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BANK OF SIERRA LEONE

ANNUAL REPORT
AND
STATEMENT OF ACCOUNTS
JANUARY – DECEMBER, 2020

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ABBREVIATIONS

AfDB	African Development Bank
BIS	Bank for International Settlement
BOP	Balance of Payments
BSL	Bank of Sierra Leone
CFC	Customers Foreign Currency
CIF	Cost, Insurance and Freight
CPI	Consumer Price Index
ECOWAS	Economic Community of West African States
EMSL	Eclipse Microfinance Sierra Leone
GDP	Gross Domestic Product
GFER	Gross Foreign Exchange Reserves
GoSL	Government of Sierra Leone
GW/hr	Giga-Watts per Hour
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFAD	International Fund for Agriculture Development
IMF	International Monetary Fund
M2	Broad Money
MFI	Microfinance Institutions
MoFED	Ministry of Finance and Economic Development
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
NDA	Net Domestic Assets
NFA	Net Foreign Assets

NMA	National Minerals Agency
ODC	Other Depository Corporation
OPEC	Organization of the Petroleum Exporting Countries
RM	Reserve Money
SDF	Standing Deposit Facility
SLF	Standing Lending Facility
SSA	Sub-Saharan Africa
WAIFEM	West African Institute for Financial and Economic Management
WBG	World Bank Group

REGISTERED ADDRESS

Registered Office:	30 Siaka Stevens Street, Freetown
Solicitors:	Yada Williams and Associates
Secretary to the Board:	Ms Hawa Kallon
Auditors:	BDO Regent House 12 Wilberforce Street Freetown

GOVERNOR'S FOREWORD

Many would agree with me that 2020 was challenging as the global economy entered a recession, following the COVID-19 pandemic across the world. The consequent economic meltdown was broad-based, with all the regions of the world registering a contraction of economic output in 2020. The pandemic adversely affected global supply chains, while the ensuing slowdown in investment, loss of jobs and incomes suppressed global demand. However, the global economy was projected to rebound in 2021, contingent on sustained containment of the COVID-19 pandemic and the speedy removal of COVID-19 related restrictions in most economies across the world.

In this respect, monetary policy management in 2020 was targeted at moderating the impact of the pandemic on the economy of Sierra Leone. As such, monetary policy was broadly accommodative throughout 2020. Specifically, the Bank of Sierra Leone (BSL) lowered the Monetary Policy Rate (MPR) from 16.5 per cent to 14.0 per cent in March 2020. It also took additional measures to ease tightness in liquidity in the financial market, smoothen exchange rate volatility and curtail inflationary pressures. These policy measures included: the creation of a Special Credit Facility to finance the production, procurement and distribution of essential goods and services. It extended the reserve maintenance period from 14 days to 28 days. It also created an Agricultural Credit Facility to support agricultural productivity in order to moderate the impact of domestic food supply shock on food prices.

These measures contributed to macroeconomic stability and also stabilised liquidity in the banking system. As a result, price developments were moderated during the year, with headline inflation moderating to reach 10.45 per cent in December 2020, from 13.54 per cent in December 2019. In spite of these measures, the economy contracted by 2.2 per cent in 2020, from a growth rate of 5.4

per cent in 2019, due to a Covid-19-induced slowdown in economic activities in the mining, agriculture and services sectors. In 2021, the economy was expected to grow by 2.7 per cent, taking into consideration the expected revamp in the mining sector, coupled with the lifting of the State of Emergency and the associated expected gradual normalization of economic activities across sectors. The economy grew in 2021 by 0.2 percentage points above this projection, to 2.9 per cent.

The stock of gross foreign exchange reserves of the Bank of Sierra Leone stood at US$708.77mn at the end of December 2020, having increased by 32.9 per cent over the US$533.15mn at the end of December 2019. The increase in reserves was mainly driven by inflows from development partners in respect of the COVID-19 response. However, the total stock of external debt increased to US$1,965.12mn at the end of 2020, from US$1,685.20mn at the end of 2019.

The banking system remained stable and sound in 2020, amidst the COVID-19 pandemic. The industry recorded an improvement in key financial indicators, including Total Assets, Investments, Gross Loans Advances and Deposits. The industry also continued to record cash and liquidity ratios above the statutory limits in 2020. However, though Non-Performing Loans (NPLs) generally improved in 2020, asset quality remained a challenge for the banking sector, as NPLs remained above the tolerance limit of 10 per cent. The improvement in NPLs was in part due to the impact of the Loan Write-Off Policy of the BSL, coupled with modest loan recovery, mostly from Government contractors by commercial banks. Banks continued to pursue financial inclusion initiatives, aimed at broadening access to financial services and products.

Notwithstanding the aforementioned achievements, the continuing uncertainty in global financial markets and financial risks due to the COVID-19 pandemic and the Russian-Ukraine War is expected to have adverse consequences on the exchange rate, inflation, investment and economic growth in the near term.

It is also important to note that, during the year 2020, Mr Sheikh A. Y. Sesay was appointed as Deputy Governor (Financial Stability) by His Excellency the President, Julius Maada Bio.

On this note, I would like to extend my sincere thanks and appreciation to the Board of Directors, members of the Monetary Policy Committee and the Management and Staff of the BSL for their continued support and commitment to achieving the mandates of the Bank of Sierra Leone..

Professor Kelfala M Kallon

Governor

Members of the BSL's Board of Directors as of 31st December 2020

Professor Kelfala Kallon
Governor and Chairman of the Board of Directors
Member

Dr. Ibrahim L. Stevens
Deputy Governor, Monetary Stability
Member

Mr. Sheikh A.Y. Sesay
Deputy Governor, Financial Stability
Member

Mr. George C. Taylor
Member

PC Alhaji Alimamy S. Kathenkeh 11
Member

Mr Shaka A.Mansaray
Member

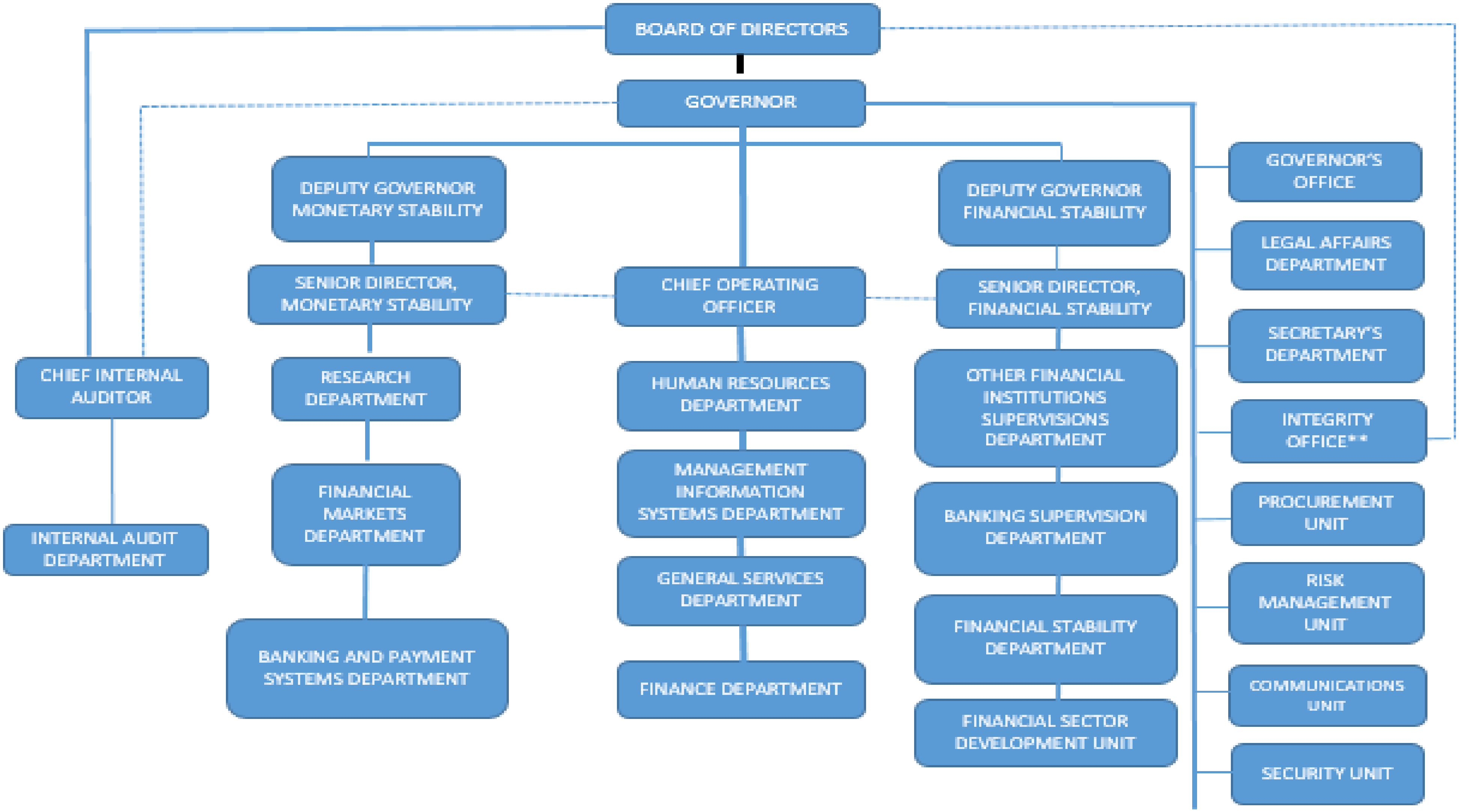
Ms. Ceclila M. Demby
Member

Mr. Sheikh R. Kamara
Member

Senior Management

Professor Kelfala M Kallon	-	Governor
Dr Ibrahim L Stevens	-	Deputy Governor, Monetary Stability
Mr Sheikh A. Y. Sesay		Deputy Governor, Financial Stability
Mrs. Hanifa Addai	-	Director, Management Information Systems Department
Ms. Jenneh Jabati	-	Director, Human Resources Department
Ms. Hawa E Kallon	-	Director, Secretary's Department
Mr. Morlai Bangura	-	Director, Research Department
Mrs. Veronica Finney	-	Director, Financial Markets Department
Mr. M.S. Bah	-	Director, Finance Department
Mr. Alfred W Samah	-	Director, Banking and Payment Systems Department
Mr. Eugene Caulker	-	Director, Financial Stability Department
Mrs. Mary May Kargbo	-	Director, General Services Department
Mr. Ralph Ansumana	-	Director, Other Financial Institute Supervisions Department

Bank of Sierra Leone Organizational Structure – 2020



VISION STATEMENT

To create a modern, effective, and dynamic Central Bank that serves the overall financial, growth, and development requirements of Sierra Leone.

MISSION STATEMENT

To formulate and implement monetary and supervisory policies to foster a sound economic and financial environment.

OBJECTIVES AND FUNCTIONS OF THE BANK

(1) The objectives of the Bank as specified in Section 5 of the Bank of Sierra Leone Act 2019, shall be to:

(a) issue and manage the currency of Sierra Leone
(b) achieve and maintain price stability.
(c) contribute to fostering and maintaining a stable financial system and
(d) support the general economic policy of the government.

(2) In the exercise of its functions under this act, the Bank shall:

(a) Formulate and implement monetary policy, financial regulation, and prudential standards;

(b) Act as banker, adviser, and fiscal agent of the Government;

(c) Formulate and implement the foreign exchange policy of Sierra Leone;

(d) Conduct foreign-exchange operations;

(e) Own, hold and maintain the official international reserves, including the reserves of gold;

(f) Issue and manage the currency of Sierra Leone;

(g) Establish, promote, license, and oversee sound and efficient payment and securities settlement systems;

(h) License, register, regulate and supervise financial institutions as specified in this Act or any other enactment;

(i) Act as a depository for funds from international organisations.

1.0 GOVERNANCE

1.1 The Board of Directors

The Bank of Sierra Leone (BSL) Act 2019 provides for a Board of Directors which shall consist of the Governor as the Chairman, the First Deputy Governor and a Second Deputy Governor, and Six Non-Executive Directors, all of whom shall be appointed by the President subject to approval by Parliament.

The Governor and the Deputy Governors shall each be appointed for a term of five years and shall be eligible for reappointment for another term only.

The Directors of the Board, who shall be persons with experience in economics, finance, banking, accounting, and law, shall hold office for a term of three years and shall be eligible for reappointment for another term only.

NAME	TITLE	DATE APPOINTED/REAPPOINTED
The Board of Directors		
Prof. Kelfala Morana Kallon	Governor	3rd October 2018
Dr. Ibrahim Stevens	Deputy Governor, Monetary Stability	24th July 2019
Mr. Sheikh A. Y. Sesay	Deputy Governor, Financial Stability	3rd August 2020
Ms. Cecilia M Demby	Board Member	18th October, 2018
Mr. George C Taylor	Board Member	25th October, 2018
Mr. Sheikh R Kamara	Board Member	31st October 2018
Mr. Sheka A Mansaray	Board Member	31st October 2018
PC Alhaji Alimamy S Kathenkeh 11	Board Member	31st October, 2018
Mrs. Amy Miatta Myers	Board Member	19th Sept. 2019

1.1.1 Functions of the Board of Directors

According to Section 10 of the Bank of Sierra Leone Act 2019, the functions of the Board are:

a) determine the organisation of the Bank, including the establishment and location of branches, representative offices, and, operations facilities;

b) determine the general policies and adopt internal rules applicable to the administration and operations of the Bank;
c) approve the annual budget of the Bank;
d) approve the audited accounts, annual reports, and other formal reports and financial statements of the Bank;
e) determine denomination and design of banknotes, coins, and their issuance and handling;
f) appoint committees consisting of members of the Board or members of the Bank's staff and determine their responsibilities;
g) assess risks and formulate contingency plans for the ongoing operations and security of the Bank;
h) adopt the rules of procedure for meetings of the Board;
i) exercise all powers that are not specifically reserved for the Governor; and
j) Perform other functions prescribed by the Act.

Board Meetings held in 2020

	Meetings	Dates
1.	Emergency Meeting of the Board	22nd December 2020
2.	Emergency Meeting of the Board	14th December 2020
3.	Continuation of Emergency Meeting of the Board	23rd October 2020
4.	Emergency Meeting of the Board	22nd October 2020
5.	508th Meeting of the Board	2nd September 2020
6.	Emergency Meeting of the Board	19th August 2020
7.	Emergency Meeting of the Board	11th August 2020
8.	Emergency Meeting of the Board	14th July 2020
9.	Emergency Meeting of the Board	10th July 2020
10.	Emergency Meeting of the Board	2nd July 2020
11.	Emergency Meeting of the Board	30th April 2020
12.	Emergency Meeting of the Board	29th April 2020
13.	Continuation of Emergency Meeting of the Board	26th March 2020
14.	Emergency Meeting of the Board	23rd March 2020
15.	Continuation of the 507th Meeting of the Board	21st February 2020
16.	507th Meeting of the Board	20th February 2020
17.	Emergency Meeting of the Board	28th January 2020

Audit Committee Meetings held in 2020

29th December 2020

22nd December 2020

5th November 2020

3rd November 2020

27th October 2020

13th October 2020

30th April 2020

31st January 2021

SECTION A: ANNUAL REPORT DETAILS (JAN – DEC. 2020)

1.2 The Monetary Policy Committee

The BSL Act 2019 grants the Bank operational independence in the conduct of its monetary policy. In this regard, the Act provides for the establishment of a Monetary Policy Committee (MPC), comprising the Governor, the Deputy Governor-Monetary Stability, Deputy Governor-Financial Stability, and four other experts shall be nominated by the Governor and approved by the Board of Directors of the BSL and shall meet the eligibility criteria as set in Section 8 of the BSL Act 2019.

The MPC formulates and determines the monetary policy stance through adjustment in the monetary policy rate. The decisions of the MPC are based on an assessment of international and domestic economic developments and their potential impact on the outlook for inflation in Sierra Leone.

The MPC meets every quarter and its decisions on the monetary policy stance are communicated through a monetary policy statement, which is published on the BSL's website and in local newspapers, 48 hours after the MPC meetings.

2. GLOBAL ECONOMIC DEVELOPMENTS

2.1 OVERVIEW

The global economy entered a recession in 2020, following the COVID-19 outbreak that led to massive restrictions on people and goods across the world. The economic meltdown was broad-based, with all the regions of the world registering a contraction of economic output. Also, as a result of the "great lockdown" in response to the pandemic, global commodity prices were generally soft, leading to subdued global consumer price inflation in 2020. Prospects appear to be favourable for economic recovery in 2021, aligned with the ongoing distribution of vaccines to prevent the further spread of COVID-19 in most parts of the world coupled with the relaxation of COVID-related restrictions.

2.2 Global Output Growth

The International Monetary Fund (IMF) estimated that global output contracted by 3.5 per cent in 2020 from the growth rate of 2.8 per cent in 2019, mainly due to the COVID-19 outbreak[1]. The pandemic adversely affected global supply chains, while the ensuing slowdown in investment, loss of jobs, and incomes suppressed global demand. Advanced economies were the hardest hit due to the high number of COVID-19 infections and prolonged restriction measures in Europe and the U.S. Consequently, the output of the group plunged by -4.9 per cent in 2020, from a growth of 1.6 per cent in 2019. However, emerging markets and developing economies recorded a relatively less severe recession of -2.4 per cent in 2020, mainly supported by the quick recovery and rebound of the Chinese economy. Similarly, Sub-Saharan Africa recorded a recession of -2.6 per cent, mainly as a result of a lower incidence of infections compared to the other regions of the world.

2.3. Outlook and risks to global output growth

The global economy is projected to rebound in 2021 with an estimated growth rate of 5.5 per cent. However, this is mainly contingent on sustained containment of the COVID-19 pandemic and speedy removal of COVID-related restrictions in most economies across the world. The

[1] World Economic Outlook (WEO, January 2021 Update)

remaining trade tensions between the U.S and China also pose further downside risks to the outlook.

2.4. Advanced Economies

The deep recession of advanced economies in 2020 reflects the downturn of economic activities in the U.S and Euro area. In line with the high level of infections and prolonged lockdowns, the U.S and Euro area economies contracted by 3.4 per cent and 7.2 per cent in 2020 after recording growth rates of 2.2 per cent and 1.3 per cent in 2019, respectively. The Japanese economy also contracted by 5.1 per cent in 2020, from a growth of 0.3 per cent in 2019. However, advanced economic growth is expected to bounce back to 4.3 per cent in 2021, dependent on continued policy support, successful vaccinations, and speedy reopening of the economies.

2.5. Emerging Markets and Developing Economies

Among emerging market and developing economies, China was resilient, recording a growth rate of 2.3 per cent in 2020, from a growth rate of 6.0 per cent in 2019. The Chinese economy was mainly boosted by the swift supportive policies, containment of the outbreak, and timely reopening of economic activities. However, output in India, Brazil, and Russia for 2020 contracted by -8.0 per cent, -4.5 per cent and -3.6 per cent, respectively. The deep recessions in these economies reflect the high level of infections and resultant socio-political tensions. The group is expected to recover gradually with a projected growth rate of 6.3 per cent in 2021. Ample fiscal and monetary stimulus is expected to further support the rebound, while a less volatile U.S. trade policy under a Biden administration bodes well for exports.

2.6. Sub-Saharan Africa

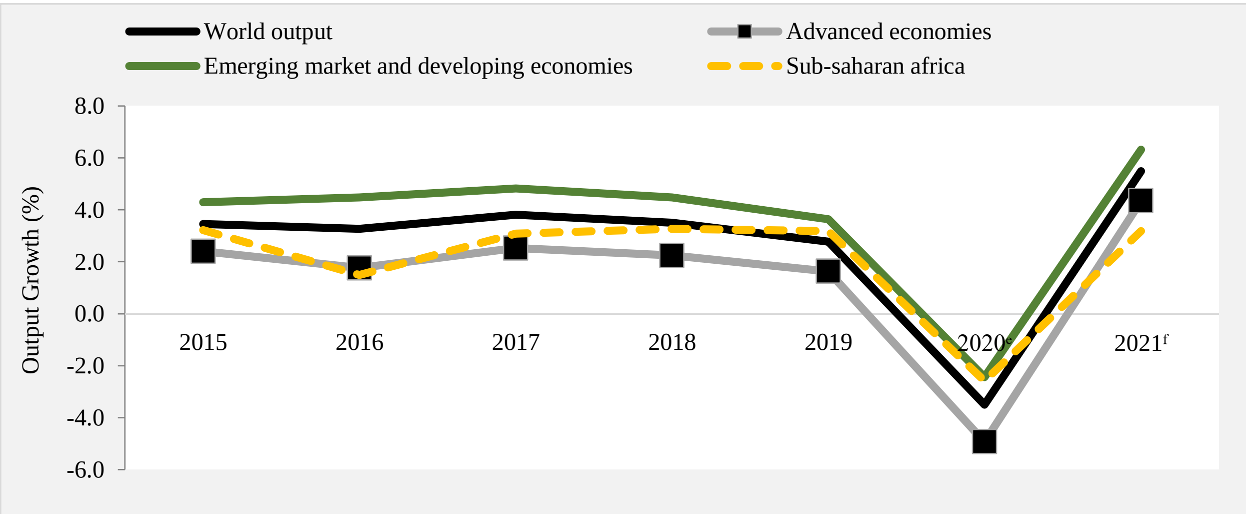
In 2020, economic performance in Sub-Saharan Africa was adversely impacted by the pandemic and worsened by the subsequent plunge in crude oil prices, especially for oil-exporting countries, as well as tight external financial conditions. The economic fallout of the pandemic is especially intense in Africa's two largest economies – Nigeria and South Africa. As a result, growth in Nigeria was estimated at -3.2 per cent in 2020, from the growth of 2.2 per cent in 2019. South Africa's economy was estimated to contract by 7.5 per cent in 2020, from the growth of 0.2 per cent in 2019. In addition, disruptions in the tourism industry and lockdowns resulted in a substantial slowdown of economic activities in Ethiopia, Kenya, the island nations, and the like. Overall, the region is projected to rebound in 2021 with the same growth rate of 3.2 per cent recorded in 2019. However, risks to this outlook are mainly on the downside and included the delay in getting access to COVID vaccines, high debt burden, and limited fiscal space.

Table 1: Global output growth (%)

	2015	2016	2017	2018	2019	2020[e]	2021[f]
World Output	**3.4**	**3.3**	**3.8**	**3.5**	**2.8**	**-3.5**	**5.5**
Advanced Economies	**2.4**	**1.8**	**2.5**	**2.2**	**1.6**	**-4.9**	**4.3**
United States	3.1	1.7	2.3	3.0	2.2	-3.4	5.1
Euro Area	2.0	1.9	2.6	1.8	1.3	-7.2	4.2
Japan	1.2	0.5	2.2	0.3	0.3	-5.1	3.1
Emerging Market and Developing Economies	**4.3**	**4.5**	**4.8**	**4.5**	**3.6**	**-2.4**	**6.3**
Brazil	-3.5	-3.3	1.3	1.3	1.4	-4.5	3.6
Russia	-2.0	0.2	1.8	2.5	1.3	-3.6	3.0
India	8.0	8.3	7.0	6.1	4.2	-8.0	11.5
China	6.9	6.8	6.9	6.8	6.0	2.3	8.1
Sub-Saharan Africa	**3.2**	**1.5**	**3.1**	**3.3**	**3.2**	**-2.6**	**3.2**
Nigeria	2.7	-1.6	0.8	1.9	2.2	-3.2	1.5
South Africa	1.2	0.4	1.4	0.8	0.2	-7.5	2.8
e =Estimate; f =Forecast							

Source: IMF World Economic Outlook (January 2021 Update)

Figure 1: Trends in Global output growth (%)



Source: IMF World Economic Outlook (January 2021 update)

2.7. GLOBAL CONSUMER PRICE INFLATION

On the back of suppressed demand and a plunge in crude oil prices, global consumer price inflation decreased to 2.8 per cent in 2020, from 3.9 per cent in 2019. Inflation is expected to edge up to 3.3 per cent in 2021 as economies reopen and when the lag impact of expansionary monetary and fiscal policies takes effect. In advanced economies, headline inflation decreased to 0.7 per cent in 2020, from 1.4 per cent in 2019 reflecting the slowdown in economic activities. Inflation in Emerging Markets and Developing economies only decreased slightly to 5.0 per cent in 2020, from 5.1 per cent in 2021. However, Sub-Saharan Africa's regional inflation edged up to 10.5 per cent in 2020, from 9.7 per cent in 2019. Rising food inflation in Angola, Ghana, and Nigeria, in large measure, triggered the upscale in prices, while inflation keeps soaring in the triple digits in Zimbabwe. Currency weakness in some economies also contributed to rising inflationary pressures in the region. Inflation in Nigeria was estimated to have accelerated to 13.7 per cent in 2020 from 11.9 per cent in 2019, underscored by dollar shortages and food supply bottlenecks.

Table 2: Global consumer price inflation (%)

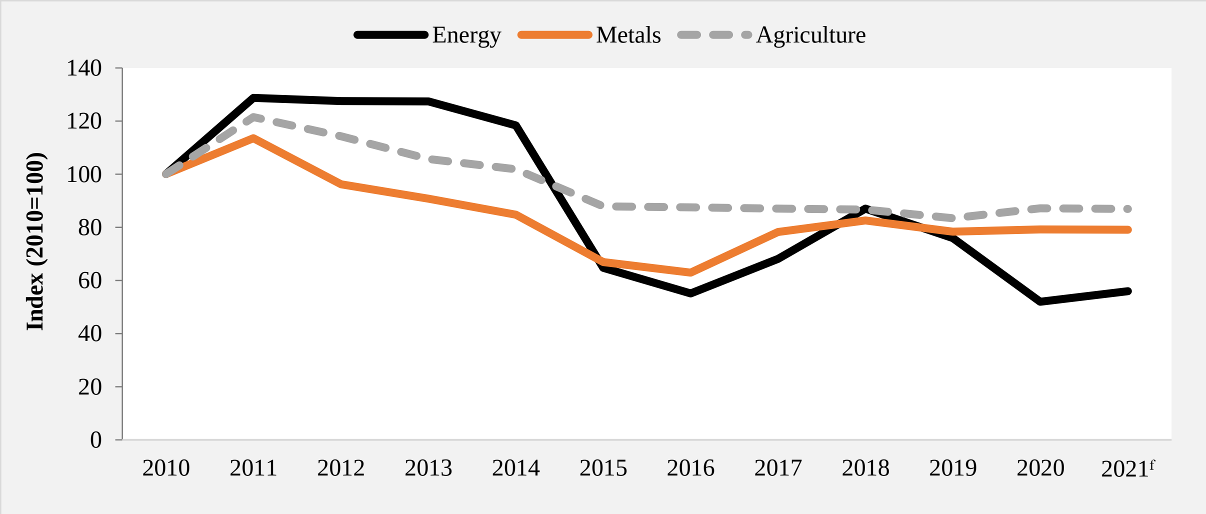
Consumer Price Inflation	2015	2016	2017	2018	2019	2020[e]	2021[f]
Global Inflation	**2.8**	**3.0**	**3.3**	**3.6**	**3.9**	**2.8**	**3.3**
Advanced Economies	0.5	1.5	1.7	1.6	1.4	0.7	1.3
Emerging Markets and Developing Economies	4.7	4.2	4.6	5.1	5.1	5.0	4.2
Sub-Saharan Africa	7.9	11.6	10.2	7.8	9.7	10.5	7.3
e =Estimate; f =Forecast							

Source: IMF World Economic Outlook (January 2021 update)

2.8. COMMODITY PRICES

Global commodity prices registered mixed developments in 2020. Energy prices plummeted with a decrease in the index of 31.6 per cent to 51.91 points in 2020 from 75.93 points in 2019. The decrease in energy prices was mainly driven by the plunge in crude oil prices during the first half of 2020 emanating from suppressed demand due to COVID-related lockdowns. The metals and mineral price index increased slightly to 79.15 points in 2020 from 78.36 points in 2019, underscored by a surge in steel manufacturing in China and resilient metal consumption in advanced economies. Agricultural commodity prices rose by 4.5 per cent to an index of 87.19 points in 2020 from 83.43 points in 2019, but with a divergence between broadly stable grain prices and rising prices of other agricultural commodities. Energy prices are projected to make some gains in 2021, but may remain below pre-pandemic levels, while metals and agricultural commodity prices are expected to remain flat in 2021 as demand and supply conditions normalize.

Figure 2: Trends in Global Commodity price indices (2010=100)

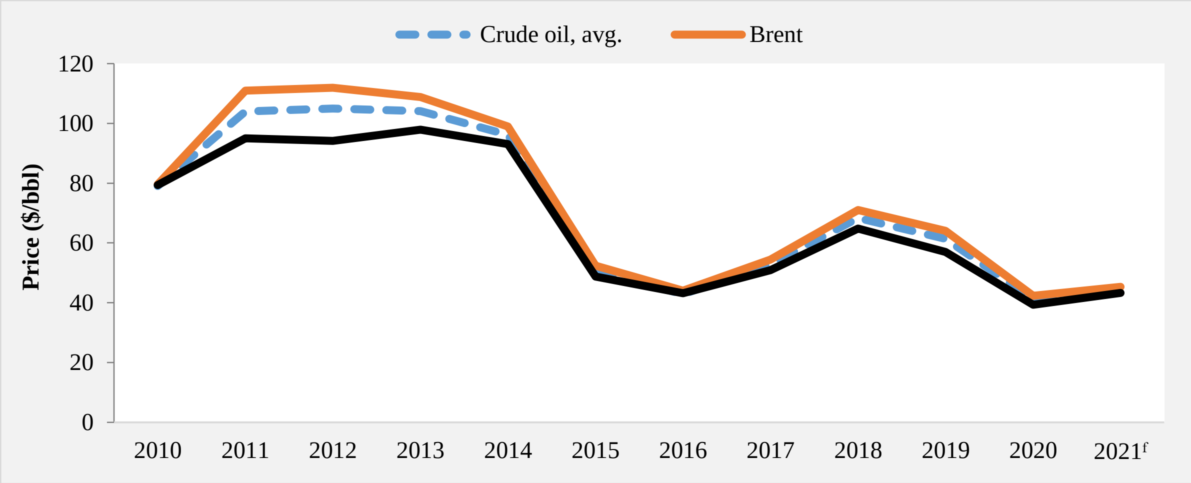


Source: World Bank Commodity Market Outlook (January 2021 database)

2.9. Crude Oil

Crude oil prices tumbled in the first half of 2020 due to the combined effects of decreased demand from the pandemic and a supply glut from Saudi Arabia and Russia. Thus, the annual price of crude oil averaged US$41.26/bbl in 2020, down by 32.81 per cent from the average price of US$61.41/bbl in 2019. The prices of both Brent and West Texas Intermediate (WTI) decreased by 33.94 per cent and 31.05 per cent to US$42.30/barrel and $39.31/barrel in 2020 from $64.03/barrel and $57.01/barrel in 2019, respectively. Crude oil regained some ground in the second half of 2020 and prices are expected to further strengthen in 2021 but were tipped to remain soft relative to pre-pandemic prices.

Figure 3: Trends in Crude oil prices ($/bbl)

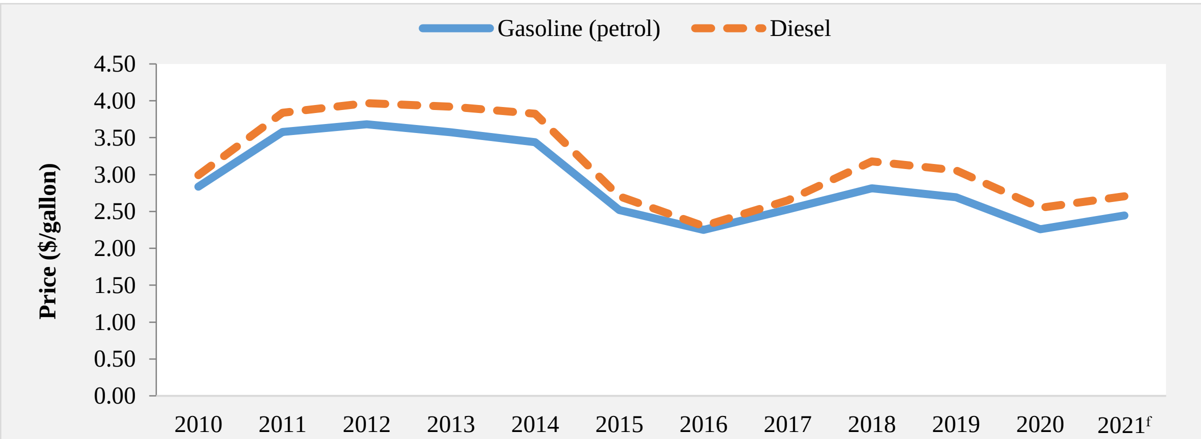


Source: World Bank Commodity Market Outlook (January 2021 database)

2.10. Platt Prices

Reflecting the plunge in crude oil prices, both gasoline (petrol) and diesel prices decreased by 16.09 per cent and 16.52 per cent selling at average prices of US$2.26/gallon and US$2.55/gallon in 2020, relative to the selling prices of US$2.69/gallon and US$3.06/gallon in 2019, respectively. Prices are forecasted to average US$2.44/gallon and US$2.70/gallon in 2021, correspondingly.

Figure 4: Platt prices ($/gallon)

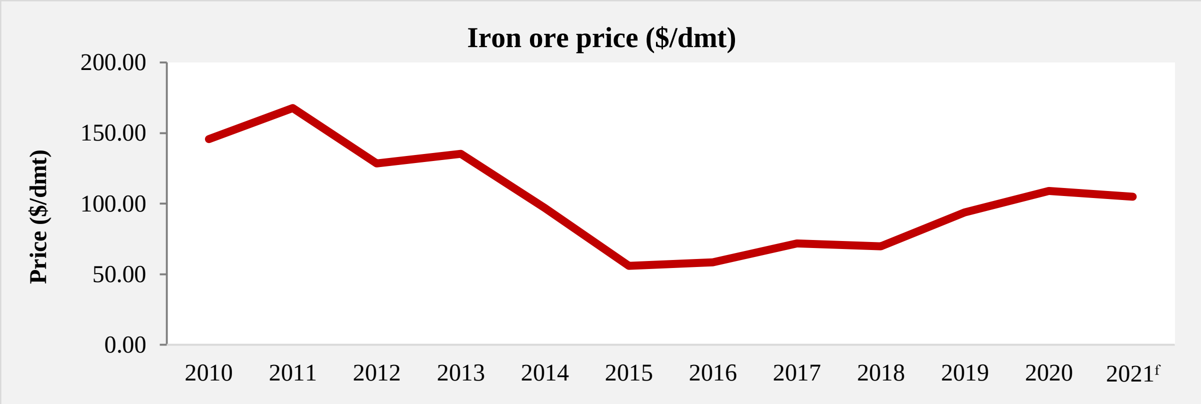


Source: U.S. Energy Information Admin, January 2020

2.11. Iron Ore price

Iron ore price increased by 16.06 per cent to US$108.92/dmt in 2020 from US$93.85/dmt in 2019. The surge in price was mainly supported by increased demand from the steel industry in China, as well as supply disruptions due to bad weather conditions in Brazil and operational challenges in Australia – two of the largest producing countries. Vale in Brazil was producing below capacity and Rio Tinto's production in Australia slowed down on the back of operational issues. Price was projected to decline slightly in 2021, but expected to remain stronger than its pre-pandemic level, sustained by robust steel production in China and Advanced economies.

Figure 5: Iron ore price ($/dmt)

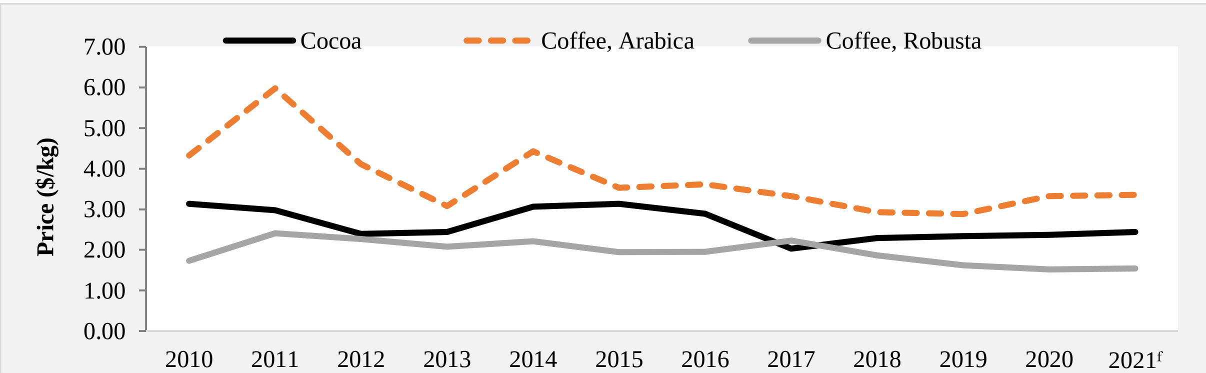


Source: World Bank Commodity Market Outlook (January 2021 database)

2.12. Cocoa and Coffee

The price of cocoa increased by 1.24 per cent averaging US$2.37/kg in 2020 from the average price of US$2.34/kg in 2019, driven partly by the high farmgate price to be paid to farmers fixed by the governments of Ivory Coast and Ghana. Both Ivory Coast and Ghana account for more than 60 per cent of the global cocoa bean supply. The price of Arabica coffee increased by 15.41 per cent averaging US$3.32/kg in 2020 compared to the average price of US$2.88/kg in 2019, due to weather and COVID-19 disruptions to production in Brazil, while the price of Robusta coffee fell by 6.53 per cent averaging US$1.52/kg compared to the price of US$1.62/kg in 2019, reflecting a supply glut from Vietnam.

Figure 6: Cocoa and coffee prices ($/kg)



Source: World Bank Commodity Market Outlook (January 2021 database)

2.13. IMPLICATIONS FOR THE SIERRA LEONE ECONOMY

The COVID-19 outbreak in 2020 severely disrupted global economic activities with adverse implications for the Sierra Leone economy. Suppressed global demand and tight supply conditions due to the massive lockdowns across the world stalled potential foreign investment, slowing down economic growth in Sierra Leone. In addition, the massive global COVID-related restriction measures negatively affected the tourism and hospitality sector of the country with a reducing effect on GDP.

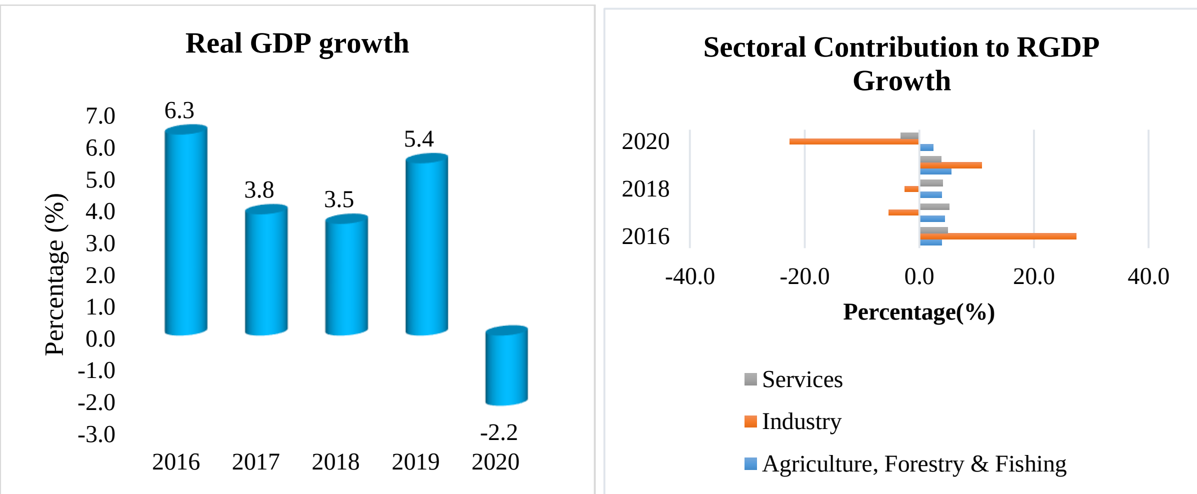
However, the proactive measures taken by the Government to develop and implement the Quick Action Economic Response Programme (QAERP), combined with the pursuit of sound macroeconomic policies and public financial management reforms helped moderate the severity of the pandemic's impact on the economy. Also, the upward price movement in iron ore and low crude oil prices in 2020 could have a positive impact on the Sierra Leone economy with a boost in export receipts from iron ore and reduced import bills of crude oil.

3. DOMESTIC ECONOMIC DEVELOPMENTS

3.1. Economic Growth

The domestic economy is projected to contract at 2.2 per cent in 2020 from a growth of 5.4 per cent in 2019. The anticipated contraction was a reflection of the slowdown of economic activities in the mining, agriculture and services sectors. The evolution of real GDP growth

Figure 7: Real GDP Growth Rates 2016-2020



Source: Statistics Sierra Leone

Analysis of sectoral contributions of the three major sectors to real GDP growth is shown in panel B of figure 1 above. Broadly, the industry sector which was severely affected by the COVID-19 pandemic negatively contributed 22.6 per cent to growth, and the services sector also negatively contributed 3.2 per cent. However, Agriculture, Forestry & Fishing positively contributed 2.5 per cent to growth.

3.2. Agriculture

As government diversifies into more growth sectors, the agricultural sector becomes crucial in this process. Hence, the government implemented the National Agricultural Transformation program to support the rehabilitation of plantations, Inland Valley Swamp, and the procurement of fertilizers and seedlings. Furthermore, the government supported the Fertilizer Regulatory Agency and the Seed Certification Agency to boost agricultural production. Production performance in agriculture, measured by the traditional cash crops, was such that coffee production amounted to 439.43 thousand metric tons in 2020, representing a 90.74 per cent decline compared to 4, 744.70 thousand metric tons in 2019. Similarly, cocoa production fell by 22.23 per cent to 20,324.06 thousand metric tons during the reviewed period.

3.3. Manufacturing

Performance in the manufacturing sector improved in 2020. Production volumes of all the commodities in the manufacturing sector increased, except for common soap which decreased in the reviewed period. Beer and stout production surged by 31.44 per cent to 1,190.60 thousand cartons. Maltina production grew by 133.56 per cent to 360.19 thousand cartons. Acetylene and oxygen production increased by 13.20 per cent to 340.80 thousand cubic feet, and 67.54 per cent to 527.19 thousand cubic feet respectively. Confectionary production rose by 71.31 per cent to 3,628.77 thousand pounds. Common soap production dropped to 595.12 thousand metric tons in December 2020 from 595.15 thousand metric tons last year.

3.4. Construction

The construction sector, proxied by cement and paint production was mixed, as paint production increased by 2.27 per cent to 697.31 thousand gallons, while cement production fell by 9.37 per cent to 347.17 thousand metric tons.

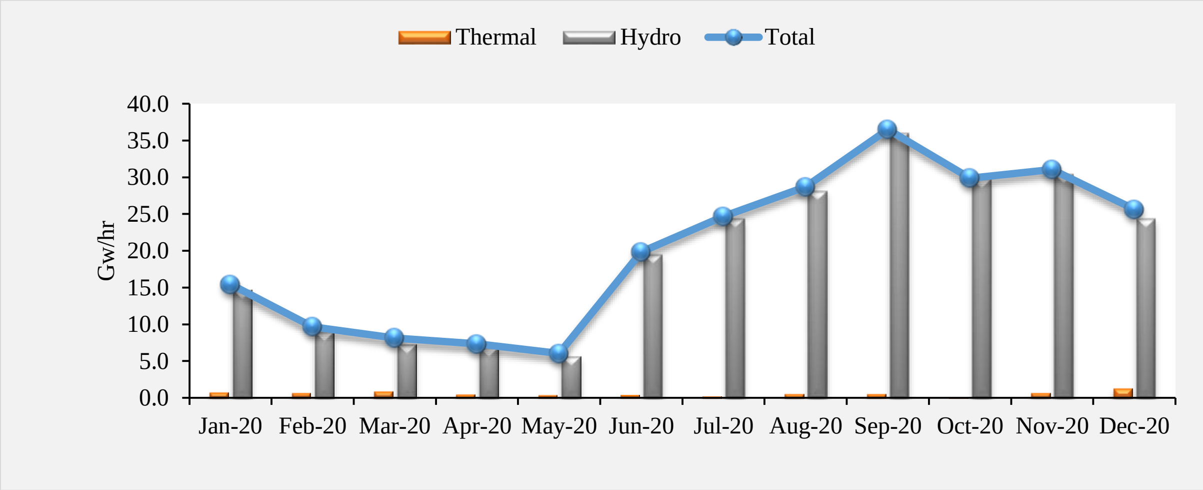
3.5. Mining

Activities in the mining sector contracted in 2020 as all minerals recorded production declines. Diamond production fell by 15.27 per cent to 686.02 thousand carats and comprised of industrial diamond amounting to 83.04 thousand carats and gem diamond amounting to 603.36 thousand carats. Bauxite production dropped by 28.53 per cent to 1,441.98 thousand metric tons, rutile production declined by 12.26 per cent to 116.56 metric tons. Similarly, ilmenite and gold production declined by 23.56 per cent to 45.29 thousand metric tons, and 96.27 per cent to 0.09 thousand ounces respectively.

3.6.Electricity Generation

The amount of electricity generated in 2020 stood at 242.92 Gw/hr representing a decline of 2.82 percent compared to the generation in 2019. The decrease in electricity generation was attributed to the fall in both thermal and hydropower generation. Thermal plant generation dropped by 48.05 per cent to 6.89 Gw/hr, while hydro-power generation decreased marginally by 0.30 per cent to 236.06 Gw/hr.

Figure 8: Electricity Generation



Source: EDSA

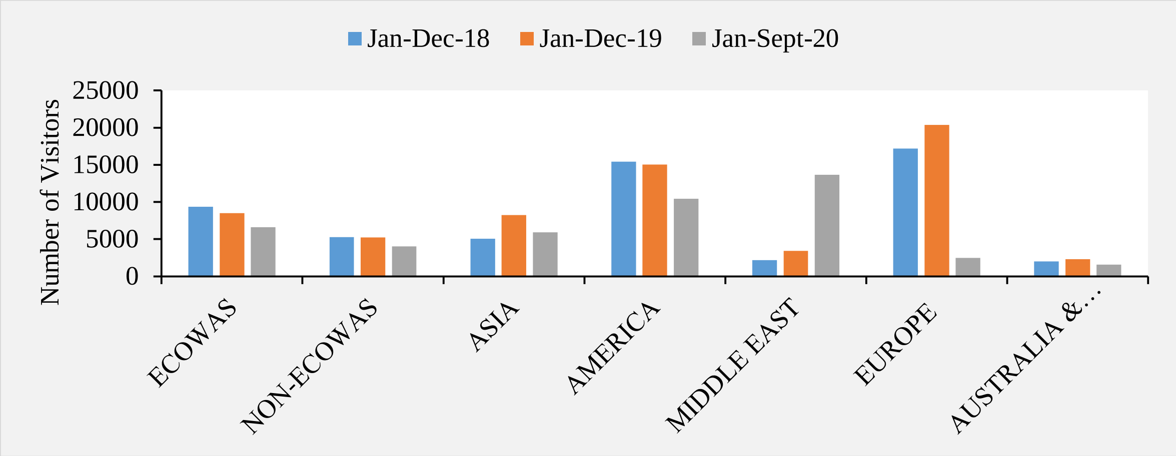
Broadly, Bumbuna hydro plant contribution increased to 94.18 per cent in 2020 from 93.82 per cent in 2019. Goma hydro plant contributed 4.82 per cent in 2020 from 4.78 per cent in 2019. Similarly, provincial thermal plants accounted for 93.37 per cent in 2020 from 99.29pPer cent in 2019 and Freetown thermal plant contributed 6.63 Per cent in 2020 from 0.71 per cent in 2019 to total thermal plant generation in the review period.

3.7. Tourism

The estimated tourist arrivals from January to the end of September 2020 increased by 14.73 per cent to 44, 691 visitors from 38,953 visitors in 2019. The improvement in tourist arrivals was a reflection of eased government restriction measures for COVID-19.

In terms of place of residence, 13,645 tourists arrived from Europe; 10,441 arrived from America; 6,591 from ECOWAS; 5,935 from Asia; 4,036 from Non-ECOWAS, 2,488 arrived from the Middle East; and 1,555 arrived from Australia and Oceanian.

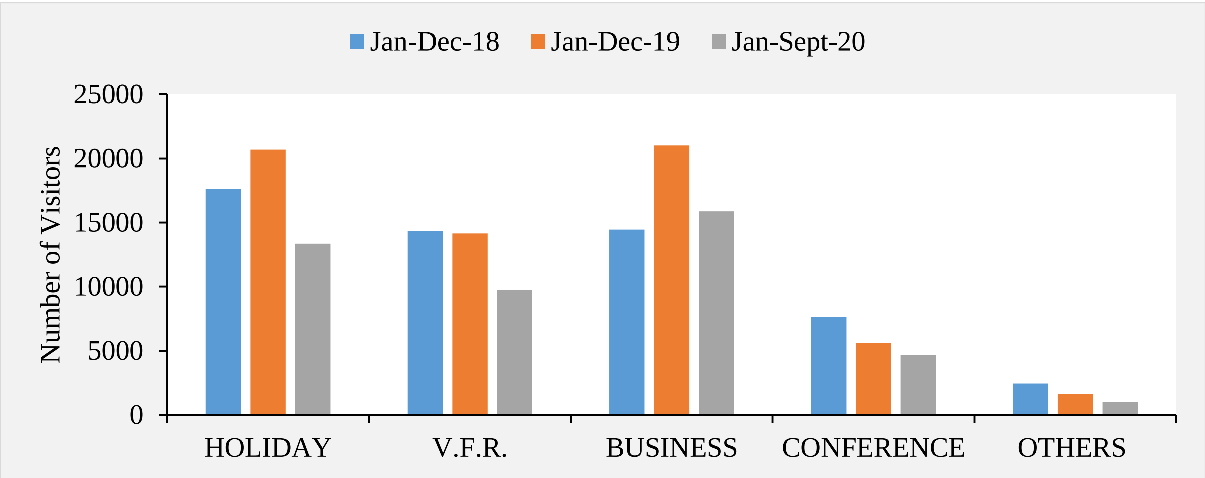
Figure 9: Tourist Arrivals by Place of Residence



Source: National Tourist Board

In terms of the purpose of the visit, 15,873 tourists came for business purposes; 13,342 were on holiday, 9,772 came for a visit to friends and relatives (V.F.R); 4,675 were on a conference and 1,029 came for other purposes in the reviewed period.

