

A. ANNUAL REPORT 2006

1. Review of the Economy

Spurred on by sound economic policies and favorable relations with development partners, the Sierra Leonean economy witnessed an overall impressive performance in 2006 with real Gross Domestic Product growth estimated at 7.80 per cent following a 7.3 per cent growth in 2005. Growth was driven by a revitalized mining sector with sustained agricultural output and service delivery. The growth momentum was also facilitated by strong support from the country's development partners for its economic programs and the Government's continued emphasis on macro-economic stability and good governance as the basis for socio-economic development.

Disbursements for budgetary support totaling US\$38.57mn were received from the European Union (US\$12.57mn), the United Kingdom Department for International Development (US\$18.23mn) and the African Development Bank (AfDB) (US\$7.77mn) during the first half of the reporting year. Disbursements in the second half amounted to US\$22.95mn principally from the World Bank (US\$10.23mn) thus bringing the yearly total for budgetary support to US\$61.52mn. Development assistance was also received from IFAD, IDB, BADEA, USAID and the governments of China, Libya, Japan, Iran, Malaysia and Morocco.

Following the successful completion of its Poverty Reduction and Growth Facility (PRGF) Arrangement in 2005, the Executive Board of the International Monetary Fund (IMF), in May 2006, approved a three year successor Arrangement (PRGF11) for Sierra Leone of SDR31.1mn (US\$46.3mn), in support of the Government's 2006-2008 Economic

Recovery Program. An initial sum of US\$7.01mn was disbursed on 26th May 2006. The First Review of Sierra Leone's economic performance under the new Arrangement was completed in December 2006 and the IMF Board approved a further disbursement of SDR4.4mn (US\$6.6mn).

Sierra Leone reached Completion Point status under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative in December 2006. This development followed a decision reached by the World Bank's International Development Association (IDA) and the International Monetary Fund (IMF) on 18th December, 2006, that the country had made sufficient progress in terms of maintenance of macro economic stability, implementation of its Poverty Reduction Strategy Paper (PRSP) and improvement in standards of governance to reach the Completion Point. Sierra Leone also qualified for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). It is expected that significant additional resources will be available for the government's efforts to attain the Millennium Development Goals by 2015.

The year 2006 was generally quite eventful in terms of international recognition for Sierra Leone's post-war reconstruction and economic recovery efforts. A joint mission of the British Secretary of State for International Development, Rt Honorable Hilary Benn and the President of the African Development Bank, Dr Donald Kaberuka, paid a two-day visit to the country in July 2006 and held discussions with the Authorities and the civil society. The country also for the first time, played host to the World Bank President, Mr Paul Wolfowitz shortly after. The visits were to assess the progress made by Sierra Leone

since the end of the war in 2002, the impact of their institutions' intervention and to get a better understanding of the challenges faced by the country as it moves from post conflict reconstruction to economic recovery. The Improved Governance and Accountability Pact (IGAP) was signed between the Government and the African Development Bank, United Kingdom DFID, European Commission and the World Bank. The Pact is aimed at streamlining conditionalities for direct budgetary support.

Monetary Policy was in the main challenging but remained focused on maintaining price stability. The control of liquidity was difficult in the absence of new securities and monetary operations had to be supplemented by the sale of foreign exchange by the Bank. However, with a tight fiscal stance, monetary targets were met at the end of the first half of 2006. During the second half of the year however, fiscal pressure emanating from the government's obligations to comply with the poverty-reduction expenditure benchmarks under the PRGF led to an expansion in the monetary aggregates. The provision of treasury bills for monetary operations came too late to prevent the December 2006 targets from being breached.

The inflation rate as measured by the Freetown Consumer Price Index dropped to 8.26 per cent in December 2006 from 13.10 per cent in December 2005. It had reached a low of 6.21 percent in August 2006.

Fiscal consolidation continued with the Government's Budget for 2006 containing measures for socio-economic reforms to improve pro-poor service delivery and strengthen public expenditure management. Revenue collection was sluggish in the second half of the fiscal year and in spite of efforts to rein in on expenditure, the resulting deficit of Le 75.58bn was higher than Le 64.65bn recorded in 2005.

The performance of exports in 2006 was strong as earnings reached US\$220.84mn up by 39.21 per cent against earnings of US\$158.64mn in 2005. The substantial growth in export earnings was derived from improvement in the mineral sub sector, which was significantly boosted by the resumption of mining of rutile and bauxite during the review period. Also the total import bill increased from US\$341.06mn in 2005 to US\$394.8mn (15.76%) as a result of increased public and private demand for imports and higher prices of imports in the international market. The trade deficit however narrowed to US\$173.99mn from US\$182.42mn in 2006 as the surge in exports far exceeded the increase in imports. Gross international reserves of the Central Bank was US\$172.68mn at end 2006 indicating a moderate improvement over the 2005 position. In terms of goods and services it represented an import cover of 3.8 months.

The Leone generally depreciated against the US dollar throughout 2006 and stood at Le2,953.26/US\$1 as at December 2006, from Le2,898.22/US\$1 in December 2005.

In the Financial Services Sector, EcoBank was issued a license authorizing the bank to start banking business in Sierra Leone on 22nd November 2006, bringing the total to eight (8) commercial banks operating in Sierra Leone. Four commercial banks namely: Rokel Commercial Bank, Sierra Leone Commercial Bank, First International Bank and Union Trust Bank opened new branches during the review period while the number of operating foreign exchange bureau increased by one to 51.

Real Sector Developments

During the review period, the policy of food self-sufficiency and poverty reduction remained at the top of the Government's agenda. As a result, the real sector received continued support from both

the Government and International Donors. The Government's subvention to the agricultural sector was doubled to 5.60 per cent of GDP from 2.70 per cent of GDP since 2002. The Government of Sierra Leone and the Commonwealth Business Council organized a three-day investment forum in Freetown with a view to attracting foreign investment to boost the economy. The mineral sector received a boost with the commencement of production and shipment of rutile, bauxite and ilmenite during the review period. The Government in collaboration with the petroleum companies set up a Petroleum Strategic Stocks Programme aimed at eliminating fuel shortages. The Sierra Block Factory, a US\$5.4 million joint venture project between the National Social Security and Investment Trust (NASSIT) and Regimanuel Gray (Ghana) Limited, was established in 2006. The factory is to produce various types of concrete products that would be used in the construction of houses, other forms of real estate and roads. The year also witnessed major reconstruction works including the completion of repairs to the Dr Ola During Hospital [*formerly Princess Maternity Hospital (PCMH)*], Connaught Hospital and the National Psychiatric Medical Hospital (Kissy Mental Home). The authorities also provided farmers with 2,500 metric tons of rice seedlings, 135 tractors, 30 rice mills, 250,000 cashew seedlings, 355 metric tons of ginger seedling and 260,000 oil palm seedlings. Under a bilateral arrangement, a team of engineers from Morocco arrived in Freetown in November 2006 to assist in solving the perennial problem of electricity in the Western Area. The National Power Authority (NPA) Act was amended in 2006 removing the monopoly of the National Power Authority over the generation, transmission and supply of energy and making it possible for private sector participation in the provision of energy. During the year, two new airline companies namely, Kenya Airline and British Mediterranean (BMed) commenced flights to and

from Freetown in April and November respectively. The mobile phone companies expanded their coverage and services in the country during the period under review. The domestic pump prices of crude oil products (petrol, diesel and kerosene) were revised in May, June and October to reflect the trends in the world market prices.

The real sector also received continued assistance from donors. The African Development Bank approved a US\$4.30mn grant to strengthen the Public Financial Management and Energy Sector. In January 2006, the United Nations peace keeping mission in Sierra Leone (UNAMSIL), which ended its mandate in December 2005, was replaced with the United Nations Integrated Office in Sierra Leone (UNIOSIL) with a new mandate of enhancing good governance, transparency and accountability, strengthening the security sector, consolidating peace and supporting a free, fair and credible electoral process in 2007. The Malaysian Government denoted US\$9.6mn towards the improvement of the oil palm industry in Sierra Leone. The European Union donated drugs and medical equipment worth EU1.2mn to the health sector. The drugs were distributed to three districts: Kambia (northern region), Kailahun (eastern region) and Pujehun (southern region), as part of the Commission's assistance towards the Health Sector Support Programme (HSSP). At the Sino-Africa Summit held in Beijing, China promised to assist Sierra Leone with US\$2.5mn as grant to finance various development projects. The Japanese Government, through its representative in Sierra Leone agreed to provide the sum of US\$1.96mn to support UNICEF Sierra Leone in the effort to reduce child and maternal mortality in Sierra Leone up to the year 2008. The African Development Bank and IFAD provided US\$31.36mn to support the on-going food security drive. The Government of Iran gave 49 (forty-nine) tractors to Sierra Leone in support of

Table 1

Production					
		Jan-Dec '05	Jan-Jun'06	Jul-Dec'06	Jan-Dec '06
1	2	3	4	5	6
Minerals					
Diamonds	000' carats	668.81	301.86	280.47	582.33
Bauxite	000' M tons	-	484.62	586.52	1,071.14
Rutile	000' M tons	-	21.93	51.68	73.60
Ilmenite	000' M tons	-	4.18	9.64	13.82
Gold	000' Ounces	1.69	0.98	1.3	2.28
Agriculture					
Coffee	M tons	1,532.00	1320.10	155.10	1475.20
Cocoa	M tons	6,634.56	2,191.50	11,748.20	13,939.70
Manufactured Goods					
Beer and Stout	000' Cartons	852.03	413	419.1	832.1
Maltina	000' Cartons	160.39	77.36	82.68	160.04
Acetylene	000' cu.ft	218.86	153.7	137.63	291.33
Oxygen	000' cu.ft	966.36	535.16	256.47	791.64
Confectionery	000' lbs	2,074.30	1,183.57	1,146.29	2,329.86
Common Soap	000' M tons	417.22	246.62	220.74	467.36
Soft drinks	000' crates	1,908.01	1093	995.75	2,088.75
Paint	000' gals	135.64	83.45	59.28	142.73
Cement	000' M tons	172.12	127.59	106.85	234.44
Jumbo Cube	Cartons	31.4	16.67	16.6	33.27
Flour	000' M tons	18.71	8.06	5.53	13.59
Candle	000' Cartons	11.7	3.87	5.04	8.91
Services					
Electricity	GW/hr	53.25	19.44	12.54	31.98
Unit Generated	GW/hr	53.25	19.44	12.54	31.98
Industrial	GW/hr	16.49	n.a.	n.a.	n.a.

Sources: Manufacturing Establishments

her food security drive. The European Union committed EU3.00mn to boost Sierra Leone's Fishing Industry over a three-year period and pledged its willingness to assist in the development of fisheries management review based on sound scientific information. The counter-part (Sierra Leone's) contribution for the three-year implementation period of the project is EU0.7mn. The Islamic Development Bank (IDB) provided a total of US\$1.44mn towards the construction and rehabilitation of primary schools.

As a result of these developments, output growth rate was estimated at 9.71 per cent in 2006, reflecting renewed activities in the agriculture, mining, manufacturing industries and the services sector. The year-on-year inflation rate for end December 2006 dropped to single digit with Kenema recording the lowest at 3.59 per cent, followed by Bo 6.44 per cent, Makeni 7.26 per cent and Freetown 8.26 per cent.

Gross Domestic Product (GDP)

According to estimates by the Statistics Sierra Leone, the real GDP growth rate increased to 7.80

per cent in 2006, about 2.20 percentage points higher than the growth rate recorded in 2005. The agricultural sector was the principal contributor to the GDP with a share of 48.00 per cent, followed by the services sector with 38.40 per cent, industrial sector with 10.50 per cent and Financial Services Indirectly Measured (FISIM) with 1.60 percent. The highest growth rate was recorded in the industrial sector (11.30%), followed by agriculture (10.70%) and the services sector (8.40%).

Agricultural Sector

Crop Production

Food self-sufficiency and agricultural development in general was very high on the Government policy agenda. As a result the subvention to the agricultural sector was doubled to 5.60 per cent of GDP in 2006 from its level of 2.70 per cent of GDP since 2002. The Government also provided farmers with 2,500 metric tonnes of rice seedlings, 135 tractors, 30 rice mills, 250,000 cashew seedlings, 555 metric tonnes of ginger seedlings and 260,000 oil palm seedlings during the year. The Government also supported the wide use of fertilizers for the production of

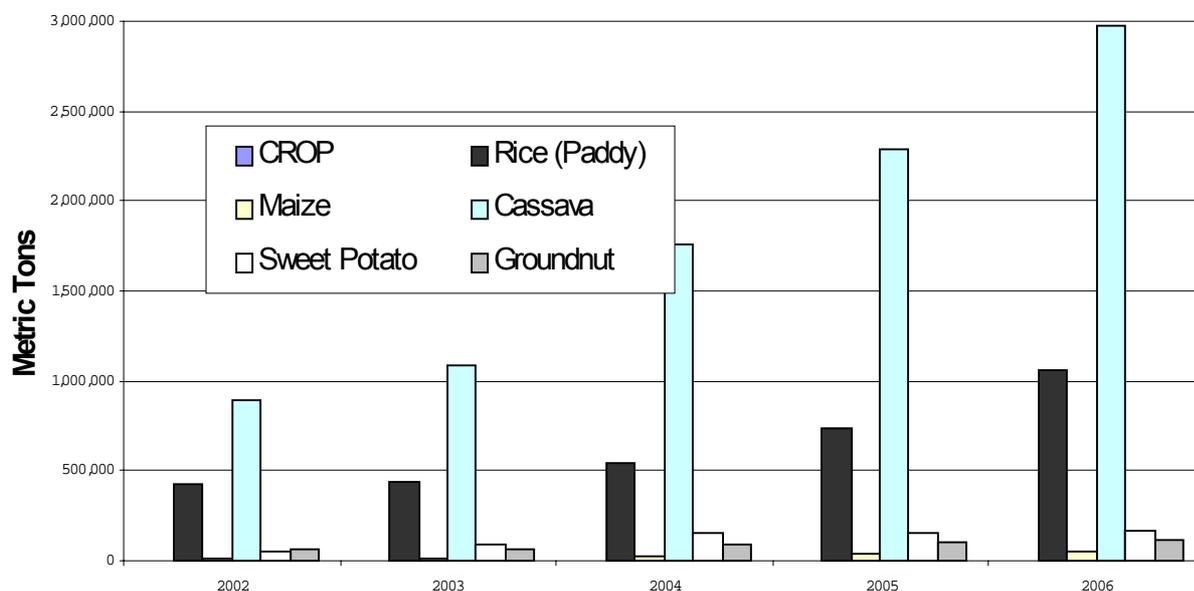
Table 2

Distribution of Input to Farmers (2002 - 2006)

Input Type	2002	2003	2004	2005	2006
Fertilizer (M tons)	200	250	768	-	3,300
Seed rice (M tons)	1,000	1,500	3,225	3,168	2,500
Power Tiller	148	-	-	-	-
Tractors	10	10	21	94	135
Combined Harvesters	-	-	-	8	-
Mobile Threshers	-	-	-	6	-
Haulers Trucks	-	-	28	-	-
Hilux Vans	-	-	20	-	-
Rice Mills	-	-	-	-	30
Cashew Seedlings	-	43,000	150,000	250,000	250,000
Ginger Seeds (M tons)	-	88	63	308	555
Oil Palm Seedlings	35,000	40,000	120,000	110,000	260,000

Source: Ministry of Agriculture and Food Security

Chart 1
Production of Major Food Crops (2002 - 2006)



Year

various crops, by providing farmers with fertilizer in line with the Abuja Declaration on Fertilizer for an African Green Revolution. In the area of extension services to farmers, a total of 586 Farmer Field Schools involving 14,550 farmers were established in all fourteen agricultural districts. Of this total, the Ministry of Agriculture and Food Security and the Ministry of Fisheries and Marine Resources established 520 Schools and the main international Non-Governmental Organizations (NGOs) in

agriculture established 66 Schools. The Ministry of Agriculture and Food Security in collaboration with the UNDP established over 300 Agricultural Business Units (ABU) of about 400 members per ABU in all the districts. The objective of these Units is to increase rice farming acreage, saving and contribution of the communities to the local councils. The agricultural sector also benefited from donor assistance. As a result rice production is estimated to have increased to 1,062.32 thousand metric tons

Table 3

Production of Major Food Crops (2002 - 2006)

CROP	Production (M. Tons)				
	2002	2003	2004	2005	2006
Rice (Paddy)	422,065	445,633	542,000	738,000	1,062,320
Maize	16,060	16,060	32,125	39,051	48,813
Cassava	895,817	1,091,178	1,758,194	2,287,000	2,973,100
Sweet Potato	45,450	84,446	153,196	160,121	168,129
Groundnut	58,400	70,500	91,128	104,730	115,200

SOURCE: Ministry of Agriculture and Food Security

in 2006, about 44.00 percent and 96.00 per cent higher than the levels recorded for 2005 and 2004 respectively. Other major crops also recorded increased production with output of cassava increasing by 30 per cent to 2,973.10 thousand metric tons, maize by 25 per cent to 48.81 thousand metric tons, groundnuts by 10 per cent to 115.20 thousand metric tons and sweet potatoes by 5.00 per cent to 168.13 thousand metric tons. The shipment of cocoa more than doubled, increasing by 7.3 thousand metric tons (110.00 %) to 13.94

Livestock Production

In addition to crop production, the Ministry of Agriculture and Food Security also assisted farmers in the area of livestock production. The restocking programme was undertaken by the government which some of its development partners which yielded positive results over the years. Estimates in livestock production showed that there was a gradual increase in the period under review. Cattle production increased by 40 per cent to 350,000, goats by 23 per cent to 540,000, sheep by 25 per cent to

Table 4
Livestock Production Estimates (2002 - 2006)

Livestock	2002	2003	2004	2005	2006
Cattle	150,000	170,000	200,000	250,000	350,000
Goats	200,000	258,000	350,000	438,000	540,000
Sheep	150,000	200,000	300,000	375,000	470,000
Chicken	25,000	3,000,000	4,000,000	5,200,000	n.a.
Ducks	200,000	350,000	400,000	550,000	n.a.
Pigs	2,550	6,800	8,500	10,200	n.a.
Rabbits	337	900	1,125	1,350	n.a.

Source: Ministry of Agriculture and Food Security

thousand metric tons in the review period. The improvement in cocoa shipment was influenced partly by the increase in the average world market price of the commodity from US\$1,511.02 per metric tons in 2005 to US\$1,595.51 per metric ton in 2006. Coffee shipment at 1.48 thousand metric tons fell by 3.27 per cent from 1.53 thousand metric tons in 2005. Coffee production was also partly driven by the rise in the world market price of the commodity from US\$2,245.72 in 2005 to US\$2,270.39 in 2006. A total of 17.0 metric tons of ginger and 6.04 thousand metric tons of sugar were shipped out in the reporting period.

470,000. Output levels of chicken, ducks, pigs and rabbits were unavailable but their production levels were on the increase.

Manufacturing

In the manufacturing sub sector, most industries recorded decreases in their production levels relative to the levels in 2005. Production of beer & stout decreased by 19.93 thousand cartons (2.34%) to 832.10 thousand cartons in 2006 (although the output level increased from 413 thousand cartons between January and June 2006 to 419.10 thousand cartons between July and December 2006.). The

output level of maltina decreased only by 0.36 thousand cartons (0.22%) to 160.04 thousand cartons in the review period. Maltina production was 77.36 thousand cartons in the first half of the year, and increased to 82.68 thousand cartons between July to December 2006. The drop in the output levels of beer & stout and maltina were as a result of competition from various imported brands of the beverages.

Output levels of soft drinks and acetylene increased by 180.74 thousand crates (9.47%) to 2,088.75 thousand crates and 72.47 thousand cubic feet (33.11%) to 291.33 thousand cubic feet respectively in 2006. Soft drinks production was 1,093.00 thousand crates in the first half of 2006 as against 995.75 thousand crates in the second half of 2006 while acetylene production was 153.70 thousand cubic feet in the first half of 2006 but dropped to 137.63 thousand cubic feet in the second half of the year. The increase in the production of soft drinks was largely accounted for by the commencement of production of a new brand of soft drinks by King's Production Company in March 2006. The increase in acetylene production was as a result of increased welding activities.

In contrast, the production level of oxygen dropped by 174.73 thousand cubic feet (18.08%) to 791.64 thousand cubic feet in the review period. The production of oxygen decreased to 256.47 thousand cubic feet in the second half of 2006 from 535.16 in the first half of 2006. The drop in oxygen production was partly a result of the temporary suspension of operations by one of the producing companies during December 2006.

The production level of flour dropped to 13.59 metric tons in the period under review about 27.37 per cent below the level of recorded in 2005. In the first half of 2006, output level of flour was 8.06

metric tons but reduced to 5.53 metric tons in the second half of the year. The drop in the output level of flour was as a result of increased competition from imported brands with better quality and lower prices. Similarly, output level of candle dropped by 2.79 thousand cartons (23.85%) to 8.91 thousand cartons in the reporting period. In the first half of 2006 output of candle was 3.87 thousand cartons but increased to 5.04 thousand cartons between July and December 2006. Jumbo Maggie Cube (food condiment) production rose by 1.87 thousand cartons to 33.27 thousand cartons in the period under review as against 31.40 thousand cartons in the previous year. Jumbo production was 16.67 thousand cartons between January and June 2006 but decreased marginally to 16.60 thousand cartons between July and December 2006. The decrease in the output level of candle production was as a result of reduced customer demand while the increase in that of Jumbo Maggie Cube production was as a result of less competition from imported brands.

The production of cement increased by 62.31 thousand metric tons (36.20%) to 234.44 thousand metric tons from 172.12 thousand metric tons in 2005. The increase in cement production was a reflection of increased construction and rehabilitation activities. The increase in production was also facilitated by the installation of a new production plant in 2005. Cement production recorded 106.55 thousand metric tons between July to December 2006 as against 127.59 thousand metric tons in the first half of 2006.

Output level of confectionary and common soap edged upwards respectively by 255.56 thousand pounds (12.32%) to 2329.86 thousand pounds, 50.14 thousand metric tons (12.22%) to 467.36 thousand metric tons. In the second half of 2006, production level of confectionary dropped to

1,146.29 thousand pounds from 1,183.57 thousand pounds between January to June 2006. The output level of common soap was 246.62 thousand metric tons in the first half of the year as against 220.74 thousand metric tons between July to December 2006.

The production of paint rose up by 7.09 thousand gallons (5.23%) to 142.73 thousand gallons. Paint production was 83.45 thousand gallons between January to June 2006 as against 59.28 gallons in the second half of 2006. The increase in the production of paint was partly due to increased renovation and construction activities during the year.

Mining

Production of rutile, ilmenite and bauxite commenced in 2006. The mining of these minerals stopped in 1995 when rebels of the Revolutionary United Front (RUF) vandalized the plants and equipment of the mining companies (Sierra Rutile Limited and Sieromco). A new company, Sierra Minerals, has taken over the production of Bauxite, which commenced operations in March 2006.

