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Stanbic IBTC Bank PLC

Nigeria Bank Analysis **September 2017**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	AA-(NG)	Stable	August 2018
Short-term	National	A1+(NG)		

Financial data:

(USDm comparative)ǂ

	31/12/15	31/12/16
NGN/USD (avg.)	197.0	256.0
NGN/USD (close)	197.0	305.3
Total assets	4,433.4	3,119.9
Primary capital	481.8	358.1
Secondary capital	120.3	91.6
Net advances	1,794.5	1,156.3
Liquid assets	1,958.0	1,626.0
Operating income	350.3	355.7
Profit after tax	31.6	58.7
Market cap.*	N395.0bn/USD1.3bn	
Market share**	3.1%	

ǂCentral Bank of Nigeria ("CBN") exchange rate.
*For Stanbic IBTC Holdings Plc at 21 Sept. 2017.
**Based on industry assets at 31 December 2016.

Rating history:

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

Last rating (March 2017)
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

Nigerian Financial Institution Overview, 2017

Stanbic rating reports (2006-17)

Glossary of Terms/Ratios, February 2016

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Summary rating rationale

- Stanbic IBTC Bank PLC ("Stanbic" or "the bank") is a wholly owned subsidiary of Stanbic IBTC Holdings PLC ("the Holdco" or "the group"), which is a member of the Standard Bank Group ("SBG"). While the bank competes favourably with other mid-sized banks in Nigeria, relatively maintaining a market share of 3.1% in terms of total industry assets at FY16 (FY15: 3.2%), a key rating strength is the implied financial, risk management and technical support from its ultimate parent, SBG. SBG is the largest banking group in Africa, in terms of total assets and earnings.
- Capitalisation is considered strong for the current risk level, with the bank reporting a regulatory risk weighted capital adequacy ratio ("CAR") of 20.2% and 21.0% at 1H FY17 and FY16 respectively, against the required minimum of 10% for national licensed banks. While shareholders' funds continued to rise year-on year to N109.3bn at FY16 as a result of strong internal capital generating capacity, capitalisation is further enhanced by subordinated debt securities amounting to N28bn at FY16.
- The gross non-performing loan ("NPL") ratio declined to 5.0% at FY16 (FY15: 7.1%), following a loan portfolio clean up. The bank took advantage of CBN waiver which allowed banks to write-off fully provisioned loans in FY16. Notwithstanding this, continued asset quality pressure saw the bank's gross NPL ratio rise to 7.8% at 1H FY17. Specific provision covered 46.1% of gross NPLs at 1H FY17 (FY16: 59.9%).
- Stanbic maintained a high liquidity profile in FY16, with the regulatory liquidity ratio ranging between 65.5% and 95.5% and averaging 78.9%, well above the required minimum of 30%. Average liquidity ratio for 1H FY17 was 86.7%.
- The bank reported a pre-tax profit of N14.9bn for FY16, which was up 232.8% from FY15. A positive earnings trend was also reflected at 1H FY17, with pre-tax profit of N14.3bn. While net interest income was largely supported by improved investment yields and funding costs, non-interest income was driven by increase in net fees and commission income at FY16 and then by trading activities at 1H FY17. The cost to income ratio decreased to 61.9% in FY16 and further to 53.3% at 1H FY17 (FY15: 71.9%). As such, profitability indicators improved significantly during the review period, with the ROaE and ROaA rising to 14.7% (FY15: 6.8%) and 1.6% (FY15: 0.7%) in FY16 respectively.

Factors that could trigger a rating action may include

Positive change: Maintaining strong financial metrics in terms of profitability, asset quality and capitalisation, and a further strengthening of the bank's competitive position in the domestic market, would be favourably considered.

Negative change: The ratings are sensitive to a sharp deterioration in key asset quality indicators, earnings, capital adequacy and liquidity, as well as a reduction in the assessment of shareholder support.

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Organisational profile

Corporate summary[1]

Stanbic commenced operations in 1989 and legally 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 which is the flagship brand of the group was delisted from the Nigerian Stock Exchange and became licensed as a national commercial bank, transferring most of its subsidiaries to the Holdco.

