Bank of Sierra Leone

Annual Report
and
Statement of Accounts
for year ended 31st December 2010

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A. ANNUAL REPORT 2010

1. Review of the Economy

As the country emerged from the throes of the second round effect of the global economic and financial crisis, macroeconomic management in Sierra Leone during the 2010 review period was fraught with numerous challenges both for the government and the Bank of Sierra Leone. Nonetheless, appropriate monetary and fiscal policy measures were put in place to achieve both macroeconomic stability and sustainable growth during the period under review. The Bank continued to perform its strategic role as key provider of banking services to the government while at the same time contributing to key initiatives designed to strengthen the financial system and promote stability and efficiency in the financial sector of the economy. Despite the gains in achieving macroeconomic stability, domestic inflation remained in double digits throughout the reporting period, arising partly from the introduction of the Goods and Services Tax (GST) by the National Revenue Authority (NRA) in January 2010, in an effort to strengthen revenue collections and improve fiscal performance. Other contributory factors to inflation include the increase in the pump price of petroleum products resulting from government's withdrawal of subsidy and the depreciation of the domestic currency.

The international donor community continued to support the country's economic programmes by providing funding for government operations in the form of Budgetary and Non-Budgetary support. Non-Budgetary support took the form of either Balance of Payments or Development Project/Programme support to the various sectors. The Public Sector Reform Project under the coordination of the Public Sector Reform Unit benefited four million pound sterling (£4.0mn) from the UK Department for International Development (DFID) and US$1.3mn from the United Nations Development Programme (UNDP) during the year 2010. This was in support of developing capacity and key competencies within central and local government, while enhancing cooperation with the private sector through Public-Private-Partnerships.

The IMF continued to provide balance of payments support during the review period in the context of Fund supported programme implementation. Following the IMF Executive Board approval of the Sixth Review of Sierra Leone's performance under the Poverty Reduction and Growth Facility (PRGF) arrangement in June, 2010, a new three-year successor programme under the Extended Credit Facility (ECF) arrangement in a total amount equivalent to SDR 31.11 million (US$45.4mn), took effect in July, 2010, triggering the first disbursement of an amount equivalent to SDR 4.44 million (US$ 6.5mn). The new arrangement is designed to support the country's effort at raising economic growth by increasing investment in infrastructure and developing an accessible financial sector. It will also help create fiscal space for accelerated capital and social spending by broadening the tax base, containing non-priority spending, and raising public sector efficiency, especially in project selection and implementation. An Article IV consultations and first review of the country's performance under the Extended Credit Facility (ECF) supported program concluded in December, 2010 that all quantitative performance criteria were met by Sierra Leone as at end June 2010. The completion of the review triggered the immediate disbursement of an amount equivalent to SDR4.44million (about US$6.83million), bringing total disbursements under the arrangement to SDR8.88million (about US$13.67million). In completing the review, the Executive Board also approved the modification of a performance criterion related to the target on net domestic bank credit to the government. The financing assurances review was also completed by the Executive Board.

During the review period, the World Bank provided US$5.0mn in grants to the Government of Sierra Leone to facilitate the implementation of the West African Sub-Regional Productivity Programme (WARPP), designed to enhance quality communication technology services across the West African Region. It also signed a US$20million agreement with the Government of Sierra Leone in support of youth employment projects in the country. Parliament also ratified a grant agreement in the sum of US$11.0mn between government and the International Development Association (IDA) in finance of youth employment support projects in the country.

The Economic Community of West African States (ECOWAS), contributed US$2mn towards the Government's Development Fund set aside for developing key areas including the construction of a new terminal and a presidential lounge at the Lungi International Airport, the Bumbuna hydro electric project phase II, and the agriculture sector.

In the health sector, a US$30mn loan agreement in the form of United States Dollar credit line between the Government of Sierra Leone and the Export Import Bank of India was approved by Parliament with the objective of providing safe and accessible drinking water in the country. The Global Fund also awarded a grant of US$45million to the Ministry of Health and Sanitation, to strengthen the overall health information system, laboratory services, leadership and coordination of health issues across the country. In a related development, Parliament also endorsed a US$20mn grant from the World Bank in support of the second phase of the Reproductive and Child Health care project in Sierra Leone.

The Government of Sierra Leone and the European Union also signed a financial agreement in the form of a grant, to support Sierra Leone's democratic governance and Poverty Reduction Strategy, as set out in the 'Agenda for Change 2008 - 2012' proposals. Under this Agreement, the European Union was to provide the sum of •52.2 million (over Le279 billion) through the 10th European Development Fund (EDF), as the Union's assistance to the country's transition from post-conflict to development-oriented status, under the objective of the 2010 Annual Action Programme (AAP). The AAP is composed of four projects comprising Electoral Assistance, Priority Infrastructure Works, and Agriculture for Development and Decentralized Service Delivery.

Real sector performance during the reporting year indicated significant improvements, as most manufacturing firms recorded output increases in production levels. Also, output levels in the mining sub-sector improved considerably as most minerals recorded increases during the reporting period. The volume of diamonds shipped in 2010, as recorded by the Gold and Diamond Department (GDD), was higher than the preceding year's level. Notwithstanding government's priority focus on achieving food security in the country and enhancing growth in the agriculture sector, performance during the review period, was mixed. For whereas strong growth was recorded in domestic food production during the review period, cash crop production remained uneven. Cocoa shipments increased by 1.36 percent to 19.70 thousand metric tons in 2010, compared to 19.44 thousand metric tons in 2009, while coffee shipments declined by 59.18 percent to 2.99 thousand metric tons in 2010, compared to 7.32 thousand metric tons in 2009. Given the strong potential for enhanced performance in the agriculture sector, it continued to receive significant financial/ technical support from both the government and the international donor community during the reporting year. The Global Agriculture and Food Security Programme (GAFSP) approved a grant of US$50mn to the Government of Sierra Leone, in support of the Smallholder Commercialization Programme, making it one of the first five countries to benefit from the Global Agriculture and Food Security Programme funding. The Smallholder Commercialization Programme is expected to support small-scale farmers to upscale from subsistence to commercial farming and to connect them to international markets. In a related development, the Islamic Development Bank approved the sum of US$15 million, with the aim of expanding the oil palm plantations in the southern region of Sierra Leone and to build a processing plant there. Furthermore, the European Commission approved Euro 16 million to support the production, processing and marketing of cocoa, coffee and cashew in the country.

In the mining sub-sector, a new Mines and Minerals Act that defines the fiscal terms of mining operations in Sierra Leone came into effect in January 2010. The key fiscal terms comprised royalties of 3 – 15 percent (depending on the type of mineral) and a 30 percent corporate tax. In February 2010, Parliament approved the mining agreement signed between the Government of Sierra Leone and the London Mining Company, consistent with government's drive towards encouraging foreign investment and broadening the revenue base of the country. Another milestone achieved in the mining sector during the review period was the re-opening of the hitherto defunct iron ore mines in Marampa, by the London Mining Company, a UK-based company. In addition, the discovery of 321 million metric tons of bauxite deposit in the Port Loko District was announced. This was followed in August 2010 by a Parliamentary ratification of a Mining Agreement between the Government of Sierra Leone and the African Minerals Company Limited mandating the company to mine 10.5 billion tons of iron ore in the Tonkolili District, in Northern Sierra Leone.

Performance in the construction sub-sector declined during the reporting year, as a result of increases in the prices of building materials. In contrast, performance in the transport sub-sector recorded marked improvement in the categories of vehicles registered and licensed during the review period. The number of vehicles registered by the Sierra Leone Road Transport Authority (SLRTA) in the reporting year totaled 17,794, representing a 16.91 percent growth compared with 15,220 vehicles registered in 2009. Similarly, total vehicles licensed in 2010 increased by 11.02 percent to 46,483, compared to 41,870 in 2009. There was an improvement in the performance of the communications sub-sector during the reporting year, with the further expansion in telecommunications, radio broadcasting stations and print media. Similarly, the cellular phone network expanded their activities during the review period, resulting in an increase in the number of subscribers from 1,497,631 in 2009 to 2,045,821 in 2010. Also, Airtel, the latest telecommunications brand in Sierra Leone, was launched in November, 2010.

The energy sub-sector continued to receive considerable boost during the reporting year with a 10 megawatts thermal plant worth US$16.9mn installed at the Kingtom power station, in March, 2010. In a similar development, a 16.5 megawatts generator valued at US$26mn was acquired by the National Power Authority (NPA), through the support of BADEA, an Arab Bank For Economic Development, and installed in the East end of Freetown. As a result, power generation increased from 131.98Gw/hr in 2009 to 170.46Gw/hr in 2010.

Real GDP growth in 2010 based on revised estimates was 5.0 percent which was higher than the 3.2 percent growth posted in 2009. The growth in GDP was on account of the pick-up in activities during the period driven mainly by a rebound in diamond production as well as solid growth in agriculture.

Pump prices of Petroleum Products were revised upwards three times during the review period. They increased from Le14, 800 to Le15, 500 per gallon in February 2010, from Le15,500 to Le16,500 per gallon in June, 2010 and from Le16,500 to Le17,500 per gallon in October, 2010, due to increases in the World market prices of petroleum products, the continued depreciation of the Leone against the United States Dollar and the part removal of government subsidy from petroleum products. These developments have a knock-on effect on the general price level as measured by the National Consumer Price Index, through its effect on transport cost. Year-on-Year inflation rate, based on the all urban composite consumer price index (2007=100), remained in double digits throughout the reporting period. The rise in inflation from 14.83 percent in January 2010 to 17.80 percent in April 2010 was due mainly to the effect of the introduction of the Goods and Services Tax (GST) in January 2010. However, this trend in year-on-year inflation rates continued throughout the period to peak at 18.30 percent at end November before declining to 17.84 percent at end December 2010.

Total revenue (plus grants) increased by 23.53 percent during the reporting period from Le1,237.87bn at end December 2009 to Le1,550.24bn at end December 2010, which was above the programme benchmark of Le1,254.95bn. Total expenditure and net lending was recorded at Le2,073.76bn during the review period, representing a 42.29 percent increase when compared to Le1,457.41bn in 2009. It was also above the targeted expenditure of Le1,860.76bn due mainly to extra budgetary expenditures during the period. The fiscal deficit significantly widened from Le219.55bn in 2009 to Le523.52bn in 2010, and was Le268.08bn above the target on overall fiscal balance. Foreign financing reflected a net inflow of Le161.73bn which was 7.63 percent below the programme target of Le175.09bn.

The Bank of Sierra Leone continued to focus on maintaining price stability as its primary objective of monetary policy. Open Market-Type Operations (OMO) through primary sale of treasury bills and treasury bearer bonds remained the major instrument of monetary policy during the year 2010. Repo and reverse repo operations constituted additional instruments used in the secondary market for short term liquidity management, to stimulate efficient inter-bank market activity. Monetary aggregates nonetheless, expanded during the first half of 2010, largely driven by expansionary fiscal policy accommodated by the banking system. Broad Money (M2) and Reserve Money (RM) expanded by 28.47 percent and 34.61 percent respectively, over the review period. During the reporting year, the Central Bank established a Monetary Policy Rate (MPR) that was meant to be used subsequently in the conduct of monetary operations to signal the Bank's monetary policy stance to the market. A new family of resized banknotes with enhanced security features and improved durability was introduced by the Bank of Sierra Leone in denominations of one thousand (1,000), two thousand (2,000), five thousand (5,000) and ten thousand (10,000) Leones to replace the old one-size family of banknotes.

The Financial Sector continued to deepen further, with the total number of commercial bank branches in the country increasing from 76 in December 2009 to 81 in December 2010. Additionally, the number of Community Banks and Credit-only Microfinance Institutions increased from six (6) and one (1) as at end December 2009 to nine (9) and six (6) respectively, as at end December 2010. The number of Licensed Foreign Exchange Bureaux declined from seventy five (75) as at end December 2009 to fifty four (54) as at end December 2010 while the number of Discount Houses remained unchanged at two (2) at end December 2010. Also, trading on the floors of the Sierra Leone Stock Exchange Company (SLSE) Limited commenced in November, 2010, with Rokel Commercial Bank as the only listed company.

On the external front, the trade deficit worsened from US$289.64mn at end December 2009 to US$428.81mn at end December 2010, on account of strong import payments relative to lower export receipts. Gross International Reserves increased by US$8.86mn (2.63%) from US$336.37mn at end December 2009 to US$345.23mn at end December 2010, equivalent of 4.5 months of imports of goods and services. The stock of external debt increased by 12.06 percent during the review period moving from US$683.40 mn at end December 2009 to US$765.80mn at end December 2010.

Sierra Leone's performance under the West African Monetary Zone (WAMZ) convergence criteria in 2010 indicated that one primary convergence criterion - gross international reserves equivalent to 4.5 months of imports cover- and one secondary convergence criterion - Public Investment from Domestic Receipts of more than 20% - were met. The criterion on public investment from domestic receipts was met for the first time on account of the increase in investment from 16.5 percent in 2009 to 40.4 percent in 2010. The country continued to breach the criterion on single digit inflation. Annual inflation rate moved from 9.94 percent in December 2009 to 17.84 percent in December 2010. During the year 2010 Liberia attained full membership of the West African Monetary Zone (WAMZ), thereby increasing its membership from five countries to six. Now fully integrated, the country benefits from a number of WAMZ projects including the Payments System Development and the Financial Sector Integration and Trade Policies

Real Sector Developments

Real sector activities during 2010 benefited from enhanced funding both from the Government and its development partners. To a large extent, resources were directed mainly to the agriculture sector, in line with government's objective to transform this sector from subsistence and traditional farming to commercial and mechanized agriculture.

Agriculture

The agriculture sector received significant boost at the beginning of 2010, when budgetary allocation to the sector was increased from 7.7 percent in 2009 to approximately 10.0 percent in 2010, thereby fulfilling the requirement of the 2003 Maputo Declaration. The increase also compared with budgetary allocation of less than 2.0 percent over a decade ago. The launching of the Smallholder Farmer Commercialization Programme (SFCP) was testament to Government's commitment to revamp the agriculture sector. The programme is aimed at transforming the agriculture sector in order to increase productivity along the value chain of input, supply, production, processing and marketing. Following this development, the Global Agriculture and Food Security Programme (GAFSP) approved a request from the Government of Sierra Leone for a grant of fifty million Dollars (US$50 million) in support of the programme. Rehabilitation and expansion of infrastructure such as irrigation and feeder roads, improving access to finance as well as providing social protection and productivity safety nets are key features of the commercialization programme. Under the programme, the Ministry of Agriculture, Forestry & Food Security (MAFFS), through the Agricultural Business Centres, supplied more than 4,000 bags of improved rice seedlings, 30,700 bags of assorted fertilizers, 4,000 litres of weed killers, 218 power tillers, 201 rice threshers, 266 rice cutters, 200 mini rice mills, 161 cassava grating machines and about 16,700 heads of assorted livestock during the reporting year 2010.

Table 1

Production					
		Jan-Dec '09	Jan-Jun'10	Jul-Dec'10	Jan-Dec '10
1	2	3	4	5	6
Minerals					
Diamonds	*000' carats*	400.48	238.24	199.31	437.55
Bauxite	*000' M tons*	742.82	561.99	527.14	1,089.13
Rutile	*000' M tons*	63.86	30.65	37.55	68.20
Ilmenite	*000' M tons*	15.20	8.84	9.37	18.21
Gold	*000' Ounces*	5.06	4.86	3.83	8.69
Agriculture					
Coffee	*M tons*	7.32	2.66	0.33	2.99
Cocoa	*M tons*	19.44	6.23	13.48	19.70
Manufactured Goods					
Beer and Stout	*000' Cartons*	726.47	390.95	404.54	795.48
Maltina	*000' Cartons*	189.33	96.99	106.43	203.42
Acetylene	*000' cu.ft*	141.77	102.62	99.06	201.68
Oxygen	*000' cu.ft*	204.13	137.14	136.52	273.66
Confectionery	*000' lbs*	3,046.34	1,355.26	1,592.61	2,947.87
Common Soap	*000' M tons*	579.87	263.07	153.83	419.52
Soft drinks	*000' crates*	1,531.29	1,029.73	932.35	1,962.08
Paint	*000' gals*	152.98	110.77	114.46	225.23
Cement	*000' M tons*	236.22	162.87	144.34	307.21
Flour	*000' M tons*	11.46	4.79	4.84	9.63
Services					
Electricity	*GW/hr*				
Units Generated	*GW/hr*	131.98	73.08	56.08	129.17
Industrial Consumption	*GW/hr*	22.66	12.91	4.94	17.86
Domestic Consumption	*GW/hr*	21.35	17.15	-	17.15
Commercial Consumption	*GW/hr*	10.52	11.49	-	11.49
Government Consumption	*GW/hr*	13.87	5.33	3.80	9.12

Sources: Manufacturing Establishments

As Sierra Leone continues to remain a net importer of its staple food, rice, the risk of greater vulnerability of the economy to external supply shocks and high imported inflation still exists. The volume of local rice produced in 2010 was estimated at 1,026,671 metric tons, 15.6 percent higher than that produced in 2009 which is 51.0 percent in excess of production level recorded in 2008. Local rice production is mainly done in small holder quantities by rural subsistence farmers using crude farming techniques and more labour intensive technology. Production of other major crops also indicated upward trends in 2010, as a

Table 2

Production of Major Food Crops (2008 - 2010)

CROP (Metric Tons)	2008	2009	2010
Maize	23,533	44,460	51,38
Cassava	1,988,561	2,814,576	3,250,04
Sweet Potato	113,478	176,969	206,18
Groundnut	59,172	70,049	81,45

SOURCE: Ministry of Agriculture and Food Security

result of government policy under the Smallholder Commercialisation Programme (SCP). Maize production increased by 15.59 percent to 51.39 thousand metric tons, cassava by 15.47 percent to 3,250 thousand metric tons, sweet potato by 16.51 percent to 206.19 thousand metric tons, and groundnut by 16.29 percent to 81.46 thousand metric tons.

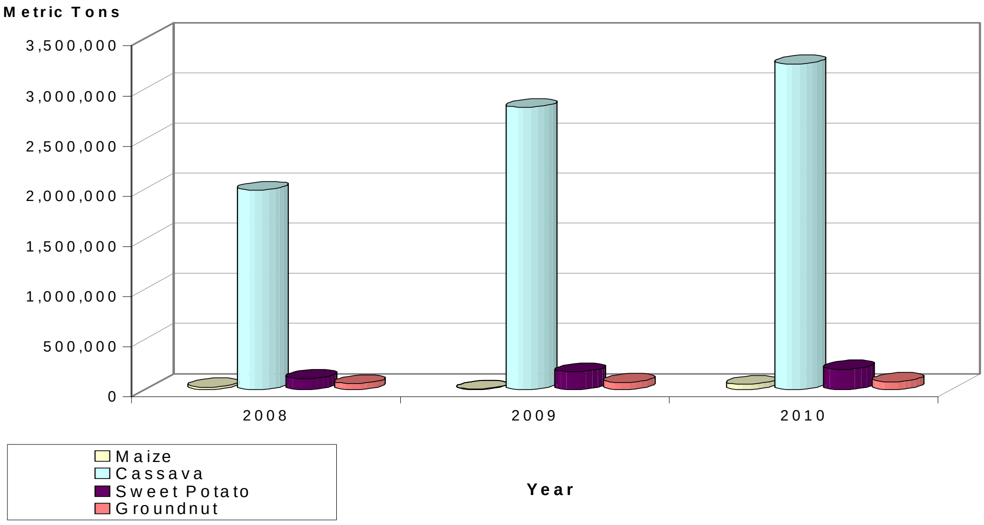
Nonetheless, overall production of the country's main traditional export crops was mixed during 2010. Cocoa beans production recorded an increase of 1.36 percent to 19.7 thousand metric tons, while coffee beans production declined sharply by 59.18 percent to 2.99 thousand metric tons in the reporting period. The drop in coffee production was on account of poor harvest due to ageing crops, coupled with low producer prices offered to farmers. Cocoa crop production hit a low of 6.23 thousand metric tons during the first half of the year but recorded 13.48 thousand metric tons in the second half. On the other hand, coffee crop production was higher at 2.66 thousand metric tons in the first half of 2010 compared with 0.33 thousand metric tons in the second half. The inverse movements in output performance were due to differences in the harvest periods of the two cash crops.

Manufacturing

Performance in the manufacturing sub-sector during the review period was enhanced with most products recording increases in output levels during the reporting year. All beverages registered increases in their production levels. The output of beer & stout increased by 9.5 percent to 795.48 thousand cartons, Maltina drinks by 7.44 percent to 203.42 thousand cartons and soft drinks by 28.13 percent to 430.79 thousand crates. The general increase in output of these beverages was attributed to a reduction in the importation of foreign brands in the year mainly due to limited supply of foreign exchange and the size of the domestic market. Thus, while competition remained limited there was a corresponding shift in demand for locally produced commodities, especially during the festive seasons.

The production of beer & stout and Maltina drinks was higher during the second half of the year than in the first half, as producers cater to meet the anticipated increased demand preceding the usual festivities in the second half-year. In contrast, the volume of output of soft drinks declined during the second half of the review period due to the substantial volume of carry-over stock from the preceding months in the first half of the year.

Chart 1
Production of Major Food Crops (2008 - 2010)



Acetylene and oxygen production also recorded increases during 2010: acetylene by 42.26 percent to 201.68 thousand cubic feet and oxygen by 34.06 percent to 273.66 thousand cubic feet. This performance reflected an increase in welding activities particularly during the first half of the year when, due to seasonal factors, construction activities were at their peak. Production of paint also rose significantly by 47.23 percent to 225.23 thousand gallons in the reporting year, indicating an expansion in repair works and reconstruction activities during the review period. Half yearly comparisons indicate a higher production volume of cement during the first half of the reporting period than in the second half. This was consistent with the increased volume of building activities during the period. Paint production however recorded a larger volume in the second half of the year relative to the first half. Production of confectionery, common soap and flour however experienced declines over the year. The output of confectionery dropped by 3.23 percent to 2,947.87 thousand metric tons in 2010, common soap decreased by 28.11 percent to 416.9 thousand metric tons, while that of flour declined by 15.99 percent to 9.63 thousand metric tons. The drop in output levels of these products was explained by the limited availability of raw materials and the increase in competition from a variety of imported brands.

Mining

The mining sector remains the country's key export revenue earner and the second largest employer in the economy. Performance in this sector was impressive during 2010, underpinned by increased production of all mineral outputs. The volume of diamonds produced in 2010 as reported by the Gold and Diamond Department (GGD) totaled 437.55 thousand carats, which was 9.26 percent higher than the 400.48 thousand carats produced in 2009.

Bauxite production rose from 742.82 thousand metric tons in 2009 to 1,089.13 thousand carats in 2010; output of rutile was up by 6.79 percent to 68.20 thousand metric tons; ilmenite by 19.77 percent to 18.21 thousand metric tons, while gold production increased by 62.24 percent to 8.69 thousand ounces. The response of gold production to hikes in world market price for gold during the reporting year was weak.

Table 3

Mineral Production (2007-2010)

Period	Diamond (000' Carat)	Bauxite (000' M tons)	Rutile (000' M tons)	Ilmenite (000' M tons)	Gold (000' Ounces)
2007	603,698.18	1,169,036.08	82,805.00	15,750.00	6,816.59
2008	371,285.31	954,370.01	78,908.00	17,258.00	6,152.69
2009	400,371.72	742,817.00	63,864.00	15,201.00	5,356.46
2010	437,552.04	1,089,131.00	68,198.00	18,206.00	8,690.22

SOURCE: Government Diamond Department

In 2010, the average world market price of gold rose to US$1,224.57 per ounce from US$972.98 per ounce in 2009. Monthly trends show that the world market price for gold stood at US$1,117.84/oz in January 2010 and trended upwards throughout the year, hitting a record high of US$1,390.55 in December 2010. Production of rutile and ilmenite was low during the first half of 2010 as it was adversely affected by operating disruptions to the dredge.

Zircon is now produced in Sierra Leone, with estimates indicating that the country has one of the world's largest zircon deposits. The mineral is commonly tied up with titanium mineral sand deposits but has very different market applications. Most titanium products from sand have zircon as by-product, with the focus on this high-valued product growing in line with the increase in demand from China. In 2010, Sierra Leone produced a total volume of 4.5 thousand metric tons of the mineral, reinforcing the growth potential of the mining sector.

The main drivers for the growth in the mining sector are favourable environmental conditions, coupled with the increase in the number of investors arising from the general increase in demand for the minerals as world market prices move upwards. These developments provide strong indications of improved mining activities during the review period. Given the potential for enhanced operations by key players in the sector such as the African Minerals Limited and consistent with the expectations from the provisions of the new Mines and Minerals Act, the sector is poised to record impressive performance in mineral production in the years ahead.

Construction

Key indicators of performance in the construction industry are cement consumption and building permits. Cement consumption increased from 236.22 thousand metric tons in 2009 to 307.21 thousand metric tons in 2010, an increase of 30.05 percent which was mainly driven by public works, particularly in road construction activities.

Extensive roads construction activities were undertaken during the reporting year in various parts of the country. On-going projects were mainly situated in the provinces and the outskirts of the capital city including the Peninsula Road, the Kenema–Koindu Road and the Kambia–Port-Loko Road. There are also many new projects in the Western Area, such as Wilkinson Road, Lumley Road, Spur Road and

Table 4

Building Permits issued for Freetown and Greater Freetown

	2007	2008	2009	2010
Residential	1047	1909	1839	1411
Commercial	61	63	131	199
Wall Fence	172	175	176	144
School	6	7	2	3
Church	5	7	15	8
Mosque	3	3	6	2
Hospital	3	2	2	1
Hoarding	0	0	2	0
Total	1297	2166	2173	1768

SOURCE: Ministry of Lands and Country Planning

others in the East End of Freetown. These activities are mainly driven by the Government's strategy to emphasize infrastructure development.

In contrast, the number of building permits issued in 2010 totaled 1,768, representing an 18.53 percent drop compared with the 2,170 issued in 2009. Of the total number of building permits issued, residential buildings accounted for 79.81 percent; commercial buildings, 11.26 percent; wall-fencing, 8.14 percent; school buildings, 0.17 percent; churches, 0.45 percent; Mosques, 0.11 percent and hospitals, 0.06 percent.

Table 5

Electricity Generation

Year	Total Units Generated
1999	52,874,886
2000	61,385,728
2001	106,312,033
2002	123,499,068
2003	109,387,209
2004	84,816,249
2005	53,212,105
2006	31,980,820
2007	30,681,450
2008	138,776,007
2009	131,977,192
2010	170,637,263

Energy Sector

Performance of the energy sector was further enhanced during the year with the purchase of a 10 megawatts thermal plant for the Kingtom power station in the west-end of the capital city and a 16.5 megawatts thermal plant for the Blackhall Road power station in the east-end, in-order to augment overall power generation. Consequently, power generation increased from 131.98Gw/hr in 2009 to 170.46Gw/hr in 2010. Of the overall units generated during the year Bumbuna hydro electric power contributed 77.24 percent, Global Trading Group (GTG) machines generated 15.83 percent, while Nigata Nos. 7 and 8 contributed 3.55 percent and 3.38 percent, respectively.

