Our North Industrial Area Branch of the Bank located in the Melcom Plus Building, Otublohum Street, North Industrial Area, Accra.

Board Chairman, Mr J.S. Addo assisted by Mahesh Melwani, Joint CEO of Melcom Limited, cuts the tape to officially open the North Industrial Area Branch while the Managing Director, Mr Stephen Sekyere Abankwa and Joint CEO of Melcom Limited, Ramesh Sadhwani, look on.

CONTENTS

CORPORATE MISSION

To provide domestic and international banking services with a strategic focus on project financing and export development. PBL is committed to playing a positive and innovative role in the financial intermediation process and, most importantly, to offer the best and the most remunerative banking services to the business community. Quality, creativity and innovation are the hallmarks of PBL.

CORPORATE INFORMATION

OSEI YAW OSAFO (BOARD SECRETARY)

AUDITORS:
Morrison & Associates, Chartered Accountants,
Tax & Management Consultants.
Trinity House, 2nd Floor
Ring Road East
P. O. Box C2890
Cantonments, Accra

POSTAL ADDRESS:
Private Mail Bag
General Post Office
Accra.

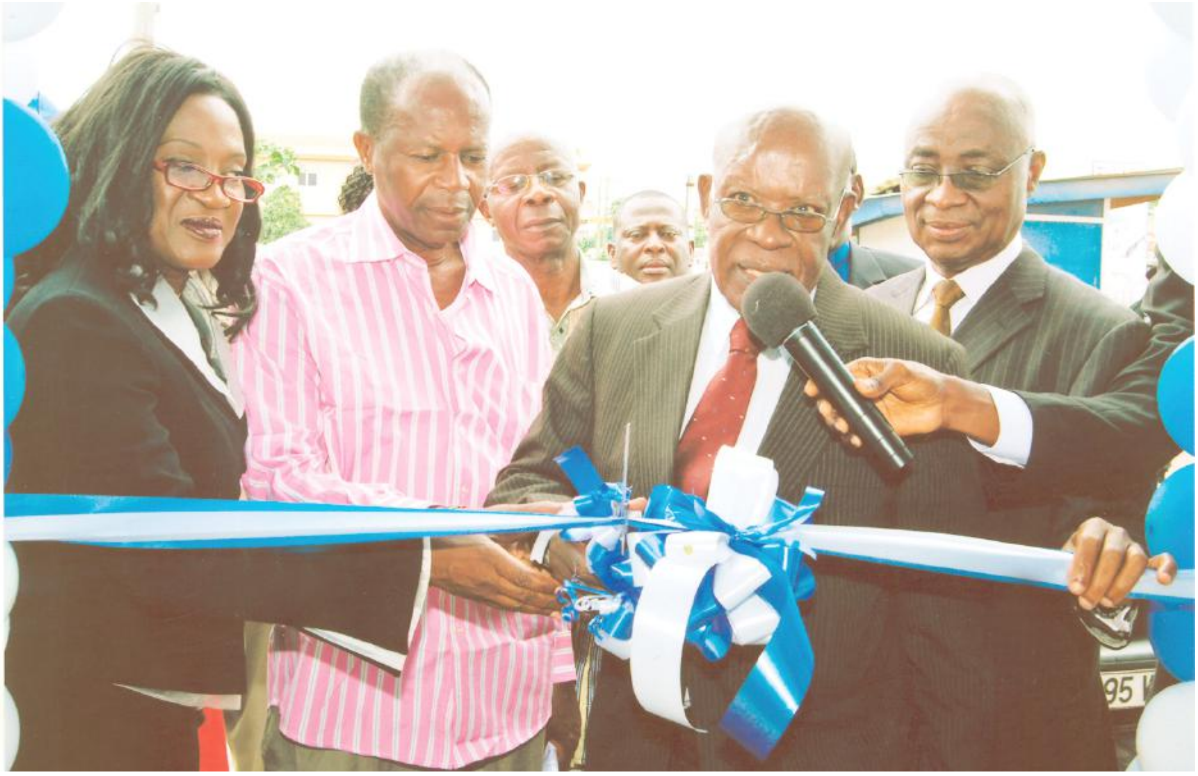
REGISTERED OFFICE:
8 Nima Avenue
Ring Road Central
Accra, Ghana

Tel: 233-302-781200-6
Fax: 233-302-781210
TLX: 233-302-2954 PBL GH
233-302-2087 PBL GH
Cable: Prubank
E-mail: headoffice@prudentialbank.com.gh

PRUDENTIAL BANK LTD.

Our Atonsu, Kumasi Branch of the Bank located in the Unity Oil Commercial Complex, Atonsu.

Mr Kwame Kyei, CEO of Unity Oil unveils Atonsu Branch, assisted by Managing Director Mr Stephen Sekyere-Abankwa and Rev. Charles Quaicoe.

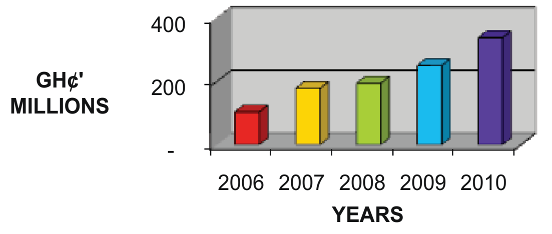


Board Member, Mr Kweku Agyei-Gyamfi cuts the tape to officially open the Suame Maakro Branch while the Deputy Managing Director (Banking Operations), Mrs Mary Brown and Deputy Managing Director (Finance and Administration), Mr Joseph Okine-Afrane look on.

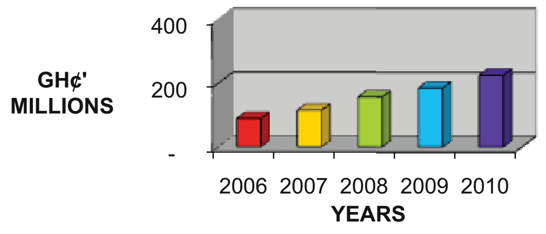
Customer friendly front desk staff of Suame Maakro Branch assists customer to fill Cash Deposit Slip.

PERFORMANCE AT A GLANCE

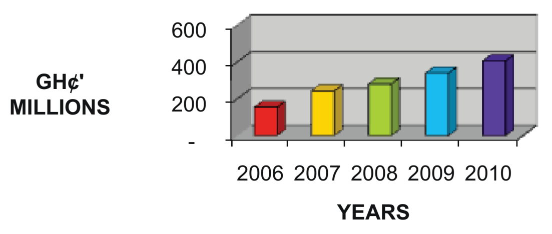
GROWTH IN DEPOSITS



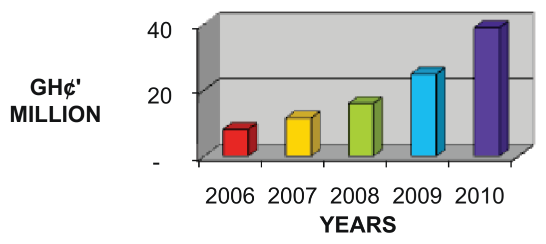
GROWTH IN LOANS



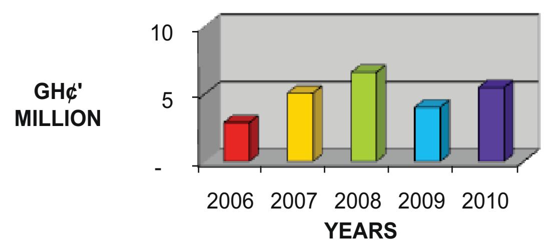
GROWTH IN TOTAL ASSETS



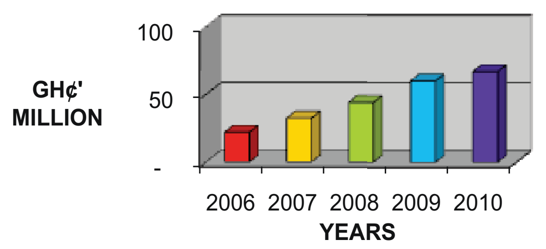
GROWTH IN NETWORTH



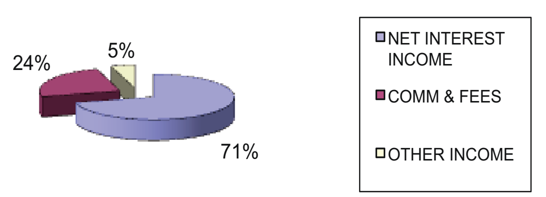
GROWTH IN PRE-TAX PROFIT



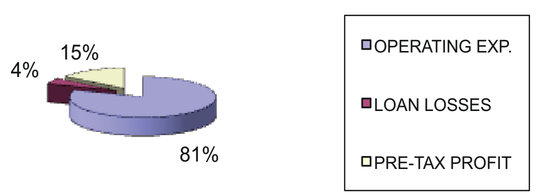
GROWTH IN GROSS INCOME



2010 INCOME SOURCES



2010 INCOME DISTRIBUTION



SUMMARY OF PERFORMANCE FROM 2006 – 2010

	2010	2009	2008	2007	2006
PROFIT AND LOSS ACCOUNT	**GH¢**	**GH¢**	**GH¢**	**GH¢**	**GH¢**
Interest Income	56,096,736	49,137,352	34,568,029	25,951,253	17,537,900
Interest Expense	(29,871,532)	(30,032,288)	(17,239,094)	(11,974,461)	(6,988,700)
NET INTEREST INCOME	26,225,204	19,105,064	17,328,935	13,976,792	10,549,200
Commissions and Fees	9,022,469	8,101,761	5,575,598	5,225,514	3,862,800
Other Operating Income	1,734,766	2,760,835	3,988,636	1,220,344	629,400
TOTAL INCOME	36,982,439	29,967,660	26,893,169	20,422,650	15,041,400
Operating Expenses	(29,797,335)	(24,439,342)	(19,685,402)	(13,419,677)	(11,291,100)
Charge for bad & doubtful debts	(1,687,862)	(1,498,555)	(596,652)	(1,925,769)	(866,700)
PROFIT BEFORE TAX	5,497,242	4,029,763	6,611,115	5,077,204	2,883,600
Taxation	(1,489,737)	(593,956)	(2,217,292)	(2,322,966)	(1,152,900)
NET PROFIT AFTER TAX	**4,007,505**	**3,435,807**	**4,393,823**	**2,754,238**	**1,730,700**
Other Comprehensive Income	0	5,500,000	0	0	0
TOTAL COMPREHENSIVE INCOME	**4,007,505**	**8,935,807**	**4,393,823**	**2,754,238**	**1,730,700**
INCOME SURPLUS ACCOUNT					
Balance at 1st January	6,459,820	2,277,653	671,887	(113,356)	0
Retained Profit	4,007,505	3,435,807	4,393,823	2,754,238	1,730,700
	10,467,325	5,713,460	5,065,710	2,640,882	1,730,700
Transfer to Statutory Reserve Fund	(1,001,876)	(858,952)	(2,196,912)	(1,614,950)	(600,000)
Proposed Dividend	0	0	0	0	(11,900)
Regulatory Loan Impairment Reserve	217,648	1,605,312	(591,145)	(354,045)	0
Transfer to Stated Capital	(8,000,000)	0	0	0	(1,000,000)
Balance at 31st December	**1,683,097**	**6,459,820**	**2,277,653**	**671,887**	**118,800**
BALANCE SHEET	**2010**	**2009**	**2008**	**2007**	**2006**
ASSETS	**GH¢**	**GH¢**	**GH¢**	**GH¢**	**GH¢**
Cash and Balances with Bank of Ghana	39,970,284	30,377,284	18,974,297	16,990,383	12,896,000
Government Securities	36,843,017	33,931,842	26,865,388	34,534,891	17,639,600
Due from other Banks and Financial Inst.	70,230,986	59,493,141	57,501,551	61,807,022	27,451,000
Loans and to Advances Customers	225,514,896	185,561,388	156,896,234	115,159,751	89,228,000
Investments in Subsidiaries	6,030,605	6,030,605	530,605	530,605	530,600
Other Assets	5,457,271	9,324,495	9,249,273	8,666,445	2,629,800
Taxation	409,038	273,601	0	0	229,500
	384,456,097	324,992,356	270,017,348	237,689,097	150,604,500
Property, Plant and Equipment	22,035,296	14,864,206	10,962,549	6,142,466	4,006,800
TOTAL ASSETS	**406,491,393**	**339,856,562**	**280,979,897**	**243,831,563**	**154,611,300**
LIABILITIES AND SHAREHOLDERS' FUND					
Deposits and Current Accounts	339,302,552	251,275,920	195,287,261	178,964,728	104,359,900
Interest payable and Other liabilities	8,676,417	17,545,419	37,520,655	23,165,025	26,657,800
Taxation	1,266,427	1,053,358	1,779,780	915,524	0
Borrowings	18,357,024	45,100,397	30,446,540	29,234,448	15,497,400
TOTAL LIABILITIES	367,602,420	314,975,094	265,034,236	232,279,725	146,515,100
SHAREHOLDERS FUNDS					
Stated Capital	25,100,000	7,100,000	7,100,000	7,100,000	7,180,000
Income Surplus Account	1,683,097	6,459,820	2,277,653	671,887	118,800
Statutory Reserve Fund	6,458,796	5,456,920	4,597,968	2,401,056	786,100
Regulatory Loan Impairment Reserve	147,080	364,728	1,970,040	1,378,895	0
Capital Reserves	5,500,000	5,500,000	0	0	0
	38,888,973	24,881,468	15,945,661	11,551,838	8,084,900
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**406,491,393**	**339,856,562**	**280,979,897**	**243,831,563**	**154,600,000**
Managed Funds on behalf of Government of Ghana and Danida	5,753,605	5,349,398	4,842,131	2,855,500	2,615,700
Liabilities on Guarantees and Indemnities	15,568,563	14,987,868	13,390,390	9,441,900	8,657,400

CHAIRMAN'S STATEMENT

1.0 INTRODUCTION

Distinguished Shareholders and Directors, once again I am delighted to welcome you to the 14th Annual General Meeting of Prudential Bank Limited and to report on the performance of your Bank for the year ended 31st December 2010.

2.0 THE GLOBAL ECONOMIC ENVIRONMENT

The road to recovery from the deep recession that occurred in 2008 is proving to be a long one for the world economy. Recovery continues to be driven by the emerging Asian economies whilst growth in the advanced economies, such as the United States of America, Eurozone economies and Japan has been relatively slow with the financial sectors in some of these economies still vulnerable to shocks.

According to the January 2011 edition of the World Bank Global Economic Prospects for 2011, "the world economy is moving from a post crisis bounce-back phase of recovery to a period of slow but solid growth, this year and the next, with developing countries contributing almost half of global growth". The World Bank estimates that global GDP which expanded at 3.9% in 2010 will slow to 3.3% in 2011, before it reaches 3.6% in 2012. Developing countries grew at the rate of 7% in 2010, and are expected to grow at 6% in 2011 and 6.1% in 2012 outstripping growth in advanced countries which grew at 2.8% in 2010, with projections of 2.4% for 2011 and 2.7% for 2012.

