GCR RATINGS

Credit Rating Report | Nigerian Local Authority | June 2021*

Lagos State Government of Nigeria

Rated Entity / Issue	Rating class	Rating scale	Rating*	Outlook/Watch
Lagos State Government of Nigeria	Long Term Issuer	National	A+(NG)	Positive
	Short Term Issuer	National	A1(NG)	
Senior Unsecured P3S1 N47bn Bonds	Long Term Issue	National	A+(NG)	Positive
Senior Unsecured P3S2 N85.1bn Bonds	Long Term Issue	National	A+(NG)	
Senior Unsecured P3S2 N12.2bn Bonds	Long Term Issue	National	A+(NG)	
Senior Unsecured P3S3 N100bn Bonds	Long Term Issue	National	A+(NG)	

*The Senior Unsecured Bond ratings are based on the analysis of the general creditworthiness of Lagos State Government. The Bonds bear the same probability of default as the Issuer and would reflect similar recovery prospects to the Senior Unsecured creditors in the event of a default.

Strengths

- The State houses about 70% of the country's total industrial investment and 65% of commercial activities which compliments its pivotal role in the country.
- Robust internal economy and strong financial independence from statutory allocations, with about 80% of total recurring income being internally generated revenue ("IGR").
- Good access to funding with sources from commercial banks, foreign financial institutions, and capital markets.

Weaknesses

- Short term prospects negatively impacted by ongoing COVID-19 disruptions.
- Sizeable increase in gross debt has placed some pressure on credit protection metrics.

Rating Rationale

The ratings of Lagos State Government of Nigeria ("the State" or "Lagos State") are underpinned by its position as the financial centre of Nigeria, which has supported strong growth in IGR. However, this rating strength is counterbalanced by the substantial rise in debt over the past few years, as well as the consequent pressure on credit protection metrics.

Lagos State's business profile is supported by its status as the country's economic and commercial centre, accounting for over 25% of Nigeria's total GDP and more than 50% of non-oil GDP. The State is also a critical commercial hub for broader West African region, which ensures that it continuously attracts a diverse range of national and international businesses, as well as a highly skilled workforce. Nevertheless, Lagos is constrained by substantial social development issues, with a large portion of its population living in or close to the poverty line and large areas of informal settlements. Moreover, while the State continues to address its infrastructural deficit, it still lacks the necessary infrastructures to facilitate an efficient economic environment that can cater for its rising population and address the unemployment rate.

Lagos State's diverse internal economy has translated into strong earnings and cash flows, and relative financial independence from statutory allocations. Despite the COVID-19 pandemic and the related setbacks, the State remains resilient, with the proportion of IGR to total recurrent revenue up swinging by 8.9% to account for 70% of the total in 3Q FY20, above the FY18/FY19 position.

* The last rating announcement was in 22/03/2021. Rating reports are updated at least once a year from the date of the last announcement.

GCR expects this trend to be sustained over the outlook period, given its relatively huge industrial base.

That said, recurrent expenditure has been well managed at an average of 41% between FY15 and FY19, leaving enough headroom for expansionary spending. Despite the implementation of the new minimum wage, the personnel cost to total cost was maintained below 30%. Overall, the State evidences cost rigour and conservatism in the management of its operational costs, which has seen total expenditure progression register well below the growth in IGR (at a five-year CAGR of 7.6% vs 9.2% respectively), supporting strong operating surpluses. This, combined with additional capital receipts, has seen capex implementation accelerate, albeit FY19 and 3Q FY20 were still below historical levels.

The major constraint to the rating is Lagos State's high debt burden. Gross debt has climbed from N791bn at FY16 to N985bn at 3Q FY20, as a result of which debt service metrics have weakened significantly. Net debt to revenue ratio rose above 160% at 3Q FY20, compared to a five-year average of 113%. Also, cash flow coverage of net debt weakened to 31.8% (FY19: 37.2%), though operating cash flow coverage of net interest remained stable at 5x. However, GCR views the capital structure to be supportive of financial flexibility, with the debt profile predominantly comprising long-term maturities and over 50% obtained at concessional terms. Nevertheless, foreign currency exposure is significantly high with more than 50% funding facilities from external sources.

