LAPO Microfinance Company (SL) Limited

Financial Statements
for the year ended 31 December 2018

This report contains 27 pages
Ref: L10/sim/bow

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General information

Directors : Mrs Victoria Sia Kargbo - Chairman/Chairperson
Mr Gabriel Eshiague - Managing Director
Mr Godwin Ehigiamusoe - Member
Mr Augustine Bangura - Member
Ms Josephine Nwachukwu - Member

Registered Office : 67 Adelaide Street
Freetown

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

Auditors : Baker Tilly
Chartered Accountants
Baker Tilly 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 2018.

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 2018, and the statements of profit and loss and other comprehensive income, changes in equity and 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 controls 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 (SL) 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 (SL) Limited.

Dividend

The Directors do not recommend the payment of dividends for the year ended 31 December 2018.

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 (SL) Limited's property and equipment are shown in note 14 to these financial statements.

Employment of disabled people

LAPO Microfinance Company (SL) Limited does not discriminate against physically challenged 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 (SL) 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 on ....3 MAY............2019.

Director

Director

Director

Secretary

Baker Tilly House
37 Siaka Stevens Street
P.O Bo 100
Freetown
Sierra Leone
Telephone +(232) 30-444-100

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LAPO Microfinance Company (SL) Limited, set out on pages 8 to 27 which comprise the statement of financial position as at 31 December 2019, 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 (SL) Limited of 31 December 2018, 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 (SL) 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 (SL) 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 (SL) 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 (SL) Limited and should not be distributed to or used by parties other than LAPO Microfinance Company Limited, LAPO Microfinance Institution Nigeria and other donors.

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Independent Auditors' report to the Shareholders of LAPO Microfinance Company (SL) 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.

Baker Tilly

Chartered Accountants

Freetown

Date 3 May 2019

Statement of financial position

As at 31 December

In thousands of Leones	Notes	2018	2017
Asset			
Cash and balances with banks	*11*	**5,215,249**	3,723,517
Loan and advances to customers	*12*	**27,581,673**	18,120,667
Financial assets	*15*	**12,039,864**	6,525,000
Other assets	*13*	**2,719,002**	2,137,551
Property and equipment	*14*	**1,481,071**	1,264,560
Deferred tax asset	*10d*	**190,056**	491,779
Total assets		**49,226,915**	32,263,074
Liabilities			
Due to customers	*16*	**13,834,770**	10,351,747
Overdraft	*11*	**9,814,678**	5,325,135
Account payable and accruals	*17*	**1,798,184**	976,051
Current tax liability	*10b*	**411,666**	266,657
Loans and borrowings	*18*	**15,094,615**	8,946,855
		40,953,913	25,866,445
Equity and reserves			
Share capital	*19*	**3,000,000**	3,000,000
Deposit for shares	*20*	**1,689,642**	1,689,642
Equity contribution	*21*	**2,902,420**	2,902,420
Retained earnings	*22*	**680,940**	(1,195,433)
Total equity		**8,273,002**	6,396,629
Total liabilities and equity		**49,226,915**	32,263,074

These financial statements were approved by the Board of Directors on ....3 MAY........2019

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

Statement of profit or loss and other comprehensive income

for the year ended 31 December

In thousands of Leones	Notes	2018	2017
Income			
Interest income	*3*	**11,878,805**	6,965,462
Interest expense	*4*	**(2,071,858)**	(1,214,789)
Net interest income		**9,806,947**	5,750,673
Fees and commission income	*5*	**5,384,153**	3,575,984
Other income	*6*	**114,638**	66,524
Net finance (loss)/income	*7*	**(25,750)**	95,000
Operating income		**15,279,988**	9,488,181
Net impairment loss on loans	*12b*	**(429,130)**	(111,634)
Personnel expenses	*8*	**(6,286,091)**	(4,212,440)
Depreciation	*14*	**(303,013)**	(235,138)
Other operating cost	*9*	**(5,602,649)**	(3,197,335)
Profit before tax		**2,659,105**	1,731,634
Income tax(expenses)/credit	*10a*	**(782,732)**	238,130
Profit for the year		**1,876,373**	1,969,764
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		**1,876,373**	**1,969,764**

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

Statement of profit or loss and other comprehensive income *(continued)*

In thousands of Leones	*Note*	**2018**	2017
Profit attributable to:			
Equity holders of the Company		**1,876,373**	1,969,764
Profit for the year		**1,876,373**	1,969,764
Total comprehensive income attributable to:			
Equity holders of the Company		**1,876,373**	1,969,764
Total comprehensive income for the year.		**1,876,373**	1,969,764

