Fidelity Bank Plc

₦75 Billion 10-Year Subordinated Unsecured Fixed Rate Series 1 Bond under the ₦100 billion Debt Issuance Programme

2020 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

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Rating Assigned:

A-

Outlook: Stable
Issue Date: 16 Nov 2020
Expiry Date: 16 Nov 2021
The rating is valid throughout the life of the instrument but will be subject to annual monitoring and review.

Bond Tenor: 10 years

Industry: Banking

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RATING RATIONALE

Agusto & Co. hereby assigns an '**A-**' rating to Fidelity Bank Plc's ('Fidelity Bank', 'the Bank' or 'the Issuer') 10-year Subordinated Unsecured Fixed Rate Series 1 Bond of up to ₦75 billion ('the Issue' or 'the Bond'). The Issue represents the first series of the ₦100 billion bond issuance programme registered in April 2020 with the Securities and Exchange Commission (SEC). The rating assigned to the Issue reflects Fidelity Bank's position as a leading tier 2 bank in Nigeria. The rating also considers the Bank's good liquidity profile, strong industry position, adequate capitalisation, satisfactory asset quality, good staff productivity and an experienced management team. However, constraining these positives are the obligor concentration in the loan portfolio and the Issuer's high operating cost profile. We have also factored in adverse regulatory constraints and prevailing macroeconomic headwinds accentuated by the COVID-19 pandemic. The rating reflects the Issue's subordinated status as it ranks *pari passu* with all other existing and future subordinated and unsecured obligations of the Issuer.

With total assets and contingents of ₦2.8 trillion as at 30 June 2020, Fidelity Bank Plc is Nigeria's sixth largest bank and a leading player in the tier 2 segment. The Bank serves over five million customers through 250 branches and other digital customer touchpoints. Funding the Issuer's activities are customer deposits of ₦1.4 trillion and borrowings (including a local currency bond, Eurobond and multilateral funding) which stood at ₦517.9 billion as at HY 2020. As at the same date, Fidelity Bank's shareholders' equity stood at ₦218.6 billion with a Basel II computed capital adequacy ratio of 18.8%, which was above the required minimum of 15% for banks with international authorisation. The Bond is expected to qualify as tier 2 capital and should the issuance be successful, we expect it to provide additional capital buffers.

Fidelity Bank's earnings are predominantly sustained by fund-based income, which has accounted for an average 69% of net earnings in the last five years. During HY 2020, the Issuer's pre-tax profits grew by 21.9% to ₦12 billion, with an annualised pre-tax return on average equity (ROE) of 11.1% (HY 2019: 10.3%) and a relatively unchanged pre-tax return on average assets and contingents (ROA) of 0.9%, due to the expanded asset base. Whilst the Bank's net interest spread has consistently remained below the industry average, it improved to 55.1% in HY 2020 (HY 2019: 43%) due to the CBN's measures directed at lowering interest rates. However, driven by low earnings, the Bank's operating cost profile has remained comparably high, exceeding the industry average 67% in the last three years (HY 2020: 79.7%) and constraining profitability. We expect the Bank's near-term profitability to be impacted by higher loan impairment charges as well as lower yield on its lending and government securities portfolio.

Fidelity Bank's lending activities have maintained an upward trajectory over the last five years and the Issuer has consistently met the mandatory loan-to-deposit ratio (LDR) of 65% introduced in July 2019. Owing to the COVID-19 pandemic, the growth in the loan book slowed to 7.5% to stand at ₦1.3 trillion as at 30 June 2020, compared to FYE 2019. However, the naira devaluation in March 2020 bloated the loan book by 2.8%. The obligor concentration is high, with the top 20 loans accounting for 44% of the loan book as at HY 2020 (FYE 2019: 46%). The largest two exposures accounted for 26% and 25% respectively of the Issuer's shareholders' equity, breaching the single obligor limit of 20%. This will worsen in the event of another devaluation, given that these exposures are in foreign currency. Reflecting heightened economic risk, the Bank's stage 3 loans (NPLs) grew by 58.8% to stand at ₦61.3 billion as at HY 2020. This translated to a higher NPL ratio of 4.8% (FYE 2019: 3.3%), slightly below the regulatory guidance of 5%. Consequently, Fidelity Bank's impairment allowance amounted to ₦7.8 billion (from a write-back in the prior year) and absorbed a marked 16.2% of pre-impairment income. Given the prevailing weak economic climate and with the Bank's exposure to some vulnerable sectors (such as power and oil & gas), we expect asset quality pressures to persist. Nevertheless, with the CBN forbearance which permits facility restructuring, we believe our concerns will be tempered to some extent in the near-term.

We hereby attach a ***stable*** outlook to Fidelity Bank Plc's ₦75 billion 10-Year Subordinated Unsecured Fixed Rate Series 1 Bond, with expectations that the Bank's financial condition will remain adequate to meet the bond obligations as and when they fall due.

Strengths

- Good liquidity profile
- Strong niche in the small and medium enterprises space.
- Strong industry position
- Good market share
- Experienced management team

Weaknesses

- Obligor concentration in the loan portfolio
- High operating expenses vis-a-vis net earnings
- Comparably low non-interest income to total assets relative to the industry average

Challenges

- Unfavourable regulations
- The impact of the COVID-19 pandemic on individuals and businesses
- High political risk due to civic unrest

Table 1: Background Information

	31 December 2018 (12 months)	31 December 2019 (12 months)	30 June 2020 (6 months)
Total Assets & Contingents	₦2.1 trillion	₦2.5 trillion	₦2.8 trillion
Net Earnings	₦97.2 billion	₦112.3 billion	₦58.8 billion
Return on Average Assets & Contingents (ROA)	1.3%	1.3%	0.9%*
Return on Average Equity (ROE)	12.7%	14.9%	11.1%*

Annualised

THE NIGERIAN BANKING INDUSTRY

The Nigerian banking industry ('the Industry') remains strategically important to the Nigerian economy, with total assets and contingents of ₦46 trillion (US$122 billion) as at 31 December 2019. The Industry comprises 22 commercial, 2 non-interest and 6 merchant banks, also known as deposit money banks. The top five largest banks (tier 1 banks): Access Bank Plc, First Bank of Nigeria Limited, Guaranty Trust Bank Plc, United Bank for Africa Plc and Zenith Bank Plc, account for circa 60% of the Industry's asset base and are all licensed to operate internationally.

The operating terrain has been defined by key regulatory changes amidst macroeconomic headwinds accentuated by the COVID-19 pandemic. In terms of regulations, the Central Bank of Nigeria (CBN) introduced the minimum loan-to-deposit ratio (LDR) of 65% in July 2019 to spur lending activities and support economic growth. This was implemented alongside efforts to reduce interest rates through several measures including the restriction of non-bank corporates from the open market operations (OMO) treasury bills window. The CBN also discouraged banks from the OMO auctions, which hitherto served as a substantial source of earnings. The ability to grow earnings has also been impacted by the downward review of fees, which came into effect in January 2020. Another key regulatory change, enforced to curtail inflationary pressures and manage the pegged exchange rate, was the 500 basis points increase of the cash reserve ratio (CRR) to 27.5% in January 2020, which has also been employed as a punitive measure for banks that fail to meet the LDR benchmark. In addition, discretionary cash reserve deductions were introduced to moderate the volume of liquidity in the financial system, further constraining Banks' ability to grow earnings.