Lagos State evidences moderate uses and sources liquidity coverage of around 1.4x over a 12-month period. This is predicated on the State's strong and stable operating cash flow, which would comfortably cover projected capex. GCR has included proposed debt issuances of N144bn, which will be utilised to settle the c.N131bn in maturing facilities. Nevertheless, the moderate liquidity is counterbalanced by the lower cash holdings of N33bn in FY19 compared to a high of N64bn in FY18, translating to a lower cash coverage of 36 days at FY19 (FY18: 68 days). However, GCR expects stronger operating cash flows and better debtor collection efficiencies to underpin stronger liquidity going forward.

Lagos State has issued Series 1, Series 2 (Tranche I and II), Series 2 (Tranche III and IV) and Series 3 Bonds under its N500bn Bond Issuance Programme 3 in 2016, 2017, 2018 and 2020 respectively, with the proceeds utilised for financing the State's socio-economic projects. GCR has reviewed the Trustees bond performance reports in respect of the existing bonds and notes that Lagos did not fully comply with the terms of the respective Series Trust Deeds regarding the timing of funding the Consolidated Debt Service Accounts ("CDSA"). While there has not been a default, GCR negatively views the breach and will monitor compliance going forward. That said, the Bonds bear the same probability of default as the Issuer.

Outlook Statement

The Positive Outlook reflects the continued strong growth in IGR, despite the setbacks occasioned by the COVID-19 pandemic. This supports GCR's expectation of an improved financial profile over the outlook period if gearing does not increase further.

Rating Triggers

A rating uplift is dependent on the continued growth in IGR such that there are growing resources available to meet ongoing operational requirements and the significant capex on infrastructure that is required. A reduction in debt, such that the net debt to income falls below 100% and interest coverage improves would also be positively viewed.

The rating may come under pressure with further rise in debt profile, resulting in a further deterioration in the credit protection metrics. Political events that hamper efficient operations of the State would also be negatively viewed.

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Ratings History

Lagos State Government					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	A(NG)		Sep 2011
Programme 3, Series 1	Initial	National	AA-(NG)		Feb 2017
Programme 3, Series 2 Tranche I & II	Initial	National	AA-(NG)	Stable Outlook	Dec 2017
Programme 3, Series 2 Tranche III & IV	Initial	National	AA-(NG)		Jan 2018
Programme 3, Series 3	Initial	National	A+(NG)		Dec 2019
Long Term Issuer	Last	National	A+(NG)		
Programme 3, Series 1	Last	National	A+(NG)		
Programme 3, Series 2 Tranche I & II	Last	National	A+(NG)	Stable Outlook	Dec 2019
Programme 3, Series 2 Tranche III & IV	Last	National	A+(NG)		
Programme 3, Series 3	Last	National	A+(NG)		

Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
GCR Rating Scales, Symbols and Definitions, May 2019
Criteria for Rating Local and Regional Governments, June 2019
GCR Country Risk Scores, February 2021
Lagos State rating report, 2019

Analytical Entity: Lagos State Government

Lagos State is an outlier and the only category A State among the State Governments in Nigeria. It is in the southwestern geopolitical Zone of Nigeria. Lagos State is the smallest State (out of 36 States and the Federal Capital Territory) in terms of geographical size covering around 3,577km^2 and most populous state currently housing over 20 million occupants. The State is divided into five administrative divisions, which are further divided into 20 local government areas.

OPERATING ENVIRONMENT

The operating environment anchor reflects Nigeria's moderate regulatory and legislative framework governing local authorities, as well as moderate financial reporting/disclosures.

