NPF MICROFINANCE BANK PLC

RC. 220824

ANNUAL ACCOUNTS
31 DECEMBER 2020

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Corporate Information

Directors:	Mr. Azubuko Joel Udah (Esq.)	Chairman
	Mr. Akinwunmi M. Lawal	Managing Director
	Mr. John Kwabe Tizhe***	Executive Director
	Mr. Francis C. Nelson	Executive Director
	Mr. Usman Isa Baba	Non-Executive Director
	Mr. Mohammed D. Saeed	Non-Executive (Independent) Director
	Mr. Dasuki Dambappa Galadanchi*	Non-Executive Director
	Mr. Aminu Saleh Pai**	Non-Executive Director
	Mr. Jibrin G. Gane	Non-Executive Director
	Mr. Abdulrahman Satumari	Non-Executive (Independent) Director
	Mr. Salihu Argungu Hashimu	Non-Executive Director
	Mrs. Rakiya Edota Shehu	Non-Executive (Independent) Director

** Exited the Board effective 15 January 2020*
*** Appointed effective 29 January 2020*
**** Appointed effective 2 January 2020*

Company Secretary:
Mrs. Osaro J. Idemudia
Aliyu Atta House
1, Ikoyi Road, Obalende
Lagos

Registered Office:
Aliyu Atta House
1, Ikoyi Road, Obalende
Lagos

Independent Auditor:
KPMG Professional Services
KPMG Tower,
Bishop Aboyade Cole Street,
Victoria Island,
Lagos

Major Bankers:
Sterling Bank Plc
First Bank of Nigeria Plc
United Bank for Africa Plc

Registrars:
CardinalStone Registrars Limited
358, Herbert Macaulay Way
Yaba, Lagos

DIRECTORS' REPORT

The Directors are pleased to present their Annual Report on the state of affairs of the Bank, together with the audited financial statements for the year ended 31 December 2020.

1) LEGAL FORM AND PRINCIPAL ACTIVITIES

The Bank was incorporated in Nigeria as a Private Limited Liability Company on 19 May 1993 under the provisions of the Companies and Allied Matters Act (CAMA) with RC No. 220824. It obtained a provisional license as a Community Bank from the Central Bank of Nigeria on 12 July 1993 with License No. FC 00200 and commenced operations on 20 August 1993. It obtained a final license from the Central Bank of Nigeria on 24 January 2002. It was registered as a Public Limited Company on 13 July 2006. The Bank was given an approval-in-principle to operate as a Microfinance Bank on 10 May 2007 and obtained the final license on 4 December 2007. The shares of the Bank were listed on the Nigerian Stock Exchange on 1 December 2010.

The principal activity of the Bank is the provision of banking and other permissible financial services to poor and low income households and micro enterprises with emphasis on members of the Nigerian Police Community. Such services include retail banking, loans and advances and other allied services.

The Bank currently has 35 branches nationwide from which it operates.

2) OPERATING RESULTS

The profit before tax recorded by the Bank for the year ended 31 December 2020 was ₦867 million (31 December 2019: ₦1,008 million). Highlights of the Bank's operating results for the year ended 31 December 2020 are as follows:

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Profit before tax	867,012	1,007,997
Income tax expense	(252,595)	(211,572)
Profit after tax	614,417	796,425
Total comprehensive income	610,977	796,053
Basic and diluted earnings per share (kobo)	27	35

3) DIVIDENDS

The Board of Directors, subsequent to the reporting date, recommended the payment of a dividend of 20 kobo (2019: 20 kobo) per share on the issued share capital of 2,286,657,766 ordinary shares, amounting to ₦457 million (2017: ₦457 million). The dividend proposed is subject to the approval of shareholders at the next Annual General Meeting (AGM). Withholding tax will be deducted at the point of payment.

4) DIRECTORS

The following Directors served during the year under review:-

NAME	DESIGNATION	DATE OF APPOINTMENT
Mr. Azubuko Joel Udah (Esq.)	Chairman	23 July 2015
Mr. Mohammed D. Saeed	Non-Executive (Independent) Director	15 November 2012
Mr. Dasuki Dambappa Galadanchi*	Non-Executive Director	28th May 2019
Mr. Aminu Saleh Pai**	Non-Executive Director	29 January 2020
Mr. Jibrin G. Gane	Non-Executive Director	26 October 2017
Mr. Usman Isa Baba	Non-Executive Director	28 May 2019
Mr. Abdulrahman Satumari	Non-Executive (Independent) Director	28 June 2018
Mr. Salihu Argungu Hashimu	Non-Executive Director	28 June 2018
Mrs. Rakiya Edota Shehu	Non-Executive (Independent) Director	28 June 2018
Mr. Akinwunmi M. Lawal	Managing Director	26 June 2014
Mr. John K. Tizhe ***	Executive Director, Operations	02 January 2020
Mr. Francis C. Nelson	Executive Director, Finance & Administration	1 August 2017

**Exited the Board on 15 January 2020*
*** Appointed on 29 January 2020 to replace Mr. Dasuki D. Galadanchi and represent the interest of the Nigeria Police Cooperative Society Limited*
**** Appointment effective 2 January 2020 to fill the vacancy created by the death of Mr. Jude Chukwueloka Ohanehi.*

DIRECTOR'S REPORT

5) DIRECTORS' INTEREST IN SHARES

The direct and indirect interests of Directors in the issued share capital of the Bank as recorded in the Register of members as at 31 December 2020 and/or as notified by the Directors for the purposes of Sections 301 of the Companies and Allied Matters Act (CAMA), 2020 and the listing requirements of the Nigerian Stock Exchange are as follows:

	31 December 2020		31 December 2019	
NAME OF DIRECTOR	DIRECT (units)	INDIRECT (units)	DIRECT (units)	INDIRECT (units)
Mr. Azubuko Joel Udah (Esq.)	4,000,000	-	4,000,000	-
Mr. Mohammed D. Saeed	1,580,000	-	1,580,000	-
Mr. Aminu Saleh Pai*	-	1,480,718,606	-	-
Mr. Jibrin. G. Gane *	108,000	-	108,000	1,480,718,606
Mr. Abdulrahman Satumari	-	-	-	-
Mr. Usman Isa Baba	2,155,000	-	2,155,000	-
Mr. Salihu Argungu Hashimu	-	-	-	-
Mrs. Rakiya Edota Shehu	-	-	-	-
Mr. Akinwunmi M. Lawal	5,025,861	-	5,025,861	-
Mr. John K. Tizhe	707,749	-	-	-
Mr. Francis C. Nelson	310,796	-	310,796	-

*Mr. Aminu Saleh Pai and Mr. Jibrin G. Gane represent the interest of the Nigerian Police Cooperative Society Limited, which owns 1,480,718,606 (31 December 2019: 1,480,718,606) ordinary shares of 50k each in the issued share capital of the Bank for the year under review.

Save as disclosed above, none of the directors notified the Bank of any discloseable interest in the Bank's share capital as at 31 December 2020.

Directors' interest in shares remained the same as at the date the 2020 audited financial statements was approved by the Board of Directors with the exception of Mr. Francis C. Nelson, who purchased additional 1 million units of the Bank's shares after the reporting date.

6) DIRECTORS' INTEREST IN CONTRACTS

For the purpose of Section 303 of the Companies and Allied Matters Act (CAMA), 2020, none of the Directors notified the Bank of any direct or indirect interest in any contract or proposed contract with the Bank in the year under review.

7) RETIREMENT OF DIRECTORS

In accordance with S.285 (1) & (2) of the Companies and Allied Matters Act (CAMA), 2020, Mr. Abdulrahman Satumari, Mrs. Rakiya Edota Shehu and Mr. Salihu Argungu Hashimu will retire by rotation and being eligible offer themselves for re-election. The profiles of all Directors, including the Directors to be presented for election/re-election are contained in the Annual Report.

8) CHANGES TO THE BOARD

Since the last Annual General Meeting held on 30 June 2020, there have been no changes or new appointments unto the Board. The Board is stable and uniquely positioned to provide the right level of strategic leadership and direction for the Bank.

9) SUBSTANTIAL INTEREST IN SHARES

According to the Register of Members as at 31 December 2020, the following shareholders of the Company hold more than 5% of the issued ordinary share capital of the Company:

	31 December 2020		31 December 2019	
Shareholder	No. of Shares	Shareholding (%)	No. of Shares	Shareholding (%)
Nigeria Police Co-operative Society Limited	1,480,718,606	64.75	1,480,718,606	64.75
NPF Welfare Insurance Scheme	234,305,460	10.25	234,305,460	10.25

In line with the Nigeria Stock Exchange rules on the requirement for all listed companies to maintain a free float of 20% and above, the issued Share capital of the Bank in free float is 25% as at 31 December 2020 (31 December 2019: 25%) .

DIRECTOR'S REPORT

10) ANALYSIS OF SHAREHOLDING

The shareholding structure of the Bank is as stated below:

As at 31 December 2020

Range		Holders	%	Units
From	**To**			
1	5000	4,208	56.40	6,805,015
5001	10000	1,010	13.54	7,867,075
10001	50000	1,301	17.44	29,899,227
50001	100000	285	3.82	21,570,058
100001	500000	497	6.66	115,295,030
500001	1000000	67	0.9	48,559,588
1000001	50000000	90	1.21	272,819,734
50000001	2286657766	3	0.04	1,783,842,039
		7,461	**100**	**2,286,657,766**

As at 31 December 2019

Range		Holders	%	Units
From	**To**			
1	5000	4,130	56.62	6,761,543
5001	10000	1003	13.75	7,805,628
10001	50000	1,285	17.62	29,335,276
50001	100000	254	3.48	19,282,588
100001	500000	464	6.36	107,384,221
500001	1000000	62	0.85	43,992,347
1000001	50000000	93	1.28	288,254,124
50000001	2286657766	3	0.04	1,783,842,039
		7,294	**100**	**2,286,657,766**

11) SHARE CAPITAL HISTORY

The following changes have taken place in the Bank's authorised and issued capital since incorporation.

DATE ISSUED	AUTHORISED		ISSUED & FULLY PAID		NOMINAL VALUE	REMARKS
	FROM	TO	FROM	TO		
	₦'000	₦'000	₦'000	₦'000	₦	
1993	500	500	-	-	1.00	CASH & KIND
1996	500	30,000	-	17,976	1.00	CASH
1999	-	30,000	17,996	21,571	1.00	BONUS 1:4
2000	30,000	80,000	21,571	40,186	1.00	CASH
2001	-	80,000	40,186	58,624	1.00	CASH
2002	80,000	250,000	-	58,624	1.00	CASH
2003	-	250,000	-	58,624	1.00	CASH
2004	-	250,000	58,624	239,958	1.00	BONUS 1:10 & CASH
2005	250,000	500,000	239,958	239,958	1.00	-
2006	500,000	1,000,000	239,958	259,955	1.00	BONUS 1:12
2007	1,000,000	2,000,000	259,955	417,192	1.00	CASH
2008	-	2,000,000	-	417,192	1.00	-
2009	-	2,000,000	417,192	1,143,328	1.00	CASH
2010	-	2,000,000	1,143,328	-	0.50	SHARE-SPLIT 1:2
2011	-	2,000,000	1,143,328	-	0.50	SHARE-SPLIT 1:2
2012	-	2,000,000	1,143,328	-	0.50	-
2013	-	2,000,000	1,143,328	-	0.50	-
2014	2,000,000	3,000,000	1,143,328	-	0.50	-
2015	-	3,000,000	1,143,328	-	0.50	-
2016	-	3,000,000	1,143,328	-	0.50	-
2017	-	3,000,000	1,143,328	-	0.50	-
2018	-	3,000,000	1,143,328	-	0.50	-
2019	-	3,000,000	1,143,328	-	0.50	-
2020	-	3,000,000	1,143,328	-	0.50	-

DIRECTOR'S REPORT

12) CBN MINIMUM CAPITAL REQUIREMENT

In its revised circular dated 7 March 2019, the Central Bank of Nigeria (CBN) raised the minimum capital for national microfinance banks (MFBs) from ₦2 billion to ₦5 billion. The CBN's directive was to take effect from April 2021.

However, the CBN, in consideration of the impact of COVID-19 on the economy, extended the deadline for compliance by one year with its revised circular REF: FPR/DIR/GEN/CIR/07/054 dated 29 April 2020. Consequently, national MFBs are expected to meet minimum capital of ₦3.5 billion capital by April 2021 and ₦5 billion by April 2022.

This requirement was captured in the Bank's strategic plan and the Bank is now fully complaint with a shareholders funds of ₦5,481,585.

13) PROPERTY AND EQUIPMENT

Information relating to changes in the Company's property and equipment is given in Note 20 of the financial statements.

14) DONATIONS

As part of our commitment to the development of our primary community and to identify with the aspirations of various sections of the society, the Bank made contributions to charitable and non-political organisations amounting to ₦860,000 (31 December 2019: ₦3,375,507) during the year. This comprises contributions to educational organisations amongst others as listed below:

	₦
Force Headquarters Clinic Abuja	500,000
Microfinance Learning and Development Centre	150,000
Force Education Secondary School Akpabuyo	10,000
Burial expense for Makurdi personnel	200,000
	860,000

Donations made during the year ended 31 December 2019 are as follows:

	₦
Nigeria Police Public Relations	1,000,000
National Association of Microfinance Banks	200,000
Mike Okiro book launch	100,000
Chartered Institute of Bankers publication	150,000
Nigeria Legion, Sokoto	100,000
Police Medical, Falomo	50,000
Greendome Schools, Lagos	100,000
Green Club, University of Lagos	20,000
Usman Dan Fodio University Teaching Hospital	50,000
Pacelli School for Blind and Partially Sighted	50,000
Force Education Secondary School (Sokoto, Challenge, Ukana)	110,000
Microfinance Learning and Development Centre	50,000
Lazarus Onwuka and others	685,000
Police Children Schools (Ikeja, Idimu, Obalende, Calabar, Akure, Lokoja, Lafia, Katsina, Bompai, Wudil, Eleyele, Makurdi, Enugu, Elev	710,507
	3,375,507

15) FRAUD AND FORGERIES

Nature of Fraud	No. of Incidence		Fraud Amount (₦)		Actual Loss to the Bank (₦)	
	2020	2019	2020	2019	2020	2019
Perpetrated by staff	3	4	3,834,252.51	2,110,281.90	699,922.51	613,500.00
ATM Electronic Fraud	-	2	-	12,269,994.71	-	11,419,994.71
Total	3	6	3,834,252.51	14,380,276.61	699,922.51	12,033,494.71

Perpetrated by staff

The sum of ₦3,134,330.00 (2019: ₦1,496,781.90) has been recovered from the fraud perpetrated by staff. This represents 81.7% (2019: 95%) recovery of the total fraud amount. The actual loss of ₦699,922.51 incurred in current year will be recovered from the staff guarantor. However, in the subsequent year the sum of ₦100,000 has been recovered from the guarantor.

16) EVENTS AFTER THE REPORTING PERIOD

There were no subsequent events which could have a material effect on the financial position of the Bank as at 31 December 2020 or the profit for the year then ended on that date, that have not been adequately provided for or disclosed in the financial statements.

DIRECTOR'S REPORT

17) HUMAN RESOURCES

EMPLOYMENT OF DISABLED PERSONS

The Bank maintains a fair policy in considering job applications from physically challenged persons, having regard to their abilities and aptitude. In the event of any member of staff becoming physically challenged, every effort will be made to ensure that their employment with the Bank continues and that appropriate training is arranged. It is the policy of the Bank that the training, career development and promotion of disabled persons should, as far as possible, be identical with those of other employees. The Bank did not employ any physically challengd person during the year.

EMPLOYEE INVOLVEMENT AND TRAINING

The Bank ensures through various fora that employees are informed on matters concerning them. Formal channels are employed in communication with employees with an appropriate feedback mechanism.

As part of our corporate values to continually train our employees to become the best professionals, the training plan was designed to deploy various trainings in different categories.

In-Country Trainings **:** The current workforce were trained to skill up for increased job performance. Some of the training areas includes: HR as a strategic Business Partner, ERM issues and Challenges in MFBs, Sustainable Banking Principles and Practices, Reinforcing value creation in service delivery, Operational Risk Management and IFRS 9.

In-House Trainings **:** This was facilitated by experienced and trained employees with a primary focus to train other employees on techincal skills in order to improve job competencies. The training areas in the year under review were: Credit appraisal, Forensic Auditing and Investigation, Risk Based Auditing, Anti-money Laundering and Counter Terrorism, Report writing and Information System Audit and Credit Risk Administration.

HEALTH, SAFETY AND WELFARE OF EMPLOYEES

The Bank maintains business premises designed with a view to guarantee the safety and healthy working conditions of her employees amd customers alike. Employees are adequately insured against occupational and other hazards. The Bank has in place enlightement programs/publications designed to equip staff members with basic health management tips and fire prevention tips. Also, fire prevention and fire fighting equipments are installed in strategic locations within the Bank's premises.

18) EMPLOYEE AND DIRECTOR INFORMATION

The number and percentage of men and women employed in the Bank during the year ended 31 December 2020 and the comparative year were as follows:

	Number			**Percentage**	
	Male	**Female**	**Total**	**Male**	**Female**
Employees (2020)	239	211	450	53%	47%
Employees (2019)	195	153	348	56%	44%
Top Management (2020)	21	9	30	70%	30%
Top Management (2019)	19	7	26	73%	27%
Board					
Executive Directors (2020)	3	-	3	100%	0%
Executive Directors (2019)	3	-	3	100%	0%
Non -Executive Directors (2020)	7	1	8	88%	12%
Non -Executive Directors (2019)	7	1	8	88%	12%

DIRECTOR'S REPORT

i) The analysis by grade of employees is as shown below:

	31 December 2020			31 December 2019		
GRADE LEVEL	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Manager (M)	8	6	14	8	5	13
Senior Manager (SM)	7	1	8	5	-	5
Assistant General Manager (AGM)	1	-	1	3	-	3
Deputy General Manager (DGM)	3	-	3	3	1	4
General Manager (GM)	2	2	4	-	1	1
TOTAL	**21**	**9**	**30**	**19**	**7**	**26**

ii) Analysis of Directors by gender:

	31 December 2020			31 December 2019		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Managing Director	1	-	1	1	-	1
Executive Directors	2	-	2	2	-	2
Non - Executive Directors	7	1	8	7	1	8
TOTAL	**10**	**1**	**11**	**10**	**1**	**11**

19) INDEPENDENT AUDITOR

Messrs. KPMG Professional Services, having satisfied the relevant corporate governance rules on their tenure in office, have indicated their willingness to continue in office as auditor to the Bank. In accordance with Section 401(2) of the Companies and Allied Matters Act of Nigeria (CAMA), 2020, the auditor will be re-appointed at the next annual general meeting of the Bank without any resolution being passed.

BY ORDER OF THE BOARD

Mrs. Osaro J. Idemudia
Company Secretary/Legal Adviser
FRC/2013/NBA/00000002319
23 March 2021

CORPORATE GOVERNANCE REPORT

INTRODUCTION

NPF Microfinance Bank Plc ("the Bank") remains committed to institutionalising corporate governance principles. For the Bank, Corporate Governance is not an end in itself but an essential enabler for value creation whilst propagating a value-led culture, high behavioural standards and robust procedures as fundamental tools in the entrenchment of a strong corporate governance framework. As a Public Company quoted on the Nigeria Stock Exchange, we remain dedicated to our duties and pledge to safeguard and increase investor value through transparent corporate governance practices.

The Bank is governed under a framework that enables the Board to discharge its oversight functions while providing strategic directions to the Bank in balance with its responsibility to ensure regulatory compliance.