To further sustain economic activities as the global economy contends with the raging impact of the pandemic, the CBN lowered the monetary policy rate (MPR) twice in the first nine months of 2020. The significant impact of the MPR adjustments was the downward review of the benchmark interest rate paid on savings deposits from a third to a tenth of the monetary policy rate, which has subsequently improved interest spreads in the banking industry. With increasing uncertainties induced by the pandemic and the severe impact on the economy (households and businesses), asset quality pressures are set to intensify. However, with the CBN's forbearance which permits banks to restructure loans granted to the severely impacted businesses, concerns around asset quality will be moderated to some extent in the short-term.

Due to the impact of prevailing economic headwinds on asset quality and earnings, we believe that the recapitalisation of Nigerian banks is imminent in the short to medium-term. However, we believe that near-term capitalisation support will be largely through tier 2 capital (medium to long-term debt issuance and revaluation gains from the investment portfolio), considering the lull in the equity capital market. Whilst inflationary pressures persist, the pandemic has presented some upside through cost savings from business travel and energy expenses. The pandemic has also driven higher traffic on digital channels thereby creating an opportunity to grow electronic banking income, especially for banks with notable strides in digitisation.

Overall, we believe the banking industry will remain resilient and successfully navigate through current operating challenges.

PROFILE

Fidelity Bank Plc ('Fidelity Bank', 'the Bank' or 'the Issuer') was incorporated in November 1987 as a private limited company. The Bank commenced operations in June 1988 as a merchant bank, but converted to a commercial bank in July 1999 and became a public limited company in August 1999. Fidelity Bank secured a universal banking licence in 2001 and later acquired FSB International Bank Plc and Manny Bank Plc in 2005, listing the combined entity on the Nigerian Stock Exchange (NSE) in the same year. In line with the Central Bank of Nigeria's (CBN) modification of the universal banking regime, Fidelity Bank was granted an international banking licence in 2011. However, the Bank is yet to register operations outside of Nigeria.

Fidelity Bank is primarily engaged in banking activities, offering products and services to corporates, small and medium enterprises and individual customers. These services include loans and advances, equipment leasing and money market activities. The Bank's services are carried out through four strategic business units (SBUs):

- **Corporate and Investment Banking (CIB)**: the SBU serves institutional clients with turnover in excess of ₦5 billion.
- **Lagos and South-West (SW) Bank**: the coverage of the SBU includes retail, commercial and SME clients that do not meet the corporate and investment banking criteria. The SBU operates from 101 locations in Nigeria's South-West region (including Lagos).
- **North Bank**: the SBU's coverage is limited to the 19 Northern states and Abuja, with a footprint in 59 locations.
  South Bank: coverage for the SBU includes clients that do not meet the CIB criteria. The SBU has a presence in 90 locations in Nigeria's South-South and South-East regions.

Fidelity Bank serves over five million customers from 250 business locations across Nigeria and a head office located at 2, Kofo Abayomi Street, Victoria Island, Lagos. The Bank has also gradually grown its digital footprint over the years, with 834 ATMs and 11,653 POS machines as at 30 June 2020. As at the same date, approximately 51% of Fidelity Bank's customers were enrolled on digital banking channels while 87% of customers' transactions were carried out on digital platforms, higher than 82% in the 2019 financial year. The Issuer also operates an agency banking network of 2,300 agents, which is expected to increase over 20,000 by 31 December 2020, supported by several partnerships.

As at 30 June 2020, the Bank has correspondent banking relationships with 25 foreign banks including Citibank, Bank of Beirut and UBS Switzerland.

THE ISSUE

The Issue ('Series 1 Bond' or 'the Bond') is a 10-year subordinated unsecured fixed-rate bond of up to ₦75 billion. The Bond represents the first tranche of a ₦100 billion bond issuance programme registered in April 2020 with the Securities and Exchange Commission (SEC). The Bond constitutes a direct and subordinated obligation of the Issuer and ranks *pari passu* with other present and future unsecured subordinated obligations of the Issuer.

The Issue shall be callable after five years. Thus, the Bank has the right to partially or wholly redeem the Bond after five years, although bondholders will be given at least one month's notice before the call option is exercised. However, the call option must be exercised once the notice is given to the shareholders. Fidelity Bank will only be able to exercise the call option provided that the early redemption will not constitute a breach of covenant or event of default under any other agreement entered into by the Issuer. The concurrence of the CBN must be sought and the early redemption must not result in the Bank's capital position reducing below the minimum capital requirement as prescribed by the CBN.

The coupon rate will be determined through a book-building process and will be benchmarked against reference Federal Government of Nigeria (FGN) bonds with a similar maturity. Coupons will be paid semi-annually in arrears up to the maturity date or the early redemption date. The principal will be repaid as a bullet sum at maturity or on the call date and the issuer can partly repay the principal while exercising the call option. The Bond is expected to be listed on the Nigerian Stock Exchange (NSE) and (or) the FMDQ OTC Plc Securities Exchange platform. The Issuer will open a payment account, solely for meeting the Bond's obligations within five days after the issue date. The repayment account, which will be managed by the Joint Trustees, will be credited at least five working days before each obligation falls due while the bondholders will be paid at least two days before the due date.

Purpose of the Issue

The net proceeds of the Issue will be used to support business growth, particularly in the SME and retail segments. Fidelity Bank Plc also plans to invest in technology infrastructure by improving its digital banking channels.

Covenants and Guarantees

For as long as the Bond remains outstanding, the Issuer shall not, without the prior consent of the Joint Trustees in writing, create or permit to subsist any security Interest to secure any financial indebtedness. Where consent is given, the Bank shall grant the Joint Trustees (on behalf of the bondholders) equivalent security as is granted in relation to the indebtedness.

Source of Repayment

The repayment of the coupons and principal will be fully supported by the Bank's operating cash flows. This will be upheld by an executed Deed of Undertaking by the Bank, the Joint Trustees and the Issuer, on behalf of bondholders.

Trustees to the Issue

ARM Trustees Limited, FBNQuest Trustees Limited, Stanbic IBTC Trustees Limited and United Capital Trustees Limited are the appointed Joint Trustees to the Issue. A trust deed for the programme was executed among these companies and the Issuer while the agreement for the Series 1 Bond is also expected to be executed.

ARM Trustees Limited is a wholly-owned subsidiary of ARM Traditional Asset Management Company Limited and registered with the SEC. ARM Trustees Limited in almost two decades of existence offers a bouquet of services including private trust, estate planning and commercial trust services. The registered office is located at 1, Mekunwen Road, Off Onikan Abayomi Drive, Ikoyi, Lagos.

FBNQuest Trustees Limited is a wholly-owned subsidiary of FBN Holdings Plc, one of the largest financial services groups in Nigeria. FBNQuest Trustees Limited is registered by the SEC and offers private trust, public trust, corporate trust and agency services. The registered office is located at 10 Keffi Street, Off Awolowo Road, Ikoyi, Lagos.

Stanbic IBTC Trustees Limited is a wholly-owned subsidiary of Stanbic IBTC Holdings Plc and was registered by the Securities and Exchange Commission in 2009. Stanbic IBTC Trustees specialises in estate planning and administration services for high net worth individuals and offers corporate/institutional trust services. The Trustee's registered office is located at IBTC Place, Walter Carrington Crescent, Victoria Island, Lagos while its principal place of business is The Wealth House, Plot 1678 Olakunle Bakare Close, Off Sanusi Fafunwa Street, Victoria Island, Lagos, Nigeria.

United Capital Trustees Limited was incorporated in 1964 and registered with SEC. Services offered by United Capital Trustees Limited include investor protection, bond trusteeship, portfolio and asset management, real estate investment trusts, estate planning and investment trusts. The registered office is located at 4th Floor, Afriland Towers, 97/101 Broad Street, Lagos.