The volumes of rutile, ilmenite and bauxite produced in 2006 amounted to 73.60 thousand metric tones, 13.82 thousand metric tons and 1,071.14 thousand

metric tons respectively. Production of Rutile increased from 21.93 thousand metric tons in the first half of the year to 51.68 thousand metric tons in the July to December 2006 period. Corresponding increases for Ilmenite and Bauxite were from 4.18 thousand metric tons to 9.64 thousand metric tons and 484.62 thousand metric tons to 586.52 thousand metric tons respectively.

The volume of diamond shipments depicted a drop by 86.47 thousand carats (12.93%) to 582.33 thousand carats. Of this total diamond shipment, diamonds from kimberlite mining accounted for 16.82 thousand carats (16.22%) compared to 16.77 per cent in 2005. Total shipment of diamond in the first half of 2006 was 301.86 thousand carats but decreased to 280.47 thousand carats in the second half of the review period. The month of January recorded the least volume of shipment of diamonds at 29.72 thousand carats with June recording the highest volume of diamond shipment of about 71.95 thousand carats. There are indications of a decline in alluvial deposits leading to a drop in artisanal mining.

During the year under review, gold production increased to 2.28 thousand ounces, 34.96 per cent higher than 1.69 thousand ounces in 2005. The

Table 5

Mineral Production (2002-2006)

Period	Gold	Diamond	Bauxite	Rutile	Ilmenite
	(000' ounces)	(000' Carat)	(000' Mtons)	(000' Mtons)	(000' Mtons)
2002	0.03	351.86	-	-	-
2003	0.18	506.82	-	-	-
2004	0.86	693.10	-	-	-
2005	1.69	668.81	-	-	-
2006	2.28	582.33	1,071.14	73.6	13.82

SOURCE: Government Diamond Department

highest output of gold (404.14 ounces) was recorded in May while the lowest of 37.57 ounce was recorded in September 2006. The increase in output of gold was associated with increases in the World Market price of gold and mining activities in the review period. Exploration work has revealed that considerable deposits of alluvial gold are widely spread in the country and form very good prospects for potential investors. There is also considerable potential for iron ore production in the Marampa greenstone belt, a concession that has been taken over by London Mining PLC.

Services

Transportation and Communication

In the year under review the major mobile telephone companies- Celtel, Africel, and Comium expanded their coverage and services to Kailahun in the Eastern region, Pujehun in the Southern region and Kabala in the Northern region. A new company, Tigo Mobile Telecommunications Company, took over the operations of Millicom Mobile Company. Mobile companies started providing other services like internet services. During the review year, eight new radio stations and a new television station for the Eastern region started operation.

During the year, two new international airline companies namely Kenya Airlines and British Mediterranean (BMed) commenced flights to and from Freetown in April and November respectively. Kenya airlines links Freetown with Namibia in East Africa while BMed flies to London UK via Dakar, Senegal. There was a boost in the domestic transport sector as the Government of Libya denoted to the Government of Sierra Leone 40 forty seven seater Buses, 10 Water Browsers, 6 Skip Trucks and 13 Garbage Collectors.

The number of vehicles licensed during the year increased by 9.59 per cent to 37,867. Of this total private cars increased by 22.44 per cent to 11,918, motor cycles by 31.28 per cent to 5,494, utility vans and station wagon (non-commercial) by 31.25 per cent to 6,027, buses (above 25 passengers) by 17.66 per cent to 393, trucks (six tyres) by 0.78 per cent to 1,546 and tractors and trailers by 10.96 per cent to 243. However decreases were recorded for taxis by 31.01 per cent to 5,310 and van/buses (25 passengers) by 0.97 per cent to 5,186.

Electricity Generation

In the review year, power generated by the National Power Authority (NPA) for the city of Freetown and its environs could only cover a small proportion of the demand considering the increasing demand for power following expansion in business activities as consumer confidence continued to grow. This situation has led manufacturers, businesses and households to rely on private generators as their main source of power, which has undoubtedly increased the cost of production as well as cost of living. In Freetown and the Western Area in general power generation was only 31.98 GW/hr in 2006, which was the lowest in more than a decade and indicated about 39.90 per cent and 37.26 per cent decreases on the levels recorded in 2005 and 2004 respectively.

During the year, power generation declined steadily in the first half of the year, increased slightly in July 2006, and then dropped to 1.39 GW/hr in September 2006. The generation then fluctuated in the remaining period of the year. The lowest output level of 1.31 GW/hr was recorded in November 2006. Power generation dropped to 19.44 GW/hr in the first half of 2006 and further to 12.54 GW/hr in the second half of the year.

Chart 2
Total Electricity Generation (1999-2006)

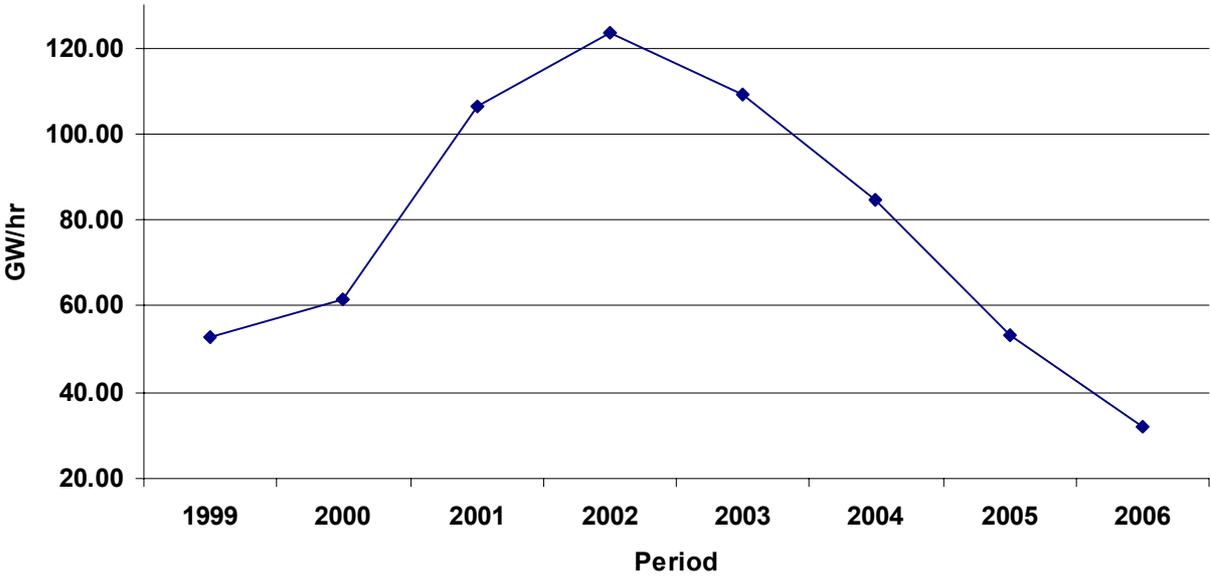
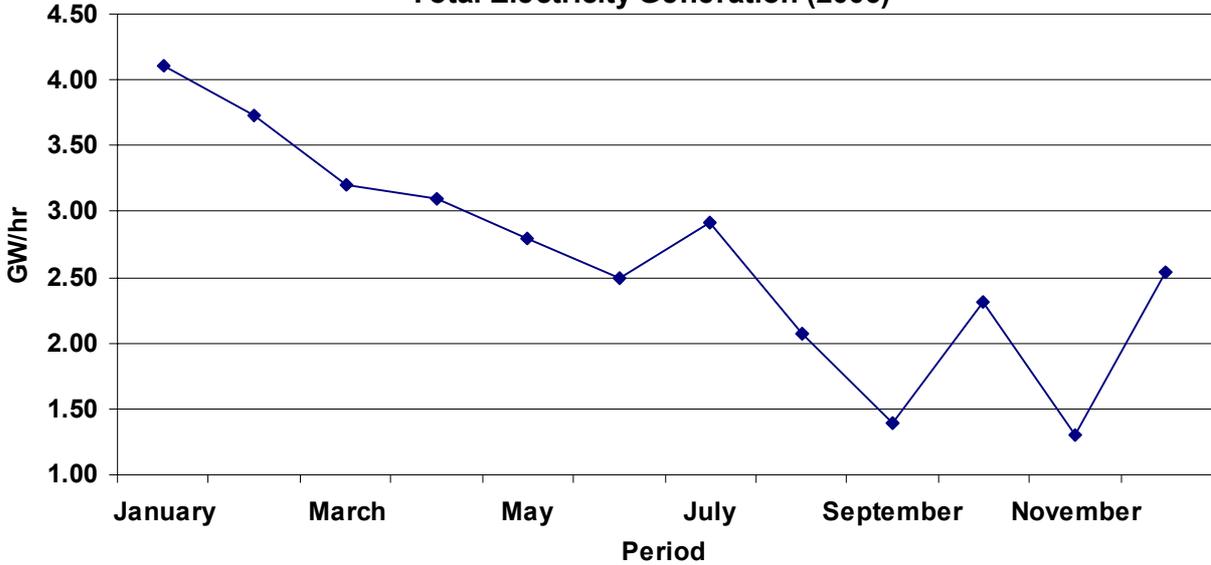


Chart 3
Total Electricity Generation (2006)



Efforts on the part of the Government and the Development Partners to improve the power supply situation continued in the review period. These included the offer of a 22.68 MW generator by the Arab Bank of Economic Development in Africa (BADEA) project for the Western Area power generation, and the signing of the contract between the Government and SALCOST for the completion of the Bumbuna Hydro Power Project. Also under a bilateral agreement between the Government of Sierra Leone and the Moroccan Government, a 20-man Technical Mission team arrived in Freetown in November 2006 to address the transmission and network problems in the power sector. The activities of the Moroccans including the maintenance of generating machines and changing old cables led to an increase in power supply in December 2006.

It is estimated that about 95 percent of the construction phase of the Bumbuna dam for 50 MW has been completed. The entire project is expected to be completed by the third quarter of 2007. The NPA Amendment Act 2006 removed the monopoly of the NPA over the generation, transmission, supply and other related activities, thus making private sector participation in power sector development possible.

Water

A new water borehole drilling company (FORAMAT Ltd) with more than 5000 boreholes in its credit in the sub-region was established in Freetown. This company specializes in rural and urban water supply, rehabilitation of boreholes and wells, and could also provide solar power technology and other services. The company intends to collaborate with or complement the effort of Guma Valley Company, which at the moment is unable to supply the desired quantity of water for Freetown and its environs. During 2006 there was extreme shortage of water, which affected

production by some companies. FORAMAT Ltd has already bore holes for the Sierra Brewery limited.

Construction

In 2006, there were positive developments in the construction industry. The reconstruction of the Masiaka-Bo road commenced and the Tokeh-Lumley road construction contract agreement was signed. The gravel road option for Freetown-Conakry Highway reconstruction was in progress while the study for the pavement option including reconstruction of Magbele Bridge was completed. A number of feeder roads, and jetties were also rehabilitated. Feasibility studies and detailed designs for the new Lungi Airport road and Port Loko- Lungi road continued in the year under review.

Table 6

Building Permits issued for Freetown and Greater Freetown

	2004	2005	2006
Residential	350	520	605
Commercial	9	55	58
Wall Fence	51	80	47
Schools	1	4	8
Churches	3	8	2
Mosques	2	0	3
Hospitals	2	0	2
Hoardings	4	0	0
Total	422	667	725

SOURCE: Ministry of Lands and Country Planning

The number of building permits issued increased to 1090 in 2006, about 60.53 per cent higher than the level in 2005. Of the total building permits issued, residential buildings accounted for 915, indicating an increase of 73.30 per cent, commercial buildings increased by 53.06 per cent to 75, wall fence dropped by 9.89 per cent to 82, schools doubled to 8, and churches declined to 5. Permits for mosques and hospitals were 3 and 2 respectively compared to nil in 2005.

Tourism

The tourist industry experienced a gradual increase in hotels, guesthouses and other related tourist facilities, thus, increasing registered tourism establishments and bed capacity nation wide. With active participation of the private sector and an enabling environment being provided by Government, the year 2006 witnessed a sustained development in the sector. Standard and quality service delivery hotels, guesthouses and other tourist facilities were constructed, refurbished and rehabilitated nation wide. A premier Eco tourist resort, Tiwai Island Wildlife Sanctuary was also formally re-opened. This resort attracts eco tourists and nature lovers.

In the period under review, the total number of identified tourist establishments increased from 330 establishments in 2005 to 356 establishments in 2006. The total number of hotel and guesthouse beds increased from 2,519 beds in 2005 to 2,642 beds in 2006.

However, the total number of visitors' arrivals dropped from 40,023 in 2005 to 33,704 in 2006. Of the total visitors that arrived, 10,470 came from Europe, 6,669 from the United states of America, 10,122 from Africa (comprising 6,817 from ECOWAS and 3,305 from Non-ECOWAS), 1,545 from Middle East and 118 from others. The drop

in the arrival of visitors was partly attributed to the withdrawal UNAMSIL at the end of 2005, difficulties in getting visas to Sierra Leone and high cost of hotels. During the period, visitors on conferences were 1,734, on businesses 10,806, on holidays 3,019, to friends and relatives 4,305

Inflation

Average Annual Inflation Rate

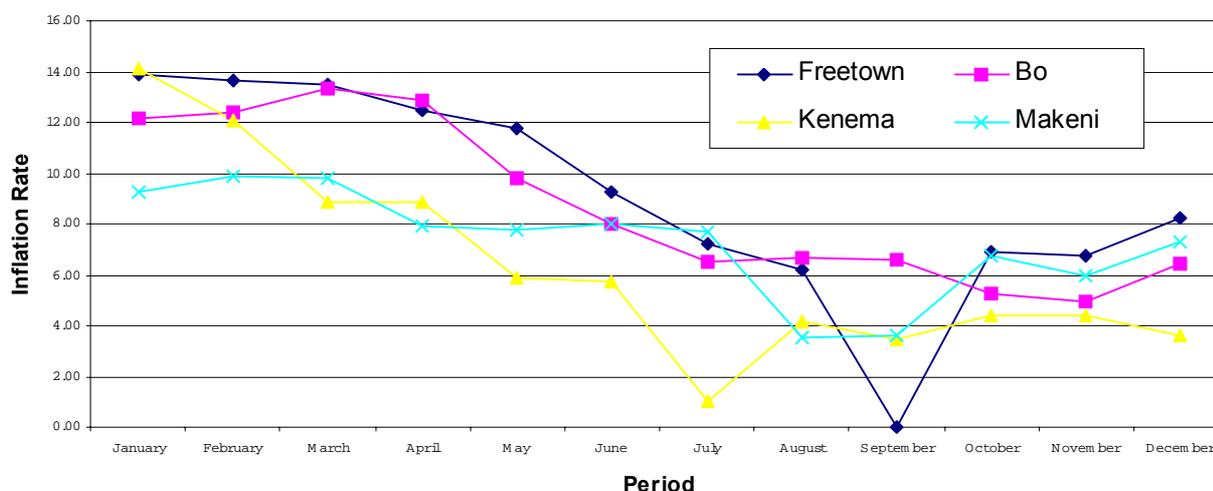
The annual inflation rates dropped in the urban towns of Freetown and Kenema but increased in Bo and Makeni during the period under review. The average inflation rate in Freetown decreased from 16.71 per cent to 9.33 per cent and in Kenema from 8.63 per cent to 6.00 per cent. The average inflation rate however increased in Bo from 6.52 per cent to 8.37 per cent, and in Makeni from 6.50 per cent to 6.87 per cent. In Freetown and Kenema, the decreases were reflected in all the main group items. In Bo the increase was on account of increases in the prices of food and non-food items, which more than offset the decreases in the prices of beverages and tobacco. In Makeni, the increase was a reflection of price increases for all the main group items.

In Freetown, the decrease was accounted for by price decreases in all the main group items particularly for the food items including rice, other cereals, meat and poultry, milk products and fruits and vegetables.

Core and Basic Inflation Rate

In Freetown, the core inflation (defined as inflation excluding the food components) was only 1.70 per cent compared to the basic inflation (which includes the food component) of 9.33 per cent during the year. This indicates that the total inflation rate in Freetown was highly influenced by increase in food prices in the review period.

Chart 4
Inflation Rates (Yr-on-Yr) - 2006



Year-on-Year Inflation

The year-on-year inflation rate decreased in all the four urban townships during 2006. In Freetown, the rate dropped to 8.26 per cent at end December 2006, moving from 13.10 per cent in December 2005

The rate decreased steadily from 13.85 per cent in January 2006 to a single digit at 6.21 per cent in August 2006, then increased to 6.63 per cent in September, to 6.73 per cent in November and then rose to 8.26 per cent in December 2006.

The drop in the inflation rate was a reflection of decreases in the prices of all the main groups of items, with food prices decreasing by 2.75 percentage points, beverages and tobacco by 6.99 percentage points and non-food items by 7.17 percentage points. During the year, food items for which price increases were recorded included other cereals, meat and poultry, fish milk products and eggs and sugar, salt and spices. However, price increases were recorded for rice, fruits, vegetables and nuts and food outside home. For beverages and tobacco, price increases were recorded for soft drinks,

alcoholic drinks and Kola nuts while prices of tobacco products dropped in the review period. Non-food items for which price decreases were recorded included Men's and Women's clothing, fuel and power and entertainment and recreation.

In Bo, the year-on-year inflation rate dropped to 6.44 per cent in December 2006, compared to the level at 9.67 per cent in 2005. The rate in Bo fluctuated in the first quarter but dropped from 12.87 per cent in April 2006 to 6.53 per cent in July 2006. It then increased to 6.68 per cent in August 2006 and then fell steadily to 4.97 per cent in November 2006 and rose again to 6.44 per cent in December 2006. The decrease in inflation rate in Bo was on account of decreases in the prices of food items by 7.79 percentage points and beverages and tobacco by 10.64 percentage points which outweighed the increase in the prices of non-food items by 2.54 percentage points. Price decreases were recorded for almost all food items including rice. Price increases were however recorded for margarine oil and fruits, vegetables and nuts. Price increases were recorded for all non-food items with the exception of soft drinks.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

Table 7

Inflation Rates (Freetown) - 2006				
Period	Consumer Price Index	Monthly (%)	Year-on-Year (%)	Moving Average (%)
1	2	3	4	5
January	734.49	0.10	13.85	12.46
February	733.24	-0.17	13.63	12.65
March	738.23	0.68	13.52	13.19
April	739.42	0.16	12.48	13.33
May	746.96	1.02	11.75	13.41
June	753.83	0.92	9.24	13.22
July	759.41	0.74	7.24	12.63
August	766.47	0.93	6.21	11.85
September	780.42	1.82	6.63	11.05
October	786.12	0.73	6.91	10.41
November	786.59	0.06	6.73	9.93
December	794.39	0.99	8.26	9.54

SOURCE: Statistics Sierra Leone

Table 7 contd

Inflation Rates (Bo, Kenema, Makeni) - 2006									
Period	Bo			Kenema			Makeni		
	CPI	Monthly (%)	Year-on-Year (%)	CPI	Monthly (%)	Year-on-Year (%)	CPI	Monthly (%)	Year-on-Year (%)
1	2	3	4	5	6	7	8	9	10
January	148.05	0.58	12.13	161.43	-0.35	14.11	138.62	3.46	9.29
February	146.92	-0.76	12.41	159.77	-1.03	12.11	138.18	-0.32	9.86
March	148.08	0.79	13.30	157.60	-1.36	8.86	138.91	0.53	9.84
April	150.61	1.71	12.87	157.14	-0.29	8.86	137.35	-1.12	7.94
May	149.84	-0.51	9.80	158.96	1.16	5.87	138.79	1.05	7.74
June	150.38	0.36	8.00	162.04	1.94	5.69	140.66	1.35	8.03
July	153.38	1.81	6.53	163.34	0.80	1.00	141.79	0.80	7.70
August	153.10	0.47	6.68	164.60	0.77	4.19	144.09	1.62	3.56
September	153.82	1.06	6.62	166.92	1.41	3.48	146.74	1.84	3.62
October	155.41	0.27	5.27	167.80	0.53	4.37	145.35	-0.95	6.77
November	155.83	-0.48	4.97	167.62	-0.11	4.39	144.86	-0.34	6.00
December	156.68	1.02	6.44	167.81	0.12	3.59	143.70	0.80	7.26

Source: Statistics Sierra Leone

In Kenema, the year-on-year inflation rate was 3.59 per cent in 2006, down by 9.68 percentage points on the level recorded in 2005. The rate decreased steadily, from 14.11 per cent in January to 1.00 per cent in July 2006 and then fluctuated in the remaining period to level at 3.59 per cent in December 2006. The decrease was as a result of price increases in both food and non-food items, which more than offset the price increases in beverages and tobacco items. In Kenema, price increases were recorded for all food items except for meat and poultry and from restaurants. Price increase in beverages tobacco products were reflected in alcoholic drinks and kola nuts while price of soft drinks remained constant. Price decreases were recorded for majority of the non-food products including entertainment, transport and communication, fuel and power. Price increases were however recorded for education and stationery, rent, rate and repairs, footwear and women's clothing.

During the reporting period, the domestic pump prices of crude oil products (petrol, diesel and kerosene) were revised three times. In May 2006, prices of petrol and diesel increased to Le12,150.00 while the price of kerosene increased to Le11,000.00. In July the prices were further increased to a uniform price of Le13,500.00 for petrol, diesel and kerosene. The price unification for the three products was to remove the price differentials in the products across the country as well as to obviate the contamination of one product with another by unscrupulous traders. In October, however, the prices were revised downwards to a uniform price at Le12,950.00 for the three products. The adjustments of the prices were in response to the changes in the world market prices of these products. To protect the economy against the volatility in petroleum products prices, the Government in collaboration with the petroleum companies established a Strategic Stocks

Programme. This program was designed essentially to remove the threats of fuel shortage, through the creation of a six to eight weeks buffer stock for all grades of petroleum products.

Fiscal Operations

The 2006 budget presented to Parliament on November 25, 2005 was geared towards the implementation of a Poverty Reduction Strategy Programme, aimed at achieving the Millennium Development Goals (MDGs) set for end 2015. To attain these goals, emphasis were placed on achievement through the cumulative effect of political and economic stability, improvements in governance, meaningful investments to rehabilitate and expand economic and social infrastructures, and sound fiscal and monetary policies to stimulate and build sustained economic growth. The budget contained measures for significant socio-economic reforms to improve pro-poor service delivery and strengthen public expenditure management.

Following the successful conclusion of the Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF in June 2005, the Executive Board of the Fund approved a successor three-year programme for Sierra Leone on May 10th 2006. In September 2006, the IMF in collaboration with the Government carried out a review of performance for the first half of 2006, in which Government's financial performance was found to be satisfactory. Government met all but two quantitative performance criteria relating to the overruns in the wage bill and under spending in poverty – related activities. Despite delays in donor inflows, government also made progress in the implementation of structural performance criteria stated for end June 2006.

