Ghana International Bank plc

Pillar 3

as at 31st December 2019

Prepared by: Regulatory Reporting Team

CONTENTS

ACRONYMS

ALCO	Assets and Liabilities Committee
BACC	Board Audit & Compliance Committee
BCBS	Basel Committee on Banking Supervision
BCC	Board Credit Committee
BDC	Business Development Committee
BRC	Board Risk Committee
CBO	Chief Banking Officer
CEO	Chief Executive Officer
COO	Chief Operations Officer
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EBA	European Banking Authority
ECL	Expected Credit Loss
EXCO	Executive Management Committee
FCC	Financial Crime Committee
FCRSC	Financial Crime Remediation Steering Committee
FVOCI	Fair Value Through Other Comprehensive Income
FX	Foreign Exchange
GDP	Gross Domestic Product
GHIB	Ghana International Bank plc
GM	General Manager
HQLA	High Quality Liquid Assets
IFRS	International Financial Reporting Standards
LCR	Liquidity Coverage Ratio

MCC	Management Credit Committee
MLRO	Money Laundering Reporting Officer
NCA	National Crime Agency
OPCO	Operations Committee
PEP	Politically Exposed Person
PRA	Prudential Regulation Authority
PSC	Projects Steering Committee
REMCO	Remuneration & Nominations Committee
RMF	Risk Management Framework
ROC	Risk Oversight Committee
RWA	Risk Weighted Assets
SAR	Suspicious Activity Report

1. Overview

1.1 Background

Ghana International Bank plc (GHIB) is registered in England and based in London. GHIB is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. Under the FCA's conduct supervision regime, which assigns firms to one of four categories, C1 to C4, GHIB has been categorised as a C4. The PRA has its own classifications for assessing a firm's significance to the stability of the UK financial system. The categories range from 1 to 5 and the Bank is classified by the PRA as a Category 4 firm.

All shareholders are major Ghanaian Financial Institutions. The Bank focusses on selected African markets. It has a representative office in Accra marketing products and services across the West African and East African sub-regions.

This disclosure report covers GHIB as a single regulated entity and although it is majority owned by the Bank of Ghana with a 51% shareholding, it is entirely self-sufficient for capital purposes. This report is prepared in accordance with the Capital Requirements Regulation and Directive IV ('CRR' and 'CRD IV', also known as the 'CRD IV legislative package'). It contains detailed information on the underlying drivers of risk-weighted assets (RWA) and capital ratios as at 31 December 2019 in accordance with the European Union's (EU) Capital Requirements Regulation (CRR) as implemented in the United Kingdom (UK) by the PRA.

CRD IV places emphasis on credit institutions' underlying risks and on the three 'pillars' set out below:

Pillar 1 covers the calculation of risk weighted assets for credit risk, counterparty credit risk, market risk and operational risk.

Pillar 2 refers to the supervisory review process. Its main intention is to find out whether additional capital is required over and above the Pillar 1 risk calculations. A firm's own internal models and assessments support this process.

Pillar 3 covers external communication of risk and capital information by banks as specified in the Basel rules to promote transparency and good risk management.

This document should be read in conjunction with the Bank's Annual Report and Financial Statement for the year ended 31 December 2019.

1.2 Highlights

The Bank has had a challenging 2019, and even though there was growth in the Ghanaian economy, this was not translated into increased business from the Bank's FI and corporate customers. Increased competition from major banks as well as mid-tier banks drove down yields and margins, and GHIB incurred increased costs related to professional and legal matters. Additionally, greater regulatory scrutiny and the challenges of financial risks faced by the Bank have resulted in the Bank increasing its investment in systems, personnel and staff training to bolster controls and enhance monitoring. The increased investment contributed to the cost income ratio (CIR) expanding to 97.8% compared to 80.6% in 2018, and also contributed to post-tax profit deteriorating to GBP0.64m from GBP4.2m. Net interest income contracted by 16.4% to GBP15.3m.

Ghana, Nigeria, Tanzania, Egypt and Kenya provide some of GHIB's largest markets on the African continent. Strong commodity prices as well as increased domestic consumption in 2019, are all expected to positively impact on Africa's economies, although this is now being threatened by the emergence of the Coronavirus pandemic. Despite weaker currencies against the backdrop of a strong US dollar, these economies have generally been in an accommodative monetary policy stance, as inflation and interest rates have generally lowered from the highs of 2016. In GHIB's largest market, Ghana, some shortfalls in corporate governance and risk management in a number of banks created high levels of nonperforming loans (NPLs) as well as liquidity and solvency challenges, which constricted the level of business GHIB could do in the market.

Following decisive action by the Bank of Ghana to institute new minimum capital and Corporate Governance directives in the banking sector, it is envisaged that the new measures will improve the risk environment, restore the health of banks, enable larger ticket transactions as well as drive throughput, as Ghana's economy expands.

In spite of the highlighted challenges in the Ghanaian banking sector, economic performance remained resilient with GDP growth in 2019 of 6.1%, compared to 6.3% in 2018 and 8.1% in 2017. The inflation trend continued a decreasing trajectory towards target, from 12.4% in 2017 down to 9.8% in 2018 and further decreasing to 7.2% in 2019. On the back of lowering inflation, interest rates decreased to create a favourable borrowing environment for consumers.

Notwithstanding the above challenges, the Bank remains committed to its pan-African strategy and intends to increase its marketing efforts in East and Southern Africa. The Bank will continue to grow its business in Ghana and the West African sub-region.

The Annual Report and Financial Statements as at 31 December 2019, demonstrate the Bank's resilience, with shareholders' funds more than sufficient to support the assets of the Bank. Against the backdrop of challenges alluded to above, coupled with the Bank's internal constraints, Profit before Tax for the year fell by 84.7% to £0.8m in 2019 from £5.3m in 2018. The Bank has continued to face a demanding regulatory agenda and is in the process of remediating and thereby strengthening its internal systems and controls in respect of Money Laundering and Financial Crime. The Bank has also seen a significant increase in costs particularly in respect to additional staff salaries, (as staffing levels have increased in Compliance, Client Onboarding, Transaction Monitoring and Regulatory Reporting teams), consultancy costs, as well as legal costs.

CET1: The Bank is well capitalised with a Common Equity Tier 1 (CET1) ratio of 41.86%, which is well above the PRA's present Total Capital Requirement of 8%. The components of the Bank's capital are shown in fig 1 below.

Basle III Leverage Ratio: The Bank is not highly leveraged. This is borne out by the leverage ratio for 2019, (a measure of capital as a proportion of total assets), of 20.06% which is well ahead of the prescribed minimum requirement of 3% defined in the Bank for International Settlements (BIS) via its document BCBS 270 dated January 2014.

Fig1: Capital Ratios

Item	Amount	
CET1 Capital ratio	41.86	Minimum amount of CET1 capital that needs to be maintained, expressed as a % of the total risk exposure amount.
Surplus(+)/Deficit(-) of CET1 capital	123,011	4.50
T1 Capital ratio	41.86	Minimum amount of Tier1 capital that needs to be maintained, expressed as a % of the total risk exposure amount.
Surplus(+)/Deficit(-) of T1 capital	118,072	6.00
Total capital ratio	41.86	Minimum amount of total capital that needs to be maintained, expressed as a % of the total risk exposure amount.
Surplus(+)/Deficit(-) of total capital	111,487	8.00

The Bank complied with all externally imposed capital requirements throughout the year ending 2019. The Bank's total equity as at 31 December 2019 was £137.0m as published in the Bank's Annual Report. However, regulatory available capital used for calculating capital ratios stood at £137.83m (adjusted for items such as additional valuation adjustments (AVA), IFRS 9 ECL transitional charges and intangible assts.

1.3 Scope of Application

The Bank has complied with the PRA's prudential capital regulations, as set out in CRD IV and CRR and supported by the EBA Regulatory Technical Standards (RTS) and the PRA Policy Statements throughout the year. This disclosure is presented in respect of the year to 31 December 2019.

It should be noted that while some quantitative information in this document is based on financial data in the Bank's 2019 Annual Report, other quantitative data is sourced from the Bank's regulatory reporting processes, which may be calculated according to a different set of rules. The difference between the data sourced from the Bank's Annual Report and that sourced from the Bank's regulatory reporting process is most evident for credit risk disclosures where Pillar 3 disclosures require the use of Exposure at Default (EAD). EAD is defined as the expected amount of exposure at default. It is reported net of provisions, credit risk mitigation and includes consideration of any off-balance sheet exposure adjusted by a regulatory credit conversion factor. Pillar 3 quantitative data is thus not always comparable with the quantitative data contained in the Bank's Annual Report.

GHIB calculates and maintains regulatory capital ratios based on the Bank's accounting balance sheet as at the end of 2019.

