

VFD Microfinance Bank Limited

Annual Report and Financial Statements
31 December 2022

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Corporate information

Directors	Mr. Haruna Dalhatu Iya	Chairman (Appointed on 22 January 2019)
	Mr. Gbenga Omolokun	Managing Director (Appointed on 14 June 2021)
	Mrs Winnifred Allison	Executive Director (Appointment not yet approved by CBN) Date of Appointment - 17th October 2022
	Mr. Adeniyi Adenubi	Non- Executive Director (Appointed on 30 July 2014)
	Mr. Olayinka Olajuwon	Non- Executive Director (Appointed on 1 January 2019)
	Mr. Azubike Emodi	Non-Executive Director (Appointed on 16 April 2016)
	Mr. Tope Borishade	Non- Executive Director (Appointed on 22 January 2019)
	Mr. Chioma Nkechika	Non- Executive Director (Appointment not yet approved by CBN) Date of Appointment - 1st January 2019
Registered Office	5th Floor, Elephant House, 214 Broad Street, Lagos Island	
Auditor	Deloitte & Touche Civic Towers Plot GA1, Ozumba Mbadiwe Avenue, Victoria Island, Lagos State, Nigeria.	
Company Secretary	The Structure HQ Limited 8, Norman Williams Street Ikoyi, Lagos	
Principal Bankers	Zenith Bank Plc United Bank for Africa Plc	
Tax Identification Number	17872213 - 0001	
Ref. Number	FPR/LAD/MFB/CON/01/007	
Date of Operation	January 2015	

Management Team	Gbenga Omolokun	- Managing Director
	Obinwanne Mordi	- Head, Business Development
	Olisaeloka Ifeajuna	- Head, Operations
	Esther Nwafor	- Head, Finance
	Temitope Osinubi	- Head, Internal Audit
	Oluwaseyi Adebajo	- Legal/Compliance Officer

Corporate Governance Report**Introduction**

VFD Microfinance Bank Limited is a subsidiary of VFD Group Plc and the principal activity of the Bank is the provision of banking and other permissible services to individuals, groups and associations; except public sector. Such services include acceptance of deposits, provision of credits, and collection of money or proceeds of banking instruments on behalf of its customers through correspondent banks.

The Board of the Bank is made up of individuals who bring on board high levels of competencies and experience. The Board has the authority to establish and carry out its duties through Board Committees. The Board is responsible for appointment of members into Board Committees.

Commitment to Corporate Governance

The bank remains committed to institutionalizing Corporate Governance principles. It also continues to ensure adherence to the implementation of Corporate Governance rules of the Central Bank of Nigeria. The Board operates in line with its responsibilities as contained in Regulatory Codes of Corporate Governance, the Articles of Association and the Companies and Allied Matters Act. Its oversight of the operations and activities of the Bank are carried out transparently without undue influence.

Essentially, fair value Corporate Governance depends on the quality and integrity of the Directors. Consequently, the Bank has undertaken to create the institutional framework conducive for defending the integrity of its directors and is convinced that on account of this, the Board of the Company is functioning in a highly effective manner. It is intended that Directors and Management would be continuously challenged to improve in areas where the need for improvement is identified.

Board Composition and Independence

As at December 31, 2022, The Board comprised of eight Directors led by an Independent Non-Executive Chairman and individuals with enviable records of achievement in their respective fields. These individuals bring on board high levels of competencies and experience and their individual profile is as follows:

Haruna Dalhatu Iya - Chairman

Mr. Haruna Dalhatu Iya started his career in 1981 with the Ministry of Works and Transport where he rose to the position of Area Engineer. He joined the Central Bank of Nigeria in 1990 as a Project Manager and rose through to the position of Deputy Director, Projects in 2009. He also held management positions in the Bank as Head, Cost Control Office from 2006 to 2012. He was moved to Head, Support Services Division from 2012 to 2013. Mr. Iya resigned after attaining Thirty-Five years in public service on October 1, 2013.

He is a member of the Chartered Institute of Building, United Kingdom and the Nigerian Institute of Building. Mr. Iya holds an HND in Building Technology from Kaduna Polytechnic, Kaduna State and an advanced diploma in Construction Management from the University of Ulster, United Kingdom. He has participated in courses, seminars and symposiums both locally and internationally particularly in the United Kingdom, United States of America, France and Germany.

Gbenga Omolokun - Managing Director

Gbenga holds a degree in mathematics from Obafemi Awolowo University (OAU) Ife and has developed specific skills in business process and technology management on various client projects across several industries. He has over eight years' experience in the advisory division of KPMG. Notably, Gbenga acted as the program manager on a systems implementation project for a large manufacturing company across 8 countries in Africa and 10 project locations. He has worked on various business process/technology issues with numerous clients across several industries including the Public Sector, Pharmaceuticals, Manufacturing and Financial Services.

Corporate Governance Report**Azubike Emodi - Non Executive Director**

Azubike Emodi is a financial services professional with experience in retail and commercial banking, strategic planning and process improvement, financial analysis and modelling and fund management. He started his career with Zenith Bank Plc and also worked with the Royal bank of Canada before joining VFD Group in 2016. He was the managing director of the foremost Digital Bank in Nigeria, VFD Microfinance Bank. Azuibike is an associate member of the Chartered institute of Bankers, a member of the Canada Securities Institutes and a sponsored individual of the Securities and Exchange Commission (SEC), Nigeria.

Yinka Olajuwon - Non Executive Director

Yinka Olajuwon is a Legal Practitioner with a bias for commercial and corporate practice. With over 20 years extensive and broad experience in civil and commercial litigation, real estate advisory, company secretarial/legal advisory services, consulting, and general legal consultancy services particularly in Lagos, Nigeria with a carefully cultivated extensive network throughout Nigeria. He is currently the Principal Partner, Olayinka Olajuwon & Co. where he provides direction, vision, mission and management for the firm. Yinka Olajuwon is a graduate of Obafemi Awolowo University, Ile-Ife, Osun State. He has a BL from The Nigerian Law School, Victoria Island Lagos.

Adeniyi Adenubi - Non Executive Director

Niyi Adenubi is the Executive Director of Institutional Business & Investor Relations, VFD Group and he oversees the Institutional Businesses within the Group. He holds a degree in Sociology from the University of Ibadan. Niyi has vast experience in the financial sector working in Private equity, Venture Capital, and Financial Advisory. He is the Chairman of Anchoria Asset Management and serves on the following Boards as a Non-Executive Director: Germaine Auto Centre & Dynasty Real Estate. He is passionate about Corporate Governance and brings this to bear on all the Boards that he serves on. He has certifications in Finance and Business Management from the Tanaka Business. He has also played Financial Advisory roles to numerous firms in Nigeria and in the United Kingdom, most notably with the Royal Bank of Scotland and ATOS Consulting. Niyi is a member of The Institute of Directors.

Temitope Borishade - Non Executive Director

Temitope Borishade is a finance and accounting professional with extensive business experience, including serving as the Deputy Managing Director at Enugu Electricity Distribution Plc. He worked as an Associate at Zenith Capital Limited in Lagos and as a Senior at the Chicago office of Deloitte. He also worked at the Chrome Group, where he led the corporate finance team on energy industry transactions, managed the petroleum and petroleum products trading subsidiary and managed the petroleum and petroleum products inspection subsidiary, at various times.

Temitope holds a B.Sc. in Accounting from Obafemi Awolowo University in Nigeria and an MBA from DePaul University in the United States of America. He is a Fellow of the Institute of Chartered Accountants of Nigeria and Member of Chartered Institute of Stockbrokers, Institute of Directors, American Institute of Certified Public Accountants and the Chartered Institute for Securities and Investment, U.K. He has participated in courses at London Business School and Harvard Business School. He enjoys networking and business development. Temitope is currently the Chairman of Kaduna Inland Dry Port Limited and Inland Containers Nigeria Limited.

Chioma Nkechika - Independent Non Executive Director

Chioma Nkechika is an astute business development strategist with more than 25 years' experience in Business Planning, Financial Risk, Business Relationship Management, Risk Management, and Corporate Finance in African markets. He is the Chief Executive Officer of Coralpay Technologies Limited. Prior to establishing Coralpay, he served as the Group Head, Card Services and E-payment Processing, Ecobank Group, and spent 9 years as an AVP at Zenith Bank.

Corporate Governance Report

Winifred Allison - Executive Director

Winifred Allison is the current Executive Director, Products & Marketing for VFD Microfinance Bank. Winifred is a well-rounded Banker with over 16 years of banking experience with vast knowledge in Operations, Marketing, Innovation & Strategy and Management where she managed a team of over 100 individuals.

Her prior place of work was Zenith Bank PLC, where she started her career in the operations department, moved on to marketing, then to electronic business, and finally became the key innovation driver and strategist for Zenith Bank. She holds an MBA from the prestigious Warwick Business School in the UK, part of which she studied courses such as strategic marketing, innovation & creativity for management amongst others, and then, as an exchange student, went on to study Global Information Management at Mannheim Business School, Germany. She also holds significant certifications in the IT field ranging from Business analysis to scrum master and a number of others.

The Bank's Code of Corporate Governance

The Board meets regularly to set broad policies for the bank's business and operations and ensure that an objective and professional relationship is maintained with the bank's Auditors in order to promote transparency in financial and non-financial reporting.

The Guiding Principles of the Bank's Code of Corporate Governance remain as follows:

- All power belongs to the shareholders.
- Delegation of authority by the owners to the Board and subsequently to Board Committees and Executives is clearly defined and agreed.
- Institutionalized individual accountability and responsibility through empowerment and relevant authority.
- Clear terms of reference and accountability for Committees at Board and Executive levels.
- Effective communication and information sharing outside of meetings.
- Actions are taken on a fully informed basis, in good faith with due diligence and care and in the best interest of the Bank and Shareholders.
- Enhancing compliance with applicable laws and regulations and the interest of the stakeholders. Where there is any conflict between the bank the Bank's rules, the local laws and legislation supersede.
- Conformity with overall company strategy and direction.
- Transparency and full disclosure of accurate, adequate and timely information regarding the personal interest of directors in any area of potential conflict regarding the Bank's business.

Roles and Responsibilities of the Board

The Board determines the Bank's purpose and values as well as the strategy to achieve its purpose. It ensures that procedures and practices are in place to protect the Bank's assets and reputation. The Board is explicitly responsible for the stewardship of the Bank.

The Board is responsible for:

- Reviewing alignment of goals, major plans of action, annual budgets and business plans with overall strategy, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditure in line with approved budget.
- Investment and capital management, financial and statutory reporting, articulation and approval of policies, setting overall strategic direction, monitoring and coordinating performance, and succession planning for the Board and Senior Management Staff.