Country risk

The country risk score of 3.75 balances Nigeria's strong economic base, supported by significant natural resources and large population, against low wealth levels, moderately weak institutional scores and currently restrained economic growth. GCR expects that GDP per capita will range between USD2,000 and USD2,500 over the next 12-18 months. Further constraining the score is commodity concentrations relating to government dependency on oil exports for revenues and the country's high import dependency which have caused significant economic, fiscal and currency volatility. While we could see some rebound to growth in 2021, due to the base effect and some return to normality if global conditions improve, these will be tampered by weak voice and accountability, absence rule of law, corruption and control, deterioration in security (particularly the protracted fight with the Boko Haram insurgents) and the recent surge in banditry across the country. Overall, GCR anticipates more negative than positive pressures on the scoring due to the economic instability versus uncertainties.

GCR considers Nigeria municipal sector to demonstrate a moderate institutional and legislative framework. There are several oversight bodies, most notably the Auditor General, who audits the financial statements annually and provides opinions as to compliance with the necessary financial and operational regulations. However, these opinions have not flagged any major shortfalls in State financial management, even though some concerns have been raised in the public domain. This notwithstanding, the quality of financial reporting for most of the municipalities is weak, having inadequate disclosure in many areas and inconsistent reporting periods. Annual reports are mostly delayed, extending well beyond the general six-month period. Accordingly, GCR has made a negative adjustment of 0.5 to the sector risk score to reflect the aforementioned concerns.

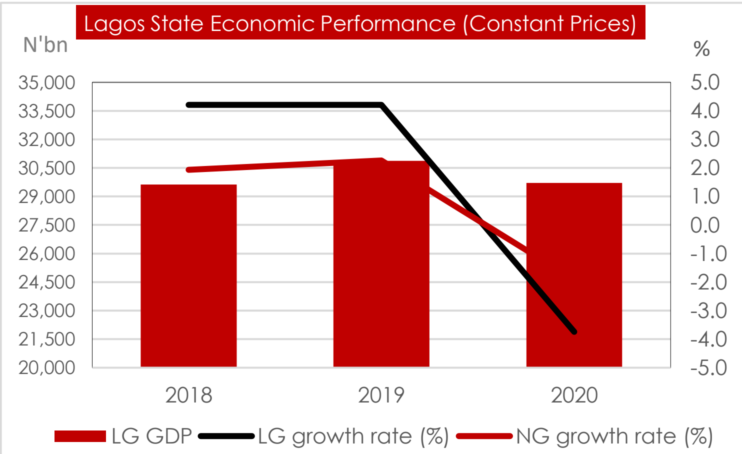
BUSINESS PROFILE

Entity Profile

Lagos State's strong profile reflects a well-diversified economy underpinned by its position as the economic and commercial centre of Nigeria. However, its position is constrained by the lack of necessary infrastructure to satisfy the rising population and unemployment rate.

Lagos's business profile is a rating strength underpinned by its vital role as the nation's economic and commercial centre. The State houses the headquarters of large financial institutions as well as many manufacturing companies, thus attracting diverse economic migrants. This has bolstered the State's economic activities and diversifying sources of revenue. Furthermore, the presence of over fifteen (15) higher learning institutions including universities, polytechnics, colleges of education, as well as the dominance of host of professional institutions has supported the State's high literacy level compared to other States.

Underpinned by Public-Private investments, as well as the large population, Lagos State has recorded consistent GDP growth over the years, registering a 4.2% growth to N30tr in FY19 (FY18: 29.6tr). Supporting GDP growth is Lagos diverse economy, which has made the State a leading contributor to the gross National GDP (over 25%), as well as the economic hub of west Africa. The State's robust economy accounts for over 60% of country's industrial and commercial activities, foreign trade, commerce, and tourism, as well as about 30% of national branch network of banks. The State houses two major seaports; Tin-Can and Apapa ports, which account for over half of the nation's revenue from port services. However, Lagos State reported decline in GDP at FY20 due to the adverse impacts of the COVID-19 pandemic on its economy. Consequently, the State revised its 2020 budget downward. The initial budget had steady growth in economic activities, with increased focus on developmental projects. In the revised budget, IGR was reviewed downward by 29%, grants and other capital receipts by c.5%, and debt servicing (principal and interest payments) was cut by c.50%. On the back of efforts to combat COVID-19, a gradual pick up of economic activity is anticipated in Lagos State as evidenced at 9M FY20. GCR expects moderate growth in the local economy to continue.



