



LA COMMUNITY BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2020



LA COMMUNITY BANK LTD.



GROWING TOGETHER

ACCOMPLISH YOUR GROWING BUSINESS AND LIFE PLANS WITH OUR CUSTOMISED BANKING SOLUTIONS

ACCOUNTS

LOANS

DIGITAL SERVICES

ACCOUNTS

- LACOkid
- LACOgrad
- LACOsave
- LACOplus susu
- Ordinary Current Account
- Corporate Current Account
- Ordinary Savings Account

LOANS

- LACOloan
- LACOpersonal loan
- LACOs salary loan
- LACOPayday loan
- LACObusiness loan
- CAGD loan

INVESTMENTS

- Fixed deposit
- Treasury bills

OUR BRANCHES

📍 La Branch

📍 Madina Branch

📍 Teshie Branch

📘 lacommunitybank

📷 lacommunitybank

🐦 lacommbank

🌐 la community bank

✉ customerservice@lacommunitybank.com

🌐 www.lacommunitybank.com

☎ 0303969393

LA COMMUNITY BANK LIMITED

***ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2020***

LA COMMUNITY BANK LIMITED

*Annual Report and Financial Statements
for the year ended 31 December 2020*

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NOTICE OF MEETING

Notice is hereby given that the **Thirty-Third** Annual General Meeting of **LA COMMUNITY BANK LIMITED** will be held **VIRTUALLY** and streamed live by video link from the Head Office of the Bank, La, Accra on **SATURDAY, 23RD OCTOBER, 2021 at 10:00am** for the following purposes:

AGENDA

1. To receive and consider the Financial Statements for the year ended 31st December, 2020, together with the Reports of the Directors and Auditors thereon.
2. To re-elect 3 Directors namely, **Mr. Nicholas Okoe Sai, Dr. Mrs. Matilda Pappoe and Mr. David Oddoye** who are retiring by rotation, and have offered themselves for re-election.
3. To elect **Mr. Kennedy Wiafe Effah** as a Director of the Bank subject to approval of the Bank of Ghana.
4. To approve the payment of honoraria in accordance with the Bank's policies to 3 Directors retiring permanently after 30 years of meritorious service to the Bank and one Director who retired in 2020 after meritorious service to the Bank.
5. To appoint Messrs. UHY VOSCONS Chartered Accountants as the External Auditors of the Bank subject to approval of the Bank of Ghana.
6. To authorize the Directors to fix the remuneration of the Auditors.
7. To pass the following special resolutions:
 - i. That the name of the Bank be changed from La Community Bank Limited to La Community Bank PLC.
 - ii. That the Regulations/Constitution of the Bank be Amended to bring it into conformity with new legislations.

Dated this 15th Day of September, 2021



L. S. N. AKUETTEH
SECRETARY

NOTE:

1. A copy of the Financial Statements for the year ended 31st December, 2020 together with the Reports of the Directors and Auditors will be circulated electronically and published on the Bank's Website www.lacommunitybank.com
All shareholders are encouraged to visit the website and print copies for their study and necessary action.
2. Text messages/emails will be sent to shareholders with the link/access code to join the meeting.
3. A member of the Company entitled to attend and vote is entitled to appoint a proxy. A proxy need not be a member of the Company.
4. Shareholders may pick up their refreshment at the Head Office, La from 12 noon to 2:00p.m.

LA COMMUNITY BANK LIMITED

Annual Report and Financial Statements
for the year ended 31 December 2020

CORPORATE INFORMATION

BOARD OF DIRECTORS

Dr. Nii Kwaku Sowa (Chairman)
Mr Nicholas Okoe Sai (Vice Chairman)
Mrs. Koshie Helen Lokko (Member)
Mr. David Emmanuel Anang Oddoye (Member)
Mr. Benjamin E. Obodai (Member)
Dr. (Mrs.) Matilda E. Pappoe (Member)
Mr. Seth Nii Sodjah Quao (Member) *(Appointed on 21/11/2020)*
Mrs. Rosalyn Darkwa (Member) *(Appointed on 21/11/2020)*
Prof. (Mrs.) Irene K. Odotei *(Resigned on 21/11/2020)*
Mr. Peter Tehova (General Manager)

COUNTRY OF INCORPORATION

Ghana

REGISTERED OFFICE

No. G224/1 Lami Jwahe
P. O. Box LA 499
La - Accra
Ghana

SOLICITOR/SECRETARY

Mr. L. S. N. Akuetteh
21 Samora Machel Road
Asylum Down, Accra
P. O. Box A 329
La-Accra
Ghana

AUDITOR

KPMG
Chartered Accountants
13 Yiyiwa Drive
Abelenkpe, Accra
P.O. Box GP 242
Accra, Ghana

BANKERS

ABSA Bank Ghana Limited
ARB Apex Bank Limited

CHAIRMAN'S STATEMENT

Good morning Distinguished Shareholders, Ladies and Gentlemen. It is a pleasure to welcome you to the 33rd Annual General Meeting of your Bank. Again, this AGM is being held virtual just as last year's, because the Covid-19 restrictions are still in force due to the 3rd wave of the pandemic here in Ghana.

The year 2020 will go down in history as one of the most memorable ones, as the Covid-19 pandemic spread its devastating career far and wide across the world. Ghana recorded its first cases in March 2020 and is now experiencing the third wave of the pandemic, resulting in so many disruptions to our way of life and business operations. Your Bank was no exception as we suffered from the economic downturn and the threat caused to loved ones and business partners.

This pandemic, coming on the heels of the effects of the Banking and Financial sector reforms in 2018 and 2019, threatened the financial stability of many businesses in the economy. Notwithstanding these economic and financial challenges in the economy, I am glad to report that your Bank's performance has been stable, resulting in a modest profit after the loss posted in 2019 attributed to IFRS provisioning of the impairments of some locked up Investments, notably in the Gold Coast Fund Management Limited.



ECONOMIC BACKGROUND

The Covid-19 pandemic, with its uncertainties on health and the economy, posed significant difficulties in economic management in 2020. The economy recorded negative GDP growth in the second and third quarters of 2020. However, it appeared the impact on the non-tradable sector was not that severe. By the year-end, the economy recorded a modest overall positive growth rate of about 0.9 percent.

On the health front, by 31st December 2020, Ghana ranked tenth in the list of countries in Africa with the highest number of coronavirus cases (54,771), with 53,301 recoveries and 333 deaths. There is every reason not to assume that the pandemic will be over in the immediate future.

The general outlook for the economy in 2021, and for the next two years, is very uncertain. The Government of Ghana has launched the COVID-19 Alleviation & Revitalisation of Enterprises Support (CARES) programme. The programme aims at (a) Stabilizing the Economy and (b) Revitalizing and Transforming the Economy. It is our hope that this will take us to a new normal, where your Bank will take advantage of new opportunities created for increased growth and profitability.

OPERATING PERFORMANCE

The Bank's Total Operating Income increased by 13.5% from GH¢7.0 million in 2019 to GH¢7.9 million in 2020 due to increase in Investment Income and interest on Loans granted during the year.

Fees and Commissions and Other Income, however, dropped by 3.4% from GH¢831,993.00 to GH¢803,938.00 and by 63.4% from GH¢220,725.00 to GH¢80,836.00, respectively. The decline in Fees and Commissions was mainly due to the reduction in COT charges for some category of our customers.

Total Operating Expenses for the Year 2020 saw a positive reduction from GH¢9.4 million in 2019 to GH¢7.3 million in 2020 due to a decrease in the impairment loss on financial assets from GH¢3.2 million in 2019 to only GH¢275,646.00 for the year under review. With Total Operating Expenses subdued, the Bank posted a modest Profit before tax of GH¢579,050.00 for the year 2020, compared to the Loss before Tax of GH¢2.4 million in 2019.

Profit after tax also recorded a modest amount of GH¢ 536,796 compared to the Loss after Tax amount of GH¢1.7 million in 2019.

STATEMENT OF FINANCIAL POSITION

The total amount of new shares purchased during the year was GH¢ 24,120.00 which together with other statutory reserves increased the Bank's Equity by 13.5% from GH¢4.2 million in 2019 to GH¢ 4.8 million in 2020.

Once again, I wish to implore you to increase the amount of your shareholdings in the Bank to ensure that your Bank can withstand any shocks in the economy.

A strong Deposit mobilization effort in 2020, in spite of the Covid-19 restrictions paid-off with a significant surge in the Bank's Total Assets from about GH¢54 million in 2019 to about GH¢ 83million, representing a growth of about 54 percent. I think Management and Staff of the Bank deserve special commendation for this marvelous feat.

APPROPRIATION / DIVIDEND

Distinguished Shareholders, Ladies and Gentlemen, as you may be aware, the Bank of Ghana has reiterated its directive in the Notice No.BG/GOV/SEC/2020/01 to all Banks and Special Deposit Taking Institutions not to pay Dividends for the year 2020 without prior approval from the Bank of Ghana.

Though your Bank made a modest profit for the year 2020, the Board is unable to seek approval for payment of Dividends in order to plough back this Profit into the business for better returns in the near future as the economy gradually recovers from the global pandemic and business operations slowly return to normal.

CORPORATE SOCIAL RESPONSIBILITY

Distinguished Shareholders, Ladies and Gentlemen, your Bank has always supported the worthy projects and programmes to aid the development of La and its immediate environs. Unfortunately, recent difficulties faced by the Bank emanating from the clean-up of the banking and securities industry have made it difficult to live up to this noble objective. We had to suspend the support to a number of such projects, until we return to a healthier position. Consequently, while offering new scholarships and bursaries continues to be suspended, the Bank will ensure that all continuing students are adequately catered for as expected. We will therefore continue to support all the 22 continuing students in the Tertiary Institutions under the Bank's Scholarship scheme until they complete their various courses of study.

OUTLOOK FOR THE YEAR 2021

The Bank, in view of rising Operating and Staff Costs took a strategic decision to rationalize the staffing levels in the Bank by undertaking a Human Resource audit culminating in the restructuring of various departments of the Bank. Full implementation of a new Organogram for the Head Office and all branches commenced this year in order to reposition the Bank for better business operations and Profit by the creation of dedicated Business Development and Marketing Officers in all branches to support the Branch Managers effectively market and sell all the Bank's products efficiently.

Your Bank has now introduced a dedicated Mobile Banking App and USSD code to make banking more convenient for all our customers with the short-code*957#. With this, Customers can transact almost all their banking needs on the phone without visiting the Bank. I will therefore encourage all our shareholders and Customers to register for the service as soon as it is launched.

A new Operational Procedures Manual together with a revised Credit Policy will also be introduced to improve the Bank's operational processes and Credit delivery with the view to ensuring excellent Customer Service at all times in all our branches

PERSONNEL CHANGES

There are few changes expected in the Management of the Bank. The General Manager, Mr. Peter Tehova, has exhausted his contract with the Bank. The Board, with the approval of the Bank of Ghana will announce his replacement before the end of December when he exits.

The Board thanks Mr. Tehova for his service to the Bank and wishes him well in any future endeavour.

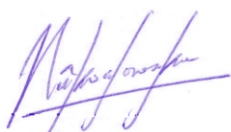
There are a number of movements at the Board level too. Mrs. Helen K. Lokko, Mr. Benjamin E. Obodai and Dr. Nii Kwaku Sowa will retire from the Board at the end of this AGM. Each of these directors has served your Bank for more than 30 years. The Board extends its appreciation for their dedicated services to the Bank. In the course of this meeting, a resolution will be moved to appropriately reward these directors.

The Board Secretary, Mr. L.S.N Akuetteh, has also expressed his desire to retire as Company Secretary and Solicitor for the Bank, for reasons of health and age. He is helping the Board with an appropriate replacement; he has also assured the Board of his availability to advise to make the transition smooth.

I would like to thank all the retiring personalities very profoundly for the invaluable services they have rendered to the Bank over the many years. It is my hope and prayer that they will take a good rest and enjoy their retirement. I am also grateful to all the other Directors on the Board and Management and Staff for their cooperation and support in managing the affairs of the Bank.

Above all, on behalf of the Board, I thank you, our Distinguished Shareholders and Customers for your unflagging support to the Bank. I thank you all for attending this virtual meeting. May the Almighty God keep you all safe and healthy.

God Bless us all.