3.0 OVERVIEW OF THE GHANAIAN ECONOMY IN YEAR 2010

The Ghanaian economy achieved a commendable level of stability in Year 2010 which reflected in a declining rate of inflation, lower interest rates and stable exchange rates. The rate of inflation declined from 16% in December 2009 to 8.58% in December 2010.

The cedi depreciated marginally by 0.31% against the US dollar during the period while appreciating by 8.6% and 13.5% against the pound sterling and the euro respectively as compared with depreciation rates of 17.6%, 24.4% and 28.1% respectively against the US Dollar, Pound Sterling and Euro in 2009.

Overall GDP Growth Rate

Real GDP grew at the rate of 5.9%, registering a negative variance of 0.6% against the projected growth rate of 6.5%. The Agricultural sector grew by 4.8% against a target of 6%; the Industrial Sector grew by 7% against a target of 6.6% and the Services sector grew by 6.1% against a target of 6.9%.

The Agricultural sector contributed 32.4% to GDP and consequently relinquished its position as the largest GDP contributor to the Services sector which contributed 32.8%.

The Industrial sector also contributed about 25.7% to GDP as a result of the remarkable performance of the Mining and Quarrying and Electricity and Water sub-sectors.

Interest Rates

The Bank of Ghana reduced the policy rate by a total of 500 basis points during the Year 2010 from 18.5% at the beginning of the year to 13.5% at the end of the year.

The interest rate equivalent of the benchmark 91-day Treasury Bill as well as the 182-day Treasury Bill also fell from 22.53% and 25.30% at the beginning of the year to 12.26% and 12.67% respectively at the end of Year 2010.

Banks adjusted their base rates accordingly in line with these trends.

Market interest rates consequently dropped throughout the entire year in line with the decline in inflation and inflationary expectations.

4.0 PERFORMANCE OF PRUDENTIAL BANK LIMITED IN YEAR 2010

4.1 Branch Development

Distinguished Shareholders and Directors, in line with its plan to bring banking services closer to the doorsteps of its customers, your bank continued to make significant investments in its branch network expansion programme by opening six more branches and one agency to bring the total number to 27 branches and 3 Agencies.

The locations of the new branches and agency are as follows:

- North Industrial Area, Accra
- Adentan, Accra
- Takoradi Market Circle
- Atonsu, Kumasi
- Suame Maakro, Kumasi
- Tamale
- Methodist University College Campus, Dansoman, Accra.

4.2 New Products

Distinguished Ladies and Gentlemen, the Prudential Bank Homebase Account was launched for non-resident Ghanaians in March 2010. This is a cedi denominated account designed for Ghanaians resident abroad who wish to build up funds in Ghana to fund future projects or to finance an eventual homecoming. Deposits made in foreign currency are converted into cedis and the proceeds invested.

The implementation of the Transflow platform, a third party software initially procured to automate onsite revenue collection by the Bank on behalf of Ministries, Departments and Agencies (MDAs) in 2009, has been extended to provide online fee collection services for some universities.

Other developments in 2010 included the commencement of preparations towards the implementation of a Transactions Alert Service and the provision of Internet Banking to enhance the Bank's services.

4.3 Mobilization of Resources

4.3.1 Deposits

During the year under review, the Bank grew its deposits by 35% from GH¢251.28million at the end of Year 2009 to GH¢339.3million. Time and Savings deposits which together accounted for about 75% of the total deposits were the main sources of the growth.

4.3.2 Shareholders' Funds

Shareholders' funds increased from GH¢24.8million at the end of Year 2009 to GH¢38.8million at the end of Year 2010 representing a growth rate of 54%. The increase is due to the injection of additional capital and retained earnings.

It is worth noting that your Bank was able to meet the Minimum Capital Requirement of GH¢25million by the injection of fresh capital of GH¢10million from Shareholders and a Bonus Issue of GH¢8million.

4.4 Allocation of Resources

The Bank made prudent use of its resources during the year by ensuring that the risks associated with its asset allocation decisions were well managed to sustain profitable operations whilst ensuring that daily operational and regulatory liquidity requirements were met.

The total assets of the Bank grew by 19.5% from GH¢339.8 million at the end of Year 2009 to GH¢406.1 million at the end of Year 2010. This growth was mainly funded by deposits, borrowings and shareholders' funds.

4.4.1 Investments

The Bank's level of investment in government securities increased by 8.6% from GH¢33.93million at the end of Year 2009 to GH¢36.84million at the end of Year 2010. This was necessary for liquidity management purposes in line with the growth in deposits.

4.4.2 Lending Operations

The loans and advances portfolio registered an increase of 21.5% over the previous year; from GH¢185.6million at the end of Year 2009 to GH¢225.47 million at the end of Year 2010.

4.5 Results of Operations

Distinguished shareholders and Directors, against a background of severe competition in the banking industry and a general slowdown in the economy, your bank was able to register an improved level of profit in Year 2010. The Bank's pre-tax profit increased by 36% to GH¢5.49m from GH¢4.029m registered at the end of Year 2009.

The profit after tax transferred to Income Surplus at the end of the year was GH¢4.0 million. This translates into a return on assets (ROA) of 0.98% (2009:1.11%) and return on equity (ROE) of 10.2% (2009:16.79%). The lower levels of ROA and ROE recorded in 2010 were due to the increase in Stated Capital from GH¢7.1m in 2009 to GH¢25m at the end of 2010.

4.6 Dividend and Capital

Distinguished ladies and gentlemen, following the attainment of the GH¢25m capital requirement at the end of Year 2010, the Directors are further constrained by the Bank of Ghana requirement to increase the Bank's capital to GH¢60m by the end of 2012. The Board of Directors is, therefore, unable to recommend the payment of dividend to Ordinary Shareholders.

However, Preference Shareholders will be paid dividends.

4.7 Corporate Social Responsibility

Prudential Bank Limited, as a good corporate citizen, conducts its business operations in a socially responsible manner. In addition to discharging its statutory tax obligations, your Bank during the year, continued to discharge its social responsibilities, spending an amount of GH¢83,592.

Some of the beneficiaries were:

- Ghana Police Service;
- Children's hospitals in Ghana;
- Methodist University College;
- National Farmers Day;
- Oguaa Afahye Planning Committee;
- Central Region Development Commission;
- Holy Child Senior Secondary School;
- African University College of Communications;
- Accra Metropolitan Assembly; and
- Ministry of Trade and Industry.

4.8 Corporate Governance

I am pleased to report that the Board and its Audit & Risk Management Sub-Committee, during the year under review, performed their supervisory obligations effectively. The two bodies held regular scheduled meetings to deliberate on key operational issues, including quarterly management reports, internal control and Bank of Ghana reports which promoted effective control and direction of the Bank.

4.9 Increase of Authorised Ordinary Shares

Distinguished Shareholders, at the Board meeting of your Bank held on 2nd March, 2011, the Board of Directors considered the requirement to raise the minimum paid up capital from GH¢25million to GH¢60million by the end of 2012.

The Board noted that the unissued authorized ordinary shares of 14,850,000 would not be adequate to accommodate future share issues. The Board subsequently resolved that the authorized shares of the Bank be increased from 100,000,000 to 300,000,000.

Shareholders would be invited to pass a Special Resolution to increase the authorized ordinary shares from 100,000,000 to 300,000,000.

5.0 OUTLOOK FOR THE FUTURE

5.1 The Ghanaian Economy

The Government’s 2011 macroeconomic targets are set within its medium-term national development policy framework, the “Ghana Shared Growth and Development Agenda” (GSGDA), 2010-2013. The goal of the GSGDA is to achieve and sustain macroeconomic stability while placing the economy on a higher path of shared growth and poverty reduction.

According to the government, this would be achieved by:

i. Maintaining macroeconomic stability;
ii. Enhancing the competitiveness of Ghana’s private sector;
iii. Accelerating agricultural modernization and natural resource management;
iv. Developing the Oil and Gas industry;
v. Infrastructure and human settlements development;
vi. Human development, employment and productivity;
vii. Transparent and accountable governance.

The key macroeconomic targets for year 2011 based on the GSGDA are as follows:

- A real GDP growth of 7 per cent (excluding Oil) and 12.3% including Oil;
- Average inflation rate of 8.8 per cent; and
- Overall budget deficit of 7.5 per cent of GDP.

5.2 The Banking Industry

Distinguished Shareholders and Directors, the banking industry has undergone significant transformation in the last few years and is expected to continue to remain stable and improve with new regulations and guidelines.

The industry is highly competitive with a total of 27 banks in operation with over 700 branches, half of which are foreign controlled and the other half Ghanaian controlled.

The intensity of the industry competition will require banks to reposition themselves by becoming more innovative, efficient and cost effective mainly through the use of technology.

The industry posted impressive growth statistics at the end of December 2010 with total assets reaching GH¢17.4 billion, representing nearly 40% of the country's rebased GDP. The figure shows an increase of 23.9% over the total asset position recorded in December 2009 and was funded mainly by deposits which increased by 31.7% to GH¢11.8billion.

It is also worth noting that the other financial soundness indicators of the industry such as loan portfolio quality, liquidity and capital adequacy remained strong well into the last quarter of 2010.

The Central Bank has maintained strict control in the exercise of its regulatory and supervisory role to ensure that the industry continues to build on the past positive developments whilst maintaining stability and efficiency.

6.0 ACKNOWLEDGEMENT

On behalf of the Board, let me express my sincere appreciation to all our customers for their support and loyalty as well as to the Management and Staff of the Bank for their hard work and dedication to the Bank.

Finally, I wish to thank you Shareholders and colleague members of the Board of Directors for your understanding and invaluable contributions that have sustained the Bank in its endeavours over the past 15 years. Based on your mutual support and cooperation, we look to the future with confidence.

Thank you.

JOHN SACKAH ADDO
CHAIRMAN

Front View of the Takoradi Market Circle Branch.

The Managing Director, Stephen Sekyere-Abankwa cuts the tape to officially open the Takoradi Market Circle Branch.

Head of Marketing & Corporate Affairs, Mrs. Ekua Yankah (1st from left) poses with Manager, Mr Ebenezer Abankwa (4th from left) and staff of the Takoradi Market Circle Branch.

Distinguished guests arriving at the Tamale Branch opening.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their fifteenth annual report together with the audited consolidated financial statements of the Bank for the year ended 31st December, 2010 to the members as follows:

a. Principal Activities

The principal activities carried out by the Bank during the year under review are within the limits permitted by its Regulations and also consistent with its strategic focus. There were no changes in the principal activities of the Bank during the year.

b. Results and Dividend

The results of operations for the year ended 31st December, 2010 are set out in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the Notes to the Financial Statements from page 22 to 64.

A summary of the results is as follows:

	THE GROUP		THE BANK	
	2010	**2009**	**2010**	**2009**
	GH¢	**GH¢**	**GH¢**	**GH¢**
Profit After tax	4,294,163	3,036,405	4,007,505	3,435,807
Other Comprehensve Income	_	5,500,000	_	5,500,000
Total Comprehensive Income	4,294,163	8,536,405	4,007,505	8,935,807
Total Assets	**406,577,637**	**339,701,755**	**406,491,393**	**339,856,562**

The Directors do not recommend the payment of any dividend to Ordinary Shareholders for the year.

c. Auditors

The Auditors, Messrs. Morrison & Associates, will continue in office in accordance with Section 134(5) of the Companies Code, 1963 (Act 179).

BY ORDER OF THE BOARD

....

DIRECTOR **DIRECTOR**

ACCRA

2ND MARCH 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Companies Code, 1963 (Act 179) requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss for that year.

In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies in accordance with International Financial Reporting Standards and to apply them consistently
- Make judgments and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures, disclosed and explained in the financial statements
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for the preparation of the Financial Statements in accordance with the International Financial Reporting Standards and ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Code 1963 (Act 179). They are also responsible for safeguarding the assets of the company and hence for taking steps for the prevention and detection of fraud and other irregularities, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements.

The above statement, which should be read in conjunction with the report of the Auditors, is made with the view to distinguishing for shareholders the respective responsibilities of the Directors and the auditors in relation to the financial statements.

REPORT OF THE AUDITORS TO THE MEMBERS OF PRUDENTIAL BANK LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Prudential Bank Limited, which comprise the Statement of Financial Position as of 31st December 2010, Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the year then ended, and a summary of significant accounting policies and explanatory notes.

Directors' Responsibility for the Financial Statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Companies Code, 1963 (Act 179). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements show a true and fair view of the financial position of Prudential Bank Limited as of 31st December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Code, 1963 (Act 179).

Report on other Legal and Regulatory Requirements

The Companies Code, 1963 (Act 179) and Section 78(2) of the Banking Act, 2004 (Act 673) require 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 these books;

iii. The Statement of Financial Position, Statement of Comprehensive Income and the Statement of Changes in Equity are in agreement with the books of account.

iv. The Bank's transactions are within its powers.

v. The Bank has complied with the provisions of the Banking Act, 2004 (Act 673) as amended by the Banking (Amendment) Act, 2007 (Act 738).

v. The Bank has complied with the provisions of the Banking Act, 2004 (Act 673) as amended by the Banking (Amendment) Act, 2007 (Act 738).

