

LAPO Microfinance Bank Limited

Final Rating Report



LAPO Microfinance Bank Limited

Issuer Rating:

Bbb-

Outlook: Stable

Issue Date: 11 July 2025

Expiry Date: 30 June 2026

Previous Rating: Bbb-

Industry:

Microfinance

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RATING RATIONALE

Agusto & Co. hereby affirms the '**Bbb-**' rating assigned to LAPO Microfinance Bank Limited ("LAPO MFB" or "the MFB"). The rating reflects LAPO MFB's large market share in the microfinance industry, good capitalisation, large pool of low-cost deposits and experienced management team. However, the rating is constrained by the MFB's weak asset quality, suboptimal borrower management, high loan to deposit ratio and weak efficiency ratios. We have also considered LAPO MFB's ability to improve asset quality in a period of heightened credit risk in Nigeria's macro environment and implement the planned digital strategy amid the stiff competition from banks and fintechs.

LAPO MFB is the largest microfinance bank in Nigeria by total assets. The MFB's strategic focus is to remain a leading promoter of financial inclusion by providing deposit products and loans to low-income households, small-scale traders and micro enterprises in key industries in Nigeria. LAPO MFB grants short-term loans to low-income earners and MSMEs which are disbursed as either individual or group loans. As at 31 December 2024, the MFB's total assets stood at ₦125 billion, with gross loans and advances of ₦106 billion accounting for the bulk at 85%. LAPO MFB recorded a 12.4% year-on-year growth in gross loans largely supported by increased customer deposits and bank borrowings. Agusto & Co. views the loan book growth as acceptable relative to the 33.2% average rate of inflation in the review year. Micro loans accounted for the bulk of the risk assets portfolio at 90.5% while SME loans and staff loans made up a relatively small balance of 9.5%. The MFB's loans showed significant concentration by sector, with exposures to trade & commerce accounting for the largest share of the portfolio at 83.4%. While this is consistent with the MFB's strategy to provide credit to traders and market women, we believe that such concentration leaves the loan book overly susceptible to the elevated inflation and declining disposable incomes in the macro environment.

As at 31 December 2024, the MFB had non-performing loans (NPLs) of ₦12.4 billion, which represented a 31.7% decline from the ₦18.1 billion recorded in the prior year. The reduction in NPLs was largely due to the ₦8 billion of bad loans written off in the review year from the significant NPLs that had accumulated and fully provisioned since the COVID-19 pandemic in 2020. Thus, the non-performing loans (NPLs) to gross loan ratio was lower at 11.7% (2023: 19.3%), but remained significantly above our benchmark of 5% for microfinance banks. The cumulative loan loss provision including regulatory risk reserve covered 91.7% of the NPLs, with impaired loans not provided for equating to 3% of LAPO MFB's core capital, which is acceptable in our view. Based on unaudited accounts as at 30 June 2025, the MFB's NPLs increased by 16.4% to ₦14.4 billion, translating to an

NPLs to gross loans ratio of 13.5% and indicating low loan collection efficiency in our view. Notwithstanding, we expect moderate improvement in the NPL ratio in the near term as LAPO MFB continues to write off delinquent loans annually in line with CBN's recommendation, incentivise loan officers for maintaining low delinquency levels and centralise credit decisioning to raise the quality of loans originated.

LAPO MFB generates earnings primarily from the interest income and fees and commissions on MSMEs loans. During the financial year ended 31 December 2024, the MFB recorded profit before tax of ₦10.7 billion (2023: ₦2.1 billion) on the back of loan book growth as MSME lending recovered from the trough in 2023 caused by the implementation of the Naira redesign policy and removal of subsidies. The increase in profit before tax translated to significantly higher pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 9.3% (2023: 2%) and 32.3% (2023: 6.9%) respectively. LAPO MFB's ROE was slightly below the 12-month average inflation rate of 33.2% in the review year. Nonetheless, the MFB's profitability ratio compared favourably to our estimated peer¹ averages of 3.3% ROA and 20.6% ROE in the review year. Based on unaudited accounts for the six months to 30 June 2025, LAPO MFB posted a pre-tax profit of ₦7 billion, which represented a notable 50.6% of the full year budget and translated to improved annualised ROA and ROE of 11.2% and 39% respectively. Thus, we expect LAPO MFB's profitability ratios to be sustained in the near term buoyed by the ramp up in lending activities in the second half of the year.

As at 31 December 2024, the MFB recorded a Basel 1 Capital Adequacy Ratio (CAR) of 28%, which was better than the minimum regulatory requirement of 10% for microfinance banks. The MFB had a debt-to-equity ratio of 2.61x, which was better than our threshold of 5x for microfinance banks. Subsequent to the year end, as at 30 June 2025, the debt-to-equity ratio was lower at 2.4x following the paydown of borrowings including the ₦6.2 billion bond which matured in March 2025. Notwithstanding, we expect LAPO MFB's DTE ratio to rise moderately in the near term but to remain within our acceptable threshold at below 3x given the plans to issue a ₦10 billion bond and secure borrowings from DFIs in the second half of 2025.

LAPO MFB primarily relies on customers' deposits mobilised across its 536 branch networks. The MFB has a strong affinity to the retail market given its presence in major commercial cities and rural areas across 34 states of the country. In addition to deposits, LAPO MFB relies on borrowings as its supplementary source of funding. As at 31 December 2024, the MFB had total liabilities of ₦90.4 billion, which funded 72.3% of total assets and largely comprised clients' deposits (66.1%) while borrowings (22.5%) and other liabilities (11.4%) accounted for smaller shares. Due to LAPO MFB's access to sizeable cheap demand and saving deposits which made up a significant 81.8% of deposit liabilities, the weighted average cost of funds (WACF) was 5.9%, which is good in our view and compares favourably to the peer average of 19.4% in the review year. However, we anticipate a moderate rise in the MFB's WACF in the near term given the plans to increase borrowings from DFI

¹ The peer includes AB Microfinance Bank Limited and Advans La Fayette Microfinance Bank Limited.

partners and issue a ₦10 billion bond in H2 2025. Nevertheless, we believe that the adoption of technology by deploying debit cards and POS terminals as part of the financial inclusion strategy will drive low-cost funding that will offset the rise in the WACF slightly.

