FitchRatings

Banks
Universal Commercial Banks
Nigeria

Stanbic IBTC Holdings PLC

Key Rating Drivers

Institutional Support Drives Ratings: Stanbic IBTC Holdings PLC's (Stanbic IBTC) National Ratings are based on potential support from its ultimate parent, South Africa's Standard Bank Group Limited (SBG; BB-/Negative), which owns 67% of Stanbic IBTC.

Strategic Importance to SBG: Stanbic IBTC is strategically important to SBG as the holding company for its operations in Nigeria, which is a key growth market for SBG's Africa Regions strategy. Stanbic IBTC's main operating entity is Stanbic IBTC Bank PLC (Stanbic IBTC Bank), a mid-tier commercial bank, which formed 95% of the holding company's consolidated assets at end-2020. Fitch Ratings believes that support from SBG, if needed, would extend equally to Stanbic IBTC and Stanbic IBTC Bank.

Highly Integrated Operations: Stanbic IBTC is highly integrated with SBG's risk-management framework, operations and strategy. Being part of the largest financial services group in Africa provides Stanbic IBTC with significant competitive advantages, including the SBG network and the ability to serve large domestic and multinational companies. Stanbic IBTC also benefits from intra-group liquidity support and access to wider wholesale funding sources.

Difficult Operating Environment: Like its peers, Stanbic IBTC faces continuing financial pressures from poor domestic conditions. These conditions include a protracted economic recovery, potential further devaluation of the naira, the long-lasting economic impact of the coronavirus on individuals and businesses, and continuing risks of regulatory intervention.

Post-Pandemic Asset Quality Deterioration: Absolute impaired (IFRS 9 Stage 3) loans rose by 23% in 2020 mainly due to a few corporate defaults. Fast loan growth (17.8% in 2020) flattered the impaired loan ratio which rose to only 4% at end-2020 (end-2019: 3.9%). Fitch expects further asset quality deterioration given the slow economic recovery forecast but a material rise in Stanbic IBTC's impaired loan ratio is unlikely in 2021.

Strong Revenue Generation Capacity: Profitability will remain at the higher end of the sector in 2021 owing to Stanbic IBTC's diversified business model. Earnings are largely driven by non-interest income, including trading gains. Fees and commissions have held up, boosted by a strong performance in asset management. Net interest income has seen moderate pressure in the low interest rate, low yield environment but this has been offset by a lower cost of funding. Loan impairment charges were significantly up in 2020 and are expected to remain high in 2021.

Good Capital Buffers: Stanbic IBTC remains well capitalised, with reported regulatory Tier 1 and total capital adequacy ratios of 23.1% and 24.7%, respectively, at end-2020. The latter is comfortably above the regulatory requirement of 10%. We expect Stanbic IBTC to maintain good capital buffers in 2021 despite asset quality pressures.

Solid Funding Profile: Stanbic IBTC's customer deposit base benefits from franchise strengths and, although largely wholesale, is considered behaviourally stable. Other funding is diverse, including group funding. Balance sheet liquidity is strong both in local and foreign currency (FC).

Rating Sensitivities

Upside Potential: A rating upgrade is not possible as Stanbic IBTC's National Long-Term Rating is the highest possible rating at 'AAA(nga)' on Fitch's rating scale.

Downside Potential: Stanbic IBTC's National Long-Term Rating could be downgraded following a downgrade of SBG's Long-Term Issuer Default Rating (IDR). Downside risks to the ratings could also stem from a decline in SBG's willingness to provide support, or from a change in SBG's stake, resulting in a loss of control. This is not our base line scenario.