1.4 Frequency and Location

These disclosures have been approved by the Board of Directors of the Bank and are made annually as at 31 December and are published on GHIB's website www.ghanabank.co.uk.
Pillar 3 disclosures have been prepared purely to explain the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and not for any other purpose. Pillar 3 disclosures are a regulatory requirement.

1.5 Verification and Supervision

These Pillar 3 disclosures are not subject to external audit, except where they are extracted from the Bank's audited Annual Report and Financial Statements dated 31 December 2019. This Pillar 3 Disclosures report was reviewed by the Bank's Executive Committee (EXCO), Asset and Liability Committee (ALCO), Audit and Compliance Committee (BACC) and subsequently recommended to the Board of Directors for approval.

The review and approval process is in line with the internal guidelines for the publication of external disclosures such as the Annual Report and Financial Statements and the Pillar 3 report.

1.6 Key Capital Ratios

Throughout the 2019 financial year, the Bank has maintained adequate capital resources in line with the regulatory requirements.

The Bank is well capitalised in proportion to its risk appetite and scale of its business. As at 31 December 2019 it had a total regulatory capital base of £137.83m.

Table1: Key capital resources, capital, leverage and liquidity ratios as at 31 December 2019

Key Metrics	As at 31st December 2019
Available capital (amounts)	
Common Equity Tier (CET1) (£'000)	**137,828**
Total Capital (£'000)	**137,828**
Risk-Weighted Assets (amounts)	
Total Risk-Weighted Assets (£'000)	**281,553**
Risk-based capital ratios as a percentage of RWA	
Common Equity Tier 1 ratio (%)	**41.86**
Total Capital Ratio (%)	**41.86**
Basel III leverage ratio	
Total Basel III leverage ratio exposure measure (%)	**20.06**
Liquidity Coverage Ratio	
Total HQLA (£'000)	**206,996**
Net Liquidity Outflow (£'000)	**74,348**
LCR ratio (%)	**278.41**

The Bank experienced a decrease of 12% in risk weighted assets (£319.96m in 2018 to £281.56m in 2019) which was in line with the measured approach taken by management in granting credit.
The Total tier 1 ratio is 41.86% which is higher than the 2018 calculation of 37.41% and above the Bank's regulatory requirement.

As at 31 December 2019, the composition of GHIB's high quality liquid assets (HQLA) was as follows: £176,700,000 in GHIB's Bank of England reserve account, £30,173,389 in US Treasury Bills and £122,283 held at the Bank in its vault.

The leverage ratio as at 31 December 2019 was 20.06%, which exceeds the minimum requirement of 3%.

2. Changes to disclosures

The Bank continues to develop the transparency and quality of its disclosures to ensure they are as clear and informative as possible.

The Coronavirus pandemic has had a profound impact on almost all markets across the globe, leading to economic and social disruption. The impact since 31 December 2019 on GHIB as an institution has been wide-ranging. The Bank has invoked business continuity plans, as it seeks to serve and support its customers throughout the pandemic while maintaining the safety and well-being of staff. From an operational perspective the Bank has successfully operated under working from home arrangements since March 2020, and regular management meetings and oversight regarding the risks posed by Covid-19 have been convened. The Bank also has a comprehensive exit strategy documented and approved by the Board, subject to developments of the virus and government guidance.

As a result of the pandemic the Bank is expected to be financially impacted by cuts in UK and US interest rates; volatility in bond markets; FX volatility; and a potential increase in the credit risk of obligors the Banks holds exposures. This is expected to result in a reduction in net interest income, and potential increases in unrealised losses in FVOCI revaluation reserves and increases in expected credit losses.

However, management are putting measures in place to minimise the full impact on profitability. Although the overall financial impact of Covid-19 cannot be fully and reliably estimated at this time, the Bank has assessed the key sensitivities within its annual stress testing under various scenarios and is able to adequately restore its capital and liquidity position in a stressed scenario.

3. Capital adequacy

Capital Management

The Bank's capital management objectives are to comply with regulatory capital requirements at all times, and to ensure that the Bank has sufficient capital to cover the risks in stable and stressed conditions to support its strategy.

Capital adequacy and its effective management are crucial to the Bank's ability to operate its business lines, to grow organically and to pursue its strategy. The Bank is aware that its business and financial status could be negatively impacted if it is not able to manage its capital effectively or if the amount and quality of capital held is insufficient due to a materially worse than expected financial performance.

Capital requirements and resources

The Bank complied with all of its regulatory capital requirements throughout 2019. The Bank manages its capital resources to ensure that the overall amount and quality of resources exceeds the Bank's capital requirements. The Bank's capital requirements are primarily driven by Credit Risk, Operational Risk, Market Risk, Concentration Risk and Interest Rate Risk in the Banking Book.

The Bank's capital requirements also incorporate PRA buffer (which include: capital conservation buffer-CCoB and countercyclical buffer-CCyB), the size of which is determined by stress testing as part of the Internal Capital Adequacy Assessment Process (ICAAP).

Stress testing and capital planning

The Bank uses stress testing as a key Risk Management tool to gain a better understanding of its resilience to internal and external shocks. In addition, stress testing provides a key input to the Bank's capital assessments and related risk management and measurement assumptions.
The purpose of the Bank's stress testing is to ensure the following:

- confirm the Bank has sufficient capital resources;
- ensure the Bank remains within its risk appetite;
- ensure the alignment between the Bank's Risk Management Framework and Senior Management decision making; and
- to provide sufficiently severe and forward-looking stress scenarios.

The Bank assesses its existing and future Capital Adequacy under a range of scenarios, using a combination of quantitative and qualitative analyses in the ICAAP, which is reviewed by the Regulator on a periodic basis. The ICAAP, which acts as a link between the Bank's strategy, capital and risk under stress, is approved annually by the Board.

3.1 Capital Requirements / Risk Weighted Assets

Table 2: The amount of capital the Bank is required to set aside to meet the minimum total capital ratio of 8% of RWAs set by the CRR.

Breakdown of the Bank's Regulatory Capital Requirement as at 31-Dec-19	Capital Requirement (£ '000)	RWA (£ '000)	Exposure at Default (£ '000)
Central Gov/Central Banks	2,704	33,795	240,809
Exposures in Default	114	1,421	947
Corporates	11,844	148,056	148,056
Insitutions	4,800	60,002	223,259
Other Items	276	3,452	37,328
Public Sector Entities	2,767	34,593	34,650
Retail	19	234	311
Multilateral Development Banks	-	-	1,751
Total	**22,524**	**281,553**	**687,111**
Credit and counterparty risk			22,524
Operational Risk basic Indicator Approach			3,731
Market risk			85
Total Pillar 1 Requirement			26,340

3.2 Capital Resources

Table 3: Reconciliation of Accounting Capital to Regulatory Capital

Reconciliation of Accounting Capital to Regulatory Capital	Bank's Balance Sheet 31st December 2019 (£ '000)
Capital Base	
Total Equity	**137,828**
Ordinary Shares	75,000
-Retained Earnings	62,474
-FVOCI revaluation Reserve	749
-Value adjustment (due to prudent valuation)	(54)
-Other intangibles assets	(899)
-Other transitional adjustments to CET1 Capital (IFRS 9 ECL Transition)	558
Common Equity Tier 1 (CET 1) capital regulatory adjustments	
Total Equity	137,828
Total Tier 1 Capital	**137,828**
Total Capital Base	**137,828**

3.3 Capital Instruments

The Bank's authorised capital is made up of Common Equity tier 1 only and has no debt capital hence it does not have any capital instruments to report.

4. Risk Management Framework and Governance

GHIB's risk management framework is designed to support business activities within the Board's defined risk appetite. The risk management framework and the governance arrangements are designed to ensure that there is a clear organisational structure with defined lines of responsibility and appropriate processes to identify, manage, monitor and report the risks which the Bank is or may become exposed to. It also ensures that the risks which the Bank is or may become exposed to are appropriately identified and that those risks which the Bank decides to take are managed so that the Bank is not subject to material unexpected loss.

4.1 Risk Management Framework

The Bank's risk management framework incorporates its approach to risk management and covers the risk management strategy, risk appetite, risk culture and risk governance. It details the risk management process and how different elements of the risk framework such as the risk appetite, stress testing, the ICAAP, the ILAAP and recovery planning link to each other.

The risk management framework:

- is the overarching framework under which all risk frameworks, policies, and procedures are developed;
- sets out the standards under which risk is managed and applies to all risks taken and managed by the Bank;
- sets out the roles of the Board as ultimately responsible for the risk and control environment of the Bank, as well as the executive management committee structures, roles and responsibilities with respect to risk management;
- confirms that the Bank follows the three lines of defence model and sets out the role of each line; and
- recognises the importance of having a robust risk aware culture.

