LBDI

The Liberian Bank for Development and Investment (LBDI)
Audit Report and Financial Statements
For the year ended
December 31, 2020

CONTENT:

The Liberian Bank for Development and Investment (LBDI)
Corporate Information
As at December 31, 2020

Board of Directors	Samuel D. Tweah	Chairman
	John B. S. Davies, III	President & CEO And Chairman, Executive Committee
	Dewitt vonBallmoos	Chairman, Credit Committee
	James S. P. Cooper	Chairman, Assets & Liabilities Committee
	Elizabeth Anthony	Member, Acting Chair, Audit, Compliance and Risk Committees
	S.T Eugene Peabody	Member
	Paarock VanPercy	Member
	MacDonald S. Goanue, Jr	Member
	Joseph Ofori-Teiko	Member

Registered Office

The Liberian Bank for Development and Investment (LBDI)
P.O Box 10-0547 – 1000 Monrovia 10
Corner of Tubman Boulevard & 9th Street, Sinkor
Monrovia, Liberia

Corporate Secretary

Ms. Gloria Y. Menjor
General Manager/Deputy CEO

Solicitors

Sherman & Sherman Law Office
17th Street, Sinkor

Auditors

PKF Liberia
Accountants & Business advisors
Randall Street, Monrovia

Statement of responsibilities of the Board of Directors

1. The Board of Directors has general powers to manage the business of the Bank.

2. The Board is responsible to ensure that the books of accounts of the Bank are kept in a manner considered suitable for reporting and other relevant purposes.

   In particular, the Board is responsible to:

   a. ensure that the accounting records of the Bank are satisfactorily maintained and its financial statements presented in accordance with authoritative financial reporting framework, in this case, International Financial Reporting Standards (IFRS);

   b. select suitable accounting policies and apply them consistently;

   c. state whether applicable accounting standards have been followed, subject to any material departures to be disclosed or explained in the financial statements;

   d. ensure that the financial statements are prepared on the going-concern basis unless it is inappropriate to presume that the Bank will continue in business.

3. In summary, the Board is responsible to ensure that proper accounting records are kept, which disclose with reasonable accuracy, at any time, the financial position of the Bank. The Board is responsible to put in place the relevant mechanism for safeguarding the assets of the Bank and take reasonable steps for the prevention of fraud and other forms of irregularities, and for the prompt detection of these if they should nonetheless occur.

4. The Board is also responsible to annually approve competent auditors for rectification by Shareholders to examine the books of the Bank. Such appointment shall, however, be ratified by an affirmative vote of the shareholders at their Annual General Meeting. The Board shall cause to be printed a copy of the auditor's report, together with the relevant financial statements accompanying such report.

5. The Board is, by law, also authorized to appoint members of committees of the Board as it may deem necessary; and to delegate to the committees such powers as the Board considers relevant and necessary.

   The above statement of responsibilities of the Board with respect to the financial statements of the Bank shall be read in conjunction with the statement of the Auditor's responsibilities as set out in the opinion on page five of this document. This is necessary and is being done in order to distinguish, for the benefit of the shareholders and other users of the financial statements, the respective responsibilities of the Board of Directors and the Auditors in relation to the financial statements of the Liberian Bank for Development and Investment (LBDI).

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Samuel D. Tweah
Chairman

Ownership Structure of the bank

Class	Shareholders	Number of share	Percentage of share
	Class A Shares		
A	Government of Liberia (GOL)	1,692,172	73.19%
	National Social Security & Welfare Corporation (NSSWC)	125,000	5.41%
	Private Shareholding	52,271	2.26%
	Treasury Stock	90,342	3.91%
	Total Class A Shares	**1,959,785**	**84.77%**
	Class B Shares		
B	AIMAC (Africa-Investment Management Co. Ltd)	123,273	5.33%
	ECOWAS Bank for Development & Investment (EBID)	100,000	4.33%
	Private Individual Shareholding (JSPC, AbiJaoudi)	47,160	2.04%
	Group Agence Francaise de Development (GAFD)	31,059	1.34%
	Magnus Trust Corporation (MIC)	24,439	1.06%
	IEE Holding S.A	14,162	0.61%
	Firestone Plantation Company (FPCO)	8,381	0.36%
	Treasury Stock	3,764	0.16%
	Total Class B Shares	**352,238**	**15.23%**
	Total Shareholding	**2,312,023**	**100%**

