



**FIRST NATIONAL BANK GHANA LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**



**First National Bank Ghana Limited**  
Annual report

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## **CORPORATE INFORMATION**

<b>Board of Directors</b>	Michael Larbie (Chairman) Richard Hudson (Chief Executive Officer) Seth Asante Stephan Claassen Joseph Tetteh Ebrahim Motala Gareth Davies
<b>Company secretary</b>	Annita Bedzra 6 <sup>th</sup> Floor Accra Financial Centre Corner of Independence Avenue and Liberia Road Accra, Ghana
<b>Independent auditor</b>	PricewaterhouseCoopers No. 12 Airport City UNA Home, 3 <sup>rd</sup> Floor PMB CT 42, Cantonments Accra, Ghana
<b>Registered office</b>	6 <sup>th</sup> Floor Accra Financial Centre Corner of Independence Avenue and Liberia Road Accra, Ghana
<b>Correspondent banks</b>	CitiBank, New York Unicredit, Germany FirstRand Bank Limited, South Africa Lloyds Bank Plc, United Kingdom

## **REPORT OF THE DIRECTORS**

The directors present their report together with the audited financial statements for the year ended 31 December 2017 in accordance with the Companies Act 1963 (Act 179) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) which discloses the state of the affairs of the Bank.

### **Directors responsibility statement**

The directors are responsible for the preparation of financial statements for each financial year, which gives a true and fair view of the state of affairs of the Bank and the profit or loss and cash flows for that period. In preparing these financial statements, the directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are reasonable and prudent and followed International Financial Reporting Standards and complied with the requirements of the Companies Act 1963 (Act 179) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).

The directors are responsible for ensuring that the Bank keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern.

### **Financial results and dividend**

	<b>GH¢'000</b>
Loss for the year 31 December 2017 (before tax)	<b>(27,414)</b>
Tax for the year	<b>782</b>
Loss for the year 31 December 2017 (after tax)	<b><u>(26,632)</u></b>
Prior year deficit	<b>(12,682)</b>
Transfer to credit risk reserve	<b>(280)</b>
Deficit carried forward	<b><u>(39,594)</u></b>

The board of directors do not recommend the payment of dividend for the year ended 31 December 2017 (2016: Nil).

**REPORT OF THE DIRECTORS (continued)**

**Nature of business**

The Bank is authorised by Bank of Ghana to carry on the business of universal banking, and there was no change in the nature of the Bank's business.

**Holding company**

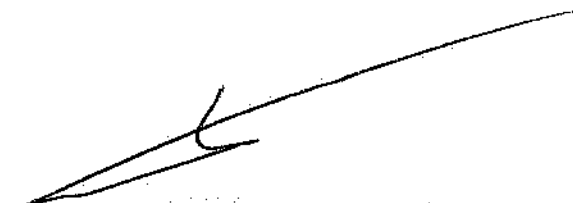
The Bank is controlled by FirstRand EMA Holdings Limited, a company incorporated in South Africa. FirstRand EMA Holdings Limited is a subsidiary of FirstRand Limited. The ultimate holding company is FirstRand Limited.

**Auditor**

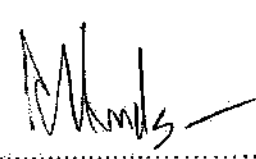
The auditor Messrs PricewaterhouseCoopers has expressed willingness to continue in office in accordance with Section 134 (5) of the Ghana Companies Act, 1963 (Act 179).

**Approval of the financial statements**

The financial statements of the Bank were approved by the Board of Directors on 22 March 2018 and are signed on their behalf by:



.....  
Michael Larbie  
*Chairman*



.....  
Richard Hudson  
*Chief Executive Officer*

Date

## **CORPORATE GOVERNANCE FRAMEWORK**

Strict adherence to good Corporate Governance and international best practices remains high on the agenda of First National Bank Ghana Limited. As such, the Bank is governed by a framework that facilitates checks and balances and ensures that appropriate controls are put in place to facilitate best practices for the Board of Directors (the Board) and senior management in order to maximise stakeholder value.

There are currently four (4) main committees through which the Board of Directors discharge their functions; the Audit Committee, the Risk, Capital and Compliance Committee, the Director's Affairs and Governance Committee and the Remuneration Committee. Executive committee members may be requested depending on their role to be in attendance at these meetings. The Company Secretary is the secretary to all committees of the Board.

### **1.0 Board of Directors**

The seven (7)-member Board of Directors of First National Bank Ghana Limited is composed of a non-executive Chairman, three (3) other non-executive directors, two (2) independent directors and one (1) executive director who is the Chief Executive Officer (CEO), each bringing diverse but rich experience, with enviable records of achievement in their various fields of endeavour. The directors possess the requisite skills and experience, time tested integrity and business acumen to bring well balanced judgment to bear on board deliberations for the good of the Bank. The table below summarises the composition of the board.

<b>Name</b>	<b>Type of Directorship</b>
Michael Larbie (Chairman)	Non-Executive Director
Richard Hudson (Chief Executive Officer)	Executive Director
Seth Asante	Independent Director
Stephan Claassen	Non-Executive Director
Joseph Tetteh	Independent Director
Ebrahim Motala	Non-Executive Director
Gareth Davies	Non-Executive Director

The roles of the Chairman and the CEO are separate as the Chairman of the Board shall not serve simultaneously as the CEO.

The Board is responsible for determining strategic objectives and policies of the Bank to deliver such long-term value, providing overall strategic direction within a framework of rewards, incentives and controls. It ensures that management strikes an appropriate balance between promoting long-term growth and delivering short-term objectives.

The Board is also responsible for ensuring that management maintains a system of internal control, which provides assurance of effective and efficient operations, internal financial controls and compliance with law and regulations. The Board meets four times in a year.

### **1.1 The Audit Committee**

The Audit Committee is made up of three (3) non-executive directors [Ebrahim Motala, Stephan Claassen and Gareth Davies] and one (1) independent director [Joseph Tetteh]. It is responsible for ensuring that the Bank complies with all the relevant policies and procedures both from regulators and as laid-down by the Board.

The Audit Committee is responsible for the review of the integrity of the Bank's financial reporting and oversees the independence and objectivity of the external auditors. The internal and external auditors have unrestricted access to the Audit Committee to ensure their continued independence. The Audit Committee also seeks for explanations and additional information, where relevant, from the internal and external auditors. A report is provided to the full Board at each sitting. The Audit Committee meets four times in the year.

## **CORPORATE GOVERNANCE FRAMEWORK (continued)**

### **1.2 Risk, Capital and Compliance Committee (RCCC)**

The RCCC is a committee of the Board and discharges its duties and responsibilities in respect of its charter on behalf of the Board. The RCCC is made up of four (4) non-executive directors and one (1) independent director: Joseph Tetteh.

The non-executive directors are Michael Larbie, Ebrahim Motala, Stephan Claassen and Gareth Davies.

The primary objective of the RCCC is to assist the Board in discharging its responsibilities with regard to overseeing risk management across the Bank. Without removing itself from the primary responsibility, the committee has delegated the responsibility of managing the different risk types arising from the nature, complexity and risks inherent in its operations to specialist risk management subcommittees. The RCCC submits its reports and findings to the Board. The RCCC operates independently in order to provide effective oversight and makes recommendations to the Board for consideration and final approval. The RCCC meets four times during the year.

### **1.3 Director's Affairs and Governance Committee (DAGC)**

The DAGC's prime objective is to assist the Board in discharging its responsibilities in respect of governance, board and committee structures, board continuity, executive succession among other objectives. The DAGC reviews the structure and composition of the Board. The committee ensures that the Board is at all times in compliance with all applicable laws, regulations and codes of conduct and practices. The DAGC is made up of two (2) non-executive directors and one (1) independent director: Joseph Tetteh. The non-executive directors are Michael Larbie and Gareth Davies. The committee meets twice a year.

### **1.4 Remuneration Committee (Remco)**

Remco is constituted as a committee of the Board and is answerable to the Board and reports to the Board. Remco ensures that remuneration and benefits practices are appropriate and conform with the general philosophy of rewarding performance at the Bank. Remco is made up of two (2) non-executive directors and one (1) independent director: Joseph Tetteh. The non-executive directors are Michael Larbie and Gareth Davies. The committee meets twice yearly.

## **2. Management Committees**

Management Committees are various committees comprising of senior management of the Bank. The Committees are risk driven as they are basically set up to identify, analyse and make recommendations on risks arising from the day to day activities of the Bank. They also ensure that risk limits as contained in the Board and Regulatory policies are complied with at all times. They provide inputs for the respective Board Committees and also ensure that recommendations of the Board Committees are effectively and efficiently implemented. They meet as scheduled and also as frequently as the risk issues occur to immediately take actions and decisions within the confines of their powers. The key Management Committees in the Bank are six (6) and are the Executive Committee (EXCO), the Risk Committee (RISCO), the Asset, Liability and Capital Committee (ALCCO), the Procurement Committee (PC), the Finance Committee (FINCO) and Management Credit Risk Committee.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF FIRST NATIONAL BANK GHANA LIMITED**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

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**Our opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of First National Bank Ghana Limited as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1963 (Act 179) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).

