BONGHE MICROFINANCE BANK NIGERIA LIMITED

REGISTRATION NUMBER RC: 210301

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2021

GIWA OSAGIE, DFK & CO

(CHARTERED ACCOUNTANTS)

CORPORATE INFORMATION

1. **BOARD OF DIRECTORS**

Mr. Moses F. Ngbale	Chairman
Mrs. Irene H. Hamadu	Director
Prof. Kaletapwa Farauta	Director
Mrs. Marlyn B. Babayi	Director
Chief Ezekiel Namanzangon	Director
Mr. Titus Solomon	Director
Mrs. Grace A. M. Karka	Managing Director/CEO

2. **PRINCIPAL OFFICERS**

Mrs. Grace A. M. Karka	Managing Director
Mr. Mataluwo Rosley Lanamo	Head of IT
Mrs. Magdaleen S. Ibrahim	Head Recovery
Mr. Gapsiso K. Ferdinand	Head of Operation
Mrs. Marlyn E. Febian	Internal Audit
Mr. Amison Adiel	Head Risk Management
Mrs. Patricia Lazarus	Head of Admin
Miss. Tamohashishi A. Mbebo	Head of Credit
Mrs. Hwodipwa Jones	Head of Finance
Miss Furenungoh Takoni	Head of Marketing & Publicity

3. **REGISTERED OFFICE**
   No.89 Ahmadu Bello way,
   P.O. Box 570, Numan
   Adamawa State

4. **AUDITORS**
   Giwa Osagie, DFK& Co. (Chartered Accountants)
   No. 1 Bishop Street,
   P.O. Box 910, Jimeta -Yola
   Adamawa State.

5. **CORRESPONDENCE BANKS**
   First Bank of Nigeria Plc
   Zenith Bank Plc
   Unity Bank Plc
   Eco Bank Plc
   Sterling Bank Plc
   Guaranty Trust Bank Plc
   Heritage Bank Plc

RESULT AT A GLANCE FOR THE YEAR

Major profit or loss items:

	2021	2020	% Increase (Decrease)
	₦	₦	
Gross income	180,647,592	254,948,851	(29)
Profit before tax expenses	14,759,992	77,800,712	(81)
Tax expenses	(2,101,000)	(37,718,014)	(94)
Profit after tax expenses	12,658,992	40,082,698	(68)

At year end

Major financial position items:

Share capital	224,357,362	224,357,362	-
Total assets	997,892,838	855,581,783	17
Total liabilities	489,321,472	359,669,409	36
Shareholders' funds	508,571,366	495,912,374	3
EPS	5.64k	17.87k	

DIRECTORS' REPORT

For the financial year ended December 31, 2021

The Directors of Bonghe Microfinance Bank Nigeria Ltd are pleased to present their report on the affairs of the Bank together with the Bank's audited financial statements and the auditors' report for the financial year ended December 31, 2021. These financial statements have been prepared on the basis of International Financial Reporting Standards (IFRS) in line with the requirement of Financial Reporting Council of Nigeria (FRCN).

Legal form and principal activity

Bonghe Microfinance Bank Nig. Ltd was incorporated as a private Limited liability company and obtained a license to operate as a microfinance bank on September 14, 2007. The Bank's principal activity remains the provision of microfinance banking service to its customers, such as retail banking, granting of loans and advances and corporate finance.

Operating results

The Bank's Gross earnings decreased by 29%. Highlights of the Bank's operating results for the financial year ended December 31, 2021 are as follows:

	31 Dec. 2021	**31 Dec. 2020**
	₦	₦
Gross Earnings	180,647,592	254,948,851
Profit before income tax	14,759,992	77,800,712
Income tax expenses	(2,101,000)	(37,718,014)
Profit for the year	**12,658,992**	**40,082,698**

Dividend

The Directors proposed payment of dividend of 3k per ordinary share to Shareholders. This dividend is subject to approval of Shareholders at the Annual General Meeting and has not been included as a liability in these Financial Statements.

Directors and their interest

The Directors who held office during the year, together with their interest in the issued share capital of the Bank as recorded in the register of shareholders as noted below:

	31 Dec.2021	31 Dec. 2020
	No of share of ₦1 each	No of share of ₦1 each
Mr. Moses Ngbale	5,133,339	5,133,339
Mrs. Irene Hamadu	5,329,769	5,329,769
Prof. Kaletapwa Faurauta	2,681,206	2,681,206
Mrs. Marlyn Babayi	-	-
Chief Ezekiel, Namanzangon	-	-
Mr. Titus Solomon	-	-
Mrs. Grace A. M. Karka	751,262	751,262

DIRECTORS' REPORT

There has been no material change to Directors' shareholdings within the year under review, but the directors have purchased some shares worth N1,500,000 which is awaiting CBN's approval, these sums of money are in Deposit for Shares General Ledger.

Directors' interest in contracts

For the purpose of Section 277 of the Companies and Allied Matters Act (2004) as Amended none of the Directors has notified the bank of any declarable interest in the contract deliberated by the bank during the year under review. The selection and conduct of the company is in conformity with rules of ethics and acceptable standards. In addition, the Bank ensures that all transactions with the company are conducted at arm's length at all times.

Corporate Governance

The company is committed to the best practice and procedures in corporate governance. Its business is conducted in a fair, honest and transparent manner which confirms to high ethical standards.

Members of the Board of Directors hold quarterly meetings to decide on policy matters and direct the affairs of the company, review its performance, its operations, finances and formulate growth strategies. Attendance at Directors' meeting was impressive. In-line with the provision of Section 258(2) of the Companies and Allied Matter Act, C20 laws of the Federation of Nigeria 2004. The records of Director's attendance at Board meetings is available for inspection at the Annual General Meeting.

The remuneration of the Managing Director is fixed and reviewed by a committee of Non-Executive Directors.

The Board of Directors consists of 7 members, a Chairman, Managing Director and 5 Non- Executive Directors. Appointment is made by shareholders at the Annual General Meeting upon the recommendation of the Board of Directors. The oversight functions of the Board are performed through its committees, namely:

i. Assets and Liability Committee
ii. Board Credit Committee
iii. IT and Risk Management Committee
iv. Board Governance and Nomination Committee
v. Board Audit Committee

Post Financial Position Events

There were no post financial position events which could have a material effect on the financial position of the Bank as at December 31, 2021 on the date other than as disclosed in the financial statements.

Human Resources Policy

(1) Recruitment

The Bank conforms with all regulatory requirements in the employment of staff, whilst also ensuring that only fit and proper persons are approved for appointment to Board or Top Management positions. All prescribed pre-employment screening for prospective employees and other requirements for regulatory confirmation of top management appointments are duly implemented.

(2) Diversity and Inclusion

The Bank treats all employees, prospective employees and customers fairly and equally, regardless of their gender, sexual orientation, family status, race, colour, nationality, ethnic or national origin, religious belief, age physical or mental disability or any such factor.

DIRECTORS' REPORT

(3) Employment of physically Challenged Persons

The Bank operates a non-discriminatory policy in the consideration of application for employment, including those received from physically challenged persons in the event of any employee becoming physically challenged in the course of employment, where possible, the bank is in a position to arrange training to ensure the continuous employment of such a person without subjecting him/her to any disadvantage in his/her career development. In the year under review, the Bank had no persons on its staff list with physical challenges.

(4) Employee Involvement and Training

The Bank encourages participation of employees in arriving at decision in respect of matters affecting their well-being through various forums. Towards this end, the Bank provides opportunities where employee interests, with a view to making inputs to decisions thereon.

(5) Health Safety and Welfare of Employees

The Bank maintains business premises designed with a view to guaranteeing the safety conditions of its employees and customers alike.

(6) Property, Plant and Equipment

The movement in the property, plant and equipment during the year are shown on note 23 in the opinion of the directors, the market value of the Bank's properties is not less than the values shown in the financial statements.

(7) Auditors

Giwa Osagie, DFK & Co. (Chartered Accountants) have indicated their willingness to continue in office as External Auditors of the Bank in accordance with Section 357 (2) of the Companies and Allied Matters Act of Nigeria as amended and 2013 Microfinance Bank's Regulation and Guidelines.

(8) Fraud/Forgery

The Bank recorded fraud issues that the Audit committee notified the directors during the financial year end 31st December, 2021.

BY ORDER OF THE BOARD

Nzadon/Loari & Co.
Company Secretary
……………………….., 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of Directors' Responsibilities in Relation to the Financial Statements for the year ended December 31, 2021

The Directors accept responsibility for the preparation of the financial statements set out from pages 11 - 69 that gives a true and fair view in accordance with the requirements of the International Financial Reporting Standards.

The Directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act of Nigeria and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement whether due to fraud or error

Going Concern:

The Directors have made assessment of the Company's ability to continue as a going concern and have no reason to believe that the Bank will not remain a going concern in the years ahead.

Resulting from the above, the directors have a reasonable expectation that the company has adequate resources to continue operations for the foreseeable future. Thus, directors continued the adoption of the going concern basis of accounting in preparing the annual financial statements.

SIGNED ON BEHALF OF THE DIRECTORS BY:

Chairman	Managing Director/CEO
…………………………., 2022	…………………………………, 2022

REPORT OF THE AUDIT COMMITTEE

For the year ended December 31, 2021

To the members of Bonghe Microfinance Bank Nig. Ltd

In accordance with the provisions of Section 359 (6) of the Companies and Allied Matters Act 2004, as Amended the members of the Audit Committee of Bonghe Microfinance Bank Nig. Ltd hereby report as follows:

- We have exercised our statutory functions under Section 359 (6) of the Companies and Allied Matters Act, 2004 as Amended and acknowledge the co-operation of Management and Staff in the conduct of these responsibilities.
- We are of the opinion that the accounting and reporting policies of the Bank are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the year ended December 31, 2021 were satisfactory and reinforce the Bank's internal control systems.
- We are satisfied that the bank has complied with the provisions of the Central Bank of Nigeria circular BSD/1/2004 dated 18 February, 2004 on "Disclosure of directors' related credits in the Financial Statements of Banks", and hereby confirm that an aggregate of ₦653,270,071 balance (31st December, 2020 ₦638,710,585 balance) was outstanding as at December 2021. The status of performance of insider related credits is as disclosed in Note 32(b)
- We have deliberated with the External Auditors, who have confirmed that necessary cooperation was received from management in the course of their Statutory Audit and we are satisfied with the management's responses to the External Auditor's recommendations on accounting and internal control matters and with the effectiveness of the Bank's system of accounting and internal control.

Chief Ezekiel, Namanzangon
Chairman, Audit Committee

………………………, 2022

Members of the Audit Committee are:

1. Chief Ezekiel Namanzangon	Chairman
2. Mrs. Irene H. Hamadu	Member
3. Mrs. Marlyn B. Babayi	Member
4. Mrs. Marlyn Hananiya	Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF BONGHEMICROFINANCE BANK LIMITED

We have audited the accompanying financial statements of Bonghe Microfinance Bank Nig. Ltd. These financial statements comprise statement of financial position as 31 December, 2021 and the statement of comprehensive income, changes in equity and cash flows for the 12 months then ended and summary of significant accounting policies and other explanatory notes.

Respective Responsibilities of the Directors and Auditors

The Banks Directors are responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards and Financial Reporting Council of Nigeria. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Contraventions

During the year ended 31st December 2021 the Bank contravened sections 4.2, 8.3(b) and 22.00 of the Guidelines for Microfinance Banks 2013 as amended and complied with the provision of the Bank and Other Financial Institutions Act, 1991 and all relevant circulars issued by the Central Bank of Nigeria (CBN).

OPINIONS

Subject to the adjustments arising from the contraventions stated in the immediate preceding paragraph, in our opinion, proper books of accounts have been kept and the financial statements give a true and fair view of the state of affairs of the Bank as at 31st December, 2021 and of its financial performance and its cash flows for the year ended on that date and have been properly prepared in accordance with the International Financial Reporting Standards, provisions of the Companies and Allied Matters Act 1990, the Banks and Other Financial Institutions Act, 1991 and the Financial Reporting Council of Nigeria Act and complied with requirements of all relevant Guidelines and Circulars issued by the Central Bank of Nigeria (CBN). The information required by central bank of Nigeria circular BSD/I/2004 on insider related credits is disclosed in Note 32 of the financial statements.

Giwa Osagie, DFK & Co
Chartered Accountants **………………………..2022**
Jimeta, Yola

FINANCIALS

Statement of financial position

As at 31st December 2021

		Notes		Dec 2021	Dec. 2020	1st Jan. 2020
				₦	₦	₦
Cash and cash equivalent	-	4	18	234,907,681	150,844,614	200,418,211
Investment – fair value OCI	4	6	19	-	-	-
Loans and advances	4	6	20	653,270,071	638,710,585	446,320,601
Other assets	4	6	21	50,469,239	9,439,182	22,271,046
Intangible assets	4	6	22	-	-	-
Property, plant and equipment	4	6	23	59,245,847	56,587,402	63,871,695
Total assets				**997,892,838**	**855,581,783**	**732,881,553**
Liabilities:						
Deposits from customers			24	191,216,082	189,033,003	131,410,977
Current income tax liabilities			17	85,493,443	83,392,443	45,674,429
Other Liabilities			25	212,611,947	87,243,963	91,959,076
Total liabilities				**489,321,472**	**359,669,409**	**269,044,482**
Equity						
Capital and reserves:						
Share capital			26	224,357,362	224,357,362	224,357,362
Statutory reserve			27	220,397,623	217,232,875	207,212,200
Regulatory risk reserve			28	19,906,465	-	-
Retained earnings			29	43,909,916	54,322,137	32,267,509
Total equity				**508,571,366**	**495,912,374**	**463,837,071**
Total equity and liabilities				**997,892,838**	**855,581,783**	**732,881,553**

These Financial Statements Were Approved by the Board of Directors on ……………….2022 and signed on its behalf by;

………………………………………..

