

A. ANNUAL REPORT 2004

1. Review of the Economy

Overview

The improved business confidence in 2004 stimulated activity in the agriculture, mining, construction and service sectors. The Government's emphasis was on the maintenance of macroeconomic stability, poverty reduction and addressing developmental issues for long-term economic growth. This was enhanced by the continued strengthening of peace, security and good governance and the conclusion of the disarmament, demobilisation and reintegration exercise for over 72,000 former combatants. The scene was now set for the successful local government elections for town councils in May 2004 leading to the decentralisation of functions from the Central government to local authorities.

International donors continued their support for the country's economic program endorsed by the International Monetary Fund (IMF). The Executive Board of the IMF completed the Fourth and Fifth reviews of the country's performance under the Poverty Reduction and Growth Facility (PRGF) arrangement and approved the disbursements of SDR14mn each (about US\$21mn) in February and November 2004. This brought the total amount drawn under the arrangement to SDR116.8mn (about US\$176.5mn). The IMF also approved SDR14.8mn (US\$22mn) disbursement of additional interim assistance under the HIPC Initiative. The World Bank in March approved a US\$25mn International Development (IDA) grant, in support of the government's effort to establish a functioning local government system and improve inclusiveness, transparency and accountability of public resource management at all levels of government. Budgetary support totalling US\$16.8mn was also provided by the World Bank in December under the Economic Recovery and Rehabilitation Credit (ERRC

III). Balance of payments and budgetary support grants were provided by the United Kingdom/Department for International Development (DFID), under the UK/Sierra Leone Programme Aid and the European Union (EU). Sierra Leone in January signed an agreement with the African Development Fund for the financing of the Second Economic Rehabilitation and Recovery Loan (ERRL II) to the tune of US\$24.88mn, with proceeds directed towards the restoration of sustained economic growth and poverty alleviation. Bilateral assistance was also provided by the Organisation of Petroleum Exporting Countries (OPEC), under the Commodity Import Programme (CIP), the Islamic Development Bank (IDB) to finance the Social Action project and the International Fund for Agricultural Development (IFAD) for the eradication of poverty and the enhancement of food security.

The effect of an increase in business activity in the economy coupled with the rise in the production of food crops in line with government's policy for food security by 2007 was translated to growth in output and real GDP growth is estimated at 7.4 percent for 2004. Exports also manifested strong growth especially diamond exports following the start of kimberlite mining operations by Koidu Holdings in Kono. The higher export values and lower import values as a result of an increase in domestic food production accounted for a lower trade deficit in the year.

The period also witnessed a strengthening of monetary management, with the Central Bank intensifying open market operations and instituting policy measures aimed at containing monetary growth and mopping up excess liquidity in the banking system. These included an increase in the cash reserve ratio from 10 to 12 percent, removal of placements with discount house as a

component of the reserve ratio, enforcement of penalty clauses for violation of the Banking Act and the deepening of secondary market operations in securities. In spite of these measures, achievement of the Bank's primary objective of price stability was daunting due mainly to external shocks that emanated from surging world market prices of petroleum products and its ripple effects on the domestic basket of commodities. Though domestic revenue was both higher than that of the previous year and the revised budget estimates, delays in the receipt of foreign inflows in the first half of the year led to higher domestic borrowing from the Central Bank with a surge in the liquidity position and build up of inflationary pressures. There was however improved foreign inflow for budgetary support in the second half of the year, resulting in a substantial decline in domestic borrowing. The full realisation of programmed external budgetary support coupled with the Government's institution of stringent fiscal management measures, especially in the fourth quarter culminated in a significant drop in the Government's indebtedness to the banking system for 2004. As a result of this money supply growth slowed to 20 percent.

The continued demand pressures in the foreign exchange market characterised the review period, even though there was the regular supply of foreign exchange through the weekly auction. This translated into a steady depreciation of the Leone against the dollar and coupled with the increases in the world market prices of petroleum products and other imported commodities, resulted in a continuous rise in the general price levels and a steady increase in inflation rates.

The review period also showed the commitment of the Sierra Leone Government to the realisation of the West African Monetary Union programme, as in collaboration with the West African Monetary Institute (WAMI), it hosted the Third Finance Ministers Forum of the West African Monetary Zone (WAMZ) and the Technical and Convergence Council Meetings in March

and May 2004 respectively. As at December 2004, Sierra Leone was able to meet two of the four primary criteria and one of the six secondary criteria.

Real Sector Developments

Real GDP growth in 2004 is estimated at 7.4 per cent reflecting the rise in the production of food crops in line with government policy for food security by 2007 and significant increases in the construction and services sectors. Construction activities included the building of hotels and guest houses, the completion of the Congo Town Bridge in Freetown and progress towards the completion of the Freetown peninsular road.

The mining sub-sector, dominated by diamond mining, continued to thrive maintaining the positive trend observed in the previous years. In August 2004, the Sierra Leone Government signed a Euro 25 million grant with the European Union which was then given as a loan to the Sierra Rutile Company Limited in support of the restart of its mining operations.

Electricity generation deteriorated due to frequent breakdown of the electricity generating plants with a drop in industrial consumption as a result of low power supply.

There was a general increase in the price level of all essential commodities in the review period. The year-on-year rate of inflation rose from 11.29 per cent at end December 2003 to 14.39 per cent at end December 2004.

In August 2004, the Investment Promotion Act was passed in Parliament. This seeks to promote and attract private investment for the development of production and addition of value to goods produced.

A population and housing census of Sierra Leone was carried out by Statistics Sierra Leone from December 4 - 19, 2004. Provisional results put the country's population at 4.96 million compared to 3.52 million in 1985 when the last census was conducted.

Most of the industries in the manufacturing sector recorded decreases in their output levels when compared to the previous year (2003). For beer & stout and soft drinks however, production rose by 37.94 thousand cartons (4.92%) to 808.55 thousand cartons and 355.44 thousand crates (28.98%) to 1,581.81 thousand crates respectively. Production of maltina and confectionery slumped by 38.57 thousand cartons (22.42%) to 133.48 thousand cartons and 585.00 thousand pounds (17.63%) to 2,733.65 thousand pounds in the review period when compared to the previous year. The increase in the production of beer & stout was mainly due to the new bottling plant installed by Sierra Leone Brewery Limited in May 2004, while the rise in soft drinks could be attributed to the new production line installed by the Freetown Cold Storage Limited in late 2003. The new installations resulted in the improvement in their production capacity. The drop in the production of maltina and confectionery was due to a fall in customer demand.

Production statistics for flour were not available for 2003, but 19,067.15 metric tons were produced in the year under review.

Output levels of household goods namely salt and common soap fell below the previous year's level by 177.38 metric tons (17.66%) to 827.13 metric tons and by 223.45 metric tons (45.46%) to 268.12 metric tons respectively. There was a significant drop in the output of plastic foot-wear from 644.90 thousand pairs (88.24%) to 85.97 thousand pairs. The decrease in the output of salt was due to supply delays of raw materials and competition from the imported product while that of soap could be attributed mainly to a shortfall in the supply of raw materials. Plastic footwear production fell due to a breakdown in machinery and poor sales.

The drop in output levels of acetylene and oxygen were 101.77 thousand cubic feet (89.23%) and 1,181.02 thousand cubic feet (73.39%) below the

levels in 2003. These decreases were mainly due to occasional breakdown in machinery in the first-half and industrial strike in the second half of 2004. There was no production of carbon dioxide as there was no demand for the product.

Cement production moved upwards by 10.92 metric tons (6.44%) to 180.43 thousand metric tons while paint production dropped by 16.59 thousand gallons (9.16%) to 164.58 thousand gallons. Cement production increased mainly as a result of increased building, reconstruction and renovation activities. During the year the production level fell short of demand for the product and necessitated the importation of 4,500 tons (90,000 bags) by the Sierra Cement Corporation Limited. The drop in the production of paint could be attributed to competition from imported brands into the country.

The buoyancy in diamond production, which started four years ago, continued with total officially recorded shipment increasing by 184.99 thousand carats (36.50%) to 691.81 thousand carats over the year. The total comprised 308 thousand carats of industrial diamonds and 383.81 thousand carats of gem diamonds. This improvement was helped by the Kimberley Process Certification Scheme implemented in June 2003. The Department for International Development (DFID) also gave support in terms of training facilities for the staff of the Government Gold and Diamond Department (GGDD) with the aim of improving their efficiency in the valuation process. Koidu Holdings Limited, the company operating the kimberlite mines commenced its first shipment in February 2004 with a total of 10,108.82 carats valued at \$2,001,077.06. The company's contribution to the total shipment in 2004 was 78,458.29 carats (16.45%), with a value of \$13,859,589.23 (15.32%). There were positive moves in the year both in securing funds and in the rehabilitation process for the rutile and bauxite mines to become operational again.

Table. 1 Production					
		Jan-Dec'03	Jan-Jun'04	Jul-Dec'04	Jan-Dec'04
1	2	3	4	5	6
Minerals					
Diamonds	<i>000'carats</i>	506.82	396.13	295.68	691.81
Agriculture					
Coffee	<i>000'M tons</i>	545.00	-	118.00	118.00
Cocoa	<i>000'M tons</i>	2,752.14	1,650.00	4,537.50	6,187.50
Piassava	<i>000'M tons</i>	17.00	17.00	8.00	25.00
Manufactured Goods					
Beer and Stout	<i>000' Cartons</i>	770.61	360.45	448.10	808.55
Maltina	<i>000' Cartons</i>	172.05	61.01	72.47	133.48
Soft Drinks	<i>000' Crates</i>	1,171.02	739.94	841.86	1,581.81
Acetylene	<i>000' Cu.Ft</i>	114.05	12.28	-	12.28
Oxygen	<i>000' Cu.Ft</i>	1,609.01	428.17	-	428.17
Carbon-Dioxide	<i>000' Lbs</i>	1.99	-	-	-
Confectionary	<i>000' Lbs</i>	3,318.65	1,486.48	1,247.17	2,733.65
Salt	<i>M tons</i>	1,004.55	434.03	393.10	827.13
Common Soap	<i>M tons</i>	491.24	174.10	94.02	268.12
Paint	<i>000' Gals.</i>	181.17	89.89	74.69	164.58
Cement	<i>000'M tons</i>	169.51	95.74	84.69	180.43
Plastic Footwear	<i>000 Pairs</i>	730.87	85.97	-	85.97
Flour	<i>M Tons</i>	N.A.	10,006.07	9,061.08	19,067.15
Services					
Electricity					
Unit Generated	<i>GW/hr</i>	109.39	48.59	36.23	84.82
Industrial Consumption	<i>GW/hr</i>	27.81	13.19	10.02	23.21

The agricultural sector showed mixed performance during the review period. Official records revealed that 118 metric tons of coffee and 6,187.50 metric tons of cocoa were shipped out of Sierra Leone during the course of the year 2004. This indicated a significant drop in total coffee shipped by 427 metric tons (78.35%) below the previous year's level and a significant increase of 3,435.50 metric tons (124.84%) over the previous year in the case of cocoa shipment. During the year farmers paid little attention to the production of coffee because of the low prices offered to them by exporters of the commodity. The shipment of cocoa increased because of the quality of the cocoa beans produced, as farmers were sensitised in the handling of the beans, and due to attractive world market prices received by exporters. There was no significant shipment of piassava during the year.

Rice production was estimated at 578.54 thousand metric tons during the review period, a 30 per cent increase over the previous year's level of 445.03 thousand metric tons. The production of other food crops such as maize, cassava, sweet potato, groundnuts and oil palm fruit also increased in the year under review. The increase in food production was due to increased Government support to the agricultural sector in the form of provision of seed rice, oil seedlings, fertilizer, power tillers and tractors.

Total electricity generated decreased by 24.57 GW/hr (22.46%) to 84.82 GW/hr in the review period. This decrease was on account of the frequent breakdown of the ageing electricity generating plants. Industrial consumption also dropped by 4.59 GW/hr (16.53%) due to reduced power supply. In a bid to improve electricity generation, the government of Sierra Leone in May 2004 signed an agreement with the Italian government for a grant of Euro 18 million, for the completion of the Bumbuna Hydro Electric Project by 2006. When phase I (one) of the

Bumbuna Hydro-electric project is completed, it would provide about 50 megawatts of electricity compared to the 13 megawatts now being produced by the National Power Authority (NPA). On completion of phase I(one) and phase II(two) a total of 150 megawatts would be generated.

The tourism sub-sector showed remarkable progress in the review period. Registered and licensed hotels and guest houses increased from 100 in 2003 to 172 in 2004, with hotels increasing from 14 to 19 and guest houses from 86 to 153. In May 2004, the National Tourist Board of Sierra Leone and the Henan Gousi Industry Development Corporation Limited in China signed a US\$266mn joint venture project, for the construction of a 250 bedroom hotel and conference centre with ancillary services along the Lumley Beach.

The number of tourist arrivals also rose from 38 thousand in 2003 to 43.6 thousand in 2004. Visitors from African countries totalled 24.4 thousand and accounted for over 50 per cent of the total tourist arrivals. Tourist arrivals from Europe rose by 46.2 per cent, from 6.5 thousand to 9.5 thousand. Those from America rose by 0.1 thousand (2.13%) to 4.8 thousand, while those from Asia and the Middle East increased by 0.3 thousand (15%) to 2.3 thousand and 1 thousand (62.5%) to 2.6 thousand respectively.

The Transport and Communication Sector improved in line with the government's stated commitment of developing this sector. In 2004, the government commissioned three ferries namely: *M. V. Marzuk* plying the route between Freetown and Lungi; *M. V. Opal* plying the Freetown – Monrovia – Banjul – Dakar route and the *M. V. Helena*, the Freetown and Conakry route. The movement of these vessels within the sub-region apart from enhancing tourism is expected to have a positive impact on trade, mobility and regional cooperation within the Mano River Union and

ECOWAS. These ferries were in addition to two ferries and a hovercraft connecting Freetown with Lungi where the international airport is located. Another boost to the transport sector was the additional flights to Sierra Leone - the *Astreus* airline which shuttles between Freetown and London and *Slok* airlines shuttling the Freetown – Banjul and Accra route.

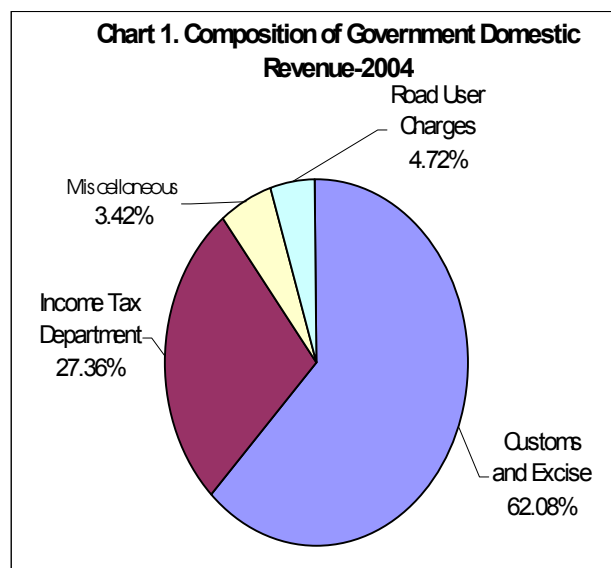
In May 2004 Sierratel commissioned digital telephone exchanges in the towns of Bo, Kenema and Lungi. This entailed the replacement of a total of 1,300 lines of old electro-mechanical switches that were installed over thirty-five years with digital lines totalling 5,000. Sierratel also started the refurbishment of the microwave stations that were destroyed during the rebel war in Segbwema, Landofeh mountains, Koidu, Port Loko, Lunsar and Makeni. Around 63 percent of these microwave radio stations are currently powered by solar energy which is environmentally friendly and relatively inexpensive. The mobile companies (Celtel and Milicom) extended their coverage to service three fourths of the country's major cities and towns. Mobile phone companies now have over 100,000 subscribers.

Fiscal Developments

During the review period, total revenue amounted to Le616,343mn or 21.59 per cent of GDP and was 2.40 per cent lower than the budget estimate but 31.98 percent above its 2003 level. The improved revenue position compared to that of 2003 stemmed from improvements in both domestic receipts and external grants. Domestic revenue, at Le356,968mn or 12.51 per cent of GDP accounting for 57.92 per cent of total revenue was 0.72 per cent higher than the budget estimate and 24.09 per cent above its level in 2003. All the major sources of revenue showed appreciable improvements, except Customs & Excise receipts of Le221,590mn which was 0.38 per cent below its budgeted estimate partly due to lower level of imports. When compared to its collections in 2003, however, Customs and Excise receipts reflected an increase of 15.18 per cent and

accounted for 62.08 per cent of total domestic receipts. Income Tax collections of Le97,679mn exceeded the budget estimate by 0.37 per cent and its 2003 collections by 29.24 per cent. The improved performance in total tax receipts was mainly due to intensified tax collection activities mounted by the National Revenue Authority. When compared to the WAMZ criterion of total tax revenue to GDP ratio of not less than 20 per cent, the tax revenue attainment of 11.18 per cent of GDP in 2004 was far lower. Non-tax revenue amounted to Le37,699mn, exceeding its budget estimate by 8.69 per cent and the collections in 2003 by 91.38 per cent due to increases in receipts from mining licenses, royalties from fisheries and Road User Charges. Increases in mining activities and number of registered fishing vessels accounted for the improvements in collections from the Mines and Marine Resources sectors. The increase in fuel prices was reflected in the Road User Charges of Le16,853mn, which recorded increases of 5.49 per cent and 71.15 per cent above the budget estimate and the previous year's collections, respectively.

