GCR GLOBAL CREDIT RATING CO.
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Stanbic IBTC Bank PLC

Nigeria Bank Analysis **May 2020**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	AA(NG)	Stable	May 2021
Short-term	National	A1+(NG)		

Financial data:

(USDm comparative) ǂ

	31/12/18	31/12/19
NGN/USD (avg.)	305.6	306.4
NGN/USD (close)	306.5	306.5
Total assets	5,139.2	5,785.7
Primary capital	561.2	663.1
Secondary capital	99.2	99.4
Net advances	1,411.8	1,736.1
Liquid assets	2,863.9	2,539.6
Operating income	416.1	425.2
Profit after tax	166.2	171.4
Market cap.*	N376.1bn/USD1.0bn	
Market share**	4.4%	

ǂCentral Bank of Nigeria's ("CBN") exchange rate.
*For Stanbic IBTC Holdings PLC at 27 May 2020.
**Based on industry assets at 31 December 2019.

Rating history:

Initial rating (December 2006)
Long-term: AA-(NG)
Short-term: A1+(NG)
Rating outlook: Stable

Last rating (June 2019)
Long-term: AA(NG)
Short-term: A1+(NG)
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Stanbic IBTC rating reports (2006-19)
Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- Stanbic IBTC Bank PLC ("Stanbic IBTC" or "the bank") is wholly owned by Stanbic IBTC Holdings PLC ("the Holdco" or "the group"), which is a member of the Standard Bank Group ("SBG"). Key rating strength is derived from the implied financial and technical support from its ultimate parent, SBG (the largest banking group in Africa in terms of balance sheet size and earnings), as well as its strong capitalisation, liquidity, profitability and asset quality metrics on a stand-alone basis.
- Stanbic IBTC's capitalisation is considered satisfactory for its current risk level. The bank's risk weighted capital adequacy ratio ("CAR") stood at 19.4% at FY19 (albeit ended slightly lower at 17.4% at 1Q FY20), compared to the 10% statutory minimum requirement. Shareholders' funds grew by 18.1% to N203.2bn at FY19 on account of strong internal capital generation. The robust capital base provides adequate headroom for absorption of credit losses that may stem from the challenging operating environment.
- The bank's gross non-performing loans ("NPL") increased by 21.9% to N21.6bn at FY19 and expanded to N26.7bn at 1Q FY20, with the agricultural, and oil and gas sectors reflecting higher pressure. However, the impact of the elevated NPL was overshadowed by a more rapid growth in loans and advances. As such, gross NPL ratio remained relatively flat at 3.9% at FY19 and rose to 4.2% at 1Q FY20, albeit remaining within CBN's tolerable limit of 5%. Also, total loan loss provision coverage of impaired loans remains adequate at 112.5% at FY19 (FY18: 135%). Going forward, Global Credit Rating Company Limited ("GCR") expects the bank to witness some asset quality pressures, given the challenging operating conditions combined with its significant (29.5%) exposures to the highly challenged oil and gas sector.
- Stanbic IBTC's liquidity profile appears strong, with the statutory liquidity ratio ranging between 62.2% and 132.2% throughout FY19, significantly surpassing the 30% regulatory minimum. Specifically, the ratio of liquid and trading assets to total short-term funding is considered strong at 54.8% at FY19 (FY18: 63.7%), comparing favourably with peers' average. During FY19, the bank raised a sum of N45.8bn through the issuance of two tranches of commercial papers ("CPs"), which partly supported the strong liquidity position.
- The bank's performance was mainly supported by non-interest income (particularly trading income) and effective cost management in FY19, as net interest income declined 2.6% to N69.8bn. Non-interest income increased by 9%, underpinning the recorded 2.5% growth in total operating income to N130.3bn. Operating expenses moderated by 7.7% to N70.9bn, translating to an improved cost-to-income ratio of 54.4% in FY19 (FY18: 60.4%). Consequently, pre-tax profit grew year-on-year by 8.3% to N57.7bn, although translated to a relatively lower return on average equity and assets ("ROaE" and "ROaA") of 28.0% and 3.1% (FY18: 32.7% and 3.6%) respectively due to enlarged capital and asset base. Unaudited results in 1Q FY20 reflects a pre-tax profit of N14.7bn, representing a slight decline from the corresponding period in 2019.

Factors that could trigger a rating action may include;

Positive change: Positive rating action could follow a satisfactory/significant improvement in the bank's key profitability, in addition to maintaining strong, capitalisation, liquidity and asset quality metrics.

Negative change: A downward rating movement could be triggered by a material deterioration in asset quality, constrained earnings capacity as well as significant erosion of the bank's capital base.

