

**HAGGAI MORTGAGE BANK LIMITED**

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER, 2020**

# HAGGAI MORTGAGE BANK LIMITED

## TABLE OF CONTENT

<b>CONTENTS</b>	<b>No.</b>
Corporate Vision	01
Corporate information	02
Notice of AGM	03
Corporate governance report	05
Result at glance	09
Directors' report	10
Statement of directors' responsibilities	13
Chairman's statement	15
Statutory Audit committee's report	17
Report of the independent auditors	18
Statement of financial position	21
Statement of profit or loss and other comprehensive income	22
Statement of changes in equity	23
Statement of cash flows	24
Notes to the financial statements	25
<b><i>Other national disclosures</i></b>	
Statement of value added	76
Five-year financial summary	77



**CORPORATE VISION:**

Working with the Master Builder to touch lives by providing quality mortgage services and homes.

**CORPORATE MISSION:**

Providing quality shelters that touches lives

**CORE VALUES:**

- Integrity
- Customer Service Orientation
- Expertise

## HAGGAI MORTGAGE BANK LIMITED

### CORPORATE INFORMATION

**Directors:** Elder Simeon M. Olakunri, SAN- Chairman  
Mr. Bababode Osunkoya - Member  
Mrs. Oyepero T. Abiodun - Member  
Chief Samuel A. Oso - Member  
Mr. Obafunmilayo Augusto - Member  
Mr. Oluwatunji D. Adepetun - Member (appointed wef 26/11/2020)  
Mr. Anuoluwapo Eso - Member (appointed wef 26/11/2020)  
Mr. Richard A. Olubameru - Managing Director

**Company Secretary:** Mr. Akindele Oke  
119, Bode Thomas Street,  
Surulere,  
**Lagos**

**Registration number:** RC 193894

**Registered Office Address:** 119, Bode Thomas Street,  
Surulere,  
**Lagos**

**Independent Auditors:** Bakertilly Nigeria,  
(Chartered Accountants),  
Kresta Laurel Complex (4th Floor),  
376, Ikorodu Road, Maryland,  
**Lagos**

**Bankers:** Guaranty Trust Bank Plc  
Ecobank Nigeria Limited,  
Zenith Bank Plc  
Stanbic IBTC Bank Plc  
Wema Bank Plc

## NOTICE OF THE 20<sup>TH</sup> ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the 20<sup>th</sup> Annual General Meeting of Haggai Mortgage Bank Limited (“the Company”) will be held at 119, Bode Thomas Street, Surulere, Lagos State on Friday, 30<sup>th</sup> July, 2021 at 11:00am.

### ORDINARY BUSINESS:

1. To receive the Company’s Audited Financial Statements for the financial year ended 31<sup>st</sup> December, 2020 together with reports of the Directors, Auditors and Audit Committee thereon.
2. To declare a dividend.
3. To re-elect the Directors retiring by rotation.
4. To ratify the Appointment of New Directors
5. To approve the re-appointment of Messrs Bakertilly (Chartered Accountants).
6. To authorize the Directors to fix the remuneration of the Auditors.
7. To elect members of the Audit Committee

**Dated this 2<sup>nd</sup> day of July, 2021**

### BY ORDER OF THE BOARD



Akindele Oke  
Company Secretary  
FRC/2015/NBA/00000013019

### NOTES:

1. **Dividend and E-dividend Platform**
  - a. The Board recommends for the approval of the Shareholders, the payment of a dividend of ₦0.10k per ordinary share of ₦1.00k each out of the profits declared in the financial year ended 31 December, 2020 and which will be subject to withholding tax at the appropriate rate.
  - b. If approved, the dividend will be payable on Friday, 30<sup>th</sup> July, 2021 via e-dividend platform to shareholders whose names are on the Company Register on 31<sup>st</sup> December, 2020 and have completed the e-dividend form.
2. **Proxy:**

In view of the restrictions imposed by COVID-19 pandemic, all members are advised that attendance at the AGM shall be by PROXY. Members are therefore advised to kindly appoint proxies of their choice to represent them at the meeting. The names of the proxies are listed below:

  1. Elder S. M. Olakunri, SAN - Chairman Of The Board
  2. Mr. Bababode Osunkoya - Chairman, Board Finance & Risk Management Committee
  3. Rev. Obafunmilayo Agosto - Director / Chairman Audit Committee
  4. Mr. Anuoluwapo Eso - Chairman, Board Governance, Nomination and Remuneration Committee

A soft copy of the proxy form is at the Bank's website [www.haggaibank.com](http://www.haggaibank.com) for completion and to be addressed to the Company Secretary at [Oke.a@haggaibank.com](mailto:Oke.a@haggaibank.com) not less than 48 hours before the time fixed for the meeting.

### 3. **Right to ask questions**

It is the right of Shareholders to ask questions on their observations or concerns on the Annual Reports and Financial Statements 2020 not only at the Annual General Meeting but also in writing prior to the Meeting. Therefore such written questions should be submitted to the Company Secretary physically at the Bank's address or via email [Oke.a@haggaibank.com](mailto:Oke.a@haggaibank.com) not later than 23<sup>rd</sup> July, 2021.

### 4. **Electronic Information**

Soft copies of relevant documents in connection with the meeting are available online to all shareholders from the date of notice and in particular the electronic version of the Annual Reports for viewing and download from the Bank's website: [www.haggaibank.com](http://www.haggaibank.com)

### 5. **Audit Committee Nominations**

The Audit Committee consists of three (3) shareholders and three (3) Directors representatives. Any member may nominate a shareholder for election into the membership of the Audit Committee by giving a written notice of such nomination to the Secretary of the Company at least twenty-one (21) days before the AGM.

## **HAGGAI MORTGAGE BANK LIMITED**

### **CORPORATE GOVERNANCE REPORT**

#### **Introduction**

Haggai Mortgage Bank Limited (“the Bank”) is committed to improving shareholders’ value through the transparent conduct of its business in line with the principles of the “Code of Corporate Governance for Primary Mortgage Banks in Nigeria” issued by the Central Bank of Nigeria (CBN) and “Nigerian Code of Corporate Governance” (NCCG). The Bank benchmarks itself against best global practices. Haggai Mortgage Bank Limited has instituted a Charter that provides the basis for promoting the highest standards of corporate governance and a Framework that facilitate checks and balances together with ensuring that appropriate controls are put in place. The Corporate Governance practices of the Bank are designed to ensure accountability of the Board and Management to stakeholders.

The Bank’s corporate governance framework establishes the Board of Directors as having ultimate responsibility for oversight functions. The Board has however delegated some of its oversight role to various Committees, namely, the Board Credit Committee, the Board Audit Committee, the Board Finance and Risk Management Committee. These Committees, each focus on specified areas of the business and presents an avenue for effective dialogue and engagement with management with respect to strategic direction and policy setting.

The Bank has also instituted a Statutory Audit Committee, through which the Board engages with shareholder representative on the audit function.

In addition to the Board Committees, governance is enhanced through six Management Committees namely: Management Committee; Assets and Liability Committee; Management Credit Committee; Staff Disciplinary Committee; Management IT Steering Committee; and Enterprise Risk Management Committee. These Management Committees helps to ensure effective oversight and implementation of directives from the Board.

#### **The Board**

Elder Simeon M. Olakunri, SAN	Chairman
Richard A. Olubameru	Managing Director
Oyepero T. Abiodun (Mrs.)	Non-Executive Director
Chief Samuel A. Oso	Non-Executive Director
Bababode Osunkoya	Non-Executive Director
Obafunmilayo Augusto	Non-Executive Director
Oluwatunji D. Adepetun	Independent Non-Executive Director
Anuoluwapo Eso	Independent Non-Executive Director

The Board of Directors of Haggai Mortgage Bank Limited comprises eight (8) members: five (5) of whom (inclusive of the Chairman of the Board) are Non-Executive Directors, (2) are



Independent Non-Executive Directors and the Managing Director. The Directors are listed above and in the Directors' Report. The Board is made up of a crop of seasoned professionals who have excelled in their various professions including and not limited to banking, accounting, business and law. They all possess the requisite integrity, skills and experience to bring independent judgment to bear on the Board's deliberations.

The primary purpose of the Board is to provide strategic direction for the Bank in order to deliver long-term value to Shareholders through its oversight functions of the Bank's business. The Board met only three (3) times during the year. Scheduled Board meetings for the year were affected by the lockdown occasioned by the COVID 19 restrictions and precautions during the year 2020.

### Board Committees

The Board Committees during the year are the Board Credit Committee, Board Audit Committee and Board Finance and Risk Management Committee.

The Board Committees meetings scheduled for the year 2020 were largely hampered by the COVID 19 disruptions. The Non-Executive Directors are provided with comprehensive information at each of the Committee's Meetings and were also briefed on business developments in between Board/Committee meetings.

Board Members and the various Board Committees they belong:

Name	Board Credit Committee	Statutory Audit Committee	Board Audit Committee	Board Finance and Risk Mgt Committee
Elder Simeon M. Olakunri, SAN	N/A	N/A	N/A	N/A
Richard A. Olubameru	M	N/A	N/A	M
Oyepero T. Abiodun (Mrs.)	N/A	N/A	N/A	N/A
Chief Samuel A. Oso	M	M	C	M
Bababode Osunkoya	C	N/A	N/A	C
Obafunmilayo Agosto	M	C	M	M
Anuoluwapo Eso	N/A	N/A	N/A	N/A
Oluwatunji D. Adepetun	N/A	N/A	N/A	N/A

### Key

- C - Chairman of Committee
- M - Member
- N/A - Not applicable

The roles and responsibilities of these committees are discussed below.

### Board Credit Committee

This Committee is responsible for the approval of the Bank's credit portfolio strategy and subsequent revision thereto, the approval of the Bank's credit management structure, policies and processes, performs a quarterly review of the Bank's risk asset portfolio and approves all loan write-offs above ₦1m.

The Committee met once (1) during the financial year nonetheless credit requests requiring the Committee's approval were considered via written circulated approvals by the members.

#### **Board Audit Committee**

This Committee is responsible for establishing an independent internal audit function, ensuring regular review and appraisal of the Bank's internal control system, the development and sustenance of a comprehensive internal control framework for the Bank, quarterly review and appraisal of the internal auditor's plan and reports..

The Committee met three (3) times during the financial year.

#### **Board Finance and Risk Management Committee**

The Committee approves and periodically reviews risk strategies and policies, approves the Bank's risk appetite, monitors the Bank's risk profile against set appetite and ensure the risk strategy reflects the Bank's tolerance for risk..

The Committee is also responsible for reviewing and approving the Bank's budget before presentation to the Board and reviews quarterly its financial performance and related accounting policies. It also approves investments and treasury management amongst others.

The Committee met five (5) times during the financial year.

#### **Statutory Audit Committee**

This Committee comprises equal members of the shareholders and members of the Board of Directors. The Committee is responsible for ascertaining if the accounting and reporting policies of the Bank are in accordance with the accounting standards, legal requirements and ethical best practices. They also ensure that the internal controls are being constantly and effectively monitored through reviewing the external auditors' plan, scope and the management letter on the audit of the Bank and management responses.

The Committee met once (1) during the financial year and all members were present at the Annual General Meeting of the Bank.

#### **Attendance at Board / Committee Meetings**

##### **Key**

BOD	-	Board of Directors' meeting
BCC	-	Board Credit Committee meeting
BAC	-	Board Audit Committee meeting
BF&RMC	-	Board Finance and Risk Management Committee meeting
SAC	-	Statutory Audit Committee meeting

Membership and attendance at Board meetings are set out below:

Name of Directors	Meetings					
	BOD	BAC	BCC	BF&RC	SAC	AGM
Elder Simeon M. Olakunri, SAN	3	N/A	N/A	N/A	N/A	1
Richard A. Olubameru	3	N/A	1	5	N/A	1
Oyepero T. Abiodun (Mrs.)	3	N/A	N/A	N/A	N/A	1
Chief Samuel A. Oso	3	3	1	5	1	1
Bababode Osunkoya	3	N/A	1	5	N/A	1
Obafunmilayo Augusto	3	3	1	5	1	1
*Anuoluwapo Eso	1	N/A	N/A	N/A	N/A	N/A
*Oluwatunji D. Adepetun	1	N/A	N/A	N/A	N/A	N/A

**Note:** \* The Directors were appointed on 23/12/2019 but CBN approval was obtained on 26/11/2020 which occasioned the single attendance record.

