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Reliance Financial Services Company Limited

Annual Report
and Financial Statements

for the year ended 31 December 2012

PKF

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Contents

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Financial Highlights

	2012 D'000	**2011 D'000**	**2010** D'000	**Increase/ (Decrease) 12 vs11**
Financial Structure				
Capital to Asset Ratio (at least 16%)	**20%**	16.7%	9%	**3.3%**
Debt/ Equity Ratio (Times)	**0.09**	N/A	N/A	**0.09%**
Liquid assets to deposit ratio (between 15% and 40%)	**85%**	57%	44.1%	**28%**
Deposits to loans	**346%**	242%	215%	**104%**
Deposits to total assets	**74.3%**	87.6%	91%	**(13.3%)**
Gross loans Portfolio to Total Assets	**27.2%**	43.1%	48%	**(15.9%)**
Outreach Indicators				
Total Number of Borrowers	**1,342**	1,785	1,850	(443)
Number of Active borrowers	**907**	1,447	1,803	(540)
Total Value of loans disbursed (GMD'000)	**108,023**	126,915	137,085	(18,892)
Average Size of Loans Disbursed (GMD'000)	**80**	71	74	9%
Gross Loan Portfolio outstanding (GMD'000)	**75,468**	90,202	81,674	(14,734)
Average Loan balance per borrower (GMD'000)	**53**	62	44	(9)
Voluntary Savings (GMD'000)	**206,065**	183,869	155,273	22,196
Number of voluntary savings accounts	**59,267**	53,229	51,747	6,038
Average savings balance per saver (GMD'000)	**3.5**	3.4	3.0	0.1
Number of Branches and Kiosks	**23**	23	21	-
Range of Loan Sizes (GMD'000)	**1-1,500**	1-1,667	2-200	-
Financial Performance				
Operational Self-sufficiency	**48.7%**	47%	55%	**1.7%**
Financial Revenue Ratio	**40.5%**	50%	56%	**(9.5%)**
Yield on gross Portfolio (Nominal)	**26.8%**	26.1%	35%	**0.7%**
Loan Loss Provision Expense Ratio	**13.4%**	15.1%	11%	(1.7%)
Administrative Expense Ratio	**18.2%**	16.0%	7%	2.2%

	2012 D'000	2011 D'000	2010 D'000	Increase/ (Decrease) 12 vs 11
Efficiency & productivity				
Operating Expense/ Loan Portfolio	**62.8%**	49.9%	56%	**12.9%**
Personnel expense/ Loan Portfolio	**22.5%**	15.3%	21%	**7.2%**
Cost per borrower (GMD'000)	**42.57**	25	22	**17.57**
Borrowers per staff member	**12**	17	17	**(5)**
Borrowers per loan officer	**71**	112	60	**(41)**
Voluntary savers per staff member	**534**	512	484	**22**
Risk and liquidity				
Portfolio at Risk > 30 Days	**9.4%**	31%	22%	**(21.6%)**
Portfolio at Risk > 90 Days	**7.5%**	23%	12%	**(15.5%)**
Risk Coverage	**21.1%**	52%	56%	**(30.9)**
Non – earning liquid assets as % Total Assets	**16.9%**	9.0%	8.1%	**7.9%**
Macro Economic Indicators				
Inflation Rate	**4.9%**	4.4%	4.0%	**0.5%**
Exchange Rate (Customs Valuation) GMD/USD	**34.30**	30.28	27.4	**4.02**
GDP Growth Rate	**4.0%**	5.4%	4.3%	**(1.4)**
GDP Per Capita (USD)	**476**	458	479	**18**

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General Information

Directors

Mrs. Amie N. D. Bensouda	Chairperson
Mr. Baboucarr Khan	Managing Director
Mr. Ebenezer Olufowose	Non-Executive Director
Mr. Ismaila Faal	Executive Director
Mr. Cherno S. Jallow	Non-Executive Director

Secretary

Mr. Seedy A.B. Njie

Bankers

Trust Bank Limited
3/4 Ecowas Avenue
Banjul

Standard Chartered Bank (Gambia) Limited
Ecowas Avenue
Banjul

Guaranty Trust Bank Limited
56 Kairaba Avenue
KMC

Access Bank Limited
47 Kairaba Avenue
KMC

First International Bank Limited
Kairaba Avenue
KMC

EcoBank Limited
Kairaba Avenue
KMC

Bank PHB Limited
11 Liberation Avenue
Banjul

Arab Gambia Islamic Bank Limited
Ecowas Avenue
Banjul

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Auditors

PKF
Accountants and business advisers
33 Bijilo Layout Annex
Kombo North
The Gambia

Solicitors

Amie Bensouda & Co.
SSHFC Crescent
Off Bertil Harding Highway
Kanifing Institutional Area
The Gambia

Registered Office

Reliance Plaza
46 Kairaba Avenue
KSMD
The Gambia

Chairperson's statement

It gives me pleasure to present to you the annual report and audited financial statements of Reliance Financial Services Company Limited for the year ended 31st December 2012. Against the backdrop of cautious optimism in global economic growth and coupled with the crop failure of the previous year, Reliance was able to deliver strong financial performance on the occasion of the commencement of the growth phase of the development of our Company.

