

2006

ANNUAL REPORT  
& ACCOUNTS



**SIERRA  
LEONE**

**COMMERCIAL BANK LIMITED**

*Delivering Value*

*“A leading financial services provider delivering value to all stakeholders”*



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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 ?????????? 2007 at 12 noon for the purpose of transacting the following business:

1. To open the meeting
2. To adopt the Minutes of the 33rd Annual General Meeting held on ?????????? 2006.
3. To receive and consider the annual report of the Directors, the Auditors' Report, and Audited Accounts for the year ended 31st December 2006.
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: ?????????? 2007

BY ORDER OF THE BOARD



**Christiana M Johnson (Ms)**  
**Company Secretary**





Patrick P Samu

**BOARD OF DIRECTORS**

**CHAIRMAN**

Patrick P Samu B.Sc. Econs, M.A International Development Studies

**MANAGING DIRECTOR**

Alhaji Dr. A Kakay B.Sc Econs,(USL) FCIB (England).MinstD(London)  
DCL(Honoris Causa)



Alhaji Dr. A Kakay

**OTHER MEMBERS**

Alhaji Fattah Gibrill

David Woobay T C (Physical Educ.& Geography). 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)

P.C. S A S Gbonda II (T.E.C).J.P.

Victor F Jamina (Died on 18th January 2006)

Abu Bakarr Adams (Died on 1st February 2006)

Anthony Brewah (Retired on 9th January 2006)



Alhaji Fattah Gibrill

**SECRETARY TO THE BOARD**

Christiana M Johnson (Ms) BA Dip.ED(USL), ACIS(London)



David Woobay

**AUDITORS**

PKF  
Chartered Accountants & Business Advisors  
Regent House  
12 Wilberforce Street  
Freetown



Bankole John

**SOLICITORS**

Messrs Renner-Thomas & Co.  
15 Lamina Sankoh Street  
Freetown



P.C. S A S Gbonda II

**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:SLCBSLFR  
Website:www.slcb.biz



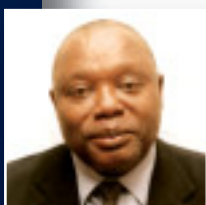
Christiana M Johnson



Alhaji Dr. A Kakay



C B Deigh



R M Roberts



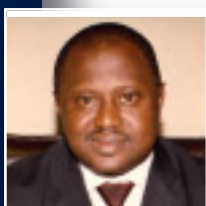
Ayodeji Scott-Boyle (Mrs)



G C Taylor



P Conteh



A Kalokoh

**HEAD OFFICE MANAGEMENT**

**MANAGING DIRECTOR**

Alhaji Dr A Kakay B.Sc. Econs.,(USL) FCIB(England) MinstD (London) DCL (Honoris Causa)

**DEPUTY MANAING DIRECTOR**

C B Deigh ACIB (England)MBA Finance (Leicester) U.K.

**EXECUTIVE DIRECTOR BANKING OPEATIONS**

Ayodeji Scott-Boyle (Mrs.)ACIS (London)

**EXECUTIVE DIRECTOR ADMINISTRATION/ HUMAN RESOURCES DEPARTMENT**

R M Roberts B.SC Econs (USL)

**EXECUTIVE DIRECTOR RISK MANAGEMENT**

P S Conteh B.Sc Econs ACCA(London) MBA

**EXECUTIVE DIRECTOR/BUSINESS DEVELOPMENT/SPECIAL ASSISTANT TO THE MANAGING DIRECTOR**

B Kalokoh B.Sc. (Econs) Hons. (USL), ACA (Nigeria), Associate Member – Institute of Internal Auditors

**EXECUTIVE DIRECTOR INFORMATION AND COMMUNICATION TECHNOLOGY**

G C Taylor OCBSM B.Sc Hons. Financial Services (USL)

**SENIOR MANAGER, FINANCE**

I A Kamara ACCA(London) ACA (SL) MBA Finance (Leicester) U.K.

**INSPECTOR**

M Hassan

**COMPANY SECRETARY**

C M Johnson (Ms) BA Dip.ED.(USL),ACIS(London)

**BRANCHES**

**SIAKA STEVENS STREET BRANCH:**

**SENIOR MANAGERS:**

M A W Mansaray (Diploma in Business Administration.)

C C O George B.Sc Hons. Financial Services (USL)

**MANAGERS:**

J B Sankoh B.Sc Hons. Financial Services (USL)

A R Mujtabah B.A.(USL)

**LIGHTFOOT BOSTON STREET:**

**MANAGER:**

C T Jones B.A. (Ed) (USL)

**CONGO CROSS BRANCH:**

**MANAGER:**

Melrose Cole (Mrs)

**KENEMA BRANCH:**

**MANAGER:**

A H Bangura B.Sc Hons. Financial Services (USL)

**BO BRANCH:**

**MANAGER:**

P Jajua B.Sc. (Econs) (USL)

**MAKENI BRANCH:**

**MANAGER:**

John Mans AAT

**KOIDU BRANCH:**

**MANAGER:**

Allieu B Conteh B.Sc. (Hons) Financial Services (USL)  
Post Graduate Diploma in Business Administration.

**CLINE TOWN BRANCH:**

**MANAGER:**

Claudia Coker (Mrs)



## INTRODUCTION

I acknowledge my new role as Chairman of this esteemed company following the demise of my predecessor, Mr. Victor Francis Jamina – may his soul rest in peace. I also sensed the challenges facing the bank in particular and the banking industry in general and feel very proud to be involved in this strategic process.

## PERFORMANCE RESULTS

I am delighted to report the following results for the financial year ending 2006:

- Pre-tax profit of Le10.9bn
- Revenue increased by 14 % to Le35.9bn
- Operating cost increased by 25 % to Le23.8bn
- Total assets increased by 20 % to Le249bn, with an increase in the Lending portfolio of 39 % to Le.67.1bn
- Customers' deposits grew by 27 % to Le189.1bn

## DIVIDEND

In the year under review, bonus shares of Le5bn in value were issued to the sole shareholder and in compliance with Section 21 of the Banking Act 2000; the bank transferred 50% of profit after tax of Le7.6bn to statutory reserve to match the increased capitalisation.