4.2 Risk Management Strategy

The purpose of the risk management strategy is to:

- identify key and emerging risks;
- set risk appetite and ensure that business plans are consistent with it;
- take risk-informed decisions within the defined risk appetite;
- ensure that the risk appetite and business plans are supported by effective risk controls, technology, people and operational capabilities;
- monitor and report the level of key risks against the defined risk appetite;
- manage the Bank's risk profile to ensure that the business strategy can withstand a range of adverse conditions identified in stress testing;
- manage risk within the business units with effective independent oversight;
- ensure a sound risk control environment and risk-aware culture; and
- inform the Bank's compensation practices to reward only prudent risk taking within the defined risk appetite.

GHIB's approach to Risk Management including Operational Risk Management comprises Risk Identification, Classification, Assessment, Rating and Evaluation, Control Monitoring, and Risk Reporting to Senior Management and Committees. The Bank`s approach includes identification of Gross Risks and of Residual Risks after taking into account related controls and mitigants that are in place.

The Risk Register is used to monitor the range of Operational Risks identified under BASEL III and to ensure each risk is regularly assessed by both line management and senior management. Discussions on Operational Risk matters are held in EXCO, but also by line management at the monthly meeting of the Risk Oversight Committee (ROC). Short lines of communication ensure that all operational issues are dealt with immediately and measures taken which are commensurate with the circumstances.

4.3 Risk Appetite

The Bank creates value by assuming risk. As part of its annual strategy and budget setting process the Board considers its key objectives and defines how much risk the Bank is willing to assume in relation to its business strategy. The level of risk that the Bank can assume and the strategy are informed by:

- the results of stress tests and scenario analysis that are performed by the finance and risk departments; and
- the Bank's risk capacity.

The Bank's risk appetite aligns with its strategic objectives. The process ensures that its strategic objectives are "risk-informed" and aligned with the risk assumed.

The Board expresses the risk that can be assumed in each risk category as follows:

- a high-level risk appetite statement defining the acceptable impact of the risk on the achievement of the Bank's goals and business objectives;
- granular statements detailing the type and level of specific risks that the Bank is willing to accept, tolerate, or avoid in the pursuit of its objectives; and
- risk limits, and tolerances (quantitative measures) that relate to individual business activities.

The Bank's Board approved risk appetite is documented in the risk appetite statement which is maintained and updated by the Chief Risk Officer.

The risk appetite statement details monitoring and escalation levels for risk metrics, including capital and liquidity, as follows:

- Appetite Early Warning Level
- Appetite Level
- Recovery Early Warning Level
- Recovery Level

The escalation levels ensure that the Bank can promptly identify a deteriorating position and take corrective action.

The risk appetite statement is reviewed at least annually or whenever there is a material change in the Bank's risk appetite, its activities or the market or economic environment within which it operates.

Management is responsible for proposing and the Board is responsible for reviewing and approving the risk appetite statement.

Business units are responsible for adhering to the risk appetite. The risk appetite statement is communicated to all business units and cascaded to all staff.

4.4 Risk Culture

The Board requires that a sound risk management culture is embedded throughout the Bank in all business operations so that when business decisions are made they:

- take account of risks (i.e. they are "risk-informed");
- are compliant with approved policies;
- are within the defined risk appetite;
- can be monitored; and
- are reported to the appropriate level for oversight.

The Bank's risk culture can be illustrated through the following:

- a clear "tone from the top" reflecting a strong governance culture and ethics;
- a clear business strategy that is communicated and understood throughout the Bank;
- a risk appetite that is in line with the business strategy and embedded in the day-to-day management of the Bank;
- clear and well understood frameworks and policies;
- clear and risk-informed decision making with personal accountability;
- open channels of communication throughout the Bank to freely raise, challenge and address issues;
- appropriate and ongoing training for all employees engaged in taking and controlling risk;
- no tolerance for unethical activities; and
- effective performance measurement processes to promote prudent risk management and address poor risk management.

The above mean that all staff contribute to the implementation of the framework, and that they are aware of the need for risk management and their part in it. All staff are encouraged to identify, address and report risk incidents promptly.

We translate risk strategy into operational objectives and assign risk management responsibilities throughout the organisation.

We have defined values which are communicated to all staff and form part of the annual staff performance and remuneration process.

We analyse historical incidents in order to draw conclusions, promote and share good practice and learn lessons from poor practice, "near miss" incidents and actual errors.

We avoid conflicts of interest in reward structures and develop compensation structures that encourage and promote "prudent" risk taking.

We monitor business decisions and processes to ensure that they continue to be compliant with regulatory requirements.

4.5 Risk Governance

The Board has ultimate responsibility for ensuring that an effective risk management framework is in place. The Board is responsible for a) approving the overall policy in relation to the types and level of risk that the Bank is permitted to assume in the pursuit of its business objectives; and b) maintaining a sufficient control environment to manage its key risks. The Board's Risk and Audit sub-committees monitor the risk management framework, the internal control environment and that risk exposures are within the defined risk appetite.

Any material breaches of the Bank's risk management policies, controls and procedures are reported to the Board Risk Committee and the Board Audit & Compliance Committee as appropriate. The Board Audit and Compliance Committee is assisted by Internal Audit, which undertakes regular and ad-hoc reviews of risk management controls and procedures.

4.5.1 Three Lines of Defence

The Bank's risk management framework relies on the "three lines of defence" model. All three lines of defence contribute towards the effective management of risk.

First line of defence

The first line of defence comprises the business units that "own" the risk and are responsible for identifying and managing the risks arising within their areas of responsibility. Business units manage risks by operating within approved policies and implementing and maintaining appropriate and effective systems and controls. Policies are approved by authorised committees in line with their terms of reference and are reviewed at least annually with any material changes requiring approval at committee level.

Business units have their own operational process and procedure manuals that document how they conform to approved policies and controls. Employees within business units are considered as the first line of defence and are expected to be aware of and own the risks relating to their activities. Face to face training provided by the second line of defence and online training ensures that first line of defence staff are risk aware at all times. The first line of defence is also responsible for maintaining and updating their own departmental risk registers.

Second line of defence

The second line of defence comprises governance and oversight and includes the financial crime and compliance and risk oversight committees. The second line of defence is responsible for communicating the risk strategy, risk framework and defined risk appetite to the business units, and independently monitors and reviews the activities of the first line of defence against the defined risk appetite. The second line of defence also performs stress testing to assess the Bank's risk exposures and their potential impact under a range of adverse scenarios. The second line of defence prepares reports and analyses the risks faced by the Bank for each key risk. The main functions of the second line of defence are in relation to financial, capital, credit, liquidity, interest rate, operational, conduct and compliance risks. Compliance is led by the GM Compliance and MLRO who reports to the Chief Risk Officer and has a dotted reporting line to the Chair of the Board Audit & Compliance Committee (BACC), while the Bank's Risk Management department is led by the Chief Risk Officer who reports to the Chief Executive Officer and has a dotted reporting line to the Chair of the Board Risk Committee.

The second line of defence does not have volume or sales targets, which are specifically excluded from their objectives. The second line of defence develops assurance programmes to review the results of the first line's quality control programmes and also adherence to and effectiveness of policies and controls. Proposals to the Board and the Board Risk Committee are reviewed and commented on by the second line of defence.

The second line of defence promotes a close working relationship with the first line of defence based on mutual trust, and the ability to support and challenge. The risk function works proactively with business units to identify, challenge, measure, manage, monitor and report the risks arising within the business.

This is achieved by:

- analysing portfolio characteristics, loss drivers, assumptions and internal and external factors to determine the impact and likelihood of potential risks;
- performing scenario analysis to determine best and worst-case outcomes, challenging assumptions, considering the interrelationships between risks and changes in expectations; and
- examining events, potential weaknesses in systems, processes and governance arrangements and proposing early warning signals, trigger levels and controls.

Third line of defence

The third line of defence comprises of a) Internal Audit (outsourced to Grant Thornton) and b) Internal Assurance and is overseen by the BACC. Internal Audit reports to the non-executive Chair of the BACC and is independent of the first and second lines of defence. The third line sets its own programme of work and has access to the activities of both the first and second lines. It can review adherence to policy and controls in the first line, the monitoring of activity in the second line, and the setting of policy and controls in the second line.

The third line of defence's scope and programme of work is agreed with the BACC to provide an independent assessment of the internal control framework of the Bank.

4.5.2 Stress Testing

The Board takes a forward-looking view of strategic, capital and liquidity planning as part of the ICAAP and ILAAP processes. One of the approaches used to facilitate this forward-looking perspective in risk management is sensitivity analysis, scenario analysis and reverse stress testing.

