LA COMMUNITY BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

LA COMMUNITY BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2019

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NOTICE OF MEETING

Notice is hereby given that the **Thirty-Second** 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, 21ST NOVEMBER, 2020 at 10.00 a.m.** for the following purposes.

AGENDA

1. To receive and consider the Financial Statements for the year ended 31st December 2019, together with the Report of the Directors and Auditors thereon.

2. To re-elect 2 Directors-Dr. N. K. Sowa and Mrs Helen K. Lokko retiring by rotation.

3. To elect 2 new Directors-Mr. S. N. Quao and Mrs. R. Darkwa approved by the Bank of Ghana.

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

Dated this 27th Day of October, 2020

L. S. N. AKUETTEH
SECRETARY

NOTE: 1. A copy of the Financial Statements for the year ended 31st December, 2019 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 3 pm.

CORPORATE INFORMATION

BOARD OF DIRECTORS	Dr. Nii Kwaku Sowa (Chairman) Mr. Nicholas Okoe Sai (Vice Chairman) Mrs. Helen Koshie Lokko (Member) Mr. David Emmanuel Anang Oddoye (Appointed on 19/07/ 2019) Mr. Benjamin Obodai (Member) Dr. (Mrs.) Matilda Pappoe (Member) Prof. (Mrs.) Irene K. Odotei (Member) Mr. Peter Tehova (General Manager)
SOLICITOR/SECRETARY	Mr. L. S. N. Akuetteh
AUDITORS	KPMG 13 Yiyiwa Drive Abelenkpe P. O. Box GP 242 Accra
COUNTRY OF INCORPORATION	Ghana
REGISTERED OFFICE	No. G224/1 Lami Jwahe Post Office Box LA 499 La – Accra
BANKERS	Absa Bank Ghana Limited ARB Apex Bank Limited

CHAIRMAN'S STATEMENT

INTRODUCTION

Good Morning Distinguished Shareholders, Colleague Directors, Invited Guests, Ladies and Gentlemen, I am delighted to welcome you again and welcome you to the Thirty-Second Annual General Meeting of your Bank.

The year 2019 was a very eventful year for the Banking industry. The year saw the final resolution of the Banking Reforms initiated by the Bank of Ghana, which reforms started with an increase in minimum capital requirements of financial institutions. This was followed by a cleanup of the sector which commenced with the license withdrawal of 2 Universal Banks in August 2017, another 9 in August 2018, numerous Microfinance and Savings and Loans companies in May 2019 together with 53 Fund Management Companies in November, 2019 resulting in very severe consequences for the Banking and Finance industry. Your Bank, as part of the Banking industry, was affected by the uncertainties in the industry and the associated loss of confidence caused by the amount of locked up funds in some of the major Fund Management companies whose licenses were revoked and who were unable to meet payment obligations agreed with us.

ECONOMIC ENVIRONMENT

In-spite of the turbulence in the banking and finance sector, it appeared the maintenance of strong macroeconomic fundamentals prevented a spillover to the real sector of the economy. On the domestic front, output growth remained strong at 6.5 percent for the year, while headline inflation followed a downward trend to close the year at 7.9%. There was also an improvement in the external payments position with a narrowing of the current account deficit.

The micro-level impact of the reforms notwithstanding, the Bank of Ghana reported that the banking sector remained sound and robust to severe stress test scenarios, featuring significant increases in credit impairments, extreme movement in interest and exchange rates, and liquidity pressures. The broad level of risk containment in the banking sector was underpinned by strong capital and liquidity positions, placement of offshore funds with stable institutions and improvement in asset quality, earnings and efficiency.

The financial sector also continued to witness policy reforms aimed at safeguarding financial and macro-economic stability. The reforms included the resolution of insolvent institutions, increase in minimum capital requirements, enhancement of supervisory regimes, establishment of a regulatory forum for Anti-Money Laundering and Combating the Financing of Terrorism, establishment of a Financial Stability Advisory Council, and the operationalization of the Ghana Deposit Protection Corporation.

OPERATING PERFORMANCE

Though other operating expenses fell by 11.20% from Ghc2.37million in 2018 to Ghc2.11million in 2019, operating profit recorded a loss of GH¢2.43million mainly attributed to the high net impairment of Ghc3.2million charged on the Bank's locked up Investments, as at 31st December,2019. This impairment of investments was the result of a placement the Bank made with Gold Coast Fund Management Company which was due August 2019.

The Bank's investment locked up with the Gold Coast Fund Management Company was deemed irrecoverable by the new accounting treatment per the IFRS, resulting in the impairment. Ladies and gentlemen, recall that the Government of Ghana resolved to pay investors in the liquidated companies. Your Bank has duly gone through the process of validation of its debt with the Gold Coast Fund Management Company. However, since that company has gone to court challenging its liquidation, it's clients would have to wait till the settlement of the court case. Unfortunately, this is the predicament your Bank finds itself in. I can therefore assure you, distinguished shareholders, ladies and gentlemen that this operating loss is only temporary.

More on the Financials, both Depreciation and Personnel Expenses increased marginally over the 2018 figures but within amounts budgeted for the year under review. While net interest income fell by 14.8% from GH¢7.17million in 2018 to GH¢6.16 million in 2019 due to loss of income on the locked-up investments, total commissions and fees saw an increase of 28.4% from GH¢819 thousand in 2018 to GH¢1.05 million in 2019 due to audit adjustments passed and bad debts recovered during the year.

The loss after tax amounting to GH¢1.78million is the result of an income tax credit of GH¢646 thousand recorded for the year 2019.

STATEMENT OF FINANCIAL POSITION

The Stated Capital of the Bank increased marginally from GH¢2.071million to GH¢2.075million due to the sale of shares during the year. The sale of shares is still ongoing: please spread the word. We invite you, your family, and your friends to buy more shares in the LCB. This is critical for the Bank as the increased capital helps the Bank withstand better shocks within the industry.

APPROPRIATION/ DIVIDEND

Distinguished shareholders, ladies and gentlemen, in April 2020, by a Notice No: BG/GOV/SEC/2020/01, the Bank of Ghana directed banks and SDIs to desist from declaring or paying dividends and from making other distribution to shareholders for the financial years 2019 and 2020, without clearance from the central bank. Given our loss position, we are unable to declare any dividend this year.

CORPORATE SOCIAL RESPONSIBILITY

The Bank has an obligation to support continuing students under its Scholarship Scheme; and will honour that obligation as part of its Corporate Social Responsibility to the community. The Bank has so far supported 184 students by way of Bursaries to complete both their Secondary and Tertiary education since the inception of the scheme in the 2002/2003 academic year. At the moment there are 28 continuing students who are benefitting from the benevolence of your Bank.

OUTLOOK FOR THE YEAR 2020

Distinguished Shareholders, the year 2020 which is about to end has been a very difficult year for the whole world due to the COVID-19 pandemic and its effects on both businesses and the population. Your bank is no exception as business activities were disrupted by the lockdown in April and the restrictions to movements as well as the ban on certain business activities of some customers resulting in the slowdown in economic activities for the year. It is therefore not surprising that the Ghana Statistical Service has recently indicated that the economy recorded a negative growth or recession of 3.2% for the second quarter of the year, i.e. April to June 2020. It is also instructive to note that the Government of Ghana has projected a revised growth of 0.9% from the previous growth rate of 6.5% earlier projected for the year in the original 2020 budget.

In the midst of the challenges caused by the COVID-19 Pandemic, and with the view to reposition your Bank, the Board has decided to restructure some major operations in the Bank to ensure an improved business performance while eliminating bottlenecks militating against the growth of the business.

Distinguished Ladies and Gentlemen, I am happy to inform you that the Bank will soon launch its mobile banking services with a dedicated App and USSD code to bring digital and electronic banking services to you on your mobile phones. This will enable you operate a large number of your basic banking services without visiting the Bank; thereby giving you total convenience and control over your bank account anytime, anywhere, throughout the day or night.

CONCLUSION

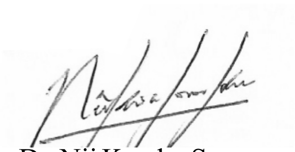
In conclusion, I wish to, on behalf of the Board, take this opportunity to thank all our stakeholders, customers, staff and most especially you, our distinguished shareholders for your invaluable support and co-operation during these challenging times that the world has gone through.

I am particularly grateful to my colleague Board members for the support extended to me by the direction and leadership they have provided in managing the business of the Bank in-spite of other demanding commitments they have.

I also wish to thank Professor Irene Odotei who has decided to retire from the Board at the end of this meeting for her invaluable contributions to the Bank. During the course of proceedings other changes in the Board will be brought to your attention to vote on.

Finally, we wish to thank God for His blessings which have brought us this far. We ask for His protection and guidance and more blessings in the coming years.
God bless us all.

Thank you.



Dr. Nii Kwaku Sowa
CHAIRMAN.

REPORT OF DIRECTORS

The Directors present their report and the financial statements of the Bank for the year ended 31 December 2019.

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 at 31 December 2019 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 (IFRSs) 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 state of affairs of the Bank is as follows:

	2019	2018
	GH¢	GH¢
(Loss)/profit before tax	**(2,436,287)**	1,075,600
(Loss)/profit after tax	**(1,789,994)**	1,665,205
Total assets	**53,927,125**	52,414,044
Total liabilities	**49,656,731**	45,574,476
Total equity	**4,270,394**	6,314,950

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

Particulars of entries in the Interests Register during the financial year

The entity did not maintain an Interests Register because no director had interest in any contract.

