

Annual Report

2017

Nigeria |



BAOBAB

MICROFINANCE BANK & MORE



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Baobab Group

Leader in digital financial inclusion
in Africa and in China

OUR MISSION

Our mission is to unleash the potential of our clients by offering them simple and easy to use financial services.

We offer a wide range of digital and mobile solutions that enable clients to simply, quickly and safely manage their finances. We deliver loans, savings and more.



BAOBAB
LOANS



BAOBAB
SAVINGS



BAOBAB
PAY



BAOBAB
INSURANCE

OUR CLIENTS
703,959

OUR EMPLOYEES
3,917

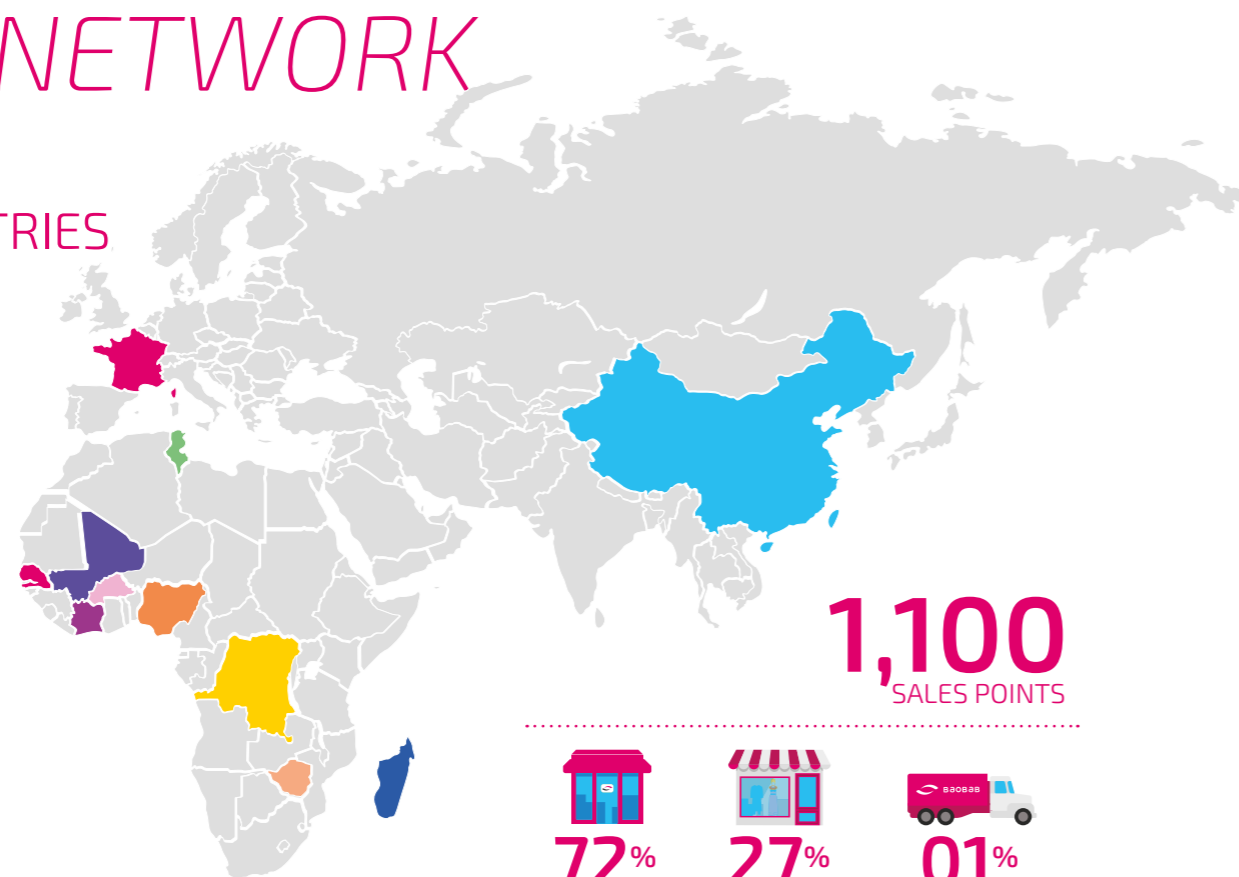
LOANS DISBURSED
IN 2017 (IN EURO)