…………………………………………..
CHARTERED ACCOUNTANTS

3RD MARCH
……………………………………. **2011**

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2010

	Notes	THE GROUP		THE BANK	
		2010 GH¢	2009 GH¢	2010 GH¢	2009 GH¢
Interest Income	5	**55,232,489**	**49,113,009**	**56,096,736**	**49,137,352**
Interest Expense	6	(29,831,951)	(30,031,291)	(29,871,532)	(30,032,288)
NET INTEREST INCOME		**25,400,538**	**19,081,718**	**26,225,204**	**19,105,064**
Commissions and Fees	7	9,015,289	8,093,466	9,022,469	8,101,761
Other Operating Income	8	1,787,613	1,946,240	1,696,040	1,952,392
TOTAL INCOME		**36,203,440**	**29,121,424**	**36,943,713**	**29,159,217**
Impairment Expense	9	(1,687,862)	(1,498,555)	(1,687,862)	(1,498,555)
Operating Expenses	10	(29,878,867	(24,561,478)	(29,797,335)	(24,439,342)
NET OPERATING PROFIT		**4,636,711**	**3,061,391**	**5,458,516**	**3,221,320**
Other Income	12	1,187,889	568,970	38,726	808,443
PROFIT BEFORE TAX		**5,824,600**	**3,630,361**	**5,497,242**	**4,029,763**
Provision for Tax	16(a)&(c)	(1,239,207)	(392,468)	(1,214,875)	(392,468)
National Fiscal Stabilization Levy	16(b)	(291,230)	(201,488)	(274,862)	(201,488)
PROFIT AFTER TAX		**4,294,163**	**3,036,405**	**4,007,505**	**3,435,807**
Other Comprehensive Income (Revaluation Gain on Available-for-sale financial assets)		–	5,500,000	–	5,500,000
Total Comprehensive Income		**4,294,163**	**8,536,405**	**4,007,505**	**8,935,807**

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER, 2010

	Notes	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
ASSETS					
Cash and Balances with Bank of Ghana	13	39,970,284	30,377,284	39,970,284	30,377,284
Government Securities	14	36,843,017	33,931,842	36,843,017	33,931,842
Due from other Banks and Financial Inst.	15	70,230,986	59,493,141	70,230,986	59,493,141
Taxation	16	374,364	277,583	409,038	273,601
Loans and Advances to Customers	17	225,514,896	182,511,388	225,514,896	185,561,388
Equity Investments	20	6,024,583	6,125,317	6,030,605	6,030,605
Other Assets	21	5,544,813	12,062,221	5,457,271	9,324,495
		384,502,943	**324,778,776**	**384,456,097**	**324,992,356**
Property, Plant and Equipment	24	19,582,323	13,512,307	19,546,470	13,460,611
Intangible Asset	25	2,492,371	1,410,672	2,488,826	1,403,595
TOTAL ASSETS		**406,577,637**	**339,701,755**	**406,491,393**	**339,856,562**
LIABILITIES					
Customer Deposits	22	338,989,441	250,570,467	339,302,552	251,275,920
Interest payable and Other liabilities	27	8,926,832	18,235,323	8,676,417	17,545,419
Deferred Tax	16	1,267,966	1,053,358	1,266,427	1,053,358
Borrowings	28	18,357,024	45,100,397	18,357,024	45,100,397
TOTAL LIABILITIES		**367,541,263**	**314,959,545**	**367,602,420**	**314,975,094**
SHAREHOLDERS’ FUNDS					
Stated Capital	30	25,100,000	7,100,000	25,100,000	7,100,000
Income Surplus Account		1,830,498	6,320,562	1,683,097	6,459,820
Credit Risk Reserve		147,080	364,728	147,080	364,728
Statutory Reserve Fund	31	6,458,796	5,456,920	6,458,796	5,456,920
Capital Surplus		5,500,000	5,500,000	5,500,000	5,500,000
TOTAL SHAREHOLDERS’ FUNDS		**39,036,374**	**24,742,210**	**38,888,973**	**24,881,468**
TOTAL LIABILITIES AND SHAREHOLDERS’ FUNDS		**406,577,637**	**339,701,755**	**406,491,393**	**339,856,562**

BY ORDER OF THE BOARD

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) **DIRECTORS**

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ACCRA

2ND MARCH **2011**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2010

		THE GROUP		THE BANK	
OPERATING ACTIVITIES		**2010**	**2009**	**2010**	**2009**
	Note	**GH¢**	**GH¢**	**GH¢**	**GH¢**
PROFIT BEFORE TAX		**5,824,600**	**3,630,361**	**5,497,242**	**4,029,763**
(Loss)/Gain on Investment at FVTPL		(80,374)	283,935	–	–
Profit on Sale of Fixed Assets	24(a)	(17,456)	(769,752)	(17,456)	(770,719)
Depreciation and Amortisation		3,872,985	2,423,236	3,853,610	2,400,253
Charge for Loan Impairment		1,705,899	1,471,910	1,705,899	1,471,910
Provision for Contingent Liabilities		(18,037)	26,645	(18,037)	26,645
		5,463,017	3,435,974	5,524,016	3,128,089
NET CASH INFLOW BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**11,287,617**	**7,066,335**	**11,021,258**	**7,157,852**
Increase in Government Securities		(2,911,176)	(7,066,454)	(2,911,176)	(7,066,454)
Increase in Loans & Advances to Customers		(44,709,404)	(27,187,062)	(41,659,404)	(30,137,062)
(Increase)/Decrease in Other Assets		6,517,407	(1,642,024)	3,867,223	(75,223)
Increase in Customer Deposits		88,418,974	55,364,426	88,026,632	55,988,659
Decrease in Interest Payable & Other Liabilities		(9,290,453)	(20,638,511)	(8,850,965)	(20,001,881)
Increase/(Decrease) in Borrowings		(26,743,373)	14,653,857	(26,743,373)	14,653,857
Corporate Tax Paid		(1,412,610)	(1,593,979)	(1,412,105)	(1,593,979)
		9,869,365	11,890,253	10,316,832	11,767,917
NET CASH INFLOW FROM OPERATING ACTIVITES		**21,156,982**	**18,956,588**	**21,338,090**	**18,925,769**
INVESTING ACTIVITIES					
Purchase of Fixed/Intangible Assets		(11,030,350)	(6,498,105)	(11,030,350)	(6,447,063)
Sale of Fixed Assets - proceeds		23,105	916,371	23,105	915,871
Decrease/(Increase) in Equity Investments		181,108	19,723	–	–
FINANCING ACTIVITIES					
Proceeds from Issue of Shares		10,000,000	–	10,000,000	–
NET INCREASE IN CASH & CASH EQUIVALENT		20,330,845	13,394,577	20,330,845	13,394,577
ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENT					
Balance at 1st January		89,870,425	76,475,848	89,870,425	76,475,848
Net Cash Inflow		20,330,845	13,394,577	20,330,845	13,394,577
Balance at 31st December		110,201,270	89,870,425	110,201,270	89,870,425
COMPOSITION OF CASH AND CASH EQUIVALENTS					
Cash in Hand		13,543,754	11,130,326	13,543,754	11,130,326
Balances with Bank of Ghana		26,426,530	19,246,958	26,426,530	19,246,958
Balances with Foreign Banks		5,991,957	12,226,239	5,991,957	12,226,239
Items in Course of collection		6,001,322	18,120,778	6,001,322	18,120,778
Foreign Cheques Purchased		10,847	9,270	10,847	9,270
Foreign Time Deposits		37,627,342	29,136,854	37,627,342	29,136,854
Overnight Lending		20,599,518	–	20,599,518	–
		110,201,270	89,870,425	110,201,270	89,870,425

STATEMENT OF CHANGES IN EQUITY – GROUP

2010	STATED CAPITAL	INCOME SURPLUS	STATUTORY RESERVE	CAPITAL SURPLUS	REGULATORY CREDIT RISK RESERVE	TOTAL
	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
Balance at 1st January	**7,100,000**	**6,320,562**	**5,456,920**	**5,500,000**	**364,728**	**24,742,210**
Net profit after tax	–	4,294,164	–	–	–	4,294,164
Other Comprehensive Income						
Net change in fair value of available-for-sale financial assets	–	–	–	–	–	–
Total Comprehensive Income	**–**	**4,294,164**	**–**	**–**	**–**	**4,294,164**
Transactions with owners						
Proceeds from issue of shares	10,000,000	–	–	–	–	10,000,000
Total transactions with owners	**10,000,000**	–	–	–	–	**10,000,000**
Other movement in equity						
Transfer (to)/from Regulatory Credit Risk Reserve	–	217,648	–	–	(217,648)	–
Transfer to statutory reserve	–	(1,001,876)	1,001,876	–	–	–
Transfer to Stated Capital	8,000,000	(8,000,000)	–	–	–	–
Total other movement in equity	8,000,000	(8,784,228)	1,001,876	–	(217,648)	–
Balance at 31st December	**25,100,000**	**1,830,498**	**6,458,796**	**5,500,000**	**147,080**	**39,036,374**

2009	STATED CAPITAL	INCOME SURPLUS	STATUTORY RESERVE	CAPITAL SURPLUS	REGULATORY CREDIT RISK RESERVE	TOTAL
	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
Balance at 1st January	**7,100,000**	**2,537,797**	**4,597,968**	**–**	**1,970,040**	**16,205,805**
Net profit after tax	–	3,036,405	–	–	–	3,036,405
Other Comprehensive Income						
Net change in fair value of available-for-sale financial assets	–	–	–	5,500,000	–	5,500,000
Total Comprehensive Income	**–**	**3,036,405**	**–**	**5,500,000**	**–**	**8,536,405**
Transactions with owners						
Proceeds from issue of shares	–	–	–	–	–	–
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**
Other movement in equity						
Transfer (to)/from Regulatory Credit Risk Reserve	–	1,605,312	–	–	(1,605,312)	–
Transfer to statutory reserve	–	(858,952)	858,952	–	–	–
Transfer to Stated Capital	–	–	–	–	–	–
Total other movement in equity	–	746,360	858,952	–	(1,605,312)	–
Balance at 31st December	**7,100,000**	**6,320,562**	**5,456,920**	**5,500,000**	**364,728**	**24,742,210**

STATEMENT OF CHANGES IN EQUITY – BANK

2010	STATED CAPITAL	INCOME SURPLUS	STATUTORY RESERVE	CAPITAL SURPLUS	REGULATORY CREDIT RISK RESERVE	TOTAL
	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
Balance at 1st January	**7,100,000**	**6,459,820**	**5,456,920**	**5,500,000**	**364,728**	**24,881,468**
Net profit after tax	–	4,007,505	–	–	–	4,007,505
Other Comprehensive Income						
Net change in fair value of available-for-sale financial assets	–	–	–	–	–	–
Total Comprehensive Income	**–**	**4,007,505**	**–**	**–**	**–**	**4,007,505**
Transactions with owners						
Proceeds from issue of shares	10,000,000	–	–	–	–	10,000,000
Total transactions with owners	**10,000,000**	–	–	–	–	**10,000,000**
Other movement in equity						
Transfer (to)/from Regulatory Credit Risk Reserve	–	217,648	–	–	(217,648)	–
Transfer to statutory reserve	–	(1,001,876)	1,001,876	–	–	–
Transfer to Stated Capital	8,000,000	(8,000,000)	–	–	–	–
Total other movement in equity	8,000,000	(8,784,228)	1,001,876	–	(217,648)	–
Balance at 31st December	**25,100,000**	**1,683,097**	**6,458,796**	**5,500,000**	**147,080**	**38,888,973**

2009	STATED CAPITAL	INCOME SURPLUS	STATUTORY RESERVE	CAPITAL SURPLUS	REGULATORY CREDIT RISK RESERVE	TOTAL
	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
Balance at 1st January	**7,100,000**	**2,277,653**	**4,597,968**	**–**	**1,970,040**	**15,945,661**
Net profit after tax	–	3,435,807	–	–	–	3,435,807
Other Comprehensive Income						
Net change in fair value of available-for-sale financial assets	–	–	–	5,500,000	–	5,500,000
Total Comprehensive Income	**–**	**3,435,807**	**–**	**5,500,000**	**–**	**8,935,807**
Transactions with owners						
Proceeds from issue of shares	–	–	–	–	–	–
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**
Other movement in equity						
Transfer (to)/from Regulatory Credit Risk Reserve	–	1,605,312	–	–	(1,605,312)	–
Transfer to statutory reserve	–	(858,952)	858,952	–	–	–
Transfer to Stated Capital	–	–	–	–	–	–
Total other movement in equity	–	746,360	858,952	–	(1,605,312)	–
Balance at 31st December	**7,100,000**	**6,456,820**	**5,456,920**	**5,500,000**	**364,728**	**24,881468**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2010

1.0 CORPORATE INFORMATION

1.1 Nature of Company and Domicile

Prudential Bank Limited is a limited liability company incorporated in Ghana under the Companies Code, 1963 (Act 179). The company is domiciled in Ghana with its registered office at No 8 Nima Avenue, Kanda, Ring Road Central, Accra.

The Bank is licensed to carry on the business of banking and to provide ancillary services.

1.2 Compliance with International Financial Reporting Standards (IFRSs)

The financial statements of the Bank for the year ended 31st December, 2010 have been prepared in accordance with International Financial Reporting Standards (IFRSs).

2.0 ACCOUNTING POLICIES

The significant accounting policies adopted by the Bank and which have been applied in preparing these financial statements are stated below:

2.1 Basis of Accounting

The financial statements have been prepared under the historical cost convention as modified by the adoption of fair value measurement basis, in compliance with IFRS requirements, for 'available for sale (AFS)' investments and financial assets and financial liabilities held at fair value through profit or loss (FVTPL).

2.2 Functional and Presentation Currency

The financial statements are presented in Ghana Cedi (GH¢) which is the functional and presentation currency of the Bank.

2.3 Revenue Recognition

Revenue is recognised to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria apply to revenue recognition.

2.3.1 <u>Interest Income and Expense</u>

Interest income and expense are recognised in the income statement for all interest bearing financial instruments including loans and advances as interest accrues using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The effective interest rate is the rate that exactly discounts the estimated future cash payments, or receipts over the expected life of the instrument to the net carrying amount of the financial asset or liability.

2.3.2 Non-Interest Income

The Bank earns commission and fees from a wide range of services provided to its customers. Fee income is accounted for as follows:

– income earned on performance of discrete services (such as funds transfers, special clearing, transaction negotiation with third parties etc) is recognized as revenue upon completion of the act or service

– income arising from service fees (such as special statement requests, safe custody, commission on turnover, etc) are recognized as the services are provided

Loan origination fees and similar fees form an integral part of the effective interest rate of a financial instrument and are not shown as part of non-interest income.

2.3.3 Income Tax

Income Tax in the Profit and Loss Account comprises current tax and deferred tax.

Current tax is the tax expected to be payable, under the Internal Revenue Act 2000 (Act 592), on the taxable profit for the year.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are generally recognized for all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable future taxable profit will be available against which deductible temporary differences can be utilized. Deferred tax is calculated using the rate expected to be applicable in the period during which the asset will be realized or the liabilities settled.

Deferred tax assets and liabilities are offset when they arise in the same tax reporting entities and relate to income taxes of the same taxation authority, and when a legal right to set off exists.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to the extent that it is no longer probable that sufficient taxable profit will be available for full or partial utilization of the deferred tax asset.

2.3.4 Financial Instruments – Initial Recognition and subsequent Measurement

(a) Categorisation

The Group classifies its financial assets in the following categories:

Financial assets at fair value through profit or loss; loans and receivables; available-for-sale-financial assets; and held-to-maturity investments.

(b) Date of Recognition

Purchases and sale of financial assets are recognized on the transaction date.

(c) Initial Recognition of financial instruments

Financial instruments are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

(d) Financial Assets at Fair Value Through Profit or Loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions

- **Held for Trading**

  A financial asset is classified as held for trading if it is: acquired principally for the purpose of selling in the near future, or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

- **Designated at fair value through profit and loss**

  Upon initial recognition as financial asset, it is designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are measured at fair value subsequent to initial recognition.

(e) Available for sale assets

Securities including investments in money market and equity shares, other than those classified as trading securities, or at fair value through profit or loss, are classified as available-for-sale and recognised in the balance sheet at their fair value. Other assets that are neither cash nor categorised under any other category also come under this classification.

