

Polaris Bank sustains Profit Growth with ₦28.9bn (PBT) in 2020 financial year

- *Records 4% increase in Profit before Tax (PBT) Year on Year despite challenging business environment*
- *...Assets hit N1.2tr and ROA of 2.4%*
- *Performance is in the context of COVID-19 lockdowns and CEO transition, indicating management depth and sustainability*



2021

RTC ADVISORY SERVICES LIMITED



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Polaris Bank Limited's full year audited financial results for the year ended December 2020 posted a Profit Before Tax (PBT) of ₦28.9billion. The results which show the Bank's second year performance scorecard after two years of operation, have further consolidated the Bank's position as focused on the path of profitability, growth and value creation.

In our Lead Analysis Report on the Bank's 2019 audited financial results last year, its first full year of operation titled "Polaris Bank records impressive 2019 financial results", we noted that the results were impressive especially in the context of its legacy constraints; the 2020 results confirm that profitability and growth may now be the trend, rather than a one-off performance.

Strong Performance Indicators and Ratios

The 2020 performance reflects a 4% Year on Year (YoY) increase in Profit before Tax (PBT) driven by the combination of the significant reduction in interest expense due to the Bank's pursuit of low interest-bearing deposits as well as lowering impairment charges on loans and other financial assets.

The Bank recorded Return on Asset (ROA) and Return on Equity (ROE) of 2.4% and 29.4% respectively which competes favorably with top performing banks in the industry. The Bank's Total Assets stood at N1.18trillion, a 3% growth on the previous year while Shareholders Funds grew by N14billion (17%), largely due to additional value creation through internally generated profits.

Polaris Bank was able to grow Customer Deposits in 2020 by N56billion, predominantly through low-cost deposits (impressive for a recently re-positioned Tier 2 bank in a very tough economy and challenging industry environment) and during the year, the bank's gross loan book increased by ~~N~~38billion reflecting modest but prudent risk appetite to grow its risk assets for optimal interest income generation.

New CEO Innocent Ike emphasizes Customer Confidence, Quality Services, Technology Investments and Corporate Transformation

Commenting on the Bank's performance, the Managing Director/Chief Executive Officer (MD/CEO) of Polaris Bank Limited, Mr. Innocent Ike who assumed office in the course of the year after the voluntary departure of erstwhile CEO (now) Senator Tokunbo Abiru said that:

“Polaris Bank has achieved significant milestones since its inception in September 21, 2018 when we started this journey. We have since grown to earn the confidence of the banking publics, offering quality banking services at the cutting edge of technology”. Continuing, he noted, “2020 was arguably the most challenging year that the world has faced in decades owing to the negative impact of COVID-19 on businesses and the economy. Yet, the current result demonstrates the importance of the deployment of appropriate strategies, technology and effectively validates our recent investment in technology solutions and digitization of our products and processes,” he added.

A B U T S O R Y

He explained that the Bank's subsisting three-year corporate transformation strategy has recently been reviewed in line with the changing operating environment and trend dynamism for sustainable value creation. He equally noted the acceleration of the digital transformation journey which is one of the potent strategies to strengthen balance sheet, control cost and process / Self – Service Offering.

The Bank's emerging Strategic Positioning is Increasingly Looking Strong and Sure-Footed

Polaris Bank has some strong strategic attributes-strong liquidity, good relationship management, a vast branch network and is enhancing its brand and product offering to differentiate the Bank and deepen its franchise. Its key outstanding challenge-its non-performing loans (NPL) ratio has increased slightly from 2019 (46% IFRS) to 49.9% IFRS in 2020 due to the official exchange rate adjustment within the period that increased legacy foreign currency denominated NPLS. It has made significant investments in platforms, technology and workforce, and the brand may be stabilizing.

The Bank's strategy playbook defines its aspiration to be known for ease, friendliness and accessibility of its services; and creating opportunities and empowering youths, SMEs, women and the underserved through Digital and Future-Focused banking. Its strategic positioning is predominantly RETAIL, focused on UHNI/HNI, Upper Affluent, Mass Affluent, Middle Class and Bottom of the Pyramid markets while making a targeted push in specific commercial and public sectors including manufacturing, agriculture, services, trade and emerging/disruptive sectors as well as state governments and public sector MDAs. It also aims to identify and target high quality names with low risk in the corporate sector. The strategy is anchored on strengthening the balance sheet and rebuilding the franchise through specific strategic initiatives to:-

- Build the franchise
- Strengthen the balance sheet

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- Drive market penetration in target segments, sectors and regions
 - Revamp propositions, platforms and customer engagement
 - Leverage digital and transaction banking for fee income
 - Enhance capability for superior service delivery
 - Re-align the marketing and client engagement models for enhanced effectiveness, and
 - Build partnerships, ecosystems and networks

There is strong buy-in into this strategy and aspirations across the bank's leadership team in both board and management, and the execution has been diligent and consistent, resulting in the impressive financial performance in 2019 and 2020.

