

# Providus Bank Plc

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Final Rating Report (2021)

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 **Agusto&Co.**

*Research, Credit Ratings, Credit Risk Management*

# Providus Bank Plc

*Financial condition is satisfactory with adequate capacity to meet obligations as and when they fall due*

## Rating Assigned: **RATING RATIONALE**

### **Bbb-**

**Outlook:** Stable  
**Issue Date:** 19 July 2021  
**Expiry Date:** 30 June 2022  
**Previous Rating:** Bb

**Industry:** Banking

#### **Analysts:**

**Tobi Adebuwa**  
tobiadebuwa@agusto.com

**Chiamaka Ozorjiri**  
chiamakaorzorjiri@agusto.com

**Ayokunle Olubunmi, CFA**  
ayokunleolubunmi@agusto.com

**Agusto & Co. Limited**  
UBA House (5th Floor)  
57, Marina  
Lagos  
Nigeria

**www.agusto.com**

Agusto & Co Limited upgrades the rating assigned to Providus Bank Plc (“Providus Bank” or “the Bank”) to a “**Bbb-**” reflecting the Bank’s improving profitability, good liquidity position and strong shareholders’ support as demonstrated by the ₦4.8 billion deposited for additional shares during the year under review. Subsequent to the year end, an additional ₦6.5 billion capital was raised from shareholders to support the medium-term growth plans of the Bank. Providus Bank’s affinity with financial technology operators (FinTechs) which has supported the uptick in the Bank’s deposit base was also considered in the assigned rating. However, offsetting these positive rating factors are the Bank’s concentration in the loan book, its limited operating history as a commercial bank, adverse regulations and the slowly recovering economy after the outbreak of the COVID-19 pandemic.

After operating as a mortgage bank for 15 years, Providus Bank Plc obtained a commercial banking license with regional authorisation and commenced operations in 2017. During the financial year ended 31 December 2020, the Bank’s incursion into commercial banking operations gained momentum with total assets and contingents growing by 227% to stand at ₦440 billion as at FYE 2020. As at the same date, gross loans and advances stood at ₦103 billion, reflecting a 154% year-on-year growth, which is aggressive in our opinion in a weak macroeconomic climate. In addition, concentration in the loan book persists as the top 20 obligors accounted for 46% of gross loans as at the FYE 2020, making Providus Bank vulnerable to deterioration in the financial condition of any of these obligors. Nevertheless, the Bank recorded a non-performing loan ratio of 4.5%, at par with the prior year and slightly lower than the regulatory threshold of 5%. We view asset quality as satisfactory but note the rapid loan growth and the fact that most of these loans are yet to season.

Providus Bank is a late entrant to an industry dominated by a few large operators. Thus, the Bank leverages technology for customer acquisition and deposit mobilisation. Partnerships with fund aggregating FinTechs and a strong digital footprint have provided some competitive advantage to the Bank. In 2020, deposit liabilities grew by 191% to stand at ₦225.8 billion as at the FYE 2020, largely driven by a larger base of low-cost

demand deposits sourced primarily from fund aggregating FinTechs. As a result, low-cost deposits accounted for 77% of the LCY deposit base, higher than 48% recorded in the prior year. Given the improved deposit mix and the prevailing low interest rate environment, Providus Bank's weighted average cost of funds (WACF) improved to 2.7% (FY 2019: 4%). We consider the Bank's liability generation strategy to be good and we expect the drive to continue. As at FYE 2020, Providus Bank recorded a liquidity ratio (liquid assets to LCY deposit liabilities) of 74.9% (FYE 2019: 49.5%) which stood well above the 30% regulatory minimum denoting a good liquidity position. However, we believe the CBN's heterodox policies will continue to exert pressure on the Bank's liquidity in the near term.

In the financial year ended 31 December 2020, Providus Bank's profitability metrics improved on account of the spike in earning assets and low funding costs. The Bank recorded a net interest spread (NIS) of 66.2% (FY 2019: 19.7%). Although operating expenses increased by 50%, reflecting the profile of a financial institution in its growth stage, the Bank's cost-to-income ratio plummeted to 54.7% from 88.9% in 2019 as improved earnings moderated the impact of the larger cost profile. Providus Bank also recorded a 981.4% growth in profit before tax to ₦6.7 billion in FY 2020 (FY 2019: ₦673.1 million) and a pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 2.3% (FY 2019: 0.6%) and 37% (FY 2019: 6.7%) respectively. We note positively the uptick in the Bank's profitability indicators in the last two years, despite the challenging operating environment, accentuated by the pandemic in the year under review.

Since operating as a commercial bank, shareholders have provided support to Providus Bank, evidenced by the ₦4.8 billion raised during the year under review. As a result, the Bank's core capital stood at ₦23.6 billion as at 31 December 2020, 90% more than prior year and above the ₦10 billion regulatory minimum capital for regional banks operating in Nigeria. As at 31 December 2020 and with the full retention of profits for the FY 2020, Providus Bank's capital adequacy ratio (CAR), computed based on Basel II tenets stood at 15.84% (FYE 2019: 15.7%), higher than the 10% regulatory minimum for regional banks. Furthermore, an additional ₦6.5 billion capital has been raised from shareholders as at 25 May 2021 to provide sufficient capital buffer for the medium-term growth plans, which we view positively.

In the near term, we expect profitability to maintain an upward trajectory, the deposit base to expand further and the liquidity profile to remain good. We also expect capital to be sufficient for the business risks undertaken. Based on the foregoing, we attach a **stable** outlook to the rating of Providus Bank Plc.

#### Strengths

- Strong shareholders' support
- Good partnerships with fund aggregating FinTechs
- Satisfactory profitability
- Good liquidity profile
- Experienced management team

#### Weaknesses

- Limited track record as a commercial bank
- Obligor concentration in the loan book

#### Challenges

- Sustaining profitability in a highly competitive industry
- Sustaining its niche as a nimble innovator that leverages technology to scale up operations in a highly competitive environment.
- Adverse regulations
- Maintaining low level of impaired loans in a weak macroeconomic environment

**Table 1: Financial Data**

	31 December 2018	31 December 2019	31 December 2020
Total Assets & Contingents	₦80.0 billion	₦134.5 billion	₦439.8 billion
Total Local Currency Deposits	₦47.1 billion	₦64.6 billion	₦207.9 billion
Return on Assets & Contingents (ROA)	-5.2%	0.6%	2.3%
Return on Equity (ROE)	-50.9%	6.7%	37%

## PROFILE

Providus Bank Plc (“Providus Bank” or “the Bank”) was incorporated as Maryland Mortgage Finance Company Limited, a private limited company, in June 1992. In 1995, the Bank’s name changed to Maryland Savings and Loans Limited and in 2004 to United Mortgage Limited. In May 2015, United Mortgage Limited merged with the erstwhile Spring Mortgage Bank Plc to become United Mortgage Plc. In December 2015, the shareholders passed a special resolution to amend the business focus to commercial banking from the hitherto mortgage banking business and subsequently changed the name to Providus Bank Plc. In May 2016, Providus Bank Plc obtained a regional commercial banking license from the Central Bank of Nigeria (CBN) with the authorisation to operate in the South-West and South-South states of Nigeria.

