INTERCONTINENTAL BANK (GHANA) LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2010

INTERCONTINENTAL BANK (GHANA) LIMITED

FINANCIAL STATEMENTS

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INTERCONTINENTAL BANK (GHANA) LIMITED

CORPORATE INFORMATION

BOARD OF DIRECTORS	Frank Beecham (Chairman Appointed 5 March 2010) Albert Obeikeh Mmegwa (Managing Director) Dr. Raymond Chukwugozie Obieri Mahamoud Lai Alabi Christopher Adebayo Alabi Isaac Kwasi Sam Mawuli Ababio Engr. Hyacinth Enuha (Resigned 16 December 2010)
SECRETARY	Marianne Quansah Intercontinental Plaza, Starlet 91 Road (Opposite Ohene Djan Sports Stadium) P. O. Box GP 353 Accra.
AUDITORS	KPMG Chartered Accountants 13 Yiyiwa Drive, Abelenkpe P .O. Box GP 242 Accra.
REGISTERED OFFICE	Intercontinental Plaza, Starlet 91 Road (Opposite Ohene Djan Sports Stadium) P. O. Box GP 353 Accra.
BANKERS	Agricultural Development Bank Bank of Beirut, Limited, UK BHF Bank, Germany Citibank N.A, UK Commerz Bank AG, Germany FBN Bank, UK Ghana International Bank, UK Intercontinental Bank Nigeria Plc Intercontinental Bank UK Mashreq Financial Institutions Group, UAE Medi Capital Bank, UK Nordea Bank AB (publ), Sweden Standard Bank of South Africa Limited United Bank for Africa Plc, Nigeria

REPORT OF THE DIRECTORS
TO THE MEMBERS OF
INTERCONTINENTAL BANK (GHANA) LIMITED

Report of the Directors

The Directors in submitting to the shareholders their report and financial statements of the Bank for the year ended 31 December 2010 report as follows:

Statements of Directors' Responsibilities

The Bank's directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Code 1963 (Act 179) and the Banking Act, 2004 (Act 673) as amended by the Banking Amendment Act, 2007 (Act 738) and for such controls 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 Bank's ability to continue as a going concern and have no reason to believe that the bank will not be a going concern in the year ahead.

Results and Dividend

The directors of the bank do not recommend the payment of dividends for the period under consideration.

Financial report	**2010** **GH₵'000**	**2009** **GH₵'000**
Profit for the year ended before taxation was	9,649	8,157
from which is deducted:		
a tax charge of	(4,026)	(1,491)
and a National fiscal stabilization levy of	(482)	(204)
giving a profit for the year after taxation of	**5,141**	**6,462**
to which is added balance brought forward on the retained earnings account of	**561**	**2,014**
	5,702	**8,476**
out of which is transferred to the statutory reserve fund in accordance with the Banking Act an amount of	(2,570)	(3,231)
a transfer to credit risk reserve of	(13,342)	(2,889)
and a transfer to stated capital of	-	(1,795)
leaving a balance carried forward on the retained earnings account of	**(10,210)**	**561**

In accordance with Section 29(c) of the Banking Act, 2004 (Act 673) as amended by the Banking Amendments Act, 2007 (Act 738), an amount of GH₵ 2.57 million (2009: GH₵ 3.23 million) was transferred to the reserve fund from the retained earnings account (income surplus), bringing the cumulative balance on the statutory reserve fund to GH₵ 10.08 million (2009: GH₵7.5 million) at the year end.

REPORT OF THE DIRECTORS
TO THE MEMBERS OF
INTERCONTINENTAL BANK (GHANA) LIMITED (CONT'D)

Nature of business

The Bank is authorised to carry on the business of universal banking and related services in Ghana. It obtained full banking license from the Central Bank in September 2006.

There was no change in the nature of the Bank's business during the year.

Intercontinental Bank (Ghana) Limited was incorporated in Ghana on 3 July 1992 as a limited liability company with the object of undertaking banking business in Ghana. The bank was initially registered under the name Citi Savings & Loans Company Limited.

As part of its entry strategy to the banking industry in Ghana, Intercontinental Bank (Ghana) Limited acquired Citi Savings & Loans Company Limited – a limited liability company registered under Ghanaian laws.

Holding company

The Bank is a subsidiary of Intercontinental Bank Nigeria Plc, a company incorporated in the Federal Republic of Nigeria and licensed to carry out the business of universal banking.

Associate

The bank acquired equity interest in Magnate Technologies Services Ghana Limited in 2008. Magnate Technologies is a company incorporated in Ghana and authorised to carry on the business of tracking consignments in transit.

Approval of the financial statements

The financial statements of the bank were approved by the board of directors on 28 February 2011 and were signed on their behalf by:

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DIRECTOR **DIRECTOR**

ACCRA

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
INTERCONTINENTAL BANK (GHANA) LIMITED

Report on the Financial Statements

We have audited the financial statements of Intercontinental Bank (Ghana) Limited which comprise the statement of financial position at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statements, which include a summary of significant accounting policies as set out on pages 8 to 54.

Directors' Responsibility for the Financial Statements

The 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 Code, 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 misstatements whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Intercontinental Bank (Ghana) Limited at 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Code, 1963 (Act 179) and the Banking Act, 2004 (Act 673) as amended by the Banking Amendments Act, 2007 (Act 738).

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
INTERCONTINENTAL BANK (GHANA) LIMITED (CONT'D)

Other Matter

The financial statements of the Bank for the year ended 31 December 2009 were audited by another auditor who expressed an unqualified opinion on those statements on 4 March 2010.

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Section 133 of the Companies Code, 1963 (Act 179) and Section 78 of the Banking Act, 2004 (Act 673) as amended by the Banking Amendments Act, 2007 (Act 738).

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.

In our opinion, proper books of account have been kept and the statements of financial position and comprehensive income are in agreement with the books of account.

The Bank's transactions were within its powers and the Bank complied with the relevant provisions of the Banking Act, 2004 (Act 673) as amended by the Banking Amendment Act, 2007 (Act 738).