Stress testing and scenario analysis are forward-looking risk management techniques used to evaluate the potential effects on the Bank's financial resources, following a specific event and/or movement in a set of risk drivers. They focus on low probability but plausible events that may have actually happened in the past.

Stress testing and scenario analysis are used to understand potential vulnerabilities to exceptional events and potential actions that could be taken to mitigate against the effects of those events. Stress scenarios cover a range of drivers that can create extraordinary losses in banking book positions that may arise as a result of a market event, a credit event or any other risk such as concentration or operational risk. These drivers include low-probability high-impact events in all major risk categories.

Stress testing and scenario analysis help identify and analyse the impact of risks on the Bank's financial resources and provide context when reviewing and setting risk appetite.

The Bank's stress testing process includes:

- sensitivity analysis of specific risk drivers;
- scenario analysis which refers to varying a range of parameters at the same time; and
- reverse stress testing which identifies the conditions and severity of a stress event that would result in the Bank's business model becoming unviable or would result in the Bank reaching the point of failure.

Stress testing is used as part of:

- the ICAAP to assess the adequacy of the Bank's capital;
- the ILAAP to assess the adequacy of the Bank's liquidity reserves;
- the recovery plan to assess the effectiveness and adequacy of recovery options; and
- strategic decision making.

4.5.3 Risk Governance Structure

The section below summarises the roles and responsibilities of various committees

Board of Directors

Articulates the Bank's strategy, vision and business objectives. Establishes appropriate systems and controls to ensure adherence with its stated risk appetite, legal & regulatory requirements and good practice

The Board of Directors, (the "Board"), comprises nine members including the Board Chair. Members include the Chief Executive Officer, Deputy Chief Executive Officer & Chief Operating Officer, seven non-executive directors (NEDs) including the Board Chair and two independent non-executive directors. The Board Chair is nominated by the Bank's majority shareholder, Central Bank of Ghana and appointed by the shareholders. As at 31 December there was one independent non-executive director position that was vacant on the Board and being recruited.

Meeting Frequency: Minimum 4 times per year

Board Credit Committee (BCC)

BCC has delegated authority to consider and approve credit applications for amounts above £15m.

The BCC membership comprises the Non-Executive Directors and Executive Directors. The Board Chair is not a member of the Committee. The Committee is chaired by a Non-Executive Director.

Meeting Frequency: Minimum 4 times per year as well as when required

Board Risk Committee

The committee considers the Bank's risk profile relative to current and future strategy and risk appetite and identifies any risk trends, concentrations of exposures and any requirements for policy change. The risk profile of the Bank is reviewed and monitored through a continuous process of identification, evaluation and management of all material risks including any longer-term strategic threats to the Bank.

The committee also reviews, challenges and recommends to the Board for approval, the risk appetite, risk measures and risk limits, taking into account the Bank's capital and liquidity adequacy, the Bank's operational capabilities and the external financial environment. It considers, oversees, challenges and advises the Board on the Bank's exposure to all significant risks to the business

The membership of the BRC comprises Non-Executive Directors only and the Committee is chaired by an independent Non-Executive Director. The Board Chair is not a member of the BRC.

Meeting Frequency: Minimum 4 times per year

Board Audit & Compliance Committee (BACC)

The committee reviews the effectiveness of the Bank's internal controls, approves the internal audit programme and examines completed internal and external audit reports. It considers the major findings and ensures, via management, that recommendations are implemented where necessary. Any significant judgements and accounting policies in relation to financial reporting are reviewed and challenged by the committee.

The committee ensures the financial statements give a true and fair view, and provide the reader with sufficient information to assess the Bank's performance. The committee also appraises the performance of the internal audit function. The committee reviews the appointment of external auditors at intervals of not more than three years and approves the audit fees.

The membership of the BACC comprises Non-Executive Directors only and the Committee is chaired by an independent Non-Executive Director. The Board Chair is not a member of the Committee.

Meeting Frequency: Minimum 4 times per year

Board Remuneration & Nominations Committee

The committee agrees and recommends to the Board the appointment of Directors and Senior Management, and an overall remuneration policy for the Bank that is aligned with the Bank's long-term business strategy and objectives, risk appetite, culture and values and the interests of relevant stakeholders.

The membership of the REMCO comprises Non-Executive Directors only and the Committee is chaired by an independent Non-Executive Director. The Board Chair is not a member of the Committee.

Meeting Frequency: Minimum 4 times per year

Executive Management Committee (EXCO)

Manages and conducts the Bank's business within Board approved parameters and approved terms of reference. Reviews and manages the financial performance, underlying quality of financial resources in context of the approved risk appetite and ensures that the Bank has an appropriate RMF. The Chief Executive Officer has overall responsibility for management of the Bank, but day-to-day management of the various functions are delegated to the respective department heads. Each department is responsible and accountable for the management of risks, including associated controls and on-going monitoring. Key financial performance indicators are reviewed at least monthly as part of the overall reporting package reviewed. The EXCO membership is comprised of:

- Chief Executive Officer - CEO
- Deputy Chief Executive Officer & Chief Operating Officer - Deputy CEO & COO
- Chief Banking Officer - CBO
- General Manager Finance - GM Finance
- Chief Risk Officer - CRO
- General Manager Compliance and MLRO - GM Compliance
- General Manager Client Coverage - GM Client Coverage
- General Manager Operations - GM Operations

Meeting Frequency: Weekly

Risk Oversight Committee (ROC)

ROC oversees all the risks faced by the bank and monitors the level of the risk against the approved risk appetite. All risks are covered including Capital, Liquidity, Credit, Market, Finance Risk, Technology Risk, Compliance Risk, People Risk, Regulatory Reporting Risk, and Reputational Risks. ROC also has oversight of strategies for capital and liquidity management.

Membership comprises the CEO (Committee Chair), Deputy CEO & COO, GM Client Coverage, CBO, GM Compliance, GM Finance, GM Operations; and CRO.

Meeting Frequency: Monthly

Assets and Liabilities Committee (ALCO)

The committee is responsible for identifying, managing and controlling the Bank's balance sheet risks and capital management in executing its chosen business strategy. Balance sheet risks are managed by setting limits monitoring exposures and implementing controls across the dimensions of capital, funding, liquidity and non-trading interest rate risk. This Committee is responsible for the implementation of assets and liability strategy and policy for the Bank's balance sheet.

Comprising the CEO, Deputy CEO & COO, CRO, CBO, GM Client Coverage, GM Finance, Head of Treasury, Head of Credit Risk, Deputy Chief Risk Officer (Deputy CRO), Head of Finance and Head of Regulatory Reporting.

Meeting Frequency: Monthly

Financial Crime Committee (FCC)

The following are the main objectives of the FCC:

- Review any legal or regulatory developments and opine on the impact these have on the Bank's Financial Crime Risk approach
- Monitor and maintain the Bank's overall Financial Crime approach
- Provide direction across GHIB's objectives and aims to Senior Management Teams
- Review exceptions, dispensations or waivers across the Bank in accordance with the process document
- Review the quality, content and frequency of MLRO Reports
- Define and execute the process to ensure the Compliance Monitoring Programme (CMP)Process has periodic reviews (Annually, Bi-annually, Quarterly or Daily) in accordance with the Financial Crime CMP Risk Assessment Methodology and Governance procedures:
  - Act as an escalation point & help resolve any issues relating to financial crime in Bank
  - Define, document and have periodic reviews of the SAR's Register in accordance with the SAR process and procedures document

- Complete Compliance look back pre-05/18 and periodic reviews in accordance with the SAR process and procedures document
- Complete periodical reviews of Sanctions check and perform historical checks in accordance with the screening, sanctions, adverse media and PEP review process
- Ensure all past, current and new arising SAR's are added to the register and submitted to the NCA
- Ensure Exits are managed in a timely manner with robust categorisations in accordance with the Customer Selection and Exits Policy
- Review internal and external lists screened against are up to date and relevant to the financial crime risks the Bank faces
- Have oversight of the budget assigned to dealing with financial crime & assess if it is proportionate to the risks
- Ensure the Bank has sufficient resourcing to work effectively in dealing with financial crime matters
- Ensure all Bank staff have access to training relevant to the Bank's financial crime risks
- Ensure all Compliance personnel are fully trained in their respective disciplines and are cross trained to mitigate any key person dependencies

This Committee comprises the Deputy CEO & COO (Committee Chair), GM Compliance, CBO, GM Client Coverage, CRO, GM Operations, Head of Client On-Boarding, Head of Transaction Monitoring and the Project Manager Financial Crime Remediation Team.

Meeting Frequency: Monthly

Management Credit Committee (MCC)

This Committee is the Executive credit committee of the Bank with its main purpose being to assist the EXCO in fulfilling its responsibilities by providing oversight of policies and management activities relating to the identification, assessment, measurement and approval of loans and advances, monitoring performance, and the management of the Bank's credit risk.