Available for sale financial assets are measured at fair value on the balance sheet, with gains and losses arising from changes in the fair value of investments recognised directly in equity, until the financial asset is either sold, becomes impaired, or matures, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

If an available for sale instrument is determined to be impaired, the respective cumulative losses previously recognised in equity are included in the income statement in the period in which the impairment is identified. Impairment losses on available for sale equity instruments are reversed directly through equity and not through income.

(f) Held-to -maturity assets

Held-to-maturity assets are non-derivative financial instruments with fixed or determinable payments and maturity dates. Financial assets that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortised cost using the effective interest method, less impairment losses.

(g) Loans and advances

Loans and advances to customers that are classified as loans and receivables are accounted for at amortised cost using the effective interest method. Those not so classified are regarded as available-for-sale assets and are measured at fair value.

Loans and advances are initially recognised when cash is advanced to the borrowers at fair value, inclusive of transaction costs.

Subsequent to the initial recognition, loans and advances are stated on the balance sheet at values determined as aforesaid less impairment losses.

(h) Financial liabilities

Financial liabilities are classified as non-trading, held for trading or designated as held at fair value through profit and loss. Non-trading liabilities are recorded at amortised cost applying the effective interest method. Held for trading liabilities or liabilities designated as held at fair value through profit and loss, are accounted for as indicated above. All liabilities shown in the balance sheet are non-trading liabilities.

(i) Determination of Fair Value of Financial Instruments

i. Availability of active market

The fair value of a financial instrument traded in active markets such as the Ghana Stock Exchange (GSE) at the balance sheet date is based on its quoted market price without any deduction of transaction costs.

ii. Non-availability of active market

Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(j) Derecognition of financial assets and liabilities

A financial asset or a portion thereof, is derecognized when the Bank's rights to cash flows has expired or when the Bank has transferred its rights to cash flows relating to the financial assets, including the transfer of substantially all the risk and rewards associated with the financial assets or when control over the financial assets has passed.

A financial liability is derecognized when the obligation is discharged, cancelled or has expired.

2.3.5 Impairment of financial assets

(a) Framework for measuring impairment of financial assets

At each balance sheet date the Bank assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or the fact that the debt is being restructured to reduce the burden on the borrower.

(b) Loans and Advances and amounts due from banks & other financial institutions

For loans and advances to customers and amounts due from banks and other financial institutions carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an Allowance Account and the amount of the loss is recognized in the income statement.

Loans together with the associated allowances are written off when there is no realistic prospect of future recovery and all collaterals have been utilized or have been transferred to the Bank and all the necessary procedures have been completed.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is determined using the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For the purposes of collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics, such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

(c) Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include significant or prolonged decline in the fair value of the investment below its cost.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2.3.6 Regulatory Impairment Reserve

To cater for any shortfall between the Bank of Ghana's credit loss provision requirements and loans and advances impairments based on IFRS principles, a charge is made to Income Surplus in respect of the difference required to bring up the cumulative provision to the level required under the Bank of Ghana regulations. Under current regulations the credit risk reserve does not qualify as Tier 1 capital for the computation of capital adequacy.

2.3.7 Property, plant and equipment

The Bank recognizes an item of property, plant and equipment as an asset when it is probable that future economic benefits will flow to it and the amount meets the materiality threshold set by the Bank.

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the Bank would currently obtain from the disposal of an asset in similar age and condition as expected at the end of the useful life of the asset. No depreciation is provided on land.

The rates of depreciation were reviewed in the course of the year to reflect the bank's current experience.

The current annual depreciation rates for each class of property, plant and equipment are as follows:

- Computer Hardware – 25%
- Furniture and Fittings – 20%
- Motor Vehicle – 20%
- Branch Development – $12\frac{1}{2}$%
- Plant & Machinery – $12\frac{1}{2}$%
- Office Equipment – $12\frac{1}{2}$%
- Land and buildings – 3%

Costs associated with routine servicing and maintenance of assets are expensed as incurred. Subsequent expenditure is only capitalized if it is probable that future economic benefits associated with the item will flow to the Bank.

The carrying values of property, plant and equipment are reviewed for indications of impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

Residual values, useful lives and methods of depreciation for property and equipment are reviewed and adjusted if appropriate, at each financial year end.

2.3.8 Intangible Assets – Computer Software

Cost incurred to acquire and bring to use specific computer software licenses are capitalized and amortised on the basis of the expected useful lives using the straight-line method. Maximum useful life ranges between 4 and 5 years.

2.3.9 Provisions

The Bank recognizes provisions when it has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

2.4.0 Foreign Currency

Transactions denominated in foreign currency are translated into cedis at the rates of exchange ruling on the dates of the transactions.

Assets and liabilities denominated in foreign currencies are translated into cedis at exchange rates ruling at the Statement of Financial Position date.

Any gains or losses resulting from foreign currency translation or exchange are dealt with through the Statement of Comprehensive Income for the year.

2.4.1 Cash & Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash, balances with Bank of Ghana, amounts due from other banks and financial institutions and short term government securities.

2.4.2 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

2.4.3 Impairment of Non-financial Assets

The carrying amount 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 assets recoverable amount is estimated.

An impairment loss is recongnised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the grater of its value in use and its fair value less costs to sell. Impairment losses are recognised in the income statement.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication 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 assets 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.

2.4.4 Employee Benefits

- **Short Term Benefits**

  Short-term employee benefits are amounts payable to employees that fall due wholly within twelve months after the end of the period in which the employee renders the related service.

  The cost of short-term employee benefits are recognised as an expense in the period when the economic benefit is given, as an employment cost. Unpaid short-term employee benefits as at the end of the accounting period are recognised as an accrued expense and any short-term benefit paid in advance are recognised as prepayment to the extent that it will lead to a future cash refund a reduction in future cash payment.

  Wages and salaries payable to employees are recognised as an expense in the income statement at gross amount. The Bank's contribution to social security fund is also charged as an expense.

- **Social Security and National Insurance Trust (SSNIT)**

  Under a National Deferred Benefit Pension Scheme, the Bank contributes 13% of employees' basic salary to SSNIT for employee pensions. The Bank's obligation is limited to the relevant contributions, which are settled on due dates. The pension liabilities and obligations, however, rest with SSNIT.

- **Provident Fund**

  The Bank has a Provident Fund Scheme for all permanent employees. Employees contribute 10% of their basic salary to the Fund whilst the Bank contributes 12.5%. The Bank's obligation under the plan is limited to its contribution. The fund is invested by the trustees of the scheme.

2.4.5 Post Balance Sheet Events

Events subsequent to the Statement of Financial Position date are reflected only to the extent that they relate directly to the financial statement and the effect is material.

2.4.6 Group Financial Statements

The financial statements include group financial statements showing a consolidation of the Bank's results and financial position with the wholly owned subsidiary Prudential Securities Limited.

3.0 Significant Accounting Estimates, Assumptions & Judgments

In preparation of the financial statements, the Bank makes estimations and applies judgment that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgment is applied include:

3.1 Fair value of Unquoted Equity Investments

The unquoted equity instruments have been valued based on the expected cash flows discounted current rates applicable for items with similar terms and risk characteristics. This valuation requires the Bank to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty.

3.2 Deferred Tax Assets

Deferred 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 judgment is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3.3 Impairment of Financial Assets

The Bank makes an allowance for unrecoverable loans and receivables, held-to-maturity investments and available for sale financial assets when there is objective evidence that the carrying amount may not be recoverable. Significant management judgment is required to determine when objective evidence of impairment exists, and also in estimating future cash flows from the assets.

3.4 Impairment of Non Financial Assets (Including Property Plant & Equipment (PPE)

The Bank assesses at least at each financial year end whether there is any evidence that non financial assets (including PPE) may be impaired. Where indicators of impairment exist, an impairment test is performed. This requires and estimation of the 'value in use□of the asset or the cash-generating units to which the asset belong. Estimating the value in use amount requires management to make an estimate of the expected future cash flows from the asset or the cash generating unit and also to select a suitable discount rate in order to calculate the present value of those cash flows.

		THE GROUP		THE BANK	
		2010 GH¢	2009 GH¢	2010 GH¢	2009 GH¢
4.	**Amount spent on fulfilling social responsibility obligations**	83,592	77,568	83,592	77,568
5.	**INTEREST INCOME**				
	* Placements, Special Deposit	539,959	527,810	539,959	527,810
	* Investment Securities	6,000,753	5,366,793	6,000,753	5,366,793
	Loans and Advances	48,691,777	43,218,406	49,556,024	43,242,749
		55,232,489	**49,113,009**	**56,096,736**	**49,137,352**

***NB: All are Held-To-Maturity Investment**

		THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
6.	**INTEREST EXPENSE**				
	Current Accounts	807,029	1,292,515	807,029	1,292,515
	Time and other Deposits	24,390,679	20,950,879	24,430,260	20,951,876
	Overnight and Call Accounts	2,906,151	6,581,627	2,906,151	6,581,627
	Borrowed Funds	1,728,092	1,206,270	1,728,092	1,206,270
		29,831,951	**30,031,291**	**29,871,532**	**30,032,288**
7.	**COMMISSIONS AND FEES**				
	Commission on Turnover	1,824,901	606,099	1,832,081	614,398
	Commission on Transfers/Letters of Credit	1,814,504	1,782,137	1,814,504	1,782,137
	Investigating and Processing	3,180,984	3,578,588	3,180,984	3,578,588
	Brokerage Fees	139,180	144,572	139,180	144,572
	Commission on Guarantees and Indemnities	443,524	559,506	443,524	559,506
	Commission on Managed Funds	22,353	38,155	22,353	38,155
	Payment Orders	149,509	154,067	149,509	154,067
	Commission on FX withdrawal	435,291	338,672	435,291	338,672
	Money Transfers	85,393	90,789	85,393	90,789
	ATM/SMS INCOME	248,335	178,274	248,335	178,274
	Others	671,315	622,607	671,315	622,603
		9,015,289	**8,093,466**	**9,022,469**	**8,101,761**

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
8. OTHER OPERATING INCOME				
Gain on Foreign Exchange	1,664,521	1,952,292	1,664,521	1,952,292
Other Income	91,573	(6,052)	–	100
Exchange Revaluation Surplus(net)	31,519	–	31,519	–
	1,787,613	**1,946,240**	**1,696,040**	**1,952,392**
9. IMPAIRMENT EXPENSE				
Specific (Individually assessed)	1,424,886	1,311,911	1,424,886	1,311,911
General (collectively assessed)	281,013	159,999	281,013	159,999
Provision against contingent liabilities	(18,037)	26,645	(18,037)	26,645
	1,687,862	**1,498,555**	**1,687,862**	**1,498,555**
10. OPERATING EXPENSES				
License & Fees	10,001	10,350	–	–
Staff Costs (Note 11)	7,294,200	5,962,846	7,278,690	5,938,699
Advertising and Marketing	995,876	860,698	991,876	841,102
Administrative Expenses	4,694,655	4,385,382	4,677,280	4,356,767
Training	343,594	332,265	343,594	332,265
Depreciation and Amortisation	3,872,985	2,423,236	3,853,610	2,400,253
Directors' Emoluments	358,358	342,545	358,358	342,545
Auditors' Remuneration	76,299	66,096	72,167	62,790
Motor Vehicle Running Costs	1,472,875	1,401,216	1,470,768	1,397,899
Occupancy Cost	6,938,471	5,732,781	6,929,439	5,722,959
Others	3,821,553	3,044,063	3,821,553	3,044,063
	29,878,867	**24,561,478**	**29,797,335**	**24,439,342**
11(a). Staff Costs				
Wages, Salaries, Bonus, Allowances	5,699,844	4,692,519	5,686,682	4,672,114
Social Security Fund	499,071	417,544	497,874	415,673
Provident fund contributions	389,851	411,051	388,700	409,180
Medical Expenses	597,999	441,732	597,999	441,732
Retirement Benefit	107,435	–	107,435	–
	7,294,200	**5,962,846**	**7,278,690**	**5,938,699**

The average number of persons employed by the bank during the year was 649 (2009: 667).

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢

11(b). Included in the staff cost and Directors Emoluments are amounts incurred in respect of Key Management personnel as follows:

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
Gross salaries	387,724	343,609	387,724	343,609
Social security fund	18,767	17,854	18,767	17,854
Provident fund	45,122	42,951	45,122	42,951
	451,613	**404,414**	**451,613**	**404,414**

12. OTHER INCOME

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
Measurement Gain/(loss) on Financial Assets at Fair Value Through Profit and Loss	80,374	(283,935)	–	–
Others	1,107,515	852,905	38,726	808,443
	1,187,889	**568,970**	**38,726**	**808,443**

13. CASH AND BALANCES WITH BANK OF GHANA

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
Cash in Hand	13,543,754	11,130,326	13,543,754	11,130,326
Balances with Bank of Ghana	26,426,530	19,246,958	26,426,530	19,246,958
	39,970,284	**30,377,284**	**39,970,284**	**30,377,284**

14. GOVERNMENT SECURITIES*

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
Treasury bills – The Bank	23,305,446	24,830,890	23,305,446	24,830,890
– Sinking Fund	2,580,000	554,500	2,580,000	554,500
1 Year Treasury Note	10,957,571	26,452	10,957,571	26,452
Floating Rating Investments	–	8,520,000	–	8,520,000
	36,843,017	**33,931,842**	**36,843,017**	**33,931,842**

*NB: All Held - To - Maturity Investments

15. DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
Nostro Account Balances	5,991,957	12,226,239	5,991,957	12,226,239
Items in course of collection	6,001,322	18,120,778	6,001,322	18,120,778
Overnight Lending	20,599,519	–	20,599,519	–
Foreign Time Deposits *	37,627,342	29,136,854	37,627,342	29,136,854
Foreign cheques purchased	10,847	9,270	10,847	9,270
	70,230,987	**59,493,141**	**70,230,987**	**59,493,141**

*Held -To-Maturity Investment

16(A). TAXATION – GROUP	Year of Assesment	Balance 1-Jan □0 GH¢	payment made during the year GH¢	Charge to P&L Account GH¢	Balance at 31st Dec □0 GH¢
16.(a) INCOME TAX					
	2007	68,970	–	–	68,970
	2008	198,365	–	–	198,365
	2009	(742,636)	–	–	(742,636)
	2010	–	(1,129,284)	1,024,599	(104,685)
		(475,301)	**(1,129,284)**	**1,024,599**	**(579,986)**
(b) **NATIONAL FISCAL STABILIZATION LEVY**					
	2008	(3,770)	–	–	(3,770)
	2009	201,488	(71,254)	–	130,234
	2010	–	(212,072)	291,230	79,158
		197,718	**(283,326)**	**291,230**	**205,622**
		(277,583)	**(1,412,610)**	**1,315,829**	**(374,364)**
(c) **DEFERRED TAX**					
		1,053,358	–	**214,608**	**1,267,966**

The amount provided for Income Tax is subject to agreement with the Ghana Revenue Authority.

