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LAPO Microfinance Bank Limited

Nigeria Bank Analysis **July 2017**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	BBB+$_{(NG)}$	Stable	June 2018
Short-term	National	A2$_{(NG)}$		

Financial data:

(USDm comparative)

	31/12/15	31/12/16
NGN/USD (avg.)*	196.9	256.0
NGN/USD (close)*	197.0	305.0
Total assets	266.0	205.6
Total capital	52.0	44.6
Net advances	218.0	163.5
Liquid assets	34.3	31.9
Operating income	88.9	94.2
Profit after tax	16.7	17.8
Market capitalisation	Not applicable.	
Market share**	18.3%	

* Central Bank of Nigeria ("CBN") rate.
**Based on total subsector loans and advances at 31 December 2016.

Rating history:

Initial/last rating (July 2017)
Long term rating: BBB+$_{(NG)}$
Short term rating: A2$_{(NG)}$
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Global Criteria for Rating Microfinance Institutions, updated March 2017
Nigeria Financial Institutions Overview (2017)
Glossary of Terms/Ratios, February 2016

GCR contacts:

Primary Analyst
Julius Adekeye
Senior Credit Analyst
adekeye@globalratings.net

Committee Chairperson
Dave King
king@globalratings.net

Analyst location: Lagos, Nigeria

Tel: +23 41 462-2545

Website: http://globalratings.com.ng

Summary rating rationale

- The ratings of LAPO Microfinance Bank Limited ("LAPO Mfb" or "the bank") reflect its strong competitive position as the market leader in the Nigeria microfinance banking subsector by size. LAPO Mfb is one of eight microfinance banks ("MFBs") licensed to operate nationally in Nigeria presently. Furthermore, the profile of the bank's management team (in terms of experience) is considered satisfactory.
- LAPO Mfb's capitalisation is considered acceptable, with total shareholders' funds amounting to N13.6bn at FY16, translating to over 6.8x the statutory minimum requirement for its license category, and a capital adequacy ratio of 25% (compared with the 10% statutory requirement). The bank registered a strong compound annual growth rate ("CAGR") of 36.8% in total capital in the four year period to FY16 on account of steady internal capital generation and successful capital raising initiatives.
- LAPO Mfb's asset quality (in terms of loans and advances portfolio) came under pressure in FY16, with the non-performing loan ("NPL") ratio rising to 6.2%, having improved from the five-year high of 6.9% in FY14 to 4.7% in FY15. However, the provisioning level is considered adequate, while capital protection appears strong, considering the low net NPL/capital ratio of 5.6% at FY16.
- The bank has displayed satisfactory liquidity metrics across the five year review period to FY16, with liquid and trading assets/total short term funding ratio of 27.3% at FY16, compared with the 20% statutory benchmark.
- 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. Overall, the bank achieved stronger ROaE and ROaA of 38.1% and 7.9% in FY16, up from 36.2% and 7.2% in FY15 respectively. 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.

Factors that could trigger a rating action may include

Positive change: A significant improvement in the bank's market share, asset quality and liquidity position could trigger a positive rating action.

Negative change: A negative rating action may follow a decline in the bank's profitability, as well as pressure on asset quality and liquidity indicators.

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Organisational profile

Corporate summary

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-licensed as a National MFB in September 2012 in line with the new microfinance banking model introduced in the country by CBN in 2011.

Ownership structure

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 ("LAPO")), each having 30.1% and 67.1% shareholding respectively at FY16. The reminder (2.8%) is owned by other directors in the company.

