



HASAL Microfinance Bank Limited

Annual Financial Statements

For The Year Ended 31 December 2017



AN INDEPENDENT MEMBER FIRM OF PRIMEGLOBAL

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• Audit • Tax • Consulting • Financial Advisory

HASAL MICROFINANCE BANK LIMITED

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HASAL MICROFINANCE BANK LIMITED

CORPORATE INFORMATION

DIRECTORS, PROFESSIONAL ADVISERS, ETC.

DIRECTORS:

Prince Olorungbemiga Tihamiyu	Chairman
Prof (Mrs) Ndi Okereke- Onyike OON	Non Executive Director
Mrs. Juliana Ngozi Achunine	Non Executive Director
Mr . Dagogo Emman Iyeimo	Non Executive Director
Mr. Henry Imoh Akpan	Non Executive Director
Mr. Rogers Augustine . I. Nwoke	Managing Director / CEO

LEGAL ADVISER:

Ajunwa & Co.
Suite 2, 1st Floor
Plot 516, Sultan Abubakar Way
Zone 2, Wuse
Abuja, Nigeria.

BUSINESS OFFICE:

Plot 1652, Ahmadu Bello Way
Garki District
PMB 740
Abuja, Nigeria.

AUDITOR:

Adenusi & Co.
(Chartered Accountants)
2nd Floor, Wing B City Plaza,
7, Rukuba Close,
Off Ahmadu Bello Way, Garki, Abuja

BANKERS:

Access Bank Plc
Diamond Bank Plc
Ecobank Plc
Fidelity Bank Plc
FCMB Plc
Skye Bank Plc
Sterling Bank Plc
First Bank Plc
Stanbic IBTC

HASAL MICROFINANCE BANK LIMITED

REPORT OF THE DIRECTORS

The directors have the pleasure in submitting their Opening Financial Statements for the period ended 31 December, 2017 along with the Report of the Auditors thereon.

Legal Form

The bank was incorporated in Nigeria as a Limited Liability Company on 17 September 2003, under the name of Ril -Gwari Community Bank Limited.

- a) The name of the bank was change to HASAL Microfinance Bank Limited by Special resolution on 13 May 2008.
- b) The following subscribers of Ril-Gwari Community Bank Limited relinquished their shareholding to the new shareholders:
 - i. Creative Financial Consultants Limited - 12,500,000
 - ii. Rogoyce Investments Limited - 12,500,000
- c) The shares of the Bank were – allotted as follows:
 - i. Prof (Mrs) Ndi Okereke - Onyiuke - 7,500,000
 - ii. Aya Okereke - 2,500,000
 - iii. Augustine Rogers Nwoke - 3,750,000
 - iv. Joyce Rogers-Nwoke - 2,500,000
 - v. Micheal Rogers-Nwoke - 1,250,000
 - vi. Dagogo- Iyeimo - 5,000,000
 - vii. Abinye Iyeimo - 2,500,000
- d) The changes were subsequently filed with Corporate Affairs Commission on 21 August 2008.
- e) At the Board of Directors meeting held 24 December 2008 the authorized share capital of the Bank was increased to N275m by the creation of additional 250m ordinary shares at a nominal value of N1 each. The increase was filed with Corporate Affairs Commission on 9 January 2009.
- f) At the Board of Directors meeting held 28 March 2010, the authorized share capital of the Bank was increased to N500m by the creation of additional 225m ordinary shares at a nominal value of N1 each. The increase was filed with Corporate Affairs Commission on 21 April 2010.
- g) At the Board of Directors meeting held 8 October 2014, the authorized share capital of the Bank was increased to N1billion by the creation of additional 500m ordinary shares at a nominal value of N1 each. The increase was filed at the Corporate Affairs Commission on 16 October 2014.

Principal Activities

The principal activities of the Bank was Microfinance Banking services

1. DIRECTORS

1. The names of the present Directors are listed on pages ii.
2. In accordance with article 33 of the bank's articles of association, the bank can by ordinary resolution remove a director and appoint another person in his stead.

1 DIRECTORS' INTEREST

The interest of the directors in the issued share capital of the bank as recorded in the register of Directors shareholding as at 31 December, 2017 are as follows:

Prince Olorungbemiga Tiya miyu	14,366,667
Prof. Ndi Okereke-Onyiuke	52,500,000
Juliana Ngozi Achuinine	13,666,667
Dagogo Emman Iyeimo	18,690,000
Rogers Augustine Nwoke	149,000,000

2 SHAREHOLDINGS STRUCTURE

The shareholders' interests in the issued share capital of the bank as recorded in the register of the bank as at 31 December, 2017 are as follows:

Names of Shareholders	Total Shares	%age Holding	Proposed Dividend (N'000)
Rogers Augustine Nwoke	149,000,000.00	23.23	"
Rogoyce Investment Limited	60,000,000.00	9.35	"
Prof. Ndi Okereke- Onyiuke	52,500,000.00	8.18	"
Aya Ndi Okereke	52,500,000.00	8.18	"
Creative Financial Consultant Ltd.	52,500,000.00	8.18	"
Hybrid Properties Ltd	52,500,000.00	8.18	"
Mining Systems Ltd	52,500,000.00	8.18	"
Dadavine Oil & Gas	44,000,000.00	6.86	"
Dagogo Emman Iyeimo	18,690,000.00	2.91	"
Prince Olorungbemiga Tiya miyu	14,366,667.00	2.24	"
N. D. I Systems Ltd	14,000,000.00	2.18	"
Juliana Ngozi Achuinine	13,666,667.00	2.13	"
HASAL Staff Multipurpose Cooperative Society	12,900,000.00	2.01	"
Rear Admiral Festus Porbeni	8,000,000.00	1.25	"
Tobechukwu Oreh	7,875,000.00	1.23	"
Keneolisa Ore	7,875,000.00	1.23	"
Agbai Eke Agbai	7,000,000.00	1.09	"
HASAL Shareholders Cooperative	6,150,333.00	0.96	"
Tifab Limited	6,133,333.00	0.95	"
Joyce Rogers – Nwoke	5,075,000.00	0.79	"
Michael Rogers-Nwoke	3,237,500.00	0.50	"
Abinyo Iyeimo	1,050,000.00	0.16	"
Total	641,519,167.00	100	

HASAL MICROFINANCE BANK LIMITED

4. ANALYSIS OF SHAREHOLDING

Range	Number of Shareholders	Number of Shares held	%
1-2,000,000	1	1,050,000	0.16
2,000,001 - 7,000,000	5	27,595,833	4.30
7,000,001 -9,000,000	3	23,750,000	3.71
9,000,001 - 18,000,000	4	54,933,334	8.56
18,000,001 – 50,000,000	2	62,690,000	9.77
50,000,001 – 100,000,000	6	322,500,000	50.25
100,000,001 – 150,000,000	<u>1</u>	<u>149,000,000</u>	<u>23.23</u>
	22	641,519,167	100

5. DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs of the Bank as at the end of each financial year and of the profit or loss for that year which should comply with the provisions of the Companies and Allied Matters Act, CAP C20LFN 2004 and Banks and Other Financial Institution Act, CAP B3 LFN 2004. In doing so, they ensure that:

- Adequate internal control procedures are instituted to safeguard the assets, prevent and detect frauds and other irregularities;
- Proper accounting records are maintained.
- Applicable accounting standards are adhered to;
- Judgment and estimates made are reasonable and prudent;

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

HASAL MICROFINANCE BANK LIMITED

6. Board and Management

As at 31 December 2017 the HASAL Board of Directors is made up of seasoned professionals in banking, corporate finance, oil & gas, capital market and commerce.

The Board is a six man board comprised of Chairman, the Managing Director and four Non-Executive Directors.

i. Prince Olorungbemiga Tiyamiyu;
Chairman

Olorungbemiga holds an MBA from the Research Institute for Management, Delft Netherlands with over 35-year career in the Nigerian Civil Service before retirement. His career achievement led to various appointments in the Civil Service Commission final before retirement being Director (Organisation Support) of the Economic & Financial Crimes Commission (EFCC).

Olorungbemiga is an avid golfer and a member of the prestigious IBB Golf Club Abuja.

ii. Prof. Mrs. Ndi Okereke-Onyiuke (OON)
Non-Executive Director

Prof has over thirty five years Capital Market experience, working in the Capital Market from the New York stock exchange to the Nigerian Stock exchange where she rose to the position of the Director General.

She is a world acclaimed financial expert who has distinguished herself in her field of Endeavor. She belongs to many Professional Institutions including Chartered Institute of Stockbrokers (Fellow), African Stock Exchange Association (ASEA), World Federation of Exchanges (WFE) to mention but a few.

iii. Mrs. Juliana Ngozi Achunine;
Non-Executive Director

Over 31 years working experience as Civil Servant with the Federal Civil Service where she started from the Ministry of Finance and spent 21 years there, to office of the Head of Service of the federation as Assistant Director, to Federal Ministry of Health as Deputy Director, to the Federal Ministry of Aviation as Deputy Director where she retired in 2010.

Her academic background is in Public Administration from Michigan State University USA.

HASAL MICROFINANCE BANK LIMITED

- iv. **Mr. Dagogo Emman Iyeimo;**
Non- Executive Director

Dagogo holds an MSC in Economics from University of Manchester, United Kingdom and a professional Accountant and Chartered Stockbroker. His experience spans over the Nigerian Capital Market where he commenced his career from and now has his own Stock Broking firm. His competencies centre around Asset & Fund Management, Corporate Finance, stock broking and dealings amongst others.

