

LAGOS STATE GOVERNMENT OF NIGERIA

Up to ₦200 billion Series IV: 10-Year Fixed Rate Bond Due 2035 under the
₦1 Trillion Debt and Hybrid Instruments Issuance Programme

2025 Indicative Municipal Bond Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

Lagos State Government of Nigeria

Up to ₦200 billion Series IV: 10-Year Fixed Rate Bond Due 2035 under the ₦1 Trillion Debt and Hybrid Instruments Issuance Programme

Issue Rating:

Aa*

High quality debt issue with very low credit risk; very strong capacity to pay returns and principal on local currency debt in a timely manner.

Issue Date: 10 September 2025

Expiry Date: 30 September 2026

**This Issue rating is indicative and subject to change at any time. However, a final rating will be based on receipt of all duly executed contractual agreements.*

The final issue rating will be subject to annual monitoring and review on the anniversary of the Bond.

Lagos State Rating: Aa-

Expiry Date: 30 September 2025

RATING RATIONALE

Agusto & Co. hereby assigns an indicative "Aa" rating to the Lagos State Government's ("Lagos State", "Lagos", "LASG", "the Issuer" or "the State") proposed ₦200 billion Series IV: 10-Year Fixed Rate Bond Due 2035 ("Series IV Bond", "the Bond" or "the Issue") under its ₦1 Trillion Debt and Hybrid Instruments Issuance Programme ("DAHI" or "the Programme"). The assigned rating reflects our opinion on the State's strong capacity to service the Series IV Bond obligations (coupon and principal) jointly from its Consolidated Debt Service Account (CDSA) funded from monthly internally generated revenue remittances and the issuance of an Irrevocable Standing Payment Order (ISPO) (to be approved by the Federal Ministry of Finance. The rating is further strengthened by Lagos State's very good financial condition, supported by its sustainable cash-generating capacity, balanced expenditure profile and robust ability to meet local currency obligations from its internally generated revenue (IGR), which averages 70% of its total revenue. In addition, the State benefits from a stable political environment characterised by effective coordination across tiers of government. Nonetheless, the rating is tempered by LASG's growing public debt, particularly unhedged foreign currency exposures that heighten vulnerability to exchange rate depreciation. These risks are moderated by the State's relatively low debt service-to-revenue ratio, supported by concessional terms and long maturities on its borrowings.

Lagos State plans to issue up to ₦200 billion Series IV Bond as part of an aggregate issuance of ₦214.8 billion under the Debt and Hybrid Instruments Programme (DAHI) in the third quarter of 2025 to finance identified infrastructure projects across the State. The coupon on the proposed Series IV Bond will be determined through a book-building process and payable semi-annually over the ten-year tenor of the Issue. The principal will enjoy a 24-month moratorium from the Issue Date and will thereafter be amortised semi-annually over the remaining eight years. In line with the terms of the Series IV Trust Deed, the Issuer reserves the sole discretion to redeem all or part of the outstanding Bond after five years from the Issue Date, provided that not less than 30 days' notice is given to bondholders.

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This Series IV Bond Rating Report should be read in conjunction with Agusto & Co's 2024 Rating Review Report for Lagos State

TRANSACTION PARTIES

Issuer:

Lagos State Government

Lead Issuing House/Bookrunner:

Chapel Hill Denham Advisory Limited

Bond Trustees:

United Capital Trustees
 First Trustees
 UTL Trustees
 STL Trustees
 SAMTL Trustees
 Paxhill Minerva Limited
 Radix Trustees
 ARM Trustees

Solicitors to the Issuer:

G. Elias & Co
 Jackson, Etti & Edu
 Olaniwun Ajayi LP

Solicitors to the Issue:

Banwo & Ighodalo
 Idowu Sofola & Co.
 Duale Ovia & Alex Adedipe
 The New Practice

Registrars:

Meristem Registrars & Probate Services Limited

Reporting Accountant:

Ernst & Young

KEY TRANSACTION STRUCTURE

Bond Tenor:

10 years, with semi-annual payment of coupon and half-yearly repayment of principal after a moratorium of 2 years.

Bond Call Option:

Callable at par, in whole or in part after 60 months (five years) from the issue date subject to the issuance of requisite notice to Bondholders and obtaining a resolution by the Lagos State Executive Council.

Bond Status:

Senior, direct, unsecured and unconditional obligation of the Issuer.

Use of Bond Proceeds:

The net proceeds will be used to finance the development and construction of physical and social infrastructure projects in the State.

Source of Repayment:

Consolidated Debt Service Account (CDSA) and Irrevocable Standing Payment Order (ISPO). The sum of ₦1,772,400,395.36 will be transferred monthly from the CDSA for the first 24 months and thereafter the sum

The Series IV Bond obligations will be jointly serviced from monthly deductions from the Lagos State CDSA, as well as the issuance of an ISPO (to be) approved by the Federal Ministry of Finance authorising monthly deductions from the State's share of statutory allocation into a designated sinking fund account (SFA) to be managed by the Bond Trustees for the benefit of the Bondholders. In line with the Trust Deed, the sum of ₦1.8 billion will be transferred monthly from the CDSA from the date of issue for 24 months into the SFA. Thereafter, the monthly sum shall increase to ₦2.7 billion over the remaining tenor (96 months) of the Bond. In addition, a monthly ISPO of ₦1.8 billion, will be deducted from the State's share of statutory allocation from the Bond issue date for 120 months into the SFA to meet the Bond obligations as and when due.

Lagos State has consistently maintained an IGR-to-total revenue ratio above 60% over the past decade, with an average of 71% recorded between 2022 and 2024. Considering the State's broad tax base and the improved collection efficiency of the Lagos Internal Revenue Service, we expect strong IGR performance to be sustained over the tenor of the Bond. In addition, the presence of large corporations and multinationals, alongside numerous small and medium-sized enterprises, provides a steady source of taxable income through Pay-As-You-Earn (PAYE) remittances and consumption levies, thereby reinforcing the State's internally generated revenue. As at the end of 2024, the State's annual debt service to revenue ratio stood at 11% (2023: 15%). Following the proposed Series IV Bond issuance, the State's total annual debt service obligations are projected to be approximately 14% of total revenue, well below the 40% threshold stipulated in Section 268 of the Investment and Securities Act (2025).

