

A. ANNUAL REPORT 2003

1. Review of the Economy

(a) Overview

The year 2003 was characterised by strong economic growth as access to all parts of the country became easier, the displaced and refugees returned to their homes and resumed productive agricultural and mining activities. Extensive rehabilitation and maintenance of machinery in the manufacturing sector as well as increased building and reconstruction activities also contributed to the growth. There were also significant developments in the financial sector with the opening of two community banks facilitated by the Central Bank in the northern region of Marampa-Masimera and Yonibana Chiefdoms respectively. These were aimed at promoting rural financial intermediation and stimulating savings mobilisation in the rural areas. Two commercial bank branches were also opened in the eastern mining region of Kono during the year.

The Government of Sierra Leone maintained the existing good relationship with its development partners especially the IMF and the World Bank. The Executive Board of the International Monetary Fund (IMF) in April 2003, completed the Third Review of Sierra Leone's performance under the Poverty Reduction and Growth Facility (PRGF) Programme. As a result of satisfactory performance the country was able to draw up to SDR 14mn from the Arrangement. The Board also approved the disbursement of additional HIPC assistance of SDR 23.64mn to the country to meet its debt service

obligations. The Fourth Review under the PRGF Arrangement was based on the performance at end September 2003. The outcome of the review is expected in early 2004. The government continued to receive budgetary and balance of payments support from the Department for International Development (DFID) under the Sierra Leone/United Kingdom Programme Aid, as well as loan disbursements from other multilaterals like the African Development Bank (ADB) and the International Development Association (IDA). Sierra Leone, on the 29th May 2003 became the 58th member to participate in the General Data Dissemination System (GDDS) as metadata for the country can now be accessed on the IMF's Dissemination Standards Bulletin Board.

The positive gains achieved in pursuance of stringent macroeconomic policy measures during 2002 were sustained in 2003 as the domestic economy became more receptive in the wake of continued post conflict reconstruction, rehabilitation and resettlement efforts. The year under review witnessed increased investment opportunities and heightened consolidation of business confidence with continued donor participation in both the country's medium and long term development programmes. To this end real output is estimated to have grown by 6.5 percent with high growth recorded for cocoa and diamonds, the latter following the successful implementation of the Certification Scheme by the United Nations

FINANCIAL POSITION AND OPERATING RESULTS OF THE BANK FOR THE YEAR ENDED 31ST DECEMBER 2003

As at 31st December 2003 the total assets and liabilities of the Bank amounted to Le1,290.42 billion. This represents a rise of 8.32 percent over the total value of Assets and Liabilities of Le1,191.25 billion recorded as at 31st December 2002, and indicate a further improvement in the Bank's performance over prior years. The major change was the increase in Foreign Currency Financial Assets and Liabilities especially the increase in International Monetary Fund (IMF) Special Drawing Rights and Quota subscription accounts and other foreign financial liabilities inclusive of IMF Securities.

The Bank's holdings of Treasury bills and bonds at Le84.17 billion represent an increase of 87.28 percent over last year's holdings. This was mainly occasioned by the conversion into Treasury Bills and Bonds of Ways and Means Advances amounting to Le72.68 billion during the period.

The rise in property, plant and equipment was 5.02 percent and was mainly reflective of the continued rehabilitation to properties and the acquisition of more equipment and facilities, which are necessary for the Bank's operations.

As the improvement in the economy continues, and the policy on Bank financing of the government budget revised based on the prospects of materialization of foreign donor inflows, lending to government declined by 8.30 percent from Le74.28 billion as at 31st December, 2002 to Le68.11 billion as at 31st December, 2003.

Cash and cash equivalents denominated in foreign currencies decreased by 41.30 percent mainly due to the postponement to 2004 of some major programme disbursements amounting to US\$46.06 million (i.e. IMF- US\$19.43 million, EU-SASP – US\$19.63 million and ADB-ERRL II – US\$7.0 million).

There was a further significant drop in the Bank's Reserves during the period mainly due to revaluation losses.

Local Currency Financial Liabilities dropped by 43.18 percent mainly as a result of decreases in deposits.

The Revaluation Reserve Account which is reflective of the net of translation of foreign assets and liabilities recorded a net debit balance of Le115.85 billion as the total foreign currency financial liabilities of Le870.03 billion exceeded the total foreign currency financial assets of Le558.81 billion by 55.69 percent. The debit balance in this account 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 was Le30.38 billion, with the bulk (91.61 percent) of it accruing from Local Currency Assets. Interest receipts on Ways and Means Advances to Government was the most significant, contributing 68.61 percent of total income. Interest income from local investments rose by 13.96 percent consequent upon a corresponding increase in the Bank's holdings of Government Securities during the period.

Interest income from foreign currency assets also increased by 16.80 percent from 2.18 billion in 2002 to Le2.55 billion in 2003 due mainly to the implementation of effective investment strategies, coupled with the depreciation of the Leone against other major currencies particularly the US Dollar, Pound Sterling, Special Drawing Rights and the Euro. Interest receipts from the Bank's Pound Sterling and US Dollars investment portfolios constituted the bulk (62.78 percent) of this income. Net interest income was Le29.57 billion representing an increase of 6.75 percent over last year's net position. This was mainly due to the reduction (26.41 percent) in charges paid to the IMF for use of its resources during the period.

Operating expenses amounting to Le26.97 billion was 68.64 percent higher than costs incurred during year 2002. Of this, personnel costs which

constituted 50 percent of total expenses rose by 71.03 percent mainly as a result of an increase in the number of staff employed and percentage increases in salaries and related allowances. Administrative expenses, which represented 31.27 percent of total operating expenses, also rose by 94.56 percent mainly due to increases in related costs. The cost of writing-down the Bank's Fixed Assets increased by 47.90 percent during the period to Le2.28 billion as a result of acquisitions and rehabilitation of existing assets.

The resultant profit of Le3.14 billion for the period was allocated in accordance with the provisions of Section 11 of the Bank of Sierra Leone Act, 2000.

Accounts and Budget Department

Board of Directors, Officials and Registered Office

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

Secretary to the Board Mr K S T Kallay

Chief Accountant Mrs K R Saccoh

Solicitors Renner-Thomas & Co
Adele Chambers
Africanus House
13A Howe Street
Freetown

Auditors PKF
Chartered Accountants

Farringdon Place
Farringdon Road
London

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 2003.

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 2003:

| | | |
|-------------------|-----------------|----------------------------------|
| 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 | (appointed 18 April 2001) |
| 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 16 February 2003 to conduct the audit of the financial statements for the year ended 31 December 2003.

By order of the Board

Secretary



Report of the Independent Auditors to the Government of Sierra Leone

We have audited the accompanying balance sheet of Bank of Sierra Leone as at 31 December 2003 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 2003 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

30 July 2004

Freetown

PKF

Chartered Accountants

Date

30 July 2004

London

PKF

Chartered Accountants

Balance Sheet

| | Note | 2003 Le'000 | 2002 Le'000 |
|---|------|----------------------|----------------------|
| Foreign Currency Financial Assets | | | |
| Cash on hand | | 1,438,686 | 456,874 |
| Cash and cash equivalents with foreign banks | 2 | 77,997,406 | 132,882,084 |
| Equity shares and participating interest | 4 | 2,754,945 | 2,428,099 |
| Accrued interest | | 222,373 | 187,410 |
| International Monetary Fund Special Drawing Rights Allocation | | 87,021,238 | 51,988,372 |
| International Monetary Fund Quota Subscription | | 389,377,945 | 304,792,966 |
| Total Foreign Currency Financial Assets | | 558,812,593 | 492,735,805 |
| Local Currency Financial Assets | | | |
| Treasury bills and bonds | 5 | 84,172,762 | 44,945,194 |
| Investment in marketable securities | | 7,628,678 | 14,357,976 |
| Accrued interest | | 229,568 | 232,554 |
| Advances to Banks | | 334,338 | 34,337 |
| Advances to Government | 3 | 68,109,550 | 74,277,670 |
| Other local currency financial assets | 7 | 1,956,329 | 1,251,688 |
| Special issue of securities of the Government of Sierra Leone | 6 | 530,880,200 | 531,037,271 |
| Total Local Currency Financial Assets | | 693,311,425 | 666,136,690 |
| Total Financial Assets | | 1,252,124,018 | 1,158,872,495 |
| Non-Financial Assets | | | |
| Inventory | 8 | 4,260,757 | 1,421,152 |
| Gold Stocks | | 94,589 | 67,662 |
| Other non-financial assets | 10 | 7,336,163 | 5,560,184 |
| Property, plant and equipment | 9 | 26,601,095 | 25,330,550 |
| Total Non-Financial Assets | | 38,292,604 | 32,379,548 |
| Total Assets | | 1,290,416,622 | 1,191,252,043 |

Balance Sheet (cont.)

| | Note | 2003 Le'000 | 2002 Le'000 |
|---|------|----------------------|----------------------|
| Liabilities | | | |
| Foreign Currency Financial Liabilities | | | |
| Term liabilities | 11 | 479,266,320 | 410,603,818 |
| Other foreign currency financial liabilities | 12 | 325,221,436 | 293,471,070 |
| International Monetary Fund Special Drawing Rights Allocation | | 65,540,907 | 51,303,387 |
| Total Foreign Currency Financial Liabilities | | 870,028,663 | 755,378,275 |
| Local Currency Financial Liabilities | | | |
| Government deposits | | 11,748,802 | 41,196,728 |
| Commercial Bank deposits | | 6,497,072 | 9,259,444 |
| Other deposits | | 20,467,864 | 21,507,143 |
| Accrued charges | | 3,086,473 | 1,873,726 |
| Other local currency financial liabilities | 13 | 392,111 | 413,201 |
| Total Local Currency Financial Liabilities | | 42,192,322 | 74,250,242 |
| Total Financial Liabilities | | 912,220,985 | 829,628,517 |
| Non-Financial Liabilities | | | |
| Currency in circulation | | 197,498,903 | 158,593,429 |
| Other liabilities | 14 | 673,140 | 581,269 |
| Total Non-Financial Liabilities | | 198,172,043 | 159,174,698 |
| Provisions | | | |
| Provision for revaluation of pipeline liabilities | 15 | 232,087,851 | 184,516,280 |
| Total Liabilities | | 1,342,480,879 | 1,173,319,495 |
| Capital Reserves | 24 | 24,001,500 | 24,001,500 |
| | 17 | (76,065,757) | (6,068,952) |
| Total Liabilities and Equity | | 1,290,416,622 | 1,191,252,043 |

These financial statements were approved by the Board of Directors on 23/07/ 2004

.....Governor

.....Director

Income Statement

| | Note | 2003 Le'000 | 2002 Le'000 |
|--|------|--------------------|---------------------|
| Operating Income: | | | |
| Interest income from Financial Assets | | | |
| Foreign Currency Investments | 18 | 2,548,519 | 2,182,009 |
| Government Bills and Bonds | 18 | 6,988,564 | 6,132,401 |
| Advances to Government | 18 | 20,847,205 | 20,437,256 |
| | | 30,384,288 | 28,751,666 |
| Expenses on financial liabilities | | | |
| IMF interest and charges | | (698,740) | (949,570) |
| Charges on foreign transactions | | (114,860) | (100,660) |
| Amortisation of Government Securities | | (2,286) | (2,311) |
| Net exchange loss | | (10) | (199,744) |
| Other Income | 20 | 545,779 | 910,981 |
| Total Operating Income | | 30,114,171 | 28,410,362 |
| Operating Expenses: | | | |
| Personnel | | 13,486,826 | 7,885,506 |
| Depreciation | 9 | 2,283,691 | 1,544,091 |
| Currency | 21 | 2,690,686 | 1,329,383 |
| Administration | 22 | 8,434,569 | 4,335,224 |
| Other | | 75,972 | 899,202 |
| Total Operating Expenses | | 26,971,744 | 15,993,406 |
| Profit available for appropriation under Bank of Sierra Leone Act | | 3,142,427 | 12,416,956 |
| Less Appropriations | 16 | (3,142,427) | (12,416,956) |

Cash Flow Statement

| | Note | 2003 | 2002 |
|--|------|---------------------|---------------------|
| | | Le'000 | Le'000 |
| Net cash outflow from operating activities | 29 | (97,035,114) | (42,815,395) |
| Investing Activities | | | |
| Net decrease in loans and advances to government | | 6,168,120 | 5,231,000 |
| Net Disinvestments in marketable securities | | 6,729,298 | (1,953,103) |
| Net increase in Government Securities held by the Bank | | (39,227,567) | (9,127,470) |
| Purchase of tangible fixed assets | | (3,421,140) | (4,635,727) |
| Cash outflows from Investing Activities | | (29,751,289) | (10,485,300) |
| Financing Activities | | | |
| Net (decrease)/increase in deposits by Government and Banks | | (32,210,298) | 30,998,080 |
| Net (decrease)/increase in other deposits taken | | (1,039,279) | 2,219,885 |
| Fund movements | | (1,134,862) | (2,218,955) |
| Increase in currency in circulation | | 38,905,474 | 32,469,439 |
| Net increase in term liabilities | | 68,662,502 | 14,392,660 |
| Net increase in foreign currency liabilities | | - | - |
| Cash inflows from financing Activities | | 73,183,537 | 77,861,109 |
| (Decrease)/Increase in cash and cash equivalents | 30 | (53,602,866) | 24,560,414 |

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 | 31.12.2003 | 31.12.2002 |
|----------|-------------|-------------|
| US\$ 1 | Le 2,562.18 | Le 2,191.73 |
| £Stg 1 | Le 4,719.66 | Le 3,514.44 |
| WAUA 1 | Le 3,779.55 | Le 2,953.10 |
| Euro 1 | Le 3,283.46 | Le 2,293.94 |
| SDR 1 | Le 3,754.85 | Le 2,939.18 |

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 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

| | 2003 | 2002 |
|---------------------|-------------------|--------------------|
| | Le'000 | Le'000 |
| Maturity Analysis | | |
| Up to 1 month | 65,555,802 | 78,024,465 |
| 1 month to 3 months | 12,341,604 | 54,857,619 |
| | 77,997,406 | 132,882,084 |

3. ADVANCES TO GOVERNMENT

| | Le'000 |
|--|-------------------|
| Ways and Means Advances brought forward | 74,277,670 |
| Recoveries during the year | (6,168,120) |
| Due to Government from profit and loss account | - |
| Ways and Means Advances carried forward | 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.

| | |
|---|--------------------|
| Ways and Means Advances | 68,109,550 |
| Treasury and eligible bills | 84,172,762 |
| Bank's holding of Special Issue securities of Government of Sierra Leone | 530,880,200 |
| Less: Government deposits | (11,748,802) |
| Government stocks and shares | (4,730,033) |
| Net credit to Government of Sierra Leone | 666,683,677 |
| Government actual revenue in previous year | 294,027,000 |
| 5% thereof | 14,701,350 |
| Excess in Government lending | 651,982,327 |

The Directors report excesses in lending to the Government of Sierra Leone as at 31 December 2003 of Le 651,982,327,000 (2002:Le 504,936,874,000).

4. EQUITY SHARES AND PARTICIPATING INTEREST

| | 2003 | 2002 |
|------------------------------------|------------------|------------------|
| | Le'000 | Le'000 |
| AfreximBank Capital Investment | 2,049,744 | 1,753,384 |
| AfreximBank Dividend Investment | 210,852 | 180,366 |
| BSL CON-WAMA Credit Guarantee Fund | 494,349 | 494,349 |
| | 2,754,945 | 2,428,099 |

5. TREASURY BILLS AND BEARER BONDS

| | 2003 | 2002 |
|-----------------------|-------------------|-------------------|
| | Le'000 | Le'000 |
| Treasury Bills | 66,857,912 | 32,843,944 |
| Treasury Bearer Bonds | 17,314,850 | 12,101,250 |
| | 84,172,762 | 44,945,194 |
| Maturity Analysis | | |
| Up to 1 month | 799,050 | 226,350 |
| 1 month to 3 months | 68,978,362 | 38,603,044 |
| 3 months to 1 year | 6,257,850 | 1,863,500 |
| 1 year to 5 years | 8,137,500 | 4,252,300 |
| | 84,172,762 | 44,945,194 |

6. SPECIAL ISSUE OF SECURITIES OF THE GOVERNMENT OF SIERRA LEONE

| | Le'000 | Le'000 |
|--|--------------------|--------------------|
| Securities in issue at the beginning of the year | 531,037,271 | 531,606,797 |
| New securities issued during the year | - | - |
| Redemption during the year | (157,071) | (569,526) |
| Securities in issue at the end of the year | 530,880,200 | 531,037,271 |

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) |
| Balance remaining due | 530,880,200 |

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

| | Le'000 | Le'000 |
|---------------------------|------------------|------------------|
| | 2003 | 2002 |
| Staff personal loan | 266,350 | 248,335 |
| Staff housing loan | 23,900 | 28,566 |
| Staff vehicle loan | 231,246 | 89,607 |
| Advances to contractors | 1,166,596 | 766,846 |
| Advances to staff | 10,974 | 13,446 |
| Advances to others | 28,837 | 30,153 |
| Rent etc. paid in advance | 178,512 | 74,735 |
| Bills for collection | 49,914 | - |
| | 1,956,329 | 1,251,688 |

8. INVENTORY

| | Le'000 | Le'000 |
|------------------|------------------|------------------|
| | 2003 | 2002 |
| Medical | 32,344 | 38,211 |
| Fuel | 12,876 | 3,156 |
| Maintenance | 5,508 | 20,442 |
| Stationery | 76,687 | 78,995 |
| Others | 87,453 | 79,232 |
| Items in transit | 4,045,889 | 1,201,116 |
| | 4,260,757 | 1,421,152 |

