# NAFANA
## RURAL BANK LIMITED

# ANNUAL REPORT
# &
# FINANCIAL STATEMENTS
# 2023

*Gyabaah & Partners*
*Post Office Box 985*
*Sunyani*
*Bono Region*

**CONTENT**

## CORPORATE INFORMATION

| | |
|---|---|
| **BOARD OF DIRECTORS** | PASCAL ESSIEH<br>HON. SIAKA STEVENS<br>SIEH KWAKU ALEXANDER<br>SAH KWASI ABRAHAM<br>ALHASSAN TRAWULE |
| **SECRETARY** | SAMUEL SIE KWAKU |
| **AUDITORS** | GYABAAH & PARTNERS<br>POST OFFICE BOX 985<br>SUNYANI<br>BONO REGION |
| **REGISTERED OFFICE** | BANK PREMISES<br>NAFANA RURAL BANK LIMITED<br>H/NO. SAD – ST 124<br>SAMPA<br>BONO REGION |
| **BANKERS** | ARB APEX BANK LIMITED |
| **SOLICITORS** | ADOM CHAMBERS – SUNYANI |

## KEY MANAGEMENT STAFF

| Name | Year of Appointment | Position |
|---|---|---|
| Samuel Sie Kwaku | 2005 | Chief Executive Officer |
| Abdulai Freeman Mohammed | 2001 | HR/Administrator |
| Clement Kwadwo Boahen | 2015 | Operations Manager |
| Nicholas Osei-Nyame | 2012 | Head of Credit |
| Sah Kofi Gershon | 2021 | Head of Internal Audit |
| Peh Ebenezer | 2016 | Head of Risks & Compliance |
| Ben Kwofie Leslie | 2021 | Head of IT |

## PROFILE OF DIRECTORS

| Name | Qualifications | Year of Appoint. | |
|---|---|---|---|
| Pascal Essieh | Diploma in Education | 2000 | Chairman |
| Hon. Siaka Stevens | MBA (Public Administration | 2000 | Vice Chairman |
| Sieh Kwaku Alexander | MBA (Accounting) | 2018 | Member |
| Sah Kwasi Abraham | MA (Democracy Governance, Law & Dev't) | 2013 | Member |
| Alhassan Trawule | ICAG, CITG | 2022 | Member |

## FINANCIAL HIGHLIGHTS

| | 2023 GH¢ | 2022 GH¢ |
|---|---|---|
| The Bank recorded a Profit/(Loss) Before Taxation of: | 514,143 | 112,479 |
| From which is deducted/added tax of: | (175,212) | (56,102) |
| Giving a Net Profit After Tax of: | 338,931 | 56,377 |
| Transfer to Statutory Reserve of: | (169,465) | (49,337) |
| Leaving a Profit to be transferred to Retained Earnings of | 169,465 | 7,040 |
| Prior year adjustment | (63,522) | (85,615) |
| Retained Earnings at Start of | (1,472,431) | (1,415,004) |
| Retained Earnings at End of | **(1,366,487)** | **(1,493,579)** |

## REPORT OF THE DIRECTORS TO THE MEMBERS OF NAFANA RURAL BANK LIMITED

### Report of the Directors

The Directors in submitting to the shareholders the financial statements of the Bank for the year ended 31 December 2023 report, as follows:

**Responsibilities of the Board of Directors in the Preparation of the Financial Statements**

The Directors are responsible for preparing financial statements for each accounting period, which give a true and fair view of the state of affairs of the Bank as at the end of the accounting period.
In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Bank which ensures that the financial statements comply with relevant legislation and accounting standards. The Directors are also responsible for safeguarding the assets of the Bank and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the long-term success of the Bank, determining the strategic direction of the Bank, and reviewing the operating, financial, and risk exposures of the Bank. There is a formal schedule of matters reserved for the Board of Directors, including approval of the Bank's annual business plan, the Bank's strategy, acquisitions, disposals and capital expenditure projects above certain thresholds, all guarantees, treasury policies, the financial statements, the Bank's dividend policy, transactions involving the issue or purchase of the Bank's shares, borrowing powers, appointments to the Board, alterations to the regulations, legal actions brought by or against the Bank and the scope of delegation to Board committees and management committees. Responsibility for the development of policy and strategy and operational management is delegated to the selected directors and a management committee.

### Business Review

The financial results of the Bank for the year ended 31 December 2023 are set out in the attached financial statements, highlights of which are as follows:

| | **2023** | **2022** |
|---|---:|---:|
| | **GH¢** | **GH¢** |
| Profit/(Loss) Before Tax | 514,143 | 112,479 |
| Profit/(Loss) After Tax | 338,931 | 56,377 |
| Total Assets | 30,936,900 | 21,136,009 |
| Total Liabilities | 29,787,200 | 20,303,918 |
| Total Equity | 1,149,699 | 832,091 |

As indicated above, in accordance with Section 34 (1) of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), an amount of GH¢169,465 was transferred to the statutory reserve fund from profit for the year, bringing the cumulative balance on the statutory reserve fund to GH¢565,835 at the year end.

## Dividends

The Directors do not recommend payment of dividend during the year due to the directives from the Regulator, Bank of Ghana (2022: Nil).

### Related Party Transactions

The Board ensures that transactions with related parties including internal Bank transactions are reviewed to assess its risk and are subject to appropriate restrictions by requiring that such transactions be conducted on non-preferential terms. Information regarding Directors' interests in ordinary shares of the Bank and remuneration is disclosed in the financial statements. Besides service contracts, no Director had a material interest in any contract during the year.

## Particulars of entries in the Interest Register during the Financial Year

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

## Capacity Building of Directors to discharge their duties

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

## Nature of Business

The principal activities carried out by the Bank include the provision of micro finance facilities in the form of loans to the general public, with the emphasis on lending to those in society with limited incomes who would not ordinarily qualify for a loan from a traditional commercial bank. The Bank also accepts deposits of various types including current accounts, savings accounts and enters into contracts for fixed deposits.
The Bank is licensed to operate the business of a Rural and Community Banking.
There was no change in the nature of the Bank's business during the year.

### Shareholding Structure

Details of the Bank's twenty (20) largest shareholders are disclosed in Note 36 of the Annual Report.

## Majority Shareholder

There is no single majority shareholder, as no individual holds more than 30% of the Bank issued shares.

**Going Concern**

As at 31 December 2023, the total liabilities of Bank were less its total assets by GH¢1,169,699 (2022: GH¢**832,091).**

The Board of Directors and Management of the Bank have assessed the policy solvency implications and the Bank's ability to continue to generate enough income to cover its operations and other operational costs. In the view of the Directors, the Bank will continue to operate on a going concern basis due to a variety of factors underpinned by expectations of an improved macroeconomic situation and policy actions specifically targeted at improving the balance sheet of the Bank. Specific steps and actions to be taken to maintain and build a positive equity include:

- Retention of profits to help rebuild capital until equity firmly returns to positive region;
- Taking immediate steps to optimize the Bank's investment portfolio and operating cost mix to bolster efficiency and profits;

The Board of Directors and Management are of the view that continued efforts of minimizing operational cost in addition to long-term efforts at building reserves, provide enough basis for continued operational policy efficiency existence for the foreseeable future.

Thus, the going concern basis has been adopted in preparing the annual financial statements of the Bank and the Bank.

**Going Concern assessment**

The Directors have reviewed the Bank's budgets and cash flow forecasts and considered the Bank's ability to continue as a going concern in the light of current and anticipated economic conditions.

These budgets and cash flow forecasts considered the impact of the Government Domestic Debt Exchange Programme, including projections of the impact on the Bank's capital, funding, and liquidity requirements.

As part of this assessment, the Directors considered the sufficiency of the Bank's financial resources now and post-debt exchange. The management of the Bank's financial resources, which it defines as capital, funding and liquidity, and risk capacity, is a critical enabler of the achievement of the Bank's stated growth and return targets and is driven by the Bank's overall risk appetite. Forecast growth in earnings and balance sheet risk weighted assets (RWA) is based on the Bank's macroeconomic outlook and is evaluated against available financial resources, considering the requirements of capital providers, regulators, and rating branches. The expected outcomes and constraints are then stress tested, and the Bank set targets through different business cycles and scenarios.

**Conclusion on going concern assessment**

The Bank has conducted stress tests by incorporating the regulatory forbearances to determine the impact on capital and for that matter going concern. The outcome is that the Bank's Capital is above the regulatory minimum requirement.

Based on the above, the directors are satisfied that the Bank has resources to continue in business for the foreseeable future.

The directors have, at the time of approving the financial statements, a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

**Corporate Governance**

Dear Shareholders, Nafana Rural Bank Limited is committed to continuously improving our corporate governance practices and ensuring that they align with our business and stakeholders needs. This statement describes the Bank's approach to corporate governance and best narrates the governance practices in place. Nafana Rural Bank Limited strives to conduct business in a more accountable manner by putting in place policies and procedures that shape our strong culture and integrity, guide how we make decisions and how risk is mitigated. Good Corporate Governance Principles also support the Bank's purpose, vision, and values.

The Board has adopted a Board Corporate Governance Framework (CGF) that sets out the mandate, responsibilities and procedures of the Board and the Board Committees, including matters reserved for the Board's decision. The CGF is in accordance with international Corporate Governance principles, laws of Ghana such as Company Act 2019 (Act 992), the Bank & Specialized Deposit Taking Institutions Act 2016, (Act 930).

This Corporate Governance Statement is in accordance with the Bank of Ghana's Corporate Governance Directive 2021, Fit and Proper Person Directive 2019, Security and Exchange Commission Corporate Governance Code 2020, Ghana Stock Exchange Listing Rules and Regulations and Mandatory Disclosure Items for Public Companies in Ghana from Securities and Exchange Commission.

The CGF is reviewed by the Board as and when necessary, in line with evolving corporate governance requirements and practices to ensure its continued relevance to the Board and to meet stakeholder expectations and the dynamic environment in which the Bank operates. For shareholders, and other stakeholders' value, the Bank is committed to fulfilling its Corporate Governance obligations and responsibilities in the best interest of the Bank.
It is our responsibility to guarantee that good corporate governance and its associated standards are rooted in the ideas and business practices driven by the Board.

**The Board Governance Structure**

- Shareholders
- The Board
    - Audit Committee
    - Risk Committee
    - HR & Remuneration Committee
    - Credit Committee
    - Procurement Committee
- Chief Executive Officer

The Board is the highest decision-making body of the Bank and provides strategic direction and guidance for our business and represents the interests of our shareholders through the creation of sustainable value. The Board is responsible for setting the strategic objectives and risk appetite of the Bank and set the Board's expectations for the Bank's values and desired culture. The Board continues to focus on our customers, our people, the communities, and the environment in which we operate and in doing so enhances long-term shareholder returns and stakeholder value.
A robust Board Charter referred to as the Board Corporate Governance Framework is in place and compliant with the Regulator's Corporate Governance Directives (Security and Exchange Commission Corporate Governance Code 2020 and Bank of Ghana Corporate Governance Directive 2021) and internationally accepted best practices to guide the way the Bank is governed. The Board Corporate Governance Framework outlines the roles and responsibilities of the Board.
The Board ensures that the Bank's governance processes align with regulators' directives and framework. The Board aligns strategies with goals embedded with high level of ethics and integrity, defining roles and responsibilities, and managing risk effectively.