CHARTERED ACCOUNTANTS
13 YIYWA DRIVE ABELENKPE
P.O. BOX GP 242
ACCRA, GHANA

28 February 2011

INTERCONTINENTAL BANK (GHANA) LIMITED

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Note	2010 GH₵'000	2009 GH₵'000
Assets			
Cash and cash equivalents	13	41,454	39,163
Due from other banks	14	79,233	60,333
Investment securities	15	96,783	63,003
Loans and advances	16	249,087	208,894
Advances under finance lease	18	25,464	-
Investment in associate	19	2,034	3,117
Property and equipment	20	20,591	19,790
Intangible assets	21	669	669
Deferred tax asset	12c	1,275	2,989
Other assets	23	24,266	33,832
Total assets		**540,856**	**431,790**
Liabilities			
Deposit from customers	24	410,615	329,464
Other Liabilities	25	45,094	37,704
Tax payable	12a	1,062	4,307
Borrowings	27	5,205	5,105
Deposit for shares	28	-	10,061
Total liabilities		**461,976**	**386,641**
Equity			
Stated capital	29	60,396	31,806
Statutory reserve	29	10,081	7,511
Credit risk reserve	29	18,613	5,271
Retained earnings	29	(10,210)	561
Total equity		**78,880**	**45,149**
Total equity and liabilities		**540,856**	**431,790**

The notes on pages 12 to 54 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 February 2011 and signed on its behalf by:

DIRECTOR **DIRECTOR**

INTERCONTINENTAL BANK (GHANA) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010	2009
		GH₵'000	GH₵'000
Interest income	6	66,359	67,826
Interest expense	6	(38,973)	(48,585)
Net interest income		**27,386**	**19,241**
Fees and commission income	7	16,166	14,963
Other operating income	8	6,593	1,109
Net trading income	9	11,498	17,695
Total operating income		**61,643**	**53,008**
Personnel expenses	10	(17,253)	(17,069)
Other operating expenses	11	(16,996)	(13,953)
Depreciation and amortization expenses	20,21	(4,023)	(2,722)
Impairment loss on financial assets	16(a)	(12,639)	(11,107)
Total operating expenses		**(50,911)**	**(44,851)**
Operating profit before loss of equity accounted investee		**10,732**	**8,157**
Share of losses of equity accounted investee (net of tax)	19	(1,083)	-
Profit before tax		**9,649**	**8,157**
Taxation - corporate tax	12	(4,026)	(1,491)
National fiscal stabilisation levy	12	(482)	(204)
Profit after tax		5,141	6,462
Other comprehensive income		-	-
Total comprehensive income for the period attributable to equity holders of the Bank		**5,141**	**6,462**
Earnings per share			
-Basic (GHp)	32	9	20
-Diluted (GHp)	32	9	20

The notes on pages 12 to 54 form an integral part of these financial statements.

INTERCONTINENTAL BANK (GHANA) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Ordinary Shares GH₵'000	Statutory Reserve GH₵'000	Credit Risk Reserve GH₵'000	Retained Earnings GH₵'000	Total GH₵'000
2009					
At 1 January	14,359	4,280	2,382	2,014	23,035
Total comprehensive income				6,462	6,462
Regulatory and other reserves					
Transfer to statutory reserve		3,231		(3,231)	
Transfer to credit loss reserve			2,889	(2,889)	
	14,359	7,511	5,271	2,356	29,497
Transactions with owners recorded directly in equity					
Proceeds from share issue	15,652				15,652
Transfer from retained earnings	1,795			(1,795)	
Balance at 31 December	**31,806**	**7,511**	**5,271**	**561**	**45,149**
2010					
At 1 January	31,806	7,511	5,271	561	45,149
Total comprehensive income				5,141	5,141
Regulatory and other reserves					
Transfer to statutory reserve		2,570		(2,570)	
Transfer to credit loss reserve			13,342	(13,342)	
	31,806	10,081	18,613	(10,210)	50,290
Transactions with owners recorded directly in equity					
Proceeds from issue of shares	28,590	-	-	-	28,590
Balance at 31 December	**60,396**	**10,081**	**18,613**	**(10,210)**	**78,880**

The notes on pages 12 to 54 form an integral part of these financial statements.

INTERCONTINENTAL BANK (GHANA) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 GH¢'000	2009 GH¢'000
Profit before tax	9,649	8,157
Adjustments for:		
Depreciation and amortization expense	4,023	2,722
Impairment loss on loans and advances	12,639	11,107
Interest expense on borrowings	100	21
Share of loss in associated company	1,083	-
Profit on disposal of property and equipment	(73)	-
	27,421	**22,007**
Changes in:		
Loans and advances	(52,832)	(46,431)
Advances under finance lease	(25,464)	-
Other assets	7,859	(15,871)
Customer deposits	81,151	65,036
Other liabilities	7,390	29,062
Income tax paid	(6,039)	(3,329)
National stabilisation levy paid	-	(327)
Net cash flow from operating activities	**39,486**	**50,147**
Cash flow from investing activities		
Acquisition of property and equipment	(4,479)	(9,868)
Proceeds from disposal of property and equipment	172	
Acquisition of intangible assets	(444)	(351)
Acquisition of investment securities	(87,511)	(6,388)
Proceeds from sale of investment securities	6,388	9,883
Acquisition of investment in associate	-	(1,214)
Net cash flow used in investing activities	**(85,874)**	**(7,938)**
Financing activities		
Proceeds from borrowings	-	5,000
Deposit for shares	-	10,061
Proceeds from issue of shares	18,529	15,652
Net cash flow from financing activities	**18,529**	**30,713**
Net increase in cash and cash equivalents	(27,859)	72,922
Cash and cash equivalents:		
Balance at beginning	137,285	64,363
Cash and cash equivalents at period-end	**109,426**	**137,285**
Cash and bank balances	100,154	80,670
Short term investments	9,272	56,615
	109,426	**137,285**

The notes on pages 12 to 54 form an integral part of the financial statements

INTERCONTINENTAL BANK (GHANA) LIMITED

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

1 REPORTING ENTITY

Intercontinental Bank Ghana Limited "(the Bank)" is a company domiciled in Ghana. The address of the Bank's registered office is Intercontinental Plaza, Starlet 91 Road, (Opposite Ohene Djan Sports Stadium), P. O. Box GP 353 Accra. The Bank operates with a universal banking license that allows it to undertake the business of banking and related activities.

2 BASIS OF PREPARATION

a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB). .

The financial statements were authorised for issue by the Board of Directors on 28 February 2011.

b. Basis of measurement

The financial statements are presented in Ghana Cedis, which is the Bank's functional currency. They are prepared on the historical cost basis except for assets and liabilities required to be measured at fair value.

c. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements as disclosed in notes 3(f) (vi), (ix), (x),(xi), 4 and 5.

3 SIGNIFICANT ACCOUNTING POLICIES

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

a. Interest income and expenses

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Where a financial asset or a group of financial assets or similar have been written down as a result of impairment, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income on impaired financial assets and liabilities held at fair value through profit or loss are recognised in income statement in the period they arise.

b. Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate of financial assets or financial liabilities are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

c. Net trading income

Net trading income comprises gains less losses relating to trading assets and liabilities, and includes all realised and unrealised fair value changes, interests and foreign exchange differences.

d. Foreign currency transactions

Foreign currency transactions are translated into the Bank's functional currency using exchange rate prevailing at the date of the transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation from year end rates of monetary assets and liabilities denominated in foreign amounts are recognised in the income statement. Non monetary assets and liabilities are translated at historic exchange rates if held at historic cost or exchange rate at the date the fair value was determined if held at fair value and the resulting exchange gains and losses are recognised in income statement or shareholders equity as appropriate.

e. Leases

(i) *Classification*

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

Other leases are classified as operating leases.