16(B). TAXATION – BANK	Year of Assesment	Balance 1-Jan □0 GH¢	payment made during the year GH¢	Charge to P&L Account GH¢	Balance at 31st Dec □0 GH¢
16.(a) INCOME TAX	2007	68,970	–	–	68,970
	2008	198,365	–	–	198,365
	2009	(738,654)	–	–	(738,654)
	2010	–	(1,128,779)	1,001,806	(126,973)
		(471,319)	**(1,128,779)**	**1,001,806**	**(598,292)**
(b) **NATIONAL FISCAL STABILIZATION LEVY**					
	2008	(3,770)	–	–	(3,770)
	2009	201,488	(71,254)	–	130,234
	2010	–	(212,072)	274,862	62,790
		197,718	(283,326)	274,862	189,254
		(273,601)	**(1,412,105)**	**1,276,668**	**(409,038)**
(c) **DEFERRED TAX**					
		1,053,358	**–**	**213,069**	**1,266,427**

The amount provided for Income Tax is subject to agreement with the Ghana Revenue Authority.

		THE GROUP		THE BANK	
		2010 GH¢	2009 GH¢	2010 GH¢	2009 GH¢
17.	**LOANS AND ADVANCES TO CUSTOMERS ANALYSIS BY TYPE**				
	Overdrafts	106,937,897	84,661,301	106,937,897	84,661,301
	Term Loans	133,734,677	109,293,041	133,734,677	112,343,041
	Gross Loans and Advances	**240,672,574**	**193,954,342**	**240,672,574**	**197,004,342**
	Less: Allowance for Impairment	(8,082,841)	(6,376,942)	(8,082,841)	(6,376,942)
	Interest in Suspense	(7,074,837)	(5,066,012)	(7,074,837)	(5,066,012)
	Net Loans and Advances	**225,514,896**	**182,511,388**	**225,514,896**	**185,561,388**
	a. Loans and advances (including credit bills negotiable) to customers and staff.	**240,672,574**	**193,954,342**	**240,672,574**	**197,004,342**
	b. Loan impairment allowance ratio = Accumulated allowance for impaiment and Interest in Suspense to Gross Loans.	**6.30%**	**4.94%**	**6.30%**	**4.86%**
	c. Gross non-performing Loans ratio = Aggregate of substandard to Loss Loans per Bank of Ghana Regulations (gross) to total Gross Loans.	**4.58%**	**4.92%**	**4.58%**	**4.85%**
	d. Ratio of 50 largest exposures (funded and non-funded) to total exposures (funded and non-funded).	**54.15%**	**60.66%**	**54.15%**	**59.71%**
18.	**ANALYSIS BY TYPE OF CUSTOMER**				
	Individuals	4,626,168	5,728,543	4,626,168	5,728,543
	Other Private Enterprises	222,928,770	174,926,710	222,928,770	177,976,710
	Government departments and agencies	3,917,676	7,075,524	3,917,676	7,075,524
	Public Enterprises	1,717,150	486,569	1,717,150	486,569
	Staff	7,482,810	5,736,996	7,482,810	5,736,996
		240,672,574	**193,954,342**	**240,672,574**	**197,004,342**
	Less: Allowance for Impairment & Interest in Suspense	(15,157,678)	(11,442,954)	(15,157,678)	(11,442,954)
		225,514,896	**182,511,388**	**255,514,896**	**185,561,388**

*Loans and Receivables

	THE GROUP		THE BANK	
	2010 GH¢	2009 GH¢	2010 GH¢	2009 GH¢
19. ANALYSIS BY BUSINESS SEGMENTS				
Agriculture, Forestry & Fishing	3,885,165	3,028,256	3,885,165	3,028,256
Mining and Quarrying	728,145	501,553	728,145	501,553
Manufacturing	24,102,018	18,381,146	24,102,018	18,381,146
Construction	13,716,436	9,049,016	13,716,436	9,049,016
Electricity, Gas and Water	10,073,541	16,821,131	10,073,541	16,821,131
Commerce and Finance	60,932,937	49,484,644	60,932,937	52,534,644
Transport, Storage & Communication	18,929,248	16,692,128	18,929,248	16,692,128
Services	40,314,751	32,401,055	40,314,751	32,401,055
Miscellaneous	67,990,333	47,595,413	67,990,333	47,595,413
	240,672,574	**193,954,342**	**240,672,574**	**197,004,342**
Less: Allowance for Impairment & Interest in Suspense	(15,157,678)	(11,442,954)	(15,157,678)	(11,442,954)
	225,514,896	**182,511,388**	**225,514,896**	**185,561,388**

Movements in the Banks Allowance for Impairment and Interest in Suspense are as follows:

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
(a) Allowance for Impairment				
At 1st January 2010	6,376,942	5,496,178	6,376,942	5,496,178
Write-off against the Allowance	(96,038)	–	(96,038)	–
Decrease in Allowance	(354,582)	(563,650)	(354,582)	(563,650)
Increase in Allowance	2,156,519	1,444,414	2,156,519	1,444,414
At 31st December 2010	8,082,841	6,376,942	8,082,841	6,376,942
(b) Interest in Suspense				
At 1st January 2010	5,066,012	2,774,134	5,066,012	2,774,134
Recoveries	(1,720,933)	(3,302,051)	(1,720,933)	(3,302,051)
Increase in Allowance	3,729,758	5,593,929	3,729,758	5,593,929
At 31st December, 2010	7,074,837	5,066,012	7,074,837	5,066,012
TOTAL	**15,157,678**	**11,442,954**	**15,157,678**	**11,442,954**

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
20.(a) EQUITY INVESTMENTS				
Name of Company				
PBL Properties Ltd.	5,600,000	5,600,000	5,600,000	5,600,000
Prudential Securities Ltd.	–	–	242,662	242,662
Metro Mass Transit	97,821	97,821	97,821	97,821
Other Equities	236,640	337,374	–	–
Airport West Hospitality ltd.	90,122	90,122	90,122	90,122
	6,024,583	6,125,317	6,030,605	6,030,605
20.(b) ANALYSIS BY TYPE OF FINANCIAL ASSET				
Available-For-Sale	5,787,943	5,787,943	6,030,605	6,030,605
Fair Value Through Profit or Loss	236,640	337,374	–	–
	6,024,583	**6,125,317**	**6,030,605**	**6,030,605**
21. OTHER ASSETS				
Accounts Receivable and Prepayments	4,136,940	6,418,231	3,721,335	3,384,385
Stationery	747,726	674,779	747,726	674,779
Deferred Staff Loan Asset	418,702	437,565	418,702	437,565
Fees Receivable	7,546	7,546	–	–
Contra Items	233,899	4,383,191	233,899	4,383,191
Prudential Securities	–	–	335,609	303,666
Others	–	140,909	–	140,909
	5,544,813	**12,062,221**	**5,457,271**	**9,324,495**
22. CUSTOMER DEPOSITS				
Current Accoun	113,247,040	91,971,121	113,477,963	92,669,915
Time Deposits	163,893,346	116,822,434	163,975,534	116,829,093
Savings Deposits	61,849,055	41,776,912	61,849,055	41,776,912
	338,989,441	250,570,467	339,302,552	251,275,920
23. Analysis by Type of Depositors				
Financial Institutions	1,435,585	4,382,447	1,435,585	4,382,447
Individual and Other Private Enterprises	331,919,030	238,625,927	332,232,141	239,331,380
Government Department & Agencies	3,917,676	7,075,524	3,917,676	7,075,524
Public Enterprises	1,717,150	486,569	1,717,150	486,569
	338,989,441	**250,570,467**	**339,302,552**	**251,275,920**

The ratio of twenty largest depositors to total deposits: 23.7% (2009 : 32.3%).

24.(a) PROPERTY, PLANT AND EQUIPMENT – GROUP

	Plant & Machinery GH¢	Branch Development GH¢	Motor Vehicles GH¢	Furniture & Fittings GH¢	Office Equipment GH¢	Computer Hardware GH¢	Capital Work In Progress GH¢	Land & Building GH¢	TOTAL GH¢
COST									
At 1st January, 2010	723,656	1,464,778	4,041,050	1,828,099	4,743,848	2,873,252	1,261,627	2,796,015	19,732,325
Additions during the year	542,553	3,242,690	847,409	527,187	1,469,899	823,317	247,859	1,238,419	8,939,333
Disposals and Transfers	–	–	(128,516)	–	–	–	–	–	(128,516)
At 31st December, 2010	1,266,209	4,707,468	4,759,943	2,355,286	6,213,747	3,696,569	1,509,486	4,034,434	28,543,142
DEPRECIATION									
At 1st January, 2010	276,832	231,805	1,773,971	872,880	1,247,738	1,706,261	–	110,532	6,220,019
Charge for the year	82,526	388,255	728,200	353,460	604,413	622,999	–	83,814	2,863,667
Released on Disposals	–	–	(122,867)	–	–	–	–	–	(122,867)
At 31st December, 2010	**359,358**	**620,060**	**2,379,304**	**1,226,340**	**1,852,151**	**2,329,260**	**–**	**194,346**	**8,960,819**
NET BOOK VALUE									
At 31st December, 2010	906,851	4,087,408	2,380,639	1,128,946	4,361,596	1,367,309	1,509,486	3,840,088	19,582,323
At 31st December, 2009	**446,824**	**1,232,973**	**2,267,079**	**955,219**	**3,496,110**	**1,166,991**	**1,261,627**	**2,685,483**	**13,512,306**

PROFIT ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	2010 GH¢	2009 GH¢
Gross Book Value	128,516	332,640
Accumulated Depreciation	122,867	187,488
Net Book Value	5,649	145,152
Sales Proceeds	23,105	915,871
Net Profit	17,456	770,719

24.(b) PROPERTY, PLANT AND EQUIPMENT-BANK

	Plant & Machinery GH¢	Branch Development GH¢	Motor Vehicles GH¢	Furniture & Fittings GH¢	Office Equipment GH¢	Computer Hardware GH¢	Capital Work In Progress GH¢	Land & Building GH¢	TOTAL GH¢
COST									
At 1st January, 2010	723,656	1,464,778	3,980,201	1,813,473	4,736,093	2,846,275	1,261,627	2,796,015	19,622,118
Additions during the year	542,553	3,242,690	847,409	527,187	1,469,899	823,317	247,859	1,238,419	8,939,333
Disposals and Transfers	–	–	(128,516)	–	–	–	–	–	(128,516)
At 31st December, 2010	1,266,209	4,707,468	4,699,094	2,340,660	6,205,992	3,669,592	1,509,486	4,034,434	28,432,935
DEPRECIATION									
At 1st January, 2010	276,832	231,805	1,752,098	864,275	1,242,890	1,683,075	–	110,532	6,161,507
Charge for the year	82,526	388,255	717,343	351,240	603,068	621,578	–	83,814	2,847,824
Released on Disposals	–	–	(122,867)	–	–	–	–	–	(122,867)
At 31st December, 2010	**359,358**	**620,060**	**2,346,574**	**1,215,515**	**1,845,958**	**2,304,653**	**–**	**194,346**	**8,886,464**
NET BOOK VALUE									
At 31st December, 2010	906,851	4,087,408	2,352,520	1,125,145	4,360,034	1,364,939	1,509,486	3,840,088	19,546,471
At 31st December, 2009	**446,824**	**1,232,973**	**2,228,103**	**949,198**	**3,493,203**	**1,163,200**	**1,261,627**	**2,685,483**	**13,460,611**

PROFIT ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	2010 GH¢	2009 GH¢
Gross Book Value	128,516	332,640
Accumulated Depreciation	122,867	187,488
Net Book Value	5,649	145,152
Sales Proceeds	23,105	915,871
Net Profit	17,456	770,719

	THE GROUP		THE BANK	
	2010 GH¢	2009 GH¢	2010 GH¢	2009 GH¢
25. INTANGIBLE ASSETS				
This consist of Computer Software				
(a) Cost				
At 1st January	2,871,456	2,081,825	2,852,923	2,064,218
Additions	2,091,017	789,631	2,091,017	788,705
At 31st December	4,962,473	2,871,456	4,943,940	2,852,923
(b) Amortisation				
At 1st January	1,460,784	922,099	1,449,328	915,141
Charge for year	1,009,318	538,685	1,005,786	534,187
At 31st December	2,470,102	1,460,784	2,455,114	1,449,328
Net Book Value	**2,492,371**	**1,410,672**	**2,488,826**	**1,403,595**
26 MANAGED FUNDS				
TIP/MOF Fund for NTE'S	2,528,552	2,377,077	2,528,552	2,377,077
DANIDA Capital Fund for SMEs	215,254	201,739	215,254	201,739
MOWAC/JAPANESE FUND	61,848	61,848	61,848	61,848
GTZ/SMEP Fund	774,537	695,448	774,537	695,448
RUMSEC	2,173,414	2,013,286	2,173,414	2,013,286
	5,753,605	**5,349,398**	**5,753,605**	**5,349,398**

a. TIP/MOF Fund

This represents a special credit scheme being administered by the Bank on behalf of the Government of Ghana.
The scheme is targeted at enterprises engaged in the production and export of non-traditional export commodities.

b. Danida Capital Fund

This Fund represents a special credit scheme being administered by the Bank on behalf of the Danish International Development Agency for small and medium scale enterprises engaged in fish processing, food processing and handicraft sub-sectors of the economy.

c. GTZ/SMEP Fund

This is a fund set up by the Government of Ghana and Germany to provide credit to small and micro enterprises.

d. MOWAC/Japanese Fund

This is a fund set up by the Governments of Ghna (through its Ministry of women and children affairs- MOWAC) and Japan to provide working capital for women entrepreneurs who are disadvantaged in accessing loans from the traditional banks.

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
27. INTEREST PAYABLE AND OTHER LIABILITIES				
TIP/MOF Fund	228,921	207,307	228,921	207,307
DANIDA Fund	34,409	31,187	34,409	31,187
Margins on Letters of Credits	1,828,699	2,105,904	1,828,699	2,105,904
Payment Order & Bankers Payment	3,554,535	3,472,262	3,554,535	3,472,262
Others	3,280,269	12,418,663	3,029,853	11,728,759
	8,926,833	**18,235,323**	**8,676,417**	**17,545,419**
28. BORROWINGS				
EDIF	5,353,109	718,914	5,353,109	718,914
Redeemable Preference Shares	94,884	104,020	94,884	104,020
SSNIT Export Finance Loans	3,213,353	3,000,000	3,213,353	3,000,000
Repurchase Agreements	8,738,536	27,816,381	8,738,536	27,816,381
Export Finance Bonds	957,142	1,158,658	957,142	1,158,658
Overnight	–	10,000,000	–	10,000,000
Subordinated Term Loan	–	2,302,424	–	2,302,424
	18,357,024	**45,100,397**	**18,357,024**	**45,100,397**

29. CONTINGENCIES AND COMMITMENTS

The Bank entered into various commitments in the normal course of its banking business which are not reflected in the accompanying balance sheet.

