Bank of Sierra Leone

Annual Report
and
Statement of Accounts
for year ended 31 December 2007

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A. ANNUAL REPORT 2007

1. Review of the Economy

Emerging optimism at the end of 2006, when Sierra Leone reached Completion Point Status under the enhanced Heavily Indebted Poor Countries (HIPC) initiative continued into early 2007. The country received substantial support from its development partners in spite of the challenges experienced in the financial system during the year. On the 24th of January 2007 representatives of the Paris Club Creditor Countries agreed to cancel US$218mn (91% of the debt stock) owed by the country in support of restoring Sierra Leone's debt sustainability. This was the Paris Club's share of the debt relief provided within the framework of the enhanced HIPC initiative. Additional debt relief of US$22mn was also granted to the country by some of its bilateral debtors, which resulted in total debt cancellation from Paris Club creditors. Also, on 8th June 2007, the United States of America granted a bilateral debt relief to the tune of US$58.3mn, amounting to 100 percent of Sierra Leone's eligible debt owed to the United States Government. On this positive note, the economy seemed poised to continue the good performance recorded in 2006.This momentum was however dissipated, as only a minimum of expected disbursements materialized, particularly in the first half of the year, following the conduct of the Second Review of the country's performance under the IMF's Poverty Reduction Growth Facility Programme in April 2007, when the country failed to meet some of the quantitative and structural targets for end December 2006 and the Review could not be completed. Furthermore some conditions set under the Multi Donor Budgetary Support Programme were not met and only US$4.87mn of the expected US$28.92mn disbursement as external budgetary support was received in the first half of the reporting year.

Development assistance received from the international community during the year included a US$30mn grant from the World Bank in May 2007, through its Private Sector Development Programme, for the establishment of a Rural Private Sector Development Project in the country, in support of pro-poor economic growth for food security and job creation. In July 2007, the Steering Committee of the Sierra Leone Peace Building Fund (PFB), funded by the United Nations Development Programme, approved four new projects as follows:- US$4mn towards capacity building in the Justice Sector, US$2mn towards improvement of the Republic of Sierra Leone Armed Forces (RSLAF),water,sanitation and health facilities in the military barracks and more than US$1.8mn towards the enhancement of emergency measures for the Security Sector (RSLAF, Sierra Leone Police Force and Prisons Department). Also during the year, the International Finance Corporation (IFC) under its Global Trade Finance Programme, signed a Trade Finance Agreement with the Sierra Leone Commercial Bank, Rokel Commercial Bank (LTD) and the Guarantee Trust Bank in a bid to boost the country's business community. In another development, on the 12th July 2007, the European Union, under its Health Sector Support Project (HSSP) donated 14 vehicles with their spare parts to the Ministry of Health and Sanitation. Also on July 20, 2007, the World Bank made an additional support grant of US$8mn to the Ministry of Health and Sanitation for the rehabilitation of 4 referral hospitals and 12 health centers. As efforts towards tightening the growth of HIV/ AIDS in Sierra Leone increase, the Global Fund, on the 27th September 2007, approved a grant of US$26.5mn spanning a 5-year period, to the National Aids Secretariat (NAS). An initial amount of US$9.7mn would be disbursed within the first two years. On December 13, 2007, the Minister of Finance and Economic Development and the Kuwaiti Fund for Arab Economic Development, signed an agreement for 3 million Kuwaiti Dinars (equivalent to US$10.6mn) for the reconstruction of the Kenema-Pendembu Highway. Upon completion, the road would facilitate trade and provide easy access to the eastern region of the country.

Real Gross Domestic Product (GDP) growth is estimated at 7.0 percent and was mainly driven by strong growth in the agricultural sector, which posited marked increases in the production of coffee and other major agricultural foodstuff as well as in livestock production over the period. Improved performances were also recorded in the industrial and services sub-sectors, providing an additional boost to growth and employment opportunities.

Monetary Policy in 2007 continued to be directed towards the maintenance of a low and stable rate of inflation. However, mounting consumer prices caused by demand pull and cost push factors as well as external supply shocks in terms of rising world market prices for petroleum goods and food items, particularly rice and other grain crops, continued to pose major challenges to monetary management as the year-on-year inflation rate climbed to 12.15 percent in December 2007 from 7.88 percent in December 2006. The economic crisis in Guinea, a major trading partner, in the first half of the year, which saw several strike actions by the country's trade unions, was another strong factor in the inflation hike as such actions led to severe supply constraints in Sierra Leone. Against the backdrop of mounting inflation pressures and delayed donor disbursements, the Central Bank tightened its monetary stance (through a Memorandum of Understanding with the Ministry of Finance) by issuing securities to mop up excess liquidity in the system.

Government's budgetary operations in 2007 were significantly constrained, due to major delays in the disbursement of expected foreign inflows during the period. The situation was further exacerbated by continued low domestic revenue mobilization. In an effort to address the problem and to reduce recourse to central bank financing for its operations, the government, in April 2007, adopted a cash budget system, which ensured that only available revenue was expended. This resulted in a reduction of the budget deficit (plus grant) to Le43.08bn (0.87 percent of GDP), which was within the budget estimate of Le43.83bn for 2007 and compared favorably with the fiscal deficit of Le75.58bn (1.76% of GDP) for 2006.

On the external front, gross foreign reserves of the Central Bank stood at US$215.48mn as the end of December 2007, as a result of an improvement in external inflows in the last quarter of the year.This translated into 4.8 months prospective import of goods and services, compared with an import cover of 3.8 months recorded in December 2006. Meanwhile, the exchange rate of the Leone to United States Dollar remained relatively stable but was weak against the British Pound Sterling and the Euro.

The review period saw significant development in the energy sector, with the Government of Sierra Leone on 20th October, receiving from donors a total pledge of Euro 30 million for the completion of Bumbuna Hydro electricity power project. Also, on 20th December 2007, the President Dr. Ernest Bai Koroma, commissioned a 15 mega-watt Thermal generator engine provided by the World Bank, to improve electricity supply in Freetown.

Financial sector developments were characterized by policy measures aimed at further deepening of the sector as well as ensuring a sound and stable financial system. To this end three new commercial banks, Pro Credit bank, United Bank of Africa and Skye Bank were issued licenses to carry on the business of banking in Sierra Leone. The Pro Credit commenced operations in the period under review, while the other two will start in 2008. In addition, existing banks were issued licenses to operate branches in the city and the provinces, while the Community banks increased their outreach during the year in providing financial intermediation services to the rural poor .

Real Sector Developments

During the review period, the policy of food security and poverty reduction remained top priority in the government's agenda. As a result, the real sector continued to receive assistance from both the Government and external donors. The Executive of the Magbema Cashew nut Farmers Association presented 250,000 cashew seedlings to the Ministry of Agriculture and Food Security in support of the food security drive of the country. The Government of Sierra Leone signed a Trade Agreement with the Chinese Trading Company, S.H. Trading Company Limited, for the production of timber in Sierra Leone. The Petroleum Unit contributed an amount of Le6.5 billion to the Strategic Stock Management Scheme that was jointly established with the government in the second half of 2006, as contingency arrangement for fuel shortages.

In other developments, the factory price of cement was revised upwards to Le25, 200 per bag in the period under review from Le23, 800 per bag, as a result of an increase in the cost of raw materials. Statistics Sierra Leone (SSL), commenced compilation of the Consumer Price Index (CPI) based on the ECOWAS Common Platform, the Classification of Individual Consumption by Purpose (COICOP) system, with 2003 as the base year, to enhance comparison of inflation rates in member countries. The uniform pump prices of petroleum products were revised upward from Le12, 950 per gallon to Le14, 500 per gallon to reflect an increase in the world market prices of the products.

Real Gross Domestic Product was estimated to grow by 7.0 percent in 2007, mainly driven by output in the agriculture, industry and services sectors. The average annual inflation rate increased from 9.93 percent in

Chart 1
Production of Major Food Crops (2003 - 2007)

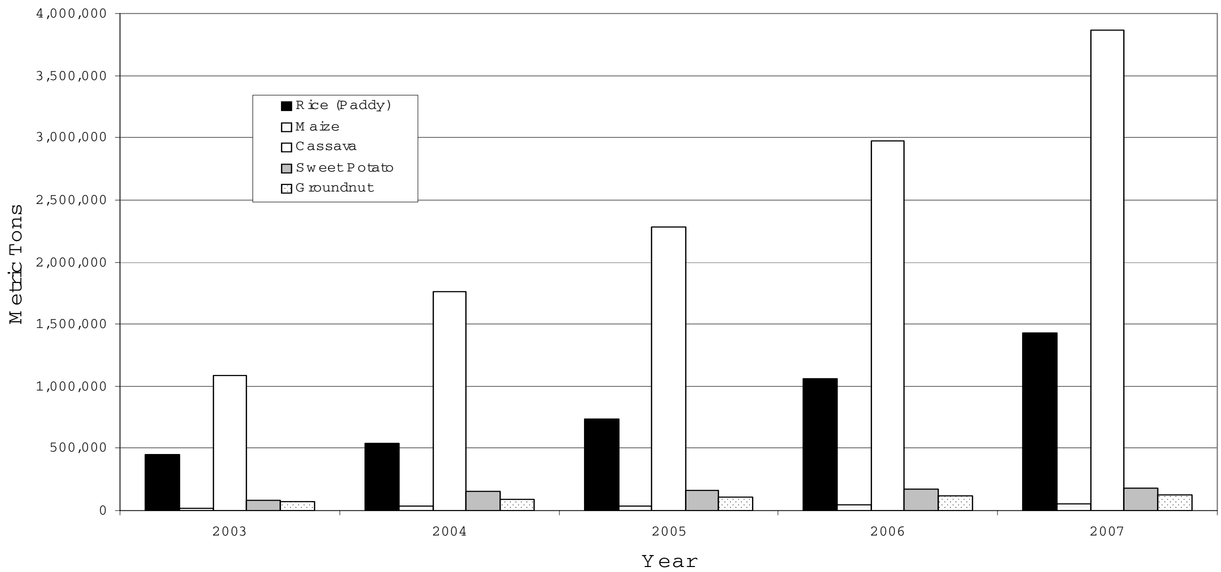


Table 1

Production					
		Jan-Dec '06	Jan-Jun '07	Jul-Dec '07	Jan-Dec '07
1	2	3	4	5	6
Minerals					
Diamonds	000 'carats	582.32	375.37	229.33	604.70
Bauxite	000 'M tons	1,071.14	623.84	545.19	1,169.04
Rutile	000 'M tons	73.60	42.25	40.55	82.81
Ilmenite	000 'M tons	13.82	6.47	9.28	15.75
Gold	000 'Ounces	2.28	4.67	2.15	6.82
Agriculture					
Coffee	M tons	1,475.20	1,766.22	717.00	2,483.22
Cocoa	M tons	13,939.70	8,551.26	5,171.02	13,722.28
Manufactured Goods					
Beer and Stout	000 'Cartons	832.10	379.72	400.40	780.11
Maltina	000 'Cartons	160.04	85.82	86.94	172.76
Acetylene	000 'cu.ft	291.33	92.32	99.13	191.45
Oxygen	000 'cu.ft	791.64	250.85	173.00	423.85
Confectionery	000 'lbs	2,329.86	1,581.92	1,559.02	3,140.94
Common Soap	000 'M tons	467.36	315.30	306.33	621.63
Soft drinks	000 'crates	2,088.75	939.44	1,492.26	2,431.70
Paint	000 'gals	142.73	89.92	67.04	156.97
Cement	000 'M tons	234.44	143.24	92.60	235.83
Jumbo Cube	Cartons	33.27	13.00	10.91	23.91
Flour	000 'M tons	13.59	7.51	6.04	13.55
Candle	000 'Cartons	8.91	1.13	1.35	2.48
Services					
Electricity	GW /hr				
Unit Generated	GW /hr	31.98	11.50	2.07	13.57
Industrial Consumption	GW /hr	10.45	3.66	n.a	n.a

Sources: Manufacturing Establishments

2006 to 10.37 percent in the period under review and the year-on-year inflation rate also increased to 12.15 percent at end December 2007 from 8.26 percent in 2006.

Gross Domestic Product (GDP)

Real Gross Domestic Product (GDP) growth rate for 2007, estimated at 7.0 percent, was about 0.3 percentage points lower than the growth rate of 7.3 percent recorded for 2006. The Agricultural sector contributed the major share of about 47.90 percent, followed by the Services sub-sector with 38.14 percent, the Industrial sub-sector including mining and quarrying with 9.72 percent and the Financial Services Indirectly Measured (FISIM) sub-sector with 1.91 percent. According to estimates, the highest growth rate was recorded in the industrial sector at 10.9 percent, followed by agriculture sector at 8.5 percent and the services sector at 5.2 percent.

Agriculture

Agriculture remained the largest economic sector providing employment and income for about two-thirds of the population. Estimates from the Ministry of Agriculture, Forestry and Food Security indicate that the share of households with adequate food consumption was 71 percent at end 2007, following a steady increase in domestic production of major food crops as well as livestock.

Table 2

Production of Major Food Crops (2003 -2007)

CROP	Production (M.Tons)				
	2003	2004	2005	2006	2007
Rice (Paddy)	445,633	542,000	738,000	1,062,320	1,432,800
Maize	16,060	32,125	39,051	48,813	54,944
Cassava	1,091,178	1,758,194	2,287,000	2,973,100	3,865,030
Sweet Potato	84,446	153,196	160,121	168,129	176,564
Groundnut	70,500	91,128	104,730	115,200	126,723

SOURCE: Ministry of Agriculture and Food Security

During the review period, the sector received assistance from both the government and external donors. The World Bank approved a grant of US$30million for the establishment of the Rural Private Sector Development Project, in support of pro- poor economic growth for security and job-creation. The project aims at providing support to initiatives directed at improving the quality of produce for both the domestic and export markets and assisting in strengthening marketing organizations at the producer levels. It would also provide limited support for filling critical gaps in infrastructure along the value chain of agricultural commodities, in conjunction with initiatives supported by the government and other donors. The project is to be implemented in four components. The first phase, valued at US$11.37mn, is aimed at improving domestic distribution channels for agricultural products, in order to improve the ability of farmers and traders to market their goods in the capital city (Freetown) and other large domestic markets. The second component worth US$6.12mn, involves providing the necessary tools and services to promote agricultural exports of commodities such as cocoa, coffee, cashew, oil palm, cassava and ginger.The third component costs US$7.03mn and is aimed at providing support to farm-based organizations and technology improvement through increasing farmers' access to improved agricultural technology and practices. The last component is valued at US$5.47mn and relates to the provision of policy regulations in terms of financing the development of key policy regulations, the policy management function and the monitoring and evaluation process.

During the period the agricultural policy of the government emphasized on encouraging private participation in trade in inputs such as fertilizers, seedlings, etc. by farmers.
The production of rice, the staple food of the country, was estimated to have significantly increased to 1,432.80 thousand metric tons in 2007, about 34.87 percent and 88.82 percent higher than the levels recorded for 2006 and 2005, respectively. Other major crops also recorded increased output in the year, with output of maize increasing by 12.56 percent to 54.94 thousand metric tons, cassava by 30 percent to 3,865.03 thousand metric tons, sweet potato by 5 percent to 176.54 thousand metric tons and groundnuts by 10 percent to 126.72 thousand metric tons.

Actual data on fish production in 2007 was unavailable but estimates from the Ministry of Fisheries and Marine Resources indicate that total fish production increased from 134,248 metric tons in 2006 to 142,378 metric tons in 2007. Of the total fish produced, industrial catch accounted for 15,862.70 metric tons and shows an increase of 15 percent on the total for 2006.

Coffee shipment rose by 68.33 percent to 2.48 thousand metric tons in the review period from 1.48 thousand metric tons in 2006. The rise in coffee production was partly driven by the rise in the world market unit price of the commodity from US$2,270.39 in 2006 to US$2,435.75 in 2007, and partly attributed to increased donor-support to cash crop farmers, which facilitated rehabilitation of their farms. Shipment of cocoa however dropped by 217.42 thousand metric tons (1.56%) to 13.72 thousand metric tons in the review period notwithstanding the increase in the average world market price of cocoa from US$1,595.51 in 2006 to US$1,945.23 per metric ton in 2007.

Livestock Production

Livestock production continued to receive government's attention. During the year, the government, through the Ministry of Agriculture and Food Security, provided the relevant support to the sub-sector. Notwithstanding however, trends in the sub sector showed a mixed outturn for the year. Estimates on livestock production indicated that cattle production during the year dropped by 14.30 percent to 300,000; while that for goats

Table 3

Livestock Production Estimates (2003 -2007)

Livestock	2003	2004	2005	2006	2007
Cattle	170,000	200,000	250,000	350,000	300,000
Goats	258,000	350,000	438,000	540,000	550,000
Sheep	200,000	300,000	375,000	470,000	470,000
Ducks	350,000	400,000	550,000	n.a.	n.a.
Pigs	6,800	8,500	10,200	n.a.	n.a.
Rabbits	900	1125	1,350	n.a.	n.a.

Source: Ministry of Agriculture and Food Security increased by 1.9 percent to 550,000. Production statistics on ducks, pigs and rabbits were unavailable but trends in their output showed that the number of these products reared increased over the one-year period. Also, the number of sheep reared in the period under review was recorded at 470,000, just about the aggregate recorded for 2006.

Manufacturing

Developments in the manufacturing sub-sector were mixed in the review period. While most industries registered marginal increases in their output levels, others experienced significant reductions in their production levels. Total output of beer & stout produced in 2007 decreased by 51.99 thousand cartons (6.25%) to 780.11 thousand cartons, though increasing from 379.72 thousand cartons in the first half of 2007 to 400.40 thousand cartons in the second half of 2007. The drop in output over the year was due to a combination of factors including shortages in water supply and strong competition from imported brands. It was also the result of frequent breakdowns in the production plants during the year. In contrast, the level of output of Maltina drink and soft drinks increased by 12.72 thousand cartons (7.95%) to 172.76 thousand cartons and by 342.95 thousand crates (16.42%) to 2, 431.70 thousand crates respectively, over the period. Output of Maltina recorded 85.82 thousand cartons in the first half of 2007, increasing to 86.94 thousand cartons in the second half of the year. Similarly, the volume of soft drink produced rose from 939.44 thousand crates in the first half of 2007 to 1,492.26 thousand crates in the second half. The increase in the level of both products was in response to increased demand for the products against the backdrop of increased availability of raw materials.

Production levels for acetylene and oxygen decreased by 99.88 thousand cubic feet (34.28%) to 191.45 thousand cubic feet, and 367.79 thousand cubic feet (46.46%) to 423.85 thousand cubic feet, respectively in 2007. The level of acetylene produced was 92.32 in the first half of 2007, rising to 99.13 thousand cubic feet in the second half of the year, while production of oxygen recorded 250.85 thousand cubic feet in the first half of the period under review, decreasing to 173 thousand cubic feet in the second half. The decrease in the production of both gases in 2007 was due to a reduction in demand.

The volumes of confectionery and common soap produced in the reporting period increased by 811.09 thousand pounds (34.81%) to 3,140.94 thousand pounds and 154.27 thousand metric tons (33.01%) to 621.63 thousand metric tons, respectively. The marked increases in output were in response to increased demand during the year relative to 2006. Output of confectionery however dropped from 1,581.92 thousand pounds in the first half of the year to 1,559.02 thousand pounds in the second half, while that of common soap decreased from 315.30 thousand metric tons in the first half to 306.33 thousand metric tons in the second half of the reporting year.

Production of paint and cement increased in the reporting period by 14.24 thousand gallons (9.97%) to 156.97 thousand gallons and by 1.40 thousand metric tons (0.60%) to 235.83 thousand metric tons respectively, relative to 2006. The increase in the output levels of both products over the year was explained by increased construction and renovation activities in the review period. Paint production was 89.92 thousand gallons in the first half of 2007, but decreasing to 67.04 thousand gallons in the second half, while output of cement was 143.24 thousand metric tons in the first half, decreasing to 92.60 thousand metric tons in the second half.

Output levels of Jumbo cube condiment and flour decreased over the year by 9.37 thousand cartons (28.15%) to 23.91 thousand cartons and 0.04 thousand metric tons (0.29%) to 13.55 thousand metric tons, respectively.

In the case of Jumbo cube, production dropped to 10.91 thousand cartons in the second half of 2007 from 13.00 thousand cartons in the first half. Similarly, output of flour dropped to 6.04 thousand metric tons in the second half of 2007 from 7.51 thousand metric tons recorded in the first half of the year. The marginal drop in flour production over the period resulted from the cessation of production by the Flourmill Company in the last quarter of the year. Candle production dropped significantly from 8.91 thousand cartons in 2006 to 2.48 thousand cartons in 2007, due to the introduction of various imported brands into the market. Output volume was 1.13 thousand cartons in the first half of 2007 but increased slightly to 1.35 thousand cartons in the second half.

Mining

The mineral sector continued to be buoyant with the production of bauxite, rutile, ilmenite and diamond registering further increases in 2007 over the preceding year. The volume of bauxite mined in the reporting year increased by 97.90 thousand metric tons (9.14%) to 1,169.04 thousand metric tons. On a half-yearly basis however, production dropped from 623.84 thousand metric tons in the first half of 2007 to 545.19 thousand metric tons in the second half. The increase over the year was directly associated with further expansions of mining activities into new areas. Output of rutile also increased by 9.21 thousand metric tons (12.51%) to 82.81 thousand metric tons in the same period. It recorded 42.25 thousand metric tons in the first half-year but dropped to 40.55 thousand metric tons in the second half. The increase over the year was attributed to a significant increase in mining activities following an increase in the number of miners on the ground. The total volume of ilmenite produced in 2007 increased by 1.93 thousand metric tons (13.98%) to 15.75 thousand metric tons, increasing from 6.47 in the first half to 9.28 thousand metric tons in the second half. The yearly increase in output was mainly associated with the increase in rutile production, the former being a bye-product of the latter. The total volume of gold produced in the period under review increased markedly by 4.53 thousand ounces (198.55%) to 6.82 thousand ounces, relative to 2006. Output was 4.67 thousand ounces in the first half of 2007 but dropped to 2.15 thousand ounces in the second half of 2007, due to seasonal factors. The highest volume of gold output (1,147.69 ounces) was recorded in May, while the lowest of 83 ounces was recorded in October 2007. The incentive created to gold miners, following the marked increase in the world market price during the year was partly responsible for the significant increase over the year. An additional factor was the expansion of alluvial gold mining activities into newly discovered deposits. The volume of diamond shipments as recorded by the Gold and Diamond Department (GDD) increased to 603.70 thousand carats in 2007, 22.37 thousand

Table 4

Mineral Production (2003-2007)

Period	Gold (000'ounces)	Diamond (000'Carat)	Bauxite (000'M tons)	Rutile (000'M tons)	Ilmenite (000'M tons)
2003	0.18	506.82	-	-	-
2004	0.86	693.10	-	-	-
2005	1.69	668.81	-	-	-
2006	2.28	582.33	1071.14	73.6	13.82
2007	6.82	603.70	1,169.04	82.81	15.75

SOURCE: Government Diamond Department

carats (3.84%) higher than the level in 2006. Of the total volume, gem diamonds accounted for 370.61 thousand carats while industrial diamonds totaled 233.09 thousand carats. Output from kimberlite mining by Koidu Holdings increased to 147.37 thousand carats (24.40%) in 2007 compared to 93.14 thousand carats (15.99%) in 2006. Output from alluvial diamond mining however dropped to 456.54 thousand carats in 2007 from 489.19 thousand carats in 2006. Total shipments of diamond in the first half of 2007 was 375.37 thousand carats but decreased to 229.33 thousand carats in the second half of the review period. The month of December recorded the least volume of shipment of diamond at 24.67 thousand carats following the cessation of the mining operations of Koidu Holdings. The highest shipment of 74.88 thousand carats was recorded in the month of July 2007.

Services

Transport

The number of vehicles registered during the review period increased by 316.00 (2.5%) to 12,984. Of this total, motor cycles increased by 68.90 percent to 5,231, Utility vans and Station Wagons (non-commercial) by 2.3 percent to 2,178 and Tractors and Trailers Unit by 39.6 percent to 32. During the same period however, decreases were recorded in the number of private cars registered by 2.3 percent to 1,840, Taxis by 26.9 percent to 1,193, van/buses (25 passengers) by 21.10 percent to 1632, buses (above 25 passengers) by 15.7 percent to 82, trucks (with 6 tyres) by 7.4 percent to 387 and trucks (above 6 tyres) by 59.3 percent to 57. Total vehicle licenses issued during the year increased by 1,171 (3.1%) to 39,038. Of the total, licenses on motorcycle rose by 50.6 percent to 7,858, utility vans and station wagon (non-commercial) by 11.4 percent to 7,328, trucks (with 6 tyres) by 16.7 percent to 1,568 and trucks and trailers unit by 32.5 percent to 277. Decreases were however recorded for private cars by 7.6 percent to 10,992, taxis by 15.5 percent to 4,588, vans/buses (25 passengers) by 1.7 percent to 5,284, buses (above 25 passengers) by 13.2 per cent to 303 and trucks by 2.5 per cent to 356. In order to boost transportation service between Sierra Leone and the Republic of Guinea, the Ministry of Transport and Aviation commissioned a new Ferryboat "F.B THANASIS" at the Government Wharf, in the last quarter of 2007. The Ferryboat will ply the Freetown-Conakry sea route and is expected to facilitate trade between the two countries.

Communications

The communications sector continued to expand with a total of 12 (twelve) newspapers recorded registered with the Independent Media Commission nationwide in the review period. Of this total only one is located in the Southern Province while the remaining 11 are located in the Western Area. A new satellite provider YES Television Station, Sierra Leone Limited was also registered in the year .The existing five mobile telecommunication companies namely the CELTEL, COMIUM, TIGO, AFRICEL and DATATEL Tele-Communications Companies continued to operate countrywide through out the period under review, expanding their coverage further into other areas in the provinces as well as providing new products to their customers. An aggregate of eight (8) radio stations were registered with the Independent Media Commission in 2007. These include the Association of Radio Maria, Free Radio and Radio United Nations. The latter also has sub-stations located at the Mammy Yoko Hotel in the west end of Freetown and the Koidu, Kailahun, Bo and Kenema townships.