He is an avid chess and tennis player.

- v. **Mr. Henry Imoh Akpan;**
Non-Executive Director

Henry has over 9 years working experience covering business development, human resources, and training and in the Financial Sector. He holds a Bachelor of Engineering Degree from Federal University of Minna, a Certified Project Manager and Certified Economist.

- vi. **Mr. Rogers Augustine .I. Nwoke;**
Managing Director/Chief Executive Officer

Rogers holds an MBA from Warwick Business School, University of Warwick, England where his research interest focused on Microfinance and Entrepreneurship Development. This led to birth of HASAL Microfinance Bank Limited where he is the Chief Executive Officer.

He is an Alumnus of Harvard Business School Accion Program in Strategic Leadership for Microfinance. He is also a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN), an Honorary Senior Member (HCIB) of the Chartered Institute of Bankers of Nigeria.

His wealth of experience span over 2 decades in the Nigeria Finance Industry. He is an International Certified Expert on Microfinance (iCME) and International Certified Expert in SME, Finance (iCSME) from the Frankfurt School of Finance and Management, Germany.

HASAL MICROFINANCE BANK LIMITED

7. DONATION

The Bank made donation and gifts in form of Corporate Social Responsibility of ₦14.8million during the year

8. FIXED ASSETS

Movements in fixed assets during the year are shown in the notes to the account. In the opinion of the Directors, the market values of the bank's properties are not less than the value shown in the financial statements.

9. EMPLOYMENT AND EMPLOYEES

1. Employment of Disabled persons:

Applications for employment by disabled persons received full and fair consideration having regards to the aptitude and ability of each applicant. The Bank had two disabled persons in her employment as at 31 December 2017.

2. Health, Safety at work and Welfare of Employees:

Health and safety regulations are in force within the premises of the bank. The bank provides subsidy to all levels of employees towards transportation, housing, lunch and medical expenses.

3. Employees' Involvement and Training:

The bank provides training for its employees through both internal and external courses.

10. INTERNAL CONTROL AUDIT

The Internal Control and Audit Department of the bank carries out audit of the bank. This audit exercise covers all operational areas of the branches and the outcome is discussed with the Management for timely intervention on identify lapses. It is important to note that this exercise is distinct from the daily operations audit carries out by the respective internal controls within the branches.

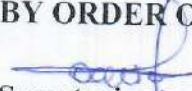
11. POST BALANCE SHEET EVENTS

There were no significant post balance sheet events, which could have had a material effect on the state of affairs of the bank as at 31 December 2017 which have not been adequately provided for or disclosed in the financial statements.

12. AUDITORS

In accordance with section 357(2) of the companies and Allied Matters Act CAP C20 LFN 2004, Adenusi & Co. (Chartered Accountants) has indicated their willingness to continue in office. A resolution will be proposed authorizing the Directors to determine their remuneration.

BY ORDER OF THE BOARD


Secretaries to the Board

11 June 2018

Abuja, Nigeria

**REPORTS OF THE AUDITORS TO THE MEMBERS OF HASAL MICROFINANCE BANK LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2017**

We have audited the accompanying financial statements of **HASAL MICROFINANCE BANK LIMITED** Which comprise the financial position as at 31 December 2017 and statement of comprehensive income, and statement of cash flows for the year then ended and a summary of significant accounting policies set out in pages 7 to 17 and other explanatory notes set out on pages 18 to 44 for the year ended 31 December 2017, prepared under the historical cost convention and going concern basis in line with International Financial Reporting Standards (IFRS).

Respective Responsibilities of Directors and Auditors

In accordance with the provisions of section 334 and 335 of the Companies and Allied matters Act, 1990, the Company's Directors are responsible for the preparation of the financial statements which give a true and fair view of the State of Affairs of the Company and of the comprehensive income for the financial year. These include ensuring that:-

- Adequate internal control procedures are instituted to safe guard the Bank's Assets as well as preventing and detect fraud and other irregularities.
- Proper accounting records are kept
- Sustaining accounting policies are used and consistently applied in line with accounting standard
- The financial statements are prepared on a going concern basis, unless it is presume that the Bank will not continue in business.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on test basis, of evidence relevant to the amount and disclosures in the financial statement. It also includes an assessment of the significant estimate and judgments made by the directors in the preparation of the financial statement and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statement are free from material misstatement, whether caused by fraud, error or other irregularity. In forming our opinion, we also evaluate the overall adequacy of the presentation of information in the financial statement, and assessed whether the company's books of account had been properly kept.

Opinion

In our opinion, the Assets have been properly valued and adequate provision have been made for depreciation in the value thereof, the Bank's books have been properly kept, the bank have not contravened the bank and other financial institution Acts (BOFIA) or any other regulatory guidelines. The financial statements which are in agreement with the book of accounts, give a true and fair view of the state of affairs of the Bank for the year ended 31 December, 2017, of its profit for the year ended, and comply with the relevant statements of accounting standard published to date by the Nigeria Accounting Standards Board, the Company's and Allied Matter Act, 1990, Bank and other financial institution Acts (BOFIA), Nigeria Deposit Insurance Act 1988 and relevant Central Bank of Nigeria circulars.


Contraventions

The bank did not contravened any section of the banks and other financial institution Acts during the year.

The financial statements which are in agreement with the book of accounts, give a true and fair view of the state of affairs of the Bank for the year ended 31 December 2017

Other reporting responsibilities

The Bank has complied with the relevant statements of accounting standard published the Nigeria Accounting Standards Board, the Company's and Allied Matter Act, 1990, Bank and other financial institution Acts (BOFIA), Nigeria Deposit Insurance Act 1988 and relevant Central Bank of Nigeria Circulars.


Ahmed Tunde Adenusi FCA, FRC/2013/ICAN/00000001986
For: Adenusi & Co. (Chartered Accountants)

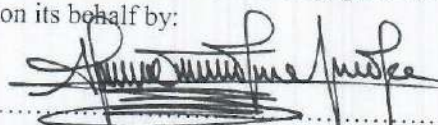
Abuja, Nigeria
19 June 2018

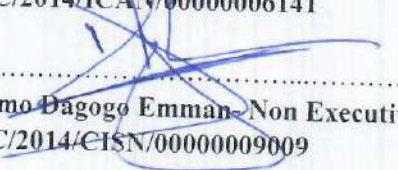


HASAL MICROFINANCE BANK LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December, 2017	31 December, 2016
		N'000	N'000
Interest income	5	1,477,552	1,355,454
Interest expense	6	(513,741)	(437,322)
Net interest income		963,811	918,132
Impairment charge for Other known losses	18.1	(38,425)	
Impairment charge for credit losses	7	(369,496)	(144,567)
Net interest income after impairment charge for losses		555,890	773,565
Fee and commission income	8	154,862	245,271
Staff expenses	9	(339,628)	(348,251)
Depreciation and amortisation	10	(35,777)	(36,112)
Other operating expenses	11	(322,246)	(338,835)
Profit/(Loss) before tax		13,101	295,638
Information Technology Development Levy	12b	(131)	(2,956)
Income tax expense	12	(278)	(2,112)
Deferred tax -Asset / (Liability)	12	-	11,718
Profit/ (Loss) for the year		<u>12,692</u>	<u>302,287</u>
Other Comprehensive Income			
Exchange Rate Revaluation Gain		28,627	-
Revaluation Surplus	19	79,893	-
		<u>108,521</u>	<u>-</u>
Profit for the year attributable to:			
Owners of the parent		121,213	302,287
Total comprehensive income for the year		<u>121,213</u>	<u>302,287</u>
Total comprehensive income for the year attributable to the Owners of the Company		<u>121,213</u>	<u>302,287</u>
Earnings per share for profit attributable to owners of the parent			
Basic and diluted earnings per share (kobo)	13	<u>2</u>	<u>51</u>

The notes on pages 7 to 43 are an integral part of these financial statements
The financial statements on pages 3 to 6 were approved by the Board of Directors on 11 June, 2018 and signed on its behalf by:


.....
Nwoke Rogers Augustine - Managing Director / CEO
FRC/2014/ICAN/00000006141


.....
Iyeimo Dagogo Emman - Non Executive Director
FRC/2014/CISN/00000009009

HASAL MICROFINANCE BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31 December, 2017 <u>N'000</u>	31 December, 2016 <u>N'000</u>
Assets			
Cash and balances with banks	14	170,715	121,146
Financial assets held to maturity	15	200,000	195,809
Loans and advances to banks	16	420,271	870,124
Loans and advances to customers	17	4,441,335	4,131,562
Other assets and prepayments	18	201,686	119,007
Property and equipment	19	437,444	382,620
Intangible assets	20	13,022	18,595
Deferred tax - Asset	22	11,718	11,718
Total assets		<u>5,896,192</u>	<u>5,850,582</u>
Liabilities			
Deposits from customers	21	2,534,196	2,796,085
Current income tax Liability	12	278	2,112
Deferred income tax liability	22	-	-
Other liabilities	23	255,107	379,245
Borrowings	24	928,509	929,675
Total liabilities		<u>3,718,090</u>	<u>4,107,117</u>
Equity			
Share capital	25	641,519	594,186
Share premium	25a	180,650	112,983
Statutory reserve	26	516,503	513,330
Regulatory risk reserve		109,298	-
Revaluation Reserve		108,521	-
Retained earnings	SOCE	621,611	522,964
Total equity	SOCE	<u>2,178,102</u>	<u>1,743,464</u>
Total equity and liabilities		<u>5,896,192</u>	<u>5,850,582</u>

