

LAPO Microfinance Company Limited

Financial Statements
for the year ended 31 December 2016

*This report contains 27 pages
Ref: L10/mb/bow*

Contents	Page
General information	1
Report of the Directors	2-3
Independent Auditors' report	4-7
Statement of financial position	8
Statement of comprehensive income	9-10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	13- 27

General information

Directors	:	Mr Godwin Ehigiamusoe	-	Chairman
		Mr Augustine Bangura	-	Member
		Mrs Josephine Nwanchukwu	-	Member
		Mrs Victoria Sia Kargbo	-	Member
		Mr Gabriel Eshiague	-	Managing

Registered Office : 67 Adelaide Street
 Freetown

Bankers : Guaranty Trust Bank (SL) Limited
 Rokel Commercial Bank Sierra Leone Limited
 Ecobank SL Ltd
 First International Bank Ltd
 Zenith Bank SL Ltd
 Access Bank SL Ltd
 United Bank for Africa (SL) Ltd
 Sky Bank (SL) Ltd
 Marampa Masimera Bank Ltd
 Kabala Community Bank Limited
 Union Trust Bank Limited
 Yoni Community Bank Ltd

Auditors : KPMG
 Chartered Accountants
 KPMG House
 37 Siaka Stevens Street
 Freetown.

Report of the Directors

The Directors have pleasure in submitting their report and financial statements on the affairs of the Company for the year ended 31 December 2016.

Principal activity

The Company is engaged in micro credit financing activities.

Directors' responsibility statement

The Directors are responsible for the preparation and presentation of the financial statements, comprising the statement of financial position at 31 December 2016, and the statements of comprehensive income statement, changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with note 2 of the financial statements.

The Directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe it will not be a going concern in the year ahead.

Results

The results for the period are shown in the attached financial statements.

Compliance with Other Financial Services Act 2001

The company carries out financial activities as defined in the Other Financial Services Act 2001, which includes giving out credit to customers and taking collaterals from them as deposits to secure the loans disbursed. Section 3 of the Other Financial Services Act, 2001, requires that no person shall carry on any financial activity unless that person holds a valid license issued by the Central Bank of Sierra Leone. The Central Bank has issued a license to LAPO Microfinance Company Limited which runs from 2015 to 2020.

Capital adequacy

The Bank of Sierra Leone is required to prescribe a minimum capital adequacy ratio for financial institutions, but this is yet to be determined for micro financing institutions.

Parent company

LAPO (NGO) (a Non-Profit Making Organisation) owns a controlling interest in LAPO Microfinance Company Limited.

Dividend

The Directors do not recommend the payment of dividends for the year ended 31 December 2016.

Report of the Directors (continued)

Directors

The names of the Directors are listed on page 1. No Director has or had during the period, a material interest in any contract or arrangement of significance to which the company was or is a party.

Property and equipment

Details of the LAPO Microfinance Company Limited's property and equipment are shown in note 13 to these financial statements.

Employment of disabled people

LAPO Microfinance Company Limited does not discriminate against disabled persons as is clearly stated in the Company's staff hand book, section 1.2j 'The Company shall not discriminate against a qualified individual with disability with regards to recruitment, advancement, training, compensation, discharge or other terms, conditions or privileges of employment'. There were no disabled persons employed during the year.

Health, safety and welfare at work

LAPO Microfinance Company Limited maintains a conducive office environment for staff and visitors, with adequate lighting and ventilation.

Employee involvement and training

There are various forums where the staff meet and discuss issues that relate to them and their progress at the work place, these include unit meetings, and regular general meetings.

There is an approved training schedule for staff and the Company also has a staff performance appraisal process through which staff are appraised and promotions and /or increments are made.

Auditors

The Auditors have indicated their willingness to continue in office.

Approval of the financial statements

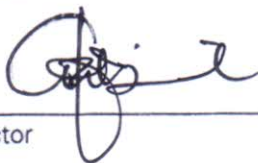
The Board of Directors approved the financial statements on2017.