Chairman

LA COMMUNITY BANK LIMITED

Annual Report and Financial Statements
for the year ended 31 December 2020

REPORT OF THE DIRECTORS TO THE MEMBERS OF LA COMMUNITY BANK LIMITED

The Directors present their report and the financial statements of La Community Bank Limited (the "Bank") for the year ended 31 December 2020.

Directors' responsibility

The Directors are responsible for the preparation of financial statements that give a true and fair view of La Community Bank ("the Bank") comprising the statement of financial position as at 31 December 2020 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and, the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) and in the manner required by the Companies Act, 2019 (Act 992). In addition, the Directors are responsible for the preparation of the Report of the Directors.

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Bank to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Nature of business

The Bank is licensed by the Bank of Ghana under the Banks and Specialised Deposit Taking Institutions Act, 2016 (Act 930) to carry out rural and community banking business in Ghana. There was no change in the nature of business of the Bank during the year.

Business review

The financial results of the Bank for the years ended 31 December 2020 and 31 December 2019 are set out in the financial statements, highlights of which are as follows:

	2020 GH¢	2019 GH¢
Profit/(loss) before tax	579,050	(2,436,287)
Profit/(loss) after tax	536,796	(1,789,994)
Total assets	83,063,060	53,927,125
Total liabilities	78,216,087	49,656,731
Total equity	4,846,973	4,270,394

The Directors consider the state of the Bank's affairs to be satisfactory.

Dividends

The Directors do not recommend the payment of dividend (2019: Nil).

Particulars of entries in the Interests Register during the financial year

No Director had any interest in contracts and proposed contracts with the Bank during the year under review, hence there were no entries recorded in the Interests Register as required by 194(6), 195(1)(a) and 196 of the Companies Act 2019, (Act 992).

REPORT OF THE DIRECTORS (CONT'D)

Corporate social responsibility and code of ethics

A total of GH¢70,523 (2019: GH¢272,261) was spent under the Bank's corporate social responsibility programme with key focus on education, health and others. This is included in Donation and disclosed in notes 13 and 27.

Capacity building of directors to discharge their duties

On appointment to the Board, Directors are provided with full, formal and tailored programmes of induction, to enable them gain in-depth knowledge about the Bank's business, the risks and challenges faced, the economic knowledge and the legal and regulatory environment in which the Bank operates. Programmes of strategic and other reviews, together with the other training programmes provided during the year, ensure that Directors continually update their skills, knowledge and familiarity with the Bank's businesses. This further provides insights about the industry and other developments to enable them effectively fulfil their role on the Board and committees of the Board.

Audit fees

The audit fee for the year is GH¢70,000 (2019: GH¢ 58,000).

Approval of the Report of the Directors

The Report of the Directors of La Community Bank Limited was approved by the Board of Directors on 17th September, 2021 and are signed on their behalf by:

Dr. Nii Kwaku Sowa
Chairman

Mr. Nicholas Okoe Sai
Vice Chairman



REPORT OF THE AUDIT COMMITTEE & CREDIT COMMITTEE

In accordance with corporate governance best practices contained in the Banking Business-Corporate Governance Directive 2018, the members of the Audit Committee of La Community Bank Limited hereby report as follows:

- (i) We are of the opinion that the accounting and reporting policies of the Bank are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the full year ended 31 December 2020 were satisfactory and reinforced the Bank's internal control system.
- (ii) We are satisfied that the Bank has complied with the provisions of Bank of Ghana's Circular BSD/108/2011 "International Financial Reporting Standards (IFRS) Implementation" and hereby confirm that an amount of GH¢69,084 has been set aside as at 31 December 2020 in relation to differences in impairment provisions for loans and advances under International Financial Reporting Standard (IFRS 9) and Bank of Ghana Guidelines.
- (iii) We have deliberated with the external auditors, who have confirmed that necessary cooperation was received from management in the course of their audit and we are satisfied with management's response thereon and with the effectiveness of the Bank's system of accounting and internal control.



Chairman, Audit Committee



INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF LA COMMUNITY BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of La Community Bank Limited ("the Bank"), which comprise the statement of financial position as at 31 December 2020, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 21 to 78.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2019 (Act 992) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Ghana and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

<i>Impairment allowance on loans and advances, investment securities at amortised cost, cash equivalents, and other assets (GH¢7.03 million). Refer to Notes 18, 16, 15 and 23 to the financial statements</i>	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
At 31 December 2020, the Bank reported expected credit losses (ECLs) on loans and advances, investment securities at amortised cost, cash and cash equivalents and other assets of GH¢0.20 million, GH¢6.79 million, GH¢0.02 million and GH¢0.02 million respectively.	To address the key audit matter, we performed procedures including the following:
The key areas where we identified significant levels of management judgement and therefore increased levels of audit focus in the Bank's implementation of IFRS 9 are:	<ul style="list-style-type: none"> Assessing and testing the design, implementation of key controls over the capture, monitoring and reporting of loans and advances, investment securities, cash and cash equivalents and other assets including impairment allowance process. Using financial risk management specialists to independently assess and substantively validate the impairment models by re-performing calculations



INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF LA COMMUNITY BANK LIMITED (CONT'D)

<ul style="list-style-type: none"> • Economic scenarios – IFRS 9 requires the Bank to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used, particularly in the context of COVID-19, and the probability weightings applied. • Significant Increase in Credit Risk ('SICR') –the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. Increased judgement exists in the current year relating to the treatment of those customers who were granted one or more COVID-19 payment reliefs. • ECL estimations – Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD models used are the key drivers of the Bank's ECL results and are therefore the most significant judgemental aspect of the Bank's ECL modelling approach. • Disclosure quality - the disclosures regarding the Bank's credit risks are key to understanding the key judgements and material inputs to the IFRS 9 ECL results. <p>Given the high degree of estimation uncertainty and significance of the balance, we considered impairment allowances on loans and advances, investment securities at amortised cost, cash and cash equivalents and other assets to be a key audit matter.</p>	<ul style="list-style-type: none"> • Assessing whether key data inputs used in the ECL calculation are complete and accurate through testing a sample of relevant data fields and their aggregate amounts against data in the source system. • Assessing the ongoing effectiveness of the SICR criteria through loan file reviews and independently determining the staging of the Bank's loans and advances portfolio, investment securities at amortised cost, cash and cash equivalents, and other assets, including determining the reasonableness of the Bank's treatment of COVID 19 payment relief to customers from a SICR perspective. • Testing samples over key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, weights, and PD, LGD and EAD assumptions applied. • Assessing the appropriateness of overlays (qualitative adjustments and COVID-19 impact) to model driven ECL by taking into account the judgements and estimates the Bank has made through the ECL calculation process. • Considering the adequacy of the Bank's disclosures in relation to impairment about changes in estimates occurring during the period and its sensitivity to key assumptions. In addition, we assessed whether the disclosure of the key judgements and assumptions made, including COVID 19 related disclosures, was reasonable.
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Other information

The Directors are responsible for the other information. The other information comprises the Report of the Directors as required by the Companies Act, 2019 (Act 992), Corporate Information, Report of the Audit Committee and Credit Committee which we obtained prior to the date of this auditor's report date. The Chairman's Statement which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon.

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

KPMG, a partnership established under Ghanaian law, is a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

A.K. Sarpong
D.S. Adeteye
K. Frempong-Kore
E. Addico

E.O. Asiedu
A.O. Akoto
F. Dennis
L. Amidu

N.D. Hariley
N.A. Ayivor
J. Coleman
K.S. Barnieh



INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF LA COMMUNITY BANK LIMITED (CONT'D)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2019 (Act 992) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF LA COMMUNITY BANK LIMITED (CONT'D)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Section 137 of the Companies Act, 2019 (Act 992) and Section 85 of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930)

We have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purpose of our audit.

In our opinion, proper books of account have been kept, so far as appears from our examination of those books. The statements of financial position and comprehensive income are in agreement with the accounting records and returns.

We are independent of the Bank under audit pursuant to Section 143 of the Companies Act, 2019 (Act 992). The Bank's transactions were within its powers and the Bank generally complied with the relevant provisions of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).

The Bank has generally complied with the provisions of the Anti-Money Laundering Act, 2008 (Act 749) and all relevant Amendment and Regulations until it was replaced with the Anti-Money Laundering Act, 2020 (Act 1044) issued on 29 December 2020. The Bank has also generally complied with the provisions of the Anti-Terrorism Act, 2008 (Act 762) and all relevant Amendment and Regulations governing the Acts.

The engagement partner on the audit resulting in this independent auditor's report is Ekow Annobil (ICAG/P/1624).

KPMG

FOR AND ON BEHALF OF:
KPMG: (ICAG/F/2021/038)
CHARTERED ACCOUNTANTS
13 YIYIWA DRIVE, ABELINKPE
P O BOX GP 242
ACCRA

17 September 2021

KPMG, a partnership established under Ghanaian law, is a member of the KPMG network. Independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

A.K. Sarpong
D.S. Adeteye
K. Frempong-Kore
E. Addico

E.O. Asiedu
A.O. Akoto
F. Dennis
L. Amidu

N.D. Hariley
N.A. Ayivor
J. Coleman
K.S. Barnieh

PROFILE OF DIRECTORS STANDING FOR RE-ELECTION

MR NICHOLAS OKOE SAI PROFILE

Mr. Nicholas Okoe Sai is a Chartered Accountant, and also holds an Executive Master's degree in Business Administration [EMBA] Finance option, 2007 from the University of Ghana Business School, Legon.

He started his professional accountancy career at the PKF Chartered Accountants [1978-1982] where he trained as a Chartered Accountant.

He is a member of the Institute of Chartered Accountants, Ghana; Institute of Internal Auditors [IIA- USA]; Institute of Risk Management UK, and the Ghana Association of Certified Consultants.

Mr. Sai attended over twenty [20] foreign courses in Accounting, Internal Auditing, Risk Management, Banking Supervision, Information Security etc.

He held several senior positions at the Bank of Ghana, including the Head, Banking Supervision Department; Head, Internal Audit Department; Regional Manager Takoradi Branch and Advisor to the Governor.

He established the Risk Management function at the Bank of Ghana.

Mr. Sai retired from the Bank of Ghana in December 2012, and established a consultancy firm Noswin Consult - offering consultancy services in Financial Accounting, Internal Auditing, Information Security and Risk Management.



MR. DAVID EMMANUELANANG ODDOYE PROFILE

Mr. David E.A Oddoye is a seasoned Chartered Accountant, having worked for over 37 years in both private practice and industry. He holds an Executive Master's Degree in Business Administration (EMBA), Finance option, 2011, from the University of Ghana Business School.

Mr. David Oddoye started his professional career at Tettey Ussher and Partners, where he specialized in the audit of Small and Medium Size Organizations. (SMES)

He later joined Peat Marwick Casselton Elliot & Co, (now KPMG) in 1981. There he learned to audit large organization and he was part of the audit team, which audited organizations like Pioneer Tobacco Company Limited, Cementation International, a British construction company and Barclays Bank, Ghana Limited.

Mr. David Oddoye has also worked with several companies in the industry and held key positions at Gihoc Meat Products Company Limited; Ghana Primewood Company Limited; BMK Company Limited, Takoradi and Japan Motors Trading Company as Group Accountant.

In 2012, he retired from Japan Motors Trading Company as Group Chief Accountant. He then founded his own Auditing Firm called DOFAC Services. DOFAC Services has done Audit and Assurance work for some organizations like Accra Street Academy; Fun Ghana Limited; Forensic Audit for Japan Motors and Silver Star Automobile Companies.



DR. (MRS.) MATILDA PAPPOE PROFILE

Dr. (Mrs.) Matilda Pappoe holds a PhD in Medical Sociology from McGill University, Canada; Master of Public Health (MPH) and BSc in Public Health from the University of California, Berkeley, USA. She is currently the Consultant on Public Health Programme Design and Evaluation / Health Promotion, University of Ghana Medical School.

She has held several positions at the University of Ghana Medical School including Head, Department of Social Behavioral Sciences.

She was also a senior lecturer at the Department of Community Health School of the Ghana Medical School and a Research Fellow, University of Ghana Medical School.

Dr. Pappoe, in academia, has done a lot of research and published academic articles, journals and books mostly on health, women and children and community development. She has also edited many books and provided technical reports in a number of health related cases.

She retired from the University of Ghana in 2002 but continued to lecture until 2009. She is a senior citizen with active interest in social and community affairs.



PROFILE OF DIRECTOR STANDING FOR ELECTION

KENNEDY WIAFE EFFAH ESQ.