850,000,000

OUR NETWORK

11 COUNTRIES

- FRANCE
- BURKINA FASO
- CHINA
- IVORY COAST
- MADAGASCAR
- MALI
- NIGERIA
- DR CONGO
- SENEGAL
- TUNISIA
- ZIMBABWE



1,100
SALES POINTS



72%
BAOBAB
POINTS

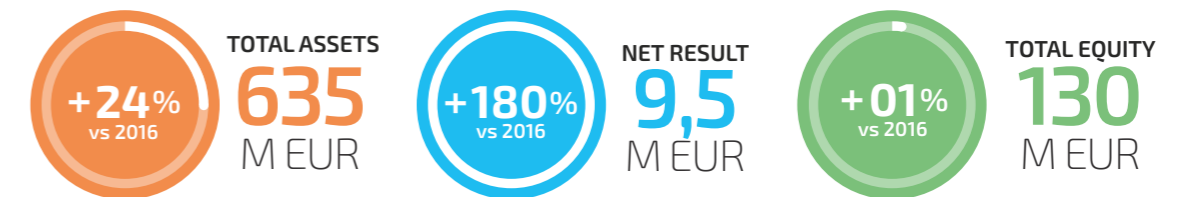
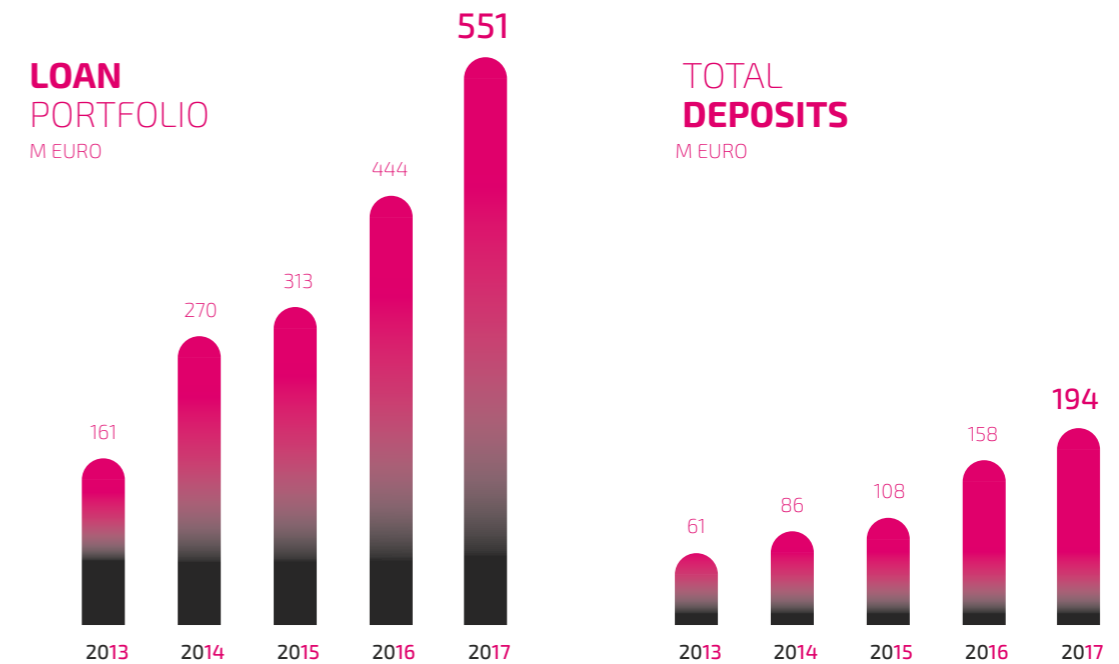


27%
BAOBAB
BRANCHES



01%
MOBILES
BRANCHES

OUR KEY FIGURES



21% OF LOANS DISBURSED IN 2017 VIA MOBILE PHONE

50% OF OUR CLIENTS IN 2017 ARE YOUNG

OUR SHAREHOLDERS



MAJ
INVEST





MEET BAOBAB NIGERIA

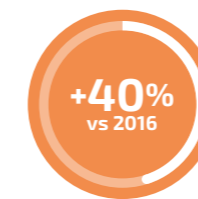
2017 KEY FIGURES

Baobab Nigeria (formerly Microcred Nigeria) was legally registered in May 2009 and disbursed its first loan on March 8, 2010.

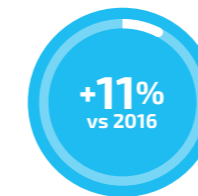
As a subsidiary of Baobab Group (formerly Microcred Group), Baobab Nigeria aims at providing loans, savings, insurance and transfer products to micro, small and medium entrepreneurs who are underserved and unserved by the traditional financial sector, in order to improve financial inclusion, promote enterprise, provide working capital, reduce poverty and act as a driver for large scale economic development in Nigeria.

Baobab Nigeria is one of eight microfinance banks licensed to operate across Nigeria. With footprints in Kaduna and Lagos states, the bank is pursuing an aggressive growth plan. About 41% of Nigeria's population remains unbanked, without access to structured finance or insurance for their business ventures.

As of 31, December 2017, Baobab Nigeria had 16 outlets comprising 15 branches across Lagos and Kaduna and 1 cash collection centre in Kaduna.