Figure 10: Tourist Arrival by Purpose of Visit



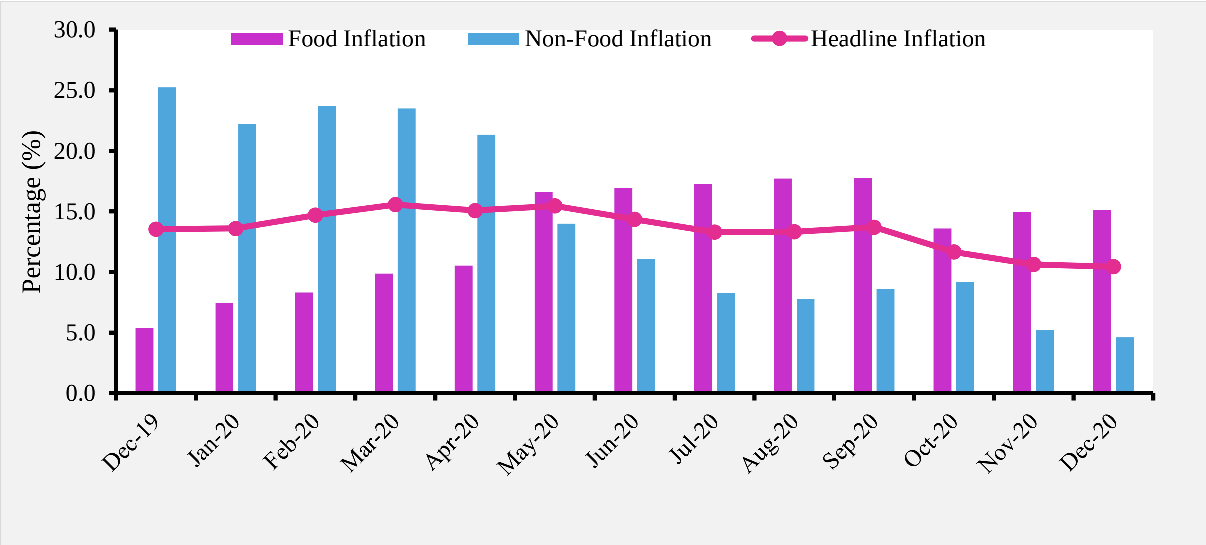
Source: National Tourist Board

3.8. Price Developments

Inflationary pressures subdued and were lower than the IMF projection for 2020. The containment of the inflationary pressure was on account of the relative stability of the exchange rate coupled with improved monetary policy management. The Bank embarked on major reforms that enhanced liquidity management and anchored inflation expectations. As a result, annual inflation (y/y) moderated to 10.45 per cent in December 2020 from 13.89 per cent in December 2019. Similarly, trends in inflation peaked at 15.47 per cent in May 2020 from 13.60 per cent in January 2020 and decelerated to 11.71pPer cent in October 2020 and 10.63 per cent in November 2020.

Broadly disaggregating the CPI basket into food and non-food showed that non-food inflation fell to 4.62 per cent in December 2020 from 25.23 per cent in December 2019. The fall in non-food inflation was a reflection of the effectiveness of the monetary policy. However, due to supply-side challenges, and higher global food prices combined with government COVID-19 restrictions measures, food inflation rose from 5.38 per cent in December 2019 to 18.88 per cent in December 2020. This development is represented as shown in figure 5 below.

Figure 11: Headline, Food & Non-Food Inflation (Year-on-Year, %)

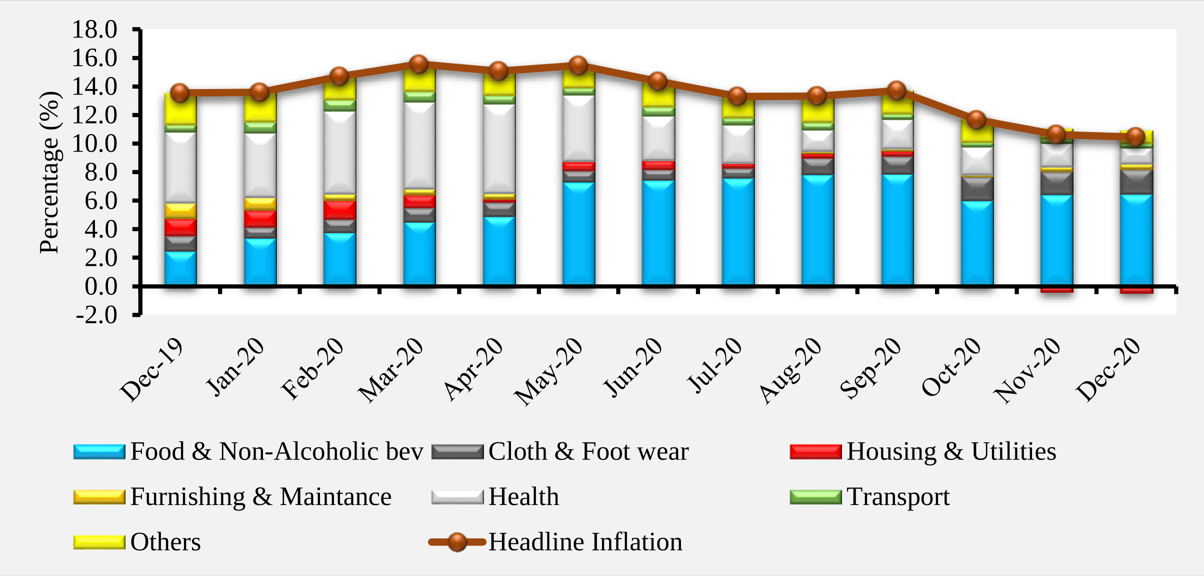


Source: Statistics Sierra Leone

The major components in the CPI basket contributing to the downward trend in the headline inflation were: housing and utilities, furnishing and maintenance, transport, and others[2]. On the other hand, the following components, however, increased during the period: food & non-alcoholic beverages, health and clothing, and footwear as shown in figure 6 below.

[2] Others include: communication, alcoholic beverages, tobacco & narcotics, recreation & culture and miscellaneous goods and services

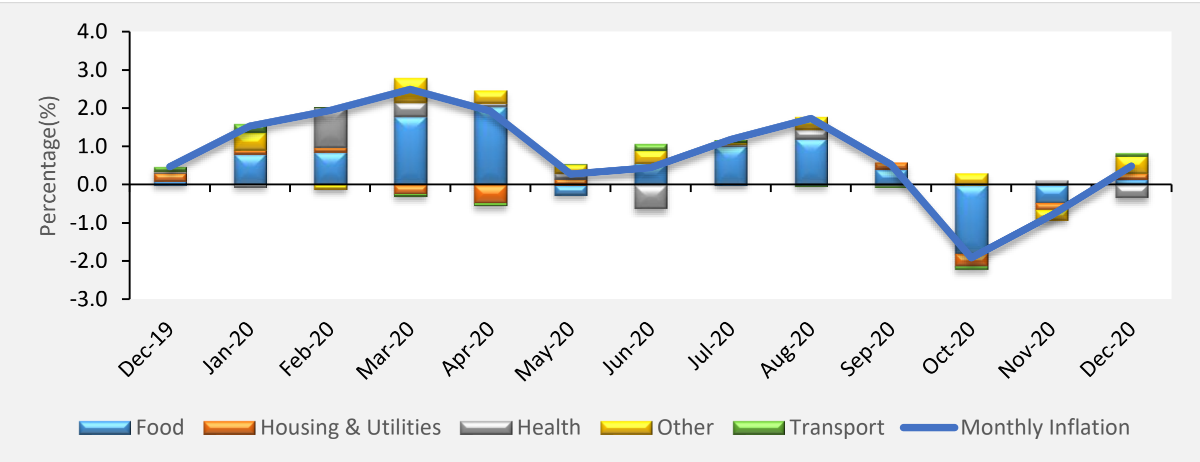
Figure 12: Drivers of Annual Headline Inflation



Source: Statistics Sierra Leone

Headline inflation (m/m) trended downwards from 0.41 per cent in December 2019 to 0.24 per cent in December 2020. This development mirrored the monetary policy coordination depicted in the year-on-year inflation. Hence key drivers accounting for this slowdown in the monthly inflation were: housing & utilities, health, transport, and others as shown in figure 7.

Figure 13: Major Contributors to Monthly inflation



Source: Statistics Sierra Leone & BSL

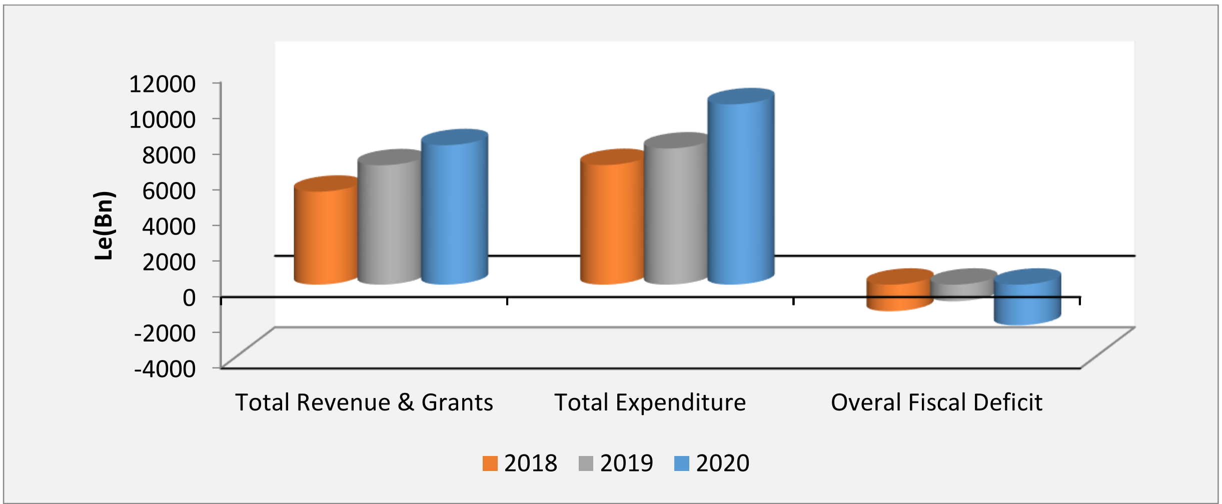
3.9. FISCAL SECTOR DEVELOPMENTS

3.9.1 Government Budgetary Operations

The thrust of government fiscal policy in 2020 seeks to increase revenue mobilization as well as strengthen expenditure control mechanisms, thereby creating the enabling environment for doing business, to achieve the government's main objective of creating jobs and improving human capital development. Hence, the implementation of the Finance Bill 2020 played a crucial role in the achievement of the above objectives. However, both demand and supply-side challenges impacted the successful implementation of the budget during the reviewed period.

Outturns in government fiscal operations in 2020 were expansionary. Government budgetary operations, based on provisional data, resulted in a widened deficit (including grants) of Le2, 283.85bn (5.57% of GDP) in 2020 compared to a deficit of Le936.65bn (2.53% of GDP) in 2019, and exceeded the budgeted deficit of Le1, 990.53bn (4.85% of GDP) by 14 .74 per cent. The widened deficit ensued from an expansion in government expenditure and net lending which crowded out the increase in government revenue during the reviewed period. These developments were shown in figure 1 below.

Figure 14: Government Budgetary Operations for 2018-2020



Source: MoF

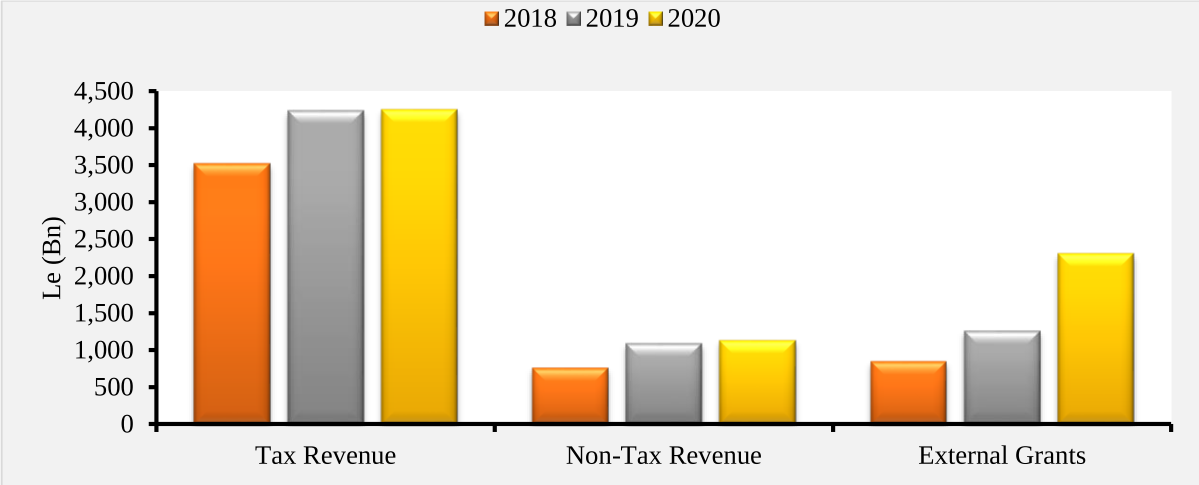
3.9.2 Government Revenue

Government revenue and grants expanded by 16.76 per cent to Le7, 809.22bn (19.03% of GDP), but were lower than the programmed target of Le8, 300.50bn (20.23% of GDP) by 5.92 per cent. The expansion in government revenue was attributable to the increase in both domestic revenue mobilization and foreign grants received.

Domestic revenue improved by 1.39 per cent to Le5.506.68bn (13.42% of GDP) and was higher than the target of Le5, 366.42bn (13.08% of GDP) by 2.61 per cent. The increase in domestic revenue was due to tax revenue and non-tax revenue expansion. Tax revenue grew marginally by 0.48 per cent to Le4, 255.72bn (10.37% of GDP), and more than the target of

Le4, 212.76bn (10.27% of GDP) by 1.02 per cent. Tax revenue comprised of receipts from income tax, customs and excise, and, goods and services taxes (GST).

Figure 15: Trends in Government Revenue 2018-2020



Source: Ministry of Finance

Customs and Excise receipts contracted by 8.28 per cent to Le1, 222.45bn (2.98% of GDP) and fell short of the target of Le1, 227.67bn (2.99% of GDP) by 0.42 per cent. The decline in receipts was largely due to the contraction in both import taxes and excise duties on petroleum, while other excise duties increased during the reviewed period. Import taxes fell by 11.89 per cent to Le643.20bn, and Excise duties on petroleum decreased by 9.37 per cent to Le514.32bn. On the other hand, other excise duties collected increased by 83.66 per cent to Le64.93bn.

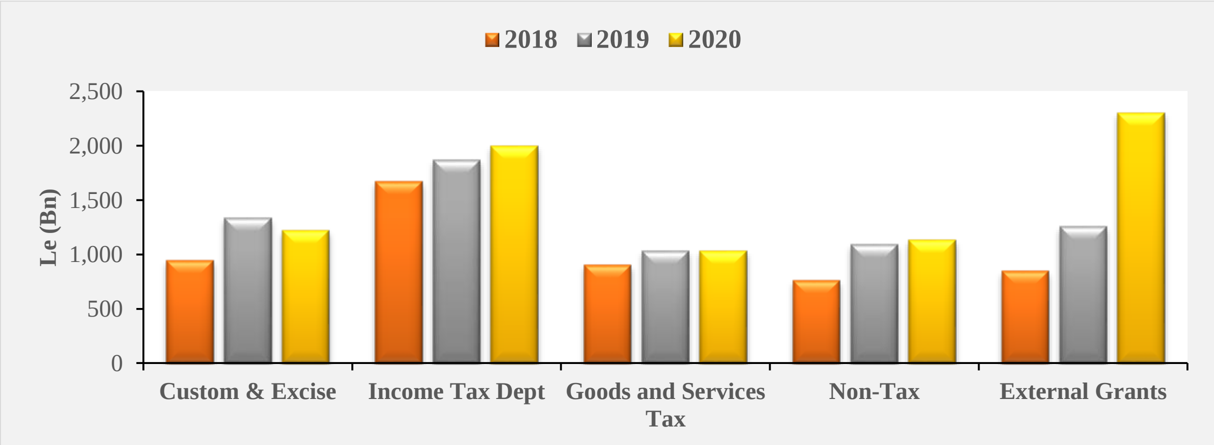
Income Tax collection expanded by 6.96 per cent to Le1, 999.82bn (4.87% of GDP), and slightly above the target of Le1, 975.1bn (4.81% of GDP) by 1.25 per cent. The expansion in income tax revenue was related to the increase in both personal income tax and company tax. Personal income tax surged by 8.47 per cent to Le1, 665.35bn; and Company tax collected improved by 3.12 per cent to Le334.47bn.

Goods and Services Tax recorded a marginal increase of 0.04 per cent to Le1, 033.45bn (2.52% of GDP), and was higher than the target of Le1, 009.99bn (2.46% of GDP) by 2.32 per cent. The increase in GST was largely driven by the increase in import GST, while domestic GST fell during the period. Import GST rose by 36.66 Per cent to Le805.74bn, while domestic GST declined by 48.65 per cent to Le227.70bn.

Non-tax revenue expanded by 3.94 per cent to Le1, 132.46bn (2.76% of GDP) and exceeded the target of Le1, 052.24bn (2.56% of GDP); by 7.62 per cent. The expansion in non-tax revenue resulted from the increase in receipts from both the mines department and other departments. Mines department revenue improved by 9.18 per cent to Le254.12bn, and receipts from other departments increased by 2.52 per cent to Le878.34bn.

Receipts from Road user charges expanded by 11.49 per cent to Le118.50bn (0.29% of GDP) during the period.

Figure 16: Disaggregated Government Revenue 2018-2020



Sources: Ministry of Finance

3.9.3. Grants

External grants received in respect of budgetary support increased by 83.19 per cent to Le2, 302.53bn (5.61% of GDP), but was however lower than the anticipated target of Le2, 934.08bn (7.15% of GDP) by 21.52 per cent. This comprised of program grants amounting to Le1, 845.64bn, and other projects funds amounted to Le456.9bn. There was no disbursement in respect of development projects during the reviewed period.

Table 3: Government Fiscal Operation

Government Fiscal Operations 2020 (In Millions of Leones)			
	2019	2020	2020
	Jan. - Dec.	Jan. - Dec.	Budget
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	**6,688,164**	**7,809,218**	**8,300,497**
DOMESTIC REVENUE	**5,431,252**	**5,506,684**	**5,366,418**
Of which:			
Customs & Excise	**1,332,802**	**1,222,450**	**1,227,665**
Income Tax Department	**1,869,606**	**1,999,824**	**1,975,098**
Goods and Services Tax	**1,033,009**	**1,033,450**	**1,009,993**

Miscellaneous	**1,089,547**	**1,132,460**	**1,052,242**
Road User Charges	**106,287**	**118,500**	**101,420**
GRANTS	**1,256,912**	**2,302,534**	**2,934,080**
TOTAL EXPENDIUTRE & NET LENDING	**7,624,816**	**10,093,069**	**10,291,022**
Of which:			
Current Expenditure	**5,740,560**	**7,066,947**	**6,886,055**
Of which:			
Wages & Salaries	**2,578,496**	**3,263,502**	**3,338,817**
Domestic Interest	**1,022,856**	**1,088,540**	**1,089,519**
Foreign Interest	**96,110**	**120,377**	**171,011**
Non-Salary Non-Interest Expenditure	**2,043,098**	**2,594,529**	**2,286,708**
Contingency Exp	**0**	**0**	**0**
Development Exp. & Net Lending	**1,884,256**	**3,026,121**	**3,404,967**
Foreign Loans & Grants	**1,135,922**	**1,708,955**	**1,900,417**
Domestic	**748,333**	**1,317,166**	**1,504,550**
Lending Minus Repayment	**0**	**0**	**0**
CURRENT BALANCE+/- (Including grants)	**947,604**	**742,271**	**1,414,442**
ADD DEVELOPMENT EXPENDITURE	**(1,884,256)**	**(3,026,121)**	**(3,404,967)**
Basic Primary Balance	**69,544**	**(1,657,261)**	**(1,747,405)**
OVERALL DEFICIT/SURPLUS +/- (Incl. grants)	**(936,652)**	**(2,283,851)**	**(1,990,525)**
FINANCING	**936,652**	**2,283,851**	**1,990,525**
Domestic	**922,140**	**2,686,803**	**2,568,002**
Of which:			
Bank Financing	**758,941**	**2,740,000**	**2,556,057**
Non-Bank Financing	**163,199**	**(53,197)**	**11,945**
External	**295,069**	**692,391**	**552,380**
Of which:			
Loans	**630,442**	**1,112,172**	**1,078,465**
Project	**630,442**	**1,112,172**	**1,078,465**
Program	**0**	**0**	**0**
Amortisation	**(335,374)**	**(419,781)**	**(526,085)**
Others	**(280,556)**	**(519,096)**	**(1,129,857)**

Source: Budget Bureau, Ministry of Finance

3.9.4. Government Expenditure and Net Lending

Total government expenditure and net lending expanded by 32.37 per cent to Le10, 093.07bn (24.60% of GDP); but was slightly below the ceiling of Le10, 291.02bn (25.08% of GDP) by 1.92 per cent in the reviewed period. The expansion in government expenditure and net lending was due to the increase in both recurrent and development expenditure.

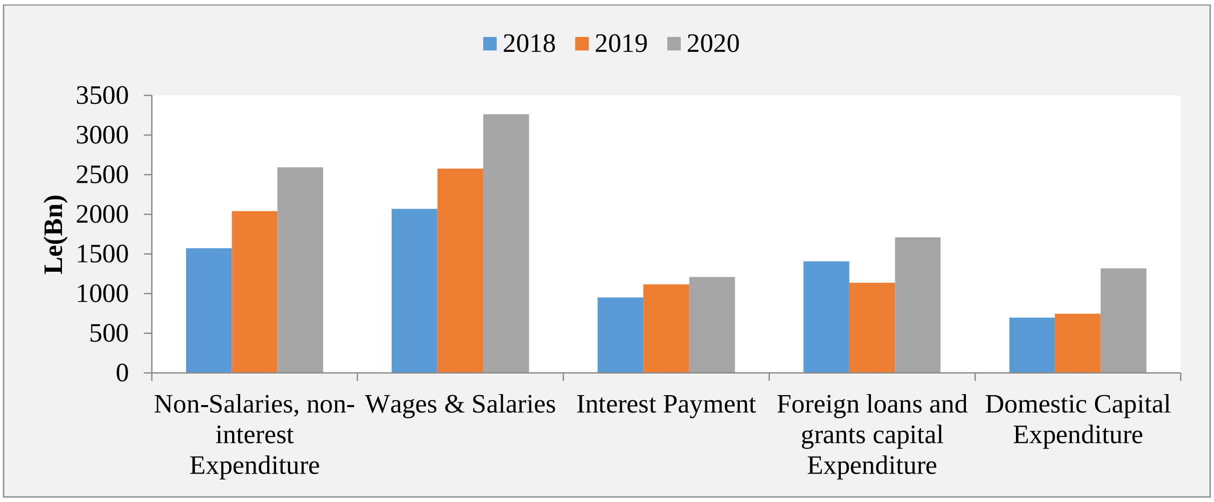
Recurrent expenditure, increased by 23.11 per cent to Le7, 066.95bn (17.22% of GDP) and overshot the ceiling of Le6, 886.06bn (16.78% of GDP) by 2.63 per cent. The increase in recurrent spending was on account of the expansion in the wage bill and total interest payment spending. Whereas, non-salary non-interest expenditure contracted during the reviewed period. Expenditure on wages and salaries grew by 26.57 per cent to Le3, 263.50bn (7.95% of GDP) and was slightly below the ceiling of Le3, 338.82bn (8.14% of GDP); by 2.26 per cent.

Total interest payment increased by 8.04 per cent to Le1, 208.92bn (2.95% of GDP), but below the ceiling of Le1, 260.53bn (3.07% of GDP) by 4.09 per cent. Domestic interest payments increased by 6.42 per cent to Le1, 088.54bn, but were lower than the ceiling of Le1, 089.52bn by 0.09 per cent; and foreign interest payments surged by 25.25 per cent to Le120.38bn, yet was 29.61 per cent lower than the target of Le171.01bn.

Non-salary-non-interest expenditure contracted by 14.19 per cent to Le2, 594.53bn (6.32% of GDP), but in breach of the ceiling of Le2, 286.71bn (5.57% of GDP) by the 13.46 per cent.

Development Expenditure expanded by 60.60 per cent to Le3, 026.12bn (7.38% of GDP) but was 11.13 per cent lower than the ceiling of Le3, 404.97bn (8.30% of GDP). The expansion in capital expenditure was driven by the increase in both foreign loans & grants and domestic capital expenditure. Foreign loans and grants increased by 50.45 per cent to Le1, 708.96bn (4.78% of GDP), yet lower than the ceiling of Le1, 900.42bn (4.63% of GDP). Domestic capital spending surged by 76.01 per cent to Le1, 317.17bn, however, 12.45 per cent was lower than the ceiling of Le1, 504.55bn during the reviewed period.

Figure 17: Disaggregated Government Expenditure



Source: MOF

3.9.5 Financing

The overall deficit (including grants) of Le2, 283.85bn (5.57% of GDP) was financed from both domestic, foreign, and other sources. Domestic deficit financing amounted to Le2, 686.80bn (6.55% of GDP), of which bank borrowing amounted to Le2, 740.00bn (6.68% of GDP), and non-bank borrowing was reduced to Le53.20bn (0.13% of GDP). External deficit financing amounted to Le692.31bn (1.69% of GDP), this consisted of project loans of Le1, 112.17bn, and amortization payment of Le419.78bn. Other sources of deficit financing amounted to Le519.10bn.

3.10. PUBLIC DEBT

3.10.1. Debt Market Developments

Primary Market Auction Outcomes

During the period under review, the primary market auctions for Government Securities exhibited mixed outcomes. The 91-days and 182-days tenures were oversubscribed in the first three quarters of 2020 but undersubscribed in the fourth quarter, whilst the 364-days tenure was mostly oversubscribed in the review year. As such, the demand for government treasury bills was skewed to the 364 days tenure, with commercial banks, being the leading participants. However, the non-bank public continued to be the dominant participant in the 91-days and 182-days tenures of the treasury bills auctions.

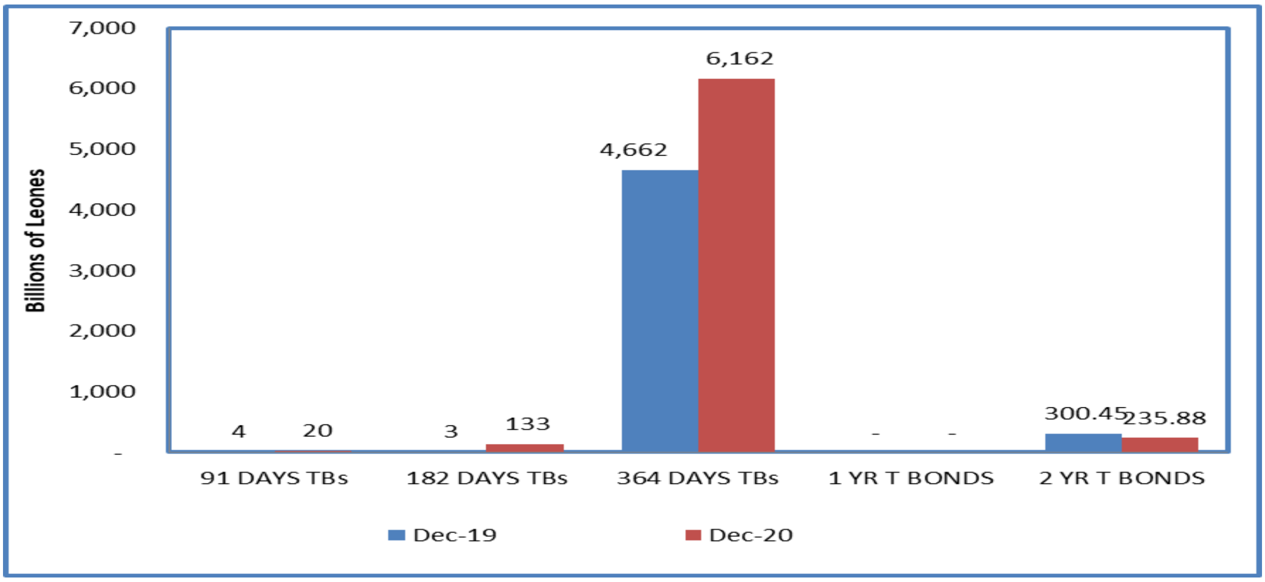
3.10.2. Stock of Government Securities

The total stock of Government securities increased by Le1,575.41bn (27.86%) from Le5,655.37bn in December 2019 to Le7,230.78bn in December 2020. Marketable securities accounted for 90.61 per cent of the total stock of government securities whilst non-marketable securities accounted for 9.39 per cent.

The stock of marketable securities increased by Le1,582.91bn (31.86%) from Le4,969.11bn at the end of December 2019 to Le6,552.02bn as of the end of December 2020, largely on account of the increase in the 364-days T-bills. The issuance of new Treasury securities during the review period was mainly to finance the budget. Non-marketable securities declined by Le7.50bn (1.09%) from Le686.26bn at the end of December 2019 to Le678.76bn at the end of December 2020, mainly due to Le7.50bn redemption of the 10-Year amortized bond.

As of the end of December 2020, the proportion of 91-days, 182-days, and 364-days treasury bills to the total marketable securities was 0.31 per cent, 2.04 per cent, and 94.05 per cent respectively, while that of the 2-year Treasury bond was 3.60 per cent. With regards to non-marketable securities, the 3-year, 5- year, and 10-year treasury bonds accounted for 41.92 per cent, 54.21 per cent, and 3.87 per cent respectively.

Figure 18: Stock of Marketable Government Securities by Tenure



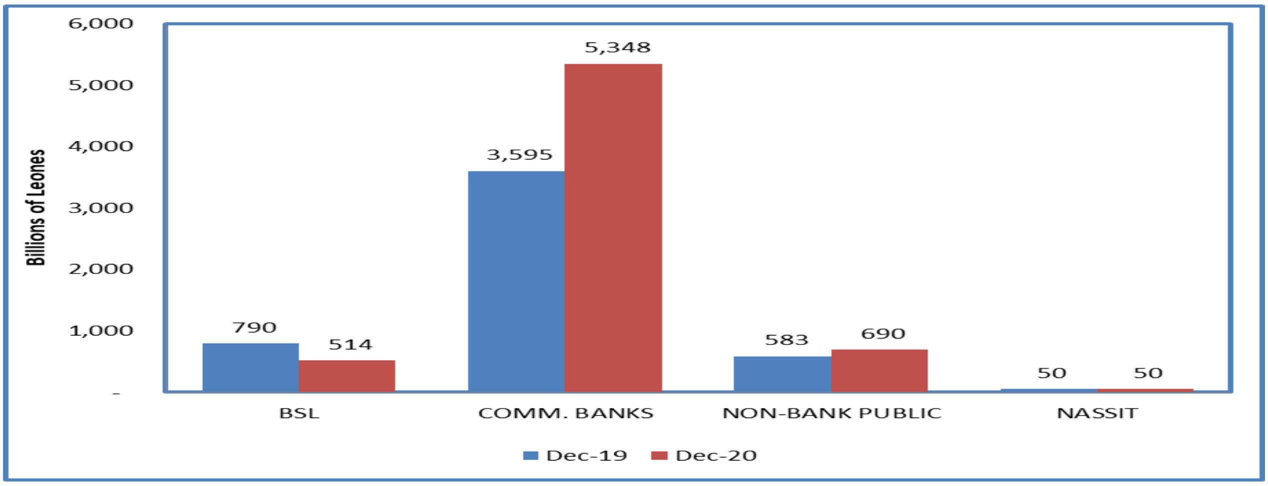
Source: BSL

3.10.3. Distribution of the Stock of Government Security by Sector

The holdings of government securities continued to be dominated by commercial banks during the review year. A similar upward trend was visible in the non-bank sector whilst the BSL sector depicted a downward trend in 2020.

Commercial banks' holdings of marketable government securities increased by Le1,752.21bn (48.73%) from Le3,595.39bn at end of December 2019 to Le5,347.60bn end of December 2020. Non-bank holdings of marketable government securities increased by Le106.61bn (18.27%) from Le583.45bn as of the end of December 2019 to Le690.06bn as of the end of December 2020. On the other hand, BSL holdings of marketable government securities decreased by Le275.91bn (34.91%) from Le790.27bn as at end of December 2019 to Le514.36bn as of the end of December 2020. This was largely because the redemption was higher than the outright purchases of treasury bills from commercial banks in 2020. The holdings of NASSIT remained the same as Le50.49bn as of the end of December 2020. Figure 2 below presents the holdings of marketable government securities by sector.

Figure 19: Holdings of Marketable Government Securities by Sector (in Billions of Leones)



Source: BSL

3.10.4. Trends in Yields of Government Securities in the Primary market and Interbank Market

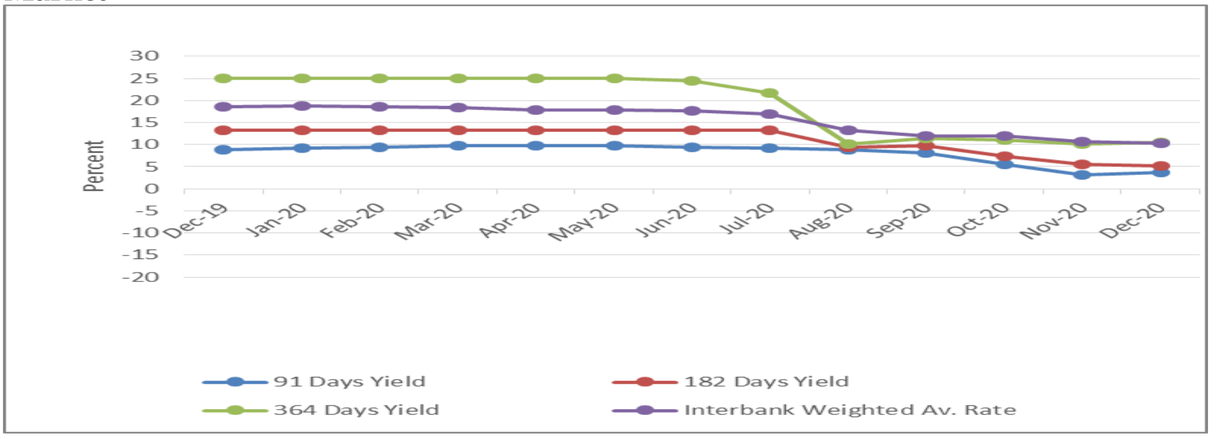
During the review period, it was observed that movement in the yields of all the tenures of treasury bills was fairly stable during the first two quarters but significantly declined in the last two quarters of 2020, hitting their lowest levels since 2015. The monthly average annual yield on the 91-days treasury bills decreased by 505 basis points from 8.83 per cent in December

2019 to 3.78 per cent in December 2020. The yield on the 182 days T-bills declined by 804 basis points from 13.21 per cent in December 2019 to 5.17 per cent in December 2020. Similarly, the annual yield on 364-days treasury bills decreased by 1,454 basis points from 25.05 per cent in December 2019 to 10.51 per cent in December 2020.

The interbank weighted average yield decreased by 832 basis points from 18.61 per cent in December 2019 to 10.29 per cent in December 2020.

The decrease in the rates in both the primary and interbank markets reflected the excess liquidity condition in the banking system. Figure 3 below shows the trends in yields of government securities in both the Primary and Interbank markets.

Figure 20: Trends in Yields of Government Securities in the Primary and the Interbank Market



Source: BSL

3.10.5. BSL Standing Facilities

Access to the BSL Standing Lending Facility (SLF) window decreased by Le7,721.17bn (90.21%) from Le8,559.17bn as of the end of December 2019 to Le838.00bn at the end of December 2020. This was mainly due to banks' excess liquidity position, especially in Q3 and Q4 of the review period, resulting from donor disbursements for budget financing and Balance of Payments (BOP) support to reduce the economic impact of the COVID-19 Pandemic.

In the Standing Deposit Facility (SDF) window, the volume of transactions increased by Le5,006.00bn (916.84%) from Le546.00bn at the end of December 2019 to Le5,552.00bn as of the end of December 2020, depicting improved liquidity conditions in the banking system.

3.10.6. Secondary Market Operations

The level of intermediation in the interbank money market increased during the review period. The volume of interbank transactions decreased by Le1,657.05bn (35.39%) from Le4,682.00bn in 2019 to Le3,024.95bn in 2020.

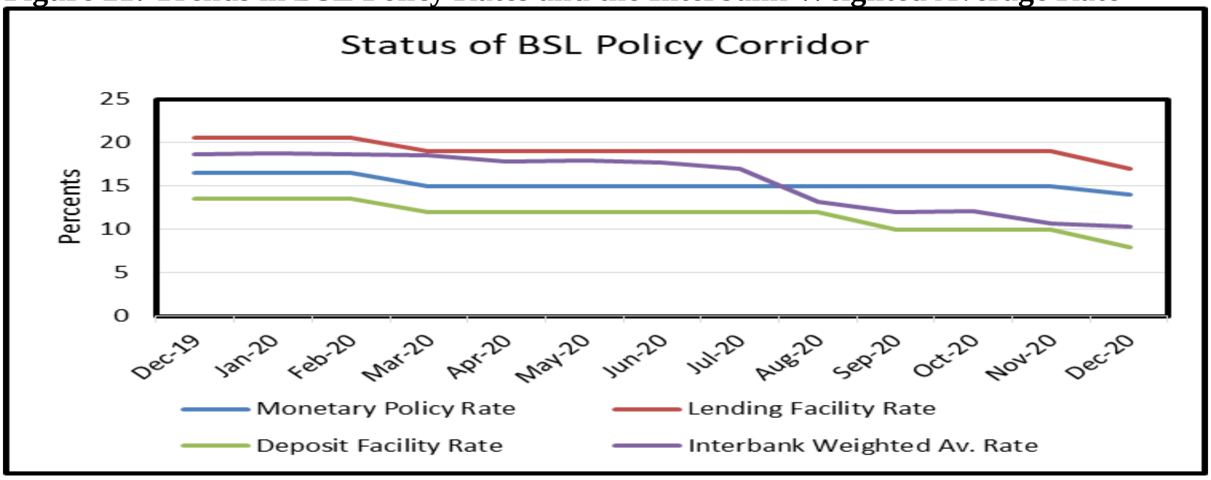
The Bank's intervention in the secondary market through outright purchases of Treasury Bills decreased during the review period. The volume of outright purchases of Treasury bills in the secondary market declined by Le230.59bn (21.54%) from Le1,070.38bn in 2019 to 839.79bn in 2020.

3.10.7. Policy Rates and the Status of the corridor

The Monetary Policy Rate (MPR) which signals the Bank's monetary policy stance was gradually reduced by 250 basis points from 16.5 per cent in December 2019 to 14.0 per cent in December 2020. Similarly, the Standing Lending and Standing Deposit Facilities rates which also serve as corridors within which the interbank market operates were adjusted downwards from 20.5 per cent and 13.5 per cent to 17.0 per cent and 8.0 per cent respectively as of the end of December 2020.

The interbank weighted average yield stood at 10.29 per cent as of the end of December 2020, 371 basis points below the MPR, suggesting that the banking system was awash with liquidity. Albeit, the interbank rate continued to lie within the policy corridor implying improved and stable monetary policy transmission. Figure 4 below depicts the trend in BSL Policy Rates and Interbank Average Rate for the period December 2019 to December 2020.

Figure 21: Trends in BSL Policy Rates and the Interbank Weighted Average Rate



Source: BSL

Table 4: Stock of Government Securities Outstanding by Tenor and By Holding (in Millions of Leones)

STOCK OF GOVERNMENT SECURITIES OUTSTANDING BY TENOR AND BY HOLDER (IN MILLIONS OF LEONES)			
	Dec-19	**Dec-20**	**Change**
91 DAYS TBs	**3,608.65**	**20,490.80**	**16,882.15**
BSL	25.50	30.00	4.50
COMM. BANKS	-	7,462.20	7,462.20
NON-BANK PUBLIC	3,583.15	12,998.60	9,415.45
o/w NASSIT	-	-	-
182 DAYS TBs	**3,334.30**	**133,264.15**	**129,929.85**
BSL	25.00	-	(25.00)
COMM. BANKS	500.00	117,951.95	117,451.95
NON-BANK PUBLIC	2,809.30	15,312.20	12,502.90
o/w NASSIT			-
364 DAYS TBs	**4,661,717.00**	**6,162,378.70**	**1,500,661.70**
BSL	786,722.75	514,330.90	(272,391.85)
COMM. BANKS	3,338,424.60	5,026,787.70	1,688,363.10
NON-BANK PUBLIC	536,569.65	621,260.10	84,690.45
o/w NASSIT	*10,000.00*	*10,000.00*	-
2 YR T BONDS	**300,449.30**	**235,883.95**	**(64,565.35)**
BSL	3,500.00	- -	3,500.00
COMM. BANKS	256,462.30	195,396.95	(61,065.35)
NON-BANK PUBLIC	40,487.00	40,487.00	-
o/w NASSIT	*40,487.00*	*40,487.00*	-
TOTAL MARKETABLE	**4,969,109.25**	**6,552,017.60**	**1,582,908.35**
BSL	790,273.25	514,360.90	(275,912.35)
COMM. BANKS	3,595,386.90	5,347,598.80	1,752,211.90
NON-BANK PUBLIC	583,449.10	690,057.90	106,608.80
o/w NASSIT	*50,487.00*	*50,487.00*	-
3 YR T BONDS	**284,518.20**	**284,518.20**	**-**
BSL	143,814.20	143,814.20	-
COMM. BANKS	115,704.00	115,704.00	-
NON-BANK PUBLIC	25,000.00	25,000.00	-
o/w NASSIT	*25,000.00*	*25,000.00*	-
5 YR T BONDS	**367,989.80**	**367,989.80**	**-**
BSL	326,918.00	326,918.00	-
COMM. BANKS	-	-	-
NON-BANK PUBLIC	41,071.80	41,071.80	-
o/w NASSIT	*41,071.80*	*41,071.80*	-
10 YR T BONDS	**33,750.00**	**26,250.00**	**(7,500.00)**
BSL	33,750.00	26,250.00	(7,500.00)
COMM. BANKS	-	-	-
NON-BANK PUBLIC	-	-	-
o/w NASSIT	-	-	-
TOTAL NON-MARKETABLE	**686,258.00**	**678,758.00**	**(7,500.00)**
BSL	504,482.20	496,982.20	(7,500.00)
COMM. BANKS	115,704.00	115,704.00	-
NON-BANK PUBLIC	66,071.80	66,071.80	-
o/w NASSIT	*66,071.80*	*66,071.80*	-
TOTAL GOV. SECURITIES	**5,655,367.25**	**7,230,775.60**	**1,575,408.35**
BSL	1,294,755.45	1,011,343.10	(283,412.35)
COMM. BANKS	3,711,090.90	5,463,302.80	1,752,211.90
NON-BANK PUBLIC	649,520.90	756,129.70	106,608.80
o/w NASSIT	116,558.80	116,558.80	-

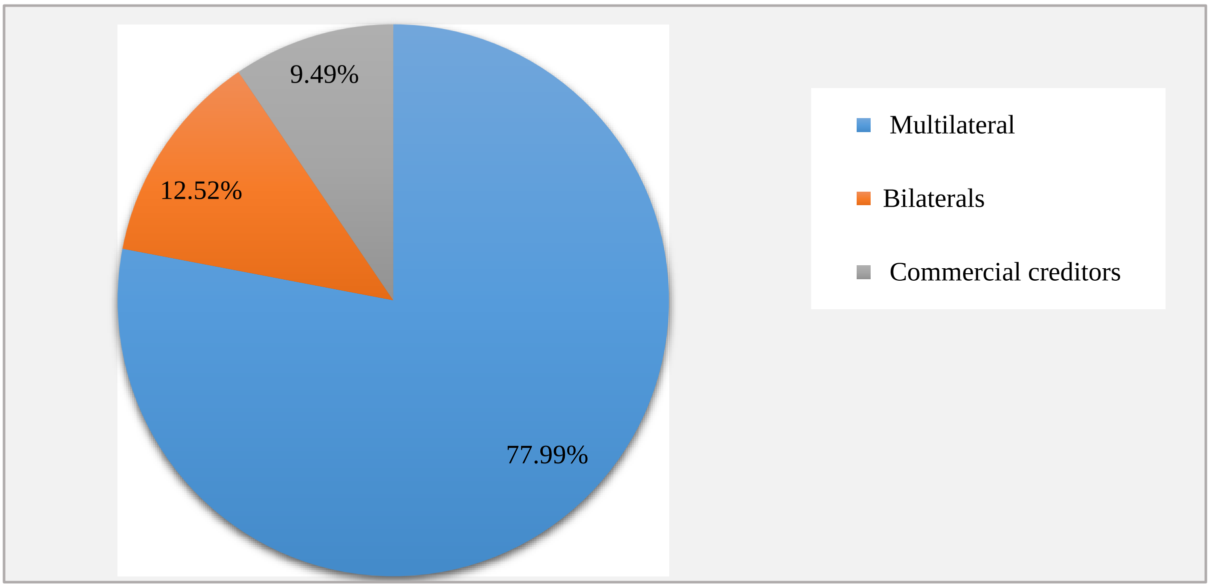
Source: BSL

3.3.4 External Debt

Sierra Leone's external debt stock as of end-2020 was estimated to be US$1,965.12mn, showing an increase of 16.16 per cent over US$1,685.20mn at the end of 2019. The external debt stock represented about 46.74 per cent of 2020 GDP.

The holders of external debt, by share by the end-December 2020 were as follows: multilateral holders (77.99 per cent), bilateral holders (12.52 per cent), and commercial creditors (9.49 per cent). Figure 10 illustrates the per cent share of the holders of Sierra Leone's stock of external debt.

Figure 22: Composition of External Debt



Data Source: Ministry of Finance

3.11. MONETARY SECTOR

3.11.1 Monetary Policy - Conduct of Monetary Policy

In 2020, the conduct of monetary policy was focused on pursuing an end-year inflation target of 14 per cent and ultimately anchoring inflationary expectations in the economy, preserving the value of the Leone through robust market-based instruments, and preserving the external reserves of the country to enhance the resilience of the economy against external and internal shocks.

3.11.2 Challenges to Monetary Policy Implementation

During the year, monetary policy implementation was challenged by the outbreak of the COVID-19 Pandemic, which poses major threats to macroeconomic and financial sector stability including inflationary and exchange rates pressures as well as tight liquidity conditions in the Money Markets.

To address the likely impact of the COVID-19 Pandemic on the Sierra Leone economy, the Monetary Policy Committee (MPC) held an emergency meeting on 18th Mach 2020 and agreed on several policy measures. These included:

1. Cutting the Monetary Policy Rate by 150 basis points from 16.50 per cent to 15.00 per cent, and adjusting the Standing Deposit and Standing Lending facilities rates downward to 12.00 per cent and 19.00 per cent respectively;
2. Creation of a Le500 billion Special Credit Facility at a concessionary interest rate to finance the production, procurement, and distribution of Essential Goods and Services;
3. Provision of foreign exchange resources to support the private sector for the importation of essential commodities; and
4. Extension of the reserve requirement maintenance period for the commercial banks from 14 days to 28 days. This measure was complemented by the active participation of the BSL in the secondary market.

The specific objectives of these measures were to mitigate the potential impact of the COVID-19 pandemic on the nation's economy, ease any tightness in liquidity in the financial market, forestall foreign exchange crisis and curtail inflationary pressures to maintain macroeconomic and financial stability in support of the general economic policy of the Government.

Furthermore, the increased inflows from the development partners (mainly the IMF and World Bank) to support the government in the fight against the COVID-19 Pandemic resulted in a significant increase in liquidity in the banking system. As a result, yields on government securities declined to record low levels since 2011. Given the implications of the falling interest rates for monetary and financial stability, the Bank undertook Reverse REPO operations supported by foreign exchange intervention, which helped to moderate liquidity developments in the banking system.

The monetary policy stance of the Bank remained eased throughout the year, with the monetary policy rate reduced from 16.50 per cent in December 2019 to 14.00 per cent in end-December

2020, while the Standing Lending Facility and Deposit Facility rates were adjusted downward to 17.00 per cent and 8.00 per cent at end-December 2020, respectively.

3.11.3 Developments in Monetary Aggregates

Developments in monetary aggregates during 2020 were expansionary, as the growth of both Broad Money supply and Reserve Money increased, relative to the growth levels recorded in 2019.

3.11.3.1. Broad Money (M2)

Broad Money (M2) growth expanded by 38.18 per cent in 2020, more than double when compared to the 14.31 per cent growth recorded in 2019. This was in part due to the increased inflows from development partners in support of the fight against the COVID-19 Pandemic, and the BSL Special Credit Facility to support the private sector. The growth in M2 was reflected in both the Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the banking system.

NFA of the banking system increased by 49.45 per cent in 2020, compared to the growth of 10.52 per cent recorded in 2019. The growth in NFA of the banking system reflected a 58.52 per cent increase in NFA of the BSL and a 47.41 per cent increase in NFA of the ODCs in 2020. The strong increase in NFA of the banking system was mainly a result of the disbursement of the BOP support by the IMF, receipt of funds from other development partners as well an increase in the Nostro accounts of the ODCs.

Similarly, the NDA of the banking system increased by 34.40 per cent in 2020, compared to the growth of 15.64 per cent recorded in 2019. This was mainly on account of an increase in bank financing of the government budget deficit by the banking system. However, growth in credit to the private sector by the ODCs moderated to 4.95 per cent in 2020, compared to the growth of 23.52 per cent recorded in 2019. This was in part explained by the high bank lending rates and increased risk aversion by the ODCs in the face of increased uncertainty in the business environment caused by the outbreak of the COVID-19 Pandemic.

Table 5: Money Supply and its Sources

Billions of Leones	2019M12	2020M12	% Change Jan-Dec 19	% Change Jan-Dec 20
Reserve money	**2,735.19**	**4,234.92**	**12.41**	**54.83**
Money supply (M2)	**8,533.02**	**11,791.28**	**14.31**	**38.18**
Narrow money (M1)	**4,005.91**	**6,004.32**	**17.49**	**49.89**
Currency outside banks	2,039.90	2,806.99	17.77	37.60
Demand deposit	1,966.00	3,197.32	17.21	62.63
Quasi money	**4,527.11**	**5,786.97**	**11.63**	**27.83**
o.w. Foreign currency deposit	2,231.01	2,797.74	7.77	25.40
Time and saving deposit	2,290.91	2,966.90	15.57	29.51
Net Foreign Asset	**2,144.43**	**3,204.76**	**10.52**	**49.45**
BSL	393.12	623.19	193.20	58.52
ODCs	1,751.32	2,581.58	(3.04)	47.41
Net Domestic Assets	**6,388.59**	**8,586.52**	**15.64**	**34.40**
Net Domestic Credit	**8,501.46**	**10,892.81**	**18.99**	**28.13**
Government (Net)	6,347.44	8,682.96	19.86	36.79
o.w BSL	2,633.69	3,557.53	0.93	35.08
ODCs	3,713.74	5,125.43	38.24	38.01
Private Sector	**2,268.66**	**2,379.92**	**22.94**	**4.90**
ODCs	2,238.15	2,349.01	23.52	4.95
Other Sectors (Net)*	(114.64)	(170.07)	(3,385.87)	48.35
Other Items (Net)	**(2,112.87)**	**(2,306.29)**	**30.41**	**9.15**
Money Multiplier	3.12	2.78		

Source: Research Department, Bank of Sierra Leone

From the liability side, the expansion in M2 reflected an increase in both Narrow Money (M1) and Quai Money. M1 grew by 49.89 per cent in 2020, due to an increase in currency outside banks by 37.60 per cent and demand deposits by 62.63 per cent. Quasi Money increased by 27.83 per cents in 2020, due to an increase in foreign currency deposits by 25.40 per cent, and time and saving deposits by 29.51 per cent.

