LAPO Microfinance Company (SL) Limited

Financial statements
for the year ended 31 December 2020

This report contains 29 pages
Ref: L10/sim/bow

Contents

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 Sierra Leone
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 2020.

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 2020, 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 2022.

Capital adequacy

The Company is required by regulation of the Bank of Sierra Leone to maintain a capital adequacy ratio of 8%. As at 31 December 2020 the capital adequacy of the Company was 31.9% (2019: 24.6%).

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 2020.

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 28th April 2021.

Director

Director

Director

Secretary

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Baker Tilly SL
Baker Tilly House
37 Siaka Stevens Street
P.O Box 100
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 29 which comprise the statement of financial position as at 31 December 2020, 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 2020, 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.

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

(continued)

Other Information (continued)

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.

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.

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

(continued)

Auditor's Responsibilities for the Audit of the financial statements

- 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.
- 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

Freetown *Chartered Accountants*

Date 28 April 2021

Statement of financial position

As at 31 December

In thousands of Leones	Notes	2020	2019
Asset			
Cash and balances with banks	*11*	**7,661,124**	5,838,614
Loan and advances to customers	*12*	**40,011,040**	36,667,502
Financial assets	*16.1*	**23,427,069**	20,283,607
Other assets	*13*	**4,229,356**	3,436,046
Property and equipment	*14*	**2,551,775**	1,037,017
Intangible asset	*15*	**1,150,415**	1,128,478
Deferred tax asset	*10d*	**266,156**	352,576
Total assets		**79,296,935**	68,743,840
Liabilities			
Due to customers	*17*	**18,157,000**	16,003,485
Bank overdraft	*16.2*	**17,818,874**	14,355,729
Account payable and accruals	*18*	**1,964,786**	3,182,620
Current tax liability	*10b*	**246,641**	659,664
Loans and borrowings	*19*	**25,814,544**	24,136,000
Total liabilities		**64,001,845**	58,337,498
Equity and reserves			
Share capital	*20*	**5,036,646**	3,000,000
Deposit for shares	*21*	**1,689,642**	1,689,642
Equity contribution	*22*	**3,404,452**	3,030,746
Retained earnings	*23*	**5,164,350**	2,685,954
Total equity		**15,295,090**	10,406,342
Total liabilities and equity		**79,296,935**	68,743,840

These financial statements were approved by the Board of Director on...28th April......2021

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Statement of profit or loss and other comprehensive income

for the year ended 31 December

In thousands of Leones	Notes	2020	2019
Income			
Interest income	*3*	**18,320,315**	16,589,194
Interest expense	*4*	**(3,757,216)**	(2,893,696)
Net interest income		**14,563,099**	13,695,498
Fees and commission income	*5*	**7,692,341**	6,997,561
Other income	*6*	**1,839,911**	119,717
Net finance loss	*7*	**-**	(36,000)
Operating income		**24,095,351**	20,776,776
Net impairment loss on loans	*12b*	**(1,335,785)**	(1,620,084)
Personnel expenses	8	**(9,232,955)**	(8,701,662)
Depreciation and amortisation	*14/15*	**(684,450)**	(610,243)
Other operating cost	*9*	**(9,430,705)**	(6,982,629)
Profit before tax		**3,411,456**	2,862,158
Income tax expenses	*10a*	**(933,060)**	(857,144)
Profit for the year		**2,478,396**	2,005,014
Other comprehensive income, net of income tax		**-**	-
Total comprehensive income for the year		**2,478,396**	2,005,014

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

In thousands of Leones	*Note*	**2020**	2019
Profit attributable to:			
Equity holders of the Company		**2,478,396**	2,005,014
Profit for the year		**2,478,396**	2,005,014
Total comprehensive income attributable to:			
Equity holders of the Company		**2,478,396**	2,005,014
Total comprehensive income for the year.		**2,478,396**	2,005,014

These financial statements were approved by the Board of Directors on......28th April......2021

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Statements of changes in equity