The notes on pages 7 to 43 are an integral part of these financial statements

HASAL MICROFINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital N'000	Share Premium N'000	Regulatory Risk Reserve N'000	Statutory Reserve N'000	Revaluation Reserve	Retained Earnings N'000	Total N'000
Balance at 1 January 2017	594,186	112,983	-	513,330	-	522,964	1,743,463
Other Comprehensive income					108,521		108,521
Profit/(Loss) for the period						12,692	12,692
Total comprehensive income							
Transaction with owners							
Issue of shares	47,333	67,667					115,000
Bonus issue							
Unpaid Dividend written back						89,128	89,128
Transfer to regulatory reserve			109,298				109,298
Transfer to statutory reserve				3,173		(3,173)	
Total transaction with owners							
At 31 December 2017	641,519	180,650	109,298	516,503	108,521	621,611	2,178,102

The notes on pages 7 to 43 are an integral part of these financial statements

HASAL MICROFINANCE BANK LIMITED
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December, 2017 N'000	31 December, 2016 N'000
Cash flows from operating activities			
Interest received	31	(1,467,465)	(1,554,004)
Interest paid		1,477,552	1,355,454
Income tax paid		(513,741)	(437,322)
Net cashflows from operating activities		<u>(2,112)</u>	<u>(3,530)</u>
		<u>(505,766)</u>	<u>(639,402)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,246)	(24,638)
Purchase of intangible assets		-	(3,195)
Proceed from sale of property and equipment		86	727
Net cash used in investing activities		<u>(4,160)</u>	<u>(27,105)</u>
Cash flows from financing activities			
Net inflow from issue of shares		115,000	59,350
Other payments		0	(83,993)
Net Loan /loan repayment		<u>(53,220)</u>	<u>519,834</u>
Net cash (used in)/generated from financing		<u>61,780</u>	<u>495,191</u>
Increase in cash and cash equivalents		(448,146)	(171,316)
Cash and cash equivalents at start of year		1,146,078	1,317,394
Cash and cash equivalents at end of year		<u>697,932</u>	<u>1,146,078</u>
Cash and cash equivalents comprise:			
Cash balances	14	170,715	121,146
Loans and advances to banks	16	420,271	870,124
Treasury bills	15	200,000	195,809
Borrowings	24	<u>(93,054)</u>	<u>(41,000)</u>
		<u>697,932</u>	<u>1,146,078</u>

The notes on pages 7 to 43 are an integral part of these financial statements

1. General information

HASAL Microfinance Bank Limited was incorporated in Nigeria as a Limited Liability Company on 17th September 2003, under the name of Ril -Gwari Community Bank Limited. The name of the bank was changed to HASAL Microfinance Bank Limited by special resolution on 13th May 2008.

The principal activity of the bank is the provision of microfinance banking services such as savings, loans and other financial services.

The address of its registered office and principal place of business is Plot 1652, Ahmadu Bello Way Garki District, Abuja Nigeria.

The financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 11 June 2018.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by national regulations is included where appropriate.

These are the second annual financial statements of the microfinance bank prepared in accordance with IFRS and IFRS

The impact of the transition to IFRS on the company's reported financial position, financial performance and cash flows, including nature and effect of significant changes in accounting policies is disclosed.

The financial statements are presented in Naira, which is the microfinance bank's functional and presentation currency. The figures shown in the financial statements are stated in thousands.

The disclosures on risks arising from financial instruments are presented in the financial risk management report contained in Note 7&17.2

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted

The following standards have been adopted by the microfinance bank for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the microfinance bank:

IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Microfinance bank's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The impact of this amendment is a change in the presentation of the Statement of profit or loss and other comprehensive income.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these annual financial statements. None of these is expected to have a significant effect on the financial statements of the microfinance bank.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the Statement of profit or loss and other comprehensive income, unless this creates an accounting mismatch.

Amendments to IAS 32, Offsetting financial assets and financial liabilities, this clarifies the requirements to the offset of financial assets and financial liabilities. Specifically, the amendments clarifies the meaning of 'currently has a legal enforceable right of set - off' and simultaneous realization and settlement'.

The directors of the microfinance bank do not anticipate that the application of these amendments to IAS 32 will have a significant impact on its financial statements as the microfinance bank does not have any financial assets and financial liabilities that qualify for offset.

2.2 Financial assets and liabilities

The microfinance bank initially recognizes financial instruments on the date at which they are originated. All financial instruments are initially recognized on the trade date at which the microfinance bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for financial instruments not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

2.2.1 Financial assets

The microfinance bank's financial assets were classed into the following IAS 39 categories: loans and receivables and held-to-maturity.

Management determines the classification of its financial instruments at initial recognition depending on the nature and purpose of financial assets and management intentions

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

i) those that the microfinance bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

ii) Those that the microfinance bank upon initial recognition designates as available for sale; or

iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan and receivable including any transaction costs – and measured subsequently at amortized cost using the effective interest rate method. Interest on loans and receivables are included in the profit or loss and reported as 'interest income'.

The microfinance bank's financial assets classified as loans and receivables are cash balances, loans and advances to banks, loans and advances to customers and other assets.

(b) Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the microfinance bank's management has the positive intention and ability to hold to maturity, other than:

- i) those that the microfinance bank upon initial recognition designates as at fair value through profit or loss;
- ii) those that the microfinance bank designates as available for sale; and
- iii) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Interest on held to maturity financial assets are included in the profit or loss and reported as 'interest income'.

The microfinance bank's held to maturity investments are treasury bills at the reporting dates presented.

2.2.2 Financial liabilities

The microfinance bank's holding in financial liabilities are those subsequently carried at amortised cost.

(a) Other financial liabilities

Other financial liabilities that are not classified as at fair value through profit or loss, fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from customers and other liabilities. Interest on 'other financial liabilities' are included in the profit or loss and reported as 'interest expense'.

2.2.3 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the microfinance bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.2.4 Reclassification of financial assets

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

The microfinance bank may reclassify a financial instrument when its intentions and the characteristics of the financial instrument changes.

2.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.4 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, Nigeria Stock Exchange).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the measurement dates.

The carrying amounts of the financial assets classified as loans and receivables approximate their fair values.

2.5 Impairment of financial assets

The microfinance bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the microfinance bank uses to determine that there is objective evidence of an impairment loss include existence of the following circumstances:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level;
- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets although the decrease cannot yet be identified with the individual financial assets in the portfolio, including: adverse changes in the payment status of borrowers in the portfolio; and national or local economic conditions that correlate with defaults on the assets in the portfolio.

The microfinance bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the microfinance bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Impairment charges relating to loans and advances to banks and customers are classified in "impairment charges for credit losses". The impairment charge for other assets is included in other operating expenses

2.6 Collateral

The microfinance bank obtains collateral where appropriate, from customers to manage their credit risk exposure to the customer. The collateral normally takes the form of a lien over the customer's assets and gives the company a claim on these assets for both existing and future customer in the event that the customer defaults.

Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Collateral received in other form is not recorded on the statement of financial position. These items are assigned to deposits received from bank or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

2.7 Revenue recognition

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the microfinance bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimated cash flows on financial assets are subsequently revised, other than impairment losses, the carrying amount of the financial assets is adjusted to reflect actual and revised estimated cash flows.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Fees and commission income

Unless included in the effective interest calculation, fees and commissions are recognized on an accruals basis as the service is provided. Fees and commissions not integral to effective interest rate are loan application fees, commission on turnover and other income.

2.8 Cash flow statement

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from operating assets and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid is classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the indirect method. The microfinance bank's assignment of the cash flows to operating, investing and financing category depends on the microfinance bank's business model (management approach).

For the purposes of the cash flow statement, cash and cash equivalents include cash balances, treasury bills and loans and advances to banks.

2.9

Leases

(a) Leases are divided into finance leases and operating leases. The

(i) microfinance bank is the lessee

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance lease

Leases of assets where the company has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b)

(i) The microfinance bank is the lesser
Operating lease

When assets are subject to an operating lease, the assets continue to be recognized as property and equipment based on the nature of the asset. Lease income is recognized on a straight line basis.

(ii)

Finance lease

When assets are held subject to a finance lease, the related asset is derecognized and the present value of the lease payments (discounted at the interest rate implicit in the lease) is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

2.10

Property and equipment

All property and equipment used by the microfinance bank is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the microfinance bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, using the following annual rates:

Building	2%
Furniture and fittings	25%
Motor vehicle	25%
Plant and machinery	25%
Communication and office equipment	33%

Land is not depreciated. The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment charges are recognized in the profit or loss under other operating expenses.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the profit or loss.

2.11 Intangible assets

Computer software

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the microfinance bank, are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis over 3 years and are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when the carrying amount exceeds its recoverable amount.

2.12 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Additionally, intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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.

2.13 Income taxation

(a) Current income tax

Income tax is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity (for example, current tax on equity instruments for which the entity has elected to present gains and losses in other comprehensive income).

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The principal temporary differences arise from depreciation of property, plant and equipment provisions for pensions and other post-retirement benefits and carry-forwards. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The tax effects of carry-forwards of unused losses, unused tax credits and other deferred tax assets are recognised when it is probable that future taxable profit will be available against which these losses and other temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each statement of financial position date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the microfinance bank and it is probable that the difference will not reverse in the foreseeable future. The microfinance bank has no investments in subsidiaries or associates.

Deferred tax related to fair value re-measurement of equity instruments, which are recognised in other comprehensive income, is also recognised in the other comprehensive income and subsequently in the profit or loss together with the deferred gain or loss. The microfinance bank had no equity investments at the reporting date.

