

CENTRAL BANK OF LIBERIA
REPORT AND FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2004

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CENTRAL BANK OF LIBERIA
Names of Governors and registered Offices
For the year ended December 31, 2005

GOVERNORS:

- | | |
|----------------------|--|
| 1. J. Mills Jones* | Executive Governor and Chairman Board of Governors |
| 2. David K. Vinton | Governor |
| 3. John G. Bestman | Governor |
| 4. George H. Gooding | Governor |
| 5. | Governor |

REGISTERED OFFICES: Central Bank of Liberia
Post Office Box 2048
Warren and Carey Streets
Monrovia Liberia, West Africa

SECRETARY: In House

LAWYERS: In House

AUDITORS: PKF International (Liberia)
CERTIFIED PUBLIC ACCOUNTANTS

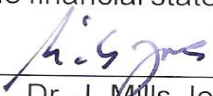
* The Executive Governor of the Central Bank of Liberia is also the Chairman of the Board of Governors of the Bank. Hon. Charles A. Greene who served in these capacities in 2004 and 2005, was retired in January 2006 and replaced by Dr. J. Mills Jones, whose appointment by the president of Liberia was confirmed in March, 2006. The fifth member of the Board had not been appointed as at the end of the audit field work.

CENTRAL BANK OF LIBERIA
Statement of responsibilities - Board of Governors
Year ended December 31, 2005

The Act of Legislature establishing the Central Bank of Liberia (approved into law on March 18, 1999) and the Bye Laws adopted on December 16, 1999 require the Board of Governors to ensure that financial statements are prepared for each financial year which give a true and fair view of the state of affairs of the Bank and of the results of its operations for the year then ended. In preparing the financial statements the Board of Governors is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments 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;
- Ensure that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Bank will continue in business;
- Ensure that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Central Bank of Liberia;
- Ensure that the financial statements comply with the reporting requirements of the Act of Legislature establishing the Bank, as well as the Bye Laws pertaining to its operations; and
- Put in place the relevant mechanism for safeguarding the assets of the Bank and accordingly take reasonable steps for the prevention and detection of fraud and other irregularities, if any.

The above statement, which should be read in conjunction with the statement of the Auditors' responsibilities set out on page 3, is made with a view to distinguishing for the benefit of the Shareholder and other interested third parties the responsibilities of the Board of Governors and those of the Auditors in relation to the financial statements of the Central Bank of Liberia.



Dr. J. Mills Jones
Executive Governor and Chairman
Board of Governors

Independent Auditors' Report

To: The Board of Governors
CENTRAL BANK OF LIBERIA

We were engaged to audit the accompanying balance sheets of the Central Bank of Liberia as at December 31, 2005 and 2004 and the related statements of income, changes in reserves and cash flows for the years then ended. These financial statements are the responsibility of the Board of Governors and management of the Central Bank of Liberia.

As more fully explained in note 5, pages 20 and 21, accrued interests of L\$1.795 billion and L\$ 30.7 million due the CBL on the Government of Liberia's Long Term loans of L\$12.1 billion and Capital Notes receivables of L\$343.7 million respectively are non performing. While the Long Term loans, (page 21) are non current, the capital notes receivables and the related interests are past due. To date, none of these past due principals and interests have been paid. Moreover, interests accrued on the long term loans since their inception are also substantially unpaid. These facts notwithstanding, no provision for doubtful accounts has been made in the accompanying financial statements regarding the above. The reason for this we understand, is that the debtor is a sovereign government.

The combined annual interest income on the above receivables, L\$246 million in 2005 (L\$212 million in 2004) note 23, page 28, represents 88 percent of total gross interest income in 2005 (77% in 2004) and 64 percent of the overall revenue of the Bank for the year 2005 (63 %, 2004). Hence the non-performance of the above mentioned principal and interest accounts means that nearly 90 percent of the recognized income for the current year and 77 percent of income for the preceding year are unlikely to become realized in the foreseeable future. This effectively calls into serious question the carrying values of the above mentioned receivables as shown in the accompanying financial statements.

The Government of Liberia is also indebted to the International Monetary Fund (IMF) of L\$59.5 billion, which is carried both as an asset and a liability in the Bank's books. Together the loans referred to in the preceding paragraphs represent the single largest asset on the balance sheet of the Central Bank of Liberia, comprising 86 percent of total assets if IMF accounts are ignored; or 18 percent of total assets, inclusive of IMF accounts.

Because the matters explained in the preceding paragraphs are critical to the fairness of the accompanying financial statements and the uncertainty necessarily associated with the effects of adjustments which might be required from the outcome of the resolutions of the matters in question, we are unable to express and we do not express an opinion on these financial statements for the year ended December 31, 2005.

We draw attention to note 3.4.1, page 17, in respect of a \$100 million dollar (principal plus interest) action of debt filed by Montrose Capital, LLC of Alabama, USA against the Central Bank of Liberia regarding a US\$50 million loan made to the now inactive National Housing and Savings Bank by a syndicate of foreign banks in the early 1980s. The Central Bank of Liberia is being brought into the suit because its predecessor, the National Bank of Liberia, guaranteed the loan, which was basically for the account of the Government of Liberia.

We also draw attention to note 3.4.5, page 18, regarding the Bank's contingent but as yet undetermined liability, in its capacity as the court appointed liquidator of the defunct Bank of Liberia, in view of the CBL's long standing failure (in excess of 25 years), to complete the liquidation process of the Bank of Liberia and make the requisite reports to the court of jurisdiction.

Lastly, we draw attention to note 9.1, Page 22, in respect of an unexplained increase of L\$21.6 billion or 68.1% in the accounts of the International Monetary Fund (IMF) reflected in its balances between 2003 and 2004. The Fund is yet to provide a satisfactory explanation for the specific amount of the increase. The books of the Bank have been adjusted to agree the balances per the Fund's statement, on an expediency basis, while awaiting the relevant justification for the abnormal charge. We understand that a reversal adjustment may become necessary, if adequate details of the excess charge are not provided by the Fund. The Bank and the Government of Liberia are expected to pursue this matter further to ensure that the L\$21.6 billion increase in one single year is justified.

