LAPO MFB SPV Plc.

₦3.15 billion 5-year Fixed-rate Senior Unsecured Bond

Bond Rating Review Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

LAPO MFB SPV Plc.

- Series 1 ₦3.15 billion 5-Year 17.75% Fixed Rate Senior Unsecured Bond

Rating:

A-

Outlook: Stable
Issue Date: 5 September 2018
Expiry Date: 30 June 2019
The rating is subject to annual review throughout the tenure of the bond
Previous Rating: A-

Industry: Microfinance

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The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.

RATING RATIONALE

Agusto & Co. affirms the '**A-**' rating assigned to LAPO MFB SPV Plc.'s ("LAPO SPV", or "the Issuer") Series 1 ₦3.15 billion 5-Year 17.75% Fixed Rate Senior Unsecured Bond ("the Issue" or "the Bond") maturing in 2022. The rating assigned is supported by LAPO Microfinance Bank Limited's ('LAPO', 'the Bank' or 'the Sponsor') leading position in the microfinance industry, the Bank's good capitalisation and experienced management team. However, the rating is constrained by Nigeria's tough macroeconomic environment which has negatively affected the microfinance industry and its obligors. In particular, we take into cognizance, LAPO's increasing volume of delinquent loans, the Bank's declining profitability as a result of declining revenues and rising operating cost profile.

LAPO MFB SPV Plc. is a Special Purpose Vehicle (SPV) owned by LAPO Microfinance Bank Limited with an authorised share capital of ₦1 million (1,000,000 ordinary shares of ₦1 each). The Sponsor owns 990,000 of the Issuer's shares, while 10,000 shares are held by Mr Godwin Esewi Ehigiamusoe, LAPO's Managing Director. The SPV was set up for the sole purpose of issuing bonds. The Issue is the first tranche under the Issuer's ₦20 billion debt issuance programme. The Bond's coupon, which is fixed at 17.75% is paid semi-annually however, principal repayment will be a bullet payment by August 2022. Since the issuance of the Bond in December 2017, coupon payments paid to bondholders from the Sponsor's operating cash flow have amounted to ₦281 million.

The Sponsor's capitalisation is good for the Bank's level of operations with a capital adequacy ratio of 28% as at 31 December 2017 (2016: 25%), significantly higher than the minimum regulatory requirement of 10% for microfinance banks. We also note the Bank's ability to retain earnings and harness low cost savings deposits. As at 2017FY, the Bank had paid down on several foreign denominated borrowings in the last 12 months.

With an increasing adoption of the individual, micro lending strategy, LAPO's volume of impaired credits has increased, adversely impacting the Sponsor's portfolio at risk profile and charge-off volumes. Portfolio at risk (PAR) to total loans stood at 7.9% in 2017 (2016 FYE: 5.8%), higher than the regulatory benchmark of 5%. The Bank's PAR further increased subsequent to year end, to 11% of gross loans as at 30 June 2018. In our opinion, weakening asset quality is indicative of the need for a more effective loan management system.

The rating is also constrained by LAPO's declining profitability resulting from lower interest income due to fewer disbursements as at H1'2018 and a rising cost profile. A number of the Bank's customers are yet to obtain the mandatory bank verification numbers (BVN) and are thus unable to enjoy core banking services (withdrawals), which has impeded loan growth. In addition, LAPO's high cost profile, which was driven by significant interest expense and higher staff costs and loan charge-offs further impaired profitability. We expect the Sponsor's profitability to moderate in the short term as more obligors adhere to the BVN initiative and the Bank is able to regain lost market share from this down time. To drive BVN compliance, LAPO has distributed 200 BVN machines across its branches in Nigeria.

The Bank maintained a healthy liquidity profile during the review period with a liquidity ratio (liquid assets to total LCY deposits) of 43.7% as at 2017 – well above regulatory minimum of 20%.

We thus attach a stable outlook to the Bond which reflects our expectation that LAPO Microfinance Bank has adequate capacity to meet the Bond obligations as and when due.

Rating Triggers

A rating upgrade in the medium term will be significantly dependent on an improved earnings profile as well as healthier delinquent loan metrics. Conversely, the Bank's obligors' slow response to the BVN directive may further constrain loan disbursements and therefore affect earnings, liquidity as well as impede debt service, placing downward pressure on the rating. Non-compliance with the Issue's covenants could also trigger a negative rating action.

The Series 1 Bond is a senior and unsecured obligation of LAPO Microfinance Bank Limited. Thus, the Bond bears the same rating as the Sponsor and any change in the rating assigned to LAPO will directly affect the Bond rating.