### Directors' Remuneration

The Bank ensures that the remuneration paid to its Directors complies with the provision of the Code of Corporate Governance issued by Regulatory Bodies. In compliance with Section 34(5) of the Code of Corporate Governance, the Bank makes disclosures of the remuneration paid to its Directors as follows:

PACKAGE	TYPES	DESCRIPTION
Basic salary and 13th-month	Fixed	This is part of the gross salary package for Executive Director only
Directors' Fees	Fixed	This is paid quarterly to Non-Executive Directors only.
Sitting Allowance	Fixed	Sitting allowance is paid to Non-Executive Directors only for attending Board and Board Committee meetings.
Travelling Allowance	Fixed	This is paid quarterly to Non-Executive Directors only

## HAGGAI MORTGAGE BANK LIMITED

### RESULT AT A GLANCE

	2020	2019	% change	
	₦'m	₦'m	Change	
<b>Major Profit and Loss Account Items;</b>				
Gross earnings	1,280	1,878	(598)	(32)
Interest expenses	179	315	136	43
Operating expenses etc	783	878	95	11
Profit before taxation	298	647	(349)	(54)
Profit after taxation	247	520	(273)	(53)

#### Major Statement of Financial Position Items:

Mortgage and other Loans and advances	4,074	6,587	(2,513)	(38)
Deposits	7,169	5,378	1,793	33
Share capital	2,177	2,177	-	-
Shareholders Fund	6,287	6,511	(224)	(3)
Total Assets	13,796	12,356	1,440	12

#### Per Share Data

Based on 2,176,838,000 ordinary shares of N1 each

Earnings	11	24
Net Assets	289	299
Total assets	634	568
	===	===

Number of Branches	2	2
Number of Employees	95	97
	===	===

## HAGGAI MORTGAGE BANK LIMITED

### DIRECTORS' REPORT

In compliance with the Companies and Allied Matters Act, CAP C20, LFN 2020, the Directors hereby present their report on the affairs of the Bank, and the audited Financial Statements for the year ended 31 December, 2020.

	<b>2020</b>
	<b>₦'000</b>
<b>1. Result of operations</b>	
Profit before NITDA Levy & Income tax expense	298,200
NITDA Levy & Income tax expense	<u>(50,869)</u>
Profit after tax for the year	247,331
	=====

It is recommended that the profit after tax for the year be appropriated as follows:

Statutory reserve	49,467
Retained earnings	<u>197,864</u>
	247,331
	=====

#### 2. Principal Activities

The Bank is engaged in the business of mortgage banking.

#### 3. Directors Who Served During The Year

Elder Simeon M. Olakunri, SAN	-	Chairman
Mr. Bababode Osunkoya	-	Member
Mrs. Oyepero T. Abiodun	-	Member
Chief Samuel A. Oso	-	Member
Mr. Obafunmilayo Augusto	-	Member
Mr. Oluwatunji D. Adepetun	-	Member
Mr. Anuoluwapo Eso	-	Member
Mr. Richard A. Olubameru	-	Managing Director

#### 4. Directors' Interest

The interests of Directors in the ordinary shares (shares of ₦1.00 each) of the Bank as recorded in the Register of Shareholders as at 31 December, 2020 were as follows:

		Direct Interest	Indirect interest	Direct interest	Indirect interest
		31/12/2020	31/12/2020	31/12/2019	31/12/2019
	Names	Shares of ₦1: 00 each		Shares of ₦1: 00 each	
1	Elder Simeon M. Olakunri, SAN	118,260	235,333,476	118,260	235,333,476
2	Mr. Bababode Osunkoya	-	1,792,875,024	-	1,792,875,024

3	Mrs. Oyepero T. Abiodun	5,062,500	-	5,062,500	-
4	Chief Samuel A. Oso	632,813	-	632,813	-
5	Mr. Obafunmilayo Augusto	-	40,294,629	-	40,294,629
		<b>Direct Interest</b>	<b>Indirect interest</b>	<b>Direct interest</b>	<b>Indirect interest</b>
	<b>Names</b>	<b>Shares of ₦1: 00 each</b>		<b>Shares of ₦1: 00 each</b>	
6	Mr. Richard A. Olubameru	101,758,142	-	101,758,142	-
	Elder Simeon M. Olakunri is representing Amen Trust Foundation				
	Mr. Bababode Osunkoya is representing Christ Crusade Foundation				
	Mr. Obafunmilayo Augusto is representing RCCG Ms. Nominees Limited				

5. **Frauds and Forgeries**

Information relating to frauds and forgeries is disclosed on page 68 in note 39 to the financial statements.

6. **Property, Plant and Equipment**

Movements in property, plant and equipment during the year are shown in Note 12 on page 60. In the opinion of the Directors, the market value of the Bank's property, plant and equipment is not less than the value shown in the financial statements.

7. **Compliance with the Laws and Regulations**

The Board ensures that Management complies with all laws relating to banking, especially the Money Laundering Laws, the Know Your Customer (KYC) Principles, Code of Corporate Governance for Primary Mortgage Bank and all the guidelines of the Central Bank of Nigeria and the Federal Mortgage Bank of Nigeria. The Board also ensures that the Bank cooperates with all statutory agencies in the course of carrying out its responsibilities.

The Directors confirm that the Bank complied fully with the above within the financial year.

8. **Events after the reporting period**

The COVID 19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effect of COVID 19 such as safety and health measures for our people (Social distancing and work spacing) and securing supply of material that are essential to our service deliveries.

At this stage, the pandemic has impacted negatively on our business as a significant part of our target market was mostly affected by the shut-down and the attendant business disruptions. However, we will continue to follow the various government policies and advice and simultaneous, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

9. **Employment and Employees**

It is the policy of the Bank that there should not be discrimination in considering applications for employment, including those from disabled persons. All employees, whether or not disabled, are given equal opportunities to develop their skills and knowledge and to qualify for promotion in furtherance of their career. During the period no disabled person applied for employment in the Bank.

i. **Health, Safety and Staff Welfare**

The Bank provides options to staff to choose their primary health providers under the National Health Insurance Scheme (NHIS) for the use of employees and their immediate families.

ii. **Employee Involvement and Training**

The Bank is committed to keeping employees as fully informed as possible regarding the Bank's performance and progress and seeking their views whenever applicable on matters that particularly affect them as employees.

iii. Incentive schemes designed to meet the circumstances of each individual are implemented whenever appropriate and some of these schemes include bonus, promotions, periodic review of remuneration, etc.

10. **Dividend**

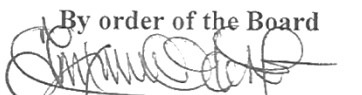
The Directors have recommended the payment of a dividend of --k per share (for the 2020 financial year) to Shareholders of the Bank whose names appear on the Register of Shareholders as at 31 December, 2020. A dividend of 20 kobo per share was declared for the 2019 financial year at the last Annual General Meeting (AGM) as recommended by the Board and paid during the year.

11. **Donations**

During the year under review, the Bank did not make any donation to any organisation or individual.

12. **Independent Auditors**

Messrs. Bakertilly Nigeria (Chartered Accountants), who have indicated their willingness to continue in office as the company's auditors in accordance with Section 357(2) of the Companies and Allied Matters Act, Cap C20 LFN 2020. A resolution will be passed at the Annual General Meeting to authorize the directors to fix their remuneration.

By order of the Board  
  
Mr. Akindele Oke Esq.  
FRC/2015/NBA/00000013019  
Company Secretary

Lagos, Nigeria  
24 March, 2021

## HAGGAI MORTGAGE BANK LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

In accordance with the provisions of Sections 334 and 335 of the Companies and Allied Matters Act CAP C20, LFN 2020 and Financial Reporting Council Act 2011, the Directors are responsible for the preparation of annual financial statements which give true and fair view of the financial position at the end of the financial year of the Bank and of the operating result for the year ended.

The responsibilities include ensuring that:

- Appropriate and adequate internal controls are established to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities;
- The Bank keeps proper accounting records which disclose with reasonable accuracy, the financial position of the Bank and which ensure that the financial statements comply with the requirements of the International Financial Reporting Standard as issued by the International Accounting Standards Board, and the requirements of the Financial Reporting Council of Nigeria Act, No 6, 2011 and the Companies and Allied Matters Act CAP C20, LFN 2020;
- The Bank has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed; and
- The financial statements are prepared on a going concern basis unless it is presumed that the Bank will not continue in business.

The Directors accept responsibility for the year's financial statements, which have been prepared using appropriate accounting policies supported by reasonable, prudent judgments and estimates, in conformity with;



- International Financial Reporting Standards (IFRS):
- Companies and Allied Matters Act CAP C20, LFN 2020 as amended;
- Pension Reform Act, 2014 as amended;
- BOFIA, CAP B3, LFN 2020: and
- Financial Reporting Council Act, No 6, 2011.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating result for the year ended.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of financial control.

Nothing has come to the attention of the Directors to indicate that Haggai Mortgage Bank Limited will not remain a going concern for at least twelve months from the date of these financial statements.

**Signed on behalf of the Board by:**



Mr. Richard A. Olubameru  
Managing Director

24 March, 2021



Elder Simeon M. Olakunri, SAN  
Chairman, Board of Directors

24 March, 2021

## CHAIRMAN'S STATEMENT

Distinguished shareholders, ladies, and gentlemen, it gives me great joy to welcome you to this all-important occasion of our Annual General Meeting. Today, we give God all the glory for giving us the grace, once more, to present the Annual Report and Financial Statements of your great Institution for the year ended 31st December 2020.

Without any doubt, the year 2020 posed a lot of challenges to individuals and organizations. The COVID-19 pandemic marked a defining period for the world at large as it led to serious global, social, and economic disruptions. In response to the pandemic, different measures were taken in all the nations of the world. All the measures were aimed at slowing down the rate of infection and to preserve lives while a more lasting solution in form of vaccine was being developed.

In response to the pandemic, countries came up with different social measures such as lockdown, hand washing, use of nose marks and social distancing. These measures aggravated an already harsh business environment as economic activities became grounded. This negatively impacted on businesses worldwide with your Bank not being an exception. There was a drop in the price of crude oil, disruption in global supply chain, loss of employment and rising inflation. In fact, the Nigerian economy witnessed its second recession within a span of 5 years.

The Central Bank of Nigeria (CBN) and the federal government rolled out several monetary and fiscal measures aimed at reducing the negative impact of the pandemic on the economy. Amongst the measures recommended by the CBN were loan restructuring and forbearance, interest waivers and tenor extensions as well as restrictions to the number of people in a single gathering, all of which had direct impact on our business. About 30% of the Bank's Risk Asset portfolio had to be restructured because of the pandemic.

### Operating Results

In spite of the challenges faced in the year 2020, your Bank was able to post a modest performance for the period. Highlighted below is a summary of our operating results for the financial year ended 31st December 2020

- Gross earnings decreased by 32%, from N1.878billion in 2019 to N1.280billion in 2020.
- Profit Before Tax (PBT) consequently reduced by 54%, from N647million in 2019 to N298million in 2020.
- Profit After Tax (PAT) reduced by 53% from N519.97million in 2019 to N247million in 2020 whilst Earnings Per Share (EPS) was 24k and 11k in 2019 and 2020 respectively.
- Deposit Liabilities on the other hand increased from N5.378billion in 2019 to N7,169billion in 2020 whilst Mortgage & Other Loans dropped from N6.587billion in 2019 to N4.074billion in 2020. These represent an increase of 33% in Deposit Liabilities and a decrease of 38% in Mortgage & Other Loans, respectively.
- Shareholders' Funds decreased by 3% in 2020. In 2019 the Bank's shareholders Funds was N6.511billion and in 2020, it was N6.287billion. Reduction in Shareholders Funds in

2020 was attributable mainly to dividend payment to shareholders in 2020 and the drop in operating profit for the year.

- Total Assets increased by 12% from N12.356billion in 2019 to N13.796billion in 2020.

I am however delighted to inform you that the Board of Directors has recommended for the approval of shareholders at this meeting, a dividend payment of 10 kobo per share from the Bank's Retained Earnings to all shareholders whose names were on the Bank's Shareholders' Register as at 31st December 2020.

### **The Way Forward**

Economies are beginning to recover from the rude shock of the Covid-19 pandemic as social and economic activities are being restored. Crude oil prices have seen a rebound in recent period and the COVID-19 vaccines offer new hopes for economic advancement. We believe all of these will begin to have a more positive impact on our business. The Bank will also continue to consolidate on its efforts on the various strategies put in place in the wake of the pandemic. Some of these include:

- Strengthening relationships with our core customers through the introduction of mortgage products that will appeal to their wallet capacities and tastes
- Introduction of new mortgage products targeted at staff of Corporate Institutions and Government Parastatals.
- Effective management of liquidity to ensure that the Bank meets its present and future obligations
- Increasing the efficiency of our e-banking platforms and intensifying the marketing of our e-banking products

I assure all our distinguished shareholders that securing and increasing shareholders' wealth will continue to be of paramount importance to us.

### **Appreciation**

At this juncture, I would like to appreciate the Almighty God who made today possible. I heartily congratulate our distinguished shareholders, the members of the Board of Directors and Management for the privilege to witness another Annual General Meeting. God in his infinite mercy reward you abundantly for your time and dedication in Jesus Mighty Name.

... Distinguished ladies and gentlemen, thank you.

## STATUTORY AUDIT COMMITTEE'S REPORT

### TO THE MEMBERS OF HAGGAI MORTGAGE BANK LIMITED

In accordance with the provisions of Section 359(6) of the Companies and Allied Matters Act, CAP C20, LFN 2020, we confirm that we have reviewed the audit plan and scope, and the management letter on the audit of the accounts of the Bank and the responses to the said letter.