PKF International


CERTIFIED PUBLIC ACCOUNTANTS

Monrovia
August 7, 2006

CENTRAL BANK OF LIBERIA
Balance sheets
As at December 31, 2005 and 2004

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	Notes	2005 L\$ (000)	2004 L\$ (000)
Assets			
Current assets			
Cash and short term funds	4	1,528,920	1,133,749
Loans and Advances - Government of Liberia	5	1,071,793	878,593
Advances and overdrafts to local Banks	6	69,104	30,366
Accounts receivable	7	44,094	15,665
Prepayments	8	87,426	82,693
IMF loans - Due from the Government of Liberia	9	59,472,085	53,301,375
Other current assets	10	3	12,681
		<u>62,273,425</u>	<u>55,455,122</u>
Non-current assets			
Long term loans - Government of Liberia		12,061,578	11,958,272
Deferred currency cost	11	147,002	181,802
Investment in real property		8,581	8,560
Intangible assets	12	25,327	35,187
Fixed assets	13	283,119	367,289
		<u>12,525,609</u>	<u>12,551,110</u>
Total assets		<u>74,799,033</u>	<u>68,006,232</u>
Liabilities and equity			
Current liabilities			
Liberian currency in circulation	14	2,464,790	1,962,725
Deposits from Commercial banks	15	1,306,530	1,048,916
Deposits Central Government and Agencies	16	94,255	55,772
Other deposits	17	1,964	523
Due to foreign financial institutions	18	445,987	408,790
Accounts payable	19	200,888	170,517
Due to IMF (GOL accounts)	20	59,472,085	53,301,375
Other liabilities due to Government	21	107,185	106,210
		<u>64,093,683</u>	<u>57,054,828</u>
Long term commercial bank loan		<u>721,710</u>	<u>715,149</u>
Total liabilities		<u>64,815,393</u>	<u>57,769,977</u>
Equity:			
Capital	22	7,130,552	7,240,813
General reserves		2,853,088	2,995,442
		<u>9,983,640</u>	<u>10,236,255</u>
Total liabilities and equity		<u>74,799,033</u>	<u>68,006,232</u>

The notes on pages 9 to 31 form an integral part of these financial statements


 Dr. J. Mills Jones
 Executive Governor and Chairman
 Board of Governors


 Hon. David K. Vinton
 Governor

The Executive Governor of the Central Bank of Liberia is also the Chairman of the Board of Governors of the Bank. Hon. Charles A. Greene who served in these capacities in 2004 and 2005 was retired in January 2006 and replaced by Dr. J. Mills Jones, whose appointment to the post by the President of Liberia was confirmed in March, 2006.

CENTRAL BANK OF LIBERIA
Income statements
For the years ended December 31, 2005 and 2004

	Notes	2005 L\$ (000)	2004 L\$ (000)
Income			
Interest income	23	279,372	216,504
Interest expense	24	<u>(5,905)</u>	<u>-</u>
Net interest income		273,467	216,504
Fees & commissions	25	59,571	55,526
Other income	26	<u>52,779</u>	<u>64,534</u>
Total net interest and other income		<u>385,817</u>	<u>336,564</u>
General and administrative expenses			
Personnel cost	27	142,730	138,937
Board fees and expenses	28	19,228	35,255
Occupancy	29	34,975	25,526
Currency expense	30	99,314	97,033
Office expenses	31	15,393	16,177
Professional services	32	26,349	8,405
Security		-	1,555
Travel	33	22,735	20,201
Depreciation and amortization	34	22,896	18,767
Doubtful debt expense		65,308	6,763
Other operating expenses	35	<u>16,415</u>	<u>26,770</u>
Total general & administrative expenses		<u>465,342</u>	<u>395,389</u>
Net operating results before other losses		(79,526)	(58,825)
Effect of change in accounting estimate		<u>(61,325)</u>	<u>-</u>
Net operating results for the year		<u>(140,850)</u>	<u>(58,825)</u>

The notes on pages 9 to 31 form an integral part of these financial statements

CENTRAL BANK OF LIBERIA
Statements of changes in reserves
For the years ended December 31, 2005 and 2004

	2005 L\$ (000)	2004 L\$ (000)
Opening balance	2,995,442	2,338,688
Prior year items	(83,973)	(43,970)
Write off of unexplained payables	-	27,298
Net operating results	(140,850)	(58,825)
Translation difference	<u>82,470</u>	<u>732,251</u>
Closing balance	<u>2,853,088</u>	<u>2,995,442</u>

The notes on pages 9 to 31 form an integral part of these financial statements

CENTRAL BANK OF LIBERIA
Statements of cash flows
For the years ended December 31, 2005 and 2004

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	2005	2004
	L\$	L\$
	(000)	(000)
Operating Activities:		
Net operating results for the year	(140,850)	(58,825)
Adjustments to reconcile net results to net cash flows from operating activities		
Depreciation and amortization	33,276	18,767
Amortization of deferred currency cost	112,036	64,209
Bad debts	65,308	6,763
Impairment loss	112,077	-
Writeoff of unexplained payables	-	27,298
Loss on disposal of fixed assets	1,734	12,676
Prior year adjustments	(83,973)	(43,970)
Changes in operating assets and liabilities:		
Advances & overdrafts to commercial banks	(39,058)	12,570
Accounts receivable and prepayments	(98,149)	(39,240)
Other current assets	12,678	(5,573)
Commercial bank deposits	257,613	474,092
Commercial bank loans	6,561	32,805
Other deposits	(2,561)	(6,962)
Due to the Government of Liberia	974	(9,175)
Due to autonomous GOL agencies and enterprises	54,136	(204,818)
Accounts payable and other liabilities	18,721	54,029
Due from the Government of Liberia	(193,200)	(153,098)
Net cash flows from operating activities	<u>117,324</u>	<u>181,548</u>
Investing activities:		
Due from the Government of Liberia -LTL	(20,839)	98,546
Deferred currency cost	(77,237)	44,750
Investment in real estate	(155)	(970)
Banking software and training cost	(4,794)	(12,833)
Purchase of fixed assets	(48,130)	(7,362)
Net cash flows from investing activities	<u>(151,155)</u>	<u>122,131</u>
Financing activities		
Liberian monies in circulation	502,064	550,800
Capital Defussion	(110,259)	(175,519)
Due to foreign banks	37,197	47,439
Net cash flows from financing activities	<u>429,002</u>	<u>422,720</u>
Net increase in cash and cash equivalents during the year	395,171	726,400
Cash and cash equivalents at the beginning of the year	<u>1,133,749</u>	<u>407,349</u>
Cash and cash equivalents at the end of the year	<u>1,528,920</u>	<u>1,133,749</u>

The notes on pages 9 to 31 form an integral part of these financial statements

1.0 Establishment, capital and operations

1.1 Establishment

The Act of Legislature establishing the Central Bank of Liberia (CBL) was approved into law on March 18, 1999. However, the Board of Governors and other officers of the Bank were appointed several months later. They officially took office on October 20, 1999. The Central Bank of Liberia is the successor in business of the erstwhile National Bank of Liberia.