3.11.3.2. Reserve Money (RM)

Reserve Money (RM) increased by 54.83 per cent in 2020, relative to a growth of 12.41 per cent in 2019. This was mainly driven by growth in both NFA and NDA of the Central Bank. NFA of the Central Bank grew by 58.52 per cent in 2020, a moderation when compared to the growth of 193.20 Per cent recorded in 2019. This was mainly on account of an increase in the official reserves of the Central Bank, occasioned by increased inflows from development partners to support the COVID-19 Pandemic related expenditures. NDA of the Central Bank expanded by 54.21 per cent in 2020, compared to a growth of 1.87 per cent in 2019, driven primarily by an increase in credit to the government by the Central Bank during the review period.

Table 6: Reserve Money and its components

			% Change	
	2019M12	**2020M12**	**Jan-Dec 19**	**Jan-Dec 20**
1. Net Foreign Assets	**393.12**	**623.19**	**193.20**	**58.52**
2. Net Domestic Assets	**2,342.08**	**3,611.73**	**1.87**	**54.21**
2.1 Government Borrowing (net)	2,633.70	3,557.52	0.93	35.08
o.w. 2.11 Securities	1,294.86	1,011.43	(3.78)	(21.89)
2.12 Ways and Means	192.40	213.57	155.75	11.00
2.13 GoSL/IMF Budget financing	1,294.80	2,525.22	(8.72)	95.03
3. Reserve money	**2,735.19**	**4,234.92**	**12.41**	**54.83**
o.w. 3.1 Currency issued	2,307.75	3,009.15	16.34	30.39
3.2 Bank`s reserves	422.26	1,203.08	(5.47)	184.92

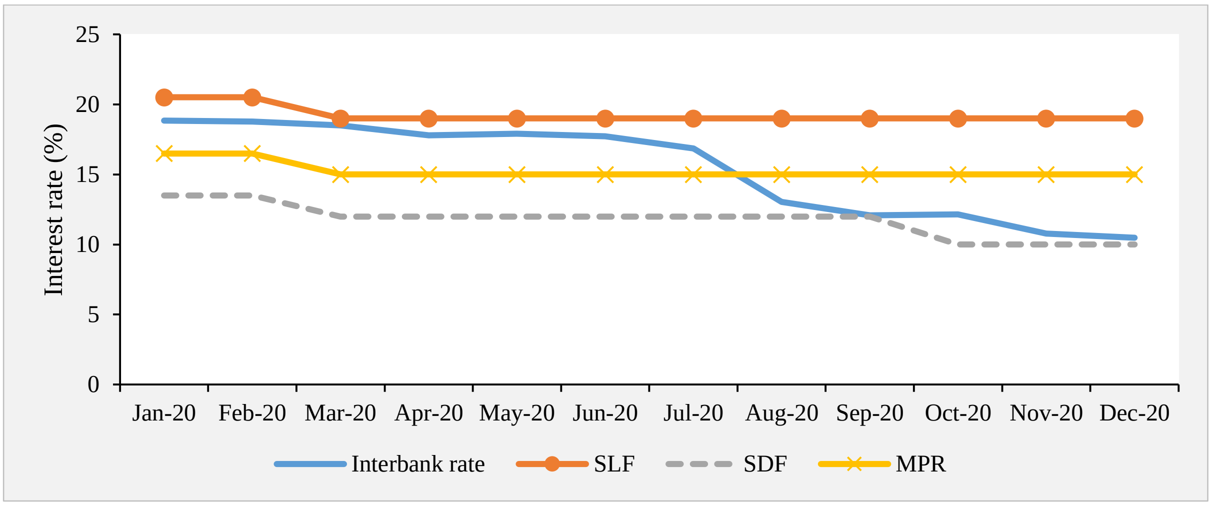
Source: Research Department, Bank of Sierra Leone

On the liabilities side, the expansion in RM reflected an increase in both banks' reserves and currency issued. Banks' reserves grew significantly by 184.92 per cent in 2020, from a contraction of 5.47 per cent in 2019, while currency issued increased by 30.39 per cent, from a growth of 16.34 Per cent in 2019.

3.11.4 Interest Rates Developments

The Monetary Policy Rate (MPR) was reduced successively from 16.50 per cent in December 2019, to 14.00 per cent in December 2020. Similarly, the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF) rates were successively reduced from 20.50 per cent and 13.50 Per cent in December 2019 to 17.00 per cent and 8.00 per cent in December 2020, respectively. Accordingly, the interbank rate declined from 18.61 per cent in December 2019, to 10.48 per cent in December 2020, but remained within the policy corridor.

Figure 23: Trends in interest rates

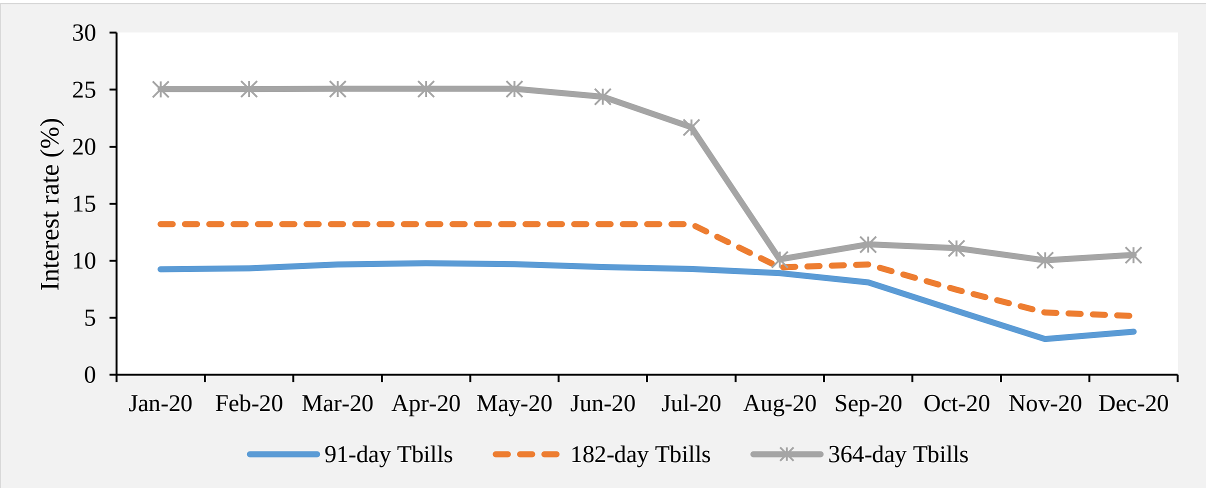


Source: Research Department, Bank of Sierra Leone

3.11.4.1. Yields on Government Treasury Bills

Yields on all tenures of government securities declined in 2020, due in part to increased liquidity in the banking system, and reduced government appetite to borrow occasioned by the increase in inflows from development partners. Accordingly, the 91-day T-bills rate declined from 8.83 per cent in December 2019 to 3.78 per cent in December 2020, while the 182-day T-bills rate decreased from 13.21 per cent to 5.17 per cent. The 364–day T-bills rate decreased from 25.05 per cent in December 2019, to 10.51 per cent in December 2020.

Figure 24: Trends in the yields of Government securities



Source: Research Department, Bank of Sierra Leone

3.11.4.2. Commercial Banks' Lending and Deposit Rates

Consistent with the increased uncertainty in the business environment brought about by the COVID-19 Pandemic, the commercial banks' average lending rate increased from 20.17 per cent in December 2019 to 21.42 per cent in December 2020. However, the average saving deposit rate decreased from 2.90 per cent in December 2019 to 2.61 per cent in December 2020.

Table 7: Interest Rates

	2018M12	2019M12	2020M12
91-day T-Bills	7.30	8.83	3.78
182-day T-Bills	8.14	13.21	5.17
364-day T-Bills	23.23	25.05	10.51
Interbank rate	16.88	18.61	10.48
Standing Lending Facility	20.50	20.50	17.00
Standing Deposit Facility	13.50	13.50	8.00
MPR	16.50	16.50	14.00
Average Lending rate	21.35	20.17	21.42
Savings deposits	2.38	2.90	2.61

Source: Research Department, BSL

3.12. EXTERNAL SECTOR DEVELOPMENTS

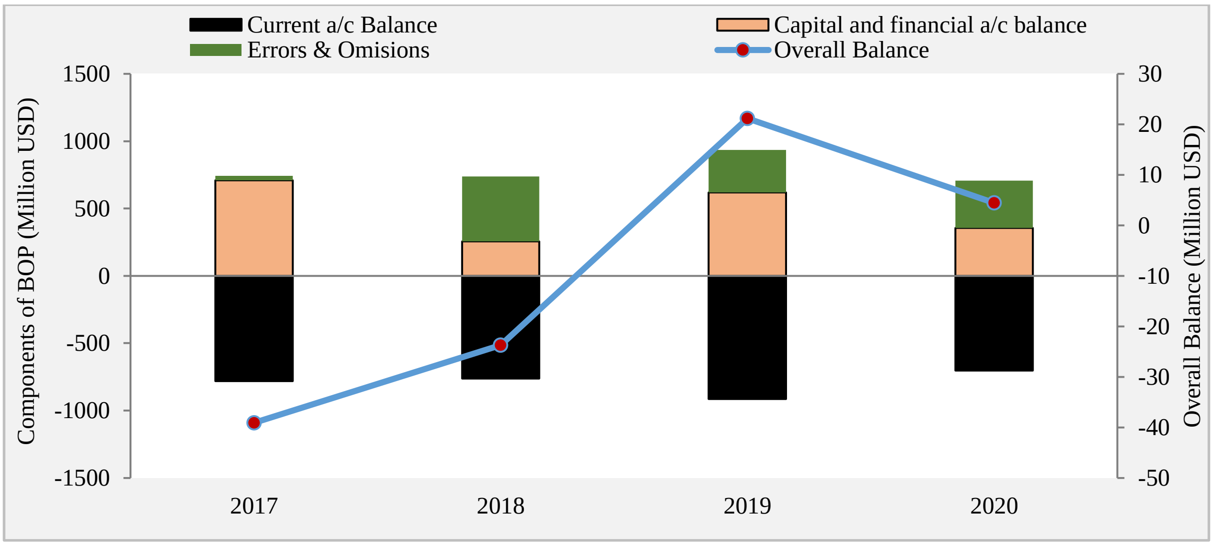
The external sector of Sierra Leone was not spared from the adverse effects of the COVID-19 pandemic in 2020. However, the prudent policy measures taken by the monetary and fiscal authorities coupled with the timely intervention of development partners including the IMF, World Bank, EU, and African Development Bank, moderated the impact of the pandemic on the sector's performance. Following this development, the country recorded a balance of payments surplus, though lower than what was recorded in 2019. The decrease in the overall surplus was largely due to net declines in the capital and financial accounts. Meanwhile, the current account improved occasioned by improvements in secondary income (current transfers) and services account, which were partly offset by the deterioration in the primary income and goods account. Gross international reserves increased significantly in 2020, relative to 2019. Despite some fluctuations, the Leone remained relatively stable against major currencies in 2020, supported by prudent policy measures by the Bank of Sierra Leone, including the provision of forex to support importers of essential commodities.

In the outlook, external sector performance is expected to improve in the medium-to-long term as global investment and demand conditions gradually recover from the devastating impact of COVID-19. Sustained strong iron ore prices could boost investment in the mining sector and increase export receipts in the Sierra Leone economy, while suppressed crude oil prices could reduce import bills. However, the lingering uncertainty in the global economy remains a major downside risk to the external sector of Sierra Leone.

3.12.1 BALANCE OF PAYMENTS

An overall balance of payments surplus of US$4.5mn (0.1 per cent of GDP) was estimated in 2020, compared to the surplus of US$21.2mn (0.5 per cent of GDP) in 2019. This development was mainly due to a net decrease in the capital and financial account, which outweighs the improvement in the current account.

Figure 25: Trends in the Balance of Payments (Million US$)

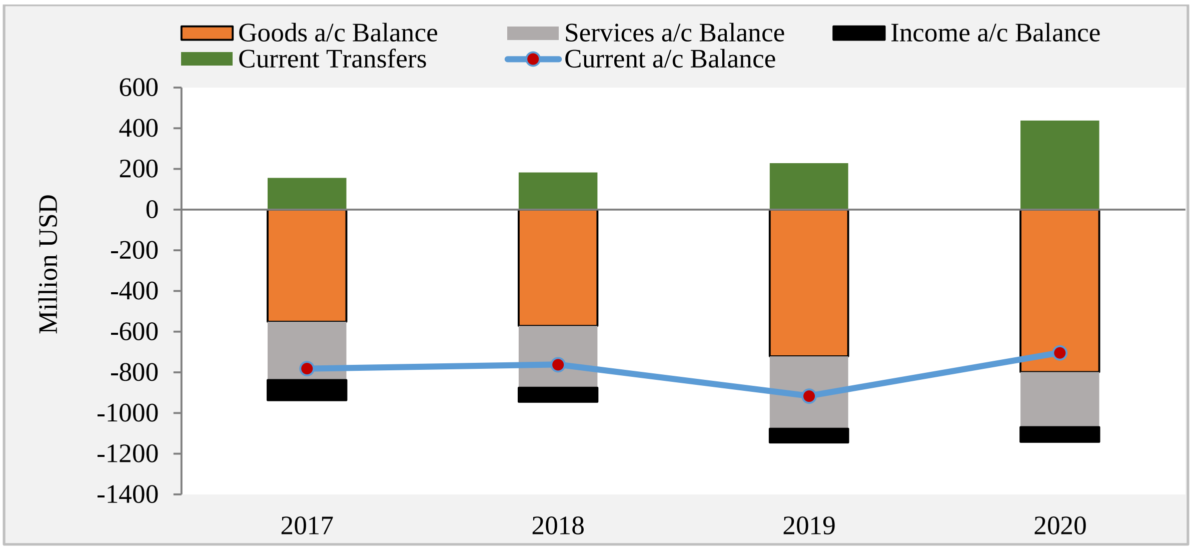


Source: Research Department, BSL

3.12.1.1. *The Current Account*

The current account deficit was estimated at US$702.8mn (16.7 per cent of GDP) in 2020, from a deficit of US$915.4mn (22.3 Per cent of GDP) in 2019. The improvement in the current account reflects improvements in secondary income (current transfers) and services account, which were partly offset by the deterioration in the primary income and goods account.

Figure 26: The Current Account

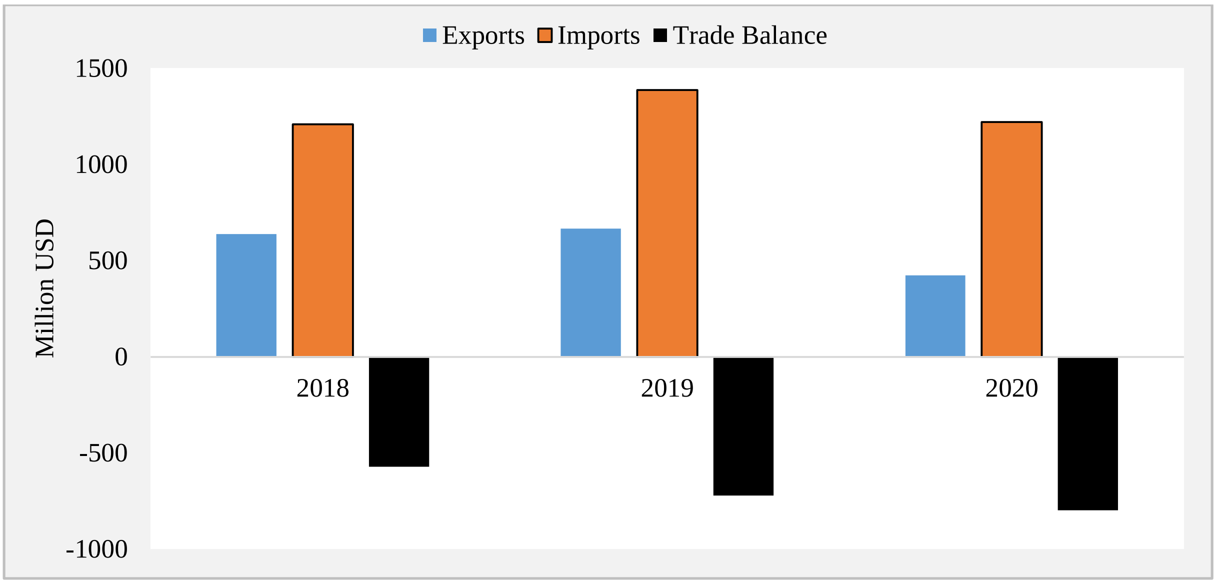


Source: Research Department, BSL

3.12.1.2. ***The goods account***

The goods account was estimated to record a higher trade deficit of US$797.7mn (14.0 Per cent of GDP) in 2020, compared to US$720.9mn (17.5 Per cent of GDP) in 2019. The increased trade deficit in 2020 was due to a large decrease in exports over the decrease in imports.

Figure 27: The goods account

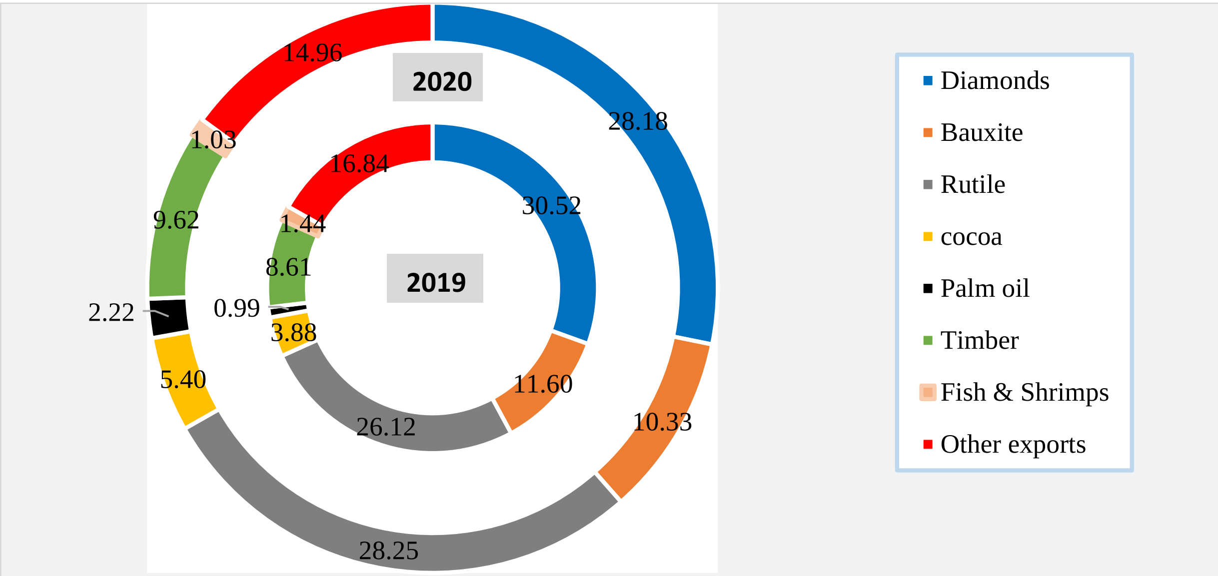


Source: NRA/Customs and BSL

3.12.1.3. Merchandise Exports

Earnings from merchandise exports were estimated at US$423.8mn in 2020, from US$667.1mn in 2019. When disaggregated, rutile, diamonds, and bauxite accounted for about 28.25 per cent, 28.18 per cent, and 10.33 per cent of total exports respectively in 2020, compared to 26.12 per cent, 30.52 per cent, and 11.60 per cent in 2019. Cocoa, palm oil, and timber accounted for 5.40 per cent, 2.22 per cent, and 9.62 per cent of total exports respectively in 2020, a contrast to 3.88 per cent, 0.99 per cent, and 8.61 per cent in 2019. Fish and shrimps also had a share of 1.03 per cent of total exports in 2020, relative to 11.6 per cent in 2019.

Figure 28: Components of exports

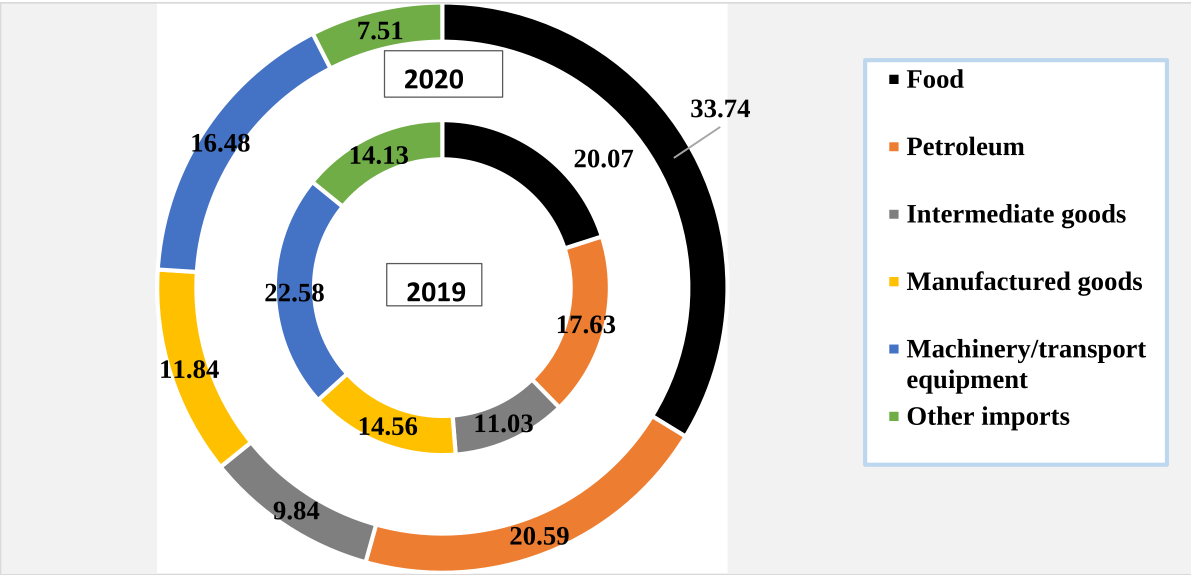


Source: BSL

3.12.1.4. *Merchandise Imports*

Total merchandise imports decreased by 12.00 per cent to US$1,221.5mn in 2020, compared to the US$1,388.0mn recorded in 2019. When disaggregated, food and petroleum products accounted for about 33.74 per cent and 20.59 per cent of total imports respectively in 2020, relative to 20.07 per cent and 17.63 per cent in 2019. Transport equipment, manufactured goods, and intermediate goods accounted for 16.48 per cent, 11.84 per cent, and 9.84 per cent of total imports in 2020, against 22.58 per cent, 14.56 per cent, and 11.03 per cent respectively in 2019.

Figure 29: Components of imports



Source: Research department BSL

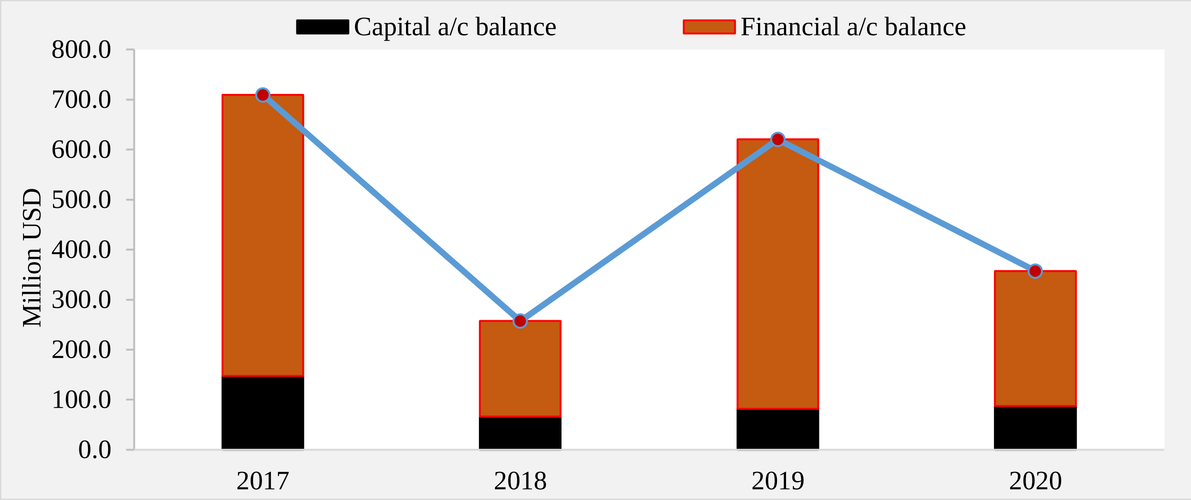
3.12.1.5. Services, Primary Income, and Secondary Income Accounts

The deficit in the services accounts decreased by 23.47 per cent to US$272.0mn in 2020, compared with US$355.4mn in 2019. This was mainly a result of decreased payments in respect of travel, freight charges, and other business services due to the COVID-19 pandemic in 2020. The deficit in the primary income account increased slightly by 3.81 per cent to US$70.9mn in 2020, relative to US$68.3mn in 2019. This development was attributed mainly to the decline in the receipt of dividends and distributed profits amidst the challenging global business environment, coupled with the increase in public debt interest, following the COVID-19 outbreak. The surplus in the secondary income account increased significantly by 91.10 per cent to US$437.7mn in 2020, from US$229.1mn in 2019, mainly on account of higher government receipts and workers' remittances.

3.12.1.5. Capital and Financial Account

The capital and financial accounts posted a net financial asset of US$357.3mn, against US$620.5mn in 2019. The capital account recorded a surplus of US$87.5mn in 2020, relative to US$81.5mn in 2019, while net financial assets decreased to US$269.8mn in 2020, compared to US$539.0mn in 2019.

Figure 30: The Capital and Financial Account



Source: Research Department, BSL

3.12.2. Gross Foreign Exchange Reserves

In end-December 2020, the stock of gross foreign exchange reserves of the Bank of Sierra Leone stood at US$708.77mn, increasing by 32.9 per cent over US$533.15mn in 2019. The increase in reserves was mainly driven by inflows from multilateral and bilateral development partners regarding the COVID-19 response. Total inflows recorded were US$440.74mn, while outflows amounted to US$276.03mn, resulting in a net inflow of US$164.69mn and a recorded revaluation gain of US$10.93mn.

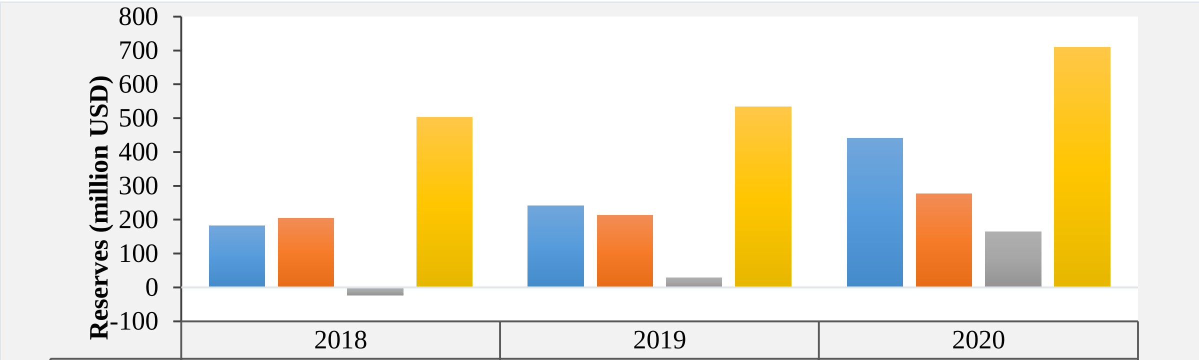
3.12.1.1. Inflows

Significant inflows included receipts from Sierra Rutile (US$26.08mn), Koidu Holdings mining company (US$7.96mn), African mineral mining company/Shandong (US$1.00mn), bauxite (US$3.95mn), other mining receipts (US$6.23mn), receipts from timber exports (US$26.93mn), fishing royalty and licenses (US$7.59mn) and diamond license fees (US$1.31mn). Other inflows included, transactions with commercial banks (US$13.0mn), privatization receipts (US$5.31mn), other government receipts (US$8.67mn), returns on BSL investment abroad (US$6.21mn), and disbursement from multilateral and bilateral development of which; IMF (US$163.88mn), World Bank (US$101.56mn), EU (29.37mn), AFDB (US$25.50mn), and IDB (2.19mn).

3.12.1.2. Outflow

Major outflows comprised the amount utilized in respect of interbank market operations (US$65.90mn), the government travel and other government outlays (US$56.90mn), the drawdown on BSL Special Credit Facility to the private sector (US$32.97mn), embassy and mission payments (US$29.07mn), various infrastructure projects (US$17.45mn), cost of currency printing and other BSL outlays (US$7.92mn), and subscription to international organizations (US$7.05mn). Other outflows consisted of debt service payments (US$58.77mn) of which; OPEC/OFID (US$7.50mn), IMF (US$6.44mn), World Bank (US$6.20mn), AfDB (US$2.48mn), EC/EIB (US$1.47mn) and others bilateral and multilateral creditors (US$33.95mn).

Figure 31: Foreign Exchange Flows and Reserves Position



	2018	2019	2020
Inflow	181.215	241.42	440.74
Outflow	204.2	212.32	276.03
Net flow	-22.985	29.1	164.71
Reserves	502.775	533.15	708.77

Source: Bank of Sierra Leone

3.12.3. Performance on the Rationalized ECOWAS Convergence Criteria

In terms of performance on the primary convergence criteria (a reference to Tables 8 and 9), Sierra Leone only met the criterion on gross foreign exchange reserves in months of imports. The country did not satisfy the criteria on inflation, fiscal deficit as a per cent of GDP, and central bank financing of the budget deficit. The deterioration of the country's performance on the primary criteria in 2020 was attributed to the adverse impact of the COVID-19 pandemic. However, the country met both secondary criteria on nominal exchange rate variation of $\pm$ 10 and public debt-to-GDP ratio threshold of $\leq$70.0 per cent.

Table 8: Status of Rationalized ECOWAS Primary Convergence Criteria, 2017-2020

Economic Indicators	Target	2017	2018	2019	2020
Inflation(End Period)	Single-digit	15.3	14.3	13.9	10.45
Inflation(annual Average)	Single-digit	18.3	16.2	14.8	13.4
Fiscal Deficit incl. grants/GDP(%)	≤ 3%	9.0	5.3	2.7	5.5
Central Bank Financing of Fiscal Deficit as % of previous year's tax revenue	≤ 10%	18.9	18.8	0.6	20.3
Gross External Reserves(in months of import cover)	≥ 3 months	3.5	3.8	3.3	5.1
Number of criteria satisfied		1	1	3	1

Table 9: Status of Rationalized ECOWAS Secondary Convergence Criteria, 2017-2020

Economic Indicators	Target	2017	2018	2019	2020
Exchange Rate Variation (average)	± 10	4.2	4.2	13.6	9.1
Public Debt/GDP(%)	≤ 70%	59.1	58.9	62.0	68.4
Number of criteria satisfied		2	2	1	2

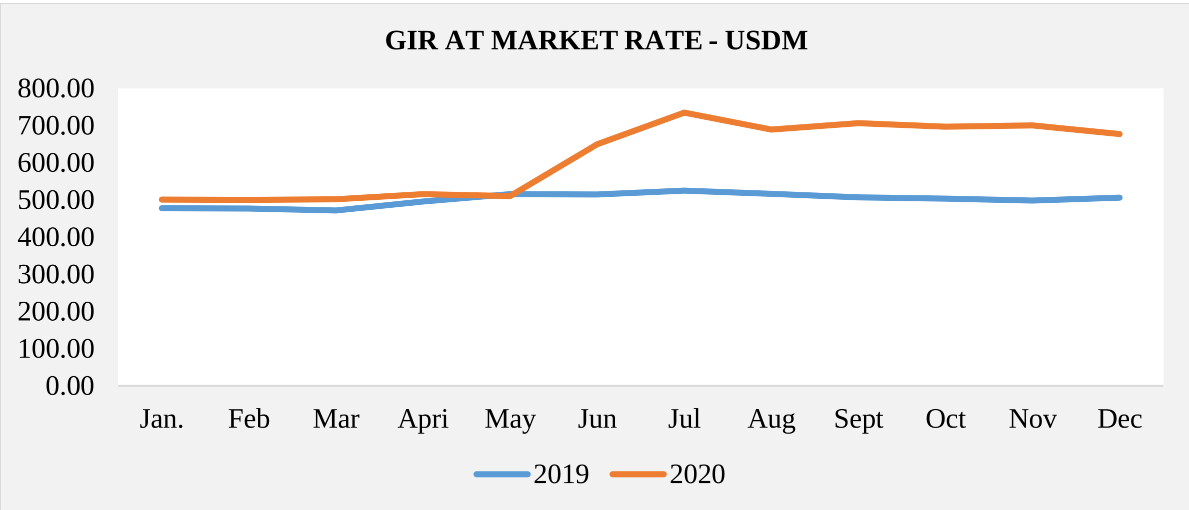
4. DEVELOPMENT IN THE FINANCIAL MARKETS

4.1. RESERVE MANAGEMENT AND INVESTMENT

4.1.1. Foreign Exchange Assets

The actual gross external reserves position of the Bank (excluding swap transactions of US$31.5m) as of the end of December 2020 was projected to increase by USD27.02million from USD506.62million in 2019. However, the stock of reserves as of the end of December 2020 stood at USD677.21million, showing an increase of USD170.59million or 33.67 per cent, equivalent to about 4.5 months of import (See Chart 1). This favourable position was largely due to un-programmed disbursements from the IMF (US$163.88m), World Bank (US$101.56m), AfDB (US$25.50m), and European Union (US$36.33m) to cushion the impact of the COVID-19 Pandemic.

Figure 32: Gross International Reserves at Market Rate – 2019 & 2020



Source: BSL

During the review period, the stock of gross reserves was supported mainly by inflows from IMF of USD163.88m (comprising budget financing and BOP support), AfDB USD25.50m, World Bank US$101.56m, and the European Union of EUR25m (USD29.37m). Receipts from exports of USD82.12m decreased by 7.19 per cent when compared to 2019 with a total export receipt of USD88.48m.

The movements in the reserves for the period under review are analyzed as follows:-

4.1.2. Inflows

Total actual inflows recorded for the period January to December 2020 amounted to USD431.53mn compared to USD232.32mn in 2019, reflecting an increase of USD199.21mn (85.75%). The performance recorded under inflows is as follows:

4.1.3. Receipts from Exports:

Receipts from exports contributed USD82.12mn (18.63%) of the total inflows of USD431.53mn. The bulk of the receipts was mainly realized from royalties and income tax of USD26.08million from Sierra Rutile and USD26.93million from Timber mining.

4.1.4. Aid Disbursement

Projected donor disbursements for the year 2020 were USD162.3mn (62.54%) of the total projected inflows of USD259.5mn. Actual receipts realized amounted to USD323.61mn, of which USD163.88mn was from the IMF (budget financing and BOP support), AfDB USD25.50mn, World Bank USD101.56mn and EU Budgetary Support of EUR25mn (US$29.37m).

4.2 Outflows

Total payment for goods and services (including debt service payments) amounted to USD271.04mn in 2020, as against an original projection of USD238.7mn. This represents an increase in expenditures by USD32.34mn or 13.55%. The increase was a result of the BSL's intervention in the foreign exchange market, which was not programmed. The bulk of expenditures during the review period was mainly on interbank market operations which account for 22.47% of total expenditures and other Government expenditures which accounts for 19.02%. Other expenditures included Embassy/Missions salaries, other Government expenditures and debt service payments. When compared with 2019, there was a 30.55 per cent increase in expenditures from USD207.62million to USD271.04million, which accounted mainly for the increase in interbank market operations.

Table 10: Breakdown of Inflows and Outflows Jan – Dec 2020 and 2019 (in USD Million)

	2019	2020
Inflows	**232.22**	**431.53**
Receipt from exports	**88.48**	**82.12**
Of which: Rutile (Sierra Rutile)	29.85	26.08
Koidu Holdings Mining Co.	6.71	7.96
Other mining Receipts	6.64	6.23
Diamond license & Exporters tax	3.98	2.24
Fishing Royalty/license	8.59	7.59
Timber Mining	25.50	26.93
Other export receipts	7.21	5.09
Other Receipts	**32.74**	**24.97**
Of which: Maritime Administration	3.08	1.76

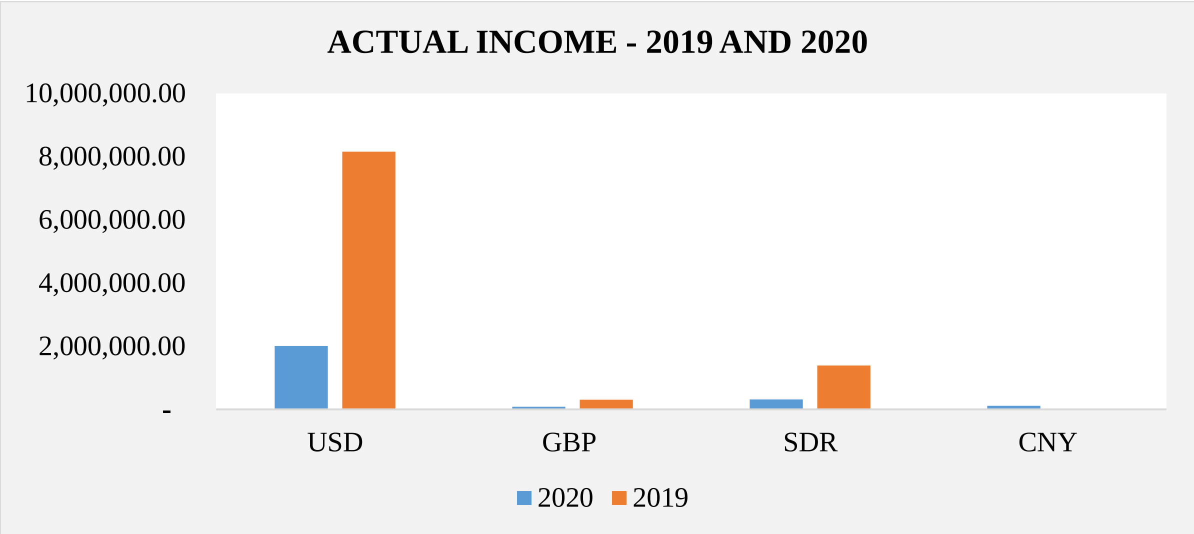
Other Govt receipts (non-tax etc…)	15.03	8.67
Others *(incl. privatisation & BSL income)*	14.63	11.54
Transactions with C/banks	0.00	3.00
Aid Disbursements/BOP support	**111.00**	**323.61**
Of which: IMF	7.70	0.00
IMF Budget Financing	13.86	163.88
AfDB (Loan/Grant)	20.97	25.50
UK/DfID (PRBS)	0.00	0.00
WB Loan/ Grants	39.67	101.56
EU (PRBS)	23.22	29.37
Others *(incl. IDB projects)*	5.58	3.30
Outflows	**207.62**	**271.04**
Payments for goods and services	**142.01**	**212.26**
Of which: Embassy/Missions	26.10	29.07
BSL (incl. currency printing)	6.75	7.92
Government Travel	9.07	4.40
Other Government Expenditures	30.98	52.50
Infrastructure projects (Road/Energy)	11.87	17.45
Subs to intl. Orgs	3.22	7.05
Interbank Market Operations	54.02	60.90
BSL SCF FX Operations	0.00	32.97
Debt Service	**65.61**	**58.78**
Of which: IMF	16.84	6.44
World Bank	4.47	6.20
AfDB	2.22	2.48
IFAD	0.52	0.72
Other Multilaterals & Bilaterals	41.56	42.94
Gross Reserves (Beginning of period)	**480.75**	**506.62**
Inflows-Outflows	24.60	159.66
Revaluation Adjustment	1.27	10.93
Gross Reserves (End period)	**506.62**	**677.21**

4.3. Investment Activities

The Bank's external investments were held in US$, GBP and SDR in compliance with the 2020 investment guidelines. During the period January to December 2020, the Bank invested in short term fixed deposits with a duration of 0-12 months, US treasury securities and overnight deposits with FRB. Returns on the Bank's investing currencies were influenced by the amount invested, the rate of interest and the duration of the investment.

The chart below shows the actual income received for the period January to December 2020 and compared it with January to December 2019. It shows actual income dropped by 74.3% in 2020 from US$9.85m to US$2.53m. This was due to the drop in interest rate on the Bank's fixed deposit investment during the period under review. Average interest rate of the USD dropped from 2% to 0.30pct, the GBP dropped from 0.60pct to 0.03pct and the SDR from 1.5pct to 0.05pct.

Figure 33: Actual Income on Foreign Investments



Source: BSL

4.4. 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 liquidity for payments of goods and services.

Table 2 shows holdings of currencies by the Bank of Sierra Leone as of the end of December 2020 and 2019. As of the end of 2020, 31.70 per cent was held in SDRs, 63.36 per cent in United States Dollars, 3.23 per cent in Pound Sterling, 0.12 per cent in Euro, 0.08 per cent in Japanese Yen and 1.51 Per cent in Chinese Reminbi.

Table 11: BSL Holdings of Currencies as at End December 2020 (excluding Swap transactions)

	Dec-20	Percent(%)	Dec-19	Percent(%)
	Mn		**Mn**	
US DOLLAR	417.53	61.65	301.65	59.54
POUND STERLING	22.91	3.38	58.83	11.61
EURO	0.76	0.11	0.36	0.07
JAPANESE YEN	0.60	0.09	0.57	0.11
CNY	10.71	1.58	0.00	-
SDR	224.70	33.19	145.19	28.67
SUB-TOTAL	**677.21**		**506.62**	
DONOR FUNDS				
US DOLLAR	0.00	0.00	0.00	0.00
TOTAL	**677.21**	**100.00**	**506.62**	**100.00**

4.4. FOREIGN EXCHANGE MANAGEMENT

The report highlights developments in the Foreign Exchange Market for the period January to December 2020, compared with the preceding year of 2019 and the likely policy challenges and actions.

In 2020, the exchange rate of the Leone broadly reflected developments in the global foreign exchange market as well as domestic demand and supply conditions, including the Bank's interventions in the foreign exchange market. The global foreign exchange market was subjected to much volatility in the wake of the outbreak of the COVID-19 pandemic which was also adversely impacted by domestic factors. The imposition of national confinement measures in April 2020 resulted in the closure of businesses as well as the national borders. Likewise, the tourism as well as the export-oriented sectors, in particular, the manufacturing sector, were severely impacted, with limited inflows of foreign exchange earnings and the ensuing influence on the domestic currency.

Despite the challenges in the review period, the Leone/US Dollar exchange rate remained relatively stable in 2020, partly due to BSL's action at dampening the effect of exchange rate movement on domestic prices. Furthermore, the increase in inflows from Development Partners to support the fight against the COVID-19 Pandemic and the foreign exchange made available under the BSL's Special Credit Facility and foreign currency outright sale transactions with commercial banks in December 2020 contributed to maintaining the relative stability in Leone–USD exchange rate.

The average mid rates of the official BSL and commercial banks' rates marginally depreciated from the end of December 2019 from Le9,692.90 and Le9,824.68 to Le10,133.90 and Le10,257.50 respectively by the end December 2020.

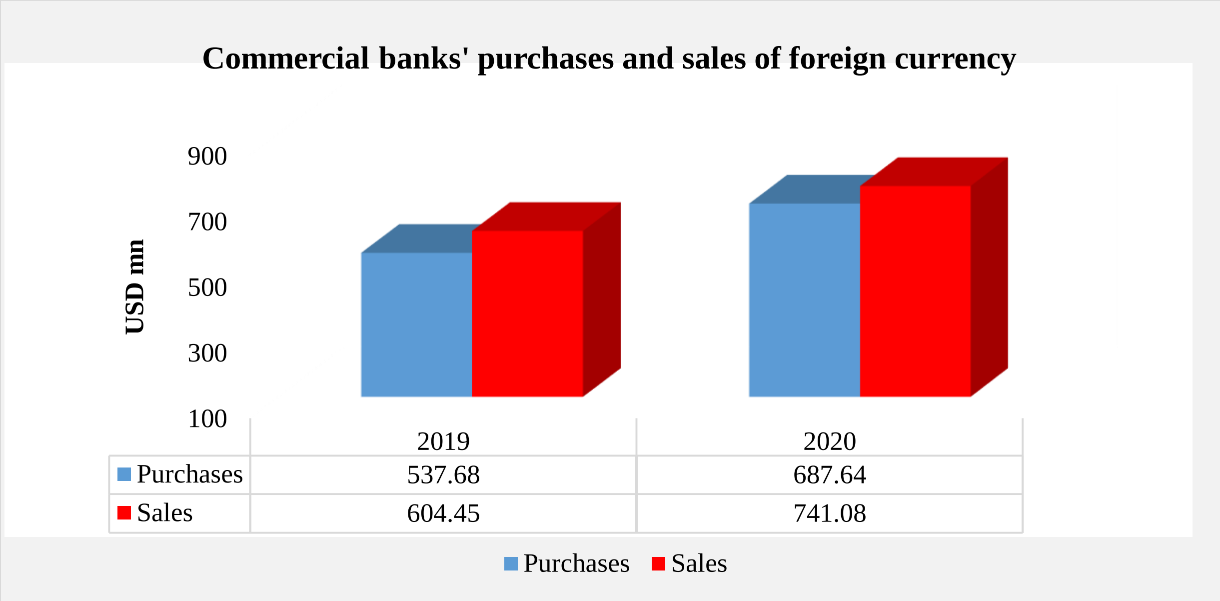
4.5. Foreign Exchange Flows

The total amount traded in the Foreign Exchange market during the period January to December 2020 was USD3.76 billion, which was 4.94 per cent higher than the total amount of US$3.56 billion traded in the preceding period of 2019. The monthly average amount traded in January-December, 2020 was USD0.31 billion whereas for the same period in 2019 it was USD0.30 billion.

4.5.1 Purchases and Sales of Forex by Commercial Banks

Total purchases for the period January to December 2020 stood at USD0.69 billion as against USD0.54 billion in 2019, indicating an increase of 27.78 per cent. The increase was largely due to purchases from the mining sector (particularly Sierra Rutile and Koidu Holdings/Octea mining), International NGOs, Bureaus' remittances, BSL outright sales and the service sector. Total sales of foreign exchange by commercial banks also increased by 23 per cent from USD0.60 billion at the end of December 2019 to USD0.74 billion as of December, 2020. The major sectors that accounted for the increase in forex sales by the commercial banks in 2020 were mainly trade-related payments and rice imports.

Figure 34: Commercial Banks’ Purchases and Sales of Foreign Currency

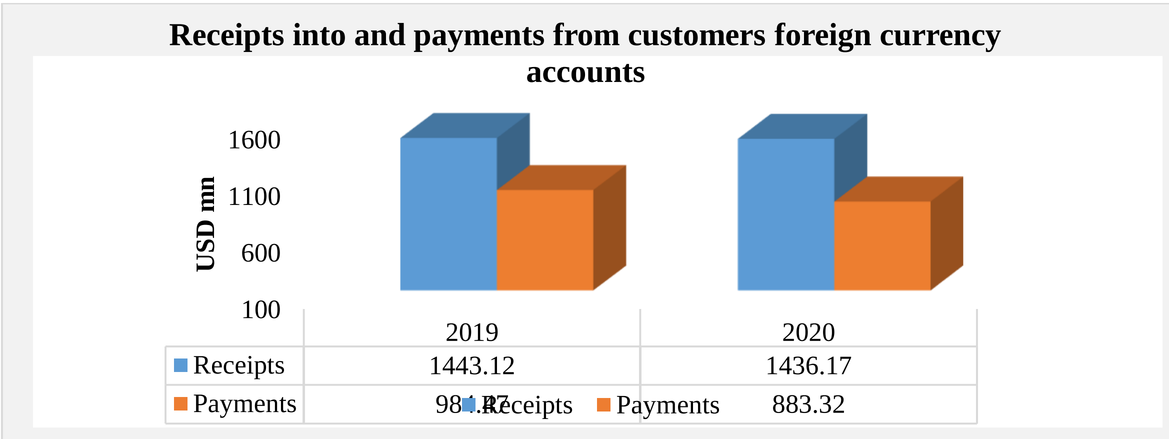


Source: BSL

4.5.2 Receipts into and Payments from Customers Foreign Currency (CFC) Accounts

Receipts into customer foreign currency account for the period January to December 2020 remained the same as the preceding period of 2019 at USD1.44 billion. This was sustained mainly by Foreign Exchange Bureaus’ remittances and BSL outright sales. Payments from customers in foreign currency account for the period January to December 2020 decreased by 10.27 per cent to USD0.88 billion compared to USD0.98 billion recorded in the same period in 2019. The payments from CFC accounts/outflows were significantly for trade-related imports and rice whilst payments by Oil Importing Companies, Telecommunication companies, diamond exporters, and Travel and Personal payments decreased slightly.