Currently, Stanbic has two wholly owned subsidiaries, namely: Stanbic IBTC Nominees Limited and Stanbic IBTC Bureau De Change Limited.

Ownership structure

As a wholly owned subsidiary, Stanbic's shares are controlled by the Holdco, with only one share held by Mr. Yinka Sanni, as a nominee shareholder. Table 1 reflects the ownership structure of the Holdco at 31 December, 2016.

Table 1: Major shareholders (Holdco)	% Holding
Stanbic Africa Holdings Limited*	53.2
First Century International Limited	7.5
Other shareholders (All < 5%)	39.3
Total	**100.0**

*A member of SBG. Source: Stanbic.

Strategy and operations

Stanbic's primary activities include: corporate, personal and business banking, bureau de change, custodian services and non-interest banking operations. One of the bank's strategic objectives is to rank among the top five banks in Nigeria, in terms of market share, service delivery and return on equity by 2023.

During 2016, Stanbic continued to deepen penetration into the retail segment, classified under its personal and business banking ("PBB") division, using various digital means. The bank increased its various digital platforms and also launched its first digital branch in Lagos during the period under review. Going forward, the focus is to increase digital adoption and penetration, deepen customer relationship and service delivery to enhance growth.

At 31 December 2016, the bank had a total branch network of 178, with a staff complement of 1,973 (FY15: 1,773). The core operation IT platform remains Finacle Banking Software.

Governance structure

Stanbic is governed in line with CBN's code of corporate governance for banks in Nigeria and SBG's governance principles of international best practices.

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

At 31 December 2016, the number of members on the Board of Directors ("the board") comprised ten members, made up of four executive directors (including the Chief Executive) and six non-executive directors (which includes the Chairman). Key board appointments during the period include the appointment of a new Chief Executive ("CE"), Dr. Demola Sogunle with effect from January 2017, following the move of the previous CE to the Holdco (albeit, he continues to serve as a non-executive director of the bank). Also, two of the directors resigned during 2016 (one of whom was independent), leaving the bank with only one independent director, although a replacement is expected during FY17.

The board meets quarterly and as required. The board has five standing committees through which it performs its oversight function, namely: credit, risk management, audit, remuneration and nomination committees. Also, the bank has in place a statutory audit committee. While these committees have authority to examine particular issues and report back to the board with their decisions and/or recommendations, the ultimate responsibilities on all matters lies with the board.

Financial reporting

Stanbic's financial statements were prepared in accordance with all relevant and applicable laws, provisions and guidelines, and International Financial Reporting Standards. The bank's external auditor, KPMG, issued an unqualified opinion on the 2016 financial statements.

Operating environment[2]

Economic overview

Nigeria's macroeconomic fundamentals remained unstable throughout 2016 and the start of 2017, owing to the weak global price of crude oil, which has severely affected the country's foreign reserve levels and fiscal planning capacity. This, in turn led to the significant fall in the value of the Naira against the US dollar, which further heightened economic uncertainty. According to the National Bureau of Statistics, the nation's real Gross Domestic Product ("GDP") contracted by 1.5% in 2016 (compared to 2.8% and 6.2% growth recorded in 2015 and 2014 respectively), placing the country in a recession. The negative trend was exacerbated by the resurgence of hostilities in the Niger Delta region (which affected crude oil production outputs in the early part of 2016) and the impact of reduced forex earnings on the economy. As such, inflation rose markedly from 9.5% at end-December 2015 to 18.7% at end-January 2017, before easing slightly to 16.1% at end-June 2017.

[2] Refer to GCR's 2017 Nigerian Financial Institutions Overview for an overview of selected economic and industry developments.