Board Sub-Committees

- Board Credit committee
- Board Audit committee
- Board Risk & Compliance committee
- Board Asset and Liabilities committee
- Board Executive committee

Board Committees and their responsibilities

Board Credit Committee

The Board Credit Committee is responsible for exercising oversight of management's decisions on all credit related matters as well as the management of the Bank's credit exposures on an enterprise-wide basis. This includes but not limited to the approval of credit from US$ 301,000 to US$ 500,000 or its equivalent, delegating credit approval responsibility limit, promulgation of credit policies, management of bad and doubtful facilities, etc. This

Board Audit Committee

This committee has the duty to assist the Board of Directors in fulfilling its oversight responsibilities for:

- The integrity of the Banks' financial statements and reporting processes,
- The Banks' compliance with legal and regulatory requirements,
- Appointment of external auditors and
- Supervision of the work of the Bank's internal audit as well as compliance functions.

This Committee met four times in 2020 for its regular meetings.

Board Risk & Compliance Committee

The purpose of the Risk Management Committee is to monitor the risk profile and approve the risk management framework of the Bank within the context of the risk-reward strategy determined by the Board of Directors. This Committee like the Credit Committee meets four times a year and met three times in 2020.

Board ALCO Committee

The Asset and Liabilities Committee (ALCO) assist the Board in fulfilling its oversight responsibilities with respect to assets, liabilities, liquidity and capital management as well as interest rates, and foreign exchange risk management. The ALCO recommends changes to assets/liabilities pricing as well as product changes (including products and services introduction and removal) to ensure that the Bank can meet its commitments and operate within established Board policies. The ALCO also provides reports to the Board and Risk Management Committee. This Committee meets four times a year and met three times in 2020 and when necessary

Board Executive committee

The Executive Committee's principal functions are to oversee market and strategic planning risk, and to oversee the Board's governance, and recommend Management succession to the Board. This Committee met when necessary in lien of the Board and reports its actions to the full Board.

pp **Samuel D. Tweah**
Chairman

Directors' Report

1. Financial results

The financial results for the year ended 31 December 2020 are set out below:

	December 31 2020 L$	December 31 2019 L$
Result for the year	(3,995,733,906)	(56,192,475)

NATURE OF BUSINESS

The Liberian Bank for Development and Investment (LBDI) is a legislative chartered banking financial institution duly licensed by the Central Bank of Liberia to carry out banking activities, which include, among other things, accepting deposits from customers and lending to borrowers in Liberia.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of LBDI, as indicated above, were approved by the Board of Directors on _______/______/______and were signed on its behalf by:

Samuel D. Tweah
Chairman

John B. S. Davies, III
President/CEO

Key Audit Matter	How the matter was addressed in the audit
Impairment of loans and advances Management has adopted IFRS 9 "Financial instruments" and implemented expected credit loss (ECL) model for the impairment of loans and advances as required by IFRS 9. As a result, provision for impairment on loans, advances and receivable has significantly increased. The new model introduced new classification of financial assets into amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL) and new credit risk parameters, including impact of macroeconomics scenarios. This risk parameter facilitates the staging of assets into three stages. The model also uses collateral value and credit ratings of credit exposures which were also used in prior years for incurred loss model under IAS 39. For all loans, advances and receivables, expected credit loss is calculated based on a model, which inculcates expert and professional judgement on the probabilities of default, the amount of loss expected to arise from a default as well as the assessment of risk of a loss occurring. There is also the element of the time value of money which is obtained by discounting cash streams from collaterals provided by defaulting customers. All of these involve considerable amount of professional judgement and influence based on insight into an entity's loan books. Based on this, impairment charge on loans to customers for the year ended December 31, 2020 amounted to LD$ 3,441,460,1789 and US$ 17,831,400 against LD$ 184,508,144 and US$ 976,234 for December 2019. Given the significance of judgement and the complexity related particularly to the calculation of ECL we considered this as a key audit matter.	We assessed the Bank's accounting policy in relation to the ECL of loans to customers in compliance with IFRS 9 by assessing each significant model component: probability of default and loss given default, definition of default and significant increase in credit risk, use of microeconomic scenarios and other factors. We assessed the design and operating effectiveness of the control over relevant loan data and ECL calculations. The control included those over the credit file periodic review and rating assessment, collateral value establishment and monitoring. We also tested control over ECL calculation process, ie. Whether: • Stages of credit deterioration are properly established in the system and relevant lifetime or 12 months PDs are assigned to stage 2 and stage 1 exposure respectively, • Lifetime and 12-month ECL is accurately calculated based on assigned PD and collateral values, • ECL for stage 3 assets is accurately calculated based on collateral value We determined that we could rely on these control for the purpose of our audit. We selected a sample of loans representing different credit ratings, stages, economic factor and reviewed customer financial information, collateral data and other available information to assess: • If appropriate credit rating is applied to a customer