TOTAL ASSETS
5Bn
NGN



TOTAL EQUITY
2Bn
NGN



NET PROFIT
224M
NGN

2.8% PORTFOLIO AT RISK
30 DAYS

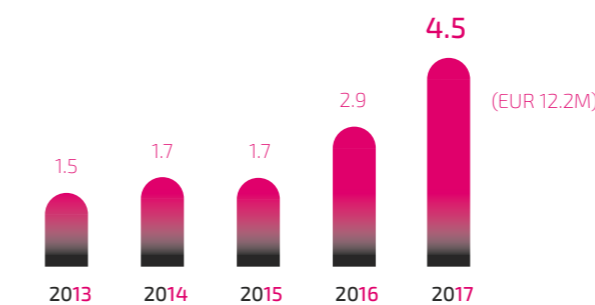
OUR CUSTOMERS
63,128

OUR EMPLOYEES
408

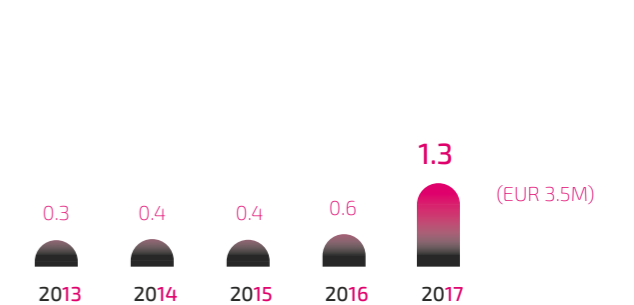
227 PORTFOLIO MANAGERS

51% OF OUR CLIENTS IN 2017 ARE YOUNG

LOAN PORTFOLIO
BN NGN



TOTAL DEPOSITS
BN NGN





A word of **BEN ZWINKELS**

Ì Ì HÌĹK HĸÄĪÄĪ Í ĀĹHĹJĪÄĪÄĪĹĪ Í ĹĹĹĹ

Whilst much of the global banking market has seen sluggish growth in recent years, the African banking market has shown significant expansion and is likely to maintain this positive trend into the foreseeable future.

One of the key emerging trends that we are witnessing is the shift from traditional brick & mortar banking infrastructure towards the provision of digital solutions.

This shift is being driven primarily by increased levels of mobile phone coverage across the continent enabling the creation of lower priced offerings whilst delivering wider service distribution.

Today, nearly half of Africans prefer to use digital channels to perform their financial transactions and this trend is certain to continue. With this in mind, the Baobab Group has made digital its priority.

My mission as the Chairman of the Board of Directors is to support Baobab Nigeria in this key moment of its development. Therefore, I will be placing all of my expertise in the African financial sector at the service of

Baobab and its management team to deliver this digital vision and assist in making Baobab Nigeria's leading responsible digital financial services provider.

Whilst it is important to achieve strong results, I believe that this is best done in a way that respects the interests of all stakeholders - employees, customers, regulators and shareholders - in a fair and transparent manner. With this in mind, the Supervisory Board and I will ensure

that Baobab remains a place where all employees have the opportunity to realize their potential, in a stimulating environment that encourages honesty, integrity and respect for the interests of our customers and shareholders.

The commitment and competence of our employees coupled with our capabilities in digital innovation enables Baobab Nigeria to approach the future with confidence and determination as we build further on the achievements so far attained.

We look forward to sharing the journey with you •

“ Ñ ĤŲĀŲĤĀŚĀŚ ĤŚŲĀŲĀĤĀ
ĤŲŲŲŲĀ ĤŚĤŚĀŲŲĀŚ ŲŲĀĤĀ
ŲĤĤŲĀĤĀŚ ĤŚĤŲĀĤĀĤĀ ”



A word of **KAZEEM OLANREWaju**

Ì ÍĪĪĀŪĪ ĤĹĪŪĪ ĀĪĪĪĪĹĹ

2017 has been another exciting year for Baobab Nigeria which saw the launch of new digital products.

In 2017, we disbursed more than NGN 9.6 billion (EUR 26.1 million) in loans to support the development of micro & small and medium enterprises.

Our gross loan portfolio grew to more than NGN 4.5 billion (EUR 12.2 million), disbursing to about 30,000 loan customers. We also saw an increase in customer deposits with almost NGN 1.3 billion (EUR 3.5 million) invested with us by the end of the year.

In December, nine years after it's creation, Baobab Nigeria refreshed its brand and visual identity. The company now reaches over 63,000 customers through 16 points of presence and is increasingly embracing digital tools to improve its efficiency and serve better its customers.