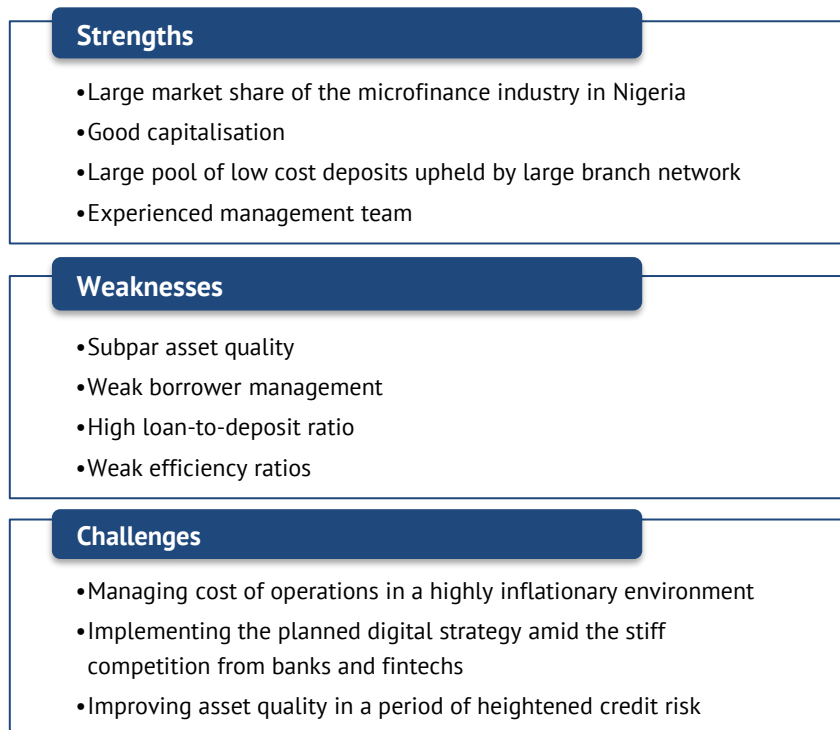
LAPO MFB's persistent high loan-to-deposit ratios (above the 90% maximum benchmark) indicate an aggressive lending practice, which can result in higher profits but also a high risk of illiquidity. As at the 2024 FYE, the MFB's loan to deposit ratio was 177.7% (2023: 105.8%) denoting high liquidity risk. When we back out loans funded by free capital and Development Bank of Nigeria (DBN), the loan to deposit ratio remains elevated at 125%, which we consider a rating negative. In addition, LAPO MFB's liquidity ratio was 16.6% (2023: 25.1%) as at the 2024 FYE, below the 20% regulatory minimum for microfinance banks, which we consider a rating negative. Nonetheless, we note that the MFB has a line of credit of ₦10 billion from DBN available to provide a liquidity buffer, which is satisfactory in our view. Based on the aforementioned, we hereby attach a “**stable**” outlook to the rating of LAPO Microfinance Bank Limited.

Table 1: Financial Data for LAPO MFB

	31 Dec 2022	31 Dec 2023	31 Dec 2024
Total Assets	₦103.7 billion	₦104.6 billion	₦125 billion
Net Earnings	₦33.8 billion	₦23.4 billion	₦45.1 billion
Pre-tax return on average assets	10.5%	2%	9.3%
Pre-tax return on average equity	39%	6.9%	32.3%

Source: LAPO MFB

Figure 1: Strengths, Weaknesses and Challenges



COMPANY PROFILE

LAPO Microfinance Bank Limited (“LAPO MFB” or “the MFB”) was incorporated in 2007 as an offshoot of Lift Above Poverty Organisation (LAPO) – a non-governmental organisation focused on tackling poverty. LAPO MFB was licensed by the Central Bank of Nigeria (CBN) in 2010 to operate as a state microfinance and subsequently obtained a national microfinance banking licence in 2012. As at 31 December 2024, the MFB’s outstanding shares were held by Lift Above Poverty Organisation (57%), Dr Godwin Ehigiamusoe (40%) and five other individuals (3%).

The MFB is the largest national microfinance bank by asset size in Nigeria. LAPO MFB provides microfinance services in the form of credit and savings to low-income earners and micro, small and medium enterprises (MSMEs). The MFB has 536 branches spread across Nigeria, with the head office situated at LAPO Development Centre, 15 Ikorodu Road, Maryland, Lagos State. LAPO MFB is governed by an eight-member Board of Directors (“the Board”), which is chaired by the founder – Dr. Godwin Ehigiamusoe, while Mrs Cynthia Ikponmwosa serves as the Managing Director.