Operating Environment

According to the IMF's most recent World Economic Outlook, the global economy to grow by 3% in 2012, a contraction of 0.9% from the forecast of 3.9% at the beginning of the year. The sources of acceleration according to the report were from emerging market economies where activity picked up as expected, and the United States where growth surprised on the upside. Financial conditions also stabilised during the year under review.

The Gambian economy recorded a growth of 4% in 2012 following a contraction of 4.3% the previous year according to reports from the Gambia Bureau of Statistics. The key financial sector indicators of the Money Policy Committee of the Central Bank of The Gambia reported that the banking industry remained fundamentally sound during the year. The industry's capital and reserves increased to D3.06 billion in December 2012 compared to D2.63 billion in 2011 mainly on account of capital injection totaling D392.4 million. The average risk-weighted capital adequacy ratio also increased to 33.0% compared to 25.1% in 2011 against the minimum requirement of 10%. The gearing ratio was only 3.03 times, lower than the 4.0 times in 2011 against the prudential ceiling of 10 times.

Total industry assets increased to D20.6 billion, or 10.5% from 2011. Loans and advances, accounting for 26.4% of total assets, decreased to D5.3 billion, from a year ago. Credit to distributive trade, building and construction and other commercial loans increased by 5%, 11% and 26% respectively. In contrast, advances to agriculture, transportation and tourism declined by 3%, 6% and 5% respectively. The non-performing loan ratio decreased to 11.6% of gross loans, lower than the 12.6% in 2011.

The microfinance sector currently has three (3) Non Bank Financial Institutions (NBFIs) and a number of Village Savings and Credit Associations (VISACAs). The Social Development Fund (SDF) is at an advanced stage of transforming to a Fiduciary Financial Institution (FFI) with a new mandate of wholesaling funds to the licensed NBFIs. The biggest challenge facing the sector is capital for both the NBFIs and the VISACAs. An Apex Body has been formed to serve as an umbrella organisation to which all the VISACAs will be affiliated even though it is not yet clear what effect it will have on the regulatory and prudential requirements of the individual VISACA units.

Financial performance

In line with our vision to become " the most dominant, efficient and profitable microfinance provider in The Gambia", Reliance has recorded remarkable financial performance during the year driven by a robust and consistent strategy. The highlights of the Company's performance are as follows:

- Total operating revenue grew by 49% YoY from GMD48.7 million to GMD72.4 million;
- Total Operating expenditure increased marginally by 5% YoY; a positive variance of 44%;

- Operating profit for the year jumped from GMD3.73 million to GMD25.0 million an increase of 572%;
- Profit after provision for credit losses, and taxation improved from GMD3.66 million the previous year to GMD12.5 million ; representing an increase of 241%;
- The Balance sheet grew by 17.7%, whereas customer deposits grew by 12%; and
- Shareholders' funds increased from GMD20.3 million to GMD33.0 million; an ROE of 62%.

The second and final phase of the minimum capital increase for the commercial banks to GMD200 million kicked in at the end of the financial year following the initial increment from GMD60 million to GMD150 million back in December 2010. While all 13 commercial banks met the new primary capital, Prime Bank Gambia Limited opted to voluntarily wind down its operations in The Gambia, which was approved by the Central Bank of The Gambia.

The Supervisory Board of Financial Institutions of the Central Bank of The Gambia issued a directive increasing the primary capital of Reliance Financial Services from GMD10 million to GMD50 million on or before 31st December 2013. The computation of the Capital Adequacy Ratio was also reviewed; culminating in reduction of the risk weighting for Cash Balances from 20% to 0%. However the loan book is to be reported gross notwithstanding any provisions for loan losses on the Balance Sheet and gross fixed assets before charging any depreciation . The company complied fully with all the statutory and prudential ratios of the Central Bank of The Gambia with a Capital Adequacy ratio of 21.3% against a benchmark of 16%, a gearing ratio of 6 times compared to a ceiling of 10 times; and a liquidity ratio of 44.7%.

Outlook

According to the Monetary Policy Committee, the global economy is projected to strengthen gradually in 2013, at an average of 3.5%. There are, however, downside risks to the outlook including slow recovery in the Euro Area and excessive near-term fiscal consolidation in the United States. Preliminary projections indicate that output from the Gambian economy would expand by 10% in 2013 premised on strong growth of the agriculture and tourism sectors.

