SOVEREIGN BANK LIMITED

FINANCIAL STATEMENTS
31 DECEMBER 2017

Sovereign
Bank

TABLE OF CONTENT

BOARD OF DIRECTORS	Kwame Achampong-Kyei	-	Chairman
	Johan Rheeder	-	Managing Director
	Abdul-Samed Iddrisu	-	Deputy Managing Director
	Tetteh Nettey	-	Non-Executive Director
	Afotey Odarteifio	-	Non-Executive Director
	John Okwesie Arthur	-	Non-Executive Director
	Abukari Abdulai	-	Non-Executive Director
	Ayodele Olav Aina	-	Non-Executive Director
BOARD COMMITTEE			
Audit, Risk & Compliance	John Okwesie Arthur	-	Chairman
	Abukari Abdulai	-	Member
Business Development	Tetteh Nettey	-	Chairman
	Afotey Odarteifio	-	Member
	Ayodele Olav Aina	-	Member
	Johan Rheeder	-	Member
	Abdul-Samed Iddrisu	-	Member
Human Resources	Tetteh Nettey	-	Chairman
	Abukari Abdulai	-	Member
	Johan Rheeder	-	Member
	Abdul-Samed Iddrisu	-	Member
Credit	Afotey Odarteifio	-	Chairman
	Kwame Achampong-Kyei	-	Member
	John Okwesie Arthur	-	Member
	Johan Rheeder	-	Member
	Abdul-Samed Iddrisu	-	Member

COMPANY SECRETARY

Naa Shormeh Gyang
37 Central Highway, Accra, Ghana

REGISTERED OFFICE

Manet Tower 3, Plot 27
Airport City
PMB CT 363
Accra

AUDITORS

Ernst & Young
Chartered Accountants
G15, White Avenue
Airport Residential Area
P O Box KA 16009
Airport, Accra - Ghana

FINANCIAL HIGHLIGHTS

	2017	2016
At 31 December	**GH¢'000**	**GH¢'000**
Total assets	592,503	370,329
Loans and advances to customers (net)	115,190	12,239
Customer deposits	295,819	110,374
Shareholders' funds	119,771	121,818
For the year ended 31 December		
Loss before tax	(1,850)	(8,378)
Loss after tax	(2,046)	(8,182)
Dividend per share (Ghana cedis)	-	-
Earnings per share (Ghana cedis):		
- Basic	(0.01)	(0.06)
Return on average equity (%)	-1.7	-6.7
Return on average assets (%)	-0.4	-2.2
At 31 December		
Number of staff	102	71
Number of branches	4	1

REPORT OF THE DIRECTORS
TO THE MEMBERS OF
SOVEREIGN BANK LIMITED

The Directors submit their report together with the financial statements of the Bank for the year ended 31 December 2017.

DIRECTORS' RESPONSIBILITY STATEMENT

The Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Ghana 1963 (Act 179), and the Banking Act, 2004 (Act 673) as amended by the Banking (Amendment) Act, 2007 (Act 738) and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe it will not be a going concern in the year ahead.

The Directors consider the state of the Bank's affairs to be satisfactory.

PRINCIPAL ACTIVITIES

The Bank's principal activities comprise corporate banking, investment banking and retail banking. The activities carried out by the Bank during the year under review were generally within the limits permitted by its regulations.

DIRECTORS

The present list of members of the board is shown on page 3.

FINANCIAL STATEMENTS

The Bank's results for the 12 months period are set out in the attached financial statements, highlights of which are as follows:

	2017	2016
At 31 December	**GH¢'000**	**GH¢'000**
Loss after tax attributable to equity holders	(2,046)	(8,182)
to which is added the balance brought forward on retained earnings account	(8,643)	-
	------------	------------
	(10,689)	(8,182)
out of which is transferred to the statutory reserve fund an amount of		-
transfers into credit risk reserve of	(392)	(461)
	------------	------------
leaving a balance to be carried forward of	(11,081)	(8,643)
	==========	=========

DIVIDEND

The Directors do not propose the payment of dividend for the 12 months period.

AUDITORS

Ernst & Young, having indicated their willingness, continue in office pursuant to Section 134 (5) of the Companies Act, 1963 (Act 179).

SHAREHOLDING

The Bank has five shareholders with shareholdings as follows:

Name	**Nationality**	**Shares Alloted**	**Percentage Shareholding**
Abdulai Abukari	Ghanaian	26,000,000	20%
Albert Adjei Boateng	Ghanaian	6,500,000	5%
Edward Forkuo Kyei	Ghanaian	19,500,000	15%
Kwame Achampong Kyei	Ghanaian	45,500,000	35%
Tetteh Nettey	Ghanaian	32,500,000	25%
Total	Ghanaian	130,000,000	**100%**

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Bank were approved by the Board of Directors on March 31, 2018 and signed on their behalf by:

....
CHAIRMAN **MANAGING DIRECTOR**

Commitment to Corporate Governance

The key guiding principles of the Bank's governance practices are:

1. Good corporate governance enhances shareholder value

2. The respective roles of shareholders, Board of Directors and management in the governance architecture should be clearly defined

These principles have been articulated in a number of corporate documents, including the Bank's regulations, rules of procedures for Boards, a code of conduct for Directors and rules of business ethics for staff.

The Board of Directors

The Board is responsible for setting the institution's strategic direction, leading and controlling the institution and monitoring activities of executive management.

As at 31 December 2017, the Board of Directors of Sovereign Bank Limited consisted of eight (9) members made up of a non-executive Chairman, five (6) Non-executive Directors, and two (2) Executive Directors. These board members have wide experience and in-depth knowledge in management, industry and the financial and capital markets, which enable them make informed decisions and valuable contributions to the Bank's progress. The Board met Six (6) times during the twelve months period being reported.

The Board has delegated various aspects of its work to the Audit Risk and Compliance, Business Development, Human Resource and Credit Committees.

Audit, Risk and Compliance Committee

This committee provides a forum for the effective communication between the Board, the external and internal auditors. The committee reviews the annual financial statements prior to the approval by the Board, the effectiveness of management information systems and systems of internal control, and the efficiency and effectiveness of the external and internal audit functions. To ensure that the Management of the Bank maintains the operational controls and procedures designed to provide reasonable assurance of compliance with those laws and regulations applicable to the Bank's various activities.

Business Development Committee

This committee provides a forum for assisting Management with strategic direction relating to or affecting the Bank's performance in relation to its strategy to provide oversight and advice to Management in the development and implementation of all such strategic initiatives, and make recommendations to the Board on such matters.

Human Resource Committee

Their role is to assist the Board in fulfilling its oversight responsibilities in respect of the formulation, review and providing guidance to the Bank on all Human Resource Management and organizational matters.

Credit Committee

Their role is to consider and approve facilities above Management's limits to ensure that approvals are in line with Bank of Ghana guidelines, the Banking act and any amendments thereto and the Bank's Credit Policy and guidelines.

Code of Conduct

Management has communicated principles in the Bank's Code of Conduct to its employees to provide guidance in the discharge of their duties. This code sets the standards of professionalism and integrity required for the Bank's operations, which covers compliance with applicable laws, conflicts of interest, environmental issues, reliability of financial reporting, bribery and strict adherence to laid down principles, so as to eliminate the potential for illegal practices.