In our opinion, the plan and scope of the audit for the year ended 31 December, 2020 were adequate. We have reviewed the External Auditors' findings and we are satisfied with the Management responses thereon.

We also confirm that the accounting and reporting policies of the Bank are in accordance with the legal requirements and ethical practices.

We also state that the internal controls were being constantly and effectively monitored.

As required by the provision of the Central Bank of Nigeria Circular BSD/1/2004 dated 18 February 2004 on "Disclosure of Insider Related Credits in Financial Statements", we reviewed the insider-related credits of the Bank and found them to be as analysed in the financial statements as at 31 December, 2020.

Dated this 22 Day of March, 2021



**Mr. Obafunmilayo Augusto**  
**Chairman, Audit Committee**  
**FRC/2015/ICAN/00000012573**

#### **Members**

Mr. Obafunmilayo Augusto	- Chairman	Representing Board of Directors
Chief Samuel A. Oso	- Member	Representing Board of Directors
Mr. Lawrence Ojedian	- Member	Representing Shareholders
Mr. Imo-Abasi Jacob	- Member	Representing Shareholders
Mr. Akinboye Odeku	- Member	Representing Shareholders

## REPORT OF THE INDEPENDENT AUDITORS

### TO THE MEMBERS OF HAGGAI MORTGAGE BANK LIMITED

#### Report on the Audit of the Financial Statements

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

#### Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Haggai Mortgage Bank Limited as at 31 December, 2020, its financial performance and its cash flows for the year then ended in accordance with the provision of the Companies and Allied Matters Act CAP C20 LFN 2020 and the Financial Reporting Council of Nigeria (FRCN) Act No. 6 of 2011.

#### Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of Nigerian Standards on Auditing (NSAs) issued by the Institute of Chartered Accountants of Nigeria and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Going Concern

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

Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty.

## **Responsibilities of the Directors for the Financial Statements**

The Directors are responsible for the preparation and fair presentation of these financial statements which are in compliance with the requirements of both Financial Reporting Council of Nigeria Act, No. 6 of 2011, the Companies and Allied Matters Act, Cap C20 LFN, 2020 and Bank and Other Financial Institutions Act Cap B3 LFN 2020. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with Nigerian Standards on Auditing (NSAs) issued by the Institute of Chartered Accountants of Nigeria. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

## **Contraventions**

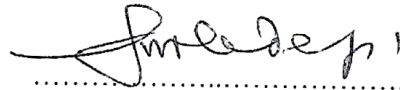
As stated in note 38, no contravention of the Central Bank regulations that would attract a penalty came to our notice during the audit.

## **Report on Other Legal and Regulatory Requirements**

The Companies and Allied Matters Act, CAP C20 LFN, 2020 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that: -

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) Proper books of account have been kept by the Company; and

- iii) The Company's statement of financial position and profit or loss and other comprehensive income are in agreement with the books of account.



.....  
**Oluwole O. Ogundeji**  
**FRC/2013/ICAN/0000002825**  
**For: Bakertilly Nigeria**  
**(Chartered Accountants)**

**Lagos, Nigeria**  
**25 March, 2021**

**HAGGAI MORTGAGE BANK LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER, 2020**

<b>Assets</b>	<b>Note</b>	<b>2020 ₦'000</b>	<b>2019 ₦'000</b>
Cash and Cash Equivalents	5	5,325,241	2,889,662
Financial assets at fair value through profit or loss	6	103,179	104,391
Financial Assets at amortised cost	7	3,714,943	2,216,857
Mortgage, Other Loans and Advances	8	4,073,986	6,587,193
Other Assets	9	208,944	152,891
Inventories	10	6,765	6,669
Intangible Assets	11	50,879	70,113
Property, Plant and Equipment	12	<u>312,405</u>	<u>328,499</u>
<b>Total Assets</b>		<b><u>13,796,342</u></b>	<b><u>12,356,275</u></b>
<b>Liabilities</b>			
Deposits from Customers	13	7,168,831	5,378,169
Other Liabilities	14	210,569	256,046
Income Tax payable	15.1	50,839	131,067
Post-Employment Benefits	16	-	-
Deferred Tax Liabilities	15.4	<u>79,600</u>	<u>79,570</u>
<b>Total Liabilities</b>		<b><u>7,509,839</u></b>	<b><u>5,844,852</u></b>
<b>Capital and Reserves</b>			
Share Capital	17.1	2,176,838	2,176,838
Share Premium	18	2,723,508	2,723,508
Statutory Reserve	19	979,095	929,628
Statutory Credit Reserve	20	106,284	114,198
Retained earnings	21	<u>300,778</u>	<u>567,251</u>
<b>Available to Equity Holders of the Bank</b>		<b><u>6,286,503</u></b>	<b><u>6,511,423</u></b>
<b>Total Liabilities and Equity</b>		<b><u>13,796,342</u></b>	<b><u>12,356,275</u></b>

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



Bababode Osunkoya  
FRC/2013/ICAN/00000002054  
Director



Richard Olubameru  
FRC/2013/IODN/00000003236  
Managing Director, CEO



Adekayode Aderibigbe  
FRC/2013/ICAN/00000003219  
Chief Financial Officer

The notes on pages 20 to 69 form an integral part of these financial statements



**HAGGAI MORTGAGE BANK LIMITED**

**STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME FOR THE  
YEAR ENDED 31 DECEMBER, 2020**

	Note	2020 N'000	2019 N'000
Interest and similar income	22	926,239	1,408,319
Interest and similar expenses	23	<u>(179,186)</u>	<u>(314,756)</u>
<b>Net interest income</b>		<b>747,053</b>	<b>1,093,563</b>
Impairment charge for credit losses	24	<u>(19,832)</u>	<u>(37,440)</u>
<b>Net interest income after loan impairment charges</b>		727,221	1,056,123
		-----	-----
Fee and commission income	25	29,826	66,075
Fee and commission expense		<u>(5,372)</u>	<u>(6,720)</u>
Net fee and commission income		24,454	59,355
		-----	-----
Other income	26	323,467	403,454
		-----	-----
		1,075,142	1,518,932
		-----	-----
Personnel expenses	27	(338,494)	(356,716)
Administrative expenses	28	(354,652)	(434,728)
Depreciation and amortization charges	29	<u>(83,796)</u>	<u>(80,158)</u>
Profit before Tax		298,200	647,330
Nigeria Information Tech Dev. Levy (NITDA)	15.2	(2,982)	(6,473)
Tax expense	15.2	<u>(47,887)</u>	<u>(120,892)</u>
<b>Profit after tax</b>		<b>247,331</b>	<b>519,965</b>
		=====	=====
Basic earnings per share (kobo)		11	24
		=====	=====

The notes on pages 20 to 69 form an integral part of these financial statements

///

**HAGGAI MORTGAGE BANK LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER, 2020**

	Share Capital N'000	Share Premium N'000	Statutory Credit Reserve N'000	Statutory Reserve N'000	Retained earnings N'000	Total N'000
<b>Balance as at 1 January, 2020 (Restated note 21)</b>	2,176,838	2,723,508	114,198	929,628	544,650	6,488,822
Profit for the year	-	-	-	-	247,331	247,331
Dividend paid	-	-	-	-	(435,368)	(435,368)
Transfer to statutory reserves	-	-	-	49,467	(49,467)	-
Transfer to statutory credit reserves	-	-	(7,914)	-	(6,368)	(14,282)
<b>Balance as at 31 December, 2020</b>	<u>2,176,838</u>	<u>2,723,508</u>	<u>106,284</u>	<u>979,095</u>	<u>300,778</u>	<u>6,286,503</u>
<b>Balance as at 1 January, 2019 (Restated note 21)</b>	2,176,838	2,723,508	129,050	825,635	620,370	6,475,401
Profit for the year	-	-	-	-	519,965	519,965
Dividend paid/declared	-	-	-	-	(500,673)	(500,673)
Transfer to statutory reserves	-	-	-	103,993	(103,993)	-
Transfer to statutory credit reserves	-	-	(14,852)	-	8,981	(5,871)
<b>Balance as at 31 December, 2019</b>	<u>2,176,838</u>	<u>2,723,508</u>	<u>114,198</u>	<u>929,628</u>	<u>544,650</u>	<u>6,488,822</u>

The notes on pages 20 to 69 form an integral part of these financial statements

**HAGGAI MORTGAGE BANK LIMITED**

**STATEMENT OF CASH FLOWS  
AS AT 31 DECEMBER, 2020**

	Note	2020 N'000	2019 N'000
<b>Cash flows from operating activities</b>			
Interest and other income	22	1,279,532	1,877,848
Interest Payments	23	(179,186)	(314,756)
Cash payments to Employees and Suppliers		<u>(744,574)</u>	<u>(866,351)</u>
<b>Operating profit before changes in assets and liabilities</b>		<b>355,772</b>	<b>696,741</b>
Tax paid	15.1	(124,594)	(51,917)
NITDA levy paid	15.1	<u>(6,473)</u>	<u>(6,693)</u>
		<b>224,705</b>	<b>638,131</b>
<b>Changes in Operating Assets/Liabilities</b>			
Decrease/(increase) in loans and other receivables	8	2,504,619	581,769
Increase/(decrease) in inventory	10	(96)	(5)
Increase/(decrease) in other assets	9	(56,487)	(59,321)
Increase/(decrease) in deposits and current accounts	13	1,790,662	809,967
Increase/(decrease) in other liabilities	14	<u>(45,477)</u>	<u>25,207</u>
<b>Net cash (inflows)/outflows from operating activities</b>		<b>4,417,926</b>	<b>1,995,748</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	12	(46,794)	(20,611)
Addition to intangible assets	11	(2,150)	(7,375)
Proceeds from sale of PPE		118	54
Change in financial asset at amortised cost	7	<u>(1,498,086)</u>	<u>211,495</u>
<b>Net cash inflows from investing activities</b>		<b><u>(1,546,912)</u></b>	<b><u>183,563</u></b>
<b>Cash Flows from financing activities</b>			
Dividend paid	14.1	<u>(435,435)</u>	<u>(500,673)</u>
<b>Net cash outflows from financing activities</b>		<b><u>(435,435)</u></b>	<b><u>(500,673)</u></b>
Net increase in cash and cash equivalents for the year		2,435,579	1,678,638
Cash and cash equivalents as at 1 January	5	<u>2,889,662</u>	<u>1,211,024</u>
Cash and cash equivalents as as at 31 December	5	<b><u>5,325,241</u></b>	<b><u>2,889,662</u></b>
<b>Represented by</b>			
Cash balance	5	1,106,027	718,662
Balances and placements with local banks	5	<u>4,219,214</u>	<u>2,171,000</u>
		<b><u>5,325,241</u></b>	<b><u>2,889,662</u></b>

The notes on pages 20 to 69 form an integral part of these financial statements

## HAGGAI MORTGAGE BANK LIMITED

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

#### 1. The reporting entity

##### 1.1 Legal form

Haggai Mortgage Bank Limited is a product of several transformations. It is an offshoot of Haggai Investment Company which bought over Morogbo-Oto Community Bank on 2 February, 1998 which enabled it to commence community banking. The name was changed to Haggai Community Bank on 21 May, 1998 and Central Bank of Nigeria (CBN) subsequently granted an operating license to that effect on 24 January 2002. It converted to Microfinance Bank in July of 2007 when it was granted a provisional license to that effect by the Central Bank of Nigeria. In December, 2007, it acquired Perpetual Savings & Loans Limited. The Central Bank of Nigeria approved the acquisition and subsequent change of name to Haggai Savings & Loans Limited on 9 April, 2008. In 2011, the Central Bank of Nigeria directed all Mortgage Banks to recapitalize to the tune of ₦2.5 billion or ₦5 billion to qualify for a State or National license respectively. The Bank's shareholders injected fresh funds to qualify for a National license. Central Bank of Nigeria subsequently approved its change of name to Haggai Mortgage Bank Limited.

##### 1.2 Principal activities

The principal activity of the Bank is mortgage banking.

#### 2. Changes to accounting policies

##### 2.1 New and amended standards and interpretations

###### **Standards and interpretations issued/amended but not yet effective**

The standards listed below have been issued or amended by the IASB but are yet to become effective for annual periods beginning on or after 1 January 2020. The Bank has not applied the following new or amended standards in preparing these financial statements as it plans to adopt these standards at their respective effective dates as applicable to them. Insights on these new standards/amendments are provided below.

