

LAPO MFB SPV PLC.'S #6 Billion Fixed Rate Unsecured Bond

Final Rating Report

 **Agusto&Co.**
Research, Credit Ratings, Credit Risk Management

LAPO MFB SPV Plc.'s ₦6 Billion Bond

Rating: A-

The rating is subject to annual review throughout the tenure of the bond.

The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.

Outlook: Stable

Issue Date: April 2017

Entity Rating: *Expired*
30 June 2017

Bond tenor: 5 years

Industry: Microfinance

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RATING RATIONALE

LAPO MFB SPV Plc (The "Issuer" or the "Company") is a Special Purpose Vehicle (SPV) owned by LAPO Microfinance Bank Limited ('LAPO', 'the Sponsor', or 'the Bank') with an authorised share capital of ₦1 million (1,000,000 ordinary shares of ₦1 each). The Sponsor owns 990,000 of the Issuer's shares, while 10,000 shares are held by Mr Godwin Esewi Ehigiamusoe, LAPO's Managing Director. The SPV was set up for the sole purpose of issuing bonds.

LAPO is sponsoring a five year ₦6 billion fixed rate unsecured bond ('the Issue' or 'the Bond') to be issued by LAPO MFB SPV Plc. The Bond's proceeds will be used to meet LAPO's funding requirements. The Issue's repayment will be made from the Sponsor's cash flows. The Bond will rank pari passu with other outstanding unsecured obligations of the Sponsor.

The rating is supported by LAPO's leading position in the microfinance industry. The rating also reflects the Bank's good capitalisation, experienced management team, good profitability and satisfactory liquidity profile. However, the rating is constrained by Nigeria's tough macroeconomic environment which has negatively affected the microfinance industry and its obligors. We also take into cognizance, LAPO's slow rising level of impaired credits, the Bank's vulnerability to foreign exchange losses as well as its increasing operating costs.

LAPO is the largest microfinance bank in Nigeria, operating with a national license through 433 branches across the country. The Sponsor has a good reputation in the market based on its track record and product innovation. LAPO's experienced management team and use of the group lending methodology – which over the years has reflected in low level of reported delinquencies also gives credence to the Sponsor's foremost position and

reputation in the microfinance industry. As at year end 2016, the Bank's portfolio at risk (PAR) represented 6% (2015:5%) of gross loans. Though this is higher than the regulatory benchmark of 5% prescribed by the CBN for microfinance banks operating in Nigeria, this ratio is significantly lower than the banking industry average estimated at 12.5%¹.

Agusto & Co is cognisant of LAPO's strong capitalisation, with total shareholders' funds of ₦14 billion (exceeding the regulatory minimum of ₦2 billion) and a capital adequacy ratio of 39% - also significantly higher than the regulatory minimum of 10% as at 31 December 2016.

LAPO's capitalization is supported by good internal capital generation, with an average retention ratio of 95% over the last three years. Capitalization is thus expected to be strong over the life of the Bond – particularly if the Sponsor maintains the aggressive retention ratio.

LAPO has a diverse funding mix comprising shareholders' funds, customer deposits and medium tenured interest bearing liabilities – the bulk of which are from foreign financial institutions. The Sponsor intends to reduce the reliance on foreign borrowings given higher currency risks and hopes to achieve this with the Bond issuance as maturing facilities in FCY are due to be repaid and not renewed. LAPO's weighted average cost of fund (WACF) was 17% as at 31 December 2016 and we expect the reliance on local borrowings to increase funding costs moderately.

The Sponsor's earnings profile remains good despite the tougher macroeconomic environment. In 2016, growth in net earnings was sufficient to cushion the impact of higher operating costs and loan charge-offs to result in improved profitability. Nevertheless, we believe that inflationary pressures will keep operating costs high in the short to medium term. Foreign exchange losses will also impair profitability in the short term, but overall profitability should remain adequate.

The rating also takes into consideration the main challenges facing the Bank. LAPO is increasingly going beyond the group lending methodology to grow loans to stand alone individuals and SMEs – exposing the Sponsor to higher credit risk. Recent increase in PAR/gross loans ratio also denotes the challenge LAPO faces in keeping delinquencies low in the less benign environment and the need to strengthen risk management. Portfolio at risk is therefore expected to trend upwards as the loan book grows. LAPO will also

¹ Agusto & Co.'s Banking Industry Report

need to strengthen risk management to support the intended loan growth.

Overall, we are of the opinion that LAPO Microfinance Bank SPV Plc.'s ₦6 billion Bond offers adequate safety of timely payment of interest and principal.

Rating Considerations

Strengths

- Good market position
- Experienced and stable management team
- Good profitability
- Good capitalisation

Challenges

- Diversifying the funding base away from foreign exchange denominated borrowings.
- Susceptible to foreign exchange losses
- Sustaining current profit levels
- Keeping loan loss expenses low in a tougher macro economic climate.