In view of the new capital requirements, the Company will once again have to focus its efforts in seeking suitable strategic partner(s) to comply with the directives. In so doing, we shall seek out the opportunities in our market and leveraging on our brand, strengthen our network, and build the human resource capacity of our people in order to continue delivering excellent customer services. We will be mindful of the threats posed to our core businesses by implementing robust risk management frameworks to build on the current performance.

Acknowledgements

I would like to thank the management and staff for their passion and commitment that has enabled them to deliver these exemplary financial results. My deep appreciation is also extended to my fellow board members for the invaluable guidance they have extended to the Company's leadership.

On my own behalf and that of the entire board, management and staff, I extend my sincere appreciation to you, our shareholders, for the strong support that you have provided to the Company evidenced by your confidence in the Board. Your enthusiasm has been truly inspiring to us and we look forward to working closely with you in providing inclusive financial services that change lives.

Amie N. Bensouda
Chairperson of the Board of Directors

Managing Director's Statement

I am pleased once again to present to you the Company's annual report and financial statements for the year ended 31st December 2012. Notwithstanding the global economic downturn in the developed world precipitated by the recent financial crisis; its negative impact on the local tourism industry; coupled with the major crop failure in the 2010/2011 agricultural season resulting in a 4.3% contraction, the Gambian economy grew by 4% in 2012. The Government of The Gambia adopted the Program for Accelerated Growth and Employment (PAGE) in 2011 as its strategic socio-economic blue print to replace the Poverty Reduction Strategy Paper (PRSP II) putting a lot of emphasis of double-digit economic growth as well as employment creation as medium to long term strategic priorities.

The Central Bank of The Gambia's directive requiring all the commercial banks to maintain an unimpaired primary capital of GMD200 million also crystallised at the end of the financial year. All banks complied except one, which opted for a voluntary liquidation. In a similar development, the Supervisory Board of Financial Institutions of the Central Bank of The Gambia increased the primary capital of Reliance from GMD10 million to GMD50 million by no later than 31st December 2013 in direct response to the size of our customer deposit portfolio relative to that of the smaller commercial banks.

Financial performance

The financial results delivered during the year ended 31st December 2012 was the product of a consistent and coherent strategy of getting to understand the needs of our customers and striving effortlessly to deliver the products and services that will meet their expectations. This process is entrenched in our core values, underpinned by continuous productivity and efficiency improvements through our people, assets and financial resources. Recognising the difficulties of raising the needed capital from the International Private Equity Capital markets, given the challenging global economic environment, the Board sanctioned a strategy of core Balance Sheet Management guided by effective risk management systems and stringent cost management; with the view to building up the shareholders' equity from internally generated reserves.

Leveraging on the strong brand of the Company and the extensive branch network; Management pursued a low cost, stable deposit liability mobilisation campaign anchored on a customer service centric approach based on safety, security, reliability and accessibility. With a cautious lending strategy, in which lending to new customers was selective with a focus on repeat and high depositor borrowing clients. Surplus deposits were invested into Treasury Bills and/or placed privately with the local correspondent banks to optimise earnings. With the multiplicity of correspondent pay-out partners, Management proactively rationalised its settlement currency to the United States Dollar to better hedge against foreign exchange risks particularly in regards the volatile EURO.

The company's profitability in 2012 was unprecedented recording profits after tax of GMD12.5 million an increase of 241% from the year ended 31st December 2011. In spite of an increase in interest income from investments of 31%; Net Interest Income declined marginally from GMD25.9 million to GMD23.6 million during the year under review; explained by a 9% decline in interest from loans and a 40% increase in cost of funding mainly overdrafts. Non-funded income contributed 67% of total revenue for the year; increased by 114% from GMD22.8 million to GMD48.9. A combination of increased trading volumes in the foreign exchange market coupled with favourable margins resulted in an impressive 164% YoY improvement. The increased volume of remittances traffic through our network translated into an 85% increase in commissions during the year. It is gratifying to report that despite the strong revenue growth, Management was able to put a tight lid on operating expenditure which recorded a YoY increase of 5%

from GMD44.8 million the previous year to GMD47.4 million. Personnel costs, which accounted for the biggest variance, reported a YoY increase of 23%; while general and administration and premises and equipment costs increased modestly by 4% and 9% respectively due mainly to inflationary pressures. Operational efficiency as measured by cost income ratio improved to 65% from 92% the previous year.

Compared to 2011, total assets grew by 18%; investments by 49%; while customer deposits grew by 12%. The loan portfolio declined by 22% YoY due to a deliberate strategy to clean the book through a combination of loan write offs, and effective recovery of the non-performing book. With a loan deposit ratio of 27%; Management invested all surplus funds into treasury bills and/or placements with our local correspondent banks and hence the reason why investment now represent more than two times the loan book (net of provision). There were no significant investments in the fixed assets during the year and hence the 10% reduction in the Net Book Value YoY. Consequently, total equity and reserves of the Company from GMD20.3 million to GMD33.0 million by the end of the year under review; a return on equity of 62%.

