GCR

GLOBAL CREDIT RATING CO.

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Lagos State Government of Nigeria

Nigeria Local Authority Analysis — December 2019

Security class	Rating scale	Rating	Rating outlook	Expiry date
Issuer rating	National	A+(NG)	Stable	September 2020
Programme 2 - N87.5bn Series 2 Bond	National	A+(NG)	Stable	
Programme 3 - N47bn Series 1 Bond	National	A+(NG)		
Programme 3 - N85.1bn Series 2 Tranche I and II Bonds	National	A+(NG)		
Programme 3 - N12.2bn Series 2 Tranche III and IV Bonds	National	A+(NG)		

Summary of bond programme:

Total programme value:
N167,500,000,000 (Programme 2- lapsed, 2014)
N500,000,000,000 (Programme 3)
Coupon rate: Series specific.
Maturity: Series specific.
Status of bonds: Bonds are direct, unsecured & general obligations of the State i.e. ranking *pari passu* with other senior unsecured obligations.

Key transaction counterparties:

Issuer: Lagos State Government of Nigeria
Joint Trustees: FBN Trustees Ltd, STL Trustees Ltd, United Capital Trustees Ltd, Union Trustees Ltd, CSL Trustees Ltd, Sterling Trustees Ltd, Radix Trustees Ltd, ARM Trustees Ltd, Coronation Trustees Ltd, and Stanbic Trustees Ltd.

Rating methodologies/research:

Global Master Criteria for rating Public Entities, February 2018

Lagos State Government ("Lagos State", "Lagos", or "the State") rating reports 2012-18

Glossary of Terms/Ratios (February 2018)

Rating history:

Rating class	Rating	Date	Outlook
Initial ratings			
Issuer	A(NG)	Sep-11	Stable
Prog. 2 Series 1	A+(NG)	Aug-12	Stable
Prog. 2 Series 2	AA-(NG)	Aug-13	Stable
Prog. 3 Series 1	AA-(NG)	Feb-17	Stable
Prog 3 Series 2, Tranche I & II	AA-(NG)	Dec-17	Stable
Tranche III & IV	AA-(NG)	Jan-18	Stable
Last ratings			
Issuer	A+(NG)	May-19	Rating Watch
Prog. 2 Series 1	A+(NG)	May -19	Rating Watch
Prog. 2 Series 2	A+(NG)	May -19	Rating Watch
Prog. 3 Series 1	A+(NG)	May -19	Rating Watch
Prog 3 Series 2, Tranche I & II	A+(NG)	May-19	Rating Watch
Tranche III & IV	A+(NG)	May -19	Rating Watch

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Summary rating rationale

- Lagos maintains a systemically important position in the country and continues to pursue an aggressive industrial and socio-economic plan, with the aim of facilitating investments and economic development. This has been largely debt-funded, raising debt to excessive levels in FY18 and 9M FY19.
- Although, the State has not defaulted on any of its Bond obligations, it did not comply with monthly funding requirements as stipulated by the respective Trust Deeds of the existing Bonds, for most of FY19. The State has resumed monthly funding of the Sinking Fund Accounts ("SFAs") in December 2019 and has committed to ensure compliance going forward. Global Credit Rating Co. Limited ("GCR") will assess the extent of compliance during 1H 2020 and on an ongoing basis.
- Despite the reduction in outstanding bonds and commercial loan balances following repayments, gross debt rose by N85bn to N891bn in 9M FY19, at an annualised debt to income ratio of 192%, the highest over the review period. This was primarily underpinned by a substantial rise in outstanding payments to contractors, due to cash flow constraints. The State has indicated that the arrears have reduced to N82bn in November (9M FY19: N141bn; FY18: N203bn) following further payments.
- Lagos intends to issue a fresh N100bn Bond. This, in conjunction with other planned debt could see gross debt climb above N1tr in FY19. In the absence of commensurate revenue growth as budgeted, gross gearing could register beyond 200% and place pressure on the ratings.
- GCR notes the robust internal economy of the State, underpinning strong financial independence from statutory allocations. However, all income items have been somewhat constrained, with internally generated revenue ("IGR") likely to be slightly below budget. Nevertheless, GCR expects overall income to remain fairly stable, supported by higher statutory allocations. Other key strengths include strong operating surplus, high operating margin and adequate debt service coverage metrics.
- While recurrent expenditure has been well managed, the recent implementation of wage increment will likely raise staff cost above 40% of expenditure. This could adversely impact on operating surplus if planned revenue growth is not achieved.