During the review period Government was actively engaged in the implementation of a comprehensive decentralization programme to increase the level,

scope and quality of public services across the country. The devolution process, which started in 2005 with two ministries, continued in 2006 with an additional sixteen.

Total receipts (including grants) at Le 838.22bn (19.52 per cent of GDP) was 17.47 per cent below the budget estimate but 9.46 per cent above the preceding year's level of Le765.76bn. Total domestic revenue at Le497.15bn (11.58 per cent of GDP) which, accounted for 59.31 per cent of total revenue plus grant was 7.73 per cent below its budget estimate of Le538.81bn but 20.12 per cent above the Le413.89bn level in 2005. Customs and Excise receipts of Le277.57bn (6.46 per cent of GDP) were Le15.11bn below the budgeted estimate of Le292.67bn. There was significant improvement in collections from Customs & Excise Department in the first half of 2006 on account of an increase in the volume of dutiable imports. During the second half of 2006 however, there was a fall in collections resulting not only from a shift from the importation of higher duty goods to lower duty commodities but also from a drop in the number of vessels that anchored at the quay and diversion of containers to the neighboring countries. Income Tax receipts of Le138.11bn were 15.52 per cent below the estimated budget largely due to the lower tax assessment of some large companies, reduction of tax on diamond exports, nonpayment of tax arrears by some companies and other business entities and the failure of some new companies to pay cooperate tax. When compared with the West African Monetary Zone (WAMZ) criterion of total tax revenue to GDP ratio of not less than 20 per cent, the tax revenue attainment of 9.68 per cent of GDP in 2006 was far less. Non-tax revenue amounting to Le41.82bn was 18.41 per cent below the budget estimate of Le51.26bn. Relative to the previous year's level of Le39.86bn, it was 4.91 per cent higher. This amount constituted dividends mainly

from Sierra Leone Commercial Bank and Rokel Commercial Bank, Marine Resources, Mines and other Departments. Collections from Mines Department amounting to Le14.74bn were 23.58 per cent lower than the Le19.29bn budgeted due to the delay in parliamentary approval needed for the implementation of the new licences bill for 2006. Road User Charges at Le39.66bn was 65.68 per cent and 26.27 per cent higher than its preceding period's level and the budget estimate, respectively as a result of the increase in Road User Charge from Le1,000.00 per gallon on the pump price of fuel to Le1,341.00 during the review period.

Total grants received during the review period amounting to Le341.07bn (7.94 per cent of GDP) were 28.47 per cent and 3.07 per cent below the budget estimate and preceding period's grants, respectively. Programme grants received was Le218.50bn and included receipts of Le30.13bn from World Bank, Le37.03bn from EU, Le67.47bn from UK/DFID, Le46.17bn from AfDB and Le37.70bn HIPC debt relief assistance. Project grants amounting to Le 122.57bn was 48.13 per cent below the budget estimate of Le236.33bn but 21.00 per cent above the previous year's levels of Le101.30bn.

Total expenditure at Le913.80bn (21.28 per cent of GDP) was 9.42 per cent below the budget estimate of Le1,008.80bn and 10.04 per cent above the preceding year's figure, respectively. Recurrent expenditure amounting to Le697.55bn was 2.27 per cent and 11.70 per cent above the budget estimate and the previous year's figure, respectively. Expenditure on Wages and Salaries of Le271.53bn (6.32 per cent GDP) was 2.43 per cent and 18.33 per cent above the budget estimate and the previous year's positions, respectively. It was also 65.32 per cent of total tax revenue and exceeded the WAMZ criterion of 35 per cent or less. Spending

	Budget 2006	2006	2005
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	1,015,614	838,219	765,762
DOMESTIC REVENUE	538,808	497,147	413,890
Of which:			
Customs & Excise	292,673	277,566	235,605
Import Taxes	206,042	197,315	171,907
Excise on Petroleum	62,339	58,281	42,347
Other Excise Duties	9,015	12,639	7,644
Domestic Sales Tax	15,277	9,331	13,707
Income Tax Department	163,470	138,105	114,489
Company Tax	78,629	64,714	61,745
Personal Income Tax	80,427	57,465	48,456
Other Taxes	4,414	15,926	4,287
Miscellaneous	51,259	41,820	39,862
Mines Dept.	19,293	14,743	11,302
Royalty on Rutile	0	1,131	0
Royalty on Bauxite	2,990	1,050	0
Licences	16,303	12,562	11,302
Other Departments	31,966	27,077	28,559
Royalty on Fisheries	8,386	4,025	5,678
Parastatals	8,500	8,354	7,347
Other Revenues	15,080	14,698	15,534
Road User Charges	31,406	39,656	23,935
GRANTS	476,806	341,072	351,871
Programme	240,479	218,500	250,569
HIPC Debt Relief Assistance	50,880	37,697	60,787
UK (DFID)	\$22.91	67,468	87,367
EU	\$12.57	37,032	60,290
AFDB	\$15.81	46,171	0
WB	\$10.23	30,132	42,125
Project		0	0
DDR	0	0	0
Development Projects	236,327	122,572	101,302
TOTAL EXPENDITURE & NET LENDING	1,008,797	913,804	830,410
Of which:			
Current Expenditure	682,047	697,547	624,459
Of which:			
Wages & Salaries	265,101	271,531	229,464
Domestic Interest	75,425	89,098	94,657
Foreign Interest	32,630	29,521	30,932
Goods & Services	219,947	205,093	206,171
Transfers to Local Councils	21,564	27,022	15,509
DDR	0	0	0
Social Outlays	200	0	2,548
Grants to Education Institution	27,774	29,566	20,549
Transfer to Road fund	31,406	39,656	23,935
Elections & Democratisation	8,000	6,060	693
Development Exp. & Net Lending	326,750	216,257	205,951
Foreign Loans & Grants	282,927	170,458	176,412
Loans	46,600	47,885	75,110
Grants	236,327	122,573	101,302
Domestic	43,823	44,100	29,539
Subsidies	0	0	0
Lending Minus Repayment	0	1,699	0
CURRENT BALANCE +/- (Including grants)	333,567	140,672	141,303
ADD DEVELOPMENT EXPENDITURE	(326,750)	(216,256)	(205,951)
OVERALL DEFICIT/SURPLUS +/- (Incl. grants)	6,817	(75,584)	(64,648)

Table 8 contd...			
Government Fiscal Operation (in Millions of Leones)			
	Budget 2006	2006	2005
FINANCING	(6,817)	75,584	64,648
Domestic	14,410	13,358	46,328
Of which:			
Bank Financing	7,410	5,643	(12,778)
Bank of Sierra Leone	7,410	(13,285)	(67,076)
Commercial Banks		18,928	54,298
Non-Bank Financing	7,000	7,715	59,106
Extenal	(34,015)	(29,649)	48,511
Of which:			
Loans	46,600	47,885	105,137
Project	46,600	47,885	75,110
Programme	0	0	30,027
Amortisation	(80,615)	(77,534)	(56,626)
Debt Relief	0	0	0
Others*	12,788	91,875	(30,191)

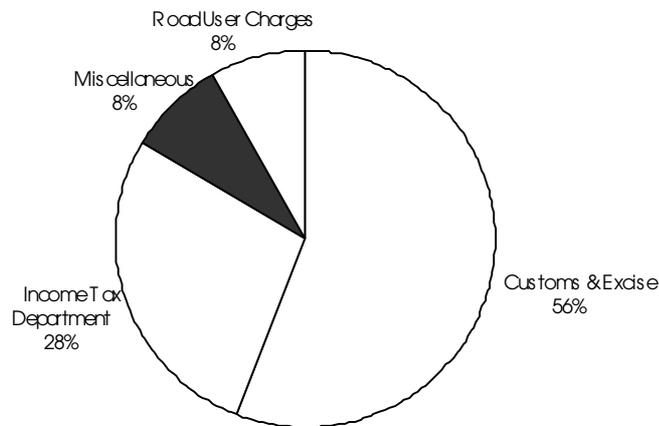
* Others include resheduling/write off,
financing gap, privatisation net & unaccounted amounts

Source: Budget Bureau, MOF

on Goods and Services amounting to Le205.09bn or 29.40 per cent of total recurrent expenditure was 6.75per cent and 0.52 per cent below the budget estimate and the previous year's level. The rise in recurrent expenditure was mainly on account of increases in payment on personnel emolument, substantial spending on foreign missions, transfers to local councils, grants to educational institutions and transfers to road funds. In the review period, expenses on goods and services, foreign interest payment and elections and democratization were within their budget limits.

Development expenditure at Le216.26bn (5.04 per cent of GDP) was 33.82 per cent below the budget estimate but 5.00 per cent above the previous year's level, respectively. Of the total development expenditure, Le47.89bn was financed from loans for various projects and Le122.57bn from grants. Domestically financed development expenditure amounted to Le44.10bn and accounted for 10.61 per cent of the total tax receipts, which was below the 20 per cent WAMZ criterion. This fall was mainly due to the drop in the receipt of foreign grants. Domestic development expenditure was

Chart 5 - Composition of Government Revenue - 2006

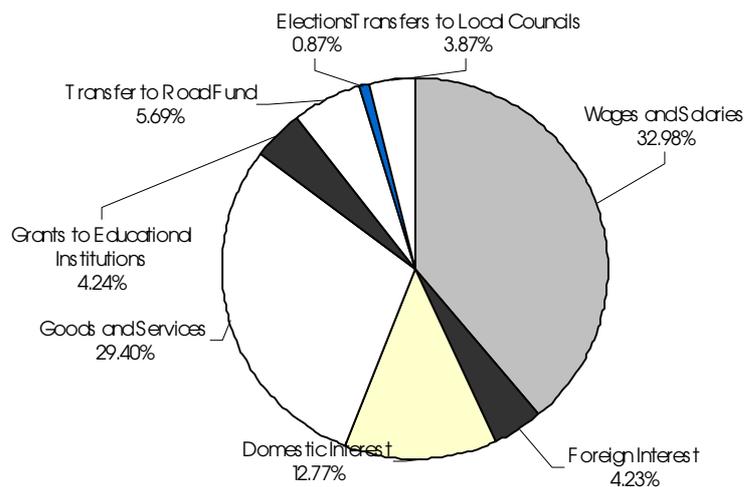


however slightly above the budgeted spending due to payment made for the rehabilitation of the Dodo Hydro Electric dam.

The overall fiscal deficit including grants was Le75.58bn (1.76 per cent of GDP). Relative to the previous year's level of Le64.65bn, the review period's deficit was 16.92 per cent above. It was however significantly below the budget estimate. Financing of the deficit was from both external and domestic sources. External financing reflected a net

amortization payment amounting to Le29.65bn, which was 12.84 per cent lower than its budgeted estimate. This constituted Le47.89bn project loans and Le77.53bn in respect of amortization. Domestic financing of Le13.36bn was mostly from the commercial banks. Bank of Sierra Leone reduced its holdings of securities by Le13.29bn over the review period. The rest of the financing was from other sources, which comprised Privatization receipts and floats.

Chart 6 - Composition of Government Recurrent Expenditure - 2006



Monetary Developments

Management of Monetary policy which was aimed at achieving single digit inflation in 2006, was challenging. The Bank of Sierra Leone's capacity for open market operation (OMO) was constrained by the non-availability of government securities and had to be supplemented by the sale of foreign currency. Government's fiscal policy was also tight and complemented Bank of Sierra Leone's effort in meeting its objectives.

Strong revenue performance and lower expenditures coupled with funds received for external budgetary support, improved the liquidity position of the government in the first half of the year. However, as much of the external budgetary support came towards the end of the period, the target on poverty related expenditure was not met. This enabled the government to make a net repayment to the Central Bank thereby reducing domestic credit. Both money supply and reserve money targets were met as at end June 2006 with inflation dropping to a single digit of 9.3 percent.

Desirous to meet its target on poverty related expenditure, the government drew down on its deposits with BSL in the second half of 2006. This led to an increase in domestic credit as government expenditure increased, thereby exerting pressure on monetary aggregates. The Central Bank and the Ministry of Finance signed a Memorandum of Understanding to convert Le50bn worth of non-interest bearing securities from the outstanding stock of Le530bn to marketable securities for monetary policy purposes. The issuance of these securities commenced in November and was too late to significantly affect the monetary aggregates. The targets for end December 2006 were not met.

During the review period, money supply (M2) grew at a slow rate of 21.45 per cent compared to 31.29 per cent in 2005. The increase in M2 resulted from

the expansion in M1 (Le65.13bn) and Commercial Banks' Deposits totaling Le90.21bn. The rise in M1 was due to the Le44.13bn increase in Currency in Circulation and Le20.99bn in Demand Deposits. The high demand for cash during the festive season in the fourth quarter of the review period contributed greatly to the large increase in M1. The source of growth in M2 could also be attributed to the rise in Net Domestic Assets (Le108.85bn) coupled with Net Foreign Assets (Le46.48bn). The increase in Net Domestic Assets of 17.06 per cent was mainly as a result of the rise in Net Credit to Government by the banking system and Credit to Private Sector as government sought resources to meet its poverty related projects. Net Foreign Assets expanded by 54.10 per cent but was far lower than the growth in 2005 of 182.76 per cent. More donor inflows for both budgetary and Balance of Payments support was realised in 2005. Reserve money increased by 10.65 per cent in 2006 when compared to an expansion of 24.26 per cent in 2005 although it was above the ceiling set for end December 2006. The end June and end September targets of the same year were met.

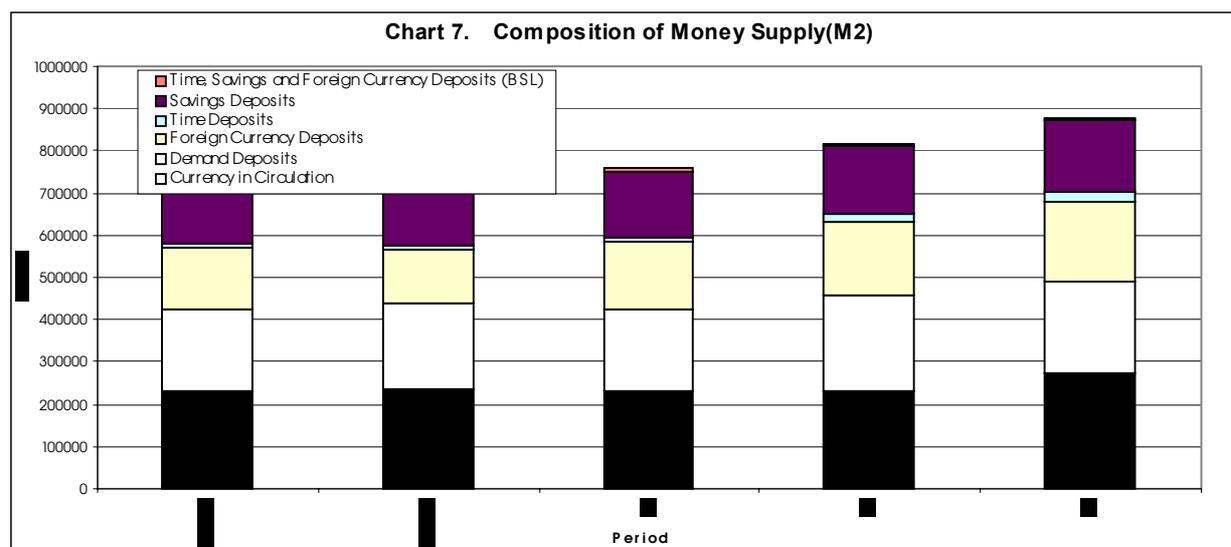
Net Claims on Government by the banking sector expanded by Le85.96bn (53.92%) during the review period. This was as a result of Le46.48bn and Le39.48bn increases in Net Claims on Government by the Central Bank and commercial banks respectively. The heavy reduction in Government Deposits at the Central Bank for poverty related expenditure as stipulated under the PRGF Arrangement, contributed greatly to the rise in Net Claims on Government by the Central Bank. The increase in the commercial banks holdings of Treasury Bearer Bonds of Le20.78bn, coupled with a decrease in Government Deposits (Le13.40bn), contributed to the growth in Net Claims on Government by the commercial banks. The first half yielded a surplus in the government fiscal balance

Table 9

Monetary Survey (Million Leones)					
	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
1	2	3	4	5	6
Reserve Money	303,961	294,312	285,778	305,464	336,335
Broad Money	724,178	724,173	758,722	817,976	879,508
Broad Money*	579,255	597,085	597,832	643,991	687,522
Narrow Money	424,173	436,770	424,321	458,664	489,298
Currency in Circulation	231,274	236,141	232,418	229,290	275,405
Demand Deposits	192,900	200,628	191,903	229,374	213,893
Quasi Money	300,006	287,404	334,401	359,311	390,211
Foreign Currency Deposits	144,923	127,088	160,890	173,985	191,986
Time Deposits	9,409	10,273	10,212	18,001	20,002
Savings Deposits	140,395	143,141	156,848	161,769	173,578
Other Deposits	974	583	545	2,293	737
Time Savings and Foreign Currency deposits(BSL)	4,305	6,319	5,906	3,263	3,908
Net Foreign Assets	85,928	43,170	121,679	107,647	132,411
Bank of Sierra Leone	-63,956	-81,991	-41,035	-81,464	-77,215
Assets	505,489	514,943	590,064	552,887	601,226
Liabilities	569,445	596,934	631,099	634,351	678,441
Commercial Banks	149,884	125,161	162,714	189,111	209,626
Assets	149,884	125,161	162,714	189,111	209,626
Liabilities	0	0	0	0	0
Domestic Credit	340,325	393,170	328,101	423,798	454,178
Claims on Central Govt. Net of which	159,417	189,117	130,685	227,172	245,378
BSL	- 11,793	- 5,200	- 59,751	1,581	34,689
Total Claims	61,256	45,786	53,983	22,487	47,983
Deposits	73,049	50,986	113,734	20,906	13,294
Commercial Banks	171,210	194,317	190,436	225,591	210,689
Total Claims	205,695	216,676	209,157	247,305	231,777
Deposits	34,485	22,359	18,721	21,714	21,088
Claims on Non Financial Public Sector	4,351	6,277	9,060	5,268	5,242
Claims on Private Sector of which	159,647	171,355	174,238	177,094	189,181
Claims on Private Sector Commercial Banks	154,052	167,497	170,851	173,603	186,409
Claims on Non-Banking Inst.	16,910	26,421	14,118	14,264	14,377
Other Items (Net)	(297,925)	(287,833)	(308,942)	(286,531)	(292,919)

Source: Bank of Sierra Leone and Deposit Money Banks

* Excludes Foreign Currency Deposits at the Commercial Banks



and allowed for repayment to the banking sector while the second half saw an increase in Claims on Government by the banking system

Credit to private sector grew by Le29.54bn (18.51%) in 2006 compared to 17.83% in 2005. Most of the commercial banks credit to the private

Interest rates on government securities were lower in December 2006 than in December 2005. The average annual yield on the 91 day Treasury Bill declined to 14.19 percent from 20.41 per cent in December 2005. Similarly, the average interest rate on Treasury Bearer Bonds went down to 17.00 percent in December 2006 from 19.00 per cent in

Table 10

Average Interest Rates (percent)					
1	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
1	2	3	4	5	6
Treasury Bills (3-months)	20.41	19.12	19.04	16.44	14.19
Treasury Bearer Bonds (1-year)	19.00	15.50	20.00	13.50	17.00
Savings Deposits	7.63	7.63	7.63	7.63	7.63
Time Deposits					
1 - 3 Months	10.43	10.43	10.43	10.43	10.43
3 - 6 Months	11.14	11.14	11.14	11.14	11.14
6 - 9 Months	11.40	11.40	11.40	11.40	11.40
9 - 12 Months	12.83	12.83	12.83	12.83	12.83

sector during the review period went to Services (Le19.17bn), Commerce and Finance (Le5.58bn), Construction (Le4.06bn) and Electricity, Gas and Water (Le3.43bn) sectors.

December 2005. Monthly average rate on Time Deposits remained unchanged over the review period. Savings Deposits stood at 7.63 per cent. 1month, 3month, 6month, 9month and 12month

Time Deposits were 10.38, 10.43 11.14, 11.40 and 12.83 per cent respectively. Likewise the average lending rate on Overdraft remained unchanged during the period at a range of 24.00 – 30.00 per cent.

Open Market Operations

The Monetary Policy objective of the Bank is the achievement of a low inflation rate consistent with a high and sustainable rate of growth and financial stability. For the year 2006, this translated into achieving an inflation rate of 11.7 percent consistent with the target Gross Domestic Product (GDP) growth objective of 7.5 percent. This was to be achieved through careful management of the growth of Net Domestic Assets (NDA) of the Bank of Sierra Leone.

Through effective monetary operations the Bank sought to contain the growth of excess reserve money derived mainly from government borrowing through the Central Bank's Ways and Means facility as a result of technical delays in the disbursement of external budgetary support and project grants.

During the review period except for a minor breach in Q1 of the quarterly target, growth in Reserve Money remained well in check through to Q3. This was attributable largely to fiscal restraint and improved revenue performance during the first half of the year. In Q4 owing to slippages in revenue performance and at the same time the requirement for government to meet its minimum target on poverty expenditure, reserve money target was breached against the background of supply constraints in new government securities during the first three quarters of the year 2006 the excess liquidity situation evidenced by huge over subscriptions in the primary market limited the Bank's capacity to effectively implement Monetary Policy. This weakness was evidenced in the steady decline

in returns on government securities that were being rolled-over. From 20.41% in December 2005 average annual yield on treasury bills declined to 19.82 % in January 2006 and held steady at 19.25 % through to August before declining sharply to 14.19% in December 2006. Treasury Bearer Bonds rates fluctuated between 20% and 12% during the year.

In October 2006 a memorandum of understanding was signed between the Ministry of Finance and the Bank to provide for the conversion of Le50.bn of Non-interest bearing securities held with the Bank into marketable securities for monetary operations. This development came to light in the year to significantly affect monetary policy operations

The Bank also converted into Treasury Bills for monetary operations a total of Le13,358 million being outstanding balance of the ways and means account as at December 2006.

At the end of the period, commercial banks holdings of the total outstanding, Government Securities amounting to Le576,319.75million was 41.6% while that of the non-banks was 43.9%. BSL holdings was 14.5%

Bank of Sierra Leone in July 2006 reviewed the secondary market pricing mechanism to provide wider incentive corridors to stimulate interbank trading. The Bank continues to monitor the developments in this market and reports suggest a gradual growth in domestic interbank market activities. As at end Q1, the volume of transactions increased by 47.9 percent or Le 9,092.00 million to Le 28,054.00 million from a level of Le 18,962.00 million in January 2006. Interbank trading volume peaked at Le 43,100.00 million in July thereafter declining sharply to Le 9,430.00 million in September before finally reaching its lowest level of Le 5,350.00 million in December 2006.