These commitments are shown below:

	THE GROUP 2010 GH¢	THE GROUP 2009 GH¢	THE BANK 2010 GH¢	THE BANK 2009 GH¢
Guarantees and Indemnities	10,236,993	11,796,298	10,236,993	11,796,298
Documentary Credits	5,331,570	3,191,570	5,331,570	3,191,570
	15,568,563	**14,987,868**	**15,568,563**	**14,987,868**

30. STATED CAPITAL

AUTHORISED

	ORDINARY
Number of Shares of no par value	100,000,000

	2010		2009	
	ORDINARY Number	GH¢	ORDINARY Number	GH¢
ISSUED AND FULLY PAID				
For cash	31,925,000	10,119,250	11,925,000	119,250
For Consideration Other than Cash	3.075,000	30,750	3,075,000	30,750
Transfer from Income Surplus Account	85,150,000	14,950,000	34,150,000	5,950,000
	85,150,000	**25,100,000**	**49,150,000**	**7,100,000**

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

31. STATUTORY RESERVE FUND

The fund represents the amount set aside from annual net profits after tax, as required by Section 29 of the Banking Act, 2004 (Act 673) as amended by the banking (amendment) Act, 2007 (Act 738).

32. RELATED PARTIES

	2010 GH¢	2009 GH¢
Loans and Advances include the following amount lent to related parties	619,435	398,797
Executive Directors		
Other Key Management personnel	585,609	625,841
	1,205,044	1,024,638

33. SUMMARY OF CURRENCY EXPOSURES AT YEAR END IN CEDI EQUIVALENTS OF THE FOLLOWING MAJOR FOREIGN CURRENCIES

ASSETS	TOTAL GH¢	US DOLLAR GH¢	BRITISH POUND GH¢	EURO GH¢	OTHERS GH¢
Cash and Balances with Bank of Ghana	**8,649,162**	6,336,622	1,145,256	1,167,284	–
Due from other Banks & Financial Institutions	**42,929,086**	17,113,815	3,737,948	22,077,323	–
Loans and Advances to Customers	**43,076,372**	42,063,086	223,206	790,080	–
Other Assets	**49,832**	129	3,799	45,904	–
TOTAL ASSETS	**94,704,452**	**65,513,652**	**5,110,209**	**24,080,591**	**–**
LIABILITIES					
Due to Customers	**93,357,756**	64,386,324	5,639,448	23,331,984	–
Other Liabilities	**2,165,359**	1,443,488	9,486	712,385	–
TOTAL LIABILITIES	**95,523,115**	**65,829,812**	**5,648,934**	**24,044,369**	**–**
NET ON BALANCE SHEET POSITION	**(818,663)**	**(316,160)**	**(538,725)**	**36,222**	**–**
Off Balance Sheet Credit Commitments					
Letters of Credit	**3,189,761**	3,038,688	56,165	94,908	–
Bonds & Guarantees	**4,669,246**	2,460,286	–	–	2,208,960
	7,859,007	**5,498,974**	**56,165**	**94,908**	**2,208,960**
At 31st December, 2009					
Total Assets	**88,618,187**	55,529,724	5,471,922	27,616,541	–
Total Liabilities	**91,054,589**	58,163,661	5,768,334	27,122,594	–
Net on Balance Sheet position	**(2,436,402)**	**(2,633,937)**	**(296,412)**	**493,947**	**–**
Off Balance Sheet Credit Commitments					
Letters of Credit	**3,189,761**	3,038,688	56,165	94,908	–
Bonds & Guarantees	**4,669,246**	2,460,286	–	–	2,208,960
	7,859,007	**5,498,974**	**56,165**	**94,908**	**2,208,960**

34(a). MATURITY ANALYSIS OF ASSETS AND LIABILITIES (IN MONTHS) - GROUP

	TOTAL GH¢	0-3 GH¢	3-6 GH¢	6-12 GH¢	Over 12 GH¢
ASSETS					
Cash and Balances with Bank of Ghana	39,970,284	39,970,284	–	–	–
Government Securities	36,843,017	29,323,448	7,494,135	25,434	–
Due from other Banks and Financial Institutions	70,230,986	48,706,616	3,323,100	18,201,270	–
Loans and Advances to Customers	225,514,896	84,860,533	47,775,176	43,380,215	49,498,972
Taxation	374,364	374,364	–	–	–
Investment in Subsidiary/Other companies	6,024,583	–	–	–	6,024,583
Other Assets	5,544,813	1,794,310	1,553,503	352,316	1,844,684
Property, Plant and Equipment	22,074,694	1,762,824	881,412	4,446,457	14,984,001
TOTAL ASSETS	**406,577,637**	**206,967,519**	**61,027,326**	**66,366,294**	**72,914,659**
LIABILITIES					
Due to Customers	338,989,441	71,417,101	43,012,798	42,217,534	182,342,008
Due to Bank of Ghana	–	–	–	–	–
Due to other Banks and	–	–	–	–	–
Financial Institutitons	–	–	–	–	–
Managed Funds	–	–	–	–	–
Borrowed Funds	18,357,024	–	–	8,738,536	9,618,488
Other Liabilities	8,926,832	2,500,280	3,280,474	1,160,606	1,985,472
Deferred Tax	1,267,966	–	–	–	1,267,966
TOTAL LIABILITIES	**367,541,263**	**73,917,381**	**46,293,272**	**52,116,676**	**195,213,934**
NET LIQUIDITY GAP	39,036,374	132,798,595	14,734,054	14,249,618	(122,671,550)
At 31st December, 2009					
Total Assets	339,701,755	151,338,931	45,793,412	82,284,941	60,284,471
Total Liabilities	314,959,545	70,420,748	37,989,258	60,193,857	146,355,682
NET LIQUIDITY GAP	**24,742,210**	**80,918,183**	**7,804,154**	**22,091,084**	**(86,071,211)**

34(b). MATURITY ANALYSIS OF ASSETS AND LIABILITIES (IN MONTHS) - BANK

	TOTAL GH¢	0-3 GH¢	3-6 GH¢	6-12 GH¢	Over 12 GH¢
ASSETS					
Cash and Balances with Bank of Ghana	39,970,284	39,970,284	–	–	–
Government Securities	36,843,017	29,323,448	7,494,135	25,434	–
Due from other Banks and Financial Institutions	70,230,986	48,706,616	3,323,100	18,201,270	–
Loans and Advances to Customers	225,514,896	84,860,533	47,775,176	43,380,215	49,498,972
Taxation	409,038	409,038	–	–	–
Investment in Subsidiary/Other companies	6,030,605	–	–	–	6,030,605
Other Assets	5,457,271	1,748,295	1,553,503	352,316	1,803,157
Property, Plant and Equipment	22,035,296	1,762,824	881,412	4,407,059	14,984,001
TOTAL ASSETS	**406,491,393**	**206,967,519**	**59,836,291**	**66,366,294**	**72,920,681**
LIABILITIES					
Due to Customers	339,302,552	71,417,101	43,012,798	42,217,534	182,655,119
Due to Bank of Ghana	–	–	–	–	–
Due to other Banks and	–	–	–	–	–
Financial Institutitons	–	–	–	–	
–					
Managed Funds	–	–	–	–	–
Borrowed Funds	18,357,024	–	–	8,738,536	9,618,488
Other Liabilities	8,676,417	2,499,741	3,280,474	1,160,606	1,735,596
Deferred Tax	1,266,427	–	–	–	1,266,427
TOTAL LIABILITIES	**367,602,420**	**73,916,842**	**46,293,272**	**52,116,676**	**195,275,630**
NET LIQUIDITY GAP	**38,888,973**	**132,798,595**	**13,543,019**	**14,249,618**	**(122,665,528)**
At 31st December, 2009					
Total Assets	339,856,562	151,338,931	45,793,412	85,334,941	57,389,278
Total Liabilities	314,975,094	70,420,748	37,989,258	60,193,857	146,371,231
NET LIQUIDITY GAP	**24,881,468**	**80,918,183**	**7,804,154**	**25,141,084**	**(88,981,953)**

BY ORDER OF THE BOARD

....)
....) **DIRECTORS**

ACCRA

2ND MARCH **2011**

35.0 RISK MANAGEMENT

Introduction

The Bank's risk management strategy, procedures and processes have not changed from that of the previous year.

The nature of the Bank's operations as a financial intermediary exposes it to various types of risks. To ensure that the Bank takes only measured risks, PBL has integrated risk management in its daily business activities and strategic planning. The risk management department assists management in the formulation of the overall policies, including various risk management strategies and control. The Department also provides a review of the overall risk profile from time to time.

The Bank has established a comprehensive risk management framework for managing risks inherent in its operations at all levels throughout the Bank. The risk management framework ensures the identification, measurement and control of credit, market, liquidity and operational risks at all levels in the Bank with a view to safeguarding its integrity, reputation and financial strength. The risk management framework also contains details of the Bank's risk governance structure.

35.1 Risk Governance

PBL maintains a risk governance structure geared towards strengthening risk identification, measurement, management and control whilst positioning the Bank to manage the changing regulatory environment in an efficient and effective manner. The risk governance structure ensures oversight of and accountability for, the effective management of risks inherent in the Bank's operations.

The risk governance structure uses the "three lines of defence" approach which ensures that risk management is performed at all levels of the Bank's operations. This approach provides a clear allocation of responsibilities for the ownership and management of risks as follows:

i. In the first line of defence, heads of divisions, departments and branch managers are primarily responsible for managing risks inherent in their business units. These Departments and branches continuously assess and evaluate risks associated with their day-to-day operations. The process ensures strict adherence to the Bank's operational policies, procedures and controls.

ii. The second line of defence consists of dedicated risk management committees carefully created to assist the first line of defence in the implementation of risk management procedures approved by the Board.

iii. The third line of defence consists of the Internal Control Division comprising Branch Inspection, Systems Audit and Internal Audit as well as the Compliance and Risk Management Departments. These departments provide an independent assessment and validation of the adequacy and effectiveness of the overall risk management function and governance structures of the Bank and report independently to the Board. External Auditors also have a statutory duty to provide an independent opinion on the Bank’s financial statements and the adequacy of the Bank’s accounting systems to the Board of Directors, Shareholders and Bank of Ghana.

The risk governance system of the Bank is multi-faceted, involving the Board of Directors and management level committees. At the highest level, the Board of Directors, supported by the Audit and Risk Management sub-committee of the Board determines the risk strategy, policy, limits and appetite for the Bank. The board regularly reviews the Bank’s risk exposure to enable them take appropriate risk related decisions.

The Head of the Risk Management department is responsible for coordinating the risk management activities of the various committees and departments of the Bank. The Risk Manager is primarily responsible for ensuring that the Bank’s risk profile is consistent with its financial resources and the risk appetite defined by the Board.

35.2 Categories of Risks

The major types of risks confronting the Bank include the following:

Liquidity Risk: This is the risk that the Bank will be unable to meet customers’ withdrawals, committed loans and advances disbursements and other payment obligations as they fall due.

Credit Risk: This risk arises from the possibility that the bank will incur losses from the failure of customers or counter parties to repay credit facilities granted them and/or to discharge their obligations under contingent liabilities.

Market Risk: This is the possible negative impact on the operations of the Bank resulting from movements in interest and foreign exchange rates as well as movements in general market prices.

Operational Risk: This is the risk of losses resulting from inadequate or failed internal processes, people, systems and external events.

Compliance Risk: This is the risk of legal or regulatory sanctions, material financial loss or loss of reputation PBL may suffer as a result of its failure to comply with banking laws, regulations, rules, internal management directives and other codes of conduct applicable to the banking industry.

Reputation Risk: This is the risk that any negative publicity involving the Bank could damage its public image.

The risk management framework of the Bank is therefore designed to enable the Bank identify, measure, manage and control the risks mentioned above.

35.3 Liquidity Risk

Liquidity risk is the potential loss to the Bank arising from either its inability to meet its maturing short term obligations as they fall due or to fund increases in assets without incurring unacceptable costs. The management of this risk enables the Bank to minimise the mismatch in the timing of cash flows relating to its assets and liabilities and also ensures that it regularly maintains the primary reserve requirement of Bank of Ghana.

Liquidity risk could occur if customers suddenly withdraw more funds than expected which cannot be met from the Bank's available cash resources, from selling or pledging assets, or by borrowing funds from third parties. Liquidity risk could also occur if the Bank is unable to meet the primary reserve required by Bank of Ghana or meet committed loan disbursements.

The main objective of PBL's liquidity risk management is to maintain sufficient liquidity to ensure safe and sound operations and also minimise the mismatch in the timing of cash flows relating to its assets and liabilities. For this reason, the Bank considers liquidity risk from three different perspectives namely structural, tactical and **contingency** liquidity risks.

Structural liquidity risk arises from an inability to finance the long term balance sheet on time or at a reasonable cost. Structural liquidity risk is controlled by managing the structure of assets and liabilities in the balance sheet on a going concern basis. This is aimed at achieving a sound liquidity profile through the following:

i. Maintenance of well diversified funding sources including unsecured customer deposits, long-term loans, repurchase agreements and active money market operations from wholesale funds providers;

ii. Holding a broad portfolio of high grade securities that can be used to obtain secured funding from the Repo market;

iii. Maintaining a structural liquidity gap, taking into consideration the asset mix and funding possibilities of the Bank.

Tactical liquidity risk is the risk arising from the shortage of short-term cash to meet customers withdrawals or maturing obligations. It gives rise to the need for day to day liquidity management. The Treasury department is responsible for managing the day-to-day liquidity needs of the Bank while branch managers are responsible for managing daily liquidity at their respective branches.

The Treasury department measures and monitors the daily liquidity position by generating daily liquidity reports which summarises the daily cash inflows and outflows and reserve requirements and reports same to senior management.

Contingency liquidity risk relates to planning for liquidity management under stress conditions. It is the Bank's policy to have adequate and up to date contingency funding plans to help senior management to act effectively in crisis situations. Senior management assisted by the Treasurer is responsible for the activation of the Bank's liquidity risk contingency plan.

35.4 Credit Risk

Credit Risk arises where a borrower defaults in repaying a credit facility in full or a counter-party is unwilling to perform an obligation or its ability to perform such obligation is impaired resulting in financial loss to the Bank.

The principal sources of credit risk inherent in the Bank's operations arise from loans and advances to customers as well as off Statement of Financial Position transactions such as guarantees, undertakings and Letters of credit.

The Bank manages credit risk through well structured systems and controls which ensure that relevant committees meet to take appropriate actions on credit reports with the view to controlling credit risk at various stages of the credit delivery process. The Bank pursues a prudent policy for granting credit facilities to customers.

