Sierra Leone Commercial Bank Limited
Christian Smith Building
29/31 Siaka Stevens Street
Freetown
Telephone No. (232 22) 225264/225265/225266
Fax No (232 22) 225292
E-mail:
slcb@sierratel.sl
slcb@slcb.biz
SWIFT: SLCBSLFR
Website: www.slcb.biz

2005

SIERRA LEONE COMMERCIAL BANK LIMITED

'Delivering value'

ANNUAL REPORT AND ACCOUNTS 2005

MISSION STATEMENT

"A leading financial services provider delivering value to all stakeholders"

CONTENTS

NOTICE OF MEETING

Notice is hereby given that the Thirty Third Annual General Meeting of the Sierra Leone Commercial Bank Limited will be held at the registered office of the Bank Christian Smith Building, 29/31 Siaka Stevens Street, Freetown on Wednesday 17th May 2006 at 12 noon for the purpose of transacting the following business:

1. To open the meeting
2. To adopt the Minutes of the 32nd Annual General Meeting held on 14th April 2005.
3. To receive and consider the annual report of the Directors, the Auditors' Report, and Audited Accounts for the year ended 31st December 2005.
4. To declare a dividend.
5. To authorize the directors in consultation with the Auditor General to appoint the Auditors and negotiate their fees.
6. To consider any other business proper to be transacted at an Annual General Meeting.

29/31 SIAKA STEVENS STREET
FREETOWN

DATED: 8TH MAY 2006

BY ORDER OF THE BOARD

CHRISTIANA M JOHNSON (MS)
SECRETARY

BOARD OF DIRECTORS, OFFICIALS AND REGISTERED OFFICE


Victor F Jamina


Abdulai Kakay


Anthony Brewah


Alhaji Fattah Gibril


David Woobay


Bankole John


PC SAS Gbonda II


Abu Bakarr Adams
(died 1st February 2006)


Christiana M Johnson (Ms)

BOARD OF DIRECTORS

CHAIRMAN	**V F Jamina** BA (TRINITY DUB.); Dip Bus. Stud. (MAGEE); Dip. Econs.& Soc. Studies (MANCH.); DIP. Banking(CARLGER)
MANAGING DIRECTOR	**Alhaji A Kakay** B.Sc Econs,(USL) FCIB (England).MinstD(London) DCL(Honoris Causa)
OTHER MEMBERS	**Anthony Brewah** B.A Dip.Ed., DipAD. ED LLB (Hons.) B.L.
	Alhaji Fattah Gibril J.P.
	David Woobay T C(Physical Educ.&Georgraphy). Cert in Olympic Studies. Cert in German as a working language-Goethe Institute, Diploma Sports Administration (Germany)
	Bankole John B.Sc(Bus. Administration), M.A., M.Sc(Econs)
	PC SAS Gbonda II (T.E.C).J.P.
	Abu Bakarr Adams
SECRETARY TO THE BOARD	**Christiana M Johnson** (Ms) BA Dip.ED(USL), ACIS(London)
AUDITORS	PKF 12 Wilberforce Street Freetown.
SOLICITORS	Messrs Renner-Thomas & Co. 15 Lamina Sankoh Street Freetown
	A J Bockarie Banta Chambers 23 Kissy Town Road Bo
REGISTERED OFFICE	Christian Smith Building 29/31 Siaka Stevens Street Freetown Telephone No.(232 22)225264/225265/225266 Fax No.(232 22) 225292 E-mail: slcb@sierratel.sl slcb@slcb.biz SWIFT BIC:SLCBSLFR Website:www.slcb.biz

HEAD OFFICE MANAGEMENT AND BRANCHES

Alhaji A Kakay

C B Deigh

R M Roberts

A D Scott-Boyle (Mrs)

MANAGING DIRECTOR	**A Kakay** B.Sc. Econs., (USL) FCIB(England) MinstD (London) DCL (Honoris Causa)
DEPUTY MANAGING DIRECTOR	**C B Deigh** ACIB (England) MBA Finance (Leicester) U.K.
EXECUTIVE DIRECTOR BANKING OPERATIONS	**Ayodeji Scott-Boyle** (Mrs.) ACIS (London)
EXECUTIVE DIRECTOR RISK MANAGEMENT	**R M Roberts** B.Sc Econs (USL)
SENIOR MANAGER HUMAN RESOURES DEPARTMENT	**A Bensin Kamara** B.Sc Econs(USL), ACIB
SENIOR MANAGER, ADMINISRATION/ BUSINESS DEVELOPMENT	**P John-Langba** B.Sc Econs (USL)MBA (USL) ABIFM(U.K.)
SENIOR MANAGER, INFORMATION TECHNOLOGY	**G C Taylor** OCBSM, B.Sc Hons Financial Services (USL)
SENIOR MANAGER, FINANCE	**I A Kamara** ACCA, ACA (SL), MBA Finance (Leicester) U.K.
SENIOR MANAGER, RISK MANAGEMENT	**P S Conteh** B.Sc Hons. Econs (USL) ACCA (London) MBA Brooks Univ. Oxford, U.K.
PERSONAL ASSISTANT TO THE MANAGING DIRECTOR AND HEAD OF POLICY AND STRATEGY	**C Bart-Williams** B.A.(Hons) Economics (Kingston), M.Sc. Economics (London), Ph.D. (Brunel)
INSPECTOR	**M Hassan**
COMPANY SECRETARY	**C M Johnson** (Ms) BA Dip.ED.(USL), ACIS(London)

BRANCHES

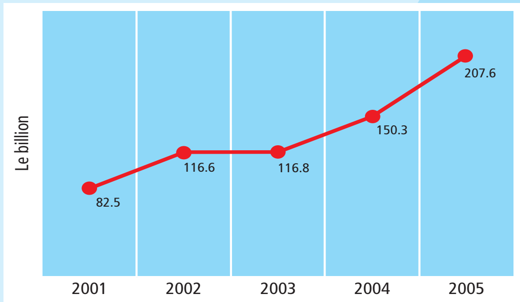
SIAKA STEVENS STREET BRANCH	
SENIOR MANAGER	**M A W Mansaray** Post Graduate Dip. in Business Admin.
MANAGERS	**C C O George** B.Sc Hons. Financial Services (USL) **J B Sankoh** B.Sc Hons. Financial Services (USL)
LIGHTFOOT BOSTON STREET BRANCH	
MANAGER	**A M Daramy** B.Sc Hons Financial Services (USL)
CONGO CROSS BRANCH	
MANAGER	**Melrose Cole** (Mrs.)
KENEMA BRANCH	
MANAGER	**A H Bangura** B.Sc Hons. Financial Services (USL)
BO BRANCH	
MANAGER	**A K Lamin**
MAKENI BRANCH	
MANAGER	**U D Kamara**
KOIDU BRANCH	
MANAGER	**A R Mujtabah** B.A.(USL), MBA
CLINE TOWN BRANCH	
MANAGER	**Claudia Coker** (Mrs.)