Mataluwo Rosley Lanamo

Director

FRC/2023/PRO/DIR/003/191277

………………………………………..

Mr. Moses Mgbale

Director

FRC/2023/PRO/DIR/003/760603

The accompanying notes are an integral part of these financial statements see note 1 – 46

FINANCIALS

Statement of profit or loss and other comprehensive income
For the Year ended 31 December 2021

	Notes	Dec – 2021	Dec-2020
		₦	₦
Interest income	7	44,199,092	91,814,113
Interest expenses	8	(2,495,015)	(2,015,470)
Net interest income		**41,704,077**	**89,798,643**
Loan impairment charges	9	(78,553,967)	(93,998,374)
Income after loan impairment charges		**(36,849,890)**	**(4,199,731)**
Fee and commission income	10	103,768,684	124,995,548
Fee and commission expenses	11	(2,218,886)	(2,181,044)
Net fee and commission income		**101,549,798**	**122,814,504**
Other income	12	32,679,816	38,139,190
Net impairment on other financial assets	13	(80,000)	-
Personnel expenses	14	(43,356,613)	(40,194,963)
Depreciation and amortization	15	(2,161,555)	(8,406,993)
Other operating expenses	16	(37,021,564)	(30,351,295)
Profit before income tax		**14,759,992**	**77,800,712**
Income tax expenses	17	(2,101,000)	(37,718,014)
Profit for the year		**12,658,992**	**40,082,698**
Other comprehensive income:			
Changes in fair value of financial assets FVOCI		-	-
Foreign exchange difference		-	-
Net changes fair value of financial assets		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year			
Basic Earnings per share		**12,658,992**	**40,082,698**
		5.64k	**17.8k**
Return on Capital Employed (ROCE)		**1.27k**	**4.68k**

The accompanying notes are an integral part of these financial statements see note 1-46

FINANCIAL

Statement of Changes in Equity

December 2021

	Share capital ₦	Regulatory risk reserve ₦	Statutory regulatory reserves ₦	Retained earnings ₦	Total equity ₦
Balance at 1 January 2021	**224,357,362**	**-**	**217,232,875**	**54,322,137**	**495,912,374**
Changes on initial application of IFRS 9 note 31(c)	-	-	-	-	-
Restated balance as at 1 January 2021	**224,357,362**	**-**	**217,232,875**	**54,322,137**	**495,912,374**
Total comprehensive income for the year:	-	-	-	**12,658,992**	**12,658,992**
Transaction with equity holders, recorded directly in equity:					
Transfer for the year	-	**19,906,465**	**3,164,748**	**(23,071,213)**	-
Balance at 31 December 2021	**224,357,362**	**19,906,465**	**220,397,623**	**43,909,916**	**508,571,366**

Statement of Changes in Equity

December 2020

	Share capital ₦	Regulatory risk reserve ₦	Statutory regulatory reserves ₦	Retained earnings ₦	Total equity ₦
Balance at 1 January 2020	224,357,362	-	207,212,200	32,267,509	463,837,071
Changes on initial application of IFRS9 Note 31 d	-		-	(8,007,395)	(8,007,395)
Restated balance 1/1/2020	224,357,362		207,212,200	24,260,114	455,829,676
Total comprehensive income for the year:	-	-	-	40,082,698	40,082,698
Transaction with equity holders, recorded directly in equity:					
Transfer for the year	-	-	10,020,675	(10,020,675)	-
Balance at 31 December 2020	**224,357,362**	**-**	**217,232,875**	**54,322,137**	**495,912,374**

FINANCIAL

Statements of cash flows

For the Year ended 31 December 2021

	Notes	Dec – 2021 ₦	Dec – 2020 ₦
Cash flows from operating activities			
Profit for the year		12,658,992	40,082,698
Adjustments for Income Tax Expenses		2,101,000	37,718,014
Depreciation of property and equipment	23	2,161,555	8,406,993
Amortization of Intangibles		-	-
Gain on disposal of property and equipment		-	-
Fair value changes of financial assets (FVOCI)		-	(7,707,395)
Net changes in operating activities		**16,921,547**	**(78,500,310)**
Net Changes in working capital(Assets and liabilities):			
Loan and advances to customers		(14,559,486)	(192,389,984)
Other Assets		(41,030,057)	12,837,912
Deposits from customers		2,183,079	57,622,026
Other liabilities		125,367,984	(4,731,627)
Cash inflow from operating activities		**88,883,067**	**(48,161,363)**
Income tax paid		-	-
Net cash provided by operating activities		**88,883,067**	**(48,161,363)**
Cash flows from investing activities			
Purchase of property and equipment		(4,820,000)	(1,122,700)
Proceeds from the sale of property and equipment		-	**-**
Increase in investment		-	-
Net cash used in investing activities		**(4,820,000)**	**(1,122,700)**
Cash flows from financing activities			
Dividends paid to owners	**25**	**-**	**(289,534)**
Net cash used in financing activities		**-**	**(289,534)**
Net increase (decrease) in cash and cash equivalents		**84,063,067**	**(49,573,597)**
Cash and cash equivalents at beginning of the year		**150,844,614**	**200,418,211**
Cash and cash equivalent at end of the Year	**18(a)**	**234,907,681**	**150,844,614**

ACCOUNTING POLICIES

ACCOUNTING POLICIES

1. Corporate information

Bonghe Microfinance Bank Nig. Ltd (the Bank) is a company domiciled in Nigeria. The address of the Bank's registered office is No. 89 Ahmadu Bello way, Numan-Adamawa State.

2. Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act 1991. For all periods up to and including the year ended 31st December, 2020, the Bank prepared its financial statements in accordance with Local Generally Accepted Accounting Principles (Local GAAP). These Financial Statements for the year ended 31st December, 2021 are the first, the Bank has prepared in accordance with IFRS, note 4 presents information on how the Bank adopted IFRS including the effect of the adoption on the reported retained earnings and equity of the Bank. The Bank presents its statements of financial position broadly in order of liquidity. The financial statements have been audited and were authorized for issue by the directors on …xxxx………………………..2022.

3. (a) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(b) Functional and presentation currency

These financial statements are presented in Nigerian Naira, which is the Bank's functional currency.

(c) Basis of measurement

- The financial statements have been prepared on the historical cost basis except for the following.
- Derivative financial instruments which are measured at fair value
- Non-derivative financial instruments, carried at fair value through profit or loss, are measured at fair value.
- Fair value through other comprehensive income (FVOCI) financial assets are measured at fair value through equity.
- Assets and liabilities held for trading are measured at fair value.
- Assets and liabilities held to maturity are measured at amortized cost.
- Loans and receivables are measured at amortized cost.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised and in any future periods affected.

ACCOUNTING POLICIES

(e) Changes to accounting policies

New and amended standards and interpretations

The Bank had adopted IFRS 9 with a transition date of 1 January 2020. This resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

Standards and interpretations effective during the reporting period

Amendments to the following standard(s) became effective in the annual period starting from 1st January, 2018. The new reporting requirements as a result of the amendment and/or clarifications have been evaluated and their impact or otherwise are noted below:

IFRS 15 – Revenue from contracts with customers

In May 2004, the IASB issued IFRS 15 Revenue from contracts with customers effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g. IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The following five steps model in IFRS 15 is applied in determining when to recognize revenue and at what amount.

a. Identify the contract(s) with a customer
b. Identify the performance obligations in the contract
c. Determine the transaction price
d. Allocate the transaction price to the performance obligations in the contract
e. Recognize revenue when (or as) the entity satisfies a performance obligation

The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timings as well as any uncertainty of revenue and the corresponding cash flows with customers.

The Bank has adopted IFRS 15 Revenue from contracts with Customers form 1 January 2020. However, the adoption of IFRS 15 did not result in any adjustments to the amounts recognized in the financial statements as the Bank's previous accounting treatment is in line with the requirements of IFRS 15.

There was no impact on the Bank's retained earnings at the date of initial application (i.e 1 January 2021).

Amendments to IFRS 2 – Share Based Payment – Classification and measurement of share based payment transactions.

This standard clarifies classification and measurement of share based payment transaction with net settlement features for withholding tax obligations (i.e. equity settled share based payment for employees and cash settled share based payment for withholding taxes). It Bonghe an exemption to alleviate operational issues encountered in dividing the share based payment into cash-settled and equity-settled component. The amendments also clarify modifications of terms and conditions that change classifications from cash-settled to equity-settled as well as application of non-market vesting conditions. These amendments do not have any material impact on the Bank.

ACCOUNTING POLICIES

IFRS 16 – Leases

The IASB issued the new standard for accounting for leases – IFRS 16 leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it requires lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance leases accounting, with interest and depreciation expenses recognized separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Leases must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The standard does not impact the Bank in any way as the Bank does not engage in leasing business.

Amendments to IAS 19

This amendment was issued 7 February 2018 and became effective 1 January 2019. It prescribes the accounting for all types of employee benefits except share –based payment, to which IFRS 2 applies. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 requires an entity to recognize:

- A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- An expense when the entity consumes the economic benefits arising from the service provided by an employee benefits.

The amendments clarify that:

- On amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its cost and net interest for the period: and
- The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

This standard has no impact on the Bank.

IFRIC 23 – Uncertainty over Income Tax Treatments

This standard, which became effective 1 January 2019, clarifies the accounting policies for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases unused tax losses, unused tax credits and tax rates, when there is uncertainty over tax treatments under IAS 12. The Bank has considered the guidance included within the interpretation and concluded that the prescribed approach does not have a material impact on the Bank.

IFRS 9 – Financial instruments

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening Retained earnings of the current period. Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

ACCOUNTING POLICIES

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 introduces a new approach for classification and measurement of financial instruments and a more forward looking impairment methodology.

Classification and Measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortized cost. Financial assets will be measured at amortized cost if they are held within a business model with the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent Solely Payments of Principal and Interest (SPPI). Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows and selling financial assets and their contractual cash flows represent solely payment of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

The Bank has undertaken assessment to determine the potential impact of changes in classification and measurement of financial assets. The adoption of IFRS 9 did not result in significant changes to existing asset measurement bases.

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributes to changes in own credit risk shall be presented in other comprehensive income.

Impairment Methodology

The IFRS 9 impairment model will be applicable to all financial assets at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantees not measured at fair value through profit or loss. IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss (ECL) model, resulting in earlier recognition of credit losses compared with IAS 39. Expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions. The ECL model has three stages. Entities are required to recognize a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.

The requirements to recognize lifetime ECL for loans which have experienced a significant increase in credit risk since origination, but which are not credit impaired, does not exist under IAS 39. The assessment of whether an asset is in stage 1 or 2 considers the relative change in the probability of default occurring over the expected life of the instrument, not the change in the amount of expected credit losses. Reasonable and supportable forward looking information will also be used in determining the stage allocation. In general, assets more than 30 days past due, but not credit impaired will be classified as stage 2.

IFRS 9 requires the use of more forward looking information including reasonable and supportable forecasts of future economic conditions.

ACCOUNTING POLICIES

The Bank has evaluated a number of economic scenarios and captures the impact on credit losses to ensure the overall ECL represents a reasonable distribution of economic outcomes. Appropriate governance and oversight has been established around the process.

The Bank has not applied the following new or amended standards in preparing these financial statements as the adoption of these standards at their respective effective dates will not impact on the Bank. Commentaries on these new standards/amendments are provided below.

Standards and interpretation issued/amended but do not impact on the Bank Financial Statements.

The following standards have been issued or amended by the IASB but do not impact on the bank for the periods beginning on or after 1 January 2021.

Standard	Content	Effective Date
IFRS 3	Business combination	1 - Jan - 20
IFRS 17	Insurance Contract	1 - Jan - 20
IAS 1 & IAS 8	Definition of materials	1 - Jan - 20

The Bank has not applied the following new or amended standards in preparing these financial statements as they do not impact on the Bank at their respective effective dates. Commentaries on these new standards/amendments are provided below.

IFRS 17-Insurance Contracts

The I7 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021. The new IFRS 17 standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure an entity provides relevant information that faithfully represents those contracts. This information gives basis for users of financial statements to assess the effect that insurance contracts have on the Bank. The Bank is not affected in anyway as the Bank does not engage in insurance business

Amendments to IFRS 3 (Business Combination)

IFRS 3(Business Combinations) outlines the accounting when an acquirer obtains control of a business (e.g. An acquisition or merger). In October 2018, after the post implementation review of IFRS 3, the IASB issued an amendment to IFRS 3 which centers majorly on the definition of a business.

They include:

- That to be considered a business, an acquired set of activities and assets must include' at minimum, an input and a substantive process that together significantly contribute to the ability to create outputs:
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired.
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs: and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The effective date is on or after 1st January 2020. This amendment does not have any impact on the Bank.

ACCOUNTING POLICIES

Amendment to IAS 1 and IAS 8

In October 2018, the IASB issued the definition 'material'. The amendments are intended to clarify, modify and ensure that the definition 'material' is consistent across all IFRS. In IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the revised definition of 'material' is quoted below:

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

The amendment laid emphasis on five (5) ways material information can be obscured. These include:

- If the language regarding a material item, transaction or other event is vague or unclear,
- If information regarding a material item, transaction or other event is scattered in different places in the financial statements;
- If dissimilar items, transactions or other events are inappropriately aggregated; and
- If similar items, transactions or other events are inappropriately disaggregated; and
- If material information is hidden by immaterial information to the extent that it becomes unclear what information is material.

The amendments are effective for annual reporting periods beginning on or after 1st January 2020. The Bank has taken into consideration the new definition in the preparation of its annual account

.3. Other Accounting Policies

Other accounting policies that have been applied are:

(a) Interest

Interest income and expenses for all interest and interest-bearing financial instruments are recognized in the profit or loss and other comprehensive income statement within "interest income" and "Interest expense" using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, the next re-pricing date) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest rate includes contractual fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Whilst interest revenue is always required to be presented as a separate line item, it is calculated differently according to the status of the asset with regard to credit impairment.