In line with the Trustee Investment Act of 1962, trust assets held are duly separated from the accounts of the Trustee such that trust continues to exist even if the Trustee goes into liquidation. The Securities and Exchange Commission is also empowered to periodically monitor the activities of Coronation Trustees Limited, providing independent oversight.

REVIEW OF FINANCIAL CONDITION

ANALYSTS' COMMENTS

Asset structure

Fidelity Bank's asset base (including contingents) has grown by a five-year compound annual growth rate of 15% to stand at ₦2.8 trillion as at 30 June 2020, backed by an expanding customer deposit base and an enlarged capital base. On account of the growth in the deposit base and heterodox policies adopted by the CBN, mandatory cash reserves, which are sterile and not available for daily banking operations, recorded the most prominent growth of 59.3% compared to FYE 2019. The restricted reserves accounted for 19.8% of the asset base (FYE 2019: 14%) and a substantial 2.5 times of the Issuer's shareholders' equity, constraining the ability to grow earnings. Fidelity Bank's restricted funds to total assets was higher than the 18.4% average recorded by Access Bank Plc and Guaranty Trust Bank Plc (tier 1 banks), reflecting the impact of the restricted funds on the Issuer's ability to grow earnings. Nevertheless, the loan portfolio remained the dominant asset class and accounted for 46% of total assets and contingents as at HY 2020 (FYE 2019: 48.1%).

A predominant lending focus on the corporates and commercial segments

Fidelity Bank has a moderate risk appetite and focuses on providing lending solutions to corporates, commercial and retail customers. The Issuer also has notably established a niche in the SME segment. The Bank's gross loans and advances stood at ₦1.3 trillion as at 30 June 2020, reflecting a 7.5% growth over FYE 2019, out of which the naira devaluation during the first half of the year accounted for 2.8% of the growth. Fidelity Bank has maintained a steady trajectory in lending activities and consistently surpassed the regulatory loan-to-deposit ratio benchmark introduced in 2019[1]. Fidelity Bank intends to leverage intervention facilities, particularly those targeted at SMEs to fund lending activities in the near-term. While this eases off pressure from cash reserve requirements, we believe growth will be moderated by the prevailing weak economic climate. Thus, we consider the Issuer's lower projected loan growth of 10% by FYE 2020 to be feasible.

The Issuer predominantly lends to corporates, which accounted for 46% of gross loans as at HY 2020 (FYE 2019: 46%), while the commercial segment (including MSMEs) represented 32% of the loan book. Public sector loans accounted for 11% (FYE 2019: 13%) while the retail segment made up 4% of the Issuer's loan book as at the same date. To enable a more diversified portfolio, the Issuer plans to leverage intervention facilities from the CBN and development finance institutions (DFIs) dedicated to MSMEs. As at 30 June 2020, approximately 43% of the loan book was denominated in foreign currencies, higher than 41.2% as at FYE 2019 due to the naira devaluation.

Moderate sectorial concentration in the loan book

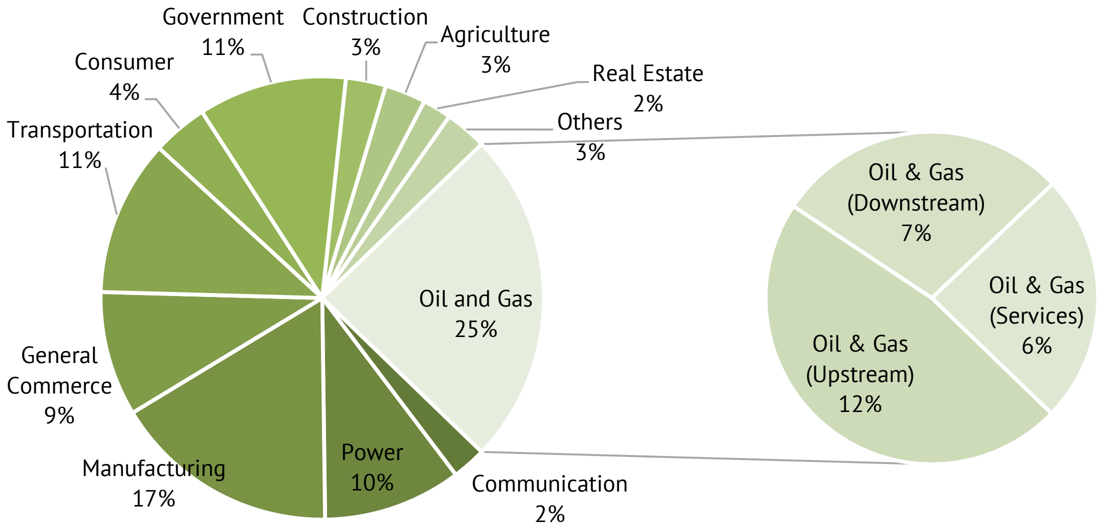
The Bank's exposure to the oil and gas sector increased by 26.5% (20.4% without the impact of the devaluation) and accounted for 25% of the loan portfolio as at 30 June 2020, largely driven by inventory financing and support provided to maintenance projects. A further breakdown of the Issuer's oil and gas loans indicates that

[1] However, due to discretionary cash deductions by the CBN to manage liquidity in the financial system, the Bank's CRR has remained high.

the upstream segment accounted for 12% of gross loans while the downstream and services segments represented 7% and 6% respectively. While Fidelity Bank's exposure to the oil and gas sector is below the banking industry average of circa 30%, we believe the exposure makes the loan portfolio susceptible to volatile crude oil prices and subdued demand for refined petroleum products elicited by the COVID-19 pandemic. This has led to the Bank restructuring and elongating the tenors of some of its oil and gas exposures.

As at 30 June 2020, the Issuer's second largest exposure was to the manufacturing sector (17%), dominated by manufacturers of food products. Compared to FYE 2019, the Bank's exposure to the sector declined by 2.8% due to repayments and the pending renewal of repaid facilities on account of the impact of COVID-19 lockdown restrictions. The manufacturing sector has been identified as less vulnerable by the Bank and is expected to drive lending activities in the near-term. Healthcare, telecommunications and construction (public sector projects) have also been identified as key focus sectors in the next 12 months.

Figure 1: Loan Book by Sector as at 30 June 2020



The Bank's exposure to the transportation sector (including aviation, haulage and logistics operators) increased by 6.2% as at 30 June 2020 from FYE 2019's position and accounted for 11% of the loan book. However, considering that a marked 85% of these exposures was denominated in foreign currency and with the 6.1% naira devaluation implemented in March 2020, real loan growth in the sector was marginal. Given the adverse impact of the pandemic on commercial activities (particularly air travel), we believe the transportation sector is vulnerable to some extent. However, we anticipate improved performance by haulage and logistics operators as the economy gradually rebounds from lockdown period.

Largely driven by the naira devaluation during the period under review, power sector loans grew by 8% and accounted for 10% of gross loans and advance as at 30 June 2020. As at the same date, approximately 50% of power sector loans was denominated in foreign currency although the obligors solely earn revenue in the local currency. We believe the exposure to the power sector increases the vulnerability of the loan portfolio, given lingering operational challenges in the sector, particularly non-cost-reflective tariffs, elevated technical and commercial losses, and an inefficient metering system. Due to these challenges, Fidelity Bank took proactive measures by restructuring 98% of its power sector loans (classified as stage 2 by impairment). However, in line with the recent increase in electricity tariffs, the Issuer expects some improvement in the obligors' cash flows. While the tariff increase is expected to support the performance of these facilities, we believe that addressing other challenges is imperative for the long-term viability of the power sector.

