Planet Rating
THE GLOBAL MICROFINANCE RATING AGENCY

Lift Above Poverty Organization (LAPO), Nigeria

Founded in 1987 by Mr. Godwin E. Ehigiamusoe, Lift Above Poverty Organization (LAPO) was registered in April 1993 with the Corporate Affairs Commission (CAC) of Nigeria as a private company limited by guarantee under the 1990 Companies & Allied Matters Act. As one of the largest MFI of Nigeria, LAPO operates in 19 provinces through a network of 9 regional offices and 207 branches serving clients mostly located in urban and semi-urban areas. As of September 2009, LAPO had 217,662 borrowers for a total outstanding loan portfolio of 40.2 M USD and 274,702 savers for a total outstanding deposit portfolio of 30.3 M USD (50.1% as cash collateral and 49.9% as voluntary savings).

GIRAFE Rating

Rating

C+

Outlook

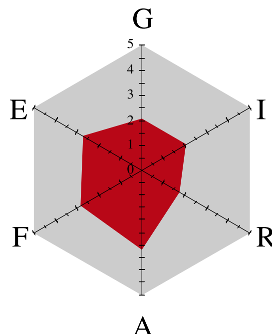
Uncertain

Date of the rating

December 2009

Valid until November 2010

Rating per evaluation area



Governance – **I**nformation – **R**isk – **A**ctivities – **F**unding – **E**fficiency

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Rating highlights

- The current governance structure does not include all the needed checks and balances, due to insufficient BoD oversight and persistence of potential conflicts of interests that are not properly managed. Changes in BoD structure are planned.
- Before getting official licensing and without building the proper systems to safely mobilize deposits, LAPO has increasingly funded its loan portfolio growth through cash collateral and voluntary savings. LAPO nevertheless received an Approval-in-Principal from the Central Bank to apply for a State Microfinance Bank license, which it did in Jan. 2010. The approval process is expected to last several months.
- Operational procedures have been strengthened and improved the level of risk management. However, processes do not ensure sufficient data reliability and the institutional set-up does not guarantee the independence of Internal Audit. Conflicts of interests also hamper the independence of external auditors.
- With exponential loan portfolio growth, satisfactory portfolio quality and very high profitability (ROA of 11.1% as of Sep. 2009), LAPO stands out as the leading MFI in Nigeria. This profitability has been achieved through very high interest rates and despite high operating costs resulting from low staff productivity. LAPO successfully attracted international partners and funders, but needs to improve transparency in reporting to avoid refinancing risk and to sustain relationships.

Outlook

- LAPO has not yet put all the systems in place to ensure the sufficient level of transparency and balanced decision-making necessary to detect risks arising from the quick growth of an unregulated institution.

Performance indicators

USD	Dec.2005	Dec.2006	Dec.2007	Dec.2008	Sep.2009
Assets	5,263,438	11,351,340	25,182,811	44,923,559	64,944,796
Loan portfolio	3,335,857	7,663,936	15,120,333	27,794,108	40,235,053
Active borrowers	43,699	84,006	129,269	187,361	217,662
Average outst. Loan /client	76	91	117	139	170
Outstanding deposits	1,376,655	3,509,687	7,740,796	17,674,439	30,338,479
Active savers	48,735	88,430	134,264	245,144	274,702
Staff *	~292	~500	1,018	1,639	2,003
ROE	25.8%	33.6%	38.1%	67.8%	50.7%
ROA (without donations) **	24.5%	12.1%	9.2%	14.5%	11.1%
Liabilities / Equity	1.38x	2.67x	3.17x	2.78x	2.91x
Portfolio yield	68.2%	68.3%	65.9%	69.9%	73.6%
Operating expense ratio	44.5%	42.9%	40.6%	41.3%	45.0%
Funding expense ratio **	2.2%	6.3%	8.6%	11.2%	13.0%
Loan Loss Prov. Exp. Ratio	1.3%	1.8%	2.3%	1.2%	2.3%
PAR 31-365 ***	1.1%	0.6%	1.5%	1.4%	1.8%
Write-off ratio	0.2%	0.0%	0.8%	0.2%	0.2%

Note: * Staff figures are estimates for 2005 and 2006; ** ROA and the funding expense ratio are adjusted for back-to-back loans; *** PAR figures are subject to reserve due to insufficient data reliability.

Microfinance sector

Recent studies estimate that 74% of the Nigerians have never been banked and that 25% use informal financial services. Informal loans and savings services have existed in Nigeria for several decades, notably with *Esusu* (Rotating Savings and Credit Associations and Self Help Groups). After the failure of publicly-financed micro/rural credit programs, formal microfinance has started with the set-up of specialized NGOs and Community Banks.[1] NGOs started provided microcredit services in the late 1980s with the strong support of organizations such as the Ford Foundation. With the exception of a few leading NGOs (COWAN, LAPO, SEAP, DEC and FADU), other NGOS have not reached a sustainable scale. Community Banks (CBs), first licensed by the National Board for Community Banks, started providing services in 1992. Focused on taking deposits and often facing issues of poor loan portfolio quality, many of them failed in the late 1990s notably due to their small scale, weak capital base and governance issues. Although CBs were created with the aim of extending financial services to the poor population, many were reportedly created by opportunism by investors not able to provide the initial capital required for the banking license.

In 2005, the Central bank of Nigeria (CBN) designed the National Microfinance Policy Regulatory and Supervisory Framework for Microfinance Banks (MFBs) applicable to historic players and new entrants, who may apply to two different MFB license: either a Unit license to operate within a Local Government Area (LGA) and subject to a minimum capital requirement of 20 M NGN (165 K USD), or a State license, to operate in a State and subject to a minimum capital requirement of 1 B NGN (8.4 M USD). MFBs are privately owned, deposit-taking institutions with a narrow scope of banking activities (deposit, credit and payments services). Prudential requirements are sufficiently conservative and cover the main risks.[2] Since early 2008, a deposit insurance fund covers depositors for amounts up to 100,000 NGN (841 USD). All community Banks and part of NGOs (those exceeding 2,000 clients and 20 M NGN of assets) had to apply for an MFB license before Dec. 2007. As of October 2009, the rapidly growing MFB sector already comprised 900 players,[3] (including eight State MFBs), made of legacy CBs and new entrants (set up by individuals, foreign institutions, and Nigerian banks) while the leading NGOs are still in the application process. Even though the largest NGOs have been less collecting savings than disbursing loans and have shown better sustainability than CBs, they ought to be regulated given their important size and increased mobilization of savings.

As of June 2008, MFBs totaled 283 M USD of loan portfolio, 838 M USD of assets, and 437 M USD of deposits.[4] As of December 2008, the leading NGOs were serving 664,909 borrowers for a portfolio of 70.5 M USD.[5] This high growth since 2003 (total portfolio reached only 16 M NGN i.e. 111 K USD) was notably funded by savings (for CBs) as well as grants (e.g. from UNDP, Ford Foundation, USAID) and retained earnings (for NGOs). In comparison, commercial funding has been limited due to the overall lack of transparency but could develop if the sector is successfully regulated. MFIs may have access to un-hedged foreign currency funding if they secured before the investment inflow a Certificate of Capital Importation from the Money Market Association (mandated by the CBN). As for local funding, the CBN launched the Micro Credit Fund in February 2008 to support the development of microfinance. Given its huge size (expected to reach 100 B NGN i.e. 841 M USD at the end of 2010 with the contributions of banks), this subsidized fund poses concerns, as it does not encourage savings mobilization, could distort the market, and be perceived as politically motivated.

The regulation of the microfinance sector by the CBN is a positive trend but face several important challenges. The low capital requirements for Unit licenses attracted new investors with uneven management skills and motivation and led to multiplication of inadequately capitalized Unit MFBs and signs of poor portfolio quality. Several MFBs have nevertheless been created or supported by experienced networks of microfinance organization, investors and TA providers (ACCION International, Access Holding, K-REP, etc.), which is expected to foster good practices in the sector. The CBN’s Other Financial Institution Department (OFID) has started supervision but is presently unable to supervise all MFBs: on-site, the 170 examiners can reportedly only inspect 400 MFBs in a year; off-site, the monthly reporting needs to be modernized. The OFID therefore recently focused supervision on the largest players. In 2009, five MFBs, including the largest State MFB (Integrated MFB) failed and are currently under OFID investigation. Despite a large untapped microfinance market in Nigeria (estimated at 40 million people), the concentration of MFBs in the

[1] According to a survey conducted in 2007 by the Cooperative Department of the Ministry of Agriculture, there are also 27,000 Thrift Credit and Investment Societies registered as cooperatives. No other data is available. In addition, among six Development Financial Institutions, only the Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB) has been serving micro-entrepreneurs but experienced poor portfolio quality.

[2] Prudential requirements include CAR>10%, Cash to Deposit Ratio>20%, Connected lending<5%, Portfolio concentration on one borrower<1% (or <5% for a group) of unimpaired shareholders funds, strict policies for establishing reserves and for paying out dividends.

[3] As of June 2008, the CBN had issued 724 final approval (including for 117 new entrants), and 94 Approval in Principal.

[4] Source: CBN 2008 interim report.

[5] Source: MixMarket data as of December 2008, except for COWAN (2007)

southern states and in urban areas (147 are located in the Lagos state) could result in saturation. As the CBN's credit bureau is only used by banks for loans over 1 M NGN, cases of cross-indebtedness might quickly increase in the microfinance sector. If a system is implemented for MFBs, challenges related to the lack of identification system will have to be addressed. The 2009 CGAP study[6] provided recommendations to raise capital requirements for unit license, set-up a credit bureau for MFBs, foster consumer protection, ease operational and geographic restrictions (currently hampering expansion across LGAs or states), clarify the regulation on interest rates' cap and promote capacity building rather than explosive growth. In 2009, the CBN merged the two previous microfinance associations under the National Association of Microfinance Banks (NAMB) to better represent the new MFB sector.

Political & economic environment

Constraint on oil production

In 2009, the economy proved more resilient in Nigeria than in any other African oil country thanks to a dynamic farm sector and steady public spending. A growth rebound is expected in 2010 spurred by rising hydrocarbon prices. But oil production is nonetheless likely to remain below two million barrels a day due to the persistent tensions in the Delta region and the lagging pace of the Nigerian National Petroleum Company's investments in maintenance and exploration. The economy is thus expected to be driven by public sector investment in transport and energy infrastructure and by private investment that is likely to be dynamic in the telecommunications and banking sectors. Inflation, which surged in 2009 due to the failure of commercial banks to exercise restraint, is expected to ease thanks to greater efforts on exchange rate sterilization.

