GCR RATINGS

RATING ANNOUNCEMENT

GCR affirms Nova Commercial Bank Limited's national scale issuer ratings of BBB(NG)/A3(NG); Outlook revised to Evolving from Stable

Rating action

Lagos, 31 July 2025 – GCR Ratings (GCR) has affirmed Nova Commercial Bank Limited's national scale long and short-term ratings of BBB(NG) and A3(NG) respectively, with the Outlook revised to Evolving from Stable.

Rated entity	Rating Class	Rating scale	Rating	Outlook
Nova Commercial Bank Limited	Long Term Issuer	National	BBB(NG)	Evolving
	Short Term Issuer	National	A3(NG)	

Rating rationale

The ratings affirmation reflects Nova Commercial Bank Limited's (Nova Bank or the bank) stable funding structure, adequate liquidity, sound capitalisation and asset quality metrics. However, these positives are partly offset the bank's modest competitive position, weak earnings quality, and sustained loan book concentration.

Nova Bank transitioned to a national commercial bank in July 2024, having operated as a merchant bank for five years. This strategic move was aimed at broadening the bank's product offerings and reaching a wider customer base through the phygital business model supported by agency banking networks and partnerships with market leaders within the fintech space. However, given the new capital requirement for national commercial bank, Nova Bank has opted to downgrade its license to a regional bank with plans to concentrate its operations in the southern regions and the FCT.

With a balance sheet size of NGN373.5 billion (USD258.1 million) as of 31 December 2024, Nova Bank's market share remains moderate at below 1% of the Nigerian banking industry resources and a major constraint on competitive position assessment. Looking ahead, Nova Bank's operational expansion drive and retail segment penetration, resulting in a significant increase in its market share could support our assessment over the next 12-24 months. In the financial year ended 2024, operating revenues grew to NGN18.2 billion (2023: NGN8.6 billion, 2022: NGN7.4 billion), with non-interest income accounting for 67.7% of operating revenues. Nonetheless, earnings quality remains weak, given the bank's sustained reliance on market-sensitive income, which accounted for 47.3% of operating revenues in 2024 (2023: 53.8%; 2022: 77.0%).

We assessed capitalisation as positive ratings factor, underpinned by additional capital injection and earnings accretion. As a result, the GCR core capital ratio improved to 28.2% as of 31 December 2024 from 23.8% in the prior year. Looking ahead, we expect the GCR core capital ratio to range between 25.0%-27.0%

balancing the bank's expected loan book growth and the ongoing capital raising initiatives to comply with the new minimum capital requirement for a regional commercial bank. However, the loan loss reserve coverage of stage 3 loans declined to 33.8% in 2024 (2023: 338.3%), due to credit migration in the loan book.

Risk assessment is positive to the ratings, underpinned by strong underwriting standards. As of 31 December 2024, the bank's non-performing loan (NPL) ratio increased to 1.9% as of 31 December 2024 (31 December 2023: 0.2%), due to the macroeconomic induced credit migrations. Obligor concentration remains high, with the top 20 obligors accounting for a considerable 87.8% of the loan book as of 31 December 2024 (December 2023: 87.0%). The bank's loan book growth strategy to widen customer base and sectors could support diversification over the outlook horizon. Foreign currency loans accounted for a lower 25.5% of gross loans (2023: 34.2%), with inherent risk mitigated through natural hedge. Looking ahead, we expect the asset quality metrics to be sustained at sound level, although it remains susceptible to the challenging operating environment.

Nova Bank's funding structure is stable, predominantly dominated by customer deposits which accounted for 83.9% of the total funding base as of 31 December 2024 (December 2023: 86.3%). Customer deposits declined by 2.5% to NGN157.8 billion, reflecting a strategic shift from the expensive institutional term deposits to the low-cost CASA deposits given its commercial banking license. As a result, the CASA deposits grew considerably to NGN47.1 billion (2023: NGN14 billion) and supported a lower cost of funds of 14.0% in 2024 (2023: 16.0%), although remains above industry average. Depositor concentration also improved, with the top twenty depositors accounting for 60.7% of customer deposits (2023: 85.0%). Looking ahead, the continued investments in digital innovation and the rollout of retail-focused products could support mobilisation of low-cost deposits and drive a gradual decline in funding costs over the rating horizon.

We also considered the bank's liquidity position to adequate, with the GCR liquid assets coverage of wholesale funding and customer deposits solid at 14.9x and 86.8% respectively as of 31 December 2024(2023: 8.9x and 52.3%).

Outlook statement

The Evolving Outlook reflects the potential changes in the ratings over the outlook period due to: (1) transition to commercial banking from merchant banking, (2) impact of loan book evolution on capitalisation, and (3) funding mix and cost.

Rating triggers

A rating upgrade could be triggered by (i) a material improvement in competitive position, evidenced by increased market share (ii) improved diversification of earnings and loan book (iii) the sustained maintenance of GCR core capital ratio above 25.0%, while retaining the sound asset quality metrics.

Conversely, a negative rating action may be triggered if (i) asset quality deteriorates materially, such that the NPL and credit loss ratios exceed 5.0% and 3.0% respectively (ii) the GCR core capital ratio declines below 22.5% and (iii) the competitive profile weakens, resulting in constrained market share, limited revenue diversification and/or unstable income compared to the peers in the broader banking industry.

Analytical contacts

Primary analyst	Olawunmi Oduniyi	Associate Analyst, Financial Institutions
Lagos, NG	OlawunmiO@GCRratings.com	+2341 904 9462
Secondary analyst	Afeez Tijani	Analyst, Financial Institutions
Lagos, NG	AfeezT@GCRratings.com	+2341 904 9462
Committee chair	Patricia Zvarayi	Senior Analyst, Financial Institutions
Johannesburg, ZA	PatriciaZ@GCRratings.com	+27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Financial Institutions, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, July 2025
GCR Financial Institutions Sector Risk Score, July 2025

Ratings history

Nova Commercial Bank Limited

Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	BBB-(NG)	Stable	May 2019
Short Term Issuer	Initial	National	A3(NG)	Stable	May 2019
Long Term Issuer	Last	National	BBB(NG)	Stable	June 2024
Short Term Issuer	Last	National	A3(NG)	Stable	June 2024

Risk score summary

Rating Components & Factors	Score
Operating environment	**7.25**
Country risk score	3.50
Sector risk score	3.75
Business profile	**-2.00**
Competitive position	-2.00
Sustainability	0.00
Financial profile	**1.50**
Capital and Leverage	1.00
Risk	0.25
Funding and Liquidity	0.25
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**6.75**

Glossary

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Affirmation	See GCR Rating Scales, Symbols and Definitions.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Collateral	Asset provided to a creditor as security for a loan or performance.
Coverage	The scope of the protection provided under a contract of insurance.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is

	a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Obligor	The party indebted or the person making repayments for its borrowings.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Horizon	The rating outlook period
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Subsequent to an appeal by the rated entity, the rating was revised as reflected in the announcement.

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited Financial Statement as of 31 December 2024
- Unaudited Financial Statement as of 31 May 2025
- Other related documents
- Exchange rate source: Central Bank of Nigeria USD1.00 = NGN1,447(31 December 2024)

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