



Bank of Sierra Leone



Annual Report
and
Statement of Accounts
for the year ended 31 December 2005

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A. ANNUAL REPORT 2005

1. Review of the Economy

Overview

The Sierra Leone economy recorded an impressive performance during the year 2005, with further consolidation of the gains achieved in macroeconomic stability and real growth. The improved performance was propelled by significant growth in agricultural as well as industrial activities and a robust services sector. Industrial activity was mainly led by the manufacturing sub-sector, which recorded considerable expansion over the year, while increased production in the major export crops of coffee and cocoa was responsible for growth in the agriculture sub-sector. The expansion in the services sector was largely driven by activities in the 'transport, communication and construction' sub-sectors, in response to the improving economic environment. This was further supported by improved 'financing and business activities'. Diamond production however slightly declined during the period under review.

The Government of Sierra Leone maintained its existing good relationship with its development partners, especially the International Monetary Fund (IMF), World Bank, African Development Bank (ADB), European Union and United Kingdom Department for International Development (DFID). On the 1st of June 2005, the Executive Board of the IMF completed the Sixth and Final Review of Sierra Leone's performance under an SDR 130.8mn (about US\$194.3mn) Poverty Reduction and Growth Facility (PRGF) Arrangement. The country subsequently qualified for an SDR 14mn (about US\$20.8mn) loan facility under the programme. The Executive Board also approved an additional interim assistance of SDR 4mn (about US\$5.9mn) under the enhanced Heavily Indebted Poor Country (HIPC) initiative for the period through end -2005. In a related development, the Executive Board of Directors of the World Bank, on 16th June 2005,

approved an International Development Association (IDA) grant of US\$15mn to the Government of Sierra Leone, to assist in moving the country from 'post-conflict recovery' to 'equitable and sustainable development', within the framework of the country's recently approved Poverty Reduction Strategy Paper (PRSP). The four Development Assistance Projects approved for Sierra Leone by the World Bank included the Fourth Economic Rehabilitation and Recovery Grant (ERRG IV), the Country Assistance Strategy (CAS), the completion of the Bumbuna Hydroelectric Project and the supplemental Urban Water Supply Credit. On July 14, 2005, the African Development Bank (ADB), under the Economic Recovery and Rehabilitation Loan (ERRL II), also disbursed the second and final tranche of US\$10.51mn to the Sierra Leone Government for budgetary support. Also, in December 2005, the European Union (EU) and UK/DFID disbursed Euro 17.5mn (Le60.29bn) and £5mn (Le25.54bn) respectively, for budgetary support.

A Consultative Group Meeting for Sierra Leone, with its Development Partners, was held in London on November 29-30, 2005. The objective of the meeting was to elicit support for the successful implementation of the country's Poverty Reduction Strategy Paper (PRSP), which was approved by the Executive Boards of the World Bank and the International Monetary Fund (IMF) earlier in the year, following the country's good economic reforms and growth track record. A total of US\$800mn, to be disbursed during the period 2005-2007, was pledged by thirty (30) of Sierra Leone's development partners during the Consultative Meetings, in recognition of the remarkable progress made by the government and people of Sierra Leone, following the civil war. The meeting also recorded significant confidence in the government's

poverty reduction strategy. The discussions were focused on three key themes of food security, youth employment and governance. The development partners also agreed on plans to improve the effectiveness of aid programmes through greater donor coordination and monitoring, with emphasis on the government's own poverty reduction strategy.

External sector developments during the review period resulted in a trade deficit of US\$182.00mn compared to a deficit of US\$426.16mn in 2004. The strong growth in merchandise trade was in response to an increase in aggregate domestic demand for imports, especially for capital and intermediate goods, coupled with the increase in the bill for petroleum imports, which amounted to US\$115.60mn. Merchandise exports also rose by 13.86 per cent on the strength of large increases in the volumes of all the major export categories.

Gross international reserves, which reached US\$124.88mn in December 2004 increased to US\$170.48mn as at end December 2005, as a result of substantial donor inflows in the fourth quarter of 2005.

The depreciation of exchange rate of the Leone to the US Dollar in 2005 in all the foreign exchange channels was small as the Central Bank continued its weekly foreign exchange auction system to reduce the additional pressures on demand.

Fiscal performance during the review period, reflected constraints associated with the shortfall in revenue collection, late disbursements of external donor support and the lower than budgeted development expenditure inflows in the year. Government domestic borrowing was high in the first half of the year with associated higher domestic interest payments. With the receipt of budgetary support in the second half of the year, Government's budget deficit was lower than budgeted, and it was able to reduce to zero the Ways and Means Advances at the Central Bank.

Monetary aggregates expanded during the year with Broad Money increasing by 31.30 per cent, exceeding the previous year's growth by over 11.0 percentage points. The source of monetary expansion in 2005 was largely in Net Foreign Assets of the banking system, which increased by Le189.20bn, on account of the increase in the foreign exchange reserves of the Central Bank.

The general price level in 2005 remained fairly stable as compared to 2004, though the respective annual consumer price indices for all the major towns recorded increases over the preceding year. The year-on-year inflation rates for Bo and Makeni recorded single digits while that for Freetown and Kenema recorded double digits as at end December 2005.

In the financial services sector, there was some evidence of response by commercial banks and other financial institutions to challenges in current economic trends. A second Discount House the 'Capital Discount House' was officially opened during the year. The commercial banks opened four (4) new branches, and foreign exchange bureaux increased from forty five (45) to fifty (50). Credit to the private sector by the commercial banks grew by Le20.69bn (15.51%) to Le154.05bn in 2005, much lower than that in 2004, with credit during the period directed to the transport, communication and construction sectors.

The period under review also saw a number of initiatives designed to support the development of a capital market.

During the review period, the launching of the monetary union in the West African Monetary Zone was postponed from July 1, 2006 to December 1, 2009, arising from the unsatisfactory state of macro-economic convergence by member states. Sierra Leone's macroeconomic performance in the reporting period, showed that the country met two of the four Primary Criteria; Central Bank Financing

of the budget deficit and the Gross Foreign Reserves benchmarks; and only one of the six Secondary Criteria – the Exchange Rate Stability.

Real Sector Developments

During the review period, the real sector registered a robust performance, underpinned by substantial output gains in the manufacturing, agriculture, construction, tourism and other services sectors. Real Gross Domestic Product (GDP) for the period is estimated to have grown by 7.3 per cent, almost as high as the growth rate of 7.4 per cent recorded in 2004.

In the agricultural sub-sector, there was strong growth in the production of both subsistence and major export commodities. This was reflective of the sustained efforts by the various stakeholders in the sector, towards the attainment of food security by 2007. During the year, the United States Government approved an US\$8mn grant for agricultural/rural development in the districts of Kono, Kailahun and Koinadugu in the Eastern and Northern regions of the country. The Government provided farmers with advanced technological inputs as well as improved varieties of crop seedlings, including seed rice. In addition, the African Development Bank and the Government of Sierra Leone, jointly contributed Le1.2bn under the Integrated Fisheries Development Project, to assist fishing co-operatives in the country.

The mining sub-sector, predominantly characterised by diamond mining, continued to be the main source of foreign exchange to the economy. The expanding trend in diamond production, which had been evident since 2000, was reversed in 2005, due to a decline in diamond mining activities. Gold production however, posited a significant growth, as a result of increased activities.

During the year, the European Union released the first tranche of Euro18mn of the Euro25mn Government - guaranteed loan to the Sierra Rutile Company, for the restart of its mining operations.

Rehabilitation of the mines started in 2005, with production expected to commence in 2006. The Government signed an agreement with Argyil Resources Co-operation (ARC) for a US\$1.6bn Bauxite and Aluminum Project in the Kambia District, to kick-start the recommencement of bauxite mining in the country and create a further boost to the mining industry.

Electricity generation continued to be low, with most areas in the capital city experiencing increased power shortages during the year. Supply during the period was markedly down as compared with 2004. In support of the government's drive to improve electricity generation in the capital city, the European Union provided Euro2mn in February 2005, to assist the activities of the National Power Authority (NPA), while Parliament ratified an US\$8mn loan agreement, signed between the Government of Sierra Leone and the Arab Bank of Economic Development in Africa (BADEA), for the Western Area Power Generation Project Phase I. Also during the year, the National Power Authority (NPA) received a seven megawatts diesel generator from the South African Government to augment power supply in the city. The generator is expected to be operational in 2006. The Government also signed a contract with the Salini Costruttori Company (SALCOST) for the completion by 2007, of the Bumbuna Hydro Power Project, jointly funded by the Italian Government, International Development Association (IDA), African Development Bank (ADB), Organisation of Petroleum Exporting Countries (OPEC) and the Netherlands Clean Development Facility.

The Telecommunication services sub-sector expanded further during the year with the establishment of three (3) new mobile telephone companies (Comium, Africell and Datatel), bringing the total mobile telephone companies operating in the country to five (5). A private television company, ABC Television, also commenced operation during the year.

Table. 1 Production					
		Jan-Dec'04	Jan-Jun'05	Jul-Dec'05	Jan-Dec'05
1	2	3	4	5	6
Minerals					
Diamonds	000'carats	693.10	343.46	325.34	688.80
Gold	000'ounces	0.86	1.28	0.41	1.69
Agriculture					
Coffee	000'M tons	118.00	407.50	661.00	1,068.50
Cocoa	000'M tons	6,187.50	4,703.00	2,020.26	6,723.26
Piassava	000'M tons	25.00	-	-	-
Manufactured Goods					
Beer and Stout	000' cartons	808.55	444.48	407.55	852.03
Maltina	000' cartons	133.48	90.27	70.13	160.39
Soft Drinks	000' crates	1,581.81	969.17	938.84	1,908.01
Acetylene	000' cu.ft	12.28	91.45	127.41	218.86
Oxygen	000' cu.ft	428.17	311.14	655.23	966.36
Carbon-Dioxide	000' lbs	-	-	-	-
Confectionery	000' lbs	2,733.65	941.50	1,132.80	2,074.30
Salt	M tons	827.13	-	-	-
Common Soap	M tons	268.12	280.16	137.06	417.22
Paint	000' gals.	164.58	57.33	78.31	135.64
Cement	000'M tons	180.43	80.67	91.45	172.12
Plastic Footwear	000 pairs	85.97	-	-	-
Flour	M tons	19.08	9.20	9.51	18.71
Jumbo Cube	cartons	-	15.41	16.00	31.40
Services					
Electricity					
Units Generated	GW/hr	84.82	29.33	23.92	53.25
of which					
Industrial Consumption	GW/hr	23.21	10.52	5.96	16.49

The Trade and Investment sector received further boost in 2005 with the launching of the “Small and Medium-Size Enterprises” (SMEs) support programme by the Minister of Trade and Industry. Also during the year, an Industrial Zone (Guoji Investment and Development Company) comprising manufacturing and processing areas, was established at Cline town, in the East End of Freetown. The company currently manufactures goods (including paints, tiles, zincs, mattresses, etc) and repairs essential imported commodities such as generators, engines, etc.

The manufacturing sub-sector experienced considerable growth during the period with most industries registering expansion in their output levels, indicative of the increasing level of confidence in the business environment. Statistics Sierra Leone, Bank of Sierra Leone, the National Social Security and Insurance Trust (NASSIT), the National Revenue Authority (NRA), the Ministry of Trade and Industry and the Ministry of Labour, jointly conducted a census of business establishments in the country, during August and September 2005.

The increases in the world market prices for petroleum products during the year necessitated similar increases in the domestic prices of these and other products. The pump prices of petroleum products were revised four times during the review year. In spite of these price increases, as well as the need for central bank financing of the fiscal deficit, the year-on-year inflation rate declined in Freetown, Bo and Makeni. It however increased for Kenema. The rate in Freetown remained in double digits, thus falling outside the Second West African Monetary Zone (WAMZ) single digit inflation rate criterion. The annual average rate however increased for all the towns.

The United Nations Mission in Sierra Leone (UNAMSIL), which started operations in the country six years ago, with a mandate to assist in restoring peace during the country’s civil war, left in December 2005, having achieved its goals. In

addition to executing its main mandate, the Mission assisted in the conduct of national and local elections and the rebuilding and retraining of the country’s police force, as well as contributed significantly towards the rehabilitation of damaged public infrastructure and bringing public services to local communities.

The manufacturing sub-sector posted increases in the output levels of “beer and stout”, maltina and soft drink by 43.48 thousand cartons (5.38%) to 852.03 thousand cartons, 26.92 thousand cartons (20.17%) to 160.39 thousand cartons and 326.20 thousand crates (20.62%) to 1,908.01 thousand crates, respectively. The increases in the production of “beer and stout” and maltina were partly due to intensive sales promotion activities conducted in the last quarter of the reviewing year, as well as the availability of raw materials. The output of soft drinks increased, partly as a result of the lag effect of the installation of the new bottling plant in the last quarter of 2004 and the introduction of a new brand of the Fanta Drink (Fanta Pineapple) in October 2005, by the Freetown Cold Storage Company.

The total outputs of both acetylene and oxygen produced by the two gas producing companies, Sierra Leone Oxygen Factory (SLOF) and SAFARI Company (started operations in 2005), recorded 218.86 thousand cubic feet and 966.36 thousand cubic feet respectively, for the year under review. These outputs indicated huge surges, compared with 12.28 thousand cubic feet of acetylene and 428.17 thousand cubic feet of oxygen, produced by the Sierra Leone Oxygen Factory in 2004. The marked improvements, in addition to being the effect of production by the new company, was also partly the result of an improved performance by SLOF, following a major rehabilitation of the company. There was no production of carbon dioxide during the year as the users now have their own plants.

Production of common soap increased significantly by 56.19 per cent to 417.22 thousand metric tons, mainly due to increased customer demand against the backdrop of significantly improved availability of raw materials. The production of jumbo cube resumed in the reporting period, recording an output level of 15.41 thousand cartons in the first half of the year and increasing to 16.00 thousand cartons in the second half with a total of 31.40 thousand cartons in 2005. Due to logistical problems, the plastic footwear company has stopped production.

Output of confectionery and flour dropped by 24.12 per cent and 1.94 per cent to 2,074.30 thousand pounds and 18.71 metric tons respectively, as compared with 2,733.65 thousand pounds and 19.08 metric tons respectively, in 2004. These decreases reflected a shift in customer demand in favour of low-priced imported substitutes, and in the case of flour, also due to a reduction in output during the period when a new mill was being installed. In the construction industry, output of paint and

thousand gallons the second half, recording its highest at 37.26 thousand gallons in December, with decorations for the Christmas season. There was a marked increase in domestic market demand for cement during the first half of the year that could not be met by local production. This necessitated the import of 14,31 thousand metric tons of cement by the Sierra Leone Cement Corporation Limited. Output of cement hit its highest level at 20.18 thousand metric tons in December, following the installation of a new production plant in August 2005. The factory price per bag of locally produced cement was revised from Le20,400 to Le21,600 in July and later in October to Le23,900.

Intensive efforts by the government and the international community towards revitalizing the agricultural sector resulted in improved performance and sustained buoyancy during the review period. The Government distributed 94 tractors, 8 combined harvesters, 6 mobile threshers, 250 thousand cashew

Table 2
PRODUCTION OF MAJOR FOOD CROPS (2002-2005)

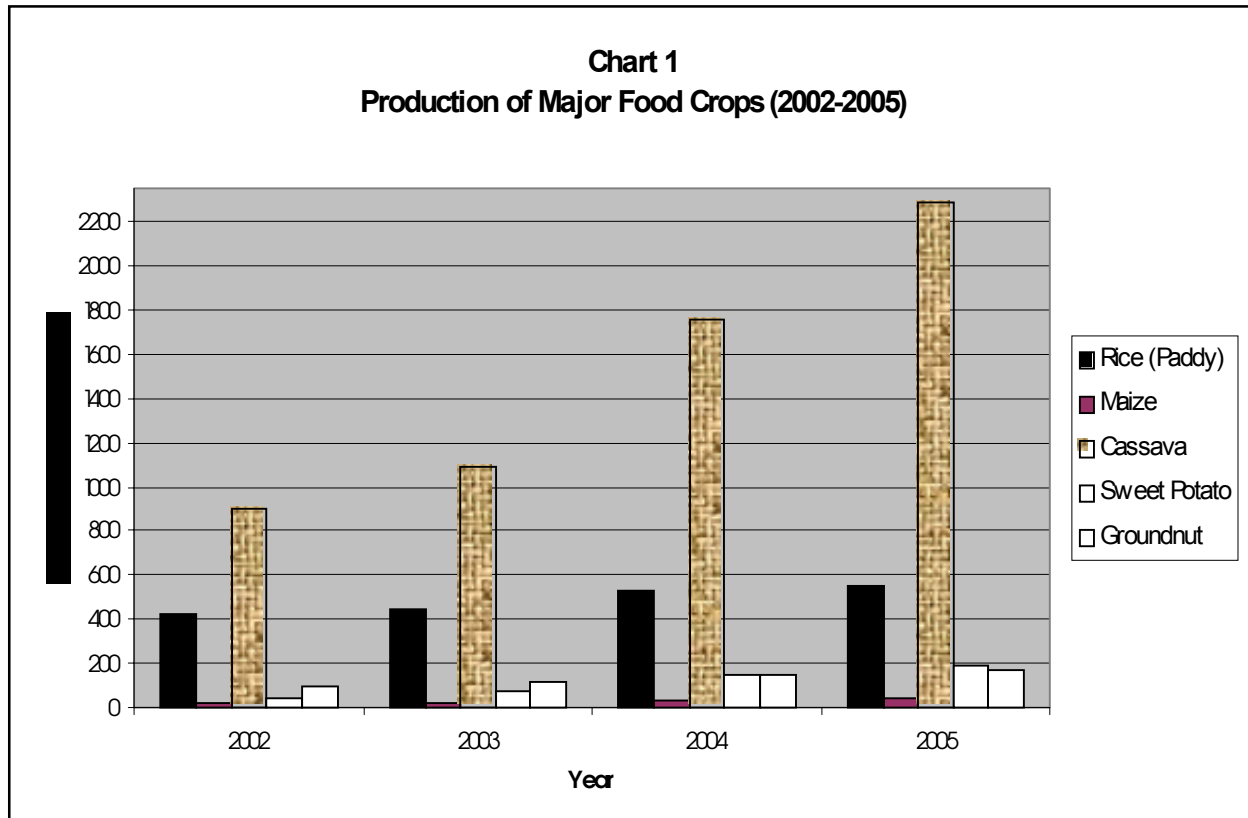
CROP	PRODUCTION (TONS)			
	2002	2003	2004	2005 (Est.)
Rice (Paddy)	422,065	445,633	526,619	552,000
Maize	16,068	16,060	32,125	38,550
Cassava	895,817	1,091,178	1,759,292	2,287,060
Sweet Potato	45,450	74,446	153,198	191,498
Groundnut	98,400	117,000	152,000	167,200

SOURCE: Planning, Evaluation, Monitoring and Statistics Department (PEMSD)

cement were down by 17.58 per cent and 4.60 per cent to 135.64 thousand gallons and 172.12 thousand metric tons respectively, from 164.58 thousand gallons and 180.43 thousand metric tons respectively, in 2004. The drop in paint was due to increased competition from a proliferation of imported substitutes, while that for cement was due to a breakdown in the production plant during March 2005. Paint production was 57.33 thousand gallons in the first half of 2005 but rose to 78.31

seedlings, 110 thousand oil palm seedlings and 3.17 thousand metric tons of seed rice to farmers in 2005. Rice production increased to 552 thousand metric tons, about 4.82 per cent higher than 526.62 thousand metric tons recorded for 2004. This led to a drop in the volume of rice imports in 2005.

There was support from the government for the cultivation of the new rice variety under the New Rice for Africa Project (NERICA) during the period.



This variety is higher yielding and of shorter duration and better quality than other varieties available in the country. During the peak season of 2005, 286 acres of NERICA rice were cultivated, while 160 acres were cultivated in the off-season.

Production of the other major food crops of maize, cassava, sweet potato and groundnuts, also recorded respective increases of 20 per cent to 38.55 thousand metric tons, 30 per cent to 2287.06 thousand metric tons, 25 per cent to 191.50 thousand metric tons and 10 per cent to 167.20 thousand metric tons in 2005.

Shipments of coffee and cocoa totaled 1,068.50 metric tons and 6,723.26 metric tons respectively, in the review period, with the volume of coffee shipped increasing by 950.50 metric tons or over nine-fold; while cocoa shipment increased by 535.76 metric tons (8.66%). The significant increase in production was a reflection of the incentive

created by higher producer prices, following the increases in the average world market price of the commodities from US\$1495.89/mt and US\$1,787.00/mt respectively, in 2004, to US\$2372.09/mt and US\$1,870.00/mt respectively, in 2005.

The total volume of official diamond shipments in 2005 as recorded by the Government Diamond Department (GDD), showed a drop by 23.01 thousand carats (3.33%) to 688.80 thousand carats, comprising 393.79 thousand carats of gem diamonds and 275.02 thousand carats of industrial diamonds. The contraction in shipment was due to a lull in mining activities during the year, especially in the month of September. Diamond shipments leveled at 343.46 thousand carats in the first half of 2005 but dropped to 325.34 thousand carats in the second half, while hitting its lowest monthly level at 34.16 thousand carats in September and peaking at 68.02 thousand carats in December 2005.

Table 3**Mineral Production (2000-2005)**

Period	Gold (ounces)	Diamond (Carat)
2000	0.13	77,387.07
2001	11.03	224,157.50
2002	27.62	351,859.40
2003	184.19	506,818.84
2004	863.05	693,104.14
2005	1,691.81	668,806.75

SOURCE: Geological Survey Department

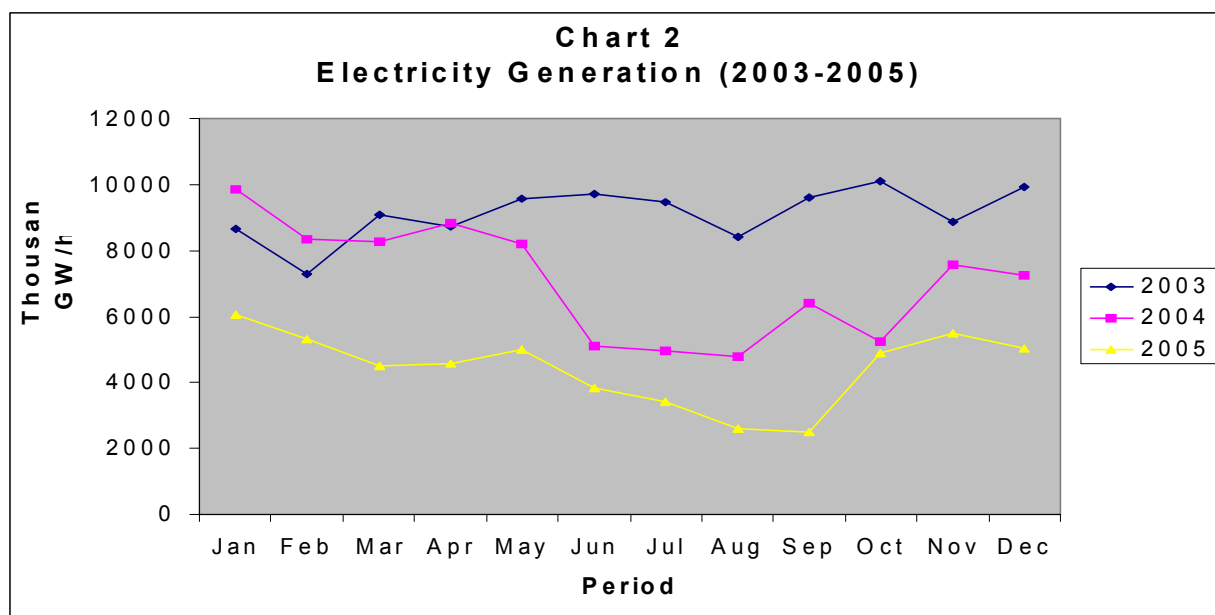
Available official statistics on gold mining activities indicate that during the year under review, total production was 1,691.81 ounces, an increase of 96.03 per cent compared with 863.05 ounces in 2004. The highest monthly output of gold (930.28 ounces) was recorded in March, with the lowest (8.41 ounces) recorded in September.