Strengths

- Good market position
- Experienced and stable management team
- Good capitalisation
- Good liquidity profile

Weaknesses

- Declining profitability
- Rising level of impaired loans

Challenges

- Bolstering current profit levels
- Strengthening loan disbursement, monitoring and recovery processses
- Ensuring obligor compliance to CBN's BVN regulation

Table 1: Financial Data

	31 December 2017	31 December 2016
Total assets	₦67.3 billion	₦62.7 billion
Gross earnings	₦30.4 billion	₦26.9 billion
Pre-tax return on average assets	8.8%	11.7%
Pre-tax return on average equity	38.6%	56.3%

Features of the Issue

LAPO MFB SPV Plc. ('LAPO SPV' or 'the Issuer') is a Special Purpose Vehicle (SPV) incorporated in Nigeria on 26 September 2016. LAPO SPV is owned by LAPO Microfinance Bank Limited ('LAPO, the Sponsor or the Bank') with an authorised share capital of ₦1 million (1,000,000 ordinary shares of ₦1 each). The Bank owns 990,000 of the Issuer's shares, while 10,000 shares are held by Mr Godwin Esewi Ehigiamusoe, LAPO's Managing Director. The SPV was set up for the sole purpose of issuing bonds to fund the growth of the Sponsor's retail loan book.

The Bond is a five year fixed rate senior unsecured debt instrument backed by an undertaking issued by the Sponsor, in favour of the Trustee on behalf of bondholders. The Bond which was issued at a par value of ₦1,000 ranks pari passu with present and future outstanding unsecured and unsubordinated obligations of the Issuer. LAPO SPV's ₦6 billion debt issuance programme was undersubscribed by 48% as only ₦3.15 billion was realised at book build.

LAPO SPV will repay the aggregate principal amount of the Bonds and any coupon (accrued up to but unpaid as of the maturity date) on the maturity date in one bullet payment and at par. However, coupon repayments will be made semi-annually throughout the tenor of the Bond. The Bond has been admitted to the daily official list of the FMDQ OTC Exchange.

Covenants And Guarantees

The LAPO Bonds are issued pursuant to the Deed of Covenant by the Issuer as well as the Master Bonds Purchase Agreement (MBPA) signed by LAPO Microfinance Bank Ltd, LAPO MFB SPV Plc. and FBN Trustees Limited. All payments of principal, interest, additional amounts and indemnity amounts to be made by LAPO Microfinance Bank under the MBPA shall be made unconditionally, through a credit transfer to LAPO MFB SPV Plc.'s Account (or as the Trustee may otherwise direct).

Sponsor's Profile

LAPO Microfinance Bank Limited, a pro-poor, financial institution, commenced operations in 1987, as a subsidiary of Lift above Poverty Organisation (LAPO), a non-governmental organisation (NGO). LAPO obtained the Central Bank of Nigeria's (CBN) approval in 2010 to operate as a state microfinance bank and became licensed as a national microfinance bank in September 2012. The Bank's branches are currently spread across twenty eight (28) states including Edo, Lagos, Abuja and Rivers states and a head office located at LAPO Place, 18 Dawson Road, Benin City.

LAPO Microfinance Bank Limited has two key shareholders – LAPO NGO and Dr. Godwin Ehigiamusoe – who own 67.10% and 30.10% equity stake respectively. No other individual shareholder owns up to 5% of the Bank's equity. A nine-member Board of Directors, chaired by Dr. Osarenren Emokpae, governs LAPO's activities. The board comprises six non-executive directors (including an independent director) and three executive directors (including the Managing Director/CEO).

LAPO's governance structure (in terms of board composition) is in line with CBN's regulations however, we note the ownership concentration in the Bank, with 97% equity stake held by only two investors. Management has revealed plans to expand the Bank's ownership base by 2019 via LAPO NGO's proposed partial equity sell down. There may also be CEO succession by June 2019.

Table 2: LAPO Microfinance Bank Limited – Shareholding Structure

Shareholder	Shareholding (%)
Life Above Poverty Organisation (LAPO) NGO	67.10%
Dr. Godwin Ehigiamusoe	30.10%
Dr. Osarenren Emokpae	0.60%
Mrs. Osaretin Demuren	0.60%
Mr. Ede Osayande	0.60%
Mr. Andrew Ejoh	0.45%
Mr. Rene Azokly	0.55%

Table 3: Board Composition

Osarenren Emokpae (PhD)	Chairman (Non-Executive Director)
Godwin Ehigiamusoe (PhD)	Managing Director
Hannatu Ahmed Yaro	Non-Executive (Independent Director)
Osaretin Demuren	Non-Executive Director
Ede Osayande (FCA)	Non-Executive Director
Andrew Ejoh (FCA)	Non-Executive Director
Rene Azokly	Non-Executive Director
Josephine Nwachukwu	Executive Director
Faith Osazuwa-Ojo	Executive Director

BUSINESS STRATEGY

LAPO's business strategy focuses on the provision of loans and other financial services designed to meet the needs of the economically viable, poor and low income households as well as small & medium scale businesses. The Bank targets women, who represent 74% of the customer-base, aiming to improve the socio-economic status of women across Nigeria. LAPO leverages the group methodology for lending, but is increasingly disbursing individual loans.