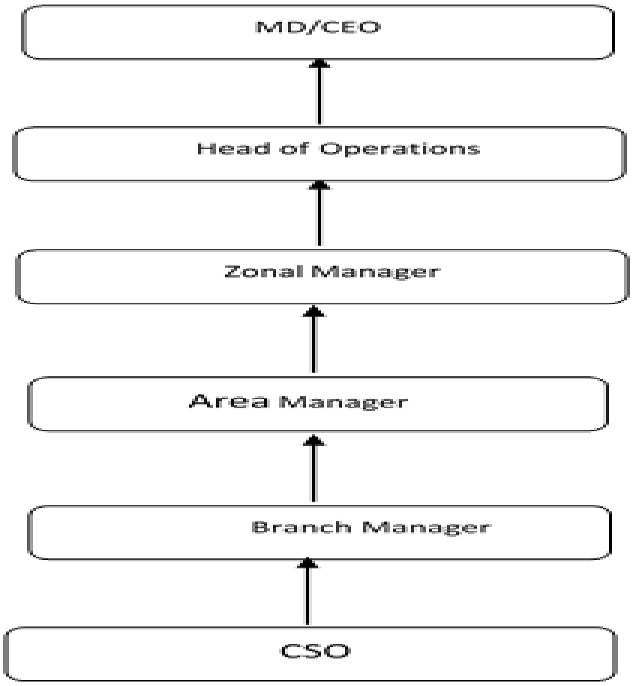
Strategy and operations

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 (Union[1]) is a mandatory requirement for accessing the bank's financing.

Operationally, the bank is structured into seven business units (Risk Management, Legal & Compliance, Corporate Planning & Strategy, Finance & Accounts, Corporate Services, Operations & IT, and Internal Audit/Control). The head of each business unit (save for that of the Legal & Compliance, and Internal Audit) reports directly to the Managing Director. The heads of Legal & Compliance and Internal Audit/Control report directly to the board of directors ("board"). However, responsibility for mobilisation and coordination of LAPO Mfb Groups is vested in the Clients Support Officers ("CSO") at the branches. The CSO interfaces directly with the clients and reports to the branch manager, who in turns reports to the area manager. The primary functions of the CSO include: (i) creating awareness about LAPO Mfb's activities to prospective clients, (ii) guiding the prospective clients on formation of LAPO Mfb Groups, (iii) registration of eligible members, (iv) organising pre-loan training for the Group, (v) ensuring the approval of the Group by the branch manager and (vi) loan monitoring.

Figure 1 illustrates the reporting lines of LAPO Mfb's market facing team.

Figure 1: Market facing team's reporting line



Source: LAPO Mfb.

LAPO Mfb offers a wide range of customised microfinance banking products to its clientele. The bank's loan products include Regular Loans, Festival Loans, Asset Loans, Enterprise Development Loans Scheme, Special Loans, and Nedoghama Loans, each having unique characteristics with regards to target customer, amount, purpose, tenor and applicable interest rates. On the liability side, the bank has mandatory and voluntary savings products (Festival Savings, Ordinary Voluntary Savings, and My Pikin Savings, each possessing distinct features).

LAPO Mfb has 438 business offices across 30 states of the country as at end-June 2017, with a total staff of over 6,000. The branches are in three categories (Super, Mega, and Regular) based on their permitted activity level. For administrative convenience, the branches are clustered into area offices, while the area offices are further desegregated into zonal offices. Supervisory functions are tiered in that order, with the zonal offices reporting to the head office. LAPO Mfb's operations are supported by Orbit-R, a robust microfinance banking software package, developed by Neptune Software Plc. An offsite data backup facility is in place to aid data recovery in case of disaster.

[1] A self-selected group of people who access LAPO Mfb's loans individually, but have group guarantees.

Governance structure

MFBs' governance structure is governed by the Code of Corporate Governance for MFBs developed by CBN in May 2017, the general requirements of which are summarised in Table 1.

Table 1: Governance structure requirements	
No of board members	Minimum of five, maximum of fifteen
Executive/NED* mix	NEDs must exceed Executive directors
Number of ED	Maximum of five
Independent director	Maximum of two independent directors.
Directors' tenure limit	Two terms of five years for the MD, three terms of four years for other directors.

*NEDs – non-executive directors.

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 ("BAC"), Board Risk Management Committee ("BRMC"), Finance & General Purpose Committee ("FGPC"), Nomination/Remuneration Committee ("NRC"), and Environment, Social & Governance Committee ("ESGC"). 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.