Electricity Generation

In-spite of the repairs to the National Power Authority power generating plants and distribution lines by the technical team from Morocco, following a bilateral arrangement between the governments of Sierra Leone and


Chart 2
Total Electricity Generation (1999-2007)
GW/hr
120.00
100.00
80.00
60.00
40.00
20.00
1999
2000
2001
2002
2003
2004
2005
2006
2007
Period

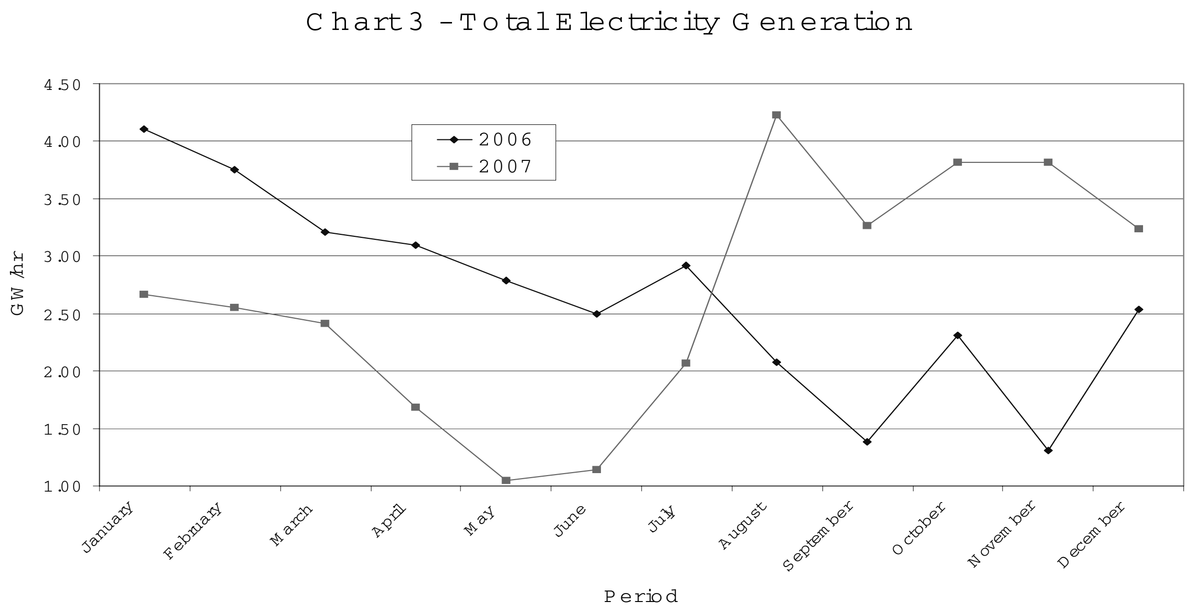


Chart 3 - Total Electricity Generation
GW/hr
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
2006
2007
January
February
March
April
May
June
July
August
September
October
November
December
Period

Morocco, total electricity generation remained well short of the increasing demand for power supply by the industrial sector and domestic consumption in 2007. Total electricity generated amounted during the year amounted to 31.93 GW/hr, slightly below total output of 31.98 GW/hr in 2006. Electricity generated during the review period was augmented by output from the 15 MW generators under rent from the independent power producer, the Global Trading Group, which commenced production in December 2007 with an initial output of 0.68 GW. A second independent power producer, the Income Electric Company, which was scheduled to commence operation in December of the reporting year with the 10 MW generators stationed at Blackhall Road in the east end of the city did not commence as scheduled.

In its drive to improve electricity supply in Freetown and its environs, the government, in the last quarter of 2007, engaged in a temporary measure by contracting a 15 MW rental power supply for one year from the Global Trading Group, an independent power producer, with funding amounting to US$32mn provided by the International Development Association (IDA) of the World Bank. The Government also contracted a 10 MW rental power supply for one year from Income Electric, also an independent power producer to complement the 15 MW provided by the Global Trading Group. While providing temporary power supply, government is actively working with its development partners to enhance completion of the Bumbuna Hydro-Electric Power Plant. The independent power providers produce and sell electricity to the National Power Authority, who in turn sells to consumers.

Electricity generated dropped steadily for the most part of the first half of 2007, reaching its lowest level of 1.05 Gw/hr in May 2007. It increased slightly in June to reach its peak at 4.22GW/hr in August 2007. Output fluctuated in the remaining period recording 3.23GW/hr in December 2007. Over the ten-year period to 2007, the lowest yearly output of 31.93 GW/hr was recorded in 2007 while the highest yearly of 123.50GW/hr was recorded in 2002.

Construction

During the year 2007, substantial donor support was directed towards improving the road network in the country. This included funding of a total of 650 kilometer rural/feeder road network in the four provincial districts of Port Loko, Kambia, Pujehun and Kenema by the European Union, the signing of a loan agreement between the Government of Sierra Leone and five external donors namely, the Organisation of Petroleum Exporting Countries (OPEC), Kuwait, Saudi Fund, BADEA and the African Development Bank (AfDB), for the construction of the Kenema-Koindu Highway and funding for the construction of the Tokeh-Lumley Road Project by Kuwait and OPEC. Work on the Tokeh-Lumley Road project commenced with the clearing and demolition of structures within the highway in the review year. The bidding process for the rehabilitation of 550 km feeder roads in Bombali, Tonkolili and Kailahun commenced in the review period. The contract for the rehabilitation of the Songo-Moyamba road was also awarded in the review period and bush clearing and earthwork are in progress. The project is funded by the European Union. The bidding process for the award of contract for the rehabilitation of the Makeni-Matotoka and Bo-Makeni highway also commenced during the year under review and work is expected to commence in 2008. The first phase of the contract for the construction of the Freetown-Conakry road was completed in the review period, while the second phase was terminated in the same period, due to non-performance on the part of the contractor. It is however expected that the second phase would commence in 2008. The Kambia-Makeni Road Rehabilitation Project was completed during the review period, while major streets in the Makeni Township were also rehabilitated with funding from the European Union.

Table 5
Building Permits issued for Freetown and Greater Freetown

	2004	2005	2006*	2007
Residential	350	520	915	1047
Commercial	9	55	75	61
Wall Fence	51	80	82	172
Schools	1	4	8	6
Churches	3	8	5	5
Mosques	2	0	3	3
Hospitals	2	0	2	3
Hoardings	4	0	0	0
Total	422	667	1090	1297

* Revised figures

SOURCE:Ministry of Lands and Country Planning

The number of building permits issued in the review period increased to 1,297 in 2007 compared to 1,090 in 2006. Residential building permits accounted for the bulk of the total building permits issued, at 1,047 and reflecting an increase of 14.43 percent of the total. Permits issued for wall fencing increased significantly by 109.76 percent to 172, while that for commercial buildings decreased by 18 percent to 61. Permits for the construction of school buildings decreased by 25.0 percent to 6, while the number of permits for churches and hospitals remained the same at 5 and 3, respectively.

Tourism

The private sector continues to play an active role in the tourism industry aided by a conducive environment provided by Government. The significantly improved quality of service delivery rendered by hotels, guesthouses and other tourist establishments is additional booster to the industry.Although the total number of identified tourist establishments decreased in the review period from 356 in 2006 to 344 establishment in 2007, the total number of hotel and guesthouse beds increased to 2,761 in 2007 compared to 2,642 in 2006. The total number of tourist arrivals to the country dropped by 1,481 to 32,223 in 2007. The drop may be attributed partly to the uncertainty surrounding the election process during the year.The number of visitors on business and to family members and relatives dropped respectively by 11.43 percent to 9,571 and 3.51 percent to 4,154, while increases were recorded for visitors on holidays and conferences by 27.26 percent to 3,842 and 4.50 percent to 1,812, respectively.Statistics on visitors by place of residence indicate increases in the number of visitors from the Economic Commission of West African States (ECOWAS) by 1.35 percent to 6,909, Non- ECOWAS by 19.12 percent to 3,937, and Europe by 8.19 percent to 11,327, while decreases were recorded in the number of visitors from Asia by 46.05 percent to 2,275 and middle East by 37.54 percent to 965. Also as a boost to the tourist industry, the Gola Forest in the Southern Province of the country was declared as National Park during the review period.

Inflation

Annual Average Inflation

The average annual national inflation rate increased to 10.37 percent in 2007 as compared with 9.93 percent in 2006. The increase in the annual average inflation was a reflection of increases in the average inflation rate in all the urban townships, with Freetown recording an increase of 5.00 percentage points to 12.46 percent, Bo by 2.93 percentage points to 10.99 percent, Kenema by 4.84 percentage points to 11.97 percent and Makeni by 5.12 percentage points to 11.45 percent.

On a national basis, price increases were recorded in all the main group indices except for "Education" where the consumer price index dropped slightly by 0.30 percentage points. The highest increase was recorded in "health" service (60.55%) and the least increase was recorded for "clothing and footwear" (5.25%).

Year-on-year Inflation Rate

The year-on-year national inflation rate increased to 12.15 percent in December 2007, about 4.26 percentage points higher than the rate for December 2006. Like the annual average inflation rate, the increase in the year-on year inflation rate was reflected in the indices for all the urban townships with Bo Town recording the highest increase by 7.73 percentage points to 13.07 percent, followed by Kenema by 7.70 percentage points to 12.99 percent, Makeni by 5.38 percentage points to 11.05 per cent and Freetown by 3.43 percentage points to 11.17 per cent.

Between March 2006 and January 2007, the national inflation rate was maintained at single digit. It however reverted to double digits in February 2007 (12.56%). The double digits position was maintained through out the remaining period of the year to record 12.15 percent at end December, thus falling outside the single digit inflation rate objective of the Bank. The double digits inflation rate was due to a combination of factors which included supply constraint arising partly from the Guinea crisis and partly from uncertainty associated with

Chart 4
Inflation Rates (Yr-on-Yr) - 2007

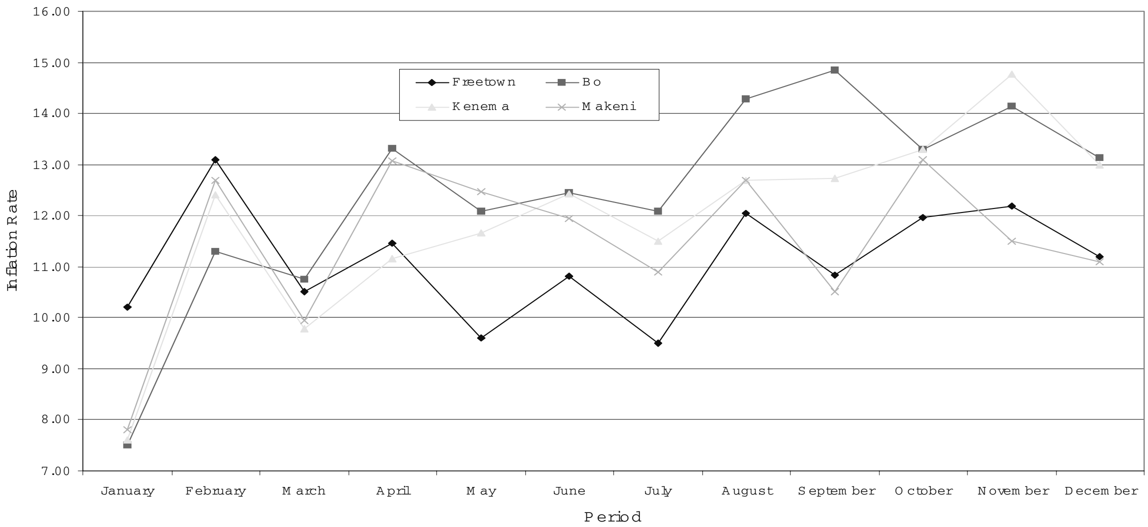


Table 6

Inflation Rates (Freetown) - 2007				
Period	Consumer Price Index	Monthly (%)	Year-on-Year (%)	Moving Average (%)
1	2	3	4	5
January	806.55	1.53	9.81	9.23
February	827.10	2.55	12.80	9.21
March	812.77	-1.73	10.10	8.96
April	824.00	1.38	11.44	8.90
May	821.84	-0.26	10.02	8.79
June	830.90	1.10	10.22	8.88
July	828.79	-0.25	9.13	9.03
August	859.50	3.71	12.13	9.53
September	870.49	1.28	11.53	9.94
October	891.01	2.36	13.34	10.48
November	905.83	1.66	15.16	11.19
December	903.72	-0.23	13.76	11.65

SOURCE: Statistics Sierra Leone

Table 7

Inflation Rates (Bo, Kenema, Makeni) - 2007									
Period	Bo			Kenema			Makeni		
	CPI	Monthly (%)	Year-on-Year (%)	CPI	Monthly (%)	Year-on-Year (%)	CPI	Monthly (%)	Year-on-Year (%)
1	2	3	4	5	6	7	8	9	10
January	139.10	2.13	7.50	144.30	1.69	7.60	142.20	3.80	7.80
February	143.60	3.24	11.30	149.00	1.00	12.40	149.60	5.20	12.70
March	143.66	0.04	10.76	140.96	-5.40	9.78	147.22	-1.59	9.94
April	148.69	3.50	13.31	142.67	1.21	11.15	151.02	2.58	13.07
May	147.88	-0.54	12.09	147.51	3.39	11.67	154.43	2.26	12.47
June	148.97	0.74	12.45	150.83	2.25	12.42	155.38	0.62	11.94
July	151.29	1.56	12.08	153.11	1.51	11.49	151.91	-2.23	10.89
August	155.40	2.72	14.28	155.20	1.37	12.70	156.10	2.76	12.70
September	157.58	1.40	14.85	158.48	2.11	12.74	153.50	-1.67	10.52
October	155.70	-1.19	13.29	155.70	-1.75	13.30	155.30	1.17	13.10
November	155.18	-0.33	14.15	162.48	4.35	14.77	152.80	-1.61	11.50
December	154.02	-0.75	13.13	160.40	-1.28	13.00	152.70	-0.07	11.10

Source: Statistics Sierra Leone

2007 national elections, expansionary monetary activities by the government and the increases in world fuel prices, which was translated into increased transportation costs across the country, as well as hikes in the prices of goods and other services.

In Freetown, the year-on-year inflation rate shot to double digits in January 2007 and was maintained for most of the period except for May and July 2007 when the rate dropped to single digit. The highest rate was recorded in February (13.1%) while the lowest was recorded in July (9.50%). Increases were recorded in most of the main group indices except for "communications" and "miscellaneous goods and services" where the indices dropped respectively by 3.16 and 11.68 percentage points.. The index for "education" remained unchanged. The highest increase was recorded for "restaurant and hotels" (26.13%) and the least increase was recorded for "recreation and culture" (4.09%).

In Bo Town, the year-on-year inflation rate was in single digit (7.50%) in January 2007, but rose to double digits in February 2007 and was maintained in double digits through out the remaining period recording 13.13 percent at end December 2007. The highest rate at 14.85 percent was recorded in September 2007. Increases were recorded for most of the main group indices except for "restaurant and hotels" where the index dropped by 0.70 percentage points. The indices for "communication" and "restaurant and hotels" remained the same as in 2006. The highest increase was recorded for "food" and "non-alcoholic beverages" (21.39%) and the least increase was recorded for "housing, water, electricity and other fuels" (8.28%)

In Kenema Town, the year-on-year inflation rate was in double digits for most of the period except in January and March when it recorded single digit inflation rates of 7.60 percent and 9.78 percent, respectively.The inflation rate fluctuated through out the period under review to record 13.00 percent at end December 2007. The highest rate recorded was 14.77 percent in November 2007. Increases were also recorded for all the main group indices except for "recreation and culture" where the index dropped by 4.57 percentage points. The highest increase was recorded for "health "(54.55%) while the least increase was recorded for "restaurant and hotel" (1.83%).

The year-on-year inflation rate for Makeni Town moved from 5.7 percent in December 2006 to a double-digit position of 11.1 percent in December 2007. Single digits inflation was recorded twice in the year, in the month of January (8.2%) and the month of March (7.9%). The rest of year recorded double digits. Increases were recorded in most of the main group indices except for "clothing and footwear", "communications" and "recreation and culture" where the index dropped by 2.41 percent, 26.93 percent and 6.74 percent, respectively.The highest increase was recorded for "food and non-alcoholic beverages" (23.29%) and the least increase was recorded for "restaurant and hotels" (1.50%).

In the period under review, domestic pump prices of petroleum products (petrol, diesel and kerosene) were revised upwards. The price per unit was increased from Le12, 950 in October 2007 to Le14, 500 in November 2007. The adjustment of prices was in response to increases in the world market prices of petroleum products. The adjustments also included reduction in storage fees from US$4.70 per metric ton to US$2.70 per metric ton; other charges were reduced by US$2.0 per metric ton on white products and by US$1.0 on fuel oil. The uniform price adjustment factor was also reduced by Le50.00 per gallon on all products.

Fiscal Operations

The 2007 budget presented to Parliament on October 27, 2006, aimed at maintaining fiscal and macro economic stability, improving infrastructure to support rapid economic growth, job creation and poverty reduction. The need for vital social expenditure in health and education was also emphasized. However, regardless of the macro economic environment, marked by a stable exchange rate and rising official reserves mainly from delayed donor inflows, economic performance over the year deteriorated, partly reflecting delayed donor disbursement and low domestic revenue collection. The shortfalls in domestic revenue that started in the second half of 2006, worsened in 2007. These slippages seriously affected Sierra Leone's performance under the Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF). The quantitative performance criteria under the Programme for end December 2006 and end March 2007 were breached. Consequently, the Second Review under the Programme conducted by the IMF in April 2007 was not concluded.

In response to the need to preserve the fiscal balance Government adopted a Cash Budget management system in April 2007 which matched expenditure payments to available receipts. This approach led to a significant reduction in domestic bank financing of the budget.

Government's budgetary operations in the review period relative to the 2007 budget reflected deviation as highlighted. Total revenue and grants amounting to Le780.16bn (15.67 per cent of GDP) was Le398.48bn (33.81 percent) and Le58.06bn (7.44 percent) lower than the budget estimate of Le1, 178.64bn and the preceding year's level of Le838.22bn respectively, mainly as a result of lower than expected receipts from foreign grants. Total domestic receipts recorded at Le536.28bn (10.77 percent of GDP) showed a short fall of Le138.62bn (20.54 percent) on the budget estimate but exceeded the level of Le497.15bn in 2006 by Le39.14bn (7.30 percent). The short fall in domestic receipts, relative to the budget estimate reflected a weak performance in all sources of domestic revenue. Receipts from Customs and Excise amounting to Le308.39bn (6.20 percent of GDP), contributed 57.50 percent to domestic receipts and were Le56.11bn (15.39 percent) short of the budget estimate of Le364.50bn. The total was however Le30.82bn (9.99 percent) higher than the 2006 level of Le277.57bn. Import tax receipts accounted for 81.65 percent of total Customs and Excise collections, followed by collections from excise on petroleum with 13.46 percent, and domestic sales tax with 2.92 percent. The lower collections from Customs and Excise Department relative to the budget was partly attributed to the uncertainties created by the election processes in the period under review, as well as the indiscretionary award of duty waivers and other tax exemptions granted to selected importers. Total collections from the Income Tax department totaling Le146.30bn (2.94 percent of GDP) was Le51.80bn (26.15 percent) below the budget estimate, due to the adverse effect of the energy crisis, via high operating costs of business enterprises, thus resulting in lower corporate profits and the downward revision of corporate tax dues by some major companies. Income tax receipts for the period under review however exceeded corresponding receipts in 2006 by Le8.19bn (5.60 percent). When compared with the West African Monetary Zone (WAMZ) criterion of total tax revenue to Gross Domestic Product (GDP) ratio of not less than 20 percent, the tax revenue ratio attained at 9.13 percent of GDP in 2007 was far below the target. Under the Income Tax category, "personal income tax" contributed 50.71 percent, followed by "company tax" with 35.12 percent and "other taxes" with 14.17 percent in the review period. Revenue from Miscellaneous Items at Le47.24bn was 37.04 percent below the budget target of Le75.03bn but 11.47 percent above the previous year's position of Le41.82bn. In the Miscellaneous category, collections from other departments comprising royalty on fisheries, dividends from parastatals and "other revenue" contributed

Table 8

Government Fiscal Operations

(In Millions of Leones)

	2006	2007	Budget 2007
1	2	3	4
TOTAL REVENUE (PLUS GRANTS)	838,219	780,156	1,178,639
DOMESTIC REVENUE	497,147	536,284	674,908
Of which:			
Customs & Excise	277,566	308,388	364,500
Import Taxes	197,315	251,796	256,609
Excise on Petroleum	58,281	41,500	77,638
Other Excise Dutties	12,639	6,077	11,227
Domestic Sales Tax	9,331	9,015	19,026
Income Tax Department	138,105	146,296	198,100
Company Tax	64,714	51,375	90,822
Personal Income Tax	57,465	74,189	83,413
Other Taxes	15,926	20,732	23,865
Miscellaneous	41,820	47,236	75,030
Mines Dept.	14,743	18,573	30,003
Royalty on Rutile	1,131	367	2,000
Royalty on Bauxite	1,050	1,941	4,200
Licences	12,562	16,266	23,803
Other Departments	27,077	28,663	45,027
Royalty on Fisheries	4,025	3,293	11,550
Parastatals	8,354	6,490	11,707
Other Revenues	14,698	18,880	21,770
Road User Charges	39,656	34,364	37,278
GRANTS	341,072	243,872	503,731
Programme	218,500	168,050	244,847
HIPC Debt Relief Assistance	37,697	39,535	47,164
UK (DFID)	67,468	93,779	111,561
EU	37,032	31,862	57,243
AFDB	46,171	0	
WB	30,132	0	
Project	0	8,070	
DDR	0	0	0
Development Projects	122,572	70,626	258,884
TOTAL EXPENDIUTRE & NET LENDING	913,803	826,165	1,222,473
Of which:			
Current Expenditure	697,546	649,476	775,611
Of which:			
Wages & Salaries	271,531	294,340	304,602
Domestic Interest	89,098	97,865	84,258
Foreign Interest	29,521	16,720	28,979
Goods & Services	205,093	145,526	225,227
Transfers to Local Councils	27,022	19,303	47,083
DDR	0	0	
Social Outlays	0	151	1,468
Grants to Education Institution	29,565	27,365	31,626
Transfer to Road fund	39,656	34,364	37,278
Elections & Democratisation	6,060	13,842	15,090
Development Exp. & Net Lending	216,257	173,764	446,862
Foreign Loans & Grants	170,458	132,376	364,997
Loans	47,885	61,750	106,113
Grants	122,573	70,626	258,884
Domestic	44,100	41,388	81,865
Subsidies	0	0	
Lending Minus Repayment	1,699	2,925	0
CURRENT BALANCE +/- (Including grants)	140,673	130,680	403,028
ADD DEVELOPMENT EXPENDITURE	(216,257)	(173,764)	(446,862)
OVERALL DEFICIT/SURPLUS +/-(Incl. grants)	(75,584)	(43,084)	(43,834)

Table 8 contd…

Government Fiscal Operations

(in Millions of Leones)

	2006	2007	Budget 2007
FINANCING	75,584	43,084	43,834
Domestic	13,358	54,154	(10,221)
Of which:			
Bank Financing	5,643	47,614	(12,221)
Bank of Sierra Leone	(13,285)	53,277	(12,221)
Commercial Banks	18,928	(5,663)	
Non-Bank Financing	7,715	6,540	2,000
External	(29,649)	39,137	31,189
Of which:			
Loans	47,885	61,750	106,113
Project	47,885	61,750	106,113
Programme	0	0	0
Amortisation	(77,534)	(42,413)	(74,924)
Debt Relief	0	19,800	0
Others*	91,875	(50,207)	22,866

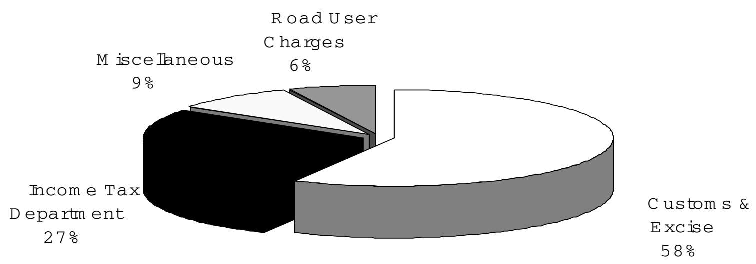
*Others include resheduling/write off,
financing gap, privatisation net & unaccounted amounts

Source: Budget Bureau, MOF

60.68 percent of the total collection while Mines department contributed 39.32 percent. Miscellaneous collections in the second half of 2007 were lower than the first half of the same year. The lower receipts from Miscellaneous Items, relative to the budget estimate was due to the late enactment of the 2007 Finance Bill, which caused a delay in the implementation of the new rates for Royalties. Also, the dispute over the kimberlite method of blasting diamond deposits in the Kono district affected miscellaneous collections.

During the year receipts from road user charges amounted to Le34.36bn, 7.82 percent and 15.40 percent below the budget target of Le37.28bn and preceding the 2006 position of Le39.66bn, due to the downward revision of charges per gallon of petrol and diesel over the last quarter of 2007. During the reporting period total grants including support from the Peace Building Fund amounted to Le243.87bn (4.90 percent of GDP), 51.59 percent and 39.86 percent lower than the budget estimate of Le503.73bn and the preceding year's position of Le341.07bn, respectively. The short fall in grants received was mainly due to the non-disbursement of external

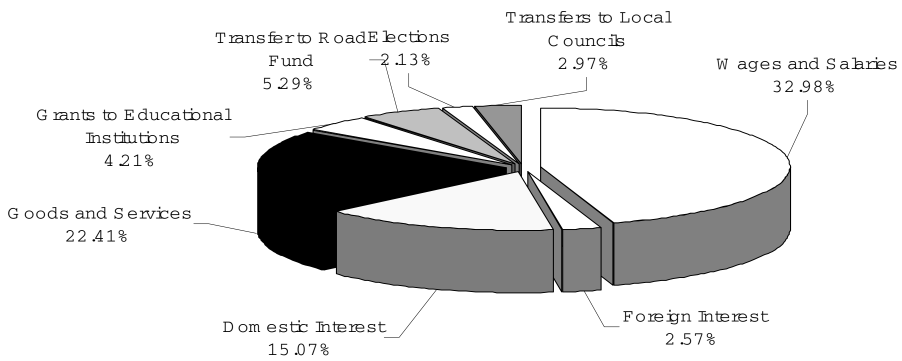
Chart 5 – Composition of Government Revenue – 2007



budgetary support from the World Bank. Programme grants received amounted to Le168.05bn and included receipts of Le93.78bn from the United Kingdom/Department for International Department, Le31.86bn from the European Union, Le39.54bn in respect of the Heavily Indebted Poor Country debt relief initiative and Le8.07bn for peace building. Project grants amounting to Le70.63bn was 72.72 percent and 73.55 percent below the budget estimate of Le258.88bn and the preceding year's level of Le122.57bn.

Total expenditure for 2007 amounted to Le826.17bn, 32.42 percent lower than projected and 10.61 percent below total outlay for 2006. The share of total expenditure in GDP was 16.60 percent. Current expenditure for the period, recorded at Le649.48bn (13.05 percent of GDP), was 16.26 percent and 7.40 percent below the budget estimate and the preceding year's position, respectively.The short fall in current expenditure, relative to

Chart 6 – Composition of Government Recurrent Expenditure – 2007



the projected level, was due to the adoption of the cash budget management system in April 2007, which accommodated expenditure from only revenue generated for the period. Expenditure on Wages and salaries of Le294.34bn (5.91 percent of GDP) was 3.37 percent lower than the budget target of Le304.60bn but exceeded the preceding 2006 level of Le271.53bn by 7.75 percent. The total wage bill for 2007, as a percentage of total tax revenue for 2007 was 64.74 percent, thus exceeding the West African Monetary Zone's benchmark of 35 percent. Spending on goods and services recorded Le145.53bn (2.92 percent of GDP), 35.39 percent and 40.93 percent below the budget ceiling and the preceding year's position, respectively. Total interest payments recorded Le114.59bn, of which domestic interest amounted to Le97.87bn and foreign interest payments Le16.72bn. Domestic interest was higher than its budget target and the 2006 level by 16.15 percent and 8.96 percent respectively, due to an expansion in domestic borrowing by Government. Total foreign interest payments for 2007 was less than its budget target and the level in 2006 by 42.30 percent and 76.56 percent.