Operations

Deposit mobilisation

Consistent with our strategy of raising stable, low cost deposit liabilities; customer's deposits grew from GMD183.9 million to GMD206.1 million during the year. The number of customer accounts increased from 53,229 to 59,532; representing a growth of 12%. The average customer deposit balance remained relatively stable at GMD3, 454 and GMD3, 461 respectively; further reinforcing our financial inclusion objectives. The transactional savings accounts of the Company continue to provide the foundation of our business accounting for 78% of the total deposits. The pattern of the transactions on these accounts over the years, have shown that of steady incremental savings behaviour. The average cost of funds remained at below 5% throughout the year.

Remittances

2011 was a year of acquiring new remittances partners. 2012 was a year of building and consolidating on these partnerships with the view to increasing volumes from existing while exploring the opening of new corridors to offer Gambians in the Diaspora as much choice as is possible with reasonable transaction costs. As a result of the uncertainties surrounding the EURO, Management opted for a single settlement currency of the United States Dollar for all partners during the year. Management continued to focus on the development of its own Domestic Money Transfer business by leveraging on the network and market leadership as one of the pioneers of the product on a commercial scale.

Treasury

In line with the increased activity in remittances during the year, volume of foreign currency trading recorded a marked improvement in 2012. In addition to the receipts of foreign currency settlements from our Money Transfer Partner, there was a corresponding increase in the sourcing of foreign currencies from the local market to meet customers' demand with much reduced margins. The Assets and Liabilities Management took a new dimension during the year given the need to optimise revenue to bridge the gap from interest from loans. Consequently the Treasury Unit was very active in the money markets through the formal bidding process as well as the secondary market of the treasury and Suku Salam Bills. The increase remittances business within the network also required an efficient cash management system to ensure sufficient liquidity at all times without having to maintain large non-earning cash positions. Notwithstanding these challenges, the company managed to trade efficiently and effectively without incurring losses. There were no breaches in the prudential and regulatory ratios during the year under review relating to liquidity.

Credit Management

Following on from the previous year, the Credit department continued to maintain a mean and lean staffing structure consistent with the strategy of non-loan growth and effective recovery of the non-performing loan book. The head count comprised of thirteen (13) loan officers supported by two (2) recovery officers with three (3) exits; two (2) of which were forced. During the year, the Company disbursed GMD108 million loans to 1,342 clients compared to GMD 127million to 1,785 clients the previous year a decline of 15% and 30% respectively. The average loan size increased marginally from GMD 71,000 in 2011 to GMD 84,000 in the current year.

Portfolio quality

The portfolio quality as measured by Portfolio at Risk (PaR) 30 days past due was 10% compared to 22% the previous year. The improvement in PaR 30 days is explained by the significant write off during the year and an improvement in the credit methodology. Analysis of the PaR 30 days shows that eight (8) of the thirteen (13) loan officers reported a PaR 30 days past due of 5% or less in line with best international standards while another 3 reported between 6% and 9% PaR 30 days past due. The slow progress at the collection of the Non Performing Loans even after court judgement is due to difficulties in the realisation of collateral and a challenging credit environment that has seen the number of legal executions increased to unprecedented levels during the year across the industry.

Human Resources

In view of the challenges in attracting human resources at the middle level while also retaining the existing staff, Management with the support of the Board continued to invest in the training and development of existing staff from within. In this regard, the Managing and Executive Directors received training at the Harvard and Wharton on Strategy and Leadership both courses designed in partnership with two of the leading international Microfinance networks of Accion and Women World Banking Group respectively. In furtherance of our diversity and inclusion objectives, the Head and Manager of Internal Audit and Branch Operations attended the WWB Women in Leadership program in the Netherlands which for the first time includes a mentoring program with senior managers at KPMG Netherlands. For the fourth year running Reliance also sent a candidate to attend Sustainable Microenterprises and Development Program in Tanzania with emphasis on group led savings and lending programs. At the invitation of the African Rural and Agricultural Finance Association (AFRACA), Reliance participated at the Seminar on Islamic Finance in Indonesia along with officials from Gambia Works and Management Agency (GAMWORKS) as part of exploratory studies in preparation for the development of an Islamic Finance window. In similar vein, AgriFin, which is the Agriculture Finance Support Facility Unit of the World Bank, through AFRACA invited Reliance to its study tour in Mexico focussing on provision of credit to the Agriculture sector.

Information Technology

The investments in hardware to support the processing capacity and speed of our operating system coupled with the security enhancements paid immense dividends during the year with minimal system downtime. However after six and half years of deployment, and given the planned growth of our business in the medium to long term, Management in collaboration with our IT Services Providers Insist Global is reviewing the scalability or otherwise of the current system. The initial outcome is to convert from a client server-based to an internet enabled operating platform with enhanced processing and Management information system features. This will also provide for the integration of agency banking, internet banking and mobile banking as add-on modules. Otherwise the Company enjoyed relative stability in the performance of the system during the year under review.

