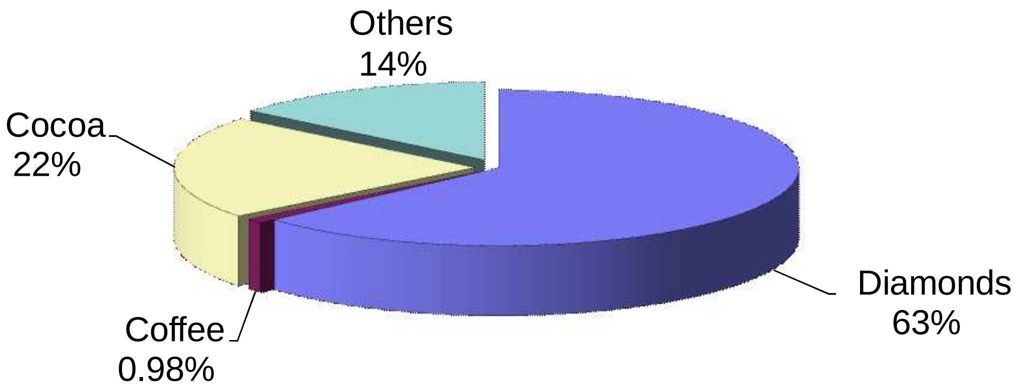


Chart 9. Composition of Imports 2011

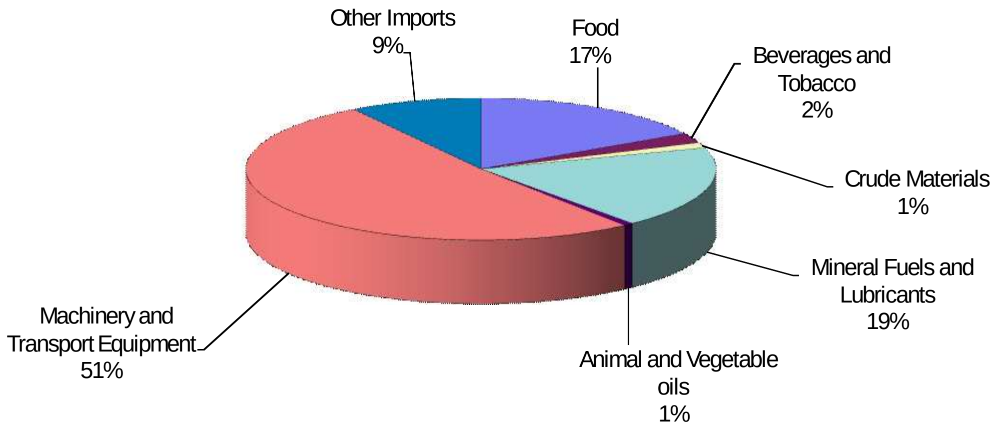


Chart 10. External Trade - 2011

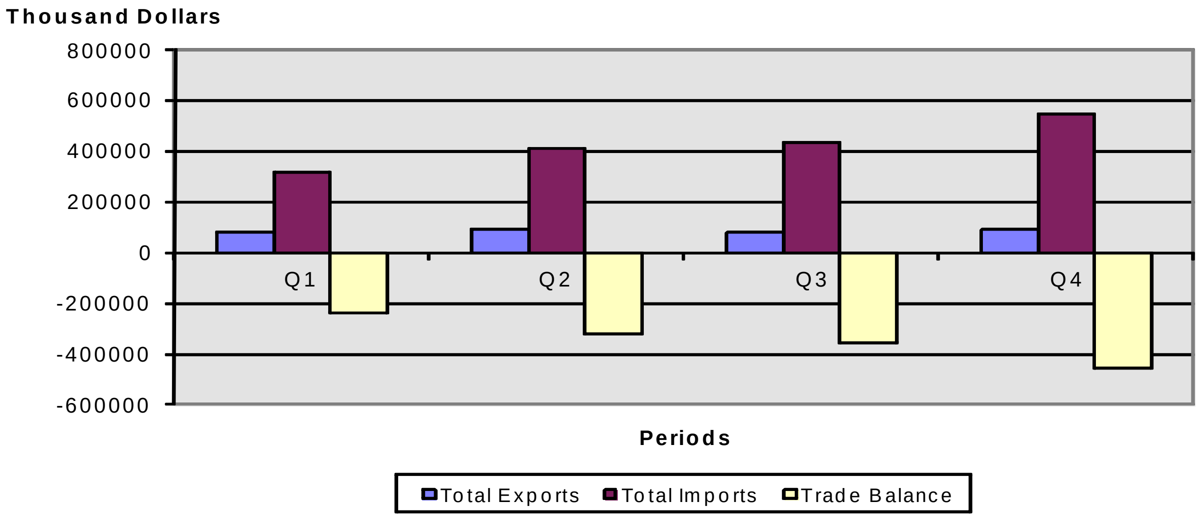
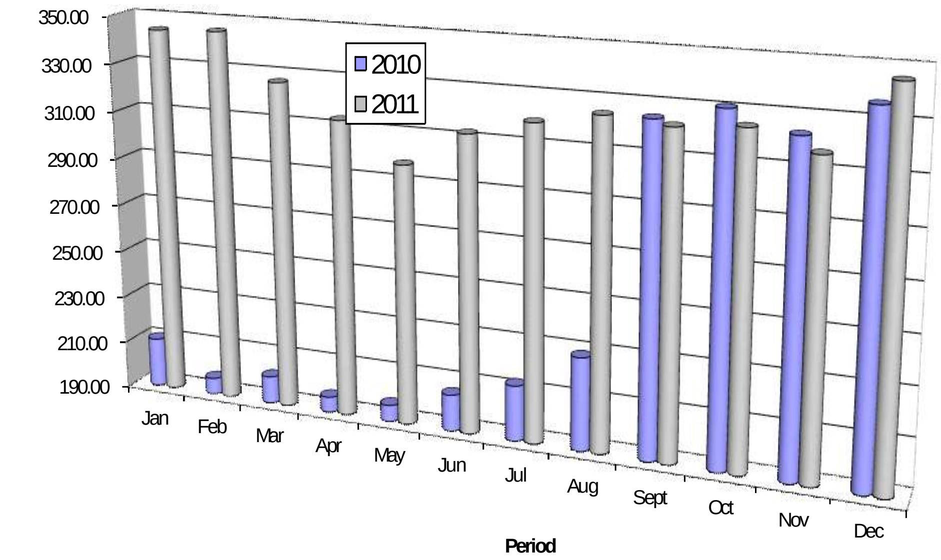


Chart 11
Gross International Reserves



Thus, merchandise trade increased by US$953.87mn (86%) to US$2,066.27mn in the review period. The trade deficit however more than doubled to US$1,336.85mn in 2011 from US$429.94mn in 2010 owing to the relatively larger expansion in import payments compared to the increase in export receipts.

Total merchandise exports in 2011 amounted to US$349.71mn, indicating a marginal increase when compared to the US$341.23mn recorded in 2010. Sierra Leone's exports remain dominated by the mineral sector, which accounted for 68.84 percent of total export earnings. Initiatives by the Government to diversify exports are yet to come to fruition as the contributions of these sectors, especially the agricultural sector, to overall exports remained very low. In 2011, the dominance of the mineral sector was further reinforced by the shipment of a total volume of 137,883 metric tons of iron ore worth US$15.36mn. Earnings from mineral exports amounted to US$240.73mn, 19.98 percent higher than the US$200.65mn recorded in 2010. Diamonds continued to dominate mineral exports, accounting for 53.90 percent of receipts from mineral exports and 37.11 percent of total export earnings. Earnings from diamond exports which recorded US$129.77mn for the review period reflected a 14.32 percent increase compared to US$113.51mn in the preceding year. The composition of diamond exports during the review period comprised 215.97 thousand carats of gem stones valued at US$117.38mn and 134.24 thousand carats of industrial diamonds worth US$12.39mn. The observed buoyancy in the diamond sub-sector could be attributed to price effects as volumes declined during the reporting period. During the year, an aggregate of 1,421.77 thousand metric tons of bauxite worth US$39.00mn and a maiden consignment of 13,025.47 metric tons of Zircom worth US$10.45mn were exported. Export receipts from ilmenite amounted to US$4.44mn in 2011, reflecting an increase of 67.41 percent compared to US$2.65mn recorded in the preceding period. This was due principally to price effects as the volume exported declined from 21.19 thousand metric tons in 2010 to 19.09 thousand metric tons in 2011. Export earnings from gold and rutile showed a similar pattern, registering a decline of 43.52 percent and 36.38 percent in their volumes, respectively.

The outlook to the agricultural sub-sector remains promising, as earnings from this sub-sector during the period expanded by 20.26 percent, contributing 13.38 percent to total export earnings in 2011, compared to 11.40 percent in 2010. The increase was reflected in all the sub categories of agricultural exports. Exports of coffee increased to 3.79 thousand metric tons valued at US$2.00mn, from 2.70 thousand metric tons valued at US$1.70mn in 2010, while cocoa exports increased to 18.00 thousand metric tons valued at US$44.02mn, from 16.07 thousand metric tons valued at US$37.05mn in the preceding year. The export value of 'fish and shrimps' also increased significantly to US$0.75mn during the review period, from US$0.15mn in 2010. Export of piassava was resumed during the year following a long period of stagnation, at a value of US$10 thousand. Earnings from "other exports" (a composite category comprising ginger root, sawn timber, assorted plastic wares, audio cassettes and compact discs), declined by 62.93 percent to US$29.00mn, from US$78.23mn in 2010, while the total value of re-exports increased by a significant 41.60 percent to record US$33.20mn. The significant drop in the total value of 'other exports' over the year was explained by the huge reduction in the volume and hence value of assorted plastic water tanks exported in the reporting period.

The total import bill for the year 2011 aggregated at US$1,716.56mn, more than doubled (123%) relative to US$771.17mn recorded in 2010. The increase in import payments was reflected in all import categories, with notable growth in ''Machinery and Transport equipment" to support the growing mining sector. Import payments for "Machinery and Transport Equipment" which accounted for 44.06 percent of the total import bill, increased from US$248.70mn in 2010 to US$756.26mn in 2011. The bill for import of consumer goods, which accounted for 16.82 per cent of total imports increased to US$288.65mn as compared with the corresponding value of US$133.82mn for 2010. The increase was reflected in all consumer goods sub categories, with the import bills for "food" recording the highest growth (134.41%). The import bills for the ''beverages and tobacco'' and ''animal and vegetable oils'' categories increased by 70.06 percent and 2.06 percent respectively, over the period. There was also an increase of 18.23 percent in payments for imported rice. The increase could be attributed to rice importers taking advantage of government's incentive of zero rate duty on rice imports, aimed at mitigating the pass-through effect of international rice price. This was reflected in the increase in the volume of rice imports during the review to 155,407.41 metric tons in 2011, from 136,103.06 metric tons in 2010. The increase in the import value of petroleum products was on account of the 67.05 percent expansion in the import bill for fuel from US$145.89mn in 2010 to US$243.70mn in the reporting period, accounting for about 88.38 percent of the total import bill for petroleum products. The higher import bill for fuel was partly due to a hike in the price of petroleum products associated with the socio-political unrest in some Northern African states (Arab spring) during the year as well as the increased demand for fuel by emerging economies. During the year, the price of crude oil reached US$116.24 per barrel. Notable increases were also recorded in the total volume of fuel imports from 186,958.91 metric tons in 2010 to 242,102.97 in the review year, driven by increased domestic economic activities in the mining and construction sectors. Import payments for intermediary goods increased to US$85.51mn, about 49.74 percent higher than the level recorded in 2010. This development was prompted by the increases of 52.92 percent and 39.21 percent in the import bills for both "chemicals" and "crude materials", respectively. Payments for the import of "manufactured goods", increased significantly to US$310.37mn during the year from US$159.00mn in 2010.

5.1 Sectoral Utilization of Foreign Exchange

Total sales in the weekly foreign exchange auction market recorded US$41.17mn in 2011, compared to total sales of US$47.75mn in the preceding year. The decline was reflected in allocations for all categories, except rice imports which increased by US$6.43mn (35.59%) to US$24.51mn, representing 59.53 percent of the total foreign exchange utilization over the period. Allocation to oil companies decreased by US$9.19mn

Table 11

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

	31-Dec-11	31-Dec-10	31-Dec-09
1	2	3	4
Total Assets	**2,982,385,253**	**2,441,665,854**	**1,962,400,033**
Average Total Assets	2,737,858,722	2,070,289,748	1,739,364,375
Loans and Advances(Gross)	1,072,303,947	874,704,758	658,966,802
Bad Debt Provision	(79,848,373)	(44,175,809)	(27,659,920)
Interest in suspense	(53,308,475)	(48,150,625)	(36,022,691)
Loans and advances(Net)	939,147,099	782,378,324	595,284,191
Investment-TB, TBB, OFI*	549,301,193	466,883,912	348,997,473
Fixed Assets	198,724,857	184,477,137	185,020,316
Local Deposits:-	**1,315,870,573**	**1,075,536,005**	**909,706,776**
Demand	635,805,010	510,509,862	410,921,409
Savings	499,532,679	419,636,190	329,335,123
Time	180,532,884	145,389,953	169,450,244
Other Deposits	**13,849,179**		
Foreign Deposits	**956,022,036**	**739,227,833**	**495,002,644**
Deposits with Financial Institutions	**17,486,578**	**10,938,982**	**29,191,147**
Capital:-			
Paid-up	320,935,735	297,505,596	267,807,117
Statutory & Other Reserves	77,069,742	46,361,276	40,200,650
Retained Earnings	72,785,153	(42,971,502)	(13,705, 452)
Current profit	65,523,506	43,039,636	7,559,663
Primary Capital	312,569,178	305,534,048	294,302,315
Revaluation Reserves	49,698,741	45,441,612	42,950,613
Capital Base	417,702,289	420,944,803	368,284,969
Total Risk Weighted Assets	1,549,583,541	2,665,925,308	1,084,200,091
Capital Adequacy Ratio	26.96	15.79	33.97
Surplus/(Shortfall)%	11.96	0.79	18.97
Surplus/(Shortfall):Le	185,264,758	215,552,381	199,689,173
Average Shareholders' Fund	420,390,979	355,821,750	277,658,614

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

Table 11 Contd

Commercial Banks Operating in Sierra Leone

Prudential Indicators (Unaudited)

(In Thousand Leones)

	31-Dec-11	31-Dec-10	31-Dec-09
1	**2**	**3**	**4**
Asset Quality			
Performing Loans	910,637,648	738,187,379	550,003,352
Non-Performing Loans	161,666,299	136,517,379	108,963,450
Loan Loss Provisions	(79,848,373)	44,175,809	27,659,920
Non- Performing as a % of Total Advances	15.08	15.61	16.54
Loan Loss Provisions as a % of Non-Performing	49.39	32.36	25.38
Profitability : Pre-Tax Profits	**103,385,715**	**70,304,876**	**26,978,746**
Post Tax Profits	65,523,506	43,039,637	10,610,815
Return on Assets	3.78	3.40	1.55
Return on Equity Funds	15.59	12.10	3.82
Liquidity:Liquid Assets	**718,568,925**	**631,098,910**	**485,474,029**
Cash	65,688,929	74,249,651	65,516,954
Current Account with BSL	116,710,249	94,596,770	59,261,134
Treasury Bills	491,773,314	460,471,058	346,153,105
Placement with Discount Houses	835,583	1,781,431	14,542,836
Treasury Bearer Bonds	43,560,850	0	0
Cash Ratio	13.86	15.70	13.72
Overall Liquidity Ratio	54.61	58.68	53.37
Surplus/(Shortfall) (%)	24.94	29.18	24.33
Surplus/(Shortfall) (Le)	328,233,808	313,889,737	221,348,392
Foreign Assets:	**1,038,678,458**	**711,461,554**	**555,726,776**
Foreign Currency(cash)	121,477,546	43,918,520	75,948,511
Balance with Other Banks abroad	894,544,125	659,468,332	470,950,665
Foreign Other Assets	22,656,787	8,074,702	8,827,600
Foreign Liabilities:	**1,012,752,977**	**776,339,085**	**516,752,291**
Foreign Deposits	956,022,036	739,227,833	495,002,644
Foreign Other liabilities	3,903,867	37,111,252	16,838,452
Foreign Cash Marginal	52,827,074	3,613,588	4,911,195
NET FOREIGN POSITION:			
Assets- Liabilities	(6,442,043)	(64,877,531)	38,974,485

Table 12

Commercial Banks operating in Sierra Leone (31st December 2011)

BANK	No. of Branches 2009	No. of Branches 2010	No. of Branches 2011	F/town	Waterloo	Bo	Moyamba	Pujehun	Njala	Kenema	Kono	Kailahun	Makeni	Magbura	Lungi	Port Loko	Pepel	Kambia	Total
Rokel Commercial Bank	11	11	12	6	-	1	1	1	-	1	1	-	1	-	-	-	-	-	12
Sierra Leone Commercial Bank	11	12	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	7	8	9	3	-	1	-	-	1	1	1	-	-	1	-	-	-	1	9
Guaranty Trust Bank Ltd	7	7	10	5	-	1	-	-	-	1	1	-	1	-	-	1	-	-	10
First International Bank Ltd	14	13	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	3	4	4	3	-	-	-	-	-	-	-	-	1	-	-	-	-	-	4
United Bank for Africa	3	3	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Skye Bank	1	1	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1
Zenith Bank	1	3	5	3	-	-	-	-	-	1	-	-	-	-	1	-	-	-	5
Bank PHB	1	1	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
Grand Total	**71**	**80**	**87**	**46**	**3**	**6**	**2**	**1**	**2**	**7**	**5**	**1**	**6**	**2**	**2**	**1**	**2**	**1**	**87**

to US$10.18mn in the current year, from US$19.37mn utilized in the preceding period. Allocations to the Manufacturing Industries and General Imports categories totalled US$3.84mn and US$2.65mn in the period, accounting for 9.32 percent and 6.42 percent of the total foreign exchange utilization, respectively.

6.0 Supervision of Commercial Banks and Other Financial Institutions

6.1 Commercial Banks

The asset base of the banking industry increased by Le540.72bn (22.15%) to Le2.98 trillion as at 31st December 2011. The growth was driven mainly by the Le216.79bn (29.33%) increase in foreign deposits to Le956.02 billion and the Le240.33bn (22.35%) growth in local deposits to Le1.32 trillion as at 31st December 2011. Demand Deposits increased by Le125.03bn (24.54%) to Le635.81bn, Saving Deposits by Le79.09bn (19.04%) to Le499.53bn and Time Deposits by Le35.14bn (24.17%) to Le180.53bn at the end of the review period.