Factors that could trigger a rating action may include

Positive change: Consistent revenue growth (particularly through continuous economic diversification) and meaningful moderation in debt could bode positively for the ratings.

Negative change: Further spike in debt profile without proportionate growth in revenue, and any incidence of non-compliance with the terms of the respective bonds could trigger a negative rating action.

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Background on Lagos State

Lagos State is the smallest in the country in terms of geographical size, but it is the most densely populated, housing over 20 million people (c.10% of the estimated[1] Nigerian population). Lagos is the financial, commercial and industrial nerve centre of Nigeria, housing a significant number of commercial establishments and over 2,000 manufacturing companies. The two major sea ports; Tin-Can and Apapa ports account for over half of the nation's revenue from port services. Lagos State contributes c.30 of Nigeria's Gross Domestic Product ("GDP") and accounts for over 50% of the nation's industrial investments, foreign trade, commerce and tourism. It ranks as Africa's second fastest growing city, having witnessed significant infrastructural development in recent years, further expanding economic activities and diversifying revenue sources.

Recent developments

In furtherance of Lagos' industrial development plans, it intends to Issue an additional N100bn bonds into the Nigerian capital market under the existing N500bn programme. The Bonds will be of 10-year maturity and have a 24-month principal moratorium period, and will be an unsecured obligation of the State. Proceeds on the bonds are intended to be utilised to finance various socio-infrastructural projects in the State.

During the last rating review, GCR raised concerns related to Lagos' non-compliance with certain terms of the respective trust deeds on its existing bonds. The nature of the infraction pertained to irregular Consolidated Debt Service Account ("CDSA") remittances into sinking fund accounts of respective bonds, contrary to the manner specified in the applicable Series Trust Deeds ("STDs"). While GCR takes cognisance that the State has not defaulted on any of its debt obligations, the persistent failure to honour specific contractual terms relating to timely monthly transfers to the SFAs is negatively considered. However, GCR has reviewed a joint Trustees Bond Performance report dated 23 December 2019, and notes that Lagos has resumed monthly funding of the Sinking Fund Accounts in line with the terms of the respective Trust Deeds. In this regard, two inflows have been received for each of the respective Bonds, covering for November and December payments. The State has also indicated commitment to continue to comply with the terms of the bonds going forward. GCR will assess the extent of compliance during 1H 2020. *A detailed discussion on all bonds issued by Lagos State is presented in the last section of this report.*

In addition to the foregoing, during the last rating review, GCR noted the incidence of Lagos' failure to honour an ISPO obligation in favour of Municipality Waste Management Contractors Limited ("MWMCL")[2], due to the inability to secure approval of the State House of Assembly in order to continue funding the sinking fund account. However, missed coupon and principal payments have since been remitted, with the State having committed to funding the sinking fund accounts throughout the bond tenure. In this regard, Lagos has effectively taken over the assets and liabilities of MWMCL, with provisions for the debt service obligation having been incorporated into the revised 2019 budget. The joint Trustees report dated 25 November, 2019 indicates that the State's payment obligation on the MWMCL bonds have been made as they fell due. GCR's review of the sinking fund bank account statements revealed that funding was erratic during FY19. However, the position was regularised in November. The sinking fund accounts had a cumulative balance of N713.7m as at 22 November 2019. GCR will monitor compliance with the monthly funding requirement on an ongoing basis throughout the tenor of the bonds.

Economic overview and impact of economics

The Federal Government of Nigeria ("FGN") implemented various intervention programmes as part of measures to cushion the effect of economic hardship on the States. The interventions have taken the form of State Excess Crude Account Loans, Stabilisation Fund and Budget Support Facility. FGN also approved the release of refunds to States, arising due to excess deductions (from their statutory allocations) in respect of repayment of external debt. Two tranches of N522bn (approved in December 2016) and N243.8bn (approved in May 2017) were released to the States to provide support, while a third and final tranche of c.N823.5bn has been approved, and disbursement commenced in September, 2018

FGN has called for States to commence repaying the Stabilisation Fund and Budget Support facilities, beginning September 2019. Given the quantum of the repayment, State governments have indicated that settlement will be challenging and constrain their financial resources for operating requirements. As such, the modality for repayment is currently being deliberated, but State governors are negotiating to offset the loans against outstanding receivables from FGN. It is noteworthy, however, that Lagos State did not subscribe to the loan.