Organisational profile

Corporate summary[1]

Stanbic IBTC commenced operations in 1989 and became a member of SBG in 2007, after the merger of Stanbic Bank Limited and IBTC Chartered Bank PLC. Following the adoption of a holding company structure in 2012, the bank (the flagship brand of the group), was delisted from The Nigerian Stock Exchange and was subsequently licensed as a national commercial bank, transferring most of its subsidiaries to the Holdco. Currently, the bank has two wholly owned subsidiaries, namely: Stanbic IBTC Nominees Limited and Stanbic IBTC Bureau De Change Limited.

Ownership structure

Being a wholly owned subsidiary, the bank's shares are entirely controlled by the Holdco, with Mr. Yinka Sanni (the Holdco's Chief Executive ("CE")) allotted one share as a nominee shareholder. Table 1 outlines the ownership structure of the Holdco at FY19 and 1Q FY20.

Table 1: Major shareholders (Holdco)	% Holding	
	FY19	1Q FY20
Stanbic Africa Holdings Limited*	65.7	65.9
Other shareholders (All<5%)	34.3	34.1
Total	**100.0**	**100.0**

*A member of SBG Source: Stanbic IBTC Holdco AFS

Strategy and operations

Stanbic IBTC has been consistent in the implementation of its long-term (2013-2023) strategic plan, focused on positioning the bank as one of the top five banks in Nigeria in terms of market share, quality of service and ROaE by 2023. This strategy revolves around the following; (i) leveraging digital channels to enhance operations and customer banking experience; (ii) improving earnings and capital base to expand the balance sheet size; (iii) strengthening risk management and controls to maintain quality loan book; (iv) expanding customer base and ensuring quality service delivery; (v) enhancing employees capacity for improved productivity and efficiency; and (vi) deepening penetration into the retail banking space to drive low-cost deposit mobilization and ultimately maintain low-cost funding.

The bank is primarily involved in the provision of corporate, personal and business banking, bureau de change and custodian services.

At 31 December 2019, the bank operated through a network of 176 branches (FY18: 177), 732 ATMs (FY18: 575), 11,971 point of sales terminals (FY18: 7,791) and a direct staff complement of 2,096 (FY18: 2,085).

[1] Refer to previous rating reports for a detailed background.

Governance structure

The bank's corporate governance structure is in line with the provision of CBN's code of corporate governance for banks in Nigeria and relevant standards of its parent companies (SBG and the Holdco). As at 31 December 2019, the board of directors ("the board") comprised twelve members, made up of five executive directors (including the CE) and seven non-executive directors (including the Chairman and two independent directors). Key board appointments during FY19 include the appointment of Mr Barend Kruger as the new Chairman (effective October 2019) to replace Mr Simpiwe Tshabalala (who resigned to assume a different role at the group level (SBG)). In addition, Mr Kola Lawal and Mrs Bunmi Dayo-Olagunju were both appointed as executive directors in 2019. Overall, the board is considered to have satisfactory mix of knowledge and experience across banking and other business fields.

The board performs it statutory oversights through five standing committees, *viz.* Credit Committee, Audit Committee, Risk Management Committee, Remuneration Committee, and Nomination Committee. While these committees have authority to examine particular issues and report to the board with their decisions and/or recommendations, the ultimate responsibilities on all matters lie with the board.

Financial reporting

Stanbic IBTC prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"), the Companies and Allied Matters Act, Financial Reporting Council of Nigeria requirements and the Banks and Other Financial Institutions Act. The bank's external auditor, KPMG professional services, issued an unqualified opinion on the 2019 financial statements.

Operating environment

Economic overview

The Nigerian economy sustained growth momentum in 2019, with the gross domestic product ("GDP") expanding by 2.27% year-on-year, up from 1.91% registered in 2018. The recorded growth was largely underpinned by the curtailed pipeline vandalism, calmness in the oil-producing regions, and the relative stability in global crude oil prices and foreign exchange ("FX") market. While the oil sector registered a robust growth of 4.59% (2018: 0.97%), the non-oil sector improved slightly by 2.06% in 2019 relative to 2% recorded in 2018. However, the Nigerian economy is currently witnessing a sharp slowdown due to the coronavirus disease ("COVID-19") pandemic, which is being compounded by the contraction in crude oil demands and dwindling prices at the international market. In a bid to stimulate prices, Organisation of Petroleum Exporting Countries (OPEC) and its allies in mid-April 2020 agreed to a global production cut of about 10 million barrels per day. Despite this production cut, crude oil prices are expected to remain relatively low in the short term and anticipated to hover between USD20/barrel and USD35/barrel pending the upswing in the currently weak global demands.