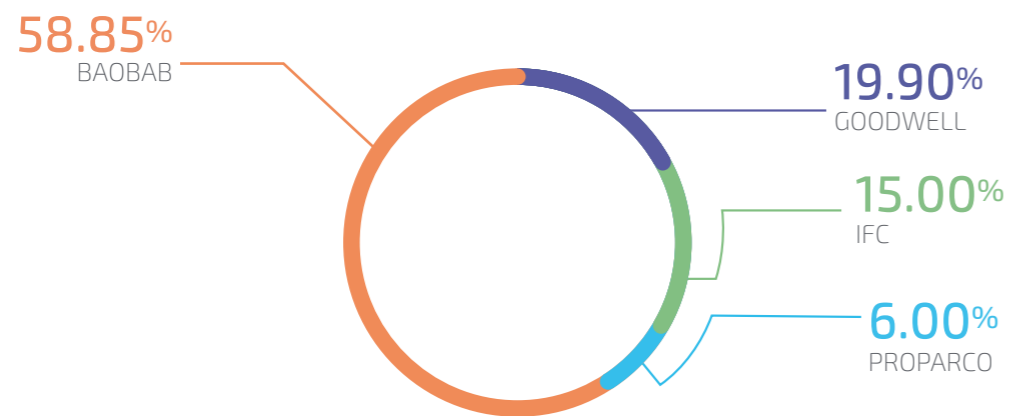
Looking ahead to 2018 and beyond, Baobab Nigeria will continue to focus on its core values of delivering responsible financial inclusion in Nigeria. Ever greater emphasis will be placed on delivering digital solutions, either stand-alone or through partnerships, to deliver seamless and secure financial transaction capabilities to our customers.

Without a highly committed and professional group of employees, the achievements we have seen to date would not have been possible and I would like to take this opportunity to thank the entire Baobab team for their efforts. In addition, I would like to extend my thanks to our shareholders, lenders and other partners who have continually demonstrated their strong support for our vision and mission.

I look forward to continuing the journey with all of you towards becoming Nigeria's leading digital financial services company focusing on financial inclusion •

“ Ì ĤŲŲĤĀĤĀŚ ŚŲŲŲĀĤĀ ĤĤĀ
ŲŲĀŚ ŲŲŲŲĀŚ ŚĀŲĤĤĀĤĀŚ ĤĀ
ŲĤĤŲĀĤĀŚ ĤŚĤĤĀĤĀĤĀĤĀ ”

SHAREHOLDING STRUCTURE



BOARD OF DIRECTORS



Ben ZWINKELS
CHAIRMAN OF THE BOARD
CHAIRMAN AFRICINVEST



Charles GILL
CHIEF OPERATING OFFICER
BAOBAB GROUP



representative of Baobab Group
Isabelle LEVARD
DEPUTY CHIEF EXECUTIVE OFFICER
BAOBAB GROUP



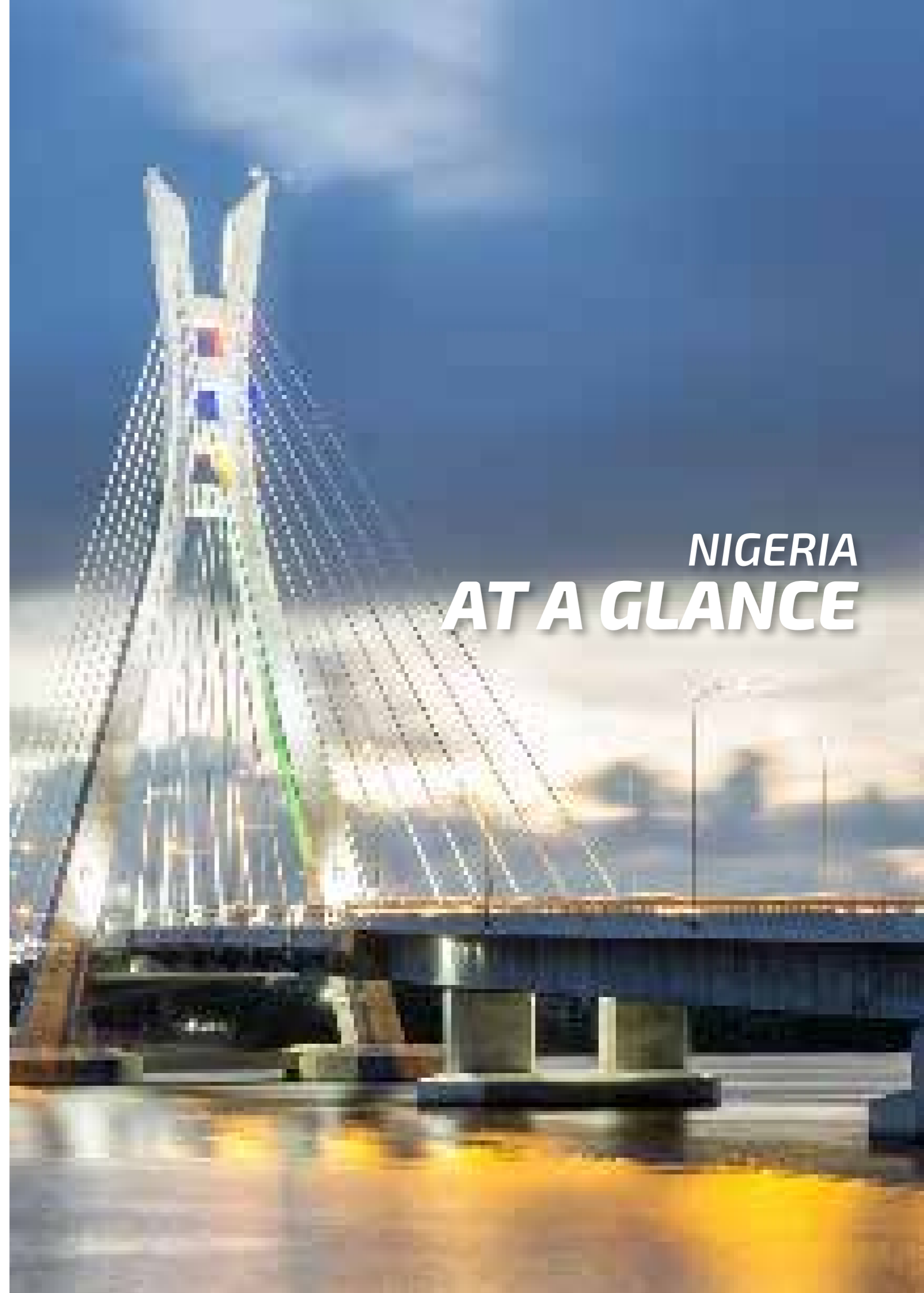
Ruben DIEUDONNÉ
CHIEF EXECUTIVE OFFICER
BAOBAB CÔTE D'IVOIRE



