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Stanbic IBTC Bank PLC

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Stanbic IBTC Bank PLC

SACP	b-	+	Support	+3	+	Additional Factors	-3

Anchor	b	
Business Position	Moderate	-1
Capital and Earnings	Moderate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	+3
Sovereign Support	0

Issuer Credit Rating
B-/Stable/B

Credit Highlights

Overview

Key strengths	Key risks
Strategic importance to the Standard Bank Group (SBG).	High single-obligor concentrations and foreign currency lending, which is a structural risk in the Nigerian banking sector.
Ample capital buffers above the regulatory minimum.	Mid-tier size exposes increased earnings sensitivity to operating conditions.
	Funding cost optimization remaining constrained by the limited, albeit increasing, retail customer deposits franchise.

Nigeria sovereign credit ratings offset strategic importance of Stanbic IBTC Bank PLC (Stanbic IBTC) to the SBG. The ratings reflect the overall creditworthiness of the Stanbic IBTC group because we consider Stanbic IBTC to be the core component of the group. Although we consider the group to be strategically important to the SBG, we do not add any notches of support because of the low sovereign rating.

Operating environment presents headwinds despite progress made on diversification. Establishing a retail banking operation with a meaningful contribution to overall profit remains a key priority for the group, that has otherwise a well-established corporate franchise, supported by its South African parent as part of the broader group's strategic diversification in Africa. Equally, the retail franchise will continue to face headwinds due to regulatory constraints and COVID-19-induced economic pitfalls.

We believe asset quality metrics will deteriorate in 2021 as the economic environment remains challenging. We forecast that nonperforming loans (NPLs) will increase marginally from year-end 2019 levels, and range between 3.8% and 4.6% over the next 12-18 months. Impairments have increased in 2020 and we expect cost of risk will increase to 1.6% in 2021. This still compares better than the system average credit losses of 2.5%. We expect the group's risk-adjusted capital (RAC) to remain around 5.8% over the next 12-18 months, supported by revenue growth and manageable credit costs albeit increasing in 2021.

Outlook: Stable

The stable outlook on Stanbic IBTC reflects that on the sovereign.

Downside scenario

We would lower the ratings on the bank if we lowered the ratings on Nigeria. This could happen if we observed increasing risks to the government's capacity to repay commercial obligations, either due to declining external liquidity or a continued reduction in fiscal flexibility. We would also take a negative rating action if we observed pressure on the bank's U.S. dollar liquidity position because of tighter supply in the banking sector.

Upside scenario

We would raise the ratings on the bank if we take a similar action on the sovereign, all else being equal, including our expectation of group support from parent SBG over the next 12 months.

Key Metrics

Stanbic IBTC Bank PLC--Key Ratios And Forecasts

	--Fiscal year ended December 31 --				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	3.21	6.59	(1.4)-(1.5)	11.8-13.1	12.0-13.3
Growth in customer loans	21.85	17.78	13.7-15.2	13.7-15.2	13.7-15.2
Cost to income ratio	50.64	47.61	48.0-53.2	45.4-50.4	42.1-46.7
Return on average common equity	27.33	24.26	15.9-17.6	17.2-19.1	18.8-20.9
New loan loss provisions/average customer loans	0.13	1.35	1.4-1.6	1.2-1.4	1.0-1.1
Gross nonperforming assets/customer loans	3.88	4.04	4.2-4.7	3.5-3.8	2.7-3.0
Risk-adjusted capital ratio	6.22	5.78	5.3-5.8	5.3-5.9	5.4-6.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast.

Anchor: 'b' For Banks Operating Only In Nigeria

We use our Banking Industry Country Risk Assessment economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating to a bank. The anchor for a commercial bank operating in Nigeria is 'b', based on an economic risk score of '10' and an industry risk score of '9'.