For a financial asset that has not become credit impaired since initial recognition, interest revenue is calculated using a "gross method" of applying the effective interest rate method to the gross carrying amount of the asset (i.e its carrying amount excluding the loss allowance).

For a financial asset that subsequently has become credit-impaired, from the beginning of the next reporting period, interest revenue is calculated using 'net method' of applying the effective interest rate to the net amortized cost balance (i.e. including the loss allowance).

Interest Income and expenses presented in the income statement include:

- Interest on financial assets and liabilities measured at amortized cost calculated on effective interest basis
- Interest on financial assets measured at FVTPL
- Interest on financial assets measured at FVTOCI

(b) Fees and commission

Fees and commission that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate. Fees, such as processing and management fees charged for accessing the financial position of the borrower, evaluating and reviewing guarantee, collateral and other security, negotiation of instruments terms, preparing and processing documentation and finalizing the transaction are an integral part of the effective interest rate on a financial asset or liability and are included in the measurement of the effective interest rate of financial assets or liabilities.

Other fees and commissions which relates mainly to transaction and service fees, including loan account restructuring and service fees, investment management and other fiduciary activity fees, sales, commission, placement line fees, syndication fees and guarantee issuance fees are recognized as the related services are provided/performed.

(c) Net gain on financial instruments classified as held for trading

Net trading income comprises gains less losses related to trading assets and liabilities, and it includes all fair value changes, dividends and foreign exchange differences.

(d) Dividend income

Dividend income is recognized when the right to receive income is established. Dividends on trading equities are reflected as a component of Net gains on financial instrument classified as held for trading. Dividend income on long term equity investments is recognized as a component of other income.

(e) Leases

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

(a) The Bank is the lessee

(i) Operating lease

Leases in which a significant portion of the risk 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 statements on a straight-line basis over the period of the base. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(ii) Finance lease

Leases, where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the outstanding balance of the finance lease.

The corresponding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b) The Bank is the lessor

When assets are leased to a third party under finance lease terms, the present value of the lease income is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method (before tax) which reflects a constant periodic rate of return.

(f) Income Tax

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and it consists of company Income Tax, Education tax. Company income tax is assessed at a statutory rate of 30% of total profit after deducted capital allowance. Education tax is computed as 2.5% of assessable profit.

Current income tax is recognized as an expense for the period except to the extent that current tax is related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, deferred tax is charged or credit to other comprehensive income or to equity (for example, current tax on FVOCI).

Where the Bank has tax losses that can be relieved only by carrying it forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position.

The Bank evaluates position stated in tax returns; ensuring information disclosed are in agreement with the underlying tax liability, which has been adequately provided for in the financial statements.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rate (and laws) that have been enacted or substantively enacted by the end of the reporting period and are excepted to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. However, the deferred income tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognized when it is probable that future taxable profit will be available against which these temporary differences can be utilized. The tax effects of carry-forwards of unused losses or unused tax credits are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

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

ACCOUNTING POLICIES

(g) Financial assets and liabilities

I. Recognition

The Bank on the date of origination or purchase recognizes loans, debt and equity securities and deposits at the fair value of consideration paid. For non-revolving facilities, origination date is the date the facility is disbursed, origination date for revolving facilities is the date the line is availed. Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and liabilities, including derivatives, are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Classification and Measurement

Initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributed to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss. Financial assets include both debt and equity instruments.

Financial assets are classified into one of the following measurement categories:

- Amortized cost
- Fair Values through Other Comprehensive Income (FVOCI)
- Fair value through profit or loss (FVTPL) for trading related assets.

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics.

Business Model Assessment

Business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows, selling financial assets or both. The Bank assesses business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of business model, the Bank takes into consideration the following factors:

- The stated policies and objectives for the portfolio and the operations 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 realizing cash flows through the sale of the assets.
- How the performance of asset in a portfolio is evaluated and reported to department heads and other key decision makers within the Bank's business lines;
- The risks that affect the performance of assets held within a business model and how those risks are managed.
- How compensation is determined for the Bank's business lines management that manages the assets; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

Management determines the classification of the financial instruments at initial recognition. The business model assessment falls under three categories:

- Business Model 1 (BM 1): Financial assets held with the sole objective to collect contractual cash flows;
- Business Model 2 (BM 2): Financial assets held with the objective of both collecting contractual cash flows and selling; and

- Business model 3 (BM 3): Financial assets held with neither of the objectives mentioned in BM1 or BM2 above. These are basically financial assets held with the sole objective to trade and to realize fair value changes.

The Bank may decide to sell financial instruments held under the BM 1 category with the objective to collect contractual cash flows without necessarily changing its business model if one or more of the following conditions are met:

- When the Bank sells financial assets to reduce credit risk or losses because of an increase in the assets' credit risk. The Bank considers sale of financial assets that may occur in BM1 to be infrequent if the sales is one-off during the financial year and/or occurs at most once during the quarter or at most three (3) times within the financial year.
- Where these sales are infrequent even if significant in value. A sale of financial assets is considered infrequent if the sales is one-off during the financial year and/or occurs at most once during the quarter or at most three (3) times within the financial year.
- Where these sales are insignificant in value both individually and in aggregate, even if frequent. A sale is considered insignificant if the portion of the financial assets sold is equal to or less than five (5) per cent of the carrying amount (book value) of the total assets within the business model.

When these sales are made close to the maturity of the financial assets and the proceeds from the sales approximates the collection of the remaining contractual cash flows. A sale is considered to be close to maturity if the financial assets has tenor to maturity of not more than one (1) year and/or the difference between the remaining contractual cash flows expected from the financial asset does not exceed the cash flows from the sales by ten (10) per cent.

- Other reasons: The following reasons outlined below may constitute 'Other reasons' that may necessitates selling financial assets from in BM1 category that will not constitute a change in business model:
- ▪ Selling the financial asset to realize cash to deal with unforeseen need for liquidity (infrequent)
- ▪ Selling the financial asset to manage credit concentration risk (infrequent)
- ▪ Selling the financial assets as a result of changes in tax laws (infrequent)
- ▪ Other situations also depend upon the facts and circumstances which need to be judged by the management.

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration of the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

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

- ▪ Contingent events that would change the amount and timing of cash flows
- ▪ Leverage features;
- ▪ Prepayment and extension terms.

- Terms that limit the Banks claim to cash flows from specified assets (e.g non-recourse asset arrangement) and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

a) Financial assets measured at amortized cost

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in Interest income in the Statement of Income. Impairment on financial assets measured at amortized cost is calculated using the expected credit loss approach.

Loans and advances measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

b) Financial assets measured at FVOCI

Financial assets are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive Income (OCI), unless the instrument is designated in a fair value hedge relationship. Upon de-recognition, realized gains and losses are reclassified from OCI and recorded in Other Income in

the Statement of Income. Foreign exchange gains and losses are recognized in other comprehensive income (OCI). Impairment on financial assets measured at FVOCI is calculated using the expected credit loss approach.

c) Financial assets measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. Financial assets may also be designated at FVTPL if by so doing eliminates or significantly reduces an accounting mismatch which would otherwise arise. These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in the Statement of Income as part of Other Income. Realized and unrealized gains and losses are recognized as part of Other Income in the Statement of Income.

d) Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, any contract that evidences a residual interest in the issuer's net assets. Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized as part of Other Income in the Statement of Income. The Bank can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer term investment purposes. The FVOCI election is made upon initial recognition, on an instrument-by-instrument basis and once made is irrevocable. Gains and losses on these instruments including when derecognized/sold are recorded in OCI and are not subsequently reclassified to the Statement of Income. Dividends received are recorded in other income in the Statement of Income.

Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the Statement of Income on sale of the security. Transaction cost on disposal of equity instruments is recognized as an expense in the income statement.

Financial liabilities are classified into one of the following measurement categories:

- Amortized cost
- Fair Value through Profit or Loss (FVTPL)

e) Financial Liabilities at fair value through profit or loss

Financial liabilities accounted for at fair value through profit or loss fall into two categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss on inception.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

Financial Liabilities are designated at FVTPL when either the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or the financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required. For liabilities designated at fair value through profit or loss, all changes in fair value are recognized in Other Income in the Statement of Income, except for changes in fair value arising from changes in the Bank's own credit risk which are recognized in OCI. Changes in fair value of liabilities due to changes in the Bank's own credit risk, which are recognized in OCI, are not subsequently reclassified to the Statement of Income upon derecognition/ extinguishment of the liabilities.

f) Financial Liabilities at amortized cost

Financial liabilities that are not classified at fair value through profit or loss fall into this category and are measured at amortized cost using the effective interest rate method. Financial liabilities measured at amortized cost are deposits from customers and other borrowed funds.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and balances held with other banks, Money market placements and compulsory investment in Nigeria treasury bills which are subject to 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 Statements of financial position.

III. Reclassifications

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.

A change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations such as:

- Significant internal restructuring or business combinations; for example, an acquisition of a private asset management company that might necessitate transfer and sale of loans to willing buyers, this action will constitute changes in business model and subsequent reclassification of the Loan held from BM1 to BM2 Category
- Any other reason that might warrant a change in the Bank's business model as determined by management based on facts and circumstances.

The following are not considered to be changes in the business model:

- A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions)
- A temporary disappearance of a particular market for financial assets.

When reclassification occurs, the Bank reclassifies all affected financial assets in accordance with the new business model. Reclassification is applied prospectively from the 'reclassification date'. Reclassification date is 'the first day of the first reporting period following the change in business model.

IV. Modification of financial assets and liabilities

a. Financial assets

When the contractual terms of a financial asset are modified, 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 derecognized and a new financial asset is recognized at fair value. Any difference between the amortized cost and the present value of the estimated future cash flows of the modified asset or consideration received on derecognition is recorded as a separate line item in profit or loss as 'gains and losses arising from the derecognition of financial assets measured at amortized cost.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, the Bank shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:

- the risk of a default occurring at the reporting date (based on the modified contractual terms); and
- the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms)

In determining when a modification to terms of a financial asset is substantial or not to the existing terms, the Bank will consider the following non-exhaustive criteria:

Quantitative criteria

A modification would lead to derecognition of existing financial asset and recognition of a new financial asset, i.e. substantial modification, if:

- The discounted present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

In addition to the above, the bank shall also consider qualitative factors as detailed below:

Qualitative criteria

Scenarios where modifications will lead to derecognition of existing loan and recognition of a new loan, i.e. substantial modification, are:

- The exchange of a loan for another financial asset with substantially different contractual terms and conditions such as the restructuring of a loan to a bond; conversion of a loan to an equity instrument of the borrower
- Roll up of interest into a single bullet payment of interest and principal at the end of the loan term

Other factor to be considered:

- Extension of maturity dates

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 derecognized (see above) 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.

b. Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. 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 extinguished and the new financial liability with modified terms is recognised in profit or loss.

De-recognition of financial instruments

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

ACCOUNTING POLICIES

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as ‘Assets pledged as collateral’, if the transferee has the right to sell or repledge them.

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 transferred), 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 recognized in other comprehensive income is recognized in profit or loss.

V. Impairment of Financial Assets

In line with IFRS 9, the Bank assesses the under listed financial instruments for impairment using Expected Credit Loss (ECL) approach:

- Amortized cost financial assets;
- Debt securities classified as at FVOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

Equity instruments and financial assets measured at FVTPL are not subjected to impairment under the standard

Expected Credit Loss Impairment Model

The Bank’s allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either over the following twelve months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The Bank adopts a three-stage approach for impairment assessment based on changes in credit quality since initial recognition.

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The guiding principle for ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments since initial recognition. The ECL allowance is based on credit losses expected to arise over the life of the asset (life time expected credit loss), unless there has been no significant increase in credit risk since origination.

Measurement of Expected Credit Losses

The probability of default (PD), exposure at default(EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modeled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

- **PD** – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

- **12-month PDs** – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs. The Bank obtains the constant and relevant coefficients for the various independent variables and computes the outcome by incorporating forward looking macroeconomic variables and computing the forward probability of default.

- **Lifetime PDs** – This is the estimated probability of default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for ‘stage 2’ and ‘stage 3’ exposures. PDs are limited to the maximum period of exposure required by IFRS 9. The Bank obtains 3 years forecast for the relevant macroeconomic variables and adopts exponentiation method to compute cumulative PD for future time periods for each obligor.

- **EAD** – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- **LGD** – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable andsupportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires that:

- The Bank uses internal subject matter experts from Risk, Treasury and Business Divisions to consider a range of relevant forward looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments in order to support the calculation of ECLs.
- Macro-economic variables taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation, and exchange rate, and requires an evaluation of both the current and forecast direction of the macroeconomic cycle.
- Macro-economic variables considered have strong statistical relationships with the risk parameters (LGD, EAD, and PD) used in the estimation of the ECLs, and are capable of predicting future conditions that are not captured within the base ECL calculations.
- Forward looking adjustments for both general macro-economic adjustments and more targeted at portfolio / industry levels. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

ACCOUNTING POLICIES

Macroeconomic factors

The Bank relies on a broad range of forward looking information as economic inputs, such as: unemployment rates, central bank base rates, inflation rates and foreign exchange rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement.

The macroeconomic variables and economic forecasts as well as other key inputs are reviewed and approved by management before incorporated in the ECL model. Any subsequent changes to the forward looking information are also approved before such are inputted in the ECL model.

The macro economic variables are obtained for 3 years in the future and are reassessed every 12 years to ensure that they reflect prevalent circumstances and are up to date.