LAPO Microfinance Bank Limited recently concluded a five-year strategy, which commenced in 2013. The strategy had three focus areas- technology, product & service diversification and optimising staff productivity.

Technology aids a better outreach given the high associated costs from branch maintenance. The Bank also created new products in a bid to diversify from trade & commerce to other viable sectors such as education.

In 2018, the Bank formulated a new strategy plan. For the next five years, LAPO will be strengthening internal processes and up scaling services with the aim of increasing market share. The Bank aims to disburse an additional ₦1.07 trillion over the next five years and on-board at least 13 million new clients by 2022. LAPO also plans to multiply the number of agency banks as a strategy to drive business growth going forward. However, management has affirmed that the group lending methodology will still be adopted for high risk clientele such as petty traders. In the interim, the agency banks will only be enabled to accept deposits and allow withdrawals. However, agency bankers – to be referred to as “Agent Relationship Officers” (AROs) can refer loan requests to the Bank’s branches.

ANALYSTS' COMMENTS

ISSUER'S FINANCIAL CONDITION

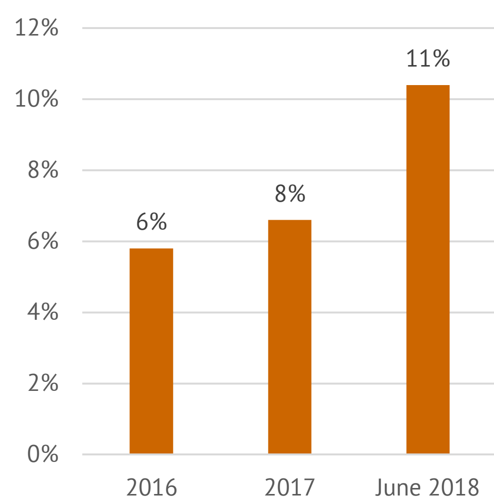
Volume of delinquent loans on the rise

LAPO's business strategy focuses on the provision of micro credits to small businesses and economically viable poor & low income households. The Bank leverages the group methodology for lending to this category of customers. With LAPO's group lending methodology and national presence (in an Industry with unbanked population estimated at 40.1 million persons[1]), the volume of the Sponsor's loan portfolio of ₦51billion is impressive - compared to peer microfinance banks. The Bank's microcredit portfolio also reflects adequate diversification of agriculture, consumer energy and enterprise loans in line with the Sponsor's previously implemented 5-year growth plan. Loan growth has been mainly supported by capital and long-term borrowings.

As at 31 December 2017, total net loans grew by 3% to ₦51billion and accounted for 76% of the Bank's total assets, despite the challenging macro-economic environment that prevailed during the year. However, as at 30 June 2018, LAPO's net loan portfolio reduced by 8% to ₦47.2billion due to fewer disbursements. Nonetheless, the Bank's loan portfolio remains well diversified, with the top 20 obligors accounting for less than 1% of total loans.

Asset quality indicators deteriorated in the 2017FY, with portfolio at risk (PAR) / total loans reported at 7.8% (2016FYE: 5.8%), higher than the regulatory benchmark of 5% prescribed by the CBN for microfinance banks operating in Nigeria. As at 30 June 2018, the Bank's PAR increased by 28% to ₦5.6billion and represented 10.7% of gross loans. The higher PAR/total loan ratio subsequent to year end was due in part to the dip in the volume of loans disbursed as at H1'2018. Several obligors in LAPO are yet to obtain bank verification numbers (BVN) linked to their accounts before withdrawals can be made. These obligors already have 'post no debit' orders on their accounts, restricting withdrawals even if disbursements are made. LAPO has distributed 200 BVN machines across its branches in Nigeria to drive obligor compliance to this CBN regulation.

Figure 1: Gross PAR/Total Loans



Our review of the Bank's loan book also reveals that SME and agricultural loans jointly accounted for 40% of the Bank's gross PAR as at 2017FYE. The rise in delinquent SME

[1] *Agusto & Co.'s 2017 Microfinance Industry Report*

loans can be attributed to macroeconomic headwinds in 2017 - particularly low consumer purchasing power which adversely impacted the repayment capacity of small businesses who are LAPO's major customers. In our view, the delinquency in LAPO's agriculture loan book is due to weakness in the origination and monitoring of those loans. A number of these loans require moratoriums on repayments due to the seasonal nature of farming. LAPO is considering engaging the services of loan recovery agents to increase recoveries.