In addition to retaining its restrictive policy that denied access to forex (from the official CBN window) for 41 items, in June 2016, the CBN jettisoned the exchange rate peg to the USD in favour of a flexible exchange rate policy, in order to mitigate the forex shortages and stimulate broader economic activity. Despite these interventions, the Naira remained under pressure, with the restrictive forex regime affecting many manufacturers, as they were unable to effectively fund raw material purchases, given the inadequate forex supply, which drove higher exchange rates in the parallel market (above N500/USD in February 2017). Pressure on the Naira appears to have eased in recent weeks (below N400/USD) as the CBN has maintained liquidity in the forex market, but increased demand for forex for the items on the restricted list could limit the gains recorded. The CBN has left the monetary policy rate unchanged at 14% (since July 2016), while the cash reserve ratio at 22.5% and the liquidity ratio at 30% have also been maintained, in line with efforts to combat inflation and maintain price stability.

Given the current macroeconomic challenges, prospects for growth remain mixed over the short to medium term. Both the International Monetary Fund and World Bank expect the economy to record a modest rebound in 2017 (of 0.8% and 1.2% respectively). Similarly, the Federal Government of Nigeria (“FGN") projects that accelerated infrastructural spend and the diversification of earnings would drive an increase in economic activities, thereby, resulting in an overall GDP growth in 2017. This is detailed in the Economic Recovery and Growth Plan (“ERGP”) 2017-2020, as released by the Ministry of Budget and National Planning. The ERGP centres on achieving macroeconomic stability and economic diversification, in order to boost non-oil revenues, with focus on key sectors ie, agriculture and food security, energy, transportation and manufacturing. The ERGP will aim to reduce the level of dependence on imports, while increasing revenue from a diversified stream of export activities. Overall, it seeks to achieve a robust 7% economic growth by end 2020.

Industry overview

At 31 December 2016, Nigeria’s financial sector comprised 21 commercial banks, one non-interest bank, four merchant banks and over 4,000 other financial institutions. The commercial banks include 10 international, nine national, and two regional banks. Keystone Bank, under Asset Management Corporation of Nigeria (“AMCON”) management since 2009, was sold to the Sigma Golf-Riverbank consortium (ie, Sigma Golf Nigeria Limited and Riverbank Investment Resources Limited) in March 2017. Nigeria’s eight largest banks (excluding Stanbic) accounted for about 70% of total industry assets at 31 December 2016.

Banking sector core earnings saw downward pressure in 2016, driven by margin compression, deteriorating asset quality, and moderating forex volumes. Per CBN statistics, total banking sector assets stood at N31.7tn at end-December 2016 (2015: N28.2tn), while credit exposure increased 18.1% to N21.5tn. Oil and gas remained the dominant sector at end-December 2016, accounting for around 30% of the Nigerian banking sector’s credit portfolio. The banking sector’s aggregate gross NPL ratio rose to 14.0% at end-December 2016 (2015: 5.3%) and to 15.2% by April 2017, exceeding the prudential tolerable limit of 5.0% and signalling a significant weakening in asset quality across the industry (though largely driven by outliers). While CBN has allowed banks to write-off fully provisioned NPLs since July 2016, GCR expects the industry NPL ratio to remain high and above the regulatory limit in 2017, given continuing increases in delinquencies in some sectors. Sectors which exhibit asset quality stress include: (i) the oil and gas sector (ii) the middle market, which was an area of lending focus in 2016, and features over-reliance on forex for business, (iii) the power sector (which continues to face high debt burdens and low capacity to generate sufficient cash flows due to poor infrastructure/management issues) and, more recently (iv) telecommunications.

The industry average CAR reduced to 12.8% at April 2017, from 13.9% at end-December 2016 (2015: 16.1%), and some players began to fall below the minimum threshold required by regulation. Downward pressure on banks’ capitalisation levels has, for the most part, resulted from the devaluation of the Naira, as well as (oftentimes related) asset quality concerns. Naira devaluation has increased pressure on banks’ already moderating capital buffers, given the expansionary effect it has on forex denominated loans, and consequently on banks’ risk-weighted asset balances.

Challenges for Nigerian banks and other financial institutions persist in 2017, given ongoing macroeconomic uncertainties. In view of the current pressure on capital adequacy, banks are likely to raise additional capital (via debt or equity issues) to absorb additional losses and meet regulatory capital requirements.