Unsustainable debt

The discharge of debt with Paris and London Club creditors in 2006-07 markedly strengthened Nigeria's financial position. The limited risk of default in the medium term was borne out by the debt-sustainability analysis conducted by the IMF in September 2009. The foreign exchange reserves accumulated in the upside phase of the oil cycle, representing 40% of GDP (oil fund included), have thus provided enough of a cushion to maintain public spending in 2009 and finance a banking-system recapitalization representing 4% of GDP without unduly weakening the overall fiscal position. But the crisis underscored the extreme volatility in the level of foreign exchange reserves, which would thus not be able to cushion a permanent growth shock resulting, for example, from a durable contraction of oil production. The regularity and scale of deposits to the oil fund will consequently bear watching. And management of the Fund has sparked disagreement between a more prudent federal government and the federated states seeking to take advantage of the oil wealth. In this context Nigeria's commitment to rely solely on subsidized loans from multilateral institutions is important.

A banking sector undergoing reconsolidation

The audit conducted in 2009 by the Central Bank of Nigeria revealed the severity of the crisis affecting the Nigerian banking system due notably to inappropriate underwriting standards and deficient governance. The $5-billion recapitalization of the banking sector undertaken by the central bank in conjunction with the removal of top management of the main banks made it possible to avert a systemic crisis. The set up of a defeasance structure is expected to accelerate the process of cleaning up bank balance sheets, especially by shoring up the confidence of prospective foreign investors.

A critical risk factor: the business environment

Nigeria's political and institutional shortcomings constitute a critical risk factor. Efforts on combating corruption have stalled under the presidency of Umar Yar'Adua who took office in 2007. With both repression and negotiation failing to pacify the Niger delta oil region, the instability there could intensify in the run-up to elections in 2011.

(USD millions)	2006	2007	2008(e)	2009(f)
Economic growth (%)	6.2	5.9	5.5	3.4
Inflation (%)	8.6	6.5	15.1	9.7
Public sector balance (%GDP)	7.3	0.4	0.7	-5.4
Exports	59.1	64.7	77.2	44.2
Imports	31.1	38.6	47.6	33.8
Trade balance	28	26.1	29.6	10.4
Current account balance (%GDP)	8.9	2.5	1.9	-4.4
Foreign debt (%GDP)	5.1	4.5	2.4	4
Debt service (%G&S exports)	10.4	1.5	0.8	1.2
Foreign currency reserves (in months of imports)	9.3	8.6	8.4	10.4

Source: COFACE's Country Risk Rating Guidebook 2009. (e) estimates (f) forecasts. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

COFACE Country Rating: D – A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behavior. Corporate default probability is very high.

[6] Access to Finance in Nigeria: Microfinance, Branchless Banking and SME Finance.

Business Climate Rating: D – The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The legal system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Intercompany transactions can thus be very difficult to manage in the highly risky environments rated D.

Institutional presentation

Legal form, supervision and audit

Lift Above Poverty Organization (LAPO) was founded in 1987 by its current CEO and registered in April 1993 with the Corporate Affairs Commission (CAC) of Nigeria as a private company limited by guarantee under the 1990 Companies & Allied Matters Act. In 2008, LAPO amended its Memorandum and Articles of Association to be legally authorized to borrow from international investors. LAPO is presently not regulated. LAPO has been audited since inception by a local audit company, Ejoh Moju & Co (Chartered Accountants).[7] Financial Statements have been certified without reserve for the last three years. LAPO's financial year begins on January 1st and ends on December 31st. LAPO reportedly plans to change its external auditors once transformed into an MFB.

LAPO collects savings from its members but is not allowed to do so under this legal status. LAPO is therefore required to transform into a Microfinance Bank (MFB) according to the microfinance policy (cf. Microfinance Sector section[8]). LAPO plans to obtain a State MFB license in 2010 from the Central Bank of Nigeria (CBN). In November 2006, LAPO received an Approval-In-Principle (AIP) from the CBN to apply for a State MFB license. This AIP expired after 6 months but was renewed later on. The AIP is subject to certain conditions, including the provision of 1 B NGN (8.4 M USD) of share capital, compared to 1.5 B NGN (12.8 M USD) currently held in retained earnings.[9] In order to use the accumulated surplus from its operations to comply with this minimal capital requirement, LAPO postponed its transformation to 2010 and had its financial statements audited as of September 2009 by Ejoh Moju & Co.

[7] Mr. Andrew Ejoh, head of Ejoh Mojuh & Co is the brother of Mr. Felix Ejoh, BOD member of LAPO.

[8] Refer to section of the Nigerian Microfinance Sector.

[9] Among other conditions, LAPO was required to amend its draft Memorandum of Association, submit CVs of the management team and BOD members and provide confirmation that the MIS is compatible with the future CBN e-FASS requirements.

Ownership

Registered as a company limited by guarantee, LAPO has no owners but has five guarantors who subscribed to its Memorandum and Articles of Association and are liable up to 10,000 NGN (84 USD) in case of winding up. No dividend is distributed. LAPO is governed by a Board of Directors of seven members, re-elected every two years by the General Assembly. The CEO of LAPO is the only original subscriber still in the BOD. The General Assembly is made of clients (90 as of July 2009) elected during the Branch Council Meetings. Although the Memorandum of Association states that BOD members are to be reelected every year renewed every two years (three years for the chairman), all BOD members have been in the BOD for at least four years. BOD meetings are held three times a year and are complemented by the Audit Committee, General Purpose and Finance Committee, and Credit Committee (the latter dealing with the major risks faced by the institution).

The chairman of the BOD, Dr. Phillip O. Emokpae is the chairman (and CEO) of a marketing & advertising firm based in Lagos, Pertcom Limited, and five other Nigerian companies. After working for Unilever as a marketing manager, Dr. Emokpae set up his own advertising group in 2000. He holds Master degrees in Economics and Marketing and a Ph.d. in Business Administration and Strategy.

LAPO Group

In addition to its microfinance activities, LAPO counts four sister organizations and three subsidiaries (not included in the scope of the rating). LAPO does not produce consolidated financial statements for the group. As of September 2009, LAPO's outstanding investments in affiliated companies amounted to 397 M NGN (or 3.3 M USD and 5.1% of total assets) split in loans (49%), equity investments (39%) and deposits (12%).

- A 87 M NGN (729 K USD) equity investment in LAPO Sierra Leone, set-up is 2008, and whose BOD is chaired by the CEO of LAPO Nigeria (the latter holding as nominee shareholder the shares in trust for LAPO);
- A 86 M NGN (722 K USD) loan to LAPO Agricultural and Rural Development Initiative (LARDI), an entity providing livelihood services in rural areas;
- A 58 M NGN (489 K USD) loan to and 20 M NGN (167 K USD) equity investment in LAPO Micro Investment Support Services (MISS) promoting investment and acquisition of income generating asset. MISS is managed by the wife of LAPO's CEO;
- A 41 M NGN (343 K USD) loan to LAPO Development Foundation comprising LAPO Development Centre (LADEC), LAPO Health, and other departments working on Research, Documentation and Advocacy;
- A 34 M NGN (282 K USD) equity investment and 49 M NGN (409 K USD) deposit in Lift Microfinance

Bank Ltd., owned at 85% by LAPO, and providing savings and credit services to SMEs;
- A 16 M NGN (131 K USD) equity investment in LAPO Capital Limited that disburse credit facilities used by clients to purchase shares;
- A 8 M NGN (70 K USD) loan to LAPO Development Services Limited, providing staff development services and technical assistance to MFIs.

When transforming into an MFB, LAPO plans to transfer its microfinance assets to LAPO Microfinance Bank Ltd., registered with the CBN in 2007. LAPO MFB Ltd. will be firstly solely owned by LAPO.

Donations

LAPO received approximately 128 M NGN (1 M USD) in donations,[10] mostly from Ford Foundation (13 M NGN i.e. 109 K USD), Evangelischer Entwicklungsdienst Germany (63 M NGN i.e. 530 K USD) and UNDP (33 M NGN i.e. 278 K USD) notably within the Microstart program. Since 2003, Grameen Foundation USA provided Technical Assistance financed by USAID along with grants and soft loans. In 2008, a 61 M NGN loan granted by the Grameen Foundation, first accounted by mistake in 2005 as donated equity, was rightly reclassified as a loan.

Funding composition

As of September 2009, equity made up 21% of LAPO's funding structure, deposits 47% (73% as cash collateral and 27% as voluntary deposits), and debt 29% (65% maturing in the short term and 35% in the long term, including two subordinated debts). Drawn from a diversified pool of national (50%) and international sources (50%), its debt reached 2.2 B NGN (19 M USD), offered mostly on commercial terms (92%). Debt is sourced in NGN (66%), USD (23%) and EUR (11%) in fixed (88%) and variable rates (12%). 30% of international funds are deposited in local bank accounts to get NGN funding from local banks thanks to back-to-back hedging mechanisms. In addition, Grameen Foundation USA has provided guarantees to local banks who in turn lend in local currency to LAPO.

Management team

LAPO is headed by its founder, Mr. Godwin E. Ehigiamusoe. In order to prepare for the transformation, LAPO recently reorganized its management team in three divisions headed by three top-managers: 1) a General Manager for Operations and Information Technology who supervises the department heads in charge of Monitoring and Inspections, Client Relationship, Operations, MIS, and Special Projects; 2) a General Manager for Corporate Affairs and Risk Management[11] who supervises the department heads in charge of Human Resources, Planning and Productivity Management, General Services, and Training and Development; 3) a Finance Manager, who supervises the department heads in charge of Accounting, Budget Control and Creditor Relationships. The CEO directly supervises the Strategy and Business Development unit.

- Mr. Ehigiamusoe has been working in the microfinance industry for the last thirty years, first as a cooperative officer, before founding LAPO. He notably holds a Master of Science in Development Studies (University of Benin City) and a Certificate from the Financial Institution Program for Enterprise Development (Harvard University, 2005).

Organization

LAPO's head office (HO) in Benin City centralizes most management staff. Regional offices (introduced in 2007) comprise a Regional Manager (RM), at least one regional administrative officer (in charge of accounting and HR), a team of regional internal auditors, a regional MIS Manager and support staff. They may supervise from 8 to 37 branches depending on the region's size. Area Managers supervise from 3 to 6 branches. Each branch is composed of a Branch Manager (BM), one MIS data entry staff (since 2007), and four to five Credit Officers (COs). With a target caseload of 300 clients, COs take charge of a maximum of 20 groups, comprising 10 to 30 clients each. COs handle the bulk of the credit processes. Upon their recommendation, the BM approves all loan decisions and issues the corresponding disbursement checks. BMs keep the accounting records. MIS data entry officers process information into the MIS and AMs, among other monitoring duties, check that the data is correctly entered. With AM oversight, BMs disburse loans (and additional cash in case of savings withdrawals) on the branch premises. According to the policy, COs have to deposit cash in the bank (and bring the receipt of deposit to the branch the same day) after collecting loan repayments and savings in the field.

LAPO is using M2, an Access-Based integrated software system, for loan and savings portfolio-tracking, as well as for accounting at the field level. Originally using a manual MIS at the branch level, LAPO started implementing M2 in 2004. However, unsatisfied by M2,[12] LAPO kept using and

[10] The detailed split of donations was not provided to Planet Rating during the rating mission.