FGN's capacity to support State governments is a factor of the robustness of the inflows into the federation accounts, and the accumulation of foreign reserves against periods of downturns, largely driven by economic activity. In particular, revenue is depended on oil receipts, which in turn is a factor of exogenous international crude oil prices and the quantum of local output. To this end, the stability in crude oil prices and reduced militant activities in the oil producing regions in recent times have underpinned higher foreign reserves and support to States. However, continued support may be limited by constrained government revenue. The impact of such reduced support is expected to be minimal for Lagos State, given its strong independence on statutory allocations.

[1] The last official population census was conducted in 2006. In 2016, the National Bureau of Statistics estimated Nigeria's population at c.193.4m.

[2] a special purpose vehicle ("SPV") set up to serve as a funding structure to finance the acquisition and development of waste management infrastructure in Lagos State.

Table 1: Key economic variables	2015	2016	2017	2018	1H 2019
Int'l oil prices (USD/barrel)	52.65	43.81	54.09	72.66	67.94
FAAC allocations (N'tr)	1.59	1.64	1.86	2.85	0.95
GDP growth (%)	2.79	(1.58)	0.82	1.91	2.03
External reserves (USD'bn)	31.33	28.02	38.73	42.84	45.07

Sources: *Central Bank of Nigeria; National Bureau of Statistics and Trading Economics.*

GDP grew 1.9% in 2018 (2017: 0.8%) and registered a 2.0% growth in 1H 2019, primarily underpinned by stability of oil production and international oil price. 1Q 2019 was dominated by electioneering, which stalled progress on new legislation and delayed the passing of the 2019 budget into law. However, the annual budget for the federal government has since been passed, and economic activity has fully resumed.

Based on a number of assumptions, including GDP growth of 2.9%, a crude oil price of USD57 per barrel, and local crude oil output of 2.2mbpd, the 2020 budget anticipates 7% growth in total federal receipts to N8.1tr. Capex spend of N2.5tr (23% lower than 2019 budget) is projected, with 47% of expenditure directed to recurring needs. The high portion earmarked for debt service (34% of total revenue) suggests that there will be funding constraints for the budgeted capex. Oil revenue aside, FGN's ability to continue to support State governments will be dependent on its ability to ramp up non-oil revenue generating capacity. This is intended to be achieved through the proposed increment in VAT charges and the imposition of excise duties on various products and services.

Income and expenditure

A four-year historical financial synopsis is reflected at the end of this report and brief comment follows hereafter. While the financial statements for 2014 and 2015 were compiled using the modified cash accounting basis under the old GAAP, the 2016 to 2018 accounts were prepared on accrual basis. GCR positively considers the adoption of IPSAS accounting, as it improves disclosure and transparency, which will allow for a more in-depth analysis of underlying trends. The State Auditor-General issued an unqualified opinion on the 2018 financial statements and for the preceding four years. Due to the political activity surrounding elections and the transition of government, the passage of the 2019 budget suffered some delays, being passed about seven months into the year. As a result, a number of economic stimulating activities and revenue generating initiatives were significantly constrained, necessitating a revision of the initial approved budget. Among other things, the initial budget anticipated steady economic activity and a significant revenue enhancement through the implementation of a proposed increment in land use charges. Accordingly, IGR was revised downward by 30%, grants and other capital receipts by c.50%, while upward adjustments were made to debt servicing (principal and interest payments) to accommodate increase in debt (including MWMCL debt obligations). A deficit of N253bn is anticipated, to be financed through a combination of bond issue, syndicated loan and a stand-by loan facility.

Performance metrics for FY19 were largely unchanged for all the revenue lines (on an annualised basis) and in line with the revised budget. As income tax contributes c.70% of IGR, the inability to implement the aggressive initiatives to widen the tax net resulted in IGR remaining flat on an annualised basis. Also constraining IGR is the lower receipts from fines, fees, licenses, interest/investment income and the inability to implement increase in land use charges. Some uptick is expected for the full year, on the back of the recognition of accrued interest on investments and short term deposits. Overall, the robust internal economy of the State, underpinning strong financial independence from statutory allocations (which only comprise 20% of income), has manifested in IGR almost doubling operating expenditure requirements since FY16. For FY20, the State is optimistic that the recently approved consumption tax law will help garner more revenue into its fiscus and improve liquidity.