Chart 2 **Total Electricity Generation (2001 - 2010)**

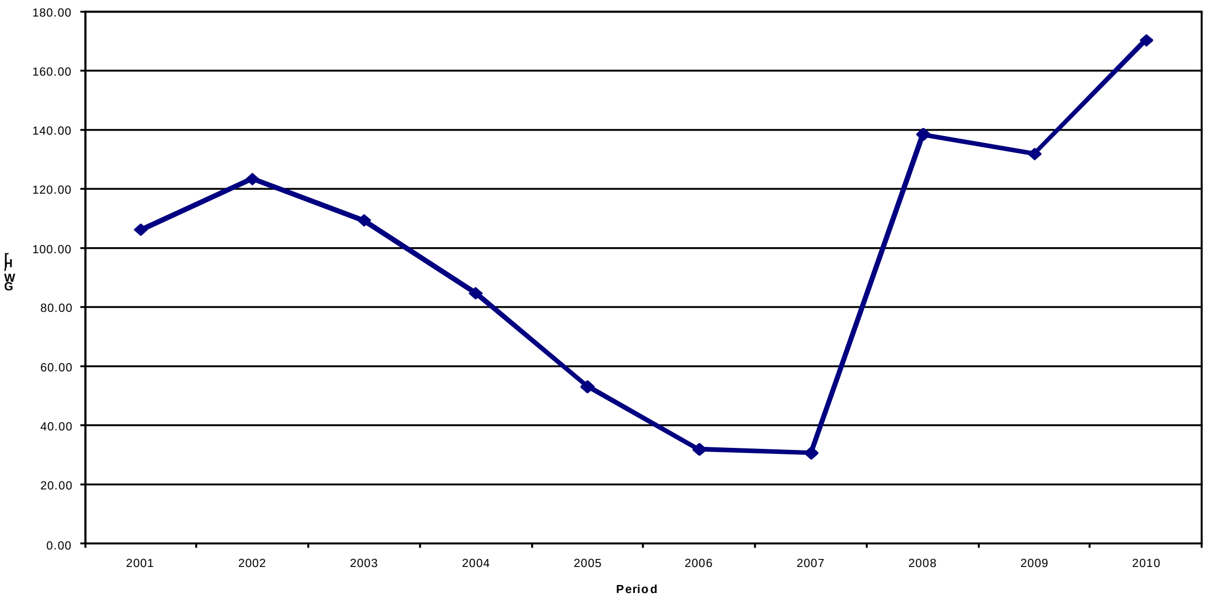
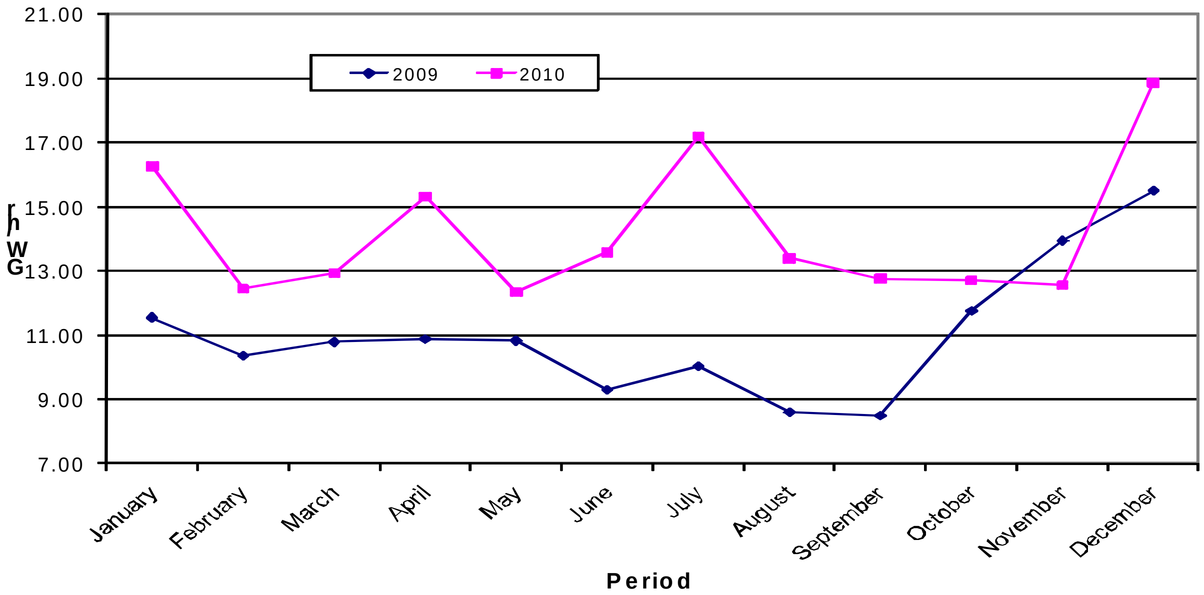


Chart 3 **Total Electricity Generation**



Power generation was 16.27Gw/h in January 2010 and exhibited mixed trends throughout the first half of 2010. It recorded 17.2Gw/hr in July but fell to 13.4Gw/hr in August and further to 12.57Gw/hr in November, before reaching an all time high of 18.85Gw/hr at end December 2010. With the exception of November 2010, monthly generation of electricity in 2010 was higher than that in 2009, reflecting a general improvement in output during the review period.

Services Sector

Transport

Performance in the transport sector, as measured by the number of vehicles registered and those licensed, was good during the review year. The number of vehicles registered by the Sierra Leone Road Transport Authority (SLRTA) in the reporting period totaled 17,794, representing a growth of 16.91 percent compared with 15,220 vehicles registered in 2009. Of the total registered vehicles 2,087 were private cars, 1,089 Taxis, 8,198 motor cycles, 3,194 utility vans and station wagons, 1,998 vans/buses carrying up to 25 passengers, 127 buses carrying above 25 passengers, 597 trucks with six tyres, 211 trucks with more than six tyres, and 293 tractors and trailer units. The overall increase in registration occurred in the categories of "motor cycles"; "Trucks with six tyres and above six tyres", and "tractors and trailer units".

The number of vehicles licensed in 2010 was 46,483, comprising 11,113 private cars, 4,283 taxis, 10,550 motor cycles, 11,866 utility vans and station wagons, 6,092 vans/buses of up to 25 passengers, 313 buses above 25 passengers, 1,695 trucks with six tyres, 402 trucks above six tyres and 169 tractors and trailer units. Total vehicles licensed during the reporting period increased by 11.02 percent compared to the preceding year. Comparison by categories showed that the number of licenses issued to the "motor cycles", "utility vans and station wagons", and "trucks with six tyres and above six tyres" categories exceeded their 2009 levels. The increase in both vehicle registration and vehicles licensed is expected to impact positively on revenue generation.

Communications

In the communication sector, the former Sierra Leone Broadcasting Service (SLBS) was transformed into a public service broadcaster, Sierra Leone Broadcasting Corporation (SLBC), effective April 2010, and was officially launched on the country's 49th independence anniversary date in April 2010. This initiative by the Government gave Sierra Leone the status of third post war country in Africa to transform a state-owned entity to an independent public broadcaster. The corporation is well-equipped with a state-of-the-art technology.

In another development, the mobile telecommunications networks in the country expanded their activities during the year, resulting in an increase in the number of subscribers from 1,497,631 in 2009 to 2,045,821 in 2010. The number of mobile phone companies reduced to three including Africel, Comium, and Airtel. Africel holding, a subsidiary of Lebanon-based telecoms group Lintel, acquired Tigo Sierra Leone. Also, Airtel Mobile network, the latest telecommunications brand in Sierra Leone, was launched in November 2010 replacing the Zain brand. Mobile telephone has become the second most accessed communication device in Sierra Leone after radio set.

Tourism

Tourism has become one of the top priority sectors in the Government's agenda for change. The industry is set to become an important contributor to the development of the country. The rehabilitation work on the Bintumani International Conference Centre and the newly refurbished Mammy Yoko Hotel at Aberdeen Village are indicative of the potential for future growth in tourism. Development in tourism services could constitute a principal source of foreign exchange earnings and enhancement of the international reserve position of the country. Tourist arrivals via Lungi International Airport in 2010 numbered 31,271, exceeding the preceding year's arrival by 19.57 percent. The significantly improved performance is reflective of the growing confidence of the international community in the country's stability following a protracted period of civil conflict. This is coupled with the vigorous moves made by the authorities to re-brand and market the country as a suitable tourist destination. Of the total arrivals, 30.89 percent came from Europe, 22.12 percent came from ECOWAS, 18.82 percent from America, 8.97 percent from Australia, 7.69 percent from Asia, 6.23 percent from non-ECOWAS countries and 5.27 percent from the Middle East.

Categorized by purpose of visit, 18.52 percent came on vacation, 35.57 percent on business, 25.94 percent on other purposes, 11.26 percent on visit to friends, and 8.72 percent on conferences.

Gross Domestic Product (GDP)

Real GDP in 2010, based on revised estimates, grew by 5.0 percent which was higher than the 3.2 percent growth recorded in 2009. Optimism about GDP growth rate was based on the expected growth in the contributions of agriculture and services sectors to the economy. Growth in agricultural output was estimated at 4.33 percent in 2010 compared to 3.79 percent in 2009, while that in the services sub-sector was estimated at 5.66 percent in 2010 as against 6.24 percent in 2009. The contribution of agriculture (including forestry and fishery) to real GDP for 2010 was estimated at 45.55 percent, while that of services was put at 42.34 percent. There was a rebound in diamond production during the period.

Fiscal Operations

In 2010, the Government's priorities were geared towards achieving the objectives of the *Agenda for Change* as stated below:

- ***a. Providing reliable electricity supply to the country;***
- ***b. Raising agricultural productivity and value-added;***
- ***c. Developing a national transportation network;***
- ***d. Sustaining human development through the provision of improved social services.***

In pursuance of these expenditure guidelines, the 2010 budget which was cast on the theme "*Confronting the Future*" compelled Government to make 'tough policy choices' and provide a 'clear direction' as it affects economic growth and human development.

These objectives were met with a number of challenges, including low per capita income, illiteracy and poverty, youth unemployment, global recession and the slow pace of foreign investment in the country.

Table 6

Government Fiscal Operations

(In Millions of Leones)

	2009	2010	Budget 2010
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	**1,237,866**	**1,550,241**	**1,254,948**
DOMESTIC REVENUE	**746,455**	**1,007,627**	**737,802**
Of which:			
Customs & Excise	**419,076**	**329,931**	**349,659**
Import Taxes	317,204	246,145	204,017
Excise on Petroleum	82,243	73,142	126,584
Other Excise Dutties	8,465	3,522	10,748
Domestic Sales Tax	11,164	0	0
Income Tax Department	**211,193**	**303,026**	**236,435**
Company Tax	61,748	136,510	76,140
Personal Income Tax	120,643	155,237	147,473
Other Taxes	28,802	11,279	12,822
Miscellaneous	**67,331**	**76,336**	**94,408**
Mines Dept.	**20,163**	**24,191**	**31,151**
Royalty on Rutile	**745**	211	**883**
Royalty on Bauxite	1,200	976	4,098
Licences	18,218	21,148	19,810
Other Departments	**47,168**	**52,145**	**63,257**
Royalty on Fisheries	8,744	12,298	10,930
Parastatals	2,356	4,887	2,313
Other Revenues	36,068	34,960	50,014
Road User Charges	**48,855**	**51,972**	**57,300**
GRANTS	**491,411**	**542,614**	**517,146**
Programme	**320,323**	**266,360**	**284,733**
HIPC Debt Relief Assistance	15,708	19,855	19,581
UK (DFID)	58,354	78,400	79,160
EU	203,354	110,958	112,795
AFDB	28,179	28,513	31,919
WB	0	0	0
Peace Building Fund	14,728	925	0
Development Projects	**171,088**	**276,254**	**232,413**
TOTAL EXPENDIUTRE & NET LENDING	**1,457,413**	**2,073,763**	**1,860,761**
Of which:			
Current Expenditure	**1,007,642**	**1,286,476**	**1,218,894**
Of which:			
Wages & Salaries	404,880	535,669	514,974
Domestic Interest	87,478	141,930	135,206
Foreign Interest	14,438	17,249	16,353
Goods & Services	355,180	426,350	366,730
Transfers to Local Councils	58,715	78,438	85,694
DDR	0	0	0
Social Outlays	348	442	110
Grants to Educational Institutions	35,664	29,135	38,436
Transfers to Road fund	48,855	51,972	57,300
Elections & Democratisation	2,084	5,291	4,091
Development Exp. & Net Lending	**449,771**	**787,287**	**641,867**
Foreign Loans & Grants	345,323	432,178	417,687
Loans	159,507	154,999	185,274
Grants	185,816	277,179	232,413
Domestic	104,448	355,109	224,180
Subsidies	0	0	0
Lending Minus Repayment	0	0	0
CURRENT BALANCE+/- (Including grants)	**230,224**	**263,765**	**36,054**
ADD DEVELOPMENT EXPENDITURE	-449,771	-787,287	-641,867
Basic Primary Balance	-606,958	-469,488	-549,622
OVERALL DEFICIT/SURPLUS +/-(Incl. grants)	**-219,547**	**-523,522**	**-605,813**

Table 6 contd…

Government Fiscal Operations
(in Millions of Leones)

	2009	2010	Budget 2010
FINANCING	**219,547**	**523,522**	**605,813**
Domestic	**83,838**	**446,161**	**268,081**
Of which:			
Bank Financing	**108,994**	**454,657**	**249,717**
Bank of Sierra Leone	162,825	391,624	226,714
Commercial Banks	-53,831	63,032	23,003
Non-Bank Financing	**-25,156**	**-8,496**	**18,364**
External	**154,923**	**161,725**	**175,093**
Of which:			
Loans	198,335	222,486	237,148
Project	159,507	154,999	185,274
Programme	38,828	67,487	51,874
Amortisation	-43,412	-60,761	-62,055
Debt Relief	0	0	0
Others*	**-19,214**	**-84,364**	**162,639**

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

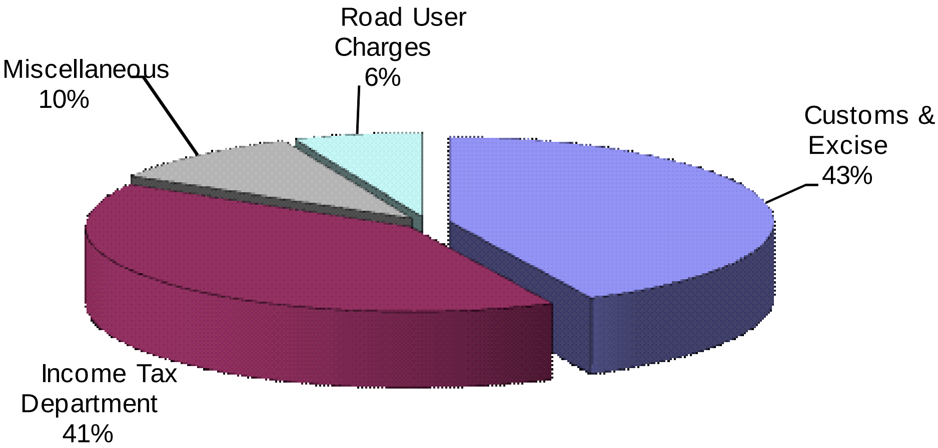
Source: Budget Bureau, MOF

In the midst of these challenges, outlays were structured towards making investment in agriculture, health and infrastructure conducive to supporting economic growth and poverty reduction. While external budgetary support continued to augment budget resources, the Government on the domestic front broadened the tax base as well as strengthened tax administration and collection to embark on an aggressive revenue mobilization. In January 2010, the National Revenue Authority (NRA) introduced the Goods and Services Tax (GST) to improve on revenue generation.

Though expenditure was on the high side, it was curtailed to meet essential spending on current and development expenditure items in priority areas, as identified in the Government's *Agenda for Change*. These areas included agriculture, energy and water supply, health and infrastructural development. Alongside these efforts, prudent cash budget controls were also adhered to.

Central Government budgetary operations in 2010 resulted in a deficit of Le523.52bn, compared to a budgeted deficit of Le605.81bn for 2010 fiscal year and a deficit of Le219.55bn for the preceding year. This huge budget deficit was attributable to a 42.29 percent increase in total expenditure, which more than doubled the combined increase in revenue and grants for the review period. At this level, the overall fiscal balance (deficit) represented 6.1 percent of the estimated Gross Domestic Product (GDP) for 2010.

Chart 4 - Composition of Government Revenue - 2010

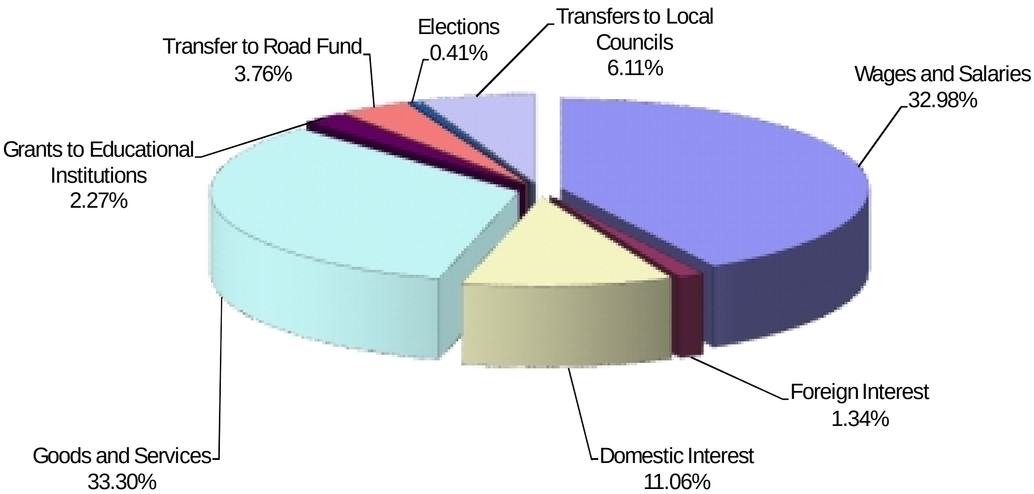


Total revenue (including grants) of Le1,550.24bn (14.42% of GDP) was 23.53 percent in excess of the budgeted target of Le1,254.95bn and 25.23 percent above the preceding year's amount of Le1,237.87bn. The increase in revenue was due to increases in both the domestic revenues and grants.

Domestic revenue during the year was Le1,007.63bn (11.73% of GDP) and was 34.99 percent above the 2009 level of Le746.46bn. This total was also 36.57 percent in excess of the budgeted target of Le737.80bn. Revenue performance was mainly driven by the increases in collections from both tax and non-tax sources. During the review period, domestic revenue contributed 65.0 percent to total revenue plus grants compared to 60.3 percent in 2009.

Revenue collected from Customs and Excise Department amounted to Le329.93bn (3.84% of GDP), representing 43.98 percent of domestic revenue. This was 5.64 percent below the budgeted target of Le349.66bn and 21.27 percent below the Le419.08bn collected in 2009. The underperformance was

Chart 5 - Composition of Government Recurrent Expenditure - 2010



attributable, among other things, to the excessive granting of discretionary duty waivers as well as operational problems related to the forklift at the port, resulting in delays in the clearing of containers. Under the Customs and Excise category, total import tax collection of Le246.15bn was 20.65 percent in excess of the 2010 target of Le204.02bn but 22.41 percent below the preceding year's collections of Le317.20bn. The increase, relative to the target, was driven by the increase in the value of dutiable imported goods. Excise duties on petroleum products amounting Le73.14bn were 42.22 percent below the target of Le126.58bn, partly due to the non-payment of excise and road user charges by oil companies. In addition, receipts on other excise duties of Le3.52bn, as well as freight levy from Maritime Administration totaling Le7.12bn were all short of their budgeted targets.

Income tax collections of Le303.03bn (3.53% of GDP) were 28.16 percent above the reporting year's target of Le236.44bn, as well as 43.48 higher than the preceding year's collections of Le211.19bn. The receipts accounted for 30.07 percent of total domestic revenue for the review period. This marked improvement in revenue performance was on account of lump sum payments of Le24.5bn made by the African Minerals limited in respect of outstanding PAYE; and Le34.1bn by Woodside Energy in respect of capital gains tax on the sale of oil block. Coupled with this, was the intensification of the audit exercise in investigating and finalizing audit cases, robust moves by the Income Tax Department on outdoor collections and intensive efforts to recover outstanding arrears from private individuals and parastatals.

Of total income tax receipts, company tax contributed Le136.5bn (45.05%), while personal income tax contributed Le155.24bn (51.12%) and receipts from other taxes Le11.28bn (3.83%). Collections from personal income tax were 5.26 percent above the budgeted target of Le147.47bn and 28.67 percent higher than the 2009 receipts of Le120.64bn. This improvement was driven partly by an increase in the number of civil servants (particularly in the medical cadre) during the year. Other taxes under the income tax category however experienced a decline from a total of Le28.80bn in 2009 to Le11.28bn in 2010.

The Goods and Services Tax (GST) was launched and implemented in January 2010 in an effort to enhance Government's revenue generation. Despite the numerous challenges posed by this system of taxation on the domestic economy, it has proved successful judging from returns during the year. Revenue generated from the GST in 2010 totaled Le246.36bn (2.87 % of GDP), falling 1.45 percentage short of meeting the 2010 target of Le249.99bn due to delays in transferring revenues collected from transit banks to the Consolidated Revenue Fund. The contribution of GST to domestic revenue was 24.45 percent for the reporting period. The enhanced revenue performance was credited to the unfailing effort of the National Revenue Authority to ensure the success of the system, including undertaking intensive countrywide sensitization campaigns throughout the implementation phase of the tax, physical surveillance of premises of tax payers, enforcement exercises including sealing-off of business premises of defaulters and imposition of penalties for late payment and late filing of GST returns. Capacity enhancement and intensive audit exercises were also contributory factors to the GST performance during the year. The total revenue from GST comprised of Le136.71bn generated from import trade and Le109.66bn from export trade. Notwithstanding these developments however, revenue from import GST was 19.94 percent short of its target of Le170.75bn while export GST revenue was 38.39 percent in excess of its target of Le79.24bn.

The level of total tax revenue generated for the year was Le879.32bn (10.24% of GDP), implying that the WAMZ criterion of tax revenue to GDP of at least 20% remained in breach during the review period.

Revenue generated from “miscellaneous” sources during the year amounted to Le76.34bn (0.89% of GDP), representing an increase of 13.37 percent relative to the preceding year’s receipts of Le67.33bn. This performance was however 19.14 percent short of the budgeted target of Le94.41bn. Under the “miscellaneous revenue” category, mines department contributed Le24.19bn, while “other departments” accounted for Le52.15bn. Though performance in both sub-categories were improvements on last year both failed to meet their respective targets of Le31.15bn and Le63.26bn; contributing to the overall shortfall in miscellaneous revenue as against its target.

Revenue from road user charges rose from Le48.86bn in 2009 to Le51.97bn in 2010. It was 9.5 percent short of the budgeted position of Le57.3bn, due to delays in the payment of dues by oil market companies.

Foreign grants received during the period under review totaled Le542.61bn (6.32% of GDP), which was 4.92 percent in excess of the 2009 position of Le491.41bn and 10.42 percent of the budgeted amount of Le517.15bn. The aggregate amount comprised Le266.36bn, in respect of programme grants for budgetary support, and project grant of Le276.25bn for development activities. Disbursements in respect of programme grants for budgetary support registered a shortfall of 6.45 percent as against an anticipated amount of Le284.73bn, and 16.85 percent as against the 2009 total of Le320.32bn. Programme grants for the review period comprised Highly Indebted Poor Country (HIPC) Debt Relief Assistance (Le19.86bn), Japanese Food and Oil Aid (Le27.71bn), the United Kingdom/ Department for International Development (Le78.4bn), European Union (Le110.96bn), African Development Bank (Le28.51bn) and United Nations Peace Building Fund (Le0.93bn). Disbursements for development projects amounting to Le276.25bn however, was 18.86 percent more than the anticipated amount of Le232.41bn and 42.29 percent above the preceding year’s disbursement of Le171.09bn. The noteworthy performance in grants for development projects outweighed the marginal shortfall in grants for budgetary support, resulting in the overall increase in total grants during the year 2010.

Total expenditure and net lending for 2010 was recorded at Le2,073.76bn (24.16% of GDP), representing an increase of 42.29 percent compared to the 2009 position of Le1457.41bn but 11.45 percent lower than the budgeted ceiling of Le1,860.76bn. The marked increase in total expenditure over the year was mainly on account of a significantly higher outlay for development expenditure in respect of infrastructural projects in 2010.

Current expenditures for 2010 were recorded at Le1, 286.48bn, which was 14.99% of GDP, reflecting an increase of 27.67 percent as compared with the 2009 position of Le1007.64bn. It was also 5.54 percent above the program ceiling of Le1, 218.89bn for the reporting period. The higher current expenditures was driven by an all-round increase in wages and salaries, domestic and foreign interest payments, expenses on goods and services, transfers to local councils, transfers to roads fund and elections and democratization.

Expenditure outlays on wages and salaries for 2010 were Le535.67bn or 6.24% of GDP, representing 41.64 percent of current expenditures. It was 4.02 percent in breach of the programme ceiling of Le514.97bn. This expenditure item was also 32.3 percent in excess of its corresponding 2009 aggregate of Le404.88bn. The marked increase in expenditures on wages & salaries was, in part, attributable to the increase in government contribution to social security payments on behalf of the large number of health workers with enhanced salaries, following the introduction of the Free Health Care Programme during the review period.

The increase in teachers' salary in December 2010 coupled with that of the wages of staff of the foreign missions, due to depreciation of the Leone against international currencies, also contributed to the overall increase in wages and salaries during the period. Similarly, expenditures on goods and services amounting Le426.35bn (33.14% of current expenditure) was 16.26 percent above its ceiling of Le366.73bn, and 20.04 percent in excess of the 2009 position of Le355.18bn due to the general increase in the prices of goods and services in 2010.

Transfers to local councils during the reference period totaled Le78.44bn, exceeding the preceding year's level by 33.59 percent, while remaining within the targeted ceiling of Le85.69bn. Also, the Le51.97bn transferred to the Roads Fund during the year was 6.38 percent higher than that in 2009, but well within the budgeted ceiling of Le57.3bn.

Total interest payments for the year comprised of Le141.93bn in domestic interest payments and Le17.25bn in foreign interest payments. Domestic interest payment was 4.97 percent in excess of the budgeted target, partly due to increases in interest rates on short and medium term treasury securities as well as payment of interest on the substantial volume of Ways and Means Advances accumulated by the Government during the last quarter of the reporting year. The 5.48 percent increase in foreign interest payments during the review period was attributable to further depreciation of the Leone against international currencies.

Development expenditure for 2010 totaling Le787.29bn (9.17% of GDP) was 22.66 percent in breach of the budgeted target ceiling of Le641.87bn and 75.04 percent above the 2009 aggregate of Le449.77bn. The share of development expenditure to the overall expenditure and net lending for the year 2010 was 37.96 percent. The growth in development expenditure was significantly attributable to the surge in expenditure on domestically financed projects during the year. Domestic development expenditures recorded for 2010 was Le355.11bn, 58.4 percent in excess of the budgeted amount of Le224.18bn and more than triple the Le104.45bn for 2009. The high domestic development expenditure was due to expenditures on unbudgeted projects, additional costs on infrastructure projects, unanticipated expenditures to rehabilitate hospitals for the Free Health Care Programme, and additional transfers to local councils.

Expenditures on foreign financed projects during the review period were recorded at Le432.18bn, comprising Le155bn in loans and Le277.18bn in grants. This was also 25.15 percent in excess of the preceding year's total of Le345.32bn and 3.47 percent of the budgeted target of Le417.69bn.

The overall fiscal balance including grants was a deficit of Le523.52bn (6.1% of GDP) compared with the budgeted deficit of Le605.81bn, and the preceding year's deficit of Le219.55bn. Financing of the deficit during the review period was from both domestic and external sources. Total financing was Le523.52bn, comprising net external financing (including programme loans) in the amount of Le161.73bn (1.88% to GDP) and domestic financing in the amount of Le446.16bn (5.2% of GDP). Domestic financing was 66.43 percent in excess of the programme target of Le268.08bn, while foreign financing was 7.63 percent below the programme target of Le175.09bn. Domestic financing included bank financing, of which the Bank of Sierra Leone provided Le391.63bn while the sale to deposit money banks of treasury bills and other debt instruments totaled Le63.03bn. The non-bank public reduced its holdings of securities to the tune of Le8.5bn.

Monetary Developments

Monetary management during 2010 was challenged by expansionary Government fiscal operations, as Government fiscal policy strategy shifted to fast track capital expenditure in the areas of infrastructure, health and energy supply, resulting in a huge deficit which was financed by the banking system. With no new extra budgetary expenditures allowed and revenues envisaged from privatization receipts to augment Government operations were below expectations, the Central Bank was unable to cap direct borrowing to the Government at Le150bn agreed upon under the Extended Credit Facility programme with the International Monetary Fund (IMF).

With the liquidity surge in the financial system emanating from Government expenditure, oversubscription in the primary auction for treasury bills was observed on several occasions, peaking in the third quarter of 2010. The Central Bank consequently became more aggressive in its Open Market Operations (OMO), issuing additional Le72.50bn worth of treasury bills from its stock of Non-Negotiable Non-Interest Bearing (NNIB) securities to accommodate the increased demand. However, as contractors demand for cash to execute their contract obligations increased and the approach of the festive season became more imminent, commercial banks were unable to roll over all their holdings of securities maturing in the fourth quarter of 2010, which the Central Bank had to take up thereby threatening the achievement of monetary policy management objectives. The annual yield on all tenures of treasury bills as a result increased.

The Central Bank continued to strengthen its monetary policy framework with the intensification of Repo activities while maintaining its standing facility rate which initially was set at 300 basis points above the most recent 91 days average treasury bills rate in January 2010 but later increased to 500 basis points above the benchmark rate in March 2010. The Central Bank also developed a Monetary Policy Rate (MPR) that was designed to be used to conduct monetary policy operations and signal the Central Bank’s monetary policy stance to the market.

Despite these efforts by the Central Bank, the outcome in monetary aggregates was an expansion. Reserve Money and Broad Money Supply exceeded their targets for 2010. The growth in Reserve Money registered 34.61 percent compared to a target rate of 7.5 percent while Broad Money Supply grew by 32.73 percent as against a target rate of 14.00 percent. This development, coupled with the depreciation of the Leone, domestic shocks in taxes and subsidies and international fuel and food price increases contributed to the rise in inflation to 17.84 percent in December, 2010 from 12.20 per cent in December 2009 also exceeded its target of 16.00 per cent in 2010.