Consequently, we are recommending a dividend of Le3.8bn because of the significant increase in capitalisation and drop in the profits available for distribution.

## POLITICAL AND ECONOMIC OUTLOOK

We continue to witness growing political stability in the sub-region generally, with improved security and increased participation in local political processes. The government has continued in the re-building of Institutions and capacity, paramount in supporting democratic governance and economic structures.

Presidential and Parliamentary elections are slated for July 2007. Overall, the conditions are promising as political activities have not shown any visible adverse effect on business activities.

The country remains donor driven and donors continue to show considerable commitment in supporting the government in the implementation of agreed economic policy targets.

GDP growth for 2006 is forecast at 7% as a result of positive contributions from the mining sector following resumption of Titanium (rutile) and intensification of diamond Kimberlitic mining.

Significant growth activities were also recorded in the financial, construction and agricultural sectors.

Single digit inflation was achieved at 8.7% in 2006 due largely to prudent fiscal and monetary policies implementation, relatively stable oil prices and a satisfactorily stable exchange rate regime.

Fiscal and monetary achievement in the period was also driven by the need to satisfy one of the primary convergence criteria for the proposed monetary integration of the West Africa Monetary Zone which is expected to come into effect in 2009.

In the post election period, government policy will no doubt be guided by the IMF's poverty reduction and growth facility (PRGF 2006–08) programme and is expected to benefit from pledges by the country's Consultative Group of donors of US\$800m. In addition, debt cancellation facility of approximately US\$1.8bn will result in substantial funds which would otherwise have been used for debt and interest repayment being directed to essential social expenditures.

There are strong growth potentials in the various sectors that will create the necessary impetus for economic growth if further investments in electricity, technological advancement, Institutional capacity and other infrastructural needs are committed in order to create the enabling environment for private sector participation.

## CORPORATE STRATEGY

In view of our technological upgrade, the bank is now positioned to use its acquired Information and Communication Technology (ICT) infrastructure to advance its customer service programme with increased and improved electronic delivery channels. New branches and improvement of existing infrastructures will facilitate accommodation of the increasing customer base, especially small savers, whose savings capacity will continue to be vigorously harnessed in order to reduce activities in the informal sector.

The bank will continue to play an active role in providing credits to the private sector. The year 2006 witnessed a significant increase of 20% in short and medium term finances to various economic sectors.

In view of the declining yield in government securities, the bank directed its resources to the private sector with a view to providing badly needed funding for business and economic recovery and will continue that trend in 2007.

Staff resources remain our most valued strategic asset and their skills development and competences will continue to receive the bank's investment and support. The bank remains the largest employer in the industry in order to adequately cope with its expansion programs and growth potentials.

### **CORPORATE SOCIAL RESPONSIBILITY**

We have continued our investments in the tertiary educational system through contribution and assistance to the University of Sierra Leone, Njala University and other colleges which have been publicly acknowledged.

Our commitment to the development and promotion of sporting activities especially, sponsorship of the Premier Football League will remain a policy priority.

### **ACKNOWLEDGEMENT**

It is with profound gratitude that I extend my sincerest thanks and appreciation to our esteemed customers for their resourcefulness. I also take this opportunity to thank my colleagues in the board, management and staff for the excellent work and results achieved in the year under review and I look forward to their continued support and teamwork.

I am also very pleased and wish to acknowledge the support from the National Commission for Privatisation, Ministry of Finance, the Central Bank and other Governmental Agencies and extend my best wishes to all of them.



**Patrick P. Samu**  
Chairman





## INTRODUCTION

The banking industry in Sierra Leone continues to attract new players thus engendering strong competitiveness and technological challenges for the bank. Notwithstanding, I am pleased to report that the bank was able to maintain its leading position in terms of deposit mobilization and assets size.

The relatively stable political and economic environment accounted for a surge in economic activities in various key sectors such as mining, construction, agriculture, general commerce and services. The bank continues its support to the private sector in providing short term working capital funding to these sectors by significantly reducing its portfolio of government treasury bills.

## FINANCIAL REVIEW

The operating results posted pre-tax profit of Le10.9bn. This result was achieved against the backdrop of intensive competition and generally high operations and administration costs.

Gross income improved by 14% from Le31bn in 2005 to Le35.4bn, as a result of increases recorded in interest earnings, commission and trading fees. Net interest income increased by 13.8% from Le20.4bn in 2005 to Le23.2bn, while Commission and Fees increased by 22% from Le6.8bn in 2005 to Le8.4bn accounting for 23.8% of gross income compared with 22% for 2005.

Notwithstanding the improved turnover for the year, pre-tax profit performance remained flat because operating expenses grew by 25% from Le19bn in 2005 to Le23.8bn. This is the effect of higher depreciation provision associated with our investment in branch expansion and information technology maintenance cost. Higher utility and fuel costs in the absence of reliable electricity supply also affected the rising operations cost.

Balance sheet performance showed steady growth as the asset base of the bank increased by 20% from Le207bn in 2005 to Le249.6bn achieved chiefly by a substantial increase of 77% in overseas bank balances from Le36.5bn in 2005 to Le 64.7bn and a net rise of 39.7% in our lending book from Le38.6bn in 2005 to Le67.9bn

The balance sheet growth is also the product of sustained marketing efforts in mobilizing deposits with recorded growth of 27% from Le148.9bn in 2005 to Le189.1bn.

## BANK OPERATIONS

Driven by operational necessity and from a technological standpoint, Freetown branches have been reorganised to function mainly as service centres following removal and relocation of all back office processes to a centralised processing centre located at the Head Office.