Table 13

Number of Accounts at Commercial Banks (31st December 2011) ['000]

Banks	Current Account (Local)	Current Account (Foreign)	Savings Account (Local)	Savings Account (Foreign)	Time Account (Local)	Time Account (Foreign)	Total
SCB	1,476	1,368	7,400	-	176	-	**10,420**
RCB	16,608	3,673	90,464	-	173	-	**110,918**
SLCB	28,966	2,519	94,076	-	109	-	**125,670**
UTB	6,939	861	45,761	-	48	4	**53,613**
GTB	13,372	2,462	40,669	98	103	-	**56,704**
FIB	13,725	1,315	34,989	1,404	395	-	**51,828**
ICB	840	200	5,078	4	51	-	**6,173**
ECO	18,849	48	35,727	62	845	-	**55,531**
AB	2,084	776	5,482	-	63	-	**8,405**
UBA	4,288	940	11,727	-	219	-	**17,174**
SKYE	1,034	-	1,985	196	7	-	**3,222**
ZENITH	2,407	1,077	3,755	-	65	-	**7,304**
BANK PHB	1,766	305	4,470	-	1	-	**6,542**
TOTAL	**112,354**	**15,544**	**381,583**	**1,764**	**2,255**	**4**	**513,504**

Shareholders' funds rose by Le46.43 billion (11.78%) to Le440.44 billion as at 31st December 2011. The increase was mainly due to the Le23.43 billion or 7.88 percentage increase in issued & paid-up capital.

The minimum statutory Capital Adequacy Ratio (CAR) of 15 percent was met as the industry recorded a CAR of 26.96 percent as at 31st December 2011. The capital base of three banks were eroded by losses, a result of which breached the requirement on the minimum paid-up capital of Le21 billion as at end December 2011.

The industry's gross advances recorded Le1.072 trillion (up Le197.60 billion or 22.59%) as at 31st December 2011 compared to Le874.70 billion as at 31st December 2010.

Other services, import trade, construction and transport, storage & communication sectors accounted for 20.31 percent, 18.79 percent, 18.69 percent, and 9.34 percent of gross advances respectively, while manufacturing, agriculture, financial services, export trade, mining & quarrying and miscellaneous sector accounted for 7.68 percent, 7.09 percent, 5.70 percent, 4.11 percent, 2.80 percent and 2.60 percent of gross advances, respectively. Electricity, gas & water and other trade & tourism, received only 1.74 percent and 1.14 percent of gross advances respectively, as at 31st December 2011.

Total performing loans accounted for 84.2 percent of gross advances as at 31st December 2011. The ratio of non-performing loans to gross advances decreased to 15.08 percent as at 31st December 2011 from 15.61 percent as at 31st December 2010.

The commercial banks made huge strides in terms of profitability during the period under review as the industry recorded pre-tax profit of Le103.39 billion (up Le33.09 billion: 47.06%) for the period ended 31st December 2011 compared to Le70.30 billion for the period ended 31st December 2010. One of the thirteen commercial banks recorded a loss amounting to Le12.65 billion during the review period. There was an increase in return on asset ratio, which stood at 3.78 percent in 2011 compared to 3.40 percent in 2010. The increase in pre-tax profit impacted positively on return on equity which registered 15.59 percent in 2011 from 12.10 percent in 2010.

The statutory requirement for cash ratio was adhered to as it recorded a surplus of 1.86 percent in the reporting period from a surplus of 3.70 percent in the preceding year.

The overall liquidity ratio was also attained, with the industry recording actual liquidity ratio of 54.61 percent in 2011, with a surplus of 29.66 percent.

6.2 Other Financial Institutions

Other Financial Institutions (OFIs) are financial institutions other than commercial banks. They complement the functions of commercial banks and perform specialized functions.

The licensed Other Financial Institutions in the system in 2011 included two (2) discount houses, one (1) mortgage savings and loans institution, thirty-nine (39) foreign exchange bureaux, nine (9) community banks, one (1) deposit-taking microfinance institution and six (6) credit-only microfinance institutions.

Table 14

Discount Houses operating in Sierra Leone (31/12/11)

Discount Houses	No. of Branches	F/town
First Discount House Ltd	1	1
Capital Discount House Ltd	1	1

Evaluation of Sierra Leone's compliance with International AML/CFT Standards

Table 15

Consolidated Balance Sheet of Discount Houses

BALANCE SHEET AS AT:

ASSETS	31-Dec-11 (Le'000)	31-Dec-10 (Le'000)
Cash:		
Local	*722*	*929*
Foreign		
Claims On:		
BSL	519,345	452,373
Other Banks	*144,989*	*133,607*
Cash and Bank Balances	**665,056**	**585,985**
Loans/Repo	**1,036,211**	**600,887**
Short-term Investment:		
Treasury Bills	*17,574,012*	*15,934,248*
Securities	*83,097*	*104,625*
Other Assets	*625,582*	*368,095*
Fixed Assets	*652,149*	*502,615*
Total Assets	**20,676,815**	**18,181,779**
LIABILITIES		
Placements/deposits	**5,906,180**	**6,118,315**
Borrowings		
Other Liabilities	**9,365,595**	**6,972,468**
Shareholders' Funds:	**5,405,040**	**5,090,996**
Total Liabilities	**20,676,815**	**18,181,779**

Table 16

Credit-only Microfinance Institution with certificate issued by the Bank of Sierra Leone as at 31st December 2011		
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

6.3 Evaluation of Sierra Leone's compliance with International Anti-Money Laundering/ Countering the Financing of Terrorism (AML/CFT)

The fifth follow-up report on compliance with international standards on AML/CFT was presented at the GIABA 16th Technical Commission/plenary meetings held in Lome, Togo in November 2011. The plenary noted that a considerable number of actions required to be taken to rectify the deficiencies in compliance with key international standards are dependent on the enactment of the AML/CFT bill. Sierra Leone is yet to pass the AML/CFT Bill into law.

Table 17

Community Banks operating in Sierra Leone (31/12/11)

Bank	No. of Branches	Location
Marampa-Masimera Community	1	Lunsar
Yoni Community Bank	1	Mile 91
Segbwema Community Bank	1	Segbwema
Mattru Community Bank	1	Mattru
Zimmi Community Bank	1	Zimmi
Kabala Community Bank	1	Kabala
Pendembu Community Bank	1	Pendembu
Nimiyama Community Bank	1	Nimiyama,
Sandor Community Bank	1	Sandor,

Table 18

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

No.	Bureaux	F/town	Bo	kenema	Makeni	Lungi	Ko
1	Afro Foreign Exchange Bureau Limited	4	1	1	1	-	1
2	Ayoub Foreign Exchange Bureau Limited	1	-	-	-	-	-
3	Abu–Taraff Foreign Exchange Bureau Limited	1	-	-	-	-	-
4	Albasco Foreign Exchange Bureau Limited	1	-	-	-	-	-
5	Best Foreign Exchange Bureau Limited	1	-	-	-	-	-
6	Blue Circle Foreign Exchange Bureau Limited	1	-	-	-	-	-
7	City Centre Foreign Exchange Bureau Limited	1	1	-	-	-	-
8	Dem Foreign Exchange Bureau Limited	1	-	-	-	-	-
9	DevKay Foreign Exchange Bureau Limited	1	-	-	-	-	-
10	Dycar Foreign Exchange Bureau Limited	1	-	-	-	-	-
11	Fadugu Foreign Exchange Bureau Limited	1	-	-	-	-	-
12	Fatismed Foreign Exchange Bureau Limited	1	-	-	-	-	-
13	First Foreign Exchange Bureau Limited	1	-	-	-	-	-
14	Fofan Foreign Exchange Bureau Limited	1	-	-	-	-	-
15	Frandia Foreign Exchange Bureau Ltd	2	-	-	-	-	-
16	Freetown Foreign Exchange Bureau Limited	1	-	-	-	-	-
17	Galtech Foreign Exchange Bureau Limited	1	-	-	-	-	-
18	Guru Nanak Foreign Exchange Bureau Limited	1	-	-	-	-	-
19	Harry's Foreign Exchange Bureau Limited	1	-	-	-	-	-
20	I B C Foreign Exchange Bureau	1	-	-	-	-	-
21	Kakua Foreign Exchange Bureau Ltd	1	1	-	-	-	-
22	Kallah Foreign Exchange Bureau Limited	1	-	-	-	-	-
23	LeoneUK Foreign Exchange Bureau Limited	1	-	-	-	-	-
24	Leigh Foreign Exchange Bureau Limited	1	-	-	-	-	-
25	Malador Foreign Exchange Bureau Limited	1	-	-	-	-	-
26	Manans Foreign Exchange Bureau Limited	1	1	1	1	-	-
27	Monorma Foreign Exchange Bureau	1	-	-	-	-	-
28	Navo's International Foreign Exchange Bureau	1	-	-	-	-	-
29	Nimo Foreign Exchange Bureau Limited	1	-	-	-	-	-
30	Paramount Foreign Exchange Bureau Limited	1	-	-	-	-	-
31	Pottal Foreign Exchange Bureau Limited	1	-	-	-	-	-
32	Raju's Foreign Exchange Bureau Limited	1	-	-	-	-	-
33	Rikban Foreign Exchange Bureau Limited	1	-	-	-	-	-
34	Rumez Foreign Exchange Bureau Limited	1	-	-	-	-	-
35	Sara Foreign Exchange Bureau Limited	1	-	-	-	-	-
36	Tap Foreign Exchange Bureau limited	1	-	-	-	1	-
37	Tonisco Foreign Exchange Bureau Limited	1	-	-	-	-	-
38	Vanbhari Foreign Exchange Bureau Limited	1	-	-	-	-	-
39	Wickburn Foreign Exchange Bureau Limited	1	-	-	-	-	-
Total Number of Bureau and Branches		**43**	**4**	**2**	**2**	**1**	**1**

A pre-legislative conference was held on the 16th December 2011, to discuss the AML/CFT Bill, together with the Banking and Bank of Sierra Leone Bills. The essence of the conference was to enhance the understanding of parliamentarians on key provisions of the Bills to ensure the smooth passage into law.

6.4 Credit Reference Bureau

The financial sector of Sierra Leone is dominated by thirteen (13) commercial banks that have been pivotal in extending credit and promoting private sector development. As an engine for economic growth, the private sector requires an investment environment and suitable financial services that address the diverse needs of potential investors. However, the provision of financial services by commercial banks is partly constrained by the lack of timely and reliable information on the credit profile of potential borrowers. This has, in part, contributed to the high non-performing loans, high interest rate charged on loans and advances and subsequent adoption of stringent collateral requirements for lending. An increase in the amount of non-performing loans could undermine the profitability of banks and hence their capital base, which in turn also limits their potential to extend credit to the private sector. Evidence suggests that there are habitual bad debtors who maintain facilities accross the various lending institutions while some obtain new loans to refinance their non-performing credit.

In view of the above, the Credit Reference Bill was enacted in April 2011 and the Bureau started operation in May 2011.

The Credit Reference Bureau collects credit information from all the commercial banks to populate its database and searches the database when a credit request is filed. From May 2011 to December 2011, the Credit Reference Bureau issued two thousand eight hundred and two (2,802) credit reports on individuals and businesses. One thousand eight hundred and fifty five (1,855) credit reports were issued on individuals, while nine hundred and forty seven (947) credit reports were issued on businesses from May to December 2011.

6.5 Licensing of Financial Institutions

The Bank of Sierra Leone continued to play its oversight role, aimed at achieving a sound and stable financial system. The licences of Rokel Commercial Bank (SL) Limited and the Sierra Leone Commercial Bank Limited were renewed for a period of five (5) years each in 2011, while the license of the First Discount House (SL) Limited was renewed for a period of two (2) years. The current license of the Capital Discount House (SL) Limited remains valid until 2014.

Also in 2011, licence was granted to the Bank for Innovation and Partnership Microfinance Limited, to undertake deposit-taking microfinance business, while ITASCAP (SL) Limited and Pennarth Greene and Company Limited were licensed to act as Fund Managers and Issuing House respectively, in the Sierra Leone Stock Exchange.

The period also marked the deepening of the use of electronic products in the Sierra Leonean Market. Ecobank (SL) Limited was granted approval to act as settlement account holder for Airtel Money product, while Skye Bank (SL) Limited was granted approval to introduce “Flitcash” extra (African Payment Service) money transfer payment. Also during the review period, United Bank for Africa (SL) Limited was granted approval to operate UBA "DOM PLUS" Account- a non-interest earning foreign savings account and HFC Mortgage and Savings Company (SL) Limited was granted approval to operate a cheque based system called HFC Super Account.

Furthermore, in a bid to enhance economic activities in the country and at the same time bring financial services to the doorsteps of the Sierra Leonean public, the Bank of Sierra Leone approved the opening of additional branches to the following commercial banks during the review period: Sierra Leone Commercial Bank (SL) Limited, at Kadgibs Plaza, Kissy in the Western Area, Guaranty Trust Bank (SL) Limited, at Leone Oil, Bai Bureh Road, Kissy, and Main Motor Road, Brookfields, in the Western Area, Pepel in the Northern Province and Bank PHB (SL)Limited at No. 20 Kissy Road, Freetown, in the Western Area. As a result, the total branch network increased (by 5) from eighty-one (81) as at 31st December 2010 to eighty-seven (87) as at 31st December 2011,

The Bank of Sierra Leone continues to encourage partnership between domestic and foreign banks, with the Sierra Leone Commercial Bank (SL) Limited entering into an agreement with the Africa Export-Import Bank (AFREXIMBANK) for total loan facilities of US$8,000,000 (eight million dollars) involving US$5,000,000 (five million dollars) Revolving Trade Finance Line of Credit Facility and US$3,000,000 (three million dollars) Remittance-Backed Term Loan Facility. Also, Rokel Commercial Bank (SL) Limited was granted approval to enter into an agreement with AFREXIMBANK for loan facilities of US$3mn (three million dollars) Revolving Trade Finance Line of Credit Facility.

6.6 Legal and Regulatory Framework

The Banking Act 2011 was enacted in December, 2011. Also, guidelines for Other Deposit-Taking Institutions and Finance Leasing Institutions were issued during the review period.

6.7 The Capital Market

The Sierra Leone Stock Exchange Company Limited which was formally launched on 17th July 2009, is still in its infancy with only one company listed. The slow development of the stock exchange could be attributed to the slow implementation of the privatisation drive and to some extent the poor sensitisation of the public about the existence and activities of the stock exchange.

The smooth operation of the Stock Exchange and the Capital Market in general hinges on appropriateness of the legal and regulatory framework. The enactment of the Other Financial Services Amended Act of 2007 empowered the Central Bank to undertake the regulation and supervision of the Stock Exchange till the Securities and Exchange Commission (SEC) is established.

For the SEC to be established, the following instruments must be put in place: -

- *The Securities Act*
- *The Collective Investment Act*

Both the Securities and the Collective Investment Bills had been drafted, perused by stakeholders and sent to The Law Officers Department for the enactment process to commence.

Table -19 Trading Position of Rokel Shares by Quarters in 2011

Quarter	Shares Offered (Supplied)		Shares Bided for (Demanded)	
	Quantity ('Mn)	Amount (Le 'Mn)	Quantity ('Mn)	Amount (Le 'Mn)
I	26.93	156.72	34.51	196.77
II	5.05	26.89	3.65	19.48
III	3.44	20.13	8.71	51.99
IV	12.77	90.63	13.68	96.82
Year	**48.18**	**294.38**	**60.56**	**365.06**

6.7.1 Current Players

As at 31st December 2011, there were two licensed dealing members namely; the two Discount Houses, one listed company, one issuing house (Pennarth Greene) and one fund manager (ITASCAP).

6.7.2 Trading Sessions

Since its establishment, the Stock Exchange has undertaken one hundred and ten (110) trading sessions with a total volume of 46.85 million units of Rokel Commercial Bank, valued at Le289.92 million, while the total volume demanded for the same period was 59.22 million units valued at Le355.60 million.

There was excess demand for Rokel Commercial Bank shares as total shares demanded exceeded total shares offered. Thus the price of Rokel shares increased in the fourth quarter of 2011.

6.8 Status of the Financial Sector Development Plan (FSDP) - 2011

The World Bank Board in 2011 approved a Financial Sector Development Plan Support grant of US$4 million to fund activities of the Financial Sector Development Plan. Two major components to be financed from this grant proceeds are:

- **Enhancing access to Financial Services -** This component will support activities that improve efficiency in financial intermediation; reduce transaction costs of money transfer and expand access to financial services

- **Building Financial Sector Reform and Oversight Capacity of the Bank of Sierra Leone** This component will strengthen the Bank of Sierra Leone's capacity to supervise the growing financial sector effectively, lead the financial sector reform process and develop its organisational capacity to undertake its key functions within the Sierra Leone financial sector.

The Government of Sierra Leone received a grant of US$1.3 million from the African Development Bank under the Fragile States Facilities to support implementation of the FSDP and this amount will mainly focus on strengthening the Central Bank. The following departments will benefit from this grant proceeds:

- Governor's Office
- Research Department
- Internal Audit Department
- Secretary's Department
- Banking Supervision Department

Other development partners that have expressed support through either financial or technical assistance for individual projects are GDC, KFW, CORDAID, AFDB, IFAD, UNCDF, UNDP & IFC.

The following activities are already in progress:-

Activity	**Funded by**
Installation of components and implementation of the payments systems project	AfDB
Restructuring of existing community banks, establishing new community banks and Financial Service Associations	IFAD

7.0 Payments System Development in Sierra Leone

Sierra Leone has made significant progress in its payments system modernisation to facilitate the speedy and efficient processing of financial transactions, increased availability of reliable data and the implementation of monetary policy.

Under the WAMZ Payments System Development Project, progress in 2011 is as follows:

a) Automated Cheque Processing/Automated Clearing House (ACP/ACH)

- MICR encoded cheques for the Bank of Sierra Leone and commercial banks were validated in line with the WAMZ Cheque Standard.
- Both hardware and software equipment with respect to the implementation of the ACP/ACH have been installed awaiting deployment.
- Hands on training conducted for the Clearing House and participating banks including the Bank of Sierra Leone Project Implementation Team

b) Core Banking Application (CBA)

- The Solution Provider for the CBA conducted scoping studies on the Banking Application as well as the General Ledger.
- Both hardware and software equipment delivered and installed at the premises of the Bank and are awaiting User Acceptance Testing (UAT).