Where there is a non-linear relationship, one forward-looking scenario is never sufficient as it may result in the estimation of a worst-case scenario or a best case scenario. The Bank's ECL methodology considers weighted average of multiple economic scenarios for the risk parameters (basically the forecast macroeconomic variables) in arriving at impairment figure for a particular reporting period.

SICR is assessed once there is an objective indicator of a deterioration in credit risk of customer. In addition, the Bank as part of its routine credit processes perform an assessment on a quarterly basis to identify instances of SICR.

Multiple forward-looking scenarios

The Bank determines allowance for credit losses using three probability-weighted forward-looking scenarios. The Bank considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Bank prepares the scenarios using forecasts generated by credible sources such as Central Bank of Nigeria (CBN), and Trading Economics.

The Bank estimates three scenarios for each risk parameter (LGD, EAD, and PD) – Normal, Upturn and Downturn, which in turn is used in the estimation of the multiple scenario ECLs. The 'normal case' represents the most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

Assessment of significant increase in credit risk (SICR)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors. The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region.

The Bank adopts a approach in assessing changes in credit risk. This approach considers: Quantitative (primary), Qualitative (secondary) and Back stop indicators which are critical in allocating financial assets into stages.

The quantitative factors consider deterioration in the credit rating of obligor/counterparty based on the Bank's internal rating system or External Credit Assessment Institutions (ECAI) while qualitative factors consider information such as expected forbearance, restructuring, exposure classification by licensed credit bureau, etc.

A backstop is typically used to ensure that in the (unlikely) event that the primary (quantitative) indicators do not change and there is no trigger from the secondary (qualitative) indicators, an account that has breached the 30 days past due criteria for SICR and 60 days past due criteria for default is transferred to stage 2 or stage 3 as the case may be except there is a reasonable and supportable evidence available without undue cost to rebut the presumption.

Definition of Default and 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 are credit-impaired. 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 lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- 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.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
- Others include death, insolvency, breach of covenants, etc.

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, loans that are more than 90 days past due are considered impaired.

Presentation of allowance for ECL in the statement of financial position

Loan 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;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- 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.

VI. Write-off

The Bank writes off an impaired financial asset (and the related impairment allowance), either partially or in full, where there is no reasonable expectation of recovery as set out in IFRS 9, paragraph 5.4.4. After a full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure shall be recommended for write-off (either partially or in full):

- continued contact with the customer is impossible;
- Recovery cost is expected to be higher than the outstanding debt;
- The bank's recovery method is foreclosing collateral and the value of the collateral is such that there is reasonable expectation of recovering the balance in full.

All credit facility write-offs shall require endorsement at the appropriate level, as defined by the Bank. Credit write-off approval shall be documented in writing and properly initialed by the approving authority.

A write-off constitutes a derecognition event. However, 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 amount due. Whenever amounts are recovered on previously written off credit exposures, such amount recovered is recognised as income on a cash basis only.

VII. Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument. Where a hybrid contains a host that is a financial asset in the scope of IFRS 9, the entire hybrid contract, including the embedded features, is measured at FVTPL.

VIII. Offsetting financial instruments

Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the company or the counterparty.

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

(g) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification as amortised cost, fair value through profit or loss or fair value through other comprehensive income.

(h) Repossessed Collateral

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'Other assets'.

ACCOUNTING POLICIES

(i) Property, Plant and equipment

(j) Recognition and measurement

The bank recognizes items of property, plant and equipment at the time the cost is incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment as well as the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of using the item during a particular period.

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The assets' carrying values and useful lives are reviewed, and written down if appropriate, at each reporting date. Assets are impaired whenever events or changes in circumstances indicate that the carrying amount is less than the recoverable amount; see note (m) on impairment of non-financial assets.

(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 carrying amount of the replaced part is derecognised. The costs of the day-to- day servicing of property and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis to write down the cost of each asset, to their residual values over the estimated useful lives.

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. A non-current asset or disposal Group is not depreciated while it is classified as held for sale.

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

Item of Property, Plant and Equipment	Estimated Useful Life
Lease hold improvement Building	20 years
Furniture and fittings	10 years
Office Equipment	10 years
Motor vehicles	5 years
Plant and machinery	10 years

Capital work in progress is not depreciated. Upon completion it is transferred to the relevant asset category. Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Cost of leasehold land is amortised over the remaining life of the lease as stated in the certificate of occupancy issued by Government.

(iv) De-recognition

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(l) Intangible assets

(i) Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. Development costs previously expensed cannot be capitalised. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment. 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 profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The maximum useful life of software is five years.

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

(m) Impairment of Non-financial assets

The carrying amounts of the Bank's non-financial 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 in the income statement if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset

Group that generates cash flows that largely are independent from other assets and Group. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any allocated to the units and then to reduce the carrying amount of the other assets in the unit (Group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit 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 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.

(n) Deposits,

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

(o) Provisions

A provision is recognized 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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bankrecognises any impairment loss on the assets associated with that contract.

(p) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and

the initial fair value is amortised over the life of the financial guarantee. After initial recognition, guarantee contracts are subsequently measured at the higher of:

a. The amount of the loss allowance, and
b. The amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Financial guarantees, principally consisting of letters of credit. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Bankrecognises a provision in accordance with IAS 37 if the contract was considered to be onerous.

(q) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to a separate entity. The rate of contribution by the Bank and its employee is 10% and 8% respectively of basic salary,

housing and transport allowance. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Bank pays contributions to publicly or privately administered Pension Fund Administrators (PFA) on a mandatory, contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense in the Statements of Comprehensive Income when they are due.

ACOUNTING POLICIES

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Defined benefit plans

The Bank does not operate defined benefit plans.

(iii) Termination Benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability 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.

(v) Share-based payment transactions

The Bank has no share based payment transactions.

(r) Share capital and reserves

(i) Share issue costs

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

(ii) Dividend on the Bank's ordinary shares

Dividends on the Bank's ordinary shares are recognised in equity when approved by the Bank's shareholders.

(s) Earnings per share

The Bank presents Basic Earnings Per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

NOTES TO THE FINANCIAL STATEMENTS

4. First time adoption of IFRS

(a) First time adopter

These financial statements, for the year ended 31 December 2021, are the first, the Bank has prepared in accordance with IFRS. For the periods up to and including the year ended 31 December 2020, the Bank prepared its financial statements in accordance with local Generally Accepted Accounting Principles (Local GAAP). Accordingly, the Bank has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2021 together with the comparative prior data as at 31st December 2020 as described in the accounting policies. In preparing these financial statements, the Bank's opening statements of Financial position as at 1 January 2020, was prepared being the date of transition to IFRS and its previously published Local GAAP financial statements as at and for the year ended 31 December 2020. Note 4b explains the principal adjustment made by the Bank in restating its previously published local GAAP financial statements as at and for the year ended 31st December 2020. The general requirement in IFRS 9 states that an entity must apply IFRS 9 at the date of initial adoption retrospectively (i.e as if the new requirements had always been in effect) in accordance with IAS 8, Accounting policies, changes in Accounting Estimates and Errors. However, final version of IFRS 9 includes certain special transition provisions designed to make the crossover to IFRS 9 easier.

Exemption applied

IFRS 1 – first time adoption of international financial reporting standards allows first time adopters certain exemptions from retrospective application of certain IFRS.

First time adoption of the final IFRS 9 requires first-time adopters not to restate prior periods. Restatement is only permitted if and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements of IFRS 9. If the entity does not restate prior periods, any difference between previous carring amounts and those determined under IFRS 9 at the date of Initial application should be recognized in the opening retained earnings (or other equivalent component of equity) Note 27(b).

(b) Transitional Adjustment:

(i) Property, plant and equipment

Property, plant and equipment are stated as deemed cost instead of fair value. The directors are of the opinion that stating the fair value of property, plant and equipment at a fair value will make the bank contravene the supervisory Guideline on Investment in fixed assets. Wrong posting between equipment and other liabilities which amounted to N6,050 has been corrected

(ii) Financial assets

Additional impairment on loans and advances amounting to N7,707,395 and impairment on other financial assets amounting to N300,000 have been recognized against retained earnings on 1/1/2021 in compliance with IFRS9

(iii) Intercompany account

Intercompany balances of N35,045,880 as at 31/12/2020 and 2021 have been netted off respectively.

NOTES TO THE FINANCIAL STATEMENTS

4. First-Time adoption of IFRS

	Notes	Local GAAP	Reclassification	Re-measurement	IFRS as at 1st January 2020
		₦	₦	₦	₦
Cash and Bank Balances	A	193,481,211	7,000,000	-	200,481,211
Investments	A	7,000,000	(7,000,000)	-	-
Loans and Advances		446,320,601	-	-	446,320,601
Other Assets		22,277,094	-	(6,048)	22,271,046
Fixed Assets		63,865,647	(63,865,647)	-	-
Property, plant and equipment		-	63,865,647	6,048	63,871,695
Intangible assets		-	-	-	-
Total Assets		**732,881,553**	-	-	**732,881,553**
Liabilities and Equity					
Deposit from Customers		131,410,977	-	-	131,410,977
Income Tax Liability		45,674,429	-	-	45,674,429
Other Liabilities		90,775,176	-	-	90,775,176
Total Liabilities		**269,044,482**	-	-	**269,044,482**
Equity					
Share Capital		224,357,362	-	-	224,357,362
Statutory Reserve		207,212,200	-	-	207,212,200
Retained Earnings		32,267,509	-	-	32,267,509
Total Equity		**463,837,071**	-	-	**463,837,071**
Total Liabilities and Equity		**732,881,553**	-	-	**732,881,553**

NOTES TO THE FINANCIAL STATEMENTS

First-Time adoption of IFRS

(h) Reconciliation of equity as at 31 December, 2020

	Notes	Local GAAP	Re-Classification	Re-measurement	IFRS at 31st December, 2020
		₦	₦	₦	₦
Cash and Bank Balances	A	142,644,614	8,500,000	(300,000)	150,844,614
Investments	A	8,500,000	(8,500,000)	-	-
Loans and Advances	B	646,417,980	-	(42,753,275)	603,664,705
Other Assets		44,485,062	-	-	44,485,062
Fixed Assets	C	56,581,352	(56,581,352)	-	-
Property, plant and equipment	C		56,581,352	6,050	56,587,402
Total asset		**898,629,008**	-	(43,047,225)	**855,581,783**
Liabilities and equity					
Liabilities					
Deposits from customers		189,033,003	-	-	189,033,003
Income tax liabilities		83,392,443	-	-	83,392,443
Other liabilities	(B, C)	122,283,793	-	(35,039,830)	87,243,963
Total liabilities		**394,709,239**	-	**(35,039,830)**	**359,669,409**
Equity					
Share Capital		224,357,362	-	-	224,357,32
Statutory Reserve		217,232,875	-	-	217,232,875
Retained Earnings	A,B	62,329,532	-	(8,007,395)	54,322,137
Total Equity		**503,919,769**	-	**(8,007,395)**	**495,912,374**
Total liabilities and Equity		**898,629,008**	-	**(43,047,225)**	**855,581,783**

FINANCIAL RISK MANAGEMENT

5. (a) Introduction and overview

Bonghe Microfinance Bank has robust culture and embraces best practice in Enterprise wide Risk Management, which aligns people, strategy, policies, processes, technology and business intelligence in order to evaluate, manage and optimize the opportunities and threats it may face in its efforts to maximize sustainable stakeholders' value within its defined risk appetite.

To continually sustain this strong risk culture, the bank adopted Enterprise Risk Management culture which depicts ERM as a process driven by an entity's Board of Directors, Management and other personnel, applied in strategy setting across the enterprise, to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives.

This involves the application of risk management principles and processes in every business activity to determine potential threats, and adopt appropriate control measures, to contain risks in achieving the desired objectives.

The Bank has recognized its major risk areas to include Credit, Operational, Information Technology, Market and Liquidity Risks. Risks identification in these areas is carried out by the relevant risk owner in collaboration with the Enterprise Risk Managements.

(b) Risk Management Philosophy

The Bank's risk management philosophy describes its attitude to risk taking. It is the driving force behind all the decisions made in the conduct of business activities and operations from a risk perspective. This is appropriately summarized in the following statement:

"**To enhance shareholders' value by creating and maintaining a culture of intelligent risk-taking"**

This philosophy is further cascaded into working statements through the following risk principles:

- The Bank's decisions will be based on careful analysis of its operating environment as well as the implications of the identified risks to the achievement of its strategic goals.
- The Bank will not take any action that will compromise its integrity
- Risk control will serve to enhance the achievement of strategic objectives.
- The Bank will always comply with all government regulations and continually espouse global best practice.
- Risk management will form a key part of the Bank's strategy setting process.
- The Bank will only assume risks that fall within its risk appetite within its risk appetite with appropriate returns.
- The Bank shall adhere to the risk management cycle of identifying, measuring, controlling and reporting risks.
- The Bank shall continually review its activities to determine the level of inherent risks and deploy appropriate risk responses at all time.

Risk Appetite

The bank recognizes that there are inherent risks associated with the pursuit of growth opportunities in achieving its strategic objectives. While the risk philosophy articulates how inherent risks are considered when making decisions, the Board and Management of the bank determine the risks that are acceptable based on its capabilities in terms of people, capital and technology.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT

Risk Appetite Statement

"Bonghe Microfinance Bank will maintain a moderate risk appetite in pursuit of its core strategies to dominate its priority sectors, expand its business to Lafiya Lamurde LGA and Environ, curtail its operating cost whilst leveraging on technology and remain the most profitable, without taking unnecessary risks".