In the year under review, the Bank largely complied with the provisions of the Central Bank of Nigeria (CBN) Code of Corporate Governance for Microfinance Banks, Nigeria Stock Exchange (NSE), The Securities and Exchange Commission (SEC) and the National Code of Corporate Governance for Public Companies which became effective in January 2019. The Bank also submited periodic returns to the CBN, NSE, SEC and Nigerian Deposit Insurance Corporation (NDIC).

GOVERNANCE STRUCTURES

THE BOARD

The Board is responsible for embedding high standards of corporate governance across the Bank. The Board recognises that effective corporate governance is a key imperative to achieving the sustainable growth of the Bank.

The Board plays a central role in conjuction with Management in ensuring that the Bank is financially strong. This synergy between the Board and management fosters interactive dialogue in setting broad policy guidelines in the running of the Bank to enhance optimal performance and ensure that associated risk are well managed.

The Board of Directors currently consists of eleven (11) members as stated below:

Executive Directors	3
Non-Executive Directors	8 (Inclusive of 3 Independent Directors)

THE ROLE OF THE BOARD

The traditional role of the Bank's Board is to provide the Bank with leadership within a framework of prudent and effective controls which enables risk to be assessed and managed while deploying the Bank's resources to profitable use. The Board outlines the Bank's strategic and corporate aims, ensures that the necessary financial and human resources are in place for the Bank to meet its objectives and reviews management performance on a continous basis. The Board also sets the Bank's values and standards and ensures that its obligations to its shareholders and others are understood and met.

RESPONSIBILITIES

The Board is accountable to the Shareholders and continues to play a key role in governance. It is the responsibility of the Board of Directors to endorse the Bank's organisational strategy, develop directional policy, appoint, supervise and remunerate senior executives and ensure accountability of the Bank to its stakeholders and regulatory authorities. The Board is responsible for providing stable and effective leadership for the Bank, to facilitate achievement of its corporate operating objectives.

The roles of the Chairman and Chief Executive Director are separate and no one individual combines the two positions. The Chairman's main responsibility is to lead and manage the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. The Chairman facilitates the contributions of Directors and promotes effective relationships and open communications between Executive and Non-Executive Directors both inside and outside the Boardroom.

The Board has delegated the responsibility for the day to day management of the Bank to the Managing Director/Chief Executive Officer, who is supported by the Executive Management. The Managing Director executes the powers delegated to him in accordance with guidelines approved by the Board and the Executive Management is accountable to the Board for the development and implementation of strategies and policies.

REMUNERATION POLICY

The Bank’s remuneration policy sets out the criteria and mechanism for determining the levels of remuneration of the Directors of the Bank and also defines the process for determining Executive Directors compensations and rewards for corporate and individual performance. The policy is structured taking into account the environment in which it operates and the results it achieves at the end of each financial year. It includes:

Remuneration class	Description	Entitled Directors	Timing
Basic Salary/Allowances	Reflects the industry competitive salary package and the extent to which the Bank's objectives have been met for the financial year.	Executive Directors only	Monthly/Annually
Performance Incentive	This is awarded based on the performance of the Bank and individual Directors.	Executive Directors only	Annually
Directors' fees	Annual Payments approved at the Annual General Meeting	Non-Executive Directors only	Half yearly
Sitting allowances	Allowances paid for attending board and board committee meetings	Non-Executive Directors only	Paid at every sitting at board and board committee meetings

CORPORATE GOVERNANCE REPORT

The Directors' fees for the year under review was fixed at ₦25,000,000.00 by members at the last Annual General Meeting. This excludes sitting allowance and other allowances for meetings attended.

BOARD MEETINGS

To ensure the Board's effectiveness throughout the year, an annual meeting and task calendar is developed at the beginning of each year. These calendars do not only focus on the activities of the Board but also establish benchmarks against which its performance can be evaluated at the end of the year.

The Board meets quarterly and additional meetings are convened as the need arises. In furtherance of its roles, the Board met five (5) times in the year under review on 29/1, 23/3, 4/6, 28/7 and 27/10. Attendance at the Board meetings during the year were as follows:

No	Members	Designation	No. of Meetings	Attendance
1	Mr. Azubuko Joel Udah (Esq.)	Chairman	5	5
2	Mr. Mohammed D. Saeed	Non-Executive Director (Indep)	5	5
3	Mr. Aminu Saleh Pai*	Non-Executive Director	5	5
4	Mr. Jibrin G. Gane	Non-Executive Director	5	5
5	Mr. Abdulrahman Satumari	Non-Executive Director (Indep)	5	5
6	Mr. Salihu Argunu Hashimu	Non-Executive Director	5	5
7	Mrs. Rakiya Edota Shehu	Non-Executive Director (Indep)	5	5
8	Mr. Usman Isa Baba	Non-Executive Director	5	5
9	Mr. Akinwunmi M. Lawal	Managing Director	5	5
10	Mr. John K. Tizhe**	Executive Director	5	5
11	Mr. Francis C. Nelson	Executive Director	5	5

* *Appointed on 29 January 2020 upon the exit of Mr. Dasuki D. Galadanchi*

** *Appointment effective 2 January 2020 to replace Mr. Jude Chukwueloka Ohanehi*

DIRECTORS' PERFORMANCE EVALUATION

The Governance, Nomination and Remuneration Committee oversees a formal evaluation process to assess the composition and performance of the Board, each Committee and individual director on an annual basis. The assessment is conducted to ensure the Board, Committees and individual members are effective and productive and to identify opportunities for improvement.

As part of the process, each member completes a detailed and thorough questionnaire and each member also participates in an oral interview/conversation session as a follow up to the completion of the questionnaire. The Governance, Nomination and Remuneration Committee reports annually to the full Board with result of the evaluation excercise. The recommendations of the performance evaluation are considered by the Board and are implemented as required.

In compliance with the requirement of the Central Bank of Nigeria (CBN) Code of Corporate Governance, the Board commissioned the Financial Instituions Training Centre (FITC) to carry out Board evaluation for the financial year ended 31 December 2020.

Their report has been forwarded to the CBN and will be communicated to shareholders at the Annual General Meeting.

TENURE OF DIRECTORS

In pursuance of the Bank's drive to continually imbibe best Corporate Governance practices, the tenure of the Non-Executive Directors is limited to a maximum of three (3) terms of three (3) years each. This allows for the injection of fresh perspectives to the business of the Board.

INDUCTION AND CONTINUOUS TRAINING

The Company has in place a formal induction program for newly appointed Directors. This induction which is arranged by the Company Secretary includes presentation by Senior Management staff to assist Directors in building a detailed understanding of the Bank's operations, its strategic plan, Business environment and key issues faced by the Bank and to introduce directors to their fiduciary duties and responsibilities.

Training and Education of Directors on issues pertaining to their oversight function is a continuous process in order to update their knowledge and skills and keep them informed of new developments in the Bank's business and operating environment. These trainings are carried out through external, local and international courses. The trainings attended during the year under review are as follows:

Facilitating Institution	Topics	Location
Institute of Directors, Nigeria	Company Direction Course I & II	Lagos & Abuja
Financial Institution Training Centre	Building Effective Board Dyanmics in a Time of crisis	Virtual
Society for Corporate Governance Nigeria	Managing the Impact of a Changing Business Environment	Virtual
Victleo Investments Ltd	AML/CFT	Virtual
CENGSSUD Sustainability Services Ltd	Corporate Sustainability Leadership for Board	Abuja
Institute of Directors, Nigeria	The Chair, the CEO and Leadership Responsibilities	Virtual

All Directors attended at least one training course in the year under review.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The responsibilities of the Board are further accomplished through five (5) standing Committees in addition to the Statutory Audit Committee. Through these committees, the Board is able to effectively deal with complex and specialised issues and fully utilise its expertise to formulate strategies for the Bank. These committees have clearly defined terms of reference setting out their roles, responsibilities, functions and reporting procedures to the Board.

The Board committees in operation during the year under review were:

- Board Finance and General Purpose Committee
- Board Risk Management Committee
- Board Audit Committee
- Board Governance, Nomination and Remuneration Committee
- Board Credit Committee

The roles and responsibilities of these committees are discussed below:

Finance and General Purpose Committee

This Committee has the responsibility for monitoring all financial aspects of the Bank. Its responsibilities also include:-

- To formulate and shape the strategy of the Bank and make recommendations to the Board
- Review the budget of the Bank and make recommendations to the Board for approval
- Monitor performance of the Bank against the budget
- Consider and approve expenses above the limits of Management and make recommendations to the Board for approvals above its limits
- Review the Assets and Liability Committee report
- Review the Bank's investment portfolio annually
- Approve all policies relating to finance for the Bank
- Review and approve within its approved limits the annual manpower plan for the Bank
- Approve compensation policy and review compensation for all officers of the Bank (excluding Executive and Non - Executive Directors).

The Committee meets at least once in each quarter. However, additional meetings are convened as required. The Committee met five (5) times in the 2020 financial year on 28/1, 21/5, 21/7, 20/10 and 24/10. Membership of the Committee and attendance at its meetings during the year were as follows:

No.	Members	Designation	No. of Meetings	Attendance
1	Mr. Usman Isa Baba	Chairman	5	5
2	Mr. Salihu Argungu Hashimu	Member	5	5
3	Mr. Abdulrahman Satumari	Member	5	5
4	Mr. Aminu Saleh Pai *	Member	5	3
5	Mr. Akinwunmi Lawal	Member	5	5
6	Mr. Francis C. Nelson	Member	5	5
7	Mr. John K. Tizhe**	Member	5	5

* *Appointed on 29 January 2020 upon the exit of Mr. Dasuki D. Galadanchi*

** *Appointment effective 2 January 2020 to replace Mr. Jude Chukwueloka Ohanehi*

Board Risk Management Committee

The responsibilities of this Committee are:-

- Review and recommend risk management policies including risk strategy to the full Board for approval;
- Review the adequacy and effectiveness of risk management and controls;
- Monitor the Bank's compliance level with applicable laws and regulatory requirements;
- Periodic review of changes in the economic and business environment, including trends and other factors relevant for the Bank's risk profile;
- Review and recommend for approval of the Board risk management procedures and controls for new products and services;
- Oversight of management's process for the identification of significant risks across the Bank and the adequate prevention, detection and reporting mechanism;
- Review and approve the framework for the management of credit risk, market risk, liquidity risk, operational risk, reputation risk and other risk types as
- Consider and approve significant IT investment and expenditure to be made by the Bank;
- Oversee the development and maintenance of IT Strategic Plan.

The Board Risk Management Committee meets quarterly, and additional meetings are convened as required. The Committee met four (4) times during the 2020 financial year on 31/1, 2/6, 25/7 and 22/10. Membership of the Committee and attendance at its meetings during the year were as follows:-

No.	Members	Designation	No. of Meetings	Attendance
1	Mr. Aminu Saleh Pai*	Chairman	4	4
2	Mr. Abdulrahman Satumari	Member	4	4
3	Mrs. Rakiya Edota Shehu	Member	4	4
4	Mr. Usman Isa Baba	Member	4	4
5	Mr. Akinwunmi Lawal	Member	4	4
6	Mr. John K. Tizhe**	Member	4	4

** Appointed Chairman of the Committee upon the exit of Mr. Dasuki D. Galadanchi*

***Appointment effective 2 January 2020 to replace Mr. Jude Chukwueloka Ohanehi*

CORPORATE GOVERNANCE REPORT

Board Audit Committee

The Audit Committee is responsible for maintaining oversight regarding the integrity of the Bank’s financial statements, ensuring compliance with legal and other regulatory requirements, assessment of qualification and independence of the external auditor, and assessment of performance of the Bank’s internal audit function as well as that of the external auditors. Its responsibilities also includes:

- Establish an internal audit function and ensure that there are other means of obtaining sufficient assurance of regular review or appraisal of the system of
- Ensure the development of a comprehensive internal control framework for the Bank, obtain assurance and report the operating effectiveness of the Bank’s internal control framework to the Board;
- Review and ensure that adequate whistle-blowing procedures are in place and that a summary of issues reported are highlighted to the Board;
- Preserve auditor independence, and set clear hiring policies for employees and /or former employees of independent auditors;
- Consider any related-party transactions that may arise within the Bank or any of its related companies;
- Invoke its authority to investigate any matter within its terms of reference for which purpose the Bank must make available the resources to the internal auditors with which to carry out this functions including access to external advice when necessary.

This Committee consists of only Non-Executive Directors and is required to meet quarterly in a year.

The Committee met four (4) times during the 2020 financial year on 30/1, 22/5, 22/7 and 21/10. Members of the Committee and attendance at its meetings during the year were as follows:-

No.	Members	Designation	No. of Meetings	Attendance
1	Mr. Abdulrahman Satumari	Chairman	4	4
2	Mr. Mohammed D. Saeed	Member	4	2
3	Mr. Jibrin G. Gane	Member	4	4
4	Mr. Salihu Argungu Hashimu	Member	4	4

Board Governance, Nomination and Remuneration Committee

The responsibilities of the Committeee are:

- Make recommendations on the appropriate compensation structure for the Managing Director and other senior Executives;
- Make recommendations to the Board on the Bank’s policy framework of Executive remuneration and its cost;
- Review and report to the Board on the succession planning process for the positions of chairman, Chief Executive Officer/Managing Director, Executive Directors and any other key managerial position;
- Periodically evaluate the skills, knowledge and experience required on the Board;
- Establish the criteria for Board and Board committee membership, review candidates qualifications and any potential conflict of interest, assess the contributions of current Directors in connection with their re-connection and make recommendation to the Board;
- Monitor the development, alignment, satisfaction and productivity of the Bank’s employees with a view to competitive excellence;
- Develop and constantly review and make recommendation to the Board on policies and procedures to maintain high standard of management by the Bank;
- Monitor on a continuous basis and make recommendations to the Board concerning the corporate governance of the Bank; and
- Perform other oversight functions as may from time to time be expressly requested by the Board.

The Board Governance, Nomination and Remuneration Committee is required to meet as often as it deems necessary but not less than 2 times a year. The Committee met three (3) times in the 2020 financial year on 19/5/, 27/11 and 18/12. Membership of the Committee and attendance at its meetings during the year were as follows:

No.	Members	Designation	No. of Meetings	Attendance
1	Mr. Mohammed D. Saeed	Chairman	3	3
2	Mr. Jibrin G. Gane	Member	3	3
3	Mr. Usman Isa Baba	Member	3	3
4	Mrs. Rakiya Edota Shehu	Member	3	3

Board Credit Committee

The responsibilities of the Committee are:

- To set and periodically review the Bank's credit policy direction as necessary.
- To consider and approve specific loans above the Management Credit Committee's authority limit as determined by the Board from time to time.
- To conduct quarterly review of credits granted by the Bank to ensure complaince with the Bank's internal control systems and credit approval procedures.
- To mainatin credit risk within the Board's approved limit.
- Oversight responsibility of marketing reports/activities of the Bank as presented by management and providing updates on same to the Board.
- Maximise recovery rate through quality resolutions.
- Annually review the lending policies and present them to the Board for approval.
- Approve lending, investment decisions, credit products and new processes.

CORPORATE GOVERNANCE REPORT

- Review and monitor the effectiveness and application of credit rik management policies, related standards and procedures and control environment with respect to credit decisions and review internal audit reports with respect thereto.
- Review and oversee the development of loan loss provision policy and annually assess the appropriateness and application of such policy in the light of the credit risk(s) embedded in the overall loan portfolio.

The Board Credit Committee meets quarterly and additional meetings are conveyed as required. The Committee met four (4) times during the year under review on 27/1, 27/5, 20/7 and 23/10. Membership of the Committee and attendance at its meetings during the year were as follows:

No.	Members	Designation	No. of Meeting	Attendance
1	Mrs. Rakiya Edota Shehu	Chairman	4	4
2	Mr. Salihu Argungu Hashimu	Member	4	4
3	Mr. Jibrin Gane	Member	4	4
4	Mr. Aminu Saleh Pai*	Member	4	2
5	Mr. John K. Tizhe **	Member	4	4

** Appointed to replace Mr. Dasuki D. Galadanchi on 29 January 2020*

*** Appointment effective 2 January to fill the vacancy created by late Mr. Jude Chukwueloka Ohanehi*

Statutory Audit Committee

In compliance with Companies and Allied Matters Act (CAMA), 2020, an audit committee comprising two (2) representatives of shareholders elected annually at the Annual General Meeting (AGM) and two (2) Non-Executive Directors is in place.

The responsibilities of the Committee are as contained in Section 404(4) and (7) of the Companies and Allied Matters Act (CAMA), 2020. The Statutory Audit Committee meets at least once in each quarter. However, additional meetings are conveyed as required. The Committee met six (6) times in 2020 financial year on 20/3, 25/6, 27/7, 26/10, 5/11 and 10/11. Membership of the Committee and attendance at its meetings during the year were as follows.

No.	Members	Designation	No. of Meeting	Attendance
1	Mr. Timothy Adesiyan	Chairman	6	6
2	Alhaji Abdulquadri Sanni	Member	6	6
3	Mr. Aminu Saleh Pai*	Member	6	4
4	Mr. Abdulrahman Satumari	Member	6	6

** Appointed a member of the committee on 30 June 2020*

MANAGEMENT COMMITTEES

The committees comprise senior management staff of the Bank. These committees provide inputs for the respective Board committees of the Bank and ensure that recommendations of the Board committees are effectively and efficiently implemented.

They meet as frequently as necessary to take action and decisions within the confines of their powers. The standing management committees are:-

- Assets and Liabilities Committee
- Enterprise Risk Management Committee
- Finance and Expenditure Committee
- IT Steering and Business Development Committee
- Staff Committee
- Management Credit Committee

Assets and Liabilities Committee

It is responsible for reviewing and monitoring the deployment of the Bank's assets for optimal returns while also ensuring a balance in the Bank's liabilities and that they are safe guarded. The Asset and Liability Committee meets weekly or as required to analyse and make recommendations on risks arising from day to day activities of the Bank. The Committee also establishes standards and policies covering the various components of the Bank's assets and liabilities. The Committee is composed of all senior management staff.

Enterprise Risk Management Committee

The Committee is comprised of the senior management staff of the Bank. The Management team is responsible for the implementation of the Bank’s risk management strategy. The Committee also monitors overall regulatory and economic capital adequacy. It recommends to the Board for its approval, clear policies on standards for presentation of credit proposals, financial covenants, rating standards and benchmarks. The Committee is also saddled with the responsibility of reviewing asset quality results versus plan, portfolio management and the adequacy of the allowance for credit losses.

Finance and Expenditure Committee

The Finance and Expenditure Committee is responsible for recommending for approval to management the purchase of assets for new and existing branches. It also reviews the budget expenditure performance during the financial year. The Committee is comprised of the Company Secretary/Legal Adviser, ED Finance & Administration, Head Credit, Head Information Technology, Head Internal Audit and Head Administration.

Staff Committee

The Committee considers all staff disciplinary issues for recommendation/ implementation to the management team. It also considers issues pertaining to staff welfare and performance appraisal and makes recommendation to management as deemed appropriate.

The members of the Committee include the Company Secretary/Legal Adviser, ED Finance & Administration, Head Internal Audit, Head Credit, Head Administration and Head Information Technology.

CORPORATE GOVERNANCE REPORT

IT Steering and Business Development Committee

This Committee is responsible for amongst others, development of corporate information technology (IT) strategies and projects that ensure cost effective application and management of resources throughout the organisation. The Committee also reviews for management's recommendation to the Board Risk Management committee, new and existing bank products and its features. The members of the Committee includes the Executive Director Operations, Head Information Technology, Head Credit, Head Administration, Head Internal Audit, Head Marketing and ED Finance & Administration.

Management Credit Committee

The Committee is responsible for ensuring that the Bank complies fully with the Credit Policy guidelines as laid down by the Board of Directors. The Committee also reviews and approves credit facilities not exceeding an aggregate sum to be determined by the Board from time to time. The Committee is saddled with the responsibility of ensuring that adequate monitoring and recovery of credit is carried out.