	• Whether the estimated future cash flows from collaterals are supportable. We tested calculation of quarterly probability of default (PD) from loan portfolio and reconciled selected quarterly PD figures to working files where PDs were adjusted for macroeconomics scenarios and 12 months and life time PDs established. We obtained the manual adjustments made in provision calculation engine and tested if changes in selected loans were justified. Based on available evidence we found management assumptions and impairment calculation method to be reasonable.

Other information

The directors of the Bank are responsible for other information. The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report 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.

Based on the work we have performed; we conclude that there is no material inconsistency in other information. We therefore have nothing to report in this regard.

Going Concern

The financial statements of the Company have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Bank's financial statements is appropriate.

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.

Based on the preceding, the Bank incurred losses of L$ 3,995,733,906 as at December 31, 2020 (2019: L$ 56,192,475). Its total current liabilities exceed total current assets by L$ 1,124,799,434 (2019: 2,274,518,324). Moreover, the Bank has also not been able to fund its Reserve Requirement account with the Central Bank of Liberia over the last two years (2019 and 2020) because of cash flow or liquidity difficulties.

However, events after the Balance Sheet date indicate that there is significant commitment from Shareholders to recapitalize the Bank. Accordingly, the Government of Liberia made a partial infusion of cash of US$ 15,400,000 to beef up the Bank's capital and liquidity on February 10, 2021. The infusion is against a commitment from the GOL of US$ 31 million in additional funds for the recapitalization of the Bank. There is also a commitment from minority Shareholders to inject additional US$ 19 million as additional capital to the Bank.

In spite of the continuous increase of losses being incurred by the Bank, its inability to fund the reserve account at the Central Bank of Liberia and the inadequacy of the current ratio which could indicate uncertainty that could cast doubt on the Bank's ability to continue as a going concern, the above actions from the Shareholders bring enormous comfort to the operation of the Bank that has reduced the doubt and demonstrates that the shareholders are committed to assist the bank move from its current state and meet all obligation as and when they become due.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and the Financial Institutions Act of 1999 and for such internal control as management determines 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 Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Report on other legal and regulatory requirements

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.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Nothing significant came to our attention to cause us to believe that the Bank has not, in all material respects, complied with the FIA and other CBL regulations and guidelines

Report on other matters

The financial statements of the Bank for the year ended December 31, 2019, were audited by another auditor.

PKF- Liberia

PKF Liberia
Accountants &
Business advisors

7/06/21
Monrovia

Date

The Liberian Bank for Development & Investment (LBDI)
Statement of Financial Position
As at December 31, 2020