Ratings

National	
Stanbic IBTC Holdings PLC	
Long-Term Rating	AAA(nga)
Short-Term Rating	F1+(nga)
Stanbic IBTC Bank PLC	
Long-Term Rating	AAA(nga)
Short-Term Rating	F1+(nga)
Sovereign Risk	
Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B
Country Ceiling	B
Outlooks	
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms Stanbic IBTC Bank at 'AAA(nga)' (October 2020)

What Investors Want to Know: Nigerian Banks (December 2020)

Fitch Ratings 2021 Outlook: African Banks (December 2020)

Standard Bank Group Limited (December 2020)

Fitch Affirms Nigeria at 'B'; Outlook Stable (March 2021)

Nigeria (March 2021)

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Debt Rating Classes

Stanbic IBTC Bank PLC

Rating level	Rating
Senior unsecured debt	AAA(nga)/F1+(nga)

Source: Fitch Ratings

The ratings of senior unsecured obligations are in line with Stanbic IBTC Bank's National Long- and Short-Term Ratings. This is because we view the likelihood of default on Stanbic IBTC Bank's senior unsecured obligations as the same as the likelihood of default of the bank. Default on any material class of senior unsecured obligations would be treated as a default of Stanbic IBTC Bank.

Institutional Support Assessment

The ratings of Stanbic IBTC and Stanbic IBTC Bank are based on potential support from their ultimate parent, SBG (BB-/Negative), which owns 67% of Stanbic IBTC (which owns 99.9% of Stanbic IBTC Bank).

The ratings reflect SBG's ability to support Stanbic IBTC and Stanbic IBTC Bank and the group's willingness to do so. The ability to support considers SBG's Long-Term IDR of 'BB-'/Negative and Nigeria's Country Ceiling of 'B' which captures transfer and convertibility risks. Fitch's view of SBG's willingness to provide support, if required, considers Stanbic IBTC's and Stanbic IBTC Bank's important role in the group as SBG's main operations in west Africa, the ownership size, and high operational integration.

Institutional Support			Value
Parent IDR			BB-
Total Adjustments (notches)			-2
Institutional Support:			**B**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation		✓	
Relative size	✓		
Country risks			✓
Parent Propensity to Support			
Role in group		✓	
Potential for disposal		✓	
Implication of subsidiary default		✓	
Integration		✓	
Size of ownership stake		✓	
Support track record		✓	
Subsidiary performance and prospects	✓		
Branding		✓	
Legal commitments		✓	
Cross-default clauses			✓

Bar Chart Legend

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Significant Changes - Operating Environment

Easing of Operating Environment Pressures

Operating conditions for all Nigerian banks will remain difficult in 2021 but the risk of severe shocks has abated. Fitch maintains a negative outlook on the banks' Operating Environment assessment despite the Rating Outlook on Nigeria's sovereign rating of 'B' being affirmed at Stable in March 2021. We believe a more stressed scenario could be triggered if there were a resurgence in domestic and global coronavirus infections, resulting in another lockdown and further severe disruption to businesses and households. Other downside operating environment risks that could materialise and have a rating impact include a fall in oil prices, a significant devaluation of the naira, widespread social unrest or political and policy uncertainty.

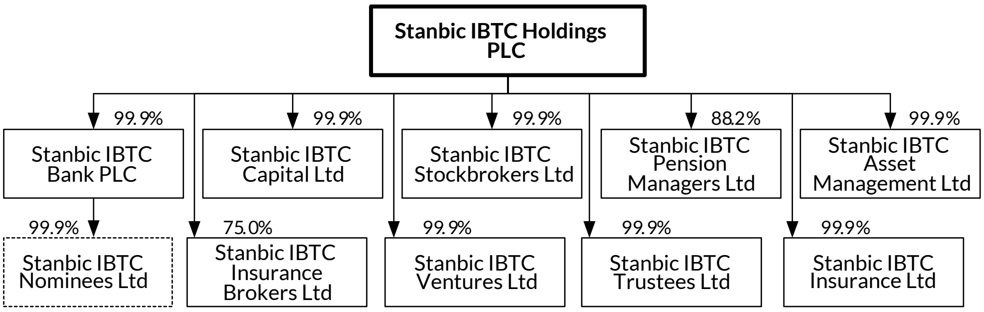
Fitch forecasts a subdued economic recovery in 2021 (real GDP growth of 2% compared to the contraction of 1.8% in 2020). Combined with the rise in oil prices and a resumption of business activity post-lockdown, the near-term pressures for banks are expected to ease. However, other country risks, including FC shortages, currency devaluation, high inflation and regulatory intervention by the Central Bank of Nigeria (CBN), will continue to exert negative pressure on the operating environment.