GROWTH AND FINANCIAL INDICATORS

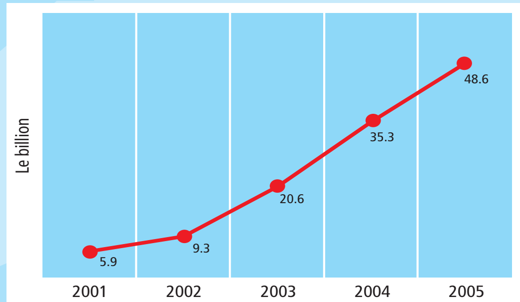
- **The largest bank in Sierra Leone in terms of asset base and market leaders in deposit mobilisation**
- **Largest employer in the banking sector with a workforce of 344 personnel. 2004: 312**
- **The only bank delivering financial services in all provincial districts of Sierra Leone**
- **Voted as "the best financial institution for three consecutive years (2003–2005)"**
- **Dividend payment increased by 39% compared to previous year's payout**

FIVE YEAR REVIEW

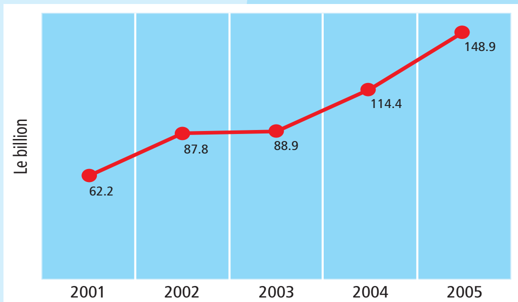
Total Assets



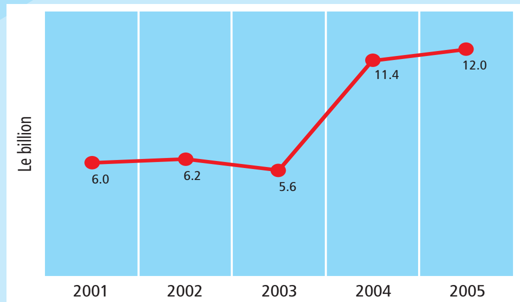
Loans & Advances



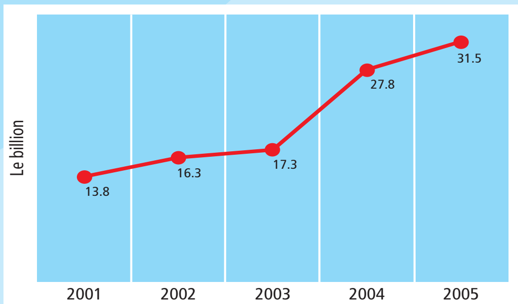
Customer Deposits



Pre-tax Profit



Operating Income



Once again, I am delighted to report on the continued progress of the bank along the trend outlined in 2004 with satisfactory results again achieved in 2005.

POLITICAL AND ECONOMIC OUTLOOK

The political outlook remained broadly positive in 2005 with a stable political and security situation. The transition from a war economy to a developing economy continued with the government exhibiting greater focus on structural adjustments, governance, Institutional and private sector reforms as a path to sustainable economic and political development.

Efforts at rehabilitating the economy continued with a view to enhancing capacity building at all levels and in all areas of society, to meet the challenges resulting from a mountain of social and economic problems and other war legacies.

We are delighted to note that the IMF/World Bank favourably received the Poverty Reduction Strategy Paper (PRSP) promoted by the government and approved accordingly. We look forward to its full implementation.

We note also and welcome the numerous efforts to modernise the structures of government and society which are too numerous to mention here but including the Justice Sector Development Programme, Law Reform and the rehabilitation of regional health bodies to name a few.

In line with these political achievements for which Government must be commended, 2005 also witnessed an expansion of economic activities generally with record export of diamonds through the formal sector and resumption of institutional mining which will address the acute shortage of foreign exchange to service the import needs of the economy.

However, GDP growth estimated at 7.4 %, remains below the annual inflation rate of 13.7 % and could not significantly create any positive impact on large sections of the population.

External shocks due to exchange rate differentials in meeting international debt obligations and unusually higher oil prices in the context of a consistently depreciating local currency have generally been unhelpful factors in the business climate.

The establishment of the National Revenue Authority (NRA) and processes introduced by fiscal authorities aimed at maximising tax revenues and tracking government expenditures have impliedly ushered in a great deal of fiscal discipline in the system.

Monetary expansion was somewhat more limited in 2005 than in previous years which slightly limited the inflationary trends. Not unexpectedly the lacklustre performance in the export sector and the huge demand for foreign exchange continued its negative impact on the exchange rate which again declined slightly in the review period from US$1 = Le2800 to Le2950 representing a 5 % drop in the formal market.

This is critical in the context of rising oil prices in the international markets, giving the dependency on imported refined fuel for our energy and other needs.

Additionally, we believe that the current price of oil presents an opportunity to reflect on the possibilities of other energy sources and forms. The tax system could be used in a limited way to militate against the effect of higher oil prices.

The level of government borrowing, though a major source of income for the bank through investments in short term security bills, remains an area of concern.

We therefore continue to implore the government to make every effort to limit the budget deficit as this remains a source of relatively high interest rates which does militate against investment and growth.

Also, we continue to encourage efforts to establish local small scale manufacturing enterprises which have the potential to substitute locally produced goods for imported goods which is the main cause of the trade deficit. It is disappointing to note that a larger proportion of the trade deficit relates to food and consumer goods rather than capital items which does not augur well for future foreign currency requirements and job creation.

While there are ample evidence of expansion in business activities in all sectors of the economy, the banking industry remain the engine of growth, in the economy contributing about 25 % to GDP, with adequate levels of capital adequacy. The industry in its present form is well poised to meet the challenges of new regulations, Information technology and providing satisfactory intermediation roles at various level s in the economy.

After the recent period of credit expansion, we now foresee a period of consolidation as banks seek to maintain credit quality and adherence to new liquidity and cash reserve requirements.

CORPORATE STRATEGY

The bank has continued and plans to continue to invest in technology as a source of competitive advantage as we expect that the results will become more obvious in 2006. The bank has embarked on a major technological upgrade which we believe will deliver the desired results in terms of customer service delivery, product development and marketing.

Our technology upgrade will allow us to successfully manage the opening of new branches as we intend to have a footprint in the whole of Sierra Leone.

The bank in the ensuing year will continue to focus on its core banking activities, providing short and medium term financing to viable enterprises.

In addition, the bank will seek to increase the proportion of its income derived from non-interest sources in order to reduce potential earnings volatility.

Developing our human resource base remains a top priority.

In a knowledge based economy it is perfectly understood that many of the bank's plans are not implementable without the participation of highly human resource base. We continue to thank the staff for their excellent performance and also for the amicable relations maintained which has resulted in a conducive working environment of which we can all be proud.

We will continue to spare no effort in ensuring that adequate training is provided alongside improved staff welfare and economically acceptable scales of remuneration.

LEVEL OF PERFORMANCE

For the year 2005, the bank recorded a pre-tax profit of Le12.0bn representing a 7% increase on the previous year's pre-tax profit of Le11.4bn indicating the steady growth in our operations. The increase is due mainly to increased interest income on loans and advances and investment in government securities.

Non-interest income, in particular from foreign exchange trading remained significantly low, while loan loss provisions indicated a selective approach and expected firm prudential control.

DECLARATION OF DIVIDEND

In line with our policy of providing adequate compensation to the sole shareholders, the Board of Directors are pleased to recommend a dividend payment of Le5bn to the Government of Sierra Leone. This represents an increase of 38 % on the previous year's dividend of Le 3.6 bn.

ACKNOWLEDGEMENTS

Once more let me take this opportunity to thank all our customers, staff, suppliers and other stakeholders for their continued support. It is gratifying to us that the bank continues to enjoy the support of you all.

Let me also take this opportunity to once again thank my colleagues on the board for their support and guidance.

Finally, it is with deep appreciation that I convey the best wishes of the board, management and staff to our valued customers who continue to place their trust in the bank. Similar sentiments also go to the Bank of Sierra Leone (Central Bank), the National Commission for Privatisation and the Ministry of Finance for their guidance and support over the years.

Victor Francis Jamina

(This report was conceived by the late Victor Francis Jamina, who passed away suddenly on Wednesday January 18th 2006).