1.2 Capital

The minimum authorized capital of the Bank is L\$400 million. The amount may be increased by an amendment to the Act, as shall be proposed to the National Legislature by the Board of Governors of the Bank. Per the provisions of the Act, the Bank is required to have a minimum paid-up capital of L\$100 million.

1.2.1 Paid up capital

The total Paid up capital of the Central Bank as at October 20, 1999 of L\$7.4 billion (note 22), page 28, represents the book value of the net assets taken over from the erstwhile National Bank of Liberia. The principal assets which underlie the capital transfer of L\$7.4 billion are two long term loans denominated in L\$ and US\$ due from the Government of Liberia, and a building then under construction. The amounts are the cumulative net results of transactions between the Government and the National Bank prior to the formation of the Central Bank in October 1999.

The original Paid up capital of L\$7.4 billion referred to above was adjusted down by L\$175 million to L\$7.2 billion as at December 31, 2004. The L\$175 million represents the portion of the long term loan referred to in the preceding paragraph for which specific details were not available at the inception of the CBL in 1999. It was agreed between the parties (CBL and GOL) that the supporting details in question would be provided by the Bank within a period of two years as of the date of the original contract in 1999, failing which the amount would be written off by the Bank. On those bases the amount was included in the formation of the Bank's original capital. As of December 2004, five years later, the details in question were not available and therefore the Government did not acknowledge the debt as of that date, which necessitated the write off directly against its original capital.

1.2.2 Ownership

The Act of Legislature under which the Bank was created in 1999 provides that all Paid up capital shall be subscribed to and held exclusively by the Government of Liberia and shall not be transferable or subject to encumbrance. "No reduction of capital shall be effected except by amendment" of the Legislative Act which created the Bank. The reduction of L\$175 million referred to in 1.2.1, page 9, is rather a correction and therefore does not fall in the restriction of the Act as indicated herein.

1.3 Functions of the Bank

Per the provisions of the Legislative Act under which it was created, the Central Bank of Liberia has "functional independence, power and authority" to:

- issue legal tender banknotes and coins;
- administer the currency laws and regulate the supply of money;
- provide credit to bank-financial institutions on a discretionary basis;
- act as fiscal agent for the Government of Liberia;
- administer the New Financial Institutions Act of 1999 and regulate banking activities;
- regulate bank and non-bank financial institutions, as well as non-bank financial services institutions;
- hold and manage the foreign exchange reserves of Liberia, including gold;
- advise the Government of Liberia on financial and economic matters;
- conduct foreign exchange operations;
- play an active role, in collaboration with bank-financial institutions, in the creation and maintenance of efficient and safe mechanisms for payments, clearing and settlements to meet the needs of the financial markets, commerce, government agencies and the public.

1.4 Powers of the Bank

The powers of the Central Bank of Liberia include but are not limited to:

- supervision of bank-financial institutions, non-bank financial institutions and authorized non-bank financial service dealers and brokers;
- formulation and implementation of monetary policies;
- handling external banking affairs of the Government;
- determination of an appropriate foreign exchange regime, formulation and implementation of foreign exchange policy; holding and managing foreign exchange reserves; and
- management of aggregate credit in the economy by indirect means, by loan securitization, purchase and sale of securities, transactions in derivatives and foreign exchange and through the establishment of required reserves of commercial banks under its jurisdiction;

2.0 Significant accounting policies

2.1 Bases of accounting and reporting

These financial statements have been prepared under the historical cost convention in accordance with Generally Accepted Accounting Principles as promulgated by the American Institute of Certified Public Accountants, United States of America. The International Monetary Fund (IMF) prefers that all Central Banks of countries having relations with the Fund, adopt the International Financial Reporting Standards (IFRS), as their basis of accounting and reporting. The Central Bank of Liberia is expected to begin the migration process from its traditional USA GAAP to the IFRS commencing 2007.

2.2 No Price-Level Adjustments

No procedures have been adopted for specific price changes or for changes in the general price levels.

2.3 Currency

These financial statements are expressed in Liberian dollars in keeping with the requirements of CBL Financial Institutions Act of 1999. The United States dollar is legal tender in Liberia and circulates freely in the national economy alongside the Liberian dollar. Exchange rates between these two national currencies are determined by market forces.

The Bank's books of accounts comprise two self-balancing general ledgers, one for transactions denominated in Liberian dollars and another for transactions denominated in US dollars. For reporting purposes, account balances denominated in United States dollars are translated into equivalent Liberian dollars in accordance with the provisions of FASB 52 under US GAAP. The resultant translation difference is reflected in the Statement of Changes in General Reserves, consistent with FASB 52.

On this basis, the translation rates used in the preparation of these financial statements are:

	2005	2004
Balance sheet monetary items (year end rate)	55.00	53.00
Balance sheet fixed assets (historical rates)	various	various
Balance sheet equity balances (historical rates)	various	various
Revenue and expenses (annual average rate)	56.64	55.00

Gains and losses resulting from foreign exchange purchases, sales and other similar transactions are included in the income statement for the year.

Transactions denominated in foreign currencies other than the United States dollar are first translated into equivalent US dollars using the rates of exchange prevailing on the transaction dates and then into equivalent Liberian dollars also based on the prevailing exchange rate between the two national currencies on the transaction date.