The 2020 results is in spite of CEO Transition during a difficult economic period, indicating Management Depth

The erstwhile CEO of Polaris Bank Mr (now Senator) Tokunbo Abiru departed in the course of 2020 to pursue a successful run for the Nigerian Senate after a distinguished banking career and success in rescuing the old Skye Bank and an impressive first year result in the then new Polaris Bank Ltd. The fact that the Bank sustained its growth trajectory in spite of Abiru's exit is indicative of a seamless transition and management depth and cohesiveness in Polaris Bank.

Mr Innocent Ike, the Bank's new CEO was the best graduating student in Accounting at the University of Lagos in 1988. He is a Fellow of ICAN; a certified IFRS expert and Honourary Senior Member of the CIBN and once worked at Deloitte. Innocent worked at several financial institutions, notably GTBank (where he worked in Treasury, Currency Trading, Commercial Banking and Operations) and Access Bank (where during a 10-year span he rose to become a GM in Corporate and

Commercial Banking. He became Executive Director at Keystone Bank in 2014 until his appointment as Executive Director at Skye Bank by the CBN in July 2016. He anchored the Bank's Digital Transformation Project as Executive Director, Technology and Services until his appointment as Acting CEO.

Mr Abdullahi S. Mohammed is Executive Director, Abuja and North Central Directorate of Polaris Bank. He holds Bachelors and Masters Degrees from Bowling Green University Ohio, USA and has been in banking since 1991 working in several institutions including Century Merchant Bank, Kakawa Discount House, First Bank of Nigeria Plc and Skye Bank before his current position. He also served with merit as Commissioner for Works, Housing and Transport in Kano State between 1999 and 2003.

Mr Segun Opeke is Executive Director of the Lagos Business Directorate. He holds B Sc Banking and Finance and MBA from the University of Lagos and is an alumnus of the Columbia Business School, New York, USA. He has worked in FSB International Bank, Prudent Bank, Chartered Bank and Commercial Trust Bank. He was a former Treasurer, Regional Director and Group Head in Skye Bank.

Beyond the CEO and Executive Directors, Polaris Bank has a VERY strong Board of Directors chaired by **Mr Muhammed K Ahmad, OON** the pioneer CEO of the National Pension Commission and former Executive Director at NDIC. Mr Ahmad also sits on the boards of MTN Nigeria, Pan African University and Society for Corporate Governance. There are other accomplished and experienced professionals on the board of the Bank including **Alhaji Maikano Umar, Mr Austine Jo-Madugu, Bata Garba Wakawa** and **Mr Olu Odugbemi**.

Into the Future

Polaris Bank's remarkable two-year performance is a testament to her consolidation of its 2019 performance, the relevance of the Bank's new corporate strategy, good corporate governance and management depth and cohesion. The Board and Management of Polaris Bank have demonstrated strong commitment towards business

ethics by upholding sound risk management practices and proactively taking measures to ensure the Bank is on the path of value creation and sustainability.

Polaris Bank's performance in FY'20 reflects commendable improvements in key performance indicators, assuring a strong positive outlook for earnings, margins, and profitability improvement in its cautious pursuit of loan growth, a sustained strategy for operational efficiency, funding cost optimization, and efficient deposit mix. The headroom for loan creation no doubt presents an opportunity for improved margins.

Going into the year 2021 and despite the challenging macroeconomic environment, the Bank may be poised to reap the benefits of its investment in both digitization and the capacity of its employees to improve service experience.

