# Fidelity Bank Plc

## 2020 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

# Fidelity Bank Plc

Rating Assigned:

**A**

*A financial institution with good financial condition and strong capacity to meet its obligations as and when they fall due*

**Outlook:** Stable
**Issue Date:** 27 Nov 2020
**Expiry Date:** 31 Dec 2021
**Previous Ratings:** N/A

**Industry:** Banking

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## RATING RATIONALE

Agusto & Co. hereby assigns an '**A**' rating to Fidelity Bank Plc ('Fidelity Bank' or 'the Bank'). The rating assigned reflects Fidelity Bank's strong industry position as evidenced by its leading position in the tier 2 banking segment. The rating also considers the Bank's good liquidity position, strong ability to refinance, adequate capitalisation and satisfactory asset quality. We have also factored in Fidelity Bank's good staff productivity and experienced management team. However, constraining the aforementioned positives are the obligor concentration in the loan book and the Bank's high operating cost profile. The assigned rating also reflects the impact of the harsh regulatory environment and prevailing macroeconomic headwinds accentuated by the COVID-19 pandemic.

Fidelity Bank Plc is Nigeria's sixth-largest commercial bank by total assets as at 31 December 2019. The Bank's total assets and contingents stood at ₦2.8 trillion as at 30 June 2020. With a network of 250 branches, 2,300 agents and several digital touchpoints, Fidelity Bank serves over 5 million customers. Core capital stood at ₦218.6 billion as at 30 June 2020 and supported by tier 2 capital of ₦38.1 billion, the Basel II computed capital adequacy ratio of 18.8% was higher than the prescribed minimum of 15% for international banks. In the near term, Fidelity Bank seeks to raise a medium-term bond which if successful should provide additional capital buffer. The Bank's assets were also funded by customer deposits of ₦1.4 trillion as at 30 June 2020 and a diverse pool of borrowings (₦517.9 billion) from multilateral financial institutions, development banks in addition to funds sourced through the local and international debt capital markets.

Fidelity Bank's earnings profile has been predominantly sustained by fund-based income, which accounted for an average 69% of net earnings in the last five years. While earning yields have declined due to CBN's measures directed at lowering interest rates, the Bank gained from a substantial decline in funding costs. As a result, the net interest spread increased to 55.1% in HY 2020 from 43% in HY 2019. While the Bank's NIS has consistently been below the industry average, we expect an improvement on account of prevailing low interest rates and efforts to grow low-cost deposits. Driven by lower earnings – subdued interest income amid comparably low ancillary earnings – the Bank's cost-to-income ratio remained high at 79.7%, exceeding the industry average of 67% recorded in the last three years and constraining profitability. Fidelity Bank's pre-tax profits grew by 21.9% to ₦12 billion in the six months ended 30 June 2020, with an annualised pre-tax return on average equity (ROE) of 11.1% (HY 2019: 10.3%) and a relatively unchanged annualised pre-tax return on average assets and contingents (ROA) of 0.9%, due to the expanded asset base. The Bank's ROE was lower than the estimated banking industry average of 17.7% and we believe profitability can be improved upon. We expect near-term performance to be further impacted by low earnings yields and higher loan impairment charges as macroeconomic risk remains heightened.

Fidelity Bank's loan portfolio has grown by a five-year compound annual growth rate (CAGR) of 16.2% to ₦1.3 trillion as at 30 June 2020. The Bank has consistently maintained an upward trajectory in lending and has been aligned with the minimum loan-to-deposit ratio (LDR) of 65% introduced in July 2019. Due to the impact of the pandemic in the first half of 2020, Fidelity Bank's gross loans and advances recorded a slower growth rate of 7.5% (without the impact of the 2.8% naira devaluation) compared to 30% in 2019. Obligor concentration in the loan book is high, with the top 20 exposures accounting for 44% of gross loans as at 30 June 2020 (FYE 2019: 46%). The two largest exposures accounted for 26% and 25% respectively of the Bank's shareholders' equity, breaching the single obligor limit of 20%. Given that these exposures are denominated in foreign currency, this will worsen in the event of a further naira devaluation. Reflecting heightened economic risk, the Bank's stage 3 loans (NPLs) grew by 58.8% to stand at ₦61.3 billion as at 30 June 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. We expect asset quality pressures to persist in the near-term, especially given the Bank's exposure to some vulnerable sectors. However, we expect our concerns to be curbed to some extent, in the near-term, by the CBN's forbearance which permits facility restructuring.

We hereby attach a **stable** outlook to the rating of Fidelity Bank Plc. Our outlook is based on our expectation of controlled asset quality pressures and additional capital support should the proposed medium-term bond be successful. The rating and outlook will be continually monitored to ascertain the impact of the adverse economic climate.

**Strengths**

- Good liquidity profile
- Strong niche in the small and medium enterprises space.
- 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

**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***

## PROFILE

Fidelity Bank Plc ('Fidelity Bank' or 'the Bank') 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 above ₦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. During the six months ended 30 June 2020, the Bank employed an average of 563 persons.

### Technology

Fidelity Bank deploys various hardware and software applications to support its banking activities. The Bank uses the Finacle core banking application (provided by Infosys), which has a web application and an integrator that supports the integration of e-channels and other third-party transactions. Fidelity Bank's non-core banking servers run on Hitachi Hyper-converged infrastructure. For efficient data management, the Netbackup Enterprise backup solution is used while a disaster recovery site, which serves as an alternative when the data centre is unavailable. With the increasing use of its digital channels, an Enterprise Fraud Management solution is used to mitigate cyber-attacks.