May his soul rest in perfect peace

MANAGING DIRECTOR'S REVIEW

INTRODUCTION

Financial year 2005 was another period of consolidation in the bank's operations against the background of an intensive post war Structural Adjustment and Economic Recovery Programmes being pursued by the government under the rigorous supervision of the International Monetary Fund and the World Bank.

The financial sector again witnessed serious challenges in the areas of competition, information and communications technology, customer demands and monetary policy changes to complement the emergence of a fiscal regime resulting from the Structural Adjustment Programme and Institutional Reforms.

A stable political and security environment engendered an upsurge in economic activities generally, with significant increase in activities in the mining, manufacturing and construction sectors in particular.

Consequently, the operating results of the bank for the year 2005 were pleasing both in terms of revenue generation and growth in assets, whilst the bank maintained its position as market leader in deposit mobilization and technological advancement.

In terms of our growth strategy, we gradually encouraged a spread from treasury bills investment in line with our focused objectives of supporting the private sector by way of providing short term finance, mainly working capital, to deserving viable enterprises in the various economic sectors.

In recognition of our financial performance, corporate social responsibility, outreach to the rural population in providing financial services to the economy at large, the bank in three successive years (2003 – 2005) won the coveted accolade as the Best Financial Institution from AWOL – **All works of Life**.

FINANCIAL REVIEW

The bank achieved pre tax profits of Le12bn for the year under review, representing a marginal increase of 4% over 2004 profit of Le11.4bn.

This result was achieved despite intensed competition in the banking industry, principally in the foreign exchange business and high demand for concessions mainly by Corporate and other Institutional customers for other banking services.

Total income recorded a growth of 14.5% from Le27.1bn in 2004 to Le31bn in 2005 resulting mainly from interest earnings on the lending book and investment in government securities. Net interest income recorded growth of 14.4% from Le17.8bn in the previous year to Le20.4bn mainly attributed to the positive rise in the lending portfolio and earnings from short term investments despite declining interest yield in government treasury bills.

Encouraging results were seen in the area of non interest income, mainly commission and fees, while trading income in foreign exchange dealings with an increase of just over 1% over previous figures continue to indicate the difficult trend in the foreign exchange business dealings due to a dearth in supply and a markedly reduced turn in dealing rates.

Conversely, operating expenses increased by 21% to Le19bn from Le15.7bn reflecting the high administrative costs and inflationary tendencies in maintaining employee costs, utilities and information technology maintenance.

Our asset base increased significantly by 37.8% to Le207.6bn achieved mainly by a boost in quality lending from Le35.3bn in 2004 to Le48.7bn with a commensurate increase in Customer deposits of 30.2% to Le148.9bn.

Further balance sheet growth in fixed assets investment in both technology and branch expansion was recorded especially following revaluation of the bank's Head Office and other branch premises.

BANK OPERATIONS

In view of our funds raising drive and the positive contribution from our customer relationship management strategy introduced in 2004, we continue to record consistent growth in our customer base with an increase of 31 %, similar to the previous year, in all categories of account relationships.

The various committees continue to be resourceful in their performance with the constant review of our products and services with the view to offering differentiated services to our diverse customer base. Further, as indicated in the last review, we successfully rolled out a local personal money transfer (Salonelink) accessible by non account holders alike. This system of money transfer will no doubt attract sizeable funds from the informal sector into the banking system.

In the last quarter of 2005 the bank commenced the implementation of the internationally acclaimed Flexcube banking application with the active involvement of key management personnel in redesigning our processes and workflows to ensure full operational automation which will position the bank for an effective service delivery.

The result of this re-engineering process will become evident in the ensuing years with our ability to introduce new products and electronic channels for the benefit of all customers and a smooth and speedy back office operation.

Competition in the industry remain intensed, coupled with new regulatory framework impacting on the control, efficient management, prudent and consistent review of liquidity and risk assets in accordance with the Basle principles and other international standards.

In the face of increasing global challenges in the fight against terrorism and local legislations we continue to emphasise the adoption of sound anti-money laundering policies and procedures aimed at preventing the use of our system for criminal activities. I am proud to report that the bank is fully compliant in this regard.

BRANCH DEVELOPMENT

Our network of branches increased to 8 during the year with the opening of Cline Town branch in the east end of the capital city.

Reconstruction of Kenema branch in eastern Sierra Leone to an ultra modern business complex is nearing completion. This will position the bank to take advantage of growth potentials in diamond and agricultural cash crop marketing activities in that region.

Plans were finalised and construction commenced of a new strategic branch at Mobimbi, Moyamba district, to cater primarily for Sierra Rutile Limited on their commencement of titanium and bauxite mining for eventual export and to serve the local community at large.

The bank also completed arrangements for the reconstruction and rehabilitation of its previously closed branch at Njala Town in the southern region following the planned return of the Njala University College (NUC) which hitherto was relocated to the Capital city as a result of rebel incursion in 1995.

Notwithstanding the infrastructural problems, the branches are interlinked through a modern wide area network (VSAT) connectivity to provide prompt services to our diverse customers irrespective of the branch were the account is domiciled.

TECHNOLOGY

The bank invested in its wide area network infrastructure in partnership with Telenor Communication in the Netherlands for the provision of a dedicated VSAT connectivity to all our branches countrywide. This provided uninterrupted real- time connection and processing of transactions with significant improvement in customer information and service delivery.

An important advancement is the purchase of Flexcube, a modular and integrated banking solution whose benefits will become visible in 2006 with the introduction of electronic channels, full process automation including facilities for the introduction of new products and services to our customers.

The substantial investment in technology was driven by our strong desire to improving customer services, better management information system, efficient back office support in order to enhance customer retention and expanding our range of products and services.

HUMAN RESOURCE DEVELOPMENT

Our staff strength increased in line with business expansion from 312 in 2004 to 344 an increase of 10% with the bank being a reliable source of employment of young school leavers and university graduates. The quality of our workforce also improved with our focussed staff training programme and professional enhancement to satisfy both employee needs and that of the bank.

With the bank's commitment to staff development, 8 members of staff successfully graduated in the BSc. Hons in Financial Services at the University of Sierra Leone, while I am pleased to report that 5 management staff completed MBA and other post graduate programmes with acclaimed Universities locally and in the UK and Australia during the review period. This is with the view to positioning this valuable resource base for future succession and in meeting the challenges in the industry in the years ahead.

Our staff also benefited from external training programmes in the areas of Money Laundering, SWIFT products and services and Customer Relationship Management.

In the course of the year 5 members of staff with years of distinguished service retired from the bank:

Franklyn L Johnson – Director of Finance and Administration

Agathia O Sealy

Cecilia Jarrett

Hassan Dumbuya

Umaru Barrie

We take this opportunity to express our thanks and appreciation to them for their loyal and devoted service to the bank and wish them a very happy retirement.

Our staff resource remain our most valuable asset and we continue to ensure their loyalty and dedication with sustainable educational development programmes and welfare packages commensurate to the industry standards in Sierra Leone

STRATEGIC OUTLOOK – 2006

The final withdrawal of the United Nations peace keeping mission (UNAMSIL) from the country in the last quarter of 2005 is an indication of the political and security stability that have ensued since their deployment in year 2000. Doubtless, this state of affairs is a positive signal to both local and private investors to take advantage of the opportunities to be gained from the improved country exposure rating.

The challenges of an economy in transition remain quite visible. Following astronomical GDP growth rates in the immediate years after the end of the war of over 20 % which were mainly donor driven, the economy settled with consistent GDP growth of 7% since 2003. Although seemingly high compared to regional average growth rates, it remained below the level anticipated by government in its much desired drive to address the scourge of social ills that resulted from the war and the high rate of poverty in the population.