9. PROPERTY, PLANT AND EQUIPMENT

| Cost: | Premises | Equipment | Total |
|------------------------------------|-------------------|-------------------|-------------------|
| | Le'000 | Le'000 | Le'000 |
| Balance at 1 January 2003 | 24,297,089 | 8,486,006 | 32,783,095 |
| Acquisitions | 611,920 | 2,980,597 | 3,592,517 |
| Disposals during the year | - | (171,377) | (171,377) |
| Balance at 31 December 2003 | 24,909,009 | 11,295,226 | 36,204,235 |
| Depreciation: | | | |
| Balance at 1 January 2003 | 3,150,897 | 4,301,648 | 7,452,545 |
| Depreciation charge for the year | 509,038 | 1,774,653 | 2,283,691 |
| Disposals during the year | - | (133,096) | (133,096) |
| Balance at 31 December 2003 | 3,659,935 | 5,943,205 | 9,603,140 |
| Net book value: | | | |
| At 1 January 2003 | 21,146,192 | 4,184,358 | 25,330,550 |
| At 31 December 2003 | 21,249,074 | 5,352,021 | 26,601,095 |

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

| | Le'000 | Le'000 |
|---|------------------|------------------|
| | 2003 | 2002 |
| Deferred currency issue expenses | 7,187,353 | 5,409,088 |
| Deferred Government Security Certificates | 148,810 | 151,096 |
| | 7,336,163 | 5,560,184 |

11. TERM LIABILITIES

| | 2003 | 2002 |
|--|--------------------|--------------------|
| Sierra Rutile/GOSL Loan | 1,857,682 | 1,589,090 |
| Bank of Morocco loan | 28,659,123 | 24,515,475 |
| Bank of china US\$ clearing | 21,561,182 | 18,443,783 |
| IMF Poverty Reduction and Growth Facility (PRGF) | 417,042,728 | 342,230,477 |
| IMF – SAP Loan | 10,145,605 | 23,824,993 |
| | 479,266,320 | 410,603,818 |

12. OTHER FOREIGN CURRENCY FINANCIAL LIABILITIES

| | 2003 | 2002 |
|--|--------------------|--------------------|
| Foreign payment | 2,543,595 | 9,235,641 |
| Thomas de la Rue | 1,018,659 | - |
| IMF Securities Account | 67,390,261 | 31,152,470 |
| IMF No.1 Account | 250,436,897 | 250,436,897 |
| ADF/ERR loan | 111,832 | 546,423 |
| WAMA ECOWAS Travellers' Cheques | 11,798 | 11,578 |
| WAMA ECOWAS Travellers' Cheques clearing | (1,170) | 366 |
| Commission of European Committee | 4,648,080 | 2,847,019 |
| WAMA settlement | (938,516) | (759,324) |
| | 325,221,436 | 293,471,070 |

13. OTHER LOCAL CURRENCY FINANCIAL LIABILITIES

| | 2003 | 2002 |
|----------------------------|----------------|----------------|
| P.S. Bond in circulation | 449 | 449 |
| Retention monies | 364,187 | 336,810 |
| Rent received in advance | - | 25,613 |
| Unapproved invoices | 6,205 | 11,459 |
| Trade and sundry creditors | 21,270 | 38,870 |
| | 392,111 | 413,201 |

14. OTHER LIABILITIES

| | 2003 | 2002 |
|----------------------------------|----------------|----------------|
| Provision for loss on investment | 3,378 | 3,378 |
| Provision for bad debts | 34,337 | 34,337 |
| SAL Loan/Cash cover | 635,425 | 543,554 |
| | 673,140 | 581,269 |

15. PROVISION FOR REVALUATION OF PIPELINE LIABILITIES

| | Le'000 | Le'000 |
|--------------------|--------------------|--------------------|
| Beginning of year | 184,516,280 | 167,026,950 |
| Revaluation | 47,571,571 | 17,489,330 |
| Claims/payments | - | - |
| End of year | 232,087,851 | 184,516,280 |

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

| | Le'000 2003 | Le'000 2002 |
|--------------------------------|----------------|------------------|
| Net profit for the year | 3,142,427 | 12,416,956 |
| <i>Appropriations:</i> | | |
| Building reserve fund | (100,000) | (3,000,000) |
| Asset procurement reserve fund | (1,600,000) | (3,000,000) |
| Staff welfare fund | (100,000) | (200,000) |
| Staff personal loan fund | (100,000) | (500,000) |
| Staff vehicle loan fund | (100,000) | (100,000) |
| Internal Insurance fund | (100,000) | (100,000) |
| Staff housing loan fund | - | (100,000) |
| Community Banking fund | (100,000) | (1,000,000) |
| Monetary co-operation fund | - | (1,000,000) |
| | 942,427 | 3,416,956 |
| General Reserve | (314,142) | (1,138,985) |
| Redemption of securities | (157,071) | (569,526) |
| Development credit fund | (100,000) | (200,000) |
| Revaluation reserve | (371,214) | (1,508,445) |
| | ----- | ----- |
| | - | - |
| | ===== | ===== |

| 17. CAPITAL AND RESERVES | Le'000 2003 | Le'000 2002 |
|---------------------------------|------------------------|------------------------|
| Capital account | 24,001,500 | 24,001,500 |
| Capital reserves (Note 25) | 8,982,043 | 8,982,043 |
| General reserve fund | - | - |
| Development credit fund | 972,841 | 3,636,243 |
| Revaluation reserve (Note 23) | (115,848,125) | (44,686,179) |
| Credit guarantee fund | 13,686 | 319 |
| Export credit guarantee fund | 130 | 217 |
| Internal insurance fund | 828,060 | 1,120,566 |
| Staff welfare fund | 315,229 | 201,198 |
| Community Banking fund | 1,113,324 | 1,006,829 |
| Staff housing loan fund | 128,730 | 109,824 |
| Staff vehicle loan fund | 444,988 | 489,743 |
| Staff personal loan fund | 1,028,714 | 958,000 |
| Monetary co-operation fund | 1,834,574 | 1,840,322 |
| Building reserve fund | 3,988,975 | 3,900,950 |
| Asset procurement reserve fund | 2,944,604 | 3,709,951 |
| General asset reserve | 17,186,470 | 12,661,022 |
| | (76,065,757) | (6,068,952) |

(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.

| | 2003 | 2002 |
|---|-------------|-------------|
| Balance at beginning of year | - | - |
| Transfer to revaluation reserve in accordance with Section 54(3) of the Bank of Sierra Leone Act 2000 | (314,142) | (1,138,985) |
| Transfer from Income Statement in accordance with Section 11 (2) of the Bank of Sierra Leone Act 2000 | 314,142 | 1,138,985 |
| 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:

| | Le'000 | Le'000 |
|---------------------------------------|----------------|------------------|
| | 2003 | 2002 |
| Balance at beginning of year | 3,636,243 | 2,721,905 |
| Adjustment in respect of proceeds | (49,230) | 49,230 |
| Income accruing | 288,528 | 203,408 |
| Transfer to various community banks | (3,002,700) | 461,700 |
| Transfer from profit and loss account | 100,000 | 200,000 |
| Balance at end of year | 972,841 | 3,636,243 |

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

| | 2003 | 2002 |
|--|------------------|------------------|
| Balance at beginning of year | 3,900,950 | 2,936,938 |
| Transfer to general asset reserve fund | (1,031,909) | (2,022,043) |
| Income accruing from investment | 112,893 | 199,113 |
| Investment | (1,092,537) | (1,999,578) |
| Maturity of investment | 1,999,578 | 1,786,520 |
| Transfer from profit and loss account | 100,000 | 3,000,000 |
| Balance at end of year | 3,988,975 | 3,900,950 |

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

(d) General asset reserve fund

| | 2003 | 2002 |
|--|-------------------|-------------------|
| Balance at beginning of year | 12,661,022 | 8,957,933 |
| Transfer from building reserve fund | 1,031,909 | 2,022,043 |
| Transfer from asset procurement reserve fund | 3,493,539 | 1,681,046 |
| Balance at end of year | 17,186,470 | 12,661,022 |

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

| | Le'000 | Le'000 |
|--|------------------|------------------|
| | 2003 | 2002 |
| Balance at beginning of year | 3,709,950 | 1,862,875 |
| Income accruing from investment | 266,752 | 308,320 |
| Investments | (2,142,578) | (3,004,018) |
| Transfer to general asset reserve fund | (3,493,539) | (1,681,046) |
| Maturity of Investment | 3,004,019 | 3,223,820 |
| Transfer from profit and loss account | 1,600,000 | 3,000,000 |
| Balance at end of year | 2,944,604 | 3,709,950 |

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

(f) Staff housing loan fund

| | 2003 | 2002 |
|---------------------------------------|----------------|----------------|
| Balance at beginning of year | 109,824 | 148,480 |
| Income accruing from investment | 241,670 | 169,785 |
| Loan repayment | 4,666 | 4,732 |
| Investments/loan disbursement | (2,254,423) | (2,026,993) |
| Maturity of Investment | 2,026,993 | 1,713,820 |
| Transfer from profit and loss account | - | 100,000 |
| Balance at end of year | 128,730 | 109,824 |

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

| | 2003 | 2002 |
|---------------------------------------|----------------|----------------|
| Balance at beginning of year | 201,198 | 16,207 |
| Income accruing from investments | 88,038 | 65,192 |
| Investment | (791,458) | (717,451) |
| Maturity of Investment | 717,451 | 637,250 |
| Transfer from profit and loss account | 100,000 | 200,000 |
| Balance at end of year | 315,229 | 201,198 |

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

(h) Staff personal loan fund

| | 2003 | 2002 |
|---------------------------------------|------------------|----------------|
| Balance at beginning of year | 958,000 | 586,347 |
| Adjustments | - | (12,541) |
| Loan repayments | 254,535 | 196,368 |
| Disbursements to staff | (283,821) | (312,174) |
| Transfer from profit and loss account | 100,000 | 500,000 |
| Balance at end of year | 1,028,714 | 958,000 |

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

(i) Staff vehicle loan fund

| | 2003 | 2002 |
|---------------------------------------|----------------|----------------|
| Balance at beginning of year | 489,743 | 400,665 |
| Loan repayments | 41,582 | 196,368 |
| Disbursements to staff | (186,337) | (312,174) |
| Transfer from profit and loss account | 100,000 | 100,000 |
| Balance at end of year | 444,988 | 489,743 |

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

(j) Internal insurance fund

| | 2003 | 2002 |
|---------------------------------------|----------------|------------------|
| Balance at beginning of year | 1,120,566 | 569,997 |
| Proceeds from investments | (425,746) | 425,746 |
| Income accruing from investments | 33,240 | 24,823 |
| Transfer from profit and loss account | 100,000 | 100,000 |
| Balance at end of year | 828,060 | 1,120,566 |

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

(k) Monetary co-operation fund

| | 2003 | 2002 |
|---------------------------------------|------------------|------------------|
| Balance at beginning of year | 1,840,322 | 1,235,836 |
| Refund by Ministry of Finance | - | - |
| Contribution to WAMI | - | (283,923) |
| WAMZ expenses | (5,748) | (111,591) |
| Transfer from profit and loss account | - | 1,000,000 |
| Balance at end of year | 1,834,574 | 1,840,322 |

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

| | 2003 | 2002 |
|---------------------------------------|------------------|------------------|
| Balance at beginning of year | 1,006,829 | 22,535 |
| Adjustments | - | - |
| Income accruing from investments | 119,652 | 188,239 |
| Investment | (1,000,302) | (887,145) |
| Maturity of Investment | 887,145 | 683,200 |
| Transfer from profit and loss account | 100,000 | 1,000,000 |
| Balance at end of year | 1,113,324 | 1,006,829 |

This fund will be used to finance Community Banking activities.

18. INCOME FROM FINANCIAL ASSETS

| | Le'000 | Le'000 |
|--|-------------------|-------------------|
| | 2003 | 2002 |
| Interest income | | |
| STG investments | 1,087,034 | 1,116,245 |
| US\$ investments | 513,021 | 600,782 |
| SDR investments | 809,357 | 427,376 |
| Other external investments | 139,107 | 37,606 |
| Total income from foreign currency assets | 2,548,519 | 2,182,009 |
| Income from local currency assets | | |
| Interest income: | | |
| | 2003 | 2002 |
| Income on Sierra Leone Bearer Bonds | 4,740,604 | 1,844,070 |
| Income on Sierra Leone Treasury Bills | 2,247,960 | 4,288,331 |
| Income on loans and advances | 20,847,205 | 20,437,256 |
| Total income from local currency assets | 27,835,769 | 26,569,657 |
| Total income from financial assets | 30,384,288 | 28,751,666 |

19. EXPENSES ON FINANCIAL LIABILITIES**Expenses on foreign currency liabilities**

| | 2003 | 2002 |
|---|-------------|-------------|
| Interest expenses: IMF interest and charges | 698,740 | 949,570 |
| Charges on foreign transactions | 114,860 | 100,660 |

| | | |
|---|----------------|------------------|
| Total expenses on foreign currency liabilities | 813,600 | 1,050,230 |
|---|----------------|------------------|

| | | |
|---------------------------------------|-------|-------|
| Amortisation of Government Securities | 2,286 | 2,311 |
|---------------------------------------|-------|-------|

| | | |
|---|--------------|--------------|
| Total expenses on local currency liabilities | 2,286 | 2,311 |
|---|--------------|--------------|

| | | |
|--|----------------|------------------|
| Total expenses on financial liabilities | 815,886 | 1,052,541 |
|--|----------------|------------------|

Expenses on local currency liabilities

| | 2003 | 2002 |
|---|--------------|--------------|
| Interest expenses: | | |
| Total interest expense | | |
| Amortisation on Government Securities | 2,286 | 2,311 |
| Total expenses on local currency liabilities | 2,286 | 2,311 |

| | | |
|--|----------------|------------------|
| Total expenses on financial liabilities | 815,886 | 1,052,541 |
|--|----------------|------------------|

20. OTHER INCOME

| | Le'000 | Le'000 |
|------------------------------------|----------------|----------------|
| | 2003 | 2002 |
| Commission received | 130,883 | 221,752 |
| Commission on foreign transactions | 2,226 | 15,412 |
| Net (shorts)/overs in tills | 464 | (1,565) |
| Profit on sale of assets | 59,042 | 10,231 |
| Rents received | 39,837 | 64,076 |
| Sundry receipts | 269,671 | 369,560 |
| Gains in treasury bills | 43,656 | 114,613 |
| Interest received | - | 116,902 |
| Total other income | 545,779 | 910,981 |

21. CURRENCY

| | 2003 | 2002 |
|--------------------------------|------------------|------------------|
| Currency management | 85,904 | 51,161 |
| Currency issue expenses | 2,604,782 | 1,278,222 |
| Total currency expenses | 2,690,686 | 1,329,383 |

22. ADMINISTRATION

Included in the charge to the Income Statement under this heading are losses from the irregular fraudulent recycling of cheques totalling Le 1.8bn, and write off of difference between fund investments held and the general ledger balance amounting to Le473.8m.

23. REVALUATION RESERVE ACCOUNT

| | 2003 | 2002 |
|---|----------------------|---------------------|
| Balance at beginning of year | (44,686,179) | (2,773,494) |
| Revaluation losses on foreign currency assets/liabilities | (71,847,302) | (44,560,115) |
| Transfer from General Reserve Account (Section 54 (3) of BSL Act 2000) | 314,142 | 1,138,985 |
| Transfer from Profit and Loss Account | 371,214 | 1,508,445 |
| | (115,848,125) | (44,686,179) |

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

| | Le'000 | Le'000 |
|------------|-------------|-------------|
| | 2003 | 2002 |
| 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

| | 2003 | 2002 |
|------------------------|-----------|-----------|
| Balance at end of year | 8,982,043 | 8,982,043 |

26. CONTINGENT LIABILITIES

| | 2003 | 2002 |
|-----------------------------|-------------|-------------|
| Guarantees and endorsements | 148,353,310 | 459,298,671 |

The bank is a Defendant in a lawsuit, which it is vigorously defending, for a claim amounting to US\$6.9m (Le17,729,851,000)

27. Capital Commitments

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

| | 2003 | 2002 |
|---|------------------|------------------|
| Capital expenditure/building renovation | 5,250,754 | 1,441,380 |
| African Export Import Bank | 3,074,616 | 2,630,076 |
| | 8,325,370 | 4,071,456 |

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

| | Le'000 | Le'000 |
|---|---------------------|---------------------|
| | 2003 | 2002 |
| Operating profit | 3,142,427 | 12,416,956 |
| (Increase)/decrease in other assets | (4,674,488) | 3,244,066 |
| Effect of exchange rate movements | (98,140,663) | (60,800,324) |
| Depreciation | 2,150,595 | 1,544,091 |
| Net (decrease)/ increase in other loans | (704,642) | 18,381 |
| Net increase in other liabilities | 1,191,657 | 761,435 |
| Net cash outflow from operating activities | (97,035,114) | (42,815,395) |

30. CASH BALANCES

| | 1 January 2003 | Cash flow | 31 December 2003 |
|----------------------------------|--------------------|---------------------|-------------------|
| | Le'000 | Le'000 | Le'000 |
| Cash and cash equivalents | 133,338,958 | (53,902,866) | 79,436,093 |
| Loans and advances to other bank | 34,337 | 300,000 | 334,337 |
| Repayable on demand | | | |
| | 133,373,295 | (53,602,866) | 79,770,430 |

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.

Security Council for almost three years and later replaced by the Kimberly Certification Scheme.

Fiscal performance during the review period was satisfactory with improvements notably in domestic revenue collections, following the establishment of the National Revenue Authority (NRA), which were higher than projected while budgetary outlays were within targets. The late or non-disbursement of external funds however necessitated heavy reliance on domestic sources for financing of the budget deficit. This triggered a surge in the overall liquidity position leading to significant growth in the money supply. The exchange rate experienced a steady depreciation in 2003 due to the rising demand against the limited supply of foreign exchange. The resulting effect, coupled with the hikes in the world market prices of petroleum products was a continuous rise in the general price levels and an increase in inflation rates reaching double digits in September through the end of the year.

(b) Real Sector Developments

Developments in the Real Sector were mixed during 2003. In the agricultural sub-sector, there was a notable increase in cocoa production while production of coffee and piassava dropped drastically. Output in the manufacturing sub-sector, registered downturns in some industries whilst the increased reconstruction and rehabilitation activities during the period created additional demand for the products of others. In the mining sub – sector, the positive trend over the last four years in diamond shipment was sustained. Generation of electricity was

lower due to frequent breakdowns of generating plants. Significant growths were however recorded in other service – providing areas.