Table 2: Current Board of Directors

Directors	Position
Dr. Godwin Ehigiamusoe*	Chairman
Mrs. Cynthia Ikponmwosa	Managing Director
Mr. Joshua Etopidiok**	Non-Executive Director
Mr. Aigbe Olotu	Non-Executive Director (Independent)
Ms. Angela Omeiza**	Non-Executive Director (Independent)
Mrs. Gloria Bako	Executive Director
Mr. Israel Aibuedefe	Executive Director
Mrs. Lilian Ehigiamusoe*	Executive Director

Source: LAPO MFB

*Approved as the Chairman by the CBN in 2025

**Approved by the CBN in 2024

Business Structure

LAPO MFB is structured along three major divisions, six core departments and three support units. The three major divisions comprise the Operations Division, Corporate Services Division and Business Support Division, which are led by Executive Directors that report to the Managing Director. The Operations Division consists of the Credit Management and Retail & Corporate Banking units while the Corporate Services Division comprises the People & Culture and General Services departments. The Business Support Division consists of the IT Solutions, Management Information Systems and Business Process units. The six core departments comprise Finance, Marketing & Communications, Digital Banking, Enterprise Risk Management, Information Security and Strategy & Transformation, with the heads of each reporting to the Managing Director. The three support units are Corporate Secretariat, Compliance and Internal Audit. The heads of the support units report to the Board, with dotted reporting lines to the Managing Director/CEO.

Business Strategy

LAPO MFB's strategic focus is to remain a leading promoter of financial inclusion by providing deposit products and loans to low-income households, small-scale traders and micro enterprises in key industries in Nigeria. The MFB employs direct marketing, referrals and group-based marketing for clusters while leveraging an expansive network of 536 branches across 34 states of the country and the FCT to drive market penetration. LAPO MFB continues to implement a five-year corporate and digital strategy with six pillars: deposit mobilisation, customer experience, digital capability transformation, market penetration, sustainable value creation and operational excellence. In the near term, the MFB is focused on developing and deploying digital channels including Point of Sale (POS) terminals, debit card services and mobile apps to facilitate and capture client transactions to boost non-interest income as well as funding from the deposit accounts. The MFB has begun piloting its debit cards, mobile app and POS terminals with staff and a subset of customers, with plans for a more general rollout in H2'2025. LAPO MFB is also exploring green financing options for funding along with the customer deposits, borrowings from domestic and international development finance institutions and issuances in the Nigerian debt market. Thus, the MFB has made ESG an additional strategic pillar, with plans to increase its exposure to renewable energy financing to 15% of the loan book by 2028.

Information Technology

LAPO MFB uses Oracle FLEXCUBE as the core banking application with all branches connected. The MFB has a main and standby server with Oracle Exadata infrastructure for real-time replication and production at Rack Centre. The disaster recovery site is located at the MainOne data centre with the Oracle ExaCC infrastructure, which was deployed in 2023. LAPO MFB has also deployed a public cloud solution as a third service layer for applications.

MANAGEMENT TEAM

Mrs Cynthia Ikponmwosa is LAPO MFB's Managing Director. Prior to her appointment, she served as the MFB's Executive Director, Corporate Services. She joined Lift Above Poverty as a Senior Programme Officer in 2001.

Mrs Ikponmwosa has a Bachelor of Arts degree in English from Ambrose Alli University, Edo State and a Master of Laws degree in Corporate Governance and Law from the University of Portsmouth, United Kingdom. She is a member of the Institute of Chartered Secretaries and Administrators, London, a Certified Microfinance Banker of the Chartered Institute of Bankers of Nigeria and a member of the Compliance Institute, Nigeria. Mrs Ikponmwosa has attended the Advanced Management Programme of the Lagos Business School and the IESE Business School's Chief Executive Programme (Global Edition).

LAPO MFB's senior management team includes:

- | | |
|------------------|--|
| ▪ Gloria Bako | Executive Director, Corporate Services |
| ▪ Israel Aibuede | Executive Director, Business Support |

▪ Lilian Ehigiamusoe	Executive Director, Operations Division
▪ Emmanuel Igiehon	Chief Finance Officer
▪ Peggy Idehen	Head, Corporate Secretariat/Company Secretary
▪ Olasunkanmi Subair	Head, Internal Audit
▪ Oluremi Akande	Head, Corporate Communication and Marketing

ANALYSTS' COMMENTS

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2024, LAPO MFB's two major shareholders – Lift Above Poverty Organisation (57%) and Dr. Godwin Ehigiamusoe (40%), controlled a considerable 97% of the outstanding shares. Thus, we consider the MFB's shareholder base to have significant concentration which may constrain opportunities for external contributions to governance and strategic direction compared to a more diversified shareholder base.

The Board comprises four non-executive directors (including two independent members) and four executive directors. There were changes to the Board in the review period with the retirement of a non-executive director – Mrs Hannatu Ahmed Yaro, and an executive director – Mrs. Faith Osazuwa-Ojo, in 2024. Consequently, Mr. Joshua Etopidiok, Ms. Angela Omeiza and Dr. Godwin Ehigiamusoe were appointed as non-executive directors in 2024, with the appointment of Dr. Godwin Ehigiamusoe as the Chairman approved by CBN in January 2025. Mrs. Lilian Ehigiamusoe² was appointed as an executive director in 2025. We believe that the members of the Board have broad competencies across various sectors, which we view positively. However, we note that the ratio of non-executive to executive directors on the Board is below the recommendation of the Nigerian Code of Corporate Governance. Thus, we believe that the MFB would benefit from appointing additional non-executive directors to strengthen the Board's independence and oversight functions. Furthermore, we note that LAPO MFB has a total of four female directors, which represents 50% of the Board and exceeds the 30% minimum female gender ratio prescribed by the CBN.

The Board's oversight functions are executed through seven committees: the Board Audit Committee, Board Credit Committee, Board Environment, Social and Governance Committee, Board Finance and General-Purpose Committee, Board Risk Management Committee, Board Information Technology Committee and Board Nominations and Remuneration Committee. All the board committees are chaired by non-executive directors, with the Audit Committee, Credit Committee, Risk Management Committee and Finance and General-Purpose Committee helmed by independent members in line with international best practice.