Table 2: Financial performance (N'm)	Actual		Budget	%	Ann.
	FY18	9M FY19	FY19^	achvd	% Δ
Total IGR*	494,338	372,591	497,535	75	0.5
Statutory allocation	124,000	91,832	110,580	83	(1.3)
Total rec. inc.	**618,338**	**464,423**	**608,115**	**76**	**0.1**
Personnel costs	(101,667)	(79,044)	(153,556)	51	3.7
Overhead costs	(109,813)	(96,723)	(128,647)	75	17.4
Grants & subvention	(61,466)	(32,950)	(73,635)	45	(28.5)
Total rec. exp.	**(272,947)**	**(208,717)**	**(355,838)**	**59**	**2.0**
Operating surplus	**345,391**	**255,706**	**252,277**	**101**	**(1.3)**
Cap. rec. & other inc.	48,896	4,155	12,417	33	(88.7)
Loans & borrowings	45,000	-	253,000	-	-
Depreciation	(103,798)	-	-	-	-
Facility repayments	(83,469)	(96,522)	(141,177)	-	-
Public debt charges	(72,454)	(23,724)	(31,213)	76	(56.3)
Capital expenditure	(209,956)	(121,242)	(345,304)	35	(23.0)
Net forex difference	9,512	-	-	-	-
Surplus/(Deficit)	**(20,878)**	**18,373**	**-**	**-**	**(217.3)**

^Revised budget
*includes VAT proceeds

Underpinned by the relative stability in global crude oil prices and high local production volumes, the federal government has been able to garner financial resources to support State governments. In this regard, statutory allocations have been well ahead of budget in 9M FY19. This does augment the IGR, with total recurring income likely to remain stable for the full year and meet expectations.

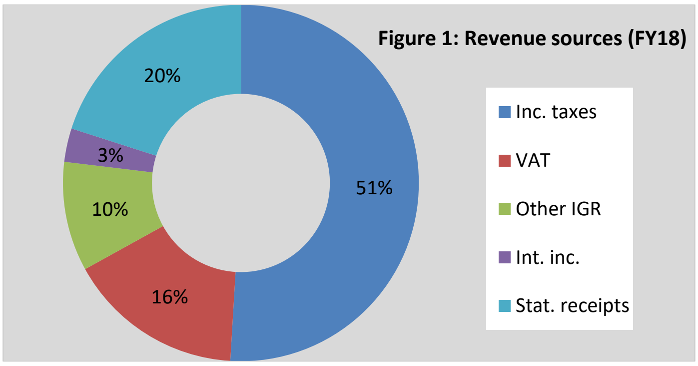

Figure 1: Revenue sources (FY18)

The annualised 17% increase in overhead costs in 9M FY19, reflected the growing administrative functions of the State but was cushioned by a substantial reduction in subventions and transfers to MDAs and parastatals. Personnel costs registered at around N92bn in FY17, but spiked by more than N10bn in FY18 occasioned by increase in staff count. While GCR expects staff costs to rise even further in FY19, upon implementation of the minimum wage, the State demonstrates strong revenue capacity to meet its obligations. Notwithstanding this, staff costs will likely exceed 40% of total recurrent expenditure, beyond GCR's benchmark for prudential costs. Overall, a robust operating surplus was reported in 9M FY19, at a margin of 55%.

The high operating surpluses have typically been augmented with grants and other capital receipts, but in 9M FY19, the reported surplus was complemented by small capital inflows, translating into a significantly lower spending on socio-infrastructural projects. As such, capex was much below historical level and significantly underperformed budget. Overall, after accounting for a cumulative N120.2bn in interest and principal repayments at 9M FY19 (FY18: N155.bn), Lagos reported a net surplus of N18.4bn.

Funding profile

Despite the reduction in outstanding bonds and commercial loan balances following repayments, gross debt rose by N85bn to N891bn in 9M FY19, at an annualised net gearing of 195%, the highest over the review period. This was primarily underpinned by a substantial rise in outstanding payments to contractors, due to liquidity constraints. While the redemption of the N80bn bond in November 2019 should see a marked reduction in debt, this would be offset by the proposed additions to the debt profile. Given this, gross debt will likely climb above N1tr in FY19, with debt to income ratio likely to rise above 200%. This constitutes a key credit risk, particularly if revenue does not grow proportionate to debt.