Total Grants of Le259,375mn (9.09 per cent of GDP) was 5.59 per cent lower than the budget estimate and 44.63 per cent higher than the grants



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Table 2. Government Fiscal Operations (Leone Million)			
	Rev. Budget 2004	2004	2003
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	629,153	616,343	467,001
DOMESTIC REVENUE	354,424	356,968	287,658
<i>Of which:</i>			
Customs & Excise	222,425	221,590	192,379
Import taxes	169,217	166,137	144,166
Excise on Pet.	39,830	41,076	36,693
Other Excise Dut.	4,612	4,722	4,502
Domestic Sales Tax	9,766	9,655	7,018
Income Tax Department	97,315	97,679	75,581
Company Tax	48,486	47,622	38,578
Personal Income Tax	45,260	46,341	34,468
Other Taxes	3,569	3,716	2,535
Miscellaneous	18,708	20,846	9,851
Mines Department	6,977	7,720	3,040
Licences	6,977	7,720	3,040
Other Departments	11,731	13,126	6,811
Royalty on Fisheries	4,466	5,231	2,643
Parastatals	2,355	2,356	2,392
Other Revenues	4,910	5,539	1,776
Road User Charges	15,976	16,853	9,847
GRANTS	274,729	259,375	179,343
Programme	203,289	206,172	144,842
<i>HIPC Debt Relief Assistance</i>	91,865	93,649	106,616
<i>DFID</i>	111,424	51,118	38,226
<i>EU</i>		61,405	-
Project	9,065	9,065	8,513
<i>DDR</i>	9,065	9,065	8,513
<i>Elections-Foreign Funded</i>	-	-	-
Other Projects	62,375	44,138	25,988
TOTAL EXPENDITURE	737,725	688,093	597,999
<i>Of which:</i>			
Current Expenditure	542,267	555,047	485,368
<i>Of which:</i>			
Wages & Salaries	173,826	178,751	160,091
Foreign Interest	26,188	25,855	19,455
Domestic Interest	96,936	103,709	64,316
Goods & Services	189,796	191,172	192,389
Transfer to Local Councils	1,448		
DDR	9,065	9,065	16,513
Social Outlays	1,342	1,868	3,007
Grants to Edu. Inst.	21,094	21,188	19,000
Trans. to Rd. fund	15,986	16,853	9,847
Elections	6,586	6,586	750
Development Expenditure	195,458	133,046	112,314
Foreign Loans and Grants	171,022	108,436	81,942
Loans	108,647	64,298	55,954
Grants	62,375	44,138	25,988
Domestic	25,563	26,087	30,372
Subsidies		0	500
Lending minus repayment	(1,127)	(1,477)	(183)
CURRENT BALANCE+/-	86,886	61,296	(18,367)
ADD DEVELOPMENT EXPENDITURE	(195,458)	(133,046)	(112,314)
OVERALL DEFICIT/SURPLUS+/-	(108,572)	(71,750)	(130,998)

Source: Ministry of Finance

Table 2. (Concl'd).
Government Fiscal Operations
 (Leone Million)

	Rev. Budget 2004	2004	2003
1	2	3	4
FINANCING	108,572	71,750	130,998
Domestic	9,246	22,254	66,505
<i>Of which:</i>			
Bank Financing	(49,398)	(27,271)	22,475
Bank of Sierra Leone		(55,705)	30,961
Commercial Banks		28,434	(8,486)
Non-Bank Financing	58,644	49,525	44,030
External	156,678	122,171	56,133
<i>Of which:</i>			
Loans	190,815	150,972	93,627
Amortisation	25,093	(53,894)	(37,494)
Debt Relief	25,093	25,093	-
Others**	(57,352)	(72,675)	8,360

Source: Ministry of Finance

** Others include rescheduling/ write off, financing gap, privatisation net, change in Government deposits unaccounted amounts and lending minus repayment

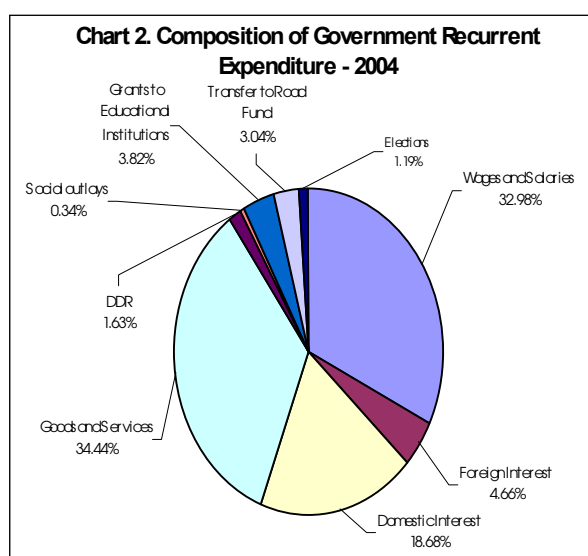
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received in 2003. Programme grants received was Le206,172mn and included receipts of Le61,405mn from the European Union, Le51,118mn UK/DFID for direct budgetary support and Le93,649mn HIPC debt relief assistance. Project grants of Le53,203mn was entirely utilised on development projects.

Total expenditure at Le688,093mn (24.11 per cent of GDP) was 6.73 per cent below its budget estimate but 15.07 per cent above the previous year's level. Total current expenditure however at Le555,047mn exceeded its budget estimate by 2.36 per cent and the current outlays in 2003 by 14.36 per cent, due to overruns in domestic expenditure. Higher than budgeted current expenditure was reflected in Wages & Salaries due to unbudgeted expenditure on allowances approved for teachers and exchange rate differentials on salaries to foreign missions. The delays in the disbursement of programme grants created pressure on government to domestically finance the budget, resulting in higher than envisaged interest payments in 2004. Wage bill of Le178,751mn was 55.99 per cent of total tax revenue, and was above the WAMZ criteria of less than 35 per cent of total tax revenue. Foreign and domestic interest payments totalling Le129,564mn was 23.34 per cent of current expenditure and constituted about 36.30 per cent of total domestic revenue collected during the review period.

Development expenditure of Le133,046mn or 19.34 per cent to total expenditure was 31.93 per cent below its budget estimate and 18.46 per cent above the previous year's development expenditure. Of the total development expenditure, Le64,298mn was financed from loans for various projects and Le44,138mn from grants. Domestically financed development expenditure was Le26,087mn and accounted for only 8.17 per cent of total tax receipts, which was less than the 20 per cent WAMZ criterion.

The Budget outturn was an overall fiscal deficit on a commitment basis (including grants) of Le71,750mn, representing 2.51 per cent of GDP and a deficit (excluding grants) of Le331,125mn or 11.60 per cent of GDP in 2004. Compared to the estimated deficit (excluding grants) of Le383,301mn or 13.42 per cent of GDP, the deficit obtained in the review period was within target. External financing of Le122,171mn, constituted Le86,673mn programme loans from the African Development Bank and the World Bank, Le64,298mn project loans, Le25,093mn debt relief and Le53,893mn



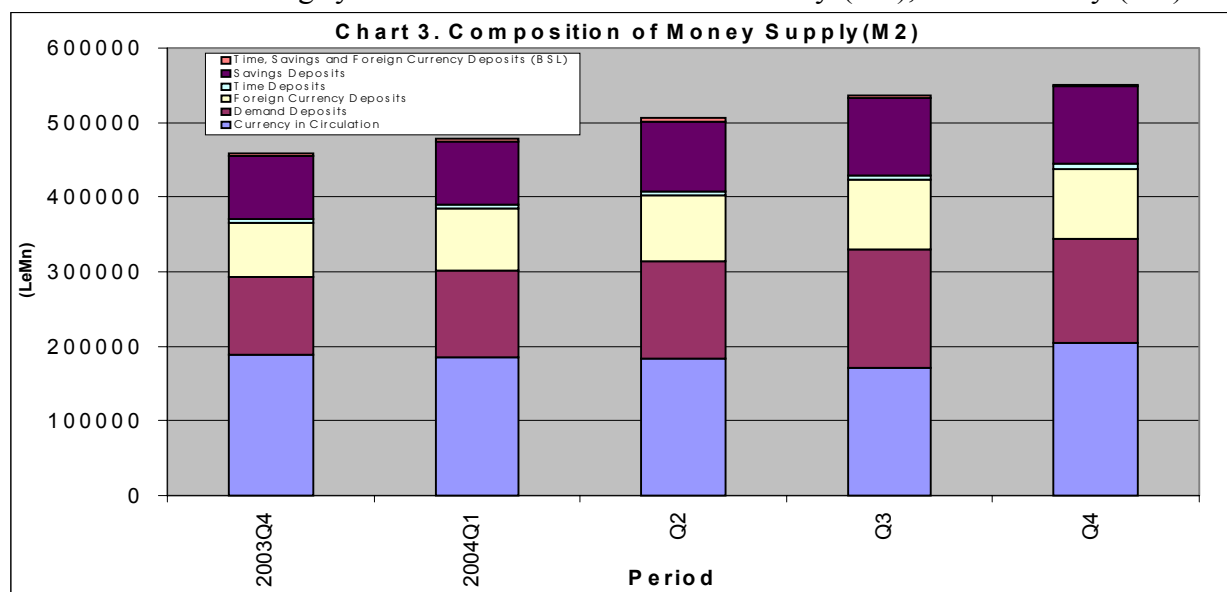
amortisation. Domestic financing of the deficit was Le22,254mn, 140.69 per cent above the budget estimate but 66.54 per cent below that in 2003. Bank of Sierra Leone's short term loans and advances to the Government was reduced to zero in quarter four of 2004, causing its contribution to domestic financing to decline by Le55,705mn over the year, while commercial banks and private sector holdings of securities increased by Le28,434mn and Le49,525mn, respectively, to provide a total domestic financing of Le22,254mn in 2004.

Monetary Developments

Monetary management during the year 2004 focused on the containment of monetary growth with a view to achieve the Bank's primary objective of price stability. Open market operations in government securities was intensified and other monetary policy measures instituted. However, external factors greatly constrained attainment of this objective. Although by the end of 2004 the government had received all of the anticipated budgetary support grants and loans yet the delays in disbursement meant that it had to resort to Central Bank financing for the first eight months of the year. The inflationary pressure from this and also the high oil prices were translated to double digit inflation throughout the year. The huge inflow of budgetary support coupled with government's expenditure cuts especially in the fourth quarter resulted in a Le47.37bn drop in Government indebtedness to the Banking System. This reduction

December 2003 and reached a high of Le93.19bn in August 2004. Government's treasury accounts at the central bank registered a credit balance of Le26.56bn at end December 2004. Increases were also recorded in the central bank's holdings of Treasury Bills (Le10.41bn) and Treasury Bearer Bonds (Le2.00bn). The rise in government's indebtedness to the commercial banks was the result of increases in their holdings of Treasury Bills (Le34.43bn) and Loans and Advances (Le1.11bn), coupled with the Le3.65bn drop in Government Deposits. This increase was however moderated by the drop of Le5.99bn in their Treasury Bearer Bonds holdings.

Monetary expansion over the review period was underlined by the huge inflow of external donor support during the year resulting in a surge in NFA. Narrow Money (M1), Broad Money (M2) and



emanated from the Le 80.56bn decrease at the Central Bank, moderated by the Le33.20bn increase in the net Commercial Banks claims on government. The inflow of World Bank and DFID funds in December completely offset Ways and Means Advances which had accumulated to Le68.11bn in

Reserve Money (RM) all expanded by Le51.57bn (17.61%), Le92.25bn (20.08%) and Le27.41bn (12.62%), respectively. The increase in M2 can be attributed to the rise in both Narrow Money (Le51.57bn) and Quasi Money (Le40.68bn). Narrow Money (M1) rose on account of the

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Table 3					
Monetary Survey					
(Million Leones)					
	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
1	2	3	4	5	6
Reserve Money	217,217	215,769	216,633	215,949	244,622
Broad Money	459,333	475,256	507,109	537,730	551,582
Broad Money*	387,602	392,904	419,194	444,383	458,027
Narrow Money	292,950	301,840	313,894	329,920	344,524
Currency in Circulation	188,448	184,882	183,245	171,879	204,733
Demand Deposits	104,502	116,958	130,649	158,041	139,791
Quasi Money	166,382	175,931	193,215	207,809	207,057
Foreign Currency Deposits	71,731	82,352	87,915	93,347	93,555
Time Deposits	5,937	5,719	6,209	5,617	5,979
Savings Deposits	84,086	84,389	93,681	103,633	104,209
Other Deposits	-	2	340	701	404
Time Savings and Foreign Currency Deposits (BSL)	4,628	3,469	5,070	4,511	2,910
Net Foreign Assets	(195,880)	(210,892)	(206,863)	(194,451)	(103,914)
Bank of Sierra Leone	-274,719	-299,802	-296,136	-287,178	-203,969
Assets	168,696	185,383	183,846	190,163	364,925
Liabilities	(443,415)	(485,185)	(479,982)	477,341	568,894
Commercial Banks	78,839	88,910	89,273	92,727	100,055
Assets	78,839	88,910	89,273	92,727	100,055
Liabilities	-	-	-	-	-
Domestic Credit	349,926	380,095	399,147	424,297	345,600
Claims on Central Government Net	238,218	262,181	274,745	285,552	190,851
<i>of which: BSL</i>	139,585	147,388	148,320	127,634	59,023
Total Claims	150,939	156,864	158,520	138,629	95,232
Deposits	11,354	9,476	10,200	10,995	36,209
Commercial Banks	98,633	114,793	126,425	157,918	131,828
Total Claims	121,829	139,341	148,241	182,429	151,975
Deposits	23,196	24,548	21,816	24,511	19,547
Claims on Non Financial Public Sector	3,661	3,819	3,221	4,031	3,453
Claims on Private Sector	93,317	105,338	112,714	123,409	135,486
<i>of which</i>					
Commercial Banks' claims on Private Sector	91,406	99,666	107,842	119,545	133,362
Claims on Non-Banks Financial Inst.	14,730	8,757	8,467	11,305	15,810
Other Items Net	(305,287)	(306,053)	(314,825)	(307,884)	(309,896)

Source: Bank of Sierra Leone

Note: Other Items Net includes Non-Negotiable, Non-Interest Bearing Stock

* Excludes Foreign Currency Deposits at the Commercial Banks

expansion in Demand Deposits (Le35.29bn) and Currency in Circulation (Le16.29bn), whilst Quasi Money increased as a result of the rise in Commercial Banks' Foreign Currency Deposits (Le21.82bn), Savings Deposits (Le20.12bn) and Time Deposits (Le42mn) which together exceeded the reduction of Le1.72bn in Time, Savings and Foreign Currency Deposits at the BSL. The expansion in Reserve Money, on the other hand, was due to the respective increases in Currency Issued (Le21.84bn), Bankers' Deposits (Le3.28bn) and Private Sector Deposits (Le2.29bn).

	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
1	2	3	4	5	6
Treasury Bills (3-months)	20.20	26.53	24.85	27.20	27.31
Treasury Bearer Bonds (1-year)	17.00	25.00	25.00	24.50	22.00
Savings Deposits	6.37	7.83	7.83	7.83	8.14
Time Deposits					
1-3 Months	8.42	9.17	10.69	10.61	10.71
3-6 Months	9.67	10.43	11.60	11.58	11.64
6-9 Months	9.50	10.63	12.63	12.63	12.70
9-12 Months	11.50	12.40	13.30	13.30	13.42

Source: Bank of Sierra Leone

The improvement of Le91.97bn (46.95%) in the Banking System's Net Foreign Assets position to minus Le103.91bn was on account of the increase in Foreign Assets (Le217.45bn) exceeding that in Foreign Liabilities (Le125.48bn). The increase in Foreign Assets was mainly due to the disbursement of donor funds from the European Union, World Bank and DFID for budgetary support and from IMF for Balance of Payments support, whereas that of Foreign Liabilities was mainly on account of disbursement under the PRGF arrangement with the Fund.

The year 2004 recorded an expansion of Le41.96bn (45.91%) in commercial banks' credit to the private sector to Le133.36bn. These credits were directed mainly at the Commerce and Finance, Manufacturing, Construction and Services sectors signifying a rejuvenation of overall economic activities.

The review period also witnessed an increase in the commercial banks' average interest rates. Savings Deposits increased by 264 basis points to 8.14 per cent. 1 month, 3 months, 6 months, 9 months and 12 months Time Deposits increased by 130, 229, 197, 320 and 192 basis points to 8.80 per cent, 10.71 per cent, 11.64 per cent, 12.70 per cent and 13.42 per cent, respectively. The Lending rate also

increased to 23 -31 per cent at the end of the review period from 20-30 per cent in December 2003. The average annual yield on Treasury Bills rose by 711 basis points to 27.31 per cent, whereas the average interest rate on Treasury Bearer Bonds also went up by 500 basis points to 22.00 per cent.

Inflation

In 2004 the price levels of goods in the major regions of the country as measured by their Consumer Price Indices (CPI) maintained the increasing trend which was observed in 2003.

In Freetown the annual average CPI for 2004 was 619.33 compared to 542.43 in 2003 indicating 14.18 per cent increase in prices. The year-on-year rate of inflation decreased steadily for the first three months from 15.31 per cent to 11.18 per cent and then rose steadily in the second quarter (April to June). It dropped in July to 13.97 per cent and rose again to 15.01 per cent in August and fluctuated for the rest of the period, ending with 14.39 per cent in December 2004. Overall, the year 2004 maintained double digit inflation rate which exceeded the WAMZ criterion of a single digit inflation rate.

In Bo, the year-on-year rate of inflation dropped steadily for the first five months of the year and fluctuated for the rest of the period. The highest

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Table 5								
Inflation Rates (Freetown) - 2004					Inflation Rates (Freetown) - 2003			
	Consumer Price Index	Monthly (%)	Year-on-Year (%)	Moving Average (%)	Consumer Price Index	Monthly (%)	Year-on-Year (%)	Moving Average (%)
1	2	3	4	6	7	8	9	10
January	592.47	4.46	15.31	8.87	513.83	0.82	-0.13	-3.76
February	600.17	1.3	15.11	9.91	521.72	1.54	2.81	-3.49
March	588.92	-1.87	11.18	10.3	529.72	1.60	6.42	-2.68
April	593.97	0.86	12.70	10.82	527.06	-0.50	6.47	-1.87
May	606.14	2.05	14.47	11.51	529.52	0.47	6.14	-1.07
June	620.89	2.43	14.62	12.19	541.67	2.30	6.54	-0.29
July	621.99	0.18	13.97	12.93	546.02	0.80	5.25	0.3
August	626.30	0.69	15.01	13.51	544.54	-0.27	7.96	1.68
September	631.55	0.84	14.59	13.78	551.11	1.21	11.25	3.28
October	642.51	1.74	14.85	14.01	559.42	1.51	12.13	4.75
November	656.32	2.15	14.67	13.99	572.35	2.31	14.92	6.32
December	648.77	-1.15	14.39	14.24	567.15	-0.19	11.29	7.56

Source: Statistics Sierra Leone

rate was 15.82 per cent recorded in November. The annual average CPI was 130.52 in 2004 and 117.08 in 2003 indicating an increase of 11.48 per cent in the prices of commodities, mainly, food, and transportation.

