



GCR Downgrades LAPO Microfinance Bank Limited's National Scale Rating to BBB_(NG); Outlook Stable

Lagos Nigeria, 13 January 2021—Global Credit Ratings has downgraded the national scale ratings assigned to LAPO Microfinance Bank Limited to BBB_(NG) and A3_(NG) in the long and short term respectively; with the outlook accorded as Stable. The ratings are valid until November 2021.

SUMMARY RATING RATIONALE

Global Credit Ratings (“GCR”) has accorded the above credit ratings to LAPO Microfinance Bank Limited’s (“LAPO Mfb” or “the bank”) based on the following key criteria:

LAPO Mfb maintained its dominant position within the Nigerian microfinance banking space, accounting for a sizeable 21.5% of the subsector’s total loans and advances as at 31 December 2019. The assigned ratings reflect the bank’s strong capitalisation, adequate funding and liquidity position, although constrained by the sharp deterioration in profitability and asset quality metrics, as well as the current elevated credit risk within the microfinance banking subsector.

LAPO Mfb’s capitalisation is considered adequate for its current risk level, with a risk weighted capital adequacy ratio (“CAR”) of 32.6% registered at FY19 (FY18: 29.3%). While the bank registered a notable year-on-year 23.5% growth in shareholders’ funds in FY19 largely driven by internal capital generation, a combination of net loss as at year-to-date and increased risk weighted assets moderated the CAR to 25% at 3Q FY20, albeit remained well above the regulatory minimum of 10%.

Liquidity risk appears well managed, with the bank’s key liquidity metrics comparing favourably with regulatory requirements. Specifically, the bank’s statutory liquidity ratio ranged between 26.8% and 37.2% throughout FY19 (ending the year at 37.2%), compared with the 20% statutory benchmark. Furthermore, the contractual matching of assets and liabilities maturities showed a cumulative liquidity buffer across the up to one-year maturity band, with liquidity buffer amounting to N48.8bn within the most critical ‘less than three-month’ maturity band. Additionally, stable funding in the form of equity and member deposits further lessens liquidity risk.

LAPO Mfb’s asset quality (loan and advances) is considered highly susceptible to macroeconomic vagaries (particularly the COVID-19 pandemic and the recent nationwide protest), this is evidenced by the deterioration in gross non-performing loans (“NPL”) ratio to 21.4% at 3Q FY20 (FY19: 10.3%), far beyond the Central Bank of Nigeria’s tolerable limit of 5%. The weak net NPL ratio of 11.7% at 3Q FY20 (FY19: 2.1%) portrays inadequate provisioning, while the risk of capital erosion appears significant, considering the deteriorated net NPL/ capital ratio of 31.8% at 3Q FY20 (FY19: 5.8%).

Having displayed strong financial performance over the review period to FY19, LAPO Mfb registered a net loss of N1.6bn in 3Q FY20. This was attributed to the tough operating environment,



exacerbated by both the COVID-19 pandemic and the recent nationwide protest, which adversely impacted on loan repayments and collections. While management had indicated some remedial actions to improve loan collections, GCR expects the weak financial performance to persist over the short term.

A positive rating action could follow a satisfactory improvement in the bank's asset quality position and financial performance. However, a sustained pressure on asset quality and profitability metrics could trigger a negative rating action.

NATIONAL SCALE RATINGS HISTORY

Initial rating (July 2017)

Long term: BBB⁺_(NG)

Short term: A2_(NG)

Outlook: Stable

Last rating (November 2019)

Long term: BBB⁺_(NG)

Short term: A2_(NG)

Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for rating Banks and Other Financial Institutions, updated March 2017



Global Criteria for Rating Microfinance Institutions, Updated March 2017

Glossary of Terms/Ratios, February 2016

LAPO Mfb rating reports (2017-19)

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, LAPO Microfinance Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.

LAPO Microfinance Bank Limited participated in the rating process via teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to LAPO Microfinance Bank Limited with no contestation of/changes to the ratings.

The information received from LAPO Microfinance Bank Limited and other reliable third parties to accord the rating included the audited annual financial statements as at 31 December 2019 (plus four years of comparative numbers), the unaudited management accounts for nine months (up to September 2020), full year detailed budgeted financial statements for 2020 and other detailed information related to the bank's operations.