The production of bauxite and rutile are yet to recommence.

Electricity Generation

Total electricity generated in 2005 indicated a drop by 31.56 GW/hr. (37.21%) to 53.25 GW/hr, when compared to 84.82 GW/hr generated in 2004.

A total of 29.33 GW/hr was generated in the first half but dropped to 23.92 GW/hr in the second half of 2005. Industrial consumption also contracted by 6.72 GW/hr (28.96%) to 16.49 GW/hr in the review period, compared to the level of 23.21 GW/hr



recorded in 2004. The continued poor performance of the power sector is attributed to the frequency in breakdown of the age-old generator plants, in spite of efforts at maintenance and repairs works.

Growth in the tourism sub-sector continued on a strong path with the number of tourists visiting the country on the increase, as well as the construction of hotels, guesthouses and other accommodation facilities.

The number of tourist arrivals in 2005 is estimated to have more than doubled the number in 2004 (43,560), according to trends observed in the first four months of the year. The number of beds available in hotels and guesthouses rose from 2,331 in 2004 to 2,445 in the year under review.

The Transport and Communications sub-sector also experienced significant growth during the year, in line with the growth of the economy. Imports under the Transport category were particularly high and total vehicles registered increased by 24.80 per cent to 10,246 in 2005. This reflected increased registration for all categories, particularly motorcycles, which increased by 55.90 per cent to 2,549. The significant increase in the registration of motorcycles was partly explained by the official recognition and inclusion of motorcycles in the commercial transport industry, during the review period. The number of vehicles licensed, also edged upwards by 17.70 per cent to 34,553, with a significant increase (22.40%) in the number of vehicles licensed as taxis.

The communications network continued to expand to more areas in the provinces, while three more mobile telephone companies, Comium, Africell and Datatel commenced operation, bringing the number of mobile telephone companies operating in the country to five. The introduction of mobile telephone networks has significantly improved communications services throughout the country. The television network received a boost in the year under review, with the launching of the ABC Television – Africa

Sierra Leone, the first privately owned television station. This provided consumers with an alternative to the Government-owned television station, the Sierra Leone Broadcasting Service Television (SLBS TV).

During the period, the construction industry received a boost with the construction of new roads as well as public and private infrastructure, including government administrative buildings, schools, churches and mosques. In addition to this, the ongoing re-construction activities on damaged public

Table 4

Building Permits issued for Freetown and Greater Freetown

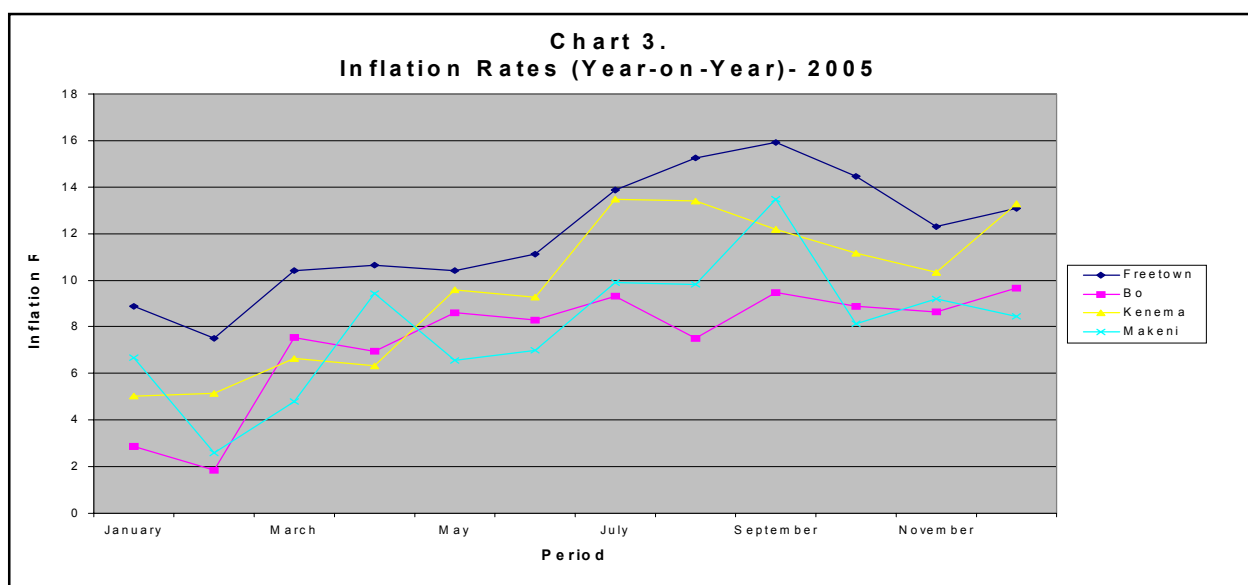
	2003	2004	2005
Residential	239	350	520
Commercial	82	9	55
Wall Fence	117	51	80
Schools	4	1	4
Churches	3	3	8
Mosques	4	2	0
Hospitals	1	2	0
Hoardings	3	4	0
Total	453	422	667

SOURCE: Ministry of Lands and Country Planning

and private buildings and roads continued. The number of building permits issued in the year increased to 667, about 58.06 per cent higher than 422 issued in 2004. Of the total permits issued, those for residential buildings rose by 48.60 per cent to 520, while for commercial buildings, the increase was over six-fold to 55.

During the review period, the general price level maintained a relatively stable position for most of the major townships, when compared with 2004. Though the annual average consumer price indices for all the major towns recorded increases over the preceding year, the year-on-year inflation rate registered declines for Freetown, Bo and Makeni and an increase for Kenema. Bo and Makeni towns posited single digit year-on-year inflation rates, while Freetown recorded double digits, thus falling outside the West African Monetary Zone (WAMZ) single digit inflation rate criterion. The year-on-year inflation rate for Kenema also remained in double digits in the review year.

The townships of Bo and Makeni exhibited similar patterns, with their annual average consumer price indices indicating upward movements over the year to 140.32 and 131.42, from 130.52 and 121.07 respectively, in 2004. The year on year inflation rate for Bo dropped to 9.67 per cent in December 2005, the highest recorded during the period, from 12.62 per cent in December 2004. The lowest rate recorded was 1.85 per cent in February. Although there were swings in the rate, it was maintained within a single digit throughout the review period. For Makeni Town, the year-on-year rate dropped to a single digit at 8.44 per cent in December 2005, from a double-digit of 12.85 per cent in December 2004.



In Freetown, the annual average Consumer Price Index for 2005 rose to 639.78 from 619.17 in 2004, depicting an all-items price increase of 3.33 per cent, mainly fueled by the continued increases in world market prices of petroleum products and other imported goods. The year-on-year inflation rate was for most of the period maintained within double-digits, except for the first two months when it recorded 8.89 per cent and 7.52 per cent, respectively. It then fluctuated between 10.43 per cent (March) and 15.90 per cent (September) to finally settle at 13.10 per cent in December 2005, as compared with a high of 14.39 per cent in December 2004.

The rate, though fluctuating, was maintained within a single-digit through the year, except for September 2005, when it peaked at 13.47 per cent. The lowest rate recorded was 2.58 per cent, also in February. In Kenema, the year on year inflation rate declined from 11.96 per cent in December 2004 to maintain a single digit position during the first six months of the reporting period. It moved from 5.05 per cent in January 2005, the lowest recorded in the review period, to 9.29 per cent in June 2005 and hit double digits in July at 13.48 per cent; the highest recorded. It stayed at double-digits throughout the second half, to finally settle at 13.27 per cent in December 2005.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

	Consumer Price Index	Monthly (%)	Year-on-Year (%)	Moving Average (%)
1	2	3	4	5
January	645.15	-0.56	8.89	13.68
February	645.28	0.02	7.52	13.01
March	650.34	0.78	10.43	12.93
April	657.36	1.08	10.67	12.75
May	669.19	1.80	10.40	12.41
June	690.07	3.12	11.14	12.12
July	708.19	2.63	13.86	12.14
August	721.70	1.91	15.23	12.19
September	731.97	1.42	15.90	12.33
October	735.34	0.46	14.45	12.32
November	737.03	0.23	12.29	12.14
December	733.76	-0.44	13.10	12.05

Source: Statistics Sierra Leone

	Bo			Kenema			Makeni		
	Consumer Price Index	Percentage Change (Monthly)	Percentage Change (Year-on-Year)	Consumer Price Index	Percentage Change (Monthly)	Percentage Change (Year-on-Year)	Consumer Price Index	Percentage Change (Monthly)	Percentage Change (Year-on-Year)
1	2	3	4	5	6	7	8	9	10
January	132.04	-1.62	2.87	141.46	-1.09	5.05	126.84	2.82	6.70
February	130.70	-1.01	1.85	142.50	0.74	5.13	125.66	-0.93	2.58
March	134.76	3.11	7.54	144.77	1.59	6.64	126.46	0.64	4.80
April	133.44	-0.98	6.95	144.68	-0.06	6.31	127.25	0.62	9.42
May	136.47	2.27	8.62	150.15	3.78	9.59	128.83	1.24	6.58
June	139.26	2.05	8.31	153.45	2.20	9.29	130.22	1.08	7.00
July	143.71	3.19	9.31	161.78	5.42	13.48	132.98	2.12	9.91
August	144.61	0.62	7.51	160.68	-0.68	13.41	136.95	2.99	9.83
September	145.79	0.82	9.48	161.30	0.39	12.20	139.38	-3.25	13.47
October	148.06	1.56	8.90	161.38	0.05	11.16	133.99	-3.87	8.12
November	147.76	-0.20	8.63	161.17	-0.13	10.34	134.50	0.38	9.21
December	147.20	-0.38	9.67	162.00	0.90	13.27	133.98	-0.38	8.44

Source: Statistics Sierra Leone

Following the consistent increases in the world market prices of petroleum products, the pump prices of various petroleum products were revised four times during the review year. In January 2005, the pump prices of petrol, diesel and kerosene were revised downwards from Le 9,000, Le9, 650 and 8,200 respectively, to Le 8,000, Le8,650 and Le7, 200 respectively, to reflect downward movements in world market prices in the last two months of 2004. In March 2005, the pump prices were revised upwards as follows: petrol from Le8,000 to Le9,500; diesel from Le8,650 to Le9,500; kerosene from Le7,200 to Le8,500 and fuel oil from Le3,515 to Le4,600, mirroring similar increases in world market prices. The pump prices were again revised upwards in August 2005 as indicated: petrol from Le 9,500 to Le10, 000, diesel from Le 9,500 to Le10, 000 and kerosene from Le 8,500 to Le9,000, to reflect the continued depreciation in the exchange rate, in addition to the continued world market prices hikes. Upward revisions were also effected in September 2005 as follows for similar reasons: petrol from Le10,000 to Le11,250; diesel from Le10,000 to Le11,250. kerosene from Le9,000.to Le10,000.and fuel oil from Le4,600.to Le5, 689.

Census of Business Establishments

During the months of August and September 2005, Statistics Sierra Leone, in collaboration with the Bank of Sierra Leone, the National Social Security and Insurance Trust (NASSIT), the National Revenue Authority (NRA), the Ministry of Trade and the Ministry of Labour, conducted a nationwide census of business establishments in the country.

The objectives of the Census included the following:

- To collect and process basic information for the creation of a database that will form the basis for a statistical business register of all establishments in Sierra Leone
- To provide a credible frame for all the basic surveys in the area of economic statistics such

as those required for the compilation of National Accounts, Price and Labour Statistics, Balance of Payments, etc

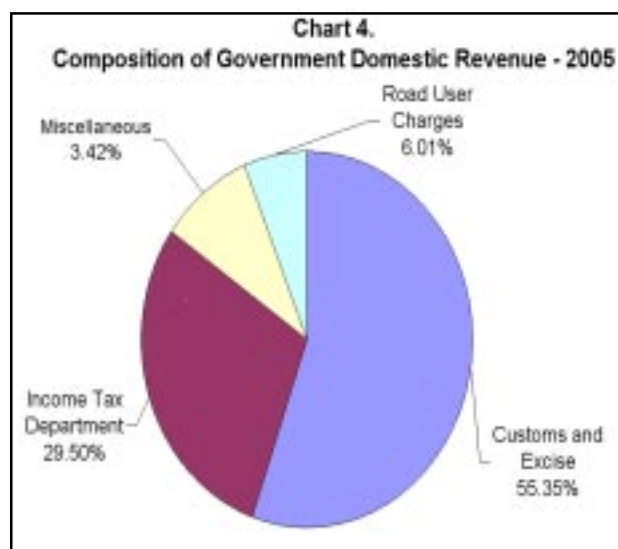
- To provide data for assessing the industrial structure, especially the formal sector, of the economy and the distribution of economic activity by region; and
- To classify business entities into formal and informal establishments

The Census offered a unique opportunity for assessing the post- conflict industrial structure of the economy as well as meeting the planning and policy formulation needs.

The results of the census showed that, of the total 10,840 establishments administered, 3,727 (34%) were registered with either the Administrator/Registrar General's Office, NASSIT, NRA, Ministry of Trade, Ministry of Labour, Licensing Authority, or other (Local Council) authority; while 7,113 (65.6%) business establishments (essentially representing the informal sector) were not. The census also revealed that a larger proportion of the establishments (74.2%) in Sierra Leone are operating in the wholesale and retail sectors.

Fiscal Developments

The 2005 budget was predicated on government's development priorities towards the realization of the Millennium Development Goals (MDGs) in 2015. Against this backdrop, government's strategy for attaining and sustaining high economic growth and reducing poverty during the period, was focused on socio-economic indicators, especially, security and peace consolidation, good governance, stable macroeconomic environment, the promotion of savings and investment, increased spending on infrastructure, promotion of food security and sustainable rural development. Budgetary operations in 2005 were however constrained by the shortfalls in total revenue (plus grants) and the lower than



budgeted development expenditure. In the first half of 2005, fiscal operations experienced strong pressures, culminating in huge budget deficits during the first and second quarters. Receipts from domestic sources were below their budget estimates, while delays in expected donor inflows compounded the problem of revenue shortage. Consequently, the government resorted to domestic borrowing to finance its large fiscal deficits, resulting in a sharp increase in Government's domestic debt burden. The situation eased slightly in the third quarter with the receipt of a Le42.13bn World Bank grant and a Le30.03bn loan from the African Development Bank (AfDB). The fourth quarter was even better with the receipt of programme grants of Le76.45bn and Le60.29bn from the United Kingdom/Department for International Development (UK/DFID) and the European Union, respectively.

Total revenue (including grants) for 2005, at Le765.76bn (22.84 per cent of GDP), showed a shortfall of 1.59 per cent on its budget estimate of Le778.11bn, mainly due to lower than anticipated domestic revenue receipts. The amount was however Le149.42bn or 24.24 per cent higher than its 2004 level of Le616.34bn. Total domestic revenue amounting to Le413.89bn (12.34 per cent of GDP) was 4.85 per cent below its budget

estimate of Le434.98bn but 15.95 per cent above the level of Le356.97bn recorded for 2004. The shortfall in budgeted domestic revenue was explained by the weak performance in customs and excise receipts from reduced import duties. This was explained by a shift in the composition of imports to lower tariff goods, the implementation of the ECOWAS Common External Tariff (CET) and higher administrative charges at the port that contributed partly to the diversion of trade and increased smuggling of goods into the country. The transfer of the collection machinery for receipts under the miscellaneous category, to the National Revenue Authority (NRA) in 2004 resulted in a significant increase in this category, from Le20.85bn in 2004, to Le39.86bn in 2005. Of the major domestic revenue sources, customs and excise duties accounted for Le235.61bn (7.03 per cent of GDP), 10.56 per cent below its 2005 budget estimate but 6.32 per cent higher than the preceding year's level. Income Tax collections, totaling Le114.49bn (3.41 per cent of GDP), were also 3.32 per cent lower than budgeted but exceeded the level in 2004 by 17.21 per cent. Receipts from the Miscellaneous Items category, at Le39.86bn, indicated a 27.01 per cent and 91.22 per cent rise on the 2005 budget estimate and the level in 2004 respectively, due to an improvement in receipts from other departments, including parastatals and royalties from fisheries. Road user charges during the period amounted to Le23.94bn; 10.09 per cent and 42.02 per cent above the budgeted estimate and the 2004 level, respectively.

Total grants received of Le351.87bn, constituting Le250.57bn programme grants for budgetary support and Le101.30bn project grants for developmental activities, were Le8.75bn below the budget estimate of Le343.13bn but Le92.50bn above the preceding year's total grants of Le259.38bn. Programme grants were however, 33.58 per cent above the estimate, mainly due to

Government Fiscal Operations			
(In Millions of Leones)			
	Budget 2005	2005	2004
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	778,106	765,762	616,343
DOMESTIC REVENUE	434,981	413,890	356,968
Of which:			
Customs & Excise	263,431	235,605	221,590
Import Taxes	200,070	171,907	166,137
Excise on Petroleum	45,893	42,347	41,076
Other Excise Duties	6,904	7,644	4,722
Domestic Sales Tax	10,563	13,707	9,655
Income Tax Department	118,423	114,489	97,679
Company Tax	54,927	61,745	47,622
Personal Income Tax	61,245	48,456	46,341
Other Taxes	2,251	4,287	3,716
Miscellaneous	31,385	39,862	20,846
Mines Dept.	12,949	11,302	7,720
Royalty on Rutile	400	0	0
Licences	12,549	11,302	7,720
Other Departments	18,436	28,559	13,126
Royalty on Fisheries	5,913	5,678	5,231
Parastatals	3,072	7,347	2,356
Other Revenues	9,452	15,534	5,539
Road User Charges	21,741	23,935	16,853
GRANTS	343,125	351,871	259,375
Programme	187,579	250,569	206,172
HIPC Debt Relief Assistance	80,671	60,787	93,649
UK (DFID)	\$17.94	87,367	51,118
EU	\$18.30	60,290	61,405
WB		42,125	
Project	0	0	9,065
DDR	0	0	9,065
Development Projects	155,547	101,302	44,138
TOTAL EXPENDITURE & NET LENDING	924,282	830,410	688,093
Of which:			
Current Expenditure	588,435	624,459	555,047
Of which:			
Wages & Salaries	194,127	229,464	178,751
Domestic Interest	92,630	94,657	103,709
Foreign Interest	35,406	30,932	25,855
Goods & Services	202,278	206,171	191,172
Transfers to Local Councils	17,994	15,509	
DDR	0	0	9,065
Social Outlays	2,223	2,548	1,868
Grants to Education Institution	22,035	20,549	21,188
Transfer to Road fund	21,741	23,935	16,853
Elections & Democratisation	0	693	6,586
Development Exp. & Net Lending	335,847	205,951	133,046
Foreign Loans & Grants	300,782	176,412	108,436
Loans	145,235	75,110	64,298
Grants	155,547	101,302	44,138
Domestic	0	29,539	26,087
Subsidies	35,065	0	0
Lending Minus Repayment	0	0	(1,477)
CURRENT BALANCE+/- (Including grants)	189,671	141,303	61,296
ADD DEVELOPMENT EXPENDITURE	(335,847)	(205,951)	(133,046)
OVERALL DEFICIT/SURPLUS +/- (Incl. grants)	(146,176)	(64,648)	(71,750)

Table 7 contd...			
Government Fiscal Operation (in Millions of Leones)			
	Budget 2005	2005	2004
FINANCING	146,176	64,648	71,750
Domestic	34,628	46,328	22,254
Of which:			
Bank Financing	14,628	(12,778)	(27,271)
Bank of Sierra Leone	14,628	(67,076)	(55,705)
Commercial Banks		54,298	28,434
Non-Bank Financing	20,000	59,106	49,525
Extenal	113,047	48,511	122,171
Of which:			
Loans	204,235	105,137	150,972
Project	145,235	75,110	64,298
Programme	59,000	30,027	86,674
Amortisation	(91,188)	(56,626)	(53,894)
Debt Relief	0	0	25,093
Others*	(1,499)	(30,190)	(72,675)

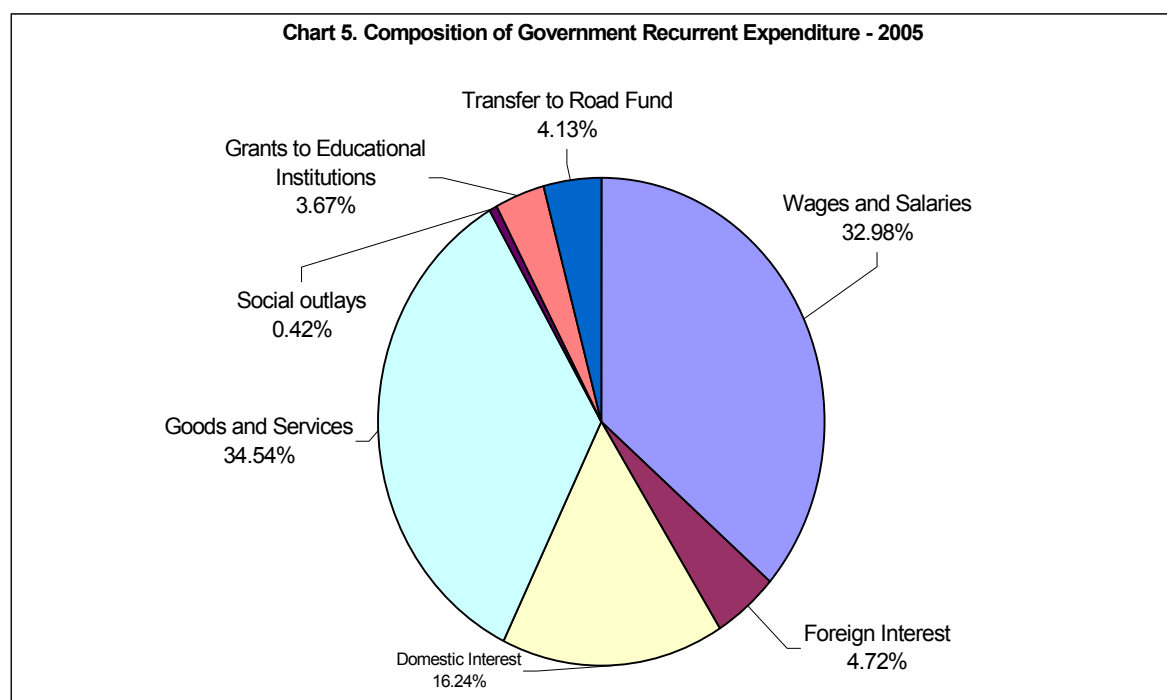
* Others include resheduling/write off,
financing gap, privatisation net & unaccounted amounts

Source: Budget Bureau, MOF

the receipt in August 2005 of a World Bank grant of Le42.13bn, which initially was expected as a loan. Grants received during the first half of the year amounted to Le73.48bn and were substantially below the budgeted amount. The bulk of the grants were received in the fourth quarter, when budgetary support of Le76.45bn and Le60.29bn were received from the United Kingdom/Department for International Development (DfID) and the European Union, respectively. Project grants of Le101.30bn, though Le54.24bn below the budgeted estimate of Le155.55bn, were 129.51 per cent higher than its preceding year's level.

Total government expenditure at Le830.41bn (24.77 per cent of GDP) was 20.68 per cent above the level of Le688.09bn for 2004 but below the budget estimate of Le924.28bn by 10.16 per cent. Recurrent expenditure totaling Le624.46bn (18.62 per cent of GDP) and accounting for 75.20 per cent

of total expenditure was however, 6.12 per cent above the budgeted estimate and exceeded the preceding year's level of Le555.05bn by 12.51 per cent. The higher recurrent expenditure relative to the budget estimates was mainly due to payments on wages & salaries, goods & services and domestic interest. Payments on wages and salaries amounted to Le229.46bn and were 18.20 per cent up on the budget estimate, due to the payment of arrears on social security contributions for civil servants to the National Social Security Insurance Trust (NASSIT) and payment of pensions and gratuity to military and police, following a restructuring exercise. The cost of recruiting additional police officers was also higher than had been expected. Domestic interest payments at Le94.66bn, were 2.19 per cent greater than the budgeted amount, as a result of the increase in the domestic debt burden during the first half of 2005.