	Notes	December 2020 L$	December 2019 L$
ASSETS			
Current assets			
Cash and cash equivalent	5	5,669,924,974	2,562,366,382
Treasury bond	6	2,000,000,000	2,000,000,000
Loans and advances to customers	7	9,822,537,330	15,900,076,773
Leased assets		64,909,508	71,560,603
Receivables and prepayments	8	4,531,851,296	5,566,999,500
Due from Central Bank of Liberia		55,828,866	-
Other assets		632,236,056	-
Total current assets		**22,777,288,029**	**26,101,003,258**
Non-current assets			
Investment properties	9	1,505,900,738	1,433,326,616
Equity and other investments	10	5,012,126,757	6,759,444,236
Intangible assets	11	839,772,179	270,042,779
Property, plant and equipment	12	1,746,323,045	1,504,441,943
Total non-current assets		**9,104,122,719**	**9,967,255,574**
TOTAL ASSETS		**31,881,410,748**	**36,068,258,832**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Deposits from customers	13	16,364,966,128	19,779,424,450
Short - term borrowings	14	2,112,350,000	2,632,000,000
Lease liabilities		91,760,800	98,366,798
Accounts payable	15	3,272,370,152	2,371,487,632
Other liabilities	16	2,058,590,180	3,483,248,343
Other levies payable	17	2,050,203	10,994,359
Total current liabilities		**23,902,087,463**	**28,375,521,582**
Non Current Liabilities:			
Long - term borrowings	18	2,203,207,160	1,879,523,814
Due to foreign banks	19	2,891,587,058	1,317,643,530
Total non current liabilities		**5,094,794,218**	**3,197,167,344**
Total liabilities		**28,996,881,681**	**31,572,688,925**
Shareholders' equity:			
Share capital	20	3,006,228,269	388,228,269
Share premium		140,958,544	140,958,544
Statutory reserves	21	419,589,986	419,589,986
Revaluation surplus - PPE		503,656,388	503,656,388
Treasury stock		(101,112,418)	(5,254,643)
Translation adjustment	3.2.5	1,847,466,991	2,893,496,819
Retained earnings/(accumulated losses)		(2,932,258,693)	154,894,544
Total equity attributable to owners of the bank		**2,884,529,067**	**4,495,569,907**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**31,881,410,748**	**36,068,258,832**

The accompanying notes on page 17 to 62 are integral part of these financial statements

Samuel D. Tweah, Jr.
Chairman - Board of Directors
_____/____/_____

John B.S. Davies, III
President/Chief Executive Officer
_____/____/_____

The Liberian Bank for Development & Investment (LBDI)
Statement of income
For the year ended December 31, 2020

	Notes	December 2020 L$	December 2019 L$
Revenue:			
Interest income	22	1,188,924,570	1,286,915,666
Less: Interest expense	23	(512,706,012)	(462,455,238)
Net interest income		**676,218,558**	**824,460,428**
Less: Loan impairment charges		(3,384,409,479)	(184,508,144)
Net interest income		**(2,708,190,921)**	**639,952,284**
Commissions and fees	24	504,756,297	821,255,621
Other operating income	25	516,597,897	670,890,267
Net operating revenue		**(1,686,836,726)**	**2,132,098,172**
General and operating expenses:			
Personnel costs	26	887,788,794	916,886,598
General and administrative expenses	27	1,317,175,742	1,128,105,029
Operating lease charges		-	42,064,111
Finance cost		1,727,285	4,076,892
Other operating expenses	28	102,205,358	97,158,017
Total general and operating expenses		**2,308,897,179**	**2,188,290,647**
Operating result for the year		**(3,995,733,906)**	**(56,192,475)**
Corporate income tax			
Net operating result		**(3,995,733,906)**	**(56,192,475)**
Profit attritable to equity holders of the entity			
Profit for the period from continuing operations		**(3,995,733,906)**	**(56,192,475)**
Other comprehensive income			
Net revaluation surplus of PPE		-	-
Total comprehensive income		**(3,995,733,906)**	**(56,192,475)**

The accompanying notes on page 17 to 62 are integral part of these financial statements

The Liberian Bank for Development & Investment (LBDI)
Statement of cash flows
For the year ended December 31, 2020