WHISTLE-BLOWING PROCESS

The Bank is committed to the highest standards of openness, probity and accountability hence the need for an effective and efficient whistle blowing process as a key element of good corporate governance and risk management.

Whistle blowing process is a mechanism by which suspected breaches of the Bank's internal policies, processes, procedure and unethical activities by any stakeholder (staff, customers, suppliers and applicants) are reported for necessary actions.

It ensures a sound, clean and high degree of integrity and transparency in order to achieve efficiency and effectiveness in our operations.

The reputation of the Bank is of utmost importance and every staff of the Bank has a responsibility to protect the Bank from any person or act that might jeopardize its reputation. Staff are encouraged to speak up when faced with information that would help protect the Bank's reputation.

An essential attribute of the process is the guarantee of confidentiality and protection of the whistle blower's identity and rights. It should be noted that the ultimate aim of this policy is to ensure efficient service to the customer, good corporate image and business continuity in an atmosphere compliant to best industry practice.

The Bank has a Whistle Blowing channel via its website, dedicated telephone hotlines and e-mail address in compliance with Section 6.1.12 of the Central Bank of Nigeria (CBN) post-consolidation Code of Corporate Governance for Banks in Nigeria.

The Bank's Head of Internal Audit is responsible for monitoring and reporting on whistle blowing.

SECURITIES TRADING BY INTERESTED PARTIES

The Bank has in place a policy on trading in her Securities on terms no less exciting than the required standard set out in the Nigeria Stock Exchange Listing Rules. The policy prevents employees, Directors and related individuals/companies from insider dealings on the shares of NPF Microfinance Bank Plc and related parties. The essence of the policy is to prevent the abuse of confidential non-public information that may be gained during the execution of NPF Microfinance Bank's Business.

All Directors of the Bank have complied with the listing rules of the Nigeria Stock Exchange regarding securities transactions by Directors.

SHAREHOLDERS' PARTICIPATION

The Annual General Meeting of the Bank is the highest decision-making forum. Shareholders are opportuned to express their opinions on the Bank's financials and other issues affecting the Bank at such forum. The Bank encourages shareholders to participate in the affairs of the Bank.

PROTECTION OF SHAREHOLDERS' RIGHTS

The Board ensures the protection of the statutory and general rights of shareholders at all times, particularly voting rights at General Meetings of the Bank. All are treated equally, regardless of volume of shareholding or social status.

SHAREHOLDERS' MEETING

Shareholders' meetings are duly convened and held in line with existing statutory and regulatory regime. The Bank's General Meetings are conducted in a transparent and fair manner. Shareholders have the opportunity to express their opinions on the Bank's financial results and other issues affecting the Bank. The Annual General Meetings are attended by representatives of regulators such as the Nigerian Stock Exchange as well as representatives of Shareholders' Associations.

COMPLAINT MANAGEMENT

In compliance with the Securities and Exchange Commission (SEC) rules of 2015, the Bank has in place a complaint management policy. The policy sets out the manner in which shareholders make enquiries or register their complaints and how the Bank responds/address shareholder's complaints, issues and other matters that affects their shareholding.

COMPLAINT CHANNELS

To ensure an effective feedback process, the following channels have been provided for customers to enable them contact the Bank:

Email: ccare@npfmicrofinancebank.com

Toll Free Line: 08008008008

BY ORDER OF THE BOARD

Mrs. Osaro J. Idemudia
Company Secretary/Legal Adviser
FRC/2013/NBA/00000002319
23 March 2021

Statement of Directors' responsibilities in relation to the financial statements for the year ended 31 December 2020

The Directors accept responsibility for the preparation of the annual financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Allied Matters Act, 2020, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act, 2020 and relevant Central Bank of Nigeria (CBN) guidelines and circulars.

The Directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act, 2020 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.

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Mr. Akinwunmi Lawal
Managing Director/Chief Executive Officer
FRC/2014/CIBN/00000006345
23 March 2021

Mr. Azubuko Joel Udah (Esq.)
Chairman
FRC/2016/NBA/00000013775
23 March 2021

Certification by Chief Executive Officer and Chief Financial Officer for the year ended 31 December 2020

Certification Under Section 405(1) of the Companies and Allied Matters Act 2020

We the undersigned hereby certify the following with regards to the audited financial statements of the Bank for the year ended 31 December 2020 that:

1 We have reviewed the audited financial statements and to the best of our knowledge:

i. the 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. the 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;

2 We are responsible for establishing and maintaining internal controls and have designed such internal controls to ensure that material information relating to the Bank is made known to us by other officers of the Bank, particularly during the period in which the audited financial statement report is being prepared;

3 We have evaluated the effectiveness of the Bank's internal controls within 90 days before the date of the audited financial statements, and certify that the Bank's internal controls are effective as of that date;

4 We have disclosed to the Bank's auditors and audit committee -

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 have 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;

5 There were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Mr. Akinwunmi Lawal
Managing Director/Chief Executive Officer
FRC/2014/CIBN/00000006345
23 March 2021

F.C. Nelson, FCA
Chief Financial Officer
FRC/2014/ICAN/00000006856
23 March 2021

REPORT OF THE STATUTORY AUDIT COMMITTEE

In compliance with Section 404(7) of the Companies and Allied Matters Act (CAMA), 2020, we the members of the Audit Committee of NPF Microfinance Bank Plc report on the financial statements for the year ended 31 December 2020 as follows:

- We have reviewed the scope and planning of the audit requirements and we found them adequate.

- We have reviewed the financial statements for the year ended 31 December 2020 and are satisfied with the explanations obtained in response to our queries.

- We reviewed the external auditor's Management Letter for the year ended 31 December 2020 and management responses thereto and are satisfied that management is taking appropriate steps to address the issues raised.

- We have reviewed all insider related credits as defined by Section 19(4) of the Banks and Other Financial Institutions Act, 2020 and confirm that the Bank disclosed all such credits and that they were reported in line with the Central Bank of Nigeria (CBN)'s guidelines. Specifically, we are satisfied that the Bank has complied with the provisions of the Central Bank of Nigeria circular BSD/1/2004 dated 18 February 2004 on "Disclosure of insider related credits in the financial statements of banks". We hereby confirm that an aggregate amount of ₦63,629,000 was outstanding as at 31 December 2020 (31 December 2019: ₦108,214,000) of which none was non-performing (31 December 2019: Nil) (see note 28(b)(ii)) to the financial statements).

- We ascertained that the accounting and reporting policies of the Bank for the year ended 31 December 2020 are in accordance with legal requirements and agreed ethical practices.

- The external auditor confirmed having received full cooperation from management in the course of their statutory audit.

Mr. Timothy Adesiyan
Chairman, Audit Committee
FRC/2013/IODN/00000003745
23 March 2021

Other members of the Audit Committee:
- Alhaji Abdulquadri Sanni
- Mr. Abdulrahman Satumari
- Mr. Aminu Saleh Pai

Mrs. O.J. Idemudia (Company Secretary) acted as Secretary to the Committee

KPMG

KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
PMB 40014, Falomo
Lagos

Telephone 234 (1) 271 8955
234 (1) 271 8599
Internet home.kpmg/ng

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **NPF Microfinance Bank Plc**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of NPF Microfinance Bank Plc ("the Bank"), which comprise:

- the statement of financial position as at 31 December, 2020;
- the statement of profit or loss and other comprehensive income;
- the statement of changes in equity;
- the statement of cash flows for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act (CAMA), 2020 and the Financial Reporting Council of Nigeria Act, 2011,the Banks and Other Financial Institutions Act, 2020 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report

KPMG

Impairment allowance for loans and advances to customers
The Bank has a significant amount of loans and advances granted to its customers on which it estimates impairment allowance. The determination of the impairment allowance on these loans and advances is inherently a significant area for the Bank as significant judgments and assumptions are made over both the timing of recognition and the estimation of the size of the impairment allowance.

The Bank uses an Expected Credit Loss (ECL) model to determine the size of the impairment allowance. The ECL methodology incorporates the expected future credit losses due to macro-economic variables including the impact of COVID-19. The Bank estimates risk parameters such as probability of default (PD), loss given default (LGD) and exposure at default (EAD), for individual loan exposures or for homogenous groups of exposures on the basis of their historical performance, while also taking into account the expected macroeconomic conditions.

The determination of impairment allowance using the ECL model also requires the application of certain financial indices which are estimated from financial data obtained within and outside the Bank.

The level of subjectivity inherent in estimating the impairment allowance on loan balances, the inputs estimated, the complexity of the estimation process and the significant judgment and assumptions involved make the impairment of loans and advances a matter of significance to the audit.

How the matter was addressed during the audit
Our procedures included the following:

- With the assistance of our Financial risk management (FRM) specialists, we assessed the key data and assumptions for the parameters in the ECL model used by the Bank. Our procedures included the following:

  - We challenged the appropriateness of the Bank's ECL methodology by considering whether it reflects probability-weighted amounts that are determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic condition.

  - We challenged the appropriateness of management's forward-looking assumption by using publicly available information from external sources such as inflation rate, unemployment rate and Gross Domestic Product (GDP) growth rate in our ECL calculations.

  - We assessed the appropriateness of the Probability of Default (PD) used in the ECL calculations for reasonableness by checking the historical movement of the facilities between default and non-default categories.

  - We assessed the reasonableness of the calculation of Loss Given Default (LGD) rates used by the Bank in the ECL calculations, by recomputing the LGD. We also evaluated the reasonableness of management overlay in the determination of the LGD.

  - We evaluated the appropriateness of the data used in determining the Exposure at Default (EAD), including the contractual cash flow and credit conversion factor, outstanding loan balance, loan contractual repayment pattern and loan tenor.

- We re-performed the calculations of impairment allowance for loans and advances and also checked the reasonableness of the outcome.

KPMG

- We assessed whether disclosures in the financial statements appropriately reflect the Bank's exposure to credit risk in line with the requirements of the relevant accounting standards.

Refer to Notes 4(f)(viii), 5(b) and 6(a) to the financial statements for the Bank's accounting policy on impairment of financial assets, credit risk disclosures and use of estimates and judgments respectively.

Other Information

The Directors are responsible for the other information. The other information comprises the Corporate information, Directors' report, Corporate governance report, Statement of directors' responsibilities, Certification by Chief Executive Officer and Chief Financial Officer, Report of the audit committee, and other national disclosures, included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Companies and Allied Matters Act (CAMA), 2020 and the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act, 2020 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars, 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.

- 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 the directors.

- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Schedule 5 of the Companies and Allied Matters Act (CAMA), 2020

i. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

ii. In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books (and proper returns adequate for the purposes of our audit have been received from branches not visited by us).

iii. The Bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account and returns;

KPMG

Compliance with Section 26 (3) of the Banks and Other Financial Institutions Act, 2020 and Central Bank of Nigeria circular BSD/1/2004

i. The Bank did not pay any penalty in respect of contravention of the Banks and Other Financial Institutions Act, 2020 during the year ended 31 December 2020.

ii. Related party transactions and balances are disclosed in note 28 to the financial statements in compliance with the Central Bank of Nigeria circular BSD/1/2004.

Nneka

Nneka Eluma, FCA
FRC/2013/ICAN/00000000785
For: KPMG Professional Services
Chartered Accountants
25 March 2021
Lagos, Nigeria

STATEMENT OF FINANCIAL POSITION
AS AT

In thousands of naira	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	16	5,677,888	3,128,104
Pledged assets	17	564,246	467,486
Loans and advances to customers	18	16,667,615	13,776,931
Investment securities	19	966,360	893,534
Property and equipment	20	902,412	897,484
Intangible asset	21	47,693	33,906
Other assets	22	270,761	386,272
TOTAL ASSETS		**25,096,975**	**19,583,717**
LIABILITIES			
Deposits from customers	23	14,838,805	11,327,058
Borrowings	24	2,995,809	1,965,665
Current tax liabilities	15(b)	257,107	230,511
Deferred tax liabilities	15(c)	71,370	66,637
Other liabilities	25	1,452,300	665,907
TOTAL LIABILITIES		**19,615,391**	**14,255,778**
CAPITAL AND RESERVES			
Share capital	26	1,143,328	1,143,328
Share premium	27(a)	1,517,485	1,517,485
Retained earnings	27(b)	1,127,458	986,184
Fair value reserve	27(c)	(6,217)	(2,777)
Statutory reserve	27(d)	1,424,936	1,348,133
Regulatory risk reserve	27(e)	274,594	335,586
TOTAL EQUITY		**5,481,584**	**5,327,939**
TOTAL LIABILITIES AND EQUITY		**25,096,975**	**19,583,717**

The financial statements were approved by the Board of Directors on 23 March 2021 and signed on its behalf by:

Mr. Azubuko Joel Udah (Esq.)
Chairman
FRC/2016/NBA/00000013775

Mr. Akinwunmi Lawal
Managing Director/Chief Executive Officer
FRC/2014/CIBN/00000006345

Additionally certified by:

F.C. Nelson, FCA
Chief Financial Officer
FRC/2014/ICAN/00000006856

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED

In thousands of naira	Note	31-Dec-2020	31-Dec-2019
Gross earnings		4,658,831	4,447,812
Interest income calculated using the effective interest method	8	4,088,196	3,279,624
Interest expense	9	(411,215)	(383,605)
Net interest income		3,676,981	2,896,019
Fee and commission income	10	500,818	856,531
Revenue		4,177,799	3,752,550
Other income	11	69,817	311,657
Net impairment (loss)/writeback on financial instruments	12	(122,300)	129,689
Personnel expenses	13	(1,986,342)	(1,818,246)
Depreciation of property and equipment	20	(238,833)	(224,363)
Amortisation of intangible assets	21	(16,213)	(4,787)
Administration and general expenses	14	(1,016,916)	(1,138,503)
Profit before tax		867,012	1,007,997
Income tax expense	15(a)	(252,595)	(211,572)
Profit for the year		**614,417**	**796,425**
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Equity investment at fair value through OCI	19(a)	(3,440)	(372)
Other comprehensive loss for the year		**(3,440)**	**(372)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**610,977**	**796,053**
Basic and diluted earnings per share (kobo)	33	**27**	**35**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share Capital	Share Premium	Retained Earnings	Fair Value Reserve	Statutory Reserve	Regulatory Risk Reserve	Total
Balance at 1 January 2020	1,143,328	1,517,485	986,184	(2,777)	1,348,133	335,586	5,327,939
Total comprehensive income							
Profit for the year	-	-	614,417	-	-	-	614,417
Other comprehensive loss							
Fair value reserve (FVOCI equity instruments):							
Equity investments at FVOCI - net change in fair value	-	-	-	(3,440)	-	-	(3,440)
Total other comprehensive loss	-	-	-	(3,440)	-	-	(3,440)
Total comprehensive income	-	-	614,417	(3,440)	-	-	610,977
Transfer to statutory reserve (see note 27(d))	-	-	(76,803)	-	76,803	-	-
Transfer from regulatory risk reserve (see note 6(c)(ii))	-	-	60,992	-	-	(60,992)	-
Contributions by and distributions to equity holders							
Dividend paid (see note 34)	-	-	(457,332)	-	-	-	(457,332)
Total contributions and distributions	-	-	(457,332)	-	-	-	(457,332)
Balance as at 31 December 2020	**1,143,328**	**1,517,485**	**1,127,458**	**(6,217)**	**1,424,936**	**274,594**	**5,481,584**

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital	Share Premium	Retained Earnings	Fair Value Reserve	Statutory Reserve	Regulatory Risk Reserve	Total
Balance at 1 January 2019	1,143,328	1,517,485	318,690	(2,405)	1,248,579	420,914	4,646,591
Total comprehensive income							
Profit for the year	-	-	796,425	-	-	-	796,425
Other comprehensive loss							
Fair value reserve (FVOCI equity instruments):							
Equity investments at FVOCI - net change in fair value	-	-	(372)	(372)	-	-	(744)
Total other comprehensive loss	-	-	(372)	(372)	-	-	(744)
Total comprehensive income	-	-	796,053	(372)	-	-	795,681
Transfer to statutory reserve (see note 27(d))	-	-	(99,554)	-	99,554	-	-
Transfer from regulatory risk reserve (see note 6(c)(ii))	-	-	85,328	-	-	(85,328)	-
Contributions by and distributions to equity holders							
Dividend paid (see note 34)	-	-	(114,333)	-	-	-	(114,333)
Total contributions and distributions	-	-	(114,333)	-	-	-	(114,333)
Balance at 31 December 2019	**1,143,328**	**1,517,485**	**986,184**	**(2,777)**	**1,348,133**	**335,586**	**5,327,939**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED

In thousands of naira	Note	31-Dec-2020	31-Dec-2019
Cash flows from operating activities			
Profit for the year		614,417	796,425
Adjustments for:			
Depreciation of property and equipment	20	238,833	224,363
Amortization of intangible assets	21	16,213	4,787
Net impairment loss/(write-back) on loans and advances to customers	12	93,574	(29,264)
Net impairment loss/(write-back) on cash and cash equivalents	12	358	(4,055)
Net impairment loss/(write-back) on pledged assets	12	619	(523)
Net impairment loss/(write-back) on other assets	12	27,714	(85,374)
Net impairment loss on investment securities	12	35	138
Interest income	8	(4,088,196)	(3,279,624)
Interest expense	9	411,215	383,605
Profit on sale of property and equipment	11	(3,104)	(1,303)
Gain on disposal of treasury bills	11	(1,210)	-
Gain on derecognition of lease liability	11	(1,049)	-
Tax expense	15(a)	252,595	211,572
		(2,437,986)	(1,779,253)
Changes in:			
- pledged assets	35(b)	(91,480)	345,167
- loans and advances to customers	35(c)	(2,833,401)	(3,031,242)
- other assets	35(d)	87,798	(33,297)
- deposits from customers	35(e)	3,501,997	853,353
- other liabilities	35(f)	777,272	395,400
		(995,800)	(3,249,872)
Interest received	35(h)	4,068,903	3,157,465
Interest paid	35(i)	(349,780)	(370,404)
Tax paid	15(b)	(221,266)	(77,876)
Retirement benefit obligations paid	35(f)	-	(16,001)
Net cash generated from/(used) in operating activities		**2,502,057**	**(556,688)**
Cash flows from investing activities			
Acquisition of property and equipment	35(a)(ii)	(227,818)	(361,730)
Acquisition of intangible assets	21	(30,000)	(26,408)
Payment for new leased properties	35(j)	(7,695)	(32,156)
Proceeds from disposal of property and equipment	35(a)(i)	8,095	1,303
Purchase of treasury bill investments	35(g)	(1,542,062)	(1,785,455)
Proceeds from disposal of treasury bill investments	35(g)	1,494,336	1,257,023
Net cash flows used in investing activities		**(305,144)**	**(947,423)**
Cash flows from financing activities			
Repayment of principal on borrowings	24(b)	(767,018)	(809,743)
Repayment of interest on borrowings	24(b)	(113,643)	(119,116)
Payment of lease liability	25(c)(i)	(8,778)	-
Additions to borrowings	24(b)	1,700,000	731,000
Dividend paid	34	(457,332)	(114,333)
Net cash generated from/(used in) financing activities		**353,229**	**(312,192)**
Net increase in cash and cash equivalents		**2,550,142**	**(1,816,303)**
Cash and cash equivalents as at 1 January		3,128,610	4,944,913
Cash and cash equivalents as at 31 December	16	**5,678,752**	**3,128,610**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1 Reporting entity

NPF Microfinance Bank Plc. ("the Bank") is a public limited liability company domiciled in Nigeria. The Bank's registered office is at Aliyu Atta House, 1 Ikoyi Road, Obalende, Lagos.

The Bank is engaged in the provision of banking services to members of the Police community, to poor and low income households and micro-enterprises of the public at large. Such services include retail banking, granting of loans, advances and allied services.