For Kenema, the year-on-year rate of inflation dropped from 24.30 per cent in January to 14.57 per cent in April. Thereafter it increased in May to 19.32 per cent and fluctuated throughout the rest of the year. The month of January 2004 recorded the

Table 5-contd Inflation Rates (Bo, Kenema and Makeni) - 2004									
	Bo			Kenema			Makeni		
	Consumer Price Index	Percentage Change (Monthly)	Percentage Change (Year-on-Year)	Consumer Price Index	Percentage Change (Monthly)	Percentage Change (Year-on-Year)	Consumer Price Index	Percentage Change (Monthly)	Percentage Change (Year-on-Year)
1	2	3	4	5	6	7	8	9	10
January	128.35	7.69	15.19	134.66	5.41	24.30	118.88	8.42	21.91
February	128.32	-0.03	14.08	135.55	0.66	16.35	122.50	3.05	23.62
March	125.31	-2.35	9.46	135.75	0.15	16.52	120.67	-1.49	22.12
April	124.77	-0.43	9.24	136.09	0.25	14.57	116.29	-3.63	16.70
May	125.64	0.70	8.53	137.01	0.67	19.32	122.36	5.21	15.43
June	128.58	2.34	9.05	140.41	2.48	15.40	120.58	-1.45	12.73
July	131.46	2.24	8.93	142.56	1.53	15.71	120.87	0.28	12.01
10.14August	134.51	2.32	13.01	141.68	0.62	13.41	124.69	3.17	10.14
September	133.16	-1.00	7.55	143.76	1.47	13.75	123.75	-1.93	12.21
October	135.95	2.10	14.67	144.63	0.60	13.45	123.92	0.51	18.95
November	136.025	0.05	15.82	145.52	0.61	15.53	123.15	0.63	15.97
December	134.22	-1.33	12.61	143.02	-1.72	11.96	123.55	0.33	12.75

Source: Statistics Sierra Leone

highest rate of 24.30 per cent. The annual average CPI was 140.05 as against 121.14 recorded in 2003, an increase of 15.61.

Similarly, the year-on-year rate of inflation for Makeni dropped steadily from 23.62 per cent in February to 10.14 per cent in August and fluctuated for the rest of the period to reach 12.75% per cent in December. Annual average CPI for 2004 was 121.77 compared to 105.07 in 2003 indicating a 15.89 per cent increase in the prices of goods.

The general increase in prices was largely due to increases in the price of fuel and other imported commodities as a result of upward movements in world market prices, deterioration in the exchange rate and expansion in monetary aggregates. Another factor that influenced inflation was the significant increase in the price of palm oil during the first quarter. The commodity was in short supply as it was smuggled across the borders.

International Trade

Following the increase in business activity in the economy, Sierra Leone's total merchandise trade (i.e exports plus imports) amounted to US\$426.16mn representing an expansion of US\$65.01mn relative to 2003. The merchandise trade deficit, however, narrowed to US\$146.77mn in the review period from US\$246.22mn in the previous year, reflecting the combination of an expansion in exports receipts by US\$82.23mn and a decline in imports bills by US\$17.22mn.

Export earnings grew by US\$82.23mn (143.1%) to US\$139.69mn in 2004 from US\$57.46mn in 2003. The improvement was mainly due to the strong performance in mineral and agricultural export sub-sectors, which together offset the decreases in receipt from "others export" and re-exports categories. Receipts from diamond exports increased by about threefold to US\$126.33mn. The value

comprised 383.8 thousand carats of gem diamonds valued at US\$113.77mn and 308.0 thousand carats of industrial diamonds valued at US\$12.56mn. The volume of diamond exports increased by 340.0 thousand carats (96.7%) to approximately 691.7 thousand carats in 2004. The expansion in export volumes reflected the resumption of kimberlite operations by the Koidu Holdings, which accounted for 16.4 percent of the total diamond exports for 2004, and the increase in diamond mining activities in other parts of the country.

Earnings from agricultural commodities at US\$5.34mn was remarkable when compared to US\$2.64mn in 2003. The increase was on account of a rise in proceeds from export of cocoa, which more than doubled the earnings in the previous year to US\$5.26mn. The volume of cocoa exported in the year, increased from 1,177.6 metric tons in 2003 to 6,187.5 metric tons in 2004. The substantial improvement in receipts from cocoa export was driven by a rise in the quantity, improved quality and the favourable international price of the commodity. Though the volume of coffee exported dropped by 87.5 percent to 118 metric tons in 2004, the earnings from coffee exports increased by 31.67 per cent to US\$52.8 thousand when compared to US\$40.1

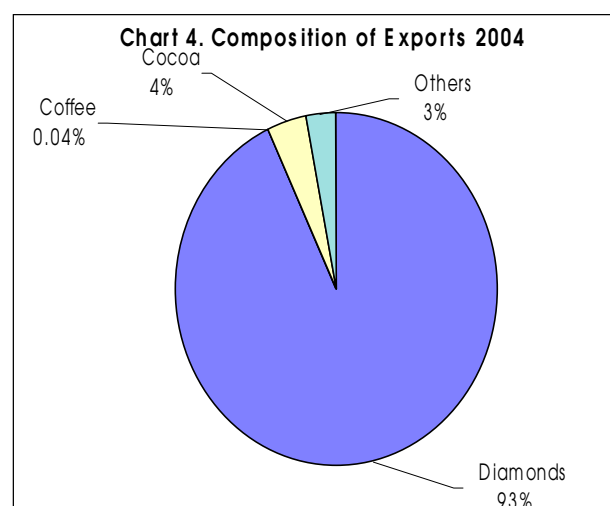
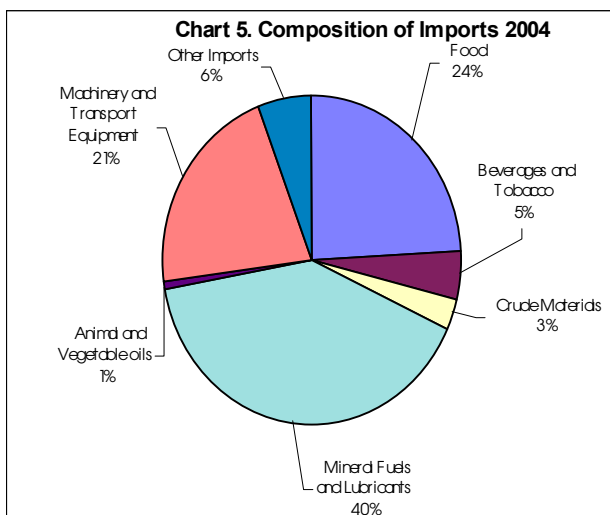


Table 6
-International Trade and Reserves
(Thousand US Dollars)

	Jan-Dec'03	Jan-Jun '04	Jul-Dec '04	Jan-Dec'04
1	2	3	4	5
Merchandise Imports	303,685.7	140,458.7	146,005.3	286,464.0
<i>of which:</i>				
Food <i>of which</i>	74,510.8	32,779.6	24,278.9	57,058.5
Rice	28,586.9	18,498.1	9,868.5	28,366.7
Beverages and Tobacco	11,049.4	4,763.1	6,359.4	11,122.5
Crude Materials	6,880.4	3,286.6	4,291.7	7,578.3
Mineral Fuels and Lubricants <i>of Which</i>	78,211.2	49,726.6	45,138.8	94,865.4
Fuel	59,987.3	32,880.9	35,484.7	68,365.6
Animal and Vegetable Oils	2,221.4	1,260.9	705.9	1,966.8
Chemicals	19,266.3	8,095.9	9,438.1	17,534.0
Manufactured Goods	42,185.7	13,689.8	18,154.1	31,843.9
Machinery and Transport Equipment	56,396.2	20,188.3	30,672.9	50,861.2
Other Imports	12,964.3	6,667.9	6,965.5	13,633.4
Merchandise Exports	92,395.4	75,211.6	64,483.3	139,694.9
<i>of which</i>				
Mineral Exports	76,665.9	68,332.6	57,997.4	126,330.0
Diamonds	76,665.9	68,332.6	57,997.4	126,330.0
Agricultural Exports	2,638.3	1,423.8	3,914.6	5,338.4
Coffee	40.1	-	52.8	52.8
Cocoa	2,572.8	1,402.5	3,856.9	5,259.4
Piassava	2.8	0.9	1.2	2.1
Fish and Shrimps	22.6	20.4	3.7	24.1
Others	4,650.0	2,680.4	1,375.8	4,056.2
Re-exports	8,441.2	2,774.8	1,195.5	3,970.3
Trade Balance	(211,290)	(65,247)	(81,522)	(146,769.1)
Foreign Reserves (\$mn)	66.45	63.67	122.08*	122.08*

Source: Customs and Excise Dept

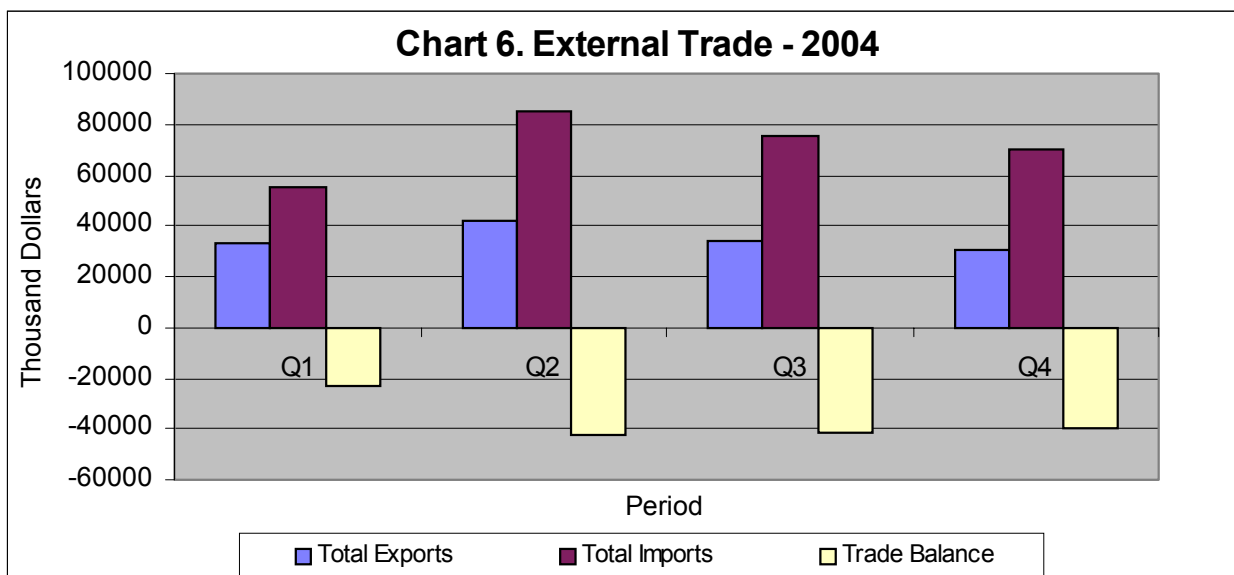
* Provisional



for 4.5 percent. On an individual basis, Belgium, United Kingdom and United States of America are Sierra Leone’s main export markets.

Total value of imports in the review year at US\$286.46mn was 17.2 per cent lower than US\$303.69 recorded in 2003. Strong decreases were noted in import values of consumer goods, intermediary goods, manufactured goods and “machinery and transport equipment”, which together outpaced the increase in the import bill for “mineral fuel and lubricants”. The increase in the bill for petroleum product was on account of a 14.0 per cent rise in the import bill for fuel from US\$59.99mn to US\$68.37mn, accounting for about 72 per cent of the total import bill for petroleum products. The increased fuel import bill was partly due to the hike in the price of petroleum products associated with the intensification of political uncertainties in the Middle East and increase in world demand. There was also an increase in the volume imported. During the year, the price of crude oil rose to US\$53.28 per barrel. Increases were also registered in the volume of fuel import from 169,278.9 metric tons in 2003 to 180,014.8 in the review year. The bill for consumer goods, which accounted for 4.5 per cent

thousand recorded in 2003. This increase was due to the relatively higher world market price of coffee in 2004 compared to prices in 2003. There were no significant contributions from piassava and “fish and shrimps” exports. The value of “other exports” at US\$4.06mn reflected a decline of 12.8 per cent over the year while re-exports dropped by 53.0 per cent to US\$3.97mn from US\$8.44mn in 2003. With respect to the destination of exports, Sierra Leone’s exports to Europe accounts for 86.8 percent of the total and exports to ECOWAS countries accounting



of total imports decreased to US\$70.15mn when compared to US\$87.78mn in 2003. The decrease was due to a 23.4 per cent and 11.5 per cent fall in the payments for food and “animal and vegetable oils” respectively, which together offset the marginal increase in the value for “beverages and tobacco”. Payment for imported rice dropped slightly by 0.8 per cent, a fall which could be attributed to governments food security drive that has stimulated domestic rice production, resulting in a 15.3 percent reduction in the volume of rice imported in the review period from 146,422.4 metric tons in 2003 to 124,039.0 metric tons in 2004. The bill for intermediate goods dropped to US\$25.11 mn, about 4.0 per cent lower than the level recorded in 2003. This was on account of a 9.0 per cent drop in payments for chemicals, which was enough to offset the 10.14 per cent increase in the bill for crude materials. Payments for manufactured goods declined by 17.5 percent to US\$45.48mn during the year, while the import bill for “machinery and transport” equipment decreased by 9.8 percent to US\$50.86mn, from US\$56.40mn in 2003.

2 Supervision Of Banks and Other Financial Institutions

(i) Banking Sector Performance

The banking system sustained a steady growth over the review period. The resource base recorded an increase of Le92.88 billion (23.8%) to Le482.80 billion (2004) from Le389.92 billion (2003).

The increase in resource base was funded mainly from deposits, which went up by Le71.91 billion (25.74%) to Le351.27 billion (2004) from Le279.36 billion (2003). Foreign currency deposits increased to Le100.61 billion in 2004 (up Le21.90 billion 27.82%) from Le78.71 billion (2003). Demand and savings deposits rose by Le29.46 billion (27.43%) to Le136.87 billion (2004) from Le107.41 billion (2003) and by Le20.90 billion (24.02%) to

Le107.90 billion (2004) from Le87.00 billion (2003) respectively. Time deposits however dropped during the period by Le0.36 billion (5.76%) from Le6.25 billion (2003) to Le5.89 billion.

Shareholders’ fund registered an increase of Le23.67 billion (30.18%) to Le102.09 billion (2004) from Le78.42 billion (2003). This increase was due to increases in retained earnings (up Le6.95 billion (24.17%)) current profit (up Le10.07 billion (49.77%)) and paid up and other amount allowed as capital (up Le5.89 billion (50.26%)).

The capital adequacy test revealed that the banks met the minimum requirement of 15 percent with surpluses. Nonetheless, the surpluses decreased so that the capital adequacy ratio for the banking system dropped to 38.13% (2004) from 39.79% (2003). This was because the increase in capital base by Le22.02 billion (27.88%) was lower than the Le66.40 billion (33.45%) increase in risk weighted assets. All asset components recorded increases.

Gross advances increased by Le4.14 billion (39.87%) to Le145.25 billion (2004) from Le103.85 billion (2003). Import trade, construction, manufacturing and services accounted for 28.59%, 19.97%, 15.85% and 11.91% respectively of total advances. The least amount went to mining and quarrying (0.23%) while agriculture, forestry and fishing received 1.93%. The ratio of non performing loans to total advances increased to 16.52% (2004) from 9.94% (2003) but the ratio of loan loss provision to non performing loans dropped to 43.10% (2004) from 56.98% (2003).

Because of the expansion in banking activities during the year, pre-tax profits increased by Le7.79 billion (19.84%) to Le47.06 billion (2004) from Le39.27 billion (2003). The increase in pre-tax profit notwithstanding, the return on assets dropped to 9.90% from 10.57%. This was because the increase

Table 7
Commercial Banks Operating in Sierra Leone
Prudential Indicators (Unaudited)
(In Thousand Leones)

	31-Dec-04	31-Dec-03	31-Dec-02
1	2	3	4
Total Assets	482,801,209	389,923,007	345,812,089
Average Total Assets	475,492,531	367,876,690	293,340,338
Loans and Advances (Gross)	145,248,849	103,847,889	58,644,559
Bad Debt Provision	(10,341,894)	(5,879,246)	(5,598,532)
Interest in Suspense	(7,312,261)	(3,976,155)	(5,366,997)
Loans and Advances (Net)	127,594,694	93,992,488	47,679,030
Investment - TB, TBB	150,670,773	121,780,761	130,266,205
Fixed Assets	42,814,146	41,133,790	38,755,227
Deposits	351,270,191	279,364,525	236,485,231
Demand	136,870,799	107,406,130	102,899,112
Savings	107,898,034	86,996,893	67,674,297
Time	5,890,846	6,247,208	3,749,523
Foreign Deposits	100,610,512	78,714,294	62,162,299
Share Holders' Funds	102,085,712	78,422,094	70,516,954
Paid-up Capital	16,395,092	11,723,732	11,274,746
Statutory and Other Reserves	9,244,233	8,475,948	8,231,882
Revaluation Reserves	9,253,009	9,253,009	9,253,009
Other amounts allowed as capital	1,207,465	-	-
Retained Earnings	35,676,709	28,732,880	26,258,499
Current Profit	30,309,204	20,236,525	15,498,818
Capital Base	101,003,809	78,980,694	70,873,118
Primary Capital	61,316,034	48,932,560	45,765,128
Secondary Capital	40,470,080	30,373,134	26,340,431
Total Risk Weighted Assets	264,892,227	198,494,067	152,840,175
Capital Adequacy Ratio	38.13	39.79	48.35
Surplus(Shortfall):(%)	23.13	24.79	33.35
Surplus(Shortfall):Le	61,269,572	49,206,679	57,498,295
Average Shareholders' Fund	92,056,617	77,336,829	58,840,510

Source: Bank of Sierra Leone

TB- Treasury Bills
TBB- Treasury Bearer Bonds

Table 7 (Contd.)			
Commercial Banks Operating in Sierra Leone			
Prudential Indicators (Unaudited)			
	31-Dec-04	31-Dec-03	31-Dec-02
1	2	3	4
Asset Quality			
Performing Loans	121,255,870	93,529,947	48,610,769
Non-Performing Loans	23,992,979	10,317,942	10,033,790
Loan Loss Provisions	10,341,894	5,879,246	5,598,532
Non-Performing: as a % of Gross Advances	16.52%	9.94%	17.11%
Loans Loss Provisions as a % of Non -Performing	43.10%	56.98%	55.80%
Profitability			
Pre-Tax Profits	47,061,276	39,269,518	30,594,419
Post Tax Profits	30,309,204	25,525,186	15,498,817
Return on Assets	9.90%	10.67%	10.43%
Return on Equity Funds	32.92%	33.01%	33.25%
Liquidity			
Liquid Assets	173,548,062	137,925,097	148,149,858
Cash	16,692,165	11,140,125	10,578,764
Current A/C with BSL	11,306,843	8,959,281	11,117,394
Treasury Bills	141,916,918	107,592,430	115,165,184
Placement with FDHL*	7,803,621	5,650,061	7,750,016
Treasury Bearer Bonds	7,971,550	4,583,200	5,972,750
Cash Ratio	14.32%	12.83%	52.56% ^R
Overall Liquidity Ratio	71.39%	68.74%	86.38%
Surplus/(Shortfall) (%)	40.49%	38.03%	54.57%
Surplus/(Shortfall) (Le)	101,263,669	76,307,283	95,128,024
Foreign Assets			
	100,055,411	78,838,680	58,382,503
Foreign Currency (Cash)	10,685,020	5,240,333	1,359,493
Balance with Other Banks Abroad	89,370,391	73,598,347	57,023,010
Foreign Liabilities			
	101,711,515	79,334,357	64,589,673
Foreign Deposits	100,610,512	78,714,294	62,562,561
Foreign Other Liabilities	1,101,003	620,063	2,027,112
Net Foreign Deposits			
Assets/(Liabilities)	(1,656,104)	(495,677)	(6,207,170)

Source: Bank of Sierra Leone

* FDHL - First Discount House Limited

in average total assets of Le107.61 billion (29.25%) was more than the increase in pre-tax profit. The return on equity also decreased to 32.92% from 33.01% because the increase in shareholders' funds of Le14.72 billion (19.03%) was greater than the increase in post-tax profit of Le4.78 billion (18.72%).