[11] This department is headed by Moses Ehigiamusoe (brother of the CEO), who started as Branch Manager in 1994 and grew through the ranks like other managers.

[12] In 2008, data reported by M2 and the manual system were not matching. Moreover, at the end of 2008, LAPO closed its accounts before year end and the vacation period. Installments due during the vacations but not repaid before were considered by M2 as late, leading to a PAR 1 of 6.3%. LAPO chose to use and report the PAR 30 from its manual system (1.4%) where installments due during the vacations were purposely ignored.

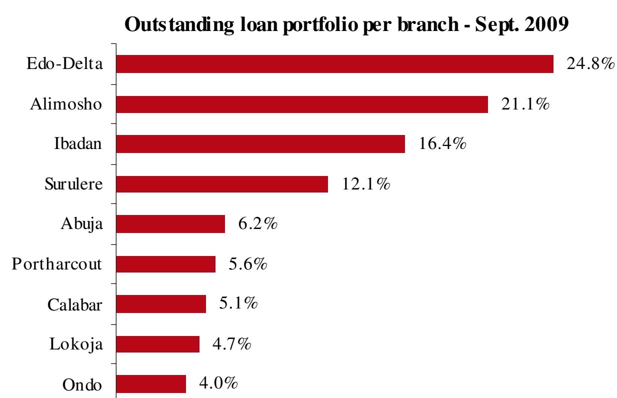
reporting data from its manual system until January 2009 when it managed to fully migrate to the software. Since then, LAPO switched to M2 for consolidation but still uses part of its manual MIS to perform data entry checks.

The current version of M2 used by LAPO does not perform automatic data consolidation. The process for consolidation starts by the Branch MIS officer creating a compact disc (CD) of all monthly transaction reports and physically handing it over to the AM. Area and Regional CDs are then passed respectively to the regional MIS supervisor and to head office. At the HO, MIS staff downloads the portfolio data to an in-house developed SQL system and the accounting data to Excel. The portfolio data is consolidated in the SQL system and the accounting data is given to the Finance department to consolidate with their head office transactions, which they accumulate in FinTrack. Due to inconsistencies in the consolidated information, LAPO's IT department performs reconciliations between branch and consolidated data. At the time of the rating, consolidated data as of September 2009 was still in the process of being reconciled with branch data. As for reconciliations with banks statements, they are to be performed monthly at the branch and HO level according to the policy.

In April 2007, LAPO contracted Fern to customize M2 to LAPO's needs and provide assistance for its migration in Q1 2010 to FOCUS, an SQL-based version of M2.

Market penetration

Headquartered in Benin City, LAPO maintained a network of 215 branches, 207 of which are operational (Sept. 2009), serving clients mostly in urban and semi-urban areas across 19 states of Nigeria (from its origins in the Edo and Delta states). With almost 46% of the outstanding loan portfolio, the Edo-delta and Alimosho regions account for the large bulk of LAPO's reach. Future expansion focuses mainly on regions in the North-West, North-East and South-East parts of the country. With COWAN, another NGO, LAPO is one of the two largest microfinance providers in Nigeria.



Products and services

LAPO offers group and individual loans mostly to women, according to a methodology designed according to the Grameen and ASA models successively. Collateral is in the form of group solidarity or by an individual guarantor within the group. Since the end of October 2009, all clients pay a 2.5% monthly flat interest rate (from 3% before), disbursement and administration fees, and a 2% risk premium (covering clients in case of fire or death).[13] Earlier in 2009 before that change of pricing, LAPO increased the amount of cash collateral requested as compulsory savings prior to loan disbursement, from 10% to 20% of the loan amount (upfront) and from 50 to 100 NGN at each installment. Compulsory savings earn interest at a rate of 4% per annum (from 6% before).The decrease in interest rates coupled with the increase in the level of cash collateral, resulted in an increase of the average Effective Interest Rate (EIR) for the clients to 125.9% from 114.3% before.[14]

- As LAPO's core loan product, the Regular Loan, designed to finance working capital needs, comprised 89% of the total loan portfolio as of September 2009 (including 3% funded through Kiva). After a 4-6 weeks training, this group loan is disbursed progressively over the following weeks to members of the group (up to 30). Amounts range from 20,000 NGN (126 USD) to 80,000 NGN (673 USD) and average 32,708 NGN (275 USD). After their second cycle, borrowers may use only one member of the group as guarantor.[15] The loan is repaid weekly over eight months with two weeks grace periods.
- Started in 2006, the Farming Loan is a group loan that comprised 4.7% of the total loan portfolio as of September 2009. Aiming at improving the productivity of rural borrowers growing food crops, the loan is disbursed in two installments (60% at the start of the farming season and 40% at the wedding or tending period) and mostly repaid at the end of loan term. Amounts have the same range as for Regular Loans but average 40,464 NGN (340 USD) and are repaid monthly.
- Started in 2007, the Enterprise Development Loan Scheme (EDLS) comprises 4.5% of the loan portfolio. Targeting formal micro-enterprise owners in urban and semi-urban areas, the EDLS is repaid monthly over a maximum of 12 months and ranges from 50,000 to 500,000 NGN (421 to 4,207 USD), with an average of 200,000 NGN (1,683 USD).
- Started in 2006, the Festival Loan comprises 1.2% of the total loan portfolio. Designed to finance the needs of

[13] The 2% are distributed between LAPO (1%) and MISS (1%), an affiliated company (refer to the section on LAPO group) that provides this service to LAPO clients.

[14] The EIR without the cost of cash collateral decreased to 73.5% from 85.1% before. The EIR without the risk premium fee and the cost of cash collateral decreased to 65.7% from 78.8% before.

[15] In that case, each borrower must commit one financially viable guarantor within the group and adopt a group resolution.

LAPO's clients during holiday periods (Christmas and Eid), Festival Loans range from 30,000 to 50,000 NGN (252 to 421 USD) and are repaid in three monthly installments after a one month grace period.

- Started in 2008, the Asset Loan comprises only 0.4% of the total loan portfolio and was designed to finance the acquisition of income-generating assets for good clients. Asset Loans range from 50,000 to 120,000 NGN (421 to 1,010 USD) and are repaid over 11 months after a one month grace period. Two guarantors are required.
- The Nedoghama Loan (0.01% of the portfolio) was designed in partnership with Nedoghama Inc. in 2007.

LAPO also offers voluntary savings, which may be withdrawn after a 48-hour notice during group meetings at the branch. Voluntary savings accounts are mostly individual, either for ordinary purposes or for Christmas and Eid (***Festival Savings***). In some branches, LAPO stopped group savings accounts (***Union Purse***) which allowed a group to save collectively as well.

Networks

LAPO is a member of the Microfinance Network, the International Network of Alternative Financial Institutions (INAFI), and Africa Microfinance Transparency (AMT).

Governance

Governance and decision making **is rated "c"**

Decision making

Although key decision-makers share the vision and main objectives of LAPO, a stronger oversight of management by the BOD is required to allow sufficient checks and balances in decision-making. BOD members have diversified backgrounds (in banking, development, business) but not enough technical skills to appropriately monitor the activities of an MFI of LAPO's size. Most BOD members were nominated by the CEO, who has voting rights and the strongest experience in microfinance on the BOD. This means that the independence of thinking by BOD members on key issues remains limited. BOD minutes, though detailed, are not sufficiently formalized (e.g. decisions stated with vote counts and follow-up on their implementation) to ensure sufficient accountability.

Current governing bodies are not functioning properly and need to be reinforced given the growing size and complexity of LAPO. Their roles are only superficially defined in the Memorandum of Association of the company and BOD members have been re-elected more times than permitted by their authorized mandate by members of the General Assembly. The latter are clients, who only provide feedbacks on their satisfaction with LAPO's services rather than oversight. In addition, more frequent BOD meetings (currently three times a year) are required. In spite of chairing the three sub-committees, BOD members are not well aware of all the key-challenges. The information received prior to BOD meetings ought to be more risk-oriented, compared to benchmarks, and more frequently compared to budget. As LAPO plans to transform in 2010, some of these weaknesses might be addressed in the future.

LAPO has not put systems in place yet to limit existing conflicts of interests. One of the BOD members is related to the external auditor, creating a risk of lack of transparency. Family relations within the management team create another conflict of interests that have not been mitigated by appropriate policies.

LAPO does not have the appropriate legal structure to provide financial services. Registered as a private company limited by guarantee, LAPO is not formally authorized to disburse credit or collect savings from its members. Although illegal, this has been so far tolerated by the CBN who delivered to LAPO an Approval-in-Principal stating the conditions that the institution needs to fulfill before applying for a State Microfinance Bank license (refer to 'Planning").

Planning

LAPO identified the main challenges linked to continued growth and transformation but needs to articulate all projects together and significantly improve its financial projections. LAPO's plan to get a State MFB license in January 2010 is not realistic given that requirements stated in the 2006 Approval-in-Principle of the Central Bank have not yet been met as of December 2009[16] and no related formal action plan was prepared to ensure that they will be in the very near future. The following steps (CBN's on-desk review[17] and on-site visit in addition to the governor's approval) could take several months. Moreover, the CBN has not clearly defined conditions to grant a State MFB license to NGOs like LAPO.[18] LAPO's good reputation in Nigeria and relationships with the Central Bank is however expected to ease the process.

The 2009-2013 Business Plan (BP) has identified longer term projects to help ensure a successful transformation into an MFB. However, these projects ought to be much more

[16] Requirements include amending the Memorandum and Article of Associations, securing the new BOD members, and confirming that the MIS can provide the required data for the CBN e-FASS reporting format.

[17] The OFID received LAPO's application for the final license at the end of January 2010.

[18] The level of capital requirement for MFBs operating in several states like LAPO (19) has not been formally defined yet (it is 1 B NGN to operate in one state). The CBN has nevertheless indicated its intentions to adapt the framework to existing MFIs such as LAPO.

time-bound and prioritized to ensure that deadlines can be met. Built with the strong support of a consultant, the BP does include a comprehensive analysis of internal systems and of the environment, complemented by a SWOT analysis. In April 2009, LAPO also received useful inputs from a Grameen Foundation-sponsored consultant on projects to be implemented to properly operate as an MFB. Similarly, the latter still need to be prioritized and time-bound.

Financial projections remain weak with several inconsistencies in the 2009 budget and three year planning. In addition, LAPO lacks scenario planning to be able to adjust its targets if needed during the year (e.g. in case of delayed transformation). In August 2009, LAPO indeed had to significantly review its objectives and budget for the year (e.g. disbursement 14 B NGN vs. 18 B NGN).

The annual budget is detailed by branch but has been only recently formally monitored at the head office and only on a quarterly basis (from monthly before). Branches and regions mostly monitor their expenses and operational targets, although some of them have been less active due to uneven skills and buy-in. The planning process involves field staff but remains mostly top to down.

