

GCB Bank Limited

Consolidated Financial Statements
for the year ended December 31, 2014



Operating Environment in 2014

2014 was a challenging year due to weakened macroeconomic conditions which affected the business operating environment. Interest rates remained high throughout the year in response to rising inflation, tighter liquidity conditions and higher than anticipated currency depreciation. These conditions resulted in an expected general increase in non-performing assets in the banking industry.

Highlights of Operating Results and Financial Position:

Against the backdrop of these challenges, the Bank reported another set of strong results as follows:

- Profit Before Tax was up 25% to GH¢395 million (2013: 317 million) from strong top line growth resulting from a combination of business volume growth and balance sheet management.
- Total income increased by 29% to GH¢731 million driven by volume growth across all business lines (Consumer, Corporate and Treasury businesses) and relatively stable net interest margins.
- Headline Operating Costs were up 58% to GH¢428 million reflecting higher investment costs of business re-organisation to achieve the transformation plan, payment against judgement which is being appealed, sharp increase in utility prices as well as the impact of currency depreciation on foreign currency denominated costs partially offset by benefits realised from prior year technology investments and cost containment initiatives. Included in headline operating costs are one-off costs amounting to GH¢95 million.
- Headline cost efficiency ratio therefore increased to 59% compared to 48% same period last year; the underlying efficiency ratio was however lower at 46%.
- Credit impairment charges increased to GH¢24 million due to asset growth and the difficult operating environment. However, the overall cost of risk remained relatively stable following strong recoveries made during the year. During the year the Bank recovered a long overdue amount of GH¢100 million which is reported as non-recurring other income.
- Total assets increased by 25% to GH¢4.3 billion driven by growth in loans and advances and investments in securities.
- Loans and advances to customers increased by 29% to GH¢1.2 billion with strong contribution from Consumer Banking throughout the year while Corporate Banking showed strong growth in the last quarter of the year.
- Customer deposits increased by 17% to GH¢3.1 billion reflecting successful deposit mobilisation campaigns despite tight deposit market conditions.
- The Bank continues to strengthen its liquidity position by maintaining strong liquidity buffers to meet its regulatory and operational liquidity requirements. Liquid Assets represent 66% of Total Liabilities (2013: 59%).
- Overall, the Bank delivered a Return on Equity (RoE) of 41% (2013: 49%) that further strengthened its Capital Adequacy Ratio (CAR). CAR increased to 23% (2013: 18%). Earnings Per Share (EPS) increased 23% to GH¢1.06 (2013: GHS 0.86) resulting in further improvement in the internal valuation of the Bank.

Outlook for 2015

- Although there are a range of uncertainties and challenges with the macroeconomic prospects for 2015 most of which are outside our control, it is our view that there will be greater clarity once the ongoing discussions with the IMF are concluded and a consensus reached by stakeholders on the economic policy choices to bring the economy back to a sustainable inflation and interest rate path to spur economic growth.
- The business remains in a good position structurally to benefit from broader market trends especially as we continue to take steps to deliver a sustainable cost run rate in anticipation of operating in a lower interest rate regime over the medium term. There are still legacy issues to be resolved and we will continue to make progress in 2015.

Statements of comprehensive income

for the year ended December 31, 2014

	The Group		The Bank	
	2014 GH¢'000	2013 GH¢'000	2014 GH¢'000	2013 GH¢'000
Interest income	690,708	552,063	690,708	552,063
Interest expense	(92,982)	(92,104)	(92,982)	(92,204)
Net interest income	597,726	459,959	597,726	459,859
Fee and commission income	114,392	88,566	114,392	88,566
Fee and commission expense	(22,422)	(11,419)	(22,422)	(11,419)
Net fee and commission income	91,970	77,147	91,970	77,147
Net trading income	37,758	26,842	37,758	26,842
Other revenue	3,739	3,297	7,792	5,989
Revenue	731,193	567,245	735,246	569,837
Other income	100,058	944	99,210	1,181
Impairment (charge)/release on loans and advances	(23,832)	10,569	(23,832)	10,569
Operating expenses	(428,230)	(270,394)	(428,188)	(270,364)
Operating profit	379,189	308,364	382,436	311,223
Share of profit of associates net of tax	15,792	8,695	-	-
Profit before tax	394,981	317,059	382,436	311,223
Income tax expense	(93,759)	(80,030)	(93,257)	(79,934)
National fiscal stabilization levy	(19,074)	(7,830)	(19,122)	(7,781)
Profit for the year	282,148	229,199	270,057	223,508
Other Comprehensive Income (OCI)				
Items that may be reclassified to profit or loss				
Available-for-sale financial assets - net changes in fair value	1,898	1,464	1,911	1,618
Related tax	(475)	(366)	(478)	(404)
Share of associate OCI	(1,515)	-	-	-
Items that will never be reclassified to profit or loss				
Actuarial loss on defined benefit liability	(4,134)	(15,033)	(4,134)	(15,033)
Related tax	1,034	3,758	1,034	3,758
Other comprehensive income, net of tax	(3,192)	(10,177)	(1,667)	(10,061)
Total comprehensive income	278,956	219,022	268,390	213,447