###### **Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions**

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent

<p><i>Published</i> <i>Effective date</i> <b>Amendments to IFRS 17 and IFRS 4, ‘Insurance contracts’, deferral of IFRS 9</b></p>	<p>concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. May 2020 Annual periods beginning on or after 1 June 2020 These amendments defer the date of application of IFRS 17 by 2 years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instrument until 1 January 2023.</p>
<p><i>Published</i> <i>Effective date</i> <b>Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2</b></p>	<p>June 2020 Annual periods beginning on or after 1 January 2021 The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. This amendment, also, does not have any effect on the financial statements of the Company.</p>
<p><i>Published</i> <i>Effective date</i> <b>Amendments to IAS 1, Presentation of financial statements’ on classification of liabilities</b></p>	<p>August 2020 Annual periods beginning on or after 1 January 2021 These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.</p>
<p><i>Published</i> <i>Effective date</i> <b>A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16</b></p>	<p>January 2020 Annual periods beginning on or after 1 January 2022 Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company</p>

includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

The Company is not early adopting these amendments and this amendment does not have any effect on the financial statements of the Company in 2020.

*Published*

May 2020

*Effective date*

Annual periods beginning on or after 1 January 2022

**IFRS 17, 'Insurance contracts'**

This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

This amendment does not have any effect on the financial statements of the Company.

*Published*

May 2017

*Effective date*

Annual periods beginning on or after 1 January 2023

### 3. Summary of significant policies

#### 3.1 *Basis of preparation*

The Bank's financial statements for the year ended 31 December, 2020 have been prepared in accordance with International Financial Reporting Standard (IFRSs) as issued by the International Accounting Standard Board (IASB). Additional information required by the local regulators is included where appropriate. These financial statements complied with requirements of the Companies and Allied Matters Act, CAP C20, LFN 2020, the Banks and Other Financial Institutions Act, CAP B3, LFN 2020 and Financial Reporting Council of Nigeria Act, No. 6, 2011. The financial statements comprise of statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

#### 3.2 *Functional and presentation currency*

These financial statements are presented in Nigeria Naira, which is the functional currency.

#### 3.3 *Basis of measurement*

These financial statements have been prepared on the historical cost basis except for the following:

- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the fair value of the plan assets
- The plan assets for defined benefit obligation are measured at fair value

- Assets and liabilities are measured at amortised cost
- Loans and receivables are measured at amortised cost
- Financial assets measured at fair value through profit or loss
- Inventories measured at lower of cost or net realizable value.

### 3.4 *Use of estimates and judgements*

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

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

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

### 3.5 *Revenue*

This relates to the services provided to customers, exclusive value added tax and less any discounts. Revenue is recognised when the significant risks and rewards of ownership of the services have passed to the buyers, recovery of the consideration is possible, the associated costs and possible return of services can be estimated reliably, there is no continuing management involvement with the services provided and the amount of revenue can be measured reliably.

### 3.6 *Interest*

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

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

The calculation of the effective interest rate includes contractual fees paid or received transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue of disposal of a financial assets or liability.

Interest income and expenses presented in the income statement include:

- Interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis;
- Interest on financial assets measured at fair value through profit or loss calculated on an effective interest rate basis; and
- Interest on financial assets measured at fair value through OCI calculated on an effective interest rate basis.

### 3.7 ***Fees and commission***

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

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

### 3.8 ***Net income from other financial instruments at fair value through profit or loss***

Net income from other financial instruments at fair value through profit or loss relates to derivatives held for risk management purposes that do not form part of qualifying hedge relationships. Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in other operating income – mark to market gain/ (loss) on trading investments in the income statement.

### 3.9 ***Unearned income***

Unearned income on Treasury Bill represents upfront discounted interest received on treasury bills held to maturity. Under IFRS, treasury bills held to maturity and held for trading are carried at amortised cost and fair value respectively.

### 3.10. ***Dividend income***

Dividend income is recognised when the right to receive income is established. Dividends on investment in equities are reflected as a component of net trading income. Dividend income on long-term equity investments is recognised as a component of other operating income.

### 3.11 ***Financial instruments***

Financial instruments carried at the date of financial position include the loans and receivables, cash and cash equivalents and deposits. Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured as described below:



## **Financial assets and liabilities**

### **I. Recognition**

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

### **II. Classification and Measurement**

Initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

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

- Amortized cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVTPL) for trading related assets
- Equity Instruments

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

#### **Business Model Assessment**

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets
- How the performance of assets in a portfolio is evaluated and reported to management and other key decision makers within the Bank's business lines;
- The risks that affect the performance of assets held within a business model and how those risks are managed;

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

Business Model 1 (BM1): Financial assets held with the sole objective to collect contractual cash flows;

Business Model 2 (BM2): Financial assets held with the objective of both collecting contractual cash flows and selling; and

Business Model 3 (BM3): Financial assets held with neither of the objectives mentioned in BM1 or BM2 above. These are basically financial assets held with the sole objective to trade and to realize fair value changes.

The Bank may decide to sell financial instruments held under the BM1 category with the objective to collect contractual cash flows without necessarily changing its business model if one or more of the following conditions are met:

- When the Bank sells financial assets to reduce credit risk or losses because of an increase in the assets' credit risk. The Bank considers sale of financial assets that may occur in BM1 to be infrequent if the sale is one-off during the Financial Year and/or occurs at most once during the quarter or at most three (3) times within the Financial Year.
- Where these sales are infrequent even if significant in value. A Sale of financial assets is considered infrequent if the sale is one-off during the Financial Year and/or occurs at most once during the quarter or at most three (3) times within the Financial Year.
- Where these sales are insignificant in value both individually and in aggregate, even if frequent. A sale is considered insignificant if the portion of the financial assets sold is equal to or less than five (5) per cent of the carrying amount (book value) of the total assets within the business model.
- When these sales are made close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows. A sale is considered to be close to maturity if the financial assets has a tenor to maturity of not more than one (1) year and/or the difference between the remaining contractual cash flows expected from the financial asset does not exceed the cash flows from the sales by ten (10) per cent.
- Other reasons: The following reasons outlined below may constitute 'Other Reasons' (infrequent in occurrence) that may necessitate selling financial assets from the BM1 category that will not constitute a change in business model:
  - Selling the financial asset to realize cash to deal with unforeseen need for liquidity.
  - Selling the financial asset to manage credit concentration risk.
  - Selling the financial assets as a result of changes in tax laws.
  - Other situations also depend upon the facts and circumstances which need to be judged by the management

### **Cash flow characteristics assessment**

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

value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates. The Bank holds a portfolio of medium to long-term fixed rate loans for which it has the option to propose a revision of the interest rate periodically. These reset rights are limited to the market rate at the time of revision. The right to reset the rates of the loans based on the revision in market rates are part of the contractually agreed terms on inception of the loan agreement, therefore the borrowers are obligated to comply with the reset rates without any option of repayment of the loans at par at any reset date. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies with the interest rate in a way that is considered a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

a) **Financial assets measured at amortized cost**

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. Amortized cost is calculated considering any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in Interest income in the Statement of Income. Impairment on financial assets measured at amortized cost is calculated using the expected credit loss approach. Loans measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

b) **Financial assets measured at FVOCI**

Financial assets are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive Income (OCI). Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Other Income in the Statement of Income. Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Statement of Income using the effective interest rate method. Impairment

on financial assets measured at FVOCI is calculated using the expected credit loss approach.

c) **Financial assets measured at FVTPL**

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

d) **Equity Instruments**

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, any contract that evidences a residual interest in the issuer's net assets. Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized as part of Other Income in the Statement of Income.

The Bank can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer-term investment purposes. The FVOCI election is made upon initial recognition, on an instrument-by-instrument basis and once made is irrevocable. Gains and losses on these instruments including when derecognized/sold are recorded in OCI and are not subsequently reclassified to the Statement of Income. Dividends received are recorded in other income in the Statement of Income. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the Statement of Income on sale of the security. Transaction cost on disposal of equity instruments is recognized as an expense in the income statement.

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

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

e) **Financial Liabilities at amortised cost**

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

f) **Financial Liabilities at fair value through profit or loss**

Financial liabilities accounted for at fair value through profit or loss fall into two categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss on inception. A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together

and for which there is evidence of a recent actual pattern of short-term profit-taking. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'. Financial Liabilities are designated at FVTPL when either the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or the financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required. For liabilities designated at fair value through profit or loss, all changes in fair value are recognized in Other Income in the Statement of Income, except for changes in fair value arising from changes in the Bank's own credit risk which are recognized in OCI. Changes in fair value of liabilities due to changes in the Bank's own credit risk, which are recognized in OCI, are not subsequently reclassified to the Statement of Income upon derecognition/extinguishment of the liabilities.

### **Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks, balances held with other banks, Money market placements and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statements of financial position.

### **III. Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. A change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations such as significant internal restructuring and any other reason that might warrant a change in the Bank's business model as determined by management based on facts and circumstances.

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

- A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions)
- A temporary disappearance of a particular market for financial assets.
- A transfer of financial assets between parts of the Bank with different business models.

When reclassification occurs, the Bank reclassifies all affected financial assets in accordance with the new business model. Reclassification is applied prospectively from the 'reclassification date'. Reclassification date is 'the first day of the first reporting period following the change in business model. For example, if the Bank decides to shut down the corporate mortgage business segment, the reclassification date is the first day of the next reporting period.

#### IV. **Modification of financial assets and liabilities**

##### a. **Financial assets**

When the contractual terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value. Any difference between the amortized cost and the present value of the estimated future cash flows of the modified asset or consideration received on derecognition is recorded as a separate line item in profit or loss as 'gains and losses arising from the derecognition of financial assets measured at amortized cost'. If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognized, the Bank shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:

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

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

##### **Quantitative criteria**

A modification would lead to derecognition of existing financial asset and recognition of a new financial asset, i.e. substantial modification, if the discounted present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

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

##### **Qualitative criteria**

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

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

**Other factor to be considered:**

Extension of maturity dates if the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see above) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

**b. Financial Liabilities**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. The Bank derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

**De-recognition of financial instruments**

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

**V. Impairment of Financial Assets**

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

- Amortized cost financial assets;

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

### **Expected Credit Loss Impairment Model**

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

**Stage 1** – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

**Stage 2** – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

**Stage 3** – Financial instruments that are considered to be in default are included in this stage. Like Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

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

Accounts classified as either "Substandard", "Doubtful" or "Loss" are, for the purpose of this model, classified as defaulted accounts (and classified as Stage 3). All accounts classified as "Watchlist" are classified as Stage 2. In addition to this, and in line with CBN expectations, all loans that have been restructured or the term extended, are assumed to have significantly increased credit risk since origination and are thus classified as Stage 2, if not already classified as Stage 2 or Stage 3. Thus, all accounts flagged as forbearance are classified as Stage 2. However, if the Bank has evidence that not all of these accounts' credit risk has significantly increased since initial recognition, then these accounts can be re-classified as Stage 1. The Bank generates credit ratings for each obligor. Loans rated "D" are classified as stage 3 loans.



### **Measurement of Expected Credit Losses**

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

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

- **12-month PDs** – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs. The Bank obtains the constant and relevant coefficients for the various independent variables and computes the outcome by incorporating forward looking macroeconomic variables and computing the forward probability of default.
- **Lifetime PDs** – This is the estimated probability of default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for ‘stage 2’ and ‘stage 3’ exposures. PDs are limited to the maximum period of exposure required. The Bank obtains 3 years forecast for the relevant macroeconomic variables and adopts exponentiation method to compute cumulative PD for future time periods for each obligor.

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

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

### **Forward-looking information**

IFRS 9 specifies that ECLs should include a forward-looking element which translates into an allowance for changes in macro-economic conditions and forecasts when estimating lifetime ECLs. It is important to understand the effect of forecasted changes in the macro-economic environment on ECLs, so that an appropriate level of provisions can be raised. The most acceptable way of allowing for macro-economic conditions is to build a regression model that aims to explain and predict the impact of macro-economic indicators on default rates. Such regression models are usually built on a history of default rates and macro-economic variables covering at least one economic cycle, but preferable more. Information gathering is based on historical Nigerian macro-economic indicators from a host of reliable sources, including the International Monetary Fund. As a proxy for default rates, the Bank uses its non-performing loans as

a percentage of gross loans ("NPL%") metric. The following steps were followed in quantifying the impact of macro-economic scenarios on ECLs.

#### **Step 1**

Using the statistical methodology of multiple Regression, estimate the relationship between collected historical non-performing loans and on a list of macro-economic indicators.

#### **Step 2**

Identify variables that are statistically significant (that is variables that have the most significant predictive power)

#### **Step 3**

Forecast macroeconomic forward-looking information for periods over which lifetime PD will be determined

#### **Step 4**

Using the equation derived in step one as, significant coefficient obtained in step 2 as well as forecast macroeconomic forward-looking information in step 3, predict the default probability for relevant periods

#### **Step 5**

Determine Scalars for relevant period. In order to remove the impact of any historical trends included in the data, the scalar denominator is adjusted based on the estimation period used to derive the PDs.

#### **Step 6**

Apply the scalars calculated in Step 5 to the lifetime PDs as derived. A scalar factor of one means that the probability of default for the forecast year is expected to be in line with historical average probability of default. A scalar factor less than one means that the probability of default for the forecast year is expected to be less than the historical average probability of default. A scalar factor greater than one means that the probability of default for the forecast year is expected to be greater than the historical average probability of default.