**Roles and Responsibilities**

The Board being central in corporate governance and the highest decision-making body have the following responsibilities, which include but not limited to:

- Exercises entrepreneurial leadership, integrity and judgment in the oversight and control of Management;
- Ensures that the Board and its Committees act in the best interest of the Bank at all times;
- Considers and approves the long term and short-term strategies of the Bank and monitors its implementation by Management;
- Ensures the integrity of Annual Reports and Accounts provided to regulators and other stakeholders;
- Oversees Risk Management and Internal Audit Functions of the Bank;
- Ensures the development of Succession and Leadership Pipeline and remuneration structure for Board and Senior Management;
- Ensures that Management systems are put in place to identify and manage environmental and social risk and their impact.

The Board guides the strategic direction of the Bank and represents the interests of our shareholders by overseeing activities that create sustainable value. The roles and responsibilities of the Board, including the matters that are specifically reserved for the Board and those delegated to Management, are set out in the Board Corporate Governance Framework among others.

The Board approves the risk appetite, strategic & business plans and other initiatives which are likely to have material effect on the Bank's risk profile. Furthermore, the board oversees the implementation of the Bank's Corporate Governance framework and Internal Control Framework, and reviews from time to time whether these remain appropriate in view of material changes to the size, nature and complexity of the Bank's operations.

In addition, the Board oversees the selection, performance, remuneration and succession plans of the Chief Executive Officer (CEO), Management, Functional Heads and other members of Senior Management, such that the Board is satisfied with the collective competence of senior management to effectively lead the operations of the Bank.

**Separation of the Chairman and Managing Director Roles**

The Board Chairman, an Independent Director.

The Chairman's role includes but not limited to the following:

- Promotes open and inclusive deliberations and debate by the Board;
- Maintains a regular, open and constructive dialogue with the Managing Director and Management, serving as the primary link between the Board and Management;
- Represents the views of the Board and the Bank to stakeholders, including shareholders, regulators and the community;
- Liaises with the Company Secretary about the Board's information requirements to assist the Board with effective decision-making;
- Sets the Board agenda together with the Managing Director and the Company Secretary, ensuring that reasonable time and attention is dedicated to matters within the responsibilities of the Board.

The Chief Executive Officer (CEO), Samuel Sie Kwaku has delegated duties with authority from, and accountable to the Board for the development and successful implementation of the Bank's strategy. His roles, among others, include:

- He is the leader who enforces the Bank's code of conduct, culture and values;
- Implements the Bank's strategy, business and financial objectives and/or plan, exercising powers delegated by the Board as appropriate;

- Evaluates the impact of resource or capital allocation, approving expenditure or making financial decisions on strategic objectives and financial position;
- Implements processes, policies and systems together with appropriate controls to effectively manage the operations and risk of the Bank;
- Ensures the timely preparation, presentation, adequacy and integrity of information provided to the Board, to enable the Board to carry out its responsibilities;
- Responsible for external engagement with stakeholders, including shareholders, government, regulators, and the community.

The separation of authority is set out in writing and agreed by the Board in the Corporate Governance Framework. This enhances independent oversight of Management by the Board and helps to ensure that no one individual on the Board has autonomous power, influence or authority.

**Board and Management Roles**

Recently, Boards have been given additional oversight responsibilities, notably in recovery and resolution planning, capital & liquidity planning, stress testing, model validation and new product/initiative approval as well as risk culture. As Boards are expected to engage more actively in a broad range of issues, they remain conscious of their responsibilities in comparison to Management.

**Board Composition**

The Board is made up of five (5) Directors, who are independent Directors in-line with the Bank of Ghana Corporate Governance Directive 2021.
There are clearly defined roles within our Board structure for the category of Directors as documented in the Board Corporate Governance Framework. The Board has a rich blend of skills and knowledge, combined with the extensive experience required to guide our business in Governance, Banking and Finance, Accountancy, Law, Information Technology, Marketing, Entrepreneurship and Management. The Board Succession Plan involves the guiding principles for effective succession planning as well as the procedures in ensuring a smooth transition in the Board's succession process as existing Directors leave the Board and new ones come on board.

The Board comprises individuals of high calibre with diverse experience, which collectively has the necessary skills, experience and qualifications to effectively manage the Bank and to discharge the responsibilities of the Board. The diversity of the background of the Directors ensures good use of their different and wide-ranging skills.

**Effectiveness of the Board**

The Board is structured to ensure that the Directors provide the Bank with the appropriate balance of skills, experience, and knowledge as well as independence. Given the nature of the Bank's business experience of banking and financial services, it is clearly of benefit, that the Bank has several Directors with the right skill and experience mix. The Board also derives some benefits from Directors with experience in other fields.
The Board is an effective one that embodies the following characteristics:

- Have experienced and knowledgeable members who have the relevant industry and market knowledge to impact the organization's activities.
- Is held accountable by shareholders for its actions by paying close attention to meeting attendance, Board elections and standards and time commitment.
- Puts in place a mechanism to evaluate its performance regularly and act on recommendations.
- Ensures that Management and the Board Remuneration are in line with the organization and shareholders' long-term interest and are sufficient to attract the right caliber of Directors.

- Separation of Powers with the Chairman heading the Board and the Managing Director heading Management.
- Have diverse tenure cycle to provide room for the gradual refreshment of Board Members.
- A diverse Board in terms of gender, age, ethnicity and religion leading to a diversified thought process in the Boardroom with constructive discussions and decision-making.

**Board Committees**
The Board established the membership of its five (5) Committees to oversee the implementation of strategies and policies and maintaining effective governance in the following areas: business decisions; audit; risk and compliance; remuneration, Board composition; succession planning and corporate governance. Membership of the Committees is reviewed on an annual basis or as and when the need arises.
To ensure effective oversight leadership, the Board receives the minutes/reports of all Committee meetings at Board meetings for ratification and approval.
All the Committees have written terms of reference that are reviewed annually and mapped to applicable legislation, regulation and governance practices to ensure relevance and compliance to reflect changes in the industry.

**Remuneration Policy**
The Bank has a transparent and comprehensive remuneration system underpinned by industry benchmarked approach to compensate staff, management and the Board.
This sound remuneration strategies and practices reflect and promote good corporate governance and sustainable long-term value creation for staff, Board and shareholders.

**Directors' Remuneration**
The objective of the Bank's Policy on Directors' remuneration is to attract and retain Directors needed to steer the Bank towards achieving its goals effectively. The determination of the Directors' remuneration is a matter for the shareholder as a whole. The level of remuneration of Directors is linked to the level of their responsibilities.

The Bank's Remuneration Policy covers all employees, including Senior Management of the Bank. Employees are also covered by collective bargaining agreements or subject to labour union negotiations and are bound by the terms and conditions of such agreements.
The determination of the remuneration of the Directors is subject to Shareholders' Approval. However, the ***Board did not seek for an increment in the Directors' remuneration at the last AGM in 2023*** and accordingly maintained and operated within the Directors' aggregate remuneration budget as approved by the Shareholders in 2022.

Details of the Directors' remunerations for Directors can be found in note 15 (Other Expenses) as part of notes to the financial statement in the annual report.

**Disclosures on Conflicts of interests and Related Party transactions**
The Board Corporate Governance Framework is designed to ensure that actual, perceived or potential conflicts of interest are identified, managed or prevented. The Framework outlines the organizational and administrative arrangements that have been put in place to support the identification and management of conflicts of interest.

This guarantees that Directors act at all times in the best interests of the Bank.

Directors disclose to the Board any conflicts or potential conflicts of interest they may have in relation to particular items of business if any or any related party transaction, at the beginning of every board meeting and submit a written declaration to the Company Secretary.
Details of all Directors' conflicts of interest are recorded in Interests and Related Party Transaction Registers, which are maintained by the Secretariat in compliance with the Bank of Ghana Corporate Governance Directive and Companies Act 2019 (Act 992).

**External Directorship and Other Engagements**
The Directors of the Bank are very experienced, and knowledgeable leaders who have other responsibilities and serve on other Boards. To ensure that Directors give greater time commitment to their oversight function in the Bank, no Director holds more than five (5) directorship positions at a time in both financial and non-financial institutions in compliance with section 45 of the Bank of Ghana Corporate Governance Directive.
Corporate Governance Report (Continued

**Internal Controls System**
The Bank operates a holistic internal control framework, which is envisioned to safeguard the Bank's assets, and customers' information and deposits. To do so, the internal control framework operates on a system of checks and balances.
The Bank's internal controls framework covers financial, operational, compliance, legal and information technology controls, as well as risk management policies and systems.
The Internal Control department closely work with the first line of defence for risk control. This includes identification and management of risks inherent in their businesses and ensuring that the Bank remains within approved boundaries of our risk appetite and policies.
Corporate oversight and control functions such as risk, compliance and parts of technology and finance form the second line of defence. They are responsible for design and maintenance of the internal control frameworks covering financial, operational, compliance and information technology controls as well as risk management policies and systems.

**Internal Audit**
The Bank's Audit & Assurance is the Internal Audit function of the Bank.
It provides an independent assessment and assurance on the reliability, adequacy and effectiveness of our system of internal controls, risk management procedures, governance framework and processes. Its role is to provide independent and objective assurance to the Board.
Internal Audit (IA) is structured to be independent of management, with a head of Internal Audit, reporting directly to the Audit Committee Chairman. The Audit Committee holds regular discussions with the Auditor in the absence of management. The Internal Auditor has unrestricted access to all of the Bank's information, people, property and records to discharge audit and assurance role.
IA's responsibilities include among others:

- Developing a risk-based annual internal audit plan for the Audit Committee's approval and adjusting that plan where necessary to reflect current and emerging risks.
- Executing the audit plan in line with approved audit methodologies and reporting the results of its work to the Audit Committee and Management, where appropriate.
- Escalating to management and the Audit Committee as appropriate, instances where IA believes that management has accepted a level of risk in excess of the business area's approved risk appetite.
- The Internal Auditor also monitors and reports on progress in addressing significant control and risk issues.

**Succession Planning**
To improve our leadership and succession pipeline, the Bank has taken a deliberate approach to developing the senior leaders individually and collectively, starting with a benchmarked, holistic executive talent assessment process. This assessment process is followed by enhanced individual and collective leadership development and engagement initiatives, which commenced in 2023. The Bank also improved its efforts to accelerate the development of next-generation leaders. In so doing, it increased the number of top talents as the Bank's efforts to enhance our employer brand and attracted top talents in 2023.

The Bank also has E-Learning programmes, a comprehensive training and development portal which provides series of online tutorials designed to help staff to develop a deeper understanding of the financial services market. Its feature-rich functionality enables staff to manage and track their learning activities. It is also designed for study on tablet devices, such as iPads and Android devices, and can be downloaded from the Apple App Store or Android Store. This accord staff the privilege to access the learning and development opportunities they needed.

**Government of Ghana Domestic Debt Exchange (DDE)**
On 5 December 2022, the Government of Ghana launched the Ghana's Domestic Debt Exchange programme. This was an invitation for the voluntary exchange of about GHS130 billion of the domestic bonds of the Republic, including E.S.L.A. and Daakye bonds, for a package of New Bonds to be issued by the Republic.
This was part of a comprehensive programme that aimed at bringing the public debt stock back on a sustainable path as part of a requirement to allow Ghana's economy to recover from its economic crisis and unlock financial assistance from the International Monetary Fund (IMF).
Under the exchange programme, eligible bond holders were put into three categories as follows:

- Category A: These includes collective Investment Schemes (CIS) and natural persons less than 59 years old as at 31st January 2023.
- Category B: Eligible Holders that are natural persons 59 years old or older as of 31st January 2023.
- Category C: Eligible holders that are not Category A or B. This includes corporate entities and financial institutions not defined as CIS.