The Bank's risk appetite statement expresses the attitude and position of the Board and Management on the approach to risk adopted across all the business in relation to the set strategic objectives. This statement is interpreted in qualitative and qualitative risk factors that measure the risk profile. The identified risk factors include:

- Capital Adequacy
- Earnings Growth (Profit Before Tax)
- Return on Asset
- Return on Equity
- Cost-to-Income
- Asset quality (Non-Performing Loan) and Coverage
- Cost of Risk
- Liquidity and Coverage Ratio
- Risk Asset Funding
- Obligor and Sector Concentration
- Staff Attrition

Risk Tolerance

To achieve the desired impact of the risk appetite statement across all business divisions, the bank defined the risk tolerances applicable to the risk factors for measurement and monitoring purposes to enhance decision making. The tolerances are measured via three-leg limit system which measures an extreme upper region signifying high risk or unacceptable risk level, a middle range region known as trigger point and a lower region signifying a low risk or acceptable risk level. These classifications establish the acceptable levels of variation relative to the Bank's desired objective.

The set risk tolerances levels are subject to the approval of the Board of Directors and can be changed when there are compelling regulatory and operating factors.

The risk tolerance limits are monitored periodically using a medium which estimates the status of each risk factor. The result of the medium is made available to the Management and Board of Directors for informed decision(s).

(c) Risk Management Framework

The Bank's Risk Management Framework is built on a well-defined organizational structure and established policies to guide in the function of identifying, analyzing, managing and monitoring the various risks inherent in the business as well as setting appropriate risk limits and controls to align the risks with the strategic objectives.

The risk management policies are subject to review at least once a year. However more frequent reviews may be conducted at the instance of the Board, when changes in laws, regulations, market conditions or the Bank's activities are material enough to impact on the continued adoption of the existing policies. The Banks, through its trainings and management standards and procedures, aims to develop a disciplined, engaging and controlled environment, in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment of the Bank's Risk Management framework and exercises its oversight function over all the Bank's prevalent risks via its various committees, Board Risk Committee and the Board Credit Committee. These committees are responsible for developing and monitoring risk policies in their specific areas and report regularly to the Board of Directors. All Board committees have non-executive members.

The Board Committees are assisted by the various Management Committees in identifying and assessing risks arising from day to day activities of the Bank. These committees include:

- The Management Credit Committee
- Asset and Liability Management Committee (ALMAC)
- Management Risk Committee
- IT Steering Committee

These committees meet on a regular basis while others are set up on ad-hoc basis as dictated by situations.

The **Board Risk Committee** is responsible for reviewing and recommending risk management policies, procedures and profiles including risk management philosophy, risk appetite and risk tolerance of the Bank. Its oversight functions cut across all risk areas including credit risk, market and interest rate risk, liquidity risk, operational risk, reputation risk, technology risk and other major risks that may arise from time to time. The committee monitors the Bank's plans and progress in meeting regulatory and risk-based supervision requirements. It also reviews and approves the contingency plan for specific risks.

The Bank's Board of Directors has delegated responsibility for the management of credit risk to the Board Credit Committee. The Board Credit Committee considers and approves all lending exposures, including treasury investment exposures, as well as insider-related credits in excess of limits assigned to the Management Credit Committee by the Board. The committee also ensures that the Bank's internal control procedures in the area of risk assets remain fool-proof to safeguard the quality of the Bank's assets.

Management Risk Committee examines risk in its entirety by reviewing and analyzing environmental issues and policies impacting the Bank, either directly or remotely, and makes recommendations to the Board Risk Committee.

Management Credit Committee formulates credit policies in consultation with business units, covering credit assessment, risk grading and reporting, collateral, regulatory and statutory requirements. The committee also assesses and approves all credit exposures in excess of the Managing Director's limit set by the Board.

The **Asset & Liability Management Committee** establishes the Bank's standards and polices covering the various components of Marketing Risk Management. These include interest Rate Risk, Liquidity Risk, Investment Risk and Trading Risk. It ensures that the authority delegated by the Board and Management Risk Committees with regard to Market Risk is exercised, and that Market Risk exposures are monitored, reported and managed. Furthermore, the committee limits and monitors the potential impact of specific pre-defined market movements on the comprehensive income of the Bank through stress tests and simulations.

(d) Risk Management Methodology

The Bank recognizes that it is in the business of managing inherent risks to derive optimal value for all the stakeholders. It has therefore, over the years detailed its approach to risk management through various policies and procedures, which include the following:

FINANCIAL RISK MANAGEMENT

- ERM Policy
- Credit Policy Guide
- Human Resources Policy Manual
- Standard Operating Procedures
- IT policy

To ensure adherence to the policies and procedures, several exception reports on activities are generated by the various audit/control function units for management decision making. These include:

- Monthly Performance Review (MPR) for the marketing teams
- Monthly Operations Performance Reports (OPR) for the support teams
- Quarterly Business Performance Review
- Annual Bank-wide performance appraisal systems
- Monthly Expense Control Monitoring Report

(e) Risk Management Overview

The Enterprise-wide Risk Management Division is responsible for optimizing the risks and returns inherent in the business through the effective collaboration with the business facing units. The risk management infrastructure encompasses a comprehensive approach to identifying, managing, monitoring and reporting risks with focus on the following:

(i) Inherent Risk Bank – Credit, Market, Operational, Liquidity and legal and regulation and strategic.

(ii) Other Risk Areas – Reputational and Strategic Risk

(f) Credit risk

Lending and other activities form the core business of the Bank and in recognition of this, great emphasis is placed on effective management of its exposure to credit risk. The Bank defines credit risk as the risk of failure by a counterparty to meet the terms of any lending contracts with the Bank or otherwise to perform as agreed, invested or otherwise exposed through actual or implied contractual agreements.

The specific credit risk objectives, as contained in the Credit Risk Management Framework, are:

- Maintenance of an efficient loan portfolio
- Institutionalization of sound credit culture
- Adoption of international best practices in credit risk management
- Development of Credit Risk Management professionals.

Each business unit is required to implement the credit policies and procedures in line with the credit policy guide as approved by the Board. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring of its credit in its portfolio, including those subject to Management Credit Committee’s approval. The Credit Administration undertake regular reviews of business units and credit quality reviews.

The Bank continues to focus attention on intrinsic and concentration risks inherent in its business in order to effectively manage the portfolio risk. The credit portfolio concentration limits that are set and measured under concentration limits per obligor, business lines, sector, rating grade and collateral.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT

(i) Management of Credit Risk

The Board of Directors has delegated responsibility for the Management of Credit Risk to its Board Committee. The Management Credit Committee reporting to the Board Credit Committee is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentation 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 business unit heads. Larger facilities require approval by the Managing Director, Management Credit Committee, and the Board Credit Committee/Board of Directors as appropriate.
- Reviewing and assessing credit risk. Management Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the Bank's risk rating in order to categorize exposures according to the degree of risk of financial loss faced and to attention management on the attendant risks. The current risk rating framework consists of ten grade reflecting varying degrees of risk of default with rating "1" as the best and "10" as lost. The risk ratings are subject to regular reviews by Credit Risk Management Committee.

(ii) Credit Risk Measurement

In line with IFRS 9, the bank has adopted Expected Credit Loss (ECL) approach effective January 1, 2021. IFRS 9 adopts dual measurement approach to determining expected credit loss. The 12 month ECL is applicable to credit exposure in State 1 where there is no significant deterioration in credit quality. It is computed as loss allowance.
The lifetime ECL is the loss allowance computed for credit exposures in Stage 2 and 3. As part of the evolving risk culture, the bank developed internal rating methods along the bank's business entity (Corporate, Commercial, Retail and Small and Medium Enterprises). The bank has successfully implement the internal Rating Based Approach as well as the implementation of Expected Credit Loss measurement.

IFRS 9 Expected Credit Loss measurement approach is a proactive way of determining the extent of future loss(es) associated with risk exposures in the bank's portfolio. Key aspect of ECL approach is the incorporation of the macroeconomic indicators (forecast) into the computation of the future credit loss. The credit impairment under IFRS 9 is determined using a forward looking method of impairment evaluation by assuming that every risk exposures have inherent credit loss.

The Bank undertakes lending activities after careful analysis of the borrowers' character, capacity to repay, cash flow, credit history, industry conditions and other factors. In the analysis, the applied parameters are determined by each business entity because of the differences in the inherent risks.

The Bank's rating grades reflect the range of parameters internally developing to predict the default probabilities of each rating class in line with international best practices. The grades reflect granularities and are handled by Account officers and Relationship Managements with validation by Credit Risk Management Committee

Rating Grade	Description	Characteristics
1 (AAA)	Exceptional Credit	▪ Exceptional credit quality ▪ Obligors with overwhelming capacity to meet obligation ▪ Good track record ▪ Strong brand name ▪ Strong equity and assets ▪ Strong cash flows ▪ Full cash coverage
2 (AA)	Superior Credit	▪ Very high credit quality ▪ Exceptionally high cash flow coverage (historical and project ▪ Very strong balance sheets with high liquid assets ▪ Excellent asset quality
3 (A)	Minimal Risk	▪ High quality borrowers ▪ Good asset quality and liquidity position ▪ Strong debt repayment capacity and coverage ▪ Very good management ▪ Though credit fundamentals are strong, it may suffer some temporary setback if any of them are adversely affected ▪ Typically in stable industries
4 (BBB)	Above Average	▪ Good asset quality and liquidity ▪ Very good debt capacity but smaller margins of debt service coverage ▪ Good management in key areas ▪ Temporary difficulties can be overcome to meet debt obligations ▪ Good management but debt may be an issue ▪ Good character of owner ▪ Typically good companies in cyclical industries
5 (BB)	Average	▪ Satisfactory asset quality and liquidity ▪ Good debt capacity but smaller margins of debt service coverage ▪ Reasonable management in key areas ▪ Temporary difficulties can be overcome to meet debt obligations ▪ Good management but debt may be an issue ▪ Satisfactory character of owner ▪ Typically good companies in cyclical industries
6 (B)	Acceptable Risk	▪ Limited debt capacity and modest debt service coverage ▪ Could be currently performing but susceptible to poor industry conditions and operational difficulties ▪ Declining collateral quality ▪ Management and owners are good or passable ▪ Typically borrower's in declining markets of with small market share and operating in cyclical industries
7 (CCC)	Watch-list 31-60 days	▪ Eliciting signs of deterioration as a result of well-defined weaknesses that may impair repayment ▪ Typically start- ups/declining markets/deteriorating industries with high industry risk ▪ Financial fundamental below average ▪ Weak management ▪ Poor information disclosure
8 (CC)	Substandard Risk 61-90 days	▪ Well-defined weaknesses though significant loss unlikely, orderly liquidation of debt under threat ▪ Continued strength is on collateral or residual repayment capacity of obligor ▪ Partial losses of principal and interest possible if weakness are not promptly rectified ▪ Questionable management skills
9 (C)	Doubtful Risk 90-180 days	▪ High probability of partial loss ▪ Very weak credit fundamentals which make full debt repayment in serious doubt ▪ Factors exist that may mitigate the potential loss but awaiting appropriate time to determine final status ▪ Demonstrable management weaknesses, poor repayment weaknesses and poor repayment profile
10 (D)	Lost 181 and above	▪ A definite loss of principal and interest ▪ Lack of capacity to repay unsecured debt ▪ Bleak economic prospects ▪ Though it is still possible to recover sometime in the future, it is imprudent to defer write-offs

FINANCIAL RISK MANAGEMENT

Risk ratings methods form the building blocks for the determination of default risk of counterparties. The methods are back tested to ascertain the predictive capabilities relative to actual performance and make necessary amendments as necessary to enhance their effectiveness.

Because significant increase in credit risk is the main factor that determines movement of a financial asset from stage 1 to stage 2, all obligors with downward movement of credit rating of more than 3 notches or any movement into rating 7 are migrated to stage 2. An obligor is moved into stage 3 when there is rating migration to rating grade 8 to 10.

A facility in stage 3 can subsequently be deemed “cured”. A facility is deemed to be “cured” when there is a significant reduction in the credit risk of the financial instrument. “Cured” facilities within stage 2 are monitored for a probationary period of 90 days to confirm if the credit risk has decreased sufficiently before they can be migrated from stage 2 to 1 while cured facilities within stage 3 are monitored for a probationary period of 180 days before migration from stage 3 to stage 1. The decrease in risk of default is reflected in the obligor’s Risk Rating which is a critical input for staging.

In computing the Expected Credit Loss (ECL), the bank considers four components listed below:

1. Probability of Default (PD)

This is an estimate of the likelihood of default over a given time horizon (e.g. 12 months or lifetime). The bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. The tools have been developed internally using rigorous statistical analysis and the professional judgment of credit analysts.

The rating tool combines both qualitative and quantitative factors comparable to international available standards. The rating methods are subject to back-test to ensure that they reflect the latest projection in the light of all actually observed defaults.

The bank uses a statistical approach in estimating the PD considering macroeconomic indicators and obligor specific data. The statistical model specifies the relationship between the inputs and the outcome – PD. The parameters determined depend on the data used to develop the model.

For the purpose of estimating an IFRS 9 compliance PD, the bank adopts statistical techniques. This is a statistical method of analyzing variables (macro-economic/obligor specific data) that determine an outcome (probability of default).

The default status of an obligor (a function of customerrating) is used as dependent variable while macro-economic variables (such as interest rate and unemployment rate etc.) and customer specific information (e.g. changes in obligor’s rating and interest rate) are used as independent variables. The default status reflects the credit rating assigned to customers. These ratings are generated based on due consideration on obligor specific quantitative (financial) and qualitative (non-financial) information such as age, loan type, industry, management structure, business risk etc.

The core input used to determine PDs are the internal ratings generated by the Bank’s Credit Analysis sub-system. These ratings are assigned to customers after careful review of quantitative and qualitative factors specific to the obligor, macro indicators and industry information. The Bank’s rating model currently considers past and current economic information. The Bank’s rating model currently considers past and current economic information, however, the accounting standard requires that forward looking information is incorporated into the PD determination. To achieve an IFRS 9 compliant PD, the Bank adopted macroeconomic forecasts into the Pd determination process. The Normal scenario macroeconomic variables used for the purpose of the forecast is obtained from credible sources while the Upturn and Downturn scenarios are derived based on historical trend analysis looking management’s unbiased estimates of forward looking macroeconomic indicators.