We believe weak economic fundamentals will constrain private-sector credit growth in Nigeria, estimated at 5% through 2022. We expect economic setbacks to persist despite more sustained oil prices, which we now project at $60 a barrel in 2021 and 2022, and because the vaccine rollout is in early stages. We expect GDP growth to average about 2.3% a year through to 2024 after a contraction of 1.8% in 2020. The banking sector is exposed to short credit cycles and high credit risks because of Nigeria's reliance on oil and its sensitivity to currency depreciation and high inflation. We estimate that the negative impact of pandemic will be somewhat mitigated by the 2016 restructuring, which saw banks use lower break-even prices and a prefunded debt service reserve account that provides three to six months of payment buffers during times of stress. That said, restructured loans jumped to 20%-25% in 2020, from about 10% in 2019, because of the pandemic. We expect NPLs will rise again close to about 9.5% in 2021, compared with 6.1% in 2020. We forecast credit losses will hover between 2.0%-2.5% in 2021, compared with an estimated 1.5% in 2020.

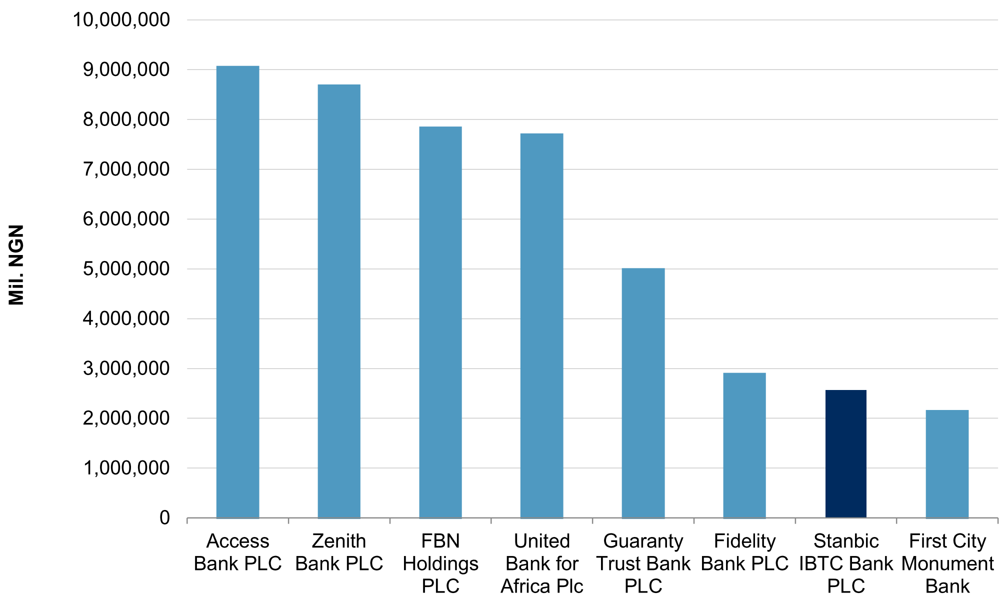
The Nigerian banking sector has been operating under difficult economic and regulatory circumstances since the 2016 crisis. The restrictive foreign exchange (FX) policy adopted by the Central Bank of Nigeria (CBN) to manage their FX liquidity has been forcing Nigerian banks to reduce their FX exposures. Meanwhile, the CBN limited the extent of its foreign exchange sales into the Nigerian Autonomous Foreign Exchange Fixing Mechanism, or NAFEX window, which in turn suffered from a scarcity of sellers, creating at times a backlog in FX supply. Most banks have gradually overcome their short-term liquidity difficulties following the introduction of the NAFEX window in April 2017, while external debt will likely remain manageable at approximately 13% of total loans in 2021, according to our forecasts.

Overall, we expect Nigerian banks' profitability to weaken in 2020-2021, with the return on assets declining to 1.5%-1.8%, from 2.5% for rated banks because of higher credit losses and lower interest margins, stemming mainly from interest rate cuts. The Asset Management Company of Nigeria's (AMCON) levy on banks also weighs on profitability. The CBN created AMCON in 2010 to help clean up asset quality in the banking system over the 10 years following the 2009 financial crisis, but it is likely to remain for a longer period. The levy accounts for about one-third of banks' cost bases, and we now see it as a form of market distortion that will likely persist.