Management team

LAPO's Management Team (MT) has a satisfactory track record in developing and managing LAPO. However, as the institution grew exponentially and plans to transform into an MFB, the MT needs to be strengthened in various areas, including financial reporting, ALM, financial planning, IT and Risk Management. LAPO benefited from the inputs of various consultants or partners (e.g. in IT, HRM, transformation, business planning) but has not yet managed to internalize most of these skills. Most positions where LAPO needs to improve have been filled by managers who grew inside LAPO, but have limited external experience. LAPO has nevertheless managed to develop a sufficiently strong Operations department to oversee credit activities. In addition, LAPO has taken steps to hire a top-manager to reinforce its Finance department.[19] Currently located in Benin City, LAPO plans to open an annex to its head office in Lagos. This might help LAPO attract local talents and secure more training opportunities.

LAPO has made valuable efforts to help grow its top-management through trainings abroad, their active participation to BOD committees, and frequent meetings of the executive management committee. The two top-managers stemming from the operations have been identified as potential members of the BOD of LAPO MFB Ltd.[20] However, the key-person risk on the CEO remains. Despite the participation of top-managers to a Management Strategy Group, the CEO still dominates strategic thinking. Other management meetings are held frequently (weekly, even including in the CEO's absence) and are well formalized into minutes, allowing collective decision-making on key operational issues.

Most middle-managers stem from the field level thanks to a clear career path at LAPO and continuous efforts to identify talent. Although regional structures were created two years ago, regional managers still need to grow in their position, notably in terms of planning, marketing, and risk management.

Human resource management

HR management is centralized at the head office, led by the HR Manager. Accountant/HR Managers are in each regional office, although they are mainly responsible for administrative duties. Record-keeping and communication of new policies to staff are not optimal and need to be improved to adequately manage the planned growth.

Most staff is promoted from within, but new staff take a comprehensive written exam and interviews before a panel of senior employees. MIS staff also complete a computer test. Three guarantors, providing a fidelity bond, are mandatory for all employees to provide security in case of fraud. Guarantors and credentials are only checked after staff is hired, although changes are planned to allow for a long 6-month pre-hiring background check. Orientation for all new staff begins with the same two-week introductory training, followed by two to four weeks of practical training. Staff is sufficiently re-trained upon promotion. Interim training occurs, but not systematically nor based on individual staff training needs. Appraisals, planned semi-annually to identify staff for promotion, are rarely filed in staff records and are not formally used to assess training needs.

Staff turnover is low for 2009 (estimated at 7.2%) and staff morale is adequate. LAPO indeed designed a very competitive salary scale for management staff to prevent poaching from Microfinance Banks. Despite significantly less competitive salaries, junior and field staff morale remains adequate, although minor frauds are increasing.

▪ Information

Information **is rated "c"**

LAPO's current access-based MIS system, M2, is not adapted to LAPO's size, resulting in a lack of data reliability, inefficiencies and data security issues. LAPO nevertheless plans to migrate to the SQL-based FOCUS in

[19] LAPO selected several profiles and conducted interviews of foreign staff abroad.

[20] This nevertheless creates additional conflict of interests.

Q1 2010. Fern is assisting LAPO in this process and providing adequate user support, having invited the MIS manager to Ireland twice for on-site training since 2009.

Although LAPO finalized the migration to an automated MIS in June 2009, the latter still shows important inefficiencies. As M2 does not consolidate data automatically, the data consolidation process is costly, prone to mistakes, and therefore resulting in data gaps that LAPO is still reconciling. In addition, despite the compatibility of M2 and Fintrack, the finance department continues to use Excel to consolidate branch and HO financial data. At the branch level, data entry checks between M2 and remnants of the manual MIS, though aiding accuracy, are time-consuming. Data entry officers have been sufficiently well trained but do not have a full-day's workload. To combat this, LAPO is currently piloting a different structure for data processing.[21]

The capacity of LAPO to manage its MIS, although progressively strengthened over the years, remains insufficient. The IT and finance department have not been using the functions of M2 and Fintrack to their full potential. The increased exposure to the Fern team could nevertheless help the IT team enhance their skills and prove instrumental for LAPO to successfully execute another migration. At the field level, LAPO has deployed a large IT team with a clear pyramid of command to share IT procedures. The pilot structure for data processing is expected to ease supervision of data entry staff.
Overall data security is insufficient for the size of LAPO. The Access database is stored on two server computers at head office, with the three senior IT staff sharing a UserID. Given the lack of audit trail, the consolidation at the HO level (performed by three senior IT staff) does not prevent data manipulation. Back-up discs of consolidated and branch data are stored in the offices, but not in a fire/water-proof cabinet nor off-site. Viruses were detected on computers, showing the free anti-virus software currently used is not sufficient. At the branch level, data entry officers have their own UserID to create system transactions.

Portfolio data is not systematically reconciled between the branches and head office, posing questions on its reliability (refer to section on internal controls).[22] However, LAPO recently improved the scope of portfolio information with PAR available by tranch at a consolidated level since Q1 2009 (previously only PAR 1 was available). At the branch level, BMs can request a wide variety of detailed reports from the MIS manager, which are produced in a timely manner and provide extensive analysis. They can access even more reports with a special UserID with viewing rights.

The level of detail of LAPO's monthly financial statements is sufficient but their preparation on Excel and is prone to mistakes (refer to next section). The computation of main financial ratios is monthly but ought to be presented in a more analytical scorecard (comparison with previous performance and budget). Audited statements are more complete but do not fully comply with IFRS standards.[23]

▪ Risk management

Risk management **is rated "d"**

Procedures and internal controls

Current processes do not guarantee sufficient data reliability. Despite improvements in the consolidation process, lapses in the system hamper reconciliations between branch and consolidated data as data entry officers keep their monthly ledger open after the monthly MIS disc has been submitted to head office.[24] Though forbidden, data entry officers may therefore easily post operations using a wrong entry date. At the head office level, financial reporting done on Excel with limited formal cross-checks is prone to mistakes or manipulations. In addition, all interbranch transactions are not reconciled at the end of the month.[25]

Even though LAPO has improved its procedures over the years, staff compliance culture remains average. Operational procedures are now in sufficient compliance with the basics of internal controls thanks to the segregation of tasks between LOs, BMs and MIS officers (introduced in 2007), sufficient limitation of powers and hierarchical controls (e.g at the branch level by BMs, AMs and RMs). However, record keeping is uneven across branches and files are improperly filled or archived, increasing risks of data loss or manipulation. Aware of these lapses, LAPO has well disseminated manuals, guidelines to improve internal controls and a related sanction policy but has not yet provided to staff (especially regional managers) sufficient training on related issues.

Cash security has improved over the years as LAPO changed its policy in 2007 to stop handling cash for most of its operations. It is however still average: 1) despite a clear

[21] A team of six data entry officers and two supervisors enter data for thirteen branches from the surrounding urban area. This pilot is planned to roll-out next in Lagos and other urban areas.

[22] A sample of six branches by Planet Rating resulted in inconsistencies of up to a 6% difference in the amounts of PAR, arrears and number of clients (as of September 2009).

[23] Interests on the loan portfolio are accounted for on a cash basis.

[24] A report on these inconsistencies during consolidation is currently being written by the MIS manager, as there are delays of up to two months to reconcile each month's data. Financial statements as of September 2009 do not take into account these inconsistencies.

[25] As of September 2009, the balance of un-reconciled interbranch transactions was 42 M NGN (354 K USD).

policy, some branches still keep cash overnight without proper infrastructure; 2) cheque and cheque stub are not kept in a locked place; 3) available only monthly, bank statements are compared only monthly with vouchers, preventing the rapid detection of frauds.[26]

The recent set-up of specific Risk Management unit is encouraging. The main risks have been identified but are not yet monitored on a regular basis (e.g. through a scorecard) according to defined risk levels (except for credit risk).

Internal audit

LAPO enjoys a satisfactory internal audit department, with decentralized audit staff able to perform frequent branch and credit officer audits (each branch is visited on average three times a year). The IA team has sufficient capacity to conduct additional unplanned assignments. However, many of them are required directly by management and therefore not decided independently by IA. Analyzing the patterns of lapses in internal controls would provide a more objective identification of the arising risks. Currently covering accounting and operations (and detecting some mistakes and frauds), the scope of IA checks need to be extended to cover Head Office departments such as HR, Finance and MIS and the skills of the IA department accordingly strengthened. Current IA checks done on these departments are done only in the course of operations.

Audit Reports are well formalized with findings, recommendations and management response but can improve with a categorization of findings according to their level and type of risk. In addition, the implementation of recommendations ought to be more formally tracked rather than only by phone and email as it is currently the case.

The institutional set-up does not guarantee the independence of Internal Audit. Despite its reporting three times a year to the BOD Audit Committee, the IA is still hierarchically under the CEO. The audit plan is confidential, but at the field level, the itinerary of auditors is validated both by the head of IA and Regional Managers (for cost control).

External auditors are not sufficiently independent[27] and do not have enough knowledge on the risks specific to microfinance. Some lapses identified in the management letters[28] for several years (on clarity of record keeping, staff loans, reconciliations of interbranch transactions) have not yet been efficiently addressed. Internal controls have nevertheless been supplemented by due diligences and external evaluations. During Q1-Q2 2009, the investigations on the IT system conducted by funders and a full MIS audit performed by an external consultant helped LAPO improve its system. Suggestions included in the resulting IT strategy on how to strengthen the MIS integrity, eliminate remnants of a manual MIS, and increase accuracy have not yet been all implemented by LAPO.

[26] Most detected frauds are related to voluntary savings collection. From January to September 2009, IA detected 126 cases of frauds related to unremitted savings collection for a total amount of 75,664 NGN (637 USD).

[27] The external auditor is related to one BOD member. Refer to the Institutional Presentation and Governance sections for details.

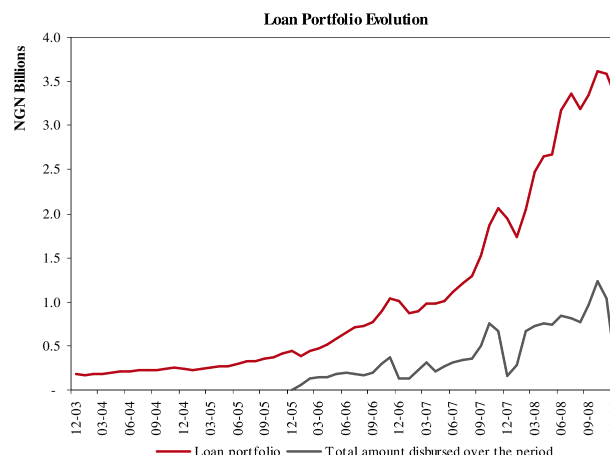
[28] Planet Rating did not receive management letters signed by external auditors.