2.14 Employee benefits

(a) Defined contribution scheme

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The microfinance bank pays contributions to publicly or privately administered pension insurance plans on a contractual basis. The microfinance bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Amounts outstanding as at year end are included in the retirement benefit obligation balance on the statement of financial position.

2.15 Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the microfinance 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.

(c) Retained earnings

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

Statutory reserve

The central bank of Nigeria requires all microfinance banks to make an annual appropriation to a statutory reserve. As stipulated in Section 18.1.7 of the revised regulatory and supervisory guidelines for Microfinance banks in Nigeria

- An appropriation of 50% of profit after tax is made if the statutory reserve is less than the paid-up share capital,
- 25% of profit after tax if the reserve is 50% or more and
- 12.5% of profit after tax if the statutory reserve is greater than the paid-up share capital

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(d) Regulatory risk reserve

The company determines its loan loss provisions based on the requirements of IFRS. The difference between the loan loss provision as determined under IFRS and the provision as determined under Nigerian Prudential guideline (as prescribed by the Central Bank of Nigeria) is recorded in this reserve. This reserve is non distributable.

Classification		Provision Requirement	Basis
Performing		1%	Interest / Principal not due
Pass and Watch		5%	Interest / Principal over due by 1 day but less than 30 days
Substandard		20%	Interest / Principal over due by 31 days but less than 60 days
Doubtful		50%	Interest / Principal over due by 61 days but less than 90 days
Lost		100%	Interest / Principal over due by 91 days and above

The results of the application of Prudential Guidelines and the impairment determined for these assets under IAS 39 are compared. The IAS 39 determined impairment charge is always included in the profit or loss in all cases.

Where the Prudential Guidelines provision for loans and advances balances is greater, the difference is appropriated from retained earnings and included in a non-distributable reserve "Regulatory Risk Reserve" (RRR).

Where the IFRS computed impairment is greater and there is no credit balance in the RRR, no appropriation is made and the IFRS computed amount is recognized in the profit or loss. Where there is a credit balance in the RRR, a transfer is made to the retained earnings to the extent of the difference between IFRS impairments and NGAAP provision figures.

3 Critical accounting estimates and judgements

The Microfinance bank's IFRS financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of these IFRS financial statements. The microfinance bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the microfinance bank's results and financial situation due to their materiality.

(a) Impairment charges on financial assets

The microfinance bank reviews its loan portfolios for impairment on an ongoing basis. The microfinance bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and for collectively for financial assets that are not individually significant together with significant assets assessed individually as not impaired. Impairment provisions are also recognized for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The use of historical loss experience is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the statement of financial position date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the microfinance bank's impairment charge on financial assets are set out in the financial risk management section.

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4 Financial risk management

HASAL Microfinance Bank Limited defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors. The microfinance bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the microfinance bank's financial performance.

Risk management is carried out by the microfinance bank's Finance department under policies approved by the Board of Directors. The microfinance bank's Finance department provides central oversight of risk management across the microfinance bank to ensure that risk are mitigated. The risks arising from financial instruments to which the microfinance bank is exposed are financial risks, which includes credit risk, liquidity risk and market risk.

4.1 Classification of financial assets and liabilities

The microfinance bank's financial instruments are classified as stated below:

	Held to Maturity N'000	Loans and Other receivables N'000	financial Liabilities N'000
31 December, 2017			
Financial assets			
Cash and bank balances	170,715		
Financial assets held to maturity	200,000		
Loans and advances to banks		420,271	
Loans and advances to customers		4,897,685	
Other assets		201,686	
Financial liabilities			
Deposits from customers			2,534,196
Other liabilities			255,107
	370,715	5,519,642	2,789,304

	Held to Maturity N'000	Loans and Other receivables N'000	financial Liabilities N'000
31 December, 2016			
Financial assets			
Cash and bank balances	121,146		
Financial assets held to maturity	195,809		
Loans and advances to banks		870,124	
Loans and advances to customers		4,260,048	
Other assets		119,007	
Financial liabilities			
Deposits from customers			2,796,085
Other liabilities			379,245
	316,954	5,130,172	3,175,330

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31 December, 2015

Financial assets

Cash balances

Financial assets held to maturity

Loans and advances to banks

Loans and advances to customers

Other assets

Financial liabilities

Deposits from customers

Other liabilities

	Held to Maturity N'000	Loans and Other receivables N'000	financial Liabilities N'000
Cash balances	224,910		
Financial assets held to maturity		220,000	
Loans and advances to banks		953,485	
Loans and advances to customers		2,931,466	
Other assets			
Deposits from customers			2,602,768
Other liabilities			249,257
	224,910	4,104,951	2,852,025

4.2 Credit risk

4.2.1 Management of credit risk

Credit Risk is the risk that the microfinance bank will not be able to recover funds and suffer losses because another party is unable or unwilling to meet contractual obligations to the microfinance bank when due. The principal banking activities that create exposure to credit risk include loans and advances to banks, loans and advances to customers.

The following principles guide credit risk management across the microfinance bank:

Generally, the microfinance banks runs a end-to-end credit risk management process flow for its loans and advances to customers.

The Relationship officer generate new loan customers and carries out the initial risk assessment.

Afterwards, the branch Credit Committee meets, deliberates and make individual and collective recommendations. The completed credit request document is forwarded to management credit committee for approval.

The Bank's risk philosophy on risk limit control (Single Obligor is 5% of SHF for group and 1% for individuals), the Bank is focused on maximizing business opportunities while minimizing adverse risk. Out comes, thereby enhancing shareholder value by effectively balancing risk and reward.

The principles that guide the management of our risks across the enterprise are:

- 1 **Effective balancing of risk and reward** by aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive and detective controls.
- 2 **Shared responsibility for risk management** as business segments are responsible for active management of their risks, with direction and oversight provided by the Management, and other corporate support unit.
- 3 **Business decisions that are based on an understanding of risk** as we perform rigorous assessment of risk in relationships, products, transactions and other business activities.
- 4 **Avoid activities that are not consistent with our values, Code of Conduct or Policies**, which contributes to the protection of our reputation.

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- 5 **Proper focus on clients reduces our risks**, by knowing our clients and ensuring that the services we provide are suitable for and understood by our clients.

Risks Appetite

Risk Appetite Statement defines the amount and type of risk the Bank is willing to accept in the pursuit of its strategic objectives, while recognizing a range of possible outcomes a business plans are implemented. In arriving at the risk appetite, the enterprise risk framework which is approved by the Board / Management combines a top-down view of its capacity to take risk with a bottom-up view of the business risk profile requested and recommended by each business area.

Risk Governance and Structure

Our overall risk governance structure shown below illustrates the roles and responsibilities of the various stakeholders in our enterprise risk management program. Our risk governance structure is reviewed regularly against industry best practices and regulatory guidelines.

Risk Management Framework

A part of the oversight function of the Board of Directors, is the development of the Risk Management Framework. This framework provides guidelines for the Bank's risk identification, measurement, monitoring and reporting. The Board achieves this through its Board Risks Management Committee which is assisted by the Management Risk Committee.

The day to day execution of the framework is a function of the Enterprise Risk Management (ERM), under policies that are approved by the Board of Directors. The ERM of the Bank identifies, evaluates and hedges financial risks in close co-operation with the Bank's strategies business units.

The Board Risk committee, Board Audit Committee and the Board Credit Committee assisted by Management Committees, provide written principles for overall risk management as well as written policies covering specific areas. These include interest rate risk, credit risk and liquidity risks. In addition, the Bank audit committees, assisted by the internal audit department, have an oversight role in ensuring that appropriate risk management processes are in place and that these processes are adequate and effective. The department is responsible for the independent review of risk management functions and the control environment.

Risk management policies and systems are reviewed periodically and at least once in a year upon Board approval to reflect changes in markets, products and market practice.

Risk Identification

Early identification of risks is fundamental to the risk management process within the Bank. We are deliberate in proactively identifying risks inherent in our products, processes,

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activities and new markets. This is in addition to the periodic review of risk profile of existing products, processes and activities. To expedite identification of potential risks, the Bank considers events as they relate Credit, Operations, Market, Liquidity, Legal, Compliance and Strategic Risks. The process is achieved through:

- Ø Approved processes and templates for documenting identified risks
- Ø A strategic framework for the assessment of risks associated with new ventures (markets and products)
- Ø Periodic review of existing products
- Ø Defined Key Risk Indicators
- Ø Periodic risk and control self-assessment exercise

Risk Measurement

The Bank's ability to measure risks is a key component to its enterprise-wide risk management process. Certain measurement methods are common to a number of risk types, while others may only apply to a single risk type. While quantitative risk measurement is important, we also place reliance on qualitative factors. Our measurement models and techniques are continually subjected to independent assessment for appropriateness and reliability. For those risk types that are difficult to quantify, we place greater emphasis on qualitative risks factors and assessment of activities to gauge the overall level of risk in order to determine if it is within our risk appetite, or not.

Expected Loss

Statistically, expected loss represents losses that are expected to occur in the normal course of business in a given period of time.

Unexpected Loss and Economic Capital

Unexpected loss is a statistical estimate of amount by which actual losses can exceed losses over a specified time horizon, measured at a specified level of confidence. On an enterprise-wide basis, our estimate of the unexpected loss associated with our business determines our economic capital.

Sensitivity Analysis and Stress Testing

Sensitivity analysis and stress testing are risk measurements techniques that help us ensure the risks we take remain within our risk appetite and that our level of capital remains adequate. Sensitivity analysis involves varying a single factor (e.g a model input or specific assumptions) to assess the impact on various risk measures.