Internal Audit & Compliance

The risk management and compliance framework successfully performed the scope of their work based on the plan approved by the Board. In addition, the Internal Audit, Compliance and Risk Management Policies and Manuals including the audit programs were all reviewed and updated in line with current operating procedures and practices for the second year running following which the Board has now sanctioned a bi-annual review to be championed and coordinated by the Internal Audit Unit. There were no operational losses arising from internal control breakdowns within the Branch network wherein all the branches were visited at least quarterly. Based on the audit ratings, there were no failed audits and resolution of issues reported was very impressive following the risk cum solution-based audit approach.

Outlook

The outlook for 2013 for the Gambian economy looks positive with real GDP projected to grow by 10%. In seeking to ensure the Company is “fit for the planned growth” the priority for Management is develop the bench strength from sales/service levels all the way to the Executive; with particular emphasis on the middle management. This will redress the current imbalance in the hierarchy between the Executive and the Middle Management thereby driving effective and efficient implementation of strategies. In this regard, our value of teamwork will be called on more often than ever before as we strive to review and re-engineer our processes and procedures by setting up smaller teams to work together with the view to improving productivity and reducing costs while enhancing the overall customer experiences.

It is against this backdrop that Management is reviewing the current operating platform to ensure the envisaged increases in the volume of activities are processed seamlessly with minimal human intervention but at same with robust and effective control measure at all key control points to manage risks within the levels acceptable with timely reporting mechanisms for action to the appropriate authorities.

The company will continue with its current strategy with the remittances business by aiming to convert these remittances non-customers into customers of Reliance at both the sending and destination ends. This will require the support of our current partners. Management will aggressively pursue the recovery of the loan book before consideration is given to drive the acquisition of new borrowing customers.

Acknowledgements

In conclusion, I wish to take this opportunity to express my sincere gratitude to our customers, shareholders and business partners for their dedicated loyalty to the Company and continued confidence and trust in our business. I also wish to thank the Board of Directors for the oversight and guidance they have given the Management of the Company.

Lastly, I am grateful to the management and staff of the Company for their devotion and sacrifice that enabled delivery of this good financial performance. Together, we shall continue to deliver our mission of changing lives of our people socially and economically by developing innovative, inclusive financial products and services while delivering even greater value to our stakeholders.

Thank You!

Baboucarr Khan
Managing Director

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Directors' Report

The directors present their report and financial statements for the year ended 31 December 2012.

Statement of Directors' responsibilities

Company law 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 of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1955. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities

The company's principal activity is that of non-bank financial intermediation.

Results for the year

The results for the year are as presented in the accompanying financial statements.

Significant changes in fixed assets

Changes in fixed assets are shown in note 13 to the financial statements.

Directors and directors' interest

The directors who held office during the year are shown on page 5.

In accordance with the company's Articles of Association, the term of office for board membership is three years and board members can serve two consecutive terms on a rotational basis. Initial rotation should be at least one-third of the outgoing board members. Accordingly all the directors remain in office.

The directors' beneficial interest in the ordinary shares of the company is shown below. No other changes have occurred between 31 December 2012 and the date of this report.

	Number of shares held	
	2012	2011
Mr. Baboucarr Khan	**1,378,353**	1,378,353
Mrs. Amie Bensouda	**20,288,623**	20,288,623
Mr. Ebenezer Olufowose	**1,279,333**	1,265,000
Mr. Ismaila Faal	**833,279**	833,279
Mr. Cherno S. Jallow	**21,079,587**	21,079,587
	44,859,175	44,844,842

Auditors

The auditors, PKF have indicated their willingness to continue in office pursuant to Section 155 (2) of the Companies Act 1955.

By order of the board of directors

Secretary

Dated this ....day of ……..........................2013

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Independent Auditor's Report
To the Members of Reliance Financial Services Company Limited

We have audited the accompanying financial statements of Reliance Financial Services Company Limited, which comprise the balance sheet as at 31st December 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the financial statements

The directors are responsible for the preparation and the fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles, the Companies Act 1955 and the Banking Act 2009. This responsibility includes maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies that are consistent with Generally Accepted Accounting Principles; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by the directors, as well as evaluating the overall presentation of the financial statement.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of 31st December 2012, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles and have been properly prepared in accordance with the requirements of the Companies Act 1955 and the Banking Act 2009.