Activities

Activities: products and services **is rated "b"**

Loan portfolio evolution

From 2004 to 2009, LAPO grew its loan portfolio from 249 M NGN (1.9 M USD) to 4.8 B NGN (40.2 M USD), equivalent to a compound annual growth rate (CAGR) of 80.6%. This very strong growth reached its highest peak in 2006 (+130%) and continued at very high levels during the following years. Still high in 2009 (+43%) for an MFI of the size of LAPO, growth slightly slowed down due to the reduced access to international funding and despite larger savings mobilization. Over the same period, LAPO grew its active borrowers from 29,812 to 217,662, equivalent to a CAGR of 48.8%. However, the loan disbursed per client only moderately increased if corrected for the amount of cash collateral (from 87 to 178 USD)[29] LAPO's portfolio is subject to seasonality with several peaks and slow-downs during the year (before and during Christmas and Eid).

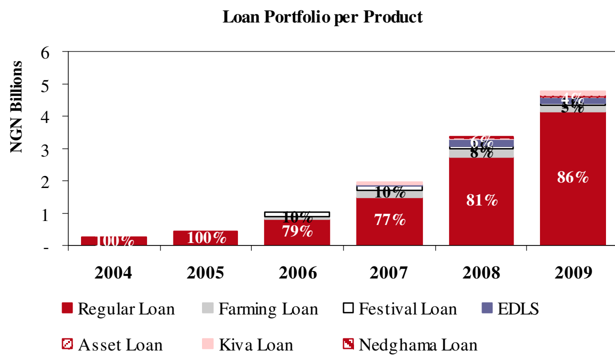


Note: The monthly amount disbursed from 2003 to 2005 was not made available to the rating team.

Since LAPO's establishment, the Regular Loan has been the main loan product and still accounts for the majority of the portfolio. LAPO tried to diversify its portfolio first in 2006 with the Farming and Festival Loans, in 2007 with the EDLS Loan and in 2008 with the Asset Loan. Loans funded

[29] Not corrected for the amount of cash collateral, the amount disbursed increased from 115 to 290 USD.

through KIVA (quite similar to LAPO's Regular Loans) cover 3.1% of the total loan portfolio.



Loan portfolio management

LAPO's credit methodologies have generally led to satisfactory credit decisions but heavily rely on collaterals such as the guarantee of groups and/or guarantors, as well as cash collateral. Group discipline is generally sufficiently ensured. However, for Regular Loans, the evaluation of the borrower's capacity is not always complete and the actual use of the loan rarely formally monitored. Moreover, LAPO has not defined clear rules for the use of identification papers, which will be necessary to prevent multiple lending as the microfinance market matures and given the multiplication of MFBs. For Farming Loans (repaid in bullet payments), LAPO implements the same methodology without the needed basic cash flow analysis. For EDLS Loans, the evaluation of repayment capacity is insufficient: although criteria are a bit tighter (clients are required to have a stable business), LAPO does not calculate the client's expected income but only relies on the client estimation (if available). Despite frequent on-the-field training by their supervisors, Credit Officers have not received sufficient training, especially in terms of basic financial analysis.

LAPO demonstrates a sufficiently efficient delinquency management thanks to the timely and progressive involvement of higher level management staff (BM, AM, RM, HO monitoring team). LAPO could nevertheless refine its policy by defining more clearly the timing of each step. Finally, written-off loans are not systematically followed up by operations at the branch level.

Despite recent improvements in the consolidation process, stronger data reliability is required to ensure a proper management of fast growth. Moreover, the incentive system for Credit Officers mostly relies on their caseload, which creates a risk of excessive disbursements at the expense of portfolio quality.

Credit risk

Note: PAR figures might be understated. Due to insufficient data reliability, Planet Rating's opinion on LAPO's credit risk and credit risk coverage is subject to reserves.

Based on available data, LAPO demonstrates a good portfolio quality, PAR 30 stood at 1.8% as of September 2009, below African benchmarks (at 4.4% for African Large FSS in 2008) but above internally defined targets (1.5%). At the same period, PAR 1 stood at a low 2.6%, decreasing from higher levels at the beginning of the year[30]. Rescheduling is not allowed and according to available data, there are no rescheduled loans. However, the actual level of credit risk is expected to be higher due to LAPO's fast growth and MIS challenges, notably with monthly closing of books. In addition, available data show a strong PAR for specific branches (due to the demolition of illegal settlings by the government or weak branch management) located in the Sururele (in Lagos) and Edo-Delta regions where PAR 30 reaches 5% and 3.5% respectively. PAR 30 is also particularly high for the EDLS, Farming and Asset Loans (of 5.4%, 8% and 11.4% respectively). As of September 2009, the write-off ratio stood at 0.2% below African benchmarks (1.2% in 2008 for African Large FSS). Loans late over 365 days are written-off twice a year.

LAPO monitors connected lending but has not defined any maximum ceiling. Overall, connected lending covers 4.3% of the loan portfolio, including 4.0% lent to other LAPO entities[31] and 0.3% to staff (14.4 M NGN or 94.8 K USD). Staff loans are approved by Regional Managers. However, lacking an adequate information system for staff loans, LAPO cannot monitor their repayment status, which resulted in dormant accounts or disbursement of new loans to delinquent staff.

LAPO pays attention to the concentration of its portfolio in specific areas but has not yet defined formal limits. However, the concentration in areas such as Edo/Delta & Port Harcourt (31% of the portfolio as of September 2009) is progressively being mitigated by LAPO's expansion. In that regard, LAPO has put basic procedures in place (e.g. steps for branch expansion, handbooks for office management, and financial regulations) to ensure the adequate set-up of branches. On a less positive note, new loan products are introduced with very limited adaptation of the methodology.

Credit risk coverage

With a PAR 30 Risk Coverage ratio of 143% as of September 2009, LAPO currently sufficiently covers its

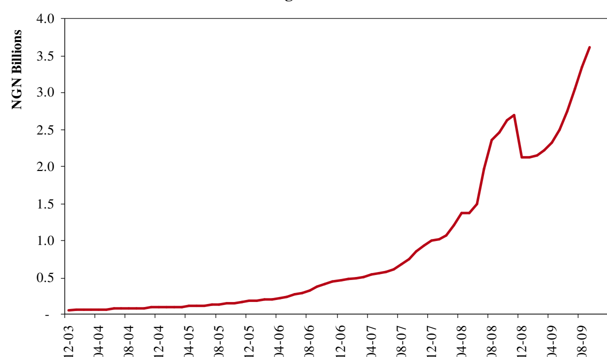
[30] The few clients that could not repay their installment during the vacation period at the end of 2008 (cf. institutional presentation) have progressively settled them at the beginning of 2009.

[31] Refer to the section on the LAPO Group in the Institutional Presentation.

anticipated losses. However, its provisioning policy (made only of a 2% reserve on the healthy loan portfolio) would become quickly insufficient if PAR 30 increased over 2%. When transforming into an MFB, LAPO plans to use the more adapted loan loss provisioning policy required by the CBN. In addition, mandatory savings covered 39% of the total loan portfolio as of September 2009. An additional coverage is provided by the death and fire insurance. It is however not tracked as a separate reserve account in the balance sheet.[32]

Savings portfolio evolution

From 2004 to 2008, LAPO grew its savings portfolio from 101 M NGN (0.8 M USD) to 3.6 B NGN (30.3 M USD), equivalent to a very high CAGR of 104%. LAPO increasingly promoted voluntary savings since 2008. Their share in total savings increased to 50% as of September 2009 from 27% as of December 2008.[33] As a result, the savings portfolio is subject to a strong seasonality (it dropped by 21% from November to December 2008) when clients withdraw their deposits to face expenses for Christmas. Over the same period, LAPO grew its active savers from 32,938 to 274,702, equivalent to a CAGR of 52.8%. As of September 2009, 78% had a loan, 21% were waiting for a new loan (i.e. were under the 4-6 weeks training period) and 1% (2,839) are only savers (either not eligible or not willing to take a new loan). The average savings balance per client increased from 23 to 110 USD due to the increase in compulsory savings requirements. Despite enhanced targets for COs in terms of savers, growth was slower in 2009 parallel to the slower growth in terms of borrowers.



Savings portfolio management

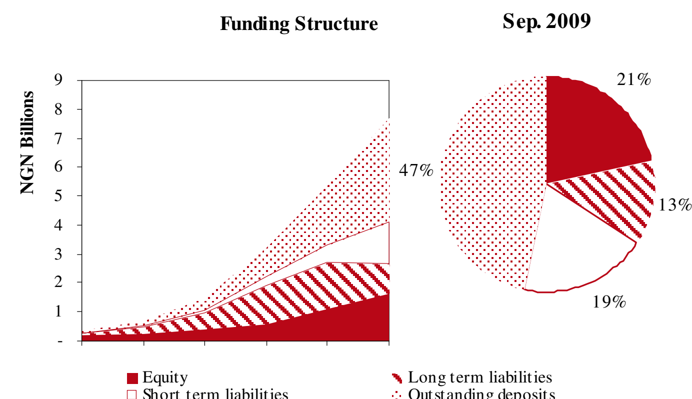
LAPO has no license to collect savings from its members and has not developed yet the appropriate systems to do so in spite of its recent focus on voluntary savings mobilization. The collection of voluntary savings on the field has notably contributed to increasing risks of savings misappropriation by some COs or clients, especially (but not only) for the Union savings accounts (Union Purses). LAPO decision to close Union Purses could not be implemented in all branches (reportedly because clients refused to close these accounts). In terms of client service, members may have access to their voluntary savings only after a 48-hour notice, since branches are not supposed to keep cash at the branch level. Therefore, LAPO rightly plans to transform into a regulated MFB in the short term. Getting the MFB license will be necessary but not sufficient to ensure appropriate savings mobilization: LAPO still needs to upgrade its current MIS, implement appropriate cash management, adapt branch infrastructure and attract new skills. Aware of that, LAPO reportedly plans to vastly mobilize savings from non-members only in the long term.

Funding and liquidity

Funding and liquidity **is rated "c"**

Capitalization and funding strategy

LAPO remains sufficiently capitalized with 28.8% core CAR and 34.5% total CAR as of September 2009. Stable at similar levels since December 2006, LAPO is above the 10% CBN CAR requirement for MFBs and has accumulated retained earnings that will allow it to meet the 1 B NGN (8.6 M USD) in share capital required for transformation. LAPO's historically high interest rates have been a conscious effort to supplement equity through retained earnings in order to reach this 1 B NGN threshold. Its leverage, at 2.91 as of September 2009, remains also moderate. Securing additional equity is expected to be necessary only in the medium term. However, LAPO's plan to invite equity investors in the first half of 2010 is unlikely to be achieved given that it needs to transform first and that negotiations with potential shareholders have not yet started.



Precise funding needs are identified for the next six months, with inflows needed and not yet secured for Q2 2010. There is no longer term funding plan, which is insufficient for LAPO's size and plans for growth. The insufficient transparency in reporting to funders in December 2008, combined with the Nigerian economic crisis, detracted some

[32] In addition, data about the use of the risk premium is not available.
[33] The split between voluntary and compulsory savings is not available for previous years.

potential investors in 2009 and contributed to a request for early repayment. Although a couple of new loans have been successfully obtained from existing and new funders in Q3-Q4 2009, LAPO has not yet secured funding for the first six months for 2010. Two existing lenders have nevertheless agreed to renew loans and drafted term sheets. LAPO has maintained good relationships with its main funders, notably by publishing a press release on the decrease of its interest rates (excluding the cost of cash collateral) and providing an answer to their request on key areas for improvement. However, in order to sustain relationships, LAPO ought to be more pro-active in sharing events such as delayed[34] or pre-payments, and improve financial reporting.