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 Bank also has a growing network of 2,300 agents. Supported by several partnerships, Fidelity Bank expects the number of agents is expected to increase to over 20,000 by FYE 2020.

## Correspondent Banks

During the six months ended 30 June 2020, Fidelity Bank maintained correspondent banking relationships with foreign banks including Citibank, Bank of Beirut and UBS Switzerland.

## Summary of Financial Performance

Fidelity Bank's asset base grew by a five-year compound annual growth rate (CAGR) of 14.5% to ₦2.8 trillion as at 30 June 2020. The loan portfolio also recorded a substantial expansion of 16.2% over the same period to stand at ₦1.3 trillion as at 30 June 2020 and remained the largest asset class (45.1% of total assets). Stage 3 or non-performing loans (NPLs) grew by a marked 58.8% to ₦61.3 billion and translated to an NPL ratio of 4.8% (FYE 2019: 3.3%).

Fidelity Bank's core capital increased by 2.6% year-on-year to stand at ₦218.6 billion as at 30 June 2020. Supported by ₦38.1 billion in tier 2 capital, the Basel II computed capital adequacy ratio stood adequate at 18.8%. Also funding the Bank's activities are customer deposits that amounted to ₦1.4 trillion, 14.8% higher than FYE 2019, and financed 50.9% of the asset base as at 30 June 2020. Borrowings stood at ₦517.9 billion and funded 18.8% of the asset base (FYE 2019: 20.5%) as at the same date.

In the first six months ended 30 June 2020, pre-tax profits amounted to ₦12 billion, a 21.9% increase from 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.

| Current Directors | Designation |
|---|---|
| Mustafa Chike-Obi | Chairman |
| Nnamdi Okonkwo | Managing Director/Chief Executive Officer |
| Aku Odinkemelu | Executive Director |
| Nneka Onyeali-Ikpe | Executive Director |
| Gbolahan Joshua | Executive Director |
| Obaro Odeghe | Executive Director |
| Hassan Imam | Executive Director |
| Kevin Ugwuoke | Executive Director |
| Isa Mohammed Inuwa | Independent Non-Executive Director |
| Engr Henry Obih | Independent Non-Executive Director |
| Alex Ojukwu | Non-Executive Director |
| Michael Okeke | Non-Executive Director |
| Pst Kings Akuma | Non-Executive Director |
| Chief Charles Umolu | Non-Executive Director |
| Chidozie Agbapu | Non-Executive Director |

## Management Team

**Mr Nnamdi Okonkwo** is the Managing Director and Chief Executive Officer (CEO) of Fidelity Bank Plc, a position he has held since January 2014. He joined the Bank in April 2012 as an Executive Director. Commercial and Consumer Banking. Before Fidelity Bank, Mr Okonkwo held several managerial and leadership positions in other commercial banks including Guaranty Trust Bank Plc, United Bank for Africa Plc and the defunct Merchant Bank for Africa. He holds a Bachelor of Science degree in Agriculture Economics and a Master's in Business Administration (MBA) from the University of Benin.

In July 2020, Fidelity Bank announced the retirement of the Managing Director/CEO, Mr Nnamdi Okonkwo, effective 31 December 2020. Mr Okonkwo is to be replaced by Mrs Nneka Onyeali-Ikpe, the current Executive Director, Lagos and South West.

Mrs Nneka Onyeali-Ikpe has over 30 years of banking experience across various commercial banks including Standard Chartered Bank Limited, Zenith Bank Plc and Citizens International Bank Limited, where she held several positions in legal, treasury, investment, retail, commercial and corporate banking. Mrs Onyeali-Ikpe also served as an Executive Director on the Board of the defunct Enterprise Bank Plc. She was appointed to the Board of Fidelity Bank in 2015 as an Executive Director, Lagos and South-West. Mrs Onyeali-Ikpe holds a Bachelor of Law (LLB) and Masters of Law (LLM) degrees from the University of Nsukka and Kings College, London, respectively. She is an Honorary Senior Member (HCIB) of the Chartered Institute of Bankers of Nigeria.

Other members of Fidelity Bank Plc's executive management team include

| | |
|---|---|
| Aku Odinkemelu | *Executive Director, Commercial and Consumer Banking (South Directorate)* |
| Gbolahan Joshua | *Executive Director, Chief Operations and Information Officer* |
| Obaro Odeghe | *Executive Director, Corporate Banking* |
| Hassan Imam | *Executive Director, North Directorate* |
| Kevin Ugwuoke | *Executive Director, Risk Management (Chief Risk Officer)* |

*ANALYST'S COMMENTS*

# ASSET QUALITY

Fidelity Bank's total assets and contingents have grown by a five-year compound annual growth rate (CAGR) of 14.5% to stand at ₦2.8 trillion as at 30 June 2020, underpinned by an expanding customer deposit base and an enlarged capital base. Driven by the growth in customer deposits and heterodox regulatory measures, restricted cash reserves recorded the highest growth of 59.3% compared to FYE 2019 and accounted for 19.8% of the asset base (FYE 2019: 14%). The cash reserves which are sterile and not available for daily banking operations accounted for 2.5 times the Bank's shareholders' equity. Nevertheless, the loan portfolio remained the dominant asset class, accounting for 46% of total assets and contingents as at 30 June 2020 (FYE 2019: 48.1%). As at the same date, gross loans and advances stood at ₦1.3 trillion, reflecting a 7.5% growth over FYE 2019, excluding the 2.8% impact of the naira devaluation during the first half of the year.