Part of government’s effort in terms of risk management is the recent passing into law of the Collateral Registry Act 2017, which is expected to address the issue of security (collateral) realisation by financial institutions; as well as the Credit Reporting Act 2017, which will facilitate and promote access to accurate, fair and reliable credit information.

Competitive position

Table 2 compares selected ratios of Stanbic with peers at 31 December 2016. Despite a tough economic climate, the bank's profitability metrics (profit after tax and ROaE) ranked among the highest. Also, NPL and cost ratio compares favourably with peers (albeit, NPL was largely driven by the CBN clean-up window). The bank's total asset market share was 3.1% at FY16 (FY15: 3.2%).

Financial profile

Likelihood of support

Stanbic enjoys adequate support from its ultimate parent, SBG. In GCR's opinion, SBG's support if ever needed is likely to be high given the considerable importance of the Nigerian market to SBG.

Funding composition

The bank's funding profile is shown in Table 3.

Table 3: Funding composition	FY15 N'bn	FY15 %	FY16 N'bn	FY16 %
Customers deposits	497.6	62.8	568.7	67.8
Interbank funding	95.4	12.0	53.8	6.4
Debt securities	23.7	3.0	28.0	3.3
Other borrowings	81.1	10.2	79.6	9.5
Equity	94.9	12.0	109.3	13.0
Total	**792.7**	**100.0**	**839.4**	**100.0**

Source: Stanbic AFS.

Customer deposits and interbank funding

Customer deposits grew by 14.3% to N568.7bn at FY16 and further by 13.8% to N647.1bn at 1H FY17, supported by successful liability generation initiatives through the retail platform. As a result, demand and savings accounts contributed a higher 65.1% and 68.6% of total deposits at FY16 and 1H FY17 respectively (FY15: 42.8%).

Deposits reflect a relatively short-dated maturity profile, in line with past trends and industry norm. In terms of concentration, the deposit book is fairly diversified, with the single and twenty largest depositors accounting for 5.2% and 29.1% of total deposits respectively. The bank displayed reduced reliance on interbank funding (see Table 4) which reduced by 43.7% to N53.8bn at FY16, on the back of customer deposit growth.

Table 4: Deposit Book Characteristics at FY16 (%)			
By type:		**By source:**	
Demand	58.3	Corporates	48.7
Savings	6.8	Private banking cust.	34.8
Term	33.7	Public sector	1.6
Others	1.2	Banking institutions	14.9
Concentration:		**Maturity:**	
Single largest	5.2	<1 month	87.5
Five largest	14.0	1-3months	10.8
Ten largest	20.6	3-12 months	1.8
Twenty largest	29.1	>1 year	-

Source: Stanbic AFS.

While management has projected a 10-15% growth in deposits for FY17, performance at 1H FY17 reflects 11.2% growth to N632.8bn, driven largely by current and savings deposits.

Capital adequacy

Shareholders' funds increased 15.2% to N109.3bn at FY16, representing a four year compound annual growth rate ("CAGR") of 14.2% underpinned by a sound earnings retention culture. In addition, the bank has subordinated debt securities which qualifies as Tier 2 capital, amounting to N28.0bn at FY16. Total regulatory CAR stood at 21.0% at FY16 (FY15: 18.4%), and remained strong at 20.2% at 1H FY17, well above the regulatory minimum of 10% for the bank's license category.

Table 5: Capitalisation	FY15 N'bn	FY16 N'bn
Tier 1	80.0	99.1
Tier 2	24.5	28.1
Total regulatory capital	**104.5**	**127.2**
Total risk weighted assets	**569.2**	**607.2**
Tier 1 capital: RWA (%)	14.1	16.3
Regulatory capital : RWA	18.4	21.0

Source: Stanbic AFS.