The Bank currently operates from its registered office and has thirty-five (35) branches located at Obalende, Ikeja, Garki-Abuja, Wuse-Abuja, Port-Harcourt, Kano, Osogbo, Benin, Akure, Onitsha, Sokoto, Lokoja, Lafia, Bauchi, Yola, Enugu, Kaduna, Oji River, Ibadan, Abeokuta, Ikorodu, Tejuosho, Asaba, Calabar, Aba, Aswani, Awka, Port Harcourt 2, Jos, Ilorin, Minna, Uyo, Owerri, Ekiti and Makurdi.

2 Basis of accounting

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB) and in the manner required by the Companies and Allied Matters Act (CAMA), 2020, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act, 2020 and relevant Central Bank of Nigeria (CBN) guidelines and circulars. The IFRS accounting policies have been consistently applied to all years presented.

The financial statements were approved by the directors on 23 March 2021.

(b) Basis of preparation and measurement

These financial statements have been prepared on a going concern basis, which assumes that the bank will continue its operations in the foreseeable future. These financial statements have been prepared on the historical cost basis, except for the following material items, which are measured on the following alternative basis in the financial statements:

- Equity securities measured at FVTOCI
- Investment securities (treasury bills) measured at amortised cost
- Financial assets and liabilities measured at amortised cost

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

(d) Functional and presentation currency

These financial statements are presented in Naira, which is the Bank’s functional and presentation currency. Except where indicated, financial information presented in Naira has been rounded to the nearest thousand.

3 Changes in significant accounting policies

The Bank has consistently applied the accounting policies as set out in note 4 to all years presented in these financial statements.

A number of new standards are effective from 1 January 2020 but they do not have a material effect on the Bank's financial statements.

a) COVID-19-Related Rent Concessions (Amendment to IFRS 16)

The Bank has early adopted COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Bank is a lessee – i.e. for leases to which the Bank applies the practical expedient, the Banl is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Bank has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

b) Conceptual framework amendment: *Amendment to references to conceptual framework in the IFRS standards*

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definition of an asset and a liability, and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

The amendment has no material impact on the Bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

c) Amendment to IAS 1 and IAS 8: *Definition of Material*

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.
The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendment has no material impact on the Bank's financial statements.

d) Amendment to IFRS 9, IAS 39 and IFRS 7: *Interest Rate Benchmark Reform*

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

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

The amendment has no material impact on the Bank's financial statements.

e) Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued 'Definition of a Business' making amendments to IFRS 3 Business Combination. The amendments are a response to feedbak received from the post-implementation review of IFRS 3. They clarify the definition of a business, with the aim of helping entities to determine whether a transaction should be accounted for as an asset acquisition or a business combination.

In summary, the amendments:
- clarify the minimum attributes that the acquired set of activities and assets must have to be considered a business;
- remove the assessment of whether market participants are able to replace missing inputs or processes and continue to produce outputs;
- narrow the definition of a business and the definition of outputs: and
- add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendment has no material impact on the Bank's financial statements.

4 Significant accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, unless otherwise stated. The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Interest income and expense

i. Effective interest rate

Interest income and expense on financial instruments are recognised in profit or loss using the effective interest method.
The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instruments, but not Expected Credit Loss. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including Expected Credit Loss.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

ii. Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

iii. Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see 4(f)(viii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income; and
- negative interest on financial liabilities measured at amortised cost.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost;
- negative interest on financial assets measured at amortised cost; and
- interest expense on lease liabilities.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank’s trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at fair value through profit or loss (FVTPL) are presented in net income and from other financial instruments at FVTPL.

Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

(b) Fees and commission

Fees and commission is measured based on the consideration specified in a contract with a customer. The bank recognises this income when it disburses loans and accepts deposits from its customers.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fees and commission income, including loan account servicing fees, investment management fees, etc. are recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Bank’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

(c) Other income

The total sum includes income from service fees and charges, profit on disposal of property and equipment and dividend income. They are recognised as the related services are performed and when the entity's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

(d) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

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

(i) *Bank acting as a lessee*

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

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

From 1 January 2020, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Bank remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(e) Income tax

Income tax expense comprises current tax (company income tax, tertiary education tax, National Information Technology Development Agency levy and Nigeria Police Trust Fund levy) and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The Bank had determined that interest and penalties relating to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The related expenses are recognised in other expenses.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, and any adjustment to tax payable or receivable in respect of previous years.

The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met and is assessed as follows:

- Company income tax is computed on taxable profits
- Tertiary education tax is computed on assessable profits
- National Information Technology Development Agency levy is computed on profit before tax
- Nigeria Police Trust Fund levy is computed on net profit (i.e. profit after deducting all expenses and taxes from revenue earned by the Bank during the year)

Total amount of tax payable under CITA is determined based on the higher of two components namely Company Income Tax (based on taxable income (or loss) for the year); and minimum tax, which is 0.25% of gross earnings (31 December 2019: 0.5%). Taxes based on profit for the period are treated as income tax in line with IAS 12.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences.

If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

(f) Financial instruments

(i) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date the Bank becomes a party to the contractual provisions of the instruments.

A financial asset or financial liability is measured initially at fair value plus or minus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

(ii) Classification

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

The Bank's retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Bank Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected - see below.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgement in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Contractually linked instruments

Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;

- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and

- the exposure to credit risk inherent in the contractually linked instruments is equal to or lessthan the exposure to credit risk of the underlying pool of financial instruments.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period the Bank changes its business model for managing financial assets.

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iii) Derecognition

Financial assets
The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

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

Financial liabilities- Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortized cost or at FVTPL. A financial liability is classified at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit and loss. Any gains or loss on derecognition is also recognised in profit or loss.

iv) Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

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

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

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

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If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

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

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

v) Interest rate benchmark reform (policy applied from 1 January 2020)
If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applies the policies on accounting for modifications set out above to the additional changes.

vi) Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

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

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

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

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

viii) Impairment

The Bank recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments and;
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

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

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

– *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;

– *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

When discounting future cash flows, the following discount rates are used:

– financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;

– POCI assets: a credit-adjusted effective interest rate;
– lease receivables: the discount rate used in measuring the lease receivable;

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– undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and

– financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

Restructured financial assets

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

– If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

– If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or past-due event;
– the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

– The market's assessment of creditworthiness as reflected in bond yields.
– The rating agencies' assessments of creditworthiness.
– The country's ability to access the capital markets for new debt issuance.
– The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
– The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

– *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
– *loan commitments:* generally, as a provision;
– *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

– *debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in retained earnings.

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Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Financial guarantee contracts held

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument;and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Bank presents a gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

Designation at fair value through profit or loss (FVTPL)

Financial assets

On initial recognition, the Bank may choose to designate a financial asset as at fair value through profit or loss (FVTPL) where this designation eliminates or significantly reduces an accounting mismatch, that would otherwise arise.

The Bank may also designate financial assets as at FVTPL where the assets are managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Bank may choose to designate financial liabilities as at FVTPL in either of the following circumstances:
- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(g) Cash and cash equivalents

Cash and cash equivalents include bank notes and coins on hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position. The reconciliation of the opening cash and cash equivalents to the closing cash and cash equivalents in the statement of cash flows is done using the indirect method.

(h) Pledged assets

Financial assets transferred to external parties that do not qualify for de-recognition are reclassified in the statement of financial position from their original class to assets pledged as collateral, if the transferee has received the right to sell or re-pledge them in the event of default from agreed terms. Initial measurement of assets pledged as collateral is at fair value while subsequent measure is at amortized cost.

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(i) Loans and advances

Loans and advances to customers' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the consideration paid is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

(j) Investment Securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- equity investment securities designated as at FVOCI.

Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss.

Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

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

Land	Not depreciated
Buildings	50 years
Computer equipment	3 years
Office equipment	5 years
Furniture and fittings	5 years
Motor vehicles	4 years
Right of use assets	Lower of lease term or the useful life of the leased asset

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) De-recognition

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

(l) Intangible assets

Computer software

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

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Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life for computer software is three (3) years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets are derecognized on disposal or when no future economic benefits are expected from their use or disposal.

(m) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss and are used to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Deposits and borrowings

Deposits and borrowings are the Bank's sources of funding. When the Bank sells a financial asset and simultaneously enters into a "repo" or "lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

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

Deposits and borrowings are initially measured at fair value minus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

(o) Other assets

Prepayments include costs paid in relation to subsequent financial periods and are measured at cost less amortization for the period. The Bank recognises prepaid expense in the accounting year in which it is paid.

Other receivables comprise staff cash advance and sundry debtors which are carried at cost less lifetime ECL impairment.

Inventories comprise stock of debit cards, stock of credit cards, stock of cheques, stock of office stationeries, stock of micr cheques, non micr cheques, and stock of adhensive stamp. Inventories are stated at lower of cost and net realisable value. Cost of inventories also include all other cost incurred in bringing the items to their present location and condition.

(p) Provisions and other liabilities

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense.

Other liabilities are short term obligations to third parties. They are recognized at cost.

Restructuring: A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Bank levies: A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

(q) Contingent liabilities

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements.*See note 30.*

(r) Expenditure

Expenses are recognised in the profit or loss as they are incurred unless they create an asset from which future economic benefits will flow to the Bank. An expected loss on a contract is recognised immediately in profit or loss.

(s) Employee benefits

(i) Defined contribution plan

A defined contribution plan is pension plan under which the Bank pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. For defined contribution plans, the Bank makes contributions on behalf of qualifying employees to a mandatory scheme under the provisions of the Pension Reform Act. The Bank has no further payment obligations once the contributions have been paid. Obligations for contributions to defined contribution plans are recognised as personnel expenses in profit or loss in the period during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Employees and the Bank contribute 8% and 10% respectively of each of the qualifying staff salary in line with the provisions of the Pension Reforms Act 2014.

(ii) Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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.

(t) Share capital and reserves

(i) Share issue costs

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

(ii) Dividend on the Bank's ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of the statement of financial position are dealt with in the subsequent events note. Dividends proposed by the Directors but not yet approved by members are disclosed in the financial statements in accordance with the requirements of IFRS.

(u) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(v) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Bank's other components, whose operating results are regularly reviewed by the Bank's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment information is provided on the basis of operating and reportable segments in the manner the Bank manages its business.
The financial statements of the Bank reflect the management structure of the Bank and the way in which the Bank's management reviews business performance.
Invariably, management considers its retail banking operations, whose results are shown in the statement of financial position and statement of comprehensive income, as its only operating segment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

(w) New standards and interpretations not yet adopted

A number of new Standards, Amendments to Standards, and Interpretations are effective for annual periods beginning after 1 January 2021 and have not been applied in preparing these financial statements. Those Standards, Amendmends to Standards, and Interpretations which may be relevant to the Bank are set out below.

The Bank does not plan to adopt these standards early. The standards will be adopted in the period that they become mandatory unless otherwise indicated:

Standards not yet effective	**Summary of the requirements and impact assessment**	**Effective date**
Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*	Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the Board has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. There is limited guidance on how to determine whether a right has substance and the assessment may require management to exercise interpretive judgement. The existing requirement to ignore management's intentions or expectations for settling a liability when determining its classification is unchanged. The amendments also clarify how a company classifies a liability that includes a counterparty conversion option, which could either be recognised as either equity or liability separately from the liability component under IAS 32 Financial Instruments: Presentation The standard is effective for annual periods beginning on or after 1 January 2023. Early *The amendment is not expected to have any significant impact on the Bank.*	1 January 2023

The following new Standards and Amendments are not expected to have a significant impact on the Bank's financial statements.

Effective Date Period beginning on or after	**Standard/Amendments**
1 January 2021	*Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*
1 January 2022	*Annual Improvements to IFRS Standards 2018-2020*
	Property, Plant and Equipment: Proceeds before Intended Use (Amendmends to IAS 16)
	Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
	Reference to Conceptual Framework (Amendments to IFRS 3)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

5 Financial risk management

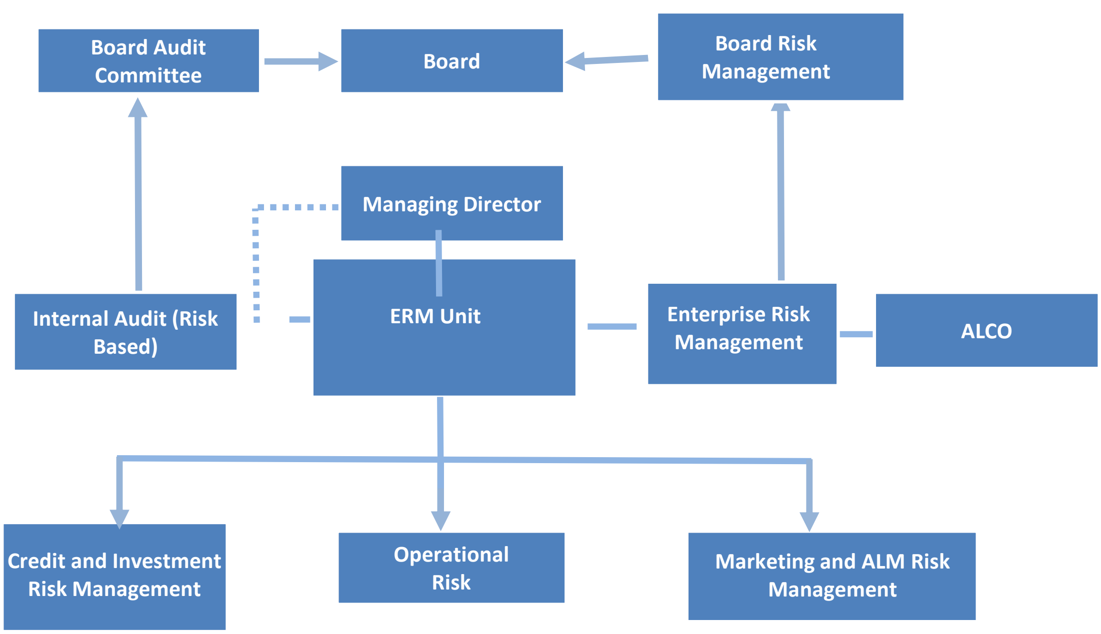
(a) Introduction and overview

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established the Asset and Liability Management Committee (ALCO), which is responsible for approving and monitoring Bank risk management policies.
The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board also oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Board is assisted in its oversight role by the Board Risk Management Committee, which undertakes both regular and ad-hoc reviews of risk management controls and procedures.
The risk management framework of the Bank identifies risk culture as the foundation upon which the pillars of risk and control processes and extreme events management lie.

The general organisational structure can be seen below:

The Bank's risk management governance structure is as shown below:



The Board of Directors are responsible for developing and monitoring the Bank's risk management policies.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

(i) The Bank's approach to risk

The Bank addresses the challenge of risks comprehensively through an enterprise-wide risk management framework by applying leading practices that are supported by a governance structure consisting of the board and executive management committees. The Board drives the risk governance and compliance process through management. The audit committee provides oversight on the systems of internal control, financial reporting and compliance. The Board also sets the risk philosophy, policies and strategies and provides guidance on the various risk elements and their management.
Executive management drives the management of the financial risks (market, liquidity and credit risk), operational risks as well as strategic and reputational risks.

The key features of the Bank’s risk management framework are:
• The Board of Directors provide overall risk management direction and oversight.
• The Bank’s risk appetite is approved by the Board of Directors.
• Risk management is embedded in the Bank as an intrinsic process and is a core competency of all its employees.
• The Bank manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organization.
• The Bank’s risk management function is independent of the business divisions.
• The Bank’s internal audit function reports to the Board; providing independent validation of the business units’ compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on an enterprise-wide basis.

The Board of Directors is committed to managing compliance with a framework to enforce compliance with applicable laws, rules and standards issued by the industry regulators and other law enforcement agencies, market conventions, codes of practices promoted by industry associations and internal policies. The compliance function, under the leadership of the Head of Internal audit of the Bank has put in place a compliance framework, which includes:
• Comprehensive compliance manual, the manual details the roles and responsibilities of all stakeholders in the compliance process,
• Review and analysis of all relevant laws and regulations, which are adopted into policy statements to ensure business is conducted professionally.

(ii) Risk Appetite

The Bank's risk appetite is reviewed by the Board of Directors annually, at a level that minimizes erosion of earnings or capital due to avoidable losses or from frauds and operational inefficiencies. This reflects the conservative nature of the Bank as far as risk taking is concerned.

(iii) Risk Management Philosophy, Culture and Objectives

The Bank considers effective risk management to be the foundation of a long lasting institution.
•The Bank continues to adopt a holistic and integrated approach to risk management and therefore, brings all risks together under one or a limited number of oversight functions.
• Risk management is a shared responsibility. Therefore the Bank aims to build a shared perspective on risks that is grounded in consensus.
• There is clear segregation of duties between market facing business units and risk management functions.
• Risk Management is governed by well defined policies which are clearly communicated within the Bank.
• Risk related issues are taken into consideration in all business decisions. The Bank shall continually strives to maintain a conservative balance between risk and revenue consideration.

The Bank has exposure to the following risks from its financial instruments:
- Credit risk
- Liquidity risk
- Market risk

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, investment in debt securities, cash and cash equivalents, pledged assets and trade and other receivables. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

The Bank has exposure to credit risk as it routinely executes transactions with counterparties which comprise mainly of public service employers and employees as well as private sector employees.

(i) Credit risk limits

The Bank applies credit risk limits, among other techniques in managing credit risk. This is the practice of stipulating a maximum amount that the individual or counterparty can obtain as loan. Internal and regulatory limits are strictly adhered to. Through this, the Bank not only protects itself, but also in a sense, protects the counterparty from borrowing more than they are capable of paying.

The Bank continues to focus on its concentration and intrinsic risks and further manage them to a more comfortable level. This is very important due to the serious risk implications that intrinsic and concentration risk pose to the Bank. A thorough analysis of economic factors, market forecasting and prediction based on historical evidence is used to mitigate the crystallization of these risks.

The Bank has in place various portfolio concentration limits (which is subject to periodic review). These limits are closely monitored and reported on from time to time.

NOTES TO THE FINANCIAL STATEMENTS
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The Bank's internal credit approval limits for the various authority levels are as indicated below.

	Approval Limit	
RANK	**MICRO**	**MACRO**
Officer	₦100,000	₦200,000
Assistant Manager	₦200,000	₦300,000
Deputy Manager	₦200,000	₦400,000
Manager	₦200,000	₦500,000
Senior Manager	₦200,000	₦650,000
AGM/ GM	₦200,000	₦1000,000
Regional Head	₦500,000	₦1,500,000
Executive Director	₦700,000	₦2,000,000
Managing Director (MD)	₦1,000,000	₦2,500,000
Board Risk Committee	NIL	Above ₦2.5 million to ₦10 million
Full Board	NIL	Above ₦10 million

These internal approval limits are set and approved by the Bank's Board and are reviewed regularly as the state of affairs of the Bank and the wider financial environment demands. However, approval of Micro credits resides with Regional Heads and Head Office.

Credit quality analysis

The tables below set out information about the credit quality of financial assets measured at amortised cost without taking into account collateral or other credit enhancement. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2020				
In thousands of naira	**12-month Probability of default ranges**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan and advances to customers at amortised cost					
Grades 1-6: Strong	0-0.59	16,592,264	-	-	16,592,264
Grades 7-9: Satisfactory	0.60-11.34	-	74,531	-	74,531
Grade 10: Higher risk	11.35-99.99	-	-	-	-
Grade 11-12: Credit-impaired	100	-	-	596,342	596,342
Gross carrying amount		16,592,264	74,531	596,342	17,263,137
Loss allowance		(204,263)	(2,403)	(388,856)	(595,522)
Carrying amount		**16,388,001**	**72,128**	**207,486**	**16,667,615**

	31 December 2019				
In thousands of naira	**12-month PD ranges**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan and advances to customers at amortised cost					
Grades 1-6: Strong	0-0.59	13,204,090	174,923	-	13,379,013
Grades 7-9: Satisfactory	0.60-11.34	-	269,877	-	269,877
Grade 10: Higher risk	11.35-99.99	-	-	-	-
Grade 11-12: Credit-impaired	100	-	-	629,989	629,989
Gross carrying amount		13,204,090	444,800	629,989	14,278,879
Loss allowance		(151,696)	(4,765)	(345,487)	(501,948)
Carrying amount		**13,052,394**	**440,035**	**284,502**	**13,776,931**

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

NOTES TO THE FINANCIAL STATEMENTS
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The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for the point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:
– a quantitative test based on movement in PD;
– qualitative indicators; and
– a backstop of 30 days past due.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

Corporate exposures

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes;
- data from reference agencies, press articles, changes in external credit ratings;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Retail exposures

- Internally collected data on customer behaviour - e.g. utilisation of credit card and facilities;
- external data from credit reference agencies, including industry-standard credit scores.