*What we have audited*

We have audited the financial statements of First National Bank Ghana Limited (the "Bank") for the year ended 31 December 2017.

The financial statements on pages 10 to 62 comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

*Independence*

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF FIRST NATIONAL BANK GHANA LIMITED (continued)**

**Key audit matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of financial instruments – GHS 117million</i></p> <p>The Bank's trading and banking book comprise Government of Ghana debt securities. These debt securities are classified as available for sale and fair value through profit and loss.</p> <p>There is no active market for these securities and therefore management applies valuation techniques in determining the fair values. The valuation techniques require management judgement in determining the estimated discount rate applied to future cash flows.</p> <p>The valuation of debt securities is considered a key audit matter because the judgements used affect the fair value measurement of the debt securities.</p> <p>The accounting policies, critical estimates and judgements and disclosures are set out in notes 2.4, 4, 19 and 20 to the financial statements.</p>	<p>Our audit procedures included the following:</p> <p>We understood and evaluated the accounting policies related to investments in debt securities.</p> <p>We assessed the appropriateness of the discounted cash flow analysis by comparing the discount rate used by management with observable third party information and assessing the reasonableness of the discounted cash flows.</p> <p>We independently recalculated the valuations and compared it with the balances per the Bank to ascertain accuracy.</p>

**Other information**

The directors are responsible for the other information. The other information comprises the Report of the directors, the Corporate governance framework and the Value added statement but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST NATIONAL BANK GHANA LIMITED (continued)**

### **Responsibilities of the directors for the financial statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1963 (Act 179) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF FIRST NATIONAL BANK GHANA LIMITED (continued)**

**Auditor's responsibilities for the audit of the financial statements (continued)**

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the Bank, so far as appears from our examination of those books; and
- iii) the Bank's balance sheet (statement of financial position) and profit and loss account (part of the statement of comprehensive income) are in agreement with the books of account.

In accordance with section 85(2) of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) we hereby confirm that:

- i) in our opinion, the accounts give a true and fair view of the state of affairs of the Bank and the results of operations for the period under review;
- ii) we were able to obtain all the information and explanations required for the efficient performance of our duties as auditor;
- iii) in our opinion, the Bank's transactions were within its powers;
- iv) in our opinion, the Bank has, in all material respect, complied with the provisions of this Act; and
- v) in our opinion, the Bank has in all material respect complied with the provisions of the Anti-Money Laundering Act, 2008 (Act 749), the Anti-Terrorism Act, 2008, (Act 762) and the Regulations made under these enactments.

The engagement partner on the audit resulting in this independent auditor's report is Oseini Amui (ICAG/P/1139).

*PricewaterhouseCoopers*

**PricewaterhouseCoopers (ICAG/F/2018/028)**

**Chartered Accountants**

**Accra, Ghana**

**28 March 2018**



**First National Bank Ghana Limited**  
 Financial statements  
 for the year ended 31 December 2017

**STATEMENT OF COMPREHENSIVE INCOME**  
 (All amounts are in thousands of Ghana Cedis)

	Note	Year ended 31 December	
		2017	2016
Interest income	6	29,490	36,166
Interest expense	7	<u>(8,436)</u>	<u>(6,271)</u>
<b>Net interest income</b>		21,054	29,895
Fees and commission income	8	1,839	289
Fees and commission expense	8	<u>(518)</u>	<u>(416)</u>
<b>Net fees and commission</b>		1,321	(127)
Net trading income	9	12,075	1,084
Other operating income	10	<u>(1,331)</u>	<u>702</u>
<b>Total operating income</b>		33,119	31,554
Net impairment loss on financial assets	11	(242)	(28)
Personnel expenses	12	(35,405)	(25,652)
Operating lease expense	13	(8,115)	(7,746)
Depreciation and amortisation	21, 22	<u>(5,188)</u>	<u>(3,090)</u>
Other operating expenses	14	<u>(11,583)</u>	<u>(3,184)</u>
<b>Loss before income tax</b>		(27,414)	(8,146)
Income tax credit/(expense)	15	<u>782</u>	<u>(12)</u>
<b>Loss after income tax</b>		<u>(26,632)</u>	<u>(8,158)</u>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss</i>			
Gains on available-for-sale financial assets	20	2,211	5,070
Income tax effect relating to OCI	23	<u>(648)</u>	<u>(1,172)</u>
<b>Other comprehensive income net of tax</b>		1,563	3,898
<b>Total comprehensive loss for the year</b>		<u>(25,069)</u>	<u>(4,260)</u>

The notes on pages 15 to 62 are an integral part of these financial statements.

**First National Bank Ghana Limited**  
 Financial statements  
 for the year ended 31 December 2017

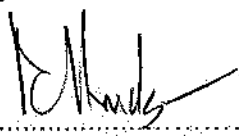
**STATEMENT OF FINANCIAL POSITION**  
 (All amounts are in thousands of Ghana Cedis)

	Note	As at 31 December	
		2017	2016
<b>Assets</b>			
Cash and cash equivalents	16	77,525	79,663
Non-pledged trading assets	19	41,824	16,446
Loans and advances	17	28,518	3,289
Investment securities	20	76,523	155,437
Intangible assets	22	462	1,119
Other assets	24	12,897	6,688
Property and equipment	21	<u>22,545</u>	<u>21,267</u>
<b>Total assets</b>		<b><u>260,294</u></b>	<b><u>283,909</u></b>
<b>Liabilities</b>			
Deposits from customers	25	103,374	135,398
Other liabilities	26	18,673	11,254
Deferred tax liability	23	<u>1,263</u>	<u>1,397</u>
<b>Total liabilities</b>		<b><u>123,310</u></b>	<b><u>148,049</u></b>
<b>Equity</b>			
Stated capital	27	162,017	144,644
Contribution towards capital	28	8,820	-
Income surplus - (deficit)	29	(39,594)	(12,682)
Credit risk reserve	30	280	-
Other reserve	31	<u>5,461</u>	<u>3,898</u>
<b>Total</b>		<b><u>136,984</u></b>	<b><u>135,860</u></b>
<b>Total liabilities and equity</b>		<b><u>260,294</u></b>	<b><u>283,909</u></b>

The notes on pages 15 to 62 are an integral part of these financial statements.

The financial statements on pages 10 to 62 were approved by the Board on <sup>22</sup> March 2018 and signed on its behalf by:

  
 Michael Larbie  
 Chairman

  
 Richard Hudson  
 Chief Executive Officer

**First National Bank Ghana Limited**  
Financial statements  
for the year ended 31 December 2017

**STATEMENT OF CHANGES IN EQUITY**

(All amounts are in thousands of Ghana Cedis)

	Stated capital	Contributions towards capital	Credit risk reserve	Other reserve	Income surplus (deficit)	Total equity
Balance at 1 January 2016	136,758	-	-	-	(4,524)	132,234
Loss for the year	-	-	-	-	(8,158)	(8,158)
Other comprehensive income	-	-	-	3,898	-	3,898
<b>Total comprehensive income/(loss)</b>	-	-	-	3,898	(8,158)	(4,260)
Transactions with owners						
Issue of ordinary shares	7,886	-	-	-	-	7,886
Transfer to stated capital	7,886	-	-	-	-	7,886
<b>Total transfers and transactions with owners</b>	<b>144,644</b>	-	-	3,898	(12,682)	<b>135,860</b>
Balance at 31 December 2016	144,644	-	-	3,898	(12,682)	135,860
Loss for the year	-	-	-	-	(26,632)	(26,632)
Other comprehensive income	-	-	-	1,563	-	1,563
<b>Total comprehensive income/(loss)</b>	-	-	-	1,563	(26,632)	<b>(25,069)</b>
Transactions with owners						
Issue of ordinary shares	17,373	-	-	-	-	17,373
Contribution towards capital	-	8,820	-	-	-	8,820
Transfer to credit risk reserve	-	-	280	-	(280)	-
<b>Total transactions with owners</b>	<b>17,373</b>	<b>8,820</b>	-	-	-	<b>26,193</b>
<b>Balance at 31 December 2017</b>	<b>162,017</b>	<b>8,820</b>	<b>280</b>	<b>5,461</b>	<b>(39,594)</b>	<b>136,984</b>

The notes on pages 15 to 62 are an integral part of these financial statements.