Figure 35: Receipts into and Payments from Customers’ Foreign Currency Accounts



Source: BSL

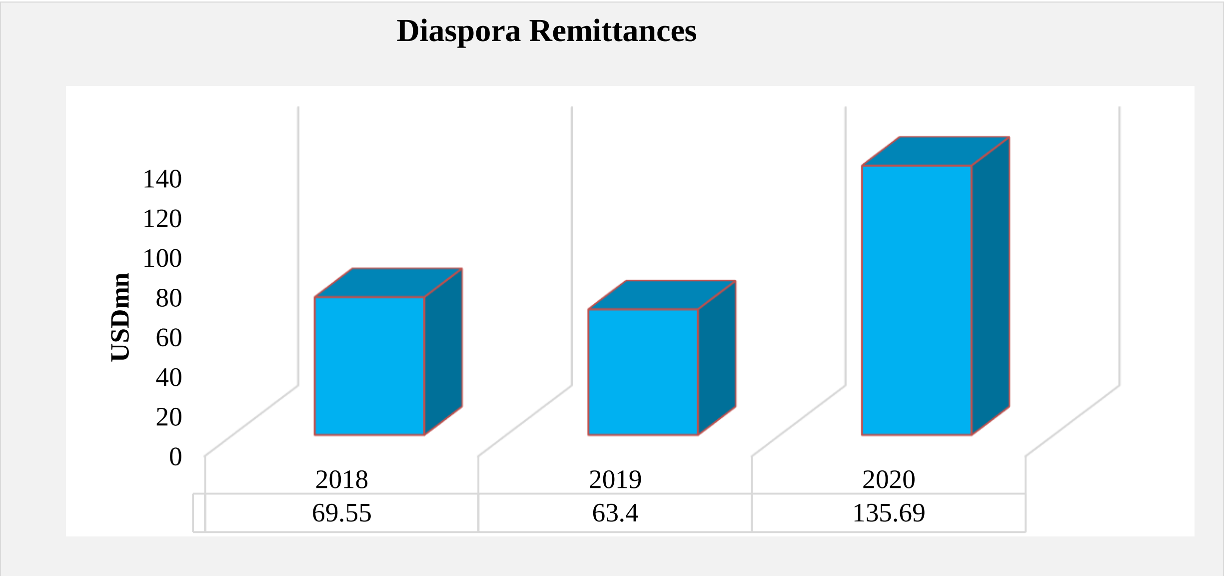
4.6. Foreign Exchange Auction

- Although the size of the Foreign Exchange Auction in terms of total foreign exchange market demand has been relatively small over the years, ranging between 5 per cent and 10 per cent, yet, the auction complements foreign exchange supply in the market and also serves as a signalling mechanism to anchor market expectations and general macroeconomic perception. The Foreign Exchange Auction also complements monetary operations and provides a means whereby the counterpart Leones realized from the disbursement of donor funds is sterilized.
- Following a slight but perennial foreign exchange demand pressure in August 2020, the Bank intervened through Wholesale Foreign Exchange Auctions to complement the supply of foreign exchange in the market.
- Three (3) Foreign Exchange Auction sessions were held in August 2020 with a total amount of USD15.00million offered, USD13.20million was demanded and USD12.80 million was supplied.

4.7. Diaspora Remittances

- Total Diaspora remittances for January to December 2020 increased by 114 per cent from USD63.4 million in 2019 to USD135.69 million.

Figure 36: Diaspora Remittances



Source: BSL

4.8. Inter Bank Transactions

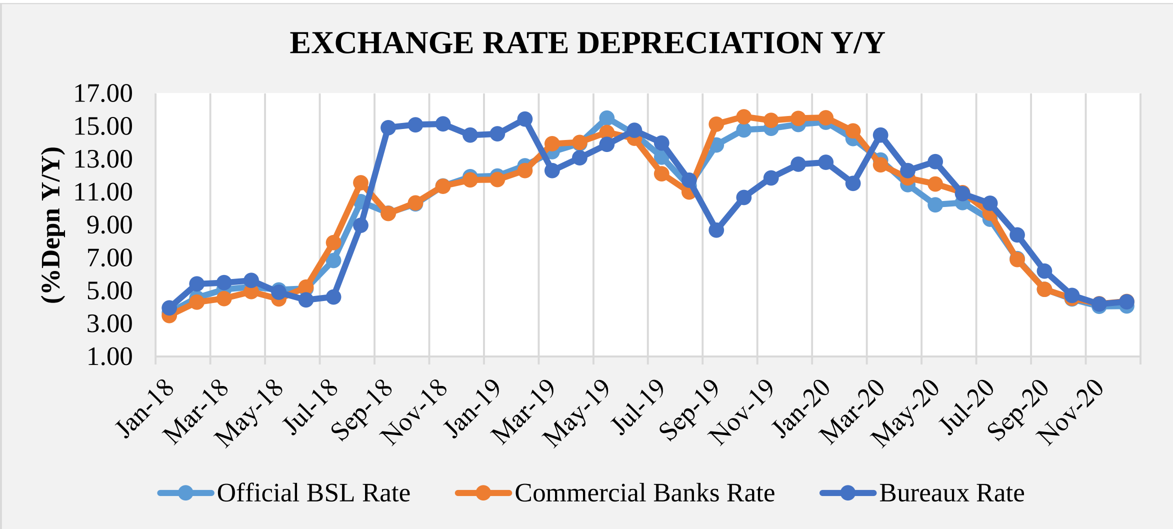
Given the low liquidity in the foreign exchange market during the review period, the total interbank transactions amounted to USD7.50million.

4.9. Foreign Exchange Rate Movements

Reflecting the developments in both the global and domestic markets, the Leone-US Dollar exchange rate remained relatively stable in 2020, partly due to the BSL's administrative measures aimed at dampening the effect of exchange rate movement on domestic prices and cash swap arrangements with commercial banks.

On a year-on-year basis, the official BSL and commercial banks' and bureaus' exchange rates marginally depreciated by 4.54 per cent and 4.41 per cent and 4.55 per cent respectively from LE/USD9,692.90, LE/USD9,824.68 and LE/USD9,748.17 in 2019 to LE/USD10,133.36, LE/USD10,257.50 and USD10,192.04 respectively in 2020.

Figure 37: Exchange Rate Depreciation (Year-on-Year)



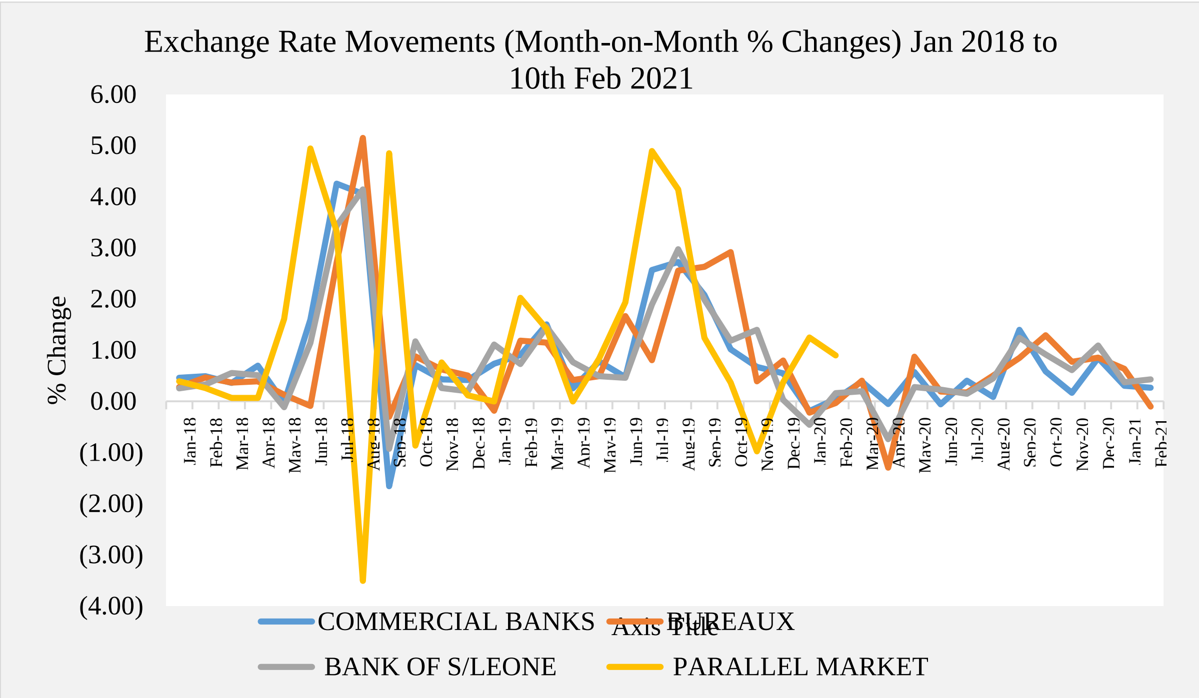
Source: BSL

On a month-by-month basis, the exchange rate of the Leone in terms of the US Dollar remained relatively stable, reflecting moderate demand and improved supply conditions in the foreign exchange market. The improved supply of foreign exchange during the quarter was on account of the large foreign exchange inflows from Development Partners to support the fight against the COVID-19 Pandemic and the BSL Special Credit Facility to support foreign exchange market liquidity for the importation, production and distribution of essential commodities in the economy.

This policy initiative alongside the outright FX sales in December 2020 boosted supply improved liquidity in the market and supported economic activities.

Consequently, the average Leone US Dollar exchange rate remained relatively stable with intermittent convergence between the official BSL rate and commercial banks rate. The average mid rates of the official BSL and commercial banks' rates marginally depreciated at the end of December 2019 from Le9,692.90 and Le9,824.68 to Le10,133.36 and Le10,257.50 respectively as at the end of December 2020.

Figure 38: Exchange Rate Movements (Month-on-Month % Changes – Jan 2018 to 10th Feb 2021

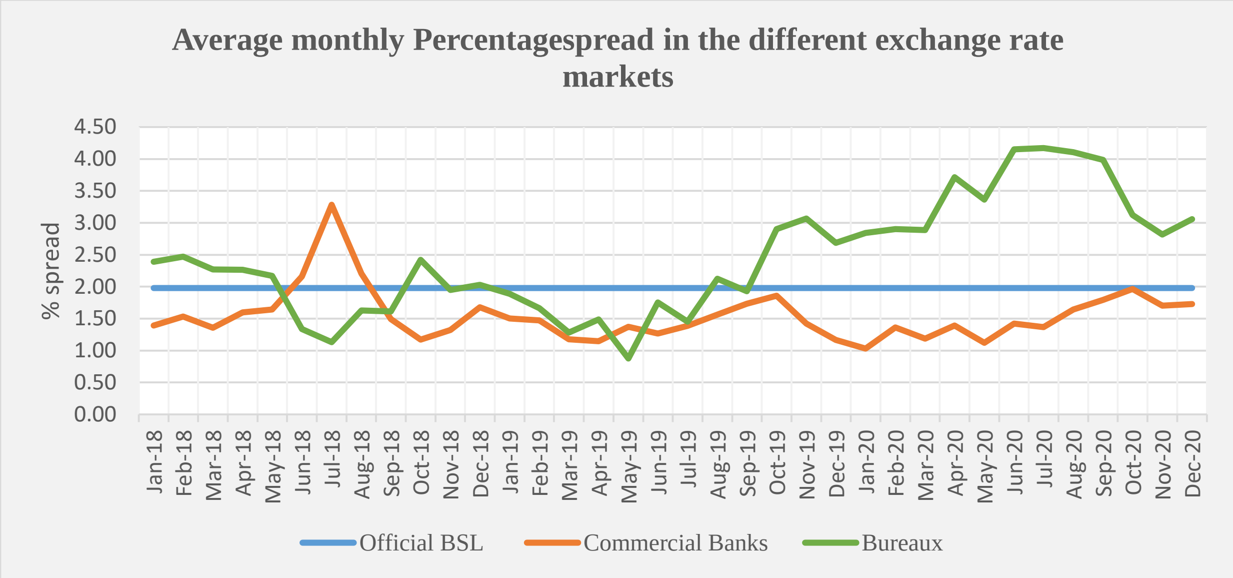


Source: BSL

4.10. Exchange rate Spread in the Various Markets

The per cent spread between the average official BSL buying and selling rates was constant at 1.98 Per cent. The per cent spread between the average commercial buying and selling narrowed and kept below the BSL 1.98 per cent rate in 2020. The bureau spread, however, widened to 4 per cent but it gradually contracted to 2.5 per cent and nearly converged with the other market segments' spread rates at the end of December 2020. The decline in a spread for the major market segments in quarter 4 (four) 2020 signalled the easing of the tightness in the foreign exchange market with its attendant stability in the market exchange rate.

Figure 39: Average Monthly per cent Spread in the Different Exchange Rates Markets



Source: BSL

4.11. Market Outlook

The stability in the foreign exchange market recorded by the Bank since 2019 may be due to the positive gains arising from the implementation of the administrative measures adopted by the Bank in line with the flexible exchange regime. The stability is expected to be sustained in the near to medium term, in line with an expected increase in public and private investments in agriculture, fisheries and tourism as part of the Government’s effort to diversify the economy. Furthermore, the resumption of iron ore export and the expansion of diamond and rutile production may increase export receipts and gross foreign exchange reserves.

The downside risk, however, is the spread and containment measures of the second wave of COVID-19 that may pose challenges of inflation of imported goods, domestic goods (including fuel), foreign exchange reserves depletion and exchange rate depreciation.

4.12. MONETARY OPERATIONS - Primary Market Auction Outcomes

During the period under review, the primary market auctions for Government Securities exhibited mixed outcomes. The 91-days and 182-days tenures were oversubscribed in the first three quarters of 2020 but undersubscribed in the fourth quarter, whilst the 364-days tenure was mostly oversubscribed in the review year. As such, the demand for government treasury bills was skewed to the 364 days tenure, with commercial banks, being the leading participants. However, the non-bank public continued to be the dominant participant in the 91-days and 182-days tenures of the treasury bills auctions.

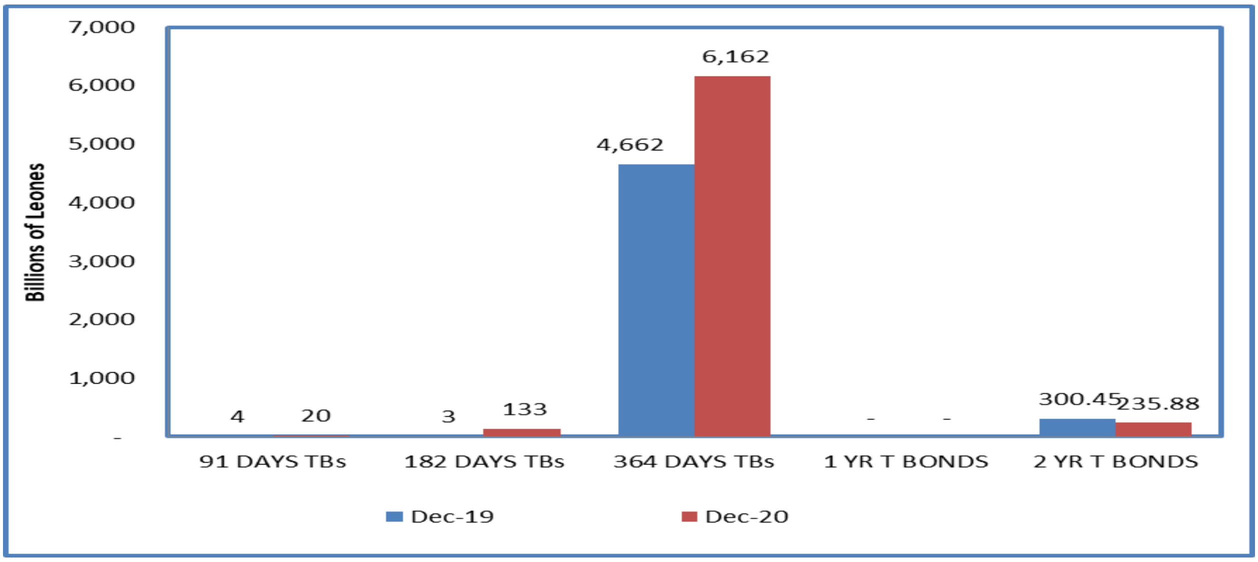
4.12.1. Stock of Government Securities

The total stock of Government securities increased by Le1,575.41bn (27.86%) from Le5,655.37bn in December 2019 to Le7,230.78bn in December 2020. Marketable securities accounted for 90.61 per cent of the total stock of government securities whilst non-marketable securities accounted for 9.39 per cent.

The stock of marketable securities increased by Le1,582.91bn (31.86%) from Le4,969.11bn as of the end of December 2019 to Le6,552.02bn as of the end of December 2020, largely on account of an increase in the 364-days T-bills. The issuance of new Treasury securities during the review period was mainly to finance the budget. Non-marketable securities declined by Le7.50bn (1.09%) from Le686.26bn as of the end of December 2019 to Le678.76bn as of the end of December, 2020, mainly due to the Le7.50bn redemption of the 10-Year amortized bond.

As of the end of December 2020, the proportion of 91-days, 182-days and 364-days treasury bills to the total marketable securities was 0.31 per cent, 2.04 per cent and 94.05 per cent respectively, while that of the 2-year treasury bond was 3.60 per cent. With regards to non-marketable securities, the 3-year, 5- year, and 10-year treasury bonds accounted for 41.92 per cent, 54.21 per cent, and 3.87 per cent respectively.

Figure 40: Stock of Marketable Government Securities by Tenure



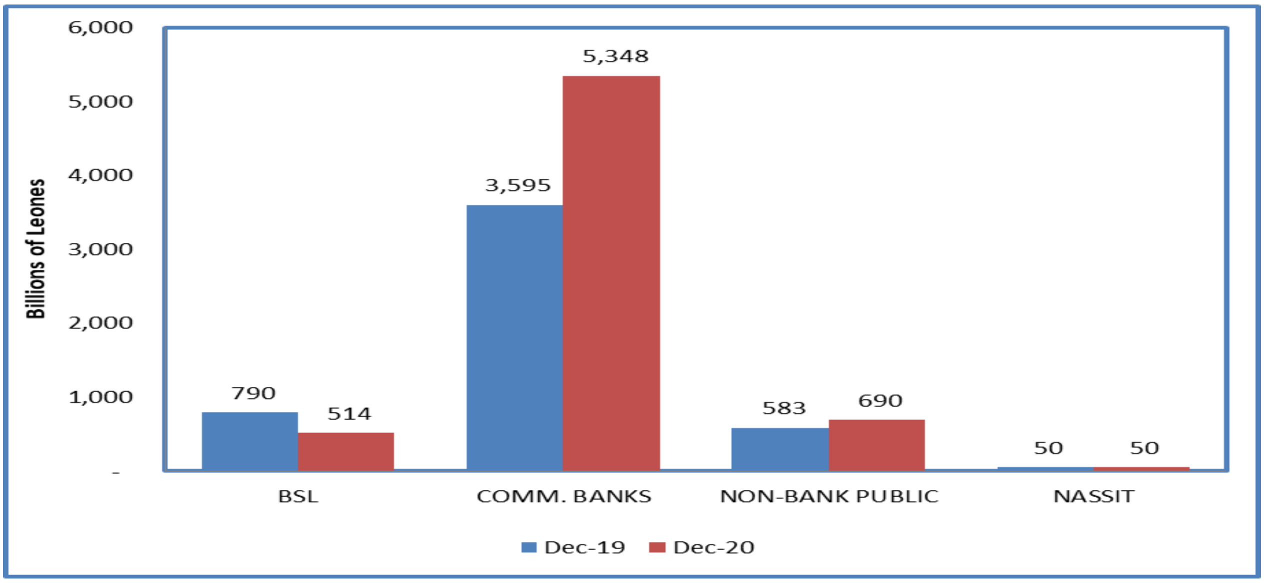
Source: BSL

4.13. Distribution of the Stock of Government Securities by Sector

The holdings of government securities continued to be dominated by commercial banks during the review year. A similar upward trend was visible in the non-bank sector whilst the BSL sector depicted a downward trend in 2020.

Commercial banks' holdings of marketable government securities increased by Le1,752.21bn (48.73%) from Le3,595.39bn end of December 2019 to Le5,347.60bn end of December 2020. Non-bank holdings of marketable government securities increased by Le106.61bn (18.27%) from Le583.45bn at the end of December 2019 to Le690.06bn at the end of December 2020. On the other hand, BSL holdings of marketable government securities decreased by Le275.91bn (34.91%) from Le790.27bn as of the end of December 2019 to Le514.36bn at the end of December 2020. This was largely because the redemption was higher than the outright purchases of treasury bills from commercial banks in 2020. The holdings of NASSIT remained the same at Le50.49bn as of the end of December 2020. Figure 2 below presents the holdings of marketable government securities by sector.

Figure 41: Holdings of Marketable Government Securities by Sector (in Billions of Leones)



Source: BSL

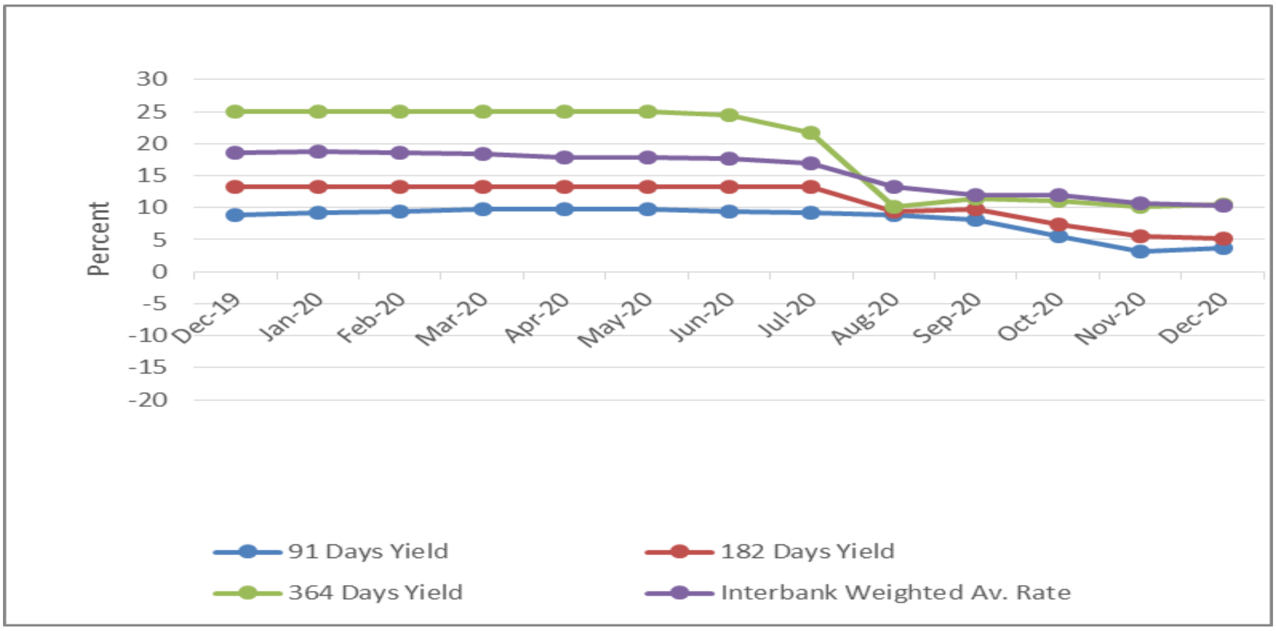
4.14. Trends in Yields of Government Securities in the Primary Market and Interbank Market

During the review period, it was observed that movement in the yields of all the tenures of treasury bills was fairly stable during the first two quarters but significantly declined in the last two quarters of 2020, hitting their lowest levels since 2015. The monthly average annual yield on the 91-days treasury bills decreased by 505 basis points from 8.83 per cent in December, 2019 to 3.78 per cent in December, 2020. The yield on the 182 days T-bills declined by 804 basis points from 13.21 per cent in December 2019 to 5.17 per cent in December 2020. Similarly, the annual yield on 364-days treasury bills decreased by 1,454 basis points from 25.05 per cent in December, 2019 to 10.51 per cent in December, 2020.

The interbank weighted average yield decreased by 832 basis points from 18.61 per cent in December, 2019 to 10.29 per cent in December, 2020.

The decrease in the rates in both the primary and interbank markets reflected the excess liquidity condition in the banking system. Figure 3 below shows the trends in yields of government securities in both the Primary and Interbank markets.

Figure 42: Trends in Yields of Government Securities in the Primary and the Interbank Market



Source: BSL

4.14. BSL Standing Facilities

Access to the BSL Standing Lending Facility (SLF) window decreased by Le7,721.17bn (90.21%) from Le8,559.17bn as of the end of December 2019 to Le838.00bn as of the end of December 2020. This was mainly due to banks' excess liquidity position, especially in Q3 and Q4 of the review period, resulting from donor disbursements for budget financing and Balance of Payments (BOP) support to reduce the economic impact of the COVID-19 Pandemic.

In the Standing Deposit Facility (SDF) window, the volume of transactions increased by Le5,006.00bn (916.84%) from Le546.00bn as of the end of December 2019 to Le5,552.00bn as at end of December 2020, depicting improved liquidity conditions in the banking system.

4.15. Secondary Market Operations

The level of intermediation in the interbank money market increased during the review period. The volume of interbank transactions decreased by Le1,657.05bn (35.39%) from Le4,682.00bn in 2019 to Le3,024.95bn in 2020.

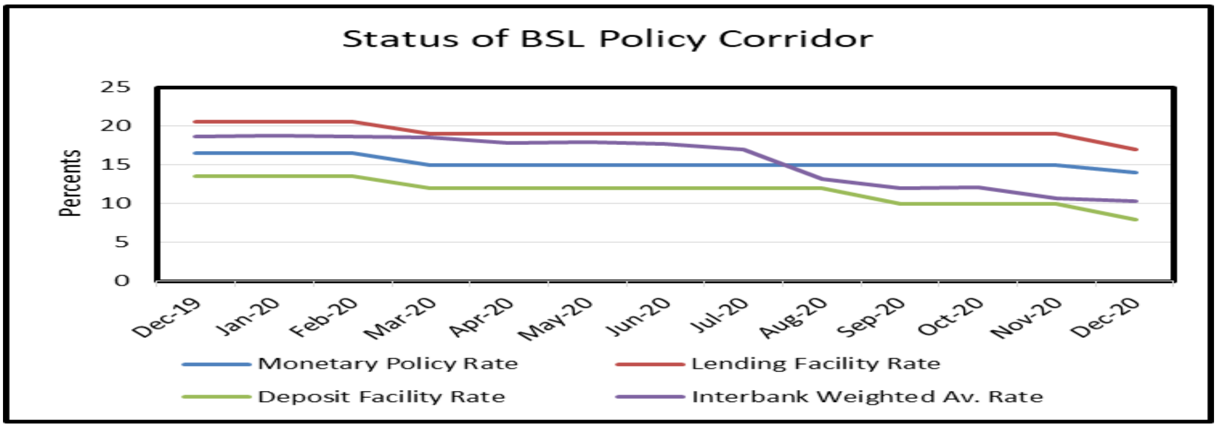
The Bank's intervention in the secondary market through outright purchases of Treasury Bills decreased during the review period. The volume of outright purchases of Treasury bills in the secondary market declined by Le230.59bn (21.54%) from Le1,070.38bn in 2019 to 839.79bn in 2020.

4.16. Policy Rate and the Status of the Interest Rate Corridor

The Monetary Policy Rate (MPR) which signals the Bank's monetary policy stance was gradually reduced by 250 basis points from 16.5 per cent in December 2019 to 14.0 per cent in December 2020. Similarly, the Standing Lending and Standing Deposit Facilities rates which also serve as corridors within which the interbank market operates were adjusted downwards from 20.5 per cent and 13.5 per cent to 17.0 per cent and 8.0 per cent respectively as at the end of December 2020.

The interbank weighted average yield stood at 10.29 per cent as of the end of December 2020, 371 basis points below the MPR, suggesting that the banking system was awash with liquidity. Albeit, the interbank rate continued to lie within the policy corridor implying improved and stable monetary policy transmission. Figure 4 below depicts the trend in BSL Policy Rates and Interbank Average Rate for the period December 2019 to December 2020.

Figure 43: Trends in BSL Policy Rates and the Interbank Weighted Average Rate



Source: BSL

Table 12: Stock of Government Securities Outstanding by Tenor and By Holder (In Millions of Leones)

STOCK OF GOVERNMENT SECURITIES OUTSTANDING BY TENOR AND BY HOLDER (IN MILLIONS OF LEONES)			
	Dec-19	**Dec-20**	**Change**
91 DAYS TBs	**3,608.65**	**20,490.80**	**16,882.15**
BSL	25.50	30.00	4.50
COMM. BANKS	-	7,462.20	7,462.20
NON-BANK PUBLIC	3,583.15	12,998.60	9,415.45
o/wNASSIT	-	-	-
182 DAYS TBs	**3,334.30**	**133,264.15**	**129,929.85**
BSL	25.00	-	(25.00)
COMM. BANKS	500.00	117,951.95	117,451.95
NON-BANK PUBLIC	2,809.30	15,312.20	12,502.90
o/wNASSIT			-
364 DAYS TBs	**4,661,717.00**	**6,162,378.70**	**1,500,661.70**
BSL	786,722.75	514,330.90	(272,391.85)
COMM. BANKS	3,338,424.60	5,026,787.70	1,688,363.10
NON-BANK PUBLIC	536,569.65	621,260.10	84,690.45
o/wNASSIT	*10,000.00*	*10,000.00*	-
2 YR T BONDS	**300,449.30**	**235,883.95**	**(64,565.35)**
BSL	3,500.00	- -	3,500.00
COMM. BANKS	256,462.30	195,396.95	(61,065.35)
NON-BANK PUBLIC	40,487.00	40,487.00	-
o/wNASSIT	*40,487.00*	*40,487.00*	-
TOTAL MARKETABLE	**4,969,109.25**	**6,552,017.60**	**1,582,908.35**
BSL	790,273.25	514,360.90	(275,912.35)
COMM. BANKS	3,595,386.90	5,347,598.80	1,752,211.90
NON-BANK PUBLIC	583,449.10	690,057.90	106,608.80
o/wNASSIT	*50,487.00*	*50,487.00*	-
3 YR T BONDS	**284,518.20**	**284,518.20**	-
BSL	143,814.20	143,814.20	-
COMM. BANKS	115,704.00	115,704.00	-
NON-BANK PUBLIC	25,000.00	25,000.00	-
o/wNASSIT	*25,000.00*	*25,000.00*	-
5 YR T BONDS	**367,989.80**	**367,989.80**	-
BSL	326,918.00	326,918.00	-
COMM. BANKS	-	-	-
NON-BANK PUBLIC	41,071.80	41,071.80	-
o/wNASSIT	*41,071.80*	*41,071.80*	-
10 YR T BONDS	**33,750.00**	**26,250.00**	**(7,500.00)**
BSL	33,750.00	26,250.00	(7,500.00)
COMM. BANKS	-	-	-
NON-BANK PUBLIC	-	-	-
o/wNASSIT	-	-	-
TOTAL NON-MARKETABLE	**686,258.00**	**678,758.00**	**(7,500.00)**
BSL	504,482.20	496,982.20	(7,500.00)
COMM. BANKS	115,704.00	115,704.00	-
NON-BANK PUBLIC	66,071.80	66,071.80	-
o/wNASSIT	*66,071.80*	*66,071.80*	-
TOTAL GOV. SECURITIES	**5,655,367.25**	**7,230,775.60**	**1,575,408.35**
BSL	1,294,755.45	1,011,343.10	(283,412.35)
COMM. BANKS	3,711,090.90	5,463,302.80	1,752,211.90
NON-BANK PUBLIC	649,520.90	756,129.70	106,608.80
o/w NASSIT	116,558.80	116,558.80	-

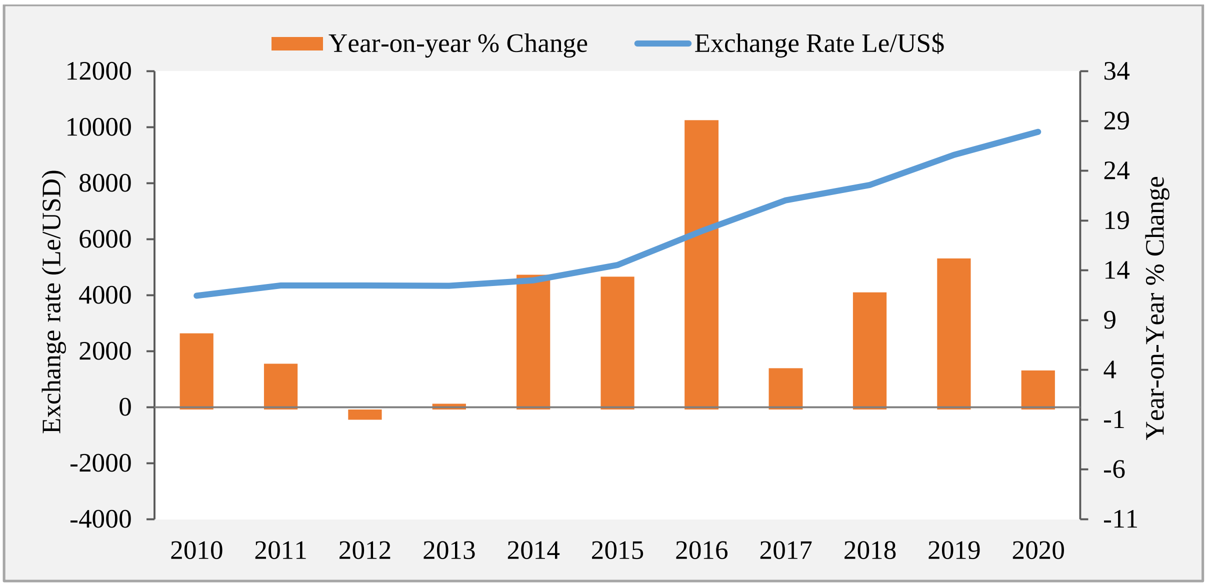
Source: BSL

4.17. Exchange Rate Developments

The Leone was relatively stable against the major currencies in 2020, on account of improved foreign exchange inflows coupled with the prudent policy measures by the Bank of Sierra Leone to sanitize the foreign exchange market. The BSL's provision of forex to the importers of essential commodities to cushion the adverse economic impact of the pandemic also serves as an additional factor for the observed stability of the exchange rate. The year-on-year (end-year) rate of depreciation of the Leone against the US dollar and British pound sterling significantly decreased to 3.9 per cent and 6.5 per cent in 2020, relative to 15.2 per cent and 19.4 per cent respectively, in 2019. However, the rate of depreciation of the Leone vis-à-vis the Euro increased slightly to 13.8 per cent in 2020, as against 12.5 per cent in 2019.

Consequently, the exchange rate of the Leone to the US$ dollar and British pound sterling averaged Le9,829.7/US$1 and Le12,614.1/US$1 in 2020, compared to Le9,008.9/US$1 and Le11.481.8/US$1 respectively, in 2019. The Leone to the Euro exchange rate averaged Le11,181.7/US$1 in 2020, relative to Le10,091.4/US$1 in 2019.

Figure 44: Nominal exchange rate of the Leone to the USD and Y-o-Y per cent change



Source: Research Department, BSL

5. FINANCIAL SECTOR DEVELOPMENTS - BANKING SUPERVISION

5.1. DEVELOPMENTS IN THE RISK-BASED SUPERVISION IMPLEMENTATION

The implementation of Risk-Based Supervision is fully on the course since its launch on 1st March 2019. The Banking Supervision Department conducted four (4) examinations in 2020 using the Risk-Based Approach despite the threat of the COVID-19 pandemic. The Bank also conducted a webinar for senior staff of commercial banks to discuss the Risk-Based Supervision Framework including the findings from previous examinations and lessons learnt.

5.2. THE SIERRA LEONE COLLATERAL REGISTRY

The Bank of Sierra Leone continues to work with the Government of Sierra Leone and the World Bank under the Sierra Leone Economic Diversification Project for the implementation of phase II of the Collateral Registry Project, which includes the drafting and enactment of a new Borrowers and Lenders Regulations, public education and awareness-raising on the collateral registry and the reconfiguration of the Collateral Registry System in line with the new Borrowers and Lenders Act, 2019. The latter would enable individuals and non-incorporated entities (entities other than financial institutions licensed by the BSL) to open an account and register security interests on the Collateral Registry Platform.

The Bank has also revised downwards the various fees charged for the use of the Sierra Leone Collateral Registry System to enable Micro, Small and Medium Enterprises to have access to credit facilities.

5.3. CREDIT REFERENCE BUREAU

The Bank of Sierra Leone continues to work with KIVA, a Silicon Valley Company to automate the Credit Reference Bureau as well as provide a unique digital ID to solve the challenges of lack of unique identification in the financial sector. The digital identity verification platform will help financial institutions address the issue of customer identification which is key for the mandatory Know Your Customer (KYC) and Customer Due Diligence (CDD). It would also serve as the unique identifier to provide access to customers' credit reports online. Due to the Corona Virus pandemic, the pilot stage of the implementation process was halted as the KIVA technicians moved out of the country. However, the Bank and the management of KIVA have agreed on a revised action plan for the completion of the assignment.

5.4. DEPOSIT PROTECTION SCHEME

The Bank is well advanced with the development of the Sierra Leone Deposit Protection Scheme (SLDPS) following the Bank of Sierra Leone’s Board approval in May 2018 for the setting up of the scheme. The Bank through the support of a Consultant provided by the US Treasury Department, developed a draft Deposit Protection Bill which will provide the legal framework and the said document has been forwarded to the Ministry of Finance to facilitate Cabinet approval and the final preparation by the Law Officers Departments (LOD), of the Attorney General’s Office before enactment by the Parliament of the Republic. Other administrative and logistical arrangements to support the scheme are well advanced.

5.5. DEVELOPMENT IN THE IFRS IMPLEMENTATION

5.5.1. Development of IFRS 9

The BSL fully implemented IFRS 9 in 2018 for all banks in the industry and had successfully issued an IFRS 9 Implementation Guideline with the support of the Office of Technical Assistance, U.S Treasury. The post-implementation team continues to assess the credit risk model used by banks to monitor the variables incorporated and the respective impact of such variables on the Expected Credit Losses (ECL) of financial institutions.

5.5.2. Development of IFRS 16

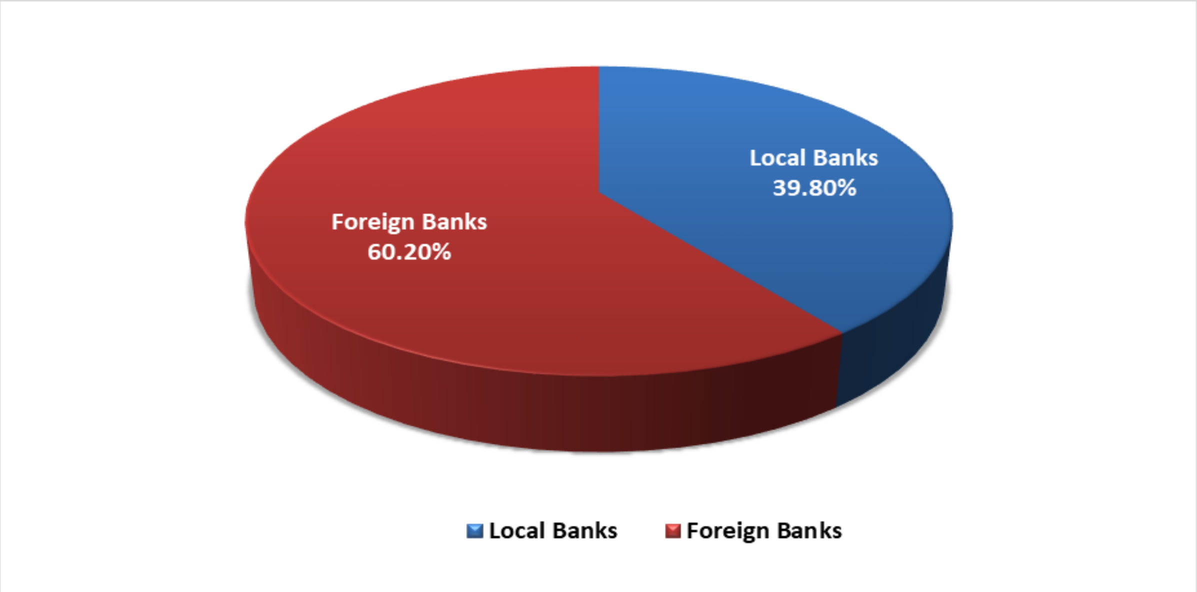
In January 2016, the International Accounting Standards Board issued IFRS 16 Leases which replaces IAS 17, IFRIC 4, SIC 15 and SIC 27. The BSL noted that banks complied with the financial reporting requirements of IFRS 16 with specific exceptions for a bank with leases of 12 months (IFRS 16:5, 6 & 8). Most banks applied IFRS 16 retrospectively from January 1, 2019. The BSL’s financial reporting review team will continue to assess the impact of IFRS 16 on regulatory capital in its Post Implementation Review (PIR).

5.6. Commercial Banks

The total number of Commercial Banks operating in Sierra Leone is fourteen (14); comprising ten (10) foreign banks and four locally-owned banks of which two are state-owned and two are privately owned.

The total assets in the banking sector stood at Le13.08trillion as of the end of December 2020. The four (4) local and ten (10) foreign-owned commercial banks accounted for 39.80% and 60.20% of the industry's total assets respectively. See the figure below.

Figure 45: ASSET BASE OF COMMERCIAL BANKS AS AT DECEMBER 2020



Source: BSL

The asset base of the banking industry increased by Le3.57trillion (37.54%) from Le9.51trillion in December 2019 to Le13.08trillion as of the end of December 2020. The growth was attributed to a Le1.67trillion (40.58%) increase in investments in treasury bills which moved from Le4.12trillion in December 2019 to Le5.79 trillion in December 2020. Investments in government securities constituted 44.28% of the industry's asset base as of 31st December 2020, increasing slightly by 0.91% from 43.37% recorded for December 2019. Other significant asset classes included Claims on other Financial Institutions, Net advances and other assets, which constituted 27.68%, 15.71% and 5.37% of total assets, respectively. All the banks, except one recorded, increased their asset base.

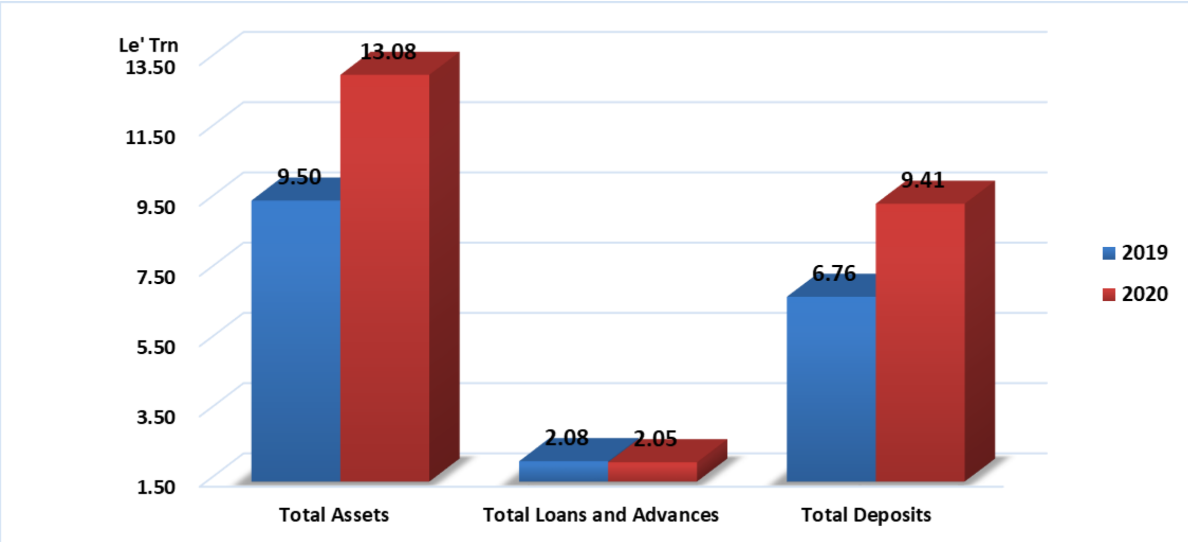
On the liabilities side, customers' deposits increased by Le2.64trillion (39.01%) from Le6.77trillion as of 31st December 2019 to Le9.41 trillion at the end of December 2020. This growth could be mainly attributed to an increase in deposit mobilization by banks through more financial services awareness campaigns, the introduction of new products, the opening of bank branches in strategic locations and POS services.

Deposits continued to account for a significant portion of total liabilities, accounting for 71.95% and 71.16%, as of the end of December 2020 and December 2019, respectively. Demand deposits formed a significant proportion of total deposits, as they accounted for 67.35% and 64.53% at the end of December 2020 and December 2019 respectively, indicating the highly volatile nature of deposits in the industry. During the period under review, savings and time deposits accounted for 25.29% and 7.36% of the total deposits liability, respectively.

Other components of liabilities as of the end of December 2020 include Shareholders' funds, other liabilities and margins against contingent liabilities, accounting for 15.66%, 7.82% and 9.96%, respectively.

5.6.1. Growth of Key Financial Indicators

Figure 46: TOTAL ASSETS, TOTAL LOANS & ADVANCES AND TOTAL DEPOSITS



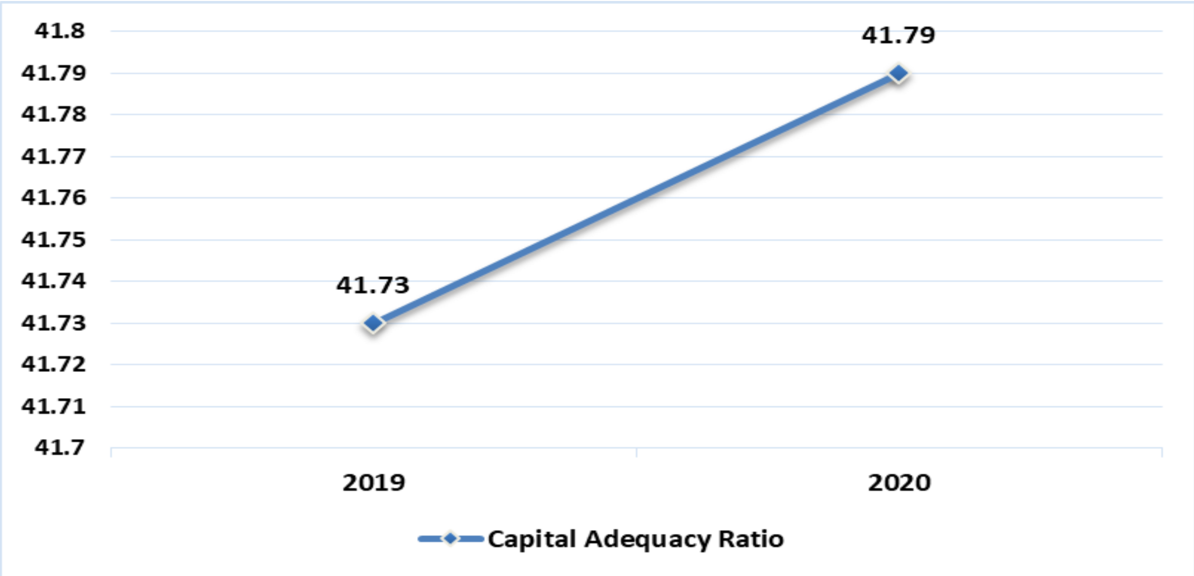
Source: BSL

5.7. CAPITAL

The issued and paid-up capital of the banking system grew by Le175.19billion (25.90%) over the year, from Le676.35billion in December 2019 to Le851.54 billion in December 2020. All the banks, except one, met the minimum paid-up capital of Le45 billion for the end of of December 2020.

The industry's CAR recorded 41.79% as at the end of December 2020, compared to 41.73% on 31st December 2019 and was above the statutory minimum of 15%. All the banks met the Capital Adequacy Ratio (CAR) of 15% except two.

Figure 47: CAPITAL ADEQUACY RATIO



Source: BSL

5.7.1. Shareholders' Funds

Shareholders' funds increased by Le529.90billion (34.91%) from Le1.52trillion as of 31st December 2018 to Le2.05 trillion as of the end of December 2020. This accounted for 15.66% of the industry's liabilities, for the review period. The shareholders' funds to deposits ratio, stood at 21.77% and 22.46% for the end of December 2020 and the end of December 2019, respectively.

5.7.2. Credit Portfolio

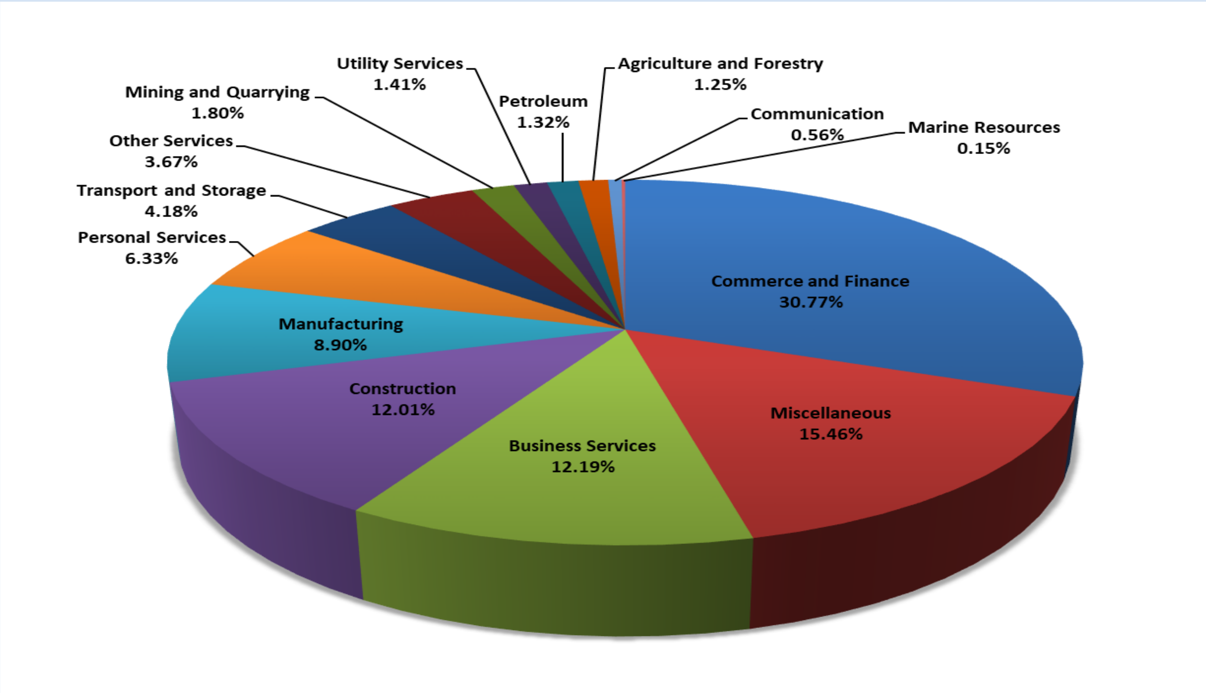
The Gross Loans and Advances portfolio increased by Le233.93billion (11.25%) from Le2.08trillion in December 2019 to Le2.31trillion in December 2020.

The slowdown of economic activities in the country and generally around the world as a result of the COVID-19 pandemic affected borrowers and different scales of businesses across the various sectors within the economy. As a result of the global pandemic, there was a need for banks to restructure some facilities for customers and also make additional provisions. Total restructured facilities of the banking system amounted to Le201.32billion and the provisioning made for these facilities amounted to Le56.87billion. The total restructured facilities accounted for 8.70% of total loans and advances for the period ending December 2020.

5.7.3. Sectoral Distribution of Loans and Advances

As of 31st December 2020, Commerce & Finance had the greatest share of the credit portfolio with Le711.81billion (30.77%), followed by miscellaneous at Le357.73billion (15.46%), Business Services with Le282billion (12.19%), Construction with Le277.75billion (12.01%), Manufacturing Le205.82billion (8.90%) and Personal Services Le146.54billion (6.33%). The remaining sectors accounted for less than five per cent of the loan portfolio as shown in the pie chart below.