The Bank also applies the Know Your Customer (KYC) principle when granting credit facilities to customers. In other words, credit facilities are granted to businesses whose management, integrity and expertise are known and considered acceptable by the Bank. In addition, the Bank adequately assesses the financial performance of borrowers' businesses before granting credit facilities to such businesses.

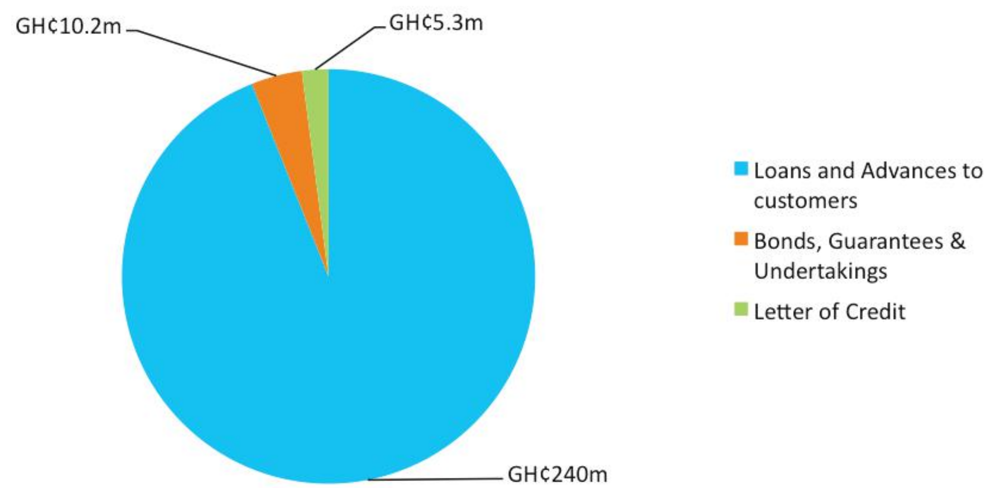
Credit facilities granted to customers, both corporate and retail, are also closely monitored on a continuing basis to uncover early warning signals of non-performance. The objective of this early warning system is to address potential problems while adequate alternatives for action are still available.

The early risk detection is a tenet of the Bank's credit culture and is intended to ensure that greater attention is paid to credit exposures in order to effectively manage such exposures and maximize loan recovery.

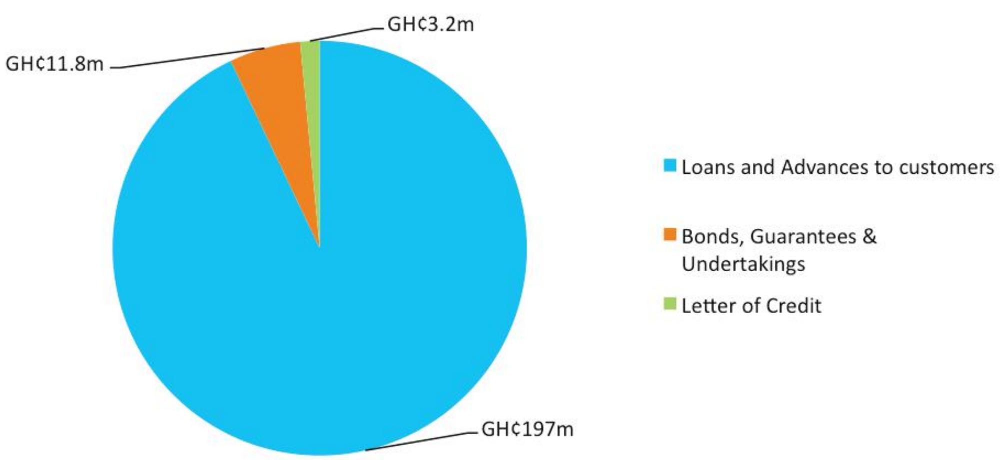
The Bank requires first class collateral to secure credit facilities granted to borrowers. Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default. While collateral can be an alternative source of repayment, it does not mitigate or compensate for a borrowers questionable reputation.

The maximum amount of credit risk of the Bank at the end of Years 2010 and 2009 emanating from the above mentioned risk sources is depicted in Pie Charts 1 and 2 below:

Pie Chart 1: Analysis of Total Credit Risk in Year 2010 (GH¢256.2m)

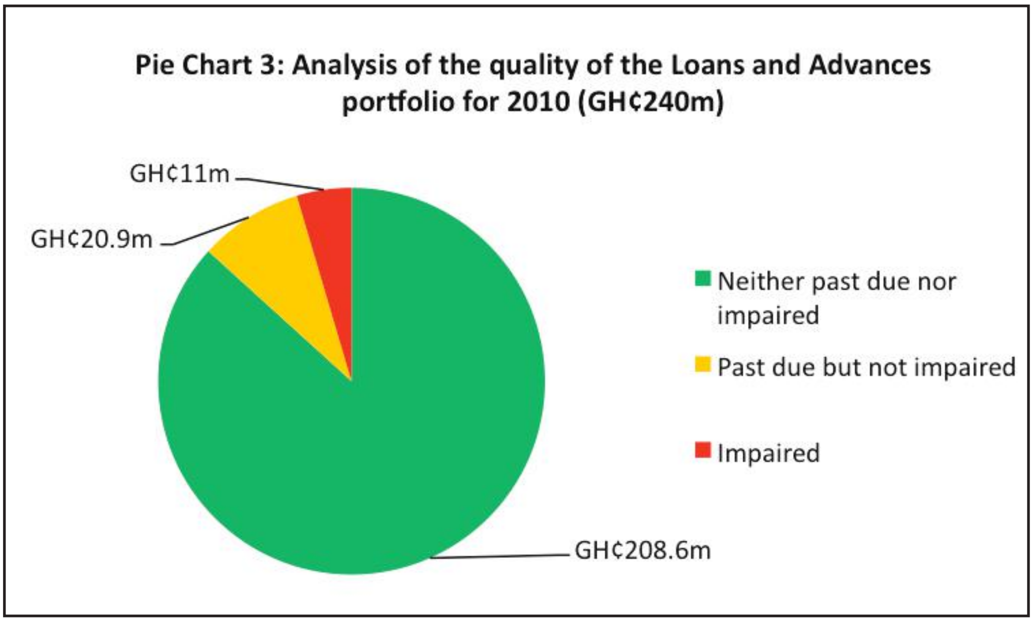


Pie Chart 2: Analysis of Total Credit Risk in Year 2009 (GH¢211.9m)

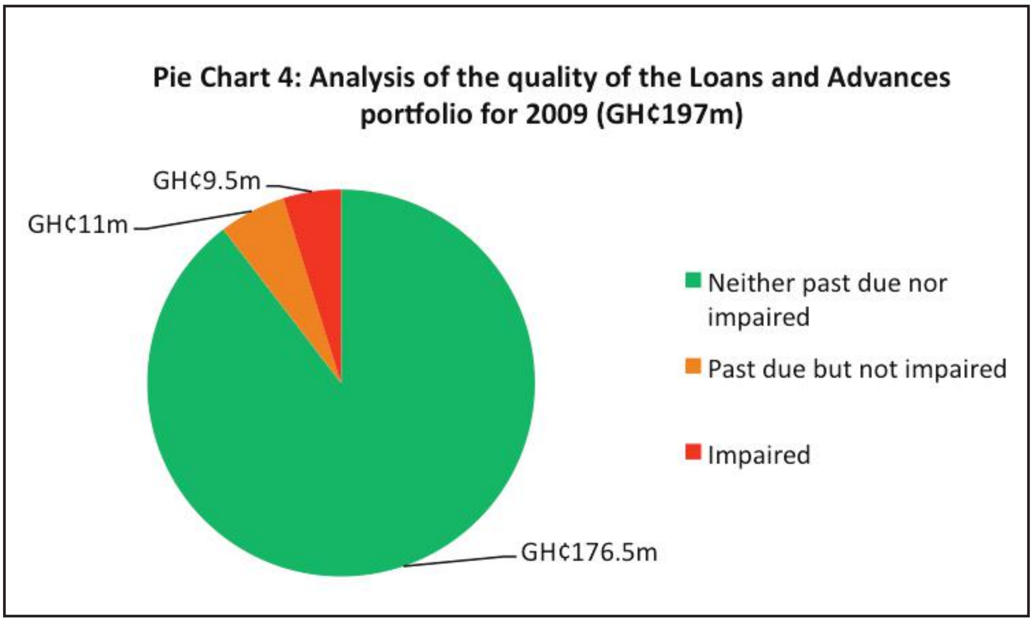


Collateral held as security against these risks consist mainly of mortgage of landed property, cash and Government securities.

The loans and advances portfolio for Years 2010 and 2009 is further analyzed in terms of quality as shown in Pie Charts 3 and 4:



The fair value of collateral security held on "Past due but not impaired" and "Impaired" at the end of Year 2010 is GH¢36.1m.



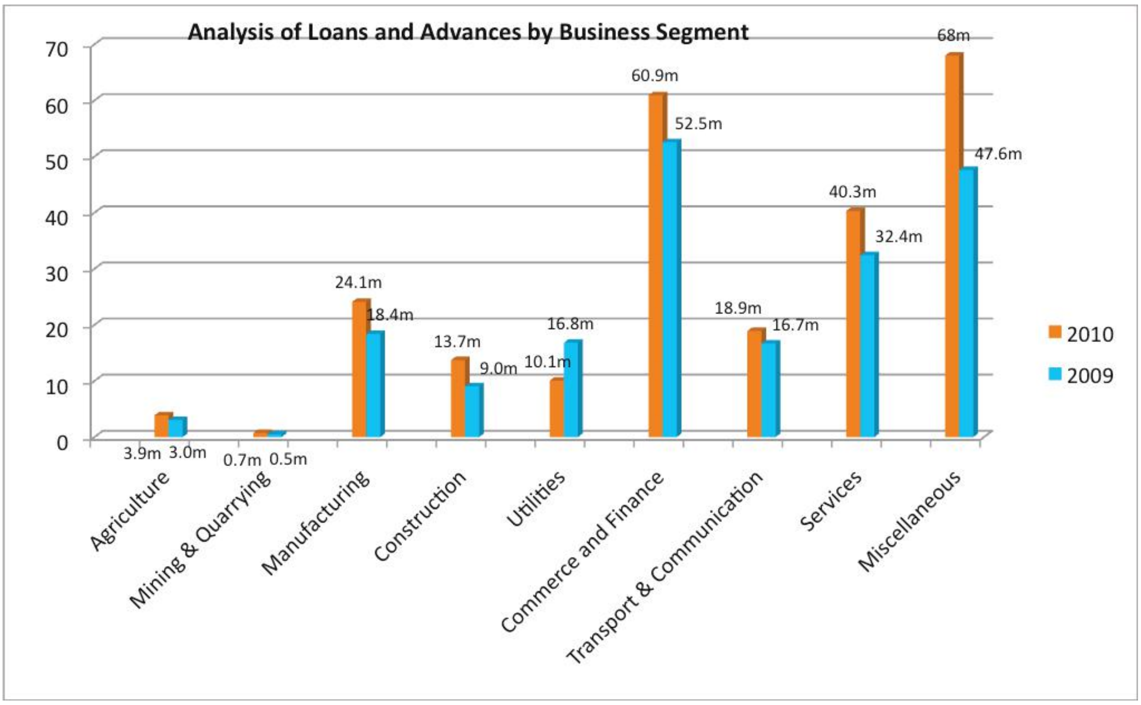
The fair value of collateral security held on "Past due but not impaired" and "Impaired" at the end of Year 2009 is GH¢28.8m.

Credit Concentration Risk

The Bank monitors credit concentration risks by business segment and by type of customer.

Credit Concentration Risk by Business Segment

An analysis of credit concentration risks by business segment as at the end of Years 2010 and 2009 is shown in the Bar Chart below:



Credit Concentration Risk by type of customer

An analysis of credit concentration risk by type of customer is shown in the table below:

ANALYSIS OF LOANS AND ADVANCES BY TYPE OF CUSTOMER	2010 GH¢m	2009 GH¢m
Individuals	4.6	5.7
Other Private Enterprises	222.9	178.0
Government departments and agencies	3.9	7.1
Public Enterprises	1.7	0.5
Staff	7.5	5.7
Total	240.7	197.0

35.5 Market Risk

Market risk is the potential for losses arising from movements in interest rates, exchange rates, equity prices and commodity prices. PBL is currently exposed to interest rate and foreign exchange rate risks with no exposure to equity or commodity price risks.

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustment within a specified period. The Bank's lending, investment and funding activities gives rise to interest rate risk because it carries a mix of both fixed and floating rate assets and liabilities on its books that are subject to re-pricing periodically.

Potential mismatches in interest rate sensitive assets and liabilities are caused by the following:

a. Movement in market interest rate;

b. Generation of new interest rate sensitive assets and liabilities;

c. Movement of interest rate sensitive assets and liabilities from one time band to another.

The Bank employs an interest rate sensitivity model (Gap analysis) to measure and monitor interest rate sensitive assets and liabilities. The model is based on the classification of interest rate sensitive assets and liabilities into particular time bands with regards to maturity.

The Bank's interest rate risk management strategy is based on a variable (floating) interest rate pricing policy in pricing its assets and to a large extent its liabilities. This allows the Bank to re-price its assets and liabilities in tandem with changes in market rates to ensure that changes in interest rates always result in an increase in net interest income. The Bank ensures that the re-pricing structure of the balance sheet generates maximum benefits from interest rate movements.

The Bank also applies the matched-funding principle which requires that the amount of interest rate sensitive assets must at least be equal to the amount of interest rate sensitive liabilities in a particular time band. The Bank's strategy is to maintain an overall position of interest sensitive assets greater than interest sensitive liabilities.

Exchange rate risk is the potential loss of income and capital arising from movements in exchange rates of currencies in which the Bank has positions or commitments.

PBL measures its exposure to foreign exchange rate risk by using the Net Open Foreign Exchange position. The Bank, on a daily basis computes the net open position for each foreign currency for which the Bank has a position. The net open position is then stress tested against variations in the exchange rate of each of the currencies to determine the extent to which exchange rate movements can adversely affect the Bank's income statement.

The Bank manages foreign exchange risk inherent in its operations by:

a. Matching assets and liabilities denominated in the same currency to ensure that the impact of exchange rate movement on the Bank is largely positive.

b. Keeping foreign currency holdings in more stable currencies.

The Asset and Liability Committee (ALCO) and the Treasury Committee are responsible for the management of the Bank's market risk. The Risk Management Department is responsible for ensuring that the Bank's exposure to market risk is within the risk appetite levels defined by the Board. The primary responsibility for the daily monitoring and management of market risk is however, delegated to the Treasury and International Banking Departments with the oversight supervision of the Managing Director.

35.6 Operational Risk

Operational risk is the potential for loss arising from inadequate or failed processes, people and systems, staff misconduct or from uncontrolled external events. The main operational risk drivers at the Bank include quality of controls, volume of cash flow, transactions and other operational risk measures such as cash shortages, legal expenses, system failures etc.