Development expenditure recorded at Le173.76bn (3.49 per ent of GDP) for 2007, was below the estimated budget ceiling and the 2006 position by 61.11 percent and 24.45 percent respectively, on account of delays in the disbursement of funds from external donors. Domestically financed development expenditure amounted to Le41.39bn for the reporting year and was 49.44 percent and 6.55 percent less than the budget estimate and the level in 2006, respectively. The short fall was mainly due to the drop in foreign grants received in the period under review. Domestically financed development expenditure was also 9.10 percent of the total tax receipts, which was far below the minimum of 20 percent required by WAMZ. Externally financed capital expenditure recorded Le132.38bn, comprising Le61.75bn in loans and Le70.63bn in grants.

The overall fiscal deficit including grants for 2007 was Le43.08bn (0.87 percent of GDP), barely within the budget estimate of Le43.83bn. Financing of the deficit was from both external and domestic sources. Domestic financing for the reporting year totaling Le54.15bn was from the Bank of Sierra Leone and the private sector. Net Claims on Government by the Bank of Sierra Leone and the private sector went up by Le53.28bn and Le6.54bn respectively, while Net Claims on Government by Deposit Money Banks was down by Le5.66bn. External financing totaled Le39.14bn and was 25.48 percent more than the amount budgeted. This constituted Le61.75bn as project loans, Le19.80bn in respect of the multilateral debt relief initiative and Le42.41bn as amortization.

Monetary Developments

Monetary Policy continued to focus on achieving and maintaining a low inflation rate in line with broader macro-economic growth. Open Market Operations (OMO) remained the key instrument in the conduct of monetary policy.To strengthen monetary policy, a Memorandum of Understanding which sought to convert some non-negotiable, non-interest bearing stock of securities to tradable securities for monetary purposes, was signed by the Bank of Sierra Leone (BSL) and the Ministry of Finance (MOF) in the fourth quarter of 2006. The Memorandum agreed to issue Le50bn worth of securities in December 2006 and an additional Le50bn in 2007. The first tranche of bills was issued as scheduled and was utilized in mopping up excess liquidity in the system. Out of the outstanding Le50bn worth of treasury bills to be issued in 2007, only Le2.50bn was issued, due to the tight fiscal situation following the cash budget policy adopted in 2007 and the conversion of emerging W ays and Means Advances to treasury bills in the first and second quarters of 2008. During the review period, the attainment of single digit inflation was elusive, as the national inflation rate increased further to 12.15 percent in December 2007 as against 7.88 percent in the corresponding period in 2006. Contributing factors to

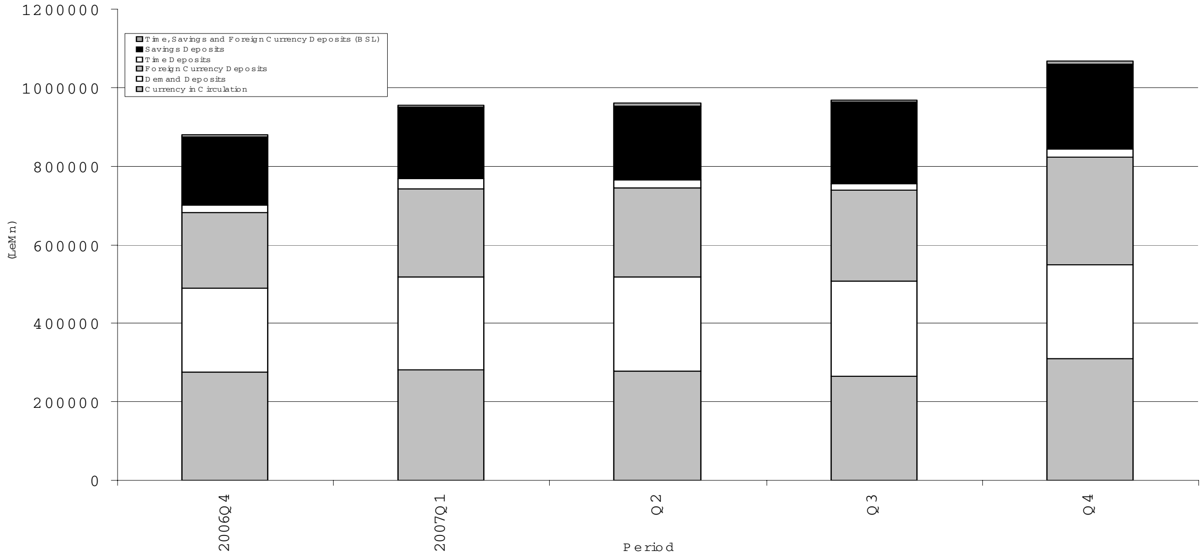
Table 9

Monetary Survey (Million Leones)					
	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
1	2	3	4	5	6
Reserve Money	336,335	348,200	341,759	344,280	423,758
Broad Money	879,508	959,544	965,674	970,364	1,078,701
Broad Money*	687,522	737,362	739,284	737,143	805,215
Narrow Money	489,298	519,143	516,783	506,660	549,581
Currency in Circulation	275,405	282,006	277,997	266,801	309,837
Demand Deposits	213,893	237,137	238,786	239,859	239,744
Quasi Money	390,211	440,402	448,891	463,704	529,121
Foreign Currency Deposits	191,986	222,182	226,390	233,221	273,486
Time Deposits	20,002	25,840	21,956	16,052	18,732
Savings Deposits	173,578	181,978	188,669	206,926	217,320
Other Deposits	737	4,611	6,064	3,157	12,738
Time Savings and Foreign Currency deposits (BSL)	3,908	5,790	5,812	4,347	6,845
Net Foreign Assets	657,401	680,534	696,281	703,946	882,642
Bank of Sierra Leone	447,775	432,495	428,166	446,417	536,197
Assets	601,226	586,077	583,172	603,575	647,187
Liabilities	153,451	153,581	155,007	157,158	110,990
Commercial Banks	209,626	248,039	268,115	257,530	346,445
Assets	209,626	248,039	268,115	257,530	346,445
Liabilities	0	0	0	0	0
Domestic Credit	447,440	515,156	509,594	528,112	480,131
Claims on Central Govt. Net of which	238,640	286,708	258,119	265,830	200,650
BSL	34,689	64,595	67,645	68,709	37,954
Total Claims	47,983	78,193	96,951	82,054	101,247
Deposits	13,294	13,598	29,306	13,345	63,293
Commercial Banks	203,951	222,113	190,474	197,121	162,696
Total Claims	225,039	260,426	229,858	246,446	219,323
Deposits	21,088	38,313	39,384	49,325	56,627
Claims on Non Financial Public Sector	5,242	6,913	10,974	6,550	8,386
Claims on Private Sector of which	189,181	202,654	223,934	246,868	263,750
Claims on Private Sector Commercial Banks	186,409	196,317	218,311	242,505	260,805
Claims on Non-Banking Inst.	14,377	18,880	16,568	8,864	7,345
Other Items (Net)	225,333	236,145	240,201	261,695	284,072

Source: Bank of Sierra Leone and Deposit Money Banks

* Excludes Foreign Currency Deposits at the Commercial Banks

Chart 7. Composition of Money Supply (M2)



the high inflation rate were the fiscal slippages and external price shocks. The first three quarters of 2007 were pervaded with declining revenue generation which, coupled with the shortfalls in external budgetary inflows worsened the fiscal balance and compelled the government to resort to bank financing.

The IMF review of Sierra Leone's performance under the Poverty Reduction and Growth Facility (PRGF) programme in April 2007 was unsatisfactory and contributed to the non-disbursement of the remaining projected donor inflows. During the review period, external budgetary support was programmed at US$66.56mn and only US$42.58mn was disbursed of which US$26.93mn from UK/DFID and US$10.78mn from the European Union and US$4.87mn as late disbursement from EU as outstanding payment due in 2006. There were no disbursements from the IMF for Balance of Payments support even though US$13.08mn was programmed. By

Table 10

Average Interest Rates (percent)					
	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07
1	2	3	4	5	6
Treasury Bills (3-months)	14.19	13.02	17.54	21.63	21.29
Treasury Bearer Bonds (1-year)	17.00	13.00	16.00	17.00	20.00
Savings Deposits	7.63	7.59	7.69	7.39	7.39
Time Deposits					
1 - 3 Months	10.43	9.98	10.13	9.78	9.70
3 - 6 Months	11.14	10.66	10.81	10.61	10.55
6 - 9 Months	11.40	10.62	10.92	10.25	10.25
9 - 12 Months	12.83	12.17	12.17	12.13	12.00

end December 2007 the three quantitative performance criteria monitored by the Bank of Sierra Leone - Net Domestic Assets (NDA), Net Domestic Bank Credit (NDBC) and Gross International Reserves (GIR) under the PRGF Arrangement were met.

The key monetary variables, Broad Money (M2) and Reserve Money (RM) expanded during the period under review. Money Supply grew by Le199.19bn (22.65%) to Le1078.70bn, which was 1.20 percent higher than the preceding year's growth rate of 21.45 percent. The growth was occasioned by increases in the commercial banks' Foreign Currency Deposits (Le81.50bn or 42.45%), Savings Deposits (Le42.74bn or 25.20%), Currency in Circulation (Le34.43bn 12.50%) and Demand Deposits (Le25.85bn or 12.42%). The expansion in M2 was mainly from the rise in Net Foreign Assets (NFA) of Le225.24bn (34.26%). Net Domestic Assets during the period dropped by Le26.05bn (11.73%) to Le 196.06bn. The main source of the overall increase in NFA was the growth on claims on overseas banks by the commercial banks, coupled with the disbursements of external donor funds. Reserve Money expanded by Le87.42bn (25.99%), due to the increase in Currency Issued (Le55.48bn) and Bankers' Deposits (Le28.72bn). The rise in Reserve Money was the result of the utilization of the Multilateral Debt Relief Initiative (MDRI) resources (Le28.80bn) for payment of domestic arrears, coupled with deposits totaling Le24.20bn at the Central Bank from two new commercial banks (United Bank of Africa and Skye Bank) which are yet to commence operations. Growth in RM, at 26.20 percent, was twice the 10.65 percent recorded in the corresponding period in 2006.

Net Claims on Government by the banking sector rose in the first and third quarters of 2007 by Le48.07bn and Le7.71bn but dropped in the second and fourth quarters by Le28.59bn and Le64.96bn, respectively.This could be attributed to the cash budget introduced in April 2007, coupled with disbursements from UK/DFID in quarter four (4) of 2007. The introduction of cash budget management in April 2007 contributed to the boosting up of government deposits at the Central Bank and resulted in the drop in net claims in May and June of the reporting year.The position deteriorated in the third quarter but eased with the receipt of donor funds in the fourth quarter, which improved the situation at the end of the year.The overall position for the entire year was however a decline of Le37.99bn (15.92%) to Le200.65bn. Over the review period, Bank of Sierra Leone's Net Claims on Government increased by Le3.27bn (9.41%)as a result of increases in their holdings of treasury bills (Le32.10bn) and treasury bearer bonds (Le21.18bn), which together exceeded the increase in Government Deposits (Le49.99bn). The realization of the delayed external budgetary support at the end of the year reduced the level of borrowing from the Central Bank by the Government. Net Claims on Government by the commercial banks contracted by Le41.26bn (20.23%), due mainly to the Le18.58bn decrease in their holdings of treasury bearer bonds, coupled with the increase in Government Deposits (Le35.54bn). Commercial banks' credit to the private sector, which is considered a driving tool for economic growth, continued to grow. It increased by Le74.40bn (39.91%) to Le260.81bn as at end December 2007 and was 18.90 percent higher than its growth in the corresponding period 2006. Credit was directed mainly to the following sectors: Services (58.39%), Commerce and Finance (17.67%), Construction (12.37%), Agriculture, Forestry and Fishing (6.67%) and Manufacturing (5.02%).

During the review period, three new commercial banks commenced operations - ECO Bank, Pro Credit Bank and Access Bank. The average interest rates in the money market during the review period exhibited a downward trend with the Savings, the 3 months and 12 months Time Deposits standing at 7.39 percent, 9.70 percent and 12.00 percent in December 2007 as against 7.63 percent, 10.43 percent and 12.83 percent in December 2006, respectively. The downward trend in the rates resulted from the inclusion of the aforementioned new banks, which set their rates relatively lower than the rates in some of the existing banks. The average annual yield on treasury bills, on the other hand, peaked at 21.90 percent in August 2007, from 14.19 percent in December 2006 and was 21.29 percent in December 2007. The average interest rate on treasury bearer bonds was 20.00 percent in December 2007, compared with 17.00 percent in December 2006.

External Development

Notwithstanding the short fall in the level of external donor support during the year, especially in the first half of the year, external sector performance in 2007 was generally encouraging. The receipt of substantial donor funds in the second half of the year however, notably from the European Union (EU) and the United Kingdom/ Department for International Development (UK/DfID), coupled with a significant growth in the external trade sub-sector boosted performance in the external sector.

The level of merchandise trade as measured by aggregate export receipts and import payments increased by over 10 percent with remarkable growth in both payments for imports and receipts from exports particularly from the mineral sub-sector. This development however yielded an expansion of the trade deficit by 22.9 percent due to a larger growth in import payments than in export receipts. In addition, the terms of trade continued to deteriorate substantially as a result of increasing world market prices of major import commodities such as petroleum products and capital goods, which significantly eroded the benefits of improved export prices.

The level of gross international reserves was US$215.48mn as at end-December 2007-equivalent to about 4.5 months import of goods and non-factor services. The exchange rate of the Leone to the United States Dollar was relatively stable, as evidenced by the very slow pace of depreciation but remained weak against other major international currencies such as the British Pound Sterling and the Euro.

The country's stock of external debt, comprising disbursed outstanding debt and arrears reduced substantially from US$1.62 million as at end-December 2006 to US$0.53 million as at end-December 2007. This was

Chart 8. Composition of Exports 2007

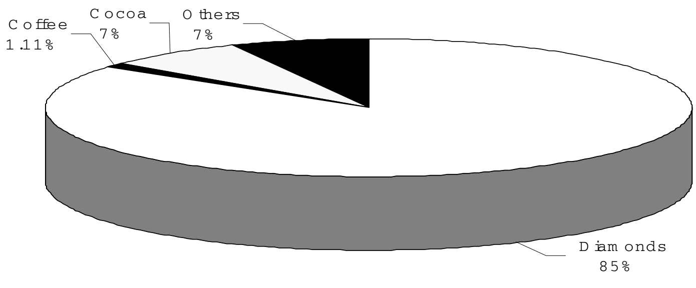


Table 11

International Trade and Reserves (US$ '000)				
	Jan - Dec '06	Jan-Jun '07	Jul-Dec '07	Jan - Dec '07
1	2	3	4	5
Merchandise Imports	394,828.6	218,400.9	228,200.1	446,601.0
Food of which	56,139.8	33,922.7	34,025.8	67,948.5
Rice	23,594.5	16,490.0	7,520.8	24,010.8
Beverages and Tobacco	9,295.3	4,778.8	7,295.7	12,074.5
Crude Materials	21,702.6	7,138.2	7,516.3	14,654.5
Mineral Fuels and Lubricants of Which	147,080.4	86,153.4	82,423.1	168,576.5
Fuel	123,277.9	53,447.1	68,090.7	121,537.8
Animal and Vegetable Oils	3,327.1	4,835.1	1,370.7	6,205.8
Chemicals	23,999.9	17,333.3	13,675.2	31,008.5
Manufactured Goods	48,601.3	22,004.8	29,895.3	51,900.1
Machinery and Transport Equipment	69,110.9	35,627.8	39,485.0	75,112.8
Other Imports	15,571.3	6,606.8	12,513.0	19,119.8
Merchandise Exports	231,037.1	136,744.5	108,493.5	245,238.0
Mineral Exports	179,241.2	119,698.9	97,387.4	217,086.3
Diamonds	125,041.2	83,807.9	58,240.6	142,048.5
Buaxite	23,573.1	14,879.0	17,827.1	32,706.1
Rutile	28,501.1	19,094.2	19,052.0	38,146.2
Ilmenite	1,063.3	-	1,200.6	1,200.6
Gold	1,062.5	1,917.8	1,067.1	2,984.9
Agricultural Exports	12,761.4	8,555.0	5,111.6	13,666.6
Coffee	1,093.4	1,309.1	545.6	1,854.7
Cocoa	11,570.8	7,098.0	4,270.1	11,368.1
Piassava	-	-	-	-
Fish and Shrimps	97.2	147.9	295.9	443.8
Others	10,634.6	6,745.8	5,019.0	11,764.8
Re-exports	28,399.9	1,744.8	975.5	2,720.3
Trade Balance	(163,791.5)	(81,656)	(119,707)	(201,363.0)
Foreign Reserves ($mn)	184.22	176.08	215.48	215.48

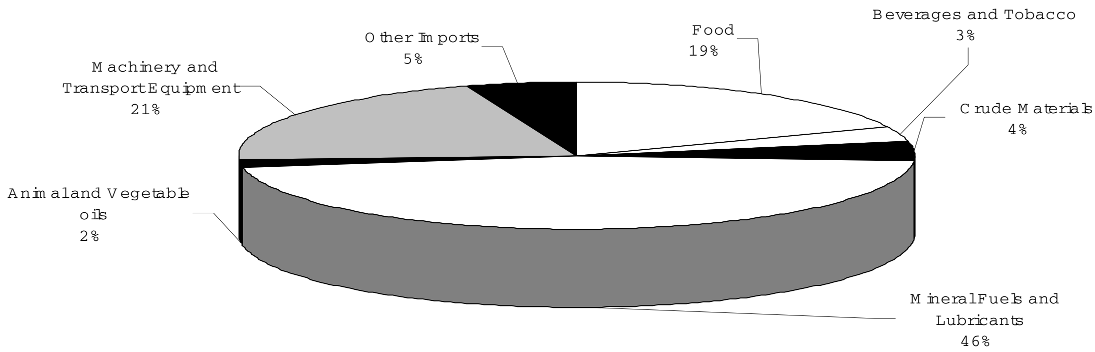
Sources: Customs and Excise Department, and Gold & Diamond Department especially on account of debt relief received under the Multilateral Debt relief Initiative (MDRI)

International Trade

During the period under review, the trade deficit widened by US$37.51mn to US$201.36mn. This reflected an increase of US$51.77mn (13.11%) in spending on imports, which was partly offset by an expansion of US$14.20mn (6.15%) in export earnings. The terms of trade continued to deteriorate as a result of increased prices of oil and capital goods in-spite of improved export prices particularly for mineral and agricultural exports. Spurred on by an enabling policy environment and a surge in global demand, export earnings continued to register growth for the last three consecutive years, with total export receipts for 2007 recording US$245.24mn, 6.15 percent higher than US$231.04mn recorded in 2006. The growth in total export earnings was influenced primarily by a 21.11 percent expansion in earnings from the mineral sub-sector. Receipts from the "agricultural exports" and "other exports" sub-categories also increased in 2007, while there was a significant contraction in the value of "re-exports". Performance of the mineral sub-sector in 2007 mainly reflected increased earnings from export of all minerals, notably bauxite, rutile and gold. Although its share of exports has been declining in the last two years, earnings from diamond exports at US$142.05mn was 13.60 percent higher than corresponding receipts in 2006 and continue to be the dominant export item accounting for 57.92 percent of total export proceeds. Receipts from gem diamonds which increased by 16.22 percent, accounted for US$127.86mn of total receipts, while the value of industrial diamonds contracted by 5.55 percent to US$14.19mn over the year. The total volume of diamonds exported also increased by 3.83 percent to 604.66 thousand carats, comprising 307.61 and 234.05 thousand carats of gem and industrial diamonds, respectively. Both the volume and value of exports of rutile grew by 22.99 percent and 38.74 percent respectively, over the period to 86.51 thousand metric tons and US$32.71mn, respectively.The hike in rutile production was due to increased mining activities against the backdrop of favourable world market prices. Although the market price for iImenite was relatively stable between 2006 and 2007, the value of the mineral exported during the reporting year expanded by more than half, reflecting a 40.24 percent growth in the export volume from 8.56 thousand metric tons in 2006 to 12.01 thousand metric tons in 2007. Similarly, the value of bauxite exported in the same period expanded by 38.74 percent to US$32.71mn in 2007. Influenced partly by an increasing world market price during the last twelve months, receipts from the export of gold continued to rise, reaching a peak of US$2.98mn in 2007 from US$1.06mn in 2006.

Total earnings from the agricultural sub-sector increased modestly by 7.09 percent to US$13.67mn in 2007, from US$12.76mn in 2006, contributing about 5.57 percent to total export earnings. Receipts from export of coffee and "fish and shrimps mainly accounted for the increase. Receipts from coffee exports rose to US$1.85mn in 2007, an increase of 69.63 percent from US$1.09mn recorded in 2006, while export of cocoa fell marginally to 13.72 thousand metric tons, valued at US$11.37mn, from 13.94 thousand metric tons, valued at US$11.57 in 2006. The increase in the value of coffee exports resulted from favorable world market prices, which prompted an increase in production during the year. Export of processed "Fish and Shrimps in 2007 recorded a significantly increased value at US$443.80 thousand, as compared with US$97.20 thousand in 2006. The value of "Other Exports", estimated at US$11.76mn for 2007, represented a growth of 10.63 percent over the recorded level in 2006, while the value of re-exports at US$2.72mn indicated a significant drop compared to US$28.40mn recorded in 2006. In the context of the global increase in the world market prices for metal pieces, the export value for "scrap metal" was a major contributor to the value of re-exports in 2007.

Chart 9. Composition of Imports 2007



Total payments for imports increased to US$446.60mn in the review period from US$394.83mn recorded in the preceding period and depicted the largest (13.11%) annual nominal increase for the past ten years. The expansion reflected robust growth in the import payments for petroleum products, machinery and transport equipment, chemicals, manufactured goods and consumer goods. Payments for consumer goods (including rice), which accounted for 19.31 percent of total imports, increased significantly to US$86.23mn in 2007, from US$68.76mn in 2006. This development reflected increases of 86.52 percent in import payments for "Animal and Vegetable Oils", 29.90 percent for "beverages and tobacco" and 21.03 percent for "food". Notwithstanding

Chart 10. External Trade - 2007

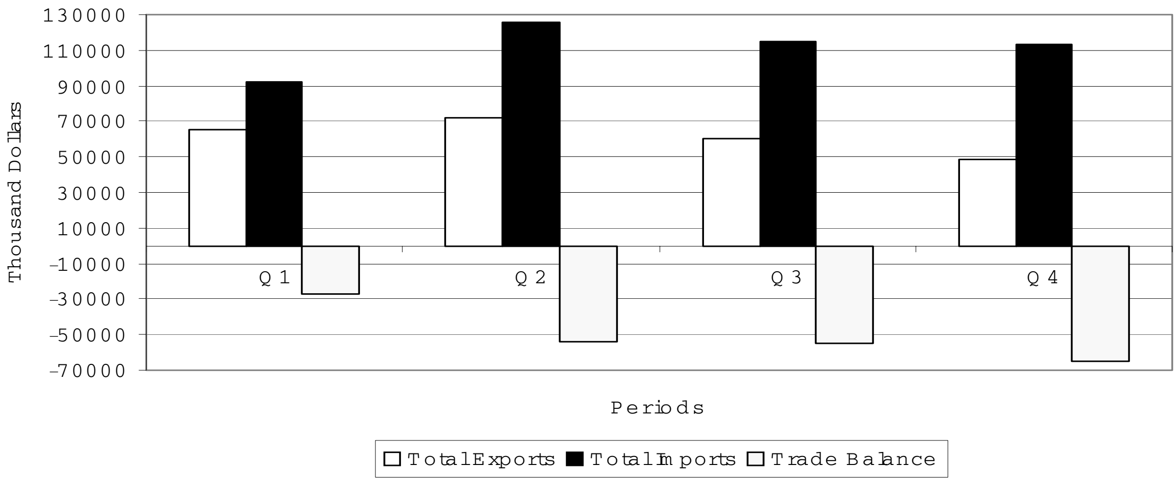
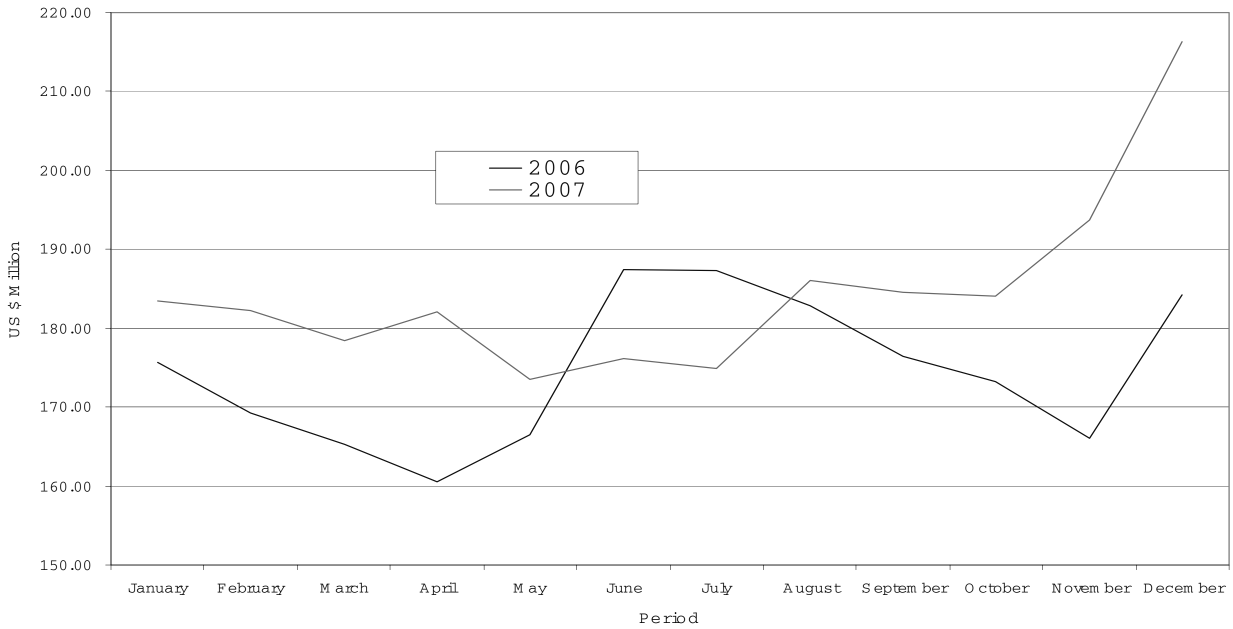


Chart 11
Gross International Reserves



the price hikes in the world market price for rice, total payments for imported rice increased only marginally (1.76%) from US$23.59mn in 2006 to US$24.01mn in 2007. The volume of rice imports followed a similar trend, moving from 97.88 thousand metric tons in 2006 to only 99.68 thousand metric tons in 2007. This may be explained by the substantial increase in local rice production in line with the drive towards food self-sufficiency, coupled with an observed switch in taste to local rice by a significant proportion of the population. The total import bill for "manufactured goods" increased by 10.67 percent over the year to US$71.02mn. This reflected the worldwide increase in the prices of imported goods as well as an increase in the volume of imports. Payments for machinery and transport equipments also increased to US$75.11mn in 2007 from US$69.11mn in 2006, reflecting an increase 8.68 percent. The increase in the value of import of machinery and transport equipment was influenced by an expansion in private investment in the mining sector as well as in the import of motor vehicles and cycles, as evidenced by higher number of vehicles and motorcycles registered in 2007. The import bill for "intermediary goods" declined marginally (0.09%) to US$45.66mn, indicating a 32.48 percent drop in payments for "crude materials" which more than offset the 29.20 percent rise in payments for "chemicals".