The growth in Reserve Money was due to excessive appetite for government borrowing from the central bank to fund its infrastructure expenditures which resulted in a 106.09 percent increase in Net Claims on Government by the Central Bank. This consequently translated into a surge in Reserve Money comprising Currency Issued and Bankers’ Deposits. Currency issued increased by 29.82 percent and Banker’s deposits by 82.10 percent. With regards to Broad Money Supply, the source of growth was mainly Net Domestic Assets (NDA), with a minor contribution from Net Foreign Assets (NFA). Net Domestic Assets increased

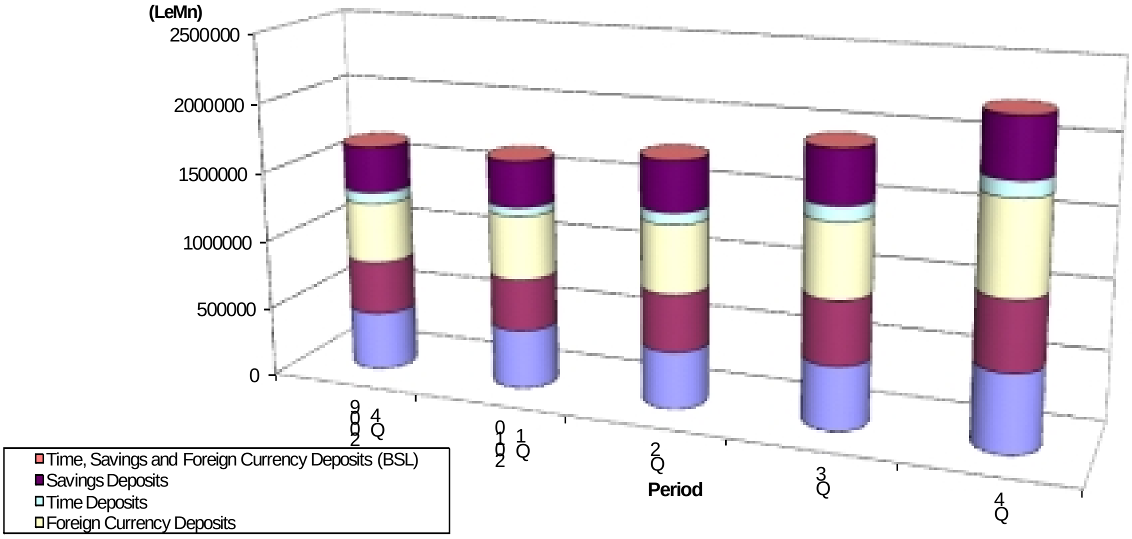
Table 7

Monetary Survey (Million Leones)					
	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
1	2	3	4	5	6
Reserve Money	**565,271**	**564,594**	**583,670**	**612,890**	**760,898**
Broad Money	**1,684,978**	**1,665,123**	**1,769,286**	**1,941,308**	**2,236,534**
Broad Money*	**1,247,545**	**1,204,097**	**1,279,398**	**1,410,497**	**1,577,937**
Narrow Money	**807,479**	**799,894**	**821,609**	**912,854**	**1,048,055**
Currency in Circulation	*420,921*	*426,764*	*410,857*	*456,296*	*557,262*
Demand Deposits	*386,558*	*373,130*	*410,752*	*456,558*	*490,794*
Quasi Money	**877,499**	**865,229**	**947,677**	**1,028,454**	**1,188,478**
Foreign Currency Deposits	*437,433*	*461,026*	*489,888*	*530,810*	*658,597*
Time Deposits	*84,230*	*63,267*	*84,416*	*105,403*	*112,242*
Savings Deposits	*329,181*	*327,836*	*358,488*	*381,276*	*412,525*
Other Deposits	*24,416*	*10,869*	*12,828*	*8,913*	*3,062*
Time Savings and Foreign Currency deposits(BSL)	*2,239*	*2,231*	*2,057*	*2,052*	*2,052*
Net Foreign Assets	**1,541,759**	**1,446,593**	**1,344,870**	**1,371,140**	**1,644,505**
Bank of Sierra Leone	**1,005,284**	**905,134**	**833,519**	**854,099**	**959,035**
Assets	*1,309,593*	*1,275,519*	*1,234,874*	*1,316,734*	*1,458,987*
Liabilities	*304,309*	*370,385*	*401,355*	*462,636*	*499,963*
Commercial Banks	**536,474**	**541,459**	**511,351**	**517,042**	**685,481**
Assets	*542,263*	*548,872*	*522,442*	*533,767*	*703,456*
Liabilities	*5,789*	*7,413*	*11,091*	*16,725*	*17,975*
Domestic Credit	**1,107,744**	**1,205,381**	**1,367,791**	**1,836,473**	**1,738,594**
Claims on Central Govt. Net	**444,724**	**498,621**	**598,209**	**1,023,856**	**872,813**
of which:					
BSL	**278,131**	**357,796**	**430,227**	**706,948**	**574,080**
Total Claims	***745,384***	***744,434***	***794,728***	***1,110,959***	***904,802***
Government Securities Issued obo BSL	-	-	-	-	-
Treasury Bills	*164,463*	*165,697*	*116,814*	*336,367*	*149,389*
Treasury Bonds	*24,666*	*22,484*	*20,782*	*21,798*	*20,592*
Ways and Means Advances	-	-	*100,866*	*196,530*	*177,694*
Securities for Monetary Operations (Stock)	*132,500*	*132,500*	*137,500*	*210,000*	*210,000*
Stock of NNNIB	*243,732*	*193,732*	*188,732*	*81,801*	*81,801*
5YR Bonds for Recapitalization	*180,000*	*230,000*	*230,000*	*264,430*	*264,430*
Government Departments	*24*	*22*	*34*	*33*	*12*
Deposits	**467,254**	**386,638**	**364,502**	**404,011**	**330,723**
Treasury Income and Expenditure(net)	*(820)*	*(776)*	*(1,678)*	*(133)*	*939*
Departmental Accounts	*22,007*	*13,167*	*21,797*	*19,542*	*16,654*
HIPC (MDRI)	*317,583*	*246,248*	*211,712*	*183,012*	*113,512*
Steriliation Account Balance	*128,475*	*127,991*	*132,663*	*201,582*	*199,610*
Blocked Account	*8*	*8*	*8*	*8*	*8*
Kenema Branch Deposits	-	-	-	-	-
Commercial Banks	**166,593**	**140,825**	**167,983**	**316,908**	**298,734**
Total Claims	**360,770**	**346,264**	**408,151**	**463,895**	**476,127**
Treasury Bills	*346,153*	*332,173*	*391,560*	*442,677*	*458,226*
Treasury Bearer Bonds	-	-	-	-	-
Loans and Advances	*14,617*	*14,091*	*16,591*	*21,218*	*17,901*
Deposits	**194,177**	**205,438**	**240,168**	**146,987**	**177,393**
Demand Deposits	*97,505*	*106,759*	*143,916*	*97,728*	*109,140*
Savings Accounts	*7,789*	*16,171*	*17,202*	*10,559*	*20,645*
Time Deposits	*88,883*	*82,508*	*79,050*	*38,700*	*47,608*
Claims on Non Financial Public Sector	**31,308**	**34,818**	**40,524**	**41,853**	**54,025**
Claims on Private Sector	**600,982**	**642,550**	**692,542**	**744,461**	**790,395**
of which					
Commercial Banks	**594,073**	**630,887**	**683,709**	**737,060**	**783,523**
Claims on Non-Banking Inst.	**30,730**	**29,392**	**36,516**	**26,304**	**22,246**
Other Items (Net)	**964,524**	**986,851**	**943,375**	**1,266,306**	**1,147,049**

** Excludes Foreign Currency Deposits at the Commercial Banks*

Source: Bank of Sierra Leone and Deposit Money Banks

Chart 6. Composition of Money Supply(M2)



by 313.37 percent from Le 143.22bn in 2009 to Le592.03bn in 2010 while Net Foreign Assets increased by 6.66 percent from Le1541.76bn in 2009 to Le1644.51bn in 2010. This significant increase in NDA was the result of the shift in Government's fiscal policy strategy towards fast tracking capital expenditures which precipitated acceleration in expenditure on infrastructure, health, energy and water supply. The consequence, in the face of uneven collections in revenue was a huge deficit that was mainly financed by the banking system. This development saw Net Claims on Government by the Banking System almost doubling; it increased by 96.06 percent from Le444.72bn in 2009 to Le871.93bn in 2010. The Central Bank contribution to this increase was more than that of the commercial banks. Net Claims on Government by BSL increased by 106.09 percent from Le278.13bn in 2009 to Le573.20bn in 2010, with direct borrowing through utilization of Ways and Means Advances accounting for 60.22 percent which translates into Le177.69bn in nominal terms. Further to this, there was a substantial drawdown in government deposits in the amount of Le 136.53bn (29.22%) with most of it being Multilateral Debt Relief Initiative (MDRI) resources. Net Claims on Government by the commercial banks increased by 79.32bn from Le166.59bn in 2009 to Le298.73bn in 2010. This was mainly occasioned by increases in their holdings of the 182days tenure treasury bills coupled with an 8.64 per cent drop in Government Deposits. As demand for cash usually increases towards the end of the year, commercial banks were unwilling to roll over all maturing 91 days treasury bills in their portfolio during that period, resulting in a drop in their holdings of such securities.

Nonetheless, in spite of government's huge financing requirements, credit to the private sector by the commercial banks also increased by 31.89 percent compared to a target of 26.0 percent. The main beneficiary sectors in 2010 were Commerce and Finance (including export trade, import trade, financial services and other services) accounting for 37.96 percent, followed by Construction at 16.15 percent, Manufacturing at 14.66 percent and the Agriculture, Forestry and Fishing sector, which received 12.64 percent of the total credit in 2010.

Table 8

Average Interest Rates (Percent)					
	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
1	2	3	4	5	6
Treasury Bills (3-months)	13.99	14.55	15.01	18.10	24.54
Treasury Bills (6-months)	12.21	16.77	19.53	22.93	28.35
Treasury Bills (1-Year)	14.33	14.72	17.27	17.48	28.98
Treasury Bonds (1-year)	12.00	12.00	10.00	18.00	22.50
Savings^	6.32	6.32	6.32	6.32	6.19
1 Month	8.30	8.41	8.41	8.41	8.40
3 Months^	8.87	8.99	8.99	8.99	8.90
6 Months^	9.45	9.53	9.53	9.53	9.33
9 Months^	9.25	9.25	9.25	9.25	9.25
12 Months^	10.84	10.84	10.84	10.84	10.55
Lending (Prime)^	22-29	22-29	21-29	21-28	21-28
National Inflation Rate*	12.22	17.37	16.42	16.76	17.84

^ Revised data effective Aug-02 due to the incorporation of FIB
** The base year was revised from 2003 to 2007.*

Interest rates on treasury securities trended upwards since the beginning of the review year but more so in the second half. The average annual yield on 3 months, 6 months and 12 months Treasury Bills increased by 1055, 1614 and 1465 basis points to 24.54 percent, 28.35 percent and 28.98 percent in 2010 from 13.99, 12.21 and 14.33 percent in 2009, respectively. Interest rate on 12 months Treasury Bonds also increased by 1050 basis points, from 12.00 percent in 2009 to 22.50 percent in 2010. The structure of interest rates on deposits showed mixed trends in 2010. Whereas interest rates on savings, 6 months and 12 months Time Deposits declined by 13, 12 and 29 basis points to 6.19 percent, 9.33 percent and 10.55 percent, respectively, those on 1 month and 3 months Time Deposits increased by 10 and 3 basis points to 8.40 percent and 8.90 percent, respectively. The interest rate on 9 months Time Deposits and overdraft lending rate at the Deposit Money Banks remained the unchanged at 9.25 percent and 21-28 percent, respectively.

Inflation

The composite inflation rate measured on a year-on-year basis remained in double digits throughout the year, ranging between 14.83 percent and 18.30 percent. In January, the inflation rate was 14.83 percent, following the introduction of the Goods and Services Tax (GST) at the beginning of the month and trended upwards to record 17.80 percent in April 2010, reinforcing the pass through effects of the GST. It however fell steadily through the months from 16.82 percent in May 2010 to 16.11 percent in August 2010 and thereafter held steady before spiking to a record high of 18.30 percent in November 2010. This trend was explained by the increase in transportation costs and its knock - on effect on the prices of most goods and services. The inflation rate has persisted in double digits reflecting the continuous build-up of price in the economy arising from the upward revision in the pump price of fuel as well as developments in the exchange rate and the international markets.

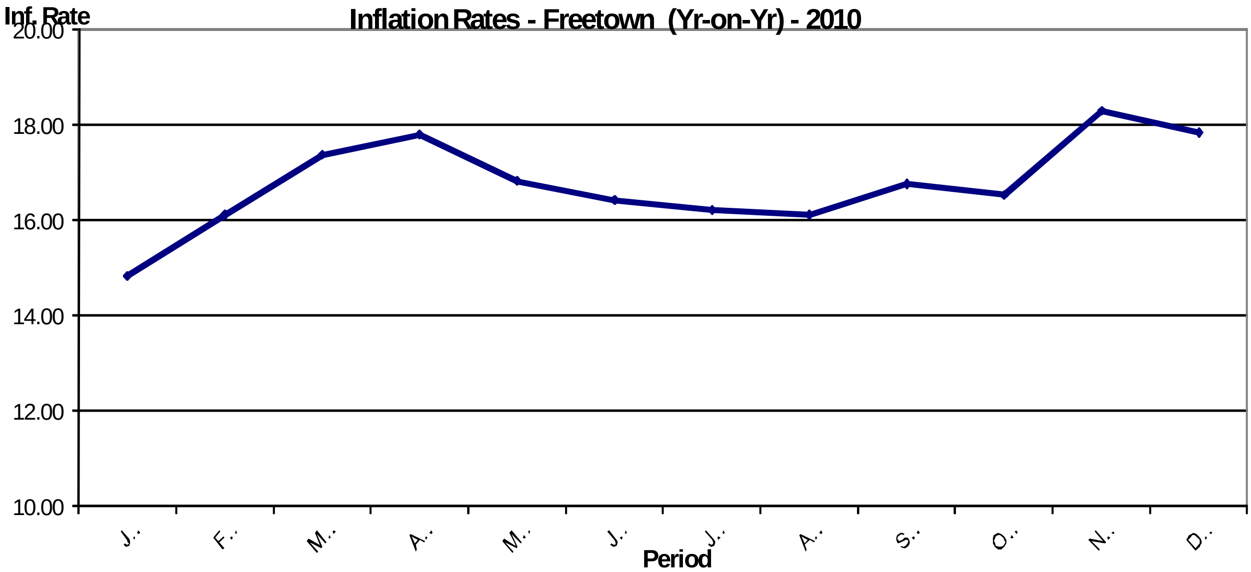
Table 9

Inflation Rates 2010						
	NATIONAL			WESTERN AREA		
PERIOD	CPI	Year-on-year % Change	Monthly % Change	CPI	Year-on-year % Change	Monthly % Change
January	138.90	14.83	4.15	137.56	13.29	2.90
February	142.40	16.11	2.52	142.65	15.83	3.70
March	143.82	17.37	1.00	144.18	17.07	1.07
April	145.00	17.80	0.82	145.62	17.82	1.00
May	145.37	16.82	0.25	145.23	17.08	0.30
June	147.40	16.42	1.40	148.82	17.17	1.89
July	149.28	16.21	1.27	150.67	17.18	1.24
August	151.50	16.11	1.49	155.89	17.29	3.46
September	153.79	16.76	1.51	155.06	17.49	-0.53
October	153.74	16.53	0.03	155.02	17.01	-0.03
November	154.21	18.30	0.30	157.34	17.70	-1.50
December	157.15	17.84	1.91	161.03	17.76	2.30

Source: *Statistics Sierra Leone*

The pump prices of petrol, diesel and kerosene were revised upward three times during the year, from Le14,800 in January 2010 to Le15,500 in February, Le16,500 in June and Le17,500 in October. In December 2010, the year-on-year inflation rate dropped by 0.46 percentage points to 17.84 percent; while the monthly inflation rate increased by 1.91 percent, as a result of the increase in all key components of the index during the festive season.

Chart 7
Inflation Rates - Freetown (Yr-on-Yr) - 2010



The average annual inflation rate for 2010 was 16.76 percent, which was higher than the 6.43 percent recorded in the preceding year. This was largely explained by depreciation of the Leone exchange rate against other international currencies, coupled with the rise in fuel price as a result of government's withdrawal of subsidies.

External Developments

External sector performance during the review period was driven largely by the slow recovery from the global economic slowdown which continued in 2010. Sectoral activity remained weak especially in the first half of 2010, underpinned by falling global demand and commodity prices, and declining foreign inflows and export volumes. However, in spite of the deteriorating global economic environment and its adverse effects on the external sector, the country managed to stay on course with economic and structural reforms, thus ensuring sustained macro-economic stability, while at the same time embarking on measures to alleviate the effects of the food and fuel crisis of 2009. Consequently, as global demand for commodity exports recovered, there were signs of a turnaround in export performance during the course of the year under review.

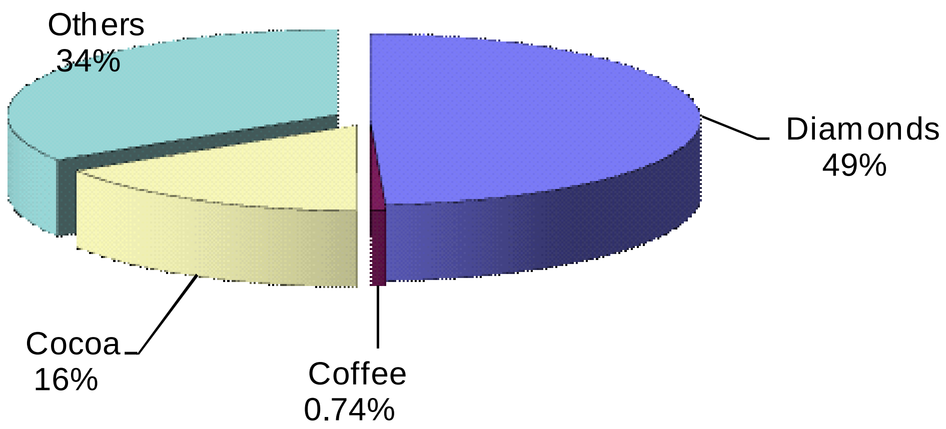
The external trade deficit widened substantially on account of stronger growth in import payments than that in export receipts. The level of Gross External Reserves increased from US$336.37 million as at end December 2009 to US$345.23 million as at end December 2010. This represented an increase of 2.63 percent above the corresponding period in 2009. This favourable outturn is partly due to the additional disbursements received from the World Bank and the reduction in the weekly offer amount in the foreign exchange auction. Inflows to the foreign reserves during the review period mainly constituted receipts from programme disbursements for both budgetary and balance of payments support. During the review period, donor support was realized from the IMF under the Extended Credit Facility arrangement, ADB - Budgetary Support, UK/DFID - Poverty Reduction Budgetary Support (PRBS), World Bank Economic Rehabilitation and Recovery Grant (WB/ERRG), EU-Post Conflict Budgetary Support and Islamic Development Bank (IDB).

The value of the Leone against major international currencies including the United States Dollar and the British Pound Sterling continued to depreciate reflecting a decline in foreign exchange inflows. The depreciation was more pronounced during the second half of the review period with the rate remaining outside the ±15 percent band of the central parity rate of Le2,562.18/US$1 under the Exchange Rate Mechanism (ERM) of the West African Monetary Zone.

International Trade

Following an expansion of activities in the mining sector during the review period, Sierra Leone's total merchandise trade (i.e exports plus imports) amounted to US$1,111.26mn, representing a significant expansion of US$360.30mn compared to US$750.97mn recorded in 2009. The merchandised trade deficit worsened further to US$428.81mn in 2010 from US$289.64mn in the previous year, reflecting a combination of an expansion in both export receipts and import payments.

Chart 8. Composition of Exports 2010

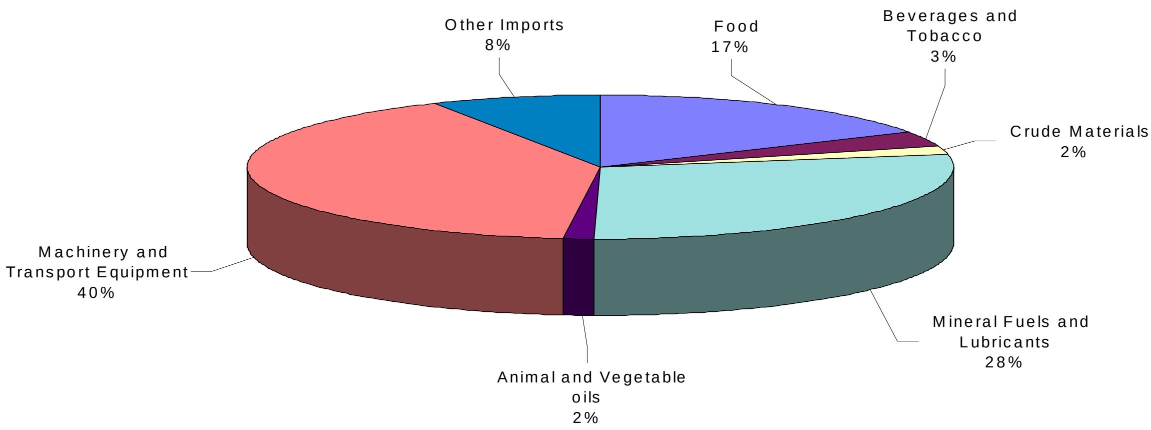


Exports

Total export receipts grew significantly by US$110.57mn (47.93%) to US$341.23mn in the year ended December 2010 from US$230.66mn in the year ended December 2009. The growth in export receipts during the reporting period was largely driven by strong performances in the Mineral and ''other exports'' sub-sectors, which together accounted for 81.73 percent of total export receipts. Receipts from diamond exports increased by US$35.14mn to US$113.51mn. This value comprised 245.38 thousand carats of gem diamonds, valued at US$99.67mn and 192.14 thousand carats of industrial diamonds, valued at US$13.85mn. In volume terms, diamond exports increased by 37.05 thousand carats (9.25 percent). Rutile and bauxite exports also increased during the period under review, with rutile exports increasing to 70.13 thousand metric tons, valued at US$40.57mn in 2010 and exports of bauxite increasing to 1,254.74 thousand metric tons, valued at US$31.06mn. Receipts from gold exports increased by 95.13 percent, from US$4.76mn in 2009 to US$9.30mn in 2010 indicating an increase in volume from 5,361.46 ounces in 2009 to 9,362.43 ounces in 2010. Receipts from exports of ilmenite also increased by 189.36 percent, from US$0.92mn in 2009 to US$2.65mn in 2010. The reporting period also witnessed an export of zircom worth US$3.56mn.

Earnings from agricultural exports declined by 19.75 percent, moving from US$48.47mn in 2009 to US$38.90mn in 2010. Proceeds from cocoa exports increased by 80.35 percent, compared with US$20.54mn recorded in 2009. The volume of cocoa exported in the year, however decline. The value of cocoa exported increased significantly by 80.35 percent from US$20.54mn in 2009 to US$37.05mn in 2010.This growth in export receipts of cocoa was largely due to the increase in the world market price of this commodity. The volume of coffee exported however decreased during the review period from 8,144.55 metric tons to 2,704.17 metric tons resulting in decreased earnings of US$1.70mn from US$13.12mn received in 2009. There were no significant contributions from piassava and ''Fish and Shrimps'' exports. The exports of miscellaneous products, subsumed under the "others" category showed strong growth of

Chart 9. Composition of Imports 2010



US$58.26mn from US$19.97mn in 2009 to US$78.23mn in 2010. The value of re-exports decreased minimally by 0.49 percent from US$23.56mn in 2009 to US$23.45mn in 2010

Imports

Total value of imports in the review year at US$770.04mn increased by 48 percent from US$520.30mn recorded in 2009. Strong growth was noted in import values of '*Petroleum products*', '*Intermediary goods*', '*Manufactured goods*' *and* '*Machinery and transport equipments*' which together constitutes the bulk (more than 80%) of the total import bill. The import bill for '*consumer goods*', which accounted for 17.38 percent of total imports, decreased to US$137.53mn when compared to US$133.82mn in 2009. The decrease was due to a 22.84 percent fall in '*Beverages and Tobacco*' which offset a 0.37 percent and 21.53 percent increase in '*Food*' *and* '*Animal* and *Vegetable Oils*' respectively. Payments for imported rice dropped by US$10.59mn, mainly attributable to government's food security drive that has stimulated domestic rice production, as reflected in a 28.26 percent (103,170.71 metric tons) reduction

Chart 10. External Trade - 2010

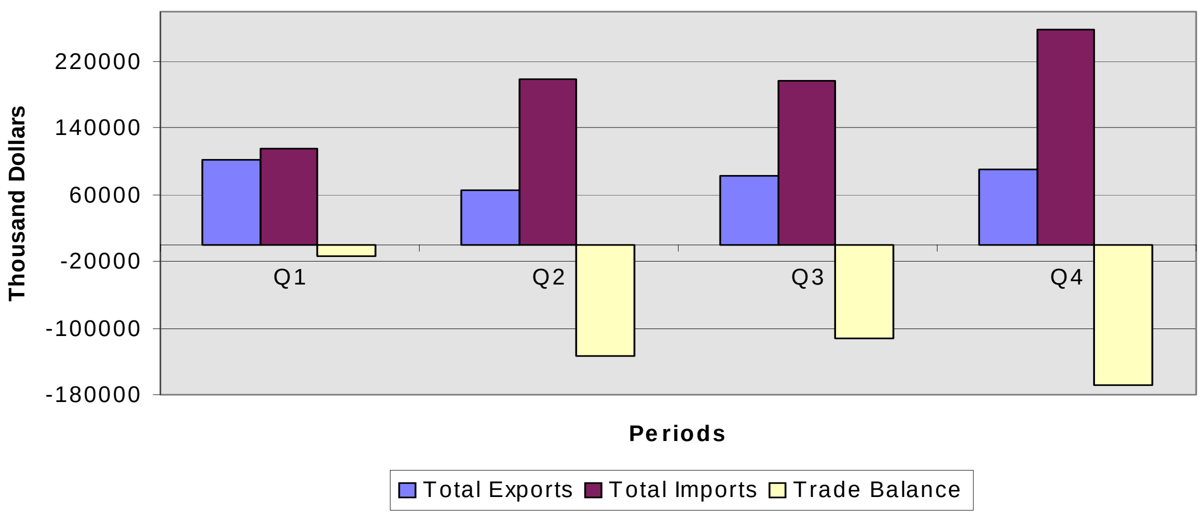
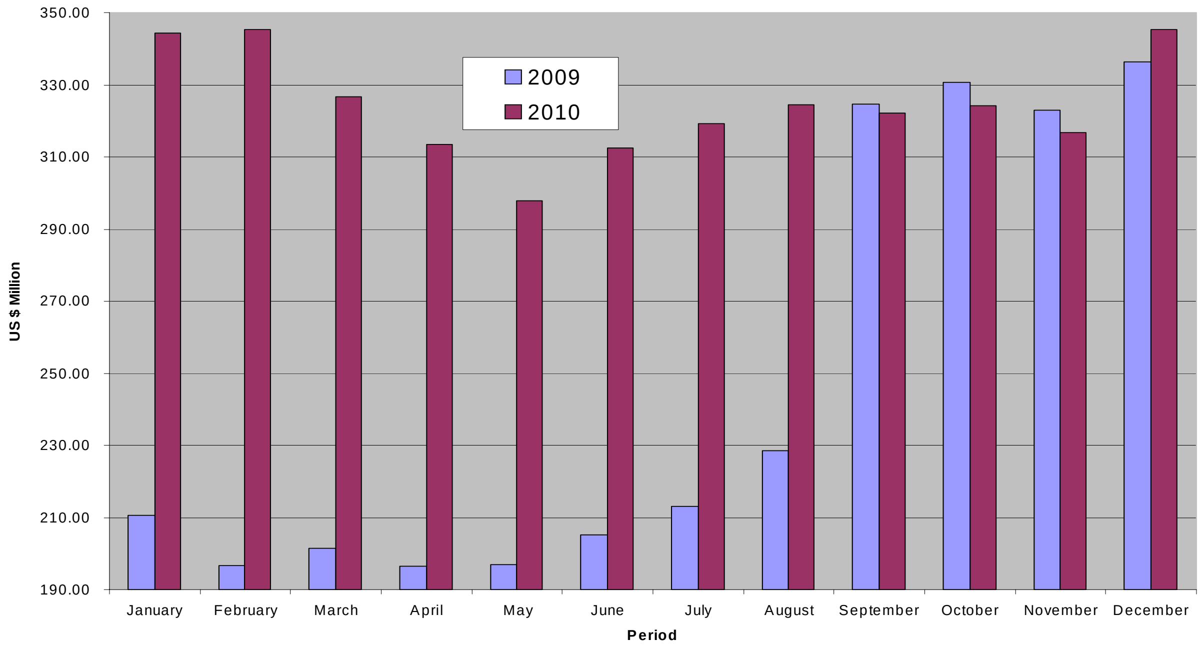


Table 10

International Trade and Reserves (US$'000)				
	Jan - Dec'09	**Jan-Jun'10**	**Jul-Dec'10**	**Jan - Dec'10**
1	2	3	4	5
Merchandise Imports	**520,303.8**	**314,116.3**	**455,921.2**	**770,037.5**
Food *of which*	104,509.5	52,055.2	52,838.8	104,894.0
Rice	55,467.1	14,642.8	30,230.1	44,872.9
Beverages and Tobacco	25,255.6	10,370.1	9,117.4	19,487.5
Crude Materials	16,142.4	7,471.1	5,796.2	13,267.3
Mineral Fuels and Lubricants of Which	126,459.4	87,751.0	83,663.2	171,414.2
Fuel	105,292.6	74,797.0	70,323.4	145,120.3
Animal and Vegetable Oils	7,763.9	5,154.1	4,281.1	9,435.1
Chemicals	33,682.6	20,670.2	23,167.7	43,837.9
Manufactured Goods	67,745.9	44,146.9	66,388.6	110,535.5
Machinery and Transport Equipment	95,085.5	68,420.6	180,277.6	248,698.2
Other Imports	43,659.0	18,077.2	30,390.5	48,467.7
Merchandise Exports	**230,661.4**	**166,840.8**	**174,385.6**	**341,226.4**
Mineral Exports	**138,652.9**	**93,452.3**	**107,197.2**	**200,649.6**
Diamonds	78,373.9	51,371.9	62,142.8	113,514.7
Buaxite	18,677.8	17,159.2	13,901.8	31,061.0
Rutile	35,920.3	14,956.3	25,610.9	40,567.2
Ilmenite	916.9	1,224.1	1,429.0	2,653.1
Gold	4,764.0	5,183.1	4,112.7	9,295.8
Agricultural Exports	**48,473.6**	**27,934.1**	**10,965.9**	**38,900.0**
Coffee	13,123.5	1,664.2	34.0	1,698.2
Cocoa	20,544.6	26,123.9	10,927.3	37,051.2
Piassava	4.6	-	-	**-**
Fish and Shrimps	14,800.9	146.0	4.7	150.6
Others	**19,973.1**	**32,929.9**	**45,301.2**	**78,231.1**
Re-exports	**23,561.8**	**12,524.5**	**10,921.3**	**23,445.7**
Trade Balance	**(289,642.4)**	**(147,276)**	**(281,536)**	**(428,811.1)**
Foreign Reserves ($mn)	**336.27**	**312.59**	**345.22**	**345.22**

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

Chart 11
Gross International Reserves



in the volume of rice import in 2010 from 143,814.42 metric tons in 2009. Payments for petroleum products significantly increased by 35.55 percent from US$126.46mn in 2009 to US$171.41mn in 2010. The bill for fuel import (85 percent of total bill for petroleum products) increased by 37.83 percent from US$105.29mn in 2009 to US$145.12mn in 2010. Payments for '*Intermediary goods*', increased slightly to US$57.11mn, 14.61 percent higher than the level recorded in 2009. This was on account of a 30.15 percent increase in payments for chemicals, which offset the 17.81 percent drop in payments for crude materials. Payments for *manufactured goods* increased by 42.73 percent to US$159.00mn during the year. There was a significant growth (161.55%) in payments for machinery and transport equipment amounting to US$248.70mn in 2010 from US$95.09mn in 2009. This growth reflects increased capital investment in the mining sector and government's fast tracked infrastructure projects.

