

LAPO MFB SPV Plc N20bn Debt Issuance Programme (Series 1 Bonds)

Nigeria Bond Analysis

July 2017

Security class	Amount	Rating Scale	Rating [#]	Outlook [#]	Expiry date
Senior Unsecured	N6bn	National	BBB ⁺ _(NG)	Stable	February 2018

Key Counterparties:

Issuer:

LAPO MFB SPV Plc

Sponsor:

LAPO Mfb

Sponsor's long-term national scale credit rating: BBB⁺_(NG)

Trustee:

FBN Trustees Limited

Lead Issuing House:

FCMB Capital Markets Limited

Joint Issuing Houses:

United Capital Plc

Summary of Transaction:

Programme limit: N20bn

Current Issue: Series 1 N6bn

Ranking: Fixed Rate/Subordinated

Rating History:

Initial/last rating (July 2017)

Long term: BBB⁺_(NG)

Rating outlook: Stable

Related Methodologies/Research:

Global Master Criteria for Rating Banks and Other Financial Institutions, updated March 2017

Global Criteria for Rating Microfinance Institutions, updated March 2017

LAPO Mfb rating report, 2017

Glossary of Terms/Ratios, February 2016

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Transaction summary

The Series 1 Bonds have been issued under LAPO MFB SPV Plc's ("the Issuer") N20bn Debt Issuance Program ("DIP"). The Issuer is permitted through a resolution of its Board of Directors ("board") dated 26 September 2016, to issue the Bonds in tranches, different forms, and under different terms and conditions as the board may deem fit, subject to the approval of the relevant regulatory authorities.

Summary rating rationale

- Notwithstanding that the Series 1 Bonds are being issued by LAPO MFB SPV Plc, repayment of the obligations under the Issue ultimately depends on the performance of LAPO Microfinance Bank Limited ("LAPO Mfb" or "the bank" or "the Sponsor"), as the direct obligor of the Issue. The Sponsor irrevocably and unconditionally undertakes to the Trustee the due and punctual payment in accordance with the Trust Deed of the principal of and interest on all Bonds and of any other amounts payable by the Issuer under the Trust Deed. Consequently, cognisance must be taken of LAPO Mfb's credit standing, competitive strength and financial position.
- LAPO Mfb recorded steady improvement in profitability in the five year review period to FY16. Performance in FY16 was mainly revenue driven, as an increase in earning assets delivered a strong 37.7% rise in interest revenue to N23.9bn. Despite a significant 28.2% escalation in operating expenses (driven by staff related and traveling costs) and additional pressure from impairment charge rise, the bank ended with a pre-tax profit of N6.7bn, representing a 38.1% improvement over FY15. An unaudited pre-tax profit of N3.4bn was reported for the first half of FY17, translating to annualised 70.1% of the full year budget.
- Cognisance has also been taken of the unsubordinated and unsecured nature of the Bonds ("LAPO Mfb Bonds") to be issued to the Issuer by the Sponsor, which will rank on par with all senior unsecured indebtedness and the claims of depositors of the bank. Accordingly, the Series 1 Bonds have been accorded an *indicative, public national scale long-term rating* of BBB⁺_(NG), in line with the Sponsor's rating.
- A legal opinion from the solicitor to the Trustees of the Series 1 Bonds confirms that the undertaking provided by LAPO Mfb in respect of LAPO Mfb MFB SPV Plc's Series 1 Bonds is valid and enforceable against the bank under the provisions of Nigerian law. The rating accorded should not be viewed as a replacement of the legal advice that investors should seek on the validity and enforceability of the Transaction Documents/undertaking.

Factors that could trigger a rating action may include:

Positive change: Timely honouring of the obligations under this Issuance is dependent on the performance of the Sponsor. Hence, the accorded rating would be sensitive to a positive rating action on the Sponsor.

Negative change: Non-compliance with covenants, and/or a downgrade of the Sponsor's rating, could trigger a negative rating action.

[#] Indicative rating and outlook, to be converted to a final rating and outlook upon the receipt of all final transaction documents.