**First National Bank Ghana Limited**  
**Financial statements**  
**for the year ended 31 December 2017**

**STATEMENT OF CASH FLOWS**  
 (All amounts are in thousands of Ghana Cedis)

	Note	2017	2016
<b>Cash flows from operating activities</b>			
Loss for the period		(26,632)	(8,158)
Adjustments for:			
Depreciation and amortisation	21,22	5,188	3,090
Impairment on financial assets	11	242	28
Profit on disposal of property and equipment	21	-	(2)
Net interest income		(21,054)	(29,895)
Income tax (credit)/ expense		<u>(782)</u>	<u>12</u>
		<b>(43,038)</b>	<b>(34,925)</b>
Change in loans and advances		(25,721)	(1,952)
Change in non-pledged trading assets		(25,378)	(16,446)
Change in other assets		(6,209)	(1,604)
Change in deposits from customers		(31,742)	133,934
Change in other liabilities		7,418	(2,405)
Change in deferred tax		<u>648</u>	<u>1,172</u>
		<b>(80,984)</b>	<b>112,699</b>
Interest received		24,619	31,933
Interest paid		<u>(8,186)</u>	<u>(6,236)</u>
		<b>(107,589)</b>	<b>103,471</b>
<b>Net cash (used in)/generated from operating activities</b>			
<b>Cash flows from investing activities</b>			
Purchase of investment securities		(542,385)	(1,060,286)
Proceeds from sale of investment securities		547,324	1,029,958
Purchases of property and equipment	21	(5,691)	(13,728)
Proceeds from the sale of property and equipment	21	-	7
Purchases of intangible assets	22	<u>(118)</u>	<u>(1,492)</u>
		<b>(870)</b>	<b>(45,541)</b>
<b>Net cash used in investing activities</b>			

**First National Bank Ghana Limited**  
Financial statements  
for the year ended 31 December 2017

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**STATEMENT OF CASH FLOWS (CONTINUED)**  
(All amounts are in thousands of Ghana Cedis)

	Note	2017	2016
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		17,373	7,886
Proceeds from contributions towards capital		<u>8,820</u>	<u>-</u>
<b>Net cash generated from financing activities</b>		<u>26,193</u>	<u>7,886</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		(82,266)	65,816
Cash and cash equivalents at 1 January	16	<u>159,791</u>	<u>93,975</u>
<b>Cash and cash equivalents at 31 December</b>	16	<u>77,525</u>	<u>159,791</u>

The notes on pages 15 to 62 are an integral part of these financial statements.



## NOTES

### 1. REPORTING ENTITY

First National Bank Ghana Limited ('the Bank') is a private limited liability company incorporated and domiciled in Ghana licensed to provide banking services. The Bank is wholly owned by FirstRand EMA Holdings Limited, and the ultimate holding company is FirstRand Limited. The holding and ultimate holding companies are all incorporated in the Republic of South Africa. The address of its registered office is 6th Floor Accra Financial Centre, Corner of Independence Avenue and Liberia Road, Accra.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations applicable to companies reporting under IFRS. The requirements of the Companies Act, 1963 (Act 179) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) have been included, where appropriate. These financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policy below.

The preparation of financial statements is in conformity with IFRS and requires the use of certain critical accounting estimates. It also requires the directors to exercise judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

#### 2.2 Changes in accounting policy and disclosures

##### *(i) New and amended standards adopted by the Bank*

There are no new IFRSs and International Financial Reporting Interpretation Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that would be expected to have a material impact on the Bank's financial statements.

##### *(ii) New and amended standards not yet adopted by the Bank*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

#### **IFRS 9, Financial Instruments: Classification and Measurement**

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2016. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

## NOTES (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Changes in accounting policy and disclosures (continued)

(ii) *New and amended standards not yet adopted by the Bank (continued)*

#### **IFRS 9, Financial Instruments: Classification and Measurement (continued)**

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018.

In 2017, the Bank set up a multidisciplinary implementation team to prepare for IFRS 9 implementation. The initial gap analysis and financial impact assessment was completed in September 2017. The Bank has also carried out an impact assessment using its audited numbers as at 31 December 2017. Based on the assessment carried out, the impact of the application of IFRS 9 is as follows:

#### ***Classification and Measurement***

From a classification and measurement perspective, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Changes in accounting policy and disclosures (continued)**

*(ii) New and amended standards not yet adopted by the Bank (continued)*

**IFRS 9, Financial Instruments: Classification and Measurement (continued)**

The bank does not expect the new classification and measurement requirements to have a significant impact. Based on the work performed to date, the main impact of the revised classification and measurement requirements are that certain investment securities held by Group Treasury's liquidity portfolio will be reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows and those contractual cash flows are solely the repayment of principal and interest.

***Impairment of Financial Assets***

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

In preparation for implementation of IFRS 9, the Bank has established a policy to perform an assessment at the end of each reporting period to determine whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Changes in accounting policy and disclosures (continued)**

*(ii) New and amended standards not yet adopted by the Bank (continued)*

***Impairment of Financial Assets (continued)***

To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract, and the cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan. In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances. The Bank will categorise its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

**Stage 1 – Performing loans**

When loans are first recognised, the Bank will recognise an allowance based on 12-month expected credit losses. This will also be applicable to financial assets that are not considered to have suffered a significant increase in their credit risk since the end of the previous reporting period.

**Stage 2 – Underperforming loans**

When a loan shows a significant increase in credit risk, the Bank will record an allowance for the lifetime expected credit loss. The Bank will consider whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment will be based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk will be assumed if the borrower falls more than 30 days past due in making its contractual payments.

When estimating lifetime ECLs for undrawn loan commitments, the Bank will estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment and calculate the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down. For financial guarantee contracts, the Bank will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Changes in accounting policy and disclosures (continued)**

*(ii) New and amended standards not yet adopted by the Bank (continued)*

***Impairment of Financial Assets (continued)***

**Stage 3 – Impaired loans**

The Bank will recognise the lifetime expected credit losses for these loans. Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. The criteria of such objective evidence are the same as under the current IAS 39 methodology. Accordingly, the Bank expects the population to be generally the same under both standards. The impairment calculation will be the same as for Stage 2 loans with the probability of default set to 100%. When forbearance results in the derecognition of the original loan, the new loan will be classified as originated credit-impaired. Other than originated credit-impaired loans, loans will be transferred from out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period of not more than two years.

***Other financial assets***

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

For 'low risk' FVOCI debt securities, the Bank will apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 above. Such instruments will generally include traded, investment grade securities where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Bank will not consider instruments to have low credit risk simply because of the value of collateral. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the Bank's other financial instruments.

***Forward-looking information***

The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. Forward-looking information such as macroeconomic factors (e.g., unemployment, GDP growth and interest rates) and economic forecasts will be considered. To evaluate a range of possible outcomes, the Bank intends to formulate three scenarios: a base case, a worse case and a better case. The base case scenario represents the more likely outcome resulting from the Bank's normal financial planning and budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes. For each scenario, the Bank will derive an ECL and apply a probability weighted approach to determine the impairment allowance.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Changes in accounting policy and disclosures (continued)**

*(ii) New and amended standards not yet adopted by the Bank (continued)*

**IFRS 9 impact assessment**

If IFRS 9 had been adopted as at 31 December 2017, the provisions balance would have been higher by GH¢ 1,345,157. The impact of the additional provision on the financial statements would have been as follows:

	Impact	
	Increase	Decrease
<i>Income Statement</i>		
Loss before tax	(1,345,157)	
Tax credit	336,289	
Loss after tax	(1,008,868)	
<i>Balance Sheet</i>		
Income surplus – (Deficit)	(1,008,868)	
Loans and advances		(1,345,157)
Deferred tax asset	336,289	

The additional provision would have had no impact on the capital adequacy ratio.

**IFRS 15, 'Revenue from contracts with customers'**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and the corresponding cash flows with customers. Management assessed the impact of IFRS 15 and given the revenue streams and type of operations of the Bank, concluded that IFRS 15 will not have any material impact on its results and financial position of the Bank.

**IFRS 16, 'Leases'**

IFRS 16, 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, that is the customer (lessee) and the supplier (lessor). IFRS 16 is effective from 1st January, 2019 and the Bank can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 "Revenue from Contracts with Customers". IFRS 16 replaces the previous leases standard, IAS 17 "Leases" and related interpretations. The Bank is assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

## **NOTES (CONTINUED)**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.3 Foreign currency transactions**

##### **2.3.1 Functional and presentation currency**

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Cedis (GH¢), which is the Bank's functional currency.

##### **2.3.2 Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### **2.4 Financial assets and liabilities**

All financial assets and liabilities have to be recognised in the statement of financial position and measured in accordance with their assigned category.

##### **2.4.1 Financial assets**

The Bank classifies its financial assets in the following categories: loans and receivables, fair value through profit and loss and available-for-sale financial assets. The directors determine the classification of its financial assets at initial recognition.

###### **(a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (i) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (ii) those that the Bank upon initial recognition designates as available for sale; or
- (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.4 Financial assets and liabilities (continued)**

**2.4.1 Financial assets (continued)**

**(a) Loans and receivables (continued)**

Loans 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 method. Loans and receivables are reported in the statement of financial position as loans and advances to customers and due from other banks. Interest on loans is included in profit or loss and is reported as ‘Interest income’. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the profit or loss as ‘loan impairment charges’.

**(b) Designation at fair value through profit or loss**

The Bank classifies investments as trading assets if it acquires those assets principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets are not reclassified subsequent to their initial recognition.