Rating Sensitivities

- Further adverse changes in the Nigerian macroeconomic climate
- Significant increase in the PAR may impair this rating
- Significant increase in the cost-to-income ratio

Table 1: Financial Data

	31 December 2016	31 December 2015
Total assets	₦62.7 billion	₦52.4 billion
Gross earnings	₦26.9 billion	₦19.6 billion
Pre-tax return on average assets	11.7%	10.6%
Pre-tax return on average equity	56.3%	53.5%

Source: LAPO Microfinance Bank

PROFILE – ISSUER

LAPO MFB SPV PLC (The “Issuer” or the “Company”) is a Special Purpose Vehicle (SPV) incorporated in Nigeria on 26 September 2016. LAPO MFB SPV is owned by LAPO Microfinance Bank Limited with an authorised share capital of ₦1 million (1,000,000 ordinary shares of ₦1 each). The Bank owns 990,000 of the Issuer’s shares, while 10,000 shares are held by Mr Godwin Esewi Ehigiamusoe, LAPO MFB’s Managing Director.

The SPV was set up for the sole purpose of issuing bonds to fund the growth of LAPO Microfinance Bank Limited’s (the Sponsor or the Bank’) retail loan book.

PROFILE – SPONSOR & CO-OBLIGOR

LAPO Microfinance Bank Limited (“LAPO” or “The Bank”) was incorporated in April 2007 as a limited liability company and licensed to operate as a microfinance bank by the Central Bank of Nigeria (CBN) in June 2010. The Bank was set up as an offspring of Lift above Poverty Organization (LAPO), a non-governmental, non-profit community development organization established in 1987, with major focus on empowering the poor and vulnerable. LAPO received approval from the CBN to operate as a national microfinance bank in September 2012. The Bank specialises in the provision of microfinance services to the poor, low income households and micro-enterprises (with an emphasis on businesses owned by women).

The Bank’s ownership is concentrated in two shareholders, LAPO NGO which holds the largest equity stake of 67.12% and Mr Godwin Ehigiamusoe, with a 30.12% equity stake. No other individual shareholder owns up to 5% of the Bank’s equity. LAPO Microfinance Bank Ltd is governed by a nine-member Board of Directors, which includes five Non-Executive Directors, one Independent Director, the Managing Director and two Executive Directors. Mr Osarenren Emokpae is the Chairman of the Board while Mr Godwin Ehigiamusoe is the Managing Director. Mrs Josephine Nwachukwu and Mrs Faith Osazuwa-Ojo serve as the executive directors in charge of Corporate Planning & Strategy and Risk Management respectively.

LAPO MFB’s head office is situated at LAPO Place, 18 Dawson Road, Benin City. LAPO has 433 branches, located in various commercial cities across Nigeria including Benin, Lagos, Abuja, Port Harcourt and Kaduna. The Bank’s branch network consists of three types of branches – regular branches, mega branches and super branches. Regular branches provide group loan services while mega branches administer both group and individual loans. Super branches provide banking services for all categories of customers. LAPO plans to convert all branches to super branches in the medium to long term.

During the year ended 31 December 2016, LAPO Microfinance Bank Limited had an average staff strength of 6,392 persons.

Table 2: Directors& Shareholding Structure

CURRENT DIRECTORS	POSITION	DIRECT SHAREHOLDING %
Mr. Osarenren Emokpae	Chairman	0.6%
Mr. Godwin Ehigiamusoe	Managing Director	30.12%
Mrs. Osaretin Demuren	Non-Executive	0.6%
Mr. Ede Osayande	Non-Executive	0.6%
Mr. Andrew Ejoh	Non-Executive	0.45%
Mr. Rene Azokly	Non-Executive	0.51%
Mrs. Josephine Nwachukwu	Executive Director	Nil
Mrs. Faith Osazuwa-Ojo	Executive Director	Nil
Mrs Hannatu Ahmed Yaro	Independent Director	Nil

SIGNIFICANT SHAREHOLDERS

LAPO NGO	67.12%
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MANAGEMENT TEAM

Mr. Godwin Ehigiamusoe is the Chief Executive Officer and Managing Director of LAPO Microfinance Bank Ltd. He has up to 30 years' of experience as a microfinance practitioner, having established LAPO NGO in 1987 in response to the effects of the implementation of the Structural Adjustment Programme (SAP) in 1986. Mr. Ehigiamusoe holds a B.Sc. in Sociology and an M.Sc. in Sociology of Development, both from the University of Benin, Benin City. He also holds a P.HD in Political Science from Ambrose Alli University, Ekpoma, a Diploma in Computer Science from City Business School, Benin City and a Diploma in Cooperative Credit and Savings from the Federal Cooperative College, Ibadan. Mr. Ehigiamusoe has attended several capacity enhancing courses at Harvard Kennedy School, Lagos Business School, IESE Business School, Barcelona and INSEAD Business School, Singapore.

