GCR RATINGS

Credit Rating Report | Financial Institutions | June 2024[1]

Stanbic IBTC Bank Limited

Rated Entity	Rating class	Rating scale	Rating	Outlook
Stanbic IBTC Bank Limited	Long term issuer	National	$AAA_{(NG)}$	Stable
	Short term issuer	National	$A1+_{(NG)}$	

Analytical entity: Stanbic IBTC Holdings PLC

Stanbic IBTC Holdings PLC (Stanbic IBTC Holdings or the group), a non-operating holding company, was incorporated in March 2012 with operations that cut across diverse financial services such as banking, asset management, pension management, custodian services, insurance, trusteeship, stock broking among others. As at 31 December 2023, the combined assets under management of the pension and asset management subsidiaries registered at NGN7.3 trillion (USD8.1 billion), both subsidiaries maintaining leading positions in their respective segments.

Stanbic IBTC Bank Limited (Stanbic IBTC Bank or the bank) is the largest subsidiary within the group, accounting for 73.2% and 96.7% of operating revenue and total assets respectively as of 31 December 2023. The bank also has a wholly owned subsidiary, namely: Stanbic IBTC Nominees Limited. In line with GCR Ratings Framework, the creditworthiness of Stanbic IBTC Bank Limited (the legal entity being rated) reflects the strengths and weaknesses of Stanbic IBTC Holdings. Hence, we have adopted a group ratings approach in assigning a rating to Stanbic IBTC Bank, focusing on the business and financial profile of the group.

As a publicly listed company, Stanbic IBTC Holdings PLC is owned by diverse retail and institutional investors, the single largest shareholder being Standard Bank Group, with 67.55% equity stake as at 31 December 2023.

Credit profile summary

Strengths

- The group's strong presence in core banking and non-bank financial services, which supports product diversification and provides cross-selling opportunities
- Sound risk position with credit losses and non-performing loans (NPL) maintained below industry averages
- Stable funding and good liquidity position
- Strong parental support, underpinned by continuous support from Standard Bank Group

Weaknesses

- Pressured capitalisation due to the impact of naira devaluation

[1] The last rating announcement was in May 2024. Rating reports are updated at least once a year from the date of the last announcement.

Rating summary

The ratings affirmation on Stanbic IBTC Bank Limited balances a sound competitive position, good risk profile, stable funding structure and liquidity position against a decline in capitalisation metrics due to the impact of Naira devaluation on the loan book. Stanbic IBTC Bank is considered the core operating entity within Stanbic IBTC Holdings PLC, as such, the national scale Issuer ratings on the bank reflect the strengths and weaknesses of the group. The rating is also supported by Stanbic IBTC Bank's affiliation with Standard Bank Group, the largest shareholder (c.68% equity stake as of 31 December 2023) of Stanbic IBTC Holdings PLC. Standard Bank Group is one of the largest banking groups in Africa with total assets of USD166.4 billion as at 31 December 2023, delivering finance solutions across twenty African countries

Outlook statement

The stable outlook reflects our expectations that the planned capital raise of NGN150Bn will materialise within the stipulated time which would support the group's GCR core capital ratio at 18%-20% over the next 12 months. The outlook reflects our expectation that Stanbic IBTC bank's financial profile would remain conservative, with asset quality metrics well contained and below the industry's averages. However, loan book concentration by obligor and currency is expected to persist, predicated on the prolonged exchange rate volatility. The group's funding structure is expected to remain sound, although CBN's aggressive contractionary monetary policies could impact the banking sector's liquidity over the next 12-18 months.

Rating triggers

The long and short-term national scale ratings are at the $AAA_{(NG)}$ and $A1+_{(NG)}$ ceilings, respectively. However, a rating downgrade could stem from the group's inability to raise the planned equity capital within the stipulated time, with the GCR core capital ratio remaining below 19.0% by the end of 2024. Additionally, a deterioration in asset quality metrics, with the NPL and credit losses registering above regulatory limit and industry averages, could result in a rating downgrade. The group's high FCY exposures could pose further pressure on capitalisation metrics especially in the event of a further naira devaluation which could result in multiple notches downgrade if new equity capital is not raised at the group level.