Corporate Governance Report

- Ensuring the integrity of the Bank's accounting and financial reporting systems (including the independent audit) and the appropriate systems are in place for monitoring risk, financial control and compliance with the law.
- Selecting, compensating, monitoring and when necessary, replacing key Executives and overseeing management succession planning.
- Interfacing with the management of the Bank to ensure harmony in implementing its strategy.
- Performing all statutory roles as required by law.
- Through the establishment of Board Committees, making recommendations and taking decisions on behalf of the Board on issues that may arise outside the normal meeting schedule of the full Board.
- Ratifying recommendations and decisions of Board Committees.

Board Committees

During the financial year ended December 31, 2022, the Board delegated some of its responsibilities to its committees as follows

- **Audit and Risk Management Committee:** Its function includes overseeing Enterprise Risk Management's vision, goals and objectives in line with best practice, monitoring the Bank's risk profile against set targets (risk appetite), approving and periodically reviewing the Bank's risk appetite and portfolio strategy, ensuring that appropriate risk management policies, processes and methodologies are in place for managing the various risks to which the Bank may be exposed, establishing a Management structure that is capable of implementing the Bank's Risk Management framework and ensure that qualified and competent person(s) at senior levels are employed to manage the various risk areas, ascertaining that the accounting and reporting policies of the Bank are in accordance with legal requirements and agreed ethical principles. Furthermore, they are saddled with the responsibility of reviewing the scope and planning of the Bank's audit requirements, reviewing findings on management matters in conjunction with external auditors and responses thereon, reviewing the effectiveness of the Bank's system of accounting and internal control as well as making recommendations to the Board with regard to the appointment, removal and remuneration of the external auditors to the Bank and other ancillary duties as may be assigned by the Board from time to time.

Committee composition: Mr. Tope Borishade (Chairman), Mr. Azubike Emodi. the Company Secretary, Ms. Esther Nwafor (Head, Finance) and Mr. Azeez Ajiboye (Internal Control Officer), Ms. Temitope Osinubi (Head, Internal Audit, Control and Risk Management) in attendance only as may be required.

- **Finance and General-Purpose Committee:** The committee is solely established to carrying the following non-exhaustive functions such as review of assets and liability management of the bank, review of the year-to-date financial report, responsible for the updates and monitoring of the Bank's budget and forecasts in line with evolving economic situations, review and approval of annual budget and recommendation to the board in relation to the approved annual budget subject to potential changes.

Committee composition: Mr. Adeniyi Adenubi (Chairman), Mr. Tope Borishade and Mr. Azubike Emodi. Ms. Gbeminiyi Shoda (Secretary) and Mrs. Esther Nwafor (Head, Finance), in attendance only as may be required.

- **Credit Committee:** The committee is saddled with the responsibility of reviewing and monitoring the credit process of the bank on a timely basis in strict adherence to the prudential guideline established by the Central Bank of Nigeria. In addition to the credit process, also monitoring, the credit

Corporate Governance Report

performance and non-performing loans portfolio of the bank and finally, make recommendations to the board on credit matters.

Committee Composition: Mr. Azubike Emodi (Chairman), Mr. Tope Borishade, Mr. Gbenga Omolokun, Mr. Yinka Olajuwon, Ms. Winifred Allison, Mr. Chioma Nkechika, Mr. Adeniyi Adenubi, the Company Secretary, Ms. Bunmi Obagbemi (Head of Operations), Mr. Samuel Ugochukwu (Recovery Officer) and Cynthia Agbim (Head of Credits) in attendance only as may be required.

- **Governance and Nominations Committee:** Its functions include, nominating and making recommendations to the Board on Board's appointments as well as recruitment, promotion, compensation and remuneration policy for the Bank, overseeing Board performance and evaluation, succession planning for key positions on the Board, review and make recommendations for improvement to the Bank's Corporate Governance framework while ensuring adequate Corporate Governance disclosures are made in the Annual Report and to relevant regulatory authorities.

Committee Composition: Mr. Yinka Olajuwon (Chairman), Mr. Adeniyi Adenubi and Mr. Tope Borishade, Ms. Adaobi Ogueri (Head, Human Resources), the Company Secretary in attendance only as may be required.

- **IT Steering Committee:** Its functions include overseeing and monitoring execution of the bank's strategic direction in relation to digital and information technology, reviewing and accessing the digital and information technology acquisition process to ensure business growth, reviewing and monitoring the strategies for developing and implementing information technology, measuring and tracking the efficiency and effectiveness of the information technology systems, critically considering and recommending emerging risks and opportunities on innovation and information technology as well as other ancillary duties as may be assigned by the Board from time to time.

Committee Composition: Mr. Chioma Nkechika (Chairman), Mr. Gbenga Omolokun, Mr. Azubike Emodi, Ms. Winifred Allison, Mr. Daniel Babatunde (Engineering Lead), the Company Secretary in attendance only as may be required.

Frequency of Meetings: Meeting of the Board and its Committees are usually held quarterly but may also be convened at any time whenever the need arises.

Corporate Governance Report

Director	Board Meeting	Audit & Risk Committee Meeting	Corporate Governance Committee Meeting	IT Steering Committee Meeting	Board Credit Committee Meeting	Finance & General-Purpose Committee Meeting
	March 31, 2022	March 22, 2022	March 22, 2022	March 22, 2022	March 23, 2022	March 23, 2022
	June 30, 2022	June 21, 2022	June 21, 2022	June 21, 2022	June 22, 2022	June 22, 2022
	October 17, 2022	October 5, 2022	October 6, 2022	October 5, 2022	October 7, 2022	October 6, 2022
	November 17, 2022					
	Total: 4 Meetings	Total: 3 Meetings	Total: 3 Meetings	Total: 3 Meetings	Total: 3 Meetings	Total: 3 Meetings
Mr. Haruna Dalhatu Iya	4	N/A	N/A	N/A	N/A	N/A
Mr. Tope Borishade	4	3	3	N/A	3	3
Mr. Gbenga Omolokun	4	N/A	N/A	3	3	3
Mr. Yinka Olajuwon	3	N/A	3	N/A	3	N/A
Mr. Niyi Adenubi	3	N/A	3	N/A	3	3
Mr. Chioma Nkechika	4	3	N/A	3	2	N/A
Ms. Winifred Allison*	1	N/A	N/A	N/A	N/A	N/A
Mr. Azubike Emodi	4	3	N/A	2	3	3

Ms. Winifred Allison's first Board meeting after joining the Board held on November 17, 2022. N/A means not applicable by reason of not being a committee member at the time.

Shareholder Participation

The Bank is conscious of and continues to take necessary steps to promote shareholder rights. All stakeholders are invited to report any concern about a threatened/suspected breach of corporate governance requirements to the office of the Company Secretary.

Whistleblowing Policy

VFD Microfinance Bank Limited ("VFD MFB" or "THE Bank") is committed to encouraging a high ethical standard in all its business activities. It has established a code of ethics that sets out the standard of conduct expected in the management of its businesses. All stakeholders are expected to comply with these standards in the discharge of their duties. In furtherance of this, VFD MFB's Whistleblowing policy and Procedure provides a channel for the Bank's employees and other relevant stakeholders to raise concerns about workplace malpractices, in a confidential manner; for the Bank to investigate alleged malpractices and take steps to deal with such in a manner consistent with the Bank's policies and procedures and relevant regulations. Whistleblowing for the purpose of this policy is the act of reporting perceived unethical conduct

Corporate Governance Report

of employees, management, directors, and other stakeholders by an employee or other persons to appropriate authorities.

Board Remuneration Policy

The Board Remuneration policy of VFD Group Plc is designed to establish a framework for defining and structuring the remuneration of executive and nonexecutive directors, noting [VFD Group's or the Company] scope of operations, productivity, and performance as well as shareholder value creation. The Board Remuneration Policy also takes cognizance of the relevant Codes of Corporate Governance in Nigeria with a view to ensuring adherence and strict compliance to the highest standards of Corporate Governance. The Board Remuneration Policy for members of the Board of Directors of VFD Group Plc reflects the interests of shareholders in promoting the long-term goals of the Bank.

Corporate Social Responsibility

At VFD Microfinance Bank (VFD MFB), we understand that beyond our organization, our business decisions and the methods with which we engage our key stakeholders affect the lives, businesses, and environments of our clients and their communities. Through our Corporate Social Responsibility (CSR) initiatives, we demonstrate our commitment to adding value to our stakeholders in ways that strategically influence and contribute to their pain points.

Drawn from the United Nations (UN) Sustainable Development Goals, our CSR policy focuses on three (3) core areas - they include decent work and economic growth, gender equality, and quality education.

Complaints Policy Management

Disputes may arise when customers use our products and services which VFD Microfinance Bank Limited (VFD, VFD MFB or the Company) will seek to resolve expeditiously and amicably, to ensure customer satisfaction.

Board Evaluation Policy

The primary mission of the Board of Directors of VFD Microfinance Bank Limited ("the Board") is to effectively represent and promote the interest of shareholders and relevant stakeholders by adding value to the Company. VFD Microfinance Bank is committed to upholding good corporate governance in all its dealings with its shareholders and relevant stakeholders. All members of the Board are required to act in a professional manner, upholding the core values of integrity and accountability. In addition, Board members are required to uphold the good corporate governance practices when performing their fiduciary duties and responsibilities.

This Board Charter shall form an integral part of the governance documents presented to Directors on appointment to the Board. The Board is the focal point of the Company's corporate governance system. It is ultimately accountable and responsible for the performance and affairs of the Bank."



Gbeminiyi Shoda

For: The Structured HQ Limited

Company Secretary

FRC/2015/NBA/0000011768

Lagos, Nigeria.

31 March 2023

Directors Report

The Directors have pleasure in presenting their report on the affairs of VFD Microfinance Bank Limited, together with the audited financial statements for the year ended 31 December 2022.

1. Legal Form

The Company was incorporated as a private limited liability company on 11 August 2014. It was given a final license to operate as a microfinance bank by Central Bank of Nigeria on 16 January 2015 and commenced business on 11 June 2015.

2. Principal Activity and Business Review

The principal activity of the Bank is the provision of banking and other permissible services to individuals, groups, and associations, except public sector. Such services include acceptance of deposits, provision of credits, and collection of money or proceeds of banking instruments on behalf of its customers through correspondent banks.

The Bank is a Unit Microfinance Bank.

3. Operating Results

Highlights of the Bank's operating results for the year under review are as follows:

OPERATING RESULTS

	<u>2022</u> N'000	<u>2021</u> N'000
Net Operating Income	1,956,582	1,342,887
Operating Expenses	(1,927,363)	(1,152,651)
Profit Before Tax	29,219	190,235
Taxation	(27,342)	(58,029)
Profit After Tax	<u>1,877</u>	<u>132,206</u>

4 Shareholding

The shareholders of VFD Microfinance Bank Limited as at 31 December 2022 and their respective shareholding are as follows:

	Number of Ordinary Shares of N1:00 each as at	
	2022	2021
VFD Group Plc	945,000,000	945,000,000
Premium Green Limited	52,500,000	52,500,000
VFD Bridge Limited	52,500,000	52,500,000

5. Directors

The directors who held office during the year and to the date of this report are shown on page 3. In accordance with Section 285 of the Companies and Allied Matters Act (CAMA) 2020, no director is due for retirement by rotation.