- End Users and Project Implementation Team members trained both on the Functional and the Technical aspects of the interfacing.
- Scoping studies conducted in preparedness for the Sunsystems General Ledger and Temenos 24 hours (T24) core Banking Application interfacing.

c) Real Time Gross Settlement System (RTGS)/Scriptless Securities Settlement (SSS)

- Both hardware and software equipment delivered and installed at the premises of the Bank.
- A Technical Assessment Programme (TAP) on the current SWIFT Infrastructure as the messaging platform of the future RTGS conducted. This included the training of commercial banks and Bank of Sierra Leone staff on both technical and functional aspects of the SWIFT platform.

d) Infrastructure Upgrade

Lot1 (Network Upgrade & Reconfiguration).

- *All items for this Lot delivered*
- *Installation in the Server Room (Main Site) completed*
- *Cut-over from the old server room to the main site partially completed*
- *Erection of VSAT mast completed.*

Lot 2 (Internet and MAN)

- Customer premise equipment (Radio Antennae) installed for all the banks. Testing links completed

Lot 3 – (IT Room Security & Energy Upgrade)

- Renovation of the Server Room (Main Site) completed.

e) State of preparedness

- Eleven (11) commercial banks have confirmed that the configuration of their equipment is complete.

7.1 The core challenges facing the payments system presently are:

- Sensitization of the public on payments system reform.
- Training of operational and IT staff on the functionalities of the various project components and other related systems.
- Facilitation of the efficient deployment of the WAMZ Payments System components in Sierra Leone by December 2012.
- Exercising the oversight function to promote safety and efficiency in payment and settlement systems in line with the BIS core principles.

8.0 Foreign Exchange Management

8.1 Foreign Exchange Assets

Gross external reserves position of the Bank of Sierra Leone as at end December 2011 was US$376.79mn, above the US$344.80mn target. This showed an increase in the reserves position by U$31.99mn or 9.28 percent, compared to the 2010 position. The favorable position was largely due to increased receipts from the oil and mining companies and purchases of foreign exchange from commercial banks, which were not initially programmed.

During the review period, the foreign exchange cash flow was supported mainly by inflows from the International Monetary Fund, African Development Bank, UK/Department for International Development, European Union and receipts from the mining and oil companies in the sums of US$13.65mn, US$9.33mn, GBP15.00mn (US$23.59mn), Euro10.80mn (US$14.09mn) and US$49.59mn, respectively. Of the total US$58.18m programmed to fund the foreign exchange auction, only US$41.18mn was utilised. Debt service payments were met as and when payments fell due.

8.1.1 Inflows

Total actual inflows recorded for the period January to December, 2011 amounted to US$159.96mn against a projection of US$166.04mn, reflecting a shortfall of US$6.08mn (3.66%). The shortfall can be attributed to the unrealized programme disbursements from the European Union and the Government of Japan. Inflows recorded for the period under review were as follows:

8.1.2 Receipts from exports and other Government revenues

Receipts from exports contributed US$10.41mn (6.51%) of the total inflows of US$159.96mn. The bulk of the receipts from exports was mainly realised from tax receipts from diamond license fees of US$4.59mn and diamond exporters' tax of US$4.26mn. Other Government foreign receipts included US$12.84mn received from African Minerals in respect of expatriate tax (PAYE), US$3.52m from London Mining Company in respect of PAYE, US$33.58mn from Petroleum Resources in respect of signature bonuses, US$8.0mn as privatisation receipts and "other revenues" of US$2.85mn.

8.1.3 Donor Disbursements

Projected donor disbursements for 2011 accounted for about 53.35 percent (US$88.58mn) of the total projected inflows of US$166.04mn. Major receipts realized amounted to US$67.36mn, of which US$23.59mn was disbursed by UK/Department for International Development under the United Kingdom/Sierra Leone budgetary support and Child/Maternal Health care project, US$2.5mn by the International Development Association as reimbursement under the West African Regional Communication and Infrastructural programme, US$9.33mn from the African Development Bank, Euro10.80mn (US$14.09mn) from the European Union, US$13.65mn from IMF, US$3.42mn as foreign exchange purchases from IDA and US$0.49mn from IDB. The amount of US$11mn expected from Japan was not realised as programmed.

8.2 Outflows

Total foreign exchange outflows increased by 2.09 percent from US$123.68mn in 2010 to US$126.27mn in 2011. Outflows included mainly payments for goods and services, foreign exchange auction funds and debt service payments to external creditors. The increase in expenditure in 2011 as compared to 2010 was mainly as a result of an increase in debt service payments. Notwithstanding the reduction in the weekly offer amounts in the foreign exchange auction, the bulk of outflows during the review period were in respect of payments under the foreign exchange auction (US$41.18mn). Government's infrastructural projects (roads and energy) totaled US$30.58 mn, while payments to embassies/missions accounted for US$12.04 mn, other Government expenditures, US$9.39 mn, printing of currency, US$3.76 mn, and debt service payments, US$22.77 mn.

8.3 Investment Activities

Actual revenue realized from external investment for the period January to December, 2011 was Le5.55bn, 29.51 percent above the budgeted amount of Le4.28bn. The favorable performance in the review period was attributed to a combination of factors including the depreciation of the Leone against the Bank's investing currencies such as the United States Dollar, Pound Sterling, Euro and the Special Drawing Rights (SDR). Le5.55 bn was realized from external investment in 2011, representing a 68.69 percent increase on the Le3.29bn recorded for 2010. This was due mainly to the improvement in the interest rate return on the Bank's investment currencies in 2011.

8.4 Foreign Currency Management

The Bank of Sierra Leone's policy objective for currency management continues to be the holding of reserves in currencies to match the SDR and to meet short term liquidity for payments in respect of goods and services, debt service and private sector support. Holdings of foreign currencies by the Bank of Sierra Leone as at end December, 2011 were as follows; 47.46 percent in SDRs, 37.52 percent in United States Dollars, 10.28 percent in Pound Sterling, 4.51 percent in Euro and 0.23 percent in Japanese Yen.

8.5 Foreign Exchange Management

During the period January to December 2011, the Bank continued to face significant challenges as a result of Government's increased expenditure mainly on infrastructural projects, which required substantial foreign exchange component. The increase in high-powered money impacted on the exchange rate, leading to the depreciation of the Leone over the period. There was significant increase in receipts from diamond exports and migrant remittances in 2011 as compared to 2010. The volume of transactions during the review period also increased significantly, including the auction offer amount which was increased from US$0.04mn to US$1.00mn in March 2011. The volume of transactions is measured by total purchases and sales of US Dollar in the foreign exchange market, including the foreign exchange auction.

8.5.1 Foreign Exchange Flows

The flow of foreign exchange increased significantly in 2011. Total amount traded in the foreign exchange market during the review period was USD1,091.23mn, 22.25 percent higher than the total amount of USD892.66mn traded in 2010. Total monthly foreign exchange transactions in the market moved from US$72.09mn in January 2011 to US$103.68mn in December 2011, representing an increase of 43.82 percent.

8.5.2 Purchase of Foreign Exchange by Commercial Banks

Total purchases for 2011 increased by 26.80 percent to US$488.74mn as compared with the total of US$385.45mn for the same period last year. The average monthly purchase for 2011 was US$40.73mn, whereas the average monthly purchase for 2010 was US$32.12mn. The increased inflows were largely attributed to receipts from the mining and agricultural sectors, as well as remittances from abroad.

8.5.3 Purchase of Foreign Exchange by Foreign Exchange Bureau

Total purchases by foreign exchange bureaux increased by 138.83 percent to USD41.46mn in 2011, compared with the total amount of US$17.36mn recorded in 2010. The monthly average purchase by foreign exchange bureaux in 2011 was USD3.46mn, compared with USD1.45mn for 2010. The increase was mainly as a result of the overall improvement in the reporting regime instituted by the Bank and the robust supervision of bureaux.

8.6 Receipts from Diamond Exports

Receipts from diamond exports amounted to US$129.77mn in 2011; an increase of 14.32 percent, compared with the total amount of US$113.51mn recorded in 2010. Foreign exchange returns received from commercial banks indicated that a significant amount of these receipts came through the banking system. There were also indications that export proceeds from agricultural products and scrap metals were being repatriated through the banking system.

8.7 Migrant's Remittances

Total migrant remittances between January and December 2011 increased to US$60.87mn, showing an increase by 37.28 percent when compared to the total of US$44.34m in 2010.

8.8 Sales of Foreign Exchange by Commercial Banks

Total sale of foreign exchange by commercial banks in 2011 increased by 13.19 percent to US$480.93mn in comparison with the total of US$424.90mn for 2010. The average monthly sale for 2011 is US$40.08mn, whereas the average monthly sale for 2010 was US$35.41mn.

8.9 Sales of Foreign Exchange by Foreign Exchange Bureaux

Total sales by foreign exchange bureaux increased by 129.54 percent to USD38.93mn in 2011 relative to the total amount of US$16.96mn recorded in 2010. The monthly average sales by foreign exchange bureaux increased from USD1.41M in 2010 to USD3.24M in 2011.

Major non-oil and oil importers continued 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$93.31mn and total amount sold to rice importers was US$77.72mn.

8.10 Exchange Rate Movement

The stability of the exchange rate in 2011 was challenged by the growth in Reserve Money. The increase in domestic credit to government from the Central Bank and the subsequent increase in high-powered money exerted considerable pressure on the exchange rate during the review period. That notwithstanding, the exchange rate was relatively stable over the last two months of 2011. Consequently, the yearly average exchange rates in all the market segments depreciated in 2011, compared to 2010. The BSL average mid-rate of the Leone against the United States Dollar, as well as the commercial banks, bureaux and the parallel market rates depreciated by 9.23 percent, 9.30 percent, 8.11 percent and 8.57 percent from Le3,984.36/US$1, Le3,982.28/US$1, Le4,021.83/US$1 and Le4,078.49/US$1 in 2010 to Le4,352.12/US$1, Le4,352.37/US$1, Le4,347.78/US$1 and Le4,427.94/US$1 in 2011. The yearly average auction rate depreciated by 10.18 percent from Le3,977.55/US$1 to Le4,382.12/US$1, in the period under review.

Table 20

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

	JAN - DEC 2011	JAN - DEC 2010
INFLOWS:-Of which	**159.87**	**142.11**
Receipts from exports	**10.61**	**9.43**
Rutile	0.09	0.21
Bauxite	0.75	1.00
Diamond License fees	4.59	3.11
Diamond Exporters Income Tax	4.26	3.00
Fishing Royalty/License	0.93	2.11
Maritime Administration	0.19	0.64
Other Govt	6.21	4.11
Others	2.86	1.25
Revenue for Infrastructural Proj.	0.00	1.52
African Mineral Mining Co.	12.84	6.25
London Mining	3.52	-
Petroleum Resources	33.58	-
Transactions with Commercial Banks	14.80	0.20
Privatization	8.00	-
Aid Disbursement/BOP Support	**67.25**	**118.71**
IMF	13.65	42.82
AFDB (ERRP 4)	9.33	7.05
UK/DFID	23.59	20.25
World Bank	0.00	16.76
WB Loan (fibre optic Refund)	2.50	0.00
EU	14.09	27.47
IDA/World Bank	3.61	2.91
IDB	0.49	1.45
HIPC Flow Relief	**0.00**	**-**
New SDR Allocation	**0.00**	-
OUTFLOWS:-Of which	**126.27**	**123.68**
Payments for Goods and Services	**103.50**	**109.56**
Embassy/Missions	12.04	11.58
BSL	2.50	1.23
Stabilization & Cooperation Fund	0.00	-
Capital Subscription to WACB	0.00	-
Printing of Currency	3.76	-
Government Travel	2.38	2.81
Other Government	9.39	11.73
New Infrastructure Projects (Roads)	17.24	9.12
Gov Infrastructure Projects (Energy & Water)	13.34	6.87
Subscription to Intl. Organisations	1.18	1.95
Electricity Support	0.00	16.18
Private Sector Support	41.18	47.61
HIPC Related Imports	0.50	0.48
Debt Service after debt relief	**22.77**	**14.12**
IMF	5.12	2.44
World Bank	1.26	0.98
AFDB	0.78	0.74
IFAD	0.01	0.26
EC/EIB	0	-
Other multilaterals and bilaterals	6.63	4.14
Paris Club Creditors	0	-
OPEC (CIP Arrangement)	1.97	1.57
Other Commercial Debt	7	4
Clearing of Arrears (EEC/EIB etc)	0	-

The rates in the various segments moved as follows;

8.10.1 Period Movement (Jan – Dec 11)

The Le/US$1 official mid-rate depreciated by 4.28 percent from Le 4198.01/US$1 as at end December 2010 to Le4377.71/US$1 as at end December 2011. During the same period in 2010, the official Le/US$1 depreciated by 8.88 percent from Le3855.68/US$1 to Le4198.01/US$1.

The commercial bank's weighted average mid-rate depreciated by 4.35 percent from Le4189.09/ US$1 as at end December 2010 to Le/US$4371.28/US$1 as at end December 2011. During the same period in 2010, the commercial bank's weighted average mid-rate depreciated by 8.76 percent from Le3851.83/US$1 to Le4189.09/US$1.

The parallel market mid rate depreciated by 2.95 percent from Le4315.00/US$1 as at end December 2010 to Le4442.50/US$1 as at end December 2011. During the same period in 2010, the parallel market rate depreciated by 7.81 percent from Le4002.50/US$1 to Le4315.00/US$1.

8.10.2 Monthly Average Movements

The BSL monthly average mid rate depreciated by 5.50 percent from Le4184.09/US$1 as at end December 2010 to Le4375.54/US$1 as at end December 2011, while the monthly average commercial banks' rate depreciated by 5.15 percent from Le4188.06/US$1 as at end December 2010 to Le4372.95/US$1 as at end December 2011.

The foreign exchange auction rate depreciated by 2.92 percent from Le4291.50/US$1 as at end December 2010 to Le4381.10/US$1 as at end December 2011.

Chart 12
Monthly Average Exchange rate trend 2011

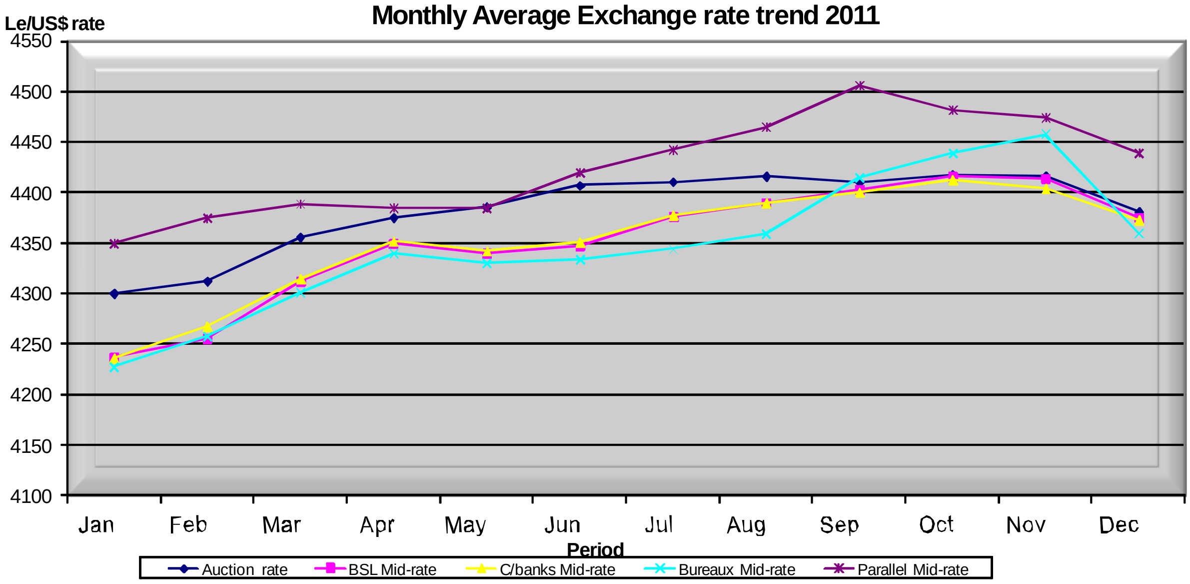


Table 21			
Amount Offered, Demanded and Supplied in Foreign Exchange Auction (Thousand Dollars)			
	2010	**2011**	**% Change**
Amount Offered	50,600.00	42,700.00	(15.61)
Amount Demanded	70,602.14	48,009.00	(32.00)
Amount Supplied	47,750.00	41,169.00	(13.78)

8.11 Exchange Control Regulations

The Bank continued to maintain restrictions on capital account transactions. However since the repeal of Section 10 of the Exchange Control Act, the need to obtain exchange control approval from the Bank of Sierra Leone for the registration of companies no longer exists. The remaining restrictions on the capital account are under review.

8.12 Foreign Exchange Auction

The Bank of Sierra Leone continued to conduct 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 for absorbing foreign financed budget spending and reducing short term volatility. The growth in imports has not been matched by a corresponding growth in exports, thereby exerting pressure on the limited supply of foreign exchange and consequently the exchange rate. During 2011, the BSL sold a total amount of US$41.17mn to supplement the foreign exchange market; a 14.22 percent reduction from the US$47.99mn offered in 2010.

8.12.1 Analysis of Auction Performance January-December 2011

During the period January to December 2011, a total of US$42.70mn was put on offer and US$41.17mn was sold in the weekly foreign exchange auctions held at the Bank of Sierra Leone. The Auction offer amount was increased from US$0.4mn in March 2011 to US$1.0mn by end December 2011 as a result of the demand pressure in the first half of 2011. The auction rate depreciated cumulatively by 1.17 percent from Le4,299.00/US$1 in January 2011 to Le4,356.77/US$1 by end December 2011.

Table 22

Sectoral Distribution of Auction Funds (US$'000)				
Sector	**2010**	**2011**	**% of Total amount in 2011**	**% Change in 2011**
Industries	4,482.89	3,835.00	9.32	-14.45
General Merchandise	5,822.20	2,645.00	6.42	-54.57
Oil Companies	19,368.51	10,180.00	24.73	-47.44
Rice	18,076.40	24,509.00	59.53	35.59
Total	**47,750.00**	**41,169.00**	**100**	

Table 23

Currency Management

	Dec. 2011	% of Total Bal.	Dec. 2010	% of Total Bal.
U.S. Dollars	140.8	37.52	117.97	34.56
Pound Sterling	38.58	10.28	23.16	6.78
Euro	16.94	4.51	15.23	4.46
Japanese Yen	0.86	0.23	0.85	0.25
SDRs	178.16	47.46	184.18	53.95
Total Balance	**375.37**	**100**	**341.39**	**100**
Donor funds				
U.S. Dollars	1.42	100	3.41	100

There was a decrease in the amounts offered, demanded and supplied in 2011 as compared to 2010. This may be attributed to the increased purchases by commercial banks during the year and the need to comply with the programme target on reserves and the reduced demand for auction funds in the second half of the year.