Details of the Bonds in issue

The Series 1 Bonds are for an aggregate sum of N6bn and their basic features are summarised in Table 1.

Table 1: Basic features	Series 1
Amount	N6bn
Maturity profile (legal)	Five years
Par value	N1,000
Coupon rate	TBD
Method of offer	Book Build
Ranking	Unsecured/Subordinated
Initial minimum subscription [#]	20,000 units

Source: Series 1 Supplemental Shelf Prospectus.

[#] Thereafter, multiples of 5,000 units.

Status of the bonds

The Series 1 Bonds constitute unconditional, unsecured and unsubordinated obligations of the Issuer, ranking *pari-passu*, without any preference among themselves. Specifically, the Series 1 Bonds will rank at par with all senior unsecured indebtedness of the Issuer.

Use of proceeds

The net proceeds of the Issue are to be used strictly for the purchase of unsubordinated LAPO Mfb Bonds, to be issued by the Sponsor for general banking purposes, and risk asset (retail loan) growth. The unsubordinated LAPO Mfb Bonds, to be issued by LAPO Mfb to the Issuer, are backed by an irrevocable and unconditional undertaking by the Sponsor, in favour of the Trustees, regarding the timely honouring of all its obligations under the Issue.

Other key features

Maturity profile

The tenor of the Series 1 Bonds is five years, commencing from the date of issuance.

Conversion

The Series 1 Bonds are not convertible to equity.

Coupon payment

Interest on the Series 1 Bonds will accrue from the date of issuance and be payable in arrears on a semi-annual basis.

Principal repayment

The aggregate principal amounts on the Series 1 Bonds will be repaid as a bullet repayment at the maturity date.

Covenants

The Series 1 Bonds are backed by covenants made discretely by the Issuer and the Sponsor.

The Issuer covenants as follows:

- (i) Not, without the prior written consent of the Trustees, to create or permit to subsist any charge, mortgage, lien, pledge or other security interest on any of its assets or any indebtedness guaranteed by it. Where the consent of the

Trustees is sought and obtained for such indebtedness, the Issuer will grant to the Trustees the same or equivalent security as is granted in relation to such other indebtedness;

- (ii) Provide the Trustees and the appointed rating agency with its audited annual financial statements for each year as soon as the relevant regulatory approval for publication is obtained;
- (iii) Provide the Trustees and the appointed rating agency with its unaudited annual financial statements for the first six months of each year not later than within 30 days after the end of the sixth month;
- (iv) Provide the Trustees and the appointed rating agency an annual Directors' certificate certifying as to the absence of any Event of Default, or where an Event of Default has occurred, describing the action the Issuer is taking or proposes to take to remedy the same;
- (v) Strictly utilise the net proceeds of the Series 1 Bonds for purchase of LAPO Mfb Bonds, to be issued by the Sponsor;
- (vi) Comply with applicable laws, rules, regulations, and licenses unless the necessity of compliance therewith is being contested in good faith by appropriate proceedings or failure to perform such obligations or comply with such terms and conditions will not reasonably be expected to have a material adverse effect;
- (vii) Not engage in any merger or consolidation with any other entity unless: (i) such entity will assume the obligations of the Issuer under the Series 1 Bonds, (ii) such merger or consolidation will not trigger an event of default, and (iii) a rating re-affirmation of such merger or consolidation is obtained;
- (viii) Ensure that all transactions and agreements between it and its affiliates are conducted at arms-length; and
- (ix) Use all reasonable endeavours to maintain the listing of the Series 1 Bonds on the Nigerian Stock Exchange or/and FMDQ¹ OTC quotation platform at all times.

Likewise, the Sponsor covenants as follows:

- (i) The Series 1 Bonds are backed by a negative pledge, restraining the Sponsor from, without the prior written consent of the Trustees, creating or permitting to subsist any charge, mortgage, lien, pledge or other security interest on any of its assets or any indebtedness guaranteed by it. Where the consent of the Trustees is sought and obtained for such indebtedness, the Issuer will grant to the Trustees the same or equivalent security as is granted in relation to such other indebtedness;

¹ FMDQ OTC Plc ("FMDQ") is a Securities and Exchange Commission ("SEC") licensed over-the-counter ("OTC") market securities exchange.