² Of no relation to the Chairman

The Managing Director/CEO is supported by three executive directors and three other senior management team members, who have over 17 years of experience on average in fields including finance, risk management, banking, finance and operations. During the 2024 financial year, the MFB had an average of 6,765 employees, a 4.3% reduction from 7,024 employees in 2023, due to efforts to streamline operations and boost productivity. Consequently, despite a 25% average increase in salaries, LAPO MFB recorded an improved staff productivity ratio (measured by the number of times net earnings covered staff costs) of 3.1 times (2023: 2.3x), which is at par with our 3x benchmark. We consider the MFB's management team to be experienced while the staff productivity is satisfactory. Nonetheless, we believe that LAPO MFB's drive to leverage electronic channels and automated processes will continue to limit the need for branch expansion and foster a more efficient workforce in the near term.

Table 3: 2024 Productivity Indicators Peer Comparison

	2024	Peer Average ³
Staff Cost per Employees (₦'Million)	2.2	3.7
Net Earnings per Staff (₦'Million)	6.8	11.7
Net Earnings/Staff Cost (Times)	3.1	3.6
Staff Cost/Operating Expenses	41.5%	39

ASSET QUALITY

LAPO MFB's assets predominantly comprise short-term (individual or group) credit facilities granted to low-income earners and MSMEs. As at 31 December 2024, the MFB's total assets stood at ₦125 billion, while gross loans and advances of ₦106 billion represented the bulk with 85%. LAPO MFB recorded a 12.4% year-on-year growth in gross loans largely supported by increased customer deposits and bank borrowings. Agusto & Co. views the loan book growth as acceptable relative to the 33.2% average rate of inflation in the review year. Based on unaudited accounts as at 30 June 2025, gross loans stood at ₦106.9 billion, largely the same with the prior year due to the generally slower commercial activities in the early part of the year. Nonetheless, we expect a significant increase in the loan book in the near term as the MFB issues a ₦10 billion bond in H2'2025 and accesses additional funding from domestic and international DFIs.

As at the 2024 FYE, LAPO MFB's loan origination strategy tilted to micro loans targeted at the bottom of the pyramid. Thus, micro loans accounted for the bulk of the loan book at 90.5% while SME loans and staff loans made up a relatively small balance of 9.5%. We believe that the considerable skew of the portfolio to micro loans leaves the MFB more susceptible to delinquencies given that small traders and low-income earners have been disproportionately affected by Nigeria's macroeconomic challenges including the elevated rate of inflation and shrinking purchasing power. The lower consumption levels have also led to many traders having longer operating cycles, thus adversely affecting their ability to meet obligations as and when due. LAPO MFB's loans also showed concentration by sector, with exposures to the trade and commerce sector accounting for

³ The peer includes AB Microfinance Bank Limited and Advans La Fayette Microfinance Bank Limited.

the largest share of the portfolio at 83.4%. While this is consistent with the MFB's strategy to provide credit to traders and market women, we believe that the considerable exposure to the trade sector leaves the loan book overly susceptible to the steep currency depreciation and declining disposable incomes in the macro environment. Thus, we believe that LAPO MFB would benefit from having a portfolio with a greater sectoral distribution, which would be more resilient to the country's macroeconomic headwinds.

As at the end of the review year, LAPO MFB had 3,204 loan officers, who were responsible for managing a total of 474,219 active borrowers. This translated to a borrower-to-loan officer ratio of 148:1, which in our view is relatively high and may adversely impact the efficiency of collection by the loan officers. Geographically, the MFB's loan book showed some concentration, with exposures to obligors in the South-West, which includes Lagos – the commercial capital, accounting for 48.3% (2023: 55%). Nonetheless, the remainder of the portfolio comprised a relatively balanced mix of exposures to obligors in the South-South (23.8%), North (16.7%) and South-East (11.2%) regions. Notwithstanding, we expect the regional distribution of the portfolio to continue improving in the near term as the MFB leverages digitalisation to expand coverage.

As at 31 December 2024, the MFB had non-performing loans (NPLs) of ₦12.4 billion, which represented a 31.7% decline from the ₦18.1 billion recorded in the prior year. The reduction in NPLs was largely due to the ₦8 billion of bad loans written off in the review year. Thus, the non-performing loans (NPLs) to gross loan ratio was lower at 11.7% (2023: 19.3%), but remained significantly above our benchmark of 5% for microfinance banks and peer average⁴ of 9% recorded in the review year. Without the write off during the review year, LAPO MFB's NPLs to gross loans ratio would have been significantly higher at 19.2%. This also translated to a cost of risk (loan loss expenses and write offs to average gross loans) ratio of 8.6%, which is elevated and highlights the heightened credit risk exposure and potential weaknesses in the underwriting and recovery processes, in our view. The cumulative loan loss provision including regulatory risk reserve covered 91.7% of the NPLs, with impaired loans not provided for equating to 3% of the MFB's core capital, which is acceptable in our view. Based on unaudited accounts as at 30 June 2025, LAPO MFB's NPLs increased by 16.4% to ₦14.4 billion, which translated to an NPLs to gross loans ratio of 13.5%, an indication of low loan collection efficiency in our view. Notwithstanding, we expect moderate improvement in the NPL ratio in the near term as the MFB continues to write off delinquent loans annually in line with CBN's recommendation, incentivise loan officers for maintaining low delinquency levels and centralise credit decisioning to raise the quality of loans originated.

As at the 2024 FYE, LAPO MFB had liquid assets of ₦9.9 billion, of which cash and balances constituted the bulk at 60.6%. The balance of liquid assets comprised holdings of Federal Government of Nigeria (FGN) treasury bills (23.4%), which we consider low risk, and money market placements with banks we consider to be of investment grade credit quality (16%) on our national scale rating.