Providus Bank provides bespoke financial solutions to select top-tier corporates, small and medium-sized enterprises and individuals, leveraging technology. In the retail segment, the Bank targets High Net-worth Individuals (HNIs), mass affluent and professionals to provide loans, various current and savings account products in addition to concierge services for HNIs. Providus Bank’s core activities are carried out through seven Strategic Business Units (SBUs) namely;

- Corporate Banking Group
- Commercial Banking Group
- Personal Banking Group
- Private Banking Group
- Treasury and Financial Institutions
- Institutional Banking Group
- E-Business Group

The Corporate Banking Group reports to the Executive Director, while other SBUs are under the direct purview of the Managing Director. The SBUs are supported by departments such as Banking Services; Internal Control; Information Technology; Compliance; International Operations; Service Improvement and Standard Management; Finance, Strategy and Business Development; Human Resources and Administrative Services; Brand and Corporate Communications; Internal Control and Risk Management Group. The support departments each report to either the Executive Director or the Managing Director. However, Internal Control and Risk Management Group report directly to the Board and the Managing Director on administrative matters.

Providus Bank operates through its head office situated at 54 Adetokunbo Ademola Street, Victoria Island, Lagos and ten branches spread across the South West and Abuja. As at 31 December 2020, the Bank had 44 ATMs and had deployed 9,854 POS terminals.

### Information, Communication & Technology (ICT)

Providus Bank Plc utilises various hardware and software applications for efficient banking operations. The Bank uses the VMWare software as the core banking application and HP servers provide the infrastructure for data centre operations. Microsoft Office 365 serves as a collaboration and productivity tool. Leveraging technology to develop a lean, agile and efficient bank is at the core of Providus Bank’s strategy. As a result, the Bank collaborates with notable OEMs to provide quality technology infrastructure.

### Correspondent Banks

Providus Bank Plc maintained corresponding banking relationship with the following domestic and foreign banks in 2020.

Domestic Correspondent Banks		Foreign Correspondent Banks	
1.	Access Bank Plc	1.	Access Bank UK Limited
2.	Guaranty Trust Bank Plc	2.	FBN UK Limited
		3.	First National Bank SA
		4.	Bank of Beirut, UK

### Track Record of Performance

Providus Bank Plc commenced operations as a commercial bank in 2017 after operating as a mortgage bank for a decade and a half. Since the transition, the Bank's total assets and contingents have grown by a cumulative average growth rate (CAGR) of 91.7% to stand at ₦439.8 billion as at 31 December 2020. As at the same date, the loan book stood at ₦102.9 billion and accounted for 23.4% of total assets and contingents.

Providus Bank posted a profit before tax of ₦6.7 billion in the financial year ended 31 December 2020. The Bank's larger revenue moderated the impact of the enlarged operating cost profile and the increase in interest expense. Thus, profitability and efficiency ratios improved with cost-to-income ratio of 54.7% (FY 2019: 88.9%), pre-tax return on average assets (ROA) of 2.3% (FY 2019: 0.6%) and pre-tax return on equity (ROE) of 37% (FY 2019: 6.7%).

Current Directors	Position/Designation	Shareholding (%)
Hussaini Dikko	Chairman	Nil
Walter Akpani	Chief Executive Officer/Managing Director	26.9% (Direct and indirect)
Kingsley Aigbokhaevbo	Executive Director	Nil
Chuka Eseka	Non-Executive Director	12.3% (Indirect)
Maurice Onokwai	Non-Executive Director	0.5% (Direct)
Funmi Agosto	Independent Director	Nil
Bernadine Okeke	Independent Director	Nil

### MANAGEMENT TEAM

**Mr Walter Akpani** is the Managing Director and Chief Executive Officer of Providus Bank Plc. He has over two decades of professional experience in the financial services industry which transverse Natwest Bank UK, ICON Merchant Bank, Commercial Trust Bank, Standard Trust Bank Plc and Platinum Bank Limited. Mr Akpani was a pioneer staff member of ICON Stockbrokers, a restructuring team member at Commercial Trust Bank, a pioneer staff at Standard Trust Bank Plc (now United Bank for Africa Plc) and a pioneer staff at Platinum Bank Ltd. He resigned from Platinum Bank Ltd, as Vice President, Institutional Banking, to start United Mortgage Limited, which metamorphosed to Providus Bank Plc. He holds a Master of Science degree in Finance from the University of Strathclyde, Scotland.

Other members of Providus Bank Plc's management team are:

Kingsley Aigbokhaevbo	<i>Executive Director</i>
Olufunke Jones	<i>Group Head, Corporate Banking</i>
Deoye Ojuroye	<i>Chief Financial Officer</i>
Chukwuma Nwachukwu	<i>Group Head, Treasury</i>
Rita Amene	<i>Group Head, Commercial Banking</i>
Olugbile Erinwusi	<i>Chief Risk Officer</i>
Olubukola Ajetunmobi	<i>Group Head, Information Technology Services Division</i>
Abosede Yinka-Ogundimu	<i>Group Head, Institutional Banking</i>
Toritse Ayonmagbemi	<i>Head, Human Resources Management</i>
Enyinnaya Akagha	<i>Treasurer</i>
Theresa Ekong	<i>Chief Compliance Officer</i>
Frank Atat	<i>Group Head, Digital Banking</i>
Stanley Emenugha	<i>Group Head, Banking Services</i>
Ifeoma Nwogbo	<i>Group Head, Personal Banking</i>

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**ANALYSTS' COMMENTS**

## ASSET QUALITY

During the financial year ended 31 December 2020, Providus Bank Plc's journey to becoming a prominent commercial bank gained momentum with a 226.9% surge in total assets and contingents to ₦439.8 billion. The growth which is the highest since the transition to a commercial bank in 2017 was propelled by the proceeds from a capital raising exercise in the FY 2020, an enlarged customer deposit base and additional borrowings. The Bank's nimble and technologically inclined operational structure also supported the exploitation of opportunities created by the COVID-19 induced lockdowns in the year under review.

As at 31 December 2020, Providus Bank's asset structure was dominated by liquid assets which rose by 387.3% to ₦155.8 billion and accounted for 35.4% (FYE 2019: 23.8%) of total assets and contingents. The loan book which increased by 154.4% and accounted for 23.4% (FYE 2019: 30.1%) of total assets and contingents was the second-largest asset class as at FYE 2020. We view this loan growth as aggressive for a newly established commercial bank. We also note that restricted funds with the Central Bank of Nigeria spiked by 439.6% to ₦89.6 billion and accounted for 20.4% of total assets and contingents, representing 3.8 times of shareholders' equity as at the FYE 2020. In addition to the growth in the deposit base, the increase in the restricted funds was attributable to the 500 basis points increase in the cash reserve requirement (CRR) in January 2020 and the introduction of the discretionary cash reserve policy by the CBN. These sterile funds are not available for daily banking activities and thus, moderated the Bank's performance in the review period.