Risk score summary

Rating components & factors	Risk Score
Operating environment	**7.00**
Country risk score	3.50
Sector risk score	3.50
Business profile	**1.00**
Competitive position	1.00
Sustainability	0.00
Financial profile	**1.25**
Capital & Leverage	0.00
Risk Position	0.50
Funding & Liquidity	0.75
Comparative profile	**1.75**
Peer comparative	0.00
Group support	1.75
Government support	0.00
Total risk score	**11.00**

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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, June 2024
GCR Financial Institutions Sector Risk Score, June 2024

Ratings history

Stanbic IBTC Bank Limited					
Rating class	Review	Rating	Rating	Outlook	Date
Long Term Issuer	Initial	National	AA-(NG)	Stable	December 2006
Short Term Issuer	Initial	National	A1+(NG)		
Long Term Issuer	Last	National	AAA(NG)	Stable	May 2023
Short Term Issuer	Last	National	A1+(NG)		

Operating environment

Country risk

The revised Nigeria country risk score of '3.50' reflects the deterioration in its fiscal position amid rising debt levels and a narrow revenue base. Although the economy is fairly diversified, Nigeria remains vulnerable to commodity price shocks being that crude oil exports remain the dominant source of foreign currency inflows. Crude oil output was significantly depressed in 2022 due to oil theft and vandalism and as such, the nation's external reserves tanked to $37.08 billion in December 2022, from $40.52 billion in December 2021, despite the rallying of oil prices. Inflationary pressures will be sustained in 2023 and are principally stoked by external factors (high energy and import prices. The lingering fuel crisis, local currency shortage (post the Naira redesign), foreign exchange scarcity, multiple exchange rates, erratic power supply, high inflation, rising interest rates and security challenges could significantly hamper short to medium-term economic growth prospects. These challenges notwithstanding, the country has abundant natural resources (including the recently discovered high-grade lithium) and a wide consumption base due to its large population of approximately 220 million people. Nigeria is Africa's largest economy and contributes around 17% of continental GDP, however, like many of the continental peer groups, wealth levels are low. For full details, please see GCR's Country Risk Score report. The Country Risk Scores are available for download (gcrratings.com)

Sector risk

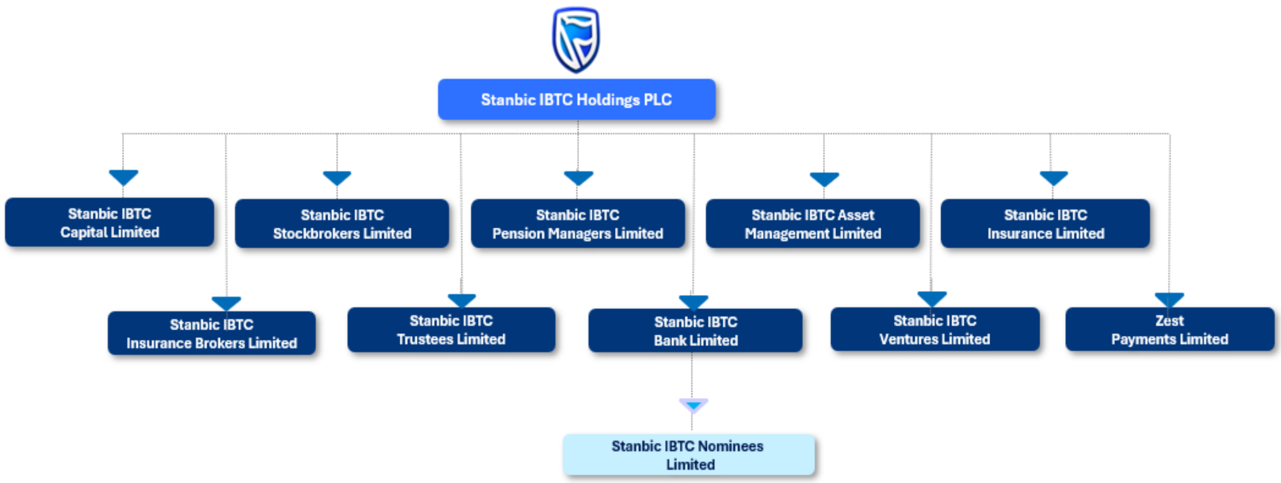
The Nigerian Financial Institutions Risk Score of '3.5' is supported by strong local currency liquidity within the sector and stability in the funding (which is largely deposit based). Also, the banking sector appears well capitalised on the average. In addition, consideration was given to regulatory compliance, which is considered adequate and in line with the regional average. However, concentration of the loan book by sector (oil and gas) heightens credit risk, though with modest levels of non-performing loans. We note that the Nigerian banking sector is highly fragmented, with the top tier of the sector controlled by a few players and increasing competition amongst players within the sector. The relatively low private sector debt is expected to continually increase going forward given the regulatory backed position of increased lending to the private sector, which would enable diversification. For full details, please see GCR's Financial Institutions Sector Risk Score report. The Sector Risk Scores are available for download at (gcrratings.com)