We note that the PAR/Total loan ratio of 10.7% as at 30 June 2018 significantly exceeds the 4.9% ratio projected by the Issue's Reporting Accountant as well as Agusto & Co.'s estimated PAR/Total loans ratio of 6%. The Sponsor is increasingly going beyond the group lending methodology, to grow loans to stand alone individuals and SMEs which is exposing LAPO to higher credit risk. Recent increase in PAR/gross loan ratio highlights the need to strengthen risk management particularly with the Bank's plans to disburse at least ₦1.1trillion over the next five years and on-board at least 13million new clients by 2022.

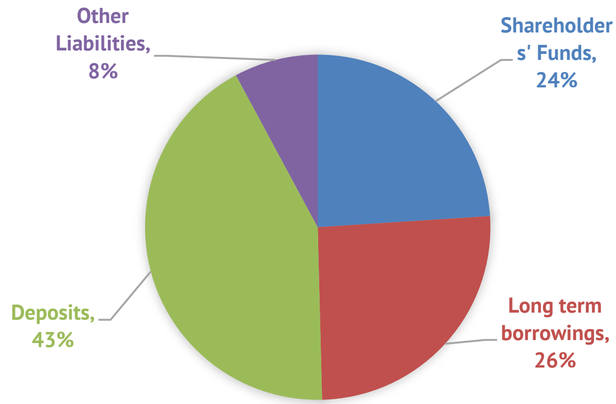
Funding profile tilts to local currency borrowings with a healthy liquidity positioning

A number of state and national licensed microfinance banks such as LAPO have benefited from medium and long term funding from foreign development organisations - which has played a significant role in growing business volumes and consequently, developing the Industry. However, FX adversities and inability to meet the repayment obligations due to FX scarcity from 2015FYE to H1'2017 have resulted in a significant decline in foreign currency borrowings, causing several microfinance banks to turn towards LCY borrowings. As at 31 December 2017, LAPO had paid down ₦7.1billion of its foreign borrowings but added ₦8.2billion worth of local currency borrowings - including the ₦3.15 billion, 5-Year 17.75% Fixed Rate Senior Unsecured Bond. Borrowed funds thus grew to ₦17.3 billion (2016: ₦16.1billion) as at 31 December 2017.

About ₦5.6billion of outstanding debt is due for repayment by 2018FYE. This excludes an outstanding foreign borrowing from PlaNis/ResponsAbility Global Microfinance Fund which amounted to US$1.3million as at July 2018. Management has reported that due to the challenges in accessing foreign exchange at CBN's official rate and the need to defray outstanding overdue amounts to offshore lenders, the Bank procured foreign exchange from the interbank market (investors and exporters' window) in the last quarter of 2017 – albeit at a higher cost. LAPO has made payments amounting to ₦2.3billion to offshore creditors in the first quarter of 2018 and, the outstanding foreign debt balance of ₦1.3 billion will be fully paid down by Q4'2018. In our view, LAPO remains vulnerable to foreign exchange losses as long as the outstanding loan from ResponsAbility remains in its debt folder.

LAPO also funds loan growth from shareholders' funds and customer deposits – the bulk of which are low cost savings deposits. The proportion of savings deposits to total deposit liabilities increased to 93.7% as at 2017FYE (2016: 93.3%). The deposit profile of the Bank reflects significant diversification, with the proportion of top 20 deposits representing only 3% of total deposits. Consequently, LAPO's weighted average cost of fund (WACF) stood at 6.75% as at 31 December 2017 (2016: 7.1%) and further dipped to 6.59% as at June 2018 with higher volumes of savings deposits.

Figure 2: Breakdown of Funding



We expect funding costs to remain stable in the near term given the vast base of savings deposits and the plan to access more local borrowings from a development bank and the apex bank at a single-digit weighted average interest rate.

LAPO maintained a healthy liquidity profile throughout the period under review. The Bank recorded a liquidity ratio (liquid assets to total LCY deposits) of 43.7% as at 2017 (2016: 35.2%) - which is well above the CBN required minimum of 20%. However, maturity mismatching of loans and deposit liabilities reflected across the various maturity buckets with a cumulative liquidity gap of ₦22.8 billion. However, we recognise that behaviorally, the bulk of the short-term deposit liabilities are renewable and essentially longer tenured. The Bank's ability to refinance in the local debt market is adequate in our view – given its market position. We also take cognizance of the fact that LAPO can access wholesale funds and refinancing facilities for on-lending, from specialised finance institutions. Overall, we consider LAPO's liquidity and funding profile to be good.