Source: Lagos Estimate & NBS

This notwithstanding, the State is constrained by substantial social development issues, with a large portion of its population living in or close to the poverty line and large areas of informal settlements. Moreover, while the State continues to address its infrastructural deficit, it still lacks the necessary infrastructures to facilitate an efficient economic environment that can cater for its rising population and address the unemployment rate. Nevertheless, Lagos State demonstrates a leading role compared to its peers in other social statistics such as access to electricity, education and sanitation.

To improve the standard of living in the State through economic growth, Lagos State has implemented a 6-point agenda, covering traffic Management and Transportation, Health and Environment, Education and Technology, Making Lagos a 21st Century Economy, Entertainment and Tourism, as well as Security and Governance. If effectively and efficiently actualised, the agenda aims to achieve efficient basic service delivery, housing provision, infrastructure development, public safety and job creation, *inter alia*.

Operating performance

Operating performance of the State is a positive rating factor underpinned by strong growth in key sources of income such as income tax and VAT, as well as strong operating surpluses supported by consistent cost rigour.

Lagos has reported strong recurrent revenue progression over the review period underpinned by its robust IGR and strong financial independence from statutory allocations. While revenue from income tax and VAT increased steadily over the years, revenue derived from fines and fees, and licenses were significantly lower due to substantial decrease in collections from land use charges occasioned by the State's reduction of the charges payable as a bait to capture more payers. This notwithstanding, GCR expects this to pick up and register above FY19 levels on the back of implementation of tighter collection measures.

Table 1: Income (N'm)

	2015	2016	2017	2018	2019	5Y CAGR
Income tax	212,203	244,661	294,229	315,058	348,001	13.2
Other IGR	55,089	44,366	43,859	65,369	32,634	(12.3)
VAT	73,061	75,438	80,232	99,055	107,704	10.2
Federal transfers	43,768	48,097	61,548	124,000	121,791	29.2
Grants & other capital receipts	179,866	142,454	180,854	93,896	151,105	(4.3)
Total income	**563,987**	**555,015**	**660,722**	**697,378**	**761,236**	**7.8**

Source: AFS

GCR positively noted that Lagos benefits from steady receipts from FGN, primarily in the form of statutory allocations from the federation accounts, exchange gains, and more recently, refunds for federal government roads constructed by the State. However, these receipts have reduced due to the impacts of the dwindling crude oil prices and the COVID-19 crisis on the nation's receipts. As of 9M FY20, the State registered a lower statutory receipts of c.N40bn compared to historical high levels of N121bn, translating to lower total recurrent income. Nevertheless, the State's substantial proportion of total IGR to total receipts above 80% should continue to enhance future revenue. GCR expects full year 2020 performance to register below FY19's actual performance as evidenced in 9M FY20, albeit it is also expected to outperform the revised 2020 projections on the back of the gradual pick-up in economic activity and the recent relative stability in global oil prices.

Expenditure

Lagos State evidences some cost rigour in the management of its operating expenses which has seen overall expenditure progression (5Y CAGR 7.6%) is slightly below revenue growth. While payment of new minimum wage and implementation of the health insurance scheme led into an uptick of personnel cost at FY19, the personnel cost ratio remains sound and below GCR's prudential benchmark of 33% of total expenditure. As such, Lagos State's cost profile has largely been driven by costs relating to industrial and socio-economic development of the State. This is not expected to change over the rating horizon.