Stress testing generally involves consideration of the simultaneous movements in a number of risk factors. It is used to measures the level of potential unexpected losses for Credit, Market Operational and Liquidity Risks.

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Under potential adverse conditions, stress testing plays an important role in supporting overall capital management and adequacy assessment processes. Our enterprise-wide stress testing program utilizes stress scenarios featuring a range of severities based on unlikely but possible adverse market and economic events. These common stress scenarios are evaluated across the organization, and integrated to develop an enterprise-wide view of the impacts on our financial results and requirements. This program uses macro-economic projections and applies them as stress impacts on the organization viz-a-viz the various risk types.

Operational Risk

People Risk

This is the risk arising from failure of employees or employer, conflict of interest or other internal fraudulent behavior.

Impact on Business

Human actions (accidental or deliberate) can put the business at risk notwithstanding flawless processes and technology. This could lead to financial loss, as well as reputational damage, hence, not being able to meet or exceed stakeholders' expectations.

Mitigation measures

- § Zero tolerance of staff non-integrity issues and fraud.
- § Effective background checks and thorough confirmation process on new hires.
- § A disciplinary committee that deals with and resolves employees' issues.
- § Meeting training and development needs to staff.
- § Proper segregation of duties.

Technology Risk

This is the risk of failing to implement or develop, as well as operate, the Bank's technology platforms

Impact on Business

This could manifest in defective hardware or software, failures in other technology such as networks or telecommunications, breaches in IT security, or lack of support from the manufacturers.

Mitigation measures

- § Regular IT audit and control.

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- § Comprehensive service level agreements with service providers.

External Risk

This is the risk arising from fraud or litigation by parties external to the firm, as well as lack of physical security for the institution and its representatives.

Impact on Business

This could lead to poor service, reputational damage and financial loss to the Bank.

Mitigation measures

- § Enforcing sanctions for breach of contracts.
§ Strict adherence to the Bank's outsourcing policy.

Market Risk and Liquidity Risk

The Bank's market risk management process allows discipline risk taking within a framework of well-defined risk appetite that enables the Bank to enhance shareholder value while maintaining competitive advantage through effective utilization of risk capital.

Liquidity risk is the risk that the Bank does not have financial resources to meet its obligations as they fall due, or will have to meet the obligations at an excessive cost. The objectives of the Bank's liquidity risk management is to ensure that all anticipated funding commitments can be met when due and that access to funding sources is coordinated and cost effective.

Impact on Business

This could result in significant financial loss from reduction in net interest income and impairment of interest rate-related instruments. In addition, there is an insolvency and eventual reputational risk that could unfold.

Mitigation Measures

Market Risk

- Ensuring the implementation of market risk and the board policies including credit limits.
- Monitoring and provision of relevant information and data on liquidity, pricing and interest rates to the MD/CEO.

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Continual elevation of risk appetite, communicated through risk limits and overall effectiveness of the market management process. The bank does not undertake any risk that cannot be managed, or risks that are not fully understood especially for few products.

Where the bank takes on any risk, full consideration is given to regulatory pronouncements guidelines or policies. The risk taken must be adequately compensated by the anticipated reward.

Liquidity Risk

Adherence to liquidity risk tolerance appropriate for the microfinance business and in line with the central Bank's Microfinance Policy guidelines.

Alignment of the business undertaken with resultant liquidity risk exposure in performance management and in product approval process.

Sound processes for identifying, measuring, monitoring and controlling liquidity risk, including projections for cash flows arising from assets, liabilities and off-balance sheet items over an appropriate period of time.

Clear funding strategy providing effective diversification in the sources and tenor of funding.

Ranking and prioritizing funding sources by stability.

Early warning indicators to aid prompt identification of liquidity risk such as concentrations in either assets or liquidities, and deterioration in quality of credit portfolio.

Proper and effective portfolio management. The banks' liquidity ratio as at year end was 2 :1

Compliance Risk

Compliance risk is the risk to earnings, capital or reputation occurring from violations or non-

Impact on business

This could result in significant financial loss, impairment of shareholders' funds and/or outright

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Mitigation Measures

To ensure effective management of compliance risk, the bank:

- Develops worksheets, forms and checklists to assist the staff, as they perform their jobs, in complying with laws, regulations and rules;
- Creates an extensive profile of laws, regulations and guidelines with the company must comply, i.e., the rule book;
- Analyses the impact of new and amended legal and regulatory requirements, and implements such requirements;
- Tracks changes to federal and state laws and regulation, and disseminates relevant information across the company; and
- Takes prompt and appropriate action to compliance problems that are identified through self-assessments, internal or external compliance audits.

Information security

This is the risk of confidentiality, integrity and availability of bank's information assets.

Impact on business

Information assets are critical to HASAL Micro Finance bank's operation and the confidentiality, integrity and availability of these assets are crucial to the effective and efficient

Mitigation Measures

- Development of a risk assessment methodology that enables the bank to carry out risk assessment of its information assets.
- Documenting and standardizing the processes with the bank while building appropriate controls into these processes.

Legal risk

Our ability to identify, mitigate and manage the legal risks in our activities and business transactions continues to improve.

Impact on business

Increased costs, loss of revenue, abuse and/or intellectual property, distraction, negative brand equity, strained relationships with customers, employees, service providers, investors,

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Mitigation Measures

This is done through consistent application of professional standards, transparency and fairness. Transacting, bespoke documentation and clarity in documentation and agreements are some of the measures taken to prevent possible conflicts, while engaging external counsel with proven competence in the prosecution of the bank's claims against third parties and in the conduct of the bank's defense, and exploring alternative dispute resolution mechanisms, among others.

4.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements

The microfinance bank's maximum exposure to credit risk at 31 December 2017 and 31 December 2016 respectively, is represented by the net carrying amounts of its financial assets in the statement of financial position

4.2.3 Credit concentrations

The microfinance bank monitors concentrations of credit risk by sector and by geographical location. An analysis of concentrations of credit risk at 31 December 2017 and 31 December 2016 respectively, is set out below:

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Concentration of risks of financial assets with credit risk exposure

a) Industry sector

The following table breaks down the company's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors;

	Retail and Trade	Financial Services	Public sector	Other sectors
	N'000	N'000	N'000	N'000
31 December, 2017				
Financial assets				
Cash and balances with banks	-	170,715	-	-
Financial assets held to maturity	-	200,000	-	-
Loans and advances to banks	-	420,271	-	-
Loans and advances to customers	4,897,685	-	-	-
	4,897,685	790,986		

	Retail and Trade	Financial Services	Public sector	Other sectors
	N'000	N'000	N'000	N'000
31 December, 2016				
Financial assets				
Cash and balances with banks	-	121,146	-	-
Financial assets held to maturity	-	195,809	-	-
Loans and advances to banks	-	870,124	-	-
Loans and advances to customers	4,260,048	-	-	-
	4,260,048	1,187,079		

(b) Geographical sectors

The geographical concentration risk of the microfinance bank's for its financial assets carried at amortised cost is Abuja. The counterparties are majorly based in the Abuja part of Nigeria as the microfinance bank is licensed to operate in Abuja area only.

4.2.4 Loans and advances

The credit quality of Loans and advances to customers is summarised as follows:

	31-December, 2017	31-December, 2016	31-December, 2015
	N'000	N'000	N'000
Loans and advances to customers	4,897,685	4,260,048	3,019,114
Individual & Collectively impaired	4,897,685	4,260,048	3,019,114
Carrying Amount			

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Impairment allowance:

	31 December, 2017		
	N'000	N'000	N'000
	Specific	Collective	Total
At Start of the period	118,867	25,700	144,567
Interest in Suspense	24,127		24,127
Charge for the year	350,907	18,589	369,496
Impairment allowance	493,902	44,289	538,190
Adjustment to Impairment allowance	24,335	3,122	27,457
At End of the period	518,237	47,411	565,647

Adjustment to impairment allowance was the amount charged to productivity bonus.

Impairment allowance:

	31 December, 2016		
	N'000	N'000	N'000
	Specific	Collective	Total
At Start of the period	84,885	22,347	107,232
Charge for the year	33,982	3,353	37,335
At End of the period	118,867	25,700	144,567

Loans and advances to customers: neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired are assessed by reference to the customer's ability to pay based on loss experience. They are not rated based on any formal internal rating system.

Loans and advances to customers: collectively and individually impaired loans

Loans and advances to customers: collectively impaired

	31 December, 2017	31 December, 2016
	N'000	N'000
Gross amount	4,897,685	4,260,048
Collective impairment	(47,411)	(25,700)
Net amount	4,850,274	4,234,348

These are impaired loans which are assessed based on shared risk characteristics of the loans. They are assessed for impairment on a collective basis.

Loans and advances to customers: individually impaired

	31 December, 2017	31 December, 2016
	N'000	N'000
Gross amount	4,897,685	4,260,048
Specific impairment	(518,237)	(118,867)
Net amount	4,379,448	4,141,180

Credit quality of cash and cash equivalents

The credit quality of cash and cash equivalents that were neither past due nor impaired can be assessed by reference to rating agency designation as at 31 December 2017, 31 December 2016 and 31 December, 2015.

The Microfinance Bank only maintains cash and cash equivalents with banks and financial institutions in Nigeria with strong financial ratings (Augusto Rating). The rating of the banks and other financial institutions are reviewed by management on a periodic basis.

