

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**PROFESSIONAL LEVEL EXAMINATION – NOVEMBER 2022****CASE STUDY****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or **RED INK** will not be marked.

THURSDAY, NOVEMBER 17, 2022**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL LEVEL EXAMINATION – NOVEMBER 2022

CASE STUDY

Time Allowed: 4 hours (including reading time)

INSTRUCTION: YOU ARE TO USE CASE STUDY ANSWER BOOKLET FOR THIS PAPER

PRE-SEEN

This material is issued prior to the examination to enable candidates familiarise themselves with the case scenario so as to undertake any research and analyses they think fit. This Pre-seen part of the case study examination is also published on the Institute's Website www.icanig.org/student.

You **MUST NOT** bring this material with you to the Examination Hall. On receipt of the material, you are to spend few days to the examination date to familiarise yourself with information provided, carry out additional research and analyses about the industry and analyse the financials provided in preparation for the examination. Candidates should note that the use of pre-seen part of the case study will not significantly help them in their preparation for this examination. It is essential that they carry out sufficient analyses on their own in order to have a good understanding of the pre-seen part of the case scenario.

At the start of the examination, candidates will receive the complete case scenario which will include both the 'pre-seen' and the 'unseen' which includes the requirements. You must use the answer paper provided by ICAN in the Examination Hall. Any solution presented with any other paper **WILL NOT** be marked/assessed.

ASSESSMENT OF THE CASE STUDY

The marks in the case study examination are awarded for professional skills and are approximately allocated as follows:

- | | |
|---|-----|
| - Assimilating and use of information | 20% |
| - Structuring problems and solutions | 20% |
| - Applying judgement | 20% |
| - Drawing conclusions and making recommendations | 20% |
| - Demonstrating integrative and multi-disciplinary skills | 10% |
| - Presenting appropriate appendices | 10% |

Of the total marks available, 20% are awarded for executive summary and approximately 10% for relevant discussions of ethical issues within your answer to the requirements. Although ethical issues do not form a specific requirement, as this is deemed to have been tested in other subjects of the ICAN professional examination, but will be tested within a requirement which may include the following areas:

- Lack of professional independence or objectivity;
- Conflict of interest among stakeholders;
- Doubtful accounting and/or creative accounting practice;
- Unethical business/commercial practice; and
- Inappropriate pressure to achieve a reported result.

Candidates should note that marks are not awarded for just simply restating facts from the case scenario but marks are awarded for demonstrating professional skills, and technical depth. Therefore to succeed, candidates are required to:-

- Show sufficient evidence of knowledge of the case scenario;
- Be able to carry out appropriate analysis of the issues involved and suggest feasible solutions to problems identified;
- Demonstrate ability to make informed judgement on the basis of analysis carried out; and
- Generate reasoned conclusion upon which relevant recommendations are made.
- Candidates that omit any one of these will have a slim chance of success in the examination.

CASE STUDY: Kudi Microfinance Bank Limited

List of exhibits

1. About you (AbdulRaman Ismaila) and your employer Hexalinks Consulting Associates (HCA).
2. Overview of Microfinance Sector of the banking industry in Nigeria.
3. Categories of Microfinance Banks according to CBN guidelines for MFB(s).
4. Kudi Microfinance Bank Limited (About us).
5. Extract of financial statement for year 2020 (including previous year figures).
6. Central Bank of Nigeria (CBN) circular to all Microfinance Banks.

EXHIBIT 1

ABOUT YOU (ABDULRAMAN ISMAILA) AND YOUR EMPLOYER (HEXALINKS CONSULTING ASSOCIATES – HCA)

You are AbdulRaman Ismaila, writing the professional level examination of the Institute of Chartered Accountants of Nigeria (ICAN). You are employed as a trainee consultant at Hexalinks Consulting Associates (HCA). You are reporting to Dr. Munir Oyemilokan, the partner in charge of business advisory services of the consulting firm.

One of your clients is Kudi Microfinance Bank (KMB) Limited, a state microfinance bank under the direct supervision of Other Financial Institutions Supervision Department of Central Bank of Nigeria (CBN). KMB Limited customers' deposits are insured by the Nigeria Deposit Insurance Corporation (NDIC).

The bank has its head office in Abeokuta, the capital of Ogun State and branches in fifteen (15) local government areas of the state.