(ii) *Lease Payments*

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Minimum lease payments made under finance leases are apportioned between the finance expense and a 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 the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

f. Financial assets and liabilities

(i) *Categorisation of financial assets and liabilities*

The Bank classifies its financial assets in the following categories: loans and receivables, held-to maturity at fair value through profit or loss and available for sale. Financial liabilities are classified as either held fair value through profit or loss or at amortised cost. Management determines the categorisation of its financial assets and liabilities on initial recognition.

(ii) *Loans, advances and receivables*

Loans, advances and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the balance sheet as loans and advances to banks or customers or as investment securities. Interest on loans is included in the income statement and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as impairment losses on financial assets.

(iii) *Available -for- sale*

Available for sale financial assets are non-derivative investments that are designated as available for sale or are not classified as any of the remaining categories of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

(iv) *Fair value through profit or loss*

These are financial assets and liabilities that are held for trading or are designated at fair value through profit loss. All changes in fair value of this category of financial instruments are recognised in the income statement.

f. Financial assets and liabilities (cont'd)

(v) *Held to maturity*

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

(a) those that the Bank upon initial recognition designates as at fair value through profit or loss;

(b) those that the Bank designates as available for sale; and

(c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the income statement and reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investment securities'. Held-to maturity investments are government securities.

(vi) *Impairment of financial assets*

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Significant financial difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 3 months and 12 months, in exceptional cases longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

(vi) *Assets carried at amortised cost (cont'd)*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is determined as the current effective interest rate under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss history.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(vii) *Renegotiated loans*

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. Once a loan is restructured, it remains in renegotiated loans category independent of satisfactory performance after restructuring.

(viii) *Recognition*

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ix) *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains rights to service a transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing rights, depending on whether the servicing fee is more than adequate to cover servicing expenses (asset) or is less than adequate for performing the servicing (liability).

(x) *Offsetting*

Financial assets and liabilities are set off 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 intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(xi) *Amortised cost measurement*

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

(xi) *Fair value measurement*

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

For more complex instruments, the Bank uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

(xii) *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. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

(xii) *Identification and measurement of impairment (cont'd)*

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a bank of assets such as adverse changes in the payment status of borrowers or issuers in the bank, or economic conditions that correlate with defaults in the bank.

The bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by banking together financial assets (carried at amortised cost) with similar risk characteristics. In assessing collective impairment the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical modelling.

Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of other comprehensive income to profit or loss. 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 profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

g. 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 less than three months, which are subject to 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 amortised cost in the statement of financial position.

h. Investment securities

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

(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 intent 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 amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) *Available-for-sale*

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised 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 recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

(iii) *Loans and Receivables*

This is mainly made up of placements and overnight deposits with Banks and other financial institutions and loans and advances to customers. Loans and receivables are carried in the balance sheet at amortised cost, i.e. gross receivable less impairment allowance.

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.

When the bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

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 recognised in the bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the bank chooses to carry the loans and advances at fair value through profit or loss.

j. Investment in associates

Associate are all entities over which the Bank has significant influence, but not control, over the financial and operating policies . Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Investment in associate are accounted for using the equity method and are initially recognised at cost . The cost of investment includes transaction costs.

These financial statements includes the Bank's share of the profit or loss and other comprehensive income, after adjustment to align the accounting policies with those of the Bank, from the date significant influence commences until the date that significant influence ceases. When the Bank's share of losses exceeds its interest in the equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

k. Property and equipment

(i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures 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 asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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.

(ii) *Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised 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 recognised in profit or loss as incurred.

iii) *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over their useful lives.

The estimated depreciation rate applicable to items of property and equipment for the period are as follows:

- Leasehold land	Over the term of the lease
- Buildings	4%
- Computer hardware	20%
- Property and equipment	20%
- Motor vehicles	25%
- Furniture and fittings	10%

Depreciation methods, useful lives and residual values of items of property and equipment are reassessed annually and adjusted if appropriate.

l. Intangible assets

(i) *Software*

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three years. Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

m. Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income , in which case it is recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or 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 they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 realised.

n. Impairment of non-financial assets

The carrying amounts of the bank's non-financial assets, other than investment property and 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. The recoverable amount of goodwill is estimated at each reporting date.

n. Impairment of non-financial assets (cont'd)

An impairment loss is recognised 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 largely are independent from other assets. Impairment losses are recognised in profit or loss. Impairment losses recognised 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 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised 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 amortisation, if no impairment loss had been recognised.

o. Deposits, debt securities issued and subordinated liabilities

The bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the bank chooses to carry the liabilities at fair value through profit or loss.

p. Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income on other financial instruments at fair value or other operating income based on the underlying classification of the equity instrument.

q. Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

q. Provisions (cont'd)

A provision for restructuring is recognised when the bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

r. Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

s. Employee benefits

(i) *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) *Termination benefits*

Termination benefits are recognised as an expense when the bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iii) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

t. Share capital and reserves

(i) *Share capital*

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's share capital is not redeemable by holders, and bear 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) *Statutory Reserve:*

Transfer into the statutory reserves is made based on the requirement of section 29(i) of the Banking Act 2004 (as amended). In this regard, an amount more or equivalent to:

- 50% of the bank's net profit for the period if the bank's reserve fund is less than 50% of its paid up capital;
- 25% of the bank's net profit for the period if the bank's reserve fund is less than 100% of its paid up capital; and
- 12.5% of the bank's net profit for the period if the Bank's reserve fund is equal to 100% or more of its paid up capital.

(iv) *Credit loss reserve:*

This reserve is created to set aside the excess of the amount recognized as impairment loss of loans and advances over the provision for bad and doubtful debts as required under the Central Bank's prudential guidelines.

u. Earnings per share

The bank presents basic and diluted 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 period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

v. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements.

IAS 24 *Related Party Disclosures* (revised 2009)

The revised IAS 24 *Related Party Disclosures* amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These standards are not expected to impact on the bank significantly when they become effective.
This standard is effective for financial reporting periods commencing on or after 1 January 2011.

v. New standards and interpretations not yet adopted

IFRIC 19 ***Extinguishing Financial Liabilities with Equity Instruments***

This interpretation provides guidance on the accounting for debt for equity swaps. This amendment is effective for financial reporting periods commencing on or after 1 July 2010

IFRS 9 ***Financial Instruments***

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39.
IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.
This standard is effective for financial reporting periods commencing on or after 1 January 2013.

Below is a summary of amendments/improvements to standards and interpretations that are not yet effective:

	Amendment/improvement	**Effective date**
IAS 23	IAS 32: Financial Instruments - Presentation: classification	1 February 2010
IFRS 1	IFRS 1: First Time Adoption of International Financial	1 July 2010
IFRS 3	Business Combinations	1 July 2010
IAS 27	IAS 27: Consolidated and separate financial statements	1 July 2010
IFRIC 14	IAS 19 - The limit on a defined benefit assets, minimum funding requirements and their interaction	1 January 2011
IFRS 1	First-time adoption of IFRSs	1 January 2011
IFRS 7	IFRS 7: Financial Instruments: Disclosures	1 January 2011
IAS 1	IAS 1: Presentation of financial statements	1 January 2011
IAS 34	IAS 34: Interim Financial reporting	1 January 2011
IFRIC 13	IFRIC 13: Customer loyalty programmes	1 January 2011
IFRS 7	IFRS 7: Disclosures- Transfer of financial assets	1 July 2011
IFRS 1	IFRS 1 Severe hyperinflation and removal of fixed date	1 July 2011
IAS 12	IAS 12 Deferred tax: recovery of underlying assets	1 July 2011

4 Financial risk management

(a) *Introduction and overview*

The bank has exposure to the following risks arising from its use of financial instruments:

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

This note presents the bank's exposure to each of the above risks, the bank's objectives, policies and processes for measuring and managing risk, as well as the bank's management of capital.