Based on our estimates, the amount to be set aside by way of CDSA and ISPO contributions (as noted in the Series IV Trust Deed) into the SFA (excluding investment income and bond-related expenses) over the ten year tenor will be sufficient to cover the total Bond obligations (principal and coupon estimated at 21%) 1.02 times. However, should the Bond close at an interest rate higher than 21%, Lagos State will be required to augment the shortfall from its IGR in line with the Trust Deed. As long as the monthly CDSA and ISPO remittances into SFA are honoured and remain legally enforceable, we expect the Issuer to meet the Series IV Bond obligations as and when due.

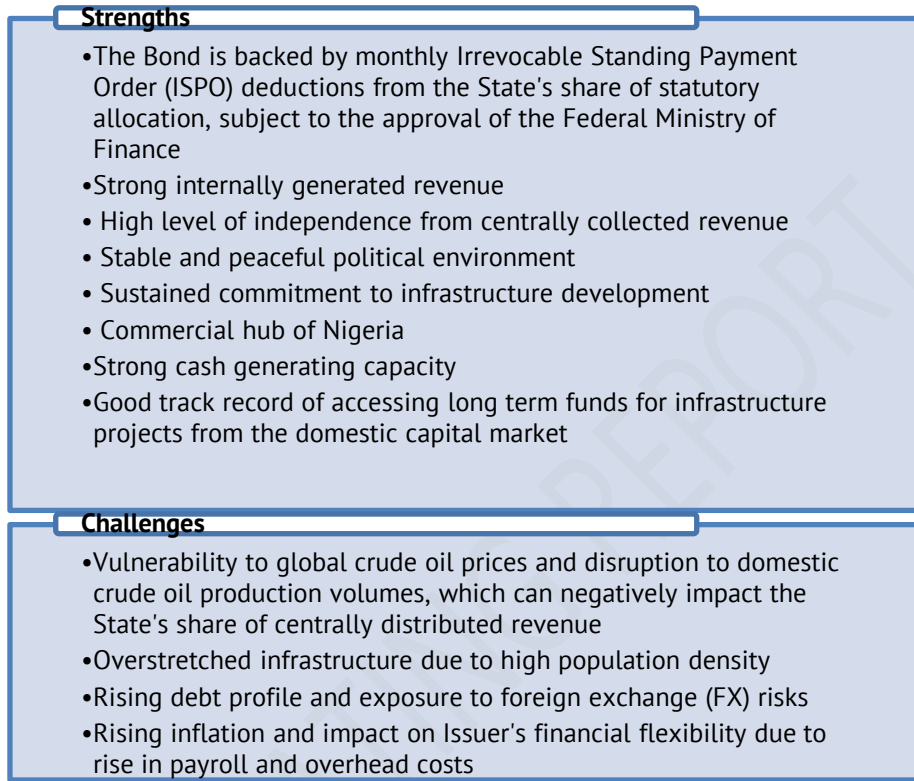
Based on the above, we attach a **stable** outlook to Lagos State's ₦200 billion Series IV: 10-Year Fixed Rate Bond Due 2035.

This Series IV Bond Rating Report should be read in conjunction with Agusto & Co's 2024 Rating Review Report for Lagos State

shall be increased to ₦2,653,607,723.90 monthly over the remaining tenor of the Bond. Also, the sum of ₦1,800,000,000 will be deducted as monthly ISPO from the State's share of statutory allocation for 120 months from the Bond issue date.

Listing:
 FMDQ Securities Exchange Limited and/or
 The Nigerian Exchange Limited.

Figure 1: Credit Strengths and Challenges



INDICATIVE RATING REPORT

THE ISSUER'S PROFILE

Lagos State Government ("Lagos State", "Lagos", "LASG", "the Issuer" or "the State") was established on 27 May 1967 through the States Creation and Transitional Provisions Decree No. 14 of 1967, which restructured Nigeria into 12 states. The State was Nigeria's administrative capital from 11 April 1968 until 12 December 1991, when the seat of Government was relocated to Abuja. With a land area of approximately 3,577 square kilometres (22% of which is wetland), Lagos is the smallest State in Nigeria by landmass. The State is bounded in the North and East by Ogun State, in the West by the Republic of Benin and stretches over 180 kilometres along the Guinea Coast of the Bight of Benin on the Atlantic Ocean. The State's territorial expanse encompasses five administrative divisions, including Ikorodu, Badagry, Ikeja, Lagos Island and Epe, collectively referred to as IBILE. Lagos State has 20 Local Governments and 37 Local Council Development Areas, with Ikeja as its capital city.

Lagos is one of Africa's fastest-growing cities, which provides its economy with a dynamic workforce and huge consumer market. As the country's economic hub and commercial nerve centre, the State contributed approximately 20% of the national Gross Domestic Product (GDP) in 2024¹. According to the Lagos Bureau of Statistics, the State's GDP stood at ₦55.7 trillion as at 31 December 2024 and is projected to reach approximately ₦66.5 trillion by 2025 year-end, supported by increased public and private investments, improved budget execution, and a sustained rebound in key sectors including services, agriculture, construction and trade. Given its limited land area, economic activities in Lagos are primarily service-oriented, with less emphasis on agriculture and industry. Consequently, the services sector (dominated by trade, telecommunications, transport, financial institutions, information and technology) comprised approximately 84% of the State's GDP in 2024, while the industrial and agricultural sectors accounted for 15% and 1%, respectively.

In recent years, Lagos State has taken steps to improve its business environment by digitising government services and streamlining licensing procedures. LASG also offers tax incentives in designated enterprise zones such as the Lekki Free Trade Zone and Eko Atlantic City to attract foreign direct investment. However, with a population exceeding 27 million as at 2024 and increasing urbanisation, the State faces persistent challenges, including traffic congestion, energy deficit and waste management. To address these issues and promote sustainable economic development, the Lagos State Government has adopted the "THEMES+" strategy, which aligns with the Lagos State Development Plan of becoming Africa's model megacity and a global economic hub by 2052, as its medium-term policy framework. The "THEMES+" strategy covers the following areas: Traffic Management and Transportation; Health and Environment; Education and Technology; Making Lagos a 21st-century economy; Entertainment and Tourism; and Security and Governance; as well as Social Inclusion, Gender Equality and Youth.