In thousands of Leones	Share capital	Deposit for shares	Retained earnings	Equity contribution	Total
Balance at 1 January 2019	3,000,000	1,689,642	680,940	2,902,420	8,273,002
Profit for the year	-	-	2,005,014	-	2,005,014
Other comprehensive income net of income tax	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	2,005,014	-	2,005,014
Transaction with owners, recorded directly in equity	-	-	-	128,326	128,326
Balance at 31 December 2019	3,000,000	1,689,642	2,685,954	3,030,746	10,406,342
Balance at 1 January 2020	**3,000,000**	**1,689,642**	**2,685,954**	**3,030,746**	**10,406,342**
Profit for the year	-	-	**2,478,396**	-	**2,478,396**
Other comprehensive income net of income tax	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	**2,478,396**	-	**2,478,396**
Transaction with owners, recorded directly in equity	**2,036,646**	-	-	**373,706**	**2,410,352**
Balance at 31 December 2020	**5,036,646**	**1,689,642**	**5,164,350**	**3,404,452**	**15,295,090**

Statement of cash flows
for the year ended 31 December 2020

In thousands of Leones	Notes	2020	2019
Operating activities			
Profit for the year		**2,478,396**	2,005,014
Adjustment for:			
Depreciation and amortisation	*14/15*	**684,450**	610,243
Income tax expense		**933,060**	857,144
		4,095,906	3,472,401
Change in loan to customers		**(3,343,538)**	(8,278,659)
Change in other assets		**(793,311)**	(717,044)
Change in due to customers		**2,153,515**	2,168,715
Change in payables		**(1,217,833)**	577,266
		894,739	(2,777,321)
Income tax paid		**(1,259,663)**	(771,666)
Net cash used in operating activities		**(364,924)**	(3,548,987)
Cash flows from investing activities			
Acquisition of property and equipment	*14*	**(1,765,164)**	(409,897)
Acquisition of software	*15*	**(455,981)**	(884,770)
Net acquisition of financial assets		**(3,143,462)**	(8,243,743)
Net cash used in investing activities		**(5,364,607)**	(9,538,410)
Cash flows from financing activities			
Loans and borrowings		**1,678,544**	9,041,385
Equity Contribution		**2,410,352**	128,326
Long term overdraft financing		**3,463,145**	4,541,051
Net cash from financing activities		**7,552,041**	13,710,762
Net decrease in cash and cash equivalents		**1,822,510**	623,365
Cash and cash equivalents at start of year		**5,838,614**	5,215,249
Cash and cash equivalents at 31 December	*11*	**7,661,124**	5,838,614

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 2.5%. 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 29.

(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 12: Impairment allowance for bad loans.

Notes to the financial statements *(continued)*

3. Interest income

In thousands of Leones	**2020**	2019
Interest on loans	**18,320,315**	16,589,194
	18,320,315	16,589,194

4. Interest expense

In thousands of Leones	**2020**	2019
Interest on customers' savings	**244,288**	189,852
Interest on overdrafts and loans from financial institutions	**3,512,928**	2,703,844
	3,757,216	2,893,696

5. Fees and commission

In thousands of Leones	**2020**	2019
Loan processing fees	**2,184,219**	1,232,624
Risk premium	**4,199,101**	5,327,728
Management fees	**1,309,021**	437,209
	7,692,341	6,997,561

6. Other income

In thousands of Leones	**2020**	2019
Fines	**107,824**	86,456
Profit on sale of fixed assets	**-**	-
Pass book sales	**1,732,087**	33,261
	1,839,911	119,717

7. Net finance loss

In thousands of Leones	**2020**	2019
Net finance loss	**-**	(36,000)
	-	(36,000)

Notes to the financial statements *(continued)*

8. Personnel expenses

In thousands of Leones	2020	2019
Salaries	**8,242,649**	7,642,376
Allowances	**287,438**	451,446
Social security	**484,492**	226,831
End of service benefit expense	**218,376**	381,009
	9,232,955	8,701,662

9. Other operating costs

In thousands of Leones	2020	2019
Board expenses	**1,184,267**	1,000,841
Occupancy expenses	**681,106**	468,940
Postage and telephone	**797,554**	764,115
Printing and stationeries	**422,680**	488,918
Repairs and maintenance	**758,858**	597,030
Professional fees	**403,258**	615,420
Licenses and insurance	**61,476**	59,780
Other expenses	**1,706,733**	364,158
Advertising expenses	**264,808**	9,150
Travelling and monitoring	**1,906,866**	1,595,862
Training and seminar expenses	**367,848**	279,833
Electricity and water expenses	**169,239**	120,492
Financial cost	**593,449**	518,090
Audit fees	**112,563**	100,000
	9,430,705	6,982,629