Consequently, the implementation of the government's PRSP (Poverty Reduction Strategy Paper) in 2006 will be a priority for the government with active participation of the private sector and the financial sector in particular. This will be in addition to the continued adoption of the IMF's SAP, privatisation of state owned enterprises and Institutional reforms which are expected to usher in an effective judiciary and regulatory systems in various sectors to support private sector investments and development.

Interest rates in the latter part of 2005 especially on short term government papers experienced wide fluctuations but quickly settled at lower than budgeted rates with its resultant impact on earnings, but positive in the fight against inflation, while exchange rates indicated gradual depreciation of the local currency against major international currencies throughout the review period. These trends are expected to continue in the immediate future, especially in the area of foreign exchange availability as the exporting sectors slowly return to pre war forms.

Further challenges in the banking industry, new capital requirements/banking regulations, expected implementation of the proposed Automated Clearing House (ACH), with Real Time Gross Settlement (RTGS) system and continuous enhancement of the Information and Communication Technology environment will require substantial human and financial resources. Also, with the expected launching of Freetown's capital market, The Freetown Stock Exchange, there will be mobility of funds with potential effect on bank's balance sheet resulting from the displacement of funds hitherto held by banks.

With substantial shareholder value the bank is poised to adequately cope with the expected challenges and requirements. Reflecting on the investment in technology we have made so far, the bank is well placed to continue with its branch and other operational developments in 2006 as competition intensified with the entry of new players in the market and as customer needs become increasingly sophisticated.

We plan to achieve strong income growth, especially non interest earnings, whilst embarking on cost austerity measures that will achieve an acceptable cost/income levels commensurate with industry standards.

We will remain committed to pursuing our competitive strategies of market leadership and focus and are fairly optimistic that the business and financial objectives for 2006 will be attainable when pursued vigorously through sustained marketing efforts, improved service delivery and new product and service offerings afforded by the capabilities of our new banking application.

We would strive to improve our corporate responsibilities to the communities and environment we operate by investing in education, sports, health etc as well as supporting government's effort in reducing and alleviating poverty in Sierra Leone.

ACKNOWLEDGEMENTS

I take this opportunity to extend my sincere thanks and appreciation to my management team and staff for their devoted contribution, hard work and support during the year.

The support from the Board of Directors has been excellent and I also express my gratitude for their direction. I similarly extend my thanks and appreciation to the Bank of Sierra Leone (The Central Bank), The National Commission for Privatisation and the Ministry of Finance for their guidance.

Alhaji Dr Abdulai Kakay
Managing Director

SUPPORTING ECONOMIC DEVELOPMENT

MODERN GSM CONNECTIONS
GSM TELECOM SWITCHES

ULTRA MODERN BOTTLING PLANT

MANUFACTURING OF PLASTIC WATER TANKS

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report to shareholders together with the audited financial statements for the year ended 31 December 2005.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period.

In preparing those 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with International Financial Reporting Standards and the requirements of the Companies Act Cap. 249. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

SHARE CAPITAL

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

DIVIDENDS

The directors recommend a dividend of Le5.00 for each share as at 31 December 2005 (2004: Le 3.60 per share).

FINANCIAL STATEMENTS

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

CAPITAL ADEQUACY

The bank is required to maintain a minimum Capital Adequacy Ratio of 15% of total adjusted assets. As at 31 December 2005 the capital adequacy of the bank was 36%. (2004: 27%). Details of the computation are shown in note 32 to these financial statements.

DIRECTORS AND THEIR INTERESTS

The following were Directors of the bank as at 31 December 2005:

Victor Jamina – (Chairman)
Abdulai Kakay – (Managing Director)
Anthony Brewah
Alhaji Fattah A Gibril
David Woobay
Bankole John
PC S A S Gbonda II
Abubakarr Adams

The present directors having been appointed by the Government of Sierra Leone as the sole beneficial owners of all the shares in the company continue in office until their appointments are otherwise determined or renewed by the National Commission for Privatisation pursuant to Section 13 of the National Commission for Privatisation Act 2002.

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

AUDITORS

The auditors Messrs PKF, appointed under section 80 of the Public Budgeting and Accounting Act 1992, retire at the forthcoming Annual General Meeting. The auditors PKF having signified their willingness to continue in office, offer themselves for re-appointment. The appointment of the auditors for the ensuing year will be confirmed by the Auditor General.

By Order of the Board

C M Johnson (Ms)
Company Secretary

REPORT OF THE INDEPENDENT AUDITORS, PKF, TO THE SHAREHOLDERS OF SIERRA LEONE COMMERCIAL BANK LIMITED

We have audited the accompanying balance sheet of Sierra Leone Commercial Bank Limited as at 31 December 2005 and the related statements of income and cash flows and changes in shareholders' equity 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 promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the bank as at 31 December 2005 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board and have been properly prepared in accordance with the requirements of the Companies Act Cap. 249.

PKF

Chartered Accountants

Freetown

Date: 31st March, 2006

INCOME STATEMENT

For the year ended 31 December 2005

In thousands of Leones	Note	2005	2004
Interest and similar income	6	24,041,098	20,733,156
Interest expenses and similar charges	6	(3,613,322)	(2,872,973)
Net interest income		20,427,776	17,860,183
Net fee and commission income	7	6,850,123	5,498,812
Net trading income	8	4,043,583	3,990,433
Other operating income	9	184,243	482,055
(Impairment losses on loans and advances)/ release from bad and doubtful debts	10	(449,422)	(698,813)
Operating expenses	11	(19,039,844)	(15,730,365)
Operating profit		12,016,459	11,402,305
Income tax expense	12	(4,014,735)	(5,138,520)
Profit after taxation		8,001,724	6,263,785

Earnings per share for profit attributable to the equity holders of the bank during the year

(In Leones per share)			
Basic	13	8.00	6.26
Diluted	13	8.00	6.26

The notes on pages 22 to 35 are an integral part of these financial statements

BALANCE SHEET

As at 31 December 2005

In thousands of Leones	Note	2005	2004
Assets			
Cash and balances with The Central Bank	14	14,937,623	13,659,331
Cash balances with other banks	15	36,556,402	20,105,633
Treasury bills and other eligible bills	16	58,379,150	57,319,150
Equity investment	17	327,305	327,305
Loans and advances to customers	18	48,672,333	35,321,543
Other assets	19	8,088,365	5,647,619
Property, plant and equipment	20	38,629,836	17,472,985
Income tax receivable	12	2,053,472	–
Deferred income tax asset	12b	–	499,962
		207,644,486	150,353,528
Liabilities			
Due to customers	21	148,960,665	114,405,109
Other liabilities	22	14,622,472	9,419,847
Deferred income tax liabilities	12b	3,260,933	2,052,488
Income tax payable		–	7,619
Total liabilities		166,844,070	125,885,063
Shareholders' equity			
Issued share capital	24	1,000,000	1,000,000
Reserves	25	19,090,165	5,759,938
Retained earnings	26	20,710,251	17,708,527
Total equity		40,800,416	24,468,465
Total liabilities and Shareholders' equity		207,644,486	150,353,528

These financial statements were approved by the Board of Directors on 31 March 2006

Directors

The notes on pages 22 to 35 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