The Bank's senior management team includes:

Name	Position Held
Mrs. Faith Osazuwa-Ojo	Head, Risk Management
Mrs. Josephine Nwachukwu	Head, Corporate Planning & Strategy
Mr. Osadebamwen Elijah	Head, Operations & IT
Ms. Cynthia Ikponmwosa	Head, Corporate Secretariat, Legal & Compliance
Mr. Moses Ehigiamusoe	Head, Corporate Services
Mr. Stanley Oriakhi	Chief Financial Officer

Track Record of Financial Performance

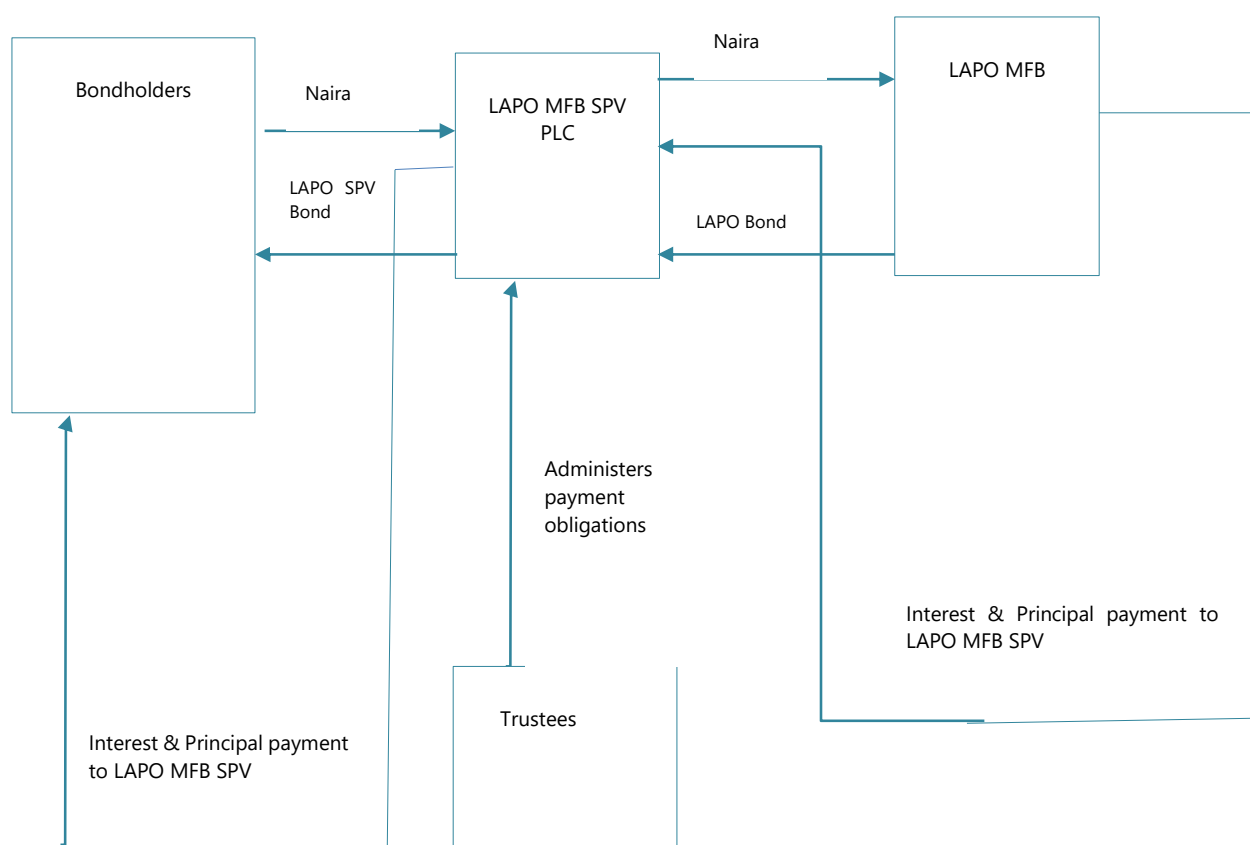
In the last three years, LAPO's business volumes have grown significantly despite the harsh operating environment. Total assets have increased at a CAGR of 31%, with gross loans & advances growing at the same pace over the three year period. LAPO's net earnings grew by 31% from the prior year to ₦23 billion as at 31 December 2016. Return on equity (ROE) and return on assets (ROA) also averaged 57% and 12% respectively over the three-year period. Albeit, cost-to-income ratio remains high, averaging 71% over the three year period.

THE ISSUE

LAPO MFB SPV PLC (“LAPO SPV” or “the Issuer”) intends to undertake a ₦6 billion debt issuance programme (“the Bond” or “the Issue”) which will constitute Series 1 of a ₦20 billion debt issuance programme. The Bond is to be executed as a five year fixed rate unsecured debt instrument at a par value of ₦1,000. The Bond will rank pari passu with present and future outstanding unsecured and unsubordinated obligations of the Issuer

LAPO SPV will repay the aggregate principal amount of the Bonds and any Coupon (accrued up to but unpaid as of the maturity date) on the maturity date in one bullet payment and at par. Coupon repayments will be made semi-annually throughout the tenor of the Bond. Application has been made to the Council of the FMDQ OTC Exchange for the admission of the Bonds to the Daily Official List of the Exchange.