	December 2020 L$	December 2019 L$
Operating activities:		
Net operating results	(3,995,733,906)	(56,192,476)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation - fixed assets	107,513,032	165,190,631
Depreciation - leased assets	29,767,425	42,064,111
Armortization - intangible	82,657,797	-
Impairment charge - loans	3,384,409,479	184,508,144
Impairment charge - receivables	166,090,932	-
Changes in operating assets and liabilities		
Leased assets	6,651,095	-
Loans and advances	2,830,405,467	988,935,899
Receivables and prepayments	1,035,148,204	-
Due from Central Bank of Liberia	(55,828,866)	-
Other current assets	(632,236,056)	429,846,536
Investment properties	(72,574,122)	-
Deposits from customers	(3,414,458,322)	1,004,211,032
Short term borrowings	(519,650,000)	-
Lease liabilities	(6,605,998)	-
Accounts payable	900,882,520	-
Other liabilities	(1,424,658,163)	3,525,107,590
Other levies payable	(8,944,156)	-
Net cash used in operating activities	**(1,587,163,637)**	**6,083,671,466**
Investing activities:		
Equity and other investments	1,747,317,479	(5,797,984,426)
Purchase of intangibles	(659,677,467)	-
Purchase of long-term assets	(83,392,673)	(216,810,095)
Adjustments (retained earning and fixed assets)	(759,497,963)	(304,555,361)
Net cash flows from investing activities	**244,749,376**	**(6,319,349,881)**
Financing activities:		
Additional shares acquired - GOL	2,522,142,225	-
Dividends paid	-	(84,969,326)
Preceeds of funds from foreign banks	1,897,626,874	571,218,108
Net cash flow from financing activities	**4,419,769,099**	**486,248,783**
Net decrease in cash and cash equivalents	3,077,354,839	250,570,368
Translation differences	(88,003,140)	(986,812,538)
Prior period adjustment	118,206,894	(28,677,884)
Cash and cash equivalents at beginning of year	2,562,366,382	3,327,286,436
Cash and cash equivalents at end of year	**5,669,924,974**	**2,562,366,382**

The accompanying notes are an integral part of the financial statements

The Liberian Bank for Development & Investment (LBDI)
Statement of changes in shareholders' equity
For the year ended December 31, 2020

	Share Capital L$	Share Premium L$	Revaluation PPE Reserve L$	Statutory Reserves L$	Treasury Stock L$	Traslation adjustment L$	Retained Earnings L$	Total US$ L$
Balance, January 1, 2020	388,228,269	140,958,544	503,656,388	419,589,986	(5,254,643)	2,893,496,819	154,897,544	4,495,572,907
Other adjustments	-	-	-	-	(95,857,775)	-	(22,349,119)	(118,206,894)
Additional Capital	2,618,000,000		-	-	-	-	-	2,618,000,000
Net operating results for the year	-	-	-	-	-	-	(3,995,733,906)	(3,995,733,906)
Current year position/movements	-	-	-	-	-	-	930,926,788	930,926,788
Foreign currency translation difference	-	-	-	-	-	(1,046,029,828)	-	(1,046,029,828)
Balance, December 31, 2020	**3,006,228,269**	**140,958,544**	**503,656,388**	**419,589,986**	**(101,112,418)**	**1,847,466,991**	**(2,932,258,693)**	**2,884,529,067**
Balance, January 1, 2019	388,228,269	140,958,544	503,656,388	419,589,986	(5,254,643)	1,906,684,279	239,764,904	3,593,627,726
Other adjustment (prior year)	-	-	-	-	-	-	(28,677,884)	(28,677,884)
Profit for the year	-	-	-	-	-	-	(56,192,476)	(56,192,476)
Foreign currency translation difference	-	-	-	-	-	986,812,539	-	986,812,539
Balance, December 31, 2019	**388,228,269**	**140,958,544**	**503,656,388**	**419,589,986**	**(5,254,643)**	**2,893,496,818**	**154,894,544**	**4,495,569,907**

1.0 Corporate information

The Liberian Bank for Development and Investment (LBDI) was established in 1962 by the Government of Liberia ("GOL") in accordance with chapter 41 sections 965 through 1004 of an Act of the National Legislature and approved into law in that year. The Act was emended twice, the first amendment occurring on march 22, 1965, following which, the Bank commenced operations on November 24, 1965.

The Bank was established to facilitate the following economic policies of the GOL:

a. Help the national economy through the free enterprise system;

b. Encourage the economic development of the Country by facilitating international trade and investment of private capital for productive purpose;

c. Fund the establishment and expansion of small and medium enterprises;

d. Assist in the establishment, expansion and modernization of private enterprise;

e. In general, provide and nurture a climate favorable to the investment of private capital for purposes of increasing the productive capabilities of the national economy.

1.1 Activities of LBDI

The Bank was initially established to provide development banking services as outlined above. On July 21, 1988, the chartered amendment of the Bank was expanded to include commercial banking services which authorized the expansion. The Bank commenced commercial banking activities on September 1, 1988.