Related party transactions

No director has any other interest in any shares or loan stock of the Bank. Related party transactions and balances are also disclosed in note 30 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

Corporate social responsibility and code of ethics

A total of GH¢ 25,810 (2018: GH¢ 38,535) was spent under the Bank's social responsibility programme with key focus on education, health and others. This is included in Donation and subscription and disclosed in note 13.

Board of Directors

Profile

Executive	**Qualification**	**Outside board and management position**
Peter Tehova	MBA (Finance Option) University of Leicester, UK Member, Chartered Institute of Bankers – CIB (GH)	N/A
Non-executive		
Dr. Nii Kwaku Sowa	PhD. (Econs) McMaster University, Canada. MA (Econs) Queens University, Canada BA (Econs/Maths) Hons, University of Ghana.	Country Director of International Growth Centre. Member, Presidential Advisory Council on Fiscal Policy. Member, NDPC.
Nicholas Okoe Sai	Member, Institute of Chartered Accountants, Ghana (ICAG); Executive Masters' in Business Administration (Finance Option), University of Ghana. ISMS (Information Security Management System) Virginia USA	CEO and Lead Consultant of Noswin Consult. Member, Ghana Statistical Service Board.
Mrs. Helen Koshie Lokko	BSc (Eons) Hons Queens University Member, Chartered Institute of Secretaries, Corporation of Certified Secretaries, Balham & Tooting College of Commerce, London	N/A
Benjamin Obodai	BSc Finance (GIMPA), ICA Level 2; MBA (Accounting and Taxation), GIMPA	N/A
Matilda Pappoe	PhD. Medical Sociology, McGil University, Montreal, Canada, Master of Public Health (MPH) University of California, Berkely, USA. BSc. Public Health Education, University of California, Berkely, USA.	External Examiner, School of Graduate Studies, University of Ghana. Coordinator, Master of Public health Programme, Catholic University, Fiapre Bono Region.
Prof. (Mrs.) Irene Korkoi Odotei	PhD. (History), University of Ghana; BA (Hons) History, University of Ghana	She holds membership of a number of Boards and Committees of the University of Ghana.
David Emmanuel Anang Oddoye	Executive Masters' in Business Administration (Finance); Member of the Institute of Chartered Accountants, Ghana	CEO - DOFAC Services

REPORT OF THE DIRECTORS (CONTINUED)

Biographical information of directors

Age category	Number of directors
Up to – 45 years	-
46 – 60 years	1
Above 60 years	7

Capacity building of directors to discharge their duties

On appointment to the Board, Directors are provided with full, formal and tailored programmes 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 importance provided during the year ensure 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 other Committees.

Auditor

The Board Audit Committee has responsibility delegated from the Board of Directors for making recommendations on the appointment, reappointment, removal and remuneration of the external auditor. KPMG has been the auditor of La Community Bank Limited for three (3) years. The amount payable in respect of audit fees is 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 October 27, 2020 and are signed on their behalf by:

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Dr. Nii Kwaku Sowa
Chairman

Peter Tehova
General Manager

REPORT OF THE AUDIT 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 2019 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 (IFRSs) Implementation" and hereby confirm that GH¢ 39,955 has been set aside as at 31 December 2019 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 are satisfied that the Bank has complied with the provisions of Bank of Ghana's Circular BSD/17/2018 "Adoption of International Financial Reporting Standard 16 Leases (IFRS 16)" and hereby confirm that the substance and the economics of lease transactions have been properly reflected in our books as required by the standard.

(iv) We have deliberated with the external auditors, who have confirmed that the 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.

Chairperson, Audit Committee

INDEPENDENT AUDITORS' REPORT
TO THE 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 at 31 December 2019, 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 19-79

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 for 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.

Impairment of loans and advances to customers, debt investment securities and cash and cash equivalents Refer to Notes15, 16 and 18 of the financial statements.	
The key audit matter	*How the matter was addressed in our audit*
At 31 December 2019 the Bank reported total gross loans and advances of GH¢2,945,405, investment debt securities of GH¢37,685,993 and cash and cash equivalents of GH¢12,421,391 with their related Expected Credit Losses (ECLs) of GH¢142,344, GH¢6,577,449 and GH¢ 29,503 respectively. Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECLs) include: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL;	Our audit procedures in this area included, among others: • We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment. • We challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. • With the support of our internal modelling specialists, we tested the assumptions, inputs and formulas used in a sample of ECL models. This included assessing the appropriateness of model design and formulas used, considering alternative modelling techniques in determining the Probability of Default (PDs), Loss

• Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple economic scenarios; • Measurements of individually assessed provisions including the assessment of multiple scenarios; and • Accuracy and adequacy of the financial statements' disclosures. Measurement of impairment under IFRS 9 *Financial Instruments* is deemed a key audit matter as the determination of assumptions for the measurement of impairments requires Management to apply judgments about future events.	Given Default (LGDs) and Exposure at Default (EADs). • To verify data quality, we tested the data used in the ECL calculation by reconciling to the data from the Bank's core banking application. • We assessed whether forecasted macroeconomic variables were appropriate, such as GDP and inflation. • We selected a sample of clients where impairment indicators had been identified by the Bank to assess the individual exposure of these clients. We obtained the Bank's assessment of the recoverability of these exposures and challenged whether individual impairment allowance, or lack of, were appropriate. • We evaluated 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 disclosures were appropriate and adequate in terms of IFRS 9 *Financial Instruments*.

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) and the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), the Audit Committee's Report and Corporate Information 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.

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.

- 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 profit or loss and other 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), the Anti-Terrorism Act, 2008 (Act 762) and all relevant Amendments and Regulations governing the Acts.

The engagement partner on the audit resulting in this independent auditor's report is Frederick Nyan Dennis (ICAG/P/1426).

KPMG
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FOR AND ON BEHALF OF:
KPMG: (ICAG/F/2020/038)
CHARTERED ACCOUNTANTS
13 YIYIWA DRIVE, ABELENKPE
P O BOX GP 242
ACCRA

........October 27........2020

PROFILE OF DIRECTORS STANDING FOR RE-ELECTION

NII KWAKU SOWA

Nii Sowa is an economist by training, with wide experience in lecturing, research, policy analysis and consultancy.

Dr. Sowa lectured for several years at the University of Ghana, Legon, and was the Head of the Department of Economics between 1988 and 1992. He joined the Centre for Policy Analysis in 1996 as a Core Research Fellow, and was engaged in policy research for a period of 10 years.

Nii Sowa has served as an economic consultant to several international organizations including the World Bank, the United Nations Economic Commission for Africa (UN-ECA), the United States Agency for International Development (USAID), the Canadian International Development Agency (CIDA), and the British Department for International Development (DfID).

He has held several international lecturing and research positions at highly reputable foreign institutions including the Oxford University, the University of Warwick, and the Overseas Development Institute, all in the UK. He was also a visiting scholar to the Research Department of the International Monetary Fund (1994) and the World Bank (1997).

Nii Sowa has published widely in academic journals and books, mostly in the areas of Money and Banking and Economic Policy Management issues.

Nii Sowa was the Director General of the Securities and Exchange Commission(2005-2011) and for 12 years was a member of the Monetary Policy Committee of the Bank of Ghana (2002-2014). In 2019, he was appointed a member of the Presidential Fiscal Responsibility Advisory Council.

Dr. Sowa is currently a consulting economist and is also the Country Director of the International Growth Centre in Ghana.

PROFILE OF DIRECTORS STANDING FOR RE-ELECTION

MRS. HELEN KOSHIE LOKKO

Mrs. Helen Koshie Lokko holds a BSc (Economics degree) as well as ACIS and CCS Certificates of Secretaries.

She was formerly the Managing Director of Ghana Commercial Bank with over 30 years experience in Banking. She held various Directorships in a number of Private Companies, State Enterprises, Financial Institutions and other Bodies.

She had been a member of the Governing Council of the National Banking College, United Nations Environment Programme Advisory Group and was also the Vice President of the Ghana Association of Bankers.

PROFILE OF DIRECTORS STANDING FOR ELECTION

SETH NII SODJAH QUAO

Mr Seth Nii Sodjah Quao is a Member of the Institute of Chartered Accountants (Ghana) with over thirty four (34) years post qualification experience in the Ghanaian industry, mostly at the Senior Management level.

He had his professional training with Coopers & Lybrand, now Pricewaterhouse Coopers(PWC). Mr Quao started his career as a member of audit teams engaged in small- and medium- sized audits. He was employed by Crocodile Matchets (Ghana) Limited as an Accountant. By dint of hard work he was promoted to the position of Company Secretary/Accountant. The position gave him the opportunity to attend several management training courses held at the Head Office of the parent Company, Ralph Martindale Company Limited in the United Kingdom. He was eventually made the General Manager, a position he held until he decided to go on early retirement.

While an employee of Crocodile Matchets (Ghana) Limited, he was the liaison between the Company and the Association of Ghana Industries (AGI) He served on various committees of the AGI and took part in seminars and conferences held locally and at the international level.