All exposures

- payment record - this includes overdue status as well as a range of variables about payment ratios;
- utilisation of the granted limit;
- requests for and granting of forbearance; and
- existing and forecast changes in business, financial and economic conditions.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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

Determination of whether credit risk has increased significantly

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

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

The Bank identifies key drivers behind changes in credit risk for portfolios. Generally, a significant increase in credit risk is assessed based on the estimation of PDs and consideration of qualitative factors, each of which are designed to reflect forward-looking information, on an individual instrument basis as described above. However, if the Bank identifies a key driver that is not considered in the individual assessment on a timely basis, then the Bank will evaluate whether there is reasonable and supportable information that enables it to make an additional assessment on a collective basis with respect to all or some of a portfolio. This may lead to the Bank concluding that a segment or proportion of a portfolio has undergone a significant increase in credit risk.

NOTES TO THE FINANCIAL STATEMENTS
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If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:
- qualitative: e.g. breaches of contract;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward looking information
The determination of expected credit loss includes various assumptions and judgements in respect of forward looking macroeconomic information.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 4(f)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

Measurement of ECL

The Expected Credit Loss (ECL) is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The financial instruments such as loans and deposits disclosed in the statement of financial position are not offset as the Bank does not have any current enforceable obligation to do so.

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(ii) Exposure to credit risk

The Bank's exposure to credit risk is influenced mainly by the characteristics of the counterparties. Management considers the default risk of the industry in which the counterparty operates based on economic factors as this may have an influence on credit risk.

The Bank is exposed to credit risk on its loans and receivables balances due from its customers in the public and private sectors .

The Bank has credit standards, policies and procedures to control and monitor intrinsic and concentration risks through all credit levels of selection, underwriting, administration and control. This include:

• Utilization of the services of portfolio managers whom are educated on the risk appetite of the Bank and thus ensure that all investments are in low risk grade securities.

• Ensuring that all investments entered are of a low to medium duration and thus minimising the risk of default.

• All treasury investments undergo a formal credit analysis process that would ensure the proper appraisal of the facility.

• The consequences for non-compliance with the credit policy and credit indiscipline are communicated to all staff and implemented.

• All conflict of interest situations must be avoided.

(iii) Investment securities designated at FVTOCI

The Bank via its portfolio managers limits its exposure to credit risk by investing only in highly liquid money market instruments with counterparties that have a good credit rating. The portfolio managers actively monitors credit ratings and ensures that the Bank has only made investments in line with the Bank's investment policy as approved by Board which approves investments in equities, placements with local banks and Federal Government Treasury Bills.

(iv) Cash and cash equivalents

The Bank held cash and cash equivalents with maturity profile of less than or equal to 3 months, held with local banks and assessed to have good credit ratings based on the Bank's policy.

(v) Loans and advances to customers

The Bank has classified loans and advances to customers. These are evaluated periodically for impairment in line with its accounting policy as disclosed in note 4(f)(viii). Impairment losses have been recognized in profit or loss and reflected in an allowance account against loans and advances to customers. The total impairment allowance as at 31 December 2020 was approximately₦595 million (31 December 2019: ₦502 million).

(vi) Collateral security

All financial assets held by the Bank are normally unsecured. Our comfort on the Treasury Bills is the issuer's credit rating, which is the Federal Government of Nigeria, while for the loans and advances, we obtain comfort from the fact that the loans are mostly backed by the salary accounts of serving officers domiciled with the Bank. Staff loans are also recovered through salary deductions and staff mortgage loans are secured against the property purchased.

(vii) Write-off policy

The Bank writes off a loan balance when the Bank's Credit Department determines that the loan is uncollectible and had been declared delinquent and subsequently classified as lost. The write-off process is a critical component of the Bank's credit management activities. The policy requires a periodic review and identification of classified loans deemed to be uncollectible with long outstanding balances of principal and interest. The determination is made after considering information such as the continuous deterioration in the customer's financial position, such that the customer can no longer pay the obligation, or that the proceeds from the collateral will not be sufficient to pay back the entire exposure. Board approval is required for such write-off. The loan recovery department continues with its recovery efforts and any loan subsequently recovered is treated as other income.

(viii) Maximum exposure to credit risk

The carrying amount of the Bank's financial assets, which represents the maximum exposure to credit risk at the reporting date was as follows:

In thousands of naira	Note	**31-Dec-20**	**31-Dec-19**
Cash and cash equivalents	16	5,677,888	3,128,104
Pledged assets	17	564,246	467,486
Loans and advances to customers	18	16,667,615	13,776,931
Investment securities at amortised cost	19	955,896	879,630
Other assets (excluding prepayments and inventories)	22	36,368	40,225
		23,902,013	18,292,375

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(vii) Geographical Sectors

The following table breaks down the Bank's main credit exposure at their gross amounts (Loans and advances to customers and deposit with banks) as categorised by geographical region. "Deposit with banks" here represents current account balances with other banks, money market placements and investments in treasury bills. For this table, the Bank has allocated exposures to regions based on the region of domicile of the Bank's counterparties.

	31 December 2020			31 December 2019		
In thousands of naira	Deposit with banks	Loans and advances to customers	Total	Deposit with banks	Loans and advances to customers	Total
South South	942,532	2,208,189	3,150,721	366,030	1,660,311	2,026,341
South West	855,636	5,371,204	6,226,840	710,356	4,789,888	5,500,244
South East	934,435	1,764,141	2,698,576	351,816	1,210,920	1,562,736
North Central	962,175	3,977,552	4,939,727	842,193	3,410,967	4,253,160
North West	999,368	2,636,998	3,636,366	412,728	2,084,586	2,497,314
North East	864,792	1,305,053	2,169,845	343,706	1,122,207	1,465,913
	5,558,938	17,263,137	22,822,075	3,026,829	14,278,879	17,305,708

(viii) Credit Quality

The following table breaks down the Bank's main credit exposure at their gross amounts, as categorised by performance as at 31 December 2020 and 31 December 2019 respectively.

	31 December 2020			31 December 2019		
In thousands of naira	Deposit with banks	Loans and advances to customers	Total	Deposit with banks	Loans and advances to customers	Total
12 months ECL	5,558,938	16,592,264	22,151,202	3,026,829	13,204,090	16,230,919
Lifetime ECL not credit impaired	-	74,531	74,531	-	444,800	444,800
Lifetime ECL credit impaired	-	596,342	596,342	-	629,989	629,989
Gross amount	5,558,938	17,263,137	22,822,075	3,026,829	14,278,879	17,305,708
ECL impairment	(864)	(595,522)	(596,386)	(506)	(501,948)	(502,454)
Carrying amount	5,558,074	16,667,615	22,225,689	3,026,323	13,776,931	16,803,254

(ix) *Credit risk exposure*

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

External rating grade (S&P)

	31 December 2020				31 December 2019			
In thousands of naira	Stage 1	Stage 2	Stage3	Total	Stage 1	Stage 2	Stage3	Total
Cash and cash equivalents								
AAA - A	-	-	-	-	-	-	-	-
BBB - B	5,678,752	-	-	5,678,752	3,128,610	-	-	3,128,610
Below B	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Gross carrying amount	**5,678,752**	**-**	**-**	**5,678,752**	**3,128,610**	**-**	**-**	**3,128,610**
Loss allowance	(864)	-	-	(864)	(506)	-	-	(506)
Carrying amount	**5,677,888**	**-**	**-**	**5,677,888**	**3,128,104**	**-**	**-**	**3,128,104**

	31 December 2020				31 December 2019			
In thousands of naira	Stage 1	Stage 2	Stage3	Total	Stage 1	Stage 2	Stage3	Total
Pledged assets								
AAA - A	-	-	-	-	-	-	-	-
BBB - B	564,938	-	-	564,938	467,559	-	-	467,559
Below B	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Gross carrying amount	564,938	-	-	564,938	467,559	-	-	467,559
Loss allowance	(692)	-	-	(692)	(73)	-	-	(73)
Carrying amount	564,246	-	-	564,246	467,486	-	-	467,486

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	31 December 2020				31 December 2019			
In thousands of naira	Stage 1	Stage 2	Stage3	Total	Stage 1	Stage 2	Stage3	Total
Loans and advances								
AAA - A	-	-	-	-	-	-	-	-
BBB - B	-	-	-	-	-	-	-	-
Below B	-	-	-	-	-	-	-	-
Unrated	16,592,264	74,531	596,342	17,263,137	13,204,090	444,800	629,989	14,278,879
Gross carrying amount	**16,592,264**	**74,531**	**596,342**	**17,263,137**	**13,204,090**	**444,800**	**629,989**	**14,278,879**
Loss allowance	(204,263)	(2,403)	(388,856)	(595,522)	(151,696)	(4,765)	(345,487)	(501,948)
Carrying amount	**16,388,001**	**72,128**	**207,486**	**16,667,615**	**13,052,394**	**440,035**	**284,502**	**13,776,931**

	31 December 2020				31 December 2019			
In thousands of naira	Stage 1	Stage 2	Stage3	Total	Stage 1	Stage 2	Stage3	Total
Investment securities								
AAA - A	-	-	-	-	-	-	-	-
BBB - B	956,069	-	-	956,069	879,768	-	-	879,768
Below B	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-
Gross carrying amount	956,069	-	-	956,069	879,768	-	-	879,768
Loss allowance	(173)	-	-	(173)	(138)	-	-	(138)
Carrying amount	955,896	-	-	955,896	879,630	-	-	879,630

	31 December 2020				31 December 2019			
In thousands of naira	Stage 1	Stage 2	Stage3	Total	Stage 1	Stage 2	Stage3	Total
Other receivables								
AAA - A	-	-	-	-	-	-	-	-
BBB - B	-	-	-	-	-	-	-	-
Below B	-	-	-	-	-	-	-	-
Unrated	-	-	137,206	137,206	-	-	113,348	113,348
Gross carrying amount	-	-	137,206	137,206	-	-	113,348	113,348
Loss allowance	-	-	(100,838)	(100,838)	-	-	(73,124)	(73,124)
Carrying amount	-	-	36,368	36,368	-	-	40,225	40,225

(x) *Loss allowance*

The following tables show reconciliation from the opening to the closing balance of the loss allowance of financial instrument.

In thousands of naira	31 December 2020				31 December 2019			
Cash and cash equivalents	**12-month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**	**12-month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	506	-	-	506	4,561	-	-	4,561
Net measurement on loss allowance (see note 12)	358	-	-	358	(4,055)	-	-	(4,055)
Balance at 31 December	864	-	-	864	506	-	-	506

In thousands of naira	31 December 2020				31 December 2019			
Pledged assets	**12-month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**	**12-month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	73	-	-	73	596	-	-	596
Net measurement on loss allowance (see note 12)	619	-	-	619	(523)	-	-	(523)
Balance at 31 December	692	-	-	692	73	-	-	73

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In thousands of naira **Loan and advances to customers**	31 December 2020				31 December 2019			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**	**12-month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	151,696	4,765	345,487	501,948	153,252	3,785	374,175	531,212
Net measurement on loss allowance (see note 12)	52,567	(2,362)	43,369	93,574	(1,556)	980	(28,688)	(29,264)
Balance at 31 December	204,263	2,403	388,856	595,522	151,696	4,765	345,487	501,948

In thousands of naira **Investment securities at amortised cost**	31 December 2020				31 December 2019			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**	**12-month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	138	-	-	138	-	-	-	-
Net measurement on loss allowance (see note 12)	35	-	-	35	138	-	-	138
Balance at 31 December	173	-	-	173	138	-	-	138

In thousands of naira **Other assets**	31 December 2020				31 December 2019			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**	**12-month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	-	-	73,124	73,124	-	-	158,498	158,498
Net measurement on loss allowance (see note 12)	-	-	27,714	27,714	-	-	(85,374)	(85,374)
Balance at 31 December	-	-	100,838	100,838	-	-	73,124	73,124

(c) Liquidity risk

Liquidity risk is the potential loss arising from the Bank’s inability to meet its obligations as they fall due or to fund increases in assets without incurring unacceptable cost or losses. Liquidity risk is not viewed in isolation, because financial risks are not mutually exclusive and liquidity risk is often triggered by consequences of other Bank's risks such as credit, market and operational risks.

(i) *Liquidity risk management process*

The Bank has a sound and robust liquidity risk management framework that ensures that sufficient liquidity, including a cushion of unencumbered and high quality liquid assets, are maintained at all times to enable the Bank withstand a range of stress events, including those that might involve loss or impairment of funding sources.

The Bank’s liquidity risk exposure is monitored and managed by senior management on a regular basis. This process includes:

- Projecting cash flows and considering the level of liquid assets necessary in relation thereto
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimizing any adverse long-term implications for the business.
- Regular conduct of stress testing, coupled with testing of contingency funding plans from time to time.

The Bank maintains adequate liquid assets sufficient to manage any liquidity stress situation. The liquidity ratio remains one of the best among its peer companies.

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(ii) *Maturity analysis for financial liabilities*

The following are the remaining maturities of financial liabilities at the reporting date. These are the carrying amounts which includes interest payments and exclude the impact of netting agreements.

31 December 2020

In thousands of naira	Note	Carrying amount	Gross nominal outflow	Expected cash flows: Up to 3 months	3 - 6 months	6 months - 1 year	Over 1 year
Non-derivative financial liabilities							
Deposits from customers	23	14,838,805	14,838,805	10,091,047	963,365	3,681,855	102,538
Other liabilities	25	1,432,719	1,449,628	1,386,561	7,655	5,638	49,774
Borrowings	24	2,995,809	3,256,292	1,366,639	329,380	323,506	1,236,767
		19,267,333	19,544,725	12,844,247	1,300,400	4,010,999	1,389,079

31 December 2019

In thousands of naira	Note	Carrying amount	Gross nominal outflow	Expected cash flows: Up to 3 months	3 - 6 months	6 months - 1 year	Over 1 year
Non-derivative financial liabilities							
Deposits from customers	23	11,327,058	11,327,058	10,237,414	644,591	223,589	221,464
Other liabilities	25	624,249	624,249	324,249	300,000	-	-
Borrowings	24	1,965,665	2,162,725	1,276,269	215,618	308,832	362,006
		13,916,972	14,114,032	11,837,932	1,160,209	532,421	583,470

The above analysis is based on the Bank's expected cash flows on the financial liabilities, which do not vary significantly from the contractual cash flows.

As part of the management of its liquidity risk, the Bank holds liquid assets comprising cash and cash equivalents and other financial assets to meet its liquidity requirements.

(iii *Exposure to liquidity risk*

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, 'net liquid assets' includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

Details of the reported ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

In thousands of naira	2020	2019
At 31 December	**45%**	**36%**
Average for the period	**41%**	**42%**
Maximum for the period	**44%**	**56%**
Minimum for the period	**36%**	**30%**

(d) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, and interest rate and equity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

The Bank's portfolio managers assess, monitor, manage and report on market risk taking activities within the Bank. The Bank has continued to develop its market risk management framework. The operations of the fund managers in connection with the management of market risk is guided by the Bank's culture of reducing the risk of losses associated with market risk-taking activities, and optimizing risk-reward trade-off."

The Bank's market risk objectives, policies and processes are aimed at instituting a model that objectively identifies, measures and manages market risks in the Bank and ensure that:

1 The individuals who take or manage risk clearly understand it.
2 The Bank's risk exposure is within established limits.
3 Risk taking decisions are in line with business strategy and objectives set by the Board of Directors.
4 The expected payoffs compensate for the risks taken.
5 Sufficient capital, as a buffer, is available to take risk.

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Our market risks exposures are broadly categorised into:
(i) Trading market risks - These are risks that arise primarily through trading activities and market making activities. These include position taking in fixed income securities (Bonds and Treasury Bills).
(ii) Non trading market risks - These are risks that arise from assets and liabilities that are usually on our books for a longer period of time, but where the intrinsic value is a function of the movement of financial market parameters.

(i) Measurement of market risk
The Bank currently adopts non-VAR (Value At Risk) approach for quantitative measurement and control of market risks in both trading and non trading books. The measurements includes: Duration and Stress Testing. The measured risks using these two methods are monitored against the pre-set limits on a monthly and weekly basis respectively. All exceptions are investigated and reported in line with the Bank's internal policies and guidelines.

Limits are sets to reflect the risk appetite that is approved by the Board of Directors. These limits are reviewed at least annually or at a more frequent intervals. Some of the limits include: Aggregate Control Limits (for Securities); Management Action Trigger (MAT) and Duration.

(ii) Exposure to foreign exchange risk
Foreign Exchange risk is the exposure of the Bank’s financial condition to adverse movements in exchange rates. The Bank can be exposed to foreign exchange risk through any asset, investment and bank balance domiciled in foreign currency.

Currently, the Bank does not have transactions in any other currency except the Bank's reporting currency i.e. Naira. Hence, it is not exposed to foreign exchange risk.

(iii) Exposure to interest rate risk
The Bank is exposed to a considerable level of interest rate risk (i.e. the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates). Similar to the last financial year, interest rate was fairly volatile. These changes could have a negative impact on the net interest income, if not properly managed. This greatly assists it in managing its exposure to interest rate risks.
Sensitivity analyses are carried out from time to time to evaluate the impact of rate changes on the net interest income. The assessed impact has not been significant on the capital or earnings of the Bank.

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

31 December 2020

				Contractual cash flows			
In thousands of naira	**Note**	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Up to 3 months**	**3 - 6 months**	**6 months - 1 year**	**Over 1 year**
Assets							
Cash and cash equivalents	16	5,677,888	5,678,752	5,678,752	-	-	-
Pledged assets	17	564,246	572,753	95,000	172,926	304,827	-
Investment securities	19	955,896	960,743	860,743	100,000	-	-
Loans and advances to customers	18	16,667,615	19,135,315	5,130,086	3,782,000	5,662,126	4,561,103
Other assets	22	36,368	137,206	137,206	-	-	-
		23,902,013	26,484,769	11,901,787	4,054,926	5,966,953	4,561,103
Liabilities							
Deposits from customers	23	14,838,805	14,838,805	10,091,047	963,365	3,681,855	102,538
Other liabilities	25	1,432,719	1,449,628	1,386,561	7,655	5,638	49,774
Borrowings	24	2,995,809	3,256,292	1,366,639	329,380	323,506	1,236,767
		19,267,333	19,544,725	12,844,247	1,300,400	4,010,999	1,389,079
		4,634,680	6,940,044	(942,460)	2,754,526	1,955,954	3,172,024

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31 December 2019

				Contractual cash flows			
In thousands of naira	**Note**	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Up to 3 months**	**3 - 6 months**	**6 months - 1 year**	**Over 1 year**
Assets							
Cash and cash equivalents	16	3,128,610	3,128,610	3,128,610	-	-	-
Pledged assets	17	467,486	467,559	198,469	-	269,090	-
Investment securities	19	879,630	900,000	150,000	-	750,000	-
Loans and advances to customers	18	13,776,931	14,278,879	1,226,982	785,774	2,408,503	9,857,620
Other assets	22	40,225	113,348	113,348	-	-	-
		18,292,881	18,888,396	4,817,409	785,774	3,427,593	9,857,620
Liabilities							
Deposits from customers	23	11,327,058	11,327,058	10,237,414	644,591	223,589	221,464
Other liabilities	25	624,249	624,249	324,249	300,000	-	-
Borrowings	24	1,965,665	2,162,725	1,276,269	215,618	308,832	362,006
		13,916,972	14,114,033	11,837,932	1,160,209	532,421	583,470
		4,375,909	4,774,363	(7,020,523)	(374,435)	2,895,172	9,274,150

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank’s financial assets and liabilities to various standard and non standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (BP) parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

The Bank's sensitivity to an increase or decrease in interest rates by 200 basis points:

	31-Dec-20	**31-Dec-19**
In thousands of naira		
Increase in interest rate by 200 basis points (+2%)	386,777	340,130
Decrease in interest rate by 200 basis point (-2%)	(386,777)	(340,130)

Interest rate movement affects reported income by causing an increase or decrease in net interest income and fair value changes.