Thus, in our view, the MFB's asset quality requires improvement given the elevated level of NPLs and the high charge offs. We also expect that the vulnerability of the MFB's primary market to macroeconomic headwinds

⁴ The peer includes AB Microfinance Bank Limited and Advans La Fayette Microfinance Bank Limited.

will continue to be a threat to the loan book quality. Notwithstanding, we view the reorganisation of the credit process and incentive structure to improve the portfolio quality positively.

RISK MANAGEMENT

The Board is responsible for establishing LAPO MFB's risk management framework and determining the risk appetite, strategy and policies. The Board discharges this duty through the Board Risk Management Committee (BRMC), which directly supervises the establishment of policies, standards and guidelines for risk management in compliance with legal and regulatory requirements. The responsibility of identifying, analysing and making recommendations on the risks pertaining to the MFB's day-to-day activities is delegated to the management committees including the Executive Management Committee, Executive Credit Committee, Executive Risk Management Committee and Assets and Liability Committee.

LAPO MFB is exposed to credit risk predominantly from lending activities. Loan requests are appraised by the client support officers (CSO) following document verification and checks with credit bureaus. The cash flows and repayment capacities of the applicants are analysed to determine whether the customers meet the minimum risk acceptance criteria. Depending on the loan amount, the request goes through a hierarchy of the branch credit committee (comprising the branch manager, assistant branch manager, compliance and inspection manager, and the branch head of operation), area and zonal manager, ED, Operations and executive credit committee. The physical locations of all obligors for loan requests above ₦1 million are visited by area managers for verification before approval by the zonal managers. The MFB has begun the centralisation of its credit decisioning with the establishment of a central process unit that is manned by credit analysts responsible for appraising loan requests from two pilot zones. LAPO MFB is also in the initial stages of implementing an automated centralised scoring system to bolster credit appraisals for all products and moderate the losses in the near term. The implementation is expected to commence with the selection and deployment of a credit document management system by the end of 2025.

Table 4: LAPO MFB's Loan Approval Limit

S/N	Approving Authority	Limits
1.	Board	Above ₦50 million
2.	Executive Credit Committee	₦25 million - ₦50 million
3.	Head of Operations Division	₦5 million - ₦25 million
4.	Zonal Managers	₦2 million - ₦5 million
5.	Branch Credit Committee	Up to ₦2 million

Source: LAPO MFB Limited

The CSOs are primarily responsible for loan monitoring, with LAPO MFB using incentives (and sanctions) to ensure loan portfolio quality is maintained. Loan portfolio reports are generated and reviewed daily, with area manager also held responsible for portfolio quality and regular NPLs and recovery meetings used to support monitoring. Defaulting customers are issued demand letters within three days of default and subsequently the CSOs and branch managers visit the obligors and guarantors to commence recovery negotiations. For group

loans, the CSOs typically request for a group meeting to find a resolution. Written off loans are transferred from the CSOs to the loan recovery unit for further negotiations and actions. Individual and group loans are largely unsecured but require personal/group guarantees while some basic collateral ranging from business inventory to household items and real estate property is required for SME loans.

Operational and IT risks are managed by the risk management unit, internal control unit and internal audit and compliance team. The risk management team conducts quarterly risk assessments and gap analyses, while the internal control team performs reconciliations and audits of operations at all branches. The compliance and inspection managers also oversee internal control functions at the branch and field levels. The internal audit unit fulfils its responsibilities through three sub-units: the Field Audit Unit, which audits all field operations with staff across all branches; the IT Audit Unit, which ensures that systems are not compromised by malware and cyber-attacks; and the Corporate Audit Unit, which audits departments, divisions and units while Field Audit Unit audits all branches at least biannually.

We believe that the MFB's risk management can be improved upon given the elevated delinquency ratio. Nonetheless, we note that LAPO MFB has initiated centralised credit decisioning, appraisal and monitoring systems aimed at improving credit quality and reducing credit risk exposures.