Cash ratio increased slightly by 1.49% to 14.32% (2004) from 12.83% (2003) due to increases in deposits with Bank of Sierra Leone (up Le2.26 billion) and placement with First Discount House (up Le2.15 billion). These increases combined with the increases in treasury bills and treasury bearer bonds (up Le32.95 billion) resulted in the overall liquidity ratio of 69.43% as at 31st December 2004. The statutory minimum cash ratio was increased from 10 to 12 percent in December 2004. The statutory

overall liquidity ratio as at end December was 40 percent of total local Demand Deposits and 20 percent of Quasi Money.

(ii) Licensing of Financial Institutions

The Bank of Sierra Leone granted a licence to the International Commercial Bank, (which was given an approval in principle in 2003) to operate banking business in Sierra Leone on the 23rd August 2004. The bank was officially opened on November 2, 2004.

The licenses of First International Bank and Guaranty Trust Bank Limited were renewed for one year each, while that of Union Trust Bank was renewed for three (3) years.

Bank	No. of Branches 2002	No. of Branches 2003	No. of Branches 2004	Freetown	Bo	Moyamba	Kenema	Lungi	Makeni	Kono
Sierra Leone Commercial bank	5	7	7	3	1	-	1	-	1	1
Rokel Commercial Bank	5	7	8	4	1	1	1	-	-	1
Standard Chartered Bank	3	3	3	2	1	-	-	-	-	-
Union Trust Bank	3	3	3	1	1	-	1	-	-	-
Guaranty Trust Bank	2	3	2	2	-	-	-	-	-	-
First International Bank	1	3	3	2	-	-	-	1	-	1
International Commercial Bank	-	-	1	1	-	-	-	-	-	-
TOTAL	19	22	27	15	4	1	3	1	1	2

Bank	Location	District	Province
Marampa-Masimera Community Bank	Siaka Stevens Street, Lunsar	Port Loko	North
Yoni Community Bank	Freetown Road, Mile 91	Tonkolili	North
Segbwema Community Bank	No. 5 Sefadu Road, Segbwema	Kailahun	East
Matru Community Bank	No. 2 Bo Road Matru Jong	Bonthe	South

Source: Bank of Sierra Leone

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Table 9
Licensed Foreign Exchange Bureaux and their Branches in Sierra Leone

No.	Bureau	Freetown	Bo	Kenema	Makeni	Lungi
1	Kakua Foreign Exchange Bureau Ltd.	2	1	-	-	-
2	Ama Express Foreign Exchange Bureau Limited	-	1	-	-	-
3	Frandia Foreign Exchange Bureau Ltd.	1	-	-	-	-
4	Jalloh & Barrie Foreign Exchange Bureau Ltd.	1	-	-	-	-
5	IAS Foreign Exchange Bureau Limited	1	-	-	-	-
6	Continental Foreign Exchange Bureau Ltd.	1	-	-	-	-
7	KTI Foreign Exchange Bureau Ltd.	1	-	-	-	-
8	Afro Foreign Exchange Bureau Ltd.	1	1	1	-	-
9	Sanda Foreign Exchange Bureau Ltd.	1	-	-	-	-
10	Chartered Trust Foreign Exchange Bureau Ltd.	1	-	-	-	-
11	Navos International Foreign Exchange Bureau Limited	1	-	-	-	-
12	TAP Foreign Exchange Bureau Ltd.	-	-	-	1	1
13	Blue Circle Foreign Exchange Bureau Ltd.	1	-	-	-	-
14	Monorma Foreign Exchange Bureau Ltd.	1	-	-	-	-
15	Best Foreign Exchange Bureau Ltd	1	-	-	-	-
16	Siera Foreign Exchange Bureau Ltd.	1	-	-	-	-
17	Manans Foreign Exchange Bureau Ltd.	1	1	1	-	-
18	I.B.C. Foreign Exchange Bureau Ltd.	1	-	-	-	-
19	First Foreign Exchange Bureau Ltd.	1	-	-	-	-
20	Kallah Foreign Exchange Bureau Ltd.	1	-	-	-	-
21	Dynamic Foreign Exchange Bureau Ltd.	1	-	-	-	-
22	Mano Foreign Exchange Bureau Ltd.	1	-	-	-	-
23	Massie Foreign Exchange Bureau Ltd.	1	-	-	-	-
24	MIK Foreign Exchange Bureau Ltd.	1	-	-	-	-
25	Ayoub Foreign Exchange Bureau Limited	1	-	-	-	-
26	Paramount Foreign Exchange Bureau Ltd	1	-	-	-	-
27	Kay Pee Foreign Exchange Bureau Ltd.	1	-	-	-	-
28	Maranda Foreign Exchange Bureau Ltd.	1	-	-	-	-
29	Nimo Foreign Exchange Bureau Ltd.	1	-	-	-	-
30	Yours Foreign Exchange Bureau Limited	1	-	-	-	-
31	Fulladu Foreign Exchange Bureau Ltd.	2	-	-	-	-
32	Katabai Foreign Exchange Bureau Limited	1	-	-	-	-
33	Denarius Foreign Exchange Bureau Limited	1	-	-	-	-
34	City Centre Foreign Exchange Bureau	1	-	-	1	-
35	West Africa Foreign Exchange Bureau Limited	1	-	-	-	-
36	GMK Foreign Exchange Bureau Ltd.	2	-	-	-	-
37	Aiemahs Foreign Exchange Bureau Limited	1	-	-	-	-
38	Paradise Foreign Exchange Bureau Ltd.	1	-	-	-	-
39	Jones Sons & Associates Foreign Exchange Bureau Ltd.	1	-	-	-	-
40	Timbo Foreign Exchange Bureau Limited	1	-	-	-	-
41	Sara Foreign Exchange Bureau Limited	1	-	-	-	-
42	Horizon Foreign Exchange Bureau Limited	1	-	-	-	-
43	West Club Foreign Exchange Bureau Limited	1	-	-	-	-
44	Western Foreign Exchange Bureau Limited	1	-	-	-	-
45	Mystic Foreign Exchange Bureau Limited	1	-	-	-	-
	Total no of Bureaux and Branches	46	4	2	2	1

Source: Bank of Sierra Leone

The increased demand for banking services outside the capital Freetown, led the Bank of Sierra Leone to grant permission to the Sierra Leone Commercial Bank to open branches at No. 2 Station Road, Makeni and Post Office Road, Koidu, Kono; the First International Bank to open a branch at Lungi International Airport, and the Rokel Commercial Bank to open a branch at Siaka Stevens Street, Moyamba. The Sierra Leone Commercial Bank was granted permission to temporarily relocate its branch in Kenema from No. 2 Hangha Road to No. 21 Hangha Road until construction of its business premises in the latter address is completed.

Licences were also granted to the Mattru Community Bank at No. 2 Bo Road, Mattru Jong and Segbwema Community Bank at No. 5 Sefadu Road, Segbwema on 16th July and 28th July 2004, respectively, to undertake banking business (under the Banking Act 2000) for a period of one-year each.

Capital Finance and Investment Company operating as Capital Discount House Limited was granted approval to carry on discount house business under the Other Financial Services Act 2001 on 17th November 2004, for a period of one year.

Licenses were granted to seven new foreign exchange bureaux; Timbo West, Sara, Mano, Horizon, West Afro, Western Club and Mystic to carry out buying and selling of foreign currency under the Other Financial Services Act 2001 for a period of one year each. Creative Foreign Exchange Bureau Limited ceased operations during the review period and Sanda Foreign exchange bureau closed down its branch at No. 1 Dawson Lane Freetown. Kakua, Manans and Tap Foreign Exchange bureaux were given permission to open branches in Bo, Kenema and Makeni respectively. The licenses of the existing Foreign Exchange bureaux were each renewed for a period of one year.

The total number of bureaux operating as at 31st December 2004 increased to forty-five from thirty nine as at end December 2003.

(iii) Legislation

The Bill entitled “THE ANTI-MONEY LAUNDERING ACT 2004” was introduced in Parliament, in May 2004. In December 2004, Parliament passed the Anti-Money Laundering Act and it awaits presidential assent. The Anti-Money Laundering Act encapsulates the forty recommendations of the Financial Action Task Force on Money Laundering. The Anti-Money Laundering Act includes obligations for the implementation of “know-your-customer” procedures and reporting on suspicious transactions. The Act also includes provisions for freezing, seizure and confiscation of proceeds of crime and mutual assistance and international cooperation in combating money laundering. General oversight for implementation of the Act is vested on the Governor of the Bank of Sierra Leone and a Financial Intelligence Unit will be established in Bank of Sierra Leone to analyse reports on financial transactions.

3. Monetary Operations

The objective of Monetary Policy during the year 2004 was to continue to hold inflation in check, consistent with a program target of 10%, through careful management of the growth of net domestic assets of the Bank of Sierra Leone. This challenge required active monetary operations on the part of the Bank to mop-up the excess liquidity generated by the increase in bank borrowing to finance government’s budget deficit owing to technical delays in the disbursement of external budgetary support and project grants.

The liquidity situation engendered by this phenomenon contributed to an increase in demand for government securities during the year especially

by the non-bank public. Access to Secondary Market in Treasury Bills by all commercial banks was liberalized in August as part of the reform measures implemented for active monetary operations.

During the year, a total of 90,359.95 million in outstanding Ways and Means Advances was converted into tradable Government Securities for Monetary Operations. Of this, a total of Le72,914.25 million or 80.69% was issued in the form of Treasury Bills while the remaining Le17,445.70 million or 19.31% were issued in the form of Treasury Bearer Bonds.

At the end of the period, commercial banks' holdings accounted for 35.91% of Government Securities while the non-bank public accounted for 42.24% of the total outstanding Government Securities of Le435,934.80 million. The overall performance of the Monetary Programme during the year 2004 was mixed as annual inflation rate measured by the CPI

for Freetown rose from 11.29% in December 2003 to peak at 15.31% in January before gradually declining to its lowest level of 11.18 in March. It thereafter steadily increased to 15.01% in August and it ended the year at 14.39%. Underlying this development was the trend in monetary expansion, which continued throughout the period even though Reserve Money targets were met.

Except for minor fluctuations in June and September, yield on Treasury Bills steadily increased from an average of 20.2% in December 2003 to a peak of 27.97% in November 2004, while interest rate on Treasury Bearer Bonds rose from 17.0%, to peak at 25.0% in March. It held steady at that level till August before it declined gradually to 22.0% in December 2004.

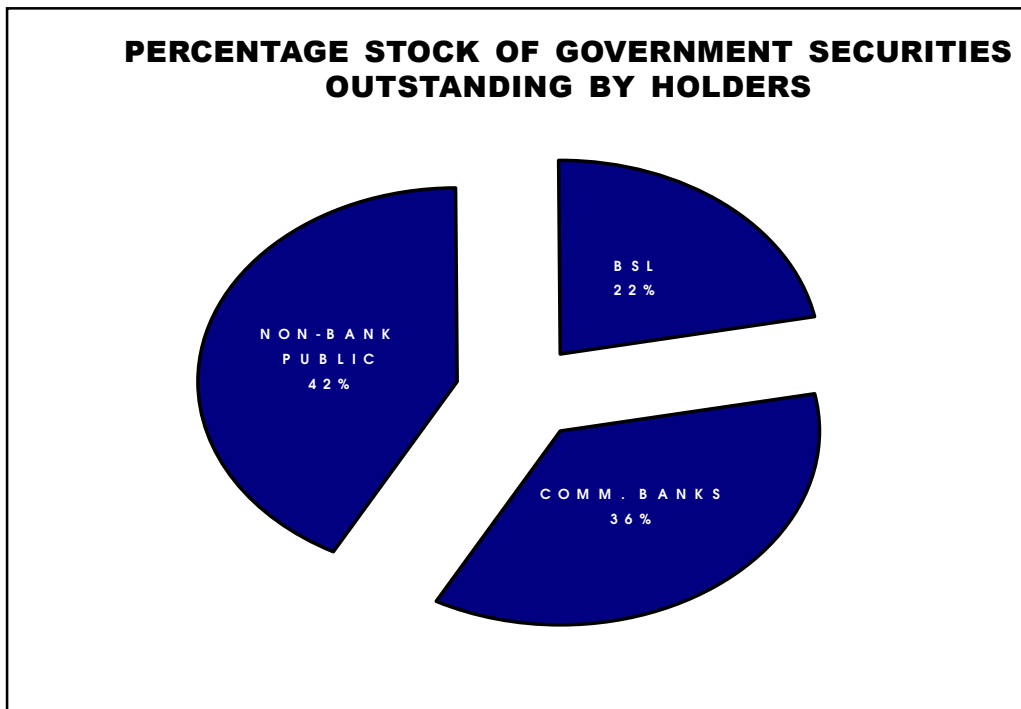
4. Payment Systems

To the extent that an efficient payments system remains critical to the development of the financial system as well as facilitates the smooth operation of

Table 10
Stock of Government Securities Outstanding by Holders
(In Million Leones)

	2004	2003	Change
1	2	3	4
1 Treasury Bills	304,447.05	231,532.80	72,914.25
Bank of Sierra Leone	76,015.00	65,609.95	10,405.05
Commercial Banks	145,689.95	113,414.50	32,275.45
Non-Bank Public	82,742.10	52,508.35	30,233.75
2. Treasury Bearer Bonds	131,487.75	114,042.05	17,445.70
Bank of Sierra Leone	19,217.25	17,219.35	1,997.90
Commercial Banks	10,847.90	14,545.45	(3,697.55)
Non-Bank Public	101,422.60	82,277.25	19,145.35
3. Total Government Securities	435,934.80	345,574.85	90,359.95
Bank of Sierra Leone	95,232.25	82,829.30	12,402.95
Commercial Banks	156,537.85	127,959.95	28,577.90
Non-Bank Public	184,164.70	134,785.60	49,379.10

Source: Bank of Sierra Leone



markets and support sustainable economic growth, the Bank remains committed to implementing reform measures geared towards its modernization.

During the review period, the National Payments Committee reviewed and produced the final draft of the Clearing House Rules to guide the activities of the Clearing System.

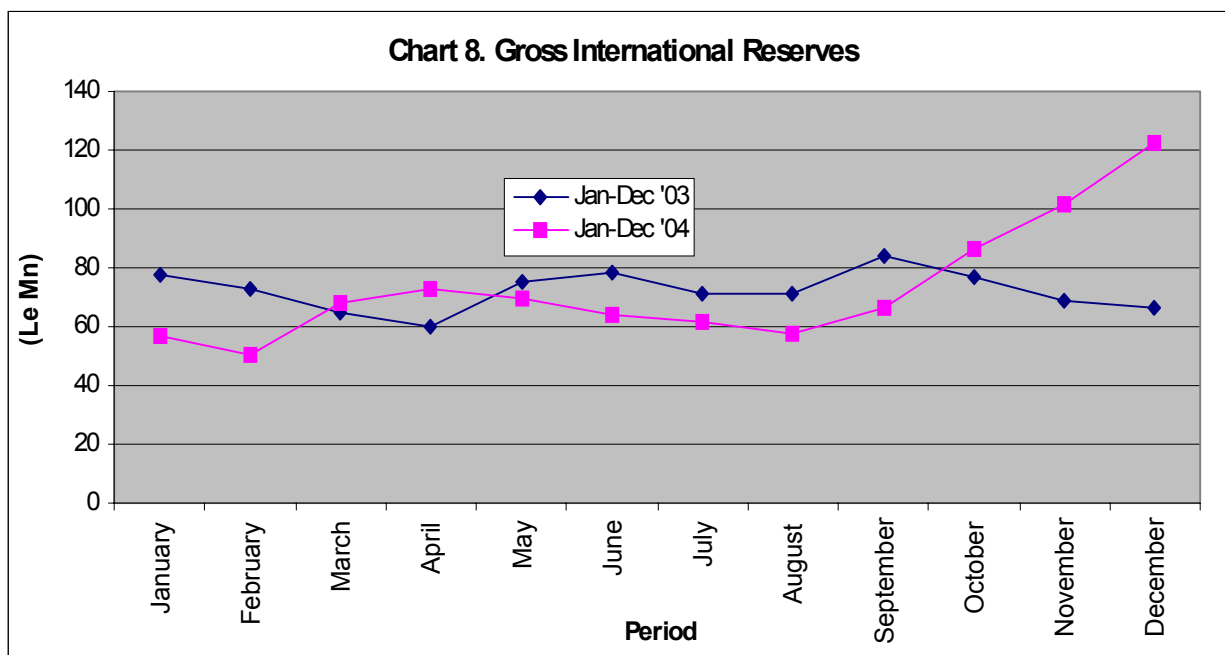
5. Currency Management

During the review period, the Bank introduced to its currency notes system a new family of Le10,000 denomination with enhanced security features as part of its 40th Anniversary celebrations. This is to cater for



the cash requirements of high value transactions particularly in the diamond sector. A new Le500 coin was introduced as the Bank’s response to mitigating the printing cost of currency notes particularly this denomination, which is found to be the most popular amongst the low-income group and commuters.