Table 4: Net liquidity gap profile (₦'000)

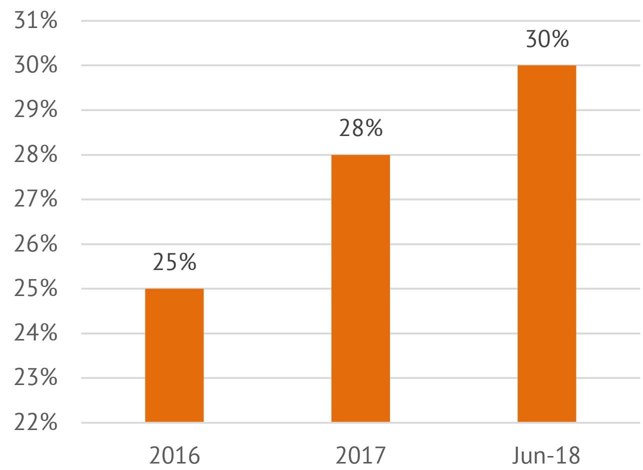
	<3 months	3-6 months	6-12 months	>1 year
Loans	32,418,131	12,653,516	3,328,510	3,030,995
Deposit Liabilities	19,643,227	6,176,459	2,552,727	279,333
Net liquidity gap	12,774,904	6,477,057	775,783	2,751,662
Cumulative liquidity gap	12,774,904	19,251,961	20,027,744	22,779,406
Wholesale funds	6,726,691	2,398,801	1,720,263	6,421,558

Source: LAPO Microfinance Bank Limited

Capital should remain good

As at 2017FYE, Tier-1 equity (core capital) increased to ₦16 billion (2016: ₦14 billion) on account of higher profit retention. LAPO's core capital exceeds the regulatory minimum capital of ₦2 billion for national microfinance banks. The Bank's capital adequacy ratio (CAR) stood at 28% in 2017, up from 25% in 2016 and higher than the regulatory minimum of 10%. Capitalisation is expected to remain stable in the medium term, with the CAR averaging 20% as LAPO's loan book grows significantly with the proposed expansion in agency banks.

Figure 3: Capital Adequacy Ratio



Profitability is under pressure and may remain subdued

LAPO has consistently recorded high levels of profitability in the last three years. Steady improvements in pre-tax profits was recorded in three years to 2016FY, followed by decline in 2017FY due to a higher cost profile. LAPO's operating expenses soared by 22% to ₦20 billion in 2017, largely due to higher staff costs, repairs & maintenance and traveling expenses. The growth in staff costs was a result of staff promotions during the year. LAPO opened an additional 41 branches during the 2017 financial year. Accordingly, LAPO's cost to income ratio increased from 71% in 2016FY to 78% in 2017. Consequently, a lower net profit after tax of ₦3.9billion was reported for 2017FY, representing a 14% decline from 2016FY. The dip in profitability together with an enlarged capital base spurred a decline in the pre-tax return on average equity to 38.9% in 2017FY (2016: 56.3%), while pre-tax return on average assets (ROA) declined to 8.8% in 2017(2016: 11.7%).

Management forecasts reflect a pre-tax profit of ₦7.8billion for 2018FY, to be driven by improved net earnings. Operating expenses are also expected to grow moderately, with the proliferation of LAPO's agency banks - with cost to income ratio maintained around 79%. Performance as at H1'2018 reflects LAPO to be substantially below its budget on an annualised basis, for most performance parameters. Unaudited figures for the six months ended 30 June 2018 indicates annualised ROE and ROA of 9.2% and 2.4% respectively as, costs remain elevated, but revenues declined substantially in H1' 2018. Based on the half year unaudited performance, achieving the full year budget is considered unattainable if the current trend is sustained.

Overall the Bank's profitability is expected to decline substantially, but could normalise to some extent in the medium term once full compliance to the BVN registration is achieved. LAPO's profitability profile is significantly lower than our expectation of 58% for pre-tax ROE in our bond projection for the year ending 31 December 2017. Ability to maintain portfolio quality indicators within satisfactory level will also remain important for realisation of projected profitability targets.