**(c) Available-for-sale**

Available-for-sale assets are non-derivative assets that are not designated as another category of financial assets.

Available-for-sale assets are initially recognised at fair value. They are subsequently measured at fair value and the fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is transferred to profit or loss.

**2.4.2 Financial liabilities**

The Bank’s holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

**2.4.3 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 are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. The Bank uses the trade date accounting for regular way contracts when recording financial asset transactions.



## **NOTES (CONTINUED)**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.4 Financial assets and liabilities (continued)**

##### **2.4.4 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 expired.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks or 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 balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and 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.

##### **2.4.5 Offsetting financial instruments**

Financial assets and liabilities are set-off and the net amount presented in the balance sheet 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 a group of similar transactions.

##### **2.4.6 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.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.4 Financial assets and liabilities (continued)**

**2.4.7 Determination of fair value**

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities on the Ghana Stock Exchange.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the reporting dates.

**2.4.8 Classes of financial instruments**

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

<b>Category (as defined by IAS 39)</b>		<b>Class (as determined by the Bank)</b>		<b>Subclasses</b>
Financial assets	Loans and receivables	Loans and advances to customers	Deposits with other banks	Due from other banks
			Loans to staff	Staff personal loans Staff mortgages
	Available-for-sale	Investment securities		Government bonds Government treasury bills
	Fair value through profit and loss	Non - pledged trading assets		Government bonds and notes
Financial liabilities	Financial liabilities at amortised costs	Deposits from customers		Individuals
				Corporate entities

The carrying amounts of the respective financial instruments are disclosed in the related notes.

## **NOTES (CONTINUED)**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.4 Financial assets and liabilities (continued)**

##### **2.4.9 Impairment of financial assets**

Financial assets carried at amortised cost

The Bank assesses, at each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or 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 have occurred after the 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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in payments of amount due, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred on the Bank's loan and receivables, 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 been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss.

#### **2.5 Interest income and expense**

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

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.5 Interest income and expense (continued)**

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**2.6 Fees and commission**

Fees and commission are generally recognised on an accrual basis when the service has been provided. Account servicing fees, transaction and service fees, which are expensed as the services are received.

**2.7 Net trading income**

Net trading income comprises gains less losses related to foreign exchange transactions undertaken on behalf of customers. It also includes realised/unrealised gains/losses on fixed income securities designated as fair value through profit and loss.

**2.8 Leases**

Leases of property and equipment where the Bank, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Bank will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Bank as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Bank is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

**2.9 Income tax**

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.9 Income tax (continued)**

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date in the countries where the Bank and its subsidiary operate and generate taxable income. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the related deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same entity or different taxable entities where there is the intention to settle the balances on a net basis.

**2.10 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 cost in the statement of financial position.

**2.11 Property and equipment**

All property and equipment used by the Bank are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred. All other expenditure is recognised in the statement of comprehensive income when incurred.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.11 Property and equipment (continued)**

Depreciation is calculated using the straight-line method to allocate their cost to their residual value over their estimated useful lives of the assets as follows:

Leasehold improvements	over the lease period
Computer equipment	3 – 5 years
Furniture and fittings	6 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Property and equipment are derecognised at disposal date or at the date when it is permanently withdrawn from use without the ability to be disposed of. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in 'other income' in profit or loss.

**2.12 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as finite.

There is no specific useful life for software as it would depend on the specific software and its purpose. The Bank amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset.

Below is the estimated useful life of the capitalised software at year end;

Aperta software	2 years
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**2.13 Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is 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 are largely independent from other assets.

Impairment losses are recognised in the 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 (group of units) on a pro rata basis.

**NOTES (CONTINUED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.13 Impairment of non-financial assets (continued)**

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

In respect of other assets, impairment losses 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.

**2.14 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.

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.

## **NOTES (CONTINUED)**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **2.15 Employee benefits**

##### **i. Defined contribution plans**

The Bank contributes to defined pension schemes. These defined contributions schemes are approved by the regulatory authority. A defined contribution scheme is a pension plan under which the entity pays fixed contributions into a separate entity. The Bank has no further payment obligations once the contributions have been paid.

The Bank's obligations to defined contribution plans are recognised as an expense in the 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.

#### **2.16 Share based payments**

The Bank recognises a liability and an expense for share options granted by the parent company to employees of the Bank. The provision is based on the number of options that are expected to vest as determined by the parent company.

#### **2.17 Stated capital**

##### **Ordinary shares**

Ordinary shares are classified as 'stated capital' in equity.

#### **2.18 Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and acceptances. Such financial guarantees are given to banks, other financial institutions and bodies on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and payment of import duties. These financial guarantees are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

The fees and commission income receivable on these financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given, in 'Other liabilities' and recognised in the statement of comprehensive income in 'Fees and commission income' on a straight line basis over the life of the guarantee.



## **NOTES (CONTINUED)**

### **3. FINANCIAL RISK MANAGEMENT**

#### **3.1 Risk Management Framework**

The Bank's activities expose the business to risks. These risks are managed in a targeted manner. Key risks arising from core functions are identified and measured to facilitate managing and determining risk positions and capital allocations.

The Bank has exposure to the following types of risks from its use of financial instruments; credit risk, liquidity risk and market risks. The Bank continues to assess its overall risk management framework and governance structure.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Asset and Liability Committee (ALCCO) and Management Credit Committee and the Risk Management Unit, which are responsible for developing and monitoring risk management policies in their specified areas.

All Board Committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

The 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 Board 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.

#### **3.2 Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

The Board of Directors has delegated responsibility for the management of credit risk to its Management Credit Committee, responsible for oversight of the Bank's credit risk, including:

**NOTES (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Heads. Larger facilities require approval by the Chief Executive Officer, Management Credit Committee, and the Board of Directors as appropriate;
- *Reviewing and assessing credit risk.* Management Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- *Developing and maintaining the Bank's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for approving the risk grades lies with the Management Credit Committee. The Risk grades are subject to regular reviews by the Risk Management unit of the Bank;
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Risk Management unit of the Bank on the credit quality of local portfolios and appropriate corrective action is taken;
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk. Each business unit is required to implement Bank's credit policies and procedures, with credit approval authorities authorised by the Management Credit Committee. Each business unit with the responsibility of initiating credit has experienced credit managers who report on all credit related matters to local management of the Management Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval; and
- *Regular review of business units and credit quality* are undertaken by internal audit function of the Bank and the parent company.

**Key ratios on loans and advances**

The total loan loss provision made by the bank constitutes 1% (2016: 1%) of the gross loans.

**NOTES (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

**3.2.1 Management of credit risk**

The twenty largest exposure (gross funded and non-funded) to total exposure is 77% (2016: 93%).

**Allowances for impairment**

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

**Risk limit control and mitigation policies**

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

The exposure to any one borrower including banks and brokers 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.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

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 advanced, 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:

**Collateral**

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument.

Revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

**3.2.1 Management of credit risk (continued)**

**Financial covenants (for credit related commitments and loan books)**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

**3.2.2 Impairment and provisioning policies**

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

**3.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements**

	2017	2016
Credit risk exposures relating to on balance sheet assets are as follows:		
Non-pledged trading assets	41,824	16,446
Investment securities	76,523	155,437
Due from other banks	57,147	56,144
Other assets (excluding prepayments)	4,720	1,215
Loans and advances	<u>28,518</u>	<u>3,289</u>
	<b><u>208,732</u></b>	<b><u>232,531</u></b>
Credit risk exposures relating to off balance sheet items are as follows:		
Letters of credit	692	-
Non-financial guarantees	<u>40,559</u>	<u>1,527</u>
	<b><u>249,983</u></b>	<b><u>234,058</u></b>

The above table represents a worst-case scenario of credit risk exposure to the Bank 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 net carrying amounts as reported in the statement of financial position. 47% (2016: 73%) of the total maximum balance sheet exposure is derived from government securities.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit risk (continued)**

**3.2.4 Loans and advances and due from banks**

The Bank's credit risk exposure at 31 December 2017 are categorised as follows:

The balances for each category at 31 December 2017 have been analysed below:

	Loans and advances 2017	Due from banks 2017	Loans and advances 2016	Due from banks 2016
Neither past due nor impaired	25,707	57,147	3,350	56,144
Past due but not impaired	<u>3,114</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Gross</b>	<b>28,821</b>	<b>57,147</b>	<b>3,350</b>	<b>56,144</b>
Collective impairment	<u>(303)</u>	<u>-</u>	<u>(61)</u>	<u>-</u>
<b>Net</b>	<b><u>28,518</u></b>	<b><u>57,147</u></b>	<b><u>3,289</u></b>	<b><u>56,144</u></b>

**(i) Neither past due nor impaired loans**

The quality of credit exposure to customers and banks and other financial institutions that were neither past due nor impaired were assessed with reference to the Bank of Ghana prudential guidelines adopted by the Bank for its internal grading purposes.