8.12.2 Sectoral Distribution of Auction Funds

In 2011, over 50 percent of the auction funds were sold to the rice importers. This was followed by the oil companies with 24.72 percent and "general merchandise", which includes "other imported goods", accounted for only 6.42 percent. The industry sector only accounted for 0.93 percent in 2011.

There was no sale of foreign exchange to the auction by the public during the period under review.

The foreign exchange auction has helped to stabilize the Leone/US$ exchange rate, even though it accounts for only 3 percent of the volume of foreign exchange in the market. However, its effectiveness is guided by the need to absorb foreign financed budget by complementing monetary policy.

9.0 External Debt Management

Sierra Leone's total disbursed and outstanding official long-term debt, including principal arrears as at end December 2011 stood at US$836.5 million (appendix2) as compared to US$778.1 million as at end

Chart 13
Sectoral Distribution of Auction Funds(US$'000)

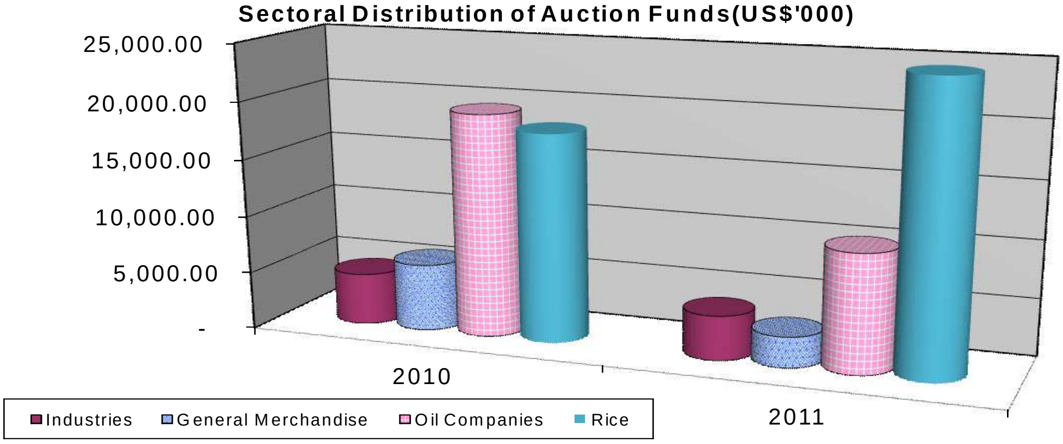


Table 24

Disbursed Outstanding Debt, including Principal Arrears as at End December 2011 classified by currency of liability ('000)						
	Dec. 2010			Dec. 2011		
Currency	debt in Foreign Currency	total debt in Le	% of total	debt in Foreign Currency	total debt in Le	% of total
Chinese Yuan	114,343	72,352,652	3.60	114,343	79,415,603	3.49
EURO	10,452	58,278,545	2.90	12,477	70,537,330	3.10
British Pound	-	-	0.00	-	-	0.00
Japanese Yen	921	47,270,254	2.35	921	51,846	0.00
Kuwaiti Dinar	2,498	37,236,063	1.86	3,034	47,642,126	2.09
Saudi Riyal	38,936	43,594,320	2.17	45,390	52,984,590	2.33
United States Dollar	86,978	365,134,381	18.19	110,364	483,142,069	21.23
Special Drawing Rights	184,447	1,192,533,149	59.41	201,760	1,351,769,737	59.39
Islamic Dinar	29,519	190,851,707	9.51	28,421	190,417,344	8.37
Total		**2,007,251,071**	**100**		**2,275,960,645**	**100**

Source: External Debt Policy Section

Table 25

Debt Service payment made in US $Mn		
	2010	2011
Bilateral:	***67.20***	***84.0***
Other Bilateral	67.20	84.0
Multilateral (Net amount)		
African Development Bank/Fund	76.40	81.3
World Bank (IBRD/IDA)	154.60	187.9
International Monetary Fund	106.10	120.6
Other Multilateral	142.30	134.7
Total Multilateral	*479.40*	*524.5*
Other Commercial	***20.40***	***19.9***
Commercial & Short-Term Debt	211.10	208.1
Grand Total	**778.10**	**836.5**

Source: External Debt Policy Section, BSL

December 2010. The marginal increase of 7.51 percent was mainly as a result of disbursements received from the International Development Association (IDA), International Monetary Fund, Exim Bank of India and the African Development Bank, which more than outweighed the principal repayments made during the period. Multilateral creditors accounted for 62.40 percent of the total disbursed outstanding debt, followed by commercial creditors, which accounted for 27.6 percent. Bilateral creditors accounted for only 10 percent of the total external debt.

Consistent with the HIPC Initiative, the Government continued to promptly service its external debts as they fall due. Total disbursements received from external creditors during the period amounted to US$73.0mn. Of this amount, US$31.88mn was from the IDA; US$20.71mn from India Exim Bank;

Table 26

Principal & Interest Arrears as at end Dec-2011 (US$Mn)				
	DEC. 2010		DEC. 2011	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
Total External Debt	**239.9**	**3.5**	**236.4**	**3.5**
Total Commercial Obligations & Short-Term Debt 1/	211.1	-	208.1	-
Total Long-Term Debt, of which :	***28.8***	***3.5***	***28.3***	***3.5***
Multilateral	**-**	**-**	**-**	**-**
World Bank Group	-	-	-	-
IMF	-	-	-	-
Others				
Official Bilateral	**8.4**	**-**	**8.4**	**-**
Paris Club	-	-	-	-
Others 2/	8.4	-	8.4	-
Other Creditors	**20.4**	**3.5**	**19.9**	**3.5**
Executive Outcome	20.0	3.5	19.5	3.5
Chatelet Investment Ltd	0.4	-	0.4	-

1/ China, Morocco, Kuwait & Saudi Fund

US$7.54mn from ADF, and the residual of US$12.87mn was from BADEA, Kuwait Fund, IFAD, IDB, Saudi Fund and OPEC under various projects.

9.1 Currency Composition

The Special Drawing Rights and the US Dollar constitute the major currencies that dominate Sierra Leone's debt. They account for 59.39 percent and 21.23 percent respectively, as at end December 2011. Loans from IDA and IMF are mainly denominated in SDRs, which accounted for the high percentage of the total debts. The Islamic Dinars, which accounts for 8.37 percent, represents the third major currency that dominates Sierra Leone's debt.

9.2 Debt Indicators and Debt Service Payment

Debt service payments increased from US$13.05mn in 2010 to US$22.37mn in 2011. This increase was mainly as a result of the commencement of principal repayments especially to the IMF and payments made to commercial creditors. HIPC debt relief savings increased by 17.51 percent from US$3.14mn in 2010 toUS$3.69mn in 2011. This reflects debt service relief from EEC and IFAD respectively. The ratio of debt stock to exports declined to 41.8 percent as a result of the increase in exports during the period under review.

Sierra Leone's debt situation is at a moderate risk of debt stress, as evident by the recent annual debt sustainability analysis report by the Ministry of Finance and Economic Development (MOFED). 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.

10.0 Monetary Operations

At the start of 2011, monetary operations were faced with a lot of challenges due to the liquidity over-hang caused by fiscal expansion to finance infrastructural development projects, which resulted to the accumulation of huge Ways & Means Advances by end 2010. The Ways & Means stock equivalent to Le178.58bn, transferred into a special account on the Bank of Sierra Leone books, was converted to tradable securities and sold to the market during the weekly T-Bills auctions. The fiscal accommodation by the end of 2010 accelerated the growth in Reserve Money, which spilled over to Q1, 2011. Noting the impact of high powered money on the economy, the authorities took a tight monetary stance in Q1, 2011 to keep Reserve Money within target and restrain the inflationary pressure. The drive to absorb the excess liquidity in the economy continued in Q2, 2011.

By Q3 of 2011, challenges were noted in the fiscal sector arising from the mismatch between fiscal receipts and expenditure, coupled with the fact that BSL was not allowed to participate in the primary auctions. At the beginning of Q4, there was liquidity squeeze in the banking system, which limited banks' ability to roll-over maturing T-Bills which were redeemed by Government. As a result of the redemptions vis-à-vis fiscal challenges faced by Government, an agreement was reached with the Fund in November 2011 to allow BSL to roll-over its maturities up to end 2011.

In line with the Fund programme, BSL initially did not participate in the primary market auctions and its maturities at the auctions were either sold or redeemed. As a result, BSL holdings of securities, which stood at Le169,890.30mn (19.34%) at the start of Q1, declined steadily to Le84,984.85mn (9.52%) by end-Q3 of 2011. However, it picked up in Q4, attaining the level of Le143,443.80mn (15.02%) by end-December 2011, influenced by the outright purchase of treasury bills by BSL in the secondary market.

The utilisation of Ways & Means Advances was kept within the borrowing limit of 5 percent of previous year's domestic revenue. As at 31 December 2011, outstanding Ways & Means Advances was Le26,886.03mn, which according to the BSL Act 2011, was converted to 91-day T-Bills and held by the Bank, to be sold to the market.

The 91-day T-Bills average annual yield at 23.42 percent was lower than the 24.54 percent recorded in 2010. Average annual yield on the 182-day T-Bills was 29.55 percent in 2011, which was higher than the 28.35 percent recorded in 2010, whilst that on the 364-day T-Bills was 28.63 percent which was lower than the 28.98 percent attained last year. The nominal interest rate on T-Bonds, which was 22.50 percent in 2010 declined to 20.00 percent in 2011.

Total outstanding Government securities rose by 8.72 percent over the period from Le878,719.80mn end-December 2010 to Le955,301.00mn end-December 2011. The holdings of commercial banks and Non-Bank Public, increased by 14.93 percent and 24.82 percent from Le474,244.80mn and Le181,082.40mn to Le545,039.50mn and Le226,020.55mn, respectively. BSL holdings of outstanding securities which was Le169,890.30mn by end of 2010, reduced to Le143,443.80mn as end December 2011.

11.0 Financial Market Developments

11.1 Activities in 2011

With a view to enhancing financial inclusion, the Bank has been actively involved in initiatives to facilitate access to finance especially in the rural areas which constitute mostly the informal and significant proportion of the economy. In addition to the increase in the number of banks from five in the year 2000 to thirteen, the Bank of Sierra Leone has encouraged the growth of a number of microfinance institutions (MFIs), Financial Services Associations (FSAs), the opening of new branches

Table 27

Stock of Government securities outstanding by Holders (in Million Leones)			
	2010	2011	Change
91-DAYS TBs	**291,303.65**	**204,435.75**	**-86,867.90**
BSL	27,024.60	16,641.50	-10,383.10
COM. BANKS	172,627.95	99,803.40	-72,824.55
Non-Bank Public	78,277.15	85,090.85	6,813.70
NASSIT	13,373.95	2,900.00	-10,473.95
182-DAYS TBs	**249,222.35**	**365,148.15**	**115,925.80**
BSL	15,008.55	50,062.60	35,054.05
COM. BANKS	212,546.75	257,804.10	45,257.35
Non-Bank Public	9,613.95	48,884.30	39,270.35
NASSIT	12,053.10	8,397.15	-3,655.95
364-DAYS	**230,527.35**	**276,794.10**	**46,266.75**
BSL	107,355.55	65,731.05	-41,624.50
COM. BANKS	89,070.10	171,983.65	82,913.55
Non-Bank Public	6,116.45	9,579.40	3,462.95
NASSIT	27,985.25	29,500.00	1,514.75
TBOND	**107,666.45**	**108,923.00**	**1,256.55**
BSL	20,591.60	11,008.65	-9,582.95
COM. BANKS		15,448.35	
Non-Bank Public	87,074.85	82,466.00	-4,608.85
NASSIT			
TOTAL	**878,719.80**	**955,301.00**	**76,581.20**
BSL	169,980.30	143,443.80	-26,536.50
COM. BANKS	474,244.80	545,039.50	70,794.70
Non-Bank Public	181,082.40	226,020.55	44,938.15
NASSIT	53,412.30	40,797.15	-12,615.15

Source: Policy and Domestic Debt Division, Banking

Stock of Government securities outstanding by holders for end 2007

of commercial banks, and the introduction of more products, in a bid to improve rural financial intermediation. Bank of Sierra Leone is also encouraging the linkage banking as part of its strategy in facilitating access to finance.

In developing a vibrant micro finance sub sector, the Bank in collaboration with stakeholders revised and approved a National Micro Finance Policy which recognizes the existing informal institutions and brings them within the supervisory purview of the Central Bank. The National Microfinance Policy harmonizes opening standards and provides a strategic platform for evaluation of microfinance institutions and promote appropriate supervision and adoption of best practice that will aid in developing a long term sustainable microfinance sector.

In a bid to broaden microfinance and rural credit delivery, the Bank of Sierra Leone, under the FSDP, is working with the Microfinance Investment and Technical Assistance Facility (MITAF) to support the development of a competitive and sustainable inclusive microfinance sector that provides access to financial services to poor and low-income people in general and micro and small businesses in particular with a special focus on rural areas.

The Bank is also working with the International Fund for Agricultural Development (IFAD) to administer and monitor the refinance funds and execute the establishment of seven Community Banks and thirty Financial Services Associations to enhance rural financial intermediation in addition to the six pilot community banks established by Bank of Sierra Leone and three others established by IFAD.

In ensuring proper monitoring and supervision of Community Banks, the Bank of Sierra Leone had approved the IFAD Business Plan for the setting up of a Technical Assistance Agency (TAA) to undertake first level of supervision of Community Banks and Financial Services Associations (FSAs). The TAA which is a specialised unit is charged with the responsibilities of internal auditing, monitoring and evaluation, staff recruitment, training and evaluation and product development. The TAA also provides non banking support services to the CBs and FSAs aimed at improving their operational efficiency and effectiveness.

Numerous micro-finance schemes are also being implemented with a view to promote small-scale enterprises and informal sector activities in manufacturing, trade and services. Going forward, the Bank of Sierra Leone is encouraging potential investors in the banking sector to diversify from retail banking into other forms of banking in order to give customers increased and improved options.

11.2 BSL activities to promote market development in 2011

The BSL was actively involved in initiatives to enhance access to finance especially in the rural areas which constitute mostly the informal sector.

Through the partnership between the Bank and IFAD, the Rural Finance and Community Improvement Programme (RFCIP) was established to improve access to rural finance in the agricultural sector through mobilization of domestic funds and provision of linkages with the commercial banks and financial institutions. Under the programme, distressed community banks were restructured and in addition, 3 other Community Banks (CBs) and 26 Financial Services Associations (FSAs) were set up in the rural areas.

The Bank in collaboration with stakeholders has encouraged the growth of microfinance institutions. To this end, the revised National Micro Finance Policy was approved in 2011. The objectives of this policy are as follows:

- *Establishing a framework within which microfinance initiatives will develop;*
- *Outlining the principles that will guide operations of the system;*

- *Serving as a guide for coordinated interventions by the respective participants in the microfinance system; and*
- *Describing the roles of the stakeholders and the tools to be applied to facilitate the development of the sub-sector.*

The Bank, in facilitating financial inclusion has been supportive of the developments of mobile telephone-based banking, Automated Teller Machines, money transfers, linkage banking and the downscaling of some commercial banks' activities into microfinance, thus introducing new concepts/products and more competition.

The Bank has also encouraged the promotion of financial literacy campaign as it is becoming increasingly apparent that addressing financial inclusion will require a holistic approach on the part of the commercial banks, community banks and microfinance institutions (MFIs) in creating the awareness of their financial products and services.

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

An assessment of Sierra Leone's performance under the WAMZ convergence criteria indicated that in the year 2011, the country satisfied only one of the four primary criteria. The primary criterion met was *central bank financing of fiscal deficit as a percentage of previous year's tax revenue of not more than 10* percent. Only one of the six secondary criteria namely, Public Investment from Domestic Receipts ratio to GDP was met. In the primary criteria category, both the inflation and the fiscal deficit criteria were missed.

12.1 PRIMARY CRITERIA

12.1.1 Inflation

Sierra Leone's inflationary pressures continued in the review period, with the year on year inflation rate remaining in double digits of 16.64 percent at end-December 2011, although slightly lower, compared to 17.84 percent in December 2010. The country therefore missed the WAMZ single digit criterion on inflation. The high level of inflation was reflective of a number of factors including the pass-through of high international prices for food and fuel, withdrawal of subsidies from fuel and domestic supply shocks due to high government outlays.

12.1.2 Fiscal Deficit/GDP Ratio

Achieving this criterion continued to be elusive in the review period, with fiscal deficit excluding grants expanding to 14.20 percent in December 2011, compared to the WAMZ's threshold of not more than 4.0 percent. The expansion in fiscal deficit was due to greater than anticipated outlays on all expenditure categories, especially wages and salaries, interest on domestic and external debts and increased spending on infrastructural projects.

12.1.3 Central Bank Financing of Fiscal Deficit

Sierra Leone was compliant with the WAMZ criterion on the ratio of central bank financing of the fiscal deficit to GDP not exceeding 10.00 percent. The improved performance on this criterion resulted from the

Table 28

Status of Convergence

Criteria	Target	2008	2009	2010	2011
(Primary Criteria)					
Inflation (end period)	Single digit	13.21%	12.22%	17.84%	16.64%
Fiscal Deficit/GDP% (excl. grants)	Less than or equal to 4%	15.00%	9.88%	12.50%	14.20%
Central Bank Financing/ Previous years tax revenue	Less than or equal to 10%	0	18.70%	27.90%	15.93%
Gross External Reserves (Months of imports)	Greater than or equal to 3 months	4.0	5.8	4.5	2.4
(Secondary Criteria)					
Criteria	**Target**	**2008**	**2009**	**2010**	**2011**
Domestic Arrears	0	n.a	n.a	n.a	n.a
Tax revenue/GDP ratio	Greater than or equal to 20%	13.0%	9.8%	10.3%	12.13%
Salary Mass/Total Tax revenue	Less than or equal to 35%	59.3%	64.5%	60.92%	58.57%
Public Investment from Domestic receipts	Greater than or equal to 20%	13.20%	16.51%	14.38%	28.0%
Real Interest Rate	Greater than 0	-6.70%	-5.97%	-11.59%	-10.14%
Exchange rate	Stable +/-15%	15.77%	33.55%	38.97%	41.45%

non-participation of the Bank in the primary market, coupled with the sale of treasury bills holdings in the Bank's portfolio. The Bank of Sierra Leone ensured that the ceiling on net domestic bank credit to government was strictly observed throughout 2011.