Directors Report

6. Property, Plant and Equipment

Information relating to property, plant and equipment is given in Note 18 of the Financial Statements.

7. Events after the reporting period

There are no material events after the reporting period that have not been taken into consideration in the preparation of the financial statements.

8. Human Resources

Employment of Disabled persons

The Bank believes in giving full and fair consideration to its entire current and prospective staff. There were no disabled employees within the Bank during the period under review."

Employees' health and safety

Health and safety regulations are in force within the Bank's premises and employees are aware of existing regulations.

Employees' involvement and training

The Bank believes in the development and training of its staff and carries this out through adequate training.

9. Audit Committee

The Bank has an Audit Committee as follows:

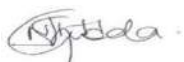
Mr. Tope Borishade	Chairman
Mr. Azubike Emodi	Non- Executive Director
Mr. Chioma Nkechika	Non- Executive Director

The Bank has adopted the functions of the Audit Committee as laid down in Section 359(6) of the Companies and Allied Matters Act, CAMA 2020.

10. Auditors

Messrs. Deloitte & Touche, having indicated their willingness, will continue in office as the company's auditors in accordance with section 357(2) of the Companies and Allied Matters Act, CAMA 2020. A resolution will be proposed authorizing the Directors to determine their remuneration.

BY ORDER OF THE BOARD



Gbeminiyi Shoda

For: The Structured HQ Limited

Company Secretary

FRC/2015/NBA/0000011768

31 March 2023

Statement of Directors' Responsibilities

For the preparation and approval of the Financial Statements

The Directors of **VFD Microfinance Bank Limited** accept responsibility for the preparation of the annual financial statements, which give a true and fair view of the state of affairs of the Bank and of its financial performance. The Directors affirm that the financial statements have been prepared using appropriate accounting policies supported by reasonable judgments and estimates, in conformity with the International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act, CAMA 2020, the Financial Reporting Act Council of Nigeria Act No 6, 2011, Banks and Other Financial Institutions Act of Nigeria 2020 and relevant Central Bank of Nigeria regulations.

In preparing the financial statements, the Directors are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- making an assessment of the Bank's ability to continue as a going concern.

Going Concern:

The Directors have assessed the Bank's ability to continue as a going concern and have no basis to believe that it will not remain a going concern for at least twelve months from the date of approval of the financial statements.

On behalf of the Directors of the Bank



Mr. Adeniyi Adenubi
(Non-Executive Director)
FRC/2016/IODN/00000014509



Mr Gbenga Omolokun
Chief Executive Officer
FRC/2019/IODN/00000019414

CERTIFICATION OF FINANCIAL STATEMENTS

In accordance with section 405 of the Companies and Allied Act of Nigeria, the Chief Executive Officer and the Chief Financial Officer certify that the financial statements have been reviewed and based on our knowledge, the

- (i) audited financial statements do not contain any untrue statement of material fact or omit to state a material fact, which would make the statements misleading, in the light of the circumstances under which such statement was made, and
- (ii) audited financial statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the Bank as of and for, the periods covered by the audited financial statements;

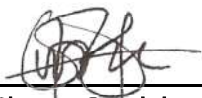
We state that management and directors:

- (i) are responsible for establishing and maintaining internal controls and has designed such internal controls to ensure that material information relating to the Bank is made known to the officer by other officers of the company, particularly during the period in which the audited financial statement report is being prepared,
- (ii) has evaluated the effectiveness of the Bank's internal controls within 90 days prior to the date of the date of its audited financial statement, and
- (iii) certifies that the Bank's internal controls are effective as of that date;

We have disclosed:

- (i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Bank's ability to record, process, summarise and report financial data, and has identified for the Bank's auditors any material weaknesses in internal controls, and
- (ii) whether or not, there is any fraud that involves management or other employees who have a significant role in the Bank's internal control; and
- (iii) as indicated in the report, whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The financial statements of the Bank for the year ended 31 December 2022 were approved by the directors on 31 March, 2023.



Mr Gbenga Omolokun

Chief Executive Officer

FRC/2019/IODN/00000019414



Esther Nwafor

Chief Financial Officer

FRC/2023/PRO/ICAN/001/725754

**Report of Audit Committee
To the Members of VFD Microfinance Bank Limited**

In accordance with the provision of Section 359(6) of the Companies and Allied Matters Act (CAMA) 2020, the members of the Audit Committee of VFD Microfinance Bank Limited hereby report on the financial statements for the year ended 31 December 2022 as follows:

We have exercised our statutory functions under Section 359(6) of the Companies and Allied Matters Act, CAMA 2020 and acknowledge the co-operation of management staff in the conduct of these responsibilities.

We have exercised our statutory functions under Section 359(6) of the Companies and Allied Matters Act, CAP C20 LFN 2020 and acknowledge the co-operation of management staff in the conduct of these responsibilities.

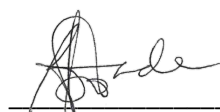
We are of the opinion that the accounting and reporting policies of the Bank are in accordance with legal requirements and agreed ethical practices and that the scope and planning of both the external and internal audits for the year ended 31 December 2022 were satisfactory and reinforce the Bank's internal control systems. 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 31 December 2022 were satisfactory and reinforce the Bank's internal control systems.

We have deliberated with the external auditors, who have confirmed that necessary co-operation was received from management in the course of their statutory audit, and we are satisfied with management's responses thereon and with the effectiveness of the Bank's system of accounting and internal control. We have deliberated with the external auditors, who have confirmed that necessary co-operation was received from management in the course of their statutory audit, and we are satisfied with management's responses thereon and with the effectiveness of the Bank's system of accounting and internal control.

Members of the Audit committee are:

- | | | |
|---|---------------------|------------------------|
| 1 | Mr. Tope Borishade | Chairman |
| 2 | Mr. Azubike Emodi | Non-executive Director |
| 3 | Mr. Chioma Nkechika | Non-executive Director |

The Company Secretary serves as the Secretary to the Committee.



Mr. Tope Borishade
Chairman, Audit committee
FRC/2014/ICAN/00000008888
31 March 2023

INDEPENDENT AUDITORS' REPORT

To the Shareholders of VFD Microfinance Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of “**VFD Microfinance Bank Limited**” set out on page 21 to 61 which comprise the statement of profit or loss and other comprehensive income as at 31 December 2022, the statement of financial position, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of **VFD Microfinance Bank Limited** as at 31 December 2022, and the financial performance and statement of cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), the Companies and Allied Matters Act, 2020, Banks and Other Financial Institutions Act (BOFIA) 2020, and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial statements section of our report. We are independent of the Company in accordance with the requirements of the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) and other independence requirements applicable to performing audit of financial statements in Nigeria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and other ethical requirements that are relevant to our audit of financial statements in Nigeria.

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

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current year. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

The key audit matter below relates to the audit of VFD Microfinance Bank Limited's financial statements.



Key Audit Matter	How the matter was addressed in the audit
Loan loss impairment	
IFRS 9- "financial instruments" introduces a new forward-looking impairment model, requiring companies to provide for expected credit losses (ECLs) on Financial Instruments. It also includes new requirements and guidance on the classification and measurement of financial assets. In estimating the expected credit losses (ECLs) on loans and advances, management makes use of significant assumptions and judgement in determining the impairment loss. Some of the key assumptions used are: - Assessment of significant increase in credit risk. - Calculation of lifetime probabilities of default (PD) as well as lifetime expected credit loss (ECL) - Loss given default (LGD) - Forward looking information macro-economic factors (e.g. unemployment rates, inflation rate etc.) Because of the significance of these estimates and judgement, the audit of loan impairment is considered a key audit matter.	Our audit procedures to assess the adequacy of the loan loss impairment in line with IFRS 9 included a review of the Bank's business model to test the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models. With the assistance of our IFRS (Credit) Specialist(s), we: 1. Obtained a detailed understanding of the default definition(s) used in the ECL calculation. 2. Tested the underlying calibration of data behind the determination of the probability of default by agreeing same to underlying supporting documentation. 3. Tested the disclosures to ensure that the required disclosures under IFRS 9 have been appropriately disclosed. 4. Challenged the criteria used to allocate asset to stage 1, 2 and 3 in accordance with IFRS 9; 5. Tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage; 6. Tested the data used in the ECL calculation (including the macro-economic factors) by reconciling to source systems; Based on our review, we found that the Bank's impairment methodology, including the model, assumptions and key inputs used by management to estimate the amount of loan impairment losses were comparable with historical performance, and prevailing economic situations and that the estimated loan loss impairment determined was appropriate in the circumstances.

Other information

The Directors are responsible for the other information. The other information comprises the information included in VFD Microfinance Bank Audited Annual Report and Financial statements which includes: the Director's Report, Corporate Governance Report, the Statement of Director's Responsibility, Certification of Financial Statement, Report of Audit Committee, and other National Disclosures required by CAMA 2020 and Financial Reporting Council Act 2011 which we obtained prior to the date of this auditor's Report. The other information does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS), the Companies and Allied Matters Act, 2020, Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act, 2011 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

In accordance with the fifth Schedule of the Companies and Allied Matters Act, 2020, we expressly state that:

- i. We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.
- ii. The Bank has kept proper books of account, so far as appears from our examination of those books
- iii. The Bank's statement of financial position and its statement of profit or loss and other comprehensive income are in agreement with the books of account and returns.

No evidence of non-compliance with laws and regulations (NOCLAR) was brought to our notice during the period.