Lagos State operates a three-arm system of government comprising the Executive, Legislature and Judiciary. The Executive, responsible for day-to-day administration, is led by Governor Mr. Babajide Olusola Sanwo-Olu, assisted by Deputy Governor Dr. Kadri Obafemi Hamzat and the State Executive Council. The Legislature, empowered by the 1999 Constitution (as amended) to enact laws for the State, is headed by Rt. Hon. Mudashiru Ajayi Obasa, Speaker of the Lagos State House of Assembly and supported by 39 other members. The Judiciary, tasked with the administration of justice, is led by Hon. Justice Kazeem Olanrewaju Alogba, Chief Judge of Lagos State, with the High Court serving as the highest court in the State. Augusto & Co. notes positively that the State has experienced relative political stability over the past two decades, supported by a cooperative relationship among the three arms of government.

¹ *Lagos Economic Development Update (LEDU) 2025*

On 23 May 2023, Lagos State established its fourth Debt and Hybrid Instruments Issuance Programme of ₦1 trillion ("DAHI Programme" or "the Programme") in accordance with the provisions of the Lagos State Bonds, Notes and Other Securities Issuance Law of 2008 ("Bond Law") under which various debt instruments, including Conventional Bonds, Sukuk Notes and Green bonds, will be issued. Under the Programme, the State raised ₦134.8 billion in May 2023 through two issuances (a ₦115 billion Series I 10-Year 15.25% Fixed Rate Bond Due 2033 and a ₦19.815 billion 7-Year 14.675% Fixed Return Forward-Ijarah Lease Sukuk Due 2030) to finance 169 priority projects across various Ministries, Departments and Agencies (MDAs).

As at 30 June 2025, the Lagos State Government had the following schedule of bonds in issue as noted in the table below:

Table 1: Status of Lagos State's Bonds in Issue as at 30 June 2025

S/N	Description
1	₦38.7 billion 10-Year 17.25% due 2027 (Series II Tranche II)
2	₦5.34 billion 9 ⁷ / ₁₂ Year 15.85% due 2027 (Series II Tranche IV)
3	₦100 billion 10-Year 12.25% Fixed Rate Bond Due 2030 (Series III)
4	₦137.3 billion 10-Year 13% Fixed Rate Bond Due 2031 (Series IV)
5	₦115 billion 10-Year 15.25% Fixed Rate Bond Due 2033 (Series I)
6	₦19.8 billion 7-Year 14.675% Fixed Rate Bond Due 2030 (Series II Sukuk)

Furthermore, LASG plans to raise circa ₦214.8 billion in the third quarter of 2025 through two issuances (Series III Green Bond and Series IV Conventional Bond) to finance physical and social infrastructure projects in the State.

REVIEW OF ISSUER'S FINANCIAL CONDITION

Lagos State's economic performance in 2024 was shaped by a blend of enduring macroeconomic pressures and deliberate policy responses. In the financial year ended 31 December 2024 (FYE 2024), LASG's total revenue (excluding grants) grew by 91% to ₦2.3 trillion, driven primarily by an increase in internally generated revenue (IGR) and a rise in VAT receipts and other statutory allocations from the Federal Government of Nigeria (FGN). IGR remained the backbone of the State's revenue profile, accounting for approximately 67% of the total income generated in FYE 2024, while VAT receipts and other statutory allocations contributed 19% and 14%, respectively. Given the State's commitment to infrastructure development under the THEMES+ programme, which is expected to stimulate economic activity, as well as increasing federal transfers supported by higher oil revenues and a widening tax base driven by population growth and increasing urbanisation, we expect a further increase in total revenue in the near term.

The residual impact of the 2023 federal reforms (particularly the removal of fuel subsidies and the unification of exchange rates) continued to fuel inflation, leading to higher transportation costs, elevated food prices, and increased costs of imported goods. Notwithstanding, the State's economy remained resilient, buoyed by strategic investments in infrastructure, food security and social welfare. Flagship initiatives such as the "Ounje Eko" discounted food markets, subsidised public transportation, and the expansion of rail and road networks played a pivotal role in cushioning inflationary effects and boosting overall economic productivity.

During the FYE 2024, the State's total expenses rose to ₦2.1 trillion (2023: ₦1.7 trillion), largely due to higher overhead expenses, personnel costs, transfers and subventions to parastatals amidst sustained inflationary

pressures. This is in addition to increased capital expenditure and higher net exchange loss recognised on foreign loans due to the significant Naira devaluation during the year. Nonetheless, LASG's personnel expenses to revenue and overhead costs to revenue ratios moderated to 11% and 18% respectively, in FYE 2024 (2023: 15% and 23%) on account of the stronger revenue growth. Despite the prevailing cost pressures, we expect the State's near-term personnel expenses to revenue and overhead costs to income ratios to remain within our acceptable limits of 20% and 30% respectively, owing to its strong internal revenue-generating capacity.

As at FYE 2024, Lagos State's total identified assets, comprising non-current assets (90%) and current assets (10%), increased to ₦4.9 trillion (2023: ₦3.6 trillion), reflecting additions to property, plant and equipment (PPE), investments in joint ventures², higher fair value gains on quoted securities and foreign currency investments³, and a rise in cash and equivalents held in banks and by Ministries, Departments and Agencies (MDAs).

As at 31 December 2024, Lagos State's total liabilities rose by 28% to ₦2.9 trillion, mainly due to the swelling impact of the significant Naira devaluation on the outstanding foreign loans and drawdowns on external credit facilities to fund physical and social infrastructure projects. As at FYE 2024, LASG's total borrowings (comprising bond issues, internal and external debts) constituted 96% of total liabilities, while other payable/liabilities and finance lease obligations represented 3% and 1%, respectively. Although LASG's rising unhedged foreign currency debt obligations remain a concern, we note the relative stability in the exchange rate market and expect the State to continue to meet its financial obligations as and when due. This expectation is supported by LASG's strong and sustainable internally generated revenue profile, good credit history and established access to liquidity lines from various domestic banks.

BOND STRUCTURE

Lagos State plans to issue up to ₦200 billion Series IV: 10-Year Fixed Rate Bond Due 2035 ("Series IV Bond", "the Bond" or "the Issue") in the third quarter of 2025 as part of the aggregate issuances of ₦214.8 billion under its ₦1 Trillion Debt and Hybrid Instruments Issuance Programme. The Series IV Bond will attract a fixed coupon rate to be determined through a book-building process, payable semi-annually over the ten-year tenor of the Bond. The Bond's principal will be redeemed biannually after a two-year moratorium, over the remaining tenor of the Issue.