Payments for the total volume of mineral fuel and lubricants imported in 2007 increased by 14.62 percent to US$168.58mn.The value of fuel however dropped slightly from US$123.27mn in 2006 to US$121.54mn in the review year. The volume of fuel import also fell by 15.00 percent (29.85 thousand metric tons) to reach 168.81 thousand metric tons in 2007. Notwithstanding these developments in the fuel sub-category, it accounted for 27.21 percent of total import value, indicating the importance of fuel in total the import basket.

Exchange Rate Developments

The foreign exchange market for the United States Dollar was relatively stable during 2007 as evidenced by the slower pace of depreciation. The Leone however remained weak against the British Pound and the Euro depreciating by 9.81 percent and 9.75 percent respectively, over the one-year period. The Leone depreciated marginally against the US Dollar in all the registered foreign exchange markets, except the parallel market, which exhibited a slight appreciation.

The annual average exchange rate of the Leone to the dollar in the official market depreciated by 0.76 percent to Le2984.51/US$1 in 2007, from Le2961.91/US$1 in 2006. There was however a modest appreciation of 0.70 percent in the parallel market from Le3020.71/US$1 in the preceding year to Le2999.81/US$ in the reporting year. As a result, the spread between the official and the parallel market average rates narrowed to 0.51 percentage points in 2007, from 1.99 percent in 2006. The average exchange rate for both the commercial banks and foreign exchange bureaux markets depreciated in the review year. The average exchange rate of the commercial banks depreciated by 0.76 percent to Le2986.78/US$1 from Le2964.78/US$1. Similarly, the annual average in the foreign exchange bureaux market depreciated by 0.38 percent to Le2966.54/US$1 from Le2955.22/US$1 in 2006. The auction market recorded the least yearly average depreciation at 0.13 percent to stand at Le2974.61.US$1.

Gross External Reserves

Gross foreign reserves of the Bank of Sierra Leone rose by US$31.26mn (16.9%) to US$215.48mn as at end-December 2007. At the current level of foreign exchange commitment, the reserves could finance about 4.5 months of import of goods and services. Foreign exchange inflows and outflows through the Bank of Sierra Leone during 2007 amounted to US$96.93mn and US$73.03mn respectively, with a net inflow of US$23.90mn. Significant inflows during the year comprised US$26.93mn, being disbursements under the United Kingdom/ Department for International Development (UK/DfID) Poverty Reduction Support Programme, US$15.65mn, in respect of budgetary support from the European Union, US$15.12mn, being share capital paid up by various commercial banks, US$9.17mn, being total interest on the Bank of Sierra Leone's various Investments and customer transfers, US$10.75mn, in respect of diamond license fees, exporters' income tax and fishing royalties paid to the government, US$5.60mn, being foreign exchange purchased from the Sierra Leone Commercial Bank, US$4.32mn, being European Development Fund replenishment of account), US$3.35mn, being Islamic Development Bank disbursement under various Social Action Support projects and US$3.05 under the Highly Indebted Poor Countries flow relief. Significant outflows relate to the amount utilized under the Bank of Sierra Leone's weekly foreign exchange auction totaling US$42.97mn, Embassy and Mission payments (US$8.66,m), Government travel and other government expenditures (US$7.28mn), printing of currency (US$2.36mn), total subscriptions to international organizations (US$1.21mn), and debt service payments of US$9.05mn to various international organisations including the International Monetary Fund (US$1.28mn), World Bank (US$0.79mn), African Development Bank (US$1.41mn), other Multilateral and Bilateral Creditors (US$3.68mn), other Commercial Debts (US$0.75mn), and clearing of arrears to various creditors (US$0.94mn).

Supervision of Banks and Other Financial Institutions

The Banking industry experienced an increase in its resource base to Le 1.06 trillion as at 31st December, 2007 from Le 803.35 billion as at 31st December, 2006; an increase of Le 256.48 billion or 31.93%

Table 12
Commercial Banks Operating in Sierra Leone
Prudential Indicators (Unaudited)
(In Thousand Leones)

	31-Dec-05	31-Dec-06	31-Dec-07
1	2	3	4
Total Assets	670,793,131	803,345,402	1,059,825,552
Average Total Assets	545,797,243	736,739,023	940,433,459
Loans and Advances (Gross)	167,543,187	201,275,320	279,092,556
Bad Debt Provision	(15,850,963)	(21,159,005)	(24,049,857)
Interest in suspense	(12,527,016)	(18,588,892)	(34,222,154)
Loans and advances (Net)	139,165,208	161,527,423	220,820,545
Investment-TB, TBB, OFI*	203,297,953	237,333,433	226,602,987
Fixed Assets	61,584,710	80,845,212	104,301,145
Local Deposits:-	350,443,622	411,472,104	506,298,106
Demand	200,234,362	215,238,782	257,412,365
Savings	140,739,600	174,198,352	220,346,677
Time	9,469,660	22,034,970	28,539,064
Foreign Deposits	156,390,507	197,413,493	291,155,195
Capital:-	69,100,843	93,235,565	146,039,566
Paid-up	16,550,714	52,730,229	104,249,125
Statutory & Other Reserves	9,940,305	10,712,873	24,008,894
Retained Earnings	42,609,824	29,792,463	17,781,547
Current profit	30,968,627	30,125,138	16,564,339
Primary Capital	69,100,843	93,235,565	146,039,566
Revaluation Reserves	22,583,235	22,017,342	24,872,443
Capital Base	108,510,718	136,500,369	188,105,452
Total Risk Weighted Assets	303,702,273	378,935,073	485,613,976
Capital Adequacy Ratio	35.73	36.02	38.74
Surplus/(Shortfall)%	20.73	21.02	23.74
Surplus/(Shortfall):Le	62,957,481	79,652,152	115,284,758
Average Shareholders' Fund	110,783,780	142,811,629	176,099,857

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

Table 12 Contd Commercial Banks Operating in Sierra Leone Prudential Indicators (Unaudited) (In Thousand Leones)			
	31-Dec-05	31-Dec-06	31-Dec-07
1	2	3	4
Asset Quality			
Performing Loans	122,596,273	147,239,070	190,650,159
Non-Performing Loans	44,946,914	54,036,250	88,442,397
Loan Loss Provisions	15,850,963	21,159,005	24,049,857
Non-Performing as a % of Total Advances	26.83	27.10	31.69
Loan Loss Provisions as a % of Non-Performing	35.27	38.79	27.19
Profitability : Pre-Tax Profits	44,306,686	43,018,728	28,687,608
Post Tax Profits	30,968,627	30,125,138	16,564,339
Return on Assets	8.12	5.84	3.05
Return on Equity Funds	27.95	21.09	10.28
Liquidity: Liquid Assets	260,854,407	257,595,569	283,700,845
Cash	23,804,348	20,023,378	40,328,705
Current Account with BSL	32,471,629	22,160,033	25,125,387
Treasury Bills	194,546,080	207,017,260	213,864,603
Placement with Discount Houses	9,360,350	6,104,898	3,494,350
Treasury Bearer Bonds	8,751,873	2,290,000	887,800
Cash Ratio	16.06	10.35	13.26
Overall Liquidity Ratio	74.45	63.19	57.49
Surplus/(Shortfall) (%)	43.02	32.82	27.58
Surplus/(Shortfall) (Le)	150,727,910	133,780,951	136,110,890
Foreign Assets:	159,425,908	218,923,032	359,865,907
Foreign Currency (cash)	11,294,426	14,534,243	32,485,303
Balance with Other Banks abroad	138,549,089	199,126,837	311,770,583
Foreign Other Assets	9,582,393	5,261,952	15,610,021
Foreign Liabilities:	159,585,126	202,393,188	296,466,942
Foreign Deposits	156,390,507	197,413,493	291,155,195
Foreign Other liabilities	3,194,619	4,979,695	5,311,747
NET FOREIGN POSITION:			
Assets-Liabilities	(159,218)	16,529,844	63,398,965

Table 13

Consolidated Balance Sheet of Discount Houses BALANCE SHEET AS AT:		
ASSETS	31-Dec-06 (Le'000)	31-Dec-07 (Le'000)
Cash:	1,204	3,351
Local	1,204	3,351
Foreign	-	-
Claims On:	19,872	92,708
BSL	90	49,826
Other Banks	19,782	42,882
Cash and Bank Balances	21,076	96,059
Loans/Repo	1,211,143	413,742
Short-term Investment:	17,894,941	8,544,354
Treasury Bills	15,674,277	7,089,704
Treasury Bearer Bonds	2,160,664	1,394,650
Commercial Paper	60,000	60,000
Long-term Investment:	234,351	268,967
Bankers Acceptances	-	-
Securities	-	-
Other Assets	3,731,231	268,087
Fixed Assets	660,193	544,401
Total Assets	23,752,935	10,135,610
LIABILITIES		
Placements/deposits	13,734,451	3,610,504
Borrowings	-	-
Other Liabilities	5,553,928	630,991
Shareholders' Funds:	4,464,556	5,894,115
Total Liabilities	23,752,935	10,135,610

Table 14

Consolidated Liquidity Ratios of Discount Houses

Liquidity Ratio as at:-

Item	Code	Definition	31-Dec-06	MOV,T	31-Dec-07
			Le'000	Le'000	Le'000
Cash on hand	1		1,204	2,147	3,351
Balances with BSL	2		90	49,736	49,826
Balances with other Banks	3		19,782	23,100	42,882
Treasury Bills	4		15,674,277	(8,584,573)	7,089,704
Treasury Bearer Bond	5		2,160,664	- 766,014	1,394,650
Total Liquid Assets	6	1+2+3+4+5	17,856,017	(9,275,604)	8,580,413
Placements/Deposits	7		13,734,451	-10,123,947	3,610,504
Overall Liquidity (%)	8	6/7	130.01	107.64	237.65
Minimum Requirement (%)	9		100.00	-	100.00
Excess/(Deficiency)	10	8-9	30.01	107.64	137.65
Actual liquidity (%)	11	4/7	114.12	82.24	196.36
Minimum Requirement (%)	12		60.00	-	60.00
Excess/(Deficiency)	13	11-12	54.12	82.24	136.36

The increase in the resource base was sourced mainly from deposits, which rose to Le 797.45 billion (up Le 188.57billion:30.97%) as at 31st December, 2007 from Le 608.89 billion as at 31st December, 2006. Demand, Savings and Time deposits increased to Le 548.13 billion (up Le 139.41 billion) Le 220.56 billion (up Le 46.29 billion) and Le 28.77 billion (up Le 6.74 billion) respectively.

Shareholders' fund rose to Le 187.48 billion (up Le 42.10 billion: 28.96%) as at 31st December, 2007 from Le 145.38 billion as at 31st December, 2006. The increase stemmed mainly from increase in issued and paid-up capital (up Le 51.52 billion or 97.70%).

The capital adequacy ratio was adhered to and recorded 38.74% as at 31st December, 2007 from 36.02% as at 31st December 2006. The adherence to the statutory requirement was mainly due to the increase in the industry's capital base, which stemmed from the increase in minimum paid-up capital of commercial banks to Le 9 billion by end December, 2007.

The industry's gross advances stood at Le 279.28 billion (up Le 78.01 billion or 38.76%) as at 31st December 2007 compared to Le 201.28 billion as at 31st December, 2006.

Other services, import trade, construction and financial services sectors accounted for 31.16%, 16.21%, 16.87% and 6.13% of gross advances respectively.Transport, storage & communication, manufacturing, electricity, gas & water, other trade & tourism and miscellaneous accounted 10.14%, 5.02%, 2.53%, 3.45%, and 1.42% of gross advances respectively. Mining and Quarrying, Agriculture, Forestry and Fishing, and Export Trade received only 1.52%, 2.44% and 3.08% of gross advances respectively as at 31st December, 2007.

The industry performing loan accounted for 68.31% of gross advances as at 31st December, 2007. However, the ratio of loan loss provision to non-performing decreased to 27.19% as at 31st December, 2007 from 38.79% as at 31st December 2006.

Despite the increase in banking activities over the last one-year period, pre-tax profit decreased to Le 28.69 billion(down Le 14.33 billion: 33.31%) for the period ended 31st December, 2007 from Le 43.02 billion for the period ended 31st December 2006. The decrease in the profits could be attributed to the loss made by the two new banks in the industry within the review period.

This resulted in a decrease in return on assets which stood at 3.05 % in 2007 as against 5.84 % 2006. The decrease in pre-tax profit also affected the return on equity as it recorded 10.28% in 2007 as against 21.09% in 2006.

The statutory requirement for cash ratio was not adhered to, it recorded a shortfall of 1.26 %(2007) as against a shortfall of 1.65 %(2006). This shortfall in cash ratio was due to shortfall of 4.70%, 5.50%, 1.45%. 0.9% and 4.71% recorded by First International Bank, International Commercial Bank, Access Bank, Rokel Commercial Bank and Sierra Leone Commercial Bank respectively.

The overall liquidity ratio was however very favourable as the industry recorded actual liquidity ratio of 57.49% in 2007, with a surplus of 27.58%

Licensing of Financial Institutions

During the year, the Bank of Sierra Leone continued its supervisory role aimed at achieving a sound and stable financial system. Following from this, the licenses of the First International Bank (FIB), Ecobank and International Commercial Bank (ICB) were renewed for one (1) year each, the Guaranty Trust Bank for two (2) years, while licenses for Rokel Commercial Bank Limited, Standard Chartered Bank (SL) Limited and Sierra Leone Commercial Bank Limited were renewed for three (3) years each.

Table 15

Commercial Banks operating in Sierra Leone (31st December 2007)

BANK	No. of Branches 2005	No. of Branches 2006	No. of Branches 2007	F/town	Bo	Moyamba	Kenema	Lungi	Makeni	Kono	Pujehun	Njala	Kambia	Total
Rokel Commercial Bank	9	10	10	5	1	1	1	-	-	1	1	1	-	**10**
Sierra Leone Commercial Bank Ltd	8	8	9	4	1	1	1	-	1	1	-	-	-	**9**
Standard Chartered Bank Ltd	3	3	3	2	1	-	-	-	--	-	-	-	-	**3**
Union Trust Bank Ltd	4	5	7	3	1	-	1	-	-	1	-	-	1	**7**
Guaranty Trust Bank Ltd	3	3	3	2	1	-	-	-	-	-	-	-	-	**3**
First International Bank Ltd	3	4	5	4	-	-	-	1	-	-	-	-	-	**5**
International Commercial Bank	1	1	1	1	-	-	-	-	-	-	-	-	-	**1**
EcoBank	-	1	3	2	-	-	1	-	-	-	-	-	-	**3**
Procredit Bank	-	-	2	2	-	-	-	-	-	-	-	-	-	**2**
Access Bank	-	-	1	1	-	-	-	-	-	-	-	-	-	**1**
Total Number of Prov. Branches					5	2	3	1	1	3	1	1	1	**18**
Grand Total	31	35	44	26	5	2	3	1	1	3	1	1	1	44

Also in 2007, the Pro Credit Bank and Access Commercial Banks were issued licences authorizing them to carry on banking business in accordance with section 12(1) of the Banking Act 2000 for a period of one (1) year. This brought the total number of commercial banks in Sierra Leone to ten (10).

In its quest for further deepening of banking services in Sierra Leone, the Bank of Sierra Leone granted approvals for the opening of additional branches of the following commercial banks during the year: the Sierra Leone

Table 16

Number of Accounts at Commercial Banks (31st December 2007)

Banks	Current Account (Local)	Current Account (Foreign)	Savings Account	Time (Local)	Time (Foreign)
SCB	3,899	1,495	7,140	545	-
RCB	14,030	1,660	56,002	259	-
SLCB	19,897	1,286	30,024	156	-
UTB	3,647	344	17,310	48	4
GTB	2,266	814	8,512	18	-
FIB	5,006	115	5,328	25	-
ICB	424	75	3,030	19	-
ECOBANK	2,610	565	5,493	7	-
ProCredit Bank	2,825	25	1,254	13	1
Access Bank	143	33	875	2	-
Total	54,747	6,412	134,968	1,092	5

Table 17

Community Banks operating in Sierra Leone (31/12/07)

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

Commercial Bank at Mobimbi Town, Moyamba, in the southern Province; the Ecobank at the Queen Elizabeth Quay in Freetown, No: 7 Dama Road, Kenema, in the Eastern Province and an agency at the Institute of Public Administration and Management (IPAM) Campus at Tower Hill, in the Central Area of Freetown; the International Commercial Bank at Wilkinson Road, in the West End of Freetown; the First International Bank at No. 50 E C O WAS Street, in the Central Area of Freetown; the Union Trust Bank at the Freetown-Conakry Highway in Kambia Town in the Northern Province ; No: 54 Freetown Road, Lumley in the West End of Freetown and 48 Bai Bureh Road, Kissy in the east end of Freetown; and Pro-credit Bank at No: 48 Bai Bureh Road, Kissy in the east end of Freetown.

The licences of the four community banks: the Yoni Community Bank, Marampa-Masimera Community Bank, Mattru Community Bank and Segbwema Community Bank and the two discount houses: the First Discount House and the Capital Discount House were renewed for another year each during the reporting period.

Due to the strategic importance of foreign exchange bureaux in the country, licences were also granted to ten (10) new foreign exchange bureaux in the reporting period as follows: Fran International, Mandate, Tonisco, Leone UK, Newham, Samkal, Jem, Bamba, Wally and Guru Nanak, to carry out the business of buying and selling of foreign currencies under the Other Financial Services Act of 2001.
The licenses of the existing foreign exchange bureaux were each renewed for a period of one (1) year.The total number of bureaux operating as at 31st December 2007 was sixty-eight (68).

Legislation & Guidelines

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

Minimum Capital Requirements

In order to enhance the operations of banks and to maintain a stable financial system, during the year the Bank of Sierra Leone increased the Minimum Capital Requirement for all licensed financial institutions operating in Sierra Leone. The minimum paid-up Capital for all commercial banks operating in Sierra Leone was increased from Le 800 million (eight hundred million Leones) on a graduated basis to Le15 billion (fifteen billion Leones) and from Le2.5 billion to Le 15 billion for Development and Investment banks by end December, 2009. The increase will be graduated as follows:-

- Le 9 billion by end December 2007
- Le 12 billion by end December 2008
- Le 15 billion by end December 2009

For Discount Houses, the paid-up capital was also increased from Le600 million (six hundred million Leones) to Le6 billion (six billion Leones) on a graduated manner as shown below:-

- Le 3 billion by end December 2007
- Le 4 billion by end December 2008
- Le 6 billion by end December 2009

Other Financial Institutions

Other Financial Institutions (OFIs) are financial institutions other than commercial banks. They complement the functions of commercial banks and perform specialized functions.
The licensed Other Financial Institutions include First Discount House Limited, Capital Discount House Limited, 68 Foreign Exchange Bureaux and four (4) community banks.

a) Discount Houses

i. Consolidated Assets and Liabilities

Table 13 shows that the resource base of the discount houses decreased to Le10.14 billion (down Le13.62 billion: 57.35%) as at 31st December 2007 from Le23.75 billion as at 31st December 2006.

The contraction was largely due to the fall in other liabilities and placements/deposits, which dropped by Le3.48 billion and Le11.57 billion, respectively. On the asset side, the decrease in the resource base was reflected mainly on similar reductions in loans/repos by Le0.80 billion (66.12%), short term investments by Le9.35 billion (52.26%), treasury bills by Le8.58 billion (54.75%) and other assets by Le 3.46 billion ((92.82%).

Table 18

Discount Houses operating in Sierra Leone (31/12/07)

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

ii. Liquidity

Table 14 show that the liquidity requirements of Discount Houses state that liquid assets should be equal to call money and borrowings, of which not less than 60 percent shall be in treasury bills and treasury bearer bonds, with maturity not exceeding 91 days. This requirement was met and recorded actual liquidity of 196.36 percent with a surplus of 82.24 percent as at 31st December, 2007

Table 19

Licensed Foreign Exchange and their Branches in Sierra Leone (31/12/07)

No.	Bureaux	F/town	Bo	kenema	Makeni	Lungi	Kono	Kabala
1	Afro Foreign Exchange Bureau Ltd	1	1	1	1	1	1	-
2	Aiemahs Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
3	Ama Express Foreign Exchange Bureau Ltd	-	1	-	-	-	-	-
4	Ayoub Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
5	Apex Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
6	Bakadies Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
7	Bamba Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
8	BAS Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
9	Best Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
10	Blue Circle Foreign Exchange Bureau Ltd	1	1	-	-	-	-	-
11	B &S Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
12	Chartered Trust Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
13	City Centre Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
14	Continental Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
15	Cozy International Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
16	Denarious Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
17	Dynamic Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
18	Devkay Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
19	Fad Foreign Exchange Bureau Ltd	-	1	-	-	-	-	-
20	Fatimised Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
21	First Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
22	Fofan Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
23	Frandia Foreign Exchange Bureau Ltd	3	-	-	-	-	-	-
24	Fulladu East Foreign Exchange Bureau Ltd	2	-	-	-	-	-	-
25	Freetown Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
26	Fran Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
27	Global Forex Bureau Ltd	1	-	-	-	-	-	-
28	Guru Nanak Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
29	Harry's Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
30	Hepom Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
31	Horizon Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
32	I.B.C. Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
33	Jalloh &Barrie Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
34	Joelyn Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
35	Jones Sons &Associates Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
36	Jem Forex Exchange Bureau Ltd	1	-	-	-	-	-	-
37	Kakua Foreign Exchange Bureau Ltd	1	1	-	-	-	-	-
38	Kallah Foreign Exchange Bureau Ltd	1	-	1	-	-	-	-
39	Leone UK Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
40	Manans Foreign Exchange Bureau Ltd	1	1	1	1	-	-	1

Table 19 contd

Licensed Foreign Exchange and their Branches in Sierra Leone (31/12/07)

No.	Bureaux	F/town	Bo	kenema	Makeni	Lungi	Kono	Kabala
41	Mandate Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
42	Maranda Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
43	Massie Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
44	MIK Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
45	Monorma Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
46	Mystic Foreign Exchange Bureau Ltd	1	1	1	-	-	-	-
47	Navo's Int'l Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
48	Newham Forex Exchange Bureau Ltd	1	-	-	-	-	-	-
49	Nimo Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
50	Olalus Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
51	Paramount Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
52	Pottal Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
53	Premier Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
54	Raju's Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
55	Samkal Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
56	Sanda Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
57	Sara Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
58	Sierra Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
59	Sim Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
60	S.V Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
61	TAP Foreign Exchange Bureau Ltd	-	-	-	1	1	-	-
62	Tonisco Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
63	West African Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
64	Western Club Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
65	Wickburn Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
66	Wally Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
67	Yours Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
68	Universal Foreign Exchange Bureau Ltd	1	-	-	-	-	-	-
Total Number of Bureau and Branches		**68**	**7**	**4**	**3**	**2**	**1**	**1**

iii. Profitability

A profit of Le0.13 billion was recorded for the period ended 31st December 2007 compared to a pre-tax loss of Le0.01 billion for the period ended 31st December 2006. The profit was as a result of a decrease in interest expense by 46.36 percent.

Over 50 percent of the income of discount houses came from investments in treasury bills, which recorded Le1.85 billion for the period ended 31st December 2007, compared to Le 2.84 billion for 2006.

Operating expenses recorded Le1.39 billion for the period ended 31st December 2007 as against Le1.73 billion in 2006.

Staff costs accounted for 59.67 percent of operating expenses, while withholding tax paid accounted for 13.18 percent for the period ended 31st December 2007, compared with 48.47 percent and 15.58 percent respectively, for the period ended 31st December, 2006.

Return on assets recorded 0.89 percent compared with negative 0.11 recorded for 2006. This was due to the pre-tax profit made during the review period.

Operating expenses to operating income was 91.17 percent for the period under review compared to 100.79 percent in 2006. Even though there was a fall in the ratio, it was still on the high side.

Net Interest spread recorded 7.93 percent (December, 2007) and 2.75 percent (December, 2006).

Foreign Exchange Bureau

Table 20 shows that Foreign exchange bureau recorded total purchases in US Dollars, UK Pound Sterling and Euros of US$ 2.46 million, UK£ 0.7 million and •0.01 million respectively, in 2007 compared to US$ 2.52 million, UK£ 0.66 million and • 0.04 million respectively, in 2006.

Table 20

Foreign Currency Purchased

Currency	2007 (Le 'mn)	Mov't (Le 'mn)	% Share	2006 (Le 'mn)
Dollar	2.46	(0.06)	(2.38)	2.52
UK Pound	0.7	0.04	6.06	0.66
Euro	0.01	(0.03)	(75.00)	0.04

Similarly, in Table 21 foreign exchange sales in US Dollars, UK Pounds Sterling and Euros were US$ 2.41, UK £ 0.71 and • 0.01 respectively, in 2007 compared to US$ 1.87, UK £ 0.59 and • 0.01 respectively in 2006.