In thousands of Leones

	Revaluation reserve	Statutory reserve	Development reserve	Capital reserve	Other reserves	Total	Issued share capital	Revenue reserve	Total shareholders equity
Balance at 1 January 2004	3,397,517	2,217,742	65,979	650	78,050	5,759,938	1,000,000	15,044,742	21,804,680
Total recognised gains	–	–	–	–	–	–	–	6,263,785	6,263,785
Dividends to shareholders	–	–	–	–	–	–	–	(3,600,000)	(3,600,000)
Balance at 31 December 2004	**3,397,517**	**2,217,742**	**65,979**	**650**	**78,050**	**5,759,938**	**1,000,000**	**17,708,527**	**24,468,465**
Balance at 1 January 2005	3,397,517	2,217,742	65,979	650	78,050	5,759,938	1,000,000	17,708,527	24,468,465
Total recognised gains	–	–	–	–	–	–	–	8,001,724	8,001,724
Revaluation Surplus	13,330,227	–	–	–	–	13,330,227	–	–	13,330,227
Dividends to shareholders	–	–	–	–	–	–	–	(5,000,000)	(5,000,000)
Balance at 31 December 2005	**16,727,744**	**2,217,742**	**65,979**	**650**	**78,050**	**19,090,165**	**1,000,000**	**20,710,251**	**40,800,416**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2005

In thousands of Leones	Note	2005	2004
Operating activities			
Interest received	6	**24,041,098**	20,733,156
Interest paid	6	**(3,613,322)**	(2,872,973)
Loan provision	10	**(449,422)**	(698,813)
Fees and commission received	7	**6,850,123**	5,498,812
Operating expenses paid	11	**(19,039,844)**	(15,730,365)
Other operating income	8,9	**4,227,826**	4,472,488
Depreciation of property plant and equipment	20	**2,263,144**	1,951,102
Cash flows from operating profits before changes in operating assets and liabilities		**14,279,603**	13,353,407
Changes in operating assets and liabilities			
Loans and advances to customers		**(13,350,790)**	(14,753,792)
Deposits from customers		**34,555,556**	25,493,467
Other assets		**(2,440,746)**	1,007,707
Other liabilities		**3,802,625**	2,101
Net cash flows from operating activities before tax		**36,846,248**	25,102,890
Income tax paid	12	**(4,367,419)**	(2,063,479)
Cash flows from operating activities		**32,478,829**	23,039,411
Investing activities			
Acquisition of equity investment		**–**	(207,305)
Acquisition of property, plant and equipment	20	**(10,089,768)**	(5,526,039)
Cash flows from investing activities		**(10,089,768)**	(5,733,344)
Financing activities			
Dividends paid		**(3,600,000)**	(306,350)
Cash flows from financing activities		**(3,600,000)**	(306,350)
Net increase in cash and cash equivalents		**18,789,061**	16,999,717
Cash and cash equivalents at 1 January		**91,084,114**	74,084,397
Cash and cash equivalents at 31 December	28	**109,873,175**	91,084,114

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Sierra Leone Commercial Bank Limited provides retail, corporate, consumer banking and other financial services to its customers in Sierra Leone.

The bank currently operates from its Head Office and eight branches throughout the country and employs 344 staff (2004: 326 staff).

The bank is incorporated and domiciled in Sierra Leone. The address of its registered office is Christian Smith Building, 29/31 Siaka Stevens Street Freetown.

These financial statements have been approved for issue by the Board of Directors on 31 March 2006

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

2.1 Basis of presentation

Sierra Leone Commercial Bank Limited's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and the restatement of financial assets and liabilities at fair values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.2 Foreign currency translation

(a) 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 Leones, which is the bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items such as equities held at fair values are reported as part of the fair value gains or losses.

2.3 Interest income and expense

Interest income and expense are recognised in the income statements for all instruments at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and method of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs and premiums or discounts.

The recognition of interest ceases when the payment of interest or principal becomes doubtful. Interest is included in income thereafter, only when it is received. Loans are returned to the accruals basis only when doubt about their collectibility is removed and when the outstanding arrears of interest and principal are received.

2.4 Fee and commissions income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loans.

Commissions and fees arising from negotiating or participating in the negotiations of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

2.5 Financial assets

The bank classifies its financial assets in the following categories: financial assets at their fair value through profit or loss; loans and receivables, held to maturity investment; and available for sale financial assets. Management determines the classification of its investment at initial recognition.

2.6 Impairment of financial assets

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 a group of financial assets is impaired if there is objective evidence of impairment as a 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 impacted on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

2.7 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

2.8 Property, plant and equipment

Land and buildings comprise mainly branch and office buildings. All property, plant and equipment are stated at historical cost or revaluation less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

All freehold buildings and leasehold premises with unexpired lease terms of more than 50 years are maintained to such a standard that the estimated residual values are considered to be equal to or greater than the gross book values. Accordingly no depreciation is provided on freehold buildings and leasehold premises with unexpired lease terms of more than 50 years. The value of leasehold premises with unexpired lease terms of less than 50 years is amortised over periods appropriate to the relevant lease terms on a straight line basis.

Land is not depreciated. Fixed equipment, fixtures and fittings are depreciated on a straight line basis over their estimated useful lives – 7 years, and not exceeding the period of the lease of the associated property.

Motor vehicles and computer hardware are depreciated on a straight line basis over a period of five and three years respectively.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate at each balance sheet date.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in currencies indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.9 Advances

(a) Balance sheet disclosure

Advances are stated in the balance sheet at the amounts of principal and interest outstanding less any provisions for bad and doubtful debts and interest suspended. Advances are analysed between the total amounts outstanding and provisions.

(b) Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment regularly.

Provision for bad and doubtful debts are made having regard to both specific and general risks.

The specific element of the provision relates to those loans that have been individually reviewed and specifically identified as bad or doubtful. The general element of the provision relates to those existing losses that although not yet specifically identified, are known from experience to be present at any year end in the bank's portfolio of loans and advances. In determining the level of provision required, management considers numerous factors including, but not limited to domestic economic conditions, the composition of the loan portfolio and prior bad debts experience.

Provisions made during the year (less amounts released and recoveries of loans previously written off) are charged separately in the profit and loss account. Loans are written off when the extent of any loss has been confirmed.

2.10 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three month's maturity from the date of acquisition, including cash and non restricted balances with the central bank, loans and advances to banks, amounts due from other banks and short-term government securities.

2.11 Provision

Provision for restructuring costs and legal claims are recognized when the bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.12 Employee benefits

(a) Pension obligations

The bank operates a defined contribution scheme. The scheme is generally funded through payments to the National Social Security and Insurance Trust or trustee-administered funds. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Gratuity fund*

The bank also contributes 5% of employee's basic salaries to a gratuity fund. Under the rules of the fund, employees receive their benefits when they leave the services of the bank.

(c) *Staff profit sharing scheme*

At present the bank does not operate a profit sharing scheme for its staff but only pays out annual bonuses to each staff.

A profit sharing scheme has been approved in principle by the National Commission for Privatisation but not yet implemented.

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax assets is realised or the deferred income tax liability is settled.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.14 Taxation

Income tax payable on profits, based on the applicable tax law in Sierra Leone is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

The bank provides for income taxes at the current rates on the taxable profits.

3. Financial risk management

3.1 Strategy in using financial instruments

The bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets. The bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The bank seeks to raise the interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances, but also guarantees and other commitments such as letters of credit and performance and other bonds.

3.2 Credit risk

The bank takes on exposures to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the bank's portfolio, could result in losses that are different from those provided at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and to geographical and industry segments. Limits on the level of credit risk by product, industry sector are approved by the Board of Directors.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposure.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits, where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

3.3 Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.4 Market risk

The bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency which are exposed to general and specific market movements. The bank applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

3.4 Currency risk

The bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial positions and cash flows. The bank sets limits on the level of exposure by currency.