Since your engagement in HCA. Your responsibilities include:

- Reviewing financial statements (including audited and management accounts) of clients to identify trends and key issues in order to make informed decisions about their businesses.
- Providing clear evaluation of the client based on analysis of both opportunities and threats, and the impact on both profitability and stability of the organisation.
- Assessing operational and strategic business proposals to see how each aligns with the client's objectives and their impact on HCA's business and financial risks.
- Analysis of your clients' financial statements to identify areas of weakness and proffering likely solutions to correct the anomalies.
- Drafting reports for the partner's perusal and approval before sending them to your clients.

OVERVIEW OF MICROFINANCE SECTOR OF THE BANKING INDUSTRY IN NIGERIA

- Microfinance, also called microcredit, is a type of banking service provided to low income earners or groups who otherwise would have no access to formal financial services.
- Institutions or banks participating in microfinance most often provide lending in form of microloans. Other banks offer additional services such as current and savings accounts, as well as, micro-insurance products. Some even provide financial and business education. The goal of microfinance is to ultimately give indigent people an opportunity to become self-sufficient.
- Microfinance services are provided to low-income individuals who have limited financial resources or, do not have enough income to do business with traditional financial institutions.
- Despite being excluded from banking services, some of those who live on as little as ₦2,000.00 a day do attempt to save, borrow, acquire credit, or insurance and they also make payments on their debts. Thus, poor individuals typically look to family, friends and even money lenders (who often charge exorbitant interest rates) for help.
- Microfinance allows people to take reasonable small business loans safely and in a manner that is consistent with ethical lending practices. Although microfinance exists all around the world, majority of microfinancing operations occur in developing nations, such as Nigeria, Ghana and Senegal. Many Microfinance institutions focus on helping women in particular.
- In Nigeria a large percentage of the population is still excluded from financial services. In 2010, a study revealed marginal increase in the percentage of those served by formal financial markets from 35% in 2005 to 36.3% in 2010; five years after launching of the microfinance policy.
- Against the backdrop of concerns expressed by stakeholders and need to enhance financial services delivery, the CBN issued a Microfinancing Policy Regulation and Supervising Framework in 2005. It was revised in April 2011 and improved upon in January 2020 with the issuance of the Guidelines for Regulation and Supervision of Microfinance Banks in Nigeria by the Central Bank of Nigeria.

EXHIBIT 3

CLASSIFICATION OF MICROFINANCE BANKS IN ACCORDANCE WITH CENTRAL BANK OF NIGERIA GUIDELINES FOR MFBs

There shall be four (4) categories of microfinance banks in Nigeria, as follows:

- **Tier 1 Unit Mfb**

A unit microfinance bank with urban authorisation (tier 1) shall operate in the banked and high density areas and is allowed to open NOT more than four (4) branches outside the head office within five (5) contiguous Local Government Areas, subject to the approval of the CBN.

- **Tier 2 Unit Mfb**

A unit microfinance bank with rural authorisation (Tier 2) shall operate only in the rural, unbanked or underbanked areas and is allowed to open one branch outside the head office within the same Local Government Area, subject to the approval of the CBN.

- **State Microfinance Bank**

A state Microfinance bank is authorised to operate in one state or the Federal Capital Territory (FCT). It is allowed to open branches within the same state or FCT, subject to prior written approval of the CBN for each new branch or cash centre. It shall not be permitted to open more than two branches in the same Local Government area (LGA), unless it has established at least one branch or cash centre in every LGA of the state.

A newly licensed state MFB shall not commence operations with more than ten (10) branches.

- **National Microfinance Bank**

A National Microfinance Bank is authorised to operate in more than one state, including the FCT. A newly licenced National MFB shall not commence operations with more than ten (10) branches.

KUDI MICROFINANCE BANK LIMITED (ABOUT US)

Kudi Microfinance Bank Limited is a leading Microfinance Bank in Ogun State, South West Nigeria with excellent service culture, hinged on working with each customer to create a name and be a reference point in grass root banking.

The bank was licenced by Central Bank of Nigeria in 1991 as a community bank. It became a unit Microfinance bank under the CBN revised policy of 2005 for the subsector.

The bank was later up graded by CBN from unit MFB in year 2020 after partly meeting the minimum capital requirement for state microfinance bank.

The head office of the bank is located in Bank Road Oke Ilewo, Ibara, Abeokuta, Ogun State with branches in fifteen (15) local government areas out of the twenty (20) local government areas in the state.