31 December, 2017

	Cash balances	Treasury bills	Balances and placements with bank	Other assets
	N'000	N'000	N'000	N'000
AAA	170,715	200,000	420,271	
AA+				
Unrated				201,686

31 December, 2016

	Cash balances	Treasury bills	Balances and placements with bank	Other assets
	N'000	N'000	N'000	N'000
AAA	121,146	195,809	674,315	
AA+				
Unrated				119,007

31 December, 2015

	Cash balances	Treasury bills	Balances and placements with bank	Other assets
	N'000	N'000	N'000	N'000
AAA	224,910	220,000	953,485	
AA+				93,965
Unrated				

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4.3 Liquidity risk

Liquidity risk is the risk that the microfinance bank will not be able to meet its maturing financial obligations as they fall due. The nature of banking activities requires the microfinance bank to maintain adequate liquid assets to meet maturing deposit obligations.

The overall objective of the microfinance bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure safe and sound banking operations. In managing liquidity risk, the management of the microfinance bank, which bears overall responsibility for liquidity risk, ensures that adequate funds are invested to match maturing deposit liabilities.

4.3.2 Liquidity gap analysis

The table below analyses the microfinance bank's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the measurement date to the contractual maturity date.

31 December, 2017	Carrying amount N'000	0 - 30 days N'000	31 - 180 days N'000	181-365 days N'000
Financial assets				
Cash and balances with banks	170,715	170,715		
Financial assets held to maturity	200,000	200,000		
Loans and advances to banks	420,271	420,271		
Loans and advances to customers	4,897,685	275,893	3,113,072	1,508,720
Other assets	201,686	201,686		
Total financial assets	5,890,357	1,268,565	3,113,072	1,508,720
Financial liabilities				
Deposits from customers	2,534,196	819,556	1,613,048	101,593
Other liabilities	255,107	255,107		
Total financial liabilities	2,789,304	1,074,663	1,613,048	101,593
Gap (assets - liabilities)	3,101,053	193,901	1,500,024	1,407,127
31 December, 2016				
Financial assets				
Cash and balances with banks	121,146	121,146		
Financial assets held to maturity	195,809	195,809		
Loans and advances to banks	870,124	870,124		
Loans and advances to customers	4,260,048	75,241	3,112,128	1,072,679
Other assets	119,007	119,007		
Total financial assets	5,449,399	1,264,592	3,112,128	1,072,679
Financial liabilities				
Deposits from customers	2,602,768	1,444,123	1,101,384	57,261
Other liabilities	249,257	249,257		
Total financial liabilities	2,852,025	1,693,380	1,101,384	57,261
Gap (assets - liabilities)	2,597,374	-428,788	2,010,744	1,015,418

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4.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates will have adversely affects the profitability and value of the microfinance bank. The microfinance bank's objective of managing market risk is directed towards effective monitoring of price sensitive financial instruments. The microfinance bank also ensures a good mix of its investments in financial assets and financial liabilities so as to maximize net income on such investment. Market risk arises from loans and advances to banks and customers treasury bills and deposits from customers activities of the microfinance bank.

The microfinance bank exposure to market risk is in interest rate risk.

The microfinance bank is not significantly exposed to foreign exchange risks as it does not trade in foreign currencies and as most of its operations are denominated in the Nigerian Naira. It is also not significantly exposed to other price risks because of the nature of its investment portfolio.

4.4.1 Measurement of market risk

The microfinance bank's major measurement technique used to measure and control market risk is outlined below.

Sensitivity analyses

The interest rate risk sensitivity analysis reflects the expected financial impact from a percentage change in interest rate currency risk exposure. This analysis assumes that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The microfinance bank manages its interest rate risk on a net basis.

The table below shows the impact on the microfinance bank's profit before tax if interest rates had increased or decreased by 10 percent, with all other variables held constant.

	Impact on pre-tax profit		
	31-Dec 2017 N'000	31-Dec 2016 N'000	31-Dec 2015 N'000
10% increase in interest rate	186,180	135,545	217
10% decrease in interest rate	(186,180)	(135,545)	(217)

4.5 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

The following table summarizes the carrying amounts of financial assets and liabilities not measured at fair value on the microfinance bank's statement of financial position:

	31-Dec-17		31-Dec-16	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	N'000	N'000	N'000	N'000
Cash and balances with banks	170,715	170,715	121,146	121,146
Financial assets held to maturity	200,000	200,000	195,809	195,809
Loan and advances to banks	420,271	420,271	870,124	870,124
Loan and advances to customers	4,897,685	4,897,685	4,260,048	4,260,048
Other assets	201,686	201,686	119,007	119,007
	5,890,357	5,890,357	5,566,133	5,566,133
Financial liabilities				
Deposits from customers	2,534,196	2,534,196	2,796,085	2,796,085
Other liabilities	255,107	255,107	379,245	379,245
	2,789,304	2,789,304	3,175,330	3,175,330

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(b) Financial instruments measured at fair value

The microfinance bank has no financial asset measured at fair value, subsequent to initial measurement.

(c) Fair value hierarchy

IFRS 13 : Fair value specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Carrying amount N'000	Level 1 N'000	31-Dec-17	
			Level 2 N'000	Level 3 N'000
Financial assets				
Cash and balances with banks	170,715		170,715	-
Financial assets held to maturity	200,000	200,000	-	-
Loans and advances to banks	420,271	-	420,271	-
Loans and advances to customers	4,897,685	-	4,897,685	-
Other assets	201,686	-	201,686	-
	<u>5,890,357</u>	<u>200,000</u>	<u>5,690,357</u>	<u>-</u>
Financial liabilities				
Deposits from customers	2,534,196	-	2,534,196	-
Other liabilities	255,107	-	255,107	-
	<u>2,789,304</u>	<u>-</u>	<u>2,789,304</u>	<u>-</u>

	Carrying amount N'000	Level 1 N'000	31-Dec-16	
			Level 2 N'000	Level 3 N'000
Financial assets				
Cash and balances with banks	121,146		121,146	-
Financial assets held to maturity	195,809	195,809	-	-
Loans and advances to banks	870,124	-	870,124	-
Loans and advances to customers	4,260,048	-	4,260,048	-
Other assets	119,007	-	119,007	-
	<u>5,566,133</u>	<u>195,809</u>	<u>5,370,324</u>	<u>-</u>
Financial liabilities				
Deposits from customers	2,796,085	-	2,796,085	-
Other liabilities	379,245	-	379,245	-
	<u>3,175,330</u>	<u>-</u>	<u>3,175,330</u>	<u>-</u>

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	31-Dec-15			
	Carrying	Level 1	Level 2	Level 3
	amount			
	N'000	N'000	N'000	N'000
Financial assets				
Cash and balances with banks	224,910		224,910	-
Financial assets held to maturity	220,000	220,000	-	-
Loans and advances to banks	953,485	-	953,485	-
Loans and advances to customers	2,932,679	-	2,932,679	-
Other assets	95,578	-	95,578	-
	<u>4,426,652</u>	<u>220,000</u>	<u>4,206,652</u>	<u>-</u>
Financial liabilities				
Deposits from customers	2,602,768	-	2,602,768	-
Other liabilities	249,257	-	249,257	-
	<u>2,852,025</u>	<u>-</u>	<u>2,852,025</u>	<u>-</u>

(d) Fair value methods and assumptions

i) Cash and cash equivalents

ii) The carrying amounts of these balances approximate their fair values. They are on level 2 of the fair value hierarchy.

Loans and advances to customers and banks

Loans and advances are carried at amortised cost net of provision for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. They are on level 2 of the fair value hierarchy.

iii) Financial assets held to maturity

Treasury bills represent short term instruments issued by the Central bank of Nigeria. The fair value of treasury bills are determined with reference to quoted prices (unadjusted) in active markets for identical assets. They are on level 1 of the fair value hierarchy.

v) Deposits from customers

The estimated fair value of deposits with no stated maturity, is the amount repayable on demand. The estimated fair values of fixed interest-bearing deposits are determined using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity. They are on level 2 of the fair value hierarchy.

vi) Other assets and other liabilities

Other assets and other liabilities represent monetary assets which usually has a short recycle period and as such the carrying amount of these balances approximate their values. They are on level 2 of the fair value hierarchy.

4.6 Capital management

The Microfinance bank's objectives when managing capital, is to ensure that it has adequate capital to run and grow its banking business and continue as a going concern into the foreseeable future. It also ensures that it has strong capital base so as to be able to respond to unexpected risk and provide adequate returns to its shareholders and other stakeholders. The Microfinance bank defines capital to include equity and other reserves.

The Microfinance bank is exposed to externally imposed capital as stated by the Central Bank of Nigeria (CBN)

Capital management information are submitted to CBN on a monthly basis and Auditors to the Bank are also required to render an annual certificate to the Nigeria Deposit Insurance Corporation (NDIC) that includes the computed capital adequacy ratio of the Bank.

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5 Interest income

Interest on Loan
Interest on term deposit

31 December, 2017 N'000	31 December, 2016 N'000
1,350,745	1,257,583
126,807	97,872
1,477,552	1,355,454

6 Interest Expense

Borrowings
Term deposits
Savings

31 December, 2017 N'000	31 December, 2016 N'000
92,625	86,009
412,528	339,654
8,588	11,659
513,741	437,322

7 Impairment charge for credit losses
Loans and advances to customers

Specific impairment
Collective impairment
Written off during the year as bad debt

31 December, 2017 N'000	31 December, 2016 N'000
350,907	132,010
18,589	12,557
369,496	144,567

8 Fee and commission income

Management and processing fee
Current Account maintenance charges
Other charges and commission income

31 December, 2017 N'000	31 December, 2016 N'000
136,211	214,168
11,494	19,503
7,157	11,601
154,862	245,271

Fees and commission income excludes amounts included in determining the effective interest rate on financial assets measured at amortised cost.