STRUCTURE OF THE ISSUE



PURPOSE OF THE ISSUE

The Bond proceeds will be used to fund growth in the Bank's loan book. LAPO's business strategy focuses on the provision of loan products and other financial services designed to meet the needs of the economically viable poor and low income households as well as small businesses. The Bank targets women, who represent 80% of the customer-base, aiming to increase the socio-economic status of women across Nigeria. LAPO leverages the group methodology for lending, but is increasingly disbursing individual loans.

LAPO Microfinance Bank Limited is currently in the fourth year of a five-year strategy embarked upon in 2013 with the aim of growing the Bank's customer-base to five million people. The Sponsor currently serves up to 2.4 million customers and plans to implement its growth strategy mainly by leveraging technology to serve clients more efficiently.

REPAYMENT

The issue price/coupon will be determined at the conclusion of the book build. Interest repayments will be made semi-annually and should commence by Q4' 2017, while principal repayment will be a bullet payment by August 2022.

COVENANTS AND GUARANTEES

The LAPO Bonds are issued pursuant to the Deed of Covenant by the Issuer as well as the Master Bonds Purchase Agreement (MBPA) signed by LAPO Microfinance Bank Ltd, LAPO MFB SPV Plc. and FBN Trustees Limited. All payments of principal, interest, additional amounts and indemnity amounts to be made by LAPO Microfinance Bank under the MBPA shall be made unconditionally, by credit transfer to LAPO MFB SPV Plc.'s Account, (or as the Trustee may otherwise direct).

PARTIES TO THE ISSUE

FBN Trustees Ltd

FBN Trustees Limited ("FBN Trustees") is the trustee to the Issue. FBN Trustees acts as a custodian of assets for public, corporate and private entities. The company acted as trustee in the Dangote Industries Limited US\$3.5 billion Syndicated Loan Facilities and the UNICEM US\$638 million Syndicated Loan Facility, amongst other deals.

FCMB Capital Markets Limited

FCMB Capital Markets Limited (FCMB CM) is the lead issuing house to the proposed bond. The company commenced operations in May 2005 as a wholly owned subsidiary of First City Monument Bank Plc. (FCMB) to provide financial advisory services, raise debt & equity and handle mergers, acquisitions & structured finance transactions. Upon a corporate restructuring exercise in 2012, FCMB CM and FCMB became wholly owned subsidiaries of the First City Group. FCMB Capital Markets Limited has over 10 years of investment banking experience including significant debt capital markets experience. The Company was the Adviser & Issuing house for the Plateau State Bond of ₦28.2 billion in 2015, amongst other transactions.

United Capital Plc.

United Capital is an integrated, multidisciplinary investment bank providing advisory services along the following business lines: Capital Markets, Mergers & Acquisitions, Project & Infrastructure Finance and Structured Finance. United Capital Plc. is the joint issuing house for the Bond. The Company acted as the issuing house for the UBA's ₦30.5 billion (US \$153 million) corporate bond and was financial adviser on the first power sector merger in Nigeria. United Capital Plc. has also been involved in raising over US\$490Million in the Nigerian Power Sector Privatization Project and was the Lead Issuing House in one of the largest corporate bond issuance in West Africa till date – Flour Mills of Nigeria US\$188 Million Bond.

Ernst & Young Nigeria

EY Nigeria is the Reporting Accountant for the LAPO MFB SPV PLC Bond. The Company is a member firm of EY Global Limited, an international leader in assurance, tax, transactions and advisory services. EY Nigeria has been in existence for over 50 years and works with large corporations both public and private, distributed across various sectors of the economy within the country. The Company serves over 600 clients in the country, offering professional services through teams drawn from a pool of 24 partners, 10 Directors and over 407 professional staff with diverse and specialized skills. The Company has offices in Lagos, Abuja and Port Harcourt.

ANALYST'S COMMENTS

SPONSOR'S FINANCIAL CONDITION

Bank's lending strategy continues to drive growth in business volumes

LAPO's loan book has grown steadily in the last three years (CAGR of 30%), with the gross loan portfolio standing at ₦52billion as at 2016FYE (2015: ₦44.5billion) and accounting for 83% of total assets as at same date. Loan growth is supported by the group lending methodology adopted by the Bank as well as an incursion into individual loans which currently accounts for 12% of gross loans. Loan growth is expected to continue averaging 30% over the next three years – with an increasing proportion of individual loans, especially as the Bank introduces new products and adopts the agency banking model.

Economic pressures likely to increase the level of delinquency going forward

Use of the group lending methodology has been instrumental in moderating LAPO's credit losses, as a default by one group member affects the ability of other members of the group to access credit. While this strategy should continue to mitigate credit losses, the harsh economic environment (which LAPOs customers are not immune to) and the increasing foray into individual loans where the loss norms are higher – will in our opinion, lead to higher volume of delinquent loans during the forecast period.