Business Position: Mid-Tier Banking Group With Leading Wealth Management And Investment Banking Franchises

Chart 1

Stanbic IBTC Is The Seventh Largest Nigerian Bank By Assets
Total assets



Data as at March 2021. NGN--Nigeria naira. Source: S&P Global Ratings.
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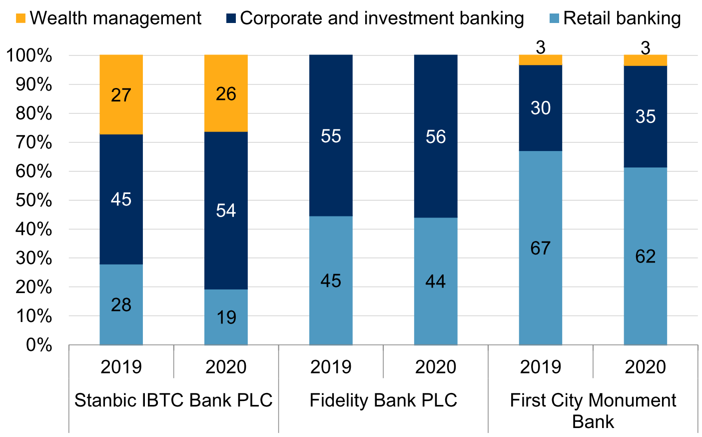
Our assessment of Stanbic IBTC's business position balances its modest size (see chart 1) against its leading corporate banking and wealth management franchise. It also recognizes Stanbic IBTC group's growing retail banking operations within a competitive Nigerian banking sector.

Chart 2

Revenue Contribution By Business Line



Source: S&P Global Ratings.

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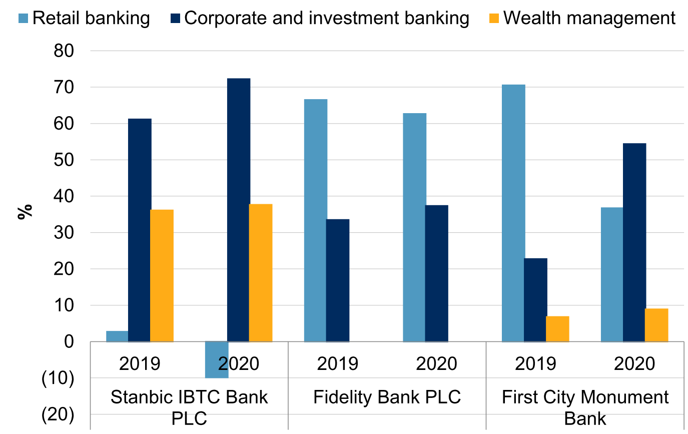
Chart 3

Pre-Tax Profit Contribution By Business Line



Source: S&P Global Ratings.