Operating environment

Economic overview

Nigeria's macroeconomic fundamentals remained volatile throughout 2016 owing to low and unstable international oil prices (which severely affected the country's foreign reserve levels and fiscal planning capacity), as well as a variety of local and global challenges. Other factors contributing to heightened levels of economic uncertainty include the significant fall in the value of the Naira against the US dollar, largely due to the role oil plays in funding Nigeria's fiscus. Per the National Bureau of Statistics, Nigeria's real gross domestic product ("GDP") contracted by 1.5% in 2016 (compared to 2.8% and 6.2% growth in 2015 and 2014 respectively), placing the country in a recession. The negative trend was exacerbated by the resurgence of disturbances in the Niger Delta region (affecting crude oil production outputs) and the impact of reduced foreign exchange ("forex") earnings on the economy. As such, inflation rose steadily from 9.5% at end-December 2015 to 18.6% at end-December 2016, before falling to 17.2% at end-April 2017.

In order to mitigate the forex shortages and stimulate economic activity, CBN implemented a restrictive policy that denied access to forex (from the official CBN window) for 41 items, and removed the exchange rate peg to the USD in favour of a flexible exchange rate policy in June 2016. Despite these interventions, the currency remained under pressure, with inadequate forex supply from the official CBN window driving much weaker exchange rates in the parallel market. While the NGN/USD exchange rate rose above N500/USD to mid-March 2017, latterly it has fluctuated between N360-N400/USD following CBN interventions. During the last Monetary Policy Committee ("MPC") meeting held in May 2017, CBN maintained the monetary policy rate ("MPR") at 14%, the cash reserve ratio ("CRR") at 22.5% and the liquidity ratio at 30%, in line with efforts to combat inflation and maintain price stability.

Industry overview–Microfinance bank subsector

At 31 December 2016, Nigeria's financial sector comprised 21 commercial banks, one non-interest bank, four merchant banks and over 4,000 other financial institutions. The microfinance banking subsector is regulated by CBN, with the operations of MFBs governed by the Revised Microfinance Policy Framework for Nigeria ("RMPFN"), issued by CBN in April 2011. The RMPFN categorises MFBs into three types, as follows: Unit MFB, State MFB and National MFB. The basic features of each category of MFB are summarised below.

Table 2: MFB license category and basic features

Category	Capital required	Restrictions
Unit MFBs	N20m	Operations limited to one location (prohibited from having branches/cash centres).
State MFBs	N100m	Operations limited to one state or the Federal Capital Territory ("FCT") and authorised to have branches/cash centres within the same state or the FCT.
National MFBs	N2bn	Authorised to open/operate branches and cash centres in any state and the FCT.

Source: RMPFN.

Prior to the release of the RMPFN, MFBs were licensed in two categories, namely: Unit MFBs and State MFBs, with the minimum paid-up capital set at N20m and N1bn for each category respectively.

Under the replaced model, a Unit MFB is permitted to operate and open branches within a local government area only, while a state MFB is authorised to operate and open branches within a state or the FCT.

Competitive position

Detailed peer comparison is constrained by lack of available up to date financial information on most players in the sector, as most players are private companies. As at May 2017, there are 991 MFBs licensed by CBN, with eight (including LAPO Mfb) operating as National MFBs, 104 as State MFBs, and 879 as Unit MFBs.

Financial profile

Likelihood of support

Financial support (bailout) from government appears unlikely for MFBs in Nigeria, considering their relatively small sizes and private ownership status. As such, financial support for LAPO Mfb is limited to its shareholders.

Funding composition

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%).

Customer deposits and interbank funding

Customer deposits

MFBs' deposit mobilisation capacity is largely constrained by stiff competition from deposit money banks (given their stronger brand acceptance and large branch networks). Nevertheless, LAPO Mfb has demonstrated strong deposit mobilisation capacity during the five-year review period, with the bank's deposit book closing at N27.7bn at FY16, representing a growth of 7.6% over FY15 and a CAGR of 29.7% in the five years to FY16. Savings deposits formed the bulk (93.3%) of the deposit pool, hence the maturity profile of the book was short (all maturing within 30 days contractually).