Director



Director



Director

Secretary



KPMG Sierra Leone
KPMG House
37 Siaka Stevens Street
P.O. Box 100
Freetown
Sierra Leone

Telephone: +232-22-222061/2
Telefax: +232-22-228149
Email: kpmg@kpmg-sl.com
Internet: www.kpmg.com

Independent Auditors' report to the Shareholders of LAPO Microfinance Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LAPO Microfinance Company Limited, set out on pages 8 to 27 which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of LAPO Microfinance Company Limited as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the basis of accounting described in note 2 of the financial statements, the Other Financial Services Act 2001 and in the manner required by the Companies Act of Sierra Leone.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Sierra Leone, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of Sierra Leone, which we obtained prior to the date of this report. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' report to the Shareholders of LAPO Microfinance Company Limited *(continued)*

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and presentation of the financial statements in accordance with the basis of accounting described in note 2 of the financial statements and the requirements of the Companies Act of Sierra Leone, the Other Financial Services act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Independent Auditors' report to the Shareholders of LAPO Microfinance Company Limited *(continued)*

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other matter

The financial statements have been prepared in accordance with the basis of accounting described in note 2 for the purpose of determining the financial position of LAPO Microfinance Company Limited for use by its management, LAPO Microfinance Institution Nigeria and other donors, and the financial statements and related auditor's report may not be suitable for another purpose. Our report is intended solely for LAPO Microfinance Company Limited and should not be distributed to or used by parties other than LAPO Microfinance Company Limited, LAPO Microfinance Institution Nigeria and other donors.

Independent Auditors' report to the
Shareholders of LAPO Microfinance Company Limited *(continued)*

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 33(3) of the Other Financial Services Act 2001 of Sierra Leone we report that:

- The accounts give a true and fair view of the state of affairs of the Company and its result for the period under review.
- We were able to obtain all the information and explanation required for the efficient performance of our duties;
- The Company's transaction were within its powers; and
- The Company has complied with the relevant provisions of the Other Financial Services Act 2001 of Sierra Leone.

The Engagement Partner on the audit resulting in this independent auditor's report is Derrick Kawaley.

Freetown

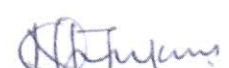
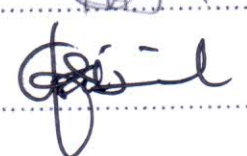
Chartered Accountants

Date

Statement of financial position
As at 31 December

In thousands of Leones	Notes	2016	2015
Asset			
Cash and balances with banks	10	2,031,612	1,100,185
Loan and advances to customers	11	9,836,462	5,404,059
Financial assets	14	2,806,194	-
Other assets	12	1,396,819	535,395
Property and equipment	13	337,858	160,509
Current tax asset	9b	-	23,903
Total assets		16,408,945	7,224,051
Liabilities			
Due to customers	15	6,598,872	4,617,829
Account payable and accruals	16	585,859	429,422
Deferred tax liability	9c	-	5,950
Current tax liability	9b	63,477	-
Loans and borrowings		4,733,872	-
		11,982,080	5,053,201
Equity and reserves			
Share capital	17	3,000,000	3,000,000
Deposit for shares	18	1,689,642	1,689,642
Equity contribution	19	2,902,420	1,146,770
Retained earnings	20	(3,165,197)	(3,665,562)
Total equity		4,426,865	2,170,850
Total liabilities and equity		16,408,945	7,224,051

These financial statements were approved by the Board of Directors on
.....2017

) Directors

The notes on pages 13 to 27 are an integral part of these financial statements

Statement of comprehensive income
for the year ended 31 December

<i>In thousands of Leones</i>	Notes	2016	2015
Income			
Interest income	3	3,957,121	2,452,600
Interest expense	4	(50,803)	(29,812)
Net interest income		<u>3,906,318</u>	<u>2,422,788</u>
Fees and commission income	5	1,610,130	873,876
Other income	6	367,703	219,350
Operating income		<u>5,884,151</u>	<u>3,516,014</u>
Net impairment loss on loans	11b	(170,084)	(115,209)
Personnel expenses	7	(2,907,875)	(1,796,169)
Depreciation	13	(54,730)	(107,520)
Other operating cost	8	(2,113,667)	(1,158,948)
Profit before tax		<u>637,795</u>	<u>338,168</u>
Income tax expense	9a	(137,430)	(82,962)
Profit/(loss) for the year		<u>500,365</u> =====	<u>255,206</u> =====
Other comprehensive income, net of income tax			
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		<u>500,365</u> =====	<u>255,206</u> =====