The proceeds of the Bond will be primarily used to finance various projects across nine strategic ministries, departments and agencies (MDAs) in the State, as shown in the table below. A detailed list of all the proposed projects under the various MDAs is in the Appendix.

Table 2: Utilisation of Series IV Bond Proceeds Summary

S/N	Ministries, Departments And Agencies	Amount To Be Funded From Bond Proceeds (₦' Millions)	% of Bond Proceeds
1	Office of Infrastructure	64,939.4	32.47%
2	Lagos Metropolitan Area Transport Authority (LAMATA)	56,280.8	28.14%
3	Ministry of Health	17,317.2	8.66%

² This relates to Lagos State's investments in joint ventures with Midstream and Downstream Gas Infrastructure Fund (₦18 billion), CIG Motors (₦9.2 billion) and Dula Agro-Services Limited (₦1.4 billion).

³ This represents LASG's investments in Quoted Securities (Julius Berger Nigeria Plc and Lasaco Assurance Plc) and Foreign Currency Investments in various companies (Nigeria Sovereign Investment Authority, El-Sewedy Electric Co., Lekki Free Zone Development Co. (Class B and C) and Lekki Port LFTZ Enterprise as at 31 December 2024).

Lagos State Government's up to ₦200 Billion Series IV 10-year Fixed Rate Bond Due 2035

S/N	Ministries, Departments And Agencies	Amount To Be Funded From Bond Proceeds (₦' Millions)	% of Bond Proceeds
4	Ministry of the Environment & Water Resources	12,987.9	6.49%
5	Lagos Water Corporation	12,987.9	6.49%
6	Ministry of Agriculture	12,987.9	6.49%
7	Ministry of Housing	9,304.31	4.65%
8	Ministry of Waterfront Infrastructure Development	6,493.9	3.25%
9	Ministry of Innovation Science and Technology	2,164.6	1.08%
10	Issue Cost	4,536.1	2.27%
	Total	200,000	100.00%

Source: Lagos State Government of Nigeria's up to ₦200 billion Series IV Fixed Rate Bond Pricing Supplement

The Series IV Bond will be issued by way of an offer for subscription to Qualified Institutional Investors (QII) and High Net Worth Individuals (HNIs), as defined in the Rules and Regulations of the Securities and Exchange Commission (as amended). The Issue will be listed on the FMDQ Securities Exchange Limited and/or the Nigerian Exchange Limited. The Bond shall constitute senior unsecured and direct obligations of the Issuer and shall at all times rank pari-passu among themselves and equally with its other existing obligations. In the event of an oversubscription of the Series IV Bond, the Issuer reserves the right to take up to 15% of the qualifying book and issue bonds up to a maximum value on a pro rata basis to each successful bidder.

In line with the Trust Deed, the Issuer reserves the sole discretion to call the Bond, either in part or whole, after 60 months (five years) from the Issue date, provided that not less than 30 days' irrevocable notice is given to Bondholders. The early redemption option on the Series IV Bond can only be exercised after a resolution by the Lagos State Executive Council has been presented to the Joint Trustees, and such redemption must occur on a coupon payment date.

The Bond obligations will be jointly serviced from the Consolidated Debt Service Account (CDSA) of the Lagos State Government, as well as the issuance of an Irrevocable Standing Payment Order (ISPO) (to be approved by the Federal Ministry of Finance authorising monthly deductions from the State's share of statutory allocation. The Trust Deed empowers the creation of a Series IV Sinking Fund Account (SFA), which will be managed by a team of eight Joint Trustees, into which appropriate monthly contributions shall be made from the CDSA and Federal ISPO per the terms and conditions of the Bond issuance.

In line with the Series IV Trust Deed and Pricing Supplement, the sum of ₦1,772,400,395.36 will be transferred from the CDSA every month from the date of issue for 24 months into a designated SFA to meet maturing obligations. Thereafter, the monthly sum to be transferred from the CDSA shall increase to ₦2,653,607,723.90 over the remaining tenor of the Bond. In addition, a monthly ISPO of ₦1,800,000,000 (to be approved by the Federal Ministry of Finance) will be deducted from the State's share of statutory allocation and deposited into the SFA for 120 months from the bond issue date to meet the Bond obligations as and when due.

Table 3: Proposed Bond Repayment Schedule – Series IV Bond

Semi-annual periods	Semi Annual Payment (₦' million)	Coupon Payment* (₦' million)	Principal Repayment (₦' million)	Principal Obligation Outstanding (₦' million)
0	-	-	-	200,000
1	21,000	21,000	-	200,000
2	21,000	21,000	-	200,000
3	21,000	21,000	-	200,000
4	21,000	21,000	-	200,000
5	26,329	21,000	5,329	194,671
6	26,329	20,440	5,888	188,783
7	26,329	19,822	6,507	182,276
8	26,329	19,139	7,190	175,086
9	26,329	18,384	7,945	167,141
10	26,329	17,550	8,779	158,362
11	26,329	16,628	9,701	148,661
12	26,329	15,609	10,719	137,942
13	26,329	14,484	11,845	126,097
14	26,329	13,240	13,089	113,008
15	26,329	11,866	14,463	98,545
16	26,329	10,347	15,982	82,564
17	26,329	8,669	17,660	64,904
18	26,329	6,815	19,514	45,390
19	26,329	4,766	21,563	23,827
20	26,329	2,502	23,827	-
Total	505,262	305,262	200,000	

*This is computed based on a coupon rate of 21% per annum

As stipulated in the Trust Deed, the Issuer undertakes to the Series IV Bondholders and Joint Trustees that at least 15 business days before the end of every month during each year in which the bonds remain outstanding, the specified sums shall be transferred from the CDSA and ISPO into the Sinking Fund Account (SFA). In addition, the Issuer irrevocably undertakes not to revoke or modify the terms under which sums from the CDSA and ISPO are deposited in the SFA throughout the Bond tenor without the prior written consent of the Joint Trustees and the approval of the Securities and Exchange Commission (SEC). Agosto & Co. notes that funds in the SFA will be applied primarily towards principal and coupon payments or early redemption in line with the Series IV Trust Deed.