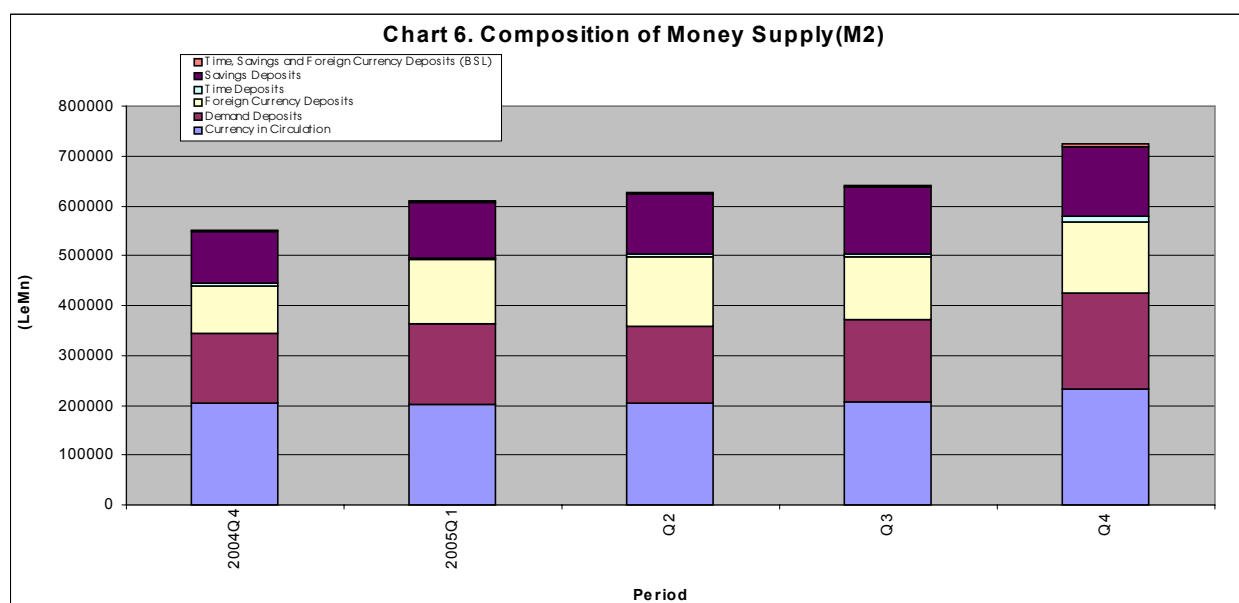
Development expenditure totaled Le205.95bn, comprising Le75.11bn financed from loans, Le101.30bn from grants and Le29.54bn from domestic sources. Government's contribution accounted for only 8.44 per cent of total tax receipts for the year, significantly below the stipulated 20 per cent required for the West African Monetary Zone (WAMZ). Development expenditure of Le205.95bn was 38.68 per cent below the budget estimate for the review period. The shortfall on the estimate was mainly on account of the slow pace of implementation of development projects as well as partly due to delays in the disbursement of funds by donor agencies. External contribution to development expenditure during the year amounted to Le176.41bn, compared to Le108.44bn in 2004 and the budget estimate of Le300.78bn.

The overall budget deficit including grants at Le64.65bn (1.93 percent of GDP), was Le81.53bn (55.77 per cent) and Le7.10bn (9.90 per cent) lower than the budget estimate of Le146.18bn and the deficit of Le71.75bn in 2004, respectively. Domestic financing of the deficit amounted to

Le46.33bn. Bank financing showed a decline of Le12.78bn. The decline was as a result of a decrease of Le67.08bn in Central Bank holdings of securities and short term advances, which off set the increase of Le54.30bn in commercial banks' holdings of securities. Non-bank financing amounted to Le59.11bn. The Government was able to fully repay to the Bank of Sierra Leone, total Ways & Means Advances outstanding. Financing from foreign sources was Le48.51bn.

Monetary Developments

Monetary policy during the year 2005, was predicated on achieving a low and stable rate of inflation consistent with sustained economic growth. Monetary management however, was for the most part of the year faced with daunting challenges emanating principally from delays in donor inflows for budgetary support, coupled with weak domestic revenue performance. These developments culminated in heavy reliance on central bank financing of government's budget deficit, thereby exerting undue pressure on the money supply and inflation. The situation was further exacerbated by the lack



of adequate tradable securities for the conduct of monetary operations, resulting in severe volatility in interest rates and a build up of excess liquidity in the banking system. The rate of inflation, which at the start of the year recorded single digit increased more than four percentage points to close just above 13 percent in December 2005. The second half of 2005, however witnessed remarkable recovery with substantial inflows of external donor funds. The result was a narrowing of the fiscal gap and an improvement in the Net Foreign Assets position. The rate of growth of commercial banks' credit to the private sector was very low during the third and fourth quarters of the year.

Broad Money (M2) expanded by 31.30% during the review period, almost doubling its programme target of 16.5% and exceeding the previous year's growth by over 11 percentage points. The expansion in M2 was accounted for mainly by the Le92.95bn (44.89%) growth in Quasi-money initiated by the increase in commercial banks Foreign Currency Deposits (Le51.67bn) and Savings Deposits (Le36.19bn). M1 recorded an expansion of Le79.69bn (23.13%) to Le424.22bn over the review period as a result of the increase in demand deposits (Le 53.15bn) and currency in circulation

(Le26.54bn). The source of monetary expansion during 2005 was predominantly Net Foreign Assets of the banking system, which increased by Le189.20bn, occasioned mainly by the increase in foreign exchange reserves of the Central Bank.

Reserve Money (RM), the Bank's monetary policy operational target, grew by 24.3 per cent in 2005, from a growth rate of 12.6 per cent the previous year. This surge in RM was on account of the Le33.65bn and Le21.81bn rise in Currency Issued and Commercial Banks Deposits at the Central Bank, respectively.

Net Bank Credit to the Central Government declined by Le30.72bn (16.16%) to Le159.42bn, due to a Le70.11bn drop in Net Claims on Government by the Central Bank, which exceeded the increase of Le39.38bn in Net Claims on Government by the commercial banks. The decline in net borrowing by Government from the Central Bank largely reflected reduced government holdings of Treasury Bills (Le42.92bn), coupled with the huge increase of Le36.13bn in Government Deposits and resulting in Ways and Means Advances recording zero balance by the end of the year. Government indebtedness to the commercial banks, on the other

Table 8

Mbnetary Survey (Million Leones)					
	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
1	2	3	4	5	6
Reserve Money	244,622	259,031	260,228	259,225	304,002
Broad Money	551,582	611,316	628,178	640,648	724,220
Broad Money*	458,027	483,410	488,945	516,916	579,297
Narrow Money	344,524	363,601	358,132	373,249	424,215
Currency in Circulation	204,733	200,999	205,074	205,908	231,274
Demand Deposits	139,791	162,602	153,058	167,341	192,941
Quasi Money	207,056	247,713	270,046	267,399	300,006
Foreign Currency Deposits	93,555	127,906	139,233	123,732	144,923
Time Deposits	5,979	4,667	5,506	6,877	9,409
Savings Deposits	104,209	109,591	119,994	132,527	140,395
Other Deposits	404	1,218	906	515	974
Time Savings and Foreign Currency deposits(BSL)	2,909	4,331	4,407	3,748	4,305
Net Foreign Assets	-103,824	-82,375	-98,474	-70,328	85,378
Bank of Sierra Leone	-203,879	-212,725	-237,406	-195,920	-63,956
Assets	365,530	340,011	360,486	393,026	505,489
Liabilities	569,409	552,736	597,892	588,946	569,445
Commercial Banks	100,055	130,350	138,932	125,592	149,334
Assets	100,055	130,350	138,932	125,592	149,334
Liabilities	0	0	0	0	0
Domestic Credit	344,889	380,546	423,981	414,518	340,322
Claims on Central Govt. Net of which	190,140	222,022	254,773	230,350	159,417
BSL	58,312	84,392	120,483	75,071	11,793
Total Claims	95,232	96,632	132,398	88,903	61,256
Deposits	36,920	12,240	11,915	13,832	73,049
Commercial Banks	131,828	137,630	134,290	155,279	171,210
Total Claims	151,375	158,337	154,651	180,969	205,695
Deposits	19,547	20,707	20,361	25,690	34,485
Claims on Non Financial Public Sector	3,453	3,731	3,276	5,355	4,351
Claims on Private Sector of which	135,486	143,387	157,444	156,555	159,644
Claims on Private Sector Commercial Banks	133,362	137,837	153,480	154,050	154,052
Claims on Non-Banking Inst.	15,810	11,406	8,488	22,258	16,910
Other Items (Net)	(310,517)	(313,145)	(302,671)	(296,458)	(298,520)

Source: Bank of Sierra Leone and Deposit Money Banks

File: MAS Bulletin Annex

* Excludes Foreign Currency Deposits at the Commercial Banks

hand, increased mainly on account of the rise in their portfolio of Treasury Bills (Le52.63bn).

Commercial banks' credit to the private sector during 2005 grew by Le20.69bn (15.51%) to Le154.05bn, which was low compared to the

45.90% growth recorded the previous year. While the third quarter recorded a marginal 0.37% increase, private sector credit remained virtually unchanged during the fourth quarter of the year. Much of the lending during the period was directed at the Transport, Communication and the Construction sectors.

	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
1	2	3	4	5	6
Treasury Bills (3-months)	27.31	26.89	24.68	12.92	20.41
Treasury Bearer Bonds (1-year)	22.00	20.00	20.00	15.00	19.00
Savings Deposits	8.14	8.57	8.57	8.20	7.63
Time Deposits					
1-3 Months	10.71	11.36	11.36	11.13	10.43
3-6 Months	11.64	12.07	12.07	11.84	11.14
6-9 Months	12.70	12.70	12.70	12.38	11.40
9-12 Months	13.42	13.83	13.83	13.57	12.83

Source: Bank of Sierra Leone

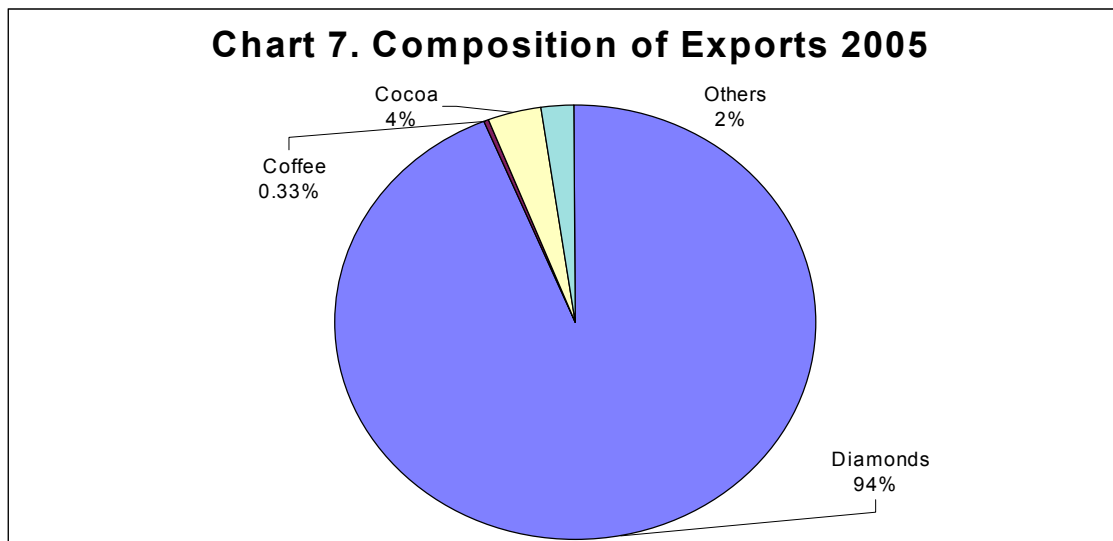
With the exception of the 1-month Time Deposits at the commercial banks, all other money market interest rates edged downwards during the year 2005. The average interest rates on Treasury Bills and Treasury Bearer Bonds dropped by 690 and 300 basis points to 20.41 and 19.00 per cent respectively, in December 2005. Commercial banks' Savings, 3, 6, and 9 months Time Deposits also decreased by 51, 28, 50 and 130 basis points to 7.63, 10.43, 11.14 and 11.40 percent, respectively. The maximum average lending rate of the

commercial banks was down by 100 basis points to 30.00 percent whereas the minimum increased by 100 basis points to 24.00 per cent.

External Trade

The government's external policy continues to be focused on building foreign reserves to levels that would adequately cushion the economy from external shocks. In line with this objective, the strategy has been to encourage and promote export activities, as well as inward investment activities. There has been modest growth in both exports and imports over the years, though imports have registered a faster growth than exports. Foreign trade in 2005, showed a substantial increase (17.35 %) in merchandise trade activities over 2004. The increase was reflected in both imports and exports, but with a more than proportionate increase in total imports. This disproportionate growth resulted in the worsening of the trade deficit by 24.01 per cent to US\$182.00 from US\$146.60mn in 2004

Exports receipts in 2005 increased over the year by 13.86 per cent to US\$159.06mn, due to increased export earnings in respect of almost all the major export categories, except the "other exports" category, which dropped by 21.9 per cent.



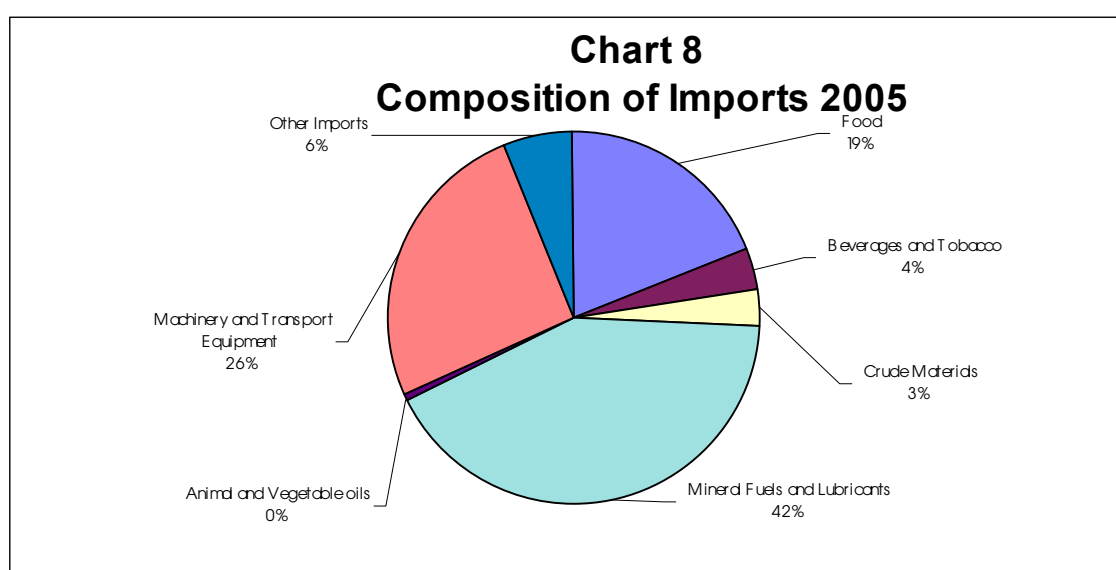
Total mineral exports, which account for about 90 per cent of total export earnings, increased by 12.77 per cent to US\$142.5mn in 2005. This increase was largely attributed to the 12.56 per cent increase to US\$142.20mn in diamond exports receipts, which form the bulk of mineral exports earnings. The higher export value for diamonds, notwithstanding the drop in export volumes, was due to the higher quality of diamonds exported during 2005.

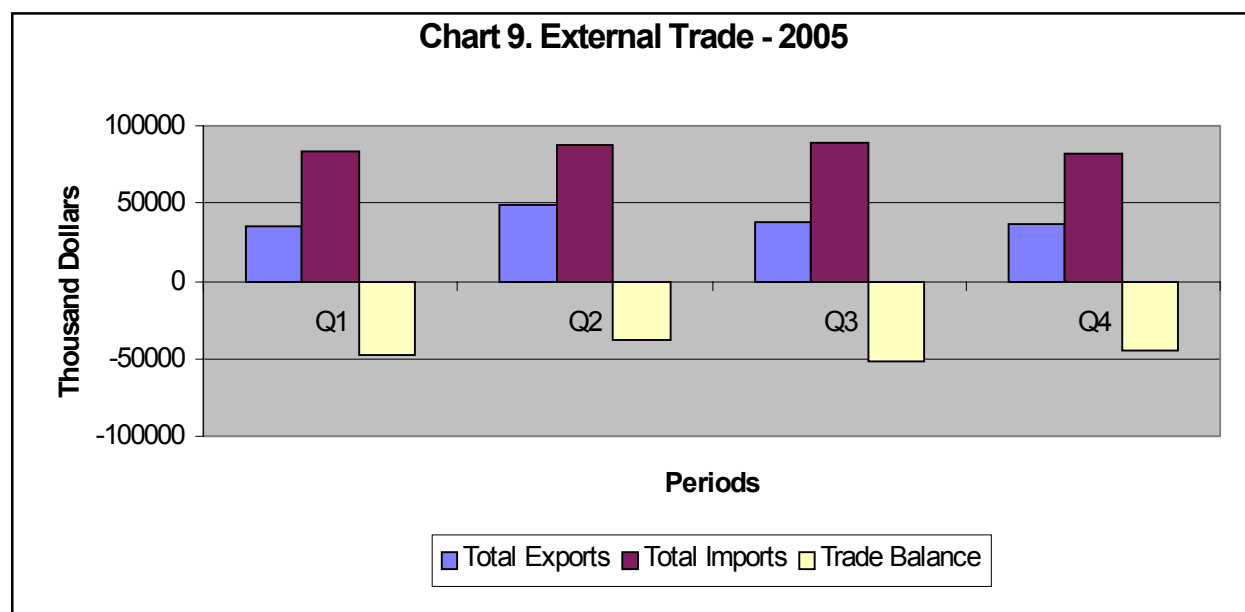
Performance in the agricultural sector was also good, as total export receipts from this sector during the reporting period, increased by 16.87 per cent to US\$6.24mn. Earnings from cocoa exports grew by 7.60 per cent to record US\$5.66mn, while proceeds from coffee exports recorded a strong growth of about ten-fold to US\$503.8 thousand in 2005. The increase was largely due to increased world market prices of the commodities, as well as the marked increase in outputs. The volume of coffee exported in 2005 surged to 1,068.5 metric tons, from 118.0 metric tons in 2004, while cocoa exports increased by 11.7 per cent from 6,187.5 metric tons to 6,910.8 metric tons in the review period. Export receipts from Fish and Shrimps more than tripled, from US\$24.1 thousand to US\$76.2 thousand. There was no official record of export of piassava in 2005.

Earnings from “re-exports”, constituting mainly scrap metals, increased by about 81 per cent to record US\$7.19mn.

Receipts from “other exports” comprising mainly plastic wares, foodstuff, audio cassettes and assorted paint, were up by 21.9 per cent above the preceding year’s receipts to US\$3.17mn in 2005. The growing external demand for locally produced plastic wares and audiocassettes by neighbouring countries was largely responsible for the increase.

The value of total merchandise imports amounted to US\$341.06mn in 2005, 19.06 per cent up on the level recorded in 2004. This increase was reflected in all the major categories of imported items, except “consumer goods” (accounting for 18.87% of total import value), which dropped by 8.3 per cent, following similar declines in all its components. The value of food imports dipped by 6.9 per cent to US\$53.12mn, of which payments for rice imports totaled US\$24.88mn, 12.3 per cent below the preceding year’s level. The reduction in the bill for imported rice resulted from a 22.2 per cent drop in volume to 96.45 thousand metric tons and may be partly explained by the pick up in the production of local rice. The value of imports under the “beverages and tobacco” category dropped by 10.8 per cent to US\$9.92mn. Import payments for “animals and vegetable oils” were also down by 33.6 per cent to US\$1.31mn.



**Table 10**

International Trade and Reserves (Thousand US Dollars)				
	Jan - Dec'04	Jan-Jun'05	Jul-Dec'05	Jan - Dec'05
1	2	3	4	5
Merchandise Imports	286,463.8	170,482.8	170,580.5	341,063.3
Food of which	57,058.5	23,313.9	29,801.4	53,115.3
Rice	28,366.7	14,561.8	10,322.4	24,884.2
Beverages and Tobacco	11,122.5	4,957.5	4,962.6	9,920.1
Crude Materials	7,578.3	4,234.9	4,519.2	8,754.1
Mineral Fuels and Lubricants of Which	94,865.4	59,043.3	56,553.6	115,596.9
Fuel	68,365.6	40,143.8	45,279.6	85,423.4
Animal and Vegetable Oils	1,966.8	328.9	977.8	1,306.7
Chemicals	17,534.0	14,699.5	8,047.2	22,746.7
Manufactured Goods	31,843.8	22,498.7	18,175.7	40,674.4
Machinery and Transport Equipment	50,861.1	32,709.0	39,115.1	71,824.1
Other Imports	13,633.4	8,697.1	8,427.9	17,125.0
Merchandise Exports	139,866.8	84,779.8	74,282.7	159,062.5
Mineral Exports	126,491.5	75,501.1	66,964.6	142,465.7
Diamonds	126,330.0	75,328.4	66,873.8	142,202.2
Gold	161.5	172.7	90.8	263.5
Agricultural Exports	5,338.4	4,524.5	1,714.6	6,239.1
Coffee	52.8	227.4	276.4	503.8
Cocoa	5,259.4	4,264.8	1,394.3	5,659.1
Piassava	2.1	-	-	-
Fish and Shrimps	24.1	32.3	43.9	76.2
Others	4,056.2	1,511.9	1,656.1	3,168.0
Re-exports	3,980.7	3,242.3	3,947.3	7,189.6
Trade Balance	(146,597.0)	(85,703)	(96,298)	(182,000.8)
Foreign Reserves (\$mn)	124.88	123.32	170.48*	170.48*

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

* = Provisional

The import bill for intermediary goods increased by 25.44 per cent to US\$31.50mn, due to a substantial increase in payments for “chemicals” (29.73%) and “crude materials” (15.52%), while payments for import of “machinery and transport equipment”, “manufactured goods” and “mineral fuel and lubricants”, increased by 41.22 per cent to US\$71.82mn, 27.10 per cent to US\$57.80mn and 21.85 per cent to US\$115.60mn, respectively. The significant increase in the value of imports on machinery and transport equipment could be attributed to the growth in business, construction and manufacturing activities that was experienced during the year. Payments for fuel imports increased by 24.95 per cent to record US\$85.42mn in the reporting period, notwithstanding the drop by 15.8 per cent to 151.54 thousand metric tons in the quantity imported in the same period. The increase in import value could be explained by the consistent increases in the world market prices of petroleum products during 2005. The reduction in the import volume may to a large extent, be explained by the draw down of the United Nations Assistance Mission in Sierra Leone (UNAMSIL), which was a major importer of fuel during its mission in the country.

2. Supervision of Banks and Other Financial Institutions

(i) Banking Sector Performance

The resource base of the banking system registered a steady increase of Le187.99 billion (38.94%) to Le670.79 billion (2005) from Le482.80 billion (2004).

The increase was sourced mainly from local deposits which rose by Le99.78 billion (39.81%) to Le350.44 billion (2005) from Le250.66 billion (2004). Demand, savings and time deposits all increased to Le200.23 billion (up Le63.36 billion (46.29%)), Le140.74 billion (up Le32.84 billion (30.44%)) and Le9.47 billion (up Le3.22 billion

(60.75%)) respectively. An increase of Le55.78 billion (55.44%) to Le156.39 billion was also recorded on the foreign components of the various deposits.