Our Vision: Pursuant to the strategic objective of becoming a leading Microfinance bank, the KMB Limited is now better positioned to deliver on its brand promise, which is aptly captured in our vision.

“To make our customers happy by providing reference point microfinance banking while creating wealth for the stakeholders”.

Mission Statement: Our mandate is to partner with each customer for the realisation of defined objectives with the promise of delivering an enduring, pleasurable and seamless banking experience in the manner of our mission statement which is:

“To be an institution known for character, service delivery and efficiency”.

Core Values: Our core values ensure that while our experience centres and points of reference are strategically deployed across selected locations around Ogun State, our philosophy is to bring banking services to our customers with guaranteed convenience, riding on the platform of simplified service innovation, leading technology solutions and experience-driven relationship management.

Kudí MFB Products & Services

• Deposit Products/Services

➤ Savings Accounts

Features:

- (i) Minimum opening balance of ₦1,000
- (ii) Attracts interest rate of 4% per annum.

Requirements

- Duly completed application form.
- 2 recent passport-size photographs.
- Current utility bills.
- A valid means of identification (National I.D., drivers licence, voter's card or international passport).

➤ Current Account

Features:

- (i) Minimum opening balance of ₦2,000.
- (ii) ₦5,000 for corporate organisation.
- (iii) Availability of credit facility or overdraft facility.

Requirements

- Duly completed application form.
- 2 recent passport-size photographs.
- Current utility bills.
- A valid means of identification (National I. D., driver's licence, voter's card or international passport).

➤ Daily Contribution Accounts

Features:

- (i) Free daily contribution card.
- (ii) Save a minimum of ₦100 per day for 30 days.
- (iii) One day contribution is the bank's commission.

➤ Target Savings Accounts

Features:

- (i) This product is designed to meet up with a particular project.
- (ii) Minimum opening balance of ₦1,000.
- (iii) 6% interest on the savings.
- (iv) Easy access to the account.

➤ Other Deposits Products/Services

- Happy savers accounts
- Fixed deposit accounts
- Mutual fund accounts

Loan Products/Services

➤ **Kudí Micro Loans**

Features:

- (i) Minimum opening balance for individual current account is ₦2,500.
- (ii) Customers must have run the account for 6 weeks.
- (iii) Interest rate is 5% flat per month.
- (iv) Tenor: maximum of 6 months.
- (v) Repayment pattern: monthly repayment.
- (vi) Maximum loan disbursement of ₦250,000 or below.

➤ **Kudí SME Loans**

Features:

- (i) Opening balance for individual current account is ₦5,000 and ₦10,000 for corporate.
- (ii) Customer must have maintained the account for 6 weeks.
- (iii) Maximum loan disbursement is between ₦250,000 for individual and ₦1,000,000 for corporate.
- (iv) Interest rate is 5% flat per month.
- (v) Tenor: maximum of 6 months.
- (vi) Repayment: Monthly repayment.
- (vii) Security: 2 guarantors, undated cheque leaves and any other good physical property. Inventory hypothecation form must be completed by traders.

➤ **Kudí Group Business Support Loan**

Features:

- (i) Opening minimum balance of ₦1000 for each member of the group.
- (ii) Loan application form for each member.
- (iii) Insurance on loan for each member - 1% of loan amount.
- (iv) Compulsory saving of 3% of loan disbursed to each member of the group.
- (v) Weekly repayment starts a week after disbursement.
- (vi) Maximum loan disbursement to each member is ₦100,000.
- (vii) Tenor: 24 weeks.
- (viii) Interest rate on each member loan is 5%
- (ix) Group member, minimum of 5 members maximum of 10 members.

- **Other Loan Products/Services**
 - Kudi Sure Loan
 - Kudi 1 for 3 Loans
 - Kudi Salary Advance Facility

BOARD OF DIRECTORS AND MANAGEMENT STAFF

Kudi Microfinance Bank Limited is led by highly competent and experienced board of directors. Members of the board are people with outstanding success in their various fields of endeavour, who ensure good corporate governance, strict compliance with regulatory guidelines and good corporate citizenship.