Figure 48: SECTORAL DISTRIBUTION OF LOANS AND ADVANCES OF THE BANKING SYSTEM AS AT DECEMBER 2020



Source: BSL

5.7.4. Non-Performing Loans (NPLs)

The non-performing loan ratio was 12.41% as of December 2020, compared to 16.62% in December 2019. Despite the improvement, the ratio remained above the prudential limit of 10%. The decrease in the non-performing loans ratio was a result of three banks recording zero

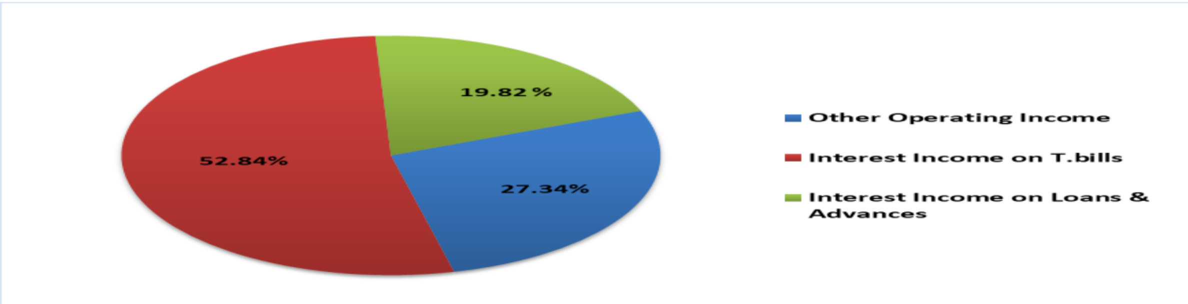
(0) NPLs. Furthermore stringent credit administration and monitoring of facilities were conducted by banks to minimize the effect of COVID-19 on their portfolios.

5.7.5. Profitability

The pre-tax profits for the sector increased by Le116.46billion (21.04%) from Le553.53 billion as of the end of December 2019 to Le669.99 billion in December 2020. Interest income continued to be the significant source of growth of revenue which increased by Le166.42billion (15.44%) from Le1.08trillion to Le1.24trillion. Other operating income also increased by Le8.61billion (1.87%) from Le459.64 billion as of December 2019 to Le468.25billion in December 2020.

For the period ended 31st December 2020, interest income which recorded Le1.24trillion accounted for (72.66%) of the industry's total income of Le1.71trillion. Interest Income includes interest on T.bills and bonds 72.72% and interest on loans & advances 27.28%. Other operating income contributed 27.34% to total income as shown in the pie chart below.

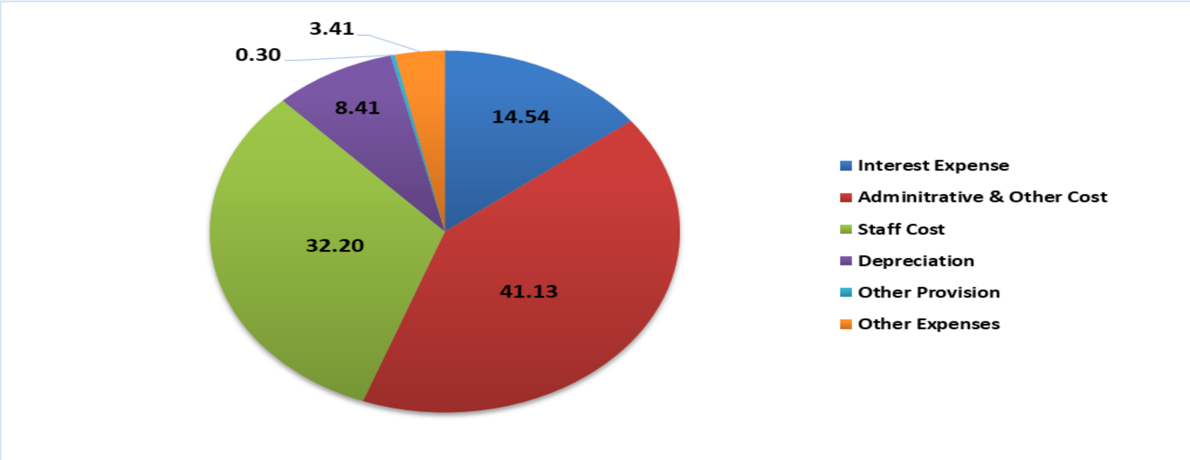
Figure 49: TOTAL INCOME OF THE BANKING SYSTEM AS AT DECEMBER 2020



Source: BSL

On the expenditure side, other operating expenses which comprise Administrative & other costs of 41.13%, Staff costs (32.20%), Depreciation (8.41%) and other provisions (0.30%) accounted for 82.05% of the industry's total expenses. While Interest expenses and other expenses accounted for 14.54% and 3.41% of total expenses for the period ended 31st December 2020 as indicated in the diagram below.

Figure 50: TOTAL EXPENSES OF THE BANKING SYSTEM AS AT DECEMBER 2020



Source: BSL

5.7.6. Liquidity

The cash reserve ratio for the end of December 2020 stood at 27.66%, compared to 17.72% registered for the end of December 2019. Both ratios were above the statutory minimum limit of 12%, recording surpluses of 15.66% and 5.72%, respectively. The industry also met the overall liquidity requirement recording 116.09% and 107.97% in December 2020 and December 2019, respectively all above the minimum prudential ratios of 31.03% and 29.74%.

5.8. Foreign Exchange Risks

The banking sector as a whole was not susceptible to foreign exchange risk as to the aggregate and single net open positions for the various single currencies were recorded at -7.52% for aggregate and USD(4.97%), GBP(-4.91%), EURO(-7.60%), all within the statutory requirements of +/-25% and +/-15 respectively. Except for five banks, all others met the statutory limits on the aggregate net open position and the single net open position for all currencies. The depreciation of the Leone against major foreign currencies was marginal and the trend is likely to continue in the short to medium term. The share of foreign currency liabilities to total liabilities was 26.27%.

5.9. Conclusion

The profitability in the banking sector is projected to maintain an upward trend for 2021. However, this might change as the impact of covid-19 starts to affect the banks in multiple ways.

Table 13: Consolidated Profit and Loss Account for the Banking Industry (unaudited) for the Period Ended 31st December 2020

	2020	2019
	Le 000	**Le 000**
Interest Income	1,244,365,998	1,077,941,207
	0	
Interest Expenses	-152,534,293	-150,546,607
	0	
Net Interest Income	1,091,831,705	927,394,600
	0	
Loan Loss Provision	-35,763,173	-33,504,704
	0	
Net Intermediation Income	1,056,068,532	893,889,896
	0	
Other Operating Income	468,245,329	459,637,785
	0	
Total Operating Income	1,524,313,862	1,353,527,681
	0	
Other Operating Expenses	-854,321,030	-799,993,453
Net Operating Income	669,992,832	553,534,228
Other Income	0	0
Profit before Tax	669,992,832	553,534,228
Taxation	-187,759,695	-171,777,325
Profit after Tax	482,233,136	381,756,903

Table 14: Consolidated Balance Sheet of the Banking System as at December 2020

ASSETS	Dec-20	Dec-19
Cash:	432,524,644	432,611,089
Claims On Financial Institution	3,619,917,877	2,220,816,186
Investment:	5,790,472,704	4,118,883,549
Net Advances:	2,054,687,600	1,806,015,255
Other Assets	701,766,925	544,818,238
Fixed Asset :	470,591,460	373,837,732
Intangible Assets	5,693,195	916861
Total Assets	**13,075,654,406**	**9,497,898,910**
LIABILITIES		
Issued & paid -up	851,538,218	676,347,546
Statutory Reserve	436,089,179	360,089,743
Revaluation Reserve	41,299,851	41,299,859
General Reserve	4,853,281	65,980
Other Reserves	59,588,970	95,083,917
Purchase of Shares	29,656,780	1,052,116
Proposed Dividend		
Retained earnings	125,362,020	-37,669,170
Current	499,543,136	381,756,903
Perpetual Surbordinated Term debt	5,064,172	0
Short Term Borrowings	147,992,910	269,066,199
Long Term Borrowings		122,555,880
Takings and other financial Instruments	105,921,763	57,795,372
Balances due to Financial Institutions	2,845,310	4,379,491
Deposit:- Financial Institution:		0
Local Deposits	6,269,243,262	4,255,553,696
Foreign Deosit	3,138,729,481	2,503,076,239
Special Deposit	234,195,858	171,826,391
Margins Against Contingent Liabs.-	101,785,613	282,673,000
Other Liabilities:	1,021,944,601	312,945,748
Total Liabilities	**13,075,654,406**	**9,497,898,910**

Table 15: Key Financial Soundness Indicators as at December 2020

INDICATORS	Dec-20	Dec-19
CAPITAL ADEQUACY	**%**	**%**
Regulatory capital to risk-weighted assets (%)	41.79	41.73
Primary capital to risk-weighted assets (%)	34.91	33.91
Capital (net-worth) to assets (%)	15.66	15.98
ASSET QUALITY & COMPOSITION		
Non- Performing Loans as a % of Total Advances	12.41	16.62
Loan Loss Provisions as a % of Non - Performing	60.31	71.89
PROFITABILITY AND EFFICIENCY		
Return on Assets	5.27%	6.11%
Return on Equity Funds	23.66%	27.25%
Net Interest Spread	13.11%	12.56%
Expense to income ratio	60.88%	68.28%
LIQUIDITY		
Cash Ratio	27.66	17.59
Overall Liquidity Ratio	116.09	67.91
SENSITIVITY TO MARKET RISKS		
Percent of aggregate Net Open position to capital Base	-7.52%	-1.75%
Percent of the single currency (USD) open position to capital base (%)	4.97%	-4.66%
Percent of the single currency (GBP) open position to capital base (%)	-4.91%	2.30%
Per centof single currency (EURO) open position to capital base (%)	-7.60%	0.60%

Table 16: Account holders in the Banking system as at 31st December 2020

TYPE OF ACCOUNT	SCB	RCB	SLCB	UTB	GTB	FIB	FBN	ECO	AB	UBA	SKYE	ZEN	KSB	CMB	BANKING SYSTEM
Current - Domestic	1,371	18,654	115,718	10,121	26,989	23,455	2,540	14,608	4,970	21,375	2,424	10,498	4,186	3,336	260,245
Foreign	1,513	6,249	10,098	1,964	11,821	1,514	2,100	4,420	1,736	7,002	0	0	1,509	1128	51,054
Savings: Domestic	11,331	147,585	255,773	92,945	170,450	69,489	4,568	39,589	19,579	77,252	5,170	29,072	23,855	4,489	951,147
Foreign	0	0	0	0	286	1,341	20	1394	0	0	2,659	6,514	0	0	12,214
Time - Domestic	53	357	1,419	75	708	31	350	2838	14	41	15	167	8	24	6,100
Foreign	0	0	0	0	0	0	0	20	0	3	0	0	0	0	23
Total	14,268	172,845	383,008	105,105	210,254	95,830	9,578	62,869	26,299	105,673	10,268	46,251	29,558	8,977	1,280,783

Table 17: Number of Commercial Bank Branches as of the 31st December 2020

BANK	No. of Branches 2018	No. of Branches 2019	F/T	W/loo	Bo	Moyamba	Puj	Njala	Ken	Kono	Kailahun	Makeni	Magburaka	Lunsar	Lungi	Mile 91	Pepel	Bumbuna	Port Loko	Kabala	Kambia	Total
RCB	12	12	8		1	1	1		1	1	1	1										15
SLCB	13	13	5	1	1	1		1	1	1		1							1			13
SCB	4	4	2		1							1										4
UTB	12	12	3		1			1	1	1		1	1	1		1				1	1	13
GTB	15	15	7		1				1	1		1		1	1		1	1				15
FIB	17	17	9	1	1				1	1	1	1	1		1				1			18
FBN	2	2	2																			2
ECO	10	10	4	1	1				1	1		1		1								10
ACCESS	4	4	3		1							1			1							6
UBA	8	8	6		1							1										8
SKYE	3	3	4																			4
ZENITH	5	5	5		1				1					1								8
KEYSTONE	3	3	3																			3
CMB	1	1	1																			1
Total Number of Prov. Branches																						0
Grand Total	109	109	**62**	**3**	**10**	**2**	**1**	**2**	**7**	**6**	**2**	**9**	**2**	**4**	**3**	**1**	**1**	**1**	**2**	**1**	**1**	**120**

6. OTHER FINANCIAL INSTITUTIONS

6.1 INTRODUCTION/BACKGROUND

The Other Financial Institutions (OFI) sector in Sierra Leone comprises Community Banks (CBs), Financial Services Associations (FSAs), Microfinance Institutions (MFIs), Discount Houses (DHs), Leasing Companies, Savings and Loans Institutions, Foreign Exchange Bureaux, Mobile Money Operators, Mortgage and Savings Institutions, Cooperative Societies, etc. This report covers financial institutions licensed by the Bank of Sierra Leone under the Other Financial Services Act, 2001 that submitted returns for the period under review which include, four (4) Deposit-taking MFIs (DTMFIs), eighteen (18) Credit-Only MFIs, Seventeen (17) Community Banks (CBs), two (2) Discount Houses, twenty-nine (29) Foreign Exchange Bureaux and three (3) Mobile Money Operators.

This report assesses selected indicators of licensed OFIs that operated in Sierra Leone at end of December 2020. The indicators considered in this report are; Capital and Asset base for CBs, DTMFIs, and DHs; Loan portfolio report for CBs, DTMFIs, COMFIs; PaR for CBs, DTMFIs, and COMFIs; Portfolio to Assets of CBs, DTMFIs and COMFIs Liquidity for CBs, DTMFIs, and DHs; Profitability for CBs, DTMFIs, COMFIs, and DHs; Purchases and Sales of major foreign currencies by Foreign Exchange Bureaux and the transactions and other variables of Mobile Money Network Operators.

The performance of the sector is said to be satisfactory. However, the Portfolio at Risk (PaR) of most MFIs and CBs and the minimum paid-up capital requirement for CBs continue to be a major challenge in the financial system. The Portfolio at Risk (PaR) for both the CBs and MFIs is above the tolerable limit of 4.8% set by the Microfinance and Information Exchange (MIX) standard.

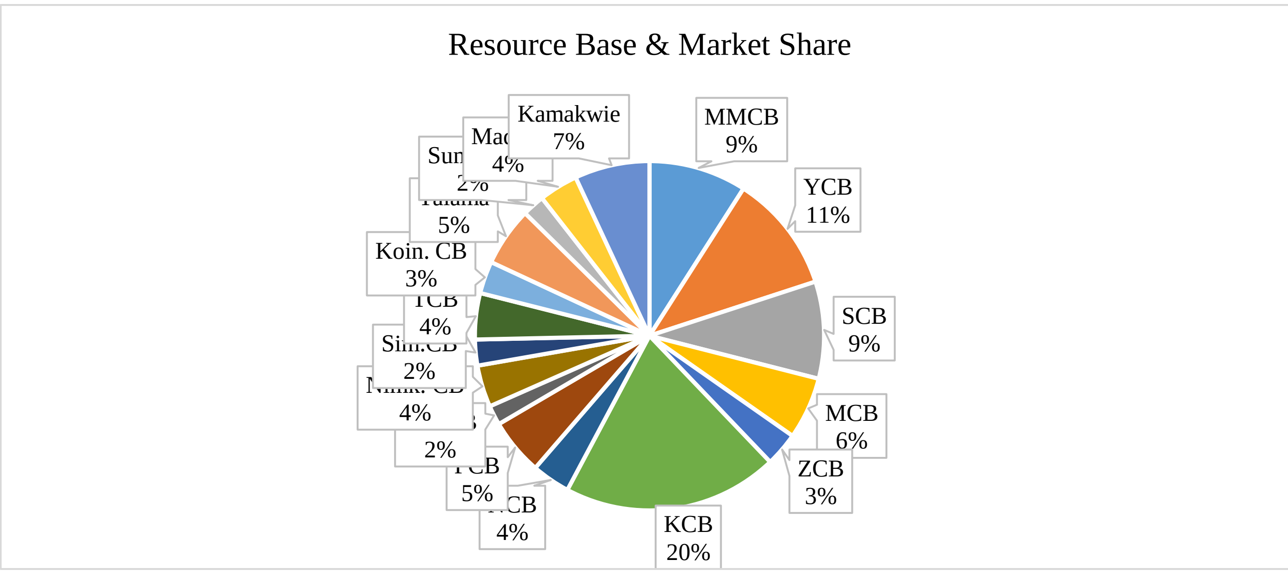
6.2 COMMUNITY BANKS

There are seventeen (17) community banks in the financial system, with a cumulative resource base of Le110.34 billion and a loan portfolio of Le71.12 billion as of 31st December 2020. The community banking system recorded a loss of (-55.92%) from Le7.00 billion in December 2019 to Le3.09 billion in December 2020. PaR continues to be a challenge as the financial system recorded a PAR of 27.61% above the tolerable limit of 4.8%.

6.3 Financial Condition

Analysis revealed that the growth in the resource base of Community Banks is impressive as it developed progressively over the year. The resource base increased by 9.71% (Le 9.77 billion) from the previous quarter and 22.27% (Le 20.10 billion) yearly.

Figure 51: Composition of the resource base of community banks



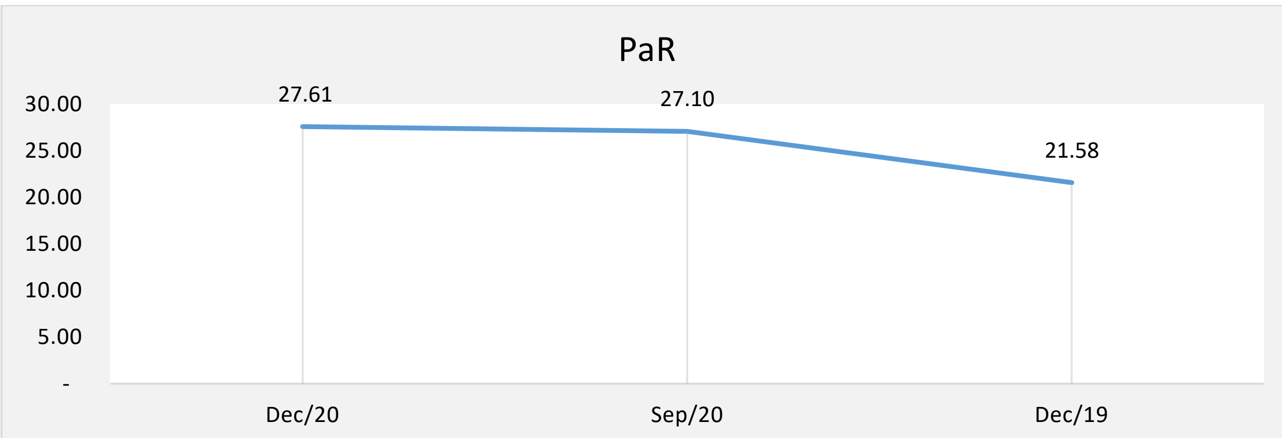
Source: BSL

The increase in the resource base can be attributed to the increases in deposits from Le42.93 billion recorded in December 2019 to Le57.80 billion in December 2020 whilst paid-up capital increased by Le3.07 billion (39.21%) from Le7.82 billion in December 2019 to Le10.87 billion in December 2020. This was reflected in cash and bank balances and gross loan portfolio which increased by 124.59% and 7.78% respectively.

6.4 Asset Quality

The gross loan portfolio stood at Le71.12 billion at end of December 2020, revealing an increase of 7.78% (Le5.13bn) from Le65.99 billion recorded in December 2019. PaR of 27.61% was recorded in the review period from 21.58% recorded as of December 2019. All community banks failed to meet the minimum mix standard of 4.8%. See the trend below:

Figure 52: PaR trend



Source: BSL

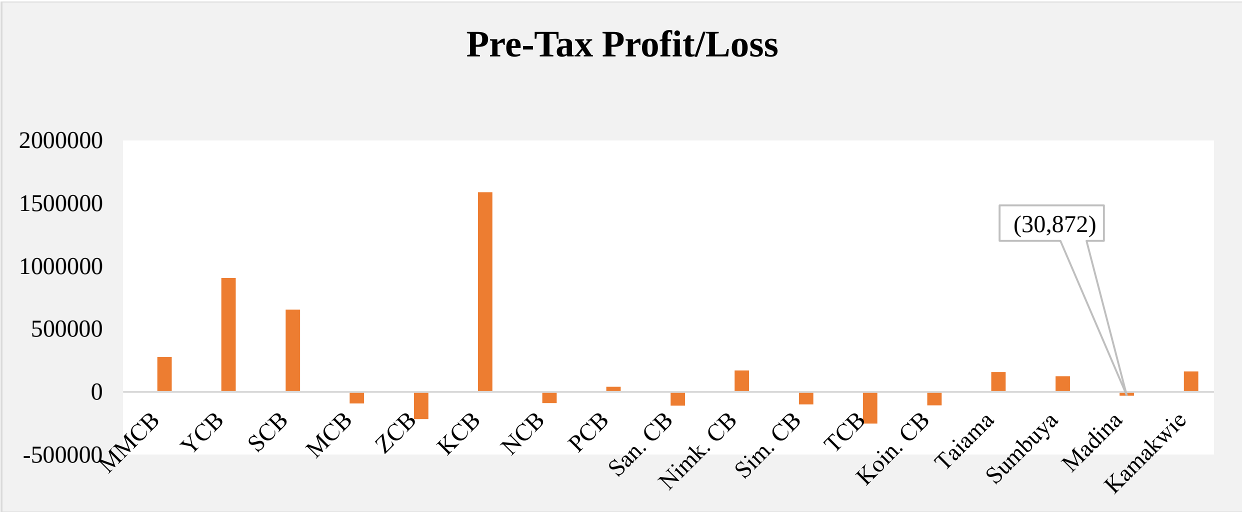
This is an indication of poor asset quality in the Community Banking system which might be a result of the current economic crisis, poor underwriting, poor recovery strategies, and reluctance from customers to honour their obligations. This also implies that the loan portfolios of these community banks are at high risk and there is potential for future losses.

6.5 Earnings

6.5.1 Profitability & Sustainability

The pre-tax profit of the community banking system stood at Le3.09 billion in the review period, which shows a 55.92% decrease in performance from that recorded in December 2019 (Le7.00bn). The chart below shows pre-tax profit/losses recorded by these CBs over the period.

Figure 53: Profit Analysis



Source: BSL

The performance of the community banking system is unsatisfactory as nine community Banks recorded profit whilst eight recorded losses.

6.5.1.1. Operational Self Sufficiency (OSS)

The industry average OSS in the review period stood at 57.88% a decrease of 53.31% from 111.20% recorded in December 2019 and below the MIX standard of 112%. All the community banks failed to meet the MIX standard during the period under review. This indicates that community banks could not generate enough revenue to cover their expenses.

6.5.1.2. Return on Assets (ROA)

The industry average ROA was 2.80% above the MIX Standard of 2.1% for Community Banks. This signifies that the industry is utilizing its assets well to generate more revenue.

However, eight out of seventeen banks met the ROA mix standard, and nine recorded below the minimum requirement.

6.5.1.3. Return on Equity (ROE)

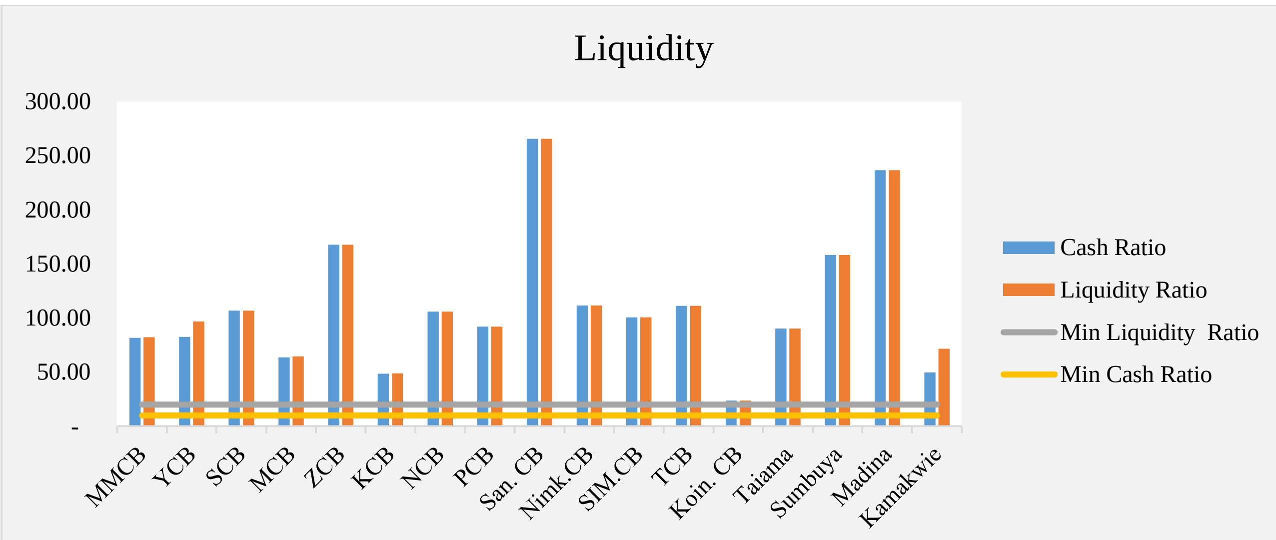
The industry average ROE was 5.87% below the minimum MIX level of 13.6%. Three Community Banks recorded an ROE above the industry average during the period.

6.5.1.4. Portfolio at Risk (PaR>30 days)
The Community Bank industry recorded a Portfolio at Risk of 27.61% in the review period from 21.58% recorded in December 2019. The PaR continues to be a challenge as all community banks failed to meet the Mix Standard of 4.8%.

6.6 Liquidity

The industry's actual liquidity ratio in December 2020 was 81.33% above the minimum required ratio of 20%. More details are shown in the figure below for both cash and liquidity ratios.

Figure 54: Liquidity Ratio

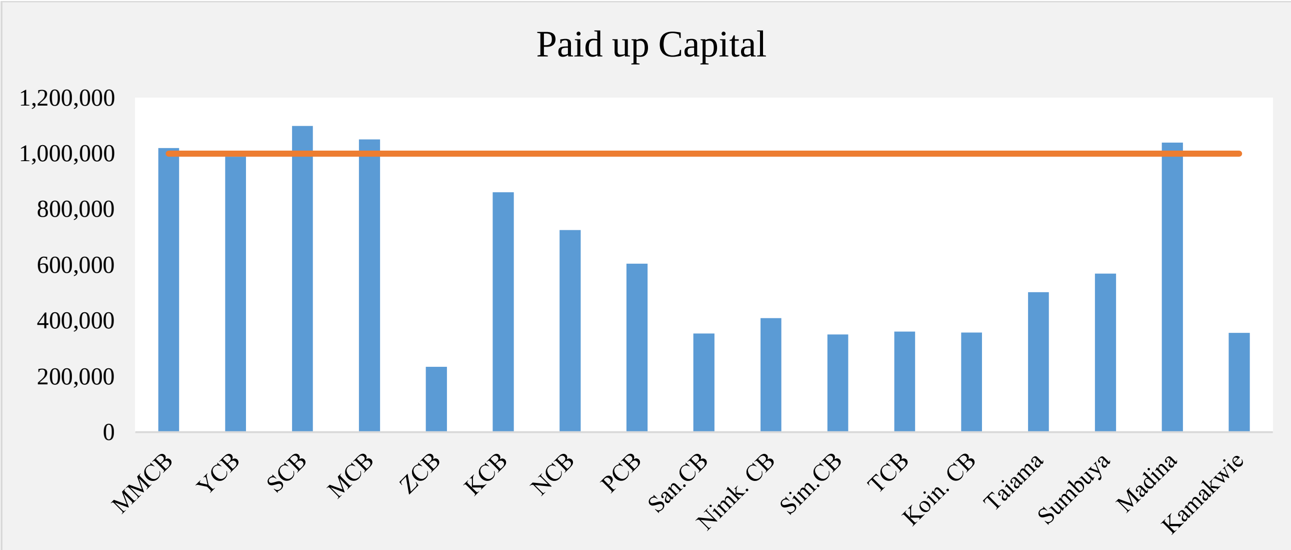


Source: BSL

6.7 Capital

6.7.1. Minimum Paid-Up Capital
Four community banks met the minimum paid-up capital of Le1.00 billion However, community banks are improving their mobilization of share capital which has seen the Paid-up Capital increase by Le3.07 billion from Le7.82 billion recorded in December 2019 to Le10.89 billion in December 2020.

Figure 55: Paid up Capital

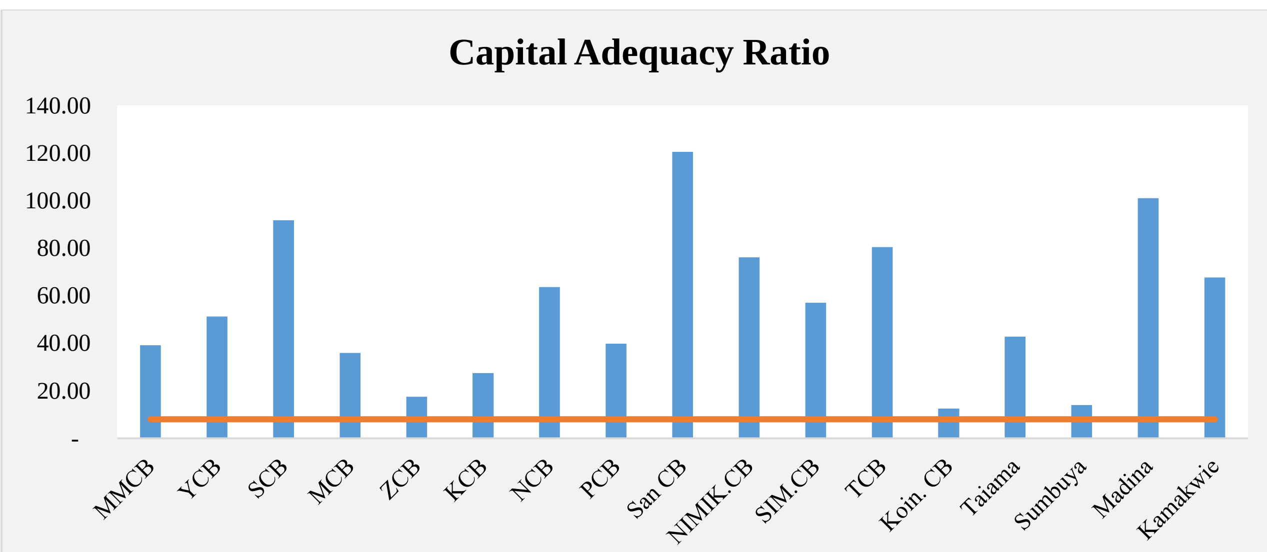


Source: BSL

6.7.2. Capital Adequacy Ratio (CAR)

All the Community Banks met the minimum CAR of 8% in the review period.

Figure 56: CAR (%) of Community Banks



Source: BSL

6.8 MICROFINANCE

6.8.1 Deposit Taking Microfinance Institutions

6.8.2 Financial Condition

The consolidated resource base of the institutions showed an increasing trend throughout the reviewed quarters, with December 2020 recording Le344.78 billion [up Le10.63 billion; (3.18%)], an increase from Le334.15 billion in September 2020, and the June 2020 recording of Le293.01 billion. Similarly, the yearly review showed an increase of Le78.62 billion (29.54%) from Le266.16 billion in December 2019.

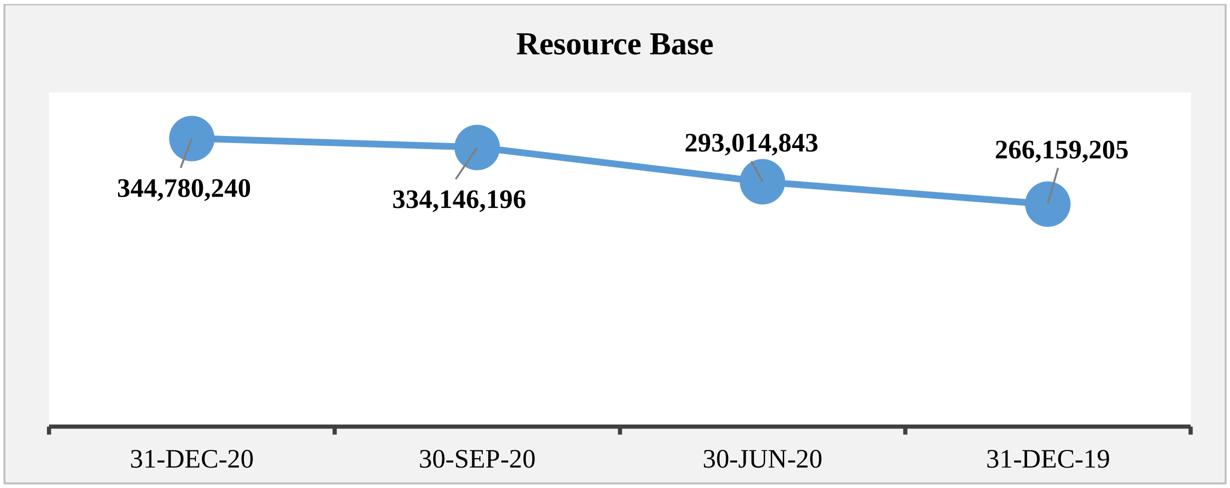
Total deposits increased to Le164.31 billion in December 2020 [up Le10.37 billion; (6.74%)] from Le153.94 billion in September 2020. The yearly review also showed an increase of 41.14% (Le47.89 billion) in total deposits, with both savings and time deposits increasing by 41.39% and 31.54% respectively over the year.

Total liabilities increased by 28.42% over the year to Le263.29 billion and this was primarily a result of the increase in deposits and long-term borrowings.

On the asset side, the increase in the resource base over the year was reflected in increases in gross loans by Le35.82 billion (23.19%) from Le154.46 billion in December 2019; and investment in securities to Le45.16 billion in December 2020 [up Le11.61 billion (34.59%)] from Le33.55 billion in December 2019. Also, balances with financial institutions increased by Le18.20 billion (99.89%) from the previous year recording Le36.42 billion as of December 2020.

The chart below shows quarterly upward movement in the consolidated resource base.

Figure 57: Resource Base Movement



Source: BSL

The table below shows quarterly main consolidated balance sheet items and their movement during the quarters.

Table 18: Quarterly movement of main balance sheet items

Main Balance Sheet Items	**Dec-20**	***Mov't (Le 'bn)***	**Sep-20**	***Mov't (Le 'bn)***	**Jun-20**	***YMov't (Le 'bn)***	**Dec-19**
Balances with financial institutions in S/L	36.42	*1.22*	35.20	*10.30*	24.90	*18.20*	18.22
Investment in securities	45.16	*10.93*	34.23	*(4.42)*	38.65	*11.61*	33.55
Gross Loans	190.28	*10.66*	179.62	*25.24*	154.38	*35.82*	154.46
Loan loss allowances	11.20	*2.12*	9.08	*0.43*	9.51	*1.72*	9.48
Other Assets	50.64	*10.17*	60.81	*9.92*	50.89	*2.95*	47.69
Total deposits	164.31	*10.37*	153.94	*19.18*	134.76	*47.89*	116.42
Other liabilities	26.41	*(3.32)*	29.73	*9.23*	20.50	*3.05*	23.36
Shareholders' fund	81.49	*11.43*	70.06	*2.45*	67.61	*20.35*	61.14

Source: BSL

6.8.3 Operating Performance

A consolidated pre-tax profit of Le10.08 billion was recorded in December 2020. The yearly review showed a 1.44% increase in performance compared to December 2019 which recorded Le9.33 billion.

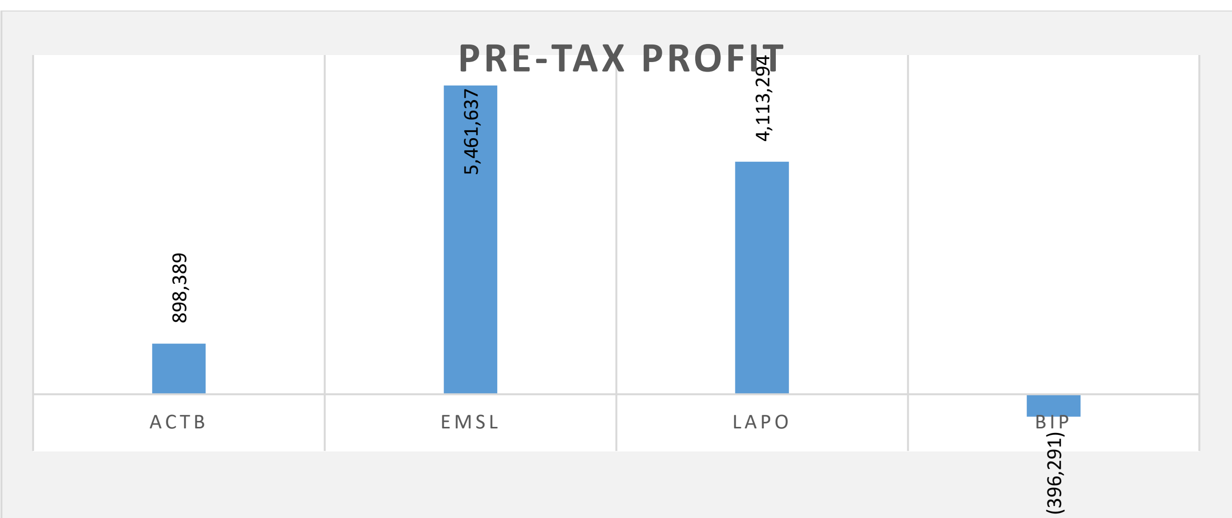
The underlying reason for the slight increase in performance can be attributed to an increase in gross financial income (9.41%) during the period under review.

However, operating expenses increased by Le5.57 billion (14.77%) when compared to December 2019, recording Le43.29 billion in December 2020, and was largely contributed by salaries and benefits accounting for 48.82% of total operating expenses.

Net financial income recorded Le53.36 billion in December 2020 [up Le5.71 billion (11.99%)] from Le47.65 billion in December 2019.

The chart below shows the contribution to the consolidated pre-tax profit of the various institutions as of December 2020.

Figure 58: Profit/Loss



6.8.4 Prudential Requirements

Table 19: Prudential Ratios

Prudential Ratios as of December 2020	**Min Rq.**	**Dec-20**	**Dec-19**
Capital Adequacy (%)	*8*	29.83	26.63
Actual Cash Ratio (%)	*10*	25.77	18.97
Actual Liquidity Ratio (%)	*20*	53.25	47.79

Source: BSL

6.8.4.1. Paid-up Capital

All the institutions continue to meet the minimum paid-up capital requirement of Le1 billion.

6.8.4.2. Capital Adequacy

All the institutions met the minimum capital adequacy ratio of 8% and also on a consolidated basis as shown in the above table.

6.8.4.3. Liquidity

All the institutions met the minimum liquidity and cash ratio requirements as of December 2020.

6.8.5 Performance Ratios

Table 20: Performance indicators analysis

Performance Ratios	**MIX**	**Dec-20**	**Dec-19**
Operating self-sufficiency (OSS) (%)	112	119.50	121.02
Return on assets (ROA) (%)	2.1	5.85	3.81
Return on equity (ROE) (%)	13.7	24.73	17.18
Debt to equity (%)		323.09	335.32
Portfolio to assets (%)		55.19	58.03

Source: BSL

6.8.5.1. Operational Self Sufficiency (OSS)
This ratio shows how well a bank can cover its costs through operating revenue. Consolidated OSS fell by 1.52% over the year. However, it continued to meet the MIX requirement of 112%.

6.8.5.2. Return on Assets (ROA) %
This ratio measures how well an institution uses all its assets to generate revenue. Consolidated ROA met the MIX requirement of 2.1% as of December 2020 and efficient use of the institutions' assets will generate more revenue.

6.8.5.3. Return on Equity (ROE) %
This ratio measures the return on the average funds of the owners. It determines how profitable the institutions are in making use of the shareholders' investment. The ROE met the MIX benchmark of 13.7%.

6.8.5.4. Debt to Equity
The analysis shows the consolidated debt to equity ratio remains to be high for all the institutions and indicates that more debt financing is used rather than investing in shareholders' funds.

6.8.5.5. Portfolio to Assets
All the institutions recorded a ratio of above 50% during the reviewed period, indicating that the majority of their assets are assigned to their core function i.e. loan disbursement.

6.8.6 Activity Ratios

Table 21: Activity Ratios

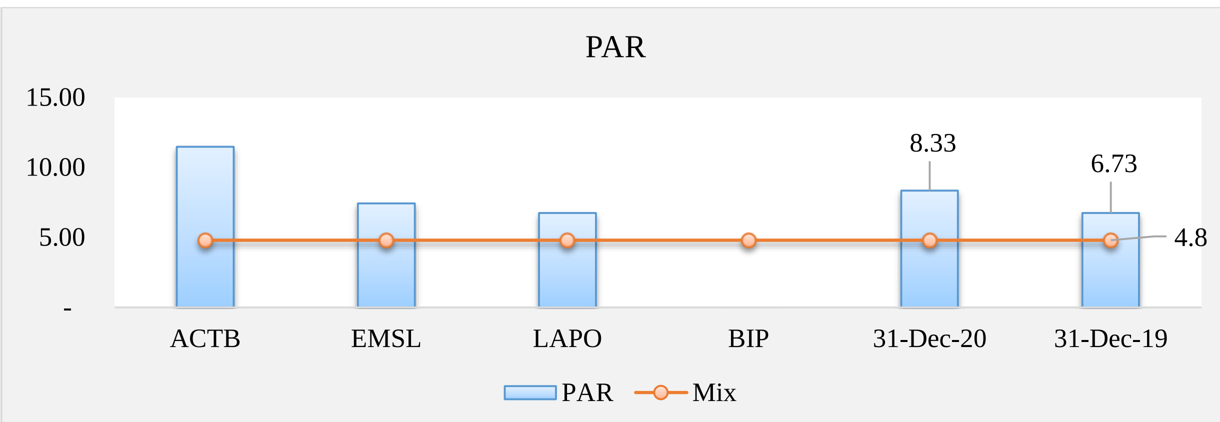
Ratios	MIX	Dec-20	Dec-19
The Yield on Gross Loan Portfolio (%)	*35.3*	25.99	30.22
Portfolio at Risk (PAR) (%)	*4.8*	8.33	6.73

Source: BSL

6.8.6.1. Yield on Gross Loan Portfolio
The above table shows the consolidated yield on the gross loan portfolio below the MIX standard of 35.3% indicating low returns from loans disbursed during the period.

6.8.6.2. Portfolio at Risk (PaR) ≥ 15 days
All the institutions failed to meet the MIX standard of 4.8% during the review period as shown in the chart below. This means that a substantial per cent of the institutions' portfolio is non-performing during the review period. As a result of the COVID-19 pandemic, the PAR for these institutions was expected to rise as the pandemic continued to hit hard on the economy. These institutions, therefore, need to revisit their credit monitoring strategy and find innovative loan repayment measures to reduce PAR.

Figure 59: PAR



Source: BSL

6.8.6.3. Average Outstanding Loan Size
This ratio shows the average amount of loan per borrower. The total average loan size stood at 3,281 during the reviewed period, a decrease of 130.36% from the previous year.

6.9 Credit-Only Microfinance Institutions

6.9.1 Financial Condition

The resource base of Credit-Only Microfinance institutions increased over the year by 36.50% to Le203.08 billion from Le148.77 billion in December 2019. Paid-up capital increased by 40.64% over the year recording Le37.77 billion as of December 2020.

On the liability side, long-term borrowings recorded Le44.04 billion, an increase of 30.89% over the year. It also increased by 4.00% from the previous quarter. In addition, other long-term liabilities increased by 39.82% over the year recording Le30.03 billion in December 2020.

This was reflected on the assets side, as gross loans increased by 34.85% to Le172.95 billion from Le128.26 billion in December 2019.

A quarterly review also revealed that gross loans increased throughout the quarters. Cash holdings and due from banks increased over the year by 63.17% to Le22.46 billion in December 2020. However, it decreased from the previous quarter by Le10.03 billion.

The table below shows movements in the yearly scenario on some key items in the consolidated balance sheet as of 31st December 2020.

Table 22: Balance sheet movement (Yearly)

Main Balance Sheet Items	**Dec-20 (Le'bn)**	**Mov't (Le 'bn)**	**Mov't (%)**	**Dec-19 (Le 'bn)**
Resource Base	203.08	54.31	36.51	148.77
Total Equity	102.53	31.03	43.40	71.50
Gross Loans	172.95	44.69	34.84	128.26
Loan Loss Allowances	6.24	2.11	51.09	4.13
Account Receivable and Other Assets	3.93	(0.52)	(11.69)	4.45
*Pre-tax Profit**	10.67	(6.67)	(38.47)	17.34

Source: BSL

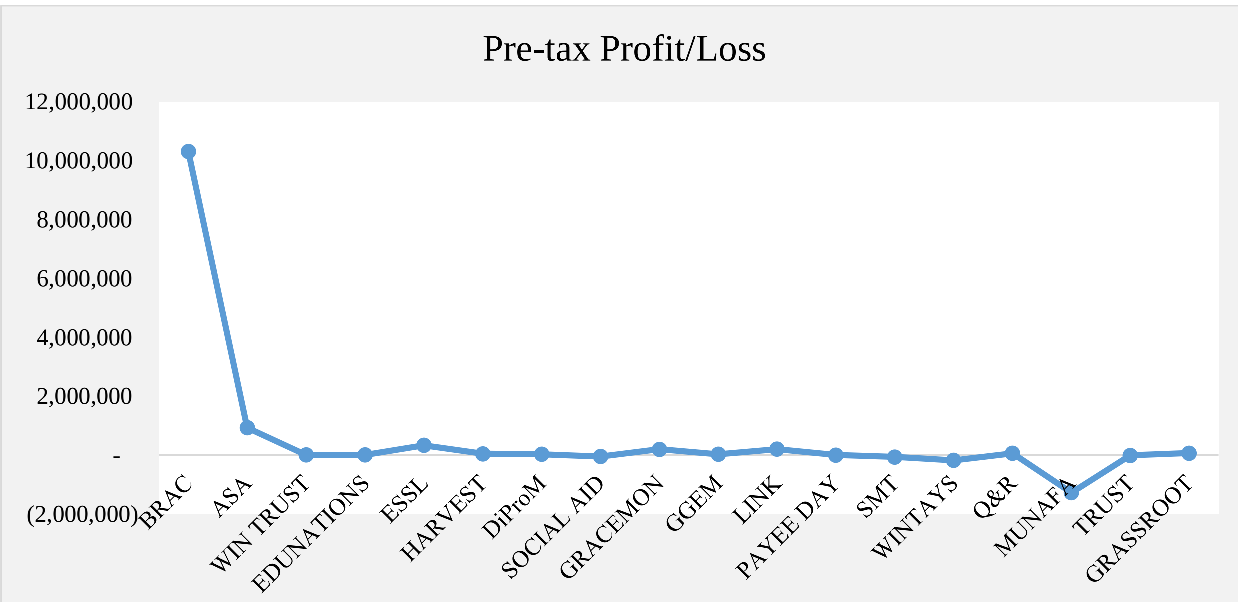
6.9.2 Operating Performance

The consolidated yearly pre-tax profit of credit-only microfinance institutions recorded Le10.67 billion as of December 2020, showing an increase in performance of COMFIs from the previous quarter (Le8.35 billion); however, profit decreased over the year by 38.50%.

A few of these institutions continued to record increases in operational and financial performance over the reviewed period.

The figure below highlights the level of profit (loss) recorded by various institutions:

Figure 60: Unaudited Pre-tax Profit/Loss Position



Source: BSL

6.9.3 Portfolio Activity

The value of loans outstanding as of December 2020 was Le172.95 billion. However, a year-on-year review showed an increase of Le44.70 billion (34.85%) from Le128.26 billion in December 2019.

The number of loans outstanding in December 2020 was 110,998 decreasing by 24,871 loans from 135,869 in December 2019.

6.9.4 Non-Financial Data

Active clients over the year increased by 14% to 156,504 in December 2020. Furthermore, 98% of the total number of active borrowers are female indicating that a vast majority of clients in the industry are women.

More details are shown in the table below:

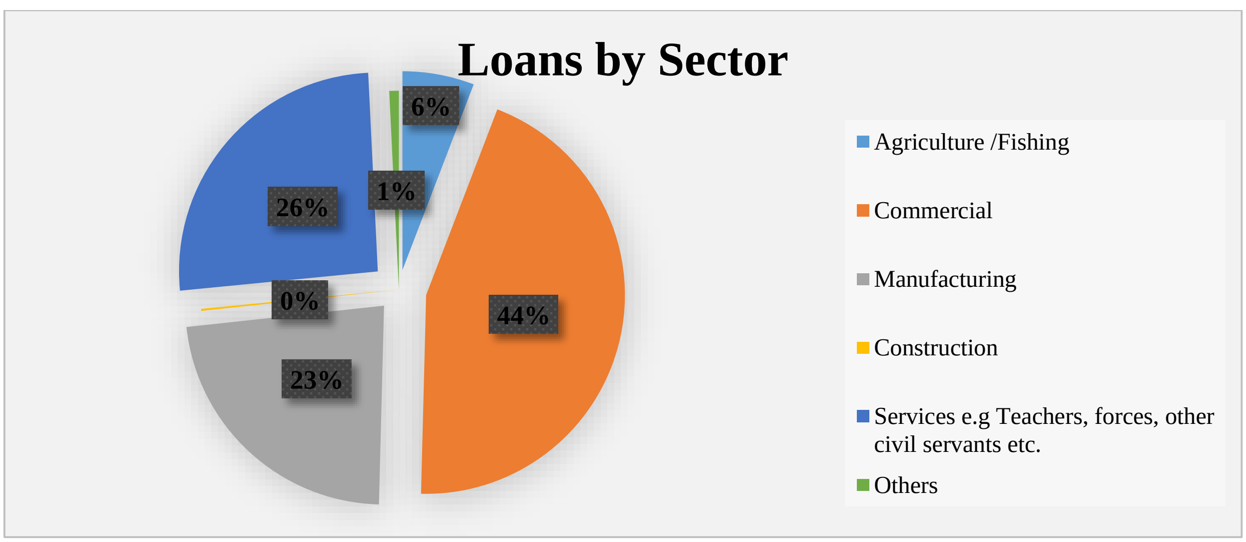
Table 23: Non-Financial Data as at December 2020

Details	No. of Active Clients	No. of New Clients during the period	Number of Active Borrowers	No. of Loan Officers	Number of Personnel
December 2020	156,504	4,416	112,451	572	869

Source: BSL

6.9.5 Loans by Sector

Figure 61: Loans by Sector as at December 2020



Source: BSL

From the figure above, the highest amount of loans in the industry went to the Commercial Sector recording Le76.99 billion, followed by the Services Sector recording Le44.52 billion and the least was the Construction Sector.