Concentration of assets and liabilities

As at 31 December 2005

In thousands of Leones	Le	Euro	US$	GBP	Others	Total
Cash and balances with the Central Bank	14,209,550	43,684	621,263	60,284	2,842	14,937,623
Cash balances with other banks	–	4,675,396	24,916,238	6,964,768	–	36,556,402
Treasury bills and other eligible bills	58,379,150	–	–	–	–	58,379,150
Balance due from other banks	–	–	–	–	–	
Equity investment	327,305	–	–	–	–	327,305
Loans and advances to customers	48,672,333	–	–	–	–	48,672,333
Property, plant and equipment	38,629,836	–	–	–	–	38,629,836
Other assets	8,038,414	–	49,951	–	–	8,088,365
Income tax receivable	2,053,472	–	–	–	–	2,053,472
Total assets	**170,310,060**	**4,719,080**	**25,587,452**	**7,025,052**	**2,842**	**207,644,486**
Liabilities						
Due to customers	112,193,058	2,536,586	31,044,369	3,136,863	49,789	148,960,665
Other liabilities	14,622,472	–	–	–	–	14,622,472
Deferred tax liabilities	3,260,933	–	–	–	–	3,260,933
Total Liabilities	**130,076,463**	**2,536,586**	**31,044,369**	**3,136,863**	**49,789**	**166,844,070**
Net on-balance sheet position	**40,233,597**	**2,182,494**	**(5,456,917)**	**3,888,189**	**(46,947)**	**40,800,416**

3.5 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair values and cash flows risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

3.6 Liquidity risk

The bank is exposed to daily calls on its available cash resources from deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash settled transactions. The bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses the bank's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date:

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
At 31 December 2005						
Assets						
Cash and central bank balances	14,937,623	–	–	–	–	14,937,623
Treasury and other eligible bills	26,033,150	32,346,000	–	–	–	58,379,150
Due from other banks	36,556,402	–	–	–	–	36,556,402
Loans to customers	–	–	39,186,187	8,289,860	1,196,286	48,672,333
Equity investments	–	–	–	2,053,472	327,305	2,380,777
Other assets	3,552,860	1,806,782	1,501,702	4,325,763	35,531,094	46,718,201
Total assets	**81,080,035**	**34,152,782**	**40,687,889**	**14,669,095**	**37,054,685**	**207,644,486**
Liabilities						
Due to customers	148,682,240	161,138	104,502	12,785	–	148,960,665
Other liabilities	548,409	3,277,708	5,778,260	18,095	–	9,622,472
Deferred income tax	3,260,933	–	–	–	–	3,260,933
Total liabilities	**152,491,582**	**3,438,846**	**5,882,762**	**30,880**	**–**	**161,844,070**
Net liquidity gap	**(71,411,547)**	**30,713,936**	**34,805,127**	**14,638,215**	**37,054,685**	**45,800,416**
At 31 December 2005						
Total assets	58,188,781	34,009,271	8,597,162	48,036,501	1,521,813	150,353,528
Total liabilities	115,463,418	1,278,235	7,440,673	1,702,737		125,885,063
Net liquidity gap	(57,274,637)	32,731,036	1,156,489	46,333,764	1,521,813	24,468,465

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

4. Critical accounting estimates and judgments in applying accounting policies

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experiences and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a half yearly basis. In determining whether an impairment loss should be recorded in the income statement, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the bank, or national or local economic conditions that correlate with defaults on assets in the bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5. Business segments

The bank is organised and operates in Sierra Leone through its Head office and eight other branches. It carries out the retail, corporate and other banking activities in all of these branches.

6. Net interest income

In thousands of Leones	2005	2004
Interest and similar income		
Interest income		
Cash and cash equivalents	**453,114**	122,949
Investment securities	**12,428,183**	13,361,290
Loans and Advances to customers	**11,159,801**	7,248,917
	24,041,098	20,733,156
Interest expense		
Deposits from customers	**3,613,322**	2,872,973

7. Net fee and commission income

In thousands of Leones	2005	2004
Foreign cheques and other fees and commission	**202,371**	258,986
Credit related fees and commission	**2,884,738**	2,362,551
Commission on turnover	**3,763,014**	2,877,275
	6,850,123	5,498,812

8. Net trading income

In thousands of Leones	2005	2004
Foreign exchange:		
Translation/transactions gains less losses	**4,043,583**	3,990,433

9. Other operating income

In thousands of Leones	2005	2004
Rent receivables and others	**184,243**	482,055
	184,243	482,055

10. (Impairment losses on loans and advances)/release from bad and doubtful debts

In thousands of Leones	2005	2004
This comprises:		
Increase in general provision	**855,177**	1,428,464
Recoveries during the year	**(405,755)**	(729,651)
	449,422	698,813

11. Operating expenses

In thousands of Leones	2005	2004
Salaries and allowances	**6,358,440**	4,701,392
Provident Fund Contributions and retirement benefits	**617,088**	408,562
Other employee costs	**958,014**	1,030,947
	7,933,542	6,140,901
Depreciation	**2,263,144**	1,951,174
Occupancy costs	**334,572**	246,733
	10,531,258	8,338,808
Other operating expenses		
Audit fees	**50,000**	43,000
Repairs and Maintenance	**569,985**	499,682
Other related costs	**4,799,111**	4,633,898
Donation	**354,137**	413,009
Marketing	**1,198,293**	892,216
Utilities	**1,515,560**	909,752
Office Tax Consultation	**21,500**	–
	8,508,586	7,391,557
Total operating expenses	**19,039,844**	15,730,365

Included in the above costs is directors' remuneration of Le 120.5m (2004: Le 103.7m). The number of persons employed by the bank during the year was 344 (2004: 326)

12. Income tax Account

In thousands of Leones	**2005**	2004
Expense per income statement		
Taxation based on adjusted profits at the effective rate of 30% (2004: 35%)	**2,399,069**	3,585,994
Over Provision	**(92,741)**	–
Deferred taxation	**875,583**	1,552,526
Under Provision-Deferred Tax	**832,824**	–
	4,014,735	5,138,520
Per balance sheet		
At 1 January	**7,619**	(1,514,896)
Tax charge	**2,306,328**	3,585,994
	2,313,947	2,071,098
Payments made during the year	**(4,367,419)**	(2,063,479)
Balance carried forward at 31 December	**(2,053,472)**	7,619

12a Effective Tax Reconciliation

The tax on the company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits on the company as follows:

In thousands of Leones	**2005**	2004
Tax calculated at a tax rate of 30% (2004: 35%)	**3,604,938**	3,990,807
Tax incentives not recognised in the income statement	**–**	(988,323)
Effect of tax rate change	**(340,765)**	–
Deferred tax under provision (prior year)	**832,824**	–
Current income tax over provision	**(92,741)**	–
Tax impact of permanent differences:		
Expenses not deductible for tax purposes	**124,106**	1,460,057
Income not subject to tax	**(113,627)**	(876,547)
	4,014,735	3,585,994

12b. Deferred Tax Account

In thousands of Leones	**2005**	2004
At January	**1,552,526**	–
Charge/ (Credit) to P & L Account	**875,583**	1,552,526
Under provision for previous year	**832,824**	–
Deferred income taxes relating to loan impairment	**–**	499,962
At 31 December	**3,260,933**	2,052,488

13. Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the bank by the weighted average number of shares in issue during the year.

In thousands of Leones	**2005**	2004
Profit attributable to equity holders of the bank	**8,001,724**	6,263,785
Weighted average number of ordinary shares in issue (thousands)	**1,000,000**	1,000,000
Basic earnings per share (expressed in Leones per share)	**8.00**	6.26

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary share. As at 31 December 2005 there were no dilutive potential ordinary shares.

14. Cash and balances with the Central Bank

In thousands of Leones	**2005**	2004
Cash on hand	**6,576,688**	6,823,617
Other money market placements	**–**	3,000,000
Balance with the Central Bank	**8,360,935**	3,835,714
Included in cash and cash equivalents (note 28)	**14,937,623**	13,659,331

The bank was able to meet the minimum cash reserves and liquidity ratios as stipulated in the Banking Act.