International Reserves

The gross external reserves of the Bank of Sierra Leone rose by US$8.86mn to US$345.23mn as at end December 2010, from US$336.37mn reported as at end December 2009. Cumulative inflows and outflows in 2010 amounted to US$142.11mn and US$123.69mn respectively, representing a net inflow of US$18.42mn. Significant inflows during the year included aid/loan disbursements totaling US$118.71mn comprising mainly US$42.82mn, in disbursements by the International Monetary Fund (IMF) under the new Extended Credit Facility (ECF) support programme, US$47.72mn in total disbursements from both the European Union (US$27.47mn) and UK/DFID (US$20.25mn) in respect of Poverty Reduction Budgetary Support, World Bank disbursement (US$16.76 mn), US$7.05mn from the African Development Bank, total export receipts to the tune of US$9.43mn, and US$6.25mn from African Minerals being arrears of payroll tax in respect of expatriate staff. Significant outflows were as follows: US$47.61mn being foreign exchange utilized under the Bank of Sierra Leone weekly foreign exchange auction; US$16.18mn being cost of fuel for electricity support; Government travel and other Government expenditure to the tune of US$14.54mn; Embassies/Missions payments to the tune of US$11.58mn; Expenditure on various Government Infrastructural projects to the tune of US$15.99mn and total debt service payments of US$14.13mn to various international creditors including the International Monetary Fund (US$2.44mn), the World Bank (US$0.98mn), African Development Bank (US$0.74mn), Other Multilateral and Bilateral Creditors (US$4.14mn), Other Commercial Creditors (US$4.00mn), and Organization for Petroleum Exporting Countries (US$1.57mn).

Supervision of Banks and Other Financial Institutions

The resource base of the commercial banks increased from Le1.96 trillion as at end December, 2009 to Le 2.44 trillion as at 31st December, 2010 representing a 24.49 % growth or Le 479.27 billion. This growth derived mainly from the 27.47% increase in deposits which rose from Le1.43 trillion as at end December, 2009 to Le1.83 trillion as at end December, 2010 Demand, Savings and Time deposits which were recorded at Le1.24 trillion, Le447.33 billion and Le145.69 billion at the end of the reporting period represented increases of Le 319.80 billion, Le110.36 billion and Le27.43 billion, respectively.

Shareholders' funds increased by 14.27% (or Le29.70 billion) during the review period from Le344.81 billion in December, 2009 to Le394.02 billion as at end December, 2010. This was mainly on account of the11.09% increase in issued and paid-up capital.

The capital adequacy ratio was adhered to and recorded at 33.42% as at end December, 2010 compared with 34.16% as at end December, 2009. The adherence to the statutory requirement was made possible mainly due to the increase in the industry's capital base, consequent upon the increase in the minimum paid-up capital of commercial banks to Le15 billion at end December, 2009.

The industry's gross private sector credit was put at Le874.70 billion as at end of the review period reflecting an increase of Le215.74 billion or 32.74% when compared to Le658.97 billion recorded at end of the previous year.

The sectoral distribution of the outstanding stock of private credit at end December 2010 indicated that the "other services', "import trade", "construction" and "transport, storage and communication", sectors accounted for 23.36 percent, 19.66 percent, 15.80 percent and 10.42 percent, respectively. "Manufacturing", "agriculture, forestry and fishery", and "export trade" sectors accounted for lesser proportions of 8.70 percent, 6.69 percent and 5.69 percent, respectively. "Miscellaneous", 'financial services", "mining and quarrying", "other trade and tourism" and "electricity, gas and water" sectors, represented only 2.80 percent, 2.53 percent, 1.92 percent, 1.80 percent and 0.63 percent respectively, of the gross advances as at end December 2010.

The industry's performing loans ratios increased to 84.39 percent of gross advances as at end December, 2010. Consequently, the ratio of non-performing loans to gross advances decreased from 16.48 percent at end December, 2009 to 15.61 percent at end December, 2010.

The profitability of the commercial banks was significantly enhanced during the period under review with post-tax profit increasing by 309.05% from Le10.61 billion during the period ended December, 2009 to Le 43.40 billion during the period ended December, 2010.

Five of the thirteen commercial banks recorded losses amounting to Le10.41 billion during the review period. Notwithstanding this, there was an increase in Return on Assets of 3.40 percent in 2010 up from

Table 11

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

	31-Dec-08	31-Dec-09	31-Dec-10
1	2	3	4
Total Assets	**1,490,666,688**	**1,962,400,033**	**2,441,665,854**
Average Total Assets	1,312,872,392	1,739,364,375	2,070,289,748
Loans and Advances(Gross)	439,820,084	658,966,802	874,704,758
Bad Debt Provision	(32,936,570)	(27,659,920)	(44,175,809)
Interest in Suspense	(42,336,871)	(36,022,691)	(48,150,625)
Loans and Advances(Net)	364,546,643	595,284,191	782,378,324
Investment-TB, TBB, OFI*	385,914,841	348,997,473	466,883,912
Fixed Assets	138,206,600	185,020,316	184,477,137
Local Deposits:-	**705,465,261**	**909,706,776**	**1,075,536,005**
Demand	341,072,374	410,921,409	510,509,862
Savings	252,845,962	329,335,123	419,636,190
Time	11,546,925	169,450,244	145,389,953
Foreign Deposits	**347,212,684**	**495,002,644**	**739,227,833**
Deposits with Financial Institutions	**-**	**29,191,147**	**10,938,982**
Capital:-	**212,642,949**	**-**	**-**
Paid-up	178,645,124	267,807,117	297,505,596
Statutory & Other Reserves	31,419,775	40,200,650	46,361,276
Retained Earnings	2,578,050	(13,705,452)	(42,971,502)
Current Profit	17,478,320	7,559,663	43,039,636
Primary Capital	212,642,949	294,302,315	305,534,048
Revaluation Reserves	25,125,752	42,950,613	45,441,612
Capital Base	275,814,422	368,284,969	420,944,803
Total Risk Weighted Assets	634,850,303	1,084,200,091	2,665,925,308
Capital Adequacy Ratio	43.45	33.42	30.74
Surplus/(Shortfall)%	28.45	18.42	15.74
Surplus/(Shortfall):Le	180,702,216	199,689,173	215,552,381
Average Shareholders' Fund	240,721,859	277,658,614	355,821,750

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

Table 11 Contd **Commercial Banks Operating in Sierra Leone** **Prudential Indicators (Unaudited)** **(In Thousand Leones)**			
	31-Dec-08	**31-Dec-09**	**31-Dec-10**
1	**2**	**3**	**4**
Asset Quality			
Performing Loans	336,927,070	550,003,352	738,187,379
Non-Performing Loans	102,864,309	108,963,450	136,517,379
Loan Loss Provisions	32,936,570	27,659,920	44,175,809
Non- Performing as a % of Total Advances	23.39	16.54	15.61
Loan Loss Provisions as a % of Non-Performing	32.01	25.38	32.36
Profitability : Pre-Tax Profits	**28,812,193**	**26,978,746**	**70,304,876**
Post Tax Profits	17,479,320	10,610,815	43,039,637
Return on Assets	2.19	1.55	3.40
Return on Equity Funds	7.26	3.82	12.10
Liquidity:Liquid Assets	**488,423,055**	**485,474,029**	**631,098,910**
Cash	42,943,235	65,516,954	74,249,651
Current Account with BSL	50,216,661	59,261,134	94,596,770
Treasury Bills	374,285,977	346,153,105	460,471,058
Placement with Discount Houses	13,335,182	14,542,836	1,781,431
Treasury Bearer Bonds	7,642,000	0	-
Cash Ratio	13.21	13.72	15.70
Overall Liquidity Ratio	68.15	53.37	58.68
Surplus/(Shortfall) (%)	38.88	24.33	29.18
Surplus/(Shortfall) (Le)	274,280,785	221,348,392	313,889,737
Foreign Assets:	**368,672,244**	**555,726,776**	**711,461,554**
Foreign Currency(cash)	33,037,788	75,948,511	43,918,520
Balance with Other Banks Abroad	322,094,419	470,950,665	659,468,332
Foreign Other Assets	13,540,037	8,827,600	8,074,702
Foreign Liabilities:	**356,338,907**	**516,752,291**	**776,339,085**
Foreign Deposits	345,078,116	495,002,644	739,227,833
Foreign Cash Marginal	11,260,791	16,838,452	37,111,252
Foreign Other Liabilities		4,911,195	3,613,588
NET FOREIGN POSITION:			
Assets- Liabilities	12,333,337	38,974,485	(64,877,531)

Table 12

Commercial Banks operating in Sierra Leone (31st December 2010)

BANK	No. of Branches 2008	No. of Branches 2009	No. of Branches 2010	F/town	Waterloo	Bo	Moyamba	Pujehun	Njala	Kenema	Kono	Kailahun	Makeni	Magburak	Lungi	Port Loko	Kambia	Total
Rokel Commercial Bank	11	11	11	5	-	1	1	1	-	1	1	-	1	-	-	-	-	11
Sierra Leone Commercial Bank	9	9	11	4	1	1	1	-	-	1	1	-	1	-	-	1	-	11
Standard Chartered Bank Ltd	3	3	3	2	-	1	-	-	-	-	-	-	-	-	-	-	-	3
Union Trust Bank Ltd	7	7	9	3	-	1	-	-	1	1	1	-	-	1	-	-	1	9
Guaranty Trust Bank Ltd	4	7	7	3	-	1	-	-	-	1	1	-	1	-	-	-	-	7
First International Bank Ltd	7	14	18	9	1	1	-	-	-	1	1	1	1	1	1	1		18
International Commercial Bank	2	2	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	2
EcoBank	6	7	7	4	1	-	-	-	-	1	-	-	1	-	-	-	-	7
Access Bank	2	3	4	3	-	-	-	-	-	-	-	-	1	-	-	-	-	4
United Bank for Africa	1	3	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	3
Skye Bank	1	1	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1
Zenith Bank	1	1	4	2	-	-	-	-	-	1	-	-	-	-	1	-	-	4
Bank PHB	1	1	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1
Grand Total	**55**	**69**	**81**	**42**	**3**	**6**	**2**	**1**	**1**	**7**	**5**	**1**	**6**	**2**	**2**	**2**	**1**	**81**

1.55 percent in 2009. Similarly, the increase in Post-tax Profit affected the Return on Equity, as it recorded 12.10 percent in 2010 as against 3.82 percent in 2009.

The statutory requirement on cash ratio was adhered to as surplus cash recorded a 3.70 percent increase in 2010 as against 1.72 percent in 2009.

The overall liquidity ratio requirement of the banking system was also achieved as the industry recorded actual liquidity ratio of 58.68 percent in 2010, representing an excess liquidity of 29.18 percentage points when compared with the statutory minimum requirement of 30%.

Table 13

Number of Accounts at Commercial Banks (31st December 2010) ['000]

Banks	Current Account (Local)	Current Account (Foreign)	Savings Account (Local)	Savings Account (Foreign)	Time (Local)	Time (Foreign)	Total
SCB	1,475	1,212	7,010	-	167	-	**9,864**
RCB	16,719	3,185	83,867	-	383	-	**104,154**
SLCB	27,925	2,242	82,445	-	107	-	**112,719**
UTB	5,085	676	37,301	-	296	4	**43,362**
GTB	5,682	1,770	32,045	68	48	-	**39,613**
FIB	198,850	3,760	20,695	342	168	-	**223,815**
ICB	726	154	4,978	4	103	-	**5,965**
ECO	14,928	39	26,320	24	831	-	**42,142**
AB	1,696	631	4,899	-	61	-	**7,287**
UBA	3,566	632	9,856	-	90	-	**14,144**
SKYE	831	-	1,404	124	-	-	**2,359**
ZEN	1,491	504	1,746	-	41	-	**3,782**
BANK PHB	1,233	138	3,163	-	-	-	**4,534**
Total	**280,207**	**14,943**	**315,729**	**562**	**2,295**	**4**	**613,740**

Table 14

Discount Houses operating in Sierra Leone (31/12/10)

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

Licensing of Financial Institutions

The Bank of Sierra Leone continued to play its supervisory role, aimed at achieving a sound and stable financial system over the past twelve months. The licenses of Guaranty Trust Bank (SL) Limited and Union Trust Bank (SL) Limited were renewed for a period of five years each.

Also, during the review period, ProCredit Bank (SL) Limited was acquired by Ecobank (SL) Limited, thereby reducing to thirteen, the number of commercial banks operating in Sierra Leone.

In an effort to promote enhanced economic activities in the country and bring financial services delivery to the doorsteps of the Sierra Leonean public, the Bank of Sierra Leone granted approvals for the opening of additional branches to the following commercial banks during the review period: the Union Trust Bank (SL) Limited established branches at Magburaka in the Northern Province and Njala Campus, Mokonde, in the Southern Province; the First International Bank(SL) Limited opened branches at No.1 Station Road, Makeni Town, in the Northern Province, No.6 Suku-Tamba Street, Koidu Town, in the Eastern Province and at No. 15 Kissy Road, in the Western Area; the Zenith Bank(SL) Limited opened branches at No.1 Bondo Street, off Hangha Road, Kenema, in the Eastern Province; No 35A Freetown Road, Lumley in the Western Area and at the Freetown International Airport in the Northern Province, respectively.

Table 15

Credit-only Microfinance Institution with certificate issued by the Bank of Sierra Leone as at 31st December 2010

Credit-only	No. of Branches	Address
Brac Microfinance(SL) Limited	1	28 Old Lumley Road, Off Spur Road, Wilberforce, Freetown
A Call to Business Trading (SL) Limited	1	8 Road, off Gooding Drive, Babadorie-Lumley
Finance Salone	2	c/o Union Trust Bank
Salone Microfinance Trust Limited	5	13 Azzolini Highway, Makeni
Counterpart in Community Development and Microfinance Company Limited	1	350 Bai Bureh Road, Calaba
Grassroots Gender Empowerment Movement	2	57 John Street, Freetown

This brought the total number of branches of commercial banks in Sierra Leone to eighty (excluding branches of Procredit (SL) Limited that was acquired by Ecobank (SL) Limited).

The review period also witnessed the signing of partnership agreements between domestic and foreign banks, with First International Bank(SL) Limited entering into one such agreement with the Africa Export-Import Bank (AFREXIMBANK) for a loan facility in the sum of US$4mn comprising US$2mn Revolving Trade Finance Line of Credit Facility and US$2mn Remittance-Backed Term Loan Facility.

During the review period, four micro finance institutions were registered with the Bank of Sierra Leone to undertake credit-only business in the country for a period of five (5) years. These institutions are:

- *Finance Salone Limited*
- *Salone Microfinance Trust Limited*
- *Counterpart in Community Development and Microfinance Company Limited*
- *Grassroots Gender Empowerment Movement Microfinance Limited*

Also, in the same period, a five (5) year license was granted to Ecobank Microfinance Limited to undertake deposit-taking microfinance business.

Three new community banks - Nimiyama, Pendembu and Sandor community banks - were established and licensed for five years during the review period with support from the International Fund for Agricultural Development (IFAD).

Licenses were also granted to four (4) new foreign exchange bureaux in the reporting period namely: Rikban, Leigh, Dycar and Albasco.

Table 16

Community Banks operating in Sierra Leone (31/12/10)

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

As a result of a Special Investigation conducted to ascertain the actual number of foreign exchange bureaux operating in Sierra Leone, it was determined that forty-two (42) licensed foreign exchange bureaux operated in Sierra Leone as at end December 2010.

Legislation and Guidelines

Prudential Guidelines for the operation of Commercial banks were developed and approved during the reviewed period. These guidelines became operational in November 2010.

The guidelines for foreign exchange bureaux were also reviewed during the period.

Minimum Capital Requirements

The Bank of Sierra Leone reviewed the minimum paid-up capital requirement of commercial banks, discount houses and mortgage finance institutions in order to enhance their operations and to ensure a stable and sound financial system.

Other Financial Institutions

Other Financial Institutions (OFIs) comprise financial institutions other than commercial banks. They complement the functions of commercial banks and perform specialized functions. The licensed Other Financial Institutions as at end December 2010 include two (2) discount houses, forty-two (42) Foreign Exchange Bureaux, nine (9) Community Banks, one (1) Deposit-taking Microfinance Institution and six (6) Credit-only Microfinance Institutions.

Capital Market

The Banking Supervision Department has also developed licensing requirements for participants in the stock market and have come up with minimum paid-up capital requirement for various Agencies operating in the market.

Another significant development during the review period was the appointment of a new Director General/ Chief Executive Officer of the Sierra Leone Stock Exchange Company Limited.

Table 17

Licensing requirement for players in the stock market

Agencies	Minimum Paid-up capital(Le)
Stock Exchange	1 billion
Dealer	200 million
Broker	150 million
Share Transfer Agent	150 million
Trustee/Custodian	1 billion
Central Securities Depository/ Clearing & Settlement Agency	200 million
Registrar	200 million
Underwriter	200 million
Issuing House/Manager of a Public Issue	200 million
Investment Adviser	200 million

Financial Intelligence

The Bank of Sierra Leone presented the Country's report and First Enhanced Follow-up report at the Plenary Meeting of Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA) on the progress made in advancing the fight against Money Laundering and Terrorism Financing in Sierra Leone, in line with international standards especially the FATF 40+9 Recommendations.

AML/CFT Bill 2009

The *AML/CFT Bill 2009* was approved by Cabinet and the process of enactment was set in motion during the review period. The enactment of this Bill is expected to address most of the weaknesses identified in the *AML Act 2005*. Specifically, the key strengths of this Bill includes the effective criminalization of money laundering and terrorism financing offences, the extension of powers of confiscation, freezing or seizing the proceeds of crime, enhanced preventive measures, stringent sanctions for non-compliance, establishment of the Financial Intelligence Unit (FIU) as an autonomous entity and extension of its powers to facilitate intelligence gathering and dissemination to appropriate Law Enforcement Agencies.

Leadership Training for Members of the AML/CFT Technical Committee

Two members of the Technical Committee on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) issues attended leadership training on AML/CFT issues organized by the World Bank in Washington DC, United States of America. This training is expected to enhance their capacity to formulate policies aimed at strengthening the AML/CFT regime.

Credit Reference Bureau

During the review period, a Credit Reference Bureau was established at the Bank of Sierra Leone to obviate the problem of information asymmetry in the financial market. Operating Guidelines have been developed and issued to commercial banks.

Financial Market

The impact of the global financial crisis and the subsequent second-round effects positioned the exchange rate at a new level with implications for exchange rate performance during the reporting period. At the beginning of the 2010 review period, the exchange rate of the Leone against international currencies particularly the US Dollar remained relatively stable at this new level. However, by the end of the second quarter, 2010 there was an increase in demand for foreign exchange which led to the gradual depreciation of the Leone against the US Dollar, a trend which continued up to the end of the year.

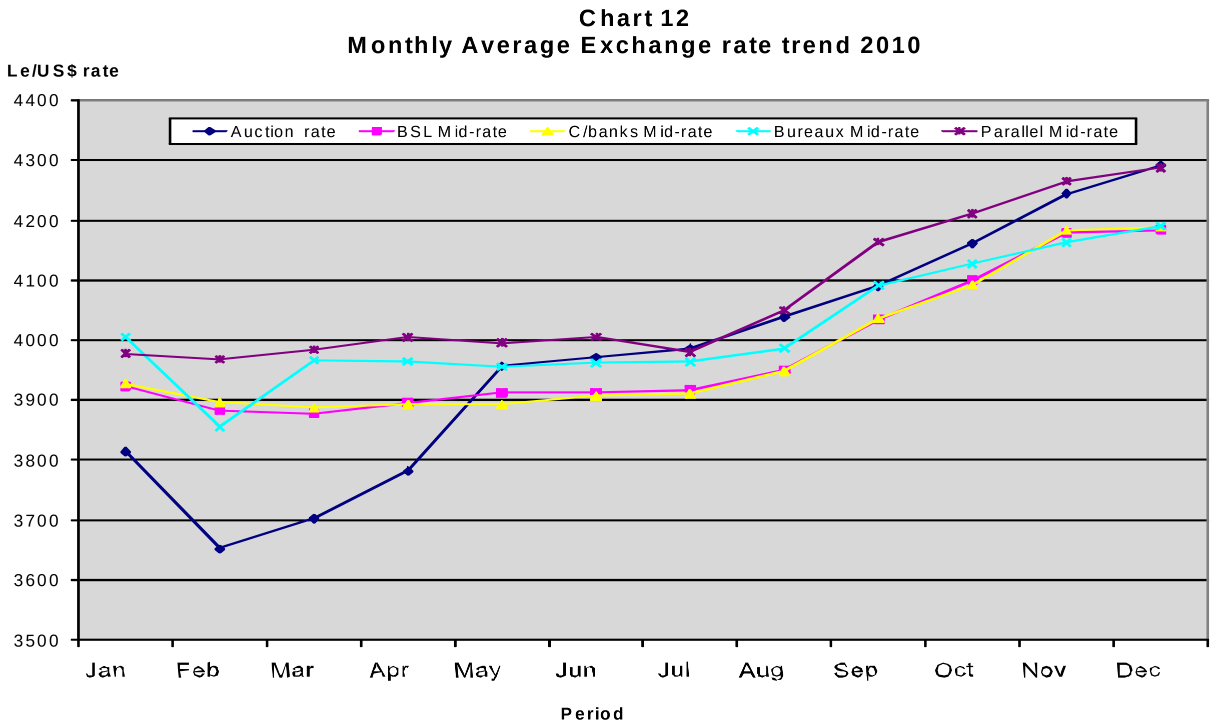
The increase in demand for foreign exchange during 2010 was also exacerbated by the Government's implementation of new infrastructure projects that required substantial foreign exchange content to meet the importation needs of the projects. Consequently, the additional pressure placed on the foreign exchange market resulted in the depreciation of the Leone with further challenges to foreign exchange management.

Generally, total foreign exchange transactions increased in 2010 when compared to 2009 even though the foreign exchange auction size was scaled down during the period. There was a significant increase in the receipts from diamond exports as well as migrant's remittances in 2010 compared to 2009.

Table 18

Licensed Foreign Exchange and their Branches in Sierra Leone (31/12/10)

No.	Bureaux	F/town	Bo	kenema	Makeni	Lungi	Kono	Kabala	Total
1	Afro Foreign Exchange Bureau Limited	1	1	1	1	-	1	-	5
2	Aiemahs Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
3	Ama Foreign Exchange Bureau Limited	-	1	-	-	-	-	-	1
4	Ayoub Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
5	Abu–Taraff Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
6	Albasco Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
7	Best Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
8	Blue Circle Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
9	City Centre Foreign Exchange Bureau Limited	1	1	-	-	-	-	-	2
10	Dem Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
11	DevKay Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
12	Dycar Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
13	Fad Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
14	Fadugu Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
15	Fatismed Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
16	First Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
17	Fofan Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
18	Frandia Foreign Exchange Bureau Ltd	2	-	-	-	-	-	-	2
19	Freetown Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
20	Galtech Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
21	Guru Nunuk Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
22	Harry's Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
23	I B C Foreign Exchange Bureau	1	-	-	-	-	-	-	1
24	Kakua Foreign Exchange Bureau Ltd	1	1	-	-	-	-	-	2
25	Kallah Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
26	LeoneUK Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
27	Leigh Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
28	Malador Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
29	Manans Foreign Exchange Bureau Limited	1	1	1	1	-	-	1	5
30	Monorma Foreign Exchange Bureau	1	-	-	-	-	-	-	1
31	Navo's International Foreign Exchange Bureau	1	-	-	-	-	-	-	1
32	Nimo Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
33	Paramount Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
34	Pottal Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
35	Raju's Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
36	Rikban Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
37	Rumez Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
38	Sara Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
39	Tap Foreign Exchange Bureau limited	1	-	-	-	1	-	-	2
40	Tonisco Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
41	Vanbhari Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
42	Wickburn Foreign Exchange Bureau Limited	1	-	-	-	-	-	-	1
Total Number of Bureau and Branches		**42**	**5**	**2**	**2**	**1**	**1**	**1**	**54**



Also, a new and detailed reporting form for commercial banks was introduced by the Bank of Sierra Leone during the review period. This new reporting form for foreign exchange transactions by commercial banks captures key sectors and transactions in the market and helps in the surveillance of the market.

Exchange Rate Developments

The year 2010 witnessed the continued depreciation of the nominal monthly average mid-rate of the Leone against the US dollar in all segments of the foreign exchange market. The monthly average mid-rates of the BSL, Commercial Banks, Bureaux and Parallel market depreciated by 7.70 percent, 7.94 percent, 5.60 percent and 6.52 percent respectively, from Le3884.82/US$, Le3880.03/US$, Le3968.24/US$ and Le4025.13/US$ in January 2010 to Le4184.09/US$, Le4188.06/US$, Le4190.30/US$ and Le4287.50/US$ in December 2010. The foreign exchange auction rate depreciated by 13.14 percent from Le3793.24/US$ in January 2010 to Le4291.50/US$ in December 2010.

The official weekly weighted average mid-rate depreciated by 8.88% from Le3855.68/USD as at end December 2009 to Le4198.01/USD as at end December 2010 whilst commercial banks' weekly weighted average mid-rate depreciated by 8.76% from Le3851.83/USD as at end December 2009 to Le4189.09/USD as at end December 2010. Whereas, the weekly parallel market mid-rate depreciated by 8.11 percent from Le4005.00/US$ as at end December 2009 to Le4330.00/US$ as at end December 2010 and the bureaux mid-rate depreciated by 5.82 percent from Le3978.36/US$ as at end December 2009 to Le4209.73/US$ as at end December 2010. Finally, the weekly auction rate depreciated by 11.95 percent from Le3840.18/USD as at end December 2009 to Le4299.20/USD as at end December 2010.

Table 19

Sectoral Distribution of Foreign Exchange Auction Funds

Sector	2009	2010	% of Total amount in 2010	% Change in 2010
Banks	13,590.91	11,823.26	24.76	-13.01
Industries	2,214.07	2,352.55	4.93	6.25
General Merchandise	7,169.07	3,081.34	6.45	-57.02
Oil Companies	36,113.00	17,241.55	36.11	-52.26
Rice	8,896.48	13,251.30	27.75	48.95
Total	**67,983.53**	**47,750.00**	**100**	

Volume of Transactions by Commercial Banks and Foreign Exchange Bureaux

Commercial Banks

Commercial banks continued to be the dominant players in the foreign exchange market and the yearly purchases of foreign exchange by commercial banks increased by 6.92 percent from US$360.52mn in 2009 to US$385.45mn in 2010 whilst yearly sales of foreign exchange increase by 7.98 percent from US$393.51mn in 2009 to US$424.90mn in 2010.

Foreign Exchange Bureaux

Foreign exchange bureaux have continued to facilitate trade in the West African Sub-region especially in enabling small businesses and traveler's to find easy access to foreign exchange, and facilitating the mopping up of foreign exchange, which could have possibly found its way into the parallel market.