Shareholders' funds recorded an increase of Le21.77 billion (21.58%) to Le122.65 billion (2005) from Le100.88 billion (2004). The increase stemmed mainly from increases in revaluation reserves (up Le13.33 billion or 144.06%) and retained earnings (up Le6.93 billion or 19.43%).

The capital adequacy ratio, which was fulfilled by all the banks dropped to 35.73% in 2005 from 38.13% in 2004 and this was because the increase in the capital base was lower than the increase in the risk-weighted assets. The minimum requirement is 15 percent.

The banking industry's gross advances went up by Le22.29 billion (15.35%) to Le167.54 billion (2005) from Le145.25 billion (2004). Construction, import trade, other services and manufacturing sectors accounted for 22.07%, 21.91%, 12.21% and 12.04% of gross advances respectively. Mining & quarrying sector received the least at 0.76% while financial services had 0.77%. The ratio of non-performing loans to total advances increased to 26.83% (2005) from 16.52% (2004). However, the ratio of loan loss provision to non-performing dropped to 35.27% (2005) from 43.10% (2004).

Though there was an increase in banking activities over the one-year period, pre-tax profit however dropped by Le2.75 billion to Le44.31 billion (2005) from Le47.06 billion (2004). This resulted in a drop in return on assets, which stood at 8.12% (2005) as against 9.90% (2004). Although post-tax profits increased as a result of a 5% reduction in corporation tax, return on equity decreased by 4.97% to 27.95% (2005) from 32.92% (2004) because the increase in the average shareholder's fund was more than proportionate compared to the increase in the post-tax profit

Table 11 Commercial Banks Operating in Sierra Leone Prudential Indicators (Unaudited) (In Thousand Leones)			
1	31-Dec-05 2	31-Dec-04 3	31-Dec-03 4
Total Assets	670,793,131	482,801,209	389,923,007
Ave total Assets	545,797,243	475,492,531	367,876,690
Loans and Advances(Gross)	167,543,187	145,248,849	103,847,889
Bad Debt Provision	(15,850,963)	(10,341,894)	(5,879,246)
Interest in suspense	(12,527,016)	(7,312,261)	(3,976,155)
Loans and advances(Net)	139,165,208	127,594,694	93,992,488
Investment-TB & TBB	203,297,953	150,670,773	121,780,761
Fixed Assets	61,584,710	42,814,146	41,133,790
Local Deposits:-	350,443,622	250,659,679	200,650,231
Demand	200,234,362	136,870,799	107,406,130
Savings	140,739,600	107,898,034	86,996,893
Time	9,469,660	5,890,846	6,247,208
Foreign Deposits	156,390,507	100,610,512	78,714,294
Capital:-	69,100,843	61,316,034	69,169,085
Paid-up	16,550,714	16,395,092	11,723,732
Statutory & Other Reserves	9,940,305	9,244,233	8,475,948
Retained Earnings	42,609,824	35,676,709	28,732,880
Current profit	30,962,832	30,309,204	20,236,525
Primary Capital	69,100,843	61,316,034	69,169,085
Revaluation Reserves	22,583,235	9,253,009	6,416,065
Capital Base	108,510,718	101,786,114	78,980,694
Total Risk Weighted Assets	303,702,273	264,005,110	198,494,067
Capital Adequacy Ratio	35.73	38.13	39.79
Surplus/(Shortfall)%	20.73	23.13	24.79
Surplus/(Shortfall):Le	62,957,481	61,269,572	49,206,679
Average Shareholders' Fund	110,783,780	92,056,617	77,336,829

Table 11 Contd			
Commercial Banks Operating in Sierra Leone			
Prudential Indicators (Unaudited)			
(In Thousand Leones)			
1	31-Dec-05	31-Dec-04	31-Dec-03
	2	3	4
Asset Quality			
Performing Loans	122,596,273	121,255,870	93,529,947
Non-Performing Loans	44,946,914	23,992,979	10,317,942
Loan Loss Provisions	15,850,963	10,341,894	5,879,246
Non- Performing as a % of Total Advances	26.83	16.52	9.94
Loan Loss Provisions as a % of Non-Performing	35.27	43.10	56.98
Profitability : Pre-Tax Profits	44,306,686	47,061,276	39,269,518
Post Tax Profits	30,968,627	30,309,204	20,236,525
Return on Assets	8.12	9.90	10.67
Return on Equity Funds	27.95	32.92	33.01
Liquidity:Liquid Assets	260,854,407	173,548,062	137,925,097
Cash	23,804,348	16,555,742	11,140,125
Current Account with BSL	32,471,629	11,219,301	8,959,281
Treasury Bills	194,546,080	137,150,898	107,592,430
Placement with Discount Houses	9,360,350	7,803,621	5,650,061
Treasury Bearer Bonds	8,751,873	7,971,550	4,583,200
Cash Ratio	16.06	14.23	12.83
Overall Liquidity Ratio	74.45	69.43	68.74
Surplus/(Shortfall) (%)	43.02	38.53	38.03
Surplus/(Shortfall) (Le)	150,727,910	96,306,918	76,307,283
Foreign Assets:	159,425,908	100,055,411	78,838,680
Foreign Currency(cash)	11,294,426	10,685,020	5,240,333
Balance with Other Banks abroad	138,549,089	89,370,391	73,598,347
Foreign Other Assets	9,582,393	-	-
Foreign Liabilities:	159,585,126	101,711,515	79,334,357
Foreign Deposits	156,390,507	100,610,512	78,714,294
Foreign Other liabilities	3,194,619	1,101,003	620,063
NET FOREIGN POSITION:			
Assets- Liabilities	(159,218)	(1,656,104)	(495,677)

Table 12**Commercial Banks operating in Sierra Leone**

BANK	No. of branches 2003	No. of branches 2004	No. of branches 2005	F/town	Bo	Moyamba	Kenema	Lungi	Makeni	Kono	Pujehun
Sierra Leone Commercial Bank Ltd	5	7	8	4	1	-	1	-	1	1	-
Rokel Commercial Bank	7	8	9	4	1	1	1	-	-	1	1
Standard Chartered Bank Ltd	3	3	3	2	1	-	-	-	-	-	-
Union Trust Bank Ltd	3	3	4	1	1	-	1	-	-	1	-
Guaranty Trust Bank Ltd	2	2	3	2	1	-	-	-	-	-	-
First International Bank Ltd	2	3	3	2	-	-	-	1	-	-	-
International Commercial Bank	-	1	1	1	-	-	-	-	-	-	-
Total	22	27	31	16	5	1	3	1	1	3	1

Cash ratio increased slightly by 1.83% to 16.06% (2005) from 14.23% (2004) due to increases in cash holdings (up Le7.24 billion) and current account balance with Bank of Sierra Leone (up Le21.25 billion). The statutory minimum cash ratio is 12

The licensed other financial institutions include two Discount Houses and 45 Foreign Exchange Bureaux.

Table 13**Number of Accounts at Commercial Banks**

Type of Account	No. of a/c - end 2004	New a/c opened Jan - Dec 2005	a/c Closed Jan - Dec 2005	No. of a/c end 2005
Demand	38,414	7,409	2,981	42,876
Savings	101,436	24,308	8,223	117,521
Time	875	921	43	1,753
Foreign Currency	2,630	2,153	785	3,592

percent. Overall liquidity ratio increased by 5.02% to 74.45% (2005) from 69.43% (2004) and this increase emanated from increases in the cash and current account balance with Bank of Sierra Leone as well as placement with Discount Houses, treasury bills and treasury bearer bonds. The statutory overall liquidity ratio is 40% of total local demand deposit and 20% of quasi money.

(ii) Other Financial Institutions

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

(a) Discount Houses**Consolidated balance sheet**

A consolidated balance sheet for the two Discount Houses shows that total resource base increased by Le 5.2 billion from Le18.85 billion as at 31st December 2004 to Le24.02 billion as at end December 2005.

On the assets side, the increase was due mainly to increases in investments, other assets and loans/Repo. Investments increased by Le3.15 billion, from Le16.36 billion as at 31st December 2004 to Le19.52 billion as at 31st December 2005. Other assets increased by Le1.91 billion from Le1.52

Table 14**Discount Houses operating in Sierra Leone**

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

billion (31/12/04) to Le3.43 billion (31/12/05). Loans/Repo increased by Le 0.20 billion from Le7.87 billion (31/12/04) to Le0.21 billion (31/12/05). Cash and bank balances however decreased by Le0.32 billion from Le 0.39 billion (31/12/04) to Le0.07 billion (31/12/05).

On the Liabilities side, the increase was due to increases in other liabilities and retained profits. Other liabilities increased by Le7.02 billion from Le1.28 billion (31/12/04) to Le8.30 billion (31/12/05). Retained profits slightly increased by Le0.06billion from Le0.047 billion (31/12/04) to

Table 15**Consolidated Liquidity Ratios of Discount Houses****Liquidity Ratio as at:-**

Item	Code	Definition	31-Dec-05	MOV,T	31-Dec-04
			Le'000	Le'000	Le'000
Cash on hand	1		2,387	-6,168	8,555
Balances with BSL	2		(198)	-99	(99)
Balances with other Banks	3		63,643	-315,800	379,443
Treasury Bills	4		17,606,643	3,007,564	14,599,079
Treasury Bearer Bond	5		1,615,313	139,713	1,475,600
Total Liquid Assets	6	1+2+3+4+5	19,287,788	2,825,210	16,462,578
Placements/Deposits	7		10,932,652	-1,909,842	12,842,494
Overall Liquidity (%)	8	6/7	176.42	48	128.19
Minimum Requirement (%)	9		100.00	-	100.00
Excess/(Deficiency)	10	8 - 9	76.42	48	28.19
Actual liquidity (%)	11	4/7	161.05	47	113.68
Minimum Requirement (%)	12		60.00	-	60.00
Excess/(Deficiency)	13	11 - 12	101.05	47	53.68

Table 16

<u>Consolidated Balance Sheet of Discount Houses</u>		
BALANCE SHEET AS AT:		
<u>ASSETS</u>	<u>31-Dec-05</u> <u>(Le'000)</u>	<u>31-Dec-04</u> <u>(Le'000)</u>
Cash:	2,387	8,555
Local	2,387	8,555
Foreign	-	-
Claims On:	63,445	379,344
BSL	(198)	(99)
Other Banks	63,643	379,443
Cash and Bank Balances	65,832	387,899
Loans/Repo	208,961	7,866
Short-term Investment:	19,281,956	16,134,679
Treasury Bills	17,606,643	14,599,079
Treasury Bearer Bonds	1,615,313	1,475,600
Commercial Paper	60,000	60,000
Long-term Investment:	236,148	228,500
Banker's Acceptances	-	-
Securities	-	-
Other Assets	3,427,514	1,515,421
Fixed Assets	799,264	573,649
Total Assets	24,019,675	18,848,014
<u>LIABILITIES</u>		
Placements/deposits	10,932,652	12,842,494
Borrowings	-	-
Other Liabilities	8,303,235	1,282,346
Shareholders' Funds:	4,783,788	4,723,174
Total Liabilities	24,019,675	18,848,014

Le0.048 billion (31/12/05). Placements however decreased by Le 1.91 billion from Le 12.84 billion (31/12/04) to Le 10.93 billion (31/12/05)

□ *Liquidity*

The liquidity requirement for Discount Houses is “liquid assets shall be equal to call money and borrowings of which not less than 60% shall be in treasury bills with maturity not exceeding 91 days.” The Discount Houses met this requirement with surpluses; the overall liquidity ratio increased by 48% from 128.19% to 176.42% as at 31st December 2005. Treasury bills accounted for 161.05% of the ratio 176.42% (for year 2005), while it accounted for 113.68% of the ratio 128.19% (for year 2004).

□ *Profitability*

The consolidated pre-tax profit decreased by Le0.46 billion from Le0.81 billion for period ended 31st December 2004 to Le 0.35 billion for period ended 31st December 2005. This decrease in pre-tax profit was mainly due to increases in interest expenses (Le0.79 billion) and operating expenses (Le0.49 billion); this subsequently led to a fall in net operating income by Le0.53 billion.

Interest income increased to Le2.65 billion for 2005 from Le2.04 billion for 2004. However, average-earning assets dropped to Le9.17 billion for 2005 from Le12.54 billion for 2004. This led to a fall in net interest spread from 11.60% for 2004 to -7.40% for 2005.

Return on assets (ROA) dropped from 21.62% for 2004 to 1.61% for 2005. The drastic fall in this ratio was due to the decrease in pre-tax profit accompanied by a substantial increase in average total assets.

The ratio of operating expenses to operating income increased by 28.96% in 2005; an indication of inefficient operation.

(b) Foreign Exchange Bureaux

The total purchases and sales of major foreign currencies showed increased over the period.

The total amount of purchases in US Dollars, U.K. Pound Sterling and Euros increased by US\$2.415 million (12.41%), UK£0.35 million (17.07%) and •0.05 (27.78%) as at 31st December 2005 from US\$19.465 million, UK£2.05 million and •0.18 million as at end December 2004 respectively.

Similarly, sales in US Dollars and UK Pound sterling increased by US\$ 3.66 million (18.25%) and UK £0.66 million (42.58%) from US\$ 3.66 million and UK £1.55 million respectively, as at 31st December 2005. However the sales in Euros remained the same at •0.17 million as at 31st December 2005.

(c) Community Banks

Mattru Community Bank, Segbwema Community Bank, Yoni Community Bank and Marampa Masimera Community Bank were in operation during the year under review, while construction work was underway on the last two, located at Zimmi and Kabala.

The Bank of Sierra Leone carried out statutory inspections of the four existing Pilot Community Banks in fulfillment of its statutory responsibility of monitoring and regulating these Banks as provided in the Other Financial Services (OFS) Act of 2001. The inspection reports of these Banks and the recommendations contained therein were exhaustively discussed by the Boards of Directors of the respective Community Banks and most of the recommendations were implemented by their management. Also, BSL officials regularly attended the monthly Board Meetings of the four Community Banks in order to provide relevant technical advice. External Auditors conducted statutory audit of these Banks for the year ended 2005.

During the year under review, the four Pilot Community Banks in operation benefited from technical assistance from Microfinance Investment

and Technical Assistance Facility (MITAF), in the form of capacity building of both the staff of these banks and some members of their Board of Directors, through a series of organized workshops. The turning of the sod Ceremonies of the Zimmi and Kabala Community Banks under construction took place in June 2005

(iii). Licensing of Financial Institution

As the Bank of Sierra Leone continues to perform its supervisory role aimed at achieving a sound and stable financial system, the licences of Guaranty Trust Bank, First International Bank and International Commercial Bank were renewed for one (1) year each, while those of Rokel Commercial Bank and Sierra Leone Commercial Bank were renewed for three (3) years each.

The quest for spreading banking services in Sierra Leone led the Bank of Sierra Leone to grant approval to Sierra Leone Commercial Bank to open a branch at No.211 Fourah Bay Road, Cline Town, Freetown; the Union Trust Bank to open a branch at No.8 Suku Tamba Street, Koidu Town, Kono; the Guaranty Trust Bank to open a branch at No.14 Bojon Street, Bo and the Rokel Commercial Bank to open an agency at No.1 Stock Road, Pujehun Town.

The licence of Marampa-Masimera Community Bank was renewed for 6 months and later renewed for another 6 months, while that of Yoni Community Bank was only renewed for 6 months.

Licences of First Discount House and Capital Discount House were renewed for (3) three years and (1) one year, respectively.

Licences were granted to thirteen (13) new Foreign Exchange Bureaux; Fad, Olalus, Pottal, Premier, Joelyn, BAS, Freetown, Fofan, Sim, Raju's, Hepom, Fatismed and Harry's to carry out buying and selling of foreign currency under the Other Financial Services Act 2001 for a period of one (1) year each. The licences of the following foreign

exchange bureaux; IAS, Katabai, GMK, Timbo's West, Mano, West Afro and Bakadies were revoked for failure to renew their licenses and their names were submitted to the Registrar of Companies for permanent cancellation from the Companies list. City Centre Foreign Exchange Bureau closed down its branch at No.6 Flower Street, Makeni while Jalloh & Barrie and Sanda Foreign Exchange Bureaux suspended their operations in February and July 2005 respectively.

As the demand for foreign exchange bureau activities increased in the provinces, Mystic Foreign Exchange Bureau was given the permission to open branches at No.67 Maxwell Khobe Park, Bo and No.6 Show Avenue, Kenema, while Afro International and Kallah Foreign Exchange Bureaux opened branches at No.3 Post Office Road, Koidu Town, Kono and 22D Cokerjah Street, Kenema, respectively. Jones, Sons & Associates Foreign Exchange Bureau was granted permission to relocate its premises from 61 Macdonald Street, Freetown to 12 Upper Brook Street, Freetown and Blue Circle Foreign Exchange Bureau also relocated its premises in Freetown from 13 Goderich Street, Freetown to No.30 Siaka Stevens Street, Freetown. Afro International Foreign Exchange Bureau relocated its branch in Kenema from 57 Hangha Road to 23A Hangha Road.

The Licenses of the existing Foreign Exchange Bureau were each renewed for a period of one year. The total number of bureaux operating as at 31st December, 2005 increased to fifty (50) from forty five (45) as at end December, 2004.

(iv) Minimum Capital Requirement

In order to maintain a safe and sound financial system in line with international standards, the Bank of Sierra Leone has increased the minimum capital requirement for all licensed financial institutions operating in Sierra Leone. The minimum paid up capital of all Commercial Banks operating in Sierra Leone has been increased from Le800 million (Eight

Table 18
Licensed Foreign Exchange Bureau and their Branches in Sierra Leone

No.	Bureaux	F/Town	Bo	Kenema	Makeni	Lungi	Kono
1.	First Foreign Exchange Bureau Limited	1	-	-	-	-	-
2.	Nimo Foreign Exchange Bureau Limited	1	-	-	-	-	-
3.	Sierra Foreign Exchange Bureau Limited	1	-	-	-	-	-
4.	West Africa Foreign Exchange Bureau Limited	1	-	-	-	-	-
5.	Paramount Foreign Exchange Bureau Limited	1	-	-	-	-	-
6.	Continental Foreign Exchange Bureau Limited	1	-	-	-	-	-
7.	MIK Foreign Exchange Bureau Limited	1	-	-	-	-	-
8.	Frandia Foreign Exchange Bureau Limited	1	-	-	-	-	-
9.	Afro Foreign Exchange Bureau Limited	1	1	1	-	-	1
10.	Blue Circle Foreign Exchange Bureau Limited	1	-	-	-	-	-
11.	Manans Foreign Exchange Bureau Limited	1	1	1	1	-	-
12.	Tap Foreign Exchange Bureau Limited	-	-	-	1	1	-
13.	Best Foreign Exchange Bureau Limited	1	-	-	-	-	-
14.	Dynamic Foreign Exchange Bureau Limited	1	-	-	-	-	-
15.	Marandah Foreign Exchange Bureau Limited	1	-	-	-	-	-
16.	Monorma Foreign Exchange Bureau Limited	1	-	-	-	-	-
17.	Fuladu Foreign Exchange Bureau Limited	2	-	-	-	-	-
18.	Kakua Foreign Exchange Bureau Limited	2	1	-	-	-	-
19.	Kallah Brothers Foreign Exchange Bureau Ltd	1	-	1	-	-	-
20.	Jalloh and Barrie Foreign Exchange Bureau Ltd	1	-	-	-	-	-
21.	Chartered Trust Foreign Exchange Bureau Ltd	1	-	-	-	-	-
22.	Kay Pee Foreign Exchange Bureau Limited	1	-	-	-	-	-
23.	Sanda Foreign Exchange Bureau Limited	1	-	-	-	-	-
24.	IBC Foreign Exchange Bureau Limited	1	-	-	-	-	-
25.	Massie Foreign Exchange Bureau Limited	1	-	-	-	-	-
26.	Jones and Sons Foreign Exchange Bureau Ltd	1	-	-	-	-	-
27.	Denarius Foreign Exchange Bureau Limited	1	-	-	-	-	-
28.	City Centre Foreign Exchange Bureau Limited	1	-	-	-	-	-
29.	Ama Express Foreign Exchange Bureau Limited	-	1	-	-	-	-
30.	Navos International Foreign Exchange Bureau Ltd	1	-	-	-	-	-
31.	Ayoub Foreign Exchange Bureau Limited	1	-	-	-	-	-
32.	Yours Foreign Exchange Bureau Limited	1	-	-	-	-	-
33.	Aiemah's Foreign Exchange Bureau Limited	1	-	-	-	-	-
34.	Sara Foreign Exchange Bureau Limited	1	-	-	-	-	-
35.	Horizon Foreign Exchange Bureau Limited	1	-	-	-	-	-
36.	Western Club Foreign Exchange Bureau Limited	1	-	-	-	-	-
37.	Mystic Foreign Exchange Bureau Limited	1	1	1	-	-	-
38.	Fad Foreign Exchange Bureau Limited	-	1	-	-	-	-
39.	Olalus Foreign Exchange Bureau Limited	1	-	-	-	-	-
40.	Pottal Foreign Exchange Bureau Limited	1	-	-	-	-	-
41.	Premier Foreign Exchange Bureau Limited	1	-	-	-	-	-
42.	Joelyn Foreign Exchange Bureau Limited	1	-	-	-	-	-
43.	BAS Foreign Exchange Bureau Limited	1	-	-	-	-	-
44.	Freetown Foreign Exchange Bureau Limited	1	-	-	-	-	-
45.	Fofan Foreign Exchange Bureau Limited	1	-	-	-	-	-
46.	Sim Foreign Exchange Bureau Limited	1	-	-	-	-	-
47.	Raju's Foreign Exchange Bureau Limited	1	-	-	-	-	-
48.	Hepom Foreign Exchange Bureau Limited	1	-	-	-	-	-
49.	Fatismed Foreign Exchange Bureau Limited	1	-	-	-	-	-
50.	Harry's Foreign Exchange Bureau Limited	1	-	-	-	-	-
Total number of Bureau and Branches		49	6	4	2	1	1

Hundred Million Leones) to Le15 billion (Fifteen Billion Leones) by end December 2009. This increase will be in phases as follows: -

- Le6 billion by end December, 2006
- Le9 billion by end December, 2007
- Le12 billion by end December, 2008
- Le15 billion by end December, 2009

For Discount Houses, the paid-up capital has been increased from Le600 million (Six hundred million Leones) to Le 6 billion (Six billion Leones) in a gradual manner as shown below: -

- Le2 billion by end December, 2006
- Le 3 billion by end December, 2007
- Le4 billion by end December, 2008
- Le6 billion by end December, 2009

The upward movement in the minimum capital requirements is aimed to strengthen the operational capacity for domestic and regional competition.

(v) Legislation

The Bill entitled “The Anti-Money Laundering act 2004” which was introduced in Parliament in May 2004 and passed into an Act in December, 2004, received Presidential assent in June 2005.

The-Money Laundering Act-2005 which criminalizes money laundering in Sierra Leone comprises six parts including:

- Provisions on measures to combat money laundering*
- Anti-money laundering supervision*
- Freezing and forfeiture of assets in relation to money laundering*
- Mutual assistance in relation to money laundering.*

The Governor of the Bank of Sierra Leone is appointed the Anti-Money Laundering Authority for the effective implementation of the provisions of the

Act. The Act also provides for the establishment of a Financial Intelligence Unit in the Bank of Sierra Leone for expert analysis and processing of reports received pursuant to the Act.

The Act mandates financial institutions to implement customer identification procedures and to report certain financial transactions to the Authority.

The property of a person convicted of money laundering may be forfeited if proven that such property was derived from money laundering.

Foreign States may request assistance in the investigation or prosecution of money laundering offences provided there are corresponding provisions in the laws of the requesting State.