For: Deloitte & Touche
Chartered Accountants
Lagos, Nigeria
18 December 2023



Engagement Partner: Joshua Ojo, FCA
FRC/2013/ICAN/00000000849

Statement of Profit or Loss and other Comprehensive Income

	Note	2022 N'000	2021 N'000
Interest income	4	3,202,925	2,083,390
Interest expense	4	(1,534,669)	(897,544)
Net interest income		1,668,256	1,185,846
Fee and commission income	5	152,473	99,766
Other income	6	160,197	92,383
Total operating income		1,980,926	1,377,994
Impairment loss	9	(24,343)	(35,108)
Net operating income		1,956,582	1,342,886
Personnel expenses	7	(458,424)	(320,950)
Depreciation expense	17	(22,889)	(7,786)
Amortization expenses	18	(24,456)	(6,318)
Other operating expenses	8	(1,421,594)	(817,598)
Total expenses		(1,927,363)	(1,152,651)
Profit before income tax		29,219	190,235
Income tax provision	20	(27,342)	(58,029)
Profit for the year		1,877	132,206
Other Comprehensive Income:			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year, net of tax		1,877	132,206
Profit attributable to:			
Owners of the Microfinance Bank		1,877	132,206
Basic and diluted earnings per share (kobo)	11	-	13

Statement of Financial Position

		2022	2021
	Note	N'000	N'000
Assets:			
Cash and Bank balances	12	643,900	395,287
Financial assets at amortised cost	13	834,963	1,310,081
Placement with banks and other financial Institutions	14	8,107,079	11,071,030
Loans and advances to customers	16	7,605,395	3,428,998
Other assets	15	1,312,736	485,227
Property and equipment	17	94,454	33,103
Intangible Assets	18	44,642	47,192
Total assets		18,643,169	16,770,918
Liabilities:			
Deposits from customers	19	15,724,535	15,094,140
Current income tax liability	20	19,159	39,302
Deferred Tax Liability	21	8,110	8,110
Borrowings	23	1,428,344	100,022
Other liabilities	22	162,292	130,493
Total liabilities		17,342,440	15,372,067
Equity:			
Share capital	24	1,050,000	1,050,000
Retained earnings	24	98,155	200,330
General reserve	24	10,000	10,000
Regulatory risk reserve	24	6,103	2,989
Statutory Reserve	23	136,471	135,532
Total equity		1,300,729	1,398,851
Total liabilities and equity		18,643,169	16,770,918

These financial statements were approved by the board of directors on 31 March 2023 and signed on behalf of the board of directors by the directors listed below:


 Gbenga Omolokun (Managing Director)
 FRC/2019/IODN/00000019414

Additionally certified by:


 Adeniyi Adenubi (Director)
 FRC/2016/IODN/00000014509


 Esther Nwafor (Chief Financial Officer)
 FRC/2023/PRO/ICAN/001/725754

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

	<u>Share capital</u> N'000	<u>Share Premium</u> N'000	<u>Regulatory risk reserve</u> N'000	<u>Statutory Reserve</u> N'000	<u>Retained earnings</u> N'000	<u>Total equity</u> N'000
Balance as at 1 January 2022	1,050,000	10,000	2,989	135,532	200,330	1,398,851
Total comprehensive income for the year:						
Profit for the year					1,877	1,877
Other comprehensive income						
Dividend Payment	-	-	-	-	(100,000)	(100,000)
Transfer to regulatory risk reserve	-	-	3,113	-	(3,113)	-
Transfer to statutory reserve	-	-	-	938	(938)	-
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>3,113</u>	<u>938</u>	<u>(102,174)</u>	<u>(98,123)</u>
Balance as at 31 December 2022	<u>1,050,000</u>	<u>10,000</u>	<u>6,102</u>	<u>136,471</u>	<u>98,155</u>	<u>1,300,728</u>

	<u>Share capital</u>	<u>Share Premium</u>	<u>Regulatory risk reserve</u>	<u>Statutory Reserve</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance as at 1 January 2021	1,050,000	10,000	13,486	69,428.50	123,730	1,266,644
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	132,206	132,206
Other comprehensive income						
Transfer to regulatory risk reserve	-	-	(10,497)	-	10,497	-
Transfer to statutory reserve	-	-	-	66,104	(66,104)	-
Total other comprehensive income	-	-	-	66,104	(66,104)	-
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>(10,497)</u>	<u>66,104</u>	<u>76,600</u>	<u>132,206</u>
Transactions with equity holders recorded						
Balance as at 31 December 2021	<u>1,050,000</u>	<u>10,000</u>	<u>2,989</u>	<u>135,532</u>	<u>200,330</u>	<u>1,398,850</u>

Statement of Cashflows

		2022	2021
	Notes	N'000	N'000
Cash flows from operating activities			
Profit for the year		1,877	132,206
Adjustments for:			
Depreciation of property and equipment	17	22,889	7,786
Amortisation of intangible assets	18	24,456	6,318
Impairment charge for credit losses	9	24,343	-
Income tax expense		27,342	58,029
		100,907	204,339
Change in loans and advances to customers		(4,200,740)	(2,078,201)
Change in other assets		(827,510)	(404,003)
Change in deposits from customers		630,395	5,710,871
Change in other liabilities		(8,558)	130,893
Changes in borrowings		1,328,322	-
		(2,977,185)	3,563,899
Income Tax paid		(7,129)	(48,086)
		(2,984,313)	3,515,813
Cash flows from investing activities			
Purchase of treasury bills		475,118	(755,351)
Purchase of property and equipment	17	(84,237)	(32,397)
Purchase of Intangible assets		(21,906)	(49,823)
Net cash used in investing activities		368,975	(837,571)
Cash flows from financing activities			
Dividend paid		(100,000)	-
Net cash provided by financing activities		(100,000)	-
Net increase in cash and cash equivalents		(2,715,338)	2,678,242
Cash and cash equivalents at beginning of year		11,466,316	8,788,074
Cash and cash equivalents at end of year	13 & 15	8,750,978	11,466,316

Notes to the Financial Statements

1 General Information

The Bank was incorporated as a private limited liability company on 11 August 2014. It was given a final license to operate as a microfinance bank by Central Bank of Nigeria on 16 January 2015 and commenced business on 11 June 2015.

The principal activity of the Bank is the provision of banking and other permissible services to individuals, groups and associations, except public sector. Such services include acceptance of deposits, provision of credits, and collection of money or proceeds of banking instruments on behalf of its customers through correspondent banks.

The Bank is a Unit Microfinance Bank, and it is a subsidiary of VFD Group Limited. VFD Group Limited has 90% equity interest in the Bank.

The financial statements were approved for issue by the Board of Directors on 31 March 2023

2 Basis of Preparation

The financial statements for the year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

3 Significant accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these financial statements.

3.1 Basis of measurement

The financial statements are prepared on the historical cost basis unless otherwise stated in the accounting policies as set below.

3.2 Functional and Presentation Currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which it operates (the functional currency).

The financial statements are presented in Naira and all values are rounded up to the nearest thousand (N'000), except when otherwise indicated.

3.3 Significant accounting judgments, estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Notes to the Financial Statements**Allowances for credit losses**

The Bank's loan impairment provisions are established to recognise expected impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. Such objective evidence, indicative that the borrower's financial condition has deteriorated, and for loans that are individually assessed: the non-payment of principal or interest, debt restructuring, breach of limits or covenants, for collectively assessed portfolios the borrowers' payment status and observable data about relevant macroeconomic measures."

The impairment is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

3.4 Foreign currency transactions

Foreign currency transactions are translated and recorded in Naira using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date."

Differences arising on settlement or translation of monetary items are recognised in profit or loss

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

3.5 Cash and cash equivalents

For the purposes of statement of cash flows, Cash and cash equivalents include cash in hand, unrestricted demand, call deposits with banks, and short term highly liquid financial assets (including money market funds), with original maturities of twelve months or less from the acquisition date, which are subject to insignificant risk of changes in their value and used by the Bank in the management of its short-term commitments."

3.6 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software when their values can be reasonably determined, and economic benefits will accrue to the Bank. Computer software is stated at cost less amortisation and impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Costs associated with maintaining computer software programmes are recognized as expenses when incurred."

Notes to the Financial Statements**Amortisation**

Intangible assets are amortized over the useful economic life estimated as the period over which the assets will be used by the Bank. The amortisation period and the amortisation method are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Amortisation rate for intangible asset is as follows:

Computer software	33.33%
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The amortisation expense on intangible assets with finite lives is recognized in profit or loss as the expense category that is consistent with the function of the intangible assets.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

3.7 Property, plant and equipment

The Bank's Property, plant and equipment comprise office equipment and furniture and fittings.

Recognition and measurement

All categories of property and equipment are initially recognised using the cost model and stated at their purchase cost including any costs directly attributable to bringing the asset into operation when the following conditions are met:

- Their values can be reasonably determined; the economic benefit will accrue to the Bank.

Property, plant, and equipment are subsequently stated at cost less accumulated depreciation and impairment losses, if any.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized 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 derecognized. The costs of ordinary day-to-day servicing and maintenance of property, plant and equipment are recognised in profit or loss as incurred."

Depreciation

The depreciable amount of an asset is its cost less the estimated residual value at the end of its useful life, if this is significant and can be reasonably determined. Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised. Depreciation is recognised in profit or loss on a straight-line basis to write down the cost of each asset, to their residual values over the estimated useful lives of each part of an item of property, plant and equipment."

The following annual rates are applied:

Office Equipment	33.33%
Furniture and Fittings	25.00%
Motor Vehicle	25.00%

Notes to the Financial Statements

The assets' residual values, useful lives and method of depreciation are reviewed, and adjusted for prospectively if appropriate, at the end of each reporting period."

De-recognition

An item of property, plant and equipment and any significant part initially recognised 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 profit or loss of the period the asset is de-recognised.

3.8 Provisions

Provisions are liabilities that are uncertain in amount and timing. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

3.9 Employee benefits**Short-term benefits**

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

A provision is recognized 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."

Post-employment benefits

The Bank operates a defined contribution plan in accordance with the provisions of the Pensions Reform Act. The contribution of the employee and employer is 8% and 10% of the qualifying monthly emoluments (i.e. basic, housing and transport) of employees respectively. The Bank's obligations for contributions to the plan are recognized as an expense in profit or loss when they are due.

3.10 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Notes to the Financial Statements

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes based on tax rates and laws that have been enacted or substantively enacted at the reporting period date and are expected to apply when the related deferred income tax liability is settled.

Deferred tax assets and liabilities are recorded under non-current assets and liabilities.

3.11 Share capital and reserves

Share capital

The issued ordinary shares of the Bank are classified as equity instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Dividends

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the period that are declared after the reporting date are disclosed in the financial statements as a non-adjusting event."

3.12 Expense recognition

Interest expense

Interest paid is recognized in profit or loss as it accrues and is calculated by using the effective interest rate method for facilities beyond one year. Accrued interest is included within the carrying value of the interest-bearing financial liability.

Operating expenses

Operating expenses are recognized in the statement of comprehensive income on an accrual basis."

3.13 Revenue

Interest income

Interest income for interest bearing financial instruments, are recognized within 'Interest Income' in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discount the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the gross carrying amount of the financial asset (i.e. its amortized cost before any impairment allowance). The effective interest rate is calculated on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective interest rate does not consider expected credit losses and includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other discounts or premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability."

Notes to the Financial Statements**Fees and commission income**

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. For other fees and commission income, it is the Bank's policy to recognize revenue from a contract when it has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Revenue is recognized when control of goods or services have been transferred. Control of an asset refers to the ability to direct its use and obtain substantially all of the remaining benefits associated with the asset.

Dividends

Dividends are recognized when the Bank's right to receive the payment is established, which is usually when shareholders approve the dividend.

3.14 Financial instruments**Definition**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or liability is recognized when the Bank becomes a party to the contractual provisions of the instrument.

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. The Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Business model assessment

The Bank determines the business models at the level that best reflects how portfolios of financial assets are managed to achieve the Bank's business objectives. Judgment is used in determining the business models, which is supported by relevant, objective evidence including:

- How the economic activities of our businesses generate benefits, for example through trading revenue, enhancing yields or other costs and how such economic activities are evaluated and reported to key management personnel.

Notes to the Financial Statements

- The significant risks affecting the performance of our businesses, for example, market risk, credit risk, or other risks and the activities undertaken to manage those risks; and
- Historical and future expectations of sales of the loans or securities portfolios managed as part of a business model."