10. Income tax expense

Recognised in the income statement

(a) Current tax expense

In thousands of Leones	2020	2019
Current year at	**846,640**	1,019,664
Deferred tax expense Origination and reversal of temporary differences	**86,420**	(162,520)
	933,060	857,144

Notes to the financial statements *(continued)*

10. Income tax expense (continued)

(b) Reconciliation of effective tax rate

In thousands of Leones	2020	2019
Profit before income tax	**3,411,456**	2,862,158
Income tax on profit before tax	**852,864**	858,647
Tax impact of permanent difference:		
Tax adjustment	**58,763**	-
Non-deductible expenses	**43,498**	-
Tax incentives	**(22,065)**	(1,503)
Deferred tax not recognised	-	-
	933,060	857,144

(c) Income tax account

In thousands of Leones	2020	2019
Balance at 1 January	**659,664**	411,666
Tax charge for the year	**846,640**	1,019,664
Payments during the year	**(1,259,663)**	(771,666)
Balance at 31 December	**246,641**	659,664

(d) Deferred tax asset and liabilities

Recognised deferred tax asset and liabilities

	2020 Asset	2020 liability	2020 Net	2019 Asset	2019 liability	2019 Net
Property plant and equipment	4,300	-	4,300	(77,538)	-	(77,538)
Employee benefit provision	-	(270,456)	(270,456)	(275,038)	-	(275,038)
	4,300	(270,456)	(266,156)	(352,576)	-	(352,576)

Movement in temporary differences during the year - 2020

	Opening balance	Recognised in profit and loss	Recognised in equity	Closing balance
Property, plant and equipment	(77,538)	81,838	-	4,300
Employee benefit provision	(275,038)	4,582	-	(270,456)
	(352,576)	86,420	-	(266,156)

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 - 2019

	Opening Balance	Recognised in profit and loss	Recognised in equity	Closing balance
Property, plant and equipment	67,071	(144,609)	-	(77,538)
Employee benefit provision	(160,735)	(114,303)	-	(275,038)
Tax loss carry forward	(96,392)	96,392	-	-
	(190,056)	(162,520)	-	(352,576)

11. Cash and cash equivalent

In thousands of Leones	**2020**	2019
Cash at bank	**7,406,178**	5,677,343
Cash in hand	**254,946**	161,271
	7,661,124	5,838,614

Notes to the financial statements *(continued)*

12. Loans and advances to customers

a) Analysis of loans and advances

In thousands of Leones	**2020**	2019
Loan principal outstanding	**43,184,695**	38,643,266
Impairment allowance	**(3,173,655)**	(1,975,764)
	40,011,040	36,667,502

b) Impairment allowance

In thousands of Leones	**2020**	2019
Opening balance	**1,975,764**	621,365
Impairment allowance for the period	**1,335,785**	1,620,084
Write off	**(137,894)**	(265,685)
	3,173,655	1,975,764

c) Analysis by product type

In thousands of Leones	**2020**	2019
Special loan	**3,942,758**	-
Regular loan (6 months)	**6,918,474**	14,269,407
Asset Loan	**1,430,733**	-
Asset special loan	**5,629,466**	184,730
Small and Medium Enterprises (SME)	**22,124,547**	18,341,162
Small Business Loan	**7,070**	-
Energy Loan	**14,444**	-
Consumer Loan	**2,917,395**	-
Small and Medium Enterprises (SME 12 months)	**199,808**	5,847,967
	43,184,695	38,643,266
Impairment allowance	**(3,173,655)**	(1,975,764)
	40,011,040	36,667,502