6.9.6 Performance Indicators

6.9.6.1. Operational Self Sufficiency

Twelve (12) institutions met the OSS MIX requirement (not less than 112%) for the period under review.

6.9.6.2. Return on Assets

Industry ROA as of December 2020 was 2.67%, slightly above the minimum MIX requirement of 2.1%.

6.9.6.3. Portfolio at Risk > 30 Days

All the institutions except six (6) failed to meet the MIX requirement of not more than 4.8% during the period.

7. MOBILE MONEY FINANCIAL INSTITUTIONS

7.1 Activity of the mobile money providers.

There are three licensed Mobile Money Financial Service Providers in Sierra Leone; Orange Mobile Finance, AfriMoney, and QMoney. Also, there was a 33% increase in Agent Mobilization over the year which indicates financial deepening for the economy.

Significant increases were recorded in the activity of the Mobile Money Providers as several agents, accounts, transactions, and value of transactions all increased over the year.

7.2 Escrow Account & Virtual Money in Circulation

The Escrow Account is a bank account held on behalf of the participants in the mobile money service business in respect of cash deposited in exchange for e-money they receive on their mobile wallet. This is aimed at achieving a high level of protection of customer funds.

As of the end of December 2020, the balance on the Escrow Deposit account stood at Le177.70 billion compared to Le117.14 billion at end of December 2019. Orange Mobile Finance Escrow account balance stood at Le156.65 billion whilst AfriMoney had Le21.05 billion in their account as of December 2020.

E-Money in circulation as of December 2020 was Le157.90 billion, Le19.80 billion less than escrow account balances with both institutions' e-Money in circulation lesser than its escrow account balances.

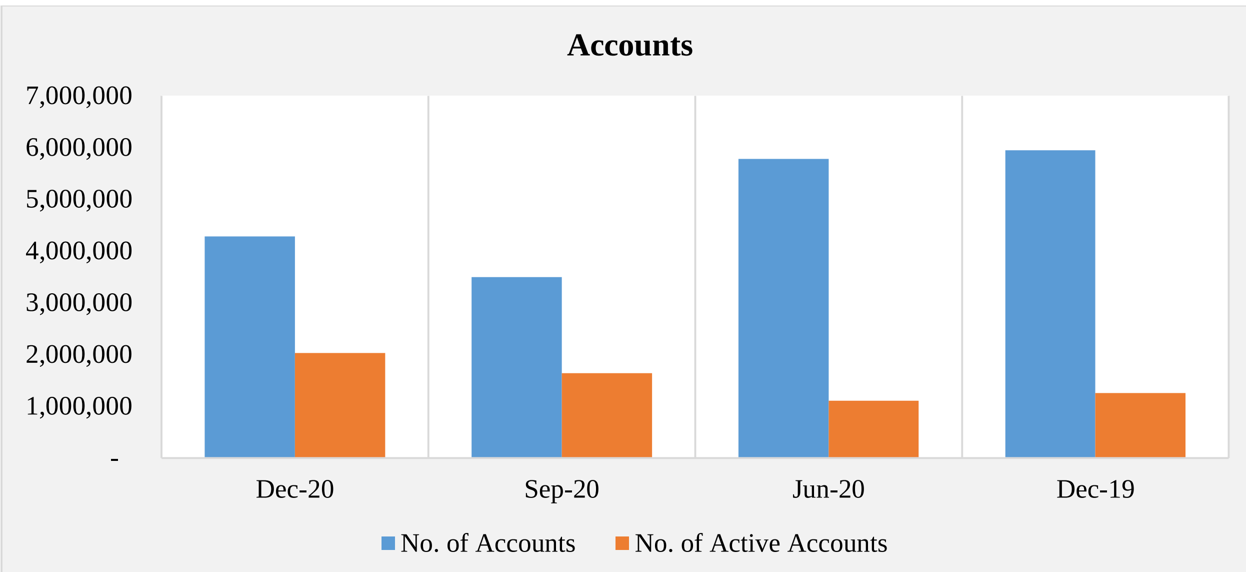
7.3. Number of Account Holders

The number of registered Mobile Money customers in the country increased by 22% from the previous quarter recording 4.28 million, while the number of active customers increased by 24%, recording 2.03 million during the period. Over the year, the number of Mobile Money customers decreased by 28%, from 5.94 million in December 2019. However, the number of active accounts increased by 62% over the year.

The decrease in the number of mobile money customers over the year was a result of the reduction in the number of Registered AfriMoney Customers which was effected in August 2020 and this was due to a decision by management to only migrate customers that have changed their PINs (actively registering their account) and have a balance greater than zero in their account, to their new system. All other accounts were deleted.

The chart below shows movement in the number of accounts over the reviewed quarters.

Figure 62: Account Holders



Source: BSL

7.4. Transactions

A total of 59.15 million transactions were conducted as of December 2020. Orange Mobile Finance executed 58.81 million transactions whilst AfriMoney made 344,409 thousand transactions per active user respectively.

The value of transactions conducted by customers amounted to Le8.34 trillion as of December 2020 which showed a 47% increment from 5.69 trillion in September 2020.

7.5. Agents

As of December 2020, there were 24,120 registered Mobile Money agents with a total outstanding balance of Le20.65 billion. Orange Mobile Finance had 15,299 Agents whilst AfriMoney had 8,821 agents. Agent mobilization increased by 5,854 (32%) over the year.

Figure 63: Agent Network by Institution

Source: BSL

7.6. Customer Complaints

Complaints from customers mainly relate to lost Pin code, balance inquiry, cash reversals, recharge, and message receipt and the data revealed an increase in customer complaints throughout the reviewed quarters as December 2020 recorded 16,422 complaints compared to 11,657 in December 2019.

8. DISCOUNT HOUSES

8.1. Financial Condition

The asset base of the industry decreased to Le20.11 billion as of December 2020, from Le21.47 billion in September 2020. The yearly analysis showed an increasing trend of (13.44%) from Le17.72 billion as of December 2019. The increase in the resource base was a result of an increase in loan repo from Le0.32billion as of December 2019 to Le1.47 billion as of December 2020.

Total liabilities increased by 12.75% from Le8.49 billion as of December 2019 to Le9.57 billion as of December 2020.

Shareholders' funds also increased by 14.07% from Le9.24 billion as of December 2019 to Le10.54 billion at end of December 2020. The structure of liabilities is shown below.

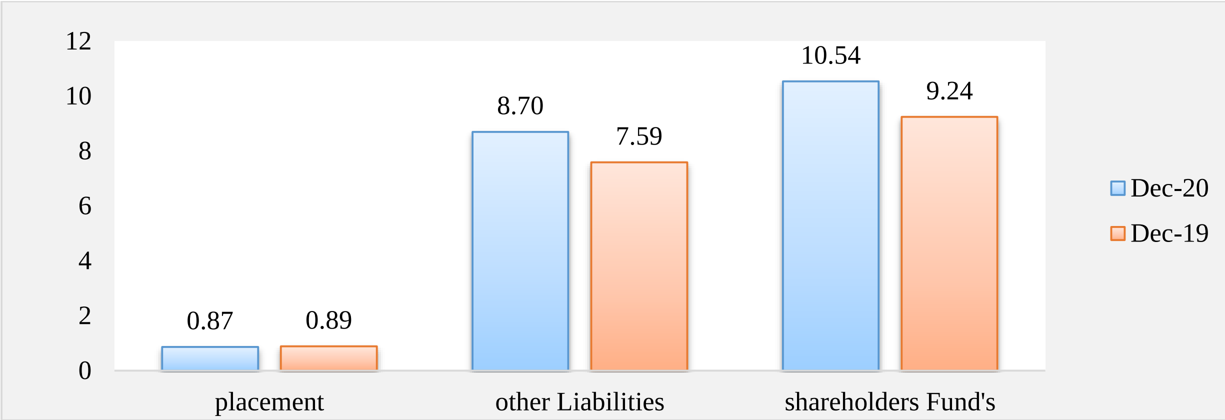
Table 24: Liabilities/Equity of Discount Houses

Details	Dec-20			Sep-20			Dec-19
	Le'bn	**Mov't**	**%change**	**Le'bn**	**Mov't**	**%change**	**Le'bn**
Placement	0.87	-0.23	-0.02	1.44	0.43	42.89	0.89
Other Liabilities	8.70	1.11	14.57	10.44	2.56	32.45	7.59
Share Holders Funds	10.54	1.30	14.07	9.61	-0.01	-0.01	9.24

Source: BSL

Year-on-year analysis revealed that total liabilities increased by 12.75% from Le8.49 billion as at December 2019 to Le9.57 billion as of December 2020. This was mainly due to increases in other liabilities from Le7.59billion as of December 2019 to Le8.70 as at December 2020.

Figure 64: Liabilities/Equity of Discount Houses



Source: BSL

Other assets increased by 12.39% from Le7.50 billion as at December 2019 to Le8.43 billion as at December 2020. Investment in treasury bills increased by 5.71% from Le5.23 billion as of December 2019 to Le5.53 billion as of December 2020.

Year-on-year analysis showed that the yearly increase in other assets was mainly a result of an increase in cash and bank balances by 113.16% from Le1.06 as of December 2019 to Le2.25billion as of December 2020. The structure of other assets of the Discount Houses is shown below:

Table 25: Structure of Other Assets

Details	20-Dec			20-Sep			19-Dec
	Le'bn	Mov't	%change	Le'bn	Mov't	%change	Le'bn
Cash and Bank Balances	2.25	1.20	113.16	2.69	0.84	-16.36	1.06
Loans Repo	1.46	1.14	0.03	0.83	0.36	77.22	0.32
Investment	5.53	0.29	5.71	5.78	0.19	3.53	5.23
Other Asset	8.43	0.93	12.39	8.15	0.35	4.57	7.50
Fixed Asset	2.43	-1.18	-0.03	4.02	1.23	43.93	3.62

Source: BSL

8.2 Operating Performance

Details on profit are shown in the table below:

Table 26: Profitability

Details	**20-Dec**	**20-Sep**	**19-Dec**
	Le'bn	Le'bn	Le'bn
FDHL	0.12	-0.02	0.15
CDHL	0.20	0.16	0.23
Total	0.32	0.14	0.38

Source: BSL

8.3 Performance Ratios

Table 27: Performance Ratios

Details	**FDHL**	**CDHL**	**Dec-20**
ROA	0.06	1.97	0.71
ROE	0.14	3.03	1.42
Operating expense/operating income	102.26	163.77	157.89
Interest spread	0.53	14.58	9.24

Source: BSL

8.4 Minimum Paid-up Capital

Both institutions met the minimum paid-up capital of Le2billion.

8.5 Liquidity

The Discount Houses recorded actual liquidity ratios of 2,267.45% for the period under review.

Table 28: Liquidity

Discount Houses	DEC'20	SEP'20	DEC'19
FDHL	197.26	126.98	192.02
CDHL	2,070.19	2,079.92	1,742.42
CONSOLIDATED	2,267.45	2,206.90	1,934.44

Source: BSL

8.6. FOREIGN EXCHANGE BUREAUX

There were seventy-one (71) registered Foreign Exchange Bureaux (FEB) in the country as at 31st December 2020. The US dollar was the most traded currency as of December 2020.

8.7. Purchases and Sales of Foreign Currencies (Trend Analysis)

The table below shows yearly purchases and sales of foreign currencies:

Table 29: Purchase and Sales of Foreign Currencies

Currency	PURCHASES – Le'000				SALES – Le'000			
	Dec-20	**Mov't**	**% Change**	**Dec-19**	**Dec-20**	**Mov't**	**% Change**	**Dec-19**
US Dollar ($)	32,411,394	10,912,226	50.76	21,499,168	31,782,807	10,845,928	51.80	20,936,879
UK Pound (£)	18,155	*(3,026,672)*	*(14.51)*	3,044,827	17,785	(3,028,481)	(99.42)	3,046,266
Euro (€)	17,025	*(3,800)*	*(18.25)*	20,825	18,655	*(2,170)*	*(10.42)*	20,825

Source: BSL

8.8. Analysis

8.8.1. United States Dollars

Industry Purchase and Sales of the US Dollars

The US dollar purchased during the quarter increased to USD32,411,394 in December 2020, it increased by USD26,389,129 (438.19%) from USD6,022,265 in September 2020.

During the year, it rose by USD 10,912,226 (50.76%) from USD21, 499,168 in December 2019.

Sales during the quarter rose to USD31, 782,807 up by USD 25,885,381 (438.93%) from US$5,897,426 in September, 2020.

8.8.2. UK Pound Sterling

Industry Purchase and Sales of the UK Pounds

The quarterly purchase of Pound Sterling increased to £18,155 up (£16,055; 764.52%) from £2,100 in September 2020. During the year, it decreased by USD3,026,672 (14.51%) from US$3,044,827 in December 2019.

During the quarterly review, the UK Pounds Sterling sales increased to £17,785 by £16,685 (1516.82%) from £1,100 in September 2020. In the yearly scenario, it also decreased by £3,028,481 (99.42%) from £3,046,266 in December 2019.

8.8.3. Euro

Industry Purchases and Sales of the European Euro

Euro purchased during the reviewed period decreased to €17,025 down by (€8,525; 100.29%) from €8,500 in September 2020. In the year, purchases declined by €3,800 (18.25%) from €20,825 in December 2020. Sales of the European Euro in the quarter totalled € 18,655 and it increased by €18,055 (3009.17%) from €600 in September 2020. Over the year, sales declined by €2,170 (10.42%) from €20,825 in December 2019.

9. NATIONAL PAYMENTS SYSTEM

9.1. INTRODUCTION

Given the importance of Financial Market Infrastructure, The Bank of Sierra Leone continues to monitor and assess its performance for the achievement of safety and efficiency.

9.2. NATIONAL PAYMENTS SYSTEM LANDSCAPE

The Payment System in Sierra Leone continues to be dual with the coexistence of cash and non-cash based transactions. The volume of cash transactions is still high while non-cash continues to increase. The non-cash is categorised into retail and Large Value transactions based on the value and the interbank systems that support the transactions which form the basis of this report.

9.2.1. Developments in the National Payment System Landscape

9.2.1.1. Real Time Gross Settlement (RTGS) system

The Real-Time Gross Settlement (RTGS) is an electronic funds transfer system for the settlement of payments across the country. Through the RTGS, transactions are settled and funds can be transferred between participating financial institutions virtually promptly.

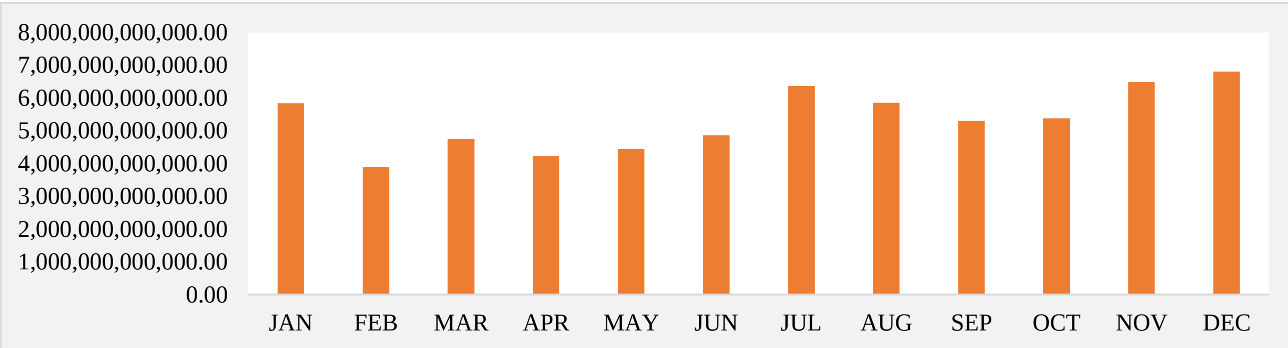
Table 30: RTGS Transactions 2020

RTGS Transactions 2020						
	Jan	Feb	Mar	Apr	May	Jun
Volume	11,228	9,421	10,022	9,324	9,756	10,676
Value (Le)	5,840,738,140,861.86	3,890,087,805,788.05	4,741,578,679,016.56	4,222,611,077,191.56	4,439,746,388,642.13	4,860,314,164,891.23
	Jul	Aug	Sep	Oct	Nov	Dec
Volume	11,632	11,311	11,036	11,164	11,394	13,543
Value (Le)	6,368,719,482,545.91	5,857,268,528,558.3	5,301,434,992,137.31	5,374,671,413,110.46	6,483,306,936,617.49	6,802,579,247,490.20

Source: BSL

The table above shows RTGS transactions for the period January to December 2020. In as much as there are fluctuations in the value and volume of transactions, the trend indicates the general acceptability of the system for interbank transactions. This is also shown in figure 1 below.

Figure 65: VALUE OF RTGS TRANSACTION (LE)



Source: BSL

9.2.1.2.ACH Transactions (Jan – Dec 2020)

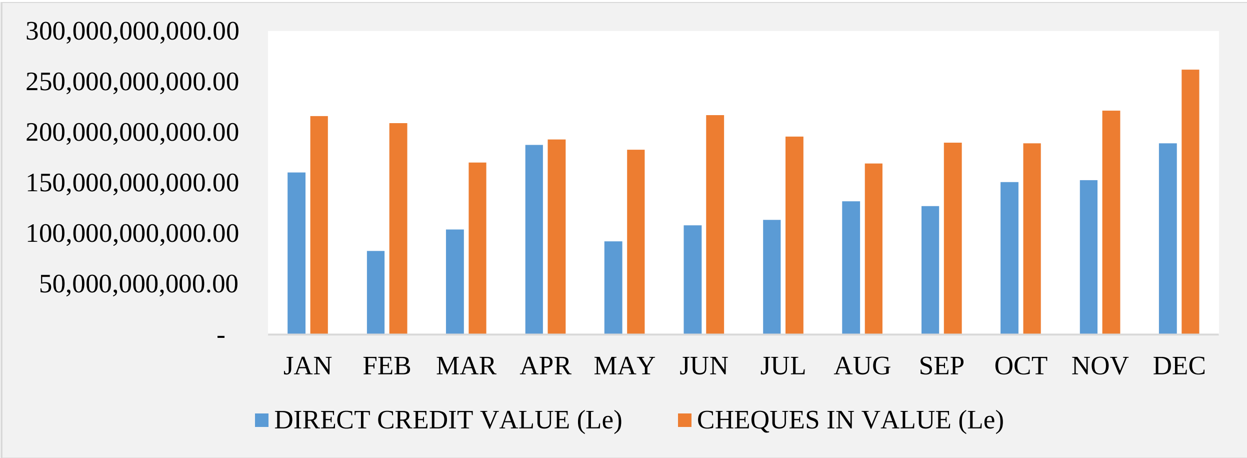
The Automated Clearing House (ACH) is the retail payment system through which a vast number of payment items (both paper-based and electronic) are cleared. These are mainly low-value (Not more than fifty million Leones), high-volume retail payment Cheques.

Table 31: ACH Transactions (Jan – Dec 2020)

MONTHS	DIRECT CREDIT VOL	DIRECT CREDIT VALUE (Le)	CHEQUES VOL	CHEQUES VALUE (Le)
Jan	22,210	160,380,320,222.60	15,761	216,158,936,487.01
Feb	15,960	82,782,963,509.31	14,803	209,044,171,987.23
Mar	21,676	103,909,521,223.16	17,569	170,311,186,624.91
Apr	18,809	187,569,120,396.25	12,654	192,973,255,762.57
May	18,097	92,224,621,222.90	11,725	182,994,301,637.33
Jun	22,006	108,020,550,666.07	23,619	217,044,202,566.68
Jul	22,774	113,424,474,766.62	13,277	195,774,910,602.47
Aug	22,851	131,906,130,978.57	12,395	169,209,957,046.14
Sep	23,383	127,183,641,854.08	13,706	189,806,950,799.07
Oct	26,487	150,770,289,538.28	13,974	189,062,626,162.81
Nov	30,114	152,612,847,567.52	14,900	221,463,159,785.36
Dec	33,763	189,239,590,559.74	17468	262,163,589,853.22

Source: BSL

Figure 66: Value of ACH Transactions (Le)



Source: BSL

Table 30 shows ACH transactions for the period January to December 2020. In the table, it is shown that the use of cheques remains higher than direct credit as a means of transaction. However, the use of direct credit as a means of interbank transactions is sustained and has the prospects to improve shortly.

9.3. Other Retail Payment Systems 2015-2019

The performance in the value of direct credit transactions as in table 2 above is reflected in the growth of other forms of electronic retail payment systems such as ATM and POS transactions. In table 3 it is revealed that ATM transactions increased by 154% (from Le154.38bn to Le392.02bn) over the period 2015 to 2019 while POS transactions grew by some 179% (from Le25.86bn to Le71.97bn) from 2015 to 2019. This further points to the gradual acceptability of electronic means of processing transactions.

Table 32: ATMs and POSs

ATMs and POSs	2015	2016	2017	2018	2019
Number of ATMs	51	71	94	72	107
Number of POSs	110	150	243	231	301
Volume of ATM Transactions	730,803.00	370,726.00	530,342.00	1,204,162	2,199,500.00
Volume of POS transactions	11,509.00	23,981.00	6,773.00	30,537	40,815.00
Value of ATM Transactions (Le'000)	154,380,059.00	69,532,802.00	102,109,510.00	267,237,998.00	392,016,130.00
Value of POS Transactions (Le'000)	25,855,913.00	34,351,419.00	5,670,955.00	44,096,804.00	71,970,869.00

Source: BSL

In line with financial inclusion Tables 4 and 5 below the display, the regional spread of ATMs and POSs Notwithstanding the gains made by the Bank in ensuring public acceptability of electronic means of transactions processing, the spread of these financial services indicate that most of these facilities are deployed in the Western Area accounting for 89.00% of POSs and 71.00% for ATMs in 2019.

Table 33: REGIONAL SPREAD OF ATM

REGIONAL SPREAD OF ATM					
	2015	2016	2017	2018	2019
NORTHERN PROVINCE	8	16	14	8	16
SOUTHERN PROVINCE	4	4	6	6	9
EASTERN PROVINCE	2	5	5	9	6
WESTERN AREA	37	46	69	49	76
TOTAL	**51**	**71**	**94**	**72**	**107**

Source: BSL

Table 34: REGIONAL SPREAD OF POS

REGIONAL SPREAD OF POS					
	2015	2016	2017	2018	2019
NORTHERN PROVINCE	10	9	14	6	17
SOUTHERN PROVINCE	1	1	16	11	14
EASTERN PROVINCE	1	2	4	3	2
WESTERN AREA	98	138	209	211	268
TOTAL	**110**	**150**	**243**	**231**	**301**

Source: BSL

This indicates that there is an uneven distribution of these payment services thereby financially excluding a very good number of the population.

The above scenario is worthy of note in the midst of plans to implement digital financial services that would ensure a smooth flow of funds, especially from Government to people (G2P).

9.4. PLANNED SYSTEMS NATIONAL SWITCH

This is a World Bank funded-project which targets the establishment of interconnectivity and interoperability of all retail payment infrastructure for efficiency in the financial system by providing a national switch and also helping improve rural connectivity. The project has awarded the contract to procure the switch to the winning bidder and also procured the services of a National Switch Consultant and a Payment System Consultant. Go live of this project has been scheduled for the end of the year 2021.

9.5.ELECTRONIC FUND TRANSFER (EFT) PROJECT

This is a project funded by the Ministry of Finance to facilitate the interoperability between the Bank of Sierra Leone’s Core Banking Application T24 and the Accountant General’s Integrated Financial Management Information System (IFMIS), to eradicate the manual processing of payment instruments to banks through cheques and letters. The implementation of this project is at the Test-Run stage.

9.6. REVIEW OF THE PAYMENT SYSTEM ACT (2009)

With the modernisation and improvement in the payment systems in the country, there has been a need to review the payment systems Act which was established in 2009. To catch up with modern trends in the payment and settlement landscape, we have reviewed the 2009 Act and it is waiting to be passed into law by the Parliament of Sierra Leone.

9.7. AFREXIMBANK – PAN AFRICAN PAYMENTS AND SETTLEMENT PLATFORM (PAPSP)

Afreximbank in collaboration with WAMI is working on a payment and settlement platform to resolve the challenge of interconnecting and interoperating the national payment systems within WAMZ and subsequently ECOWAS to promote regional trade.

The solution is now at the stage where settlement accounts have been opened on the platform but we are yet to send the signature specimen for the account.

9.8. CONCLUSION

Given the increase in the acceptability of electronic payment systems in the country, there is the need to improve on existing market infrastructures and also establish or deepen the payment systems landscape. It is against this backdrop that the Bank of Sierra Leone has ventured into establishing the National Switch, the EFT with the Accountant General and the PAPSP and also sought to review the Payment Systems Act (2009).

10. HUMAN RESOURCES DEVELOPMENT

10.1. STAFF STRENGTH

Total staff strength as of 31st December 2020 was **564** (five hundred and sixty-four), reflecting an increase of **21.5%** from **464** (four hundred and sixty-four) at the end of December 2019.

The variance in staff strength was recorded in all the categories;

Management Staff recorded an increase of 3 (three) from 8 (eight) to 11 (eleven) as of the end of December 2020. This increase was due to the promotion of staff to the Head of Department category.

Staff Strength in the Professional, Sub-professional, as well as other cadre, also increases during the period under review. Professional from 242 (two hundred and forty-two) in 2019 to 272 (two hundred and seventy-two) in 2020, sub-professional from 92 (ninety-two) in 2019 to 118 (one hundred and eighteen) in 2020, and Other from 103 (one hundred and three) in 2019 to 138 (one hundred and thirty-eight) as at end December 2020.

The increase was mainly a result of the recruitment of Staff in these Cadres.

The total male staff strength amounted to **405** (four hundred and five) as of 31st December 2020 of which **12** (twelve) were Fixed Term Employees. The proportion of male staff including Fixed Term Employees to total staff strength is 71.8**%** as of 31st December 2020.

The total female staff as of 31st December 2020 was **159** (one hundred and fifty-nine) of which **13 (thirteen)** were Fixed Term Employees. The proportion of female staff to total staff strength including Fixed-term Employees is 28.2**%** at the end of December 2020.

Total Fixed-term employees accounted for **4%** of total staff strength as of the end of December 2020 recording an increase of **4** (four) from **21** (twenty – four) in 2019 to 25 (twenty-five) at the end of December 2020 due to the recruitment of staff during the period.

Table 35: STAFF STRENGTH AS AT DECEMBER 2019 AND AS AT END DECEMBER 2020

	AS OF DECEMBER 2019			AS OF DECEMBER 2020		
CATEGORY	**MALE**	**FEMALE**	**TOTAL**	**MALE**	**FEMALE**	**TOTAL**
Management	5	3	8	6	5	11
Professional	152	89	242	178	94	272
Sub-Professional	68	24	92	84	34	118
Others	94	9	103	125	13	138
Total Regular Staff	**319**	**124**	**443**	**393**	**146**	**539**
Fixed Term Employees	**11**	**10**	**21**	**12**	**13**	**25**
Grand Total	**330**	**134**	**464**	**405**	**159**	**564**

10.2. SEVERANCE

A total of **25** (twenty-five) members of staff were severed from the service of the Bank as shown below:

Table 36: Number of Staff Severance by Category

Termination of Contract Appointment	1
Resignation	3
Dismissal	-
Deceased	3
Retirement	17
Termination	-
Voluntary Retirement	-

Retirement on Medical Grounds	2
Position Declared Vacant	-
Total	**25**

Source: Human Resources Department, BSL

Table 37: Staff Recruitment

DETAILS	2019	2020
Recruitment	38	121
Fixed Term Employees	8	6
Vacated	-	-
Dismissal	17	-
Deceased	2	3
Termination	5	-
Retirement	11	17
Voluntary Retirement	-	-
Retired on Medical Grounds	-	2
End of Fixed Term	4	1
Absorption into Permanent Service	7	-
Total	**92**	**150**

Source: Human Resources Department, BSL

10.3. RECRUITMENT AND APPRAISAL

A total number of 121 staff were recruited into the permanent services of the Bank and 13 on a contract basis.

APPRAISAL

Appraisal for 2020 is out which leads to promotions and increments of staff Bank-wide.

10.4. MANPOWER PLANNING AND CAREER DEVELOPMENT

TRANSFERS – 21

To facilitate work at the Kenema Branch, the Bank continued to transfer staff with the requisite capacity to the branch either on two years tours or on relief duties.

Inter and intra-departmental transfers were embarked upon at various levels and departments during the period under review

ABSORPTION

Seven (7) members of staff were absorbed into the permanent services of the Bank in 2019 and none in 2020.

10.5. STAFF TRAINING

STAFF DEVELOPMENT & CAPACITY BUILDING

Capacity Strengthening programmes for the year 2020 commenced in January. However, training activities were stalled by the COVID - 19 Pandemic as a travelling ban was instituted to prevent the transmission of the virus, thereby protecting staff bank-wide. The Face to face training programme was executed during the first quarter of the year as a result of the global pandemic.

Consequently, course Organisers such as the African Training Institute (ATI), Egyptian Banking Institute (EBI), and West African Institute for Financial and Economic Management had to resort to virtual learning to sustain the capacity development drive.

Also, for the period under review, executive approval was granted for Study Leave with Pay for one (1) sub-professional staff to pursue a three-year Bachelor of Science Degree programme in Business Management and Economics at Roehampton University London, United Kingdom.

Below are data indicating staff who benefitted from face to face overseas and virtual training programmes:

Table 38: FACE TO FACE OVERSEAS TRAINING PROGRAMMES

DEPARTMENTS	2019	2020	TOTAL
BANKING SUPERVISION	13	4	17
FINANCE	7	3	10
FINANCIAL MARKETS	5	3	8
FINANCIAL STABILITY	8	2	10
GOVERNOR’S OFFICE	7	4	11
OFIS	4	2	6
RESEARCH	15	6	21
BANKING	12	-	12
HUMAN RESOURCES	3	-	3
INTERNAL AUDIT	6	-	6
MIS	15	-	15
PROJECT MANAGEMENT	1	-	1
SECRETARY’S	1	-	1
TOTAL	**97**	**24**	**121**

Source: BSL

Table 39: VIRTUAL TRAINING PROGRAMMES 2020

NO.	DEPARTMENTS	NUMBER OF STAFF
1	FINANCIAL MARKETS	1
2	FINANCE	1
3	FINANCIAL STABILITY	3
4	HUMAN RESOURCES	3
5	OFIS	1
6	RESEARCH	4

7	SECRETARY’S	2
8	INTERNAL AUDIT	1
9	B/SUPERVISION	9
10	GOVERNOR’S OFFICE	6
	TOTAL	**31**

Source: BSL

Table 40: FACE TO FACE OVERSEAS PASSAGES AND ALLOWANCES TRAINING PROGRAMMES

DEPARTMENTS	2019	2020	TOTAL
BANKING	6	2	8
BANKING SUPERVISION	13	2	15
FINANCIAL MARKETS	6	1	7
GOVERNOR’S OFFICE	6	3	9
INTERNAL AUDIT	2	1	3
MIS	-	2	2
OFIS	4	1	5
RESEARCH	13	1	14
FINANCE	3	-	3
F/STABILITY	2	-	2
GENERAL SERVICES	1	-	1
HUMAN RESOURCES	2	-	2
SECRETARY’S	1	-	1
TOTAL	**59**	**13**	**72**

Source: BSL

From the Table, it can be seen that twenty – four (24) staff benefitted under the training vote in 2020 as against ninety-seven (97) staff in the year 2019. Thirteen (13) staff benefitted under the overseas passages and Allowances Vote in 2020 as against fifty-nine (59) staff in the year 2019 for the face-to-face overseas training programmes. Thirty-one (31) staff from various departments benefitted from the virtual training programmes which commenced in March 2020.

In November 2020, the Human Resources Department successfully conducted an Induction Training for 160 (one hundred and sixty) newly recruited staff that was employed in the service of the Bank between the period December 2019 and August 2020, respectively.

Going forward, to avoid disruption of the training programme, it is hereby recommended that the virtual training programmes should run concurrently with the face to face training programmes when normalcy returns.

It is also recommended that staff attending virtual programmes should be excused from duty to ensure concentration and full participation.

11. EXTERNAL RELATIONS

The Bank of Sierra Leone continued to cooperate with regional and international organisations as well as other development partners in 2020, to support macroeconomic stability and maintain bilateral relationships. During the review period, the Bank met with the IMF on the Extended Credit Facility (ECF) programme, as well as other regional institutions, such as ECOWAS, WAMA and, WAMI about the economic and monetary cooperation programme in both Africa and ECOWAS levels.

11.1. IMF Extended Credit Facility (ECF) in 2020

On April 3 2020, The Executive Board of the International Monetary Fund (IMF) completed the second review of Sierra Leone's performance under the program supported by an Extended Credit Facility (ECF). Completion of this review enables the IMF to immediately disburse SDR15.555 million (about US$21.13 million), bringing total disbursements under the arrangement to SDR46.665 million (about US$63.39 million). This disbursement underscores the Fund's ongoing commitment to help the country tackle any potential economic fallout from the COVID-19 pandemic The Executive Board approved the authorities' request for a waiver of non-observance of a performance criterion. The Executive Board of the International Monetary Fund (IMF) also approved the disbursement of SDR 103.7 million (US$143 million or 50 per cent of quota) under the Rapid Credit Facility (RCF) to Sierra Leone to help meet the urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic.

11.2. ECOWAS/WAMA/WAMI Missions to Sierra Leone

Following the COVID-19 outbreak that led to massive restriction of people and goods across the world, the ECOWAS Commission, West African Monetary Agency (WAMA) and the West African Monetary Institute (WAMI) conducted offsite multilateral surveillance missions to Sierra Leone to assess the country's macroeconomic developments and status of convergence for 2019 and the first half of 2020 within the framework of the ECOWAS monetary cooperation programme (EMCP) and Article XV of the WAMZ agreement. The regional institutions also held a statutory meeting from February 6 – 14, 2020 (in-person meetings) and from August 31 – September 11, 2020 (virtual meetings)

The statutory meetings were held to discuss the multilateral surveillance mission reports of the regional institutions for 2019. In deliberating on the reports, the member countries considered the global economic developments in 2019 and noted that output growth slowed to 2.9 per cent in 2019, from 3.6 per cent in 2018, reflecting a confluence of factors that adversely affected major economies. The increase in trade tension between the United States and China; weak consumer and investor confidence in Europe; natural disasters in Japan and weak external demand from emerging Asia as well as tighter financial conditions for emerging market economies contributed to the sluggish growth in 2019.

However, despite these adverse external developments, macroeconomic performance was favourable. The Zone grew by 2.8 per cent in 2019, 0.2 per cent points higher than the growth rate registered in 2018. The improved growth was underpinned by the sustained implementation of prudent macroeconomic policies as well as increased agricultural output and the recovery in global commodity prices during 2019. Performance on macroeconomic convergence criteria improved in 2019, with one country (Guinea) meeting all the primary convergence criteria, three (The Gambia, Ghana and Sierra Leone) meeting three criteria each and one (Nigeria) meeting two criteria while Liberia met only one criterion.

In the near term, global output was projected to contract by 4.9 per cent in 2020, compared to the pre-COVID projection of 3.4 per cent. The spillover effects from global developments such as supply chain disruptions, weak external demand, falling commodity prices, and a general sense of uncertainty combined with measures adopted locally to contain the spread of the disease, have weakened the medium-term prospects of member countries.

In the case of the Sierra Leonean economy, output growth was 5.4 per cent in 2019, relative to 3.5 per cent recorded in 2018. The recovery was driven by increased agricultural output, resumption of iron ore mining and growth of the services sector. Fiscal consolidation, supported by spending rationalization and domestic revenue mobilization efforts, succeeded in narrowing the overall budget deficit, including grants from 5.6 per cent in 2018, to 2.8 per cent of GDP in 2019. This helped to stabilize domestic borrowing needs while inflation moderated to 13.9 per cent in 2019 from 14.3 per cent in 2018. Exports increased by 11.3 per cent following the resumption of iron ore mining. Foreign exchange buffers started building up, though exchange rate pressures persisted. Sierra Leone's performance on the Convergence criteria improved. Overall, Sierra Leone met three primary criteria and one secondary criterion as at end of December 2019.

SECTION B: STATEMENT OF ACCOUNTS (JAN – DEC. 2020)

BANK OF SIERRA LEONE

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

CONTENTS	**PAGE**

GENERAL INFORMATION

BOARD OF DIRECTORS:	Professor Kelfala M. Kallon	- Governor (appointed 15 August 2018)
	Dr Ibrahim L. Stevens	- Deputy Governor (re-appointed 24 July 2019)
	Mr. Sheik A. Y. Sesay	- Deputy Governor (appointed 26 June 2020)
	Ms Cecilia M. Demby	- Appointed 18 October 2018
	Mr George Taylor	- Appointed 25 October 2018
	Mr Sheik R. Kamara	- Appointed 31 October 2018
	Mr Sheka A. Mansaray	- Appointed 31 October 2018
	P. C. Alhaji A. Kathenkeh II	- Appointed 31 October 2018
	Mrs Amy Myers	- Appointed 19 September 2019
SENIOR MANAGEMENT:	Professor Kelfala M. Kallon	- Governor
	Dr Ibrahim L. Stevens	- Deputy Governor,Monetary Stability
	Mr Sheik A. Y. Sesay	- Deputy Governor, Financial Stability
	Mr Ralph Ansumana	- Director, Other Financial Institutions Supervision Department
	Mrs Hanifa Addai	- Director, Management Information Systems Department
	Ms Jenneh Jabati	- Director, Human Resources Department
	Mrs Mary M. Kargbo	- Director, General Services Department
	Mr Morlai Bangura	- Director, Research Department
	Mrs Veronica Finney	- Director, Financial Markets Department
	Ms Hawa E. Kallon	- Director, Secretary's Department
	Mr Sullay Alhaji Mannah	- Director, Legal Affairs Department
	Mr Mohamed S. Bah	- Director, Finance Department
	Mr Eugene Caulker	- Director, Financial Stability Department
	Mr Alfred W. B. Samah	- Director, Banking Department
	Mr Hilton Jarrett	- Deputy Director, Banking Supervision Department
	Mr Chrispin Dennison-George	- Deputy Director, Governor's Office
	Mr Alhaji Salihu Dukuray	- Deputy Director, Internal Audit Department
	Mr Momoh L. Sesay	- Assistant Director, Financial Sector Development Unit
	Ms Josephine Mansaray	- Assistant Director, Risk Management Unit
	Mrs Feima Jabati	- Officer-in-Charge, Governor's Office (Procurement Unit)
REGISTERED OFFICE:	Siaka Stevens Street Freetown	
SOLICITORS:	Lambert and Partners 40 Pademba Road Freetown	
SECRETARY TO THE BOARD:	Ms Hawa E. Kallon	
AUDITORS:	BDO Regent House 12 Wilberforce Street Freetown	

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 2020.

Principal Activity

The Bank undertakes the following activities in pursuit of its objective:

(a) formulate and implement monetary policies, financial regulations and prudential standards;

(b) act as banker, adviser and fiscal agent of the Government;

(c) formulate and implement the foreign exchange policy of Sierra Leone;

(d) conduct foreign exchange operations;

(e) own, hold and maintain the official international reserves including the reserves of gold;

(f) issue and manage the currency of Sierra Leone;

(g) establish, promote, license and oversee sound and efficient payment and securities settlement systems;

(h) license, register, regulate and supervise financial institutions as specified in the Bank of Sierra Leone Act or any other enactment; and

(i) act as a depository for funds from international organisations.

Directors' Responsibility Statement

The Bank's Directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2020 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 2019 and for such internal controls 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 assessed the ability of the Bank to continue as a going concern. The directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future which is guaranteed by the Government of Sierra Leone. Thus, the going concern basis has been adopted in preparing the annual financial statements of the Bank.

Capital
The bank's authorised capital is Le250 billion. Additional details of the Bank's capital are given in note 30 to the financial statements.

Results for the period

Loss for the period was Le211.87 billion (2019: profit of Le101.88).

REPORT OF THE DIRECTORS (Contd)

Audit Committee

The Audit Committee comprising Non-Executive Directors and one Technical Expert is responsible for the oversight function over the audit mechanism, internal controls system and the financial system of the Bank. The Audit Committee meets quarterly to review and monitor the status of the audit function including the implementation of recommendations in the internal audit reports, external auditors' management letters and other oversight reports including 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 the implications for monetary policy 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.

Board Finace Committee
The Finance Committee advised the Board in fulfilling its oversight responsibilities relating to financialplanning and reporting.

Board Human Resource Committee
This committee ensure that sound human resource policies are formulated and implemented. It reviews existing policies and develop new policies with respect to salaries, benefits, incentive composition, succession planning, training and staff development and physical working conditon.

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

Foreign Investment Committee

The Foreign Investment Committee is a tactical and operational level committee tasked with investing the Bank's funds. The committee is responsible for the following activities:

1. Reviewing and recommending investment options to the Foreign Assets Committee (FAC)
2. Review and monitor investment holdings in line with the approved investment guidelines

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

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

Property, plant and equipment
Details of the Bank's property, plant and equipment are shown in note 21 to the financial statements.

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

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

REPORT OF THE DIRECTORS (Contd)

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 the Bank and staff are trained both locally and internationally in various areas to improve their skills and knowledge. The Bank also has a staff appraisal process through which staff are appraised and promotions and/or increments are awarded.

SIGNIFICANT EVENTS FOR THE FISCAL YEAR 2020

GLOBAL ECONOMY
Global Output

Global economic output was estimated to have contracted by 3.5 percent in 2020 from the growth rate of 2.8 percent in 2019, mainly due to the COVID-19 outbreak . The pandemic adversely affected global supply chains, while the ensuing slowdown in investment, loss of jobs and incomes suppressed global demand. On the outlook, the global economy is projected to rebound in 2021 with an estimated growth rate of 5.5 percent.

Advanced Economies

Growth in advanced economies was estimated at -4.9 percent in 2020, compared to a growth rate of 1.6 percent in 2019. The severe recession was mainly on account of higher recorded cases of COVID-19 and prolonged restriction measures especially in the U.S. and Euro Area. Resultantly, the U.S and Euro area economies contracted by -3.4 percent and -7.2 percent in 2020 after expanding by 2.2 percent and 1.3 percent in 2019, respectively.

Emerging Markets and Developing Economies

Emerging market and developing economies recorded a less severe recession of -2.4 percent in 2020, mainly supported by the quick recovery and rebound of the Chinese economy. China's economy was resilient in the face of the disruptive pandemic, recording a positive growth rate of 2.3 percent in 2020, from a growth rate of 6.0 percent in 2019

Sub-Saharan Africa

Similar to Emerging Markets and Developing Economies, Sub-Saharan Africa recorded a recession of -2.6 percent in 2020, mainly as a result of lower incidence of COVID-19 infections compared to the other regions of the world.

Global Inflation

On the back of suppressed demand and plunge in crude oil prices, global consumer price inflation decreased to 2.8 percent in 2020, from 3.9 percent in 2019.

Impact of COVID 19

The COVID-19 pandemic has affected the global economy and several aspects of life in most countries in the world. The degree of impact varies across countries in terms of the number of cases and the effects on the society and economy. This is related to each country's crisis management, i.e., the various policies which have been implemented in the relevant country. Some countries reacted very fast, imposing strict lockdowns, whereas other countries introduced more moderate policies to stop the spread of the virus.

REPORT OF THE DIRECTORS (Contd)

DOMESTIC ECONOMY

Domestic economic Growth

The domestic economy was estimated to have contracted by 2.0 percent in 2020 from a growth of 5.4 percent in 2019, underscored by a slowdown in economic activities arising from the COVID-19 pandemic. However, a modest recovery in economic activities was observed in the last quarter of the year, following the prudent implementation of both fiscal and monetary policies to mitigate the effect of the pandemic.

Domestic Inflation

The Bank of Sierra Leone embarked on major reforms in 2020, which enhanced liquidity management and anchored inflation expectations. As a result, annual inflation moderated to 10.45 percent in December 2020 from 13.89 percent in December 2019. Meanwhile, food inflation mainly followed an upward trend, while non-food inflation mainly followed a downward trend in 2020.

External Sector

External sector performance improved in 2020, resulting in the narrowing of the current account deficit to an estimated US$702.8mn (16.7 percent of GDP), from a deficit of US$915.4mn (22.3 percent of GDP) in 2019. The improvement in the current account reflects improvements in secondary income (current transfers) and services account, which were partly offset by the deterioration in primary income and goods account.

Accordingly, the stock of gross foreign exchange reserves of the Bank of Sierra Leone increased from US$533.15mn in 2019 to US$708.77mn in 2020, and was sufficient to cover 5.1 months of imports.

The Leone-US dollar exchange rate was relatively stable in 2020, mainly on account of the significant increase in foreign exchange inflows from development partners to support the fight against COVID-19 and the foreign exchange made available by the BSL for the importation of essential commodities into the economy.

Impact of COVID 19

COVID 19 negatively impacted the Bank's revenue position in 2020. As foreign interest rate fell, the Bank lost substantial amount of foreign interest income. This situation is expected to continue in 2021. Local investment income was not affected in 2020 as actual interest income was more than what was budgeted. Government received funding to mitigate the effect of COVID 19 on the economy. With the receipt of such funds, Government is expected to redeem matured securities in 2021 and as such the Bank will realise lower local interest income in 2021.

FISCAL DEVELOPMENTS

Following the COVID-19 outbreak, government budgetary operations, on the basis of provisional data, resulted in a widened deficit (including grants) of Le2,283.85bn (5.57% of GDP) in 2020 compared to a deficit of Le936.65bn (2.53% of GDP) in 2019, and exceeded the budgeted deficit of Le1,990.53bn (4.85% of GDP) by 14 .74 percent. The widened deficit ensued from an expansion in government expenditure and net lending which crowded out the increase in government revenue during the reviewed period.

MONETARY DEVELOPMENTS

Reserve Money

Reserve Money (RM) increased by 54.83 percent in 2020, relative to a growth of 12.41 percent in 2019. This was mainly driven by growth in both NFA and NDA of the Central Bank. NFA of the Central Bank grew by 58.52 percent in 2020, a moderation when compared to the growth of 193.20 percent recorded in 2019. On the liabilities side, the expansion in RM reflected increase in both banks' reserves and currency issued.

Broad Money

Broad Money (M2) growth expanded by 38.18 per cent in 2020, more than double when compared to the 14.31 percent growth recorded in 2019. The growth in M2 was reflected in both the Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the banking system. From the liability side, the expansion in M2 reflected increase in both Narrow Money (M1) and Quai Money.

REPORT OF THE DIRECTORS (Contd)

Directors and their interest

The following were Directors of the Bank as at 31 December 2020:

Professor Kelfala M. Kallon	-	Governor/Chairman	- Governor (appointed 15 August 2018)
Dr Ibrahim L. Stevens	-	Deputy Governor-Monetary Stability	- Deputy Governor (re-appointed 24 July 2019)
Mr Sheik A. Y. Sesay	-	Deputy Governor - Financial Stability	- Appointed 26 June 2020
Ms Cecilia M. Demby	-	Director	- Appointed 18 October 2018
Mr George Taylor	-	Director	- Appointed 25 October 2018
Mr Sheikh R. Kamara	-	Director	- Appointed 31 October 2018
Mr Sheka A. Mansaray	-	Director	- Appointed 31 October 2018
P. C. Alhaji A. Kathenkeh II	-	Director	- Appointed 31 October 2018
Mrs Amy Myers	-	Director	- Appointed 19 September 2019

Professor Kelfala M. Kallon was appointed Governor of the Bank on 15 August 2018 and in accordance with section 7(2) of the Bank of Sierra Leone Act 2019, to hold office for a term of five years before being eligible for re-appointment for another term only. Dr. Ibrahim L. Stevens was re-appointed on 24 July 2019 as Deputy Governor (Monetary Stability) and Sheik A. Y. Sesay was appointed on 26 June 2019 as Deputy Governor (Finacial Stability).

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

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

Auditors

The auditors, BDO, were appointed by the Auditor-General to conduct the audit of the financial statements for the period ended 31 December 2020.

Approval of the financial statements

The financial statements were approved by the Board of Directors on ....1st April.... 2022.

....
Governor

....
Director

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE

Opinion

We have audited the financial statements of Bank of Sierra Leone set out on pages 13 to 81 which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Bank of Sierra Leone Act 2019.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

The key audit matters which apply to the audit of the financial statements of the Bank are:

- Foreign exchange transactions including the respective net exchange gain/loss
- Accuracy of assets and liabilities with respect to disclosure and valuation
- Completeness of notes
- Impairment assessment of financial assets

<u>Foreign exchange transactions including the respective net exchange gain/loss</u>
The Bank holds international reserves in foreign currencies as well as assets and liabilities arising from its membership in the International Monetary Fund (IMF). According to the Bank's accounting policies, all foreign currency positions should be revalued daily. With respect to the IMF assets and liabilities, the policies refer to IMFs Aide Memoire "Accounting for Fund Transactions" dated August 1, 2017.

In the course of our audit we have performed a systems audit of the Bank's system used for the accounting of foreign exchange transactions. The Bank's system for accounting for foreign exchange transactions including the respective recognition of realized and unrealized gains and losses is not configured to show and work with the exchange rates at which the transactions were initiated. Manual computations of the realized exchange gains and losses had to be performed and the amounts adjusted on the 2020 financial statements.

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE (Contd)

Accuracy of assets and liabilities with respect to disclosure and valuation

The Bank holds various Balances with other Central Banks, Placement with Banks, Cash Balances with Banks, Balances due from the Government as well as Deposits from Government, Banks and Others.

In the course of the audit we undertook balance sheet confirmations in compliance with International Standards on Auditing. The counterparties had to complete a blank confirmation with account information and balances. The confirmations were posted and returned to us. All differences have either been cleared with alternative audit procedures or have been adjusted accordingly.

Completeness of notes

Due to the dynamic nature of financial reporting standards and frameworks, the completeness and correctness of the notes had been identified as a key audit matter.

In the course of our audit we emphasized on the completeness and correctness of the notes. In order to test the completeness of the notes, we met with the Bank, scrutinized all information in detail, took the respective evidence on file and used international disclosure checklist, industry sector checklist, and the applicable accounting standards. Based on the discussions, the information received and our findings, the Bank has changed the notes accordingly.

Impairment assessment of financial assets

The determination of expected credit loss allowances is subjective and judgemental. With the introduction of IFRS 9 in 2018, a number of additional judgements and assumptions were introduced and reflected in the financial statements, including the identification of significant increases in credit risk and the application of forward looking economic scenarios reflecting management's view of potential future economic environment. These judgements were key in the development of new models which have been built and implemented to measure the expected credit losses on relevant credit exposures. There is limited experience available to back-test the charge for expected credit losses ('ECL') with actual results. There is also a significant increase in the number of data inputs required for the impairment calculation. This increases the risk of completeness and accuracy of the data that has been used to create assumptions and operate the model. In some cases, data is unavailable and reasonable alternatives have been applied to allow calculations to be performed.

At 31 December 2020, the Bank's credit exposures and respective impairment comprised mainly short and long-term investment securities issued by the Government of Sierra Leone and deposits from banks and others.