3. Monetary Operations

The Monetary Policy of the Bank is aimed at maintaining a low inflation rate (as measured by the Freetown Consumer Price Index) consistent with achieving high and sustaining economic growth and financial stability. Specific for 2005 this was translated to achieving price stability at a target rate of 12.5 percent consistent with the target GDP growth objective of 7.5 percent under the PRGF programme which was to be achieved through careful management of the growth of Net Domestic Assets (NDA) of the Bank of Sierra Leone.

This challenge required effective monetary operations on the part of the Bank designed to contain the growth of excess reserve money. The main source of the growth was the increased Central bank borrowing from the central bank by the government to finance it’s larger than anticipated budget deficit resulting from technical delays in the disbursement of external budgetary support and project grants.

The excess liquidity situation engendered by this phenomenon contributed to an increase in demand for government securities as reflected in persistent

Table 19

Stock of Government securities outstanding by Holders (in Million Leones)			
	2005	2004	Change
1. Treasury Bills	375,443.65	304,447.05	70,996.60
Bank of Sierra Leone	33,094.55	76,015.00	-42,920.45
Commercial Banks	198,215.25	145,689.95	52,525.30
Non – Bank public	144,133.85	82,742.10	61,391.75
<i>of which</i> NASSIT	76,633.95	51,901.00	
2. Treasury Bearer Bonds	137,518.20	131,487.75	6,030.45
Bank of Sierra Leone	28,161.15	19,217.25	8,943.90
Commercial Banks	8,415.25	10,847.90	-2,432.65
Non- Bank Public	100,941.80	101,422.60	-480.8
<i>of which</i> NASSIT	13,806.55	16,709.90	
3. Total Government Securities	512,961.85	435,934.80	77,027.05
Bank of Sierra Leone	61,255.70	95,232.25	-33,976.55
Commercial Banks	206,630.50	156,537.85	50,092.65
Non- Bank Public	245,075.65	184,164.70	60,910.95
<i>of which</i> NASSIT	90,440.50	68,610.90	

over-subscription of primary auctions. Other sources of liquidity during the period were private sector inflows through the banking systems.

The persistent excess liquidity situation that existed in conjunction with a supply constraint for new government securities for the Bank's Open Market Operation intervention culminated in the steady decline in returns on government securities. Average annual yield on Treasury bills declined from a high of 27.67 percent in January to a low of 12.92 percent in September 2005. Similarly, the interest rate on Treasury bearer bonds fell from 23.0 percent to 15.0 percent during the same period. Following the authorization in September 2005 for the Bank to issue new securities from the conversion of outstanding Ways and Means Advances for its open market operations, returns on Treasury bills

and Treasury bearer bonds recovered to 20.41 percent and 19.0 percent respectively in December 2005 to reflect the tightening of monetary policy.

During the year, the Bank converted a total of Le77,027.05 million of outstanding Ways and Means Advances into tradable new securities to meet its monetary operations requirements. Of this total, Le70,996.60 million were issued in the form of treasury bills and Le6,030.45 million in treasury bearer bonds. At the end of the period, commercial banks holdings of the total outstanding Government securities amounting to Le512,961.85 million was 40.28 percent while that of non-bank public was 47.78 percent.

The overall performance of the monetary programme during the year 2005 was mixed. Annual inflation as measured by the consumer price index for

Freetown moved from single digit at the beginning of the year to average 13.10 percent in December after peaking at 15.90 in September 2005. Underlying this development however, was partly the increases in the prices of petroleum product as well as the expansionary monetary development underpinned by growth in net foreign assets of the banking system.

4. Capital Market Development

In recognition of the importance and need for a capital market in Sierra Leone, the Government, in September 2004, gave a formal recognition to the Stock Exchange Technical Committee (SETC) as its Advisory Body on all Capital Market/Stock Exchange matters in the country. In the year under review, several meetings were held by the SETC on the overriding concept and strategies regarding operating a Stock Exchange in Sierra Leone.

The Bank of Sierra Leone continues to play an active role in the development of the Capital Market in Sierra Leone. The Capital Market Unit provides support to the Stock Exchange Technical Committee (SETC) which is chaired by the Deputy Governor. On the commencement of Stock Exchange, it is expected that the Capital Market Regulatory Unit in the Banking Supervision Department will supervise all operators until a Securities Exchange Commission is instituted.

Training intensified during the year under review. Bank of Sierra Leone staff attended courses/seminars in the African region and some SETC members including the Chairman went on Study Tours. Technical Assistance is being provided by both the Financial Sector Reform and Strengthening (FIRST) initiative, Microfinance Investment and Technical Assistance Facility (MITAF) and the Commonwealth Secretariat (COMSEC).

Acknowledging the need for an appropriate legal framework for the establishment of a stock

exchange, a Securities law and Collective Investment Schemes (CIS) are currently being prepared. The existing Companies Act is also being revised. These activities are being funded by Bank of Sierra Leone as follow-up action to the 1993 Financial Sector Review.

In April 2005, a Technical Assistance (TA) Grant Agreement on the implementation of the Capital Market Development Plan was signed between the Bank of Sierra Leone/ SETC and FIRST Initiative. The signing of this agreement led to the appointment of a long-term external consultant and several short-term consultants.

Later in May 2005, COMSEC fielded a three-man mission. The purpose of their visit was to hold discussions with relevant stakeholders on issues relevant to the development of a Capital Market in Sierra Leone, to facilitate the finalization of the Revised Companies Act, the Securities, CIS and the Bankruptcy bills, and the preparation of a blue print for the establishment of a Stock Exchange.

An International Fund for Agricultural Development (IFAD) Inception Mission visited the Bank of Sierra Leone in July 2005. An Aide Memoire prepared by the Mission indicated that a Rural Finance and Community Improvement Programme (RFCIP) has been identified. The identified project comprising four components, includes a component designated "Support and Expansion of Rural Finance". Under this component, financial assistance will be provided by IFAD to increase the operational capital of the existing community banks. IFAD also contemplates financing the establishment of additional community banks in viable rural communities and assisting in the establishment and operation of an Apex Institution for Community Banks and MFIs. Bank of Sierra Leone was earmarked to act as the implementing agency for the Financial Services Component.

On microfinance services, the Government of Sierra Leone had formulated a microfinance policy, which was followed by a project called “Development of a Sustainable Pro-poor Financial Sector in Sierra Leone (2004-2009)”. This project is being implemented with the support of development partners: United Nations Development Programme (UNDP), and United Nations Capital Development Fund (UNCDF). A technical service provider, Global Enterprising Solutions has Microfinance Investment and Technical Assistance Facility (MITAF) as its implementing agency. Major stakeholders of this project are Bank of Sierra Leone, Ministry of Development and Economic Planning and the Ministry of Finance. The Bank of Sierra Leone is the focal point, coordinator and regulator of the microfinance sector, the Ministry of Development and Economic Planning has oversight of the National Microfinance Policy and Registration of Microfinance Institutions. The Ministry of Finance has the oversight of the financial sector into which the developing microfinance sector is to be integrated. At end 2005, nine (9) institutions were benefiting from the MITAF funds and training facility. These included four (4) community banks and five (5) Micro Finance Institutions:

Community Banks

- *Matru Community Bank*
- *Segbwema Community Bank*
- *Yoni Community banks*
- *Marampa Masimera Community Bank*

Micro Finance Institutions:

- *Finance Salone*
- *Hope Micro*
- *Association for Rural Development*
- *Christian Children’s Fund (now called Salone Microfinance Trust)*
- *Community Empowerment & Development Association*

Private Sector Development on Production, Manufacturing and Trade Issues

The Bank in performing its catalytic role to enhance Private Sector Development was during the review year involved in several high-level interactions/workshops and meetings with key stakeholders in both the public and private sectors on Private Sector Development. BSL involvement in private sector activities included the Bank’s participation in the following national committees:

- The Pre- Diagnostic Trade Integrated Studies (DTIS)
- The National Co-ordinating Committee on Trade (NCCT)
- The Commonwealth Business Council (CBC) Planning Committee
- The Committee on the Poverty Reduction Strategy Paper (PRSP) on Private Sector Development.

5. Foreign Exchange Management

i) Foreign Exchange Assets

Bank of Sierra Leone’s Gross Foreign Exchange Reserves increased from US\$124.88mn in 2004 to US\$170.48mn as at end December 2005. This represented an increase of 36.52 percent above the previous year’s position.

Inflows to the foreign reserves during the review period mainly constituted receipts from disbursements of grants and loans under the IMF PRGF Programme, UK/SL Programme Grant, World Bank Economic Recovery and Rehabilitation Grant (WB/ERRG IV), EU-Post Conflict Budgetary Support, African Development Bank Economic Recovery and Rehabilitation Program III (ERRPIII) and replenishment from the European Development Fund, Islamic Development Bank and

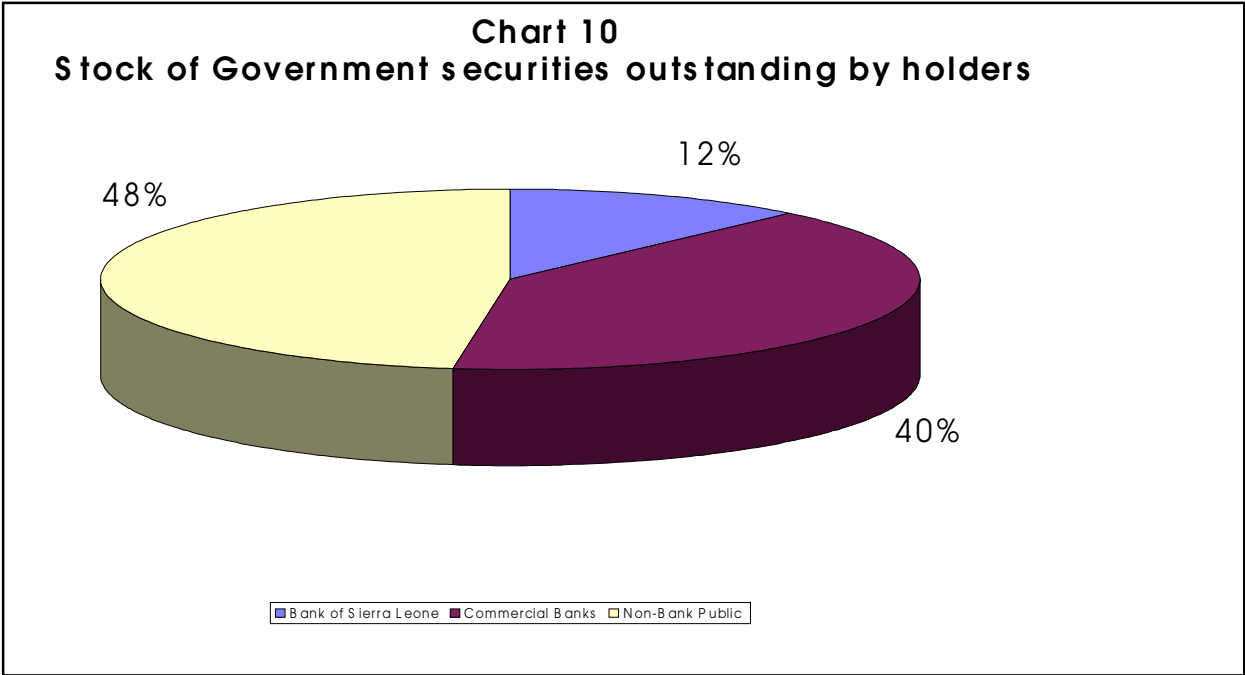
IDA project funds. The favourable performance was also enhanced by the receipt of non-programmed disbursements recorded in the review period.

Outflows of foreign reserves were predominantly in respect of goods and services (private sector support, Embassies, Other Government, etc), external debt service to key creditors (i.e. the IMF, ADB and World Bank), other Multilateral and Bilaterals and commercial creditors.

Total inflows decreased by 18.82 per cent or US\$33.22mn from US\$176.55mn in 2004 to US\$143.13mn in 2005. The key disbursements included UK/Sierra Leone Programme Grant for

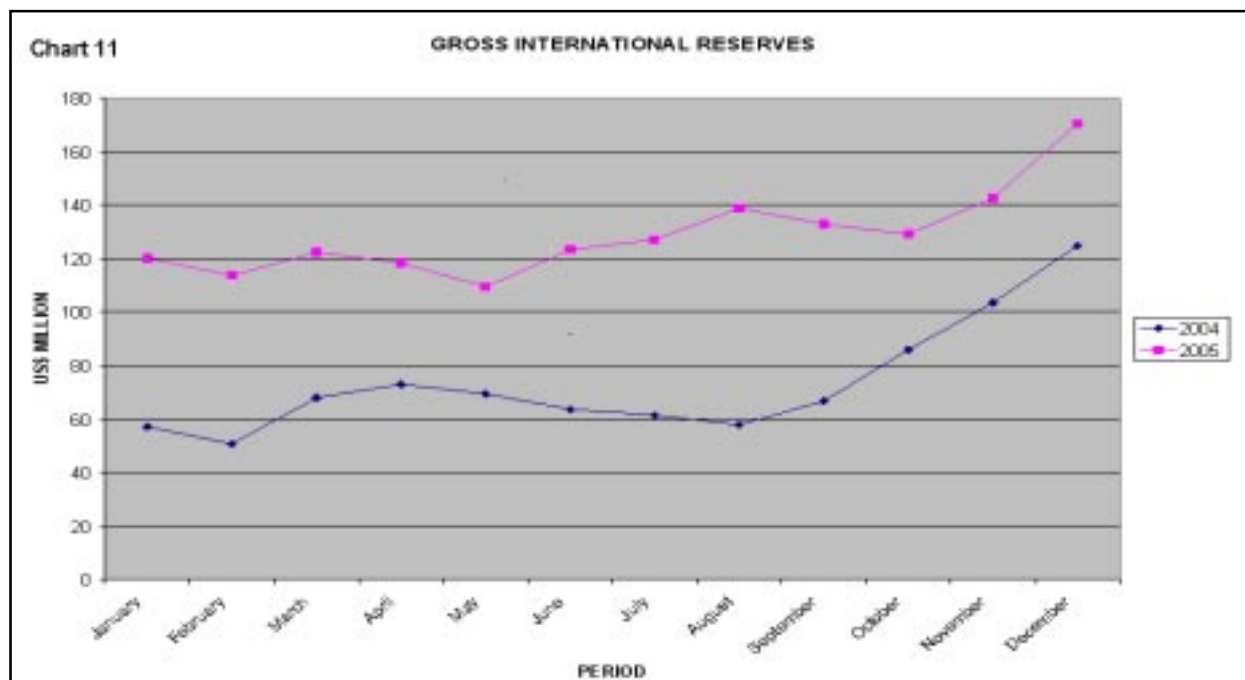
(EDF Replenishment) of US\$10.16mn for funding EC projects operating in the country, and Islamic Development Bank project funds disbursed under the Integrated Rural Development, Construction and Reconstruction of Primary School Project, Eradication and Social Action Support Projects of US\$8.05mn. Non-programmed receipts realized were mainly from IDA/World Bank of US\$1.19mn (to finance IDA related projects in the country) and Other Government receipts of US\$5.95mn.

Total receipts from exports increased by 11.02 per cent from US\$7.62mn in 2004 to US\$8.46mn in December 2005. As shown in Table 23, the factors responsible for this improvement was diamond



balance of payments and budgetary support of US\$30.12mn (GBP15.00mn), EU budgetary support of US\$20.77m (Euro17.50mn), World Bank Economic Rehabilitation and Recovery Grant (ERRG-IV) of US\$14.68mn, Poverty Reduction and Growth Facility (PRGF) Assistance from the IMF of US\$20.44mn (SDR14.00mn), ADB Economic Rehabilitation and Recovery Program III of US\$10.97mn, European Development Fund

license fees. Inflows from Diamond License fees exceeded the previous year’s performance by 44.33 percentage. Diamond Exporters Income Tax and Fishing Royalties fell below the previous year’s performance by 2.70 per cent and 27.19 percent respectively. The improved performance from the Diamond License fees is as a result of the positive impact of the Diamond Mining Policy, and increased mining activities.



Total foreign exchange outflows in 2005 was US\$89.67mn, 25.82 percent lower when compared to US\$120.88mn recorded in 2004. Of that total, 70.78 per cent or US\$63.47mn was in respect of goods and services and 29.22 per cent or US\$26.20mn for debt service payments. Out of the total payment of US\$63.47mn made for goods and services, 65.31 per cent or Le41.45mn was in respect of foreign exchange provided to the Private Sector through the weekly foreign exchange auction. This foreign exchange was targeted to meet essential imports such as rice, raw materials and other manufacturing inputs, petroleum products in order to complement the existing sources of foreign exchange in the banking system.

ii) Investment Activities

A total of US\$3.82mn was earned out of an average deposit of US\$55.35mn invested in 2005. In 2004, an average deposit of US\$49.80mn invested yielded US\$1.10mn. The increase in earnings was due to the favourable global interest rates and the pursuance of effective investment strategies. Earnings recorded for the review period rose by 247.27 per cent over those recorded for 2004 and the returns on

investment for both 2004 and 2005 were 2.21 per cent and 6.90 per cent respectively. In absolute terms, the increase yield was due to the increase in principal invested and higher interest rates during the period.

iii) 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 transaction needs with debt service payments and private sector support constituting the most significant. Table 20 shows holdings of currencies by the Bank of Sierra Leone as at end December, 2005 (excluding donor import support funds) 19.24 per cent was held in SDRs, 16.50 per cent in Pound Sterling, 48.64 per cent in United States Dollars, 15.58 per cent in Euro and 0.04 per cent in Japanese Yen.

(iv) Foreign Exchange Market

The foreign exchange market was characterized by the slow steady depreciation of the Leone against the U.S. Dollar and the narrowing of the spread between the official rate, the auction and the commercial banks rates. The main cause of the depreciation was the rising level of imports related

to increased economic activities. This increased demand for imports has not been accompanied by a corresponding increase in exports.

Notwithstanding the depreciation of the Leone against other international payment currencies, the Leone for some time now has remained relatively stable over the period and segmentation in the foreign market reduced significantly. The auction has continued to provide some form of stability in the foreign exchange market, although it has not been strong enough to stop the depreciation of the Leone. There has been a significant increase in foreign exchange earned by the banking system from diamond transactions as foreign exchange brought in had been sold to the commercial banks.

transactions for quarter 1 and quarter 3 of 2005 as against those of the corresponding quarter in 2004. The increase in aggregate purchases was accounted for by purchases from NGO's, Project Funds and diamond funds.

Foreign exchange bureaux have continued to complement the activities of commercial banks by rendering foreign exchange transaction services to the public. They have also helped to facilitate trade in the West African Sub-region especially in enabling small businesses and travelers to access foreign exchange, and the mopping up of foreign exchange that would have found its way into the parallel market.

Table 20**Currency Management**

	Dec. 2004	% of Total Bal.	Dec. 2005 (Prov.)	% of Total Bal.
U.S. Dollars	24.2	19.4	82.9	48.6
Pound Sterling	22.2	17.8	28.1	16.5
Euro	27.5	22.1	26.5	15.6
Japanese Yen	0.1	ng	0.1	ng
Holdings of SDR	50.8	40.7	32.8	19.2
Total Balance	124.8	100	170.4	100
Donor funds				
U.S. Dollars	0.1	100	0.1	100
Balance	0.1	100	0.1	100

ng negligible

Aggregate purchases of commercial banks and foreign exchange bureaux showed an increase of 1.78% while sales reflected a decrease of 0.66% over the previous period from US\$187.84m and US\$207.32m in 2004 to US\$191.18m and US\$205.96m in 2005.

On a quarterly basis, the volume of purchase transactions reported in quarter 3 and quarter 4 of 2005 were more than those of the corresponding quarters in 2004. There were increases in sales

(v) Foreign Exchange Auction System

The Bank of Sierra Leone continues to use the weekly foreign exchange auctions to supplement the supply of foreign exchange in the market, improve market based allocation of foreign exchange and stabilize the exchange rate in a competitive, transparent and consistent manner.

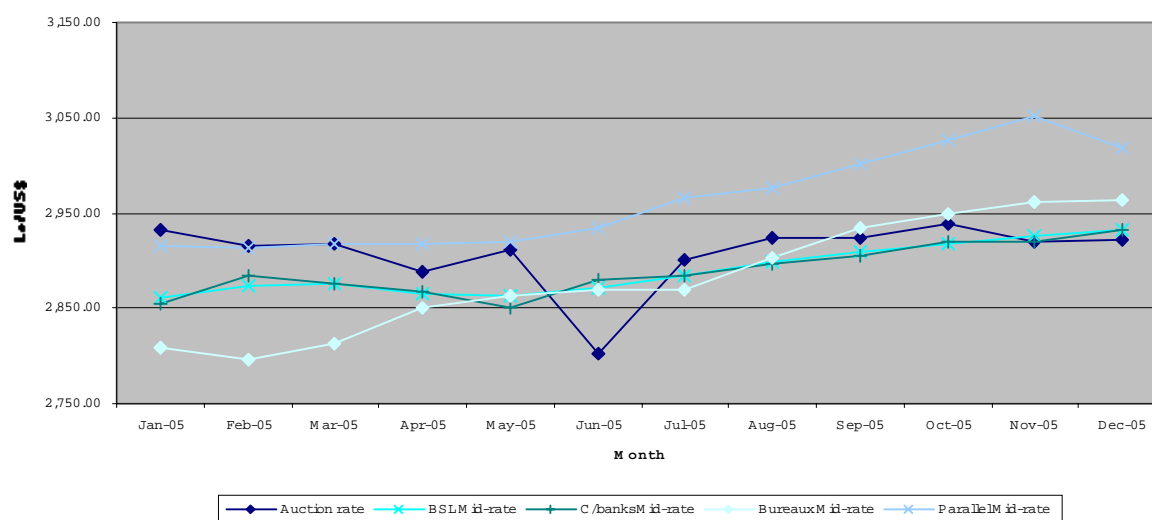
Significant decreases in the amount demanded, supplied and offered (32.76%), (26.50%) and (22.66%) respectively were registered in 2005. The decrease in the demand for Auction Funds was the

significant drop in the number of bids submitted from a weekly average of 26 to 12 bids. The drop was as a result of the cautionary measures instituted by the Bank in May 2005. The Bank took over the responsibility of pre-validation of import documents from commercial banks prior to the submission of bids to the Auction. The probative value of most import documents was low thus ineligible to be

to 8 weeks (ie from 244th Auction to 251st Auction). Under this arrangement US\$5.90mn and US\$0.51mn were made available to oil companies in 2004 and 2005 respectively.

There was no sale of foreign currency to Bank of Sierra Leone during the review period as was the case in 2004. Discussions held with some NGOs.

Chart 12
Monthly Average Exchange Mid-Rates



financed by the Auction System. The decrease in demand led to a downward adjustment in the offer amount so that the emerging Auction price would reflect.

Table 21 shows the sectoral distribution of auction funds. As was the case in 2004 the general merchandise section continued to dominate the Foreign Exchange Auction Market. The sector won US\$18.71mn or 45.22% of total amount awarded. The Commercial Banks, the Oil Companies and the Industries were awarded US\$9.72mn (23.49%), US\$6.55mn (15.82%) and US\$6.40mn (15.47%) respectively. The special window facility for oil companies lasted for only two weeks in the review period (ie 252nd and 253rd Auctions), unlike the preceding period where the facility was extended

who were regular sellers in the auction, revealed that transfer charges levied by the commercial banks with the uncertainty of the outcome of the auction rate resulted in their non-participation in the auction.

(vi) *Exchange Rate Developments*

The monthly average official exchange rate of the Leone/US\$ depreciated in 2005 and led to an overall yearly depreciation of 2.44% from Le2,861.03/US\$1.00 to Le2,932.52/US\$1.00. The monthly average auction rate appreciated by 0.30% in 2005 from Le2,931.34/US\$1.00 to Le2,922.49/US\$1.00. The monthly average parallel exchange rate also depreciated by 3.46% in 2005, from Le2,914.42/US\$1.00 to Le3,019.00/US\$1.00. The monthly average commercial banks exchange rate also depreciated by 2.64% in 2005,

from Le2, 855.21/US\$1.00 to Le2,932.57/US\$1.00. The monthly average bureau exchange rate also depreciated by 5.24% in 2005, from Le2, 808.77/US\$1.00 to Le2, 964.17/US\$1.00. By the last Quarter of 2005, there was evidence of convergence of the auction, BSL official and commercial banks rates (Chart 12).