Bronze and Cupro Nickel Commemorative coins were also issued during the 40th Anniversary celebrations.

6. Foreign Exchange Management

(i) Foreign Assets

Bank of Sierra Leone's Gross Foreign Exchange Reserves increased from US\$66.45mn in 2003 to US\$124.88mn as at December 2004; an increase of 87.93 percent.

Inflows to the foreign reserves during the review period mainly constituted receipts from disbursements of grants and loans. The favourable performance was due to the receipt of non-programmed disbursements in the review period.

Outflows of foreign reserves were predominantly in respect of goods and services and external debt service payments.

During the period under review, total inflows increased by 62.79 per cent or US\$68.08mn from US\$108.43mn in 2003 to US\$176.51mn in 2004. This increase was mainly due to disbursements from foreign donor agencies. The key disbursements included UK/Sierra Leone Programme Grant for balance of payments and budgetary support of US\$18.53mn (GBP10.00mn), EU budgetary support of US\$22.54m (Euro18.18mn), World Bank Economic Rehabilitation and Recovery Credit (ERRCIII) of US\$16.88mn, Poverty Reduction and Growth Facility (PRGF) from the IMF of US\$42.00mn (SDR28.00mn), and IDA/

World Bank of US\$2.52mn to finance IDA related projects in the country. Non-programmed receipts realized from other donors were mainly from the European Development Fund (EDF Replenishment) of US\$10.86mn for funding EC projects operating in the country, and Islamic Development Bank project funds disbursed under the Integrated Rural Development, Construction and Reconstruction of Primary School, Illiteracy Eradication and Social Action Support Projects of US\$5.39mn.

Total receipts from exports more than trebled from US\$2.25mn in 2003 to US\$7.62mn end December 2004. As shown in Table 11, major inflows were from three sources; Diamond License fees, Diamond Exporters Income Tax and Fishing Royalties which exceeded the previous year's performance by 135 per cent, 603.85 per cent and 115.09 percent respectively. The improved performance from both the Diamond License fees and Diamond Exporters Income Tax could be attributed to the positive impact of the Diamond Mining Policy, coupled with the extension of Government authority throughout the country.

Total foreign exchange outflows totalled US\$120.88mn in 2004; 9.39% lower when compared to US\$133.41mn recorded in 2003. Of that total, 62.89 per cent or US\$76.02mn was in respect of goods and services and 37.11 per cent or US\$44.86mn for debt service payments. Out of the total payment of US\$76.02mn made for goods and services, 73.94 per cent was in respect of foreign exchange provided to the private sector through the weekly foreign exchange auction. This foreign exchange was targeted to meet essential imports such as rice, raw materials and petroleum products and complemented the existing sources of foreign exchange in the banking system.

(ii) Investment Activities

A total of US\$1.10mn was earned out of an average deposit of US\$49.80mn invested in 2004. In 2003, an average deposit of US\$45.00mn invested yielded US\$1.04mn. The increase in average deposits available and investment was due to disbursements of non-programmed donor funds. Earnings recorded for the review period was 5.77 per cent higher than that recorded for 2003 but the returns on investment were 2.31 per cent and 2.21 per cent for 2003 and 2004 respectively.

(iii) Foreign Currency Management

The Bank of Sierra Leone's policy for currency management continues to be the holding of reserves in currencies that match its transaction needs and debt service payments. Table 12 shows holdings of currencies by the Bank of Sierra Leone as at end December, 2004 (excluding donor import support funds) as 40.71 per cent held in SDRs, 17.56 per cent in Pound Sterling, 19.62 per cent in United States Dollars, 22.05 per cent in Euro and 0.06 per cent in Japanese Yen.

(iv) Foreign Exchange Market

The main feature of the foreign exchange market was the limited foreign exchange in the banking system and increased demand. This excess demand for foreign exchange led to a steady depreciation of the Leone against other international currencies. The spread between the official rate and the auction and parallel rate however narrowed.

The auction has continued to provide some form of stability in the foreign exchange market, although it has not been strong enough to stop the depreciation of the Leone.

Although there has been a significant increase in the volume of diamond exports, yet the banking system has only benefited very little from the foreign exchange

Table 11.
Bank of Sierra Leone Foreign Exchange Cash-flows
(In Million of US\$)

	January-December 2004	January-December 2003
INFLOWS	176.51	108.43
Receipts from exports	7.62	2.25
Diamond License fees	2.82	1.20
Diamond Exporters Income Tax	3.66	0.52
Fishing Royalty/License	1.14	0.53
Other Govt	1.48	0.00
Others	1.89	2.07
Inspection Fees	0.07	0.18
BSL Purchases of Notes/ T Cheques	00.10	0.09
Transactions with Commercial Banks	0.00	1.75
Privatization receipts	0.02	0.01
Disbursement of loans & grants	165.37	102.08
IMF	42.00	19.54
AFDB	15.13	0.99
UK (DFID)	18.53	16.24
EC (EDF Replenishment)	10.86	7.91
WB ERRC LOAN	16.88	17.02
EU	22.54	0.00
IDA/World Bank	2.52	0.43
Others/IDB	5.39	5.23
OPEC Funds (C.I.P. Arrangement)	9.50	0.00
DDR(CAFSL/DFID)	0.00	0.01
HIPC Relief	22.02	34.71

Source: Bank of Sierra Leone

Table11 (Contd)		
Bank of Sierra Leone Foreign Exchange Cash flows		
(in Million Dollars)		
	January-December 2004	January-December 2003
OUTFLOWS	120.88	133.41
<i>Payments for Goods and Services</i>	76.02	87.64
Embassy/Missions	7.28	7.31
BSL	2.02	1.54
Printing of Currency	1.05	2.43
Government Travel	1.58	1.73
Other Government	3.96	4.54
Subscription to Intl. Organisations	1.48	2.73
Military Payments	0.67	2.48
Private Sector Support	56.21	60.21
HIPC Related Imports	1.77	4.70
<i>Debt Service</i>	44.86	45.77
IMF	24.61	35.54
World Bank	3.37	1.90
AFDB	1.77	2.48
IFAD	0.97	1.07
EEC/EIB	0.00	0.35
Other Multilateral & Bilateral	3.01	2.12
Paris Club Creditors	0.43	0.44
Other Commercial Creditors	1.10	0.90
Clearing of Arrears (OPEC Fund)	9.60	0.97

Source: Bank of Sierra Leone

	December 2003	%	December 2004	%
Currency				
US Dollars	11.81	18.61	24.50	19.62
Pound Sterling	13.33	21.00	21.93	17.56
Euro	3.91	6.16	27.54	22.05
Japanese Yen	0.08	0.13	0.07	0.06
SDRs	34.34	54.10	50.84	40.71
Total Balance	63.47	100.00	124.88	100.00
Donor Funds				
US Dollars	0.80	100.00	0.06	100.00
Balance	0.80	100.00	0.06	100.00

Source: Bank of Sierra Leone

earned, as commercial banks were merely being used as conduits for the foreign exchange brought in.

Foreign exchange bureaux have continued to complement the activities of commercial banks by rendering foreign exchange transaction services to

	2004						
	Q1 Jan-Mar	Q2 Apr-June	Q3 Jul-Sept	Q4 Oct-Dec	Total (2004)	Total (2003)	% Change
1	2	3	4	5	6	7	8
A Purchase							
Commercial Banks	34.66	45.77	40.06	41.50	162.00	99.95	62.09
Foreign Exchange Bureaux	5.37	7.06	6.51	6.89	25.83	18.15	42.29
Total	40.03	52.83	46.57	48.39	187.83	118.10	59.04
Receipts into Forex Accounts	70.80	90.01	90.16	86.40	337.38	176.45	91.20
B. Sales							
Commercial Banks	38.27	51.98	40.50	49.03	179.78	136.21	31.99
Foreign Exchange Bureaux	6.01	8.11	6.70	6.71	27.53	17.12	60.77
Total	44.28	60.09	47.20	55.74	207.31	153.33	35.20
Payments from Forex Accounts	65.69	81.86	79.77	74.95	302.28	166.34	81.72
	Official Average Exchange Rates						
	Q1	Q2	Q3	Q4			
Buy	2,607.99	2,665.10	2,703.17	2,794.80			
Sell	2,660.67	2,718.94	2,757.78	2,851.26			

Source: Bank of Sierra Leone

the public. They have also helped to facilitate trade in the West African Sub-region especially in enabling small businesses to access foreign exchange, and the mopping up of foreign exchange that would have found its way into the parallel market.

Aggregate purchases and sales of commercial banks and foreign exchange bureaux showed an increase of 59.04% and 35.20% respectively over the previous period from US\$118.12m and US\$153.33m in 2003 to US\$187.84m and US\$207.32 in 2004 (Table 13). Total receipts into foreign currency accounts increased by 91.20% from US\$176.45mn to US\$337.37mn. This could be attributed to the increase in inflows of foreign exchange by International NGOs. Total Payments from foreign currency accounts increased by 81.72% from US\$166.35mn to US\$302.29mn. This could be attributed to the increased demand for imports. The volume of transactions reported in each quarter

in 2004 was more than those of the corresponding quarter in 2003. The observed increase was from purchases from NGO's, project funds and some purchase of diamond funds observed in quarter 4.

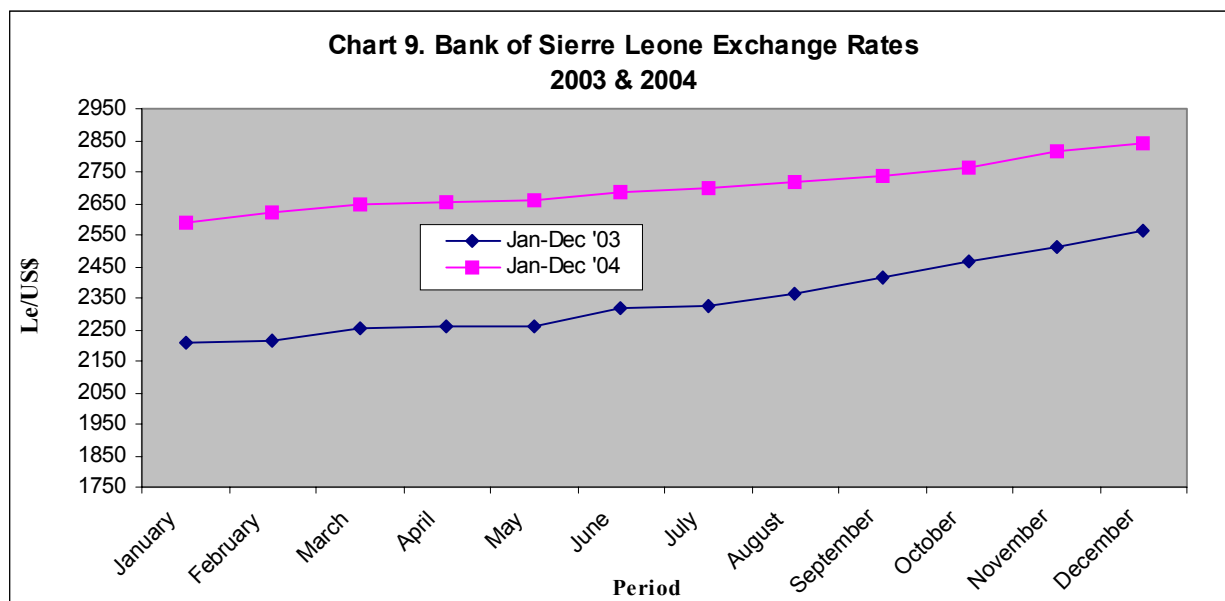
(v) Foreign Exchange Auction System

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

Table 14 shows the sectoral distribution of auction funds. As was the case in 2003 the general merchandise sector continues to dominate the Foreign Exchange Auction Market. This sector won US\$31.54mn or 56.04% of total amount awarded. The Oil Companies, Commercial Banks and Industries were awarded US\$11.09mn (19.71%) US\$9.09mn (16.17%) and US\$4.55mn (8.08%) respectively.

Table 14				
Sectoral Distribution of Auction Funds				
(Million Dollars)				
Sector	2003	2004	% of Total Amount in 2004	% Change in 2004
General Merchandise	26.90	31.54	56.04	17.26
Banks	9.51	9.09	16.17	(4.42)
Oil Companies	16.35	11.09	19.71	(32.00)
Industries	7.45	4.55	8.08	(38.97)
Total	60.22	56.28	100	
Yearly Average and End-Period Auction and Clearing Rates				
Exchange Rates	2003 Le/US\$1	2004 Le/US\$1	% Change in 2004	
Yearly Average (Official Midrate)	2,512.34	2,869.00	14.20	
Yearly Average (Auction Rates)	2,709.35	2,779.20	2.58	
Yearly Average (Clearing Rates)	2,673.17	2,694.08	0.78	
End Period (Official Midrate)	2,562.17	2,860.49	11.64	
End period (Auction Rates)	2,683.33	2,919.32	8.79	
End period (Clearing Rates)	2,672.00	2,918.00	9.21	

Source: Bank of Sierra Leone



There was no special window for oil companies during the review period as was the case in 2003. However, the amount put on the competitive window was increased by US\$0.3mn to US\$1.2mn and the maximum bid amount increased from US\$100,000 to US\$300,000 (for oil companies only) during the period 10th November to 29th December 2004. A total of US\$2.40mn was made available to the oil companies under this arrangement.

There was no sale of foreign currency to Bank of Sierra Leone in 2004. Discussions held with some NGOs, who were regular sellers in the auction, revealed that transfer charges levied by the commercial banks coupled with the uncertainty of the outcome of the auction rate resulted in their non-participation in the auction.

Table 14 also provides average annual auction, average annual clearing and end period rates for 2003 and 2004. On average, the auction and clearing rates increased by 2.58% and 0.78% respectively. The year-end comparison shows an increase of 8.79% and 9.21% in the auction and clearing rates respectively.

(viii) Exchange Rate Developments

The Bank of Sierra Leone's commitment to maintaining stable conditions in the foreign exchange market was severely challenged during the year as the Leone depreciated against all major currencies – the United States Dollar, British pound and the Euro. To maintain order and augment supply, the Bank continued to sell foreign exchange to the market through its weekly auction scheme. The Leone was much weaker by the close of December 2004 than it was at the end of December 2003. Two factors mainly explained the depreciation of the Leone between December 2003 and December 2004: increased demand for hard currencies in the domestic money market as manufacturing and business enterprises tried to increase production by importing both raw materials and consumer goods owing to increased optimism in the economy and speculation.

The year 2004 saw the Leone depreciating persistently but slowly in all the foreign exchange markets. The rate of depreciation was highest in the commercial banks' market where the annual average mid rates depreciated by 17.14 per cent to

Le2,687.76/US\$1 from Le2,294.52/US\$1 registered in 2003. This was followed by the official market rates depreciating by 15.17 per cent to Le2,701.30/US\$1. The bureau rate was next (13.67%) at Le2,701.72/US\$1. In the parallel market, the average exchange rate stood at Le2,858.69/US\$1 in 2004, a depreciation of 12.98 per cent when compared to Le2,530.16/US\$1 in 2003.

The average auction rate depreciated significantly over the reporting period. At Le2,778.37/US\$1, the auction rate registered a 11.72 per cent depreciation, when compared to Le2,486.84/US\$1 recorded in 2003. The yearly premium between the official and parallel rates narrowed by Le157.39 (5.83%).

The depreciation of the Leone benefited exporters who earned more in Leone terms while importers had to raise more Leones to purchase the hard currencies. Higher cost of imported commodities particularly oil partially contributed to the depreciation of the currency.

7. External Debt Management

(i) An Overview

Sierra Leone's total disbursed and outstanding official medium and long-term debt, including principal arrears as at end December 2004, stood at US\$ 1,710.2 mn as compared to US\$ 1,662.6 million as at December 2003. The total outstanding debt continued to be dominated by debts to multilateral and bilateral creditors, accounting for 61.2% and 24.2% respectively, whilst the residual of 14.6% is owed to other commercial creditors. This classification is shown on Table 15. The principal multilateral creditors are the World Bank, the International Monetary Fund (IMF) and the African Development Fund (ADF).

The stock of principal and interest arrears owed to all creditors is shown on Table 16. A total of US\$ 275.5 million of the stock of disbursed outstanding debt represents principal arrears owed mainly to the commercial and other creditors. Interest arrears amount to US\$ 7.6 million of which US\$2.9million is owed to official bilateral creditors.