The overall performance of the Monetary Programme was satisfactory. The year-on-year inflation for Freetown declined from 13.10% in December 2005 to 8.26% in December 2006 after peaking at 13.52% in March 2006. This phenomenon was underpinned largely by fiscal restraint and the decline in world market prices for petroleum products. recourse to bank borrowing became unavoidable.

External Trade

Following an impressive economic performance marked by macroeconomic stability and real growth in the previous year, the year 2006 witnessed significant improvement in the external sector performance. The macroeconomic policies pursued during the year under review focused on a shift from post-conflict reconstruction programmes to economic recovery efforts targeting the enhancement of the private sector development as well as strengthening the country's existing good relationship with the international donor community. A remarkable external sector performance in 2006 was reflected in increased level of merchandise activity, improved external trade balance and marginal increase in gross external reserves. The value of the local currency (Leone) against major international currencies weakened slightly over the year.

International Trade

The level of foreign trade in 2006 at US\$625.87mn indicated substantial increase (25.15%) in merchandise activities over 2005 as a result of remarkable growth in both export receipts and payments for imports, but with a more than proportionate expansion in export receipts. The trade deficit consequently narrowed by US\$18.26mn (10.03%) to US\$163.79mn from US\$182.05mn recorded in 2005.

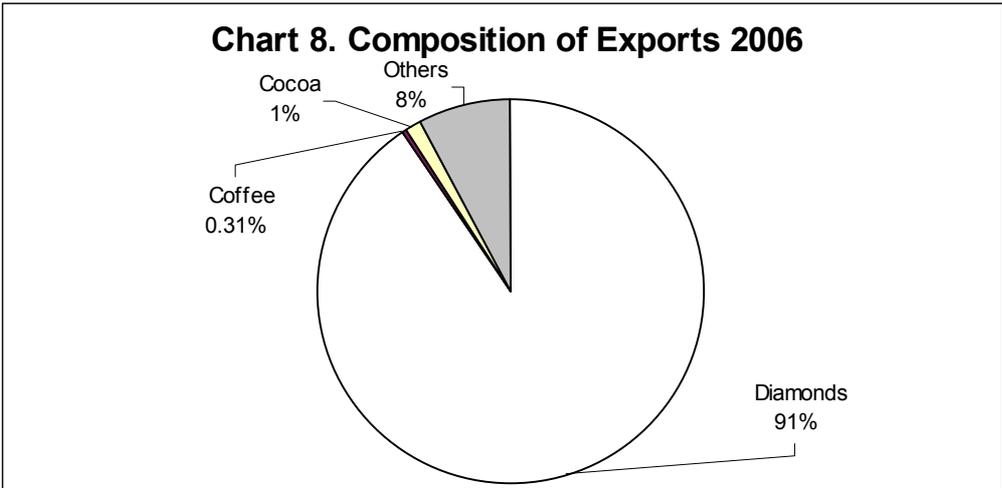
The total value of exports in 2006 was US\$231.04mn, 45.30 per cent higher than US\$159.01mn in 2005 and equivalent to 17 per cent of Gross Domestic Product. The growth in export receipts over the year was due largely to a remarkable recovery in the mineral sub-sector, which accounts for 77.58 per cent of total export receipts. For the first time in over 11 years, the period under review witnessed the resumption of production and export of rutile, bauxite and illmenite since cessation of operations in February 1995, following rebel attack on the mines. In the review period sizeable production and export of non-traditional commodities (a component of "other" exports) including timber, sugar and ginger were recorded.

Earnings from mineral exports, which comprised diamonds, gold, bauxite, rutile and illmenite, amounted to US\$179.24mn, 25.81 per cent higher than US\$142.47mn recorded in 2005. Diamonds continued to dominate the mineral exports sub-sector accounting for 69.76 per cent of receipts from mineral exports and 54.12 per cent of total export earnings. However, earnings from diamond exports at US\$125.04mn, from an export volume of 582.3 thousand carats in the review period, was 12.07 per cent lower than receipts of US\$142.20mn from an export volume of 668.79 thousand carats recorded in 2005. This translated to a drop of 12.93 per cent in volume and 12.07 per cent in value. The drop in diamond exports over the year can be attributed to reduced artisanal mining activities with the declining trend in alluvial diamond deposits. Kimberlite mining is capital intensive and very expensive for individual miners. The composition of diamonds exported during the period under review comprised 374.00 thousand carats of gem stones valued at US\$110.02mn and 208.34 thousand carats of industrial diamonds worth US\$15.02mn. Receipts from exports of bauxite and

Table 11

International Trade and Reserves (US\$'000)				
	Jan - Dec'05	Jan-Jun'06	Jul-Dec'06	Jan - Dec'06
1	2	3	4	5
Merchandise Imports	341,063.6	208,239.9	186,588.7	394,828.6
<i>Food of which</i>	53,115.2	26,552.0	29,587.8	56,139.8
<i>Rice</i>	24,884.2	12,369.8	11,224.7	23,594.5
Beverages and Tobacco	9,920.2	5,289.0	4,006.3	9,295.3
Crude Materials	8,754.2	17,919.8	3,782.8	21,702.6
Mineral Fuels and Lubricants of Which	115,596.9	74,778.2	72,302.2	147,080.4
<i>Fuel</i>	85,423.4	66,497.0	56,780.9	123,277.9
Animal and Vegetable Oils	1,306.7	2,578.7	748.4	3,327.1
Chemicals	22,746.8	11,457.8	12,542.1	23,999.9
Manufactured Goods	40,674.4	22,023.8	26,577.5	48,601.3
Machinery and Transport Equipment	71,824.1	39,625.7	29,485.2	69,110.9
Other Imports	17,125.1	8,014.9	7,556.4	15,571.3
Merchandise Exports	159,010.6	116,763.3	114,273.8	231,037.1
Mineral Exports	142,465.6	82,549.0	96,692.3	179,241.3
Diamonds	142,202.1	66,788.7	58,252.5	125,041.2
Bauxite	-	8,477.8	15,095.3	23,573.1
Rutile	-	6,799.4	21,701.8	28,501.2
Ilmenite	-	-	1,063.3	1,063.3
Gold	263.5	483.1	579.4	1,062.5
Agricultural Exports	6,186.8	2,788.4	9,972.9	12,761.3
Coffee	873.8	988.6	104.8	1,093.4
Cocoa	5,236.8	1,767.2	9,803.5	11,570.7
Piassava	-	-	-	-
Fish and Shrimps	76.2	32.6	64.6	97.2
Others	3,168.7	5,431.1	5,203.5	10,634.6
Re-exports	7,189.5	25,994.8	2,405.1	28,399.9
Trade Balance	(182,053.0)	(91,477)	(72,315)	(163,791.5)
Foreign Reserves (\$mn)	169.68	187.39	172.68*	172.68*

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



rutile together accounted for 29.05 per cent of earnings from mineral exports and 22.54 per cent of total export earnings. For the first time in over a decade, a total of 970.65 thousand metric tons of bauxite valued at US\$23.57mn and 70.36 thousand metric tons of rutile valued at US\$28.50mn were exported and 8.56 thousand metric tons of illmenite worth US\$1.06mn was shipped. Gold exports amounted to 2,642.10 ounces valued at US\$1.06mn, an increase of over three-fold in terms of both volume and value when compared to 751.22 ounces valued at US\$0.26mn exported in the

previous year. The boost in gold exports was influenced partly by favourable world market prices for the metal as well as increased gold mining activities over the year.

Output in the agriculture sub-sector was remarkable during the year, recording the highest growth in more than five years. Total earnings from the sector amounted to US\$12.76mn, which more than doubled US\$6.19mn in 2005. The robust performance was reflected in increased export of cocoa and coffee, which continue to be the major

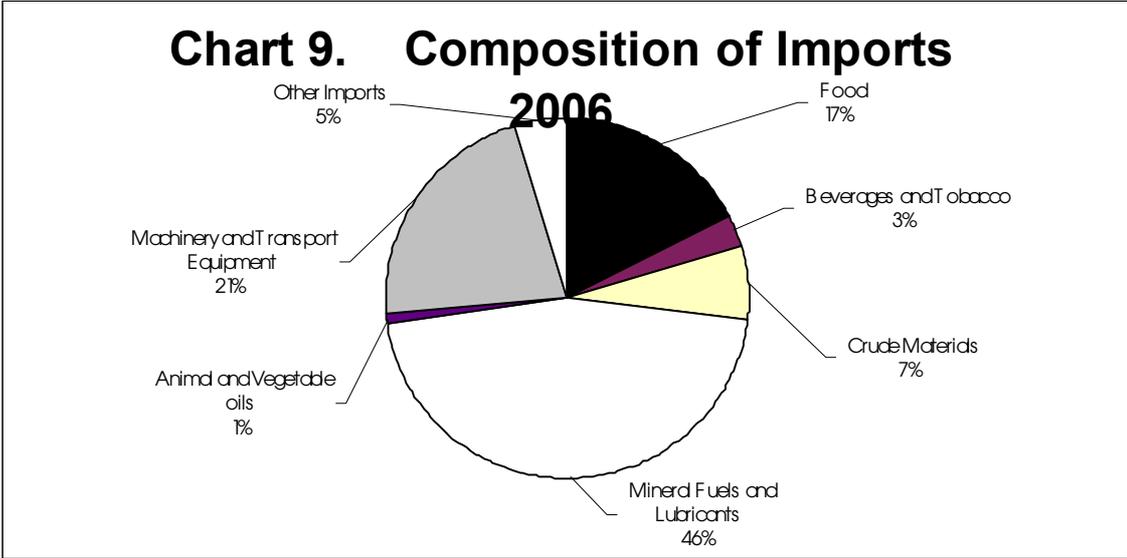
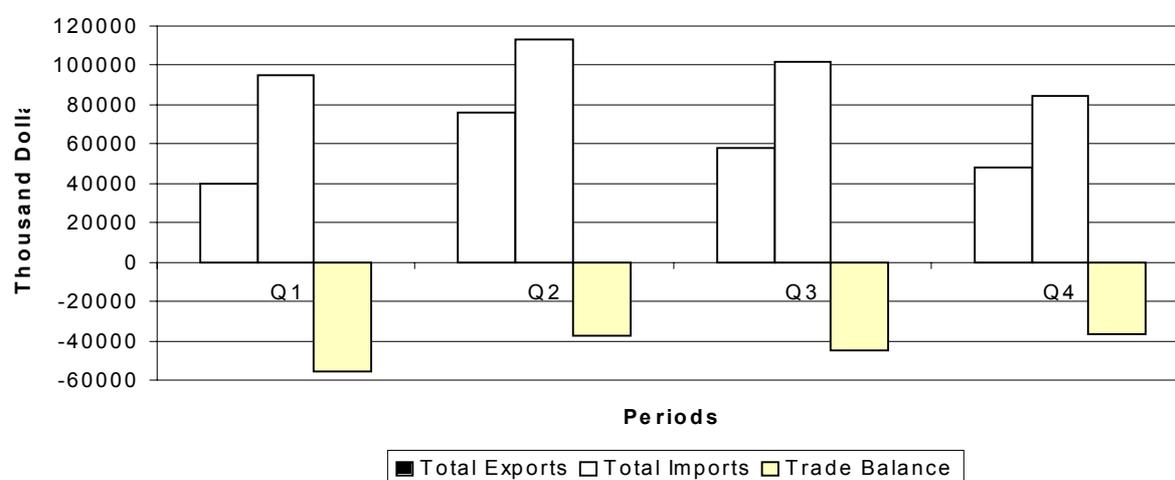


Chart 10. External Trade - 2006

agricultural products. The volume of cocoa exported during the year increased by 7.31 thousand metric tons (110.11%) from 6.63 thousand metric tons worth US\$5.24mn to 13.94 thousand metric tons worth US\$11.57mn. Though the volume of coffee exported dropped slightly (3.71%) to 1.47 thousand metric tons, receipts however increased significantly by 25.13 per cent to US\$1.09mn over the year. The outstanding performance of both commodities can be attributed in parts to favourable world market prices as well as export of products with higher quality grades as a result of improved post harvest and farm practices. Earnings from “other exports” constituting sliced ginger, sawn timber, assorted plastic wares, audiocassettes and compact discs, increased by more than two-fold to US\$10.63mn from US\$3.17mn in 2005. The expansion in receipts from “other exports” reflects sizeable production and export of non-traditional commodities especially timber, sugar and ginger.

The value of re-exports at US\$28.40mn was also remarkably higher when compared to US\$7.19mn recorded in the previous period. The surge was mainly due to transfer of vehicles, machinery and

other logistics items by the United Nations Assistance Mission in Sierra Leone (UNAMSIL) to Sudan, following the end of the Mission’s mandate in December 2005.

Import bill for the year totaled US\$394.83mn, 15.76 per cent higher than the level recorded in the previous year. The increase was reflected especially in payments for “consumers goods”, “intermediary goods”, “manufactured goods” and “mineral fuels and lubricants”. Payments for consumer goods (including rice), which account for 17.42 per cent of total imports, increased to US\$68.76mn from US\$64.34mn in 2005. The increase was due to a more than two-fold and 5.69 per cent increase in payments for “Animal and Vegetable Oils” and “Food” respectively, which together neutralised the slight drop in payments for “Beverages and Tobacco”. The bill for imported rice however dropped slightly by 5.2 percent, to US\$23.59mn, though the volume increased by 1.49 per cent to 97.88 thousand metric tons from 96.45 thousand metric tons in 2005. The bill for “intermediary goods” increased to US\$45.70mn, 45.08 per cent higher than the level recorded in 2005, reflecting

increases in payments for both crude materials and chemicals. Payments for “manufactured goods” increased by 11.03 percent to US\$64.17mn during the year while import bill for “machinery and transport equipment” fell by 3.8 percent to US\$69.11mn from US\$71.82mn in 2005.

The import bill for petroleum products increased by 27.24 per cent to US\$147.08mn of which payments for fuel rose by US\$37.85mn (44.31%) to US\$123.28mn. The volume of fuel imported also increased significantly by 41.32 thousand metric tons (27.26%) to 192.86 thousand metric tons. The rise in petroleum products import reflects partly increased domestic demand as well as rising world market price for petroleum products.

Exchange Rate Developments

The nominal exchange rate of the Leone to the US Dollar, determined by demand and supply through a system of licensed dealers, fluctuated in all the foreign exchange channels. Official statistics on monthly average exchange rate suggest that the Leone depreciated generally throughout the 12-month period though slight appreciation was observed in the last month of the review period. This development necessitated, for the first time since 2003, the official annual average midrate to fall outside the plus or minus 15 per cent (+15%) band of the central rate of Le2,562.18/US\$1 under the Exchange Rate Mechanism for the second West African Monetary Zone.

The highest depreciation was observed in the commercial banks’ market where the annual average mid-rate depreciated by 2.62 percent to Le2,964.40/US\$1 from Le2,888.75/US\$1 recorded in 2005. This was followed by the rates for the bureau market and official market which depreciated respectively by 2.58 percent to Le2,955.22/US\$1 and 2.50 percent to Le2,961.91/

US\$1. The annual average exchange rate for the Auction Market stabilized at Le2,970.73mn/US\$1 reflecting a depreciation of 2.22 percent when compared to Le2,906.31/US\$1 in 2005. The least depreciation occurred in the parallel market where the Leone depreciated by 1.87 percent to Le3,020.71/1 US\$ from an average of Le2,965.14/US\$1 in the previous year.

Gross External Reserves

Gross external reserves of the Central Bank increased marginally by US\$3.00mn (1.77%) to US \$172.68mn as at end-December 2006 from US\$169.68mn as at end-December 2005. The cumulative foreign exchange inflows and outflows in 2006, amounted to US\$108.32mn and US\$103.92mn respectively, representing net inflows of US\$4.40mn compared with their levels of US\$141.67mn and US\$86.57mn in 2005. Inflows declined by 23.54 percent, while there was a 20.04 percent increase in the outflows. Major inflows during the year included aid/loan disbursements totaling US\$87.59mn and comprised mainly US\$22.91mn under the UK/DFID Poverty Reduction Budgetary Support Programme, US\$15.81mn from the African Development Bank under the Third Economic Recovery and Rehabilitation Programme (ERRP III), US\$13.63mn from the International Monetary Fund, being disbursement under the Poverty Reduction and Growth Facility, US\$12.51mn from the European Commission in respect of second fixed tranche under the Post Conflict Budgetary Support Programme, World Bank disbursement for Programmatic Governance Reform and Growth Grant (US\$10.23mn), US\$6.21mn in respect of the European Development Fund replenishment of account, US\$5.26mn from the Islamic Development Bank, of which US\$1.07mn and US\$4.19mn being replenishment of account in respect of various projects and the Construction and Reconstruction

of Primary Schools Project respectively, US\$8.35mn, as fishing royalty, diamond license fees and exporters income tax, US\$7.58mn, being total interest earned on various accounts and customer transfers, US\$2.00mn, being minimum paid up capital requirement by ECOBANK (SL) Ltd., other government receipts amounting to US\$1.61mn and US\$1.04mn, being disbursement under the National Privatization Programme. Significant outflows were in respect of total debt service payments amounting to US\$17.37mn {comprising the International Monetary Fund (US\$6.38mn), the World Bank (US\$4.07mn), the African Development Bank (US\$1.52mn), other multilateral and bilateral creditors (US\$3.72mn), Other commercial creditors (US\$0.90mn) and Paris Club creditors (US\$0.46mn), payments for goods and services totaling US\$86.55mn {significant of which were payments in favor of foreign exchange auction (US\$61.02), Embassy/Mission payments (US\$8.28mn), Government travel and other government expenditures (US\$9.93mn), printing of currency (US\$4.54mn), (US\$1.84mn)}, Bank of Sierra Leone payments (US\$1.50mn) and subscriptions to International Organizations (US\$1.03mn).

Supervision of Banks and Other Financial Institutions

The Banking industry experienced an increase in its resource base to Le803.35 billion as at 31st December, 2006 from Le670.81 billion as at 31st December, 2005; an increase of Le132.54 billion or 19.76%

The increase in the resource base was sourced mainly from deposits, which rose to Le608.89 billion (up Le102.05 billion: 20.14%) as at 31st December 2006 from Le506.83 billion as at 31st December

2005. Demand, Savings and Time deposits increased to Le408.73 billion (up Le52.62 billion) Le 174.27billion (up Le33.49 billion) and Le22.03 billion (up Le12.57 billion) respectively.

Shareholders' funds rose to Le145.38 billion (up Le22.73:18.53%) as at 31st December, 2006 from Le122.65 billion as at 31st December, 2005. The increase stemmed mainly from increase in paid-up capital (up Le36.34 or 210.60%).

The capital adequacy ratio was adhered to and recorded 36.02% as at 31st December, 2006 from 35.73% as at 31st December, 2005. The adherence to the statutory requirement was mainly due to the increase in the industry's capital base, which stemmed from the increase in minimum paid-up capital of commercial banks to Le6 billion by end December, 2006.

The industry's gross advances stood at Le201.28 billion (up Le33.73: 20.13%) as at 31st December, 2006 compared to Le167.54 billion as at 31st December, 2005.

Import trade, other services, construction and transport, storage and communication sectors accounted for 21.69%, 20.86%, 18.12% and 11.97% of gross advances respectively. Financial services and Agriculture, Forestry and Fishing received only 0.57% and 0.88% respectively of gross advances as at 31st December, 2006.

The industry's performing loans accounted for 72.90% of gross advances as at 31st December, 2006. However, the ratio of loan loss provision to non-performing increased to 38.79% as at 31st December, 2006 from 35.27% as at 31st December, 2005.

Though there was an increase in banking activities over the one-year period, pre-tax profit dropped

Table 12 Commercial Banks Operating in Sierra Leone Prudential Indicators (Unaudited) (In Thousand Leones)			
1	31-Dec-06 2	31-Dec-05 3	31-Dec-04 4
Total Assets	803,345,402	670,793,131	482,801,209
Average Total Assets	736,739,023	545,797,243	475,492,531
Loans and Advances(Gross)	201,275,320	167,543,187	145,248,849
Bad Debt Provision	(21,159,005)	(15,850,963)	(10,341,894)
Interest in suspense	(18,588,892)	(12,527,016)	(7,312,261)
Loans and advances(Net)	161,527,423	139,165,208	127,594,694
Investment-TB, TBB, OFI*	237,333,433	203,297,953	150,670,773
Fixed Assets	80,845,212	61,584,710	42,814,146
Local Deposits:-	411,472,104	350,443,622	250,659,679
Demand	215,238,782	200,234,362	136,870,799
Savings	174,198,352	140,739,600	107,898,034
Time	22,034,970	9,469,660	5,890,846
Foreign Deposits	197,413,493	156,390,507	100,610,512
Capital:-	93,235,565	69,100,843	61,316,034
Paid-up	52,730,229	16,550,714	16,395,092
Statutory & Other Reserves	10,712,873	9,940,305	9,244,233
Retained Earnings	29,792,463	42,609,824	35,676,709
Current profit	30,125,138	30,968,627	30,309,204
Primary Capital	93,235,565	69,100,843	61,316,034
Revaluation Reserves	22,017,342	22,583,235	9,253,009
Capital Base	136,500,369	108,510,718	101,786,114
Total Risk Weighted Assets	378,935,073	303,702,273	264,005,110
Capital Adequacy Ratio	36.02	35.73	38.13
Surplus/(Shortfall)%	21.02	20.73	23.13
Surplus/(Shortfall):Le	79,652,152	62,957,481	61,269,572
Average Shareholders' Fund	142,811,629	110,783,780	92,056,617

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

Table 12 Contd Commercial Banks Operating in Sierra Leone Prudential Indicators (Unaudited) (In Thousand Leones)			
1	31-Dec-06 2	31-Dec-05 3	31-Dec-04 4
Asset Quality			
Performing Loans	147,239,070	122,596,273	121,255,870
Non-Performing Loans	54,036,250	44,946,914	23,992,979
Loan Loss Provisions	21,159,005	15,850,963	10,341,894
Non- Performing as a % of Total Advances	27.10	26.83	16.52
Loan Loss Provisions as a % of Non-Performing	38.79	35.27	43.10
Profitability : Pre-Tax Profits	43,018,728	44,306,686	47,061,276
Post Tax Profits	30,125,138	30,968,627	30,309,204
Return on Assets	5.84	8.12	9.90
Return on Equity Funds	21.09	27.95	32.92
Liquidity:Liquid Assets	257,595,569	260,854,407	173,548,062
Cash	20,023,378	23,804,348	16,555,742
Current Account with BSL	22,160,033	32,471,629	11,219,301
Treasury Bills	207,017,260	194,546,080	137,150,898
Placement with Discount Houses	6,104,898	9,360,350	7,803,621
Treasury Bearer Bonds	2,290,000	8,751,873	7,971,550
Cash Ratio	10.35	16.06	14.23
Overall Liquidity Ratio	63.19	74.45	69.43
Surplus/(Shortfall) (%)	32.82	43.02	38.53
Surplus/(Shortfall) (Le)	133,780,951	150,727,910	96,306,918
Foreign Assets:	218,923,032	159,425,908	100,055,411
Foreign Currency(cash)	14,534,243	11,294,426	10,685,020
Balance with Other Banks abroad	199,126,837	138,549,089	89,370,391
Foreign Other Assets	5,261,952	9,582,393	-
Foreign Liabilities:	202,393,188	159,585,126	101,711,515
Foreign Deposits	197,413,493	156,390,507	100,610,512
Foreign Other liabilities	4,979,695	3,194,619	1,101,003
NET FOREIGN POSITION:			
Assets - Liabilities	16,547,842	(159,218)	(1,656,104)

Table 13

<u>Consolidated Balance Sheet of Discount Houses</u>		
BALANCE SHEET AS AT:		
<u>ASSETS</u>	<u>31-Dec-06</u> <u>(Le'000)</u>	<u>31-Dec-05</u> <u>(Le'000)</u>
Cash:	1,204	2,387
Local	1,204	2,387
Foreign	-	-
Claims On:	19,872	63,445
BSL	90	(198)
Other Banks	19,782	63,643
Cash and Bank Balances	21,076	65,832
Loans/Repo	1,211,143	208,961
Short-term Investment:	17,894,941	19,281,956
Treasury Bills	15,674,277	17,606,643
Treasury Bearer Bonds	2,160,664	1,615,313
Commercial Paper	60,000	60,000
Long-term Investment:	234,351	236,148
Banker's Acceptances	-	-
Securities	-	-
Other Assets	3,731,231	3,427,514
Fixed Assets	660,193	799,264
Total Assets	23,752,935	24,019,675
<u>LIABILITIES</u>		
Placements/deposits	13,734,451	10,932,652
Borrowings	-	-
Other Liabilities	5,553,928	8,303,235
Shareholders' Funds:	4,464,556	4,783,788
Total Liabilities	23,752,935	24,019,675

Table 14

Consolidated Liquidity Ratios of Discount Houses					
Liquidity Ratio as at:-					
Item	Code	Definition	31-Dec-06	MOV,T	31-Dec-05
			Le'000	Le'000	Le'000
Cash on hand	1		1,204	(1,183)	2,387
Balances with BSL	2		90	288	(198)
Balances with other Banks	3		19,782	(43,861)	63,643
Treasury Bills	4		15,674,277	(1,932,366)	17,606,643
Treasury Bearer Bond	5		2,160,664	545,351	1,615,313
Total Liquid Assets	6	1+2+3+4+5	17,856,017	(1,431,771)	19,287,788
Placements/Deposits	7		13,734,451	2,801,799	10,932,652
Overall Liquidity (%)	8	6/7	130.01	(46.41)	176.42
Minimum Requirement (%)	9		100.00	-	100.00
Excess/(Deficiency)	10	8 - 9	30.01	(46.41)	76.42
Actual liquidity (%)	11	4/7	114.12	(46.92)	161.05
Minimum Requirement (%)	12		60.00	-	60.00
Excess/(Deficiency)	13	11 - 12	54.12	(46.92)	101.05

to Le43.02 billion (down Le1.29 billion:2.91%) for the period ended 31st December, 2006 from Le44.31 billion (31st December, 2005).