Despite the impact of the Nigerian crisis on LAPO's access to local funding, part of it remains nevertheless secured given LAPO's good local reputation and the fact that local banks are required to invest part of their resources in microfinance. However, LAPO ought to enhance its negotiation skills to secure cheaper or more adapted (e.g. overdraft facility or stand-by lines of credit) local funding. Finally, savings have been an increasing source of funding for LAPO, despite there being no legal validation to mobilize deposits.

Liquidity risk

Liquidity management and maturity risk analysis are not sufficient for a deposit-taking institution of LAPO's size. Although most client loans are shorter in term (8 months in average) than external liabilities (24 months in average for debt and sub debt), the increased voluntary savings mobilization increases maturity risk. Considering the complicated funding strategy, with numerous hedging mechanisms, accounts, and funding sources, the finance department needs additional skills, tools and oversight.

Although the funding structure is well diversified, 65% of LAPO's debts mature during 2010, for an amount of 12 M USD (including debt deposited in local banks for back-to-back), which makes for a pretty high refinancing risk, given that LAPO has not yet secured the renewal of its funding from its current funders (due diligences for about 60% of this amount are starting) and has not contacted new ones. LAPO is however very liquid, with 9.5 months of OpEx, 40% of savings, and 114% of the liabilities maturing within 1 year covered by cash as of September 2009.

The savings coverage is very high in comparison with the CBN prudential requirement for MFBs (20%), reflecting current inefficiencies in re-allocating or moving cash between branches to ensure sufficient funds for disbursement, but prudent given uncertainties on the future funding structure of LAPO. Despite improvements in tracking cash levels (daily through text messages and monthly through M2), liquidity management at the HO level, currently performed under Excel, remains time-consuming.

[34] LAPO has not always secured Certificate of Capital Importation from the Central Bank for foreign currency funding, which resulted in delayed payments up to six months to some lenders.

Market risk

LAPO has adequately used hedging mechanisms to mitigate its main market risk (the FX risk). However, the institution does not monitor its interest rate risk and has not set-up clear ALM policies, notably to optimize or define acceptable limits to the cost of hedging.

- As of September 2009, LAPO has un-hedged foreign exchange exposures in USD of (18.4%) and in EUR of (7.3%) of Tier 1 capital. These exposures are higher than best practice, but are still manageable.[35] Hedging through back-to-back loans is costly and significantly increases funding expenses (refer to section "E"). For un-hedged FX loans, LAPO needs to secure Certificate of Capital Importation (CCIs) from the CBN, which has not always been done, resulting in events of default.[36]
- LAPO exposure to interest rate risk is still limited. As of September 2009, its open position to NIBOR[37] reached (16.5%) of its Tier 1 capital. It however decreased by more than half before the end of the year.

Efficiency and profitability

Efficiency and profitability **is rated "c"**

Profitability analysis

LAPO is very profitable, with a ROA at 11.1% in 2009.[38] While this was a slight decrease from the 14.5% recorded in December 2008, it is still a solid performance despite the increase in funding costs, the slight increase in loan loss provisioning (as many client businesses were disrupted by the upheaval after the elections in 2009), and the high operating expenses. This strong profitability has been fueled by an average theoretical portfolio yield[39] of 85.7% until October 2009 that decreased to 72.4% since then. On the same period, the EIR supported by the client (including the cost of cash collateral) increased from 115.0% to 123.9%, which exposes LAPO to a reputation risk. As of September 2009, the gap between the average theoretical portfolio yield

[35] A 10% devaluation of NGN against USD would only result in a 0.5 points drop in ROA (to 10.6%). Similarly a 10% devaluation of NGN against EUR would only result in a 0.2 points drop in ROA (to 10.9%).

[36] Refer to the section on Capitalization and funding strategy.

[37] NIBOR stands for Nigeria Interbank Offered Rate.

[38] The ratios based on assets and funding expenses are adjusted for back-to-back loans. The ROA before adjustment stands at 10.7% as of September 2009 and 13.6% as of December 2008.

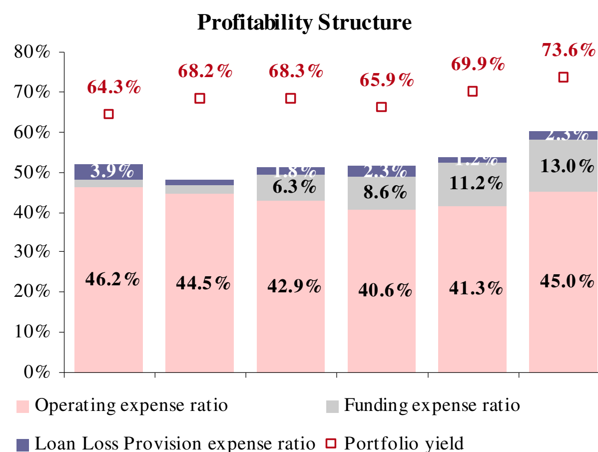
[39] Does not include the cost of cash collateral

excluding the risk premium fee (78.8%) and the actual portfolio yield is limited.

LAPO enjoys a satisfactory revenue quality. Although LAPO has been among the leading and fastest growing microfinance providers in Nigeria over the last years, the registration of 900 microfinance banks in Nigeria since 2007 will pose a future challenge, at least in urban areas and southern States where LAPO's outreach is also concentrated. Given this increased competition, LAPO will have to develop advertising and marketing functions. LAPO has nevertheless a stronger presence in rural communities than MFBs and continued to invest heavily in branch expansion and staff, which should reap benefits in the next two years. In terms of pricing, although LAPO's competitors are not a threat today, the current very high interest rates will not be sustainable in the future as competition heats up and funders might request additional decreases. As for product development, it started to be a focus at LAPO but it remains to be seen how the information from exit surveys will be used for product development. Currently, the regular loan is the backbone of LAPO, with asset and farming loans yet to be adapted to the needs of the clients.

LAPO has a high OpEx, increasing to 45.0% in September 2009 from 41.3% in 2008,[40] which is above the performance of its national (e.g. SEAP and DEC) and African peers (MBB benchmarks for African Large FSS; refer to benchmarking). In the last five years, despite the expansion of its network and the increase of the average loan size, OpEx has remained over 40%, as a result from insufficient productivity gains. In spite of LAPO's mainly urban or sub-urban presence, LO productivity decreased to 187/LO in 2009, down from ~350/LO in 2006. Although new LOs recruited for branch expansion have smaller caseloads, LOs are generally not yet actively pursuing the productivity target (ser at 300 clients per LO). Similarly, administrative expenses are not yet optimized even though their share in operating expenses decreased around 40% in 2008 and 2009 from 45% in 2006. Overall, the insufficient cost optimization resulted in a strong increase in the cost per borrower, to 70 USD in 2009 from 25 USD in 2004.

The funding expense ratio gradually increased over the years to reach a high 13.0% (adjusted) in September 2009, despite the increased mobilization of savings. The recourse to commercial funding and to costly hedging mechanisms (with expensive local borrowings) since 2005, in addition to the impact of the financial crisis in 2009, resulted in the increase of the (adjusted) cost of borrowings to 17.2% in September 2009 from 13.6% in December 2008 and 10.8% in December 2007. In spite of this cost, LAPO maintains large amount of idle liquidities, resulting from the suboptimal cash optimization and redistribution among the branches. LAPO's resulting adjusted[41] asset optimization remains low (64.1% as of September 2009). As for the loan loss provisioning ratio, it increased to 2.2% in 2009, the first time it was over 2% in the last five years.



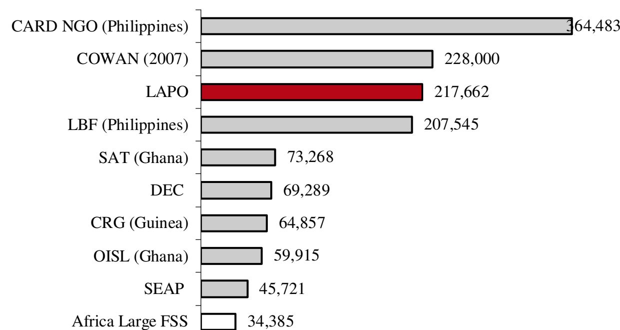
Looking forward, LAPO's profitability is expected to decrease from its current very high level to a more standard (but still sufficient) one. Indeed, macroeconomic factors, the October 2009 decrease in interest rates, and potential additional pressure from fund providers due to their increased scrutiny on consumer protection could contribute to shrinking margins in 2010. Funding expenses are expected to remain high, given the cost of hedging but could nevertheless decrease in the medium term if LAPO successfully transforms in an MFB, develops the adequate infrastructure to enhance deposits mobilization, and better optimizes the use of interest-bearing resources.

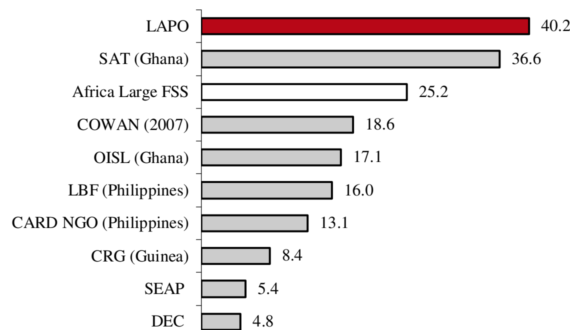
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

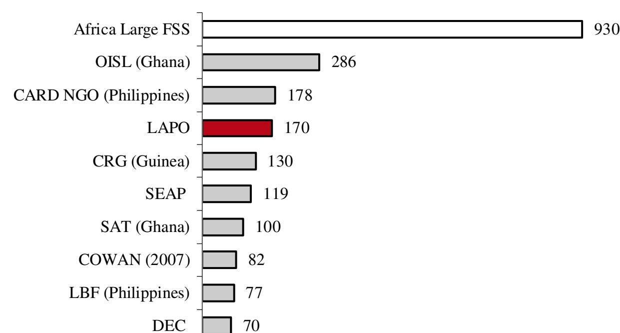
[40] If the average total cash collateral is subtracted from the average loan portfolio, the Opex increases to 57.9% as of September 2009.

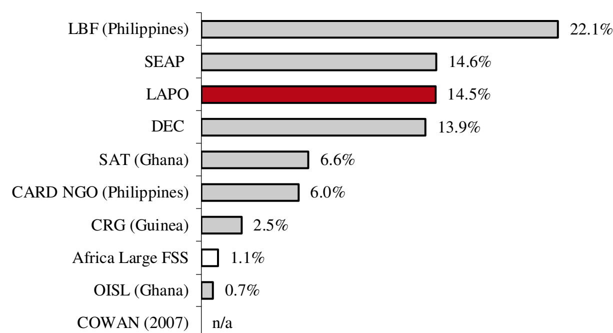
[41] The ratio is adjusted for minimum cash reserves to cover 15% of voluntary savings and for back-to-back loans.