The MCC has a delegated credit sanction authority for proposals up to £15 million from the Board.

Membership comprises the CEO; Deputy CEO & COO; GM Finance; CBO, GM Client Coverage; GM Operations, CRO and Deputy CRO.

Meeting Frequency: Monthly and more frequently as required

Operations Committee (OPCO)

The purpose of OPC is to provide a forum for continuous creative discussion and constructive challenge between executive management and senior direct reports of management teams. The Committee routinely reviews the Bank's IT platform and cyber risk, regulatory reporting and financial management risk to recommend decisions within its delegated authority on matters relating to strategy implementation, credit, treasury, legal, regulatory compliance and administration for Board approval (through EXCO).

Membership of the Committee comprise the Deputy CEO & COO (Committee Chair), GM Operations, GM Finance, Head of Finance, Head Credit Operations, Head of Technology, Head of Regulatory Reporting, Head of Treasury Operations, Senior Information and Cyber Security Manager, Head of Human Resources and Head of Trade Operations.

Meeting Frequency: Monthly

Business Development Committee (BDC)

The Committee facilitates the attainment of strategic objectives inter alia, and oversees the development of new products, new business and revenue streams, develops and nurtures client relationships and refers lending opportunities to the Bank's Credit Committees for assessment.

The committee comprises GM Client Coverage (Committee Chair), CBO, CRO, GM Compliance, Head of Treasury, GM Operations and GM Finance.

Meeting Frequency: Monthly

Project Steering Committee (PSC)

The PSC's role is to provide GHIB's Management, EXCO and Board members with assurance that all the Bank's Projects are being managed on an end-to-end basis, commensurate with the Bank's risk appetite. In addition, to ensure an appropriate project organisational structures, processes and tools that enable effective projects financial controls management with common minimum controls standards for all projects in the Bank.

Membership comprises: Deputy CEO & COO (Committee Chair), GM Finance, CBO, GM Client Coverage, and GM Operations.

Meeting Frequency: Monthly

5. Risks and their management

5.1 Credit Risk

The Bank is cognisant of the fact that it is primarily an emerging market focused institution with significant concentration in countries like Ghana and Nigeria. Credit risk associated with these emerging economies is greater than that for more developed economies due to the increased risk of potential political and economic challenges. The Bank is exposed to credit risk in relation to loans to customers, loans and advances including deposits in nostro account balances and bonds as well as in its secondary participations portfolio and contingent exposures. The Bank`s credit philosophy is to accept only risks that it understands, can control and which are appropriately priced.

Country limits are in place and assessed individually according to economic and political conditions for each country where exposure exists. The largest country appetite relates to Ghana with a lower appetite for Nigeria and Kenya. These three countries represent the largest aggregate risk exposure for the Bank, being the home country and two larger Sub-Saharan economies. Appetite for other countries is relatively low due to underwhelming economic, geographic and political factors. Sector limits are also in place to ensure that the Bank is not overexposed to any one sector. There is a Fair Value Through Other Comprehensive Income (FVOCI) portfolio, where appetite is constrained by the interest rate risk prevalent in purchasing longer dated fixed rate assets.

The Bank has appetite for counterparties which meet an acceptance criterion of A1/P1 and a select/approved group of A2/P2 counterparties for foreign exchange and money market dealings as approved by the Management Credit Committee and Board Credit Committee respectively and reported to the Board of Directors in accordance with the Bank's Large Exposures policy.

The Board of Directors approves the credit risk appetite taking into consideration past performance and future plans. Senior management are responsible for implementing the credit risk strategy approved by the Board and for developing the policies and procedures for the identification, measurement, monitoring and controlling of credit risk. There is a Head of Credit Risk responsible for co-ordinating matters of a risk nature and a Head of Credit Operations responsible for recording and monitoring all credit risk exposure.

The Pillar 1 minimum capital requirement for credit risk, based on the Basel II framework under the Standardised Approach, is taken as the starting point in considering what internal capital may be required. An assessment is first made as to whether the capital calculation fully captures the credit risk faced by the Bank.

The ultimate responsibility for credit risk lies with the Board, and the Bank`s credit risk appetite is articulated in GHIB's Risk Appetite Statement.

A number of stress tests are undertaken periodically and include hypothetical and historical credit risk scenarios. Hypothetical stress tests calculate the loss that would occur if a specific set of adverse events were to occur. Historical tests take account of the historic level of provisions and other factors, applied to current and projected business levels.

Part of the loan portfolio is held within the medium-term limits of over two years duration. For the FVOCI portfolio, there is a limit under this portfolio to restrict the interest rate risk prevalent in purchasing longer dated fixed rate bonds.

The Bank uses the standardised approach for the calculation of credit risk capital requirements. The process of computing credit risk capital charge involves the use of ratings provided by external credit assessment institutions (ECAI) such as Moody's, Fitch and Standard & Poor's. The credit risk information disclosed in this document includes a breakdown of the Bank's exposures by CRD IV exposure class, by location, sector, maturity and asset quality.

5.1.1 Credit Risk Mitigation for Risk Management

An in-depth credit analysis is undertaken in respect of our risk exposures, and a tight sanctioning structure is in place. This provides our main mitigant against credit risk, but additionally, security may be taken where necessary. A system of controls and limits enables the Bank to monitor and assess changes in its risk profile. Longer dated exposure is kept to a minimum to control the inherent risk in such exposure. The Bank pays close attention to economic and political risks and is able to react quickly to changes in outside influences. The Bank has very short lines of communication; ensuring quick action can be taken in adverse situations.

5.1.2 Credit Risk: Disclosures

5.1.2.1 Maximum Exposure to Credit Risk

Table 5: Exposure at Default (EAD) by standardised asset class as at 31 December 2019

Exposure Class	EAD (£'000)	RWA (£'000)
Agriculture, Forestry and Fishing	28,555	4,354
Sovereigns	245,264	34,686
Finance Industry	358,566	194,240
Personal	311	234
Other Items	2,418	2,296
Business Services	17,634	15,835
Transport, Utilities & Storage	34,363	29,908
TOTAL	**687,111**	**281,553**

5.1.2.2 Geographic Analysis of Exposure

Table 6: Geographic location of credit exposures based on Exposure at Default (EAD)

As at 31 December 2019	Sub-Saharan Africa (£'000)		UK (£'000)		Other European (£'000)		Rest of the World (£'000)		Total (£'000)	
Exposure Class	EAD	RWA	EAD	RWA	EAD	RWA	EAD	RWA	EAD	RWA
Central governments / central banks	33,086	32,996	176,751	-	-	-	30,973	799	240,809	33,795
Exposures in Default	947	1,421	-	-	-	-	-	-	947	1,421
Corporates	139,547	139,547	-	-	-	-	8,509	8,509	148,056	148,056
Institutions	91,097	27,310	41,057	8,211	52,234	16,706	38,870	7,774	223,259	60,002
Other items	34,909	1,156	2,418	2,296	-	-	-	-	37,328	3,452
Public sector entities	34,579	34,579	70	14	-	-	-	-	34,650	34,593
Retail	65	48	227	170	20	15	-	-	311	234
Multilateral Development Bank	1,751	0	-	-	-	-	-	-	1,751	0
Total	335,981	237,057	220,524	10,692	52,254	16,721	78,352	17,083	687,111	281,553

5.1.2.3 Industry Analysis of Exposure

Table 7: Exposure at Default (EAD) displayed by the industry classification based on the purposes of the loan.

Exposure Class	Agriculture (£'000)	Business Services(£'000)	Finance Industry-Banks(£'000)	Personal(£'000)	Real Estate(£'000)	Sovereign(£'000)	Transport, Utilities and Storage(£'000)
Central governments / central banks	-	-	-	-	-	240,809	-
Exposures in Default	-	947.01	-	-	-	-	-
Corporates	-	14,414	133,216	-	-	- 0.00	426
Institutions	-	-	223,259	-	-	-	-
Other items	24,145	2,272	3,750	-	-	4,455	2,705
Public sector entities	4,411	-	759	-	-	-	29,480
Retail	-	-	-	311	-	-	-
Multilateral Development Bank	-	-	-	-	-	-	1,751
Total	28,555	17,634	360,984	311	0	245,264	34,363

5.1.2.4 Maturity Analysis of Exposure

Table 8: The Bank's credit exposures by residual contractual maturity date

Maturity Analysis of Exposure **As at 31 December 2019**

	<1 Year £'000	>1-5 years £'000	>1-5 years £'000	Total £'000
Central governments / central banks	210,576	9,030	21,203	240,809
Exposures in Default	-	947	-	947
Corporates	143,436	4,620	-	148,056
Institutions	223,259	-	-	223,259
Other items	29,342	7,592	393	37,328
Public sector entities	14,720	19,929	-	34,650
Retail	45	260	7	311
Multilateral Development Bank	1,751	-	-	1,751

5.1.2.5 Asset Quality

Under the standardised approach, credit risk is measured by applying risk weights outlined in the CRR based on the exposure class to which the exposure is allocated.