Tokunboh ISHMAEL
CO-FOUNDER & MANAGING DIRECTOR
ALITHEIA CAPITAL
GOODWELL REPRESENTATIVE



Kazeem OLANREWaju
CHIEF EXECUTIVE OFFICER
BAOBAB NIGERIA



NIGERIA AT A GLANCE

MACROECONOMIC CONTEXT

Between 2006 and 2016, Nigeria's GDP grew at an average rate of 5.7% per year, as volatile oil prices drove growth to a high of 8% in 2006 and to a low of -1.5% in 2016. While Nigeria's economy has performed much better in recent years than it did during previous boom-bust oil-price cycles, such as in the late 1970s or mid-1980s, oil prices continue to dominate the country's growth pattern.

After contracting for five consecutive quarters, the economy returned to growth in the second quarter of 2017. With a renewed focus on economic diversification, promoting growth in the private sector and driving job growth, GDP grew by 0.6 percent (year-on-year) in the second quarter of 2017, driven by recovering oil production and some recovery in non-oil industries, too, and modest growth in agriculture.

Economic growth is expected to have remained positive in the second half of 2017, averaging about 0.8% for 2017 according to the International Monetary Fund (IMF)¹; driven by the continued recovery of oil production, sustained growth in agriculture, and the positive impact on investment and other private sector activities from the improved availability of foreign exchange to support imports.

As the government begins to implement the structural reforms outlined in its Economic Recovery and Growth Plan 2017–2020, growth can be expected to strengthen further in the medium term, reaching about 2.8% by 2019.

The Nigerian inflation rate stood at 15.37% towards the end of 2017 •

THE BANKING SYSTEM

The Nigerian banking system currently consists of 21 commercial banks and 1,004 microfinance banks regulated and supervised by the Central Bank of Nigeria (CBN). Its primary responsibility is to formulate policies and monitor the banking system to ensure that operators comply with monetary, credit, and foreign exchange guidelines. Nigerian commercial banks perform three major functions: accepting deposits, granting loans and operating payment and settlement mechanisms.

Between 2010 and 2014, the financial exclusion rate declined from 46.3 to 39.5%,

but rose to 41.6% in 2016, representing more than 40 million Nigerian adults. This decline was driven by a reduction in the proportion of adults accessing financial services through other formal providers (other than Deposit Money Banks) and informal financial providers.

Deposit money banks have been better able to withstand the economic crisis and maintain their customer acquisition drive at the expense of other formal channels like MFBs most of which have struggled under the economic strain.

Banks have focused more on the population that already has some level of financial stability – this group is better able to cushion the effects of the economic hardship in the short term.