The Bank falls under Category C.
The key areas of the memorandum that relates to Category C Eligible Bond Holders were:

- The General Category C holders will receive new bonds for securities which are due in 2023 and later than 2023.
- Interest on the new bonds will be paid in Cash and in kind. The Payment in Kind (PIK) would be accrued and capitalized up to February 2025 after which Interest payment would be fully cash.
- GOG will not make principal payments in cash on the Eligible Bonds maturing prior to the Settlement Date.

The Bank of Ghana conducted stress tests on banks, which showed elevated risk exposures of the DDEP on banks' solvency, liquidity, and profitability. Thus, to manage the potential impact of the debt exchange and preserve financial stability, the Bank announced some policy and regulatory reliefs for Banks that fully participated in the DDEP.

The Bank of Ghana is fully equipped to provide liquidity support to banks and banks can access the Bank of Ghana's Emergency Liquidity Assistance (ELA) Funds using the new bonds as collateral.

The Bank of Ghana has also enhanced its supervisory surveillance systems with banks. Banks are required to report more frequently, such as daily submissions of balance sheet as well as liquidity

reports including interbank market activities and cost of financing. Additional reporting requirements have been developed for banks to report on the performance of the new bonds. The enhanced monitoring mechanism is to ensure timely supervisory intervention, if needed.
In addition to the above reliefs, the Government announced the establishment of a Ghana Financial Stability Fund (GFSF), with partial financing support from development partners, to serve as a liquidity backstop for banks and other financial institutions that would be adversely impacted by the domestic debt exchange.
Overall, the regulatory reliefs and safeguards were designed to minimise the potential impact of the domestic debt exchange on the financial sector and to preserve financial stability.

This had a significant impact on the performance of the Bank for the year ended 31 December 2023. The debt exchange had significant impact on the Bank considering the sizable amount of portfolio it has in Government of Ghana securities. The key areas of impact are liquidity, profitability, and capital. Management of the Bank has assessed the impact on the Bank's operations and concluded on this under the going concern assessment.

**Environmental, Social and Governance Framework**
As Rural and Community Bank (RCB), we are committed to our purpose and a brighter future. That means a focus on sound Environmental, Social and Governance (ESG) practices – not just because it is the right thing to do, but because investing and operating sustainably allows us to deliver better value.
The Bank's various initiatives to incorporate ESG criteria into our operating framework reflect our commitment to our customers, partners, shareholders, and employees and the communities in which we operate. Our view on ESG is that it is a continuous process of aligning our operations and controls with our values.

Our approach to ESG management includes having robust governance systems, risk management and controls; striving to serve our customers exceptionally and transparently; investing in our employees and cultivating a diverse and inclusive work environment; and working to strengthen the communities in which we live and work.

Environmental - We are committed to limiting our environmental impact through the efficient use of natural resources, mitigating climate-related risks, and leveraging innovative energy solutions.
Social - We are committed to the effective management of our relationships with key stakeholders including clients, employees, regulators, suppliers, and the communities in which we operate.

Governance - We are committed to operating with strong ethical business practices, fair and equitable compensation, a diversified Board of Directors, and policies that acknowledge local, international, and regulatory principles.
Governance is not an exercise in compliance, nor is it a specific form of management, it is an essential part of our public service ethos.

ESG Risk Management – The Board of Directors drives our ESG agenda at the Senior Management level. Structured around our key stakeholder groups, it brings all our material ESG challenges together into one forum.

Reporting on our ESG Duties – We work to keep our ESG reporting at a level we believe appropriate for our business and useful for our stakeholders. Our approach is determined not only by reporting obligations, but also to provide insight into what matters most to our business and our stakeholders and to share our progress in each area. This provides assurance that we are properly addressing our responsibilities and communicating our ESG position and performance across relevant stakeholders.

**Disclosure of Information to Auditor**

In the case of the person who is a Director of the Bank at the date when this report was approved:

- So far as the Directors are aware, there is no relevant audit information as defined in the Companies Act of which the Bank's auditors are unaware; and
- The Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information (as defined) and to establish that the Banks's auditors are aware of that information.

**Compliance with Relevant Legislation and Accounting Framework**

The financial statements, including comparative year information, are prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Bank of Ghana Act, 2002 (Act 612) (as amended by the Bank of Ghana (Amendment) Act, 2016 (Act 918)), and the Companies Act, 2019 (Act 992).

**Auditor**

The Auditor, Gyabaah and Partners has expressed interest to continue to be in office in accordance with Section 139 (5) of the Companies Act, 2019 (Act 992) and section 81 of the Banks and Specialised Deposit- Taking Institution Act 2016 (Act 930).

**Approval of the Financial Statements**

The financial statements of the Bank were approved by the board of Directors on 22nd April

2024 and were signed on their behalf by:

| | |
|---|---|
| ...................................... | ...................................... |
| **DIRECTOR** | **DIRECTOR** |

**GYABAAH & PARTNERS**
**(CHARTERED ACCOUNTANTS & CONSULTANTS)**

Chartered Accountants & Consultants

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BANKERS:
National Investment Bank
Sunyani Branch

**19th April 2024**

**INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF NAFANA RURAL BANK LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2023**

## Opinion

We have audited the financial statements of **Nafana Rural Bank Limited** set out on **pages 20 to 24**, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of **Nafana Rural Bank Limited** as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in manner required by the Companies Act, 2019 (Act 992) and the Bank and Specialised Deposit-Taking Institution Act, 2016 (Act 930).

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report in accordance with the Companies Act 2019 (Act 992). We are independent of the Bank in accordance with the International Ethics Standard for Accountants' International Code of Ethics for Professional Accountants (IFAC Code) (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 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



TARKWA:
P. O. Box 19,Nsuta,Tarkwa,
Western Region Ghana-W/A

In this regard, we have nothing to report.

**Other Information**

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

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

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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2019 (Act 992) and the Bank and Specilised Deposit-Taking Institutions Act, 2016 (Act 930), and for such internal control as 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

**Auditors' 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 skepticism 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 responsible 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 Company'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 Company 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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.

**Report on Other Legal and Regulatory Requirement**

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

- We have obtained all the information and explanations which to the best of our knowledge and belief are necessary for the purpose of our audit.
- In our opinion proper books of accounts have been kept by the Bank so far as appears from our examination of those books, and
- The Financial Position, Statements of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows are in agreement with the accounting records and returns.

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

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

The engagement partner on the audit resulting in the independent auditors' report is **John C Gyabaah (ICAG/P/1002).**

…………………………………………………..

**Gyabaah & Partners**
**Chartered Accountants**

**ICAG/F/2023/008**

GYABAAH & PARTNERS
CHARTERED ACCOUNTANTS

**John C Gyabaah**
**ICAG/P/1002**

**Gyabaah & Partners**
**Post Office Box 985**
**Sunyani**
**Bono Region**

**Date 19th April 2024**

## NAFANA RURAL BANK LIMITED

**Statement of Financial Position as at 31st December 2023**

| | Notes | 2023 GH¢ | 2022 GH¢ |
|---|---|---|---|
| **Assets:** | | | |
| Cash and Cash Equivalents | 19 | 2,651,144 | 2,030,770 |
| Investment Securities at Amortised Cost | 17 | 8,989,249 | 6,952,514 |
| Loans and Advances to Customers | 18 | 15,235,879 | 9,561,877 |
| Current Taxation | 25 | - | - |
| Other Assets | 20 | 2,760,935 | 1,443,544 |
| | | **29,637,207** | **19,988,705** |
| Property, Plant and Equipment | 35 | 1,141,257 | 969,494 |
| Right of Use Assets | 14 | 17,500 | 98,792 |
| Intangible Assets | 31 | 58,415 | 27,747 |
| Investment Securities at FVOCI | 17 | 82,521 | 51,271 |
| **Total Assets** | | **30,936,900** | **21,136,009** |
| **Liabilities** | | | |
| Deposits and current accounts | 21 | 25,275,638 | 17,433,627 |
| Current Taxation | 25 | 7,939 | 16,102 |
| Growth & Sustainability Levy | 25 | 20,260 | - |
| Provisions | 24 | 57,457 | 31,394 |
| Other Liabilities | 23 | 1,010,434 | 991,669 |
| | | **26,371,729** | **18,472,792** |
| **Long Term Liabilities** | | | |
| Borrowings | 22 | 3,264,645 | 1,779,584 |
| End of Service Benefit | 24 | 150,827 | 51,542 |
| | | **3,415,472** | **1,831,126** |
| **Total Liabilities** | | **29,787,200** | **20,303,918** |
| **Shareholders Funds** | | | |
| Equity Share Capital | 26 | 1,053,065 | 1,053,065 |
| Deposit for Shares | 26 | 95,899 | 53,699 |
| **Total Stated Capital** | | **1,148,964** | **1,106,764** |
| Statutory Reserve Fund | 27 | 565,835 | 396,369 |
| Revaluation Reserve | 28 | 801,388 | 801,388 |
| Retained Earnings | 29 | (1,366,487) | (1,472,431) |
| **Total Shareholders Fund** | | **1,149,699** | **832,091** |
| **Total Liabilities and Shareholders Funds** | | **30,936,900** | **21,136,009** |

The financial statements were approved by the Board of Directors on 22nd April 2024 and signed on their behalf by

.....................................
**DIRECTOR**

.....................................
**DIRECTOR**

**NAFANA RURAL BANK LIMITED**

**Statement Profit or Loss and Other Comprehensive Income**

**Year Ended 31st December, 2023**

| | Notes | 2023 GH¢ | 2022 GH¢ |
|---|---|---|---|
| Interest Income | 9 | 6,602,027 | 4,256,773 |
| Interest Expense | 10 | (861,073) | (541,223) |
| **Net Interest Income** | | **5,740,954** | **3,715,550** |
| Fees and Commission Income | 11 | 888,942 | 597,206 |
| Fees and Commission Expenses | 11 | (802,281) | (603,241) |
| **Net Fees and Commission Income** | | **86,661** | **(6,035)** |
| **Revenue** | | **5,827,615** | **3,709,515** |
| Other Operating Income | 12 | 295,797 | 332,187 |
| **Total Operating Income** | | **6,123,412** | **4,041,702** |
| Impairment loss on Financial Assets | 18 | 176,917 | 48,000 |
| Personnel Expenses | 13 | 2,904,323 | 2,038,028 |
| Depreciation and Amortisation | 15 | 195,241 | 257,551 |
| Other Operating Expenses | 16 | 2,305,728 | 1,585,644 |
| **Total Operating Expenses** | | **5,582,209** | **3,929,223** |
| **Profit/(Loss) before tax** | | **541,203** | **112,479** |
| Growth & Sustainability Levy | | (27,060) | - |
| | | **514,143** | **112,479** |
| Tax (Expenses)/Credit on ordinary activities | 25 | (175,212) | (56,102) |
| **Profit/(Loss) after tax attributable to Equity holders** | | **338,931** | **56,377** |
| **Other Comprehensive Income** | | | |
| Movement in Fair Value in Equity Investment (FVOCI) | 17 | - | - |
| Related Tax | | - | - |
| | | - | - |
| **Total Comprehensive Income** | | **338,931** | **56,377** |

| | | | |
|---|---|---|---|
| Basic Earnings Per Share | **30** | 0.003 | 0.005 |

