



## **POLARIS BANK RECORDS IMPRESSIVE 2019 FINANCIAL RESULTS**

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Polaris Bank has released its 2019 financial results after securing the approval of the Central Bank of Nigeria (CBN) to its Annual Financial Statements for its first full financial year of operation. By all objective standards, the results are impressive especially given the legacy constraints under which the institution was birthed.

## *Strong Profitability and Profit Potential...Polaris Bank remains Systemically Important...*

The Annual Financial Statements ending December 31, 2019 show gross earnings of over N150billion, Profit before Tax of N27.83billion and Profit after Tax of N27.35billion showing very strong profitability and profit potential going forward. The bank's deposits from customers was N857.8billion with Total Assets in excess of N1.14Trillion confirming that Polaris Bank remains a systemically important bank within the Nigerian financial system. The bank's capital is multiples of the regulatory minimum of N25billion at N82.9billion with a Capital Adequacy Ratio of 14% providing sufficient capital buffers to customers and other counterparties.

## *Very Strong and Competitive Performance Ratios*

Apart from strong capital adequacy, the bank's other ratios are equally impressive-Return on Assets (ROA) at 2%, Return on Equity (ROE) is 33%, Return on Sales (ROS) is 18%, and Liquidity Ratio at 81%. These ratios demonstrate operating efficiency, strong inherent capacity for profitability and returns to stakeholders, very comfortable liquidity and asset efficiency. The bank's Cost to Income ratio of 59% is well in line with industry averages and further reinforces the institution's underlying reality of operational and cost efficiencies, which is a significant achievement in view of its legacy constraints.

## Portfolio Clean-up Continues Apace

One remaining legacy challenge, perhaps understandably, is that the bank's Non-Performing Loans Ratio (NPL) is 46%. Even though the management has brought this ratio down to this level from around 80% at the time of the regulatory intervention, it is evident that the work of the management of Polaris Bank to clean up its inherited loan portfolio must continue until NPLs are within acceptable benchmarks. However given their success over the last three years in loan recovery, collateral documentation and cleaning up the portfolio, they appear to be on course to a successful portfolio repositioning.

With the exception of its NPL ratio (which as we have noted is understandable given its context and legacy challenges), Polaris Bank's ratios compare favourably with the leading Tier 1 and Tier 2 banks and are in virtually all cases better than industry averages. ROA at 2% is at par with Zenith Bank; ROE at 33% is competitive against all Tier 1 banks with the exception of GTbank; ROS at 18% ranks third behind only Zenith and GTBank benchmarked against Tier 1 banks; and the bank's Cost to Income ratio is as mentioned earlier well within industry averages.

## Very Commendable Performance Especially Given Legacy Context and Environment

These results are commendable especially given the institutional, industry and environmental context and when reviewed along with the strategic and business transformation accomplished within the bank. As the bank's CEO Mr Tokunbo Abiru explained in internal bank communication which we have reviewed, *"...I am confident to state that our Bank has indeed stabilized and is now headed towards our purpose which is to become a "Top Retail Bank" in Nigeria. This was demonstrated by our collective and sustained performance trajectory in 2019...our prudential ratios-capital adequacy and liquidity ratios are now in full compliance with stipulated regulatory requirements. We returned to profitability on a month-on-month basis throughout 2019; our Cost-to-Income ratio is also in line with industry average---we aggressively pursued our IT infrastructure refresh*

*with a view to replacing and upgrading the aged, obsolete and sub-optimal performance IT equipment. The impact on efficiency, effectiveness, transactions and customers' experience will become noticeable from the end of the first quarter of Year 2020..."*

## **Ongoing Digital and Corporate Transformation**

In 2019, Polaris Bank pursued strategic initiatives for future growth which have continued this year including digital transformation and launch of the bank's agency banking platform, Sure Padi. Commencing in September 2018 immediately after the transition to Polaris Bank, the management worked with KPMG, EY, Deloitte and other first class advisory and consultancy firms to develop a strategy and corporate transformation plan and defined aspirational and inspirational new vision statement, ***"The preferred partner providing superior financial solutions for customers"*** and mission statement, ***"We will leverage our knowledge of an ever-changing world to constantly design innovative solutions that facilitate our customers' enterprise"*** as well as values- **Boldness, Sustainability, Innovative, Continuous Learning and Trustworthy**. The bank also adopted a predominantly retail market focus in line with its core strengths and competences and defined new customer value propositions: -**Ease, Friendliness and Accessibility**: focused on convenience, customer excellence and customer delight; **Creating opportunities and providing empowerment for selected sectors**: Youths, SMEs, Women and the Underserved; **Digital First**: providing easy and simple banking through digital and being future focused.

The objectives of the Corporate Transformation Plan included sustainability; profitability and capital preservation; regulatory compliance and buy-in; realizing value from investments; aligning business and operating models to strategic aspirations; and execution-achieving quick-wins, and phased implementation. The critical pillars of transformation as designed are Digital Transformation, Enhancement of IT Infrastructure and Technology Platforms, Cost Optimisation and Operational Efficiency, Workforce and Culture Alignment, Brand Equity Enhancement and Business/Strategic Initiatives.

A December 2019 review and our recent assessment confirms progress on all aspects of the Corporate Transformation Plan.

## *Into the Future*

Polaris Bank's leadership is intensely focused on building the foundations of a bank for the future. They believe the future of banking globally and in Nigeria would be shaped by technology. Banks would be significantly dependent on technology for mobilising savings, extending and administering loans, payments analytics and management decision making. Polaris Bank had made a clear choice to be a retail bank and that choice meant its core would have to be around capabilities around technology.

These convictions underpinned management's focus on digital transformation and on refreshing and upgrading Polaris Bank's IT infrastructure. In 2019, management had overseen significant investment in the bank's critical IT infrastructure including data centres, digital labs and human capital.

Management had also reflected on other trends-the imperative of financial inclusion; increasing pervasiveness of the internet and social media; the revolution in payment systems; rapid development of various streams of technology innovation including artificial intelligence, voice and facial recognition, robotics, blockchain etc.; rise of so-called "fintechs"-financial technology firms who were entering financial services based on technology capabilities and business models all meant that increasingly financial services would become a technology play; the combined effect of all these trends meant in their minds that Polaris Bank would need to scale up very quickly!

We believe bank management understands that while Polaris Bank is now well capitalised based on regulatory standards, the institution may benefit from enhanced capital levels if benchmarked against the major banks and telecommunications companies in the context of a competitive, technology-led, globalising financial services industry. These considerations coupled with Polaris Bank's status essentially as a "bridge bank" owned by the Central Bank and AMCON mean that a divestment by these regulatory/government entities and

investment by a well-capitalised financial services group would have to be a strong consideration.

## **Our Conclusions**

Our key conclusions suggest four main themes emerge from Polaris Bank's first year performance. In our view these themes are overwhelmingly positive:-

- 1. The financial performance of Polaris Bank in its first full financial year is impressive and the bank is stable, strong and competitive relative to leading Tier 1 and Tier 2 banks.*
- 2. The Board and Management of Polaris Bank has successfully repositioned a previously troubled bank and created a new, thriving, forward-thinking bank*
- 3. The bank has largely overcome its legacy challenges and constraints and is now very well positioned to compete in the Nigerian Financial Services Industry*
- 4. The Management of Polaris Bank in concert with regulators seeks to assure a sustainable future for the bank and its customers leveraging technology, digital transformation and innovation in the context of a retail banking strategy*

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