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Accountants and business advisers
Registered Auditors
Bijilo, The Gambia

Date: 28th March 2013

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Income Statement

for the year ended 31st December 2012

	Notes	31st December 2012 D'000	31st December 2011 D'000
Interest income	2	**33,259**	32,797
Interest expense	3	**(9,707)**	(6,938)
Net interest income		**23,552**	25,859
Exchange Income		**25,989**	9,824
Fees and commission income	4	**22,455**	12,118
Other revenue	5	**445**	905
Total operating revenue		**72,441**	48,706
Operating expenses			
Personnel cost	6	**(16,950)**	(13,781)
General and administration cost		**(18,199)**	(17,524)
Premise and equipment		**(8,337)**	(7,680)
Depreciation		**(3,933)**	(5,996)
Total operating expenses		**(47,419)**	(44,981)
Operating Profit		**25,022**	3,725
Net (provision)/recoveries of credit losses		**(11,114)**	168
Profit before taxation	7	**13,908**	3,893
Income tax expense	8	**(1,422)**	(234)
Profit for the year		**12,486**	3,659

The attached notes form an integral part of these financial statements.

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Balance Sheet

as at 31st December 2012

	Notes	31st December 2012 D'000	31st December 2011 D'000
Assets			
Cash and local bank balances	9	46,835	45,899
Treasury bills and other investments	10	128,376	86,100
Loans	11	59,555	76,560
Other assets	12	24,039	6,221
Property, Plant & Equipment	13	18,779	20,779
Total assets		277,584	235,559
Liabilities			
Customer deposits	14	206,043	183,869
Due to local banks	9	39	27,166
Other payables	15	34,829	3,984
Taxation		591	234
Long term loan	16	3,040	-
Total liabilities		244,542	215,253
Equity and reserves			
Share capital	17	61,414	61,164
Statutory reserve		3,122	-
Accumulated deficit		(31,494)	(40,858)
Total equity and reserves		33,042	20,306
Total equity and liabilities		277,584	235,559

These financial statements were approved by the board of directors on 28th March 2013 and were signed on its behalf by:

……………… Director

……………… Director

……………… Director

The attached notes form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31st December 2012

	Share Capital D'000	Statutory Reserve D'000	Accumulated Deficit D'000	Total D'000
Balance as at 1st January 2011	56,097	-	(44,517)	11,580
Shares issued and fully paid for	5,067	-	-	5,067
Profit for the year	-	-	3,659	3,659
Balance as at 31st December 2011	61,164	-	(40,858)	20,306
Balance as at 1st January 2012	61,164	-	(40,858)	20,306
Shares issued and fully paid for	250	-	-	250
Profit for the year	-	-	12,486	12,486
Transfer to reserves	-	3,122	(3,122)	-
Balance as at 31st December 2012	**61,414**	**3,122**	**(31,494)**	**33,042**

Central Bank of The Gambia requires all licensed Financial Institution that do not meet the minimum capital and statutory reserve ratio of 1:1 to transfer 25% of their annual profits to statutory reserve, thereafter, transfers to reserves decrease to 15%. Accordingly, an amount of D3, 122,000 (2011: Nil) was transferred to statutory reserve for the year.

The attached notes form an integral part of these financial statements.

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Cash Flow Statement

for the year ended 31st December 2012

	Notes	31st December 2012 D'000	31st December 2011 D'000
Operating activities			
Operating profit		**13,908**	3,893
Depreciation	*13*	**3,933**	5,996
Increase in operating assets	*18*	**(813)**	(2,676)
Increase in operating liabilities	*19*	**53,019**	28,505
Fixed assets write offs		**3,347**	5,072
Cash generated from operations		**73,394**	40,790
Company tax paid		**(1,065)**	-
Cash flows from operating activities		**72,329**	40,790
Investing activities			
Acquisition of property, plant and equipment	*13*	**(5,280)**	(7,731)
Cash flows from investing activities		**(5,280)**	(7,731)
Financing activities			
Proceeds from issue of shares		**250**	5,067
Loans received from SDF (EPMDP and AFDB)	*16*	**5,476**	-
Loan repayment during the year		**(2,436)**	-
Cash flows from financing activities		**3,290**	5,067
Net increase in cash and cash equivalent		**70,339**	38,126
Cash and cash equivalent at 1st January		**104,833**	66,707
Cash and cash equivalents at 31st December	*9*	**175,172**	104,833

The attached notes form an integral part of these financial statements.

Notes (forming part of the financial statements)

1. Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items, which are considered material to the Company's financial statements.

a) Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles, requirements of the Companies Act 1955 and also the Banking Act 2009.

b) Interest income

Interest earned comprises interest on loans, treasury bills and bonds and is accounted for on an accruals basis. In respect of loans, recognition of interest income ceases when payment of interest or principal is in doubt and any interest already recognised during that accounting period is reversed. Interest is thereafter included in income only when received.

c) Fee income

Loan fees are credited to income when the loan is granted.

d) Loans and advances

Loans are stated after deduction of applicable unearned income and provisions for possible credit losses. Provision for bad and doubtful debts are held in respect of loans taking into consideration both specific and general risks.

Provisions against loans are based on an appraisal of the loan portfolio. Specific provisions are made where the repayment of identified loans is in doubt and reflect an estimate of the amount of loss expected.