As at 31 December 2016, the Bank's portfolio at risk (PAR) to total loans (TL) stood at 6%, up from 4.7% in previous year- exceeding the regulatory benchmark of 5% but below the estimated industry average of over 12%². The Bank's deterioration ratio (which compares the growth in delinquent loans to loan growth) stood at 12% in 2016 (2015: -3%). As at the 2016FYE, 30 day PAR accounted for 4.1% compared to 2.6% in the previous year further buttressing the deterioration. Write offs have been low in the last three years, with the write-offs to average loan portfolio at 0.04% as at 2016FYE.

Table 3: 2014 – 2016 Portfolio at Risk (PAR) in ₦

	31-Dec-14	31-Dec-15	31-Dec-16
Portfolio Size (in ₦)	34,335,370,696	44,455,586,570	52,326,870,000
Value of PAR (30 Days)	807,031,454	1,147,856,197	2,150,860,300
Value of PAR (1 Day)	2,443,440,278	1,940,740,064	3,011,949,444
Write Offs	Nil	11,410,193	19,688,392

Source: LAPO

As is expected for a microfinance bank, obligor concentration is low, with the top 20 obligors representing less than 1% of total loans. Insider related credits also constitute 1% of the gross loan portfolio. LAPO adopts relatively conservative risk management practices, however, as the Bank expands beyond traditional group lending in a weaker macro-economic climate, risk management capacity must be enhanced, for asset quality to remain good.

² Agusto & Co.'s Banking Industry Report

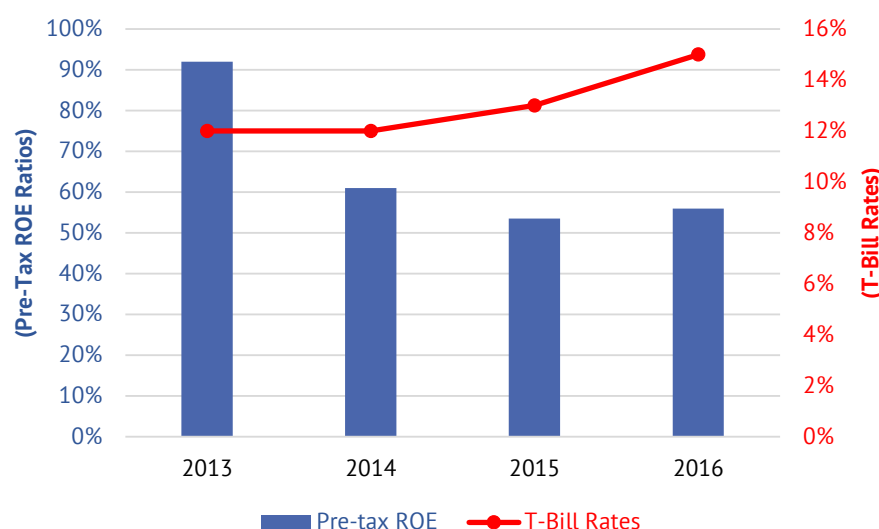
Profitability may come under pressure but should remain good

LAPO has consistently recorded high levels of profitability in the last four years. Over this period LAPO generated a pre-tax return on average assets (ROA) of 13% while the Bank's pre-tax return on average equity (ROE) remained high at 66% - despite a weakening operating climate during most of this period.

Despite an increase in charge-offs, LAPO's earnings profile remains good, with net revenue from funds accounting for 85% of gross earnings in 2016 (2015: 90%). Net earnings grew by 31% to ₦23.1 billion due to the 18% increase in loans during the period. This growth was adequate to cushion the impact of higher operating costs and result in improved profitability. The Bank's ROE improved to 56% from 54% in the prior year, higher than average benchmark yield on 364-day treasury certificate of 14.9% in 2016.

Going forward, we expect profitability to be somewhat constrained by increased operating costs and additional loan losses. In addition exchange rate losses will also impair profitability. However, we expect growth in NRFF to offset to some extent, the increase in operating expenses and exchange losses. Overall we are of the opinion that the Bank's profitability is strong and should remain so in the near term.

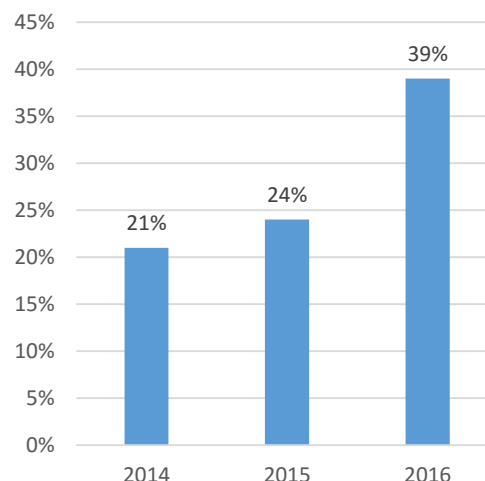
Figure 3: LAPO's Profitability Indicators (2013-2016)



Capitalisation should remain good adequate

LAPO MFB is well capitalised with total shareholders' funds of ₦14 billion (2015: ₦10 billion) exceeding the regulatory minimum of ₦2 billion for microfinance banks. As at 31 December 2016, the Bank's capital adequacy ratio (CAR or the Basel ratio) stood at 38.6% (2015: 24.2%), higher than the regulatory minimum of 10%. LAPO MFB's retention ratio measured by $(1 - \text{dividends}/\text{net earnings})$ has averaged 95% in the last three years, as more earnings were retained and reinvested by LAPO MFB. Capitalisation is expected to remain stable in the medium term, with capital adequacy ratio averaging 30%.