The notes on pages 13 to 27 are an integral part of these financial statements

Statement of comprehensive income *(continued)*

<i>In thousands of Leones</i>	<i>Note</i>	2016	2015
Profit attributable to:			
Equity holders of the Company		500,365	255,206
Profit for the year		<u>500,365</u> =====	<u>255,206</u> =====
Total comprehensive income attributable to:			
Equity holders of the Company		<u>500,365</u>	<u>255,206</u>
Total comprehensive income for the period		<u>500,365</u> =====	<u>255,206</u> =====

These financial statements were approved by the Board of Directors on.....
2017

..........Direct.

..........Director

.....Director

The notes on pages 13 to 27 are an integral part of these financial statements

Statements of changes in equity

	Share capital	Deposit for shares	Retained earnings	Equity contribution	Total
<i>In thousands of Leones</i>					
Balance at 1 January 2015	3,000,000	682,477	(3,920,768)	1,146,770	987,479
Profit for the year	-	-	255,206	-	255,206
Other comprehensive income	-	-	-	-	-
Net of income tax	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	255,206	-	255,206
Transaction with owners, recorded directly in equity contribution by and distribution	-	-	-	-	-
Additional funds during the year	-	1,007,165	-	-	1,007,165
Total contribution by and distributors to owners	-	1,007,165	-	-	1,007,165
Balance at 31 December 2015	3,000,000	1,689,642	(3,665,562)	1,146,770	2,170,850
Balance at 1 January 2016	3,000,000	1,689,642	(3,665,562)	1,146,770	2,170,850
Profit for the year	-	-	500,365	-	500,365
Other comprehensive income net of income tax	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	500,365	-	500,365
Transaction with owners, recorded directly in equity contribution by and distribution	-	-	-	-	-
Additional funds during the year	-	-	-	1,755,650	1,755,650
Total contribution by and distribution to owners	-	-	-	1,755,650	1,755,650
Balance at 31 December 2016	3,000,000	1,689,642	(3,165,197)	2,902,420	4,426,865

The notes on pages 13 to 27 are an integral part of these financial statements

Statement of cash flow
for the year ended to 31 December 2015

<i>In thousands of Leones</i>	Notes	2016	2015
Operating activities			
Profit for the year		500,365	255,206
Adjustment for:			
Depreciation	13	54,730	107,521
Gain on disposal of assets		(2,000)	(1,200)
Income tax expense		137,430	82,962
		<u>690,525</u>	<u>444,489</u>
Change in loan to customers		(4,432,402)	(2,310,891)
Change in other assets		(861,425)	212,448
Change in due to customers		1,981,043	967,221
Change in payables		156,437	(18,752)
		<u>(2,465,822)</u>	<u>(705,485)</u>
Income tax paid		(56,000)	(43,125)
Net cash used in operating activities		<u>(2,521,822)</u>	<u>(748,610)</u>
Cash flows from investing activities			
Acquisition of property and equipment	13	(232,079)	(126,629)
Proceeds from disposal of assets		2,000	1,200
Financial asset		(2,806,194)	-
Net cash used in investing activities		<u>(3,036,273)</u>	<u>(125,429)</u>
Cash flows from financing activities			
Loans and borrowings		4,733,872	-
Loan from donors		1,755,650	-
Deposit for shares		-	1,007,165
Net cash from financing activities		<u>6,489,522</u>	<u>1,007,165</u>
Net decrease in cash and cash equivalents		<u>931,427</u>	<u>133,126</u>
Cash and cash equivalents at start of period		<u>1,100,185</u>	<u>967,059</u>
Cash and cash equivalents at 31 December	10	<u>2,031,612</u> =====	<u>1,100,185</u> =====