Fidelity Bank has a moderate risk appetite and focuses on providing lending solutions to corporates, commercial and retail customers, in addition to a notably established niche in the SME segment. Fidelity Bank predominantly lends to corporates, which accounted for 46% of gross loans as at 30 June 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 loan book as at the same date.

In terms of currencies, approximately 43% of the loan book was denominated in foreign currencies, higher than 41.2% as at FYE 2019 due to the naira devaluation. Fidelity Bank has maintained a steady trajectory in lending activities and consistently surpassed the regulatory 65% minimum loan-to-deposit ratio benchmark introduced in July 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 Bank's projected loan growth of 10% by FYE 2020 to be feasible.

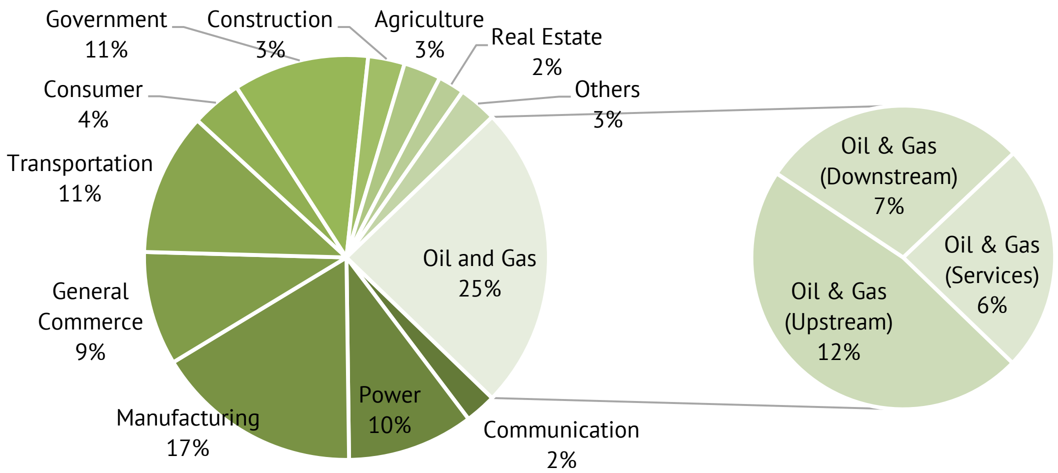
In terms of sectors, the Bank's largest exposure was to the oil and gas sector which increased by 26.5% (20.4% without the impact of the devaluation) and accounted for 25% of the loan portfolio as at 30 June 2020. The increase was largely driven by financing support provided to maintenance projects and inventory financing. The upstream segment accounted for 12% of gross loans while the downstream and services segments represented 7% and 6% respectively. Fidelity Bank's exposure to the oil and gas sector is below the banking industry average of circa 30%, however, 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.

Fidelity Bank's second-largest sectorial exposure was to the manufacturing sector, which accounted for 17% of gross loans as at 30 June 2020. The Bank's obligors within this segment are dominated by manufacturers of food products. Compared to FYE 2019, the Bank's exposure to the sector declined by 2.8% due to repayments

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

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**




Exposure to the transportation sector (including aviation, haulage and logistics operators) increased by 6.2% as at 30 June 2020 from FYE 2019 and accounted for 11% of the loan book. However, real loan growth in the sector was marginal considering that a marked 85% of these exposures were denominated in foreign currency. 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 the lockdown period.

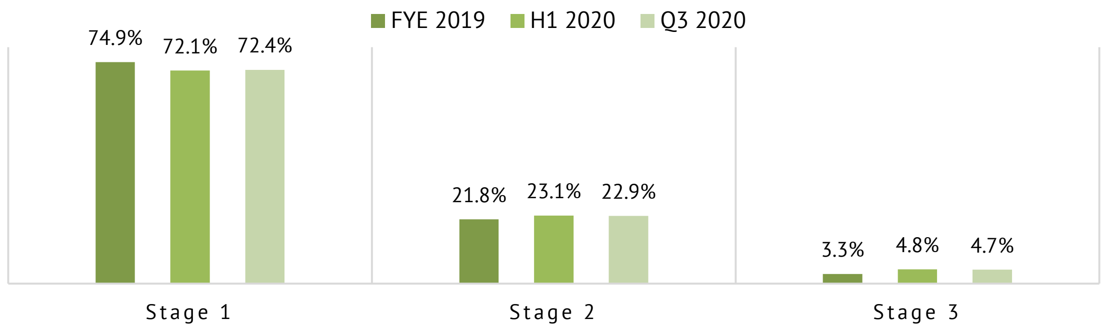
Largely driven by the naira devaluation during the period under review, power sector loans grew by 8% and accounted for 10% of gross loans and advance as at 30 June 2020. As at the same date, approximately 50% of power sector loans were denominated in foreign currency although the obligors solely earn 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 exposures). However, in line with the recent increase in electricity tariffs, the Bank 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.

As at 30 June 2020, Fidelity Bank'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. Although none of these exposures was impaired as at 30 June 2020, Agusto & Co. believes that the loss of one or more of these large exposures will adversely impact the asset quality of the Bank. 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 a higher degree of concentration. We note that the facility has been restructured to accommodate the disruption in the obligor's operations.

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: 74.9%). 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 is largely due to the impact of the pandemic on the operating 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%, the estimated industry average of 9.9%, Guaranty Trust Bank's (GTBank) 6.1% and Ecobank Nigeria Limited's 22.7%. However, we believe the Bank will have to contend with some latent loans (largely in the power sector) over the medium-term. A breakdown of the impaired loans revealed that non-performing oil and gas loans accounted for 31% while obligors in the transportation sector represented 16%, further highlighting earlier concerns on the vulnerabilities of these sectors.