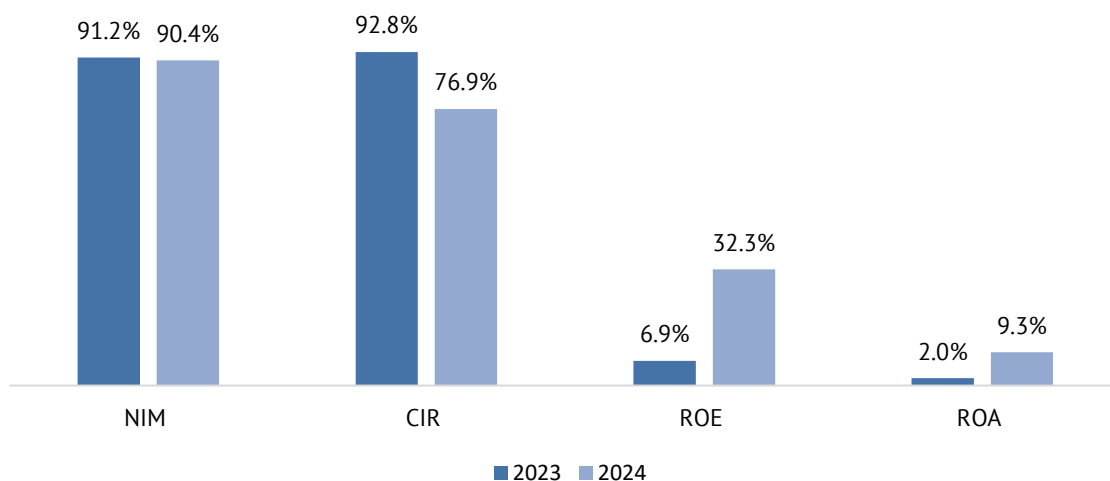
EARNINGS AND PERFORMANCE

LAPO MFB generates earnings primarily from the interest income and fees and commissions on MSMEs loans. During the financial year ended 31 December 2024, the MFB generated net earnings of ₦46.1 billion. This represented a significant 58% increase from the prior year as MSME lending recovered from the trough in 2023 caused by the implementation of the Naira redesign policy and removal of subsidies. Net interest income, which represents the spread on lending and money market activities, constituted the bulk (97.8%) of the net earnings, while non-interest income comprising fees and commission made up a fraction (2.2%). LAPO MFB recorded a lower net interest margin (NIM) of 90.4% (2023: 91.2%) as yields rose in the financial markets in line with the sustained increase in monetary policy rate by a cumulative 875 basis points in 2024. However, the rise in borrowing rates was not fully passed on to obligors, as the MFB adopted a strategy of driving volumes as opposed to increasing lending rates in the review year. Nonetheless, LAPO MFB's high NIS is supported by the significant contribution of low-cost savings and demand deposits to the funding mix.

Based on unaudited accounts for the six months to 30 June 2025, the MFB recorded net earnings of ₦25.3 billion, a relatively low annualised increase of 10% given the generally slower level of lending activities in the early part of the year while the NIM was largely unchanged at 90.5%. Thus, in the near term, we anticipate a moderate increase in net earnings as loan disbursements rise in the second half of the year supported by increased funding and a ramp up of activities across digital channels. Nonetheless, we expect the NIS to be largely stable given LAPO MFB's plans to diversify funding sources through a bond issuance, borrowings from DFIs and the deployment of digital channels including POS terminals, debit cards and a mobile app.

In the 2024 FY, LAPO MFB recorded an improved loan loss expense to interest income ratio of 1.3% (2023: 11.9%), which is better than our 5% benchmark for microfinance banks. The decline in the loan loss expense was primarily due to the substantial write offs during the year under review, which offset a significant portion of the stage 2 and 3 loans. In 2024, LAPO MFB incurred operating expenses of ₦35.4 billion, representing a 30.9% increase from 2023 due largely to inflationary pressures, increase in staff remuneration and the impact of the naira depreciation on I.T and software expenses. Nonetheless, the cost-to-income ratio (CIR) improved to 77% from 92.8%, bolstered by the increase in net earnings. However, the MFB's CIR compared unfavourably to our maximum 75% benchmark for microfinance banks. Based on unaudited accounts for the six months ended 30 June 2025, the CIR improved further to 72.3% largely due to enhanced earnings. Thus, we expect the CIR to record a moderate improvement in the near term as disbursements ramp up and LAPO MFB continues to implement the digital transformation and process flow engineering initiatives to contain costs, streamline functions and enhance operational efficiency.

Figure 2: Profitability Trend Analysis



Source: LAPO MFB

In the 2024 FY, LAPO MFB recorded profit before tax of ₦10.7 billion (2023: ₦2.1 billion), which translated to significantly higher pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 9.3% (2023: 2%) and 32.3% (2023: 6.9%) respectively. The MFB's ROE was slightly below the 12-month average inflation rate of 33.2% in the review year. Nonetheless, LAPO MFB's profitability ratios compared favourably to our estimated peer averages of 3.3% ROA and 20.6% ROE in the review year. Based on unaudited accounts for the six months to 30 June 2025, the MFB posted a pre-tax profit of ₦7 billion, which represented a notable 50.6% of the full year budget and translated to improved annualised ROA and ROE of 11.2% and 39% respectively. Thus, we expect LAPO MFB's profitability ratios to be sustained in the near term buoyed by the ramp up in lending activities in the second half of the year.

In our opinion, the MFB's profitability is satisfactory, upheld by the healthy net interest spread.

CAPITAL ADEQUACY & LEVERAGE

As at 31 December 2024, LAPO MFB's shareholders' funds stood at ₦34.6 billion, which represented a 10.7% increase from the prior year due to accretion to revenue reserves. The MFB's core capital had a good mix, entirely comprising share capital (5.8%), retained earnings (61.8%), statutory reserve (21.2%) and regulatory risk reserve (11.2%). LAPO MFB's shareholders' funds were sufficient to fund 27.7% (2023: 29.9%) of total assets which is adequate in our view. Based on unaudited accounts as at 30 June 2025, shareholders' funds stood at ₦37.3 billion, a 7.7% increase from the prior due to further accretion to reserve. The core capital was sufficient to fund a higher 29.7% of total assets as at the same date, which we view positively.

As at the 2024 FYE, the MFB recorded a Basel 1 Capital Adequacy Ratio (CAR) of 28%, which was better than the minimum regulatory requirement of 10% for microfinance banks. LAPO MFB had a debt-to-equity ratio of 2.61x (2023: 2.34x), which was better than our threshold of 5x for microfinance banks. Subsequent to the year end, as at 30 June 2025, the debt-to-equity ratio was lower at 2.4x following the paydown of borrowings including the MFB's ₦6.2 billion bond which matured in March 2025. Notwithstanding, we expect LAPO MFB's DTE ratio to rise moderately in the near term but to remain within our acceptable thresholds given the plans to issue a ₦10 billion bond and secure borrowings from DFIs in the second half of 2025.

In our opinion, LAPO MFB's capitalisation is adequate for the level of business risk undertaken while leverage is acceptable.