Mr Quao later joined Bening Anang & Partners, a firm of Chartered Accountants as a Partner. A few of the jobs he planned and executed were Audit of Ghana Health Sector Support Programme, Financial Audit, Multi Sectoral HIV/AIDS Programme of Ghana Aids Commission, Private Enterprise Foundation and Adonten Community Bank.

Currently, he is the Managing Proprietor of Quao Consult, a firm of Chartered Accountants based in Tema. He is also a director of Afariwaa Estate Limited and Intertech Services Limited.

PROFILE OF DIRECTORS STANDING FOR ELECTION

MRS ROSALYN DARKWA

Mrs Darkwa is a Chartered Banker by profession, an Investment Banker and a Business Executive by experience. She brings to the Board of the LA Community Bank, over twenty five years of rich Management and Banking exposure. She has worked in various capacities as the Chief Executive Officer (Institute of Directors-Ghana), Chief Executive Officer (Teachers' Fund), Manager at the Merchant Bank (now Universal Merchant Bank), Chief Operating Officer (Lushi Projects), and a number of Board Directorships.

Mrs Darkwa has acquired reasonable exposure with Corporate Governance practices, having served as Board member for a number of credible Financial Institutions, Investment Funds and Companies. She currently holds directorships with Databank Edifund Limited and Cash bagg Services Limited. Other past directorship experiences include Mega African Capital Limited, TF Financial Services Limited and Credit Mall Limited.

She is the immediate past CEO of the Institute of Directors- Ghana, an organisation with the mandate to promote good Corporate Governance through Director training and enhanced Board professionalism.

Mrs Darkwa is credited with successfully spearheading the turnaround of the Teachers' Fund which served as a retirement scheme for over 150,000 teachers across the country. She was at the forefront in structuring its investment portfolio and achieving positive investment returns in the face of adverse global economic downturn. Under her leadership the Fund's products and benefits were repackaged to teachers to solicit increased monthly subscriptions which positioned the Teachers' Fund for greater visibility in the Ghanaian financial arena.

She holds an MBA Finance degree and a BA in Economics/Statistics from The University of Ghana, Legon.

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Notes	2019 GH¢	2018 GH¢
Assets			
Cash and cash equivalents	15	**12,391,888**	10,447,655
Investment securities at amortised cost	16	**31,108,544**	31,091,266
Investment securities at FVOCI	17	**290,773**	160,889
Loans and advances to customers	18	**2,803,061**	2,843,625
Current tax asset	14(b)	**30,158**	205,398
Property and equipment	19	**4,651,484**	4,962,234
Intangible assets	20	**419,648**	452,756
Deferred tax assets	21(a)	**1,175,210**	322,607
Other assets	22	**1,056,359**	1,402,996
Total assets		**53,927,125**	51,889,426
Liabilities			
Deposits from customers	23	**47,540,667**	43,154,584
Long service benefit liability	24	**69,021**	60,283
Other liabilities	25	**2,047,043**	2,359,609
Total liabilities		**49,656,731**	45,574,476
Equity			
Stated capital	26(a)	**2,075,305**	2,071,305
Statutory reserve	26(b)	**2,487,049**	2,487,049
Fair value reserve	26(b)	**247,459**	131,506
Retained earnings	26(b)	**(579,374)**	1,625,090
Credit risk reserve	26(b)	**39,955**	-
Total equity		**4,270,394**	6,314,950
Total equity and liabilities		**53,927,125**	51,889,426

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Dr. Nii Kwaku Sowa	**Peter Tehova**
DIRECTOR	**DIRECTOR**

The financial statements of the Bank were approved by the Board of Directors on October 27, 2020.

The notes on pages 24 - 79 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 GH¢	2018 GH¢
Interest income calculated using the effective interest method	7	7,191,152	8,617,683
Interest expense	7	(1,022,142)	(1,443,971)
Net interest income		6,169,010	7,173,712
Fees and commission income	8	680,965	590,694
Other operating income	9	167,247	132,980
Other income	10	204,506	96,057
Net trading and other income		1,052,718	819,731
Revenue		7,221,728	7,993,443
Impairment loss on financial assets	11	(3,254,499)	(511,124)
Personnel expenses	12	(3,716,517)	(3,613,221)
Depreciation and amortization	18(a)	(576,664)	(417,881)
Other operating expenses	13	(2,110,335)	(2,375,617)
(Loss)/profit before income tax		(2,436,287)	1,075,600
Income tax credit	14	646,293	589,605
(Loss)/profit after tax attributable to equity holders of the Bank		(1,789,994)	1,665,205
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	24	-	35,810
Related tax	21(a)	-	(27,998)
		-	7,812
Change in fair value of FVOCI equity investments	17	129,884	23,734
Related tax	21(a)	(13,931)	(24,473)
		115,953	(739)
Total comprehensive income attributable to equity holders of the Bank		(1,674,041)	1,672,278

The notes on pages 24 - 79 are an integral part of these financial statements.

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

	Stated Capital GH¢	Fair Value Reserve GH¢	Statutory Reserve GH¢	Retained Earnings GH¢	Credit Risk Reserve GH¢	Total GH¢
Balance at 1 January 2019	**2,071,305**	**131,506**	**2,487,049**	**1,625,090**	**-**	**6,314,950**
Loss for the year	-	-	-	(1,789,994)	-	(1,789,994)
Other comprehensive income, net of tax						
Fair value gain on Investments at FVOCI	-	115,953	-	-	-	115,953
Total other comprehensive income	**-**	**115,953**	**-**	**-**	**-**	**115,953**
Transfer to regulatory credit risk reserve	-	-	-	(39,955)	39,955	-
Net transfers to 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	-	-	-	(374,515)	-	(370,515)
Balance at 31 December 2019	**2,075,305**	**247,459**	**2,487,049**	**(579,374)**	**39,955**	**4,270,394**

*This is 2018 dividends approved in 2019. The Bank had a favourable retained earnings balance prior to approval of 2018 dividends by the members of the Bank.

The notes on pages 24 - 79 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	Stated Capital GH¢	Fair Value Reserve GH¢	Statutory Reserve GH¢	Retained Earnings GH¢	Total GH¢
Balance at 31 December 2017 as previously reported	**2,037,905**	**132,245**	**2,273,273**	**3,345,322**	**7,788,745**
Adjustment on initial application of IFRS 9	-	-	-	(2,805,625)	(2,805,625)
Restated balance at 1 January 2018	2,037,905	132,245	2,273,273	539,697	4,983,120
Profit for the year	-	-	-	1,665,205	1,665,205
Other comprehensive income, net of tax					
Remeasurement of defined benefit liability	-	-	-	7,812	7,812
Fair value gain on Investments at FVOCI	-	(739)	-	-	(739)
Total other comprehensive income	-	(739)	-	7,812	7,073
Transfer to statutory reserve	-	-	213,776	(213,776)	-
Net transfers to reserves	-	-	213,776	(213,776)	-
Transactions with owners of the Bank					
Shares issued	33,400	-	-	-	33,400
Dividend declared	-	-	-	(373,848)	(373,848)
Total transactions with owners of the Bank	33,400	-	-	(373,848)	(340,448)
Balance at 31 December 2018	2,071,305	131,506	-	1,625,090	6,314,950

The notes on pages 24 - 79 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 GH¢	2018 GH¢
(Loss)/profit after tax		**(1,789,994)**	1,665,205
Adjustments for:			
Depreciation and amortisation	19(a)	**576,664**	417,881
Net impairment loss on financial assets	11	**3,254,499**	511,124
Net interest income	7	**(6,169,010)**	(7,173,712)
Income tax expense	14	**(646,293)**	(589,605)
		(4,774,134)	(5,169,107)
Changes in:			
Investment securities		**(17,278)**	(21,825,000)
Loans and advances to customers		**40,564**	(447,549)
Other assets		**346,637**	(745,452)
Deposits from Customers		**4,386,083**	2,580,991
Other liabilities		**(312,563)**	88,575
		(330,691)	(25,517,542)
Interest received		**3,737,101**	8,617,683
Interest paid		**(950,680)**	(1,443,971)
Taxes paid	14(b)	**(45,000)**	(250,000)
Net cash flow from/(used in) operating activities		**2,410,729**	(18,593,830)
Cash flows from investing activities			
Acquisition of property and equipment	19	**(143,339)**	(2,028,492)
Acquisition of intangible assets	20	**(5,000)**	(485,109)
Net cash flow used in investing activities		**(148,339)**	(2,513,601)
Cash flows from financing activities			
Proceeds from issue of shares		**4,000**	33,400
Dividends		**(322,157)**	-
Net cash flows from financing activities		**(318,157)**	33,400
Net increase/(decrease) in cash and cash equivalents		**1,944,233**	(21,074,031)
Balance at beginning	15	**10,447,655**	31,521,686
Cash and cash equivalents at 31 December	15	**12,391,888**	10,447,655

The notes on pages 24 - 79 are an integral part of these financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1. Reporting entity

La Community Bank Limited (the Bank) is a limited liability company incorporated in Ghana. The address of the Bank's registered office is G224/1 Lami Jwahe, P. O. Box LA 499, La, Accra. The financial statements of the Bank as at, and for the year ended 31 December 2019 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). The Bank was in compliance with the requirements of the Companies Act, 1963 (Act 179) until it was replaced with a new Companies Act, 2019 (Act 992) on 2 August 2019.