The headline inflation rate increased to 12.34% in April 2020, for the eighth consecutive months owing to supply constraints, higher input costs and increased system liquidity. To curtail inflationary pressures, CBN retained the monetary policy rate at 13.5%, increased the cash reserve requirement ("CRR") by 500 basis points to 27.5% in January 2020, and has also recently released some policies to cushion the adverse impact of the COVID-19 pandemic on the economy. These measures include, among others, a reduction in interest rates on all CBN intervention facilities to 5% from 9%, and the creation of N50bn targeted credit facility to households and SMEs negatively affected by the pandemic. However, the pressures of the current macroeconomic challenges have resulted in the depreciation of FX rate to N360/USD and N380/USD from N307/USD and N360/USD at the official window and Investors' & Exporters' window, respectively. Similarly, the external reserves declined to USD33.4bn at end-April 2020 from USD43bn in January 2019, with further contractions anticipated over the short term on account of the relatively low FX earnings. Given that the Nigerian economy is heavily dependent on the oil sector, which has overtime accounted for over 90% of foreign exchange earnings and over 60% of government budgetary revenues, the current dwindling global crude oil price remains a major concern.

In a bid to consolidate growth over the medium term, the Federal Government of Nigeria ("FGN") had maintained an expansionary policy, with a budget of N10.59tn for 2020 fiscal year (2019: N8.92tn). The estimate was based on an oil benchmark of USD57/barrel, a daily production output of 2.18mbpd, new value added tax rate of 7.5% (from 5% previously), *inter alia*. In light of the current macroeconomic challenges, the FGN reviewed the oil benchmark downwards to USD30/barrel, daily production output to 1.7mbpd, cut the national budget by N1.5tn and has also initiated external borrowing plans of about USD6.9bn to cushion the economic impact of the pandemic. GCR however, expects the continuing slowdown in economic activities to have significant implications for budget implementation and its already elevated credit risk profile.

The Nigerian Stock Exchange ("NSE") sustained a negative trend in 2020, with the All-Share Index ("ASI") and market capitalisation contracting by 14.2% and 7.4% respectively as at end-April 2020. The bearish stock market performance was largely driven by the challenges in the macroeconomic landscape, underwhelming trends in foreign portfolio investments as well as profit takings.

Industry overview

As part of measures to boost credit extension and stimulate lending to the real sector of the economy, CBN in July 2019 issued a circular mandating Deposits Money Banks ("DMBs") to maintain an initial minimum loan to deposits ratio ("LDR") of 60% by 30 September 2019 and subsequently reviewed to 65% with effect from 31 December 2019. According to CBN, failure to comply with this specification would attract an additional CRR of 50% to the lending shortfall of the target LDR. To allay concerns of a possible spike in the industry's NPLs, CBN in October 2019 granted DMBs' approval to directly debit bank accounts belonging to loan defaulters across all banks in the country (through bank verification number and in collaboration with the Nigeria Inter-Bank Settlement System Plc). While cognisance is taken of the positive economic impact of the minimum LDR, the increment of CRR to 27.5% (from 22.5%) could exert liquidity pressures on most banks within the short term, as well as further constrain profitability. Also, in 2019, CBN restricted domestic investors and non-bank corporates from participating in the Open Market Operation ("OMO") instruments. Consequent shift in investors focus to fixed income securities has led to decline in yields, currently trending below the average inflation rate.

The banking industry's profitability improved in 2019, underpinned by a relatively lower impairment charge, growth in interest income on account of expansion in loan book as well as fee and commission income as transactions volume on digital platforms increased. Per CBN statistics, total assets stood firmer at N40.9tn at end-November 2019 (December 2018: N37.2tn), while credit exposures increased by 16.2% to N23tn, as most banks intensified efforts to comply with the stipulated minimum LDR. The recorded expansion in loan portfolio coupled with the sustained resilience of the banking system saw the industry's average NPL ratio moderate to 6.1% at end-December 2019 (December 2018: 11.6%), while CAR declined by 80 basis points year-on-year to 14.5%. The oil and gas remained the dominant sector, accounting for over 30% of the banking industry's loan portfolio as at 31 December 2019. However, the slowdown in economic activity and the challenges in the oil and gas sector (exacerbated by dwindling global crude oil prices), pose a significant credit risk to the banking industry and could impact asset quality and profitability over the short to medium term.

As at 31 December 2019, Nigeria's financial sector comprised twenty-two commercial banks, four financial holding companies, five merchant banks, two non-interest banks, and over 4,000 other financial institutions. Commercial banks include eight international banks, eleven national banks, and three regional banks. Nigeria's five largest banks accounted for over 60% of total industry's assets at 31 December 2019. The competitive landscape of the Nigeria financial system remains stiff, further intensified by the issuance of operational licences to payment service banks (PSBs), financial technology companies ("Fintechs"), and super agents to deepen financial inclusion through the provision of diversified financial services to the unbanked and under-banked segments of the economy.

Competitive position

Table 2 provides an analysis of Stanbic IBTC's banking operations relative to its peers, focusing on key performance indicators as at 31 December 2019. The bank competes adequately with peers in terms of product/service delivery and innovations, leveraging off the strong brand reputation of its ultimate parent (SBG) and established franchise. Furthermore, its financial profile in terms of capitalisation, profitability, asset quality and liquidity metrics, as well as operational efficiency compares favourably with peers at FY19.