- (ii) Diligently perform and observe its covenants and obligations, as communicated through the offer Trust Deed, to the Bondholders;
 - (iii) Provide the Trustees and the appointed rating agency with its audited annual financial statements for each year as soon as the relevant regulatory approval for publication is obtained;
 - (iv) Provide the Trustees and the appointed rating agency with its unaudited annual financial statements for the first six months of each year not later than within 30 days after the end of the sixth month;
 - (v) Provide the Trustees and the appointed rating agency an annual Directors' certificate certifying as to the absence of any Event of Default, or where an Event of Default has occurred, describing the action the Sponsor is taking or proposes to take to remedy the same;
 - (vi) Permit its auditor to communicate directly with the Trustees or its designee following the occurrence and the continuance of an Event of Default;
 - (vii) Comply with applicable laws, rules, regulations, and license unless the necessity of compliance therewith is being contested in good faith by appropriate proceedings or failure to perform such obligations or comply with such terms and conditions will not reasonably be expected to have a material adverse effect;
 - (viii) Not use the proceeds of LAPO Mfb Bonds for any other purpose than for general banking purposes (unless otherwise specified in the relevant purchase confirmation);
 - (ix) Not engage in any merger or consolidation with any other entity unless: (i) such entity will assume the obligations of the Issuer under the Series 1 Bonds, (ii) such merger or consolidation will not trigger an event of default, and (iii) a rating re-affirmation of such merger or consolidation is obtained; and
 - (x) Insure and keep insured to the satisfaction of the Trustees and to the full replacement value thereof all such parts of its assets as are of an insurable nature against loss, damage by fire, explosion, flood and other risks as in accordance with sound commercial practice are normally insured against by companies carrying on a similar business with one or more reputable insurer(s) and produce the policies of such insurance to the Trustees on request.
- breach can be remedied, failed to remedy the non-compliance within ten days after written notice requiring such default to be remedied has been delivered to the Issuer by the Trustee;
- (iii) There is an enforcement of legal process against any substantial part of the property, assets or revenues of the Issuer or the Sponsor and such enforcement is not discharged or stayed within 90 days thereof;
 - (iv) The Sponsor is released from its obligations under the undertaking provided under the Series 1 Bonds Trust Deed, other than with the approval of the Trustees and a Special Resolution of the Bondholders.
 - (v) The Issuer or Sponsor (or any of its material subsidiaries) fails to pay when due any amount payable (where such amount is not below N2bn) by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised;
 - (vi) An order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or Sponsor;
 - (vii) Any step is taken by any person with a view to the compulsory acquisition or nationalisation of all or material part of the assets of the Issuer or the Sponsor (or any of its material subsidiaries); and
 - (viii) The Issuer or the Sponsor becomes insolvent.

Key transaction parties

Issuing Houses

The Issuing House's functions are to be jointly rendered by FCMB Capital Markets Limited and United Capital Plc, with the former as the lead Issuing House.

Trustee

The appointed Trustee is FBN Trustees Limited. The Trustee is considered to be suitably experienced, having operated in the Nigerian market for around 38 years.

Issuer

The Issuer is LAPO MFB SPV PLC, a special purpose entity incorporated in September 2016 for the purpose of issuing bonds to the public, exclusively to cater for the funding needs of the Sponsor.

Sponsor

The Sponsor is LAPO Mfb, a leading player in the local microfinance banking subsector (currently accorded a national scale long-term rating of BBB₊(NG) with a Stable Outlook by GCR.). LAPO Mfb was initially founded as a non-governmental organisation ("NGO") in 1987, registered with the Corporate Affairs Commission in 1993, and subsequently incorporated as a private limited liability company in April 2007. The company thereafter obtained CBN approval to operate as a microfinance bank in June 2010. LAPO Mfb was re-

A breach of these covenants would result in an early redemption of the Series 1 Bonds.