**NAFANA RURAL BANK LIMITED**

**Statements of Changes in Shareholders' Equity**

**Year Ended 31st December 2023**

| **2023** | **Stated Capital** GH¢ | **Deposit for Shares** GH¢ | **Statutory Reserve Fund** GH¢ | **Revaluation Reserve** GH¢ | **Retained Earnings** GH¢ | **Total** GH¢ |
|---|---|---|---|---|---|---|
| **Balance as at Start** | 1,053,065 | 53,699 | 396,369 | 801,388 | (1,472,431) | 832,091 |
| Adjustment | - | - | | | (63,522) | (63,522) |
| **Total Comprehensive Income** | | | | | | - |
| Profit for the year | | | | | 338,931 | 338,931 |
| Other Comprehensive Income (Net of Tax) | - | - | - | - | - | - |
| | **1,053,065** | **53,699** | **396,369** | **801,388** | **(1,197,022)** | **1,107,499** |
| **Transfers (to)/from Reserves** | | | | | | |
| Transfer to Statutory Reserve | | | 169,465 | | (169,465) | - |
| Transfer to Other Reserves | - | - | - | - | - | - |
| **Net Transfers Reserves** | **-** | **-** | **169,465** | **-** | **(169,465)** | **-** |
| **Transactions with Owners** | | | | | | |
| Dividend | - | - | - | - | - | - |
| Shares Issued | - | 42,200 | - | - | - | 42,200 |
| **Total Transaction with Owners** | **-** | **42,200** | **-** | **-** | **-** | **42,200** |
| **Balance as End** | **1,053,065** | **95,899** | **565,835** | **801,388** | **(1,366,487)** | **1,149,699** |

## NAFANA RURAL BANK LIMITED

### Statements of Changes in Shareholders' Equity
### Year Ended 31st December 2022

| 2022 | Stated Capital GH¢ | Deposit for Shares GH¢ | Statutory Reserve Fund GH¢ | Revaluation Reserve GH¢ | Retained Earnings GH¢ | Total GH¢ |
|---|---|---|---|---|---|---|
| **Balance as at Start** | 1,053,065 | 23,049 | 368,181 | 801,388 | (1,415,004) | 830,679 |
| Prior Year Adjustment | - | - | | | (85,615) | (85,615) |
| Total Comprehensive Income | | | | | | - |
| Revaluation Surplus | - | - | - | - | - | - |
| Profit for the year | | | | | 56,377 | 56,377 |
| Other Comprehensive Income (Net of Tax) | - | - | - | - | - | - |
| | **1,053,065** | **23,049** | **368,181** | **801,388** | **(1,444,242)** | **801,441** |
| **Transfers (to)/from Reserves** | | | | | | |
| Transfer to Statutory Reserve | | | 28,188 | | (28,188) | - |
| Transfer to Credit Reserve | | | | | | - |
| Transfer from Development Fund | | | | | - | - |
| Transfer to Other Funds | | | | | - | - |
| Transfer to Other Reserves | - | - | - | - | - | - |
| **Net Transfers Reserves** | **-** | **-** | **28,188** | **-** | **(28,188)** | **-** |
| **Transactions with Owners** | | | | | | |
| Dividend | | | | | - | - |
| Shares Issued | - | 30,650 | - | - | - | 30,650 |
| **Total Transaction with Owners** | **-** | **30,650** | **-** | **-** | **-** | **30,650** |
| **Balance as End** | **1,053,065** | **53,699** | **396,369** | **801,388** | **(1,472,431)** | **832,091** |

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

**NAFANA RURAL BANK LIMITED**

**Statement of Cash Flows**

**Year Ended 31st December, 2023**

| | Note | 2023 GH¢ | 2022 GH¢ |
|---|---|---|---|
| **Operating Activities** | | | |
| Profit/(Loss) before tax | | 541,203 | 112,479 |
| Adjusted for: | | | |
| Depreciation Charges & Amortisation | **15** | 195,241 | 257,551 |
| Non-Cash Transactions | | (17,948) | (74,196) |
| **Operating Profit before working capital changes** | | **718,496** | **295,834** |
| Increase/ Decrease in Loans and Advances | **18** | (5,674,002) | (944,055) |
| Increase / Decrease in Other Assets | **20** | (1,317,391) | (137,455) |
| Increase/Decrease in Deposits | **21** | 7,842,011 | 1,896,992 |
| Increase/ Decrease in Other Liabilities | **23** | 18,765 | 237,442 |
| Increase/Decrease in Provisions | **24** | 26,063 | (19,281) |
| Increase/ Decrease in Borrowing | **22** | 1,485,061 | (395,416) |
| **Cash Generated/used in Operations** | | **3,099,003** | **934,061** |
| Tax paid | **34** | (190,175) | (40,000) |
| **Net Cash Flow from Operating Activities** | | **2,908,828** | **894,061** |
| | | | |
| **Investing Activities** | | | |
| (Increase)/Decrease in Investments - Short Term | **17** | (2,036,735) | (1,502,891) |
| (Increase)/Decrease in Investments - Short Term | **17** | (31,250) | - |
| Payment for Intangible Assets | **31** | (36,909) | (29,631) |
| Additions to Right of Use Assets | **14** | - | (65,040) |
| Purchase of Property, Plant & Equipment | **35** | (325,045) | (198,633) |
| **Net Cash Flow from Investing activities** | | **(2,429,939)** | **(1,796,195)** |
| | | | |
| **Financing Activities** | | | |
| Ordinary Shares Issue | **26** | 42,200 | 30,650 |
| Changes in End of Service Benefit | **24** | 99,285 | (100,099) |
| Net Cash Flow from Financing activities | | 141,485 | (69,449) |
| | | | |
| **Net Increase in Cash & Cash Equivalents** | | **620,374** | **(971,583)** |
| Cash and Cash Equivalents as at Start | | 2,030,770 | 3,002,353 |
| Cash and Cash Equivalents as at End | **19** | **2,651,144** | **2,030,770** |

**Analysis of Cash & Cash Equivalents**
**As at 31st December 2023**

| | | |
|---|---|---|
| Cash on Hand | 1,258,406 | 436,045 |
| Claims on Other Banks | 37,061 | 5,098 |
| Other - ACOD 7 | - | - |
| Current Accounts - ARB Apex Bank Ltd | 83,667 | 710,213 |
| 5% Apex Reserves/Deposit | 1,272,010 | 879,414 |
| | **2,651,144** | **2,030,770** |

**Note**
**Non-Cash Transactions**

| | | |
|---|---|---|
| Reclassification of Right of Use Assets | - | (74,196) |
| Cost of Intangible Asset | 36,909 | |
| Insurance Prepaid | (23,309) | |
| Rent Prepaid | (31,548) | - |
| | **(17,948)** | **(74,196)** |

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

Nafana Rural Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Ghana. The address of the Bank's registered office is H/No. SAD – ST 124, Sampa - Bono Region, Ghana. The financial statements of the Bank as at, and for the year ended 31 December 2022 are as stated in this report. 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.

For Companies Act, 2019 (Act 992) reporting purposes, the balance sheet is represented by the statement of financial position and the profit or loss account by part of the statement of profit or loss and other comprehensive income in these financial statements.

### 2. BASIS OF ACCOUNTING

#### a. *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2019 (Act 992) and the Banks and Specilised Deposit-Taking Institutions Act, 2016 (Act 930). There were no changes to significant accounting policies as described in Notes.

#### b. *Functional and Presentation Currency*

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

#### c. *Basis of Measurement*

The financial statements have been prepared on a historical cost basis except financial instruments at fair value through other comprehensive income (FVOCI).

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

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

**d. 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.

**i. 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 the notes

1. Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interests (SPPI) on the principal amount outstanding.
2. Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval of models used to measure ECL.

**ii. Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2023 are set out below in relation to the impairment of financial assets and in the following notes:

Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

**a. Leases**

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease.

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

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

a. **Bank acting as a lessee**

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

b. **Initial Recognition and Measurement**

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and 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 rate from various external financial sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

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

### c. Subsequent Measurement

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the end of the lease term unless the initial recognition considers the exercise of a purchase option or the lease transfers the ownership of the underlying to the Bank by the end of the lease term. In which case, right of use asset is amortised over the useful life of the underlying asst.

Additionally, right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

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

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

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

*Short term lease and leases of low-value assets*

The Bank has elected not to recognise right-of-use assets and lease liabilities for 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.

## b. Income tax

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).

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. 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

**c. Financial assets and financial liabilities**

***Recognition and measurement***

The Bank initially recognises *cash and cash equivalents, loans and advances, investment securities, other assets, deposits and debt securities* on the date on which they are originated. All other financial instruments 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.

***Classification***

*Financial Assets*

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

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

1. The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest (SPPI).
3. A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
4. The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
5. The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.
6. All other financial assets are classified as 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.

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

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

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

*Assessment of whether contractual cash flows are solely payments of principal and interest on principal.*

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;
- 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.

**Classification and subsequent measurement**
*Financial Assets – Subsequent measurement and gains and losses*

**a) Amortised cost**

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

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

b) **Fair value through other comprehensive income**

*Equity instruments*

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

*Financial Liabilities - Classification and subsequent measurement*

Deposits are the Bank's source of debt funding.

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

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

***i. 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.

From 1 January 2023 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. 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.

***ii. Modifications of financial assets and financial liabilities***

***Financial assets***
If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate.

***Financial liabilities***
The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were 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.

***Financial assets***

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

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

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

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

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

**Financial liabilities**

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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.

***iii. 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.

***iv. Fair value measurement***

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

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.

***v. impairment of financial assets***

At each reporting date, the Bank assesses whether there is objective evidence that its financial assets are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances to customers and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to- maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances to customers and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. 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. If the cash flows of the renegotiated asset 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 the new financial asset is recognised at fair value.

The impairment loss before an expected restructuring is measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial 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 discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

The Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Bank's Board of Directors determines that there is no realistic prospect of recovery and approval for write-off is granted by the Central Bank.

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. Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments.

*Measurement of ECL*

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

***Restructured financial assets***

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

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

***Credit-impaired financial assets***

At each reporting date, the Bank assesses whether financial assets carried at amortised cost 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 30 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 branches' 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 branches 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.

***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.

**d. Interest Income and Expense**

Interest income and expense for all interest-bearing financial instruments are recognised within ‘interest income’ and ‘interest expense’ in profit or loss using the effective interest method.

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

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, including prepayment options, but does not consider future credit losses. The calculation includes all fees that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

*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.

*Presentation*
Interest income calculated using the effective interest method presented in the statement of comprehensive income consist of interest on financial assets and financial liabilities measured at amortised cost;

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

**e. Fees and commissions 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.

**f. Net trading income**

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

**g. 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.

**h. Property and equipment**

***i. 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.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income/other expenses in profit or loss.

*ii. **Subsequent costs***

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the 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.

*iii. **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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

| | |
|---|---|
| Land | 0% |
| Buildings | 3% |
| Motor Vehicles | 20% |
| Office Equipment | 25% |
| Office Furniture and Fittings | 20% |
| Computers & Accessories | 20% |
| Office Safe | 3% |

**i. Intangible assets**

***i. Computer 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 5 years.

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

**j. 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.

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.

**k. 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.

**l. Levies and similar charges**

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

**m. 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. Future operating costs are not provided for.

*Contingencies*

A Contingent Liabilities 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 resource is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

i. *Contingent liabilities and commitments*
The conduct of the Bank's business does not involve acceptance and performance bonds and indemnities.