Expected credit losses was considered to be a key audit matter due to the level of significant judgement applied by management in determining ECL and the increased uncertainty related to the impact of COVID-19 pandemic.

Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include:

- Definition of default and credit impaired assets focusing on both the qualitative and quantitative criteria used by the Bank;
- Allocation of assets to stage 1, 2, or 3 using the significant increase in credit risk (SICR) criteria and focusing on both the qualitative and quantitative indicators;

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE (Contd)

- Accounting interpretations and modelling assumptions used to build the models that calculate the ECL such as the Probability of Default (PD), Exposure At Default (EAD) and the Loss Given Default (LGD);

- Accuracy and adequacy of the financial statement disclosures.

The accounting policies, critical estimates and judgements and impairment charge are set out in notes 7, 36, 39g, 39j and 39m. Impairment of financial assets is considered a key audit matter in the financial statements.

The audit procedures that we performed included evaluating the accounting interpretations for compliance with IFRS 9 and testing the proposed adjustments and disclosures in the financial statements.

We reviewed and evaluated controls supporting management's estimates, judgements and assumptions and tested selected key controls on the completeness and accuracy of data used as input to the models.

To address the above we assessed conformity of management's ECL accounting policy in the context of IFRS 9 and current guidance relating to COVID-19. This includes reviewing and challenging management assumptions on how COVID-19 has influenced the key components of the ECL, thus, the LGD and the PD.

We determined if there are any indicators of impairment (significant increase in credit risk) by considering the following possible loss events which were external and/or internal:

a) An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations;

b) significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;

c) significant changes in the expected performance and behaviour of the borrower, including changes in the payment status.

We evaluated the bond's effective interest rate used in discounting expected future cash flows by validating that the discount rates used in discounting the estimated future cash flows meet the effective interest rates requirement of IFRS 9.

We determined whether the cash flows from principal and interest repayments are supportable and consistent with current financial information.

We assessed the measurement decisions which include challenging management's determination of:
- definition and identification of default
- probability of default
- exposure at default
- loss given default

We challenged the criteria used to allocate an asset to stages 1, 2 or 3 in accordance with IFRS 9 and tested - as far as applicable - assets in stages 1, 2 and 3 to verify that they were allocated to the appropriate stage.

We tested the assumptions, inputs and formulas by assessing the appropriateness of model design and formulas used and recalculating the PD for exposures.

We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment. We understood and evaluated controls supporting management's estimates, judgements and assumptions and tested selected key controls on the completeness and accuracy of data used as input to the models.

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE (Contd)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. Those charged with governance are responsible for overseeing the financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our Objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE (Contd)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT
TO THE GOVERNMENT OF SIERRA LEONE (Contd)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Section 25 of the Bank of Sierra Leone Act 2019, we report that:

- we were able to examine the books and accounts of the Bank and were provided with all the information and explanations about its transactions required by us for the efficient performance of our duties, and
- key matters arising from the audit and in particular on material weaknesses in internal controls in relation to the financial reporting process have been disclosed.

The engagement partner on the audit resulting in this independent auditors' report is Samuel Noldred.

BDO

Freetown, Sierra Leone

10th May, 2022

STATEMENT OF FINANCIAL POSITION

In thousands of Leones	*Notes*	**2020**	2019
Assets			
Cash and cash equivalents	*16*	**5,031,309,220**	3,942,580,449
Funds held with International Monetary Fund (IMF)	*17*	**5,303,979,749**	4,197,352,853
Loans and advances to others	*18a*	**13,090,185**	11,200,316
Due from Government of Sierra Leone	*18b*	**2,807,968,092**	1,625,629,241
COVID-19 special credit facility to banks	*18c*	**489,227,889**	-
Investment in equity	*19*	**67,600,814**	64,888,567
Investment securities	*20*	**824,523,797**	1,158,174,708
Property, plant and equipment	*21*	**204,109,082**	200,675,104
Other assets	*22*	**85,579,979**	331,536,686
Total assets		**14,827,388,807**	11,532,037,924
Liabilities			
Amounts due to International Monetary Fund (IMF)	*23*	**9,633,349,356**	7,672,741,001
Deposits from Government	*24*	**224,594,702**	216,843,839
Deposits from banks	*25*	**1,227,493,377**	440,306,761
Deposits from others	*26*	**95,279,599**	73,202,858
Currency in circulation	*27*	**3,009,347,915**	2,307,943,295
Other liabilities	*28*	**263,613,334**	242,997,438
End-of-service benefits	*29*	**58,900,766**	48,229,660
Total liabilities		**14,512,579,049**	11,002,264,852
Equity			
Capital	*30*	**125,000,000**	125,000,000
General reserve	*31(a)*	**165,720,755**	377,594,423
Revaluation reserve	*31(b)*	**32,792,919**	32,792,919
Other reserves	*31(c)*	**(8,703,916)**	(5,614,270)
Total equity		**314,809,758**	529,773,072
Total liabilities and equity		**14,827,388,807**	11,532,037,924

These financial statements were approved by the Board of Directors on 15r April **2022**

Governor

Director

Secretary

The notes on pages 19 to 80 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

In thousands of Leones

	Notes	**2020**	2019
Interest and similar income	*8*	**216,113,009**	269,674,842
Interest expenses and similar charges	*8*	**(4,632,581)**	(13,276,156)
Net interest income		**211,480,428**	256,398,686
Fees and commission income	*9*	**4,069,040**	3,653,521
Fees and commission expense	*9*	**(269,846)**	(275,187)
Net fees and commission income		**3,799,194**	3,378,334
Net exchange (loss)/gain	*10*	**(63,110,875)**	113,788,748
Other income	*11*	**3,959,106**	4,319,996
Operating income		**156,127,853**	377,885,764
Personnel expense	*12*	**(127,635,864)**	(112,436,795)
Currency issue expense	*13*	**(93,957,044)**	(44,372,818)
Depreciation and amortisation	*21*	**(5,216,887)**	(5,629,956)
Impairment loss on financial instruments	*14a*	**(53,445,000)**	(60,123,661)
Other expenses	*14b*	**(87,746,726)**	(53,440,871)
(Loss)/profit for the year		**(211,873,668)**	101,881,663
Other comprehensive income			
Defined benefit plan actuarial loss		**(3,089,646)**	(236,523)
Total comprehensive (expense)/income for the year		**(214,963,314)**	101,645,140

The notes on pages 19 to 80 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

In thousands of Leones	*Notes*	**2020**	2019
(Loss)/Profit attributable to:			
Equity holders of the Bank		**(211,873,668)**	101,881,663
(Loss)/profit for the year		**(211,873,668)**	101,881,663
Total comprehensive (expense)/income attributable to:			
Equity holders of the Bank		**(214,963,314)**	101,645,140
Total comprehensive (expense)/income for the year		**(214,963,314)**	101,645,140

These financial statements were approved by the Board of Directors on 1st April **2022**

....**) Governor**

....**) Director**

....**) Secretary**

The notes on pages 19 to 80 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

In thousands of Leones

	Share Capital	Property Revaluation Reserve	General Reserve	Other Reserves	Total
Balance at 1 January 2020	**125,000,000**	**32,792,919**	**377,594,423**	**(5,614,270)**	**529,773,072**
Total comprehensive income for the year					
Net (loss)/profit for the year	-	-	**(211,873,668)**	-	**(211,873,668)**
Securities reserves	-	-	-	-	-
Other comprehensive income					
Fair value reserve (non-interest-bearing securities)	-	-	-	-	-
Actuarial loss	-	-	-	**(3,089,646)**	**(3,089,646)**
Total other comprehensive income for the year	-	-	**(211,873,668)**	**(3,089,646)**	**(214,963,314)**
Total comprehensive income and other transfers					
Paid up capital	-	-	-	-	-
Deposit for shares	-	-	-	-	-
Balance at 31 December 2020	**125,000,000**	**32,792,919**	**165,720,755**	**(8,703,916)**	**314,809,758**

The notes on pages 19 to 80 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

In thousands of Leones

	Share Capital	Property Revaluation Reserve	General Reserve	Other Reserves	Total
Balance at 1 January 2019	125,000,000	32,792,919	274,318,023	(5,377,747)	426,733,195
Total comprehensive income for the year					
Net profit for the year	-	-	101,881,663	-	101,881,663
Securities reserves	-	-	-	-	-
Prior year adjustment	-	-	1,394,737	-	1,394,737
Changes on initial adoption of IFRS 9	-	-	-	-	-
Other comprehensive income					
Fair value reserve (non-interest-bearing securities)	-	-	-	-	-
Actuarial loss	-	-	-	(236,523)	(236,523)
Total other comprehensive income for the year	-	-	103,276,400	(236,523)	103,039,877
Total comprehensive income and other transfers					
Paid up capital	-	-	-	-	-
Deposit for shares	-	-	-	-	-
Balance at 31 December 2019	125,000,000	32,792,919	377,594,423	(5,614,270)	529,773,072

The notes on pages 19 to 80 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

In thousands of Leones

	Notes	2020	2019
Cash flows from operating activities			
(Loss)/profit for the year		**(211,873,668)**	101,881,663
Adjustment for:			
Depreciation and amortisation	21	**5,216,887**	5,629,956
Net interest income	8	**(211,480,428)**	(256,398,686)
Fixed asset adjustments	21a	**8**	121,849
Actuarial loss on defined benefit obligation	29d	**(3,089,646)**	(236,523)
Prior year adjustment		**-**	1,394,737
		(421,226,847)	(147,607,004)
Changes in:			
Loans and advances to others	18a	**(1,889,869)**	(1,111,404)
Due from Government of Sierra Leone	18b	**(1,182,338,851)**	(131,836,432)
Advances to banks	18c	**(489,227,889)**	-
Other assets	22	**245,956,707**	(175,901,847)
Currency in circulation	27	**701,404,620**	324,078,614
Government deposit	24	**7,750,863**	59,406,691
Other deposits	26	**22,076,741**	42,330,891
Deposits from banks	25	**787,186,616**	(21,532,830)
Other liabilities	28	**20,615,894**	25,059,183
End-of-service benefits	29	**10,671,106**	7,459,354
		(299,020,909)	(19,654,784)
Interest received	8	**216,113,009**	269,674,842
Interest paid	8	**(4,632,581)**	(13,276,156)
Net cash generated from operating activities		**(87,540,481)**	236,743,902
Cash flows from investing activities			
Sale of investment securities	20	**333,650,911**	111,878,801
Acquisition of investment in equity	19	**(2,712,247)**	(8,597,141)
Acquisition of property, plant and equipment	21a	**(8,650,871)**	(44,130,581)
Net cash generated from investing activities		**322,287,793**	59,151,079
Cash flows from financing activities			
Net change in funds from the IMF	17	**853,981,459**	460,668,016
Net movement in reserves	31	**-**	-
Net cash from financing activities		**853,981,459**	460,668,016
Net increase in cash and cash equivalents		**1,088,728,771**	756,562,997
Cash and cash equivalents at 1 January		**3,942,580,449**	3,186,017,452
Cash and cash equivalents at 31 December	16	**5,031,309,220**	3,942,580,449

The notes on pages 19 to 80 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 its capital was subscribed wholly by the Government of Sierra Leone. The address of the Bank's registered office is Siaka Stevens Street, Freetown. The Bank is an autonomous institution, and in that respect not subject to the control or direction of any person or authority.

The objective of the Bank is to achieve and maintain price stability. The Bank's function is to:

i. formulate and implement monetary policy, financial regulation and prudential standards;
ii. act as banker, adviser and fiscal agent of the Government;
iii. formulate and implement the foreign exchange policy of Sierra Leone;
iv. conduct foreign-exchange operations;
v. own, hold and maintain the official international reserves including the reserves of gold;
vi. issue and manage the currency of Sierra Leone;
vii. establish, promote, license and oversee sound and efficient payment and securities settlement systems;
viii. license, register, regulate and supervise financial institutions as specified in the Bank of Sierra Leone Act 2019;
ix. act as depository for funds from international organizations.

2 BASIS OF ACCOUNTING

The financial statements of Bank of Sierra Leone have been prepared in accordance with International Financial Reporting Standards (IFRSs) and it's interpretation as issued by the International Accounting Standards Board (IASB) and in the manner required by the Bank of Sierra Leone Act 2019. They were authorised for issue by the Bank's Board of Directors.

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.

Details of the Bank's accounting policies, including changes during the year, as well as the adoption of new and revised International Financial Reporting Standards (IFRS's) and Interpretations are included in notes 38 to 39.

3 USE OF JUDGEMENTS, ASSUMPTIONS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the bank's accounting policies and the resulted reported amounts of assets, 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 prospectively.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

3 USE OF JUDGEMENTS, ASSUMPTIONS AND ESTIMATES (Contd)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is set out below in relation to the impairment of financial instruments and in the following notes:

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

Impairment of financial instruments

Non-financial assets are evaluated for impairment on the basis described in note 39(m).

As described in the Key Audit Matters Section, the determination of expected credit loss allowances is subjective and judgemental. With the introduction of IFRS 9 in 2018, a number of additional judgements and assumptions are introduced and reflected in the financial statements, including the identification of significant increases in credit risk and the application of forward looking economic scenarios reflecting management's view of potential future economic environment. These judgements were key in the development of new models which have been built and implemented to measure the expected credit losses on relevant credit exposures.

There is limited experience available to back-test the charge for expected credit losses ('ECL') with actual results. There is also a significant increase in the number of data inputs required for the impairment calculation. This increases the risk of completeness and accuracy of the data that has been used to create assumptions and operate the model. In some cases, data is unavailable and reasonable alternatives have been applied to allow calculations to be performed.

Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include:

- Definition of default and credit impaired assets focusing on both the qualitative and quantitative criteria used by the Bank;

- Allocation of assets to stage 1, 2, or 3 using the significant increase in credit risk (SICR) criteria and focusing on both the qualitative and quantitative indicators;

- Accounting interpretations and modelling assumptions used to build the models that calculate the ECL such as the Probability of Default (PD), Exposure At Default (EAD), Loss Given Default (LGD);

- Accuracy and adequacy of the financial statements disclosures.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

4 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Leones, which is the bank's functional currency. Except as indicated, financial information presented in Leones has been rounded to the nearest thousand.

5 FINANCIAL RISK REVIEW

This note presents information about the bank's exposure to financial risks and the bank's management of capital. Further details on the Bank's policies have been provided in note 36.

(a) Credit risk

For the definition of credit risk and information on how credit risk is managed by the Bank, see note 36(a).

Credit quality
The Bank lends principally to the Government of Sierra Leone, repayment of which is guaranteed by the borrower. On its investment portfolio and other assets on which it may be exposed to credit risk, the Bank minimizes its exposure 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 and the type of borrower. The bulk of the funds is placed with rated banks, central banks and supranational organizations as approved by the Foreign Assets Committee (FAC), Management and the Board).

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.

The substantial portion of the investment held with non-rated issuers is guaranteed by the Government of Sierra Leone.

	Credit rating	2020	% of FA	2019	% of FA
Cash balances with Central Banks	AAA - Aa2	**770,424,974**	**8.10**	1,076,147,320	15.26
Cash and balances with supranational organisations	Aaa - B1/N/R	**3,781,825,609**	**39.75**	2,788,381,837	39.55
Cash and balances with commercial banks	Aa3 - B2/BB*/N/R	**478,792,656**	**5.03**	77,792,066	1.10
Cash balances with non-banking financial institutions	N/R	**265,981**	**0.0**	259,226	0.00
Advances	N/R	**3,310,286,166**	**34.79**	1,636,829,557	23.21
Investment securities	N/R	**824,523,797**	**8.67**	1,158,174,708	16.43
Contigencies and commitments	N/R	**348,132,310**	**3.66**	313,493,885	4.45
Total		**9,514,251,493**	**100**	7,051,078,599	100

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 and off balance sheet items.

The Bank writes off an advance or an investment (and any related allowances for impairment losses) when Management and the Board determine that the assets are uncollectible. This determination is reached after considering information on the probability of collectability of the said balance.

To enable risk management, the Bank analyses its assets, portfolio and liabilities using various parameters, the result of which is the provision of information which facilitates investment decisions.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Credit risk (contd)

Concentration analysis

The Bank's policy is to hold investments in fairly stable currencies to avoid losses caused by the depreciation of the Leone.

The analysis below gives an indication of the concentration by currency of the Bank's financial assets:

Assets

In thousands of Leones	GBP	Euro	US$	SDR	Leone and Others	Total
At 31 December 2020						
Cash and cash equivalents	**227,624,523**	**652,734**	**4,688,531,011**	**-**	**114,500,952**	**5,031,309,220**
IMF assets	**-**	**-**	**-**	**5,303,979,749**	**-**	**5,303,979,749**
Advances	**-**	**-**	**-**	**-**	**3,310,286,166**	**3,310,286,166**
Investment in equity	**-**	**-**	**67,600,814**	**-**	**-**	**67,600,814**
Investment securities	**-**	**-**	**-**	**-**	**824,523,797**	**824,523,797**
Total assets	**227,624,523**	**652,734**	**4,756,131,825**	**5,303,979,749**	**4,249,310,915**	**14,537,699,746**
At 31 December 2019						
Cash and cash equivalents	569,537,287	507,858	3,366,120,194	-	6,415,110	3,942,580,449
IMF assets	-	-	-	4,197,352,853	-	4,197,352,853
Advances	-	-	-	-	1,636,829,557	1,636,829,557
Investment in equity	-	-	64,888,567	-	-	64,888,567
Investment securities	-	-	-	-	1,158,174,708	1,158,174,708
Total assets	569,537,287	507,858	3,431,008,761	4,197,352,853	2,801,419,375	10,999,826,134

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

(b) Liquidity risk

Liquidity risk arises when the bank is not able to meet short term financial demands which usually occur when it is unable to convert security or non-liquid assets to cash without loss of capital or revenue. Hence it includes both the risk of being unable to fund assets to appropriate maturities and the risk of being unable to liquidate an asset at a reasonable price, at an appropriate rate and in reasonable timeframe.

Funds are raised using deposits, other liabilities regulated by law and other credit facilities. This enhances funding flexibility, limits dependence on any source of funds and generally lowers the cost of funds. Furthermore, the bank manages liquidity risk through foreign exchange cashflows monitoring tables and by forecasting liquidity in the banking system on a regular basis. This ensures that an appropriate level of liquidity is maintained. However, liquidity risk is present with respect to the foreign assets and liabilities and the Bank mitigates this risk by fixing limits to holding sizes and maturity of its investments.

(i) Maturity analysis for financial assets and financial liabilities¤

The Bank manages its (foreign) liquidity risks through the appropriate structuring of its (foreign) investment portfolios, to ensure that the maturity profile of (foreign) currency assets sufficiently matches those of its (foreign) currency 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 assets and liabilities into relevant maturity groupings based on the remaining period at statement of financial position date to contractual maturity date and shows the mismatch.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Liquidity risk (contd)

In thousands of Leones	*Notes*	Carrying amount	Less than 1 month	1 - 3 Months	3 months to 1 year	1 - 5 Years	More than 5 years
31 December 2020							
Financial asset by type							
Non-derivative liabilities							
Cash balances with central banks	16	770,424,974	770,424,974	-	-	-	-
Cash balances with supranational organisations	16	3,781,825,609	-	3,781,825,609	-	-	-
Cash and balances with commercial banks	16	478,792,656	-	478,792,656	-	-	-
Cash balances with non-banking financial institutions	16	265,981	-	265,981	-	-	-
International Monetary Fund Related Assets	17	5,303,979,749	-	-	5,303,979,749	-	-
Investment in equity	19	67,600,814	-	-	-	30,103,150	37,497,664
Advances	18	3,310,286,166	-	1,673,988,663	1,625,176,029	9,074,353	2,047,121
Investment securities	20	824,523,797	-	8,740,992	457,546,569	331,986,236	26,250,000
		14,537,699,746	770,424,974	5,943,613,901	7,386,702,347	371,163,739	65,794,785
Financial liability by type							
Non-derivative liabilities							
Amounts due to International Monetary Fund (IMF)	23	9,633,349,356	-	-	9,633,349,356	-	-
Deposits from Government	24	224,594,702	-	-	224,594,702	-	-
Deposits from Banks	25	1,227,493,377	-	-	1,227,493,377	-	-
Deposits from others	26	95,279,599	95,279,599	-	-	-	-
End-of-service benefits	29	58,900,766	-	-	-	58,900,766	-
Unrecognised loan commitment		-	-	-	-	348,132,310	-
		11,239,617,800	95,279,599	-	11,085,437,435	407,033,076	-

NOTES TO THE FINANCIAL STATEMENTS (Contd)

5 FINANCIAL RISK REVIEW (Contd)

Liquidity risk (contd)

(ii) Maturity analysis for financial assets and financial liabilities (contd)

The table below sets out the remaining contractual maturities of the Bank's financial liabilities and financial assets:

In thousands of Leones	*Notes*	Carrying amount	Less than 1 month	1 - 3 Months	3 months to 1 year	1 - 5 Years	More than 5 years
31 December 2019							
Financial asset by type							
Non-derivative liabilities							
Cash balances with central banks	*16*	1,076,147,320	1,076,147,320	-	-	-	-
Cash balances with supranational organisations		2,788,381,837	-	2,788,381,837	-	-	-
Cash and balances with commercial banks		77,792,066	-	77,792,066	-	-	-
Cash balances with non-banking financial institutions		259,226	-	259,226	-	-	-
International Monetary Fund Related Assets	*17*	4,197,352,853	-	-	4,197,352,853	-	-
Advances	*20*	64,888,567	-	-	-	28,932,665	35,955,902
Investment in equity	*19*	1,636,829,557	-	-	1,625,176,029	9,606,407	2,047,121
Investment securities	*18*	1,158,174,708	-	5,534,553	726,624,089	392,266,066	33,750,000
		10,999,826,134	1,076,147,320	2,871,967,682	6,549,152,971	430,805,138	71,753,023
Financial liability by type							
Non-derivative liabilities							
Amounts due to International Monetary Fund (IMF)	*23*	7,672,741,001	-	-	7,672,741,001	-	-
Deposits from Government	*24*	216,843,839	-	-	216,843,839	-	-
Deposits from Banks	*25*	440,306,761	-	-	440,306,761	-	-
Deposits from others	*26*	73,202,858	73,202,858	-	-	-	-
Unrecognised loan commitment		-	-	-	-	313,493,885	-
		8,403,094,459	73,202,858	-	8,329,891,601	313,493,885	-

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Liquidity risk (contd)

Comparison on book values measured with their FV and Carrying Amount

The table below sets out the components of the Bank's liquid reserves at book and fair values:

In thousands of Leones	**2020 Carrying amount**	**2020 Fair value**	2019 Carrying amount	2019 Fair value
Cash in hand	**202,319**	**202,319**	198,182	198,182
Balances with other Central Banks	**770,424,974**	**770,424,974**	1,076,147,320	1,076,147,320
Balances with Supranational Organizations	**3,781,825,609**	**3,781,825,609**	2,788,381,837	2,788,381,837
Balances with Commercial Banks	**478,792,656**	**478,792,656**	77,792,066	77,792,066
Cash balances with non-banking financial institutions	**63,662**	**63,662**	61,044	61,044
International Monetary Fund Related Assets	**5,303,979,749**	**5,303,979,749**	4,197,352,853	4,197,352,853
Investment in equity	**67,600,814**	**67,600,814**	64,888,567	64,888,567
Advances	**3,310,286,166**	**3,310,286,166**	1,636,829,557	1,636,829,557
Investment securities	**824,523,797**	**824,523,797**	1,158,174,708	1,158,174,708
Total	**14,537,699,746**	**14,537,699,746**	10,999,826,134	10,999,826,134

Pledged assets
None of the Bank's asset were encumbered and were therefore available to be provided as collateral to support future borrowing.

(c) Market risks

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

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

Management of interest rate risk

The Bank holds a mixture of 1 year, 3 year and 10 year bonds as part of its local portfolio. Of these, only 1 year bonds are marketable/tradable but the Bank normally holds them to maturity because of the absence of an active market.

The local portfolio is made up mainly of these bonds and treasury bills issued by the Government of Sierra Leone. The Bank does not normally manage its exposure to decreases in yields of these securities because its participation in the secondary market is an intervention mechanism as part of its core functions and not for a profit motive.

The Bank's foreign portfolio is largely made up of short-term fixed deposits in the money market which are held to collect the contractual cash flows. This portfolio is however subject to risk of changes in exchange rate and interest rate. The Bank's investment in equity is non-tradable.

Interest rate is managed where fluctuation in interest rate will potentially reduce the Bank's income from foreign and local investment.

For foreign investments, interest rate risk is managed by holding minimum balances in currencies with falling interest rates. The foreign investments are however mainly in fixed term deposits, therefore the bank is not exposed to interest rate resetting.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

Interest rate risk (contd)

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

The scenario that is considered on a monthly basis is a 2% basis point (bp) parallel fall or rise in market interest rates.

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

	200 bp (2%)	200 bp (2%)
2020	**Increase**	**Decrease**
Interest income impact	**4,322,260**	**(4,322,260)**
Interest expense impact	**(92,652)**	**92,652**
Net impact	**4,229,609**	**(4,229,609)**

	200 bp (2%)	200 bp (2%)
2019	Increase	Decrease
Interest income impact	5,393,497	(5,393,497)
Interest expense impact	(265,523)	265,523
Net impact	5,127,974	(5,127,974)

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 advances.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

Concentrations of assets, liabilities and off-balance sheet items

In thousands of Leones	**GBP**	**Euro**	**US$**	**SDR**	**Others**	**Total**
At 31 December 2020						
Cash and cash equivalents	**227,624,523**	**652,734**	**4,688,531,011**	**-**	**114,500,952**	**5,031,309,220**
IMF Assets	**-**	**-**	**-**	**5,303,979,749**	**-**	**5,303,979,749**
Advances	**-**	**-**	**-**	**-**	**3,310,286,166**	**3,310,286,166**
Investment in equity	**-**	**-**	**67,600,814**	**-**	**-**	**67,600,814**
Investment in securities	**-**	**-**	**-**	**-**	**824,523,797**	**824,523,797**
Total assets	**227,624,523**	**652,734**	**4,756,131,825**	**5,303,979,749**	**4,249,310,915**	**14,537,699,746**
Liabilities						
IMF drawing rights allocation	**-**	**-**	**-**	**9,633,349,356**	**-**	**9,633,349,356**
Deposits from Government	**-**	**-**	**-**	**-**	**224,594,702**	**224,594,702**
Deposits from banks	**-**	**-**	**-**	**-**	**1,227,493,377**	**1,227,493,377**
Deposit from others	**-**	**-**	**-**	**-**	**95,279,599**	**95,279,599**
End-of-service benefits	**-**	**-**	**-**	**-**	**58,900,766**	**58,900,766**
Total liabilities	**-**	**-**	**-**	**9,633,349,356**	**1,606,268,444**	**11,239,617,800**
Net on-balance sheet position	**227,624,523**	**652,734**	**4,756,131,825**	**(4,329,369,607)**	**2,643,042,471**	**3,298,081,946**
At 31 December 2019						
Cash and cash equivalents	569,537,287	507,858	3,366,120,194	-	6,415,110	3,942,580,449
IMF assets	-	-	-	4,197,352,853	-	4,197,352,853
Advances	-	-	-	-	1,636,829,557	1,636,829,557
Investment in equity	-	-	64,888,567	-	-	64,888,567
Investment securities	-	-	-	-	1,158,174,708	1,158,174,708
Total assets	569,537,287	507,858	3,431,008,761	4,197,352,853	2,801,419,375	10,999,826,134
Liabilities						
IMF drawing rights allocation	-	-	-	7,672,741,001	-	7,672,741,001
Deposits from Government	-	-	-	-	216,843,839	216,843,839
Deposits from banks	-	-	-	-	440,306,761	440,306,761
Deposit from others	-	-	-	-	73,202,858	73,202,858
End-of-service benefits	-	-	-	-	48,229,660	48,229,660
Total liabilities	-	-	-	7,672,741,001	778,583,118	8,451,324,119
Net on-balance sheet position	569,537,287	507,858	3,431,008,761	(3,475,388,148)	2,022,836,257	2,548,502,015

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

Foreign currency sensitivity analysis

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

The following sensitivity analysis has been based on a 10% upward shift in the exchange rates of various currencies against the Leone. The net impact of a shift in the exchange rate is positive and amounts up to Le390,656,812 (2019: Le254,850,201)

2020

In thousands of Leones

	GBP	EUR	US$	SDR	Others	Total
Assets						
Cash and cash equivalents	22,762,452	65,273	468,853,101	-	11,450,095	503,130,922
IMF assets	-	-	-	530,397,975	-	530,397,975
Advances	-	-	-	-	331,028,617	331,028,617
Investment in equity	-	-	67,600,814	-	-	67,600,814
Investment securities	-	-	-	-	82,452,380	82,452,380
Total assets	22,762,452	65,273	536,453,915	530,397,975	424,931,092	1,514,610,707
Liabilities						
IMF drawing rights allocation	-	-	-	963,334,936	-	963,334,936
Deposits from Government	-	-	-	-	22,459,470	22,459,470
Deposits from banks	-	-	-	-	122,749,338	122,749,338
Deposit from others	-	-	-	-	9,527,960	9,527,960
End-of-service benefits	-	-	-	-	5,890,077	5,890,077
Total liabilities	-	-	-	963,334,936	160,626,844	1,123,961,780
Net-on-balance sheet position	22,762,452	65,273	536,453,915	(432,936,961)	264,304,247	390,648,927

2019

	GBP	EUR	US$	SDR	Others	Total
Assets						
Cash and cash equivalents	56,953,729	50,786	336,612,019	-	641,511	394,258,045
IMF assets	-	-	-	419,735,285	-	419,735,285
Advances	-	-	-	-	163,682,956	163,682,956
Investment in equity	-	-	6,488,857	-	-	6,488,857
Investment securities	-	-	-	-	115,817,471	115,817,471
Total assets	56,953,729	50,786	343,100,876	419,735,285	280,141,938	1,099,982,614
Liabilities						
IMF drawing rights allocation	-	-	-	767,274,100	-	767,274,100
Deposits from Government	-	-	-	-	21,684,384	21,684,384
Deposits from banks	-	-	-	-	44,030,676	44,030,676
Deposit from others	-	-	-	-	7,320,286	7,320,286
End-of-service benefits	-	-	-	-	4,822,967	4,822,967
Total liabilities	-	-	-	767,274,100	77,858,313	845,132,413
Net-on-balance sheet position	56,953,729	50,786	343,100,876	(347,538,815)	202,283,625	254,850,201

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

Foreign currency sensitivity analysis

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

The following sensitivity analysis has been based on a 10% downward shift in the exchange rates of various currencies against the Leone. The net impact of a shift in the exchange rate is negative and amounts up to Le(390,656,812) 2019: Le(254,850,201)

2020

In thousands of Leones

	GBP	EUR	US$	SDR	Others	Total
Assets						
Cash and cash equivalents	**(22,762,452)**	**(65,273)**	**(468,853,101)**	**-**	**(11,450,095)**	**(503,130,922)**
IMF assets	**-**	**-**	**-**	**(530,397,975)**	**-**	**(530,397,975)**
Advances	**-**	**-**	**-**	**-**	**(331,028,617)**	**(331,028,617)**
Investment in equity	**-**	**-**	**(67,600,814)**	**-**	**-**	**(67,600,814)**
Investment securities	**-**	**-**	**-**	**-**	**(82,452,380)**	**(82,452,380)**
Total assets	**(22,762,452)**	**(65,273)**	**(536,453,915)**	**(530,397,975)**	**(424,931,092)**	**(1,514,610,707)**
Liabilities						
IMF drawing rights allocation	**-**	**-**	**-**	**(963,334,936)**	**-**	**(963,334,936)**
Deposits from Government	**-**	**-**	**-**	**-**	**(22,459,470)**	**(22,459,470)**
Deposits from banks	**-**	**-**	**-**	**-**	**(122,749,338)**	**(122,749,338)**
Deposit from others	**-**	**-**	**-**	**-**	**(9,527,960)**	**(9,527,960)**
End-of-service benefits	**-**	**-**	**-**	**-**	**(5,890,077)**	**(5,890,077)**
Total liabilities	**-**	**-**	**-**	**(963,334,936)**	**(160,626,844)**	**(1,123,961,780)**
Net-on-balance sheet position	**(22,762,452)**	**(65,273)**	**(536,453,915)**	**432,936,961**	**(264,304,247)**	**(390,648,927)**

2019

	GBP	EUR	US$	SDR	Others	Total
Assets						
Cash and cash equivalents	(56,953,729)	(50,786)	(336,612,019)	-	(641,511)	(394,258,045)
IMF assets	-	-	-	(419,735,285)	-	(419,735,285)
Advances	-	-	-	-	(163,682,956)	(163,682,956)
Investment in equity	-	-	(6,488,857)	-	-	(6,488,857)
Investment securities	-	-	-	-	(115,817,471)	(115,817,471)
Total assets	(56,953,729)	(50,786)	(343,100,876)	(419,735,285)	(280,141,938)	(1,099,982,614)
Liabilities						
IMF drawing rights allocation	-	-	-	(767,274,100)	-	(767,274,100)
Deposits from Government	-	-	-	-	(21,684,384)	(21,684,384)
Deposits from banks	-	-	-	-	(44,030,676)	(44,030,676)
Deposit from others	-	-	-	-	(7,320,286)	(7,320,286)
End-of-service benefits	-	-	-	-	(4,822,967)	(4,822,967)
Total liabilities	-	-	-	(767,274,100)	(77,858,313)	(845,132,413)
Net-on-balance sheet position	(56,953,729)	(50,786)	(343,100,876)	347,538,815	(202,283,625)	(254,850,201)

NOTES TO THE FINANCIAL STATEMENTS (Contd)

FINANCIAL RISK REVIEW (Contd)

Market risk (contd)

The continued depreciation of the foreign exchange rate reflects the structural imbalance between demand for and supply of foreign exchange due to in part the sluggish recovery of real sector activities particularly the mining and agriculture sectors and mismatch between Government revenue and expenditure which was largely financed through monetary accommodation.

(d) Operational risk

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 is currently exposed to an operational loss of Le30.9 billion (2019:Le5.8 billion) in respect of provision for litigations.

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. Notwithstanding this, the bank pursues an exclusively qualitative approach in determining operational risks. A model based quantification of operational risk was not performed.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management of the Bank. This responsibility is supported by the development of policies 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's policies is monitored by the Internal Audit Department.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

6 SEGMENT REPORTING

The bank uses a comprehensive steering approach. Therefore, segmental reporting is not applied.

7(i) FAIR VALUE OF FINANCIAL INSTRUMENTS

See accounting policy in note 39(g).

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

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

(a) Valuation models

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

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

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free interest rates, foreign currency exchange rates and expected price volatilities and correlations.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(b) Valuation framework

This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations were possible.

	Level 1	Level 2	Level 3
2020			
Financial assets			
Cash in hand and cash balances with banks	**479,058,637**	-	-
Balances with other central banks	-	**770,424,974**	-
Placement with banks	-	**3,781,825,609**	-
Funds held with International Monetary Fund (IMF)	-	**5,303,979,749**	-
Loans and advances to others	-	**13,090,185**	-
Due from Government of Sierra Leone	-	-	**2,807,968,092**
Loans and advances to banks	-	-	**489,227,889**
Investment in equity	-	-	**67,600,814**
Investment securities	-	-	**824,523,797**
Other assets	**204,109,082**	-	-
	683,167,719	**9,869,320,517**	**4,189,320,592**
Financial liabilities			
Amounts due to International Monetary Fund (IMF)	-	**9,633,349,356**	-
Deposits from Government	-	**224,594,702**	-
Deposits from banks	-	**1,227,493,377**	-
Deposits from others	-	**95,279,599**	-
Currency in circulation	**3,009,347,915**	-	-
Other liabilities	**263,613,334**	-	-
	3,009,347,915	**11,180,717,034**	-

	Level 1	Level 2	Level 3
2019			
Financial assets			
Cash in hand and cash balances with banks	78,051,292	-	-
Balances with other central banks	-	1,076,147,320	-
Placement with banks	-	2,788,381,837	-
Funds held with International Monetary Fund (IMF)	-	4,197,352,853	-
Loans and advances to others	-	11,200,316	-
Due from Government of Sierra Leone	-	-	1,625,629,241
Investment in equity	-	-	64,888,567
Investment securities	-	-	1,158,174,708
Other assets	331,536,686	-	-
	409,587,978	8,073,082,326	2,848,692,516
Financial liabilities			
Amounts due to International Monetary Fund (IMF)	-	7,672,741,001	-
Deposits from Government	-	216,843,839	-
Deposits from banks	-	440,306,761	-
Deposits from others	-	73,202,858	-
Currency in circulation	2,307,943,295	-	-
Other liabilities	242,997,438	-	-
	2,550,940,733	8,403,094,459	-

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(b) Valuation framework

The Financial Markets and Finance departments are responsible for spotting any indicators of fair value adjustment and to ensure such adjustments are properly booked.

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

The Bank measured equity investments at fair value at the reporting date.

7(ii) PRINCIPAL FINANCIAL INSTRUMENTS - CLASSIFICATION

The principal financial instruments used by the Bank, from which financial instrument risk arises, are as follows:

- Loans and overdraft to Government and others
- Cash and cash equivalents
- Deposits from Government banks and others
- Dues to IMF
- Investments Securities
- Equity Investment
- Contingencies and commitments

Financial instruments by category

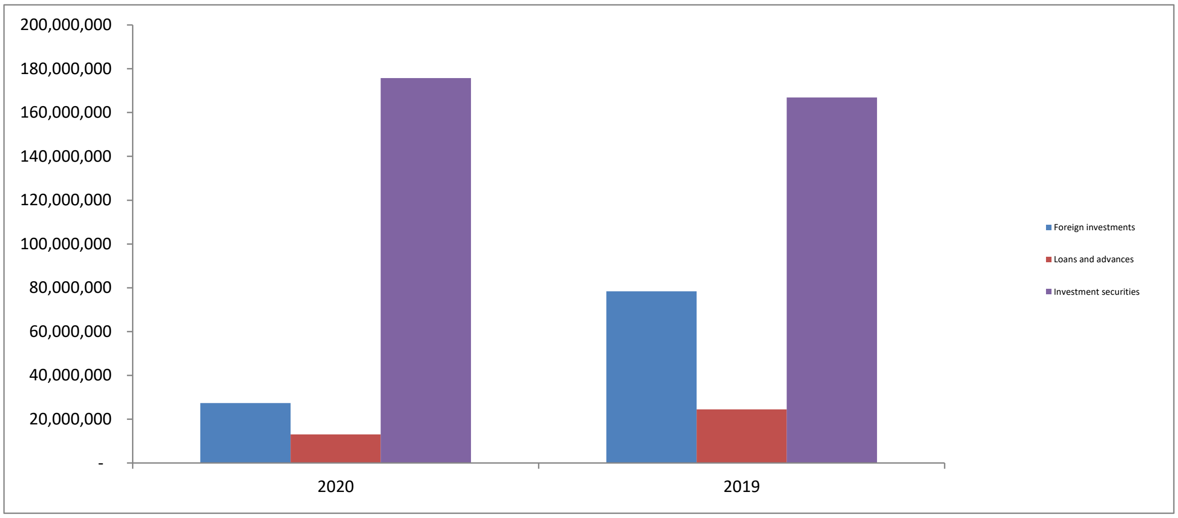
	Fair value through profit or loss		Amortised cost (Loans and receivables)		Fair value through Other comprehensive income	
	2020	2019	**2020**	2019	**2020**	2019
	Le'000	Le'000	**Le'000**	Le'000	**Le'000**	Le'000
Cash and cash equivalents	**-**	-	**5,031,309,220**	3,942,580,449	**-**	-
Funds held with International Monetary Fund IMF	**-**	-	**5,303,979,749**	4,197,352,853	**-**	-
Loan and advances to others	**-**	-	**13,090,185**	11,200,316	**-**	-
Due from Government of Sierra Leone	**-**	-	**2,807,968,092**	1,625,629,241	**-**	-
COVID-19 special credit facility to banks	**-**	-	**489,227,889**	-	**-**	-
Investment securities	**-**	-	**824,523,797**	1,158,174,708	**-**	-
Investment in equity	**67,600,814**	64,888,567	**-**	-	**-**	-
Other financial assets	**-**	-	**18,701,664**	20,275,617	**-**	-
Total financial assets	**67,600,814**	64,888,567	**14,488,800,596**	10,955,213,184	**-**	-

Financial liabilities

	Fair value through profit or loss		Amortised cost	
	2020	2019	**2020**	2019
	Le'000	Le'000	**Le'000**	Le'000
Due to International Monetary Fund	**-**	-	**9,633,349,356**	7,672,741,001
Deposits from Government	**-**	-	**224,594,702**	216,843,839
Deposit from banks	**-**	-	**1,227,493,377**	440,306,761
Deposits from others	**-**	-	**95,279,599**	73,202,858
Currency in circulation	**-**	-	**3,009,347,915**	2,307,943,295
Other financial liabilities	**-**	-	**90,971,838**	87,463,081
Total financial liabilities	**-**	-	**14,281,036,787**	10,798,500,835

NOTES TO THE FINANCIAL STATEMENTS (Contd)

8 NET INTEREST INCOME



In thousands of Leones	**2020**	2019
Interest and similar income		
Foreign investments (Note 8a)	**27,314,374**	78,362,974
Advances (Note 8b)	**13,053,893**	24,445,910
Investment securities (Note 8c)	**175,744,742**	166,865,958
Total (Note 8d)	**216,113,009**	269,674,842
Interest expenses and similar charges		
IMF interest and charges	**4,228,055**	12,850,993
Others	**404,526**	425,163
	4,632,581	13,276,156
Net interest income	**211,480,428**	256,398,686

8a Foreign investments

Interest income on Sterling investments	**992,712**	3,681,366
Interest income on US Dollar investments	**20,675,947**	63,710,406
Interest income on SDR investments	**4,637,127**	10,965,103
Income on other external investment	**1,008,588**	6,099
	27,314,374	78,362,974

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

8b Advances

	2020	2019
Interest on advances	**11,828,351**	16,923,991
Interest on reverse repos	**913,042**	7,521,919
Interest on COVID 19 special credit facility*	**312,500**	-
	13,053,893	24,445,910
	=========	=========

*This relates to interest earned from COVID 19 special credit facilities extended to commercial banks. For further information on the COVID-19 Special Credit Facility, please refer to our comments on Note 18c.

8c Investment securities

Interest on 91-day treasury bills	**3,708,238**	1,470,275
Interest on 182-day treasury bills	**6,147**	149,302
Interest on 1-year treasury bills	**130,701,834**	120,756,522
Interest on 2-year treasury bearer bonds	**14,712**	408,654
Interest on 3-year medium-term bonds	**5,581,152**	5,581,152
Interest on 3-year bond	**2,421,563**	4,604,426
Interest on 5-year medium-term bonds	**30,861,096**	30,845,627
Interest on 10-year bond	**2,450,000**	3,050,000
	175,744,742	166,865,958
	==========	==========

8d Additional disclosure on income by source

Foreign investments	**27,314,374**	78,362,974
Local investments	**188,798,635**	191,311,868
	216,113,009	269,674,842
	==========	==========

9 FEES AND COMMISSION INCOME

Fees and commission income

Commissions	**2,156**	1,822
Income on Automated clearing system/Real-time gross settlement fees	**4,054,944**	3,649,826
Income on collateral registry	**11,840**	-
Credit related fees and commission	**-**	973
Sandbox fees and charges	**100**	900
	4,069,040	3,653,521
Fees and commission expense		
Automated clearing system/Real-time gross settlement fees	**(269,846)**	(275,187)
Net fees and commission income	**3,799,194**	3,378,334
	=========	=========

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

10 NET EXCHANGE (LOSSES)/GAINS

	2020	2019
Realised gains/(losses) (10a)	**14,884,141**	(6,305,948)
Unrealised (losses)/gains (10b)	**(77,995,016)**	120,094,696
	(63,110,875)	113,788,748

10a Realised gains/(losses)

Exchange gain	**20,605,647**	11,054,982
Exchange loss	**(5,721,506)**	(17,360,930)
	14,884,141	(6,305,948)

Realised exchange differences arise from the Bank's day-to-day transactions in foreign currencies as well as through the execution of foreign currency auction with commercial banks and through the purchase and sale of foreign currencies on behalf of the Government or its institutions.

10b Unrealised (losses)/gains

Revaluation losses	**(1,331,107,424)**	(914,710,600)
Revaluation gains	**1,253,112,408**	1,034,805,296
	(77,995,016)	120,094,696

Unrealised gains and losses relate to exchange differences arising from the retranslation of the Bank's monetary assets and liabilities in foreign currencies, as a result of changes in the exchange rates for the Leone except for items recognised under note 10a.

10c FX Translation Effects

	2020		2019	
(Loss)/profit as per audited accounts		**(211,873,668)**		101,881,663
Less: Revaluation losses	**(1,331,107,424)**		(914,710,600)	
Revaluation gains	**1,253,112,408**		1,034,805,296	
Net revaluation gains		**(77,995,016)**		120,094,696
Operational (loss)/profit for the year excluding unrealised exchange gains		**(133,878,652)**		(18,213,033)

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In essence the distribution of unrealised exchange gains will be counterproductive to monetary policy as it will lead to inflation in the economy. It is by virtue of this fact that Section 40 of the Bank of Sierra Leone Act 2019 requires that all unrealised exchange gains are deducted from net profit for the purposes of calculating Distributable Earnings. The above is a reconciliation of Financial Reporting Profit (inclusive of unrealised gains and losses) to the operating profit (exclusive of unrealised gains and losses).

11 OTHER INCOME

In thousands of Leones

	2020	2019
Rent received	**78,878**	79,313
Grant income	**165,531**	179,425
Regulatory fees and charges	**2,780,700**	3,473,566
Sundry receipts	**891,024**	587,692
Interest on GOSL SDR Brid Fin.	**42,973**	-
	3,959,106	4,319,996

12 PERSONNEL EXPENSES

	2020	2019
Salaries and wages	**88,881,324**	73,686,957
Rent allowance	**17,107,566**	14,788,301
Social security	**5,881,727**	4,792,346
Overtime	**102,752**	330,051
Training scheme	**1,584,157**	6,531,015
Staff welfare	**1,078,553**	727,134
End-of-service benefits	**10,557,617**	7,451,282
Medical expenses	**2,442,168**	4,129,709
	127,635,864	112,436,795

13 CURRENCY

	2020	2019
Currency management	**167,654**	142,590
Currency issue expenses	**93,789,390**	44,230,228
	93,957,044	44,372,818

Currency issue expenses relate to the cost of the new notes and coins issued and the currency management expenses relate to all other expenses incurred in transporting notes and coins.

14a IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	2020	2019
Impairment losses on investment securities	**53,445,000**	60,123,661

This relates to provision for expected credit losses on financial instruments in compliance with IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

14b OTHER EXPENSES

	2020	2019
Occupancy cost	**269,152**	263,147
Audit fees	**437,000**	437,000
Legal and professional fees	**46,631,549**	14,815,905
Directors' remuneration	**6,551,616**	5,290,667
Advertisement	**870,480**	564,150
Electricity	**2,565,830**	3,409,506
Insurance	**592,791**	572,739
Passage and overseas allowances	**1,483,937**	5,988,331
Repairs and maintenance	**984,161**	1,111,314
Hospitality	**2,967,058**	1,445,063
Contributions to International organisations	**12,490,595**	11,049,059
General office expenses	**1,256,223**	1,212,932
Vehicle running expenses	**586,503**	572,323
Printing and stationeries	**391,583**	436,619
Telephone and postages	**299,859**	258,576
Travelling and local subsistence	**334,943**	463,215
Uniforms	**829,140**	709,213
Computer consumables	**350,077**	799,946
Local currencies & seminars	**-**	177,871
Capital markets development	**16,800**	518,620
Maintenance contracts	**3,310,795**	324,256
Cost of BSL Repo operations	**2,646,838**	-
Others	**1,800,955**	528,821
Provision for unliquidated advances to contractors	**-**	2,491,598
Provision for advances to others	**78,841**	-
	87,746,726	53,440,871
	=========	==========

15 OTHER COSTS

The (loss)/profit for the year has been stated after charging:

Depreciation and amortisation	**5,216,887**	5,629,956
Directors' remuneration	**6,551,616**	5,290,667
Audit fees	**437,000**	437,000
	========	========

16 CASH AND CASH EQUIVALENTS

Cash in hand	**202,319**	198,182
Balances with other Central Banks	**770,424,974**	1,076,147,320
Balances with Supranational Organizations	**3,781,825,609**	2,788,381,837
Balances with Commercial Banks	**478,792,656**	77,792,066
Cash balances with non-banking financial institutions	**63,662**	61,044
	5,031,309,220	3,942,580,449
	============	============

17 FUNDS HELD WITH THE INTERNATIONAL MONETARY FUND (IMF)

IMF Quota subscription	**3,027,017,518**	2,786,568,328
SDR Holdings	**2,276,962,231**	1,410,784,525
	5,303,979,749	4,197,352,853
	============	============

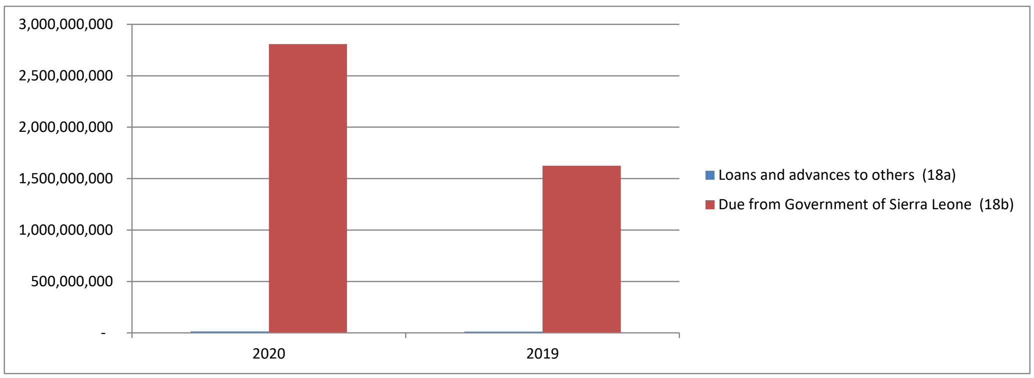
These are International Monetary Fund related assets and they represent Sierra Leone's interest in the International Monetary Fund. Sierra Leone has been a member of the International Monetary Fund (IMF) since 1962.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

The Subscription Account reflects the initial and subsequent quota payments made by the Government to the Fund. Membership in the Fund is reflected as an asset equal to a member's quota. Quota is determined upon admission to membership and is increased periodically under General Quota Reviews or ad hoc increases. The quota subscription and subsequent increases are paid in local currency (75%) and in SDR units (25%). The quota is denominated in SDRs but is expressed in local currency. Initially, the quota subscriptions are recorded at the local currency value based on historical cost. Whenever the Fund revalued its holdings of the member's currency to reflect current exchange rates, and at least once a year at the Fund's financial year-end (April 30), the member's subscription in the Fund should be revalued along with the Fund's holdings of the member's currency, at the same rate of exchange.