Table 2: Competitive position* Stanbic vs. selected banks	Fidelity	UBN	FCMB	Stanbic	Sterling
Year end 31 December 2016					
Tier I Capital (N'bn)	185.4	271.7	162.6	109.3	85.7
Total assets (N'bn)†	1,298.1	1,227.5	1,134.8	952.3	824.6
Net loans (N'bn)	718.4	507.2	659.7	353.0	468.3
Profit after tax (N'bn)	9.7	15.4	12.1	15.0	5.2
Total capital/Total assets (%)	23.7	22.1	16.3	14.4	12.0
Liquid & trading assets/total short-term funding (%)	24.3	20.3	10.6	59.1	5.8
Gross NPL ratio (%)	6.6	6.9	3.7	5.0	9.9
Net interest margin (%)	7.2	10.9	9.2	8.1	11.9
Cost ratio (%)	77.3	66.2	56.3	61.9	74.1
ROaE (%)	5.3	6.1	10.4	14.7	5.7
ROaA (%)	0.8	1.4	1.4	1.6	0.6

*Ranked by total assets. †Excludes balances held in respect of letters of credit. Source: Audited Financial Statements.

Borrowings

Debt securities: The bank has three subordinated debt securities (two naira-denominated notes and one USD-denominated), which totaled N28bn at FY16, indicating an 18% growth from FY15. The growth in the debt securities balance was largely driven by the naira devaluation.

Other borrowings: comprised on-lending borrowings from various development finance institutions and banks in Nigeria. While majority of the borrowings had not increased at FY16, most of the DFIs borrowings which are also dollar denominated were affected by FX movements.

Table 6: Other borrowings	FY15	FY16
FMO - Entrepreneurial Dev. Bank	8.9	11.6
Africa Development Bank	-	0.4
Bank of Industry	5.3	6.0
Standard Bank Isle of Man	37.2	50.5
CBN Com. Agric. Credit Scheme	9.3	11.1
Debt funding from banks	20.3	-
Total	**81.1**	**79.6**

Source: Stanbic AFS.

Liquidity positioning

The bank's liquidity position remained sound, as regulatory liquidity ratio ranged between 65.5% and 95.5% in FY16, and averaged 78.9% for the period (FY15: ranged between 37.9% and 57.1%, and averaged 49.0%), against the 30% required minimum.

Operational profile

Risk management

The bank's risk management framework is structured to ensure independence and appropriate segregation of duties between business and risk. As such, risk officers report separately to the group head of risk, who reports to the CE of the bank and also, through a matrix reporting line to SBG. Adjustments to the risk management processes are addressed on a continuous basis to align with various changes in the operating environment.

Asset composition

Total assets increased 9.0% to N952.3bn at FY16, given the sound inflow from deposits. As such, cash and liquid assets grew 28.7% and accounted for a significant 52.1% of the asset pool at FY16. Note is also taken of the relatively stable net advances figure (constituting a lower 37.1% of total assets at FY16), as the bank shifted focus towards less risky assets. Furthermore, the 5.3% growth in liquidity reserve evidenced the slight increase in CRR (which increased by 250 basis points) during FY16.

Stanbic's investment portfolio comprised largely of Treasury bills (over 90%), given the favourable returns during the period. Also, an analysis of the investment pool reflects a negligible N399m in unquoted equity, representing 'less than 0.1%' of the asset pool and relates to various entities.

Table 7: Asset mix	FY15		FY16	
	N'bn	%	N'bn	%
Cash and liquid assets	**385.7**	**44.2**	**496.3**	**52.1**
Cash	*36.5*	*4.2*	*66.3*	*7.0*
Liquidity reserve deposits	*104.1*	*11.9*	*109.6*	*11.5*
Treasury bills and bonds	*182.2*	*20.9*	*233.2*	*24.5*
Balances with other banks	*62.9*	*7.2*	*87.3*	*9.2*
Net advances	353.5	40.5	353.0	37.1
Property, plant and equipment	22.0	2.5	19.7	2.1
Other assets	112.2	12.8	83.4	8.8
Total	**873.4**	**100.0**	**952.3**	**100.0**

*Excludes client balances held in respect of letters of credit.
Source: Stanbic AFS.