#### **Assessment of Significant Increase in Credit Risk (SICR)**

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

critical in allocating financial assets into stages. The quantitative models consider deterioration in the credit rating of obligor/counterparty based on the Bank's internal rating system or External Credit Assessment Institutions (ECAI) while qualitative factors consider information such as expected forbearance, restructuring, exposure classification by licensed credit bureau, etc. A backstop is typically used to ensure that in the (unlikely) event that the primary (quantitative) indicators do not change and there is no trigger from the secondary (qualitative) indicators, an account that has breached the 30 days past due criteria for SICR and 90 days past due criteria for default is transferred to stage 2 or stage 3 as the case may be except there is a reasonable and supportable evidence available without undue cost to rebut the presumption.

### **Definition of Default and Credit Impaired Financial Assets**

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception
- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date
- Significant changes in external market indicators of credit risk for a financial instrument or similar financial instruments with the same expected life.
- An actual or expected significant change in the financial instrument's external credit rating.
- An actual or expected internal credit rating downgrade for the borrower
- Existing or forecast adverse changes in business, financial or economic conditions
- An actual or expected significant change in the operating results of the borrower
- Significant increases in credit risk on other financial instruments of the same borrower.
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower
- Significant changes in the value of the collateral supporting the obligation
- Significant changes, such as reductions, in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement
- Significant changes in the expected performance and behavior of the borrower
- Changes in the entity's credit management approach in relation to the financial instrument
- Deterioration of relevant credit risk drivers for an individual obligor (or pool of obligors);
- Expectation of forbearance or restructuring due to financial difficulties;
- Evidence that full repayment of interest and principal without realization of collateral is unlikely, regardless of the number of days past due; and
- A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not

receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, loans that are more than 30 days past due are considered impaired.

### **Presentation of allowance for ECL in the statement of financial position**

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

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

#### **VI. Write-off**

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

- continued contact with the customer is impossible;
- recovery cost is expected to be higher than the outstanding debt;
- The bank's recovery method is foreclosing collateral and the value of the collateral is such that there is no reasonable expectation of recovering the balance in full.
- Where all possible avenues for recoveries have been explored and it is evident that the financial capacity of the borrower makes it impossible to recover part or the whole amount of indebtedness.

All credit facility write-offs shall require endorsement at the appropriate level, as stated in the Bank's Credit Policy. Credit write-off approval shall be documented in writing and properly initialed by the approving authority. A write-off constitutes a derecognition event. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amount due. Whenever amounts are recovered on previously written off credit exposures, such amount recovered is recognized as income on a cash basis only.

#### **VII. Investment securities**

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

## VIII. **Repossessed Collateral**

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

### 3.13 **Property, plant and equipment**

#### 3.13.1 **Recognition and measurement**

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

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

The assets' depreciation methods, useful lives and residual values are reviewed, and written down if appropriate, at each reporting date. Assets are impaired whenever events or changes in circumstances indicate that the carrying amount is less than the recoverable amount.

#### 3.13.2 **Subsequent costs**

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

#### 3.13.3 **Depreciation of property, plant and equipment**

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

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

Property plant and equipment are tested for impairment annually. Where there is no indication of impairment, recognition is cost less accumulated depreciation.

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

<b>Items of Property, Plant and Equipment</b>	<b>Estimated Useful Life</b>
Land	-
Building	2%
Furniture and fittings	15%
Computer Equipment	25%
Motor Vehicles	16.67%
Plant and Office Equipment	20%

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

#### **Depreciable life of property, plant and equipment**

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

#### **3.13.4 De-recognition**

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

#### **3.13.5 Intangible assets**

##### **Software**

Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally developed software is recognized as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

Development costs previously expensed cannot be capitalized. The capitalized costs of internally developed software include all costs directly attributable to developing the software, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

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

The intangible assets' amortization methods, useful lives and residual values are reviewed, and written down if appropriate, at each reporting date.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most

closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The maximum useful life of software is five years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

**Item**

Computer software 20%

### 3.14 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, inclusive of deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful life or that are available for use, the recoverable amount is estimated each year.

However, the Bank chooses the cost model measurement to reassess investment property after initial recognition i.e. depreciated cost less any accumulated impairment losses.

An impairment loss is recognised in the income statement if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent of other assets and groups. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (a group of units) on a pro rata basis.

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

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

### 3.15 Equity instruments

Equity instruments issued by the Bank are recorded at the value of proceeds received, net of costs directly attributable to the issue of the instruments. Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

### 3.16 Employee benefits

#### 3.16.1 Defined contribution plans

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

For defined contribution plans, the Bank pays contributions to privately administered Pension Funds Administrators (PFA) on a mandatory, contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense in the Statements of Comprehensive Income when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The defined contribution plans comply with the provision of the Pension Reform Act 2014 as amended. The Company contributes 10% while the employees contribute 8% of employees' total emolument. The Company's contribution of 10% of employees' emolument is charged to statement of profit or loss accounts.

#### 3.16.2 Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognized in the Statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date of the Statements of financial position less the fair value of plan assets. The defined benefit obligation is calculated every other year by independent actuaries using the projected unit credit method. In determining the appropriate discount rate, the Bank considers the market yields on high quality corporate bonds, and where no such market exists, the discount rate is based on Government Bonds as compiled by the Debt Management Office.

Re-measurements arising from experience adjustments and changes in actuarial assumptions in excess of the plan assets or of the defined benefit obligation are charged or credited to Other Comprehensive Income in the financial year in which they arise. Past service costs are recognised immediately in the Income statement.

#### 3.16.3 Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of the following dates: (a) when the Bank can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due



more than 12 months after the end of the reporting period are discounted to their present value.

#### **3.16.4 Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash award or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### **3.16.5 Share-based payment transactions**

The Bank operates a cash-settled share based compensation plan for the Managing Director only. The Managing Director is entitled to share-based compensation plan only after spending ten years in the Bank. This amount is recognised as an expense and reflected as part of the share capital but not settled in cash during the period of service. The cash settlement may be done at the instance of the Managing Director at the point of exit from the Bank.

### **3.17 Income Tax**

#### **3.17.1 Current income tax**

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and it consists of Company Income Tax, Education tax and NITDA levy. Company Income tax is assessed at a statutory rate of 30% of total profit. Education tax is computed as 2% of assessable profit while NITDA levy is a 1% levy on Profit before tax of the Bank.

The Nigeria Police Trust Fund Act 2019 was passed into law. The Act requires every company in Nigeria to pay a levy of 0.005% of their net profit to the Trust Fund for a period of 6 years from commencement of the Act, after which it ceases to exist unless extended for any further period by an Act of the National Assembly.

Current income tax is recognised as an expense for the period except to the extent that current tax is related to items that are charged or credited to other comprehensive income or directly to equity. In these circumstances, deferred tax is charged or credited to other comprehensive income or to equity (for example, current tax on available-for-sale investment).

Where the Bank has tax losses that can be relieved only by carrying it forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position. The Bank evaluates positions stated in tax returns; ensuring information disclosed are in agreement with the underlying tax liability, which has been adequately provided for in the financial statements.

#### **3.17.2 Deferred tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates

(and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. However, the deferred income tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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

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

### 3.17.3 **Withholding tax**

The withholding tax credit is set off against income tax payable. Tax credits, which are considered irrecoverable, are written off as part of the tax charge for the year.

### 3.18 **Deposits**

Deposits are the Bank's sources of funding from customers. The estimated fair value of deposits is the amount payable on demand.

### 3.19 **Provisions**

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

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. The Bank recognises no provision for future operating losses.

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

### 3.20 Earnings per Share

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

Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for effects of all dilutive potential ordinary shares.

#### 3.20.1 Dividend on the Bank's ordinary shares

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

#### 3.20.2 Share capital and reserves

##### Share issue costs

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

#### 3.20.3 Fair value determination

Fair value is the amount at which an asset or liability is exchanged between knowledgeable willing parties in an arm's length transaction.

The carrying values of the Bank's financial assets and liabilities are a reasonable approximation of fair values as at the applicable reporting periods.

Fair values of equity securities with active markets were derived with reference to their markets prices as at the reporting period.

### 3.30 Critical judgment in applying the Bank's accounting policies

The Bank makes estimate and assumption about the future that affects the reported amounts of assets and liabilities. Estimates and judgment are continually evaluated and based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumption.

The effect of a change in an accounting estimate is recognized prospectively by including it in the comprehensive income in the period of the change if the change affects that period only or in the period of change and future period, if the change affects both.

The estimates and assumptions that have significant risks of causing material adjustment to the carrying amount of asset and liabilities within the next financial are discussed below:

#### 3.30.1 Impairment of Equity financial assets

The Bank determines that equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost.

This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them.

All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### **3.30.2 Determination of impairment of property, plant and equipment, and intangible assets**

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, the cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. .

### **3.31 Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs of inventories are determined on a First-in the First-out basis. Net realized value is the amount that can be realized from the sale of the inventory in the normal course of business after allowing for the cost of realization.

### **3.32 Segment reporting**

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

## 4.0 Risk management framework

The primary objective of Haggai Mortgage Bank's risk management framework is to protect the Bank's stakeholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognizes the critical importance of having efficient and effective risk management systems in place.

The Bank has established risk management functions with clear terms of reference from the Board of Directors, its Committees and the Executive Management Committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, the Internal Audit unit provides independent and objective assurance on the robustness of the risk management framework, its appropriateness and effectiveness.

Haggai Mortgage Bank's principal significant risks are assessed and mitigated under three broad headings: °

### **Strategic risks**

This specifically focused on the economic environment, the products offered and market.

The strategic risks arise from a Bank's ability to make appropriate decisions or implement appropriate business plans, strategies, decision making, resource allocation and its inability to adapt to changes in its business environment.

### **Operational Risks**

These are risks associated with inadequate or failed internal processes, people and systems, or from external events.

### **Financial Risks**

The risk associated with the financial operation of the Bank, including pricing of loans and advances, operational expenses, capital management, investments, liquidity and credit.

The Board of Directors approves the Bank's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Bank's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting to the corporate goals, and specify reporting requirements to meet.

## 4.1 Strategic risks

### 4.1.1 Capital management policies, objectives and approach

The following capital management objectives, policies and approach to managing the risks which affect its capital position are adopted by Haggai Mortgage Bank Limited:

- To maintain the required level of financial stability thereby providing a degree of security to customers.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To retain financial flexibility by maintaining strong liquidity.
- To align the profile of assets and liabilities taking account of risks inherent in the business and regulatory requirements.
- To maintain financial strength to support new business growth and to satisfy the requirements of the regulators and stakeholders.

Haggai Mortgage Bank's operations are also subject to regulatory requirements of the CBN and NDIC. In addition, annual returns must be submitted to CAC, FIRS and other regulatory authorities on a regular basis.

#### 4.1.2 Approach to capital management

The Bank seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and customers.

The Bank's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital level on a regular basis.

#### 4.1.3 Regulatory capital

The Central Bank of Nigeria, sets and monitors capital requirements for the Bank. In implementing current capital requirements, Central Bank of Nigeria requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory capital is analysed into two tiers:

- i. Tier 1 capital: includes share capital, share premium, retained earnings and reserves created by appropriations, statutory reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- ii. Tier 2 capital: includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealized gains on equity financial asset.

The Bank's primary source of capital used is by equity shareholders' funds.

There are no significant changes to its capital structure during the year under review.

#### 4.1.4 Capital adequacy ratio

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base.

**The capital adequacy ratio is computed as follows:**

	<b>2020</b>	<b>2019</b>
	<b>₦'000</b>	<b>₦'000</b>
<b>Tier 1 Capital</b>		
Ordinary share capital	2,176,838	2,176,838
Share premium	2,723,508	2,723,508
Statutory reserve	979,095	929,628
Statutory Credit reserve	106,284	114,198
Retained earnings	300,778	544,650
Intangible Assets	<u>(50,879)</u>	<u>(70,113)</u>
<b>Total Tier 1</b>	<b><u>6,235,624</u></b>	<b><u>6,418,709</u></b>
<b>Tier 2 Capital</b>	-	-
	<u>=====</u>	<u>=====</u>
<b>Risk weighted assets</b>		
On balance sheet	5,788,784	7,287,512
Off balance sheet	<u>-</u>	<u>-</u>
Total risk weighted assets	<b><u>5,788,784</u></b>	<b><u>7,287,512</u></b>
Bank's risk-weighted capital adequacy ratio	108%	88%
Minimum Regulatory requirement ratio	10%	10%

**4.2 Operational risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the bank's processes, personnel, technology and infrastructure, and from external factors such as regulatory levies, fees and prompt loan repayment. Others are legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost-effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each unit. This responsibility is supported by the development of operational standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.

- Training and professional development.
- Ethical and business standards.

### 4.3 Financial risks

The Bank has exposure to the following risks from financial instruments:

- Credit risks
- Liquidity risks
- Market risks

#### Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors. Risk management is carried out by a central Risk Management Department under policies approved by the Board of Directors. Risk Management Department identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk and market risk (which are discussed below).