Mr. Kennedy Wiafe Effah Esq. is a banker and a lawyer in private practice with work experience spanning over 15 years. He trained in accounting from the University of Ghana Business School, Legon in Accra where he graduated with a BSc. Admin (Accounting) with Honours in May 2003. He obtained his Bachelor of Laws (LL.B) degree with Honours from the Ghana Institute of Management & Public Administration (GIMPA) in May, 2015 and was called to the Ghana Bar in October, 2017 after his professional legal training from the Ghana School of Law, Accra.



Kennedy is an Associate Lawyer with Nsiah Akuetteh & Co., an experienced firm of legal practitioners and consultants as well as notary public. He handles a practice portfolio in immovable properties, banking, labour and family matters for both corporate and individual clients.

From December, 2016 to October, 2017, Kennedy worked with Macwest Ltd, a major corporate distributor for GHACEM Ltd, as Head of Finance responsible for budgeting and strategic planning, funds management, management accounts and payroll.

Kennedy started his career in the banking and finance industry in March, 2006 with the Women's World Banking Savings & Loan Ltd before joining Intercontinental Bank Ghana Ltd in January, 2008 and Access Bank Ghana Ltd in April, 2012 in various capacities including corporate and retail banking, consumer banking, public sector banking, credit administration, internal control, compliance and due diligence in Accra, Tema and Kumasi.

For voluntary services, Kennedy served as a Presbyterian of the Presbyterian Church of Ghana (PCG), Christ Congregation in Darkuman, Accra from September, 2012 to February, 2021. He enjoys playing volleyball or soccer and watching movies as hobbies.

**STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 31 DECEMBER 2020**

	Note	2020 GH¢	2019 GH¢
Interest income calculated using effective interest method	8	10,208,944	7,191,152
Interest expense	8	(2,881,824)	(1,022,142)
Net interest income		7,327,120	6,169,010
Fee and commission income	9	803,938	831,993
Fee and commission expense	9	(238,103)	(198,212)
Net fee and commission income		565,835	633,781
Revenue		7,892,955	6,802,791
Other income	10	80,836	220,725
Operating income		7,973,791	7,023,516
Impairment loss on financial assets	11	(275,646)	(3,254,499)
Personnel expenses	12	(4,234,933)	(3,716,517)
Depreciation and amortisation	20	(627,469)	(576,664)
Finance cost on lease liability	29(b)	(32,515)	-
Other expenses	13	(2,224,178)	(1,912,123)
Total operating expenses		(7,394,741)	(9,459,803)
Profit/(loss) before tax		579,050	(2,436,287)
Tax (expense)/credit	14a	(42,254)	646,293
Profit/(loss) after tax attributable to equity holders		536,796	(1,789,994)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Movement in fair value reserve (FVOCI equity investments)	17	20,884	129,884
Related tax	22	(5,221)	(13,931)
		15,663	115,953
Total comprehensive income		552,459	(1,674,041)

The notes on pages 21 to 78 are an integral part of these financial statements.

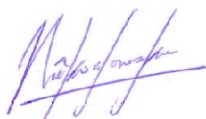
LA COMMUNITY BANK LIMITED

Annual Report and Financial Statements
for the year ended 31 December 2020

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 GH¢	2019 GH¢
Assets			
Cash and cash equivalents	15	10,475,339	12,391,888
Investment securities at amortised cost	16	61,964,017	31,108,544
Investment securities at FVOCI	17	311,657	290,773
Loans and advances to customers	18	3,260,700	2,803,061
Current tax asset	14b	53,580	30,158
Property and equipment	19	4,447,853	4,651,484
Intangible assets	21	597,272	419,648
Deferred tax assets	22	1,364,687	1,175,210
Other assets	23	587,955	1,056,359
Total assets		83,063,060	53,927,125
Liabilities			
Deposits from customers	24	75,753,076	47,674,068
Provisions	27	53,953	56,453
Lease liability	29(b)	176,439	-
Employee benefit liability	25	105,173	69,021
Other liabilities	26	2,127,446	1,857,189
Total liabilities		78,216,087	49,656,731
Equity			
Stated capital	28(a)	2,075,305	2,075,305
Deposit for shares	28(b)	24,120	-
Retained earnings	28(c)	(138,806)	(579,374)
Statutory reserve	28(c)	2,554,148	2,487,049
Credit risk reserve	28(c)	69,084	39,955
Fair value reserve	28(c)	263,122	247,459
Total equity		4,846,973	4,270,394
Total liabilities and equity		83,063,060	53,927,125

The financial statements were approved by the Board of Directors on 17th September, 2021 and signed on their behalf by:



Dr. Nii Kwaku Sowa
(Chairman)



Mr. Nicholas Okoe Sai
(Vice Chairman)

The notes on pages 21 to 78 are an integral part of these financial statements.

LA COMMUNITY BANK LIMITED

*Annual Report and Financial Statements
for the year ended 31 December 2020*



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Stated capital GH¢	Deposit for shares GH¢	Retained earnings GH¢	Statutory reserve GH¢	Credit risk reserve GH¢	Fair value reserve GH¢	Total GH¢
Balance at 1 January 2020	2,075,305	-	(579,374)	2,487,049	39,955	247,459	4,270,394
Total comprehensive income							
Profit for the year	-	-	536,796	-	-	-	536,796
<i>Other comprehensive income</i>							
Fair value gains on investments at FVOCI (net of tax)	-	-	-	-	-	15,663	15,663
Total comprehensive income	-	-	536,796	-	-	15,663	552,459
Transfers (to)/from reserves							
Transfer to statutory reserve	-	-	(67,099)	67,099	-	-	-
Transfer to credit risk reserve	-	-	(29,129)	-	29,129	-	-
Net transfers reserves	-	-	(96,228)	67,099	29,129	-	-
Transactions with owners of the Bank							
Deposit for shares	-	24,120	-	-	-	-	24,120
Total transactions with owners of the Bank	-	24,120	-	-	-	-	24,120
Balance at 31 December 2020	2,075,305	24,120	(138,806)	2,554,148	69,084	263,122	4,846,973

The notes on pages 21 to 78 are an integral part of these financial statements.

LA COMMUNITY BANK LIMITED

*Annual Report and Financial Statements
for the year ended 31 December 2020*



**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Stated capital GH¢	Deposit for shares GH¢	Retained earnings GH¢	Statutory reserve GH¢	Credit risk reserve GH¢	Fair value reserve GH¢	Total GH¢
Balance at 1 January 2019	2,071,305	-	1,625,090	2,487,049	-	131,506	6,314,950
Total comprehensive income							
Loss for the year	-		(1,789,994)	-	-	-	(1,789,994)
<i>Other comprehensive income</i>							
Fair value gains on investments at FVOCI (net of tax)	-		-	-	-	115,953	115,953
Total comprehensive income	-		(1,789,994)	-	-	115,953	(1,674,041)
Transfer to regulatory credit risk reserve	-		(39,955)	-	39,955	-	-
Net transfers reserves	-		(39,955)	-	39,955	-	-
Transactions with owners of the Bank							
Shares issued	4,000	-	-	-	-	-	4,000
Dividends*	-		(374,515)				(374,515)
Total transactions with owners of the Bank	4,000	-	(374,515)	-	-	-	(370,515)
Balance at 31 December 2019	2,075,305	-	(579,374)	2,487,049	39,955	247,459	4,270,394

* This is 2018 dividends approved in 2019. The Board of Directors proposed a dividend of approximately GH¢0.02 per share. The Bank had a favourable retained earnings balance prior to approval of 2018 dividends by members of the Bank.

The notes on pages 21 to 78 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 GH¢	2019 GH¢
Profit/(loss) after tax		536,796	(1,789,994)
<i>Adjustments for:</i>			
Depreciation and amortisation	20	627,469	576,664
Net impairment loss on financial assets	11	275,646	3,254,499
Net interest income	8	(7,327,120)	(6,169,010)
Finance cost on lease liability	29(b)	32,515	-
Write-off		25,401	-
Income tax expense	14a	42,254	(646,293)
		(5,787,039)	(4,774,134)
<i>Changes in:</i>			
Loans and advances to customers		(516,692)	40,564
Other assets		443,824	346,637
Deposits from Customers		28,061,247	4,386,083
Employee benefit liability		36,152	-
Provisions		(2,500)	-
Other liabilities		270,257	(312,563)
		22,505,249	(313,413)
Interest received		9,444,867	3,737,101
Interest paid		(2,864,063)	(950,681)
Taxes paid	14b	(260,374)	(45,000)
Net cash from operating activities		28,825,679	2,428,007
<i>Cash flows from investing activities</i>			
Acquisition of property and equipment	19	(65,134)	(143,339)
Lease payments	29(a)	(60,000)	-
Acquisition of investments		(30,299,376)	(17,278)
Acquisition of intangible assets	21	(341,838)	(5,000)
Net cash used in investing activities		(30,766,348)	(165,617)
<i>Cash flows from financing activities</i>			
Proceeds from deposit for shares	28(b)	24,120	4,000
Dividends paid		-	(322,157)
Net cash flows from/(used in) financing activities		24,120	(318,157)
Net (decrease)/increase in cash and cash equivalents		(1,916,549)	1,944,233
Cash and cash equivalents at 1 January		12,391,888	10,447,655
Cash and cash equivalents at 31 December	15	10,475,339	12,391,888

The notes on pages 21 to 78 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

1 REPORTING ENTITY

La Community Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Ghana. The Bank's registered office is at G224/1 Lami Jwahe, La, Accra. The financial statements of the Bank as at, and for the year ended 31 December 2020 presents the individual financial statements. The principal activities carried out by the Bank include the provision of micro finance facilities in the form of loans to the general public. The Bank also accepts deposits of various types including current accounts, savings accounts and enters into contracts for fixed deposits.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2019 (Act 992) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).

2.2 Basis of measurement

The financial statements are prepared using historical cost basis except financial instruments at fair value through other comprehensive income and employee benefit obligation.

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented.

Details of the Bank's accounting policies are included in Note 4.

2.3 Functional currency

These financial statements are presented in Ghana Cedi, which is the Bank's functional currency. All amounts have been rounded to the nearest Ghana Cedi, except when otherwise indicated.

2.4 Use of judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in note 6.1.4 establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

NOTES TO THE FINANCIAL STATEMENTS

2 BASIS OF PREPARATION (CONT'D)

2.4 Use of judgements (Cont'd)

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have the most significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in notes 6.1.4 - impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

New and amended standards adopted by the Bank

A number of new standards are effective from 1 January 2020 that do not have a material effect on the Bank's financial statements.

Standards issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to early adopt these Standards.

Covid-19-Related Rent Concessions (Amendments to IFRS 16)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of Covid-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:

- that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
- the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. A lessee applies the amendments retrospectively and recognises the cumulative effect of initially applying them in the opening retained earnings of the reporting period in which they are first applied.

The Bank is yet to determine the impact of this standard on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Standards issued but not yet effective (Cont'd)

Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37)

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, issued by the International Accounting Standards Board, clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both:

- the incremental costs – e.g. direct labour and materials; and
- an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments will be recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives will not be restated. Earlier application is permitted.

The Bank is yet to determine the impact of this standard on its financial statements.

Annual Improvements to IFRS Standards 2018-2020

IFRS 1 First-time Adoption of International Financial Reporting Standards	The amendment permits a subsidiary (as a first-time adopter of IFRS that applies IFRS later than its parent) that applies IFRS 1.D16(a) to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
IFRS 9 Financial Instruments	The amendment clarifies that for the purpose of performing the "10 per cent test" for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
IFRS 16 Leases	The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. The Bank is yet to determine the impact of these amendments on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Standards issued but not yet effective (Cont'd)

Amendments to IFRS 3: Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The amendment is effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. The Bank is yet to determine the impact of this standard on its financial statements.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Proceeds from selling items before the related item of property, plant and equipment is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 Inventories should be applied in identifying and measuring these production costs.

The amendments apply for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

The amendments are not expected to have a material impact on the Bank.

Classification of liabilities as current or non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice.

NOTES TO THE FINANCIAL STATEMENTS

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Standards issued but not yet effective (Cont'd)

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendment to IAS 12)

The amendment clarifies that the initial recognition exemption does not apply to transactions that give rise to equal and offsetting temporary differences such as leases and decommissioning obligations. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The amendments are effective from 1 January 2023 but may be applied earlier. The Bank is currently assessing the impact of this amendment on its business.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Bank entities except if mentioned otherwise.