The government's coronavirus response has ensured financial stability. The CBN's debt relief measures have allowed banks to restructure loans to the oil, agriculture and manufacturing sectors, thereby alleviating near-term asset-quality pressures. These measures, in addition to financial hedging, have prevented upstream oil exposures from becoming impaired. Oil-related loans have largely dictated banking sector asset quality in recent crises. High oil exposure (26% of private sector credit at end-May-2020; with the upstream and services segment representing 7%) remains a key risk, however, and a prolonged period of depressed oil prices and production cuts would lead to a sharp uptick in impaired loans across the sector.

The CBN has provided regulatory forbearance on loan classification for coronavirus-related restructured loans. As a result, most of the banks' debt relief loans remain classified as Stage 1 under IFRS 9. We anticipate impaired loans will rise moderately faster in 2021, reflecting the spill-over from the downturn in 2020, but the true extent of asset quality deterioration from the crisis will be masked by high volumes of loan restructuring (around 40% of sector loans at end-3Q20) and extension of moratoria on principal repayments for certain state-sponsored intervention facilities to March 2022.

Although the CBN has not provided liquidity support for banks, it has stated it stands ready to provide liquidity backstops when required. In September 2020 the CBN reduced the monetary policy rate to 11.5% (from 12.5%), while retaining the cash reserve requirement (CRR) at 27.5% and the liquidity ratio at 30%. The CBN is committed to maintaining the minimum loan to deposit ratio (LDR) of 65% to ensure credit continues to flow to the real economy.

Organisational Structure



Source: Fitch Ratings, Stanbic IBTC

Company Summary and Key Qualitative Assessment Factors

Medium-Sized Bank; A Leading Franchise Benefiting from a Strong Parent

Stanbic IBTC is a listed holding company for SBG's operations in Nigeria and the broader west-African region. Other than Stanbic IBTC Bank, the holding company has subsidiaries in stock broking, investment banking, asset management, pension management, insurance and trustee services. Double leverage for Stanbic IBTC decreased to 68% at end-2020 from 70% at end-2019.

Stanbic IBTC's main operating entity, Stanbic IBTC Bank, is a mid-sized commercial bank. Traditionally a corporate and investment bank, Stanbic IBTC Bank has a growing presence in retail and business banking. Franchise strengths come from being part of SBG's pan-African network and an ability to serve large domestic and multinational companies. The bank had 175 branches, which is moderate by Nigerian standards, and 2.4 million customers, at end-2020.

Stanbic IBTC has three main business lines: Personal and Business Banking (PBB), Corporate and Investment Banking (CIB) and Wealth. The latter includes asset management. In 1Q21, Stanbic IBTC established a wholly-owned life insurance subsidiary, Stanbic IBTC Insurance Limited, which will augment its financial services offering to clients and further diversify its revenue streams.

Stanbic IBTC Bank differentiates itself from mid-tier bank peers (such as Fidelity Bank and First City Monument Bank) with a more diversified revenue base. CIB remained the largest contributor to operating income and net profit in 2020. PBB contributed to operating income but reported a loss for the year due to a high cost base and revenue pressures. Wealth is an important contributor of capital light revenue.

Focus on Growing Retail Operations

SBG is closely involved in setting Stanbic IBTC's strategy, which is aligned with the group's strategy and tailored for domestic conditions. Nigeria is SBG's regional hub for its west African operations and is a strategically important growth market given the size of the economy. Stanbic IBTC will continue to leverage opportunities offered by growing intra-regional trade, ties with Industrial and Commercial Bank of China, and balance sheet risk sharing. Stanbic IBTC Bank continues to focus on expanding its retail banking franchise through digital banking channels.