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 long service benefit liability.

This is the first set of the Bank's annual financial statements in which IFRS 16 Leases have been applied. Changes to accounting policies are described in Note 3.1.

Details of the Bank's accounting policies are included in Note 3.

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 cedi, except when otherwise stated.

2.4 Use of judgements and estimates

The Preparation of financial statements, in conformity with IFRS requires management to make 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.

(a) Judgements

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 3.8 - stablishing 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.

(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 2019 is included in notes 3.8-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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

3. Accounting policies

3.1 Changes in accounting policies

3.1.1 New and amended standards adopted by the Bank

The Bank initially applied IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Bank's financial statements.

The Bank applied IFRS 16 using the modified retrospective approach under which the measurement option for right of use (RoU) assets was based on lease liabilities adjusted for prepayments and accrued payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. Due to the application of this option, there was no impact on the opening retained earnings. Accordingly, the comparative information presented for 2018 is not restated-i.e. it is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

a. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was contained under a lease under IFRIC4 *Determining whether an Arrangement contains a Lease.* The Bank now assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 3.5.

On transition to IFRS 16, the Bank applied the definition of a lease under IFRS 16 to all contracts.

b. As a lessee

As a lessee, the Bank leases properties which it uses for its branches. The Bank previously classified as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases –i.e. these leases are on-balance sheet.

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 price.
However, for leases of property the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's
incremental borrowing rate as at 1 January 2019 (See Note 3.1.1 (C)(i)). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Bank has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank

- did not recognise right-of-use assets and liabilities for leases which the term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- applied a single discount rate to leases with similar characteristics; and
- used hindsight when determining the lease term.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

3 Accounting policies (continued)

c. Impact on financial statements

i. Impact on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	1 January 2019
	GH¢
Rights-of-use assets presented in the property and equipment	60,802
Prepayment recognised in statement of financial position at 31 December 2018	60,802
Lease liability	-

For the impact on Profit or loss for the period, see note 26 (i)

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate of 19% at 1 January 2019.

3.1.1 New and amended 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 2019 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.

a. Amendments to References to Conceptual Framework in IFRS Standards

The IASB revised the Conceptual Framework because certain important issues were not covered, and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:
- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions of an asset and a liability, and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. The amendments are effective from 1 January 2020.

It is not expected that this will impact the Bank significantly.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)

3 Accounting policies (continued)

3.1.1 New and amended standards issued but not yet effective (Continued)

a. Definition of Material (Amendments to IAS 1 and IAS 8) (Continued)

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general- purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change - the refinements are not intended to alter the concept of materiality.

It is not expected that this will impact the Bank significantly.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

The amendments are effective from 1 January 2020. Early application is permitted.

It is not expected that this will impact the Bank significantly.

3.2 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies (Continued)

3.2 Interest income and expense (Continued)

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 included 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.

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 and financial liabilities measured at amortised cost.

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

3.3 Fee and commission income

Fees and commission are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest rate on the loan. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

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

3.4 Net trading income

Net trading income comprises gains less losses relating to trading assets and liabilities, including interest.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies

3.5 Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

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. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

Bank acting as a lessee

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, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs attributable to the lease contract.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

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.

The lease liability is measured at amortised cost using the effective interest method. A re-measurement of the lease liability and right-of-use asset is required under the following circumstances:

a. change in future lease payments arising from a change in an index or rate,
b. if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee,
c. if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in substance fixed lease payment.

3. Accounting policies (Continued)

Policy applicable from 1 January 2019 (Continued)

Bank acting as a lessee (Continued)

When the lease liability is re-measured in this way, a corresponding adjustment is made to the current amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Bank presents right-of-use asset in property and equipment and lease liabilities in other liabilities in the statement of financial position. The Bank presents interest on lease liability in other expenses in the statement of comprehensive income.

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.

Policy applicable before 1 January 2019

Where the Bank is the lessee

The Bank did not have any finance leases under IAS 17.

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Bank is a lessee under finance leases, the leased assets are capitalised and included in property and equipment with a corresponding liability to the lessor recognised in other liabilities.

Financing charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

3.6 Financial instruments

3.6.1 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.

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 FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3.6 Financial instruments (Continued)

3.6.2 Classification and subsequent measurement

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.

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 5 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:

i. 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;
ii. How the performance of the portfolio is evaluated and reported to the Bank's management;
iii. 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;
iv. 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;
v. 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.
vi. 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 are measured at FVTPL.

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;

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies (Continued)

3.6.2 Classification and subsequent measurement (Continued)

Business model assessment - Financial Assets (Continued)

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

- 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.

Financial assets – subsequent measurement and gains and losses

a. Amortised cost

Financial assets at amortised cost comprises cash and cash equivalents, loans to other Banks, loans and advances to customers, and other assets and other investments.

They are initially recognised at fair value plus incremental direct transaction costs and 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

The equity instrument is initially recognised at fair value plus direct transaction costs and subsequently measured at fair value. 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies (Continued)

3.6.2 Classification and subsequent measurement (Continued)

c. Other financial liabilities

Deposits, debt securities issued, and subordinated liabilities are the Bank's sources 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.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Other financial liabilities comprising deposit from customers and other liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.6.3 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.

Financial liabilities

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

3.6.4 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies

3.6.4 Modification of financial assets and liabilities (Continued)

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.

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.

3.6.5 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.

3.7 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies (Continued)

3.7 Fair value measurement

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.

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.

3.8 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);

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies

3.8 Impairment of financial assets (Continued)

- 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; and

Restructure 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 and debt financial assets carried at FVOCI, and finance lease receivables 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 FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies (Continued)

3.8 Impairment of financial assets (Continued)

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.

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 'impairment losses on financial instruments' 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.

3.9 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.

3.10 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.

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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies

3.10 Property and equipment (Continued)

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:

Building	25-30 years
Leasehold improvement	Over lease term
Furniture and fittings	3-8 years
Motor vehicles	4-10 years
Office equipment	3-5 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.

3.11 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.

3.12 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies (Continued)

3.12 Impairment of non-financial assets (Continued)

In respect of other assets, 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.

3.13 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).

3.14 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. 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.

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

3.15 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.

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 only if certain criteria are met.

3.16 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.

NOTES FORMING PART OF THE FINANCIAL ASSETS (CONTINUED)

3. Accounting policies (Continued)

3.17 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.

3.18 Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the 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.

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 a restructured Social Security and National Insurance Trust towards the first-tier pension scheme, out of which 2.5% is a levy for the National Health Insurance 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 Company'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 award

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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

3. Accounting policies (Continued)

3.19 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.

4 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.

5 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.1 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.

5.1.1 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.

5.1.2 Management of credit risk

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank reviews the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans are:

- Compulsory savings;
- Mortgages over residential properties; and
- Charges over business assets such as premises, inventory and accounts receivable.

5.1.3 Credit quality analysis

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

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

31 December 2019	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
		GH¢	**GH¢**	**GH¢**	**GH¢**
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	15	12,421,391	-	-	12,421,391
		42,032,634	4,813,457	6,206,698	53,052,789

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.3 Credit quality analysis (Continued)

31 December 2019	Note	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
Loans and advances to customers					
Grade 6: Substandard		-	-	2,394	2,394
Grade 7: Doubtful		-	-	-	-
Grade 8: Loss		-	-	156,234	156,234
Total gross amount		-	-	158,628	158,628
Allowance for ECL		-	-	(71,732)	(71,732)
Carrying amount		-	-	86,896	86,896
Grade 1–3: Low–fair risk		2,771,650	-	-	2,771,650
Grade 4–5: Watch list		-	15,127	-	15,127
Total gross amount		2,771,650	15,127	-	2,786,777
Allowance for ECL		(66,977)	(3,635)	-	(70,612)
Carrying amount		2,704,673	11,492	-	2,716,165
Total carrying amount		2,704,673	11,492	86,896	2,803,061
Investments securities					
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
Loss allowance		(33,232)	(496,147)	(6,048,070)	(6,577,449)
		26,806,360	4,302,184	-	31,108,544
Cash and cash equivalents					
Grade 1–3: Low–fair risk		12,421,391	-	-	12,421,391
Grade 4-5: Watchlist		-	-	-	-
Loss allowance		(29,503)	-	-	(29,503)
		12,391,888	-	-	12,391,888

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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.3 Credit quality analysis (Continued)

31 December 2018	Note	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
Maximum exposure to credit risk					
Loans and advances to customers		2,582,524	197,642	234,181	3,014,347
Investment securities at amortised cost		2,425,710	31,498,169	-	37,685,992
Cash and cash equivalents		6,186,514	4,752,601	-	12,421,391
		11,194,748	36,448,412	234,181	53,121,730
Loans and advances to customers					
Grade 6: Substandard		-	-	-	-
Grade 7: Doubtful		-	-	233,683	233,683
Grade 8: Loss		-	-	-	-
Total gross amount		-	-	233,683	233,683
Allowance for ECL		-	-	(105,897)	(105,897)
Carrying amount		-	-	127,786	127,786
Grade 1-3: Low-fair risk		2,583,022	-	-	2,583,022
Grade 4-5: Watchlist		-	197,642	-	197,642
Total gross amount		2,583,022	197,642	-	2,780,664
Allowance for ECL		(58,136)	(6,689)	-	(64,825)
Carrying amount		2,524,886	190,953	-	2,715,839
Total carrying amount		2,524,886	190,953	127,786	2,843,625
Investment securities					
Grade 1-3: Low-fair risk		2,425,710	-	-	2,425,710
Grade 4-5: Watchlist		-	31,498,169	-	31,498,169
Loss allowance		-	(2,832,613)	-	(2,832,613)
Total carrying amount		2,425,710	28,665,556	-	31,091,266
Cash and cash equivalents					
Grade 1-3: Low-fair risk		6,186,514	-	-	6,186,514
Grade 4-5: Watchlist		-	4,752,601	-	4,752,601
Loss allowance		(43)	(491,417)	-	(491,417)
Total carrying amount		6,186,471	4,261,184	-	10,447,655