The notes on pages 13 to 27 are an integral part of these financial statements

Notes to the financial statements

1. Reporting entity

LAPO Microfinance Company Limited was incorporated in Sierra Leone on 30 October 2008. Its principal activity is the provision of micro finance loans to business women who fall within the target group using a flexible duration methodology which is one of five months, six months or eight months as the case maybe depending on the repayment method required by the customer. The loans attract monthly interest charge at the rate of 2%. The five and eight month loan carries weekly repayments characteristics while the six months loan has monthly repayment characteristics. It commenced full operation in March 2008. It is affiliated with LAPO (NGO) and the address of its head office is 67 Adelaide Street in Freetown.

2. Basis of preparation

(a) Basis of presentation of the financial statement

These financial statements have been prepared in accordance with the basis of accounting described in note 2 of the financial statements and in the manner required by the Companies Act Sierra Leone. Details of the Company's accounting policies are included in notes 25.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Fundamental and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company's operates (the functional currency). The financial statements are presented in Leones, which is the Company's functional and presentation currency.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 11: Impairment allowance for bad loans.

Notes to the financial statements (continued)

3. Interest income

<i>In thousands of Leones</i>	2016	2015
Interest on loans	3,957,121	2,452,600
	<u>3,957,121</u>	<u>2,452,600</u>
	=====	=====

4. Interest expense

<i>In thousands of Leones</i>	2016	
Deposit from customers	50,803	29,812
Interest on intercompany loan	-	-
	<u>50,803</u>	<u>29,812</u>
	=====	=====

5. Fees and commission

<i>In thousands of Leones</i>	2016	2015
Loan processing fees	747,725	381,269
Registration fee	-	-
Risk premium	862,405	492,607
Pass book sales	-	-
	<u>1,610,130</u>	<u>873,876</u>
	=====	=====

6. Other income

<i>In thousands of Leones</i>	2016	2015
Profit on sale of fixed assets	2,000	1,200
Miscellaneous income	162,478	15,039
Profit on ID card	72,970	161,139
Profit on stock	118,421	35,992
Pass book sales	11,834	5,980
	<u>367,703</u>	<u>219,350</u>
	=====	=====

7. Personnel expenses

<i>In thousands of Leones</i>	2016	2015
Salaries	2,606,878	1,640,398
Allowances	71,682	66,601
Social security	108,001	61,777
End of service benefit expense	121,314	27,393
	<u>2,907,875</u>	<u>1,796,776</u>
	=====	=====

Notes to the financial statements (continued)

8. Other operating costs

<i>In thousands of Leones</i>	2016	2015
Board expenses	167,561	110,796
Occupancy expenses	256,124	202,497
Postage and telephone	72,523	71,640
Printing and stationeries	169,992	87,677
Repairs and maintenance	126,903	87,595
Professional fees	34,465	29,756
Licenses and insurance	12,136	11,416
Motor vehicle expenses	19,712	48,262
Other expenses	140,688	25,080
Cleaning expenses	61,460	48,732
Advertising expenses	24,116	31,916
Transportation and entertainment	425,245	261,170
Training and seminar expenses	209,052	12,322
Electricity and water expenses	20,450	11,144
Financial cost	305,740	57,295
Audit fees	67,500	61,650
	<u>2,113,667</u>	<u>1,158,948</u>
	=====	=====

9. Income tax expense

Recognised in the income statement

(a) Current tax expense

<i>In thousands of Leones</i>	2016	2015
Current year at 30%	143,380	94,940
Deferred tax expense		
Origination and reversal of temporary differences	(5,950)	(3,760)
	<u>137,430</u>	<u>91,180</u>
	=====	=====

Notes to the financial statements (continued)