Capable Management Team

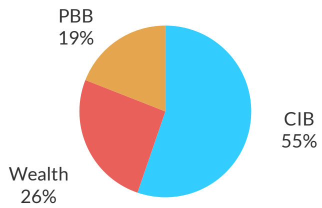
Stanbic IBTC is a well-managed institution following a clear business strategy. It is able to attract and retain seasoned bankers from Nigeria as well as bring in experienced staff from the group. Local management have formal reporting lines to SBG and interact regularly with their product and operational counterparts. There were several executive/senior management shifts in 2020 and 1Q21, mainly due to the promotion of Stanbic IBTC's CEO to the position of Regional CEO (West Africa) for SBG, but this had no impact on our assessment of management quality. The appointments were in line with Stanbic IBTC's succession plan. Stanbic IBTC distinguishes itself in its industry-leading corporate governance standards and financial reporting transparency.

Robust Risk Management Controls

Stanbic IBTC's risk profile and appetite have generally been moderate over time. The loan book is small (end-2020: 25% of assets) and the bank mainly serves large corporates. While there is a renewed focus on expanding in the SME and consumer segments, we expect measured growth. Other assets comprise securities, interbank balances, as well as cash and reserves at the CBN.

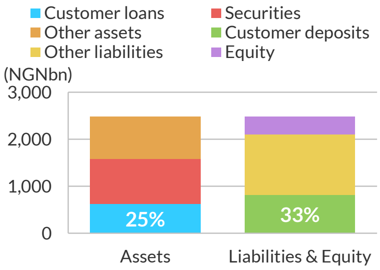
Risk management is a relative strength. Stanbic IBTC has a standalone enterprise-wide risk-management framework, which is aligned with SBG's. Risk and reporting tools and policies are adopted from the group and are strong compared with peers. Risk limits are also set at group level and large transactions are sanctioned by SBG.