#### 4.3.1 Credit risk

Mortgage lending and other financial activities form the core business of the Bank. The Bank recognises this and has placed great emphasis on effective management of its exposure to credit risk. The Bank defines credit risk as the risk of counterparty failure to meet the terms of any lending contract with the Bank or otherwise to perform as agreed.

Credit risks arise any time the Bank's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements.

The bank's specific credit risk objectives as contained in the risk management framework are:

- Effective evaluation of portfolio for efficiency.
- Establishment of a credit culture that reflects the Bank's risk tolerance limits.
- Establishment of formal underwriting standards for on-balance sheet assets.
- Development of a standard best practice process in credit risk management.

The Product and Assets Management Department is required to implement credit policies and procedures in line with the credit approval authorities granted by the Board. The Product and assets Management Department is responsible for the quality and



Performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to Management Credit Committees approval.

The Internal Audit and Risk Management units respectively undertake regular audits of the department and credit quality reviews. The Bank continues to focus attention on intrinsic and concentration risks inherent in its business to manage the Bank's portfolio risk. It sets portfolio concentration limits that are measured under the following parameters; concentration limits per obligor, industry, and rating grade. The limits reflect the risk appetite of the Bank.

### **Management of credit risk**

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

#### **4.3.2 a. Credit risk measurement**

In measuring credit risk of loans and advances to customers, the Bank reflects the following components:

- The character and capacity to pay up the customer on its contractual obligations
- Current exposures to the counterparty and its likely future development
- The likely recovery ratio in the case of default obligations — value of collateral and other ways out.

The Bank's rating scale reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded when necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

### **Collateral Risk Rating (CRR) Facility Risk Rating (FRR)**

- The bank does not lend to speculative obligors on an unsecured basis. The Facility Risk Rating (FRR) is different from the Obligor Risk Rating (ORR) to the extent of the perceived value of enhancement provided.
- The collateral risk rating grid indicates the acceptable collateral types rated 1.10 from best to worst in order of liquidity.
- Ratings and scoring models are in use for all key credit portfolios and form the basis for measuring default risks;
- In measuring credit risk of loan and advances at a counterparty level, the Bank considers three components:
  1. The probability of default (PD)
  2. Exposure to the counterparty and its likely future development, from which the Bank derive the 'exposure at default' (EAD); and
  3. The likely recovery ratio on the defaulted obligations (the "loss given default") LGD.

## 1. Probability of Default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to various categories of the counterparty. They have been developed internally and combined Statistical analysis with Risk Management officer's judgment. The rating template combines both qualitative and quantitative factors to arrive at a rating which is comparative to internationally available standards.

The rating methods are subject to semi-annual validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

The rating grid with description is as follows:

Rating Grade	Description	Score	Group Description
1	Exceptional Capacity	AAA	Performing
2	Very Strong Capacity	AA	
3	Strong Repayment Capacity	A	
4	Good Credit Quality & Adequate Repayment	BBB	
5	Possibility that Credit Risk may occur	BB	
6	Significant Credit Risk may occur but meets all obligations	B	
7	Default is a real possibility	CCC	Watch list
8	Default is probable	CC	Non-performing
9	Default is imminent	C	
10	Default/Loss	D	

The first six ratings apply to active credits or newly proposed credits while the last four ratings apply to watch-list and delinquent credits, which are due to be called in or already handed over to debt collectors.

**Performing** (Rating 1-6) — Facility has a strong tendency of repayment within approved tenor; interest and principal are being repaid as and when due.

**Watch-list** (Rating 7) — Facility demonstrates some early warning signal of deficiency and has a tendency to default either in respect of the principal or accrued interest.

**Substandard and Doubtful** — (Ratings 8 & 9) - this rating is applied where a strong doubt exists that full repayment of principal and interest will occur. The exact extent of the potential loss is not, however, certain at the time of classification.

**Loss** (Rating 10) — facility is actually in default and principal and or interest overdue remain unpaid for more than 365 days for legacy loans, (i.e Commercial loans existing before the Revised Guidelines for Primary Mortgage Banks in Nigeria), 2 years from due date for Mortgage Loans and more than 3 years for Commercial Real Estate Finance.

## 2. **Exposure at Default (EAD)**

EAD is the amount the Bank expects to be owed at the time of default or reporting date. For example, for a loan, this is the face value (principal plus interest). The Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default should it occur.

## 3. **Loss Given Default (LGD)**

LGD represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

The measurement of exposure to default and loss given default is based on the risk parameters standard under Basel II.

### (b) **Risk limit control and mitigation policies**

The Bank manages, limits and controls concentrations of credit risk wherever they are identified “in particular, to individual, churches and corporate bodies.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review when considered necessary.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of the probability of default.

### (c) **Collateral**

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

The principal collateral types for loans and advances are:

- Mortgages over residential properties/commercial properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.
- Undertakings/ guarantees of the church council, province, area and parishes for churches.

Longer-term finance and lending to corporate entities are generally secured by any of the security type stated above.

## 4.4 **Use of estimates and judgements and disclosure of financial risk management**

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management discusses with the Board Finance and Risk Committee on the development, selection and disclosure of the Bank's critical accounting policies and their application, and assumptions made relating to major estimation uncertainties. Information about assumptions and estimation of 'uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the individual financial statements is disclosed below.

These disclosures supplement the commentary on financial risk management note 4.3 to these financial statements.

#### 4.5 **Determination of regulatory risk reserves**

Provisions under prudential guidelines are determined using the time base provisioning regime prescribed by the Revised Central Bank of Nigeria (CBN) Prudential Guidelines for Primary Mortgage Institutions. This is at variance with the expected credit loss model required by IFRS under IFRS 9. As a result of the differences in the methodology/provision regime, there will be variances in the impairments allowances required under the two methodologies.

By CBN (OFISD) circular letter to All Other Financial Institutions dated October 11, 2013, impairment for loans recognised in the statement of comprehensive income account is determined based on the requirements of IFRS. However, the IFRS impairment is compared with provisions determined under prudential guidelines and the expected impact/changes are recognised in general reserve as follows:

- If a prudential provision is greater than IFRS impairment; the excess provision resulting therefrom is transferred from the general reserve account to a "regulatory risk reserve".
- If a prudential provision is less than IFRS impairment; IFRS determined impairment is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account.

The regulatory risk reserve is considered a non-distributable reserve and classified under Tier 1 as part of the core capital. The Bank has complied with the requirements of the guidelines.

#### 4.6 **Key sources of estimation uncertainty**

##### **Allowance for credit losses**

Assets accounted for at amortised cost are evaluated for impairment on a basis described in the accounting policy 3.11(v).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counter party's financial situation and the net realisable value of any underlying collateral. Each

impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held to maturity investment securities with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held to maturity investment securities, but the individually impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances are estimated.

#### 4.7 **Maximum exposure to credit risk before collateral held or other credit enhancements**

Credit risk exposures relating to financial assets are as follows:

	<b>Maximum Exposure</b>	
	<b>2020</b>	<b>2019</b>
	<b>₦'000</b>	<b>₦'000</b>
Mortgage loans	3,973,589	5,949,012
Overdrawn balances	196,236	731,771
Staff loans	13,718	7,379
Financial asset through profit or loss	103,179	104,391
Financial assets @ amortised cost	3,714,943	2,216,857
Other assets	<u>208,944</u>	<u>152,891</u>
	<u>8,210,609</u>	<u>9,162,301</u>

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December, 2020 and 2019, without taking account of any collateral held or other credit enhancements' attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 51% of the total maximum exposure is derived from loans and advances to banks and customers (2019: 73%); 49% represents investments in government debt securities (2019: 27%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- Mortgage loans, which represents the Bank's biggest portfolio, are backed by collateral;
- 93% of the loans and advances portfolio are considered to be neither past due nor impaired (2019: 95%)

- The Bank has introduced a more stringent selection process on granting loans and advances.

#### 4.8 Loans and other receivables

Loans and other receivables are summarized as follows:

	<b>Mortgage Loans</b>	<b>Overdraft</b>	<b>Total</b>
	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
Neither Past due nor impaired	3,859,373	47,560	3,906,933
Past due but not impaired	-	-	-
Individually impaired	<u>127,934</u>	<u>148,676</u>	<u>276,610</u>
Gross	3,987,307	196,236	4,183,543
Less: allowance for Impairment	<u>(100,966)</u>	<u>(8,591)</u>	<u>(109,557)</u>
	<u>3,886,341</u>	<u>187,645</u>	<u>4,073,986</u>

#### 4.9 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

#### 4.10 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from commitments and other cash outflows. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments.

The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

##### (a) Maturity Profiling

Maturity profiles of the Bank's financial instrument liabilities -

##### 2020

The table below summarizes the maturity profile of the financial liabilities of the Bank based on the remaining undiscounted contractual obligations:

	<b>On demand</b>	<b>Less than a year</b>	<b>Between 1 and 5 years</b>	<b>Above 5 years</b>
	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
Deposit from Customers	3,185,860	3,707,603	275,368	-
Income tax Payables	-	-	-	-
Deferred tax liabilities	-	-	79,570	-
	<u>3,185,860</u>	<u>3,707,603</u>	<u>354,938</u>	<u>-</u>
	=====	=====	=====	=====

**2020****Maturity profiles of the Bank's financial assets**

	<b>On demand</b>	<b>Less than A year</b>	<b>Between 1 and 5 years</b>	<b>Above 5 years</b>
	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
Cash and cash equivalent	1,106,029	4,219,212	-	-
Financial asset held through profit or loss	103,179	-	-	-
Financial assets at amortised cost	-	3,714,943	-	-
Loans and other receivables	<u>196,236</u>	<u>-</u>	<u>3,987,307</u>	<u>-</u>
	<u>1,405,444</u>	<u>7,934,155</u>	<u>3,987,307</u>	<u>-</u>
	=====	=====	=====	=====

**2019**

The table below summarizes the maturity profile of the financial liabilities of the Bank based on the remaining undiscounted contractual obligations:

	<b>On demand</b>	<b>Less than a year</b>	<b>Between 1 and 5 years</b>	<b>Above 5 years</b>
	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
Deposit from Customers	1,801,817	3,470,509	105,843	-
Income tax Payables	131,067	-	-	-
Deferred tax liabilities	-	-	79,570	-
	<u>1,932,884</u>	<u>3,470,509</u>	<u>185,413</u>	<u>-</u>
	=====	=====	=====	=====

**2019****Maturity profiles of the Bank's financial assets**

	<b>On demand</b>	<b>Less than A year</b>	<b>Between 1 and 5 years</b>	<b>Above 5 years</b>
	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
Cash and cash equivalent	718,662	2,171,000	-	-
Financial asset through profit or loss	4,391	-	-	-
Financial asset at amortised cost	-	2,216,857	-	-
Loans and other receivables	<u>731,771</u>	<u>-</u>	<u>5,956,391</u>	<u>-</u>
	<u>1,454,824</u>	<u>4,387,857</u>	<u>5,956,391</u>	<u>-</u>
	=====	=====	=====	=====

## b) **Liquidity risk management process**

The Bank's liquidity management process as carried out within the Bank and monitored by Bank Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

## c) **Assets held for managing liquidity risk**

The Bank holds a diversified portfolio of cash and high-quality, high-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held managing liquidity risk comprise:

- Cash and balances with correspondent banks
- Government Treasury bills

## 4.11 **Fair value measurement of financial assets and liabilities**

### **Fair value hierarchy**

IFRS 13 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 three types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.



- Level 3 – input for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

	<b>2020</b>	<b>2019</b>
	<b>₦'000</b>	<b>₦'000</b>
<b>5 Cash and cash equivalents</b>		
Cash in vault	21,150	26,528
Balances with other Banks	945,853	567,696
Cash reserves with CBN	139,026	124,438
Placements with other banks and financial institutions	4,136,975	2,162,875
Interest receivables on placements	<u>82,239</u>	<u>8,125</u>
	<u>5,325,241</u>	<u>2,889,662</u>
	=====	=====
<b>6 Financial assets through profit or loss</b>	<u>103,179</u>	<u>104,391</u>
	=====	=====
<b>i. Listed</b>		
As at 1 January	4,391	4,241
Unrealised gain on investment Valuation	<u>(1,212)</u>	<u>150</u>
As at 31 December	<u>3,179</u>	<u>4,391</u>
	=====	=====
<b>ii. Unlisted</b>		
As at 1 January	100,000	100,000
Addition during the year	<u>-</u>	<u>-</u>
As at 31 December	<u>100,000</u>	<u>100,000</u>
	=====	=====

This represents the Bank's investment in the Nigeria Mortgage Refinance Company Plc ordinary shares of ₦1 each having been allotted 25,000,000 units at ₦4 per share. This investment is not an interest yielding one. In 2017, the company announced a bonus dividend of 1 for every 9 shares held. Consequently, the Bank's share holding increased from 25,000,000 ordinary shares to 27,777,777 ordinary shares @₦4 each.