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

Table 21

Foreign Currency Sales

Currency	2007 (Le 'mn)	Mov't (Le 'mn)	% Share	2006 (Le 'mn)
Dollar	2.41	0.54	28.88	1.87
U K Pound	0.71	0.12	20.34	0.59
Euro	0.01	-	-	0.01

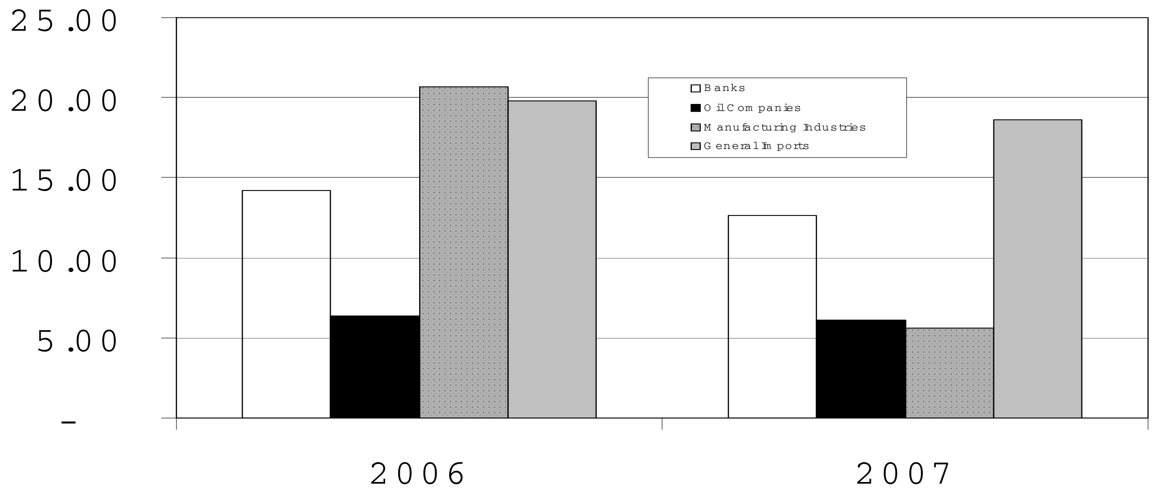
Table 22

Net Position of Foreign Currency Transaction

Currency	2007 (Le 'mn)	Mov't (Le 'mn)	% Share	2006 (Le 'mn)
Dollar	0.4	(0.26)	(39.39)	0.66
U K Pound	0.07	-	-	0.07
Euro	0.02	0.02	(50.00)	0.04

Chart 11

Sectoral Utilization of Foreign Exchange (US$mn)



A number of measures have been implemented following the enactment of the Anti-Money Laundering Act (AML) 2005. The stakeholders committee on money laundering has been set up to facilitate the implementation of the provisions of the AML Act 2005. With the formation of this committee, forms for reporting suspicious transactions have been designed and issued to financial institutions with directives to report suspicious transactions. Commercial banks have developed and implemented the Know-Your-Customer (KYC) and Customer-Due-Diligence (CDD) Initiative. Commercial banks have also been issued with directives to ensure

Table 23

Stock of Government securities outstanding by Holders (in Million Leones)	2007	2006	Change
A. Stock Position			
1. Treasury Bills	491,859.35	438,801.55	53,057.80
Bank of Sierra Leone	95,358.25	75,444.55	19,913.70
of which Special Bills	23,236.75	35,421.10	-12,184.35
Commercial Banks	218,240.00	208,834.35	9,405.65
of which Special Bills	13,000.00	9,400.00	3,600.00
Non-Bank Public	178,261.10	154,522.65	23,738.45
of which Special Bills	16,263.25	5,178.90	11,084.35
2. Treasury Bearer Bonds	141,113.75	137,518.20	3,595.55
Bank of Sierra Leone	29,126.20	7,946.60	21,179.60
Commercial Banks	11,323.25	30,873.35	-19,550.10
Non-Bank Public	100,664.30	98,698.25	1,966.05
3. Total Government Stock	632,973.10	576,319.75	56,653.35
Bank of Sierra Leone	124,484.45	83,391.15	41,093.30
Commercial Banks	229,563.25	239,707.70	-10,144.45
Non-Bank Public	278,925.40	253,220.90	25,704.50

Source: Policy and Domestic Debt Division, Banking

that the importation and exportation of foreign currencies are carried out transparently in line with established laws and regulations.

The Currency Declaration Form (CDF) has been designed and is being implemented by the National Revenue Authority (NRA). The Form requires persons entering or leaving Sierra Leone in possession of currencies or negotiable instruments in excess of $10,000 or its equivalent, to declare such assets at entry or exit points. In this vein, procedures for handling asset declared at entry or exit points have been developed and the Customs and Excise Department of the National Revenue Authority (NRA) is implementing these procedures.

In March 2007, the Bank of Sierra Leone organized a sensitization seminar on the provisions of the AML Act 2005 at the Bank Complex, Kingtom in Freetown. The seminar aimed at sensitizing the public on the ills of money laundering and at identifying inadequacies in the AML Act 2005, which will be subsequently reviewed.

As part of the legislative development, the AML Act 2005 is currently being reviewed with Technical Assistance from the International Monetary Fund (IMF), to correct its inadequacies and to incorporate provisions aimed at curbing the financing of terrorism. Plans are also on for an office space at the Financial Intelligent Unit (FIU) provided at the fifth floor of Sam Bangura Building, to ensure maximum security and increase confidentiality of the processed information. Assistance will also be sought from development partners to enhance the capacity of staff, provide the required equipment and furniture, and other logistics to ensure that the Financial Intelligent Unit (FIU) becomes fully operational.

Capital Market

In a bid to deepen the financial sector, which is currently dominated by the money market, former President of Sierra Leone, Alhaji Dr.Ahmad Tejan Kabbah, formally launched an interim Stock Exchange on the 27th July 2007. A committee comprising stakeholders in the public and private sectors would manage the Interim Stock Exchange and trading is expected to commence soon.

The need to strengthen the legal environment in which the capital market and other business activities take place has culminated in a number of interventions bordering on the revision of existing legislation or drafting of new laws. The Other Financial Services Act 2001 was amended into the "Other Financial Services Amendment Act 2007, which was enacted in Parliament in May 2007, empowering the Bank of Sierra Leone to issue licenses to and regulate stock exchanges until the Capital Market legislation is enacted. The Revised Companies Act and the Bankruptcy Bill are being finalized by local legal luminaries contracted by the Bank to revise and draft the two Bills respectively. Work is yet to be completed on the drafting of both the Securities and Collective Investment Scheme Bills (Technical Assistance is being provided by the Common Wealth Secretariat -COMSEC).

The Bank of Sierra Leone has offered to host the Trading Facility as well as provide staff to assist with the running of this Facility.Technical Assistance was provided by 'FIRST' Initiative in the form of a resident consultant, Mr. Maroof Martin, whose contract period ended in March 2007.

Plans are underway for the introduction of government securities of longer maturity and the establishment of a Venture Capital Company.

Private Sector

The Bank of Sierra Leone, through the Private Sector unit of the bank, continues its collaboration with the Government and the private sector in fulfilling its mandate of being a focal point on all private sector activities. During the review period, the Division served in various stakeholders' committees that addressed a range of existing and emerging private sector related issues.

In its capacity as member of the National Coordinating Committee on Trade (NCCT), the bank of Sierra Leone was involved in the pre-seminar consultations, deliberations and planning of the Economic Partnership Agreement (EPA) stakeholders' seminar, which took place in December 2007. The recommendations made at the seminar were subsumed into the Summary of Proceedings, which forms the basis of Sierra Leone's position on the EPA negotiations.

The bank collaborates with the Development Assistance Coordinating Office (DACO) in putting together an Aid Policy for Sierra Leone. It made significant input to the draftAid Policy Roadmap for Sierra Leone, which is currently with stakeholders for their reviews and comments.

The Division participated in the quarterly Development Partnership Committee (DEPAC) meeting which is a policy forum that brings the Government and donor community together

Micro Finance

An Investment Committee has been established of which, the Bank Governor is a non-voting chair. Monitoring and evaluation of Micro finance institutions is on going and "Credit" is the only product sub-divided into group and individual loans. An impact analysis for Poverty Reduction Strategy Paper and the Millennium Development Goals (MDGs) is ongoing, while a Policy structure has been drawn up and approved by the Cabinet of Sierra Leone and would soon be finalized. The Micro finance Programme (MFP) of the National Commission for Social Action (NaCSA), with assistance from Bizclim, has secured funding from the European Union (EU) to undertake a study on the "Micro finance Sector Capacity Building in Sierra Leone". A Steering Committee was charged with the responsibility for capacity building in the Micro finance sector in Sierra Leone to determine inter-alia, the demand for micro finance services and to develop a strategic plan to map out development within the industry.

Community Development

The four existing community banks namely, Marampa-Masimera Community Bank, Yoni Community Bank, Mattru Community Bank and Segbwema Community Bank have contributed immensely to community development in increasing their outreach as well as adequately providing demand-driven services to the rural poor in their respective areas of operation. Of immense importance is their focus on Deposit mobilization from individuals, institutions, as well as donor agencies for the financing of economic entities in the rural communities as well as the provision of Micro finance loans to low-level income earners and small business operators in these communities.

Construction works on the Kabala and Zimmi Community Banks are nearing completion and both buildings are to be completed by the end of the first quarter of 2008. It is expected that these banks would be commissioned for operation on or before end April 2008. The two banks, when commissioned, will bring the total to six pilot Community Banks operating across the Northern, Eastern and Southern Provinces of Sierra Leone.

To ensure that financial intermediation by the community banks actually reach a wide range of the rural community, the International Fund for Agricultural Development (IFAD), through the Rural Finance and Community Improvement Programme (RFCIP), made a commitment in the year under review to render support to the existing community banks by strengthening their capital base to enable them enhance their outreach. It also pledged to facilitate the expansion of the community banking system by providing financial support to the Bank of Sierra Leone for the establishment of seven (7) new Community Banks throughout the country. Feasibility studies for the establishment of these banks have already been completed. IFAD has also expressed its desire to support the creation of an Apex Institution for Community Banks and Micro finance Institutions, which will be facilitated by the Bank of Sierra Leone, and through which the community banks and Micro finance Institutions could start to address issues of common interest.

As a manifestation of the Bank's willingness and keen interest to establish an Apex Institution to coordinate the affairs of all community banks, the Bank of Sierra Leone is currently supporting and collaborating with the Association of Community Banks, to exchange ideas on community banking practices in Sierra Leone and to serve as a forum for the discussion of problems affecting the community banks and finding possible solutions to these problems.

For staff of community banks to be recognized as community bankers as well as community developers, and to disseminate information on the relevance of community banking for socio economic development, the Bank of Sierra Leone, in collaboration with IFAD and other stakeholders reviewed a Project Action Plan of the Rural and Agricultural Development Programme (RADEP), whose Formulation Period was scheduled during the period 18th January to 8th February 2008. The Agricultural Sector Rehabilitation Project (ASREP) and the Rehabilitation, Community Based Poverty Reduction Project (RCPRP) and Rural Finance Community Improvement Programme (RFCIP) are sub projects of the parent project RADEP.

Open Market Operations

In pursuance of its primary function, the Central Bank's monetary policy for the year 2007 was aimed at controlling the growth of reserve money, in line with International Monetary Fund Program target, to ensure stability of prices and reduce the rate of inflation to a single digit. This was complemented by the reserve-requirement ratio set at 12 percent.

The conversion of Le50 billion of Non-Negotiable Non-Interest Bearing Bonds (NNIB) to marketable securities under the Memorandum Of Understanding (MOU), contributed immensely to the satisfactory performance of monetary operation in 2006. This increased at the disposal of the Bank, the volume of securities used for mopping up liquidity. Further conversion of Le50 billion was supposed to have been done in 2007, which would have impacted positively on the mopping up activity of the Bank whose monetary operation is sometimes derailed by the lack of sufficient instruments. However in the first quarter of 2007, the abysmal performance in revenue collection and the hold on donor funds for budgetary support, prompted the Ministry of Finance to put a halt on the conversion of the remaining amount of Le50 billion, and only allowing the conversion of Le 2.5 billion. The economic downturn was further exacerbated by the recourse to bank financing of the budget with the corresponding build up of Ways and Means. The trend for Net credit to government was therefore expansionary. Inflation rate rose from 9.27 percent in January to 12.56 percent in February.

The growth in monetary aggregates during 2007 was characterised by fiscal challenges complemented by the drop in domestic revenue and consequently recourse to central bank borrowing by the government. A total of Le 54.2bn was converted from Ways And Means to tradable securities in 2007. Throughout the period there was excess demand for government securities. The Bank's monetary operations were constrained by insufficient securities at its disposal to mop the excess liquidity, which created some inflationary pressures in the economy. The annual yield on treasury bills increased from around 16 percent to 21 percent and remained relatively stable around 21 percent for the entire fourth quarter of 2007.

The interest rate on treasury bearer bond followed a similar trend, moving from 15 percent in the first quarter to 20 percent in the fourth quarter of 2007.

The utilisation of Le 38.21bn MDRI fund towards the end of the year resulted in a surge in Currency Issued as most of it was transferred to government to offset domestic arrears. Thus at the end of the year, broad money grew by Le 211.99bn, above program target while inflation rate fluctuated between 11.99 percent and 12.19 percent. While however, the general increase in monetary aggregates contributed to the rise in the general prices in 2007, another significant driver for the economic anomaly with respect to rising prices was the influence of exogenous factors such as increase in the world market prices for oil and imported staple food prices, which directly affected our domestic prices. The inflation rate for the 2007 was thus driven by both increases in monetary aggregates and exogenous factors.

Of the Le 54.2 bn conversion of Ways and Means that was done in the first quarter of 2007, a total of Le50.6 bn was issued as 91 days treasury bills while the remaining Le 3.6 bn was issued as Treasury Bearer Bonds. The stock of government securities therefore increased by Le56.7bn, of which Le 54.2bn was converted from Ways and Means and the Le2.5bn converted from the Non negogiable Non Interest Bearing to special treasury bills under the Memorandum of Understanding agreement.

Furthermore, activities in the inter- bank market have not improved to strengthen the activities of the secondary market. In spite of the effort of the Bank to widen the band in secondary market securities pricing, thereby making its rediscount facility punitive, activities in the inter-bank market remained relatively low, with the three main banks primarily transacting business amongst themselves at interest rates ranging between 8-10 percent. The market participants still continue to use the Bank's rediscount facility to source liquidity.The Bank anticipates imposing restrictions on this window to kick-start a robust inter-bank market.
At the end of the 2007 financial year, commercial banks' holdings of total government securities accounted for about 36 percent of the total government stock of Le 632.97 billion, while the non-bank public accounted for about 44 percent and the Central Bank about 20 percent.

Payments System

The Bank has documented its system requirements for all of its payments system infrastructure which include a proposal for procuring a new Banking Application System, Temenos T24 and Temenos Core Banking, Real Time Gross Settlement (RTGS), Automated Cheque Processing System (ACP), Switches and other Points of Sales payment system.

The outstanding issue is the sourcing of funds for which under the West African Monetary Zone (WAMZ) Payments System Project, a US$27.15 million project proposal has been submitted to the African Development Bank (ADB) for grant funding of the payments system development streams of the central banks of The Gambia, Sierra Leone and Guinea. The ADB has proposed a project-financing plan in which the project would be financed through grant resources from the African Development Fund (ADF) and contributions from the national central banks/commercial banks in the recipient countries. The contributions from national central banks will mainly include staff allocated to the project on a full-time basis and other infrastructural support like providing back-up power generators. Commercial banks are expected to pick up the cost on those commercial activities like the POS and national switch.

The project was scheduled to have been taken to the ADB Board in December 2007 but was not due to insufficiency of grant envelop under the ADF X cycle. However, the project is considered a priority project for the

ADF XI cycle commencing in 2008 with expectation that it will go through the ADB Board in the second half of 2008.

Under the WAMZ project, the cheque standards have also been promulgated and adopted by member states including Sierra Leone. The Draft Payments System Act has also been forwarded to the Minister of Finance and Economic Development for it to go through the legislative process.

Foreign Exchange Management

(i) Foreign Exchange Assets

The Bank of Sierra Leone's Gross Foreign Exchange Reserves increased from US$184.22mn in 2006 to US$215.47mn as at end December 2007. This represented an increase of 16.97 percent above the preceding year's position.

Inflows to the foreign reserves during the review period mainly constituted receipts from disbursements of Programme grants and loans by donors including the International Monetary Fund's Poverty Reduction Growth Facility Programme, United Kingdom/Sierra Leone Programme Grant, the World Bank/Economic Recovery and Rehabilitation Grant (WB/ERRG), European Union-Post Conflict Budget Support, replenishment from the European Development Fund, Islamic Development Bank and the Workd Bank's International Development Association (IDA) project funds. The favourable performance was also enhanced by the receipt of non-programmed disbursements in the review period, particularly from transactions with commercial banks.

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

During the period under review, total inflows decreased by 10.48 percent or US$11.35mn from US$108.29mn in 2006 to US$96.94mn in 2007. The decrease in inflows was mainly due to the non-disbursement of programme funds of US$13.08 from the IMF (PRGF loan) and US$10.00mn from World Bank (ERRG V). However, the key programmed disbursements realized for budget support included UK/Sierra Leone Programme Grant for balance of payments and budgetary support of US$26.93mn (GBP13.00mn) and EU post conflict budgetary support of US$15.65m (Euro11.75mn). Other programme disbursements realized were from European Development Fund (EDF Replenishment) of US$4.32mn for funding European Community local projects operating in the country, and Islamic Development Bank assistance under various projects including Technical and Vocational project, Rural infrastructure Development Project, Construction and Reconstruction of Primary Schools Project and Social Action Support Project of US$3.35mn. Non-programme receipts realized from other donors were mainly from IDA/World Bank of US$0.67mn (to finance IDA related projects in the country). Other major inflows were realized from transactions with Commercial Banks of US$20.72mn (US$15.12mn in respect of the Minimum Capital requirement paid in by Access, Pro credit, UBA and SKYE commercial banks and US$5.60mn foreign currency purchased from SLCB), BSL and Others of US$9.17mn (being customer transfers, commissions and interests on external investments), Other Government receipts of US$2.24mn were also realized from other Government revenue sources including inter alia, the Ministry of Tourism and Culture, National Revenue Authority.

Total receipts from exports rose by 28.90 percent from US$8.34mn in 2006 to US$10.75mn at end December 2007. As shown in Table 25, major performance within the sector was generated mainly from various sources such as; diamond license fees and diamond exporters tax, which recorded improved performances during the review period compared to the preceding year. Inflows realized from diamond license fees of US$5.91mn exceeded the preceding year's performance of US$4.68mn by 26.28 percent. The impressive performance could be attributed to the positive effects of the mining policy and effective surveillance system in combating smuggling activities. Receipts from Diamond Exporters' income tax rose by 25.08 percent to US$3.94mn, above the preceding year's performance. This performance can be attributed to the paying- in of the whole 3 percent of diamond exports to the Consolidated Revenue Fund, coupled with the implementation of the Kimberley Certification Process System. Fishing Royalties fees rose above the 2006 performance by 76.47 percent to US$0.90mn. The improved performance was due to an increase in the actual number of operators and the collaborative efforts between the Sierra Leone Maritime Agency and the Sierra Leone Military Naval Wing in terms of combined surveillance operations of the country's territorial waters.

Total foreign exchange outflows dropped by 29.74 percent from US$103.92mn as at end December 2006, to US$73.01mn as at end December 2007. Of that total, 87.62 percent or US$63.97mn was in respect of goods and services and 12.38 percent or US9.04mn for debt service payments. The drop in outflows in 2007 compared to 2006 was mainly due to the drop in debt service payments under the MDRI programme. Total debt service payments dropped by 48.43 percent, from US$17.53mn in 2006 to US$9.04mn in 2007. Out of the total payments of US$63.97mn made for goods and services, 66.52 percent was in respect of foreign exchange provided to the private sector through the weekly Foreign Exchange Auction. The Foreign Exchange Auction was targeted to meet essential imports such as rice, raw materials and other manufacturing inputs, petroleum products, in order to complement the existing sources of foreign exchange in the banking system.

Investment Activity

A total of US$8.37mn was earned from foreign investment activities out of an average gross external reserve amount of US$140.17mn invested in 2007. In 2006, an average deposit of US$89.19mn invested yielded US$7.11mn. The enhanced performance was due to favourable global interest rates and the tactical placement of funds to take advantage of the favourable market environment. Earnings recorded for the review period rose by 17.72 percent over those recorded for 2006. However, the returns on investments for both 2006 and 2007 were 7.97 percent and 5.97 percent, respectively. In absolute terms, the increased yield was also strengthened by the increase in the principal amount invested during the period.

Foreign Currency Management

The Bank of Sierra Leone's policy objective for currency management continues to be the holding of reserves in currencies to match transaction needs with debt service payments and private sector support constituting the most significant. Table 24 shows holdings of currencies by the Bank of Sierra Leone as at end December 2007 (excluding donor import support funds). 14.15 percent was held in Special Drawing Rights (SDR), 34.34 percent in Pound Sterling, 32.40 percent in United States Dollars, 18.80 percent in Euro and 0.31 percent in Japanese Yen.

Table 24

Currency Management

	Dec.2006	% of Total Bal.	Dec.2007	% of Total Bal.
U.S.Dollars	79.3	45.2	69.8	32.4
Pound Sterling	42.4	24.1	74.0	34.3
Euro	24.7	14.1	40.5	18.8
Japanese Yen	0.1	0.0	0.7	0.3
SDRs	29.2	16.6	30.5	14.2
Total Balance	175.6	100	215.5	100
Donor funds				
U.S.Dollars	8.2	100	0.0	100

iv) Foreign Exchange Market

(a) Overview

The foreign exchange market rates were characterized by a mixed trend (appreciation/depreciation) and the gradual segmentation of the foreign exchange market. The main underlying causes for the mixed trend during the period were the increase in the level of imports relative to that of exports, the predominance of notes in the foreign exchange bureau and the parallel market and the restrictive nature of the foreign exchange auction. Notwithstanding this mixed trend and the segmentation in the market, the Leone remained relatively stable over the period.

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

b) Exchange rate developments and movements

The nominal exchange rate of the Leone to the US$ determined by the demand and supply through a system of licensed dealers, fluctuated in all the foreign exchange channels. Official statistics on monthly average exchange rate suggest that the Leone appreciated generally throughout the 12-month period though instances of depreciation were observed in the first quarter of the review period. The yearly average official rate Le/US$ has continued to exceed the central rate of Le2,562.18/US$1.00 under the Exchange Rate Mechanism of the West African Monetary Zone.

The highest depreciation in 2007 was observed in the official market where the annual average mid-rate depreciated by 0.76 percent to Le2,984.51/US$1.00 from Le2,961.91/US$1.00 recorded in 2006. This was followed by the rates for the commercial banks, foreign exchange bureaux and the auction, which respectively depreciated by 0.75 percent, 0.38 percent and 0.13 percent to Le2,986.78/US$1.00, Le2,966.54/US$1.00 and Le2,974.61/US$1.00 from Le2,964.40/US$1.00, Le2,955.22/US$1.00 and Le2,970.73/US$1.00, respectively.The only appreciation was observed in the parallel market where the annual average mid-rate appreciated by 0.69 percent to Le2,999.81/US$1.00, from Le3,020.71/US$1.00 recorded in 2006.

Table 25

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

	JANUARY-DECEMBER 2006	JANUARY-DECEMBER 2007
INFLOWS:-Of which	108.29	96.94
Receipts from exports	8.34	10.75
Rutile	0	-
Bauxite	-	-
Diamond License fees	4.68	5.91
Diamond Exporters Income Tax	3.15	3.94
Fishing Royalty/License	0.51	0.90
Other Govt	1.60	2.24
Others	7.58	9.17
Inspection Fees	0.03	0.01
BSL Purchases of Notes/T.Cheques	0.03	0.08
Transactions with Commercial Banks	2.00	20.72
Privatization	1.04	-
Aid Disbursement	87.59	50.92
IMF	13.63	-
AFDB	15.81	-
UK	22.91	26.93
EU (EDF Replenishment)	6.21	4.32
WB Loan (ERRC/G)	10.23	-
EU	12.57	15.65
IDA/World Bank	0.97	0.67
Others/IDB	5.26	3.35
HIPC Flow Relief	0.08	3.05
OUTFLOWS:-Of which	103.92	73.01
Payments for Goods and Services	86.39	63.97
Embassy/Missions	8.28	8.66
BSL	1.50	1.02
Stabilization & Cooperation Fund	0.25	0.25
Printing of Currency	4.54	2.36
Government Travel	1.84	0.91
Other Government	7.93	6.36
Subscription to Intl. Organisations	1.03	1.21
Military	-	-
Private Sector Support	61.02	42.55
HIPC Related Imports	-	0.65

Table 25 Contd

Bank of Sierra Leone Foreign Exchange Cash Flow (in US$ Mn)		
	JANUARY-DECEMBER 2006	JANUARY-DECEMBER 2007
Debt Service: Of which	17.53	9.04
IMF	6.38	1.28
World Bank	4.07	0.79
AFDB	1.68	1.41
Other Multilateral & Bilateral	3.72	3.68
Paris Club Creditors	0.46	-
Other Commercial Debt	0.90	0.75
OPEC (CIP Arrangement)	0.20	0.20
Clearing of Arrears (EEC/EIB, Badea etc)	0.12	0.94

The movements for the various foreign exchange market rates exhibited mixed trends (appreciation/depreciation). The monthly average of the auction rate, parallel market rate, and the foreign exchange bureaux rate appreciated respectively by moving from Le2,977.21/US$1.00, Le3,008.33/US$1.00 and Le2,975.62/US$1.00 in January 2007 to Le2,963.12/US$1.00, Le2,981.89/US$1.00 and Le2,964.04/US$1.00 in December 2007.

The monthly average rate of the official and commercial banks respectively depreciated by 0.15 percent and 0.06 percent from Le2,977.99/US$1.00 and Le2,982.03/US$1.00 in January 2007 to Le2,982.38/US$1.00 and Le2,983.91/US$1.00 in December 2007.

c) Volume of transactions

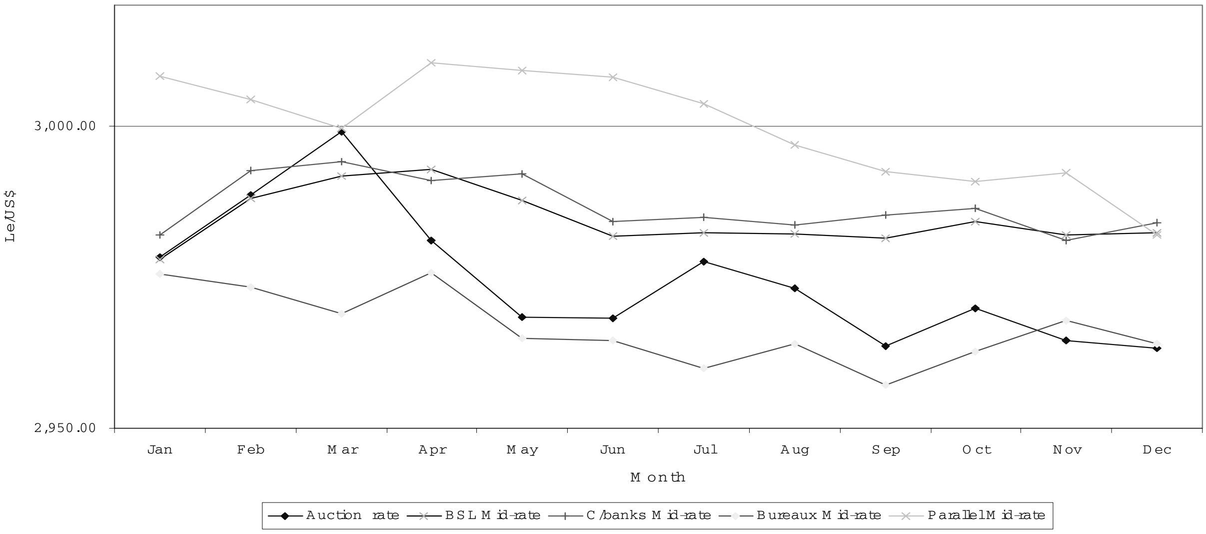
Aggregate purchases of foreign exchange by commercial banks and foreign exchange bureaux reported increases of 13.57 percent and 8.36 percent respectively, over the preceding period from US$186.81mn and US$25.70mn in 2006 to US$212.16mn and US$27.85mn in 2007.