Anti-Money Laundering

The Bank also has an established anti-money laundering system in place in compliance with requirements of Ghana's Anti-Money Laundering Act 2008. These include due diligence for opening new accounts, customer identification, monitoring of high risk accounts, record keeping and training and sensitization of staff on money laundering, which assist in reducing regulatory and reputational risks to its business.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

SOVEREIGN BANK LIMITED

Opinion

We have audited the financial statements of Sovereign Bank Limited as set out on pages 12 to 54, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the 12 months period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sovereign Bank Limited as at 31 December 2017, and its financial performance and cash flows for the 12 months period then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1963 (Act 179) and the Banking Act, 2004 (Act 673) as amended by the Banking (Amendment) Act, 2007 (Act 738).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC code) and other independence requirements applicable to performing audits of Sovereign Bank Limited. We have fulfilled our other ethical responsibilities in accordance with the IFAC Code, and in accordance with other ethical requirements applicable to performing the audit of Sovereign Bank Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 1963 (Act 179). The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 1963 (Act 179), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

  We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The Companies Act, 1963 (Act 179) requires that in carrying out our audit we consider and report on the following matters. We confirm that,

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) In our opinion proper books of account have been kept by the company so far as appears from our examination of those books; and

iii) The statement of financial position and the profit or loss (statement of income) of the company are in agreement with the books of account.

The Banking Act 2004 (Act 673), Section 78 (2), requires that we state certain matters in our report. We hereby state that;

i) The accounts give a true and fair view of the state of affairs of the bank and its results for the period under review;

ii) We were able to obtain all the information and explanation required for the efficient performance of our duties as auditors;

iii) the banks' transactions are within its powers; and

iv) the bank has generally complied with the provisions in the Banking Act 2004 (Act 673) and the Banking (Amendment) Act 2007 (Act 738).

....

Signed by Pamela Des Bordes (ICAG/P/1329)
For and on behalf of Ernst & Young (ICAG/F/2017/126)
Chartered Accountants
Accra, Ghana
Date:

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017	2016
		GH¢'000	GH¢'000
Interest income	8	82,503	34,379
Interest expense	8	(54,932)	(9,817)
		-----------	-----------
Net interest income	8	**27,571**	**24,562**
Fees and commission income	9	5,136	1,534
Fees and commission expense	9	(123)	(36)
Net fees and commission income	9	5,013	1,498
		-----------	-----------
Net trading income	10	3,151	423
Other operating income	11	28	62
		-----------	-----------
Net non-interest revenue		**8,192**	**1,983**
		-----------	-----------
Operating income		**35,763**	**26,545**
Net Impairment losses on financial asset	17	(1,439)	(31)
Personnel expenses	12	(13,692)	(8,191)
Depreciation and Amortization	20,22	(4,385)	(1,868)
Other operating expenses	13	(18,097)	(24,833)
		------------	------------
Total Expenses		(37,613)	(34,923)
		------------	------------
Operating Loss		**(1,850)**	**(8,378)**
Income tax	14,21	(196)	196
National Fiscal Stabilization Levy	14	-	-
		------------	------------
Loss after Tax		**(2,046)**	**(8,182)**
		======	======

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017	2016
Assets		**GH¢'000**	**GH¢'000**
Cash and Cash equivalents	16	172,917	196,537
Investment securities	18	275,517	139,582
Loans and advances to customers	17	115,190	12,239
Corporate Tax	14	93	78
Other assets	19	7,162	4,075
Property and equipment	22	16,983	11,822
Intangible assets	20	4,641	5,800
Deferred tax assets	21	-	196
Total Assets		**592,503**	**370,329**
Liabilities			
Deposit from Banks and other Financial Institutions	23	168,674	132,294
Deposit from Customers	24	295,819	110,374
Other liabilities	25	8,239	5,843
Total Liabilities		**472,732**	**248,511**
Equity			
Share capital	26	130,000	130,000
Credit risk reserve	28	853	461
Retained earnings	27	(11,082)	(8,643)
Total equity attributable to equity holders of the Bank		**119,771**	**121,818**
Total liabilities and equity		**592,503**	**370,329**

The financial statements of the Bank were approved by the Board of Directors on March 23, 2018 and signed on their behalf by:

....

CHAIRMAN **MANAGING DIRECTOR**

The notes on pages 17 to 54 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2017

	Note	2017	2016
		GH¢'000	GH¢'000
Loss		(2,046)	(8,182)
Other comprehensive income		-	-
		-----------	-----------
Total comprehensive income		(2,046)	(8,182)
Loss attributable to:			
Equity holders of the Bank		(2,046)	(8,182)
Total comprehensive income attributable to:			
Equity holders of the Bank		(2,046)	(8,182)
		======	======
Earnings per share			
Basic and diluted (in Ghana pesewas)	15	(0.01)	(0.06)

The notes on pages 17 to 54 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2017

	Stated Capital	Credit Risk Reserve	Retained Earnings	Statutory Reserve Fund	Total
	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
At 9 October 2015	130,000	-	-	-	130,000
Loss for the period	-	-	(8,182)	-	(8,182)
Transfer to credit risk reserve	-	461	(461)	-	-
	------------	----------	---------	---------	-----------
At 31 December 2016	**130,000**	**461**	**(8,643)**	**-**	**121,818**
	=======	======	---------	---------	======
At 1 January 2017	130,000	461	(8,643)	-	121,818
Profit for the period	-	-	(2,046)	-	(2,046)
Transfer to credit risk reserve	-	392	(392)	-	-
Transfer to statutory reserve	-				
	------------	------------	---------	---------	-----------
At 31 December 2017	130,000	853	(11,081)	-	119,771
	=======	======	=====	=====	======

Statutory reserve represents the cumulative amount set aside from annual net profit after tax as required by Section 34 of the Banking Act, 2004 (Act 673). The proportion of net profits transferred to this reserve ranges from 12.5% to 50% of net profit after tax, depending on the ratio of existing statutory reserve fund to paid-up capital. The Bank is yet to record profit and therefore reported a nil figure for statutory reserve.

STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS PERIOD ENDED 31 DECEMBER 2017

	Note	2017	2016
		GH¢'000	GH¢'000
Cash flows from operating activities			
Loss after tax		(2,046)	(8,182)
Adjustments for:			
Depreciation and Amortization	13, 20,22	10,956	1,868
Impairment on financial assets	17	1,439	31
		-----------	-----------
Loss before working capital changes		**10,349**	**(6,283)**
Investment Securities	18	(135,934)	(139,582)
Loans and advances to customers	17	(104,389)	(12,270)
Increase in other assets	19	(9,464)	(4,270)
Increase in deposit from customers	24	185,445	110,374
Increase in deposit from Banks and Financial Institutions	23	36,379	132,294
Increase in interest payable and other liabilities	25	2,396	5,843
		-----------	-----------
		(25,567)	**86,105**
Taxes paid (NFSL)	14	(8)	(13)
Income Tax Paid	14	(7)	(65)
		-----------	----------
Net cash used in operations		**(15,233)**	**86,027**
Investing activities			
Purchase of property and equipment	22	(8,263)	(13,163)
Acquisition of Intangible assets	20	(124)	(6,327)
		-----------	----------
Net cash used in investing activities		**(8,387)**	**(19,490)**
Financing activities			
Proceeds from issue of shares	26	-	130,000
		-----------	------------
Net cash from financing activities		**-**	**130,000**
		-----------	------------
Net Increase in cash and cash equivalents		**(23,620)**	**196,537**
Cash and cash equivalent at January 1, 2017		**196,537**	-
Effect of exchange rate fluctuations on cash and cash equivalent			-
		-----------	------------
Cash and cash equivalents at 31 December	16	**172,917**	**196,537**
		======	======

The notes on pages 17 to 52 form an integral part of these financial statements.