FINANCIAL RISK MANAGEMENT

2. Exposure at Default (EAD)

This is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdown on committed facilities.

EAD measures the utilized exposure at default. For on-balance sheet exposures, the gross value of the exposure is taken into account, and the off balance sheet exposures are considered when performing staging and ECL calculations.

The modeling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms. This expected change includes:

- Contractual repayments/amortizations schedule
- Prepayments (i.e. early repayment)
- Changes in utilization of an undrawn commitment

Within agreed credit limits in advance of defaults.

This cash-flow model further reflects movements in the EAD in the months before default. Interest payments receivable on the account as at the reporting date is included in the EAD to reflect an expectation that these interest payments could be missed in the eventually/occurrence of a default.

6. Financial assets and liabilities

a. Accounting Classification Measurement Basis and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities and their fair values Dec, 2021

DEC, 2021	Notes	Fair Value Through Profit or loss ₦	Held at Amortised Cost ₦	Fair Value through OCI ₦	Other Financial Assets/liabilities At Amortised Cost ₦	Total Carrying Amount ₦	Level 1 ₦	Level 2 ₦	Level 3 ₦	Total Fair Value ₦
		Carrying amount					Fair Value			
Assets										
Loans and Advance to Customer	20	-	653,270,071	-	-	653,270,071	-	653,270,071	-	653,270,071
Fair value OCI	19	-	-	-	-	-	-	-	-	-
Other assets	21	-	-	-	50,469,239	50,469,239	-	50,469,239	-	50,469,239
Total		-	**653,270,071**	**-**	**50,469,239**	**703,739,310**	**-**	**703,739,310**	-	**703,739,310**
Liabilities										
Deposits from customers	24	-	-	-	191,216,082	191,216,082	-	191,216,082	-	191,216,082
Other liabilities	25	-	-	-	212,611,947	212,611,947	-	212,611,947	-	212,611,947
Total		**-**	**-**	**-**	**403,828,029**	**403,828,029**	**-**	**403,828,029**	**-**	**403,828,029**

NOTES TO THE FINANCIAL STATEMENTS

DEC 2020				Carrying amount				Fair Value		
	Notes	Designated at Fair value	Held to Maturity	Loans and receivables	Other Financial assets/liabilities at amortised cost	Total Carrying amount	Level 1	Level 2	Level 3	Total Fair Value
		₦	₦	₦	₦	₦	₦	₦	₦	₦
Assets										
Design at fair value	19	-	-	-	-	-	-	-		-
Loans and Advances to Customers	20	-	-	638,710,585	-	638,710,585		638,710,585	-	638,710,585
Other assets	21	-		_	9,439,182	9,439,182		9,439,182	-	9,439,182
Total		**-**	**-**	**638,710,585**	**9,439,182**	**648,149,767**	**-**	**648,149,767**	**-**	**648,149,767**
Liabilities										
Deposits from customers	24	-	-	-	189,033,003	189,033,003	-	189,033,003	-	189,033,003
Other liabilities	25	-	-	-	87,243,963	87,243,963	-	87,243,963	-	87,243,963
Total		-	-	-	**276,276,966**	**276,276,966**	**-**	**276,276,966**	**-**	**276,276,966**

NOTES TO THE FINANCIAL STATEMENTS

b. DETERMINING FAIR VALUE

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.

Fair Value Hierarchy

Fair values are determined according to the following hierarchy based on the requirements in IFRS 13 Financial Instruments disclosures':

- **LEVEL 1:** Quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active market.
- **LEVEL 2:** Valuation techniques using observable inputs: quoted prices for similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- **LEVEL 3:** Valuation techniques using significant unobservable valued using valuation techniques where one or more significant inputs are unobservable. The best evidence of fair value is a quoted price in an active market. In the event that market for a financial asset or liability is not active, a valuation technique is used.

		2021	2020
7.	**Interest Income calculated at effective rate**:	₦	₦
	Interest on fixed placement	856,464	5,281,160
	Interest on loans	43,342,628	86,532,953
	Total	**44,199,092**	**91,814,113**

8.	**Interest Expenses**		
	Fixed Deposit interest & other	-	-
	Savings interest	2,495,015	2,015,470
	Total	**2,495,015**	**2,015,470**
9.	**Loan impairment Charges**		
	Specific impairment brought forward 2020	(100,449,996)	(33,202,477)
	Specific impairment 2021:		
	12 months ECL	3,518,687	6,451,622
	Lifetime credit unimpaired	-	-
	Lifetime credit impaired	142,855,460	86,290,979
	Recovery from loan amount previously classified	32,629,816	34,458,250
	Increase in impairment charges	**78,553,967**	**93,998,374**
10.	**Fees and commission income**		
	Commission on Turnover (COT)	102,183,936	123,289,238
	E-payment charges	1,584,748	1,706,310
	Account closure & Others		
	Total	**103,768,684**	**124,995,548**
11.	**Fees and Commission Expenses**		
	Bank charges and commission	**2,218,886**	**2,181,044**

12. Other income	2021 ₦	2020 ₦
Investment income	-	3,630,940
Loan recovery	32,629,816	34,458,250
Rent received	50,000	50,000
Total	**32,679,816**	**38,139,190**

13. Net impairment of other financial assets		
Impairment charges on placement 1/1/2021	300,000	300,000
Charge for the year	80,000	-
Impairment charges on placement 31/12/2021	380,000	300,000

14. Personnel expenses		
Salaries and wages	**43,356,613**	**40,194,963**

15. Depreciation		
Depreciation on Property, plant and equipment	**2,161,555**	**8,406,993**

16. Other operating expenses	2021 ₦	2020 ₦
Directors fees and allowance	8,221,910	3,705,800
Reimbursement & other expenses	2,182,030	638,118
Fuel and lubricants	1,347,335	266,000
PHCN bills	917,250	1,027,100
Newspaper	-	4,400
Postages & courier	885,562	756,015
Insurance cover	1,730,044	1,611,023
Repairs and maintenance motor vehicle	61,050	932,250
Office rent	146,200	155,000
Transport & travel	1,607,250	907,660
Entertainment	158,560	140,260
SMS expenses	80	97,925
Repair & maintenance	127,700	288,875
Security expenses	590,300	889,950
Audit fee and expenses	565,000	496,000
Printing, stationery & photocopies	2,299,900	5,743,724
Advert and publicity	-	73,000
Office equipment and consumables	601,950	812,157
Repairs & maintenance F&F	2,772,300	2,760,450
Repairs & maintenance Gen set.	4,141,020	3,057,660
Legal and professional fees	5,378,912	2,630,250
Subscription and dues	1,430,000	1,819,858
Regulatory bodies	1,151,911	1,037,820
Gen. annual meeting	705,300	500,000
Total	**37,021,564**	**30,351,295**

17a. Income tax expenses
Recognized in the Income Statement

Current tax expenses		
Company income tax	2,101,000	35,323,138
Education tax	-	2,354,896
Prior period's under provision	-	-
Deferred tax expenses:		
Temporary differences	-	-
Total	**2,101,000**	**37,718,014**

	Dec. 2021	Dec. 2020
17b. Current income tax payable	₦	₦
Balance, beginning of the year	83,392,443	45,674,429
Charge for the year	2,101,000	37,718,014
Payments during the year	-	-
Balance at year end	**85,493,443**	**83,392,443**
Current	85,493,443	83,392,443
Non-current	-	-

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit after tax to equity holders of the company by the number of ordinary shares in issue during the year.

The calculation of basic earnings per share for the reporting year was based on the profit after tax to shareholders.

Profit attributable to ordinary shareholders		
Net profit attributable to equity holders of the company	12,658,992	40,082,698
Net Profit To Determine Earnings Per Share		

Number of ordinary shares		
Number of ordinary shares in issue	224,357,362	224,357,362
Basic earnings per share (expressed in naira per share)	5.64k	17.87k

18.Cash and Cash equivalent			
Cash in hand		35,747,432	24,116,952
Balances held with other banks Note	34(a)	149,540,249	88,527,662
Fixed deposits	34(b)	37,620,000	29,700,000
Treasury bills	34(c)	12,000,000	8,500,000
Balance at year end		**234,907,681**	**150,844,614**
Current		234,907,681	**150,844,614**
Non-current		-	-

19. Investment		
Balance at year end	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

20. Loans and advances
Impairment loss

	Collective Allowances for impairment	Total	Impairment on stage 1-12 months ECL	Impairment on stage 2-Life Time ECL not credit impaired	Impairment on stage 3-non performing loans	Total allowance for impairment
	₦	₦	₦	₦	₦	₦
Balance at 31 December 2020 per local (GAAP)	100,449,996	100,449,996	-	-	-	-
IFRS 9 Reclassifications	(100,449,996)	100,449,996	6,451,622	-	93,998,374	100,449,996
IFRS 9 Adjustments	-	-	-	-	-	-
Balance at 1st January 2021	**-**	**-**	**6,451,622**	**-**	**93,998,374**	**100,449,996**
Increase / (reversal) in impairment	-	-	-	-	78,553,967	78,553,967
Recovery	-	-	-	-	(32,629,816)	(32,629,816)
Movement between stages	-	-	(2,932,935)	-	2,932,935	-
Balance Dec. 2021	**-**	-	**3,518,687**	-	**142,855,460**	**146,374,147**

Dec. 2020

	Collective allowance for impairment	Total allowance for impairment
	₦	₦
Balance at 1 Januay	33,202,477	33,202,477
Recovery	(34,458,250)	(34,458,250)
Increase in impairment allowances	93,998,374	93,998,374
Changes on initial application of IFRS 9	7,707,395	7,707,395
Balance Dec. 2020	**100,449,996**	**100,449,996**

20. Loans and advances to customers

					Dec. 2021	Dec. 2020
					₦	₦
Loans to Customers						
Loans					515,281,048	159,659,000
Overdrafts					284,363,170	579,501,581
Gross loans					**799,644,218**	**739,160,581**
Impairment on stage 1-12 months ECL					**(3,518,687)**	**(6,451,622)**
Impairment on stage 2- Life Time ECL not credit impaired	**-**	**-**	**-**	**-**	**-**	**-**
Impairment on stage 3-Non performing loans					**(142,855,460)**	**(93,998,374)**
Total impairment					**(146,374,147)**	**(100,449,996)**
Carrying amount					**653,270,071**	**638,710,585**

LOANS AND ADVANCES

	2021 ₦	2020 ₦
Unsecured Loans and advances	799,644,218	739,160,581
Less Provision for loan losses	(166,280,612)	(100,449,996)
Balance at year end	**633,363,606**	**638,710,585**

LOANS AND ADVANCES CLASSIFICATION

	2021 ₦	2020 ₦
Performing	639,761,218	645,162,207
Non-Performing:		
Pass and Watch	-	-
Substandard	-	-
Doubtful	-	-
Lost	159,883,000	93,998,374
Total	**799,644,218**	**739,160,581**

LOANS AND ADVANCES MATURITY PROFILE

	2021 ₦	2020 ₦
Maturity Profile is a follows:		
1-30 days	436,089,000	23,997,956
31-60 days	4,499,000	36,215,504
61-90 days	81,493,000	108,476,180
91-360 days	81,452,000	384,386,276
Over 360 days	196,111,218	186,084,665
TOTAL	**799,644,218**	**739,160,581**

PROVISION FOR LOAN LOSSES

	2021 ₦	2020 ₦
PRINCIPAL:		
Balance brought forward 1/1/21	100,449,996	33,731,018
Charge to Profit and Loss Account	98,460,432	101,177,228
Recovery during the year	(32,629,816)	(34,458,250)
Principal as at 31/12/2021	**166,280,612**	**100,449,996**

INTEREST IN SUSPENSE

	2021 ₦	2020 ₦
Balance brought forward 1/1/2021	-	-
Reversal of unearned interest	-	-
Suspended a t 31/12/2021	-	-
Balance carried forward	**166,280,612**	**100,449,996**

21. Other Assets

	2021 ₦	2020 ₦
i. Stock:		
Uncleared effects	7,400,000	5,106,561
Cheque books and stationary	10,016,850	478,745
Inter branch suspense account	14,528,120	-
Prepayment	3,225,269	1,506,790
e-payment collection account	1,800,000	2,180,000
Account receivable	13,499,000	167,086
Carrying amount as at 31/12/2021	**50,469,239**	**9,439,182**

22. Intangible Assets

Cute bankers		
Cost as at 1/1/2021	-	-
Reclassification IFRS1	-	-
Addition during the year	-	-
Accumulated Amortization		
Balance as at 1/1/2021	-	-
Reclassification IFRS1	-	-
Carrying amount as at 31/12/2021	-	-