Aggregate sales of foreign exchange by the commercial banks and foreign exchange bureaux reported increases of 29.58 percent and 6.91 percent respectively, over the period, from US$154.230mn and US$24.25mn in 2006 to US$199.84mn and US$25.92mn in 2007. Total receipts into foreign currency accounts reported by commercial banks decreased by 3.20 percent from US$395.23mn in 2006 to US$382.60mn in 2007. Total payments from foreign currency accounts reported by the commercial banks decreased by 0.25 percent from US$413.19mn in 2006 to US$412.15mn in 2007.

d. Foreign Exchange Bureau

The marginal upsurge in Bureau activities in terms of purchases and sales manifests the complimentary role played by foreign exchange Bureau in the foreign exchange market by rendering foreign exchange transactions services to the public. Bureaus have continued to facilitate trade in the West African Sub-region especially in enabling small businesses and travellers access to foreign exchange, and the mopping up of foreign exchange, which could have possibly found its way into the parallel market

Chart 13
Monthly Average Exchange Mid-Rates - 2007



(v) Foreign Exchange Auction System

The Bank of Sierra Leone has continued to adopt an exchange rate policy that allows flexibility in order to facilitate rapid adjustment to external shock, given the openness of the economy and the need to maintain a competitive external position. For a post conflict economy like Sierra Leone, a sustained growth in the economy is driven by a vibrant private sector, which is usually characterized by an excess of demand for foreign exchange for imports, more than is generated by its export activities. This has justified the regular intervention of the Bank to supplement the supply of foreign exchange to the private sector through the foreign exchange auction system. The objective of the auction was to put in place a market-based allocation of foreign exchange to supplement supply of foreign exchange to the private sector.The auction has provided some guidance to the

Table 26

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

	2006	2007	% Change in 2007
Amount Offered	66,400.00	47,100.00	(29.07)
Amount Demanded	74,594.34	49,636.40	(33.46)
Amount Supplied	61,010.65	42,968.64	(29.57)

Table 27

Sectoral Distribution of Auction Funds (US$'000)				
Sector	2006	2007	% of Total amount in 2007	% Change in 2007
General Merchandise	20,671.52	18,632.94	43.36	-9.86
Banks	14,204.00	12,659.82	29.46	-10.87
Oil Companies	19,779.27	6,100.00	14.2	-69.16
Industries	5,355.86	5,575.88	12.98	-12.27
Total	60,010.65	42,968.64	100	

market.

Significant decreases of 29.07 percent, 33.46 percent and 29.57 percent in the amounts offered, demanded and supplied were, respectively, recorded between January and December 2007. This depicted a downturn of the trend observed in 2006 when these variables increased significantly, compared to preceding 2005 period. The average demand in the review period dropped from US$1.20mn in the first half to US$0.80mn in the second half, and this position was maintained up to the end of 2007. The second half of 2007 was characterized by easing in demand pressures and non-disbursement of programmed flows during the period, partly due to the uncertainties associated with the 2007 elections as well as seasonal factors, specifically the rainy season which is usually a lean period for foreign exchange.

(B) External Debt Management

Sierra Leone's total disbursed and outstanding both official medium and long-term debt, including principal arrears as at end December 2007, stood at US$525.7mn. The stock of debts decreased significantly by 67.37 percent from US$1,610.9mn as at end December 2006 to US$525.7mn as at end December 2007. The decrease was mainly the result of debt relief received from key creditors namely; International Development Association (IDA), International Monetary Fund (IMF) and the African Development Fund (ADF), under the Multilateral Debt Relief Initiative (MDRI). The MDRI was launched in September 2005 by the G8 countries to further reduce the debts of Highly Indebted Poor Countries (HIPC) and to provide additional resources to meet the Millennium Development Goals (MDGs). Under the MDRI, the three key creditors namely the IDA, IMF and the African Development Bank (AfDB) pledged to provide 100 percent debt relief on eligible debts to all HIPC, including Sierra Leone at Completion Point. Some bilateral creditors also provided debt relief to the Government of Sierra Leone.

(ii) Major Developments in 2007

During the period under review, the Government of Sierra Leone continued to make timely debt service payments to key multilateral creditors; the International Development Association (IDA), the International Monetary Fund (IMF) and the African Development Fund (ADF) and other creditors.

Table 28

Disbursed Outstanding Debt, including Principal Arrears as at End December 2007 classified by currency of liability ('000)						
	Dec. 2006			Dec. 2007		
Currency	debt in Foreign Currency	total debt in Le	% of total	debt in Foreign Currency	total debt in Le	% of total
Canadian Dollars	1,141	2,926,231	0.06	-	-	0.00
Swiss Francs	38,091	92,689,198	1.95			
Chinese Yuan	183,527	72,485,979	1.52			
Danish Kroner	298	156,248	0.00			
EURO	249,117	973,726,378	20.46	24,541	73,073,036	4.18
British Pounds	3,490	20,339,539	0.43	-	-	0.00
Japanese Yen	16,080,706	401,856,852	8.44	388,000	1,155,304,920	66.15
Kuwaiti Dinar	6,380	65,613,951	1.38	6,631	19,744,399	1.13
Norwegian Kroner	96,992	45,912,484	0.96			
Saudi Riyal	3,229	2,560,278	0.05	2,927	8,715,406	0.50
Swedish Kroner	2,343	1,012,870	0.02			
United States Dollar	221,972	660,131,863	13.87	45,110	134,319,085	7.69
Special Drawing Rights	526,622	2,329,447,856	48.95	97,718	290,964,140	16.66
Islamic Dinar	20,367	90,090,614	1.89	21,630	64,405,272	3.69
Total		4,758,950,341	100		1,746,526,258	100

Source: External Debt Policy Section

In January 2007, the Paris Club creditors met with the Government of Sierra Leone to address the stock of debt amounting to US$371.3 mn as at end December 2006 within the HIPC Initiative. The Paris Club granted the Government of Sierra Leone 100 percent stock of debt cancellation on the entire amount owed to them.

On the 6th of November, 2007, the Government of the People's Republic of China granted debt relief amounting to Chinese Renminbi (RMB 182,224,600.00, to the Government of Sierra Leone.

External Debt by Creditor Category

(I) Multilateral Creditors

The total outstanding debts stood at US$525.7mn at end December 2007, as compared to US$1,610.9mn at end December 2006.

As indicated earlier, Sierra Leone reached Completion Point in December 2006. To this end, the key multilateral creditors mainly IMF, IDA and ADF committed their share of relief including the additional relief under the Multilateral Debt Relief Initiative (MDRI). Other multilateral creditors such as European Economic Community / European Investment Bank (EEC/EIB) and International Fund for Agricultural Development (IFAD) have indicated that they would provide 100 percent relief on debt service payments falling due, until their share of relief is fully implemented. On May 2006, the Government commenced negotiations with the Arab Bank for Economic Development in Africa (BADEA) in order to deliver their share of relief. It was agreed that they would provide debt relief in the form of rescheduling of the amount in arrears including new disbursements until their share of

Table 29

Principal & Interest Arrears as at end Dec-2006 (US$Mn)				
	DEC.2006		DEC.2007	
	Principal Arrears	Interest Arrears	Principal Arrears	Interest Arrears
Total External Debt	265.6	8.0	247.1	8.0
Total Commercial Obligations & Short-Term Debt 1/	219.8		216.8	-
Total Long-Term Debt,	45.8	8.0	30.3	8.0
of which :				
Multilateral	0.5	-	-	-
World Bank Group	-	-	-	-
IMF	-	-	-	-
Others	0.5			
Official Bilateral	27.5	4.5	9.4	4.5
Paris Club	-	4.5	-	4.5
Others 2/	27.5	-	9.4	-
Other Creditors	17.8	3.5	20.9	3.5
Executive Outcome	17.4	3.5	20.5	3.5
J.S Franklyn Ltd & Deftech BV Corp.	-	-	-	-
Chatelet Investment Ltd	0.4	-	0.4	-

1/ China, Morocco, Kuwait & Saudi Fund

Table 30

Debt Service payment made in US $Mn		
	2006	2007
Bilateral:	2.4	2.0
Paris Club Creditors	0.5	0.0
Other Bilateral	1.9	2.0
Multilateral (Net amount)	14.0	6.7
African Development Bank/Fund	4.3	2.7
of which: HIPC for.exch.savings on debt service	2.8	1.3
Net Amount paid	1.5	1.4
World Bank (IBRD/IDA)	13.7	4.7
of which: HIPC for.exch.savings on debt service	9.6	4.0
Net Amount paid	4.1	0.7
International Monetary Fund /1	6.3	1.8
of which: HIPC debt relief	0.1	0.0
Other Multilateral	5.5	6.3
of which: HIPC for.exch.savings on debt service*	3.4	3.5
Net Amount paid	2.1	2.8
Other Commercial/Military Debts	0.9	0.8
Grand Total	17.3	9.4
Of which: HIPC Debt relief	15.9	8.8

Source: External Debt Policy Section, BSL relief of US$9.78mn in Present Value terms is fully met. Negotiations are still underway with the remaining multilateral creditors namely Organization for Petroleum Exporting Countries (OPEC) and Islamic Development Bank (IDB).

(ii) Bilateral Creditors

The stock of debts to bilateral creditors decreased from US$427.1mn as at December 2006 to US$29.4 mn as at December 2007, as a result of stock cancellation.

Paris Club creditors have granted Sierra Leone 100 percent stock cancellation on the total outstanding debts to Sierra Leone. China has also delivered their share of relief of RMB182, 224,600.00. The Government reached an Agreement with the Kuwait Funds in respect of its share of relief and it was agreed that the eligible loans would be rescheduled for longer terms in order to meet their share of relief of US$7.7mn in Present Value terms. Saudi Fund also has a similar arrangement.

(iii) Commercial Creditors

The treatment of arrears to commercial creditors is the most onerous portion of the Government's debt burden, given its capacity to undermine future debt sustainability, even after reaching Completion Point. Government, in its bid to normalize relations with these creditors, developed a best effort approach of making goodwill payments to these creditors in order to stay-off litigation against the Government until a second World Bank Supported Debt Reduction Programme (DRP) is organized. It is hoped that when the programme is approved, funds will be made available to recruit the financial and legal advisers who are expected to steer the process.

Under the HIPC Initiative, it is expected that the Commercial creditors will give their share of relief in terms comparable to the Paris Club creditors.

(iv) Currency Composition

Table 28 shows the currency of Sierra Leone's Disbursed Outstanding Debts (D.O.D), including principal arrears. It shows the amount of debt classified by the currency of liability and the Leone's equivalent. The Special Drawing Rights and the Japanese Yen continue to be the major currencies that dominate Sierra Leone's debts.

(v) Debt Indicators and Debt Service Payments Made

Debt service payments decreased by 45.66 percent from US$17.3 mn in 2006 to US$9.3 mn in 2007. The decrease was resulted from the additional debt relief received from key multilateral creditors under the MDRI and the cancellation of debts by the Paris Club creditors.

The Government continued to pursue policies designed to strengthen external debt management capacity and to adhere to its commitment to avoid non-concessional borrowing, consistent with the IMF's PRGF programme. The Government seeks to meet debt service payments as and when they fall due in line with the HIPC Initiative and also to fast track new funding for developmental purposes.

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

As the new date for the launching of the single currency of 1 December 2009 approaches, the West African Monetary Institute (WAMI) continued to put in place the required framework to ensure a smooth launching. Progress was made in the areas of setting of a legal and regulatory framework, the payment systems and the macroeconomic convergence criteria. With regards the macroeconomic criteria, it was noted that the performance of the zone was satisfactory with two countries able to meet all four of the primary performance criteria and satisfactory performances from the other countries. On the whole it was noted that real GDP growth picked up modestly, inflationary pressures eased significantly, whilst the fiscal and external sectors also gave signs for optimism. One worry however, was the continuous high level of crude oil prices on the World Market and its effects on the countries of the sub region. Countries were however encouraged to make every effort to meet the other aspects of the convergence process especially the sensitization of the public leading up to December 2009

Sierra Leone's Macroeconomic Performance

Sierra Leone's performance at the end of 2007 was a similar story to that of 2006, when the country achieved two of four of the primary convergence criteria, without any real signs of improvement. The two primary criteria attained were the Central Bank Financing and the Gross Foreign Reserves, while the previously attained single digit inflation rate criterion was missed. With regards to the secondary criteria the country met the benchmark of stable exchange rate.

Table 31

Status of Convergence

(Primary Criteria)

Criteria	Target	2003	2004	2005	2006	2007
Inflation (end period)	Single digit	11.3	14.4	13.1	8.3	12.2
Fiscal Deficit/GDP% (excl. grants)	Less than or equal to 4%	13.3	11.4	9.9	9.7	5.8
Central Bank Financing/ Previous years tax revenue	Less than or equal to 10%	25.6	0	0	13.3	0.8
Gross External Reserves (Months of imports)	Greater than or equal to 3 months	2	4.2	4.9	4.2	4.5
(Secondary Criteria)						
Criteria	**Target**	**2003**	**2004**	**2005**	**2006**	**2007**
Domestic Arrears	0	n.a	n.a	n.a	n.a	n.a
Tax revenue/GDP ratio	Greater than or equal to 20%	11.5	11	10.1	10.5	9.1
Salary Mass/Total Tax revenue	Less than or equal to 35%	59.2	56	62.3	65.3	64.7
Public Investment from Domestic receipts	Greater than or equal to 20%	11.3	8.2	9.2	8.9	9.1
Real Interest Rate	Greater than 0	-5.8	-6.4	-5.4	-0.6	-4.4
Exchange rate	Stable +/-15%	16.9	11.6	14.5	16.1	14.9

From Table 31, the inflation rate for end December 2007 recorded 12.2 percent, significantly higher than the West African Monetary Zone's benchmark of single digit inflation. The failure to meet this benchmark could be attributed to a number of factors including the civil crisis in neighbouring Guinea which resulted in supply constraints in the early part of the year, the uncertainty which surrounded the presidential and parliamentary elections during the year, the increase in Money Supply due to an accommodating monetary policy and external shocks from high world fuel and food prices.

The fiscal deficit to Gross Domestic Product ratio at 5.8 percent remained above the WAMZ requirement but reflected an improvement on the preceding year's position of 9.7 percent due to the implementation of a cash budgeting system by the government, which contributed significantly towards reducing government expenditures. This was in addition to an increase in domestic revenue mobilization (though still very weak), especially in the area of non -tax revenue.

The criterion on Central Bank Financing was met, as the total Central Bank financing amounted to less than 1 percent, well within the benchmark of not more than 10 percent of the previous year's tax revenue. The factors behind the attainment of this criterion include the drawdown on government deposits to finance some of the government operations.

Gross External Reserves remained buoyant, exceeding the WAMZ mark of at least 3 months of imports. At 4.5 months of imports it exceeded the 4.2 months of imports, recorded for 2006. The build up of external reserves was mainly from the receipt of foreign aid under the MDRI, in spite of the increases in the import bill.

The Tax revenue/GDP ratio reflected deterioration even from the preceding year's position, with the ratio recording 9.1 percent in 2007, compared to the 10.5 percent recorded in December 2006. This was far below the WAMZ target of at least 20 percent and reflected the fact that the growth in tax revenue continued to stay far below the growth rate of GDP.

The Salary Mass/Total Tax Revenue benchmark of not more than 35 percent continued to pose problems for the country as it was again breached. The ratio measured 64.7 percent at end December 2007, a slight improvement on 65.3 percent recorded in the preceding year. This reflected the huge size of the public sector wage bill and the inability of the government to raise enough taxes to fund the wage bill.

The ratio of Public Investment from domestic receipts continued to be very low amounting to 9.1 percent in 2007, below the required 20 percent minimum, but a slight improvement on the 8.9 percent indicated for 2006. This gives an indication that the bulk of domestic receipts are used for consumption purposes rather than for public investment.

Real interest rates continued to remain negative, instead of the positive position required by the WAMZ. The real interest rate for 2007 was a negative 4.4 percent, reflecting a deterioration from the negative 0.6 recorded for 2006. This reflected the high rate of inflation and the sticky savings rate of the commercial banks.

The nominal exchange rate stayed within the WAMZ band of 15 percent of the Central Parity Rate Le2,562.18/ US$1, recording 14.9 percent as of end December 2007 reflecting the sability of the Leone relative to the United

States dollar. The position was also a marginal improvement on the end December 2006 position of 16.1 percent.

Human Resources

The Bank of Sierra Leone places much premium on Staff Training, particularly in areas that are relevant to the operations of the Bank. Training executed under the review period was mainly in the following areas -

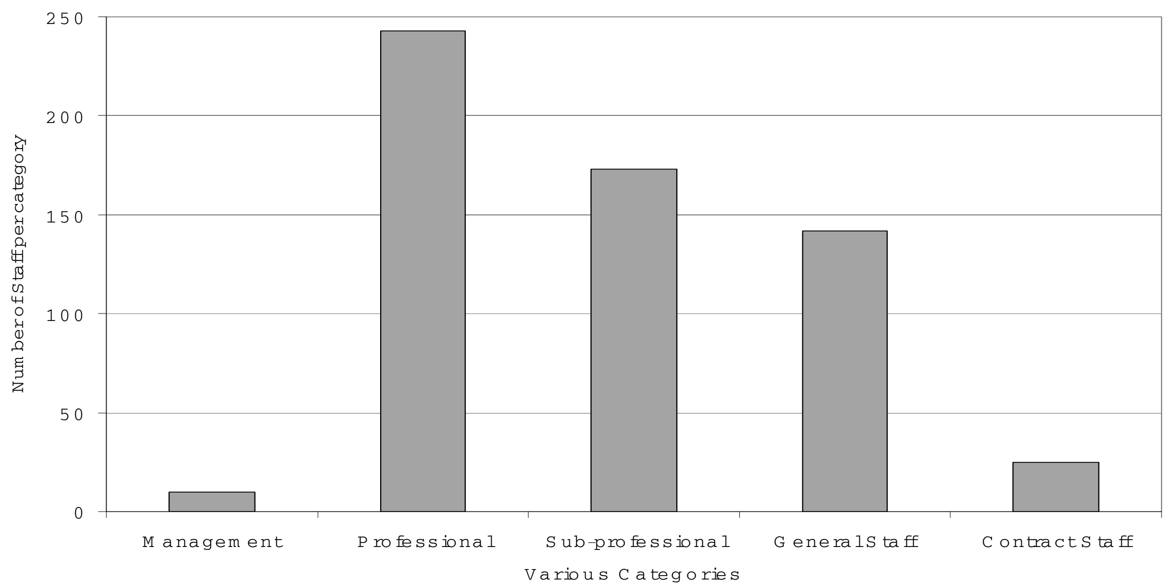
Macroeconomic Management, Debt Management, Human Resource Management and Management in General.

To achieve the aforementioned, especially in executing overseas short courses, the Bank established contact with institutions such as the Debt Relief International (DRI), the Joint African Institute (JAI), the African Capacity Building Foundation (ACBF), the United Nations Conference on Trade and Development (UNCTAR), the International Monetary Fund (IMF), the Commonwealth Secretariat (COMSEC), the African Rural and Agricultural Credit Association (AFRACA) etc.

However, the majority of Bank staff also attended short courses organized by the West African Institute for Financial and Economic Management (WAIFEM). There were also attendances at short courses organized by RIPA, Crown Agents, Global Training Consulting, all of which are based in the United Kingdom. In addition, staff embarked on long courses both locally and overseas, leading to the award of various degrees and diplomas.

The Transfer of Knowledge seminars and the Departmental/Expanded Management Seminars formed an integral part of the Bank's Training Programme for the Year 2007.

Chart 14
Breakdown of Staff per Category as at end 2007



During the period, the Bank sponsored staff to embark on short courses of one to two days duration at the following local institutions:

Institute of Public Administration and Management (IPAM)
West African Banking Consultants Limited (WABC)
Sarante Consultancy
Fourah Bay College (Mass Communication Department)

Breakdown of courses attended by staff in year 2007 are as follows:-

46 overseas short courses, 20 of which were organized by WAIFEM
11 overseas long courses, 8 postgraduate
13 graduate courses are currently being pursued by staff at local institutions under the Bank's sponsorship

On the whole, the Bank made tremendous strides in the area of capacity building and it is hoped that this momentum will continue into the year 2008

Staff Severance

A total of fifteen members of staff severed services from the bank during the period under review. They were as follows: eight resigned, one vacated, one got dismissed, the contracts of two came to an end and the bank lost three by death.

Management of the Bank

The Management Team of the Bank comprises the Governor, the Deputy Governor and 9 (nine) Heads of Department.

Additionally, there are three Unit Heads and an Adviser to the Governor on Capital Market as follows: -

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

Heads of Department

Senior Director, Research Dept.	-	Ms Andrina R Coker
Senior Director, Special Duties Dept.	-	Mr F B Roberts
Director, Accounts & Budget Dept.	-	Mrs Khadi R Saccoh
Director, Board Secretariat Dept.	-	Haja Ajaratu A M Mahdi
Director, Banking Supervision Dept.	-	Ms Yeabu M D Kamara
Director, Banking Dept.	-	Mr I K Lamin
Director, Human Resources Dept.	-	Mrs Grace O Hassan
Director, International Finance Dept.	-	Mr Sidique A B Sesay
Director, General Services Dept.	-	Mr Henry E P Musah
Director, Development Coordination Dept.	-	Mrs Rose Gobio-Lamin

Heads of Unit

Head, Security	-	Mr Jenner T B Buck
Internal Auditor	-	Mr Ralpha Ansumana
Head, Mgt. Information Unit	-	Mrs Hanifa Addai

Financial Statements

for the year ended 31st December 2007

Financial Position and Operating Results of The Bank for the year ended 31st December 2007

Background

In pursuing its desired goal of preparing and presenting its Financial Statements in full compliance with International Financial Reporting Standards (IFRS), the Bank succeeded in obtaining technical assistance from the Monetary and Capital Markets Department (MCM) of the International Monetary Fund (IMF) through a Mission which visited the Bank in December, 2007. During this Mission, the audited and published balances for the year ended 31st December, 2006 were adjusted and restated in full compliance with IFRS.

Additionally, the IMF related assets and liabilities were restated on a net basis in line with current practice and 27.17% of the Bank's assets consisting of Non-negotiable, Non-interest bearing Securities was written-down to its fair value of zero in compliance with IAS 39, given that it had no interest coupon and/or redemption date. These measures resulted in a 58.50% reduction in the balances in the Balance Sheet from Le1,767.94 billion in the 2006 published Financial Statements to an adjusted amount of Le733.79 billion.

In the Income Statement, adjustments were made to account for the movement in the balances in the Fund Accounts from 2005 to 2006. This resulted in a 89.64% increase in 'Other Income' from Le1.75 billion in the published 2006 Accounts to the adjusted amount of Le3.32 billion.

Adjustments were also made for prior year overstatement of the IMF-related assets. This resulted in revaluation losses of Le18.95 billion and a net operating loss of Le1.52 billion compared to revaluation gains of Le149.19 billion and the net operating loss of Le3.09 billion in the 2006 published Income Statement.

The following report will therefore reflect a comparative analysis of the revised Year 2006 balances as indicated under the revised format.

Balance Sheet

The overall improvement in the Bank's financial performance continued with total assets and liabilities increasing by 27.71% from Le733.79 billion in 2006 to Le937.06 billion as at 31st December, 2007.

This positive change was largely due to a 93.77% increase in Local Currency Financial Assets coupled with a 19.54% increase in Foreign Currency Financial Assets and a 2.70% increase in total Non-Financial Assets.

The increase in Local Currency Financial Assets was occasioned mainly by a 45.36% increase in the Bank's holdings of Government Securities (Treasury Bills and Bonds). The Bank also received Le50 billion (Le24 billion converted from the stock of Non-negotiable, Non-interest bearing Special Securities while Le26 billion was the balance subscription due in 2005) worth of 5 - year medium term bonds issued by the Government in respect of its recapitalization. Net holdings of marketable securities converted from the stock of Non-negotiable, Non-interest bearing Securities and utilized for monetary operations rose by 52.68%. Accrued Interest on local transactions increased by 352.58% while Loans and Advances to Banks and Staff increased by 4.38%.

The 19.54% increase in total Foreign Currency Financial Assets was mainly due to a 23.08% increase in IMF Related Assets reported on a net basis (IMF Quota less Securities Account and IMF No.1 Account balances plus SDR Holdings), a 19.10% increase in Cash and Cash Equivalents with Foreign Banks, a 21.45% increase in Interest Accrued on foreign transactions and a 8.15% increase in the Bank's Foreign Investments.

Other Non-Financial Assets rose by 9.54% while the Bank's Property, Plant and Equipment decreased marginally by 0.88% mainly due to increased depreciation occasioned by the revaluation and corresponding increase in value of the Bank's freehold properties in 2006.

Total Local Currency Financial Liabilities increased significantly from Le64.83 billion in 2006 to Le632.83 billion as at 31st December, 2007, an increase of about 876.19% while total Non-Financial Liabilities increased by 11.21%. In contrast to these increases, total Foreign Currency Financial Liabilities decreased significantly from Le727.10 billion in 2006 to Le215.71 billion as at 31st December, 2007, a drop of about 70.34%.

Total Local Currency Financial Liabilities increased significantly largely due to a huge increase of Le536.0 billion (from Le12.96 billion as at 31st December, 2006 to Le548.96 billion as at end December, 2007) in Government deposits resulting from debt relief arrangements under the Heavily Indebted Poor Countries (HIPC) Programme. Deposits by Commercial Banks increased by 116.58% and Other Deposits, inclusive of deposits by Other Financial Institutions (OFIs), increased by 15.24%. Accrued Charges and Other Liabilities however dropped by 13.64%.

Total Non-Financial Liabilities increased by 11.21% as a result of increases in Currency in Circulation (18.830%) and the Provision for revaluation of Pipeline (2.63%).

The decrease in total Foreign Currency Financial Liabilities resulted mainly from a significant (82.66%) reduction in the IMF Poverty Reduction and Growth Facility (PRGF) from Le621.29 billion in 2006 to Le107.73 billion as at end December, 2007 the proceeds of which were transferred to Government Deposits. IMF Special Drawing Rights (SDRs) Allocation however increased by 5.12%.

Reserves

Total Reserves improved by 9.14% during the period from net total negative reserves of Le638.45 billion as at 31st December, 2006 to net total negative reserves of Le580.14 billion as at 31st December, 2007. This favourable position reflected corresponding improvements in the Foreign Exchange Revaluation Reserve, General Asset Reserve and General Reserve Accounts.