12.1.4 Gross External Reserves/Months of Import Cover

Gross external reserves as at end December 2011 was US$376.79mn, representing an increase of 19.4 percent on the end December 2010 position of US$345.22mn. Notwithstanding the increase in reserves however, the total translated to 2.4 months of import cover, thus in breach of the WAMZ benchmark of 3 months of import cover. The non-compliance with this criterion was attributed to the proportionately larger increase in imports within the review period, relative to the increase in reserves.

12.2 SECONDARY CRITERIA

12.2.1 Tax Revenue/GDP Ratio

Despite the Government efforts in enhancing revenue mobilisation and rationalising public expenditure, the criterion on tax revenue as a percentage of GDP continued to pose a challenge for the authorities. The country however recorded sustained improvement on this criterion, with the ratio increasing from 8.8 percent in 2009 to 10.3 percent in 2010 and 12.13 percent in 2011. However, following the authorities' effort at enhancing revenue mobilization through the implementation of the National Revenue Authority's

(NRA) modernization plan and measures to reduce the high level of tax exemption and discretionary duty waivers, tax revenue as a percentage of GDP is expected to increase significantly in 2012.

12.2.1 Salary Mass/Total Tax Revenue

With respect to the salary mass/tax revenue criterion, Sierra Leone's performance improved slightly but remained above the WAMZ's benchmark of 35 percent. The wage bill contracted to 58.57 percent in the review period from 60.92 percent in 2010. This performance was due to improved revenue performance, which partly offset the increase in recurrent expenditure during the period.

12.2.2 Public Investment from Domestic Receipts

Sierra Leone continued to meet this criterion in the review period, with the public investment from domestic receipts posting 27.95 percent. Capital expenditure increased by 47.15 percent in the review period, due to the outlays on infrastructure projects.

12.2.3 Real Interest Rate

Meeting this criterion has remained elusive for the country since 2003 due to the high level of inflation in the face of a constant low savings rate of 6.50 percent. Inflation was 16.64 percent as against a savings rate of 6.5 percent. Although inflation remained high, domestic savings rates have not responded to the market fundamentals.

12.2.4 Nominal Exchange Rate Stability

The exchange rate of the Leone depreciated against the central parity rate under the WAMZ Exchange Rate Mechanism by 41.4 percent, thus missing the criterion of +/- 15.0 percent. The pressure on the exchange market remained strong, in-spite of the Central Bank weekly foreign exchange auction system during the review period.

13.0 Internal Audit

As part of its strategic plan for organizational independence, professionalism and capacity building, the Bank upgraded the internal audit function to a departmental status with the deployment of a substantive Director, Internal Audit in January 2011.

In 2011, the Internal Audit Department, together with other practicing Internal Auditors in other organizations commenced work on the facilitation of the establishment of a Local Chapter of the Institute of Internal Auditors, meant to professionalise internal auditing in Sierra Leone.

14.0 Human Resources Developments

14.1 Staff strength

In 2011, the Bank continued with its Restructuring Exercise and the main focus was the modernization and professionalization of the Bank, with a view to retaining capable and competent staff. The Bank therefore recruited professional staff from external sources, whilst internally, existing staff who have improved their technical skills and who possessed the relevant experience were promoted through a competitive interview process.

Total staff strength as at end December 2011 was 495, reflecting a decrease of 26 (5.25%) from 521 at end December 2010.

The variance in staff strength was recorded mainly in the Management, Sub-Professional and Other cadres categories. Staff strength in the Management cadre recorded a decrease of 3 (three), from 9 (nine) to 6 (six) as at end December 2011, due to the retirement of 3 (three) Heads of Department.

The staff strength in the Professional cadre remained unchanged at 230 (two hundred and thirty) , albeit there were severances, additions and promotions within this cadre during the year. The number of staff in the Sub-Professional cadre decreased by 20 (twenty) from 136 (one hundred and thirty-six) as at end December 2010 to 116 (one hundred and sixteen) as at end December 2011 within this cadre.

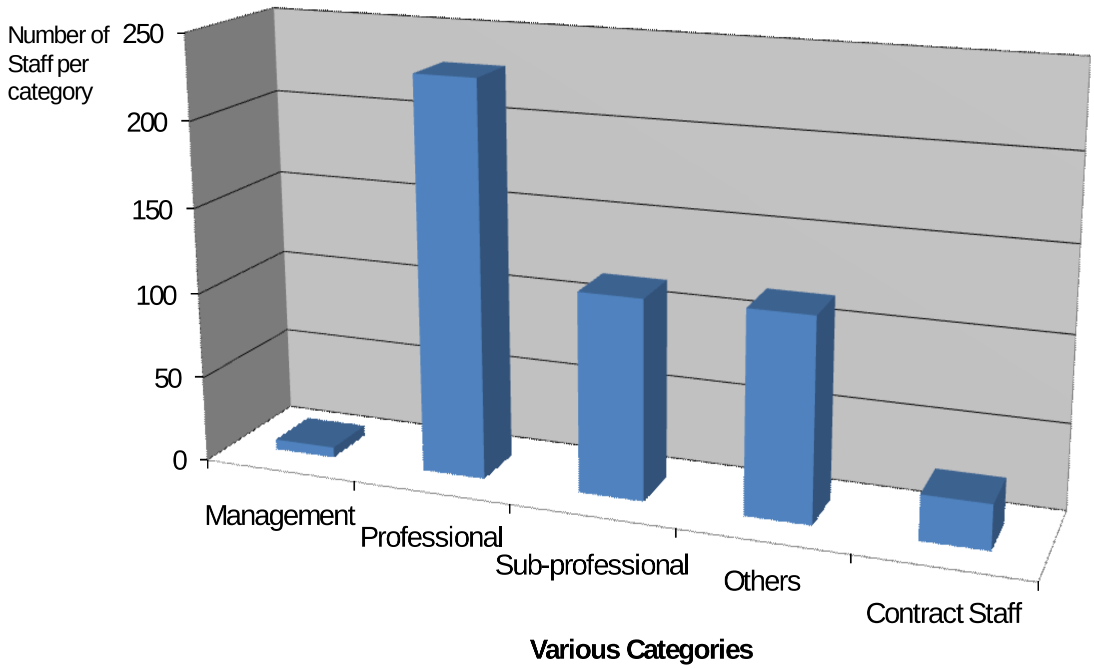
Staff strength in the "other" cadres decreased by 7 (seven) from 124 (one hundred and twenty-four) as at end December 2010 to 117 (one hundred and seventeen) as at end December 2011. The decrease was the result of the severance of 4 (four) members of staff.

The total male staff strength was 354 (three hundred and fifty-four) as at end December 2011. Of this total, 7 (seven) were Fixed Term Employees. The proportion of male staff including Fixed Term Employees to total staff strength was recorded at 71.52 percent as at 31st December 2011.

Total female staff as at end December 2011 was 141 (one hundred and forty-one). Out of this total, 19 (nineteen) were Fixed Term Employees. The proportion of female staff strength to total staff strength including Fixed Term Employees was recorded at 28.48 percent.

The Fixed-Term Employees accounted for 26 or 5.25 percent from 495 at end December 2011 and 5.18 percent or 27 from 521 as at end December 2010. There was a decrease of 1(one) in the Fixed-Term Employee cadre.

Chart 14
Breakdown of Staff per Category as at end 2011



14.2 Severance

A total of 28 (twenty-eight) members of staff severed from the service of the Bank as shown below:

Resignation	7
Retirement	11
Deceased	4
Retirement on Medical Grounds	2
Voluntary Retirement	-
End of Fixed Term	1
Termination	3
Dismissal	-
Position declared vacant	-
Total	28

14.3 Training

The Bank continued to provide opportunities both locally and overseas to enhance the capacity of staff, as well as strengthen them to perform their responsibilities efficiently. During the period under review, training requests were processed based on the specific needs of the Departments/Units and the Bank. In order to enable the Bank meet its current/future challenges and effectively carry out its core functions, the Banking Supervision, Financial Markets and Research Departments were further strengthened as most staff in these departments benefited from relevant training programmes overseas to enhance capacity.

It is worth noting that training was also undertaken to build the capacity of staff for the implementation of the Payments System programme that will ensure soundness and stability in the financial sector.

Moreover, invitations for participation in several overseas short courses, mostly organised by the West African Institute for Financial and Economic Management (WAIFEM) were received and processed for the participation of staff Bank wide. Nominations were also processed for training programmes organised locally by institutions such as West Africa Bankers Association (WABA), National Public Procurement Authority (NPPA) and ITASCAP. Cresmet Brokers and Business Consultants in collaboration with the General Services Department, also organised an In-service training programme on Insurance.

As the Bank continued to support staff in developing their career in the Bank, seven (7) staff who were pursuing degree courses locally on Bank sponsorship completed their respective programmes during the year.

15.0 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 in pursuant of 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.

15.1 Legislative Changes Relevant to the Bank

In 2011, the following pieces of legislation were enacted:

A. The Credit Reference Act 2011
B. The Bank of Sierra Leone Act 2011
C. The Banking Act 2011

The Bank is currently reviewing the Anti-Money Laundering Act 2005, which is intended to be repealed and replaced by the Anti-Money Laundering and Combating of Financing of Terrorism Act.

15.2 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.

15.3 The Board of Trustees currently comprises the following members:

Professor J A S Redwood-Sawyerr	-	Chairman
Mr A Conteh	-	Member
Dr Christiana Thorpe	-	“
Mr M I Amara	-	“
Mr Tom Lee	-	“

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.*

During the Governor’s Annual Dinner held at the Bank of Sierra Leone Recreation Complex, Kingtom, Freetown on 28th January 2011, two new beneficiaries of the Charity were recognized and presented with cheques to cover tuition, lodging, books and maintenance.

The proud beneficiaries were Ms. Kumba Seddu and Mr. Sallieu Jalloh The former scored the highest in the WASSC Examinations from the Annie Walsh Memorial School and the latter the second highest, from the Albert Academy School.

Financial Statements
for the year ended 31st December 2011

THE BANK'S FINANCIAL POSITION AND OPERATING RESULTS AND DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2011

BACKGROUND

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

Although the Bank had adopted IFRS as its Financial Reporting Framework since 2007, it had not implemented the Framework in full due to the requirements of the BSL Act 2000 which required that Revaluation Gains and Losses are taken directly into reserves rather than through the Income Statement. Whilst this treatment is consistent with the operations of a central bank, it did not satisfy the requirements of **IAS 21-The Effect of Changes in Foreign Exchange Rates.**

The Financial Year 2010 Accounts were qualified because:

- The BSL Act 2000 did not allow the treatment of revaluation gains/losses in accordance with **IAS 21-The Effects of Changes in Foreign Exchange Rates** as mentioned above.

- The Employee Benefit Scheme had not been actuarially valued in accordance with **IAS 19-Employee Benefits.**

The Bank of Sierra Leone Act 2000 was replaced by the **Bank of Sierra Leone Act 2011** which legally adopted IFRS as the Bank's Financial Reporting Framework and specified that revaluation gains and losses should be accounted for in accordance with **IAS 21-The Effects of Changes in Foreign Exchange Rates**. An actuary was also employed during the year to determine the Defined Benefit Obligations Liability of the Bank for the Financial Years 2010, 2011 and 2012.

Since the treatment of the revaluation gains and losses had not been consistent with IFRS for a long time and the determination of Defined Benefit Obligations Liability of the Bank for Financial Year 2010 was also carried out, there was a need to restate the prior year i.e. financial year 2010 as required by **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.** This was carried out by the Auditors and resulted in a revised net profit of **SLL 256.61 billion for FY 2010** which is vastly different from the original loss of **SLL23.34 billion** that was reported last year. Please see an analysis of this overleaf.

Restatement of Prior Period Financial Statements

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	**29,802**	31,815	31,815	
Fees and commission expense				
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)	

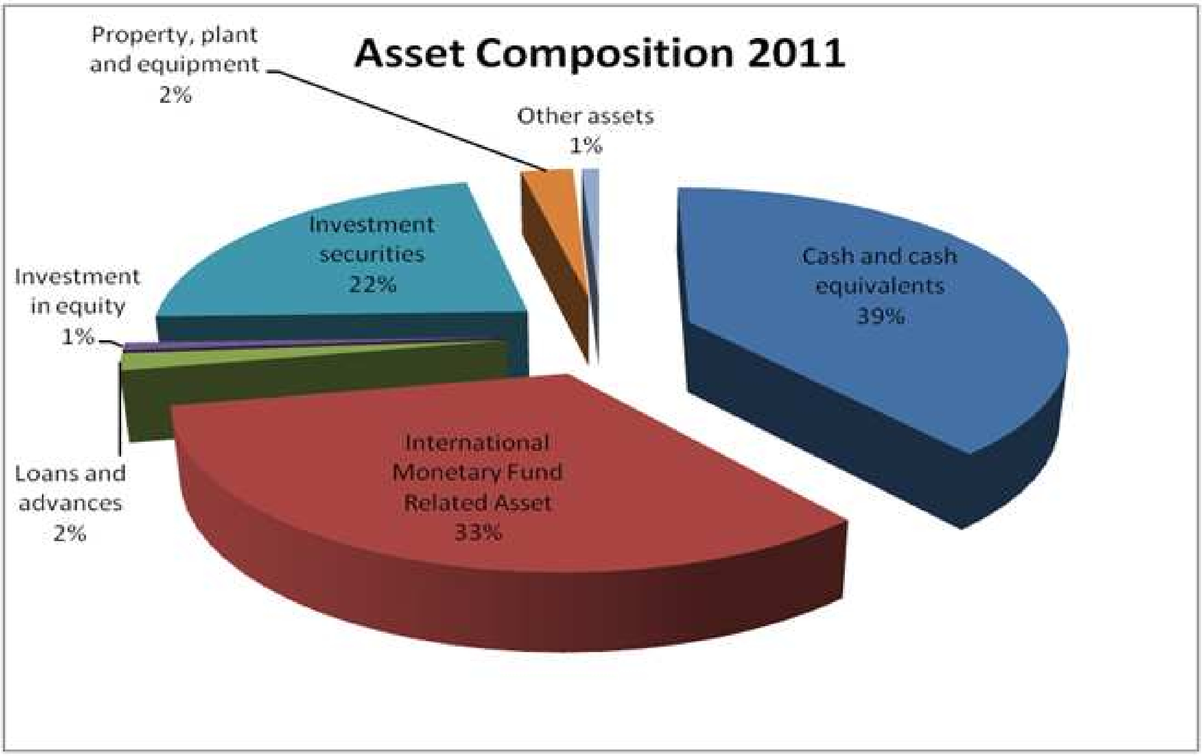
Reconciliation of Profit/(Loss)	**2011**	**2010**
(Loss)/profit for the year as per Audited Accounts	**(51,605,557)**	**256,607,471**
Less:		
Unrealised Revaluation (loss)/gains	(76,932,519)	286,677,237
Prior period effect of IAS 19		(6,725,081
Profit/(Loss)for the year as per Management Accounts	**25,326,962**	**(23,344,685)**

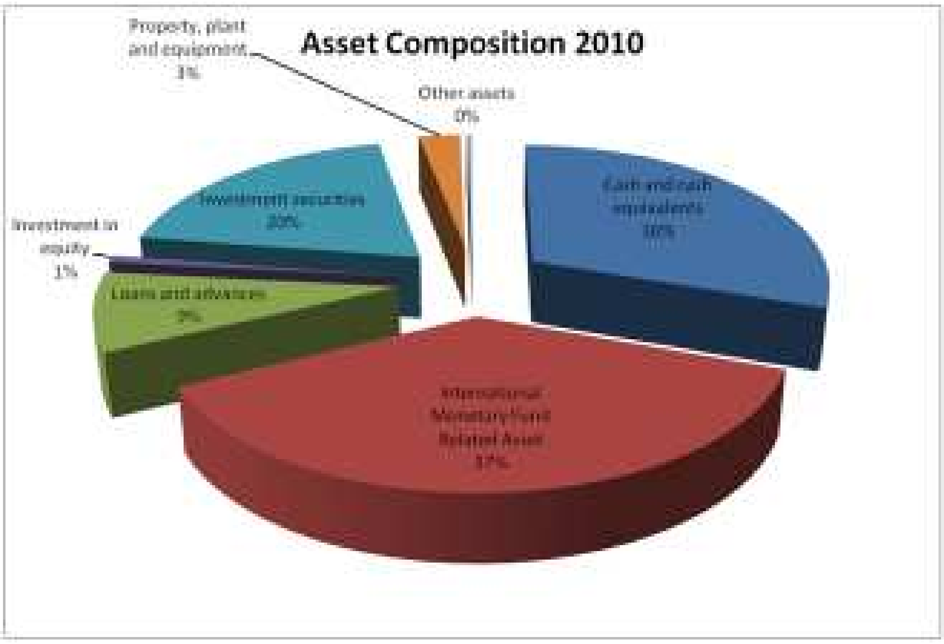
1. STATEMENT OF FINANCIAL POSITION

The Bank's overall financial performance improved with total assets increasing slightly by 0.64% from **SLL2.23 trillion** in 2010 to **SLL2.24 trillion** as at 31st December, 2011.

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

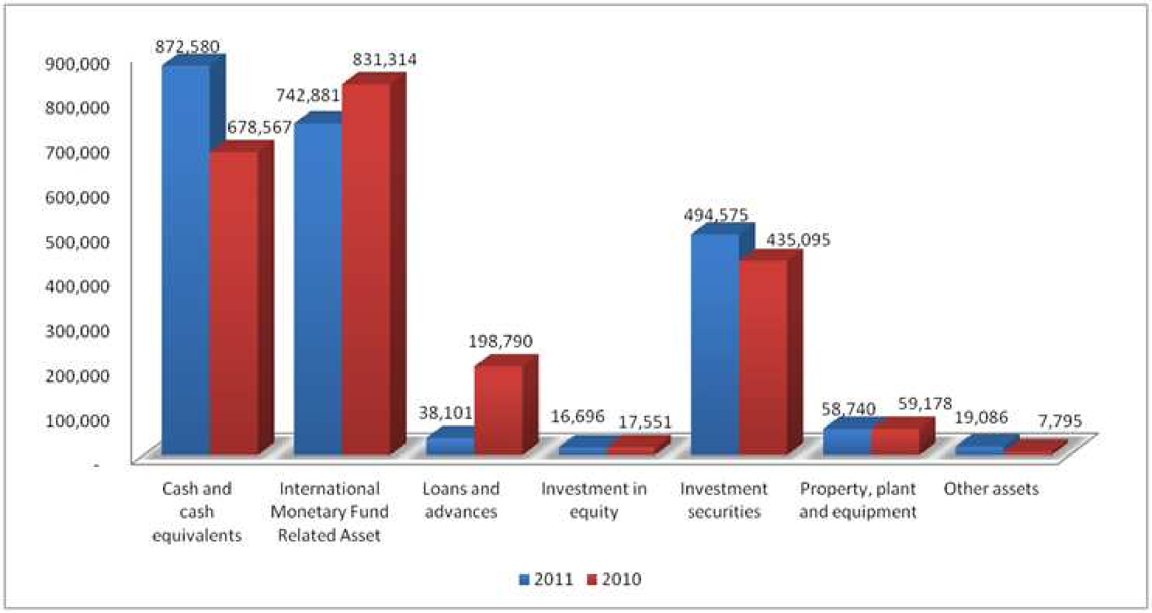
In thousands of Leones	2011	Restated 2010	2009
Assets			
Cash and cash equivalents	**872,579,690**	678,567,070	678,567,070
International Monetary Fund Related Asset	**742,880,838**	831,314,280	573,654,590
Loans and advances	**38,101,206**	198,789,921	17,437,122
Investment in equity	**16,696,261**	17,550,941	15,973,581
Investment securities	**494,574,547**	435,094,849	365,185,994
Property, plant and equipment	**58,739,776**	59,177,854	46,311,444
Other assets	**19,085,555**	7,794,820	55,994,568
Total assets	**2,242,657,873**	**2,228,289,735**	**1,645,240,616**





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 28.60% from **SLL678.57 billion** in 2010 to **SLL872.58 billion** in 2011. 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 10.63% from **SLL831.31 billion** in 2010 to **SLL742.88 billion** in 2011. Also the Bank's Foreign Investments in Equity decreased by 4.87%.