1. REPORTING ENTITY

Sovereign Bank Limited (SBL) is a financial institution incorporated in Ghana. The registered office and address of the Bank is Manet Tower 3, Plot 27, Airport, PMB CT 363, Accra. The Bank is primarily involved in corporate banking, investment banking and retail banking.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Boards (IASB), the Banking Act and the Ghana companies Act. They were authorized for issue by the Bank's board of directors on March 23, 2018.

b) Basis of measurement

The financial statement statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These financial statements are presented in Ghana Cedi, which is the Bank's functional currency. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

d) Use of judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements

a) Foreign currency transaction

Transactions in foreign currencies are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at closing inter-bank mid rates ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at exchange rates ruling at the dates of initial recognition. Non-monetary items denominated in a foreign currency that are measured at fair value are translated at exchange rates ruling at the date when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from re-translation at year-end exchange rates of foreign currency denominated monetary assets and liabilities are recognized in profit or loss, except for differences on translation of equity investments in respect of which an election has been made to present subsequent changes in fair value and differences arising on translation of available-for-sale equity investments in Other Comprehensive Income (OCI).

All foreign exchange gains and losses recognized in profit or loss are presented net within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

b) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating 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 or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, including prepayment options, but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

c) Fees and commissions

Fees and commissions are generally recognized 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 recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

d) Net trading income

Net trading income comprises gains less losses relating to trading assets and liabilities, including realized and unrealized fair value changes, interest and foreign exchange differences.

e) Leases

Lease payments – lessee

Payments made under operating leases are recognized in profit or loss on a straight – line basis over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability.

Lease assets - lessee

Assets held by the Bank under leases that transfer to the Bank substantially all the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Bank's statement of financial position.

f) Income Tax

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Internal Revenue Act, 2000 (Act 592) as amended. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.
Income tax expense is the aggregate of the charge to the profit or loss in respect of current income tax and deferred income tax. Tax is recognized in the income profit or loss unless it relates to items recognized directly in equity, in which case it is also recognized directly in equity

Deferred tax is recognized in respect of temporary differences between the carrying amount assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets of liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when the reverse, based on laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

g) Financial assets and financial liabilities

i. Recognition

The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables, held to maturity, available-for-sale or at fair value through profit or loss within the category of held for trading or designated at fair value through profit or loss. Management determines the classification of its financial assets at initial recognition.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss.

iii. De-recognition

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

Financial liabilities

Financial liabilities are derecognized when contractual obligations are discharged, cancelled or expire.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

v. Amortized cost measurement

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

vi. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.
When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument.

A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial
instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

vii. Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity
investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Bank uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

- ***Assets carried at amortized costs***

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognized at fair value.

- ***Assets carried at fair value***

Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to the statement of comprehensive income.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the statement of comprehensive income.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

h) Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.
Cash and cash equivalents are carried at amortized cost in the statement of financial position.

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

i) Loans and advances

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to banks are classified as loans and receivables.

Loans and advances to customers include:

- those classified as loans and receivables; and
- those designated as at fair value through profit or loss; and
- finance lease receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. When the Bank chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognized immediately in profit or loss.

Loans and advances also include finance lease receivables in which the Bank is the lessor. When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements.

j) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as held to maturity and available-for-sale.

i. Held to maturity

'Held to maturity' investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive interest and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and

- sales or reclassifications that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

ii. Available-for-sale

'Available-for-sale investments' are non-derivative investments that are designated as available for- sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.
Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

k) Deposits and borrowed funds

Deposits and borrowings from other banks are the Bank's sources of debt funding. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits and borrowings from other banks are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

l) Property and equipment

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses or as professionally revalued from time to time less accumulated depreciation. Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self -constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus. Decreases that offset previous increases of the same asset are charged against the revaluation surplus. All other decreases are charged against the revaluation surplus. All other decreases are charged to the statement of comprehensive income. Each year, the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the statement of comprehensive income) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

ii. Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

iii. Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of the asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over its expected useful lives of each part of an item or property and equipment, since this most closely reflects the expected pattern consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Motor vehicles	5 years
Furniture and equipment	5 years
Computers	5 years
Leasehold Improvement	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

m) Intangible assets

Computer software

Generally, costs associated with developing computer software programs are recognized as an expense when incurred. However, costs that is clearly associated with an identifiable and unique product which will be controlled by the Bank and has a probable benefit exceeding the cost beyond one year, are recognized as an intangible asset.

Expenditure which enhances and extends computer software programs beyond their original specifications and lives is recognized as a capital improvement and added to the original costs of the software. Computer software development costs recognized as assets are stated at cost less amortization. Amortization is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

n) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset that generates cash flows that are largely independent from other assets. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The Bank did not hold such assets at the reporting date.

o) Deposits and borrowed funds

Deposits and borrowings from other banks are the Bank's sources of debt funding. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits and borrowings from other banks are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

p) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events that can be reliably estimated and it is probable that an outflow of resources will be required to settle the obligation. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations which are likely to result in an outflow to settle related classes of obligations as a whole, a provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
Provisions are measured at the present value of expenditures expected to be required to settle obligations using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the obligation. An increase in the provision due to passage of time is recognized as an interest expense.

q) Financial guarantee and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to financial institutions and other bodies on behalf of customers to secure loans and overdrafts.
Financial guarantees are initially recognized at the fair value and amortized over the life of financial guarantee. The financial guarantee is subsequently carried at the higher of the amortized amount and the present value of any expected payments, when payment becomes probable.

r) Employee benefits

i. Retirement benefit cost

The Bank contributes to the statutory Social Security & National Insurance Trust (SSNIT). This is a defined contribution scheme registered under the National Social Security Act. The Bank's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of 13% of an employee's basic salary per month. The Bank also operates a defined contribution scheme for its employees. The assets of this scheme are held by the treasury department of the bank. The scheme is funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules. The Bank's obligations to staff retirement benefit schemes are charged to the statement of comprehensive income in the year to which they relate.

ii. Provision for employee entitlement

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the year end.

s) Stated capital and reserves

i. Share capital

The Bank classifies capital and equity instruments in accordance with the contractual terms of the instrument. The Bank's share capital is not redeemable by holders in the normal course of business and bears an entitlement to distributions that is non-cumulative and at the discretion of the Directors. Accordingly, they are presented as a component of issued capital within equity.

ii. Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

iii. Dividend on ordinary shares

Dividends on ordinary shares are recognized in the period in which they are approved by the shareholders. Dividend proposed which is yet to be approved by shareholders, is disclosed by way of notes.

iv. Statutory reserves

Statutory reserves are based on the requirements of section 29(i) of the Banking Act. Transfers into statutory reserves are made in accordance with the relationship between the Bank's reserve fund and its paid up capital, which determines the proportion of profits for the period that should be transferred.

v. Credit risk reserves

This is a reserve created to set aside the excess or shortfalls between amounts recognized as impairment loss on loans and advances based on provisions made for bad and doubtful loans and advances calculated in accordance with IFRS and the Central Bank's prudential guidelines.

t) Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

4. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The bank has exposure to the following risks arising from the use of financial instruments. Typical of such risks are as follows:

- credit risk
- liquidity risk
- market risk
- operational risk.