Capital management

The strategy for assessing and managing the impact of our business plans on present and future regulatory capital forms an integral part of the Bank’s strategic plan. Specifically, the Bank considers how the present and future capital requirements will be managed and met against projected capital requirements. This is based on the Bank's assessment and against the supervisory/regulatory capital requirements taking account of the Bank business strategy and value creation to all its stakeholders.

In its revised circular dated 7 March 2019, the Central Bank of Nigeria (CBN) raised the minimum capital for national microfinance banks (MFBs) from ₦2 billion to ₦5 billion. The CBN's directive is to take effect from April 2021.
However, the CBN, in consideration of the impact of COVID-19 on the economy, extended the deadline for compliance by one year with its revised circular REF: FPR/DIR/GEN/CIR/07/054 dated 29 April 2020. Consequently, national MFBs are expected to meet minimum capital of ₦3.5 billion capital by April 2021 and ₦5 billion by April 2022.
This requirement has been captured in the Bank's strategic plan and the Bank received additional funds from its two major shareholders for additional shares which will be issued in 2021.

Capital adequacy

The Capital Adequacy Ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base. In accordance with Central Bank of Nigeria regulations, the regulatory capital of a national Microfinance Bank is ₦5 billion, while a minimum ratio of 10% is to be maintained.

(i) The Bank strives to maintain a Capital Adequacy Ratio above the regulatory minimum of 10%. Capital levels are determined either based on internal assessments or regulatory requirements.

(ii) The capital adequacy of the Bank is reviewed regularly to meet regulatory requirements and standard of international best practices in order to adopt and implement the decisions necessary to maintain the capital at a level that ensures the realization of the business plan with a certain safety margin.

(iii) The Bank undertakes a regular monitoring of capital adequacy. The Bank has consistently met and surpassed the minimum capital adequacy requirements applicable in all areas of operations.

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(iv) The Bank's capital plan is linked to its business expansion strategy which anticipates the need for growth and expansion in its branch network and IT infrastructure. The capital plan sufficiently meets regulatory requirements as well as providing adequate cover for the Bank's risk profile. The Bank's capital adequacy remains strong and the capacity to generate and retain reserves continues to grow.

In thousands of naira	**Note**	**31-Dec-20**	**31-Dec-19**
Tier 1 capital			
Ordinary share capital	26	1,143,328	1,143,328
Share premium	27(a)	1,517,485	1,517,485
Retained earnings	27(b)	1,127,458	986,184
Statutory reserves	27(d)	1,424,936	1,348,133
		5,213,207	4,995,130
Less: regulatory deduction			
Intangible assets	21	(47,693)	(33,906)
Eligible Tier 1 capital		5,165,514	4,961,224
Total regulatory capital		5,165,514	4,961,224
Risk-weighted assets		**16,257,128**	**12,824,084**
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets		**32%**	**39%**
Total tier 1 capital as a percentage of total risk-weighted assets		**32%**	**39%**

Computation of Risk Weighted Assets of On-balance Sheet Exposure (2020)

Exposure Details			**Gross Exposure before CRM**	**Credit Risk Mitigation (CRM)**	**Net Exposure after CRM**	**Risk Weight %**	**RWA**
Cash & cash equivalents			5,677,888	-	5,677,888	0	0
Pledged assets			564,246	-	564,246	20	112,849
Regulatory retail portfolio			10,842,251	-	10,842,251	75	8,131,688
Loan & advances to customers			5,825,364	-	5,825,364	100	5,825,364
Investment securities			966,360	-	966,360	100	966,360
Other assets			270,761	-	270,761	100	270,761
Property, plant & equipment			902,412	-	902,412	100	902,412
Intangible assets			47,693	-	47,693	100	47,693
			25,096,975				**16,257,128**

Computation of Risk Weighted Assets of On-balance Sheet Exposure (2019)

Exposure Details			**Gross Exposure before CRM**	**Credit Risk Mitigation (CRM)**	**Net Exposure after CRM**	**Risk Weight %**	**RWA**
Cash & cash equivalents			3,128,104	-	3,128,104	-	-
Pledged assets			467,486	-	467,486	20	93,497
Regulatory retail portfolio			10,842,251	729,301	10,112,949	75	7,584,712
Loan & advances to customers			2,934,680	-	2,934,680	100	2,934,680
Investment securities			893,534	-	893,534	100	893,534
Other assets			386,272	-	386,272	100	386,272
Property, plant & equipment			897,484	-	897,484	100	897,484
Intangible assets			33,906		33,906	100	33,906
			19,583,716				**12,824,084**

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6 Use of estimates and judgments

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 5(b)(i): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

- Notes 4(f)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes:

- Notes 5(b)(i): impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

- Note 32: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources. Accounting policies on contingencies is contained in note 4(q) of the financial statements.

These disclosures supplement the commentary on financial risk management (see note 5).

Key sources of estimation uncertainty

(a) Impairment of financial assets

IFRS 9 impairment requirements are based on an expected credit loss model (ECL), replacing the incurred loss model under IAS 39. Key changes in the Bank's accounting policies for impairment of financial assets are listed below.

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost, FVOCI, loan commitment and financial guarantee contracts. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

(b) Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank's accounting policy on fair value measurement is discussed in Note 4 (f)(vii).

Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- *Level 1* **:** Inputs that are quoted market prices (unadjusted) in active markets for identical

- *Level 2* **:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- *Level 3* :Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses observable market data to determine the fair value of its equity securities. Observable prices or model inputs are usually available in the market for listed debt and equity securities. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities measured at fair value, including their levels in the fair value hierarchy.

In thousands of naira	Note	Level 1	Level 2	Level 3	Total
31 December 2020					
ASSETS					
Investment securities	19	3,389	7,075	-	10,464
		3,389	7,075	-	10,464
31 December 2019					
ASSETS					
Investment securities	19	2,505	11,399	-	13,904
		2,505	11,399	-	13,904

There was no financial instrument measured in Level 3 of the fair value hierarchy, hence there is no table to show a reconciliation from the beginning balance to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

Financial instruments not measured at fair value

The table below sets out the fair value of financial instruments not measured at fair value and analysed by level in the value hierarchy into which each fair value measurement is categorised.

31 December 2020

In thousands of naira	Note	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
ASSETS						
Cash and cash equivalents	16	5,678,752	-	-	5,678,752	5,677,888
Pledged assets	17	476,498	95,000	-	571,498	564,246
Loans and advances to customers	18	-	17,398,214	-	17,398,214	16,667,615
Investment securities at amortised cost	19	99,835	860,127	-	959,962	955,896
Other receivables	22	-	137,206	-	137,206	36,368
		6,255,084	18,490,547	-	24,745,632	23,902,013
LIABILITIES						
Deposits from customers	23	-	14,838,805	-	14,838,805	14,838,805
Other liabilities	25	-	1,432,719	-	1,432,719	1,432,719
Borrowings	24	-	2,995,809	-	2,995,809	2,995,809
		-	19,267,333	-	19,267,333	19,267,333

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31 December 2019

In thousands of naira	Note	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
ASSETS						
Cash and cash equivalents	16	3,128,104	-	-	3,128,104	3,128,104
Pledged assets	17	-	485,553	-	485,553	467,486
Loans and advances to customers	18	-	13,776,931	-	13,776,931	13,776,931
Investment securities at amortised cost	19	881,662	-	-	881,662	879,630
Other receivables	22	-	113,348	-	113,348	40,225
		4,009,766	14,375,832	-	18,385,598	18,292,375
LIABILITIES						
Deposits from customers	23	-	11,327,058	-	11,327,058	11,327,058
Other liabilities	25	-	624,249	-	624,249	624,249
Borrowings	24	-	1,965,665	-	1,965,665	1,965,665
		-	13,916,972	-	13,916,972	13,916,972

Cash and cash equivalents

Cash and cash equivalents are cash deposits in banks and short term deposits (placements) with financial institutions. The cash deposits and placements are deemed to be at fair value due to the limited term to maturity of these instruments.

Other receivables

The carrying amount of trade and other receivable is a reasonable approximation of their fair value, which is not materially sensitive to changes in market rate of return due to limited term to maturity of these instruments.

Loans and advances to customers

Where they are available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cashflow techniques. Input into the valuation techniques includes expected life credit losses, interest rates, prepayment rates and primary origination or secondary market spreads.

Deposits from customers

The fair value of deposits payable on demand is the amount payable at the reporting date.

Other liabilities

Other liabilities consist of amount owed to non-trade related creditors. The carrying amount of other creditors is a reasonable approximation of their fair value, which is payable on demand.

(c) Determination of regulatory risk reserves

Provisions under prudential guidelines are determined using the time based provisioning regime prescribed by the Central Bank of Nigeria's (CBN) Amended Regulatory and Supervisory Guidelines for Microfinance Banks. This is at variance with the expected credit loss model required by IFRS 9. As a result of the differences in the methodology/provision regime, there will be variances in the impairments allowances required under the two methodologies.

Paragraph 12.4 of the revised Prudential Guidelines for Deposit Money Banks in Nigeria stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted. However, Banks would be required to comply with the following:

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

• where Prudential provisions is greater than IFRS provisions: the excess provision resulting should be transferred from the retained reserv account to a non-distributable "regulatory risk reserve".

• where Prudential impairment provisions is less than IFRS provisions: the excess charges resulting should be transferred from the Regulatory Risk Reserve account to the Retained Earnings to the extent of the non-distributable reserve previously recognised.

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

The Bank has complied with the requirements of the guidelines as follows:

Prudential adjustments for the month ended 31 December 2020

In thousands of naira	**Note**	**₦'000**
Impairment assessment under IFRS		
Loan and advances:		
Stage 1	18(c)	204,263
Stage 2	18(c)	2,403
Stage 3	18(c)	388,856
Total impairment allowances on loans (a)		**595,522**
Total impairment allowances (a)		**595,522**
Total regulatory impairment based on prudential guidelines (b)		**870,116**
Required balance in regulatory risk reserves (c = b - a)		**274,594**
Balance, 1 January 2020		**335,586**
Transfer to retained earnings		**(60,992)**
Balance, 31 December 2020		**274,594**

Prudential adjustments for the year ended 31 December 2019

In thousands of naira	**Note**	
Impairment assessment under IFRS		
Loan and advances:		
Stage 1	18(c)	151,696
Stage 2	18(c)	4,765
Stage 3	18(c)	345,487
Total impairment allowances on loans (a)		**501,948**
Total regulatory impairment based on prudential guidelines (b)		**837,534**
Required balance in regulatory risk reserves (c = b - a)		**335,586**
Balance, 1 January 2019		**420,914**
Transfer to retained earnings		**(85,328)**
Balance, 31 December 2019		**335,586**

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7 Financial assets and financial liabilities
Accounting classification measurement basis and fair values
The table below sets out the carrying amounts classification and fair values of the Bank's financial assets and financial liabilities:

31 December 2020

In thousands of naira	Note	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	16	-	-	5,677,888	5,677,888	5,678,752
Pledged assets	17	-	-	564,246	564,246	571,498
Loans and advances to customers	18	-	-	16,667,615	16,667,615	17,398,214
Investment securities	19	-	10,464	955,896	966,360	970,426
Other assets	22	-	-	36,368	36,368	137,206
		-	**10,464**	**23,902,013**	**23,912,477**	**24,756,096**
Deposits from customers	23	-	-	14,838,805	14,838,805	14,838,805
Other liabilities	25	-	-	1,432,719	1,432,719	1,432,719
Borrowings	24	-	-	2,995,809	2,995,809	2,995,809
		-	**-**	**19,267,333**	**19,267,333**	**19,267,333**

31 December 2019

In thousands of naira	Note	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	16	-	-	3,128,104	3,128,104	3,128,104
Pledged assets	17	-	-	467,486	467,486	485,553
Loans and advances to customers	18	-	-	13,776,931	13,776,931	13,776,931
Investment securities	19	-	13,904	879,768	893,672	895,566
Other assets	18	-	-	40,225	40,225	113,348
		-	**13,904**	**18,292,514**	**18,306,417**	**18,399,502**
Deposits from customers	23	-	-	11,327,058	11,327,058	11,327,058
Other liabilities	25	-	-	665,907	665,907	665,907
Borrowings	24	-	-	1,965,665	1,965,665	1,965,665
		-	**-**	**13,958,630**	**13,958,630**	**13,958,630**

Financial instruments at fair value are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial markets pricing models. Wherever possible, these models are used as the basis of observable market prices and rates including, for example, interest rate, yield curves, equities and prices.

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8 Interest income

In thousands of naira	31-Dec-2020	31-Dec-2019
Loans and advances	3,929,940	2,968,598
Treasury bills	27,366	74,531
Call accounts	14,164	87,140
Pledged assets	32,332	39,529
Money market placement	84,394	109,826
Total interest income calculated using the effective interest method	4,088,196	3,279,624

9 Interest expense

In thousands of naira	31-Dec-2020	31-Dec-2019
Term deposits	152,654	251,805
Current deposits	17,706	13,064
Savings deposits	23,155	28,475
Borrowings (see note 24(b))	210,805	84,682
Lease liabilities (see note 25(c))	6,895	5,579
Total interest expense	411,215	383,605

Total interest expense reported above relates to financial liabilities measured at amortised cost using the applicable effective interest rates.

10 Fees and commission income

In thousands of naira	31-Dec-2020	31-Dec-2019
Credit-related fees and commission	395,051	723,826
Deposit-related fees and commission	105,767	132,705
	500,818	856,531

(i) Disagregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of fees.

Loan management fee	148,774	130,387
Loan commitment fee	142,842	381,775
Legal fee	-	123,793
Insurance fee	86,534	70,757
Credit search fee	16,901	17,114
	395,051	723,826
Account administration and maintanance fee	40,536	83,754
Commission on turnover	65,231	48,951
	105,767	132,705
	500,818	856,531

The fee and commission presented above relate to financial assets and liabilities measured at amortised cost. These figures excludes amounts incorporated in determining the effective interest rate on such financial assets and liabilities.

Loan management fee relates to fees for loan processing and fee on overdraft facilities granted to customers.

(ii) Contract Balances

The following table provides information about contract liabilities.

Contract liabilities which are included in 'loans and advances to customers'	(115,523)	(114,826)

The loans and advances with customers run for tenors of between 3months-2years. The loans and overdraft were impaired by ₦596 million (31 December 2019: ₦501 million). The management fees on these facilities are deferred and spread over the tenor of the loan. The amount of revenue recognised for the year ended 31 December 2020 was ₦149 million (31 December 2019: ₦130 million). See note 10(i).

NOTES TO THE FINANCIAL STATEMENTS
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(iii) Performance obligation and revenue recognition policy

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

For the accounting policy for fees and commissions in the scope of IFRS 9, see note 4(b).

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The rates for the different class of accounts are set on an annual basis. Transaction-based fees for interchange and overdrafts are charged to the customer's account when the transaction takes place. Loan servicing fees are charged once when the transaction takes place.	Revenue from deposit related services are recognized overtime as the services are provided. Revenue from credit related services are recognized at a point in time when the transaction takes place.

11 Other income

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Service fees and charges (see (i) below)	63,414	33,346
Income on salary administration (see (ii) below)	224	275,498
Miscellaneous income	789	1,510
Profit on disposal of property and equipment	3,104	1,303
Gain on disposal of treasury bills	1,210	-
Gain on derecognition of lease liability	1,049	-
Dividend income	27	-
	69,817	311,657

(i) Service fees and charges include fees on customer requests such as issuance of letter of indebtedness, charges on issuance of drafts, seals, stamps, reference letters and signature confirmation letters. These are recognized at the point in time when the transaction takes place.

(ii) The bank charged income on the salary accounts of customers for salary administration. This administration charge is of two types; a charge of ₦300 was made on accounts of customers who earned ₦50,000 and below and a ₦500 charge on accounts of customers who earned above ₦50,000. This income was recognized at the point in time when the transaction took place i.e when the salary was paid.

However, this charge has been stopped by the Central Bank of Nigeria (CBN) effective 1 January 2020 in its circular REF: FPR/DIR/GEN/CIR/07/042 dated 20 December 2019.

12 Impairment loss/(write-back) on financial instruments

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Impairment loss/(write-back) on loans and advances to customers (see note 18(c))	93,574	(29,264)
Cash recovery of loans written-off	-	(10,611)
Impairment loss on investment securities at amortised cost (see note 19(c))	35	138
Impairment loss/(write-back) on other assets (see note 22(d))	27,714	(85,374)
Impairment loss/(write-back) on cash and cash equivalent (see note 16(b))	358	(4,055)
Impairment loss/(write-back) on pledged assets (see note 17(b))	619	(523)
	122,300	(129,689)

NOTES TO THE FINANCIAL STATEMENTS
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13 Personnel expenses

In thousands of naira	31-Dec-2020	31-Dec-2019
Wages and salaries	1,912,513	1,753,001
Post-employment benefits:		
Defined contribution plan - pension cost	73,829	65,245
	1,986,342	1,818,246

(a) The average number of persons employed during the year by category:

	31-Dec-2020	31-Dec-2019
Executive Directors	3	3
Management	73	62
Non-management	374	283
	450	348

The number of employees of the Bank, including executive directors, who received emoluments in the following ranges were:

	31-Dec-2020	31-Dec-2019
Less than N500,000	-	4
₦500,001 - ₦1,000,000	17	10
₦1,000,001 - ₦2,500,000	273	206
₦2,500,001 - ₦3,500,000	84	62
₦3,500,001 - ₦4,500,001	31	26
₦4,500,0001 - ₦5,500,000	14	13
₦5,500,001 and above	31	27
	450	**348**

(b) Director's emolument

The remuneration paid to the Directors of the Bank (excluding pension and certain allowances) was:

In thousands of naira	31-Dec-2020	31-Dec-2019
Fees and sitting allowances	111,737	63,080
Other Directors' expenses	45,404	87,707
Total Non-executive Directors' remuneration (see note 14)	157,141	150,787
Executive compensation (see note 28(b)(i))	78,769	84,195
	235,910	234,982

The Directors' remuneration shown above includes:

The Chairman	27,230	21,957
Highest paid Director	33,721	33,721

The number of Directors who received fees and other emoluments (excluding pension contributions and reimbursable expenses) in the following ranges were:

Below ₦1,000,000	-	-
₦1,000,001 - ₦5,000,000	1	1
₦5,000,001 - ₦10,000,000	7	7
₦10,000,001 and above	3	3
	11	**11**

NOTES TO THE FINANCIAL STATEMENTS
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14 Administration and general expenses

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Repairs and maintenance cost	87,011	75,128
Vehicle and generator running cost	85,286	95,292
Office expenses	135,897	123,464
Computer expenses	69,915	95,224
Travel expenses	46,194	67,959
AGM and year-end expenses	66,854	50,133
Directors' remuneration	157,141	150,787
Bank charges	11,117	44,023
Marketing/publicity expenses	123,119	130,864
Professional fees	65,776	39,757
Subscription fees	4,674	6,583
Charges and levies	359	44,596
Insurance cost	41,528	43,713
NDIC premium	32,866	46,103
Rent and rates	4,060	5,507
Auditor's remuneration (includes interim audit fees)	23,000	18,500
Fraud, forgery and theft	753	17,446
Other expenses (see note a)	61,366	83,424
	1,016,916	1,138,503

(a) Other expenses includes the following:

Corporate social responsibility	1,660	614
Donations	860	3,376
Electricity expenses	14,959	13,998
Recruitment expenses	7,412	3,071
Damaged ATM cards	226	108
Loan recovery expenses	2,348	184
Stamp duties	1,579	277
Legal expenses	7,839	12,596
SMS alerts	19,523	17,960
Share listing expenses	-	19
VAT expense	1,725	28,022
Miscellaneous expenses	3,235	3,199
	61,366	83,424

15 Income taxes

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
(a) Amounts recognized in profit or loss		
Current tax expense		
Company income tax	219,725	192,945
Education tax	19,522	18,341
National Information Technology Development Agency (NITDA) levy	8,584	9,980
Nigeria Police Trust Fund (NPTF) levy	31	39
	247,862	221,305
Deferred tax expense		
Charge/(Credit) for the year (see note (c))	4,733	(9,733)
	4,733	(9,733)
Tax expense	252,595	211,572

The Bank believes that its accrual for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax laws and prior experience.