While working on full automation of operational processes, plans are at an advanced stage to accommodate back office functions of all provincial branches. The result of centralization is very encouraging as branches can now focus in a more dedicated manner on front office services. This strategic arrangement is designed to support the bank's growing business operations in terms of cost and volume management.

We continue to see positive results from our various marketing initiatives which resulted in significant new account relationships, a clear indication of satisfactory consumer confidence.

The bank remains vigilant in its commitment to ensure full compliance with anti-money laundering policies and procedures and other industry regulations in every aspect of its business operations and dealings.

## BRANCH DEVELOPMENT

The network of branch outlets is vital to our corporate endeavours to deepen business activities within existing customers' parameters and in areas where we identified strong growth potentials.

In this vein, the refurbishment and relocation of Kenema Branch operations with full functionalities to provide a wide range of financial services was concluded in the last quarter. We now eagerly look forward for commencement of operations in Mobimbi and Njala towns where the premises are now ready to extend the bank's outreach to two major and commercially viable communities in the southern region.

Plans are also far advanced for the construction of a new branch building at Wilkinson Road, in the west end of Freetown, for the possible relocation of the Congo Cross Branch and in locating another branch in the central business district to cope with the increasing volumes in the main branch.

## TECHNOLOGY

The modular i-flex banking application, Flexcube, was deployed as the core banking infrastructure throughout the branches and head office in the last quarter of 2006, following a successful period of parallel runs.

With this strategic development and the previously installed dedicated VSAT, providing wide area network connectivity of all the bank's operations, the bank has now completed its technological upgrade and poised to accommodate the increasingly high volumes now apparent, over the next five years.

With the new software application in operation, we hope to pursue a material reduction in manual processing in order to significantly improve on our value chain through full automation of both front and back office activities.

To this end staff training will be intensified to ensure a professional approach in the handling of these new technological advances and ensure a positive reward on our investments.

## HUMAN RESOURCES DEVELOPMENT

We continue to recruit, retain and develop talents while providing welfare packages consistent with leaders in the industry. To this end, our net staff complement marginally increased from 344 in 2005 to 359 in order to cope with increasing volumes and proposed new branch operations.

In line with our corporate skills development program, sponsorship of deserving staff to pursue academic degree programs and professional courses relevant to the needs of the bank remain a policy priority. Consequently, I am pleased to report that 5 staff members in the final year category graduated in BSc. Hons in Financial Services with one completion of ACCA studies recorded.

During the course of the year, 6 members of staff with distinguished service retired from the bank. We convey our sincerest thanks and admiration for their devoted service to the bank and wish them a very happy retirement.

The bank will strive to remain a knowledge led Institution committed to motivating, nurturing and developing the skills set and competence of its workforce in a dynamic industry.

## STRATEGIC OUTLOOK – 2007

Continued donor financing remain crucial in achieving national budgetary proposals and its resultant objectives. The consistent high GDP growth, averaging 7% in the last few years is yet to create any visible impact in addressing the social malaise in the country. However, important strides in economic policy management resulted in government achieving completion points under the HIPC initiative which resulted in substantial debt forgiveness in the region of \$1.9bn for the country.

Pledged funds of over Le800.bn for the implementation of the government's poverty reduction programme will also serve as catalyst in the economic recovery process.

The bank is therefore poised to be active in the expected intensified private/public partnership that should ensue in regularising the economy.

In the ensuing period, customer retention remains our primary focus and all services will be directed towards exceeding their expectations.

Given our cash intensive economy, the bank has identified an important role for Debit Card products and Point of Sale terminals (POS) to be used as medium of exchange.

As business development takes a center stage in our strategic direction, the bank will deploy its sales force initiative to consolidate its leadership position in deposits mobilisation and asset growth and improving on the return of our earning assets above industry standard.

We will pursue our twin competitive strategies of cost/volume leadership and differentiation using the enormous capabilities of our Information, Communication and Technological infrastructure.

In view of the importance of food security, the bank will focus strongly on supporting mechanised agricultural initiatives by providing short term funding to the private sector

## ACKNOWLEDGEMENT

I take this moment to thank and express my abundant appreciation to my management team and staff for their immense contribution, dedication and support during the year.

My gratitude also extends to the Board of Directors for their unflinching support and guidance. The cooperation from the National Commission for Privatisation, the Central Bank and the Ministry of Finance is highly commendable and indeed well recognised.



**Alhaji Dr. Abdulai Kakay**  
Managing Director

The Directors have pleasure in submitting their report to the shareholders together with the audited financial statements for the year ended 31 December 2006.

## 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 63.33 cents for each share as at 31 December 2006 (2005: Le 5.00 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 2006 the capital adequacy of the bank was 28%. (2005: 32%). 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 2006:

Patrick Pius Samu	–	(Chairman)
Alhaji Dr. Abdulai Kakay	–	(Managing Director)
Alhaji Fattah A Gibril		
David Woobay		
Bankole John		
PC S A S Gbonda II		
Anthony Brewah	–	(Retired on 9 January 2006)
Victor F Jamina	–	(Died on 18 January 2006)
Abubakarr Adams	–	(Died on 1 February 2006)

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



**Christiana 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 2006 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 2006 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.