Except for those transactions relative to the IMF Accounts, which are later explained in these notes, all other assets and liabilities denominated in other currencies including the United States dollars are translated into Liberian dollars at their respective year- end rates of exchange.

2.4 Interest income determination

The income of the Central Bank of Liberia is derived principally from interest on long term loans and capital notes receivable due from the Government of Liberia. While the interest on the capital notes at 10% per annum is recognized fully as earned income each year, those relative to the long term loans of 3% are apportioned: 1% of the chargeable interest is recognized as income in the current year and 2% is deferred. The deferment is in keeping with the terms of the loan agreement between the parties. The amount of the deferred income is shown as an offset against the related interest receivable, thereby having no effect in the balance sheet. This effectively means that the deferred portion of interest receivable is not recognized as income unless and until it is received.

2.5 Fixed assets

2.5.1 Valuation of Bank building under construction

The carrying value of the Bank's uncompleted office building situated on Ashmun Street, Monrovia is derived from installment payments made over time to the architects, building contractor and others up to the end of 1989 or early 1990, per the agreements reached for the purpose. Work on the building was suspended in 1989 as a result of the Liberian Civil war and has not resumed as of that date. Management believes that a number of those payments were in respect of major items (e.g. elevators, etc.) that were not installed on account of the war. However, because the underlying records were substantially lost or destroyed in the wake of Liberia's recently ended civil war, the exact details of the items of interest cannot at this time be reasonably determined.

To adjust for the missing items, the Bank in 2004 commissioned an assessment of the building in question in its current condition. The revaluation assessment was done by a firm of professional engineers, who put the current replacement value of the structure at US\$4.8million (L\$192.5 million). The building is part of the net assets transferred from the erstwhile National Bank during the formation of the Central Bank of Liberia in 1999. Hence the adjustments effected in 2005 to record the diminution in value of the building also recorded an offsetting reduction in the original Capital of the Bank.

Management envisions that the Bank will, in the not distant future, be in position to complete the building and put it into use as originally intended. No depreciation has been taken on the property in its current state of construction.

2.5.2 Depreciation and amortization

Fixed assets and other long term assets are reported at cost/valuation less accumulated depreciation and amortization. The straight line method of depreciation is used to write off the full cost or valuation of assets over their estimated useful lives. In the case of leasehold improvements, amortization is computed on the straight line basis over the terms of the respective leases or the estimated useful lives of the improvements, whichever is less.

The cost of repairs and maintenance are charged against income when incurred while improvements are capitalized. Gains and losses from the disposal of fixed assets are reflected in current operating results.

2.5.3 Depreciation rates

The Principal annual depreciation and amortization rates used in these financial statements are:

	Percent (%)
Leasehold improvements (life of lease or life of asset)	2.50
Office furniture, fixtures and fittings	10.00
Household furniture and equipment	20.00
Machinery and equipment	16.67
Vehicles	33.33

2.5.4 Amortization rates

	%
Banking software	20.00
Staff training	50.00
Deferred currency expense Liberian bank notes	33.33
Deferred currency expense coins	10.00

2.5.5 In 2005 the Bank changed the estimated useful life of the Liberian dollar notes in circulation from 5 years to 3 years. The cumulative effect of that change has been included in the income statement for the year (page 6).

2.6 Taxation

The Central Bank of Liberia is exempted from Liberian Government revenue/profit taxes. However, in common with other employers the Bank is required to withhold income and social security taxes from employees and to remit these to the Government within the periods required by law, those relative to employee earnings.

2.7 Contribution to employees' pension

Contributions are paid to a National Pension Scheme for the provision of non-contributory pensions for all staff of the Bank. The Bank also has in place other retirement benefit plan for its staff, to which, both the staff and the Bank make monthly contributions. Additionally, as an employer, the Bank is required to make the requisite employer contributions toward the national retirement plan for its employees. Such contributions are in addition to required payments under the law as explained in item 2.8 immediately below.

2.8 End of service awards

Under the Laws of the Republic of Liberia, and as implied in the employment agreements, staff of the Bank are entitled to a severance pay at the termination of their employment, except the case of dismissal for proscribed conduct. The benefit at the basic monthly pay rate applicable on the date of termination times number of service years.

Prior to 2005, expenditures in these regards were recognized as and when incurred at the point of redundancy and/or retirement. Effective 2005, provisions have been made in the financial statements for this liability covering all employees of the Bank as at December 31, 2005 in order to make the Bank's accounting treatment of this matter consistent with U.S. GAAP. The amount of the expenditure relative to the years preceding 2005 has been taken directly to the General Reserves through the Prior Year Adjustment Account in the Statement of Changes in Reserves, page 7.

3.0 Other disclosures

3.1 Government of Liberia (GOL) Long Term Loans

- 3.1.1 The GOL is indebted to the Central Bank of Liberia in the amounts of US\$206 million and L\$698 million as at December 31, 2005 excluding interest and charges. The loans in question represent advances to the Government by the erstwhile National Bank of Liberia, predecessor of the Central Bank. The combined carrying value in Liberian dollars of the total obligations of the Government to the CBL is L\$13.13 billion as at December 31, 2005 (2004, L\$12.8 billion). The amount represents the largest single asset of the Bank and accounts for 81.2% of its total assets excluding the IMF/GOL offset accounts. The Loans attract interest at a concession rate of 3% per annum. 1% of which is recognized as current year income, while 2% is computed and deferred for future recognition. The interest receivable and the compensating deferred income are offset in the financial statements.
- 3.1.2 As explained earlier in note 1.2.1 (Paid up capital), page 9, the loan came about through a special restructuring arrangement between the Bank and the Government of Liberia as part of the process of a capital transfer from the erstwhile National Bank of Liberia for the formation of the Central Bank in 1999. The loans are substantially non performing and the unpaid interest stands at L\$1.795 billion as at December 31, 2005 (2004, L\$1.4 billion). Payment on the loan principal is expected to commence in 2010. Partial payments of the interest were suspended in 2004. No provision has thus far been made in respect of the past due interest. The debtor is a sovereign Government and the exclusive owner of the Bank.
- 3.1.3 The balances of the loans were confirmed by the Government as at December 31, 2005 and 2004, except for the amount of L\$175 million referred to and discussed more fully in the section 1.2.1.