(ii) Major Developments

- ❖ During the period under review, the Government of Sierra Leone continued to make timely debt service payments to the key multilateral creditors; the International Development Association (IDA), the International Monetary Fund (IMF) and the African Development Fund (ADF) and to other external creditors for which an agreement has been reached for the settlement of arrears.
- ❖ Following the extension of the PRGF program with the IMF, the Paris Club creditors agreed to extend the consolidation period of the Agreement concluded in July 2002 under P-VIII Amendment up to June 25, 2005. To this end, approximately US\$ 11.2 mn of maturities falling due during the extended period was cancelled.
- ❖ In a bid to assist the Government of Sierra Leone in reducing its debt burden, the Government of Morocco on December 31, 2004 agreed to cancel the total outstanding debt of US\$ 10mn (plus interest) due under the loan agreement between the Bank of Sierra Leone and the Central Bank of Morocco.
- ❖ The Government of Sierra Leone continued to receive interim debt relief from the key creditors namely the IDA, IMF and ADF.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

Table 15				
Stock of Sierra Leone's Disbursed Outstanding Debt and Debt Indicators.				
(Incl. Principal Arrears)				
(In Millions of US Dollars)				
	2003 December	Percent of Total	2004 December	Percent of Total
Bilateral:				
Paris Club Creditors	371.6	22.8	359.6	21.0
Other Bilateral	63.1	3.9	53.7	3.1
Total Bilateral	434.7	26.7	413.3	24.2
Multilateral				
African Development Bank/ Fund	533.7	32.7	564.8	33.0
World Bank (IBRD/IDA)	165.7	10.2	184.5	10.8
International Monetary Fund	149.2	9.2	193.8	11.3
Other Multilateral	97.3	6.0	103.7	6.1
Total Multilateral	977.7	58.0	1,046.8	61.2
Other Creditors	19.8	1.2	20.2	1.2
Commercial and Short-Term Debt	230.0	14.1	229.9	13.4
Grand Total	1,662.2	100.0	1,710.2	100.0
	2003		2004	
Debt Indicators (US\$Mn)				
Multilateral	977.7		1,046.8	
Bilateral	434.7		413.3	
Other Creditors	19.8		20.2	
Commercial & Short-Term Debt	230.0		229.9	
Total Stock of Debt	1,662.2		1,710.2	
Debt Service Payment due	45.4		44.5	
Debt service payment made	45.7		44.9	
Exports	92.4		139.7	
Gross Domestic Product	803.8		1071.46	
Debt Ratios				
Stock of Debt as a percentage of Gross Domestic Product	206.8		159.61	
Stock of Debt as a percentage of Export	1,798.9		1,224.2	
Debt Service as a percentage of Export	49.5		32.1	
Multilateral Debt as a percentage of Stock of Debt	58.0		61.2	
Bilateral Debt as a percentage of Stock of Debt	26.2		24.2	
Debt Service Payments Made				
(in millions of US Dollars)				
	2003		2004	
Bilateral:	1.57		1.69	
Paris Club Creditors	0.44		0.44	
Other Bilateral	1.13		1.25	
Multilateral (Net Amount)	43.25		42.09	
African Development Bank/Fund	5.14		4.50	
<i>of which: HIPC savings on debt service</i>	2.67		2.72	
<i>Net Amount paid</i>	2.47		1.78	
World Bank (IBRD/IDA)	8.70		11.87	
<i>of which: HIPC savings on debt service</i>	6.81		8.50	
<i>Net Amount paid</i>	1.89		3.37	
International Monetary Fund/1	35.54		24.61	
<i>of which: HIPC debt relief</i>	33.25		22.02	
Other Multilateral	5.54		14.60	
<i>of which: HIPC savings on debt service*</i>	2.19		2.27	
<i>Net Amount paid</i>	3.35		12.33	
Other Commercial/Military Debts	0.90		1.10	
Total	45.72		44.88	

Source: Bank of Sierra Leone

1/ For the IMF, the total amount due is paid and then the portion of HIPC relief is refunded as inflows

* Represents both inflow and saving from EEC/EIB

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Table 16
Principal and Interest Arrears as at End December 2004
(In Millions of US Dollars)

	December 2003		December 2004	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
Total Arrears	288.5	7.4	275.5	7.6
Total Commercial Obligations & Short-Term Debt 1/	230.0	-	229.9	-
Total Long-Term Debt, of which:	58.5	7.4	45.6	7.6
Multilateral	8.6	1.0	2.4	1.2
World Bank Group	-	-	-	-
IMF	-	-	-	-
Others	8.6	1.0	2.4	1.2
Official Bilateral	30.1	2.9	23.0	2.9
Paris Club	1.0	1.4	1.4	2.9
Others 2/	29.1	1.5	21.6	-
Other Creditors	19.8	3.5	20.2	3.5
Executive Outcomes	18.6	3.5	18.4	3.5
J. S Franklyn Ltd & Deftech BV Corp.	0.8	-	1.4	-
Chatelet Investment Ltd	0.4	-	0.4	-

Source: Bank of Sierra Leone

1/ Amount updated in June 2001 to include both validated and non-validated commercial arrears

2/ China, Morocco, Kuwait & Saudi Fund

Table. 17
Disbursed Outstanding Debt, including Principal Arrears as at End December 2004
Classified by Currency of Liability (Amounts In Thousands)

	End Dec-2003			End Dec-2004		
	Debt in Foreign Currency	Total debt in Le.	Percent of total	Debt in Foreign Currency	Total debt in Le.	Percent of total
1	2	3	4	5	6	7
Currency						
Canadian Dollars	1,260	2,536,723	0.07	1,215	2,881,733	0.07
Swiss Francs	39,347	83,348,120	2.27	38,966	98,343,344	2.30
Chinese Yuan	183,447	58,959,992	1.61	183,447	63,171,944	1.47
Danish Kroner	337	149,738	0.00	324	153,028	0.00
EURO	194,267	637,867,923	17.38	184,362	718,781,982	16.78
British Pounds	4,186	19,754,422	0.54	3,855	21,184,122	0.49
Japanese Yen	9,609,000	238,980,464	6.51	10,668	293,787,744	6.86
Kuwaiti Dinar	5,839	50,639,308	1.38	6,542	63,473,756	1.48
Norwegian Kroner	88,980	34,918,568	0.95	91,737	43,328,108	1.01
Saudi Riyal	3,997	2,822,784	0.08	3,844	2,931,382	0.07
Swedish Kroner	2,615	953,472	0.03	2,511	1,089,905	0.03
United States Dollar	258,017	661,085,312	18.01	233,628	668,291,328	15.60
Special Drawing Rights	496,834	1,865,537,145	50.82	517,603	2,270,506,968	53.00
Islamic Dinar	3,572	13,413,734	0.37	8,126	35,646,004	0.83
Total		3,670,967,705	100.00		4,283,571,348	100.00

Source: Bank of Sierra Leone

Total debt relief granted during the period under review amounted to US\$ 35.51mn of which US\$ 22.02mn was from IMF, US\$ 8.50mn from IDA and US\$ 2.72mn from ADF. The residual of US\$ 2.27 was granted by the European Investment Bank.

- ❖ During the period under review, total disbursements both programme and project received from external creditors amounted to approximately US\$ 100mn. Of this amount, US\$ 19.77mn was from IDA; US\$ 42.0mn from IMF; US\$ 23.85mn from ADF and the residual of US\$ 14.38mn was from OPEC, BADEA and IDB under various projects.

(iii) External Debt by Creditor Category

Table 15 classifies the total stock of disbursed outstanding debt including principal arrears into creditor category. The total outstanding debt stood at US\$ 1,710.2 million as at end December 2004 as compared to US\$ 1,662.2 million as at end December 2003. The increase was as a result of increased disbursements from the key multilateral creditors namely the IMF, IDA and ADF during the period under review.

The stock of debt to bilateral creditors decreased from US\$ 434.7mn as at December 2003 to US\$ 413.3mn as at December 2004 as a result of the cancellation of debt due to the Bank of Morocco.

(iv) Foreign Currency Composition

Table 17 shows the currency composition of Sierra Leone's Disbursed Outstanding Debt including principal arrears. It shows the amount of debt classified by the currency of liability and the Leones equivalent. The Special Drawing Rights and the Euro continue to be the major currencies that dominate Sierra Leone's debt. They account for 53% and 16.78% respectively as at end December 2004. Loans from IMF and IDA are mainly denominated in SDRs, which accounted for

the high percentage of the total debt. The US Dollar, which accounts for 15.6% represents the third major currency of Sierra Leone's debt.

(v) Debt Indicators, Debt Ratios and Debt Service

Table 15 also shows the debt indicators for the period ended December 2003 and 2004. Debt service payments decreased from US\$ 45.72million in 2003 to US\$ 44.88 million in 2004. Debt service to export ratio decreased from 49.5% to 32.1% as a result of the significant increase in exports. The stock of debt to export ratio also decreased by 32% from 1,798.9% to 1,224.2% as a result of the increase in exports.

8. Status of Convergence – West African Monetary Zone

The Governments of Sierra Leone, Ghana, Guinea, Nigeria and the Gambia continued to demonstrate their commitment to the realization of a second Monetary Union in the West African region. During 2004 all statutory meetings of West African Monetary Zone (WAMZ) were held as scheduled. The Government of Sierra Leone hosted both the 3rd Finance Minister's forum, and 14th meeting of the Convergence Council of Ministers and Governors of Central Banks of the WAMZ in April and May 2004, respectively.

In spite of the marginal improvements recorded over 2003 positions the general status of the convergence process was still poor, as at end July 2004. In this regard, at the 7th summit of the Authority of Heads of State and Government of West African Monetary Zone held in Conakry, Guinea on September 3, 2004, approval was given for a study to be undertaken by WAMI on the state of preparedness for WAMZ monetary union in 2005. The outcome of this assessment, which is expected in March 2005, will determine the way forward for the creation of a sustainable monetary union.

The program also received a boost with the announcement in Guinea of the location of two important institutions; the West African Central Bank (WACB) and the West African Financial Systems Administration (WAFSA). The former will be located in Ghana and the latter in Nigeria. At the 13th meeting of the Committee of Governors of Central Banks of WAMZ held in Abuja, Nigeria in December 2004, it was noted that various factors, domestic and external have limited the ability of WAMZ countries to attain the convergence benchmarks for the monetary union. Domestic shocks

Sierra Leone's Macroeconomic Performance

There was an improvement in Sierra Leone's performance under the WAMZ Convergence Criteria for 2004, with the country meeting two of the four primary criteria and one of the secondary criteria. In 2003 Sierra Leone failed to meet any of the primary and secondary criteria. The table below illustrates the country's performance.

WAMZ CRITERIA	Target	Performance			
		2001	2002	2003	2004
Primary Criteria					
Budget deficit excluding grants/GDP (commitment base)	less than or equal to 4 percent	16.7%	19.8%	13.4 ^R %	11.4%
Inflation rate (end period)	Single digit	3.4%	-3.1%	11.3%	14.4%
Central Bank advances to government (as percent of previous year's tax revenue)	less than or equal to 10 percent	8.9%	1.9%	25.6%	0.00
Gross reserves (months of imports)	greater than or equal to 3months	2.3 months	3.1 months	2.0 ^R months	3.4 months
Secondary Criteria					
Domestic Arrears	0	N/A	N/A	N/A	N/A
Tax revenue/ GDP ratio	greater than or equal to 20 percent	13.4%	14.5%	11.5 ^R %	11.0%
Wagebill/tax revenue ratio	less than or equal to 35percent	55%	63.2%	59.7 ^R %	56.0%
Public Investment from Domestic Receipts	greater than or equal to 20 percent	6.6%	8.9%	11.3%	8.2%
Nominal exchange rate (+ = depreciation)	plus or minus 15 percent	-23.2	-1.4	16.9	11.64
Real interest rate	greater than 0	1.4%	8.6%	-5.8%	-6.4%

Source: Bank of Sierra Leone

R Revised
N/A Not Available

precipitated by low domestic revenue generation and expansionary fiscal operations have slowed the pace of the process. Most states reflect deficits, which are financed by central banks. The members agreed that the on-going in-depth analysis of the state of preparedness was in right decision but commissioned an independent study to complement the one being done by WAMZ.

As at December 2004, inflation was 14.39%, higher than that recorded for the same period in 2003. The fiscal deficit (excluding grants) as a percentage of GDP amounted to 11.44% for the review period. Even though it failed to meet the criterion of not more than 4%, it was better than the 13.4% recorded in December 2003.

The country met the central bank financing of the deficit to the previous year's tax receipts criterion. There was no central bank financing of the deficit for the review period. This was mainly due to large foreign inflows, which enabled the government to finance its deficit and to also repay the central bank loans.

The country was able to meet the gross external reserves in months of imports criterion. For the review period the gross external reserves in months of import stood at 3.4 months, above the required 3 months of import cover. This was on account of the increased foreign inflows during the review period. With regards to the secondary criteria, the tax revenue to GDP ratio for December 2004 was 11.0% indicating a deterioration from the 11.5% recorded in December 2003

Sierra Leone failed to meet Salary mass/Tax revenue ratio criterion, as this amounted to 56.0%. Though an improvement on last year's 59.7% it was far above the 35% requirement for WAMZ.

Sierra Leone again failed to meet the positive interest rate criterion, as the real interest rate as at December 2004 was a negative 6.4 %, which was even a deterioration from end December 2003 when it was a negative 5.8%.

The stable exchange rate criterion was met in spite of the Leone depreciating against the US Dollar. The Leone depreciated by 11% but was within +/-15% fluctuation band of the WAMZ central parity rate. In terms of the public investment financed from domestic receipts criterion, the country fell short as the total public investment financed from domestic receipts amounting to 8.2%, fell short of the 20% requirement for WAMZ, and even below the 11.3% recorded for December 2003.

The main reasons for Sierra Leone's inability to meet some of the criteria include:

- Continued rise in the price of petroleum and other imported commodities on the world markets.
- Low domestic revenue
- Continued high government expenditures on salaries to the public sector, coupled with high interest payments.

9. Progress under the Poverty Reduction and Growth Facility (PRGF) Arrangement

The Executive Board of the International Monetary Fund (IMF) on the 23rd February 2004 completed the fourth review of Sierra Leone's performance under an SDR130.84mn (US\$169mn) Poverty Reduction Growth Facility (PRGF) to support the government's 2001-2004 economic program. The completion of this review enabled the release of an amount equivalent to SDR 14 million (about US\$21 million), which brought the total amount drawn under the arrangement to SDR 88.84 million (about US\$133 million).

In completing the review, the Board waived the non-observance of performance criteria pertaining to net domestic bank credit to the government and to the domestic primary budget balance, as well as the nonobservance of the structural performance criteria related to the completion of payroll photo verification for all existing teachers with valid credentials and the issuance of identification cards for all verified teachers.

The Board also approved an SDR 14.75 million (about US\$22 million) advance of additional interim assistance under the enhanced HIPC Initiative, and a six-month extension of the arrangement to March 25, 2005 from the current expiration date of September 25, 2004.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development

partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

On November 12 2004, the Executive Board of the International Monetary Fund completed the fifth review of the country's performance under the PRGF. As a result, Sierra Leone was able to draw up to SDR 14 million (about US\$21.1 million), bringing the total amount drawn under the arrangement to SDR 116.8 million (about US\$176.5 million).

In completing the review the Board waived the non-observance of performance criteria pertaining to net domestic bank credit to central government as well as the non-observance of two structural performance criteria pertaining to the terms and conditions for securitisation of all remaining verified domestic arrears to have been publicly announced and the completion of diagnostic studies and reforms in six key ministries to rationalise structure, functions and staffing in these ministries. The Board also approved an extension of the arrangement for a three-month period until June 25, 2005.

The Government continues to adhere to its commitment to avoid non-concessional external borrowing in line with the IMF PRGF program. The Government also looks forward to reaching its Completion Point earliest December 2005, when it would receive maximum debt relief from its external creditors.

10. Human Resource Development

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

These measures are aimed at getting better results from staff by measuring performance within agreed targets linked to the overall objectives of the Bank. It is also ensured that when skills gaps are identified, staff are developed to attain the required competence levels, so as to enhance their performance. For the period under review, the staff complement of the Bank increased from 564 as at end 2003 to 586 as at end 2004 with increases reflected in the Professional and General Services cadres and decreases in the Sub-professional cadre as well as for contract staff. The majority of staff continues to be in the Professional and Sub-professional cadres with staff strength currently as follows:

	2002			2003			2004		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Number of staff as at December 31	400	140	540	399	165	564	421	165	586
<i>of which</i>									
Management	3	4	7	4	4	8	3	5	8
Professionals	141	48	189	128	47	175	152	53	205
Sub-professionals	114	80	194	120	92	212	122	86	208
General Services Staff	125	6	131	124	6	130	130	5	135
Contract Staff	17	2	19	23	16	39	14	16	30

Source: Bank of Sierra Leone

During the review period, 45 staff were recruited while 17 staff severed from the Bank for the following reasons:

	2002	2003	2004
Resigned	9	8	10
Retired	12	9	-
Voluntary Retirement	3	3	1
Vacated	2	2	-
Terminated	6	5	4
End of Contract	1	2	1
Early retirement due to ill health	-	1	-
Deceased	2	2	1
Total	35	32	17

Source: Bank of Sierra Leone

Staff Development

Training and development continues to be the main thrust of the bank's restructuring exercise and is specifically aimed at building capacity to sustain and enhance the growth and development of the Bank. In this regard, year 2004 maintained overall training impetus in providing opportunities to staff to attend courses locally, in the sub region and outside of the sub region. The majority of the beneficiaries of the short term programmes attended courses organized by the West African Institute for Financial and Economic Management (WAIFEM) which is a regional body set up by the Central Banks of Gambia, Ghana, Nigeria and Sierra Leone to build capacity in economic, financial and debt management.

The Bank continues to provide opportunities for staff to seek third party funding to pursue overseas Masters Degree programmes in relevant disciplines. Consequently, staff who pursued or are pursuing the Masters degrees in Economic Policy Management

obtained sponsorship from either the African Capacity Building Foundation (ACBF) or the Joint Japan/World Bank Graduate Scholarships Programme (JJ/WBGSP). The Bank continues to explore other areas for funding, particularly for financing its postgraduate programme.

Overseas Training Included:

(i) Degree programs

Name of Programme	Number Started	Number Pursuing	Number Completed
Masters in Economic Policy Management	4	2	-
Masters in Business Administration	1	-	1
Masters in Human Resources	1	-	1
Masters in Philosophy	1	-	-
Masters in Internal Auditing and Management	-	-	1
ACCA	-	1	-

Source: Bank of Sierra Leone

(ii) Long/Short Courses

German Central Bank

- German Banking

Financial Stability Institute and the Committee of Banking Supervisors of West and Central Africa

- Basel Accord

SWIFT

- Documentary Credit Collections

Toronto Centre

- Securities Market Supervision

UNCTAD/UNECA/INWENT

- Capacity Building for African Countries in FDI Statistics

Joint African Institute (JAI)

- Course on Payment Systems
- Course on Monetary and Financial Statistics Compilation

Reserve Bank of Australia

- Attachment to the Reserve Bank of Australia

RIPA International

- Management of the Training Function

Bank of Ghana and Bank of England

- Financial Stability Assessment

West African Institute For Financial and Economic Management (WAIFEM)

- Regional Course on Macro-Economic Modelling, Forecasting & Policy Analysis
- Regional Workshop on Human Resource Management
- Demand for Money Estimation Models
- Regional Course on Report Writing
- Course on Techniques of Economic Analysis
- Professional Development for Secretaries and Personal Assistants
- Regional Workshop on Project Approval and Evaluation
- Technical Service Providers in Micro Financial Institutions
- Workshop on Economic Crime
- Regional Workshop on Debt Strategy Analysis Tools
- Regional Course on Financial Programming and Policies

- Regional course on Balance of Payments and National Accounts
- Advanced Banking Supervision
- Public Finance and Expenditure Control
- Arbitration and Alternate Resolution

WAIFEM and Debt Relief International (DRI)

- Regional Workshop on Domestic Debt Management

Federal Reserve Bank of New York

- United States Monetary Policy Implementation

Jordan

- MEARMS

Local Training

The Bank also continued to provide opportunities for staff to take advantage of training locally in relevant areas, often under full Bank sponsorship. More staff are now pursuing undergraduate and post graduate as well as specialized programmes at local institutions.