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




Fidelity Bank's cumulative loan loss provisioning covered stage 3 or non-performing 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 the impact of a 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%.

Upheld by its risk management framework, we consider Fidelity Bank's asset quality to be satisfactory. While we acknowledge the impact of the regulatory forbearance, we expect further asset quality pressures given the increasing likelihood of a second wave of the COVID-19 pandemic. Given the weak economic climate and approximately 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.

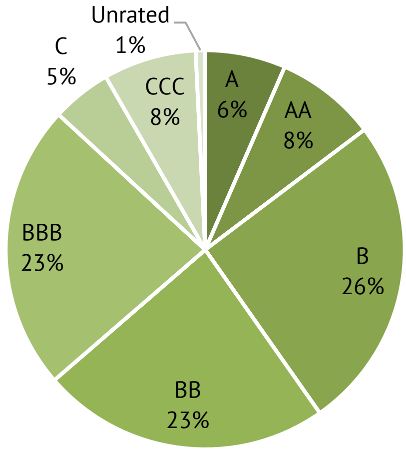
## RISK MANAGEMENT

Fidelity Bank Plc runs an Enterprise-wide Risk Management System and operates a managed risk culture that emphasises a mixture of growth and risk control to achieve corporate goals without compromising asset or service quality. The Bank has an independent risk management function headed by the Chief Risk Officer who is an Executive Director and reports to the Board of Directors. Fidelity Bank's risk management is supported by the internal audit division.

**Credit Risk**

Fidelity Bank's credit exposure emanates from lending activities and its investment portfolio. To mitigate credit risk, the Bank has an assessment methodology, which provides nine rating scales (Aaa to C), to evaluate the creditworthiness of its counterparties using both financial and non-financial factors. As at 30 June 2020, 38% of the loan book was classified as investment grade, up from 36% in the prior year. Speculative grade obligors made up 61% of the loan book while the remaining 1% was unrated.

**Figure 3: Loan Portfolio by Rating as at 30 June 2020**




Potential credit losses are mitigated using a wide range of collateral including real estate, investment securities, insurance bonds, policies and different forms of guarantees. However, the reliance on these mitigants is hinged on legal enforceability, market valuation, correlation with exposure and the counterparty risk of the guarantor. As at 30 June 2020, 88.3% of the loan book was secured with collateral coverage of 20 times. Another risk mitigant is the use of portfolio concentration limits which reflect the Bank's credit risk appetite.

**Market and Liquidity Risks**

The Bank assumes market risk in both trading and non-trading activities. Established risk limits, monitored daily by the Market Risk Group, include intraday, daily revaluation for currency positions, net open position, stop loss and deposit placement. Daily positions of the trading books are marked-to-market to enable Fidelity Bank to obtain an accurate view of its trading portfolio exposures.

As at 30 June 2020, the Bank had a net FCY asset position of about ₦148.5 billion (or US$384 million at ₦386.75/$). A sensitivity analysis of the foreign currency statement of financial position showed a ₦1.5 billion gain for every 1% currency depreciation. Furthermore, a repricing gap analysis on Fidelity Bank's interest rate sensitive assets and liabilities showed insufficient assets to repay liabilities in two maturity buckets (less than 3 months and 1-5 years). Thus, a 200-basis point decline in interest rates is expected to translate to a ₦5.4 billion loss (2.2% of shareholders' equity) from the loan book.

Fidelity Bank has established liquidity and concentration limits and ratios, tolerance levels and triggers through which it identifies liquidity risk. The Bank also uses gap analysis to identify short, medium and long-term mismatches.

**Operational Risk**

Fidelity Bank uses the Basic Indicator Approach (BIA) to measure and monitor operational risks under the Basel 2 accord. In managing operational risks, the Bank has redefined business requirements across all networks and branches using tools such as loss data collection, risk and control self-assessment, key risk indicators and business continuity management. During the six months ended 30 June 2020, the Bank paid a total of ₦414.5 million as penalties for some infractions highlighted by the Central Bank of Nigeria, a huge spike from ₦4 million in HY 2019. The increase was due to the ₦412 billion penalty for the infraction of FX guidelines on the importation of textiles.

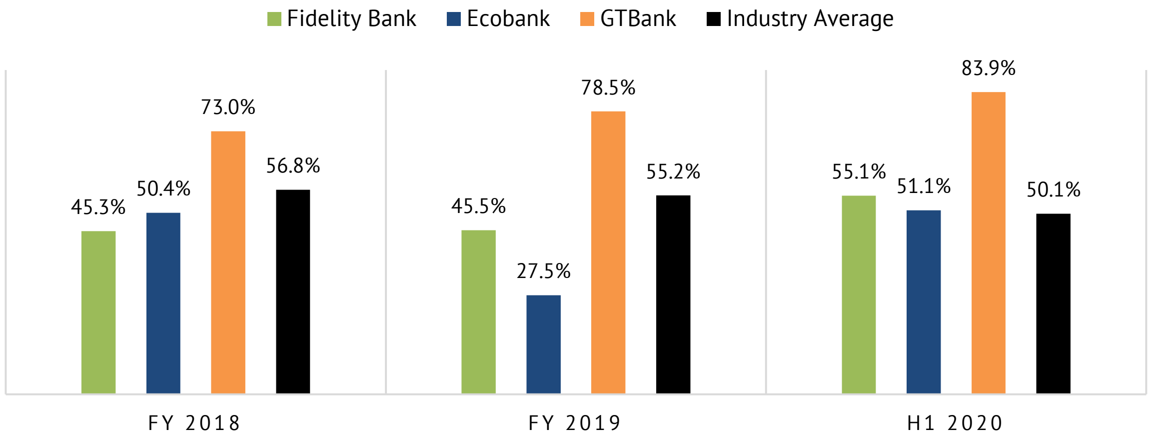
We consider Fidelity Bank's risk management to be adequate for its current business risks. However, in response to heightened economic risk in Nigeria and the global economy, we expect the Bank to adopt additional stringent risk measures.