**n. Employee Benefits**

***i. Defined contribution plans***
A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

***ii. 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.

***iii. Other long-term employment benefits – Long Service Benefit***
Long Service Benefits accrue to employees based on graduated periods of uninterrupted service. These benefits accrue over the service life of employees. Provision for Long Service Benefits is made based on valuation done using the projected unit credit basis. Gains or losses arising are charged to other comprehensive income.

**o. Stated capital and reserves**

**i. 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.

ii. ***Share issue costs***

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

***iii. Dividend on ordinary shares***

Dividends on ordinary shares are recognized in the period in which they are approved by the shareholders. The Directors of the Bank proposed no dividend payments as at the end of the financial year ended 31 December 2023.

***iv. Retained earnings***

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

***v. 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.

***vi. 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.

**p. 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.

***Majority shareholder***

There is no single majority shareholder and all the transactions with individual and corporate shareholders were conducted in an arm's length.

**Transactions with key management personnel**

The Bank's key management personnel and other employees of the Institution, 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, non-executive directors and core employees of the Bank.

Interest rates charged on key management personnel for loans are at concessionary rates and other than the rates that would be charged in an arm's length transaction.

## 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.

The Bank's Board of Directors have been meeting on periodic bases to assess the risk associated with Bank's operations and monitoring of policies implemented.

## 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:

i. credit risk
ii. liquidity risk
iii. market risks
iv. 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.

### a. <u>Credit risk</u>

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.

***i. 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 company 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.

***ii. Management of credit risk***

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to key management personnel, branch managers and credit committee. Larger facilities as well as advances to staff of the Bank require approval by the Board of Directors, as appropriate.
- Reviewing and assessing credit risk: Bank Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintain the Bank's risk gradings to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 8 grades reflecting varying degree of risk of default. The responsibility for setting risk grades lies with the final approving committee. Risk grades are subject to regular reviews by Bank's Risk Committee.

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

- initial approval, regular validation of the ECL model
- determining and monitoring significant increase in credit risk; and
- incorporation of forward-looking information.

- Reviewing compliance of stakeholders with agreed exposure limits, including those for selected credit customer groups and product type. Regular reports on the credit quality of portfolios are provided to Bank's Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Reviewing the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans are:
  - Compulsory savings;
  - Short term investments
  - Guarantors
  - Mortgages over residential properties; and
  - Charges over business assets such as premises, inventory and accounts receivable.

The Bank has insured its loans and advances to customers to mitigate the credit risk of the bank. The bank also registers all its collateral with the regulator (Bank of Ghana) and keeps a register at the banking premises (Head Office).

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

**iii. <u>Credit Quality Analysis</u>**

Credit risk exposures relating to statements of financial position assets was as follows:

**Credit Risk**

| | | |
|---|---|---|
| **Neither past due nor impaired** | 14,985,354 | 8,101,281 |
| | | |
| **Past due but not impaired** | | |
| **Days Overdue** | | |
| 30 - 90 | 134,070 | 43,936 |
| 91 - 180 | 119,595 | 318 |
| 181 - 360 | 107,685 | 18,633 |
| Over 360 | 531,782 | 503,030 |
| | **893,132** | **565,917** |
| | | |
| **Impaired** | | |
| **Days Overdue** | | |
| Up to 30 | 149,854 | 81,013 |
| More Than 30 - 90 | 13,407 | 4,394 |
| More Than 90 - 180 | 29,899 | 80 |
| More Than 180 - 360 | 53,843 | 9,317 |
| More Than 360 | 531,782 | 503,030 |
| Additions | (138,444) | (134,410) |
| | **640,340** | **463,422** |
| | | |
| **Loans and Advances at Amortised Cost** | | |
| **Analysed in terms of Quality** | | |
| Neither past due nor impaired | 14,985,354 | 8,101,281 |
| Past due but not impaired | 893,132 | 565,917 |
| Gross Loans and Advances | **15,878,486** | **8,667,198** |
| Impaired | (640,340) | (463,422) |
| | **15,238,146** | **8,203,776** |
| | | |
| **Credit Risk** | | |
| Loans and Advances to Customers | **15,238,146** | **8,203,776** |
| | | |
| **Loan and Advances** | | |
| **Analysis by type of Purpose/Sector** | | |
| Agriculture | 1,488,213 | 1,008,628 |
| Cottage Industry | - | - |
| Transport | 123,531 | 246,660 |
| Trading | 5,664,099 | 4,329,606 |
| Others/Salary | 2,749,456 | 3,448,350 |
| | **10,025,299** | **9,033,244** |

| | | |
|---|---|---|
| Loans and Advances | 13,994,746 | 6,384,897 |
| Overdraft | 1,881,473 | 3,640,402 |
| | **15,876,219** | **10,025,299** |
| Allowance for ECL | (640,340) | (463,422) |
| | **15,235,879** | **9,561,877** |
| | | |
| 20 Largest Exposures | 1,087,655 | 1,513,218 |
| Non Performing Loans | 1,386,982 | 1,005,785 |
| | | |
| **Key Loan Ratios** | | |
| Loan loss provision ratio | 4.03% | 4.62% |
| 20 Largest Exposures to Total Exposures | 6.85% | 15.09% |
| Non Performing Loans | 8.74% | 10.03% |

**Modified Financial Assets**

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

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.

**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. However, collateral provides additional security and the Bank generally requests that borrowers provide it. The Bank may take collateral in the form of cash deposit, guarantor and mortgage.

**Other types of collateral**

In addition to the guarantor and mortgage used as collateral for loans and advances to customers, the Bank also holds other types of collateral such as investments (ie fixed deposits, treasury bills, certificate of deposit).

**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.

***iv.*** **Amounts arising from ECL**

**Inputs, assumptions and techniques used for estimating impairment**

*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:

1. the remaining lifetime probability of default (PD) as at the reporting date; with
2. 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*:

i. 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
ii. Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
iii. Internally collected data on customer behaviour
iv. Payment record: this includes overdue status as well as a range of variables about payment ratios
v. Utilisation of the granted limit
vi. Requests for and granting of forbearance
vii. Existing and forecast changes in business, financial and economic conditions

*Generating the term structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of products and borrower as well as by credit risk grading.

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

*Determining whether credit risk has increased significantly*

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

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

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

ii. if the absolute change is annualised, lifetime PD since initial recognition is greater than a stated threshold of basis points.
iii. 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 return 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:

1. the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
2. the criteria do not align with the point in time when an asset becomes 30 days past due;
3. the average time between the identification of a significant increase in credit risk and default appears reasonable;
4. exposures are not generally transferred directly from 12-month ECL measurement to credit- impaired; and
5. 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.

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 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 Ghana.

*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.

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. Comparative amounts for 2021 represent the allowance account for credit losses and reflect the measurement basis under IFRS 9:

| **Loans and Advances** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| **2023** | **GH¢** | **GH¢** | **GH¢** | **GH¢** |
| Current | 14,985,354 | - | - | 14,985,354 |
| Overdue < 90 days | - | 134,070 | - | 134,070 |
| Overdue > 90 days | - | - | 759,062 | 759,062 |
| **Total Gross Amount** | **14,985,354** | **134,070** | **759,062** | **15,878,486** |
| Allowance for ECL | (149,854) | (13,407) | (477,079) | (640,340) |
| **Carrying Amount** | **14,835,501** | **120,663** | **281,983** | **15,238,146** |

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| | **GH¢** | **GH¢** | **GH¢** | **GH¢** |
| Balance at 1 January | 81,013 | 4,394 | 378,016 | **463,422** |
| 12 - months ECL | 149,854 | - | - | 149,854 |
| Lifetime ECL not Credit - Impaired | - | 13,407 | - | 13,407 |
| Lifetime ECL Credit - Impaired | - | - | 477,079 | 477,079 |
| Balance at 31 December | **149,854** | **13,407** | **477,079** | **640,340** |
| Charge for the year | **68,841** | **9,013** | **99,063** | **176,917** |

**b. Liquidity Risk**

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

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

| | Note | 2023 GHC | 2022 GHC |
|---|---|---|---|
| Cash and Cash Equivalents | **19** | 2,651,144 | 2,030,770 |
| Investment Securities at Amortised Cost | **17** | 8,989,249 | 6,952,514 |
| | | **11,640,393** | **8,983,284** |
| Deposits and current accounts | **21** | 25,275,638 | 17,433,627 |
| Net Exposure | | **(13,635,245)** | **(8,450,343)** |
| **% of Exposure** | | **54%** | **48%** |

At the reporting date, the ratio of the Bank's net liquid assets to deposits from customers was 48% (2022: 52%)

### i. Exposure to Liquidity Risk

The table below sets out the remaining contractual maturities of the Bank's financial liabilities and financial assets at the reporting date

| | Carrying Amount 2023 GH¢ | Carrying Amount 2022 GH¢ |
|---|---|---|
| Deposits from customers | 25,275,638 | 17,433,627 |
| Other Liabilities | 1,010,434 | 991,669 |
| | **26,286,072** | **18,425,296** |
| Cash and Cash Equivalents | 2,651,144 | 2,030,770 |
| Investment Securities at amortised cost | 8,989,249 | 6,952,514 |
| Loans and Advances to customers | 15,235,879 | 9,561,877 |
| | **26,876,272** | **18,545,161** |
| **Total liquidity reserves** | **(590,200)** | **(119,865)** |

### ii. Liquidity reserves

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

| | 2023 | 2022 |
|---|---|---|
| | GH¢ | GH¢ |
| Balances with ARB Apex Bank | 1,355,677 | 1,589,627 |
| Cash and balances with other Banks | 37,061 | 5,098 |
| Cash on Hand | 1,258,406 | 436,045 |
| | **2,651,144** | **2,030,770** |

**c. 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.

**i. 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 monitors 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.

| | Carrying amount | Market risk measure Non trading portfolios |
|---|---|---|
| | GH¢ | GH¢ |
| **Assets subject to market risk** | | |
| Cash and cash equivalents | 2,651,144 | 2,651,144 |
| Investment securities | 8,989,249 | 8,989,249 |
| Loans and advances to customers | 15,235,879 | 15,235,879 |
| | **26,876,272** | **26,876,272** |
| **Liabilities subject to market risk** | | |
| Deposits from customers | **25,275,638** | **25,275,638** |

**ii. 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:

1. Differences between the timing of market interest rate changes and the timing of cash flows (repricing risk);

2. Changes in the market interest rates producing different effects on yields on similar instruments with different maturities (yield curve risk); and
3. 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.

**iii. Exposure to Interest Rate Risk**

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

| | Carrying amount GH¢ |
|---|---|
| Assets subject to market risk | 26,876,272 |
| Liabilities subject to market risk | 25,275,638 |
| **Interest rate risk** | **1,600,634** |

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.

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.

***iv. Exposure to currency risk – non-trading portfolios***

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

d. **Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

The Bank's Compliance Unit is responsible for establishing and maintaining an appropriate framework of the Bank's compliance policies and procedures. This responsibility is supported by the development of overall Bank standards for the management of operational risk.

The Bank has a Risk and Compliance unit which monitors the all the frameworks governing the operations of the Bank. The unit reports to Bank of Ghana on monthly basis, issues report to Board of Directors on risk and compliance on period basis and on daily basis liaise with the internal audit unit of the bank to minimise risk and comply with laws, frameworks and standards.

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 judgment 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.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exit and other valuation models. Assumptions and inputs used in valuation techniques includes 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 judgment 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.

a. 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 categorized. The amounts are based on the values recognised in the statement of financial position.

b. 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 categorized.