**Advances – sector analysis**

Grade (Current)	2017	2016
Individuals	7,609	3,350
Manufacturing and commerce	7,933	-
Other services	<u>10,165</u>	<u>-</u>
	<b><u>25,707</u></b>	<b><u>3,350</u></b>

**Loans and advances**

Loans and advances graded current are neither considered past due nor impaired and are analysed by type of advance.

**(ii) Past due but not impaired loans**

Loans and advances graded internally as "other loans exceptionally mentioned" (OLEM) may be past due but are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired are as follows:

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.2 Credit Risk (continued)**

**3.2.4 Loans and advances and due from banks (continued)**

**Past due but not impaired loans (continued)**

<u>At 31 December 2017</u>	<u>Overdrafts</u>
Past due up to 30 days	<b>3,114</b>

There were neither past due nor impaired loans as at 31 December 2016

**3.2.5 Credit concentration**

The Bank monitors concentrations of credit risk by product, by industry and by customer.

An analysis of concentrations of credit risk in respect of loans and advances at the reporting date is shown below:

	<b>2017</b>	2016
Carrying amount	<b><u>28,518</u></b>	<b><u>3,289</u></b>
<b>Concentration by product, industry and customer</b>		
Overdrafts	<b>16,426</b>	-
Term loans	<b>4,801</b>	-
Personal loans	<b>6,330</b>	111
Mortgages	<b><u>1,264</u></b>	<b><u>3,239</u></b>
Gross	<b>28,821</b>	3,350
Less: Impairment	<b><u>(303)</u></b>	<b><u>(61)</u></b>
Net	<b><u>28,518</u></b>	<b><u>3,289</u></b>

**3.3 Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Liquidity risk (continued)**

**i. Management of liquidity risk**

The Bank's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury unit receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury unit then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank. The liquidity requirements of business units are met through short-term loans and investments from Treasury department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The Bank maintains liquidity limit imposed by its local regulator, Bank of Ghana and the overall liquidity has always been within the regulatory limit of Bank of Ghana. Treasury department monitors compliance of all branches to ensure that the Bank maintains optimum liquid assets.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset and Liabilities Management Committee (ALCCO). Daily reports on the liquidity position of the Bank is submitted to senior management and summary report, including any exceptions and remedial action taken, is submitted regularly to ALCCO on monthly basis.

**ii. Exposure to liquidity risk**

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market less any deposits from banks. The Bank also uses gap analysis to determine the liquidity position of the bank and where necessary, recommend remedial action.

**iii. Assets used in managing liquidity risk**

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise cash and balances with central banks, due from other banks and investments securities.

Government bonds and securities are readily acceptable in repurchase agreements with the Central Bank.

The table below shows the undiscounted cash flows on the Bank's financial liabilities and on the basis of their earliest possible contractual maturity.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.3 Liquidity risk (continued)**

	Total	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
<b>At 31 December 2017</b>						
Deposits from customers	103,374	78,863	22,738	1,474	299	-
Other liabilities	18,673	-	3,936	11,111	3,626	-
<b>Total financial liabilities</b>	<b>122,047</b>	<b>78,863</b>	<b>26,674</b>	<b>12,585</b>	<b>3,925</b>	<b>-</b>
Cash and cash equivalents	77,525	77,525	-	-	-	-
Loans and advances	28,518	16,418	645	606	9,596	1,253
Other assets (excluding prepayments)	4,720	24	4,389	58	249	-
Investment securities	76,523	-	-	-	65,747	10,776
Non-pledged trading assets	41,824	41,824	-	-	-	-
<b>Assets held for managing liquidity risk</b>	<b>229,110</b>	<b>135,791</b>	<b>5,034</b>	<b>664</b>	<b>75,592</b>	<b>12,029</b>
<b>Liquidity gap</b>	<b>107,063</b>	<b>56,928</b>	<b>(21,640)</b>	<b>(11,921)</b>	<b>71,667</b>	<b>12,029</b>
	Total	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
<b>At 31 December 2016</b>						
Deposits from customers	135,398	126,991	4,023	4,084	315	-
Other liabilities	11,235	45	7,234	2,639	1,317	-
<b>Total financial liabilities</b>	<b>146,663</b>	<b>127,036</b>	<b>11,257</b>	<b>6,723</b>	<b>1,617</b>	<b>-</b>
Cash and cash equivalents	79,663	79,663	-	-	-	-
Loans and advances	3,289	-	88	299	1,960	942
Other assets (excluding prepayments)	1,214	-	-	690	524	-
Investment securities	155,437	-	94,839	-	60,598	-
Non-pledge trading assets	16,446	-	-	-	16,446	-
<b>Assets held for managing liquidity risk</b>	<b>256,049</b>	<b>79,663</b>	<b>94,927</b>	<b>989</b>	<b>79,528</b>	<b>942</b>
<b>Liquidity gap</b>	<b>109,416</b>	<b>(47,373)</b>	<b>83,670</b>	<b>(5,734)</b>	<b>77,911</b>	<b>942</b>



**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.4 Market risks**

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

**i. Management of market risks**

The Bank separates its exposure to market risk between trading and non-trading portfolios. All foreign exchange risk within the Bank are monitored by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolios for risk management purposes.

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

**3.4.1 Exposure to interest rate risk – non-trading portfolios**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial 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 repricing bands. The ALCCO is the monitoring body for compliance with these limits and is assisted by Risk Management Committee in its day-to-day monitoring activities. A summary of the Bank's exposure to interest rate risk on non-trading portfolios is as follows:

**First National Bank Ghana Limited**  
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**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.4.1 Interest rate risks (continued)**

	Carrying Amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
<b>At 31 December 2017</b>						
Cash and cash equivalents	77,525	56,397	-	-	-	21,128
Investment securities	76,523	-	-	65,747	10,776	-
Other assets (excluding prepayments)	4,720	-	-	-	-	4,720
Loans and advances to customers	28,518	17,063	606	9,596	1,253	-
<b>Total financial assets</b>	<b>187,286</b>	<b>73,460</b>	<b>606</b>	<b>75,343</b>	<b>12,029</b>	<b>25,848</b>
Deposits from customers	103,374	101,601	1,474	299	-	-
Other liabilities (excluding advance payment)	18,673	-	-	-	-	18,673
<b>Total financial liabilities</b>	<b>122,047</b>	<b>101,601</b>	<b>1,474</b>	<b>299</b>	<b>-</b>	<b>18,673</b>
<b>Total interest repricing gap</b>	<b>65,239</b>	<b>(28,141)</b>	<b>(868)</b>	<b>75,044</b>	<b>12,029</b>	<b>7,175</b>
<b>At 31 December 2016</b>						
Cash and bank balances with Bank of Ghana	23,519	-	-	-	-	23,519
Due from other banks	56,144	56,144	-	-	-	-
Investment securities	155,437	94,839	-	60,598	-	-
Non-pledged trading assets	16,446	-	-	16,446	-	-
Other assets (excluding prepayments)	1,215	-	-	-	-	1,215
Loans and advances to customers	3,289	88	299	1,960	942	-
<b>Total financial assets</b>	<b>256,050</b>	<b>151,071</b>	<b>299</b>	<b>79,004</b>	<b>942</b>	<b>24,734</b>
Deposits from customers	135,398	131,075	4,023	300	-	-
Other liabilities (excluding advance payment)	11,254	-	-	-	-	11,254
<b>Total financial liabilities</b>	<b>146,652</b>	<b>131,075</b>	<b>4,023</b>	<b>300</b>	<b>-</b>	<b>11,254</b>
<b>Total interest repricing gap</b>	<b>109,398</b>	<b>19,996</b>	<b>(3,724)</b>	<b>78,704</b>	<b>942</b>	<b>13,480</b>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT (continued)**

**3.4.1 Interest rate risks (continued)**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial 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 repricing bands. The ALCCO is the monitoring body for compliance with these limits and is assisted by Risk Management Committee in its day-to-day monitoring activities. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in prime rates.

*Sensitivity analysis*

An increase of a 100 basis points in interest rates at the reporting date would have impacted equity and profit by the amounts shown below:

	2017	2016
Less than 3 months	(28,136)	19,996
3 to 12 months-	(868)	(3,724)
1 to 5 years	75,044	73,584
Over 5 years	12,029	6,062
<b>Total</b>	<b>58,069</b>	<b>95,918</b>
Interest income impact	42	350
Interest expense impact	-	1
<b>Net impact on profit before tax</b>		<b>349</b>

A decrease of a 100 basis points in interest rates at the reporting date would have had the equal but opposite effect on the amount shown above, on the basis that all other variables remain constant.