4.1 Interest income and expense

(a) Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(b) Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.1 Interest income and expense (Cont'd)

(c) Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(d) Presentation

Interest income calculated using the effective interest method presented in the statement of comprehensive income comprise interest on financial assets measured at amortised cost.

Interest expense presented in the statement of comprehensive income comprise interest on financial liabilities measured at amortised cost.

4.2 Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate .

The bank provides services such as account management services, money transfer services etc. Fees from ongoing account management are charged to the customer's account on a monthly basis. The bank sets rates on which these charges are based on. Revenue from account management is recognised over time as the services are provided.

Transaction based fees such as charges on money transfers, cheque books, pass books are charged to the customer's account when the transaction takes place. Revenue related to transactions is recognised at the point in time when the transaction takes place.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4.3 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 Leases (Cont'd)

(a) Bank acting as a lessee

The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

(b) Initial Recognition and Measurement

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand alone prices. However, for leases of branches and office premises, the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the commencement date. The right-of-use asset is initially measured at cost, comprising the initial amount of lease liability adjusted for any lease payment made at or prior to commencement date, plus any initial direct cost plus estimate of the cost to dismantle and remove any improvement made to branches or office premise less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed repayment, including in-substance fixed payments
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

(c) Subsequent Measurement

The right-of-use asset is subsequently depreciated on a straight line basis from the commencement date to the end of the lease term unless the initial recognition considers the exercise of a purchase option or the lease transfers the ownership of the underlying to the Bank by the end of the lease term. In which case, the right of use asset is amortised over the useful life of the underlying asset. Additionally, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 Leases (Cont'd)

(c) Subsequent Measurement (Cont'd)

Lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in the original assessment of the lease term, a change in the estimate of residual guarantee or a change in index or rate affecting payments or a change in the fixed lease payment. When the lease liability is re-measured in this way the carrying amount of the right of use asset is adjusted by the same amount or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources with relevant adjustments to reflect the terms of the lease.

The Bank presents right-of-use assets that do not meet the definition of investment property in "Property and equipment".

Short term lease and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4.4 Financial instruments

4.4.1 Recognition and initial measurement

The Bank initially recognises cash and cash equivalents, loans and advances to customers, investment securities, other assets, deposits from customers and other liabilities on the date on which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

4.4.2 Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair value through other comprehensive income (FVOCI) or Fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Financial instruments (Cont'd)

4.4.2 Classification and subsequent measurement (Cont'd)

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 7 sets out the amount of each class of financial asset or financial liability measured at FVTPL, FVOCI or amortised cost.

Business model assessment - financial assets

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Financial instruments (Cont'd)

4.4.2 Classification and subsequent measurement (Cont'd)

Business model assessment - financial assets (Cont'd)

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest on principal- Financial Assets

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose a revision of the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The right to reset the rates of the loans based on the revision in market rates is part of the contractually agreed terms on inception of the loan agreement; therefore, the borrowers are obligated to comply with the reset rates without any option of repayment of the loans at par at any reset date.

The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies with the interest rate in a way that is considered a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Financial instruments (Cont'd)

4.4.2 Classification and subsequent measurement (Cont'd)

Financial assets – subsequent measurement and gains and losses

(a) Amortised cost

Financial assets at amortised cost comprises cash and cash equivalents, investment securities at amortised cost, loans and advances to customers, and other assets. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

Interest income is determined using the effective interest method, foreign exchange gains and losses and impairment are reported in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(b) Fair value through other comprehensive income

i Equity instruments

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities - Classification and subsequent measurement

Deposits are the Bank's source of debt funding.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Financial liabilities comprising deposits from customers and other liabilities are subsequently measured at their amortised cost using the effective interest method.

4.4.3 Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Financial instruments (Cont'd)

4.4.3 Derecognition

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

4.4.4 Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss.

Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Financial instruments (Cont'd)

4.4.4 Modification of financial assets and liabilities (Cont'd)

Financial assets (Cont'd)

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

4.4.5 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

4.5 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Financial instruments (Cont'd)

4.5 Fair value measurement (Cont'd)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

4.6 Impairment of financial assets

The Bank recognises loss allowances for ECL on financial assets that are debt instruments that are not measured at FVTPL. No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments". Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments".

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date* : as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *financial assets that are credit-impaired at the reporting date* : as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments* : as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.6 Impairment of financial assets (Cont'd)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors;

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.6 Impairment of financial assets (Cont'd)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost* : as a deduction from the gross carrying amount of the assets;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.
- *Loan commitments* : generally, as a provision

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'other income' in the statement of comprehensive income. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

4.7 Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with ARB Apex Bank and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.8 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.8 Property and equipment (Cont'd)

Subsequent cost

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Work-in-progress

Property and equipment may be classified as work-in-progress if it is probable that future economic benefits will flow to the Bank and the cost can be measured reliably. Items included in work-in-progress are transferred to the appropriate class of property and equipment when completed and in a location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and the useful life of the asset when it is reasonably certain that the asset will revert to the lessee at the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	25-50 years
Leasehold improvement	5 years
Furniture, fittings and equipment	3-10 years
Computers	3-4 years
Motor vehicles	4 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Gains and losses on disposal of property and equipment are determined by comparing proceeds from disposal with the carrying amounts of property and equipment and are recognised in the profit or loss as other income.

4.9 Intangible assets

Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is between 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.11 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income (OCI).

4.12 Current tax

Current tax is the expected tax payable or receivable on taxable income or loss for the year, measured using tax rates enacted or substantively enacted at the balance sheet date. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

4.13 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.13 Deferred tax (Cont'd)

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised simultaneously.

4.14 Levies and similar charges

The Bank recognises the liability arising from levies and similar charges when it becomes legally enforceable.

4.15 Deposits from customers

Deposits from customers are the Bank's sources of funding. Deposits from customers are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

4.16 Provisions and contingencies

Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the bank, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

4.17 Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

NOTES TO THE FINANCIAL STATEMENTS

4 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.17 Employee benefits (Cont'd)

The Bank operates the three-tier pension scheme as directed by the National Pension Regulatory Authority. The bank pays 13% and the employee pays 5.5% making a total contribution of 18.5%.

Out of a total contribution of 18.5%, the Bank remits 13.5% to Social Security and National Insurance Trust towards the first-tier pension scheme. The Bank remits the remaining 5% to a privately managed and mandatory second tier for lump sum benefit.

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long-term employment benefits – Long Service Benefit

The Bank's obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Remeasurement are recognised in profit or loss in the period in which they arise.

Long service awards accrue to employees based on graduated periods of uninterrupted service. These awards accrue over the service life of employees. Employees in service with the Bank become eligible to receive cash payments at graduated rates when employees achieve stipulated milestones set by the Bank.

4.18 Share capital and reserves

Share capital

The Bank classifies capital and equity instruments in accordance with the contractual terms of the instrument. The Bank's share capital is not redeemable by holders in the normal course of business and bears an entitlement to distributions that is non-cumulative and at the discretion of the Directors. Accordingly, they are presented as a component of issued capital within equity.

Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Dividend on ordinary shares

Dividends on ordinary shares are recognized in the period in which they are approved by the shareholders. Dividend proposed which is yet to be approved by shareholders, is disclosed by way of notes.

NOTES TO THE FINANCIAL STATEMENTS

5 RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board is responsible for developing and monitoring the Bank's risk management policies over specified areas.

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

The Bank's Board is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to risks faced by the Bank.

6 FINANCIAL RISK MANAGEMENT

The Bank's activities expose the business to risks. These risks are managed professionally and in a targeted manner. Key risks arising from core functions are identified and measured to facilitate managing and determining risk positions and capital allocations. The Bank has exposure to the following types of risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

The Bank continues to assess its overall risk management framework and governance structure. This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

6.1 Credit risk

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

COVID-19 consideration

IFRS 7 *Financial Instruments: Disclosures* requires disclosure of the nature and extent of risks arising from financial instruments and how the company manages those risks.

In response to COVID-19 induced regulatory directives, banks introduced changes to the way they did their businesses, which in turn impacted the credit risk that arose from the transactions that they entered into and risk management practices. Banks changed the terms and conditions of the loans that they originated, changed their debt collection processes, received government guarantees in respect of its credit exposures among others (restructured timing and amounts of repayments), reduced provisions for loans in the "Other Loans Especially Mentioned" (OLEM) category from 10 percent to 5 percent for all banks and SDIs as a policy response to loans that may experience difficulty in repayments due to slowdown in economic activity. These impacted the qualitative considerations in impairment computation as well as the regulatory credit reserve of the banks.

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (Cont'd)

Regulatory changes

- The Bank of Ghana lowered the policy rate from 16% to 14.5% to encourage banks to lend to relevant sectors of the economy to support growth during this period.
- The Monetary Policy Committee (MPC) also reduced the primary reserve ratio from 10% to 8% for universal banks and from 8% to 6% for Rural and Community banks, to provide banks with more liquidity to support critical sectors of the economy.
- Provisioning for loans in the OLEM category was reduced from 10% to 5%.
- Additionally, loan repayments that are past due up to 30 days for Rural and community Banks, and Microfinance institutions were considered current.
- To encourage more use of digital platforms transaction fees for mobile money was waived for transactions up to a value GHS100.

Bank-specific changes

In line with the policy directives issued by the Bank of Ghana, the Bank also amended its regulatory loan provision requirement for loans and advances classified as OLEM category 10% to 5%. The Bank also granted moratorium to customers who were adversely affected by the COVID-19 pandemic.

Quantitatively, the impact of these bank-specific interventions (mainly granting of moratoriums to selected customers) was assessed as immaterial.

6.1.1 Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trade. Settlement risk is the risk of loss due to the failure of a Bank to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a clearing agent (the Bank's bankers) to ensure that a transaction is settled only when both parties have fulfilled their contractual settlement obligations.

6.1.2 Management of credit risk

The Board of Directors created the Credit Committee for the oversight of credit risk. A separate Credit Unit, reporting to the Credit Committee through the General Manager, is responsible for managing the Bank's credit risk, including the following.

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to key management personnel, branch managers and credit committee. Larger facilities as well as advances to staff of the Bank require approval by the Board of Directors, as appropriate.
- *Reviewing and assessing credit risk:* Bank Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (cont'd)

6.1.2 Management of credit risk

- *Developing and maintaining the Bank's risk gradings* to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 8 grades reflecting varying degrees of risk of default (see Note 5.1.3). The responsibility for setting risk grades lies with the final approving committee. Risk grades are subject to regular reviews by Bank's Risk Committee.

Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:

- initial approval, regular validation of the ECL model
- determining and monitoring significant increase in credit risk; and
- incorporation of forward-looking information.
- *Reviewing compliance* of stakeholders with agreed exposure limits, including those for selected credit customer groups and product types. Regular reports on the credit quality of portfolios are provided to Bank's Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- *Reviewing the acceptability* of specific classes of collateral for credit risk mitigation. The principal collateral types for loans are:
 - Compulsory savings;
 - Short term investments

Regular audits of business units and Bank's credit processes are undertaken by Internal Audit.

6.1.3 Credit quality analysis

Credit risk exposures relating to on-balance sheet assets was as follows:

31 December 2020	Note	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Maximum exposure to credit risk</i>					
Loans and advances to customers	18	3,159,814	32,578	269,705	3,462,097
Investment securities	16	52,388,056	10,313,875	6,048,070	68,750,001
Cash and cash equivalents		9,337,201	-	-	9,337,201
Other assets		130,352	-	21,085	151,437
		65,015,423	10,346,453	6,338,860	81,700,736

31 December 2019

Maximum exposure to credit risk

Loans and advances to customers	18	2,771,650	15,127	158,628	2,945,405
Investment securities	16	26,839,593	4,798,330	6,048,070	37,685,993
Cash and cash equivalents		11,541,057	-	-	11,541,057
		41,152,300	4,813,457	6,206,698	52,172,455

The above represents the maximum exposure to credit risk at 31 December 2020 without taking into account of any collateral held or other credit enhancements attached. The exposures set out above are based on net carrying amounts reported in the statement of financial position.