9 Staff expenses

Salaries and wages
Other short term benefits
Pension costs:

31 December, 2017 N'000	31 December, 2016 N'000
294,734	294,225
10,750	19,200
34,144	34,826
339,628	348,251

10 Depreciation and amortisation

Depreciation

31 December, 2017 N'000	31 December, 2016 N'000
35,777	36,112
35,777	36,112

The notes on pages 7 to 43 are an integral part of these financial statements

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11 Other Operating expenses

Directors allowances
 Audit/consultancy fees
 Other expenses (Schedule 1, page 45)
Other Operating expenses

31 December, 2017	31 December, 2016
N'000	N'000
47,858	41,373
7,170	3,590
267,217	293,873
322,246	338,835

12 Income tax expenses

Current tax:
 Current taxes on profit for the year
Total current tax
 Deferred tax
Total deferred tax Asset / Liability

31-Dec-17 N'000	31-Dec-16 N'000
278	2,112
278	2,112
-	11,718
278	13,830

Income tax expenses

Reconciliation of effective tax rate

Profit before income tax
Income tax @30% Tax effects of:
 Education tax levy

31-Dec-17 N'000	31-Dec-16 N'000
13,101	295,599
231	1,760
46	352

Utilisation of previously unrecognised tax losses
Tax charge

278	2,112
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12a Movement in current income tax liability

At start of the period
 Charge for the year
 Payments during the year
At end of the period

31-Dec-17 N'000	31-Dec-16 N'000
2,112	(22,158)
278	2,112
(2,112)	22,158
278	2,112

12b Information Technology Development Levy

Information Technology Development Levy is 1% of PBT

131	2,956
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13 Earnings per share

Basic earnings per share is calculated by dividing the net profit to equity holders of the Company by the weighted average number of ordinary share in issue during the year.

Basic and diluted earnings per share

Profit/(loss) attributable to equity holders of the Company
 Weighted average number of ordinary shares in issue (in '000s)
 Basic earnings per share (expressed in Kobo per share)

31-Dec-17 N'000	31-Dec-16 N'000
12,692	302,249
641,519	594,186
2	51

The company does not have potential ordinary shares with convertible options. Hence, basic and diluted EPS are the same

The notes on pages 7 to 43 are an integral part of these financial statements

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	31 December, 2017	31 December, 2016
14 Cash and balances with banks	N'000	N'000
Cash	33,593	24,739
Current account balances with banks	137,122	96,406
Cash balances	170,715	121,146

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, balances held in current and call account, placements held with banks and other short-term highly liquid investments from the day of acquisition with less than three months' maturity from the date of acquisition

Cash and cash equivalents

	31-Dec-17 N'000	31-Dec-16 N'000
Cash and cash equivalents comprise of; Cash balances (note 14)	170,715	121,146
Loans and advances to banks (note 16)	420,271	870,124
Treasury bills (note 15)	200,000	195,809
Total cash and cash equivalents	790,986	1,187,078

15 Financial assets held to maturity

	31-Dec-17 N'000	31-Dec-16 N'000
Listed debt securities	200,000	195,809
Treasury bills	200,000	195,809
Current	200,000	195,809
Non-current	-	-
	200,000	195,809

The treasury bills are classified as held to maturity and are carried at amortised cost.

16 Loans and advances to banks
Placements with banks

	31-Dec-17 N'000	31-Dec-16 N'000
	420,271	870,124
	420,271	870,124

17 Loans and advances to customers

17.1 Analysis by customers:

	31-Dec-17 N'000	31-Dec-16 N'000
Term loans	2,958,967	2,511,715
Overdrafts	1,858,448	1,689,783
Staff loans	70,968	56,277
Others	9,302	2,273
	4,897,685	4,260,048
Current	4,897,685	4,260,048
Non-current	-	-
Allowances for Credit losses	(456,349)	(128,485)
	4,441,335	4,131,562

Allowances for Credit losses is made up of:
 Specific Impairment- N408,939
 Collective Impairment- N47,411

The notes on pages 7 to 43 are an integral part of these financial statements

HASAL MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER, 2017.

17.2 Reconciliation of impairment allowance on loans and advances to customers:

	31 December, 2017	31 December, 2016
	N'000	N'000
Specific allowance for impairment		
At start of the period	118,867	84,885
Impairment loss for the year		
Interest in Suspense	24,127	
Adjustment to Impairment allowance	24,335	
Charge/(write back) for the year	350,907	33,982
At end of the period	518,237	118,867
At start of the period	25,700	22,347
Impairment loss for the year		
Adjustment to Impairment allowance	3,122	
Charge/(write back) for the year	18,589	12,557
At end of the period	47,411	25,700
Total impairment	565,647	144,567
Carrying amount	4,332,037	4,131,562

17.3 Analysis by security:

	31-Dec-17	31-Dec-16
	N'000	N'000
Secured against real estates	2,958,967	2,511,715
Otherwise secured	1,938,718	1,748,333

The Microfinance Bank do not sell or repledge the collateral normally, except where the owner of the collateral is in

17.4 Analysis of loans and Advances by Quality CLASSIFICATION

	RATIO	AMOUNT 2017	AMOUNT 2016	AMOUNT 2015
Performing	1%	4,512,915	4,044,775	2,958,665
Pass and Watch	5%	58,249	21,227	1,278
Substandard	20%	13,320	7,940	1,165
Doubtful	50%	80,740	55,752	767
Lost	100%	232,461	130,355	84,721
		4,897,685	4,260,048	3,046,597
By maturity:				
under 1 month		275,893	75,241	1,998
1-3 months		1,712,413	1,160,414	51,464
3-6 months		1,400,659	1,952,327	503,693
6-12 months		1,125,611	602,282	1,926,841
Over 12 months		383,109	469,784	537,391
		4,897,685	4,260,048	3,021,387

18 Other assets and prepayments

	31-Dec-17	31-Dec-16	31-Dec-15
	N'000	N'000	N'000
Other assets			
Sundry debtors	130	2,548	2,382
Accounts Receivable	8,398	12,558	2,794
	8,529	15,106	5,176
Less: specific allowances for impairment		(3,563)	(3,563)
Prepayments	8,529	11,544	1,613
	30,990	25,475	29,723
Stock	9,321	12,536	17,982
Vendor Advances	97,846	48,958	31,259
Others	40,000	20,495	
HIMS and System solutions	15,000	-	15,000
	193,157	107,463	93,965
Total	201,686	119,007	95,578

"Others" is made up of the bank's deposit with Atlas Microfinance Bank. For the insolvency of Atlas Microfinance Bank, an impairment allowance has been made for this in line with CBN directive.

The notes on pages 7 to 43 are an integral part of these financial statements

HASAL MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017.

18.1 Reconciliation of impairment allowance on Other Known Loss	31 December, 2017 N'000	31 December, 2016 N'000
At start of the period	7,125	3,563
(Write back)/charge for the year	38,425	3,562
At end of the period	45,550	7,125
The bank had impaired deposit with Atlas Microfinance Bank as Atlas is insolvent. Additional impairment allowance of N38,425 have been considered in line with CBN directive.		
19 Property and equipment		
Refer to Property, plant and equipment on page 39		
20 Intangible assets	Computer Software N'000	Computer Software N'000
Cost		
At 1st January, 2017	25,735	22,540
Additions	-	3,195
At 31st December 2017	25,735	25,735
Accumulated amortisation		
At 1st January, 2017	7,140	2254
Amortisation charge	5,573	4,886
At 31st December 2017	12,713	7,140
Carry Amount		
At 31 December 2017	13,022	18,595
At 31 December 2016	18,595	20,286
21 Deposits from customers	31-Dec-17 N'000	31-Dec-16 N'000
Demand	254,538	245,550
Time	2,070,750	2,280,545
Savings	208,909	243,680
Other deposit		26,310
	2,534,196	2,796,085
Current	2,534,196	2,796,085
Non-current	-	-
	2,534,196	2,796,085
22 Deferred tax	31-Dec-17 N'000	31-Dec-16 N'000
(a) - Deferred tax assets	11,718	11,718
(b) - Deferred tax liabilities		
Deferred tax liability to be recovered within 12 months	-	-
	11,718	11,718

HASAL MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017.

	31 December, 2017	31 December, 2016
23 Other liabilities	N'000	N'000
Sundry creditors	119,243	220,214
Account payables	23,740	31,198
Interest payables	25,673	35,749
Other payables	86,320	-
Dividend payable		89,128
Information Technology Development Levy	131	2,956
	255,107	379,245
Other payables are made up of unclaimed deposits and taxes		
24 Borrowings	31-Dec-17 N'000	31-Dec-16 N'000
Long Term Loan	835,455	888,675
Term loan	1,000	41,000
	836,455	929,675
Bank overdrafts	92,054	-
	928,509	929,675
Term loan		
Current	93,054	41,000
Non-current	835,455	888,675
	928,509	929,675
Analysis of Borrowings:		
Access Bank Plc	1,000	41,000
FCMB Plc	92,054	-
MSMED Funds	388,600	426,100
Oiko Credit Fund	121,855	327,575
BOI Fund	325,000	135,000
	928,509	929,675
25 Share capital	31-Dec-17 N'000	31-Dec-16 N'000
Authorised		
1,000,000,000 ordinary shares of N1 each	1,000,000	1,000,000
Issued and fully paid		
Opening	594,186	559,952
Issued during the year	47,333	34,234
Ordinary shares of N1 each	641,519	594,186
25a Share premium		
Opening	112,983	87,867
Issued during the year	67,667	25,116
Ordinary shares of N1 each	180,650	112,983

HASAL MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017.