Events of Default include the following situations:

- (i) The Issuer fails to pay any amount in respect of the Bonds within ten days of the due date for such payment;
- (ii) The Issuer fails to comply with its other obligations in respect of the Bonds and, if such

licensed as a National MFB in September 2012 in line with the new microfinance banking model introduced in the country by Central Bank of Nigeria (“CBN”) in 2011. LAPO Mfb’s microfinance banking activities are strategically targeted at micro, small and medium enterprises (“MSMEs”), particularly poor women micro enterprises owners, who are served on a group basis. Specifically, membership of a LAPO Mfb Group (Union²) is a mandatory requirement for accessing the bank’s financing.

While the local regulations permit individuals, groups of individuals, community development associations, private corporate entities, and foreign investors to establish MFBs, a single investor is not permitted to own a controlling interest in more than one MFB without the prior approval of CBN. LAPO Mfb is more or less an owner-run institution, with the shares largely owned by two key investors (the Managing Director and an institutional investor, Lift Above Poverty Organisation), each having 30.1% and 67.1% shareholding respectively at FY16. The remainder (2.8%) is owned by other directors in the company.

Corporate governance

LAPO Mfb’s governance structure (in terms of board composition) is in line with the latest standard prescribed by CBN. The bank’s directorate is made up of nine members, with the majority (six) being non-executive directors (including the chairman). One of the non-executive directors is also designated as independent. Overall, the profile of the board membership (in terms of professional background and experience) is considered satisfactory. The board’s general oversight is rendered through five standing committees, viz. Board Audit Committee, Board Risk Management Committee, Finance & General Purpose Committee, Nomination/Remuneration Committee, and Environment, Social & Governance Committee. The new governance code makes it mandatory for MFBs to have a Risk Management and Audit Committee, a Board Governance and Nomination Committee, and a Board Credit Committee (in addition to any other committees deemed necessary by the individual bank).

Financial reporting

LAPO Mfb’s 2016 audited financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”), the Banks and Other Financial Institutions Act (“BOFIA”), and the Company and Allied Matters Act (2004). As in previous years, the external audit opinion by Akintola Williams Deloitte (Chartered Accountants) on the 2016 financial statements was unqualified.

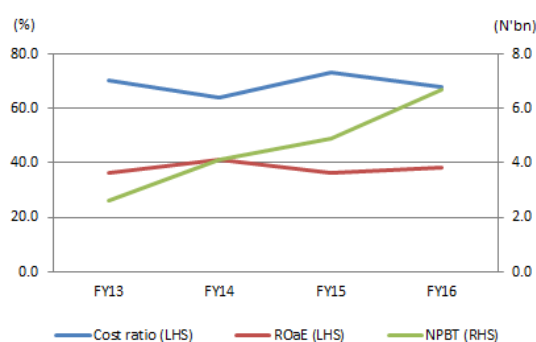
² A self-selected group of people who access LAPO Mfb’s loans individually, but have group guarantees.

Performance update

A five year financial synopsis, up to 31 December 2016, is reflected at the back of this report, supplemented by the commentary below.

LAPO Mfb recorded steady improvement in profitability in the five year review period to FY16. Performance in FY16 was mainly revenue driven, as increases in earning assets delivered a strong 37.7% rise in net interest income to N23.9bn. Net interest margin expanded somewhat to 42.3% in FY16 (FY15: 38.6%), illustrating the high asset yields which may be achieved in the microfinance segment. Despite a significant 28.2% escalation in operating expenses (driven by staff related and traveling costs), the cost ratio declined to 68.1% (FY15: 73.2%). Notwithstanding further pressure from impairment charge escalation, the bank recorded a pre-tax profit of N6.7bn, representing a 38.1% improvement over FY15 and translating to an improved ROaE and ROaA of 38.1% and 7.9%, up from 36.2% and 7.2% in FY15 respectively.

Figure 1: Profitability indicators



Source: LAPO Mfb.

Management targets a pre-tax profit of N9.8bn in FY17, representing as significant 45.5% growth over FY16. Performance in FY17 is expected to be driven by earning assets growth, as total operating income is expected to grow by 20.5% (with interest income contributing 98.4%).