Business profile

Competitive position

The group's competitive position is a positive rating factor, underpinned by well-diversified business operations. As of 31 December 2023, Stanbic IBTC Holdings PLC comprised eleven subsidiaries, supporting cross-selling opportunities, and strengthening earnings capacity across the group as well as the bank in a highly competitive market.

Exhibit 1: Stanbic IBTC Holdings structure



Source: Stanbic IBTC Holdings

With a balance sheet size of NGN5.1 trillion (USD5.5 billion) at 31 December 2023, Stanbic IBTC Bank accounted for approximately 4.0% of the Nigerian banking industry's total assets. The bank has a customer base of 3.0 million with a good mix of retail and corporates, served through 130 physical branches, 814 ATMs and various digital platforms.

The group's revenue base remains largely stable, supported by the dominance of stable earnings from core banking operations and other subsidiaries. In 2023, operating revenue grew by 48.3% to NGN355.5 billion (USD394.9 million), with net-interest income and non-interest income accounting for 49.3% and 50.7% of operating revenue respectively (2022: 47.2% and 52.8%). In the year under review, non-interest income grew considerably by 48.0% largely on account of a notable 80.2% growth in trading and revaluation gains (market sensitive income). The surge in market sensitive income was observed across the market, driven by the positive impact of naira devaluation and exchange rate volatility. We expect the proportion of market sensitive income to remain significant due to sustained currency volatility going into 2024; however, increased value proposition and transaction volumes as well as higher interest rates could support earnings going forward.

Sustainability Assessment

Our sustainability assessment is neutral to the rating. The group's sustainability strategy focuses on four core pillars: building environmental resilience, enhancing social relationships, expanding business model innovation and strengthening leadership for sustainability governance which incorporates sustainability as a commercial strategy and best practice of Environmental, Social and Governance (ESG) risk management for delivering positive impact. Stanbic IBTC Holdings aligns its ESG objectives with the United Nations Sustainability Development Goals, Paris agreement, African Union Agenda 2063, United Nations Principles for Responsible Banking and Nigeria Sustainable Banking Principles. As per management, while 100% of total commercial lending transactions approved so far were screened for environmental and social risks, all vendors onboarded in the reporting period were also assessed. Managing its environmental footprint, the group's energy consumption (from diesel and public mains) reduced by 4.4% year-on-year.

Stanbic IBTC bank's board composition is in line with the required corporate governance standards, comprising a non-executive chairman, seven other non-executive directors (three of whom are independent directors), and six executive directors as of 31 December 2023. Similarly, the board of the group is well constituted in line with best practices. The board exercises oversight through six standing committees namely: Board Credit Committee, Board Nomination Committee, Board Audit Committee, Board Remuneration Committee, Board Risk Management Committee, and Board Statutory Audit Committee. We recognise the stability of the management team, with extensive experience in the Nigerian financial industry. For the financial year 2023, the group received an unqualified audit opinion from its external auditor, PricewaterhouseCoopers. We consider the level of transparency and disclosure in the financial statements and other related documents to be adequate.