As provided in the Series IV Trust Deed, if the balance in the SFA is insufficient to meet the Issuer's debt service obligations, the shortfall shall first be funded from the CDSA. If the CDSA balance is also inadequate, the remaining deficiency shall be paid from the State Consolidated Revenue Fund and assets of the State, with the approval of the Lagos State House of Assembly. The Issuer hereby covenants that it shall not without the express written consent of the Joint Trustees, directly or indirectly at any time during the subsistence of the Series IV Trust Deed, create any encumbrance, on the pledged revenues and the Series IV SFA, whether ranking in priority or pari passu with the interest of the Bondholders, without providing such other security for the Issue as approved by the Bondholders.

LAGOS STATE EXECUTIVE COUNCIL RESOLUTION

The Lagos State Executive Council ("EXCO") held a meeting on 15 June 2022 and approved the establishment of a ₦1 trillion Debt and Hybrid Instruments Issuance Programme (the DAHI Issuance Programme) for the issuance of various instruments (Conventional, Sukuk, Green or otherwise) either by way of a public offering, bookbuild, private

placement or other methods in compliance with applicable laws and regulations. On 10 February 2025, the EXCO approved the issuance of the aggregate amount of ₦214,815,000,000 through Series III Green Bond and Series IV (Conventional) Bond Issuances under the DAHI Issuance Programme. The Series III and IV Bonds are to be issued either by way of a public offering, bookbuild, private placement or other methods as may be determined by the Honourable Commissioner of Finance and approved by the regulatory authorities. The EXCO resolution empowered the Governor, the Honourable Commissioner of Finance and the Honourable Commissioner Justice/Attorney General of the State to approve and execute all documents on behalf of the State. The EXCO resolution was signed by the Governor (Mr Babajide Olusola Sanwo-Olu) and the Attorney General (Mr Lawal Pedro SAN).

In addition, LASG via a letter dated 1 September 2025 requested the Federal Ministry of Finance to approve an Irrevocable Standing Payment Order (ISPO) to secure the repayment of the proposed up to ₦214.8 billion Series III and Series IV Bond issuances. The request covers monthly deductions of ₦200 million for 60 months for the Series III Bond and ₦1.8 billion for 120 months for the Series IV Bond, to be effected alongside remittances from the State's Consolidated Debt Service Account (CDSA). Once approved, the monthly ISPO deductions for the Series IV Bond will commence immediately upon issuance. The request letter with reference no: LASG/GOVLAG/2025/VOL.V/004 was signed by the Governor of Lagos State, Mr Babajide Olusola Sanwo-Olu.

LAGOS STATE HOUSE OF ASSEMBLY RESOLUTION

The Lagos State House of Assembly (LAHA) at its session held on 4 October 2022 approved the establishment of a ₦1 trillion Debt and Hybrid Instruments Issuance Programme (the DAHI Issuance Programme) for the issuance of various instruments (Conventional, Sukuk, Green or otherwise) either by way of a public offering, bookbuild, private placement or other methods in compliance with applicable laws and regulations. Furthermore, LSHA authorised the State Executive Council to request an ISPO as deemed appropriate to secure the repayment of the obligations under the DAHI Issuance Programme. The House resolution was contained in a letter with reference number: LSHA/LM/C/50/VOL.III/288 dated 21 August 2025 and signed by the Clerk of the House – Mr O.B. Onafeko.

JOINT SOLICITORS' OPINION

Based on the Joint Solicitors' opinion (provided by Banwo & Ighodalo, Duale Ovia & Alex Adedipe, Idowu Sofola & Co. and The New Practice) on material claims dated 19 June 2025, Lagos State, through its ministries and agencies, is involved in 325 contracts above the materiality threshold of ₦150 million. Furthermore, the aggregate outstanding monetary obligations due under the subsisting contracts are estimated at ₦811.7 billion. The Joint Solicitors believe that the material claims and obligations of Lagos State will not affect the validity of the pledge or application of any money provided to discharge its payment obligations to the Bondholders.

Based on the Joint Solicitors' review, LASG is involved in 67 pending litigations within the materiality threshold of ₦150 million, with total claims against the State at approximately ₦456.1 billion. The Joint Solicitors are of the opinion that no material litigation or judgement is pending against the State that may adversely affect Lagos State's ability to perform its duties under the Bond Programme.

In our view, the legal opinion from the Joint Solicitors to the Issue represents a satisfactory opinion on the material claims and litigation of the Lagos State Government's up to ₦214.8 Billion Series III and IV issuances.

DETAILS OF INDEBTEDNESS

As at 30 June 2025 (H1'2025), Lagos State's total debt stock (excluding contractor arrears and judgment debts) stood at ₦2.8 trillion. External borrowings accounted for 70% of the State's total debt, while internal loans from

commercial banks and the outstanding balance of bonds in issue represented 17% and 13% respectively. Agosto & Co. projects LASG's total debt to GDP ratio at 4.5% and estimates debt servicing (including interest and principal repayments on domestic and external borrowings and new issues) as a percentage of revenue to increase to 14% by FYE 2025 (2024: 11%) on account of the aggregate rise in debt levels. However, this remains below LASG's internal 30% Debt Sustainability Ratio and the 40% debt service to revenue threshold prescribed for municipals under the Investment and Securities Act (2025).

FORECAST

LASG's total revenue is projected to reach approximately ₦2.8 trillion in FYE 2025, driven by strong IGR performance supported by a diversified economy, with significant contributions from large corporations, multinationals, and SMEs through PAYE and consumption levies. This growth is also underpinned by the State's expanding tax base aided by increasing urbanisation and the enhanced collection efficiency by the Lagos Internal Revenue Service (LIRS). We also anticipate higher statutory allocations, underpinned by improved oil receipts, exchange rate gains, and increased VAT collections at the federal level. Our forecast has been based on the assumption that the Federal Government of Nigeria (FGN) will maintain the current revenue-sharing formula for statutory allocations and VAT receipts, and that there will be no material changes in monetary or fiscal policies that could impair the State's monthly receipts. Nonetheless, our projections will be reviewed annually to reflect prevailing macroeconomic conditions.