Table 3: Debt profile (N'm)	FY17	FY18	9M FY19	% of total
External	454,415	438,249	462,439	51.1
Commercial	138,834	144,902	109,896	12.1
Bond Issues	251,334	214,279	189,465	20.9
Contractor arrears	-	-	141,531	15.6
Judgement debt	-	-	1,846	0.2
Finance lease obligations	9,737	7,999	-	0.0
Total*	**854,320**	**805,428**	**890,658**	**100.0**
Gross debt: income	*177.5*	*130.3*	*191.8*	
Net debt: income	*171.9*	*119.8*	*191.8*	
Debt service coverage ratio	*1.3*	*2.3*	*2.1*	

*Total debt is moderated by funds in the SFA

GCR notes that over 80% of debt is long term and comprises mainly bonds and foreign loans. The bonds have maturities spread between FY20 and FY27, with the bulk falling due between FY23-27. The foreign loans have 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. Notwithstanding the concessionary terms, the foreign loans represent key exposures for Lagos if significant adverse foreign exchange movement manifests. Bank loans are obtained from 12 Nigerian banks and are all short-term Naira obligations (with maturities ranging from three to eighteen months and rates between 17.5% to 20% p.a.), with the exception being a USD14.7m (equivalent: N2.9bn) loan obtained from FCMB, with a 59-month tenor and a 10-month moratorium.

Despite the excessive gearing, the robust operating surplus covers debt service (interest and principal) by more than 2x in FY18 and 9M FY19.

Bond rating considerations

In performing the above analysis, GCR has considered those factors impacting the general creditworthiness of Lagos State i.e. its unsecured *Issuer* credit 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 bond programme. 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.

Table 4: Lagos State Fixed Rate Bond Programmes

Programmes	Note Series	Issue Date	Coupon Rate (%)	Tenor (yrs)	Maturity
II - N167.5bn*	N80bn Series 1**	Nov-2012	14.5	7	2019
	N87.5bn Series 2	Aug-2017	13.5	7	2024
III – N500bn	N47bn Series 1	Dec-2016	16.5	7	2023
	N97.4bn Series 2^:				
	N46.4bn- TI	Aug-2017	16.75	7	2024
	N38.8bn- TII	Aug-2017	17.25	10	2027
	N6.9bn- TIII	Dec-2017	15.60	6.6	2024
	N5.3bn- TIV	Dec-2017	15.85	9.6	2027

*lapsed
**repaid upon maturity in November 2019

Programme 2, Series 1 N80bn Fixed Rate Bond

Table 5: Sinking fund account- P2S1 – Cumulative receipts and payments as at November 2019	N'm
Cumulative transfer from revenue (ISPO and IGR)	132,222.3
Cumulative investment income	13,591.4
Total before debt service	**145,813.7**
Total debt service	(143,816.7)
Professional fees/other charges	(1,903.6)
Cl. bal. sinking fund	***93.4***
Outstanding obligations	**0.0**

Per the Joint Trustees bond performance report for the period ended 30 November 2019, the Bond has been fully redeemed upon maturity with a sinking fund account balance of N93m.

Programme 2, Series 2 N87.5bn Fixed Rate Bond

Table 6: Sinking fund account- N87.5bn P2S2– Cumulative receipts and payments (November 2019)	N'm
Cumulative transfer from revenue (ISPO and IGR)	117,403.3
Cumulative investment income	7,148.4
Total before debt service	**124,551.8**
Total debt service	(123,015.7)
Professional fees/other charges	(1,455.1)
Cl. bal. sinking fund	**80.9**

The joint trustees bond performance report for the period ended 30 November 2019 indicated that a total of 12 semi-annual principal and coupon payments have been made since the inception of the P2S2 bond. This amounts to a cumulative N123bn paid to bondholders to date, with the sinking fund account balance standing at N80.9m. The next payment date is 27 May 2020.