The above represents the maximum exposure to credit risk at 31 December 2018, without taking 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.3 Credit quality analysis (Continued)

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 2019	**Stage 1 GH¢**	**Stage 2 GH¢**	**Stage 3 GH¢**	**Total GH¢**
Loans and advances -gross carrying amount				
Current	2,771,650	-	-	2,771,650
Overdue < 30days	-	15,127	-	15,127
Overdue > 30days	-	-	158,628	158,628
Loss allowance	(66,977)	(3,635)	(71,732)	(142,344)
	2,704,673	11,492	86,896	2,803,061

Year ended 31 December 2018				
Loans and advances -gross carrying amount				
Current	-	-	-	-
Overdue<30 days	2,583,022	-	-	2,583,022
Overdue>30 days	-	197,642	233,683	431,325
Loss allowance	(58,137)	(6,689)	(105,896)	(170,722)
	2,524,885	190,953	127,787	2,843,625

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 3.6.2

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¢ 12,421,287 at 31 December 2019 (2018: GH¢10,447,655). The cash and cash equivalents are held with ARB Apex Bank and other reputable financial institution counterparties.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.3 Credit quality analysis (Continued)

Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The information below sets out the principal types of collateral held against different types of financial assets.

		Percentage of exposure that is subject to collateral requirements		
	Note	**2019**	**2018**	**Principal type of collateral held**
Type of credit exposure				
Investment securities at amortised cost	16	Nil	Nil	None
Loans and advances to customers	18	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 4.2). 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.

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.

5.1.4 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.8

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:

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.4 Amounts arising from ECL (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

- 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.

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.

Corporate and retail 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

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:

- the remaining lifetime PD is determined to have increased by more than a stated threshold of the corresponding amount estimated on initial recognition; or,

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.4 Amounts arising from ECL (Continued)

Determining whether credit risk has increased significantly (Continued)

- 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
- 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.4 Amounts arising from ECL (Continued)

Definition of default (Continued)

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 economic scenarios used as at 31 December 2019 included the following key indicators for Ghana.

	Year	Real GDP Growth	Consumer Inflation
Actual	2019	7.90%	7.90%
Forecast	2020	6.50%	9.50%
Forecast	2021	5.80%	8.70%
Forecast	2022	5.40%	9.40%
Forecast	2023	5.70%	8.70%

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.

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 FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.4 Amounts arising from ECL (Continued)

Measurement of ECL (Continued)

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.

2019	**Stage 1 GH¢**	**Stage 2 GH¢**	**Stage 3 GH¢**	**Total GH¢**
Loans and advances to customers				
Balance at 1 January	58,137	6,689	105,896	170,722
Net remeasurement of loss allowance	8,840	(3,054)	(34,164)	(28,378)
Balance at 31 December	**66,977**	**3,635**	**71,732**	**142,344**
Investment securities at amortised cost				
Balance at 1 January	-	2,832,613	-	2,832,613
Net remeasurement of loss allowance	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**
Cash and cash equivalents				
Balance at 1 January	-	43	491,419	491,462
Net remeasurement of loss allowance	29,503	(43)	(491,419)	(461,959)
Balance at 31 December	**29,503**	**-**	**-**	**29,503**

2018

Loans and advances to customers				
Balance at 1 January	94,754	9,158	995,811	1,099,723
Write-offs	(94,470)	(8,060)	(1,497,921)	(1,600,451)
Net Remeasurement of loss allowance	57,853	5,591	608,006	671,450
Balance at 31 December	58,137	6,689	105,896	170,722

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.4 Amounts arising from ECL (Continued)

Loss allowance (Continued)

2018	Stage 1 GH¢	Stage 2 GH¢	Stage 3 GH¢	Total GH¢
Investment securities at amortised cost				
Balance at 1 January	-	3,290,173	-	3,290,173
Net Remeasurement of loss allowance	-	(457,560)	-	(457,560)
	-	2,832,613	-	2,832,613
Cash and cash equivalents				
Balance at 1 January	-	29	194,199	194,228
Net remeasurement of loss allowance	-	14	297,220	297,234
Balance at 31 December	-	43	491,419	491,462

Key ratios on loans and advances

Loan loss provision ratio is 5.66% (2018: 36.70%).

Percentage of gross non-performing loans with respect to Bank of Ghana Prudential Norms (specifically impaired) to total gross loans and advances is 5.11% (2018: 35.98%).

Ratio of fifty (50) largest exposures (gross funded) to total exposure is 41.37% (2018: 45.55%).

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.

2019	**Loan and advances to customers at amortised cost GH¢**	**Investment securities GH¢**	**Cash and cash equivalents GH¢**	**Total GH¢**
Net remeasurement of loss allowance	(28,378)	3,744,836	(461,959)	3,254,499
	(28,378)	3,744,836	(461,959)	3,254,499
2018				
Net remeasurement of loss allowance	671,450	(457,560)	297,234	511,124
	671,450	(457,560)	297,234	511,124

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.1 Credit risk (Continued)

5.1.4 Amounts arising from ECL (Continued)

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.

	2019 GH¢	2018 GH¢
	Loans and advances to customers	
Carrying amount	2,803,061	2,843,625
Concentration by product:		
Term loans	1,604,625	1,475,514
Overdrafts	381,010	601,929
Staff loans	959,770	936,904
Gross loans	2,945,405	3,014,347
Less: Impairment allowance	(142,344)	(170,722)
	2,803,061	2,843,625

	Investment debt securities and cash and cash equivalent	
Investment debt securities	37,685,993	33,923,879
Cash and cash equivalents	12,421,391	10,939,115
Less: Impairment allowance	(6,606,952)	(3,324,073)
	43,500,432	41,538,921

5.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and be able to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The table below presents the cash flows payable under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

5.2.1 Exposure to liquidity risk

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.

Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date is as follows.

	2019 %	2018 %
At period end	**98**	96
Average for the period	**100**	100
Maximum for the period	**101**	107
Minimum for the period	**95**	94

5 Financial risk management (Continued)

5.2 Liquidity risk (Continued)

5.2.2 Maturity analyses of financial liabilities and financial assets

	Note	Carrying Amount GH¢	Nominal inflow /(outflow) GH¢	Less than month GH¢	1-3 months GH¢	3 months to 1 year GH¢
31 December 2019						
Financial liability by type						
Non-derivative financial liabilities						
Deposits from customers	23	**47,540,667**	**(47,911,384)**	**43,553,946**	**2,107,959**	**2,249,479**
Other liabilities*	25	**1,501,546**	**(1,501,546)**	**1,501,546**	**-**	**-**
		49,042,213	**(49,412,930)**	**45,055,492**	**2,107,959**	**2,249,479**
Financial asset by type						
Non-derivative financial assets						
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**

* Excluded from other liabilities is deferred grant of GH¢ 10,691 (2018: GH¢ 13,420) and others 534,806 (2018: 238,099).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.2 Liquidity risk (Continued)

5.2.2 Maturity analyses of financial liabilities and financial assets (Continued)

	Note	Carrying Amount GH¢	Nominal inflow /(outflow) GH¢	Less than month GH¢	13 months to 1-3 months GH¢	1 year GH¢
31 December 2018						
Financial liability by type						
Non-derivative financial liabilities						
Deposits from customers	23	43,154,584	(43,154,584)	(38,591,870)	(4,562,714)	-
Other liabilities	26	2,108,090	(2,108,090)	-	-	(2,108,090)
		45,262,674	(45,262,674)	(38,591,870)	(4,562,714)	(2,108,090)
Financial asset by type						
Non-derivative financial assets						
Cash and cash equivalents	15	10,447,655	10,447,655	8,624,223	1,823,432	-
Investment securities at amortised cost	16	31,091,266	31,091,266	-	14,028,280	17,062,986
Loans and advances to customers	18	2,843,625	2,843,625	-	-	2,843,625
Other assets**	22	1,284,633	1,284,633	-	1,284,633	-
		45,667,179	45,667,179	8,624,223	17,136,345	19,906,611

** Excluded from other assets are prepayments ofGH¢86,336 (201:GH¢250,438) and Stationery stock ofGH¢32,027 (2017:GH¢36,863).

The amounts in the table above have been compiled as follows;

Type of financial instrument	Basis on which amount are compiled
Non-derivative financial liabilities	Undiscounted cash flows, which include estimated interest payments.