Loans and Advances reduced significantly due to a sharp drop in Ways and Means Advances to Government of **SLL177.69 billion** in a Stock Account in 2010 to **SLL26.89 billion** in 2011. Staff Loans increased slightly from **SLL4.14 billion** to **SLL4.20 billion** as at 30th December, 2011. The Reverse REPO Account dropped from **SLL9.81 billion** to **nil** in 2011.

The Bank's Investment Securities increased by 13.67% from **SLL435.09 billion** in 2010 to **SLL494.57 billion** in 2011. The 5-year Medium Term Bonds remained the same reflecting the non conversion of Non-Negotiable, Non-interest Bearing Securities. However a new set of bonds (the 3-year Medium Term Bonds) was created as agreed with the Ministry of Finance and Economic Development to convert the remaining Stock of the 2010 Ways and Advances of **SLL77.52 billion** to Negotiable Securities. The Bank's Holdings of Government Securities (Treasury Bills and Bonds) decreased by 11.63% from ***SLL155.09 billion*** to **SLL137.06 billion** in 2011.

The total value of Other Assets (that is Non-Financial Assets including the value of gold stock and inventory items) increased by 144.84% from **SLL7.79 billion** in 2010 to **SLL19.09 billion** in 2011 mainly due to a sharp increase in Items in Transit (from **SLL125.54 million** in 2010 to **SLL16.45 billion** in 2011). 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 to replace the depleted stock in the vaults.

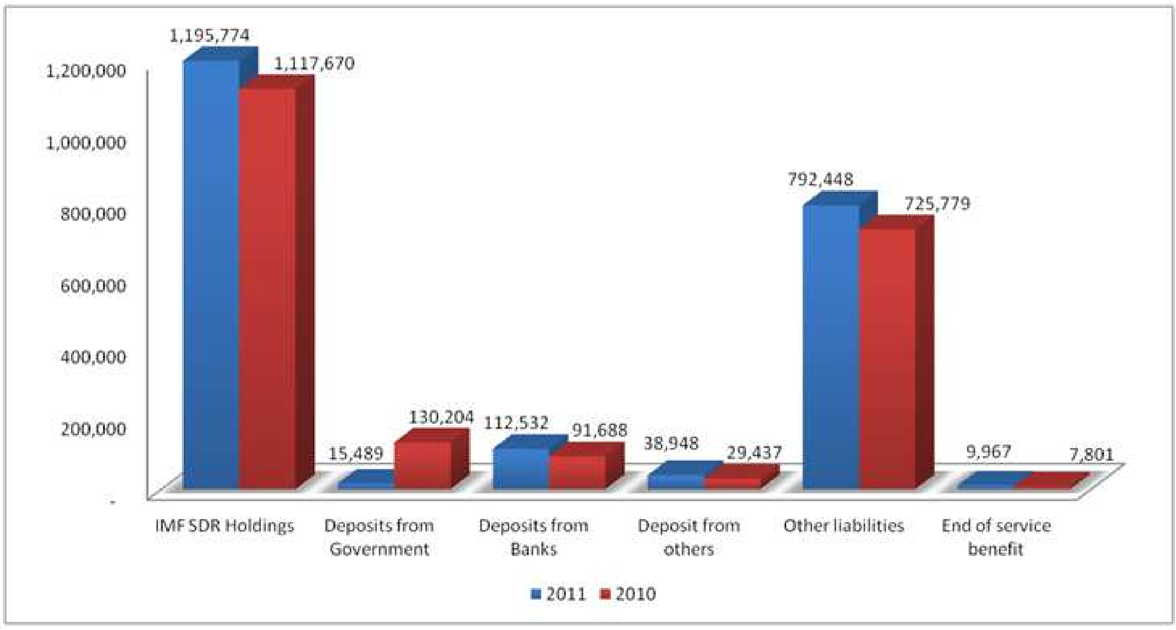
Deferred Currency Issue Expenses decreased significantly from **SLL6.46 billion** in 2010 to **SLL 1.09 billion** in 2011 as a result of a depletion of stock of notes in the vaults because of huge capital expenditures in the economy which led to an increase in the Currency in Circulation.

Gold Stock increased by 15.37% from **SLL530.64 million** as at 31st December, 2010 to **SLL612.20 million** in 2011.

The Bank's Property, Plant and Equipment dropped slightly from **SLL59.18 billion** in 2010 to **SLL58.74 billion** in 2011 as a result of a drop in all the assets categories with the exception of the Office Furniture and Equipment category which increased by **SLL2.22 billion**.

Liabilities

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



Total Liabilities increased marginally by 2.82% from **SLL2.10 trillion** in 2010 to **SLL 2.16 trillion** in 2011.

IMF Special Drawing Rights (SDRs) Allocation increased from **SLL1.12 trillion** in 2010 to **SLL1.20 trillion** in 2011 mainly because IMF Special Drawing Rights (SDRs) increased by 3.63% from **SLL643.35 billion** in 2010 to **SLL666.68 billion** as at 31st in 2011 and Disbursements under the IMF Poverty Reduction and Growth Facility (PRGF) also increased by 11.55% from **SLL474.32 billion** in 2010 to **SLL529.10 billion** in 2011.

Total Non-Financial Liabilities increased by 12.04% mainly due to an increase in Currency in Circulation from **SLL631.59 billion** as at 2010 to **SLL707.61 billion** in 2011.

Deposits from Commercial and Community banks increased by 22.74% from **SLL91.69 billion** in 2010 to **SLL112.53 billion** in 2011. Accrued Charges and Other Liabilities increased by 28.59%. Government Deposits dropped sharply by 88.10% from **SLL130.20 billion** in 2010 to **SLL15.49 billion** in 2011.

Reserves

Total Reserves reduced during the period from **net total positive reserves of SLL125.71 billion** in 2010 to **net total positive reserves of SLL77.50 billion** in 2011. This unfavourable position resulted mainly from the charging of all revaluation gains/losses to the Statement of Comprehensive Income instead of the Revaluation Reserves in compliance with IAS 21.

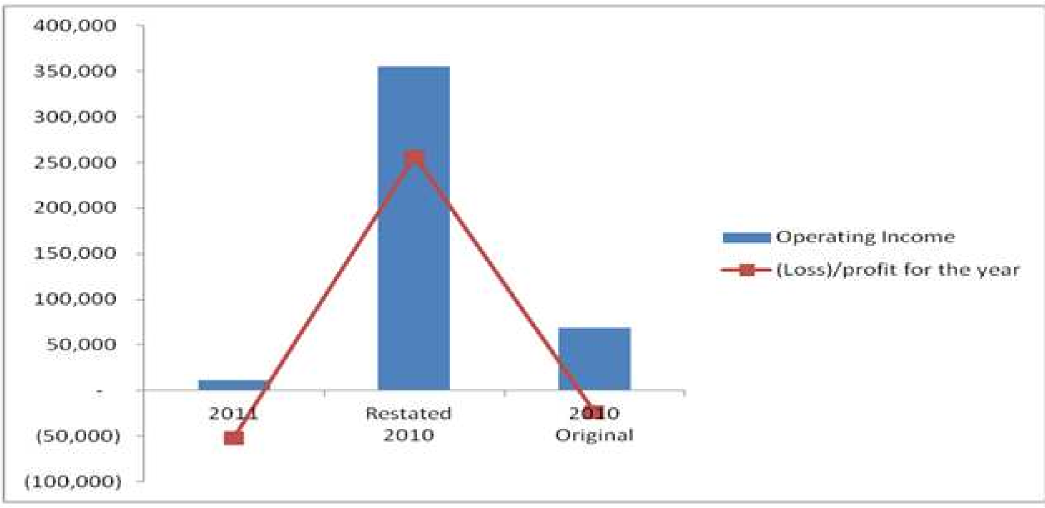
2. STATEMENT OF COMPREHENSIVE INCOME

Operating Income

Total operating income amounting to **SLL10.94 billion** represented a sharp drop from amount of **SLL355.06 billion** generated in the reinstated 2010 which included the sum of **SLL139.44 billion** in respect of revaluation gains transferred from Revaluation Reserves to income. Also the Net Operating Loss of **SLL51.60 billion** is a marked contrast from the net profit of **SLL 256.61 billion** in the restated 2010 position (2010 original **(- 23,345).**

This is depicted in the table and graph overleaf:

Description	2011	Restated 2010	2010 Original
Operating Income	10,938	355,056	68,379
(Loss)/profit for the year	(51,606)	256,607	(23,345)



Interest and similar income increased by 30.15% from **SLL66.14 billion** in 2010 to **SLL86.07 billion** in 2011. The favourable performance of this income line was largely attributed to income of SLL54.99 billion from Investment Securities representing a 32.11% increase from 2010 **(SLL41.62 billion)**. Income of **SLL25.2 billion** realised from the 5-Year Medium Term Bonds constituted 55.13% of the total income from investment securities.

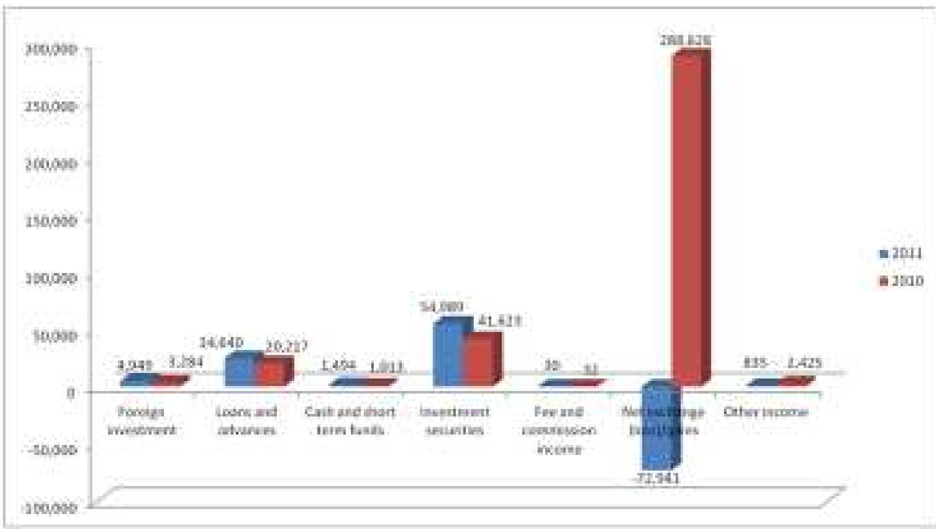
Interest income from Loans and Advances (to Government) amounting to **SLL24.64 billion** was the next major source of income. This income arising mainly from the utilization of the Ways and Means Advances Facility by Government increased by 21.88% from **SLL20.22 billion** in 2010 to **SLL24.64 billion** in 2011.

The total income of **SLL4.95 billion** accruing from Foreign Currency Investments was 5.75% of total interest income from Financial Assets. This income represented a rise of 50.70% when compared with the amount of **SLL3.28 billion** generated in 2010.

Net exchange (loss)/gains decreased from **SLL288.63 billion** in the 2010 reinstated position to a negative amount of **SLL72.94 billion** as a result of net revaluation loss of **SLL76.93 billion** in 2011. This was due to the gradual strengthening of the leone during the year (Exchange loss on the SDR Holdings amounted to **SLL 119 billion**).

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

All figures in SLL M				
Description	2011	2010	Change	Percentage Change
Foreign investment	4,949	3,284	1,665	50.7%
Loans and advances	24,640	20,217	4,423	21.9%
Cash and short term funds	1,494	1,013	482	47.6%
Investment securities	54,989	41,623	13,366	32.1%
Fee and commission income	30	32	(2)	-6.3%
Net exchange (loss)/gains	-72,941	288,628	(361,569)	-125.3%
Other income	835	2,425	(1,590)	-65.6%



Operating Expenses

Total operating expenses decreased by 36.50% from **SLL98.45 billion** in the restated 2010 position to **SLL62.54 billion** in 2011.

Personnel costs amounting to **SLL36.51 billion** was the major item of expenditure during the period, accounting for 58.41% of total operating expenses and representing a 9.40% decrease over the amount spent in 2010.

Other Expenses (including Directors remuneration, audit fees, legal and professional fees, electricity, insurance, passages and overseas allowances and repairs and maintenance) decreased by 9.13% over the amount incurred in 2010 while Depreciation increased by 28.72%. **SLL38.90 million** was provided to cover impairment loss on loans and advances to Community banks.

Currency costs dropped sharply from **SLL36.54 billion** in 2010 to **SLL5.45 billion** in 2011.

Net Operating Loss

The **Net Operating Loss of SLL51.60 billion** has been treated in accordance with the requirements of Sections 13(3) of the **Bank of Sierra Leone Act 2011.**

3. Equity

Total equity dropped from **SLL125.71 billion** in 2010 to **SLL77.50 billion** in 2011 due to a fall in the total profit (net of revaluation gains and operating loss) realised for the year.

Budget Performance for year 2011

General information

Board of directors	:	Mr. Sheku S. Sesay -	Governor
		Ms. Andrina R. Coker -	Deputy Governor
		Dr Morie K. Manyeh	
		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

Secretary of the board: Mr. Henry E.P Musah

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 2011.

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 2011 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 and appropriation

Loss for the year was Le 51.6 billion. (2010: profit of Le 256.6 billion restated). No appropriation is made as required by Section 13 of the Bank of Sierra Leone Act 2011 as the Bank incurred a net loss.

Report of the directors (continued)

Audit Committee

The Audit Committee comprising non-executive directors 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.

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 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.

Report of the directors (continued)

Health, safety and welfare at work

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

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

Employee involvement and training

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

There is an approved training schedule for staff and the Bank also has a staff performance appraisal process through which 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 2011:

Mr. Sheku S. Sesay	-	Governor	(appointed	1 July 2009) - Chairman
Ms. Andrina R. Coker	-	Deputy Governor	(appointed	6 October 2008)
Dr Morie K. Manyeh	-	Director	(Up to	21 April 2011)
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 reappointment for another term only.

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

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

Report of the directors (continued)

Auditors

The auditors have expressed their willingness to remain in office.

The auditors, KPMG were appointed by the Auditor-General on 29 December 2010 to conduct the audit of the financial statements for the year ended 31 December 2011.

Approval of the financial statements

The financial statements were approved by the board of directors on ....…….....………..2012

……………………………………	……………………………………
Governor	**Deputy Governor**
……………………………………	……………………………………..…
Director	**Director**
……………………………………	
Secretary	

Independent auditor's report to the Government of Sierra Leone

We have audited the accompanying financial statements of Bank Sierra Leone which comprise the statement of financial position as at 31 December 2011, 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 60.

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 inte [illegible] entity's preparation and fair presentation of the financial statements in orde [illegible] s that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

Opinion

In our opinion the financial statement give a true and fair view of the financial position of Bank of Sierra Leone as at 31 December 2011, 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

Restated

In thousands of Leones	Note	2011	2010	2009
Assets				
Cash and cash equivalents	*15*	**872,579,690**	678,567,070	570,683,317
International Monetary Fund Related Asset	*16*	**742,880,838**	831,314,280	573,654,590
Loans and advances	*17*	**38,101,206**	198,789,921	17,437,122
Investment in equity	*18*	**16,696,261**	17,550,941	15,973,581
Investment securities	*19*	**494,574, 547**	435,094,849	365,185,994
Property, plant and equipment	*20*	**58,739,776**	59,177,854	46,311,444
Other assets	*21*	**19,085,555**	7,794,820	55,994,568
Total assets		**2,242,657,873**	2,228,289,735	1,645,240,616
Liabilities				
International Monetary Fund Special Drawing Rights allocation	*22*	**1,195,774,358**	1,117,669,718	693,348,450
Deposits from Government	*23*	**15,489,277**	130,203,850	338,746,493
Deposits from Banks	*24*	**112,532,271**	91,687,549	49,544,719
Deposit from others	*25*	**38,948,083**	29,436,819	30,384,663
Other liabilities	26	**792,448,061**	725,778,786	834,809,157
End of service benefit	*27*	**9,967,414**	7,801,147	437,754
Total liabilities		**2,165,159,464**	2,102,577,869	1,947,271,236
Equity				
Share capital	*28*	[illegible]	50,000,000	50,000,000
General reserve	*29(a)*	[illegible]	42,918,947	(237,587,132)
Other reserves	*29(b)*	[illegible]**19**	32,792,919	(114,443,488)
Total equity attributable to equity holders of the Bank		**77,498,409**	125,711,866	(302,030,620)
Total liabilities and equity		**2,242,657,873**	2,228,289,735	1,645,230,616

These financial statements were approved by the Board of Directors on 2012

…………………………………………………....) **Governor**

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

…………………………………………………....) **Directors**

…………………………………………………....