Name of Programme	Number Started	Number Pursuing	Number Completed
Masters in Development Studies	3	2	1
Bachelor of Education Programme	-	-	2
Bachelor of Science in Financial Services	-	4	2
Bachelor of Science in Applied Accounting	-	-	2
Bachelor of Science in Business Studies	-	1	-
Post-Graduate Diploma in Business Administration	-	-	1
Technician Diploma in Accounting	1	1	-
Diploma in Data Processing and Information Technology	1	1	-

Source: Bank of Sierra Leone

Exposure to these programmes has provided staff with added skills and knowledge to handle their schedules

(ii) In-house Training

The Department continues to organize and encourage staff participation in its in-service training programmes, which include the following:

1. General core courses which concentrate on training specific to particular areas.
2. Computer courses in a bid to make staff more comfortable in the performance of their jobs with increased office automation.
3. Transfer of Knowledge Seminars which are intended to share and widen the knowledge obtained from original training and include;
 - Human Resource Management in the context of corporate survival
 - Government Securities and the Implementation of Monetary Policy
 - Seminar on Personnel and Industrial Relations
4. Management Seminars which provide staff and outsiders with pertinent information on the different areas of operations in the Bank.
 - Seminar on the New Basel Accord
 - Seminar on Project Appraisal and Evaluation
 - Seminar on Human Resource Management
 - Seminar on Technical Service Providers
 - Seminar on German Banking
 - Seminar on Techniques of Economic Analysis
 - Seminar on Duties and Responsibilities of Bank Signatories
 - Course for Security Staff
 - Course on Introduction to Banking Supervision
 - Seminar on Budget Preparation
5. Health Talks on topical health issues.

The French language classes, continued with vigour and have attracted additional staff with new programmes for staff who successfully completed the Beginners 1 and 11 levels. The number of participants as well as staff interest in the programme improved dramatically.

Management of the Bank including Independent Units

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

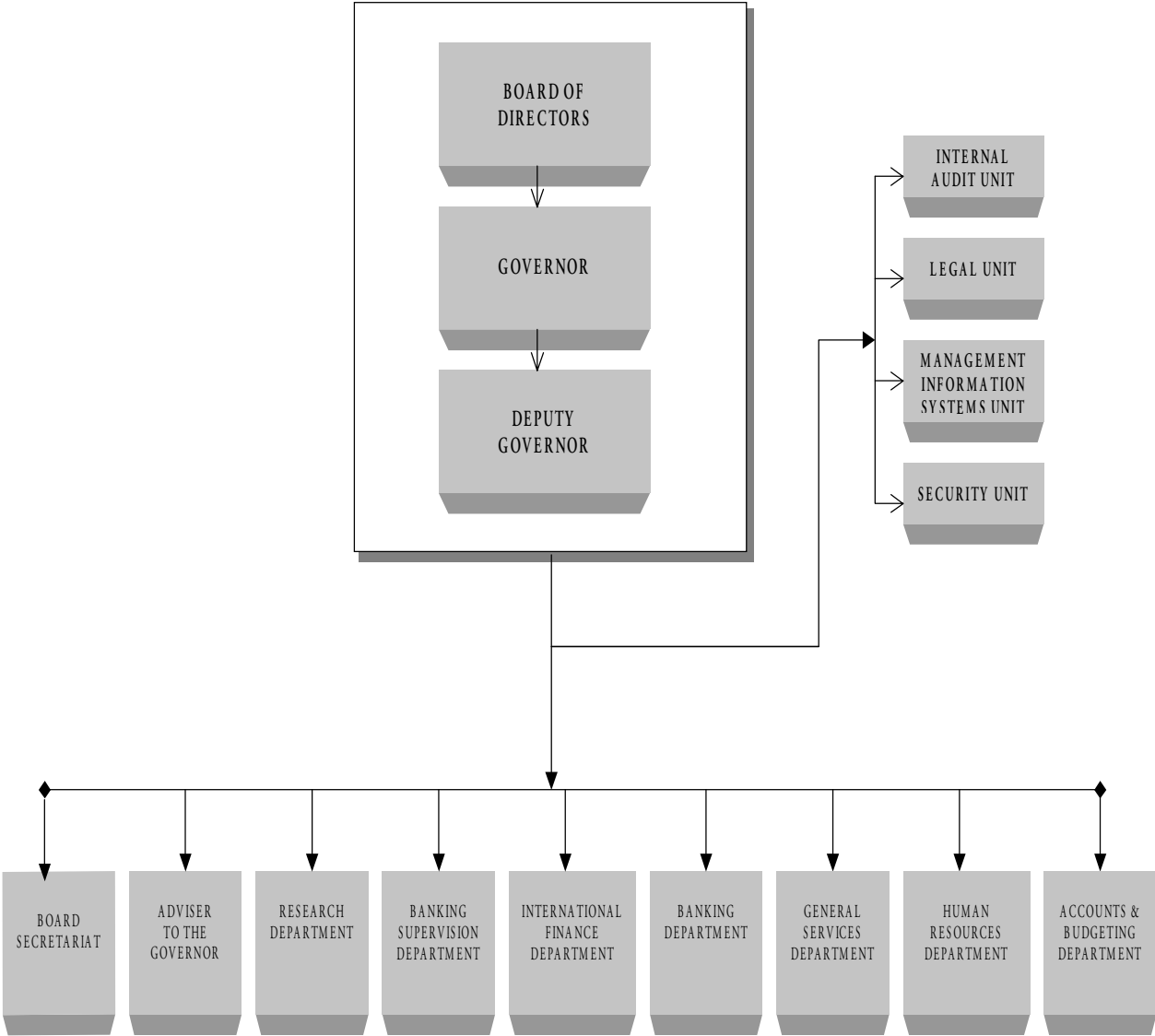
Directors

Ag. Secretary to the Board	–	Mr Henry E. P. Musa
Director, Research	–	Ms Andrina R. Coker
Director, International Finance	–	Mr Francis B. Roberts
Director, Accounts and Budgeting	–	Mrs Khadi R. Saccoh
Director, Human Resources	–	Haja Ajaratu A. M. Mahdi
Director, Banking Supervision	–	Ms Yeabu M. D. Kamara
Director, Banking	–	Mr Ibrahim K. Lamin
Director, Special Duties	–	Mr Sidique A B Sesay (on secondment)
Ag. Director, General Services	–	Mrs. Grace Hassan

Heads of Unit

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

Bank of Sierra Leone Organisational Structure



**FINANCIAL POSITION AND OPERATING RESULTS OF THE BANK
FOR THE YEAR ENDED 31ST DECEMBER, 2004**

As at 31st December, 2004 the Bank's financial performance improved with total Assets and Liabilities increasing by 16.03% from Le1,290.42 billion in 2003 to Le1,497.23 billion. The major change was the increase in Foreign Currency Financial Assets and Liabilities, the former increasing by 46.11% while the latter increased by 22.30%. The main feature of the increase in the Bank's Foreign Currency Financial Assets was the significant improvement in the External Reserves position underpinned by a 172.49% increase in Cash and Cash Equivalents denominated in foreign currency. This favourable position was largely due to the increased programmed disbursements received during the year.

The Bank's holdings of Treasury Bills and Bonds increased by only 10.72% while Ways and Means Advances to Government was completely eliminated during the period. This resulted in a net decrease (by 7.91%) in Local Currency Financial Assets.

The rise of 7.17% in Property, Plant and Equipment was due to the continued rehabilitation of the Bank's premises and the acquisition of equipment which are necessary for the Bank's operations.

Foreign currency liabilities increased largely due to increases in the IMF PRGF Loan and the IMF No. 1 Accounts. Local Currency Financial Liabilities increased by 50.03% due to increased levels of Government and Commercial Bank deposits. Other liabilities dropped significantly from Le673.14 million to Le37.72 million due to the settlement and closure of the Structural Adjustment Loan/Cash Cover Account.

There was a further significant drop (69.33%) in the Bank Reserves due mainly to huge revaluation losses. As at 31st December, 2004 the Revaluation Reserve Account which indicates the net translation of foreign assets and liabilities, recorded a net debit balance of Le177.72 billion as total Foreign Currency Financial Liabilities of Le1,064.06 billion exceeded total Foreign Currency Financial Assets of Le816.48 billion by 30.32%. The debit balance in the account which represent revaluation losses will be treated in accordance with Section 54(3) and (4) of the Bank of Sierra Leone Act, 2000.

Total interest income from Financial Assets at Le34.33 billion represent an increase of 12.98% over last year's receipts. The bulk (55.08%) of this income accrued from the Bank's holdings of Government Securities. Interest receipts on Ways and Means Advances to Government which had previously contributed the most significant amounts to total receipt, dropped by 42.55% due to the severe reduction in Ways and Means granted to Government. Interest income from foreign currency investments rose by 35.12% from Le2.55 billion in 2003 to Le3.44 billion in 2004 mainly as a result of the significant improvement in the level of External Reserve Funds available for investment. Interest receipts from the Bank's Pound Sterling and SDR investment portfolios constituted the bulk (78.20%) of this income. Net interest income amounted to Le31.80 billion representing an increase of 7.52% over last year's net position. Despite this favourable position there was a substantial increase (from Le698.7 million to Le2.49 billion) in IMF interests and charges, during the period. Charges on Foreign Transactions and Amortisation of Government Securities however dropped by 57.14% and 9.93% respectively. Other income (especially Sundry

Receipts) increased substantially from Le545.78 million to Le7.78 billion accounting for about 80% of the increase (from Le30.11 billion for the year ended 31st December, 2003 to Le39.58 billion in 2004) in total operating income of Le9.46 billion. This favourable position was mainly as a result of the write back of the provision for the Bank of Morocco Loan which was cancelled during the period.

At Le32.80 billion, operating expenses was 21.62% higher than the costs incurred in year 2003. 60.37% of this was on personnel costs which rose by 46.84%

mainly due to the restructuring of staff salary effected in 2004. Administrative expenses, which represented 24.06% of total operating expenses however fell by 6.40%. Depreciation increased by 6.43% while Currency Issue expenses fell by 5.34%.

The resultant net profit of Le6.77 billion for the period was allocated in accordance with the provisions of Section 11 of the Bank of Sierra Leone Act, 2000.

Financial Statements
for the year ended 31 December 2004

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

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

Governor
Deputy Governor

Acting Secretary to the Board

Mr H E P Musah

Director, Accounts and Budget Department

Mrs K R Saccoh

Solicitors

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

Auditors

PKF
Chartered Accountants
Regent House
12 Wilberforce Street
Freetown

Registered Office

Siaka Stevens Street
Freetown

Report of the Directors

The Directors have pleasure in submitting their report to the Government of Sierra Leone together with the audited financial statements for the year ended 31 December 2004.

Statement of Directors Responsibilities

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

In preparing these financial statements, the Directors are required to:

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

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

Share Capital

Details of the Bank's share capital are given in note 24 to the financial statements.

Financial Statements

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

Directors and their interests

The following were Directors of the Bank as at 31 December 2004:

Dr J D Rogers	Governor	(appointed 11 April 2003)
Mr M S Fofana	Deputy Governor	(appointed 25 September 2003)
Mr Maigore Kallon	Director	(re-appointed 13 September 2002)
Dr I B Peters	Director	(re-appointed 24 November 2002)
Mrs Mariatu Madhi	Director	(re-appointed 18 April 2004)
Dr Morie K Manyeh	Director	(appointed 17 September 2002)
Dr M B Yillah	Director	(appointed 17 September 2002)

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

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

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

Auditors

The Auditors, PKF, were appointed by the Auditor General on 8 November 2004 to conduct the audit of the financial statements for the year ended 31 December 2004.

By order of the Board



Acting Secretary

Report of the Independent Auditors to the Government of Sierra Leone

We have audited the accompanying balance sheet of Bank of Sierra Leone as at 31 December 2004 and the related statements of income and cash flows for the year then ended. We draw attention to the basis of preparation of these financial statements as described in note 1(a). These financial statements are the responsibility of the Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements present fairly, in all material respects, the position of the Bank at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with the framework of accounting policies set out in note 1 of the financial statements.

Date

21/3/05

PKF

Freetown

Chartered Accountants

Balance Sheet

	Note	2004 Le'000	2003 Le'000
Foreign Currency Financial Assets			
Cash on hand		1,279,146	1,438,686
Cash and cash equivalents with foreign banks	2	212,532,339	77,997,406
Equity shares and participating interest	4	3,091,196	2,754,945
Accrued interest		728,532	222,373
International Monetary Fund Special Drawing Rights Allocation		143,959,221	87,021,238
International Monetary Fund Quota Subscription		454,888,346	389,377,945
Total Foreign Currency Financial Assets		816,478,780	558,812,593
Local Currency Financial Assets			
Treasury bills and bearer bonds	5	93,197,877	84,172,762
Investment in marketable securities		7,050,655	7,628,678
Accrued interest		487,102	229,568
Advances to Banks		259,337	334,338
Advances to Government	3		68,109,550
Other local currency financial assets	7	6,580,565	1,956,329
Special issue of securities of the Government of Sierra Leone	6	530,318,181	530,880,200
Total Local Currency Financial Assets		637,893,717	693,311,425
Total Financial Assets		1,454,372,497	1,252,124,018
Non-Financial Assets			
Inventory	8	6,066,040	4,260,757
Gold Stocks		111,172	94,589
Other non-financial assets	10	7,607,334	7,336,163
Property, plant and equipment	9	28,508,254	26,601,095
Total Non-Financial Assets		42,292,800	38,292,604
Total Assets		1,496,665,297	1,290,416,622

Balance Sheet (cont.)

	Note	2004 Le'000	2003 Le'000
Liabilities			
Foreign Currency Financial Liabilities			
Term liabilities	11	579,065,993	479,266,320
Other foreign currency financial liabilities	12	408,428,762	325,221,436
International Monetary Fund Special Drawing Rights Allocation		76,567,754	65,540,907
Total Foreign Currency Financial Liabilities		1,064,062,509	870,028,663
Local Currency Financial Liabilities			
Government deposits		36,311,935	11,748,802
Commercial Bank deposits		12,936,434	6,497,072
Other deposits		11,135,381	20,467,864
Accrued charges		2,473,012	3,086,473
Other local currency financial liabilities	13	444,169	392,111
Total Local Currency Financial Liabilities		63,300,931	42,192,322
Total Financial Liabilities		1,127,363,440	912,220,985
Non-Financial Liabilities			
Currency in circulation		221,424,550	197,498,903
Other liabilities	14	37,716	673,140
Total Non-Financial Liabilities		221,462,266	198,172,043
Provisions			
Provision for revaluation of pipeline liabilities	15	253,199,268	232,087,851
Total Liabilities		1,602,024,974	1,342,480,879
Capital			
Reserves	17	(129,361,177)	(76,065,757)
Total Liabilities and Equity		1,496,665,297	1,290,416,622

These financial statements were approved by the Board of Directors on 1st March 2005

Governor

Director



Income Statement

	Note	2004 Le'000	2003 Le'000
Operating Income:			
Interest income from financial assets			
Foreign Currency Investments	18	3,443,603	2,548,519
Government Bills and Bonds	18	18,910,569	6,988,564
Advances to Government	18	11,976,688	20,847,205
		34,330,860	30,384,288
Expenses on financial liabilities			
IMF interest and charges		(2,485,978)	(698,740)
Charges on foreign transactions		(49,225)	(114,860)
Amortisation of Government Securities		(2,059)	(2,286)
Net exchange gain/(loss)		364	(10)
Other Income	20	7,782,127	545,779
Total operating income		39,576,089	30,114,171
Operating Expenses:			
Personnel		19,804,108	13,486,826
Depreciation	9	2,430,728	2,283,691
Currency	21	2,546,887	2,690,686
Administration	22	7,894,503	8,434,569
Other		127,749	75,972
Total operating expenses		32,803,975	26,971,744
Profit available for appropriation under the Bank of Sierra Leone Act 2000		6,772,114	3,142,427
Less Appropriations	16	(6,772,114)	(3,142,427)
		-	-

Cash Flow Statement

	Note	2004 Le'000	2003 Le'000
Net cash inflow/(outflow) from operating activities	29	8,388,340	(97,035,114)
Investing Activities			
Net decrease in loans and advances to government		68,109,550	6,168,120
Net Disinvestments in marketable securities		578,023	6,729,298
Net increase in Government Securities held by the Bank		(9,025,115)	(39,227,567)
Purchase/disposal of tangible fixed assets		(4,328,498)	(3,421,140)
Cash inflow/(outflow) from Investing Activities		55,333,960	(29,751,289)
Financing Activities			
Net increase/(decrease) in deposits by Government and Banks		31,002,495	(32,210,298)
Net decrease in other deposits taken		(9,332,483)	(1,039,279)
Fund movements		2,368,107	(1,134,862)
Increase in currency in circulation		23,925,647	38,905,474
Net increase in term liabilities		22,614,326	68,662,502
Cash inflows from financing Activities		70,578,092	73,183,537
Increase/(decrease) in cash and cash equivalents	30	134,300,392	(53,602,866)

Notes to the Financial Statements

1. Principal Accounting Policies

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

(a) Framework of Accounting Policies

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

Within this framework the financial statements:

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

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

The Bank presents its assets and liabilities broadly in order of liquidity.

(b) Financial Assets and Liabilities

The Bank presents its financial assets and liabilities, and the associated income and expense streams by distinguishing between foreign currency and local currency activities. Foreign currency activities arise mainly from the Bank's management of the country's external reserves. Local currency activities reflect transactions arising from monetary policy implementations, managing the currency in circulation and Banking activities.

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

Foreign currency monetary assets and liabilities are translated into Leones at the official exchange rates ruling at the balance sheet date and in accordance with Section 54 (1) of the Principal Act:

Currency	31.12.2004	31.12.2003
US\$ 1	Le 2,860.49	Le 2,562.18
£Stg 1	Le 5,495.71	Le 4,719.66
WAUA 1	Le 4,430.86	Le 3,779.55
Euro 1	Le 3,898.76	Le 3,283.46
SDR 1	Le 4,386.58	Le 3,754.85

Foreign currency transactions are converted at the rate of exchange on the date of the transaction.

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

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

No material financial assets of the Bank were pledged as security for liabilities nor collateralised.

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

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

(d) International Monetary Fund (IMF) Balances

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

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

(e) Treasury Bills and Bearer Bonds

The Bank is the holder of Treasury Bills and Treasury Bearer Bonds.

Bills are either taken-up on initial offering or purchased subsequently in the secondary market.

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

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

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

(f) Investment in Marketable Securities

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

(g) Investments in equity instruments

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

(h) Foreign Currency term liabilities

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

(i) Currency in Circulation

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

(j) Income Recognition

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

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

(k) Inventories

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

(l) Property, Plant and Equipment

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

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

No fixed assets were pledged as security on financial liabilities.

(m) Pension

Pension costs are charged to the profit and loss account systematically over the periods benefiting from the employees' services.