This resulted in a drop in return on assets, which stood at 5.84% (2006) as against 8.12% (2005). The drop in pre-tax profit also affected the return on equity as it recorded 21.09% in 2006 as against 27.95% in 2005.

The statutory requirements for the cash ratio was not adhered to, it recorded a shortfall of 1.65% (2006) as against a surplus of 1.83% (2005). This slight shortfall in cash ratio was due to shortfalls of 5.46%, 4.91% and 5.80%. recorded by Sierra Leone Commercial Bank, First International Bank and International Commercial Bank respectively.

The overall liquidity ratio was however very favourable as the industry recorded actual liquidity ratio of 63.19% in 2006, a surplus of 32.82% The surplus recorded in 2005 was 74.45%.

Licensing of Financial Institutions

As the Bank of Sierra Leone continues to perform its supervisory role aimed at achieving a sound and stable financial system the licences of First International Bank and International Commercial Bank were renewed for one (1) year each, Guaranty Trust Bank's was renewed for two (2) years while licenses for Rokel Commercial Bank Limited, Standard Chartered Bank (SL) Limited and Sierra Leone Commercial Bank Limited were renewed for three (3) years each.

Ecobank was issued a licence authorizing the bank to carry on banking business in accordance with Section 12 (1) of the Banking Act 2000 for a period of one (1) year. This brought the total of commercial banks in Sierra Leone to eight.

The quest for banking services in Sierra Leone led the Bank of Sierra Leone to grant approval to Rokel Commercial Bank and Sierra Leone Commercial Bank to open branches at Congo Cross and Njala respectively during the year 2006.

First International Bank also opened a branch at 34 Freetown Road, Lumley while Sierra Leone Commercial Bank Limited relocated its branch in Kenema to No. 2 Hangha Road, Kenema after the refurbishment was done to the premises.

Union Trust Bank (SL) Limited opened a branch at the Kambia District during the review period.

Standard Chartered Bank (SL) Limited opened a Western Union Money Transfer outlet at Guma Building.

The licenses of the four community banks: Yoni Community Bank, Marampa-Masimera Community Bank, Mattru Community Bank and Segbwema Community Bank were renewed for one (1) year each and Capital Discount Houses licence was also renewed for a period of one (1) year.

Licences were granted to Eight (8) new Foreign Exchange Bureaux: Universal, Cozy International, Apex, S V, Global, Wickburn, Devkay and B & S to carry out buying and selling of foreign currencies under the Other Financial Services Act 2001 for a period of one (1) year each.

Kay Pee Foreign Exchange Bureau situated at 32 Sani Abacha Street, Freetown applied for permanent closure.

Sanda, S V, Massie, Hepom and Harry's Foreign Exchange Bureaux all suspended their operations. However, Harry's Foreign Exchange Bureau asked for the resumption of operations, and was duly granted by the Governor.

Table 15**Commercial Banks operating in Sierra Leone**

BANK	No. of Branches 2004	No. of Branches 2005	No. of Branches 2006	F/town	Bo	Moyamba	Kenema	Lungi	Makeri	Kono	Pujehun	Njala	Kambia	Total
Rokel Commercial Bank	8	9	11	5	1	1	1	-	-	1	1	1	-	11
Sierra Leone Commercial Bank Ltd	7	8	8	4	1	-	1	-	1	1	-	-	-	8
Standard Chartered Bank Ltd	3	3	3	2	1	-	-	-	-	-	-	-	-	3
Union Trust Bank Ltd	3	4	5	1	1	-	1	-	-	1	-	-	1	5
Guaranty Trust Bank Ltd	2	3	3	2	1	-	-	-	-	-	-	-	-	3
First International Bank Ltd	3	3	4	3	-	-	-	1	-	-	-	-	-	4
International Commercial Bank	1	1	1	1	-	-	-	-	-	-	-	-	-	1
EcoBank	-	-	1	1	-	-	-	-	-	-	-	-	-	1
Total Number of Prov. Branches					5	1	3	1	1	3	1	1	1	17
Grand Total	27	31	36	19	5	1	3	1	1	3	1	1	1	36

Table 16**Number of Accounts at Commercial Banks**

BANKS	NO. of Accounts 31-Dec-05				Accounts Opened Jan - Dec 2006				Accounts Closed Jan - Dec 2006				NO. of Accounts 31-Dec-06			
	Demand	Savings	Time	Foreign Currency	Demand	Savings	Time	Foreign Currency	Demand	Savings	Time	Foreign Currency	Demand	Savings	Time	Foreign Currency
Standard Chartered Bank Ltd	3,588	6,394	469	1,116	405	437	32	305	277	19	-	16	3,716	6,812	501	1,405
Rokel Commercial Bank	11,667	39,998	233	1,078	1,724	10,515	109	446	605	4,642	87	179	12,786	45,871	255	1,345
Sierra Leone Commercial Bank Ltd	20,358	53,143	991	873	2,649	5,203	-	226	114	498	-	65	22,893	57,848	991	1,034
Union Trust Bank Ltd	3,168	10,664	36	235	710	4,387	9	269	405	2,578	6	235	3,473	12,473	39	269
Guaranty Trust Bank Ltd	447	2,875	15	73	385	1,199	11	181	17	57	10	7	815	4,017	16	247
First International Bank Ltd	3,554	3,634	8	189	858	922	56	100	21	7	-	24	3,331	3,734	21	31
International Commercial Bank	94	813	1	28	231	1,689	5	54	7	16	-	5	318	2,486	6	77
EcoBank	-	-	-	-	93	54	1	27	-	-	-	-	93	54	1	27
TOTAL	42,876	117,521	1,753	3,592	7,055	24,406	223	1,608	1,446	7,817	103	531	47,425	133,295	1,830	4,435

Table 17**Community Banks operating in Sierra Leone**

Bank	No. of Branches	Location
Marampa-Masimera Community Bank	1	Lunsar
Yoni Community Bank	1	Mile 91
Segbwema Community Bank	1	Segbwema
Mattru Community Bank	1	Mattru Jong

Table 18**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

The Bank of Sierra Leone suspended the licences of the following bureaux for failing to submit returns: Jalloh and Barrie, Ama, Ayoub, Frandia, Fulladu, and Maranda.

Frandia, Ayoub, Fulladu Foreign Exchange Bureaux appealed to the Bank of Sierra Leone and their licences were reinstated to operate as Bureaux after they had submitted all outstanding returns.

As the demand for foreign exchange bureau activities increased in the provinces, Manans Foreign Exchange Bureau was given permission to open a branch at No.2 Maranda Street, Kabala. It also relocated its premises from 6 Free Street, Freetown to 17 Regent Road, Freetown.

Continental Foreign Exchange Bureau was granted permission to relocate its premises from 15 Lightfoot Boston Street, Freetown to Back Street, Freetown and Freetown Foreign Exchange Bureau also relocated its premises from 18 Lumley Street, Freetown to 47 Sani Abacha Street, Freetown during the review period.

The licences of the existing foreign exchange bureau were each renewed for a period of one (1) year.

The total number of bureaux operating as at 31st December, 2006 increased to fifty one(51) from fifty (50) as at end December 2005.

Legislation & Guidelines

The Banking Supervision Department has developed a contingency manual for dealing with troubled banks and revised policy on informal and formal supervisory measures.

Minimum Capital Requirements

In order to facilitate the enhancement of the operations of banks and to maintain a stable financial system, 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 Hundred Million Leones) on a graduated basis to Le15 billion (Fifteen billion

Table 19

Licensed Foreign Exchange and their Branches in Sierra Leone

No.	Bureaux	F/town	Bo	kenema	Makeni	Lungi	Kono	Kabala
1	First Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
2	Nimo Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
3	Sierra Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
4	West Africa Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
5	Paramount Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
6	Continental Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
7	Frandia Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
8	Afro Foreign Exchange Bureau Limited	1	1	1	-	-	1	-
9	Blue Circle Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
10	Manans Foreign Exchange Bureau Limited	1	1	1	1	-	-	1
11	Tap Foreign Exchange Bureau	-	-	-	1	1	-	-
12	Best Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
13	Dynamic Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
14	Maranda Foreign Exchange Bureau limited	1	-	-	-	-	-	-
15	Monorma Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
16	Fulladu East Foreign Exchange Bureau	2	-	-	-	-	-	-
17	Kakua Foreign Exchange Bureau Limited	2	1	-	-	-	-	-
18	Kallah Brothers Foreign Exchange Bureau Limited	1	-	1	-	-	-	-
19	Chartered Trust Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
20	NBC Foreign Exchange Bureau	1	-	-	-	-	-	-
21	Jones & Sons Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
22	Denarius Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
23	City Centre Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
24	Navo's Int. Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
25	Ayoub Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
26	Yours Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
27	Aiemahs Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
28	Sara Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
29	Horizon Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
30	Western Club Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
31	Mystic Foreign Exchange Bureau Limited	1	1	1	-	-	-	-
32	Fad Foreign Exchange Bureau Limited	-	1	-	-	-	-	-
33	Olalus Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
34	Pottal Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
35	Premier Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
36	BAS Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
37	Freetown Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
38	Fofan Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
39	Sim Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
40	Raju's Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
41	Fatismed Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
42	Harry's Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
43	Cozy Int. Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
44	Universal Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
45	Apex Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
46	Global Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
47	Wickburn Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
48	Devkay Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
49	B & S Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
50	M IK Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
51	Joelyn Foreign Exchange Bureau Limited	1	-	-	-	-	-	-
Total Number of Bureau and Branches		50	5	4	2	1	1	1

Table 20**Foreign Currency Purchased**

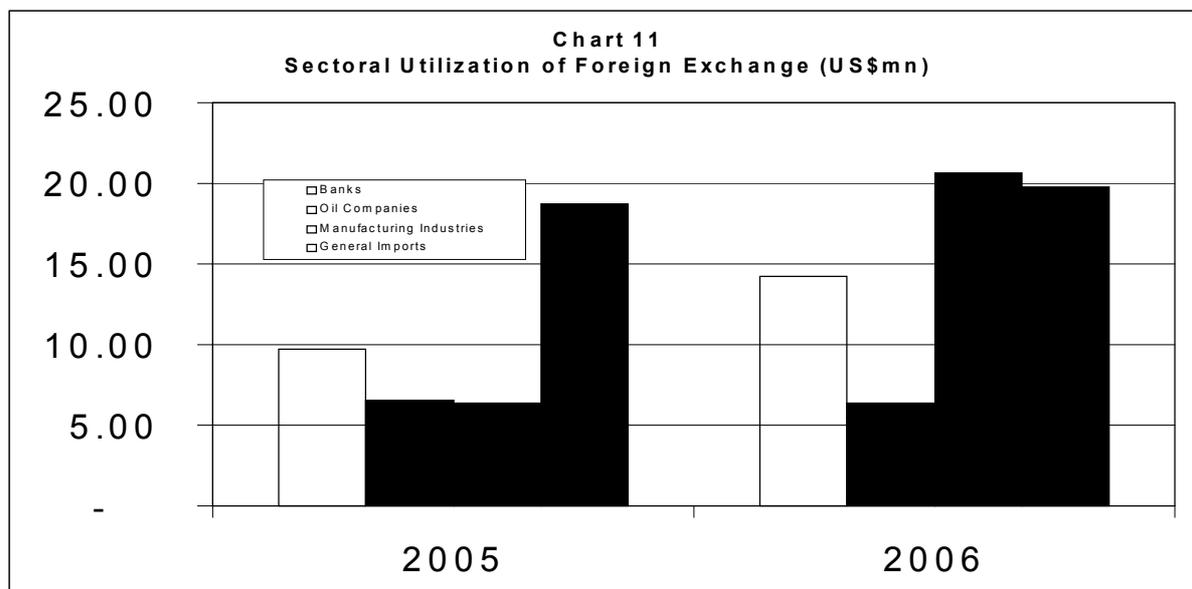
Currency	2006 (Le 'mn)	Mov't (Le 'mn)	% Share	2005 (Le 'mn)
Dollar	2.52	(4.34)	(63.25)	6.87
U K Pound	0.66	0.15	29.27	0.51
Euro	0.04	-	0.03	0.04

Table 21**Foreign Currency Sales**

Currency	2006 (Le 'mn)	Mov't (Le 'mn)	% Share	2005 (Le 'mn)
Dollar	1.87	0.30	(13.83)	2.16
U K Pound	0.59	0.15	34.32	0.44
Euro	0.01	0.01	(40.66)	0.01

Table 22**Net Position of Foreign Currency Transaction**

Currency	2006 (Le 'mn)	Mov't (Le 'mn)	% Share	2005 (Le 'mn)
Dollar	0.66	(4.02)	(86)	4.70
U K Pound	0.07	-	(2)	0.07
Euro	0.04	0.01	16	0.03



Leones) and from Le2.5 billion to Le15 billion for Development and Investment Banks by end December, 2009.

This increase will be graduated as follows: -

- 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 also been increased from Le600 million (Six Hundred million Leones) to Le6 billion (Six billion Leones) in a graduated manner as shown below: -

- Le3 billion by end December 2007
- Le4 billion by end December, 2008
- Le6 billion by end December, 2009

Other Financial Institutions

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

The licensed Other Financial Institutions include First Discount House Limited, Capital Discount House Limited, 51 Foreign Exchange Bureaux and 4 community banks.

a) Discount Houses

i) Consolidated Assets and Liabilities

The resource base of the discount houses slightly decreased to Le23.75 billion (down Le0.27 billion;1.12%) as at 31st December, 2006 from Le24.02 billion as at 31st December, 2005.

This slight fall was largely due to the other liabilities (other customers deposits), which fell by Le2.75 billion:33.13% and a negative operating result of

(Le0.01 billion) realized as at 31st December, 2006. On the assets side, the decrease in the resource base was reflected on Treasury Bills holdings, which fell, by Le1.93 billion:11.0%, cash holding fell by Le0.04 billion:68.0% and fixed assets by Le0.14 billion:17.40%.

ii) Liquidity

The liquidity requirements of Discount Houses is that liquid assets should be equal to call money and borrowings of which not less than 60% shall be in treasury bills and treasury bearer bonds with maturity not exceeding 91 days. This requirement was met and recorded actual liquidity of 114.12% with a surplus of 54.12% as at 31st December, 2006.

iii) Profitability

A loss of Le0.01 billion was recorded for the period ended 31st December, 2006 compared to a pre-tax profit of le0.35 billion for the period ended 31st December, 2005. The loss however emanated from the huge loss amounting to Le0.12 billion recorded by Capital Discount House.

Over 50% of the income for discount houses came from investment in treasury bills as it recorded Le2.84 billion for the period ended 31st December, 2006 compared to Le2.62 billion for 2005.

Operating expenses recorded Le1.73 billion for the period ended 31st December, 2006 and Le1.67 billion in 2005.

Staff cost accounted for 48.47% of operating expenses while withholding tax paid accounted for 15.58% for the period ended 31st December, 2006 compared to 46.10% and 15.45% respectively for the period ended 31st December, 2005.

Return on asset recorded negative 0.11% and this was due to the loss made during the review period. The return on asset in 2005 was 1.16%.

Net interest margin recorded 11.12% for 2006 compared to 7.76% for 2005

Operating expenses to operating income was 100.79% for the period under review compared to 82.86% in 2005. This ratio is high and is an indication of inefficient operation.

Net Interest spread recorded 2.75% (December, 2006) and 4.36% (December, 2005). The spread is relatively stable.

d) Foreign Exchange Bureau

Foreign Exchange Bureau recorded total purchase in US Dollars, UK Pound Sterling and Euros of US\$2.52million, UK £0.66 million and •0.04 million respectively in 2006 compared to US\$6.87 million UK £0.51 million and •0.04 million respectively in 2005.

Similarly, sales in US Dollars, UK Pounds Sterling and Euros were US\$1.87, UK £0.59 and •0.01 respectively in 2006 compared to US\$2.16, £0.44 and •0.01 respectively in 2005.

Implementation Activities Regarding Anti-Money Laundering (AML) and Combating Terrorist Financing (CTF) and Enforcement Action in Sierra Leone

Since the enactment of the Anti-Money Laundering Act in June 2005, a committee of stakeholders chaired by the Governor as the Anti-Money Laundering Authority has been established.

The committee has approved for implementation by the National Revenue Authority of, the “Currency Declaration Form” which is required to be completed by all passengers entering and leaving Sierra Leone. The form makes provision for the declaration of

currencies of up to and over \$10,000. Forms for “Reporting of Suspicious Transactions” were designed and issued to the financial institutions with directives for them to report suspicious transactions. The commercial banks have developed and implemented Know Your Customer (KYC) and Customer Due Diligence (CDD) principles.

The provisions of the Act require the Financial Intelligence Unit to be set up within the Central Bank. The Bank of Sierra Leone has appointed the Director of Banking Supervision as the Head of the FIU and had also sought for assistance from both the International Monetary Fund/World Bank and the United Nations Office for Drugs and Crimes (UNODC) in setting up the Financial Intelligence Unit (FIU). A UNODC consultant was sent to prepare a Technical Needs Assessment in March 2006. Based on his recommendation, the UNODC, *Groupe Inter-Governmental D’action Contre Le blanchiment en Afrique* (GIABA) and the Bank of Sierra Leone held a workshop in July 2006 to do a National Anti-Money Laundering/Combating Financing of Terrorisms (AML/CFT) strategy for Sierra Leone. The draft national strategy identifies the mission, vulnerabilities, major stakeholders and their responsibilities, challenges and measures to overcome AML/CFT. It has the following objectives: -

Prevention of Money Laundering and Financing Terrorism

Maintaining an effective system of controls by implementation of the Anti-Money Laundering Act 2005 and other related legal instruments and guidelines.

Focusing effort according to risk and imposing controls in a cost effective way and

Ensuring effective coordination, cooperation and communication with all stakeholders in the public and private sectors.

The World Bank and IMF/FSAP team did an AML/CFT assessment of Sierra Leone in June 2006. The report stressed on the establishment of the Financial Intelligence Unit which will be responsible for the receipt, processing and dissemination of reports relating to Money Laundering.

The Bank of Sierra Leone is working closely with GIABA and other development partners in providing the necessary training for its staff in the implementation of the Anti-Money Laundering Act. The inadequacy of personnel with Technical Knowledge on how to investigate suspicious Money Laundering activities is of great concern to the Authority. As a result, the Institute of Public Administration and Management (IPAM) in collaboration with the Commonwealth Secretariat, GIABA and the Bank of Sierra Leone organized a week's training programme from October 31st to November 3rd 2006 on Anti Money Laundering and Control, to enhance capacity building for stakeholders

Community Development Scheme

The existing Community Banks have made tremendous progress in respect to increasing their outreach and providing demand-driven services to the rural poor in their areas of operations. They have continuously focused their activities on the mobilisation of deposits from individuals, institutions as well as donor agencies for the financing of economic entities in the rural communities, as well as on the provision of microfinance loans to low income earners and small business operators in these communities.

Construction work on the Kabala and Zimmi Community Bank buildings is almost on the verge of completion and the banks are expected to be commissioned in 2007. These Banks, when commissioned, will bring the total to six pilot community banks operating across the country.

To ensure that financial intermediation by the community banks reaches a wide spectrum of the rural community country wide, the International Fund for Agricultural Development (IFAD), through the Rural Finance and Community Improvement Programme (RFCIP), intends to provide support to the existing community banks, by strengthening their capital base to enable them enhance their outreach. IFAD also intends to support the community banking system through the creation of ten (10) new community banks throughout the country. Feasibility studies to identify and select suitable areas to establish the 10 new community banks had been completed. IFAD has also indicated its willingness to support the creation of an Apex umbrella association to be facilitated by the Bank of Sierra Leone, through which the community banks could start to address issues of common interest to all of them.