9. Income tax expense (continued)

(b) Reconciliation of effective tax rate

<i>In thousands of Leones</i>	2016	2015
Profit before income tax	637,795	365,561
Income tax on profit before tax	191,339	109,668
Tax impact of permanent difference:		
Tax adjustment	-	-
Non-deductible expenses	127,574	78,351
Tax incentives	(3,482)	(1,899)
Deferred tax not recognised	(178,001)	(94,940)
	137,430	91,180
	=====	=====

(c) Income tax account

<i>In thousands of Leones</i>	2016	2015
Balance at 1 January	(23,903)	(67,500)
Tax charge for the year	143,380	86,722
Payments during the year	(56,000)	(43,125)
Balance at 31 December	63,477	(23,903)
	=====	=====

(d) Deferred tax asset and liabilities

Recognised deferred tax asset and liabilities

	Asset	2016 liability	Net	Asset	2015 liability	Net
Property plant and equipment	-	34,621	34,621	-	5,950	5,950
Tax loss carry forward	(831,050)	-	(831,050)	(974,430)	-	(974,430)
Deferred tax asset not recognized	796,429	-	796,429	974,430	-	974,430
	(34,621)	34,621	-	-	5,950	5,950
	=====	=====	=====	=====	=====	=====

Movement in temporary differences during the year - 2016

	Opening balance	Recognised in profit and loss	Recognised in equity	Closing balance
Property, plant and equipment	5,950	28,671	-	34,621
Tax loss carry forward	(974,430)	143,380	-	(831,050)
Deferred tax asset not recognised	974,430	(178,001)	-	796,429
	5,950	(5,950)	-	-
	=====	=====	=====	=====

Notes to the financial statements (continued)

9. Income tax expense (continued)

c) Deferred tax asset and liabilities (continued)

Movement in temporary differences during the period - 2015

	Opening balance	Recognised in profit and loss	Recognised in equity	Closing balance
Property, plant and equipment	9,710	(3,760)	-	5,950
Tax loss carry forward	(1,069,370)	94,940	-	(974,430)
Deferred tax asset not recognised	1,069,370	(94,940)	-	974,430
	9,710	(3,760)	-	5,950
	=====	=====	=====	=====

As at 31 December 2016, the company had an unrecognised deferred tax asset of Le 796 million arising from the tax loss as at 31 December 2015 of Le 2.65 billion. The deferred tax asset has not been recognised as it is uncertain when the Company would generate sufficient profits to enable it utilize the tax loss. The deferred tax asset can be carried forward indefinitely and would be recognised when it becomes probable that the company would be able to utilise the tax loss.

10. Cash and cash equivalent

<i>In thousands of Leones</i>	2016	2015
Cash at bank	2,027,989	1,097,482
Cash in hand	3,623	2,703
	2,031,612	1,100,185
	=====	=====

The cash and bank balances comprise the following balances with less than three months maturity from the date of acquisition.

Notes to the financial statements (continued)

11. Loans and advances to customers

a) Analysis of loans and advances

<i>In thousands of Leones</i>	2016	2015
Loan principal outstanding	10,362,960	5,760,473
Impairment allowance	(526,498)	(356,414)
	<u>9,836,462</u>	<u>5,404,059</u>
	=====	=====

b) Impairment allowance

<i>In thousands of Leones</i>	2016	2015
Opening balance	356,414	241,205
Impairment allowance for the period	170,084	115,209
	<u>526,498</u>	<u>356,414</u>
	=====	=====

c) Analysis by product type

<i>In thousands of Leones</i>	2016	2015
Five months product only	-	2,966,484
Six months product only	5,595,444	2,793,989
Eight months product only	4,166,313	-
Ten months product only	-	-
Twelve months product	601,203	-
	<u>10,362,960</u>	<u>5,760,473</u>
Impairment allowance	(526,498)	(356,414)
	<u>9,836,462</u>	<u>5,404,059</u>
	=====	=====

Notes to the financial statements (continued)