15. Balances with other banks

In thousands of Leones	**2005**	2004
Nostro balances	**33,924,328**	18,427,904
Items in the course of collection from other banks	**2,632,074**	1,677,729
Included in cash and cash equivalents (note 28)	**36,556,402**	20,105,633

16. Treasury bills and other eligible bills

In thousands of Leones	**2005**	2004
Treasury Bills	**58,379,150**	57,319,150
Included in cash and cash equivalents (note 28)	**58,379,150**	57,319,150

Treasury bills are debt securities issued by the Government of Sierra Leone through the Central Bank for a term of three months. All bills are subject to variable interest rate risk.

17. Equity investments

In thousands of Leones	**2005**	2004
Equity securities in:		
First Discount House Limited	**165,000**	165,000
Capital Discount House	**100,000**	100,000
Home Finance Company Limited	**62,305**	100,000
Allowance for impairment	**–**	(37,695)
	327,305	327,305

18. Loans and advances to customers

a. Analysis by type of customer

In thousands of Leones	**2005**	2004
Individuals and other private enterprises	**50,617,846**	35,560,039
Staff	**1,987,420**	1,349,757
Public enterprises	**2,352,502**	4,135,426
	54,957,768	41,045,222
Less: Allowances for losses on loans and advances	**(2,829,392)**	(2,395,496)
Interest in suspense	**(3,456,043)**	(3,328,183)
	48,672,333	35,321,543

b. Analysis by sector

In thousands of Leones	2005	2004
Agric, Forestry and Fishing	1,891,972	1,670,031
Manufacturing	5,076,446	3,542,327
Construction	17,213,226	12,776,072
Commerce and Finance	12,749,533	12,330,293
Transport, Storage and Communication	7,289,397	4,715,280
Services	8,616,590	3,190,197
Miscellaneous	1,428,586	1,278,315
Electricity, Gas and Water	692,018	1,542,707
	54,957,768	41,045,222
Less: Allowances for losses on loans and advances	(2,829,392)	(2,395,496)
Interest suspense	(3,456,043)	(3,328,183)
	48,672,333	35,321,543

c. Type of advance

In thousands of Leones	2005	2004
Loans	15,861,701	8,108,333
Overdrafts	39,096,067	32,936,889
	54,957,768	41,045,222
Less: Allowances for losses on loans	(2,829,392)	(2,395,496)
Interest in suspense	(3,456,043)	(3,328,183)
	48,672,333	35,321,543

d. Allowances for losses on loans and advances

In thousands of Leones	2005	2004
Movement in allowances for losses on loans and advances:		
Provision at 1 January	2,395,496	1,877,080
New provisions	855,177	1,428,464
Provision released to profit and loss	(405,755)	(729,651)
Debts written off	(15,526)	(180,397)
Provision at 31 December	2,829,392	2,395,496

e. Interest in suspense

In thousands of Leones	2005	2004
Provision at 1 January	3,328,183	2,127,579
Net interest accrued and credited to suspense	127,860	1,200,604
Provision at 31 December	3,456,043	3,328,183

19. Other assets

In thousands of Leones	2005	2004
Bills receivable	6,558,939	5,153,118
Office accounts	1,476,234	262,976
Accrued interest and sundry receivables	53,192	231,525
	8,088,365	5,647,619

20. Property and equipment

In thousands of Leones	Computer equipment	Land and building	Furniture and Equipment	Motor Vehicles	Work-in progress	Total
Cost or valuation						
Balance at 1 January 2004	5,189,201	7,193,580	3,454,442	795,254	4,770,443	21,402,920
Accumulated depreciation	(4,177,452)	(1,109,191)	(1,730,731)	(487,498)	–	(7,504,872)
Carrying amount	1,011,749	6,084,389	1,723,711	307,756	4,770,443	13,898,048
End of year – 2004						
Opening carrying amount	1,011,749	6,084,389	1,723,711	307,756	4,770,443	13,898,048
Acquisitions/ (Transfers)	1,135,414	6,046,007	1,045,813	414,002	(3115,197)	5,526,039
Depreciation charge	(866,834)	(286,592)	(615,519)	(182,157)	–	(1,951,102)
Depreciation on disposal						
Closing carrying amount	1,280,329	11,843,804	2,154,005	539,601	1,655,246	17,472,985
At 31 December 2004						
Cost	6,324,615	13,239,587	4,500,255	1,209,257	1,655,246	26,928,960
Accumulated depreciation	(5,044,286)	(1,395,783)	(2,346,250)	(669,656)	–	(9,455,975)
Carrying amount	1,280,329	11,843,804	2,154,005	539,601	1,655,246	17,472,985
End of year – 2005						
Opening carrying amount	1,280,329	11,843,804	2,154,005	539,601	1,655,246	17,472,985
Acquisition/transfers	2,024,924	1,039,490	2,136,878	350,919	4,537,557	10,089,768
Revaluation gains	–	13,330,227	–	–	–	13,330,227
Depreciation charge	(918,275)	(465,730)	(700,383)	(178,756)	–	(2,263,144)
Disposal						
Closing carrying amounts	2,386,978	25,747,791	3,590,500	711,764	6,192,803	38,629,836
At 31 December 2005						
Cost	8,349,364	27,609,306	6,637,376	1,560,176	6,192,803	50,349,025
Accumulated depreciation	(5,962,386)	(1,861,515)	(3,046,876)	(848,412)	–	(11,719,189)
Carrying amount	2,386,978	25,747,791	3,590,500	711,764	6,192,803	38,629,836

All of the Bank's buildings were revalued in August 2005 by Messrs Ron Greene Associates, Quantity Surveyors, on a replacement cost basis.

The surplus on revaluation has been credited to the revaluation reserve. Work-in-progress relates to costs incurred on various construction projects for the bank and its branches, which were not completed at balance sheet date.

21. Due to customers

In thousands of Leones	2005	2004
Current accounts	61,300,618	46,572,844
Savings accounts	50,210,354	39,779,293
Time deposits	682,087	1,313,889
Customers foreign currency funds held	36,767,606	26,739,083
	148,960,665	114,405,109

22. Other liabilities

In thousands of Leones	2005	2004
Accrued interest not yet credited	2,649,221	3,463,965
Office accounts	1,962,886	2,040,183
Bills payable	5,010,365	315,699
Dividends	5,000,000	3,600,000
	14,622,472	9,419,847

23. Employee benefit obligations

Amount recognised in the balance sheet.

In thousands of Leones	2005	2004
Gratuity fund	–	28,546
Total included in office accounts in other liabilities	–	28,546

All amounts due and payable to the defined contribution schemes were settled by the end of the year.

Amount recognised in the income statement are as follows:

In thousands of Leones	2005	2004
Gratuity payments	294,085	181,160
National Social Security and Insurance		
Trust Fund	323,003	227,402
Total included in other employee costs	617,088	408,562

24. Issued capital

		2005		2004
		No. of		No. of
Authorised share capital:		shares		shares
Ordinary shares of Le 1 each		1,200,000,000		1,200,000,000
Issued and fully paid:	No. of	Proceeds	No. of	Proceeds
	shares	Le'000	shares	Le'000
Fully paid shares	1,000,000,000	1,000,000	1,000,000,000	1,000,000
Balance at 31 December	1,000,000,000	1,000,000	1,000,000,000	1,000,000

25. Reserves

In thousands of Leones	2005	2004
Capital reserves	650	650
Statutory reserves	2,217,742	2,217,742
Revaluation reserves	16,727,744	3,397,517
Development reserves	65,979	65,979
Other reserves	78,050	78,050
Total reserve as at 31 December	19,090,165	5,759,938

25(a) Statutory reserve

Section 21(1) of the Banking Act requires a licensed bank to transfer out of profits for each year, to a reserve fund an amount of 50% of the net profit for the year where the balance of the reserve fund is less than 50% of the paid up capital of the bank and an amount of 25% of the net profit for the year where the balance of the reserve fund is 50% or more but less than 100% of the paid up capital of the bank. No transfer has been made from the net profits as the bank's statutory reserve is more than 100% of its paid up capital.