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

LA COMMUNITY BANK LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (cont'd)

6.1.3 Credit quality analysis (Cont'd)

31 December 2020	Note	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Loans and advances to customers</i>					
Grade 1–3: Low–fair risk		3,159,814	-	-	3,159,814
Grade 4–5: Watch list		-	32,578	-	32,578
Grade 6: Substandard		-	-	22,422	22,422
Grade 7: Doubtful		-	-	7,511	7,511
Grade 8: Loss		-	-	239,772	239,772
Total gross amount	18	3,159,814	32,578	269,705	3,462,097
Allowance for ECL	18	(71,306)	(398)	(129,693)	(201,397)
Carrying amount		3,088,508	32,180	140,012	3,260,700
<i>Investment securities</i>					
Grade 1–3: Low–fair risk		52,388,056	10,313,875	-	62,701,931
Grade 8: Loss		-	-	6,048,070	6,048,070
Total gross amount	16	52,388,056	10,313,875	6,048,070	68,750,001
Loss allowance	16	(10,388)	(727,526)	(6,048,070)	(6,785,984)
Carrying amount		52,377,668	9,586,349	-	61,964,017
<i>Cash and cash equivalents</i>					
Grade 1–3: Low–fair risk		9,337,201	-	-	9,337,201
Loss allowance		(17,181)	-	-	(17,181)
Carrying amount		9,320,020	-	-	9,320,020
<i>Other assets</i>					
Grade 1-3: Low-fair risk		130,352	-	-	130,352
Grade 8: Loss		-	-	21,085	21,085
Gross carrying amount		130,352	-	21,085	151,437
Loss allowance		-	-	(20,380)	(20,380)
Carrying amount		130,352	-	705	131,057
31 December 2019					
<i>Loans and advances to customers</i>					
Grade 1–3: Low–fair risk		2,771,650	-	-	2,771,650
Grade 4–5: Watch list		-	15,127	-	15,127
Grade 6: Substandard		-	-	2,394	2,394
Grade 7: Doubtful		-	-	-	-
Grade 8: Loss		-	-	156,234	156,234
Total gross amount	18	2,771,650	15,127	158,628	2,945,405
Allowance for ECL	18	(66,977)	(3,635)	(71,732)	(142,344)
Carrying amount		2,704,673	11,492	86,896	2,803,061

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (cont'd)

6.1.3 Credit quality analysis (Cont'd)

31 December 2019	Note	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Investment securities</i>					
Grade 1–3: Low–fair risk		26,839,592	4,798,331	-	31,637,923
Grade 4-5: Watchlist		-	-	6,048,070	6,048,070
Total gross amount	16	26,839,592	4,798,331	6,048,070	37,685,993
Loss allowance	16	(33,232)	(496,147)	(6,048,070)	(6,577,449)
Carrying amount		26,806,360	4,302,184	-	31,108,544
<i>Cash and cash equivalents</i>					
Grade 1–3: Low–fair risk		11,541,057	-	-	11,541,057
Grade 4-5: Watchlist		-	-	-	-
Total gross amount		11,541,057	-	-	11,541,057
Loss allowance		(29,503)	-	-	(29,503)
Carrying amount		11,511,554	-	-	11,511,554

The above represents the maximum exposure to credit risk at 31 December 2019 without taking into account of any collateral held or other credit enhancements attached. The exposures set out above are based on net carrying amounts reported in the statement of financial position. The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

Year ended 31 December 2020	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Loans and advances</i>				
Current	3,159,814	-	-	3,159,814
Overdue < 90days	-	32,578	-	32,578
Overdue > 90days	-	-	269,705	269,705
Gross carrying amount	3,159,814	32,578	269,705	3,462,097
Loss allowance	(71,306)	(398)	(129,693)	(201,397)
Carrying amount	3,088,508	32,180	140,012	3,260,700

Year ended 31 December 2019

Loans and advances

Current	2,771,650	-	-	2,771,650
Overdue < 90days	-	15,127	-	15,127
Overdue > 90days	-	-	158,628	158,628
Gross carrying amount	2,771,650	15,127	158,628	2,945,405
Loss allowance	(66,977)	(3,635)	(71,732)	(142,344)
Carrying amount	2,704,673	11,492	86,896	2,803,061

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (cont'd)

6.1.3 Credit quality analysis (Cont'd)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be de-recognised, and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in 4.5

The Bank renegotiates loans with customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Cash and cash equivalents

The Bank held cash and cash equivalents of GH¢10,492,520 at 31 December 2020 (2019: GH¢12,421,287). The cash and cash equivalents are held with ARB Apex Bank and other reputable financial institution counterparties.

Collateral held and other credit enhancements

The Bank holds collateral against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Note	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
		2020	2019	
Investment securities at amortised cost		Nil	Nil	None
Loans and advances to customers		100%	100%	Compulsory savings (cash collateral) and other short-term investments

Loans and advances to customers

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 6.1). However, collateral provides additional security and the Bank generally requests that borrowers provide it. The Bank may take collateral in the form of compulsory savings.

The table below sets out the carrying amount and the value of identifiable collateral (mainly cash deposits) held against loans and advances to customers. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (cont'd)

6.1.3 Credit quality analysis (Cont'd)

Loans and advances to customers (Cont'd)

	2020		2019	
	Carrying amount	Collateral	Carrying amount	Collateral
	GH¢	GH¢	GH¢	GH¢
Stages 1 and 2	3,120,688	1,011,875	2,716,165	669,863
Stage 3	140,012	12,200	86,896	-

Other types of collateral

In addition to the compulsory savings used as collateral for loans and advances to customers, the Bank also holds other types of collateral such as investments (i.e. treasury bills).

Assets obtained by taking possession of collateral

The Bank did not hold any financial and non-financial assets resulting from taking possession of collateral held as security against loans and advances at the reporting date.

6.1.4 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4.7

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (cont'd)

6.1.4 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Exposures:

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
- Internally collected data on customer behaviour
- Payment record: this includes overdue status as well as a range of variables about payment ratios
- Utilisation of the granted limit
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures.

The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling:

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (cont'd)

6.1.4 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment (Cont'd)

Determining whether credit risk has increased significantly (Cont'd)

- the remaining lifetime PD is determined to have increased by more than a stated threshold of the corresponding amount estimated on initial recognition; or,
- if the absolute change is annualised, lifetime PD since initial recognition is greater than a stated threshold of basis points.
- The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences. As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2)

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (cont'd)

6.1.4 Amounts arising from ECL (Cont'd)

Inputs, assumptions and techniques used for estimating impairment (Cont'd)

Definition of default (Cont'd)

- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates five economic scenarios: a base case, which is the median scenario assigned a 60% probability of occurring, and four less likely scenarios, two upside and two downsides, each assigned a 10% probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the country where the Bank operates.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk are GDP growth and CPI. The GDP growth and CPI as the reporting date was 1.1% (2019: 6.9%) and 10.4 % (2019: 7.9%) respectively

The economic scenarios used as at 31 December 2020 included the following key indicators for Ghana.

	Year	Real GDP Growth	Consumer Inflation
Actual	2020	-1.10%	10.40%
Forecast	2021	4.20%	8.73%
Forecast	2022	4.14%	8.03%
Forecast	2023	7.35%	6.80%
Forecast	2024	4.58%	6.10%

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (Cont'd)

6.1.4 Amounts arising from ECL (Cont'd)

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets. The table below shows the loss allowance on loans and advances to customers assuming each forward-looking scenario (e.g. base, scenario 1, scenario 2, scenario 3 and scenario 4) were weighted 100% instead of applying scenario probability weights across the 5 scenarios. For ease of comparison, the table also includes the probability-weighted amounts that are reflected in the financial statements.

2020						
	Base Scenario	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Probability weighted
Gross exposure (GH¢)	82,486,703	82,486,703	82,486,703	82,486,703	82,486,703	82,486,703
Loss allowance (GH¢)	6,983,922	7,093,780	6,880,576	6,713,421	7,313,969	7,024,942

2019						
	Base Scenario	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Probability weighted
Gross exposure (GH¢)	53,052,789	53,052,789	53,052,789	53,052,789	53,052,789	53,052,789
Loss allowance (GH¢)	6,708,045	6,812,588	6,613,450	6,491,081	7,021,855	6,749,296

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (Cont'd)

6.1.4 Amounts arising from ECL (Cont'd)

Measurement of ECL (Cont'd)

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including borrower's extension options if any) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period.

The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

2020	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Loans and advances to customers</i>				
Balance at 1 January	66,977	3,635	71,732	142,344
Transfer to stage 1	2,169	(2,099)	(70)	-
Transfer to stage 2	(249)	249	-	-
Transfer to stage 3	(1,433)	(186)	1,619	-
Net remeasurement of loss allowance	(4,118)	(445)	1,733	(2,830)
New financial assets originated or purchased	21,996	206	83,761	105,963
Derecognised financial assets	(15,623)	(952)	(27,505)	(44,080)
Balance at 31 December	69,719	408	131,269	201,397

Loans and advances increased by approximately 16% in 2020 due to new loans and advances disbursed to customers during the year. This growth which, resulted in the overall ECL increment at year end, was observed more on the overdraft facilities which saw an ECL stock growth by approximately 45%. Although a much higher portfolio growth was observed on the term loans (excluding staff loans), there was equally some significant loan settlements in this portfolio which resulted in a marginal net ECL stock growth of approximately 3% in that portfolio.

	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Investment securities at amortised cost</i>				
Balance at 1 January	33,232	496,147	6,048,070	6,577,449
Impairment (reversal)/charge	(22,844)	231,379	-	208,535
Balance at 31 December	10,388	727,526	6,048,070	6,785,984

Investment securities at amortised cost increased significantly by approximately 82% in 2020 on account of significant increase in deposits at the end of the year under consideration. This significant growth in investments securities at amortised cost resulted in a marginal increase in overall ECL of approximately 3%. The marginal increase in overall ECL on investment securities at amortised was observed more on placements with other financial institutions although the significant growth in investment securities at amortised cost was observed on investments in Government of Ghana Bonds.

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (Cont'd)

6.1.4 Amounts arising from ECL (Cont'd)

Loss allowance (Cont'd)

	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Cash and cash equivalents</i>				
Balance at 1 January	29,503	-	-	29,503
Impairment reversal	(12,322)	-	-	(12,322)
Balance at 31 December	17,181	-	-	17,181

Cash and cash equivalents decreased by approximately 15% in 2020 due to decrease in short term investment securities at the end of the year. The decrease resulted in a significant decrease of approximately 42% in overall ECL on cash and cash equivalents.

	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Other assets</i>				
Balance at 1 January	-	-	-	-
Impairment charge	-	-	20,380	20,380
Balance at 31 December	-	-	20,380	20,380

Other assets decreased by approximately 43% at end of the year under consideration. Notwithstanding the decline in other assets balance, overall ECL increased by 100%. The overall ECL is on account balance (hitherto included in cash equivalents) reclassified to other assets.

2019

Loans and advances to customers

Balance at 1 January	58,137	6,689	105,896	170,722
Transfer to stage 1	(195)	(3,095)	3,290	-
Transfer to stage 2	(882)	882	-	-
Transfer to stage 3	(7,573)	-	7,573	-
Net remeasurement of loss allowance	13,064	(3,095)	1,212	11,181
New financial assets originated or purchased	21,712	2,527	34,332	58,571
Derecognised financial assets	(17,286)	(273)	(80,571)	(98,130)
Balance at 31 December	66,977	3,635	71,732	142,344

Loans and advances decreased marginally by approximately 2% in 2019 mainly on account of repayments during the year. The decline in the gross loans and advances, which resulted in the overall ECL decrease at year end, was observed more on overdrafts which saw an ECL stock decrease by approximately 39%. A much higher portfolio growth was observed on the term loans (excluding staff loans) which resulted in a marginal net ECL stock increase of approximately 9% in that portfolio.

	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
<i>Investment securities at amortised cost</i>				
Balance at 1 January	-	2,832,613	-	2,832,613
Impairment charge/(reversal)	33,232	(2,336,466)	6,048,070	3,744,836
Balance at 31 December	33,232	496,147	6,048,070	6,577,449

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (Cont'd)

6.1.4 Amounts arising from ECL (Cont'd)

Loss allowance (Cont'd)

Investment securities at amortised cost increased by approximately 11% in 2019 on account of significant increase in deposits at the end of the year under consideration. The growth in investments securities at amortised cost resulted in a significant increase in overall ECL of approximately 132%. The significant increase in overall ECL on investment securities at amortised was observed more on placements with other financial institutions.