11. Loans and advances to customers (continued)

d) Analysis by geographical area

<i>In thousands of Leones</i>	2016	2015
Individual (Headquarters)		195,768
Goderich	789,406	353,825
Lumley	663,536	501,331
Kissy	722,898	497,971
Freetown 1	751,475	471,095
Freetown 2	416,968	203,898
Kenema	195,567	93,368
Waterloo	990,738	492,964
Allen Town	526,895	376,755
Lungi	426,693	344,840
Bo	663,594	192,475
Makeni	652,550	148,060
Kono	614,142	77,160
Lunsar	204,512	116,753
Koquima	-	-
Kabala	325,260	198,710
Moyemi	1,246,087	583,435
Mile 91	254,755	171,545
Kambia	300,938	176,741
EDLS	616,946	563,779
	<u>10,362,960</u>	<u>5,760,473</u>
Impairment allowance	<u>(526,498)</u>	<u>(356,414)</u>
	<u>9,836,462</u>	<u>5,404,059</u>
	=====	=====

12. Other assets

<i>In thousands of Leones</i>	2016	2015
Prepayments	606,973	182,749
Sundry debtors	789,846	352,546
	<u>1,396,819</u>	<u>535,295</u>
	=====	=====

Notes to the financial statements (continued)

13. Property and equipment

	Furniture and equipment	Motor vehicles	Total
Cost:			
At 1 January 2015	612,922	388,638	1,001,560
Addition	126,629	-	126,629
Disposals	(27,249)	-	(27,249)
At 31 December 2015	712,302	388,638	1,100,940
At 1 January 2016	712,302	388,638	1,110,940
Addition	232,079	-	232,079
At 31 December 2016	944,381	388,638	1,333,019
Accumulated depreciation			
At 1 January 2015	501,040	359,119	860,159
Charge for the period	78,704	28,817	107,521
Disposal	(27,249)	-	(27,249)
At 31 December 2015	552,495	387,936	940,431
At 1 January 2016	552,495	387,936	940,431
Charge for the period	54,028	702	54,730
At 31 December 2016	606,523	388,638	995,161
Net book value			
At 31 December 2015	159,807	702	160,509
At 31 December 2016	337,858	-	337,858

14. Financial assets

<i>In thousands of Leones</i>	2016	2015
Fixed deposit	2,806,194	-

15. Due to customers

<i>In thousands of Leones</i>	2016	2015
Cash deposits	6,598,872	4,617,829

Notes to the financial statements (continued)

16. Payables

<i>In thousands of Leones</i>	2016	2015
Sundry payables	310,436	233,590
Accruals	61,538	89,514
End of service benefit provision	213,885	106,318
	<u>585,859</u>	<u>429,422</u>
	=====	=====

17. Share capital

<i>In thousands of shares</i>	No. of Shares		Proceeds	
	2016	2015	2016	2015
Authorised				
Ordinary shares				
par value – Le1,000	3,000,000	3,000,000	-	-
	=====	=====	=====	=====
Issued				
For cash	3,000,000	3,000,000	3,000,000	3,000,000
	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
	=====	=====	=====	=====

18. Deposit for shares

<i>In thousands of shares</i>	2016	2015
As at 1 January	1,689,642	682,477
Deposit for shares	-	1,007,165
	<u>1,689,642</u>	<u>1,689,642</u>
	=====	=====

Deposit for shares represents amounts received by the company as additional capital.

19. Equity contribution

<i>In thousands of Leones</i>	2016	2015
As at 1 January	1,689,642	-
Donated equity	1,755,650	1,146,770
	<u>2,902,420</u>	<u>1,146,770</u>
	=====	=====

20. Retained earnings

<i>In thousands of Leones</i>	2016	2015
Balance at 1 January	(3,665,562)	(3,920,768)
Profit for the year	500,365	255,206
	<u>(3,165,197)</u>	<u>(3,665,562)</u>
	=====	=====

Notes to the financial statements (continued)

21. Related party

The Company has a related party relationship with LAPO (NGO) which has a significant control over LAPO Microfinance Company Limited.

The organisation is financed by LAPO (NGO)

Year end balance arising from transactions with related party.