25(b) Development reserve

This represents amounts set aside out of profits and before recommending a dividend at the discretion of the Directors in accordance with Section 117 of the Articles of Association, which could be employed in the business of the company or invested in such investment as the directors may from time to time think fit. No transfer was made to this reserve for the year under review.

25(c) Capital reserve

This represents amounts transferred from the other reserves at the discretion of the directors. No such transfer was made during the year under review.

25(d) Other reserves

This represents amount transferred from profits at the discretion of the directors. No such transfer was made for the year under review.

26. Retained earnings

In thousands of Leones	2005	2004
Movements in retained earnings were as follows:		
At 1 January	17,708,527	15,044,742
Net profit for the year	8,001,724	6,263,785
Dividend	(5,000,000)	(3,600,000)
	20,710,251	17,708,527

27. Dividends

In thousands of Leones	2005	2004
Dividends proposed:		
Le 5.00 per ordinary share on 1,000,000,000 shares (2004: Le 3.60)	5,000,000	3,600,000

Dividends are proposed by the Board of Directors and are ratified at the Annual General Meeting. The proposed dividend is accrued for in the financial statements.

At a meeting on 31 March 2006, a dividend in respect of 2005 of Le 5.00 per share was proposed (2004: Le3.60).

28. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

In thousands of Leones	2005	2004
Cash and balances with the Central Bank (note 14)	14,937,623	13,659,331
Balances with other banks (note 15)	36,556,402	20,105,633
Treasury bills and other eligible bills (note 16)	58,379,150	57,319,150
	109,873,175	91,084,114

29. Country analysis

The amount of total assets and total liabilities held inside and outside the country is analysed below:

In thousands of Leones	2005		2004	
	In Sierra Leone	Outside Sierra Leone	In Sierra Leone	Outside Sierra Leone
Assets				
Cash and cash equivalents	14,937,623	36,556,402	15,337,060	18,427,904
Treasury bills and other eligible bills	58,379,150	–	57,319,150	–
Equity investments	327,305	–	327,305	–
Other asset accounts	8,088,365	–	5,647,619	–
Advances	48,672,333	–	35,321,543	–
Income tax receivable	2,053,472	–		
Deferred tax asset		–	499,962	–
	132,458,248	36,556,402	114,452,639	18,427,904
Property and equipment	38,629,836	–	17,472,985	–
Total assets	171,088,084	36,556,402	131,925,624	18,427,904
Liabilities				
Deposit and current accounts	148,960,665	–	114,405,109	–
Other liabilities	9,622,472	–	9,419,847	–
Deferred tax liabilities	3,260,933	–	2,052,488	–
Income tax payable	–	–	7,619	–
Total liabilities	161,844,070	–	125,885,063	–

29a. Included in assets held outside Sierra Leone are the balances held with banks in the countries stated below:

In thousands of Leones	2005	2004
United Kingdom	15,618,253	6,201,994
Germany	1,758,854	162,523
United States of America	19,072,910	11,816,107
Others	106,385	247,280
	36,556,402	18,427,904

30. Contingencies liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the bank as at 31 December 2005. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Capital commitments

At 31 December 2005, the bank had capital commitments of Le6.1billion (2004: Le1.6 billion) in respect of building construction and equipment purchases. The bank is confident that future net revenues and funding will be sufficient to cover this commitment.

(c) Liabilities on acceptances, guarantees and indemnities

The contractual amounts of the bank's off-balance sheet financial instrument that commit it to extend credit to customers are as follows

In thousands of Leones	**2005**	2004
Liabilities on Acceptances, Guaranteesand Indemnities	**34,571,444**	53,079,275
Liabilities on confirmed Documentary Credits	**7,473,383**	555,608
	42,044,827	53,634,883

31. Related party transactions

The Bank has a related party relationship with its directors and officials.
A number of business transactions were entered into with its related parties in the normal course of business. These include the maintenance of deposit accounts and advances given out to them.

Related party transactions and balances at year end are as follows:

The volumes of related party transactions and outstanding balances at the year end are as follows:

	Directors and key Management personnel	
In thousands of Leones	**2005**	2004
Loans/advances		
Directors	**382,240**	276,406
Officials	**1,605,180**	1,349,708
Parliamentarians	**878,436**	2,115,247
Outstanding at 31 December	**2,865,856**	3,741,361

No provision has been recognised in respect of loans given to related parties (2004: nil).

The loans issued to directors during the year are repayable in monthly instalments over varied number of years and have interest rates ranging from 5% to 10% (2004: 5% to 10%). Some of the loans advanced to the directors during the year are collateralised by various securities.

	Directors and key Management personnel	
In thousands of Leones	**2005**	2004
Deposits		
Directors	**–**	–
Officials	**1,923,809**	1,844,876
Deposits at 31 December	**1,923,809**	1,844,876
Key management compensation		
Salaries and other short-term benefits	**1,127,727**	1,122,333
	1,127,727	1,122,333

Directors' remuneration

A listing of the members of the Board of Directors is shown on page 3 of the financial statements. In 2005, the total remuneration of the directors was Le 120.5 m (2004: Le103.7m).

32. Capital adequacy ratio

The capital adequacy ratio is the quotient of the capital base of the bank and the bank's risk-weighted asset base. In accordance with Section 20(1) of the Banking Regulations, the bank is supposed to maintain a minimum capital adequacy ratio of 15%.

In thousands of Leones			**2005**	2004
Capital base:				
Issued capital			**1,000,000**	1,000,000
Statutory reserve			**2,217,742**	2,217,742
Retained profit			**17,708,527**	15,044,742
Capital reserve			**650**	650
Net profit after tax			**8,001,724**	6,263,785
Revaluation reserves			**16,727,744**	3,397,517
Development reserves			**65,979**	65,979
Other reserves			**78,050**	78,050
			45,800,416	28,068,465
Risk weighted assets				
On balance sheet				
Assets			**2005**	2004
	Amount	**Weighting %**	**Weighted**	Weighted
Nostro balances	**33,924,328**	**20**	**6,784,866**	3,685,581
Advances (non cash guaranteed):				
Licensed institutions	**4,543,528**	**20**	**908,706**	904,287
Legal mortgage	**22,869,432**	**50**	**11,434,716**	10,190,654
Others	**18,267,544**	**100**	**18,267,544**	13,022,182
Other assets	**8,088,365**	**100**	**8,088,365**	5,647,619
Fixed assets	**38,629,836**	**100**	**38,629,836**	17,472,985
	126,323,033		**84,114,033**	50,923,308
Off balance sheet				
Assets				
Performance bonds				
Acceptances (less cash security)	**42,044,827**	**100**	**42,044,827**	53,634,883
Total	**168,367,860**		**126,158,860**	104,558,191
Capital adequacy ratio			**36**	**27**

CORRESPONDENT BANKS

HSBC USA
Fifth Avenue
New York, NY 10018
USA

HSBC PLC
International Division
P O Box 181
27/32 Poultry
London
EC2P 2BX
United Kingdom

HSBC PLC
HSBC Place
6–9 Rivera Road
Houghton 2198
South Africa

COMMERZBANK
Neue Mainzer Strabe 32–36
6000 Frankfurt (Main)
Germany

COMMERZBANK
Brussels Branch
Boulevard Louis SCHMIDT
B-1040 Brussels
Belgium

Designed & produced by Femcee UK. E-mail: Femcee1@aol.com