DIRECTORS

| | | |
|-----------------------|---|-----------------------|
| Dr. Benjamin Yemi | - | Chairman |
| Rev. Valentine Rasak | - | Director |
| Mrs. Egun Akintunde | - | Director |
| High Chief Victor Olu | - | Director |
| Malam Ibrahim Kawu | - | Director |
| Lady Joyce Olaniyan | - | Director |
| Mr. Adewale Akinyemi | - | Managing Director/CEO |

MANAGEMENT STAFF

| | | |
|---------------------------|---|--|
| - Mr. Adewale Akinyemi | - | MD/CEO |
| - Mr. Adedeji Idowu | - | Head of Admin |
| - Mr. Kolawole Oluyemi | - | Head of Credit and Marketing |
| - Mrs. Aminat Falade | - | Head of Department Computer Operations |
| - Mr. Abiodun Saheed | - | Head of Department Accounts and Finance |
| - Mr. Habeeb Olalekan | - | Head of Internal Audit/Risk Mgt Department |
| - Mrs. Oluwakemi Akinsola | - | Head of Banking Operations |

DIRECTORS SHARE HOLDINGS

| | 31 December, 2020 | 31 December, 2019 |
|--------------------------------|-------------------|-------------------|
| | ₦'000 | ₦'000 |
| Dr. Benjamin Yemi – (Chairman) | 70,000 | 70,000 |
| Mrs. Egun Akintunde | 140,000 | 100,000 |
| Rev. Valentine Rasak | 50,000 | 25,000 |
| High Chief Victor Olu | 16,000 | 10,000 |
| Malam Ibrahim Kawu | 100,000 | 100,000 |
| Lady Joyce Olaniyan | 32,500 | 32,500 |
| Mr. Adewale Akinyemi (MD/CEO) | 45,000 | 40,000 |

The authorised share capital of the bank is ₦1.5billion of ₦1 each, out of which ₦1billion have been issued as at December 31, 2020.

Substantial Interest in Shares

According to the register of members as at December 31, 2020 the following shareholders held 5% and above of the issued share capital of the bank.

| | No of Ordinary Shares Held ₦'000 | Percentage Holding (%) ₦'000 |
|----------------------------|---|---|
| Dr. Benjamin Yemi | 70,000 | 7.0% |
| Mrs. Egun Akintunde | 140,000 | 14% |
| Rev. Valentine Rasak | 50,000 | 5% |
| Malam Ibrahim Kawu | 100,000 | 10% |
| Jolmarg Investment Limited | 240,000 | 24% |
| Grafold Star Ventures | 150,000 | 15% |

EXHIBIT 5**KUDI MICROFINANCE BANK LIMITED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER****31**

| | 2020 | 2019 |
|---|------------------|-----------------|
| | N'000 | N'000 |
| Interest income | 191,292 | 147,740 |
| Interest expense | <u>(31,600)</u> | <u>(13,332)</u> |
| Net interest income | <u>159,692</u> | <u>134,408</u> |
| Fee and commission income | 128,952 | 32,312 |
| Fee and commission expenses | <u>(4,648)</u> | <u>(3,984)</u> |
| | <u>124,304</u> | <u>28,328</u> |
| Other income | <u>62</u> | <u>1,672</u> |
| Operating income | 284,058 | 164,408 |
| Net impairments loss on financial assets | <u>(292)</u> | <u>(33,444)</u> |
| | 283,766 | 130,964 |
| Personnel expenses | (154,824) | (57,656) |
| Other operating expenses | (221,176) | (55,616) |
| Depreciation and amortisation | <u>(12,880)</u> | <u>(5,460)</u> |
| Profit before income tax | (105,114) | 12,232 |
| Income tax expense | <u>(12,906)</u> | <u>(5,744)</u> |
| Profit/(loss) for the year | <u>(118,020)</u> | <u>6,488</u> |
| Other comprehensive income: | | |
| Items to be reclassified to profit or loss | - | - |
| Total other comprehensive income for the year | - | - |
| Total comprehensive income for the year | <u>(118,020)</u> | <u>6,488</u> |