	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
2019				
<i>Cash and cash equivalents</i>				
Balance at 1 January	-	43	491,419	491,462
Impairment charge/(reversal)	29,503	(43)	(491,419)	(461,959)
Balance at 31 December	29,503	-	-	29,503

Cash and cash equivalents increased by approximately 14% in 2019 due to increase in short term investment securities at the end of the year. Although cash and cash equivalents balance grew at the end of 2019, overall ECL allowance recorded a significant decrease of approximately 94%. The significant decrease was on account of recovery of previously non-performing short term investments.

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instruments; and
- the 'impairment losses on financial instruments' line item in the statement of comprehensive income.

	Loans and advances to customers GH¢	Investment securities GH¢	Cash and cash equivalents GH¢	Other assets	Total GH¢
2020					
Net remeasurement of loss allowance	(2,830)	208,535	(12,322)	20,380	213,763
New financial assets originated	105,963	-	-	-	105,963
Derecognised financial assets	(44,080)	-	-	-	(44,080)
	59,053	208,535	(12,322)	20,380	275,646
2019					
Net remeasurement of loss allowance	11,181	3,744,836	(461,959)		3,294,058
New financial assets originated	58,571	-	-		58,571
Derecognised financial assets	(98,130)	-	-		(98,130)
	(28,378)	3,744,836	(461,959)		3,254,499

Key ratios on loans and advances

Loan loss provision is 5.49% (2019: 5.66%)

Percentage of gross non-performing loans with respect to Bank of Ghana Prudential Norms (Specifically impaired) to total gross loans and advances is 8.35% (2019: 5.39%)

Ratio of twenty (20) largest exposures (gross) funded to total exposure is 19.80% (2019: 27.46%)

Concentration of credit risk

The Bank monitors concentrations of credit risk by type/category of loan and advances to customers. An analysis of concentrations of credit risk from loans and advances to customers is shown below.

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6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (Cont'd)

6.1.4 Amounts arising from ECL (Cont'd)

Concentration of credit risk (Cont'd)

	2020 GH¢	2019 GH¢
Loans and advances to customers		
<i>Carrying amount</i>	3,260,700	2,803,061
Concentration by product		
Term loans	1,975,352	1,618,079
Overdrafts	363,063	367,556
Staff loans	1,123,682	959,770
Gross loans and advances	3,462,097	2,945,405
Less: impairment allowance	(201,397)	(142,344)
	3,260,700	2,803,061
Investment securities, cash and cash equivalents and other assets		
Investment securities at amortised cost	68,750,001	37,685,992
Cash and cash equivalents	9,337,201	11,541,058
Other assets	151,437	-
Gross amount	78,238,639	49,227,050
Less: impairment allowance	(6,823,545)	(6,606,952)
	71,415,094	42,620,098

6.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lenders. The Bank's objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, 'liquid assets' includes cash, cash reserve balances with ARB Apex Bank, balances with other banks, investments up to one year and Government securities. 'Volatile liabilities' includes deposits from customers, other liabilities, etc.

At reporting date, the ratio of the Bank's net liquid assets to deposits from customers was 19% (2019: 37%)

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6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.1 Credit risk (Cont'd)

6.1.4 Amounts arising from ECL (Cont'd)

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.2 Liquidity risk (Cont'd)

6.2.1 Exposure to liquidity risk

The following tables set out the remaining contractual maturities of the Bank's financial liabilities and financial assets at the reporting date.

31 December 2020

Financial liability by type

Non-derivative financial liabilities

Deposits from customers

Other liabilities

	Note	Carrying amount	Total	Less than 1 month	1 - 3 months	3 months - 1 year	Over 1 year
24		75,753,076	76,379,372	58,793,721	17,032,049	553,602	-
		1,741,763	1,741,763	1,548,403	-	-	193,360
		77,494,839	78,121,135	60,342,124	17,032,049	553,602	193,360

Financial asset by type

Non-derivative financial assets

Cash and cash equivalents

Investment securities at amortised cost

Loans and advances to customers

15		10,475,339	10,548,554	5,479,413	2,226,974	-	2,842,167
16		61,964,017	75,696,145	12,214,210	15,914,246	34,702,567	12,865,122
18		3,260,700	3,467,145	386,364	748,894	1,321,814	1,010,073
		75,700,056	89,711,844	18,079,987	18,890,114	36,024,381	16,717,362

* Excluded from other liabilities is deferred grant of GH¢ 7,961 (2019: GH¢ 10,691).

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6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.2 Liquidity risk (Cont'd)

6.2.1 Exposure to liquidity risk (Cont'd)

31 December 2019		Note	Carrying amount	Total	Less than 1	1 - 3 months	3 months - 1	Over 1 year
					month	year		
Financial liability by type								
<i>Non-derivative financial liabilities</i>								
Deposits from customers	24	47,674,068	47,911,384	43,553,946	2,107,959	2,249,479	-	-
Other liabilities		1,597,183	1,597,183	1,597,183	-	-	-	-
		49,271,251	49,508,567	45,151,129	2,107,959	2,249,479	-	-
<hr/>								
Financial asset by type								
<i>Non-derivative financial assets</i>								
Cash and cash equivalents	15	12,391,888	12,442,249	4,003,847	6,105,839	2,332,563	-	-
Investment securities at amortised cost	16	31,108,544	39,633,305	2,212,967	15,587,875	21,832,463	-	-
Loans and advances to customers	18	2,803,061	2,945,405	147,611	23,947	2,773,847	-	-
		46,303,493	55,020,959	6,364,425	21,717,661	26,938,873	-	-

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.2 Liquidity risk (Cont'd)

6.2.2 Liquidity reserves

The table below sets out the components of the Bank's liquidity reserves.

	2020	2019
	GH¢	GH¢
Balances with ARB Apex Bank	5,796,062	3,868,298
Cash and balances with other banks	2,852,465	888,557
Other cash and cash equivalents	1,843,993	7,664,432
Total liquidity reserves	10,492,520	12,421,287

6.2.3 Financial assets available to support future funding

The table below sets out the availability of the Bank's financial assets to support future funding.

31 December 2020	Note	Encumbered GH¢	Unencumbered GH¢	Total GH¢
Cash and cash equivalents	15	2,842,167	7,633,172	10,475,339
Investment securities	16	-	61,964,017	61,964,017
		2,842,167	69,597,189	72,439,356
31 December 2019				
Cash and cash equivalents	15	2,332,563	10,059,325	12,391,888
Investment securities	16	-	31,108,544	31,108,544
		2,332,563	41,167,869	43,500,432

Encumbered represents mandatory reserve required to be maintained by the Bank based on the Regulator's requirements.

6.2.4 Financial assets pledged as collateral

The Bank did not have financial assets pledged as collateral for liabilities at the reporting date (2019: Nil).

6.3 Market risk

Market risk is the risk of loss arising from adverse changes in market conditions (interest rates and equity prices) during the period. Positions that expose the Bank to market risk are non-trading related.

6.3.1 Risk identification

The Bank identifies market risk through daily monitoring of levels and profit or loss balances of non-trading positions. The Audit and Credit Committee and the Finance Manager monitor market risk factors that affect the value of income streams on non-trading portfolios on a daily basis.

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

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6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.3 Market risk (Cont'd)

6.3.1 Identification of risk (Cont'd)

	Note	Carrying amount GH¢	Market risk measure Non- trading portfolios GH¢
31 December 2020			
Assets subject to market risk			
Cash and cash equivalents	15	10,475,339	10,475,339
Investment securities	16	61,964,017	61,964,017
Loans and advances to customers	18	3,260,700	3,260,700
		75,700,056	75,700,056
Liabilities subject to market risk			
Deposits from customers	24	75,753,076	75,753,076
31 December 2019			
Assets subject to market risk			
Cash and cash equivalents	15	12,391,888	12,391,888
Investment securities	16	31,108,544	31,108,544
Loans and advances to customers	18	2,803,061	2,803,061
		46,303,493	46,303,493
Liabilities subject to market risk			
Deposits from customers	24	47,674,068	47,674,068

Interest rate risk

Interest rate risk is the exposure of current and future earnings and capital to adverse changes in the level of interest rates. Exposure to interest rate risk can result from a variety of factors, including:

- i Differences between the timing of market interest rate changes and the timing of cash flows (repricing risk);
- ii Changes in the market interest rates producing different effects on yields on similar instruments with different maturities (yield curve risk); and
- iii Changes in the level of market interest rates producing different effects on rates received or paid on instruments with similar repricing characteristics (basis risk).

The Bank uses gap analysis to measure its exposure to interest rate risk. Through this analysis, it compares the values of interest rate sensitive assets and liabilities that mature or reprice at various time periods in the future. The Bank may make judgmental assumptions about the behaviour of assets and liabilities which do not have specific contractual maturity or repricing dates.

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6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.3 Market risk (Cont'd)

6.3.2 Exposure to interest rate risk

The following is a summary of the Bank's interest rate gap position on non-trading portfolios. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Bank's balance sheet based on the maturity date.

	Note	Carrying amount GH¢	Less than 1 month GH¢	1 - 3 months GH¢	Over 3 months GH¢
31 December 2020					
Cash and cash equivalents	15	10,475,339	5,479,413	2,226,974	2,842,167
Investment securities	16	61,964,017	12,214,210	15,914,246	47,567,689
Loans and advances to customers	18	3,260,700	386,364	748,894	2,331,887
		75,700,056	18,079,987	18,890,114	52,741,743
31 December 2019					
Deposits from customers	24	75,753,076	58,793,721	17,032,049	553,602
		75,753,076	58,793,721	17,032,049	553,602
Total interest repricing gap		(53,020)	(40,713,734)	1,858,065	52,188,141
31 December 2019					
Cash and cash equivalents	15	12,391,888	4,003,743	6,084,981	2,332,563
Investment securities	16	31,108,544	7,672,967	15,686,858	16,372,463
Loans and advances to customers	18	2,803,061	89,839	23,089	2,696,217
		46,303,493	11,766,549	21,794,928	21,401,243
31 December 2019					
Deposits from customers	24	47,674,068	43,553,946	2,107,959	2,249,479
		47,674,068	43,553,946	2,107,959	2,249,479
Total interest repricing gap		(1,370,575)	(31,787,397)	19,686,969	19,151,764

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.3 Market risk (Cont'd)

6.3.2 Exposure to interest rate risk (Cont'd)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring sensitivity of the Bank's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 50 basis point (bp) parallel fall or rise in market interest rates.

Due to the fixed nature of the Bank's interest-bearing instruments, no sensitivity analysis has been disclosed. Overall, non-trading interest rate risk positions are managed by Treasury, which uses investment securities and customer deposits to manage the overall position arising from the Bank's non trading activities.

6.3.3 Exposure to currency risk

As at the reporting date the Bank did not have any exposures to currency risks.

6.4 Capital management

6.4.1 Regulatory capital

The Bank's regulator, the Bank of Ghana sets and monitors capital requirements for the Bank as a whole.

In implementing current capital requirements, the Bank of Ghana requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, income surplus/retained earnings, statutory reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital. Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures (if any).

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

The Bank complied with the statutory capital requirements throughout the period. There have been no material changes in the Bank's management of capital during this period.

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6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.4 Capital management (Cont'd)

6.4.1 Regulatory capital (Cont'd)

Capital adequacy ratio

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

The table below summarizes the composition of regulatory capital and ratios of the Bank.

	2020 GH¢	2019 GH¢
Tier 1 capital		
Ordinary share capital	2,075,305	2,075,305
<i>Disclosed reserves</i>		
Statutory reserve	2,554,148	2,487,049
Retained earnings	(138,806)	(579,374)
Total disclosed reserves Permanent preference shares Total tier 1 capital	2,415,342	1,907,675
Net tier 1 capital	4,490,647	3,982,980
Tier 2 capital		
Latent revaluation reserves	263,122	247,459
Total tier 2 capital	263,122	247,459
Total adjusted regulatory capital base	4,753,769	4,230,439
Total assets (less contra items)	83,063,060	53,927,125
Less:		
Cash on hand (Cedi)	1,155,318	880,334
Cash on hand (forex) Claims on ARB Apex Bank:	-	-
Cedi clearing account balance	803,893	935,735
Certificate of Deposit	2,150,000	600,000
5% Deposits	2,842,167	2,332,563
Total claims on ARB Apex Bank	5,796,060	4,748,632
Balance carried forward	76,111,682	50,058,827
<i>Claims on government</i>		
Treasury securities (bills and bonds)	50,313,119	17,806,422
80% of cheques drawn on other banks	-	-
Investments in capital of other banks and financial institutions	311,657	290,773
80% of claims on Discount Houses in Cedi/forex	-	2,329,644
80% of claims on Other Banks in Cedi/forex	1,449,980	3,462,187
50% of claims on other financial institutions (Public Sector) in Cedi/forex	-	5,377,285
Adjusted total assets	24,036,926	20,792,516
Add:		
100% of 3yrs average annual gross income	8,751,453	8,313,845
Total risk weighted assets base	32,788,379	29,106,360
Capital adequacy ratio	14.50%	14.53%

NOTES TO THE FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT (CONT'D)

6.4 Capital management (Cont'd)

6.4.2 Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by the Bank's Risk Management and Credit Administration Units, and is subject to review by the executive committee of the Board as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives.