23. Property plant and equipment

a. Cost

	Land and Building ₦	Plant and machinery ₦	Furniture & fittings ₦	Motor Cycle ₦	Office equipment ₦	Total ₦
Balance at 1 January 2021	**60,342,908**	**12,973,860**	**2,903,680**	**5,547,950**	**27,641,160**	**109,409,558**
Additions	-	-	446,000	2,100,000	2,274,000	4,820,000
Disposals/written off	-	-	-	-	-	-
Balance at 31 Dec. 2021	**60,342,908**	**12,973,860**	**3,349,680**	**7,647,950**	**29,915,160**	**114,229,558**
Balance at 1 January 2020	**60,342,908**	**12,973,860**	**2,903,680**	**5,547,950**	**26,518,460**	**108,286,858**
Additions	-	-	-	-	1,122,700	1,122,700
Disposals	-	-	-	-	-	-
Balance at Dec. 2020	**60,342,908**	**12,973,860**	**2,903,680**	**5,547,950**	**27,641,160**	**109,409,558**

b. Depreciation

	Land and Building ₦	Plant and machinery ₦	Furniture & fittings ₦	Motor vehicle ₦	Office equipment ₦	Total ₦
Balance at 1 January 2021	**6,088,555**	**12,329,641**	**2,799,420**	**5,547,850**	**26,056,690**	**52,822,156**
Charge for the year	1,206,858	-	-	268,583	593,374	2,161,555
Disposals/Written Off	-	-	-	-	-	-
Balance at 31 Dec. 2021	**7,295,413**	**12,329,641**	**2,892,160**	**5,816,433**	**26,650,064**	**54,983,711**
Balance at 1 January 2020	**4,881,697**	**7,966,428**	**2,218,684**	**4,438,260**	**24,910,094**	**44,415,163**
Charge for the year	1,206,858	4,363,213	580,736	1,109,590	1,146,596	8,406,993
Disposals						
Balance at Dec. 2020	6,088,555	12,329,641	2,799,420	5,547,850	26,056,690	52,822,156
Carrying amounts:						
Balance at 31 Dec. 2021	**53,047,495**	**644,219**	**457,520**	**1,831,517**	**3,265,096**	**59,245,847**
Balance at 31 Dec. 2020	**54,254,353**	**644,219**	**104,260**	**100**	**1,584,470**	**56,587,402**
Balance at 1 January2020	**55,461,211**	**5,007,432**	**684,996**	**1,109,690**	**1,608,366**	**63,871,695**

On transition property plant and equipment fair values are stated as deemed cost. The Directors do not revalue the assets due to CBN restriction on the amount to be invested on property plant and equipment

24.Deposits from customers

	2021 ₦	2020 ₦
Demand Deposits	71,352,659	70,439,470
Savings Deposits	119,863,423	115,153,692
Fixed Deposits	-	3,439,841
Balance at year end	**191,216,082**	**189,033,003**
Deposit Liability Maturity profile		
1 – 30 days	191,216,082	16,140,948
31 -60 days	-	24,613,494
61-90 days	-	39,743,281
91-360 days	-	108,535,280
Over 360 days	-	-
Total	**191,216,082**	**189,033,003**
Current	191,216,082	189,033,003
Non-current	-	-

25. Other Liabilities

Suspense account	32,629,816	6,050
Dividend payable	86,143	86,143
Collateral deposits	18,123,926	13,577,500
Audit fee payable	400,000	400,000
Account payable	6,328,000	2,734,895
Deposit for shares	8,909,000	3,187,000
Adamawa dry season loan	132,515,062	60,515,000
Uncleared effect	13,620,000	6,651,232
Balance at year end	**212,611,947**	**87,157,820**
Current	212,611,947	87,157,820
Non-current	-	-

26. Capital and reserves

Share Capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Bank.

	Dec. 2021 **₦**	**Dec. 2020** **₦**
(a).Amortised: 400,000,000 ord. shares of ₦1each	**400,000,000**	**400,000,000**
(b).Issued and fully paid capital	**224,357,362**	**224,357,362**

The movement on the value of issued and fully paid-up share capital account during the year was as follows:

Balance beginning of year	224,357,362	224,357,362
Balance, end of year	**224,357,362**	**224,357,362**

NOTES TO THE FINANCIAL STATEMENTS

27. Statutory Reserves: Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.16(1) of the Banks and Other Financial Institution Act of 1991 (amended), an appropriation of 50% of profit after tax is made if the statutory reserve is less than 50% paid-up share capital and 25% of profit after tax if the statutory reserve is in excess of 50% but less than 100% of the paid-up capital and 12 ½ % if the reserve is equal to or more than the paid up capital in the current year, the bank appropriated representing 25% of its profit after tax to statutory reserves.

A total statutory reserve was ₦220,397,623 at the end of the year.

Statutory Reserve	2021 ₦	2020 ₦
Brought forward	217,232,875	207,212,200
Current transfer	3,164,748	10,020,675
Balance at year end	**220,397,623**	**217,232,875**

28. Regulatory risk reserve: The regulatory risk reserves warehouses the difference between the impairment balance on loans and advances as determined in accordance with the provisions of prudential guidelines of Central Bank of Nigeria when compared with the assessment in line with the requirement of IFRS 9 Expected credit loss model. The key component of CBN prudential Guidelines (PG) is the setting aside of additional 1% provision on all performing loans assessed under the PG. This 1% provision is not required under IFRS 9.

This has been recognized in Regulatory Risk Reserve. The total balance in Regulatory Risk Reserve is ₦19,906,465. The Bank transferred the sum of ₦19,906,465 to this Reserve during the year.

Regulatory risk reserve	2021 ₦	2020 ₦
Balance brought forward	-	-
Transfer for the year	19,906,465	-
Total as at December	**19,906,465**	-

29. Retained earnings: Retained earnings are the carried forward recognized income net of expenses plus current year profit attribute to shareholders.

Retained earnings	Dec. 2021 ₦	Dec. 2020 ₦
Balance as at 1 January, 2021	**54,322,137**	**32,267,509**
Changes on the initial application of IFRS 9	-	(8,007,395)
Total comprehensive income for the year	12,658,992	40,082,698
Regulatory transfer	(23,071,213)	(10,020,675)
Balance as at 31st December 2021	**43,909,916**	**54,322,137**

30. Dividends

No dividend was declared during the year ended 31 December, 2021.

NOTES TO THE FINANCIAL STATEMENTS

31. Measurement category and the carrying amount of financial assets and liabilities in accordance with local GAAP and IFRS 9 at 1 January, 2021 are compared as follows:

(a). Classification and measurement of financial instruments

	GAAP Measurement category	**Carrying amount ₦**	**IFRS 9 Measurement category ₦**	**Carrying amount ₦**
Financial assets:				
Cash and bank balances	Amortized cost	142,644,614	Amortized cost	150,844,614
Trading assets	FVPL		FVPL	
Investment securities	Held to maturity	-	FVOCI	-
Loans & advances	Amortized cost	646,417,980	Amortized cost	638,710,585
Other assets	Amortized cost	44,485,062	Amortized cost	9,439,182
Investment securities	Designated at FV	850,000	FVOCI	-

Introduction of IFRS 9 does not have significant classification and measurement impact on the financial liabilities of the Bank. The carrying amounts were also not affected.

(b) Reconciliation of statement of financial position balances from local GAAP to IFRS 9

The following table reconciles the carrying amount of financial assets, from their previous measurement category in accordance with local GAAP to their new measurement categories upon transition to IFRS 9 on 1 January 2020.

	GAAP carrying amount 31-Dec.19 ₦	**Re-measurements ₦**	**IFRS 9 carrying amount 1-Jan-20 ₦**
Cash and bank balances			
Opening balances under GAAP	193,418,211		
Re-measurement:		7,000,000	
Closing balance under IFRS 9			**200,418,211**
Loans & advances			
Opening balance under GAAP	446,320,601		
Re-measurement:			
Closing balance under IFRS 9			**446,320,601**
Other assets			
Opening balances under GAAP	22,277,094		
Re-measurement ECL allowance		(6,048)	
Closing balance under IFRS 9			**22,271,046**
Investment at amortised cost			
Opening balance under GAAP			
Re-measurement ECL allowance			
Closing balance under IFRS9			
Opening balances under GAAP			
Investment through OCI	7,000,000		
Re-measurement ECL allowance		(7,000,000)	-
Closing balance under IFRS 9			

Reconciliation of carrying amount of property plant and equipment from the previous measurement category in accordance with local GAAP to their new measurement category upon transition to IFRS1 on January 2020.

Property plant and equipment			
Opening balance under local GAAP	63,865,647		
Re-measurement		6,048	
Closing balance under IFRS 1		-	**63,871,695**

(c) IFRS 9 Impact on Changes in Equity & Allowances for Financial Instruments on Initial Application of IFRS 9 on January 1, 2021

The following table provides information on IFRS 9 impact on changes in Equity, i.e. retained earnings, and reconciles the closing impairment allowance as at December 31 2020 for both the financial assets in accordance with local GAAP determined in accordance with IFRS 9 as at January 1, 2021

	Local GAAP carrying amount Dec. 31-2020	**IFRS 9 Allowances**	**IFRS 9 carrying amount 1-Jan-2021**
	₦	**₦**	**₦**
Regulatory Risk Reserve	**-**	**-**	**-**
Loans and Advances	-	(7,707,395)	7,707,395
Fixed placement	-	(300,000)	(300,000)
Total	**-**	**(8,007,395)**	**(8,007,395)**

32. Related parties

(a) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or another party controls both. The definition includes key management personnel.

(b) Transactions with Key Management Personnel

The Bank's key management personnel, and persons connected with them, are also considered to be related parties. The definition of key management includes the close family members of key personnel and any entity over which they exercise control. The key management personnel have been identified as the Executive and Non-Executive directors of the Bank close family members are those family members who may be expected to influence, or be influenced by that individual in their dealings with Bonghemicrofinance Bank Nig. Ltd.

Name of company/individual	**Relationship**	**Facility type**	**Status**	**Nature of Security**	**Dec.2021**	**Dec. 2020**
					₦	**₦**
-	-	-	-	-	**-**	**-**

33. Restatement of comparative financial information prior period corresponding balances
Certain prior period balances have been reclassified in line with IAS8 Accounting policies, Changes in Accounting Estimates and Errors, to reflect change in accounting estimate.

(a) Statement of financial position

	Reported Dec. 2020 ₦	Restatements Dec. 2020 ₦	Restated Dec. 2020 ₦
Assets			
Cash and cash equivalents	142,644,614	8,200,000	150,844,614
Investment	8,500,000	(8,500,000)	-
Loan and advances to customers	646,417,980	(7,707,395)	638,710,585
Other assets	44,485,062	(35,045,880)	9,439.182
Property, plant and equipment	56,581,352	6,050	56,687,402
Intangible Assets	-	-	-
Total assets	**898,629,008**	**(43,047,225)**	**855,581,783**
Liabilities:			
Deposits from customers	189,033,003	-	189,033,003
Other liabilities	122,283,793	(35,039,830)	87,243,963
Current income tax liabilities	83,392,443	-	83,392,443
Total liabilities	**394,709,239**	**(35,039,830)**	**359,669,409**
Equity :			
Capital and reserves attributed to shareholders			
Share capital	224,357,362	-	224,357,362
Statutory reserve	217,232,875	-	217,232,875
Regulatory risk reserve	-	-	-
Retained earnings	62,329,532	(8,007,395)	54,322,137
Total equity	503,919,769	(8,007,395)	495,912,374
Total equity and liabilities	**898,629,008**	**(43,047,225)**	**855,581,783**
Statement of profit or loss account			
Interest income	91,285,572	528,541	91,814,113
Interest expense	(2,015,470)	-	(2,015,470)
Net interest income	89,270,102	528,541	89,798,643
Loan impairment charges	(93,469,833)	(528,541)	(93,998,374)
Net income after loan impairment charges	**(4,199,731)**	**-**	**(4,199,731)**
Fees and commission income	-	124,995,548	124,995,548
Fees and commission expenses	-	(2,181,044)	(2,181,044)
Net fees and commission income	-	122,814,504	122,814,504
Other income	163,134,738	(124,995,548)	38,139,190
Total operating income	**158,935,007**	**(2,181,044)**	**156,753,963**
Personnel expenses	-	(40,194,963)	(40,194,963)
Depreciation and amortization	(8,406,993)	-	(8,406,993)
Other operating expenses	(72,727,302)	42,376,007	(30,351,295)
Total expenses	(81,134,295)	(2,181,044)	(78,953,251)
Profit before income tax	77,800,712	-	77,800,712
Income tax expenses	(37,718,014)	-	(37,718,014)
Profit for the year after tax expenses	**40,082,698**	**-**	**40,082,698**

34(a) Balances with other banks	2021 N	2020 N
Eco Bank - Savanna	468,641	388,771
Heritage Bank	3,875,702	3,851,497
Eco Bank – Yola	1,793,350	1,793,350
Union Bank Plc	8,983,617	405,929
Zenith Bank C/A	37,602,134	47,776,379
Sterling Bank	17,534,416	13,454,937
FBN	19,771,661	4,634,082
Unity Bank	57,171,723	15,315,591
Guaranty Trust Bank	2,339,005	907,126
Total	**149,540,249**	**88,527,662**

34(b) Bank placements with other banks :

Sterling bank	30,000,000	30,000,000
Guaranty Trust Bank	8,000,000	-
	38,000,000	**30,000,000**
Impairment charge	(380,000)	(300,000)
	37,620,000	**29,700,000**

34(c) Treasury Bills

Restricted treasury Bills	12,000,000	8,500,000
Total A+B+C	**199,160,249**	**126,727,662**

35 Impairment on other financial assets

Opening balance 31/12/2020	300,000	-
Changes on initial application of IFRS9 1/1/2021	-	-
Reclassifications	-	-
Impaired charges for the year	80,000	300,000
Balance as at 31/12/2021	380,000	300,000

36 Particulars of Staff

The average number of persons employed by the Bank in the Financial year including Directors were:

Junior staff	13	14
Management staff	6	6
Director	6	6
	25	26

37 Directors' Emoluments

Fees	8,221,910	3,705,800
Managing Directors' emolument	-	-
	8,221,910	**3,705,800**

38 Employees' Emoluments

i. Aggregate Payroll Cost:

Salaries and other allowances	**43,356,613**	**40,194,963**

ii. Employees remunerated at higher rates:

Employees whose emoluments were within The following ranges in the year were:	Number	Number
N500,001 – N1,000,000	17	17
N1,000,001 – N1,500,000	2	3
N1,500,001 - N2,000,000	–	–
N2,000,001 - N2,500,000	–	–
N2,500,001 - N3,000,000	–	–
N3,000,001 and above	1	1

39. Contraventions

The bank contravened sections of the Guidelines for microfinance banks: 4.2, 8.3(b) and 22.0

Contraventions	**Sections**
CBN certification examination	4.2
Portfolio at Risk (PAR)	8.3(b)
Investment in fixed placement	22.0

40. Subsequent events

There were no events subsequent to the financial position date which require adjustment to, or disclosure in these financial statements.