Operating Income by Segment
2020



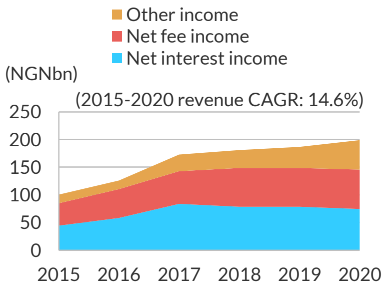
Source: Fitch Ratings, Stanbic IBTC

Balance Sheet, FYE20



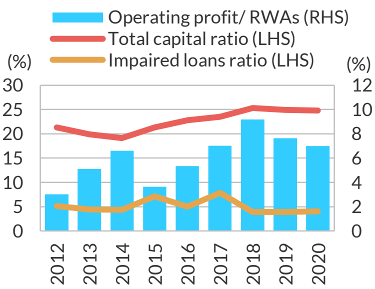
Source: Fitch Ratings, Stanbic IBTC

Revenue Breakdown



Source: Fitch Ratings, Stanbic IBTC

Results Through-The-Cycle



Source: Fitch Ratings, Stanbic IBTC

Summary Financials and Key Ratios

	31 Dec 20		31 Dec 19	31 Dec 18	31 Dec 17
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(NGNbn)	(NGNbn)	(NGNbn)	(NGNbn)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	195	74.4	78.3	78.5	83.7
Net fees and commissions	187	71.2	70.4	69.8	59.1
Other operating income	140	53.2	37.9	32.4	29.8
Total operating income	522	198.9	186.6	180.7	172.6
Operating costs	245	93.4	93.4	95.8	86.0
Pre-impairment operating profit	277	105.4	93.2	84.9	86.5
Loan and other impairment charges	28	10.8	2.3	-3.2	25.6
Operating profit	248	94.6	90.9	88.1	61.0
Other non-operating items (net)	0	0.1	0.0	0.1	0.2
Tax	30	11.5	15.9	13.7	12.8
Net income	218	83.2	75.0	74.4	48.4
Other comprehensive income	12	4.4	1.9	-2.7	4.3
Fitch comprehensive income	230	87.6	77.0	71.8	52.7
Summary balance sheet					
Assets					
Gross loans	1,720	655.3	556.4	456.6	403.9
- Of which impaired	70	26.5	21.6	17.7	31.7
Loan loss allowances	79	30.2	24.3	23.9	31.8
Net loans	1,641	625.1	532.1	432.7	372.1
Interbank	21	7.8	3.0	8.5	9.6
Derivatives	121	46.2	32.9	30.3	11.1
Other securities and earning assets	2,500	952.5	636.2	626.9	511.5
Total earning assets	4,283	1,631.7	1,204.3	1,098.4	904.2
Cash and due from banks	1,646	627.1	456.4	455.8	401.3
Other assets	597	227.5	215.8	109.4	80.8
Total assets	6,526	2,486.3	1,876.5	1,663.7	1,386.4
Liabilities					
Customer deposits	2,152	819.9	637.8	807.7	753.6
Interbank and other short-term funding	1,712	652.3	370.4	240.2	114.3
Other long-term funding	416	158.4	153.0	130.5	51.3
Trading liabilities and derivatives	265	101.1	178.9	49.9	65.0
Total funding	4,545	1,731.7	1,340.1	1,228.3	984.3
Other liabilities	987	376.0	234.1	195.7	216.9
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	994	378.6	302.2	239.7	185.2
Total liabilities and equity	6,526	2,486.3	1,876.5	1,663.7	1,386.4
Exchange rate		USD1 = NGN379.5	USD1 = NGN307	USD1 = NGN306.31	USD1 = NGN305.5

Source: Fitch Ratings, Fitch Solutions, Stanbic IBTC

Summary Financials and Key Ratios

	31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	7.0	7.6	9.2	7.0
Net interest income/average earning assets	5.0	6.9	8.1	10.2
Non-interest expense/gross revenue	47.0	50.1	53.0	49.9
Net income/average equity	24.4	27.6	35.5	29.8
Asset quality				
Impaired loans ratio	4.0	3.9	3.9	7.9
Growth in gross loans	17.8	21.9	13.1	7.6
Loan loss allowances/impaired loans	113.8	112.3	135.0	100.2
Loan impairment charges/average gross loans	1.6	0.3	-0.7	6.6
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	26.7	24.1	24.6	21.1
Tangible common equity/tangible assets	14.6	15.4	14.2	13.2
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	-1.0	-0.9	-2.6	0.0
Funding and liquidity				
Loans/customer deposits	79.9	87.2	56.5	53.6
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	48.4	47.8	66.0	76.8
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Stanbic IBTC

Key Financial Metrics – Latest Developments

Rising Asset Quality Pressures

Stanbic IBTC's asset quality deteriorated in 2020 with rising defaults in the CIB book. Absolute impaired (IFRS 9 Stage 3) loans increased by 23%, reflecting the economic fallout of the pandemic and, in particular, the migration of a single name oil exposure from Stage 2 to Stage 3. The rise was flattered by loan growth of 17.8%, which resulted in a modest rise in the impaired loan ratio to 4% at end-2020 (3.9% at end-2019). We expect Stanbic IBTC's impaired loan ratio to rise in 2021 in light of the weak economic environment, but remain below the sector average given its prime customer base and good risk management. Total loan loss allowance coverage of impaired loans was a reasonable 114% at end-2020. We expect these levels to be maintained.

Stage 2 loans accounted for a low 2.4% of total loans at end-2020, down from 4.2% at end-2019, and therefore Stanbic IBTC has a lower risk of migration to Stage 3 than peers. The majority of loans benefiting from debt relief (7.8% of total loans) were classified as Stage 1 at end-2020.

Stanbic IBTC's asset quality remains highly sensitive to industry and borrower concentrations as the CIB loan book accounts for a significant share of lending. Exposure to the oil & gas and manufacturing sectors, which are vulnerable to the pandemic shock, accounted for a combined 52% of gross loans at end-2020. The 20 largest loans accounted for 53% of gross loans and 1x Fitch Core Capital at end-9M20, in line with the sector average.