3.2 Investments

The Central Bank of Liberia does not have any trading investment or investment of other classification, except for those relative to a small real estate in Liberia intended for rent and income generation. (balance sheet, page 5).

3.3 Related party transactions

The Bank (CBL) is the official depository and fiscal agent of the Government of Liberia, who also has exclusive ownership of the Bank. It performs official banking services to the Government and a number of its agencies and wholly owned enterprises. Related party transactions reflected in the Bank's operations are in respect of these banking services, in addition to loans and advances granted the Government prior to 1999 and 2003.

3.4 Contingencies

3.4.1 US\$100 million action of debt

The Central Bank of Liberia is Co-Defendant with the National Housing and Savings Bank in a major lawsuit arising from the default in payment of a loan of US\$26 million, plus accrued interest and charges as at December 31, 2005. The loan was provided to the National Housing and Savings Bank by a syndicate of foreign banks in the early 1980s. The original amount of the facility was US\$50 million, of which US\$26 million was disbursed. The loan was negotiated then by the National Housing and Savings Bank and guaranteed on November 6, 1981 by the erstwhile National Bank of Liberia, predecessor of the Central Bank.

The facility was intended to fund an uninterrupted supply of petroleum products to Liberia through the Liberia Petroleum Refining Company, another wholly owned Government enterprise. Disbursement on the loan was discontinued in 1982 due to non repayment of earlier advances by the Borrower (NHSB).

Title to the loan has changed a number of times from the original syndicate of Lenders in 1981 to the current holder of the instruments, MONTRROSE CAPITAL, LLC as of May 12, 2003. Montrrose Capital, a registered Limited Liability Company of the State of Alabama, United States of America is suing both the National Housing and Savings Bank (NHSB) and the Central Bank of Liberia (CBL) jointly, for a sum in excess of US\$100 million representing principal, interest and charges. The principal debtor, National Housing and Savings Bank is currently insolvent and non operational. It is therefore apparent that the outcome of the case when decided is likely to affect the Central Bank of Liberia and by association the Government of Liberia. That determination is yet to be made and therefore no provisions have been made in these financial statements.

The case is currently before the Supreme Court of New York with the relevant citation dated January 7, 2005. The CBL is being represented by a US counsel. No further information on the actual status of the case is yet available. The Liberian dollar equivalent of the US\$100 million contingency is L\$5.5 billion as at December 31, 2005 (2004 L\$5.3 billion). That amount represents 55.4% of the Bank's total equity as at December 31, 2005.

- 3.4.2 The Central Bank of Liberia is also co-defendant with the Government of Liberia in two separate cases of action relative to: (a) outstanding commitments on a long term construction contract and (b) commitments for the purchase of an aircraft for the Government in the 1980s for which payment has remained outstanding. However, unlike the previous case (note 3.4.1.),page 17, involving the National Housing Bank which is now insolvent, the principal debtor in this case is the Government of Liberia, whose ability to pay is more assured than the CBL in the event of a final judgment against the defendants.

3.4.5 Bank of Liberia in Liquidation

The Central Bank of Liberia has a number of fiduciary responsibilities, which relate to the regulation and supervision of commercial banks in Liberia. One such responsibility relates to the liquidation of the former Bank of Liberia, where the Bank is the Court appointed Liquidator. In that capacity, the CBL is required to present a report on the liquidation of the Bank and make representations regarding the conduct of the exercises to the Court having jurisdiction, for the purpose of concluding the formal closing procedures of the BOL, which technically is still in liquidation. The outcome of the courts proceedings in this matter will determine whether or not a liability has been incurred by the Liquidator, which in this case is the Central Bank of Liberia. The matter is currently pending, and there is no way of determining whether a liability is likely to occur, and if it does occur, the impact of that liability on the Bank.

3.4.6 Other Litigations

The Central Bank of Liberia is a party to seven other cases either as a fiduciary, receiver, or, by reason of its regulatory duties. Counsels for the Central Bank assert that cases of this nature do not necessarily constitute any risk of loss to the institution.

3.4.7 Subsequent event

The Bank is currently a defendant in an action of damages for US\$1.5 million filed by one of its former employees in the month of July 2006. The case is a counter charge against the Bank by the former employee in question who was dismissed for acts of impropriety in the Bank resulting to a loss of US\$147,368 in 2005.

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	2005	2004
	L\$	L\$
	(000)	(000)
4 Cash on hand and short term funds		
Cash on hand and in vaults	275,752	197,333
Cash balances - Rural Banking	2,862	-
Balances with other local banks	839	3,667
Time deposits local commercial banks	49,825	42,293
Time deposits foreign banks	-	436,268
Balances with foreign banks	<u>1,199,642</u>	<u>454,188</u>
	<u>1,528,920</u>	<u>1,133,749</u>
5 Due from the Government of Liberia		
a) Current loans and receivables		
Capital notes receivable (5.1)	343,750	340,625
Emergency war time loan	26,950	44,917
Accounts receivables	1,045	-
Interest on Capital notes	30,718	23,299
Interest on Long term loans	<u>1,795,113</u>	<u>1,407,604</u>
	2,197,577	1,816,444
Deferred interest income long term loan	<u>(1,125,784)</u>	<u>(937,851)</u>
	<u>1,071,793</u>	<u>878,593</u>

5.1 Capital notes subscriptions receivable represent a series of six (6) promissory notes for US\$5 million (equivalent L\$200 million) issued by the Government of Liberia as additional capital contributions to the start up of the Central Bank of Liberia the successor of the erstwhile National Bank of Liberia. The first note of this series, with a face value of US\$833,335 matured on October 20, 2001. Thereafter, one of the five remaining notes, with a face value of US\$833,333 each, matured on April 21 and October 20 of each of the three succeeding years until the full amount of five US\$5 million (L\$200 million) was fully paid up. The last of the note became due in 2003. No payment has thus far been received by the Bank on these Government commitments. The interest on the notes are also substantially outstanding.