While the ISPO deductions are been made in accordance with the contractual terms, the expected monthly transfer from the State's IGR (via the CDSA) were erratic and are made in lump sum only weeks before coupon payment dates for most of FY19. However, the trustees have confirmed that the State has commenced monthly funding of the Sinking Fund Account in December 2019 (with two inflows in respect of November and December payments) and has committed to continuous compliance going forward. A Trustees' adequacy review contemplates monthly IGR funding of N1.1bn, complementing N1bn monthly ISPO transfers till the maturity of the Bond in November 2020. GCR will assess compliance during 1H FY20 and on an ongoing basis until the Bond matures.

Table 7: Outstanding obligations and funding source – N87.5bn P2S2	N'm
Outstanding debt service (December 2019 till maturity date in 2020)	(24,628.9)
Professional fees (2019 to 2020)	(269.5)
Remaining obligations	**(24,898.4)**
Balance in sinking fund account (November 2019)	80.9
Expected monthly ISPO transfers (for 12 months)	12,000.0
Expected monthly CDSA transfers (for 12 months)	12,693.6

Programme 3, Series 1 N47bn Fixed Rate Bond

The Bond is a senior unsecured obligation of Lagos and was issued on December 30, 2016, with maturity in 2023. Coupon is payable semi-annually while a three-year moratorium exists on the Bond, subsequent to which principal repayments would be amortised. Each semi-annual coupon payment is around N3.9bn (N7.8bn annually) until December 2019 (year three), thereafter decreasing in line with the amortisation of the principal from 2020 to maturity in 2023. In line with the STD, the coupon payments are secured by a transfer (from the CDSA) of N807.9m monthly (N9.7bn annually) to the Sinking Fund Account. Effective December 2019, this will be complemented by monthly ISPO deductions of N1bn from statutory allocations, equating to ring fenced debt servicing receipts of N12bn annually (from 2020).

Table 8: Sinking fund account- N47bn P3S1 – Cumulative receipts and payments as at November 2019	N'm
Cumulative transfer from revenue (IGR)	23,510.2
Cumulative investment income	112.1
Total before debt service	**23,622.3**
Total debt service	(19,480.3)
Professional fees/other charges	(119.1)
Cl. bal. sinking fund	**4,022.9**

GCR notes with concern that, contrary to the terms of the series trust deed (which specified monthly transfers of N807.9m from the CDSA at least 15 business days prior to each month's end), the trustees report indicated that irregular sums are being transferred to the sinking fund account at inconsistent intervals, mostly, weeks before coupon payment dates for most of FY19. GCR takes cognisance that the State has recently resumed monthly funding of the SFAs, and has committed to continuous compliance going forward. The Trustees' Bond Adequacy Report indicated that the sum of N1.3bn monthly funding is required from December 2019 till the maturity of the Bond in 2023. This will be split between monthly ISPO transfers of N1bn and IGR transfers of N354.m over the next 49months. The ISPO on the redeemed N80bn Bonds have been recommended for extension to the N47bn till maturity, subject to approval by the Federal Ministry of Finance. GCR will monitor compliance in 1H FY20 and on an ongoing basis.

Table 9: Outstanding obligations and funding source – N47bn P3S1	N'm
Outstanding debt service (December 2019 till maturity date in 2023)	(70,380.8)
Balance in sinking fund account (November 2019)	4,022.9
Expected monthly ISPO transfers (for 49 months)	49,000.0
Expected monthly CDSA transfers (for 49 months)*	17,357.9
Balance/shortfall	(0.0)

*As contemplated by the Trustees' Bond Adequacy Report

Programme 3, Series 2 Bonds

Table 10: P3S2 Bonds	T1	TII	TIII	TIV
Series amount (N'bn)	N46.4	N38.8	N6.9	N5.3bn
Issue date	Aug-2017	Aug-2017	Dec-2017	Dec-2017
Tenor (years)	7	10	6.6	9.6
Principal moratorium period	36	60	31	55
Optional early redemption	After 3 yrs	After 5 yrs	After 3 yrs	After 4.6 yrs
Interest rate	16.75	17.25	15.6	15.85

Lagos State issued a combined sum of N97.4bn in Series 2 bonds (in four tranches), under its N500bn Bond Issuance Programme ("Programme 3"). The coupon payments on each tranche are to be made semi-annually (in February and August), and are expected to be funded by monthly transfers (from the CDSA) to the Sinking Fund Account. As per the Trust Deed, commencing from December 2020 monthly ISPO deductions from the statutory allocations would be paid into the sinking fund accounts, in order to augment contributions from the CDSA.