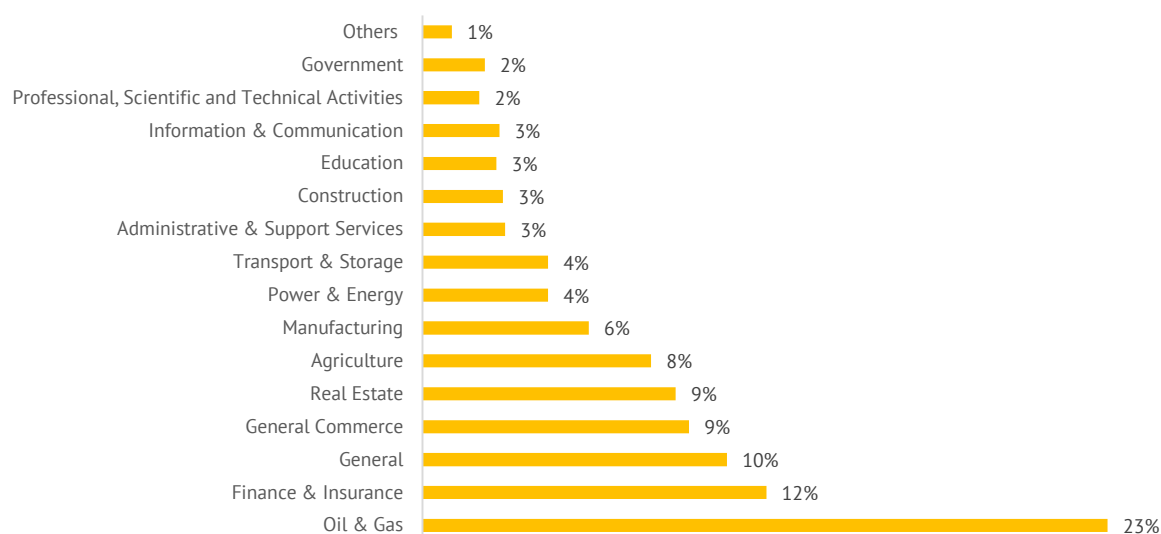
Providus Bank's risk asset strategy is tilted to the provision of financial solutions to top tier corporates, SMEs and a select delineated value chain of government contractors. In the retail segment, the Bank targets High Net-worth Individuals (HNIs), mass affluent and professionals to provide bespoke financial solutions. Providus Bank continues to deepen relationships with customers and expand offerings to them beyond the traditional financial services. As a result, notwithstanding the negative constraints emanating from the COVID-19 pandemic, Providus Bank ramped up the loan portfolio which grew by 154.4% to ₦102.9 billion as at 31 December 2020. Loan growth was most prominent in the arts, entertainment and recreation industry (1,848%), manufacturing (973%), and education (349%) sectors. The Bank projects a 116% loan growth in the near term with businesses in the manufacturing, general commerce and oil & gas downstream sectors expected to drive the increase. We consider the projected growth to be aggressive given the weak macroeconomic climate and the need for seasoning of the newly disbursed loans.

As at the FYE 2020, Providus Bank's loan book was better diversified with the top five sectors: oil and gas, finance and insurance, individuals (general), general commerce and real estate together accounting for 63% (FYE 2019: 75%) of gross loans and advances. Similar to the improving diversification of the loan portfolio by sector, the Bank recorded a broader obligor base with the top 20 obligors accounting for 46.1% (FYE 2019: 50.8%) as at the FYE 2020. Notwithstanding the diversification of the loan book recorded during the year, we believe that concentration persists in the loan portfolio which makes the Bank vulnerable to the financial



performance of these obligors. In the near term, we anticipate a more broadened obligor base as Providus Bank disburses more loans.

**Figure 1: Breakdown of Loans by Sector (FYE 2020)**



As at 31 December 2020, the largest sectorial exposure was to the oil and gas sector which accounted for 22.5% (FYE 2019: 15.2%) of the loan book. These loans were granted to obligors in the downstream (59%), midstream - servicing (21%) and upstream (20%) subsectors. We note positively that the bulk of the oil and gas loans are short-tenor facilities for the procurement of petroleum products from the Nigerian National Petroleum Corporation. However, we believe the exposure to the midstream and upstream segments, makes the Bank vulnerable to the volatile crude oil price and naira devaluations given that the loans are typically foreign currency-denominated. We are also concerned by the speculative-grade rating assigned to most of the oil and gas obligors.

Loans to traders (classified under general commerce) and personal loans (categorised under general) both accounted for 19% of the loan book as at the FYE 2020. In our view, the dwindling customer purchasing power amidst the prevailing macroeconomic headwinds which has extended trade cycles could adversely impact the performance of these obligors.

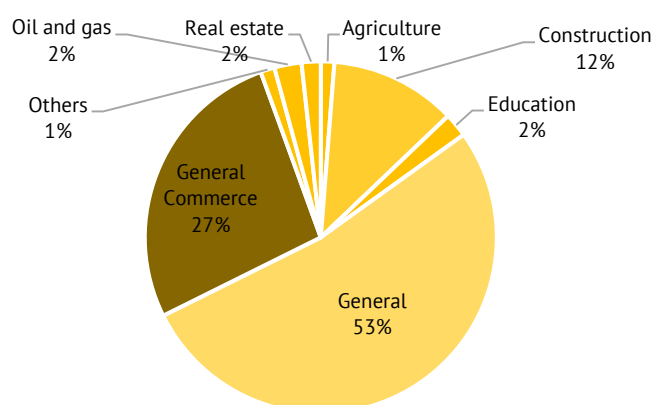
According to the IFRS 9 accounting standard, 93.5% (FYE 2019: 93.2%) of the Bank's gross loans were deemed to have a very low risk of default as at 31 December 2020 and, were therefore classified under the stage 1 category. As at the same date, the default risk ascribed to 3.2% (FYE 2019: 2.4%) of the loan book was estimated to have increased since the inception of the loans and were thus grouped under the stage 2 category. Loans in stage 3 grew by 48.5% to ₦2.7 billion reflecting the macroeconomic headwinds elicited by the pandemic and represented 2.6% (FYE 2019 4.4%) of gross loans as at the FYE 2020.

However, Providus Bank's non-performing loans, based on the prudential guidelines, stood at ₦4.7 billion and accounted for 4.5% of gross loans as at the FYE 2020. The Bank's non-performing loan (NPL) ratio was at par

with the prior year, albeit slightly lower than the regulatory threshold of 5%. While one of the selected peers; Wema Bank Plc (“Wema bank”) recorded a non-performing loan ratio of 5.2%, another peer - Sterling Bank Plc’s (“Sterling”) NPL ratio was 1.9% as at the FYE 2020.

As at the same date, Providus Bank’s cumulative loan loss provision only covered NPLs by 42%, which is low in our opinion. Nevertheless, the coverage ratio increases to 100% when we consider regulatory risk reserve.

**Figure 2: Non-Performing Loans by Sector as at 31 December 2020**



Overall, we consider Providus Bank’s asset quality to be satisfactory. In our view, the Bank’s loan portfolio requires intensive monitoring, considering the rapid growth, current macroeconomic headwinds and the sectorial exposure to high-risk profile obligors, particularly in the general and general commerce sectors.

## RISK MANAGEMENT

Providus Bank operates an Enterprise Risk Management framework in handling risks associated with its commercial banking operations. The Board of Directors through the Board Risk Management Committee, the Board Credit and Investment Committee and the Board Audit Committee are responsible for providing strategic direction and risk governance in the Bank. The Chief Risk Officer (CRO) is tasked with the responsibility of ensuring that the Board approved credit policies and risk appetite are implemented across all divisions. The Management Credit and Investment Committee, the Asset and Liability Management Committee and the Management Risk Committee support the CRO’s duties. All credit requests are reviewed and considered for approval by both the Management Credit & Investment Committee (MCIC) and Board Credit & Investment Committee (BCIC) at duly constituted meetings or circulation via emails in line with the Bank’s lending limits.