Overall, we expect our concerns around vulnerable economic sectors to be curbed to some extent, by the CBN forbearance which permits loan restructuring for businesses severely impacted by the pandemic. As at 30 September 2020, the Bank had restructured about 35% of the loan book in line with the forbearance. The Bank does not expect restructured loans to exceed 40% of gross loans by March 2021 when the CBN forbearance expires.

High obligor concentration in the loan book

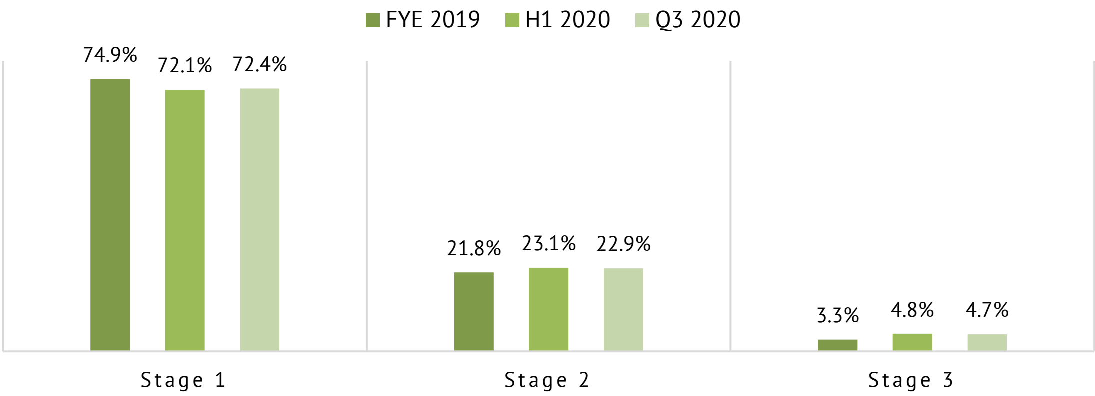
As at 30 June 2020, the Issuer's top 20 exposures accounted for a high 44% of the loan book (FYE 2019: 46%). Our concerns are exacerbated by the fact that only 31% of the top 20 exposures were classified as investment-grade by the Bank's internal rating model. The two largest exposures accounted for 26% and 25% respectively of Fidelity Bank's shareholders' equity unimpaired by losses, thereby breaching the single obligor limit of 20% prescribed by the CBN. The largest exposure is an oil and gas upstream operator impacted by attacks on its production and distribution infrastructure. With the loan to this operator being in foreign currency, a further devaluation of the domestic currency will lead to higher degree of concentration. We note that the facility has been restructured to accommodate the disruption in the obligor's operations. Although none of these exposures were impaired as at 30 June 2020, Agusto & Co. believes that the loss of one of more of these large exposures will have an adverse effect on the asset quality of the Bank.

The quality of the loan book within the acceptable threshold

As at 30 June 2020, 72.1% of the Bank's loan portfolio was classified under the stage 1 category – exposures with very low default risk (FYE 2019: 72.1%). As at the same date, stage 2 loans, facilities with comparably higher credit risk albeit performing, accounted for 23.1% of the portfolio (FYE 2019: 21.8%). The increase in stage 2 loans was on the back of the pandemic and the impact it has had on the macroeconomic environment, which has resulted in 35% of the loan book being restructured as at September 2020. Given the heightened macroeconomic risk, stage 3 (impaired loans) grew by a marked 58.8% to ₦61.3 billion. This translated to a stage 3 to gross loans ratio (NPL ratio) of 4.8% (FYE 2019: 3.3%), below the regulatory guidance of 5% and the estimated industry average of 9.9%. However, we believe the Bank will have to contend with some latent loans (largely in the power sector) over the medium-term.

Fidelity Bank's cumulative loan loss provisioning covered impaired (stage 3) loans by 94.9% (coverage ratio) as at 30 June 2020 and improved to 112.7% when we factor in the regulatory risk reserves of ₦10.9 billion. We consider this level of provision to be good and will help the Bank minimise impact of deterioration in asset quality on future profitability. When we consider specific provision by stages, the coverage for stage 2 loans stood at 5%, lower than the industry average of 7% while the coverage for stage 3 loans of 57% was higher than the industry average of 48%.

Figure 2: Loan Book by Stages: IFRS 9 (FYE 2019 – Q3 2020)

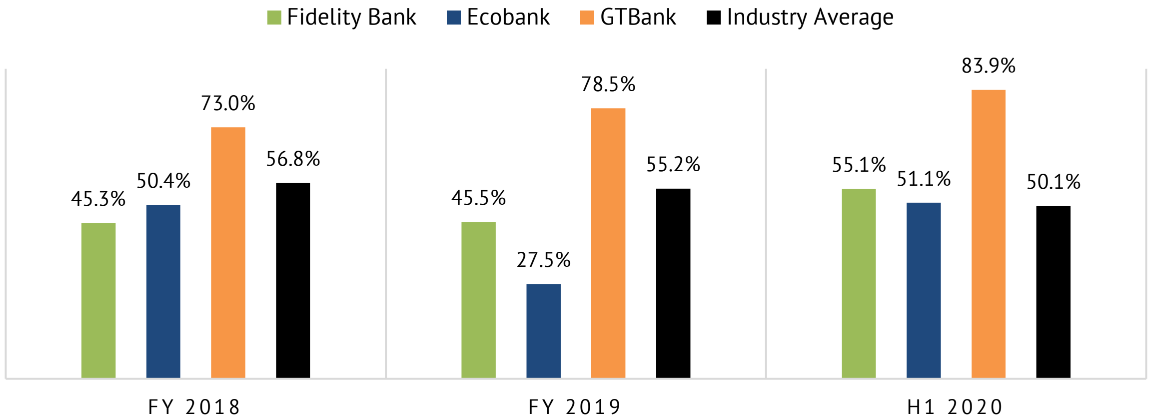


In our opinion, Fidelity Bank's asset quality is satisfactory, upheld by its risk management framework. While we acknowledge the impact of the regulatory forbearance, we expect asset quality pressures to heighten given the increasing likelihood of a second wave of the COVID-19 pandemic and the adverse impact on crude oil prices. With prevailing economic headwinds and the substantial 28% of the loan book classified under stage 2 and 3 categories, we believe loan monitoring needs to be intensified to forestall a significant deterioration in asset quality.

The Issuer benefits from the low yield environment

Over the last 15 months, prevailing interest rates have maintained a downward trajectory on the back of the CBN's heterodox policies. As a result, Fidelity Bank's yield on earning assets declined by 200 basis points to 11.5% in HY 2020 in comparison to the corresponding period in the prior year. As a result, interest income grew marginally by 2.1% year-on-year to ₦87.6 billion. Despite the expansion in customer deposits and the impact of the devaluation of foreign currency borrowings, interest expense reduced by 19.7% to ₦39.3 billion, as the low interest rate environment was further accentuated by the reduction in the monetary policy rate (MPR) by 100 basis points to 12.5%. This translated to a net interest spread (NIS) of 55.1% (HY 2019: 43%), higher than Ecobank Nigeria Limited's (Ecobank) 51.1% but lower than Guaranty Trust Bank's (GTBank) 83.9% during the same period. Subsequent to HY 2020, the MPR was further reduced by another 100 basis points while the benchmark for interest rates on savings accounts was revised downwards. Thus, the Issuer's net interest spread increased to 56.6% in the nine months ended 30 September 2020. Although the Issue is expected to increase interest expense, we expect the Issuer's anticipated single-digit coupon rate to moderate overall funding costs, particularly as the ₦30 billion bond expected to be refinanced was issued at 16.48%. Overall, while Fidelity Bank's NIS has historically been below the banking industry average due to its high cost of funds, we expect it to improve further in the near-term owing to the lingering low interest rate environment and initiatives being taken to grow low-cost deposits.