Loan portfolio

The gross loans and advances book reflected a marginal (1.1%) decline to N375.3bn at FY16, as the bank adopted a cautious approach towards creation of risk assets, given the inherent risk in the operating environment. As such, sectorial distribution of the book remained largely unchanged with the three largest being; manufacturing, oil and gas and private individuals. The oil and gas sector was further broken-down to upstream, downstream and services comprising 43.4%, 44.4% and 12.2% respectively. Analysis of the book by obligor reflects a fairly diversified distribution, while the maturity distribution is also considered to be fairly balanced, with about 47.4% maturing within 12 months.

Table 8: Loan book characteristics			
By sector: (%)			**FY16**
Agriculture			7.8
Construction			10.1
IT & Telecom			6.0
Manufacturing			27.0
Oil & Gas			17.5
Public sector			3.9
Wholesale & retail trade			8.8
Individuals			14.0
Others			4.9
Largest exposures	**%**	**By maturity**	**%**
Single largest	3.8	<1 month	2.2
Five largest	15.3	1-3 months	28.5
Ten largest	28.2	3-12months	16.7
Twenty largest	45.0	>12 months	52.6

Source: Stanbic AFS.

Credit related contingencies/off-balance sheet assets

Off-balance sheet commitments grew 8.3% to N54.1bn, albeit remaining at a relatively stable 5.4% of total on- and off-balance sheet assets. Increase in off-balance sheet commitment was largely due to guarantees given to third parties on behalf of customers. Guarantees and letters of credits accounted for 71.2% and 28.8% of off-balance assets at FY16 respectively.

Asset quality

Gross impaired loans declined significantly by 30.9% to N18.7bn at FY16, as the bank took advantage of the CBN waiver which allowed banks to write-off NPLs that were fully provided for. Consequently, the gross NPL ratio declined to 5.0% at FY16 (FY15: 7.1%), at par with CBN's tolerable limit. However, cognisance is taken of the escalation in the gross NPL ratio to 7.8% at 1H FY17. Specific provision coverage of impaired loans stood at 59.9% at FY16 (FY15: 69.3%).

Table 9: Asset quality (N''bn)	FY15	FY16
Gross advances	**379.4**	**375.3**
Performing	*352.4*	*356.6*
Impaired	*27.0*	*18.7*
Provision for impairment	**(25.9)**	**(22.4)**
Individually impaired	(18.7)	(11.2)
Collectively impaired	(7.2)	(11.1)
Net NPL	**8.3**	**7.4**
Selected assets quality ratios:		
Gross NPL ratio (%)	7.1	5.0
Net NPL ratio (%)	2.4	2.1
Net NPLs/Capital (%)	7.0	5.4

Source: Stanbic AFS.

Financial performance and prospects

A five year financial synopsis, together with six months audited management accounts to 30 June 2017, is reflected on page 7 of this report, supplemented by the commentary below.

Interest income grew 5.1% to N83.3bn in FY16, underpinned by improved yields on investment securities. Meanwhile, interest expense declined significantly by 23.6% due to the improved funding mix, accelerating growth at the net interest income level to 33.1%. As such, net interest margin widened to 8.1% in FY16 (FY15: 5.9%). Total operating income was further supported by 30.4% growth in non-interest income, driven by growth in fees and commission income. Consequently, total operating income amounted to N91.1bn in FY16, representing 32.0% growth over FY15's level.

Given CBN's tolerance window which allows banks to write-off fully provisioned loans during the year, impairment charges rose 32.6% to N19.8bn during the year. Also, operating expenses increased by 13.6% to N56.4bn, driven by growth in staff and IT costs. However, the robust income growth suppressed its impact on cost to income ratio, which improved significantly to 61.9% (FY15: 71.9%), and compared favourably with peers. Profit before tax closed the year at N14.9bn, representing 232.8% growth from the previous year. With a tax credit of N123m, profit after tax stood at N15.0bn (FY15: N6.2bn). ROaE and ROaA rose to 14.7% (FY15: 6.8%) and 1.6% (FY15: 0.7%) in FY16 respectively.