**KUDI MICROFINANCE BANK LIMITED STATEMENT OF CHANGE IN EQUITY FOR
THE YEAR ENDED DECEMBER 31, 2020**

| | Share capital N'000 | Statutory reserve N'000 | Regulatory risk reserve N'000 | Retained earnings N'000 | Total equity N'000 |
|--------------------------------------|---------------------------|-------------------------------|-------------------------------------|-------------------------------|--------------------------|
| At January 1 2019 | 538,580 | 5,316 | 3,516 | (371,700) | 175,712 |
| Profit/(loss) for the year | - | - | - | 6,488 | 6,488 |
| Comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | <u>6,488</u> | <u>6,488</u> |
| Transfer between reserve and equity: | | | | | |
| Transfer to credit risk reserve | - | - | <u>6,064</u> | <u>(6,064)</u> | - |
| December 31, 2019 | <u>538,580</u> | <u>5,316</u> | <u>9,580</u> | <u>(371,276)</u> | <u>182,200</u> |
| Profit for the year | - | - | - | (118,020) | (118,020) |
| Comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | <u>(118,020)</u> | <u>(118,020)</u> |
| Transaction with owners: | | | | | |
| Share capital injection | 461,420 | - | - | - | 461,420 |
| Dividend paid | - | - | - | - | - |
| | <u>461,420</u> | - | - | - | <u>461,420</u> |
| At Dec. 31 2020 | <u>1,000,000</u> | <u>5,316</u> | <u>9,580</u> | <u>(489,296)</u> | <u>525,600</u> |

KUDI MICROFINANCE BANK LIMITED
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31

| | 2020 | 2019 |
|-------------------------------------|------------------|------------------|
| | N'000 | N'000 |
| Assets | | |
| Cash and cash equivalent | 751,072 | 545,756 |
| Investment securities | 455,972 | 320,144 |
| Loans and advances to customers | 748,295 | 208,084 |
| Other assets | 11,460 | 10,696 |
| Deferred tax assets | 66,968 | 86,828 |
| Intangible assets | 7,658 | 692 |
| Property plant and equipment | <u>123,192</u> | <u>4,600</u> |
| | <u>2,164,617</u> | <u>1,176,800</u> |
| Equity and Liabilities | | |
| Deposit from customers | 1,422,052 | 974,272 |
| Current tax liabilities | 15,996 | 1,924 |
| Retirement benefit obligation | 2,500 | 908 |
| Other liabilities | <u>198,469</u> | <u>17,496</u> |
| | <u>1,639,017</u> | <u>994,600</u> |
| Equity | | |
| Share capital | 1,000,000 | 538,580 |
| Retained earnings | (489,296) | (371,276) |
| Regulatory risk reserve | 9,580 | 9,580 |
| Statutory reserve | <u>5,316</u> | <u>5,316</u> |
| | <u>525,600</u> | <u>182,200</u> |
| Total liabilities and equity | <u>2,164,617</u> | <u>1,176,800</u> |

**CENTRAL BANK OF NIGERIA
CIRCULAR TO ALL MICROFINANCE BANKS**

Date: April 2019

Circular Number: MFB/JOL/02/04/2019

RE: REVIEW OF MINIMUM CAPITAL REQUIREMENTS FOR MICROFINANCE BANKS IN NIGERIA

Further to our previous circulars on the above subject, the CBN has revised the categories of microfinance bank with a view to ensuring continued operations of microfinance banks in the rural, unbanked and under-banked areas of the economy. Accordingly, Unit Microfinance Banks shall comprise of two tiers: Tier 1 Unit Microfinance Bank, which shall operate in the urban high density banked area of the society and Tier 2 Unit Microfinance Bank, which shall operate only in the rural, unbanked or under-banked areas.

Following from the above, the minimum capital requirements for the categories of microfinance banks have also been revised as follows:

- (1) Tier 1 unit microfinance bank ~~₦~~200 million Naira.
- (2) Tier 2 unit microfinance bank ~~₦~~50 million Naira.
- (3) State microfinance bank ~~₦~~1 billion Naira
- (4) National microfinance bank ~~₦~~5 billion Naira.

To aid the process of recapitalisation, all microfinance banks shall be required to comply with the following:

- (1) Tier 1 unit microfinance banks shall meet a capital threshold of ~~₦~~100 million by April 30, 2021 and ~~₦~~200 million by April 30, 2022;
- (2) Tier 2 unit microfinance bank shall meet capital threshold of ~~₦~~35million by April 30, 2021 and ~~₦~~50 million by April 30, 2022;
- (3) A state microfinance bank shall increase its capital to ~~₦~~500 million by April 30, 2021 and ~~₦~~1 billion by April 30, 2022; and
- (4) All National microfinance bank shall hold a capital of ~~₦~~3.5 billion by April 30, 2021 and ~~₦~~5 billion by April 30, 2022.

This revised circular supersedes all our previous circulars.

Prof. Theo Ojukwu
Director Financial Policy and Regulatory Department