Based on our analysis, LASG's average annual debt service to revenue ratio over the tenor of the Bond is expected to remain below the 40% threshold specified in the Exemption Order. In addition, the State has maintained an IGR to revenue ratio above 60% over the past three years (2022: 75%, 2023: 73% and 2024: 67%), and we expect this to be sustained over the life of the Issue. In line with the Series I Trust Deed, the Issuer undertakes that the sum of ₦1.8 billion will be transferred from the CDSA monthly from the date of issue for 24 months into an SFA. Thereafter, the monthly sum from the CDSA shall increase to ₦2.7 billion over the remaining tenor (96 months) of the Bond. In addition, a monthly ISPO of ₦1.8 million (to be) approved by the Federal Ministry of Finance, will be deducted from the State's share of statutory allocation and paid into the SFA over 120 months to meet the Bond obligations as and when due.

Agusto & Co. estimates that the amount to be set aside by way of CDSA and ISPO contributions into the SFA (excluding investment income) over the forecast period (amounting to ₦513.3 billion) will be sufficient to cover the total Bond obligations (coupon estimated at 21%) 1.02 times, which we consider satisfactory. Should the Series IV bookbuild close at an interest rate higher than 21%, the State will be required to augment the shortfall from its IGR in line with the Trust Deed. Furthermore, we estimate that total monthly deductions for all bonds currently in issue (including the proposed Series IV Bond) will account for approximately 3.2% of the projected monthly IGR in 2025, which we consider low.

Table 4: Series IV Bond Sinking Fund Adequacy Schedule

Description	₦' Millions
CDSA - IGR Contributions (120 months)	297,284
ISPO Deductions (120 months)	216,000
Total receipts	513,284
Total coupon payments*	305,262
Total principal repayments	200,000
Total Bond obligations	505,262
SFA Adequacy ratio (times)	1.02 times

*Coupon is estimated at 21%

OUTLOOK

Lagos State Government's ₦3.37 trillion 2025 budget, titled the "Budget of Economic Repositioning", builds on the strategic priorities of the THEMES+ agenda is designed to consolidate gains in infrastructure delivery, economic competitiveness and human capital development. The 2025 budget allocates approximately ₦2.1 trillion (53%) to capital expenditure, reinforcing LASG's focus on transport, housing, education, healthcare and technology-led infrastructure development initiatives to foster economic expansion.

To fund identified developmental projects, Lagos State plans to raise long-term debt financing with the proposed issuance of up to ₦214.8 billion in two tranches (Series III Green Bond and Series IV Conventional Bond). The proposed ₦200 billion Series IV Bond coupon will be payable semi-annually over the ten-year tenor of the Issue, while the principal will be redeemed biannually over the tenor of the Bond, following a two year moratorium. Following the issuance of the proposed bonds, we estimate that LASG's total annual debt service obligations would represent about 14% of the total revenue, which is lower than the 40% limit prescribed in the Exemption Order.

The State has pledged to service the Bond obligations jointly with total contributions from the CDSA of the Lagos State Government accounting for 57%, while the ISPO deductions to be approved by the Federal Ministry of Finance representing the balance of 43%. Based on our analysis, the cumulative amount to be set aside by way of CDSA and ISPO contributions into the SFA (excluding investment income) over ten years (totalling ₦513.3 billion) will be sufficient to cover the total Bond obligations (coupon estimated at 20.75%) amounting to ₦505.3 billion, resulting in an SFA adequacy of 1.02 times.

Looking forward, we expect Lagos State's expanding workforce, driven by rising urbanisation and the significant concentration of major corporations, financial institutions and small and medium-sized enterprises, to translate to higher personal income tax (pay-as-you-earn) collections, which will bolster IGR in the near term. In addition, we anticipate an uptick in value-added tax receipts due to the State on account of increased business activities and its status as the country's primary commercial and economic hub. Given Nigeria's improved crude oil production (estimated at 1.51 million barrels per day in June 2025) and favourable crude oil prices, which should translate to an increase in the nation's hydrocarbon export proceeds, we anticipate higher statutory allocations to LASG. As long as the CDSA and ISPO monthly deductions remain legally binding and enforceable over the tenor of the Issue, we expect the Lagos State Government to honour the coupon and principal repayment obligations on the Series IV Bond as and when due.

Based on the aforementioned, we hereby attach a **stable** outlook to the Lagos State Government's ₦200 billion Series IV: 10-Year Fixed Rate Bond Due 2035.

This Series IV Bond Rating Report should be read in conjunction with Agusto & Co's 2024 Rating Review Report for Lagos State Government