Financial profile

Likelihood of support

Stanbic IBTC enjoys adequate financial and technical support from SBG and this is considered a key rating support factor by GCR.

Funding composition

As with other commercial banks in Nigeria, Stanbic IBTC remains predominantly funded by customer deposits, albeit constituted a lower 49.9% (FY18: 64.5%) of the total funding at FY19. Other funding sources include equity (15.7%), debt securities (8.2%), other borrowings (7.1%) and interbank funding (19.2%). Details of each source of funding are discussed below.

Customer deposits and interbank funding

Customer deposits declined by 22.9% to N647.5bn at FY19, following a shift in funding focus towards the relatively cheaper retail deposits. Term deposits declined by 44.3% to N161.1bn at FY19, while the relatively cheaper savings and demand deposits comprised a higher 75.1% (FY18: 65.6%) of the deposit book at the balance sheet date. However, interbank funding (higher portion of which are transient vostro balances) increased by 55.3% to N248.9bn at FY19 and accelerated to N445bn at 1Q FY20. Nonetheless, the bank's cost of funds remained relatively stable at 3.9% at year-end.

Table 3: Deposit Book Characteristics at FY19 (%)

By type:		By source:	
Demand	61.6	Corporates	40.8
Savings	13.5	Retail	34.5
Term	24.9	Public sector	1.7
		SME	23.0
Concentration:		**Maturity:**	
Single largest	9.3	<1 month	85.4
Five largest	17.6	1-6months	14.2
Ten largest	22.8	6-12 months	0.4
Twenty largest	27.1	>1 year	-

Source: Stanbic IBTC

Aside the mix, other basic characteristics of the deposit book remained fairly stable in FY19. No notable change in diversification, with the single and twenty largest depositors accounting for 9.3% and 27.1% respectively at FY19 (FY18: 6.9% and 38.0%). Also, the maturity profile of the book remains short, with the entire book maturing within one year. However, the fact that a sizeable portion of deposits are typically rolled over at maturity provides some level of comfort. For FY20, Management forecasts 10%-15% growth in customer deposits for FY20, to be driven by enhanced competitive capacity in retail funds mobilisation. Total deposits grew 12.9% to N731.1bn at 1Q FY20, with the preferred low-cost deposits constituting the bulk (85.8%).

Capital adequacy

Stanbic IBTC's capitalisation is considered satisfactory for its current risk level. Shareholders' funds grew by 18.1% to N203.2bn at FY19, underpinned by strong internal capital generation.

Table 2: Competitive position* Stanbic IBTC vs. selected banks	Fidelity	UBN	Stanbic IBTC	FCMB	Sterling
Year end 31 December 2019					
Shareholders' funds (N'bn)	234.0	252.3	203.2	175.1	119.6
Total assets (N'bn)†	2,063.1	1,836.6	1,773.3	1,593.4	1,167.9
Net loans (N'bn)	1,127.0	550.6	532.1	693.0	618.7
Profit after tax (N'bn)	28.4	24.4	52.5	13.6	10.6
Total capital/Total assets (%)	12.8	15.3	13.2	15.3	13.9
Liquid & trading assets/total short-term funding (%)	31.8	50.3	54.8	20.3	26.9
Gross NPL ratio (%)	3.3	5.8	3.9	3.6	2.2
Net interest margin (%)	5.7	5.7	6.8	7.6	7.9
Cost ratio (%)	76.6	74.5	54.4	70.3	81.2
ROaE (%)	13.3	10.5	28.0	9.8	9.8
ROaA (%)	1.5	1.5	3.1	1.1	0.9

*Ranked by total assets. †Excludes balances held in respect of letters of credit

Source: Audited Financial Statements

However, firmer growth in risk weighted assets saw the CAR moderate to 19.4% at FY19 (FY18: 21.0%), ending further down at 17.4% at 1Q FY20 (albeit remains well above the regulatory minimum of 10% for a national licensed bank). The robust capital base provides sizeable headroom for absorption of inherent credit losses that may stem from the challenging operating environment.

Table 4: Capitalisation	FY18 N'bn	FY19 N'bn
Total qualifying Tier 1	144.6	167.8
Total qualifying Tier 2	31.9	29.7
Total regulatory capital	**176.5**	**197.5**
Total risk weighted assets	**838.8**	**1,018.4**
RWCAR (%)	**21.0**	**19.4**

Source: Stanbic IBTC AFS

Borrowings

The bank's borrowing book expanded by 52.3% to N198.8bn at FY19, comprising debt securities and borrowings from international and domestic financial institutions. Debt securities increased by a notable 76.1% to N106.7bn at FY19, mainly propelled by CP issuances during the year. The CPs were issued in two tranches of USD27 million and N36.7bn under the established N100bn multicurrency CP programme. Similarly, other borrowings increased by 31.9% to N92.2bn at FY19 on account of additional credit line of USD40m from Standard Bank Isle of Man, as well as intervention funds granted by Nigerian government-owned financial institutions (CBN and Development Bank of Nigeria). CBN Real Sector Support Facility for on-lending to qualified customers was obtained at an interest rate of 3%, for a period of seven years. An analysis of the borrowing book by currency reveals that 40% of the borrowings were foreign currency ("FCY") denominated and 26.8% of total borrowings matures within one year.