# EARNINGS

Fidelity Bank generates revenue from lending and treasury activities, which has sustained and accounted for an average of 69% of net earnings in the last five years. Supporting fund-based income is ancillary income such as credit-related fees, electronic banking income and gains from fixed income and currency trading.

On the back of the CBN's heterodox policies, interest rates have maintained a downward trajectory in the last 18 months. This has resulted in a 200 basis points decline in Fidelity Bank's earning assets to 11.5% in HY 2020 compared to the corresponding period in the prior year. Thus, interest income grew marginally by 2.1% year-on-year to ₦87.6 billion. Driven by the low interest rate environment that was further accentuated by the May 2020 reduction in the monetary policy rate (MPR) by 100 basis points to 12.5%, interest expense reduced by 19.7% to ₦39.3 billion. This was notwithstanding the expansion in customer deposits and the impact of the devaluation on foreign currency borrowings. Fidelity Bank's recorded a higher net interest spread (NIS) of 55.1% (HY 2019: 43%), higher than Ecobank's 51.1% but lower than 83.9% recorded by GTBank 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. Consequently, the Bank's NIS improved to 56.6% in the nine months ended 30 September 2020. Fidelity Bank seeks to raise a medium-term bond in the near-term, which is expected to increase interest expense. However, we expect the Bank's anticipated single-digit coupon rate on the bond to moderate overall funding costs. 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 4: Net Interest Spread: Peer Analysis (FY 2018 – HY 2020)**

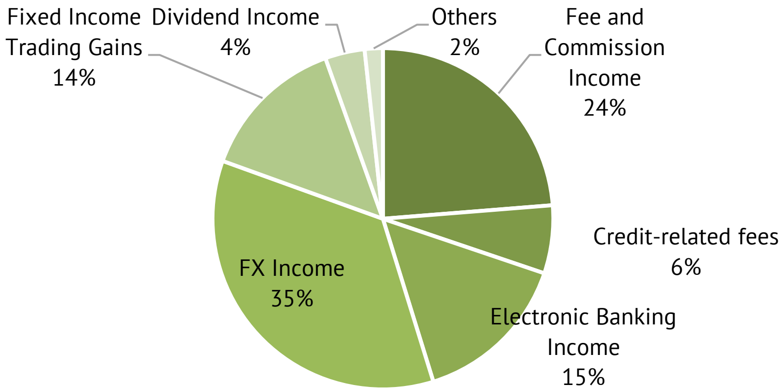



Reflecting heightened economic risk and an increase in the Bank's buffers against asset quality deterioration, Fidelity Bank's impairment charge amounted to ₦7.8 billion in HY 2020 from a write-back of ₦587 million in HY 2019. The impairment charge absorbed a high 16.2% of pre-impairment profit and translated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

Fidelity Bank's net ancillary income amounted to ₦18.3 billion in the six months ended 30 June 2020, a marked 68.9% increase from the prior year. This was driven by the naira devaluation implemented in March 2020 and the resulting ₦7.4 billion in foreign exchange gains, which accounted for 35% of non-interest income (HY 2019: 16%). The low interest rate environment also stimulated 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 the loan book. 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%). In the same vein, 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%).

While 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%. Fidelity Bank's market share of non-interest income stood at 2.5% in the 2019 financial year, which we consider being 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. Overall, we expect non-interest income to be sustained, in the near-term, by revaluation gains on the fixed income portfolio.

**Figure 5: Breakdown of Non-Interest Income (HY 2020)**




Fidelity Bank's operating expenses (OPEX) increased by 8.3% year-on-year to ₦46.8 billion during HY 2020. This was due to a 27.5% increase in amortisation expenses on the Bank's upgraded banking software, a 13.2%

[2] Annualised

growth in the AMCON levy and a 16.2% rise in deposit insurance premium (as the asset and deposit base expanded). The 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. Besides, with net earnings to total assets of 4.3% compared to the industry average of 5.2%, we believe there is a need for Fidelity Bank 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.

**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(times)** | 11 | 11 | 10 | 12 | 11 | 13 |
| **Pre-tax return on average equity** | 19.6% | 12.7% | 24.3% | 14.9% | 17.7% | 11.1%* |