These financial statements were approved by the Board of Directors on...3 MAY........2019

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

Statements of changes in equity

In thousands of Leones	**Share capital**	**Deposit for shares**	**Retained earnings**	**Equity contribution**	**Total**
Balance at 1 January 2017	3,000,000	1,689,642	(3,165,197)	2,902,420	4,426,865
Profit for the year	-	-	1,969,764	-	1,969,764
Other comprehensive income net of income tax	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	1,969,764	-	1,969,764
Transaction with owners, recorded directly in equity	-	-	-	-	-
Balance at 31 December 2017	3,000,000	1,689,642	(1,195,433)	2,902,420	6,396,629
Balance at 1 January 2018	**3,000,000**	**1,689,642**	**(1,195,433)**	**2,902,420**	**6,396,629**
Profit for the year	-	-	**1,876,373**	-	**1,876,373**
Other comprehensive income net of income tax					
Total other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	**1,876,373**	-	**1,876,373**
Transaction with owners, recorded directly in equity	-	-	-	-	-
Balance at 31 December 2018	**3,000,000**	**1,689,642**	**680,940**	**2,902,420**	**8,273,002**

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 2018

In thousands of Leones	Notes	2018	2017
Operating activities			
Profit for the year		1,876,373	1,969,764
Adjustment for:			
Depreciation	14	303,013	235,138
Gain on disposal of assets		(10,000)	(8,800)
Income tax expense		782,732	(238,130)
		2,952,118	1,957,972
Change in loan to customers		(9,461,006)	(8,284,205)
Change in other assets		(581,451)	(740,732)
Change in due to customers		3,483,023	3,752,875
Change in payables		822,133	390,192
		(2,785,183)	(2,923,898)
Income tax paid		(336,000)	(50,469)
Net cash used in operating activities		(3,121,183)	(2,974,367)
Cash flows from investing activities			
Acquisition of property and equipment	14	(519,524)	(1,161,840)
Proceeds from disposal of assets		10,000	8,800
Financial asset		(5,514,864)	(3,718,806)
Net cash used in investing activities		(6,024,388)	(4,871,846)
Cash flows from financing activities			
Loans and borrowings		6,147,760	4,212,983
Long term overdraft financing		9,814,678	5,325,135
Net cash from financing activities		15,962,438	9,538,118
Net decrease in cash and cash equivalents		6,816,867	1,691,905
Cash and cash equivalents at start of period		(1,601,618)	2,031,612
Cash and cash equivalents at 31 December	11	5,215,249	3,723,517

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 (SL) 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 26.

(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

In thousands of Leones	**2018**	2017
Interest on loans	**11,878,805**	6,965,462
	11,878,805	6,965,462

4. Interest expense

In thousands of Leones	**2018**	2017
Interest on customers' savings	**316,512**	170,526
Interest on overdrafts and loans from financial institutions	**1,755,346**	1,044,263
	2,071,858	1,214,789

5. Fees and commission

In thousands of Leones	**2018**	2017
Loan processing fees	**2,555,119**	1,778,861
Risk premium	**2,829,034**	1,782,078
Management fees	-	15,045
	5,384,153	3,575,984

6. Other income

In thousands of Leones	**2018**	2017
Fines	**77,516**	-
Profit on sale of fixed assets	**10,000**	8,800
Miscellaneous income		40,171
Pass book sales	**27,122**	17,553
	114,638	66,524

7. Net finance (loss)/income

In thousands of Leones	**2018**	2017
Net finance (loss)/ income	**(25,750)**	95,000
	(25,750)	95,000

8. Personnel expenses

In thousands of Leones	**2018**	2017
Salaries	**5,769,698**	3,714,740
Allowances	**128,393**	107,433
Social security	**223,503**	113,156
End of service benefit expense	**164,497**	277,111
	6,286,091	4,212,440

9. Other operating costs

In thousands of Leones	**2018**	2017
Board expenses	**586,064**	400,897
Occupancy expenses	**520,347**	445,426
Postage and telephone	**818,380**	141,003
Printing and stationeries	**325,436**	140,595
Repairs and maintenance	**457,483**	379,265
Professional fees	**111,212**	46,194
Licenses and insurance	**50,516**	14,159
Other expenses	**389,994**	174,267
Cleaning expenses	**190,698**	-
Advertising expenses	**188,609**	109,400
Travelling and monitoring	**1,182,520**	771,991
Training and seminar expenses	**243,475**	167,599
Electricity and water expenses	-	-
Financial cost	**470,963**	339,039
Audit fees	**66,952**	67,500
	5,602,649	3,197,335