The Bank monitors interest and exchange rates to facilitate trading and non-trading assets by the Treasury department. This will help the Bank to know the market developments and where opportunities are present to make gains from high interest rates. The Bank does not hedge its interest rate risk.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis unless otherwise stated)

**3. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.4.2 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 Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency:

<b>At 31 December 2017</b>	<b>GHS</b>	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>ZAR</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	38,001	38,180	237	83	1,024	77,525
Non-pledged trading assets	41,824	-	-	-	-	41,824
Investment securities	76,523	-	-	-	-	76,523
Other assets (excluding prepayments)	3,635	1,085	-	-	-	4,720
Loans and advances	28,518	-	-	-	-	28,518
<b>Total financial assets</b>	<b>188,501</b>	<b>39,265</b>	<b>237</b>	<b>83</b>	<b>1,024</b>	<b>229,110</b>
<b>Liabilities</b>						
Deposits from customers	63,571	39,557	191	55	-	103,374
Other liabilities	18,293	123	35	26	196	18,673
<b>Total financial liabilities</b>	<b>81,864</b>	<b>39,680</b>	<b>226</b>	<b>81</b>	<b>196</b>	<b>122,047</b>
<b>Net on-balance sheet financial position</b>	<b>106,637</b>	<b>(415)</b>	<b>11</b>	<b>2</b>	<b>828</b>	<b>107,063</b>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis unless otherwise stated)

**FINANCIAL RISK MANAGEMENT – (CONTINUED)**

**3.4.2 Foreign exchange risk (continued)**

At 31 December 2016	GHS	USD	EUR	GBP	ZAR	Total
<b>Assets</b>						
Cash and cash equivalents	64,285	13,934	1	1,351	92	79,663
Non-pledged trading assets	16,446	-	-	-	-	16,446
Investment securities	155,437	-	-	-	-	155,437
Other assets (excluding prepayments)	1,215	-	-	-	-	1,215
Loans and advances to customers	3,289	-	-	-	-	3,289
<b>Total financial assets</b>	<b>240,672</b>	<b>13,934</b>	<b>1</b>	<b>1,351</b>	<b>92</b>	<b>256,050</b>
<b>Liabilities</b>						
Deposits from customers	123,382	11,416	7	593	-	135,398
Other liabilities	11,254	-	-	-	-	11,254
<b>Total financial liabilities</b>	<b>134,636</b>	<b>11,416</b>	<b>7</b>	<b>593</b>	<b>-</b>	<b>146,652</b>
<b>Net on-balance sheet financial position</b>	<b>106,036</b>	<b>2,518</b>	<b>(6)</b>	<b>758</b>	<b>92</b>	<b>109,398</b>

*Sensitivity analysis*

A 10% strengthening of the Ghana cedi against foreign currencies at 31 December 2017 would have increased equity and reduced the loss by GH¢ 708,378 (2016: GH¢ 305,636 reduction).

A 10% weakening of the Ghana cedi against foreign currencies at 31 December would have had the equal but opposite effect on the amount shown above.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

**NOTES (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT – (CONTINUED)**

**3.4.3 Fair value of financial instruments**

*Financial instruments not measured at fair value*

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

	Carrying amount		Fair value	
	2017	2016	2017	2016
<b>Financial assets</b>				
Loans and advances	<b>28,518</b>	3,289	<b>28,523</b>	3,289
Other assets (excluding prepayments)	<b>4,720</b>	1,215	<b>4,720</b>	1,215
<b>Financial liabilities</b>				
Customer deposits	<b>103,374</b>	135,398	<b>103,374</b>	135,398
Other liabilities	<b>18,673</b>	11,254	<b>18,673</b>	11,254

(i) Loans and advances

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Customer deposits

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

*Fair value hierarchy*

Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities and equity securities.

Investments classified as Level 2 primarily include government securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value. These valuation methodologies have been studied and evaluated by the Bank and the resulting prices determined to be representative of exit values. Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, benchmark securities, bids, offers and reference data. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. This level includes equity investments and debt instruments with significant unobservable components. As at 31 December 2017, there were no investments securities that were classified under any of these categories.

**NOTES (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT – (CONTINUED)**

**3.5 Capital management**

**3.5.1 Regulatory capital**

The Bank's regulator, the Bank of Ghana sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements, the Bank of Ghana requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, also referred to as core/primary capital is made up of equity and disclosed reserves. Equity includes issued and fully paid ordinary share capital and perpetual non-cumulative preference shares. Disclosed reserves relate to those created or increased by appropriation of after tax profit, income surplus and general statutory reserves; and
- Tier 2 capital, also referred to as supplementary/secondary capital includes revaluations reserves, latent revaluation reserves and hybrid capital instruments. Latent revaluation reserves relate to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital.

Banking operations are categorised mainly as trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

There have been no material changes in the Bank's management of capital during the period.

**NOTES (CONTINUED)**

(All amounts are in Ghana Cedis)

**3. FINANCIAL RISK MANAGEMENT – (CONTINUED)**

**3.5 Capital management (continued)**

**3.5.2 Capital adequacy ratio**

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk-weighted asset base. In accordance with Bank of Ghana regulations, a minimum ratio of 10% is to be maintained.

	2017	2016
<b>Tier 1 capital</b>		
Ordinary issued share	162,017	144,644
Disclosed reserves	(33,853)	(12,682)
Shareholders' fund	128,164	131,962
Less:		
Intangible assets as per Bank of Ghana guideline	(6,183)	-
Losses not provided for	20,891	-
<b>Total qualifying tier 1 capital</b>	<b>142,872</b>	<b>131,962</b>
<b>Tier 2 capital</b>		
Undisclosed reserves	(26,632)	-
Other capital instruments	8,820	-
<b>Total qualifying tier 2 capital</b>	<b>(17,812)</b>	<b>-</b>
<b>Total regulatory capital</b>	<b>125,060</b>	<b>131,962</b>
Adjusted risk-weighted assets	68,167	39,999
Risk weighted contingent liabilities	39,162	1,527
Adjusted operational risk	26,756	21,924
Risk adjusted net open position	603	2,480
<b>Risk-weighted assets</b>	<b>134,688</b>	<b>65,930</b>
<b>Total regulatory capital expressed as a percentage of total risk-weighted assets is</b>	<b>93%</b>	<b>200%</b>



## **NOTES (CONTINUED)**

### **4. USE OF ESTIMATES AND JUDGEMENT**

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

#### **a. Impairment loss on loans and advances**

The Bank reviews its loan portfolios to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

#### **b. Fair value measurement of financial instruments**

The Bank measures financial instruments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

#### **c. Deferred income tax assets**

Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**4. USE OF ESTIMATES AND JUDGEMENT – (CONTINUED)**

**d. Income tax**

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 income tax provisions in the period in which such determination is made.

**5. Financial assets and liabilities**

**Accounting classification, measurement basis and fair values**

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	77,525	77,525	79,663	79,663
Loans and advances	28,518	28,518	3,289	3,289
Non-pledged trading assets	41,824	41,824	16,446	16,446
Investment securities	76,523	76,523	155,437	155,437
Other assets (excluding prepayments)	<u>4,720</u>	<u>4,720</u>	<u>1,215</u>	<u>1,215</u>
<b>Total</b>	<b><u>229,110</u></b>	<b><u>229,110</u></b>	<b><u>256,050</u></b>	<b><u>256,050</u></b>
Financial liabilities				
Deposits	103,374	103,374	135,398	135,398
Other liabilities	<u>18,673</u>	<u>18,673</u>	<u>11,254</u>	<u>11,254</u>
<b>Total</b>	<b><u>122,047</u></b>	<b><u>122,047</u></b>	<b><u>146,652</u></b>	<b><u>146,652</u></b>

The management assessed that the fair values of cash and cash equivalents, other assets (excluding prepayments), deposits and other liabilities approximate their carrying amounts.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

<b>6. Interest income</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	20	2
Investment securities	26,433	35,500
Loans and advances to customers	<u>3,037</u>	<u>664</u>
	<b><u>29,490</u></b>	<b><u>36,166</u></b>
<b>7. Interest expense</b>		
Current accounts	5,030	5,916
Savings accounts	123	28
Deposits from banks	-	300
Term deposits accounts	<u>3,283</u>	<u>27</u>
	<b><u>8,436</u></b>	<b><u>6,271</u></b>
<b>8. Fees and commission income</b>		
Fees from banking activities	409	112
Fees from trade activities	1,024	
Fees from credit activities	<u>406</u>	<u>177</u>
Gross fees and commission income	<b><u>1,839</u></b>	<b><u>289</u></b>
Fees and commission expense	<b><u>(518)</u></b>	<b><u>(416)</u></b>
<b>9. Net trading income</b>		
Foreign exchange	3,832	1 084
Trading income	<u>8,243</u>	<u>-</u>
	<b><u>12,075</u></b>	<b><u>1 084</u></b>
<b>10. Other operating income</b>		
Exchange (loss)/ gain on revaluation	<b><u>(1,331)</u></b>	<b><u>702</u></b>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

<b>11. Net impairment loss on financial assets</b>	<b>2017</b>	<b>2016</b>
Collective impairment charge	<u>242</u>	<u>28</u>
Movement on impairment charge on loans and advances is as follows:		
At 1 January	61	33
Collective impairment charge	<u>242</u>	<u>28</u>
At 31 December	<u>303</u>	<u>61</u>
<b>12. Personnel expenses</b>	<b>2017</b>	<b>2016</b>
Wages and salaries	26,409	20,073
Employer's pension contributions	670	905
Directors' emoluments	135	151
Share options	2,564	1,055
Other staff related costs	<u>5,627</u>	<u>3,468</u>
	<u>35,405</u>	<u>25,652</u>
The average number of persons employed by the Bank during the year ended 31 December 2017 was 128 (2016: 79).		
<b>13. Operating lease expense</b>	<b>2017</b>	<b>2016</b>
Rentals on vehicles	1,090	1,123
Rentals on office premises	<u>7,025</u>	<u>6,623</u>
	<u>8,115</u>	<u>7,746</u>
<b>14. Other operating expenses</b>		
Administrative expenses	10,062	2,096
Software licensing	1,057	736
Auditor's remuneration	<u>464</u>	<u>352</u>
	<u>11,583</u>	<u>3,184</u>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**15. Income tax expense**

	2017	2016
Deferred income tax (credit)/ charge (Note 23)	<u>(782)</u>	<u>12</u>

**Current income tax**

The chargeable income of the Bank for the year ended subject to income tax is nil (2016: Nil).