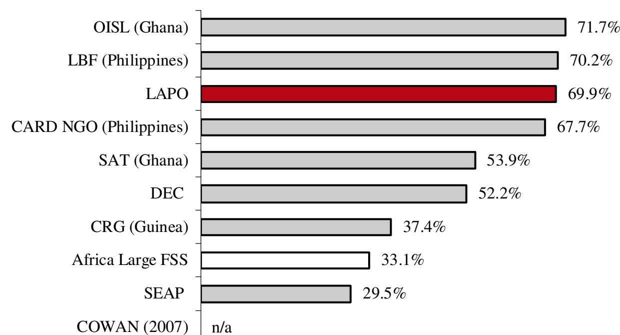
▪ Benchmarking

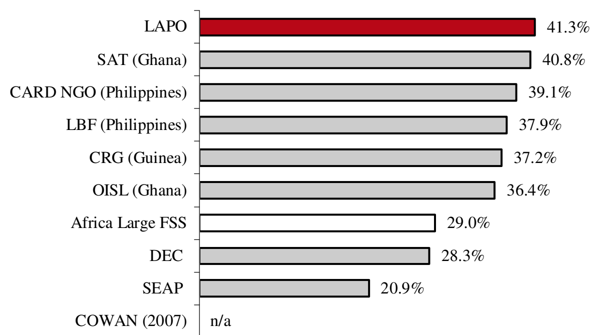


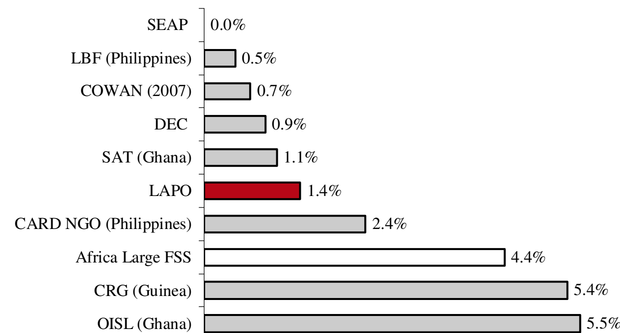


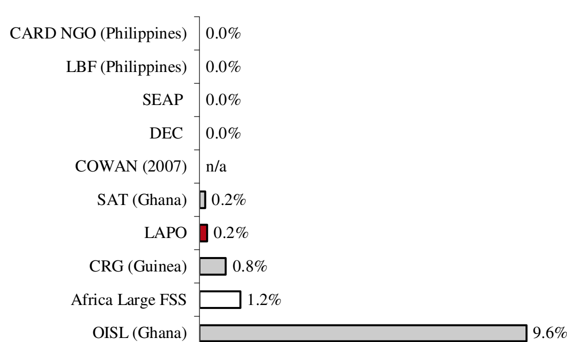












Source: LAPO and LBF (Planet Rating), other MFIs (Mixmarket), and Africa Large FSS (MBB). Indicators are as of December 2008 except for COWAN.

▪ Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Dec.2008	(1) Sep.2009
Loan portfolio evolution						
Loan portfolio	1,863,395	3,335,857	7,663,936	15,120,333	27,794,108	40,235,053
Loan portfolio (NGN)	248,874,677	440,669,533	1,015,011,544	1,944,648,552	3,340,687,800	4,782,317,049
Growth	*38.4%*	*77.1%*	*130.3%*	*91.6%*	*71.8%*	*43.2%*
Active borrowers	29,812	43,699	84,006	129,269	187,361	217,662
Growth	*28.9%*	*46.6%*	*92.2%*	*53.9%*	*44.9%*	*16.2%*
Average outstanding loan per client	63	76	91	117	139	170
% of GDP per capita	*14.7%*	*17.3%*	*20.0%*	*24.0%*	*25.8%*	*31.2%*
Average amount disbursed per loan	115	126	154	198	242	290
% of GDP per capita	*26.9%*	*28.6%*	*33.9%*	*40.5%*	*45.0%*	*53.2%*
Portfolio quality (2)						
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	0.7%	1.1%	0.6%	1.5%	1.4%	1.8%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Write-off ratio	3.7%	0.2%	0.0%	0.8%	0.2%	0.2%
Credit risk coverage (2)						
Risk coverage ratio (PAR 30)	276.2%	187.4%	333.0%	131.8%	141.1%	143.0%
PAR 30 net of loan loss provision / Equity	(1.6%)	(1.4%)	(3.5%)	(1.6%)	(1.7%)	(2.3%)
Savings	**Dec.2004**	**Dec.2005**	**Dec.2006**	**Dec.2007**	**Dec.2008**	**Sep.2009**
Outstanding deposits	756,677	1,376,655	3,509,687	7,740,796	17,674,439	30,338,479
Outstanding deposits (NGN)	101,061,662	181,857,260	464,822,934	995,555,349	2,124,363,295	3,606,015,548
Growth	*71.9%*	*79.9%*	*155.6%*	*114.2%*	*113.4%*	*69.7%*
Voluntary savings (%)	42.9%	43.8%	49.4%	54.7%	27.1%	49.9%
Cash collateral (%)	57.1%	56.2%	50.6%	45.3%	72.9%	50.1%
Active savers	32,938	48,735	88,430	134,264	245,144	274,702
Growth	*34.1%*	*48.0%*	*81.5%*	*51.8%*	*82.6%*	*12.1%*
Average outstanding deposit per saver	23	28	40	58	72	110
Voluntary savings	n/a	n/a	n/a	n/a	n/a	n/a
Cash collateral	13	16	20	26	53	55
Staff (3)	**Dec.2004**	**Dec.2005**	**Dec.2006**	**Dec.2007**	**Dec.2008**	**Sep.2009**
Total number of staff	~244	~292	~500	981	1,661	2,021
% Credit officers	~46.7%	~51.0%	~45.4%	52.1%	53.5%	57.4%
Turnover	~18.1%	~18.3%	~5.1%	13.9%	9.2%	7.2%
Profitability analysis	**Dec.2004**	**Dec.2005**	**Dec.2006**	**Dec.2007**	**Dec.2008**	**Sep.2009**
ROE	15.8%	25.8%	33.6%	38.1%	67.8%	50.7%
Liabilities / Equity	0.83x	1.38x	2.67x	3.17x	2.78x	2.91x
Core capital adequacy ratio	62.5%	50.8%	34.8%	25.3%	27.3%	28.8%
Total capital adequacy ratio	62.5%	50.8%	34.8%	32.6%	34.6%	34.5%
ROA(4)	8.8%	24.5%	12.1%	9.2%	14.5%	11.1%
ROA (without donations) (4)	8.8%	12.5%	12.1%	9.2%	14.5%	11.1%
ROA (microfinance operations) (4)	8.8%	12.5%	12.1%	9.2%	14.5%	11.1%
Profitability structure						
Total revenue ratio	65.1%	68.6%	68.9%	66.6%	74.3%	77.9%
Portfolio yield	64.3%	68.2%	68.3%	65.9%	69.9%	73.6%
Operating expense ratio	46.2%	44.5%	42.9%	40.6%	41.3%	45.0%
Cost per borrower	25	24	25	31	53	70
Staff productivity (3)	~120	~150	~160	132	113	108
Loan officer productivity (3)	~260	~290	~350	253	211	187
Average outstanding loan per client (USD)	63	76	91	117	139	170
Funding expense ratio(4)	1.8%	2.2%	6.3%	8.6%	11.2%	13.0%
Cost of savings	5.0%	4.7%	4.8%	4.1%	3.6%	3.8%
Cost of borrowings(4)	0.1%	0.7%	10.3%	10.8%	13.6%	17.2%
Loan Loss Provision expense ratio	3.9%	1.3%	1.8%	2.3%	1.2%	2.3%
PAR 31-365	0.7%	1.1%	0.6%	1.5%	1.4%	1.8%
Write-off ratio	3.7%	0.2%	0.0%	0.8%	0.2%	0.2%
Resource optimization						
Outstanding Loan Portfolio / Assets(4)	66.5%	66.4%	76.6%	66.2%	62.8%	61.8%
Revenue from investment / financial revenues(4)	0.2%	0.0%	0.3%	0.7%	0.1%	0.2%
Liquidity						
Cash to demand deposits	46.8%	56.0%	42.3%	80.8%	162.3%	79.1%
Liquidity / Total assets (LAR) (4)	5.5%	6.9%	7.5%	15.3%	17.9%	18.9%
Current ratio (1 year)	264.3%	320.1%	260.0%	214.8%	181.5%	136.3%
Exchange rate 1 USD= xx NGN	**133.6**	**132.1**	**132.4**	**128.6**	**120.2**	**118.9**

Notes: (1) Ratios as of September 2009 are based on the draft of the audited financial statements; (2) PAR figures are subject to reserve due to insufficient data reliability; (3) Staff movements could be sufficiently reconciled (though not fully) only for 2007, 2008 and 2009. (4) In order to offset the effects of the back to back loans that artificially increased assets, financial revenues from investments, and interests paid on borrowings, ratios were adjusted from 2005 to 2009 for assets and for 2008 and 2009 for other items (as the data was not provided for previous years);

Financial statements – NGN

Income Statement (NGN '000)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	[1] Sep. 2009
Interest and fee income on loan portfolio	136,896	211,176	449,986	839,593	2,009,909	2,216,515
Interest and fee income on investments	260	68	1,549	6,188	7,681	9,285
Interest and other financial expenses	3,924	6,851	41,692	111,267	280,227	340,250
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	45	21	1,615	(48,940)	(56,123)
Net financial income	**133,233**	**204,438**	**409,865**	**736,128**	**1,688,423**	**1,829,426**
Fees and commissions on other financial services	-	-	-	-	87,603	102,609
Other operating income	1,400	1,062	2,308	2,862	33,316	18,953
Operating expenses	98,308	137,837	282,666	517,103	1,189,056	1,354,402
Personnel expenses	*45,341*	*60,555*	*132,392*	*261,791*	*681,280*	*753,440*
Administrative and other expenses	*46,760*	*67,713*	*138,264*	*233,871*	*459,542*	*545,956*
Depreciation	*6,207*	*9,569*	*12,010*	*21,442*	*48,234*	*55,007*
Non operating income (net)	-	-	-	-	-	-
Gross operating income	**36,324**	**67,664**	**129,507**	**221,886**	**620,287**	**596,586**
Net loan loss provision expense	8,336	4,135	11,705	29,176	34,108	67,857
Net operating income	**27,988**	**63,528**	**117,802**	**192,710**	**586,179**	**528,730**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**27,988**	**63,528**	**117,802**	**192,710**	**586,179**	**528,730**
Income Tax	-	-	-	-	-	-
Net income before donations	**27,988**	**63,528**	**117,802**	**192,710**	**586,179**	**528,730**
Donations [2]	-	60,973	-	-	-	-
Net Income	**27,988**	**124,502**	**117,802**	**192,710**	**586,179**	**528,730**