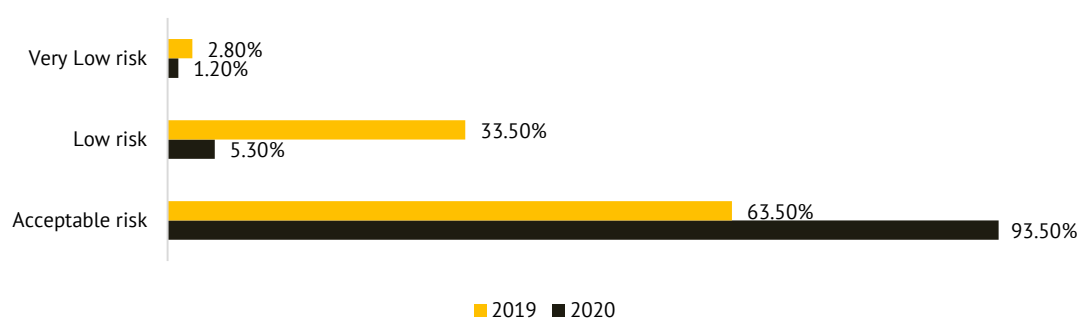
**Table 2: Providus Bank's Obligor Limit**

Approval Levels	Obligor Limits
Full Board	All requests above 15% of Shareholders' funds (SHF) unimpaired by losses
Board Credit & Investment Committee	All requests above ₦500 million but capped at 15% of SHF unimpaired by losses
Management Credit & Investment Committee	Up to ₦500 million

### Credit Risk Management

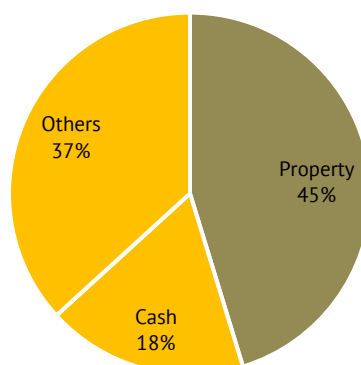
Providus Bank's credit risk emanates largely from its loan portfolio and investment in financial assets. The Bank adopts an internal rating model that reflects both the business environment and financial capability of obligors. The rating model has 21 risk rating scales ranging from AAA to C- and can be further segregated into five categories: very low risk (AAA to A-), low risk (BBB+ to BB-), acceptable risk (CCC+ to CCC-), moderately high risk (CC+ to CC-) and high risk (C to C-). As at the FYE 2020, the entirety of the Bank's investment securities portfolio was adjudged to have a very low-risk profile given that the investments were mostly in treasury securities. However, as at the same date, the loan portfolio was a mix between obligors with acceptable risk (93.5%) in the 'CCC+ to CCC-' cadre, low risk (5.3%) and very low risk (1.2%). We view negatively the fact that a significant portion of the Bank's obligors are in the 'CCC+ to CCC-' cadre which is typically adjudged as a speculative grade rating category.

**Figure 3: Loan Portfolio by Rating Categories (FYE 2020 and FYE 2019)**



Nevertheless, potential losses from the Bank's credit risk exposures are mitigated using collaterals and credit insurance. However, the reliance that can be placed on some of these mitigants is contentious due to challenges in collateral realization, particularly real estate properties that accounted for 45% of the collaterals as at the FYE 2020.

**Figure 4: Breakdown of Collaterals (FYE 2020)**



### Market Risk Management

Exposure to market risk emanates from the impact of interest and foreign exchange rate movements on the trading and non-trading portfolios. In managing market risks, the Bank has a Board-approved market risk management policy that governs how risk exposures arising from market-making, dealing and position taking in the financial markets should be measured and monitored. Some of the risk measurement and monitoring methodologies adopted by Providus Bank include Earnings at Risk (EaR), Contractual Gap Analysis and Sensitivity analysis. A sensitivity analysis conducted as at FYE 2020 reflected that a 5% depreciation in the naira would have increased the Bank's profit before tax by ₦2.2 billion, higher than ₦349 million profit projected from a similar naira devaluation pattern as at FYE 2019. Furthermore, a 25 basis points decrease in the interest rates for trading financial assets would have resulted in a decline in interest income of ₦3.4 million (FY 2019: ₦22.6 million) which represents 0.01% of shareholders fund as at the FYE 2020 (FY 2019: 0.2%).

### Operational Risk Management

Operational risk exposures represent potential losses that could arise from people (either through fraud or errors), breakdown of internal processes and systems including external events such as litigation and economic events. Providus Bank's appetite for operational risk losses is set by the Board Risk Management Committee which is then implemented by the CRO. In managing operational risk, the Bank adopts the Basic Indicator Approach (BIA) and supports this with an operational risk framework that enforces the use of risk registers across all functions to document identified risks and mitigating measures adopted. In addition, Providus Bank has a documented Risk and Control Self-Assessment Framework updated bi-annually to assess the adequacy of risk controls, and key risk indicators to evaluate the likelihood and impact of a risk crystallizing.

We consider Providus Bank's risk management framework to be satisfactory. However, we believe that improvement is required in the management of credit risk, particularly in the proactive monitoring of high-risk obligors, and automation of the internal rating model to accommodate the Bank's expanding risk assets.

## EARNINGS

Providus Bank Plc generates revenues primarily from lending activities and treasury activities to a lesser extent. The digital banking offerings and other banking services provide ancillary income for the Bank. In the financial year ended 31 December 2020, Providus Bank's gross earnings amounted to ₦23.1 billion, up by 106% from the prior year, reflecting the business growth recorded during the year.

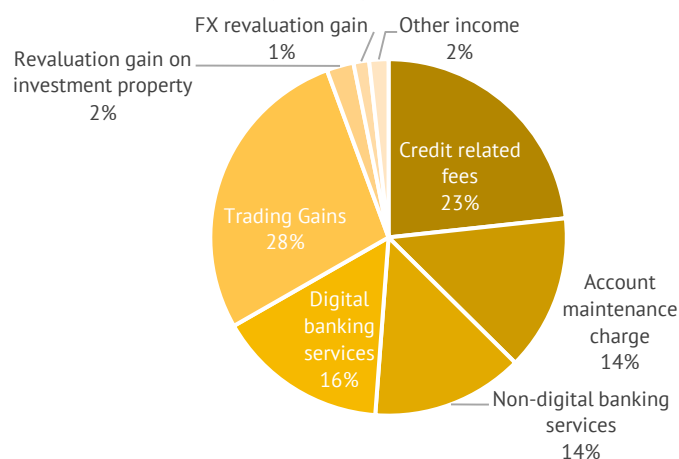
The Bank recorded a 217.2% growth in interest income to ₦18 billion in FY 2020, driven by the spike in the loan book and the larger pool of investment securities. However, the prevailing low interest rate moderated the contribution of the loan and advances to 71% (FY 2019: 92%) to total interest income. Notwithstanding, the contribution of placements and investment securities, which spiked by 387%, improved to 29% (FY 2019: 8%). We do not expect a significant change in the structure of interest income in the near term.

In the financial year ended 31 December 2020, Providus Bank's interest expense increased by 33.7% to ₦6.1 billion, due to a larger pool of high cost deposit and borrowings. Given the spike in interest income amidst low interest expense, the Bank's net interest spread (NIS) increased considerably to 66.2% (FY 2019: 19.7%) and stood significantly higher than 56.9% and 48.9% recorded by Sterling Bank and Wema Bank respectively. We view such rapid improvement in NIS as unusual in the Nigeria Banking Industry even during periods of low interest rates.