FINANCIAL SUMMARY

REVENUE & SPENDING	IPSAS 2021		IPSAS 2022		IPSAS 2023		IPSAS 2024	
	₦'MNS	%	₦'MNS	%	₦'MNS	%	₦'MNS	%
REVENUE								
TAX REVENUE								
PERSONAL INCOME TAX	312,020.4	41%	374,537.4	41%	487,285.8	40%	725,235.5	31%
SHARE OF VAT COLLECTED CENTRALLY	139,104.6	18%	161,762.6	18%	222,449.7	18%	450,169.7	19%
SHARE OF OTHER REVENUES COLLECTED CENTRALLY (STAT. ALLOCATION)	54,729.7	7%	71,338.4	8%	107,243.3	9%	319,285.0	14%
OTHER CAPITAL RECEIPTS	-		-		-		-	
OTHER TAXES	114,878.5	9%	131,495.1	6%	192,130.8	8%	312,345.3	13%
	620,733.1	75%	739,133.5	71%	1,009,109.5	76%	1,807,035.5	78%
NON-TAX REVENUE								
ASSET SALES & OTHER STATE CAPITAL RECEIPTS	19,214.6	3%	31,418.7	3%	29,980.3	2%	253,310.4	11%
INVESTMENT INCOME	3,694.9	0%	7,573.2	1%	6,342.3	1%	18,197.6	1%
OTHERS - LEVIES, FINES & FEES	123,297.0	16%	145,672.9	16%	166,942.7	14%	237,054.2	10%
	146,206.5	19%	184,664.7	20%	203,265.3	17%	508,562.1	22%
						0.31		0.91
TOTAL REVENUE	766,939.6	94%	923,798.2	91%	1,212,374.8	92%	2,315,597.6	100%
OF WHICH INTERNALLY GENERATED REVENUE (IGR) IS	573,105.3	75%	690,697.2	75%	882,681.9	73%	1,546,142.9	67%
GRANTS	3,890.1		5,361.3		12,254.9		3,952.0	
TOTAL REVENUE & GRANTS	770,829.7		929,159.5		1,224,629.8		2,319,549.6	
SPENDING								
TRANSFERS (INCLUDING PENSION COSTS)	89,726.6	11%	90,302.4	10%	88,961.1	5%	116,812.1	5%
INTEREST PAYMENTS	73,683.6	9%	114,854.6	13%	127,638.1	8%	167,176.3	8%
MDA SPENDING	520,054.5	62%	548,917.0	60%	772,761.1	46%	997,604.6	46%
TOTAL CORE SPENDING	683,464.6	81%	754,073.9	83%	989,360.3	59%	1,281,593.1	60%
OTHER NON-OPERATING EXPENSES (DEPRECIATION, NET GAIN/LOSS ON FX TRANS., NET GAIN/LOSS ON ASSET DISPOSAL)	157,422.9	19%	157,259.4	17%	695,861.7	41%	869,712.5	0.4
TOTAL SPENDING	840,887.5	100%	911,333.3	100%	1,685,222.0	100%	2,151,305.6	100%
MDA SPENDING IS MADE UP OF								
PERSONNEL COSTS	133,497.1	16%	145,022.0	16%	178,318.9	11%	249,428.5	12%
PURCHASE OF GOODS & SERVICES	172,517.0	21%	173,350.4	19%	280,165.7	17%	424,251.5	20%
CAPITAL EXPENDITURE	214,040.4	25%	230,544.6	25%	314,276.5	19%	323,924.7	15%
TOTAL MDA SPENDING	520,054.5	62%	548,917.0	60%	772,761.1	46%	997,604.6	46%
BUDGET BALANCE	(70,057.8)		17,826.2		(460,592.2)		168,244.0	
BUDGET BALANCE AS % OF GDP	-0.26%		0.06%		-1.07%		0.31%	
FOREIGN LOANS- NEW BORROWINGS	-		19,235.8		6,480.0		166,103.2	
REPAYMENT DURING THE YEAR	18,342.4		19,682.0		32,630.4		74,440.7	
FOREIGN LOAN BALANCE	557,073.9		577,116.2		1,128,996.2		1,961,782.3	
DOMESTIC- NEW LOANS	280,604.6		298,787.8		372,003.6		50,000.0	
LOAN DUE (REPAID) WITHIN THE YEAR	143,963.8		166,761.1		150,772.7		178,099.7	
DOMESTIC LOAN BALANCE	605,275.8		755,381.5		974,220.3		842,465.7	
TOTAL LOAN BALANCE	1,162,349.6		1,332,497.8		2,103,216.5		2,804,247.9	

Lagos State Government's up to ₦200 Billion Series IV 10-year Fixed Rate Bond Due 2035

KEY RATIOS	2021	2022	2023	2024
REVENUE				
IGR AS % OF GDP	2%	2%	2%	3%
TAX REVENUE AS % OF GDP	2%	2%	2%	3%
TOTAL REVENUE AS % OF GDP	3%	3%	3%	4%
IGR AS % OF TOTAL REVENUE & GRANTS	74%	74%	72%	67%
TAX REVENUE AS % OF IGR	54%	54%	55%	47%
SPENDING				
SPENDING AS % OF GDP	2%	2%	2%	2%
NON-DISCRETIONARY SPENDING* AS % OF TAX REVENUE	48%	47%	39%	30%
CAPITAL EXPENDITURE AS % OF TOTAL SPENDING	25%	25%	19%	15%
PAYROLL AS % OF REVENUE	17%	16%	15%	11%
OTHER OVERHEADS AS A % OF REVENUE	22%	19%	23%	18%
BUDGET BALANCE/REVENUE	-9%	2%	-38%	7%
LEVERAGE				
BUDGET BALANCE (₦' MNS)	(70,057.8)	17,826.2	(460,592.2)	168,244.0
DEBT AS % OF NOMINAL GDP	4%	4%	5%	5%
INTEREST PAYMENTS AS % OF TOTAL REVENUE	10%	12%	11%	7%
PRINCIPAL DUE AS % OF REVENUE	23%	23%	25%	16%
FINANCIAL FLEXIBILITY				
DISCRETIONARY REVENUE** AS % OF TOTAL REVENUE	61%	62%	67%	77%
NET DEBT AS % OF FREE CASH FLOW ***	224%	214%	227%	131%
SHARE OF SAVINGS IN "EXCESS CRUDE ACCOUNT" (₦' MNS)				
NON-DISCRETIONARY SPENDING AS % OF TOTAL SPENDING	35%	38%	23%	25%
OUTSTANDING DEBT/REVENUE	152%	144%	173%	121%
DISCRETIONARY CASH FLOW DIVIDED BY INTEREST PAYMENT	6.4	5.0	6.4	10.7
* NON-DISCRETIONARY SPENDING IS MADE UP OF STATUTORY TRANSFERS, INTEREST PAYMENTS AND PERSONNEL COSTS				
** DISCRETIONARY REVENUE IS TOTAL REVENUE MINUS NON-DISCRETIONARY SPENDING				
*** FREE CASH FLOW IS DEFINED AS REVENUE MINUS NON-DISCRETIONARY SPENDING				

INDICATED

APPENDIX (DETAILED PROJECTS)