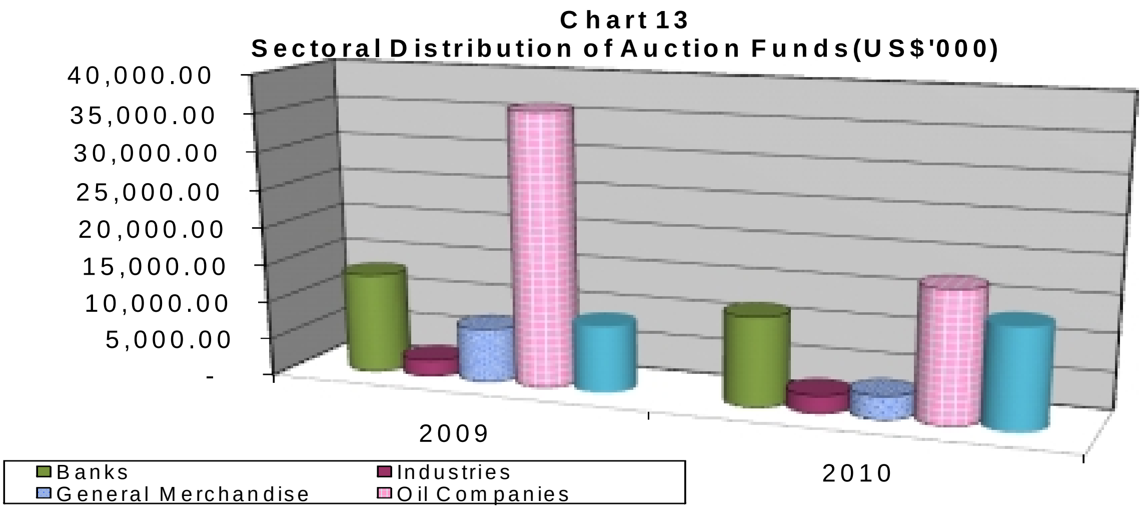
The foreign exchange bureaux market experienced a decline in their transactions. Yearly purchases of foreign exchange decreased by 17.49 percent from US$21.04mn in 2009 to US$17.36mn in 2010 and yearly sales dropped by 15.03 percent from US$19.96mn in 2009 to US$16.96mn in 2010.

Exchange Control Regulations

The Bank still maintains restrictions on capital account transactions. However since the repeal of Section 10 of the Exchange Control Act, the need to obtain exchange control approval from the Bank of Sierra Leone for registration of companies no longer exists. The remaining restrictions on the capital account are being kept constantly under review taking into consideration financial system stability and regulatory concerns, against the potential benefits of liberalization and maintaining international standards.

The Foreign Exchange Auction

The Bank of Sierra Leone continued to conduct its weekly foreign exchange auction in its bid to put in place a market based allocation of foreign exchange through an efficient and transparent allocation process. For most of the review period, the weekly weighted average foreign exchange rate exhibited depreciating trends as a result of huge demand for foreign currency in the market to facilitate government's infrastructural development projects. However, the Market's perception of regular availability of foreign exchange through the auction system may have assisted in containing depreciation expectations during January-December 2010.



The Auction offer amount was gradually reduced from US$2.00mn in January to US$0.4mn by end December 2010 as a result of the tight foreign exchange cash flow position and the need to meet the Gross Foreign Reserves target during the review period. The initial amount put on offer at the commencement of the auction in January 2010 was set at US$2.00mn but by end September 2010 it was reduced to US$0.4mn and bidders in all categories (i.e oil, rice and other eligible imports) were requested to submit bids in multiples of US$5,000.00 up to a maximum amount of US$50,000.00.

Through the gradual reduction of the offer amounts, the auction rate became much more reflective of the market, as the spread between the highest bid rate and the clearing (or lowest successful rate) mostly fell within the recommended 2 percent. Hence the percentage divergence between the highest and lowest awarded auction bid rates narrowed considerably.

Demand, Supply and Offer Amount of Foreign Exchange Auction Funds

The amount offered, demanded and supplied under the foreign exchange auction during 2010 recorded decreases of 30.30 percent, 24.89 and 29.82 percent below the respective amounts recorded in the preceding period (2009). The auction rate depreciated by 11.95% from Le3,840.08/US$1 to Le4,299.20/ US$1 by end December 2010.

Table 20

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

	2009	2010	% Change in 2010
Amount Offered	72,600.00	50,600.00	(30.30)
Amount Demanded	93,997.17	70,602.14	(24.89)
Amount Supplied	67,683.53	47,750.00	(29.45)

Sectoral Distribution of Foreign Exchange Auction Funds

Oil and Rice imports (36.11% and 27.75%, respectively) accounted for the bulk of total foreign exchange auction resources sold in 2010. They were followed by the Banking sector (24.76%), General Merchandise (6.45%) and Industries (4.63%)

The auction continued to assist in stabilizing the Leone/US$ exchange rate during the review period. However its effectiveness was constrained by the requirement to meet the gross foreign exchange reserves position target. It is hoped that following successful completion of government's infrastructure projects, efforts will be directed at exports promotion to improve on export earnings.

Monetary Operations

During the first half of 2010 the market for treasury bills was characterized by over subscription in the primary market due to liquidity surge primarily from the banking system. Against this backdrop, the Bank took a tight monetary policy stance and strengthened its monetary operations. During the second half of the year, monetary operations remained tight driven by growth in Reserve Money (RM) above its quarter 4 target, resulting mainly from government's increased utilization of Ways and Means Advances. The growth in RM was reflected largely in currency outside banks.

Market demand for government treasury bills increased as a result of the liquidity surge in the banking system during quarter 3, driven mainly by expansionary fiscal policy. The primary market auctions for treasury bills were largely over-subscribed during the third quarter of the review period. Against this backdrop, the Bank strengthened its monetary operations through the issuance of Le72.50bn special treasury bills converted from the approved stock of Non-Nogotiable Non-Interest Bearing (NNIB) Securities. In addition, Le25.15bn worth of government treasury securities was issued from conversion of Ways and Means Advances in 2010.

In quarter 4 of 2010, commercial banks were unable to roll over their existing maturities as a result of the large volumes of treasury bills that were sold at the beginning of quarter 3. Some of the initial liquidity sterilised was now required to fund the implementation of some of the energy infrastructure projects and there is normally a very high demand for money for transactions purposes during the festive season. This therefore gave rise to under-subscriptions that were taken up by BSL in quarter 4 of 2010.

Fiscal expansion towards the end of 2010 was significant and Ways and Means Advances outstanding as at 31st December, 2010 was Le178.58bn. Consistent with Section 42(4) of the Bank of Sierra Leone Act, the Bank transferred the outstanding Le178.58bn being "2010 Stock of Ways and Means" into a new account on its book for subsequent sale to the market within 93 days.

The 91-day Treasury bill average annual yield increased from 15.84 per cent to 26.76 per cent, the 182-day Treasury bill average annual market rate increased from 20.03 percent to 29.37 per cent and the 364 -day treasury bill average annual market rate also increased from 17.28 percent to 28.96 per cent. The nominal interest rate on treasury bonds increased from 10.00 percent to 25.00 percent by end of quarter 4 of 2010.

Table 21

Stock of Government Securities Outstanding by Holders (in Million Leones)			
	2009	**2010**	**Change**
91-DAYS TBs	**278,101.00**	**291,303.65**	**13,202.65**
BSL	55,846.25	27,024.60	-28,821.65
COM. BANKS	147,314.70	172,627.95	25,313.25
Non-Bank Public	74,940.05	78,277.15	3,337.10
NASSIT	19,000.00	13,373.95	-5,626.05
182-DAYS TBs	**124,304.30**	**249,222.35**	**124,918.05**
BSL	45,139.70	15,008.55	-30,131.15
COM. BANKS	56,610.30	212,546.75	155,936.45
Non-Bank Public	22,554.30	9,613.95	-12,940.35
NASSIT	21,355.90	12,053.10	-9,302.80
364-DAYS	**249,563.20**	**230,527.35**	**-19,035.85**
BSL	63,476.75	107,355.55	43,878.80
COM. BANKS	155,064.35	89,070.10	-65,994.25
Non-Bank Public	31,022.10	6,116.45	-24,905.65
NASSIT	18,757.70	27,985.25	9,227.55
TBOND	**103,976.40**	**107,666.45**	**3,690.05**
BSL	24665.75	20591.6	-4,074.15
COM. BANKS	0	0	0.00
Non-Bank Public	79310.65	87074.85	7,764.20
NASSIT	0	0	0.00
TOTAL	**755944.9**	**878710.8**	**122,765.90**
BSL	189128.45	169980.3	-19,148.15

At the end of the period, Commercial Banks holdings of the total outstanding Government Securities amounting to Le474,244.80 million was 53.97 percent while that of the non-bank public was 19.98 percent and that of Bank of Sierra Leone 19.34 percent.

Foreign Exchange Management

Foreign Exchange Assets

The actual gross external reserves position of the Bank as at end December 2010 stood at US$345.23 million which was U$8.86 million or 2.63 percent above US$336.37 million for the corresponding period in 2009. The favourable position was partly due to the additional disbursements received from the World Bank, the reduction in the weekly offer amount in the foreign exchange auction and the amount received from African Minerals in respect of arrears under expatriate tax.

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The programme for the review period was supported mainly by inflows from UK/Sierra Leone Programme Aid Grant of GBP12.10 million (US$20.25 million), IMF-Enhanced Credit Facility SDR27.99 million (US$42.82 million), World Bank Governance and Reform Credit (US$16.76 million), African Development Bank (US$7.05 million) and EUR21.33 million (US$27.47 million) from European Commission. Against this background, a total of US$51.94 million and US$16.42 million were programmed to fund the foreign exchange auctions and Government infrastructural (Roads, Energy and Water) projects for the year, respectively. Debt Service Payments were made as and when they fell due.

Inflows

Total inflows recorded for the period January to December, 2010 amounted to US$142.11 million as against US$276.35 million in 2009, reflecting a decrease of US$134.24 million (48.58 percent). The performance recorded under inflows is as follows:

Receipts from Exports

Total receipts from exports increased by 18.02 percent from US$7.99 million in 2009 to US$9.43million in 2010 which is 6.64% of the total inflows of US$142.11 million as at end December 2010. The bulk of the performance under receipts from exports was realized from Diamond License Fees, Diamond Exporter's Tax and Fishing Royalty/License. The performance recorded in respect of Diamond License Fees and Diamond Exporter's Tax was US$3.11 million and US$3.00 million, as compared to the 2009 actuals of US$5.11million and US$1.83 million, respectively. The decrease in performance under Diamond License Fees is attributed mainly to the depletion of alluvial diamonds while the increase in Diamond Exporter's Tax was as a result of change in tax rate from 3.0 percent to 6.5 percent. On the other hand, Rutile and Bauxite also recorded satisfactory performance of US$0.21 million and US$1.00 million in 2010 compared to the corresponding period in 2009. Inflows realized from Fishing Royalty of US$2.11million exceeded the actual of US$1.05 million in 2009 by US$1.06million (101%). This performance could be attributed to the strategic measures put in place in 2010 by the Ministry of Marine Resources, which amongst others included the following:-

License now being issued quarterly instead of monthly
Levy now being placed on fish discharge/export
Improved surveillance of our territorial waters for would be poachers and ensuring that the crew composition of each vessel and mesh sizes are correct

Table 22

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

	JAN - DEC 2009	JAN - DEC 2010
INFLOWS:-Of which	**276.34**	**142.11**
Receipts from exports	**7.99**	**9.43**
Rutile	-	0.21
Bauxite	-	1.00
Diamond License fees	5.11	3.11
Diamond Exporters Income Tax	1.83	3.00
Fishing Royalty/License	1.05	2.11
Maritime Administration	-	0.64
Other Govt	5.14	4.11
Others	2.03	1.25
Revenue for Infrastructural Proj.	**-**	**1.52**
African Mineral Mining Co.	**-**	**6.25**
Inspection Fees	-	-
BSL Purchases of Notes/T. Cheques	-	-
Transactions with Commercial Banks	5.00	0.20
Privatization	-	-
Aid Disbursement/BOP Support	**256.18**	**118.71**
IMF	18.76	42.82
AFDB (ERRP 4)	8.52	7.05
UK/DFID	17.90	20.25
EU (EDF Replenishment)	-	-
WB Loan (ERRC/G)	10.04	16.76
EU - PCBS	56.91	27.47
Other Multilaterals/Bilaterals (Kuwait)	1.00	-
IDA/World Bank	3.39	2.91
IDB	3.96	1.45
OPEC Fund	5.40	-
HIPC Flow Relief	**-**	**-**
New SDR Allocation	**130.30**	**-**
OUTFLOWS:-Of which	**150.45**	**123.68**
Payments for Goods and Services	**137.93**	**109.56**
Embassy/Missions	10.88	11.58
BSL	7.90	1.23
Stabilization & Cooperation Fund	-	-
Printing of Currency	12.35	-
Government Travel	1.85	2.81
Other Government	11.44	11.73
New Infrastructure Projects (Roads)	-	9.12
New Infrastructure Projects (Energy & Water)	-	6.87
Subscription to Intl. Organisations	2.58	1.95
Electricity Support	22.24	16.18
Private Sector Support	67.69	47.61
HIPC Related Imports	1.00	0.48
Debt Service after debt relief	**12.53**	**14.12**
IMF	0.45	2.44
World Bank	0.93	0.98
AFDB	0.60	0.74
IFAD	0.01	0.26
EC/EIB	-	-
Other multilaterals and bilaterals	4.00	4.14
Paris Club Creditors	-	-
Other Commercial Debt	5.50	4.00
OPEC (CIP Arrangement)	0.98	1.57
Clearing of Arrears (EEC/EIB etc)	0.06	-

Donor Disbursements

Actual donor aid disbursements in 2010 were US$118.71mn compared to US$256.18million in the corresponding period of 2009. The 2010 receipts were mainly realized from aid disbursements representing 83.44% of total receipts. Out of the total aid disbursements of US$118.71mn in 2010, US$42.82mn (SDR27.99mn) was disbursed by the IMF under the Enhanced Credit Facility (ECF), US$20.25mn (GBP12.10mn) was disbursed by UK/Sierra Leone Programme Aid Grant 2010 for budgetary support, US$16.76mn from the World Bank under the Governance Reform credit, US$27.47 mn (Euro21.33 mn) from the European Union as budgetary support and US$7.05mn from AfDB. The disbursement under EU fell by US$29.44 mn in 2010 as compared that in 2009. A total of US$2.91mn and US$1.33 mn were realized from Leones sold to IDA/IBRD and IDB respectively, to fund various local projects in the country in 2010 compared to US$3.39 mn and US$3.96 mn in 2009.

Outflows

Total payments for goods and services and debt service payments amounted to US$123.68 million for the year 2010 as against US$150.46 million in 2009. This represents a reduction in expenditures of US$26.78 million or 18%. This drop in such expenditure was mainly as a result of the reduction in the weekly amounts offered under the foreign exchange auction. However, the bulk of expenditures during 2010 were in respect of the foreign exchange auction of US$47.61 million, new Infrastructural projects (Roads and Energy) of US$15.99 million, Embassy/Missions of US$11.66 million and other Government expenditures (printing of national ID cards, the Ace Consortium project etc.) of US$12.07 million. Actual debt service payment made in the review period amounted to US$14.12 million as against US$12.53million in 2009. The bulk of the debt service payments in 2010 were made to multilateral and commercial creditors to the tune of US$10.12 mn and US$4.00mn, respectively.

Investment Activities

Actual revenue realized from external investment for the period January to December, 2010 was Le3.28 billion, which is 15.69 percent above the budgeted amount of Le2.84billion. The favorable performance in the review period can be attributed to a combination of factors including the depreciation of the Leone against the Bank's investing currencies such as the US Dollar, Pound Sterling, Euro and the SDR. However, the Le3.28 billion realized from external investment in 2010 was 9.07 percent below the Le3.61 billion recorded for the corresponding period in 2009. This was due to lower level of invested foreign exchange reserves emanating from late donor disbursements and huge payments related to the infrastructural projects coupled with lower interest rates in the Euro, Sterling and US dollar zones.

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 cash flow needs with debt service payments and private sector support constituting the most significant.

External Debt Management

Sierra Leone's total disbursed and outstanding official long-term debt, including principal arrears as at end December 2010, stood at US$767.9 million as compared to US$692.0 million as at end December 2009. Total outstanding debt continued to be dominated by debts to multilateral creditors, accounting for 61.9 percent of the total, followed by commercial creditors of 27.5 percent. The residual 10.60 percent

Table 23

Currency Management

	Dec. 2010	% of Total Bal.	Dec. 2009	% of Total Bal.
U.S. Dollars	118.4	34.64	41.12	12.41
Pound Sterling	23.16	6.78	6.00	1.81
Euro	15.23	4.46	94.71	28.58
Japanese Yen	0.85	0.25	0.75	0.23
SDRs	184.18	53.88	188.82	56.98
Total Balance	**345.23**	**100**	**336.37**	**100**
Donor funds				
U.S. Dollars		100		100

was owed to bilateral and other creditors. The principal multilateral creditor was the World Bank with 20 percent of total debt owed.

A total of US$239.9 million of the stock of disbursed outstanding debt was in relation to principal arrears, mainly owed to commercial creditors. Interest arrears for the review year amounted to US$3.5 million owed also to commercial creditors.

During the period under review, the Government of Sierra Leone continued to make timely debt service payments to all external creditors.

Total disbursements, both programme and project, received from external creditors amounted to approximately US$98.23 million. Of this amount, US$31.48 million was from International Development Association (IDA) of the World Bank Group; US$42.82 million from the International Monetary Fund; US$16.45 million from the African Development Bank and the residual of US$7.48 million was from the Islamic Development Bank, Organization of Petroleum Exporting Countries (OPEC), EXIM Bank of India and Saudi Fund under various projects.

External Debt and Arrears by Creditor Category

The total outstanding debt stood at US$ 767.9 million as at end December 2010 showing an increase of US$75.9 million when compared to US$ 692.0 million as at end December 2009. The increase in debt stock in the review period resulted from total disbursements made, which more than outweighed total principal repayments made during the same period.

The principal and interest arrears were mainly in respect of commercial creditors. The Principal arrears of US$ 8.4million owed to China was under negotiations with the Government of China for a total write-off.

Currency Composition

The major components of Sierra Leone's debt by currencies are dominated by the Special Drawing Rights (SDR) and the United States Dollar. They accounted for 57.06 percent and 17.40 percent, respectively,

Table 24

Disbursed Outstanding Debt, including Principal Arrears as at End December 2010 classified by currency of liability ('000)						
	Dec. 2009			Dec. 2010		
Currency	debt in Foreign Currency	total debt in Le	% of total	debt in Foreign Currency	total debt in Le	% of total
Chinese Yuan	114,343	64,168,148	3.96	114,343	72,352,820	3.45
EURO	23,159	127,697,336	7.88	22,281	124,232,617	5.92
Japanese Yen	903,206	37,573,370	2.32	920,550	47,270,243	2.25
Kuwaiti Dinar	6,207	83,314,513	5.14	6,595	98,317,798	4.69
Saudi Riyal	2,306	2,370,499	0.15	7,702	8,623,467	0.41
United States Dollar	74,092	285,675,043	17.64	86,908	364,840,653	17.40
Special Drawing Rights	140,467	845,583,247	52.20	185,084	1,196,649,497	57.06
Islamic Dinar	28,816	173,466,557	10.71	28,613	184,995,635	8.82
Total		**1,619,848,712**	**100**		**2,097,282,730**	**100**

Source: External Debt Policy Section

as at end December 2010. Loans to the IDA/WB and IMF are mainly denominated in SDRs, which accounted for the high percentage of the total debt. The third major currency component of the country's debt is the Islamic Dinar, which accounts for 8.82 percent.

Debt Indicators and Debt Service

Debt service payments made increased slightly by 7.1 percent from US$15.65 million in 2009 to US$16.76 million in 2010. This increase was accounted for mainly by the principal amount paid to the IMF and goodwill payments made to commercial creditors. Savings from debt relief under the HIPC Initiative increased from US$3.69 million in 2009 to US$3.71 million in 2010. This reflects debt-flow relief due on

Table 25

Principal & Interest Arrears as at end Dec-2010 (US$Mn)				
	DEC. 2009		DEC. 2010	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
Total External Debt	**242.6**	**3.5**	**239.9**	**3.5**
Total Commercial Obligations & Short-Term Debt 1/	213.8		211.1	
Total Long-Term Debt,	***28.8***	***3.5***	***28.8***	***3.5***
of which :				
Multilateral				
World Bank Group				
IMF				
Others				
Official Bilateral	**8.4**		**8.4**	
Paris Club				
Others 2/	8.4		8.4	
Other Creditors	**20.4**	**3.5**	**20.4**	**3.5**
Executive Outcome	20.3	3.5	20.0	3.5
Chatelet Investment Ltd	0.1		0.4	

1/ China, Morocco, Kuwait & Saudi Fund

debt service payments only to EEC/EIB and IFAD. The ratio of debt service to exports decreased in 2010, as a result of the increase in exports. The ratio of the stock of debt/GDP increased by 4.12 percent as a result of the increase in Gross Domestic Product, which is lower than the increase in the stock of debt.

As Sierra Leone's debt situation is at a moderate risk of debt distress the Government seeks to maintain prudent borrowing policies and to rely mainly on grants and highly concessional loans.

Sierra Leone's Performance on the West African Monetary Zone (WAMZ) Convergence Scale 2010

While efforts at promoting regional integration continue along the path of achieving the single currency objective of the WAMZ, a number of challenges still remain. Nonetheless, the journey so far, and the lessons learnt indicate that rigorous steps need to be taken to consolidate the gains to ensure further progress is registered. Against this background, it is recognized that, for member countries to achieve full compliance status relative to the WAMZ Macroeconomic Convergence criteria, fiscal and monetary policy coordination must be strengthened and measures adopted to rationalize expenditure and enhance revenue performance. To this end, the WAMZ Convergence Council of Ministers and Governors of Central Banks recommend intensification of efforts to redress the challenge of huge fiscal deficits, promote fiscal sustainability, and adopt fiscal responsibility legislation. Also, member states are expected to adopt effective expenditure rationalization and non-inflationary methods of financing infrastructure projects in national budget formulation and management. A major highlight of developments in the WAMZ during the year 2010 was Liberia attaining full membership of the West African Monetary Zone (WAMZ) thereby increasing the membership of the zone from five countries to six. Consequently, Liberia has now been fully integrated to benefit from all WAMZ projects including Payments System development, Financial Sector Integration and Trade Policies etc.

Sierra Leone's Macroeconomic Performance

During the review period, Sierra Leone met only one out of the four primary convergence criteria, namely, gross reserves to months of import cover. The criterion on single-digit inflation was breached as the country continued to post double digit inflation rate throughout 2010. The criteria on central bank financing of fiscal deficit and budget deficit excluding grants were also not met, reflecting increased government expenditures financed through utilization of ways and means advances from the Central Bank. The over-dependence on external budgetary support, which for the most part is delayed, constitutes another difficulty. The continued depreciation of the Leone against major currencies and the widening of government budget deficit were among the major challenges faced by the government during the reporting period. However, only one secondary criterion was met during the period under review.

Primary Criteria

Inflation

Inflation continued to remain in double digits for the whole of 2010 with the year-on-year rate reaching a peak of 18.3 percent in November 2010. Year-on-year inflation rate was recorded at 17.84% as at end December 2010, a level which was in breach of the single digit criterion prescribed under the WAMZ programme. This was attributable to the impact of the introduction of the Goods and Services Tax (GST) in January 2010 coupled with the increases in fuel prices as a result of government's gradual withdrawal of subsidies and the depreciation of the Leone. The lowest year-on-year inflation rate of 14.83 percent was recorded in January 2010.

Fiscal Deficit/GDP Ratio

Compared to 2009, the year under review recorded a wider fiscal deficit/GDP ratio of 12.5 percent, in breach of the criterion of not more than 4 percent. Fiscal deficit excluding grants in 2010 was 2.62 percentage points higher when compared to the 9.88 percent of GDP recorded in the previous year. Revenue performance in 2010 improved as a result of the enhanced performance from the newly introduced Goods and Services Tax (GST). However, the increase in government expenditure outweighed that in revenue. Expenditure exceeded budgetary targets due to salary increases, expenditure on the health sector and extra-budgetary infrastructure outlays. Despite the efficiency gains from the goods and services tax (GST) and other revenue sources, the need to find new avenues to generate additional revenue and create sufficient fiscal space for the implementation of government's investment programs in infrastructure and social services cannot be over emphasized. One such area could readily be the revenue potential from mining, which includes signed agreements for iron ore mining and revenues from royalties.

Table 26

Status of Convergence

(Primary Criteria)

Criteria	Target	2007	2008	2009	2010
Inflation (end period)	Single digit	12.10%	13.21%	12.22%	17.84%
Fiscal Deficit/GDP% (excl. grants)	Less than or equal to 4%	6.00%	15.00%	9.88%	12.50%
Central Bank Financing/ Previous years tax revenue	Less than or equal to 10%	0.80%	0	18.70%	27.90%
Gross External Reserves (Months of imports)	Greater than or equal to 3 months	4.8	4.0	5.8	4.5

(Secondary Criteria)

Criteria	Target	2007	2008	2009	2010
Domestic Arrears	0	n.a	n.a	n.a	n.a
Tax revenue/GDP ratio	Greater than or equal to 20%	10.8%	13.0%	9.8%	10.3%
Salary Mass/Total Tax revenue	Less than or equal to 35%	65.2%	59.3%	64.5%	60.9%
Public Investment from Domestic receipts	Greater than or equal to 20%	7.70%	13.20%	16.51%	40.38%
Real Interest Rate	Greater than 0	-4.40%	-6.70%	-5.97%	-11.59%
Exchange rate	Stable +/-15%	14.90%	15.77%	33.55%	38.97%

Central Bank Financing of Fiscal Deficit

Central Bank financing of fiscal deficit of 28 percent of previous year's tax revenue was at variance with the requirements under the WAMZ criterion of not more than 10 percent of previous year's tax revenue. The deficit was mainly financed by Net Claims on Government by the Banking System which increased by 62.93 percent. Ways and Means Advances increased to Le178.58bn as at end December 2010 while securities holdings by the banking system increased by Le92.93bn. Meanwhile, the Bank of Sierra Leone continues to pursue active monetary policy to achieve its objectives.

Gross External Reserves in Months of Imports Cover

Gross external reserves position of the Bank improved from US$336.4 mn in December 2009 to US$345.23mn at end-December 2010. This translated into 4.5 months of imports compared to 5.7 months of imports cover recorded in the preceding year. Notwithstanding the drop in reserves coverage of imports, Sierra Leone still met the WAMZ criterion of at least 3 months of imports cover. The drop in imports cover was due to the high level of imports recorded during the review period.

Secondary Criteria

Tax Revenue /GDP Ratio

The ratio of revenue as a percentage of GDP was recorded at 10.3 percent during the review period compared to the WAMZ benchmark of 20.0 percent. Consequently, the country failed to meet this criterion in 2010. This performance was however above the 8.8 percent attained in 2009. Despite the increase in revenue collection, there was still room for improvement. Domestic revenue increased in part, as a result of the increase in diamond royalties from 3.0 to 6.5 percent, the continued efficiency gains in GST performance and the benefits from reforms in tax administration.

W age Bill/Total Revenue

Sierra Leone fell short of meeting the criterion on salary mass/total revenue of not more than 35 percent. The 64.5 percent attained in the preceding year however dropped to 60.9 percent during the review period, thereby breaching the criterion. The increase could be partly attributable to the recruitment of additional 3,000 health care workers to implement the Free Health Care Initiative (FHCI).

Public Investment from Domestic Receipts

The criterion on Public investment from domestic receipts was met for the first time during the review period, increasing from 16.5 percent in 2009 to 40.4 percent in 2010. Performance under this criterion has been largely influenced by government's involvement in the development of basic infrastructure (including roads, energy, water and sanitation systems) across the country. The purpose is to remove the key constraints to creating an enabling environment for businesses and promote sustainable growth.

Real Interest Rate

Real interest rate was recorded at minus 11.59 percent during the review period. The deterioration was a result of the upward trend in inflation rate which moved from 9.94 percent in 2009 to 17.84 percent in December 2010, combined with the virtual stagnation in the savings rates during the review period.

Nominal Exchange Rate Stability

The Leone continued to depreciate against major international currencies during the review period, deviating by 38.97 percent from the central parity rate and exceeding the WAMZ benchmark band of ± 15 percent. The exchange rate was relatively stable during the first half of 2010 but depreciated steadily in the second half due mainly to domestic demand pressures for foreign exchange to facilitate government's infrastructure development projects and meet the import requirements of the public amidst increasing international commodity prices. Bank of Sierra Leone continued to supply foreign currency to the market through foreign exchange auctions, which size was scaled down from US$2 million per week in January to US$0.40 million per week in December 2010.

Institutional Preparedness

Since the lifting of the suspension in December 2007 no company has been registered under the ECOWAS Trade Liberalization Scheme (ETLS). Sierra Leone's participation in the ETLS was therefore only through imports since no exporting company was registered during the period. This may be explained by the fact that there are very few large scale manufacturing enterprises in the country that stand to benefit from exporting under the ETLS. The problems that led to the initial suspension of the scheme, namely: difficulties in authenticating certificates of origin that accompany the registered goods, still persist.