(b) Movement in current tax liabilities

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Balance at 1 January	230,511	87,082
Income tax expense (see note (a) above)	247,862	221,305
Tax paid	(221,266)	(77,876)
Balance at 31 December	257,107	230,511

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(c) Movement in deferred tax balances

31 December 2020

In thousands of naira	Balance at 1 January	Recognized in profit or loss (see (a))	Recognized in OCI	Balance at 31 December
Property and equipment	141,234	3,045	-	**144,279**
ECL impairment on loans and advances	(50,067)	(16,065)	-	**(66,132)**
ECL impairment on other assets	(23,629)	23,076	-	**(553)**
Others	(901)	(5,323)	-	**(6,224)**
Deferred tax liabilities	66,637	4,733	-	**71,370**

31 December 2019

In thousands of naira	Balance at 1 January	Recognized in profit or loss (see (a))	Recognized in OCI	Balance at 31 December
Property and equipment	123,480	17,754	-	**141,234**
ECL impairment on loans and advances	(47,111)	(2,956)	-	**(50,067)**
ECL impairment on other assets	-	(23,629)	-	**(23,629)**
Others	-	(901)	-	**(901)**
Deferred tax liabilities	76,369	(9,732)	-	**66,637**

(d) Reconciliation of effective tax rate

In thousands of naira	31-Dec-2020		31-Dec-2019	
Profit before tax	%	**867,012**	%	**1,007,997**
Tax using the Company's domestic tax rate	30	260,104	30	302,400
Non-deductible expenses	0	645	7	72,592
Tax-exempt items	(4)	(36,291)	(19)	(191,780)
Tertiary Education Tax	2	19,522	2	18,341
NITDA Levy	1	8,584	1	9,980
Nigeria Police Trust Fund (NPTF) levy	0	31	0	39
	29	**252,595**	21	**211,572**

16 Cash and cash equivalents

In thousands of naira	31-Dec-2020	31-Dec-2019
(a) Cash and cash equivalent comprise:		
Cash on hand:		
Cash on hand	119,814	101,781
	119,814	101,781
Deposits with banks:		
Current account balances with other banks	4,439,286	1,178,980
Money market placements	1,119,652	1,847,849
	5,558,938	3,026,829
Cash and cash equivalents for cash flow purposes:	5,678,752	3,128,610
Impairment allowance (see note (b) below)	(864)	(506)
Cash and cash equivalents	5,677,888	3,128,104

(b) Movement in impairment allowance:

Balance at 1 January	506	4,561
Impairment loss/(writeback) (see note 12)	358	(4,055)
	864	506

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash-in-hand, deposits held at call with other banks, other short-term highly liquid investments with original maturities less than three months. The current balances with other banks also includes ATM working capital accounts and the suspense accounts used to manage settlement of ATM transactions with Sterling Bank to be refunded to the Head office by branches. For financial reporting purposes, the balances in the ATM related accounts were combined in order to have a net position.

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17 Pledged assets

Pledged assets, initially recognised at fair value and subsequently measured at amortised cost, represent placements and Treasury Bills with banks that serve as collateral for the Bank's borrowings, use of NIBSS platform and ATM transactions as analysed below:

In thousands of naira			31-Dec-2020	31-Dec-2019
Underlying transaction	***Counterparty***	***Asset description***		
BOI concessionary loan	Sterling Bank Plc	Fixed placement	-	103,469
DBN concessionary loan	Development Bank of Nigeria	Treasury Bills	469,938	269,090
NIBSS Platform	First Bank of Nigeria Plc	Fixed placement	75,000	75,000
ATM Transactions	Sterling Bank Plc	Call placement	20,000	20,000
			564,938	467,559
Impairment allowance (see note (b) below)			(692)	(73)
			564,246	467,486
Current			564,246	467,486
Non-current			-	-
			564,246	**467,486**

(b) Movement in impairment allowance:

Balance at 1 January	73	596
Impairment loss/(writeback) (see note 12)	619	(523)
	692	73

18 Loans and advances to customers

In thousands of naira	31-Dec-2020	31-Dec-2019
(a) Loans and advances to customers comprise:		
Loan and advances to customers at amortised cost	16,667,615	13,776,931
	16,667,615	13,776,931
Current	12,106,512	4,937,172
Non-current	4,561,103	8,839,759
	16,667,615	13,776,931

(b) Loans and advances to customers at amortised cost:

In thousands of naira	31 December 2020 Gross Amount	31 December 2020 ECL Allowance	31 December 2020 Carrying Amount	31 December 2019 Gross Amount	31 December 2019 ECL Allowance	31 December 2019 Carrying Amount
Term loans	16,634,334	(314,079)	16,320,255	13,551,275	(289,171)	13,262,104
Overdrafts	628,803	(281,443)	347,360	727,604	(212,777)	514,827
	17,263,137	(595,522)	16,667,615	14,278,879	(501,948)	13,776,931

(c) Movement in allowances for impairment

In thousands of naira	31 December 2020 12-month ECL	31 December 2020 Lifetime ECL not credit impaired	31 December 2020 Lifetime ECL credit impaired	31 December 2020 Total	31 December 2019 12-month ECL	31 December 2019 Lifetime ECL not credit impaired	31 December 2019 Lifetime ECL credit impaired	31 December 2019 Total
Balance at the beginning of the year	151,696	4,765	345,487	501,948	153,252	3,785	374,175	531,212
Charge/(writeback) during the year (see note 12)	52,567	(2,362)	43,369	93,574	(1,556)	980	(28,688)	(29,264)
Balance at the end of the year	204,263	2,403	388,856	595,522	151,696	4,765	345,487	501,948

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

19 Investment securities
Investment securities comprise:

(a) Investment securities measured at FVTOCI:	**Fair value at 31-Dec-2020**	**Fair value at 31-Dec-2019**
Equity securities:		
Listed equities	3,389	2,505
Unlisted equities	7,075	11,399
	10,464	13,904

The Bank has designated these equity investment securities at FVTOCI. They are held to be disposed off in the nearest future. None of these investments were disposed during the year ended 31 December 2020 (31 December 2019: nil), and there were no transfers of any cumulative gain or loss within equity relating to these investments (31 December 2019: nil). The change in fair value on these investments were as follows:

	31-Dec-2020	**31-Dec-2019**
Balance at beginning of the year		
Listed equities	2,505	3,787
Unlisted equities	11,399	10,489
	13,904	14,276
Balance at end of the year		
Listed equities	3,389	2,505
Unlisted equities	7,075	11,399
	10,464	13,904
Fair value loss	(3,440)	(372)
(b) Investment securities at amortised cost		
Treasury bills	956,069	879,768
ECL impairment	(173)	(138)
	955,896	879,630
Total investment securities	966,360	893,534
Total investment securities for cashflow purpose	966,533	893,672
Current	966,360	893,534
Non-current	-	-
	966,360	893,534
(c) Movement in impairment allowance		
Balance at the begining of the year	138	-
Impairment loss during the year (see note 12)	35	138
Balance at the end of the year	173	138

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

20 Property and Equipment

In thousands of naira

	Buildings	Freehold Land	Right-of-Use Asset	Furniture and Fittings	Motor Vehicles	Computer Equipment	Office Equipment	Total
Cost:								
Balance as at 1 January 2019	280,049	-	-	71,238	423,269	175,627	150,288	1,100,471
Recognition of Right-of-use asset on initial application of IFRS 16	-	-	65,327	-	-	-	-	65,327
Adjusted balance	280,049	-	65,327	71,238	423,269	175,627	150,288	1,165,798
Additions during the year	145,444	-	38,361	29,733	75,752	56,830	53,971	400,091
Reclassification	(6,979)	6,979	-	-	-	-	-	-
Disposals	-	-	-	(74)	-	(274)	-	(348)
Balance at 31 December 2019	418,514	6,979	103,688	100,897	499,021	232,183	204,259	1,565,541
Balance as at 1 January 2020	418,514	6,979	103,688	100,897	499,021	232,183	204,259	1,565,541
Additions during the year	26,845	29,441	20,934	12,977	7,741	108,304	42,510	248,752
Reclassification	(15,698)	15,698	-	-	-	-	-	-
Disposals	-	-	-	(814)	(6,715)	(2,188)	(343)	(10,060)
Balance at 31 December 2020	429,661	52,118	124,622	113,060	500,047	338,299	246,426	1,804,233
Accumulated Depreciation:								
Balance at 1 January 2019	38,829	-	-	38,963	195,447	88,814	80,757	442,810
Charge for the year	6,069	-	21,959	13,690	94,638	57,806	30,201	224,363
Disposals	-	-	-	(74)	-	(274)	-	(348)
Impairment	-	-	-	-	-	-	1,232	1,232
Balance at 31 December 2019	44,898	-	21,959	52,579	290,085	146,346	112,190	668,057
Balance at 1 January 2020	44,898	-	21,959	52,579	290,085	146,346	112,190	668,057
Charge for the year	8,305	-	25,828	15,143	89,708	63,804	36,045	238,833
Disposals	-	-	-	(814)	(1,724)	(2,188)	(343)	(5,069)
Balance at 31 December 2020	53,203	-	47,787	66,908	378,069	207,962	147,892	901,821
Net Book Value: 31 December 2019	373,616	6,979	81,729	48,318	208,936	85,837	92,069	897,484
Net Book Value: 31 December 2020	376,458	52,118	76,835	46,152	121,978	130,337	98,534	902,412

- There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (31 December 2019: Nil).
- There was no impairment loss (31 December 2019: ₦1.2 million) on the office equipment class during the year.
- There were no property and equipment pledged as securities for liabilities (31 December 2019: Nil).
- There were no contractual commitments for the acquisition of property and equipment (31 December 2019: Nil).
- On 1 January 2019, following the adoption of IFRS 16, the Bank recognises right-of-use assets for leases of branch premises and has presented right-of-use assets within ‘property and equipment’ – i.e. the same line item in which it presents underlying assets of the same nature that it owns.

In thousands of naira	31-Dec-2020	31-Dec-2019
Current	-	-
Non-current	902,412	897,484
	902,412	897,484

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

21 Intangible asset

In thousands of naira	31-Dec-2020	31-Dec-2019
Computer software		
Cost:		
Balance at start of the year	38,693	12,285
Addition during the year	30,000	26,408
Balance at end of the year	68,693	38,693
Accumulated Amortisation:		
Balance at start of the year	4,787	-
Charge for the year	16,213	4,787
Balance at end of the year	21,000	4,787
Carrying amount at end of the year	47,693	33,906

- The intangible asset was reclassified from property and equipment.
- All intangible assets are non current. Intangible assets of the Bank have finite useful life and are amortised over 3 years.
- The Bank does not have internally generated intangible assets.

In thousands of naira	31-Dec-2020	31-Dec-2019
Current	-	-
Non-current	47,693	33,906
	47,693	33,906

22 Other assets

In thousands of naira	31-Dec-2020	31-Dec-2019
Other financial assets:		
Other receivables (see note (c) below)	137,206	113,348
Impairment allowance (see note (d) below)	(100,838)	(73,124)
	36,368	40,225
Non financial assets:		
Prepayments (see note (a) below)	121,305	221,334
Inventories (see note (b) below)	113,088	124,714
	234,393	346,048
	270,761	386,272
Current	183,393	198,411
Non-current	87,368	187,861
	270,761	386,272

(a) Prepayments comprise the following:

In thousands of naira	31-Dec-2020	31-Dec-2019
Prepaid insurance	24,465	24,300
Prepaid staff benefits	87,368	187,861
Other prepaid expense	9,472	9,173
	121,305	221,334

(b) Inventories comprise stock of debit cards, stock of credit cards, stock of cheques, books/journals/CDs, stock of office stationeries, stock of micr cheques and non micr cheques, deferred share issue cost.

In thousands of naira	31-Dec-2020	31-Dec-2019
Stock	65,590	57,887
Deferred share issue cost	39,157	36,468
Others	8,341	30,359
	113,088	124,714

(c) Other receivables includes staff cash advances and sundry debtors.

(d) Movement in impairment allowances:

In thousands of naira	31-Dec-2020	31-Dec-2019
Balance at the begining of the year	73,124	158,498
Impairment loss/(writeback) during the year (see note 12)	27,714	(85,374)
Balance at the end of the year	100,838	73,124

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

23 Deposits from customers

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Current deposits	6,560,802	3,718,043
Savings deposits	3,380,640	2,555,400
Term deposits	4,747,757	4,762,339
Sundry deposits	149,606	291,276
	14,838,805	**11,327,058**
Current	14,736,267	11,105,593
Non-current	102,538	221,465
	14,838,805	**11,327,058**

24 Borrowings

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
(a) Borrowings comprise:		
BOI concessionary loan (see note (i) below)	-	47,679
CBN concessionary (see note (ii) below)	1,032,672	1,000,000
DBN concessionary loan (see note (iii) below)	1,916,605	854,531
CBN housing microfinance loan (see note (iv) below)	46,532	63,455
	2,995,809	1,965,665
Current	1,032,672	1,485,521
Non-current	1,963,137	480,144
	2,995,809	1,965,665

(i) The Bank of Industry (BOI) loan was availed the Bank on 10 March 2017. The amount availed was ₦500 million at a rate of 12% per annum for a duration of 3 years. This loan is for on-lending to the Bank's customers. It is for the benefit of small and medium sized enterprises to grow their businesses and to become financially independent. The BOI loan was fully liquidated during the year on 31 March 2020.

(ii) The Central Bank of Nigeria (CBN) Micro Small and Medium sized Enterprises Development Fund (MSMEDF) loan of ₦1 billion was granted to the Bank on 22 December 2017 at a rate of 2% per annum. The loan tenor is 2 years and it is for on-lending to the Bank's customers for the benefit of small and medium sized enterprises to help grow their businesses and become financially independent. The loan matured in December 2019 but the principal was not paid to the CBN. Interest recognition and payment have continued under the initial contractual terms while the loan principal is repayable on demand.

(iii) The Development Bank of Nigeria (DBN) loan of ₦731 million was granted to the Bank on 5 December 2019. The loan is for a duration of 2 years at an interest rate of 13.79% per annum. The loan is for on-lending to micro, small and medium enterprises to grow their businesses.

An additional facility of ₦500 million was granted to the Bank by the Development Bank of Nigeria (DBN) on 28 September 2020 at a rate of 12.79%. The loan tenure is 2 years and is for on-lending to micro, small and medium enterprises.

Another 2-year tenor facility of ₦800 million was obtained on 19 November 2020 from Development Bank of Nigeria at a rate of 12.04% per annum for on-lending to micro, small and medium enterprises to grow their businesses.

The Bank also obtained a facility of ₦400 million from the Development Bank of Nigeria (DBN) on 9 December 2020 at 12.04% interest rate per annum. The loan is for a tenor of 2 years and is for on-lending to micro, small and medium enterprises.

(iv) The Central Bank of Nigeria (CBN) housing microfinance loan of ₦91.74 million was granted to the Bank on 18 May 2018 at an interest rate of 15.99% per annum. The loan tenor is 5 years and it is for on-lending to the Bank's customers to take care of their housing needs.

(b) The movement in borrowings during the year was as follows:

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Balance, beginning of the year	1,965,665	2,078,843
Additions during the year	1,700,000	731,000
Interest accrued during the year (see note 9)	210,805	84,682
Interest paid during the year	(113,643)	(119,116)
Principal repayment during the year	(767,018)	(809,743)
Balance at year end	2,995,809	1,965,665
Total repayment of borrowings (for cashflow purpose)	(880,661)	(928,859)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

25 Other liabilities

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Financial liabilities:		
Accounts payable	5,622	6,932
Productivity bonus (see note (a))	98,643	300,299
Sundry creditors	73,331	126,478
Accruals	168,885	79,410
Settlement accounts (see note (b))	819,543	665
Other payables	213,656	67,504
Unearned income	957	-
Lease liability (see note (c))	52,082	42,961
	1,432,719	624,249
Non-financial liabilities:		
Withholding tax payable	19,581	41,658
	1,452,300	665,907
Current	1,400,218	622,946
Non-current	52,082	42,961
	1,452,300	665,907

(a) This amounts represents provision made at the end of the year for payment of productivity bonus to employees of the Bank. It is linked to the performance of the

(b) These amounts comprise the transactions of the Bank's customers performed through the various e-channels but were yet to be settled as at year end

(c)(i) The movement in lease liabilities during the year is as follows:

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Opening balance	42,961	-
Recognition of lease liabilities on initial application of IFRS 16	-	31,177
	42,961	31,177
Addition to lease liabilities	13,239	6,205
Interest expense on lease liabilities (see note 9)	6,895	5,579
Gain on derecognition of lease liability (see note 11)	(1,049)	-
Interest payment	(1,186)	-
Principal payment	(8,778)	-
	52,082	42,961
Maturity analysis- contractual undiscounted cashflows		
Less than one year	19,217	8,378
Between one and five years	49,774	48,927
More than 5 years	-	6,300
	68,991	42,961

ii Amounts recognised in profit or loss

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Interest expense on lease liabilities (see note 9)	13,239	6,205
Expense relating to short term leases (see note 14)	4,060	5,507

iii Amounts recognised in statement of cashflows

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Total cash outflow for leases	17,659	32,156

iv Extension options

Some property leases contain extension options exerciseable by the Bank up to one year before the end of the non-cancellable contract period. Where applicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exerciseable only by the Bank and not by the lessors. The Bank assesses at the lease commnencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Bank has recognised additional lease liabilities of N13 million with respect to leases in which the Bank is reasonably certain to exercise its extension option.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

26 Share capital

Authorised:		
6,000,000,000 units of ordinary shares of 50 kobo each	**3,000,000**	**3,000,000**
Issued and fully paid:		
2,286,657,766 units of ordinary shares of 50 kobo each	**1,143,328**	**1,143,328**

27 Share premium and reserves

The nature and purpose of the share premium and reserve accounts in equity are as follows:

(a) Share premium

The share premium warehouses the excess paid by shareholders over the nominal value for their shares. Premiums from the issue of shares are reported in share

(b) Retained earnings

Retained earnings comprise the undistributed profits from previous years, which have not been reclassified to the other reserves noted below.

(c) Fair value reserve

Fair value reserve comprise the cumulative net change in the fair value of equity securities designated at fair value through other comprehensive income.