Conclusions

The critical outstanding policy decision in respect of Polaris Bank is around its future ownership as the current regulatory ownership and control is assumed to be in order to resolve the legacy situation and therefore transitional. Subject to that issue, our conclusions based on the Bank's 2019 and 2020 financial performance are as follows:-

1. Polaris Bank has maintained its impressive financial performance in 2020 in spite of challenging and adverse global and Nigerian economic circumstances and the bank is stable, strong and competitive relative to leading Tier 1 and Tier 2 banks. (See Lead Analytical Document and 2020 Financial Results)
2. This impressive performance is also despite the transition in CEO position in the course of 2020. The Board and Management of Polaris Bank has successfully repositioned the Bank and operates as a cohesive team of first-class professionals. The new CEO Innocent Ike and the team have sustained the positive growth trajectory of the bank
3. The bank has largely overcome its legacy challenges and constraints and is now very well positioned as a digitally-enabled and strategically focused retail bank to compete in the Nigerian Financial Services Industry. The intervention of the regulatory authorities in the legacy institution has been vindicated by a strong and committed management

4. Polaris Bank is now strong and stable, with a sound strategic focus and technology, revitalised brand, people, products and services and technology; and has been placed on a sound foundation for the future.

Report Prepared by:-
RTC Advisory Services Ltd
Lagos

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Financial Highlights:

Income Statement “in millions”

Statement of Comprehensive Income	FY 2020	FY 2019	% CHANGE
Gross Earnings	129,306	150,848	-14%
Interest Income	108,501	133,611	-19%
Interest Expense	(23,132)	(45,814)	-50%
Net Interest Income	85,369	87,797	-3%
Other Income	14,945	13,970	7%
Operating Income	100,314	101,767	-1%
Operating Expense	(62,044)	(59,812)	4%
Impairment Charge	(9,399)	(14,126)	-33%
Profit/ (Loss) Before Tax	28,871	27,829	4%
Tax	(336)	(479)	-30%
Profit/ (Loss) After Tax	28,535	27,350	4%

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION			
₹' Million	FY 2020	FY 2019	% Change
Total Assets	1,181,167	1,143,266	3%
Net Loans and advances to customers	204,784	188,740	9%
Investment securities	335,196	576,520	-42%
Deposits from customers	914,323	857,890	7%
Equity	96,899	82,990	17%

....END....

APPENDIX A

'In Million

	FY 2020	FY 2019
STATEMENT OF FINANCIAL POSITION		
Cash and balances with central bank	52,995	26,484
Due from banks and other financial Institutions	57,812	62,076
Financial assets at fair value through profit or loss	43,087	1,264
Loans and advances to customers	204,784	188,738
Investment securities:	335,196	576,517
Prepayment and Other assets	220,056	48,046
Other loans and receivables	210,677	182,594
Right of Use Assets	1,740	3,637
Property, plant and equipment	50,893	51,623
Intangible assets	2,271	180
Assets classified as held for sale	1,656	2,107
TOTAL ASSETS	1,181,167	1,143,266
LIABILITIES		
Deposits from customers	914,323	857,885
Lease liabilities	1,335	2,645
Borrowings from Local and Foreign Institution	89,398	100,920
Current income tax payable	597	819
Accruals and Other liabilities	78,615	97,997
Retirement benefit obligation	0	11
TOTAL LIABILITIES	1,084,268	1,060,277
EQUITY		
Share capital	25,000	25,000
Share premium	873,450	873,450
Retained earnings	10,040	4,395
Reorganisation reserve	(848,017)	(848,017)
Other Reserves	36,426	28,161
	96,899	82,989
TOTAL EQUITY	96,899	82,989
TOTAL LIABILITIES AND EQUITY	1,181,167	1,143,266

APPENDIX B

<i>"in Million Naira</i>	FY 2020	FY 2019
Gross Earnings	129,306	150,848
Interest Income on amortized cost financial assets	107,995	131,650
Interest Income on fair value through profit/loss	506	1,961
Interest expense	(23,132)	(45,814)
Net Interest Income	85,369	87,797
Impairment loss on loans and other financial assets	(9,399)	(14,126)
	75,970	73,671
Net Fee and commission income	5,635	8,536
Net Trading and Foreign Exchange Income	(443)	950
Other operating income	9,753	4,484
Net Operating Income	90,915	87,641
Employee benefit costs	(27,853)	(26,428)
Administration and general expenses	(28,475)	(28,863)
Depreciation and amortisation	(5,716)	(4,521)
Profit before income tax	28,871	27,829
Income tax expense	(336)	(479)
PROFIT FOR THE PERIOD	28,535	27,350

APPENDIX C

Ratios in %	FY 2020	FY 2019	% CHANGE
Return on Equity	29.4	33	-11%
Return on Assets	2.4	2.4	0%
Loan to Deposit	55.5	49	13%
Liquidity	45	81	-44%
Capital Adequacy	15.9	13.8	15%
Cost to Income	62	59	5%
Net Interest Margin	9.6	9.8	-2%
Cost of Funds-Deposits	2.5	4.7	-47%