The net debit balance of Le202.70 billion in the Foreign Exchange Revaluation Reserve account which will be treated in accordance with Section 54 (3) and (4) of the Bank of Sierra Leone Act

2000. The improvement in the account by 7.87% was mainly due to the transfer of revaluation gains arising from adjustments effected to regularize the balances in the IMF Related Asset Accounts to achieve parity with the balances in the IMF Position Statement as at 31st December, 2007.

The balance in the General Reserves account registered a 7.13% improvement mainly as a result of the transfer of the net operating profit for the 2007 financial year and the adjustment made to reflect the reduction in the provision for impairment of the Non-negotiable, Non-interest bearing Securities.

The balance in the General Asset Reserve account increased by 21.86% after the transfer of amounts (previously drawn from the Fund Accounts and invested in Government Securities) in a bid to regularize the said accounts to comply with current practice in accounting for reserves.

Income Statement

Total interest income from financial assets amounted to Le47.25 billion representing an increase of 55.36% over the amount of Le30.42 billion generated in 2006. 53.92% of this income accrued from Foreign Currency Investments and represented an increase of 18.66% over the amount realized in 2006. Other External Investments, comprising mainly of investments in Euros, accounted for most of this increase rising by 133.78% from Le1.88 billion in 2006 to Le4.39 billion 2007. The overall favourable yield was mainly occasioned by a combination of more favourable interest rates on our investment portfolios, larger investment parcels which attracted interest rates slightly in excess of the related base rates and the depreciation of the Leone against the major foreign currencies during the period. Interest income from the Bank's US$ and Pound Sterling portfolios constituted the bulk (68.43%) of the total amount realized during the period.

Government Securities (Treasury Bills and Bonds) generated 41.86% of Total Interest Income from Financial Assets, representing a 180.30% increase over the amount realized in 2006. This favourable performance was largely attributed to an increase in the Bank's holdings of the said Securities, resulting from disinvestments in the money market. Interest income from W ays and Means Advances increased by 55.32% from Le0.88 billion in 2006 to Le1.37 billion in 2007 due to increased utilization of the Ways and Means Facility by Government owing to poor revenue performance coupled with technical delays in external budgetary support inflows. Net interest income amounting to Le43.41 billion was 59.61% higher than last year's net position. IMF Interest and Charges increased by 20.11% from Le3.18 billion in 2006 to Le3.82 billion in 2007. Charges on Foreign Transactions recorded a 40.23% reduction compared with the amount incurred in 2006 while the total amortised cost of Government Securities increased by 9.67%. Total Other Income (before the adjustment for net movement in reserves), with the bulk (95.81%) accruing from Sundry Receipts, dropped by 9.32% from Le1.75 billion in 2006 to Le1.59 billion. The decrease worsened by 58.09% after the adjustment of the respective amounts by the net movement in reserves, from Le3.32 billion in 2006 to Le1.39 billion in 2007.

Total operating income increased by 49.18% from Le30.42 billion in 2006 to Le45.38 billion in 2007.

Total operating expenses also increased by 16.87% from Le31.94 billion in 2006 to Le37.33 billion in 2007. Personnel costs accounted for 49.88% of total operating expenses, representing a 6.86% increase over the amount incurred in 2006. This increase could be attributed to the net effect of a 10% salary increase, increase in staff turnover and retirements during the period under review. Administrative costs amounting to Le10.75 billion was the next major item of expenditure during the period. It was 28.79% of total operating expenses and recorded a 9.32% increase over the costs incurred in 2006. Currency Issue Expenses, Other Expenses and Depreciation increased by 151.23%, 37.27% and 7.86% respectively.

The Net operating profit of Le8.06 billion was treated in accordance with the requirements of Sections 11(6) and (9) of the Bank of Sierra Leone Act 2000.

Total equity improved by 13.73% from a negative balance of Le614.44 billion in 2006 to a negative balance of Le530.14 billion in 2007 largely due to the positive effect of the total profit (inclusive of the revaluation gains) for the year, the transfer of funds to the General Asset Reserve, the additional amount provided by Government to fully subscribe to the Bank's minimum paid-up capital and the adjustment to reflect the reduction in the provision for impairment of the Non-negotiable, Non-interest bearing Securities.

Budget performance for year 2007

A. INCOME

The Bank's performance in this area was very impressive as total income of Le49.22 billion received in 2007 was significantly higher than the projection of Le29.93 billion. External and Local Investments accounted 91.57% of this income. The high proportion of income from External Investments was due to an increase in investment income realised from the combined effect of an upsurge in interest rates on the Bank's overseas deposits, increase in the Bank's external investments, the merging of investment parcels to large volumes in order to attract higher interest rates, and the depreciation of the Leone. The Bank's holdings of Treasury Bills and Bearer Bonds acquired in the Primary and/or Secondary Market accounted for its income from Local Investments.

B. EXPENDITURE

Performance on expenditure was also encouraging as total actual expenditure of Le 41.17 billion was 9.28% below the projected expenditure of Le45.38 billion.

This outcome is a reflection of the savings recorded in Emoluments, Other Charges and Miscellaneous Expenditure voteheads which are the major heads under which the bulk of the Bank's expenditure is categorised. Currency Expenditure and Extraordinary Charges however recorded negative variances.

The favourable result was achieved through concerted efforts by Management to maintain expenditure within strategic limits in addition to the non-implementation of some activities which were planned for the year. This, however, may affect spending in 2008 as some of these activities would now be undertaken within this financial year.

The unfavourable performance on Currency Expenditure was as a result of increased demand for new notes due to the implementation of a Clean Notes Policy by the Bank, whilst that for Extraordinary Charges was due to high IMF Charges resulting from increased utilisation of IMF resources.

C. NET RESULT

Consequently, although a Net Loss of Le15.45 billion was projected, a Net Profit of Le8.06 billion was realised for the year. Additionally, Revaluation Gains of Le17.30 billion were reflected in the Income Statement but transferred to the Revaluation Reserve Account in accordance with Section 54(1) of the BSL Act 2000.

BUDGET FOR YEAR 2008

The Bank's budget for 2008 reflects an anticipated deficit of Le14.90 billion. Total expenditure is projected at Le50.98 billion which represents an increase of Le5.60 billion above the projections for 2007.

Similarly, an increase in income is also projected for Year 2008. Total expected income of Le36.08 billion is Le6.15 billion above the projections for 2007.

The projected deficit of Le14.90 billion is expected to be funded through budgetary support from Government, failing which, the Bank may resort to Vault financing while ensuring that monetary targets agreed with the IMF are not breached. However, Management intends to implement the following proposals to reduce the budget deficit for 2008:

- Commission a manpower audit to determine the realistic manpower resources needed to enable the Bank perform its function efficiently with a view to right sizing such resources.
- Undertake a detailed expenditure review exercise.
- Expand the revenue base by requesting Government to issue marketable Securities to offset the capital impairment of Le530.14 billion as at 31st December, 2007 in accordance with Section 10(6) of the BSL Act 2000, thus providing additional interest income.

The Bank's Budget

	Le'000	Le'000	Le'000
	2007	2007	2008
Income	Budget	Actuals	Budget
External Investments	15,347,062	25,477,930	23,458,657
Local Investments	13,346,030	19,778,462	8,905,390
Other Bank Funds	841,145	624,276	948,035
Exchange Gains	333,898	578,728	748,823
Others	57,388	2,765,104	2,019,208
	29,925,523	49,224,500	36,080,113
Expenditure			
Emoluments	21,750,005	8,614,910	24,711,264
Other Charges	9,422,677	7,218,533	9,693,548
Currency Expenditure	3,112,411	5,036,233	3,460,562
Miscellaneous Expenditure	7,714,640	6,299,223	8,859,115
Extraordinary Charges	3,377,855	3,997,792	4,253,871
	45,377,588	41,166,691	50,978,360
Net Position	(15,452,065)	8,057,809	(14,898,247)

Board of Directors, Officials and Registered Office

Director	:	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 of the board	:	Mrs A A M Mahdi
Director,Accounts and Budget Department	:	Mrs K R Saccoh
Solicitors	:	Renner-Thomas & Co Adele Chambers 15 Lamina Sankoh Street Freetown
Auditors	:	PKF Chartered Accountants and Business Advisers 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 2007.

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 which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards and the Bank of Sierra Leone Act 2000. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Share Capital

Details of the Bank's share capital are given in note 13 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 2007:

Dr J D Rogers	Governor	(appointed 11 April 2003)
Mr M S Fofana	Deputy Governor	(appointed 25 September 2003)
Mr Maigore Kallon	Director	(re-appointed 11 September 2005)
Dr I B Peters	Director	(re-appointed 23 November 2005)
Mrs Mariatu Madhi	Director	(re-appointed 1 April 2007)
Dr Morie K Manyeh	Director	(re-appointed 3 September 2005)
Dr M B Yilla	Director	(re-appointed 3 September 2005)

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

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

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

Auditors

The Auditors, PKF, were appointed by the Auditor General on 13th December 2007 to conduct the audit of the financial statements for the year ended 31 December 2007.

By order of the Board

Ag. Secretary

Report of the Independent Auditors to the Government of Sierra Leone

We have audited the accompanying balance sheet of Bank of Sierra Leone as at 31 December 2007 and the related statements of income, changes in equity and cash flows for the year then ended. 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 issued by the International Auditing and Assurance Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the position of the Bank at 31 December 2007 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Bank of Sierra Leone Act 2000 to the extent set out in note 1(a).

Date 17 March 2008

PKF

Freetown Chartered Accountants

Report of the Independent Auditors to the Government of Sierra Leone 2008

Balance Sheet

	Note	2007 L'000	2006 Le'000
Foreign Currency Financial Assets			
Cash and cash Equivalents		551,075,653	462,715,354
IMF Related Assets	2	105,835,283	85,991,074
Investments	3	10,159,616	9,394,300
Accrued interest		2,497,038	2,056,094
Total Foreign Currency Financial Assets		669,567,590	560,156,822
Local Currency Financial Assets			
Treasury bills and bearer bonds	4	128,607,037	88,476,191
Accrued interest		642,262	141,914
Loans and Advances	6	8,032,646	7,695,661
5 year medium term bonds		50,000,000	
Special issue of securities of the Government of Sierra Leone	5	2,454,694	1,607,750
Total Local Currency Financial Assets		189,736,639	97,921,516
Total Financial Assets		859,304,229	658,078,338
Non-Financial Assets			
Other non-financial assets	7	28,495,982	26,015,766
Property, plant and equipment	8	49,257,794	49,694,228
Total Non-Financial Assets		77,753,776	75,709,994
Total Assets		937,058,005	733,788,332
Liabilities			
Foreign Currency Financial Liabilities			
IMF Related liabilities	9	188,891,281	698,498,590
Other Foreign Currency Liabilities	10	26,813,930	28,601,270
Total Foreign Currency Financial Liabilities		215,705,211	727,099,860
Local Currency Financial Liabilities			
Government deposits		548,961,529	12,961,585
Commercial Banks deposits		53,669,712	24,780,583
Other deposits		27,181,137	23,587,714
Accrued charges and other liabilities	11	3,020,111	3,496,977
Total Local Currency Financial Liabilities		632,832,489	64,826,859
Total Financial Liabilities		848,537,700	791,926,719
Non-Financial Liabilities			
Currency in circulation		350,165,207	294,682,562
Provision for revaluation of pipeline liabilities	12	268,491,102	261,623,421
Total Non-Financial Liabilities		618,656,309	556,305,983
Total Liabilities		1,467,194,009	1,348,232,702
Capital	13	50,000,000	24,001,500
Reserves	13	(580,136,004)	(638,445,870)
Total Equity		(530,136,004)	(614,444,370)
Total Liabilities and Equity		937.058.005	733,788,332

TheseFfinancial Statements were approved by the Board of Directors on 17 March 2008

Governor

Deputy Governor

Income Statement

	Note	2007 Le'000	2006 Le'000
Operating Income:			
Interest income from financial assets			
Foreign Currency Investments	14	25,477,930	21,471,864
Government Bills and Bonds	14	19,778,462	7,056,347
Advances to Government	14	1,373,346	884,200
Investment of Bank's Funds	14	624,276	1,004,907
		47,254,014	30,417,318
Expenses on financial liabilities			
IMF interest and charges	15	(3,815,365)	(3,176,738)
Charges on foreign transactions		(23,723)	(39,685)
Amortisation of Government Securities		(1,713)	(1,562)
Net exchange gain/(loss)		578,728	(96,683)
Other Income	16	1,391,758	3,320,291
Total Operating Income		45,383,699	30,422,941
Operating Expenses:			
Personnel		(18,614,910)	(17,420,367)
Depreciation	8	(2,772,360)	(2,570,511)
Currency	17	(5,036,233)	(2,004,645)
Administration	18	(10,745,396)	(9,829,409)
Other		(156,991)	(114,374)
Total Operating Expenses		(37,325,890)	(31,939,306)
Net Operating Income/(loss)		8,057,809	(1,516,365)
Revaluation Gains/(Losses)		17,298,855	(18,947,643)
Profit/(Loss) after Revaluation Gains/(Losses)		25,356,664	(20,464,008)
Transfer to Revaluation Reserve		(17,298,855)	18,947,643
Profit available for appropriation under the BSL Act 2000		8,057,809	(1,516,365)

Notes on Financial Statements

Statement of Changes in Equity

	Share Capital Le'000	Forreign Exchange Revaluation Reserve Le'000	Property Revaluation Reserve Le'000	General Rerve Le'000	General Asset Reserve Le'000	Operating Surplus/(Deficit) Le'000	Total Le'000
Balance at 1 January 2007	24,001,500	(219,997,383)	32,792,919	(481,749,294)	30,507,888		(614,444,370)
Profit for the year						25,356,664	25,356,664
Transfer to Foreign Exchange Reserve		17,298,855				(17,298,855)	0
Transfer to General Reserve				8,057,809		(8,057,809)	0
Transfer to General Asset Reserve					6,669,244		6,669,244
Additional Capital	25,998,500						25,998,500
Reduction in provision for impairment of Government Securities				26,501,500			26,501,500
Adjustments in Reserves				(217,542)			(217,542)
Balance at 31 December 2007	50,000,000	(202,698,528)	32,792,919	(447,407,527)	37,177,132	0	(530,136,004)

Cash Flow Statement

	Note	2007 Le'000	2006 Le'000
Cash Flows from Operating Activities			
Interest Received		46,312,722	30,298,697
Other Income		1,391,758	3,320,291
Interest Paid		(3,815,365)	(3,176,738)
Commissions and discounts paid		553,292	(137,930)
Payments to employees and suppliers		(34,553,529)	(29,368,795)
	21	9,888,878	935,525
(Increase)/decrease in operating assets:			
Loans and Advances		(336,985)	2,967,583
Other Assets		(2,480,216)	(16,710,492)
Increase/(decrease) in operating liabilities			
Deposits from Government		535,999,944	(59,772,868)
Deposits from Banks		28,889,129	(9,155,735)
Other Deposits		3,593,424	(2,367,854)
Foreign Currency Deposits		(1,787,340)	(1,599,371)
Other Liabilities		(476,866)	516,795
Net Cash Inflow/(Outflow) from Operating Activities		573,289,968	(85,186,417)
Net disinvestments/(investments) in marketable securities		(40,130,846)	(16,403,657)
Sale of special issue government securities		(846,944)	48,392,250
Foreign currency investments		(765,316)	(945,345)
Purchase of tangible fixed assets		(2,335,928)	(579,604)
Medium term bond		(50,000,000)	
Cash Outflow from Investing Activities		(94,079,034)	30,643,644
Financing Activities			
Additional capital and other adjustments		52,500,000	-
Funds from the IMF		(512,152,663)	58,520,188
Pipeline funds from Banks		6,867,681	15,215,460
Currency in circulation		55,482,645	39,604,243
Net adjustment in Reserves		6,451,702	-
Cash (Outflow)/Inflows from Financing Activities		(390,850,635)	113,339,891
Increase in Cash and Cash Equivalents		88,360,299	58,617,118
Opening Cash and Cash Equivalents		462,715,354	404,098,236
Closing Cash and Cash Equivalents		551,075 ,653	462,715,354

Notes to the Financial Statements

1. Principal Accounting Policies

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are as set out below:

(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 to the extent that the provisions do not conflict with International Financial Standards. Revisions to the Bank of Sierra Leone Act 2000 that are now in progress are expected to eliminate any conflicts with International Financial Reporting Standards. Adoption of IFRSs objective is to give a true and fair view.

(b) Statement of Compliance

The Financial Statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRSs) being the standards and interpretations adopted by the International Accounting Standards Board.

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of trading securities and property.

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 currency in circulation and Banking activities.

(c) Comparatives

The comparatives for the year ended 31 December 2006 have been restated to

(i). Correct an error in the valuation of foreign currency liabilities. This error resulted in an overstatement of valuation gains in 2006 of 168 billion Leones and prior years of valuation losses by 18 billion Leones

(ii). Restate the Bank's holdings of Special Issue of Securities of the Government of Sierra Leone at fair value in accordance with IAS 39. As these securities have no interest rate or redemption date fair value has been assessed as zero. This results in a charge to reserves of 480 billion Leones

Notes to the Financial Statements

(iii) Report 1,569 million Leones of income on various funds now all reclassified as part of General Asset Reserve as income through the income statement prior to transfer to General Reserve.

(iv) Report the interest of Sierra Leone in the International Monetary Fund on a net basis. This results in a reduction of foreign assets by 458 billion Leones.

(v) Meet the additional disclosure requirement required by IFRSs'

(d) Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in Leone, which is the Bank's functional and presentation currency, rounded to the nearest thousand.

Transactions and Balances

Assets and liabilities denominated in foreign currency are translated into Leone at exchange rates ruling at the balance sheet date. Transactions denominated in foreign currency are translated into Leone at the exchange rates valid at the date of the transactions. All exchange rate differentials are recognised in the income statement.

Exchange rate against the Leone:	31/12/07	31/12/06
USD	2,977.59	2,973.94
GBP	6,117.47	5,828.48
WAUA	4,665.13	4,501.13
EURO	4,358.25	3,908.71
SDR	4,649.56	4,423.38

(e) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when, and only when, there is a legally enforceable right to set off the recognised amounts and when there is intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Sale and Repurchase Agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in the amount of deposits from banks. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the Financial Statements.

(g) Cash and Cash Equivalents

For cash flow statement purposes cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: foreign currency deposits, foreign currency holdings and SDR holdings.

(h) Financial Assets and Liabilities

The Bank classifies its financial assets with the exception of the Special issue of Securities of the Government of Sierra Leone in the following categories: financial assets at fair value through profit and loss; loans and receivables; held-to-maturity investments; and available-for - sale financial assets. The Bank determines the classifications of its investments on initial recognition.

At initial recognition all financial assets, except those classified as financial assets at fair value through profit and loss, are recognised at their fair value, representing the fair value of the proceeds given, plus the transaction costs. The financial assets at fair value through profit and loss are recognised at their fair value, representing the fair value of the proceeds given, while the transaction costs are recorded in profit and loss at their inception.

Financial Assets at fair value through Profit and Loss.

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. There are no financial assets at fair value through profit and loss that are not held for trading.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term and for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets at fair value through profit and loss are carried at fair value and the fair value changes are recognised in the profit and loss.

Loans and Advances

Loans and advances are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor with no intention of trading the receivable.

Loans are recognised when the cash is advanced to the borrowers and are carried at amortised cost using the effective interest rate method.

Held to Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

Available for Sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity.

Available-for-sale financial assets are consequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. Unquoted equity instruments whose fair value cannot be reliably determined are carried at cost, less impairment.

Unrealised gains or losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity is included in the statement of income for the period.

(ii) Fair value

The fair value of instruments traded on recognised financial markets is determined according to current bid prices.

The fair value of unquoted investments is determined by reference to the market prices of similar investments or is based on the expected discounted cash flows.

(iii) Impairment of Financial Assets.

Assets carried at Amortised Cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses incurred if, and only if, there is objective evidence of impairment as the result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance account against the respective assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit and loss.

Assets classified as available for sale

The Bank assesses at each balance sheet date whether assets classified as available for sale are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impaired loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement.

(i) De-recognition

A financial asset shall be derecognised when the Bank loses control over the contractual rights that comprise the asset. This will occur when the rights are realised, expired or surrendered. A financial liability shall be derecognised when it is extinguished.
Available-for-sale assets and assets held for trading shall be derecognised when sold and the corresponding receivable from the buyer for the payment is recognised.

Held-to-maturity instruments and originated loans and receivables shall be derecognised on the day they are repaid in full by the debtor.

(j) Trade Date

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

(k) Hedging

The Bank did not designate any transactions as hedges during the year.

(l) Assets and Liabilities held with the International Monetary Fund

The bank acts as the depository and fiscal agent of Sierra Leone in the relationship of Sierra Leone with the International Monetary Fund (IMF). The net position with respect to Sierra Leone's membership of the IMF is reported on the Bank's balance sheet. All other claims of Sierra Leone on and liabilities to the IMF are recorded in the financial statements of the Bank. The composition of that position is explained in note 2.

Assets and liabilities denominated in SDRs are translated into Leone at the official exchange rate of Leone to SDR at the balance sheet date.

Notes to the Financial Statements

(m) Property, Plant and Equipment

(i) Cost or Valuation

Property, plant and equipment is recorded at cost or valuation and reported less accumulated depreciation. Revaluations are made with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from that which would be determined using the fair value at the balance sheet date. Any gains arising on revaluation are credited directly to the Property Revaluation Reserve account and not taken through the income statement.

Subsequent expenditure shall only be capitalised where it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure shall be recognised in the income statement as an expense as incurred.

(ii) Depreciation

Depreciation is charged to the income statement on a straight line basis with the corresponding credit to the respective accumulated depreciation account.

Depreciation rates are reviewed on an annual basis to ensure they reflect the future economic benefits embodied in the asset.

Current Depreciation Rates

	Number of Years
Buildings	50
Computer Equipment	5
Vehicles	5
Plant and machinery	10
Furniture and equipment	4

(i) Inventories

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

(j) Currency in Circulation

Banknotes and coins in circulation issued by the bank are presented in the balance sheet as a liability in favour of the holder, at face value. When coins and notes are withdrawn from circulation the relevant demand deposits are increased, while the liability in favour of the holders is reduced.

(k) Deposits

Deposits are recognised initially at fair value. Subsequently deposits are recognised at amortised cost.

Notes to the Financial Statements

(l) Provisions

Provisions are recognised in the balance sheet where the Bank has a legal or constructive obligation as the result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(m) Other Payables

Other payables are recognised at cost.

(n) Income and Expense Recognition

Interest income and expense is recognised in the statement of income for all interest bearing instruments using the effective interest method.

Fees, commissions and other expenditure are recognised in the income statement on an accrual basis.

(o) Employment benefits

All Bank employees are members of the National Social Security and Insurance Trust. The Bank's contributions to this scheme on behalf of its employees are recognised as a cost in the income statement.

(p) Appropriations of Annual Net profit

Under Section 11 of the Bank of Sierra Leone Act 2000 (the Act), net profit shall be allocated as follows;

One third of net profit shall be transferred to General Reserve if the General Reserve does not exceed the minimum paid up capital of the Bank. One sixth of net profit is allocated to General Reserve if the General Reserve exceeds the minimum paid up capital of the Bank (up to the point where the General Reserve equals four times the minimum paid up capital). Further allocation to General 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.

Notes to the Financial Statements

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

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

Also in accordance with Section 54 (3) where there is a carried over loss or a 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.

(q) 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.

2. IMF Related Assets

	2007 Le'000	2006 Le'000
IMF Quota	487,942,603	458,705,451
Less: Securities Account	(67,390,261)	(67,390,262)
IMF No 1 Account	(404,977,990)	(238,868,246)
Valuation Adjustment		(152,340,140)
Reserve Tranche	15,574,352	106,803
SDR Holdings	90,260,931	85,884,271
	105,835,283	85,991,074

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

3. Investments

AfreximBank Capital Investment	2,382,072	2,379,152
AfreximBank Dividend Investment	434,738	424,223
BSL CON-WAMA Credit Guarantee Fund	494,349	494,348
WAMA	6,848,457	6,096,577
	10,159,616	9,394,300

Notes to the Financial Statements

4. Treasury Bills and Bearer Bonds

Treasury Bills held for monetary policy	92,812,277	73,599,757
Treasury Bearer Bonds held for monetary policy	29,126,200	7,946,600
Other Treasury Bills and Bearer Bonds	6,668,560	6,929,834
	128,607,037	88,476,191

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

Non-negotiable non-interest bearing		
Securities in issue at the beginning of the year	0.00	232,929
Provision for impairment	-	(480,232,929)
	0	0
Opening balance of marketable securities	1,607,750	50,000,000
Marketable Government Securities	2,500,000	
Less proceeds from sale of securities	(1,653,056)	(48,392,250)
	2,454,694	1,607,750

Under Section 44(2) and 7(2) of the repealed Bank of Sierra Leone (Amendment) Act 1970, the Minister of Finance and the Financial Secretary, on behalf of the Government issued on 24 June 1994 and 25 May 2000 non-negotiable, non-interest-bearing securities with no fixed redemption date.

As these securities have no interest rate and no fixed redemption date in accordance with International Accounting Standards they have been discounted to net present value based on projected cash flows. This valuation results in a zero value.

6. Loans and Advances

	2007 Le'000	2006 Le'000
Advances to Banks	5,134,508	5,134,508
Less Provision for bad Debts	(34,338)	(34,338)
	5,100,170	5,100,170
Staff personal loan	866,777	1,242,548
Staff housing loan	547,592	9,236
Staff vehicle loan	900,400	638,332
Advances to contractors	348,841	443,674
Advances to staff	10,049	1,289
Advances to others	45,868	17,304
Rent etc. paid in advance	212,949	243,108
	8,032,646	7,695,661

Notes to the Financial Statements

7. Other Non-Financial assets

Gold Stock	220,618	168,176
Inventory Items		
Medical	88,436	61,053
Fuel	35,145	91,832
Maintenance	65,379	32,297
Stationery	143,682	137,512
Others	109,080	103,688
Items in transit	15,053,705	14,913,603
Deferred currency issue expenses	12,638,213	10,364,167
Deferred Government Security certificates expenses	141,724	143,438
	28,495,982	26,015,766

8. Property, Plant and Equipment

Cost:

	Premises Le'000	Equipment Le'000	Total Le'000
Balance at 1 January 2007	50,210,618	15,804,796	66,015,414
Revaluation of Bank's properties			
Acquisitions	192,226	2,145,247	2,337,473
Disposals		(5,040)	(5,040)
Balance at 31 December 2007	50,402,844	17,945,003	68,347,847
Depreciation:			
Balance at 1 January 2007	5,208,376	11,112,810	16,321,186
Depreciation charge for the year	994,874	1,777,486	2,772,360
Adjustments		1,546	1,546
Disposals during the year		(5,039)	(5,039)
Balance at 31 December 2007	6,203,250	12,886,803	19,090,053
Net Book Value:			
At 1 January 2007	45,002,242	4,691,986	49,694,228
At 31 December 2007	44,199,594	5,058,200	49,257,794

Notes to the Financial Statements

Freehold properties in Freetown and Kenema were revalued in June 2006 on a replacement cost basis, taking into consideration the Bank's specialised facilities, by Realini Bader Associates Limited, Architects, Engineers and Planners. The revaluation has been reflected in these financial statements. The surplus arising thereon has been credited to the Property Revaluation Reserve account.