Table 2: Actual FY16 vs. budget FY17 (N'bn)	Actual FY16	Budget FY17	% growth
Net interest income	23,901.9	28,614.2	19.7
Other income	211.3	453.9	114.8
Total operating income	24,113.2	29,068.1	20.5
Bad debt charge	(964.0)	(402.9)	(58.2)
Operating expenditure	(16,432.0)	(18,890.3)	15.0
NPBT	6,717.2	9,774.9	45.5
Balance sheet			
Deposits	27,672.2	36,585.0	32.2
Advances	49,855.6	55,343.8	11.0
Total assets	62,721.2	70,625.4	12.6
Tier 1 capital	13,617.0	19,002.2	39.5

Source: LAPO Mfb.

While a reduction in the impairment charge is envisaged on account of improved risk management, operating expenditure is expected to increase by 15%

due to the ongoing fund raising and IT enhancement related expenses. Nevertheless, the bank's cost ratio is expected to improve to 64.9% (FY16: 68.1%) on account of stronger revenue growth.

The realisation of the FY17 budget is dependent on the bank's ability to achieve its forecast asset and revenue growth, which will be determined largely by the success of the planned long term debt raising. An unaudited pre-tax profit of N3.4bn was reported for the first half of FY17, translating to annualised 70.1% of the full year budget. Hence, the FY17 budget is considered achievable.

The bank is also in the process of developing a new five year strategic blueprint (covering the 2018-22 period). According to management, the new strategic plan aims at sustaining the bank's leadership position in the country's microfinance banking space, to be pillared on deployment of appropriate technology, process improvement, product diversification, establishment of a clearly defined target market, and human resources upskilling.

Capital adequacy

LAPO Mfb registered a strong compound annual growth rate ("CAGR") of 36.8% in total capital in the four year period to FY16 through a combination of internal capital generation and successful capital raising initiatives. Consequently, the bank's shareholders' funds stood at N13.6bn at FY16, translating to over 6.8x the statutory minimum requirement for its license category, and an adequate capital adequacy ratio of 25% (compared with the 10% statutory requirement).

Funding structure

In Nigeria, MFBS' funding is statutorily restricted to equity capital, customer deposits, borrowings (debentures/qualifying medium to long term loans), and grants/donations from individuals, organisations, government and commercial funding from international sources (subject to CBN approval). LAPO Mfb's funding structure at FY16 comprised: equity capital (23.7%), customer deposits (48.2%), and borrowings (28.1%).

LAPO Mfb's borrowing book (made up of on-lending facilities from foreign and local financial institutions) expanded by over a quarter to N16.4bn at FY16. While a significant (42%) portion of the outstanding borrowings was US Dollar denominated, foreign exchange risk has been largely mitigated through hedging. As such, LAPO's exposure to foreign exchange risk is limited to default scenario. As at 30 June 2017, the unexpired tenor of the facilities ranged from one month to four years. Apart from the CBN and BOI facilities, which attract interest at 2% and 9% pa respectively, interest on other facilities ranges from 11.25% to 23.0%.

To further bolster its funding base, the bank is planning to raise long term debt comprising 5-year fixed rate senior unsecured bonds (ie, the LAPO Mfb Bonds) of N6bn in FY17 (through sale of the Series 1 Bonds by the Issuer under its N20bn DIP).

	N'm
Standard Chartered Bank Nig. Ltd.	211.8
Lotus Capital	288.2
CCP Incofin CVSO/ Impulse loan	669.2
ResponsAbility SICAV (Lux)	2,224.8
Symbiotics	1,904.1
Partners For Development	154.4
IFC	2,100.7
Alitheia	62.1
Blue Orchard	1,768.6
Agence Francais De Development (AFD)	407.7
FMO	1,837.2
CBN (MSME)	1,606.2
Access Bank	292.2
AfDB	1,617.5
BOI	1,002.2
Total	16,146.9

Source: LAPO Mfb.