Figure 4: Capital Adequacy Ratio



Funding profile expected to tilt towards local borrowings in the medium term

LAPO MFB has broadened its funding sources over the years by growing its retail deposit base as well as accessing foreign and local currency denominated loans from international and local financial institutions. The Bank's borrowings are largely skewed towards long term borrowings which accounted for 98% of borrowed funds at 2016 FYE. About 48% of these long term funds were sourced from foreign development agencies. The loans are denominated in foreign currency and the naira equivalent of the loan amount is booked by LAPO using the prevailing official exchange rate. These loans are hedged by the foreign counterparties so that on repayment date, the amount due is the foreign currency conversion of the naira amount booked initially - using the official exchange rate on due date. Consequently, LAPO is vulnerable to foreign exchange losses whenever the Bank cannot source foreign currency necessary to repay the loan as, the hedging expires after due date and the amount due reverts to the initial dollar loan value.

Figure 5: LAPO - Breakdown of funding (by tenor)

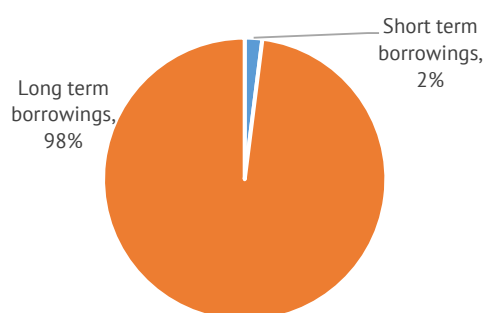
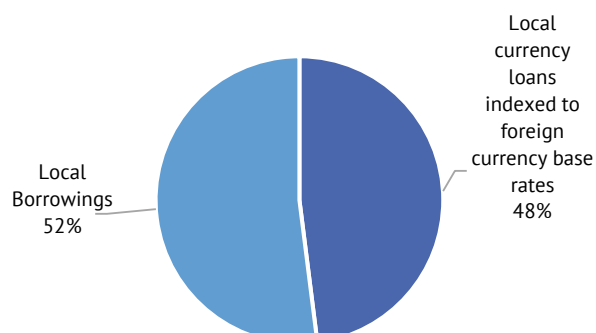


Figure 6: LAPO - Breakdown of funding (by type)



Source: LAPO

About ₦4.3 billion of outstanding debt became due for repayment in 2016. The Bank has faced difficulties in accessing the required foreign currency to make these repayments due to foreign exchange adversities Nigeria is facing. The Bank's management made provision of up to ₦400 million for foreign exchange losses from the loan in 2016 due to Nigeria's foreign exchange challenges. Management has also restated the loan arrears in 2017 to take into cognizance the increase in naira value of the loan to be repaid, while efforts are ongoing to access the required foreign currency. LAPO's management has disclosed that funds have been kept for certificate of capital importation (CCI) applications with a number of local banks to source foreign currency for onward remittances to the foreign lenders. Going forward, LAPO intends to key into CBN's forward contract scheme as a means to hedge foreign exchange risk.

LAPO's weighted average cost of funds (WACF) stood at 17% as at 2016FYE. In order to reduce exposure to currency risks, the Bank intends to reduce dependence on foreign currency borrowings and improve liability generation. The Bond issuance is expected to help achieve this. We note that the cost of funding could increase as the Bank increasingly leans towards LCY borrowings.

Agusto & Co. also notes the Bank's dependence on the success of the Bond which if fully subscribed, would help LAPO MFB refinance its existing loans. Nevertheless, the Bank's ability to refinance in the local market is adequate in our view – given its market position and track record of performance.

Table 4: LAPO - Debt Repayment Schedule (2016-2021)

Outstanding Balance	2016	2017	2018	2019	2020	2021
Local Borrowings (in ₦)	-	2,500,833,333	433,333,333	300,000,000	-	-
Local currency borrowings indexed to foreign currency base rates (in ₦)	4,276,739,035	3,536,709,115	2,012,376,337	1,264,086,525	911,445,816	911,445,816
Total	4,276,739,035	6,037,542,448	2,445,709,671	1,564,086,525	911,445,816	911,445,816

Source: LAPO

The Bank's liquidity ratio (liquid assets to total local currency deposits) has remained above the regulatory benchmark of 20% in the last three years. As at 31 December 2016, LAPO's liquidity ratio stood at 35%, which we consider to be good.