Financial exclusion is more evident in the North West geopolitical zone with up to 70%

of the population being excluded. In 2016², financial exclusion increased by 12% with Kano, Jigawa and Kebbi contributing the most to this trend. Banking services are not getting to rural areas where Informal financial services are more dominant •



¹ World Bank

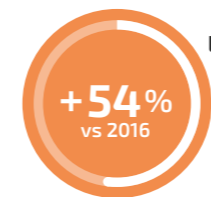
² Efina – Access to financial services in Nigeria survey 2016



BUSINESS INSIGHTS

HIGHLIGHTS OF 2017

2017 was an expansion year for Baobab Nigeria. Branch network grew from 10 branches in 2016 to 16 branches in 2017 and the Gross Loan Portfolio grew by 54% from NGN 3 billion in 2016 to NGN 4.5 billion in 2017. Savings



LOAN PORTFOLIO
4.5
Bn NGN

also grew by 113% from NGN 0.6 billion in 2016 to NGN 1.3 billion in 2017.

As a result of the increase in loan portfolio, a record profit after tax of NGN 224 million was posted in 2017, a significant increase when compared to 2016.

During the year Baobab Nigeria joined the Nigerian Interbank Settlement System (NIBSS) for instant inward online transfer capability for its clients and provided point of sale (POS) terminals at its branches in order to support the increase in the number of transactions by its clients.

Baobab Nigeria also launched two new digital loan products in 2017. On one hand, an automatic renewal loan based on a scoring criteria, that is only available to repeat clients with good repayment history.

On the other hand, a nano loan named TAKA, which is a smaller top up loan for meeting immediate cash needs for existing clients with very short tenors and bullet repayment of principal plus commission.

In 2017, Baobab Nigeria faced the challenge of procuring funding for its portfolio growth and expansion. Particular challenges emanated from the need for collateral by local commercial banks in Nigeria since risk assets are not an acceptable collateral for them and foreign currency based loans from international impact funds carry the risk of forex loss on execution.

Despite the challenges, in 2017 Baobab Nigeria completed a financing arrangement in which a local commercial bank provided a financing facility based on Baobab Group's corporate guarantee and also provided an overdraft facility of NGN 1.9 billion based on acceptable back-to-back cash collateral arrangements with international impact fund providers. These arrangements provided the much needed cash flow for the growth of the portfolio in 2017 and alleviated the funding challenge for 2018.

OUR CLIENTS

At the end of 2017, Baobab Nigeria had 63,000 clients, mostly micro entrepreneurs and SME businesses.

The outstanding gross loan portfolio was NGN 4.5 billion at the year end, with 17,500 active loans. The average loan disbursed during the year was for around NGN 320,000 and the average loan term was 6 months.

Almost the entire portfolio is for working capital purposes. The activities financed by Baobab Nigeria are mainly concentrated in the trade sector (52% of the outstanding loan portfolio) and in the production sector (27%).



61% of Baobab Nigeria's clients are women and 51% of clients are between 25 and 40 years old.

OUR PRODUCTS AND SERVICES

LOANS

The core loan product offered is a reducing balance loan with equal monthly instalments and a maximum tenor of 24 months for working capital purposes.

During 2017, Baobab Nigeria implemented two new digital products : the nano-loan TAKA and the automatised renewable loan. These products have been designed to allow customers to cover their urgent cash needs. Eligible customers are designated through a credit scoring process analyzing their credit history. Selected customers are notified by SMS that they can benefit from these offers with personalized amounts. Red tape is drastically reduced and customers can instantly disburse their credit and redeem it at the nearest Baobab Point •

PAYMENTS

In addition to cash transactions at its branches, Baobab Nigeria offers alternative payment options, including instant transfer via POS terminals at branches, payment at corresponding banks and payments via Nigerian Interbank Settlement System (NIBSS).

During 2017 Baobab Nigeria acquired biometric machines so that clients can be registered conveniently onto the BVN (Biometric verification Number) system •

SAVINGS

Baobab Nigeria offers instant access [savings accounts](#), a range of [savings plans](#) and a range of [term deposits](#) offering attractive returns.

Savings grew from NGN 0.6 billion in 2016 to NGN 1.3 billion in 2017 (a year on year growth of 111%). Deposits linked to loans and institutional savings accounted for 46% and 18% of the savings portfolio respectively •



INSURANCE

The main insurance product offered by Baobab Nigeria protects borrowers, repaying their loan in full in the event of death or disability and in the event of fire or burglary at their business premises •

HUMAN RESOURCES

Over the past twelve months, Baobab Nigeria staff has been expanded bringing its total number to 408 employees including 227 portfolio managers. Baobab's Nigeria team has an average age of 33 years and 35% are female. 92% of the employees were deployed in branches.