Table 9: Exposure at Default (EAD) displayed by risk weight band

Risk Weight Band Analysis of Exposure — As at 31 December 2019

	Central Gov/Central Banks (£'000)	Corporates (£'000)	Exposures in Defaults (£'000)	Institutions (£'000)	Other Items (£'000)	Public Sector Entities (£'000)	Retail (£'000)	MDB (£'000)
0%	207,014	-	-	-	29,252	-	-	1,751
1-20%	-	-	-	172,091	5,780	70	-	-
21-50%	-	-	-	51,167	-	-	-	-
51-75%	-	-	-	-	-	-	311	-
76-100%	33,795	148,056	-	-	2,296	34,579	-	-
101-150%	-	-	947	-	-	-	-	-
>150%	-	-	-	-	-	-	-	-
Total	**240,809**	**148,056**	**947**	**223,259**	**37,328**	**34,650**	**311**	**1,751**

5.1.2.6 Expected Credited Losses under IFRS 9

On 1 January 2018, the Bank adopted IFRS 9 – Financial Instruments (IFRS 9), replacing IAS 39. IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities, for the impairment of financial assets, and for general hedge accounting.

Under IFRS 9, ECLs are recognised in profit or loss before a loss event has occurred. The forward-looking ECL model requires forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses.

Expected credit losses are determined using a three-stage impairment approach that is based on the change in the credit quality of financial assets since initial recognition. Stage 1 includes financial assets that have experienced no significant increase in credit risk between initial recognition and the reporting date and for which 12-month expect credit losses are recorded. Stage 2 includes financial assets which have experienced a significant increase in credit risk between initial recognition and the reporting date, and for which lifetime credit losses are recorded. Stage 3 includes financial assets for which there is objective evidence of impairment, for which one or more events have had a detrimental impact on the estimated future cash flows of these financial assets at the reporting date, and for which lifetime expected credit losses are recorded.

As at 31 December 2019, the Bank recorded a total of £530k of provisions for doubtful debts under IFRS 9 (see Table 10 below). The Bank has not foreclosed on any facility and therefore it has not been necessary to take possession of any collateral in the year ending 31 December 2019, nor in the 5 years proceeding.

Table 10: Provisions for doubtful debts under IFRS 9

	Stage 1 12 months ECL	Stage 2 Lifetime ECL	Total
Balance at 1 January 2018	1,020,528	58,804	1,079,332
Changes in the loss allowance:			
Transfer between stages	(9,608)	9,608	-
(Credit)/charge to income statement	(297,293)	45,208	(252,085)
Foreign exchange movements	40,742	6,263	47,005
Balance as at 31 December 2018	754,369	119,883	874,252
Changes in the loss allowance:			
Transfer between stages	-	-	-
(Credit)/charge to income statement	(244,538)	(76,112)	(320,650)
Foreign exchange movements	(20,309)	(2,824)	(23,133)
Balance as at 31 December 2019	489,522	40,947	530,469

	2019 £	2018 £
Provision on loans and advances - Banks	187,531	355,009
Provision on loans and advances - Customers	325,635	469,755
Provision on debt instruments at fair value through other comprehensive income	17,303	49,488
Total provision for credit losses and provisions held on assets at fair value	**530,469**	**874,252**

5.2 Market Risk

For each of the three key market risks (Interest Rate, Foreign Exchange and Asset Pricing), the Bank does not undertake any hedging activities using derivatives.

The Bank mainly engages in GBP, USD and EUR transactions, and only undertakes spot Foreign Exchange transactions. The Bank has a net open FX position limit of £2m.

The Bank`s Interest Rate risk appetite is expressed as the maximum impact on Economic Value of Equity (EVE) of £5m for a parallel yield curve movement of +/-2%.

5.3 Operational Risk

GHIB has exposure to Operational Risk as a result of its activities and processes. Individual department managers are responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which they are accountable.

Operational Risk appetite is based on qualitative and quantitative measures. Quantitative expressions of Operational Risk Appetite are based on hard data derived from management information. Qualitative risks are those unavoidable risks which are not measurable but may be mitigated by other means, for example, operational policies, controls and disaster recovery arrangements.

The Bank`s objective is to manage Operational Risk within the defined operational risk appetite of the Bank. The Bank`s risk appetite is well below the Basic Indicator measure according to established Basel guidelines, and the historical record of such losses is very low. For the purposes of assessing risk according to Basel the Bank uses the Basic Indicator Approach as defined under CRR Article 315. This defines the operational risk capital charge for the Bank as 15% of the Bank's relevant indicator averaged over the previous three years.

The Bank has zero appetite for internal fraud. The Bank has a low Residual Risk appetite for Operational Losses and a tolerance level of less than £100,000 per annum.
Historically, the Bank has had a low level of Operational Losses.

At GHIB, measures taken to reduce operational losses include but are not limited to:

- Clearly articulated policies, procedures and manuals;
- Clear segregation of duties;
- Established processes to ensure authorisation limits are not breached;
- Regular analysis of reported incidents;
- Regular and relevant training provided at all levels; and
- Regular review of risks as part of the RCSA process.

5.4 Liquidity and Funding Risk

The Board approves the liquidity risk appetite taking into consideration past experience, counterparty risk, maturity mismatches, gap analysis, the results of stress testing and other factors that may have a bearing on liquidity. The Bank has a high level of liquidity and low leverage with the ability to repay depositors from short term liquid investments as they fall due. Wherever possible, the Bank matches maturity of risk assets with liabilities of like or longer maturities.

The Bank's liquid asset levels are maintained at a level such that the Bank can meet its 30-day survival horizon. Additionally, it is the Bank`s policy to ensure it has sufficient liquid resources to protect the Bank against any severe yet plausible adverse liquidity events for at least three months.

The Bank`s policy is for the Liquid Asset Buffer always to exceed the total net cash outflows over the next 30 calendar days coupled with sufficient liquid resources to protect the Bank against any severe yet plausible adverse liquidity events for at least three months.

The Bank maintains enough liquid assets to meet maturing obligations. The Bank has a short duration lending book, and maintains an appropriate level of High Quality Liquid Assets.

The Bank observes a maximum lending/deposits ratio of 70%. The Bank controls the amount of long term lending it undertakes in line with the level of short-term wholesale deposits that it holds.

As at 31-Dec-2019, both the Bank's Liquidity Coverage Ratio (LCR), at 278%, and the Net Stable Funding Ratio (NSFR), at 194%, were well above the minimum regulatory requirement of 100%.

Table 11 LCR as at 31-Dec-2019

C 76.00 - LIQUIDITY COVERAGE - CALCULATIONS

		Currency	Total currencies
			Value / Percentage
Row	**ID**	**Item**	**010**
CALCULATIONS			
Numerator, denominator, ratio			
010	1	Liquidity buffer	206,996
020	2	Net liquidity outflow	74,348
030	3	Liquidity coverage ratio (%)	278.41

5.5 Conduct Risk

The Bank has a low tolerance for poor conduct risk. Appropriate conduct is a key component of the Bank's strategic objectives and business model. GHIB seeks to operate at the highest levels of ethical and compliance standards in line with regulatory requirements and best practices.
The Bank has three over-riding goals are:

- to serve its customers well
- to operate with a sustainable and conservative risk profile; and
- to continue to build sustainable value for all shareholders.

The Bank takes proactive action to prevent or mitigate the risk of poor conduct, and to put things right when they have gone wrong.
The mitigation of bad conduct risk is an integral part of the Bank`s employees' duties and responsibilities. Employees are pivotal in the mitigation of conduct risk. The Bank is committed to training its staff to ensure that they clearly understand and are aware of their responsibilities in this respect. The Bank trains and continuously monitors the behaviour and understanding of all employees.

The Bank has no appetite for unfair outcomes arising from any element of the conduct risk lifecycle, which includes product design, sales or after sales processes and culture. Where an operational risk that may result in potential conduct risk for a customer is identified, the Bank will be proactive in escalating, agreeing appropriate action and communicating clearly with its customers to ensure that a fair outcome is achieved.

Regular reviews and active management of the portfolio of products is done to ensure that the Bank continues to deliver value for its customers, identifies areas of potential detriment and, where appropriate, takes proactive action to mitigate any impact to its customers.