In FY 2020, Providus Bank's loan loss expense increased by 274.4% to ₦2.3 billion to account for a higher 12.5% (FY 2019: 10.6%) of interest income, due to the impairment charge on financial assets and loss on derecognition of other assets recorded. The Bank also recorded an additional impairment charge on loans that had been sold to a debt factoring company that acquired the legacy delinquent mortgage loans in the prior year. Nonetheless, the Bank's fund-based income improved 17.7 times to ₦9.7 billion in the review period.

Securities trading, electronic banking channels, account maintenance and fees from lending activities provide non-interest (ancillary) income for Providus Bank Plc. During FY 2020, the Bank generated a non-interest income of ₦5.1 billion, an 8% decline from the prior year, largely due to the cautious approach adopted to investment securities trading. Non-digital banking services (largely branch services) was affected by the restrictions on movement following the outbreak of the COVID-19 pandemic and dipped by 8.4% in FY 2020. In the near term, we expect an increase in non-interest income as the Bank ramps up securities trading activities and the economy gradually rebounds from the negative effects of the pandemic. The increased adoption of virtual channels coupled with the projected loan growth will also support non-interest income in FY 2021 in our view.

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



In the last three years, increased staffing and deployment of resources to become a full-fledged commercial bank have elevated the operating expenses of Providus Bank, reflecting the profile of a financial institution in a growth phase. During the year under review, the Bank's operating expenses grew by 50.1% to ₦8.1 billion as staff costs spiked by 31%, ICT expense increased by 115.2%, and POS acquisition cost was higher. However, the increase in net earnings moderated the impact of the larger operating cost profile, resulting in a lower cost-to-income (CIR) ratio of 54.7% (FYE 2019: 88.9%); the lowest since the commencement of commercial banking operations. Providus Bank's CIR compares favourably to Sterling Bank's 85% and Wema Bank's 85.9% given its lean mode of operations. We do not anticipate a higher CIR for Providus Bank in the short term as, in our opinion, expenditure to establish the commercial banking business should ebb.

During the financial year ended 31 December 2020, Providus Bank recorded profit before taxation of ₦6.7 billion, an 891.4% rise from the prior year. This translated into better profitability metrics with pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) at 2.3% (FY 2019: 0.6%) and 37% (FY 2019: 6.7%) respectively. These profitability ratios were significantly higher than those of Sterling Bank (ROA: 0.9% and ROE: 10.4%) and Wema Bank (ROA: 0.6% and ROE: 10.7%). We consider Providus Bank's profitability to be acceptable, particularly in a COVID-19 distraught year.

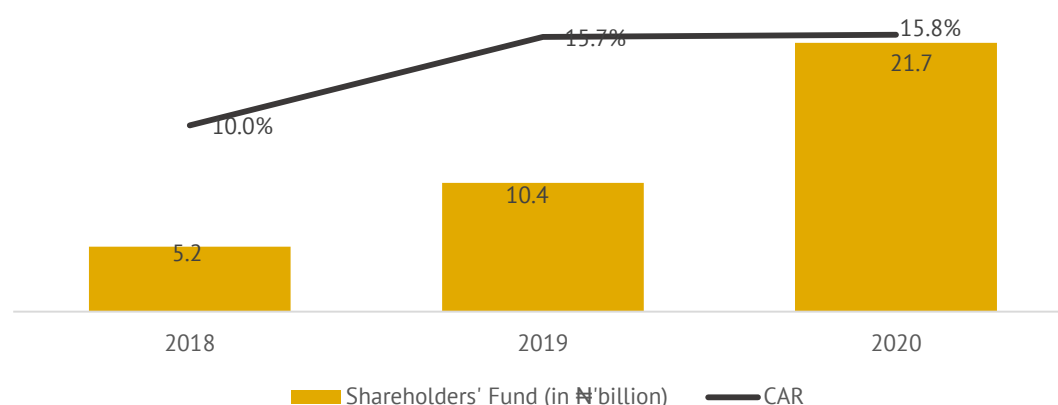
Subsequent to year-end, the unaudited financial statements for the three months ended 31 March 2021 indicates improved profitability metrics, bolstered by further growth in earning assets, particularly the 20% expansion of the loan book. The NIS improved to 78% while annualised ROA and ROE increased to 3.8% and 62.3% respectively. In the near term, we believe that increased capital will moderate the ROE in 2021. The gradual rise in interest expense, higher inflationary pressures and unfavourable regulations may also moderate the pace of the Bank's rapidly growing profit levels.

## CAPITAL ADEQUACY

In the financial year ended 31 December 2020, Providus Bank raised additional ₦4.75 billion from shareholders, the third capital raising exercise since its transition to a commercial bank. Thus, shareholders' funds grew by 90% year-on-year to stand at ₦23.6 billion as at FYE 2020. Full retention of the profit recorded during the year also supported the capital base. At this level, the Bank's shareholders' funds stood well above the ₦10 billion regulatory minimum for regional banks operating in Nigeria.

With the recapitalisation of the FY 2020 profit and an enlarged capital base, capital adequacy ratio (CAR) improved to 15.84% (FYE 2019: 15.7%), despite the significant business growth as reflected in the 136.5% increase in the risk-weighted assets in the review period. The peers - Sterling Bank and Wema Bank also recorded a higher CAR of 17.98% and 15% respectively, given their national banking authorisation.

**Figure 6: Providus Bank's Shareholders' Fund and CAR (FYE 2018-2020)**



The Bank has also commenced another capital raising exercise. As at 25 May 2021, ₦6.5 billion had been raised. We consider Providus Bank's capital to be adequate for current business risks.

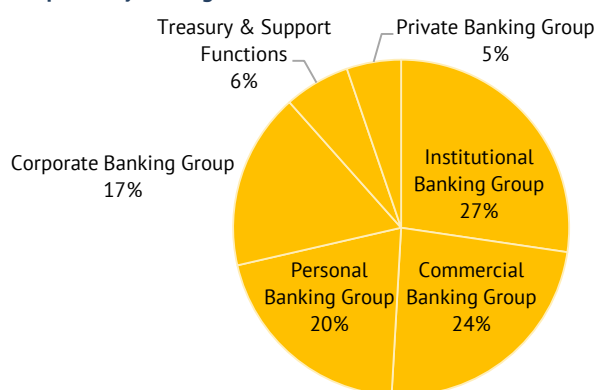
## LIQUIDITY AND LIABILITY GENERATION

Providus Bank Plc leverages technology and strategic partnerships with fund aggregating financial technology companies (Fintechs) in generating liabilities from customers. This has provided a competitive edge to the Bank despite its relatively small branch network and limited operating history. Providus Bank has also extended deposit mobilisation to the public sector and developed customised products to attract foreign currency-denominated (FCY) deposits from high-net-worth individuals (HNIs).

Providus Bank's deposit liabilities (excluding interbank takings) grew by 191% year-on-year to ₦225.8 billion and funded 51.3% of total assets and contingents as at FYE 2020. About 23.1% of deposit liabilities were sticky time deposits with a high probability of renewal as at the FYE 2020. As at the same date, the Bank's institutional banking group (which sources deposits from the public sector and its value chain operators) was the largest

source of deposit liabilities and contributed 27% of total deposits. The commercial banking team with clientele focus on SMEs, faith-based organisations, FinTechs, mid-tier schools, supermarkets and petroleum products was the second-largest ‘deposits mobiliser’ at 24% of total deposits.