Figure 4: LAPO's Pre-tax ROE ratios (2015-2017)

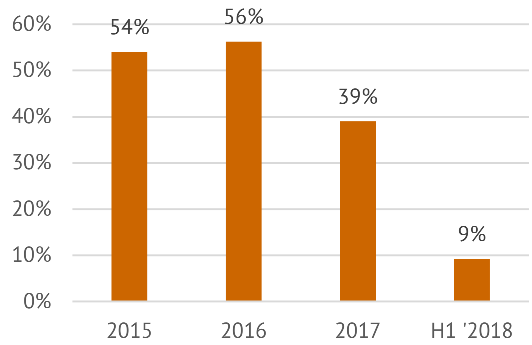
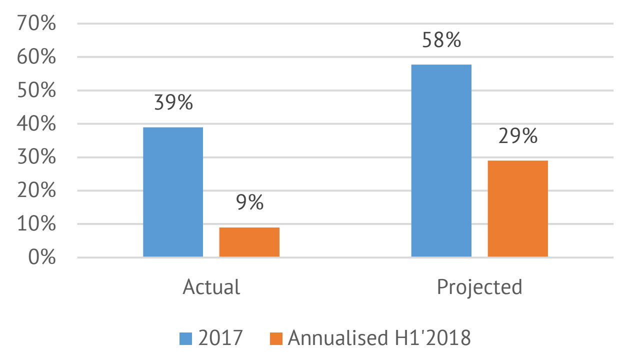


Figure 5: Actual vs. Projected Pre-tax ROE ratios



OUTLOOK

The 2017 financial year was characterised by a weak macroeconomic environment, following the recession, amidst high inflationary pressures. This harsh business environment affected consumer purchasing power and exacerbated the risk of loan defaults. However, in spite of the economic challenges, LAPO's net revenue from funds grew by 11% to ₦26 billion in 2017- although the bottom line was impacted negatively by a higher cost profile, with a cost to income ratio of 78% in 2017 (2016: 71%).

LAPO remains committed to increasing industry coverage through branch expansion (via the proliferation of agency banks) and improving service delivery through technology. Management has affirmed that the group lending methodology will still be adopted for high risk clientele such as petty traders and, in the interim, the agency banks will only be enabled to accept deposits and allow withdrawals. However, agency bankers – referred to as "Agent relationship Officers" (AROs) can refer loan requests to the Bank's branches.

To improve efficiency in recording loan requests and onboarding clients, the AROs are now empowered with palm-held devices to ease their operations. The Bank's core banking solution – 'Orbit R' are connected to these palm-held devices used by the agency bankers. LAPO is also actively seeking ways to grow revenues via new products particularly in the education sector and loans to more affluent persons in the civil service or organised private establishments.

As a result of the rising level of impaired loans, we are also of the view that loan origination and remedial management for some specific products and segments (particularly agriculture and SME loans) need to be improved on. We also believe there is the need for the Bank to enhance its risk management practices to accommodate other risks that may arise – particularly with the adoption of additional technologically driven processes and the expansion of the new initiative – 'LAPO's agency banking model'. We expect funding costs to remain stable in the near term and upheld by LAPO's vast low-cost savings deposit base. We also recognise the positive impact that agency banking is likely to have on profitability.

We hereby attach a **"stable"** outlook to the rating. The stable outlook reflects Agusto & Co.'s expectations that LAPO's BVN issues will be resolved by November 2018 and the Bank is able to regain lost market share from this down time.

FINANCIAL SUMMARY

LAPO MICROFINANCE BANK						
BALANCE SHEET AS AT	**31-Dec-17**		**31-Dec-16**		**31-Dec-15**	
	=N='000		**=N='000**		**=N='000**	
ASSETS						
Cash & equivalents	365,348	0.5%	226,524	0.4%	84,833	0.2%
Government securities	2,693,877	4.0%	2,178,354	3.5%	1,334,877	2.5%
Stabilisation securities		1.7%		0.9%		0.6%
Quoted investments						
Money market placements	1,153,096	1.7%	588,554	0.9%	303,761	0.6%
LIQUID ASSETS	4,212,321	7.97%	2,993,432	5.71%	1,723,471	3.9%
Balances with Nigerian Banks	8,316,179	12.3%	6,737,440	10.7%	5,024,634	9.6%
Balances with banks outside Nigeria						
TOTAL PLACEMENTS	8,316,179	12.35%	6,737,440	10.74%	5,024,634	9.6%
Direct loans and advances - Gross	55,475,273	82.4%	52,326,870	83.4%	44,455,587	84.8%
Less: Cumulative loan loss provision	-4,061,341	-6.0%	-2,471,240	-3.9%	-1,503,750	-2.9%
Direct loans & advances - net	51,413,932	76.3%	49,855,630	79.5%	42,951,837	82.0%
Advances under finance leases - net						
TOTAL LOANS - NET	51,413,932	76.34%	49,855,630	79.49%	42,951,837	82.0%
		3.1%		16.1%		31.2%
Interest receivable						
Interest paid in advance						
Other prepayments	786,217	1.2%	648,712	1.0%	478,261	0.9%
Tax recoverable						
Other accounts receivable	279,121	0.4%	211,669	0.3%	240,016	0.5%
Deferred losses						
TOTAL OTHER ASSETS	1,065,338		860,381	1.37%	718,277	1.4%
Property, plant & equipment - for own use	2,212,557	3.3%	2,021,898	3.2%	1,546,852	3.0%
Goodwill & other intangible assets	128,058	0.2%	252,401	0.4%	433,822	0.8%
TOTAL FIXED ASSETS & INTANGIBLES	2,340,615	3.48%	2,274,299	3.63%	1,980,674	3.8%
TOTAL ASSETS	**67,348,385**	**100.0%**	**62,721,182**	**100.0%**	**52,398,893**	**100.0%**