5.2 The notes which are negotiable outside of Liberia, are to be "governed by, and interpreted in accordance with laws of the State of New York, USA, excluding its conflict of laws." With regard to the enforcement of its obligations under each of these promissory notes, the Government of Liberia has irrevocably waived, "any immunity from the jurisdiction of any court and any immunity of its property used for commercial purposes for attachment or other process in aid of execution."

The compensating credit for the capital notes receivable excluding interest is reflected in note 22 below, with the caption "capital notes subscribed" of L\$ 200 million.

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	2005 L\$ (000)	2004 L\$ (000)
b) Long term loans - Government of Liberia	<u>12,061,578</u>	<u>11,958,272</u>

The GOL loan, consisted originally of L\$873,401,954 and US\$206,612,601. These amounts were negotiated and agreed by and between the Government and the Central Bank of Liberia in 1999. The agreement was finally executed on April 28, 2000. Included in the L\$ component of the loans, L\$873.40 million in 1999 was an amount of L\$175 million, which the Government accepted conditionally, pending further clarification and proper documentation by the Bank within a specified period, failing which, that portion would be reversed. Those conditions were not met and therefore the L\$175 million was not confirmed by the Government as at December 31, 2004, which necessitated a write off in that year. The expenditure was charged directly to the original capital account, as more fully explained in note 1.2.1

c) Bridge Facility Loan

Due from the Government of Liberia	46,481	31,307
Due to the National Social Security	<u>(46,481)</u>	<u>(31,307)</u>
	<u>0</u>	<u>-</u>

6 Due from other local banks

Loans and advances operating bank	67,271	27,892
Loans and advances failed banks	54,587	54,587
Small and Medium Enterprises (SME) Loans	1,664	1,960
Interest and other receivable	1,533	1,879
Current advances MERIDIEN	<u>381</u>	<u>378</u>
	125,436	86,696
Allowance for doubtful SME loans	(1,364)	(1,364)
Allowance for failed Bank loans	<u>(54,968)</u>	<u>(54,965)</u>
	<u>69,104</u>	<u>30,366</u>

7 Accounts receivable

Staff loans and advances	15,979	9,266
Advances to Governors	1,471	2,098
LPRC / Motc / Belle Y. Dunbar	11,220	11,118
Advances to Thomas De La Rue	23,975	-
Other debtors	<u>8,798</u>	<u>6,231</u>
	61,443	28,713
Allowance for doubtful accounts:		
Belle Dunbar loan/LPRC	(11,220)	(13,048)
Other debtors	<u>(6,129)</u>	<u>-</u>
	<u>44,094</u>	<u>15,665</u>

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22

	2005	2004
	L\$	L\$
	(000)	(000)
8 Prepayments		
Advances to currency printer	78,436	73,030
Rent	5,630	7,765
Insurance	400	152
Other prepayments	<u>2,960</u>	<u>1,746</u>
	<u>87,426</u>	<u>82,693</u>
9 Government of Liberia IMF accounts		
General Resource Accounts (GRA) (9.2)	23,724,248	21,526,774
Trust Fund Loan and interest (9.3)	661,713	593,599
IMF Quota Subscription	6,218,439	5,641,582
Special Drawing Rights Department	4,276,217	3,777,047
Accrued and overdue charges	<u>24,591,468</u>	<u>21,762,373</u>
	<u>59,472,085</u>	<u>53,301,375</u>

9.1 Increase in IMF Accounts

Liberia's obligation to the International Monetary Fund (IMF) increased from L\$31.777 billion in 2003 to L\$53.301 billion as at December 31, 2004. We understand that this unusual increase was derived by the Fund as a result of various revaluation of the accrued interest, overdue charges and other component accounts as at December 31, 2003. Though some explanation had been provided for the total adjusted obligations of L\$53.3 billion, but the explanations do not provide specific justification for the 21.6 billion unusual increase in a single year or 68.1% of the original debt of L\$31.7 billion as at the that date. The change in question reflects an actual increase in SDR Units which is not necessarily affected by changes in the rates between the Liberian dollar and the SDR or other major currencies. This is because, the original liability is denominated in SDR currency units. As at December 31, 2005 the desired details have not been provided by the FUND, while in the meantime, the books of the Bank have been adjusted to agree the balances as of December 31, 2004.

9.2 General resource accounts

This is comprised of SDR currency holdings which are denominated in Liberian dollars by the Fund. Transactions effected under agreement with the Fund are converted to Liberian dollars at an exchange rate applicable on the dates of the respective transactions. However outstanding balances with the Fund are revalued on the basis of a rate that is redefined by the Fund on April 30th of each year. Gains and losses arising from the annual revaluation are for the account of the Government of Liberia.

2005	2004
L\$	L\$
(000)	(000)

9.3 Trust Fund Loan

This represents the Liberian dollar equivalent of SDR22,889,926 of the Government of Liberia's overall indebtedness to the IMF.

9.4 Special Drawing Rights Allocations

The amount indicated in note 9 above for this item represents the Liberian dollar equivalent of 21,007,000 SDR units, being the cumulative allocations by the Special Drawing Rights Department of the IMF. The amount forms an integral part of Liberia's total indebtedness to the Fund.

9.5 Accrued and Overdue interest charges

The amount for overdue charges indicated in note 9 above represents the Liberian dollar equivalent of SDR 232,271,279 of cumulative interest and penalty charges on the general resource and trust fund loans. These and all other charges relating to the operations of accounts with the IMF are fully for the account of the Government of Liberia Liabilities corresponding to these receivable are shown in note 20 below.

10 Other current assets

Stationery and supplies	-	2,207
Fixed assets in transit	3	8,691
Clearing suspense	<u>15,491</u>	<u>1,784</u>
	15,495	12,681
Provision for doubtful account	<u>(15,492)</u>	<u>-</u>
	<u>3</u>	<u>12,681</u>

As of 2005, the Bank no longer maintains an inventory of stationary and supplies. Expenditures for these items are made as and when necessary and charged directly to expense.