FINANCIAL PROJECTIONS

LAPO MFB has prepared a projected income statement and statement of financial position forecasts for the years ending 31 December 2017 to 2021. The forecasts have been prepared based on several assumptions which include:

- interest income will increase at an annual growth rate of 20% over the forecast period
- loan loss provision to gross loans will be 3%.

In our opinion, the Bond's projections are achievable. However, we have revised the loan loss provision to total loans ratio to 6%, in line with the actual provisioning in 2016FYE and our estimates for delinquent loans going forward. Overall, in our opinion, the Bank's ability to meet its obligations should remain adequate over the forecast period.

OUTLOOK

The 2016 financial year was characterized by a challenging macroeconomic environment, attributable to the decline in crude oil prices which resulted in dwindling Federal Government revenue, foreign exchange adversities and inflationary pressures. In spite of this, LAPO Microfinance Bank Limited was able to remain profitable with net earnings growing by 31% to ₦23.1 billion in 2016.

The Bank is currently in the fourth year of a five-year strategy aimed at growing LAPO MFB's customer base to five million people. This growth plan was embarked upon in 2013 and the Bank currently serves up to 2.4 million clients. To further grow its loan clientele base, LAPO is in the process of issuing a ₦6 billion bond through a special purpose vehicle- LAPO MFB SPV Plc. The Bond's proceeds will be used to refinance existing loans and fund growth in the loan book. To support loan growth, LAPO is actively developing new products. In 2018, the Bank intends to commence digital banking and adopt agency banking to achieve its 'five million customers' target.

Agusto & Co is cognizant of the opportunities in the microfinance market. We are also aware that there is heightened risk given current macroeconomic headwinds. As the Bank grows its loan book and clientele base, we expect that delinquencies will increase moderately and that this could negatively impact profitability. Risk management needs to be strengthened in line with the growth in business volumes. Profitability will also be impacted by the dip in margins, as the Bank tilts its funding profile towards local currency borrowings and the WACF increases - but should remain good by industry standards. LAPO MFB's capitalization is also expected to remain good to support business risks in the short term.

Overall, we believe that LAPO's financial condition is good and should remain adequate over the forecast periods. We therefore attach a stable outlook to the rating.

LAPO MICROFINANCE BANK						
STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-16		31-Dec-15		31-Dec-14	
ASSETS						
Cash & equivalents	226,524	0.4%	84,833	0.2%	272,661	0.7%
Government securities	2,178,354	3.5%	1,334,877	2.5%	1,042,338	2.6%
Stabilization securities						
Short term investments						
Placement with discount houses	588,554	0.9%	303,761	0.6%	167,276	0.4%
LIQUID ASSETS	2,993,432	4.8%	1,723,471	3.3%	1,482,275	3.7%
Balances with Nigerian Banks	6,737,440	10.7%	5,024,634	9.6%	3,301,468	8.3%
Balances with banks outside Nigeria						
TOTAL PLACEMENTS	6,737,440	10.7%	5,024,634	9.6%	3,301,468	8.3%
Direct loans and advances - Gross	52,326,870	83.4%	44,455,587	84.8%	34,335,371	86.6%
Less: Cumulative loan loss provision	-2,471,240	-3.9%	-1,503,750	-2.9%	-1,606,306	-4.1%
Direct loans & advances - net	49,855,630	79.7%	42,951,837	82.0%	32,729,065	82.6%
Advances under finance leases - net						
TOTAL LOANS - NET	49,855,630		42,951,837		32,729,065	
Interest receivable						
Interest paid in advance						
Other prepayments	648,712	1.0%	478,261	0.9%	276,517	0.7%
Tax recoverable						
Other accounts receivable	211,669	0.3%	240,016	0.5%	106,173	0.3%
Deferred losses						
Fixed assets under operating leases						
Property, plant & equipment - for own use	2,021,898	3.2%	1,546,852	3.0%	1,187,626	3.0%
Goodwill & other intangible assets	252,401	0.4%	433,822	0.8%	545,109	1.4%
TOTAL FIXED ASSETS & INTANGIBLES	2,274,299		1,980,674		1,732,735	
TOTAL ASSETS	62,721,182		52,398,893		39,628,233	
CAPITAL & LIABILITIES						
TIER 1 CAPITAL (CORE CAPITAL)	13,616,980	21.7%	10,252,008	19.6%	7,915,106	20%
TIER 2 CAPITAL	9,580,263	15.3%	2,345,945	4.5%	344,222	0.9%
Other long-term borrowings	6,566,706	10.5%	8,244,670		6,703,750	
Demand deposits						
Savings deposits	25,828,954	41.2%	24,703,603	47.1%	20,321,406	51.3%
Time deposits	1,843,265	2.9%	1,002,180	1.9%	38610	0.1%
TOTAL DEPOSIT LIABILITIES - LCY	27,672,219		25,705,783		20,360,016	
Interest payable						
Taxation payable - deferred	122,242	0.2%	101,281	0.2%	61,220	0.2%
Taxation payable - current	3,291,163	5.2%	2,095,495	4.0%	1,966,163	5.0%
Other accounts payable	1,871,609	3.0%	3,596,624	6.9%	1,607,231	4.1%
TOTAL CAPITAL & LIABILITIES	62,721,182		52,398,893		39,628,233	