LAPO MICROFINANCE BANK						
BALANCE SHEET AS AT	**31-Dec-17**		**31-Dec-16**		**31-Dec-15**	
	=N='000		**=N='000**		**=N='000**	
CAPITAL & LIABILITIES						
Share capital	2,000,000	3.0%	1,994,627	3.2%	1,985,256	3.8%
Share premium						
Statutory reserve	3,977,828	5.9%	3,482,006	5.6%	2,910,332	5.6%
Exchange difference reserve						
Irredeemable preference shares						
Other non-distributable reserves						
Revenue reserve	10,157,498	15.1%	8,140,347	13.0%	5,356,420	10.2%
TIER 1 CAPITAL (CORE CAPITAL)	16,135,326	24.0%	13,616,980	21.7%	10,252,008	19.6%
		18.5%		32.8%		29.5%
Revaluation surplus						
Redeemable preference shares						
Other long-term borrowings	14,143,348	21.0%	9,580,263	15.3%	2,345,945	4.5%
TIER 2 CAPITAL	14,143,348	21.0%	9,580,263	15.3%	2,345,945	4.5%
Other Long term Foreign borrowings	3,123,965	4.6%	6,566,706	10.5%	8,244,670	15.7%
Demand deposits						
Savings deposits	26,858,478	39.9%	25,828,954	41.2%	24,703,603	47.1%
Time deposits	1,793,683	2.7%	1,843,265	2.9%	1,002,180	1.9%
Inter-bank takings						
TOTAL DEPOSIT LIABILITIES - LCY	28,652,161	47.2%	27,672,219	54.6%	25,705,783	64.8%
Customers' foreign currency balances						
TOTAL DEPOSIT LIABILITIES	28,652,161	47.2%	27,672,219	54.6%	25,705,783	64.8%
Interest payable					57,087	0.1%
Unearned interest & discounts						
Taxation payable - deferred	139,287	0.2%	122,242	0.2%	101,281	0.2%
Taxation payable - current	3,266,806	4.9%	3,291,163	5.2%	2,095,495	4.0%
Dividend payable						
Other accounts payable	1,888,492	2.8%	1,871,609	3.0%	3,596,624	6.9%
TOTAL OTHER LIABILITIES	5,294,585	7.9%	5,285,014	8.4%	5,850,487	11.2%
TOTAL CAPITAL & LIABILITIES	**67,349,385**	**100.0%**	**62,721,182**	**100.0%**	**52,398,893**	**100.0%**

LAPO MICROFINANCE BANK						
INCOME STATEMENT FOR THE YEAR ENDED	31-Dec-17		31-Dec-16		31-Dec-15	
	=N='000		=N='000		=N='000	
Interest income	30,088,806	99.2%	26,669,311	99.2%	19,408,496	99.2%
Interest expense	-2,959,890	-9.8%	-2,767,416	-10.3%	-2,052,841	-10.5%
Loan loss expense	-1,587,371	-5.2%	-961,622	-3.6%	174,570	0.9%
NET REVENUE FROM FUNDS	25,541,545	84.2%	22,940,273	85.3%	17,530,225	89.6%
FOREIGN EXCHANGE	147,068	0.5%			31,273	0.2%
COMMISSIONS	4,741	0.0%	3,839	0.0%	14,336	0.1%
FEES & OTHER INCOME	103,949	0.3%	205,104	0.8%	106,953	0.5%
NET EARNINGS	25,797,303	85.0%	23,149,216	86.1%	17,682,787	90.4%
STAFF COSTS	-10,204,476	-33.6%	-8,291,467	-30.8%	-6,624,042	-33.9%
DEPRECIATION EXPENSE	-906,318	-3.0%	-933,120	-3.5%	-723,458	-3.7%
OTHER OPERATING EXPENSES	-8,937,627	-29.5%	-7,207,431	-26.8%	-5,472,150	-28.0%
OPERATING EXPENSES	-20,048,421	-66.1%	-16,432,018	-61.1%	-12,819,650	-65.5%
PROFIT (LOSS) BEFORE TAXATION	5,748,882	18.9%	6,717,198	25.0%	4,863,137	24.9%
TAX (EXPENSE) BENEFIT	-1,839,670	-6.1%	-2,170,443	-8.1%	-1,572,076	-8.0%
		-14.4%		38.1%		17.2%
PROFIT (LOSS) AFTER TAXATION	3,909,212	-1.5%	4,546,755	55.0%	3,291,061	34.0%
NON-OPERATING INCOME (EXPENSE) - NET						
STATUTORY RESERVE	-495,822	-1.6%			-411,383	-2.1%
CAPITAL REDEMPTION						
PROPOSED DIVIDEND	-1,396,239	-4.6%	-1,191,154	-4.4%	-979,805	-5.0%
SCRIP ISSUES						
OTHER APPROPRIATIONS			-571,674	-2.1%		
RETAINED PROFIT	2,017,151	-7.8%	2,783,927	48.5%	1,899,873	26.9%
RETAINED PROFIT B/FWD	8,140,347		5,356,420		3,456,547	
RETAINED PROFIT C/FWD	10,157,498		8,140,347		5,356,420	
GROSS EARNINGS	30,344,564	100.0%	26,878,254	100.0%	19,561,058	100.0%