Output levels in the industrial sector during the review period indicated improved performances for some products, while others recorded considerable reductions. The production of beer & stout, maltina and soft drinks dropped by 143.88 thousand cartons (15.73%) to 770.61 thousand cartons, 28.95 thousand cartons (14.40%) to 172.05 thousand cartons and 701.00 thousand crates (37.45%) to 1,171.02 thousand crates respectively, in 2003. The decrease was on account of frequent breakdown of plants and machinery, and was particularly so for the Freetown Cold Storage Company, the producer of soft drinks which experienced a major breakdown during the last quarter. The installation of a new plant at the company was late in the year so output was still below that observed in 2002. An increase was however recorded in the output of confectionery, by 365.83 thousand pounds (12.39%) to 3,318.65 thousand pounds, due largely to a rise in demand as the market for the product extended to more areas in the provinces as well as neighbouring Guinea. Output levels for salt and plastic foot wear dropped significantly by 816.38 metric tons (44.83%) to 1,004.55 metric tons and 537.41 thousand pairs (42.37%) to 730.87 thousand pairs respectively, explained by increased consumption of better quality imported substitutes with regards to the former and a huge carry over of stock from the previous year in respect of the latter. The production of common soap increased by 31.88 metric tons (6.94%) to 491.24 metric tons due to

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| Table. 1 Production | | | | | |
|--------------------------------|-------------------------|-------------------|------------|------------|-------------------|
| | | Jan-Dec'02 | Jan-Jun'03 | Jul-Dec'03 | Jan-Dec'03 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Minerals | | | | | |
| Diamonds | <i>000'carats</i> | 351.86 | 251.33 | 255.49 | 506.82 |
| Agriculture | | | | | |
| Coffee | <i>000'M tons</i> | 947.20 | 486.00 | 59.00 | 545.00 |
| Cocoa | <i>000'M tons</i> | 1,177.46 | 2,482.14 | 270.00 | 2,752.14 |
| Piassava | <i>000'M tons</i> | 50.02 | 0.00 | 17.00 | 17.00 |
| Manufactured Goods | | | | | |
| Beer and Stout | <i>000' Cartons</i> | 914.49 | 401.75 | 368.89 | 770.61 |
| Maltina | <i>000' Cartons</i> | 201.00 | 99.55 | 72.50 | 172.05 |
| Soft Drinks | <i>000' Crates</i> | 1,872.03 | 833..02 | 338.00 | 1,171.02 |
| Acetylene | <i>000' Cu.Ft</i> | 99.43 | 68.18 | 45.86 | 114.05 |
| Oxygen | <i>000' Cu.Ft</i> | 1,131.26 | 941.28 | 667.72 | 1,609.01 |
| Carbon-Dioxide | <i>000' Lbs</i> | 26.07 | 1.99 | 0.00 | 1.99 |
| Confectionary | <i>000' Lbs</i> | 2,952.82 | 1,673.51 | 1,645.14 | 3,318.65 |
| Salt | <i>M tons</i> | 1,820.95 | 829.93 | 174.62 | 1,004.55 |
| Common Soap | <i>M tons</i> | 459.63 | 311.27 | 179.97 | 491.24 |
| Paint | <i>000' Gals.</i> | 185.90 | 94.36 | 86.82 | 181.17 |
| Cement | <i>000'M tons</i> | 144.15 | 84.89 | 84.62 | 169.51 |
| Plastic Footwear | <i>000 Pairs</i> | 1,268.28 | 313.27 | 417.60 | 730.87 |
| Services | | | | | |
| Electricity | | | | | |
| Unit Generated | <i>GW/hr</i> | 123.50 | 53.01 | 56.37 | 109.39 |
| Industrial Consumption | <i>GW/hr</i> | 25.55 | 13.82 | 13.98 | 27.81 |

increased demand as imported substitutes were more expensive during the period.

Output of oxygen and acetylene increased by 477.75 thousand cubic feet (42.23%) to 1,609.01 thousand cubic feet and 14.62 thousand cubic feet (14.70%) to 114.05 thousand cubic feet, also due to a rise in consumer demand, while output of carbon - dioxide experienced a sharp drop from 26.07 thousand pounds to 1.99 thousand as a result of non - production of the gas during the second half of the review period arising from the closure of the Sierra Leone Enterprises Company (7Up Factory) in March 2002, a major user of carbon dioxide produced by the Sierra Leone Oxygen Factory (SLOF).

The increasing as well as extensive reconstruction and rehabilitation activities in the economy following the consolidation of peace efforts in 2002, was translated into additional demand for building materials, especially cement, during the reporting period. Consequently, the production of cement rose by 25.36 thousand metric tons (17.59%) to 169.51 thousand metric tons in 2003. Output of paint on the other hand, dropped slightly by 4.73 thousand gallons (2.54%) to 181.17 thousand gallons , as a result of the introduction of new imported varieties in the market.

Total electricity generation by the National Power Authority (NPA) contracted by 14.11 GW/hr (19.47%) from 123.50 GW/hr in 2002 to 109.39 GW/hr in 2003, mainly due to frequent breakdowns of generating plants and machinery during the reporting period. Industrial consumption however,

rose by 2.26 GW/hr (8.85%) from 25.55 GW/hr in 2002 to 27.81 GW/hr in the reporting period.

The volume of diamonds valued for shipment by the Government Gold and Diamond Office (GGDO) increased by 154.96 thousand carats (44.04%) in 2003. Total shipment was 506.82 thousand carats consisting of 260.10 thousand carats of industrial and 246.72 thousand carats of gem diamonds. The increase may partly be accredited to intensified mining activities over more extensive mining areas arising from the marked increase in the mining population in 2003 as compared to the previous year as well as the sustained implementation of the United Nations Certification Scheme. The latter scheme was replaced by the Kimberly Process Certification Scheme in June 2003 after the lifting of the ban on “blood diamonds”.

Developments in the agricultural sector showed mixed trends during the review period. Shipment of cocoa increased from 1,177.46 metric tons in 2002 to 2,752.14 metric tons in 2003, with the bulk of shipment being carried out in the first half of the year. This increase was partly the result of the impetus provided to farmers by a significant rise in prices in the international market, ensuing from the continued political instability in Ivory Coast, which gave rise to considerable shortages of the commodity in the world market.

In contrast, the shipments of coffee and piassava fell by 402.20 metric tons (42.46%) to 545.00 metric tons and 33.02 metric tons (66.01%) to 17.00 metric tons respectively in the period. The relatively

very low prices offered to coffee farmers due to the glut in the international market, pitched against the backdrop of the difficulties associated in the processing of the crop, had the effect of discouraging local production. This situation led farmers to switch to the production of other crops like palm oil. The decline in the output of piassava was a direct result of the significant decline in international demand for the commodity.

Food production in the country recovered in 2003, according to official estimates, as many people displaced by the 11 year civil war returned to their villages and started farming. Output of rice, the country's staple food was up to 78 percent of its pre-war level. There was also a strong recovery in other food crops such as cassava, sweet potato and groundnuts.

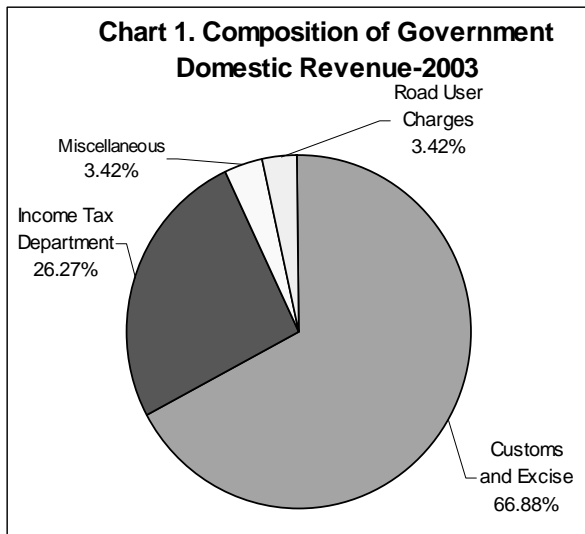
The Tourism sub – sector continued to expand as the number of hotels, guest houses and restaurants increased. The number of registered and licensed hotels and guest houses increased from 76 (*of which: hotels – 8, guest houses – 68*) in 2002 to 100 (*of which: hotels – 14, guest houses – 86*) in 2003. The Transport and Communication services sub – sector also received a boost during the reporting period, with the expansion of mobile phone networks into more areas in the Western Area and the provinces. In addition, a Hovercraft shuttle service between Freetown and the Lungi International Airport was introduced in December 2003.

The pump prices of petroleum products were revised thrice during the year. In February, the pump prices

were reviewed upwards as follows: petrol from Le 4,900 to Le 6,050; diesel from Le 4,800 to Le 6,000 and kerosene from Le 3,500 to Le 4,750, arising from a combination of factors; namely, an increase in world market prices associated with the United States of America's threat of war with Iraq early in the year, a three months' strike by oil workers in Venezuela and the political crisis in Ivory Coast. In July, the pump prices were however reviewed downwards from Le 6,050 to Le 5,900 (petrol), Le 6,000 to Le 5,850 (diesel) and Le 4,750 to Le 4,600 (kerosene), in line with a fall in world market prices; but were later reviewed upwards in November from Le 5,900 to Le 6,600 (petrol), Le 5,850 to Le 6,800 (diesel) and Le 4,600 to Le 5,200 (kerosene), to reflect an increase in the world market prices for petroleum products and the continued depreciation of the Leone.

(c) Fiscal Developments

In the review year, budgetary operations reflected improvement in domestic revenue collection and efforts made to keep expenditures within budgetary allocations. In a bid to harmonise the tax collection process countrywide and strengthen its revenue base the government through an act of Parliament created the National Revenue Authority (NRA) to unify the Income Tax and Customs and Excise departments into a single unit. Also, consistent with the obligation to bring import tariffs in line with the Common External Tariff (CET) of ECOWAS the government in August 2003 made a downward revision of import duties on vehicles from 30 percent to 5 percent, textiles from 30 percent to 20 percent and sales tax from 20 percent to 17.5 percent. Total revenue

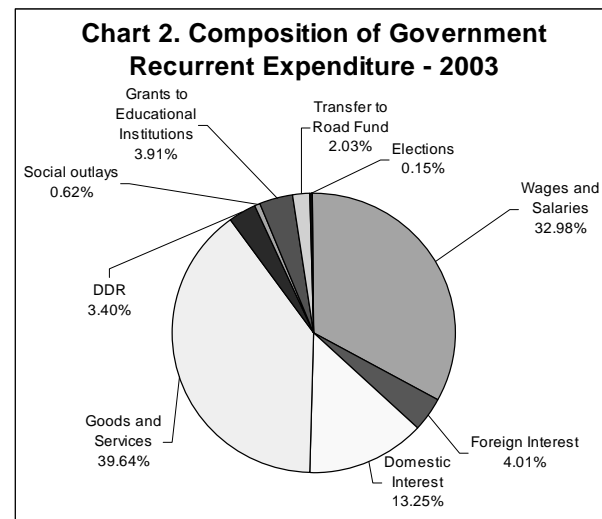


and grants amounting to Le467,001mn (25.21 per cent GDP) was 16.74 per cent higher than that for 2002, but was 19.34 per cent lower than the 2003 budgetary estimate due to the less than expected receipts from project grants. Total Domestic receipts amounted to Le287,658mn (15.53 per cent GDP) and exceeded its level in the previous year by 20.52 per cent and its budget estimate by 5.88 per cent. The improvement in the collection of domestic revenue was due to the establishment of National Revenue Authority (NRA) and the expansion in the manufacturing, construction trade and service sectors. Customs and Excise collections amounting to Le192,379mn accounted for 66.88 percent of the domestic revenue and exceeded the corresponding and budget estimate by 19.80 percent and 9.03 percent respectively. Income Tax receipts recorded at Le75,581mn was greater than the level in 2002 and budget estimate by 20.20 per cent and 2.43 per cent, respectively. Total tax revenue was Le267,960mn and accounted for 93.15 per cent of total domestic revenue. Non-tax revenue from the

mining sector increased with proper mechanism put in place towards the certification of the exportation of diamond.

Total grants received from external donors was Le 179,343mn (9.68 per cent of GDP) and comprised of Le 144,842mn programme grants and Le 34,501mn project grants of which Le 106,616mn of programme grants was HPIC Debt Relief Assistance and the rest budgetary support grants from DFID. Project grants received for the DDR programme and other reconstruction and rehabilitation projects in the review year was 73.18 per cent below the previous year's position of Le 31,737mn. This can be attributed to the gradual completion of the DDR programme in the country. There was also a 151.29 per cent increase in foreign funds for the election of paramount chiefs.

Total expenditure in 2003 amounting to Le597,999mn (32.28 per cent GDP) was within the estimated budgetary limits of Le 726,146mn



ANNUAL REPORT AND STATEMENT OF ACCOUNTS

| Table 2. Government Fiscal Operations (Leone Million) | | | |
|---|---------------------------------|------------------|------------------------------|
| | Rev. Budget 2003 | 2003 | 2002 |
| 1 | 2 | 3 | 4 |
| TOTAL REVENUE (PLUS GRANTS) | 578,976 | 467,001 | 400,024 |
| DOMESTIC REVENUE | 271,678 | 287,658 | 238,689 |
| <i>Of which:</i> | | | |
| Customs & Excise | 176,439 | 192,379 | 160,589 |
| Import taxes | 132,264 | 144,166 | 120,703 |
| Excise on Pet. | 31,647 | 36,693 | 28,337 |
| Other Excise Dut. | 4,523 | 4,502 | 3,791 |
| Domestic Sales Tax | 8,005 | 7,018 | 7,758 |
| Income Tax Department | 73,785 | 75,581 | 62,881 |
| Company Tax | 35,261 | 38,578 | 29,117 |
| Personal Income Tax | 37,258 | 34,468 | 32,525 |
| Other Taxes | 1,266 | 2,535 | 1,239 |
| Miscellaneous | 13,942 | 9,851 | 8,294 |
| Mines Department | 4,402 | 3,040 | 2,033 |
| Licences | 4,402 | 3,040 | 2,033 |
| Other Departments | 9,450 | 6,811 | 6,261 |
| Royalty on Fisheries | 4,000 | 2,643 | 2,309 |
| Parastatals | 2,456 | 2,392 | 1,677 |
| Other Revenues | 3,084 | 1,776 | 2,275 |
| Road User Charges | 7,512 | 9,847 | 6,925 |
| GRANTS | 307,298 | 179,343 | 161,335 |
| Programme | 177,014 | 144,842 | 107,857 |
| <i>HIPC Debt Relief Assistance</i> | 101,002 | 106,616 | 75,327 |
| <i>DFID</i> | 76,012 | 38,226 | 32,530 |
| <i>Others*</i> | - | - | 21,741 |
| Project | 130,284 | 34,501 | 42,079 |
| <i>DDR</i> | 38,120 | 8,513 | 31,737 |
| <i>Elections-Foreign Funded</i> | 92,164 | 25,988 | 10,342 |
| Other Projects | - | - | 11,399 |
| TOTAL EXPENDITURE | 726,146 | 597,999 | 562,267 |
| <i>Of which:</i> | | | |
| Current Expenditure | 490,429 | 485,368 | 474,827 |
| <i>Of which:</i> | | | |
| Wages & Salaries | 154,100 | 160,091 | 142,769 |
| Foreign Interest | 33,055 | 19,455 | 53,778 |
| Domestic Interest | 43,932 | 64,316 | 51,020 |
| Goods & Services | 194,452 | 192,389 | 154,621 |
| DDR | 39,120 | 16,513 | 33,736 |
| Social Outlays | 340 | 3,007 | - |
| Grants to Edu. Inst. | 17,168 | 19,000 | 14,041 |
| Trans. to Rd. fund | 7,512 | 9,847 | 6,925 |
| Elections | 750 | 750 | 17,937 |
| Development Expenditure | 235,217 | 112,314 | 85,766 |
| Foreign Loans and Grants | 212,717 | 81,942 | 65,226 |
| Loans | 120,553 | 55,954 | 53,827 |
| Grants | 92,164 | 25,988 | 11,399 |
| Domestic | 22,500 | 30,372 | 20,540 |
| Subsidies | 500 | 500 | 450 |
| Lending minus repayment | - | (183) | 1,224 |
| CURRENT BALANCE+/- | (88,047) | (18,367) | (74,803) |
| ADD DEVELOPMENT EXPENDITURE | (235,217) | (112,314) | (85,766) |
| OVERALL DEFICIT/SURPLUS+/- | (147,170) | (130,998) | (162,243)^R |

* Others include grants from IDA, Int. umbrella account SDR and Morocco grant

| Table 2. (Concl'd). | | | |
|-------------------------------------|---------------------------------|----------------|-------------------------|
| Government Fiscal Operations | | | |
| (Leone Million) | | | |
| | Rev. Budget 2003 | 2003 | 2002^R |
| 1 | 2 | 3 | 4 |
| FINANCING | 147,170 | 130,998 | 121,127 |
| Domestic | 40,273 | 66,505 | 18,601 |
| <i>Of which:</i> | | | |
| Bank Financing | 15,541 | 22,475 | (5,602) |
| Bank of Sierra Leone | 15,541 | 30,961 | (24,540) |
| Commercial Banks | - | (8,486) | 18,938 |
| Non-Bank Financing | 24,732 | 44,030 | 24,203 |
| External | 113,397 | 56,133 | 113,987 |
| <i>Of which:</i> | | | |
| Loans | 183,527 | 93,627 | 141,605 |
| Amortisation | (70,130) | (37,494) | (27,618) |
| Others** | (6,500) | 8,360 | (11,461) |

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

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though it was 6.35 per cent above the 2002 level. Recurrent expenditure of Le485,368mn (26.20 per cent GDP), though 2.22 per cent higher than the level in 2002 was 1.03 per cent below its budget estimate. Expenditure on Wages and Salaries of Le160,091mn (8.64 per cent GDP) was 12.13 per cent and 3.89 per cent more than the previous year's position and the budget estimate, respectively. It was also 59.74 percent of total tax revenue and exceeded the West African Monetary Zone (WAMZ) criteria of 35 percent or less. Spending on Goods and Services amounting to Le192,389mn or 39.64 per cent of total recurrent expenditure was above the preceding year's level by 24.43 per cent but below the budget estimate by 1.06 per cent. The increase in expenditure was mainly attributed to the cost of teaching and learning materials, fees subsidy and subvention to Educational institutions, essential medical drugs and equipments to Ministry of Health and Sanitation.