In Sierra Leone, the Automated System of Customs Data (ASYCUDA) has been deployed at the major entry points. The ASYCUDA is now in full operation at the Customs main house at the Queen Elizabeth II Quay in Freetown. There are plans to extend its coverage to other main entry points at the Lungi International Airport.

Under the ECOWAS Common External Tariff (CET), Sierra Leone is yet to submit its list of commodities under the fifth band.

The review of the capital base of commercial banks in Sierra Leone has resulted in some banks struggling to meet the new requirements. Sierra Leone is currently operating under Basel I but has recently prepared prudential guidelines for banks and deposit taking Microfinance Institutions (MFIs) and is currently reviewing the banking Act.

The modernization of the payments system of Sierra Leone project funded by the African Development Bank (AfDB) is on course with the prospect that the deadlines for individual components will be met. .

In Sierra Leone, the CPI has been rebased to 2007. However coverage is limited to major urban arrears.

There has been a lull in sensitization activities in Sierra Leone partly due to issues relating to uncertainties in the launch dates and fears of credibility problems following the three previous postponements. There are indications that the National Sensitization Committees (NSCs) in most member countries are awaiting the implementation of the new strategy proposed by the convergence Council.

Table 27

Debt Service payments made in US$mn		
	2009	2010
Bilateral:	***1.10***	***1.8***
Paris Club Creditors	0	
Other Bilateral	1.10	1.8
Multilateral (Net amount)	***5.20***	***7.7***
African Development Bank/Fund	0.58	0.6
World Bank (IBRD/IDA)	0.92	0.9
International Monetary Fund	0.32	2.1
Other Multilateral	7.07	7.6
*Of which: HIPC for. exch. savings on debt service**	*3.69*	*3.7*
Net Amount paid	*3.38*	*3.9*
Other Commercial/Military Debts	***5.65***	***3.5***
Grand Total	**15.65**	**16.7**
Of which: HIPC Debt relief	*3.69*	*3.7*
Net Amount	*11.96*	*13.0*

Source: External Debt Policy Section, BSL

Human Resources Developments

Staff Strength

During the year under review, the Bank continued with the restructuring exercise which commenced in 2008 with the main focus being modernization and professionalization of the Bank in order to ensure enhanced capacity of its workforce. The Bank recruited professional Accountants and IT staff, whilst internally, staff who have improved their technical skills and qualifications were promoted.

Total staff strength as at end December 2010 was 521, reflecting a 1.7% decrease from 530 at end December 2009. The change in staff strength was on account of changes in the following categories: Management staff, Sub-Professional and Other cadres. As at end December 2010, Management staff recorded a decrease of 2, from 6 as at end December 2009 to 4 as at end December 2010. This decrease was due to the retirement of 2 Heads of Department.

Staff strength in the Professional cadre remained stagnant at 230 although there were severances, additions and promotions within this cadre during the year. Staff strength in the Sub-professional cadre declined by 7 due mainly to severance of 7 staff members within this cadre. Staff strength in the other cadres decreased by 3 from 127 as at end December 2009 to 124 as at end December 2010. The decrease was a result of the severance of 3 members of staff.

Total permanent male staff strength was 371 as at end December 2010. Of this, 9 were Fixed Term Employees. The proportion of male staff including Fixed Term Employees to total staff strength was recorded at 72.9 percent as at 31st December 2010.

Total female staff as at end December 2010 was 141 (one hundred and forty-one). Out of this, 18 (eighteen) were Fixed Term Employees. The proportion of female staff to total staff including Fixed Term Employees was recorded at 27.1%.

Severance

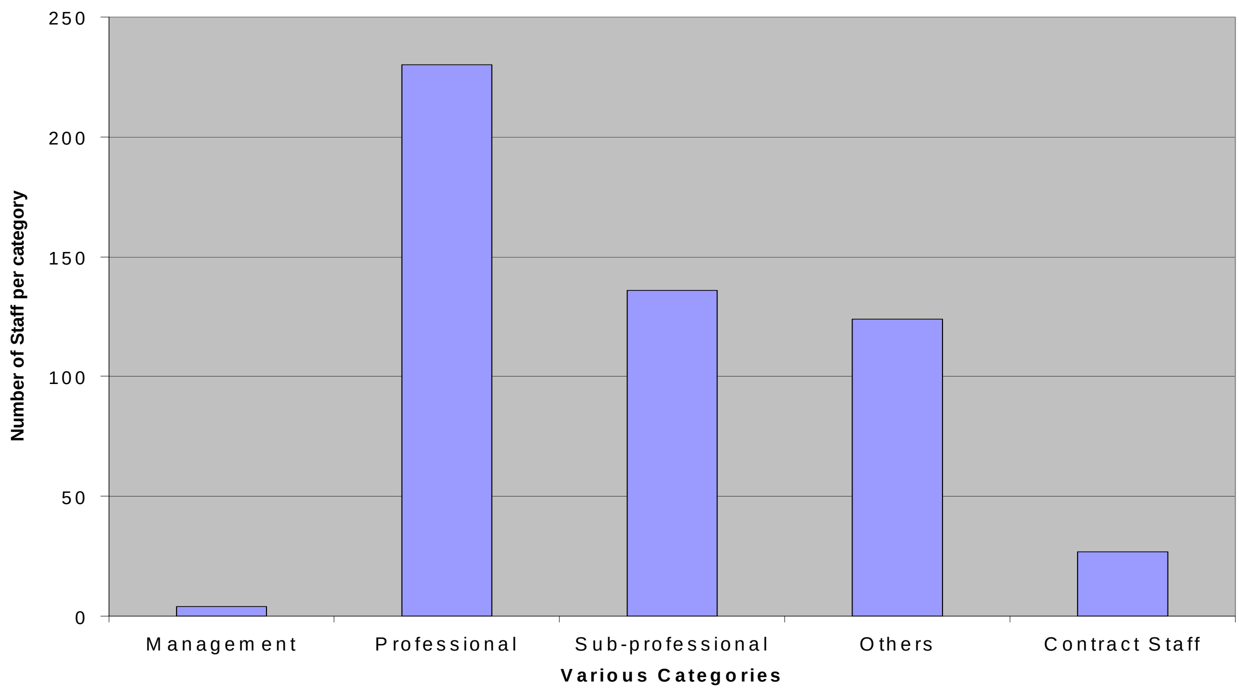
A total of 28 (twenty-eight) members of staff severed from the services of the Bank as shown below:

Resignation	5
Retirement	8
Deceased	3
Retirement on Medical Grounds	2
Voluntary Retirement	-
End of Contract	4
Termination	4
Dismissal	1
Position Declared Vacant	1
Total	**28**

Training

In line with its objective to foster the development of a pool of highly trained professionals, the Bank continued to provide training opportunities both locally and overseas to enable staff perform their duties effectively and efficiently. During the year under review, requests for training from Departments/units were

Chart 14
Breakdown of Staff per Category as at end 2010



analyzed and processed in line with the specific needs of the Departments/Units of the Bank. The Bank has been repositioning itself to meet its current/future challenges and steps were taken to strengthen Banking Supervision and in particular the Financial Intelligence Unit (FIU) and the Credit Reference Bureau which are to be 'midwifed' by the Bank of Sierra Leone before turning them over to the private sector institutions to allow the Bank to focus on executing its core mandate. Training was also undertaken to build capacity to support the Payments System programme to impart efficiency soundness and stability in the functioning of the financial system.

Staffs in these sections have been given appropriate training. Much of the training was therefore concentrated in building Human Resource capacity in these areas.

Also, invitations for a number of overseas short courses, mostly organized by the West African Institute for Financial and Economic Management (WAIFEM) were received and processed for staff participation bank-wide. Nominations for participation were also processed for courses organized locally by institutions such as the Institute of Public Administration and Management (IPAM).

In order to enhance their career prospects in the Bank, 8 staff were pursuing degree programmes locally on Bank sponsorship. Two of them completed their respective programmes during the year.

Directors of the Board

The Board comprises two Executive Directors (The Governor and Deputy Governor) and five Non-Executive Directors appointed by His Excellency, The President of the Republic of Sierra Leone, in compliance with the provisions of the Bank of Sierra Leone Act 2000.

The Governor and Deputy Governor are appointed for a term not exceeding five (5) years and shall be eligible for re-appointment. The Governor and Deputy Governor were appointed 1st July 2009 and 6th October 2008, respectively.

The Non-Executive Directors are appointed for a term of three years and shall be eligible for re-appointment.

The Director, Secretary's Department is also the Secretary to the Board.

Pension Fund

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

Legislative Changes Relevant to the Bank

A review of the Bank of Sierra Leone Act 2000, the Banking Acts 2001, the Other Financial Services Act 2001 and the Anti-Money Laundering Act 2005 are currently in progress in collaboration with technical assistance from the World Bank. Parliament during the review period enacted the Companies, and Bankruptcy Acts.

Bank of Sierra Leone Charity Trust Fund

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

The Board of Trustees currently comprises the following members:

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

Note

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

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

Two new beneficiaries of the charity for the 2010-2011 academic year, were recognized and presented with cheques to cover tuition, lodging, books and maintenance.

The proud beneficiaries were Ms. Kumba Seddu and Mr. Salieu Jalloh. The former scored the highest in the West African Senior School Certificate Examination (WASSCE) in May/June 2010 and the latter the second highest. They were respectively from the Annie Walsh Memorial School in Freetown and the Albert Academy School, also in Freetown.

BOARD OF DIRECTORS, OFFICIALS AND REGISTERED OFFICE

Directors:	Mr. S.S. Sesay	-	(Governor)
	Ms. A. R. Coker	-	(Deputy Governor)
	Dr. S. A. Bockarie		
	Mr. D. F. Shears		
	Mr. H. Hanciles		
	Dr. Morie K. Manyeh		
	Mrs. M. Kamara		
Secretary of the Board:	Mr. H.E.P. Musah		

Ag. Director, Accounts and Budget Department:	Mr. Abdul Aziz Sowe
Solicitors:	Renner-Thomas & Co. Adele Chambers 15 Wilberforce Street Freetown
Auditors	PKF Chartered Accountants and Business Advisers Regent House 12 Wilberforce Street Freetown
Registered Office	Siaka Stevens Street Freetown

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 and Economic Development (MOFED) 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 judgments 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 should include a summary of significant financial accounting policies and other explanatory notes in accordance with international financial reporting standards and 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.

Directors and their Interests

The following were Directors of the Bank as at 31st December 2010

Mr. S.S. Sesay	-	Governor	(appointed July 1, 2009)
Ms. A. R. Coker	-	Deputy Governor	(appointed October 6, 2008)
Dr. S. A. Bockarie	-	Director	(appointed April 22, 2008)
Mr. D. F. Shears	-	Director	(appointed April 22, 2008)

Mr. H. Hanciles	-	Director	(appointed April 22, 2008)
Dr. Morie K. Manyeh	-	Director	(appointed April 22, 2008)
Mrs. M. Kamara	-	Director	(appointed April 29, 2008)

The Governor and Deputy Governor, who were appointed on 1st July, 2009 and October 6th 2008 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, had a material interest in any contract or arrangement of significance to which the bank was or is a party.

Auditors

The Auditors, Messrs KPMG were appointed in March 2011 to conduct the audit of the financial statements for the year ending 31st December 2010.

Bank of Sierra Leone Financial Statements
for the year ended 31 December 2010

General information

Board of directors	:	Mr. Sheku S. Sesay	-	Governor
		Ms. Andrina R. Coker	-	Deputy Governor
		Dr Morie K. Manyeh		
		Dr Sandy A. Bockarie		
		Mr. Dalton F. Shears		
		Mr. Harold Hanciles		
		Mrs. Marian Kamara		
Registered office	:	30 Siaka Stevens Street Freetown		
Solicitor	:	Renner-Thomas & Co. Adele Chambers 15 Lamina Sankoh Street Freetown		
Secretary to the board	:	Mr. Henry E.P Musah		
Auditors	:	KPMG Chartered Accountants Bicentenary House 17 Wallace Johnson Street Freetown Sierra Leone		

Financial Position and Operating Results of the Bank for the Year ended 31st December, 2010

BACKGROUND

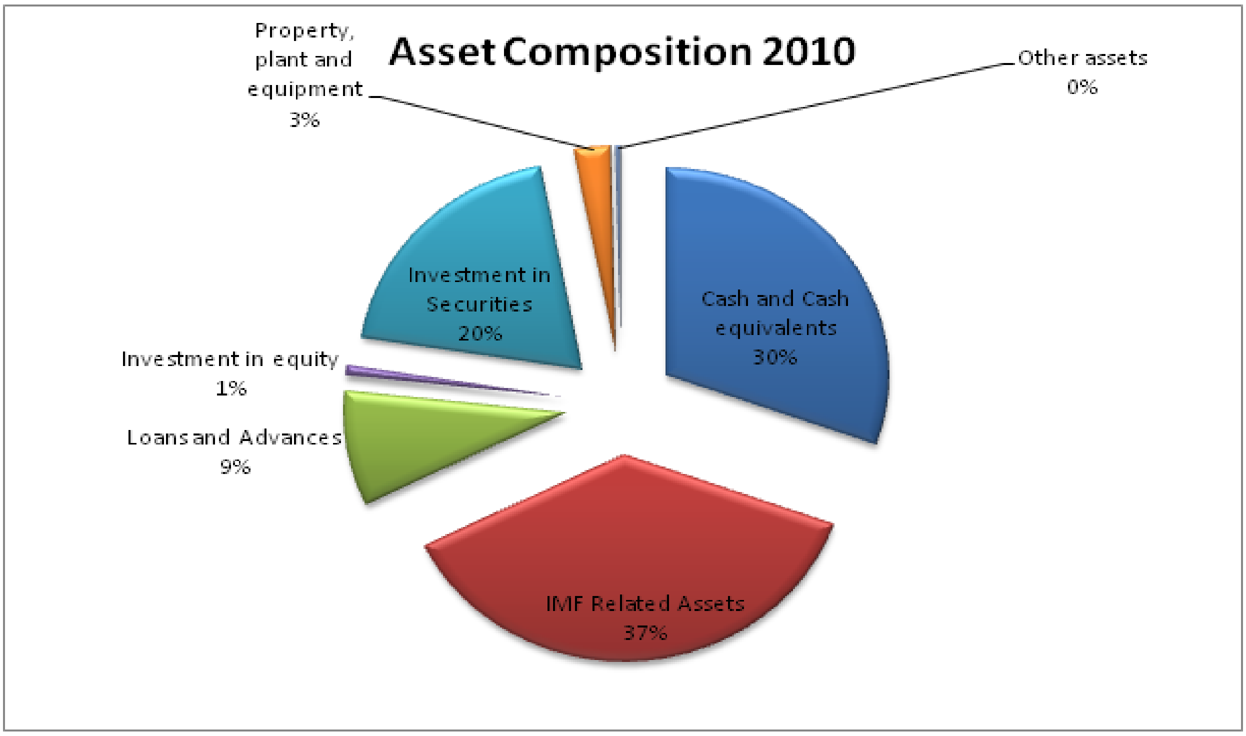
In 2007, the Bank commenced preparing its annual accounts in line with the International Financial Reporting Standards (IFRS) in line with current best practice. Messrs. KPMG has proposed that the accounts be prepared in the most recent format of the IFRS and hence the presentation of the Statement of Financial Position and Statement of Comprehensive Income differs from that of the year 2009 as reported by the then Auditors, Messrs PKF. Comparative figures for the previous year are shown alongside.

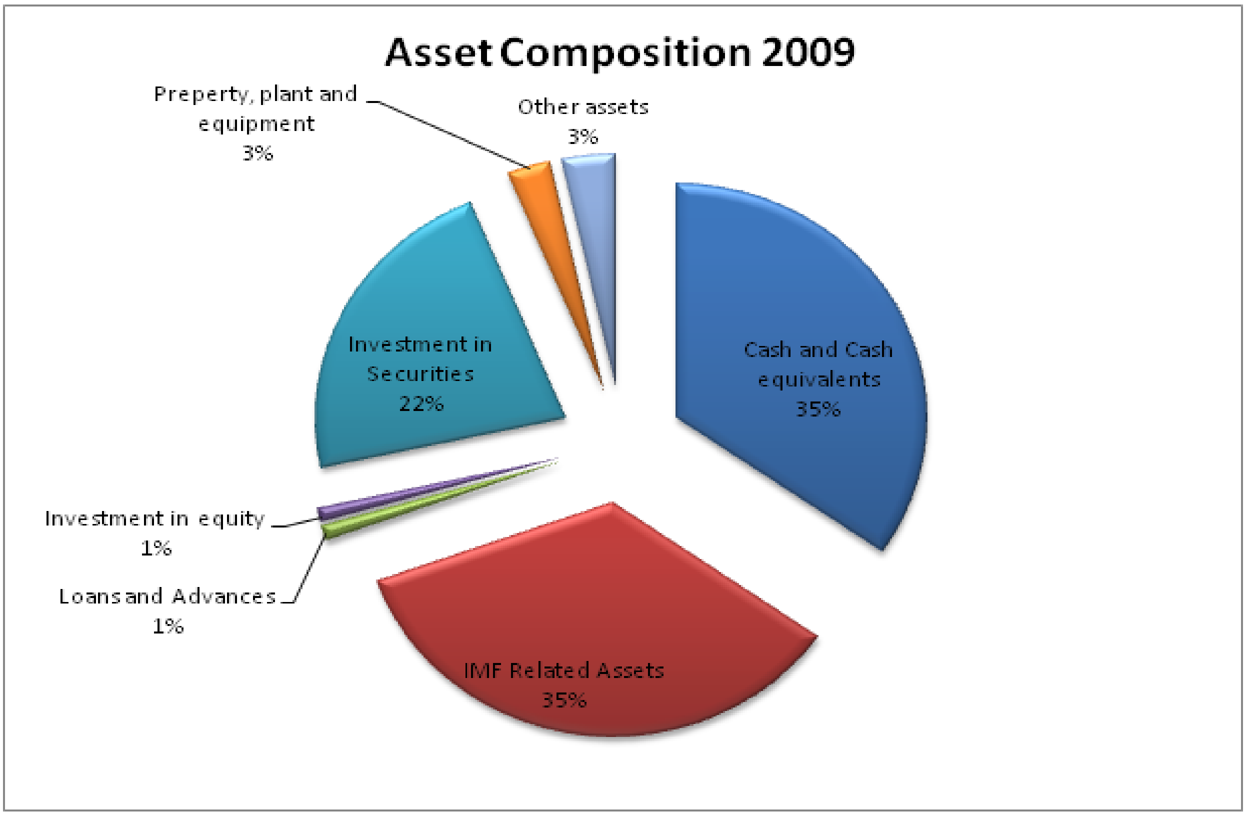
1. STATEMENT OF FINANCIAL POSITION

The Bank's overall financial performance improved with total assets and total liabilities and equity increasing significantly by 35% from **Le1.65 trillion** in 2009 to **Le2.23 trillion** as at 31st December, 2010.

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

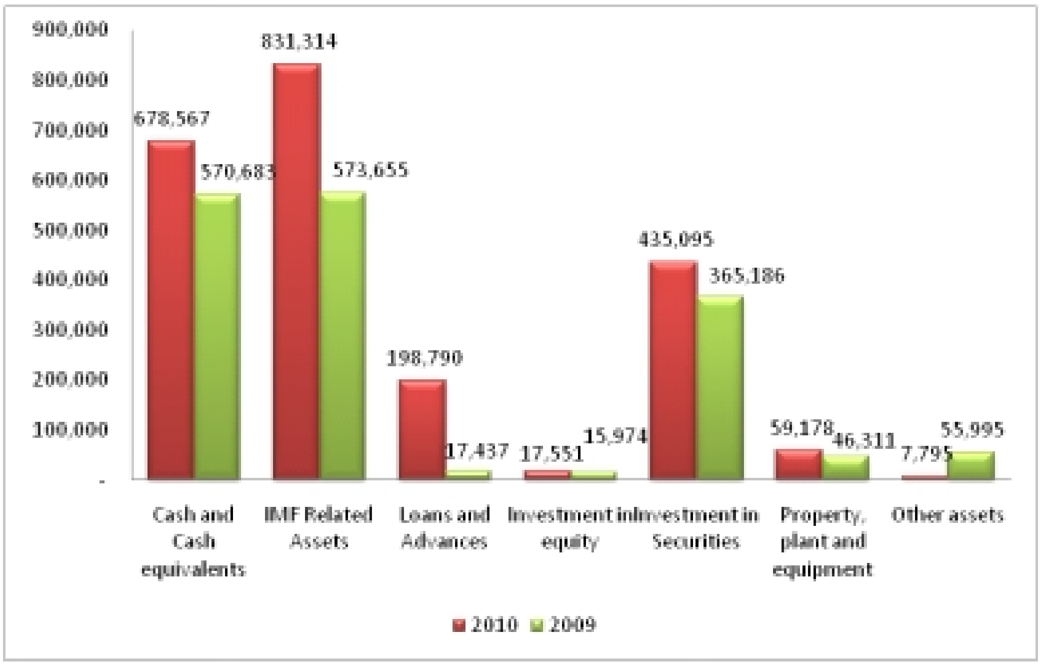
In thousands of Leones	**2010**	2009
Assets		
Cash and cash equivalents	**678,567,070**	570,683,317
International Monetary Fund Related Asset	**831,314,280**	573,654,590
Loans and advances	**198,789,921**	17,437,122
Investment in equity	**17,550,941**	15,973,581
Investment securities	**435,094,849**	365,185,994
Property, plant and equipment	**59,177,854**	46,311,444
Other assets	**7,794,820**	55,994,568
Total assets	**2,228,289,735**	1,645,240,616


Asset Composition 2010
Property, plant and equipment 3%
Other assets 0%
Investment in Securities 20%
Cash and Cash equivalents 30%
Investment in equity 1%
Loans and Advances 9%
IMF Related Assets 37%


Asset Composition 2009
Preperty, plant and equipment 3%
Other assets 3%
Investment in Securities 22%
Cash and Cash equivalents 35%
Investment in equity 1%
Loans and Advances 1%
IMF Related Assets 35%

Assets

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



The International Monetary Fund (IMF) Related Assets, reported on a net basis (IMF Quota less Securities and IMF No.1 Account balances plus SDR Holdings) increased by 44.91% from Le573.65 billion in 2009 to Le831.31 billion in 2010. Cash and Cash Equivalents with Banks and the Bank's Foreign Investments in Equity also increased by 18.90% and 9.87% respectively.

The significant increase in Loans and Advances was due to Ways and Means Advances to Government of Le177.69 billion in a Stock Account which was nil in 2009. Staff Loans and Reverse REPO Account increased by 17.27% and 64.44% respectively.

The Bank's Investment Securities increased by 19.14% from Le365.19 billion in 2009 to Le435.09 billion in 2010. The 5-year Medium Term Bonds increased by 55.55% reflecting the Government's conversion of Le100 billion worth of Non-Negotiable, Non-interest Bearing Securities under the Recapitalisation Programme. Holdings of Government Securities (Treasury Bills and Bonds) decreased by 16.25% from Le185.19 billion to Le155.09 billion in 2010.

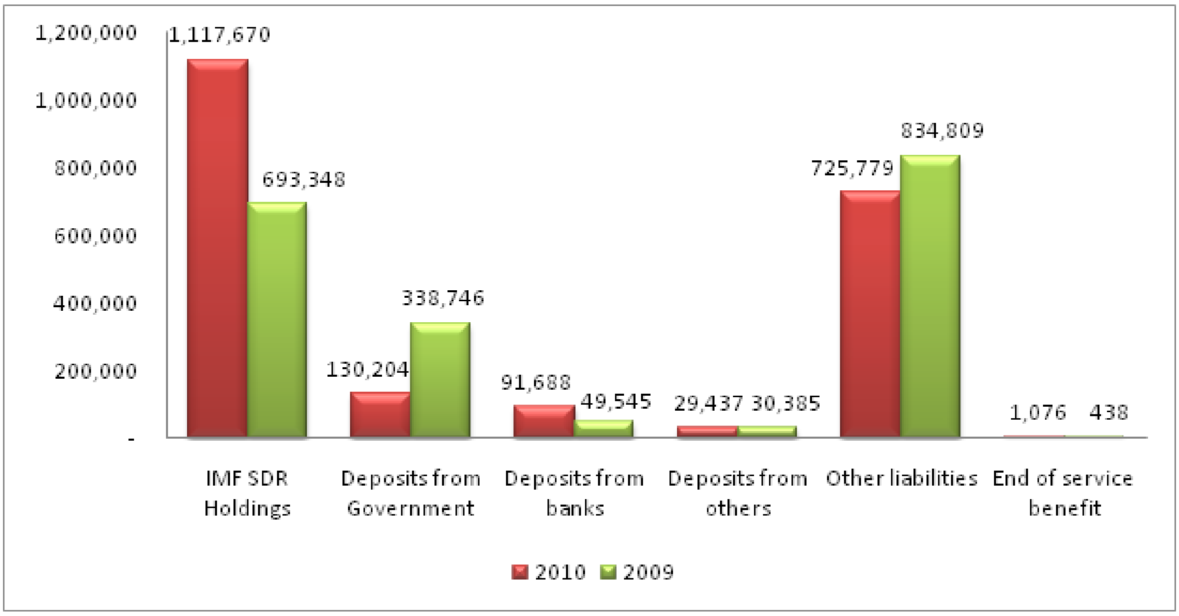
The total value of Other Assets (including the value of gold stock and inventory items) fell drastically by 86.07% from Le55.99 billion in 2009 to Le7.79 billion in 2010 mainly due to a sharp decrease in Items in Transit (from Le52.76 billion in 2009 to Le125.54 million in 2010) and the write-off of Government Securities Certificates amounting to Le141.72 million that were no longer required.

However, Deferred Currency Issue Expenses increased by 243.62% from Le1, 879.38 billion in 2009 to Le6, 458 billion in 2010 as a result of the launching of resized notes in May, 2010.Gold Stock also increased by 41.19% from Le375. 81 million in 2009 to Le530.64 million as at 31st December, 2010.

The Bank's Property, Plant and Equipment improved by 27.78% from Le46.31 billion in 2009 to Le59.18 billion in 2010 as a result of significant additions to Premises (Le8.58 billion), Office Furniture and Equipment (Le3.80 billion) and Work in Progress on the Tokeh Resource Centre (Le2.81 billion).

Liabilities

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



Total Liabilities increased marginally by 7.69% from **Le1.95 trillion** in 2009 to **Le2.10 trillion** in 2010.

IMF Special Drawing Rights (SDRs) Allocation increased from Le693.35 billion in 2009 to Le1.12 trillion in 2010 mainly because IMF Special Drawing Rights (SDRs) increased by 36.33% from Le471.89 billion in 2009 to Le643.35 billion as at 31st December, 2010 and Disbursements under the IMF Poverty Reduction and Growth Facility (PRGF) also increased by 114.18% from Le221.46 billion in 2009 to Le474.32 billion in 2010.

Total Non-Financial Liabilities decreased by 15.15% mainly due to a 90.32% decrease in the Provision for the Revaluation of Pipeline Liabilities which was discounted to its present value during the year from Le291.19 billion to Le28.18 billion. However, Currency in Circulation increased by 29.83%.

Deposits from Commercial and Community Banks increased by 85.06% from Le49.54 billion in 2009 to Le91.69 billion in 2010. Accrued Charges and Other Liabilities increased by 20.57%. Government Deposits however decreased by 61.56% from Le338.75 billion as at 31st December, 2009 to Le130.20 billion in December, 2010. Other Deposits also decreased by 3.11%.

Reserves

Total Reserves improved significantly during the period from **net total negative reserves of Le352.03 billion** as at December 31, 2009 to **net total positive reserves of Le82.43 billion** as at December 31, 2010. This favourable position reflected corresponding improvements in the Foreign Exchange Revaluation Reserve and General Reserve Accounts.

The net credit of Le139.44 billion in the Foreign Exchange Revaluation Reserve Account will be treated in accordance with Section 54(3) and (4) of the Bank of Sierra Leone Act 2000. The 194.70% improvement was due to the transfer of net revaluation gains realised during the period under review.

The negative balance in the General Reserve Account improved by 62.20% mainly as a result of the adjustments made to reflect the reduction in the provision for impairment of the Non-Negotiable, Non-Interest Bearing Securities which were converted to marketable securities as part of the Bank's assets (Le84.43 billion 5-year medium term bonds) and for monetary operations (Le77.5 billion treasury bills).