The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

7 FAIR VALUE OF FINANCIAL INSTRUMENTS

See accounting policy in Note 4.6

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NOTES TO THE FINANCIAL STATEMENTS

7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(a) Valuation models (Cont'd)

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(b) Financial instruments measured at fair value - fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	Note	Level 3 GH¢
31 December 2020		
Investment securities at FVOCI	17	311,567

31 December 2019

Investment securities at FVOCI	17	290,773
--------------------------------	----	---------

The inputs used in determining the fair value of the Bank's investment measured at FVOCI include the following:

	2020 GH¢	2019 GH¢
Number of unit of shares held in ARB Apex Bank	56,634	56,634
Total number of Issued and paid shares (ARB APEX)	10,327,621	10,327,621
% of Bank's holding of ARB Apex Bank shares	0.55%	0.55%
Net asset of Apex Bank at year end 31 December	56,832,752	53,024,649

Fair value was determined as the Bank's share of Apex Bank's net assets at the reporting period end.

(c) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

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NOTES TO THE FINANCIAL STATEMENTS**7 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)****(c) Financial instruments not measured at fair value (Cont'd)**

	Level 2	Total
	GH¢	GH¢
31 December 2020		
Assets		
Government bills	192,163	192,163
Fixed deposits	5,389,949	5,389,949
Investment securities at amortised cost	67,513,426	67,513,426
Loans and advances to customers	2,842,527	2,842,527
	75,938,065	75,938,065
Liabilities		
Deposits from customers	75,959,898	75,959,898
	75,959,898	75,959,898
31 December 2019		
Assets		
Government bills	618,170	618,170
Fixed deposits	4,347,721	4,347,721
Investment securities at amortised cost	37,115,140	37,115,140
Loans and advances to customers	2,811,319	2,811,319
	44,892,350	44,892,350
Liabilities		
Deposits from customers	47,687,737	47,687,737
	47,687,737	47,687,737

Cash and cash equivalents

Cash and cash equivalents include, cash on hand, balances with banks and other financial institutions, and short-term investments.

Investment securities

The fair value of investment securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is rated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Loans and advances to customers

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

Deposits from customers

The estimated fair value of deposits with no stated maturity dates, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar maturity profiles.

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NOTES TO THE FINANCIAL STATEMENTS**8 Net interest income**

See accounting policy in Note 4.1

	2020 GH¢	2019 GH¢
Interest income calculated using effective interest		
Loans	907,506	710,320
Overdraft	76,757	93,085
Investment securities (fixed deposits and treasury bills)	9,224,681	6,387,747
Total interest income	10,208,944	7,191,152
Interest expense		
Savings	440,252	375,028
Fixed deposits	2,441,572	647,114
Total interest expense	2,881,824	1,022,142
Net interest income	7,327,120	6,169,010

9 Net fees and commission income

See accounting policy in Note 4.2

Fees and commission income		
Brokerage fees	335,215	252,003
Clearing fees	23,826	35,404
Commission on turnover	180,422	206,093
Drafts and transfers	4,053	4,952
Money transfers	102,312	130,134
Handling charges	37,067	151,028
Other fees and commission	121,043	52,379
Total fees and commission income	803,938	831,993
Fees and commission expense		
Susu collectors' commission	238,103	198,212
Total fees and commission expense	238,103	198,212
Net fees and commission expense	565,835	633,781

10 Other income

Bad debt recovery	62,970	98,566
Capital grant income	2,730	2,730
Interest on nostro account	15,136	16,219
Other Income	-	103,210
	80,836	220,725

11 Impairment loss on financial assets

See accounting policy in Note 4.6

Loans and advances to customers	59,053	(28,378)
Investment securities	208,535	3,744,836
Cash and cash equivalents	(12,322)	(461,959)
Other assets	20,380	-
	275,646	3,254,499

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NOTES TO THE FINANCIAL STATEMENTS**12 Personnel expenses**

	2020	2019
	GH¢	GH¢
See accounting policy in Note 4.17		
Wages and salaries	3,309,002	3,025,486
Social security fund	276,445	270,363
Overtime	-	2,200
Medical cost	95,192	87,596
Other staff cost	554,294	330,872
	4,234,933	3,716,517

13 Other operating expenses

Advertising and marketing expenses	36,026	58,790
Directors' emoluments and expenses (non-executive)	226,900	218,600
Professional fees	2,500	38,621
Auditor's remuneration	70,000	58,000
Audit expenses	18,385	13,088
Donations	23,023	25,810
Subscriptions	88,152	42,523
Rent and rates	34,353	31,952
Stationery and printing	102,488	102,260
Bank charges	29,186	31,821
Training	18,337	34,994
Insurance	247,109	136,063
Traveling expenses	23,729	54,176
Repairs and maintenance	280,101	267,289
Meeting expenses	79,080	71,907
Office expenses	616,029	544,401
Education and development support	45,000	-
Miscellaneous expenses	283,780	181,828
	2,224,178	1,912,123

An amount of GH¢23,023 (2019: GH¢25,810) was spent as part of the Bank's corporate social responsibility.

14 Taxation

	2020	2019
(a) Tax expense/(credit)	GH¢	GH¢
See accounting policy in Note 4.11		
Income tax expense	236,952	220,240
Deferred tax credit	(194,698)	(866,533)
	42,254	(646,293)

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14	Taxation (Cont'd)	Balance at 01/01	Payments during the year	Charge for the year	Balance at 31/12
(b)	Current tax	GH¢	GH¢	GH¢	GH¢
	31 December 2020				
	Up to 2013	(3,771)	-	-	(3,771)
	2014 - 2018	(201,627)	-	-	(201,627)
	2019	175,240	(175,240)	-	-
	2020	-	(85,134)	236,952	151,818
		(30,158)	(260,374)	236,952	(53,580)

31 December 2019

Up to 2013	(3,771)	-	-	(3,771)
2014 - 2018	(201,627)	-	-	(201,627)
2019	-	(45,000)	220,240	175,240
	(205,398)	(45,000)	220,240	(30,158)

(c) Reconciliation of effective tax rate

	2020		2019	
	%	GH¢	%	GH¢
Profit/(loss) before tax		579,050		(2,436,287)
Income tax using domestic tax rate	25.00	144,763	25.00	(609,072)
Non-deductible expense	12.59	72,888	(0.21)	5,203
Tax exempt income	(30.29)	(175,397)	-	-
Recognition of previously unrecognised deferred tax	-	-	1.74	(42,424)
	7.30	42,254	26.53	(646,293)

15 Cash and cash equivalents

	2020	2019
	GH¢	GH¢
See accounting policy in Note 4.7		
Cash on hand	1,155,319	880,334
Balances with other local Banks	3,541,140	7,672,759
Balances with ARB Apex Bank	5,796,061	3,868,298
Gross carrying amounts	10,492,520	12,421,391
Allowance for ECL	(17,181)	(29,503)
	10,475,339	12,391,888

Included in balances with other local banks are investment in fixed deposits of GH¢ 3,239,413 (2019: GH¢ 4,215,178) and investment in treasury bills of GH¢ 188,165 (2019: GH¢ 623,105)

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16 Investment securities at amortised cost	2020 GH¢	2019 GH¢
See accounting policy in Note 4.4		
Fixed deposits	16,361,945	19,879,571
Government bonds	52,388,056	17,806,422
Gross carrying amount	68,750,001	37,685,993
Allowance for ECL	(6,785,984)	(6,577,449)
	61,964,017	31,108,544

Treasury bills are issued by the Government of Ghana and are classified as carried at amortised cost. At the reporting date, an amount of GH¢ 52,116,547 (2019: GH¢ 27,000,253) of investment balance was due to mature within the next twelve (12) months.

17 Investment securities at FVOCI	2020 GH¢	2019 GH¢
See accounting policy in Note 4.4		
Investment in ARB Apex Bank shares	311,657	290,773
Reconciliation of investment in ARB Apex bank shares:		
Balance at 1 January	290,773	160,889
Fair value gain/(loss)	20,884	129,884
Balance at 31 December	311,657	290,773

The Bank has a total of 60,634 (2019: 56,634) shares in ARB Apex Bank classified as measured at fair value through other comprehensive income (FVOCI).

18 Loans and advances to customers	2020 GH¢	2019 GH¢
See accounting policy in Note 4.4		
Loans and advances to customers	3,462,097	2,945,405
Less allowance for impairment	(201,397)	(142,344)
Loans to customers at amortised cost	3,260,700	2,803,061

	2020			2019		
	Gross carrying amount GH¢	ECL allowance GH¢	Carrying amount GH¢	Gross carrying amount GH¢	ECL allowance GH¢	Carrying amount GH¢
Term loans	1,975,353	(75,519)	1,899,834	1,342,238	(52,287)	1,289,951
Overdrafts	363,062	(88,540)	274,522	643,398	(66,210)	577,188
Staff loans	1,123,682	(37,338)	1,086,344	959,769	(23,847)	935,922
	3,462,097	(201,397)	3,260,700	2,945,405	(142,344)	2,803,061

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19 Property and equipment

2020	Land & buildings	Furniture, fittings & equipment	Computers	Motor vehicles	Leasehold improvements	Capital work in progress	Total
Cost	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
Balance at 1 January	4,510,243	1,323,962	710,668	505,533	135,543	33,650	7,219,599
Additions	60,000	64,434	-	-	-	700	125,134
Remeasurement of lease liability	159,891	-	-	-	-	-	159,891
Write-off	-	(42,150)	(5,534)	-	-	-	(47,684)
Balance at 31 December	4,730,134	1,346,246	705,134	505,533	135,543	34,350	7,456,940
Accumulated depreciation							
Balance at 1 January	548,987	836,417	583,614	463,554	135,543	-	2,568,115
Charge for the year	144,986	251,217	26,537	40,515	-	-	463,255
Write-off	-	(16,749)	(5,534)	-	-	-	(22,283)
Balance at 31 December	693,973	1,070,885	604,617	504,069	135,543	-	3,009,087
Carrying amount	4,036,161	275,361	100,517	1,464	-	34,350	4,447,853
2019							
Cost							
Balance at 1 January	4,441,822	1,143,405	816,229	505,533	135,543	86,375	7,128,907
Initial recognition of Right-of-Use assets	60,802	-	-	-	-	-	60,802
Additions	7,619	107,688	7,888	-	-	20,144	143,339
Reclassification	-	-	(113,449)	-	-	-	(113,449)
Transfers	-	72,869	-	-	-	(72,869)	-
Balance at 31 December	4,510,243	1,323,962	710,668	505,533	135,543	33,650	7,219,599
Accumulated depreciation							
Balance at 1 January	410,259	694,087	530,479	396,305	135,543	-	2,166,673
Charge for the year	138,728	156,992	97,268	67,249	-	-	460,237
Reclassification	-	(14,662)	(44,133)	-	-	-	(58,795)
Balance at 31 December	548,987	836,417	583,614	463,554	135,543	-	2,568,115
Carrying amount	3,961,256	487,545	127,054	41,979	-	33,650	4,651,484

20 Depreciation and amortisation expense

	2020 GH¢	2019 GH¢
Property and equipment (Note 20)	463,255	460,237
Intangible asset (Note 21)	164,214	116,427
	627,469	576,664

21 Intangible assets

See accounting policy in Notes 4.10

	Software license GH¢	Computer software GH¢	Work-in- progress GH¢	Total GH¢
2020				
Cost				
Balance at 1 January	121,331	497,109	-	618,440
Additions	224,615	80,023	37,200	341,838
	345,946	577,132	37,200	960,278
Amortisation				
Balance at 1 January	60,665	138,127	-	198,792
Charge for the year	24,266	139,948	-	164,214
	84,931	278,075	-	363,006
Carrying amount	261,015	299,057	37,200	597,272
2019				
Cost				
Balance at 1 January	-	485,109	-	485,109
Additions	-	5,000	-	5,000
Reclassification	121,331	7,000	-	128,331
	121,331	497,109	-	618,440
Amortisation				
Balance at 1 January	-	32,353	-	32,353
Charge for the year	10,653	105,774	-	116,427
Items reclassified from Computer and accessories	50,012	-	-	50,012
	60,665	138,127	-	198,792
Carrying amount	60,666	358,982	-	419,648

There were no capitalised borrowing costs related to intangible asset during the year (2019: Nil).