Figure 3: Net Interest Spread: Peer Analysis (FY 2018 – HY 2020)



Reflecting heightened economic risk and an increase in the Bank's buffers against asset quality deterioration, the Bank's impairment charge amounted to ₦7.8 billion in HY 2020 from a write-back of ₦587 million in HY 2019. The impairment charge absorbed a high 16.2% of pre-impairment profit and translated to a cost-of-risk of 1.3%, slightly higher than the estimated industry average of 1.2%. We expect the Fidelity Bank's impairment allowance to increase further in FY 2020 due to prevailing macroeconomic headwinds. However, we believe the cost-of-risk will be within the Issuer's 1.5% target for FY 2020.

Fixed income and foreign exchange revaluation gains to sustain non-interest income

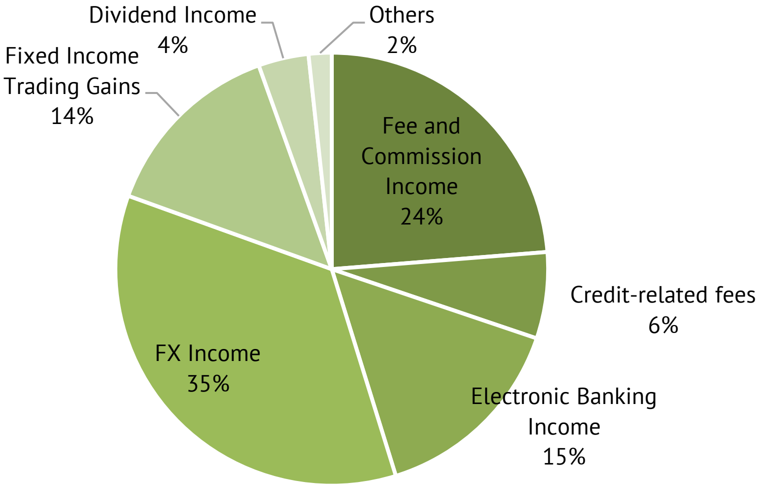
During the six months ended 30 June 2020, the Bank's net ancillary income amounted to ₦18.3 billion, a marked 68.9% increase from HY 2019. The increase in the Issuer's ancillary earnings was supported by the naira devaluation implemented in March 2020 and the resultant 152% jump in foreign exchange gains to ₦7.4 billion, which represented 35% of non-interest income (HY 2019: 16%). The low interest rate environment also spurred revaluation gains in the fixed income portfolio, which spiked 18 times to ₦3 billion in HY 2020 (14% of non-interest income). The aforementioned gains moderated the impact of the downward review of fees by the CBN, which took effect in January 2020 and the muted growth in lending activities. Fees and commission income (including credit-related fees) declined by 26% year-on-year to ₦6.4 billion, representing 30% of ancillary income (HY 2019: 48%). Similarly, electronic banking income declined by 29.1% to ₦3.2 billion due to the impact of regulations and accounted for a lower 15% of ancillary income (HY 2019: 25%).

Although Fidelity Bank's net ancillary income to total assets and contingents[2] improved to 1.3% in HY 2020 (HY 2019: 0.9%), it was comparably lower than GTBank's 2.7% and the estimated industry average of 2.7% but better than Ecobank's 1.2%. The Issuer's market share of non-interest income stood at 2.5% in the 2019 financial year, which we consider to be low given its balance sheet size. Fidelity Bank is currently making concerted efforts to increase digital banking transaction volumes to drive ancillary earnings. However, with the Bank's disclosed digital banking penetration rate of 52% (FYE 2019: 47%), Agusto & Co. believes that a significant impact of current efforts will yield results within the medium-term. The Bank is also making efforts to expand its agency banking network to drive higher transaction income, which we view positively. In the

[2] Annualised

near-term, we expect non-interest income (in the near-term) to be sustained by revaluation gains on the fixed income portfolio.

Figure 4: Breakdown of Non-Interest Income (HY 2020)



Issuer's cost-to-income ratio is higher than the industry average

In the first half of 2020, Fidelity Bank's operating expenses (OPEX) increased by 8.3% year-on-year to ₦46.8 billion. This was due to a 27.5% increase in amortisation expenses on the Bank's upgraded banking software, a 13.2% growth in the AMCON levy and a 16.2% rise in deposit insurance premium (as the asset and deposit base expanded). The Issuer's cost-to-income ratio (CIR), measured by OPEX to net earnings, reduced to 79.7% in HY 2020 (HY 2019: 81.5%) but has consistently been higher than the banking industry average of 67% in the last three years. Fidelity Bank's comparably high cost-to-income ratio has largely been from lower earnings. The Bank's net earnings per branch only covered operating costs per branch 1.3 times, lower than our expectation of at least 2 times. In addition, with net earnings to total assets of 4.3% compared to the industry average of 5.2%, we believe there is need for the Issuer to grow its revenue. We note that the Bank's half-year figures reflect the adoption of IFRIC 21 accounting standard (levies), with the full year AMCON levy recognised during the period[3]. Without the recognition of the full AMCON levy for the year, Fidelity Bank's CIR would have been 69.6%. In the nine months ended 30 September 2020, the Bank's CIR improved but remained high at 74.9%. While we believe the Bank's CIR will remain comparably high in the near-term, we expect it to be lower than the Bank's projection of 77.4% for FY 2020.

[3] The financial statements for HY 2019 were also restated to reflect the adoption of the IFRIC 21 accounting standard

Table 2: Efficiency Indicators vis-à-vis the Industry

	Industry Avg.	FY 18	Industry Avg.	FY 19	Industry Est.	HY 20
Interest income as % of total assets	7.3%	7.2%	7.6%	7.4%	5.9%	6.3%*
Non-interest income as % of total Assets	2.4%	1.5%	2.6%	1.3%	2.7%	1.3%*
Impairment charge as % of total assets	0.5%	0.2%	0.6%	0.0%	0.4%	0.3%
Operating expense as % of total assets	4.0%	3.4%	4.0%	3.3%	3.7%	3.4%*
Pre-tax return on average assets	2.1%	1.3%	2.2%	1.3%	1.6%	0.9%*
Total assets to shareholders' funds	11	11	10	12	11	13
Pre-tax return on average equity	19.6%	12.7%	24.3%	14.9%	17.7%	11.1%*

**Annualised*

The Issuer reported pre-tax profits of ₦12 billion in the six months ended 30 June 2020, 21.9% higher than HY 2019. This translated to a higher annualised pre-tax return on average equity (ROE) of 11.1% (HY 2019: 10.3%) and a relatively unchanged pre-tax return on average assets and contingents (ROA) of 0.9% due to the expanded asset base. Fidelity Bank's ROE was higher than Ecobank's 5% but lower than GTBank's 30.1% and the estimated banking industry average of 17.7%. In our opinion, the Issuer's profitability can be improved upon.

Capitalisation is acceptable for the level of business risk

As at 30 June 2020, Fidelity Bank's core (tier 1 capital) stood at ₦218.6 billion, 2.6% higher than FYE 2019's position. The growth was driven by the accretion to retained earnings, which accounted for 22.8% of core capital (FYE 2019: 20.5%). The Issuer's tier 2 capital increased by 15.6% from FYE 2019 to ₦38.1 billion, buoyed by higher gains on financial assets classified as fair value through other comprehensive income. Also included in tier 2 capital is the discounted value of the Issuer's ₦30 billion seven-year bond issued in May 2015.