Risk management framework

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The risk management group reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The objective of the risk management group is to ensure that the Bank's operations are carried out in manner to ensure that risks are balanced with rewards. The risk management group ensures that the Bank complies with all prudential and regulatory guidelines in the pursuit of profitable banking opportunities while avoiding excessive, unnecessary and uncontrollable risk exposures. Risk is an inherent feature in the business activities of the Bank and therefore the Bank has put in place various mitigating measures to prevent their occurrence.

Risk management is carried out by the risk management group under policies approved by the Board of directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and other price risks

The Board 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 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.

4 Financial risk management (cont'd)

(b) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is monitored by the risk management department, which reports regularly to the Board of directors.

In addition to direct financial loss, credit risk is viewed in the context of economic exposures, taking into consideration opportunity costs, mark-to-market re-valuations, transaction costs and expenses associated with recovering a non-performing asset over and above the accounting losses. Credit risk is mitigated by appropriate risk-based pricing, case-by-case loan structuring, collateralisation and contingencies to protect the Bank's position.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved by the Board of directors.

The exposure to any one borrower including Banks is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

i. Credit risk management

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

a) significant financial difficulty of the borrower;

b) a breach of contract, such as default or delinquency in interest or principal repayments;

c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;

d) it becoming probable that the borrower will enter Bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, or local economic conditions that correlate with defaults on the assets in the group.

4 Financial risk management (cont'd)

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 6 months and 12 months.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of each counterparty. These tools have been developed internally and combine statistical analysis with credit officer's judgment which are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into five rating classes. The Bank's rating scale for lending, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

Bank's rating delinquency	**Description of the grade**	**Average number of months of delinquency**
1	Current	Less than 1 month
2	Other loans exceptionally mentioned (OLEM)	1 - 3 months
3	Sub-standard	4 - 6 months
4	Doubtful	7 -12 months
5	Loss	12 months and above

ii. *Risk limit control and mitigation policies*

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and Bank, and to industries and countries.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. The Bank's main control and mitigation measures to credit risk exposure is through the use of collateral. The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:
1. Mortgages over residential properties;
2. Charges over business assets such as premises, inventory and accounts receivable;
3. Charges over financial instruments such as debt securities and equities;

iii. Impairment and provisioning policies

The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision shown in the balance sheet at year-end is derived from the internal rating grades.

4. Financial risk management (continued)

(iv) Maximum exposure to credit risk before collateral held

	2010 GH₵'000	2009 GH₵'000
Placements with local banks	664	16,000
Loans and advances to customers	269,875	223,418
Investment securities	96,783	63,003
Other assets	16,504	25,889
On-balance sheet exposure	383,826	328,310
Credit risk exposures relating to off-balance sheet items are as follows:		
Acceptance and letters of credit	85,007	59,427
Guarantee and performance bonds	74,417	138,201
Off-balance sheet exposure	159,424	197,628
Total maximum exposure	**543,250**	**525,938**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 50 % of the total maximum exposure is derived from loans and advances to customers (2009: 42%). Investments in debt securities represent 18% (2009: 12%).

Loans and advances to customers, other than to major corporate and to individuals borrowing more than GH¢10,000 are secured by collateral in the form of charges over land and buildings and/or plant and machinery and/ or corporate guarantees.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

i. 85 %(2009 : 91%) of the loans and advances are classified in the top two grades of the internal grading system.
ii. 73 % (2009 : 87%) of the loans and advances portfolio are neither past due nor impaired.
iii. 94% (2009 : 85%) of the loans and advances portfolio are backed by collateral.
iv. 100% (2009 : 100%) of the debt securities are held in government securities.

	Customers		Banks	
	2010 GH₵'000	2009 GH₵'000	2010 GH₵'000	2009 GH₵'000
Neither past due nor impaired	195,732	195,309	664	16,000
Past due but not impaired	35,958	9,605	-	-
Individually impaired	38,185	18,504	-	-
Gross loans and advances	269,875	223,418	664	16,000
Less allowance for impairment	(20,788)	(14,524)	-	-
Net amount	249,087	208,894	664	16,000

4. Financial risk management (continued)

v. Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2010 GH₵'000	2009 GH₵'000
Past due up to 30 days	17,979	5,422
Past due 31-90 days	12,585	3,267
Past due over 90 days	5,394	916
	35,958	9,605

Loans and advances individually impaired

	Loans		Overdraft		Total
	2010 GH₵'000	2009 GH₵'000	2010 GH₵'000	2009 GH₵'000	2010 GH₵'000
Individually assessed loans and advances					
Corporate	7,952	61	15,186	863	23,138
Retail	6,506	2,753	8,541	14,827	15,047
	14,458	**2,814**	**23,727**	**15,690**	**38,185**
Fair value of collateral	**6,971**	**1,376**	**21,318**	**6,982**	**28,289**
Amount of under collateralisation	**7,487**	**1,438**	**2,409**	**8,708**	**9,896**

vi. Concentration of risk

The credit quality portfolio of loans that were neither past due nor impaired are assessed by reference to the nature of the counterparty. The table below sets out details of the nature of the counterparties by industry. Loans and advances to customers analysed by industry sector is shown below:

	Loans and advances to customers		Loans to Banks	
	2010 GH₵'000	2009 GH₵'000	2010 GH₵'000	2009 GH₵'000
Manufacturing	21,620	38,449	-	-
Wholesale and retail trade	71,831	65,456	-	-
Transport and communications	21,993	35,814	-	-
Business services	37,827	23,850	-	-
Agricultural	42,739	16,199	-	-
Individuals	17,058	10,054	-	-
Other	56,807	33,596	664	16,000
	269,875	223,418	664	16,000

4. Financial risk management (continued)

Analysis by type of customer is as follows:	2010 GH₵'000	2009 GH₵'000
Individuals	17,058	43,566
Other private enterprises	243,859	160,683
Joint private/state	2,213	16,309
Staff	6,745	2,860
	269,875	223,418

Credit risk exposures relating to off-balance sheet items are as follows:	2010 GH₵'000	2009 GH₵'000
Manufacturing	41,815	49,407
Wholesale and retail trade	23,914	29,644
Transport and communications	12,754	15,810
Business services	27,931	39,525
Agricultural	47,827	59,288
Other	5,183	3,954
	159,424	197,628

c. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Central Bank requires that the Bank maintain a cash reserve ratio of 9% of deposits. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The treasury department monitors liquidity ratios on a daily basis.