OUR EMPLOYEES
408

to new staff, Branch staff and Middle Management. Trainings mainly focused on the induction training for new staff, loan policy, risk evaluation, financial product profile, mobile application training for portfolio managers, credit risk management, ethics and fraud, anti money laundering, etc. Branch and deputy branch managers and Heads of Department participated in a 5 days Group training programme aimed to develop management and technical skills •

In 2017, Baobab Nigeria invested significantly in training with an average of 10 days training by employee mainly dedicated



FINANCIAL OVERVIEW

2017 was an expansion year for Baobab Nigeria. After receiving the national license and status from the Central Bank of Nigeria, the bank started its expansion by opening its first branch in Lagos in May 2016. By the end of 2017 Baobab Nigeria had 15 branches across the country and 57% of its portfolio in Lagos.

Baobab Nigeria profit before tax stood at NGN 336 million for 2017 as compared to NGN 16 million for 2016.



NET PROFIT
224M
NGN

Total revenues also increased from NGN 1.37 billion (EUR 4.2 million) in 2016 to NGN 2.49 billion (EUR 6.8 million) in 2017 (an increase of 82%). Equity of Baobab Nigeria as at the end of 2017 amounted to NGN 2.3 billion (EUR 6.4 million).

Portfolio at risk more than 30 days (PAR 30) remained low at 2.8% in 2017 compared to 1.5% in 2016 which is well within the acceptable threshold of PAR 30 of up to 5% as defined by the Central Bank of Nigeria •

2018 PERSPECTIVES

In 2018, Baobab Nigeria is poised to continue its expansion strategy by opening 3 branches in Lagos and 2 in Abuja. The Institution plans to have a dedicated training facility for its employees in Lagos and create dedicated SME meeting rooms in Lagos and Abuja too.

2 NEW BRANCHES IN ABUJA

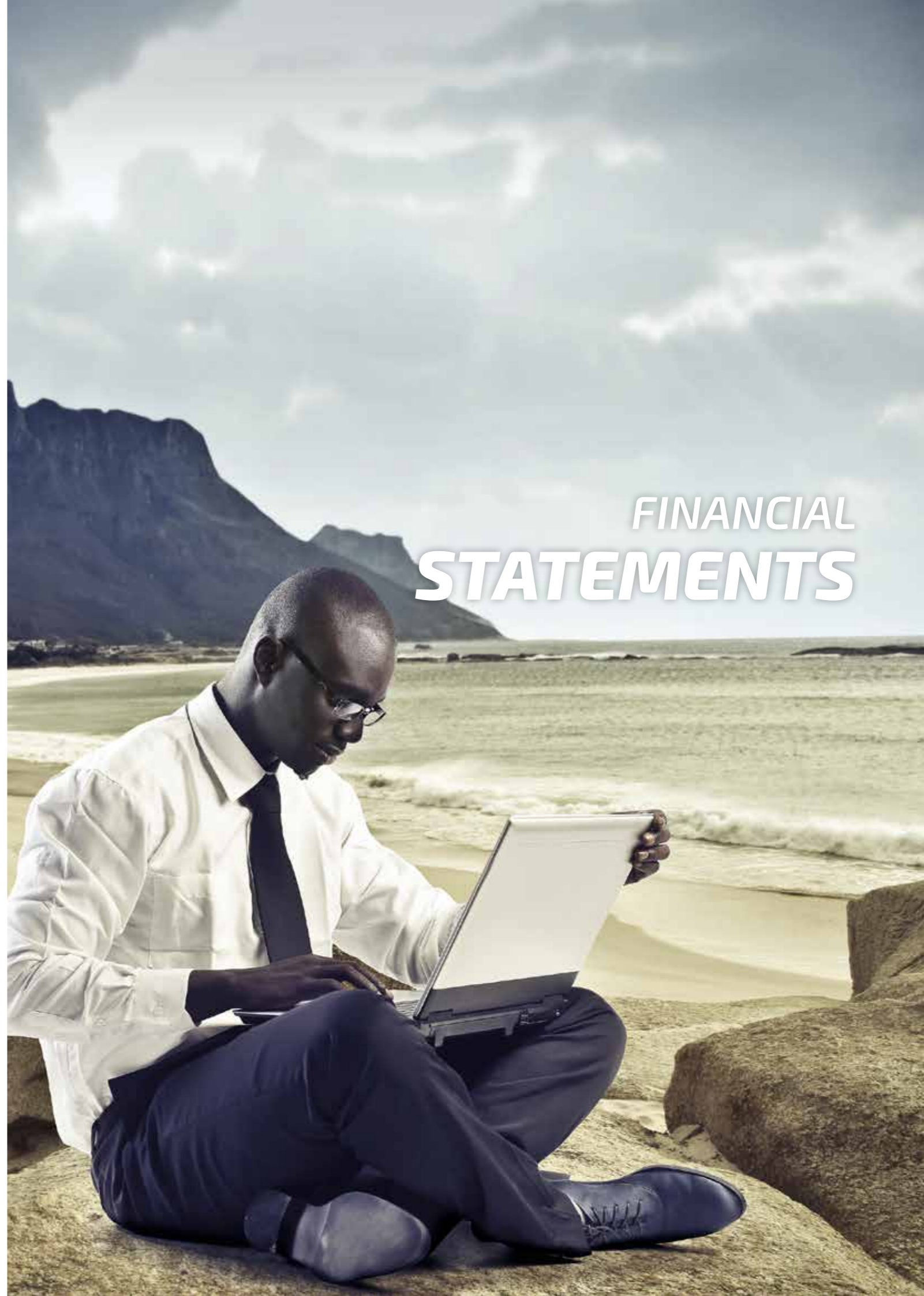
Baobab Nigeria will also benefit from the innovation strategy of Baobab Group through the development of a set of web and mobile personalized applications, to support and facilitate the daily activities of its employees. Baobab Group also launched an application which allows clients to open accounts remotely in a very secure way.