These are principal risks of the bank. This note presents information about the bank exposure to these risks, including the objectives, policies and processes for measuring and managing the risks as well as their impact on earnings and capital.

Risk management framework

This depends mainly on the Risk Management framework set out by the Central Bank. Bank specific framework based on the overall structure of the bank ensures that the Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The bank's risk management policies are established to identify and analyze the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The bank Audit Committee is responsible for monitoring compliance with the bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. The bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

b) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure. For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its bank Credit Committee. A separate bank Credit department, reporting to the bank Credit Committee, is responsible for oversight of the bank credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization and structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by the Head of Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The bank Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the bank's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the bank Risk Function.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to bank Credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance, specialist skills and training to business units to promote best practice throughout the bank in the management of credit risk.

Each business unit is required to implement bank credit policies and procedures, with credit approval authorities delegated from the bank Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the bank Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and bank Credit processes are undertaken by Internal Audit.

Analysis of credit quality

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Bank against those assets.

	Note	2017	2016
		GH¢'000	**GH¢'000**
Unrestricted balances with the Central Bank	16	31,288	6,109
Balances with Banks		24,227	25,408
Money market placements	16	110,843	163,093
		-----------	-----------
Total gross amount		166,358	194,610
Loans and Advances to Customers			
At amortized cost			
Grade A		112,933	12,079

Grade B		2,545	191
Grade C		-	-
Grade D		542	-
Grade E		640	-
		-----------	-----------
Total gross amount	17	116,660	12,270
Allowance for Impairment:			
Individual	17	(1,182)	-
Collective	17	(287)	(31)
		-----------	------------
Net carrying amount	17	115,190	12,239
Neither past due nor impaired			
Grade A		112,933	12,079
Grade B		2,545	191
		-----------	------------
	17	115,478	12,270
		========	========
Off statement of Financial Position – Maximum exposure			
Guarantees and Indemnities – Grade A	29	24,614	34,810
Investment securities	18	275,517	139,582
		========	========

Impaired loans and securities

Impaired loans and securities are loans and securities for which the bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). Interest on these loans are calculated and treated on non-accrual basis and portions shall only be considered when payments (settlement) are made. These loans are graded 3 to 5 in the bank's internal credit risk grading system.

Past Due or Non-Performing but not impaired loans

Loans and securities where contractual interest or principal payments are past due or non- performing are not treated as impaired when the discounted cash flows of the forced sale value of the collateral is estimated to be more than the loan.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the bank has made concessions that it would not otherwise consider. The status or risk grade of a restructured facility does change until there is evidence of performance over a reasonable period of time.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, a bank shall recalculate the gross carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit-impaired financial assets). Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

Allowances for impairment

The bank establishes an allowance for impairment losses that represents the estimate of incurred losses in the loan portfolios. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The bank writes off a loan / security balance (and any related allowances for impairment losses) when the bank determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer discharge the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status. Related and connected lending is not permitted to be written off.

Collateral of Impaired exposures

The bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is not normally held for loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is not usually held against investment securities, and no such collateral was held at 31 December 2017. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. It must however be noted that collateral values of impaired loans are at cash flows of the forced sale values less estimated costs of sale as discounted to present values:

	2017	2016
	GH¢'000	**GH¢'000**
Loans and Advances to Customers		
Against individually impaired	4,426	-
Property		-
Against neither past due nor impaired	176,145	21,882-
Property		
	------------	------------
Total	**180,571**	**21,882**
	========	========

Repossessed Assets

The type and carrying amount of collateral that the bank has taken possession of in the period are measured at the lower of its carrying amount and fair value less costs to sell.

Concentration risk

The bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	2017	2017	2016	2016
	GH¢'000	**%**	**GH¢'000**	**%**
Carrying amount				
Concentration by industry:				
Agriculture	1,260	1.08	-	-
Electricity, Gas and water	2,257	1.93	330	2.69
Manufacturing	2,750	2.36	1,361	11.09
Commerce and Finance	82,319	70.56	8,756	71.36
Transport and Communication	1,649	1.41	1,006	8.02
Mining and Quarrying	456	0.39	-	-
Building and Construction	9,104	7.80	-	-
Services	16,782	14.39	810	6.60
Others	84	0.06	8	0.06
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	116,660	**100.00**	**12,270**	**100.00**

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Settlement risk

The bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions the bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from bank or Risk Committee.

Key ratios on loans and advances

- Loan loss provision ratio is 0.6% (2016 – 0.3%)
- Percentage of gross non-performing loans with respect to Bank of Ghana Prudential Norms (specifically impaired) to total gross loans and advances is 1% (2016 – 0%).
- Ratio of fifty (50) largest exposure (gross funded and non-funded) to total exposure is 93% (2016 – 100%).

c) Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities as they fall due. The risk arises from mismatches in cash flows.

Management of liquidity risk

The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation. Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole. The liquidity requirements of business units are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

The key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

Residual contractual maturities of financial liabilities

31 December 2017	Note	Carrying amount	Gross nominal	Less than 1 month	1-3 months	3-6 months	6 – 1 year	1 – 3 years	More than 3 years
		GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Non-derivative liabilities:									
Deposit from banks and Financial institutions	23	168,674	185,929	34,795	40,899	71,310	38,925	-	-
Deposit from customers	24	295,819	312,977	111,844	104,442	79,679	16,907	105	-
Total financial liabilities		**464,493**	**498,906**	**146,639**	**145,341**	**150,989**	**55,832**	**105**	**-**

Non-derivative assets									
Cash and cash equivalent	16	172,917	188,799	152,795	36,004	-	-	-	-
Investment securities	18	275,517	293,808	133,678	20,939	86,800	13,298	24,086	15,007
Loans and advances to customers	17	115,190	134,088	22,552	4,510	15,190	63,749	28,088	-
Total financial Assets		**563,624**	**616,695**	**309,025**	**61,453**	**101,990**	**77,047**	**52,174**	**15,007**
Net Liquidity gap		**99,131**	**117,789**	**162,386**	**(83,888)**	**(48,999)**	**21,215**	**52,069**	**15,007**
31 December 2016									
Non-derivative liabilities:									
Deposit from banks and Financial institutions	23	132,294	132,294	14,394	105,000	5,000	7,900	-	-
Deposit from customers	24	110,374	110,374	55,425	22,536	22,883	9,530	-	-
Total financial liabilities		**242,668**	**242,668**	**69,819**	**127,536**	**27,883**	**17,430**	**-**	**-**
Non-derivative assets									
Cash and cash equivalent	16	196,537	196,537	33,444	163,093	-	-	-	-
Investment securities	18	139,582	144,881	89,941	35,083	-	14,976	1,882	3,000
Loans and advances to customers	17	12,239	13,340	4,795	213	3,502	4,215	615	-
Total financial Assets		**348,358**	**354,758**	**128,180**	**198,389**	**3,502**	**19,191**	**1,615**	**3,000**
Net Liquidity gap		**105,690**	**112,090**	**58,361**	**70,853**	**(24,381)**	**1,761**	**2,497**	**3,000**