10. Income tax expense

Recognised in the income statement

(a) Current tax expense

In thousands of Leones	**2018**	2017
Current year at 30%	**481,009**	253,649
Deferred tax expense Origination and reversal of temporary differences	**301,723**	(491,779)
	782,732	(238,130)

Notes to the financial statements *(continued*

10. Income tax expense (continued)

(b) Reconciliation of effective tax rate

In thousands of Leones	2018	2017
Profit before income tax	2,659,105	1,731,634
Income tax on profit before tax	797,732	519,490
Tax impact of permanent difference:		
Tax adjustment	(15,000)	50,279
Non-deductible expenses	-	(11,470)
Tax incentives	-	-
Deferred tax not recognised	-	(796,429)
	782,732	(238,130)

(c) . Income tax account

In thousands of Leones	2018	2017
Balance at 1 January	266,657	63,477
Tax charge for the year	481,009	253,649
Payments during the year	(336,000)	(50,469)
Balance at 31 December	411,666	266,657

(d) Deferred tax asset and liabilities

Recognised deferred tax asset and liabilities

	2018			2017		
	Asset	liability	Net	Asset	liability	Net
Property plant and equipment	-	67,071	67,071	-	85,622	85,622
Employee benefit provision	(160,735)	-	(160,735)	(577,401)	-	(577,401)
Tax loss carry forward	(96,392)	-	(96,392)	-	-	-
	(257,127)	67071	(190,056)	(577,401)	85,622	(491,779)

Movement in temporary differences during the year - 2018

	Opening balance	Recognised in profit and loss	Recognised in equity	Closing balance
Property, plant and equipment	85,622	(18,551)	-	67,071
Employee benefit provision	-	(160,735)	-	(160,735)
Tax loss carry forward	(577,401)	481,009	-	(96,392)
	(491,779)	301,723	-	(190,056)

Notes to the financial statements *(continued)*

10. Income tax expense (continued)

c) Deferred tax asset and liabilities (continued)

Movement in temporary differences during the period - 2017

	Opening balance	**Recognised in profit and loss**	**Recognised in equity**	**Closing balance**
Property, plant and equipment	34,621	51,001	-	85,622
Tax loss carry forward	(831,050)	253,649	-	(577,401)
Deferred tax asset not recognised	796,429	(796,621)	-	-
	(34,621)	(491,779)	-	(491,779)

11. Cash and cash equivalent

In thousands of Leones	**2018**	2017
Cash at bank	**5,063,949**	3,532,244
Cash in hand	**151,300**	191,273
	5,215,249	3,723,517
Overdraft	**(9,814,678)**	(5,325,135)
Cash and cash equivalent	**(4,599,429**	(1,601,618)

12. Loans and advances to customers

a) Analysis of loans and advances

In thousands of Leones	**2018**	2017
Loan principal outstanding	**28,203,038**	18,312,902
Impairment allowance	**(621,365)**	(192,235)
	27,581,673	18,120,667

b) Impairment allowance

In thousands of Leones	**2018**	2017
Opening balance	**192,235**	526,498
Impairment allowance for the period	**429,130**	111,634
Write off	-	(445,897)
	621,365	192,235

c) Analysis by product type

In thousands of Leones	**2018**	2017
Five months product only	-	9,662
Six months product only	**12,500,225**	7,721,404
Eight months product only	**14,644,630**	10,145,665
Ten months product only	**691,390**	-
Twelve months product	-	-
Six months (asset loan)	**366,793**	436,171
	28,203,038	18,312,902
Impairment allowance	**(621,365)**	(192,235)
	27,581,673	18,120,667

12. Loans and advances to customers (continued)

d) Analysis by geographical area

In thousands of Leones	**2018**	2017
Goderich	**958,640**	856,434
Lumley	**1,120,168**	999,283
Kissy	**1,613,065**	1,207,994
Freetown 1	**1,600,070**	1,272,934
Freetown 2	**1,650,548**	1,133,301
Kenema	**845,115**	429,208
Waterloo	**1,900,871**	1,210,907
Allen Town	**1,044,232**	891,872
Lungi	**1,267,903**	660,399
Bo	**1,983,858**	1,311,432
Makeni	**2,250,635**	1,573,223
Kono	**661,409**	543,209
Lunsar	**736,825**	461,043
Tikonkoh	**920,768**	500,476
Kabala	**444,568**	366,864
Mayami	**2,169,491**	1,683,622
Mile 91	**445,121**	428,767
Kambia	**851,206**	633,764
Freetown 3 (EDLS)	**2,964,237**	1,575,757
Magburaka	**1,263,105**	572,413
Makeni 2	**751,405**	-
Waterloo 2	**409,110**	-
Tongor	**236,808**	-
Pujehun	**113,880**	-
	28,203,038	18,312,902
Impairment allowance	**(621,365)**	(192,235)
	27,581,673	18,120,667