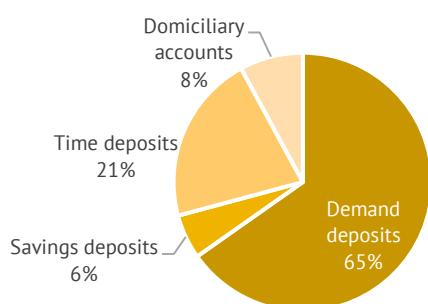
**Figure 7: Breakdown of Deposits by Strategic Business Units as at FYE 2020**



Deposit growth was most prominent in demand deposits, which expanded by 411% to ₦147.3 billion as the Bank enabled online account opening during the review period with the introduction of ‘Providus Switch’ current account product which has incentives such as zero commission on turnover (COT), no maintenance fees and 3% interest payable to account holders. In addition, Providus Bank’s role as a major settlement bank for some FinTechs drove the demand deposits growth. An estimated 6% of the demand deposits were due to prepayments for FCY by some customers.

The Bank’s savings deposits also expanded by 403% to ₦12.6 billion as at the FYE 2020, buoyed by the introduction of more savings products amidst improved targeted marketing efforts. Similarly, term deposits grew moderately by 44% to ₦48 billion, supported by the low yield on government securities which encouraged customers to switch to time deposits. Thus, Providus Bank recorded an improved low-cost deposit to high-cost deposits mix of 77%: 23% (FYE 2019 - 48%: 52%) as at the FYE 2020. This was better than Sterling Bank’s ratio of (73%: 27%) and Wema Bank’s (33%: 67%) during the same period.

**Figure 8: Breakdown of Deposits**

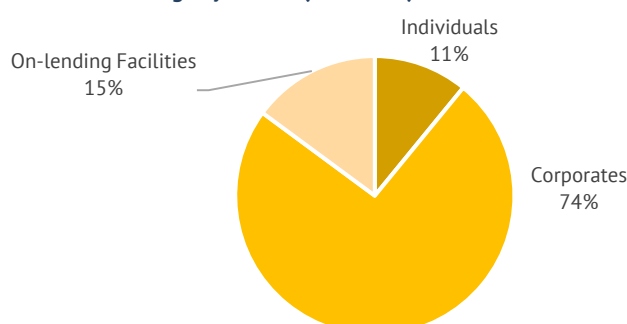




As at the FYE 2020, foreign currency (FCY) deposits rose by 39% to ₦17.9 billion, supported by increased marketing of FCY deposit products and the naira devaluation induced demand for FCY savings products. We note positively that the FCY deposits could fund the outstanding FCY loans up to 3 times as at FYE 2020. In addition, a larger pool of FCY deposits provides funding flexibility given Providus Bank’s growing volume of trade transactions amidst the FX illiquidity in Nigeria. We expect a larger pool of FCY deposits by FYE 2021 given the appetite of Nigerians for FCY investments as a hedge for naira devaluation and the Bank’s plans to on-board exporters for FCY proceeds.

In addition to the shareholders’ funds and customer deposits, Providus Bank is also funded by borrowings largely sourced from individuals, corporates and the on-lending windows of the CBN and the Bank of Industry. Loans from Individuals and corporates relate to the high interest-bearing deposits with a minimum tenor of two years. The on-lending facilities are largely from the real sector support facility of the CBN as well as the CBN/Bank of Industry’s Power & Aviation Intervention Funds (PAIF).

**Figure 9: Breakdown of Borrowings by Source (FYE 2020)**



Given the improved deposit mix and the low interest rate environment during the year under review, Providus Bank’s weighted average cost of funds (WACF) dipped to 2.7% from 4% in the prior year. This was better than Sterling Bank’s estimated 5.03% and Wema Bank’s 4.3% during the year under review. In line with the rising interest rates, we anticipate an increase in the Bank’s WACF for FY 2021.

Providus Bank’s deposit base is concentrated with the top 20 clients accounting for 40% (FYE 2019: 32%) of total deposit liabilities as at FYE 2020. Although the concentrated deposit base is typical of banks in the early years of operations, we believe the Bank could be negatively impacted should any of the top depositors request repayment without an adequate replacement.

A review of the Providus Bank’s assets and liabilities maturity profile reveals some mismatches. As at 31 December 2020, only loans maturing within 90 days and those in the 91-180 days maturity bucket had matching deposit liabilities. We note that while loans maturing after 5 years accounted for 32% of gross loans there was no deposit liability of the same maturity bucket as at the FYE 2020, exposing the Bank to potential repricing risks. Nevertheless, we believe that the Bank’s capital and access to the interbank market could serve as mitigants.

During the year under review, Providus Bank's liquid asset portfolio rose by 387% to ₦155.8 billion as at the FYE 2020 as the Bank invested in more government securities. As a result, the Bank's liquidity ratio (liquid assets to local currency deposit liabilities) improved to 74.9% (FYE 2019: 49.5%) and remained above the 30% regulatory minimum as at FYE 2020.

We consider the liquidity profile of Providus Bank Plc to be good and the ability to refinance adequate. In the near term, we believe the CBN's heterodox policies particularly the discretionary CRR policy will continue to exert pressure on the Bank's liquidity.

## OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2020, Providus Bank had total issued shares of 25.7 billion owned by 762 individuals and institutions. Based on the shareholders' register, there were three significant shareholders with equity stake above 5% who jointly held 59.3% of the issued shares as at FYE 2020. Providus Bank is currently implementing a capital raising exercise to provide sufficient support for its medium-term growth plans. As at the FYE 2020, ₦8.9 billion had been raised and an additional ₦6.5 billion was paid for the Bank's shareholders as at 25 May 2021.

**Table 3: Significant Shareholders as at 31 December 2020**

Shareholder	Percentage of Shareholding
Akpani Walter	7.33%
Vetiva Capital Management Limited	19.00%
Northwest Petroleum and Gas Co. Ltd	33.00%
<b>TOTAL</b>	<b>59.33%</b>

Providus Bank is governed by a seven-member Board of Directors which comprise five Non-Executive Directors (of which two are Independent Non-Executive Directors) and two Executive Directors as at 31 December 2020. The Board of Directors performs its oversight function through five standing committees: the Board Risk Management Committee, the Board Audit Committee, the Board Credit Committee, the Board Finance and General Purpose Committee, and the Board Governance Committee. These standing committees are headed by Non-Executive Directors in line with best practice of corporate governance. Alhaji Hussaini Dikko is the chairman of the Board of Directors while Mr Walter Akpani is the pioneer Managing Director and Chief Executive Officer of Providus Bank Plc. Mr Akpani is supported by the Executive Director and a fourteen-member management team.

Providus Bank's staff strength increased to 412 employees (FY 2019: 275 employees) in the year under review, owing to an expansion in business operations. Consequently, the Bank witnessed a 30.9% growth in staff cost to ₦2.9 billion, representing 36.1% (FY 2019: 41.4%) of total operating expenses. Staff productivity, which is measured by net earnings per staff also improved by 62.8% and covered average staff cost 5.1 times, higher than 2.7 times recorded in the prior year. This was also higher than Wema Bank's 2.9 times but lower than Sterling Bank's 5.5 times. In our opinion, Providus Bank's staff productivity is satisfactory and the management team is experienced.