The Bank's business models fall into three categories, which are indicative of the key strategies used to generate returns.

Hold-to-Collect (HTC)

The objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows. Sales are incidental to this objective and are expected to be insignificant or infrequent.

Hold-to-Collect-and-Sell (HTC&S)

The objective of this business model is to collect both contractual cash flows and cash flows resulting from sales of financial instruments.

Other fair value business models

These business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis."

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- Financial assets at amortized cost (loans and receivables and debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss"

Financial assets at amortized cost (loans and receivables and debt instruments)

The Bank measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding."

Financial assets at fair value through OCI (debt instruments)

The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding."

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are

Notes to the Financial Statements

recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Bank did not have any debt instruments at fair value through OCI during the reporting period."

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation; and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes listed equity investments which the Bank had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

Financial assets are reclassified when and only when the business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

Loans

Loans are debt instruments recognized initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided above. Loans are carried at amortized cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses. Interest on loans is recognized in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts.

Notes to the Financial Statements

Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognized as interest income over the expected term of the resulting loans using the effective interest method. Otherwise, such fees are recorded as other liabilities and amortized into other operating income over the commitment or standby period. Impairment losses on loans are recognized at each balance sheet date.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) The Bank has transferred substantially all the risks and rewards of the asset, or
 - (b) The Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Impairment of financial assets

The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Bank applies a simplified approach in calculating ECLs. Therefore, the Bank does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Bank has established a provision matrix that is based on its

Notes to the Financial Statements

historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment."

The Bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Bank's financial liabilities include customers' deposits, trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Bank has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Bank. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the Effective Interest Rate (EIR). The EIR amortisation is included as finance costs in the statement of profit or loss.

Notes to the Financial Statements**Derecognition**

A financial liability is derecognized when and only when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position when and only when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously."

3.15 Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the 'exit price') in an orderly transaction that is not a forced sale, liquidation sale or a distressed sale between market participants at the measurement date. Fair value is determined based on market conditions at the measurement date and the assumptions that market participants would use (i.e. it is a market-based measurement).

Fair value measurement assumes the transaction to sell the asset or transfer the liability occurs in a principal market or, in the absence of a principal market, in the most advantageous market to which the entity has access. It does not consider an entity's intent to sell the asset or transfer the liability. Fair value measurements of non-financial assets take into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use is determined from the perspective of market participants, even if the entity intends a different use. An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset."

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs significant to the fair value measurement as a whole:

*Level 1 -Quoted (unadjusted) market prices in active markets for identical assets or liabilities

*Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

*Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable."

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework

Notes to the Financial Statements

Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023. IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.

The directors of the Bank anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise."

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

Notes to the Financial Statements

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted."

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier."

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Notes to the Financial Statements

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
 - Right-of-use assets and lease liabilities
 - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset.
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The standard has no material impact on the Bank.

Notes to the Financial Statements

	<u>2022</u>	<u>2021</u>
	N'000	N'000
4 Interest calculated using effective interest method		
Investments	1,544,659	1,410,126
Loans and advances to customers	1,658,266	673,264
Total interest income	<u>3,202,925</u>	<u>2,083,390</u>
Interest expense		
Savings account	162,546	95,090
Current account	456	-
BOI interest expense	8,086	1,443
Deposit account	1,363,581	801,011
Total interest expense	<u>1,534,669</u>	<u>897,544</u>
Net interest income	<u>1,668,256</u>	<u>1,185,846</u>
5 Fee and commission income		
COT Income- CORPORATE CURRENT	-	200
Commission - Paycode	5	33
Commission - Airtime purchases	59,459	30,221
Commission - Bills payment	16,279	5,264
Income from transfers	681	348
Income from card transactions - Stanbic bank	380	53
Income from transfers - Wallet Accts	8,210	1,533
Commission - POS transactions	3,503	71
Commission on Nomiworld	299	104
MFB Income (Cards)	0	304
Commission - Funds inflow	456	-
Commission - Power token vending	359	-
Loan Fees	62,842	61,635
Total Fee and Commission	<u>152,473</u>	<u>99,766</u>
6 Other operating income		
Holding acct for search and valuation	-	170
Savi fee income	-	147
Sms Income	34,278	-
Other income	134	-
Other Operating Income	79,892	72,833
Fee Income (virtual cards)	2,904	1,875
Income from sale of Inventory	1,622	6,480
BVN Income	39,758	10,685
Search and valuation	620	193
USSD Income	990	-
	<u>160,197</u>	<u>92,383</u>

Notes to the Financial Statements

	2022	2021
	N'000	N'000
7 Personnel expenses		
Staff Salaries and Cost	313,148	231,008
Contract Staff Allowance	1,631	962
Training Expense	6,918	5,366
Employers pension contribution	17,071	12,170
Staff Medical Expense	29,601	11,395
13th Month Bonus	19,449	17,469
Recoveries	1,110	-
Staff Incentive/Bonus	30,000	11,710
IT Levy Expense	3,600	2,295
Other staff allowances	25,033	11,235
Staff Welfare expense	2,703	4,755
Recruitment Cost	1,137	10,290
Staff Group Life Assurance	5,023	-
NSITF (ECA)	2,000	2,295
	458,424	320,950
8 Other operating expenses		
Insurance premium	167	5,527
Fraud Loss expense	1,915	29,599
Professional and consultancy fees	101,471	48,082
Internet & data subscription expenses	6,486	3,463
Subscriptions cost expense	2,802	2,846
Rent and rates	9,533	2,689
Fleet Management and Vehicle expenses	5,404	3,215
BVN Expenses	95,982	9,720
USSD expense	23,418	10,750
SMS Expense	28,638	22,683
General Office Expense	4,858	2,166
Other Expenses	14,471	22,217
NIP Expenses	89,303	29,084
Verification expenses	4,296	878
Software expenses	409,410	215,385
Corporate gifts	7,671	6,438
Branding	14,274	2,712
Marketing Support Services	433,280	306,446
CSR Activities	15,500	-
Electrical repairs	12,549	3,180
Transport and travelling	17,757	16,723
Entertainment	8,363	8,602
Bank Charges	5,869	1,436
Stationery and consumables	661	773
Board expenses	8,690	4,200
Audit fee	7,025	6,300
Postage & Telephone	12,973	8,274
Card Expenses	2,374	-
Secretarial and legal fees	4,448	1,992
NDIC premium	72,006	42,217
	1,421,594	817,598

Notes to the Financial Statements

		2022	2021
		N'000	N'000
9	Loan Loss expense		
	Stage 1	14,983	4,887
	Stage 2	-	28,224
	Stage 3	9,361	1,997
		24,343	35,108
10	Deferred tax expense		
	Origination of temporary differences	-	(10,460)
	Reversal of temporary differences	-	-
		-	(10,460)
	Total income tax expense	-	(10,460)
	Profit before income tax	29,219	190,235
	Income tax using the corporate tax rate	30% 9,700	30% 57,071
	Non-deductible expenses	66% 21,387	3% 6,271
	Tertiary education tax	8% 2,582	2% 4,010
	Tax exempt income	0% (97)	-8% (15,217)
	Information technology development levy	1% 323	1% 1,884
	Police trust fund	0% 2	0% 10
	NASENI	0% 81	0% 476
	Effect of capital allowance	-64% (20,659)	-8% (15,200)
	Effect of deferred tax	-4% (1,400)	5% 10,460
	Minimum tax difference	22% 7,242	0% -
	Prior year under provision	0% 8,181	4% 8,264
	Total income tax expense	59% 27,342	31% 58,029

11 Earnings per share**Basic earnings per share**

The earnings per share of the bank is stated as below:

Weighted average number of ordinary shares in thousands

	2022	2021
Issued ordinary shares at beginning of year	1,050,000	1,050,000
Weighted average number of ordinary shares at end of year N'000	1,050,000	1,050,000

Profit attributable to ordinary shareholders

Profit for the year attributable to equity holders of the Bank N'000

	1,877	132,206
Basic earnings per share (in kobo)	-	13

The Microfinance Bank does not have any dilutive potential ordinary shares. Therefore, Basic EPS and Diluted EPS for continuing operations are the same for the Microfinance Bank.

Notes to the Financial Statements

		<u>2022</u>	<u>2021</u>
		<u>N'000</u>	<u>N'000</u>
12	Cash and Cash Equivalent		
	Cash at Bank	623,175	372,291
	E-wallet	20,725	22,996
		<u>643,900</u>	<u>395,287</u>
13	Investments securities		
	Investments in Treasury bills	712,966	1,310,081
	Investments in FGS Bond	121,997	-
		<u>834,963</u>	<u>1,310,081</u>
14	Placement with banks and other financial Institutions		
	Placements	<u>8,107,079</u>	<u>11,071,030</u>
15	Other assets		
	Receivable from related parties	759,407	36,765
	Account receivable	-	50,000
	Other prepayments	105,713	61,576
	Other debit balances	453,815	343,085
		<u>1,318,935</u>	<u>491,426</u>
	Provision for other asset	<u>(6,199)</u>	<u>(6,199)</u>
		<u>1,312,736</u>	<u>485,227</u>

Notes to the Financial Statements

16 Loans and advances to customers

	31 December 2022		
	Gross Loans N'000	ECL N'000	Carrying Amount N'000
Stage 1 (12 Months ECL)	7,679,806	101,986	7,577,820
Stage 2 (Lifetime ECL not Credit Impaired)	-	-	-
Stage 3 (Lifetime ECL - Credit Impaired)	91,293	63,718	27,575
Total	7,771,099	165,704	7,605,395

Movement Schedule

	Gross Loans	ECL
Balance As At Jan 1	3,570,358	141,360
Addition/(Liquidation)	4,204,418	28,021
Write-Off	(3,677)	(3,677)
Balance As At 31 December	7,771,099	165,704

	31 December 2021		
	Gross Loans N'000	ECL N'000	Carrying Amount N'000
Stage 1 (12 Months ECL)	2,943,480	19,679	2,923,801
Stage 2 (Lifetime ECL not Credit Impaired)	112,060	8,040	104,020
Stage 3 (Lifetime ECL - Credit Impaired)	514,818	113,641	401,177
Total	3,570,358	141,360	3,428,998

Movement Schedule

	Gross Loans	ECL
Balance As At Jan 1	1,464,777	113,980
Addition/(Liquidation)	2,113,310	35,109
Write-Off	(7,729)	(7,729)
Balance As At 31 December	3,570,358	141,360

ECL Movement on Loans and Advances

	2022 N'000	2021 N'000
Opening balance	141,360	113,980
Charge for the year	24,343	27,380
	165,703	141,360

Analysis By Performance

Performing	7,679,806	3,357,672
Non - performing	91,293	212,686
	7,771,099	3,570,358