Provisions made during the year less amounts released and recoveries of advances previously written off are charged as a separate amount in the profit and loss account.

e) Property, equipment and others

(i) *Owned assets*

Items of property, plant, equipment and others are stated at cost less accumulated depreciation. Freehold and leasehold premises are included in the accounts at their historical costs and the amount of any subsequent valuation.

(ii) *Depreciation*

Depreciation of fixed assets is calculated and charged to the income statement on a straight-line basis by reference to the expected useful lives of the assets at the following rates:

Land is not depreciated. It is the company's policy to maintain freehold and long leasehold premises in a good state of repair and it is considered that the residual values, based on price prevailing at the time of acquisition or subsequent valuation, are such that any depreciation will not be significant. Accordingly, depreciation for freehold buildings is over the estimated useful economic life to a maximum of 50 years. Short leasehold premises are depreciated over the unexpired period of the lease.

Premises - Leasehold	Shorter of the remaining period of the lease or 50 years
Fixtures and Fittings	10 years
Furniture and equipment	5 years
Motor Vehicles	5 years
Other fixed assets	5 years
Computer hardware	3 years
Computer software (Banking software)	4 years
Computer consumables	Written off in year of purchase

(iii) *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

f) Treasury bills

Treasury bills are stated at cost. Credit is taken for related income in the period when it accrues.

g) Foreign currencies

Transactions in foreign currencies are translated to Dalasi at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Dalasi at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are historical cost, are translated to Dalasi at the foreign exchange rate ruling at the date of the transaction.

h) Employee benefits

Obligations for contributions to the Social Security and Housing Finance Corporation administered retirement benefit plan are recognised as expense in the income statement as incurred.

i) Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation.

j) Income tax

Income tax on the profit for the year comprises current tax and is recognised in the income statement.

k) Cash and cash equivalent

Cash and cash equivalent as per cash flow statement comprises of cash and bank balances and short term investment.

2. Interest income

	31st December 2012 D'000	31st December 2011 D'000
Loans	**22,161**	24,336
Interest income from investments	**11,098**	8,461
	33,259	32,797

3. Interest expense

Savings	**4,446**	3,657
Time deposits	**2,812**	2,512
Bank Overdraft Interest	**1,798**	769
Long term borrowing	**651**	-
	9,707	6,938

4. Fees & Commission Income

	31st December 2012 D'000	31st December 2011 D'000
Remittances Commission	**19,148**	8,274
Loan Fees & Commission	**2,208**	2,503
Other Fees & Commissions	**1,099**	1,341
	22,455	12,118

5. Other Income

Sundry income	**445**	905

6. Staff numbers and cost

The average number of staff employed during the year (including directors) analysed by category, is as follows:

	Number of employees	
	31st December 2012	31st December 2011
Executive directors	**2**	2
Management staff	**3**	4
General staff	**106**	98
	111	104

The aggregate payroll costs of these persons were as follows:

	31st December 2012 D'000	31st December 2011 D'000
Wages and salaries	**4,859**	4,840
Allowances including bonuses	**7,949**	8,572
Other staff costs	**4,142**	369
	16,950	13,781

7. Profit before taxation

The profit before taxation is stated after:
Charging:

Directors' remuneration	**1,082**	148
Audit fees	**300**	230

8. Income tax expense

Company tax provision (based on 1.5% of total revenue (2011:1.5% of total revenue)	**1,422**	234

The Company has unutilised capital allowances and loss reliefs in excess of the chargeable profit. Consequently the company's tax provision is computed based on the minimum corporation tax rate of 1.5% of total revenue.

9. Cash and local bank balances

Cash (note 9a)	**18,035**	11,143
Balances with local banks (note 9b)	**28,800**	34,756
	46,835	45,899
Due to local banks	**(39)**	(27,166)
Treasury bills and other investments (note 10)	**128,376**	86,100
Cash and cash equivalents in the statement of cash flow	**175,172**	104,833

9a. Cash

	31st December 2012 D'000	31st December 2011 D'000
Cash	**17,390**	10,054
Outward clearing	**645**	1,089
	18,035	11,143

9b. Local bank balances

Balance with Central Bank of The Gambia	**8,006**	4,424
Balance with local banks	**20,794**	30,332
	28,800	34,756

10. Treasury bills and other investments

Treasury bills at maturity value	**86,135**	48,600
Placements with banks	**45,455**	40,352
Interest unearned – investment	**(3,214)**	(2,852)
	128,376	86,100

11. Loans

	31st December 2012 D'000	31st December 2011
SME Loan	**42,228**	56,965
Micro Enterprises	**2,285**	4,282
Express	**591**	3,069
Others	**30,342**	25,886
Gross loans	**75,446**	90,202
Less:		
Specific provision for bad debts	**(14,805)**	(3,995)
General provision for bad debts	**(613)**	(613)
Interest in suspense	**(473)**	(9,034)
Net Loans	**59,555**	76,560