Notes to the financial statements *(continued)*

12. Loans and advances to customers (continued)

d) Analysis by geographical area

In thousands of Leones	**2020**	2019
Goderich	**1,069,385**	1,111,161
Lumley	**1,843,042**	1,731,991
Kissy	**1,792,811**	1,767,899
Freetown 1	**2,637,145**	1,856,726
Freetown 2	**2,332,267**	2,096,489
Kenema	**1,678,958**	1,501,121
Waterloo 1	**2,009,071**	1,705,447
Allen Town	**1,771,426**	1,207,122
Lungi	**1,739,866**	1,868,315
Bo	**2,419,917**	2,363,549
Makeni 1	**2,020,045**	2,459,228
Kono	**1,225,647**	1,149,516
Lunsar	**326,371**	1,079,945
Tikonkoh	**2,782,811**	1,489,669
Kabala	**906,057**	687,713
Mayami	**3,179,080**	2,970,597
Mile 91	**760,685**	663,434
Kambia	**1,400,912**	1,373,176
Freetown 3 (EDLS)	**6,012,414**	5,994,027
Magburaka	**939,534**	1,293,264
Makeni 2	**996,762**	1,131,541
Waterloo 2	**446,916**	416,817
Tongor	**1,017,231**	574,814
Pujehun	**385,822**	149,705
Shegbema	**102,865**	-
Port loko	**1,002,671**	-
Kailahun	**291,259**	-
Moyamba	**93,725**	-
	43,184,695	38,643,226
Impairment allowance	**(3,173,655)**	(1,975,764)
	40,011,040	36,667,502

13. Other assets

In thousands of Leones	**2020**	2019
Prepayments	**1,393,302**	2,087,910
Sundry debtors	**2,836,054**	1,348,136
	4,229,356	3,436,046

Notes to the financial statements *(continued)*

14. Property and equipment

In thousands of Leones	Land	Furniture and equipment	Computer equipment	Motor vehicles	WIP	Total
Cost						
At 1 January 2020	**50,000**	**1,170,258**	**893,485**	**277,425**	-	**2,391,168**
Additions	-	**1,176,776**	**588,388**	-	-	**1,765,164**
Write off	-	**(343,497)**	-	-	-	**(343,497)**
31 December 2020	**50,000**	**2,003,537**	**1,481,873**	**277,425**	-	**3,812,835**
	======	========	=======	=======	=======	========
At 1 January 2019	50,000	1,169,381	584,690	177,200	457,946	2,439,217
Additions	-	877	308,795	100,225	-	409,897
Transfers	-	-		-	(457,946)	457,946
31 December 2019	50,000	1,170,258	893,485	277,425	-	2,391,168
	======	========	========	=======	========	========
Accumulated depreciation						
1 January 2020	-	**889,353**	**382,350**	**82448**	-	**1,354,151**
Depreciation	-	**138,271**	**69,135**	**43,000**	-	**250,406**
Write off	-	**(343,497)**	-	-	-	**(343,497)**
31 December 2020	-	**684,127**	**451,485**	**125,448**	-	**1,261,060**
	======	========	========	=======	========	========
Accumulated depreciation						
1 January 2019	-	587,975	293,987	76,184	-	958,146
Depreciation	-	301,378	88,363	6,264	-	396,005
31 December 2019	-	889,353	382350	82,448	-	1,354,151
	======	========	========	========	========	========
Net Book Value						
1 January 2019	50,000	581,406	290,703	101,016	457,946	1,481,071
	======	========	========	=======	========	========
1 January 2020	**50,000**	**280,905**	**511,135**	**194,977**	-	**1,037,017**
	======	========	========	=======	========	========
31 December 2020	**50,000**	**1,319,410**	**1,030,388**	**151,977**	-	**2,551,775**
	======	========	========	=======	========	========

Notes to the financial statements *(continued)*

15. Intangible assets

In thousands of Leones	**Computer Software**
Cost or valuation	
At 1 January 2020	**1,342,716**
Acquisition	**455,981**
Balance at 31 December 2020	**1,798,697**
Accumulated amortisation	
At 1 January 2020	**214,238**
Amortisation for the year	**434,044**
Balance at 31 December 2020	**648,282**
Cost or valuation	
Acquisitions	884,770
Transfer in	457,946
Balance at 31 December 2019	1,342,716
Accumulated amortisation	
Amortisation for the year	214,238
Balance at 31 December 2019	214,238
Carrying amount	
31 December 2019	1,128,478
31 December 2020	**1,150,415**

16. Financial assets

	In thousands of Leones	**2020**	2019
16.1	Financial assets (fixed deposit)	**23,427,069**	20,283,607
16.2	Over drafts	**(17,818,874)**	(14,355,729)
	Net financial assets	**5,608,195**	5,927,878

17. Due to customers

In thousands of Leones	**2020**	2019
Cash deposits	**18,157,000**	16,003,485

Notes to the financial statements *(continued)*

18. Account payable and accruals

In thousands of Leones	**2020**	2019
Sundry payables	**548,025**	2,160,185
Accruals	**440,513**	211,219
End of service benefit provision	**976,248**	811,216
	1,964,786	3,182,620