Notes to the Financial Statements

17 Property and equipment

2022	Furniture and fitting N'000	Office Equipment N'000	Motor Vehicles N'000	Total N'000
Cost				
Balance as at 1 January 2022	749	26,025	19,850	46,624
Additions	198	42,040	42,000	84,237
Balance as at 31 December 2022	947	68,064	61,850	130,861
Depreciation and impairment losses				
Balance as at 1 January 2022	436	10,541	2,543	13,520
Charge for the year	115	15,977	6,796	22,889
Balance as at 31 December 2022	552	26,518	9,339	36,407
Carrying amounts:				
Balance as at 31 December 2022	395	41,546	52,511	94,454
2021	Furniture and fitting	Office Equipment	Motor Vehicles	Total
Cost				
Balance as at 1 January 2021	389	10,988	2,850	14,227
Additions	360	15,037	17,000	32,397
Disposals	-	-	-	-
Balance as at 31 December 2021	749	26,025	19,850	46,624
Depreciation and impairment losses				
Balance as at 1 January 2021	349	5,326	59	5,734
Charge for the year	87	5,215	2,484	7,786
Disposal	-	-	-	-
Balance as at 31 December 2021	436	10,541	2,543	13,521
Carrying amounts:				
Balance as at 31 December 2021	313	15,484	17,307	33,103

- (a) There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2021: nil).
- (b) The Microfinance Bank had no capital commitments as at the end of the reporting period (2021: nil)

Notes to the Financial Statements

	2022	2021
	N'000	N'000
18 Intangible assets		
Cost:		
As at 1 January	60,055	10,751
Additions	21,906	51,174
Disposals	-	-
Reclassifications	-	(1,870.00)
As at 31 December	<u>81,961</u>	<u>60,055</u>
Accumulated amortization:		
As at 1 January	12,863	7,064
Charge for the period	24,456	6,318
Disposals	-	-
Reclassifications	-	(519)
As at 31 December	<u>37,319</u>	<u>12,863</u>
Balance as at 31 December	<u>44,642</u>	<u>47,192</u>
19 Deposits from customers	2022	2021
	N'000	N'000
Term Deposit	8,104,204	9,754,291
Current Accounts	2,882,196	2,267,254
Savings Account	4,721,756	3,068,437
Unclaimed deposit	16,379	4,158
	<u>15,724,535</u>	<u>15,094,140</u>
Current	15,724,535	15,094,140
Non-Current	-	-
	<u>15,724,535</u>	<u>15,094,140</u>
20 Current income tax liability		
Current tax expense		
Company income tax	19,160	39,303
Deferred tax expense	-	-
	<u>19,160</u>	<u>39,303</u>
At 1 January	39,302	54,140
Deferred tax asset/(liability)	-	(10,460)
Tax paid during the year	(7,129)	(48,086)
Tax provision	35,524	58,029
Prior year under provision adjustment	(8,182)	(14,320)
WHT credit utilized	(40,356)	-
At 31 December	<u>19,160</u>	<u>39,302</u>

Notes to the Financial Statements

21 Deferred tax Asset/(liability)

Deferred tax liabilities are attributable to the following:

	2022	2021
	N'000	N'000
Property, Plant and equipment	-	(5,943)
Intangible Assets	-	(8,390)
Loan receivables	-	6,223
	-	(8,110)
Movement in temporary differences during the year		
At 1 January	(8,110)	2,350
Charge for the year	-	(10,460)
At 31 December	<u>(8,110)</u>	<u>(8,110)</u>

22 Other liabilities

Accruals	127,018	78,111
Due to related parties	4,500	26,439
Employee Benefits Obligation	5,830	2,604
Other Credit Balances	23,767	5,376
PAYE and other statutory deductions	1,177	17,964
	<u>162,292</u>	<u>130,493</u>

23 Borrowings

	2022	2021
	N'000	N'000
Borrowings - BOI	82,016	100,022
Short-Term Borrowings	1,346,327	-
	<u>1,428,344</u>	<u>100,022</u>

(a) VFD Microfinance Bank entered into a borrowing arrangement with Bank of Industry in October 2021. The sum borrowed amounts to N100million at a rate of 8% which has a tenor of 3 years.

(b) During the year, the bank also entered into a borrowing arrangement with Anchoria Asset Management and an overdraft arrangement with Fidelity Bank. The amount relating to Anchoria Asset Management is N656million while Fidelity bank overdraft balance is N691million as at year end.

24 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 microfinance bank. All ordinary shares rank pari-passu with the same rights and benefits at meetings of the microfinance bank.

Notes to the Financial Statements

	<u>2022</u> <u>N'000</u>	<u>2021</u> <u>N'000</u>
(i) Authorised: 1,050,000 ordinary shares of N1 each	<u>1,050,000</u>	<u>1,050,000</u>
(ii) Issued and fully-paid up: 1,050,000 ordinary shares at N1 each	<u>1,050,000</u>	<u>1,050,000</u>

Ordinary shareholding:

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 Microfinance Bank. All ordinary shares rank pari-passu with the same rights and benefits at meetings of the Microfinance Bank.

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

	<u>2022</u> <u>N'000</u>	<u>2021</u> <u>N'000</u>
At 1 January	1,050,000	1,050,000
Transfer from deposit for shares	<u>-</u>	<u>-</u>
At 31 December	<u>1,050,000</u>	<u>1,050,000</u>
Share premium		
Balance, end of year	<u>10,000</u>	<u>10,000</u>

There was no movement on the account during the year

25 Retained earnings

Retained earnings are the carried forward recognised income net of expenses plus current period profit attributable to shareholders.

	<u>2022</u> <u>N'000</u>	<u>2021</u> <u>N'000</u>
Balance, beginning of year	200,328	123,729
Profit for the year	1,877	132,206
Transfer to regulatory risk reserve	(3,113)	10,497
Transfer to statutory reserve	<u>(938)</u>	<u>(66,104)</u>
	<u>198,154</u>	<u>200,328</u>

Regulatory reserves

The regulatory reserve includes movements in the following:

- (i) **Statutory reserves:** Nigerian banking regulations require the Microfinance Bank to make an annual appropriation to a statutory reserve. Transfer to statutory reserve is made at the rate of 50% of the profit after tax in line with the requirements of the Regulatory and Supervisory framework for Microfinance Banks in Nigeria issued by the Central Bank of Nigeria.

Notes to the Financial Statements

- (ii) **Regulatory risk reserves:** The regulatory risk reserves warehouses the difference between the impairment on balance on loans and advances under the Nigeria GAAP ("Previous GAAP") and based on Central Bank of Nigeria's Regulatory and Supervisory framework for Microfinance Banks in Nigeria compared with the loss incurred model used in calculating the impairment balance under IFRS.

26 Contingencies

There are no litigation claims against the Bank as at 31 December 2022

27 Related parties**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 one other party controls both. The definition includes associates, joint ventures and the Microfinance Bank's pension schemes, as well as key management personnel.

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 members of family of key personnel and any entity over which key management exercise control. The key management personnel have been identified as the executive directors, non-executive directors and senior management personnel of the Microfinance Bank. Close members of family are those family members who may be expected to influence or be influenced by that individual in their dealings with VFD Microfinance Bank Limited.

VFD Microfinance Bank Limited is a subsidiary of VFD Group Plc; the latter has 90% equity interest in the Bank.

27.1 Parent company and other related entities

VFD Microfinance Bank Limited is a subsidiary of VFD Group Plc, while the latter is a subsidiary of Premium Green Limited.

Other entities within the Group and their relationship are shown below:

Company	Relationship
Atiat Limited	Fellow subsidiary of VFD Group Plc.
Anchoria Asset Management Limited	Fellow subsidiary of VFD Group Plc.
Kairos Capital Limited	Fellow subsidiary of VFD Group Plc.
Anchoria Investments and Securities Limited	Fellow subsidiary of VFD Group Plc.
VFD Tech Limited	Fellow subsidiary of VFD Group Plc.
Herel Limited	Fellow subsidiary of VFD Group Plc.

Notes to the Financial Statements

27.2 Details of transactions with related parties are disclosed as follows:

Key management personnel compensation	2022	2021
	N'000	N'000
Salaries	33,069	25,069
Post-employment benefits	-	1,135

27.3 Intercompany balances

Due from related entities

VFD Group Plc.	50,000	-
VFD Tech Ltd	682,994	36,765
	732,994	36,765

Placement

Anchoria Asset Management Limited	7,230,314	9,391,600
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Due to related entities

Anchoria Asset Management Limited	656,343	-
VFD Tech Ltd	-	26,439

27.4 Loans to Directors

VFD Group Plc.	-	23,497.31
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27.5 Deposits liabilities

VFD Group Plc.	9,910	9,910
VFD Bridge Limited	9,473	9,473
Everdon Bureau De Change Limited	4,044	4,044
Anchoria Asset Management Limited	60,643	60,643
Kairos Capital Limited	894	894
Dynasty Real Estate Limited	29,137	29,137
Premium Green Limited	3,282	3,282
VFD Tech Limited	682,994	581,351
Anchoria Investments and Securities Limited	496,025	496,025
Key management personnel and close family members	3,619	3,619

28 Events after the end of the reporting period

There are no significant events after the reporting period which could have had a material effect on the state of affairs of the Bank as at 31 December 2022 and on the profit for the year ended on that date which have not been adequately provided or disclosed.

29 Compliance with banking regulations

The Bank contravened the following banking legislations and provisions during the year:

Nature of Contravention	Penalties N
None	-

Notes to the Financial Statements**30 Financial risk management****Introduction**

The bank uses its financial skills to provide competitive microfinance banking services to a broad range of customers within Nigeria. Risk management is essential to help ensure business sustainability thereby providing customers and the shareholders with a long-term value proposition.

Key elements of risk management are:

- Strong corporate governance including relevant and reliable management information and internal control processes.
- Ensuring significant and relevant skills and services are available consistently to the bank
- Influencing the business and environment by being active participant in the relevant regulatory and business forums; and
- keeping abreast of technology and consumer trends and investing capital and resources where required. The overall bank focus within an appropriate risk framework is to give value to the customers through effective and efficient execution of transactions. The board of directors acknowledge its responsibility for establishing, monitoring and communicating appropriate risk and control policies

30.1 Significant Risks

The bank has exposure to significant risks which are categorised as follows: (i) Regulatory (capital adequacy, legal, accounting and taxation) (ii) Business environment (reputation and strategic) (iii) Operational (people, info tech and internal control processes) (iv) Market (equity prices, interest rates and currency) (v) liquidity

Detailed discussion of significant risk

30.1.1 Regulatory Risk

Regulatory risk is the risk arising from a change in regulations in any legal, taxation and accounting pronouncements or specific industry that pertains to the business of the bank. In order to manage this risk, the bank is an active participant in industry and preferred bodies, such as the Association of Microfinance Banks and the Chartered Institute of Bankers of Nigeria and engages in discussions with policy makers and regulators.

30.1.1.1 Regulatory Capital Risk

Regulatory Capital Risk is the risk that the bank does not have sufficient capital to meet either minimum regulatory or internal amounts. The Central Bank of Nigeria (CBN) sets and monitors capital requirement for the bank to protect its customer's deposits and counterparties. The bank is required to maintain a prescribed minimum level of risk adjusted capital calculated in accordance with such requirements as Central Bank of Nigeria may from time to time prescribe.