12. Other assets

Receivables	**21,749**	3,873
Prepayments	**2,290**	2,340
Tax Deposit	-	8
	24,039	6,221

Accountants & business advisers

13. Property, Plant and Equipment

	Work In Progress D'000	Equipment Furniture & Fittings D'000	Motor Vehicle D'000	Other Fixed Assets D'000	Land & Building D'000	Total D'000
Cost						
At 1st January	335	21,514	343	399	10,140	32,731
Additions	-	4,688	84	508	-	5,280
Transfer	-	-	-	-	-	-
Write offs	-	(4,521)	(42)	(632)	-	(5,195)
At 31st Dec 2012	**335**	**21,681**	**385**	**275**	**10,140**	**32,816**
Depreciation						
At 1st January	-	9,357	129	249	2,217	11,952
Charge for the year	-	3,097	179	95	562	3,933
Write offs	-	(1,531)	-	(317)	-	(1,848)
At 31st Dec. 2012	**-**	**10,923**	**308**	**27**	**2,779**	**14,037**
Net book value						
At 31st December 2012	**335**	**10,758**	**77**	**248**	**7,361**	**18,779**
At 31st December 2011	335	12,157	214	150	7,923	20,779

Work in progress represents the amount so far spent on Signage, Kiosks, Fixtures and Fittings and other civil works not completed at the year end.

14. Customer deposits

	31st December 2012 D'000	31st December 2011 D'000
Savings	**189,509**	153,178
Fixed deposit accounts	**16,534**	30,691
	206,043	183,869

15. Other payables

Accruals	**3,251**	3,107
Employees' Social Security Contribution	**60**	61
Employees' Income Tax	**275**	271
Other Accruals	**31,243**	545
	34,829	3,984

16. Long term loans

SDF – EPMDP	**5,000**	-
SDF – AFDP	**476**	-
	5,476	-
Less: Repayments during the year	**(2,436)**	-
Outstanding balance due	**3,040**	-

16.a. Entrepreneurship Promotion and Microfinance Development Project (EPMDP)

On 6th January 2012, the company contracted a loan of GMD5 million from the Social Development Fund (SDF) under the Entrepreneurship Promotion and Microfinance Development Project (EPMDP) for on-lending to micro, small sized enterprises in rural areas of The Gambia. The loan is for a tenor of eighteen (18) months at an interest rate of 14% computed on a reducing balances basis and repayable on a quarterly basis. The loan is unsecured.

16.b. Artisanal Fisheries Development Project (AFDP)

On 3rd September 2012, the company received a loan of GMD476,000 (Four Hundred and Seventy Six Thousand Dalasis) from the SDF Artisanal Fisheries Development Project for on-lending to micro and small sized enterprises in the Peri-Urban areas of The Gambia. The loan is payable over 18 (eighteen) months on quarterly basis at an interest rate of 14% computed on a reducing balances. The loan is unsecured.

17. Share Capital

The total number of authorised ordinary shares as at 31st December 2012 was 90 million ordinary shares with a par value of D1.00 per share (2011: 90 million ordinary shares with a par value of D 1 each).

In 2012, D250, 000 of the unpaid rights issue outstanding balance was paid. Consequently, the fully paid up capital of the Company increased from D61, 164,000 to D 61,414,000 as at the end of the year.

18. Increase in operating assets

	31st December 2012 D'000	31st December 2011 D'000
Funds advanced to customers	**17,005**	(4,269)
Other assets	**(17,818)**	1,593
	(813)	(2,676)

19. Increase in operating liabilities

Deposits from customers	**22,174**	28,596
Other payables	**30,845**	(91)
	53,019	28,505

20. Contingent liabilities

Acceptances, endorsements and other obligations	-	-

21. Capital commitments

Authorised by the Board and contracted for	-	-
Authorised by the Board but not contracted for		-

22. Related Party Transactions

	31st December 2012 D'000	31st December 2011 D'000
The following are loan balances due to related party:		
Directors, officers and other employees		
Directors	**3,040**	3,063
Officers and other employees	**3,281**	3,048
	6,321	6,111
Legal fees	**553**	252
Head office rent	**861**	606

Supplementary Information

1.1 General and administration cost

	31st December 2012 D'000	31st December 2011 D'000
Finance cost and charges	**1,350**	-
Printing and stationery cost	**1,992**	1,726
Communications costs	**1,456**	2,773
Equipment maintenance expenses	**255**	311
Transport and travel costs	**4,949**	2,550
Business promotion costs	**4,008**	2,447
Professional fees	**2,614**	6,366
Other costs	**1,575**	1,351
	18,199	17,524

1.2 Premises cost

Office rent	**2,448**	2,496
Electricity expenses	**2,406**	1,764
Cleaning	**603**	562
Rates and taxes	**538**	474
Security costs	**1,612**	1,593
Property insurance	**120**	100
Property maintenance	**610**	691
	8,337	7,680