The Bank's Basel II computed capital adequacy ratio (CAR) stood at 18.8% as at 30 June 2020 (FYE 2019: 18.3%) higher than the regulatory minimum of 15% for Nigerian banks with international authorisation and the Issuer's internal benchmark of 16%. The Issuer's CAR was constrained by the regulatory adjustment of ₦14.6 billion on account of the single obligor limit breach. Without the regulatory adjustment of ₦14.6 billion, the Issuer's capital adequacy ratio would have been 19.97%, emphasising our concerns about the concentration in the loan book. The Bank's multi-factor scenario test, which considers a naira devaluation, higher credit, liquidity and operational risk, assumes that the Issuer's CAR will fall below the regulatory threshold of 15%. However, the Bank believes the likelihood of this occurring is low and expects capitalisation to be strengthened through the issuance of the Series 1 Bond, which will qualify as tier 2 capital. With the addition of the Series 1 Bond to qualifying tier 2 capital, the Issuer's capital adequacy ratio improves by 200 basis points. In our opinion, Fidelity Bank's capitalisaton is acceptable for its current risk profile.

Customer deposits provide substantial funding support

Fidelity Bank Plc's liability generation strategy is supported by a network of 250 branches, 2,300 agents, 837 ATMs, 11,196 POS terminals and other digital channels including the newly introduced Chatbox Banking (Ivy).

As at 30 June 2020, Fidelity Bank's customer deposits stood at ₦1.4 trillion, a 14.8% increase over FYE 2019's position and funded 50.9% of total assets and contingents. Approximately 71% of the Bank's deposits were sourced from institutional customers (including corporates, financial institutions and government) while individual customers made up the remaining 29% as at 30 June 2020.The growth in customer deposits driven by local currency deposits, which accounted for 79% of the Bank's customer deposits (FYE 2019: 76%). Time deposits grew by 34.6%, while savings deposits increased by 32.2% compared to FYE 2019. Though the proportion of low-cost local currency deposits declined to 73% (FYE 2019: 76%), it remained good upheld by various liability generating initiatives. The Bank plans to significantly improve its deposits mix by investing in additional digital banking capabilities (a key utilisation of the proposed Series 1 Bond) and expanding its agency banking network which should help shore up its retail deposits.

The Issuer's foreign currency (FCY) deposits increased by 4.2% to ₦300.1 billion as at HY 2020 but a 2.8% growth when the naira devaluation is considered. As at the same date, the Issuer's FCY deposits funded only 54% of FCY loans, however, the coverage improves to 96% when FCY borrowings are considered.

Strong ability to refinance

As at 30 June 2020, Fidelity Bank's borrowings stood at ₦517.9 billion, 3.2% higher than FYE 2019's position. The Issuer's borrowings funded 21.5% of the asset base (excluding contingents), higher than its peers and the banking industry average of 10.5%. Approximately 49% of the Bank's borrowings were from intervention funds provided by the CBN and financing support from development finance institutions (including Bank of Industry and Development Bank of Nigeria). The Bank also has two outstanding bonds, a five-year US$400 million Eurobond issued in 2017 and a seven-year ₦30 billion local currency bond issued in 2015, which collectively account for 36% of the Issuer's borrowings. The remaining 15% were medium-long term foreign currency borrowings from PROPARCO, African Development Bank (AfDB), European Investment Bank (EIB), African Export-Import Bank and Renaissance Capital. In addition to the Series 1 Bond, Fidelity Bank intends to leverage intervention facilities, particularly those targeted at SMEs to fund lending activities in the near-term. The Series 1 Bond is also expected to refinance the seven-year ₦30 billion scheduled to expire in 2022. We consider the Bank's ability to refinance to be strong; upheld by its domestic brand equity. In view of the Issuer's high leverage relative to peers and the industry average, we anticipate a recapitalisation exercise in the short to medium-term.

Due to the low interest rate environment, the Issuer's weighted average cost of funds (WACF) reduced by 200 basis points to 4.3% in HY 2020. However, Fidelity Bank's WACF was higher than its peers: Ecobank (3.4%) and GTBank (1.8%). Fidelity Bank's WACF improved further to 4% in the nine months ended 30 September 2020. The anticipated low coupon rate on the Issue in addition to the redemption of the ₦30 billion local currency bond (issued at 16.48%) is expected to lower funding costs in the near-term. In addition, we believe that the

Issuer's wide pool of customer deposits and the further reduction in MPR in September 2020 should reduce funding costs further.

Good liquidity profile

The Bank's liquid assets, which largely comprised government securities, declined by 6.4% from FYE 2019 to ₦414.2 billion as at 30 June 2020. Nevertheless, this translated to a liquidity ratio (liquid assets to local currency deposits) of 36.5%, higher than 30% regulatory minimum. To support liquidity, the Issuer has standby lines of credit with international financial institutions totalling US$660.5 million. In our opinion, Fidelity Bank's liquidity profile is good. As at 30 September 2020, the Issuer's liquidity ratio remained good at 38.1%; higher than the regulatory minimum of 30%.

OWNERSHIP, MANAGEMENT & STAFF

As at 30 June 2020, Fidelity Bank's 398,766 investors held approximately 29 billion of its outstanding shares. Stanbic Nominees (the largest shareholder) held 5% of the equity stake on behalf of multiple investors. As at 30 June 2020, the Board of Directors, directly controlled 1.4% of the Issuer's share capital with no indirect holding.

As at 30 June 2020, Fidelity Bank Plc was governed by a 15-member Board of Directors, chaired by Mr Ernest Ebi, MFR. The Board comprised seven Executive Directors and eight Non-Executive Directors (including two Independent Non-Executive Directors). In January 2020, Alhaji Isa Mohammed Inuwa was appointed as an Independent Non-Executive Director. Otunba Seni Adetu (an Independent Non-Executive Director) retired from the Board in June 2020, while Mrs Chijioke Ugochukwu (an Executive Director) retired in March 2020. Subsequent to the review period, in July 2020, Fidelity Bank announced the Managing Director/CEO, Mr Nnamdi Okonkwo's retirement, effective 31 December 2020. Mr Okonkwo is to be replaced by Mrs Nneka Onyeali-Ikpe, the current Executive Director, Lagos and South West. Agusto & Co. does not anticipate a material change in the Bank's strategy considering that Mrs Onyeali-Ikpe has been a member of the Board since 2015. In July 2020, Mr Kevin Ugwuoke, the current Chief Risk Officer was appointed as an Executive Director. In August 2020, Mr Ernest Ebi, MFR completed his tenure as a Non-Executive Director and was replaced by Mr Mustafa Chike-Obi, the former and pioneer Chief Executive Officer (CEO) of the Asset Management Corporation of Nigeria (AMCON) as the Bank's Chairman. In September 2020, Engineer Henry Ikem Obih was appointed as an Independent Non-Executive Director, while Dr Kenneth Onyewuchi Opara's appointment as Executive Director (effective January 2021) was announced.

During the period ended 30 June 2020, Fidelity Bank employed an average of 2,869 persons. Executive and managerial staff accounted for 15% of the workforce, while non-managerial staff made up the remaining 85%. Staff productivity, measured by net earnings per staff grew by 13.3% to ₦20.5 million in the first six months to 30 June 2020 and covered staff cost per employee 4.8 times (HY 2019: 4.5 times). The coverage was higher than Ecobank's 3.4 times and the estimated banking industry average of 4.6 times but lower than GTBank's 6.6 times.