Financial profile

Capital and leverage

Capitalisation metrics were pressured from the impact of the steep c.50% Naira devaluation on the bank's risk-weighted assets in 2023 and another c.20% in the first quarter of 2024 given that a sizeable portion of the loan book is FCY denominated (2023: 62.2%, 2022: 49.0%). Consequently, the group's GCR core capital ratio declined to 16.6% as of 31 December 2023 and further to 14.6% as of Q1 2024 (December 2022: 21.4%), registering within the low band of our assessment. However, in line with Central Bank of Nigeria's (CBN) banking sector recapitalisation directive, the group plans to raise NGN150 billion (USD112.8 million) equity capital through a right issue that is expected to be concluded before the end of 2024. If successful, this could improve the GCR core capital ratio to between 18%-20% over the next 12-18 months; however, this remains below five-year (2018 to 2022) historical average of 23.0%. Nonetheless, the bank's regulatory capital adequacy ratio has consistently been maintained above regulatory minimum of 10% for its licensed category as a commercial bank with national authorisation and this is not expected to change in the near term.

Over the next 12-18 months, GCR expects:

- Internal capital generation to range between 20%-25% of the prior year's equity
- Core earnings to adjusted assets of between 2.5%-2.9% and core earnings to GCR total capital ratio of 20%-25%

Exhibit 2: Capitalisation	2025(f)	2024(e)	2023	2022	2021
GCR total capital/risk weighted assets (%)	20.0	19.0	16.6	21.4	21.6
Core earnings to adjusted assets (%)	2.9	2.7	2.6	2.5	1.9

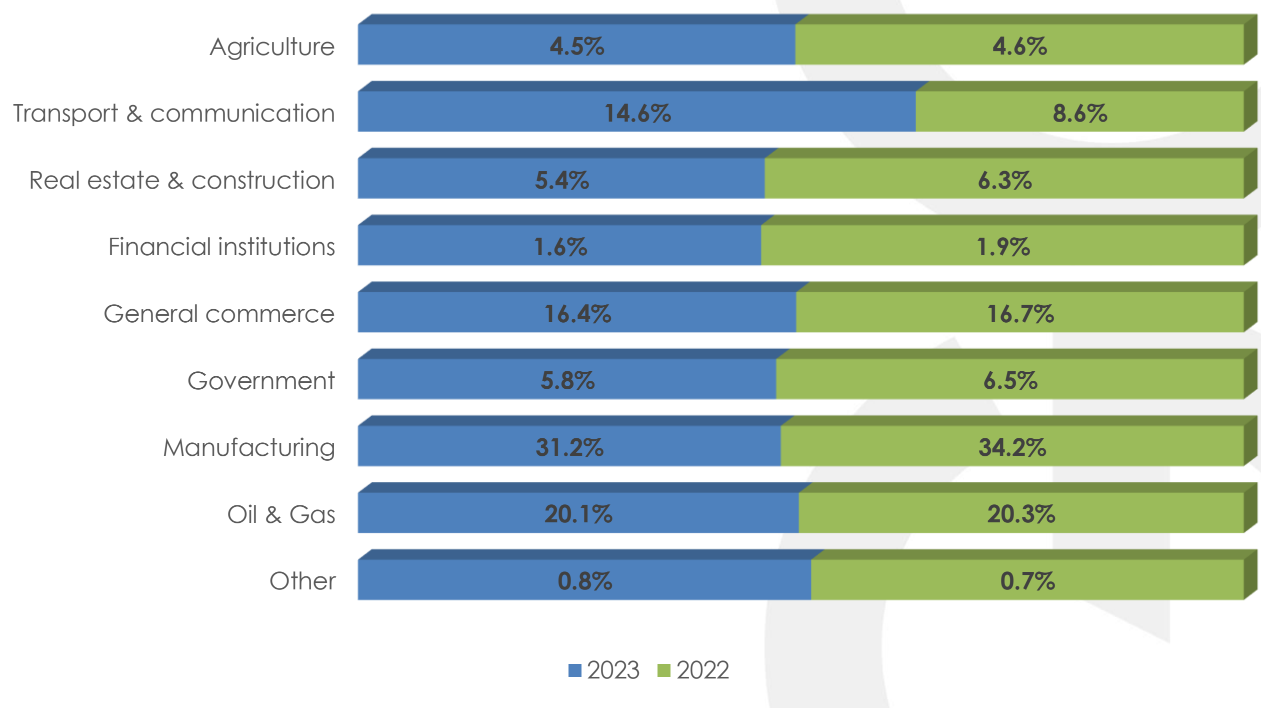
e: GCR estimates; f: GCR forecasts.
Source: Stanbic IBTC Holdings' financial statements and GCR financial tool