The table above shows the undiscounted cash flows on the bank's financial liabilities and assets and on the basis of their earliest possible contractual maturity. The bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

The Gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (for example, forward exchange contracts and currency swaps).

d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Overall authority for market risk is vested in ALCO. The Risk department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

31 December 2017	Note	Carrying amount	Less than 1 month	1-3 months	3-6 months	6 – 1 year	1 – 3 years	More than 3 years
		GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Non-derivative liabilities								
Deposit from banks and Financial institutions	23	168,674	17,540	40,899	71,310	38,925	-	-
Deposit from customers	24	295,819	94,686	104,442	79,679	16,907	105	-
Total financial liabilities		**464,493**	**112,226**	**145,341**	**150,989**	**55,831**	**105**	**-**
Non-derivative assets								
Cash and cash equivalent	16	172,917	136,913	36,004	-	-	-	-
Investment securities	18	275,517	115,386	20,939	86,800	13,297	24,086	15,007
Loans and advances to customers	17	115,190	22,552	4,510	15,190	63,749	9,190	-
Total financial Assets		**563,624**	**274,851**	**61,453**	**101,990**	**77,047**	**33,276**	**15,007**
Net interest rate gap		**99,131**	**162,625**	**(83,888)**	**(48,999)**	**21,216**	**33,171**	**15,007**

31 December 2016	Note	Carrying amount	Less than 1 month	1-3 months	3-6 months	6 – 1 year	1 – 3 years	More than 3 years
Non-derivative liabilities								
Deposit from banks and Financial institutions	23	132,294	14,394	105,000	5,000	7,900	-	-
Deposit from customers	24	110,374	55,425	22,536	22,883	9,530	-	-
Total financial liabilities		**242,668**	**69,819**	**127,536**	**27,883**	**17,430**	**-**	**-**
Non-derivative assets								
Cash and cash equivalent	16	196,537	33,444	163,093	-	-	-	-
Investment securities	18	139,582	85,847	10,658	25,606	13,471	1,000	3,000
Loans and advances to customers	17	12,239	4,795	191	2,995	3,742	516	-
Total financial Assets		**348,358**	**124,086**	**173,942**	**28,601**	**17,213**	**1,516**	**3,000**
Net interest rate gap		**105,690**	**54,267**	**46,406**	**718**	**(217)**	**1,516**	**3,000**

Foreign exchange risk

Foreign exchange risk is measured through the profit or loss. The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra group.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2017

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2017.

2017	USD	GBP	EUR	Other	Total
Financial Assets	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Cash and cash equivalent	24,009	109	146	-	24,264
Loans and advances to customers	2,176				2,176
	--------	--------	--------	--------	--------
Total financial assets	**26,185**	**109**	**146**	**-**	**26,440**
	=====	=====	=====	=====	=====
Financial liabilities					
Deposit from customers	23,526	77	79	-	23,682
Deposit from banks and Financial institutions	4,438				4,438
Other liabilities	4	-	-	-	4
	--------	--------	--------	--------	--------
Total financial liabilities	**27,968**	**77**	**79**	**-**	**28,124**
	=====	=====	=====	=====	=====
Net on Statement on Financial Position	**1,783**	**32**	**67**	**-**	**1,882**
Contingent liabilities	**19,875**	**-**	**-**	**-**	**19,875**
	=====	=====	=====	=====	=====

2016	USD	GBP	EUR	Other	Total
Financial Assets	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Cash and cash equivalent	28,988	144	31	-	29,163
	--------	--------	--------	--------	--------
Total financial assets	**28,988**	**144**	31	**-**	**29,163**
	=====	=====	=====	=====	=====
Financial liabilities					
Deposit from customers	28,770	57	14	-	28,841
Other liabilities	2	-	-	-	2
	--------	--------	--------	--------	--------
Total financial liabilities	**28,772**	**57**	**14**	**-**	**28,843**
	=====	=====	=====	=====	=====
Net on Statement of Financial Position	**216**	**87**	**17**	**-**	**320**
Contingent liabilities	**23,165**	**110**	**-**	**-**	**23,725**
	=====	=====	=====	=====	=====

The following mid inter-bank exchange rates were applied during the year:

	Reporting rate	**Reporting rate**
	2017	2016
US$ 1	4.4157	4.2002
£ 1	5.9669	5.1965

€1	5.2964	4.4400

Sensitivity Analysis on Currency Risks

The following table shows the effect of the strengthening or weakening of the GH¢ against all other currencies on the company's profit or loss. This sensitivity analysis indicates the potential impact on the profit or loss based upon the foreign currency exposures recorded at 31 December 2017. (See "currency risk" above) and it does not represent actual or future gains or losses.

The sensitivity analysis is based on the percentage difference between the highest daily exchange rate and the average rate per currency recorded in the course of the respective financial year.

A strengthening/weakening of the GH¢, by the rates shown in the table, against the following currencies at 31 December would have increased/decreased equity and profit or loss by the amounts shown below:

This analysis assumes that all other variables, in particular interest rates, remain constant.

In GH¢'000		2017		2016	
	% change	Profit or Loss impact Strengthening	Profit or Loss impact Weakening	Profit or Loss impact Strengthening	Profit or Loss Impact Weakening
In GH¢'000					
US$	+ 5%	(394)	394	46	(46)
£	+ 5%	9	(9)	23	(23)
€	+ 5%	18	(18)	3	(3)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date will have increased/decreased profit or loss by amounts shown below. Each analysis assumes all other variables in particular foreign currency rates remain constant.

The analysis is performed on the same basis for 2017.

Effects in Cedis	100bp Increase	100bp Increase
	GH¢'000	GH¢'000
31 December 2017		
Average for the Period	276	(276)
Maximum for the Period	825	(825)
Minimum for the Period	549	(549)
31 December 2016		
Average for the Period	246	(246)
Maximum for the Period	344	(344)

Minimum for the Period	98	(98)

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts.
In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference between re-pricing characteristics of the various floating rate indices, such as the savings rate and six months LIBOR and different types of interest. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The actual effect will depend on a number of factors, including the extent to which repayments are made earlier to later than the contracted dates and variations in interest rate sensitivity within re-pricing periods and amongst currencies.

The rates above show the extent to which the Bank's interest rate exposures on assets and liabilities are matched. These are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and maturity.

e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the bank's operations and are faced by all business entities.

The bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions.
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

f) Capital management

The Central Bank of Ghana sets and monitors capital requirements for the Bank.
The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for the other stakeholders
- To maintain a strong capital base to support the current and future development needs of the business
- To comply with the capital requirements set by the Central Bank of Ghana

Capital adequacy and use of regulatory capital are monitored by management employing techniques based on the guidelines developed by the Central Bank of Ghana for supervisory purposes. The required information is filed with the Central Bank of Ghana on a monthly basis

The Central Bank requires each bank to:

a) Hold the minimum level of regulatory capital of GH¢120 million.

b) Maintain a ratio total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 10%

The bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings, after deductions for intangible assets (excluding computer software), investments in equity instruments of other institutions and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes capitalized revaluations reserves, latent revaluation reserves, undisclosed reserves, revaluation reserves, sub-ordinated Loans and Hybrid Capital subject to a limit of 100% of Tier 1 Capital.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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 Central Bank of Ghana regulations, a minimum ratio of 10% is to be maintained.