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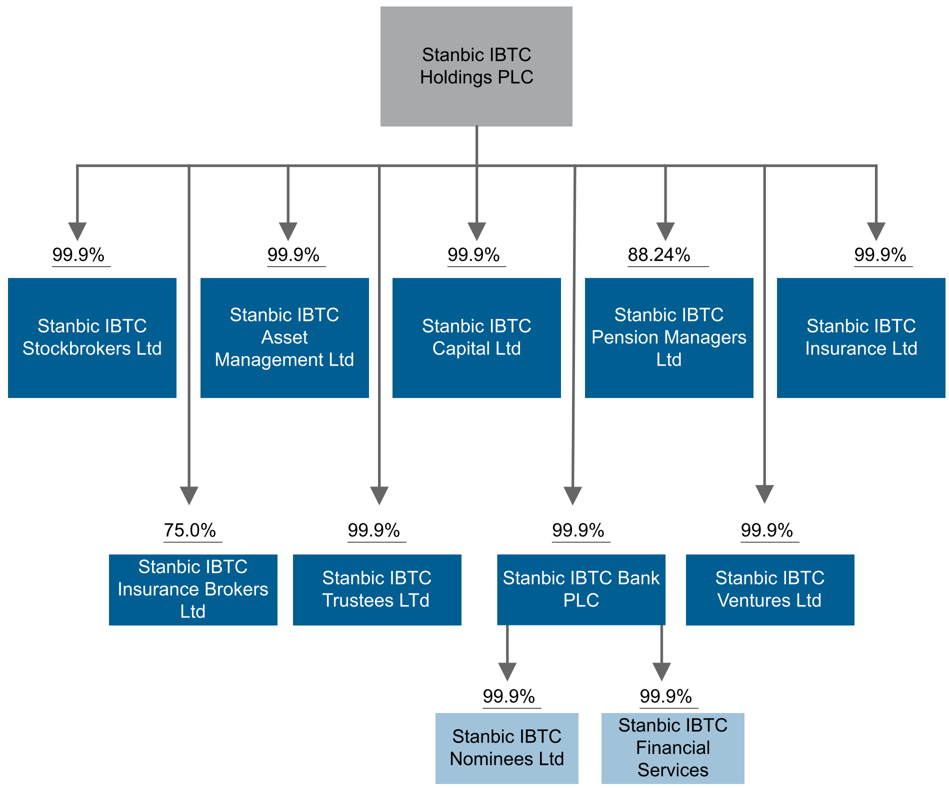
The corporate banking and wealth management operations continue to be the bank's largest revenue and profitability drivers (see charts 2 and 3). Specifically, corporate banking benefits from SBG's business relationships and balance sheet backing. It also collaborates with ICBC, a 20% shareholder in SBG, to facilitate trade flows into Nigeria, as well as the banking requirements of Chinese state-owned enterprises and Chinese nationals operating locally.

Despite the retail banking operations growing by around 20%, the sharp growth in corporate and wealth management revenues diluted its contribution to around 20%. The bank's profitability was constrained by tighter net interest margins within a competitive retail banking environment, higher impairments, and increased regulatory costs.

Chart 4

Stanbic IBTC Holdings PLC Group Structure



Source: Company reports.

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Stanbic IBTC's strategy is to be the leading end-to-end financial services provider in Nigeria. Under this broader strategy, its retail banking operations focusses on low cost deposits and a stable transactional revenue base, notably through innovation such as its integrated digital platform, combining bank and nonbank services. The regulation on electronic banking charges imposed by the CBN presents headwinds to this strategy, although the increased volume in digital banking transactions following the onset of COVID-19 could offset this to some extent.

Capital And Earnings: Stable RAC On The Back Of Revenue Growth And Manageable Cost Of Risk

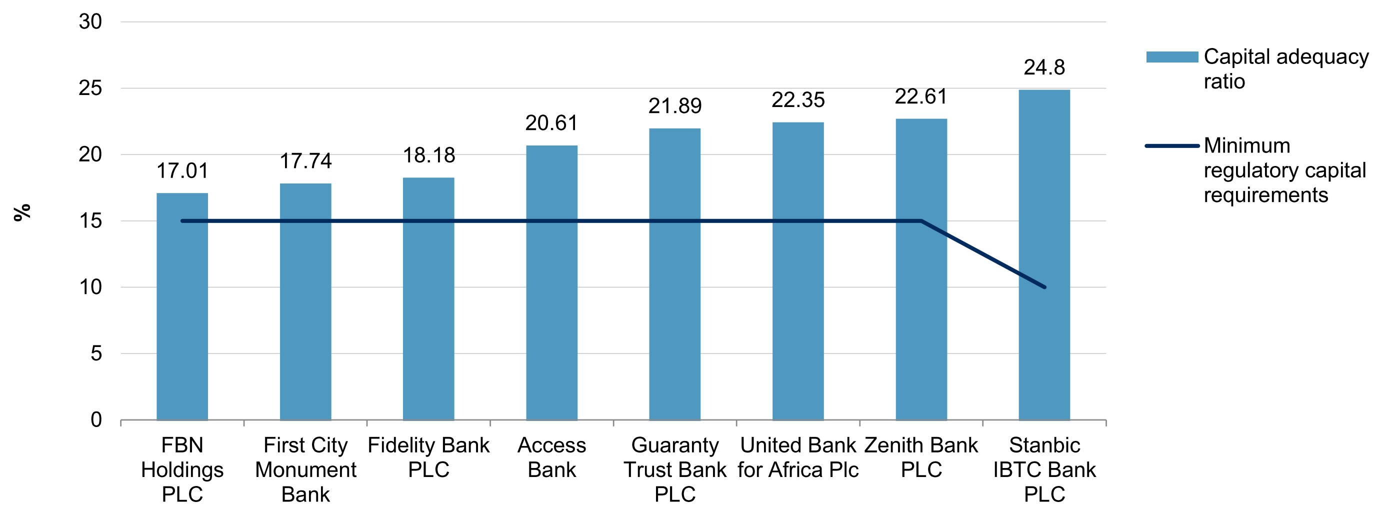
We expect the group will maintain a broadly stable RAC ratio of 5.8%-5.9% over the next 12-18 months, compared with 5.75% at year-end 2020, reflecting manageable credit costs as well as modest loan and revenue growth.