Basic and diluted earnings per share (in GH¢) 1.06 0.86 1.02 0.84

Statements of financial position

at December 31, 2014

	The Group		The Bank	
	2014 GH¢'000	2013 GH¢'000	2014 GH¢'000	2013 GH¢'000
Assets				
Cash and cash equivalents	758,081	338,797	758,081	338,797
Government securities	1,862,336	1,711,957	1,857,337	1,711,948
Advances to banks	107,407	170,321	107,407	170,321
Loans and advances to customers	1,240,577	960,707	1,240,577	960,707
Investment securities: available-for-sale	8,611	6,660	6,811	4,900
Investment in subsidiary	-	-	-	-
Investment in associates	49,468	41,013	30,126	30,126
Investment in other equity securities	247	247	113	113
Deferred tax asset	26,838	15,453	26,890	15,495
Property and equipment	123,936	81,399	123,936	81,399
Intangible assets	12,162	3,954	12,162	3,954
Other assets	64,021	74,318	63,601	73,340
Income tax asset	5,418	-	5,778	-
Total assets	4,259,102	3,404,826	4,232,819	3,391,100
Liabilities				
Deposits from customers	3,074,821	2,624,975	3,078,071	2,630,283
Other liabilities	263,805	132,702	263,747	132,674
Borrowings	163,028	108,149	163,028	108,149
Income tax liabilities	-	11,258	-	11,161
Employee benefit obligations	68,077	61,677	68,077	61,677
Total liabilities	3,569,731	2,938,761	3,572,923	2,943,944
Equity				
Stated capital	100,000	100,000	100,000	100,000
Retained earnings	409,176	215,224	379,141	197,280
Fair value reserve	1,990	2,082	2,550	1,117
Statutory reserve	179,505	145,748	179,505	145,748
Credit risk reserve	21,173	22,384	21,173	22,384
Other reserves	(22,473)	(19,373)	(22,473)	(19,373)
Total equity	689,371	466,065	659,896	447,156
Total liabilities and equity	4,259,102	3,404,826	4,232,819	3,391,100

GCB Bank Limited

Consolidated Financial Statements
for the year ended December 31, 2014



Statements of cash flows

for the year ended December 31, 2014

	The Group		The Bank	
	2014 GH¢'000	2013 GH¢'000	2014 GH¢'000	2013 GH¢'000
Cash flows from operating activities				
Profit for the year	282,148	229,199	270,057	223,508
Adjustments for:				
Depreciation and amortization	24,091	17,994	24,091	17,994
Impairment charge on loans and advances	23,832	(10,569)	23,832	(10,569)
Gain on derecognition of renegotiated loans	(93,346)	-	(93,346)	-
Allowance for employee benefit obligations	11,027	8,930	11,027	8,930
Share of profit of associates	(15,792)	(3,771)	-	-
Net interest income	(597,726)	(459,959)	(597,726)	(459,859)
Dividend income	(1,834)	(2,455)	(5,887)	(5,147)
Assets written off	-	(1,350)	-	(1,350)
Profit on sale of property and equipment	(42)	(121)	(42)	(121)
Unrealised exchange differences	(49,435)	(4,797)	(49,435)	(4,797)
Tax expense	112,833	87,860	112,379	87,715
	(304,244)	(139,039)	(305,050)	(143,696)
Change in:				
Loans and advances to customers	(210,356)	(102,266)	(210,356)	(102,266)
Advances to banks	73,555	(132,343)	73,555	(132,343)
Other assets	9,232	(24,126)	9,739	(23,128)
Deposits from customers	448,308	294,675	446,250	295,675
Borrowings	-	(80,000)	-	(80,000)
Other liabilities	131,103	18,905	131,073	18,876
Employee benefits paid	(8,761)	(8,436)	(8,761)	(8,436)
Government securities	(129,509)	(97,630)	(124,519)	(97,630)
	9,328	(270,260)	11,931	(272,948)
Interest received	669,838	491,037	669,838	491,037
Dividend received	8,686	2,455	5,887	5,147
Interest paid	(88,422)	(90,474)	(88,422)	(90,574)
Income tax paid	(140,348)	(94,233)	(140,157)	(94,137)
Net cash flow from operating activities	459,082	38,525	459,077	38,525
Cash flows from investing activities				
Acquisition of property and equipment	(63,672)	(24,006)	(63,672)	(24,006)
Proceeds from sale of property and equipment	42	121	42	121
Acquisition of intangible assets	(11,164)	(3,225)	(11,164)	(3,225)
Net cash used in investing activities	(74,794)	(27,110)	(74,794)	(27,110)
Cash flow from financing activities				
Dividend paid	(55,650)	(47,700)	(55,650)	(47,700)
Stamp duty on additional capital	(5)	-	-	-
Net cash used in financing activities	(55,655)	(47,700)	(55,650)	(47,700)
Net increase/(decrease) in cash and cash equivalents	328,633	(36,285)	328,633	(36,285)
Cash and cash equivalents at 1 January	338,797	360,023	338,797	360,023
Effect of exchange rate fluctuations on cash held	90,651	15,059	90,651	15,059
Cash and cash equivalents at December 31	758,081	338,797	758,081	338,797