5.6 Reputational Risk

The Bank has a low tolerance to any adverse impact to its reputation. GHIB considers the protection of its reputation and brand as paramount. The Bank will not conduct business or engage with stakeholders in a manner that could adversely impact its reputation. In addition, the Bank seeks to protect and enhance its reputation at all times through on-going identification and assessment of reputational risk events and establishment of clear mitigating plans and actions.

The Bank has taken a number of actions to strengthen governance and to embed good cultural practices in the organisation. Every member of staff is encouraged to take responsibility for managing reputation risk in their day-to-day decisions. The Bank has a whistle-blowing policy to encourage staff to report any actions or omissions that may be of detriment to the Bank. Training in many aspects of the Bank`s business is given including anti-bribery, complaints handling, financial crime prevention, fraud prevention, money laundering prevention, conflicts of interest and treating customers fairly.
Reputational Risk is the failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction either by the Bank itself, employees of the Bank or those associated with the Bank that might cause stakeholders to form a negative view of the Bank. The Bank has a strong appetite to ensure high ethical standards are maintained. The Bank has a zero tolerance for behaviour that puts its reputation at risk.

5.7 Legal Risk

There is a good level of awareness of the Bank's responsibility as well as individual responsibility led from the top, with procedures to inform staff so that they comply with legal requirements.
Being pan-African focused, the Bank is subject to a range of legal challenges in the countries in which it operates. Risks include:

- Breach of applicable laws in the countries in which it operates including data protection and human resources;

- Breach of global sanctions regimes;
- Tax evasion regulations; and
- Financial Crime.

Local knowledge is paramount to mitigating legal risks. Thus, as well as using reputable legal counsel (overseas and local) for documentation, developing an in-house knowledge pool with frequent visits to target markets and developing strategic alliances with local agencies, are invaluable risk mitigants.

5.8 Finance Risk

Finance Risk is the risk that the Bank's financial performance deteriorates, and that data is not materially accurate resulting in incorrect reporting to internal and external stakeholders. The Bank has a number of target ratios forming its finance risk appetite, and these include, return on equity at least 6%, return on assets minimum 1.3%, provisions to loans no more than 1% and the rate of increase in the loan portfolio to be restrained to no more than 20% in one year.

5.9 Pension Obligation Risk

Pension obligation risk relates to defined benefit pension schemes and defined contribution schemes offering guaranteed returns that are not fully matched by underlying investments. The Bank's pension is a defined contribution scheme with no guaranteed returns, it is therefore not considered to be a material risk.

5.10 Insurance Risk

Insurance risk arises where a bank uses insurance products to transfer risk or act as a capital mitigant. The Bank does not use such products and therefore it is not considered to be a material risk.

5.11 Counterparty Credit Risk

Counterparty credit risk is the risk of losses arising from the default of the counterparty to derivatives, margin lending, securities lending, repurchase and reverse repurchase or long settlement transactions before final settlement of the transaction's cash flows and where the exposure at default is crucially dependent on market factors. The Bank does not participate in any of the above-mentioned activities and therefore counterparty credit risk is not considered a material risk.

5.12 Securitisation Risk

Securitisation risk is the risk that the own funds held by a firm in respect of assets which it has securitised are inadequate having regard to the economic substance of the transaction including the degree of risk transfer achieved. The Bank has not undertaken such a transaction and therefore it is not considered a material risk.

5.13 Regulatory and Compliance Risk

Regulatory risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry which are currently subject to significant changes. Non-compliance could lead to fines, public reprimands, damage to reputation, increased prudential requirements, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate. The banking industry faces a major challenge in meeting Capital Requirements Directive (CRD) IV rules, which are now in effect and impacts on the calculation of capital and risk weighted assets.

5.14 Risk of Excessive Leverage

Financial leverage refers to the proportion of a business's operations that are financed through debt funding rather than equity funding.

The Bank's financial leverage levels are monitored by ALCO and are reported to EXCO, BRC and the Board on a regular basis. On a day-to-day basis, leverage is managed by Treasury. The Bank's leverage ratio as at 31 December 2019 was 20.06% (using a transitional definition of Tier 1 capital) which is well above the 3% minimum leverage ratio requirement. The leverage ratio had remained above the minimum requirement throughout 2019.

5.15 Financial Crime Risk

Financial Crime risk arises from the intention to circumvent Financial Crime regulations and laws or GHIB Financial Crime policies. It can be committed by employees or by outsiders such as vendors, clients, contractors, suppliers or other individuals.

Specific Financial Crime risks include, but is not limited to, Money Laundering and Terrorist Financing, Sanctions Evasion, Fraud and Theft, Market Abuse, Bribery and Corruption.

GHIB is committed to combating Financial Crime and ensuring that products offered by the Bank are not utilised for the purpose of Financial Crime. As such, compliance with applicable laws and regulations regarding Anti-Money Laundering and Counter Terrorism Financing (AML and CTF), Sanctions Evasion and Anti-bribery & Corruption is mandatory and fundamental to the control framework of GHIB.

GHIB has strict and transparent standards that are reviewed and strengthened on an ongoing basis, to ensure that processes and controls remain in compliance with applicable laws and regulations. GHIB reserves the right to reject any client, payment, or business that is not consistent with its Risk Appetite. GHIB's AML and CTF, Sanctions Evasion, and Anti-Bribery & Corruption programmes include customer due diligence, enhanced due diligence and suspicious and prohibited transaction monitoring and reporting policies as well as surveillance systems to monitor such activity.

5.16 Strategic and business risk

Business risk represents the risk that a business will be materially altered or even rendered unviable through a shock or other change, as happened to the securitization and structured-finance businesses during the 2008-09 financial crises.
Business risk is evaluated through a Business and Strategy Development process. The Bank's actual performance is compared with the detailed financial budget, including the historical volatility in earnings, which supports both the decision making and the planning process.

5.17 Group Risk

Group risk, represents the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.
GHIB's parent is a central bank in a politically stable African country and therefore both the nature of the parent's activities and the track record of the country lead to a perceived "Low" group risk.

5.18 Libor Transition

Against the backdrop of replacing Libor with an alternative risk-free benchmark rate, the Bank has in place a plan to minimise potential disruption of its operations as well as minimise adverse impact to its customers. The Bank has set up a management working group to effectively manage the process and provides regular update to Executive and Board committees.

5.19 Financial Risk of Climate Change

The Bank is committed to playing its role in the sustainability drive; to this end, it is beginning an assessment of how climate change will impact its business model and how its activities may impact the environment. The Bank will identify and assess its exposure to risk from climate change and embed appropriate governance and risk management processes, including putting in place policies and procedures to mitigate as well as bolster its response to the emerging risk of climate change.

6. Asset Encumbrance

The Bank held a total £21.458m in encumbered assets at the end of 31 December 2019. The activities that resulted in asset being encumbered are limited to Trade Finance LCs'.

7. Remuneration Policy

(A) Information relating to the bodies that oversee remuneration

The main body overseeing remuneration in GHIB is the Remuneration and Nominations Committee which meets quarterly. The Committee is chaired by an independent Non-Executive Director (INED) and all the members are Non-Executive Directors (NEDs). The CEO and Deputy CEO & COO attend by invitation only.

The Bank's remuneration policy applies to all employees in the London office, to the Bank's representative office in Accra and employment in Nairobi.

Types of Employees considered Material Risk Takers and Senior Managers

For the purposes of this remuneration policy, Senior Managers and Material Risk Takers have been defined using the Regulatory Technical Standards from the European Banking Authority. Senior Manager staff are defined irrespective of employment status (i.e. they include Non-Executive Board Members) who have decision making powers e.g. member of a senior management body, holder of a senior manager post, able to commit significantly to risk exposures. Other Material Risk Takers have also been defined using the criteria.

Senior Managers

1. CEO (SMF)
2. Deputy Chief Executive Officer and Chief Operating Officer (SMF)
3. Chairman (NED)
4. Chair of Audit and Compliance Committee and Chair of Risk Committee (SMF)
5. Chair of RemCO (SMF)
6. 4 X Non Executive Directors
7. Chief Risk Officer (SMF future)
8. Chief Banking Officer (SMF)
9. General Manager: Finance (SMF future)
10. General Manager: Compliance & MLRO (SMF)
11. General Manager: Client Coverage
12. General Manager: Operations

Other Material Risk Takers

1. Head of Treasury
2. Head of Technology Services
3. Head of Finance
4. Head of ITF

5. Head of Human Resources
6. Head of Client Onboarding
7. Head of Customer Services
8. Senior Manager Assurance
9. Board Secretary

(B) Information regarding the design and structure of the remuneration processes:

Key Features & Objectives of the Remuneration Policy

The Bank’s policy is to attract and retain the requisite staff with the necessary skills and experience to ensure that its strategic objectives are achieved.

Salaries of all London employees, including those engaged in control functions are benchmarked annually to similar positions in the market.