LIQUIDITY AND FUNDING

LAPO MFB primarily relies on customers' deposits and borrowings for funding. As at 31 December 2024, the MFB had total liabilities of ₦90.4 billion, which funded a significant 72.3% of total assets and largely comprised clients' deposits (66.1%) while borrowings (22.5%) and other liabilities (11.4%) accounted for smaller shares. Due to LAPO MFB's access to sizeable cheap demand and saving deposits in 2024, the weighted average cost of funds (WACF) was 5.9%, which is good in our view and compares favourably to the peer average of 19.4% recorded in the review year. However, we anticipate a moderate rise in the MFB's WACF in the near term given the plans to increase borrowings from DFI partners and issue a ₦10 billion bond in H2 2025. Yields in the financial markets are also expected to remain elevated, with the CBN holding the monetary policy rate constant in the first five months of 2025.

Deposit liabilities stood at ₦60 billion as at 31 December 2024, representing a 23.1% rise from the prior year largely driven intensified efforts to mobilise savings and term deposits. LAPO MFB's deposit liabilities were significantly skewed to savings and demand deposits which accounted for 81.8% of the total, while expensive term deposits constituted a relatively small balance of 18.2%. We consider the dominance of cheaper deposits in the MFB's funding mix to be good. Based on unaudited accounts as at 30 June 2025, customer deposits stood at ₦61.8 billion, representing a small (3.5%) increase from the end of the review year. However, we expect a moderate increase in deposit liabilities in the near term as LAPO MFB drives mobilisation via digital initiatives

including the disbursements of loans to accounts linked to debit cards and the deployment of over 2,000 POS terminals in the second half of 2025.

As at 31 December 2024, total borrowings stood at ₦20.3 billion, which represented a 22.3% increase from the prior year as LAPO MFB drew on overdraft facilities from two commercial banks and secured additional debt funding from a DFI partner. There was moderate concentration in the borrowing base, with the largest financier contributing 41.1% of the total, thus leaving the MFB susceptible to a sizeable funding gap should the institution pull funds. Based on unaudited accounts as at 30 June 2025, borrowings stood at ₦15.2 billion, a considerable 25.1% decrease from the prior year following the full settlement of LAPO MFB's ₦6.2 billion bond that matured in March 2025. Notwithstanding, we expect borrowings to grow moderately in the near to medium term in line with the MFB's plans to onboard additional domestic and international funding partners and access a ₦10 billion series 1 debt under a ₦30 billion bond issuance programme to finance the expansion of digital banking initiatives and grow the risk asset portfolio.

Over the last three years, LAPO MFB has recorded high loan-to-deposit ratios (above the 90% maximum benchmark) indicating an aggressive lending practice, which can result in higher profits but also a high risk of illiquidity. As at the 2024 FYE, the MFB's loan to deposit ratio was 177.7% (2023: 105.8%) and when we exclude loans funded by free capital and DBN, the loan to deposit ratio remains elevated at 125%, which we consider a rating negative. In addition, LAPO MFB's liquid assets to deposits ratio ("liquidity ratio") was 16.6% (2023: 25.1%) as at the 2024 FYE, below the 20% regulatory minimum for microfinance banks, which we consider a rating negative. Nevertheless, based on unaudited accounts as at 30 June 2025, the MFB's liquidity ratio improved to 26% due to the general rise in collections and decline in disbursements in the early part of the year. Nonetheless, we note that LAPO MFB has a line of credit of ₦10 billion from DBN available to provide a liquidity buffer, which is satisfactory in our view. However, we expect that the MFB's liquidity ratio will remain above the CBN minimum threshold in the near term.

Overall, in our opinion, LAPO MFB has a good funding profile while the liquidity profile is satisfactory.

OUTLOOK

As at May 2025, the headline inflation rate moderated to 22.97%, a notable decline from the average of 33.2% recorded in 2024 following the rebasing of the consumer price index. However, the Central Bank of Nigeria (CBN) maintained its anchor rate at 27.5% throughout the first half of the year, reflecting a continued commitment to reducing inflationary pressures in the macro environment. While the moderation in inflation may ease some cost pressures for households, SMEs, and low- to middle-income earners, food inflation remains elevated and continues to strain household finances. Thus, demand for credit is expected to rise in the near term, as individuals and households seek financing to meet their short-term needs. Notwithstanding, the sustained high MPR implies that borrowing costs would remain elevated, posing significant challenges for businesses seeking credit for business expansion from financial institutions including microfinance banks.

The MFB aims to achieve growth in its risk asset portfolio financed through a combination of debt funding from DFIs and debt issuances in the debt capital market. Thus, we expect the growth of the risk asset portfolio to sustain LAPO MFB's profitability in the near term. We expect the MFB's capitalisation to remain adequate for near term business risks while leverage should increase moderately in the near term but remain within the acceptable threshold. Despite the weak macro environment, LAPO MFB remains resilient and leverages its large market share and presence across the country to source for cheaper savings deposits. Thus, we expect the funding profile to remain good supported by the planned bond issuances while liquidity should remain within the acceptable thresholds. However, the MFB's asset quality will remain threatened by the macroeconomic pressures. Nonetheless, we note that proactive recovery and oversight measures have been put in place to reduce the level of defaults.