Table 2: Cost profile (N'm)						
	2015	2016	2017	2018	2019	5Y CAGR
Personnel	91,019	87,072	91,983	101,667	106,868	4.1
Overhead	96,889	70,096	81,689	109,580	101,347	1.1
CRF charges (net of int & app)	197	252	256	234	264	7.6
Others (incl. transfers & subvention)	2,801	47,721	60,742	61,466	70,072	123.6
Net interest paid	49,733	55,573	65,613	72,454	62,533	5.9
Depreciation	0	84,608	92,992	103,798	104,492	
Facility repayments	134,053	49,821	128,593	83,469	152,791	3.3
Exchange loss	0	138,311	36,310	(9,512)	2,333	
Capital expenditure	173,987	215,228	278,171	209,956	134,522	(6.2)
Total expenditure	**548,679**	**748,681**	**836,350**	**733,111**	**735,222**	7.6

Source: AFS

Surplus and cash flow

Lagos State's strong and efficient debtors collection initiatives continue to support its operating performance with debtors collection period staying strong at less than 25 days over the review period. This has translated to the persistent increase of income tax revenue, contributing a substantial 44% and above, from FY16-19 to the gross income. Accordingly, operating surplus stood firmer up to FY19 supported by the strong recurrent income as well as expenditure maintained well below revenue growth. As such, this represents a key rating strength as it provides the State enough headroom to meet debt service obligations.

Table 3: Cash flow (N'm)					
	2015	2016	2017	2018	2019
Cash receipts	384,121	452,331	506,718	627,040	643,060
Cash payments	(190,906)	(219,869)	(251,099)	(282,357)	(341,909)
Cash flow from operations	**193,216**	**232,462**	**255,619**	**344,684**	**301,152**
Net interest paid	(49,443)	(53,530)	(56,644)	(69,226)	(59,796)
Free Cash flow	**143,772**	**178,932**	**198,975**	**275,458**	**241,356**
Net capital expenditure	(173,987)	(236,657)	(309,335)	(213,765)	(241,057)
Net investment activity (excl. cash investments)	(14,465)	12,125	76,998	14,469	3,567
Net cash flow	**(44,680)**	**(45,600)**	**(33,362)**	**76,162**	**3,865**

Source: AFS

The robust operating surplus was further augmented with inflows from grants and loan drawdowns, leaving enough room for capex spend and investment activity. After charging capex and principal repayment on debt facilities, the State reported net surpluses in FY19 and 9M FY20 compared to the losses reported between FY16 and FY18. Nevertheless, GCR expects capex spend for full year 2020 to register above historical level as evidenced in 9M FY20.

Management and governance

Management processes remain sound as unqualified audit reports have been received over the review periods.

The Auditor General issued an unqualified opinion on the financial statements for all the years under review with no issue flagged. As such, management and governance is considered neutral to the ratings.