19. Loans and borrowings

In thousands of Leones	**2020**	2019
Regional MSME Investment fund For Sub Saharan Africa Loan	**2,736,007**	9,600,000
MCE Social Capital Loan	**5,066,680**	4,800,000
ADA Microfinance	**5,066,680**	3,456,000
Alterfin	**2,533,340**	2,400,000
Grameen Agricole	**2,305,149**	3,880,000
SIMA Loan	**8,106,688**	-
	25,814,544	24,136,000

20. Share capital

	No. of Shares		**Proceeds**	
In thousands of shares	**2020**	2019	**2020**	2019
Authorised				
Ordinary shares				
Per value – Le1,000	**5,036,646**	3,000,000	**5,036,646**	3,000,000
Issued share capital	**5,036,646**	3,000,000	**5,036,646**	3,000,000
	5,036,646	3,000,000	**5,036,646**	3,000,000

21. Deposit for shares

In thousands of shares	**2020**	2019
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.

22. Equity contribution

In thousands of Leones	**2020**	2019
As at 1 January	**3,030,746**	2,902,420
Donated equity	**373,706**	128,326
	3,404,452	3,030,746

Notes to the financial statements *(continued)*

23. Retained earnings

In thousands of Leones	**2020**	2019
Balance at 1 January	**2,685,954**	680,940
Profit for the year	**2,478,396**	2,005,014
Balance at 31 December	**5,164,350**	2,685,954

24. 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	**2020**	2019
LAPO Nigeria	-	-
LAPO (NGO)	**(669,699)**	(894,699)

25. Capital management

The Company has complied with all externally imposed capital requirements throughout the period, and there have been no material changes in the Company's management of capital during the period.

Capital adequacy ratio

The capital adequacy ratio is the quotient of the capital base of the Company and the Company's risk weighted asset base. In accordance with other Financial Services Regulations, the Company is supposed to maintain a minimum ratio of 8%

In thousands of Leones

Capital base:

1. **Tier 1 capital**

	Carrying Amount	**Weighting (%)**	**2020 Weighted amount**	2019 Weighted amount
Issued capital	5,036,646	**100**	5,036,646	3,000,000
Deposit for shares	1,689,642	**100**	1,689,642	1,689,642
Equity Contribution	3,404,452	**100**	3,404,452	3,030,746
Retained profit	5,164,350	**100**	5,164,350	2,685,954
	15,295,090		**15,295,090**	10,406,342

Notes to the financial statements *(continued)*

2. Tier 2 capital

	Carrying Amount	Weighting (%)	Weighted amount	Weighted amount
Statutory loan reserve	-	100	-	-
Collective impairment allowance	-	100	-	-
Subordinating debt	-	100	-	-
Actuarial gain	-	100	-	-
	-		-	-
Total capital base	**15,295,090**		**15,295,090**	10,406,342

Risk weighted asset base

	2020 Amount	%	Weighted amount	**2019** Amount	%	Weighted amount
Advances (non cash Guaranteed)	40,011,404	**100**	40,011,404	36,667,502	100	36,667,502
Intangible assets	1,150,415	**100**	1,150,415	1,128,478	100	1,128,478
Other assets	4,229,356	**100**	4,229,356	3,436,046	100	3,436,046
Fixed assets	2,551,775	**100**	2,551,775	1,037,017	100	1,037,017
Total	47,942,950		47,942,950	42,269,043		42,269,043
Capital adequacy ratio			31.9%			24.6%

The Company's capital adequacy and core capital ratios are above the statutory minimum of 8% as required by current operating guidelines for Other deposit taking institutions.

26. Contingencies

There were no contingent assets or liabilities at 31 December 2020 (2019: Nil).

27. Capital commitments

There were no capital commitments as at 31 December 2020 (2019: Nil).

28. 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)*

29. 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.

(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.

(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.

Notes to the financial statements *(continued)*

29. Significant accounting policies (continued)

(c) Loan processing fees (continued)

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 Company 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.

(f) Impairment of financial assets

The Company 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:

Notes to the financial statements *(continued)*

29. Significant accounting policies (continued)

(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.

(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.

Notes to the financial statements *(continued)*

29. Significant accounting policies (continued)

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.

(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.

Notes to the financial statements *(continued)*

29. Significant accounting policies *(continued)*

Employee benefit (continued)

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.