Table 3: Deposit book characteristics at FY16 (%)

By type		By concentration	
Term	6.7	Single largest	0.1
Savings	93.3	Twenty largest	1.1

Source: LAPO Mfb.

However, the well diversified nature of the deposit book, with the 20 largest comprising barely 1.1% of the book at FY16, mitigates liquidity risk somewhat. The total number of depositors (voluntary savings) stood at 2.6m at the balance sheet date.

Borrowings

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%.

Table 4: Outstanding borrowings at FY16	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**

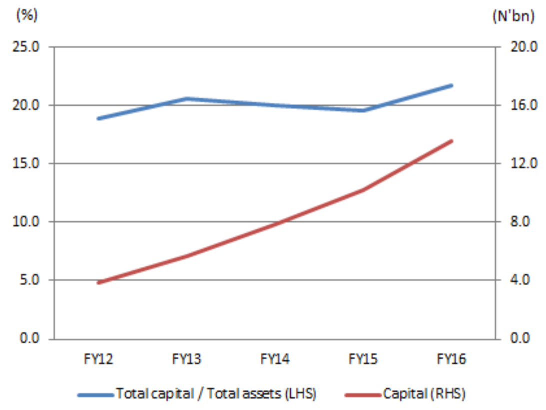
Source: LAPO Mfb.

To further bolster its funding base, the bank is planning to raise long term debt comprising 5-year fixed rate senior unsecured bonds, of N6bn (Series 1 under its N20bn debt issuance programme) in FY17.

Capital

LAPO Mfb registered a strong 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 acceptable capital adequacy ratio of 25% (compared with the 10% statutory requirement).

Figure 2: Capital adequacy (%)



Source: LAPO Mfb.

Liquidity positioning

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).

Table 5: Net liquidity gap profile (N'bn)	<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.

Operational profile

Risk management

LAPO Mfb adopts a simple credit approval procedure, given its relatively small loan limit per obligor. Depending on the loan product, credit approval authority is vested in the Branch Manager and Area Manager. Nevertheless, credit decisions are guided by a well-documented credit administration policy, which *inter alia* defines the eligibility criteria and processing procedure per credit product, as well as lays out the post-disbursement risk management process (exposures monitoring and workout). By policy, LAPO Mfb's credit exposure is restricted to active LAPO Mfb Group members, while such loan request must be backed by unanimously adopted resolution of such borrower's group. Other credit protection factors include a short credit cycle (duration ranging from one to 12 months), third party guarantee, retention of legal ownership of financed assets (where applicable), group pressure, as well as credit insurance.

Credit risk

LAPO Mfb is exposed to credit risk through its lending activities (including interbank placements).

The bank's balance sheet expanded by 19.7% to N62.7bn at FY16, with no aggressive shift in the asset mix. The risk portfolio (loans and advances) comprised 79.5% of the asset base, with interbank placements comprising further 11.7%.

Table 6: Asset mix	FY15		FY16	
	N'm	%	N'm	%
Cash & liquid assets	6,748.1	**12.9**	**9,730.9**	**15.5**
Cash	84.8	0.2	226.5	0.4
T-bills and bonds	1,334.9	2.5	2,178.4	3.5
Balances with other banks	5,328.4	10.2	7,326.0	11.7
Customer advances	42,951.8	82.0	49,855.6	79.5
Property and equipment	1,546.9	3.0	2,021.9	3.2
Other assets	1,152.1	2.2	1,112.8	1.8
Total	**52,398.9**	**100.0**	**62,721.2**	**100.0**