(d) Statutory reserve

The Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.8.1.7 of the Amended Regulatory and Supervisory Guidelines for Microfinance Banks issued by the Central Bank of Nigeria (CBN), an appropriation of 50% of profit after tax is made if the statutory reserve is less than 50% of its paid-up share capital, 25% of profit after tax if the statutory reserve is greater than 50% but less than 100% of its paid-up share capital and 12.5% of profit after tax if the statutory reserve is greater than the paid up share capital.

In line with the CBN requirement, the Bank transferred 12.5% of its profit after tax to statutory reserves as at year-end .

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Balance, begininig of the year	1,348,133	1,248,579
Transfer to statutory reserve during the year	76,803	99,554
Balance at year end	1,424,936	1,348,133

(e) Regulatory risk reserve

The regulatory risk reserve warehouses the excess of the impairment allowance on loans and advances computed based on the Central Bank of Nigeria prudential guidelines over that computed based on the expected credit loss (ECL) model under IFRS. For better presentation, the regulatory risk reserve was reclassified from retained earnings on the statement of changes in equity (see note 6(c)(ii)).

28 Related party transactions

(a) Parent and ultimate controlling party

As at the year ended 31 December 2020, the Nigeria Police Co-operative Society Limited owns the majority of the Banks shares. As a result, the parent and ultimate controlling party of the Bank is the Nigeria Police Co-operative Society Limited. The Bank does not have a subsidiary.

(b) Transactions with key management personnel

Key management personnel is defined as the Bank's executive and non-executive directors, including their close members of family and any entity over which they exercise control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Bank.

(i) Key management compensation for the year comprised:

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Salaries and other short-term benefits (see note 13(b))	78,769	84,195
Retirement benefits	-	3,274
	78,769	**87,469**

(ii) Loans and advances

In addition to their salaries, the Bank also provides non-cash benefits to its executive directors. Loans to key management personnel include housing loans and other personal loans which are given under terms that are no more favourable than those given to other staff. The housing loans are secured by property of the respective borrowers. All other loans are unsecured and interest rates charged on the related parties are at arm's length .

The movement in the loans and receivables to key management personnel during the year was:

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
At start of the year	108,214	115,594
Granted during the year	13,600	19,727
Repayment during the year	(58,185)	(27,107)
At end of the year	63,629	108,214
Impairment	1,388	36,211
Interest earned	1,425	2,162

Loans granted to Late Mr. Jude Ohanehi have been fully liquidated. Other loans granted to key management personnel were performing as at 31 December 2020 (31 December 2019: Performing).

NOTES TO THE FINANCIAL STATEMENTS
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Loans and advances outstanding:
The amounts granted and their balances as at 31 December 2020 were as follows:

In thousands of naira

Name	*Relationship*	*Facility type*	*Amount granted*	*31 Dec. 2020*	*30 Dec. 2019*	*Status*	*Security*
Mr. Akinwunmi Lawal	Managing Director	Housing loan	36,736	19,388	25,511	Performing	Secured
Mr. Akinwunmi Lawal	Managing Director	Personal loan	10,000	4,583	-	Performing	Secured
Mr. Jude Ohanehi	Executive Director	Housing loan	43,013	-	34,649	Liquidated*	Secured
Mr. Jude Ohanehi	Executive Director	Personal loan	2,500	-	1,562	Liquidated*	Secured
Mr. Francis Nelson	Executive Director	Housing loan	42,027	22,181	29,186	Performing	Secured
Mr. Francis Nelson	Executive Director	Personal loan	1,000	167	667	Performing	Secured
Mr. John Tizhe	Executive Director	Housing loan	16,227	13,860	15,889	Performing	Secured
Mr. John Tizhe	Executive Director	Personal loan	3,600	3,450	750	Performing	Secured
			155,103	**63,629**	**108,214**		

** The amount have been fully recovered in the current period.*

(iii) Deposits

(a) The following directors had deposits with the Bank as at year ended:

In thousands of naira

Name	*Relationship*	*Type of deposit*	*31-Dec-2020*	*31-Dec-2019*
Mr Joel Udah	Chairman	Current deposit	644	-
Mr Joel Udah	Chairman	Savings deposit	51	-
Mr Saeed Dantsoho	Non-Executive	Current deposit	6,289	2,935
Mr Saeed Dantsoho	Non-Executive	Term deposit	195,470	501,315
Mr Lawal Akinwunmi	Managing Director	Current deposit	901	968
Mr Lawal Akinwunmi	Managing Director	Savings deposit	1,144	-
Mr Francis Nelson	Executive Director	Current deposit	173	607
Mr Francis Nelson	Executive Director	Savings deposit	329	-
Mr John Kwabe Tizhe	Executive Director	Current deposit	176	-
Mr John Kwabe Tizhe	Executive Director	Savings deposit	137	-
Mr Jibrin G. Gane	Non-Executive	Current deposit	7,348	5,730
Mr Hashimu Argungu	Non-Executive	Current deposit	1,485	326
Mr Abdurahman Satumari	Non-Executive	Current deposit	294	958
Mrs Rakiya Edota Shehu	Non-Executive	Current deposit	2,391	4,710
Mr Isa Usman Baba	Non-Executive	Current deposit	1,137	1,137
Mr Galandachi Dasuki	Non-Executive	Current deposit	-	6,112
Aminu Salei Pai	Non-Executive	Current deposit	8,157	-
			226,126	524,798

(b) Deposits of other related parties

Included in deposits is an amount of ₦125 million (31 December 2019: ₦38 million), representing deposits from major shareholders. The balances as at 31 December were as follows:

In thousands of naira

Name of company/individual	*Relationship*	*Type of deposit*	*31-Dec-2020*	*31-Dec-2019*
NPF Cooperative Society Limited	Major shareholder	Current deposit	32,880	962
NPF Welfare Insurance Scheme	Major shareholder	Current deposit	91,734	37,412
			124,614	**38,374**

(c) Transaction with related parties

The Chairman, Mr. Udah owns the property in Aba leased by the Bank for use as a branch. The property was initially leased to the Bank in 2016 for a 3-year duration, which ended in May 2019, at a cost of ₦5,610,000. The lease agreement was renewed for another 3 years at a cost of ₦5,610,000.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

29 Compliance with banking and other regulations

During the year, the Bank did not pay any penalty (31 December 2019: Nil).

30 Disclosure on Covid-19

(i) Background

On 11 March 2020, the World Health Organization declared the coronavirus (COVID–19) outbreak a pandemic and most governments have taken restrictive measures to contain its further spread by introducing lockdowns, closures of borders and travel restrictions which has affected the free movement of people and goods. The Nigerian Centre for Disease Control (NCDC) has confirmed COVID-19 cases in Nigeria, and this resulted in lock down in certain states. The pandemic has caused a significant reduction in social interactions, disruption in economic activities while some public facilities have been shut down in a bid to reduce the spread of the virus. Even as some of these lockdown measures are eased in Nigeria to allow businesses and other activities resume, many companies are still grappling with the impacts of COVID-19, with different sectors suffering varying degrees of impacts.

Management of the Bank has assessed whether these events or conditions, either individually or collectively, cast significant doubt on the Bank's ability to continue as a going concern or, in severe cases, whether the going concern assumption is still appropriate as a basis for the preparation of the Bank's financial statements.

(ii) Assessment of impact

(a) Impact of COVID-19 on impairment of financial assets

The Bank does not see a significant impairment impact on its financial assets as a result of COVID-19. The Bank's financial assets are predominantly loans and advances to customers which comprise majorly of salary backed credit facilities granted to police officers whose salary accounts are domiciled with the Bank. Consequently, there is no significant deterioration in credit quality of the Bank's financial assets.

The impact of forward-looking information has also been considered in assessing the impact of COVID-19 on impairment of financial assets. These include GDP growth, exchange rate, country rating, bank rating and inflation. Whilst COVID-19 has negatively impacted all the forward-looking information, other variables in the computation ensured that the impact remains minimal.

(b) Impact of COVID-19 on revenue and cost

The Bank's revenue was not significantly affected by the pandemic because the Bank granted more salary backed loans and advances to customers during the year. Operating expenses is being monitored to ensure that they are well within justifiable limits.

(c) Going concern assessment

The Bank will continue to assess the status of the fight against the pandemic and its impact on the Bank's business. However, based on current assessment, the Directors are confident that the going concern status of the Bank will not be threatened and the Bank would be able to continue to operate post COVID-19 and in the foreseeable future.

(d) Outlook

Management is confident that with all the tools put in place to ensure every employee can access the basic information needed to carry out day to day activities, we can continue with business operations uninterrupted. Notwithstanding, since we cannot reasonably estimate the length or severity of this pandemic, Management would continue to assess the material impact on the Bank's financial position, results of operations, and cash flows in fiscal 2021 and would regularly make appropriate disclosures thereon to all stakeholders.

31 Events after the reporting period

There were no subsequent events which could have a material effect on the financial position of the Bank as at 31 December 2020 or the profit for the year then ended on that date, that have not been adequately provided for or disclosed in the financial statements.

32 Contingencies

Litigation and claims

The Bank in its ordinary course of business was involved in 12 cases as at 31 December 2020 (31 December 2019: 12) as a co-defendant. The Directors of the Bank are of the opinion that none of the aforementioned cases is likely to have material adverse effect on the Bank and are not aware of any other pending and/or threatened claims or litigations which may be material to the financial statements. However, the total amount that may be claimed against the Bank is estimated at ₦795 million (31 December 2019: ₦856 million).

NOTES TO THE FINANCIAL STATEMENTS
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33 Earnings per share

The Bank presents basic EPS for its ordinary shares. Basic earnings per share (EPS) is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Basic earnings per share

	31-Dec-2020	31-Dec-2019
Net profit attributable to shareholders (in thousands of naira)	614,417	796,425
Number of shares in issue (in thousands)	2,286,658	2,286,658
Weighted average number of shares in issue (in thousands)	2,286,658	2,286,658
Basic earnings per share (kobo)	27	35

34 Dividend per share

	31-Dec-2020	31-Dec-2019
Dividend proposed	457,332	457,332
Number of shares issued and ranking for dividend	2,286,658	2,286,658
Proposed dividend per share (kobo)	20	20
Final dividend per share proposed	20	20
Dividend paid during the year	457,332	114,333
Total dividend paid during the year	457,332	114,333
Dividend paid per (kobo)	20	5

The Board of Directors, pursuant to the powers vested in it by the provisions of Section 426 of the Companies and Allied Matters Act of Nigeria (CAMA), 2020, has proposed a final dividend of 20 kobo per share (31 December 2019: final; 20 kobo) from the retained earnings account as at 31 December 2020. This is subject to approval by shareholders at the next Annual General Meeting.

The number of shares in issue and ranking for dividend represents the outstanding number of shares as at 31 December 2020 and 31 December 2019 respectively.

Dividends are paid to shareholders net of withholding tax at the rate of 10% in compliance with extant tax laws.

35 Statement of cash flows notes

In thousands of naira	31-Dec-2020	31-Dec-2019
(a)(i) Proceeds from disposal of property and equipment		
Cost of property and equipment disposed during the year (see note 20)	10,060	348
Accumulated depreciation on property and equipment disposed (see note 20)	(5,069)	(348)
Net book value of property and equipment disposed	4,991	-
Profit on sales of property and equipment (see note 11)	3,104	1,303
Proceeds from disposal of property and equipment	8,095	1,303

(ii) Acquisition of PPE

In thousands of naira	31-Dec-2020	31-Dec-2019
PPE additions during the year (see note 20)	248,752	400,091
Less ROU assets additions (see note 20)	(20,934)	(38,361)
	227,818	361,730

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

(b) Changes in pledged asset (see note 17)

In thousands of naira	31-Dec-2020	31-Dec-2019
Balance at the begining of the year	467,559	801,383
Balance at the end of the year	564,938	467,559
	97,379	(333,824)
Interest receivable (see note (h))	(5,899)	(11,343)
	91,480	(345,167)

(c) Loans and advances to customers (see note 18)

In thousands of naira	31-Dec-2020	31-Dec-2019
Balance at beginning of the year	14,278,879	11,124,847
Balance at year end	17,263,137	14,278,879
	2,984,258	3,154,032
Interest receivable (see note (h))	(150,857)	(122,790)
	2,833,401	3,031,242

(d) Changes in other assets (see note 22)

In thousands of naira	31-Dec-2020	31-Dec-2019
Balance at beginning of the year	459,396	460,249
Balance at year end	371,599	459,396
	(87,798)	(853)
Transition adjustment to right of use assets	-	34,150
	(87,798)	33,297

(e) Changes in deposit from customers (see note 23)

In thousands of naira	31-Dec-2020	31-Dec-2019
Balance at beginning of the year	(11,327,058)	(10,465,119)
Balance at year end	(14,838,805)	(11,327,058)
	(3,511,747)	(861,939)
Interest payable (see note (i))	9,750	8,586
	(3,501,997)	(853,353)

(f) Other liabilities (see note 25)

In thousands of naira	31-Dec-2020	31-Dec-2019
Balance at beginning of the year	(665,907)	(243,547)
Balance at year end	(1,452,300)	(665,907)
	(786,393)	(422,360)
Lease liabilities at beginning of the year	(42,961)	-
Lease liabilities at at year end	52,082	42,961
Retirement benefit obligations paid	-	(16,001)
	(777,272)	(395,400)

(g) Investment securities at amortised cost (see note 19)

In thousands of naira	31-Dec-2020	31-Dec-2019
Balance at beginning of the year	893,672	291,081
Movement	72,862	602,591
Balance at year end	966,533	893,672
Explained by:		
Fair value loss	3,440	372
Purchase of treasury bill investments	(1,542,062)	(1,785,455)
Disposal of treasury bill investments	1,494,336	1,257,023
Gain on disposal of treasury bill investments (see not 11)	(1,210)	-
Interest income (see note 8)	(27,366)	(74,531)
	(72,862)	(602,591)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

(h) Interest received

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Interest income (see note 8)	4,088,196	3,279,624
Interest receivable on loans - prior year (see note 35(c))	122,790	3,038
Interest receivable on pledged assets - prior year (see note 35(b))	11,343	2,239
Interest receivable on treasury bills - prior year	5,334	12,031
Interest receivable on loans (see note 35(c))	(150,857)	(122,790)
Interest receivable on pledged assets (see note 35(b))	(5,899)	(11,343)
Interest receivable on treasury bills	(2,004)	(5,334)
Interest received	4,068,903	3,157,465

(i) Interest paid

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Interest expense on liabilities (see note 9)	(411,215)	(383,605)
Interest payable on deposit - prior year (see note 35(e))	(8,586)	(7,422)
Interest payable on borrowings - prior year	(41,090)	(34,633)
Interest payable on deposits (see note 35(e))	9,750	8,586
Interest payable on borrowings	95,653	41,090
Lease interest paid (see note 25(c))	(1,186)	-
Lease interest payable (see note 9)	6,895	5,579
Interest paid	(349,780)	(370,404)

(j) Right of use assets

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Balance at beginning of the year (see note 20)	81,729	-
Recognition of right of use assets on initial application of IFRS 16	-	65,327
	81,729	65,327
Payment for properties leased during the year	7,695	32,156
Lease liabilities (see note 25(c))	13,239	6,205
Depreciation (see note 20)	(25,828)	(21,959)
Balance at year end (see note 20)	76,835	81,729

36 Unclaimed dividends

Unclaimed dividends summed up to ₦117,609,101.23 as at 31 December 2020 (2019: ₦107,978,690.60). This amount is made up of ₦109,584,760.74 (2019: ₦103,193,047.00) invested with Stanbic IBTC Asset Management Limited in fixed income mutual funds and ₦8,024,340.49 (2019: ₦4,785,643.60) in the custody of Cardinal Stone Registrars Limited.

The investment balance of ₦109,584,760.74 (2019: ₦103,193,047.00) is analysed below:

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Net investible balance 1 October - 31 December 2020	109,082	100,830
Net income earned	502	2,363
	109,585	**103,193**

37 Fees for non-audit services

KPMG Professional Services rendered the following non-audit services to the Bank:

Service description

In thousands of naira	**31-Dec-2020**	**31-Dec-2019**
Tax consultancy - Recurring	1,460	1,398
Tax consultancy - VAT	6,341	-
Tax compliance check/tax audit	-	3,990
	7,801	**5,388**

OTHER NATIONAL DISCLOSURES

OTHER NATIONAL DISCLOSURES:
VALUE ADDED STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	31-Dec-2020		31-Dec-2019	
	₦'000	%	₦'000	%
Gross earnings	4,658,831		4,447,812	
Net impairment (loss)/writeback on financial instruments	(122,300)		129,689	
	4,536,531		4,577,501	
Bought-in-materials and services - local	(1,016,916)		(1,138,503)	
Value added	**3,519,615**	**100**	**3,438,998**	**100**
Distribution of value added:				
To employees				
- As salaries and other benefits	1,986,342	57	1,818,246	53
To providers of finance				
- As interests	411,215	12	383,605	11
To the Government				
- As taxes	252,595	7	211,572	6
Retained in the business				
- Asset replacement (depreciation and amortisation)	255,046	7	229,150	7
- Profit to augment reserves	614,417	17	796,425	23
Value added	**3,519,615**	**100**	**3,438,998**	**100**

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

OTHER NATIONAL DISCLOSURES:
FINANCIAL SUMMARY AS AT

In thousands of naira	Note	31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016
STATEMENT OF FINANCIAL POSITION						
ASSETS						
Cash and cash equivalents	16	5,677,888	3,128,104	4,940,352	5,752,469	1,889,881
Pledged assets	17	564,246	467,486	800,787	409,674	581,425
Loans and advances to customers	18	16,667,615	13,776,931	10,593,635	9,008,675	9,095,801
Investment securities	19	966,360	893,534	291,081	16,681	37,574
Property and equipment	20	902,412	897,484	657,661	591,964	499,646
Intangible asset	21	47,693	33,906	12,285	-	-
Other assets	22	270,761	386,272	301,751	172,878	257,545
TOTAL ASSETS		**25,096,975**	**19,583,717**	**17,597,552**	**15,952,341**	**12,361,872**
LIABILITIES						
Deposits from customers	23	14,838,805	11,327,058	10,465,119	9,126,494	6,792,391
Borrowings	24	2,995,809	1,965,665	2,078,843	1,550,468	349,249
Current tax liabilities	15(b)	257,107	230,511	87,082	146,270	199,571
Deferred tax liabilities	15(c)	71,370	66,637	76,370	61,569	19,910
Other liabilities	25	1,452,300	665,907	243,547	315,251	537,353
TOTAL LIABILITIES		**19,615,391**	**14,255,778**	**12,950,961**	**11,200,052**	**7,898,474**
CAPITAL AND RESERVES						
Share capital	26	1,143,328	1,143,328	1,143,328	1,143,328	1,143,328
Share premium	27(a)	1,517,485	1,517,485	1,517,485	1,517,485	1,517,485
Retained earnings	27(b)	1,127,458	986,184	318,690	728,276	506,963
Fair value reserve	27(c)	(6,217)	(2,777)	(2,405)	-	-
Statutory reserve	26(d)	1,424,936	1,348,133	1,248,579	1,124,110	1,145,124
Regulatory risk reserve	26(e)	274,594	335,586	420,914	139,090	150,498
TOTAL EQUITY		**5,481,584**	**5,327,939**	**4,646,591**	**4,652,289**	**4,463,398**
TOTAL LIABILITIES AND EQUITY		**25,096,975**	**19,583,717**	**17,597,552**	**15,852,341**	**12,361,872**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016
Gross income		4,658,831	4,447,812	3,950,377	3,654,875	2,925,229
Profit before taxation		867,012	1,007,997	287,155	819,819	803,440
Profit after taxation		614,417	796,425	195,749	631,890	554,903
Dividend	34	457,332	114,333	388,732	342,999	342,998
Basic and diluted earnings per share (kobo)	33	27	35	9	28	24
Dividend per share (kobo)	34	20	5	17	15	15
Net assets per share (kobo)		240	233	203	203	195