Balance Sheet (NGN '000)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	[1] Sep. 2009
ASSETS	**366,642**	**695,305**	**1,503,371**	**3,238,799**	**5,399,547**	**7,719,304**
Liquid assets	20,319	44,639	97,012	440,386	934,247	1,422,755
Net loan portfolio	243,897	431,856	994,711	1,905,756	3,273,874	4,656,648
Gross loan portfolio	*248,875*	*440,670*	*1,015,012*	*1,944,649*	*3,340,688*	*4,782,317*
(Loan loss reserve)	*4,977*	*8,813*	*20,300*	*38,893*	*66,814*	*125,669*
Interest receivable	-	-	-	-	-	-
Financial investments	25,136	75,186	227,541	420,052	341,882	568,850
Net fixed assets	48,204	20,162	29,672	119,047	290,153	385,905
Intangible assets	-	-	-	-	-	-
Other assets	29,085	123,462	154,435	353,559	559,391	685,145
LIABILITIES AND EQUITY	**366,642**	**695,305**	**1,503,371**	**3,238,799**	**5,399,547**	**7,719,304**
Liabilities	**165,792**	**403,209**	**1,093,713**	**2,636,431**	**4,271,973**	**6,067,001**
Demand deposits [3]	~43,377	~79,717	~229,560	~544,817	575,728	1,799,201
Time deposits	-	-	-	-	-	-
Cash collateral [3]	~57,685	~102,140	~235,263	~450,738	1,548,635	1,806,814
Borrowings	54,805	198,372	589,273	1,368,013	1,785,688	1,905,418
Subordinated debt	-	-	-	173,780	299,271	321,171
Other liabilities	9,925	22,979	39,618	99,083	62,651	234,396
Equity	**200,850**	**292,096**	**409,658**	**602,368**	**1,127,573**	**1,652,303**
Core capital	200,850	292,096	409,658	602,368	1,127,573	1,652,303
Paid-in capital	-	-	-	-	-	-
Donated equity [4]	*160,773*	*189,112*	*189,112*	*189,112*	*128,138*	*128,138*
Retained earnings	*40,077*	*102,984*	*220,546*	*413,256*	*999,435*	*1,524,165*
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	[1] Sep. 2009
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	n/a	n/a	n/a	n/a	n/a	n/a
Guarantees	-	-	-	-	-	-

Balance Sheet Averages	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	[1] Sep. 2009
Gross loan portfolio	212,841	309,483	658,689	1,274,713	2,876,370	4,016,872
Assets	319,514	530,973	1,099,338	2,371,085	4,319,173	6,559,425
Deposits	78,349	130,023	291,794	640,970	1,764,630	2,865,189
Borrowings and subordinated debt	54,242	126,589	393,822	1,065,533	1,813,376	2,155,774
Equity	177,591	246,473	350,877	506,013	864,971	1,389,938

Notes: (1) The figures as of September 2009 are based on the draft of the audited financial statements; (2) the amount accounted as a donation in 2005 was reclassified as a loan in 2008 (refer to the Institutional Presentation); (3) the split between cash collateral and voluntary savings is not available before 2007 and was therefore estimated; (4) Since 2004, donated equity has included a concessional revolving loan balance of 56 M NGN (474 K USD), covering 3.4% of equity; (5) Financial statements are presented before the adjustments for back-to-back loans made by Planet Rating (refer to Performance Indicators).

Financial statements – USD

Income Statement (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	(1) Sep. 2009
Interest and fee income on loan portfolio	1,024,979	1,598,600	3,397,660	6,528,131	16,722,197	18,648,199
Interest and fee income on investments	1,950	511	11,699	48,110	63,901	78,118
Interest and other financial expenses	29,379	51,860	314,797	865,143	2,331,455	2,862,627
Net inflation adjustment expense	-	-	-	-	-	-
Net foreign exchange income (expense)	-	341	161	12,554	(407,173)	(472,182)
Net financial income	**997,550**	**1,547,591**	**3,094,723**	**5,723,653**	**14,047,471**	**15,391,508**
Fees and commissions on other financial services	-	-	-	-	728,844	863,281
Other operating income	10,484	8,043	17,424	22,251	277,189	159,456
Operating expenses	736,063	1,043,423	2,134,294	4,020,662	9,892,798	11,394,986
Personnel expenses	*339,480*	*458,403*	*999,641*	*2,035,516*	*5,668,163*	*6,338,910*
Administrative and other expenses	*350,107*	*512,584*	*1,043,974*	*1,818,431*	*3,823,334*	*4,593,287*
Depreciation	*46,476*	*72,436*	*90,679*	*166,716*	*401,301*	*462,790*
Non operating income (net)	-	-	-	-	-	-
Gross operating income	**271,971**	**512,212**	**977,853**	**1,725,242**	**5,160,707**	**5,019,259**
Net loan loss provision expense	62,414	31,304	88,379	226,853	283,774	570,900
Net operating income	**209,557**	**480,908**	**889,475**	**1,498,390**	**4,876,934**	**4,448,359**
Extraordinary income (net)	-	-	-	-	-	-
Net income before tax	**209,557**	**480,908**	**889,475**	**1,498,390**	**4,876,934**	**4,448,359**
Income Tax	-	-	-	-	-	-
Net income before donations	**209,557**	**480,908**	**889,475**	**1,498,390**	**4,876,934**	**4,448,359**
Donations(2)	-	461,567	-	-	-	-
Net Income	**209,557**	**942,475**	**889,475**	**1,498,390**	**4,876,934**	**4,448,359**

Balance Sheet (USD)	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	(1) Sep. 2009
ASSETS	**2,745,148**	**5,263,438**	**11,351,340**	**25,182,811**	**44,923,559**	**64,944,796**
Liquid assets	152,136	337,919	732,501	3,424,159	7,772,816	11,970,062
Net loan portfolio	1,826,127	3,269,140	7,510,657	14,817,926	27,238,226	39,177,765
Gross loan portfolio	*1,863,395*	*3,335,857*	*7,663,936*	*15,120,333*	*27,794,108*	*40,235,053*
(Loan loss reserve)	*37,268*	*66,717*	*153,279*	*302,407*	*555,882*	*1,057,288*
Interest receivable	-	-	-	-	-	-
Financial investments	188,200	569,156	1,718,070	3,266,053	2,844,417	4,785,907
Net fixed assets	360,916	152,622	224,038	925,629	2,414,036	3,246,736
Intangible assets	-	-	-	-	-	-
Other assets	217,769	934,601	1,166,074	2,749,043	4,654,064	5,764,327
LIABILITIES AND EQUITY	**2,745,148**	**5,263,438**	**11,351,340**	**25,182,811**	**44,923,559**	**64,944,796**
Liabilities	**1,241,328**	**3,052,280**	**8,258,181**	**20,499,186**	**35,542,289**	**51,043,482**
Demand deposits (3)	~324,772	~603,457	~1,733,311	~4,236,148	4,789,989	15,137,213
Time deposits	-	-	-	-	-	-
Cash collateral (3)	~431,905	~773,198	~1,776,377	~3,504,649	12,884,450	15,201,266
Borrowings	410,341	1,501,672	4,449,355	10,636,786	14,856,703	16,030,847
Subordinated debt	-	-	-	1,351,201	2,489,899	2,702,109
Other liabilities	74,310	173,953	299,138	770,402	521,248	1,972,047
Equity	**1,503,820**	**2,211,158**	**3,093,159**	**4,683,625**	**9,381,270**	**13,901,315**
Core capital	1,503,820	2,211,158	3,093,159	4,683,625	9,381,270	13,901,315
Paid-in capital	-	-	-	-	-	-
Donated equity (4)	*1,203,753*	*1,431,570*	*1,427,905*	*1,470,410*	*1,066,095*	*1,078,065*
Retained earnings	*300,067*	*779,588*	*1,665,254*	*3,213,215*	*8,315,175*	*12,823,249*
Other equity accounts	-	-	-	-	-	-

Off Balance Sheet Accounts	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	(1) Sep. 2009
Portfolio under management	-	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-	-
Guarantees	-	-	-	-	-	-

Balance Sheet Averages	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	(1) Sep. 2009
Gross loan portfolio	1,593,600	2,342,782	4,973,487	9,911,350	23,931,041	33,795,135
Assets	2,392,288	4,019,453	8,300,650	18,436,028	35,934,982	55,186,393
Deposits	586,624	984,267	2,203,214	4,983,769	14,681,500	24,105,689
Borrowings and subordinated debt	406,128	958,272	2,973,591	8,284,895	15,087,064	18,137,168
Equity	1,329,676	1,865,794	2,649,327	3,934,430	7,196,448	11,693,962

Notes: (1) The figures as of September 2009 are based on the draft of the audited financial statements; (2) the amount accounted as a donation in 2005 was reclassified as a loan in 2008 (refer to the Institutional Presentation); (3) the split between cash collateral and voluntary savings is not available before 2007 and was therefore estimated; (4) Since 2004, donated equity has included a concessional revolving loan balance of 56 M NGN (474 K USD), covering 3.4% of equity; (5) Financial statements are presented before the adjustments for back-to-back loans made by Planet Rating (refer to Performance Indicators).

Formulas

Return on assets (ROA): Net operating income / Average assets
ROA (without donations): Net operating income before donations / Average assets
Return on equity (ROE): Net operating income before donations / Average equity
Leverage: Liabilities / Equity (end of period)
Capital adequacy ratio: Capital / Risk weighted assets (end of period)
Total revenue ratio: Total revenue / Average gross outstanding portfolio
Portfolio yield: Portfolio revenue / Average gross outstanding portfolio
Operating expense ratio: Operating expense / Average gross outstanding portfolio
Cost per borrower: Operating expense / Active borrowers (end of period)
Staff productivity: Active borrowers / Total personnel (end of period)
Funding expense ratio: Interest and fees paid on funding liabilities / Average gross outstanding portfolio
Cost of savings: Interest and fees paid on deposits / Average deposits
Cost of borrowings: Interest and fees paid on borrowings / Average borrowings
Loan loss provision expense ratio: Net loan loss provision expense / Average gross outstanding portfolio
Write-off ratio: Loans written off / Average gross outstanding portfolio
Risk coverage ratio: Loan loss reserve / Portfolio at risk > 30 days
Cash to demand deposits: Instantly available liquid assets / Demand deposits (end of period)
Current ratio (1 year): Short term assets / Short term liabilities (end of period)

Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+ A A-	Current institutional, operational and financial performances are excellent when compared to industry standards. Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
B++ B+ B	Current institutional, operational and financial performances are satisfactory when compared to industry standards. Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B-	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	SPECULATIVE INVESTMENT
C++ C+ C C-	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	**High risk**: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	**Immediate risk of default:** Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	