The tax on the Bank's loss income tax differs from the theoretical amount that would arise using statutory income tax rate as follows:

	2017	2016
Loss before income tax	<u>(27,414)</u>	<u>(8,146)</u>
Tax calculated at tax rate (25%)	<u>(6,853)</u>	<u>(2,037)</u>
Effect of:		
Expenditure permanently disallowed	1,577	-
Current losses for which no deferred tax was recognised	<u>6,058</u>	<u>2,049</u>
Income tax expense/(credit)	<u>(782)</u>	<u>12</u>

**16. Cash and cash equivalents**

Cash on hand	4,513	4,136
Due from other banks	57,147	56,144
Restricted balances with Bank of Ghana	12,649	14,711
Unrestricted balances with Bank of Ghana	<u>3,216</u>	<u>4,672</u>
Total cash and cash equivalents	<u>77,525</u>	<u>79,663</u>

The restricted balances with Bank of Ghana relate to mandatory reserve deposit.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**17. Loans and advances**

<b>Analysis by type of customer</b>	<b>2017</b>	<b>2016</b>
Individuals	7,608	3,350
Business	11,152	-
Corporate	<u>10,061</u>	<u>-</u>
Gross loans and advances	28,821	3,350
Collective impairment	<u>(303)</u>	<u>(61)</u>
Net loans and advances	<u>28,518</u>	<u>3,289</u>

**18. Impairment allowance on loans and advances**

Collective allowance for impairment		
At 1 January	61	33
Increase in impairment	<u>242</u>	<u>28</u>
At 31 December	<u>303</u>	<u>61</u>

**19. Non- pledged trading assets**

Government bonds	<u>41,824</u>	<u>16,446</u>
Maturing as follows:		
Maturing within 90 days from purchase	19	-
Maturing over 90 days from purchase	<u>41,805</u>	<u>16,446</u>

Non- pledged trading assets are classified as held for trading and carried at fair value.

The Bank has not pledged any held for trading assets to counterparties.

**NOTES ( CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**20. Investment securities**

	2017	2016
Treasury bills	-	94,838
Government bonds	<u>76,523</u>	<u>60,599</u>
	<u>76,523</u>	<u>155,437</u>
Movement is as follows:		
At 1 January	155,437	95,870
Additions	561,415	1,084,455
Redeemed on maturity	(642,540)	(1,029,958)
Fair value gain	<u>2,211</u>	<u>5,070</u>
<b>At 31 December</b>	<u><b>76,523</b></u>	<u><b>155,437</b></u>
Maturing as follows:		
- within 3 months	-	94,838
- between 1 to 5 years	65,747	60,599
- over five years	<u>10,776</u>	-
	<u>76,523</u>	<u>155,437</u>

Investment securities are classified as available - for - sale and carried at fair value.

The Bank has not pledged any investment securities to counterparties.

**First National Bank Ghana Limited**  
 Financial statements  
 for the year ended 31 December 2017

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**21. Property and equipment**

	Leasehold Improve- ment	Computer Equip- ment	Furniture and Fittings	Office Equip- ment	Motor Vehicle	Capital Work-In Progress	Total
<b>Year ended 31 December 2017</b>							
<b>Cost</b>							
At 1 January	16,822	4,411	2,005	1,243	-	689	25,170
Additions	1,172	26	131	491	-	3,871	5,691
Transfer	-	220	197	268	4	(689)	-
<b>At 31 December</b>	<b>17,994</b>	<b>4,657</b>	<b>2,333</b>	<b>2,002</b>	<b>4</b>	<b>3,871</b>	<b>30,861</b>
<b>Accumulated depreciation</b>							
At 1 January	2,040	1,090	270	503	-	-	3,903
Charge for the year	2,552	981	329	550	1	-	4,413
Disposal	-	-	-	-	-	-	-
<b>At 31 December</b>	<b>4,592</b>	<b>2,071</b>	<b>599</b>	<b>1,053</b>	<b>1</b>	<b>-</b>	<b>8,316</b>
<b>Net book amount</b>							
<b>At 31 December 2017</b>	<b>13,402</b>	<b>2,586</b>	<b>1,734</b>	<b>949</b>	<b>3</b>	<b>3,871</b>	<b>22,545</b>
<b>Year ended 31 December 2016</b>							
<b>Cost</b>							
At 1 January	7,273	1,555	1,691	930	-	-	11,449
Additions	9,549	2,863	314	313	-	689	13,728
Disposal	-	(7)	-	-	-	-	(7)
<b>At 31 December</b>	<b>16,822</b>	<b>4,411</b>	<b>2,005</b>	<b>1,243</b>	<b>-</b>	<b>689</b>	<b>25,170</b>
<b>Accumulated depreciation</b>							
At 1 January	357	197	234	400	-	-	1,188
Charge for the year	1,683	895	36	103	-	-	2,717
Disposal	-	(2)	-	-	-	-	(2)
<b>At 31 December</b>	<b>2,040</b>	<b>1,090</b>	<b>270</b>	<b>503</b>	<b>-</b>	<b>-</b>	<b>3,903</b>
<b>Net book amount</b>							
<b>At 31 December 2016</b>	<b>14,782</b>	<b>3,321</b>	<b>1,735</b>	<b>740</b>	<b>-</b>	<b>689</b>	<b>21,267</b>



**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**21. Property and equipment (continued)**

Profit on disposal of property and equipment

	2017	2016
Cost	-	7
Accumulated depreciation	<u>-</u>	<u>(2)</u>
Net book amount	-	5
Proceeds	<u>-</u>	<u>(7)</u>
<b>Profit on disposal</b>	<u><u>-</u></u>	<u><u>(2)</u></u>

**22. Intangible asset**

Year ended 31 December

	2017	2016
<b>Cost</b>		
At 1 January	1,492	-
Additions	<u>118</u>	<u>1,492</u>
<b>At 31 December</b>	<u><b>1,610</b></u>	<u><b>1,492</b></u>
<b>Amortisation</b>		
At 1 January	373	-
Charge for the year	<u>775</u>	<u>373</u>
<b>At 31 December</b>	<u><b>1,148</b></u>	<u><b>373</b></u>
Net book amount		
<b>At 31 December 2017</b>	<u><b>462</b></u>	<u><b>1,119</b></u>

Intangible asset is in respect of software purchased by the Bank.

**23. Deferred income tax**

Movements in temporary differences during the year is as follows:

	2017	2016
At 1 January	1,397	213
Charge to profit or loss	(782)	12
Charge to other comprehensive income	<u>648</u>	<u>1,172</u>
At 31 December	<u><b>1,263</b></u>	<u><b>1,397</b></u>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**23. Deferred income tax (continued)**

Deferred income tax is calculated using the enacted income tax rate of 25% (2016:25%). Deferred income tax assets and liabilities, deferred income tax charge in the income statement and deferred income tax charge in other comprehensive income are attributable to the following items:

	At 1 January	Recognised in profit or loss	Recognised in other comprehen sive income	At 31 December
<b>Year ended 31 December 2017</b>				
Accelerated depreciation	1,154	(140)	-	1,014
Other temporary differences	243	(642)	-	(399)
Deferred tax on fair value gain	-	-	648	648
Deferred tax liability/ (Asset)	<u>1,397</u>	<u>(782)</u>	<u>648</u>	<u>1,263</u>
<b>Year ended 31 December 2016</b>				
Accelerated depreciation	-	1,154	-	1,154
Other temporary differences	<u>213</u>	<u>(1,142)</u>	<u>1,172</u>	<u>243</u>
Deferred tax liability	<u>213</u>	<u>12</u>	<u>1,172</u>	<u>1,397</u>

Deferred tax assets of GHS 6,840,000 arising from unused tax losses and other temporary differences have not been recognised in the financial statements because it is not probable that sufficient taxable profits will be available against which deferred tax assets are utilised.