**Chartered Accountants**  
**Freetown**  
**Date:**

## Income Statement

For the year ended 31 December 2006

In thousands of Leones	Note	2006	2005
Interest and similar income	6	27,010,241	24,041,098
Interest expenses and similar charges	6	(4,037,300)	(3,613,322)
<b>Net interest income</b>		<b>22,972,941</b>	20,427,776
Net fee and commission income	7	8,444,073	6,850,123
Net trading income	8	4,293,761	4,043,583
Other operating income	9	242,830	184,243
(Impairment losses on loans and advances)/ release from bad and doubtful debts	10	(1,261,837)	(449,422)
Operating expenses	11	(23,826,063)	(19,039,844)
<b>Operating profit</b>		<b>10,865,705</b>	12,016,459
Income tax expense	12	(3,262,327)	(4,014,735)
<b>Profit after taxation</b>		<b>7,603,378</b>	8,001,724

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

(In Leones per share)

Basic	13	0.63	1.33
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The notes on pages 15 to 31 are an integral part of these financial statements

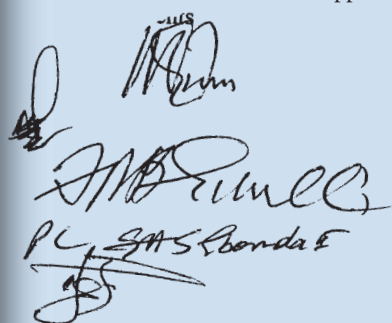


**Balance Sheet**

For the year ended 31 December 2006

In thousands of Leones	Note	2006	2005
<b>Assets</b>			
Cash and balances with The Central Bank	14	13,412,585	14,937,623
Cash balances with other banks	15	64,752,572	36,556,402
Treasury bills and other eligible bills	16	36,645,150	58,379,150
Equity investment	17	327,305	327,305
Loans and advances to customers	18	67,176,719	48,672,333
Other assets	19	21,175,230	8,088,365
Property, plant and equipment	20	43,280,801	38,629,836
Income tax receivable	12	3,886,431	2,053,472
		<b>250,656,793</b>	<b>207,644,486</b>
<b>Liabilities</b>			
Due to customers	21	189,170,810	148,960,665
Other liabilities	22	12,039,653	14,622,472
Deferred income tax liabilities	12b	4,842,536	3,260,933
<b>Total liabilities</b>		<b>206,052,999</b>	<b>166,844,070</b>
<b>Shareholders' equity</b>			
Issued share capital	24	6,000,000	1,000,000
Reserves	25	22,891,854	19,090,165
Retained earnings	26	15,711,940	20,710,251
<b>Total equity</b>		<b>44,603,794</b>	<b>40,800,416</b>
<b>Total liabilities and Shareholders' equity</b>		<b>250,656,793</b>	<b>207,644,486</b>

These financial statements were approved by the Board of Directors on 29 March 2007



The image shows several handwritten signatures in black ink, likely representing the members of the Board of Directors who approved the financial statements.

Directors

The notes on pages 15 to 31 are an integral part of these financial statements

## Statement of Changes in Equity

For the year ended 31 December 2006

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 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 Reserve	13,330,227	-	-	-	-	13,330,227	-	-	13,330,227
Dividends to shareholders	-	-	-	-	-	-	-	(5,000,000)	(5,000,000)
<b>Balance at 31 December 2005</b>	<b>16,727,744</b>	<b>2,217,742</b>	<b>65,979</b>	<b>650</b>	<b>78,050</b>	<b>19,090,165</b>	<b>1,000,000</b>	<b>20,710,251</b>	<b>40,800,416</b>
Balance at 1 January 2006	16,727,744	2,217,742	65,979	650	78,050	19,090,165	1,000,000	20,710,251	40,800,416
Total recognised gains	-	-	-	-	-	-	-	7,603,378	7,603,378
Transfer from revenue reserve	-	-	-	-	-	-	5,000,000	(5,000,000)	-
Transfer to statutory reserve	-	3,801,689	-	-	-	3,801,689	-	(3,801,689)	-
Dividends to shareholders	-	-	-	-	-	-	-	(3,800,000)	(3,800,000)
<b>Balance at 31 December 2006</b>	<b>16,727,744</b>	<b>6,019,431</b>	<b>65,979</b>	<b>650</b>	<b>78,050</b>	<b>22,891,854</b>	<b>6,000,000</b>	<b>15,711,940</b>	<b>44,603,794</b>



**Statement of Cash Flows***For the year ended 31 December 2006*

In thousands of Leones	Note	2006	2005
<b>Operating activities</b>			
Interest received	6	27,010,241	24,041,098
Interest paid	6	(4,037,300)	(3,613,322)
Loan provision	10	(1,261,837)	(449,422)
Fees and commission received	7	8,444,073	6,850,123
Operating expenses paid	11	(23,826,063)	(19,039,844)
Other operating income	8, 9	4,536,591	4,227,826
Depreciation of property plant and equipment	20	3,308,105	2,263,144
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>14,173,810</b>	<b>14,279,603</b>
<b>Changes in operating assets and liabilities</b>			
Loans and advances to customers		(18,504,386)	(13,350,790)
Deposits from customers		40,210,145	34,555,556
Other assets		(13,086,865)	(2,440,746)
Other liabilities		(1,382,819)	3,802,625
<b>Net cash flows from operating activities before tax</b>		<b>21,409,885</b>	<b>36,846,248</b>
Income tax paid	12	(3,513,683)	(4,367,419)
<b>Cash flows from operating activities</b>		<b>17,896,202</b>	<b>32,478,829</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment	20	(7,959,070)	(10,089,768)
<b>Cash flows from investing activities</b>		<b>(7,959,070)</b>	<b>(10,089,768)</b>
<b>Financing activities</b>			
Dividends paid		(5,000,000)	(3,600,000)
<b>Cash flows from financing activities</b>		<b>(5,000,000)</b>	<b>(3,600,000)</b>
Net increase in cash and cash equivalents		4,937,132	18,789,061
Cash and cash equivalents at 1 January		109,873,175	91,084,114
<b>Cash and cash equivalents at 31 December</b>	28	<b>114,810,307</b>	<b>109,873,175</b>

## Notes to the Financial Statements

For the year ended 31 December 2006

### 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 359 staff (2005: 344 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 29 March 2007

### 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 have 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 circumstances 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.