Development expenditures amounted to Le112,314mn of which Le55,954mn was from loans, Le25,988mn from grants and Le30,372mn was domestic contribution. Government's contribution to development expenditure was 27.04 per cent of the total development expenditure in 2003. Total development expenditure in the review year was 30.95 per cent above the previous year's position and 52.25 per cent below the budget estimate. Foreign-financed development expenditure in particular was lower than projected because of shortfalls in external project grants and borrowing.

The overall budget deficit including grants was

Le130,998mn (7.07 per cent GDP). Excluding grants, the budget deficit recorded at 16.75 percent of GDP was a 2.76 percentage point reduction over the position in the preceding year. In line with the WAMZ criterion, this figure far exceeded the 4 percentage point limit. Financing of the deficit was from both external and domestic sources. External financing was through programme and project loans, amounting to Le56,133mn, while domestic financing of Le66,505mn was mostly from the Bank of Sierra Leone (Le30,961mn) and the non-bank sector (Le44,030mn). The commercial banks reduced their holdings of government securities over the reporting period.

(e) Monetary Developments

(i) Monetary Survey

The Central Bank vigorously pursued its monetary policy objective of price stability. This was achieved through Open Market Operations used to sterilise the excess liquidity. Efforts by the Bank to attain this objective were however constrained by fiscal pressures with the delays or non disbursement of external budgetary support.

Against this background, the government had to rely heavily on the Central bank to finance its budget thus making monetary management difficult. Narrow Money (M1), Broad Money (M2) and Reserve Money (RM) expanded by Le45.47bn (18.37%), Le82.50bn (21.89%) and Le39.78bn (22.42%) to Le292.95bn, Le459.33bn and Le217.22bn respectively. M1 expanded mainly as a result of the increase in Currency in Circulation, which rose by Le40.43bn (27.32%) to Le188.45bn and accounted for 88.92 percent of the expansion

Table 3
Monetary Survey
(Million Leones)

| | Dec-02 | Mar-03 | Jun-03 | Sep-03 | Dec-03 |
|--|------------------|------------------|------------------|------------------|------------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| Reserve Money | 177,441 | 169,534 | 178,812 | 192,483 | 217,217 |
| Broad Money | 376,838 | 377,244 | 403,913 | 431,214 | 459,333 |
| Narrow Money | 247,478 | 244,501 | 251,257 | 273,380 | 292,950 |
| Currency in Circulation | 148,015 | 150,584 | 153,540 | 161,396 | 188,448 |
| Demand Deposits | 99,463 | 93,917 | 97,717 | 111,984 | 104,502 |
| Quasi Money | 129,359 | 132,743 | 152,656 | 157,834 | 166,382 |
| Foreign Currency Deposits | 55,267 | 59,424 | 73,039 | 69,831 | 71,731 |
| Time Deposits | 3,559 | 3,296 | 4,469 | 4,185 | 5,937 |
| Savings Deposits | 66,007 | 66,441 | 71,316 | 79,537 | 84,086 |
| Time Savings and Foreign Currency Deposits (BSL) | 4,526 | 3,582 | 3,832 | 4,281 | 4,628 |
| Net Foreign Assets | (140,521) | (157,820) | (159,334) | (134,331) | (195,880) |
| Bank of Sierra Leone | -198,904 | -220,558 | -235,947 | -209,437 | -274,719 |
| Assets | 191,179 | 156,211 | 189,132 | 222,286 | 168,696 |
| Liabilities | (390,083) | (376,769) | (425,079) | (431,723) | (443,415) |
| Commercial Banks | 58,383 | 62,738 | 76,613 | 75,106 | 78,839 |
| Assets | 58,383 | 62,738 | 76,613 | 75,106 | 78,839 |
| Liabilities | - | - | - | - | - |
| Domestic Credit | 263,905 | 284,253 | 299,051 | 274,287 | 349,926 |
| Claims on Central Government Net | 189,389 | 206,712 | 222,558 | 189,727 | 238,218 |
| <i>of which: BSL</i> | 80,598 | 89,487 | 105,418 | 71,774 | 139,585 |
| Total Claims | 119,977 | 162,121 | 190,783 | 85,562 | 150,939 |
| Deposits | 39,379 | 72,634 | 85,365 | 13,788 | 11,354 |
| Commercial Banks | 108,791 | 117,225 | 117,140 | 117,953 | 98,633 |
| Total Claims | 130,035 | 136,893 | 131,846 | 139,187 | 121,829 |
| Deposits | 21,244 | 19,668 | 14,706 | 21,234 | 23,196 |
| Claims on Non Financial Public Sector | 963 | 1,432 | 2,754 | 2,864 | 3,661 |
| Claims on Private Sector | 56,719 | 64,178 | 62,184 | 71,596 | 93,317 |
| <i>of which</i> | | | | | |
| Commercial Banks' claims on Private Sector | 50,559 | 61,495 | 59,737 | 69,415 | 91,406 |
| Claims on Non-Banks Financial Inst. | 16,834 | 11,931 | 11,555 | 10,100 | 14,730 |
| Other Items Net | (253,454) | (250,811) | (264,196) | (291,258) | (305,287) |

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

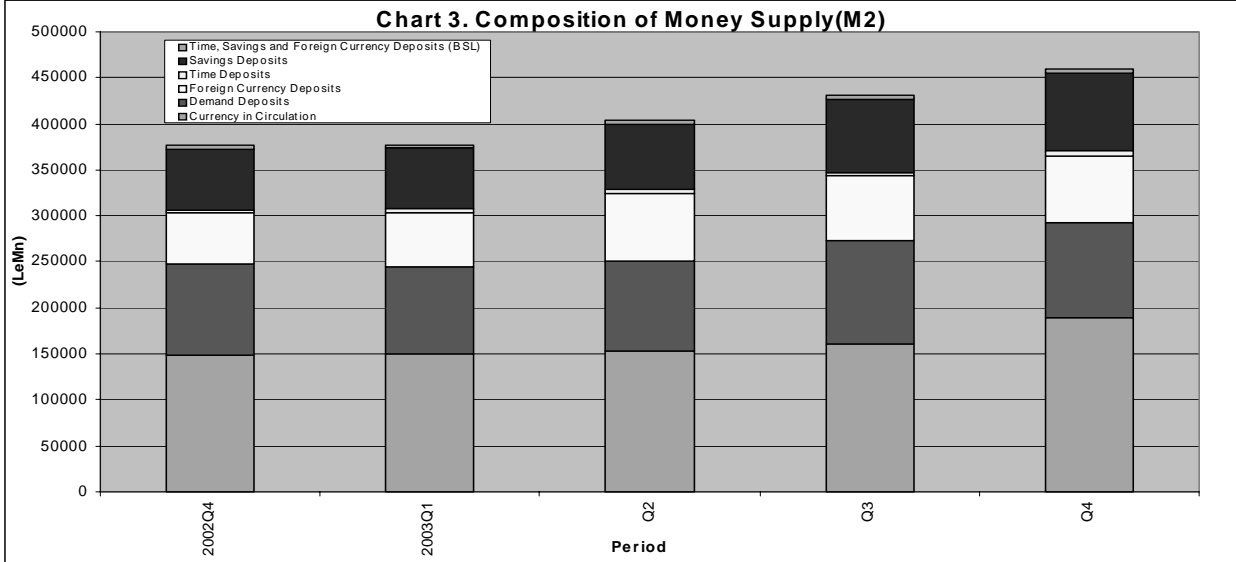
in M1. The surge in M1 coupled with the increases in Savings Deposits (Le18.08bn), Time Deposits (Le2.38bn) and Foreign Currency Deposits (Le16.46bn) at the commercial banks, which grew steadily over the review period, accounted for the rise in M2. Over the period Broad Money growth was 21.89 percent, higher than the programme target of 20.00 percent. The increase in Reserve Money was due primarily to the expansion in Currency Issued (Le40.96bn) and Private Sector Deposits (Le1.43bn), which more than offset the drop in Bankers' Deposits (Le2.65bn).

Government's indebtedness to the Central Bank increased by Le58.99bn (73.19%) to Le139.59bn, on account of the increase in the Bank's holdings of Treasury Bills (Le32.01bn) and Treasury Bearer Bonds (Le5.12bn), coupled with the decrease of Le28.06bn in Government Deposits, which were together greater than the drop in Ways and Means Advances (Le6.17bn). By May 2003, Ways and Means Advances had peaked at Le159.81bn, but

was reduced to Le38.26bn in September 2004, with the reclassification of HIPC resources as "Treasury Revenue Deposits", instead of "Government Deposits" at the Central Bank. This consequently provided relief on Government's payment of interest on Ways and Means Advances. Net Claims on Government by the commercial banks contracted by Le10.16bn (9.34%) to Le98.63bn due to the decline in their holdings of Treasury Bills (Le7.67bn) and Treasury Bearer Bonds (Le813mn), as well as the expansion of Le1.95bn in Government Deposits at the commercial banks.

Net Foreign Assets of the Bank of Sierra Leone dropped by Le75.82bn (38.17%) to minus Le274.72bn due to the increase in its Foreign Liabilities (Le53.33bn), and the decline in Foreign Assets (Le22.48bn). The increase in Foreign Liabilities was mainly on account of the disbursement of SDR 14mn under the PRGF program with the Fund.

During the twelve-month period to end December 2003, credit to the Private Sector by commercial



| | Dec-02 | Mar-03 | Jun-03 | Sep-03 | Dec-03 |
|--------------------------------|--------|--------|--------|--------|--------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| Treasury Bills (3-months) | 14.99 | 15.17 | 14.94 | 14.88 | 20.20 |
| Treasury Bearer Bonds (1-year) | 18.00 | 17.00 | 15.00 | 15.00 | 17.00 |
| Savings Deposits | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Time Deposits | | | | | |
| 1-3 Months | 8.42 | 8.42 | 8.42 | 8.42 | 8.42 |
| 3-6 Months | 9.67 | 9.67 | 9.67 | 9.67 | 9.67 |
| 6-9 Months | 9.50 | 9.50 | 9.50 | 9.50 | 9.50 |
| 9-12 Months | 11.50 | 11.50 | 11.50 | 11.50 | 11.50 |

banks increased substantially by Le40.85bn (80.79%) to Le91.41bn. The sectors accounting for this increase were Commerce and Finance, Manufacturing, Construction and Services signifying a pick-up in economic activities in these sectors.

Throughout the review period, the average interest rates on Savings, Time Deposits and Lending remained unchanged. However, returns on securities investment were mixed. The average annual yield on Treasury Bills for the month of December 2003 was 20.20 percent which was 521 basis point higher than that recorded in December 2002 (14.99%). During the period February registered the lowest average annual yield of 14.82 percent and December the highest of 20.20 percent. The average interest rate on Treasury Bearer Bonds dropped by 100 basis points from December 2002 to 17.00 per cent in December 2003. The lowest rate in 2003 was 15 percent.

(ii) Inflation

The general price level for all the major towns as measured by their consumer price indices indicated

| Inflation Rates (Freetown) - 2003 | | | | Inflation Rates (Freetown) - 2002 | | |
|--|----------------------|-------------|------------------|--|-------------|------------------|
| | Consumer Price Index | Monthly (%) | Year-on-Year (%) | Consumer Price Index | Monthly (%) | Year-on-Year (%) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| January | 513.83 | 0.82 | -0.13 | 514.5 | -4.8 | -7.2 |
| February | 521.72 | 1.54 | 2.81 | 507.5 | 4.8 | -3.4 |
| March | 529.72 | 1.60 | 6.42 | 497.8 | 1.9 | -1.6 |
| April | 527.06 | -0.50 | 6.47 | 495.0 | -0.1 | -0.5 |
| May | 529.52 | 0.47 | 6.14 | 498.9 | 0.3 | 1.3 |
| June | 541.67 | 2.30 | 6.54 | 508.4 | 1.0 | 5.4 |
| July | 546.02 | 0.80 | 5.25 | 518.8 | 0.9 | 6.3 |
| August | 544.54 | -0.27 | 7.96 | 504.4 | 3.9 | 10.9 |
| September | 551.11 | 1.21 | 11.25 | 495.4 | -2.2 | 6.1 |
| October | 559.42 | 1.51 | 12.13 | 498.9 | -1.7 | 2.6 |
| November | 572.35 | 2.31 | 14.92 | 498.0 | -1.8 | 2.9 |
| December | 567.15 | -0.19 | 11.29 | 509.6 | 1.6 | -3.1 |

increasing trends in 2003 as compared to 2002. The Freetown annual average Consumer Price Index (CPI) for the review period was a high of 542.23 from 503.94 recorded in 2002, indicating an increase of 7.60 per cent in the general price level for all items. The year-on-year inflation rate indicated significant increases in the price level for the major part of the year. It rose from 2.81 per cent in February to 6.42 per cent in March, 7.96 per cent in August and took a dramatic rise in the last four months, to double digits of 11.25 per cent in September, 12.13 per cent in October, 14.92 per cent in November and only abating to 11.29 per cent in December.

Similar trends were recorded in the year – on – year inflation rates for the towns of Bo and Kenema, registering even much higher rates in the second half of the year. In Kenema, the year-on-year of inflation rate rose from minus 4.28 per cent in January to

8.86 per cent in July, 9.87 per cent in August and fluctuated between 11.99 per cent and 19.30 per cent from September through December. For Bo, the year-on-year rate of inflation also rose significantly, from –1.20 per cent in June to 10.08 percent in July and 14.66 per cent in September. It however dropped to 11.25 per cent in October, 10.18 per cent and 8.91 per cent in November and December, respectively.

The year - on - year inflation rate for Makeni town was available only from July through December 2003, registering very significant magnitudes of 14.77, 22.26, 18.15, 11.46, 13.71 and 18.72 per cents. This is reflective of the high rate of price increases obtaining in the town relative to the other towns due to scarcity of commodities.

These developments were the result of the continued depreciation of the Leone against the US Dollar and

| | 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 | 111.42 | 1.82 | -4.48 | 108.33 | 1.17 | -4.28 | 97.50 | -1.61 | N.A |
| February | 112.49 | 0.94 | -3.70 | 114.74 | 5.91 | -1.30 | 100.55 | 3.12 | N.A |
| March | 114.47 | 1.69 | -1.45 | 119.01 | 2.15 | 2.94 | 98.81 | -0.13 | N.A |
| April | 114.22 | -0.24 | -1.20 | 118.78 | -0.19 | 3.50 | 99.65 | 0.85 | N.A |
| May | 115.77 | 1.36 | -2.50 | 114.83 | -3.33 | -3.46 | 106.00 | 6.37 | N.A |
| June | 117.91 | 1.85 | -1.20 | 121.67 | 5.96 | 3.58 | 106.97 | 0.91 | N.A |
| July | 120.69 | 2.36 | 10.08 | 123.78 | 1.73 | 8.86 | 107.91 | 0.88 | 14.77 |
| August | 119.03 | -1.38 | 8.35 | 124.93 | 0.93 | 9.87 | 113.21 | 4.91 | 22.26 |
| September | 123.82 | 4.03 | 14.66 | 126.38 | 1.16 | 11.99 | 110.28 | -2.59 | 18.15 |
| October | 118.56 | -4.25 | 11.25 | 127.48 | 0.87 | 15.08 | 104.18 | -5.53 | 11.46 |
| November | 117.45 | -0.94 | 10.18 | 125.96 | -1.19 | 13.50 | 106.19 | 1.93 | 13.71 |
| December | 119.18 | 1.48 | 8.91 | 127.74 | 1.14 | 19.30 | 109.58 | 3.19 | 18.72 |

other major world currencies leading to substantial increases in the prices of items in all the main expenditure groups; namely, “Food”, “Beverages and Tobacco” and “Non - Food” categories.

(d) External Sector Developments

(i) International Trade

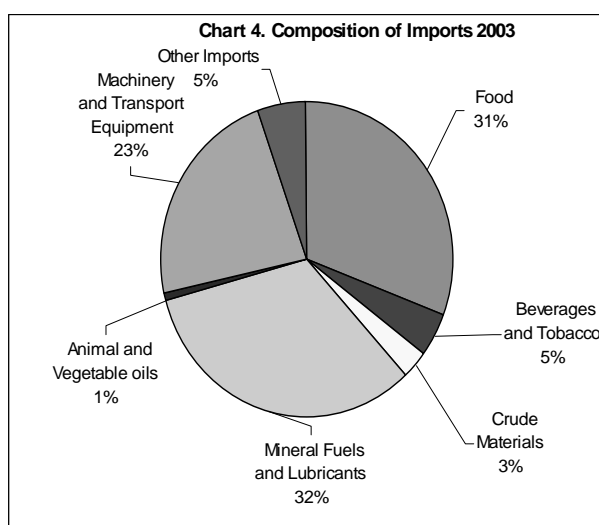
The level of foreign trade during 2003 rose by 26.6 per cent to US\$396.08mn from US\$ 312.98mn in 2002, as manifested in the significant increases in both import payments (due to a general rise in commercial activities) and export receipts (due to a further boost in mining and agricultural output). Consequently, the trade deficit was reduced to US\$211.29mn from US\$215.57mn in 2002.