In our opinion, Fidelity Bank's staff productivity is good and we believe the Bank is led by an experienced and competent management team.

MARKET SHARE

Fidelity Bank Plc commenced operations as a merchant bank for over a decade before upscaling to commercial banking in 1999. The Issuer has grown to be the sixth largest bank by total assets and contingents supported by organic and inorganic growth. Fidelity Bank is also a leading player in the tier 2 banking segment and controlled 5.4% of the banking industry's asset base, 5.2% of LCY deposits and 7% of loans as at HY 2020. However, with its substantial share of core banking assets, we consider the Bank's 3.1% market share of pre-tax profits to be low. This is largely due to the Bank's comparably low inefficiencies amid regulatory constraints. In our opinion, we consider Fidelity Bank's industry position to be strong.

Table 3: Market Share Indicators

	Fidelity Bank 2019	Fidelity Bank HY 2020	Ecobank HY 2020	GTBank HY 2020
Total Assets & Contingents	5.6%	5.4%	5.1%	8.1%
Loans & Leases - Net	7.1%	7.0%	4.5%	8.2%
LCY Deposits (Excluding Interbank Takings)	5.0%	5.2%	6.5%	11.4%
Profit Before Tax	3.3%	3.1%	1.7%	23.4%

OUTLOOK

Fidelity Bank Plc's performance in the first half of 2020 was shaped by the COVID-19 pandemic, which translated to a slowdown in economic activities and heightened prevailing credit risk. Regulatory changes in the form of heterodox policies adopted by the CBN further suppressed yields on earnings assets while the downward review of fees amidst efforts by the Bank to improve digital banking penetration also impacted performance. Nonetheless, the Bank's medium-term aspiration of becoming a tier 1 commercial bank still stands. Identified key strategic enablers include digital banking capabilities, the expansion of the agency banking network, cost efficiencies and a good diversification across the various business segments.

With the easing of COVID-19 lockdown restrictions in the third quarter of the year, the Issuer plans to cautiously grow its loan book with a focus on resilient sectors such as food manufacturing, healthcare, telecommunications and construction (public sector projects). The Bank is also expected to leverage more cost-effective funding opportunities including intervention facilities, funding from DFIs and the proposed Series 1 Bond. Given the adverse impact of the pandemic on the financial condition of the Bank's obligors, we expect the CBN forbearance to lower asset quality concerns to some extent in the near-term. Owing to this, Agusto & Co. anticipates that the Issuer's capitalisation will remain good and the Issue, which qualifies as tier 2 capital, will provide an additional capital buffer. We believe that Fidelity Bank's ability to refinance will be sustained by its domestic brand equity while its liquidity profile will remain good.

Based on the aforementioned, we hereby attach a ***stable*** outlook to the rating of Fidelity Bank Plc's ₦75 billion 10-Year Subordinated Unsecured Fixed Rate Series 1 Bond. We shall continue to monitor the Issuer's performance to ascertain the impact of the prevailing economic climate.

Financial Summary

FIDELITY BANK PLC

	BALANCE SHEET AS AT	30-June-2020		31-Dec-2019		31-Dec-2018	
		₦'000		₦'000		₦'000	
	ASSETS						
1	Cash & equivalents	54,686,000	2.0%	110,046,000	4.5%	135,317,000	6.3%
2	Government securities	289,944,000	10.5%	277,116,000	11.3%	285,165,000	13.3%
3	Money Market Placements	69,589,000	2.5%	55,503,000	2.3%	57,949,000	2.7%
4	Quoted investments						
5	Placements with discount houses						
6	LIQUID ASSETS	414,219,000	15.0%	442,665,000	18.1%	478,431,000	22.3%
7	BALANCES WITH NIGERIAN BANKS						
8	BALANCES WITH BANKS OUTSIDE NIGERIA	134,947,000	4.9%	101,853,000	4.2%	53,684,000	2.5%
9	Direct loans and advances - Gross	1,246,097,000	45.1%	1,132,822,000	46.2%	879,788,000	41.0%
10	Less: Cumulative loan loss provision	(58,187,000)	-2.1%	(51,415,000)	-2.1%	(56,743,000)	-2.6%
11	Direct loans & advances - net	1,187,910,000	43.0%	1,081,407,000	44.1%	823,045,000	38.3%
12	Advances under finance leases - net	21,192,000	0.8%	45,567,000	1.9%	26,835,000	1.2%
13	TOTAL LOANS & LEASES - NET	1,209,102,000	43.8%	1,126,974,000	46.0%	849,880,000	39.6%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	30,482,000	1.1%	28,756,000	1.2%	35,124,000	1.6%
16	DEFERRED LOSSES						
17	RESTRICTED FUNDS	546,874,000	19.8%	343,346,000	14.0%	249,614,000	11.6%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES						
19	OTHER LONG-TERM INVESTMENTS	24,303,000	0.9%	30,415,000	1.2%	15,165,000	0.7%
20	FIXED ASSETS & INTANGIBLES	43,307,000	1.6%	40,028,000	1.6%	37,985,000	1.8%
21	**TOTAL ASSETS**	**2,403,234,000**	**87.0%**	**2,114,037,000**	**86.2%**	**1,719,883,000**	**80.1%**
22	TOTAL CONTINGENT ASSETS	357,618,000	13.0%	338,217,000	13.8%	427,084,000	19.9%
23	**TOTAL ASSETS & CONTINGENTS**	**2,760,852,000**	**100%**	**2,452,254,000**	**100%**	**2,146,967,000**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	218,571,000	7.9%	213,061,000	8.7%	194,416,000	9.1%
25	TIER 2 CAPITAL	38,118,000	1.4%	32,969,000	1.3%	18,002,000	0.8%
26	MEDIUM & LONG-TERM BORROWINGS	511,869,000	18.5%	489,725,000	20.0%	356,605,000	16.6%
27	Demand deposits	444,503,000	16.1%	440,927,000	18.0%	399,512,000	18.6%
28	Savings deposits	363,920,000	13.2%	275,219,000	11.2%	227,970,000	10.6%
29	Time deposits	326,718,000	11.8%	247,564,000	10.1%	172,178,000	8.0%
30	Inter-bank takings						
31	TOTAL DEPOSIT LIABILITIES - LCY	1,135,141,000	41.1%	963,710,000	39.3%	799,660,000	37.2%
32	Customers' foreign currency balances	270,804,000	9.8%	261,503,000	10.7%	179,753,000	8.4%
33	TOTAL DEPOSIT LIABILITIES	1,405,945,000	50.9%	1,225,213,000	50.0%	979,413,000	45.6%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	228,731,000	8.3%	153,069,000	6.2%	171,447,000	8.0%
36	**TOTAL CAPITAL & LIABILITIES**	**2,403,234,000**	**87.0%**	**2,114,037,000**	**86.2%**	**1,719,883,000**	**80.1%**
37	TOTAL CONTINGENT LIABILITIES	357,618,000	13.0%	338,217,000	13.8%	427,084,000	19.9%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**2,760,852,000**	**100%**	**2,452,254,000**	**100%**	**2,146,967,000**	**100%**
	Proof						
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	155,142,000	5.6%	134,082,000	5.5%	188,641,000	8.8%
40	Guarantees, bonds etc..	202,476,000	7.3%	204,135,000	8.3%	238,443,000	11.1%
41	Short-term self liquidating contingencies						