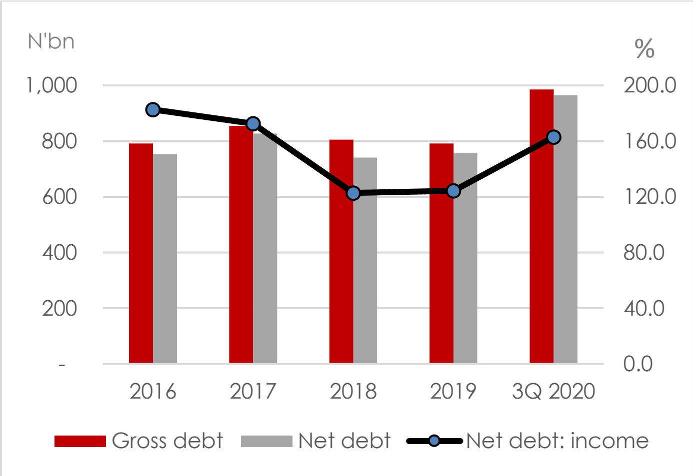
FINANCIAL PROFILE

Leverage and capital structure

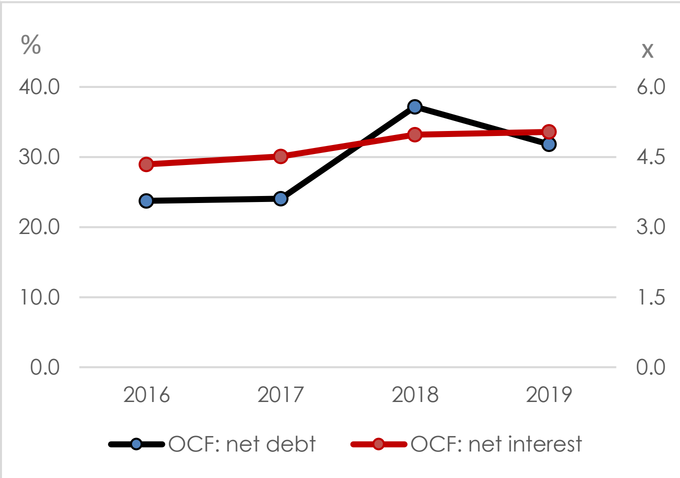
Lagos State evidences high gearing position, with moderately low operating cash flow coverage and an intermediate interest coverage. However, the risk is partly mitigated by very strong access to capital and positively skewed long term maturity debt.

Lagos State has utilised substantial debt to fund its capital expenditure over the review period, well above its peers. Hence, gross debt increased significantly to N985bn at 9M FY20 (FY19: N792bn) mainly due to additional loan of N75bn from commercial banks, N100bn raised through a bond, and N4.3bn from African Development Bank. The gross amount has been slightly offset by a sinking fund reserve that operates to ensure that there are sufficient resources to settle the bullet payments related to the bond issuances. Additional debt saw net debt to income deteriorate to 163% at 9M FY20 (FY18: 123%, FY19: 124%). This constitutes a key credit risk, particularly considering the constrained growth in revenue catalysed by the ongoing pandemic. As such, GCR expects future debt to income to remain above 150% given the economic uncertainties in the operating environment. However, Lagos State plans to renegotiate loan repayment terms with some facility providers and pay down some of the outstanding obligations.

Graph 1: Leverage progression



Graph 2: Interest coverage



Source: AFS

Despite the high gearing, the State has reported intermediate operating surplus coverage of gross interest of more than 3x and moderate operating cash flow coverage of gross debt between 20%-34% over the review period, which may likely weaken credit protection metrics if it goes beyond an acceptable level.

Lagos has demonstrated very strong access to funding, which has strengthened GCR's assessment of the State leverage and capital structure. That said, Lagos State has raised funding from commercial banks, debt capital markets and development finance agencies. Foreign loans accounts for over 50%, with the balance comprising commercial banks loans and bonds raised in the capital market. While the foreign currency loans introduce currency risk, they benefit from concessionary interest rates of around 1% - 2% per annum, with tenors ranging from 20 to 40 years, and moratorium on principal repayment ranging between five to thirteen years. The bonds have maturities spread between FY23 and FY30, with the bulk falling due between FY23-30. Bank loans are obtained from 13 Nigerian banks and are all medium-term Naira obligations (with maturities ranging from four to five years at the rate of 12% p.a.). As such, there are no maturity concentrations.

Liquidity

Liquidity assessment has moderated as decline in cash holdings has resulted into low days cash coverage. While current liquidity coverage is adequate, an improvement is dependent on stronger cash generation to bolster liquid reserves.

Lagos State evidences moderate sources versus uses liquidity coverage around 1.4x over a 12-month period. This is predicated on the expected strong and stable operating cash flow, as well as robust cash holdings, which would comfortably cover projected capex. GCR also takes cognizance of the fact that certain capital projects for the 2021 financial year could be deferred if cash resources are lower than expected. GCR has included proposed debt issuances of N144bn, which will be utilised to settle the c.N131bn in maturing facilities.