Based on the aforementioned, we hereby attach a "**stable**" outlook to the rating.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	31-Dec-22		31-Dec-23		31-Dec-24	
	₦'Million		₦'Million		₦'Million	
ASSETS						
Cash & equivalents	336	0.3%	395	0.4%	377.2	0.3%
Government securities	1,006	1.0%	2,381	2.3%	2,326.9	1.9%
Liquid Assets	1,342	1.3%	2,776	2.7%	2,704.1	2.2%
Total Placements	10,084	11.6%	9,432	9.0%	7,185.6	5.7%
Direct loans and advances - Gross	93,125	89.8%	94,434	90.3%	106,148	84.9%
Less: Cumulative loan loss provision	(14,543)	-14.0%	(15,106)	-14.4%	(7,501.3)	-6.0%
Direct loans & advances - net	78,581	75.8%	79,327	75.8%	98,646.6	78.9%
Other assets	1,619	2.2%	2,835	2.7%	4,862.6	3.9%
Other Long-term assets	4,391	4.2%	3,496	3.3%	5,528.8	4.4%
Total Fixed Assets & Intangibles	6,997	6.8%	6,745	6.4%	6,071.1	4.9%
TOTAL ASSETS	103,655	100%	104,612	100%	124,998.8	100%
CAPITAL & LIABILITIES						
TIER 1 CAPITAL (CORE CAPITAL)	30,020	29.0%	31,298	29.9%	34,640	27.7%
Other long-term borrowings	19,327	18.6%	16,632	15.9%	20,339.6	16.3%
Demand deposits	1,341	1.3%	1,945	1.9%	3,448.2	2.8%
Savings deposits	39,725	38.3%	40,053	38.3%	45,444.6	36.4%
Time deposits	3,169	3.1%	6,553	6.3%	10,850.4	8.7%
TOTAL DEPOSIT LIABILITIES	44,235	42.7%	48,551	46.4%	59,743.2	47.8%
Taxation payable - deferred	42	0.0%	45	0.0%	212.8	0.2%
Taxation payable - current	4,438	4.3%	3,264	3.1%	3,911.8	3.1%
Other accounts payable	5,592	5.4%	4,821	4.6%	6,151.4	4.9%
TOTAL CAPITAL & LIABILITIES	103,655	100.0%	104,612	100.0%	124,998.8	100%

2025 Non-Bank Financial Institution Rating: LAPO Microfinance Bank Limited

INCOME STATEMENT	31-Dec-22		31-Dec-23		31-Dec-24	
	₦'Million		₦'Million		₦'Million	
Interest income	40,142	97.4%	35,791	97.7%	50,545.4	98%
Interest expense	(4,007)	-9.7%	(3,161)	-8.6%	(4,842.8)	-9.4%
Loan loss expense	(2,427)	-5.9%	(4,272)	-11.7%	(633.9)	-1.2%
Net Revenue from Funds	33,706	81.8%	28,357	77.4%	45,068.7	87.4%
Commissions	0	0.0%	0	0.0%	0	0.0%
Fees & Other Income	1,055	2.6%	840	2.3%	1,027.1	2.0%
Net Earnings	34,761	84.4%	29,197	79.7%	46,095.8	89.4%
Staff costs	(12,420)	-30.1%	(12,610)	-34.4%	(14,724.6)	-28.6%
Depreciation expense	(1,652)	-4.0%	(1,859)	-5.1%	(1,928.5)	-3.7%
Other operating expenses	(10,209)	-24.8%	(12,613)	-34.4%	(18,786.3)	-36.4%
Total Operating Expenses	(24,281)	-58.9%	(27,082)	-73.9%	(35,439.5)	-68.7%
Profit (Loss) Before Taxation	10,480	25.4%	2,115	5.8%	10,656.3	20.7%
Tax (Expense) Benefit	(3,711)	-9.0%	(837)	-2.3%	(3,714.5)	-7.2%
Profit (Loss) After Taxation	6,768	16.4%	1,278	3.5%	6,941.9	13.5%
Gross Earnings	41,197	100.0%	36,632	100.0%	51,572.5	100.0%
AUDITORS	KPMG		KPMG		KPMG	
OPINION	CLEAN		CLEAN		CLEAN	

2025 Non-Bank Financial Institution Rating: LAPO Microfinance Bank Limited

KEY RATIOS	31-Dec-22	31-Dec-23	31-Dec-24
Net interest margin	90.9%	91.2%	90.4%
Loan loss expense/Interest income	6.0%	11.9%	1.3%
Operating expenses/Net earnings	69.9%	92.8%	76.9%
Return on average assets	10.5%	2.0%	9.3%
Return on average equity	39.0%	6.9%	32.3%
Gross earnings/Total assets & contingents (average)	41.4%	35.2%	44.9%
LIQUIDITY & FUNDING			
Total loans - net/Total lcy deposits	135.5%	120.0%	126.6%
Liquid assets/Total lcy deposits	25.8%	25.1%	16.6%
Demand deposits/Total lcy deposits	3.0%	4.0%	5.8%
Savings deposits/Total lcy deposits	89.8%	82.5%	76.1%
Time deposits/Total lcy deposits	7.2%	13.5%	18.2%
ASSET QUALITY RATIOS			
Performing Loans (N'mn)	73,599	76,252	93,739
Portfolio at Risk (N'mn)	19,526	18,181	9,883
Portfolio at Risk /Total loans - Gross	21.0%	19.3%	11.7%
Loan loss provision/Total loans - Gross	15.6%	16.0%	7.1%
Loan loss provision/Portfolio at Risk	74.5%	83.1%	60.4%
Risk-weighted assets/Total assets & contingents	93.1%	93.2%	93.0%
CAPITAL ADEQUACY & LEVERAGE RATIOS			
Adjusted capital/risk weighted assets	38.0%	33.0%	28%
Tier 1 capital/Adjusted capital	100%	100%	100%
Adjusted Capital / Net Loans	2.75	2.61	2.89

RATING DEFINITIONS

Aaa	A financial institution of the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
Aa	A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
A	A financial institution of good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.
Bbb	A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
Bb	A financial institution with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
B	A financial institution with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
C	A financial institution with very weak financial condition and very weak capacity to meet obligations as and when they fall due are relative to all other issuers in the same country.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.



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