Table 5: Borrowings	FY18 N'bn	FY19 N'bn
Debt securities	60.6	106.7
Other borrowings	**69.9**	**92.2**
Netherland Development Finance Institution	10.1	-
Africa Development Bank	0.6	0.5
Nigeria Mortgage Refinancing Company	3.1	3.9
Bank of Industry	2.5	1.9
Standard Bank Isle of Man	43.8	54.2
CBN Com. Agric. Credit Scheme	9.7	10.3
CBN Real Sector Support Financing	-	11.7
Development Bank of Nigeria	-	9.8
Total	**130.5**	**198.8**

Source: Stanbic IBTC AFS

Liquidity positioning

Stanbic IBTC's liquidity profile appears strong, with the statutory liquidity ratio ranging between 62.2% and 132.2% throughout FY19, significantly surpassing the 30% regulatory minimum. Particularly, the ratio of liquid and trading assets to total short-term funding of 54.8% at FY19 (FY18: 63.7%) is considered strong and compared favourably with peers' average. Although the contractual mismatch of assets and liabilities is systemic to the Nigerian banking sector due to the short-dated nature of deposits, the roll-over nature of deposits at maturity and the fact that the bank holds a sizeable portion of its assets in cash and liquid investment securities, provides adequate comfort regarding liquidity risk.

Operational profile

Risk management

Stanbic IBTC continually strengthens its risk management framework, through the implementation of stringent risk control measures, as well as enhancing loan recovery mechanisms. Per management, the bank regularly reviews its risk acceptance criteria in line with industry and economic realities, and also ensures necessary risk mitigants are timely activated to cushion any adverse impact on its asset quality and capital base.

Asset composition

Stanbic IBTC's asset base expanded by 12.6% to N1.8tn at FY19 and accelerated to N2.3tn at 1Q FY20, underpinned by enhanced funding. Asset mix skewed towards loans and advances, as the bank increased its risk appetite to comply with CBN's prescribed 65% LDR. As a result, net advances grew by 23% to N532.1bn at FY19 and constituted a higher 30% (FY18: 27.5%) of total assets. On the other hand, cash and liquid assets declined to N778.4bn (FY18: N877.8bn), albeit still dominating the asset base at 43.9% at the balance sheet date. Note is also taken of the significant growth in pledged assets (made up of treasury bills) to N232.0bn from N142.5bn in prior year.

Table 6: Asset mix	FY18 N'bn	FY18 %	FY19 N'bn	FY19 %
Cash and liquid assets	**877.8**	**55.8**	**778.4**	**43.9**
Cash	*102.3*	*6.5*	*26.7*	*1.5*
Liquidity reserve deposits	*228.6*	*14.5*	*258.4*	*14.6*
Treasury bills and bonds	*441.9*	*28.1*	*348.1*	*19.6*
Balances with other banks	*105.0*	*6.7*	*145.2*	*8.2*
Net advances	432.7	27.5	532.1	30.0
Property, plant and equipment	18.0	1.1	24.0	1.4
Pledged assets	142.5	9.0	232.0	13.1
Other assets	104.2	6.6	206.9	11.7
Total*	**1,575.2**	**100.0**	**1,773.3**	**100.0**

*Excludes client balances held in respect of letters of credit

Source: Stanbic IBTC AFS

Contingencies

Off-balance sheet commitments stood at N173.3bn at FY19 (FY18: N146.5bn), representing 74.1% of the bank's total capital at year-end (FY18: 72.4%). The portfolio comprised: letters of credit (54.1%), and bonds and guarantees (45.9%).

Loan portfolio

Gross loans and advances grew by 21.2% to N556.4bn at FY19 and further to N640.4bn at 1Q FY20 (translating to a significantly improved LDR of 71.5%). Sectoral distribution of the book reflects some degree of diversification across critical economic sectors, albeit tilted towards the challenged oil and gas sector (which doubled to 29.5% of the loan portfolio at FY19). Further analysis of this exposure reveals that 14% were in the upstream sector, while the downstream and oil services sectors constituted 10% and 5% respectively of the loan portfolio at FY19. While GCR takes cognisance of Stanbic IBTC's risk-mitigating measures (particularly hedging of sizeable portion of its facilities to this sector), the dwindling global crude oil prices and economic headwinds could elevate the bank's credit risk over the short to medium term. Furthermore, concentration risk by obligor is considered high, with the single and twenty largest obligors constituting 5.2% and 52.7% of gross loans and advances at FY19. An analysis of the loan book by currency reveals that a substantial 45% were FCY denominated.