NOTES TO THE FINANCIAL STATEMENTS

22 Deferred tax

See accounting policy in Note 4.13

Movement in deferred taxes are presented in the following table

	Balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December	Deferred tax asset	Deferred tax liabilities
	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
For the year ended 31 December 2020						
Property and equipment	509,394	(99,041)	-	410,353	-	410,353
Long service benefit liability	(17,255)	(9,038)	-	(26,293)	(26,293)	-
Allowances for expected credit losses	(1,687,324)	(68,912)	-	(1,756,236)	(1,756,236)	-
Provisions	-	(13,488)	-	(13,488)	(13,488)	-
Right-of-use asset	110	(4,219)	-	(4,109)	(4,109)	-
Investments at FVOCI	19,865	-	5,221	25,086	-	25,086
	(1,175,210)	(194,698)	5,221	(1,364,687)	(1,800,126)	435,439
For the year ended 31 December 2019						
Property and equipment	509,731	(337)	-	509,394	-	509,394
Long service benefit liability	8,953	(26,208)	-	(17,255)	(17,255)	-
Allowances for expected credit losses	(847,225)	(840,099)	-	(1,687,324)	(1,687,324)	-
Right-of-use asset	-	110	-	110	-	110
Investments at FVOCI	5,934	-	13,931	19,865	-	19,865
	(322,607)	(866,534)	13,931	(1,175,210)	(1,704,579)	529,369

Recognition of deferred tax asset

Assessing the recoverability of deferred tax assets requires the Bank to make significant estimates related to expectations of future taxable incomes. Accordingly, the Bank has determined that it is probable that future taxable profits will be available against which the Bank can use the benefits therefrom.

23 Other assets	2020	2019
	GH¢	GH¢
Prepayments*	155,260	124,593
Deferred expense**	175,350	366,249
Stationery stock	97,468	114,656
Others	180,257	450,861
Gross carrying amount	608,335	1,056,359
Allowance for impairment	(20,380)	-
Carrying amount	587,955	1,056,359
Current	412,605	690,110
Non-current	175,350	366,246
	587,955	1,056,356

* Prepayments relates to insurance prepaid (GH¢108,526) and other prepaid expenses (GH¢46,734).

**Deferred expense relates to the difference between the fair value of staff loans and their carrying amounts. The fair value was determined by discounting the future cash flows from staff loans at the prevailing market rate.

24 Deposit from customers	2020	2019
	GH¢	GH¢
See accounting policy in Note 4.15		
Demand deposits	12,475,999	11,107,335
Savings accounts	39,049,355	30,967,009
Fixed term deposits	24,227,722	5,599,724
	75,753,076	47,674,068
Current	75,753,076	47,674,068
Non-current	-	-
	75,753,076	47,674,068

Ratio of 20 largest depositors to total deposits	14.00%	15.24%
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25 Employee benefit liability	2020	2019
	GH¢	GH¢
Liabilities for long service awards	105,173	69,021
Current	23,279	9,223
Non-current	81,894	59,798
	105,173	69,021

Long service awards accrue to employees based on graduated periods of uninterrupted service. This is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

	2020	2019
	GH¢	GH¢
Balance at 1 January	69,021	60,283
Interest cost	14,842	11,453
Current service cost	10,000	5,917
Remeasurement loss/(gains)	11,310	(8,632)
	105,173	69,021

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26 Other liabilities	2020	2019
	GH¢	GH¢
Bills payable	218,680	112,399
Dividend payable	958,554	1,036,236
Deferred grant	7,961	10,691
Accrued expenses	252,938	219,507
Others	689,314	478,356
	2,127,446	1,857,189
Current	2,055,973	1,846,498
Non-current	71,473	10,691
	2,127,446	1,857,189

27 Provisions		
<i>La Community Development and Education Fund</i>		
La Township Development Fund	50,316	50,316
La Education Fund	3,637	6,137
	53,953	56,453

Reconciliation of La Community Development and Education Funds:

Balance at 1 January	56,453	302,904
Additional provisions during the year	45,000	-
Provisions utilised during the year	(47,500)	(246,451)
Balance at 31 December	53,953	56,453

The provisions are on account of constructive obligation created by the Bank as a result of the Bank's involvement in La development and provision of educational scholarships to brilliant but needy indigenes of La respectively over the years.

28 Capital and reserves

(a) Stated capital

	2020		2019	
	No. of shares	Proceeds	No. of shares	Proceeds
		GH¢		GH¢
Authorised				
Ordinary Shares of no par value	25,000,000	-	25,000,000	
Issued and fully paid				
Issued for cash consideration	18,729,813	2,075,305	18,729,813	2,075,305

Reconciliation of stated capital

	2020		2019	
	No. of shares	Proceeds	No. of shares	Proceeds
		GH¢		GH¢
Balance at 1 January	18,729,813	2,075,305	18,725,813	2,071,305
Shares issued in the year	-	-	4,000	4,000
Balance at 31 December	18,729,813	2,075,305	18,729,813	2,075,305

NOTES TO THE FINANCIAL STATEMENTS

28 Capital and reserves

(b) Deposit for shares

Deposit for shares represents shares issued but yet to be registered.

(c) Reserves

Retained earnings

This represents the residual of cumulative annual profits that are available for distribution to shareholders.

Statutory reserve

This represents amounts set aside as a non-distributable reserve from annual profits in accordance with section 34 of Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930) and guidelines from Bank of Ghana.

Credit risk reserve

This is a reserve created to set aside the excess of amounts recognized as impairment loss on loans and advances to customers, based on provisions calculated in accordance with the requirements of IFRS and the Bank of Ghana's prudential guidelines.

Fair value reserve

This is a fair value reserve representing the cumulative net change in the fair value of investment held at FVOCI until the assets are derecognised.

29 Leases

See accounting policy in Note: 4.3.

The Bank leases its premises and other facilities. The leases typically run for a period of 20 years, with an option to renew the lease after the date. Lease payments are increased over a term agreed in the contract to reflect the market rentals.

The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. The Bank exercised all extension option available in arriving at its lease liabilities.

Information about leases for which the Bank is a lessee is presented below:

	2020 GH¢	2019 GH¢
(a) Right-of-use assets		
Balance at 1 January	36,441	60,802
Additions during the year	60,000	-
Remeasurement of lease liability	143,924	-
Reclassification	438,717	-
Depreciation on right-of-use asset	(47,258)	(24,361)
Balance at 31 December	631,824	36,441
(b) Lease liability		
Balance at 1 January	-	-
Remeasurement of lease liability	203,924	-
Finance cost on lease liability	32,515	-
Lease payment	(60,000)	-
Balance at 31 December	176,439	-

NOTES TO THE FINANCIAL STATEMENTS

29 Leases (Cont'd)

(c) Low value assets and short term leases

Expenses relating to low-value assets charged to profit or loss as part of other expenses	-	4,200
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30 Contingencies

(a) Claims and litigations

There is no litigation claims against the Bank at 31 December 2020(2019: Nil).

(b) Contingent liabilities and commitments

There were no contingent liabilities at 31 December 2020 (2019: Nil).

31 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions, or one other party controls both.

(a) Majority shareholder

The majority shareholder of the Bank with 15.36% shareholding is La Mansaamo Kpee. During the year ended 31 December 2020, the Bank did not transact any business with La Mansaamo Kpee. There are also no outstanding balances due to or from La Mansaamo Kpee.

(b) Transactions with key management personnel

The Bank's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. The definition of key management includes the close members of family of key personnel and any entity over which key management exercise control. The key management personnel have been identified as the executive and non-executive directors of the Bank.

i. Key management personnel compensation

Key management personnel compensation comprised the following.

	2020 GH¢	2019 GH¢
Short-term employee benefits	539,780	575,755
Post-employment benefits	37,630	35,253
	577,410	611,008

NOTES TO THE FINANCIAL STATEMENTS

31 Related party transactions (Cont'd)

(b) Transactions with key management personnel (Cont'd)

ii. Loans and advances to key management personnel, directors and their associates

	2020	2019
	GH¢	GH¢
Balance at 1 January	141,182	133,421
Loans advanced during the year	129,500	67,000
Interest income	39,609	21,868
Repayments during the year	(159,266)	(81,107)
Balance at 31 December	151,025	141,182

Interest rates charged on key management personnel for loans are at concessionary rates and lower than the rates that would be charged in an arm's length transaction. As at 31 December 2020, the balances with key management personnel are allocated to Stage 1 of the ECL model and have a loss allowance of GH¢4,390 (2019: GH¢2,593). During 2020 GH¢1,797 impairment loss was recognised in profit or loss in respect of these balances.

32 Subsequent events

Events subsequent to the statement of financial position date are reflected in the financial statements only to the extent that they relate to the year under consideration and the effect is material.

Unclaimed Balances and Dormant Accounts Directive, 2021

The Bank of Ghana issued a new directive on unclaimed and dormant accounts in February 2021. This directive was issued pursuant to Section 92 of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930).

The objectives of this Directive are to operationalise Section 143 of Act 930, establish processes and procedures for reclaim of funds by dormant account holders or their legal representatives and to ensure adequate protection of customers' funds that have become dormant.

The Directive requires, amongst others, that the regulated entity should:

- Create and maintain a dormant account register;
- Contact holders of dormant accounts or next of kin;
- Publish dormant accounts in newspapers; and
- Transfer the funds on dormant accounts to Bank of Ghana after three years.

The Bank is assessing the impact of the directive on its business.

Corporate Governance Directive for Rural and Community Banks

The Bank of Ghana issued a Corporate Governance Directive for Rural and Community Banks in May 2021. This Directive was issued pursuant to the powers conferred on the Bank of Ghana by sections 56 and 92 of the Banks and Specialised Deposit-taking Institutions Act, 2016 (Act 930) and is applicable to Rural and Community Banks (RCBs).

The objectives of the Directive are to:

- require RCBs to adopt sound corporate governance principles and best practices to enable them undertake their licensed business in a sustainable manner;

NOTES TO THE FINANCIAL STATEMENTS

32 Subsequent events (Cont'd)

Corporate Governance Directive for Rural and Community Banks (Cont'd)

- promote the interest of depositors and other stakeholders by enhancing corporate performance and accountability of RCBs;
- promote and maintain public trust and confidence in RCBs by prescribing sound corporate governance standards which are critical to the proper functioning of the RCBs; and
- maximise shareholders' value and interest.

The effective date for the implementation of all sections of the Corporate Governance Directive is 31 March 2022.

The Bank is assessing the impact of this directive on its corporate governance structure.

No other events have occurred since the end of the reporting period that would have had a material effect on the financial statements or require disclosure.

33 Value added statements

	2020		2019	
	GH¢	%	GH¢	%
Interest earned and other operating income	7,892,955	100	6,802,791	100
Direct cost of service and other costs	(1,997,278)	(25)	(1,721,123)	(25)
Value added by banking services	5,895,677	75	5,081,668	75
Non-banking income	80,836	1	220,725	3
Impairments	(275,646)	(3)	(3,254,499)	(48)
Value added	5,700,867	73	2,047,894	30
<i>Distributed as follows:</i>				
To employees				
Directors (without executive)	(226,900)	(3)	(191,000)	(3)
Executive director	(158,117)	(2)	(165,748)	(2)
Other employees	(4,076,816)	(52)	(3,550,769)	(52)
Total	(4,461,833)	(57)	(3,907,517)	(57)
To government				
Income tax	(42,254)	(1)	646,293	10
To providers of capital				
Dividends to shareholders	-	-	(374,515)	(6)
Leases	(32,515)	-	-	-
Reserve fund	(96,228)	(1)	(39,955)	(1)
Total	(128,743)	(2)	(414,470)	(7)
To growth and expansion				
Depreciation and amortisation	(627,469)	(8)	(576,664)	(8)
Retained earnings for the year	440,568	4	(2,164,509)	(33)

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