Liquidity

LAPO Mfb displayed satisfactory liquidity metrics across the five year review period to FY16, with liquid and trading assets/total short term funding ratio standing at 27.3% at FY16, compared with the 20% statutory benchmark. While the matching of the bank's asset and liability maturities at the balance sheet date showed a marginal liquidity gap of N0.8bn in the 'less than three month' maturity band (5.9% of capital), liquidity risk is mitigated by the fact that mandatory deposits (forming the bulk of the deposit base) are, by policy, held against advances (hence not unconditionally available to customers).

	<3 month	3-6 months	6-12 months	>1 year
Assets	30.0	8.0	16.1	4.3
Liabilities	30.8	2.4	4.5	6.5
Net liquidity gap	(0.8)	5.6	11.6	(2.3)
Cumulative liquidity gap	(0.8)	4.8	16.5	14.2

Source: LAPO Mfb.

Rating considerations

Meaning of the Rating of the Series 1 Bonds

The rating accorded to the Series 1 Bonds is an *indicative, public national scale long-term rating*. GCR has reviewed the draft transaction documentation.

The *indicative public rating* accorded to the Series 1 Bonds relates to the timely payment of principal and interest. The rating excludes an assessment of the Issuer's ability to pay any (early repayment) penalties.

Should the rating of the Sponsor change, the rating of the Series 1 Bonds may also change, but not necessarily in the same quantum.

The suffix code identifies to which country the rating relates; ‘NG’ means Federal Republic of Nigeria. A rating outlook indicates the likely direction of a rating change over the medium term, typically a one or two year period. The rating of the Series 1 Bonds will be monitored, and thereafter GCR will perform regular surveillance on the transaction. Surveillance reports will be made available to subscribers to GCR’s information services.

Rating Criteria application

The methodology used here is the “Global Master Criteria for Rating Banks and Other Financial Institutions” and “Global Criteria for Rating Microfinance Institutions”, both updated March 2017; this document (and any amendments made from time to time) is available on GCR’s website at globalratings.com.ng.

Information provided

Below is a list of all relevant information required/ provided.

Table 5: LAPO Mfb MFB SPV Plc’s DIP (Series 1) general transaction documents

Description of documents	Data provided
Audited accounts of the Sponsor at FY16	Yes
Unaudited accounts of the Sponsor for 1H FY17	Yes
Master Trust Deed for the DIP	Yes
Shelf Prospectus for the DIP	Yes
Supplemental Shelf Prospectus for Series 1 Bonds	Yes
Series 1 Trust Deed	Yes
Master Bonds Purchase Agreement	Yes
Legal opinions on the transaction documents	Yes
Final/signed transaction documents	Not yet

Disclaimer

Note that GCR is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, GCR is not a party to the transaction documents. Users of our credit rating should familiarise themselves with the transaction (including the legal opinion), and should form their own views in this respect. They should not rely on GCR for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

LAPO Microfinance Bank Limited

(Naira in millions except as noted)

Year end: 31 December

Income Statement Analysis	2012	2013	2014	2015	2016
Interest income	8,659	10,733	16,504	19,408	26,669
Interest expense	(874)	(1,101)	(1,550)	(2,053)	(2,767)
Net interest income	7,785	9,632	14,954	17,356	23,902
Net fee and commission income	9	25	(8)	14	59
Other income	60	54	58	138	152
Total operating income	7,854	9,711	15,004	17,508	24,113
Impairment charge	(114)	(273)	(1,280)	175	(964)
Operating expenditure	(5,200)	(6,826)	(9,575)	(12,820)	(16,432)
Net profit before tax	2,541	2,612	4,149	4,863	6,717
Tax	(900)	(868)	(1,340)	(1,572)	(2,170)
Net profit after tax	1,641	1,743	2,808	3,291	4,547