In our base-case scenario, which is subject to further downside risks as uncertainties prevail in 2021-2023, we assume the following:

- Loan growth of 15% over the forecast period, following 17% loan growth in 2020.
- A modest increase in net interest margins although this is off a lower base in 2020 because of the higher cash reserves held at the CBN and the lower yields.
- A marginal increase of the NPLs ratio to 4.7% in 2021, after which we expect this ratio to improve to around 3% in 2023.
- Cost of risk to range between 1.6% and 1.1% of average total loans.
- Dividend distribution of about 30% of net income.

Chart 5

Rated Banks' Capital Adequacy Ratios Meet Minimum Regulatory Requirements



Data as at December 2020. Source: S&P Global Ratings.

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Stanbic IBTC group's capital adequacy ratio (CAR) amounted to 24.8% against the minimum requirement of 10% because it is licensed to operate in Nigeria only, compared with a 15% minimum CAR for a domestic bank with an international banking license (see chart 7). We believe the quality of capital is good, with Tier 2 debt constituting around 7% of total qualifying capital first-quarter 2021. Included within Tier 2 capital is U.S. dollar-denominated subordinated debt, which provides a partial hedge against naira depreciation, of US$40 million (NGN16.4 billion), maturing in May 2025. Considering this, we do not see material strain on the group's and bank's CAR in the event that the naira depreciates by 20% (above our base-case scenario). Stanbic IBTC maintains a capital buffer of 350 basis points above the regulatory minimum. The buffer serves to ensure that the bank will hold sufficient capital to withstand severe losses that could arise under a stress scenario.

Profitability will be under pressure in 2021. We forecast that return on equity will range between 17.5% and 19% 12-18 months--compared with a 30% average between 2017-2020--following which, we expect it to start recovering to pre-pandemic levels. The group's profitability is generally supported by a diversified revenue mix, with more than 50% coming from noninterest income, of which more than half originates from the investment banking and wealth divisions. We believe that the group will maintain this revenue split as retail banking operations continue growing. We note retail-based fee income increases as a proportion of noninterest income.