Total export earnings during the year under review amounted to US\$92.40mn (11.5% of GDP) and was US\$43.69mn (89.7%) above the corresponding earnings in 2002. The significant increase in export receipts was reflected in all the categories i.e mineral, agricultural, other exports and re-exports [although earnings from the export of coffee and piassava dropped by 85.3 per cent and 89.3 per cent to US\$40.10 thousand and US\$2.80 thousand, respectively]. Proceeds from the export of diamonds increased by 83.7 per cent to US\$76.67mn in 2003 from US\$ 41.73mn in the preceding year. This reflected the increase in export volume by 44.1 per cent to 506.8 thousand carats as the buoyancy experienced in 2002 was sustained. It also accounted for 83 per cent of total export earnings and continued to be the sole mineral in the

mineral sub - sector. The volume and value of the mineral exported comprised 246.7 thousand carats of gem diamonds valued at US\$69.83mn and 260.1 thousand carats of industrial diamonds valued at US\$6.84mn. The unit prices for gem and industrial diamonds exported during the reporting period were US\$283.1 and US\$26.3 per carat respectively and were 10.5 percent and 34.6 percent higher than the unit prices in 2002 thus reflecting higher quality diamonds exported over the year. The value of gem diamonds exported in the reporting period, at US\$69.83mn, was 85 per cent above that of US\$37.74mn recorded for 2002; while that for industrial diamonds increased by 71 per cent from US\$3.99mn in 2002 to US\$6.83mn in 2003.

Export earnings from agricultural commodities at US\$2.64mn was a significant 71.43 per cent increase on US\$1.54mn recorded in 2002. The increase was mainly due to a marked upshot in proceeds from export of cocoa, which at US\$2.57mn more than doubled (111.1%) receipts in the previous year, though still below pre – war years. The increase in the value of cocoa exports was mainly attributed to intensification of production activities on expanded farm areas, as resettled farming communities increased, culminating in increased output. In addition, there was sustained price hikes in the world market for the commodity. Earnings from coffee and piassava however plummeted to US\$ 40.1 thousand and US\$2.8 thousand as compared to their respective levels of US\$ 272.1 thousand and US\$ 26.1 thousand in 2002. The persistence of low world market prices for coffee was a contributory factor to the lull in export receipts whilst a significant drop in the

| Table 6 | | | | |
|--|--------------------|------------------|------------------|------------------|
| -International Trade and Reserves | | | | |
| (Thousand US Dollars) | | | | |
| 1 | Jan-Dec'02 | Jan-Jun '03 | Jul-Dec '03 | Jan-Dec'03 |
| 1 | 2 | 3 | 4 | 5 |
| Merchandise Imports | 264,277.0 | 168,994.7 | 134,691.0 | 303,685.7 |
| <i>of which:</i> | | | | |
| Food | 70,783.2 | 38,556.6 | 35,954.2 | 74,510.8 |
| Beverages and Tobacco | 11,320.0 | 6,293.0 | 4,756.4 | 11,049.4 |
| Crude Materials | 9,212.1 | 3,826.0 | 3,054.4 | 6,880.4 |
| Mineral Fuels and Lubricants | 51,728.9 | 47,845.2 | 30,366.0 | 78,211.2 |
| Animal and Vegetable Oils | 2,826.6 | 1,981.9 | 239.5 | 2,221.4 |
| Chemicals | 18,302.7 | 9,566.8 | 9,699.5 | 19,266.3 |
| Manufactured Goods | 35,900.5 | 28,444.4 | 13,741.3 | 42,185.7 |
| Machinery and Transport Equipment | 50,216.8 | 26,358.8 | 30,037.4 | 56,396.2 |
| Other Imports | 13,986.2 | 6,122.0 | 6,842.3 | 12,964.3 |
| Merchandise Exports | 48,704.8 | 42,354.3 | 50,041.1 | 92,395.4 |
| <i>of which</i> | | | | |
| Mineral Exports | 41,732.2 | 37,786.2 | 38,879.7 | 76,665.9 |
| Diamonds | 41,732.2 | 37,786.2 | 38,879.7 | 76,665.9 |
| Gold | - | | | |
| Agricultural Exports | 1,539.2 | 2,272.7 | 365.6 | 2,638.3 |
| Coffee | 272.1 | 17.8 | 22.3 | 40.1 |
| Cocoa | 1,218.7 | 2,253.0 | 319.8 | 2,572.8 |
| Piassava | 26.1 | 0.9 | 1.9 | 2.8 |
| Fish and Shrimps | 22.3 | 1.0 | 21.6 | 22.6 |
| Others | 3,090.2 | 1,558.4 | 3,091.6 | 4,650.0 |
| Re-exports | 2,343.2 | 737.0 | 7,704.2 | 8,441.2 |
| Trade Balance | (215,572.2) | (126,640) | (84,650) | (211,290) |
| Foreign Reserves (\$mn) | 84.57 | 78.09 | 59.58* | 59.58* |

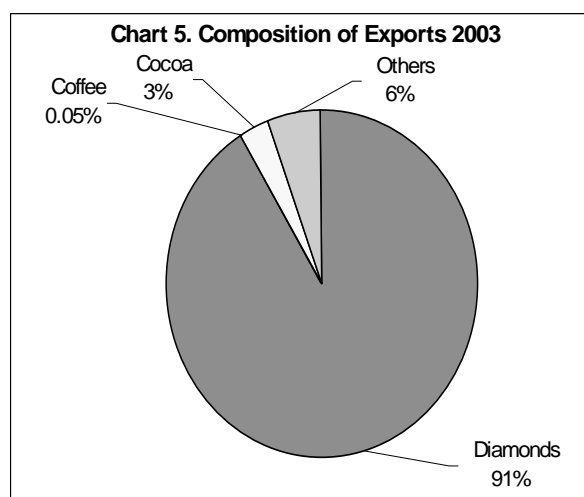


production of piassava was responsible for the lower export receipts.

The value of “other exports” category which include mainly assorted plastic wares, household and personal effects, palm oil and audio cassettes increased by 50.5 per cent over the year to US\$4.65mn. This was reflected in all its components, indicating the vibrancy in business activities. The value of re-exports also surged by more than threefold to US\$8.44mn from US\$2.34mn in 2002, mainly on account of the relocation of machinery, transport equipment, building materials and other relief items by the United Nations Assistance Mission in Sierra Leone (UNAMSIL) and other humanitarian agencies to Liberia.

The total import bill showed an increase of 14.9 per cent to US\$303.69mn (38.8% of GDP) over 2002. This mainly followed substantial increases in the import payments for petroleum products, machinery

and transport equipment and manufactured goods by 51.0 per cent to US\$78.21mn, 12.3 per cent to US\$56.40mn and 10.6 per cent to US\$55.15mn respectively. The increase in payments for petroleum products reflected higher volumes to meet the rising domestic consumption as well as an increase in world market prices for petroleum products during the year. The value of consumer items, which accounted for 28.9 per cent of total imports, also increased, though moderately, to US\$87.78mn when compared to US\$84.93mn in 2002. The increase was due to a 5.3 per cent rise in the payment for food, which more than offset the decreases in the values for “animal and vegetable oils” and ‘beverages and tobacco’. Total payment for imported rice increased only slightly by 4.8 per cent to US\$28.59mn in the reporting period, with a marginal increase in volume of 2.4 percent from 146.42 thousand metric tons in 2002 to 149.88 metric tons in the reporting period. Payments for the import of manufactured goods and machinery and transport equipments also recorded increases of 17.5 per cent and 12.3 per cent respectively at US\$ 42.19mn and



US\$ 56.4mn in 2003. The bill for machinery and transport equipments was lower in the second half of the reporting period. The higher import duties imposed on used vehicles(which fall under the machinery and transport and equipment category) in August may have discouraged importation in the second half of the reporting period. Import of 'intermediary goods', comprising crude materials and chemicals, at US\$26.15mn was 5.0 per cent lower than the value in 2002.

The trade deficit was marginally reduced (2.0%) to US\$ 211.29mn from US\$ 215.6mn in 2002 as a result of the marked increase in export receipts which dampened the increase of 14.9 per cent in value of total imports.

2 Supervision Of Banks and Other Financial Institutions

(a) Banking Sector Performance

The Banking System maintained a sustainable growth over the review period. The resource base increased

by 12.76% from Le345.81 billion (2002) to Le389.92 billion (2003).

The steady growth in the banking sector could be attributed to an increase in deposits by 15.10% from Le174.32 billion (2002) to Le200.65 billion (2003). Foreign Currency deposits increased to Le78.71 billion in 2003 from Le62.16 billion in 2002. Demand, Savings and Time deposits increased during the year, with Time deposits registering the highest growth rate of 66.61% and demand deposits the lowest of 4.38%.

Shareholders' funds recorded an increase of Le18.50 billion from Le58.84 billion (2002) to Le77.34 billion (2003). This increase was mainly due to the rise in current profit by 30.57% from Le15.50 billion (2002) to Le20.24 billion (2003). Retained Earnings and paid up capital also increased marginally by 9.42% and 3.98%, respectively.

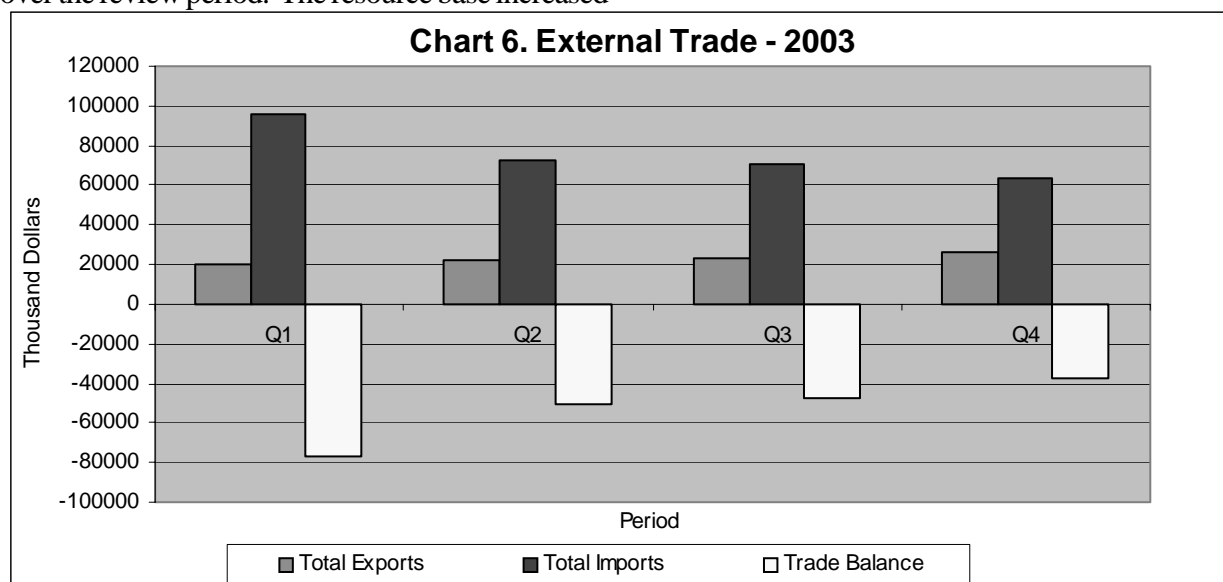


Table 7
Commercial Banks Operating in Sierra Leone
Prudential Indicators (Unaudited)
(In Thousand Leones)

| | 31-Dec-03 | 31-Dec-02 | 31-Dec-01 |
|-------------------------------------|-------------------|-------------------|-------------------|
| 1 | 2 | 3 | 4 |
| Total Assets | 389,923,007 | 345,812,089 | 255,211,407 |
| Average Total Assets | 367,876,690 | 293,340,338 | 246,928,039 |
| Loans and Advances (Gross) | 103,847,889 | 58,644,559 | 37,781,904 |
| Bad Debt Provision | (5,879,246) | (5,598,532) | (5,814,678) |
| Interest in Suspense | (3,976,155) | (5,366,997) | (5,610,380) |
| Loans and Advances (Net) | 93,992,488 | 47,679,030 | 26,356,846 |
| Investment - TB, TBB, SLGDS* | 121,780,761 | 130,266,205 | 100,875,613 |
| Fixed Assets | 41,133,790 | 38,755,227 | 22,591,219 |
| Deposits:- | 174,322,932 | 174,322,932 | 125,602,199 |
| Demand | 102,899,112 | 102,899,112 | 72,218,334 |
| Savings | 67,674,297 | 67,674,297 | 49,757,897 |
| Time | 3,749,523 | 3,749,523 | 3,625,968 |
| Foreign Deposits | 62,162,299 | 62,162,299 | 50,807,572 |
| Capital:- | 69,169,085 | 61,263,945 | 49,956,910 |
| Share Holders' Funds | 69,169,085 | 61,263,945 | 49,956,910 |
| <i>Paid-up</i> | 11,723,732 | 11,274,746 | 7,526,939 |
| <i>Statutory and Other Reserves</i> | 8,475,948 | 8,231,882 | 5,935,379 |
| <i>Retained Earnings</i> | 28,732,880 | 26,258,499 | 18,087,397 |
| <i>Current Profit</i> | 20,236,525 | 15,498,818 | 18,407,194 |
| Primary Capital | 69,169,085 | 44,852,686 | 49,956,910 |
| Revaluation Reserves | 6,416,065 | 6,416,065 | 5,203,818 |
| Adjusted Capital base | 78,980,694 | 83,364,644 | 32,249,508 |
| Adjusted Aset Base | 198,494,067 | 172,408,681 | 142,672,997 |
| Capital Adequacy Ratio | 39.79 | 48.35 | 29.35% |
| Surplus(Shortfall):(%) | 24.79 | 33.35 | 23.36% |
| Surplus(Shortfall): | 49,206,679 | 57,498,295 | 47,491,730 |

TB- Treasury Bills

TBB- Treasury Bearer Bonds

SLGDS- Sierra Leone Government

Development Stock

| Table 7 (Contd.) | | | |
|---|------------------|---------------------|------------------|
| Commercial Banks Operating in Sierra Leone | | | |
| Prudential Indicators (Unaudited) | | | |
| | 31-Dec-03 | 31-Dec-02 | 31-Dec-01 |
| 1 | 2 | 3 | 4 |
| Average Shareholders' Funds | 77,336,829 | 58,840,510 | 47,392,865 |
| Asset Quality | | | |
| Performing Loans | 93,529,947 | 48,610,769 | 26,819,240 |
| Non-Performing Loans | 10,317,942 | 10,033,790 | 10,962,663 |
| Loan Loss Provisions | 5,879,246 | 5,598,532 | 5,814,678 |
| Non-Performing: | | | |
| Total Advances | 9.94% | 17.11% | 27.99% |
| Loans Loss Provisions: | | | |
| Non-Performing | 56.98% | 55.80% | 56.42% |
| Profitability: Pre-Tax Profits | 39,269,518 | 30,594,419 | 28,753,438 |
| Post Tax Profits | 25,525,186 | 19,567,017 | 18,666,700 |
| Return on Assets | 10.67% | 10.43% | 10.46% |
| Return on Equity Funds | 33.01% | 33.25% | 32.40% |
| Liquidity: Liquid Assets | 137,925,097 | 148,149,858 | 116,797,451 |
| Cash | 11,140,125 | 10,578,764 | 9,950,022 |
| Current A/C with BSL | 8,959,281 | 11,117,394 | 7,262,221 |
| Treasury Bills | 107,592,430 | 115,165,184 | 91,199,894 |
| Placement with FDHL* | 5,650,061 | 7,750,016 | 7,198,950 |
| Treasury Bearer Bonds | 4,583,200 | 5,972,750 | 9,355,719 |
| Cash Ratio | 12.83% | 17.82% ^R | 22.56% |
| Overall Liquidity Ratio | 68.74% | 86.38% | 95.01% |
| Surplus/(Shortfall): (%) | 38.03% | 54.57% | 63.35% |
| Surplus/(Shortfall) | 76,307,283 | 95,128,024 | 77,233,344 |
| Foreign Assets: | 78,838,680 | 58,382,503 | 47,295,432 |
| Foreign Curr: (Cash) | 5,240,333 | 1,359,493 | 155,256 |
| Bal. with Other Banks Abroad | 73,598,347 | 57,023,010 | 47,130,496 |
| Foreign Liabilities: | 79,334,357 | 64,589,673 | 48,392,784 |
| Foreign Deposits | 78,714,294 | 62,562,561 | 47,853,875 |
| Foreign Other Liabilities | 620,063 | 2,027,112 | 502,909 |
| Net Foreign Deposits Assets/(Liabilities) | (495,677) | (6,207,170) | (1,061,352) |

* FDHL - First Discount House Limited

As a result of the drop in the capital base from Le83.36 billion (2002) to Le78.98 billion (2003), the capital adequacy ratio decreased from 48.35% (2002) to 39.79% (2003), the banks however remained adequately capitalized. The banks' holdings of government securities decreased from Le130.27 billion (2002) to Le121.78 billion (2003) due a reduction in holdings of Treasury Bills and Treasury Bearer Bonds.

Gross advances increased significantly by 77.08% from Le58.64 billion (2002) to Le103.85 billion (2003). Import trade, manufacturing and construction constituted 26.40%, 21.49% and 18.05% respectively of total advances. The ratio of non-performing loans to total advances decreased from 17.11% (2002) to 9.94% (2003) and loan loss provision to non-performing advances increased by 1.18% from 55.80% (2002) to 56.98% (2003).

Due to the expansion of banking activities during the year, pre-tax profit increased by 28.36% from Le30.59 billion (2002) to Le39.27 billion (2003). The increase in the pre-tax profit resulted in a minimal increase in the Return of Asset (ROA) from 10.43% (2002) to 10.67% (2003), whereas the Return on Equity (ROE) was reduced to 33.01% (2003) from 33.25% (2002) despite the increase in both the post-tax profit and average shareholders' funds. The increase in the shareholders' funds was higher than the increase in the post-tax profit.

The cash ratio of the commercial banks dropped by 4.99% to 12.83% (2003) from 17.82% (2002) due to decreases in the current account balance with Bank of Sierra Leone (down Le2.16bn) and

placement with the First Discount House Limited (down Le3.72bn). These decreases coupled with the reduction in the investment in treasury bills and treasury bearer bonds (down Le8.54bn) resulted in the overall liquidity ratio as at December 2003 of 68.74% from 85.98% as at December 2002.