11 Currency printing cost

Cost:

Liberian bank notes	409,106	332,235
Liberian coins	<u>40,307</u>	<u>39,942</u>
	449,413	372,177

Less amortization:

Liberian bank notes	301,943	189,998
Liberian coins	<u>467</u>	<u>378</u>
	302,411	190,375
	<u>147,002</u>	<u>181,802</u>

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12. Intangible assets:

	Staff Training - Foreign L\$	Bankmaster Software L\$	Total L\$
Cost:			
Balance at the beginning of year	28,302,215	19,741,106	48,043,321
Additions	4,846,507	-	4,846,507
Repayments	(52,525)	-	(52,525)
Disposals	<u>(5,260,159)</u>	<u>-</u>	<u>(5,260,159)</u>
Balance at end of year	<u>27,836,038</u>	<u>19,741,106</u>	<u>47,577,144</u>
Amortization:			
Balance at the beginning of year	3,518,883	9,603,828	13,122,711
Charge for the year	10,376,624	4,010,519	14,387,143
Disposals	<u>(5,260,159)</u>	<u>-</u>	<u>(5,260,159)</u>
Balance at end of year	<u>8,635,348</u>	<u>13,614,347</u>	<u>22,249,695</u>
Book Value:			
As at December 31, 2005	<u>19,200,690</u>	<u>6,126,759</u>	<u>25,327,449</u>
As at December 31, 2004	<u>24,783,332</u>	<u>10,137,278</u>	<u>34,920,610</u>

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13 Fixed assets												
Liberian dollar equivalent												
	Land	Leasehold	Furniture	Machinery	Motor	Capital	Total					
	L\$	improvements	fixtures	and	vehicle	work in progress	L\$					
		L\$	& fittings	equipment	L\$	L\$	L\$					L\$
Cost and Valuation:												
Balance at the beginning of year	20,293,390	37,723,885	9,413,236	36,644,106	10,013,962	304,576,688	418,665,267					
Valuation adjustment	-	-	-	-	-	(112,077,368)	(112,077,368)					
Additions	70,018	-	933,644	18,128,890	24,052,562	4,944,724	48,129,837					
Disposals	-	-	-	(2,174,410)	(8,382,674)	-	(10,557,083)					
Balance at end of year	<u>20,363,408</u>	<u>37,723,885</u>	<u>10,346,880</u>	<u>52,598,586</u>	<u>25,683,850</u>	<u>197,444,043</u>	<u>344,160,652</u>					
Depreciation & amortization:												
Balance at the beginning of year	-	19,946,075	4,431,749	17,835,863	9,162,467	-	51,376,155					
Charge for the year	-	5,324,753	1,175,117	7,236,943	4,751,539	-	18,488,353					
Disposals	-	-	-	(1,196,101)	(7,627,154)	-	(8,823,255)					
Balance at end of year	-	<u>25,270,829</u>	<u>5,606,866</u>	<u>23,876,706</u>	<u>6,286,852</u>	-	<u>61,041,253</u>					
Book Value:												
As at December 31, 2005	<u>20,363,408</u>	<u>12,453,057</u>	<u>4,740,014</u>	<u>28,721,880</u>	<u>19,396,998</u>	<u>197,444,043</u>	<u>283,119,400</u>					
As at December 31, 2004	<u>20,293,390</u>	<u>17,777,810</u>	<u>4,981,488</u>	<u>18,808,242</u>	<u>851,494</u>	<u>304,576,688</u>	<u>367,289,112</u>					

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26

	2005 L\$ (000)	2004 L\$ (000)
14 Liberian monies in circulation		
Bank notes	2,440,864	1,938,800
Coins	<u>23,925</u>	<u>23,925</u>
	<u>2,464,790</u>	<u>1,962,725</u>
15 Commercial banks' deposits		
Reserve requirement	1,081,183	939,528
Demand accounts - operating banks	166,768	46,493
Demand accounts - failed banks	50,666	58,310
Collection account failed banks	<u>7,913</u>	<u>4,585</u>
	<u>1,306,530</u>	<u>1,048,916</u>
16 Deposits Central Government and Agencies		
Central Government deposits	60,983	17,845
Ministries & Agencies of Government	28,367	22,128
Deposits held in suspense	4,125	11,650
Other government related deposits	<u>249</u>	<u>146</u>
Total direct deposits GOL & Ministries	93,725	51,769
State owned enterprises	<u>531</u>	<u>4,003</u>
	<u>94,255</u>	<u>55,772</u>
17 Other deposits		
Staff accounts	1,441	-
Other deposits	<u>523</u>	<u>523</u>
	<u>1,964</u>	<u>523</u>
18 Due to foreign financial institutions		
West African Monetary Agency (WAMA)	312,114	314,727
Foreign Bank Loan	<u>133,873</u>	<u>94,063</u>
	<u>445,987</u>	<u>408,790</u>

The amount due to the West African Monetary Agency (WAMA), represents the Liberian dollar equivalent of **US\$5,674,803** payments made by a number of member banks of WAMA on behalf of the former National Bank of Liberia (the predecessor of the Central Bank of Liberia) as at the end of 1986. US\$4.7 million of this amount was for a letter of credit which was established at the time by a local commercial bank in favor of the Government of Liberia. In 1987, the then National Bank of Liberia credited the full value of the letter of credit in equivalent Liberian dollars to the deposit account of the said local bank held by the NBL and debited the loan account of the Government correspondingly. For the purpose of the opening balance sheet at the start of the Central Bank, the revaluation reserve balance was absorbed into the paid up capital.

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27

	2005 L\$ (000)	2004 L\$ (000)
19 Accounts payable		
Official and managers checks outstanding	8,271	54,645
Official checks outstanding - National Bank	18,202	70,793
Suppliers & service providers	6,394	9,743
Rent payable	7,755	9,047
Currency printer	-	16,350
Accrued expenses payables	8,134	9,670
Clearing suspense	2,036	-
Deposits held as capital contributions - Banks	103,125	-
Other	<u>11,922</u>	<u>269</u>
	<u>200,888</u>	<u>170,517</u>
20 Due to International Monetary Fund (IMF)		
General resource accounts	23,724,248	21,526,774
Trust fund loans and interest	1,996,348	593,599
IMF Quota Subscription	6,218,439	5,641,582
Special Drawing Rights Department	4,111,998	3,777,047
Accrued interest and overdue charges	<u>23,421,052</u>	<u>21,762,373</u>
	<u>59,472,085</u>	<u>53,301,375</u>
21 Due to the Government of Liberia		
Small & Medium Enterprise Loan fund (IDA)	<u>107,185</u>	<u>106,210</u>

The SME loans pertain to the small business development program of the Government of Liberia initiated in the 1980s for the benefit of small and medium scale Liberian owned and operated enterprises. Funds for the program were provided by the **International Development Association (IDA)** to the Government of Liberia, which in turn designated the then National Bank of Liberia predecessor of the Central Bank as Administrator.