LBDI was established to be the Bank for the ordinary person providing close to the client banking services throughout Liberia and be known for excellent customer service while creating wealth for its Stakeholders. LBDI provides corporate and personal banking products and services, as well as specialized services to its customers.

2.0 Significant Accounting Policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the Liberian Financial Institutions Act of 1999. Additional information required by the Financial Institutions Act 1999 and the Prudential Regulations of the Central Bank of Liberia (CBL) have been included where applicable.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments on estimates and assumptions that affect the application of accounting policies and the valuation of reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. The effect of reviewing accounting estimate is recognized in the period in which the estimate is revised, if the revision affects only that period or in the period of revision and future periods, if the revision affects both current and future periods.

2.2 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing on the dates of the transactions or valuation.

Monetary items denominated in foreign currencies are translated into equivalent Liberian dollars at closing rates prevailing at the reporting date. Non-monetary items whose values are denominated in a foreign currency are translated to equivalent Liberian dollars using the exchange rates prevailing on the date(s) of initial recognition. Non-monetary items denominated in a foreign currency that are measured at fair value are translated into equivalent Liberian dollars using the exchange rates prevailing on the date(s) that fair value is determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from retranslation of foreign currency denominated monetary assets and liabilities at year-end are recognized in the income statement for the current period.

All foreign exchange gains and losses recognized are presented net within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income. Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2.3 Financial assets and liabilities

All financial assets and liabilities have been recognized in the statement of financial position and measured in accordance with their assigned categories.

2.3.1 Financial assets

The financial assets of the Bank consist of loans and other receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value, which is the cash consideration to originate the loan including any transaction costs. They are measured subsequently at amortized cost using the effective interest method. Loans and receivables are reported in the statement of financial position as loans and advances to customers. Interest on loans is included in the income statement. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the income statement as **'loan impairment charges.'**

2.3.2 Financial liabilities

Financial liabilities are valued in the statement of financial position at amortized cost. Such financial liabilities include customer deposits and debt collaterals for which the fair value option is not applied.

2.3.3 De-recognition of financial assets

Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset have expired or the Bank has transferred substantially all the risks and rewards of ownership. Any interest in the transferred financial asset that is created or retrieved by the Bank is recognized as a separate asset or liability. Financial liabilities are derecognized when contractual obligations are discharged, cancelled or expired.

2.3.4 Classes of financial instruments

The Bank classifies financial instruments into classes that reflect the nature and characteristics of those financial instruments. The classifications made are set out in the table below:

Category (As defined by IAS 39 and IFRS 9)	Class (As determined by the Group		Subclasses
Financial assets	(i) Loans and advances to customers	Loans to individuals (retail)	Overdrafts
		Loans to corporate entities	Term loans
			Mortgages
		Loans to corporate entities	Term loans Overdrafts
			Others
Financial liabilities.	(ii) Deposit from customers	Deposit from Banks	
		Domestic customers	
		Large corporate customers	
Guarantees, acceptances and other financial facilities			

(i) Loans and advances to customers

Loans and advances to customers are reported 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 effective interest rates to determine the fair value.

(ii) Deposits from Banks and 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.

(iii) Off-balance sheet financial instruments

The estimated fair values of the off-balance sheet financial instruments are based on market prices for similar facilities. Where this information is not available, fair value is estimated using discounted cash flow analysis.

2.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported when there is a legally enforceable right to offset the recognized amount and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.6 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognized within *interest* ***income*** **and** ***interest expense*** in the income statement using the effective interest method. The effective interest method is a method of calculating the amortized 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 instruments, including prepayment options, but does not consider future credit losses.

The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.7 Fees and commissions income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees that are likely to be drawn down are deferred, together with related direct costs, and recognized as an adjustment to the effective interest rate on the loan.

2.8 Impairment of financial assets

(a) ***Loans and other receivables carried at amortized cost***

The Bank assesses whether there is objective evidence that a financial asset is impaired at each reporting date. A financial asset is considered impaired only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event(s) has an impact on estimated future cash flows of the financial asset that can be reliably estimated. The criteria that the Bank uses to determine whether there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Bank would not otherwise consider;

(iv) a likely probability that the borrower will enter bankruptcy or other financial reorganization;

(v) observable data indicating that there is a measurable decrease in estimated future cash flows from a portfolio of financial assets, since initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

 (i) adverse changes in the payment status of borrowers in the portfolio; and

 (ii) national or local economic conditions that correlate with defaults on assets in the portfolio.