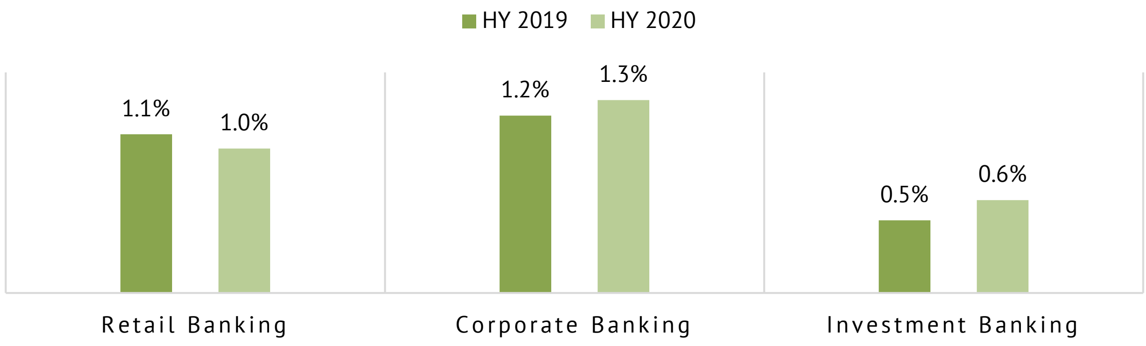
**Annualised*

Fidelity 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 annualised pre-tax return on average assets and contingents (ROA) of 0.9% due to the expanded asset base. The Bank's three business segments – retail, corporate and investment banking, all recorded profits in the six months to 30 June 2020. Retail banking's annualised ROA stood at 1% (H1 2019: 1.1%), corporate banking recorded 1.3% (H1 2019: 1.2%) while investment banking's annualised ROA stood at 0.6% (H1 2019: 0.5%). We do not envisage a significant improvement in the profitability across the retail and corporate banking segments due to muted lending activities. However, we believe that the investment banking segment should record higher profits in the near-term, owing to anticipated gains from treasury activities.

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 Bank's profitability can be improved upon.

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

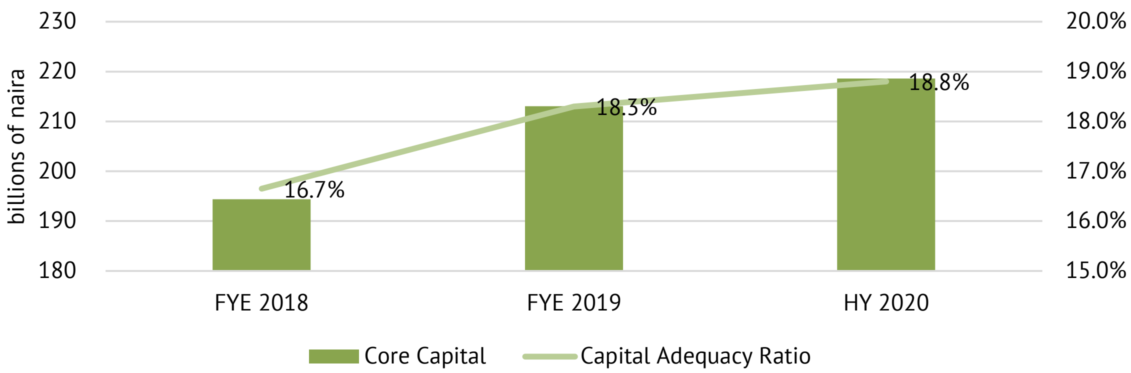
**Figure 6: ROA of the Bank's Operating Regions (HY 2019 and HY 2020)**




## CAPITAL ADEQUACY

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 Bank's tier 2 capital increased by 15.6% 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 Fidelity Bank's ₦30 billion seven-year bond issued in May 2015.

**Figure 7: Core Capital and Capital Adequacy Ratio (FYE 2018 - HY 2020)**




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 Fidelity Bank's internal benchmark of 16%. The capital adequacy ratio was constrained by the regulatory adjustment of ₦14.6 billion on account of the single obligor limit breach. Without the regulatory adjustment, the Bank's capital adequacy ratio would have been 19.97%, emphasising our concerns about the concentration in the loan book. The Bank expects capitalisation to be strengthened through the issuance of a medium-term bond in the near-term, which will qualify as tier 2 capital. Should this be successful, we expect Fidelity Bank's capital adequacy ratio to improve by circa 200 basis points. We consider the Bank's capitalisaton to be adequate for its current risk profile.

## LIQUIDITY AND LIABILITY GENERATION

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). The Bank seeks to improve digital banking capabilities to drive low-cost deposits in the near-term. An expansion of the agency banking network to over 20,000 by FYE 2020, is also expected to support the Bank's growth strategy.

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. The growth in customer deposits was 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. Although 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 deposit mix by investing in additional digital banking capabilities and expanding its agency banking network which should help shore up its retail deposits. 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.

**Figure 8: Customer Deposits by Sources 30 June 2020**

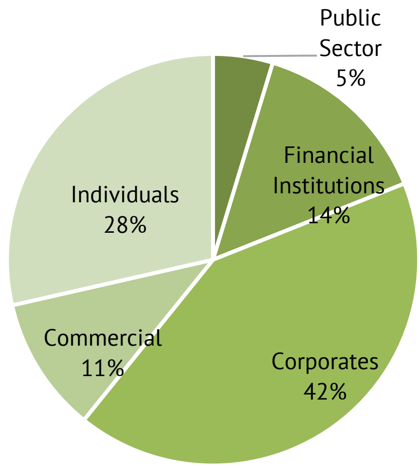
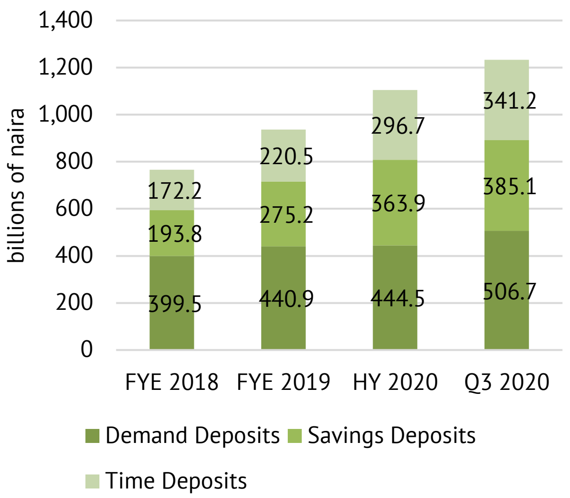