<i>In thousands of Leones</i>	2016	2015
LAPO Nigeria	(33,991)	(230,492)
LAPO (NGO)	(178,959)	(33,992)
LAPO NGO	-	134,572
	=====	=====

22. Contingencies

There were no contingent assets or liabilities at 31 December 2016 (2015: Nil).

23. Capital commitments

There were no capital commitments as at 31 December 2016 (2015: Nil).

24. Post balance sheet events

Events subsequent to the financial position date are reflected only to the extent they relate directly to the financial statements and their effect is material. There were none such events as at the date these financial statements were signed.

Notes to the financial statements (continued)

25. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Interest income

Interest income is recognised in the income statements for all operating loans on a cash basis.

(c) Loan processing fees

This is a fee paid by each respective group on approval of their loan application. It is charged by LAPO Microfinance Company Limited and used to cover loan processing costs. The amount is usually paid before the loans are disbursed.

(d) Property, plant and equipment (operating assets)

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the organisation's and its cost can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Notes to the financial statements (continued)

25. Significant accounting policies (continued)

(d) Property, plant and equipment (operating assets) (continued)

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Rates	Useful lives
Buildings	2%	50 years
Renovations	50%	2 years
Computer equipment	33.33%	3 years
Furniture and equipment	25%	4 years
Vehicles/cycles	25%	4 years

Assets residual value and useful lives are reviewed and adjusted, if appropriate at each balance sheet date.

(iv) Disposals

Gains or losses on the disposal or scrapping of property, plant and equipment are determined as the difference between the sales price less the cost of dismantling selling and re-assembly of the assets and the carrying amount. Any gains or losses are recognised in the income statement as other operating income or other expenses respectively.

(e) Financial assets

The organisation's classifies its financial assets in the following categories: loans and held-to-maturity investments. Management determines the classification of its investments at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the organisation's provides money, goods or services directly to a debtor with no intention of trading the receivable.

(b) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the organisation's management has the positive intention and ability to hold to maturity.

Notes to the financial statements (continued)

25. Significant accounting policies (continued)

(f) Impairment of financial assets

The organisation assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the organisation about the following loss events:

- (i) Significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments.

The organisation first assesses whether objective evidence of impairment exists individually and collectively. If the organisation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are treated as debt recoveries in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(g) Provisions

Provisions for legal claims are recognised when the organisation has a present legal or constructive obligation as a result of past events; and it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Notes to the financial statements *(continued)*

25. Significant accounting policies *(continued)*

(h) Employee benefit

(a) Pension obligations

The organisation's operates a defined contribution scheme. A defined contribution plan is a pension plan under which the organisation's pays fixed contributions into a separate entity. The scheme is generally funded through payments to the National Social Security and Insurance Trust on a mandatory basis. The organisation's has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b. Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer encouraging voluntary redundancy and it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(c) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the financial statements (continued)

25. Significant accounting policies (continued)

Employee benefit (continued)

(i) Finance income and expenses

Finance income comprises foreign currency gains.

Finance expenses comprise foreign currency losses and bank charges. All foreign exchange losses and gains are recognised in profit or loss.

(j) Administrative expenses

Administrative expenses comprise expenses relating to administrative staff and management, including office expenses, salaries and depreciation as well as other indirect costs.

(k) Donation and grants

The organization records all grants for operation expenses in the income statements below the operating profit/loss. It transfers this amount to donated equity in the balance sheet on a memorandum basis. Capital grants for fixed assets and loan funds are recorded directly in the balance sheet as donated equity.

Financial risk factors

The organisation's activities expose it to a variety of financial risks, including:

(a) Credit risk

The organisation's takes on exposures to credit risk, which is the risk that a client may be unable to pay amounts in full when due. Credit risk is managed by obtaining moral guarantee from group members to bear responsibility for repayment of both principal and interest amount when they are due. All repayments are made in groups and not individually. Impairment provisions are provided for losses that may have been incurred at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

All clients depending on the type of loan makes cash collateral savings and this can also be used to offset outstanding loan amounts due. A ten percent savings is made for all loans.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. The organisation's manages this risk by maintaining sufficient cash, and investing any excess cash over its anticipated requirements.