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

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

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

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

## 7. CAPITAL MANAGEMENT

### a. *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:

i. Tier 1 capital, also referred to as core/primary capital is made up of equity and disclosed reserves. Equity includes issued and fully paid ordinary share capital and perpetual non-cumulative preference shares. Disclosed reserves relate to those created or increased by appropriation of after-tax retained earnings/surplus and general statutory reserves and does not include regulatory credit risk reserve.

ii. Tier 2 capital, also referred to as supplementary/secondary capital includes revaluation reserves, latent revaluation reserves and hybrid capital instruments. Latent revaluation reserves relate to unrealised gains on equity instruments classified as FVOCI.

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.

***Capital Adequacy Ratio (CAR)***

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 Bank manages its capital position to ensure its capital is adequate to support its business activities and aligns with its risk appetite and strategic planning. Additionally, the Bank seeks to always maintain safety and soundness, take advantage of organic growth opportunities, meet obligations to counterparties and satisfy current and future regulatory capital requirements.

Capital management is integrated in our risk and governance processes, as capital is a key consideration in the development of our strategic plan, risk appetite and risk limits.

We conduct an Internal Capital Adequacy Assessment Process (ICAAP) periodically which is a forward-looking assessment of our projected capital needs and resources, incorporating earnings, balance sheet and risk forecasts under baseline and adverse economic and market conditions. We utilize periodic stress tests to assess the potential impacts to our balance sheet, earnings, regulatory capital and liquidity under a variety of stress scenarios. The capital management function is governed primarily by management-level committees that oversee the risks associated with capital management, namely the Bank's asset and liability committee (ALCO) and the executive committee.

The Capital Adequacy Ratio (CAR) has been computed in accordance with the Capital Requirement Directive (CRD) by Bank of Ghana. The CRD was developed and issued by the Bank of Ghana for the adoption of all banks in Ghana. It is based on the Basel II and III frameworks.

The Bank's Capital Adequacy Ratio (CAR) as at the year-end was 4.26% below the regulatory minimum requirement.

## CAPITAL ADEQUACY RATIO AS AT 31 DECEMBER 2023

| | Item | GH¢ | GH¢ |
|---|---|---|---|
| 1 | Paid up Capital | | 1,148,964.00 |
| 2 | Disclosed Reserves | | (800,652.75) |
| 3 | Permanent Preference Shares | | - |
| **4** | **Tier 1 Capital (1+2+3)** | | **348,311.25** |
| | | | |
| 5 | Goodwill/Intangible (Preliminary expense) | | |
| 6 | Losses not provided for | - | |
| 7 | Investments in Unconsolidated Subsidiaries | - | |
| 8 | Investments in the Capital of Other Banks & Financial Inst - Apex | 82,520.56 | |
| 9 | Connected Lending of Long Term Nature | - | |
| | Sum of (5+6+7+8+9) | | **82,520.56** |
| **10** | **Net Tier 1 Capital (4-5-6-7-8-9)** | | **265,790.69** |
| | | | |
| 11 | Revaluation Reserves | 801,388.00 | |
| 12 | Subordinated Term Debt | - | |
| 13 | Hybrid Capital | - | |
| **14** | **Tier 2 Capital (11+12+13) (Limited to 100% of 4)** | | **801,388.00** |
| | | | |
| **15** | **Adjusted Capital Base (10+14)** | | **1,067,178.69** |
| | | | |
| **16** | **Total Assets** | | **30,936,899.53** |
| 17 | Cash on Hand (Cedis) | 1,258,406.00 | |
| 18 | Cash on Hand (Forex) | - | |
| 19 | Claims on Bank of Ghana | | |
| | Cedi Clearing Account Balance | 83,667.00 | |
| | 5% ARB Apex Balance | 1,272,010.00 | |
| | ACOD | - | |
| | Special Deposits | | |
| 20 | Claims on Government | | |
| | Treasury Security (Bills and Bonds) | 3,100,400.00 | |
| | Government Stocks | 5,888,849.00 | |
| 21 | 80% of Cheques drawn on Other Banks | | |
| 22 | Goodwill/Intangibles | - | |
| 23 | Investments in Unconsolidated Subsidiaries | - | |
| 24 | Investments in the Capital of Other Banks & Financial Inst - Apex | 82,520.56 | |
| 25 | Connected Lending of Long Term Nature | - | |
| 26 | 80% of Claims on Discount Houses | - | |
| 27 | 80% of Claims on Other Banks | 29,649.12 | |
| 28 | 50% of Claims on Other Financial Inst. - Public Sector (GCSF) | | |
| 29 | 80% of Loans guaranteed by Government | | |
| 30 | 80% of Loans guaranteed by Multilateral Banks | | |
| 31 | 50% of Residential Mortgage Loans | | |
| 32 | 50% of Export Financing Loans | | |
| **33** | **Sum of (17 - 32)** | **11,715,501.68** | **(11,715,501.68)** |
| **34** | **Adjusted Total Assets (16-33)** | | **19,221,397.85** |
| 35 | 100% of 3 Years Average Annual Gross Income | | 5,805,939.80 |
| **36** | **Adjusted Assets Base (34+35)** | | **25,027,337.65** |
| | | | |
| | **Adjusted Capital Base as % of Adjusted Assets Base (15/36 x 100)** | | **4.26** |
| | | | |
| | **Capital Surplus/Deficit** | | (1,435,555.08) |
| | | | |
| | **3 Years Average Gross Income** | | |
| | **Reporting Year** | | **Total Income** |
| | Current Year (2023) | | 7,786,766.39 |
| | Previous Year (2022) | | 5,186,166.00 |
| | Previous to Previous Year (2021) | | 4,444,887.00 |
| | Total | | **17,417,819.39** |
| | Average Annual Gross Income | | 5,805,939.80 |

***b. 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.

## 8. SEGMENT REPORTING

The Bank's current operation is not segregated to show divisional performance and as such does not lend itself to segmental reporting; hence management has provided information on all its branches which do not meet the definition of segmental reporting.

| | | 2023 | 2022 |
|---|---|---|---|
| | | GH¢ | GH¢ |
| **9** | **Interest Income** | | |
| | Interest on Loans/Overdrafts | 4,159,888 | 3,496,545 |
| | Interest on Earned on Overdue Loans | 9,578 | 15,367 |
| | Interest on Investments (T/Bills) | 2,432,561 | 744,861 |
| | | **6,602,027** | **4,256,773** |
| **10** | **Interest Expenses** | | |
| | Interest on Fixed/Savings Deposits | 714,916 | 316,837 |
| | Interest on Borrowings | 146,157 | 224,386 |
| | | **861,073** | **541,223** |
| **11** | **Fees and Commission Income** | | |
| | Commitment Fees | 335,185 | 229,876 |
| | Commission on Turnover | 551,134 | 364,913 |
| | Cheque Clearing Fees | 2,623 | 2,417 |
| | | **888,942** | **597,206** |
| | **Fees and Commission Expenses** | | |
| | Mobilisation Expenses | 21,072 | 18,070 |
| | Susu Expenses | 618,870 | 468,177 |
| | Cheque Clearing Fee | 4,962 | 306 |
| | Micro - Finance Expenses | 157,377 | 116,688 |
| | | **802,281** | **603,241** |
| **12** | **Other Operating Income** | | |
| | Sundries (SMS Charges, Remittances …….) | 295,797 | 332,187 |
| | | **295,797** | **332,187** |
| **13** | **Personnel Expenses** | | |
| | Staff Wages and Salaries | 1,169,989 | 923,557 |
| | Staff Rent Subsidy | - | 28,113 |
| | Staff Training Expenses | 160,209 | 72,744 |
| | Medical Expenses | 42,647 | 35,666 |
| | Other Staff Cost (SSF/PF, ……….) | 1,531,478 | 977,948 |
| | | **2,904,323** | **2,038,028** |

## 14 Right of Use Assets - Lease

| | | |
|---|---|---|
| Balance at Start | 139,236 | - |
| Retained Earnings | (41,436) | |
| Additions | | 65,040 |
| Reclassification | - | 74,196 |
| **Balance at End** | **97,800** | **139,236** |
| | | |
| Accumulated Depreciation at Start | 40,444 | - |
| Retained Earnings | 8,056 | |
| Depreciation Charge for the year | 31,800 | 40,444 |
| Accumulated Depreciation at End | **80,300** | **40,444** |
| | | |
| Carrying Amount | **17,500** | **98,792** |

## 15 Depreciation and Amortisation

| | Note | | |
|---|---|---|---|
| Property Plant and Equipment | **35** | 153,282 | 180,171 |
| Right of Use Assets | **14** | 31,800 | 40,444 |
| Intangible Assets | **31** | 10,159 | 36,936 |
| | | **195,241** | **257,551** |

## 16 Other Operating Expenses

| | | |
|---|---|---|
| Directors Emoluments | - | - |
| Board Meeting Expenses | 86,464 | 36,773 |
| Board Sitting Allowance | - | 49,750 |
| Staff and Management Meeting Allowance | - | 46,533 |
| Travelling & Transport | 144,758 | 64,518 |
| Audit Expenses | 9,462 | 8,420 |
| Audit Fees | 30,000 | 11,000 |
| Printing and Stationery | 75,458 | 65,088 |
| AGM Expenses | 53,938 | 32,995 |
| Postage and Telephone | 90,691 | 36,644 |
| Donation and Charity Expenses | 25,379 | 24,754 |
| Entertainment | 18,813 | 10,183 |
| Business Promotion | 6,620 | 26,900 |

| | | | |
|---|---|---|---|
| | Police Guard Expenses/Security | 72,687 | 55,279 |
| | Specie Movement | 139,153 | 73,545 |
| | Office and Administrative Expenses | 128,599 | 76,949 |
| | Bank Charges | 191,179 | 37,522 |
| | Property Rates(Rent and Taxes) | 22,508 | 36,930 |
| | Fuel & Lubricants(Motor Vehicle) | 82,808 | 103,509 |
| | Water and Electricity | 215,955 | 150,753 |
| | Subscriptions and periodicals | 34,729 | 29,061 |
| | Motor Vehicle Running Expenses(Repairs and Maint) | 26,870 | 33,866 |
| | Generator Running Costs | 93,274 | 46,144 |
| | Cleaning and Sanitation | 54,245 | 52,816 |
| | Legal Expenses/Fees | 22,600 | 9,825 |
| | Computerisation Expenses | 268,612 | 194,706 |
| | Registration and Licensing | 38,786 | 26,170 |
| | Repairs and Maintenace | 32,626 | 33,050 |
| | Insurance | 46,555 | 70,645 |
| | Housing & Bungalow | 20,964 | 14,306 |
| | Renovation Expenses | 39,505 | 44,841 |
| | Loan Recovery | 22,172 | 18,526 |
| | SMS Charges | 17,245 | - |
| | Shortage in Till | - | 198 |
| | Recruitment and Selection | 5,281 | 2,685 |
| | Advertising Expenses | 22,138 | 13,545 |
| | E-zwich Expenses | 165,654 | 47,215 |
| | | **2,305,728** | **1,585,644** |

| | | | | |
|---|---|---|---|---|
| **17** | **Investment Security (at Amortised Cost)** | **Note** | | |
| **(a)** | Treasury Bills | | 3,100,400 | 500,400 |
| | Cocoa Bills | | 939,626 | 1,502,891 |
| | Other Bill (AM Fund, …….) | | 4,949,223 | 4,949,223 |
| | | | **8,989,249** | **6,952,514** |
| | Impairment at End | **33** | - | - |
| | | | **8,989,249** | **6,952,514** |