These financial statements were approved by the Board of Directors on February 27, 2015 and signed on its behalf by:

Signed:
Daniel Owiredu
Chairman

Signed:
Simon Dornoo
Managing Director

Extract of notes to the audited financial statements

for the year ended December 31, 2014

Reporting Entity:

GCB Bank Limited is a limited liability company incorporated and domiciled in Ghana. The address of its registered office is GCB Bank Building, Thorpe Road, Accra. The financial statements of the Bank as at and for the year ended December 31, 2014 comprise the Bank and its subsidiary, (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in associates. The Bank operates with a universal banking license. The Group is primarily involved in consumer, corporate banking and treasury activities. It also engages in equity investments through its subsidiary.

Disclosures - Quantitative:

	2014 GH¢'000	2013 GH¢'000
Social Responsibility		
Amount spent on corporate social responsibility	1,384	644

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Disclosures - Quantitative continued:

	2014 GH¢'000	2013 GH¢'000
Contingencies and Commitments		
Letters of Credit	51,376	54,204
Guarantees and Indemnities	285,424	282,853
Commitments	22,190	20,448
	358,990	357,505
Capital Adequacy Ratio	23%	18%
Non-performing loan ratio	10%	14%

Disclosures - Qualitative:

The Bank has exposure to the following risks from its use of financial instruments and from operations:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Risk Management Framework:

The risk management framework consists of a comprehensive set of policies, standards, procedures and processes designed to identify, measure, monitor, mitigate and report significant risk exposure in a consistent and effective manner across the Bank. Through the framework, risk is managed at enterprise-wide level, with the objective of maximizing risk-adjusted returns within the context of the Bank's risk appetite.

The Board of Directors have overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board's commitment to good risk management is supported by their continuing professional development in the field of risk management and their support for the implementation and continued improvement of the risk management framework within the Bank.

In addition, there are in place the Board Risk and Capital Management Committee, the Board Audit Committee, the Executive Credit Committee, the Operational Risk and Control Committee and Assets and Liability Committee (ALCO), which are responsible for developing and monitoring risk management policies in their specified areas.

Other disclosures:

- The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required under the Companies Act, 1963 (Act 179) and the Banking Act, 2004 (Act 673) as amended by the Banking (Amendment) Act, 2007 (Act 738) have been included, where appropriate.
- The financial statements of the subsidiary used to prepare the consolidated financial statements were prepared as of the Bank's reporting date. The consolidation principles are unchanged as against the previous year.
- For the year under review, the Bank did not record any statutory liquidity breaches and therefore did not incur regulatory sanctions.

The financial statements in this publication is an extract from the financial statements for the year ended December 31, 2014. The full set of the financial statements are available for inspection at the Bank's Head Office.

Independent Auditor's Report

To the Shareholders of GCB Bank Limited:

The accompanying statements of financial position, comprehensive income and cash flows are derived from the audited financial statements of GCB Bank Limited for the year ended December 31, 2014. We expressed an unmodified opinion on the financial statements in our report dated February 27, 2015.

The accompanying statements of financial position, comprehensive income and cash flows do not contain all the disclosures required by International Financial Reporting Standards (IFRS), Companies Act 1963 (Act 179) and the Banking Act 2004 (Act 673) as amended by the Banking Amendment Act 2007 (Act 738) that were applied in the preparation of the audited financial statements of the Bank and the Group. Reading the accompanying statements of financial position, comprehensive income and cash flows, therefore, is not a substitute for reading the audited consolidated and separate financial statements of GCB Bank Limited.

In our opinion, the accompanying statements of financial position, comprehensive income and cash flows are consistent, in all material respects, with the audited consolidated and separate financial statements of GCB Bank Limited for the year ended December 31, 2014, from which they were derived.

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Signed by:
Nii Amanor Dodoo (ICAG/P/1055)
For and on behalf of:
KPMG: (ICAG/F/0036)
Chartered Accountants
13 Yiyiwa Drive, Abelenkpe
P. O. Box GP242, Accra
February 27, 2015

your bank for life