However, at the instance of the State, a total of 15 ISPO transfers of N1bn each have been made in respect of the P3S2 bonds as at 30 November 2019, commencing September 2018; while the agreed terms of remittance from the CDSA are not being complied with. To date, three monthly IGR transfers (totalling N24.1bn) have been made (as against agreed 15 equal sums) in an irregular manner and remitted in lump sums only on exact coupon payment dates. Subsequently, the cumulative semi-annual coupon payments are distributed to the holders of the respective bonds through the trustees.

Table 11: Sinking fund account- P3S2 – Tranche I-IV Cumulative receipts and payments as at November 2019	N'm
Cumulative transfer from revenue (IGR and ISPO)	39,148.5
Cumulative investment income	501.4
Total before debt service	***39,649.9***
Total debt service	(32,270.5)
Professional fees/other charges	(221.1)
Closing balance- sinking fund	**7,158.3**

The manner of remittance of the monthly IGR transfers contradicts the applicable terms of the respective STDs and constitutes a breach of the specific clauses. This could be reflective of potential liquidity issues and does not bode well for the image of the State in the capital market. Positively, similar to other Bonds, Lagos has resumed monthly funding of the SFAs in December 2019 (with two inflows made in respect of November and December) and has indicated commitments to comply with the terms of the respective trust deeds, going forward. However, GCR will only be able to assess the level of compliance during 1H 2020, and thereafter, on an ongoing basis.

Lagos State Government of Nigeria

(Naira in Millions except as Noted)