9. IMF Related Liabilities

	2007 Le'000	2006 Le'000
IMF Special Drawing Rights	81,158,070	77,210,098
IMF Poverty Reduction and Growth Facility (PRGF)	107,733,211	621,288,492
	188,891,281	698,498,590

10. Other Foreign Currency Financial Liabilities

Foreign payment	0	917,224
Sierra Rutile/GOSL Loan	2,158,871	2,156,225
Bank of China US$ Clearing	25,056,927	25,026,212
W A M A ECOWAS Travellers' Cheques	11,798	11,798
W A M A ECOWAS Travellers' Cheques clearing	(1,169)	(1,170)
Commission of European Committee	733,732	1,596,915
W A M A settlement	(1,146,229)	(1,105,934)
	26,813,930	28,601,270

11. Accrued Charges and Other Liabilities

Accrued charges	2,879,293	3,336,335
P.S. Bond in circulation	449	449
Retention monies	138,907	145,105
Rent received in advance	0	11,475
Unapproved invoices	(825)	(825)
Trade and sundry creditors	2,287	4,438
	3,020,111	3,496,977

Notes to the Financial Statements

12. Provision for Revaluation of Pipeline Liabilities

	2007 Le'000	2006 Le'000
Beginning of year	261,623,421	246,407,961
Revaluation	6,867,681	15,215,460
End of year	268,491,102	261,623,421

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

13. Capital and Reserves

	2007 Le'000	2006 Le'000
(a) Capital		
Authorised	100,000,000	100,000,000
Issued	50,000,000	24,001,500
Foreign Exchange Revaluation Reserve	(202,698,528)	(219,997,383)
Property Revaluation Reserve	32,792,919	32,792.919
General Reserve	(447,407,527)	(481,749,294)
General Asset Reserve	37,177,132	30,507,888
Total Reserves	(580,136,004)	(638,445,870)

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 Le50bn, to be subscribed within five years from the commencement of the Act that is by 15 February 2005. The capital has been fully subscribed.

(b) 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.

(c) Foreign Exchange Revaluation Reserve

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 rate of assets with respect to the Leone are taken to the Foreign Exchange Revaluation Reserve.

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

(d) Property Revaluation Reserve

The Bank maintains a Property Revaluation Reserve to which is transferred revaluation gains on revaluing its properties.

14. Income from Financial Assets

	2007	2006
	Le'000	Le'000
Income from Foreign Currency Assets		
STG Investments	6,345,940	5,268,835
US$ Investments	11,088,680	11,132,544
SDR Investments	3,652,095	3,192,121
Other External Investments	4,391,215	1,878,364
Total Income from Foreign Currency Assets	25,477,930	21,471,864
Income from Local Currency Assets		
Income on Sierra Leone Government Bearer Bonds	3,018,516	3,230,908
Income on Sierra Leone Government Treasury Bills	16,759,946	3,825,439
Income on Loans and Advances	1,373,346	884,200
Income from Investment of Bank's Funds	624,276	1,004,907
Total Income from Local Currency Assets	21,776,084	8,945,454
Total Income from Financial Assets	47,254,014	30,417,318

Notes to the Financial Statements

15. Expenses on Financial Liabilities

Expenses on Foreign Currency Liabilities		
Interest expenses: IMF Interest and Charges	(3,815,365)	(3,176,738)
Charges on Foreign Transactions	(23,723)	(39,685)
Total Expenses on Foreign Currency Liabilities	(3,839,088)	(3,216,423)
Expenses on Local Currency Liabilities		
Amortisation of Government Securities	(1,713)	(1,562)
Total Expenses on Local Currency Liabilities	(1,713)	(1,562)
Total Expenses on Financial Liabilities	(3,840,801)	(3,217,985)

16. Other Income

Commission Received	36,020	41,010
Commission on Foreign Transactions	6,713	3,559
Net Overs in Tills	762	1,117
Profit on Sale of Commemoration Coins	0	297
Profit on Sale of Assets	1,500	23,395
Rents Received	11,475	80,498
Sundry Receipts	1,521,231	3,082,121
Gains in Monetary Operations	-	-
Interest Received	10,056	88,298
Total Other Income	1,587,757	1,750,880
Net Movement in Reserves	(195,999)	1,569,411
	1,391,758	3,320,291

Notes to the Financial Statements

17. Currency

	2007 Le'000	2006 Le'000
Currency Management	(86,036)	(119,096)
Currency Issue Expenses	(4,950,197)	(1,885,549)
Total Currency Expenses	(5,036,233)	(2,004,645)

18. Administration

Electricity	(1,050,830)	(1,274,631)
Passages and Overseas Allowances	(1,670,457)	(1,047,048)
Contribution to International Organisations	(1,559,399)	(1,446,189)
Others	(6,464,710)	(6,061,541)
	(10,745,396)	(9,829,409)

19. Contingent Liabilities

Guarantees and Endorsements	230,370,806	206,831,599
Promissory Notes	12,727,679	13,481,795

20. Capital Commitments

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

Capital expenditure/building renovation	859,329	257,296
African Export Import Bank (Outstanding Shares – $1.2 million)	3,573,108	3,568,728
	4,432,437	3,826,024

21. Reconciliation of Operating Cash Flows with Operating Profit

Operating (Loss)/Profit	25,356,664	(20,464,008)
Effect of exchange rate movements	(17,298,855)	18,947,643
Depreciation	2,772,360	2,570,511
Decrease in interest receivable	(941,291)	(118,621)
Net cash inflow from operating activities	9,888,878	935,525

Notes to the Financial Statements

22. Risk Management

Financial Risk Management

International Financial Reporting Standard 7 – Financial Instruments: Disclosures – requires disclosure of information relating to: both recognised and Unrecognised financial instruments, their significance and performance, accounting policies, terms and conditions, net fair values and risk information – the Bank's policies for controlling risks and exposures.

A financial instrument is defined as any contract that gives rise to both a financial asset of one enterprise and financial liability or equity instrument of another enterprise. The identifiable financial instruments for the Bank of Sierra Leone are its domestic government securities, its foreign currency liabilities, loans and advances, bank deposits, currency in circulation and deposit liabilities.

Net fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Bank of Sierra Leone's recognised instruments are carried at cost or current market value, which approximates net fair value.

The Bank is involved in policy-oriented activities. Therefore, the Bank's risk management framework differs from the risk management frameworks for most other financial institutions. The main financial risks to which the Bank is exposed include credit risk, foreign exchange risk and interest rate risk. In the management of foreign reserves, minimising liquidity risk is the prime consideration in order to ensure the availability of currency as required. Like most central banks the nature of the Bank's operations creates exposure to a range of operational and reputational risks.

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

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

The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risks. The Bank seeks to ensure the risk management framework is consistent with financial market best practice.

The risk tables in this note are all based on Bank of Sierra Leone's portfolio as reported in its balance sheet

Notes to the Financial Statements

Operational Risk

Operational risk is the risk of loss in both financial and non-financial terms resulting from human error and the failure of internal processes and systems.

Managing operational risk is seen as an integral part of the day-to-day operations and management, which includes explicit consideration of both the opportunities and the risks of all business activities. Operational risk management includes Bank-wide corporate policies that describe the standard required of staff and specific internal control systems designed around the particular characteristics of various Bank activities.

Compliance with corporate policies and departmental internal control systems are managed by departmental management and an active internal audit function.

Credit Risk

Credit risk is the risk of loss arising from a counterparty to a financial contract failing to discharge its obligations.

Credit Risk Management

Credit risk is monitored and managed daily. Exposures are controlled through individual counterparty and issuer credit limits. Individual credit limits are set on the basis of the rating of the counterparty or issuer.

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

Concentration of Credit Exposure

The Bank's significant end-of-year concentrations of credit exposure, classified by industry of the issuer were as follows:

	2007 Le'000	2006 Le'000
Sierra Leone Government	181,703,993	90,225,855
Other Sovereign Issuers	161,789,817	90,847,200
Supranational Financial Institutions	115,994,899	95,385,374
Overseas Financial Institutions	387,168,047	371,547,484
Sierra Leone Financial Institutions	5,134,508	5,134,508
Other	7,512,965	4,937,917
Total Financial Assets	859,304,229	658,078,338

Notes to the Financial Statements

The Bank's significant end-of-year concentrations of credit exposure, based on the country/region in which the issuers' parent was located, were as follows:

Sierra Leone	186,838,501	95,360,363
United States of America	6,012,052	54,035,533
Europe	542,945,812	408,359,151
Supranational Financial Institutions	115,994,899	95,385,374
Other	7,512,965	4,937,917
Total Financial Assets	859,304,229	658,078,338

Credit Exposure by Credit Rating

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

	Credit Rating	2007	% of 2007 Financial Assets	2006	% of 2006 Financial Assets
Foreign Currency Financial Assets					
Cash balances with central banks	A A A	161,789,817	18.82%	90,847,200	13.80%
Other Cash balances	A A	390,217,799	45.41%	372,026,639	56.53%
IMF Related Assets	N R	105,835,283	12.32%	85,991,074	13.06%
Investments	N R	10,159,616	1.18%	9,394,300	1.43%
Accrued Interest	N R	1,565,075	0.19%	1,897,609	0.29%
Total Foreign Currency Financial Assets		669,567,590	77.92%	560,156,822	85.11 %
Local Currency Financial Assets					
Treasury bills and bearer bonds	N R	128,607,037	14.97%	88,476,191	13.44%
Accrued interest	N R	642,262	0.07%	141,914	0.03%
5 year medium term bonds	N R	50,000,000	5.82%	-	-
Loans and advances	N R	8,032,646	0.93%	7,695,661	1.17%
Special issue of securities by the GoSL	N R	2,454,694	0.29%	1,607,750	0.25%
Total Local Currency Financial Assets		189,736,639	22.08%	97,921,516	14.89%
Total Financial Assets		859,304,229	100.00%	658,078,338	100.00%

Notes to the Financial Statements

Interest Rate Risk
Interest Rate risk is the risk of loss arising from changes in Interest Rates

Year ending 31 December 2007
Assets and liabilities will mature or re-price within the following periods

	Non-interest bearing	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Foreign Currency Financial Assets							
Cash & Cash equivalents	7,882,362	46,496,611	390,775,207	105,921,473			551,075,653
IMF Related Assets		105,835,283					105,835,283
Investments	10,159,616						10,159,616
Accrued interest		175,767	1,732,866	588,405			2,497,038
Total Foreign Currency Financial Assets	18,041,978	152,507,661	392,508,073	106,509,878			669,567,590
Local Currency Financial Assets							
Treasury bills and bearer bonds	2,317	41,643,803	65,558,567	21,402,350			128,607,037
Accrued interest		472,483	169,779				642,262
Loans and advances	1,484,484				900,400	5,647,762	8,032,646
5 year medium term bonds					50,000,000		50,000,000
Special issue of securities of the GoSL			2,454,694				2,454,694
Total Local Currency Financial Assets	1,486,801	42,116,286	68,183,040	21,402,350	50,900,400	5,647,762	189,736,639
Other non-financial assets	28,495,982						28,495,982
Property	49,257,794						49,257,794
Total Assets	97,282,555	194,623,947	460,691,113	127,912,228	50,900,400	5,647,762	937,058,005
Foreign Currency Financial Liabilities							
IMF related liabilities						188,891,281	188,891,281
Other foreign currency liabilities	26,813,930						26,813,930
Total Foreign Currency Financial Liabilities	26,813,930					188,891,281	215,705,211
Local Currency Financial Liabilities							
Government deposits	548,961,529						548,961,529
Commercial bank deposits	53,669,712						53,669,712
Other deposits	27,181,137						27,181,137
Accrued charges	3,020,111						3,020,111
Total Local Currency Financial Liabilities	632,832,489						632,832,489
Currency in circulation	350,165,207						350,165.207
Provision for pipeline						268,491,102	268,491,102
Total Liabilities	1,009,811,626					457,382,383	1,467,194,009
Capital and Reserves	(530,136,004)						(530,136,004)
Total Liabilities and Equity	479,675,622					457,382,383	937,058,005

Notes to the Financial Statements

Average Interest Rate based on the next Interest Rate fixing date as at 31 December 2007

	Up to 1 months	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Average Weighted Rate
Foreign Currency Financial Assets						
Cash & Cash equivalents	2,255,086	18,796,287	5,084,231			4.81
IMF Related Assets		3,763,881				4.17
Investments						N A
Accrued interest						N A
Total Foreign Currency Financial Assets	2,255,086	22,560,168	5,084,231	0	0	
Local Currency Financial Assets						
Treasury bills and bearer bonds	4,085,039	8,713,342	3,852,963			12.95
Accrued interest						N A
Loans and advances						N A
Total Local Currency Financial Assets	4,085,039	8,713,342	3,852,963	0	0	
Other non-financial assets						N A
Property						N A
Total Assets	6,340,125	31,273,510	8,937,194	0	0	
Foreign Currency Financial Liabilities						
IMF related liabilities					538,666	0.50
Other foreign currency liabilities						N A
Total Foreign Currency Financial Liabilities	0	0	0	0	538,666	
Local Currency Financial Liabilities						
Government deposits						N A
Commercial bank deposits						N A
Other deposits						N A
Accrued charges						N A
Total Local Currency Financial Liabilities	0	0	0	0	0	
Currency in circulation						N A
Provision for pipeline						N A
Total Liabilities	0	0	0	0	538,666	
Capital and Reserves						
Total Liabilities and Equity						

Notes to the Financial Statements

Year ending 31 December 2006

Assets and Liabilities will mature or re-price within the following periods

	Non -interest bearing	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Foreign Currency Financial Assets							
Cash & Cash equivalents	48,305,557	252,271,239	162,138,558				462,715,354
IMF Related Assets		85,991,074					85,991,074
Investments	9,394,300						9,394,300
Accrued interest		1,009,502	482,600	563,992			2,056,094
Total Foreign Currency Financial Assets	57,699,857	339,271,815	162,621,158	563,992			560,156,822
Local Currency Financial Assets							
Treasury bills and bearer bonds	2,317	2,901,150	79,140,716	6,432,008			88,476,191
Accrued interest		19,763	23,727	98,424			141,914
Loans and advances	1,947,923				638,332	5,109,406	7,695,661
Special issue of Gov. Securities			1,607,750				1,607,750
Total Local Currency Financial Assets	1,950,240	2,920,913	80,772,193	6,530,432	638,332	5,109,406	97,921,516
Other non-financial assets	26,015,766						26,015,766
Property	49,694,228						49,694,228
Total Assets	135,360,091	342,192,728	243,393,351	7,094,424	638,332	5,109,406	733,788,332
Foreign Currency Financial Liabilities							
IMF related liabilities						698,498,590	698,498,590
Other foreign currency liabilities	28,601,270						28,601,270
Total Foreign Currency Financial Liabilities	28,601,270					698,498,590	727,099,860
Local Currency Financial Liabilities							
Government deposits	12,961,585						12,961,585
Commercial bank deposits	24,780,583						24,780,583
Other deposits	23,587,714						23,587,714
Accrued charges	3,496,977						3,496,977
Total Local Currency Financial Liabilities	64,826,859						64,826,859
Currency in circulation	294,682,562						294,682,562
Provision for pipeline funds						261,623,421	261,623,421
Total Liabilities	388,110,691					960,122,011	1,348,232,702
Capital and Reserves	(614,444,370)						(614,444,370)
Total Liabilities and Equity	(226,333,679)					960,122,011	733,788,332

Notes to the Financial Statements

Average Interest Rate based on the next Interest Rate fixing date as at 31 December 2006

	Up to 1 months	1 to 3 months	3 months to 1year	1 to 5 years	Over 5 years	Average Weighted Rate
Foreign Currency Financial Assets						
Cash & Cash equivalents	11,806,294	7,166,524				4.13
IMF Related Assets			3,143,364			3.66
Investments						N A
Accrued interest						N A
Total Foreign Currency Financial Assets	11,806,294	7,166,524	3,143,364	0	0	
Local Currency Financial Assets						
Treasury bills and bearer bonds	307,627	9,744,422	799,735			12.28
Accrued interest						N A
Loans and advances						N A
Total Local Currency Financial Assets	307,627	9,744,422	799,735	0	0	
Other non-financial assets						N A
Property						N A
Total Assets	12,113,921	16,910,946	3,943,099	0	0	
Foreign Currency Financial Liabilities						
IMF related liabilities					3,106	0.50
Other foreign currency liabilities						N A
Total Foreign Currency Financial Liabilities				0	3,106	
Local Currency Financial Liabilities						
Government deposits						N A
Commercial bank deposits						N A
Other deposits						N A
Accrued charges						N A
Total Local Currency Financial Liabilities	0	0	0	0	0	
Currency in circulation						N A
Provision for pipeline funds						N A
Total Liabilities				0	3,106	
Capital and Reserves						
Total Liabilities and Equity						

Liquidity Risk

Liquidity risk is the risk that insufficient liquid funds will be available to the Bank in order to perform its normal operations.

The Bank limits this risk by managing foreign assets with liquidity in mind.

The table below summarises the maturity profile of the Bank's assets and liabilities based on the contractual repayment date determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

Notes to the Financial Statements

Year ended 31 December 2007
Assets and liabilities will mature within the following periods

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Foreign Currency Financial Assets						
Cash & Cash equivalents	54,378,973	390,775,207	105,921,473			551,075,653
IMF Related Assets	105,835,283					105,835,283
Investments				434,738	9,724,878	10,159,616
Accrued interest	175,767	1,732,866	588,405			2,497,038
Total Foreign Currency Financial Assets	160,390,023	392,508,073	106,509,878	434,738	9,724.878	669,567,590
Local Currency Financial Assets						
Treasury bills and bearer bonds	41,646,120	65,558,567	21,402,350			128,607,037
Accrued interest	472,483	169,779				642,262
Loans and advances				2,384,884	5,647,762	8,032,646
5 year medium term bonds				50,000,000		50,000,000
Special issue of Govt securities		2,454,694				2,454,694
Total Local Currency Financial Assets	42,118,603	68,183,040	21,402,350	52,384,884	5,647,762	189,736,639
Other non-financial assets				15,716,045	12,779,937	28,495,982
Property					49,257,794	49,257,794
Total Assets	202,508,626	460,691,113	127,912,228	68,535,667	77,410,371	937,058,005
Foreign Currency Financial Liabilities						
IMF related liabilities					188,891,281	188,891,281
Other foreign currency liabilities					26,813,930	26,813,930
Total Foreign Currency Financial Liabilities					215,705,211	215,705,211
Local Currency Financial Liabilities						
Government deposits	548,961,529					548,961,529
Commercial bank deposits	53,669,712					53,669,712
Other deposits	27,181,137					27,181,137
Accrued charges	2,879,293	1,462		138,907	449	3,020,111
Total Local Currency Financial Liabilities	632,691,671	1,462		138,907	449	632,832,489
Currency in circulation	350,165,207					350,165,207
Provision for pipeline					268,491,102	268,491,102
Total Liabilities	982,856,878	1,462		138,907	484,196,762	1,467,194,009
Capital and Reserves					(530,136,004)	(530,136,004)
Total Liabilities and Equity	982,856,878	1,462	0	138,907	(45,939,242)	937,058,005
GAP ANALYSIS						
Gap per individual band	(780,348,252)	460,689,651	127,912,228	68,396,760	123,349,613	0

Notes to the Financial Statements

Year ended 31 December 2006

Assets and Liabilities will mature within the following periods

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Foreign Currency Financial Assets						
Cash & Cash equivalents	300,576,796	162,138,558				462,715,354
IMF Related Assets	85,884,271				106,803	85,991,074
Investments				424,223	8,970,077	9,394,300
Accrued interest	1,009,502	482,600	563,992			2,056,094
Total Foreign Currency Financial Assets	387,470,569	162,621,158	563,992	424,223	9,076,880	560,156,822
Local Currency Financial Assets						
Treasury bills and bearer bonds	2,903,467	79,140,716	6,432,008			88,476,191
Accrued interest	19,763	23,727	98,424			141,914
Loans and advances				2,586,255	5,109,406	7,695,661
Special Issue of Gov. Securities		1,607,750				1,607,750
Total Local Currency Financial Assets	2,923,230	80,772,193	6,530,432	2,586,255	5,109,406	97,921,516
Other non-financial assets				15,508,161	10,507,605	26,015,766
Property					49,694,228	49,694,228
Total Assets	390,393,799	243,393,351	7,094,424	18,518,639	74,388,119	733,788,332
Foreign Currency Financial Liabilities						
IMF related liabilities					698,498,590	698,498,590
Other foreign currency liabilities		917,224			27,684,046	28,601,270
Total Foreign Currency Financial Liabilities		917,224			726,182,636	727,099,860
Local Currency Financial Liabilities						
Government deposits	12,961,585					12,961,585
Commercial bank deposits	24,780,583					24,780,583
Other deposits	23,587,714					23,587,714
Accrued charges	3,337,610	6,163	7,650	145,105	449	3,496,977
Total Local Currency Financial Liabilities	64,667,492	6,163	7,650	145,105	449	64,826,859
Currency in circulation	294,682,562					294,682,562
Provision for pipeline funds					261,623,421	261,623,421
Total Liabilities	359,350,054	923,387	7,650	145,105	987,806,506	1,348,232,702
Capital and Reserves					(614,444,370)	(614,444,370)
Total Liabilities and Equity	359,350,054	923,387	7,650	145,105	373,362,136	733,788,332
GAP ANALYSIS						
Gap per individual band	31,043,745	242,469,964	7,086,774	18,373,534	(298,974,017)	0

Currency Risk

Currency risk is the risk that the value of the Bank's foreign reserves will be reduced as a result of fluctuation in foreign exchange rates.

Notes to the Financial Statements

Basic guidelines for the management of the Bank's international reserves are set by the Board of the Bank and reviewed on a quarterly basis; the guidelines prescribe the currency structure, average term of deposits and a selection of foreign banks.

The table below summarises the Bank's exposure to currency risk. Included in the table are the Bank's foreign currency denominated assets and liabilities at carrying amounts categorized by currency

Foreign Currency Financial Assets and Liabilities at 31 December 2007

	GBP Equivalent	Euro Equivalent	USD Equivalent	SDR Equivalent	Others Equivalent	Total
Assets						
Cash & cash equivalents	220,776,420	121,544,722	206,758,376		1,996,135	551,075,653
IMF related assets				105,835,283		105,835,283
Investments			9,665,267		494,349	10,159,616
Accrued Interest	335,057	1,026,606	546,970	588,405		2,497,038
Total Foreign Currency Assets	221,111,477	122,571,328	216,970,613	106,423,688	2,490,484	669,567,590
Liabilities						
IMF related liabilities				188,891,281		188,891,281
Other Liabilities			27,215,798		(401,868)	26,813,930
Total Foreign Currency Liabilities	0	0	27,215,798	188,891,281	(401,868)	215,705,211
Net	221,111,477	122,571,328	189,754,815	(82,467,593)	2,892,352	453,862,379

Foreign Currency Financial Assets and Liabilities as at 31 December 2006

	GBP equivalent	Euro equivalent	USD equivalent	SDR equivalent	Others equivalent	Total
Assets						
Cash & cash equivalents	68,541,466	73,461,933	320,530,190		181,765	462,715,354
IMF related assets				85,991,074		85,991,074
Investments			8,899,952		494,348	9,394,300
Accrued Interest					2,056,094	2,056,094
Total Foreign Currency Assets	68,541,446	73,461,933	329,430,142	85,991,074	2,732,207	560,156,822
Liabilities						
IMF related liabilities				698,498,590		698,498,590
Other Liabilities		1,627,785	26,973,485			28,601,270
Total Foreign Currency Liabilities	0	1,627,785	26,973,485	698,498,590	0	727,099,860
Net	68,541,446	71,834,148	302,456,657	(612,507,516)	2,732,207	(166,943,038)

Fair Value

Fair value represents the amount at which an asset could be replaced or a liability settled on an arms length basis. Fair values have been based on management assumptions according to the profile of the asset and liability base.

IFRS requires that the fair value of financial assets and liabilities be disclosed according to their classification under IAS 39

Notes to the Financial Statements

Assets	2007 Le'000	2006 Le'000
At fair value through profit and loss		-
Held to maturity investments	35,794,760	14,876,434
Loans and receivables	-	-
Available-for-sale	92,812,277	73,599,757
Total financial assets	-	-
Non financial assets	-	-
Total Assets	128,607,037	88,476,191
Liabilities		
At fair value through profit and loss	-	-
Not at fair value through profit and loss	-	-
Non financial liabilities	-	-
Total liabilities	-	-

i Pension Fund

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

The Bank is undertaking an actuarial valuation exercise but this has not been completed by end December, 2007. As at 31st December, 2007, the Bank expended a total of Le1.33 billion (2006-Le1.26 billion) (increase due to 10% increase in pensions paid) on payments to existing pensioners. However, based on their age and health status and assuming such pensioners live for an average of 10-15 years, it is expected that the Bank's liability would not be in excess of Le20 billion.

The Bank also guaranteed Promissory Notes issued by the Staff Pension Trust Company to retirees totalling Le12.7 billion (2006-Le13.5 billion) which commitment has already been stated as a contingent liability in the Bank's Accounts. As at 31st December, 2007 the assets of the Company were adequate to settle these Promissory Notes as and when they fall due and it is not likely that the Bank will be required to settle this liability.

Notes to the Financial Statements

	Le'000
Value of Financial Assets	12,449,206
Value of Real Estate	3,514,393
Total	15,963,599
Promissory Notes	(12, 727,679)
Surplus	3,235,920

i. Related Party Disclosures

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

As at 31 December 2007 total advances to the Government was Le78 billion (2006 Le546 billion).

The Board of Directors (including the Governor and Deputy Governor) received remuneration amounting to Le0.43 billion (2006 Le 0.45 billion). The Governors benefited from fully furnished dwelling houses and vehicles for official and domestic purposes. Board members did not benefit from any loan during the period under review.A total of Le64.38 million (2006 Le2.33 million was contributed to the National Social Security and Insurance Trust Scheme (NASSIT) on behalf of the Governors.

Senior management received remuneration of Le1.17 billion (2006 Le1.04 billion) and benefited from official vehicles. During the review period, they also benefited from loans amounting to Le255 million. Outstanding loans to senior management totalled Le250.39 million (2006 Le109 million). A total of Le66.47 million (2006 Le 41 million) was contributed on their behalf to NASSIT.

iii. Events after the Balance Sheet Date

Government issued Le50 billion in 5-year medium term securities (Bonds) on January 8, 2008 as full subscription to the Bank's minimum paid-up capital. This has been reflected in the accounts as at 31st December, 2007.

Bank of Sierra Leone

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for the year ended 31 December 2007