The Bank's regulatory capital position at 31 December was as follows:

	2017 GH¢'000	2016 GH¢'000
Tier 1 Capital		
Ordinary share capital	130,000	130,000
Retained earnings	(9,940)	(8,643)
Statutory reserve	-	-
Other regulatory adjustment	(8,397)	(4,378)
Total	**111,663**	**117,008**
Tier 2 Capital		
Available for sale reserve	-	-
Revaluation reserve	-	-
		-
Total Regulatory Capital	**111,663**	**117,008**
Risk weighted assets		
On- statement of financial position items	423,129	210,274
Off- statement of financial position items	24,614	34,810
	447,744	245,084
Other regulatory adjustments	25,689	12,186
Adjusted asset base	473,432	257,271
Capital adequacy	23.59%	45.48%

5. USE OF ESTIMATE AND JUDGEMENTS

Management discussed with the Audit Committee the development, selection and disclosure of the bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

Key sources of estimation uncertainty

Allowances for credit losses
Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 'g' (v)(vi).

The individual counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar credit characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counterparty allowances and the model assumptions and parameters are used in determining collective allowances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 'g' (i),(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying the bank's accounting policies

Critical accounting judgments made in applying the Bank's accounting policies include:

Financial asset and liability classification

The bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in the Bank's accounting policy.
- In designating financial assets or liabilities at fair value through profit or loss, the bank has determined that it has met one of the criteria for this designation set out in the Bank's accounting policy.
- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by the bank's accounting policy.

Details of the bank's classification of financial assets and liabilities are given in note 7.

6. OPERATING SEGMENTS

Segment information is presented in respect of the bank's business segments. The primary format, business segments, is based on the bank's management and internal reporting structure.

Business segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Business segments

The bank comprises the following main business segments:

Corporate Banking: Includes loans, deposits and other transactions and balances with corporate customers

Retail Banking: Includes loans, deposits and other transactions and balances with retail customers

Treasury: Undertakes the bank's funding and centralized risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

Business segments
2017

In GH¢'000	Note	Corporate Banking	Retail Banking	Treasury	Shared Services	Consolidated
External Revenue						
Net Interest income	8	(10,928)	(154)	38,652	-	27,571
Net fee and commission income	9	3,427	1,586	-	-	5,013
Net trading income	10	-	-	3,151	-	3,151
Other operating income	11	-	28	-	-	28
Intersegment Revenue		14,453	3,089	(17,542)	-	-
Total Segment Revenue		**6,952**	**4,549**	**24,261**	**-**	**35,763**
Impairment loss on Financial Asset	17	(1,296)	(143)	-	-	(1,439)
Operating expenses	12,13	(2,737)	(9,196)	(1,172)	(18,684)	(31,789)
Depreciation and Amortization	22	(350)	(2,133)	(121)	(1,782)	(4,385)
Segment result		**2,568**	**(6,923)**	**22,969**	**(20,466)**	**(1,850)**
Income Tax expense	14,21	-	-	-	(196)	(196)
Profit/(Loss) for the period		**2,568**	**(6,804)**	**22,969**	**(20,755)**	**(2,046)**
Segment Assets		113,293	40,349	409,982	28,879	592,503
Segment Liabilities		293,471	71,964	79,416	27,881	472,732

2016

In GH¢'000	Note	Corporate Banking	Retail Banking	Treasury	Shared Services	Consolidated
External Revenue						
Net Interest income	8	(4,394)	(303)	29,259	-	24,562
Net fee and commission income	9	1,191	343	-	-	1,534
Net trading income	10	-	-	423	-	423
Other operating income	11	57	4	-	-	61
Intersegment Revenue		6,064	684	(6,748)	-	-
Total Segment Revenue		**2,918**	**728**	**22,934**	**-**	**26,581**
Impairment loss on Financial Asset	17	(18)	(13)	-	-	(31)
Operating expenses	12,13	(1,492)	(2,933)	(805)	(27,830)	(33,060)
Depreciation and Amortization	22	(161)	(419)	(59)	(1,229)	(1,868)
Segment result		**1,247**	**(2,636)**	**22,070**	**(29,060)**	**(8,378)**
Income Tax expense	14,21	-	-	-	196	196

Profit/(Loss) for the period	**1,247**	**(2,636)**	**22,070**	**(28,863)**	**(8,182)**
Segment Assets	7,295	4,868	336,119	22,048	370,329
Segment Liabilities	117,510	17,814	102,630	10,557	248,511

7. FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Bank's classification of each class of financial assets and liabilities (excluding accrued interest). The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arms-length transaction between knowledgeable willing parties.

2017	Note	Loans and Receivables GH¢'000	Other Amortised cost GH¢'000	Total Carrying amount GH¢'000	Fair Value GH¢'000
Cash and Cash equivalents	16	-	172,917	172,917	172,917
Loans and Advances to customers	17	115,190	-	115,190	115,190
Investment securities	18	-	275,517	275,517	275,517
		115,190	**448,434**	**563,624**	**563,624**
Deposit from Banks and other Financial Institutions	23	-	168,674	168,674	168,674
Deposit from customers	24	-	295,819	295,819	295,819
		-	**464,493**	**464,493**	**464,493**
2016					
Cash and Cash equivalents	16	-	196,537	196,537	196,537
Loans and Advances to customers	17	12,239	-	12,239	12,239
Investment securities	18	-	139,582	139,582	139,582
		12,239	**336,119**	**348,358**	**348,358**
Deposit from Banks and other Financial Institutions	23	-	132,294	132,294	132,294
Deposit from customers	24	-	110,374	110,374	110,374
		-	**242,668**	**242,668**	**242,668**

8. NET INTEREST INCOME

	2017 GH¢'000	2016 GH¢'000
Cash and Cash equivalents	41,357	27,266

Loans and Advances to customers	22,586	806
Investment securities	18,560	6,307
	----------	----------
Total interest income	**82,503**	**34,379**
Deposit from Banks and other Financial Institutions	28,387	5,596
Deposit from customers	26,545	4,221
	----------	----------
Total interest expense	**54,932**	**9,817**
Net interest income	**27,571**	**24,562**
	======	======

9. NET FEE AND COMMISSION INCOME

	2017	2016
	GH¢'000	GH¢'000
Fee and commission Income		
Retail banking customer fees	1,709	343
Corporate banking customer fees	3,427	1,191
Other	-	-
	--------	--------
Total Fee and Commission Income	**5,136**	**1,534**
	--------	--------
Fee and commission Expense		
Interbank transaction fees	123	36
	--------	----------
Total Fee and Commission Expense	**123**	**36**
Net Fee and Commission Income	**5,013**	**1,498**
	=====	=====

10. NET TRADING INCOME

	2017	2016
	GH¢'000	GH¢'000
Foreign Exchange		
- Translation gains less losses	(175)	41

- Transaction gains less losses	3,326	382
	-------	-------
	3,151	423
	=====	=====

11. OTHER OPERATING INCOME

	2017	2016
	GH¢'000	GH¢'000
Other income	28	62
	--------	--------
	28	62
	=====	=====