(b) Licensing of Financial Institutions

The Bank of Sierra Leone gave approval-in-principle to International Commercial Bank Sierra Leone Limited on the 20th June 2003 (which was incorporated in Sierra Leone on 18th September 2002 under Cap 249 of the Companies Act) to proceed with arrangements to set up a bank in Sierra Leone under the Banking Act 2000.

The licences of Guaranty Trust Bank and First International Bank were renewed for 1 (one) year each, while that of Standard Chartered Bank was renewed for 3 (three) years.

With the increase in the demand for banking activities, approval was granted to First International Bank to open branches at 3 College Road, Cline Town, Freetown and 10 Suku Tamba Street, Koidu town, Kono. Rokel Commercial Bank was authorized to reopen its Koidu Town branch at 2 New Sembehun Road and an outlet at 11 Wilberforce Street, Freetown. Approval was also granted to Sierra Leone Commercial Bank to open branches at 2 Station Road, Makeni and at Post Office Road, Koidu.

The Marampa-Masimera Community Bank and Yoni Community Bank were given licences on the 7th and 14th February 2003 respectively, to undertake

banking business under the Banking Act 2000 at Siaka Stevens Street, Lunsar and Freetown Road, Mile 91, for a period of one year each.

The National Co-operative Development Bank was issued licence on the 1st December 2003 to commence deposit-taking business at 28 Siaka Stevens Street, Freetown for a period of 6 (six) months under the Other Financial Services Act 2001.

Licences were granted to the following new foreign exchange bureaux: - Aiemahs, Ayoub, IAS, Katabai, Navos, West Africa, Yours and Ama Express to carry out buying and selling of foreign currency under the Other Financial Services Act 2001 for a period of one year each bringing the total of licensed Foreign Exchange Bureaux to thirty nine in 2003.

Sanda and GMK Foreign Exchange Bureaux were given permission to open branches in Freetown. City Centre and Manans Foreign Exchange Bureaux also opened branches in Makeni and Bo respectively.

The expired licences of the existing Foreign Exchange Bureaux were each renewed for a period of one year.

(c) Other Financial Institutions

In a bid to regularise and legalise the operations of the National Co-operative Development Bank the Banking Supervision Department issued it with a licence under the Other Financial Institutions Act on the 1st December 2003. First Discount House Limited(FDHL) continued with its operations and introduced 'Over the Counter'(OTC) services as part of its products dealing with the sale of shares in the equity of corporate bodies and commercial banks. Sales included new issues and trade in the secondary market.

All licensed bureaux including their branches in the provinces were examined to ascertain that their books of account were properly kept and that their operations were in compliance with the Operating Guidelines issued to them.

| Bank | No. of Branches 2002 | No. of Branches 2003 | Freetown | Bo | Kenema | Makeni | Kono |
|--|----------------------|----------------------|----------|----|--------|--------|------|
| Sierra Leone Commercial bank | 5 | 7 | 3 | 1 | 1 | 1 | 1 |
| Rokel Commercial Bank | 5 | 7 | 4 | 1 | 1 | - | 1 |
| Standard Chartered Bank | 3 | 3 | 2 | 1 | - | - | - |
| Union Trust Bank | 3 | 3 | 1 | 1 | 1 | - | - |
| Guaranty Trust Bank | 2 | 3 | 3 | - | - | - | - |
| First International Bank | 1 | 3 | 2 | - | - | - | 1 |
| Community Banks Operating In Sierra Leone | | | | | | | |
| Bank | Location | | | | | | |
| Marampa-Masimera Community Bank | Lunsar | | | | | | |
| Yoni Community Bank | Mile 91 | | | | | | |

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. | 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. | 2 | - | - | - | - |
| 10 | Chartered Trust Foreign Exchange Bureau Ltd. | 1 | - | - | - | - |
| 11 | Navos International Foreign Exchange Bureau Limited | 1 | - | - | - | - |
| 12 | TAP Foreign Exchange Bureau Ltd. | - | - | - | - | 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 | - | - | - |
| 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 | Creative 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. | 1 | - | - | - | - |
| 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 | - | - | - | - |

(d) Technical Assistance

With the aid of the technical assistance provided by the International Monetary Fund, the Bank of Sierra Leone has reviewed the Banking Regulations 2001 and issued the Banking Regulations 2003 in conformity with international standards. Also, the Bank of Sierra Leone has drafted an Anti-Money Laundering Act that is receiving the attention of the Attorney General's Office for its enactment.

particularly during the 4th quarter as government had recourse to central bank borrowing to finance its deficit.

During the year, a total of Le72.68 billion in outstanding Ways and Means Advances was converted into tradeable government securities for monetary operations. Of this, a total of Le43.89 billion or 60.40% was issued in the form of Treasury bills while the remaining Le28.79 or 39.60% were issued in the form of Treasury Bearer Bonds.

3. Open Market Operations**Monetary Policy Objectives for 2003**

The objective of monetary policy during the year 2003 was to control inflation at single digit level through careful management of the growth of the Bank of Sierra Leone's net domestic assets. Active monetary operations were therefore necessary in mopping up the excess liquidity generated by the requirement for government to repay its domestic arrears to enterprises. This was a performance criterion under the Poverty Reduction Growth Facility Programme (PRGF).

The liquidity situation engendered by this development contributed to an increase in demand for government securities during the year especially by the non-bank public. Interest rate on Treasury bills declined from an average of 15.09 per cent in January to 14.88 per cent in September 2003 while that on Treasury Bearer Bond fell from 17.0 per cent to 15.0 per cent during the same period. Owing to technical delays in the disbursement of external budgetary support and project grants however substantial liquidity was also injected into the system

At the end of the period commercial banks holdings accounted for 37.03 per cent of government securities while the non-bank public accounted for 39.0 per cent of the total outstanding government securities of Le345.57 billion. The overall performance of the monetary programme during the year 2003 was mixed as money supply expanded culminating in inflationary pressures that persisted throughout the year. The Reserve Money target was also breached marginally at end December 2003.

4. Payment Systems

As payments systems are so closely aligned to the seigniorage benefit, the Bank of Sierra Leone is interested in promoting public confidence in the Payments System as in the value and integrity of the national currency.

During the review period the National Payments Committee reviewed and produced a first draft of the Bills of Exchange Act and The Payments System Act to support the National Payments System reform and modernization. The Bank also entered into a

contract with MISYS International Banking System for the procurement of Bank Master version 7 Banking Application as part of the process of updating its existing operating system. The Bank has set up a Project Team that is doing preparatory work in documenting the Bank's information and reporting requirements.

The Bank also plans to acquire and install a Book Entry System from the International Technology Consultants with assistance from First Initiative. This is to dematerialise Government Treasury Securities and provide a secure repository that will greatly enhance the Bank's ability to supervise and control trading in the securities market. The Bank also plans to computerize the clearing and settlement operations by December 2004 with the introduction of an Electronic Clearing and Settlement System using

Truncated Image Code Line Clearing and Magnetic Ink Character Recognition (MICR) payment instruments.

5. Foreign Exchange Management

(i) Foreign Assets

Bank of Sierra Leone's Gross Foreign Exchange Reserves fluctuated during most of the year. From a level of US\$84.57mn at end December 2002, the reserves declined gradually to its lowest level of US\$60.24mn in April 2003. The reserves then moved upwards and reached its peak of US\$83.64mn in September 2003. It however declined from this level and closed at US\$66.45mn in December 2003. This represented an increase of 10.31 percent from the lowest level in April 2003

| | 2003 | 2002 | Change |
|---------------------------------------|-------------------|-------------------|------------------|
| 1 | 2 | 3 | 4 |
| A Stock Position | | | |
| 1 Treasury Bills | 231,532.80 | 187,646.05 | 43,886.75 |
| Bank of Sierra Leone | 65,609.95 | 33,597.15 | 32,012.80 |
| Commercial Banks | 113,414.50 | 117,347.40 | (3,932.90) |
| Non-Bank Public | 52,508.35 | 36,701.50 | 15,806.85 |
| 2. Treasury Bearer Bonds | 114,042.05 | 85,253.55 | 28,788.50 |
| Bank of Sierra Leone | 17,219.35 | 12,101.25 | 5,118.10 |
| Commercial Banks | 14,545.45 | 18,411.20 | (3,865.75) |
| Non-Bank Public | 82,277.25 | 54,741.10 | 27,536.15 |
| 3. Total Government Securities | 345,574.85 | 272,899.60 | 72,675.25 |
| Bank of Sierra Leone | 82,829.30 | 45,698.40 | 37,130.90 |
| Commercial Banks | 127,959.95 | 135,758.60 | (7,798.65) |
| Non-Bank Public | 134,785.60 | 91,442.60 | 43,343.00 |

but a decrease of 21.43 percent from December 2002.

Inflows to the foreign reserves during the review period mainly constituted receipts from disbursements of grants and loans such as the disbursement of the 4th tranche under the IMF PRGF programme, UK/SL Government Programme Grant and replenishment from the European Development Fund. The poor performance during the fourth quarter of 2003 was due to the postponement to 2004 of major disbursements .

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

During the period under review, total inflows decreased by 22.33 per cent or US\$31.18mn from US\$139.61mn in 2002 to US\$108.43mn in 2003.

This decrease was mainly due to the non-disbursement of some programme receipts expected in quarter 4 2003. The expected disbursements not realized amounted to US\$46.08mn and included EU-2nd tranche post conflict budget and balance of payment support of US\$19.63mn, IMF-PRGF Assistance of US\$19.45mn and ADB-ERRLII of US\$7.0mn.

The key disbursements in the review period included UK/Sierra Leone Programme Grant for balance of payments and budgetary support of US\$16.25mn (GBP10.00mn), World Bank Economic Rehabilitation and Recovery Credit (ERRCII) of US\$15.39mn, IMF Poverty Reduction and Growth Facility (PRGF) Assistance from the IMF of US\$19.45mn (SDR14.00mn), and IDA/World Bank project funding of US\$0.43mn. Receipts realized from other donors were mainly from the European Development Fund (EDF Replenishment) of US\$7.91mn for funding EC projects in the

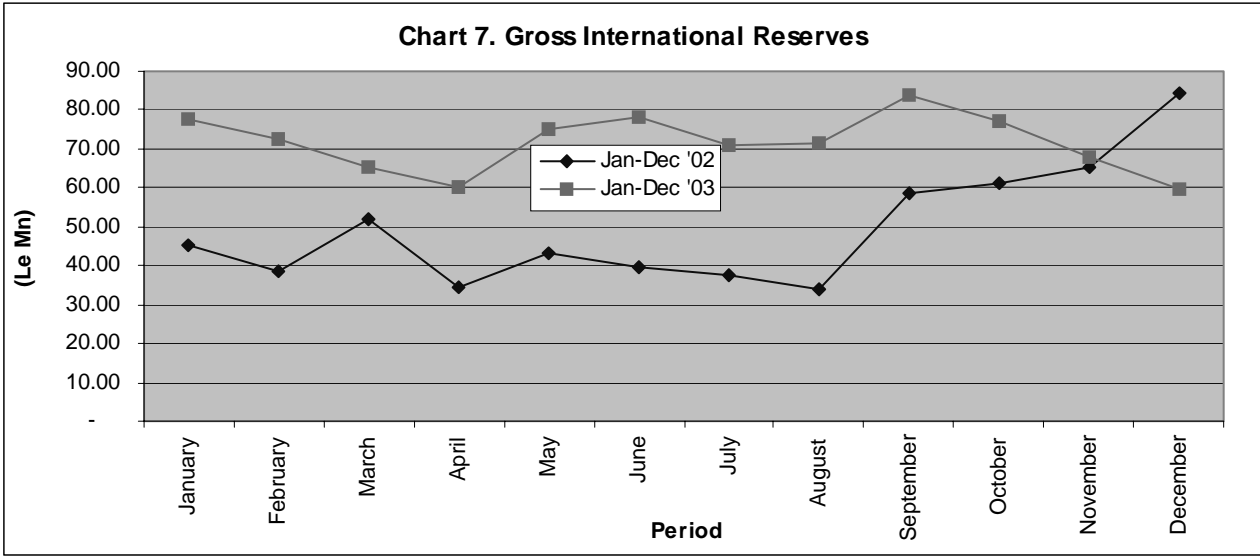


Table 11.
Bank of Sierra Leone Foreign Exchange Cash-flows
(In Million of US\$)

| | January-December 2003 | January-December 2002 |
|---|-----------------------|-----------------------|
| INFLOWS | 108.43 | 139.61 |
| Receipts from exports | 2.25 | 1.94 |
| Diamond License fees | 1.20 | 1.09 |
| Diamond Exporters Income Tax | 0.52 | 0.31 |
| Fishing Royalty/License | 0.53 | 0.53 |
| Others | 2.07 | 2.20 |
| Inspection Fees | 0.18 | 0.03 |
| BSL Purchases of Notes/ T Cheques | 0.09 | 0.24 |
| Transactions with Commercial Banks | 1.75 | 4.52 |
| Privatization receipts | 0.01 | 0.02 |
| Disbursement of loans & grants | 102.08 | 128.88 |
| IMF | 19.54 | 36.42 |
| AFDB | 0.99 | 6.37 |
| UK (DFID) | 16.24 | 15.50 |
| EC (EDF Replenishment) | 7.91 | 5.04 |
| EC-SASP | 0.00 | 0.00 |
| WB ERRC LOAN | 17.02 | 28.50 |
| IDA/World Bank | 0.43 | 0.47 |
| Others/IDB | 5.23 | 3.40 |
| DDR(CAFSL/DFID) | 0.01 | 0.63 |
| HIPC Relief | 34.71 | 31.67 |

| Table 11 (Contd) | | |
|---|----------------------------------|----------------------------------|
| Bank of Sierra Leone Foreign Exchange Cash flows | | |
| (in Million Dollars) | | |
| | January-December 2003 | January-December 2002 |
| OUTFLOWS | 133.41 | 106.39 |
| <i>Payments for Goods and Services</i> | 87.64 | 59.80 |
| Embassy/Missions | 7.31 | 7.29 |
| BSL | 1.54 | 2.77 |
| Printing of Currency | 2.43 | 0.68 |
| Government Travel | 1.73 | 1.25 |
| Other Government | 4.54 | 10.37 |
| Subscription to Intl. Organisations | 2.73 | 1.34 |
| Military Payments | 2.48 | 1.30 |
| Private Sector Support | 60.21 | 34.82 |
| HIPC Related Imports | 4.70 | 0.00 |
| <i>Debt Service</i> | 45.77 | 46.59 |
| IMF | 35.54 | 32.51 |
| World Bank | 1.90 | 3.12 |
| AFDB | 2.48 | 2.01 |
| IFAD | 1.07 | 0.78 |
| EEC/EIB | 0.35 | 1.81 |
| Other Multilateral & Bilateral | 2.12 | 1.50 |
| Paris Club Creditors | 0.44 | 0.10 |
| Other Commercial Creditors | 0.90 | 3.60 |
| Clearing of Arrears | 0.97 | 1.16 |

country and Islamic Development Bank project funds disbursed under various projects including the Integrated Rural Development Project (IDB-IRDP-US\$2.58mn) of US\$5.23mn.

Total official receipts from exports increased by 15.98 per cent from US\$1.94mn in 2002 to US\$2.25mn in 2003. As shown in Table 11, major inflows within the sector were generated from two sources; Diamond License fees and Diamond Exporters Income Tax, which recorded improved performance during the review period compared to the preceding year. Inflows realized from Diamond License fees and Diamond Exporters Income Tax exceeded the previous year's performance by 10.09 per cent and 67.74 per cent respectively. However, Fishing Royalty/License receipts remained at the same level of US\$0.53mn recorded in 2002.

Total foreign exchange outflows of US\$133.42mn in 2003 were higher when compared to US\$106.39mn recorded in the previous year due largely to the increased amount sold in the weekly foreign exchange auction. Of that total, 65.69 per cent or US\$87.64mn was in respect of goods and services and 34.31 per cent or US\$45.78mn for debt service payments. Out of the total payment of US\$87.64mn made for goods and services, 68.70 per cent was foreign exchange provided to the Private Sector through the weekly foreign exchange auction. This was to supplement the existing sources of foreign exchange in the banking system for essential imports such as rice, petroleum products and raw materials for manufacturing.

(ii) Investment Activities

A total of US\$1.04mn was earned out of an average deposit of US\$45.00mn invested in 2003. In 2002, an average deposit of US\$40.00mn invested yielded US\$1.08mn. The decrease in earnings was due to the late disbursements of programmed donor funds coupled with lower global interest rates. This situation resulted in low level of reserves for investment at very low rates for most of the period as the available funds were utilized to meet recurrent payments including funding the foreign exchange auction. Earnings recorded for the review period was 3.70 per cent lower than those for 2002 and the returns on investment for 2002 and 2003 were 2.70 per cent and 2.31 per cent respectively.

(iii) Foreign Currency Management

The Bank of Sierra Leone's policy objective for currency management continues to be the holding of reserves in currencies to match transaction needs with debt service payments and private sector support being the most significant. Table 12 shows holdings of currencies by the Bank of Sierra Leone as at end December, 2003 (excluding donor import support funds) 53.44 per cent was held in SDRs, 20.74 per cent in Pound Sterling, 19.62 per cent in United States Dollars, 6.08 per cent in Euro and 0.12 per cent in Japanese Yen.

(iv) Foreign Exchange Market

(a) Overview

The foreign exchange market was characterized by scarcity of foreign exchange in the banking system

as a result of the increased demand for imports and weak exports. This scarcity resulted in a pronounced depreciation of the Leone against other international currencies and the gradual widening of the margin between the official and other rates in the market. The foreign exchange auction, that was introduced to supplement the available sources of foreign exchange and provide stability in the market was not strong enough to stop the depreciation. Notwithstanding this, the auction continued to provide some influence and instill confidence by providing foreign exchange in a competitive and transparent manner.