(i) *Liquidity risk management process*

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury department includes:

• Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in local money markets to enable this to happen;

• Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

• Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements; and

• Managing the concentration and profile of debt maturities.

4. Financial risk management (continued)

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

ii. ***Funding approach***

Sources of liquidity are regularly reviewed by a separate team in Treasury to maintain a wide diversification by currency, geography, provider, product and term.

Non-derivative financial liabilities held for managing liquidity risk

The table below presents cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages liquidity risk based on a different basis, not resulting in a significantly difference.

2010	1-3 months GH¢'000	3-6 months GH¢'000	6-12 months GH¢'000	Over 1 year GH¢'000	Total GH¢'000	Carrying amount GH¢'000
Liabilities						
Customer deposits	143,264	102,859	74,059	100,698	420,880	410,615
Borrowings	84	-	-	5,916	6,000	5,205
Other liabilities	33,980	7,350	3,764		45,094	45,094
liabilities (contractual	177,328	110,209	77,823	106,614	471,974	460,914
Assets held for managing liquidity	351,005	29,381	101,904	37,197	519,488	425,103

2009	1-3 months GH¢'000	3-6 months GH¢'000	6-12 months GH¢'000	Over 1 year GH¢'000	Total GH¢'000	Carrying amount GH¢'000
Liabilities						
Customer deposits	201,936	82,256	45,272	18,352	347,816	329,464
Borrowings	84	-	-	5,916	6,000	5,105
Other liabilities	14,430	34,956	2,809	-	52,195	37,704
liabilities (contractual	216,450	117,212	48,081	24,268	406,011	372,273
Assets held for managing liquidity	349,195	18,449	16,455	47,814	431,913	397,282

4. Financial risk management (continued)

d Market risk

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

(i) *Foreign exchange risk*

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 Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk

	2010			2009		
	USD '000	**GBP '000**	**EUR '000**	**USD '000**	**GBP '000**	**EUR '000**
Cash and balances with Central Bank	2,069	182	195	4,811	230	781
Due from other banks	27,065	800	1,403	31,184		1,711
Loans and advances to customers	55,654	-	-	22,720	138	482
Total assets	84,788	982	1,598	58,715	368	2,974
Customer deposits	63,250	816	4,027	26,250	807	4,429
Other liabilities	1,592	-	-		1,725	
Total liabilities	64,842	816	4,027	26,250	2,532	4,429
Net on-balance sheet position	19,946	166	(2,429)	32,465	(2,164)	(1,455)
Credit commitments	2,127	-	-	48,810	209	2,659

The following significant exchange rates applied during the year:

	Reporting Rate		Average Rate	
GH¢ to	**2010**	**2009**	**2010**	**2009**
USD 1	1.4532	1.4340	1.4415	1.4248
GBP 1	2.2544	2.3115	2.2319	2.2403
EURO 1	1.9233	2.0687	1.9150	1.9933

Sensitivity analysis on currency risks

The following table shows the effect of a strengthening or weakening of GH¢ against all other currencies on equity and profit or loss. This sensitivity analysis indicates the potential impact on equity and profit or loss based upon the foreign currency exposures recorded at 31 December. (See "Foreign exchange risk" above) and it does not represent actual or future gains or losses. The sensitivity analysis is based on the percentage difference between the closing exchange rate and the average exchange 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 and loss by the amounts shown below.

4. Financial risk management (cont'd)

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

	31 December 2010			31 December 2009		
in GH¢'000	% Change	Income statement impact: Strength-ening	Income statement impact: Weakening	% Change	Income statement impact: Strength-ening	Income statement impact: Weakening
USD	± 3%	(849)	849	± 4%	(1,887)	1,887
GBP	± 7%	(25)	25	± 12%	581	(581)
EUR	± 8%	379	(379)	± 8%	253	(253)

(ii) *Interest rate exposure*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair values of financial instruments 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 re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Bank's treasury and Strategy divisions in its day-to-day monitoring activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in market interest rates.

A change of a 100 basis points in interest rates at the reporting date would have impacted equity and profit or loss by the amounts shown below:

	100 bp Increase GH¢'000	100 bp Decrease GH¢'000
31 December 2010		
Interest Income impact	2,699	(2,699)
31 December 2009		
Interest Income impact	2,234	(2,234)

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

4. Financial risk management (continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

2010	1-3 months	3-6 months	6-12 Months	Over 1 Year	Non-interest bearing	Total
	GH₵'000	GH₵'000	GH₵'000	GH₵'000	GH₵'000	GH₵'000
Cash and cash equivalents	-	-	-	-	41,454	41,454
Due from other banks	-	-	-	-	79,233	79,233
Investment securities	9,272	26,380	36,358	24,773	-	96,783
Loans and advances	121,499	61,467	38,417	48,492	-	269,875
Advances under finance lease	-	-	25,464	-	-	25,464
Total financial assets	130,771	87,847	100,239	73,265	120,687	512,809
Deposit from customers	132,999	102,859	74,059	100,698	-	410,615
Other Liabilities	-	-	-	-	45,094	45,094
Borrowings	-	-	-	5,205	-	5,205
Total financial liabilities	132,999	102,859	74,059	105,903	45,094	460,914
Total Interest repricing gap	(2,228)	(15,012)	26,180	(32,638)	75,593	51,895

2009	1-3 months	3-6 months	6-12 Months	Over 1 Year	Non-interest bearing	Total
	GH₵'000	GH₵'000	GH₵'000	GH₵'000	GH₵'000	GH₵'000
Cash and cash equivalents	9,512	-	-	-	29,651	39,163
Due from other banks	16,000	-	-	-	44,333	60,333
Investment securities	56,615	2,634	-	3,754	-	63,003
Loans and advances	138,860	18,430	13,840	52,288	-	223,418
Advances under finance lease	-	-	-	-	-	-
Total financial assets	220,987	21,064	13,840	56,042	73,984	385,917
Deposit from customers	129,636	77,886	47,535	-	74,407	329,464
Other Liabilities	-	-	-	-	37,704	37,704
Borrowings	-	-	-	5,105		5,105
Total financial liabilities	129,636	77,886	47,535	5,105	112,111	372,273
Total Interest repricing gap	91,351	(56,822)	(33,695)	50,937	(38,127)	13,644

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

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

4. Financial risk management (continued)

f. Fair values of financial assets and liabilities

The fair values of the Bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates. Fair values are based on discounted cash flows using a discount rate based upon the average cost of funds that directors expect would be available to the Bank at the balance sheet date.

Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value:

	2010		**2009**	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets				
Cash and cash equivalents	41,454	41,454	39,163	39,163
Due from other banks	79,233	79,233	60,333	60,333
Loans and advances to customers	249,087	249,087	208,894	208,894
Investment securities (held-to-maturity)	94,824	96,783	66,129	63,003
Other assets	16,504	16,504	25,889	25,889
	423,144	425,103	400,408	397,282
Financial liabilities				
Customer deposits	410,615	410,615	329,464	329,464
Borrowings	5,205	5,205	5,105	5,105
Other liabilities	45,094	45,094	37,704	37,704
	460,914	460,914	372,273	372,273
Off-balance sheet financial instruments				
Guarantees, acceptances and other financial facilities	159,424	159,424	197,627	197,627

(i) *Due from other banks*

Due from other banks include inter-bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

(ii) *Investment securities*

The fair value of investment securities are based on market prices or broker dealer price quotations. Where this information is not available, fair value is estimated using quoted market price for securities with similar credit, maturity and yield characteristics.

4. Financial risk management (continued)

(iii) *Investment securities*

The fair value of investment securities are based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iv) *Customer deposits*

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) *Off-balance sheet financial instruments*

The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(vi) *Other assets (excluding prepayments)*

The estimated fair value of other assets excluding prepayments represents the discounted amount of estimated future cashflows expected to be received. The carrying amount approximates their fair value.

(vii) *Other liabilities*

The estimated fair value of other liabilities is based on discounted cashflows using prevailing money market rates for debts with similar risk and remaining maturity.

g. Operational risk

Operational risk arises from other sources of risk aside credit risk, liquidity risk, and market risk. This may include risks like reputation risk, compliance risk etc.

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 behaviour. 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 the Risk Management unit and senior management within each division and business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk include the following :

- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- 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.

h. Capital management

The objectives when managing capital, which is a broader concept than 'equity' on the balance sheets, are:

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

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

The Central Bank requires the Bank to:

(a) Hold the minimum level of regulatory capital of GH¢60 million; (the Bank met this requirement during the year)

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

4. Financial risk management (continued)

h. Capital management (cont'd)

Tier 1 capital (core capital) comprises stated capital arising on permanent shareholders' equity and reserves created; (Statutory reserve, income surplus and reserves created by appropriations of income surplus).

Tier 2 capital (supplementary capital): 25% (subject to approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to Tier 1 capital.

The risk-weighted assets are measured in accordance with the guidelines provided by the Central Bank. It takes into account the nature of, and reflecting an estimate of credit, market and other risks associated with each asset and counterparty.

The Bank's total regulatory capital is divided into two tiers:

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December:

	2010	**2009**
	GH₵'000	**GH₵'000**
Tier 1 Capital		
Stated capital	60,396	31,806
Credit risk reserve	-	5,271
Statutory reserve	10,081	7,511
Income surplus account	(10,210)	561
	60,268	45,149
The Bank does not hold any financial instruments qualifying as Tier 2 capital		
Risk weighted assets		
- on balance sheet	350,994	315,069
- off balance sheet	157,830	75,099
Total risk weighted assets	508,824	390,168
Capital adequacy ratio	11.84%	11.57%

There has been no material change in the Bank's management of capital during the period.

5. Critical accounting estimates and judgments in applying accounting policies

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard.

Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

a. Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit and loss account, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

b. Held to maturity investments

The Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

c. Income taxes

Significant estimates are required in determining the provision for income taxes in Ghana. There are transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

6.	Interest income/expenses	2010 GHȻ'000	2009 GHȻ'000
	Loans and overdrafts to customers	52,091	57,151
	Loans to other banks-placements	1,862	3,816
	Investment securities	12,406	6,859
	Total interest income	66,359	67,826
	Interest expense		
	Savings and customer deposits	38,873	47,771
	Deposit from Banks	-	793
	Other facilities-borrowings	100	21
	Total Interest Expense	38,973	48,585
	Net interest income	27,386	19,241

Included in interest income is an amount of GHC 1.3 million (2009: Nil) recognised on impaired financial assets.

7. Fees and commission income

Commission on turnover	2,377	2,110
Credit related fees and commissions	7,611	7,195
Other commissions and fees	6,178	5,658
	16,166	14,963

8. Other operating income

Funds transfer services	5,238	1,001
Income received on loans previously written	785	108
Gains on disposal of property plant and equipment	73	
Other income	497	
	6,593	1,109

9. Net Trading Income

Net foreign exchange trading income	11,498	17,695

Foreign exchange trading income include exchange loss of GHȻ 0.29 million (2009: GHȻ' 4.14 million) arising from translation of foreign currency denominated assets and liabilities.

10.	Personnel expenses	2010 GH₵'000	2009 GH₵'000
	Wages and salaries	7,933	7,336
	Social security contributions	586	486
	Staff benefits	8,734	9,247
		17,253	17,069

The number of persons employed by the Bank at the end of the year was 493 (2009: 530)

11.	Other operating expenses		
	Administration and Marketing	11,082	6,442
	Auditor's remuneration	120	124
	Director's emoluments	459	122
	Other operating expenses	5,335	7,265
		16,996	13,953

12.	Taxation expense		
	Current tax		
	Current period tax charge	2,312	5,180
	Deferred tax		
	Original and reversal of temporary differer	1,714	(3,689)
		4,026	1,491
	National fiscal stabilization levy		
	Charge for the period	482	204
	Total tax expense	4,508	1,695

12(a) i.	**Tax payable** *Corporate tax* **Year of Assessment**	At 1 January GH₵'000	Charge for the year GH₵'000	Payment GH₵'000	At Dec GH₵'000
	2009	4,430			4,430
	2010		2,312	(6,039)	(3,727)
		4,430	2,312	(6,039)	703
	National Stabilisation Levy	(123)	482	-	359
		4,307	2,794	(6,039)	1,062

12(b)	Reconciliation of effective tax charge	2010 GH₵'000	2009 GH₵'000
	Profit before tax	9,649	8,157
	Income tax using the domestic tax rate	2,412	2,039
	Non-deductible expenses	4,672	4,922
	Tax on equity accounted investee	271	-
	Tax exempt income	(4,028)	(1,781)
	Tax incentives	(1,015)	
	Income tax expense in income statement	**2,312**	**5,180**

12(c)	**Deferred tax asset**		
	Balance at 1 January	(2,989)	700
	Released for the year	1,714	(3,689)
	Balance at 31 December	**(1,275)**	**(2,989)**

31 December 2010	**Assets GH¢'000**	**Liabilities GH¢'000**	**Net GH¢'000**
Property and equipment	-	1,792	1,792
Intangible assets - software		93	93
Impairment loss allowance	(3,160)		(3,160)
Net tax assets (liabilities)	**(3,160)**	**1,885**	**(1,275)**

31 December 2009	**GH¢'000**	**GH¢'000**	**GH¢'000**
Property and equipment		825	825
Other	(1,037)		(1,037)
Impairment loss allowance	(2,777)		(2,777)
Net tax assets (liabilities)	(3,814)	825	(2,989)

13.	**Cash and cash equivalents**		
	Cash on hand	13,429	7,557
	Balances with Central Bank	7,492	12,780
	Cash and cash equivalents	20,921	20,337
	Mandatory reserve deposit with Central Bank	20,533	18,826
		41,454	39,163

The mandatory reserve deposit is not available for use in the Bank's day to day operations. Cash and balances with the Central Bank are non-interest bearing

14.	**Due from other banks**	**2010 GH₵'000**	**2009 GH₵'000**
	Placements with local banks	664	16,000
	Placements with foreign banks	78,569	44,333
		79,233	60,333

Balances with foreign banks are non-interest bearing and held for the purpose of financing trade and other transactions on behalf of customers.