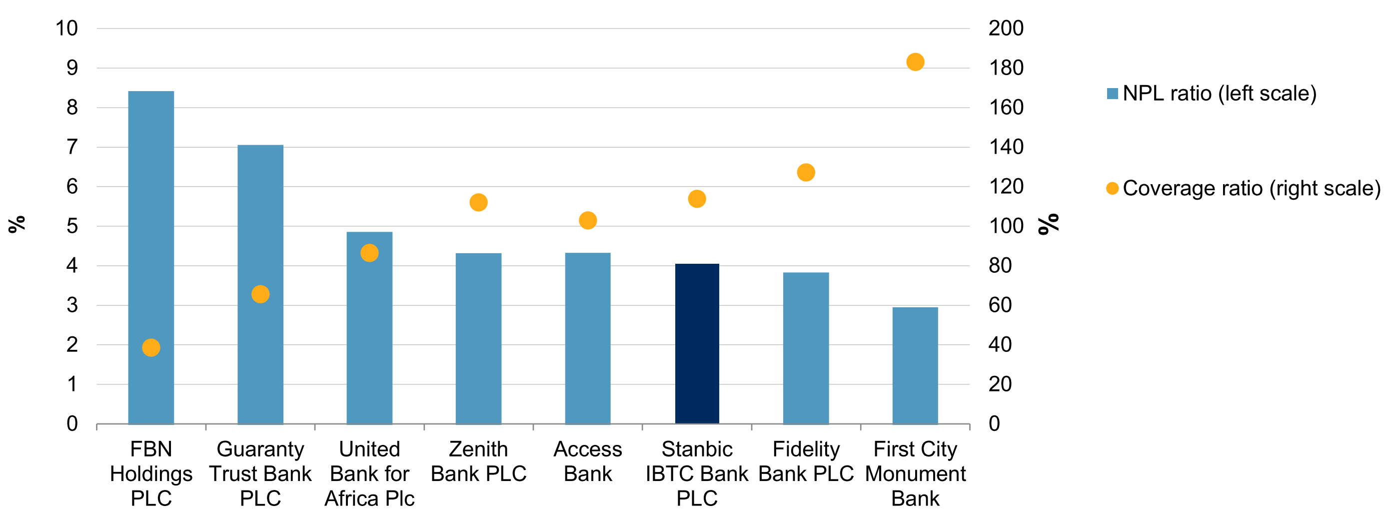
Stanbic IBTC's earnings buffer was good, at 0.93% in fiscal year 2020, which is in line with that of top-rated banks in Nigeria. Nevertheless, we expect this buffer to range between 0.6% and 0.75% of S&P Global Ratings risk-weighted assets.

Risk Position: Prudent Increase In Provisions In Response To The Pandemic

Stanbic IBTC group's asset quality metrics were stable in 2020 (see chart 7), with the NPL ratio increasing moderately to 4%. We believe the constrained operating conditions and end of forbearance measures will result in NPLs peaking at 4.6% of total loans in 2021. At the same time, we estimate cost of risk will peak at 1.6% of average total loans in 2021, whereafter we expect it to improve to 1.35% in 2022, and 1.1% in 2023.

Chart 6

Nigerian Banks' Asset Quality Comparison



Data as at December 2020. NPL: Nonperforming loan. Source: S&P Global Ratings.
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Like top-tier banks in Nigeria, the group exhibits high single-obligor concentrations and foreign currency lending. The top 20 loans accounted for 63% of total loans at year-end 2020, while the top 20 NPLs represented about 88% of total NPLs at the same period. Foreign currency lending represented 48% of total loans in 2020, broadly in line with the sector average. Given the Nigerian economy's reliance on hydrocarbons, Stanbic IBTC is unlikely to significantly reduce its share of foreign-currency loans. Positively, it maintains good loan-loss reserve coverage of NPLs, which should remain above 100% through our forecast period.

Funding And Liquidity: Stable Funding Structure

Stanbic IBTC's funding structure has improved, now mostly relying on customer deposits. We think the bank also benefits from its brand reputation and the expertise available within the broader SBG to drive its corporate and investment banking relationships. The bank is primarily deposit-funded, with 52% of the funding base from core customer deposits.

The deposit book is short-dated, with about 85% of deposits repayable on demand but these deposits have been stable over time. At year-end 2020, depositor concentration remained high, with the top 20 depositors equating to 24.1% of total deposits, while foreign currency deposits represented 31% of total deposits.

The group reported a net stable funding ratio of 136% at March 31, 2020 and exhibits one of the lowest levels of loan leverage among rated banks in Nigeria. Its ratio of total net loans to total deposits amounted to 55% as of March 31, 2021. The group maintains a liquid balance sheet. It has proactively managed its foreign currency balance sheet and has access to parent support if needed. In 2017, Stanbic IBTC entered a foreign currency revolving facility with Standard Bank of South Africa, to provide up to $50 million. To date, the group has not drawn funds under the agreement. Broad liquid assets covered short-term wholesale funding by about 2x as of March 31, 2020.