S/N	PROJECTS DESCRIPTION	ADJUSTED ALLOCATION OF NET BOND PROCEEDS (NGN)
MINISTRY OF THE ENVIRONMENT & WATER RESOURCES		
1	DREDGING OF IKOTA RIVER AND CONSTRUCTION OF KUSENLA PUMPING STATION AND ELEVATED DRAIN	12,987,877,107.12
		12,987,877,107.12
LAGOS WATER CORPORATION		
2	CONSTRUCTION OF ADIYAN PHASE II WATER TREATMENT PLANT PROJECT - COMPLETION ON ONSHORE COMPONENT	11,256,160,159.51
3	IMPROVEMENT OF 5 NOS EXISTING MINI WATERWORKS	1,731,716,947.62
		12,987,877,107.12
MINISTRY OF HOUSING		
4	COMPLETION OF LAGOSHOMS, SANGOTEDO	2,164,690,784.02
5	COMPLETION OF LAGOSHOMS, AJARA, BADAGRY	1,298,787,710.71
6	COMPLETION OF EPE HOUSING SCHEME	692,686,779.05
7	COMPLETION OF LAGOSHOMS, IBESHE	3,030,504,658.33
8	COMPLETION OF LAGOSHOMS, EGAN/IGANDO	2,117,640,697.07
		9,304,310,629.18
MINISTRY OF HEALTH		
9	CONSTRUCTION OF PSYCHIATRIC HOSPITAL, KETU -EJIRIN	4,329,292,369.04
10	CONSTRUCTION OF SHOMOLU GENERAL HOSPITAL	4,329,292,369.04
11	CONSTRUCTION OF OJO GENERAL HOSPITAL (ESTIMATED COST FOR EQUIPMENT AND FURNITURE)	4,329,292,369.04
12	CONSTRUCTION OF MAIN BUILDING OF NEW MASSEY CHILDREN HOSPITAL	4,329,292,369.04
		17,317,169,476.16
LAGOS METROPOLITAN AREA TRANSPORT AUTHORITY (LAMATA)		
13	THE CONTRACT FOR THE CONSTRUCTION OF LAGOS RAIL MASS TRANSIT (LRMT) BLUE LINE FROM MILE 2 TO OKOKOMIAKO (SECTION 2)	34,634,338,952.33
14	CONSTRUCTION OF LAGOS RAIL MASS TRANSIT (LRMT) RED LINE FROM OYINGBO TO NATIONAL THEATRE	21,646,461,845.21
		56,280,800,797.53
OFFICE OF INFRASTRUCTURE		
15	REHABILITATION/RECONSTRUCTION/UPGRADING OF ETI-OSA/LEKKI/EPE EXPRESSWAY (PHASES IIA & IIB) FROM ELEKO JUNCTION TO ABRAHAM ADESANYA (29.28Km) IN ETI-OSA AND IBEJU LOCAL GOVERNMENT AREAS.	12,987,877,107.12
16	REHABILITATION/UPGRADING OF IGBOGBO BOLA AHMED TINUBU ROAD	21,646,461,845.21
17	CONSTRUCTION OF OMU CREEK WITH BRIDGE (PHASE I)	21,646,461,845.21
18	LEKKI/EPE AIRPORT ROAD: PHASE 1 (Site clearance, acquisition of right of way, earthworks and land reclamation)	8,658,584,738.08
		64,939,385,535.62
MINISTRY OF INNOVATION SCIENCE AND TECHNOLOGY		
19	NEW LAGOS STATE DATA CENTRE BEHIND LASEPA BUILDING TIER 3 DATA CENTRE TO HOUSE AND MANAGE ALL LAGOS STATE DATA & SERVICES	2,164,646,184.52
		2,164,646,184.52
MINISTRY OF AGRICULTURE		
20	ESTABLISHMENT OF ADDITIONAL MID LEVEL AGRO PRODUCE HUBS AT IKORODU, LAGOS ISLAND AND FESTAC LAGOS STATE, WITH A POPULATION OF OVER 22 MILLION, IS A SIGNIFICANT PLAYER IN THE MID- AND UPSTREAM SEGMENTS OF THE AGRICULTURAL VALUE CHAIN. HOWEVER, THE STATE NEEDS TO RESTRUCTURE ITS FOOD SYSTEM THROUGH THE PROVISION OF MODERN INFRASTRUCTURE AND TECHNOLOGY IN LINE WITH GLOBAL TRENDS, AS ENCAPSULATED IN THE STATE'S FOOD SYSTEM TRANSFORMATION AGENDA AND AGRICULTURAL AND FOOD SYSTEMS ROAD MAP 2021- 2025.	12,987,877,107.12

Lagos State Government's up to ₦200 Billion Series IV 10-year Fixed Rate Bond Due 2035

S/N	PROJECTS DESCRIPTION	ADJUSTED ALLOCATION OF NET BOND PROCEEDS (NGN)
	THE GOAL IS TO DEVELOP A STATE-OF-THE-ART ICT-DRIVEN FOOD MARKET WHERE VARIOUS PLAYERS/ACTORS IN THE FOOD SYSTEM INTERACT FREELY THROUGH FOOD PACKAGING, PROCESSING, TRADING, AND LOGISTICS. THE MID-LEVEL AGRO PRODUCE HUB OCCUPIES THE SECOND TIER OF THE STATE'S THREE-TIER FOOD SYSTEM WHICH COMPRISES THE LAGOS CENTRAL FOOD SECURITY SYSTEM AND LOGISTIC HUB (LCFSSLH), THE MID-LEVEL AGRO PRODUCE HUB, AND LAST MILE FOOD MARKETS. THE STATE HAS ALREADY COMPLETED ONE HUB AT MUSHIN WHICH IS FULLY OPERATIONAL WHILE WORK IS GOING ON AT 3 OTHER LOCATIONS. THE PLAN IS TO ESTABLISH AT LEAST ONE IN EACH OF THE LOCAL GOVERNMENT AREA ACROSS THE STATE.	
		12,987,877,107.12
	MINISTRY OF WATERFRONT INFRASTRUCTURE DEVELOPMENT	
21	CONSTRUCTION OF FLOATING JETTY, SHORELINE PROTECTION, WAITING SHELTER AT OWORONSHOKI.	3,073,958,314.83
22	CONVERSION OF AND CHANGE IN USE OF THE BARIGA WATERFRONT JETTY TERMINAL, ILAJE TO A MODERN FISH MARKET	646,720,469.60
23	CHANNELISATION OF WATERWAYS ROUTES AND PROVISION OF NAVIGATION BUOYS FROM AGBOYI-KETU LINKING IKORODU CHANNEL.	1,347,956,854.00
24	CONSTRUCTION OF FLOATING JETTY, SHORELINE PROTECTION, WAITING SHELTER AT ALAIYABIAGBA.	1,425,302,915.14
		6,493,938,553.56

RATING DEFINITIONS

Aaa	Highest quality debt issue with minimal credit risk; strongest capacity to pay returns and principal on local currency debt in a timely manner.
Aa	High quality debt issue with very low credit risk; very strong capacity to pay returns and principal on local currency debt in a timely manner.
A	Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal on local currency debt in a timely manner.
Bbb	Satisfactory quality with moderate credit risk; adequate capacity to pay returns and principal on local currency debt in a timely manner.
Bb	Below average quality with moderate to high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
B	Weak quality with high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
C	Very weak capacity to pay returns and principal. Debt instrument with very high credit risk.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect a 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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INDICATIVE RATING REPORT



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