15. Investment securities

These represent Treasury bill and Government of Ghana Bonds held by the Bank

Investment securities	2010 GH₵'000	2009 GH₵'000
Treasury bills	89,605	60,388
Government of Ghana Bonds	7,178	2,615
	96,783	**63,003**

Treasury bills and other eligible bills are debt securities issued by the Central Bank.

15(a) *Analysis of treasury and other eligible bills by maturity is as follows:*

	2010	2009
Maturing within 90 days of acquisition	9,272	56,615
Maturing after 90 days but within 182 days	26,380	-
Maturing after 182 days of acquisition	36,358	2,634
Maturing after 1 year of acquisition	24,773	3,754
	96,783	**63,003**

16. Loans and advances

	2010	2009
Balances with customers		
Term Loans	164,245	150,269
Overdrafts	100,870	70,285
Balances with staff	4,760	2864
Gross amount of loans and advances	269,875	223,418
Impairment loss on loans and advances		
Impairment loss – specific allowance	(19,366)	(10,294)
Impairment loss – collective allowance	(1,422)	(4,230)
Net amount of loans and advances	249,087	208,894

16(a) Impairment loss allowance account

	2010	2009
Impairment loss allowance at the beginning	14,524	3,417
Less loan writen off	(6,375)	
Impairment loss for the period:		
Specific allowance for impairment loss	15,447	8,274
Collective allowance for impairment loss	(2,808)	2,833
Impairment loss allowance at close	20,788	14,524

The following is an analysis of impairment loss by type of client:

16(b) Analysis by Type of Customer

	Gross Loan		*Impairment*	
	2010 GH¢'000	**2009 GH¢'000**	**2010 GH¢'000**	**2009 GH¢'000**
Individuals	17,058	43,566	1,314	2,832
Other private enterprises	239,589	160,683	19,304	10,632
Joint private and state enterprises	2,213	16,309	170	1,060
Public Institutions	4,270	-	-	-
Staff loans	6,745	2,860	-	-
	269,875	223,418	20,788	14,524

16(c) ***Loans and advances by sector***

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

	Loans and Advances	
	2010	**2009**
	GH¢'000	**GH¢'000**
Manufacturing	21,620	38,449
Wholesale and retail trade	71,831	65,456
Transport and communications	21,993	35,814
Business services	37,827	23,850
Agricultural	42,739	16,199
Individuals	17,058	10,054
Other	56,807	33,596
	269,875	223,418

17. Off balance sheet commitments

Guarantees	74,417	138,201
Letters of credit	85,007	59,427
	159,424	197,628

18. Advances under finance lease

	2010	**2009**
	GH¢'000	**GH¢'000**
Not more than one year	13,303	
Over one year but not more than five years	12,615	
Gross investment in finance lease	25,918	-
Unearned future income on finance lease	(454)	-
Present value of minimum lease payments, receivable	25,464	-
Allowance for impairment	-	
Balance with customers	25,464	-

19. Investment in associate

At 1 January	3,117	1,903
Additional investments		1,214
Specific allowance for impairment loss	3,117	3,117
Share of loss of equity accounted investee	(1,083)	-
At 31 December	2,034	3,117

The Bank has an interest of 40% (2009: 40%) in Magnate Technologies Services Limited. The equity-accounted investee is not publicly listed and consequentially does not have published price quotes. The investee uses the same reporting dates of 31 December.

Set out below is a summary of financial information of the equity accounted investee, not adjusted for by the percentage ownership held by the bank.

	Year	Current assets/(liabilities) GH¢'000	Non current assets/(Liabilities) GH¢'000	Total assets GH¢'000
Magnate Technologies Services Limited	2010	2,383	51	2,434
Magnate Technologies Services Limited	2009	1,959	251	2,210
Magnate Technologies Services Limited	2010	(1,670)	-	(1,670)
Magnate Technologies Services Limited	2009	(437)	-	(437)

20. Property and equipment

31 December 2010	**Leasehold land and building GH¢'000**	**Computer hardware & equipment GH¢'000**	**Motor vehicles GH¢'000**	**Furniture and fittings GH¢'000**	**Total GH¢'000**
Cost					
Balances at beginning	10,385	10,654	2,809	1,152	25,000
Additions	2,683	1,340	273	183	4,479
Disposals	-	(13)	(285)	(21)	(319)
Balance at 31 December 2010	13,068	11,981	2,797	1,314	29,160
Depreciation					
Balance at begining	683	3,064	1,235	228	5,210
Charge for the year	482	2,404	572	121	3,579
Disposals for the period		(7)	(191)	(22)	(220)
Balance at 31 December 2010	1,165	5,461	1,616	327	8,569
Balance at 31 December 2010	11,903	6,520	1,181	987	20,591
31 December 2009					
Cost					
Balances at beginning	6,047	6,325	1,949	811	15,132
Additions	4,338	4,329	860	341	9,868
Balance at 31 December 2009	10,385	10,654	2,809	1,152	25,000
Depreciation					
Balance at beginning	438	1,465	748	129	2,780
Charge for the year	245	1,599	487	99	2,430
Balance at 31 December 2009	683	3,064	1,235	228	5,210
Carrying amounts					
Balance at 31 December 2009	9,702	7,590	1,574	924	19,790
Balance at 31 December 2008	5,609	4,860	1,201	682	12,352

20. Property and equipment (cont'd)

Profit on disposal of property plant and equipment	**2010 GH¢'000**	**2009 GH¢'000**
Cost of property and equipment	319	-
Accumu'td depreciation	(220)	-
Carrying value at period end	99	-
Proceeds on disposal	172	-
Profit on disposal	73	-

21. Intangible assets

	2010 GH¢'000	**2009 GH¢'000**
Cost		
Carrying amount at beginning	1,369	1,018
Additions during the year	444	351
Total intangible assets	1,813	1,369
Amortisation		
Amortisation at beginning	(700)	(408)
Charge for the period	(444)	(292)
Amortisation at close	(1,144)	(700)
Net book value	669	669

The software relates to the Bank's computer operating software.

22. Cash and cash equivalents	**2010 GH¢'000**	**2009 GH¢'000**
Cash and balances with the Central Bank	20,921	20,337
Due from foreign banks	79,233	60,333
Short term investment securities	9,272	56,615
	109,426	137,285

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the Central Bank, treasury and other eligible bills, and amounts due from other banks.

23. Other assets

	2010 GH¢'000	2009 GH¢'000
Prepaid expenses	6,169	2,903
Other receivables	16,504	25,889
Work in progress	1,593	5,040
	24,266	33,832

24. Deposits from customers

Current account deposits	174,992	74,407
Time deposits	205,139	226,358
Savings deposits	30,484	28,699
	410,615	329,464

Analysis by type of depositor

Individuals	85,349	68,481
Private enterprises	162,706	178,216
Public enterprises	101,587	40,112
Financial Institutions	60,973	42,655
	410,615	329,464

Ratio of twenty largest depositors to total deposit was 46% (2009 : 30%).