#### *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.

### 3.3 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

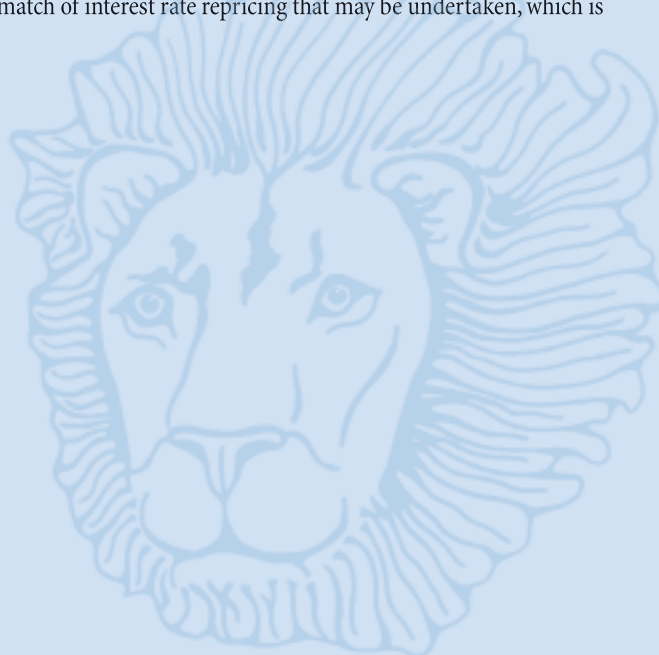
The bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial positions and cash flows. The bank sets limits on the level of exposure by currency.

**Concentration of assets and liabilities***As at 31 December 2006*

In thousands of Leones	Le	Euro	US\$	GBP	Total
Cash and balances with the Central Bank	11,820,177	58,039	1,036,122	498,247	13,412,585
Cash balances with other banks	–	5,561,821	55,431,515	3,759,236	64,752,572
Treasury bills and other eligible bills	36,645,150	–	–	–	36,645,150
Equity investment	327,305	–	–	–	327,305
Loans and advances to customers	67,176,719	–	–	–	67,176,719
Property, plant and equipment	43,280,801	–	–	–	43,280,801
Other assets	21,123,620	–	51,610	–	21,175,230
Income tax receivable	3,886,431	–	–	–	3,886,431
<b>Total assets</b>	<b>184,260,203</b>	<b>5,619,860</b>	<b>56,519,247</b>	<b>4,257,483</b>	<b>250,656,793</b>
<b>Liabilities</b>					
Due to customers	127,380,564	4,741,717	53,205,610	3,842,919	189,170,810
Other liabilities	12,039,653	–	–	–	12,039,653
Deferred tax liabilities	4,842,536	–	–	–	4,842,536
<b>Total Liabilities</b>	<b>144,262,753</b>	<b>4,741,717</b>	<b>53,205,610</b>	<b>3,842,919</b>	<b>206,052,999</b>
<b>Net on-balance sheet position</b>	<b>39,997,450</b>	<b>878,143</b>	<b>3,313,637</b>	<b>414,564</b>	<b>44,603,794</b>

**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
<i>At 31 December 2006</i>						
<b>Assets</b>						
Cash and balances with the central bank	13,412,585	-	-	-	-	13,412,585
Treasury and other eligible bills	-	36,645,150	-	-	-	36,645,150
Due from other banks	64,752,572	-	-	-	-	64,752,572
Loans to customers	-	-	64,516,011	974,697	1,686,011	67,176,719
Equity investments	-	-	-	3,886,431	327,305	4,213,736
Other assets	7,810,391	4,611,226	8,391,512	8,717,702	34,925,200	64,456,031
<b>Total assets</b>	<b>85,975,548</b>	<b>41,256,376</b>	<b>72,907,523</b>	<b>13,578,830</b>	<b>36,938,516</b>	<b>250,656,793</b>
<b>Liabilities</b>						
Due to customers	186,657,804	2,325,325	173,891	13,790	-	189,170,810
Other liabilities	1,452,891	6,079,287	4,235,710	271,765	-	12,039,653
Deferred income tax	4,842,536	-	-	-	-	4,842,536
<b>Total liabilities</b>	<b>192,953,231</b>	<b>8,404,612</b>	<b>4,409,601</b>	<b>285,555</b>	<b>-</b>	<b>206,052,999</b>
<b>Net liquidity gap</b>	<b>(106,977,683)</b>	<b>32,851,764</b>	<b>68,497,922</b>	<b>13,293,275</b>	<b>36,938,516</b>	<b>44,603,794</b>
<i>At 31 December 2005</i>						
Total assets	81,080,035	34,152,782	40,687,889	14,669,095	37,054,685	207,644,486
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

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	2006	2005
<b>Interest and similar income</b>		
<b>Interest income</b>		
Cash and cash equivalents	1,559,673	453,114
Investment securities	10,728,767	12,428,183
Loans and Advances to customers	14,721,801	11,159,801
	<b>27,010,241</b>	24,041,098
<b>Interest expense</b>		
Deposits from customers	4,037,300	3,613,322

#### 7. Net fee and commission income

In thousands of Leones	2006	2005
Foreign cheques and other fees and commission	152,187	202,371
Credit related fees and commission	3,652,762	2,884,738
Commission on turnover	4,639,124	3,763,014
	<b>8,444,073</b>	6,850,123

#### 8. Net trading income

In thousands of Leones	2006	2005
Foreign exchange:		
Translation/transactions gains less losses	4,293,761	4,043,583

#### 9. Other operating income

In thousands of Leones	2006	2005
Rent receivables and others	242,830	184,243
	<b>242,830</b>	184,243

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

In thousands of Leones	2006	2005
This comprises:		
Increase in general provision	1,653,701	855,177
Recoveries during the year	(391,864)	(405,755)
	1,261,837	449,422