The notes on pages 82 to 128 are an integral part of these financial statements

Statement of comprehensive income
for the year ended 31 December

In thousands of Leones	**Note**	**2011**	**Restated** 2010
Interest and similar income	*7*	**86,072,286**	66,136,705
Interest expenses and similar charges	*7*	**(3,057,307)**	(2,165,179)
Net interest income		**83,014,979**	63,971,526
Fees and commission income	*8*	**29,802**	31,815
Fees and commission expense	*8*	**-**	-
Net fee and commission income		**29,802**	31,815
Net exchange (loss)/gain	*9*	**(72,940,987)**	288,627,979
Other income	*10*	**834,597**	2,424,968
Operating income		**10,938,391**	355,056,288
Impairment loss on loans and advances	*17(a)*	**(38,898)**	(7,902)
Personnel expense	*11*	**(36,510,497)**	(40,301,788)
Currency	*12*	**(5,454,691)**	(36,536,574)
Depreciation and amortisation	*20*	**(3,096,857)**	(2,405,829)
Other expenses	*13*	**(17,443,005)**	(19,196,724)
(Loss)/profit for the year	*14*	**(51,605,557)**	256,607,471
Other comprehensive income			
Fair value reserve (non negotiable non interest bearing securities):			
Net change in fair value		-	161,930,000
Net amount transferred to profit or loss		-	-
Other comprehensive income for the year		-	161,930,000
Total comprehensive income for the year		**(51,605,557)**	418,537,471

The notes on pages 82 to 128 are an integral part of these financial statements

Statement of comprehensive income (continued)

In thousands of Leones	Note	2011	Restated 2010
Loss attributable to:			
Equity holders of the Bank		**(51,605,557)**	256,607,471
Loss for the year		**(51,605,557)**	256,607,471
Total comprehensive income attributable to:			
Equity holders of the Bank		**(51,605,557)**	418,537,471
Total comprehensive income for the year		**(51,605,557)**	418,537,471

These financial statements were approved by the Board of Directors on 17th May, **2012**

…………… …………...) **Governor**
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The notes on pages 82 to 128 are an integral part of these financial statements

Statement of changes in equity
for the year ended 31 December 2011

In thousands of Leones	Share capital	Restated Foreign exchange reserve	Property revaluation reserve	Restated General reserves	Other reserves	Total
Balance at 1 January 2010	50,000,000	(147,236,407)	32,792,919	(237,587,132)	-	(302,030,620)
Transfer to general reserves	-	147,236,407	-	(147,236,407)	-	-
Total comprehensive income for the year						
Net loss for the year as previously stated	-	-	-	(23,344,685)	-	(23,344,685)
Revaluation gain for the year	-	286,677,237	-	-	-	286,677,237
Transfer to income statement	-	(286,677,237)	-	286,677,237	-	-
Loss on sale of marketable securities	-	-	-	(6,364,985)	-	(6,364,985)
End of service benefits understated in previous years	-	-	-	(6,725,087)	-	(6,725,081)
Securities for prior year losses	-	-	-	15,570,000	-	15,570,000
Other comprehensive income						
Fair value reserve (non interest bearing securities)						
Net change in fair value	-	-	-	161,930,000	-	161,930,000
Total other comprehensive income for the year	-	-	-	**161,930,000**	-	161,930,000
Other transfers						
Transfer to foreign exchange reserve	-	-	-	-	-	-
Total transfers	-	-	-	-	-	-
Total comprehensive income and other transfers	-	-	-	-	-	-
Paid up capital	-	-	-	-	-	-
Deposit for shares	-	-	-	-	-	-
Total contribution by and distributors owners	-	-	-	-	-	-
Balance at 31 December 2010 (restated)	**50,000,000**	**-**	**32,792,919**	**42,918,947**	**-**	**125,711,866**

The notes on pages 82 to 128 are in integral part of these financial statements

Statement of changes in equity *(continued)*
for the year ended 31 December 2011

In thousands of Leones	**Share capital**	**Foreign exchange reserve**	**Property revaluation reserve**	**General reserves**	**Other reserves**	**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	**-**	**-**	**-**	**(48,212,182)**	**-**	**(48,212,182)**
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 82 to 128 are an integral part of these financial statements

Statement of cash flows
for the year ended 31 December

In thousands of Leones	**Note**	**2011**	**2010**
Cash flows from operating activities			
Loss for the year		**(51,605,557)**	256,607,471
Adjustment for:			
Depreciation and amortisation	*20*	**3,096,857**	2,405,829
Impairment losses on loans and advances		**38,898**	7,902
Net interest income	*17(a)*	**(83,014,979)**	(63,971,526)
Fixed asset write-off		**70,606**	-
Impairment of property, plant and equipment		**-**	809,029
		(131,414,175)	195,858,705
Changes in loans and advances		**160,649,817**	(181,360,701)
Changes in other assets		**(11,290,735)**	48,199,748
Changes in government deposit		**(114,714,573)**	(208,542,643)
Changes in other deposits		**30,355,986**	41,194,986
Changes in other liabilities		**66,669,275**	(109,030,371)
Changes in end of service benefit		**2,166,267**	7,363,393
		2,421,862	(206,316,883)
Interest received	*7*	**86,072,286**	66,136,705
Interest paid	*7*	**(3,057,307)**	(2,165,179)
Net cash generated from/(utilised in) operating activities		**85,436,841**	(142,345,357)
Cash flows from investing activities			
Purchase of Investment Securities		**(59,479,698)**	(69,908,855)
Medium term bond disposal/(acquisition)		**854,680**	(1,577,360)
Acquisition of property and equipment		**(2,729,385)**	(16,081,268)
Proceeds from the sale property and equipment		**-**	-
Net cash used in investing activities		**(61,354,403)**	(87,567,483)
Cash flows from financing activities			
Net change in funds from the IMF		**166,538,082**	166,661,578
Net movement in reserves		**3,392,100**	171,135,015
Net cash from financing activities		**169,930,182**	337,796,593
Net increase in cash and cash equivalents		**194,012,620**	107,883,753
Cash and cash equivalents at 1 January		**678,567,070**	570,683,317
Effect of foreign exchange rate changes on cash and cash equivalent held or due in foreign currency		**-**	-
Cash and cash equivalent at 31 December	*15*	872,579,690	678,567,070

The notes on pages 82 to 128 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

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 accrual basis, using the effective interest rate method.

The recognition of interest ceases when the payment of interest or principals 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, which appropriate, a shorter period) to the carrying amount of the financial asset or

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Interest (continued)

liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

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

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

(e) Lease payments made

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

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

(f) Income tax expense

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

(g) Financial assets and 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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

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

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

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

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when the Bank has a legal right to set off the amounts and intends either to settle 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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

(v) Fair value measurement

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

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

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

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

(vi) Identification and measurement of impairment

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

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Identification and measurement of impairment

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.

(i) Loans and advances

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

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

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

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

(j) Investment securities

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

(i) Held-to-maturity

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

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

(ii) Available-for-sale

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

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

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

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. Purchase 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.

3. Significant accounting policies *(continued)*

(l) Leased assets - Lessee

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

(m) Impairment of non-financial assets

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

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

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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

(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 are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(p) Financial guarantees

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

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

(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 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.

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

Employee benefits (continued

(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 actuary using the projected unit credit method.

The bank recognises all actuarial gains and losses from end of service benefits in profit or loss.

(iii) Termination benefits

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

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

(r) Share capital and reserves

(i) Share capital

The Bank classifies capital instruments as financial liabilities as equity instruments in accordance with the substance of the contractual terms of the instrument. 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.

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 not yet effective for the period ended 31 December 2011, and have not been applied in preparing these financial statements. The new standards, amendments and interpretations will be applied if relevant to the Bank at their respective effective dates. These include the following:

Standards amendments and interpretations	Description	Effective date
IFRS 9	Financial Instruments 2009 and 2010 IFRS 9 (2009 and 2010) is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixedmeasurement model and established two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard will not have any impact as the Bank's investment securities have usually being reported at amortised cost.	1 January 2015

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

Standards amendments and interpretations	Description	Effective date
IFRS 10	IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation-Special Purpose Entities. This standard is not expected to have any impact on the financial statements of the bank as the bank does not have any subsidiaries.	1 January 2013
IFRS 11	Joint Arrangements IFRS 11 Joint Arrangements establishes principles for financial reporting by parties to a joint arrangement. The IFRS supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers. This standard is not expected to have any impact on the financial statements of the bank as the bank does not have any joint arrangements.	1 January 2013

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

Standards amendments and interpretations	**Description**	**Effective Date**
IFRS 12	IFRS 12 Disclosure of Interests in Other Entities applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This standard is not expected to have any impact on the financial statements of the bank as the bank does not have any interests in other entities.	1 January 2013
IFRS 13	Fair value measurement Financial Reporting Standard 13 Fair Value Measurement (IFRS 13): (a) defines fair value; (b) sets out in a single IFRS a framework for measuring fair value; and (c) requires disclosures about fair value measurements. The IFRS applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The IFRS explains how to measure fair value for financial reporting. It does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting. This standard is not expected to have any impact on the financial statements of the bank as most of the bank's financial instruments are carried at amortised cost.	1January 2013

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

Standards amendments and interpretation not yet adopted	Description	Effective Date
IAS 19	Employee benefits (Revised 2011) IAS 19 was amended in June 2011, which also resulted in amendments to other IFRSs, an entity shall apply these amendments when it applies IAS 19 as amended.	1 January 2013
IAS 27	Separate Financial Statements (Amended 2011) IAS 27 Separate Financial Statements contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. This standard is not expected to have any impact on the financial statements of the bank as the bank has no investment in subsidiaries, joint ventures and associates.	1 January 2013
IAS 28	Investments in Associates and Joint Ventures (Amended 2011) International Accounting Standard 28 Investments in Associates and Joint Ventures (IAS 28) prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is not expected to have any impact on the financial statements of the bank as the bank has no investment in associates.	1 January 2013

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

Standards amendments and interpretation not yet adopted	Description	Effective date
Amendment to IAS 1	Presentation of Items of Other Comprehensive Income (OCI) The main change resulting from the amendments was a requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments did not address which items are presented in OCI.	1July 2012
Amendment to IAS 12	Deferred Tax: Recovery of Underlying Assets The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property. This standard is not expected to have any impact on the financial statements of the bank as the bank does not have any investment property.	1January 2012
Amendment to IAS 32	Offsetting Financial Assets and Financial Liabilities This amendment deals with the criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts.	1January 2014
Amendment to IFRS 7	Disclosure - Offsetting Financial Assets and Financial Liabilities This amendments to IFRS 7, issued in December 2011, amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1January 2013

Notes to the financial statements *(continued)*

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

New Standards and interpretations not yet adopted	Description	Effective date
IFRIC 20 Stripping Costs in theProduction Phase of a Surface Mine	This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping in the costs'). This Interpretation addresses the following issues: (a) recognition of production stripping costs as an asset; (b) initial measurement of the stripping activity asset; and (c) subsequent measurement of the stripping activity asset. This is not expected to have any impact on the bank as the bank is not engaged in mining activities	1 July 2015

(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	2011	Restated 2010
Assets		
United States Dollars	**642,435,510**	541,165,855
Euro	74,170,523	61,863,744
Pound sterling	**168,946,669**	87,688,219
SDR	**742,880,838**	831,728,688
Leones and others	614,224,333	705,843,229
Total	**2,242,657,873**	2,228,289,735
Liabilities		
United States Dollars	**49,068,157**	58,986,794
Euro	**-**	1,870,361
Pound sterling	**-**	-
SDR	**1,195,774,357**	1,117,669,718
Leones & others	**920,316,950**	924,050,996
Total	**2,165,159,464**	2,102,577,869

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

Credit risk (continued)

Management of credit risk

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	2011	% of FA	2010	% of FA
Cash balances with central banks	AAA	559,134,598	25.8%	508,427,380	23.5%
Other cash balances	AA	313,445,092	14.5%	170,141,040	7.9%
International Monetary Fund assets	NR	742,880,838	34.3%	831,314,280	38.5%
Loans and advances to Bank	NR	38,101,206	1.8%	198,789,921	9.2%
Investment in equity	NR	16,696,260	0.8%	17,550,941	0.8%
Investment securities	NR	494,574,547	22.8%	435,094,849	20.1%
		2,164,832,541	**100%**	2,161,318,411	100%

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

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

Notes to the financial statements (continued)

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 five 5 years**	**Total**
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**
31 December 2010							
Non-derivative liabilities							
IMF Special drawing rights allocation	*22*	-	-	-	474,322,135	643,347,583	1,117,669,718
Deposits from Government	*23*	130,203,850	-	-	-		130,203,850
Deposit from Banks	*24*	91,687,549	-	-	-		91,687,549
Deposit from others	*25*	29,436,819	-	-	-		29,436,819
Other liabilities	*26*	636,616,123	-	-	28,178,431	60,984,232	725,778,786
End of service benefit	*27*	-	-	-	7,801,147	-	7,801,147
		887,944,341	-	-	510,310,713	704,331,815	2,102,577,869

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

(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:

In thousands of Leones	Note	Carrying amount	0-3 months	3-12 months	1 - 5 years	More than 5 years
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 risk (continued)

In thousands of Leones	Note	Carrying amount	0-3 months	3-12 months	1 - 5 years	More than 5 years
31 December 2010						
Cash and cash equivalents	15	678,567,070	678,532,456	-	34,614	-
IMF fund related asset	16	831,314,280	-	831,314,280	-	-
Loans and advances	17	198,789,921	193,835,740	-	4,954,181	-
Investment in equity	19	17,550,941	-	-	15,293,720	2,257,221
Investment securities	20	435,094,849	435,094,849	-	-	-
		2,161,317,061	1,307,463,045	831,314,280	20,282,515	2,257,221
IMF related liabilities	23	1,117,669,718	-	-	474,322,135	643,347,583
Deposit from Government	24	130,203,850	130,203,850	-	-	-
Deposits from Banks	25	91,687,549	91,687,549			-
Deposits from others	26	29,436,819	29,436,819	-	-	-
		1,368,997,936	251,328,218	-	474,322,135	643,347,583
		792,319,125	1,056,134,827	831,314,280	(454,039,620)	(641,090,362)

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

In thousand 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)**

Notes to the financial statements *(continued)*

4. Financial risk management (continued)

Market risk (continued)

In thousand of Leones	200 bp (2%) Increase 2010	200bp (2%) Decrease 2010
Interest income impact	1,328,266	(1,328,266)
Interest expense impact	(43,304)	43,304
Net impact	1,284,962	(1,284,962)

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 thousand of Leones	**200 bp (2%) Increase 2011**	**200bp (2%) Decrease 2011**
Net (after tax) interest Impact on retained earnings	**1,162,209**	**(1,161,209)**

In thousand of Leones	2010	2010
Net (after tax) interest Impact on retained earnings	899,473	(899,473)

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 2011. 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	**168,915,353**	**74,154,720**	**625,727,630**	-	**3,781,987**	**872,579,690**
IMF Assets	-	-	-	**742,880,838**	-	**742,880,838**
Loans and advances	-	-	-	-	**38,101,206**	**38,101,206**
Investment in equity	-	-	**16,696,261**		-	**16,696,261**
Investment in securities	-	-	-	-	**494,574,547**	**494,574,547**
Property, plant and equipment	-	-	-	-	**58,739,776**	**58,739,776**
Other assets	**31,316**	**15,803**	**11,620**	**291,986**	**18,734,830**	**19,085,555**
Total assets	**168,946,669**	**74,170,523**	**642,435,511**	**743,172,824**	**613,932,346**	**2,242,657,873**
Liabilities						
IMF drawing rights allocation	-	-	-	**1,195,774,358**	-	**1,195,774,358**
Deposit from Government	-	-	-	-	**15,489,277**	**15,489,277**
Deposit from Banks	-	-	-	-	**112,532,271**	**112,532,271**
Deposit from others	-	-	-	-	**38,948,083**	**38,948,083**
Other liability	-	-	**49,068,156**	-	**743,379,905**	**792,448,061**
End of service benefit	-	-	-	-	**9,967,414**	**9,967,414**
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**
Credit commitments						
At 31 December 2010						
Total assets	87,682,963	61,859,825	541,136,295	831,314,280	706,296,372	2,228,289,735
Total liabilities	-	1,870,360	58,986,794	1,117,669,718	924,050,997	2,102,577,869
Net on-balance sheet position	87,682,963	59,989,465	482,149,501	(286,355,438)	(217,754,625)	125,711,866

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.

2011

In thousands of Leones	**USD**	**GBP**	**EUR**	**SDR**	**Total**
Assets					
Cash and balance 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 drawings	**-**	**-**	**-**	**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**

2010

In thousands of Leones	USD	GBP	EUR	SDR	Total
Assets					
Cash and balance with the banks	52,546,181	725	841	-	52,547,747
IMF assets	-	-	-	83,131,428	83,131,428
Investment in equity	1,567,449	-	-	-	1,567,449
Total assets	54,113,630	725	841	83,131,428	137,246,624
Liabilities					
IMF drawings	-	-	-	111,766,972	111,766,972
Other liabilities	5,898,679	-	187,036	-	6,085,715
Total liabilities	5,898,679	-	187,036	111,766,972	117,852,687
Net-on-balance sheet position	48,214,951	725	(186,195)	(28,635,544)	19,393,937

The above sensitivity analysis has been based on change in 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	**2011**	2010
Interest and similar income		
Foreign investment	**4,949,275**	3,284,313
Loans and advances	**24,639,640**	20,216,610
Cash and short term funds	**1,494,458**	1,012,541
Investment securities	**54,988,913**	41,623,241
	86,072,286	66,136,705

Interest expenses and similar charges

In thousands of Leones	**2011**	2010
IMF interest and charges	**2,957,202**	2,085,441
Others	**100,105**	79,738
	3,057,307	2,165,179
Net interest income	**83,014,979**	63,971,526

8. Net fee and commission income

In thousands of Leones	2011	2010
Fee and commission income		
Credit related fees and commission	**28,615**	29,834
Trade finance and other fees	**1,187**	1,981
	29,802	31,815
Fees and commission expense		
Fees and commission expense	-	-
	-	-
Net fees and commission income	**29,802**	31,815

9. Net exchange (loss)/gains

In thousands of Leones	**2011**	Restated 2010
Foreign exchange gains	**3,991,533**	1,950,742
Revaluation (loss)/gains	**(76,932,519)**	286,677,237
	(72,940,987)	288,627,979

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	**2011**	2010
Rent received	**68,090**	52,176
Sundry receipts	**574,172**	2,372,792
Loss on sale of fixed asset	**(2)**	-
Income on revaluation repo operation	-	-
Grant income	**45,000**	-
Interest income on GOSL SDR	**147,337**	-
	834,597	2,424,968

11. Personnel expenses

In thousands of Leones	**2011**	Restated 2010
Salaries and wages	**29,045,066**	28,892,526
Social Security	**1,809,257**	1,597,216
End of service benefit	**4,540,053**	8,648,122
Others	**1,116,121**	1,163,924
	36,510,497	40,301,788

12. Currency

In thousands of Leones	**2011**	2010
Currency management	**89,471**	205,052
Currency Issue expenses	**5,365,220**	36,331,522
	5,454,691	36,536,574

13. Other expenses

In thousands of Leones	**2011**	2010
Occupancy cost	**366,161**	311,958
Directors remuneration	**1,306,496**	1,347,054
Audit fees	**190,000**	160,000
Legal and professional fees	**2,385,034**	2,457,565
Advertisement	**255,985**	138,230
Electricity	**2,345,196**	2,201,535
Insurance	**1,006,771**	1,578,036
Passage and overseas allowances	**1,359,332**	1,418,277
Repairs and maintenance	**422,817**	375,795
Write-off of property, plant and equipment	-	809,028
Other	**7,805,213**	8,399,246
	17,443,005	19,196,724

Notes to the financial statements *(continued)*

14. Loss for the year

The loss for the year has been stated after charging:

In thousands of Leones	**2011**	2010
Depreciation and amortisation	**3,096,857**	2,405,829
Directors remuneration	**1,306,496**	1,347,054
Audit fees	**190,000**	160,000

15. Cash and cash equivalents

In thousands of Leones	**2011**	2010
Cash and balances with Banks	**203,520,580**	170,139,689
Balance with other Central Banks	**559,134,597**	205,183,419
Placement with banks	**109,924,513**	303,243,962
Cash and balances with Banks	**872,579,690**	678,567,070

16. International Monetary Fund Related Assets

In thousands of Leones	**2011**	2010
IMF Quota subscription	**694,778,593**	670,466,128
Securities account	**(67,390,261)**	(67,390,261)
IMF No.1 Account	**(664,396,257)**	(544,971,185)
	(37,007,925)	58,104,682
SDR Holdings	**779,888,763**	773,209,598
	742,880,838	831,314,280

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.