Upon receiving funds from the IDA, the then National Bank in turn made advances to selected commercial banks and other creditor institutions who disbursed the amounts to projects and monitored their activities.

The loans received from IDA were denominated in United States dollars, whereas, advances made to the various projects were denominated in Liberian dollars, which at the time was truly at par with the United States dollar, both by law and in practice. That is no longer the same. The resultant exchange difference is for the account of the Government of Liberia. The receivables relative to this program are no longer valid and the balances substantially written off or provided for, because the debtor can no longer be found. However, the liability remain valid. The Bank is indebted to the Government while the later is indebted to IDA.

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	2005 L\$ (000)	2004 L\$ (000)
22 Capital (note 1.2.1.)		
Paid up capital	7,398,587	7,508,848
Donated capital	7,986	7,986
Subscribed capital	200,000	200,000
Accumulated Losses at beginning of CBL	(476,021)	(300,505)
Bad Debt write-off (GOL Long term Loan)	-	(175,517)
	<u>7,130,552</u>	<u>7,240,813</u>
23 Interest income on:		
GOL Loans and advances	240,410	209,288
GOL Capital Notes	5,252	2,760
Deposits and staff loans	33,710	4,456
	<u>279,372</u>	<u>216,504</u>
24 Interest expense on:		
Local banks	1,064	-
UBS loan	4,841	-
	<u>5,905</u>	<u>-</u>
25 Fees and commission income		
Notes transfer fees	1,256	499
Service fees and commission	58,316	55,026
	<u>59,571</u>	<u>55,526</u>
26 Other income		
Foreign exchange trading profits	993	-
Rental income	1,099	525
Fines	569	262
Income from notes importation	44,674	54,323
Commercial banking license & fees	4,075	1,860
Miscellaneous income	1,370	7,564
	<u>52,779</u>	<u>64,534</u>

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29

	2005 L\$ (000)	2004 L\$ (000)
27 Personnel cost		
Salaries and wages	78,466	81,767
Benefits and allowances	5,953	1,631
Housing and transportation allowances	1,274	10,731
Bonuses paid	6,094	6,723
Other Allowances	-	6,490
Medical expenses	475	148
Staff development and training	23,352	5,379
Uniforms	28	671
Social Security contribution	3,288	2,502
Provident fund contribution	2,745	2,660
Staff insurance	2,811	1,368
Staff Social Club expenses	-	1,656
Total regular personnel cost	124,486	121,725
Redundancy and early retirement pay	18,244	17,212
	<u>142,730</u>	<u>138,937</u>
28 Board fees and expenses		
Board fees	10,376	9,112
Travel expenses	99	972
Board meeting expenses	360	135
Other expenses	8,393	946
	<u>19,228</u>	<u>11,165</u>
Retirement pay (Governors)	-	24,090
	<u>19,228</u>	<u>35,255</u>
29 Property upkeep cost		
Occupancy		
Rent	17,828	11,849
Utilities (electricity & water)	8,374	6,283
Janitorial services	1,772	-
Repairs and maintenance:	-	-
Bank premises	2,980	2,019
Office equipment	423	2,783
Office furniture and fixtures	409	304
Training Center	80	150
Generators	3,080	2,006
Guest house	29	131
	<u>34,976</u>	<u>25,526</u>

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	2005	2004
	L\$	L\$
	(000)	(000)
30 Currency expenses		
Amortization of currency printing cost:		
Bank Notes	52,161	64,103
Coins	<u>90</u>	<u>105</u>
Total amortization expense	52,250	64,209
Foreign currency monitoring expense	-	349
Foreign currency notes importation	47,057	32,348
Foreign currency mute-export expense	<u>6</u>	<u>127</u>
	<u>99,314</u>	<u>97,033</u>
31 Office expenses		
Telephone	2,456	4,599
Postage and courier services	685	501
Internet service and fax charges	1,001	1,327
Entertainment	730	1,058
Printing	1,322	2,184
Stationery and supplies	5,509	2,836
Legal expenses (in house)	412	377
Swift usage fee and expenses	1,680	1,085
Subscription and publication	<u>1,598</u>	<u>2,210</u>
	<u>15,393</u>	<u>16,177</u>
32 Professional services		
Legal services	7,675	858
Audit services	2,549	2,477
Janitorial services	-	1,083
Management consultancy	2,896	-
IT consultancy	4,143	-
Hired Security Guard service	7,065	-
Other professional services	<u>2,022</u>	<u>3,987</u>
	<u>26,349</u>	<u>8,405</u>
33 Travel expenses		
Local travel	558	507
Regional travel	7,896	11,757
International travel	<u>14,282</u>	<u>7,937</u>
	<u>22,735</u>	<u>20,201</u>

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	2005	2004
	L\$	L\$
	(000)	(000)
34 Depreciation and amortization expense		
Leasehold improvements	5,469	5,409
Office equipment	5,092	4,153
Furniture and fixtures	1,175	1,076
Generators	2,145	1,311
Motor vehicles	4,752	2,681
Investment property	134	127
Banking software	<u>4,129</u>	<u>4,011</u>
	<u>22,896</u>	<u>18,767</u>
35 Other operating expenses		
Vehicle fuel, insurance and maintenance	5,843	8,436
Contribution to GOL debt management	1,416	-
Miscellaneous assets purchases	556	-
Contractual services	1,760	1,580
Official gifts and donations	1,344	1,651
Bank service charges	1,430	580
Port handling charges	277	58
Bankmaster & Swift software Licenses	1,063	773
Public relations	591	937
Advertisements	167	668
Commercial losses	1,509	-
Loss on disposal of fixed assets	105	9,718
Miscellaneous	<u>353</u>	<u>2,369</u>
	<u>16,415</u>	<u>26,770</u>