As a manifestation of the Bank's desire and keen interest to establish an apex institution for community banks, the Bank of Sierra Leone is currently supporting and collaborating with the Association of Community Banks recently formed by Board members of the four operating community banks, to exchange information on community banking practices in Sierra Leone and to serve as a forum for the discussion of problems affecting the community banks and finding possible solutions to these problems.

To enable the functionaries of community banks realize their identity as community bankers and community developers and to disseminate information on the relevance of community banking for economic development, the Bank of Sierra Leone held a retreat for the Board of Directors and Management staff of the community banks at the Eastern Polytechnic, Kenema in May 2006, to share ideas and view points on the theme “*Our Common Destiny*” which refers to the need for concerted action to achieve the country’s economic development goals and its implications on community bank’s operations.

Capital Markets Development

Work continues on the formulation of the enabling legislations for the development of capital market. A stakeholders’ workshop on the various draft legislations was held in December 2006. Relevant comments made by participants are now being incorporated into the draft Bills. As a temporary arrangement, the Other Financial Services Act 2001 is being amended to allow for the establishment of an interim stock trading facility and licensing of brokers and dealers in securities. Within this framework, the private sector will assume responsibility in the governance of the facility, while BSL assumes the role of technical service provider and regulator of market players.

As part of capacity building, the Bank in collaboration with FIRST Initiative organized a training workshop on capital market operations and regulations for staff of various institutions including BSL staff. Staff of the Bank also benefited from training programmes organized abroad.

Foreign Exchange Management

(i) Foreign Exchange Assets

Bank of Sierra Leone’s gross foreign exchange reserves increased from US\$168.29mn in 2005 to US\$183.82mn as at end December 2006. This represented an increase of 9.23 percent above the previous year position.

Inflows to the foreign reserves during the review period mainly constituted receipts from disbursements of Programme grants and loans by donors including the IMF new PRGF Programme, the UK/SL Programme Grant, the fifth World Bank Economic Recovery and Rehabilitation Grant (WB/ERRG V), the EU-Post Conflict Budget Support, the Third African Development Bank Economic Recovery and Rehabilitation Program III (ERRPIII) and the replenishment from the European Development Fund, Islamic Development Bank and IDA project funds. The favorable performance was also enhanced by the receipt of non-programmed disbursements in the review period.

Outflows from foreign reserves were predominantly in respect of goods and services (Foreign Exchange Auction, 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.

During the period under review, total inflows was 24.34 per cent or US\$34.84mn lower than US\$143.13mn in 2005 of US\$108.29mn. The key disbursements for budget support included UK/Sierra Leone Programme Grant for balance of payments and budgetary support of GBP12.50mn, EU post conflict budgetary support of EUR10.00mn, World Bank Economic

Table 23

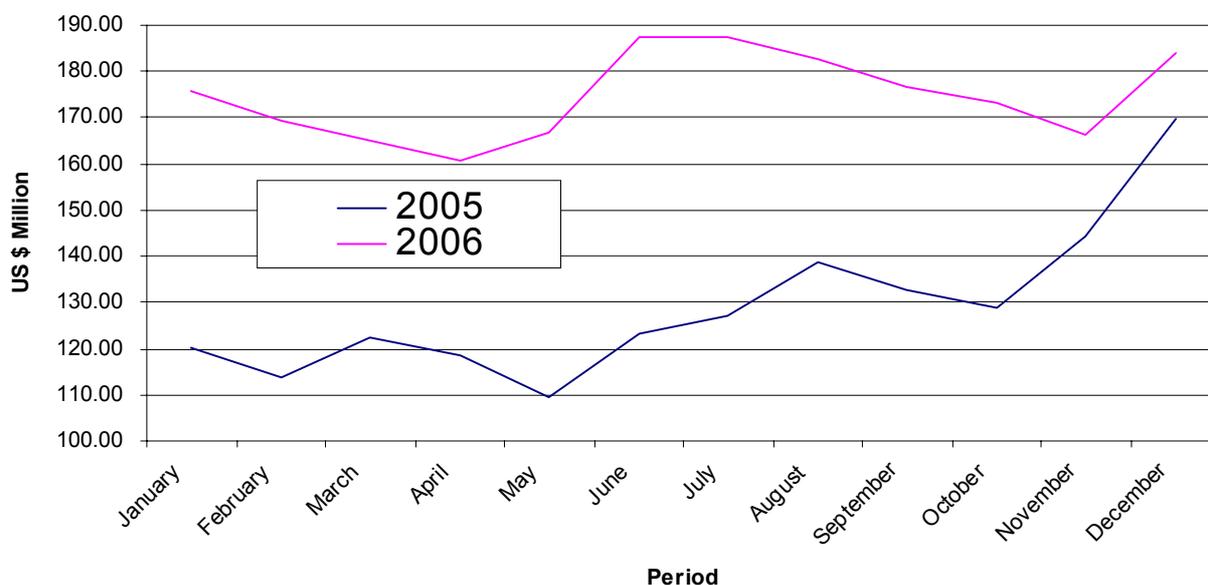
Stock of Government securities outstanding by Holders			
(in Million Leones)			
	2006	2005	Change
1. Treasury Bills	438,801.55	375,443.65	63,357.90
Bank of Sierra Leone	75,444.55	33,094.55	42,350.00
Commercial Banks	208,834.00	198,215.25	10,618.75
Non – Bank public	154,522.65	144,133.85	10,388.80
<i>of which</i> NASSIT	79,678.45	76,633.95	
2. Treasury Bearer Bonds	137,518.20	137,518.20	
Bank of Sierra Leone	7,946.60	28,161.15	-20,214.55
Commercial Banks	30,873.35	8,415.25	22,458.10
Non- Bank Public	98,698.25	100,941.80	-2,243.55
<i>of which</i> NASSIT	16,085.60	13,806.55	
3. Total Government Securities	576,319.75	512,961.85	63,357.90
Bank of Sierra Leone	83,391.15	61,255.70	22,135.45
Commercial Banks	239,707.70	206,630.50	33,077.20
Non- Bank Public	253,220.90	245,075.65	8,145.25
<i>of which</i> NASSIT	95,764.05	90,440.50	

Rehabilitation and Recovery Grant (ERRG-V) of US\$10.23mn, ADB Economic Rehabilitation and Recovery Program III of US\$15.81mn and BOP support under the Poverty Reduction and Growth Facility (PRGF) Assistance from the IMF of US\$13.63mn. Other programme disbursements realized were from European Development Fund (EDF Replenishment) of US\$6.21mn for funding European Union projects operating in the country and Islamic Development Bank project funds under the Capacity Building for Palm Production & Processing Project, Construction and Reconstruction of Primary school Project and Social

Action Support Project of US\$5.26mn. Non-programmed receipts realized from other donors were mainly from IDA/World Bank of US\$0.97mn (to finance IDA related projects in the country) and other government receipts of US\$7.58mn [in respect of Consular fees, Telecommunications licenses fees, National Revenue Authority (NRA) and Accountant General (AG)].

Total receipts from exports licences, taxes and royalties decreased by 1.42 per cent from US\$8.46mn in 2005 to US\$8.34mn end December 2006. Diamond License fees recorded improved

Chart 12
Gross International Reserves



performance during the review period with inflows of US\$4.68mn exceeding the previous year's performance of US\$4.07mn by 13.03 percentages. Diamond Exporters Income Tax and Fishing Royalties were lower by 11.52 per cent and 38.55 percent respectively and can be attributed to the introduction of corporate tax, which crowded out small exporters. The improved performance from the Diamond License fees is as a result of the positive impact of the Diamond Mining Policy.

Total foreign exchange outflows was US\$103.92mn in December, 2006. This shows a 15.89 percent increase when compared to US\$89.67mn recorded in 2005. Of that total, 83.14 per cent or US\$86.40mn was in respect of goods and services and 16.87 per cent or US\$17.53mn for debt service payments. Out of the total payment of US\$86.40mn made for goods and services, 70.63 per cent was in respect of foreign exchange provided to the private sector through the weekly Foreign Exchange Auction.

ii. Investment Activities

A total of US\$7.11mn was earned from foreign investment activities out of an average amount of US\$89.19mn invested in 2006. In 2005, an average deposit of US\$55.35mn invested, yielded US\$3.82mn. The enhanced performance was due to the favorable global interest rates and the tactical placement of funds to take advantage of the favorable market environment. Earnings recorded for the review period rose by 86.12 per cent over those recorded for 2005 and the returns on investment for both 2005 and 2006 were 6.90 per cent and 7.97 per cent respectively.

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 24 shows holdings of currencies by the Bank of Sierra Leone as at end December, 2006 (excluding donor

import support funds). 16.61 per cent was held in SDRs, 24.13 per cent in Pound Sterling, 45.17 per cent in United States Dollars, 14.06 per cent in Euro and 0.03 per cent in Japanese Yen.

iv) Foreign Exchange Market

(a) Overview

The continued 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 characterized the foreign exchange market. The underlying causes of the depreciation are the increased level of imports relative to that of exports

b) Volume of transactions

Aggregate purchases of Foreign Exchange by Commercial Banks and Foreign Exchange bureaux showed an increase of 5.21 % over the previous period from US\$201.99m in 2005 to US\$212.52 in 2006. Aggregate Sales of Foreign Exchange by Commercial Banks and Foreign Exchange bureaux showed a decrease of 13.34 % over the previous period from US\$205.96m in 2005 to US\$178.47m in 2006.

The increase in purchases was accounted for by purchases from NGO'S, project funds and diamond funds.

Table 24

Currency Management

	Dec. 2005	% of Total Bal.	Dec. 2006	% of Total Bal.
U . S . Dollars	82.0	48.4	79.3	45.2
Pound Sterling	28.1	16.6	42.4	24.1
Euro	26.6	15.7	24.7	14.1
Japanese Yen	0.1	0.0	0.1	0.0
SDRs	32.8	19.3	29.2	16.6
Total Balance	169.5	100	175.6	100
Donor funds				
U . S . Dollars	0.1	100	8.2	100

and speculation. The relative increase in exports was not sufficient enough to stop the depreciation. Notwithstanding the depreciation of the Leone against other international payment currencies, the Leone has remained relatively stable over the period and segmentation in the foreign market was slightly reduced.

The foreign exchange auction has continued to provide stability in the Foreign Market. There has been a significant increase in foreign exchange earned by the banking system from diamond transactions as foreign exchange brought was sold to the commercial banks.

c) Exchange rate movements

The monthly average official exchange rate of the Leone/US\$ depreciated in 2006 and led to an overall yearly depreciation of 1.69% from Le2,930.97/US\$1.00 to Le 2,980.37/US\$1.00. The monthly average auction rate also depreciated by 0.98% in 2006 from Le2,936/US\$1.00 to Le2,964.76/US\$1.00. The monthly average parallel exchange rate depreciated by 0.01% in 2006 from Le3,029.20/US\$1.00 to Le3,028.75/US\$1.00. The monthly average bureau exchange rate appreciated by 0.70% in 2006 from Le2,947.18/US\$1.00 to Le2,967.69/US\$1.00. By the last quarter of 2006,

Table 25
Bank of Sierra Leone Foreign Exchange Cash Flow (in US\$ Mn)

	JANUARY - DECEMBER 2006	JANUARY- DECEMBER 2005
INFLOWS :-Of which	108.29	143.13
Receipts from exports	8.34	8.46
Rutile	0	-
Bauxite	-	-
Diamond License fees	4.68	4.07
Diamond Exporters Income Tax	3.15	3.56
Fishing Royalty/License	0.51	0.83
Other Govt	1.60	5.95
Others	7.58	4.74
Inspection Fees	0.03	0.06
BSL Purchases of Notes/T. Cheques	0.03	0.07
Transactions with Commercial Banks	2.00	-
Privatization	1.04	0.01
Aid Disbursement	87.59	116.72
IMF	13.63	20.44
AFDB	15.81	10.97
UK	22.91	30.12
EU (EDF Replenishment)	6.21	10.16
WB Loan (ERRC/G)	10.23	14.68
EU	12.57	21.11
IDA/World Bank	0.97	1.19
Others/IDB	5.26	8.05
HIPC Flow Relief	0.08	7.12
OUTFLOWS :-Of which	103.92	89.67
Payments for Goods and Services	86.39	63.47
Embassy/Missions	8.28	7.55
BSL	1.50	1.04
Stabilization & Cooperation Fund	0.25	-
Printing of Currency	4.54	0.59
Government Travel	1.84	1.68
Other Government	7.93	7.80
Subscription to Intl. Organisations	1.03	1.61
Military	-	0.28
Private Sector Support	61.02	41.45
HIPC Related Imports	-	1.47

Table 25 Contd

Bank of Sierra Leone Foreign Exchange Cash Flow (in US\$ Mn)		
	JANUARY- DECEMBER	JANUARY- DECEMBER
	2006	2005
Debt Service: Of which	17.53	26.20
IMF	6.38	9.76
World Bank	4.07	3.96
AFDB	1.68	4.23
Other Multilateral & Bilateral	3.72	2.83
Paris Club Creditors	0.46	0.48
Other Commercial Debt	0.90	0.35
OPEC (CIP Arrangement)	0.20	0.15
Clearing of Arrears (EEC/EIB, Badea etc)	0.12	4.44

there was evidence of convergence of the auction, BSL Official rate, Commercial Banks and Bureaux rates.

d) Foreign Exchange Bureaux

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 would have found its way into the parallel market.

(v) Foreign Exchange Auction System

Table 26 shows the amount offered demanded and supplied in the auctions during January to December 2005 and January to December 2006. Significant increases of 48.55% and 47.47% in the amounts offered and supplied were, respectively, recorded in 2006 over 2005. This was a reversal of the decline observed in 2005 when compared to 2004. Demand in the current period has been relatively stable as participants grasped the pre-validation exercise of import documents and have been producing documents that are eligible for the auctions; a factor that in the past inhibited a large number of participants in the market.

Table 26			
Amount Offered, Demanded and Supplied in Foreign Exchange Auction			
(Thousand Dollars)			
	2005	2006	% Change in 2006
Amount Offered	44,700.00	66,400.00	48.55
Amount Demanded	66,686.50	74,594.34	11.86
Amount Supplied through the Competitive Window	39,475.00	59,634.65	51.07
Amount Supplied through the Non-Competitive Window	1,896.86	1,376.00	-27.46
Total Amount Supplied	41,371.86	61,010.65	47.47

Table 27

Sectoral Distribution of Auction Funds (US\$'000)				
Sector	2005	2006	% of Total amount in 2006	% Change in 2006
General Merchandise	18,710.16	20,671.52	33.88	10.48
Banks	9,716.67	14,204.00	23.28	46.18
Oil Companies	6,546.21	19,779.27	32.42	202.15
Industries	6,398.83	6,355.86	10.42	-0.67
Total	41,371.87	61,010.65		

The demand pressure in the auction market was exacerbated during the review period to the tune of US\$74.59 million compared to US\$66.69 million in corresponding period of 2005. The preemptive actions taken by the Bank to provide additional financing window to the oil companies helped to avoid possible shortage that could have arisen. Total offer amount was gradually increased from US\$0.80mn to US\$1.20mn and to US\$1.50mn

incorporating a special dispensation of US\$0.50mn for oil companies. This was in reflection of the shock in the global oil market that increased oil prices to over US\$70 per barrel as at the end April 2006. The additional window helped oil importers to reduce accumulated arrears to their suppliers and above all to ensure the continuous supply of petroleum products in the domestic market. This facility was discontinued on 15th November 2006.

Chart 13
Monthly Average Exchange Mid-Rates - 2006

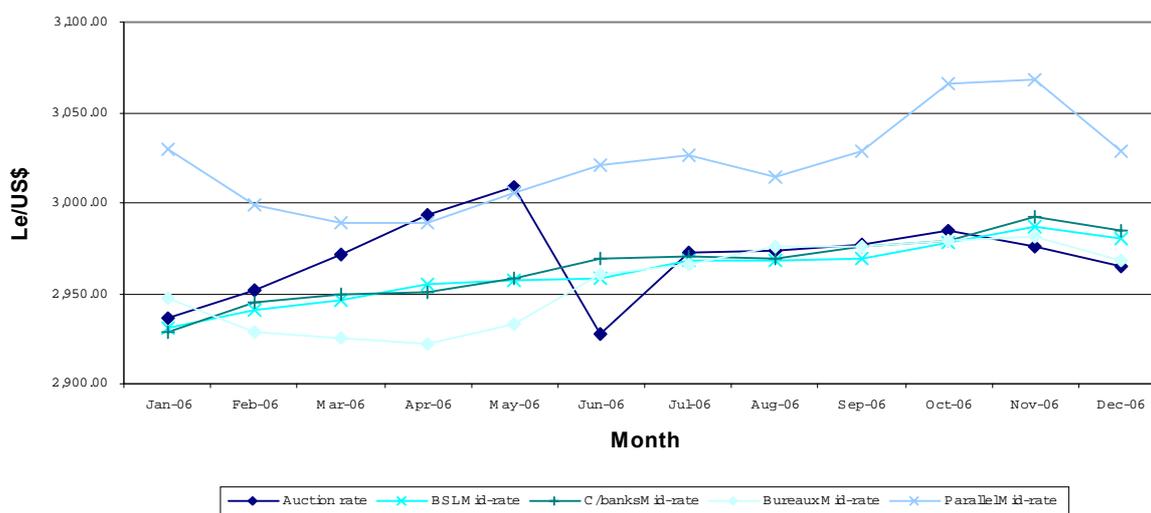


Table 27 shows the sectoral distribution of auction funds. As has been the case over the years, the merchandise sector continued to be significant and increased marginally over the Oil Companies in the current period. The Oil sector has superseded the banking sector. The sector won US\$19.78mn or 32.42% of total amount awarded. The General Merchandise sector, Commercial Banks and the Industries were awarded US\$20.67mn (33.88%), US\$14.20mn (23.28%) and US\$6.36mn (10.42%) respectively.

There was no sale of foreign currency to the auction during the review period as was the case in 2004 and 2005. The market remained tight and the commercial banks and the public relied on the auction to supplement the supply of foreign exchange in the market.

(B) 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 2006, stood at US\$ 1,610.7 mn as compared to US\$ 1,689.56 mn as at Dec. 2005. The total outstanding debt continued to be dominated by debts to multilateral and bilateral creditors, accounting for 58.7% and 26.5% respectively, whilst the residual of 14.8% is owed to other commercial creditors. This classification is shown on Table 26. The principal multilateral creditor is the World Bank.

The stock of principal and interest arrears owed to all creditors is shown on Table 28. A total of US\$ 265.6 million of the stock of disbursed outstanding debt represents principal arrears owed mainly to the commercial and other creditors. Interest arrears amount to US\$ 8.0 million of which US\$4.5million is owed to official bilateral credito

(ii) Major Developments in 2006

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.

On May 2006, the Executive Board of the IMF approved in principle a three year arrangement for Sierra Leone under the Poverty Reduction and Growth Facility (PRGF) for a total amount of SDR 31.11mn (about US\$ 46.3mn) to support the Government's 2006-2009 economic program. A total of SDR 9.11mn (US\$ 13.63mn) was disbursed during the year under the PRGF program.

On December 15, 2006, the Executive Boards of the IMF and World Bank approved Sierra Leone's Completion Point under the HIPC Initiative. To this end the IMF, World Bank and the ADF agreed to grant Sierra Leone debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). Under the MDRI, debts outstanding to the IMF and the ADF as at end 2004 were written-off and debts outstanding to IDA as at end 2003 were also written-off. Other creditors are expected to grant their share of the debt relief.

(iii) External Debt by Creditor Category

Table A classifies the total stock of disbursed outstanding debt including principal arrears into creditor category. The total outstanding debt stood at US\$ 1,610.9million as at end December 2006 as compared to US\$ 1,689.6 million as at end

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Table 28

Disbursed Outstanding Debt, including Principal Arrears as at End December 2006 classified by currency of liability ('000)						
Currency	Dec. 2005			Dec. 2006		
	debt in Foreign Currency	total debt in Le	% of total	debt in Foreign Currency	total debt in Le	% of total
Canadian Dollars	1,164	2,930,373	0.07	1,141	2,926,231	0.06
Swiss Francs	38,235	85,249,710	1.93	38,091	92,689,198	1.95
Chinese Yuan	183,447	66,420,797	1.50	183,527	72,485,979	1.52
Danish Kroner	311	144,817	0.00	298	156,248	0.00
EURO	251,580	873,807,120	19.78	249,117	973,726,378	20.46
British Pounds	3,589	18,166,345	0.41	3,490	20,339,539	0.43
Japanese Yen	13,359,762	332,658,083	7.53	16,080,706	401,856,852	8.44
Kuwaiti Dinar	6,702	67,305,027	1.52	6,380	65,613,951	1.38
Norwegian Kroner	94,001	40,732,357	0.92	96,992	45,912,484	0.96
Saudi Riyal	3,536	2,765,009	0.06	3,229	2,560,278	0.05
Swedish Kroner	2,396	883,519	0.02	2,343	1,012,870	0.02
United States Dollar	234,551	687,825,022	15.57	221,972	660,131,863	13.87
Special Drawing Rights	522,823	2,170,221,391	49.14	526,622	2,329,447,856	48.95
Islamic Dinar	16,246	67,437,549	1.53	20,367	90,090,614	1.89
Total		4,416,547,119	100.00		4,758,950,341	100.00

Source: Externad Debt Policy Section

December 2005. The reduction in the stock was as a result of the stock of debt cancellation of US\$ 176mn received from the IMF as Sierra Leone reached Completion Point in December 2006. The

depreciation of the US Dollars to other foreign currencies account for the minimal reduction shown in the stock of outstanding debt.

Table 29

Principal & Interest Arrears as at end Dec-2006 (US\$ M n)				
	DEC. 2005		DEC. 2006	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
Total External Debt	279.0	8.7	265.6	8.0
Total Commercial Obligations & Short-Term Debt 1/	222.5	-	219.8	-
Total Long-Term Debt, of which :	56.5	8.7	45.8	8.0
Multilateral	-	-	-	-
World Bank Group	-	-	-	-
IMF	-	-	-	-
Others	-	-	-	-
Official Bilateral	37.5	5.2	27.5	4.5
Paris Club	13.1	5.2	-	4.5
Others 2/	24.4	-	27.5	-
Other Creditors	19.0	3.5	17.8	3.5
Executive Outcome	18.1	3.5	17.4	3.5
J. S Franklyn Ltd & Deftech BV Corp.	0.5	-	-	-
Chatelet Investment Ltd	0.4	-	0.4	-

1/ China, Morocco, Kuwait & Saudi Fund

Table 30

Debt Service payment made in US \$ M n		
	2005	2006
Bilateral:	2.4	2.4
Paris Club Creditors	0.5	0.5
Other Bilateral	1.9	1.9
Multilateral (Net amount)	23.5	14.0
African Development Bank/Fund	6.9	4.3
<i>of which: HIPC for. exch. savings on debt service</i>	2.6	2.8
<i>Net Amount paid</i>	4.2	1.5
World Bank (IBRD/IDA)	13.2	13.7
<i>of which: HIPC for. exch. savings on debt service</i>	9.2	9.6
<i>Net Amount paid</i>	4.0	4.1
International Monetary Fund /1	9.8	6.3
<i>of which: HIPC debt relief</i>	5.8	0.1
Other Multilateral	8.7	5.5
<i>of which: HIPC for. exch. savings on debt service*</i>	3.2	3.4
<i>Net Amount paid</i>	5.5	2.1
Other Commercial/Military Debts	0.4	0.9
Grand Total	26.1	17.3
<i>Of which: HIPC Debt relief</i>	21.0	15.9

Source: External Debt Policy Section, BSL

The stock of debt to bilateral creditors increased from US\$ 398.1mn as at Dec. 2005 to US\$ 427.1mn as at Dec. 2006 as a result of the capitalization of late interest by the Government of Japan and the depreciation of the US Dollars as earlier indicated.