The bank's objectives in managing capital are: -to safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for other stakeholders; and -To provide an adequate return to the shareholder commensurate with the level of risk. The table below summarises the minimum required capital and the regulatory capital held

Based on the revised guidelines for Microfinance Banks in Nigeria issued by the Central bank of Nigeria (CAN), the minimum capital requirement shall be N20,000,000 for unit microfinance bank.

Notes to the Financial Statements

The deadline to meet up with this new guideline has been set to be 31st December, 2013

30.1.1.2 Legal Risk

Legal risk is the risk that the bank may be exposed to contractual obligations which have not been provided for. The bank has the policy of ensuring all contractual obligations are documented and appropriately evidenced to agreements with the relevant parties to the contacts.

All significant contracted claims are reviewed by independent legal resources and amounts are provided for if there is consensus as to any possible exposure. At 31st December 2022, the directors are not aware of any significant obligations not provided for.

30.1.1.3 Taxation Risk

Taxation risk is a risk of suffering a loss, financial or otherwise as a result of an incorrect interpretation and application of taxation legislation or due to the impact of new taxation legislation on existing products. A taxation risk occurs in the following key areas: -Transactional risk - Operational risk -Compliance risk - Financial accounting risk

Transactional Risk

The risk which concerns specific transactions entered into by the bank including restructuring projects and reorganisations.

Operational Risks

The underlying risk of applying tax laws, regulations and decisions to the day to day business operations of the bank

Compliance Risk

The risk associated with meeting the company's statutory obligations

Financial Accounting Risk

The risk relates to the inadequacy of proper internal controls over financial reporting including tax provisioning. In managing the bank's taxation risks, the bank tax policy is as follows:

All taxes due by the company are correctly identified, calculated, paid and accounted for in accordance with the relevant tax legislation. -The bank continually reviews its existing operations and planned operations in this context; and -the bank ensures that where clients participate in company product, these clients are either aware of the probable tax consequences, or are advised to consult with independent professionals to access the consequences, or both

The identification and management of tax risks is the primary objective tax function, and this objective is achieved through the application of a formulated tax risk approach, which measures the fulfilment of the tax responsibilities against the specific requirements of each category of tax to which the company is exposed, in the context of the various types of activities the company conducts.

Accounting Risk

Accounting Risk is the risk that the company fails to explain the current events of the business in the financial statements. Accounting risks can arise from the failure of management to: -maintain proper books and records, accounting system and to have proper accounting policies. -establish proper internal accounting controls -prepare periodic financial statements that reflect an accurate financial position; and -be transparent and fully disclose all important and relevant matters.

Notes to the Financial Statements

Measures to control accounting risks are the use of proper accounting systems, books and records based on proper accounting policies as well as the establishment of proper internal accounting controls. Proposed accounting changes are researched by accounting resources, and if required external resources, to identify and advise on any material impact on the bank.

Financial statements are prepared in a transparent, manner that fully discloses all important and relevant matters as well as accurately reflecting the financial position, results and cash flows of the bank.

30.1.2 Business Environment

30.1.2.1 Reputational Risk

Reputational risk is the risk of loss caused by a decline in the reputation of the bank or any of its specific business unit from the perspective of its stakeholders, shareholders, customers, staff, business partners or the general public. Reputational risk can both cause and result from losses in all risk categories such as market or credit risk.

30.1.2.2 Strategic Risk

Strategic risk is the risk of an unexpected negative change in the bank's value, arising from the adverse effect of executive decisions on both business strategies and implementation. This risk is a function of the compatibility between strategic goals, the business strategies developed to achieve those goals and the resources deployed to achieve those goals. Strategic risks also include the ability of management to effectively analyse and react to external factors which could impact the future direction of the relevant business units. Company risk identifies and accesses both those risks quantitatively as part of a quarterly evaluation. On the basis of this evaluation, company risk creates and overview of local and global risks which also includes reputational risk, analyses the risk profile of the bank and regularly informs directors and management.

30.1.3 Operational Risk

Operational Risk is the risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

The initiation of all transactions and their administration is conducted on the foundation of segregation of duties that has been designed to ensure materially the completeness, accuracy and validity of all transactions. These controls are augmented by management and executive review of control accounts and systems, electronic and manual checks and controls, back-up facilities and contingency planning. The internal control system and procedures are also subjected to regular internal audit reviews

30.1.4 Interest Rate and Market Price Risk

These risks have very different impacts on the various categories of business used in the bank's assets and liabilities management framework. Interest rate and market price risk have been discussed together since they interact on certain types of liabilities.

Interest Rate Risk

Interest rate risk is the risk that the value and cash flow of a financial instrument will fluctuate due to changes in market interest rate.

Notes to the Financial Statements**Equity Price Risk**

Equity Price Risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

Foreign Currency Risk

In respect of other momentary assets and liabilities held in currencies other than the Naira, the company ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rate, where necessary, to address short- term imbalances.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a loss to the other party by failing to discharge an obligation. Key areas where the bank is exposed to credit risk are

Certain classes of financial assets such as bonds, term deposits and cash & cash equivalents; and -
Certain accounts within trade and other receivables

30.2 Financial Assets

Various debt instruments are entered into by the Bank in order to invest surplus shareholder's fund. The bank will be exposed to the issuer's credit standing on these instruments. The following policies and procedures are in place to mitigate the bank's exposure to this credit risk:

Exposure to outside financial institutions concerning financial instrument is monitored in accordance with parameters which have been approved by the bank's audit committee and The bank's board.

Impairment Model

The impairment model used in the account is Expected Credit loss model.

Other Receivables

Investment sale debtors are protected by security of the underlying investment not being transferred to the purchaser prior to payment.

Exposure to credit risk

	Loans and advances to customers	Financial assets at amortised cost	Placement with banks and other financial institutions	Other assets
	N'000	N'000	N'000	N'000
31 December 2022				
Carrying amount	<u>7,605,395</u>	<u>834,963</u>	<u>8,107,079</u>	<u>1,312,736</u>
Assets amortised at cost				
Gross amount	7,771,099	834,963	8,107,079	1,312,736
Allowance for impairment	<u>(165,704)</u>	<u>=</u>	<u>=</u>	<u>=</u>
Carrying amount	<u>7,605,395</u>	<u>834,963</u>	<u>8,107,079</u>	<u>1,312,736</u>
Neither past due nor impaired:				
Held to maturity assets				
Loans and receivables	<u>7,605,395</u>	<u>834,963</u>	<u>8,107,079</u>	<u>1,312,736</u>

Notes to the Financial Statements

	Loans and advances to customers	Financial assets at amortised cost	Placement with banks and other financial institutions	Other assets
31 December 2021	N'000	N'000	N'000	N'000
Carrying amount	<u>3,428,998</u>	<u>1,310,081</u>	<u>11,071,030</u>	<u>485,227</u>
Assets amortised at cost				
Gross amount	3,570,358	1,310,081	11,071,030	485,227
Allowance for impairment	<u>(141,360)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount	<u>3,428,998</u>	<u>1,310,081</u>	<u>11,071,030</u>	<u>485,227</u>
Neither past due nor impaired:				
Held to maturity assets				
Loans and receivables	<u>3,428,998</u>	<u>1,310,081</u>	<u>11,071,030</u>	<u>485,227</u>

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due, but the Microfinance Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Allowances for impairment

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

Write-off policy

The Microfinance Bank writes off a loan/security balance (and any related allowances for impairment losses) when Credit unit determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write off decisions are generally based on a product specific past due status.

Credit concentrations

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Notes to the Financial Statements

Concentration by sector:

	Loans and advances to customers N'000	Financial assets at amortised cost N'000	Placement with banks and other financial institutions N'000	Other assets N'000
31 December 2022				
Carrying amount	<u>7,605,395</u>	<u>834,963</u>	<u>8,107,079</u>	<u>1,312,736</u>
Financial institutions	-	712,966	8,107,079	-
Government	-	-	-	-
Others	<u>7,605,395</u>	<u>-</u>	<u>-</u>	<u>1,312,736</u>
	<u>7,605,395</u>	<u>712,966</u>	<u>8,107,079</u>	<u>1,312,736</u>
31 December 2021				
Carrying amount	<u>3,428,998</u>	<u>1,310,081</u>	<u>11,071,030</u>	<u>485,227</u>
Financial institutions	-	1,310,081	11,071,030	-
Government	-	-	-	-
Others	<u>3,428,998</u>	<u>-</u>	<u>-</u>	<u>485,227</u>
	<u>3,428,998</u>	<u>1,310,081</u>	<u>11,071,030</u>	<u>485,227</u>

Concentration by location:

	Loans and advances to customers N'000	Financial assets at amortised cost N'000	Placement with banks and other financial institutions N'000	Other assets N'000
31 December 2022				
Nigeria:				
South-West	7,605,395	834,963	8,107,079	1,312,736
Northern	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>7,605,395</u>	<u>834,963</u>	<u>8,107,079</u>	<u>1,312,736</u>
31 December 2021				
Nigeria:				
South-West	3,428,998	1,310,081	11,071,030	485,227
Northern	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,428,998</u>	<u>1,310,081</u>	<u>11,071,030</u>	<u>485,227</u>

Concentration by location for loans and advances is measured based on the location of the Microfinance Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

Notes to the Financial Statements**(c) Liquidity risk**

Liquidity Risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The bank is a registered Microfinance banker and is required to hold minimum liquid capital. The Central Bank of Nigeria (CBN) is the regulatory authority that regularly reviews compliance with these minimum capital requirements

Residual contractual maturities of financial assets and liabilities

The table below shows the undiscounted cash flows on the Microfinance Bank's financial assets and liabilities and on the basis of their earliest possible contractual maturity. The Gross nominal inflow / (outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

31 December 2022	Notes	Carrying amount	Contractual cashflow	Less than 1 month	1 - 3 months	3 - 6 months	6 - 12 months	More than 1 year
		N'000	N'000	N'000	N'000	N'000	N'000	N'000
Non-derivative assets								
Cash and Bank balances	12	643,900	643,900	643,900	-	-	-	-
Treasury bills	13	834,963	834,963	-	-	-	834,963	-
Placement with banks and other institutions	14	8,107,079	8,107,079	-	3,648,185	2,432,124	2,026,770	-
Loans and advances to customers	16	7,605,395	7,605,395	2,433,287	3,043,403	1,829,780	302,037	-
Other assets	15	1,312,734	1,312,734	-	-	-	1,312,734	-
		18,504,073	18,504,073	3,077,187	6,691,589	4,261,904	4,476,504	-
Non-derivative liabilities								
Deposits from customers	19	15,724,535	15,724,535	5,531,340	4,434,585	3,391,456	2,367,154	-
Other liabilities	22	162,291	162,291	-	162,291	-	-	-
Borrowed funds	22	1,428,344	1,428,344	-	-	-	-	1,428,344
		17,315,169	17,315,169	5,531,340	4,596,876	3,391,456	2,367,154	1,428,344
Liquidity gap		1,192,014	1,192,014	(2,454,153)	2,094,713	870,448	2,109,350	(1,428,344)
Cumulative liquidity gap		1,192,014	1,192,014	(2,454,153)	(359,440)	511,008	2,620,357	1,192,014