Table 10: Budget Vs. actual results (N'bn)	Actual FY16	Budget FY17	Actual 1HFY17	% of * budget
Statement of Comprehensive Income				
Net int. income	53.3	61.6	38.6	125.2
Other income	37.7	36.0	22.0	122.3
Total income	**91.1**	**97.6**	**60.6**	**124.2**
Impairment charge	(19.8)	(15.6)	(14.0)	89.3
Operating expenses	(56.4)	(66.9)	(32.3)	96.7
Profit before tax	**14.9**	**15.1**	**14.3**	**189.6**
Statement of financial position				
Customer deposits	568.7	753.9	647.1	85.8
Advances to customers	353.0	461.7	368.0	79.7
Total assets	952.3	1,253.6	1,183.7	94.4
Shareholder's fund	109.3	110.5	122.9	111.2

*Annualised. Source: Stanbic.

Stanbic's 1H FY17 financial results were well ahead of budget on an annualised basis. While net interest income was driven by investment yields, non-interest income was supported by trading revenues, particularly from FX and fixed income trading. Operating expenses was in line with budget, but cost ratio was lower at 53.3%. Based on the 1H FY17 performance and the fact that yield on government securities remains high to date, the bank is likely to continue to benefit in the short term, thereby exceeding the FY16 performance and most likely the FY17 budget.

Stanbic IBTC Bank PLC

(Naira in millions except as noted)