Balance Sheet Analysis

Ordinary shareholders' equity and reserves	3,884	5,687	7,915	10,252	13,617
Less: Intangible assets	-	-	-	-	-
Total capital and reserves	3,884	5,687	7,915	10,252	13,617
Customer deposits	9,793	13,854	20,360	25,706	27,672
Other borrowings	2,084	1,215	930	4,603	7,981
Short-term funding (< 1 year)	11,877	15,069	21,290	30,309	35,654
Customer deposits	-	-	-	-	-
Other borrowings	2,218	4,271	6,734	8,223	8,166
Long-term funding (>1 year)	2,218	4,271	6,734	8,223	8,166
Payables/Deferred liabilities	2,622	2,548	3,688	3,615	5,285
Other liabilities	2,622	2,548	3,688	3,615	5,285
Total capital and liabilities	20,601	27,576	39,628	52,399	62,721
Cash on hand	63	30	273	85	227
Fixed assets	505	653	1,188	1,547	2,022
Other assets	877	573	928	1,152	1,113
Total non-earning assets	1,445	1,256	2,388	2,784	3,361
Net loans and advances	16,741	23,012	32,729	42,952	49,856
Bank placements/short-term loans	2,415	2,544	3,469	5,328	7,326
Marketable/Trading securities	-	764	1,042	1,335	2,178
Investments	-	-	-	-	-
Total earning assets	19,156	26,320	37,240	49,615	59,360
Total assets	20,601	27,576	39,628	52,399	62,721

Ratio Analysis (%)

Capitalisation					
Internal capital generation	42.2	30.7	35.5	32.1	33.4
Total capital / Total assets	18.9	20.6	20.0	19.6	21.7
Liquidity					
Net advances / Customer deposits	170.9	166.1	160.8	167.1	180.2
Net advances / Total funding (excl. equity portion)	118.8	119.0	116.8	111.5	113.8
Liquid and trading assets / Total assets	12.0	12.1	12.1	12.9	15.5
Liquid and trading assets / Total short-term funding	20.9	22.2	22.5	22.3	27.3
Asset quality					
Impaired loans / Gross advances	1.1	2.2	6.9	4.7	6.2
Total loan loss reserves / Gross advances	1.1	1.8	4.6	3.3	4.7
Bad debt charge (income statement) / Gross advances (avg.)	n.a.	1.4	4.4	(0.4)	2.0
Bad debt charge (income statement) / Total operating income	1.4	2.8	8.5	(1.0)	4.0
Profitability					
Net profit margin	32.4	26.9	27.7	27.8	27.9
Net interest margin	80.5	41.8	45.6	38.6	42.3
Non-interest income / Total operating income	0.9	0.8	0.3	0.9	0.9
Cost ratio	66.2	70.3	63.8	73.2	68.1
ROaE	n.a.	36.4	41.3	36.2	38.1
ROaA	n.a.	7.2	8.4	7.2	7.9
Nominal growth indicators					
Total assets	n.a.	33.9	43.7	32.2	19.7
Net advances	n.a.	37.5	42.2	31.2	16.1
Shareholders funds	n.a.	46.4	39.2	29.5	32.8
Total capital and reserves	n.a.	46.4	39.2	29.5	32.8
Customer deposits	n.a.	41.5	47.0	26.3	7.6
Total funding (excl. equity portion)	n.a.	37.2	44.9	37.5	13.7
Net profit after tax	n.a.	6.3	61.1	17.2	38.2

^ Differences may occur due to rounding.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or as indicated by the applicable credit rating document.

The rating was solicited by, or on behalf of, LAPO MFB SPV Plc, and therefore, GCR has been compensated for the provision of the rating.

LAPO Microfinance Bank Limited (the Sponsor) participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating was disclosed to and not contested by LAPO MFB SPV Plc and LAPO Microfinance Bank Limited.

The information received from LAPO MFB SPV Plc and LAPO Microfinance Bank Limited to accord the credit rating included the Sponsor's 31 December 2016 audited annual financial statements (plus four years of comparative numbers), the unaudited management accounts of the Sponsor for six month period (up to June 2017), Master Trust Deed for the Debt Issuance Programme, the Programme Shelf Prospectus, the Series 1 Trust Deed, the Series 1 Supplemental Shelf Prospectus, as well as the Master Bonds Purchase Agreement.

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