6. External Debt Management

(i) An Overview

Sierra Leone's total disbursed and outstanding official medium and long-term debt, including principal arrears as at end December 2005, stood at US\$ 1,689.6 mn compared to US\$ 1,710.2 mn as at Dec. 2004. The total outstanding debt continued to be dominated by debts to multilateral and bilateral creditors, accounting for 62.1% and 23.6% respectively, whilst the residual of 14.3% is owed to other commercial creditors. The principal multilateral creditors are the World Bank, the International Monetary Fund (IMF) and the African Development Fund (ADF).

(ii) Major Developments in 2005

- ❖ During the period under review, the Government of Sierra Leone continued to make timely debt service payments to the key multilateral creditors; the International Development Association (IDA), the International Monetary Fund (IMF) and the African Development Fund (ADF) and other external creditors.
- ❖ Following the extension of the Interim Relief period for Sierra Leone from January 2005 to October 2006, the ADF agreed to provide additional HIPC debt relief of US\$ 4.1mn to cover eligible debt service payments between April 2005 and October 2006.
- ❖ The sixth and final review of Sierra Leone's performance under the PRGF was completed in June 2005. To this end, the IMF approved the disbursement of SDR 14mn under the programme. In addition, the Executive Board

Table 21

Sectoral Distribution of Auction Funds (US\$'000)				
Sector	2004	2005	% of Total amount in 2005	% Change in 2005
General Merchandise	31,543.35	18,710.16	45.22	-40.68
Banks	9,098.50	9,716.66	23.49	6.79
Oil Companies	11,092.23	6,546.21	15.82	-40.98
Industries	4,550.37	6,398.83	15.47	40.62
Total	56,284.45	41,371.86		

The stock of principal and interest arrears owed to all creditors is shown on Table 22. A total of US\$ 279.0 million of the stock of disbursed outstanding debt represents principal arrears owed mainly to the commercial and other creditors. Interest arrears amount to US\$ 8.7 million of which US\$5.2million is owed to official bilateral creditors.

of the IMF also approved additional interim assistance of SDR 4mn for the period June 2005 to December 2005.

- ❖ During the period under review, total disbursements both programme and project received from external creditors amounted to approximately US\$ 58.03mn. Of this amount, US\$ 13.69mn was from IDA; US\$ 20.44mn

from IMF; US\$ 13.53mn from ADF and the residual of US\$ 10.38mn was from Kuwait, BADEA and IDB under various projects.

- ❖ Total interim debt relief granted during the period under review amounted to US\$ 22.21mn of which US\$ 5.78mn was from IMF, US\$ 9.23mn from IDA and US\$ 3.99mn from ADF. The residual of US\$ 3.21 was granted by the European Investment Bank (EIB) and the International Fund for Agricultural Development (IFAD).

The stock of debt to bilateral creditors decreased from US\$ 413.3mn as at Dec. 2004 to US\$ 398.1mn as at Dec. 2005 as a result of the cancellation of debt service from Paris Club creditors.

(iv) Foreign Currency Composition

Table 26 shows the currency composition of Sierra Leone's Disbursed Outstanding debt including principal arrears. It shows the amount of debt classified by the currency of liability and the Leones equivalent. The Special Drawing Rights and the EURO continue to be the major currencies that

Table 22

Principal & Interest Arrears as at end Dec-2005 (US\$ Mn)				
	DEC. 2004		DEC. 2005	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
Total External Debt	275.5	7.6	279.0	8.7
Total Commercial Obligations & Short-Term Debt 1/	229.9	-	222.5	-
Total Long-Term Debt, of which :	45.6	7.6	56.5	8.7
Multilateral	2.4	1.2	-	-
World Bank Group	-	-	-	-
IMF	-	-	-	-
Others	2.4	1.2	-	-
Official Bilateral	23.0	2.9	37.5	5.2
Paris Club	1.4	2.9	13.1	5.2
Others 2/	21.6	-	24.4	-
Other Creditors	20.2	3.5	19.0	3.5
Executive Outcome	18.4	3.5	18.1	3.5
J. S Franklyn Ltd & Deftech BV Corp.	1.4	-	0.5	-
Chatelet Investment Ltd	0.4	-	0.4	-

1/ China, Morocco, Kuwait & Saudi Fund

(iii) External Debt by Creditor Category

Table 24 classifies the total stock of disbursed outstanding debt including principal arrears into creditor category. The total outstanding debt stood at US\$ 1,689.6 million as at end December 2005 as compared to US\$ 1,710.2 million as at end December 2004. The reduction in the stock was as a result of the HIPC relief received from creditors and the payments made as against the disbursements received during the period.

dominate Sierra Leone's debt. They account for 49.14% and 19.78% respectively as at end December 2005. Loans from IMF and IDA are mainly denominated in SDRs, which accounted for the high percentage of the total debt. The US Dollar, which accounts for 15.57% represents the third major currency that dominates Sierra Leone's debt.

(v) Debt Indicators and Debt Service

Table 24 shows the debt indicators for the period ended December 2004 and 2005 in nominal terms. Debt service payments decreased by 41.65% from

Table 23
Bank of Sierra Leone Foreign Exchange Cash Flow (in US\$ Mn)

	JANUARY - DECEMBER 2005	JANUARY- DECEMBER 2004
INFLOWS:-Of which	143.13	176.55
Receipts from exports	8.46	7.62
Rutile	0.00	0.00
Bauxite	0.00	0.00
Diamond License fees	4.07	2.82
Diamond Exporters Income Tax	3.56	3.66
S.L.Ports Authority	0.00	0.00
Fishing Royalty/License	0.83	1.14
Other Govt	5.95	1.48
Others	4.74	1.89
Inspection Fees	0.06	0.07
BSL Purchases of Notes/T. Cheques	0.07	0.10
Transactions with Commercial Banks	0.00	0.00
Freight Levy	0.00	0.00
Privatization	0.01	0.02
Aid Disbursement	116.72	143.35
IMF	20.44	42.00
AFDB	10.97	15.13
UK	30.12	18.53
DFID Demobilization Funds	0.00	0.00
EC (EDF Replenishment)	10.16	10.86
WB Loan (ERRC/G)	14.68	16.88
EU	21.11	22.54
IDA/World Bank	1.19	2.52
Others/IDB	8.05	5.39
OPEC Fund (C.I.P. Arrangement)	0.00	9.50
HIPC Flow Relief	7.12	22.02
OUTFLOWS:-Of which	89.67	120.88
Payments for Goods and Services	63.47	76.02
Embassy/Missions	7.55	7.28
BSL	1.04	2.02
Printing of Currency	0.59	1.05
Government Travel	1.68	1.58
Other Government	7.80	3.96
Subscription to Intl. Organisations	1.61	1.48
Military	0.28	0.67
Private Sector Support	41.45	56.21
HIPC Related Imports	1.47	1.77

Table 23 Contd

Bank of Sierra Leone Foreign Exchange Cash Flow (in US\$ Mn)		
	JANUARY- DECEMBER	JANUARY- DECEMBER
	2005	2004
Debt Service: Of which	26.20	44.86
IMF	9.76	24.61
World Bank	3.96	3.37
AFDB	4.23	1.77
IFAD	0.00	0.97
EEC/EIB	0.00	0.00
Other Multilateral & Bilateral	2.83	3.01
Paris Club Creditors	0.48	0.43
Other Commercial Debt	0.35	1.10
OPEC (CIP Arrangement)	0.15	9.60
Clearing of Arrears (EEC/EIB, Badaa etc)	4.44	0.00

Table 24**Stock Of Sierra Leone's Disbursed Outstanding Debt (incl. Principal Arrears) in US \$ m n**

	2004	%	2005	%
	Dec	of Total	Dec	of Total
1. Bilateral:				
Paris Club Creditors	359.6	21.0	343.1	20.3
Other Bilateral	53.7	3.1	55.0	3.3
Total Bilateral	413.3	24.2	398.1	23.6
2. Multilateral				
World Bank (IBRD/IDA)	564.8	33.0	548.4	32.5
International Monetary Fund	184.5	10.8	196.7	11.6
African Development Bank/Fund	193.8	11.3	206.4	12.2
Other Multilateral	103.7	6.1	98.5	5.8
Total Multilateral	1,046.8	61.2	1,050.0	62.1
3. Other Creditors	20.2	1.2	19.0	1.1
4. Commercial & Short-Term Debt	229.9	13.4	222.5	13.2
Grand Total (1+2+3+4)	1,710.2	100.0	1,689.6	100.0

Debt Indicators (US \$M n)

	2004	2005
Multilateral	1,046.8	1,050.0
Bilateral	413.3	394.9
Other Creditors	20.2	19.0
Commercial & Short-Term Debt	229.9	222.5
Total Stock of Debt	1,710.2	1,686.4
Debt Service Payment Due	44.5	22.3
Debt Service Payment Made	44.9	26.1
Exports	139.7	n/a
Gross Domestic Product	1,071.5	1,192.6

Source: External Debt Policy Section, BSL

Table 25

Debt Service payments made in US \$ M n		
	2004	2005
Bilateral:	1.7	2.4
Paris Club Creditors	0.4	0.5
Other Bilateral	1.3	1.9
Multilateral (Net amount)	42.1	23.5
African Development Bank/Fund	4.5	6.9
<i>of which: HIPC for. exch. savings on debt service</i>	2.7	4.0
<i>Net Amount paid</i>	1.8	4.2
World Bank (IBRD/IDA)	11.9	13.2
<i>of which: HIPC for. exch. savings on debt service</i>	8.5	9.2
<i>Net Amount paid</i>	3.4	4.0
International Monetary Fund /1	24.6	9.8
<i>of which: HIPC debt relief</i>	22.0	5.8
Other Multilateral	14.6	8.7
<i>of which: HIPC for. exch. savings on debt service*</i>	2.3	3.2
<i>Net Amount paid</i>	12.3	5.5
Other Commercial/Military Debts	1.1	0.4
Grand Total	44.9	26.2
<i>Of which: HIPC Debt relief</i>	35.5	22.2

Source: External Debt Policy Section, B S L

US\$ 44.9million in 2004 to US\$ 26.2million in 2005. This decrease was a result of the interim debt relief granted by the multilateral creditors during the review period and the maturity of the ESAF and SAF loans

from the IMF. The stock of debt to GDP ratio decreased from 159.6% to 141.1% as a result of the increase in the GDP.

Table 26

Disbursed Outstanding Debt, including Principal Arrears as at End December 2005 classified by currency of liability ('000)						
Currency	Dec. 2004			Dec. 2005		
	debt in Foreign Currency	total debt in Le	% of total	debt in Foreign Currency	total debt in Le	% of total
Canadian Dollars	1,215	2,881,733	0.07	1,164	2,930,373	0.07
Swiss Francs	38,966	98,343,344	2.30	38,235	85,249,710	1.93
Chinese Yuan	183,447	63,171,944	1.47	183,447	66,420,797	1.50
Danish Kroner	324	153,028	0.00	311	144,817	0.00
EURO	184,362	718,781,982	16.78	251,580	873,807,120	19.78
British Pounds	3,855	21,184,122	0.49	3,589	18,166,345	0.41
Japanese Yen	10,668,000	293,787,744	6.86	13,359,762	332,658,083	7.53
Kuwaiti Dinar	6,542	63,473,756	1.48	6,702	67,305,027	1.52
Norwegian Kroner	91,737	43,328,108	1.01	94,001	40,732,357	0.92
Saudi Riyal	3,844	2,931,382	0.07	3,536	2,765,009	0.06
Swedish Kroner	2,511	1,089,905	0.03	2,396	883,519	0.02
United States Dollar	233,628	668,291,328	15.60	234,551	687,825,022	15.57
Special Drawing Rights	517,603	2,270,506,968	53.00	522,823	2,170,221,391	49.14
Islamic Dinar	8,126	35,646,004	0.83	16,246	67,437,549	1.53
Total		4,283,571,348	100.00		4,416,547,119	100.00

Source: External Debt Policy Section

(vi) Conclusion

In conclusion, the Government continues to be timely in its debt service with all creditors within the framework of the HIPC Initiative and adheres to its commitment to avoid non-concessional external borrowing in line with the IMF PRGF program. The Government also looks forward to reaching its Completion point in June 2006, when it would receive maximum debt relief from its external creditors.

7. Sierra Leone's State of Convergence under the West Africa Monetary Zone (WAMZ) performance criteria 2005.

The date for the launching of the monetary union in the West African Monetary Zone, was again deferred from July 1, 2005, to December 1, 2009. The deferment was necessitated by the unsatisfactory state of macro-economic convergence by member states. At the 16th Meeting of the Convergence Council of WAMZ, in Accra, January 2005, an assessment of countries' performance on macroeconomic performance and policy records as at end of 2004, indicated that the improvements made towards convergence were not strong enough to guarantee a smooth take-off in July 2005, as well as its sustenance. Consequently, WAMI was tasked by the Authority of Heads of State and Government, to undertake a study on the preparedness of Member States for the Union. Based on the report by WAMI and on the recommendation of the Committee of Governors, the Authority of Heads of State of the WAMZ, at their Summit in Banjul, The Gambia, in May 2005, again postponed the commencement of the monetary union to December 1, 2009. The postponement was to enable members improve on their macroeconomic performances and to allow for more effective commitment to the integration process, including the design of the architecture for a long-lasting union. An expanded Work Programme to facilitate the fruition of the union on the rescheduled date was also adopted. In

addition, the meeting also decided on the restructuring of WAMI for effective implementation of the new Work Programme, for which a consultant was to be sourced. Heads of State and Government signaled their commitment to the actualization of the Union through the signing of the Banjul Declaration of May 6, 2005. An Action Plan, spelling out the critical benchmarks was also developed at the meeting of the WAMZ Expert Committees in June 2005 and adopted at the 18th meeting of the WAMZ Convergence Council Meetings, in Accra, August 2005. The Meeting discussed the report of the Consultant on "The Restructuring of the West African Monetary Institute (WAMI)" and inter alia, approved the following recommendations:

- The WAMZ Convergence Council to be expanded to include Ministers of Justice to facilitate the ratification of the legal instruments.
- The formation of a WAMI Council/Board to facilitate WAMI's enforcement authority.
- The creation of a formal Governing Body for WAMI, comprising Governors of Central Banks and the Director General of WAMI to have direct oversight responsibilities on personnel issues, the budget, recruitment and performance evaluation.
- Engage the services of a professional recruitment firm to conduct the recruitment exercise in a transparent manner, with due regard for the multinational character of the institution.

Sierra Leone's Macroeconomic Performance

Sierra Leone's macroeconomic performance in 2005 showed that the country met two of the four primary criteria, viz, Central Bank Financing of the budget deficit and the Gross Foreign Reserves benchmarks; and only one of the six Secondary Criteria – the

Exchange Rate Stability This position was similar to that attained by end December 2004 when two primary and one secondary criterion were met. The country's performance under the WAMZ convergence criteria is given in Table 27

There was no central bank financing of the budget deficit as at end December 2005, thus facilitating the attainment of the benchmark on Central Bank financing of deficit to the previous year's tax receipts criterion. The ratio dropped from a mid year position of 19.38 per cent recorded in June 2005 to zero financing at end December 2005. This was

Table 27

Status of Convergence (Primary Criteria)						
Criteria	Target	2001	2002	2003	2004	2005
Inflation (end period)	Single digit	3.4	-3.1	11.3	14.4	13.1
Fiscal Deficit/GDP% (excl. grants)	Less than or equal to 4%	16.6	19.8	13.4	11.4	9.85
Central Bank Financing/ Previous years tax revenue	Less than or equal to 10%	89.9	1.9	25.6	0	0
Gross External Reserves (Months of imports)	Greater than or equal to 3 Months	2.3	3.1	2	4.16*	4.89
Secondary Criteria						
Criteria	Target	2001	2002	2003	2004	2005
Domestic Arrears	0	n.a	n.a	n.a	n.a	n.a
Tax revenue/GDP ratio	Greater than or equal to 20%	13.4	14.5	11.5*	11	10.09
Salary Mass/Total Tax revenue	Less than or equal to 35%	55	62.2	59.7*	56	62.33
Public Investment from Domestic receipts	Greater than or equal to 20%	6.6	8.9	11.3	8.2	9.19
Real Interest Rate	Greater than 0	1.4	8.6	-5.8	-6.4	-5.35
Exchange rate	Stable +/- 15%	-23.2	-1.4	16.9	11.64	14.45

The year on year inflation rate for December 2005, was 13.10 percent. Although this was a moderate improvement over 14.4 per cent recorded in December 2004, the WAMZ single digit criterion was still unattained. This was mainly on account of the continued increases in the price of petroleum products and other imported goods.

The fiscal deficit as a percentage of GDP fell to 9.85 per cent from 11.4 per cent recorded in December 2004 but the target of 4 per cent remained unachieved through out 2005. However, the improved performance is reflective of strides taken by Government to reduce the budget deficit.

identical to performance recorded at December 2004 and resulted from increased donor inflows, which facilitated government's financing of its deficit without resort to the Central Bank and in addition repaid its existing stock of Central Bank debt.

Gross external reserves as at end December 2005 stood at US\$170.48mn, translating into 4.89 months of imports and well above the WAMZ criterion of at least three months of import cover. This was attributed to the huge foreign inflows during the last quarter of 2005.

During the review period, tax revenue as a proportion of GDP, which was 4.77 per cent in June 2005, rose to 10.09 per cent in December

2005. It was however below both the level recorded in 2004 and the WAMZ target of at least 20 per cent. This development could be partly due to the reduction in personal income tax rates in the second half of the year, in response to demands from the labour union, while the tax revenue base remained the same.

The wages and salaries mass to tax revenue ratio stood at 62.30 per cent for the year, far exceeding the WAMZ target of 35 percent. This is explained by the maintenance of a large public sector against still very low revenues from taxation.

Sierra Leone also failed to meet the positive real interest rate criterion. As at December 31, 2005 the real interest rate was negative 5.35 per cent compared to negative 6.4 per cent recorded at December 2004. The negative interest rate is a result of the high inflation rate exceeding the savings rate.

The value of the Leone depreciated for most part of the year but remained within the WAMZ band of 15 per cent. The 14.45 per cent depreciation recorded by the end period could still be regarded as stable, thus making it possible for the country to meet the stable exchange rate criterion.

The public investment from domestic receipts to tax revenue ratio for 2005 was 9.19 per cent, reflecting an improvement from 2004 position of 8.2 per cent. It was however still short of the WAMZ criterion of at least 20 per cent.

8. Completion of The Poverty Reduction Growth Facility Programme

The Executive Board of the International Monetary Fund (IMF) on 2nd June 2005 completed the Sixth and Final Review of Sierra Leone's performance under an SDR130.84million (about US\$194.3mn) Poverty Reduction Growth Facility (PRGF) to support the government's 2001-2005 economic programme. With the completion of the review, the country was able to draw an amount of SDR14million (about US\$21mn).

In addition, the Executive Board approved an additional interim assistance of SDR4million (about US\$5.9mn) under the enhanced Heavily Indebted Poor Country (HIPC) Initiative for the period through end 2005.

In completing the review, the Board waived the non-observance of the quantitative performance criterion on the domestic primary balance of the central government, as the margin of the breach was minimal; as well as the non-observance of the structural performance benchmark related to the completion of the reconciliation of fiscal and monetary data for 2000-2002; a more limited reconciliation of fiscal and monetary data for 2001-2004 was completed as a corrective action for the non-observance of this structural performance criterion.

Sierra Leone is currently negotiating a successor programme.

9. Human Resource Development

As the restructuring process in the Bank continues, the Human Resources Department aims to enhance motivation and commitment by examining existing policies and introducing new policies and processes people are assessed and rewarded for performance and achievements.

Table 28
Breakdown of Staff per category

	2004	2005
Management	8	8
Professional	205	199
Sub-Professional	208	207
General Service Staff	135	139
Contract Staff	30	27
Total	586	580

These measures are aimed at getting better results from staff by measuring performance within agreed targets linked to the overall objectives of the Bank. It is also ensured that when skills gaps are identified,

staff are developed to attain the required competence levels, so as to enhance their performance.

For the period under review, the staff complement of the Bank decreased from 586 as at 2004 to 580 as at 2005, with decreases reflected in the Professional and Sub-Professional cadres as well as for contract staff and increase in the General Service cadre. The majority of staff continues to be in the Professional and Sub-Professional cadres with staff strength currently as analyzed in Table 30

During the review period, 10 staff were recruited while 16 staff severed from the Bank for the following reasons:

Resignation	5
Termination	1
Voluntary Retirement	3
Deceased	3
End of Contract	3
Early Retirement on Medical Grounds	1

Staff Development

As a reflection of the Bank's current focus on individual staff as well as Departmental capacity building, there was a break this year with the

tradition of training staff from a pool of the annual budget allocated to training by which some Departments/Units remained untrained while others received all the training exposures.

In its drive to meet the training needs of staff, the various priority training identified by Departments/Units and reviewed by the Management Training Sub-Committee in line with the reduced budget allocation, were addressed through the following training strategies:

- In-Service Training
- Training Programmes at the Local Institutions
- Short Overseas Courses
- Long Overseas Courses

Table 28 provides a comparative analysis of training programmes conducted in 2004 and 2005.

The French Language classes, which took off a couple of years ago, continued with vigour and have attracted additional staff with new programmes for staff who successfully completed the Beginners one and two levels. The number of participants continues to grow.

Management of the Bank including Independent Units

Governor	–	Dr. James D. Rogers
Deputy Governor	–	Mr. Mohamed S. Fofana

Directors

Director, Board Secretariat	–	Haja Ajaratu A. M. Mahdi
Director, Research	–	Ms. Andrina R. Coker
Director, Banking	–	Mr Francis B. Roberts
Director, Accounts and Budgeting	–	Mrs Khadi R. Saccoh
Director, Banking Supervision	–	Ms Yeabu M. D. Kamara
Director, International Finance	–	Mr Ibrahim K. Lamin
Director, Human Resources	–	Mrs. Grace Hassan
Director, General Services	–	Mr. Henry E. P. Musah
Director, Special Duties	–	Mr Sidiqie A B Sesay*
Adviser to the Governors (Capital Market)	–	Mr Nat S. B. Wellington

Heads of Unit

Internal Auditor	–	Mr. Ralph Ansumana
Head, Security	–	Mr. Jenner T.B. Buck
Head, Legal Unit	–	Ms. Martina Kroma
Head, Mgt. Info Unit	–	Mrs. Hanifa Addai

* *on Secondment*

Pension Fund

The Bank is in the process of dissolving its Pension Fund and make alternate arrangement for the migration of all staff to the country's National Pension Scheme, managed by the National Social Security and Insurance Trust (NASSIT).

Bank of Sierra Leone Charity Trust Fund

A Charity Trust Fund was established by the Bank of Sierra Leone on 4th August 2005.