25. Other liabilities

Accruals and other payables	12,898	9,656
Cash margins	23,947	16,763
Sundry creditors	8,249	11,285
	45,094	37,704

26. Employee Benefits

Defined contribution schemes – Social Security and National Insurance Trust Contributions

Intercontinental Bank (Ghana) Limited contributes to the Social Security and National Insurance Trust (SSNIT) pension scheme ran by the Government of Ghana.

27. Borrowings

	At January 1 GH¢'000	Drawdown GH¢'000	Interest accrued GH¢'000	At 31 December GH¢'000
Danida	84	-	-	84
Export Development and Investment Fund	5,021	-	100	5,121
	5,105	-	100	5,205

The Export Development and Investment Fund (EDIF) facility was secured for onward lending to qualifying institutions. Interest accrues at 2.5% per annum and is payable at the end of the loan term of three years.
The Export Development and Investment Fund (EDIF) facility was contracted in November 2009.

28. Deposit for shares

Deposit for shares represents deposits made by prospective investors towards the purchase of the Bank's shares offered during the private placement.

29. Equity and reserves

(a) Stated capital

Ordinary Shares of no par Value	*31 December 2010* No. of Shares '000	Proceeds GH¢'000	*31 December 2009* No. of Shares '000	Proceeds GH¢'000
Authorised	100,000		100,000	
Issued for Cash Consideration	57,307	57,307	28,717	28,717
Rights issue	1,294	1,294	1,294	1,294
Bonus Issue	1,795	1,795	1,795	1,795
	60,396	**60,396**	**31,806**	**31,806**

There is no share in treasury and no call or instalment unpaid on any share.

(b) Statutory Reserve

Statutory reserve represents transfer of 50% of the Bank's profit for the period to a non-distributable reserve as required by The Banking Act, 2004 section (29)(1a) as amended.

(c) Retained Earnings`

This represents the residual of cumulative annual profits that are available for distribution to shareholders.

(d) Credit Risk Reserve

The transfer to credit risk reserve represents the excess of provision for bad and doubtful debts as per the Central Bank's prudential guidelines over impairment loss on financial assets.

30 Related party transactions

The Bank is controlled by Intercontinental Bank Plc , a Bank incorporated in the Federal Republic of Nigeria which owns 89.6 % shares of the Bank. There are other companies which are related to Intercontinental Bank (Ghana) Limited through common directorship or common shareholding.

i. *Transactions with key management personnel*

2010 **2009**

i. *Transactions with key management personnel*

Loans to directors	2010 GH¢'000	2009 GH¢'000
At January 1	4,532	2,117
Advanced during the year	1,217	2,570
Repaid during the year	(41)	(155)
At December 2010	**5,708**	**4,532**
Impairment charge	(2,198)	(168)
Interest Income	1,138	398

ii. *Below are Intercontinental Bank Ghana's outstanding balances with related parties:*

Related party	Nature of Transactions	31-Dec-10 GH¢ '000	31-Dec-09 GH¢ '000
Magnate Technologies Co. Ltd	Deposits	27	120
Intercontinental Wapic Insurance	Deposits	2,170	1,036
Intercontinental Bank Plc – Nigeria	Cash and bank balances	366	1,596
Intercontinental Bank UK	Cash and bank balances	8,846	219
Hyra Motors	Loans and advances	3,728	2,928
Caronc Properties and Investment	Loans and advances	887	725
Executive Director Loan	Loans and advances	761	669
Other Director Loans	Loans and advances	332	210

31. Accounting classification and fair values – financial assets and liabilities

	Held to maurity	Loans & and receivables GH¢'000	Other GH¢'000	Total GH¢'000
31 December 2010				
Cash and cash equivalents	-	41,454	-	41,454
Due from other banks	-	79,233	-	79,233
Investment securities	96,783	-	-	96,783
Loans and Advances	-	249,087	-	249,087
Advances under finance lease	-	25,464	-	25,464
Other Assets	-	16,504	-	16,504
	96,783	411,742	-	508,525
Deposit from customers	-	-	410,615	410,615
Other Liabilities	-	-	45,094	45,094
Borrowings	-	-	5,205	5,205
	-	-	460,914	460,914
31 December 2009				
Cash and cash equivalents	-	39,163	-	39,163
Due from other banks	-	60,333	-	60,333
Investment securities	63,003	-	-	63,003
Loans and Advances	-	208,894	-	208,894
Advances under finance lease	-	-	-	-
Other Assets	-	25,889	-	25,889
	63,003	334,279	-	397,282
Deposits and current accounts	-	-	329,464	329,464
Other loans	-	-	37,704	37,704
Borrowings	-	-	5,105	5,105
Total financial liabilities		-	372,273	372,273

32. Earnings per share

The calculation of basic and diluted earnings per share at 31 December 2010 was based on the profit attributable to ordinary shareholders of the bank over weighted average of number of shares and its calculated as follows:

		31 Dec 2010 GH¢'000	31 Dec 2009 GH¢'000
Net profit attributable to ordinary shareholders		5,141	6,462
Weighted average number of ordinary shares at period-end		60,396	31,806
-Basic	GHp	9	20
-Diluted	GHp	9	20

33. Capital commitments, contingent assets and liabilities

i. Capital Commitment

As at 31 December 2009, Intercontinental (Ghana) Limited had a commitment to undertake and IT project at GHC 2.7 million (2009: Nil)

ii. Unsecured contingent liabilities and commitn	**2010**	**2009**
Unsecured contingent liabilities	**GH¢'000**	**GH¢'000**
Letters of credit	36,560	46,821
Guarantees	18,661	15,133
Total	55,221	61,954
Secured contingent liabilities		
Letter of credit	48,447	12,606
Guarantees	55,756	123,068
	104,203	135,674
Total Contingent liabilities	**159,424**	**197,628**

iii Contingent Liabilities

Below is a summary of cases involving the Bank that may result in economic outflow of resources.The likelihood of outflow is however considered remote

	Cases	**Financial impact GHC'000**
1	*Letters of credit/Guarantee related:* The bank is involved in two cases in which it issued letters of credits to customers and paid counterparties on maturity. However, the customers have sued the bank to recover the deductions from their accounts in respect of these payments. In the customer's view, the bank should not have paid the counterparties involved.	847
2	*Employee related cases:* There are three cases pending in court against the company in respect of wrongful dismissals and recovery of outstanding staff loan balances due the bank.	22

iv Contingent asset

Cases	**Financial impact GHC '000**
Loan recovery related: the bank has filed seven (7) cases against customers who have defaulted on loan repayments for which outstanding balances have been written off from its financial records. However, it is probable that judgement will be given in favour of the bank	2,798

35 Social Responsibility

A total of GHC 352,724 (2009: GHC 48,830) was spent on social responsibility related programmes and projects during the year.