	<b>2020</b>	<b>2019</b>
	<b>₦'000</b>	<b>₦'000</b>
<b>7 Financial Assets at amortised cost</b>		
Treasury bills	3,770,956	2,295,873
Unearned Interest Income	<u>(56,013)</u>	<u>(79,016)</u>
	<u>3,714,943</u>	<u>2,216,857</u>
<b>8 Mortgage loans and Advances</b>		
Loans to customers	3,973,589	5,949,012
Overdrawn balances	196,236	731,771
Staff loans	<u>13,718</u>	<u>7,379</u>
Total loans	4,183,543	6,688,162
Less specific allowance (note 8.1)	(100,966)	(69,842)
Less collective allowance (note 8.2)	<u>(8,591)</u>	<u>(31,127)</u>
	<u>4,073,986</u>	<u>6,587,193</u>
<b>8.1 Specific allowance for impairments on loans and advances to customers</b>		
As at 1 January	69,842	93,169
Charge for the year	11,024	6,234
Amount written off	(7,082)	-
Transfer to statutory credit reserve/allowance no longer required	<u>27,182</u>	<u>(29,561)</u>
As at 31 December	<u>100,966</u>	<u>69,842</u>
<b>8.2 Collective allowance for impairments on loans and advances to customers</b>		
As at 1 January	31,127	742
Charge for the year	8,374	30,385
Transfer to statutory credit reserve	<u>(30,910)</u>	<u>-</u>
As at 31 December	<u>8,591</u>	<u>31,127</u>
<b>8.3 Summary of collective allowances for impairments on loans and advances in the Income Statement</b>		
Specific allowances for impairment	11,024	6,234
Collective allowances for impairment	<u>8,374</u>	<u>30,385</u>
	<u>19,398</u>	<u>36,619</u>
<b>Total impairment recognised in the financial statement is as follows:</b>		
<i>As per IFRS</i>		
Specific	100,966	69,842
Collective	8,591	31,127
Statutory credit reserve	<u>106,284</u>	<u>114,198</u>
	<u>215,841</u>	<u>215,167</u>
<b>8.4 Analysis by types of loans</b>		
Mortgage loans	3,342,842	4,641,241
Residential Mortgage loan	630,747	1,307,771
Overdrawn balances	196,236	731,771
Staff loan	<u>13,718</u>	<u>7,379</u>
	<u>4,183,543</u>	<u>6,688,162</u>

8.5	<b>Analysis as per prudential guidelines provisioning</b>	<b>2020</b>	<b>2019</b>
		<b>₦'000</b>	<b>₦'000</b>
	Performing	47,973	63,283
	Watch list	-	149
	Substandard	12,082	707
	Doubtful	-	35,178
	Lost	<u>155,786</u>	<u>115,850</u>
		<u>215,841</u>	<u>215,167</u>
<b>9</b>	<b>Other assets</b>		
	Prepayments	16,391	30,220
	Prepaid sundry expenses	30,715	62,118
	Sundry debtors	546	2,632
	Assets not yet in use	3,148	-
	Remita receivable	131,099	56,530
	NIP receivables	<u>29,156</u>	<u>3,068</u>
		211,055	154,568
	Less collective allowances for impairment (Note 9.1)	<u>(2,111)</u>	<u>(1,677)</u>
		<u>208,944</u>	<u>152,891</u>
<b>9.1</b>	<b>Collective allowances for impairment</b>		
	As at 1 January	1,677	855
	Charged for the year	<u>434</u>	<u>822</u>
	As at 31 December	<u>2,111</u>	<u>1,677</u>
<b>10</b>	<b>Inventories</b>		
	Stock of stationaries	<u>6,765</u>	<u>6,669</u>
<b>11</b>	<b>Intangible Assets</b>		
	Cost		
	As at 1 January	168,318	160,943
	Additions during the year	<u>2,150</u>	<u>7,375</u>
	As at 31 December	<u>170,468</u>	<u>168,318</u>
	<b>Amortization</b>		
	As at 1 January	98,205	75,873
	Charge for the year	<u>21,384</u>	<u>22,332</u>
	As at 31 December	<u>119,589</u>	<u>98,205</u>
	<b>Carrying amount</b>		
	31 December, 2020	<u>50,879</u>	<u>70,113</u>
	31 December, 2019	<u>70,113</u>	<u>85,070</u>

## 12 Property, plant &amp; equipment

	Land	Building	Plant and Office Equipment	Furniture &Fittings	Computer Equipment	Motor Vehicle	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
<b>Cost:</b>							
As at 1 Jan 2020	76,244	152,473	63,668	33,950	145,122	165,062	636,519
Additions	-	9,678	3,418	580	6,343	26,775	46,794
Disposal	-	-	(242)	-	(1,779)	(4,395)	(6,416)
As at 31st Dec 2020	76,244	162,151	66,844	34,530	149,686	187,442	676,897
<b>Depreciation</b>							
As at 1 Jan 2020	-	29,215	52,266	29,421	104,809	92,309	308,020
Charge for the year	-	3,098	3,707	1,584	16,301	37,722	62,412
Disposal	-	-	(242)	-	(1,303)	(4,395)	(5,940)
As at 31st Dec 2020	-	32,313	55,731	31,005	119,807	125,636	364,492
<b>Carrying amount</b>							
As at 31 December 2020	76,244	129,838	11,113	3,525	29,879	61,806	312,405
As at 31 December 2019	76,244	123,258	11,402	4,529	40,313	72,753	328,499

	<b>2020</b>	<b>2019</b>
	<b>₦'000</b>	<b>₦'000</b>
<b>13 Deposit from Customers</b>		
Current accounts	2,401,114	1,801,817
Savings accounts	183,726	105,843
Fixed deposits	<u>4,583,991</u>	<u>3,470,509</u>
	<u>7,168,831</u>	<u>5,378,169</u>
	=====	=====
<b>13.1 Analysis by maturity</b>		
Maturity under 1 month	3,185,860	4,143,112
Maturity between 1 - 3 months	1,107,453	940,972
Maturity between 3 - 6 months	1,389,678	11,351
Maturity between 6 - 12 months	1,210,472	23
Over 1 year	<u>275,368</u>	<u>282,711</u>
	<u>7,168,831</u>	<u>5,378,169</u>
	=====	=====
<b>14 Other Liabilities</b>		
Dividend payable (14.1)	17,859	17,926
Sundry accounts payable	<u>192,710</u>	<u>238,120</u>
	<u>210,569</u>	<u>256,046</u>
	=====	=====
<b>14.1 Dividend payable</b>		
As at 1 January	17,926	20,528
Dividend declared	435,368	498,071
Dividend paid	<u>(435,435)</u>	<u>(500,673)</u>
As at 31 December	<u>17,859</u>	<u>17,926</u>
	=====	=====
<b>14.2</b>	In respect of the current year, the director proposed a dividend of ...k (2019-20k per ordinary shares)	
<b>14.3 Sundry accounts payable</b>		
Perfection/Search fee accrued	7,716	10,997
Corporate tithe accrued	29,050	71,299
Manager's cheque payable	10,384	9,153
Interest payable	23,988	54,362
Other accounts payable (Note 14.3.1)	<u>121,572</u>	<u>92,309</u>
	<u>192,710</u>	<u>238,120</u>
	=====	=====

	<b>2020</b>	<b>2019</b>
	<b>₦'000</b>	<b>₦'000</b>
<b>14.3.1 Other accounts payables</b>		
Remita payable	42,355	43,281
Sundry creditors	28,174	28,066
Accrued expenses	6,521	4,790
Provision for industrial training fund	3,298	3,548
Stale Draft Account	3,465	3,465
Withholding tax payable - FG	1,558	2,081
Shortage and overages	1,725	1,704
Provision for NSITF	-	1,020
Mobile app payable account	4,786	919
Withholding tax payable – State Government	45	819
CBN NIPOST stamp duty collection account	2,379	768
Mortgage Licence Acquisition Retainership	710	710
Remita transit account	6,019	341
Provision for credit bureau	125	262
Staff Salary Suspense A/C	250	250
Centric gateway Limited/Airtime recharge account	809	147
Withholding tax on professional fee	-	100
ATM payable account	562	37
Mobile App VAT account	3	1
USSD payable account	114	-
Staff performance bonus scheme	15,620	-
PAYE	<u>3,054</u>	<u>-</u>
	<u>121,572</u>	<u>92,309</u>
	=====	=====
<b>15 Tax</b>		
<b>15.1 Income tax payable</b>		
As at 1 January	131,067	58,610
Charge for the year	50,839	131,067
Payment made during the year	<u>(131,067)</u>	<u>(58,610)</u>
As at 31 December	<u>50,839</u>	<u>131,067</u>
	=====	=====
<b>15.2 Income tax expense</b>		
Education tax	3,979	8,707
Company income tax	43,863	115,887
Nigeria Police Trust Fund levy	15	-
NITDA levy	<u>2,982</u>	<u>6,473</u>
	<u>50,839</u>	<u>131,067</u>
Deferred tax	<u>30</u>	<u>(3,702)</u>
	<u>50,869</u>	<u>127,365</u>
	=====	=====

	<b>2020</b>	<b>2019</b>
	<b>₦'000</b>	<b>₦'000</b>
<b>15.3 Tax Reconciliation</b>		
Profit before tax	298,200	647,330
	=====	=====
Tax calculated at statutory rate	95,424	207,146
	=====	=====
<i><b>Tax effect of:</b></i>		
Disallowable expenses	39,133	49,756
Non taxable income	(70,886)	(117,585)
Capital allowance	<u>(15,829)</u>	<u>(14,722)</u>
Income tax expenses for the year	47,842	124,595
	=====	=====
Effective tax rate	16%	19%
	=====	=====
<b>15.4 Deferred tax</b>		
As at 1 January	79,570	83,272
(Release)/Charge for the year	<u>30</u>	<u>(3,702)</u>
As at 31 December	79,600	79,570
	=====	=====
<b>16 Post Employee Benefit</b>		
Defined benefit plan	-	-
	=====	=====
<b>16.1 Movement in the present value of defined benefit obligation</b>		
Defined benefit obligation as at 1 January	-	36,000
Benefit paid by the plan	-	(14,462)
Current service	-	-
Fund from asset management	-	14,462
Transfer to asset management	-	(36,000)
Past service cost	-	-
Actuarial (gains)/loss in other comprehensive income	<u>-</u>	<u>-</u>
	-	-
	=====	=====
<b>16.2</b>		
The most recent valuation of the plan assets and the present value of the defined benefit obligation was carried out as at 31 December, 2020 by Bestwole Developments Limited (FRC/2013/NAS/00000000986). The present value of the defined benefit obligation and the related current service cost and past service cost were measured using the projected credit method by IAS 19. The surplus on the plan with the asset manager is detailed below:		
<b>Defined benefit plan</b>		
Fair value of asset plan	266,050	252,955
Present value of obligations	<u>(234,936)</u>	<u>(216,955)</u>
Surplus during the year	31,114	36,000
	=====	=====

	<b>2020</b>	<b>2019</b>
	<b>₦'000</b>	<b>₦'000</b>
17 <b>Authorised share capital</b> 5,000,000,000 ordinary shares of ₦1 each	5,000,000	5,000,000
17.1 <b>Issued and fully paid</b> ₦2,176,838,000 shares of ₦1 each	2,176,838	2,176,838
18 <b>Share premium</b>	2,723,508	2,723,508
19 <b>Statutory reserves</b>		
As at 1 January	929,628	825,635
<i>Transfer from income statement</i>	<u>49,467</u>	<u>103,993</u>
As at 31 December	<u>979,095</u>	<u>929,628</u>
20 <b>Statutory credit risk reserves</b>		
As at 1 January	114,198	129,050
Recoveries	(18,010)	(35,432)
Transfer from IFRS impairment allowance	3,728	29,561
Transfer (to)/from IFRS retained earnings	<u>6,368</u>	<u>(8,981)</u>
As at 31 December	<u>106,284</u>	<u>114,198</u>
	<b>Restated</b>	
	<b>12 Month ended</b>	<b>12 Month ended</b>
	<b>31/12/2020</b>	<b>31/12/2019</b>
	<b>₦'000</b>	<b>₦'000</b>
21 <b>Retained earnings</b>		
As at 1 January	544,650	620,370
Transfer to statutory reserve	(49,467)	(103,993)
Transfer from/to statutory credit reserve	(6,368)	8,981
Dividend declared	(435,368)	(500,673)
Transfer from income statement	<u>247,331</u>	<u>519,965</u>
	<u>300,778</u>	<u>567,251</u>

During the year, additional assessments on tax was given to the Bank, while there were WHT credit notes received. This gives rise to the opening balance of 2019 being restated.