26 Statutory and Regulatory risk reserves

During the period under review, there was transfer to statutory reserve as stipulated by Section 19(d) of the regulatory and supervisory framework for Microfinance

Statutory Reserve

	31-Dec-17	31-Dec-16
	N'000	N'000
At start of the period	513,330	437,768
Transfer from profit and loss account	3,173	75,562
At end of the period	516,503	513,330

Nigeria Prudential Guidelines

The Bank maintains information on the credit quality of its loans and advances in line with CBN prudential guidelines. Where the provision under prudential guideline is higher than IFRS impairment, the Bank recognises impairment based on IFRS and difference between IFRS and Prudential Guideline is recognised in Regulatory Risk Reserve as non distributable reserve. Where the provision under Prudential Guideline is less than the IFRS impairment, the Bank recognises impairment based on IFRS.

Loan Loss Provision

	NGAAP	IFRS	Difference
	N'000	N'000	N'000
31-Dec-16	(256,174)	(256,174)	-
31-Dec-17	(565,647)	(456,349)	(109,298)

The loan impairment provision of N565,647 million as at 31 December 2017, was in accordance with CBN prudential guideline and in compliance with the CBN recommendation for additional provision based on its risk examination conducted for the period. This provision is higher than the N456,349million impairment allowance under IFRS. The Bank recognised the IFRS impairment allowance and the difference of N109,298 transferred to Regulatory Risk Reserve.

HASAL MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2017.

27 Related party transactions

The Microfinance bank was incorporated in Nigeria, and it is controlled by various shareholders of the company's ordinary shares.

27.a Transactions and balances & Insider Related Credits

There are transactions and outstanding balances between the key management personnel and the company in the normal course of business during 31 December 2017 financial year end - **N118,121,318** (31 December 2016: **N28,850,546**).

The Credit facilities was extended in the normal course of business to companies in which some of the bank's Directors have interest during the year under review. The facility is performing and significantly cash backed.

27.b Key management compensation

Key management has been determined to be the members of the Executive Committee (EXCO) of the Microfinance bank. The compensation paid to key

31 December, 2017

31 December, 2016

Salaries and other short-term employee benefits

N'000

N'000

305,484

313,425

305,484

313,425

28 Employees

The number of employees of the Company, other than directors, who received emoluments in the following ranges (excluding pension contributions and certain benefits) were:

31-Dec-17

31-Dec-16

N'000

N'000

N150,001-N250,000

-

-

N250,001-N300,000

-

-

N300,001 - N350,000

-

-

N350,001-N450,000

6

-

N450,001-N550,000

17

1

N550,001 and N650,00

72

105

N650,001 and above

119

135

214

241

29 Compliance with banking regulation

The bank did not contravene any regulation of the Banks and Other Financial Institutions Act 1991 or relevant circulars issued by the Central Bank of Nigeria.

30 Events after statement of financial position date

There were no significant events that occurred subsequent to the statement of financial position date.

31 Reconciliation of profit before tax to cash generated from operations

31-Dec-17

31-Dec-16

N'000

N'000

Profit/(loss) before income tax

13,101

295,599

Adjustments for:

- Depreciation

30,204

31,227

- Amortisation

5,573

4,886

- Adjustment

146,254

24,709

- Profit from sale of property and plant

(450)

(274)

- Impairment charge on credit losses

369,496

141,043

- Income from sales of property

86

- Impairment (write back)/charge on other known loss

38,425

3,563

- Interest income

(1,477,552)

(1,355,454)

- Interest expense

513,741

437,322

(Increase)/decrease in operating assets:

- Loans and advances to customers

(637,637)

(1,339,980)

- Other assets

(82,679)

(23,429)

Increase/(decrease) in operating liabilities:

- Deposits from customers

(261,889)

193,317

- Other liabilities

(124,138)

33,468

Cash generated from operations

(1,467,465)

(1,554,004)

HASAL MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER, 2017.

19 Property and equipment

	Land N'000	Building N'000	Motor Vehicles N'000	Furniture and fittings N'000	Plant and machinery N'000	Communication & office Equipment N'000	IT Infrastructure N'000	Total N'000
Cost								
At 1 January, 2017	160,000	187,161	50,166	22,738	24,228	30,603	78,004	552,901
Additions	-	-	-	-	-	3,576	670	4,246
Adjustment	-	79,893	-	-	-	-	-	79,893
Disposal/Written Off	-	-	(460)	-	-	-	-	(460)
At 31 December 2017	160,000	267,055	49,706	22,738	24,228	34,179	78,674	636,580
Accumulated depreciation								
At 1 January 2017	-	14,959	25,772	17,099	22,191	27,447	62,812	170,280
Charge for the year	-	3,743	11,743	2,498	893	2,203	8,665	29,744
Adjustment	-	-	-	-	-	-	-	-
Disposal/Written Off	-	-	(460)	-	-	-	-	(460)
At 31 December 2017	-	18,702	37,054	19,597	23,084	29,649	71,477	199,564
Carrying value								
At 31 December, 2017	160,000	248,353	12,652	3,141	1,144	4,958	7,197	437,444
At 31 December, 2016	160,000	172,202	24,395	5,640	2,036	3,155	15,192	382,620

The adjustment to Building was a discounted value of revaluation surplus at 55%. This is in line with Central Bank of Nigeria Regulatory Guideline on recognition of Non-Current assets revaluation surplus.

HASAL MICROFINANCE BANK LIMITED
STATEMENT OF VALUE ADDED
FOR THE YEAR ENDED 31 DECEMBER, 2017

	31 DECEMBER, 2017 N'000	%	31 DECEMBER, 2016 N'000	%
Income interest	1,477,552		1,355,454	
Overheads and payments for other services	<u>1,477,552</u> <u>(313,218)</u>		<u>1,355,454</u> <u>(190,158)</u>	
Other Income	<u>1,164,334</u> <u>154,862</u>		<u>1,165,296</u> <u>245,271</u>	
	<u>1,319,196</u>	<u>100</u>	<u>1,410,568</u>	<u>100</u>
Applied as follows:				
To pay employees:				
Salaries, wages and social benefits	339,628	26	348,251	25
To pay government:				
Taxation	278	0.0	2,112	0.1
Information Technology Development Levy	131	0.0	2,956	0.2
Deferred tax	-	-	11,718.00	1
To provide Capital	822,169	62	707,169	50
To provide for enhancement of assets				
expansion of business and payment of				
dividend to shareholders:				
Depreciation	35,777	3	36,112	3
Profit retained	<u>121,213</u>	<u>9</u>	<u>302,288</u>	<u>21</u>
	<u>1,319,196</u>	<u>100</u>	<u>1,410,606</u>	<u>100</u>

Value added is the wealth created by the efforts of the company and its employees and its allocation between employees, shareholders, government and re-investment for the future creation of further wealth.

HASAL MICROFINANCE BANK LIMITED
THREE YEARS FINANCIAL SUMMARY
FOR THE YEAR ENDED 31 DECEMBER, 2017.

	31 December, 2017 N'000	31 December, 2016 N'000	31 December, 2015 N'000
Assets			
Cash and balances with banks	170,715	121,146	224,910
Financial assets held to maturity	200,000	195,809	220,000
Loans and advances to banks	420,271	870,124	953,484
Loans and advances to customers	4,441,335	4,131,562	2,931,466
Other assets and prepayments	201,686	119,007	95,577
Property and equipment	437,444	382,620	389,856
Intangible assets	13,022	18,595	20,286
Deferred income tax Asset	11,718	11,718	12,991
Total assets	5,896,192	5,850,582	4,848,570
Liabilities			
Deposits from customers	2,534,196	2,796,085	2,602,768
Current income tax liability	278	2,112	3,530
Deferred income tax liability	-	-	-
Other liabilities	255,107	379,245	345,777
Borrowings	928,509	929,675	449,841
Total liabilities	3,718,090	4,107,117	3,401,916
Equity			
Share capital	641,519	594,186	559,952
Share premium	180,650	112,983	87,867
Revaluation Reserve	108,521	-	-
Regulatory risk reserve	109,298	-	-
Statutory reserve	516,503	513,330	437,768
Retained earnings	621,611	522,964	361,068
Total equity	2,178,102	1,743,463	1,446,655
Total equity and liabilities	5,896,192	5,850,582	4,848,570

HASAL MICROFINANCE BANK LIMITED
SCHEDULE OF OTHER EXPENSES
FOR THE YEAR ENDED 31 DECEMBER,2017.

Note 11

	31 December, 2017
	N'000
NDIC Premium and other insurance	15,269
Office Expenses	4,026
Repairs and Maintenance	11,838
Transport and Accommodation expenses	8,714
Diesel and Fuel expenses	23,688
Directors related expenses	2,580
Utility	8,801
Corporate Social Responsibility	14,838
Operating expenses	36,493
Printing and Stationery expenses	12,949
Rent	16,597
Bank Charges	22,751
Security Services	34,838
Staff welfare	28,308
Telephone expenses	1,800
Vehicles running expenses	11,036
Local Training	10,374
Legal Expenses	2,316
	<u><u>267,217</u></u>