(b) Volume of Transactions

Aggregate purchases of foreign exchange by the commercial banks and foreign exchange bureaux decreased by 16.1 % from US\$140.73mn in 2002

to US\$118.12mn in 2003 while sales of foreign exchange increased by 2.3% from US\$149.89m in 2002 to US\$153.33 in 2003 (Table 13). The volume of purchases transactions reported in each quarter of the current year was less than those of the corresponding quarter in 2002. The reason for the decrease was the reduction in the activities of International NGO's and UN agencies involved in refugee and post war humanitarian activities. The volume of sales transactions on the other hand increased as against those of the previous year.

(v) Foreign Exchange Bureaux

Foreign exchange bureaux have continued to complement the activities of commercial banks by rendering foreign exchange transaction services to the public. They have also helped to facilitate trade in the West African Sub-region especially in enabling

Table 12
Bank of Sierra Leone Foreign Bank Balances
(Million Dollars)

| | December 2002 | % | December 2003 | % |
|----------------------|------------------|---------------|------------------|---------------|
| Currency | | | | |
| US Dollars | 39.75 | 47.97 | 11.81 | 18.61 |
| Pound Sterling | 16.75 | 20.21 | 13.33 | 21.00 |
| Euro | 2.34 | 2.82 | 3.91 | 6.16 |
| Japanese Yen | 0.07 | 0.09 | 0.08 | 0.13 |
| Holdings of SDR | 23.96 | 28.91 | 34.34 | 54.10 |
| Total Balance | 82.87 | 100.00 | 63.47 | 100.00 |
| Donor Funds | | | | |
| US Dollars | 1.26 | 100.00 | 0.80 | 100.00 |
| Balance | 6.84 | 100.00 | 0.80 | 100.00 |

small businesses to access foreign exchange, and in the mopping up of foreign exchange that would have found its way into the parallel market.

Aggregate purchases and sales of foreign exchange by bureaux for the review period increased by 33.80% and 14.82% from US\$13.58m and US\$14.91m to US\$18.17m and US\$17.12m respectively. (Table 13)

(vi) Commercial Banks

Aggregate purchases of foreign exchange by commercial banks for the review period decreased by 21.39 % from US\$127.15mn in 2002 to US\$99.95mn in 2003 while sales of foreign exchange for the review period increased by 0.91%

from US\$134.98mn in 2002 to US\$136.21mn in 2003. This decrease in purchases by commercial banks reflected the scarcity of foreign exchange over the period.

(vii) Foreign Exchange Auction System

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

During the period under review there was a sustained high demand for auction funds, which was reflected in excess demand over supply and the gradual depreciation of the auction rate. A total of

Table 13.
Purchases and Sales of Foreign Currency
for the Period January 1, 2003 - December 31, 2003
(in Million of US Dollars)

| | 2003 | | | | | | |
|--|---------------|----------------|----------------|---------------|-----------------|-----------------|-------------|
| | Q1 Jan-Mar | Q2 Apr-June | Q3 Jul-Sept | Q4 Oct-Dec | Total (2003) | Total (2002) | % Change |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| A Purchase | | | | | | | |
| Commercial Banks | 24.96 | 22.29 | 25.92 | 26.78 | 99.95 | 127.15 | -21.39 |
| Foreign Exchange Bureaux | 4.82 | 4.71 | 3.49 | 5.15 | 18.17 | 13.58 | 33.80 |
| Total | 29.78 | 27.00 | 29.41 | 31.93 | 118.12 | 140.73 | -16.07 |
| B. Sales | | | | | | | |
| Commercial Banks | 32.02 | 31.61 | 34.43 | 38.15 | 136.12 | 134.98 | 0.91 |
| Foreign Exchange Bureaux | 4.43 | 3.91 | 3.16 | 5.62 | 17.12 | 14.91 | 14.82 |
| Total | 36.45 | 35.52 | 37.59 | 43.77 | 153.33 | 149.89 | 2.30 |
| Official Average Exchange Rates | | | | | | | |
| | Q1 | Q2 | Q3 | Q4 | | | |
| Buy | 2,201.35 | 2,265.52 | 2,344.40 | 2,476.58 | | | |
| Sell | 2,245.83 | 2,311.29 | 2,391.76 | 2,526.62 | | | |

52 foreign exchange auction sessions were conducted. In addition to the regular (competitive and non-competitive) windows, a special oil facility window was introduced in January, 2003 to assist in meeting the foreign exchange requirements of the oil companies and avert a possible shortage of petroleum product. Out of a total offer amount of US\$61.85 million, allocations made were US\$43.00 million in the competitive window, US\$5.20 in the non-competitive window and US\$13.65 in the special Oil Window. Total amount sold amounted to US\$60.23 million of which US\$42.44 was in the competitive window, US\$4.14 in the non-competitive window and US\$13.65 in the special facility window. The difference of US\$1.62 million in amount sold relative to the amount offered was due to the relative low utilization of funds in the non-competitive window.

On a sectoral basis, commercial banks' share of the total amount sold in the auction was US\$9.52 million (16%), Oil Companies US\$16.35 million (US\$13.65 in the special oil window, and US\$2.7 in the regular auction) (27%), Industry US\$7.46 million (12%) and general imports US\$26.90 million (45%). Funds won by banks were for sale to their customers.

Unlike the previous period when Non-Governmental Organizations (NGO) sold US\$0.68 million to the auction, there was no sale of foreign exchange at the auctions during 2003.

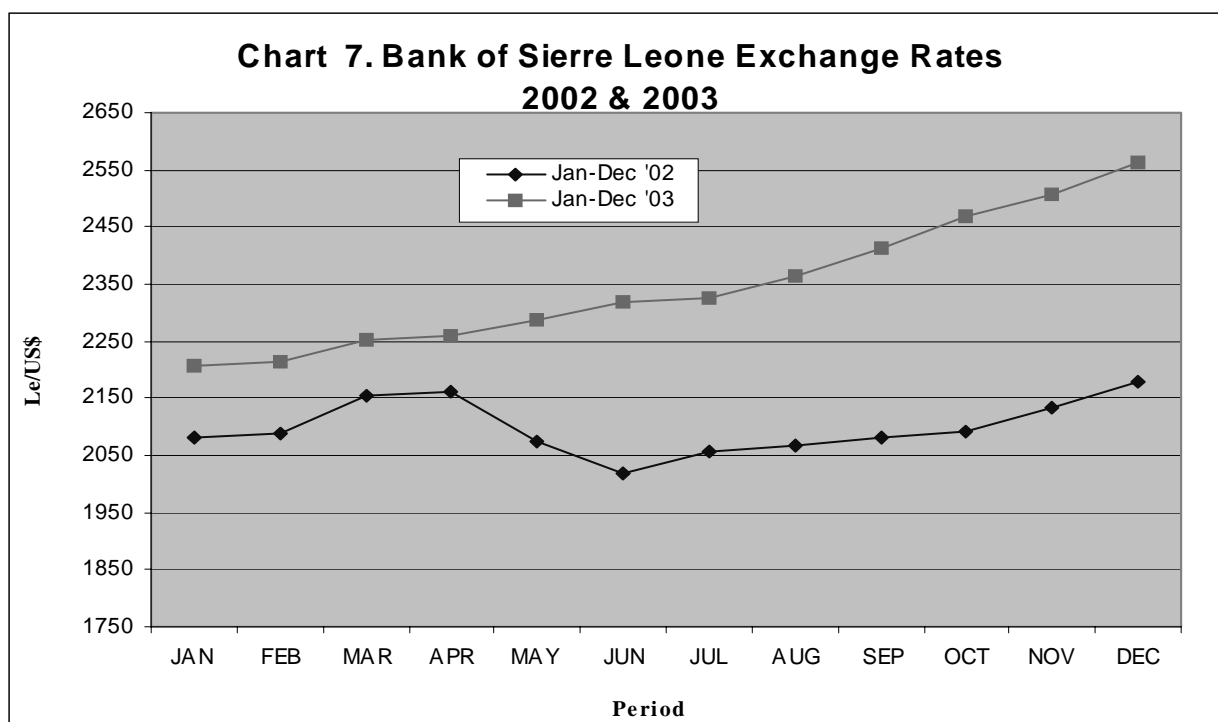
The lowest auction rate of Le2,342.86 was on 8th January 2003 and the highest on 17th December 2003 at Le2,687.11. These movements reflected the pronounced depreciation of the auction rate

experienced during the review period.

The Foreign Exchange Auction rate has continued to be regarded as the reference rate for the pricing of all foreign exchange transactions. Banks and foreign exchange bureaux closely monitor the weekly auction rate in fixing their rates.

(viii) Exchange Rate Developments

The weekly foreign exchange auction by the Bank of Sierra Leone continued to be one of the markets used in determining the exchange rate and a regular source of foreign exchange complementing the other available official sources for import financing. The expansion in domestic economic activities, against the backdrop of limited supply of foreign exchange continued to exert additional demand pressures on the exchange rate throughout the review period. This culminated in further depreciation of the Leone against major foreign currencies in all the foreign exchange markets. The depreciation of the Leone against the US Dollar was more marked in the parallel and official markets with their respective annual average midrates depreciating by 11.74 per cent to US\$2,530.16/US\$1 and 11.73 per cent to Le 2,345.42/US\$1. The official rate for most part of the year however stayed within the plus or minus fifteen percent ($\pm 15\%$) band of the Central Parity Rate of Le 2,165.32/US\$1 under the Exchange Rate Mechanism (ERM) of the Second West African Monetary Zone (WAMZ). It however fluctuated in and out of the band starting from the last week in October through the end of the reporting period. The bureaux rate was next (11.19%) at Le 2,376.75/US\$1 and the commercial banks' rate the least



(10.01%) at Le 2,294.52/US\$1, having moved respectively from Le 2,137.61/US\$1 and Le2,085.73/US\$1 in 2002.

The auction rate (weighted average) also depreciated significantly over the year though there was increased supply of foreign exchange through the Bank's weekly foreign exchange auction. The monthly average exchange rate consistently weakened especially in the last five months of 2003 resulting in a depreciation of the annual average rate by 14.81 per cent to Le 2,486.84/US\$1. The yearly premium between the official and parallel rates widened by 7.88 per cent (Le184.74) from Le 165.24/US\$1.

6. External Debt Management

(i) *An Overview*

As at end December 2003, Sierra Leone's total disbursed and outstanding official medium and long-term debt, including principal arrears was US\$ 1,630.4 million. The stock of debt continued to be dominated by debts owed to multilateral and bilateral creditors, accounting for 58% and 26.7% respectively of the total. Other debts like military debts accounted for 1.2% whilst the residual of 14.1% is owed to 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).

Table 14 shows the stock of principal and interest arrears owed to all creditors. A total of US\$ 288.5 million of the stock of disbursed outstanding debt represented principal arrears owed mainly to the commercial and other creditors. Interest arrears amounted to US\$ 7.4 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.
- ❖ The European Investment Bank (EIB) on August 5, 2003, informed the Government of the modalities of the interim relief provided by the European Commission under the Enhanced HIPC Initiative. To this end, there was a partial cancellation of arrears outstanding as at March 2002 amounting to Euro 4,134,909.90 and total cancellation of debt service falling due between April 1, 2002 and December 31, 2003 amounting to Euro 3,667,827.86, thereby making a total of Euro 7,802,737.76.
- ❖ The Government of Sierra Leone continued to receive interim relief from the key creditors namely the IDA, IMF and ADF. Total debt relief granted during the period under review amounted to US\$ 44.74mn of which US\$ 33.07mn was from IMF, US\$ 6.81mn from IDA and US\$ 2.67mn from ADF. The residual of US\$ 2.19 was received from the European Investment Bank.
- ❖ On October 25, 2003, the Government of Sierra Leone reached an agreement with the OPEC Fund for the settlement of arrears of US\$ 9.5mn under a Commodity Import Programme (CIP). The CIP involves a back to back transfer of funds between the Government and OPEC. In effect, the Government would first make a repayment of the outstanding loan due to OPEC and forward import documentation for the same value. After confirmation of these documents, OPEC will automatically refund the amount paid in the form of a new concessional loan. The first payment would be US\$ 1.5mn and thereafter, subsequent payments of US\$ 1mn will be on a monthly basis until the amount is fully repaid.
- ❖ During the period under review, disbursements from external creditors amounted to approximately US\$ 56.59mn. Of this amount, US\$ 23.11mn was from the International Development Association - (IDA) ; US\$ 19.54mn from the International

Table 14
Principal and Interest Arrears as at End December 2003
(In Millions of US Dollars)

| | December 2002 | | December 2003 | |
|---|-------------------|------------------|-------------------|------------------|
| | Principal Arrears | Interest Arrears | Principal Arrears | Interest Arrears |
| Total Arrears | 287.4 | 7.6 | 288.5 | 7.4 |
| Total Commercial Obligations & Short-Term Debt 1/ | 230.2 | - | 230.0 | - |
| Total Long-Term Debt, of which: | 57.2 | 7.6 | 58.5 | 7.4 |
| Multilateral | 9.5 | 0.8 | 8.6 | 1.0 |
| World Bank Group | - | - | - | - |
| IMF | - | - | - | - |
| Others | 9.5 | 0.8 | 8.6 | 1.0 |
| Official Bilateral | 27.2 | 3.3 | 30.1 | 2.9 |
| Paris Club | 1.6 | 1.8 | 1.0 | 1.4 |
| Others 2/ | 25.6 | 1.5 | 29.1 | 1.5 |
| Other Creditors | 20.5 | 3.5 | 19.8 | 3.5 |
| Executive Outcomes | 19.0 | 3.5 | 18.6 | 3.5 |
| J. S Franklyn Ltd & Deftech BV Corp. | 1.1 | - | 0.8 | - |
| Chatelet Investment Ltd | 0.4 | - | 0.4 | - |

1/ Amount updated in June 2001 to include both validated and non-validated commercial arrears
2/ China, Morocco, Kuwait & Saudi Fund

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) | | | | |
| | 2002 ^R | Percent of Total | 2003 | Percent of Total |
| | December | | December | |
| Bilateral: | | | | |
| Paris Club Creditors | 343.9 | 22.4 | 371.6 | 22.8 |
| Other Bilateral | 62.8 | 4.1 | 63.1 | 3.9 |
| Total Bilateral | 406.7 | 26.5 | 434.7 | 26.7 |
| Multilateral | | | | |
| African Development Bank/ Fund | 473.0 | 30.8 | 533.7 | 32.7 |
| World Bank (IBRD/IDA) | 174.8 | 11.4 | 165.7 | 10.2 |
| International Monetary Fund | 145.2 | 9.5 | 149.2 | 9.2 |
| Other Multilateral | 85.6 | 5.6 | 97.3 | 6.0 |
| Total Multilateral | 878.6 | 57.2 | 945.9 | 58.0 |
| Other Creditors | 20.5 | 1.3 | 19.8 | 1.2 |
| Commercial and Short-Term Debt | 230.2 | 15.0 | 230.0 | 14.1 |
| Grand Total | 1,536.0 | 100.0 | 1,630.4 | 100.0 |
| | 2002 | | 2003 | |
| Debt Indicators (US\$Mn) | | | | |
| Debt Service Payment due | 53.1 | | 45.4 | |
| Debt service payment made | 46.4 | | 45.7 | |
| Exports | 48.7 | | 92.4 | |
| Gross Domestic Product | 790.2 | | 803.8 | |
| Debt Ratios | | | | |
| Stock of Debt as a percentage of Gross Domestic Product | 194.4 ^R | | 202.8 | |
| Stock of Debt as a percentage of Export | 3,154.0 ^R | | 1,764.5 | |
| Debt Service as a percentage of Export | 95.3 | | 49.5 | |
| Multilateral Debt as a percentage of Stock of Debt | 57.2 ^R | | 58.0 | |
| Bilateral Debt as a percentage of Stock of Debt | 26.5 | | 26.7 | |
| Debt Service Payments Made | | | | |
| (in millions of US Dollars) | | | | |
| | 2002 | | 2003 | |
| Bilateral: | | | | |
| Paris Club Creditors | 1.07 | | 1.57 | |
| Other Bilateral | 0.09 | | 0.44 | |
| Multilateral | 41.80 | | 43.25 | |
| African Development Bank/Fund | 2.01 | | 2.47 | |
| <i>HIPC foreign exchange savings on debt service</i> | 1.23 | | 2.67 | |
| World Bank (IBRD/IDA) | 3.13 | | 1.89 | |
| <i>HIPC foreign exchange savings on debt service</i> | 4.10 | | 6.81 | |
| International Monetary Fund | 32.35 | | 35.54 | |
| <i>of which: HIPC debt relief</i> | 30.40 | | 33.25 | |
| Other Multilateral | 4.31 | | 3.35 | |
| <i>HIPC foreign exchange savings on debt service</i> | 0.00 | | 2.19 | |
| Other Commercial/Military Debts | 3.50 | | 2.19 | |
| Total | 46.37 | | 45.72 | |

R Revised

Monetary Fund (IMF); US\$ 4.2mn from the African Development Fund (ADF) and the residual of US\$ 9.74mn was from Kuwait, Arab Bank for Economic Development in Africa (BADEA) and the Islamic Development Bank (IDB) under various projects.

currency that dominates Sierra Leone's debt. The total debt in Leones increased from Le 2,829,419,524mn in 2002 to Le 3,670,967,705mn in 2003 by approximately 30%. This was as a result of the depreciation of the Leone against the other currencies and also the disbursements of new loans during the period.

(iii) External Debt by Creditor Category

Sierra Leone's stock of disbursed outstanding debt including principal arrears to all external creditors stood at US\$ 1,630.4 million as at end December 2003 as compared to US\$ 1,536 million as at end December 2002. This is shown in table 15. The increase was as a result of disbursements made on existing and new borrowings mainly from the World Bank during the period under review.

The increase in the disbursed outstanding debt to the Paris Club creditors was due to the rescheduling of current maturities, which led to the capitalisation of interest falling due during the review period.