We consider the group's double leverage (70% of as of Dec. 31, 2020) to be moderate.

Support: No Notches Of Uplift For Group Support

We assess the group stand-alone credit profile at 'b-' and do not add any notch of support because of the low sovereign rating. However, we continue to view the bank as strategically important to its South African parent, SBG. This accounts for SBG's strategic emphasis on Africa and the importance of the Stanbic IBTC sub-group within its African operations. Furthermore, the subgroup benefits from risk management support and additional capital and liquidity from SBG's South African operations. Consequently, we believe the subgroup, and by extension, the bank, is likely to receive capital and liquidity support, if needed. Stanbic IBTC Holding PLC is a member of SBG, which has a 67.02% equity holding interest through Stanbic Africa Holdings Ltd.

Additional Rating Factors

The 'b-' group credit profile is constrained by the long-term foreign currency rating on Nigeria. We do not rate Nigerian banks above the sovereign because of the likely direct and indirect influence of sovereign distress on their operations, including their ability to service foreign currency obligations.

Environmental, Social, And Governance (ESG)

We see ESG credit factors for Stanbic IBTC as broadly in line with industry and country peers. Governance and disclosure practices are in line with that of top-tier banks in Nigeria. That said, we believe that governance and management practices are closely aligned with the South African parent SBG. Similar to South African banks' practices, changes of the senior management are supported by an internal pool of talent and do not arise from a misalignment of strategic direction.

Energy transition risk is material because of banks' exposures to the oil and gas sector. Stanbic IBTC's exposures to the oil and gas sector amounts to 25.5%. Nevertheless, the group's lending has become more restrictive to reduce flaring practices. It is also increasing its resilience to climate change by continually diversifying lending away from the hydrocarbon industry and working toward reducing its own carbon footprint.

Key Statistics

Table 1

Stanbic IBTC Bank PLC--Key Figures

(Mil. NGN)	2021*	2020	2019	2018	2017
Adjusted assets	2,564,886	2,481,666	1,871,224	1,662,834	1,385,811
Customer loans (gross)	762,733	655,292	556,383	456,624	403,852
Adjusted common equity	376,443	354,199	271,666	220,944	174,396
Operating revenues	38,943	198,854	186,552	180,742	172,560
Noninterest expenses	27,649	94,680	94,476	94,606	86,026
Core earnings	11,300	84,412	75,515	74,426	48,216

*Data as of March 31. NGN--Nigeria naira.

Table 2

Stanbic IBTC Bank PLC--Business Position

(%)	2021*	2020	2019	2018	2017
Total revenues from business line (currency in millions)	38,943	198,924	186,586	180,813	172,769
Retail banking/total revenues from business line	26.48	19.40	28.04	27.04	25.63
Trading and sales income/total revenues from business line	N/A	26.20	19.47	17.31	16.87
Asset management/total revenues from business line	38.63	26.17	27.07	26.20	22.84
Return on average common equity	11.40	24.26	27.33	34.54	28.95

*Data as of March 31. N/A--Not applicable.

Table 3

Stanbic IBTC Bank PLC--Capital And Earnings

(%)	2021*	2020	2019	2018	2017
Tier 1 capital ratio	20.20	23.10	21.90	19.60	18.60
Double leverage	70.28	69.89	83.69	92.32	117.22
Net interest income/operating revenues	40.73	37.32	41.72	43.27	48.44
Fee income/operating revenues	53.44	35.80	37.73	38.64	34.24

Table 3

Stanbic IBTC Bank PLC--Capital And Earnings (cont.)