As at 31 December 2020 the amount of assets held in the fund was SDR 207.4 million (2019: SDR 207.4 million) The SDR holdings held at 31 December 2020 was SDR 156 million (2019: SDR 105 million).

18 ADVANCES



In thousands of Leones	**2020**	2019
Loans and advances to others (18a)	**13,090,185**	11,200,316
Due from Government of Sierra Leone (18b)	**2,807,968,092**	1,625,629,241
	2,821,058,277	1,636,829,557

18a LOANS AND ADVANCES TO OTHERS

(i) Analysis by type

Staff (18 ii)	**10,104,872**	9,938,275
Others (18 iii)	**3,101,802**	1,299,689
	13,206,674	11,237,964
Gross loans and advances		
Less: allowances for losses on loans and advances to others (18iv)	**(116,489)**	(37,648)
	13,090,185	11,200,316
	===========	===========

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

(ii) Staff

	2020	2019
Personal loan	**4,681,829**	4,930,210
Housing loan	**346,866**	1,047,121
Vehicle loan	**3,486,298**	3,892,919
Staff advance	**52,851**	68,025
Personal loan II	**1,537,028**	-
	10,104,872	9,938,275

(iii) Others

Loan to Sierra Leone Stock Exchange Company Limited	**1,000,000**	1,000,000
Other advances	**2,101,802**	299,689
	3,101,802	1,299,689

(iv) Allowances for impairment

Specific allowances for impairment		
Balance at 1 January	**37,648**	37,648
Impairment loss for the year	**78,841**	
Write-off during the year	**-**	-
Balance at 31 December	**116,489**	37,648
Collective allowance for impairment		
Balance at 1 January	**-**	-
Impairment loss for the year	**-**	-
Balance at 31 December	**-**	-
Total allowances for impairment	**116,489**	37,648

18b DUE FROM GOVERNMENT OF SIERRA LEONE

Advances to Government:		
GoSL/IMF budget financing	**2,525,224,435**	1,294,798,141
Treasury main	**277,209,228**	330,831,100
SL COVID-19 SLL*	**5,393,242**	-
Min. of Foreign Affairs imprest A/C	**141,187**	-
	2,807,968,092	1,625,629,241

*During the year, the Bank extended credit facility options to commercial banks which in turn would lend to their customers/importers facilitating acqusition of essential comodities. Four commercial banks applied for the facitlity and they were granted by the Bank at an interest rate of 7%. For further explanations see remarks on note 18c.

The Ways and Means is an overdraft facility granted to the Government of Sierra Leone The maximum it can withdraw should not exceed 5% of previous years domestic revenue. At the end of the year the outstanding ways and means balance is repaid in the coming year within three months period as stipulated in the 2019 BSL Act. The Ways and Means of Le192 billion is part of Treasury Main in note 18 - Due to Government.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

(i) **Ways and means advances**	**2020**	2019
Ways and means advances brought forward	**192,403,904**	75,234,768
Advances during the year	**5,236,463,668**	2,562,958,949
Receipts during the year	**(5,215,298,936)**	(2,445,789,813)
Ways and means advances carried forward	**213,568,636**	192,403,904

Under the provisions of Section 64(5) of the Bank of Sierra Leone Act, 2019, the limit on the Ways and Means Advances that the Bank can grant to the Government shall not exceed five percent of the Government's actual domestic revenue excluding privatisation receipts in the previous year's budget.

(ii) **Others**		
GoSL/IMF budget financing	**2,525,224,435**	1,294,798,141
	2,525,224,435	1,294,798,141

GoSL/IMF budget financing is a loan granted by the IMF under the Extended Credit Facility (ECF) arrangement. The ECF funds has supported the fight against the Ebola outbreak through the Catastrophe Containment and Relief (CRR) Trust, budgetary and balance of payment needs and strengthening of the international reserves.

	2020	2019
Ways and means advances	**213,568,636**	192,403,905
Government's actual revenue in previous year	**4,994,892,629**	4,428,000,000
5% thereof	**249,744,631**	221,400,000
Buffer in Government lending	**(36,175,995)**	(28,996,095)

The Directors report the balance of advances due from the Government of Sierra Leone as at 31 December 2020 amounting to Le213,568,636 - (2019: Le192,403,905). The balance outstanding was within the limit specified in the Bank of Sierra Leone Act 2019.

18c SPECIAL CREDIT FACILITY TO BANKS		
BSL COVID-19 special credit facility	**489,227,889**	-
	489,227,889	-

The Monetary Policy Committee of the Bank decided on 19th March 2020 against the background of the COVID-19 pandemic to create a Special Credit Facility of Le 500 billion to support the production, procurement and distribution of essential goods and service in order to soften the expected economic impact. The facility became effective on the 2nd of April 2020. Participating commercial banks shall ensure that loans granted under this facility are backed by adequate collateral, which shall be registered at the collateral registry at the Bank. Participating commercial banks bear 100% of the credit risk. A floor interest rate of 5 percent per annum is charged for all funds disbursed under this facility. The mark-up interest rate for loans under this facility which was determined through an auction is 2%. The effective (all-inclusive) interest rate for loans under the facility amounts up to 7% and is applicable to all loan applicants at the outset of the loan application process.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

19 INVESTMENT IN EQUITY

	2020	2019
Afrexim Bank Capital Investment	**37,497,664**	35,955,902
Afrexim Bank Dividend Investment	**1,404,281**	1,401,364
Stabilization and Cooperation Fund	**28,698,869**	27,531,301
	67,600,814	64,888,567

Afrexim investments disclosed above includes the cash received and the dividend re-invested by the Bank.

The amount of 28.7 billion (2019: Le27.5 billion) relates to the Bank's contribution to the Stabilization and Cooperation Fund managed by the West African Monetary Institute and held at the Bank of Ghana.

20 INVESTMENT SECURITIES

The Bank's holdings of treasury investment securities comprised the following:

91-day treasury bills held for monetary policy	**8,740,992**	5,534,552
182-day treasury bills	**-**	25,500
One-year treasury bills	**514,330,900**	786,722,750
BSL holding three-year medium-term bond	**139,384,604**	139,384,604
Five-year medium-term bond	**320,325,606**	320,325,606
Holdings of ten-year bond	**26,250,000**	33,750,000
Others	**32,695**	3,527,696
	1,009,064,797	1,289,270,708
Less:		
Provision for expected credit losses	**(184,541,000)**	(131,096,000)
Net cost of investment securities	**824,523,797**	1,158,174,708

BSL Holding 3-year medium-term bond

The Bank held two individual three-year medium-term bonds. This includes Le81.8 billion three-year marketable security issued at an interest rate of 6% payable semi-annually.

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

Five year medium term bonds

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

Holdings of ten-year bond

The amount of Le 48.75 billion represents the outstanding balance due to the Bank from the Government of Sierra Leone following the issue of a 10-year marketable bond at an interest rate of 8% for the purpose of fully subscribing to the minimum paid-up capital of the Bank. The bond was issued on 1 May 2014 with interest repayable semi-annually.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

21 PROPERTY, PLANT AND EQUIPMENT

	Premises	Motor vehicle	Office furniture and equipment	Plant and machinery	Work-in Progress	Total
COST						
Balance at 1 January 2019	72,184,690	6,587,702	33,868,107	11,419,428	97,240,821	221,300,748
Additions during the year	-	-	-	-	44,130,581	44,130,581
Reclassification	58,610	-	1,513,946	304,206	(1,876,762)	-
Write-off	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
Adjustments	-	-	-	-	(121,849)	(121,849)
Balance at 31 December 2019	72,243,300	6,587,702	35,382,053	11,723,634	139,372,791	265,309,480
Balance at 1 January 2020	**72,243,300**	**6,587,702**	**35,382,053**	**11,723,634**	**139,372,791**	**265,309,480**
Additions during the year	**-**	**-**	**-**	**-**	**(11,420,303)**	**(11,420,303)**
Reclassification	**8,959,556.00**	**37,600**	**438,880**	**423,942**	**10,245,874**	**20,105,852**
Write-off	**-**	**-**	**-**	**-**	**-**	**-**
Disposal	**-**	**-**	**(46,778)**	**-**	**-**	**(46,778)**
Adjustments	**(49,260)**	**(18,800)**	**(65,830)**	**(18,800)**	**118,014**	**(34,676)**
Balance at 31 December 2020	**81,153,596**	**6,606,502**	**35,708,325**	**12,128,776**	**138,316,376**	**273,913,575**
DEPRECIATION						
Balance at 1 January 2019	19,294,032	5,555,376	27,546,004	6,609,008	**-**	59,004,420
Depreciation for the year	1,429,445	342,934	2,979,205	905,881	-	5,657,465
Disposal	-	-	-	-	-	-
Adjustment	(27,509)	-	-	-	-	(27,509)
Balance at 31 December 2019	20,695,968	5,898,310	30,525,209	7,514,889	-	64,634,376
Balance at 1 January 2020	20,695,968	5,898,310	**30,525,209**	**7,514,889**	**-**	**64,634,376**
Depreciation for the year	1,445,827	332,348	**2,587,203**	**879,192**	**-**	**5,244,570**
Disposal	-	**-**	**(46,770)**	**-**	**-**	**(46,770)**
Adjustment	(27,509)	**-**	**(57)**	**(117)**	**-**	**(27,683)**
Balance at 31 December 2020	**22,114,286**	**6,230,658**	**33,065,585**	**8,393,964**	**-**	**69,804,493**
CARRYING AMOUNT						
At 31 December 2019	51,547,332	689,392	4,856,844	4,208,745	139,372,791	200,675,104
At 31 December 2020	**59,039,310**	**375,844**	**2,642,740**	**3,734,812**	**138,316,376**	**204,109,082**

Work in progress represents amount spent on supply and installation of lift, payments for Oracle software and hardware. Rehabilitation of the Main Bank building and payment for the supply of Hardware for the Collateral Registry Programme. There was no indication of impairment of property, machinery and equipment held by the Bank at 31 December 2020 (2019: Nil). For a description of the impairment test, please refer to explanations in note 39 k (iv).

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

22 OTHER ASSETS

	2020	2019
Gold stock	**1,718,401**	1,318,405
Items in transit	**139,267**	139,268
Consumables	**6,857,971**	1,174,591
Prepayment	**22,188,453**	1,071,240
Advances to contractors	**4,456,489**	6,030,443
Interest receivable	**20,819,967**	25,934,787
Deferred currency issue expense	**8,473,946**	58,465,736
Other receivables	**23,425,815**	18,133,146
Reverse repo account	**-**	221,769,400
Less:		
Allowances for impairment	**(2,500,330)**	(2,500,330)
	85,579,979	331,536,686
	==========	==========
Allowances for impairment:		
At 1 January	**2,500,330**	8,732
Impairment charge for the year	**-**	2,491,598
Written off during the year	**-**	-
	2,500,330	2,500,330
	========	==========

23 AMOUNTS DUE TO THE INTERNATIONAL MONETARY FUND (IMF)

	2020	2019
IMF Special Drawing Rights	**1,452,291,416**	1,336,929,582
IMF Poverty Reduction and Growth Facility	**5,154,256,268**	3,549,441,792
IMF securities	**74,270,210**	82,176,612
IMF No. 1	**2,952,394,910**	2,704,067,310
IMF No. 2	**136,552**	125,705
	9,633,349,356	7,672,741,001
	============	============

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

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

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

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

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

24 DEPOSITS FROM GOVERNMENT

	2020	2019
Deposits from government	**224,594,702**	216,843,839
	===========	===========

Deposits from Government reflect the fact that the bank is acting as a banker to the Government. Relying on this provision, the Bank receives deposits which represent all receipts accruing to the Government and its institutions. The bank facilitates the operation of the Government's cash management through the Treasury Main Account as the expenditure account. The Government has since the 2018 fiscal year instituted the Single Treasury Account into which receipts/revenue collected by Ministries, Departments and Agencies are paid.

25 DEPOSITS FROM BANKS

	2020	2019
Commercial banks' reserve accounts	**1,171,251,199**	408,470,718
Rural and community banks' reserve accounts	**51,042,941**	26,562,719
Others	**5,199,237**	5,273,324
	1,227,493,377	440,306,761
	===========	===========

26 DEPOSITS FROM OTHERS

Deposits from insurance brokers	**7,814,874**	8,836,866
Multilateral organisations	**49,463,408**	20,858,746
Financial institutions	**420,554**	368,777
Others	**37,580,763**	43,138,469
	95,279,599	73,202,858
	==========	==========

27 CURRENCY IN CIRCULATION

Notes	**2,991,631,166**	2,291,087,546
Coins	**17,716,749**	16,855,749
Balance at 31 December	**3,009,347,915**	2,307,943,295
	============	============

Currency in circulation represents the face value of bank notes and coins in circulation.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

28 OTHER LIABILITIES

	2020	2019
Financial liabilities		
Other foreign currency financial liabilities (28a)	**126,352,234**	154,983,335
Accrued charges and other liabilities (28b)	**61,383,068**	23,936,153
	187,735,302	178,919,488
Non-financial liabilities		
Provision for revaluation of pipeline liabilities (28c)	**64,886,639**	60,438,920
Provision for unrealised exchange difference on SWAP revaluation	**3,639,030**	3,639,030
Keystone deposit facility a/c	**7,000,000**	-
Rent received in advance	**237,523**	-
Kenema branch a/c	**114,840**	-
	75,878,032	64,077,950
	263,613,334	242,997,438

28a Other foreign currency financial liabilities

	2020	2019
Foreign payments	**5,634,264**	5,634,265
Bank of China US$ clearing	**85,273,910**	81,767,772
OFID Debt Relief imprests account	**63,662**	61,044
Interest on one year treasury bills	**34,121,301**	66,096,145
Sundry liabilities	**1,259,097**	1,424,109
	126,352,234	154,983,335

An agreement on the settlement of the balance on the clearing account between Bank of China and Bank of Sierra Leone was signed on 13th August 1993 to work for the settlement of the balance in favour of Bank of China on the clearing account maintained between Bank of China and Bank of Sierra Leone. Both sides confirm that the balance on the clearing account amounts to U.S Dollars 8.42 million standing in favour of Bank of China. Bank of Sierra Leone shall settle the balance in twenty equal instalments, with each instalment amounting to U.S. Dollars 561,011.37. The agreement provided for the first instalment payment to be made on 15th August 1994 and thereafter every six months on 15th February and 15th August respectively. There has been no repayment during the year, the movement in the 2020 amount is as a result of exchange rate fluctuations.

28b Accrued charges and other liabilities

	2020	2019
Accrued expenses	**22,772,875**	10,882,223
P.S. Bond in circulation	**449**	449
Retention monies	**969,901**	489,248
Provision for litigation	**30,925,501**	5,849,891
Trade and sundry creditors	**1,813,470**	1,813,470
Provision for currency issue expense	**4,900,872**	4,900,872
	61,383,068	23,936,153

Included in trade and sundry creditors are balances owed to Wealth Builders in 2020.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

28c Provision for revaluation of pipeline liabilities

	2020	2019
Balance at 1 January	**60,438,920**	52,237,246
Revaluation loss	**4,447,719**	8,201,674
Balance at 31 December	**64,886,639**	60,438,920

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

29 END-OF-SERVICE BENEFITS

Every member of staff will be entitled to a severance package of one month basic salary for each year completed upon leaving the service of the Bank. In computing benefits, a fraction of one year in excess of 6 months over and above the computed full year's service shall be rounded up to a full year; and a fraction that is below 6 months shall be discounted from the computation.

Staff are sometimes due salary and other allowance which will be calculated depending on the number of days worked and may also have to refund loans contracted, salary or other emoluments which are also taken into consideration in calculating End-of-Service Benefits (e.g. transport allowances, rent allowances, leave subsidies, insurance contribution).

The Bank operates a funded defined benefit plan for its employees. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary. It is Management Policy that a full external actuarial valuation by a qualified independent actuary is carried out every two years to determine the benefit obligation.

There are no explicit/physical assets held to fund gratuities as benefit payments are met by the bank on a pay-as-you-go basis.

Financial assumptions

The projected exit benefits were discounted to the valuation date to obtain the Defined Benefit Obligations. IFRS requires the discount rate to be determined by reference to market yields on high quality corporate bonds (except where there is no deep market in such bonds in which case the discount rate should be based on market yields on Government bonds). The discount rate should reflect the duration of the liabilities of the benefits payable.

Since Sierra Leone does not have a deep market in either Government or Corporate bonds, however, there are 91-day, 182-day, 365-day Treasury Bills yielding 3.78% p.a., 5.17% p.a. and 10.51% p.a. respectively as at December 2020. The monetary policy rate is at 14.0% p.a. and inflation stands at 10.45% p.a. as at December 2020. The Treasury Bills have short term duration and much lower than our estimated liability duration of 9.64 years. The longer the duration of financial instruments the higher the risk exposure (because of the unknown) and the required compensation by investors. That is, if long term bonds were in existence we would expect their yields to be higher than the Treasury Bill rates and the monetary policy rate. However, the bank has prudently adopted a discount rate of 16% for the calculations believing that this will represent the average experience over the duration of liability payments.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Assumption was made that the average long term real salary increases by a rate of 1% p.a.

Average Long Term Future	**31.12.2020**	31.12.2019
Discount rate (per annum)	**16%**	16%
Salary increase (per annum)	**15%**	15%
Rate of inflation (per annum)	**14%**	14%

Valuation method

As required by IAS 19, we have adopted the Projected Unit Credit (PUC) method to establish the value of the accrued liabilities. In calculating the liabilities, the Bank;

- recognizes service rendered by each member of staff at the review date;
- anticipates that salaries will increase between the review date and the eventual exit date of the employee via withdrawal, death or retirement; and then
- discounts the expected benefit payments to the review date

The emerging total value (for each individual) is described by IAS 19 as the Defined Benefit Obligation (DB0).

Sensitivity Analysis on Defined Benefit Obligations

Parameter	**Changes**	**Defined Benefit Obligation**
Base	See table below	58,900,766
Discount rate	+1%	54,300,301
	-1%	64,120,626
Salary increase rate	+1%	64,398,808
	-1%	53,988,281
Mortality experience	Age rated up by 1 year	58,980,090
	Age rated down by 1 year	58,828,327

(a) Change in liability

	2020	2019
Balance at 1 January	**48,229,660**	40,770,306
Service cost	**4,549,595**	4,059,049
Interest cost	**7,378,457**	6,332,041
Actuarial loss/(gain) - change in assumptions	**-**	-
Actuarial loss - experience adjustments	**3,089,646**	236,523
Benefits paid	**(4,346,592)**	(3,168,259)
Balance at 31 December	**58,900,766**	48,229,660
	==========	==========

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

(b) Change in plan assets

	2020	2019
Balance at 1 January	-	-
Actual return on plan assets	-	-
Expected returns at 31 December	-	-
Contribution by employer	**4,346,592**	3,168,259
Total contribution	**4,346,592**	3,168,259
Benefits paid by the employer	**(4,346,592)**	(3,168,259)
Foreign exchange rate effect	-	-
Total benefits	**(4,346,592)**	(3,168,259)
Balance at 31 December	-	-

(c) Balance Sheet

Projected benefit obligation	**58,900,766**	48,229,660
Plan assets	-	-
Net obligation/(assets)	**58,900,766**	48,229,660
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Unrecognised transitional obligation	-	-
Unrecognised (asset ceiling)	-	-
Net obligation/(asset) to be in balance sheet	**58,900,766**	48,229,660

(d) Income Statement

Service cost	**4,549,595**	4,059,049
Net interest cost	**7,378,457**	6,332,041
- Interest cost	-	-
- Expected return on plan assets	-	-
- Return on asset ceiling	-	-
Interest cost	-	-
Expected return on plan asset	-	-
Actuarial loss/(gain) recognised	-	-
Transitional obligation recognised	-	-
Past service cost recognised	-	-
Amount recognised in income statement	**11,928,052**	10,391,090

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

Other comprehensive income (OCI)

	2020	2019
Actuarial loss: experience adjustments	**3,089,646**	236,523
change in assumption	**-**	-
Return on plan asset not in other comprehensive income	**-**	-
Effect of asset ceiling not in other comprehensive income	**-**	-
Amount recognised in OCI	**3,089,646**	236,523
Initial adjustment to capital amount recognised	**-**	-
Cumulative amount recognised in OCI	**3,089,646**	236,523

(e) Reconciliation of financial position

Opening value	**48,229,660**	40,770,306
Employee contribution	**(4,346,592)**	(3,168,259)
Amount recognised in income statement	**11,928,052**	10,391,090
Amount recognised in OCI	**3,089,646**	236,523
Closing value	**58,900,766**	48,229,660

(f) Key valuation assumptions

Discount rate	**15.00%**	16.00%
Salary inflation	**16.00%**	15.00%
Gap	**1.00%**	1.00%

30 CAPITAL

Authorised:	**250,000,000**	250,000,000
Issued and fully paid		
Balance at 1 January	**125,000,000**	125,000,000
Subscribed during the year	**-**	-
	125,000,000	125,000,000

Section 38(1) of the Bank of Sierra Leone Act 2019 requires the Bank of Sierra Leone to maintain a minimum paid up capital of Le125 billion. The paid-up capital shall be subscribed and held exclusively by the Government of Sierra Leone.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

31 RESERVES

	2020	2019
General reserve (a)	**165,720,755**	377,594,423
Revaluation reserve (b)	**32,792,919**	32,792,919
Other reserves (c)	**(8,703,916)**	(5,614,270)
Total reserves as at 31 December	**189,809,758**	404,773,072

(a) General reserve

Balance at start of the year	**377,594,423**	274,318,023
Net (loss)/profit for the year	**(211,873,668)**	101,881,663
Prior year adjustment*	**-**	1,394,737
	165,720,755	377,594,423
Securities reserves	**-**	-
Balance at 31 December	**165,720,755**	377,594,423

*Prior year adjustment relates to reconciliation of accrued charges.

Under Section 42(1) and subject to section 42(b) of the Bank of Sierra Leone Act 2019, where in the audited annual financial statements of the Bank, the value of its assets falls below the sum of its liabilities, its unimpaired issued capital and general reserves, the Board, on the advice of the external auditors of the Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall within a period of not more than thirty days. In the event that the Board approves the report, the Bank shall request the Minister for a capital contribution by the Government to remedy the deficit and upon receipt of this request the Government shall, within a period of not more than thirty calendar days, transfer to the Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates, as determined by the Board. During the financial year ended 31 December 2020, no funds were allocated by the Government (2019: nil).

As at 31 December 2020, the total value of the assets of the Bank exceeds the sum of its liabilities, unimpaired issued capital and general reserves.

(b) Revaluation reserve

Balance at start of the year and end of the year	**32,792,919**	32,792,919
Balance at 31 December	**32,792,919**	32,792,919

The Bank maintains a property revaluation reserve to which it transferred revaluation gains on revaluation of its properties. The revaluation was last done in 2001.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

(c) Other reserves

This comprised actuarial gains/losses and is analysed below:

	2020	2019
Balance at start of the year	**(5,614,270)**	(5,377,747)
Actuarial loss on end-of-service benefits	**(3,089,646)**	(236,523)
	(8,703,916)	(5,614,270)

The movement in other reserves account represents actuarial loss of Le3.09 billion on the provision of end-of-service benefits (2019: loss of Le236 million).

32 CONTINGENCIES AND COMMITMENTS

32a Contingent liabilities

Guarantees and endorsement	**348,132,310**	313,493,885
	348,132,310	313,493,885

The loans in the guarantees and endorsements ledger are long outstanding debts contracted by the Government and guaranteed by the Bank in foreign currencies. There has been no claims on these guarantees over the last 10 years. The Bank holds only little information on the terms of the arrangements.

32b Capital commitments

Capital expenditure	**11,420,303**	44,130,581
African Export Import Bank	**37,497,664**	35,955,902
	48,917,967	80,086,483

32c Pending law suits, legal proceedings and claims

The Bank has pending litigations against it in relation to former employees who are claiming damages for wrongful dismissal, upward revision of pension and payment of terminal benefits and other allowances. In the event that the Courts ruling is against the Bank, the Bank would be liable to pay an amount not less than Le30.93 billion (2019: Le5.85 billion). The main driver for the huge increase relate to a pending law suits against the bank for special damage of Le21 billion in respect of unlawful dismissal of a former employee.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

33 RELATED PARTIES

Although the Bank is an autonomous entity, the Government of Sierra Leone being the sole subscriber to the 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 2020, total net advances to the Government was Le213 billion (2019: Le192 billion).

The Board of Directors (including the Governor and Deputy Governors) received remuneration amounting to Le6.55 billion (2019: Le5.29 billion).

34 SIGNIFICANT SUBSEQUENT EVENTS

Events subsequent to the reporting date are reflected only to the extent that they relate directly to the financial statements and their effect is material. The following are events occurring subsequent to the balance sheet date:

Impact of COVID 19

COVID 19 negatively impacted the Bank's revenue position in 2020. As foreign interest rate fell, the Bank lost substantial amount of foreign interest income. This situation is expected to continue in 2021. Government received funding to mitigate the effect of COVID 19 on the economy. With the receipt of such funds, Government is expected to redeem matured securities in 2021 and 2022 and as such the Bank will realise lower local interest income in 2021 and 2022.

Memorandum of understanding: Treatment of fund resources for budget financing under the IMF Extended Credit Facility (ECF) Budgetary support to the Government of Sierra Leone

On July 27 2021, the Executive Board of the International Monetary Fund (IMF) approved the 3rd and 4th review under the Extended Credit Facility (ECF) for a total sum of SDR31.11 million (about US$44.2 million or 15 percent of Sierra Leone's quota). Whilst the amount will be disbursed as a balance of payment support to the Bank of Sierra Leone, the total amount is to support the Government budget to address the fiscal needs for the 2021 financial year, which arose as a result of Covid-19. For the disbursement, proper accounting treatment and debt service implications of this loan, the Ministry of Finance and the Bank of Sierra Leone agreed as follows:

The Leone equivalent of the budgetary support fund of SDR31.11 million, equivalent to 15 percent of Sierra Leone's quota will be credited directly to the Ministry of Finance (MoF) through the Government of Sierra Leone's (GoSL's) dedicated account, namely "IMF Budget Financing Account on GoSL", at the Bank of Sierra Leone (BSL).

NOTES TO THE FINANCIAL STATEMENTS (Contd)

The Funds received for budgetary financing will be the foreign exchange liability of the BSL, and MoF will be responsible for its debt servicing (including principal, interest, changes, fees, etc.) at the prevailing exchange rate. The transactions relating to these budgetary funds with the IMF will be conducted through the BSL as the GoSL's fiscal agent for, on behalf of the GoSL.

Any charges and fees covered by the IMF will be deducted by the BSL from the disbursed amount, or will be recovered from the GoSL's account, as deemed appropriate.

For debt servicing associated with the budgetary support funds and recovery of charges and the fees at the prevailing exchange rates, as well as monthly revaluation losses due to exchange rate changes, if any, MoF hereby authorizes the BSL to debit the Consolidated Revenue Fund (CRF) to meet these obligations.

The Ministry of Finance will make budgetary provision for the debt servicing associated with these funds and recovery of charges and fees while the Bank of Sierra Leone will reflect all foreign exchange required for this purpose in its foreign exchange cashflow (which would normally be earlier than the due date payment as per original repayment schedule of the ECF with the IMF)[1], MoF hereby authorizes the BSL to debit the GoSL Consolidated Revenue Fund with the Leone equivalent of the amount repaid by MoF at the prevailing exchange rate.

The BSL will take over the liability of the IMF for the amount that is repaid and record it as such in its books of account.

This MOU does not impact previous MOUs or other debt outstanding to the IMF.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Memorandum of understanding: Treatment of Fund Resources for budget financing under the IMF Rapid Credit Facility (RCF) Budgetary support to the Government of Sierra Leone

On March 15 2021, the Executive Board of the International Monetary Fund (IMF) approved the Rapid Credit Facility (RCF) for SDR 35.26 million or 17 percent of Sierra Leone's quota). Whilst the amount is to support the Government budget to address the fiscal needs for the 2021 financial year, which arose as a result of Covid-19. For disbursement, proper accounting treatment and debt service implications of this loan, the Ministry of Finance and the Bank of Sierra Leone agreed as follows:

The Leone equivalent of the budgetary support fund of SDR35.26, equivalent to 17 percent of Sierra Leone's quota, will be credited directly to the Ministry of Finance (MoF) through the Government of Sierra Leone's (GoSL's) dedicated account, namely "IMF Budget Financing Account on GoSL", at the Bank of Sierra Leone (BSL).

The Funds received for budgetary financing will be the foreign exchange liability of the GoSL, and MoF will be responsible for its debt servicing (including principal, interest, changes, fees, etc.) at the prevailing exchange rate. The funds received for balance of payment support will be the foreign exchange liability of the Bank of Sierra Leone and the Bank will be responsible for the servicing (including principal, interest, charges, fees, etc). The transactions relating to these budgetary funds with the IMF will be conducted through the BSL as the GoSL's fiscal agent for, on behalf of the GoSL.

Any charges and fees covered by the IMF will be deducted by the BSL from the disbursed amount, or will be recovered from the GoSL's account, as deemed appropriate.

For debt servicing associated with the budgetary support funds and recovery of charges and the fees at the prevailing exchange rates, as well as monthly revaluation losses due to exchange rate changes, if any, MoF hereby authorizes the BSL to debit the Consolidated Revenue Fund (CRF) to meet these obligations.

The Ministry of Finance will make budgetary provision for the debt servicing associated with these funds and recovery of charges and fees, while the Bank of Sierra Leone will reflect all foreign exchange required for this purpose in its foreign exchange cashflow. When MoF reimburses/repays the IMF budget financing (which would normally be earlier than the due date payment as per original repayment schedule of the RCF with the IMF), MoF hereby authorises the BSL to debit the GoSL Consolidated Revenue Fund with the Leone equivalent of the amount by MoF at the amount repaid by MoF at the prevailing exchange rate.

The BSL will take over the liability of the IMF for the amount that is repaid and record it as such in its books of account.

This MOU does not impact previous MOUs or other debts outstanding to the IMF.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Press Release on Currency Redenomination

On 11th August 2021, the Bank Governor issued a press statement on currency redenomination as follows:

1 A new family of currency notes and coins, which shall be called the New Leone, will become legal tender in Sierra Leone in the near future and that the current currency in circulation (the Old Leone) will cease to be legal tender after a period when both currencies shall run concurrently as legal tender.

2 The new Leone shall be in the following denominations:

Notes	**New Leone**	**Equivalence in Old Leones**
	1	1,000
	2	2,000
	5	5,000
	10	10,000
	20	20,000
Coins	1 Cent	10
	5 Cents	50
	10 Cents	100
	25 Cents	250
	50 Cents	500

3 At the end of the parallel-run period, which the Bank of Sierra Leone shall announce by public notice, the Old Leone shall cease to be legal tender.

Currently, work is on going directed at ensuring that this project is implemented efficiently.

35 COMPARATIVES

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

NOTES TO THE FINANCIAL STATEMENTS (Contd)

36 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

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

Risk management framework

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

The Risk Management Function would be responsible for monitoring compliance with the risk management policies and procedures, reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank, the appropriateness and effectiveness of the Bank's risk management systems and controls and also consider the implications of changes proposed to regulations and legislation that are relevant to the Bank's risk management activity.

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

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's advances and other receivables. For risk management reporting purposes, the Bank considers and consolidates all elements of the credit risk exposure including default risk.

The Bank grants advances mainly to the Government of Sierra Leone in its capacity as the Government's bankers. The Bank of Sierra Leone Act 2019 specifies the credit limit and the credit limit is strictly monitored to provide a safeguard against breach. The Government provides a guaranty against the risk of failure to finance the facility; therefore credit risk in this regard is considered to be minimal.

The Bank also pays keen attention to the quality of its investment portfolio making sure the bulk of its holdings/deposits are with triple "A" financial institutions.

(b) Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS (Contd)

In thousands of Leones

Management of liquidity risk

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

- Maintaining its diversified deposits base consisting of Government and multilateral agencies.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

Management receives information from various Departments of the Bank regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. The liquidity requirements of the Bank are met through short-term investment to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

(c) Market risks

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

Management of market risks

The Bank is exposed to exchange rate risk on its financial assets and liabilities denominated in foreign currencies. The safeguard against this risk is the holding of assets in various currencies which mitigates the risk.

The Bank is also exposed to interest rate risk on its foreign reserve deposits in instances where the contract provides for the application of floating interest rates.

(d) Operational risks

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

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

NOTES TO THE FINANCIAL STATEMENTS (Contd)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the risk management unit within the Bank. This responsibility includes:

- Develop, implement and continuously improve a framework to interpreted the process for managing risk into the Bank's overall governance and strategy;
- The adoption of consistent processes with a comprehensive framework ensuring that the risk is managed effectively and coherently across the Bank;
- Evaluate the effectiveness in managing risks;
- Prepare appropriate risk policies for the approval of the Board;
- Set risk parameters which will be used to monitor and ensure that the risk management activities are in compliance with the policy set by the Board;
- Responsible for managing the policies, framework and processes of the risk management function as stipulated in the ISO 31000;
- Identify and treat risk throughout the Bank;
- Compliance with relevant Legal and Regulatory requirements and International norms;
- Improve the identification of opportunities and threats;
- Documentation of controls and procedures;
- Development of contingency plans;
- Ensure segregation of duties including authorisation limits;
- Risk awareness and sensitization;
- Develop and update Risk Register.
- Manage policies, framework and processes of the risk management function of the Bank.

Compliance with the Bank's standards is supported by a programme of independent periodic reviews undertaken by the Head, Internal Audit Department. The results of the internal audit reviews are discussed and clarified with the departmental heads and the clarified reports are submitted to senior management.

37 BASIS OF MEASUREMENT

The financial statements have been prepared on historical cost basis except where specific balances have been stated at fair value.

38 CHANGES IN ACCOUNTING POLICIES

(a) ***New standards, interpretations and amendments effective from 1 January 2020***

The Bank of Sierra Leone has adopted a number of new accounting standards and interpretations that are effective for the current financial year. The new standards that have been adopted in the annual financial statements for the year ended 31 December 2020, but have not had a significant effect on the Bank are:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Material)

- Financial Reporting

Other new and amended standards and Interpretations issued by the IASB that will apply for for the first time in the next annual financial statements are not expected to impact the Bank as they are either not relevant to the Bank's activities or require accounting which is consistent with the Bank's current accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpret which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2021:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16
- References to Conceptual Framework (Amendments to IFRS 3).

The Bank does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Bank.

39 SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Set out below is an index of the significant accounting policies, the details of which are available on the pages noted:

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rates at that date.

Foreign currency differences arising on retranslation are recognised in the profit and loss account as required by the Bank of Sierra Leone Act 2019.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(b) Interest

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

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

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

The calculation of the effective interest rate includes all fees and interest paid or received, transaction costs (which are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability) and discounts or premiums that are an integral part of the effective interest rate.

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 that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

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

(d) Net exchange gains/losses

Net exchange gains/losses comprise gains less losses related to the translation of foreign monetary assets and liabilities.

For all foreign payment instructions executed by the Bank of Sierra Leone, the following exchange rates on the value date of transaction are applicable:

i. For foreign payments on behalf of Government and Government Departments, the selling exchange rate of the transactions is applied
ii. For foreign payments on behalf of Commercial Banks the rate agreed between Bank of Sierra Leone and the Commercial Banks is applied
iii. For Bank of Sierra Leone transactions, the mid exchange rate of the transaction currency is applied
iv. For inward customer transfer, the buying exchange rate of the transactions date is applied

Foreign exchange assets and liabilities are revalued on a daily basis. For the purposes of IMF assets and liabilities the Bank applies the following rules:

NOTES TO THE FINANCIAL STATEMENTS (Contd)

At least once every year, all Fund currency holdings are revalued based on the prevailing SDR exchange rate. The difference between the Fund's currency holdings translated at the previous rate and the currency holdings valued at the new rate gives rise to currency valuation adjustments (CVA) and is placed in a CVA account. This account records the amount which is payable to or receivable from the Fund depending on whether the Leone has depreciated or appreciated vis-à-vis the SDR since the last revaluation. The CVA receivable or payable is also part of the Fund's holdings of currency and is also subject to maintenance of value obligations. The differences arising from the revaluation give rise to a change in the currency terms, as reflected in the CVA account balance. The Bank records a CVA as either a payable or receivable from the Fund. Foreign exchange gains and losses arising from translation or from annual revaluation are recognised in the profit or loss account.

(e) Lease payments

There are no contractual agreements in which the Bank is a lessee. However, the Bank leased a part of its buildings to the National Minerals Agency. Payments received under this lease contract are treated as operating lease and are recognized as an income during the term of the lease.

(f) Income tax expense

In accordance with section 66 of the Bank of Sierra Leone Act 2019, the profits of the Bank are not liable to Income Tax, or any other tax.

(g) Financial instruments

i Recognition

The Bank on the date of origination or purchase recognizes loans, debt and equity securities, deposits and subordinated debentures at the fair value of the consideration paid. For non-revolving facilities, origination date is the date the facility is disbursed while origination date for revolving facilities is the date the line is availed. Regular purchases and sales of financial assets are recognized on the settlement date. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

ii Classification and Measurement

Initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss. Financial assets include both debt and equity instruments.

- Amortised cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Business Model Assessment

Business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows, selling financial assets or both. The Bank assesses business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of business model the Bank takes into consideration the following factors:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual from interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of assets in a portfolio is evaluated and reported to key decision makers within the Bank's business lines;

- the risks that affect the performance of assets held within a business model and how those risks are managed;

- how compensation is determined for the Bank's business lines' management that manages the assets; and

- the frequency and volume of sales in prior periods and expectations about future sales activity.

  Management determines the classification of the financial instruments at initial recognition. The business model assessment falls under three categories:

1 Financial assets held with the sole objective to collect contractual cash flows;

2 Financial assets held with the objective of both to collecting contractual cash flows and selling; and

  The Bank may decide to sell financial instruments held under the first category with the objective to collect contractual cash flows without necessarily changing its business model if one or more of the following conditions are met:

- When the Bank sells financial assets to reduce credit risk or losses because of an increase in the assets' credit risk.

- Where these sales are infrequent even if significant in value. A Sale of financial assets is considered infrequent if the sale is one-off during the Financial Year.

- Where these sales are insignificant in value both individually and in aggregate, even if frequent.

- When these sales are made close to the maturity of the financial assets and the proceeds from the sales approximates the collection of the remaining contractual cash flows.

Based on the review carried out by the Bank for the purpose of classification of financial instruments, the Bank determines that all debt instruments recognized in accordance with IFRS 9, the business model was classified as held to collect contractual cash flows, since the contractual cash flows consist solely of the repayment of the prinical amount and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and and features that modified consideration of the time value of money (e.g. periodical reset of interest rates).

a) Financial assets measured at amortised cost

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in Interest income in the Statement of Comprehensive Income. Impairment on financial assets measured at amortized cost is calculated using the expected credit loss approach.

Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

b) Financial assets measured at FVOCI

Financial assets are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive Income (OCI). Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Statement of Comprehensive Income. Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to interest income in the Statement of Comprehensive Income using the effective interest rate method.

Equity Instruments

c) Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. All equity instruments are measured at FVTOCI according to IFRS 9.

Financial Liabilities at amortised cost

d) Financial liabilities that are not classified at fair value through profit or loss fall into this category and are measured at amortised cost using the effective interest rate method. Financial liabilities measured at amortised cost are deposits from banks or customers, other borrowed funds, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

Reclassifications

iii Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. A change in the Bank's business model will occur only when the Bank either begin or cease to perform an activity that is significant to its operations such as:

- Significant internal restructuring or business combinations; for example an acquisition of a private asset management company that might necessitate transfer and sale of loans to willing buyers; this action will constitute changes in the business model and subsequent reclassification of the loan held from category 1 to Category 2;

- Disposal of a business line i.e. disposal of a business segment;

- Any other reason that might warrant a change in the Bank's business model as determined by management based on facts and circumstances.

There were no reclassifications during the year.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

The following are not considered to be changes in the business model:

- A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions);
- A temporary disappearance of a particular market for financial assets;
- A transfer of financial assets between parts of the Bank with different business models.

IV. Modification of financial assets and liabilities

(a) Financial assets

When the contractual terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognised at fair value. Any difference between the amortized cost and the present value of the estimated future cash flows of the modified asset or consideration received on derecognition is recorded as a separate line item in profit or loss as 'gains and losses arising from the derecognition of financial assets measured at amortized cost'.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss as part of impairment charge for the year.

In determining when a modification to terms of a financial asset is substantial or not to the existing terms, the Bank will consider the following non-exhaustive criteria:

Quantitative criteria

A modification would lead to derecognition of existing financial asset and recognition of a new financial asset, i.e. substantial modification, if:

- The discounted present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

In addition to the above, the Bank shall also consider qualitative factors as detailed below.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Qualitative criteria

Scenarios where modifications will lead to derecognition of existing loan and recognition of a new loan, i.e. substantial modification, are:

- The exchange of a loan for another financial asset with substantially different contractual terms and conditions such as the restructuring of a loan to a bond; conversion of a loan to an equity instrument of the borrower;
- Roll up of interest into a single bullet payment of interest and principal at the end of the loan term;
- Conversion of a loan from one currency to another currency;

Another factor to be considered:

- Extension of maturity dates

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized in profit or loss (see above) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

  The bank did not have any modification during the year.

(b) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

De-recognition of financial instruments

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

De-recognition of financial instruments

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

V. Impairment of Financial Assets

In line with IFRS 9, the Bank assesses the under listed financial instruments for impairment using the Expected Credit Loss (ECL) approach:

- Amortized cost financial assets;
- Debt securities classified as at Amortised cost;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

Equity instruments and financial assets measured at FVTOCI are not subjected to impairment under the standard.

Expected Credit Loss Impairment Model

The Bank's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The Bank adopts a three-stage approach for impairment assessment based on changes in credit quality since initial recognition.

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used;

NOTES TO THE FINANCIAL STATEMENTS (Contd)

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument;

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The guiding principle for ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments since initial recognition. The ECL allowance is based on credit losses expected to arise over the life of the asset (life time expected credit loss), unless there has been no significant increase in credit risk since origination.

Measurement of expected credit losses

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.

- Lifetime PDs – This is the estimated probability of default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs are limited to the maximum period of exposure required by IFRS 9.

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

To estimate expected credit loss for off-balance sheet exposures, the credit conversion factor (CCF) is usually computed. CCF is a modelled assumption which represents the proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring. It is a factor that converts an off-balance sheet exposure to its credit exposure equivalent. In modelling CCF, the Bank considers its account monitoring and payment processing policies including its ability to prevent further drawings during periods of increased credit risk. CCF is applied on the off-balance sheet exposures to determine the EAD and the ECL impairment model for financial assets.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

ACCOUNTING POLICIES (Contd)

The major financial assets for which the ECL is calculated are short-term Treasury Bills and medium and long-term Bonds issued by the State of Sierra Leone with maturities ranging up to 6 years as per 2020 year end. These securities are held by the Central Bank of Sierra Leone. Total exposure decreased from Le1.158 billion to Le0.824 billion from 2019 year end to 2020 year end respectively.

At the time of the ECL calculation, Sierra Leone was not rated (NR) and hence did not have traded credit instruments in the international market with an observable rating. Consequently, ratings from similar countries were used and adjusted to reflect specific features of Sierra Leone.

The following table shows the Loan loss allowance as of year end 2019 and 2020 as well as the change in 2019 and 2020 which were taken to profit and loss.

Expected Credit Losses (ECL)	**31.12.2020**	**31.12.2019**
Expected credit loss allowance (LE)	184,541,000,000	131,096,000,000
Relative to exposure outstanding (%)	12.67%	14%
Increase(decrease) in expected credit loss allowance (LE)	53,445,000,000	60,123,661,231

Forward-looking information incorporated in the ECL Model

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank uses a model based on historical analysis and key economic variables impacting credit risk and expected credit losses for the domestic and foreign portfolio.

Macroeconomic variable assumptions

The default probability model used by the Bank evaluates a wide range of macroeconomic, market-based and political data to estimate the probability of a sovereign defaulting on its debt. The model provides estimates for the annualised default probability for six time horizons: one, two, three, five, seven and ten years. The data includes actual defaults (missed payments), non-performing rescheduled debt (debt that is reissued on less favourable terms) and rescheduled debt.

The primary inputs to the model are macroeconomic data from Thomson Reuters Datastream. Additional market-based and political risk data are also used to provide a comprehensive picture of country risk. These include amongst others the level and change of government debt to GDP, the size and growth of the country's economy, the level and variability of foreign exchange reserves, the purchasing power of the currency, the annual change in the exchange rate and the reserve currency indicator.

The input variables are also grouped into long-term and short-term components. As a result, the preceding input variables are reflected in the PD.

The key end-of-period assumptions used for the ECL estimate as at 31 December 2020 are shown below:

Scenario	**Weight**	**PD-Range (Standard Scenario)**	**PD-Range (Stress Scenario)**	**Inflation Rate**
Base-case	50%	12.67%	12.67%	15.69%
Upside	25%	16.67%	6.00%	14.69%
Downside	25%	8.67%	22.00%	15.69%

A sensitivity analysis of the impact of a change in the variable assumptions did result in a significant change in ECL except for the PD stress scenario which is based on the observation of maximum and minimum values of the PD for the last ten years.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

Assessment of significant increase in credit risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors. The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring.

Definition of Default and Credit Impaired Financial Assets

The Bank defines a financial instrument as being in default which is fully aligned with the definition of credit-impaired financial assets, when it meets one or more of the following criteria:

Quantitative criteria (default)

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

ACCOUNTING POLICIES (Contd)

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for a security because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- Others include death, insolvency, breach of covenants, etc.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six month.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, loans that are more than 90 days past due are considered impaired except for certain specialized loans (Project Finance, Object Finance and Real Estate Loans as specified by the Central Bank of Sierra Leone) in which the Bank has rebutted the 90 Days Past Due presumptions in line with the BSL Prudential Guidelines.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness;
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to the country, as well as the intention reflected in public statements of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

ACCOUNTING POLICIES (Contd)

Presentation of allowance for ECL in the statement of financial position

Loan allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

VI. Write-off

The Bank writes off an impaired financial asset (and the related impairment allowance), either partially or in full. There are no reasonable expectation of recovery set out in IFRS 9, paragraph 5.4.4. After a full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure shall be recommended for write-off (either partially or in full):

- continued contact with the customer is impossible;
- recovery cost is expected to be higher than the outstanding debt;
- The Bank's recovery method is foreclosing collateral and the value of the collateral is such that there is reasonable expectation of recovering the balance in full.

All credit facility write-offs shall require endorsement at the appropriate level, as defined by the Bank. Credit write-off approval shall be documented in writing and properly initialled by the approving authority.

A write-off constitute a derecognition event. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of the amount due. Whenever amounts are recovered on previously written-off credit exposures, such amount recovered is recognised as income on a cash basis only.

vii. Offsetting financial instruments

Netting, where financial assets and liabilities are offset and the net amount reported in the statement of financial position, occurs if, and only if, there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize an asset and settle the liability simultaneously. In many cases, even though master netting agreements are in place, the lack of an intention to settle on a net basis results in the related assets and liabilities being presented gross in the statement of financial position. During the financial year 2020 there was no offsetting of financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and balances with other foreign Central Banks, commercial banks, supranational organizations and non-banking financial institutions.

These are subject to insignificant risk of changes in their value and are used by the Bank in the management of its short-term commitments.

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

(i) Advances

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.

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

(j) Investment securities

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

(i) Amortized cost
Financial assets at amortized cost comprises cash and cash equivalents, advances to Banks, loans and advances to others. They are subsequently measured at amortized cost using the effective interest method less any impairment losses. Interest income from these financial assets is determined using the effective interest method and reported in profit or loss as interest income.

(ii) Fair value through profit or loss (FVTPL)
The Bank elects to classify its investments in equity securities at FVTPL. The election is to present in profit or loss changes in fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument—by—instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are classified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment.

Financial liabilities
The Bank classifies its financial liabilities as measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(K) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Freehold premises are depreciated over a maximum of fifty years.

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 reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(l) Leased assets - Lessee

The Bank was not a party to any finance leasing contract during or at the end of the year. Leases are operating leases and the underlying assets are not recognised in the Bank's balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(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 recognized if the carrying amount of an asset or its cash generating unit (CGU) exceeds its recoverable amount. The recoverable amount is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rates that reflect current market assessments of the time value of money and the risk specific to the asset.

A previously recognized impairment loss is reversed where there has been a change in circumstances or in the basis of estimation used to determine the recoverable value, but only to the extent that the asset's net carrying amount does not exceed the carrying amount of the asset that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Deposits

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

(o) Provisions

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

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

(p) Financial guarantees

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

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

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(q) Employee benefits

(i) Short term benefits

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

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

(ii) Defined contribution plan

The Bank contributes towards a defined contribution plan. The plan is funded through payments to the National Social Security and Insurance Trust (NASSIT) Scheme. 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 recognised as 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 reporting date, together with adjustments for actuarial gains or losses and past service costs. The present value of the obligation is determined by discounting the estimated future cash outflows taking into account average service period and salary increases and using interest rates of Government treasury bonds that are denominated in Leones, the currency in which the obligation will be paid and that matures in one year's time. The calculation is performed by an actuary using the projected unit credit method. For a description of the financial assumptions see note 29.

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

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(iv) Termination benefits

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

(r) Capital and reserves

Share capital

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Section 38(1) of the Bank of Sierra Leone Act 2019 requires the Bank of Sierra Leone to maintain a minimum paid up capital of Le125 billion. The paid-up capital shall be subscribed and held exclusively by the Government of Sierra Leone.

(s) Amounts repayable under Repurchase Agreement (REPOs)/Reverse REPOs

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

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

When the Bank withdraws money from commercial banks, it creates a liability in its financial statements and secures this borrowing (liability) by assigning part of the securitised debt holding to the commercial banks it has withdrawn from. The commercial banks usually hold the investments to maturity.

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

(i) The bank treats reverse REPO as collateralised loans for accounting purposes. In this case, a reverse REPO is recognised as a secured advance and is shown separately as Advance to Banks while repurchase agreements are shown as a liability in the books of the Bank.

(ii) REPOs continue to be recognised in the statement of financial position and are measured in accordance with the terms of the agreement.

(iii) The difference between sale and repurchase price is treated as interest expenditure and is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Contd)

(t) Currency in circulation

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

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

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

The Bank, on behalf of the Government of Sierra Leone, manages assets and liabilities denominated in Special Drawing Rights (SDRs) held with the International Monetary Fund (IMF). Exchange gains and losses arising from translation of SDRs at period ends are recognised in the statement of comprehensive income.

(v) Gold

Gold holdings are included in the statement of financial position at the prevailing closing spot market price on the London Bullion Market on that date. Foreign exchange gains and losses on gold holdings are transferred to the revaluation account.

(w) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. All adjustments of comparative figures are referred to as “restatements”.