Year Ended: 31 December Statement of Comprehensive Income Analysis	2012	2013	2014*	2015	2016	1H 2017
Interest income	56,421	60,529	69,649	79,231	83,267	53,212
Interest expense	(24,818)	(25,727)	(25,690)	(39,151)	(29,927)	(14,606)
Net interest income	**31,603**	**34,802**	**43,959**	**40,080**	**53,340**	**38,606**
Other income	21,125	26,426	31,371	28,927	37,724	22,001
Total operating income	**52,728**	**61,228**	**75,330**	**69,007**	**91,064**	**60,607**
Impairment charge	(6,895)	(2,667)	(3,217)	(14,931)	(19,803)	(13,953)
Operating expenditure	(42,069)	(49,087)	(47,046)	(49,597)	(56,354)	(32,330)
Net profit before tax	**3,764**	**9,474**	**25,067**	**4,479**	**14,907**	**14,324**
Tax	1,536	655	(3,216)	1,753	123	(671)
Net profit after tax	**5,300**	**10,129**	**21,851**	**6,232**	**15,030**	**13,653**
Other after-tax income / (expenses)	3,472	138	(1,579)	2,390	(636)	(80)
Total Comprehensive Income	**8,772**	**10,267**	**20,272**	**8,622**	**14,394**	**13,573**
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)	19,844	26,236	43,446	50,573	64,973	78,530
Hybrid capital (incl. eligible portion of subordinated term debt)	-	6,399	22,973	23,699	27,964	28,015
Total capital and reserves	**64,188**	**76,979**	**110,763**	**118,616**	**137,281**	**150,890**
Bank borrowings (incl. deposits, placements & REPOs)	26,632	51,686	59,121	95,446	53,766	48,619
Deposits	359,471	418,993	507,705	497,544	568,668	647,105
Other borrowings	5,025	2,926	13,466	33,800	33,036	33,006
Short-term funding (< 1 year)	**391,128**	**473,605**	**580,292**	**626,790**	**655,470**	**728,730**
Deposits	32	39	29	35	5	3
Other borrowings	61,848	45,838	56,685	47,307	46,597	58,488
Long-term funding (> 1 year)	**61,880**	**45,877**	**56,714**	**47,342**	**46,602**	**58,491**
Payables/Deferred liabilities	130,824	123,191	156,150	80,629	112,984	245,605
Other liabilities	**130,824**	**123,191**	**156,150**	**80,629**	**112,984**	**245,605**
Total capital and liabilities	**648,020**	**719,652**	**903,919**	**873,377**	**952,337**	**1,183,716**
Balances with central bank	40,520	51,603	91,615	104,083	109,590	127,631
Property, Plant and Equipment	23,989	21,948	20,839	21,991	19,668	19,099
Derivative financial assets	1,709	1,526	4,860	911	14,317	26,490
Receivables/Deferred assets (incl. zero rate loans)	48,987	46,808	55,881	111,101	68,657	132,477
Non-earnings assets	**115,205**	**121,885**	**173,195**	**238,086**	**212,232**	**305,697**
Short-term deposits & cash	15,443	16,379	20,213	36,503	66,299	50,700
Loans & advances (net of provisions)	266,344	289,747	398,604	353,513	352,965	367,956
Bank placements	65,998	130,135	30,029	62,938	87,267	99,349
Marketable/Trading securities	185,030	161,506	281,878	182,337	233,574	360,013
Total earning assets	**532,815**	**597,767**	**730,724**	**635,291**	**740,105**	**878,018**
Total assets†	**648,020**	**719,652**	**903,919**	**873,377**	**952,337**	**1,183,716**
Contingencies	**44,817**	**44,615**	**65,563**	**49,973**	**54,143**	**93,514**
Ratio Analysis (%)						
Capitalisation						
Internal capital generation	13.7	14.5	23.1	9.1	13.2	22.1
Total capital / Net advances + net equity invest. + guarantees	20.6	23.0	23.9	29.4	33.7	32.7
Total capital / Total assets	9.9	10.7	12.3	13.6	14.4	12.7
Liquidity‡						
Net advances / Deposits + other short-term funding	68.1	61.2	68.7	56.4	53.8	50.5
Net advances / Total funding (excl. equity portion)	58.8	55.8	62.6	52.4	50.3	46.7
Liquid & trading assets / Total assets	41.1	42.8	36.7	32.3	40.7	43.1
Liquid & trading assets / Total short-term funding	68.1	65.0	57.2	45.0	59.1	70.0
Liquid & trading assets / Total funding (excl. equity portion)	58.8	59.3	52.1	41.8	55.1	64.8
Asset quality						
Impaired loans / Gross advances	5.1	4.4	4.3	7.1	5.0	7.8
Total loan loss reserves / Gross advances	4.7	4.5	3.6	6.8	6.0	5.7
Bad debt charge (income statement) / Gross advances (avg.)	2.6	0.9	0.9	3.8	5.4	3.7
Bad debt charge (income statement) / Total operating income	13.1	4.4	4.3	21.6	21.7	23.0
Profitability						
Net income / Total capital (avg.)	13.1	14.5	21.6	7.5	11.2	9.4
Net income / Total assets (avg.)	1.5	1.5	2.5	1.0	1.6	1.3
Net interest margin	6.3	6.2	6.7	5.9	8.1	10.0
Interest income + com. fees / Earning assets + guarantees (a/avg.)	5.7	5.6	6.0	5.3	7.0	4.3
Non-interest income / Total operating income	40.1	43.2	41.6	41.9	41.4	36.3
Non-interest income / Total operating expenses (or burden ratio)	50.2	53.8	66.7	58.3	66.9	68.1
Cost ratio	79.8	80.2	62.5	71.9	61.9	53.3
OEaA (or overhead ratio)	7.1	7.2	5.8	5.6	6.2	3.0
ROaE	7.9	15.0	27.6	6.8	14.7	23.5
ROaA	0.9	1.5	2.7	0.7	1.6	2.6
Nominal growth indicators						
Total assets	22.1	11.1	25.6	(3.4)	9.0	24.3
Net advances	3.7	8.8	37.6	(11.3)	(0.2)	4.2
Shareholders funds	(7.9)	10.0	24.4	8.1	15.2	12.4
Total capital and reserves	(7.9)	19.9	43.9	7.1	15.7	9.9
Deposits (wholesale)	23.6	16.6	21.2	(2.0)	14.3	13.8
Total funding (excl. equity portion)	29.1	14.7	22.6	5.8	4.1	12.1
Net income	n.a.	17.0	97.4	(57.5)	66.9	88.6

*Restated figures.
† 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.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; d.) the validity of the rating 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 2016 (plus four years of comparative numbers), latest internal and/or external audit report to management, full year detailed budgeted financial statements for 2017, most recent year-to-date audited accounts to 30 June 2017, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.