41. Capital commitment

There were no capital commitments for the financial year 31st December 2021

42. Contingent Liability

There were no contingent liabilities during the year ended 31st December 2021

43. Post Balance Sheet Event

No post balance sheet event came to our notice after the financial year ended 31st December 2021

44. Comparative Figures

Certain comparative figures have been restated to enhance meaningful comparison

45. Board Approval of Financial statements

The financial statements were approved by the board of directors on …………………………… 2022

46. Regulatory Requirements under the IFRS Regime

In addressing the challenges faced by the Nigerian Banking industry which was at the brink of a crisis as a result of spiral effects of the global financial meltdown, the CBN undertook a review of the prudential guidelines, which became effective 1st of 1, July 2010, the CBN provided for the adaptation of the prudential guidelines to IFRS after it has been adopted in Nigeria. The revised prudential Guidelines for microfinance Banks in Nigeria stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted. However, Banks would be required to comply with the following:

(a) Provisions for loans recognized in the profit and loss account should be determined based on the requirements of IFRS. However, the IFRS provisions should be compared with provisions determined under prudential guidelines and the expected impact/changes in general reserve should be treated as follows:

i. Prudential provisions is greater than IFRS provisions; transfer the difference from the general reserve to a non-distributable regulatory reserve.

ii. Prudential Provisions is less than IFRS provisions; the excess charges resulting should be transferred from the regulatory reserve account to the general reserve to the extent of the non-distributable reserve previously recognized.

(b) The non-distributable reserve should be classified under Tier 1 as part of core capital.

The Bank is fully complied with the requirements of the guidelines.

Provisions as recommended by Prudential Guideline

Loan provisioning is segregated along two (2) categories as detailed below:

1. Loans other than Specialized Loans

The provisioning policy for loans other than specialized loans covers the following:

i. Commercial Loans

ii. Agricultural Loans

iii. Corporate Loans

iv. Retail & Consumer Credits

vi. Facilities not specifically classified as specialized loans by the CBN.

The bank's provisioning benchmark for loans is highlighted in the table below.

No of Days Overdrawn	Classification	%Provision
1-30	Performing	2% taken
31-60	pass & watch	5%
61-90	Substandard	20%
91-180	Doubtful	50
181 or more days	Lost	100
Interest and principal past due By more than 30daysi.eoverdraft	Lost	100

As soon as an account is classified as non-performing, the interest is accounted for on non-accrual basis i.e. interest is not recognized as income but suspended.

2. Specialized Loans

The provision policy for specialized loans covers the following:

i. Agriculture Finance

ii. Mortgage Loan

iii. Margin Loan

iv. Project Finance

v. Object Finance

vi. SME Loan

vii. Real Estate Loan (Commercial and Residential)

The Bank transferred a sum of ₦19,906,465 from its retained earnings to a non-distributable regulatory risk reserve within the Statement of Changes in Equity in the year. The reassessed CBN recommended provision as at December 31, 2021 amounted to ₦166,280,612 the amount recommended by the Central Bank of Nigeria, ₦6,397,612 relates to 1% General Loan Provision on performing loans and Nil relates to other known losses. Regulatory risk reserve represents the difference between the Central Bank of Nigeria (CBN) recommended provision for loan losses under the prudential Guideline and the loan impairment allowance determined in accordance with provisions of IFRS 9the total regulatory risk reserve stood at ₦19,906,465 at the end of the year.

The Reconciliation between the CBN recommended provisions and that under IFRS 9 as at December 2021 is as shown in the table below.

3.

a. Loans and Advances:	**Reference**	**Specific** ₦	**General** ₦	**Total** ₦
Provision per CBN Prudential Guidelines		159,883,000	6,397,612	166,280,612
Impairment allowance per IFRS 9: (Stages 1,2,3)	(Notes 19)	146,374,147	-	146,374,147
Amount required in Regulatory Risk Reserve[1]		**13,508,853**	**6,397,612**	**19,906,465**
b. Provision for Other Known Losses:				
Provision for Other known losses – CBN recommended (A)		-		-
Provision for Other Assets on the Bank (Note 34) (B)		-		-
Amount required in Regulatory Risk Reserve (A-B)				

Regulatory Risk Reserve refers to the difference between the Provision assessment under CBN Prudential Guideline and impairment under IFRS.

C. Impairment of loans and advances and other known Losses (OKL)	-	-	-
Regulatory reserve required for loans and advances			19,906,465
Regulatory reserve required for Other Known Losses	-	-	-
Balance required per Regulatory Risk Reserve			19,906,465
Balance currently on Regulatory Risk Reserve	-	-	-
Amount to be transferred to regulatory risk reserve	-	-	**19,906,465**

d. Movement in Regulatory Reserves	**Total**
Balance as at 1 January, 2021	
Impact of IFRS 9 adoption	19,906,465
Additional amount required/recovered	-
Balance, end of the year	**19,906,465**

The regulatory reserve for the Bank as at December 2021 was ₦19,906,465

Movement in impairment charges-other Financial Asset	
Balance 1/1/2021	300,000
Decrease/increase in impairment charges	80,000
Balance, end of the year	**380,000**

ECL COVERAGE

The ECL coverage ratio of each of the Bank's financial instruments as at December 2021 is presented below in line with CBN's circular reference BSD/DIR/GEN/11/027 on transitional to IFRS 9

	Gross carrying Amount				ECL Provision				ECL Coverage Ratio			
Financial statements items	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	₦	₦	₦	₦	₦	₦	₦	₦	%	%	%	%
On –balance sheet items:												
Cash and balances with CBN	-	-	-	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%
Placement and other short term investment	38,000,000	-	-	38,000,000	380,000	-	-	380,000	0.01%	0.00%	0.00%	0.01%
Loans and advances to banks at amortized cost	-	-	-	-	-	-	-	-	0.00%	0.00%	18.11%	5.47%
Loans and advances to customers at amortized cost	639,761,218	-	159,883,000	799,644,218	3,518,687	-	142,855,460	146,374,147	0.55%	8.13%	89.35%	9.3%
Debt investment securities at amortized cost	-	-	-	-	-	-	-	-	0.24%	0.00%	0.00%	0.24%
Debt investment securities at FVOCI	-	-	-	-	-	-	-	-	0.06%	0.00%	0.00%	0.06%
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Measured at amortized cost	-	-	-	-	-	-	-	-	0.06%	0.00%	0.00%	0.06%
Sub Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	0.26%	8.13%	89.34%	3.74%
off-balances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Letter of credits	-	-	-	-	-	-	-	-	5.30%	0.00%	0.00%	5.30%
Financial guarantee and similar contracts	-	-	-	-	-	-	-	-	-	-	-	-
Financial Guarantee	-	-	-	-	-	-	-	-	0.09%	0.00%	0.00%	0.11%
Sub-Total	-	-	-	-	-	-	-	-	0.39%	0.00%	0.00%	0.41%
Notional Lines	-	-	-	-	-	-	-	-	-	-	-	-
Loan and other credit related commitments	-	-	-	-	-	-	-	-	0.75%	0.00%	0.00%	0.75%
Sub-Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.75%**	**0.00%**	**0.00%**	**0.75%**
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.38%**	**8.19%**	**89.34%**	**2.79%**

NATIONAL DISCLOSURES

20. Loans and advances to customers	Dec. 2021 ₦	Dec. 2020 ₦
Gross loans	799,644,218	739,160,581
Loan loss provision	(166,280,612)	(100,449,996)
Balance as at 31/12/2021	633,363,606	638,710,585

LOANS AND ADVANCES	**2021** ₦	**2020** ₦
Unsecured Loans and advances	799,644,218	739,160,581
Less Provision for loan losses	(166,280,612)	(100,449,996)
Balance at year end	**633,363,606**	**638,710,585**
LOANS AND ADVANCES CLASSIFICATION		
Performing	639,761,218	645,162,207
Non-Performing:		
Pass and Watch	-	-
Substandard	-	-
Doubtful	-	-
Lost	159,883,000	93,998,374
Total	**799,644,218**	**739,160,581**
LOANS AND ADVANCES MATURITY PROFILE		
Maturity Profile is a follows:		
1-30 days	436,089,000	23,997,956
31-60 days	4,499,000	36,215,504
61-90 days	81,493,000	108,476,180
91-360 days	81,452,000	384,386,276
Over 360 days	196,111,218	186,084,665
TOTAL	**799,644,218**	**739,160,581**
PROVISION FOR LOAN LOSSES		
PRINCIPAL:		
Balance brought forward 1/1/21	100,449,996	33,731,018
Charge to Profit and Loss Account	98,460,432	101,177,228
Recovery during the year	(32,629,816)	(34,458,250)
Principal as at 31/12/2021	**166,280,612**	**100,449,996**
INTEREST IN SUSPENSE		
Balance brought forward 1/1/21	-	-
Suspended for the year	-	-
Reversal of unearned interest	-	-
Suspended a t 31/12/2021	-	-
Balance carried forward	166,280,612	100,449,996

24. Deposits from customers

	2021	2020
	₦	₦
Demand Deposits	71,352,659	70,439,470
Savings Deposits	119,863,423	115,153,692
Fixed Deposits	-	3,439,841
Balance at year end	191,216,082	189,033,003
Deposit Liability & Maturity profile		
1 – 30 days	191,216,082	16,140,948
31 -60 days	-	24,613,494
61-90 days	-	39,743,281
91-360 days	-	108,535,280
Over 360 days	-	-
Balance at year end	191,216,082	189,033,003

VALUE ADDED STATEMENT AS AT 31ST DECEMBER, 2021

	2021	%	2020	
	₦		₦	%
Gross Earnings	180,647,592		254,948,851	
Less Interest and Commission				
Expenses	(4,713,901)		(4,196,514)	
Less Loan Losses Provision	(78,553,967)		(93,998,374)	
Less Bought in Materials	(37,101,564)		(30,351,295)	
	60,278,160	**100**	**126,402,668**	**100**
APPLIED AS FOLLOWS				
Employees' salaries and wages	43,356,613	**72**	40,194,963	32
Depreciation/Amortization	2,161,555	**4**	8,406,993	7
Tax to the government	2,101,000	**3**	37,718,014	30
Re-invested in business	12,658,992	**21**	40,082,698	31
Value added	**60,278,160**	**100**	**126,402,668**	**100**

Value added statement show the wealth created by the bank and its disposition and share to government and maintenance of property, plant and equipment and re-invested for further expansion of the business.

FIVE YEAR FINANCIAL SUMMARY FOR THE YEAR ENDED 31ST DECEMBER, 2021

		2021 ₦	2020 ₦	2019 ₦	2018 ₦	2017 ₦
ASSETS EMPLOYED	**NOTE**					
Cash and Short terms	1	234,907,681	150,844,614	200,418,211	292,453,024	224,672,163
Loans & Advances	2	653,270,071	638,710,585	446,320,601	360,460,313	304,103,943
Other Assets	3	50,469,239	9,439,182	22,271,046	13,390,956	28,200,103
		938,646,991	**798,994,381**	**669,009,858**	**666,304,293**	**556,976,209**
NON-CURRENT ASSETS:						
Investments	4	-	-	-	7,000,000	7,000,000
Property, Plant and Equipment	5	59,245,847	56,587,402	63,871,695	49,893,261	54,546,293
		59,245,847	56,587,402	63,871,695	56,893,261	61,546,293
TOTAL ASSETS		**997,892,838**	**855,581,783**	**732,881,553**	**723,197,554**	**618,522,502**
LIABILITIES						
Current Liabilities:						
Deposits and other Accounts	6	191,216,082	189,033,003	131,410,977	125,624,293	114,666,011
Other Payables	7	212,611,947	87,243,963	91,959,076	147,600,578	159,302,619
Taxation	9	85,493,443	83,392,443	45,674,429	15,387,275	7,813,319
Total Liabilities		489,321,472	359,669,409	269,044,482	288,612,146	281,781,949
Non-current		-	-	-	-	-
Deposits for Shares	10	-	-	-	582,000	384,000
		-	-	-	-	384,000
TOTAL LIABILITIES		**489,321,472**	**359,669,409**	**269,044,482**	**289,194,146**	**282,165,949**
EQUITY						
Share Capital	11	224,357,362	224,357,362	224,357,362	224,357,362	224,357,362
Regulatory Risk Reserves	12	19,906,465	-	-	-	-
Statutory Reserve	13	220,397,623	217,232,875	207,212,200	194,960,650	194,960,650
Retained Earnings	14	43,909,916	54,322,157	32,267,509	14,685,396	(82,961,459)
Shareholders Fund		508,571,366	495,912,374	463,837,071	434,003,408	336,356,553
Total Equity & Liabilities		**997,892,838**	**855,581,783**	**732,881,553**	**723,197,554**	**618,522,502**
PROFIT AND LOSS ACOUNT						
Gross Earnings		180,647,592	254,948,851	282,678,383	165,186,931	124,495,614
Administrative Expenses		(87,333,633)	83,149,765	(151,428,497)	(103,986,752)	(91,557,102)
Impairment Charges		(78,553,967)	93,998,374	(92,742,601)	44,620,632	79,953,652
Comprehensive Income		14,759,992	77,800,712	38,507,285	105,820,811	112,892,164
Taxation		(2,101,000)	(37,718,014)	(4,186,480)	(8,173,956)	(1,132,327)
Total Comprehensive Income		**12,658,992**	**40,082,698**	**34,320,805**	**97,646,855**	**111,759,837**
Earnings per Share (EPS)		5.64k	17.87k	15.3k	47.2k	50.3k