Balance as at 1 January, 2019	642,971
WHT tax received on income already earned	2,660
Additional tax charged on CIT	<u>(25,261)</u>
	<u>620,370</u>
	<b>2020</b>
	<b>2019</b>



22	<b>Interest and similar income</b>	<b>₦'000</b>	<b>₦'000</b>
	Interest on placements	68,506	78,816
	Interest income on overdrawn balances	48,852	164,986
	Interest income on loans and advances	<u>808,881</u>	<u>1,164,517</u>
		<u>926,239</u>	<u>1,408,319</u>
23	<b>Interest and similar expenses</b>		
	Interest paid on savings accounts	3,659	3,284
	Interest paid on deposits accounts	<u>175,527</u>	<u>311,472</u>
		<u>179,186</u>	<u>314,756</u>
24	<b>Impairment charge</b>		
	Specific impairment for loans and advances	11,024	6,234
	Collective impairment for loans and advances	8,374	30,385
	Impairment on other assets	<u>434</u>	<u>821</u>
		<u>19,832</u>	<u>37,440</u>
25	<b>Fees and commission income</b>		
	Current account maintenance charge	18,413	20,686
	Legal fee	-	898
	Processing fees	-	26,277
	Management fees	<u>11,413</u>	<u>18,214</u>
		<u>29,826</u>	<u>66,075</u>
26	<b>Other Income</b>		
	Interest on treasury bills (Note 26.1)	210,620	367,206
	Interest on SAML Fund (Note 26.1)	66,631	246
	Dividend income	10,750	-
	Sundry income	27,081	30,661
	Consolidated Income	4,665	3,809
	Cheque discounting income	5	9
	(Loss)/gain on financial assets through fair value		
	Through profit or loss account	(1,212)	150
	(Loss)/profit on sale of assets	118	(3,386)
	SMS charges	1,143	1,740
	Income from sale of cheque books	3,536	2,693
	Cashless service charges/fees	<u>128</u>	<u>326</u>
		<u>323,467</u>	<u>403,454</u>
26.1	The classification of interest on treasury bills and bonds to other income is by regulatory requirement of the Central Bank of Nigeria.		
27	<b>Personnel expenses</b>		
	Staff salaries and allowances	306,195	316,070
	Staff training	2,819	9,327
	Staff pension employer contribution	29,421	30,485
	Staff uniform	<u>59</u>	<u>834</u>
		<u>338,494</u>	<u>356,716</u>

	<b>2020</b>	<b>2019</b>
	<b>N'000</b>	<b>N'000</b>
<b>28 General and Administrative expenses</b>		
Repairs and maintenance	13,092	17,739
Printing and stationaries	5,410	9,342
Audit fee	4,000	4,000
Consulting/Professional fees	3,386	3,842
Business development	26,409	35,010
Telephone and postages	3,115	2,682
Provision for staff performance bonus	15,620	-
Corporate tithe	29,678	71,926
Other overhead cost (note 28.1)	<u>253,942</u>	<u>290,187</u>
	<u>354,652</u>	<u>434,728</u>
<b>28.1 Other overhead cost</b>		
Subscription	17,830	34,330
Seminar/conference	5,429	35,886
Transport and travelling	15,998	24,019
Internet service	35,920	23,292
Directors travelling allowance	20,937	20,938
End of year expenses	21,232	20,589
NDIC insurance premium	18,327	15,093
Post employment benefit	16,640	14,419
Office expenses	18,753	13,757
Insurance	14,239	12,982
Directors sitting allowance	9,050	12,600
Directors' fees	11,250	11,250
Electricity/electrical	9,190	8,797
Diesel & lubricants	5,378	8,065
Security expenses	8,412	7,052
Office entertainment	6,612	7,033
Fuel & lubricant	4,551	4,966
Industrial training fund	3,638	3,547
Annual general meeting	1,026	3,139
NSITF expense account	2,991	3,059
Premises maintenance	3,028	2,926
Water	928	1,117
Rates	2,029	1,061
Newspaper/periodicals	191	208
Professional Member. Subscription	95	62
Debit card expenses	<u>268</u>	<u>-</u>
	<u>253,942</u>	<u>290,187</u>
<b>29 Depreciation and Amortization charges</b>		
Depreciation	62,412	57,826
Amortization	<u>21,384</u>	<u>22,332</u>
	<u>83,796</u>	<u>80,158</u>
	<b>2020</b>	<b>2019</b>

<b>30</b>	<b>Profit before tax is arrived at after charging</b>	<b>₦'000</b>	<b>₦'000</b>
	Depreciation and amortization	83,796	80,158
	Auditors' remuneration	4,000	4,000
	Directors' fees and allowances	41,237	44,788
		<u>          </u>	<u>          </u>
<b>31</b>	<b>Directors Emoluments</b>		
	Fees	11,250	11,250
	Sitting allowance	9,050	12,600
	Travel allowance	20,937	20,938
		41,237	44,788
		<u>          </u>	<u>          </u>

Fees and emoluments disclosed above includes amount paid to:

Chairman	5,436	5,436
Highest paid Director	5,125	5,125
	<u>          </u>	<u>          </u>

**32 Related party disclosures**

The under-listed related party transactions occurred during the year:

Insider related credits

	<b>Director related to</b>	<b>Type of facility</b>	<b>Outstanding amount</b>	<b>Status</b>
i. ABAX OOSA Professional	Bababode	Mortgage		
	Osunkoya	Loan	12,717	Performing
ii. Obafunmilayo Augusto		Mortgage		
		Loan	17,999	Performing
iii. Bababode Osunkoya		mortgage loan	80,336	Performing
			<u>111,052</u>	
			<u>          </u>	

**33 a Employee remunerated at higher rate**

		<b>2020 Number</b>	<b>2019 Number</b>
₦	₦		
30,001	- 100,000	-	-
100,001	- 200,000	32	32
200,001	- 300,000	4	4
300,001	- 400,000	9	10
400,001	- 500,000	11	12
500,001	- 600,000	-	-
600,001	- 700,000	9	9
700,001	- 800,000	7	7
800,001	- 900,000	7	8
900,001	- 1,000,000	-	1
1,000,001	- 1,200,000	5	6
1,200,001	- 1,400,000	2	-
1,400,001	- 1,500,000	5	1
1,700,001	- 2,400,000	2	5
2,400,000 and above		<u>2</u>	<u>2</u>
		95	97
		<u>          </u>	<u>          </u>

b	<b>Average number of persons employed during the year</b>	<b>2020</b>	<b>2019</b>
		<b>Number</b>	<b>Number</b>
	Managerial	14	9
	Others	<u>81</u>	<u>88</u>
		95	97
		====	====
c	<b>Related staff costs amount to:</b>	<b>2020</b>	<b>2019</b>
		<b>₦'000</b>	<b>₦'000</b>
	Staff salaries and allowances	306,195	316,070
	Staff training	2,819	9,327
	Staff pension employer contribution	29,421	30,485
	Staff uniform	<u>59</u>	<u>834</u>
		338,494	356,716
		=====	=====

34. **Guarantees and other financial commitments**

The Directors are of the opinion that there are no known commitments and liabilities which are relevant in assessing the state of affairs of the company during the period under review.

35. **Contingent Liabilities**

The Directors are of the opinion that there are no known contingent liabilities as at the end of the period.

36. **Foreign currency transactions**

The company has no transaction denominated in foreign currency within the reporting period.

37. **Events after the reporting period**

The COVID 19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effect of COVID 19 such as safety and health measures for our people (Social distancing and work spacing) and securing supply of material that are essential to our service deliveries.

At this stage, the pandemic has impacted negatively on our business as a significant part of our target market was mostly affected by the shut-down and the attendant business disruptions. However, we will continue to follow the various government policies and advice and simultaneous, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

38. **Going concern**

Management has considered the consequence of COVID 19 and other events and conditions and it has determined that they do not create a material uncertainty that casts significant doubt upon the entity's ability to continue as a going concern.

The impact of COVID 19 on the future performance and therefore on the measurement of some assets and liabilities or on liquidity might be significant and might therefore require disclosure in the financial statements but management has determined that they do not create a material uncertainty that casts significant doubt upon entity's ability to continue as a going concern.

39. **Contravention of laws and regulation**

The Bank did not contravene any regulations that required the payment of penalty during the year.

40. **Fraud and forgeries**

During the year, no incident of fraud or forgeries occurred.

41. **Approval of financial statements**

The financial statements were approved by the Board of Directors on ... March, 2021.

## **OTHER NATIONAL DISCLOSURES**

## HAGGAI MORTGAGE BANK LTD

**VALUE ADDED STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER, 2020**

	<b>2020</b>		<b>2019</b>	
	<b>₦'000</b>	<b>%</b>	<b>₦'000</b>	<b>%</b>
Gross earnings	1,279,532		1,877,848	
Interest expenses	<u>(179,186)</u>		<u>(314,756)</u>	
	<b>1,100,346</b>		<b>1,563,092</b>	
Bought in materials and services	<u>(379,856)</u>		<u>(478,888)</u>	
<b>Value added</b>	<b><u>720,490</u></b>	<b>100</b>	<b><u>1,084,204</u></b>	<b>100</b>
	=====	===	=====	===
<b>Applied as follows:</b>				
<b>In payment to employees</b>				
Salaries and other benefits	338,494	47	356,716	33
<b>In payment to government</b>				
Taxation	50,839	7	131,067	12
<b>Retained for future maintenance of assets</b>				
Depreciation & amortisation	83,796	12	80,158	7
Deferred tax	30	-	(3,702)	-
Retained profit for the year	<u>247,331</u>	<u>34</u>	<u>519,965</u>	<u>48</u>
<b>Value added</b>	<b><u>720,490</u></b>	<b>100</b>	<b><u>1,084,204</u></b>	<b>100</b>
	=====	===	=====	===

## HAGGAI MORTGAGE BANK LTD

### FIVE YEAR FINANCIAL SUMMARY

	2020	2019	2018	2017	2016
ASSETS	N'000	N'000	N'000	N'000	N'000
Cash and Cash Equivalents	5,325,241	2,889,662	1,211,024	651,933	1,231,322
Financial assets at fair value through profit or loss	103,179	104,391	104,241	103,870	103,520
Financial assets at amortized cost	3,714,943	2,216,857	2,428,352	5,704,675	4,890,572
Finance Lease receivables	-	-	-	-	-
Mortgage, Other Loans and Advances	4,073,986	6,587,193	7,176,019	5,057,006	5,214,809
Other Assets	208,944	152,891	94,392	253,786	137,326
Inventories	6,765	6,669	6,664	7,558	6,960
Intangible Assets	50,879	70,113	85,070	52,882	11,812
Property, Plant and Equipment	<u>312,405</u>	<u>328,499</u>	<u>369,163</u>	<u>275,684</u>	<u>231,263</u>
<b>Total Assets</b>	<b><u>13,796,342</u></b>	<b><u>12,356,275</u></b>	<b><u>11,474,925</u></b>	<b><u>12,107,394</u></b>	<b><u>11,827,584</u></b>
<b>Liabilities</b>					
Deposits from Customers	7,168,831	5,378,169	4,568,202	5,173,338	5,444,452
Other Liabilities	210,569	256,046	230,839	360,977	254,253
Income Tax payable	50,839	131,067	58,610	47,857	39,872
Post-Employment Benefits	-	-	36,000	36,000	67,127
Deferred Tax Liabilities	<u>79,600</u>	<u>79,570</u>	<u>83,272</u>	<u>64,746</u>	<u>49,198</u>
<b>Total Liabilities</b>	<b><u>7,509,839</u></b>	<b><u>5,844,852</u></b>	<b><u>4,976,923</u></b>	<b><u>5,682,918</u></b>	<b><u>5,854,902</u></b>
<b>Capital and Reserves</b>					
Share Capital	2,176,838	2,176,838	2,176,838	2,176,838	2,176,838
Share Premium	2,723,508	2,723,508	2,723,508	2,723,508	2,723,508
Statutory Reserve	979,095	929,628	825,635	707,204	531,466
Statutory Credit Reserve	106,284	114,198	129,050	84,753	51,848
Retained earnings	<u>300,778</u>	<u>567,251</u>	<u>642,971</u>	<u>732,173</u>	<u>489,024</u>
Available to Equity Holders of the Bank	<u>6,286,503</u>	<u>6,511,423</u>	<u>6,498,002</u>	<u>6,424,476</u>	<u>5,972,684</u>
<b>Total Liabilities and Equity</b>	<b><u>13,796,342</u></b>	<b><u>12,356,275</u></b>	<b><u>11,474,925</u></b>	<b><u>12,107,394</u></b>	<b><u>11,827,586</u></b>
Gross earnings	<u>1,279,532</u>	<u>1,877,848</u>	<u>1,934,037</u>	<u>2,153,040</u>	<u>1,543,253</u>
Profit before tax	<u>298,200</u>	<u>647,330</u>	<u>669,287</u>	<u>942,095</u>	<u>610,816</u>
Profit after tax	<u>247,331</u>	<u>519,965</u>	<u>592,151</u>	<u>878,690</u>	<u>552,867</u>

#### PER SHARE DATA

Based on the total number of ordinary shares of each in issue at the end of each year

	k	k	k	k	k
Earnings	11	24	27	40	25
Net Assets	289	299	298	295	274
Total Assets	633	567	527	556	543