Risk

Stanbic IBTC Bank's risk position is a positive rating factor underpinned by relatively stable asset quality metrics despite the weak macroeconomic environment. The bank's NPL ratio registered at 2.9% as of 31 March 2024 (31 December 2023: 2.3%) and has remained below the regulatory threshold of 5% over the review period (five-year average: 2.8%). Similarly, credit losses ratio registered at a moderate 1.3% as of Q1 2024 (December 2023: 0.9%) and the percentage of stage 2 loans to gross loans at 1.4% was well below the industry's average as of Q1 2024 (2023: 1.0%). Looking ahead, we envisage upward pressures on these asset quality metrics across the Nigerian banking industry in view of the weak operating environment; however, we expect the bank to maintain metrics that outperform the industry's averages over the next 12-18 months.

Sectoral distribution of the loan book reflects a sustained dominance of manufacturing and oil and gas sectors, which constituted 31.2% and 20.1% of the loan book respectively at 31 December 2023. The diversity of the manufacturing sector somewhat moderates concentration risks. Going forward, group plans to further diversify the loan book by lending to more resilient sectors, particularly the infrastructure space given the large deficit in Nigeria.

Exhibit 3: Sectoral distribution of the loan book



Source: Stanbic IBTC Holdings

Counterparty concentration improved slightly, as the top twenty obligors accounted for 37.2% of the loan book as at 31 December 2023 lower than 46.8% as at 31 December 2022. However, the top two obligors breached the regulatory single obligor limit (SOL) of 20% of shareholders' funds in 2023. Although the bank requested forbearance from the regulator, the planned capital injection of NGN150Bn in 2024 is expected to remediate these breaches in the near term. Moreover, the bank plans to moderate FCY loans (through conversions to local currency loans) and grow the local currency loan book, targeting a FCY loans to gross loans ratio of between 40%-45% over the next 12-18 months from 62.2% as at 2023.

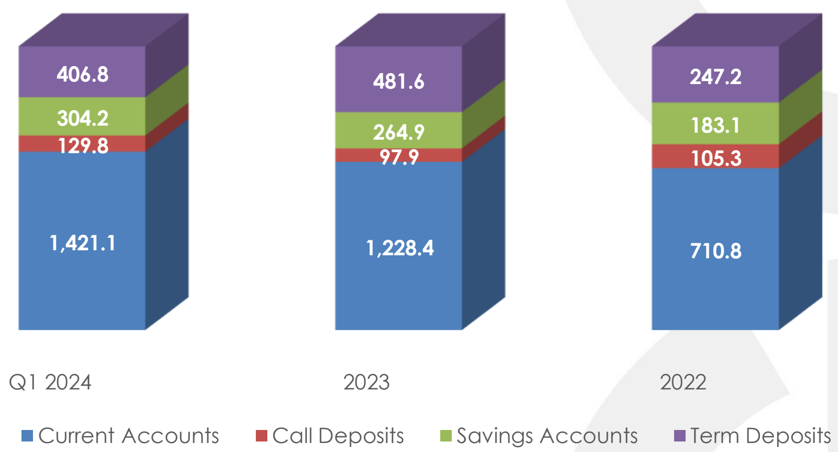
Exhibit 4: Risk					
	2025(f)	2024(e)	2023	2022	2021
Gross non-performing loans to average customer loans (%)	3.2	3.0	2.3	2.4	2.1
New loan loss provisions to average customer loans (%)	1.5	1.3	0.9	0.9	-0.2
Loan loss reserves to non-performing loans	125.0	120.0	119.5	113.5	124.0

e: GCR estimates; f: GCR forecasts.
Source: Stanbic IBTC Holdings' financial statements and GCR financial tool