KEY RATIOS	31-Dec-17	31-Dec-16	31-Dec-15
PROFITABILITY & EARNINGS			
Net interest margin	90.2%	89.6%	89.4%
Loan loss expense/Interest income	5.3%	3.6%	0.0%
Operating expenses/Net earnings	77.7%	71.0%	72.5%
Return on average assets	8.8%	11.7%	10.6%
Return on average equity	38.6%	56.3%	53.5%
Gross earnings/Total assets & contingents (average)	46.7%	46.7%	42.5%
EARNINGS MIX			
Net revenue from funds	99.0%	99.1%	99.1%
Commissions	0.0%	0.0%	0.1%
Fees & other income	0.4%	0.9%	0.6%
EFFICIENCY INDICATORS			
Operating expenses/average loan portfolio	39.6%	35.4%	33.9%
Adjusted operating expenses/average loan portfolio	37.8%	33.4%	32.0%
Personnel expenses/average loan portfolio	20.2%	17.9%	17.5%
LIQUIDITY & FUNDING			
Total loans - net/Total lcy deposits	71.0%	80.8%	93.7%
Liquid assets/Total lcy deposits	43.7%	35.2%	26.3%
Demand deposits/Total lcy deposits	0.0%	0.0%	0.0%
Savings deposits/Total lcy deposits	93.7%	93.3%	96.1%
Time deposits/Total lcy deposits	6.3%	6.7%	3.9%
ASSET QUALITY RATIOS			
PERFORMING LOANS (₦'000)	51,121,225	49,314,920	42,373,580
NON-PERFORMING LOANS (₦'000)	3,640,169	455,546	2,082,007
Non-performing loans /Total loans - Gross	7.8%	5.8%	4.7%
Loan loss provision/Total loans - Gross	7.3%	4.7%	3.4%
Loan loss provision/Non-performing Total loans	93.3%	82.0%	72.2%
Risk-weighted assets/Total assets & contingents	93.6%	94.8%	95.9%
CAPITAL ADEQUACY & LEVERAGE RATIOS			
Adjusted capital/risk weighted assets	28%	25%	24.2%
Tier 1 capital/Adjusted capital	100%	100%	81%
Total loans - net/Adjusted capital	3.21	3.73	4.37
Core capital unimpaired by losses (₦'000)	16,135,326	13,616,980	10,252,008
STAFF INFORMATION			
Average number of employees	7,150	6,392	5,886
Staff cost per employee (₦'000)	1,427	1,297	1,125
Net earnings per staff (₦'000)	3,608	3,622	3,004
Staff cost/Net earnings	39.6%	36%	37%
Staff costs/Operating expenses	50.9%	50%	52%

RATING DEFINITIONS

Aaa	**This is the highest rating category. The Bond is adjudged to offer highest safety of timely payment of interest and principal.**
Aa	The Bond is adjudged to offer high safety of timely payment of interest and principal.
A	The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.
Bbb	The Bond is adjudged to offer sufficient safety of timely payment of interest and principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for bonds in higher rated categories.
Bb	The Bonds is adjudged to carry inadequate safety of timely payment of interest and principal; while they are less susceptible to default than other speculative grade bonds in the immediate future, the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.
B	The Bond is adjudged to have greater susceptibility to default; while currently interest and principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
C	The Bond is adjudged to have factors present that make them vulnerable to default; timely payment of interest and principal is possible only if favourable circumstances continue.
D	The Bond is in default and in arrears of interest or principal payments or are expected to default on maturity.

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