Table 7: Loan book characteristics (%)			
By sector:		**FY18**	**FY19**
Agriculture		8.2	5.7
Oil and gas		15.4	29.5
Construction and Real estate		9.5	8.0
Wholesale and retail trade		7.9	6.7
Public sector		7.1	6.1
Transportation		1.0	0.7
Manufacturing		35.5	27.6
IT and Communication		1.8	3.8
Private households		11.2	10.2
Others		2.4	1.7
Largest exposures:	**%**	**By Product:**	**%**
Single largest	5.2	Overdrafts	9.5
Five largest	22.6	Term loans	88.1
Ten largest	35.1	Others	2.4
Twenty largest	52.7		

Source: Stanbic IBTC

Reflective of the fact that term loans constitute a sizeable portion of the loan book, the maturity profile of the portfolio was fairly long, with 59.8% maturing after the twelve-month maturity band. Management projects 15%-20% growth in loan portfolio in FY20, with a cautious lending approach (particularly focusing on sectors considered to be less susceptible to the current economic challenges).

Foreign currency exposure

Stanbic IBTC is exposed to foreign exchange risks through its FCY denominated portfolios, heightened by the strong potential for naira devaluation. Total net FCY exposures stood at N258.9bn at FY19, representing a substantial 127.4% of shareholders' funds at year-end. Although management strongly believes that an effective matching of related assets and liabilities would mitigate FCY risk somewhat. That said, GCR envisages that the prevalent volatility in the Nigerian FX market could impact the bank's FCY exposures in the short-term pending market stabilisation.

Table 8: Net FCY position (FY19)	USD N'bn	GBP N'bn	EUR N'bn	Others N'bn	Total N'bn
Financial assets	339.5	5.3	18.3	4.8	367.9
Financial liabilities	(596.0)	(5.2)	(21.2)	(4.4)	(626.8)
Net	**(256.5**	**0.1**	**(2.9)**	**0.4**	**(258.9)**

Source: Stanbic IBTC AFS

Asset quality

The bank's gross NPL increased by 21.9% to N21.6bn at FY19 and expanded to N26.7bn at 1Q FY20, with agricultural, oil and gas sectors, reflecting higher pressure. Specifically, a significant 41% of NPL was in the agricultural sector, while private households, real estate & construction, and transportation sectors constituted 17.8%, 15.9% and 15.1% respectively at FY19. However, the impact of the elevated NPL was overshadowed by a more rapid growth in loans and advances. As such, gross NPL ratio remained relatively flat at 3.9% at FY19 and rose to 4.2% at 1Q FY20, albeit remaining within CBN's tolerable limit of 5%. Furthermore, total loan loss provision coverage of impaired loans remains adequate at 112.5% at FY19 (FY18: 135%). Going forward, GCR believes the bank could witness some asset quality pressures, given the challenging operating conditions, combined with its significant (29.5%) exposures to the highly challenged oil and gas sector.

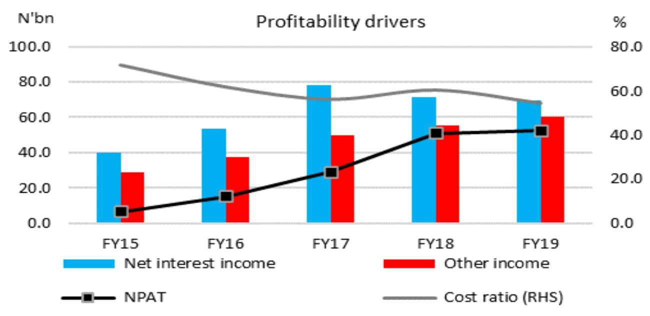
Table 9: Asset quality (N'bn)	FY18	FY19
Gross advances	**458.9**	**556.4**
Performing	*441.2*	*534.8*
Impaired	*17.7*	*21.6*
Provision for impairment	**(23.8)**	**(24.3)**
12-month ECL	(4.2)	(4.9)
Lifetime ECL not credit-impaired	(8.8)	(5.6)
Lifetime ECL credit-impaired	(10.8)	(13.8)
Interest in suspense	(2.3)	-
Net NPL	**(6.1)**	**(2.7)**
Gross NPL ratio (%)	3.9	3.9

Source: Stanbic IBTC AFS

Financial performance and prospects

A five-year financial synopsis, together with three months unaudited management accounts to 31 March 2020, is reflected on page 8 of this report, supplemented by the commentary below.

The bank's performance was mainly supported by non-interest income (particularly trading income) and effective cost management in FY19, as net interest income declined by 2.6% to N69.8bn. Non-interest income increased by 9%, underpinning the recorded 2.5% growth in total operating income to N130.3bn. Impairment charge amounted to N1.7bn in FY19 against N3.0bn write back in the prior year. On the other hand, operating expenses moderated by 7.7% to N70.9bn, translating to an improved cost to income ratio of 54.4% in FY19 (FY18: 60.4%). According to management, the recorded decline in operating expenses was largely driven by moderation in staff-related cost due to reduction in provision for shares backed incentives, which are sensitive to variability in the Holdco's share price.