12. PERSONNEL EXPENSES

	2017	2016
	GH¢'000	GH¢'000
Salaries and wages	8,721	4,517
Pension costs - (Defined contribution scheme to SSNIT)	1,068	457
Staff Provident Fund (Defined Contribution Scheme)	609	344
Staff allowance	3,294	2,873
	--------	---------
	13,692	8,191
	======	======

13. OTHER OPERATING EXPENSES

	2017	2016
	GH¢'000	GH¢'000
Directors' emoluments	445	392
Amortization of prepaid operating lease rentals	6,571	1,867
Utilities	1,090	993
Legal and Professional Fees	365	10,883
Auditors Remuneration	132	123

Donations and Social Responsibility	17	2
Motor Vehicle Running Expenses	1,561	858
General & Administrative Expenses	7,200	8,602
IT	716	1,114
	--------	--------
	18,097	**24,834**
	=====	=====

14. INCOME TAX EXPENSE

Current tax expense	Balance at January 1, 2017	Payments during the year	Charge for the year	Balance at December 31, 2017
	GH¢'000	**GH¢'000**	**GH¢'000**	**GH¢'000**
Income tax	**(65)**	7	-	**(72)**
National Stabilization Levy	**(13)**	8	-	**(21)**
	--------	--------	--------	--------
	(78)	(15)	-	**(93)**
	=====	=====	=====	=====

	2017	2016
	GH¢'000	**GH¢'000**
Tax Reconciliation		
Loss before tax	(1,951)	(8,378)
25% tax	(488)	(2,094)
Non-deductible expense	2,346	2,290
	--------	--------
	93	196

15. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

	2017	**2016**
	GH¢'000	**GH¢'000**
Earnings (GH¢)	(1,758)	(8,182)
	--------	--------
Earnings attributable to ordinary shareholders	(1,758)	(8,182)
	=====	=====
Number of ordinary shares at December 31	130,000,000	130,000,000
Earnings per share	(0.01)	(0.06)
	====	====

There were no potentially dilutive instruments outstanding at the date of the statement of financial position.

16. CASH AND CASH EQUIVALENTS

	2017 GH¢'000	2016 GH¢'000
Cash and Balances with Banks	30,785	27,335
Unrestricted balances with the Central Bank	31,289	6,109
Money market placements	110,843	163,093
	----------	----------
	172,917	**196,537**

17. LOANS AND ADVANCES TO CUSTOMERS

	2017			2016		
	GH¢'000 Gross amount	GH¢'000 Impairment allowance	GH¢'000 Carrying amount	GH¢'000 Gross amount	GH¢'000 Impairment allowance	GH¢'000 Carrying amount
Retail customers						
Other Secured lending	34,985	87	34,898	-	-	-
Financial Institutions lending	4,232	11	4,221	-	-	-
Personal loans	3,179	91	**3,088**	517	1	**516**
Corporate customers						
Financial Institutions lending	19,806	50	**19,756**	3,000	8	**2,992**
Finance Leases	-	-	-	-	-	-
Other secured lending	54,457	1,230	**53,227**	8,753	22	**8,731**
	----------	----------	----------	----------	----------	----------
	116,660	**1,469**	**115,190**	**12,270**	**31**	**12,239**

	2017 GH¢'000	2016 GH¢'000
Individual allowances for impairment		
Balance at January 1, 2017	-	-
Impairment loss for the year		
Charge for the year	1,182	-
	----------	----------
Balance at December 31, 2017	**1,182**	**-**

	2017 GH¢'000	2016 GH¢'000
Collective allowances for impairment		

Balance at January 1, 2017	31	-
Impairment loss for the year		
Charge for the year	256	31
	----------	----------
Balance at December 31, 2017	**287**	**31**

18. Investment securities

Held to maturity investment securities

	2017	2016
	GH¢'000	GH¢'000
Government bonds	55,494	32,656
Corporate bonds	27,838	24,129
Placements	192,185	82,797
Less individual allowances for impairment	-	-
	----------	----------
	275,517	**139,582**

19. OTHER ASSETS

	2017	2016
	GH¢'000	GH¢'000
Prepayments	6,868	3,966
Sundry receivables	149	6
Stationery stock	99	103
Others	47	-
	--------	--------
	7,162	4,075
	=====	=====

20. INTANGIBLE ASSETS

Cost	Purchased software	Developed software	Total
	GH¢'000	GH¢'000	GH¢'000
Balance as at January 1, 2017	6,327	-	6,327
Acquisitions	41	-	41
Transfers	83		83
Internal development	-	-	-

	--------	--------	--------
Balance at 31 December 2017	6,451	-	6,451
Amortization and impairment			
Balance as at January 1, 2017	527	-	527
Amortization for the period	1,283	-	1,283
	--------	--------	--------
	1,810	-	1,810
Carrying amounts			
Balance at 31 December 2017	4,641	-	4,641
	=====	=====	=====

-

Cost	**Purchased software**	**Developed software**	**Total**
	GH¢'000	**GH¢'000**	**GH¢'000**
Balance as at January 1, 2016	-	-	-
Acquisitions	6,327	-	6,327
Transfers	-		-
Internal development	-	-	-
	--------	--------	--------
Balance at 31 December 2017	6,327	-	6,327
Amortization and impairment			
Balance as at January 1, 2016	-	-	-
Amortization for the period	527	-	527
	--------	--------	--------
	527	-	527
Carrying amounts			
Balance at 31 December 2016	5,800	-	5,800
	=====	=====	=====

- There were no capitalized borrowing costs related to intangible assets during the period.
- There were no restrictions on title and intangible assets pledged as security for liabilities during the period.

21. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
		2017			**2016**	
						GH¢'000
Property, Plant and Equipment	-	-	-	189	-	189
Allowance for loan losses	-	-	-	7	-	7
	------	-------	------	------	-------	------
Net Tax assets	-	-	-	196	-	196
			===			===

Deferred Tax expense	(196)	196
	===	===

22. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles GH¢'000	Computers GH¢'000	Office Furniture GH¢'000	Office Equipment GH¢'000	Leasehold Improvement GH¢'000	Capital Work in progress GH¢'000	Total GH¢'000
Cost							
At January 1, 2017	**3,637**	**2,743**	**279**	**192**	**4,868**	**1,444**	**13,163**
Additions	451	2,881	998	412	3,595	10	8,347
Transfers	-	901	-	41	419	(1,444)	(83)
	--------	--------	--------	--------	--------	--------	--------
At December 31, 2017	**4,088**	**6,525**	**1,277**	**645**	**8,882**	**10**	**21,426**
Depreciation and impairment losses							
At January 1, 2017	524	265	35	25	492	-	1,341
Depreciation for the period	782	817	123	69	1,312	-	3,102
	------	------	-----	-----	------	------	--------
At December 31, 2017	**1,306**	**1,082**	**158**	**94**	**1,804**	**-**	**4,443**
Carrying amounts							
At December 31, 2017	**2,782**	**5,443**	**1,119**	**551**	**7,078**	**10**	**16,983**
At December 31, 2016	**2,782**	**5,443**	**1,119**	**551**	**7,078**	**1,444**	**11,822**
	== ==	=====	===	===	====	====	== ===
Cost							
At October 9, 2015	-	-	-	-	-	-	-
Additions	3,637	2,743	279	192	4,868	1,444	13,163
	--------	--------	--------	--------	--------	--------	--------
At December 31, 2016	**3,637**	**2,743**	**279**	**192**	**4,868**	**1,444**	**13,163**
Depreciation and impairment losses							
At October 9, 2015	-	-	-	-	-	-	-
Depreciation for the period	524	265	35	25	492	-	1,341
	------	------	-----	-----	------	------	--------
At December 31, 2016	**524**	**265**	**35**	**25**	**492**	**-**	**1,341**