**17** **Investment Security (at FVOCI)**

| | | | | |
|---|---|---|---|---|
| **(b)** | Investment in ARB Apex Bank Shares | | 82,521 | 51,271 |
| | | | 82,521 | 51,271 |

| | | |
|---|---|---|
| *Reconciliation of Investment in ARB Apex Shares* | | |
| Balance at Start | 51,271 | 51,271 |
| Additions | 31,250 | |
| Fair Value gain/(loss) | - | - |
| **Balance at End** | **82,521** | **51,271** |
| Original Value of Shares | 82,521 | 51,271 |

The fair value gain/(loss) represents the cumulative net change in the fair value of investment held at Fair Value through Other Comprehensive Income (FVOCI) recognised as fair value reserve until the assets are derecognised.

| **18** | **Loan and Advances** | **Note** | | |
|---|---|---|---|---|
| **(a)** | Loans and Advances | | 13,994,746 | 6,384,897 |
| | Overdraft | | 1,881,473 | 3,640,402 |
| | | | **15,876,219** | **10,025,299** |
| | Allowance for ECL | **33** | (640,340) | (463,422) |
| | | | **15,235,879** | **9,561,877** |

| **18** | **Impairment Losses on Financial Assets** | **Note** | **2023** | **2022** |
|---|---|---|---|---|
| **(b)** | Investment Securities (Amortised Cost) | **17** | - | - |
| | Loans and Advances to Customers | **18** | 640,340 | 463,422 |
| | | | **640,340** | **463,422** |

| **18** | **Impairment of Financial Assets Recognised** | | |
|---|---|---|---|
| **.(c)** | Balance at Start | 463,422 | 415,422 |
| | Recognised in Income Statement | 176,917 | 48,000 |
| | **Balance at End** | **640,340** | **463,422** |
| | Total Impairment | 176,917 | 48,000 |
| | Recognised in Income Statement | **176,917** | **48,000** |

| 18 | **Credit Risk Reserve** | **Note** | **2023** | **2022** |
|---|---|---|---|---|
| **(d)** | Impairment per BoG | **32** | 640,340 | 463,422 |
| | Impairment per IFRS | **18** | 640,340 | 463,422 |
| | | | - | - |

This is a reserve created to set aside the excess of amounts recognised as impairment loss on Financial Assets, based on provisions calculated in accordance with the requirement of IFRS and the Bank of Ghana's prudential guidelines.

| 19 | **Cash and Cash Equivalents** | **Note** | | |
|---|---|---|---|---|
| | Cash on Hand | | 1,258,406 | 436,045 |
| | Claims on Other Banks | | 37,061 | 5,098 |
| | Other - ACOD 7 | | - | - |
| | Current Accounts - ARB Apex Bank Ltd | | 83,667 | 710,213 |
| | 5% Apex Reserves/Deposit | | 1,272,010 | 879,414 |
| | | | **2,651,144** | **2,030,770** |

| 20 | **Other Assets** | | |
|---|---|---|---|
| | Stationery Stock | 94,942 | 90,421 |
| | Rent Prepaid | 31,182 | 60,578 |
| | Sundry Account Receivables | 856,915 | 74,228 |
| | Interest/Comm Accrued | - | 414,756 |
| | Insurance Prepaid | 15,208 | 34,639 |
| | Uncleared Effects | 219,998 | - |
| | Discount on Treasury Bonds | 82,202 | 185,002 |
| | Others | 1,460,488 | 583,920 |
| | | **2,760,935** | **1,443,544** |

| **Insurance Prepaid** | |
|---|---|
| Balance c/d | 34,639 |
| Retained Earning | (23,309) |
| Additions | 50,423 |
| Less Insurance for the year | (46,545) |
| Balance c/d | **15,208** |

**Rent Prepaid**

| | | |
|---|---|---|
| Balance c/d | 60,578 | |
| Retained Earning | (31,548) | |
| Additions | 24,660 | |
| Less Rent for the year | (22,508) | |
| | **31,182** | |

**21 Deposit and Current Accounts**

| | | |
|---|---|---|
| Savings Account | 12,140,158 | 7,694,536 |
| Current Account | 2,405,602 | 3,207,048 |
| Time Deposit | 4,474,853 | 1,919,780 |
| Susu | 6,255,025 | 4,612,263 |
| | **25,275,638** | **17,433,627** |

**22 Borrowings:**

| | | |
|---|---|---|
| Balance at Start | 1,779,584 | 2,175,000 |
| Additions | 2,000,000 | 104,584 |
| Repayments | (514,939) | **(500,000)** |
| Balance at End | **3,264,645** | **1,779,584** |

**Comprising**

| | | |
|---|---|---|
| Other Financial Institutions | 800,000 | 800,000 |
| Other Sources | 2,000,000 | |
| Apex Bank - Equipment | 89,644 | 104,584 |
| Apex Bank | 375,001 | 875,000 |
| | **3,264,645** | **1,779,584** |

**23 Other Liabilities**

| | | |
|---|---|---|
| Sundry Creditors | - | 35,857 |
| Accrued Interest on Deposits | 101,331 | 47,646 |
| Interest in Arrears | - | 101,732 |
| Investment Income not Earned | 131,284 | 80,390 |
| Unearned Interest | 32,762 | - |
| Mutal/Other Funds | 87,080 | 87,080 |

| | | | |
|---|---|---|---|
| Bills Payables | | 85,939 | 74,627 |
| Interest Suspense | | 379,899 | 180,096 |
| Others | | 192,139 | 384,241 |
| | | **1,010,434** | **991,669** |

| | | | | |
|---|---|---|---|---|
| 24 | **Provisions** | **Note** | | |
| | Provision for AGM | | - | 8,594 |
| | Others | | 23,157 | - |
| | Provision for Audit Fees | | 34,300 | 22,800 |
| | | | **57,457** | **31,394** |

| | | | |
|---|---|---|---|
| 24 | *Reconciliation of End of Service Benefit* | | |
| (a) | Balance at Start | 51,542 | 151,641 |
| | Additions during the year | 99,285 | - |
| | Payments during the year | - | (100,099) |
| | **Balance at the End** | **150,827** | **51,542** |

The provisions are on account of constructive obligation created by the Bank as a result of the Bank's involvement in the community development, provision of educational scholarships to brilliant but needy students within the catchment areas of the Bank, end of service benefit planned for its employees and others constructive obligations of the Bank.

| | | | | |
|---|---|---|---|---|
| 25 | **Current Tax** | **Note** | | |
| (a) | Balance at Start | | 16,102 | (85,615) |
| | Adjustment (Transferred to Retained Earnings) | | - | 85,615 |
| | Charge for the year | 34 | 175,212 | 56,102 |
| | Payment during the year | 34 | (183,375) | (40,000) |
| | Balance at End | | **7,939** | **16,102** |

| | | |
|---|---|---|
| **Growth & Sustainability Levy** | | |
| Balance at Start | - | - |
| Charge for the Year | 27,060 | - |
| Payment during the Year | (6,800) | - |
| Balance at End (Liability) | **20,260** | - |

**25 Reconciliation of Tax Expense on Income Statement**

**(b) Analysis of Taxation charge in the year**

| | | |
|---|---|---|
| Current tax on income for the year | 175,212 | 56,102 |
| Deferred tax released for the year | - | - |
| Tax on Ordinary activities | **175,212** | **56,102** |

| | | | |
|---|---|---|---|
| 25 (c.) | **Profit (Loss) before tax** | **541,203** | **112,479** |
| | Tax applicable at 25% | 135,301 | 28,120 |
| | Tax effect on Non-deductible expenses | 357,259 | 305,551 |
| | Tax effect on Capital allowances | (170,553) | (128,619) |
| | Deferred Tax released for the year | - | - |
| | Current tax charge at 25% | **322,007** | **205,052** |
| | **Effective tax rate** | **59%** | **182%** |
| | Taxation Liability at End | 7,939 | 16,102 |

**26 Stated Capital**

**Authorised Shares (of no par value)**

| | | |
|---|---|---|
| Ordinary Shares | 5,000,000,000 | 5,000,000,000 |
| Preference Shares | - | - |

**Issued and Fully Paid Shares**

| | | | |
|---|---|---|---|
| | | **Shares** | **Shares** |
| 26 | **Ordinary Shares** | | |
| (a) | Number of Shares at Start | 106,703,931 | 106,703,931 |
| | Transfrred from Share Deposit | 793,391 | |
| | Shares issued and registered | - | - |
| | Number of Shares at End | **107,497,322** | **106,703,931** |
| | | **GH¢** | **GH¢** |
| | Balance at Start | 1,053,065 | 1,053,065 |
| | Transfer from Share Deposit | 53,699 | |

| | | |
|---|---|---|
| Amount Registered During the Year | - | - |
| Adjustment | - | - |
| Balance at End | **1,106,764** | **1,053,065** |

| | | | |
|---|---|---|---|
| | | **Shares** | **Shares** |
| **26** | **Deposits for Shares** | | |
| **(b)** | Number of Shares at Start | 793,391 | 486,891 |
| | Transferred to Share Issued | (793,391) | |
| | Registered | - | - |
| | Shares issued during the year | 422,000 | 306,500 |
| | Number of Shares at End | **422,000** | **793,391** |

| | | |
|---|---|---|
| | **GH¢** | **GH¢** |
| Balance at Start | 53,699 | 23,049 |
| Transferred to Issued Shares | (53,699) | - |
| Amount Registered During the Year | - | - |
| Issued During the Year | 42,200 | 30,650 |
| Adjustment | - | - |
| Balance at End | **42,200** | **53,699** |

| | | |
|---|---|---|
| **Total Stated Capital** | | |
| Ordinary Shares | 1,106,764 | 1,053,065 |
| Deposit for Shares | 42,200 | 53,699 |
| | **1,148,964** | **1,106,764** |

Deposit for shares represents shares issued but yet to be registered with the Registrar General Department

| | | | |
|---|---|---|---|
| **27** | **Statutory Reserve Fund** | | |
| | Balance at Start | 396,369 | 368,181 |
| | Transfer from Retained Earnings | 169,465 | 28,188 |
| | Balance at End | **565,835** | **396,369** |

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

**28 Revaluation Reserve**

| | | |
|---|---|---|
| Balance at Start | 801,388 | 801,388 |
| Revaluation Surplus | - | - |
| Balance at End | **801,388** | **801,388** |

**29 Retained Earnings**

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

**30 Basic Earnings Per Share**

| | | |
|---|---|---|
| Net Profit After Tax | 338,931 | 56,377 |
| Number of Shares in Issue | 107,919,322 | 107,497,322 |
| Weighted Average number of Shares | 107,919,322 | 10,815,770 |
| **E. P. S** | **0.003** | **0.005** |

**31 Intangible Assets (Software License)**

| | | |
|---|---|---|
| Carrying Amount at Start | 64,683 | 35,052 |
| Retained Earning | 36,909 | 29,631 |
| | **101,592** | **64,683** |
| **Amortisation** | | |
| Balance at Start | 36,936 | - |
| Retained Earning | **(3,918)** | - |
| Charge for the year | 10,159 | 36,936 |
| | **43,177** | **36,936** |
| Carrying Amount at End | **58,415** | **27,747** |

| **Adjustments to Retained Earnings** | **Note** | |
|---|---|---|
| Cost of Right of use of Asset | **11** | (41,436) |
| Accumulated Depreciation - Right of Use | **11** | (8,056) |
| Cost of Intangible Asset | **28** | 36,909 |
| Amortization of Intangible Asset | **28** | 3,918 |
| Insurance Prepaid | **17** | (23,309) |
| Rent Prepaid | **17** | (31,548) |
| | | **(63,522)** |