(iv) Foreign Currency Composition

Table 16 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 Leone equivalent. The Special Drawing Rights and the United States Dollars continue to be the major currencies that dominate Sierra Leone's debt. They account for 50.8% and 18.0% respectively as at end December 2003. Loans from IMF and IDA are mainly denominated in SDRs, which accounted for the high percentage of the total debt. The Euro, which accounts for 17.4% represents the third major

(v) Debt Indicators, Debt Ratios and Debt Service

Table 15 also shows the debt indicators and debt ratios for the period ended December 2002 and 2003. Debt service payments decreased from US\$ 46.4million in 2002 to US\$ 45.7 million in 2003. This decrease was a result of the additional interim debt relief granted by the multilateral creditors during the review period. Debt service to export ratio also decreased from 95.3% to 49.5% as a result of the significant increase in exports as against the slight decrease in the debt service payments. The stock of debt as a percentage of GDP increased by 4.3% in 2003 due to the increase in the stock of debt.

The Government continues to pursue policies of strengthening external debt management capacity and adhere to its commitment to avoid non-concessional external borrowing in line with the PRGF program with the IMF.

7. Status of Convergence- West African Monetary Zone

As the countdown towards a monetary union in the Second Monetary Zone in July 2005 approaches, three statutory meetings of the Coverage Council

| Table. 16 | | | | | | |
|--|-----------------------------|----------------------|---------------------|-----------------------------|----------------------|---------------------|
| Disbursed Outstanding Debt, including Principal Arrears as at End December 2003 | | | | | | |
| Classified by Currency of Liability (Amounts In Thousands) | | | | | | |
| | End Dec-2002 | | | End Dec-2003 | | |
| | 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 | 1,324 | 1,837,981 | 0.07 | 1,260 | 2,536,723 | 0.07 |
| Swiss Francs | 39,721 | 62,562,672 | 2.23 | 39,347 | 83,348,120 | 2.27 |
| Chinese Yuan | 183,447 | 48,582,372 | 1.74 | 183,447 | 58,959,992 | 1.61 |
| Danish Kroner | 350 | 108,181 | 0.00 | 337 | 149,738 | 0.00 |
| EURO | 180,778 | 414,693,885 | 14.81 | 194,267 | 637,867,923 | 17.38 |
| British Pounds | 6,584 | 23,137,742 | 0.83 | 4,186 | 19,754,422 | 0.54 |
| Japanese Yen | 10,000,000 | 185,100,000 | 6.61 | 9,609,000 | 238,980,464 | 6.51 |
| Kuwaiti Dinar | 4,544 | 35,822,400 | 1.28 | 5,839 | 50,639,308 | 1.38 |
| Norwegian Kroner | 86,064 | 27,141,164 | 0.97 | 88,980 | 34,918,568 | 0.95 |
| Saudi Riyal | 4,875 | 3,129,380 | 0.11 | 3,997 | 2,822,784 | 0.08 |
| Swedish Kroner | 2,759 | 691,101 | 0.02 | 2,615 | 953,472 | 0.03 |
| United States Dollar | 260,538 | 571,028,288 | 20.40 | 258,017 | 661,085,312 | 18.01 |
| Special Drawing Rights | 463,988 | 1,363,744,249 | 48.72 | 496,834 | 1,865,537,145 | 50.82 |
| Islamic Dinar | 1,733 | 5,094,551 | 0.18 | 3,572 | 13,413,734 | 0.37 |
| Total | | 2,799,350,910 | 100.00 | | 3,670,967,705 | 100.00 |

of the West African Monetary Zone were held during the year to assess progress made by member states towards compliance with the prescribed quantitative and qualitative performance criteria. At the 13th meeting of the Council held in Accra, Ghana, from 14th - 19th December 2003, it was noted that performances of member countries towards macroeconomic convergence in the first nine months of the year (as at September 2003), with the exception of Ghana, deteriorated considerably compared to the first half of the year, though marginal improvements were made on some indicators by individual countries. On the whole, the level of quantitative convergence dropped from 65 percent in June to 35 per cent in September, the lowest since the commencement of the process. This was primarily due to difficult domestic and international environments facing member countries. It was resolved that measures be put in place to improve on the fundamental macroeconomic indicators of the respective economies. Such measures would entail good governance, structural and fiscal reforms to improve the revenue collection process and also the implementation of expenditure - reducing policies. The meeting also noted that progress towards convergence with regards to the qualitative criteria was unsatisfactory though there were significant progress in some areas particularly with respect to compliance with International Financial Standards and Data base Development and Statistical Harmonization.

During the year a Forum of Finance Ministers of WAMZ was established to discuss issues pertaining to fiscal convergence and the adoption of remedial policy measures to facilitate and sustain the convergence process. The Forum met twice, in

March and October 2003.

The Authority of Heads of State and Government of the Zone, at its sixth Summit held in Accra, Ghana, decided that the headquarters of the proposed West African Central Bank would be located in Accra, Ghana.

Sierra Leone's Macroeconomic Performance

During 2003, Sierra Leone experienced a reversal in the positive strides previously attained in her move towards convergence. This was attributed to the difficult environment for fiscal and monetary management. A significant proportion of the budget is being financed from external sources and late or non-disbursement results in recourse to Central bank financing of the deficit. The table below illustrates Sierra Leone's macro economic performance as against the prescribed primary and secondary criteria for the period January – December 2003.

As at the end of December 2003, Sierra Leone failed to meet any of the four primary criteria. The inflation rate moved upwards from -3.1 per cent in December 2002 to 6.5 per cent in June and 11.3 per cent in December 2003 exceeding the WAMZ criterion of a single digit inflation rate. The fiscal deficit/GDP ratio of 16.8 per cent was much higher than the target of less than 4 per cent by 2003. This was however an improvement on 19.7 per cent for 2002. There was a sharp rise in central bank financing of the budget deficit from 1.9 per cent in 2002 to 25.60 per cent in 2003, exceeding the WAMZ target of 10 per cent. Sierra Leone's gross

external reserves as at end December 2003 stood at 1.9 months of imports, (well short of the required 3 months of import cover), compared to 3.1 months for end December 2002.

A similar performance was indicated relative to the Secondary Criteria. None of the six criteria was met. The tax revenue to GDP ratio was 14.5 per cent, short of the required 20 per cent or more. The ratio of salary mass to total tax revenue at 59.3 per cent was well beyond the prescribed criterion of 30 per

cent or less but a slight improvement on 63.2 percent recorded in 2002. The share of public investment in total domestic receipts, at 11.33 per cent, was less than the required 20 per cent or more. Real interest rates for the first time recorded a negative position from the positive positions recorded for previous periods. The exchange rate of the Leone to the US Dollar remained unstable during 2003 and by the end of December 2003 had depreciated by 16.90 per cent thus moving out of the 15 per cent fluctuation band.

| WAMZ CRITERIA | Target | Performance | | |
|---|-------------------------------------|-------------------|-------------------|------------|
| | | 2001 ^R | 2002 ^R | 2003 |
| Primary Criteria | | | | |
| Budget deficit excluding grants/GDP (commitment base) | less than or equal to 4 percent | 16.7% | 19.7% | 16.8% |
| Inflation rate (end period) | Single digit | 3.4% | -3.1% | 11.3% |
| 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% |
| Gross reserves (months of imports) | greater than or equal to 3months | 2.3 months | 3.1 months | 1.9 months |
| Secondary Criteria | | | | |
| Domestic Arrears | 0 | N/A | N/A | N/A |
| Tax revenue/ GDP ratio | greater than or equal to 20 percent | 13.4% | 14.5% | 14.5% |
| Wagebill/tax revenue ratio | less than or equal to 35percent | 55% | 63.2% | 59.3% |
| Public Investment from Domestic Receipts | greater than or equal to 20 percent | 6.6% | 8.9% | 11.3% |
| Nominal exchange rate (+ = depreciation) | plus or minus 15 percent | -23.2 | -1.4 | 16.9 |
| Real interest rate | greater than 0 | 1.4% | 8.6% | -5.8% |

R Revised

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

- Low domestic revenue mobilisation: especially taxes revenue.
- High government expenditures as a result of increased government spending in the areas of wages bills, interest payment on domestic debt, reconstruction and rehabilitation outlays.
- High central bank financing of the deficit
- Excessive liquidity in the financial system
- Low exports and capital inflows

Measures are however being taken by the government to ensure Sierra Leone meets the set of Macroeconomic Criteria. They include the following:

- Measures to cut down on government expenditure, especially the share of government wages and salaries.
- The setting up the National Revenue Authority aimed at increasing domestic revenue particularly tax revenue.

8. Progress of Sierra Leone's Poverty Reduction and Growth Facility (PRGF) Arrangement

The PRGF is the IMF's concessional facility for low income countries. It is intended that PRGF-supported programs will in time be 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 to ensure that PRGF-supported programs are consistent with

a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty.

On June 30, 2001 the Government of Sierra Leone presented an Interim Poverty Reduction Strategy Paper (I-PRSP) to the Executive Board of the International Monetary Fund (IMF). The I-PRSP describes the country's macroeconomic, structural and social policies to foster growth and reduce poverty in a three-year economic adjustment program supported by PRGF resources, as well as associated external financing needs and major financing sources. Following this, a joint mission of the International Development Association (IDA) and the International Monetary Fund (IMF) visited Freetown and together with the authorities conducted the Debt Sustainability Analysis (DSA). The results showed that the country's external debt situation would remain unsustainable even after the application of traditional debt relief mechanisms.

On September 20, 2001, the Executive Board of the International Monetary Fund (IMF) approved a three-year Poverty Reduction and Growth Facility (PRGF) Arrangement in the sum of SDR 130.84mn (about US\$179mn) in support of Sierra Leone's medium term program having considered that Sierra Leone was also eligible for debt relief under the Enhanced Heavily Indebted Poor Countries Initiative (HIPC).

On March 12, 2002 the Executive Board of the IMF completed the First Review under the PRGF Arrangement. As a result Sierra Leone was able to draw up to SDR9.33 (about US\$12mn) from the arrangement immediately.

Sierra Leone on March 19, 2002 reached the decision point under the HIPC Initiative and became eligible for debt relief. Total debt relief from Sierra Leone's creditors was about US\$950.00mn which

is the equivalent of US\$600 million in Net Present Value (NPV) terms, a reduction of nearly 80 percent of the country's external stock of debt. The Executive Boards of the IMF and the World Bank Group's IDA approved support for a comprehensive debt reduction package for the country. Under the decisions taken by the two organizations, assistance committed by IDA—US\$122 million in NPV terms—would be delivered over a 20-year period and would cover on average 89 percent of debt-service obligations falling due to IDA. Debt relief provided by the IMF-US\$123 million in NPV terms—would be delivered over a ten year period. The poverty spending plan of these funds would be guided by the I-PRSP. The bulk of assistance from other creditors under the enhanced HIPC Initiative would be delivered when the country completes a number of agreed measures, paving the way for reaching a completion point in a few years' time.

On September 18, 2002 the Executive Board concluded the Second Review under the PRGF Arrangement and commended the country's efforts in implementing economic reforms despite major institutional and financial constraints. As a result, Sierra Leone was able to draw up to SDR 18.66 million (about US\$25 million) from the arrangement immediately.

Performance in regard to the program targets for 2002 was broadly satisfactory. All quantitative performance criteria for end-September and end-December 2002 were observed, except for two of the end-September 2002 criteria, namely those relating to the limits on (i) net domestic bank credit to the government and (ii) the government primary budget deficit. The implementation of structural policy reforms was generally satisfactory. On the basis of measures taken in 2002 and those proposed

in the authorities Medium-Term Expenditure Framework Paper (MEFP) the Executive Board granted waivers for the end-September performance criteria that were not observed. In April 2003 the Executive Board of the International Monetary Fund (IMF) completed the Third Review of Sierra Leone's performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The Board also granted a waiver of performance criteria. As a result, Sierra Leone was able to draw up to SDR14mn (about US\$19mn) from the arrangement.

The Fourth Review under the PRGF Arrangement is based on performance under the programme for end September 2003. The completion of the Review is expected early 2004.

9. Human Resource Development

Capacity building and capacity strengthening of the Human Resources available in the Bank for an efficient and high performing workforce triggered a bank-wide restructuring process during the period under review. The restructuring exercise gave the Bank the opportunity to critically examine its role and emerging responsibilities vis-à-vis its capacity to actualize its goals especially in the areas of capital market development and the supervision of banks and financial institutions. Significant outcomes of the restructuring are an enhanced organizational structure and an improved working environment where staff can continue to grow and respond to the challenges and goals the Bank has set itself.

For the period under review, the staff complement of the bank increased from 540 as at end 2002, to

564 as at end 2003. The majority of the staff continues to be in the professional and sub-professional cadres with staff strength currently as follows:

About 80% of staff recruited were sub-professionals. These would be trained on the job and encouraged to pursue academic/professional courses which would qualify them for elevation into the professional cadre.

Table 17
Human Resource Statistics

| | 2001 | | | 2002 | | | 2003 | | |
|-----------------------------------|------|--------|-------|------|--------|-------|------|--------|-------|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| Number of staff as at December 31 | 334 | 131 | 465 | 400 | 140 | 540 | 399 | 165 | 564 |
| <i>of which</i> | | | | | | | | | |
| Management | 4 | 4 | 8 | 3 | 4 | 7 | 4 | 4 | 8 |
| Professionals | 109 | 48 | 157 | 141 | 48 | 189 | 128 | 47 | 175 |
| Sub-professionals | 98 | 75 | 173 | 114 | 80 | 194 | 120 | 92 | 212 |
| Others | 123 | 4 | 127 | 142 | 8 | 150 | 147 | 22 | 169 |

During the review period, 45 staff were recruited while 32 staff severed from the Bank for the following reasons:

| | 2001 | 2002 | 2003 |
|------------------------------------|-----------|-----------|-----------|
| Resigned | 17 | 9 | 8 |
| Retired | 7 | 12 | 9 |
| Voluntary Retirement | 3 | 3 | 3 |
| Vacated | 2 | 2 | 2 |
| Terminated | 3 | 6 | 5 |
| End of Contract | 3 | 1 | 2 |
| Early retirement due to ill health | 1 | - | 1 |
| Deceased | 1 | 2 | 2 |
| Total | 37 | 35 | 32 |

Staff Development

Staff training plays a critical role in ensuring individual performance and organizational effectiveness is achieved, thus sustaining institutional growth. As a result, Heads of Department were closely involved in determining the thrust of their departmental training needs. The Bank also continues to create opportunities for staff to pursue and achieve professional skills in short/long term courses both local and overseas.

Overseas Training Included:**(i) Degree programs**

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

(ii) Long/Short Courses**Financial Stability Institute**

- Training of Junior and Middle Level Examiners of West and Central Africa
- Focused Seminar on On-Site and Off-Site Supervision of Banks

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

- Regional Course on Training of Banking Supervisors of West and Central Africa

SWIFT

- SWIFT Training Programme

Bank of Ghana

- Foreign Exchange Reserve Management

International Monetary Fund

- Monetary & Financial Statistics Course
- Course on Financial Programming & Policies

Joint African Institute (JAI)

- Course on Financial Programming & Policies
- Course on Monetary and Financial Statistics

United Nations Capital Development Fund

- Micro Finance Training Programme

Association of African Development Financial Institutions

- Professional Development for Senior Secretaries

African Rural and Agricultural Credit Association (AFRACA)

- Women Exposure Visit

European Central Bank

- Payment and Settlement Systems

RIPA International

- Management of Information Systems
- Contracting and Contract Management

Rokel Commercial Bank

- Shared Local Training Introductory Aspects of SWIFT

West African Institute For Financial and Economic Management (WAIFEM)

- Regional Course on Macro-Economic Modelling Forecasting & Policy Analysis
- Regional Workshop on New Financing
- Demand for Money Estimation Models
- Course on Balance of Payment Compilation & Analysis
- Course on Techniques of Economic Analysis
- Regional Workshop on Human Resources Management
- Regional Course on Report Writing
- Workshop on Domestic Debt Management
- Course on Central Bank Accounting and Auditing
- Regional Course on Micro Finance and Non-Bank Financial Institutions Management
- Regional Course on Financial Programming and Policies
- Advanced Banking Supervision
- Computing Auditing

WAIFEM and Debt Relief International (DRI)

- Regional Workshop on Debt Strategy Analysis (DSA) Tools
- Regional Workshop on External Assistance & Management

Crown Agents

- Foreign Exchange Management
- Reserves and Sovereign Risk Management

Association of African Central Banks (AACB)

Secretariat

- Workshop of Information Technology

Local Training

The Bank also sponsored staff through local tuition to pursue both professional and degree courses listed below:

| 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 | - |

Exposure to these programmes have provided staff with added skills and knowledge to handle their schedules. In its bid to motivate staff who have acquired additional qualifications, the Bank promoted 9 (nine) staff to higher positions and re-designated 7 (seven) staff.

(ii) In-house Training

Local training in the form of In-service Programmes continues to be one of the Bank's main instruments used for achieving efficiency. These include Transfer of Knowledge seminars, Computer training and other related courses. In-service Programmes were

conducted at the Auditorium of the Sam Bangura Building during the review period. These programmes consisted of:

- Financial Programming and Policies
- Macroeconomic Modeling Forecasting and Policy Analysis
- Inter-Bank Foreign Exchange Market
- Basic Poverty Measurement and Diagnostic Course
- Middle and Back Office Functions in Reserve Management
- Seminar on Monetary and Financial Statistics
- Seminar on Banking Supervision

Management of the Bank including Independent Units

| | | |
|-----------------|---|------------------------|
| Governor | - | Mr. James D. Rogers |
| Deputy Governor | - | Mr. Mohamed S. Fofanah |

Directors

| | | |
|----------------------------------|---|-------------------------|
| Secretary to the Board | - | Mr. Kaifen S. T. Kallay |
| 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 |
| Ag. Director General Services | - | Mrs. Grace Hassan |

Heads of Unit

| | | |
|------------------|---|--------------------|
| Internal Auditor | - | Mr. Ralph Ansumana |
|------------------|---|--------------------|

Bank of Sierra Leone Organisational Structure