FIDELITY BANK PLC

	INCOME STATEMENT FOR THE YEAR ENDED	30-June-2020		31-Dec-2019		31-Dec-2018	
		₦'000		₦'000		₦'000	
42	Interest income	87,622,000	82.7%	182,344,000	86.4%	153,682,000	82.8%
43	Interest expense	(39,302,000)	-37.1%	(99,289,000)	-47.0%	(84,095,000)	-45.3%
44	Loan loss expense	(7,841,000)	-7.4%	587,000	0.3%	(4,215,000)	-2.3%
45	NET REVENUE FROM FUNDS	40,479,000	38.2%	83,642,000	39.6%	65,372,000	35.2%
46	ALL OTHER INCOME	18,325,000	17.3%	28,703,000	14%	31,845,000	17.2%
47	**NET EARNINGS**	**58,804,000**	**55.5%**	**112,345,000**	**53.2%**	**97,217,000**	**52.4%**
48	Staff costs	(12,190,000)	-11.5%	(24,129,000)	-11.4%	(23,910,000)	-12.9%
49	Depreciation expense	(3,030,000)	-2.9%	(5,421,000)	-2.6%	(6,247,000)	-3.4%
50	Other operating expenses	(31,621,000)	-29.8%	(52,442,000)	-24.8%	(41,971,000)	-22.6%
51	TOTAL OPERATING EXPENSES	(46,841,000)	-44.2%	(81,992,000)	-38.9%	(72,128,000)	-38.9%
52	PROFIT (LOSS) BEFORE TAXATION	11,963,000	11.3%	30,353,000	14.4%	25,089,000	13.5%
53	TAX (EXPENSE) BENEFIT	(660,000)	-0.6%	(1,928,000)	-0.9%	(2,163,000)	-1.2%
54	**PROFIT (LOSS) AFTER TAXATION**	**11,303,000**	**10.7%**	**28,425,000**	**13.5%**	**22,926,000**	**12.4%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	DIVIDEND	(5,793,000)	-5.5%	(3,186,000)	-1.5%	(3,186,000)	-1.7%
57	**GROSS EARNINGS**	**105,947,000**	**100%**	**211,047,000**	**100%**	**185,527,000**	**100%**
58	AUDITORS	Ernst & Young		Ernst & Young		Ernst & Young	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	30-June-2020	31-Dec-2019	31-Dec-2018
	EARNINGS			
60	Net interest margin	55.1%	45.5%	45.3%
61	Loan loss expense/Interest income	8.9%	0.0%	2.7%
62	Return on average assets (Pre - tax)*	0.9%	1.3%	1.3%
63	Return on average equity (Pre - tax)*	11.1%	14.9%	12.7%
64	Operating Expenses/Net earnings	79.7%	73.0%	74.2%
65	Gross earnings/Total assets & contingents*	8.1%	9.2%	9.5%
	EARNINGS MIX			
66	Net revenue from funds	68.8%	74.5%	67.2%
67	All other income	31.2%	25.5%	32.8%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	44.8%	47.9%	41.8%
69	Liquid assets/Total lcy deposits	36.5%	45.9%	59.8%
70	Demand deposits/Total lcy deposits	39.2%	45.8%	50.0%
71	Savings deposits/Total lcy deposits	32.1%	28.6%	28.5%
72	Time deposits/Total lcy deposits	28.8%	25.7%	21.5%
73	Inter-bank borrowings/Total lcy deposits	0.0%	0.0%	0.0%
74	Interest expense - banks/Interest expense	0.0%	0.0%	0.0%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(135,857,000)	(159,650,000)	(126,069,000)

Annualised

FIDELITY BANK PLC

	KEY RATIOS CONT'D	30-June-2020	31-Dec-2019	31-Dec-2018
	ASSET QUALITY			
76	Performing loans (₦'000)	1,205,955,000	1,139,756,000	855,023,000
77	Non-performing loans (₦'000)	61,334,000	38,633,000	51,600,000
78	Non-performing loans/Total loans - Gross	4.8%	3.3%	5.7%
79	Loan loss provision/Total loans - Gross	4.7%	4.5%	6.4%
80	Loan loss provision/Non-performing loans	94.9%	133.1%	110.0%
81	Risk-weighted assets/Total assets & contingents	55.3%	57.9%	55.2%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets	15.6%	16.5%	16.2%
83	Tier 1 capital/Adjusted capital	90%	90%	101%
84	Total loans - net/Adjusted capital	5.06	4.82	4.42
85	Capital unimpaired by losses (₦'000)	218,571,000	213,061,000	194,416,000
	CAPITAL ADEQUACY STRESS TEST			
86	Adjusted capital (₦'000)	238,845,000	233,794,000	192,242,000
87	Cumulative loan loss provision (actual reserves)	58,187,000	51,415,000	56,743,000
88	Equity before all provision (line 86 + line 87)	311,632,000	295,809,000	268,085,000
89	Required reserves*	202,706,660	171,079,370	160,618,250
90	Equity after required reserves (line 88 - line 89)	108,925,340	124,729,630	131,944,750
91	Equity after required reserves/risk weighted assets	7.1%	8.8%	11.1%
	STAFF INFORMATION			
92	Net earnings per staff (₦'000)	20,496	40,066	33,431
93	Staff cost per employee (₦'000)	4,249	8,605	8,222
94	Staff costs/Operating expenses	26.0%	29.4%	33.1%
95	Average number of employees	2,869	2,804	2,908
96	Average staff per office	11	11	12
	OTHER KEY INFORMATION			
97	Legal lending limit(₦'000)	43,714,200	42,612,200	38,883,200
98	Other unamortised losses(₦'000)	NONE	NONE	NONE
99	Unreconciled inter-branch items (₦'000) DR/(CR)	NONE	NONE	NONE
100	Number of offices	250	250	240
101	Age (in years)	33	32	31
102	Government stake in equity (Indirect)	NIL	NIL	NIL
	MARKET SHARE OF INDUSTRY TOTAL	**Estimate**	**Actual**	**Actual**
103	Lcy deposits (excluding interbank takings)	5.2%	5.0%	5.0%
104	Total assets & contingents	5.4%	5.6%	5.6%
105	Total loans & leases - net	7.0%	7.1%	6.7%
106	Non interest income*	2.7%	2.5%	3.5%
107	Net interest income*	6.3%	4.5%	4.4%

**Annualised*

RATING DEFINITIONS

Aaa	Bonds rated 'Aaa' are judged to offer highest safety of timely payment of interest and principal. Though the circumstances providing this degree of safety are likely to change, such changes as can be envisaged are most unlikely to affect adversely the fundamentally strong position of such issues.
Aa	Bonds rated 'Aa' are judged to offer high safety of timely payment of interest and principal. They differ in safety from 'Aaa' issues only marginally.
A	Bonds rated 'A' are judged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.
Bbb	Bonds rated 'Bbb' are judged to offer sufficient safety of timely payment of interest and principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for bonds in higher rated categories.
Bb	Bonds rated 'Bb' are judged to carry inadequate safety of timely payment of interest and principal; while they are less susceptible to default than other speculative grade bonds in the immediate future, the uncertainties that the issuer faces could lead to in adequate capacity to make timely interest and principal payments.
B	Bonds rated 'B' are judged to have greater susceptibility to default; while currently interest and principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
C	Bonds rated 'C' are judged to have factors present that make them vulnerable to default; timely payment of interest and principal is possible only if favourable circumstances continue.
D	Bonds rated 'D' are in default and in arrears of interest and principal payments or are expected to default on maturity. Such bonds are extremely speculative and returns from these bonds may be realized only on reorganization or liquidation.

The first four categories of ratings are investment grade while the last four ratings are speculative grade.
The ratings from Aa to C may be modified by the addition of a plus or minus sign to show relative standing within the category.

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