**24. Other assets**

	2017	2016
Prepaid expenses	8,177	5,473
Amount due from related parties (Note 34)	24	269
Other receivables	<u>4,696</u>	<u>946</u>
	<u>12,897</u>	<u>6,688</u>

**25. Deposits from customers**

**By type of deposit**

Current and call accounts	85,909	127,566
Savings accounts	24	1,041
Term deposit accounts	<u>17,441</u>	<u>6,791</u>
	<u>103,374</u>	<u>135,398</u>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**25. Deposits from customers (continued)**

	2017	2016
Current	103,075	135,098
Non-current	<u>299</u>	<u>300</u>
	<u>103,374</u>	<u>135,398</u>

The twenty largest depositors constitute 80% (2016:96%) of the total deposits at year end.

By type of customer	2017	2016
Corporate customers	72,081	119,518
Business customers	12,282	9,851
Individuals	<u>19,011</u>	<u>6,029</u>
	<u>103,374</u>	<u>135,398</u>

**26. Other liabilities**

Amount due to related parties (Note 34)	7,694	4,572
Other payables	<u>10,979</u>	<u>6,682</u>
	<u>18,673</u>	<u>11,254</u>
Current	15,047	9,937
Non - current	<u>3,626</u>	<u>1,317</u>
	<u>18,673</u>	<u>11,254</u>

**27. Stated capital**

The authorised shares of the Bank are 500,000,000 ordinary shares of no par value out of which 162,017,000 (2016: 144,644,000) ordinary shares have been issued as follows:

	2017		2016	
	No of shares	Proceeds	No of shares	Proceeds
At 1 January	144,644,000	144,644	136,758,000	136,758
Issue of ordinary shares for cash consideration	<u>17,373,000</u>	<u>17,373</u>	<u>7,886,000</u>	<u>7,886</u>
At 31 December	<u>162,017,000</u>	<u>162,017</u>	<u>144,644,000</u>	<u>144,644</u>

There are no calls or unpaid instalments. There are no treasury shares.

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**28. Contributions towards capital**

The contribution towards capital of GH¢ 8,820,000 represents funding from the shareholders of the bank as consideration for shares yet to be issued.

**29. Income surplus**

Income surplus account represents the residual of earnings or losses retained. The movement in the income surplus account is shown as part of the statement of changes in equity.

**30. Credit risk reserve**

Credit risk reserve represents the amounts set aside in respect of the excess impairment provision determined in accordance with Bank of Ghana prudential guidelines over the total impairment provision recognised under the International Financial Reporting Standards framework. The movement is included in the statement of changes in equity loans and advances. The movement is included in the statement of changes in equity.

The movement in the Bank's credit risk reserve is as follows:

	2017	2016
At 1 January	-	-
Movement from income surplus	<u>280</u>	-
Balance as at 31 December	<u>280</u>	-

The table below reconciles the IFRS impairment allowances to that required by the Bank of Ghana guideline:

	2017	2016
At December		
Bank of Ghana Provisioning	583	-
Credit Risk Reserve	<u>(280)</u>	-
IFRS Impairment	<u>303</u>	-

**31. Other reserve**

Changes in the fair value of investments classified as available for sale financial assets are recognised in other comprehensive income and accumulated in a separate reserve in equity. Amounts are classified to profit or loss when the associated assets are sold or impaired.

	2017	2016
At 1 January	3,898	-
Changes in fair value of available for sale investment securities	2,211	5,070
Deferred tax on fair value gain	<u>(648)</u>	<u>(1,172)</u>
	<u>5,461</u>	<u>3,898</u>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**32. Leasing**

The Bank acts as lessee under operating leases and lessor under finance leases, leasing assets for its own use and providing asset financing for its customers.

*i. Finance Lease*

The Bank did not have any finance lease receivables at 31 December 2017 (2016: Nil).

*ii. Operating Lease*

The Bank leases various office and other premises under non-cancellable operating lease arrangements. The lease rentals are paid in advance and amortised on a straight line basis over the lease period. The outstanding balance is accounted for as a prepayment in other assets.

Non - cancellable operating lease rentals are payable as follows:

	<b>2017</b>	2016
Less than one year	<b>10,173</b>	6,790
Between one and five years	<b>27,680</b>	22,471
Over 5 years	<b><u>7,838</u></b>	<u>11,183</u>
	<b><u>45,691</u></b>	<u>40,444</u>

There are no contingent rents payable.

**33. Contingencies and commitments**

**i. Claims and litigation**

The Bank has no contingent liabilities in respect of legal claims arising in the ordinary course of business as at 31 December 2017 (2016: Nil).

**ii. Guarantees**

The Bank has provided a guarantee of GH¢ 40,559,137 as at 31 December 2017 (2016: GH¢1,526,515).

**iii. Letters of credit**

The Bank has provided letters of credit amounting to GH¢ 692,414 as at 31 December 2017 (2016: nil).

**iv. Commitments**

The bank had committed undrawn facilities amounting to GH¢ 61,570,817 as at 31 December 2017 (2016: Nil).

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**34. Related party transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions, or one other party controls both. All related party transactions are at arm's length. The Bank is controlled by FirstRand EMA Holdings Limited.

FirstRand EMA Holdings is a subsidiary of FirstRand Limited, the ultimate holding company.

**i. Transactions with related parties**

Transactions between First National Bank Ghana Limited, and its related parties are carried out on commercial terms and conditions. The following transactions were carried out with related parties:

	<b>Nature of transactions</b>	<b>2017</b>	<b>2016</b>
FirstRand Bank Limited	Transfer of share options liability to Bank	<b>909</b>	989
FirstRand Bank Limited	Overnight placements	<b>571,208</b>	-
FirstRand Bank Limited	Foreign currency trade	<b>468,737</b>	145,502

**ii. Year end balances arising from the sale/purchases of goods/services**

Amount due to related parties (Note 26)

	<b>2017</b>	<b>2016</b>
FNB Lesotho	<b>11</b>	64
FirstRand Bank Limited	<b>2,305</b>	-
FNB International SA	<b><u>5,378</u></b>	<u>4,508</u>
	<b><u>7,694</u></b>	<u>4,572</u>

Amount due from related parties (Note 24)

FNB Lesotho	-	260
FirstRand Bank Limited	<b><u>24</u></b>	<u>9</u>
	<b><u>24</u></b>	<u>269</u>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**34. Related party transactions (continued)**

**iii. Transactions with key management personnel**

The Bank's key management personnel, includes directors (executive and non-executive) members of the Executive Committee, Company Secretary and the Head of Internal Audit. The loans advanced to key management are at the agreed terms and conditions.

*Loans and advances*

	2017	2016
Secured loans	<u>218</u>	<u>76</u>

No impairment losses have been recorded against the loans and allowances during the period with key management personnel.

*Compensation*

The compensation paid to key management for employee services is shown below.

	2017	2016
Salaries and other short term benefits	<u>14,552</u>	<u>5,844</u>

There are no short-term employee and post-employment benefits outstanding as at 31 December 2017 (2016: Nil).

The share based payment arrangements with key management personnel is shown below:

	2017	2016
Share options	<u>2,564</u>	<u>989</u>

The compensation paid to non-executive directors is shown below.

	2017	2016
Fees and emoluments	<u>135</u>	<u>151</u>

**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**35. Regulatory disclosures**

(i) Non – performing loans ratio

There are no non - performing loans at 31 December 2017 (2016: Nil).

(ii) Amount of loans written off

The Bank did not write off any loan during the year ended 31 December 2017 (2016: Nil).

(iii) Liquidity Ratio

The Bank's liquidity ratio at the end of the 2017 was 17.05% (2016: 10.86%).

(iv) Year end rates used for foreign exchange translations are as set out below.

Currency	2017	2016
USD	4.4157	4.2002
GBP	5.9631	5.1713
EUR	5.2884	4.4339
ZAR	0.3590	0.3060



**NOTES (CONTINUED)**

(All amounts are in thousands of Ghana Cedis)

**35. Value Added Statement**

**Value Added Statement for the year ended**

	2017	2016
Interest earned and other operating income	43,404	38,241
Direct cost of services	<u>(10,285)</u>	<u>(6,687)</u>
Value added by banking services	33,119	31,554
Impairments	<u>(242)</u>	<u>(28)</u>
<b>Value Added</b>	<b>32,877</b>	<b>31,526</b>
Distributed as follows:		
<b>To Employees:</b>		
Directors (without executives)	(135)	(151)
Executive directors	<u>(1,975)</u>	<u>(791)</u>
Other employees	<u>(33,430)</u>	<u>(24,710)</u>
<b>To Government:</b>		
Income tax	<u>782</u>	<u>(12)</u>
<b>To providers of capital</b>		
Dividends to shareholders	<u>-</u>	<u>-</u>
<b>To expansion and growth</b>		
Depreciation	<u>(4,413)</u>	<u>(2,717)</u>
Amortisation	<u>(775)</u>	<u>(373)</u>
Operating leases	<u>(8,115)</u>	<u>(7,746)</u>
<b>To other distribution</b>		
Other operating expenses	<u>(11,448)</u>	<u>(3,184)</u>
<b>Retained earnings</b>	<b><u>(26,632)</u></b>	<b><u>(8,158)</u></b>