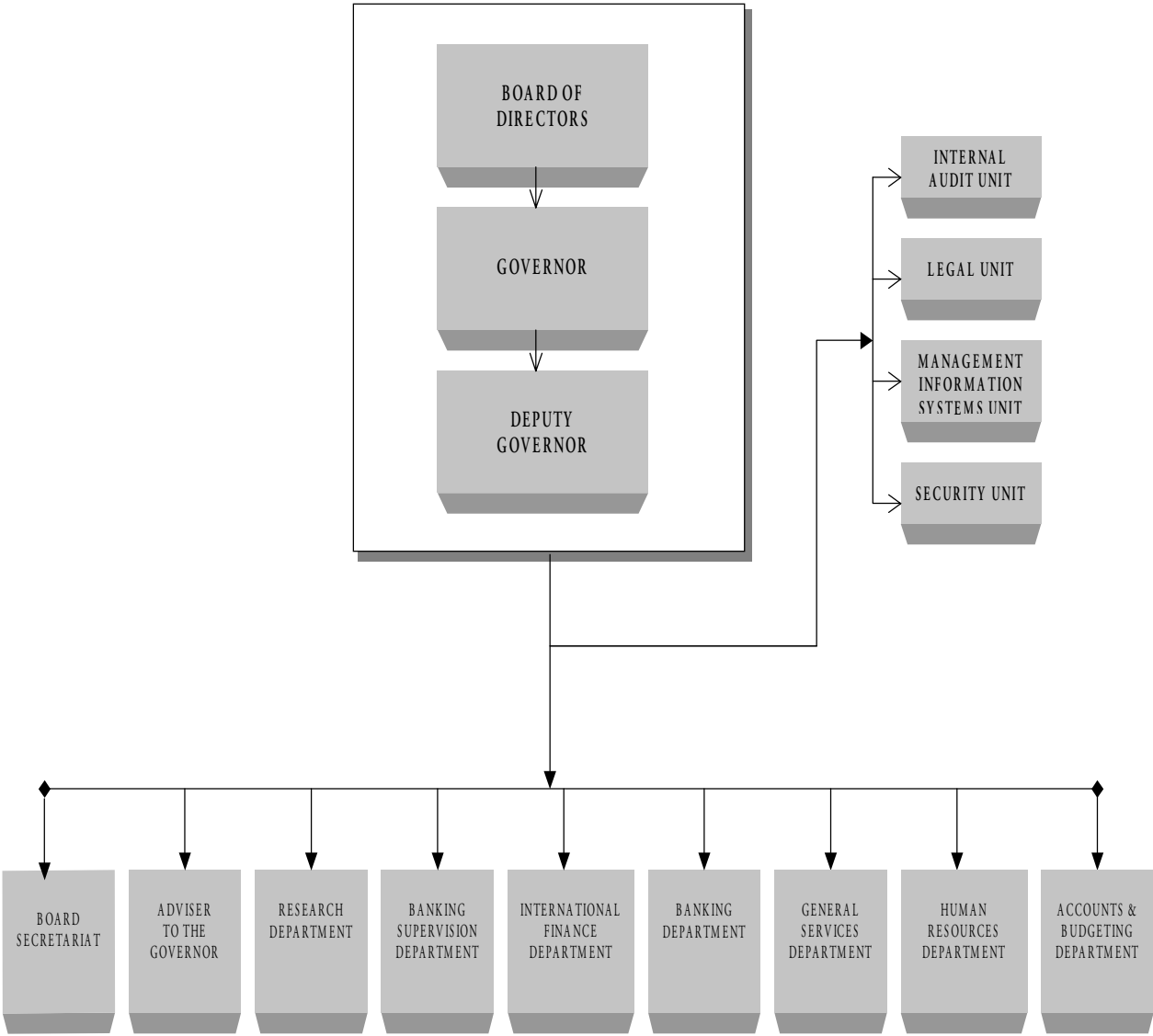
The Fund is managed by a Board of Trustees comprising the following Members:

Dr. S. B. Nicol-Cole	–	(Chairman)
Professor A. A. Gbakima	–	(Member)
Mr. William Taylor	–	(Member)
Ms. Christiana Thorpe	–	(Member)
Mr. Bob Katta	–	(Member)
Mr. Tom Lee	–	(Member)

The Board was inaugurated on 6th August 2005 with the following main responsibilities:

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

Bank of Sierra Leone Organisational Structure



Financial position and Operating results of the Bank for the year ended 31st December, 2005

As at 31st December, 2005, the Bank's financial performance improved with total Assets and Liabilities increasing by 6.27% from Le1,496.67 billion in 2004 to Le1,590.44 billion. This change was mainly due to a 15.07% increase in Foreign Currency Financial Assts and 4.00% increase in total Foreign Currency Financial Liabilities. The main feature underlying the increase in the former is the improvement in the External Reserves position occasioned by a 91.75% increase in Cash and Cash Equivalents denominated in foreign currency. This encouraging position resulted largely from the increased Non-programmed disbursements received during the year.

The Bank's holdings of Treasury Bills and Bearer Bonds decreased by 35.36% and coupled with the zero Ways and Means Advances to Government resulted in a 3.79% net decrease in Local Currency Financial Assets.

There was a marginal drop of 2.22% in the Bank's Property, Plant and Equipment due to the application of increased depreciation charges on these assets, most of which were fully depreciated on completion of projects that were previously in progress, and the complete accounting for assets that were in transit.

The 4.00% increase in Foreign Currency Financial Liabilities resulted from increases in the IMF PRGF Loan and IMF No. 1 Accounts. Local Currency Financial Liabilities increased by 114.22% mainly due to significant increases in the levels of Government and Commercial Bank deposits. Other liabilities remained unchanged during the period.

There was a further drop (37.10%) in the level of the Bank's Reserves due mainly to huge revaluation losses. As at 31st December, 2005 the Revaluation Reserve Account which indicates the net translation

of foreign assets and liabilities, recorded a net debit balance of Le216.85 billion as total Foreign Currency Financial Liabilities of Le1,106.67 billion exceeded total Foreign Currency Financial Assets of Le939.60 billion by 17.78%. The debit balance in the account which represents revaluation losses will be treated in accordance with Section 54(3) and (4) of the Bank of Sierra Leone Act, 2000.

Total interest income from Financial Assets amounted to Le34.16 billion. This represents a marginal decrease of 0.49% over last year's receipts. 43.22% of this income accrued from the Bank's holdings of Government Securities (Treasury Bills and Bearer Bonds). Interest receipts on Ways and Means Advances to Government which had previously contributed the bulk of total receipts dropped further by 38.20% over what accrued at the end of 2004 due largely to the continued reduction in Ways and Means granted to Government. Interest income from foreign currency investments rose significantly by 248.34% from Le3.44 billion in 2004 to Le11.99 billion in 2005, mainly due to corresponding increases in the levels of foreign reserve funds available for investments and a more positive interest rate for the US Dollar than expected. Interest receipts from the Bank's Pound Sterling and US\$ investment portfolios constituted the bulk (73.07%) of this income. Net interest income at Le31.95 billion represent a marginal increase of 0.50% over last year's net position. IMF interest and charges fell by 13.20% from Le2.48 billion in 2004 to Le2.16 billion in 2005. Charges on Foreign Transactions rose by 2.24% over what was incurred in 2004, while the total amortised cost of Government Securities fell by 14.32%. With Sundry Receipts as its main component, Other Income dropped by 52.21% from Le7.78 billion in 2004 to Le3.72 billion in 2005. Total operating income also fell by 9.26% from Le39.58 billion in 2004 to Le35.91 billion in 2005.

Total operating expenses amounted to Le34.46 billion representing an increase of 5.04% over the amount (Le32.80) incurred in 2004. 62.86% of this, was on personnel costs which rose by 9.37% as a result of increases in costs associated with promotions and increments. Administration costs, which represented 19.42% of total operating expenses fell by 15.25%. Depreciation and Currency Issue expenses rose by 3.57% and 35.82% respectively.

Revaluation losses amounted to Le42.17 billion for the period under review and represented a 31.85% reduction over the losses incurred last year.

The Net operating profit of Le1.45 billion was allocated in accordance with the requirements of Section 11 of the Bank of Sierra Leone Act, 2000.

The Net equity of the Bank deteriorated over the period by 45.55% from Le105.36 billion in 2004 to Le153.36 billion in 2005.

Financial Statements

for the year ended 31 December 2005

Board of Directors, Officials and Registered Office**Directors**

Dr J D Rogers
Mr M S Fofana
Mr Maigore Kallon
Dr I B Peters
Mrs Mariatu Mahdi
Dr Morie K Manyeh
Dr M B Yilla

Governor
Deputy Governor

Secretary to the Board

Mrs A A M Mahdi

Director, Accounts and Budget Department

Mrs K R Saccoh

Solicitors

Renner-Thomas & Co
Adele Chambers
15 Lamina Sankoh Street
Freetown

Auditors

PKF
Chartered Accountants
Regent House
12 Wilberforce Street
Freetown

Registered Office

Siaka Stevens 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 2005.

Statement of Directors' Responsibilities

The Bank of Sierra Leone Act 2000 requires the Directors of the Bank to prepare and forward to the Minister of Finance Financial Statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the Profit or Loss for the year then ended.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue its operations.

The Directors are responsible for keeping proper records which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the Financial Statements comply with the Bank of Sierra Leone Act 2000. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Share Capital

Details of the Bank's share capital are given in note 24 to the Financial Statements.

Financial Statements

The annexed statements adequately disclose the results of the Bank's operations during the year.

Directors and their interests

The following were Directors of the Bank as at 31 December 2005:

Dr J D Rogers	Governor	(appointed 11 April 2003)
Mr M S Fofana	Deputy Governor	(appointed 25 September 2003)
Mr Maigore Kallon	Director	(re-appointed 11 September 2005)
Dr I B Peters	Director	(re-appointed 23 November 2005)
Mrs Mariatu Madhi	Director	(re-appointed 18 April 2004)
Dr Morie K Manyeh	Director	(re-appointed 3 September 2005)
Dr M B Yilla	Director	(re-appointed 3 September 2005)

The Governor and the Deputy Governor who were appointed on 11 April 2003 and 25 September 2003 respectively shall each be appointed for a term not exceeding five years and shall be eligible for re-appointment.

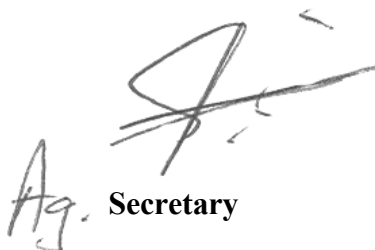
The other Directors hold offices for three years and shall be eligible for re-appointment.

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

Auditors

The Auditors, PKF, were appointed by the Auditor General on 18 October 2005 to conduct the audit of the financial statements for the year ended 31 December 2005.

By order of the Board


 Ag. Secretary

Report of the Independent Auditors to the Government of Sierra Leone

We have audited the accompanying balance sheet of Bank of Sierra Leone as at 31 December 2005 and the related statements of income, changes in equity and cash flows for the year then ended. We draw attention to the basis of preparation of these financial statements as described in note 1(a). These financial statements are the responsibility of the Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the position of the Bank at 31 December 2005 and the results of its operations and its cash flows for the year then ended, in accordance with the framework of accounting policies set out in note 1 of the financial statements.

Date

10 March 2006

Freetown



Chartered Accountants

Report of the Independent Auditors to the Government of Sierra Leone

Balance Sheet

	Note	2005 Le'000	2004 Le'000
Foreign Currency Financial Assets			
Cash on Hand		1,832,844	1,279,146
Cash and Cash equivalents with foreign banks	2	407,543,928	212,532,339
Equity Shares and Participating Interest	4	3,170,419	3,091,196
Accrued Interest		1,423,517	728,532
International Monetary Fund Special Drawing Rights Holdings		95,175,752	143,959,221
International Monetary Fund Quota Subscription		430,455,589	454,888,346
Total Foreign Currency Financial Assets		939,602,049	816,478,780
Local Currency Financial Assets			
Treasury Bills and Bearer Bonds	5	60,234,794	93,197,877
Investment in Marketable Securities		11,841,118	7,050,655
Accrued Interest		655,870	487,102
Advances to Banks		5,134,508	259,337
Other Local Currency Financial Assets		75,563,074	6,580,565
Special Issue of Securities of the Government of Sierra Leone	6	530,232,929	530,318,181
Total Local Currency Financial Assets		613,662,293	637,893,717
Total Financial Assets		1,553,264,342	1,454,372,497
Non-Financial Assets			
Inventory	8	5,410,511	6,066,040
Gold Stocks		134,701	111,172
Other Non-Financial Assets	10	3,760,062	7,607,334
Property, Plant and Equipment	9	27,874,259	28,508,254
Total Non-Financial Assets		37,179,533	42,292,800
Total Assets		1,590,443,875	1,496,665,297

Balance Sheet (cont.)

	Note	2005 Le'000	2004 Le'000
Liabilities			
Foreign Currency Financial Liabilities			
Term liabilities	11	584,664,330	579,065,993
Other Foreign Currency Financial Liabilities	12	449,554,316	408,428,762
International Monetary Fund Special Drawing Rights Allocation		72,455,181	76,567,754
Total Foreign Currency Financial Liabilities		1,106,673,827	1,064,062,509
Local Currency Financial Liabilities			
Government Deposits		72,734,453	36,311,935
Commercial Bank deposits		33,936,318	12,936,434
Other Deposits		25,955,568	11,135,381
Accrued Charges		2,543,289	2,473,012
Other Local Currency Financial Liabilities	13	437,253	444,169
Total Local Currency Financial Liabilities		135,606,881	63,300,931
Total Financial Liabilities		1,242,280,708	1,127,363,440
Non-Financial Liabilities			
Currency in Circulation		255,078,319	221,424,550
Other Liabilities	14	37,716	37,716
Total Non-Financial Liabilities		255,116,035	221,462,266
Provisions			
Provision for Revaluation of Pipeline Liabilities	15	246,407,961	253,199,268
Total Liabilities		1,743,804,704	1,602,024,974
Capital	24	24,001,500	24,001,500
Reserves	17	(177,362,329)	(129,361,177)
Total Liabilities and Equity		1,590,443,875	1,496,665,297

These Financial Statements were approved by the Board of Directors on 10 March 2006

Governor

Jamshid

Director

Mahdi

Income Statement

	Note	2005 Le'000	2004 Le'000
Operating Income:			
Interest Income from Financial Assets			
Foreign Currency Investments	18	11,995,501	3,443,603
Government Bills and Bonds	18	13,129,279	18,910,569
Advances to Government	18	7,401,968	11,976,688
Investment of Bank's Funds	18	1,635,226	-
		34,161,974	34,330,860
Expenses on Financial Liabilities	19		
IMF Interest and Charges		(2,157,696)	(2,485,978)
Charges on Foreign Transactions		(50,331)	(49,225)
Amortisation of Government Securities		(1,764)	(2,059)
Net Exchange Gain		239,086	364
Other Income	20	3,718,907	7,782,127
Total Operating Income		35,910,176	39,576,089
Operating Expenses:			
Personnel		21,660,766	19,804,108
Depreciation	9	2,517,484	2,430,728
Currency	21	3,459,256	2,546,887
Administration	22	6,690,553	7,894,503
Other		128,391	127,749
Total Operating Expenses		34,456,450	32,803,975
Revaluation Losses		42,166,507	61,873,622
Loss after Revaluation losses		(40,712,781)	(55,101,508)
Transfer of Revaluation Losses to Revaluation Reserve account		42,166,507	61,873,622
Profit available for appropriation under the Bank of Sierra Leone Act 2000		1,453,726	6,772,114
Less Appropriations	16	(1,453,726)	(6,772,114)
		-	-

Statement of Movement in Equity

	Note	2005 Le'000	2004 Le'000
Equity at start of Year		(105,359,677)	(52,064,257)
Total Recognised Revenues and Expenses for the Year		1,453,726	6,772,114
Transfer to Other Reserves		(49,454,878)	(60,067,534)
Equity at Year End	25	(153,360,829)	(105,359,677)

Cash Flow Statement

	Note	2005 Le'000	2004 Le'000
Net Cash Inflow from Operating Activities	29	70,133,394	8,388,340
Investing Activities			
Net decrease in Loans and Advances to Government		-	68,109,550
Net Investment/Disinvestment in Marketable Securities		(4,790,463)	578,023
Net Decrease/(Increase) in Government Securities held by the Bank		32,963,083	(9,025,115)
Purchase of Tangible Fixed Assets		(1,883,489)	(4,328,498)
Cash Inflow from Investing Activities		26,289,131	55,333,960
Financing Activities			
Net Increase in Deposits by Government and Banks		57,422,402	31,002,495
Net Increase/(Decrease) in Other Deposits taken		14,820,187	(9,332,483)
Fund Movements		(7,203,119)	2,368,107
Increase in Currency in Circulation		33,653,769	23,925,647
Net Increase in Term Liabilities		5,324,694	22,614,326
Cash Inflows from Financing Activities		104,017,933	70,578,092
Increase in Cash and Cash Equivalents	30	200,440,458	134,300,392

Notes to the Financial Statements

1. Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Bank's financial statements.

(a) Framework of Accounting Policies

In preparing its statutory financial statements the Bank complies with the requirements of the Bank of Sierra Leone Act, 2000 and Part VII of the Public Budgeting and Accounting Act No.1 (1992). The Financial Statements are also in compliance with the requirements of the Companies Act, although the Bank is not subject to this Act.

Within this framework the Financial Statements:

- have been prepared under the historical cost convention as modified by the revaluation of Freehold Land and Buildings; and
- carry the Special Issue of Government Securities as described in notes 1(f) and 6 at their par value.

The Bank's objective is to adopt as soon as is practicable International Accounting Standards (IAS) as its framework of accounting. In the meantime it is making progress in aligning individual accounting policies of the Bank with IAS. However, in recognition of the principle set out in IAS 1 that an entity cannot be in compliance with IAS unless it is in full compliance with IASs, IAS is not currently the Bank's framework of accounting.

The Bank presents its Assets and Liabilities broadly in order of liquidity.

(b) Financial Assets and Liabilities

The Bank presents its Financial Assets and Liabilities, and the Associated Income and Expense streams by distinguishing between foreign currency and local currency activities. Foreign currency activities arise mainly from the Bank's management of the country's external reserves. Local Currency activities reflect transactions arising from monetary policy implementations, managing the currency in circulation and Banking activities.

The reason being that the separate reporting of these activities is considered to provide a clearer picture and enhance users' understanding of the Bank's financial position, performance and risk profile. The Bank considers that the combined reporting of foreign and local currency activities would not provide a clear indication of the Bank's operations.

Foreign Currency Monetary Assets and Liabilities are translated into Leones at the official exchange rates ruling at the balance sheet date and in accordance with Section 54 (1) of the Principal Act:

Currency	30.12.2005	31.12.2004
US\$ 1	Le2,932.52	Le 2,860.49
£Stg 1	Le5,061.09	Le 5,495.71
WAUA 1	Le4,207.35	Le 4,430.86
Euro 1	Le3,473.27	Le 3,898.76
SDR 1	Le4,150.97	Le 4,386.58

Foreign currency transactions are converted at the rate of exchange on the date of the transaction. The gain or loss on re-translating foreign currency monetary assets or liabilities at year end rates is taken to the Revaluation Reserve in compliance with the Bank of Sierra Leone Act, which requires that any such gain or loss should not be charged against the annual profits, but taken to a revaluation reserve.

All financial assets and liabilities are recognised in the balance sheet on a trade date basis. This means that purchases and sales of financial assets are recognised from the date at which the purchase or sale is agreed.

No financial asset of the Bank was pledged as security for liabilities nor collateralised.

(c) Special Issue of Securities of the Sierra Leone Government

Details of these securities, which have no interest coupon and have no fixed redemption date are set out in note 6. The securities, which were issued to clear losses of the Bank in earlier years, are carried at their par value in the balance sheet.

(d) International Monetary Fund (IMF) Balances

The Quota subscription represents subscription payments made as a form of deposit with the IMF, which entitles Sierra Leone to Special Drawing Rights (SDR) facilities, financial support and voting rights as a member of the IMF. The funds paid by and re-deposited with the IMF are represented by the IMF Securities and No.1 account balances. The Quota subscription is held as an asset and this and the related liabilities are revalued annually at the appropriate SDR rate.

The Bank's deposits with the IMF by way of holdings of SDRs and its drawings by way of allocations denominated in SDRs are held as assets and liabilities respectively and revalued in SDRs at the balance sheet date.

(e) Treasury Bills and Bearer Bonds

The Bank is the holder of Treasury Bills and Treasury Bearer Bonds. Bills are either taken-up on initial offering or purchased subsequently in the secondary market.

Bills have no interest coupon attached but are issued at a discount to redemption price. Those taken up on initial offering are initially recorded at discounted cost price and those purchased subsequently at purchase price and the discount to redemption is amortised within interest income on a straight line basis over the period to redemption and the carrying value of the asset increased accordingly.

Bearer bonds are taken up on initial offering. There is no secondary market although the Bank will purchase Bonds from the public at their par value. Bearer bonds carry an interest coupon and they are recorded at the par value. Interest income is accrued in the Income Statement.

Treasury Bearer Bonds are always held to maturity. Treasury Bills are sometimes sold prior to maturity and any difference between carrying value and sale price is taken to other income in the Income Statement.

(f) Investment in Marketable Securities

These investments comprise a number of discrete pension fund investment portfolios that are funded by appropriations of the Bank's annual profit under Section 11 (1) and (3b) of the Bank of Sierra Leone Act 2000. The investment portfolios consist primarily of Treasury Bills and Treasury Bearer Bonds that are held to maturity and are accounted for in the same way as the instruments held by the Bank for monetary operations as noted in accounting policy (e).

(g) Investments in Equity Instruments

Investments in unquoted equity instruments are held at cost, less a provision for impairment where appropriate.

(h) Foreign Currency Term Liabilities

These are carried at amortised cost (cost less principal repayments). Interest obligations are charged to the Income Statement on an accrual basis.

(i) Currency in Circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for currency in circulation is recorded at face value in the balance sheet.

(j) Income Recognition

The income recognition principles in respect of financial assets dealt with above are set out in the relevant accounting policy notes. In all other cases interest income is recognised in the profit and loss account as it accrues other than interest of doubtful recoverability.

Fees receivable which represent a return for services are credited to income when the related service is performed.

(k) Inventories

Inventories are valued at the lower of cost and net realisable values. Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued.

(l) Property, Plant and Equipment

Depreciation is charged on a straight-line basis over the estimated life of the assets at the following annual rates:

Premises	–	2% per annum on cost
Plant and machinery	–	10% per annum on cost
Furniture and equipment	–	25% per annum on cost
Vehicles	–	20% per annum on cost
Computers and ancillaries	–	20% per annum on cost

No Fixed Assets were pledged as security on Financial Liabilities.

(m) Pension

Pension Costs are charged to the Profit and Loss Account systematically over the periods benefiting from the employees' services.

(n) Comparative Amounts

Where there have been changes in presentation, and to ensure consistency with the current year, comparative figures have been re-stated where appropriate.

(o) Appropriations of Annual Net Profit

Under Section 11 of the Bank of Sierra Leone Act 2000 (the Act), Net Profit is allocated thus:

- Net Profit for the financial year is determined after making provision for bad and doubtful debts, depreciation charge and contribution to staff and superannuation funds.
- From this net profit a General Reserve is established by allocation from the Net Profit of each year. One third of net profit is allocated if the General Reserve does not exceed the minimum paid up capital of the Bank. One sixth of net profit is allocated should General Reserve exceed the minimum paid up capital of the Bank (up to the point where the Reserve equals four times the minimum paid up capital). Further allocations to the Reserve may be made with the approval of the Minister.

- One quarter of the remaining profit for the financial year is then used to redeem any Government Securities held by the Bank that have been previously issued to preserve the minimum paid-up capital of the Bank from impairment.

- An amount determined through consultation with the Minister is then allocated to the Development Credit Fund established under the Act. Any residue of Net Profit is paid into a Consolidated Fund.

The above appropriations will not be made should the Board judge the assets of the Bank to be (prior to or as a result of the appropriations) less than the sum of Liabilities and Minimum Paid Up Capital.

If the Bank incurs a Net Loss during a financial year, this loss is charged to the General Reserve until the Reserve is depleted, when losses will be carried forward, to be replenished by Government transfers of funds, negotiable securities bearing market related terms and conditions or foreign exchange. In the absence of such replenishment, all future profits will be allocated to cancel accumulated losses in priority to the above appropriations.

Also in accordance with Section 54 (3) where there is a carried over loss or net debit balance in the revaluation reserve account, amounts shall be transferred from the available balance in the General Reserve to cancel such carried over losses.