(n) Comparative Amounts

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

(o) Appropriations of Annual Net Profit

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

- Net profit for the financial year is determined after making provision for bad and doubtful debts, depreciation charge and contribution to staff and superannuation funds.

- From this net profit a General Reserve is established by allocation from the net profit of each year. One third of net profit is allocated if the General Reserve does not exceed the minimum paid up capital of the Bank. One sixth of net profit is allocated should General Reserve exceed the minimum paid up capital of the Bank (up to the point where the Reserve equals four times the minimum paid up capital). Further allocations to the Reserve may be made with the approval of the Minister.
- One quarter of the remaining profit for the financial year is then used to redeem any Government Securities held by the Bank that have been previously issued to preserve the minimum paid-up capital of the Bank from impairment.
- An amount determined through consultation with the Minister is then allocated to the Development Credit Fund established under the Act. Any residue of net profit is paid into a Consolidated Fund.

The above appropriations will not be made should the Board judge the assets of the Bank to be (prior to or as a result of the appropriations) less than the sum of liabilities and minimum paid up capital.

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

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

2. Cash and Cash equivalents with foreign banks

	2004	2003
	Le'000	Le'000
Maturity Analysis	125,262,857	65,555,802
Up to 1 month	87,269,482	12,341,604
1 month to 3 months	212,532,339	77,997,4063.

Advances to Government

	Le'000
Ways and Means Advances brought forward	68,109,550
Recoveries during the year	(68,109,550)

The Ways and Means balance at the end of each year is required to be cleared within 93 days of the year end, normally by issue of Treasury Bills.

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.

Treasury and eligible bills	93,197,877
Bank's holding of Special Issue securities of Government of Sierra Leone	530,318,181
Less: Government deposits	(36,311,935)
Government stocks and shares	(3,197,025)

Net credit to Government of Sierra Leone **584,007,098**

Government actual revenue in previous year **400,024,000**

5% thereof 20,001,200

Excess in Government lending **564,005,898**

The Directors report excesses in lending to the Government of Sierra Leone as at 31 December 2004 of Le564,005,898,000 (2003:Le 651,982,327,000).

4. Equity shares and participating interest

	2004	2003
	Le'000	Le'000
AfreximBank Capital Investment	2,288,392	2,049,744
AfreximBank Dividend Investment	308,455	210,852
BSL CON-WAMA Credit Guarantee Fund	494,349	494,349
	3,091,196	2,754,945

5. Treasury Bills and Bearer Bonds

Treasury Bills	73,980,627	66,857,912
Treasury Bearer Bonds	19,217,250	17,314,850
	93,197,877	84,172,762
Maturity Analysis		
Up to 1 month	31,129,500	799,050
1 month to 3 months	53,651,627	68,978,362
3 months to 1 year	8,416,750	6,257,850
1 year to 5 years	-	8,137,500
	93,197,877	84,172,762

6. Special issue of securities of the Government of Sierra Leone

	2004	2003
	Le'000	Le'000
Securities in issue at the beginning of the year	530,880,200	531,037,271
Redemption during the year	(562,019)	(157,071)
Securities in issue at the end of the year	530,318,181	530,880,200

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

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

(d) To cover the deficit balance in the Revaluation Reserve Account for the year ended December 1999	135,494,107
Less redemptions:	
1996	(57,433,448)
1997	(368,504)
1998	(376,467)
1999	(1,210,442)
2000	(644,579)
2001	(418,191)
2002	(569,526)
2003	(157,071)
2004	(562,019)
Balance remaining due	530,318,181

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

Accordingly:

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

7. Other local currency financial assets

	2004	2003
	Le'000	Le'000
Staff personal loan	640,920	266,350
Staff housing loan	20,154	23,900
Staff vehicle loan	298,570	231,246
Advances to contractors	955,580	1,166,596
Advances to staff	10,873	10,974
Advances to others	36,479	28,837
Rent etc. paid in advance	157,874	178,512
Bills for collection	652,137	49,914
CAFSL L/C provision	3,807,978	-
	6,580,565	1,956,329

8. Inventory

	2004	2003
	Le'000	Le'000
Medical	14,269	32,344
Fuel	85,600	12,876
Maintenance	10,553	5,508
Stationery	128,672	76,687
Others	83,332	87,453
Items in transit	5,743,614	4,045,889
	6,066,040	4,260,757

9. Property, Plant and Equipment

Cost:	Premises	Equipment	Total
	Le'000	Le'000	Le'000
Balance at 1 January 2004	24,909,009	11,295,226	36,204,235
Acquisitions	740,972	3,627,864	4,368,836
Disposals during the year	-	(264,550)	(264,550)
Balance at 31 December 2004	25,649,981	14,658,540	40,308,521

Depreciation:

Balance at 1 January 2004	3,659,935	5,943,205	9,603,140
Depreciation charge for the year	525,157	1,905,571	2,430,728
Disposals during the year	-	(233,601)	(233,601)
Balance at 31 December 2004	4,185,092	7,615,175	11,800,267

Net book value:

At 1 January 2004	21,249,074	5,352,021	26,601,095
At 31 December 2004	21,464,889	7,043,365	28,508,254

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

10. Other non-financial assets

	2004	2003
	Le'000	Le'000
Deferred currency issue expenses	7,460,503	7,187,353
Deferred Government Security Certificates expenses	146,831	148,810
	7,607,334	7,336,163

11. Term Liabilities

Sierra Rutile/GOSL Loan	2,073,969	1,857,682
Bank of Morocco loan	-	28,659,123
Bank of china US\$ clearing	24,071,511	21,561,182
IMF Poverty Reduction and Growth Facility (PRGF)	552,920,513	417,042,728
IMF – SAP Loan	-	10,145,605
	579,065,993	479,266,320

The Bank received a debt forgiveness on the Bank of Morocco loan in 2004. The balance in the books of the bank has accordingly been reversed to Revaluation Reserve and the Income Statement.

12. Other foreign currency financial liabilities

Foreign payment	4,985,903	2,543,595
Thomas de la Rue	-	1,018,659
IMF Securities Account	67,390,261	67,390,261
IMF No.1 Account	334,365,378	250,436,897
ADF/ERR loan	124,852	111,832
WAMA ECOWAS Travellers' Cheques	11,798	11,798
WAMA ECOWAS Travellers' Cheques clearing	(1,170)	(1,170)
Commission of European Committee	2,688,244	4,648,080
WAMA settlement	(1,136,504)	(938,516)
	408,428,762	325,221,436

13. Other local currency financial liabilities

	2004	2003
	Le'000	Le'000
P.S. Bond in circulation	449	449
Retention monies	436,629	364,187
Unapproved invoices	6,205	6,205
Trade and sundry creditors	886	21,270
	444,169	392,111

14. Other Liabilities

Provision for loss on investment	3,378	3,378
Provision for bad debts	34,338	34,337
SAL Loan/Cash cover	-	635,425
	37,716	673,140

15. Provision for revaluation of pipeline liabilities

	2004	2003
	Le'000	Le'000
Beginning of year	232,087,851	184,516,280
Revaluation	21,111,417	47,571,571
End of year	253,199,268	232,087,851

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

16. Appropriations

	2004	2003
	Le'000	Le'000
Net profit for the year	6,772,114	3,142,427
<i>Appropriations:</i>		
Building reserve fund	(800,000)	(100,000)
Asset procurement reserve fund	(1,500,000)	(1,600,000)
Staff welfare fund	(1,100,000)	(100,000)
Staff personal loan fund	-	(100,000)
Staff vehicle loan fund	-	(100,000)
Internal Insurance fund	-	(100,000)
Community Banking fund	-	(100,000)
	3,372,114	942,427
General reserve	(1,124,038)	(314,142)
Redemption of securities	(562,019)	(157,071)
Development credit fund	(100,000)	(100,000)
Revaluation reserve	(1,586,057)	(371,214)
	-----	-----
	-	-
	=====	=====

17. Capital and reserves

	2004	2003
	Le'000	Le'000
Capital account	24,001,500	24,001,500
Capital reserves (Note 25)	8,982,043	8,982,043
General reserve fund	-	-
Development credit fund	1,191,413	972,841
Revaluation reserve (Note 23)	(175,011,652)	(115,848,125)
Credit guarantee fund	2,263	13,686
Export credit guarantee fund	674	130
Internal insurance fund	813,603	828,060
Staff welfare fund	1,115,241	315,229
Community Banking fund	140,147	1,113,324
Staff housing loan fund	181,263	128,730
Staff vehicle loan fund	370,703	444,988
Staff personal loan fund	674,004	1,028,714
Monetary co-operation fund	1,834,574	1,834,574
Building reserve fund	2,269,834	3,988,975
Asset procurement reserve fund	3,252,290	2,944,604
General asset reserve fund	24,822,423	17,186,470
	(129,361,177)	(76,065,757)

(a) General reserve fund

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

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

	2004	2003
	Le'000	Le'000
Balance at beginning of year	-	-
Transfer to revaluation reserve in accordance with Section 54(3) of the Bank of Sierra Leone Act 2000	(1,124,038)	(314,142)
Transfer from Income Statement in accordance with Section 11 (2) of the Bank of Sierra Leone Act 2000	1,124,038	314,142
Balance at end of year	-	-

(b) Development credit fund

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

	2004	2003
	Le'000	Le'000
Balance at beginning of year	972,841	3,636,243
Adjustment in respect of proceeds	(7,828)	(49,230)
Income accruing	204,210	288,528
Transfer to various community banks	-	(3,002,700)
Withholding tax	7,828	-
Transfer to profit and loss	(85,638)	-
Transfer from profit and loss account	100,000	100,000
Balance at end of year	1,191,413	972,841

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

(c) Building reserve fund

	2004	2003
	Le'000	Le'000
Balance at beginning of year	3,988,975	3,900,950
Transfer to general asset reserve fund	(3,863,836)	(1,031,909)
Income accruing from investment	252,158	112,893
Investment	-	(1,092,537)
Maturity of investment	1,092,537	1,999,578
Transfer from profit and loss account	800,000	100,000
Balance at end of year	2,269,834	3,988,975

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

(d) General asset reserve fund

Balance at beginning of year	17,186,470	12,661,022
Transfer from building reserve fund	3,863,836	1,031,909
Transfer from asset procurement reserve fund	3,772,117	3,493,539
Balance at end of year	24,822,423	17,186,470

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

(e) Asset procurement reserve fund

Balance at beginning of year	2,944,604	3,709,950
Income accruing from investment	437,225	266,752
Investments	-	(2,142,578)
Transfer to general asset reserve fund	(3,772,117)	(3,493,539)
Maturity of Investment	2,142,578	3,004,019
Transfer from profit and loss account	1,500,000	1,600,000
Balance at end of year	3,252,290	2,944,604

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

(f) Staff housing loan fund

	2004	2003
	Le'000	Le'000
Balance at beginning of year	128,730	109,824
Income accruing from investment	441,262	241,670
Loan repayment	3,745	4,666
Investments/loan disbursement	(2,125,681)	(2,254,423)
Maturity of Investment	2,254,423	2,026,993
Transfer to profit and loss	(521,216)	-
Balance at end of year	181,263	128,730

This fund was originally created out of transfers from the building reserve fund and then subsequently out of profits for the provision of funds for the staff housing loan scheme.

(g) Staff welfare fund

Balance at beginning of year	315,229	201,198
Income accruing from investments	159,560	88,038
Investment	(1,073,326)	(791,458)
Maturity of Investment	791,458	717,451
Transfer to profit and loss	(177,680)	-
Transfer from profit and loss account	1,100,000	100,000
Balance at end of year	1,115,241	315,229

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

(h) Staff personal loan fund

Balance at beginning of year	1,028,714	958,000
Loan repayments	403,260	254,535
Disbursements to staff	(757,970)	(283,821)
Transfer from profit and loss account	-	100,000
Balance at end of year	674,004	1,028,714

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

(i) Staff vehicle loan fund

	2004	2003
	Le'000	Le'000
Balance at beginning of year	444,988	489,743
Loan repayments	68,085	41,582
Disbursements to staff	(142,370)	(186,337)
Transfer from profit and loss account	-	100,000
Balance at end of year	370,703	444,988

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

(j) Internal insurance fund

Balance at beginning of year	828,060	1,120,566
Proceeds from investments	(117,588)	(425,746)
Income accruing from investments	102,262	33,240
Adjustment	117,588	-
Transfer to profit and loss	(116,719)	-
Transfer from profit and loss account	-	100,000
Balance at end of year	813,603	828,060

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

(k) Monetary co-operation fund

Balance at beginning of year	1,834,574	1,840,322
WAMZ expenses	-	(5,748)
Balance at end of year	1,834,574	1,834,574

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

(l) Community Banking fund

Balance at beginning of year	1,113,324	1,006,829
Income accruing from investments	246,797	119,652
Investment	(1,909,984)	(1,000,302)
Maturity of Investment	1,000,302	887,145
Transfer from profit and loss account	-	100,000
Transfer to profit and loss	(310,292)	-
Balance at end of year	140,147	1,113,324

This fund will be used to finance Community Banking activities.

18. Income from financial assets

	2004	2003
	Le'000	Le'000
Income on foreign currency assets		
STG investments	1,273,292	1,087,034
US\$ investments	334,834	513,021
SDR investments	1,419,748	809,357
Other external investments	415,729	139,107
Total income from foreign currency assets	3,443,603	2,548,519
Income from local currency assets		
Income on Sierra Leone Bearer Bonds	9,727,153	4,740,604
Income on Sierra Leone Treasury Bills	9,183,416	2,247,960
Income on loans and advances	11,976,688	20,847,205
Total income from local currency assets	30,887,257	27,835,769
Total income from financial assets	34,330,860	30,384,288

19. Expenses on financial liabilities

Expenses on foreign currency liabilities		
Interest expenses: IMF interest and charges	2,485,978	698,740
Charges on foreign transactions	49,225	114,860
Total expenses on foreign currency liabilities	2,535,203	813,600
Expenses on local currency liabilities		
Amortisation of Government Securities	2,059	2,286
Total expenses on local currency liabilities	2,059	2,286
Total expenses on financial liabilities	2,537,262	815,886
Expenses on local currency liabilities		
Amortisation on Government Securities	2,059	2,286
Total expenses on local currency liabilities	2,059	2,286
Total expenses on financial liabilities	2,537,262	815,886

20. Other Income

	2004	2003
	Le'000	Le'000
Commission received	137,726	130,883
Commission on foreign transactions	4,137	2,226
Net (shorts)/overs in tills	6,000	464
Profit on sale of assets	9,389	59,042
Rents received	27,899	39,837
Sundry receipts	7,457,675	269,671
Gains in treasury bills	139,301	43,656
Total other income	7,782,127	545,779

Sundry receipts included debt forgiven by the Government of Morocco amounting Le 6,320,000,000 (excluding revaluation), and insurance claims paid by the Bank's insurers amounting to Le795,000,000.

21. Currency

Currency management	63,876	85,904
Currency issue expenses	2,483,011	2,604,782
Total currency expenses	2,546,887	2,690,686

22. Administration

This represented expenses incurred in the administration of the Bank.

23. Revaluation Reserve

Balance at beginning of year	(115,848,125)	(44,686,179)
Revaluation losses on foreign currency assets/liabilities	(61,873,622)	(71,847,302)
Transfer from General Reserve Account (Section 54 (3) of BSL Act 2000)	1,124,038	314,142
Transfer from Profit and Loss Account	1,586,057	371,214
	(175,011,652)	(115,848,125)

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

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

24. Capital

	2004 Le'000	2003 Le'000
Authorised	100,000,000	100,000,000
Issued	24,001,500	24,001,500

Sections 10(1) and 71 of the Bank of Sierra Leone Act 2000 require that the minimum paid up capital of the Bank must be Le 50bn, to be subscribed to within five years from the commencement of the Act, that is by 15th February 2005.

25. Capital Reserve

Balance at end of year	8,982,043	8,982,043
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26. Contingent Liabilities

Guarantees and endorsements	198,448,412	148,353,310
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The bank is a Defendant in a lawsuit, which it is vigorously defending, for a claim amounting to US\$6.9m (Le19,788,000,000)

27. Capital Commitments

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

Capital expenditure/building renovation	5,331,580	5,250,754
African Export Import Bank	3,432,588	3,074,616
	8,764,168	8,325,370

28. Taxation

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

29. Reconciliation of Operating Cash Flows with Operating Profit

	2004 Le,000	2003 Le,000
Operating profit	6,772,114	3,142,427
Increase in other assets	(50,255,997)	(4,674,488)
Effect of exchange rate movements	53,015,652	(98,140,663)
Depreciation	2,430,728	2,150,595
Profit on disposal of tangible fixed assets	(9,389)	-
Net decrease in other loans	(2,367,941)	(704,642)
Net (decrease)/increase in other liabilities	(1,196,827)	1,191,657
Net cash inflow/(outflow) from operating activities	8,388,340	(97,035,114)

30. Cash Balances

	1 January 2004 Le'000	Cash flow Le'000	31 December 2004 Le'000
Cash and cash equivalents	79,436,092	134,375,393	213,811,485
Loans and advances to other bank	334,338	(75,001)	259,337
Repayable on demand	79,770,430	134,300,392	214,070,822

31. Risk Management**Operational risk**

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

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

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

Interest Rate Risk

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

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

In the domestic market, the Bank's investment is mainly in Government of Sierra Leone Treasury Bills and Treasury Bearer Bonds Securities, which are normally held to maturity. These securities are gilt-edged 3 months and 1 year Government of Sierra Leone Treasury Securities with no underlying interest rate risk when held to maturity. Disinvestments prior to maturity have an interest rate risk exposure as price are re-set daily based on the last prevailing weighted average Treasury Bills/Bonds auction price.

32. Pension Fund

The Bank operates a Pension Fund which is a separate entity registered as the Staff Pension Trust Company to provide pensions for employees on their retirement. The fund however recorded a deficit of Le6.416bn as at 31 December 2000, the date of the last actuarial valuation. According to the Trust Deed the Bank is responsible for the financing of any shortfall in the assets of the fund.

33. Related Party Disclosures

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

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

As at 31 December 2004 total advances to the Government amounted to Le584,007,098 (see Note 3).

34. Events after the Balance Sheet Date

Section 71 of the Bank of Sierra Leone Act (2000) requires that the minimum paid-up capital of the bank, referred to in Section 10 of the Act as Le50 billion, shall be fully subscribed within five years of the commencement of the Act. This deadline for subscription is February 2005.

Payments in this respect have not been received.

Bank of Sierra Leone

Annual Report

and

Statement of Accounts

for the year ended 31 December 2004

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