(iv) Currency Composition

Table C 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 dominate Sierra Leone's debt. They account for 48.95% and 20.46% respectively as at end December 2006. Loans to IDA are mainly denominated in SDRs, which accounted for the high percentage of the total debt. The US Dollar, which accounts for 13.87% represents the third major currency that dominates Sierra Leone's debt.

(v) Debt Indicators and Debt Service

Table D shows the debt indicators in nominal terms for the period ended December 2005 and 2006. Debt service payments decreased by 33.7% from US\$ 26.1million in 2005 to US\$ 17.3 million in 2006. This decrease was a result of the debt relief granted by the multilateral creditors during the review period. HIPC debt relief also decreased slightly by 0.24% from US\$ 26.95mn in 2005 to US\$ 15.88mn in 2006. The stock of debt to GDP ratio decreased from 141.4% to 121.4% as a result of the decrease in the stock of debt. Total exports increased by 39.2% from US\$ 158.6mn in 2005 to US\$ 220.8mn in 2006. This account for the reduction in the debt to export ratio from 1063.3% in 2005 to 729.4% in 2006.

The Government seeks to pursue prudent debt management and adheres to its commitment to avoid non-concessional external borrowing consistent with the IMF PRGF program and the HIPC Initiative.

Sierra Leone's State of Convergence under the West African Monetary Zone (WAMZ) Performance Criteria 2006

With a new date set for the launching of the monetary union, the path to achieving the use of a Single Currency for the West African Monetary Zone (WAMZ) resumed in 2006, with the new West Africa Monetary Institute (WAMI) taking up duties following the appointment of a new Director General and staff and the overall restructuring of the existing institution. The new Director General made a tour of member states and visited the Sierra Leone authorities in July 2006, when he took the opportunity to meet with various stakeholders. He explained the plans and strategies the new WAMI would be implementing in order to achieve the ultimate objective by the new deadline of December 1, 2009. In terms of macroeconomic performance, there was a general improvement amongst member states especially in the areas of tackling inflation and the accumulation of reserves, but the fiscal deficit criterion was unattainable by all with the exception of Nigeria. Progress was also made in other areas of the implementation of the Action Plan. However, emphasis was placed on the following areas, to ensure that progress was sustained:

The need to strengthen domestic statistical units to produce quality data to support macroeconomic surveillance and improve domestic policymaking.

Need to sustain efforts towards achieving the primary convergence criteria as well as striving to achieve the secondary criteria.

National Sensitisation Committees should be reactivated.

Sierra Leone's macro-economic performance

With regards to the WAMZ Convergence Criteria, Sierra Leone achieved only two of the four primary criteria, in the areas of single digit inflation rate and the Gross Foreign Reserves in months of imports benchmarks, while unable to meet any of the six secondary criteria. This position was a deterioration on 2004 and 2005 when two primary and one secondary criterion were met.

Status of Convergence

From the table above, the year-on-year inflation rate in December 2006 of 8.26 per cent showed an improvement and met the WAMZ single digit criterion compared to the 13.1 per cent recorded in December 2005.

The fiscal deficit as a percentage of GDP dropped to 9.7 per cent from 9.9 per cent recorded in December 2005 but the target of 4 per cent or less was also not attained in 2006. However, the improved performance was an indication of government's effort to reduce budget deficit.

The criterion on central bank financing of the budget deficit was breached at 13.3 per cent for end December 2006. This position was in contrast to the 2004 and 2005 positions which recorded zero. The non-compliance was due to increased spending on poverty related expenditure under the IMF's PRGF program.

Gross external reserves as at end December 2006 was equivalent to 4.2 months of imports, exceeding the WAMZ criterion of at least three months of import cover. However, the ratio of reserves to months of imports cover was a deterioration as at end December 2006 compared to 2005 position, which recorded 4.9 months of import cover. This development was mainly due to increases in import bills for 2006.

Tax revenue as a proportion of GDP, which was 5.3 per cent in June 2006, rose to 10.5 per cent in December 2006. It was however, below the WAMZ target of at least 20 per cent

The wages and salaries mass to tax revenue ratio stood at 65.0 per cent for the year, far exceeding the WAMZ target of at most 35 per cent compared

The value of the Leone depreciated by 16.1 per cent as at end December 2006 depicting instability as the local currency went out of the WAMZ band of 15 per cent. This depreciation could be explained by the demand exceeding supply of foreign currency in the review period.

Table 31

**Status of Convergence
(Primary Criteria)**

Criteria	Target	2002	2003	2004	2005	2006
Inflation (end period)	Single digit	-3.1	11.3	14.4	13.1	8.3
Fiscal Deficit/GDP% (excl. grants)	Less than or equal to 4%	19.8	13.4	11.4	9.9	9.7
Central Bank Financing/ Previous years tax revenue	Less than or equal to 10%	1.9	25.6	0	0	13.3
Gross External Reserves (Months of imports)	Greater than or equal to 3 months	3.1	2	4.2	4.9	4.2
(Secondary Criteria)						
Criteria	Target	2002	2003	2004	2005	2006
Domestic Arrears	0	n.a	n.a	n.a	n.a	n.a
Tax revenue/GDP ratio	Greater than or equal to 20%	14.5	11.5	11	10.1	10.5
Salary Mass/Total Tax revenue	Less than or equal to 35%	62.2	59.7	56	62.3	65.3
Public Investment from Domestic receipts	Greater than or equal to 20%	8.9	11.3	8.2	9.2	8.9
Real Interest Rate	Greater than 0	8.6	-5.8	-6.4	-5.4	-0.6
Exchange rate	Stable +/- 15%	-1.4	16.9	11.6	14.5	16.1

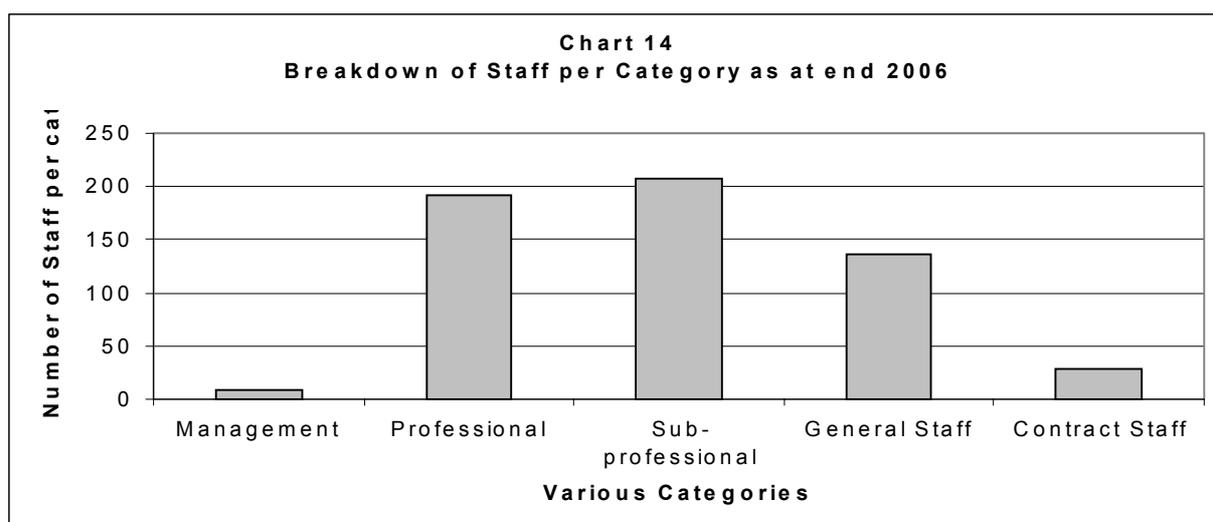
to 62.3 per cent in 2005. This reflected the high levels of wage bill payments by Government.

The positive interest rate criterion continued to be unattainable even though a tremendous gain has been made in achieving a single digit inflation, real interest rate was negative 0.6 per cent as at end December 2006, which shows improvement compared to negative 5.4 per cent at end December 2005, but still reflects the low interest rates on savings deposits.

The public investment from domestic receipts to tax revenue ratio for 2006 was 8.9 per cent. It was lower than the level recorded in 2005 (9.2 per cent) and also far below the WAMZ target of at least 20 per cent. This continues to indicate the low usage of domestic funds for undertaking public projects.

Human Resources

During the review period, the Bank made several improvements in the area of capacity building. Such improvements were embarked on with the overall



aim of motivating and retaining productive staff as well as enhancing the development of the Bank. In a bid to make the most of the expertise of its staff, the Bank continued to identify skills gaps and develop staff to attain the required expertise, thus enhancing their performance. The Bank also ensured that staff were properly assessed and rewarded to reflect their performance and achievements.

The staff complement of the Bank decreased from 580 as at end 2005 to 572 as at end 2006, with slight decreases reflected in the Professional cadre as well as for the General Services staff, and minimal increases in Management and Contract staff, while sub-professional staff remained the same. Currently, staff strength is as follows.

Table 32
Breakdown of Staff per category

	2005	2006
Management	8	9
Professional	199	192
Sub-Professional	207	207
General Service Staff	139	136
Contract Staff	27	28
Total	580	572

The breakdown in staff strength indicates that as is usually the case, the majority of staff continue to be in the professional and sub-professional cadres.

During 2006, 6 staff were recruited while 14 staff severed from the Bank for the following:

Resigned	7
Vacate	1
Deceased	4
Dismissed	2
Totals	14

Staff Development

Training and development, specifically aimed at building capacity, continues to be one of the main goals of the Bank. This is to ensure that staff meet

Table 33**Courses Attended by Staff**

Year	Short programme 1-5 weeks	Undergraduate Studies	Post-graduate Studies/Profession al Categories	<u>Total</u>
2005	53	8	5	66
2006	34	20	42	96

their agreed targets so as to sustain and enhance the growth and development of the Bank.

In this regard, 96 staff were trained in 2006. Table 30 shows the number of staff who attended courses locally, in the sub region and outside the sub-region. The majority of staff benefited from training programmes organised by the West African Institute for Financial and Economic Management (WAIFEM), a regional body whose goal is to build capacity in the sub-region. WAIFEM is funded by Central Banks in the Gambia, Ghana, Nigeria, Sierra Leone and very recently, Liberia. Other funding agencies like the International Monetary Fund (IMF), Debt Relief International (DRI) and Joint Africa Institute (JAI) also contributed to capacity building in the Bank.

Additionally, in response to the growing need for capacity building necessitated by a changing and challenging environment, the Bank encouraged staff to seek third party sponsorship to pursue various degree programmes. As such funding agencies like the World Bank, African Development Bank (ADB)

and the African Capacity Building Foundation (ACBF) have been of tremendous assistance in this regard.

The Bank also granted approval for staff to benefit from full Bank sponsorship to pursue Under/Post-graduate Degrees at Fourah Bay College, Njala University and Institute for Public Administration and Management (IPAM).

In-House Training Programmes were also high on the agenda and this comprised seminars and courses of diverse nature, mostly facilitated by personnel of the Bank.

There has however been a lull in the activities of the French Language Laboratory which was set up for staff to acquire a working knowledge in French. Training in Information Technology was suspended due to staff constraints in this Unit. It is hoped that the courses in Information Technology and French will be re-activated in year 2007.

Management of the Bank including Independent Units

Governor	–	Dr. James D. Rogers
Deputy Governor	–	Mr. Mohamed S Fofana
Adviser to the Governors/Capital Market	–	Mr. Nathaniel S B Wellington

Heads of Department

Senior Director, Research Department	–	Ms. Andrina R. Coker
Senior Director, Governor's Office	–	Mr Francis B. Roberts
Director, Accounts and Budgeting Department	–	Mrs Khadi R. Saccoh
Director, Board Secretariat Department	–	Haja Ajaratu A. M. Mahdi
Director, Banking Supervision Department	–	Ms Yeabu M. D. Kamara
Director, Banking Department	–	Mr Ibrahim K. Lamin
Director, Human Resources Department	–	Mrs. Grace O. Hassan
Director, International Finance Department	–	Mr Sidique A B Sesay
Director, General Services Department	–	Mr. Henry E. P. Musah
Director, Dev Coordination Department	–	Mrs Rose Gobio-Lamin

Heads of Unit

Head, Security	–	Mr. Jenner T. Buck
Head, Internal Audit	–	Mr. Ralph Ansumana
Head, Management Information Systems Unit	–	Mrs. Hanifa Addai

Bank of Sierra Leone Charity Trust Fund

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

The current membership is as follows:

Professor A. A. Gbakima	–	(Ag. Chairman)
Mr. William Taylor	–	(Member)
Ms Christiana Thorpe	–	(Member)
Mr. Bob Katta	–	(Member)
Mr. Tom Lee	–	(Member)

The Fund is managed by a Board of Trustees with the following 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

During the Governor’s Annual Dinner held at the Bank of Sierra Leone Staff Recreational Complex, Kingtom, Freetown, on the 24th November, 2006, two new beneficiaries of the Charity were recognised and presented with cheques to cover tuition, lodging, books and maintenance

The proud beneficiaries were John Kamara and Josephine Mansaray, the former scored the highest mark in the WASCE exam in 2005 and the latter the second highest.

Financial Position and Operating Results of the Bank for the year ended 31st December 2006

The Bank's financial performance continued to improve, with total assets and liabilities increasing by 11.16% from Le1,590.53 billion in 2005 to Le1,767.94 billion as at 31st December, 2006. This change was largely attributed to a 103.63% increase in Non-Financial Assets, coupled with a 13.41 % increase in Foreign Currency Financial Assets and a 2.10% increase in Local Currency Financial Assets. Total Non-Financial Liabilities also increased by 15.52%.

The increase in Foreign Currency Financial Assets was occasioned mainly by a 9.74% increase in the Bank's Gross Foreign Exchange Reserves (cash on hand, cash and cash equivalents with foreign banks and IMF Special Drawing Rights (SDR) Holdings). This improvement resulted mainly from the receipt of programmed funds disbursed towards the last quarter of the financial year by our foreign donor partners and the reduction in debt servicing obligations arising from the cancellation of our foreign debts by our External partners. Other foreign currency financial assets including IMF Quota Subscriptions also increased by 17.58%.

The 2.10% increase in Local Currency Financial Assets was due to a 35.38% increase in the Bank's holdings of Government Securities (Treasury Bills and Bonds). This increase was however adversely affected by a 41.44% drop in the Bank's investments in marketable securities. Ways and Means Advances to Government was zero at the end of the year, in compliance with IMF/Government monetary policy guidelines.

On 14th October, 2006, the Government signed a Memorandum of Understanding with the Bank to convert Le100 billion from the total of Le530 billion worth of Non-Negotiable, Non-Interest Bearing Securities into marketable securities for monetary operations. Only Le50 billion of this amount was converted and held in a Special Securities Asset Account. Proceeds from the sale of the securities, which will be market-determined, will be credited to a Sterilization Account and not to the Government. The interest costs of financing the operations and the total amount payable at redemption will be borne by the Government.

The Bank's Property, Plant and Equipment increased significantly by 78.27% during the period due to an increase in the value of the Bank's freehold properties in Freetown and Kenema arising from the revaluation of these Assets by the Engineering Consultants.

There was a marginal drop (by 2.38%) in Total Foreign Currency Financial Liabilities. This was mainly due to a decrease, by 69.42%, in Foreign Payments and the IMF No. 1 Account balances. The IMF Poverty Reduction and Growth Facility (PRGF) Loan however increased by 11.36%.

Local Currency Financial Liabilities registered a decrease of 16.50% during the period as a result of decreases in the levels of Government (82.17%) and Commercial Bank (26.97%) deposits. Other deposits, inclusive of deposits by Other Financial Institutions (OFI), increased by 177.31% while Other Liabilities remained unchanged during the same period.

The Bank's Reserves improved significantly during the period from net total negative reserves of Le177.36 billion as at December 31, 2005 to net total negative reserves of Le5.87 billion as at December 31, 2006. This represented a 96.69% improvement that resulted mainly from the positive revaluation adjustment effected

by the IMF to its holdings of Leones in order to maintain its SDR equivalent. This also enabled the Bank to realise significant revaluation gains of Le149.19 billion during the period. As a result, the net debit balance in the Revaluation Reserve Account was reduced by 68.79% from Le216.85 billion as at 31st December, 2005 to Le67.66 billion as at 31st December, 2006. Total Foreign Currency Financial Liabilities of Le1,080.25 billion slightly exceeded the Total Foreign Currency Financial Assets of Le1,065.65 billion by only 1.37%. The reduced debit balance in the Revaluation Reserve Account, which represents accumulated 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 Le30.42 billion representing a 10.96% drop over receipts of Le34.16 billion in 2005. 70.59% of this income accrued from Foreign Currency Investments. The favourable yield from this source which was 78.99% higher than what was realized in 2005 (Le21.47 billion in 2006 compared to Le11.99 billion in 2005) was mainly due to increased levels of foreign reserve funds available for investment and more favourable interest rates on our investment portfolios during the period. Interest receipts from the Bank's US \$ and Pound Sterling portfolios constituted the bulk (76.38%) of this income. Government Securities (Treasury Bills and Bonds) generated 23.19% of total interest income from financial assets, representing a 46.25% decrease compared to what was realized in 2005. This was largely due to the lack of new issues of the securities during the first three quarters of 2006 coupled with the decline in the Bank's holdings of same. Interest income from Ways and Means Advances to Government also dropped significantly by 88.05% from Le7.40 billion in 2005 to Le0.88 billion in 2006. This continued drop is reflective of the effective implementation of Government / IMF monetary policy guidelines and underlines the fact that this is no longer the Bank's main source of income as in previous years. Net interest income amounting to Le27.20 billion was 14.87% lower than last year's net position. IMF Interest and Charges increased by 47.22% from Le2.16 billion in 2005 to Le3.18 billion in 2006. Charges on Foreign Transactions and the total amortised cost of Government Securities fell by 21.15% and 11.45% respectively compared to the amounts incurred in 2005. Other income, with the bulk (86.39%) accruing from Sundry Receipts, dropped by 52.91% from Le3.72 billion in 2005 to Le1.75 billion in 2006.

Total operating income also fell by 19.65% from Le35.91 billion in 2005 to Le28.85 billion in 2006.

Total operating expenses amounted to Le31.94 billion in year 2006 representing a decrease of 7.30 % when compared to the amount of Le34.46 billion incurred in 2005. A substantial portion of total operating expenses was in respect of Personnel Costs, which was 19.57% lower (Le21.66 billion in 2005 compared to Le17.42 billion in 2006) than what was incurred in 2005. The drop in personnel costs could be attributed to an increase in staff turnover and the substantial reduction in Staff Pension Contribution due to the dissolution of the Bank's Pension Scheme. At Le9.83 billion, the next major item was Administration Costs, which constituted 30.77% of the total operating expenses, and increased by 46.91% over the amount of Le6.69 billion incurred in 2005. Depreciation increased by 2.10% while Currency Issue Expenses dropped by 42.04%. Other expenses also decreased by 10.91%.

The Net Operating Loss of Le3.09 billion will be debited to an Accumulated Losses Account in compliance with Section 11 (7) of the Bank of Sierra Leone Act 2000. Government is expected to issue marketable securities or foreign exchange to cover the loss in accordance with the provisions in Section 11 (8).

The net equity of the Bank improved significantly from a negative net position of Le153.36 billion in 2005 to a positive net worth of Le18.13 billion in 2006, largely due to the revaluation gains realized during the period under review.

Financial Statements
for the year ended 31st December 2006

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 2006.

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 2006:

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 Mahdi	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 12th January, 2007 to conduct the audit of the financial statements for the year ended 31 December 2006.

By order of the Board



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 2006 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 2006 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

16th March 2007

Freetown

Chart  ts

Report of the Independent Auditors to the Government of Sierra Leone

Balance Sheet Balance Sheet

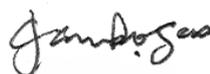
	Note	2006 Le'000	2005 Le'000
Foreign Currency Financial Assets			
Cash on hand		2,376,764	1,803,054
Cash and cash equivalents with foreign banks	2	459,586,451	402,242,633
IMF Special Drawing Rights Holdings		85,884,271	95,175,752
Gross Foreign Exchange Reserves		547,847,486	499,221,439
Equity shares and participating interest	4	3,297,723	3,170,419
Accrued interest		2,056,094	1,423,517
Others		512,446,630	435,786,674
Other Foreign Currency Financial assets		517,800,447	440,380,610
Total Foreign Currency Financial Assets		1,065,647,933	939,602,049
Local Currency Financial Assets			
Treasury bills and bearer bonds	5	81,546,357	60,234,794
Investment in marketable securities		6,933,212	11,841,118
Accrued interest		141,914	655,870
Advances to Banks		5,134,508	5,134,508
Other local currency financial assets		2,595,491	5,563,074
Special issue of securities of the Government of Sierra Leone	6	480,232,929	530,232,929
Special Securities Asset		50,000,000	-
Total Local Currency Financial Assets		626,584,411	613,662,293
Total Financial Assets		1,692,232,344	1,553,264,342
Non-Financial Assets			
Inventory	8	15,339,985	5,410,511
Gold Stocks		168,176	134,701
Other non-financial assets	10	10,507,605	3,760,062
Property, plant and equipment	9	49,694,228	27,874,259
Total Non-Financial Assets		75,709,994	37,179,533
Total Assets		1,767,942,338	1,590,443,875

Balance Sheet (cont.)