Notes to the financial statements *(continued)*

17. Loans and advances

In thousands of Leones	**2011**	2010
Loans and advances to Banks (Note 17a)	**4,915,283**	4,954,181
Loans and advances to Government and others (Note 17b)	**33,185,923**	193,835,740
	38,101,206	198,789,921

17a Loans and advances to Banks

In thousands of Leones	**2011**	2010
Loans and advances to Banks	**5,187,083**	5,187,083
Less impairment allowances	**(271,800)**	(232,902)
	4,915,283	4,954,181

Impairment allowances

Balance at 1 January	**232,902**	225,000
Impairment loss for the year	**38,898**	7,902
Balance at 31 December	**271,800**	232,902

17b. Loans and advances to Government and others

(i) Analysis by type

In thousands of Leone	**2011**	2010
Government of Sierra Leone (Ways and Means stock)	**26,886,030**	177,693,764
Staff	**4,196,634**	4,140,004
Reverse REPO Account	-	9,810,446
Others (Note 17 iv)	2,103,259	2,191,526
Gross loans and advances	**33,185,923**	193,835,740
Less: allowances for losses on loans and advances	-	-
	33,185,923	193,835,740

Notes to the financial statements *(continued)*

17. Loans and advances (continued)

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

(ii) Allowances for impairment

In thousands of Leones	**2011**	2010
Specific allowances 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	**2011**	2010
Ways and Means Advances brought forward	177,693,764	-
Advances during the year	456,587,229	850,358,094
Receipts during the year	(607,394,963)	(672,664,330)
Ways and Means Advances Carried forward	**26,886,030**	177,693,764

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 revenue in the previous year's budget.

In thousands of Leones	**2011**	2010
Ways and Means Advances	**26,886,030**	177,693,764
Treasury and eligible bills	-	435,094,849
	26,886,030	612,788,613
Less: Government deposits	-	(130,203,850)
Capital account	-	(50,000,000)
Net debit to Government of Sierra Leone	**26,886,030**	432,584,763

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	**2011**	2010
Government actual revenue in previous year	**1,007,634,000**	746,460,000
5% thereof	**50,381,700**	37,323,000
(Deficit)/excess in Government lending	**(23,495,670)**	395,261,763

The Directors report deficit in lendings to the Government of Sierra Leone as at 31 December 2011 of Le 23,495,567 (2010: excess of Le 395,261,763)

(iv) Others

This include advances given to contractors amounting to Le 1.5 billion and a long term liability to the Sierra Leone stock exchange (Le 1billion).

18. Investment in equity

In thousands of Leones	**2011**	2010
AfreximBank Capital Investment	**5,004,108**	4,798,695
AfreximBank Dividend Investment	**397,151**	380,774
BSL CON-WAMA credit Guarantee fund	-	1,423,303
WAMA	**11,295,002**	10,948,169
	16,696,261	17,550,941

19. Investment securities

In thousands of Leones	**2011**	2010
Investment securities at fair value through profit or loss	-	-
Held to maturity investment securities	**494,574,547**	435,094,849
Available for sale investment securities	-	-
	494,574,547	435,094,849

Notes to the financial statements *(continued)*

19. Investment securities (continued)

Held to maturity investment securities

In thousands of Leones	**2011**	2010
Five year medium term bonds	**280,000,000**	280,000,000
Treasury bills held for monetary policy	**16,523,641**	26,070,233
Treasury bond held for monetary policy	**11,008,650**	20,591,600
One year treasury bills	**54,561,285**	87,373,585
182 days treasury bills	**46,429,846**	13,329,720
Others	**8,535,125**	7,729,711
BSL Holding 3rd year medium term bond	**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)
	494,574,547	435,094,849
Fair value reserve:		
At 1 January	**81,801,429**	243,731,429
Reduction of fair value adjustment	**-**	(161,930,000)
	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.

Notes to the financial statements *(continued)*

20. Property plant and equipment

In thousands of Leones	Premises	Motor vehicle	Office furniture equipment	Plant and machinery	Work-in progress	Total
Balance at 1 January 2010	50,344,950	5,520,846	10,451,048	4,340,281	-	70,657,125
Additions during the year	9,384,836	9,000	3,803,382	78,694	2,805,356	16,081,268
Impairment of asset	(809,029)	-	-	-	-	(809,029)
Balance at 31 December 2010	58,920,757	5,529,846	14,254,430	4,418,975	2,805,356	85,929,364
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
Impairment of asset	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
Depreciation						
Balance at 31December 2010	8,195,578	3,810,192	9,758,329	2,581,582	-	24,345,681
Depreciation for the year	1,020,014	585,005	493,525	307,285	-	2,405,829
Balance at 31December 2010	9,215,592	4,395,197	10,251,854	2,888,867	-	26,751,510
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**
Carrying amount:						
As at 31 December 2010	**49,705,165**	**1,134,649**	**4,002,576**	**1,530,108**	**2,805,356**	**59,177,854**
At 31 December 2011	**48,562,863**	**616,909**	**6,227,253**	**1,212,908**	**2,119,843**	**58,739,776**

Work in progress represents amount spent on renovation of the Governor's residence and furnitures for Tokeh Resource Center.

Notes to the financial statement *(continued)*

21. Other assets

In thousands of Leones	**2011**	2010
Gold stock	**612,203**	530,635
Items in transit	**16,446,189**	125,541
Other consumables	**306,684**	469,086
Prepayment	**531,252**	102,496
Interest receivable	**69,431**	109,065
Deferred currency issue expense	**1,092,777**	6,457,997
WAMZ Payment Systems Fund	**27,019**	-
Deferred Govt security certificate	**141,719**	141,719
Less:		
Allowances for impairment	**(141,719)**	(141,719)
	19,085,555	7,794,820

Allowances for impairment:		
At 1 January	**(141,719)**	-
Impairment charge for the year	**-**	141,719
	(141,719)	141,719

22. International Monetary Fund Special drawing rights allocation

In thousands of Leones	**2011**	2010
IMF Special Drawing Rights	**666,676,675**	643,347,583
IMF Poverty Reduction and Growth Facility	**529,097,683**	474,322,135
	1,195,774,358	1,117,669,718

This relates to amount 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 a foster durable growth, leading to higher living standards and a reduction in poverty.

23. Deposit from Government

In thousands of Leones	**2011**	2010
Government special deposits/accounts	**15,489,277**	130,203,850
	15,489,277	130,203,850

Notes to the financial statements *(continued)*

24. Deposit from Banks

In thousands of Leones	**2011**	2010
Commercial Bank's reserve account	**104,974,940**	86,888,920
Rural and community bank's reserve accounts	**7,346,529**	4,587,827
Others	**210,802**	210,802
	112,532,271	91,687,549

25. Deposits from Others

In thousands of Leones	**2011**	2010
Other deposits	**38,948,083**	29,436,819
	38,948,083	29,436,819

26. Other liabilities

In thousands of Leones	**2011**	2010
Financial liabilities		
Other foreign currency financial liabilities (26a)	**49,068,156**	60,906,376
Accrued charges and other liabilities (26b)	**6,562,676**	5,103,636
	55,630,832	66,010,012
Non-Financial liabilities		
Currency in circulation (26c)	**707,610,568**	631,590,343
Provision for revaluation of pipeline liabilities (26d)	**29,206,661**	28,178,431
	736,817,229	659,768,774
	792,448,061	725,778,786

26a. Other foreign currency financial liabilities

In thousands of Leones	**2011**	2010
Foreign payment	**2,819,120**	8,303,703
Sierra Rutile/GoSL Loan	**3,184,189**	3,043,724
Bank of China US$ clearing	**36,839,176**	35,326,970
WAMA ECOWAS travellers' cheques	**11,798**	11,798
WAMA ECOWAS travellers' cheques clearing	**(1,169)**	(1,169)
Commission of European committee	**-**	40,760
WAMA settlement	**-**	-
OFID Debt Relief imprest account	**6,215,042**	14,180,590
	49,068,156	60,906,376

Notes to the financial statements *(continued)*

26b. Accrued charges and other liabilities

In thousands of Leones	**2011**	2010
Accrued expenses	**6,293,288**	4,853,589
P.S. Bond in circulation	**449**	449
Retention monies	**207,463**	224,761
Trade and sundry creditors	**61,476**	24,837
	6,562,676	5,103,636

26c. Currency in circulation

In thousands of Leones	**2011**	2010
Notes	**698,040,595**	622,422,094
Coins	**9,569,973**	9,168,249
Balance at 31 December	**707,610,568**	631,590,343

The liability for notes and coin issued is the net liability after offsetting notes and coin 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	**2011**	2010
Balance at January	**28,178,431**	291,192,731
Revaluation loss/(gain)	**1,028,230**	(263,014,300)
Disbursement	**-**	-
Balance at 31 December	**29,206,661**	28,178,431

The provision for revaluation of pipelines is a contingency provision in respect of pipeline deposits. This relates to the purported 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	**2011**	Restated 2010
Change in liability		
Balance at 1 January as previously stated	-	437,754
Service cost in 2010	-	638,312
Understatement in 2010 now booked in	-	6,725,081
Balance at 1 January 2010 (restated)	-	7,801,147
Balance at 1 January 2011	**7,801,147**	-
Service cost	**1,647,484**	-
Interest cost	**1,132,586**	-
Actuarial gain	**(135,346)**	-
Benefits paid (including risk benefits payments)	**(478,457)**	-
Balance at 31 December	**9,967,414**	7,801,147

(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	**2011**	2010
(c) Funding level		
Projected benefit obligation	**9,967,414**	7,801,147
Plan assets	-	-
Net obligation reported in the statement of financial position	**9,967,414**	7,801,147

Notes to the financial statements (continued)

27. End of service benefit (continued)

(d) *Income statement*

In United States Dollars	2011	Restated 2010
Service cost	**1,647,484**	-
Interest cost	**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	**2,644,724**	-
Capitalised cost		
Service cost	**1,647,484**	-
Interest cost	**1,132,586**	-
Expected return on plan asset	-	-
Expected loss recognised	-	-
Actual gain	**(135,346)**	-
Total employee benefits cost	**2,644,724**	
Reconciliation of financial position		
Opening value	**7,801,147**	-
Employee benefits	**2,644,724**	-
Expense recognised in profit and loss	**(478,457)**	-
Benefits paid	-	-
Amount recognised in income statement	-	-
Capitalised cost	-	-
Closing value	**9,967,444**	-

(e) *Key valuation assumptions*

	2011	2010
Discount rate	**15.00%**	15.00%
Salary increase	**15.00%**	15.00%
General inflation rate	**13.00%**	13.00%

In prior period, end of service benefits in the form of defined benefit plan was not determined in accordance with an actuarial valuation method by an actuarial valuator as required by IAS 19, employee benefits, and all the required disclosures by IAS 19 in the circumstances were not presented and it was impracticable to qualify the effects on those financial statements.

The Bank has now taken steps to actuarially value the defined benefit plan in 2011 and all the necessary disclosures as required by IAS 19 have now been included in these financial statements.

Notes to the financial statements *(continued)*

28. Share capital

In thousands of Leones	2011	2010
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 2011 the present paid up capital has been fully subscribed and is held exclusively by the Government of Sierra Leone.

29. Reserves and retained earnings

In thousands of Leones	2011	Restated 2010
General reserves (a)	**(5,294,510)**	42,918,947
Other reserves (b)	**32,792,919**	32,792,919
Total reserves as at 31 December	**27,497,660**	75,711,866

(a) General reserve

Restated In thousands of Leones	2011	2010
Balance at start of the year as restated	**42,918,947**	(237,587,132)
Transfer from other reserves	-	(147,236,407)
Net loss for the year	**(51,605,557)**	-
Net loss for 2010 as previously stated	-	(23,344,685)
Foreign exchange gain in 2010	-	286,677,237
End of service benefit understated in 2010	-	(6,725,081)
Net profit for the year (restated)	-	256,607,471
Net loss for the year	**(51,605,557)**	-
Profit/(Loss) on sale of marketable securities	**3,392,100**	(6,364,985)
Fair value reserve	-	161,930,000
Securities for prior year losses	-	15,570,000
Balance at 31 December	**(5,294,510)**	42,918,947

Under Section 14(1) subject to section 81 of the Act, where 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.

Notes to the financial statements *(continued)*

29. Reserves and retained earnings (continued)

As at 31 December 2011, the total value of the assets of the Bank exceeds the sum of its liabilities, unimpaired issued capital and general reserves.

(b) Other reserves

In thousands of Leones	**2011**	Restated 2010
Foreign exchange revaluation reserves (i)	-	-
Property revaluation reserve (ii)	**32,792,919**	32,792,919
Balance at 31 December	**32,792,919**	32,792,919

(i) Foreign exchange revaluation reserves

In thousands of Leones	**2011**	Restated 2010
Balance at start of the year as previously stated	-	(147,236,407)
Transferred to general reserve	-	147,236,407
Foreign exchange revaluation gain as previously stated	-	286,677,237
Transfer to income statement for 2010	-	(286,677,237)
Balance at 31 December (restated	-	-

In the past the Bank has been recognising gains and losses arising from any changes in valuation of the Bank's assets and liabilities in, or denominated in, gold or foreign currencies, special drawing rights or Euros as a result of changes in the exchange rate for the Leone or of any change in the values, parties or exchange rates of such assets with respect to the Leones, in a special account called the revaluation reserve account which is not in compliance with IAS 21, the effects of changes in foreign exchange rates, which requires such exchange differences arising on the settlement or translation of such monetary items to be recognised in profit or loss in the period in which they arise.

The Bank has now taken steps to rectify these and all exchange gains and losses for the year are recognised in the profit or loss statement to comply with IAS 21.

All exchange losses/gains for prior period (pre 2010) have been transferred to general reserve/ retained earnings account in order to comply with IAS 8 accounting policies and changes in accounting estimates and errors.

(ii) Property revaluation reserves

In thousands of Leones	**2011**	2010
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

Notes to the financial statements *(continued)*

29. Reserves and retained earnings *(continued)*

Property revaluation reserves (continued)

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

30 Contingencies and commitments

30a. Contingent Liabilities

In thousands of Leones	2011	2010
Guarantees and Endorsement	**157,222,671**	164,735,939
Promissory notes	**11,053,682**	1,163,939
	168,276,353	165,899,878

30b. Capital commitments

In thousands of Leones	2011	2010
Capital expenditure	**4,176,987**	4,102,331
African Export Import Bank	**4,201,601**	3,358,408
	8,379,588	**7,460,739**

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 2011, total net advances to the Government was Le 26.9 billion (2010: Le 432.6 billion).

Notes to the financial statements *(continued)*

31. Related parties (continued)

The Board of Directors (including the Governor and Deputy Governor) received remuneration amounting to Le 1.30 billion (2010: Le 1.38 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 (2010: Le 35.80 million) 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 2.16 billion (2010: Le 1.13 billion) and benefited from official vehicles. Outstanding loans to senior management totalled Le 22.67 million (2010: Le 63.66 million). A total of Le 131.85million (2010: Le108.09 million) was contributed on their behalf to NASSIT.

Deposits from Government totalled Le 15 billion (2010: Le 131 billion).

32. Retrospective restatement for 2010 results

In 2010, the Bank recognised gains and losses arising from the revaluation of foreign assets and liabilities into a special account called the revaluation reserve accounts in the statement of financial position instead of accounting for this in the statement of comprehensive income to comply with IAS 21 (the effect of changes in foreign exchange rates). Also, in 2010, end of service benefits recognised in the statement of financial position was not actuarially valued leading to an understatement of the said amount.

The foreign exchange gains or losses should have been recognised in the statement of comprehensive income and the end of service benefits actuarially valued.

The comparative figures for foreign exchange revaluation reserves and end of service benefits have been restated to account for this change. The effect of the restatement on these financial statements is summarised below.

There is no effect in 2011.

In thousands of Leones	**Effect on 2010**
Increase in personnel expenses	**(6,725,081)**
Increase in foreign exchange revaluation reserve	**286,677,237**
Increase in operating result	**279,952,156**
Increase in employee benefits	**6,725,081**
Decrease in other reserves	**(286,677,237)**
Decrease in general reserves	**(279,952,156)**

Notes to the financial statements *(continued)*

33. 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.

A new Bank of Sierra Leone Act 2011 was enacted and in accordance with section 9 of this Act, the minimum authorised share capital of the Bank should be two hundred and fifty billion Leones. This may also be altered by the Board of Directors after consultation with the Government.

Also section 10 of this new Bank of Sierra Leone Act requires the Bank to have a minimum paid-up capital one hundred and twenty five billion Leones which may also be altered by the Board of Directors after consultation with the Government.

Section 81 of the Banking Act 2011 prescribed that the issued share capital of one hundred and twenty five billion Leones should be subscribed within five years of the coming into operations of this Act.

Modalities are currently being put in place by the Bank to achieve these minimum share capital limits as prescribed by the Bank of Sierra Leone Act 2011.