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents

5 Financial risk management (Continued)

5.2.3 Liquidity reserves

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

	2019	2018
	GH¢	GH¢
Balances with ARB Apex Bank	**3,868,298**	5,026,965
Cash on hand	**880,334**	977,552
Other cash and cash equivalents	**7,672,759**	4,443,138
Total liquidity reserves	**12,421,391**	10,447,655

5.2.4 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 2019	**Note**	**Encumbered**	**Unencumbered**	**Total**
		GH¢	**GH¢**	**GH¢**
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**
31 December 2018				
Cash and cash equivalents	15	2,187,576	8,260,079	10,447,655
Investment securities	16	-	31,091,266	31,091,266
		2,187,576	39,351,345	41,538,921

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

5.2.5 Financial assets pledged as collateral

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.3 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.

5.3.1 Risk identification

The Bank identifies market risk through daily monitoring of levels and profit and loss balances of non-trading positions. The Audit and Risk Committee, the Treasurer 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.

31 December 2019	**Note**	**Carrying Amount GH¢**	**Market risk measure Non-trading portfolios GH¢**
Assets subject to market risk			
Cash and cash equivalents	**15**	**12,421,391**	**12,421,391**
Investment securities	**16**	**37,685,993**	**37,685,993**
Loans and advances to customers	**18**	**2,945,405**	**2,945,405**
		53,052,789	**53,052,789**
Liabilities subject to market risk			
Deposits from customers	23	**47,540,667**	**47,540,667**
31 December 2018			
Assets subject to market risk			
Cash and cash equivalents	15	10,939,115	10,939,115
Investment securities	16	33,923,879	33,923,879
Loans and advances to customers	18	3,014,347	3,014,347
		47,877,341	47,877,341
Liabilities subject to market risk			
Deposits from customers	23	43,154,584	43,154,584

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.

5 Financial risk management (Continued)

5.3 Market risk (Continued)

5.3.2 Exposure to interest rate risk

The following is a summary of the Bank's interest rate gap position on non-trading portfolios.

	Note	Carrying amount GH¢	Less than 1 month GH¢	1-3 months GH¢	Over 3 months GH¢
31 December 2019					
Cash and cash equivalents	15	12,391,888	4,003,847	6,084,981	2,332,563
Investment securities	16	31,108,544	8,150,940	14,772,651	14,762,402
Loans and advances to customers	18	2,803,061	147,611	23,947	2,773,847
		46,303,493	12,302,398	20,881,579	19,868,812
Deposits from customers	23	47,540,667	45,745,753	1,551,168	243,746
		47,540,667	45,745,753	1,551,168	243,746
Total interest repricing gap		(1,237,174)	(33,443,355)	19,330,411	19,625,066
31 December 2018					
Cash and cash equivalents	15	10,447,655	8,624,223	1,823,432	-
Investment securities	16	31,091,266	-	14,028,280	17,062,986
Loans and advances to customers	18	2,843,625	-	-	2,843,625
		44,382,546	8,624,223	15,851,712	19,906,611
Deposits from customers	23	(43,154,584)	(38,591,870)	(4,562,714)	-
		(43,154,584)	(38,591,870)	(4,562,714)	-
Total interest repricing gap		1,227,962	(29,967,647)	11,288,998	19,906,611

5 Financial risk management (Continued)

5.3 Market risk (Continued)

5.3.2 Exposure to interest rate risk (Continued)

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.

5.3.3 Exposure to currency risk

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

5.4 Capital management

i. 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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

5 Financial risk management (Continued)

5.4 Capital management (Continued)

i. Regulatory capital (Continued)

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.

	2019 GH¢	2018 GH¢
Tier 1 capital		
Ordinary share capital	**2,075,305**	2,071,305
Disclosed reserves		
Statutory reserve	**2,487,049**	2,487,049
Impact of IFRS 9 Expected Credit Loss (ECL)	**-**	1,402,500
Retained earnings	**(579,374)**	1,625,090
Total disclosed reserves Permanent preference shares Total tier 1 capital	**1,907,675**	5,514,639
Net tier 1 capital	**3,982,980**	7,585,944
Tier 2 capital		
Latent revaluation reserves	**247,459**	131,506
Total tier 2 capital	**247,459**	131,506
Total adjusted regulatory capital base	**4,230,439**	7,717,450
Total assets (less contra items)	**53,927,125**	52,414,044
Less:		
Cash on hand (Cedi)	**880,334**	977,552
Cash on hand (forex) Claims on ARB Apex Bank:		
iv Cedi clearing account balance	**935,735**	1,739,389
v Certificate of Deposit	**600,000**	1,100,000
vi 5% Deposits	**2,332,563**	2,187,576
Total claims on ARB Apex Bank	**4,748,632**	5,026,965
Balance carried forward	**49,178,493**	46,409,527
Claims on Government:		
i. Treasury securities (bills and bonds)	**17,806,422**	2,627,978
80% of cheques drawn on other banks	**-**	109,689
Investments in capital of other banks and financial institutions	**290,773**	160,889
80% of claims on Discount Houses in Cedi/forex	**2,329,644**	9,945,737
80% of claims on Other Banks in Cedi/forex	**3,462,187**	6,335,726
50% of claims on other financial institutions (Public Sector) in Cedi/forex	**5,377,285**	7,949,471
Adjusted total assets	**19,912,182**	19,280,037
Add:		
100% of 3yrs average annual gross income	**8,313,845**	9,279,719
Total risk weighted assets base	**28,226,026**	28,559,756
Capital adequacy ratio (adjusted regulatory capital base as percentage of weighted assets base)	**14.99%**	27.02%

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUE)

5 Financial risk management (Continued)

5.4 Capital management (Continued)

ii. 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.

6 Fair value of financial instruments

See accounting policy in Note 3.7

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 FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

6 Fair value of financial instruments (Continued)

(a) Valuation models (Continued)

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
31 December 2019		
Investment securities at FVOCI	17	290,773
		======
31 December 2018		
Investment securities at FVOCI	17	160,889
		=====

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

	2019	2018
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	10,283,556
% of Bank's holding of ARB Apex Bank shares	0.55%	0.55%
Net asset of Apex Bank at year end 31 December	53,024,649	29,215,021

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

6 Fair value of financial instruments (Continued)

(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. The carrying amounts of these financial instruments approximate their fair value.

31 December 2019	**Note**	**Level 2 GH¢**	**Total GH¢**
Assets			
Cash and cash equivalents	15	12,421,391	12,421,391
Investment securities at amortised cost	16	37,685,993	37,685,993
Loans and advances to customers	18	2,945,405	2,945,405
		53,052,789	53,052,789
Liabilities			
Deposits from customers	23	47,540,667	47,540,667
		47,540,667	47,540,446
31 December 2018			
Assets			
Cash and cash equivalents	15	10,939,115	10,939,115
Investment securities at amortised cost	16	33,923,879	33,923,879
Loans and advances to customers	18	3,014,347	3,014,347
		47,877,341	47,877,341
Liabilities			
Deposits from customers	23	43,154,584	43,154,584
		43,154,584	43,154,584

Cash and cash equivalents

Cash and cash equivalents include, cash on hand, balances with banks and other financial institutions, and short-term investments. The carrying amounts of the short-term investments and balances with banks and other financial institutions are reasonable approximation of the fair value.

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. All available for sale assets are measured and carried at fair value.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

6 Fair value of financial instruments (Continued)

(c) Financial instruments not measured at fair value (Continued)

Loans and advances

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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

7 Net interest income

	2019	2018
See accounting policy in Note 3.2	GH¢	GH¢
Interest income calculated using effective interest		
Loans	710,320	656,330
Overdraft	93,085	310,430
Investment securities (fixed deposits and treasury bills)	6,387,747	7,650,923
Total interest income	7,191,152	8,617,683
Interest expense		
Savings	375,028	532,152
Fixed deposits	647,114	911,819
Total interest expense	1,022,142	1,443,971
Net interest income	6,169,010	7,173,712

8 Fees and commission income

See accounting policy in Note 3.3

	2019	2018
Brokerage fees	252,003	160,000
Clearing fees	35,404	36,129
Commission on turnover	206,093	223,001
Drafts and transfers	4,952	5,617
Money transfers	130,134	125,485
Other fees and commission	52,379	40,462
	680,965	590,694

9 Other operating income

	2019	2018
Interest on nostro account	16,219	22,871
Commitment and handling charges	151,028	110,109
	167,247	132,980

10 Other income

	2019	2018
Bad debt recovery	98,566	35,500
Finance income	-	57,828
Capital grant income	2,730	2,729
Other Income	103,210	-
	204,506	96,057

11 Net impairment

See accounting policy in Note 3.8

	2019	2018
Loans and advances to customers	(28,378)	671,450
Investment securities	3,744,836	(457,560)
Cash and cash equivalents	(461,959)	297,234
Net impairment loss on financial assets	3,254,499	511,124

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

12 Personnel

	2019 GH¢	2018 GH¢
See accounting policy in Note 3.18		
Wages and salaries	3,025,486	2,828,661
Social security fund	270,363	255,737
Overtime	2,200	16,534
Staff Bonus	-	97,635
Medical cost	87,596	77,094
Other staff cost	330,872	337,560
	3,716,517	3,613,221

13 Other operating expenses

	2019 GH¢	2018 GH¢
Advertising and marketing expenses	58,790	92,797
Directors' emoluments and expenses (non-executive)	218,600	249,250
Professional fees	38,621	51,044
Auditor's remuneration	71,088	64,780
Donations and subscription	68,333	102,344
Rent and rates	31,952	136,182
Stationery and printing	102,260	96,568
Bank charges	31,821	37,805
Training	34,994	37,031
Insurance	136,063	66,299
Traveling expenses	54,176	73,435
Repairs and maintenance	267,289	223,928
Meeting expenses	71,907	73,575
Office expenses	544,401	512,415
Education and development support	-	60,000
Miscellaneous expenses	380,040	498,164
	2,110,335	2,375,617

An amount of GH¢25,810 (2018: GH¢38,535) was spent as part of the Bank's corporate social responsibility.