2. Cash and Cash Equivalents with Foreign Banks

	2005	2004
	Le'000	Le'000
Maturity Analysis		
Up to 1 month	188,376,541	125,262,857
1 month to 3 months	219,167,387	87,269,482
	407,543,928	212,532,339

3. Advances to Government

Under the provisions of Section 42 (1) and (2) of the Bank of Sierra Leone Act, 2000, the limit on lending that the Bank can grant to the Government shall not exceed five per cent of the Government's actual revenue in the previous year's budget.

	Le'000
Treasury and Eligible Bills	60,234,794
Bank's Holding of Special Issue Securities of Government of Sierra Leone	530,232,929
Less: Government Deposits	(72,734,453)
Government Stocks and Shares	(4,434,556)
Net Credit to Government of Sierra Leone	513,298,714
Government Actual Revenue in previous year	467,001,000
5% thereof	23,350,050
Excess in Government Lending	489,948,664

The Directors Report excesses in lending to the Government of Sierra Leone as at 31 December 2005 of Le489,948,664 (2004:Le 564,005,898).

4. Equity Shares and Participating Interest

	2005	2004
	Le'000	Le'000
AfreximBank Capital Investment	2,346,016	2,288,392
AfreximBank Dividend Investment	330,055	308,455
BSL CON-WAMA Credit Guarantee Fund	494,348	494,349
	3,170,419	3,091,196

5. Treasury Bills and Bearer Bonds

	2005 Le'000	2004 Le'000
Treasury Bills	32,073,644	73,980,627
Treasury Bearer Bonds	28,161,150	19,217,250
	60,234,794	93,197,877
Maturity Analysis		
Up to 1 month	13,865,729	31,129,500
1 month to 3 months	29,172,615	53,651,627
3 months to 1 year	17,196,450	8,416,750
1 year to 5 years	-	-
	60,234,794	93,197,877

6. Special Issue of Securities of the Government of Sierra Leone

	2005 Le'000	2004 Le'000
Securities in issue at the beginning of the year	530,318,181	530,880,200
Redemption during the year	(85,252)	(562,019)
Securities in issue at the end of the year	530,232,929	530,318,181

Under Section 44(2) and 7(2) of the repealed Bank of Sierra Leone (Amendment) Act 1970, the Minister of Finance and the Financial Secretary, on behalf of the Government issued on 24 June 1994 and 25 May 2000 non-negotiable, non-interest-bearing securities with no fixed redemption date. As explained below there is provision for the redemption of the securities out of part of the future net profits of the Bank. The Securities were issued for the following amounts:

	Le'000
(a) To offset the Bank's cumulative losses to June 1994 in excess of its capital of Le 1,500,000 and including foreign currency revaluation losses to bring the Bank back to its normal capital base	275,000,000
(b) As fresh capital injection into the Bank in order to assist the bank to cover projected annual operating expenses.	24,000,000
(c) To cover the deficit balance in the Revaluation Reserve Account for the period 1 July 1991 to 31 December 1994	157,564,321

(d) To cover the deficit balance in the Revaluation Reserve Account for the year ended 31 December 1999	135,494,107
Less redemptions:	
1996	(57,433,448)
1997	(368,504)
1998	(376,467)
1999	(1,210,442)
2000	(644,579)
2001	(418,191)
2002	(569,526)
2003	(157,071)
2004	(562,019)
2005	(85,252)
Balance remaining due	530,232,929

Section 7(2) of the 1970 Act has been repealed and replaced by section 10(6) of the Bank of Sierra Leone Act 2000.

Accordingly:

- (a) Where in the judgement of the Board, the assets of the Bank are less than the sum of its liabilities and minimum paid up capital, the Board shall notify the Minister who shall notwithstanding any other provision of this Act authorise the transfer to the Bank of funds, readily marketable securities or foreign exchange for the purpose of preserving the minimum paid-up capital of the Bank from impairment.
- (b) Section 11 (3) (a) - one quarter of the remainder of the net profit for the financial year shall be applied to the redemption of any securities of the Government held by the Bank, which have been issued under section 10 of the Act.

7. Other Local Currency Financial Assets

	2005	2004
	Le'000	Le'000
Staff Personal Loan	603,684	640,920
Staff Housing Loan	16,074	20,154
Staff Vehicle Loan	336,642	298,570
Advances to Contractors	4,482,050	955,580
Advances to Staff	20,104	10,873
Advances to Others	14,904	36,479
Rent etc., paid in advance	89,616	157,874
Bills for collection	-	652,137
CAFSL L/C provision	-	3,807,978
	5,563,074	6,580,565

8. Inventory

	2005	2004
	Le'000	Le'000
Medical	38,572	14,269
Fuel	76,090	85,600
Maintenance	20,063	10,553
Stationery	147,086	128,672
Others	84,842	83,332
Items in transit	5,043,858	5,743,614
	5,410,511	6,066,040

9. Property, Plant and Equipment

Cost:	Premises	Equipment	Total
	Le'000	Le'000	Le'000
Balance at 1 January 2005	25,649,981	14,658,540	40,308,521
Acquisitions	655,292	1,228,197	1,883,489
Balance at 31 December 2005	26,305,273	15,886,737	42,192,010
Depreciation:			
Balance at 1 January 2005	4,185,092	7,615,175	11,800,267
Adjustments (reclassification)	(173)	173	-
Depreciation Charge for the year	506,946	2,010,538	2,517,484
Balance at 31 December 2005	4,691,865	9,625,886	14,317,751
Net Book Value:			
At 1 January 2005	21,464,889	7,043,365	28,508,254
At 31 December 2005	21,613,408	6,260,851	27,874,259

Freehold properties in Freetown and Kenema were revalued in October 1999 on a replacement cost basis, taking into consideration the Bank's specialised facilities, by Realini Bader Associates Limited, Architects, Engineers and Planners. The revaluation has been reflected in these Financial Statements. The surplus arising thereon has been credited to the Capital Reserve Account.

10. Other Non-financial Assets

	2005	2004
	Le'000	Le'000
Deferred Currency Issue Expenses	3,615,062	7,460,503
Deferred Government Security Certificates Expenses	145,000	146,831
	3,760,062	7,607,334

11. Term Liabilities

Sierra Rutile/GOSL Loan	2,126,193	2,073,969
Bank of China US\$ Clearing	24,677,656	24,071,511
IMF Poverty Reduction and Growth Facility (PRGF)	557,860,481	552,920,513
	584,664,330	579,065,993

12. Other Foreign Currency Financial Liabilities

Foreign Payment	2,999,679	4,985,903
IMF Securities Account	67,390,261	67,390,261
IMF No.1 Account	378,767,263	334,365,378
ADF/ERR loan	127,997	124,852
WAMA ECOWAS Travellers' Cheques	11,798	11,798
WAMA ECOWAS Travellers' Cheques Clearing	(1,170)	(1,170)
Commission of European Committee	1,337,662	2,688,244
WAMA Settlement	(1,079,174)	(1,136,504)
	449,554,316	408,428,762

13. Other Local Currency Financial Liabilities

P.S. Bond in Circulation	449	449
Retention Monies	388,195	436,629
Rent received in advance	20,026	-
Unapproved Invoices	6,205	6,205
Trade and Sundry Creditors	22,378	886
	437,253	444,169

14. Other Liabilities

	2005	2004
	Le'000	Le'000
Provision for Loss on Investment	3,378	3,378
Provision for Bad Debts	34,338	34,338
	37,716	37,716

15. Provision for Revaluation of Pipeline Liabilities

Beginning of year	253,199,268	232,087,851
Revaluation	(6,791,307)	21,111,417
End of year	246,407,961	253,199,268

The provision for revaluation of pipeline relates to purported obligations of the Bank to settle liabilities of importers who had deposited cash in Leones, effectively with the Bank, which the Bank would purportedly settle in the appropriate foreign currency from their pipeline account. As the purported obligation is due in foreign currencies it is revalued using current rates of exchange. The timing and amount of any payments is uncertain. The obligation has not been discounted.

16. Appropriations

Net Profit for the year	1,453,726	6,772,114
<i>Appropriations:</i>		
Building Reserve Fund	(942,215)	(800,000)
Asset Procurement Reserve Fund	-	(1,500,000)
Staff Welfare Fund	-	(1,100,000)
Staff Personal Loan Fund	-	-
Staff Vehicle Loan Fund	-	-
Internal Insurance Fund	-	-
Community Banking Fund	-	-
	511,511	3,372,114
General Reserve	(170,504)	(1,124,038)
Redemption of Securities	(85,252)	(562,019)
Development Credit Fund	(100,000)	(100,000)
Revaluation Reserve	(155,755)	(1,586,057)
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	-	-
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17. Capital and Reserves

	2005	2004
	Le'000	Le'000
Capital Account	24,001,500	24,001,500
Capital Reserves	8,982,043	8,982,043
General Reserve Fund	-	-
Development Credit Fund	114,210	1,191,413
Revaluation Reserve (Note 23)	(216,851,900)	(175,011,652)
Credit Guarantee Fund	(20)	2,263
Export Credit Guarantee Fund	98	674
Internal Insurance Fund	7,170	813,603
Staff Welfare Fund	(28,190)	1,115,241
Community Banking Fund	91,518	140,147
Staff Housing Loan Fund	102,441	181,263
Staff Vehicle Loan Fund	210,865	370,703
Staff Personal Loan Fund	436,212	674,004
Monetary Co-operation Fund	135,936	1,834,574
Building Reserve Fund	485,000	2,269,834
Asset Procurement Reserve Fund	134,611	3,252,290
General Asset Reserve Fund	28,817,677	24,822,423
	(177,362,329)	(129,361,177)

(a) General Reserve Fund

Under the provision of Section 11(2) of the Bank of Sierra Leone Act, a General Reserve is established by allocation from the net profit of each year. One third of Net Profit is allocated if the General Reserve does not exceed the minimum paid up capital of the Bank. One sixth of net profit is allocated should General Reserve exceed the minimum paid up capital of the Bank (up to the point where the Reserve equals four times the minimum paid up capital). Further allocations to the General Reserve may be made from time to time with the approval of the Minister to increase the reserve beyond four times the minimum paid up capital of the Bank.

In accordance with Section 11(7) of the Act, if the Bank incurs any net loss during any financial year such loss shall be charged to the general reserve. Also in accordance with Section 54 (3) where there is a carried over loss or net debit balance in the revaluation reserve account, amounts shall be transferred from the available balance in the General Reserve to cancel such carried over losses.

Balance at beginning of year	-	-
Transfer to revaluation reserve in accordance with Section 54(3) of the Bank of Sierra Leone Act 2000	(170,504)	(1,124,038)
Transfer from Income Statement in accordance with Section 11(2) of the Bank of Sierra Leone Act 2000	170,504	1,124,038
Balance at end of year	-	-

(b) Development Credit Fund

In accordance with Section 11 (3) (b) of the Bank of Sierra Leone Act 2000 the Bank is to establish a Development Credit Fund for purposes specified in Section 49 of the Act. The fund is constituted by amounts transferred from net profits, in consultation with the Minister of Finance, and accruals of income on the investments allocated to the fund, as analysed below:

	2005	2004
	Le'000	Le'000
Balance at beginning of year	1,191,413	972,841
Adjustment in Respect of Proceeds	-	(7,828)
Income Accruing From Investment	231,164	204,210
Investment	(1,583,367)	-
Maturity of Investment	175,000	-
Withholding Tax	-	7,828
Transfer to Profit and Loss	-	(85,638)
Transfer From Profit and Loss Account	100,000	100,000
Balance at end of year	114,210	1,191,413

The purpose of the fund is to make loans and advances to co-operative Banks and statutory bodies in which the Bank is entitled to invest, under Section 36 (1) (i) of the Act on such terms and conditions as the Board may determine or to facilitate the dealings in debt obligations having a maturity not in excess of eight years from date of acquisition by the Bank issued by co-operative Banks or statutory bodies.

(c) Building Reserve Fund

Balance at beginning of year	2,269,834	3,988,975
Transfer to General Asset Reserve Fund	(2,727,049)	(3,863,836)
Income Accruing from Investment	-	252,158
Maturity of Investment	-	1,092,537
Transfer from Profit and Loss Account	942,215	800,000
Balance at end of year	485,000	2,269,834

The fund will be used to finance the construction and renovation of the Bank's buildings.

(d) General Asset Reserve Fund

Balance at beginning of year	24,822,423	17,186,470
Transfer from Building Reserve Fund	2,727,049	3,863,836
Transfer from Asset Procurement Reserve Fund	1,268,205	3,772,117
Balance at end of year	28,817,677	24,822,423

This reserve was created to record the values of purchased or developed assets financed by the Building Reserve Fund and the Asset Procurement Reserve Fund.

(e) Asset Procurement Reserve Fund

	2005	2004
	Le'000	Le'000
Balance at beginning of year	3,252,290	2,944,604
Income Accruing from Investment	-	437,225
Investments	(1,849,474)	-
Transfer to General Asset Reserve Fund	(1,268,205)	(3,772,117)
Maturity of Investment	-	2,142,578
Transfer from Profit and Loss Account	-	1,500,000
Balance at end of year	134,611	3,252,290

This is a reserve created to provide funds for the procurement of Capital Items.

(f) Staff Housing Loan Fund

Balance at beginning of year	181,263	128,730
Income Accruing from Investment	-	441,262
Loan Repayment	4,080	3,745
Investments/Loan Disbursement	(2,208,583)	(2,125,681)
Maturity of Investment	2,125,681	2,254,423
Transfer to Profit and Loss	-	(521,216)
Balance at end of year	102,441	181,263

This fund was originally created out of transfers from the building reserve fund and then subsequently out of profits for the provision of funds for the Staff Housing Loan Scheme.

(g) Staff Welfare Fund

Balance at beginning of year	1,115,241	315,229
Income Accruing from Investments	-	159,560
Investment	(328,130)	(1,073,326)
Maturity of Investment	1,073,326	791,458
Adjustment	(29,062)	-
Disbursement	(1,859,565)	-
Transfer to Profit and Loss	-	(177,680)
Transfer from Profit and Loss Account	-	1,100,000
Balance at end of year	(28,190)	1,115,241

This fund will be used to finance the Bank's Staff Welfare Activities.

(h) Staff Personal Loan Fund

	2005	2004
	Le'000	Le'000
Balance at beginning of year	674,004	1,028,714
Adjustment after period end (write-off)	3,499	-
Loan Repayments	549,503	403,260
Investment	(285,990)	-
Disbursements to staff	(504,804)	(757,970)
Transfer from Profit and Loss Account	-	-
Balance at end of year	436,212	674,004

This fund will be used to finance loans disbursed under the staff personal loan scheme.

(i) Staff Vehicle Loan Fund

Balance at beginning of year	370,703	444,988
Adjustment after period end	10,487	-
Loan repayments	109,300	68,085
Investment	(142,995)	-
Disbursements to Staff	(136,630)	(142,370)
Transfer from Profit and Loss Account	-	-
Balance at end of year	210,865	370,703

This fund will be used to finance loans disbursed under the vehicle loan scheme.

(j) Internal Insurance Fund

Balance at beginning of year	813,603	828,060
Proceeds from Investments	-	(117,588)
Income Accruing from Investments	-	102,262
Adjustment	-	117,588
Maturity of Investment	52,000	-
Investment	(858,433)	-
Transfer to Profit and Loss	-	(116,719)
Transfer from Profit and Loss Account	-	-
Balance at end of year	7,170	813,603

This fund will be used to finance insurance claims in respect of the Bank's Fixed Assets.

(k) Monetary Co-operation Fund

	2005	2004
	Le'000	Le'000
Balance at beginning of year	1,834,574	1,834,574
Investment	(1,698,638)	-
Balance at end of year	135,936	1,834,574

This fund was created to finance the Bank's contribution to the budget of the West African Monetary Institute (WAMI) to complement the country's effort towards the Second Monetary Zone Programme.

(l) Community Banking Fund

Balance at beginning of year	140,147	1,113,324
Income Accruing from Investments	-	246,797
Investment	(82,242)	(1,909,984)
Maturity of Investment	1,909,984	1,000,302
Disbursement to Community Banks (Formation Expenses)	(1,876,371)	-
Transfer From Profit and Loss Account	-	-
Transfer to Profit and Loss	-	(310,292)
Balance at end of year	91,518	140,147

This fund will be used to finance Community Banking activities.

18. Income from Financial Assets**Income on Foreign Currency Assets**

STG Investments	5,239,171	1,273,292
US\$ Investments	3,525,829	334,834
SDR Investments	2,413,960	1,419,748
Other External Investments	816,541	415,729
Total Income from Foreign Currency Assets	11,995,501	3,443,603

Income from Local Currency Assets

Income on Sierra Leone Government Bearer Bonds	7,931,156	9,727,153
Income on Sierra Leone Government Treasury Bills	5,198,123	9,183,416
Income on Loans and Advances	7,401,968	11,976,688
Income from Investment of Bank's Fund	1,635,226	-
Total Income from Local Currency Assets	22,166,473	30,887,257
Total Income from Financial Assets	34,161,974	34,330,860

19. Expenses on Financial Liabilities

	2005	2004
	Le'000	Le'000
Expenses on Foreign Currency Liabilities		
Interest expenses: IMF interest and charges	2,157,696	2,485,978
Charges on foreign transactions	50,331	49,225
Total Expenses on Foreign Currency Liabilities	2,208,027	2,535,203
Expenses on Local Currency Liabilities		
Amortisation of Government Securities	1,764	2,059
Total Expenses on Local Currency Liabilities	1,764	2,059
Total Expenses on Financial Liabilities	2,209,791	2,537,262

20. Other Income

Commission Received	60,983	137,726
Commission on Foreign Transactions	1,958	4,137
Net (Shorts)/Overs in Tills	79	6,000
Profit on Sale of Commemoration Coins	378	-
Profit on Sale of Assets	-	9,389
Rents Received	14,305	27,899
Sundry Receipts	3,628,635	7,457,675
Gains In Treasury Bills	(169)	139,301
Interest Received	12,738	-
Total Other Income	3,718,907	7,782,127

21. Currency

Currency Management	63,967	63,876
Currency Issue Expenses	3,395,289	2,483,011
Total Currency Expenses	3,459,256	2,546,887

22. Administration

	2005	2004
	Le'000	Le'000
Electricity	1,296,396	1,307,715
Passages and Overseas Allowances	1,105,264	1,734,586
Contribution to Intl Organisation	1,408,550	1,251,625
Others	2,880,343	3,259,083
	6,690,553	7,553,009

23. Revaluation Reserve

Balance at beginning of year	(175,011,652)	(115,848,125)
Revaluation losses on Foreign Currency Assets/liabilities	(42,166,507)	(61,873,622)
Transfer from General Reserve Account	170,504	1,124,038
(Section 54 (3) of BSL Act 2000)		
Transfer from Profit and Loss Account	155,755	1,586,057
	(216,851,900)	(175,011,652)

Under Section 54(1) of the Bank of Sierra Leone Act 2000, gains and losses arising from any changes in the valuation of the Bank's foreign currency denominated assets and liabilities resulting from changes in the rate of exchange of the Leone, or any change in the value parities or exchange rates of assets with respect to the Leone are taken to a Revaluation Reserve Account.

Under Section 54(3) and (4) of the Act, any net debit in this Reserve Account will be cancelled by future revaluation gains or by transfers from the General Reserve. Additionally, no profit shall be transferred to the Consolidated Fund and all available profit is credited to the revaluation reserve account in an amount sufficient to cover the losses generated by the debit.

24. Capital

	2005	2004
	Le'000	Le'000
Authorised	100,000,000	100,000,000
Issued	24,001,500	24,001,500

Sections 10(1) and 71 of the Bank of Sierra Leone Act 2000 require that the minimum paid up capital of the Bank must be Le 50bn, to be subscribed to within five years from the commencement of the Act, that is by 15th February 2005. The capital has not been fully subscribed.

25. Equity

	2005	2004
	Le'000	Le'000
Reserves		
Opening Balance	(129,361,177)	(76,065,757)
Add Transfers to Reserves	(48,001,152)	(53,295,420)
Total Reserves	(177,362,329)	(129,361,177)
Capital	24,001,500	24,001,500
Total Equity	(153,360,829)	(105,359,677)

26. Contingent Liabilities

Guarantees and endorsements	193,456,762	198,448,412
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The Bank is a Defendant in a lawsuit, which it is vigorously defending, for a claim amounting to US\$11,304,899.79 (Le33,151,844,732.17)

27. Capital Commitments

Capital commitments not provided for at year end were authorised and contracted for in respect of:

Capital expenditure/building renovation	1,925,712	5,331,580
African Export Import Bank	3,519,024	3,432,588
	5,444,736	8,764,168

28. Taxation

In accordance with Section 9 (a) (iii) of the Income Tax Act 2000 and Section 56 (3) of the Bank of Sierra Leone Act 2000, the profits of the Bank are not liable to Income Tax.

29. Reconciliation of Operating Cash Flows with Operating Profit

	2005 Le,000	2004 Le,000
Operating Profit	1,453,726	6,772,114
Decrease/(Increase) in Other Assets	47,175,262	(50,255,997)
Effect of Exchange Rate Movements	20,432,902	53,015,652
Depreciation	2,517,484	2,430,728
Profit on Disposal of Tangible Fixed Assets	-	(9,389)
Net Decrease in Other Loans	(1,509,341)	(2,367,941)
Net Increase/(Decrease) in Other Liabilities	63,361	(1,196,827)
Net Cash Inflow from Operating Activities	70,133,394	8,388,340

30. Cash Balances

	1 January 2005 Le'000	Cash flow Le'000	31 December 2005 Le'000
Cash and Cash Equivalents	213,811,485	195,565,287	409,376,772
Loans and Advances to other banks repayable on demand	259,337	4,875,171	5,134,508
	214,070,822	200,440,458	414,511,280

31. Risk Management**Operational Risk**

This relates to exposure to losses resulting from unexpected interruption of operation, unauthorized use of information, non-compliance with security requirements, theft of assets, fraud and other circumstances related to inadequate internal controls or external factors.

To minimize operational risk inherent in security and information systems, the Bank relies on the system put in place by the Internal Audit Unit (which reports directly to the Governors) to undertake periodic checks aimed at ascertaining adequacy of internal controls and compliance with the existing control mechanisms.

This unit also reports to the Audit Committee of the Board of Directors, which meets four times a year.

Interest Rate Risk

The Bank manages interest rate risk inherent mainly in foreign assets sensitive to interest rate fluctuations by using modified duration limits.

To avoid losses resulting from adverse changes in exchange rates, the Bank ensures that foreign assets are maintained in currencies from which all foreign liabilities are met.

In the domestic market, aside from advances to government the Bank's investment is always in the Government of Sierra Leone securities viz. 91 days Treasury Bills and 1 year Treasury Bearer Bonds, which are used in Open Market Operations. There is no interest rate risk when these securities are held to maturity. However, secondary market transactions in Treasury Bills prior to maturity have an interest rate risk exposure which may result in loss as rates decline. Interest rates are re-set weekly based on the average discount price of the latest Treasury Bills auction. TBB investments are usually held to maturity.

32. Pension Fund

The Bank operates a Pension Fund which is a separate entity registered as the Staff Pension Trust Company to provide pensions for employees on their retirement. The fund however, recorded a deficit of Le30.8bn as at 31st December 2004, the date of the last actuarial valuation assuming the scheme is dissolved and payments made to all entitled staff on that date. According to the Trust Deed the Bank is responsible for the financing of any shortfall in the assets of the fund. There are however proposals for the Fund to be dissolved as at 31st December, 2005.

33. Related Party Disclosures

Although the bank is an autonomous entity, the Government of Sierra Leone being the sole subscriber to the Share Capital of the Bank, is in principle the owner of the bank.

The Bank continued to act as the banker and adviser to, and fiscal agent of, the Government of Sierra Leone as laid down in statutes. In the course of executing these duties, the Bank guarantees payments to the Government's suppliers and creditors, and extends credit facilities to the Government.

As at 31 December 2005 total advances to the Government amounted to Le513,298,714 (see Note 3).

34. Events after the Balance Sheet Date

There were no material post balance sheet events.