Source: Stanbic IBTC AFS

Consequently, pre-tax profit grew by 8.3% to N57.7bn in FY19, although translated to a relatively lower ROaE and ROaA of 28.0% and 3.1% (FY18: 32.7% and 3.6%) respectively due to enlarged capital and asset base.

Table 10: 1Q FY19 Vs 1Q FY20 (N'bn)	Actual FY19	Actual 1Q FY19	Actual 1Q FY20	% Change
Statement of comprehensive income				
Net interest income	69.8	18.2	17.0	(6.6)
Other income	60.4	16.0	19.6	22.5
Total income	**130.3**	**34.2**	**36.6**	**7.0**
Impairment charge	(1.7)	1.4	(1.9)	n.a
Operating expenses	(70.9)	(20.8)	(20.0)	(3.8)
NPBT	**57.7**	**14.8**	**14.7**	**(0.7)**
Statement of financial position				
Customer deposits	647.5	770.3	731.1	(5.1)
Net advances	532.1	413.5	614.3	48.6
Shareholders' funds	203.2	188.8	215.7	14.2
Total assets*	1,773.3	1,487.2	2,304.8	55.0

*Excludes balances held in respect of letters of credit
Source: Stanbic IBTC

Stanbic IBTC recorded a pre-tax profit of N14.7bn for the three-month period ended 31 March 2020, representing a slight decline from the corresponding period in 2019. Going forward, GCR believes the bank's earnings performance could be somewhat impacted by an expected rise in impairment charge, lower yields environment, reduction in bank charges, contractionary monetary policy stance, as well as the current macroeconomic challenges. Furthermore, the slowdown in economic activities and weak macroeconomic fundamentals could pose a significant challenge on the debt serviceability of obligors, thus raising asset quality and profitability concerns over the short to medium term.

Stanbic IBTC Bank PLC

(Naira in millions except as noted)