Carrying amounts

At October 9, 2015	-	-	-	-	-	-	-
At December 31, 2016	3,113	2,478	244	167	4,376	1,444	11,822
	=====	=====	===	===	====	====	=====

23. DEPOSIT FROM BANKS AND FINANCIAL INSTITUTIONS

	2017	2016
	GH¢'000	GH¢'000
Money market deposits	80,240	102,630
Other deposit from Banks and Financial Institutions	88,434	29,644
	168,674	132,294

24. DEPOSIT FROM CUSTOMERS

	2017	2016
	GH¢'000	GH¢'000
Retail customers:		
Term deposits	38,961	5,722
Current deposits	29,110	11,778
Savings deposits	2,783	583
	70,854	18,083
Corporate customers:		
Term deposits	178,737	54,880
Current deposits	46,228	37,411
Savings deposits	-	-
Total deposit from customers	**295,819**	**110,374**

25. OTHER LIABILITIES

	2017	2016
	GH¢'000	GH¢'000
Payables	5,965	4,340
Accruals	2,274	1,503
	8,239	5,843

26. STATED CAPITAL

		2017		2016
Authorized:				
Number of authorized shares of no par value		**100,000,000,000**		**100,000,000,000**
	Number of shares	**GH¢'000**	**Number of shares**	**GH¢'000**
Issued and Fully Paid:				
At 1 January 2017	**130,000,000**	130,000	**130,000,000**	130,000
Issued for Cash		-		-
At 31 December 2017		**130,000**		**130,000**

27. RETAINED EARNINGS

	2017	2016
	GH¢'000	GH¢'000
At 1 January 2017	(8,643)	-
Loss for the year	(2,046)	(8,182)
Transfer from Income surplus	(392)	(461)
At 31 December 2017	(11,081)	(8,643)

28. CREDIT RISK RESERVE

The credit risk reserve is a non-distributable reserve required by Bank of Ghana to account for difference between impairment loss on financial assets as per IFRS and the specific and the general impairment loss on loans and advances and contingent liabilities per the Central Bank's prudential guidelines.

	2017	2016
	GH¢'000	GH¢'000
BoG Provisioning at 31 December (Including contingent liabilities)	2,322	492
IFRS Impairment at 31 December	1,469	31
Difference	853	461
Credit Risk reserve at 1 January	461	-
Additional provisioning from Income Surplus	392	461
Credit Risk Reserve at 31 December	**853**	**461**

29. CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS

In common with other banks, the bank conducts business involving acceptances, guarantees, performances and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. The Bank also holds certain securities in its own name on behalf of customers. The values of these securities are not recognized in the statement of financial position.

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of customer's default.

Contingencies and commitments not provided for in the financial statements as at 31 December 2016 in respect of the above amounted to GH¢24.6 million, as detailed below:

	2017	2016
	GH¢'000	GH¢'000
Letters of Credit	-	-
Guarantees and Indemnities	24,614	34,810
	----------	----------
At 31 December	24,614	34,810
	======	======

Capital Expenditure

Capital commitments not provided for in the financial statements as at 31 December 2017 was nil.

Pending Legal Claims

At the year-end, there were no pending legal claims against the bank.

Operating lease commitments

The bank has entered into commercial leases for premises. The lease has an average life of 5 years with a renewal option. There are no restrictions placed on the lease.

Future minimum lease payments under non-cancellable operating leases as at 31 December 2017 are as follows:

	2017
	GH¢'000
Within one year	6,241
After one year but not more than five years	1,853
	=====
	8,094
	=====

30. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both.

Transactions with key management personnel
Key management personnel have transacted with the Bank during the period as follows:

	2017	2017	2016	2016
		GH¢'000		GH¢'000
	Maximum balance	Closing balance	Maximum balance	Closing balance
Personal loan	355	262	158	156
	--------	--------	--------	--------
	355	262	158	156
	=====	=====	=====	=====

The advances are at arm's length in the ordinary course of business.

Management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2017	2016
	GH¢'000	GH¢'000
Consolidated Salary	6,350	4,642
	--------	--------
	6,350	4,642
	=====	=====

Directors' remuneration

	2017	2016
	GH¢'000	GH¢'000
Fees for services as directors	445	392
	--------	--------
	445	392
	=====	=====

Loans
No loan or advance was granted to companies in which Directors have an interest in 2017.
No provisions have been recognized in respect of loans to directors or other members of key management personnel (or any connected person). Interest rates charged on loans to staff are at par with market rates.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

31. ASSETS PLEDGED AS SECURITY

At 31 December 2017 the value of government securities pledged as collateral was GH¢45,980,670 (2016: GH¢23,987,959)

32. SOCIAL RESPONSIBILITY

Amounts spent on social responsibility amounted to GH¢ 17,100. (2016: GH¢ 2,030)

33. VALUE ADDED STATEMENTS

Value Added Statements for the year ended 31 December

	2017	2016
	GH¢'000	GH¢'000
Interest earned and other operating income	90,787	36,558
Direct cost of services	(87,009)	(43,302)
	--------	--------
Value added by banking services	3,778	(6,745)
Non Banking income	-	-
Impairments	(1,439)	(31)
	--------	--------
Value added	2,339	(6,775)
Distributed as follows:		
To expansion and growth:		
Depreciation	(3,102)	(1,341)
Amortization	(1,283)	(527)
	--------	--------
Net Income	**(2,046)**	**(8,643)**
Retained earnings at January 1	**(8,643)**	-
Other adjustments	**(392)**	
	--------	--------
Retained earnings at December 31	**(11,081)**	**(8,643)**
	=====	=====

34. NATIONAL FISCAL STABILISATION LEVY

The National Fiscal Stabilisation Levy Act 862, became effective from 12 July 2013. Under the Act, a 5% levy will be charged on profit before tax and is payable quarterly.

35. REGULATORY DISCLOSURES

(i)Non–Performing Loans Ratio

Percentage of gross non-performing loans ("substandard to loss") to total credit/advances portfolio (gross): 1%. (2016: 0%)

(ii) Capital Adequacy Ratio

The capital adequacy ratio at the end of December 2017 was calculated at approximately 28.34%. (2016:45.48%)

(iii) Liquid Ratio

The liquid ratio at the end of December 2017 was calculated at approximately 221.35%. (2016:233.34%)

36. NEW STANDARDS AND INTERPRETATIONS NOT EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the company's financial statements are disclosed below. The company intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

The IASB has developed a new Leases Standard, IFRS 16, which supersedes IAS 17 Leases.
A company is required to apply IFRS 16 from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. The company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2016. The adoption of IFRS 9 will have an effect on the classification and measurement of the company's financial assets, but no impact on the classification and measurement of the company's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g.,gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017.The Bank is currently evaluating the impact of the amendment on its financial statements.