**11. Operating expenses**

In thousands of Leones	2006	2005
Salaries and allowances	7,810,514	6,358,440
Provident Fund Contributions and retirement benefits	705,477	617,088
Other employee costs	886,533	958,014
	9,402,524	7,933,542
Depreciation	3,308,105	2,263,144
Occupancy costs	475,280	334,572
	13,185,909	10,531,258
<b>Other operating expenses</b>		
Audit fees	60,000	50,000
Repairs and Maintenance	953,329	569,985
Other related costs	5,251,100	4,799,111
Donations	336,271	354,137
Marketing	1,743,620	1,198,293
Utilities	2,269,984	1,515,560
Office Tax Consultation	25,850	21,500
	10,640,154	8,508,586
<b>Total operating expenses</b>	<b>23,826,063</b>	<b>19,039,844</b>

Included in the above costs is directors' remuneration of Le 132.6m (2005: Le 120.5m). The number of persons employed by the bank during the year was 359 (2005: 344)

**12. Income tax Account**

In thousands of Leones	2006	2005
Expense per income statement		
Taxation based on adjusted profits at the effective rate of 30% (2005: 30%)	1,680,724	2,399,069
Over Provision	–	(92,741)
Deferred taxation	1,581,603	875,583
Under Provision-Deferred Tax	–	832,824
	<b>3,262,327</b>	<b>4,014,735</b>
Per balance sheet		
At 1 January	(2,053,472)	7,619
Tax charge	1,680,724	2,306,328
	<b>(372,748)</b>	<b>2,313,947</b>
Payments made during the year	(3,513,683)	(4,367,419)
<b>Balance carried forward at 31 December</b>	<b>(3,886,431)</b>	<b>(2,053,472)</b>

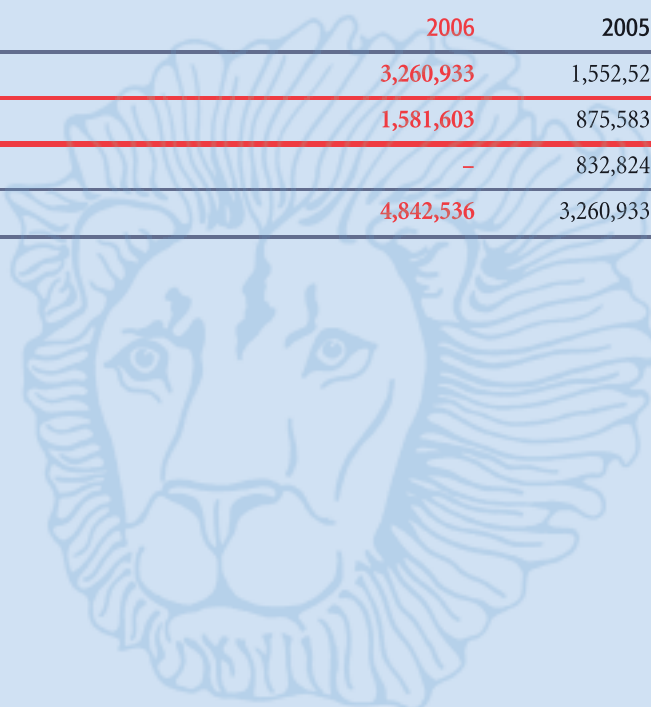
**12a Effective Tax Reconciliation**

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	2006	2005
Tax calculated at a tax rate of 30% (2005: 30%)	3,258,767	3,604,938
Effects 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	119,040	124,106
Income not subject to tax	(115,480)	(113,627)
	<b>3,262,327</b>	<b>4,014,735</b>

**12b. Deferred Tax Account**

In thousands of Leones	2006	2005
At January	3,260,933	1,552,52
Charge to P & L Account	1,581,603	875,583
Under provision for previous year	–	832,824
<b>At 31 December</b>	<b>4,842,536</b>	<b>3,260,933</b>



**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	2006	2005
Profit attributable to equity holders of the bank	3,801,689	8,001,724
Weighted average number of ordinary shares in issue (thousands)	6,000,000	6,000,000
Basic earnings per share (expressed in Leones per share)	0.63	1.33

*Capitalisation/ Bonus Issue*

During the year, 5 billion ordinary shares were issued to existing shareholders for no additional consideration. The number of ordinary shares outstanding before the event has been adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred on 1st January 2005.

**14. Cash and balances with the Central Bank**

In thousands of Leones	2006	2005
Cash on hand	3,295,982	6,576,688
Other money market placements	3,850,548	–
Balance with the Central Bank	6,266,055	8,360,935
<b>Included in cash and cash equivalents (note 28)</b>	<b>13,412,585</b>	<b>14,937,623</b>

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	2006	2005
Nostro balances	64,752,572	33,924,328
Items in the course of collection from other banks	–	2,632,074
<b>Included in cash and cash equivalents (note 28)</b>	<b>64,752,572</b>	<b>36,556,402</b>

**16. Treasury bills and other eligible bills**

In thousands of Leones	2006	2005
Treasury Bills	36,645,150	58,379,150
<b>Included in cash and cash equivalents (note 28)</b>	<b>36,645,150</b>	<b>58,379,150</b>

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	2006	2005
Equity securities in:		
First Discount House Limited	165,000	165,000
Capital Discount House	100,000	100,000
Home Finance Company Limited	62,305	62,305
	<b>327,305</b>	<b>327,305</b>

**18. Loans and advances to customers****a. Analysis by type of customer**

In thousands of Leones	2006	2005
Individuals and other private enterprises	4,829,663	50,617,846
Staff	2,662,767	1,987,420
Public enterprises	68,228,778	2,352,502
	75,721,208	54,957,768
Less: Allowances for losses on loans and advances	(4,025,517)	(2,829,392)
Interest in suspense	(4,518,972)	(3,456,043)
	67,176,719	48,672,333