Comparatively, the PBB book has remained healthy. This could be temporary as lower household income and business revenues could lead to higher delinquencies. Such levels of growth will also be required to meet the CBN's minimum LDR ratio of 65%. Stanbic IBTC's LDR ratio was 69% at end-2020.

Non-loan assets are substantial. Other than cash and balances, bank placements and reserves with the CBN, Stanbic IBTC holds a very large book of government securities (35% of total assets at end-2020) for revenue generation and liquidity purposes. Stanbic IBTC's effective CRR remains well above the 27.5% requirement.

Consistently Strong Profitability

Stanbic IBTC remained highly profitable in 2020 despite revenue pressure from lower rates and declining yields on government securities and rising loan impairment charges. This was testament to the strength and diversification of its franchise and business model.

Net interest income was stable, contributing 37% to operating income in 2020 (42% in 2019), with lower interest income being offset by lower cost of funding (reflecting both lower rates and an intended change in the deposit composition). Non-interest income grew strongly, representing 63% of operating income (58% in 2019) owing to solid trading income. Fees and commissions, a large source of non-interest income, also improved in 2020 owing to higher volumes in the asset management business.

Robust Capitalisation and Leverage

Stanbic IBTC Bank remains well capitalised. Its total capital adequacy ratio of 19.4% at end-2020 was well above its regulatory minimum of 10%, providing adequate loss absorption capacity. We expect the bank to maintain robust capital metrics over the next 12-18 months, supported by high retained earnings, even with management targeting loan growth of 20-25% for 2021.

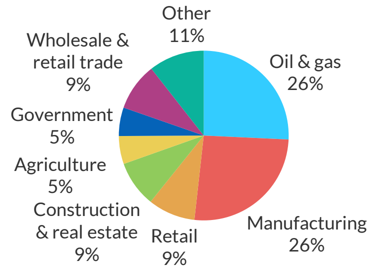
Risk-weighted assets (RWAs) density is fairly low for Stanbic IBTC, as is the case for peers, given large holdings of government securities which carry a 0% risk-weighting. This supports strong regulatory capital ratios. Nevertheless, its equity/assets ratio was a high 15.2% at end-2020.

Stable Funding Profile; Highly Liquid

The customer deposit base continues to grow (up 29% in 2020), benefitting from Stanbic IBTC's recognisable brand, long standing corporate relationships and roll-out of alternative delivery channels. The deposit mix has changed with term deposits being replaced by inexpensive current and savings accounts. Other funding is diverse, including borrowings from the group. Balance sheet liquidity is strong both in local and FC.

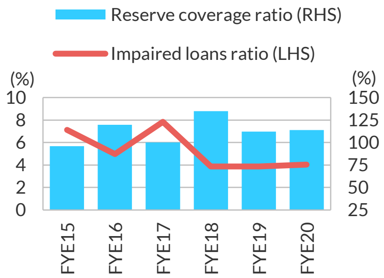
Gross Loans by Sector

End-2020



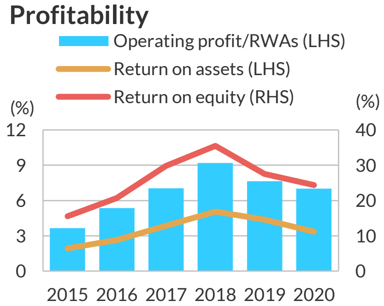
Source: Fitch Ratings, Stanbic IBTC

Asset Quality



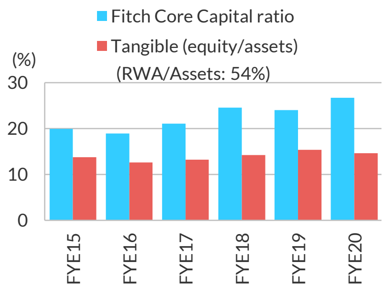
Source: Fitch Ratings, Stanbic IBTC

Profitability



Source: Fitch Ratings, Stanbic IBTC

Capitalisation & Leverage



Source: Fitch Ratings, Stanbic IBTC

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.