Those applications will be soon deployed in Nigeria with the key objective of offering the best user experience to our clients.

Baobab Nigeria will begin the renovation of the Kaduna branches. In 2018, a pilot testing for NIBSS (Nigeria InterBank Settlement Systems) will be rolled out to enable ease of transfer to and from other commercial banks. Clients will have access to debit cards to enable ease of transactions.

Baobab Nigeria aims at becoming one of the leaders of financial inclusion in Nigeria in the next five years, thanks to its geographical expansion strategy and its evolution to a mass market banking model, with a full range of retail financial services •

FINANCIAL STATEMENTS



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAOBAB MICROFINANCE BANK NIGERIA LIMITED

OPINION

We have audited the accompanying Financial Statements of Baobab Microfinance Bank Nigeria Limited, which comprise the statement of financial position as at 31 December 2017, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows for the year ended, a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Baobab Microfinance Bank Limited («the Bank») as at 31 December 2017 and of its financial performance and its cash flows for the year ended.

The company has kept proper books of account which are in agreement with the statement of financial position and statement of profit or loss in the manner required by the Companies and Allied Matters Act, CAP C20, LFN 2004 and in accordance with International Financial Reporting Standards (IFRS).

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 financials statements.

As part of an audit in accordance with ISAs, we exercise professional judgement 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 entity 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.

We communicate with the directors 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Compliance with the requirements of schedule 6 of the Companies and Allied Matters Act of Nigeria

In accordance with the requirement of schedule 6 of the Companies and Allied Matters Act, CAP C20 LFN 2004, we confirm that:

- We have obtained all the information and explanations which to the best of our knowledge and belief are necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- The Company's statement of financial position and statement of profit or loss are in agreement with the books of account •


MAZARS COKER & CO.
Partner: Olumuyiwa O. Coker
Chartered Accountants
April 12, 2018

Lagos, Nigeria.



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	2017	2016
ASSETS		
Cash and cash equivalents	188,809	190,721
Trade and other receivables	4,875	13,067
Loans and advances to customers	4,573,824	2,954,960
Financial instrument - held to maturity	83,148	295,742
Prepayment	156,553	171,412
Intangible assets	6,863	3,990
Property, plant and equipment	303,144	168,268
TOTAL ASSETS	5,317,216	3,798,160
LIABILITIES AND EQUITY		
Liabilities		
Deposit liabilities	1,287,526	605,311
Borrowings	708,875	723,941
Due to Microcred SAS	689,474	240,013
Accruals and other liabilities	198,996	124,044
Taxation	109,048	5,525
Total liabilities	2,993,919	1,698,834
Equity		
Share capital	2,400,000	2,400,000
Retained earnings	(232,089)	(317,782)
Statutory reserve	117,072	5,087
Regulated risk reserve	38,313	(12,021)
Total Equity	2,323,296	2,099,326
TOTAL EQUITY AND LIABILITIES	5,317,216	3,798,160

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	2017	2016
Interest income on loans and advances	2,082,416	1,013,525
Interest income on investments	23,186	124,867
Interest expense	(172,592)	(163,090)
Net interest income	1,933,010	975,302
Fees and commissions on income	388,028	231,821
Net fees and commissions	388,028	231,821
Other income	42,528	30,875
Provision for doubtful debt	(43,506)	(1,338)
Net operating income	2,320,059	1,236,660
Operating expenses	(1,434,026)	(984,783)
Technical assistance	(486,578)	(200,735)
Earnings before interest, tax and depreciation	399,456	51,142
Depreciation and amortisation	(55,025)	(29,472)
Finance costs	(7,631)	(5,970)
Profit/Loss Before Taxation	336,800	15,700
Taxation	(112,830)	(5,525)
Profit/(Loss) from continuing operations	223,970	10,175
PROFIT/(LOSS) FOR THE YEAR	223,970	10,175



**Baobab Microfinance
Bank Nigeria Limited**

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www.baobab.bz |  Baobab Nigeria