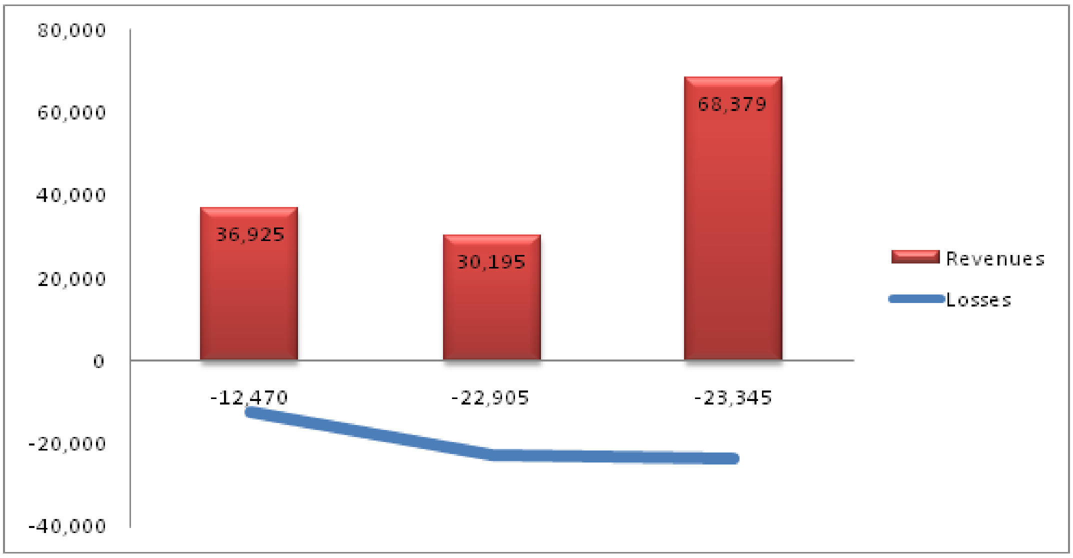
2. STATEMENT OF COMPREHENSIVE INCOME

Operating Income

Total operating income amounting to **Le68.38 billion** represented an increase of 126.46% from the amount of **Le30.19 billion** generated in 2009. The **Net Operating Loss of Le23.34 billion,** increased by **Le439.55 million** over the net loss of **Le22.91 billion** incurred in 2009.

This is depicted in the table and graph below:

Description	2008	2009	2010
	SLL 'M	SLL 'M	SLL 'M
Revenues	36,925	30,195	68,379
Losses	-12,470	-22,905	-23,345

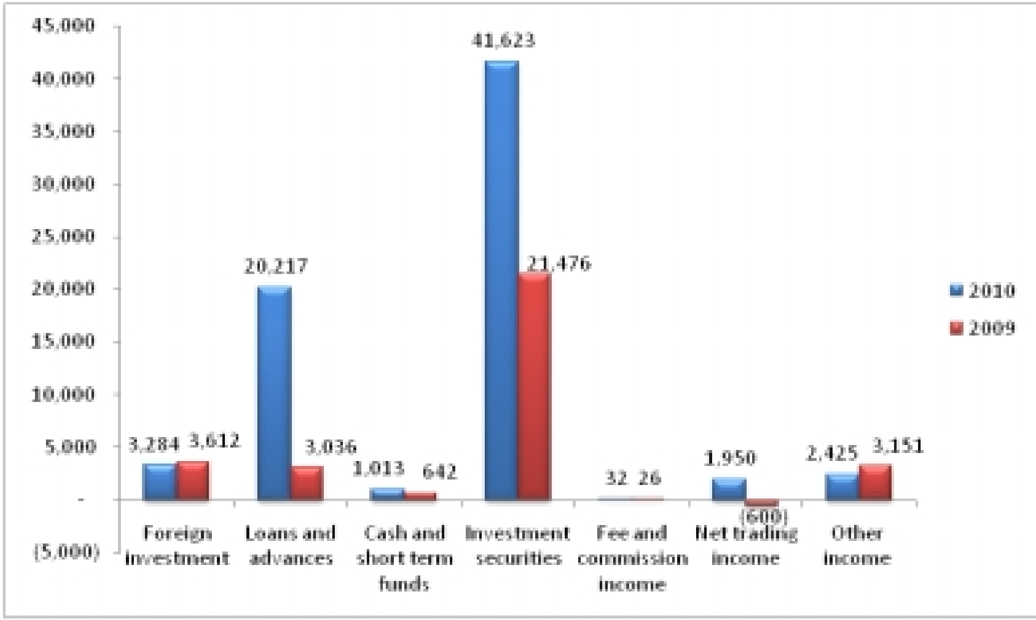


The favourable performance of income was largely attributed to income of Le41.62 billion from Investment Securities representing a 93.80% increase from 2009 (Le21.48 billion). Income of Le22.95 billion realised from the 5-Year Medium Term Bonds converted from the non-negotiable, non-interest bearing securities as at end December, 2010 constituted 55.13% of the total income from investment securities.

Interest income from Loans and Advances (to Government) amounting to Le20.22 billion was the next major source of income. It increased significantly from Le3.04 billion in 2009 due to an increase in the utilisation of the Ways and Means Advances Facility by Government.

The total income of Le3.28 billion accruing from Foreign Currency Investments was 4.94% of total interest and similar income. This income represented a drop by 9.02% when compared with the amount of Le3.61 billion generated in 2009. This unfavourable position clearly reflects the negative effects of the Global Financial Crisis.

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



Operating Expenses

Total operating expenses increased by 72.73% from **Le53.10 billion** in 2009 to **Le91.72 billion.** 39.83% of this amount, representing a 407.05% increase over the amount spent in 2009 was in respect of currency costs. The increase is mainly attributed to the resized notes with enhanced security features launched during the year.

Personnel costs amounting to Le33.58 billion was the next major item of expenditure during the period, accounting for 36.60% of total operating expenses and representing a 20.17% increase over the amount spent in 2009.

Other Expenses (including directors' remuneration, legal and professional fees electricity costs, insurance payments and passages and overseas allowances) increased by 24.08% over the amount incurred in 2009.

Net Operating Loss

The Net Operating Loss of Le23.34 billion, increased by Le439.55 million over the net loss of Le22.91 billion incurred in 2009, which will be treated in accordance with the requirements of Sections 11 (6) and (9) of the Bank of Sierra Leone Act 2000.

3. Equity

Total equity improved significantly from a negative balance of Le302.03 billion in 2009 to a positive balance Le132.44 billion largely due to the positive effect of the total profit (net of revaluation gains and operating loss) realised for the year, and the adjustment to reflect the reduction in the provision for the impairment of the Non-negotiable, Non-Interest Bearing Securities.

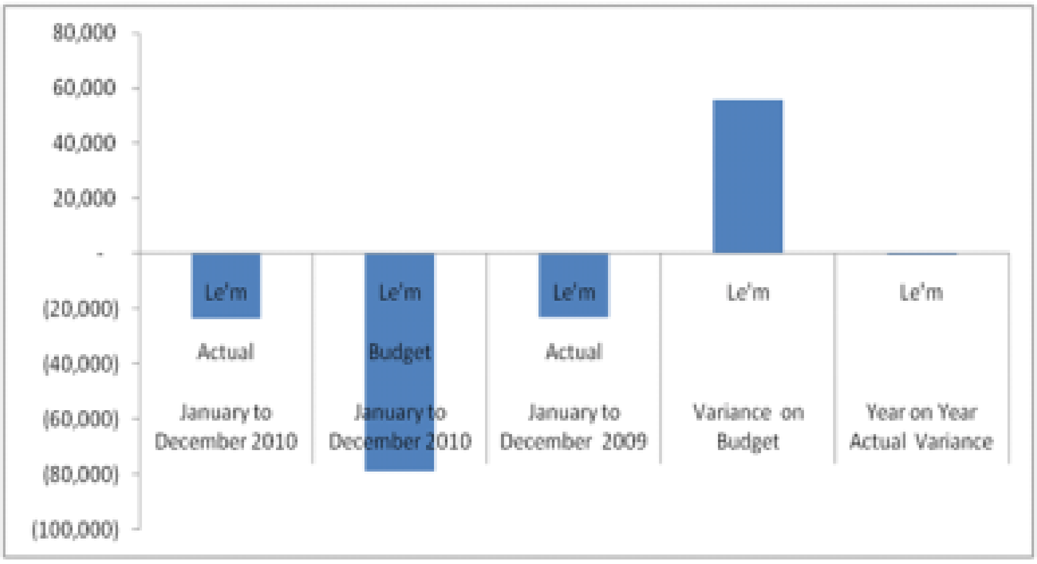
Budget Performance for year 2010

The analysis of the Bank's Budgetary Performance for the period January to December, 2010 is based on the Consolidated Recurrent Budget approved for the year, which projected total income at **Le34.16 billion** and expenditure at **Le113.22 billion**, with a resultant projected deficit of **Le79.06 billion.**

In actual terms however, the net loss of **Le23.34 billion** incurred was 70.47% below the projected loss of **Le79.06 billion**. This favourable position for the year under review was due to a combination of higher levels of income and lower levels of expenditure than projected.

The Actual loss for 2010 was higher than the net loss of **Le22.91 billion** incurred as at end December, 2009. Please see Table and Chart below for further analysis.

Analysis of Profit and Loss						
January to December 2010	January to December 2010	January to December 2009	Variance on Budget	Year on Year Actual Variance	% Variance on Budget	% Year on Year Actual Variance
Actual	Budget	Actual				
Le'm	Le'm	Le'm	Le'm	Le'm		
(23,344)	(79,063)	(22,905)	55,719	(439)	70%	2%



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 2010.

Principal activities

(a) to foster the liquidity, solvency and proper functioning of a stable market-based financial system;

(b) to formulate, adopt and execute the monetary policy of Sierra Leone;

(c) to formulate, adopt and execute the foreign exchange policy of Sierra Leone;

(d) to license and supervise institutions that engage in the business of receiving money deposits or other repayable funds from the public and extending credits for their own account, including bureaux of exchange and foreign exchange dealers;

(e) to own, hold and manage its official international reserves;

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

(g) to promote the efficient operation of payment system and

(h) to promote the safe and sound development of the financial system including safeguarding the interests of depositors.

Directors’ responsibility statement

The Bank's Directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Bank of Sierra Leone Act 2000 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error .

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

Share capital

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

Results for the year and appropriation

Loss for the year was Le 23.3 billion. (2009: Le 22.9 billion). No appropriation is made as required by Section 11 of the Bank of Sierra Leone Act 2000 as the Bank incurred a net loss.

Report of the directors *(continued)*

Audit Committee

The Audit Committee comprising non-executive directors is responsible for oversight function over the audit mechanism, internal control system and financial reporting system. The Audit committee meets quarterly to review and monitor the implementation of recommendations in the internal audit reports, external auditors' management letters and other oversight reports like the IMF Safeguards Assessment Reports.

Monetary Policy Committee

The Monetary Policy Committee is the highest policy making body in the Bank on monetary policy matters. Chaired by the Governor of the Bank, this committee meets monthly to review developments in the economy and their implications for monetary management. It takes decisions on the level of the key policy rate of the Bank, the Monetary Policy Rate (MPR) to signal to the market the stance and direction of the Bank's Monetary Policy in seeking to achieve the primary objective of price stability.

Banking Supervision Technical Committee

This Committee is responsible to direct and deliberate on the operations of all financial institutions.

Foreign Assets Committee

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

Project Monitoring Committee

The Project Monitoring Committee is responsible to monitor ongoing projects implemented by the Bank and make appropriate recommendations to management and board of directors.

Property and equipment

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

Employment of disabled people

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

Health, safety and welfare at work

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

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

Employee involvement and training

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

There is an approved training schedule for staff and the Bank also has a staff performance appraisal process through which staffs are appraised and promotions and /or increments are made.

Directors and their interest

The following were directors of the Bank as at 31 December 2010:

Mr. Sheku S. Sesay	Governor	(appointed July 1, 2009)
Ms. Andrina R. Coker	Deputy Governor	(appointed October 6, 2008)
Dr Morie K. Manyeh	Director	(re-appointed April 22, 2008)
Dr Sandy A. Bockarie	Director	(appointed April 22, 2008)
Mr. Dalton F. Shears	Director	(appointed April 22, 2008)
Mr. Harold Hanciles	Director	(appointed April 22, 2008)
Mrs. Marian Kamara	Director	(appointed April 29,2008)

The Governor and Deputy Governor were appointed on 1 July 2009 and 6 October 2008 respectively and in accordance with section 13(1) of the Bank of Sierra Leone Act 2000, they shall hold office for a term of five years each.

The other directors are to hold offices for three years and shall be eligible for re-appointment. As of the date of signing these financial statements all but Dr. M.K. Manyeh of the other directors have been re-appointed, with effect from 22 April 2011 for a further term of three years.

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

Auditors

The auditors have expressed their willingness to remain in office.

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

Report of the directors *(continued)*

Approval of the financial statements

The Financial Statements were approved by the board of directors on ...13th September,.....2011

....
Governor

....
Deputy Governor

....
Director

....
Director

....
Secretary

Independent auditor's report to the Government of Sierra Leone

We have audited the accompanying financial statements of Bank Sierra Leone which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 54.

Directors' responsibility for the financial statements

The Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Sierra Leone Act 2000, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

Basis for qualified opinion

The Bank has not complied with International Financial Standards in respect of the following matters:

- The Bank operates a defined benefit scheme, and has made a provision of Le 1.1 billion in respect of the outstanding employee benefit obligation, which is defined as a post employment benefit obligation in accordance with IAS 19, Employee Benefits. IAS 19 requires that in order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to apply an actuarial valuation method. The provision was not determined in accordance with an actuarial valuation method by an actuarial valuator. Furthermore, the disclosures required by IAS 19 in the circumstances have not been presented. It was impracticable for us to quantify the effects on the financial statements.

- The Bank has complied with Section 54 (1) and (2) of the Bank of Sierra Leone Act 2000, which requires gains and losses arising from any changes in valuation of the Bank's assets and liabilities in, or denominated in, gold or foreign currencies, special drawing rights or Euros as a result of changes in the exchange rate for the Leone or of any change in the values, parties or exchange rates of such assets with respect to the Leone to be carried to a special account called the revaluation reserve account. The profits and losses arising from such changes are prohibited from being included in the computation of the annual profits and losses on the Bank by the Act.

- This is not in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, which requires that exchange differences arising on the settlement or translation of such monetary items to be recognised in profit or loss in the period in which they arise. Accordingly, exchange gains amounting to Le 286.6 billion were not recognised in the loss for the year, but directly in the Foreign reserve included in other reserves in equity.

Qualified Opinion

In our opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank of Sierra Leone Act 2000.

Emphasis of matter

Without further qualifying our opinion, we draw attention to note 17 b (iii) which indicates that the Bank of Sierra Leone made advances to the Government of Sierra Leone of Le 395.3 billion. The note further indicates that this exceeds 5% (Le 37.3 billion) of the Government of Sierra Leone's actual revenue in the previous year's budget, which contravenes the requirements of Section 42 (1) and (2) of the Bank of Sierra Leone Act 2000.

Date: 13 September 2011

KPMG
Chartered Accountants

Freetown

Statement of financial position
as at 31 December

In thousands of Leones	**Note**	**2010**	2009
Assets			
Cash and cash equivalents	15	**678,567,070**	570,683,317
International Monetary Fund Related Asset	16	**831,314,280**	573,654,590
Loans and advances	17	**198,789,921**	17,437,122
Investment in equity	18	**17,550,941**	15,973,581
Investment securities	19	**435,094,849**	365,185,994
Property, plant and equipment	20	**59,177,854**	46,311,444
Other assets	21	**7,794,820**	55,994,568
Total assets		2,228,289,735	1,645,240,616
Liabilities			
International Monetary Fund Special drawing rights allocation	22	**1,117,669,718**	693,348,450
Deposits from Government	23	**130,203,850**	338,746,493
Deposits from Banks	24	**91,687,549**	49,544,719
Deposit from others	25	**29,436,819**	30,384,663
Other liabilities	26	**725,778,786**	834,809,157
End of service benefit	27	**1,076,066**	437,754
Total liabilities		**2,095,852,788**	1,947,271,236
Equity			
Share capital	28	**50,000,000**	50,000,000
General reserve	29(a)	**(89,796,802)**	(237,587,132)
Other reserves	29(b)	**172,233,749**	(114,443,488)
Total equity attributable to equity holders of the Bank		**132,436,947**	(302,030,620)
Total liabilities and equity		**2,228,289,735**	1,645,240,616

These financial statements were approved by the Board of Directors on 13th September, **2011**

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

Statement of comprehensive income
for the y ear ended 31 December

In thousands of Leones	**Note**	**2010**	**2009**
Interest and similar income	7	**66,136,705**	28,766,069
Interest expenses and similar charges	7	**(2,165,179)**	(1,147,330)
Net interest income		**63,971,526**	27,618,739
Fees and commission income	8	31,815	25,577
Fees and commission expense	8	-	-
Net fee and commission income		**31,815**	25,577
Net trading income/(loss)	9	1,950,742	(600,560)
Other income	10	**2,424,968**	3,150,902
Operating income		**68,379,051**	30,194,658
Impairment loss on loans and advances	17	**(7,902)**	-
Personnel expense	11	**(33,576,707)**	(27,940,712)
Currency	12	**(36,536,574)**	(7,205,639)
Depreciation and amortisation	20	**(2,405,829)**	(2,482,639)
Other expenses	13	**(19,196,724)**	(15,470,800)
Loss for the year	14	**(23,344,685)**	(22,905,132)
Other comprehensive income			
Fair value reserve (non negotiable non interest bearing securities):			
Net change in fair value		**161,930,000**	162,500,000
Net amount transferred to profit or loss		-	-
Other comprehensive income for the year		**161,930,000**	**162,500,000**
Total comprehensive income for the year		**138,585,315**	139,594,868
Loss attributable to:			
Equity holders of the Bank		**(23,344,685)**	(22,905,132)
Loss for the year		**(23,344,685)**	(22,905,132)
Total comprehensive income attributable to:			
Equity holders of the Bank		**138,585,315**	139,594,868
Total comprehensive income for the year		**138,585,315**	139,594,868

These financial statements were approved by the Board of Directors on 13th September **2011**

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

Statement of changes in equity

for the year ended 31 December 2008

In thousands of Leones	Share capital	Foreign exchange reserve	Property revaluation reserve	Restated General reserves	Other reserves	Total
Balance at 1 January 2009	50,000,000	(200,660,911)	32,792,919	(375,517,007)		(493,384,999)
Totalcomprehensive income for the year						
Loss for the year	-	-	-	(22,905,132)	-	(22,905,132)
Revaluation gain for the year	-	-	-	53,424,504	-	53,424,504
Loss on sale of marketable securities	-	-	-	(1,664,993)	-	(1,664,993)
Other comprehensive income						
Fair value reserve (non interest bearing securities)						
Net Change in fair value	-	-	-	162,500,000	-	162,500,000
Net amount transferred to profit or loss	-	-	-	-	-	-
Total other comprehensive income for the year	**-**	**-**	**-**	**162,500,000**	**-**	**162,500,000**
Other transfers						
Transfer to foreign exchange reserve	-	53,424,504	-	(53,424,504)	-	-
Total transfers	**-**	**53,424,504**	**-**	**(53,424,504)**	**-**	**-**
Total comprehensive income and other transfers	**-**	**53,424,504**	**-**	**137,929,875**	**-**	**191,354,379**
Paid up capital	-	-	-	-	-	-
Deposit for shares	-	-	-	-	-	-
Total contribution by and distributors owners	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2009	**50,000,000**	**(147,236,407)**	**32,792,919**	**(237,587,132)**	**-**	**(302,030,620)**

Statement of changes in equity

In thousands of Leones	Share capital	Foreign exchange reserve	Property revaluation reserve	General reserves	Other reserves	Total
Balance at 1 January 2010	50,000,000	(147,236,407)	32,792,919	(237,587,132)	-	(302,030,620)
Total comprehensive income for the year						
Net loss for the year	-	-	-	(23,344,685)	-	(23,344,685)
Revaluation gain for the year	-	-	-	286,677,237	-	286,677,237
Loss on sale of marketable securities	-	-	-	(6,364,985)	-	(6,364,985)
Securities for prior year losses	-	-	-	15,570,000	-	15,570,000
Other comprehensive income						
Fair value reserve (non interest bearing securities)						
Net change in fair value	-	-	-	161,930,000	-	161,930,000
Net amount transferred to profit or loss	-	-	-	-	-	-
Total other comprehensive income for the year	**-**	**-**	**-**	**161,930,000**	**-**	**161,930,000**
Other transfers	-	286,677,237	-	(286,677,237)	-	-
Total Transfers	-	286,677,237	-	(286,677,237)	-	-
Total comprehensive income and other transfers	**-**	**286,677,237**	**-**	**147,790,330**	**-**	**434,467,567**
Paid up capital	-	-	-	-	-	-
Deposit for shares	-	-	-	-	-	-
Total contribution by and distributors owners	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2010	**50,000,000**	**139,440,830**	**32,792,919**	**(89,796,802)**	**-**	**132,436,947**

Statement of cash flows

In thousands of Leones	Note	2010	2009
Cash flows from operating activities			
Loss for the year		**(23,344,685)**	(22,905,132)
Adjustment for:			
Depreciation and amortisation	20	**2,405,829**	2,482,639
Impairment losses on loans and advances		7,902	-
Net interest Income	7	**(63,971,526)**	(27,618,739)
Loss on disposal of property, plant and equipment		-	(1,092)
Impairment of property, plant and equipment		**809,029**	-
		(84,093,451)	(48,042,324)
Changes in loans and advances		**(181,360,701)**	(5,421,634)
Changes in other assets		**48,199,748**	(37,726,697)
Changes in Government Deposit		**(208,542,643)**	(42,911,087)
Changes in other deposits		**41,194,986**	(7,542,652)
Changes in other liabilities		**(109,030,371)**	206,057,913
Changes in end of service benefit		**638,312**	437,754
		(492,994,120)	64,851,273
Interest received	7	**66,136,705**	28,766,069
Interest paid	7	**(2,165,179)**	(1,147,330)
Net cash (utilised in)/generated from operating activities		**(429,022,594)**	**92,470,012**
Cash flows from investing activities			
Purchase of Investment Securities		**(69,908,855)**	(242,404,139)
Medium term bond acquisition		**(1,577,360)**	(2,104,619)
Acquisition of property and equipment		**(16,081,268)**	(1,045,006)
Proceeds from the sale property and equipment			1,260
Net cash used in investing activities		**(87,567,483)**	(245,552,504)
Cash flows from financing activities			
Net change in funds from the IMF		**166,661,578**	(35,663,190)
Net movement in reserves		**171,135,015**	160,835,007
Net cash from financing activities		**337,796,593**	125,171,817
Net increase in cash and cash equivalents		**(178,793,484)**	(27,910,675)
Cash and cash equivalents at 1 January		570,683,317	545,169,488
Effect of foreign exchange rate changes on cash and cash equivalent held or due in foreign currency		**286,677,237**	53,424,504
Cash and cash equivalent at 31 December	15	**678,567,070**	570,683,317
		===========r	===========

Notes to the financial statements

1. Reporting entity

The Bank of Sierra Leone is domiciled in Sierra Leone and wholly owned by the Government of Sierra Leone. The address of the Bank's registered office is 30 Siaka Stevens Street Freetown. The Bank is primarily established to foster the liquidity, solvency and proper functioning of a stable market-based financial system and to license and supervise institutions that engage in the business of receiving money deposits or other repayable funds from the public and extending credits for their own account, including bureaux of exchange and foreign exchange dealers.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

These Financial statements are presented in Leones, which is the Bank's functional currency. All financial information presented in Leones has been rounded to the nearest thousand.

(d) Use of estimates and judgments

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

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

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

3. Significant accounting policies

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

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

Notes to the Financial Statements

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reported date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising as retranslation are recognised in the revaluation reserve account as required by the Bank of Sierra Leone Act 2,000, except for differences arising on the retranslation of available-for-sale equity instruments.

(b) Interest

Interest income and expenses are recognized in the income statement for all interest-bearing instruments on an accrual basis, using the effective interest rate method.

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

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, which appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

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

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(c) Fees and commissions

Fees and Commissions Income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains less losses related to trading of assets and liabilities and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

(e) Lease payments made

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

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

(f) Income tax expense

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, or any other tax.

(g) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances and deposits on the date that they are originated. All other financial assets and liabilities including assets and liabilities designated at fair value through profit or loss are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions in the instrument.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risk and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retentions of all or substantially all risks and rewards include, for example securities lending and repurchase transaction.

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

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

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

(iii) Offsetting

Financial Assets and Liabilities are set off and the net amount presented in the statement of financial position when, and only when the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Notes to thefinancial statements (continued)

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any differences between the initial amount recognised and the maturity amount minus any reduction for impairment.

(v) Fair value measurement

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

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

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

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

(vi) Identification and measurement of impairment

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Impairment losses on assets carried at amortised cost are recognised in statement of comprehensive income and reflected in an allowance account against loans and advances.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

However, any significant recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provision attributable to time value are reflected as a component of interest income.

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and balances with other foreign central Banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their value and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

(i) Loans and advances

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

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

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

(j) Investment securities

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

Notes to the financial statements

(i) Held-to-maturity

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

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

(ii) Available-for-sale

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

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

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

(k) Property and equipment

(i) Recognition and measurement

All property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchase software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Bank and the cost of the items can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Major improvements are capitalised

Notes to the financial statements

3. Significant accounting policies (continued)

Property and equipment (continued)

(iii) Depreciation

Freehold premises are depreciated over a maximum of fifty years. For leasehold properties, where the unexpired lease term is more than fifty years, depreciation is charged over fifty years. Where the unexpired lease term is less than fifty years, the value of the leasehold property is amortised over the periods appropriate to the relevant lease terms on a straight line basis.

Motor vehicles, equipment and fixtures and fittings are depreciated on a straight line basis over its estimated useful life, principally between 3 and 8 years.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(l) Leased assets - lessee

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

(m) Impairment of non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements

3. Significant accounting policies (continued)

(n) Deposits

Deposits are initially measured at fair value, with fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(o) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(p) Financial guarantees

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

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

(q) Employee benefits

(i) Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services provided.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Bank has a present legal an constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

Notes to the financial statements

3. Significant accounting policies (continued)

(ii) defined benefit plan

The bank provides end of service benefits to its retirees. The entitlement to these benefits is conditional on the completion of a minimum service period. End of service benefit is a post-employment benefit plan. The liability recognised in the statement of financial position is the present value of the end of service benefits obligation at the financial position date, together with adjustments for actuarial gains or losses and past service costs. The present value of the obligation is determined by discounting the estimated future cash outflows taking into account average service period and salary increases and using interest rates of Government treasury bonds that are denominated in Leones, the currency in which the obligation will be paid and that matures in one year's time. The calculation is performed by actuary using the projected unit credit method.

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

(iii) Termination benefits

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

(r) Share capital and reserves

(i) Share capital

The Bank classifies capital instruments as financial liabilities as equity instruments in accordance with the substance of the contractual terms of the instrument. Sections 10(1) and 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 within five years from commencement of the Act (that is commencing from 15 February 2005). The capital has been fully subscribed.

(ii) Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 December 2010, and have not been applied in preparing these financial statements. These include the following:

a. Amendment to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues
The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number

Notes to the financial statements

3. Significant accounting policies (continued)

of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This standard is effective for periods beginning on or after 1 February 2010.

b. IFRIC 19 Extinguishing Financial Liabilities with Equity instruments

This interpretation provides guidance on the accounting for debt for equity swaps. This standard is effective for period beginning on or after 1 July 2010.

c. Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for first-time Adopters:

The amendment provided the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the amendment to IFRS 7. The amendment also clarifies the transitional provision of the amendments to IFRS 7. This standard is effective for periods beginning on or after 1 July 2010.

d. Improvements to IFRSs 2010 - Amendments to IFRS 3 Business Combinations
The amendments:

- Clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004);
- Limit the accounting policy choice to measure non-controlling interest upon initial recognition at a fair value or at non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that gives rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and
- Expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquireee awards. These amendments are effective for period beginning on or after 1 July 2010.

e. Improvements to IFRSs 2010- Amendments to IAS 27 Consolidated and Separate financial Statements

The amendments clarify that the consequential amendments to IAS 21. The effects of changes in foreign exchange rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting renumbering. This standard is effective for periods beginning on or after 1 July 2010.

Notes to the financial statements

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

f. ISA 24 Related Party Disclosures (revised 2009)

The revised IAS Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. This standard is effective for period beginning on or after 1 January 2011.

g. Amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets. Minimum Funding Requirements and their Interaction

These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This standard is effective for period beginning on or after 1 January 2011.

h. Improvements to IFRSs 2010 - IFRS 1 First-time Adoption of IFRSs

The amendments:

- Clarify that IAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first IFRS financial statements;
- Introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements;
- Extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and
- Introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities.

i. Improvement to IFRSs 2010 - IFRS 7 Financial Instruments Disclosures

The amendments add an explicit statement that qualitative disclosure should be made in the contact of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. This standard is

j. Improvements to IFRSs 2010 - IAS 1 Presentation of Financial Statements

The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. This standard is effective for periods beginning on or after 1 January 2011.

Notes to the Financial Statements

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

k. Improvements to IFRSs 2010 - IAS 34 Interim Financial Reporting

The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAs 34 that describes other minimum disclosures. This standard is effective for periods beginning on or after 1 January 2011.

Improvement to IFRSs 2010 -IFRIC 13 Customer Loyalty Programme

The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. This standard is effective for periods beginning on or after 1 January 2011.

l. IFRS 9 Financial Instruments

IFRS 9 (2009) is the first standard issued as part of a wider project to replace IAS 39.

IFRS 9 (2009) retains but simplifies the mixed measurement model and established two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. This standard is effective for periods beginning on or after 1 January 2013.

(t) Comparatives

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

4. Financial risk management

(a) Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

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

Notes to the financial statements

Risk management framework

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

The Bank is subject to an annual external audit for which the Auditor General takes responsibility either by conducting the audit or appointing an auditor as prescribed in Section 52(1) of the Bank of Sierra Leone Act 2000. Auditing arrangements are overseen by an Audit Committee of the Board which meets regularly to monitor the financial reporting and audit functions within the Bank. The committee reviews the internal audit function and when necessary, should have direct access to the External Auditor. The committee reports to the Board of Directors on its activities.