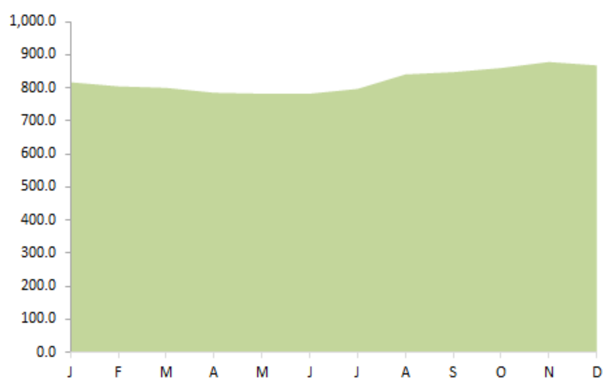
Source: LAPO Mfb.

Loan portfolio

LAPO Mfb grew its loans and advances portfolio (on a gross basis) by 17.7% to N52.3bn at FY16, with micro loans comprising 94.6% of the asset pool.

The borrower base was well diversified, made up of over 1.3m obligors, with the 20 largest exposures constituting less than 0.1% of the loan book at FY17.

Figure 3: Borrowers growth trend (in thousands) – FY16



Source: LAPO Mfb.

Table 7 shows the basic characteristics of the loan book as at 31 December 2016.

Table 7: Advances book characteristics (%)	FY16
By type:	
Micro loans	94.6
SME	4.7
Staff- loans	0.7
By sector:	
Agriculture	5.9
Trade & Commerce	90.9
Education	3.2
By maturity:	
6 months to 1 year	100.0

Source:LAPO Mfb.

Asset quality

LAPO Mfb was impacted by the challenging macroeconomic environment in the country, as its NPL ratio trended upward to 6.2% in FY16, having improved from the five-year high of 6.9% in FY14 to 4.7% in FY15.

Table 8: Asset Quality (N'm)	FY15	FY16
Gross Advances	**44,455.6**	**52,326.9**
Loan classification		
Performing	42,387.1	49,087.9
Impaired	2,068.5	3,239.0
Provision for impairment	**(1,503.7)**	**(2,471.2)**
Individually impaired	(1,347.8)	(2,231.4)
Collectively impaired	(155.9)	(239.8)
Net NPLs	**564.9**	**767.8**
Gross NPLs ratio (%)	4.7	6.2
Net NPLs ratio (%)	1.7	2.0
Net NPLs/Capital (%)	5.5	5.6

Source: LAPO Mfb.

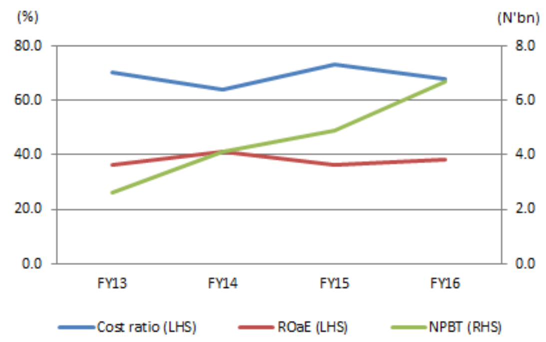
The provisioning level is considered adequate, while capital protection appears strong, considering the low net NPL/capital ratio of 5.6% at the balance sheet date.

Financial performance and prospects

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%).

Figure 4: Profitability indicators



Source: LAPO Mfb.

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.

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%). 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. However, the bank's cost ratio is expected to improve to 64.9% (FY16: 68.1%) on account of stronger revenue growth.

Table 9: Actual FY16 vs. budget FY17 (N'bn)	Actual FY16	Budget FY17	% growth
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.

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.

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 being rated; 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 earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, LAPO Microfinance Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.

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

The credit ratings above were disclosed to LAPO Microfinance Bank Limited with no contestation of/changes to the ratings.

The information received from LAPO Microfinance Bank Limited and other reliable third parties to accord the rating included the audited annual financial statements of LAPO Microfinance Bank Limited for five years, up to 31 December 2016, the unaudited management accounts for six months (up to June 2017), and other detailed information related to the bank's operations.