The estimate period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 3 and 12 months, in exceptional cases, longer periods are deemed warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using observable market prices.
The calculation of the present value of estimated future cash flows of a collateralized financial asset reflects cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans and other receivables are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in groups of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period including property prices, payment status and other factors indicative of changes in the probability of losses and their magnitude. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined. Impairment charges relating to loans and advances are recognized in loan impairment charges.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an observable or determinable improvement in the debtor's economic condition), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

(b) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as performing loans, when performance has been confirmed. In subsequent years, the asset is considered to be past due and disclosed as such only if renegotiated again.

2.9 Cash and cash equivalents

Cash and cash equivalents include currency notes and coins on hand, unrestricted balances held with the Central Bank of Liberia and highly liquid financial assets with original maturities of three (3) 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 amortized cost.

2.10 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of an item and any other cost(s) necessary to make the asset usable at the point of location. Buildings are shown at valuation less subsequent depreciation.

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset(s) only when it is probable that future economic benefits associated with the item(s) will flow to the Bank and the cost of the item(s) can be measured reliably. The carrying amount of a replaced part is derecognized.

All other repair and maintenance costs are reflected in the income statement for the financial period in which they are incurred.

Depreciation is recognized in the income statement on a straight line basis to write off the gross value less residual amounts over their estimated useful lives.

Depreciation on leasehold improvement is calculated on the remaining term of the lease or the economic life of an asset, whichever is shorter.
Depreciation rates for property and equipment assets are as follows:

	Percent
Motor vehicles	33.3
Equipment	20
Furniture and fittings	10
Computers	25
Software	20
Miscellaneous properties	33.3
Leasehold improvement	Lease Period

The residual value and the useful life of each asset or category of assets is reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are recognized in the income statement.

2.11 Intangible assets

Intangible assets comprise computer software licenses. Intangible assets are recognized at cost.

Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 3 years. Intangible assets with indefinite useful lives are not amortized.

At the end of each reporting period, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are tested to determine whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

2.12 Investment Properties

Investment properties include office buildings and other real properties that are held for long-term rental yields and or capital appreciation. Investment properties include properties constructed or developed for future use as investment properties.

Investment properties are recognized initially at cost and subsequently carried at fair value. An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure.

Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs. The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease, i.e. the asset shall be recognized at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognized as a liability.

For subsequent measurement an entity must adopt either the fair value model or the cost model as its accounting policy for all investment properties. All entities must determine fair value for measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). Fair value reflects market conditions at the end of the reporting period.

An investment property shall be de-recognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss. Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in profit or loss when the compensation becomes receivable.

2.12 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases.

2.13 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

2.14 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events that can be reliably estimated and it is probable that an outflow of resources will be required to settle the obligation.
Where there are a number of similar obligations which are likely to result in an outflow to settle related classes of obligations as a whole, a provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations is deemed small.

Provisions are measured at the present value of expenditures expected to be required to settle obligations using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the obligation. An increase in the provision due to passage of time is recognized as an interest expense.

2.15 Post balance sheet events

Events subsequent to the balance sheet date are reflected in the financial statements only to the extent that they relate to the year under consideration and the effects are material and measurable.

2.16 Employment benefits
Defined contribution plans

<u>Short-term benefits</u>

Short-term employee benefits obligations such as wages and salaries and social security contribution, paid annual leave and paid sick leave are measured on an undiscounted basis and are expensed as the related service is received. A provision is recognized for the amount expected to be paid under short-term cash bonus 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.

2.17 Key standards

IAS 32, 39 and IFRS 7 Financial Instruments

Under IFRS, financial assets and liabilities are required to be classified as **held for trading, fair value through profit and loss**; **loans and receivables** and **held to maturity** financial assets and liabilities.

i) **Impairment of Loans and Advances (Impairment per IFRS Vs CBL Prudential provision charges**

In keeping with the requirements of relevant regulations issued by the Central Bank of Liberia a specific risk provision for loan impairment is established to provide for management, estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for accounts that are not performing in accordance with the terms of the related facility agreement. A general provision of at least 1% is made for all performing exposures to recognize losses in respect of risks inherent in any credit portfolio.