14 Taxation

(a) Income tax credit

	2019 GH¢	2018 GH¢
See accounting policy in Note 3.13		
Income tax credit	220,240	187,908
Deferred tax credit	(866,533)	(777,513)
	(646,293)	(589,605)

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

14 Taxation (Continued)

(b) Current tax

31 December 2019	Balance at 01/01/2019 GH¢	Payments during the year GH¢	Charge for the year GH¢	Balance at 31/12/2019 GH¢
Up to 2013	(3,771)	-	-	(3,771)
2014	158,688	-	-	158,688
2015	(105,673)	-	-	(105,673)
2016	(138,881)	-	-	(138,881)
2017	(53,669)	-	-	(53,669)
2018	(62,092)	-	-	(62,092)
2019	-	(45,000)	220,240	175,240
	(205,398)	(45,000)	220,240	(30,158)

31 December 2018

Up to 2013	(3,771)	-	-	(3,771)
2014	158,688	-	-	158,688
2015	(105,673)	-	-	(105,673)
2016	(138,881)	-	-	(138,881)
2017	(53,669)	-	-	(53,669)
2018	-	(250,000)	187,908	(62,092)
	(143,306)	(250,000)	187,908	(205,398)

(c) Reconciliation of effective tax rate

	2019 %	2019 GH¢	2018 %	2018 GH¢
(Loss)/Profit before tax		**(2,436,287)**		**1,075,600**
Income tax using domestic tax rate	25.00	(609,072)	25.00	268,900
Non-deductible expense	(0.21)	5,203	1.17	12,587
Derecognition of previously recognised temporary difference	1.74	(42,424)	-	-
Tax exempt income	-	-	(80.99)	(871,092)
	26.53	(646,293)	(54.82)	(589,605)

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

15 Cash and cash equivalents

See accounting policy in Note 3.6	2019 GH¢	2018 GH¢
Cash on hand	880,334	977,552
Balances with other local Banks	7,672,759	4,934,598
Balances with ARB Apex Bank	3,868,298	5,026,965
Total gross amount	12,421,391	10,939,115
Allowance for ECL	(29,503)	(491,460)
Carrying amount	12,391,888	10,447,655

Included in balances with other local banks are investment in fixed deposits of GH¢ 4,215,178 (2018: GH¢ 4,876,861) and investment in treasury bills of GH¢ 623,105 (2018: GH¢128,237)

16 Investment securities at amortised cost

	2019 GH¢	2018 GH¢
See accounting policy in Note 3.6		
Fixed deposits	19,879,571	31,424,138
Government bonds	17,806,422	2,499,741
Total gross amount	37,685,993	33,923,879
Allowance for ECL	(6,577,449)	(2,832,613)
Carrying amount	31,108,544	31,091,266

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¢ 27,000,253 (2018: GH¢ 31,091,266) of investment balance was due to mature within the next twelve (12) months.

17 Investment securities at FVOCI

See accounting policy in Note 3.6	2019 GH¢	2018 GH¢
Investment in ARB Apex Bank shares	290,773	160,889

Reconciliation of investment in ARB Apex bank shares:

	2019 GH¢	2018 GH¢
Balance at 1 January	160,889	137,155
Fair value gain	129,884	23,734
Balance at 31 December	290,773	160,889

The Bank has a total of 56,634 (2018: 56,634) shares in ARB Apex Bank classified and measured at fair value through other comprehensive income (FVOCI).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

18 Loans and advances to customers

See accounting policy in Note 3.6	**2019 GH¢**	**2018 GH¢**
Loans and advances to customers	2,945,405	3,014,347
Less allowance for impairment	(142,344)	(170,722)
Loans to customers at amortised cost	2,803,061	2,843,625

	2019			**2018**		
	Gross carrying amount GH¢	**ECL allowance GH¢**	**Carrying amount GH¢**	**Gross carrying amount GH¢**	**ECL allowance GH¢**	**Carrying amount GH¢**
Term loans	1,342,238	(52,287)	1,289,951	1,475,514	(48,081)	1,427,433
Overdrafts	643,398	(66,210)	577,188	601,929	(109,023)	492,906
Staff loans	959,769	(23,847)	935,922	936,904	(13,618)	923,286
Total loans to customers	2,945,405	(142,344)	2,803,061	3,014,347	(170,722)	2,843,625

19 Property and equipment

	Land and building GH¢	Furniture, fittings & equipment GH¢	Computers GH¢	Motor vehicles GH¢	Leasehold improvement GH¢	Capital work in progress GH¢	Total GH
Cost							
Balance at 1 January 2019	4,441,822	1,143,405	816,229	505,533	135,543	86,375	7,128,907
Recognition of Right of Use at initial recognition	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 2019	4,510,243	1,323,962	710,668	505,533	135,543	33,650	7,219,599
Accumulated depreciation							
Balance at 1 January 2019	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 2019	548,987	836,417	583,614	463,554	135,543	-	2,568,115
Net book value	3,961,256	487,545	127,054	41,979	-	33,650	4,651,484

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

19 Property and equipment (Continued)

	Land and building GH¢	Furniture, fittings & equipment GH¢	Computers GH¢	Motor vehicles GH¢	Leasehold improvement GH¢	Capital work in progress GH¢	Total GH
Cost							
Balance at 1 January 2018	2,623,537	970,184	531,383	505,533	135,543	334,235	5,100,415
Additions	-	173,221	284,846	-	-	1,570,425	2,028,492
Transfers	1,818,285	-	-	-	-	(1,818,285)	-
Balance at 31 December 2018	4,441,822	1,143,405	816,229	505,533	135,543	86,375	7,128,907
Accumulated depreciation							
Balance at 1 January 2018	327,152	589,360	439,353	289,737	135,543	-	1,781,145
Charge for the year	83,107	104,727	91,126	106,568	-	-	385,528
Balance at 31 December 2018	410,259	694,087	530,479	396,305	135,543	-	2,166,673
Net book value	4,031,563	449,318	285,750	109,228	-	86,375	4,962,234

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2018: Nil).

19 Property and equipment (Continued)

(a) Depreciation and amortisation expense

	2019 GH¢	2018 GH¢
Property and equipment	460,237	385,528
Intangible asset (Note 19)	116,427	32,353
	576,664	417,881

20 Intangible assets

See accounting policy in Notes 3.11

	2019	2018
Cost		
Balance at 1 January	485,109	-
Additions	5,000	485,109
Items reclassified from computer and accessories	128,331	-
Balance at 31 December	618,440	485,109
Accumulated amortisation		
Balance at 1 January	32,353	-
Charge for the year	116,427	32,353
Items reclassified from Computer and accessories	50,012	-
Balance at 31 December	198,792	32,353
Carrying amount	419,648	452,756

There were no capitalised borrowing costs related to intangible asset during the year (2018: Nil).

21 Deferred taxation

See accounting policy in Note 3.15

Deferred tax assets and liabilities are attributable to the following temporary differences:

31 December 2019	Assets GH¢	Liabilities GH¢	Net GH¢	Deferred tax asset GH¢	Deferred tax liability GH¢
Property and equipment	-	2,037,576	2,037,576	-	509,394
Long service benefit liability	(69,021)	-	(69,021)	(17,255)	-
Allowances for expected credit losses	(6,749,296)	-	(6,749,296)	(1,687,324)	-
Investments at FVOCI	-	79,460	79,460	-	19,865
Right-of-use assets	-	441	441	-	110
Net tax (assets)/liabilities	(6,818,317)	2,117,477	(4,700,840)	(1,704,579)	529,369

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

21 Deferred taxation (Continued)

31 December 2018	**Assets GH¢**	**Liabilities GH¢**	**Net GH¢**	**Deferred tax asset GH¢**	**Deferred tax liability GH¢**
Property and equipment	-	2,038,923	2,038,923	-	509,731
Employee benefit obligation	-	35,810	35,810	-	8,953
Allowances for expected credit losses	(3,388,900)	-	(3,388,900)	(847,225)	-
Investments at FVOCI	-	23,734	23,734	-	5,934
Net tax (assets)/liabilities	(3,388,900)	2,098,467	(1,290,433)	(847,225)	524,618

21 Deferred taxation (Continued)

(a) Movement in temporary differences during the year

For the year ended 31 December 2019	Balance at 1 January GH¢	Recognised in profit or loss GH¢	Recognised in OCI GH¢	Balance at 31 December GH¢	Deferred tax asset GH¢	Deferred tax liability GH¢
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
For the year ended 31 December 2018						
Property and equipment	480,461	29,270	-	509,731	-	509,731
Employee benefit obligation	(19,044)	-	27,998	8,954	-	8,954
Allowances for expected credit losses	(40,442)	(806,783)	-	(847,225)	(847,225)	-
Investments at FVOCI	(18,540)	-	24,473	5,933	-	5,933
	402,435	(777,513)	52,471	(322,607)	(847,225)	524,618