Table 4: Staff Productivity Indicators

	Providus Bank 2019	Providus Bank 2020	Sterling Bank 2020	Wema Bank 2020
Staff cost per employee (₦'000)	8,072	7,054	6,270	11,514
Net earnings per staff (₦'000)	21,962	35,749	34,452	34,385
Staff cost/Net earnings	36.8%	19.7%	18.2%	33.5%
Staff costs/Operating expenses	41.4%	36.1%	21.4%	39.0%

## MARKET SHARE

Providus Bank Limited is one of the newly licenced commercial banks in Nigeria with less than five years track record. Notwithstanding the heightened competition in the Nigerian banking industry and the dominance of a few large banks, the Bank has increased its brand franchise since the commencement of operations in 2017 as a regional commercial bank. In the year under review, Providus Bank recorded notable strides across all market share indicators despite the negative effects of COVID-19 as reflected in the table below.

Table 5: Market Share Indicators

	Providus Bank 2019	Providus Bank 2020	Sterling Bank 2020	Wema Bank 2020
LCY Deposits	0.33%	0.95%	3.42%	3.49%
Total Assets and Contingents	0.29%	0.86%	2.85%	2.05%
Total Loans & Advances (Net)	0.26%	0.59%	3.45%	2.08%
Net Earnings	0.23%	0.55%	3.05%	1.58%
Pre-tax Profit	0.07%	0.85%	1.57%	0.76%

In the near term, we believe competition in the industry will further intensify as more banks are licenced and more FinTechs venture into businesses hitherto regarded as exclusive for banks. Nonetheless, we anticipate the demonstration of the Bank's resilience and a further improvement in the market share indicators.

## OUTLOOK

Providus Bank's strategy is to focus on a select few clients leveraging technology as an enabler. The outbreak of the COVID-19 pandemic in Nigeria has tested the resilience of this strategy. In the near term, the Bank intends to add at least seven more branches to support its expanding business franchise.

In 2021, the Bank plans to continue to utilise the aggregator approach for FinTech to grow low-cost deposits. In addition, Providus Bank plans to further tap into the CBN intervention funds established to support businesses in critical sectors of the economy as well as the differentiated-CRR programme following the CBN's release of some of its sterilised deposits. Overall, the Bank anticipates a 116% growth in the loan book and a 66.7% year-on-year increase in profit before tax for the FY 2021. We view this as overly optimistic given the fragile state of the Nigerian economy. Providus Bank also aims to further increase its capital in the near term. As at 25 May 2021, ₦6.5 billion had been raised and additional funds are expected before the year-end.

The aggressive implementation of the CRR policy and arbitrary deductions continue to threaten the banking business in Nigeria and exerting significant pressure on liquidity. Nevertheless, we expect the Bank's liquidity to remain good. In our view, shareholders' support which has been demonstrated in the past with equity injections will further bolster capital. Thus, the Bank should record moderate growth in loans and slightly enhanced profitability metrics. Based on the foregoing, Agosto & Co. hereby attaches a **'stable'** outlook to the rating of Providus Bank Plc.

## FINANCIAL SUMMARY

<b>PROVIDUS BANK PLC</b>							
<b>STATEMENT OF FINANCIAL POSITION AS AT</b>		<b>31-Dec-20</b>		<b>31-Dec-19</b>		<b>31-Dec-18</b>	
		<b>₦'000</b>		<b>₦'000</b>		<b>₦'000</b>	
<b>ASSETS</b>							
1	Cash & equivalents	23,018,885	5.2%	13,932,599	10.4%	6,501,895	8.1%
2	Government securities	121,915,156	27.7%	12,284,243	9.1%	8,863,539	11.1%
3	Money Market Placements	10,829,360	2.5%	5,741,959	4.3%	3,914,377	4.9%
4	Quoted investments	9,003	0.0%	8,040	0.0%	10,800	0.0%
5	Placements with discount houses						
6	<b>LIQUID ASSETS</b>	<b>155,772,404</b>	<b>35.4%</b>	<b>31,966,841</b>	<b>23.8%</b>	<b>19,290,611</b>	<b>24.1%</b>
7	BALANCES WITH NIGERIAN BANKS						
8	BALANCES WITH BANKS OUTSIDE NIGERIA						
9	Direct loans and advances - Gross	102,876,381	23.4%	40,445,167	30.1%	17,107,914	21.4%
10	Less: Cumulative loan loss provision	(1,503,289)	-0.3%	(276,157)	-0.2%	(706,490)	-0.9%
11	Direct loans & advances - net	101,373,092	23.0%	40,169,010	29.9%	16,401,424	20.5%
12	Advances under finance leases - net						
13	<b>TOTAL LOANS &amp; LEASES - NET</b>	<b>101,373,092</b>	<b>23.0%</b>	<b>40,169,010</b>	<b>29.9%</b>	<b>16,401,424</b>	<b>20.5%</b>
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	6,342,298	1.4%	3,616,300	2.7%	1,368,273	1.7%
16	DEFERRED LOSSES	76,508	0.0%	76,508	0.1%	76,508	0.1%
17	RESTRICTED FUNDS	89,567,141	20.4%	16,599,346	12.3%	15,426,864	19.3%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES						
19	OTHER LONG-TERM INVESTMENTS	6,668,655	1.5%	8,481,767	6.3%	8,505,846	10.6%
20	FIXED ASSETS & INTANGIBLES	13,544,276	3.1%	10,669,189	7.9%	9,711,269	12.1%
21	<b>TOTAL ASSETS</b>	<b>373,344,374</b>	<b>84.9%</b>	<b>111,578,961</b>	<b>82.9%</b>	<b>70,780,795</b>	<b>88.5%</b>
22	TOTAL CONTINGENT ASSETS	66,459,911	15.1%	22,960,762	17.1%	9,230,545	11.5%
23	<b>TOTAL ASSETS &amp; CONTINGENTS</b>	<b>439,804,285</b>	<b>100%</b>	<b>134,539,723</b>	<b>100%</b>	<b>80,011,340</b>	<b>100%</b>
<b>CAPITAL &amp; LIABILITIES</b>							
24	TIER 1 CAPITAL (CORE CAPITAL)	23,626,292	5.4%	12,434,756	9.2%	7,645,880	9.6%
25	TIER 2 CAPITAL						
26	MEDIUM TERM BORROWINGS	70,735,579	16.1%	13,483,721	10.0%	4,729,994	5.9%
27	Demand deposits	147,301,504	33.5%	28,832,937	21.4%	23,073,480	28.8%
28	Savings deposits	12,580,203	2.9%	2,500,324	1.9%	965,610	1.2%
29	Time deposits	48,012,835	10.9%	33,274,484	24.7%	20,134,531	25.2%
30	Inter-bank takings					3,000,249	3.7%
31	TOTAL DEPOSIT LIABILITIES - LCY	207,894,542	47.3%	64,607,745	48.0%	47,173,870	59.0%
32	Customers' foreign currency balances	17,884,333	4.1%	12,873,649	9.6%	2,439,924	3.0%
33	<b>TOTAL DEPOSIT LIABILITIES</b>	<b>225,778,875</b>	<b>51.3%</b>	<b>77,481,394</b>	<b>57.6%</b>	<b>49,613,794</b>	<b>62.0%</b>
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	53,203,628	12.1%	8,179,090	6.1%	8,791,127	11.0%
36	<b>TOTAL CAPITAL &amp; LIABILITIES</b>	<b>373,344,374</b>	<b>84.9%</b>	<b>111,578,961</b>	<b>82.9%</b>	<b>70,780,795</b>	<b>88.5%</b>
37	TOTAL CONTINGENT LIABILITIES	66,459,911	15.1%	22,960,762	17.1%	9,230,545	11.5%
38	<b>TOTAL CAPITAL, LIABILITIES &amp; CONTINGENTS</b>	<b>439,804,285</b>	<b>100%</b>	<b>134,539,723</b>	<b>100%</b>	<b>80,011,340</b>	<b>100%</b>
<b>BREAKDOWN OF CONTINGENTS</b>							
39	Acceptances & direct credit substitutes	3,927,336	0.9%	4,894,322	3.6%	4,198,170	5.2%
40	Guarantees, bonds etc..	62,532,575	14.2%	18,066,440	13.4%	5,032,375	6.3%
41	Short-term self liquidating contingencies						