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

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

(b) Credit risk

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

Management of credit risk

The Bank minimizes exposure to credit risk related to investment made in foreign debt securities and short term deposits by establishing limits on investments with different credit quality. Credit quality is evaluated on the basis of the ratings set by the International rating agencies. The bulk of the funds is placed with triple "A" rated Banks (i.e. Central Banks and other international financial institutions such as BIS and IMF) as approved by the Foreign Asset Committee (FAC), Management and the Board. For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Notes to the financial statements

4. Financial risk management (continued)

credit risk(continued)

The maximum loss that the Bank would suffer as a result of a security issuer defaulting is the value reported in the statement of financial position.

Concentration analysis	2010	2009
Assets		
United States Dollars	**541,165,855**	209,690,748
Euro	**61,863,744**	339,462,061
Pound sterling	**87,688,219**	32,869,122
SDR	**831,728,688**	573,654,590
Leones and others	**705,843,229**	489,564,095
Total	**2,228,289,735**	1,645,240,616
Liabilities		
United States Dollars	**58,986,794**	351,919,759
Euro	**1,870,361**	145,092,651
Pound sterling	-	58,161,300
SDR	**1,117,669,718**	95,626,933
Leones & others	**917,325,915**	1,296,470,593
Total	**2,095,852,788**	1,947,271,236

Notes to the Financial Statements

4. Financial risk management (continued)

Management of credit risk (continued)

Credit exposure by credit rating

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

	Credit rating	2010	% of FA	2009	% of FA
Cash balances with central banks	AAA	**508,427,380**	**23.5%**	477,999,672	31%
Other cash balances	AA	**170,141,040**	**7.9%**	92,683,645	6%
International monetary Fund assets	NR	**831,314,280**	**38.5%**	573,654,590	37.2%
Loans and advances to bank	NR	**198,789,921**	**9.2%**	17,437,122	1%
Investment in equity	NR	**17,550,941**	**0.8%**	15,973,581	1%
Investment securities	NR	**435,094,849**	**20.1%**	365,185,994	23.8%
		2,161,318,411	**100%**	1,542,934,604	100%

(c) Liquidity risk

Liquidity risk is the risk that the Bank may not be able to accommodate decreases in liabilities or fund decrease in assets in full at the time that a commitment or transaction is due for settlement. In the case of the Bank, this risk is not relevant to domestic assets and liabilities because of the ability of the Bank to create Leones when required. However, the Bank does face liquidity risk in respect of foreign assets and liabilities.

Management of liquidity risk

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

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

Residual contractual maturities of financial liabilities

In thousands of Leones	Notes	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over Five 5 years	Total
31 December 2010							
Non-derivative liabilities							
IMF special drawing rights allocation	22	**-**	**-**	**-**	**474,322,135**	**643,347,583**	**1,117,669,718**
Deposits from Government	23	**130,203,850**	**-**	**-**	**-**		**130,203,850**
Deposit from Banks	24	**91,687,549**	**-**	**-**	**-**		**91,687,549**
Deposit from others	25	**29,436,819**	**-**	**-**	**-**		**29,436,819**
Other liabilities	26	**636,616,123**	**-**	**-**	**28,178,431**	**60,984,232**	**725,778,786**
End of service benefit	27	**-**	**-**	**-**	**1,076,066**	**-**	**1,076,066**
		887,944,341	**-**	**-**	**503,576,632**	**704,331,815**	**2,095,852,788**
31 December 2009							
Non-derivative liabilities							
IMF Special drawing rights allocation	22	-	-	-	221,458,176	471,890,274	693,348,450
Deposits from Government	23	338,746,493	-	-	-		338,746,493
Deposit from Banks	24	49,544,719	-	-	-		49,544,719
Deposit from others	25	30,384,663	-	-	-		30,384,663
Other liabilities	26	490,670,736	-	-	291,192,731	52,945,690	834,809,157
End of service benefit	27	-	-	-	437,754	-	437,754
		909,346,611	**-**	**-**	**513,088,661**	**524,835,964**	**1,947,271,236**

Notes to the financial statements

4. Financial risk management (continued)

Credit exposure by credit rating

(d) Market price risk

Market price risk is the risk of loss resulting from changes in market conditions and prices. In its monetary policy operations, the Bank is obliged to accept certain market-related risks that would not be fully compatible with pure commercial practice. The Bank, nevertheless, manages its market risk responsibly, utilising modern technology, and appropriate organisation structures and procedures. Exposures and limits are measured continuously, and strategies are routinely reviewed by management on a daily basis and when circumstances require, throughout the day.

Exposure to interest rate risk - non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

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

Notes to the financial statements

4. Financial risk management (continued)

Market risk (continued)

In thousands of Leones	Note	Carrying amount	0-3 months	3-12 months	1-5 years	More than 5 years
Cash and cash Equivalents	15	570,683,317	545,731,931	24,918,585	32,801	-
IMF fund assset	16	573,654,590	-	573,654,590	-	-
Loans and advances	17	17,437,122	-	-	17,437,122	-
Investment in equity	18	15,973,581	-	732,389	15,241,192	-
Investment securities	19	365,185,994	586,528	184,599,466	180,000,000	-
		1,542,934,604	546,318,459	783,905,030	212,711,115	-
IMF liabilities	22	693,348,450	693,348,450	-	-	-
Deposit from Government	23	338,746,493	338,746,493	-	-	-
Deposits from Banks	24	49,544,719	49,544,719	-	-	-
Deposits from others	265	30,384,663	30,384,663	-	-	-
		1,112,024,325	1,112,024,325	-	-	-
		430,910,279	(565,705,866)	783,905,030	212,711,115	-

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

In thousand of Leones	**200 bp (2%) Increase 2010**	**200bp (2%) Decrease 2010**
Interest Income Impact	**1,328,266**	**(1,328,266)**
Interest Expense Impact	**(43,304)**	**43,304**
Net impact	**1,284,962**	**(1,284,962)**
In thousand of Leones	2009	2009
Interest Income Impact	582,751	(582,751)
Interest Expense Impact	(22,947)	22,947
Net Impact	559,804	(559,804)

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

Notes to the financial statements (continued)

4. Financial risk management (continued)

e. Currency risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2010. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

Concentrations of assets, liabilities and off balance sheet items

In thousands of Leones	GBP	Euro	US$	SDR	Other	Total
Cash and balances with the Banks	87,682,963	61,859,825	525,461,801	-	3,562,481	678,567,070
IMF assets	-	-	-	831,314,280	-	831,314,280
Loans and advances	-	-	-	-	198,789,921	198,789,921
Investment inequity	-	-	15,674,494	-	1,876,447	17,550,941
Investment in securities	-	-	-	-	435,094,849	435,094,849
Property, plant and equipment	-	-	-	-	59,177,854	59,177,854
Other assets	-	-	-	-	7,794,820	7,794,820
Total assets	**87,682,963**	**61,859,825**	**541,136,295**	**831,314,280**	**706,296,372**	**2,228,289,735**
Liabilities						
IMF drawing rights allocation	-	-	-	1,117,669,718	-	1,117,669,718
Deposit from Government	-	-	-	-	130,203,850	130,203,850
Deposit from Banks					91,687,549	91,687,549
Deposit from Others	-	-	-		29,436,819	29,436,819
Other liability	-	1,870,360	58,986,794	-	664,921,632	725,778,786
End of service benefir	-				1,076,066	1,076,066
Total Liabilities	**-**	**1,870,360**	**58,986,794**	**1,117,669,718**	**917,325,916**	**2,095,852,788**
Net on-balance sheet position	**87,682,963**	**59,989,465**	**482,149,501**	**(286,355,438)**	**(211,029,536)**	**132,436,947**
Credit commitments	-	-	-	-	-	-
At 31 December 2009						
Total assets	32,869,122	339,462,061	209,690,748	573,654,590	489,564,095	1,645,240,616
Total liabilities	58,161,300	145,092,651	351,919,759	95,626,933	1,296,470,593	1,947,271,236
Net on-balance sheet position	(25,292,178)	194,369,410	(142,229,011)	478,027,657	(806,906,498)	(302,030,620)

Notes to the financial statements

4. Financial risk management (continued)

Currency risk (continued)

Foreign currency sensitivity analysis

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

2010

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

2009

In Thousands of Leones	USD	GBP	EUR	SDR	Total
Assets					
Total assets	20,969,075	3,286,912	33,946,206	57,365,459	115,567,652
Total assets	**20,969,075**	**3,286,912**	**33,946,206**	**57,365,459**	**115,567,652**
Liabilities					
Total liabilities	35,191,976	5,816,130	14,509,265	9,562,693	65,080,064
Total liabilities	**35,191,976**	**5,816,130**	**14,509,265**	**9,562,693**	**65,080,064**
Net-on-balance sheet position	**(14,222,901)**	**(2,529,218)**	**19,436,941**	**47,802,766**	**50,487,588**

The above sensitivity analysis has been based on change in US Dollar exchange rate against the Leone. The Leone has been relatively stable for the past couple of years, but may well depreciate or strengthen against the dollar by a margin of 10 percent.

Notes to the financial statements(continued)

4. Financial risk management (continued)

f. Operational risks

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

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

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

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

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

Notes to the financial statements (continued)

5. Use of estimates and judgements

These disclosures supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for credit losses

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

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

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

Determining fair values

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

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

Financial asset and liability classification

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

6. Segment reporting

The Bank did not maintain and operate separate business segments during the year. Thus, the presentation of segmented information is not considered informative.

Notes to the financial statements

7. Net interest income

In thousands of Leones	**2010**	2009
Interest and similar income		
Foreign investment	**3,284,313**	3,611,885
Loans and advances	**20,216,610**	3,035,730
Cash and short term funds	**1,012,541**	642,009
Investment securities	**41,623,241**	21,476,445
	66,136,705	28,766,069

Interest expenses and similar charges

In thousands of Leones	**2010**	2009
IMF interest and charges	**(2,085,441)**	(1,028,941)
Others	**(79,738)**	(118,389)
	(2,165,179)	(1,147,330)
Net interest income	**63,971,526**	**27,618,739**

8. Net fee and commission income

In thousands of Leones	**2010**	2009
Fee and commission income		
Credit related fees and commission	**29,834**	22,718
Trade finance and other fees	**1,981**	2,859
	31,815	25,577
Fees and commission expense		
Fees and commission expense	-	-
	-	-
Net fees and commission income	**31,815**	25,577

9. Net trading income

In thousands of Leones	**2010**	2009
Foreign exchange (loss)/gains	**1,950,742**	(600,560)

Foreign exchange net trading income includes gains and losses from spot and forward contracts.

Notes to the financial statements

10. Other income

In thousands of Leones	**2010**	2009
Rent received	**52,176**	25,063
Sundry receipts	**2,372,792**	2,119,146
Profit on sale of asset	**-**	1,092
Income on revaluation repo operation	-	1,005,601
	2,424,968	3,150,902

11. Personnel expenses

In thousands of Leones	**2010**	2009
Salaries and wages	**28,892,526**	23,225,355
Social security	**1,597,216**	1,559,179
End of service benefit	**1,923,039**	1,887,002
Others	**1,163,926**	1,269,176
	33,576,707	27,940,712

12. Currency

In thousands of Leones	**2010**	2009
Currency management	**205,052**	56,785
Currency Issue expenses	**36,331,522**	7,148,854
	36,536,574	7,205,639

13. Other expenses

In thousands of Leones	**2010**	2009
Occupancy cost	**311,958**	258,378
Directors remuneration	**1,347,054**	1,423,621
Audit fees	**160,000**	75,000
Legal and professional Fees	**2,457,565**	1,897,312
Advertisement	**138,230**	469,300
Electricity	**2,201,535**	1,466,163
Insurance	**1,578,036**	1,465,719
Passage and overseas allowances	**1,418,277**	1,103,516
Repairs and maintenance	**375,795**	382,764
Write-off of property, plant and equipment	**809,028**	-
Other	**8,399,246**	6,947,027
	19,196,724	15,470,800

Notes to the financial statements (continued)

14. Loss for the year

The loss for the year has been stated after charging:

In thousands of Leones	**2010**	2009
Depreciation and amortisation	**2,405,829**	2,482,639
Directors remuneration	**1,347,054**	1,423,621
Audit fees	**160,000**	75,000

15. Cash and cash equivalents

In thousands of Leones	**2010**	2009
Cash and Balances with Banks	**170,139,689**	113,106,104
Balance with other Central Banks	**205,183,419**	358,547,940
Placement with Banks	**303,243,962**	99,029,273
Cash and balances with Banks	**678,567,070**	570,683,317

16. International Monetary Fund Related Assets

In thousands of Leones	**2010**	2009
IMF Quota subscription	**670,466,128**	491,781,508
Securities Account	**(67,390,261)**	(67,390,261)
IMF No.1 Account	**(544,971,185)**	(424,276,746)
	58,104,682	114,501
SDR Holdings	**773,209,598**	573,540,089
	831,314,280	573,654,590

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

Notes to the financial statements (continued)

17. Loans and advances

In thousands of Leones	**2010**	2009
Loans and advances to banks (Note 17a)	**4,954,181**	5,009,983
Loans and advances to Government and others (Note 17b)	**193,835,740**	12,427,139
	198,789,921	17,437,122

17a Loans and advances to Banks

In thousands of Leones	**2010**	2009
Loans and advances to Banks	**5,187,083**	5,234,983
Less impairment allowances	**(232,902)**	(225,000)
	4,954,181	5,009,983

Impairment allowances

Balance at 1 January	225,000	-
Impairment loss for the year	7,902	225,000
Balance at 31 December	**232,902**	**225,000**

17b. Loans and advances to Government and others

(i) Analysis by type

In thousands of Leone	**2010**	**2009**
Government of Sierra Leone (Ways and Means stock)	**177,693,764**	-
Staff	**4,140,004**	3,530,327
Reverse REPO Account	**9,810,446**	5,965,782
Others (Note 17 iv)	**2,191,526**	2,931,030
Gross loans and advances	**193,835,740**	12,427,139
Less: allowances for losses on loans and advances	-	-
	193,835,740	12,427,139

Notes to the financial statements (continued

17. Loans and advances(continued)

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

(ii) Allowances for impairment

In thousands of Leones	**2010**	2009
Specific allowances for impairment		
Balance at 1 January	-	-
Impairment loss for the year	-	-
Balance at 31 December	-	-
Collective allowance for impairment		
Balance at 1 January	-	-
Impairment loss for the year	-	-
Balance at 31 December	-	-
Total allowances for impairment	-	-

(iii) Advances to Government of Sierra Leone

In thousands of Leones	**2010**	2009
Ways and means advances brought forward	-	-
Advances during the year	**850,358,094**	-
Receipts during the year	**(672,664,330)**	-
Ways and Means Advances Carried forward	**177,693,764**	-

Under the Provisions of Section 42(1) and (2) of the Bank of Sierra Leone Act, 2000, the limit of the Ways and Means Advances that the Bank can grant to the Government shall not exceed five percent of the Government's actual revenue in the previous year's budget.

In thousands of Leones	**2010**	2009
Ways and Means Advances	**177,693,764**	-
Treasury and eligible bills	**435,094,849**	365,185,994
	612,788,613	365,185,994
Less: Government deposits	**(130,203,850)**	(338,746,493)
Capital account	**(50,000,000)**	(50,000,000)
Net debit/(credit) to Government of Sierra Leone	**432,584,763**	**(23,560,499)**

Notes to the financial statements (continued)

17. Loans and advances(continued)

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

iii Advances to Governnment of Sierra Leone (continued)

In thousands of Leones	**2010**	2009
Government actualrRevenue in previous year	**746,460,000**	660,050,000
5% thereof	**37,323,000**	33,002,500
Excess in Government lending	**395,261,763**	(33,002,500)

The Directors report excess in lendings to the Government of Sierra Leone as at 31 December 2010 of Le 395,261,763 (2009: deficit of Le 33,002,500)

(iv) Others

This include advances given to contractors amounting to Le 1.2 billion and a long term liability to the Sierra Leone stock exchange (Le 1billion).

18. Investment in equity

In thousands of Leones	**2010**	2009
AfreximBank Capital Investment	**4,798,695**	4,407,382
AfreximBank Dividend Investment	**380,774**	149,525
BSL CON-WAMA credit Guarantee fund	**1,423,303**	1,348,604
WAMA	**10,948,169**	10,068,070
	17,550,941	15,973,581

19. Investment securities

In thousands of Leones	**2010**	2009
Investment securities at fair value through profit or loss	**-**	-
Held to Maturity investment securities	**435,094,849**	365,185,994
Available for sale investment securities	**-**	-
	435,094,849	365,185,994

Notes to the financial statements (continued)

19. Investment securities (continued)

Held to maturity investment securities

In thousands of Leones	**2010**	2009
Five year medium term bonds	**280,000,000**	180,000,000
Treasury bills held for monetary policy	**26,070,233**	54,408,484
Treasury bond held for monetary policy	**20,591,600**	24,665,750
One year treasury bills	**87,373,585**	54,918,454
182 days treasury bills	**13,329,720**	42,667,024
Others	**7,729,711**	8,526,282
non negotiable interest bearing securities	**81,801,429**	243,731,429
Less: Fair value adjustment on non negotiable, on interest bearing ecurities	**(81,801,429)**	(243,731,429)
	435,094,849	365,185,994

Fair value reserve:		
At 1 January	**243,731,429**	406,231,429
Reduction of fair value adjustment	**(161,930,000)**	(162,500,000)
	81,801,429	243,731,429

Under Section 44(2) and 7(2) of the repealed Bank of Sierra Leone (Amendment) Act 1970, the Minister of Finance and the Financial Secretary, on behalf of the Government issued on 24 June 1994 and 25 May 2000 non-negotiable, non-interest bearing securities with no fixed redemption date. As these securities have no interest rate and no fixed redemption date in accordance with International Accounting Standards they have been discounted to net present value date based on projected cash flows. This valuation results in a zero value.

Notes to the financial statements

20. Property plant and equipment

In thousands of Leones

	Premises	Motor vehicle	Office furniture equipment	Plant and machinery	Work-in progress	Total
Balance at 1 January 2009	50,344,950	5,525,846	10,362,908	3,383,415	-	69,617,119
Additions during the year	-	-	88,140	956,866	-	1,045,006
Disposals	-	(5,000)	-	-	-	(5,000)
Balance at 31December 2009	**50,344,950**	**5,520,846**	**10,451,048**	**4,340,281**	**-**	**70,657,125**
Balance at 1 January 2010	50,344,950	5,520,846	10,451,048	4,340,281	-	70,657,125
Additions during the year	9,384,836	9,000	3,803,382	78,694	2,805,356	16,081,268
Impairment of asset	(809,029)	-	-	-	-	(809,029)
Balance at 31 December 2010	**58,920,757**	**5,529,846**	**14,254,430**	**4,418,975**	**2,805,356**	**85,929,364**
Depreciation						
Balance at 1 January 2009	7,199,221	3,197,123	9,160,298	2,311,232	-	21,867,874
Depreciation for the year	996,357	617,901	598,031	270,350	-	2,482,639
Disposals	-	(4,832)	-	-	-	(4,832)
Balance at 31 December 2009	**8,195,578**	**3,810,192**	**9,758,329**	**2,581,582**	**-**	**24,345,681**
Balance at 1 January 2010	8,195,578	3,810,192	9,758,329	2,581,582	-	24,345,681
Depreciation for the year	1,020,014	585,005	493,525	307,285	-	2,405,829
Balance at 31December 2010	**9,215,592**	**4,395,197**	**10,251,854**	**2,888,867**	**-**	**26,751,510**
Carrying amount:						
As at 31 December 2009	42,149,372	1,710,654	692,719	1,758,699	-	46,311,444
As at 1 January 2010	**42,149,372**	**1,710,654**	**692,719**	**1,758,699**	**-**	**46,311,444**
As at 31 December 2010	**49,705,165**	**1,134,649**	**4,002,576**	**1,530,108**	**2,805,356**	**59,177,854**

Work in progress represents amount spent on the Tokeh Resource Center Project which is yet to be completed at the financial position date.

Notes to the financial statements (continued)

21. Other assets

In thousands of Leones	**2010**	2009
Gold stock	**530,635**	375,808
Items in transit	**125,541**	52,762,507
Other consumables	**469,086**	391,189
Prepayment	**102,496**	443,967
Interest receivable	**109.065**	-
Deferred currency issue expense	**6,457,997**	1,879,378
Deferred Govt security certificate	**141,719**	141,719
Less:		
Allowances for impairment	**(141,719)**	-
	7,794,820	55,994,568

Allowances for impairment:

At 1 January	**-**	-
Impairment charge for the year	**141,719**	-
	141,719	-

22. International Monetary Fund Special Drawing Rights Allocation

In thousands of Leones	**2010**	**2009**
IMF Special Drawing Rights	**643,347,583**	471,890,274
IMF Poverty Reduction and Growth Facility	**474,322,135**	221,458,176
	1,117,669,718	693,348,450

This relates to amount due to the International Monetary fund (IMF) for amounts of SDR's allocated to the bank for transactions with IMF and to support programs, strengthen balance of payments position and a foster durable growth, leading to higher living standards and a reduction in poverty.

23. Deposit from Government

In thousands of Leones	**2010**	**2009**
Government special deposits/accounts	**130,203,850**	338,746,493
	130,203,850	338,746,493

Notes to the financial statements (continued)

24. Deposit from Banks

In thousands of Leones	**2010**	2009
Commercial Bank's reserve account	**86,888,920**	45,943,117
Rural and community bank's reserve accounts	**4,587,827**	3,390,800
Others	**210,802**	210,802
	91,687,549	49,544,719

25. Deposits from Others

In thousands of Leones	**2010**	2009
Other deposits	**29,436,819**	30,384,663
	29,436,819	30,384,663

26. Other liabilities

In thousands of Leones	**2010**	2009
Financial liabilities		
Other foreign currency financial liabilities (26a)	**60,906,376**	52,945,690
Accrued charges and other liabilities (26b)	**5,103,636**	4,232,893
	66,010,012	57,178,583
Non-financial liabilities		
Currency in circulation (26c)	**631,590,343**	486,437,843
Provision for revaluation of pipeline liabilities (26d)	**28,178,431**	291,192,731
	659,768,774	777,630,574
	725,778,786	834,809,157

26a. Other foreign currency financial liabilities

In thousands of Leones	**2010**	2009
Foreign payment	**8,303,703**	88,571
Sierra Rutile/GoSL Loan	**3,043,724**	2,795,521
Bank of China US$ clearing	**35,326,970**	32,446,205
WAMA ECOWAS travellers' cheques	**11,798**	11,798
WAMA ECOWAS travellers' cheques clearing	**(1,169)**	(1,169)
Commission of European committee	**40,760**	-
WAMA settlement	**-**	(1,491,088)
OFID Debt relief imprest account	**14,180,590**	19,095,852
	60,906,376	52,945,690

Notes to the financial statements (continued)

26b. Accrued charges and other liabilities

In thousands of Leones	**2010**	2009
Accrued expenses	**4,853,589**	3,038,722
P.S. Bond in circulation	**449**	449
Retention monies	**224,761**	194,487
Trade and sundry creditors	**24,837**	999,235
	5,103,636	4,232,893

26c. Currency in circulation

In thousands of Leones	2010	2009
Notes	622,422,094	477,861,495
Coins	9,168,249	8,576,348
Balance at 31 December	**631,590,343**	486,437,843

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

26d. Provision for revaluation of pipeline liabilities

In thousands of Leones	**2010**	2009
Balance at January	**291,192,731**	215,769,090
Revaluation (gain)/loss	**(263,014,300)**	75,423,641
Disbursement	-	-
Balance at 31 December	**28,178,431**	291,192,731

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

Notes to the financial statements

27. End of service benefit

In thousands of Leones	**2010**	2009
Present value of obligation	**1,076,066**	437,754
Recognised liability for end of service benefit obligation	**1,076,066**	437,754

Movement in the present value of end of service benefit

Change in liability		
Balance at January	**437,754**	-
Service cost	**638,312**	437,754
Interest cost	-	-
Actuarial (gain)/loss	-	-
Benefit paid	-	-
Balance at 31 December	**1,076,066**	437,754

The provision has not been actuarially valued.

28. Issued capital

In thousands of Leones	**2010**	2009
Authorised:	**100,000,000**	100,000,000
Issued and fully paid		
Balance at January/31 December	**50,000,000**	**50,000,000**

Section 10(1) and 71 of the Bank of Sierra Leone Act 2000 require the Bank of Sierra Leone to maintain a minimum paid up capital of Le 50billion, which is to be subscribed within five years from the commencement of the Bank of Sierra Leone Act (that is 15 February 2005). This paid up capital has been fully subscribed and is held exclusively by the Government of Sierra Leone.

Notes to the financial statements (continued)

29. Reserves and retained earnings

In thousands of Leones	**2010**	**2009**
General reserves (a)	**(89,796,802)**	(237,587,132)
Other reserves (b)	**172,233,749**	(114,443,488)
Total reserves as at 31 December	**82,436,947**	(352,030,620)

(a) General reserve

In thousands of Leones	**2010**	**2009**
Balance at start of the year	**(237,587,132)**	(375,517,007)
Net Loss for the year	**(23,344,685)**	(22,905,132)
Revaluation gain for the year	**286,677,237**	53,424,504
Loss on sale of marketable securities	**(6,364,985)**	(1,664,993)
Transfer to foreign exchange reserve	**(286,677,237)**	(53,424,504
Fair value reserve	**161,930,000**	162,500,000
Securities for prior year losses	**15,570,000**	-
Balance at 31 December	**(89,796,802)**	(237,587,132)

Under Section 10(6) subject to section 71 of the Act, where 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, authorised the transfer of the Bank funds, readily marketable securities or foreign exchange for the purpose of preserving the minimum paid-up capital of the Bank from impairment.

(b) Other reserves

In thousands of Leones	**2010**	2009
Foreign exchange revaluation reserves (i)	**139,440,830**	(147,236,407)
Property revaluation reserve (ii)	**32,792,919**	32,792,919
Balance at 31 December	**172,233,749**	(114,443,488)

(i) Foreign exchange revaluation reserves

In thousands of Leones	**2010**	2009
Balance at start of the year	(147,236,407)	(200,660,911)
Transferred from general reserve	286,677,237	53,424,504
Balance at 31 December	**139,440,830**	(147,236,407)

Notes to the financial statements (continued)

29. Reserves and retained earnings (continued)

In accordance with 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 parties or exchange rate of assets with respect to the Leone are taken to the Foreign Exchange Revaluation Reserve.

Under Section 54(3) 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 credited to the Revaluation Reserve Account until the amount is sufficient to cover the losses reflected by the debit that has been transferred.

(ii) Property revaluation reserves

In thousands of Leones	**2010**	2009
Balance at start of the year and end of the year	**32,792,919**	32,792,919
Balance at 31 December	**32,792,919**	32,792,919

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

30 Contingencies and commitments

30a. Contingent liabilities

In thousands of Leones	**2010**	2009
Guarantees and Endorsement	**164,735,939**	280,881,096
Promissory notes	**1,163,939**	2,822,576
	165,899,878	283,703,672

30b. Capital commitments

In thousands of Leones	**2010**	2009
Capital expenditure	**4,102,331**	1,661,049
African Export Import Bank	**3,358,408**	3,084,544
	7,460,739	4,745,593

Notes to the financial statements (continued)

Contingencies and commitments (continued)

30c. Pending law suits, legal proceedings and claims

The Bank has pending litigations against it in relation to three former employees who are claiming damages for wrongful dismissal, upward revision of pension and payment of terminal benefits and other allowances. However, the Bank has appealed against the judgements and the matters are presently at the Court of Appeal. In the event that the appeals are not successful, the Bank would be liable to pay an amount not less than Le547 million excluding interest at the rate of 35% per annum and solicitor's costs.

31. Related parties

Parent and ultimate controlling party

Although the Bank is an autonomous entity, the Government of Sierra Leone being the sole subscriber to the share capital of the Bank, is in principle the owner of the Bank. The Bank continued to act as the banker and adviser to, and fiscal agent of, the Government of Sierra Leone as laid down in statutes. In the course of executing these duties, the Bank facilitates payments to the Government's suppliers and creditors, and extends credit facilities to the Government.

As at 31 December 2010, total advances to the Government was Le 177.59 billion (2009: Nil).

The Board of Directors (including the Governor and Deputy Governor) received remuneration amounting to Le 1.38 billion (2009: Le 1.28 billion). The Governors benefited from rent allowance and vehicles for official and domestic purposes. Board members did not benefit from any loan during the period under review. A total of Le 35.80 million (2009: Le 41.27 million) was contributed to the National Social Security and Insurance Trust Scheme (NASSIT) on behalf of the Governors.

Senior Management received remuneration of Le 1.13 billion (2009: Le 1.63 billion) and benefited from official vehicles. Outstanding loans to senior management totalled Le 63.77 million (2009: Le 107.79 million). A total of Le 108.09 million (2009: Le106.12 million) was contributed on their behalf to NASSIT.

Deposits from Government totalled Le 131 billion (2009: Le 339 billion).

32. Post balance sheet events

Events subsequent to the statement of financial position date are reflected only to the extent they relate directly to the financial statements and their effect is material. There were no such events on the date the financial statements were signed.