Recognition of deferred tax asset

Recognition of deferred tax assets of GH¢1,716,365 (2018: GH¢847,225) is based on management's profit forecasts (which are based on the available evidence, including historical levels of profitability), which indicates that it is probable that the Bank will have future taxable profits against which these assets can be utilised

22 Other assets

	2019 GH¢	2018 GH¢
Prepayments*	124,593	86,336
Office account	351,098	199,130
Deferred expense**	366,249	366,249
Stationery stock	114,656	32,027
Others	99,763	719,254
	1,056,359	1,402,996
Current		
Non-current	690,110	1,036,747
	366,246	366,249
	1,056,359	1,402,996

* Prepayments relate to insurance prepaid (GH¢109,192) and prepaid ground rent (GH¢15,400)

**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.

23 Deposit from customers

See accounting policy in Note 3.16	2019 GH¢	2018 GH¢
Demand deposits	11,107,335	10,772,174
Savings accounts	30,967,009	27,819,696
Fixed term deposits	5,466,323	4,562,714
	47,540,667	43,154,584
Ratio of 20 largest depositors to total deposits	15.24%	15.61%

24 Long service benefit liability

Liabilities for long service awards	69,020	60,283

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. These awards accrue over the service life of employees. During the year, the Bank amended the terms of settlement of long service award from retirement date to settlement on the achievement of every milestone while in service. The amendment to the settlement terms resulted in a reclassification of long service award from defined benefits plan to other long-term employee benefits plan. The difference between the employee benefit obligation under the existing terms and the obligation determined under the current terms at the date of amendment is recognised directly in profit or loss.

	Other long-term employee benefits 2019 GH¢	Defined benefits plan 2018 GH¢
Balance at 1 January	60,283	76,178
Interest cost	11,453	14,474
Current service cost	5,917	5,441
Payments during the year	-	-
Actuarial gain	(8,632)	(35,810)
	69,021	60,283

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

24 Long service benefit liability (Continued)

A discount rate of 19% (2018: 19%) was used in determining the liability for long service award. A reasonable possible decrease of 200 basis points in discount rate will result in a reduction in the liability for long service award by GH¢1,206 (2018: GH¢ 2,676). Although this analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

25 Other liabilities

Bills payable	112,399	116,562
Interest payable	133,401	142,678
Dividend payable	1,036,236	983,878
Office account	226,795	545,473
Deferred grant	10,691	13,420
Accrued expenses (See below)	275,960	424,240
Others	251,561	133,358
	2,047,043	2,359,609
Current	1,982,629	2,243,047
Non-current	64,414	116,562
	2,047,043	2,359,609

Included in accrued expenses is an amount of GH¢56,453 (2018: GH¢242,213) set aside by the Bank for community service. A liability has been recognised to account for the constructive obligation created as a result of the Bank's involvement in the past.

	2019 GH¢	2018 GH¢
La Community Development and Education Fund		
La Township Development Fund	50,316	176,076
La Education Fund	6,137	66,137
	56,453	242,213

Reconciliation of accrual on La Community Development and Education Funds:

Balance at 1 January	302,904	302,904
Accruals made during the year	-	60,000
Payments made during the year	(246,451)	(120,691)
Balance at 31 December	56,453	242,213

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

26 Capital and reserves

(a) Stated capital

	2019		2018	
	No. of shares	Proceeds GH¢	No. of shares	Proceeds 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	18,215,813	2,071,305
Issued for consideration other than cash	-	-	-	-
Reconciliation of stated capital				
Balance at 1 January	18,725,813	2,071,305	18,692,413	2,037,905
Shares issued in the year	4,000	4,000	33,400	33,400
Balance at 31 December	18,729,813	2,075,305	18,725,813	2,071,305

(b) 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 (2018: available-for-sale financial assets) until the assets are derecognised (2018: or impaired).

27 Leases

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 premises and other facilities leases were entered into before the commencement of IFRS 16 as combined leases of land and buildings. Previously, these were classified as operating leases under IAS 17.

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

i. Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

27. Leases (Continued)

In Ghana Cedis	**Land and buildings**
2019	
Balance at 1 January	60,802
Depreciation charge for the year	(24,361)

Balance at 31 December	36,441
	=====

ii. Amounts recognised in profit or loss (in GH¢):

Finance charges	-
Expenses relating to short term leases	-
Expenses relating to low-value assets, excluding short-term leases of low-value assets	-

iii. Operating lease expense under IAS 17 in 2018

Lease expense	56,754

Amounts recognised in statement of cash flows (in GH¢):

Lease liability finance charges paid	-
Other lease liability payments	-

Total cash outflow for leases	-
	==

Extension options

The lease agreements had no extension options

28 Dividends

The Directors of the Bank do not recommend the payment of dividend at the end of the financial year ended 31 December 2019 (2018: GH¢0.02 per share).

29 Contingencies

(a) Claims and litigations

There is no litigation claims against the Bank at 31 December 2019 (2018: Nil).

(b) Contingent liabilities and commitments

The conduct of the Bank's business does not involve acceptance and performance bonds and indemnities.

At 31 December 2019, the Bank's commitment for capital expenditure was GH¢ Nil (2018: GH¢ Nil).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

30 Related parties

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 2019, 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. Key management personnel made total withdrawals of GH¢ 400,329 and deposits of GH¢ 399,506.

Key management personnel have the following outstanding loan balances with the Bank at the reporting period:

	2019	2018
	GH¢	GH¢
Executive officers	271,056	33,930
Other management personnel	153,153	205,928
	424,209	239,858

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.

Key management personnel compensation

	2019	2018
	GH¢	GH¢
Short term benefits	611,008	693,104
	611,008	693,104

31 Subsequent events

On 30 January 2020, the World Health Organization (WHO) declared an international health emergency due to the outbreak of a novel coronavirus, which originated in December 2019 in Hubei province, China, The WHO declared the coronavirus outbreak to be a pandemic on 11 March 2020 in recognition of its rapid spread across the globe, with over 150 countries, including Ghana and other African countries, now affected.

The outbreak of COVID-19 and the necessary containment measures, which include travel bans. quarantines and social distancing protocols have resulted in disruption to business and economic activity globally.

As part of measures to contain the pandemic, the Board activated the Bank's Business Continuity Plan which ensured that measures in respect of operations i.e. Customer Service, staff safety and availability of liquidity were put in place immediately. For instance, in ensuring continuity of operations. staff were divided into two groups to run shifts in order that at any point where any staff members came into contact with any infected persons, the other group could replace them.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

31 Subsequent events (Continued)

The Bank also ensured that the Primary reserve or liquidity ratio was at all times during the peak period of the pandemic above the BOG required ratio of 6% for Rural and Community Banks since there was a sudden rise in withdrawals due to the panic purchases by members of the general public. The ratio was kept at around 8% and in some cases even above 8% as directed by the Board. In view of this, the Bank was able to meet all customer withdrawal needs that arose during the period.

Furthermore. though Deposit mobilization by the Bank's Susu collectors was suspended temporarily, this, however. did not stop our loyal customers from bringing their deposits to the bank by themselves, hence the steady rise in our deposits during the lockdown.

Also, some borrowing customers whose businesses were impacted by the pandemic requested three to six months' moratorium for repayments. These were granted after careful assessment by the Credit department on a case by case basis,

The Bank also saw a steady rise in operating expenses due to the continuous purchase of PPEs, that is, nose masks, gloves, tissue papers, sanitisers, etc. These costs were however contained from other cost gains that were made during the peak period of the pandemic. As at the date of authorization of the financial statements, the Government had relaxed most of the restrictions and so the Bank is operating now as normal.

The Bank will continue to closely monitor the extent of resurgence and spread of the COVID-l9 globally and in the country and take appropriate measures to ensure that the Bank's business is not negatively affected in order to continue our banking operations as a going concern.

32 Value added statements

	Note	**2019 GH¢**	**%**	2018 GH¢	%
Interest earned and other operating income	6&7	**8,039,364**	**100**	9,341,357	100
Direct cost of services and other costs		**(3,132,477)**	**(39)**	(3,570,338)	(38)
Value added by banking services		**4,906,887**	**61**	5,771,019	62
Non-banking income	9	**204,506**	**3**	96,057	1
Impairments	10	**(3,254,499)**	**(40)**	(511,124)	(5)
Value added		**1,856,894**	**23**	5,355,952	57
Distributed as follows:					
To employees					
Directors (without executive)	11	**(191,000)**	**(2)**	(249,250)	(3)
Executive director		**(165,748)**	**(2)**	(163,476)	(2)
Other employees		**(3,559,401)**	**(44)**	(3,449,745)	(37)
Total		**(3,916,149)**	**(49)**	(3,862,471)	(41)
To government					
Income tax	13	**646,293**	**8**	589,605	6
To providers of capital					
Dividends to shareholders		**(374,515)**	**(5)**	-	
To expansion and growth					
Depreciation and amortisation	18	**(576,664)**	**(7)**	(417,881)	(4)
Retained earnings		**(2,364,141)**	**(29)**	(1,665,205)	(18)

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