Table 4: Liquidity forecast (N'm)		
Sources	2021	2022
Operating cash flow	311,692	342,861
Cash on hand	31,182	34,237
Other liquidity-council approved facilities	144,371	115,497
Total sources	**487,245**	**492,595**
Uses		
Debt redemption/service	130,929	144,022
Capex	222,610	244,871
Total uses	**353,539**	**388,893**
Cash on hand (excl. grants)	31,182	34,237
Days cash on hand (days)	30	33
Uses versus sources - 12 months	1.38	1.27
Uses versus sources - 24 months	1.12	1.27

Source: GCR forecast

Cash coverage of operating expenses has been volatile over the review period, reflecting the changes in the cash balances (mostly comprising balances held with treasury banks and ministries, departments, and agencies of the State). In FY19, coverage declined to 36 days (FY18: 68 days) well below GCR's benchmark of 60-90 days, further constraining the ratings. This follows the substantial reduction in cash balances in treasury banks by more than 50%, having been utilised to settle bond principal repayments and other short term obligations. The State also reports substantial amounts of unfunded retirement benefit obligations and other sundry payables, which could give rise to significant future cash outflows, GCR notes that the State exercises some degree of discretion in (the timing of) settling these obligations.

COMPARATIVE PROFILE

Government support

No additional government support is factored to the ratings as Lagos State's rating already exceeds the Nigerian government support level of 7.00.

Peer analysis

The peer analysis is neutral to the ratings.

RATING ADJUSTMENT FACTORS

Structural adjustments

No structural adjustments have been made to the anchor credit evaluator in arriving at the final ratings.

Instrument ratings

In December 2016, Lagos State registered an additional N500bn Bond Issuance Programme ("BIP") following the completion of its 2nd BIP of N167.5bn. Subsequently, an aggregate sum of N331.9bn in Series 1, 2 (in four tranches) and 3 Bonds were issued. The Bonds raised have maturity periods ranging from 2023 to 2030. The Bonds constitute direct, unconditional, senior, unsubordinated and unsecured obligations of the Issuer and at all times rank pari passu and without any preference among themselves.

GCR has considered those factors impacting the general creditworthiness of Lagos State i.e. the unsecured Issuer credit rating in performing the bonds rating. However, structural, and other enhancements have been (or are expected to be) utilised to improve the credit risk profile of a specific Issue(s) under the BIP. In respect of the above, apart from the scenario of a full guarantee, GCR's approach to Issue Ratings is to utilise the unsecured Issuer rating as a base from which credit enhancement is considered. Credit enhancements are considered in terms of their impact on the likelihood of repayment of that particular Issue.

GCR has reviewed the Trustees bond performance reports on all the existing bonds and notes that Lagos did not fully comply with the terms of the respective Series Trust Deeds in respect of the timing of funding the Consolidated Debt

Service Accounts ("CDSA"). While there is no actual default, Lagos non-compliance with the applicable terms of the respective Series Trust Deeds in terms of remittance of the monthly IGR transfers constitutes a breach of the specific clauses. GCR negatively views the breaches and will monitor compliance going forward. That said, the Bonds bear the same probability of default as the Issuer and would reflect similar recovery prospects to the Senior Unsecured creditors in the event of a default.

RISK SCORE SUMMARY

Rating Components and Factors	Risk scores
Operating environment	**7.00**
Country risk score	3.75
Sector risk score	3.25
Business profile	**5.00**
LRG profile	3.00
Operating performance	2.00
Management and governance	0.00
Financial profile	**(3.50)**
Leverage & cash flow	(2.50)
Liquidity	(1.00)
Comparative profile	**0.00**
Government support	0.00
Peer comparison	0.00
Total Risk Score	**8.50**

Glossary

Audit Report	A written opinion of an auditor (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital Expenditure	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Facility	The grant of availability of money at some future date in return for a fee.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period. It can also be referred to as the fiscal year.
Forecast	A calculation or estimate of future financial events.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt.
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long term	See GCR Rating Scales, Symbols and Definitions.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Offset	A right (Right of Offset) to set liabilities against assets in any dispute over claims.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Short Term	See GCR Rating Scales, Symbols and Definitions.

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to Lagos State Government. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Lagos State Government participated in the rating process via teleconferences, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Lagos State Government and other reliable third parties to accord the credit ratings included:

- The audited financial results for the year ended 31 December 2019.
- Four years of comparative audited numbers.
- Budget performance report (summary) as at 30 September 2020.
- Approved revised budget for 2020.
- Debt facility details at September 2020.
- The Joint Trustees' reports on the existing bonds for the period ended 30 September 2020.