(%)	2021*	2020	2019	2018	2017
Market-sensitive income/operating revenues	8.28	26.66	20.40	17.32	16.89
Cost to income ratio	71.00	47.61	50.64	52.34	49.85
Preprovision operating income/average assets	1.79	4.78	5.20	5.65	7.09
Core earnings/average managed assets	1.79	3.87	4.27	4.88	3.95

*Data as of March 31. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

Stanbic IBTC Bank PLC Risk-Adjusted Capital Framework Data

(Mil. NGN)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	1,520,410	0	0	2,634,611	173
Of which regional governments and local authorities	814,332	0	0	2,141,286	263
Institutions and CCPs	68,094	0	0	168,552	248
Corporate	847,681	978,727	115	2,155,131	254
Retail	56,329	0	0	126,741	225
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets†	63,661	0	0	189,114	297
Total credit risk	2,556,175	978,727	38	5,274,149	206
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	62,043	0	0	441,871	712
Trading book market risk	--	18,665	--	34,997	--
Total market risk	--	18,665	--	476,868	--
Operational risk					
Total operational risk	--	353,926	--	381,253	--
(Mil. NGN)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	1,351,318	--	6,132,270	100
Total diversification/ concentration adjustments	--	--	--	2,295,031	37
RWA after diversification	--	1,351,318	--	8,427,302	137
(Mil. NGN)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		314,196	23.1	354,199	5.8
Capital ratio after adjustments‡		314,196	23.1	354,199	4.2

Table 4

Stanbic IBTC Bank PLC Risk-Adjusted Capital Framework Data (cont.)

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.NGN -- Nigerian naira . Sources: Company data as of 'Dec. 31 2020', S&P Global Ratings.

Table 5

Stanbic IBTC Bank PLC--Risk Position

(%)	2021*	2020	2019	2018	2017
Growth in customer loans	16.40	17.78	21.85	13.07	7.60
New loan loss provisions/average customer loans	(0.51)	1.35	0.13	(0.68)	6.57
Net charge-offs/average customer loans	(1.04)	0.48	0.54	(0.71)	(0.62)
Gross nonperforming assets/customer loans + other real estate owned	3.56	4.04	3.88	3.88	7.85
Loan loss reserves/gross nonperforming assets	119.94	113.82	112.34	134.98	100.16

*Data as of March 31. NGN--Nigerian naira. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

Stanbic IBTC Bank PLC--Funding And Liquidity

(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	52.22	52.12	49.29	68.94	80.72
Customer loans (net)/customer deposits	80.45	70.78	80.81	51.28	46.95
Long-term funding ratio	67.97	68.51	70.24	64.74	84.84
Stable funding ratio	136.19	148.15	138.97	154.38	188.85
Short-term wholesale funding/funding base	39.02	38.44	36.38	42.14	18.01
Broad liquid assets/short-term wholesale funding (x)	2.19	2.29	2.11	2.00	4.87
Net broad liquid assets/short-term customer deposits	59.36	63.57	60.99	53.07	83.94
Short-term wholesale funding/total wholesale funding	81.67	80.29	71.73	135.67	93.41

*Data as of March 31.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Nigeria Long-Term Rating Affirmed At 'B-'; Outlook Stable, Aug. 28, 2020
- Banking Industry Country Risk Assessment: Nigeria, Nov. 30, 2020

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	**10**
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	**b**
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 5, 2021)*

Stanbic IBTC Bank PLC		
Issuer Credit Rating		B-/Stable/B
Nigeria National Scale		ngBBB/--/ngA-2
Issuer Credit Ratings History		
31-Mar-2020		B-/Stable/B
03-Mar-2020		B/Negative/B
22-Sep-2016		B/Stable/B
31-Mar-2020	*Nigeria National Scale*	ngBBB/--/ngA-2
03-Mar-2020		ngA-/--/ngA-2
02-Jul-2018		ngA/--/ngA-1
22-Sep-2016		ngBBB/--/ngA-2
Sovereign Rating		
Nigeria		B-/Stable/B
Nigeria National Scale		ngBBB/--/ngA-2
Related Entities		
Liberty Group Ltd.		
Issuer Credit Rating		
South Africa National Scale		zaAAA/--/zaA-1+
Subordinated		
South Africa National Scale		zaA+
South Africa National Scale		zaAA

Ratings Detail (As Of August 5, 2021)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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