These risks are identified, monitored and controlled in the Bank through well designed operating procedures and controls, insurance policies, business continuity planning, internal audit and timely and reliable management reporting. Effective operational risk management leads to more stable business processes and lower operational losses.

PBL manages its operational risk by raising awareness with regards to operational losses, improving early warning information and allocating risk ownership and responsibilities to branch managers and heads of departments. The Bank's operational risk is managed through the Banking Operations Committee, IT Steering Committee and Business Strategy and Risk Management Committee.

35.7 Compliance Risk

This is the risk of legal or regulatory sanctions, material financial loss or damage to PBL's reputation as a result of failure to comply with banking laws, regulations, rules, internal management directives and other codes of conduct applicable to the banking industry. Thus, compliance risk exposes the Bank not only to damage to its public image but also to payment of fines, court orders, and suspension or revocation of operating licenses. Compliance failures can therefore have an adverse impact on the Bank's customers, staff and shareholders.

Managing compliance risk is fundamental to driving shareholder value. That is, the pursuit of a sustainable long term profits objective requires the Bank to conduct its operations in accordance with high ethical standards to reflect compliance with the relevant laws, regulatory directives and its core values of integrity, professionalism, honesty, and fairness.

The Bank has clear and accessible policies and procedures embedded in its operations to forestall possible compliance failures. These policies and procedures include a comprehensive system of internal controls aimed at ensuring continuous improvement in compliance risk management.

The Bank has a Compliance Department which focuses on managing compliance risks specific to the operations of the Bank. The responsibility of the department is to proactively identify, assess and monitor compliance risks faced by the Bank and also assist management in fulfilling its compliance responsibilities. The Compliance Department works closely with all relevant divisions and departments, especially Legal, Internal Control, Finance, International and Domestic Banking to timely prompt them on compliance issues to minimise compliance failures.

35.8 Reputational Risk

Reputational risk refers to the potential reputational damage that a company or an institution could suffer from any adverse or negative publicity about the company or the institution concerned. Prudential Bank, like any other institution is confronted with reputational risk. That is, any negative publicity about the Bank could impair public confidence in the Bank and thereby cause a decline in its customer base or reduction in the volume of business transacted by customers.

Reputational risk may result from any operational issue that causes disaffection to customers and other stakeholders as the Bank could be perceived as not being efficient, customer friendly or not being reliable. The major sources of reputational risk include system failures, unnecessary litigation, dealing with customers who engage in illegal business activities etc.

Internal operational issues such as system breakdown, employee errors, employee fraud etc may expose PBL to serious reputational risk. In managing reputational risk emanating from these sources, the Bank has put in place appropriate measures and controls that ensure that system breakdowns and bookkeeping errors are checked at every level of operation in order to minimise their impact on customers and other stakeholders. These controls form part of the daily operational procedures of the Bank.

Unnecessary litigation is also another source of reputational risk to the Bank. The Bank manages reputational risk resulting from avoidable litigation by ensuring that any misunderstanding between the Bank and its customers are resolved in a cordial way.

The Bank's reputation depends not only on the way it conducts its business but also the way its customers conduct themselves. Thus, dealing with customers whose activities borders on illegality, such as money laundering, is a source of reputational risk to the Bank. To manage this type of risk so that the Bank does not become notorious for dealing with economic and financial criminals or being used as a conduit for channelling illegal monies into the country, PBL uses Know Your Customer (KYC) procedures to screen potential customers and also monitors customers account operations to ensure that customers who open accounts with the Bank are engaged in legitimate businesses and have no criminal records of any sort. PBL also monitors the customers' accounts operations to ensure that deposits into the accounts are consistent with the type of business the customers are engaged in. The Bank conducts due diligence on companies and their directors before accounts are opened for them.

Management has made it the responsibility of every member of staff to safeguard the reputation of the Bank. The Bank's reputational risk management also revolves around effective communication between the Bank and its customers. This is achieved through daily monitoring of customer complaints and media reportage about the Bank for prompt resolution of the concerns raised or any adverse publicity.

36.0 CAPITAL

36.1 The Objectives of Capital Management

The primary objective of capital management in the Bank is to ensure that:-

- it complies with the minimum stated capital requirement of Bank of Ghana;
- it complies with the regulatory capital requirement that enables it to meet the minimum Capital Adequacy Ratio requirements of Bank of Ghana at all times;
- its operations would assure it of increasing the level of profitability and shareholder value

The achievement of the above objectives is monitored through regular reports on the performance of the Bank and prudential returns submitted to Bank of Ghana.

36.2 Capital Description

The Bank's Regulatory Capital consists of both Tier 1 and Tier 2 capital. Tier 1 capital consists of shareholders' funds comprising stated capital, statutory reserves and income surplus, which includes current and previous year's retained earnings. Tier 2 capital consists of subordinated term debts, convertible debentures and revaluation surpluses.

The current level of the Bank's capital complies with the existing minimum stated capital requirement of Bank of Ghana.

36.3 The Level of Capital Adequacy

	2010 GH¢	2009 GH¢
Paid Capital	25,100,000	7,100,000
Disclosed Reserves	8,141,893	17,781,469
Sub-Total	33,241,893	24,881,469
Investments in Unconsolidated Subsidiaries	(5,600,000)	(5,600,000)
Tier 1 Capital	27,641,893	19,281,469
Tier 2 Capital	9,670,495	6,124,918
Regulatory Capital	**37,312,388**	**25,406,837**
Required Regulatory Capital	(29,256,948)	(23,271,493)
Surplus Capital	**8,055,440**	**2,134,894**

The Bank's regulatory capital was above the required minimum throughout the period. The increase in the Bank's surplus capital is an indication of the improvement in the Bank's risk absorption capacity.

36.4 Compliance Status of New Capital Requirement

The Bank of Ghana announced a new minimum stated capital requirements for all banks on 13 February 2008. The minimum stated capital requirement for operating a Universal banking License is GH¢60 million and existing banks with foreign majority shareholding were required to attain the new capital requirement by 31 December 2009. However, Banks with local majority ownership like PBL are expected to attain a capitalisation of at least GH¢25 million by December 2010 and the GH¢60 million by December 2012

The Bank met the minimum stated capital of GH¢25.0 million at the end of 2010 as required by Bank of Ghana. The Board of Directors and the shareholders are committed to increasing the stated capital to at least GH¢60.0million by 31 December 2012 in line with the Bank of Ghana directive.

Musah Tahiru, an Officer of the Tamale Branch explaining a point to invited guests.

A cross-section of guests at the Atonsu, Kumasi Branch opening ceremony.

The Front view of the Methodist Univeristy College Campus Agency of the Bank.

Invited guests touring the premises of the Methodist University College Campus Agency after the opening ceremony.

Mr Kofi Britwum, a Marketing Officer of the Bank declares the Adentan Branch open after the cutting of the tape by Board Chairman, Mr J.S. Addo. Looking on are the Managing Director, Mr Stephen Sekyere-Abankwa and other Bank officials.

A cross-section of guests at the Adentan Branch opening ceremony.

OUR BRANCH NETWORK

GREATER ACCRA REGION

HEAD OFFICE
8 Nima Avenue
Ring Road Central
Accra
Tel.: 233-302-781200-6
Fax: 233-302-781210

RING ROAD CENTRAL BRANCH
8 Nima Avenue
Ring Road Central, Accra
Tel.: 233-302-781179/78127
Fax: 233-302-768421

ACCRA BRANCH
Swanzy Shopping Arcade (Former Kingsway Building)
Tel.: 233-302-671943, 678982
Fax: 233-302-678942

MAKOLA BRANCH
31st December Market
Makola, Accra
Tel.: 233-302-686638, 676639
Fax: 233-302-676640

ABOSSEY OKAI BRANCH
Cap and May House,
Ring Road West,
Accra
Tel.: 233-302-669107, 669944, 664108/9
Fax: 233-302-668126

TESANO BRANCH
Nsawam Road, Tesano
Near Tesano Police Station
Tel Nos. 233-302-258170-2, 258174
Fax No. 233-302-258173

ABEKA BRANCH
Apugu Towers, Abeka Lapaz
Abeka,
Tel : 233-302-220927, 220919, 220920
Fax: 233-302-220929

SPINTEX ROAD BRANCH
(Adjacent CCTC, Next to Coca-Cola Roundabout)
Spintex Road,Accra
Tel.: 233-302-814409, 814399
Fax: 233-302-812934

WEIJA BRANCH
(Opposite Phastor Contrete Works)
Accra-Winneba Road
Accra
Tel.: 233-302-853494/5
Fax: 233-302-853496

ODORKOR BRANCH
Off Accra-Winneba Road
Odorkor Traffic Light
Tel Nos. 233-302-311710, 311712
Fax No. 233-302-311716

GICEL BRANCH
Gicel Estates,
Weija, Accra
Tel.: 233-302-850174, 859175, 850176
Fax: 233-302-850173

ZONGO JUNCTION BRANCH
Oblogo Road, Opposite the Total
Filling Station, Link Road
Tel Nos. 233-302-678819/24
Fax No. 233-302-678830

MADINA BRANCH
Albert House
Zongo Junction
Madina,
Accra
Tel.: 233-302-511111, 511112
Fax: 233-302-511485

VALLEY VIEW AGENCY
Valley View University Campus
Oyibi
Tel No. 233-27-7759333
Fax No. 233-27-7900090

METHODIST UNIVERSITY COLLEGE AGENCY
Methodist University College Campus
Dansoman
Tel: 233-302-302484,302485
Fax: 233-302-302486

NORTH INDUSTRIAL AREA BRANCH
Melcom Plus
No 3 Otublohum Street
North Industrial Area
Tel: 233-302-221856, 221857, 221862
Fax: 233-302-221875

ADENTAN BRANCH
4A Lami Dwaahe Street
Housing Estate Road
Adentan Housing Estate
Tel: 233-302-501346, 501347
Fax: 233-302-501345

TEMA FISHING HARBOUR BRANCH
Tema Fishing Harbour
Hillpok Yard
Tel. Nos. 233-303-207352/3
Fax No. 233-303 207357

KAAS AGENCY
KAAS Fisheries Building
Fishing Harbour Road, Tema
Tel.: 233-303-200575,200576
Fax: 233-303-200577

TEMA COMMUNITY ONE BRANCH
Prudential House,
Off Krakrue Road
Commercial Area, Tema
Tel.: 233-303- 217160-2, 217140
Fax: 233-303 217137

INTERNATIONAL BANKING DEPT.
8 Nima Avenue
Ring Road Central, Accra
Tel.: 233-302-781184
Fax: 233-302-781194

CENTRAL REGION

CAPE COAST BRANCH
Palm House,
101/3 Commercial Street
Cape Coast
Tel.: 233-3321-31575
Fax: 233-3321-31576

UNIVERSITY OF CAPE COAST BRANCH
Oye Inn, Behind The Science Block
University of Cape Coast
Tel : 233-3321-35653, 35654
Fax: 233-3321-35643

WESTERN REGION

TAKORADI HARBOUR BRANCH
Takoradi Harbour
Harbour Area
Tel Nos. 233-3120-21300, 21909, 21616, 31317
Fax No. 233-3120-31371

TAKORADI MARKET CIRCLE
62 Liberation Road
Market Circle
Tel: 233-3120-27415, 27452, 27479
Fax: 233-3120 27504

ASHANTI REGION

KUMASI BRANCH
Cocobod Jubilee House
Adum, Kumasi
Tel.: 233-322-25667, 26210, 45426,45427
Fax: 23-322-25917

ADUM BRANCH
Prudential Plaza,
(Formerly Unicorn House)
Adum, Kumasi
Tel.: 233-322-83814,83811/2, 83816
Fax: 233-322-83815

AFFUL NKWANTA BRANCH
Near Kumasi Children's Park
Tel No. 233-322-49450/1/2
Fax No. 233-322-49455

ABOABO BRANCH
Near The Traffic Light
Aboabo-Airport Dual Carriageway,
Kumasi,
Tel : 233-322-47350/1/2
Fax: 233-322-47357

ATONSU BRANCH
91 Block "A"
Within Unity Oil Commercial Complex
Atonsu
Tel: 233-3220-80575, 83750, 83751
Fax: 233-3220-80635

SUAME MAAKRO BRANCH
Tarkwa Maakro, New Road
Kumasi,
Tel: 233-3220 46717, 46720
Fax: 233-3220-46897

NORTHERN REGION

TAMALE BRANCH
Quality First Building (1st Floor)
Opposite Main Taxi Rank
Tamale
Tel: 233-3720 27741, 27742
Fax: 233-3720-27740

All our Branches are networked and customers can withdraw or pay in at any of them.

CORRESPONDENT BANKS

CITIBANK N.A.
111 WALL STREET
19TH FLOOR
NEW YORK, N.Y. 10043
U.S.A.

CITIBANK N.A.
CITIBANK HOUSE
P.O. BOX 78
336 THE STRAND
LONDON WC2R 1HB
UNITED KINGDOM

CITIBANK A.G.
NEUE MAINZER STRASSE 75
60311 FRANKFURT MAIN
GERMANY

BHF BANK
AKTIENGESELLSCHAFT
BOCKENHEIMER LANDSTRASSE 10
60323 FRANKFURT AM MAIN
GERMANY

GHANA INTERNATIONAL BANK PLC
67 CHEAPSIDE
1ST FLOOR
LONDON, EC2V 6AZ
UNITED KINGDOM

BANK OF BEIRUT (UK) LIMITED
17A CURZON STREET
LONDON W1J 5HS
UNITED KINGDOM

NOTICE OF ANNUAL GENERAL MEETING

We are pleased to give you notice of, and invite you to the Fourteenth (14th) Annual General Meeting of Prudential Bank Limited to be held at the Boardroom of the Head Office, Ring Road Central, Accra, on Friday, 25TH March, 2011, at 11am to transact the following business:

1. To receive and consider the Reports of the Directors, Auditors and the Accounts of the Company for the year ended 31st December, 2010.

2. To authorize the Directors to fix the remuneration of the Auditors.

And the following Special business

3. To consider and pass the under-mentioned Special Resolution as recommended by the Directors.

IT IS HEREBY RESOLVED

1. "That the Ordinary authorized shares of the Bank be increased from 100,000,000 to 300,000,000.

Dated this 3rd day of March, 2011.

By Order of the Board

OSEI YAW OSAFO
BOARD SECRETARY

NOTES

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in place of that Member. A Proxy need not be a Member. A Proxy Form is attached.

2. The Proxy Form must be delivered by hand or post to **The Secretary, Prudential Bank Limited, PMB, G.P.O No. 8 Nima Avenue, Ring Road Central, Kanda, Accra** at least 24 hours before the appointed time for the Meeting.

3. A copy of the Audited Financial Statement is attached.