Year Ended: 31 December						
Statement of Comprehensive Income Analysis	**2015**	**2016**	**2017**	**2018**	**2019**	**^1Q 2020**
Interest income	79,231	83,267	116,438	112,452	113,070	26,048
Interest expense	(39,151)	(29,927)	(38,429)	(40,747)	(43,224)	(9,072)
Net interest income	**40,080**	**53,340**	**78,009**	**71,705**	**69,846**	**16,976**
Other income	28,927	37,724	49,658	55,447	60,444	19,629
Total operating Income	**69,007**	**91,064**	**127,667**	**127,152**	**130,290**	**36,605**
Impairment charge	(14,931)	(19,803)	(25,577)	2,988	(1,664)	(1,923)
Operating expenditure	(49,597)	(56,354)	(71,745)	(76,833)	(70,884)	(19,975)
Net profit before tax	**4,479**	**14,907**	**30,345**	**53,307**	**57,742**	**14,707**
Tax	1,753	123	(1,503)	(2,517)	(5,233)	(546)
Net profit after tax	**6,232**	**15,030**	**28,842**	**50,790**	**52,509**	**14,161**
Other comprehensive income / (expenses)	2,390	(636)	3,556	(2,255)	871	(1,670)
Total Comprehensive Income	**8,622**	**14,394**	**32,398**	**48,535**	**53,380**	**12,491**
Statement of Financial Position Analysis						
Subscribed capital	44,344	44,344	44,344	44,344	44,344	44,344
Reserves (incl. net income for the year)	50,573	64,973	94,356	127,675	158,893	171,384
Hybrid capital (incl. eligible portion of subordinated term debt)	23,699	27,964	29,046	30,414	30,463	31,052
Total capital and reserves	**118,616**	**137,281**	**167,746**	**202,433**	**233,700**	**246,780**
Bank borrowings (incl. deposits, placements & REPOs)	95,446	53,766	61,721	160,272	248,902	444,965
Deposits	497,544	568,668	775,258	839,469	647,455	731,127
Other borrowings	33,800	33,036	52,624	19,056	53,314	67,821
Short-term funding (< 1 year)	**626,790**	**655,470**	**889,603**	**1,018,797**	**949,671**	**1,243,913**
Deposits	35	5	4	4	1	-
Other borrowings*	47,307	46,597	22,268	81,043	115,046	102,320
Long-term funding (> 1 year)	**47,342**	**46,602**	**22,272**	**81,047**	**115,047**	**102,320**
Payables/Deferred liabilities	80,629	112,984	205,972	272,893	474,909	711,819
Other liabilities	**80,629**	**112,984**	**205,972**	**272,893**	**474,909**	**711,819**
Total capital and liabilities	**873,377**	**952,337**	**1,285,593**	**1,575,170**	**1,773,327**	**2,304,832**
Balances with central bank	104,083	109,590	171,340	228,572	258,388	423,301
Property, Plant and Equipment	21,991	19,668	18,602	18,004	23,988	23,937
Derivative financial assets	911	14,317	11,052	30,286	32,871	90,054
Receivables/Deferred assets (incl. zero rate loans)	111,363	68,657	92,846	216,447	405,971	371,008
Non-earnings assets	**238,348**	**212,232**	**293,840**	**493,309**	**721,218**	**908,300**
Short-term deposits & cash	36,503	66,299	36,853	102,334	26,660	42,482
Loans & advances (net of provisions)	353,513	352,965	372,089	432,713	532,124	614,337
Bank placements	62,938	87,267	154,802	104,964	145,183	139,159
Marketable/Trading securities	182,075	233,574	428,009	441,850	348,142	600,554
Total earning assets	**635,029**	**740,105**	**991,753**	**1,081,861**	**1,052,109**	**1,396,532**
Total assets†	**873,377**	**952,337**	**1,285,593**	**1,575,170**	**1,773,327**	**2,304,832**
Contingencies	**49,973**	**54,143**	**153,377**	**146,481**	**173,255**	**177,549**
Ratio Analysis (%)						
Capitalisation						
Internal capital generation	9.1	13.2	23.4	28.2	26.3	23.2
Total capital / Net advances + net equity invest. + guarantees	29.4	33.7	31.9	35.0	33.1	31.2
Total capital / Total assets	13.6	14.4	13.0	12.9	13.2	10.7
Liquidity‡						
Net advances / Deposits + other short-term funding	56.4	53.8	41.8	42.5	56.0	49.4
Net advances / Total funding (excl. equity portion)	52.4	50.3	40.8	39.3	50.0	45.6
Liquid & trading assets / Total assets	32.2	40.7	48.2	41.2	29.3	33.9
Liquid & trading assets / Total short-term funding	44.9	59.1	69.7	63.7	54.8	62.9
Liquid & trading assets / Total funding (excl. equity portion)	41.8	55.1	68.0	59.0	48.8	58.1
Asset quality						
Impaired loans / Gross advances	7.1	5.0	7.9	3.9	3.9	4.2
Total loan loss reserves / Gross advances	6.8	6.0	7.9	3.1	5.5	2.2
Bad debt charge (income statement) / Gross advances (avg.)	3.8	5.4	6.8	(0.7)	0.3	0.3
Bad debt charge (income statement) / Total operating income	21.6	21.7	20.0	(2.3)	1.3	5.3
Profitability						
Net income / Total capital (avg.)	7.5	11.2	21.2	26.2	24.5	5.2
Net income / Total assets (avg.)	1.0	1.6	2.9	3.4	3.2	0.6
Net interest margin	5.9	8.1	9.3	7.2	6.8	5.6
Interest income + com. fees / Earning assets + guarantees (a/avg.)	5.3	6.8	7.8	5.9	5.6	1.2
Non-interest income / Total operating income	41.9	41.4	38.9	43.6	46.4	53.6
Non-interest income / Total operating expenses (or burden ratio)	58.3	66.9	69.2	72.2	85.3	98.3
Cost ratio	71.9	61.9	56.2	60.4	54.4	54.6
OEaA (or overhead ratio)	5.6	6.2	6.4	5.4	4.2	1.0
ROaE	6.8	14.7	23.3	32.7	28.0	27.0
ROaA	0.7	1.6	2.6	3.6	3.1	2.8
Nominal growth indicators						
Total assets	(3.4)	9.0	35.0	22.5	12.6	30.0
Net advances	(11.3)	(0.2)	5.4	16.3	23.0	15.4
Shareholders funds	8.1	15.2	26.9	24.0	18.1	6.1
Total capital and reserves	7.1	15.7	22.2	20.7	15.4	5.6
Deposits (wholesale)	(2.0)	14.3	36.3	8.3	(22.9)	12.9
Total funding (excl. equity portion)	5.8	4.1	29.9	20.6	(3.2)	26.4
Net income	(57.5)	66.9	125.1	49.8	10.0	(6.4)

† Excludes client's balances held in respect of letters of credit.
‡ Please note that for these ratios, liquid assets exclude the mandatory deposit with CBN.
*Includes senior unsecured debt
^Unaudited three-month accounts to 31 March 2020

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings 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; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document

The ratings were solicited by, or on behalf of, Stanbic IBTC Bank PLC, and therefore, GCR has been compensated for the provision of the ratings.

Stanbic IBTC Bank PLC participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to Stanbic IBTC Bank PLC with no contestation of/changes to the ratings.

The information received from Stanbic IBTC Bank PLC and other reliable third parties to accord the credit rating included the latest audited annual financial statements as at 31 December 2019 (plus four years of comparative numbers), latest internal and/or external audit report to management, full year detailed budgeted financial statements for 2020, most recent year-to-date unaudited management accounts to 31 March 2020, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.