**Figure 9: Breakdown of LCY Deposits (FYE 2018 – Q3 2020)**

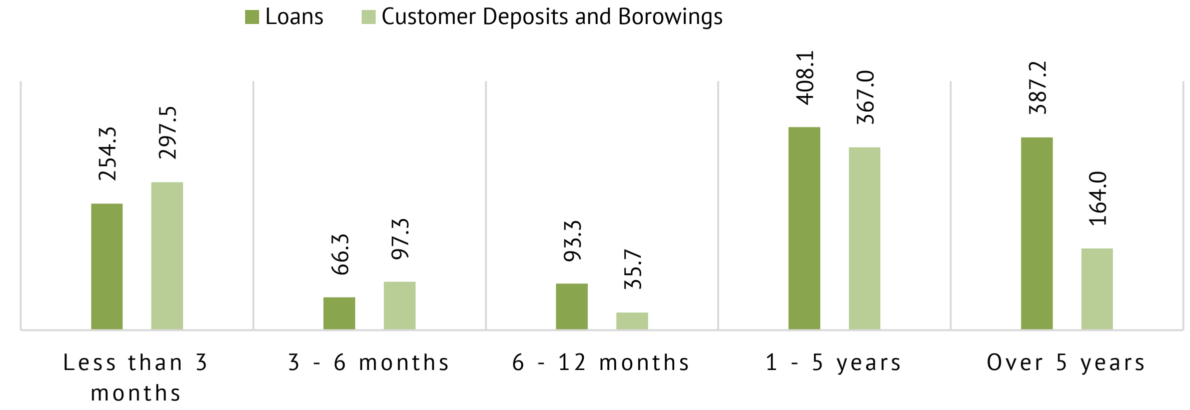



Fidelity Bank's foreign currency (FCY) deposits grew by 4.2% to ₦300.1 billion as at 30 June 2020 but a lower 2.8% growth when the naira devaluation is considered. As at the same date, FCY deposits funded only 54% of FCY loans, however, the coverage improves to 96% when FCY borrowings are considered.

Funding the Bank's activities are borrowings which stood at ₦517.9 billion as at 30 June 2020, 3.2% higher than FYE 2019's position. Fidelity Bank'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). As at 30 June 2020, Fidelity Bank 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 Bank'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. Given the Bank'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 Bank'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%). The Bank's WACF improved further to 4% in the nine months ended 30 September 2020. With the proposed issuance of a medium-term bond at an anticipated single-digit coupon rate, we believe Fidelity Bank will sustain lower funding costs in the near-term. We also believe that the Bank's wide pool of customer deposits and the further reduction in MPR in September 2020 should reduce funding costs further.

**Figure 10: Maturity Profiles of Loans vis-à-vis Customer Deposits and Borrowings (30 June 2020)**




A review of the maturity profile of Fidelity Bank's loans vis-à-vis its customer deposits and borrowings reveals a mismatch in three maturity buckets (6-12 months, 1-5 years and over 5 years). To manage this risk, the Bank estimates that 50% - 70% of its deposits are long-term behaviourally while its long-term borrowings also provides respite. In addition, the issuance of the proposed medium-term bond should provide an additional cushion.

Fidelity 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 the 30% regulatory minimum. To support liquidity, the Bank has standby lines of credit with international financial institutions totalling US$660.5 million. As at 30 September 2020, the liquidity ratio remained good at 38.1%; higher than the regulatory minimum of 30%.

In our opinion, Fidelity Bank's liquidity profile is good and we consider the Bank's ability to refinance to be strong; upheld by its domestic brand equity.

## 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 Bank'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. After the review period, in July 2020, Fidelity Bank announced the retirement of the Managing Director/CEO, Mr Nnamdi Okonkwo, 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.

*Mr Mustafa Chike-Obi has over 40 years of work experience in investment banking and financial services. He is currently the Executive Vice Chairman, Alpha African Advisory. Before his recent role, he was the founding President at Madison Advisors, a financial services advisory firm in New Jersey. Mr Chike-Obi was the inaugural Chief Executive Officer (CEO) of the Asset Management Corporation of Nigeria (AMCON). He has a Bachelor of Science degree in Mathematics from the University of Lagos and a Masters of Business Administration (MBA) from Stanford University Graduate School of Business.*

*Alhaji Isa Mohammed Inuwa has over 35 years' work experience in banking and oil and gas, with strategic and executive roles held in management, finance, strategy, corporate services, compliance, audit and information technology. He commenced his career at Union Bank of Nigeria Plc after which he joined the defunct Bank for Credit and Commerce International (BCCI) and International Merchant Bank. Subsequently, he was appointed Managing Director, Intercity Bank Plc in 1991. Upon his exit from Intercity Bank, Alhaji Inuwa worked briefly as a freelance financial consultant before being appointed as an Executive Director (Operations) Bank of Agriculture (BOA) in 2005. He retired as the Chief Operating Officer (Group Executive Director), Corporate Services of the Nigerian National Petroleum Corporation (NNPC) in June 2019. Alhaji Inuwa obtained a Bachelor of Science degree in Accounting and a post-graduate degree in Accounting and Finance from Ahmadu Bello University, Zaria.*