Funding and liquidity

GCR's assessment of funding and liquidity is positive to the rating, underpinned by a stable funding base and sufficiently liquid balance sheet. The group is largely funded by customer deposits, which constituted 56.3% of the total funding base as of 31 December 2023 (31 December 2022: 56.6%). Leveraging its over 3 million customer base, customer deposits grew by 66.5% in 2023 and a further 9.1% as of Q1 2024 to register at NGN2.3 trillion (USD 1.7 billion), supported by strong retail franchise and low-cost deposit mobilisation strategy. Additionally, the relatively inexpensive current and savings account (CASA) deposits constituted a significant 79.3% of customer deposits as of 31 December 2023 (31 December 2022: 71.3%). Due to the high interest rate environment, cost of funds rose to 4.3% as of Q1 2024 (31 December 2023: 3.7%) and is expected to remain around 4.5%-5% given the successive hikes in the monetary policy rate including the recent revision to 26.25% in May 2024.

Exhibit 5: Breakdown of customer deposits (NGN' billion)



Source: Stanbic IBTC Holdings

The balance sheet is sufficiently liquid, with GCR liquid assets coverage of customer deposits and wholesale funding registering at 54.1% and 3.3x respectively as of Q1 2024. Going forward, GCR expects some strain in the Nigerian banking sector's liquidity following the recent increase in cash reserve requirements (CRR) for commercial banks to 45% from 32.5% effective February 2024. Nevertheless, Stanbic bank's liquidity ratio is likely to remain within the regulatory threshold predicated on effective liquidity management, customer deposits mobilisation strategy and the reduction in the regulatory minimum loan-to-deposit ratio to 50% in April 2024 from 65% previously.

Exhibit 6: Funding and liquidity					
	2025(f)	2024(e)	2023	2022	2021
Long term funding ratio (%)	80.0	77.6	79.9	82.0	87.0
GCR stable funding ratio (%)	70.2	64.1	64.7	78.8	77.6
GCR liquid assets/ customer deposits (%)	50.0	45.0	27.5	49.2	56.5
GCR liquid assets/wholesale funding (x)	3.5	3.3	2.0	3.5	5.1

e: GCR estimates; f: GCR forecasts.
Source: Stanbic IBTC Holdings' financial statements and GCR financial tool

Comparative profile

Peer analysis

The peer analysis is neutral to the ratings.

Group support

Stanbic IBTC Bank Limited's national scale Issuer ratings benefit from parental support. Although, the group is not a material asset or revenue contributor to Standard Bank Group (less than 10% contribution), there is evidence of support from and assimilation with the parent. We believe Standard Bank Group has the capacity to support the group and bank based on its sound financial profile.

Rating adjustment factors

Structural adjustments

No structural adjustments have been made to the Anchor Credit Evaluation in arriving at the final ratings.

Instrument ratings

No instrument rating adjustments.

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	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.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Downgrade	The rating has been lowered on its specific scale.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
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.
Forbearance	A temporary suspension of repayments, granted by a creditor to a debtor.
Income	Money received, especially on a regular basis, for work or through investments.
Insurance	Provides protection against a possible eventuality.
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.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.

Monetary Policy	Measures taken by the central bank to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
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.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Reserve Requirement	Minimum amount of cash or cash equivalents (computed as a percentage of deposits) that banks are required by law to keep on hand, and which may not be used for lending or investing. Reserve requirements serve as a safeguard against a sudden and inordinate demand for withdrawals, and as a control mechanism for injecting cash (liquidity) into, or withdrawing it from, an economy.
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.
Short Term	Current; ordinarily less than one year.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	An individual or firm that holds or administers property or assets for the benefit of a third party.
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 ratings

GCR affirms that a.) no part of the ratings 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.

The credit ratings have been disclosed to Stanbic IBTC Bank Limited. The rating above was solicited by, or on behalf of, Stanbic IBTC Bank Limited.

Stanbic IBTC Bank Limited participated in the rating process via video conference management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Stanbic IBTC Bank Limited and other reliable third parties to accord the credit ratings included:

- The audited financial results as at 31 December 2023
- Four years of comparative audited numbers
- Other related documents.
- Exchange rate source: Central Bank of Nigeria USD1.00 = NGN899.39(31 December 2023); USD1.00 = NGN1,330.26(31 March 2024)

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