	Note	2006 Le'000	2005 Le'000
Liabilities			
Foreign Currency Financial Liabilities			
Term liabilities	11	648,470,929	584,664,330
Other foreign currency financial liabilities	12	354,570,747	449,554,316
International Monetary Fund Special Drawing Rights Allocation		77,210,098	72,455,181
Total Foreign Currency Financial Liabilities		1,080,251,774	1,106,673,827
Local Currency Financial Liabilities			
Government deposits		12,961,585	72,734,453
Commercial Banks deposits		24,780,583	33,936,318
Other deposits		71,979,964	25,955,568
Accrued charges		3,336,335	2,543,289
Other local currency financial liabilities		13160,642	437,253
Total Local Currency Financial Liabilities		113,219,109	135,606,881
Total Financial Liabilities		1,193,470,883	1,242,280,708
Non-Financial Liabilities			
Currency in circulation		294,682,562	255,078,319
Other liabilities	14	37,716	37,716
Total Non-Financial Liabilities		294,720,278	255,116,035
Provisions			
Provision for revaluation of pipeline liabilities	15	261,623,421	246,407,961
Total Liabilities		1,749,814,582	1,743,804,704
Capital	24	24,001,500	24,001,500
Reserves	17	(5,873,744)	(177,362,329)
Total Liabilities and Equity		1,767,942,338	1,590,443,875

These financial statements were approved by the Board of Directors on 16th March, 2007

Governor



Director



Income Statement

	Note	2006 Le'000	2005 Le'000
Operating Income:			
Interest income from financial assets			
Foreign Currency Investments	18	21,471,864	11,995,501
Government Bills and Bonds	18	7,056,347	13,129,279
Advances to Government	18	884,200	7,401,968
Investment of Bank's Funds	18	1,004,907	1,635,226
		30,417,318	34,161,974
Expenses on financial liabilities			
IMF interest and charges	19	(3,176,738)	(2,157,696)
Charges on foreign transactions		(39,685)	(50,331)
Amortisation of Government Securities		(1,562)	(1,764)
Net exchange (loss)/gain		(96,863)	239,086
Other Income	20	1,750,880	3,718,907
		28,853,350	35,910,176
Operating Expenses:			
Personnel		(17,420,367)	(21,660,766)
Depreciation	9	(2,570,511)	(2,517,484)
Currency	21	(2,004,645)	(3,459,256)
Administration	22	(9,829,409)	(6,690,553)
Other		(114,374)	(128,391)
		(31,939,306)	(34,456,450)
Revaluation Gains/(Losses)		149,193,714	(42,166,507)
		146,107,758	(40,712,781)
Transfer of Revaluation Gains/(Losses) to Revaluation Reserve account			
		(149,193,714)	42,166,507
		(3,085,956)	1,453,726
Transfer of (Loss)/Profit available for appropriation under the Bank of Sierra Leone Act 2000			
Less Appropriations	16	-	(1,453,726)

Statement of Movement in Equity

	Note	2006 Le'000	2005 Le'000
Equity at start of Year		(153,360,829)	(105,359,677)
Total Recognised Revenues and Expenses for the Year		(3,085,956)	1,453,726
Transfer to Other Reserves		174,574,541	(49,454,878)
Equity at Year End	25	18,127,756	(153,360,829)

Cash Flow StatementCash Flow Statement

	Note	2006 Le'000	2005 Le'000
Net cash inflow from operating activities	29	(2,679,787)	64,802,309
Investing Activities			
Net disinvestment/(investment) in marketable securities		4,907,906	(4,790,463)
Net (increase)/decrease in Government Securities held by the Bank		(21,311,563)	32,963,083
Purchase of tangible fixed assets		(556,209)	(1,883,489)
Cash inflow from Investing Activities		(16,959,866)	26,289,131
Financing Activities			
Net (decrease)/increase in deposits by Government and Banks		(74,805,778)	57,422,402
Net increase in other deposits taken		51,904,876	14,820,187
Fund movements		33,903,481	(7,203,119)
Increase in currency in circulation		39,604,243	33,653,769
Net increase in term liabilities		26,950,359	5,324,694
Cash inflows from financing Activities		77,557,181	104,017,933
Increase in cash and cash equivalents	30	57,917,528	195,109,373

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(c) and 6 at their par value.

The Bank's objective is to fully 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. The Bank's gross foreign exchange reserves are separated from assets arising from other foreign currency activities. 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.

Notes to the Financial Statements Notes to the Financial Statements (Contd)

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	29.12.2006	31.12.2005
US\$ 1	Le2,973.94	Le2,932.52
£Stg 1	Le5,828.48	Le5,061.09
WAUA 1	Le4,501.13	Le4,207.35
Euro 1	Le3,908.71	Le3,473.27
SDR 1	Le4,423.38	Le4,150.97

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 2000, 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. The Government, under the Memorandum of Understanding dated 14th October 2006, converted Le50 billion of the balance outstanding at the start of the year, into marketable securities for monetary policy implementation purposes. The securities (Treasury Bills) are held in a Special Securities Asset account and would attract interest at market-determined rates. Proceeds from sale of the securities will not be credited to Government but to a Sterilization Account from which funds will be provided when the Bills eventually mature. The Ministry of Finance will absorb the interest cost of financing the operations and the total amount payable at redemption.

(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.

Notes to the Financial StatementsNotes to the Financial Statements (Contd)

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 fund investment portfolios funded by appropriations of the Bank's annual profit under Section 11 (1) and (36) of the Bank of Sierra Leone Act 2000 and administered by the Staff Pension Trust Company (SPTC). 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.

Notes to the Financial Statements Notes to the Financial Statements (Contd)
(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.

Notes to the Financial Statements

- 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

	2006	2005
	Le'000	Le'000
Maturity Analysis		
Up to 1 month	137,806,866	183,075,246
1 month to 3 months	321,779,585	219,167,387
	459,586,451	402,242,633

Based on the advice of the IMF, Gross Foreign Exchange Reserves are now being disclosed separately and distinguished from other Foreign Currency Financial Assets which include IMF Quota Subscriptions.

Notes to the Financial Statements**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 percent of the Government's actual revenue in the previous year's budget.

		Le'000
Treasury and eligible bills		81,546,357
Bank's holding of Special Issue securities of Government of Sierra Leone: Non-Interest Bearing	480,232,929	
Marketable	50,000,000	530,232,929
Less: Government deposits		(12,961,585)
Government stocks and shares		(52,499,793)
Net Credit to Government of Sierra Leone		546,317,908
Government actual revenue in previous year		616,343,000
5% thereof		30,817,150
Excess in Government lending		515,500,758

The Directors report excesses in lending to the Government of Sierra Leone as at 31 December 2006 of Le515,500,758(2005:Le 489,948,664).

4. Equity Shares and Participating Interest

	2006 Le'000	2005 Le'000
AfreximBank Capital Investment	2,379,152	2,346,016
AfreximBank Dividend Investment	424,223	330,055
BSL CON-WAMA Credit Guarantee Fund	494,348	494,348
	3,297,723	3,170,419

Notes to the Financial Statements

	2006	2005
	Le'000	Le'000
5. Treasury Bills and Bearer Bonds		
Treasury Bills	73,599,757	32,073,644
Treasury Bearer Bonds	7,946,600	28,161,150
	81,546,357	60,234,794
Maturity Analysis		
Up to 1 month	2,659,654	13,865,729
1 month to 3 months	73,674,353	29,172,615
3 months to 1 year	5,212,350	17,196,450
1 year to 5 years	-	-
	81,546,357	60,234,794
6. Special Issue of Securities of the Government of Sierra Leone		
Securities in issue at the beginning of the year	530,232,929	530,318,181
Redemption during the year	-	(85,252)
Conversion to marketable securities	(50,000,000)	-
Securities in issue at the end of the year	480,232,929	530,232,929

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.	24,00,000
(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

Notes to the Financial Statements

	2006	2005
	Le'000	Le'000
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)
2006 Conversion to marketable securities		(50,000,000)
Balance remaining due		480,232,929

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

Staff personal loan	1,242,548	603,684
Staff housing loan	9,236	16,074
Staff vehicle loan	638,332	336,642
Advances to contractors	443,674	4,482,050
Advances to staff	1,289	20,104
Advances to others	17,304	14,904
Rent etc. paid in advance	251,407	89,616
Bills for collection	-	-
CAFSL L/C provision	-	-
	2,603,790	5,563,074

Notes to the Financial Statements

	2006	2005	
	Le'000	Le'000	
8. Inventory			
Medical	61,053	38,572	
Fuel	91,832	76,090	
Maintenance	32,297	20,063	
Stationery	137,512	147,086	
Others	103,688	84,842	
Items in transit	14,913,603	5,043,858	
	15,339,985	5,410,511	
9. Property, Plant and Equipment			
Cost:	Premises	Equipment	Total
	Le'000	Le'000	Le'000
Balance at 1 January 2006	26,305,273	15,886,737	42,192,010
Revaluation of Bank's properties	23,810,876	-	23,810,876
Acquisitions	94,469	484,850	579,319
Disposals	-	(566,791)	(566,791)
Balance at 31 December 2006	50,210,618	15,804,796	66,015,414
Depreciation:			
Balance at 1 January 2006	4,691,865	9,625,886	14,317,751
Depreciation charge for the year	516,511	2,054,000	2,570,511
Disposals during the year	-	(566,744)	(566,744)
Adjustments	-	(332)	(332)
Balance at 31 December 2006	5,208,376	11,112,810	16,321,186
Net book value:			
At 1 January 2006	21,613,408	6,260,851	27,874,259
At 31 December 2006	45,002,242	4,691,986	49,694,228

Freehold properties in Freetown and Kenema were revalued in June 2006 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.

Notes to the Financial Statements**10. Other Non-financial Assets**

	2006	2005
	Le'000	Le'000
Deferred currency issue expenses	10,364,167	3,615,062
Deferred Government Security Certificates expenses	143,438	145,000
	10,507,605	3,760,062

11. Term Liabilities

Sierra Rutile/GOSL Loan	2,156,225	2,126,193
Bank of china US\$ clearing	25,026,212	24,677,656
IMF Poverty Reduction and Growth Facility (PRGF)	621,288,492	557,860,481
	648,470,929	584,664,330

12. Other Foreign Currency Financial Liabilities

Foreign payment	917,224	2,999,679
IMF Securities Account	67,390,261	67,390,261
IMF No.1 Account	238,868,245	387,767,263
ADF/ERR loan	-	127,997
WAMA ECOWAS Travellers' Cheques	11,798	11,798
WAMA ECOWAS Travellers' Cheques clearing	(1,170)	(1,170)
Commission of European Committee	1,596,914	1,337,662
WAMA settlement	(1,105,934)	(1,079,174)
ADF/ERRP Grant Account	46,893,409	-
	354,570,747	449,554,316

13. Other Local Currency Financial Liabilities

P.S. Bond in circulation	449	499
Retention monies	145,105	388,195
Rent received in advance	11,475	20,026
Unapproved invoices	(825)	6,205
Trade and sundry creditors	4,438	22,378
	160,642	437,253

Notes to the Financial Statements**14. Other Liabilities**

	2006 Le'000	2005 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	246,407,961	253,199,268
Revaluation	15,215,460	(6,791,307)
End of year	261,623,421	246,407,961

The provision for revaluation of pipeline is a contingency provision in respect of pipeline deposits in the Bank's books.

16. Appropriations

Net profit for the year	-	1,453,726
<i>Appropriations:</i>		
Building reserve fund	-	(942,215)
Asset procurement reserve fund	-	-
Staff welfare fund	-	-
Staff personal loan fund	-	-
Staff vehicle loan fund	-	-
Internal Insurance fund	-	-
Community Banking fund	-	511,511
General reserve	-	(170,504)
Redemption of securities	-	(85,252)
Development credit fund	-	(100,000)
Revaluation reserve	-	(155,755)
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	-	-
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Notes to the Financial Statements Notes to the Financial Statements (Contd)**17. Capital and Reserves**

	2006	2005
	Le'000	Le'000
Capital account	24,001,500	24,001,500
Capital reserves	32,792,919	8,982,043
General reserve fund	-	-
Development credit fund	22,097	114,210
Revaluation reserve (Note 23)	(67,658,186)	(216,851,900)
Credit guarantee fund	69	(20)
Export credit guarantee fund	130	98
Internal insurance fund	-	7,170
Staff welfare fund	471	(28,190)
Community Banking fund	121	91,518
Staff housing loan fund	16,337	102,441
Staff vehicle loan fund	22,871	210,865
Staff personal loan fund	(159,878)	436,212
Monetary co-operation fund	32,199	135,936
Building reserve fund	292,676	485,000
Asset procurement reserve fund	1,808,049	134,611
General asset reserve fund	30,042,337	28,817,677
Retained Earnings-		-
Accumulated losses	(3,085,956)	-
	(5,873,744)	(177,362,329)

(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.

Notes to the Financial Statements

	2006 Le'000	2005 Le'000
Balance at beginning of year	-	-
Transfer of net loss in accordance with Section 11(7) of the Bank of Sierra Leone Act 2000	-	-
Transfer to revaluation reserve in accordance with Section 54(3) of the Bank of Sierra Leone Act 2000	-	(170,504)
Transfer from Income Statement in accordance with Section 11(2) of the Bank of Sierra Leone Act 2000	-	170,504
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:

	2006 Le'000	2005 Le'000
Balance at beginning of year	114,210	1,191,413
Difference between approved amount and agreement for the establishment of Yoni Community Bank	3,900	-
Income accruing from investment	266,275	231,164
Investment	(1,945,655)	(1,583,367)
Maturity of investment	1,583,367	175,000
Withholding tax	-	-
Transfer from profit and loss account	-	100,000
Balance at end of year	22,097	114,210

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.

Notes to the Financial Statements Notes to the Financial Statements (Contd)

	2006 Le'000	2005 Le'000
(c) Building Reserve Fund		
Balance at beginning of year	485,000	2,269,834
Transfer to General Asset Reserve Fund	(1,048,624)	(2,727,049)
Transfer from Internal Insurance Fund	813,603	-
Transfer from Community Banking Fund	42,697	-
Transfer from profit and loss account	-	942,215
Balance at end of year	292,676	485,000

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	28,817,677	24,822,423
Transfer from Building Reserve Fund	1,048,624	2,727,049
Transfer from Asset Procurement Reserve Fund	176,036	1,268,205
Balance at end of year	30,042,337	28,817,677

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

Balance at beginning of year	134,611	3,252,290
Income accruing from investment	-	-
Investments	-	(1,849,474)
Transfer to general asset reserve fund	(176,036)	(1,268,205)
Maturity of Investment	1,849,474	-
Transfer from profit and loss account	-	-
Balance at end of year	1,808,049	134,611

This is a reserve created to provide funds for the procurement of capital items.

Notes to the Financial Statements

	2006	2005
	Le'000	Le'000
(f) Staff Housing Loan Fund		
Balance at beginning of year	102,441	181,263
Income accruing from investment	-	-
Loan repayment	6,838	4,080
Investments/loan disbursement	(2,301,525)	(2,208,583)
Maturity of Investment	2,208,583	2,125,681
Balance at end of year	16,337	102,441

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	(28,190)	1,115,241
Income accruing from investments credited in error	2,550	-
Investment	(301,954)	(328,130)
Maturity of Investment	328,130	1,073,326
Adjustment	-	(29,062)
Withholding tax debited to the account in error instead of Export Credit Guarantee Fund	(65)	-
Disbursement	-	(1,859,565)
Transfer from profit and loss account	-	-
Balance at end of year	471	(28,190)

This fund will be used to finance the Bank's staff welfare activities.

(h) Staff Personal Loan Fund		
Balance at beginning of year	436,212	674,004
Adjustment after period end (write-off)	-	3,499
Loan repayments	757,080	549,503
Investment	(280,500)	(285,990)
Maturity of Investment	285,990	-
Disbursements to staff	(1,358,660)	(504,804)
Transfer from profit and loss account	-	-
Balance at end of year	(159,878)	436,212

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

Notes to the Financial Statements**(i) Staff Vehicle Loan Fund**

	2006	2005
	Le'000	Le'000
Balance at beginning of year	210,865	370,703
Adjustment after period end	-	10,487
Loan repayments	123,231	109,300
Investment	(16,168)	(142,995)
Maturity of investment	142,995	-
Disbursements to staff	(438,052)	(136,630)
Transfer from profit and loss account	-	-
Balance at end of year	22,871	210,865

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

(j) Internal Insurance Fund

Balance at beginning of year	7,170	813,603
Proceeds from investments	-	-
Income accruing from investments	-	-
Adjustment	(52,000)	-
Maturity of investment	858,433	52,000
Investment	-	(858,433)
Transfer to Building Reserve Fund	(813,603)	-
Transfer from profit and loss account	-	-
Balance at end of year	-	7,170

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

(k) Monetary Co-operation Fund

Balance at beginning of year	135,936	1,834,574
Investment	(1,802,375)	(1,698,638)
Maturity of Investment	1,698,638	-
Balance at end of year	32,199	135,936

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.

Notes to the Financial Statements Notes to the Financial Statements (Contd)

(I) Community Banking Fund

	2006	2005
	Le'000	Le'000
Balance at beginning of year	91,518	140,147
Income accruing from investments	-	-
Investment	(130,941)	(82,242)
Maturity of Investment	82,242	1,909,984
Disbursement to Building Reserve Fund	(42,697)	(1,876,371)
Understatement of proceeds on TB mat 07/12/06	(1)	
Transfer from profit and loss account	-	-
Balance at end of year	121	91,518

This fund will be used to finance Community Banking activities.

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

STG investments	5,268,835	5,239,171
US\$ investments	11,132,544	3,525,829
SDR investments	3,192,121	2,413,960
Other external investments	1,878,364	816,541
Total Income from Foreign Currency Assets	21,471,864	11,995,501

Income from Local Currency Assets

Income on Sierra Leone Government Bearer Bonds	3,230,908	5,198,123
Income on Sierra Leone Government Treasury Bills	3,825,439	7,931,156
Income on loans and advances	884,200	7,401,968
Income from Investment of Bank's Fund	1,004,907	1,635,226
Total Income from Local Currency Assets	8,945,454	22,166,473

Total Income from Financial Assets	30,417,318	34,161,974
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Notes to the Financial StatementsNotes to the Financial Statements (Contd)
19. Expenses on Financial Liabilities

	2006	2005
	Le'000	Le'000
Expenses on Foreign Currency Liabilities		
Interest expenses: IMF interest and charges	3,176,738	2,157,696
Charges on foreign transactions	39,685	50,331
Total Expenses on Foreign Currency Liabilities	3,216,423	2,208,027
Expenses on Local Currency Liabilities		
Amortisation of Government Securities	1,562	1,764
Total Expenses on Local Currency Liabilities	1,562	1,764
Total Expenses on Financial Liabilities	3,217,985	2,209,791

20. Other Income

Commission received	41,010	60,983
Commission on foreign transactions	3,559	1,958
Net overs in tills	1,117	79
Profit on sale of Commemoration Coins	297	378
Profit on sale of assets	23,395	-
Rents received	80,498	14,305
Sundry receipts	1,512,706	3,628,635
Gains in treasury bills	-	(169)
Interest received	88,298	12,738
Total other income	1,750,880	3,718,907

21. Currency

Currency management	119,096	63,967
Currency issue expenses	1,885,549	3,395,289
Total currency expenses	2,004,645	3,459,256

Notes to the Financial Statements**22. Administration**

	2006	2005
	Le'000	Le'000
Electricity	1,274,631	1,296,396
Passages and Overseas Allowances	1,047,048	1,105,264
Contribution to International Organisations	1,446,189	1,408,550
Others	6,061,541	2,880,343
	9,829,409	6,690,553

23. Revaluation Reserve

Balance at beginning of year	(216,851,900)	(175,011,652)
Revaluation gains/(losses) on foreign currency assets/liabilities	149,193,714	(42,166,507)
Transfer from General Reserve Account (Section 54 (3) of BSL Act 2000)	-	170,504
Transfer from Profit and Loss Account	-	155,755
	(67,658,186)	(216,851,900)

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.

Notes to the Financial Statements**24. Capital**

	2006 Le'000	2005 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 but the Ministry of Finance signed a Memorandum of Understanding on 14th October, 2006 to recapitalise the Bank by issuing Le50 billion 5-year medium term bonds effective 1st January, 2007.

25. Equity

Reserves		
Opening Balance	(177,362,329)	(129,361,177)
Add Transfers to Reserves	171,488,585	(48,001,152)
Total Reserves	(5,873,744)	(177,362,329)
Capital	24,001,500	24,001,500
Total Equity	18,127,756	(153,360,829)

26. Contingent Liabilities

Guarantees and endorsements	206,831,599	193,456,762
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27. Capital Commitments

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

Capital expenditure/building renovation	257,296	1,925,712
African Export Import Bank	3,568,728	3,519,024
	3,826,024	5,444,736

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.

Notes to the Financial Statements**29. Reconciliation of Operating Cash Flows with Operating Profit**

	2006 Le'000	2005 Le'000
Operating (Loss)/Profit	(3,085,956)	1,453,726
(Increase)/decrease in other assets	(47,171,080)	41,844,177
Effect of exchange rate movements	-	20,432,902
Depreciation	2,570,511	2,517,484
Profit on disposal of tangible fixed assets	(23,395)	-
Net increase/(decrease) in other loans	44,513,698	(1,509,341)
Net increase in other liabilities	516,435	63,361
Net cash inflow from operating activities	(2,679,787)	64,802,309

30. Cash Balances

	1 January 2006 Le'000	Cash flow Le'000	31 December 2006 Le'000
Cash and cash equivalents	404,045,687	57,917,443	461,963,215
Loans and advances to other banks repayable on demand	5,134,508	-	5,134,508
	409,180,195	57,917,528	467,097,723

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.

Notes to the Financial Statements**Interest Rate and Credit Risk**

Financial Asset	Fixed Interest Maturity					
	Non-interest bearing		1 year or less		Total	
	\$	Leone	\$	Leone	\$	Leone
		Equivalent		Equivalent		Equivalent
Cash and cash equivalents	799	2,376,672	187,825	558,578,757	188,624	560,955,429
Trade and other receivables	-	-	-	-	-	-
Notes due from customers	-	-	-	-	-	-
Marketable securities	-	-	-	-	-	-
Other investments	-	-	-	-	-	-
Total	799	2,376,672	187,825	558,578,757	188,624	560,955,429

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, the Bank's investment is mainly in the Sierra Leone Government Treasury Bills and Treasury Bearer Bonds, which are held to maturity. These are 3-month and 1-year government securities with no inherent interest rate risk when held to maturity. However, secondary market transactions in Treasury Bills prior to maturity have an interest rate risk exposure which may result in capital loss as rates decline, since buy/sell prices are re-set weekly based on the lowest/highest discount price of the latest Treasury Bills auction. TBB disinvestments on the other hand are usually held to maturity.

Currently, the average monthly 91-day Treasury Bills rate is applied on advances to Government through Ways and Means.

32. Pension Fund

The Pension Fund Scheme has been dissolved effective 31st December, 2005 and gratuity payments have been made and Promissory Notes issued to eligible staff. The Bank was responsible for pension payments to existing pensioners during the period and will continue same until the demise of the last pensioner. However, the Staff Pension Trust Company continues to be a going concern.

Notes to the Financial StatementsNotes to the Financial Statements (Contd)

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 facilitates payments to the Government's suppliers and creditors, and extends credit facilities to the Government.

As at 31 December 2006 total advances to the Government was Le546,317,908 (see Note 3).

34. Events after the Balance Sheet Date

The planned re-capitalisation of the Bank (note 24) has not been implemented.