Under IFRS, an impairment loss can only be accounted for if there is objective evidence that a loss has occurred after the initial recognition but before the date of the statement of financial position. IFRS also allows for the creation of credit impairment for losses incurred but not reported, in order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired. In general, impairment for credit losses under IFRS is lower than the level required by the central bank of Liberia (CBL). In fact, when the total of provision calculated in accordance with regulation No. CBL/RSD/005/2014 exceeds the amount of the allowance for impairment losses on financial assets, the bank must disclose the difference and its impact on the bank's profit and capital for the period.

Loans and Advances, origination fees and effective interest

Under IFRS loans and receivables are measured at amortized cost subsequent to initial recognition. On that basis, loans and receivables are measured at initial recognition value minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The bank in its practice does not recognize the origination fees proportionally to the life of loans and advances.

Therefore, the re-measurement under IFRS leads to the adjustment of fees income. The Bank has derecognized unamortized fees and reclassified same under other liabilities in order to bring its reporting of affected line items in line with IFRS.

ii) Restricted Assets

When restriction is imposed on the owner's use of an asset, that restriction necessarily changes the nature and normal understanding of the asset, and its availability for operations. As cases in point, deposits held with correspondent banks for letters of credit commitments and reserve requirements held with the Central Bank of Liberia were classified as cash and cash equivalents by the bank. However, under IFRS, reclassification is required for these items, from cash and cash equivalent to other current assets to reflect the restricted nature of the items. Due to policy changes at the Central Bank of Liberia, the Central Bank no longer maintain separate accounts for the Reserve Requirements calculated in United States dollars or its equivalent in Liberian dollars at 10% and 25% of customers deposits after every two weeks, but the Reserve Requirements and the Current Account are merged into one account, the bank's current account with the Central Bank – which is flexible to operate.

3. Financial Risk Management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets and products under best market practices.
The Bank's aim is to achieve an appropriate balance between risk and return and to minimize any potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Bank's Risk Department under policies approved by the Board of Directors. The Department identifies and evaluates financial risks in close co-operation with the other operating units of the Bank. The Board provides guidance for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, legal/compliance risk, liquidity risk, operational risk, strategic risk, and reputational risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include the various risks discussed below.

3.1 Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, market counterparties fail to fulfill their contractual obligations to the Bank.

Credit risk arises mainly from commercial and consumer loans and advances, but can also arise from credit enhancement provided, such as off-balance sheet items including guarantees, letters of credit, endorsements and acceptances. As credit risk is the single largest risk for the Bank's business, management closely and carefully monitors and manages its exposure to credit risk. Credit risk management and control are centralized in the Management Credit Committee.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and sectors in accordance with Central Bank of Liberia guidelines on single obligor or single sector limits.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any single borrower or categories of borrowers as well as to industry segments.

Such risks are monitored on a revolving basis and are subjected to annual or more frequent reviews, when considered necessary. Limits on the level of credit risk by product and industry sector are reviewed at least once annually by the Board of Directors.

The exposure to any one borrower including other financial institutions is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored periodically. Lending limits are reviewed in the light of changing market and economic conditions and quarterly credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:

- Mortgages over residential properties

- Charges over business assets such as premises, inventory and accounts receivables

Longer-term finance and lending to corporate entities are generally secured. In addition, in order to minimize credit loss, the Bank seeks additional collateral from counterparties as soon as impairment indicators are identified for relevant individual loans and advances.

Impairment and provisioning policies

Impairment allowances are recognized for financial reporting purposes only for losses that have been incurred as at the reporting date based on objective evidence of impairment.

3.1.3 Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring or as prescribed by the regulations.

3.1.4 Allowances for impairment

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

3.1.5 Write-off policy

The bank writes off a loan / security balance (and any related allowances for impairment losses), when Management Credit Committee, with approval from the Board, determines that the loans / securities are uncollectible.

This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.
For smaller balances standardized loans, charge off decisions are generally based on a product specific past due status.

3.1.6 Loan and advances to customers

(a) Loans and advances neither past due nor impaired