**b. Analysis by sector**

In thousands of Leones	2006	2005
Agric, Forestry and Fishing	1,021,255	1,891,972
Manufacturing	4,514,617	5,076,446
Construction	16,698,138	17,213,226
Commerce and Finance	17,772,967	12,749,533
Transport, Storage and Communication	13,207,606	7,289,397
Services	18,612,824	8,616,590
Miscellaneous	1,798,437	1,428,586
Electricity, Gas and Water	2,095,364	692,018
	75,721,208	54,957,768
Less: Allowances for losses on loans and advances	(4,025,517)	(2,829,392)
Interest suspense	(4,518,972)	(3,456,043)
	67,176,719	48,672,333

**c. Type of advance**

In thousands of Leones	2006	2005
Loans	20,893,654	15,861,701
Overdrafts	54,827,554	39,096,067
	75,721,208	54,957,768
Less: Allowances for losses on loans	(4,025,517)	(2,829,392)
Interest in suspense	(4,518,972)	(3,456,043)
	67,176,719	48,672,333

**d. Allowances for losses on loans and advances**

In thousands of Leones	2006	2005
Movement in allowances for losses on loans and advances:		
Provision at 1 January	2,829,392	2,395,496
New provisions	1,653,700	855,177
Provision released to profit and loss	(391,864)	(405,755)
Debts written off	(65,711)	(15,526)
<b>Provision at 31 December</b>	<b>4,025,517</b>	<b>2,829,392</b>

**e. Interest in suspense**

In thousands of Leones	2006	2005
Provision at 1 January	3,456,043	3,328,183
Net interest accrued and credited to suspense	1,062,929	127,860
<b>Provision at 31 December</b>	<b>4,518,972</b>	<b>3,456,043</b>

**19. Other assets**

In thousands of Leones	2006	2005
Bills receivable	7,810,391	6,558,939
Office accounts	4,611,226	1,476,234
Accrued interest and sundry receivables	8,753,613	53,192

**20. Property and equipment**

In thousands of Leones	Computer equipment	Land and building	Furniture and Equipment	Motor Vehicles	Work-in progress	Total
<b>Cost or valuation</b>						
Balance at 1 January 2005	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)
<b>Carrying amount</b>	<b>1,280,329</b>	<b>11,843,804</b>	<b>2,154,005</b>	<b>539,601</b>	<b>1,655,246</b>	<b>17,472,985</b>
<b>End of year – 2005</b>						
Opening carrying amount	1,280,329	11,843,804	2,154,005	539,601	1,655,246	17,472,985
Acquisitions	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)
<b>Closing carrying amount</b>	<b>2,386,978</b>	<b>25,747,791</b>	<b>3,590,500</b>	<b>711,764</b>	<b>6,192,803</b>	<b>38,629,836</b>
<b>At 31 December 2005</b>						
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)
<b>Carrying amount</b>	<b>2,386,978</b>	<b>25,747,791</b>	<b>3,590,500</b>	<b>711,764</b>	<b>6,192,803</b>	<b>38,629,836</b>
<b>End of year – 2006</b>						
Opening carrying amount	2,386,978	25,747,791	3,590,500	711,764	6,192,803	38,629,836
Acquisitions/(transfers)	5,928,520	4,421,988	1,393,640	922,116	(4,707,194)	7,959,070
Depreciation charge	(1,267,612)	(796,434)	(917,894)	(326,165)	-	(3,308,105)
<b>Closing carrying amounts</b>	<b>7,047,886</b>	<b>29,373,345</b>	<b>4,066,247</b>	<b>1,307,715</b>	<b>1,485,609</b>	<b>43,280,801</b>
<b>At 31 December 2006</b>						
Cost	14,278,391	32,031,293	8,021,969	2,482,292	1,485,609	58,299,554
Accumulated depreciation	(7,230,505)	(2,657,949)	(3,955,722)	(1,174,577)	-	(15,018,753)
<b>Carrying amount</b>	<b>7,047,886</b>	<b>29,373,344</b>	<b>4,066,247</b>	<b>1,307,715</b>	<b>1,485,609</b>	<b>43,280,801</b>

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	2006	2005
Current accounts	66,935,326	61,300,618
Savings accounts	57,932,232	50,210,354
Time deposits	2,513,006	682,087
Customers foreign currency funds held	61,790,246	36,767,606
	<b>189,170,810</b>	<b>148,960,665</b>

**22. Other liabilities**

In thousands of Leones	2006	2005
Accrued interest not yet credited	1,452,893	2,649,221
Office accounts	435,710	1,962,886
Bills payable	6,351,050	5,010,365
Dividends	3,800,000	5,000,000
	<b>12,039,653</b>	<b>14,622,472</b>

**23. Employee benefit obligations**

In thousands of Leones	2006	2005
Amount recognised in the income statement are as follows:		
Gratuity payments	304,418	294,085
National Social Security and Insurance Trust Fund	401,059	323,003
<b>Total included in other employee costs</b>	<b>705,477</b>	<b>617,088</b>

**24. Share Capital**

	2006		2005	
	No. of shares		No. of shares	
<b>Authorised share capital:</b>				
Ordinary shares of Le 1 each	18,000,000,000		1,200,000,000	
<b>Issued share capital:</b>	<b>No. of Shares</b>	<b>Proceeds Le'000</b>	<b>No. of shares</b>	<b>Proceeds Le'000</b>
Fully paid shares	1,000,000,000	1,000,000	1,000,000,000	1,000,000
Bonus shares	5,000,000,000	5,000,000	-	-
<b>Balance at 31 December</b>	<b>6,000,000,000</b>	<b>6,000,000</b>	<b>1,000,000,000</b>	<b>1,000,000</b>

In accordance with Central Bank Regulation, the bank issued 5 billion units of bonus shares during the year, in order to meet the stipulated minimum capital requirement. The Authorised Share capital of the bank was also increased from Le1.2 billion divided into 1.2 billion ordinary shares of Le1.00 each to Le18 billion by the creation of additional 16.8 billion ordinary shares of Le1.00 each.