13. Other assets

In thousands of Leones	**2018**	2017
Prepayments	**1,849,439**	1,175,941
Sundry debtors	**869,563**	961,610
	2,719,002	2,137,551

Notes to the financial statements *(continued)*

14. Property and equipment

	Land	Furniture and equipment	Motor vehicles	WIP	Total
At 1 January 2018	**50,000**	**1,444,515**	**177,200**	**347,146**	**2,018,861**
Additions		**408,724**		**110,800**	**519,524**
Disposal		**(99,168)**			**(99,168)**
31 December 2018	**50,000**	**1,754,071**	**177,200**	**457,946**	**2439,217**
At 1 January 2017	-	944,381	388,638	-	1,333,019
Additions	50,000	597,494	167,200	347,146	1,161,840
Disposal		-	(104,490)	-	(104,490)
Disposal	-	(97,360)	(274,148)	-	(371,508)
31 December 2017	50,000	1,444,515	177,200	347,146	2,018,861
Accumulated depreciation					
1 January 2018	-	**719,917**	**34,384**	-	**754,301**
Depreciation	-	**261,213**	**41,800**	-	**303,013**
Write off	-	**(99,168)**	-	-	**(99,168)**
31 December 2018	-	**881,962**	**76,184**	-	**958,146**
1 January 2017	-	606,523	388,638	-	995,161
Depreciation	-	210,754	24,384	-	235,138
Disposal	-	-	(104,490)	-	(104,490)
Write off	-	(97,360)	(274,148)	-	(371,508)
31 December 2017	-	719,917	34,384	-	754,301
Netbook value					
1 January 2017	-	337,858	-	-	337,858
31 December 2017	50,000	724,598	142,816	347,146	1,264,560
31 December 2018	**50,000**	**872,109**	**101,016**	**457,946**	**1,481,071**

15. Financial assets

In thousands of Leones	**2018**	2017
Fixed deposit	**12,039,864**	6,525,000

16. Due to customers

In thousands of Leones	**2018**	2017
Cash deposits	**13,834,770**	10,351,747

17. Account payable and accruals

In thousands of Leones	**2018**	2017
Sundry payables	**967,275**	436,953
Accruals	**295,124**	67,500
End of service benefit provision	**535,785**	471,598
	1,798,184	976,051

18. Loans and borrowings

In thousands of Leones	**2018**	2017
Regional MSME Investment fund For Sub Saharan Africa Loan	**8,074,055**	5,196,855
MCE Social Capital Loan	**3,998,000**	3,750,000
ADA Microfinance	**3,022,560**	-
	15,094,615	8,946,855

19. Share capital

	No. of Shares		**Proceeds**	
In thousands of shares	**2018**	2017	**2018**	2017
Authorised				
Ordinary shares Per value – Le1,000	**3,000,000**	3,000,000	3,000,000	-
Issued				
For cash	**3,000,000**	3,000,000	3,000,000	3,000,000
	3,000,000	3,000,000	3,000,000	3,000,000

20. Deposit for shares

In thousands of shares	**2018**	2017
As at 1 January	**1,689,642**	1,689,642
Deposit for shares	-	
Balance at 31 December	**1,689,642**	1,689,642

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

Notes to the financial statements *(continued)*

21. Equity contribution

In thousands of Leones	**2018**	2017
As at 1 January	**2,902,420**	1,146,770
Donated equity	-	1,755,650
	2,902,420	2,902,420

22. Retained earnings

In thousands of Leones	**2018**	2017
Balance at 1 January	**(1,195,433)**	(3,165,197)
Profit for the year	**1,876,373**	1,969,764
Balance at 31 December	**680,940**	(1,195,433)

23. 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.

In thousands of Leones	**2018**	2017
LAPO Nigeria	-	(33,991)
LAPO (NGO)	**(973,006)**	(250,286)

24. Contingencies

There were no contingent assets or liabilities at 31 December 2018 (2017: Nil).

25. Capital commitments

There were no capital commitments as at 31 December 2018 (2017: Nil).

26. 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)*

27. 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 (SL) 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)*

27. 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 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)*

27. 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)*

27. Significant accounting policies *(continued)*

(h) Employee benefit

(a) Pension obligations

The organisation 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 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)*

27. 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.

28 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 manages this risk by maintaining sufficient cash, and investing any excess cash over its anticipated requirements.