Similarly, the Bank’s Annual Incentive Plan (AIP) is reviewed annually relative to the external market data and salary surveys to ensure that it is in line with schemes in similar sized Banks in London. These benchmarked values are subject to approval by the Board.

The Bank’s Annual Incentive Plan (AIP) provides a method for the creation of a bonus pool out of which cash bonus awards (‘Awards’) can be paid to eligible employees including Material Risk Takers based on a combination of the Bank’s overall performance and their own individual contribution, subject always to any regulatory or legal obligations and to the interests of shareholders following authorisation by the Remuneration & Nominations Committee (‘Committee’) and ratification by the Board.

Awards shall be funded by means of a bonus pool (’Pool’) determined at the discretion of the Remuneration & Nominations Committee (‘Committee’) and subject to the approval of the Board.

The Committee monitors progress against a Balanced Scorecard and at the end of the year the CEO will present an evaluation of performance and propose a bonus pool based on the Bank’s performance. The Committee will make an assessment of performance taking input from the Board Risk Committee and Board Audit & Compliance Committee as appropriate. The mid-year review will help inform the bonus accrual process.

On reviewing the Bank’s performance, the Committee will determine its overall performance and make its decision on the size of the bonus pool taking into account the Bank’s overall financial position, the short-term outlook and shareholder interests.

The indicative bonus pool will be set out in-line with the table below based on the sum of individual maximum awards.

The overall pool will be made up of the pots allocated for the Executive, Senior Managers and Heads and Other staff. For accounting purposes however, there will be one overall bonus figure approved by the Committee.

The Committee will need to consider if Bank performance at a given level would justify the funding to meet maximum. In practice it is proposed that funding is initially set at 75% of maximum for a mid-range Target performance with any adjustment to this total made at the Committee’s discretion to reflect bank performance above or below this level.

Bank Performance	A Executive Directors	B Senior Managers & Heads	C Other Staff	A + B + C Total £
Below Threshold	As determined	Individual awards to support retention etc.	Individual awards to support retention etc.	A + B + C
Threshold	As determined	Enough to pay target bonus (Rating 2)	Enough to pay target bonus (Rating 2)	A + B + C
Target	As determined	Enough to pay target bonus (Rating 3)	Enough to pay target bonus (Rating 3)	A + B + C
Strong	As determined	Enough to pay target bonus (Rating 4)	Enough to pay target bonus (Rating 4)	A + B + C
Outstanding	As determined	Enough to pay target bonus (Rating 5)	Enough to pay target bonus (Rating 5)	A + B + C

The Board Risk Committee and Board Audit & Compliance Committee could make a recommendation for the Bonus Pool to be reduced. Equally the Board may not ratify the pool recommended by REMCO and may reduce it.

The rationale for discretion by the Board on the pool size would be in line with the Balance Score Card measures taking into account the Bank's overall financial position, the short-term outlook and shareholder interests.

The Plan includes a Balanced Scorecard which is reviewed and agreed annually (in February) by the REMCO. The four broad categories in the Bank's Scorecard applicable to the Performance Period are Financial; Customer Services; Banking Operations & Controls; and Organisational Capacity.

Awards are allocated to employees in accordance with their performance rating against annual objectives. Performance Periods for determining both the Pool and individual awards will be aligned with the GHIB financial year starting 1 January and ending 31 December. Awards will be paid as soon as practicable after the end of each Performance Period subject to any requirement for Deferred Awards.

No person may receive in any financial year Awards under the AIP with a value of more than 100% of their base salary (as at the date of payment of the Award) or, in the case of Executive Directors, up to 200% with shareholder approval.

All GHIB employees will be eligible to be considered to receive awards if they have been employed for the whole of the performance year. Awards will be paid at the discretion of the CEO and the Committee and will not form part of employees' contracts of employment. However, an employee must be a permanent member of staff (not a contractor). Whilst the rules say that an employee must have been employed for the whole of the performance year discretion may be applied to consider those who started during the performance year, however, but as a minimum an employee must have commenced employment before 1st October (or earlier) of the bonus year in question. In the 2019 performance year the scheme had 113 participants (2018: 90).

Allocation of Awards for the CEO and the Deputy Chief Executive Officer & Chief Operating Officer will be at the discretion of the Board through REMCO. For other employees, allocation of awards will be at the discretion of the CEO or his delegate(s). Individual Awards will be allocated as follows.

Awards will be allocated to employees in accordance with their performance against annual objectives defined under categories in the form of a performance scorecard over a 12-month period as indicated by their performance rating. The score card will incorporate appropriate risk criteria and the Committee will seek input on any risk adjustments from the BACC and BRC respectively.

Award levels will vary by employee level and individual performance– actual award levels will be subject to Pool funding and the distribution of Ratings across all employees.

Indicative Individual Awards are determined by an assigned rating subject to moderation based on available Pool funding and the distribution of Ratings across all GHIB employees i.e. the allocation of awards is predicated on a broadly normal distribution of Ratings across all GHIB employees. Final Award Determined: If the distribution is skewed such that more employees are rated 4 and 5 than are rated 1 and 2, funding will be insufficient and Final Awards will be lower on average than indicative.

Pool funding is absolute and may not be exceeded. Pool funding may only be transferred between the Senior Manager & Heads funding allocation and the Other Staff funding allocation with the approval of the Committee.

A review of the general principles of the Bank's Remuneration Policy takes place on a regular basis and is reported to the Committee.

The GM Compliance and MLRO and CRO report to Executive Management, but with dotted reporting lines to the Chairs of the BACC and BRC respectively. This ensures that Risk and Compliance measures are incorporated into the remuneration policies and awards.

The Heads of the control functions are fully empowered with direct access to Board members and are not directly controlled or constrained by Management.

Remuneration of the Heads of Control functions is determined following prior consultation with the Committee. Control Function Head's Awards will be subject to the procedures applied to all staff generally. However, given their role, their awards will be subject to specific additional comments, and where necessary additional recommendations by the CEO. In such circumstances such recommendations should also be supported by the BACC and BRC and recommended for approval by REMCO.

Both the GM Compliance and MLRO and CRO are remunerated against external management data for fixed remuneration and against personal objectives for bonus purposes linked to Compliance and Risk Management deliverables.

The AIP is discretionary and has in-built mechanisms for determining a bonus pool. In the event that performance is weak or loss-making the determination to make any bonus award is at the discretion of the Board and on the recommendation of REMCO. It could be a pool of zero.

The Bank only offers cash variable remuneration, other instruments are not applicable.

Under PRA Supervisory Statement SS2/17, the Bank is classified as proportionality level 3 (lower than £15 billion total assets). This is the lowest level of proportionality out of a 3 category scale and the Bank has applied the rules appropriate to this level.

Due to the Bank being proportionality level 3, deferrals are not a mandatory aspect of the GHIB Bonus policy. However, there may be instances when part of an award could be considered for a deferral if the Committee believes an award materially exceeds an individual's full year salary.

Such deferral should be for one or two years. Where an Award is made with a significant consideration to retention of the employee, in such a scenario the payment may be spread over more than one or two years mentioned above. Deferred Awards may be cancelled by the Committee in the event of:

- material misstatement of results;
- material breaches of risk controls;
- participation in or responsibility for conduct which results in significant losses to the institution;
- failure to meet appropriate standards of fitness and propriety
- resignation or termination of employment for any reason other than redundancy, disability or death; or
- Any other event which in the opinion of the GHIB Board constitutes a failure, breach, act or omission which negatively impacts the Bank's liquidity, capital, reputation or risk profile.

REM 1 Remuneration during the Financial Year 2019

			A	B
	Remuneration Amount		Senior Management	Other Material Risk Takers
1	Fixed Remuneration	Number of Employees	16	9
2		**Total fixed remuneration (3+5+7)**	£1,967,776	£751,418
3		of which cash based	£1,870,154	£747,545
4		of which deferred	Na	Na
5		of which shares or other share linked instruments	Na	Na
6		of which deferred	Na	Na
7		of which other forms	£97,622	£3,873
8		of which deferred	Na	Na
9	Variable remuneration	Number of Employees	8	8
10		**Total variable remuneration (11+13+15)**	£548,752	£167,534
11		of which cash based	£531,144	£167,149
12		of which deferred	Na	Na
13		of which shares or other share linked instruments	Na	Na
14		of which deferred	Na	Na
15		of which other forms	£17,608	£385
16		of which deferred	Na	Na
17		Total remuneration (rows 2 + 10)	£2,516,528	£918,952

NB:

Fixed remuneration consists of base salary, company pension and any other fixed allowances. Variable remuneration consists of the discretionary annual bonus awarded in respect of performance during 2019. Discretionary bonuses were paid within 3 months of year end.