Statement of financial performance 31 December	2014	2015	2016	2017	2018	9M 2019
Income tax	213,686.9	212,203.3	244,660.6	294,228.5	315,058.3	259,031.0
VAT proceeds	72,619.1	73,060.8	75,437.6	80,231.7	99,055.2	81,373.0
Other internally generated revenue	62,383.9	55,088.9	36,441.2	35,240.8	61,371.5	32,187.0
Interest and investment income	1,049.6	289.7	8,665.4	10,122.0	18,853.2	0.0
Total internally generated revenue	**349,739.5**	**340,642.7**	**365,204.7**	**419,823.0**	**494,338.1**	**372,591.0**
Statutory allocation	51,576.5	37,834.2	27,308.6	38,230.9	57,055.3	42,678.0
Other statutory receipts	6,806.7	5,934.1	20,788.3	23,317.4	66,944.9	49,154.0
Total recurring income	**408,122.7**	**384,411.0**	**413,301.6**	**481,371.2**	**618,338.4**	**464,423.0**
Recurrent expenditure*	(242,894.7)	(240,638.8)	(205,141.0)	(234,670.1)	(272,947.2)	(208,717.0)
Operating surplus (deficit)	**165,228.0**	**143,772.2**	**208,160.7**	**246,701.1**	**345,391.2**	**255,706.0**
Other revenue (capital receipt and grants)	0.0	0.0	36,306.9	29,626.4	48,895.5	4,155.0
Less capital items and related expenditure:						
Depreciation	0.0	0.0	(84,607.5)	(92,992.2)	(103,798.1)	0.0
Public debt charges	0.0	0.0	(55,572.7)	(65,613.2)	(72,453.6)	(23,724.0)
Exchange gain/(loss)	0.0	0.0	(138,311.0)	(36,310.2)	9,512.2	0.0
Capital expenditure	(213,139.9)	(173,987.1)	(215,228.2)	(278,171.0)	(209,955.6)	(121,242.0)
Surplus/(deficit)	**(47,911.8)**	**(30,214.9)**	**(249,251.8)**	**(196,759.1)**	**17,591.6**	**114,895.0**
Capital expenditure funding:						
Opening balance	**7,950.3**	**3,981.6**	**n.a**	**n.a**	**n.a**	**n.a**
Capital receipts/grants and others	0.0	0.0	36,306.9	29,626.4	48,895.5	4,155.0
Internal loans	0.0	0.0	12,500.0	40,000.0	45,000.0	35,322.0
External loans	0.0	0.0	46,647.4	13,840.7	0.0	4,065.0
Bond issue	0.0	0.0	47,000.0	97,387.0	0.0	57,134.0
Total receipts	**298,222.4**	**339,865.5**	**142,454.3**	**180,854.1**	**93,895.5**	**100,676.0**
Capital expenditure	(213,139.9)	(173,987.1)	(236,657.4)	(309,334.9)	(213,765.0)	(121,242.0)
Facility repayments	(89,051.3)	(134,053.1)	(49,821.0)	(128,593.3)	(83,469.2)	(96,522.0)
Closing balance	**3,981.6**	**35,806.9**	**n.a**	**n.a**	**n.a**	**n.a**
Statement of financial position						
Consolidated revenue fund	124,288.0	108,060.1	0.0	0.0	0.0	0.0
Capital expenditure & development fund	3,981.6	35,806.9	0.0	0.0	0.0	0.0
Other funds	14,420.5	28,989.6	221.8	498.8	222.4	0.0
Reserves	0.0	0.0	1,458,199.2	1,256,172.7	1,426,164.8	0.0
Total reserves	**142,690.1**	**172,856.6**	**1,458,421.0**	**1,256,671.5**	**1,426,387.2**	**0.0**
Current debt	0.0	0.0	133,505.3	79,021.4	101,775.3	0.0
Non-current debt	0.0	0.0	657,520.9	775,299.0	703,653.2	0.0
Total debt	**0.0**	**0.0**	**791,026.3**	**854,320.4**	**805,428.4**	**0.0**
Other obligations	0.0	0.0	48,423.0	98,720.6	286,917.1	0.0
Total reserve and liabilities	**142,690.1**	**172,856.6**	**2,297,870.2**	**2,209,712.6**	**2,518,732.8**	**0.0**
Infrastructure (PPE)	0.0	0.0	2,071,169.7	2,064,995.6	2,325,962.6	0.0
Investments and sinking fund balances	96,577.8	149,248.8	185,078.4	107,541.4	95,040.6	0.0
Cash and cash equivalents	46,112.3	23,607.8	37,464.0	27,013.8	64,429.6	0.0
Other assets	0.0	0.0	4,158.0	10,161.8	33,299.9	0.0
Total assets	**142,690.1**	**172,856.6**	**2,297,870.2**	**2,209,712.6**	**2,518,732.8**	**0.0**
Key ratios						
Efficiency						
Total revenue growth (%)	8.3	(5.8)	7.5	16.5	28.5	0.1*
Internally generated revenue growth (%)	14.5	(2.6)	7.2	15.0	17.7	0.5*
Total expenditure growth (%)	22.9	(0.9)	(14.8)	14.4	16.3	2.0*
Personnel cost growth (%)	0.4	15.5	(4.3)	5.6	10.5	3.7*
Increase in capex (%)	(22.4)	(18.4)	23.7	29.2	(24.5)	(23.0)*
IGR: total revenue (%)	85.7	88.6	88.4	87.2	79.9	80.2
Recurring expenditure: total expenditure (%)	53.3	58.0	46.4	43.1	56.1	63.3
Recurring expenditure: IGR (%)	69.5	70.6	56.2	55.9	55.2	56.0
Personnel cost: total recurring expenditure (%)	32.4	37.8	42.4	39.2	37.2	37.9
Operating surplus/ (loss): total income (%)	40.5	37.4	50.4	51.2	55.9	55.1
Capex: total income (%)	52.2	45.3	57.3	64.3	34.6	26.1
Gearing & Liquidity						
Days cash on hand (days)	69.3	35.8	66.7	42.0	86.2	0.0
Gross interest bearing debt: total income (%)	142.4	161.1	191.4	177.5	130.3	n.a.
Net interest-bearing debt: total income (%)	131.1	155.0	182.3	171.9	119.8	0.0
Gross interest-bearing debt: total assets (%)	80.3	78.2	34.4	38.7	32.0	n.a.
Net interest-bearing debt: total assets (%)	73.9	75.2	32.8	37.4	29.4	n.a.

^unaudited management accounts to September 2019

** Growth figures annualised for 9M FY19*

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SALIENT POINTS 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 process was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the ratings are valid until September 2020.

Lagos State participated in the rating process via face-to-face meeting, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Lagos State

The information received from Lagos State Government of Nigeria and other reliable third parties to accord the credit rating included
-the audited accounts for the year ended 31 December 2018 (plus four years of comparative numbers);
-the unaudited statement of financial performance for the period ended 31 September 2019;
-the revised budget for 2019
-the Joint Trustees reports on the existing bonds for the period ended 30 November 2019;
-a breakdown of facilities available and related counterparties, and
-information specific to Lagos State was also received.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.