**PROVIDUS BANK PLC**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-20		31-Dec-19		31-Dec-18	
	N'000		N'000		N'000	
42 Interest income	18,674,641	78.7%	5,681,619	50.7%	2,295,894	47.5%
43 Interest expense	(6,094,847)	-25.7%	(4,560,220)	-40.7%	(3,744,380)	-77.4%
44 Loan loss expense	(2,261,729)	-9.5%	(604,030)	-5.4%	(165,044)	-3.4%
45 NET REVENUE FROM FUNDS	10,318,065	43.5%	517,369	4.6%	(1,613,530)	-33.4%
46 ALL OTHER INCOME	5,060,394	21.3%	5,522,226	49.3%	2,538,706	52.5%
<b>47 NET EARNINGS</b>	<b>15,378,459</b>	<b>64.8%</b>	<b>6,039,595</b>	<b>53.9%</b>	<b>925,176</b>	<b>19.1%</b>
48 Staff costs	(2,906,060)	-12.2%	(2,219,913)	-19.8%	(1,778,417)	-36.8%
49 Depreciation expense	(1,677,001)	-7.1%	(1,346,359)	-12.0%	(1,116,493)	-23.1%
50 Other operating expenses	(3,471,842)	-14.6%	(1,800,201)	-16.1%	(1,662,554)	-34.4%
51 TOTAL OPERATING EXPENSES	(8,054,903)	-33.9%	(5,366,473)	-47.9%	(4,557,464)	-94.3%
52 PROFIT (LOSS) BEFORE TAXATION	7,323,556	30.9%	673,122	6.0%	(3,632,288)	-75.1%
53 TAX (EXPENSE) BENEFIT	(232,020)	-1.0%	(98,246)	-0.9%	(9,300)	-0.2%
<b>54 PROFIT (LOSS) AFTER TAXATION</b>	<b>7,091,536</b>	<b>29.9%</b>	<b>574,876</b>	<b>5.1%</b>	<b>(3,641,588)</b>	<b>-75.3%</b>
55 NON-OPERATING INCOME (EXPENSE) - NET						
56 DIVIDEND						
<b>57 GROSS EARNINGS</b>	<b>23,735,035</b>	<b>100%</b>	<b>11,203,845</b>	<b>100%</b>	<b>4,834,600</b>	<b>100%</b>
58 AUDITORS	PWC		Deloitte & Touche		Deloitte & Touche	
59 OPINION	CLEAN		CLEAN		CLEAN	

KEY RATIOS	31-Dec-20	31-Dec-19	31-Dec-18
<b>EARNINGS</b>			
60 Net interest margin	67.4%	19.7%	-63.1%
61 Loan loss expense/Interest income	12.1%	10.6%	7.2%
62 Return on average assets & contingents (Pre - tax)	2.6%	0.6%	-5.1%
63 Return on average equity (Pre - tax)	40.6%	6.7%	-50.9%
64 Operating Expenses/Net earnings	52.4%	88.9%	492.6%
65 Gross earnings/Total assets & contingents (average)	8.3%	10.4%	6.8%
<b>EARNINGS MIX</b>			
66 Net revenue from funds	67.1%	8.6%	-174.4%
67 All other income	32.9%	91.4%	274.4%
<b>LIQUIDITY</b>			
68 Total loans & leases - net/Total lcy deposits	13.1%	51.7%	47.2%
69 Liquid assets/Total lcy deposits	74.9%	49.5%	36.9%
70 Demand deposits/Total lcy deposits	70.9%	44.6%	48.9%
71 Savings deposits/Total lcy deposits	6.1%	3.9%	2.0%
72 Time deposits/Total lcy deposits	23.1%	51.5%	42.7%
73 Inter-bank borrowings/Total lcy deposits			6.4%
74 Interest expense - banks/Interest expense		10.6%	16.5%
<b>75 NET FOREIGN CURRENCY ASSETS (LIABILITIES)</b>	<b>(17,884,333)</b>	<b>(12,873,649)</b>	<b>(2,439,924)</b>

<b>KEY RATIOS CONT'D</b>	<b>31-Dec-20</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>
<b>ASSET QUALITY</b>			
76 Performing loans (N'000)	99,318,644	38,655,795	15,911,748
77 Non-performing loans (N'000)	3,557,737	1,789,372	1,196,166
78 Non-performing loans/Total loans - Gross	3.5%	4.4%	7.0%
79 Loan loss provision/Total loans - Gross	1.5%	0.7%	4.1%
80 Loan loss provision/Non-performing loans	42.3%	15.4%	59.1%
81 Risk-weighted assets/Total assets & contingents	30.9%	45.3%	37.9%
<b>CAPITAL ADEQUACY</b>			
82 Adjusted capital/risk weighted assets (Basel I)	16%	17%	17%
83 Tier 1 capital/Adjusted capital	100%	100%	100%
84 Total loans (net)/Adjusted capital	4.68	3.87	3.13
85 Capital unimpaired by losses (N'000)	23,549,784	12,358,248	7,569,372
<b>STAFF INFORMATION</b>			
86 Net earnings per staff (N'000)	37,326	21,962	4,649
87 Staff cost per employee (N'000)	7,054	8,072	8,937
88 Staff costs/Operating expenses	36.1%	41.4%	39.0%
89 Average number of employees	412	275	199
90 Average staff per office	41	28	22
<b>OTHER KEY INFORMATION</b>			
91 Legal lending limit(N'000)	11,774,892	6,179,124	3,784,686
92 Other unamortised losses(N'000)	NONE	NONE	NONE
93 Unreconciled inter-branch items (N'000) DR/(CR)	NONE	NONE	NONE
94 Number of offices	10	10	9
95 Age (in years)	4	3	2
96 Government stake in equity (Indirect)	-	-	-
<b>MARKET SHARE OF INDUSTRY TOTAL</b>			
	<b>Estimate</b>	<b>Actual</b>	<b>Actual</b>
97 Lcy deposits (excluding interbank takings)	1.0%	0.3%	0.3%
98 Total assets & contingents	0.9%	0.3%	0.2%
99 Total loans & leases - net	0.6%	0.3%	0.1%
100 Non interest income	0.4%	0.5%	0.3%

## RATING DEFINITIONS

<b>Aaa</b>	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.
<b>Aa</b>	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.
<b>A</b>	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.
<b>Bbb</b>	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.
<b>Bb</b>	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>B</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.
<b>C</b>	Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.
<b>D</b>	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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© Agosto&Co.  
UBA House (5th Floor)  
57 Marina Lagos  
Nigeria.  
P.O Box 56136 Ikoyi  
+234 (1) 2707222-4  
+234 (1) 2713808  
Fax: 234 (1) 2643576  
Email: [info@agusto.com](mailto:info@agusto.com)