**25. Reserves**

In thousands of Leones	2006	2005
Capital reserves	650	650
Statutory reserves	6,019,431	2,217,742
Revaluation reserves	16,727,744	16,727,744
Development reserves	65,979	65,979
Other reserves	78,050	78,050
<b>Total reserve as at 31 December</b>	<b>22,891,854</b>	<b>19,090,165</b>

**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. Accordingly the statutory reserve is less than 50% of paid-up capital following bonus issue. Consequently an amount of Le 3,801,689,000 was transferred to statutory reserve.

**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	2006	2005
Movements in retained earnings were as follows:		
At 1 January	20,710,251	17,708,527
Net profit for the year	7,603,378	8,001,724
Dividend	(3,800,000)	(5,000,000)
Transfer to Share Capital	(5,000,000)	-
Transfer to Statutory Reserve	(3,801,689)	-
	15,711,940	20,710,251

**27. Dividends**

In thousands of Leones	2006	2005
Dividends proposed:		
63.33 Cents per ordinary share on 6,000,000,000 shares (2005: Le 5.00)	3,800,000	5,000,000

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 29 March 2007, a dividend in respect of 2006 of 63.33 cents per share was proposed (2005: Le5.00).

**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	2006	2005
Cash and balances with the Central Bank (note 14)	13,412,585	14,937,623
Balances with other banks (note 15)	64,752,572	36,556,402
Treasury bills and other eligible bills (note 16)	36,645,150	58,379,150
	114,810,307	109,873,175

## 29. Country analysis

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

In thousands of Leones	2006		2005	
	In Sierra Leone	Outside Sierra Leone	In Sierra Leone	Outside Sierra Leone
<b>Assets</b>				
Cash and cash equivalents	13,412,585	64,752,572	14,937,623	36,556,402
Treasury bills and other eligible bills	36,645,150	–	58,379,150	–
Equity investments	327,305	–	327,305	–
Other asset accounts	21,175,230	–	8,088,365	–
Advances	67,176,719	–	48,672,333	–
Income tax receivable	3,886,431	–	2,053,472	–
	142,623,420	64,752,572	132,458,248	36,556,402
Property and equipment	43,280,801	–	38,629,836	–
<b>Total assets</b>	<b>185,904,221</b>	<b>64,752,572</b>	<b>171,088,084</b>	<b>36,556,402</b>
<b>Liabilities</b>				
Deposit and current accounts	189,170,810	–	148,960,665	–
Other liabilities	12,039,653	–	14,622,472	–
Deferred tax liabilities	4,842,536	–	3,260,933	–
<b>Total liabilities</b>	<b>206,052,999</b>	<b>–</b>	<b>166,844,070</b>	<b>–</b>

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

In thousands of Leones	2006	2005
United Kingdom	8,772,373	15,618,253
Germany	5,421,607	1,758,854
United States of America	49,192,345	19,072,910
Others	1,366,247	106,385
	64,752,572	36,556,402

## 30. Contingencies, liabilities and commitments

### (a) Legal proceedings

There were a number of court cases in which the Bank was the plaintiff for the year to 31 December 2006. 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 2006, the bank had capital commitments of Le1.48billion (2005: Le 6.1 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	2006	2005
Liabilities on Acceptances, Guarantees and Indemnities	23,649,730	34,571,444
Liabilities on confirmed Documentary Credits	8,550,689	7,473,383
	32,200,419	42,044,827

**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.

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

In thousands of Leones	Directors and key Management personnel	
	2006	2005
<b>Loans/advances</b>		
Directors	231,515	382,240
Officials	2,324,916	1,605,180
Parliamentarians	–	878,436
<b>Outstanding at 31 December</b>	<b>2,556,431</b>	<b>2,865,856</b>

No provision has been recognised in respect of loans given to related parties (2005: 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% (2005: 5% to 10%). Some of the loans advanced to the directors during the year are collateralised by various securities.

In thousands of Leones	Directors and key Management personnel	
	2006	2005
<b>Deposits</b>		
Officials	781,440	1,923,809
<b>Deposits at 31 December</b>	<b>781,440</b>	<b>1,923,809</b>
<b>Key management compensation</b>		
Salaries and other short-term benefits	1,403,488	1,127,727
	<b>1,403,488</b>	<b>1,127,727</b>

**Directors' remuneration**

A listing of the members of the Board of Directors is shown on page 3 of the financial statements. In 2006, the total remuneration of the directors was Le 132.6 m (2005: Le120.5m).

**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	2006	2005
Capital base:		
Issued capital	6,000,000	1,000,000
Statutory reserve	6,019,431	2,217,742
Retained profit	15,710,251	17,708,527
Capital reserve	650	650
Retained profit for the year	1,689	3,001,724
Revaluation reserves	16,727,744	16,727,744
Development reserves	65,979	65,979
Other reserves	78,050	78,050
Equity investments	(327,305)	(327,305)
	<b>44,276,489</b>	<b>40,473,111</b>

## Risk weighted assets

## On balance sheet

Assets	Amount	Weighting %	2006 Weighted	2005 Weighted
Nostro balances	64,752,572	20	12,950,514	6,784,866
Advances (non cash guaranteed):				
Licensed institutions	4,678,452	20	935,690	908,706
Legal mortgage	29,768,452	50	14,884,226	11,434,716
Others	33,478,918	100	33,478,918	18,267,544
Other assets	21,175,230	100	21,175,230	8,088,365
Fixed assets	43,280,801	100	43,280,801	38,629,836
	<b>197,134,425</b>		<b>126,705,379</b>	84,114,033

## Off balance sheet

## Assets

## Performance bonds

Acceptances (less cash security)	31,050,313	100	31,050,313	42,044,827
<b>Total</b>	<b>228,184,738</b>		<b>157,755,692</b>	126,158,860
<b>Capital adequacy ratio</b>			<b>28</b>	32



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