Notes to the Financial Statements

31 December 2021	Notes	Carrying amount	Contractual cashflow	Less than 1 month	1 - 3 months	3 - 6 months	6 - 12 months	More than 1 year
		₹'000	₹'000	₹'000	₹'000	₹'000	₹'000	₹'000
Non-derivative assets								
Cash and Bank balances	12	395,287	395,287	395,287	-	-	-	-
Treasury bills	13	1,310,081	1,310,081	-	-	-	1,310,081	-
Placement with banks and other institutions	14	11,071,030	11,071,030	-	5,250,864	3,769,608	1,745,402	305,156
Loans and advances to customers	16	3,428,998	3,570,358	2,433,287	283,623	329,780	236,606	287,062
Other assets	15	485,227	485,227	-	-	-	485,227	-
		16,690,623	16,831,983	2,828,574	5,534,487	4,099,388	3,777,316	592,218
Non-derivative liabilities								
Deposits from customers	19	15,094,140	15,094,140	5,531,340	4,434,585	2,761,061	2,367,154	-
Borrowed funds	23	100,022	100,022	-	-	-	-	100,022
Other liabilities	22	130,493	130,493	-	130,493	-	-	-
		15,324,655	15,324,655	5,531,340	4,565,078	2,761,061	2,367,154	100,022
Liquidity gap		1,365,968	1,507,328	(2,702,766)	969,409	1,338,327	1,410,162	492,196
Cumulative liquidity gap			1,507,328	(2,702,766)	(1,733,357)	(395,030)	1,015,132	1,507,328

Interest Rate and Market Price Risk

These risks have very different impacts on the various categories of business used in the bank's assets and liabilities management framework. Interest rate and market price risk have been discussed together since they interact on certain types of liabilities.

Interest rate risk

Interest rate risk is the risk that the value and cash flow of a financial instrument will fluctuate due to changes in market interest rate

The table below summarizes the Microfinance Bank's interest rate gap position:

Interest rate gap analysis									
	Notes	Carrying amount A'000	sensitive to rate A'000	Less than 1 month A'000	1 - 3 months A'000	3 - 6 months A'000	6 - 12 months A'000	More than 1 year A'000	
31 December 2022									
<i>Non-derivative assets</i>									
Cash and Bank balances	12	643,900	-	-	-	-	-	-	-
Treasury bills	13	834,963	-	-	-	-	-	-	-
Loans and advances to customers	16	7,605,395	3,570,358	2,433,287	283,623	329,780	236,606	287,062	-
Placement with banks and other financial Institutions	14	8,107,079	11,071,030	-	5,250,864	3,769,608	1,745,402	305,155	-
Other assets	15	1,312,736	-	-	-	-	-	-	-
		18,504,073	14,641,388	2,433,287	5,534,487	4,099,388	1,982,008	592,217	-
<i>Non-derivative liabilities</i>									
Deposits from customers	19	15,724,535	15,094,140	5,531,340	4,434,585	2,761,061	2,367,154	-	-
Other liabilities	22	162,291	-	-	-	-	-	-	-
Borrowings	23	1,428,344	-	-	-	-	-	-	-
		17,315,169	15,094,140	5,531,340	4,434,585	2,761,061	2,367,154	-	-
Total interest rate gap analysis			(452,752)	(3,098,053)	(1,998,151)	(659,823)	(1,044,970)	(452,752)	-
Interest rate gap analysis									
	Notes	Carrying amount A'000	sensitive to rate A'000	Less than 1 month A'000	1 - 3 months A'000	3 - 6 months A'000	6 - 12 months A'000	More than 1 year A'000	
31 December 2021									
<i>Non-derivative assets</i>									
Cash and Bank balances	12	395,287	-	-	-	-	-	-	-
Treasury bills	13	1,310,081	-	-	-	-	-	-	-
Loans and advances to customers	16	3,428,998	1,464,777	906,573	220,277	171,531	85,838	80,558	-
Placement with banks and other financial Institutions	14	11,071,030	8,547,027	176,500	2,470,989	2,034,598	3,864,941	-	-
Other assets	15	485,227	-	-	-	-	-	-	-
		16,690,623	10,011,804	1,083,073	2,691,266	2,206,129	3,950,779	80,558	-
<i>Non-derivative liabilities</i>									
Deposits from customers	19	15,094,140	9,383,269	2,287,100	2,598,974	1,219,190	3,278,005	-	-
Other liabilities	22	266,201	-	-	-	-	-	-	-
Borrowings	23	100,022	-	-	-	-	-	-	-
		15,460,363	9,383,269	2,287,100	2,598,974	1,219,190	3,278,005	-	-
Total interest rate gap analysis			628,535	(1,204,027)	(1,111,735)	(124,797)	547,977	628,535	-

Notes to the Financial Statements

The information above shows the impact on the Microfinance Bank's profit before tax if interest rates on financial instruments held at amortized cost should increase or decrease by 100 basis points, and if all other variables are held constant.

Notes to the Financial Statements

Financial assets and liabilities

(a) Accounting classification measurement basis and fair values

The table below sets out the Microfinance Bank's classification of each class of financial assets and liabilities, and their face values:

	Notes	Loans and receivables	Financial assets held to maturity	Other financial liabilities	Total carrying amount	Fair value
		₺'000	₺'000	₺'000	₺'000	₺'000
31 December 2022						
Cash and bank balances	12	-	643,900	-	643,900	643,900
Treasury bills	13	-	834,963	-	834,963	834,963
Loans and advances to customers	16	7,605,395	-	-	7,605,395	7,605,395
Placement with banks and other financial Institutions	14	-	8,107,079	-	8,107,079	8,107,079
		7,605,395	9,585,942	-	17,191,337	17,191,337
Deposits from customers	19	-	-	15,724,535	15,724,535	15,724,535
Other liabilities	22	-	-	162,291	162,291	162,291
		-	15,886,826	15,886,826	15,886,826	15,886,826
31 December 2021						
Cash and bank balances	12	-	395,287	-	395,287	395,287
Treasury bills	13	-	1,310,081	-	1,310,081	1,310,081
Loans and advances to customers	16	3,428,998	-	-	3,428,998	3,428,998
Placement with banks and other financial Institutions	14	-	11,071,030	-	11,071,030	11,071,030
		3,428,998	12,776,398	-	16,205,396	16,205,396
Deposits from customers	19	-	-	15,094,140	15,094,140	15,094,140
Other liabilities	22	-	-	130,493	130,493	130,493
		-	-	15,224,633	15,224,633	15,224,633

(b) Fair valuation methods and assumptions

(i) Cash and cash equivalents

Cash and cash equivalents represent cash held and bank balances with other banks. The fair value of these balances is their carrying amounts.

(ii) Loans and advances to customers

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

(iii) Treasury bills and investment securities

The treasury bills are short term instruments issued by the Central Bank of Nigeria. The fair value of treasury 'bills are determined with reference to quoted prices (unadjusted) in active markets for identical assets.

Investment securities include short term fixed deposit investments with other financial institutions, the fair value of these balances is their carrying amounts.

(iv) Other assets and other liabilities

These represent monetary assets and liabilities, respectively, which usually has a short recycle period and as such the fair values of these balances approximate their carrying amount.

(v) Customer deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The Estimated fair values of fixed interest-bearing deposits and borrowings approximate their carrying amount.

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Value Added Statement

	<u>2022</u>		<u>2021</u>	
	<u>N'000</u>		<u>N'000</u>	<u>%</u>
Gross income	3,515,594		2,275,539	
Interest expense	(1,534,669)		(897,544)	
	<u>1,980,925</u>	368	<u>1,377,994</u>	262
Net impairment loss on financial assets	(24,343)	(4)	(35,108)	(7)
Bought-in-materials and services	<u>(1,421,594)</u>	<u>(264)</u>	<u>(817,598)</u>	<u>(156)</u>
Value added	<u>534,989</u>	<u>100</u>	<u>525,290</u>	<u>100</u>

Distribution of value added
To employees:

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458,424	85	320,950	61
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To government:

Government as taxes

27,342	5	58,029	11
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Retained in the business:
Deferred Taxation

Depreciation and Amortisation

To augment reserves

47,346	9	7,786	1
<u>1,877</u>	<u>1</u>	<u>138,523</u>	<u>26</u>
<u>534,989</u>	<u>100</u>	<u>525,290</u>	<u>100</u>

This statement represents the distribution of the wealth created through the use of the Bank's assets and its employees' efforts.

Financial Summary

	2022	2021	2020	2019	2018
	N'000	N'000	N'000	N'000	N'000
Assets:					
Cash and Bank balances	643,900	395,287	241,047	30,764	344
Financial assets held to maturity	834,963	1,310,081	554,730	59,418	11,640
Placement with banks and other financial Institutions	8,107,079	11,071,030	8,547,027	1,430,473	841,066
Loans and advances to customers	7,605,395	3,428,998	1,350,797	628,573	59,456
Deferred Assets		-	2,350	810	-
Other assets	1,312,736	485,227	78,874	34,445	9,939
Property and equipment	94,454	33,104	8,494	973	3,163
Intangible Asset	44,642	47,192	3,687	3,159	1,154
Total assets	18,643,169	16,770,920	10,787,005	2,188,616	926,762
Liabilities:					
Deposits from customers	15,724,535	15,094,140	9,383,269	979,844	746,413
Current income tax liability	19,159	39,303	54,140	62,028.18	-
Deferred tax liabilities	8,110	8,110.15	-	-	-
Other liabilities	162,292	130,493	82,952	1,018,956	134,151
Borrowings	1,428,344	100,022			
Total liabilities	17,342,440	15,372,069	9,520,361	2,060,829	880,564
Equity:					
Share capital	1,050,000	1,050,000	1,050,000	50,000	50,000
Retained earnings	98,155	200,330	123,730	61,325	10,000
General reserve	10,000	10,000	10,000	10,000	(15,410)
Regulatory risk reserve	6103	2,989	13,486	6,462	1,608
Statutory Reserve	136,471	135,532	69,428	-	-
Total equity	1,300,729	1,398,851	1,266,644	127,787	46,198
Total liabilities and equity	18,643,169	16,770,920	10,787,005	2,188,616	926,762
Gross Earnings	3,515,595	2,275,539	886,718	427,224	76,443
Profit before taxation	29,219	190,235	179,728	138,986	20,878
Taxation	(27,342)	(58,029)	(40,871)	(62,251)	(3,755.00)
Profit after taxation	1,877	132,206	138,857	76,735	17,123
Earnings Per Share Basic (Kobo)	0	13	13	153	34