## 32 Impairment of Loans and Advances - BoG

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Gross Loans | Impairment | Gross Loans | Impairment |
| | GH¢ | GH¢ | GH¢ | GH¢ |
| Current | 14,985,354 | 149,854 | 8,101,281 | 81,013 |
| OLEM | 134,070 | 13,407 | 43,936 | 4,394 |
| Substandard | 119,595 | 29,899 | 318 | 80 |
| Doubtful | 107,685 | 53,843 | 18,633 | 9,317 |
| Loss | 531,782 | 531,782 | 503,030 | 503,030 |
| Additions | - | (138,444) | - | (134,410) |
| | **15,878,486** | **640,340** | **8,667,198** | **463,422** |

## 32 (a) Impairment Losses on Financial Assets

| | | |
|---|---|---|
| Investment Securities (Amortised Cost) | - | - |
| Loans and Advances to Customers | (640,340) | (463,422) |
| | **(640,340)** | **(463,422)** |

## 33 Impairment of Financial Assets - IFRS

## (a) Loans and Advances 2023

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | GH¢ | GH¢ | GH¢ | GH¢ |
| Grade 1 - 3 Low (Fair Risk) | 14,985,354 | - | - | 14,985,354 |
| Grade 4 - 5 (Watch List) | - | 134,070 | - | 134,070 |
| Grade 6 (Substandard) | - | - | 119,595 | 119,595 |
| Grade 7 (Doubtful) | - | - | 107,685 | 107,685 |
| Grade 8 (Loss) | - | - | 531,782 | 531,782 |
| **Total Gross Amount** | **14,985,354** | **134,070** | **759,062** | **15,878,486** |
| Allowance for ECL | (149,854) | (13,407) | (477,079) | (640,340) |
| **Carrying Amount** | **14,835,501** | **120,663** | **281,983** | **15,238,146** |

**Loss Allowance**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | GH¢ | GH¢ | GH¢ | GH¢ |
| Balance at 1 January | 81,013 | 4,394 | 378,016 | **463,422** |
| 12 - months ECL | 149,854 | - | - | 149,854 |
| Lifetime ECL not Credit - Impaired | - | 13,407 | - | 13,407 |
| Lifetime ECL Credit - Impaired | - | - | 477,079 | 477,079 |
| Balance at 31 December | **149,854** | **13,407** | **477,079** | **640,340** |

| | | | | |
|---|---|---|---|---|
| Charge for the year | **68,841** | **9,013** | **99,063** | **176,917** |

**Loans and Advances 2022**

| | Stage 1 GH¢ | Stage 2 GH¢ | Stage 3 GH¢ | Total GH¢ |
|---|---|---|---|---|
| Grade 1 - 3 Low (Fair Risk) | 8,101,281 | - | - | 8,101,281 |
| Grade 4 - 5 (Watch List) | - | 43,936 | - | 43,936 |
| Grade 6 (Substandard) | - | - | 318 | 318 |
| Grade 7 (Doubtful) | - | - | 18,633 | 18,633 |
| Grade 8 (Loss) | - | - | 503,030 | 503,030 |
| **Total Gross Amount** | **8,101,281** | **43,936** | **521,981** | **8,667,198** |
| Allowance for ECL | (81,013) | (4,394) | (378,016) | (463,422) |
| **Carrying Amount** | **8,020,268** | **39,542** | **143,965** | **8,203,776** |

**Loss Allowance**

| | Stage 1 GH¢ | Stage 2 GH¢ | Stage 3 GH¢ | Total GH¢ |
|---|---|---|---|---|
| Balance at 1 January | 70,301 | 21,366 | 323,755 | **415,422** |
| 12 - months ECL | 81,013 | - | - | 81,013 |
| Lifetime ECL not Credit - Impaired | - | 4,394 | - | 4,394 |
| Lifetime ECL Credit - Impaired | - | - | 378,016 | 378,016 |
| Balance at 31 December | **81,013** | **4,394** | **378,016** | **463,422** |
| Charge for the year | **10,712** | **(16,972)** | **54,261** | **48,000** |

## 34 Taxation

| **Year** | **Balance b/d** GH¢ | **Charge** GH¢ | **Payment** GH¢ | **Adjustment** GH¢ |
|---|---|---|---|---|
| 2021 | (80,934) | 49,194 | (53,875) | - |
| 2022 | (85,615) | 56,102 | (40,000) | 85,615 |
| 2023 | 16,102 | 175,212 | (183,375) | - |
| | **(150,447)** | **280,508** | **(277,250)** | **85,615** |

| | **2023** GH¢ | **2022** GH¢ |
|---|---|---|
| **Corporate Tax Paid** | | |
| Previous Year's Outstandings | 25,000 | - |
| Current Year | 158,375 | 40,000 |
| | **183,375** | **40,000** |

## Capital Allowance Computation

**Year of Assessment** **2023**

| | Class 1 40% | Class 2 30% | Class 3 20% | Class 4 10% | Total |
|---|---|---|---|---|---|
| Written Down Value at Start | 48,021 | 115,361 | 112,358 | 38,158 | |
| Additions | 54,679 | 119,620 | 150,746 | - | |
| Total | **102,700** | **234,981** | **263,104** | **38,158** | |
| Capital Allowance | (41,080) | (70,494) | (52,621) | (6,358) | **(170,553)** |
| Written Down Value at End | **61,620** | **164,487** | **210,483** | **31,800** | **468,390** |

## NAFANA RURAL BANK LIMITED

**Growth & Sustainability Levy**

| | GH¢ |
|---|---|
| Profit Before Tax | 541,203 |
| GSL (@5%) | 27,060 |

**Corporate Tax Computation**

**Year of Assessment** **2023**

| | GH¢ | GH¢ |
|---|---|---|
| **Net Profit/(Loss) as per Account** | | **514,143** |
| Provision for Impairment | 176,917 | |
| Provision for Depreciation | 153,282 | |
| Growth & Sustainability Levy | 27,060 | |
| Donations | - | 357,259 |
| Adjusted Profit/(Loss) | | 871,402 |
| Capital Allowance | | (170,553) |
| **Chargeable Income** | | **700,849** |
| **Tax Charged at 25%** | | **175,212** |

37. LIST OF 20 LARGEST SHAREHOLDERS

| SN | NAME | NO. OF SHARES | VALUE | PERCENTAGE TO TOTAL SHARES |
|---|---|---|---|---|
| 1 | SAMPA TRADITIONAL COUNCIL | 21,578,153.00 | 200,984.14 | 17.63 |
| 2 | SAMPA COMMUNITY DEVELOPMENT BOARD | 18,587,845.00 | 140,606.20 | 15.19 |
| 3 | ESSIEH PASCAL | 2,408,758.00 | 23,395.82 | 1.97 |
| 4 | SAH KWASI ABRAHAM | 1,881,503.00 | 18,484.84 | 1.54 |
| 5 | SIAKA STEVENS | 1,879,609.00 | 18,467.19 | 1.54 |
| 6 | OKRAH KENNEDY | 1,857,226.00 | 18,190.14 | 1.52 |
| 7 | ALHAJI YAYA ADAMS | 1,815,029.00 | 17,728.53 | 1.48 |
| 8 | SIE KWAKU SAMUEL | 1,780,190.00 | 17,472.60 | 1.45 |
| 9 | OBAH GRACE | 1,722,828.00 | 16,869.75 | 1.41 |
| 10 | SAMMOR-DUAH EMMANUEL | 1,490,612.00 | 14,569.68 | 1.22 |
| 11 | ABDULAI FREEMAN | 1,475,633.00 | 14,567.31 | 1.21 |
| 12 | SIE OKRAH SETH | 1,458,192.00 | 14,404.87 | 1.19 |
| 13 | OWUSU ANSAH SAMPSON | 1,450,781.00 | 14,267.26 | 1.19 |
| 14 | ANANE ANTHONY | 1,440,752.00 | 14,242.42 | 1.18 |
| 15 | BOAHEN KWADWO CLEMENT | 1,422,513.00 | 14,074.23 | 1.16 |
| 16 | OSEI AMPONSAH ISAAC | 1,420,059.00 | 14,049.69 | 1.16 |
| 17 | SAH KWAME MATHEW | 1,299,027.00 | 12,922.36 | 1.06 |
| 18 | PEH EBENEZER | 1,257,922.00 | 12,539.50 | 1.03 |
| 19 | OPOKU DADSON | 1,221,033.00 | 12,127.33 | 1.00 |
| 20 | BOAKYE BISMARK SONGMOR | 1,210,030.00 | 12,024.84 | 0.99 |
| | **TOTAL** | **68,657,695.00** | **621,988.70** | **56.12** |

**NAFANA RURAL BANK LIMITED**
**Value Added Statement for the Year**
**Ended 31 December 2023**

| | 2023 | 2022 |
|---|---|---|
| | GH¢ | GH¢ |
| Interest earned and other Operating Income | 7,786,766 | 5,186,166 |
| Direct Cost of Service and Other Costs | (3,021,545) | (2,055,829) |
| **Value Added by Banking Services** | **4,765,222** | **3,130,337** |
| Non Banking Income | - | - |
| Impairment Losses | (176,917) | (48,000) |
| **Valued Added** | **4,588,304** | **3,082,337** |
| **Distributed as follows** | | |
| **To Employees** | | |
| Directors | 86,464 | 133,056 |
| Other Employees | 2,904,323 | 2,038,028 |
| | **2,990,787** | **2,171,084** |
| **To Government** | | |
| Income Tax | 202,272 | 56,102 |
| Rates | - | - |
| | **202,272** | **56,102** |
| **To Providers of Capital** | | |
| Finance Costs (Interest paid on Borrowings) | 861,073 | 541,223 |
| Dividend Payments | - | - |
| | **861,073** | **541,223** |
| **Retention** | | |
| Depreciation and Amortisation | 195,241 | 257,551 |
| Retained Earnings | **338,931** | **56,377** |
| Transfer to Statutory Reserve | 169,465 | 28,188 |
| Transfer to Retained Earnings | 169,465 | 28,188 |
| | **338,931** | **56,377** |

VALUE ADDED STATEMENT

**NAFANA RURAL BANK LIMITED**
**Value Added Statement for the Year**
**Ended 31 December 2023**

| | 2023 | 2022 |
|---|---|---|
| | GH¢ | GH¢ |
| Interest earned and other Operating Income | 7,786,766 | 5,186,166 |
| Direct Cost of Service and Other Costs | (3,021,545) | (2,055,829) |
| **Value Added by Banking Services** | **4,765,222** | **3,130,337** |
| Non Banking Income | - | - |
| Impairment Losses | (176,917) | (48,000) |
| **Valued Added** | **4,588,304** | **3,082,337** |
| **Distributed as follows** | | |
| **To Employees** | | |
| Directors | 86,464 | 133,056 |
| Other Employees | 2,904,323 | 2,038,028 |
| | **2,990,787** | **2,171,084** |
| **To Government** | | |
| Income Tax | 202,272 | 56,102 |
| Rates | - | - |
| | **202,272** | **56,102** |
| **To Providers of Capital** | | |
| Finance Costs (Interest paid on Borrowings) | 861,073 | 541,223 |
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| Transfer to Retained Earnings | 169,465 | 28,188 |
| | **338,931** | **56,377** |