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-16		31-Dec-15		31-Dec-14	
Interest income	26,669,311	99.2%	19,408,496	99.2%	16,503,804	99.7%
Interest expense	-2,767,416	-10.3%	-2,052,841	-10.5%	-1,550,105	-9.4%
Loan loss expense	-963,985	-3.6%	174,570	0.9%	-1,279,525	-7.7%
NET REVENUE FROM FUNDS	22,937,910	85.3%	17,530,225	89.6%	13,674,174	82.6%
COMMISSIONS						
FEES & OTHER INCOME	207,467	0.8%	106,953	0.5%	52,886	0.3%
NET EARNINGS	23,149,216	86.1%	17,682,787	90.4%	13,724,093	82.9%
Staff costs	-8,291,467	-30.8%	-6,624,042	-33.9%	-5,191,077	-31.4%
Depreciation expense	-933,120	-3.5%	-723,458	-3.7%	-518,304	-3.1%
Other operating expenses	-7,207,431	-26.8%	-5,472,150	-28.0%	-3,866,060	-23.4%
TOTAL OPERATING EXPENSES	-16,432,018	-61.1%	-12,819,650	-65.5%	-9,575,441	-57.8%
PROFIT (LOSS) BEFORE TAXATION	6,717,198	25.0%	4,863,137	24.9%	4,148,652	25.1%
TAX (EXPENSE) BENEFIT	-2,170,443	-8.1%	-1,572,076	-8.0%	-1,340,413	-8.1%
PROFIT (LOSS) AFTER TAXATION	4,546,755	16.9%	3,291,061	16.8%	2,808,239	17.0%
NON-OPERATING INCOME (EXPENSE) - NET						
GROSS EARNINGS	26,880,617	100.0%	19,561,058	100.0%	16,553,723	100.0%

KEY RATIOS	2016	2015	2014
PROFITABILITY & EARNINGS			
Net interest margin	89.6%	89.4%	90.6%
Loan loss expense/Interest income	3.6%	0.0%	7.8%
Operating expenses/Net earnings	71%	72.5%	69.8%
Return on average assets	11.7%	10.6%	12.3%
Return on average equity	56.3%	53.5%	61.0%
Gross earnings/Total assets & contingents (average)	46.7%	42.5%	49.3%
EFFICIENCY INDICATORS			
Operating expenses/average loan portfolio	35.4%	33.9%	34.4%
Adjusted operating expenses/average loan portfolio	33.4%	32.0%	32.5%
Personnel expenses/average loan portfolio	17.9%	17.5%	18.6%
LIQUIDITY & FUNDING			
Total loans - net/Total lcy deposits	104%	126%	129%
Liquid assets/Total lcy deposits	35%	26%	23%
Demand deposits/Total lcy deposits	0%	0%	0%
Savings deposits/Total lcy deposits	93%	96%	100%
Time deposits/Total lcy deposits	7%	4%	0%
ASSET QUALITY RATIOS			
PERFORMING LOANS (₦'000)	49,319,732	42,373,580	31,969,496
NON-PERFORMING LOANS (₦'000)	3,011,950	2,082,007	2,365,875
Non-performing loans /Total loans - Gross	6%	5%	7%
Loan loss provision/Total loans - Gross	5%	3%	5%
Loan loss provision/Non-performing Total loans	82%	72%	68%
CAPITAL ADEQUACY & LEVERAGE RATIOS			
Adjusted capital/risk weighted assets	39%	24%	21%
Tier 1 capital/Adjusted capital	58%	81%	96%
Total loans - net/Adjusted capital	3.73	4.37	4.44
STAFF INFORMATION			
Average number of employees	6,392	5,886	4,231
Staff cost per employee (₦'000)	1,297	1,125	1,227
Net earnings per staff (₦'000)	3,622	3,004	3,244
Staff cost/Net earnings	36%	37%	38%
Staff costs/Operating expenses	51%	52%	54%
Average staff per branch	15	15	11

RATING DEFINITIONS

Aaa	This is the highest rating category. The Bond is adjudged to offer highest safety of timely payment of interest and principal.
Aa	The Bond is adjudged to offer high safety of timely payment of interest and principal.
A	The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.
Bbb	The Bond is adjudged to offer sufficient safety of timely payment of interest and principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for bonds in higher rated categories.
Bb	The Bonds is adjudged to carry inadequate safety of timely payment of interest and principal; while they are less susceptible to default than other speculative grade bonds in the immediate future, the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.
B	The Bond is adjudged to have greater susceptibility to default; while currently interest and principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
C	The Bond is adjudged to have factors present that make them vulnerable to default; timely payment of interest and principal is possible only if favourable circumstances continue.
D	The Bond is in default and in arrears of interest or principal payments or are expected to default on maturity.

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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