*Mr Kevin Ugwuoke has over 29 years of banking experience across various banks including Citibank Limited, Access Bank Pc, United Bank for Africa (UBA) Plc and the defunct Mainstreet Bank Limited. His experience spans various functions including commercial banking, corporate banking and risk management. He served as the Chief Risk Officer at UBA and Mainstreet Bank Limited. Mr Ugwuoke joined Fidelity Bank in 2015 as General Manager, Chief Risk Officer. He holds a Bachelor of Science degree in Civil Engineering from the University of Nigeria, Nsukka and a post-graduate diploma in Management from the Edinburgh Business School of the Herriot-Watt University, Scotland.*

*Engr. Henry Ikem Obih has over three decades of work experience in the oil and gas industry, with functions spanning project and performance management, operations management, sales and marketing. Engr. Obih was appointed a Board member of Nigeria Liquefied Natural Gas (NLNG) in July 2020. Before this, he worked with the NNPC for three years and retired as the Group Executive Director/Chief Operating Officer (Downstream). Engr Obih joined the NNPC after a 22-year career at Mobil Oil Nigeria and retired as an Executive Director. He holds a Bachelor of Science degree in Mechanical Engineering from the University of Nigeria, Nsukka and a Master's in Business Administration (MBA) from the University of Bradford, England. Engr Obih is a fellow of the Nigerian Society of Engineers and the Nigerian Institute of Credit Administration.*

*Dr Kenneth Opara has over 29 years' experience in banking and he has garnered experience at various banks including the defunct Omega Bank Plc, Equatorial Trust Bank Plc and Manny Bank Plc, before joining Fidelity Bank in 2006. His banking experience includes credit, treasury, retail, consumer and commercial banking, international operations, and corporate banking. Dr Opara serves as the General Manager/Regional Bank Head, Ikeja Regional Bank. He holds a Bachelor of Science degree in Finance and an MBA from the University of Nigeria, Nsukka and a Ph.D. in Credit Management from the International University of Panama.*

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 13.1 times.

**Table 3: Staff Productivity Indicators**

| | Fidelity HY 2019 | Fidelity HY 2020 | Ecobank* HY 2020 | GTBank HY 2020 |
|---|---|---|---|---|
| **Net earnings per staff** | ₦18.1 million | ₦20.5 million | ₦11.4 million | ₦45.2 million |
| **Staff cost per employee** | ₦4 million | ₦4.2 million | ₦3.4 million | ₦3.4 million |
| **Net earnings per staff to staff cost per employee** | 4.5 times | 4.8 times | 3.4 times | 13.1 times |
| **Staff cost to operating expenses** | 27% | 26% | 35% | 18% |

**estimated*

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 has evolved from merchant banking operations for about a decade to commercial banking in 1999. Sustained by organic and inorganic growth, the Bank has grown to be Nigeria's sixth-largest bank by total assets and contingents. On this basis, Fidelity Bank is a leading player in the tier 2 banking segment and controlled an estimated 5.4% of the banking industry's asset base, 5.2% of LCY deposits and 7% of loans as at 30 June 2020. Despite its position, we believe that with the significant share of core banking assets, the Bank's market share of pre-tax profits is low. In our opinion, this is largely due to the Bank's comparably inefficiencies relative to most of its peers amid regulatory constraints. Nevertheless, we consider Fidelity Bank's industry position to be strong.

**Table 4: 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 has a medium-term aspiration of becoming a tier 1 commercial bank. Key enablers identified by the Bank to support substantial growth include digital banking capabilities, the expansion of the agency banking network, cost efficiencies and an increasing diversification across various business segments. However, the Bank's trajectory has been somewhat slowed by the COVID-19 pandemic which has resulted in raging macroeconomic headwinds, with the Nigerian economy sliding into a recession in the third quarter of 2020. Performance has also been impacted by suppressed yields on earning assets stemming from the CBN's heterodox measures directed at lowering interest rates. The apex bank induced downward review of fees in January 2020 has also limited ancillary income amidst efforts to improve customer digital banking penetration.

On the back of the weak economic climate, Fidelity Bank seeks to maintain a cautious lending approach, with a focus on identified resilient sectors such as food manufacturing, healthcare, telecommunications and construction (public sector projects). The Bank also intends to leverage more cost-effective funding opportunities including intervention facilities to sustain performance in the near-term. As expected, asset quality pressures will linger as the economy continues to contend with the global pandemic. However, with Fidelity Bank's proactive risk control measures and the CBN forbearance which permits loan restructuring to households and businesses severely impacted by the pandemic, we believe asset quality concerns will be moderated to some extent. In our opinion, the proposed medium-term bond, which is expected to qualify as tier 2 capital, will provide an additional cushion to absorb possible losses. We also 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. The outlook shall be closely monitored to reflect material changes in the operating environment that could impact the Bank.

# 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) |

# 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% |

## RATING DEFINITIONS

| | |
|---|---|
| **Aaa** | A financial institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) are unlikely to lead to deterioration in financial condition or an impairment of the ability to meet its obligations as and when they fall due. In our opinion, regulatory and/or shareholder support will be obtained, if required. |
| **Aa** | A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a slight increase the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain strong. Although regulatory support is not assured, shareholder support will be obtained, if required. |
| **A** | A financial institution of good financial condition and strong capacity to meet its obligations. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged. In our opinion, shareholder support should be obtainable, if required. |
| **Bbb** | A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due. It may have one major weakness which, if addressed, should not impair its ability to meet obligations as and when due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. |
| **Bb** | Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. May have one or more major weaknesses. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly. |
| **B** | Financial condition is weak but obligations are still being met as and when they fall due. Has more than one major weakness and may require external support, which, in our opinion, is not assured. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly. |
| **C** | Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default. |
| **D** | In default. |

**Rating Category Modifiers**
*A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.*

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