Fitch Ratings

Banks
Universal Commercial Banks
Nigeria

Stanbic IBTC Holdings PLC

Key Rating Drivers

Institutional Support Drives Ratings: The National Ratings of Stanbic IBTC Holdings PLC (Stanbic IBTC) and its 99.9% owned subsidiary, Stanbic IBTC Bank PLC (Stanbic IBTC Bank), are based on potential support from their ultimate parent, South Africa's Standard Bank Group Limited (SBG; BB-/Negative), which owns 67.1% of Stanbic IBTC.

Strategic Importance to SBG: Stanbic IBTC is strategically important to SBG as the holding company (HoldCo) for its leading wholesale banking and wealth businesses in Nigeria (the country is a key growth market for SBG's Africa Regions strategy) - and for Stanbic IBTC Bank, an integral part of its Nigerian operations.

Leading Domestic Corporate Bank: Stanbic IBTC's main operating entity is Stanbic IBTC Bank, a leading corporate bank in Nigeria (with around 5% of banking sector assets), which formed 96% of the HoldCo's consolidated assets at end-1H21. Fitch Ratings believes that support from SBG, if needed, would extend equally to Stanbic IBTC and Stanbic IBTC Bank.

Highly Integrated with SBG: Stanbic IBTC Bank 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 Bank with significant competitive advantages, including access to the SBG network and the ability to serve large domestic and multinational companies. Stanbic IBTC and Stanbic IBTC Bank benefit from intra-group liquidity and capital support, if needed, and access to wider wholesale funding sources.

Stabilising Operating Environment: Fitch expects Nigeria's real GDP growth to rebound to 1.9% in 2021 (minus 1.8% in 2020). However, the operating environment for banks remains challenging given foreign currency (FC) scarcity, naira devaluation and regulatory intervention.

Asset Quality Pressures Abating: Stanbic IBTC's impaired loan (IFRS 9 Stage 3) ratio improved to 3.2% at end-1H21 (end-2020: 4%), supported by write-offs, the migration of some Stage 3 loans to Stages 1 and 2 and high loan growth (20.7%). The ratio increased slightly to 3.4% at end-3Q21 but Fitch expects it to remain below 5% in 2021 given Stanbic IBTC's prime customer base and good risk controls. Total reserves coverage of impaired loans was sound (end-1H21: 122%).

Earnings Facing Headwinds: Stanbic IBTC's annualised operating profit/risk weighted assets ratio fell to 3.4% in 1H21 (2020: 7%) due to margin compression and weak trading gains. We expect profitability to recover in 2021, but remain below 2020. Despite earnings pressures, Stanbic IBTC's profitability metrics remain above peers owing to its diversified business model.

Solid Capitalisation: Stanbic IBTC's Fitch Core Capital (FCC) ratio is high (end-1H21: 22.8%), and at the top end of the sector. Stanbic IBTC Bank's total capital adequacy ratio (CAR; 15.7% at end-3Q21) provides a solid buffer over its 10% regulatory requirement.

Stable Funding and Liquidity Profile: Stanbic IBTC's loans/customer deposits ratio (end-1H21: 82.5%) is higher than peers' due to Stanbic IBTC Bank's smaller retail franchise and higher reliance on wholesale funding. Liquidity is adequate both in naira and FC.

Rating Sensitivities

Upside Potential: Stanbic IBTC's and Stanbic IBTC Bank's National Ratings are at the highest level on Fitch's national rating scale and cannot be upgraded.

Downside Potential: Stanbic IBTC's and Stanbic IBTC Bank's National Ratings 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 Holdings at 'AAA(nga)' (September 2021)

Nigerian Banks' Near-Term Credit Risks Ease (May 2021)

Stanbic IBTC Holdings PLC (April 2021)

Nigeria (March 2021)

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

Standard Bank Group Limited (December 2020)

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Debt Rating Classes

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.

Stanbic IBTC Bank PLC

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

Source: Fitch Ratings

Institutional Support Assessment

The ratings of Stanbic IBTC and Stanbic IBTC Bank are based on potential support from their ultimate parent, SBG. The ratings reflect SBG's ability and willingness to support Stanbic IBTC and Stanbic IBTC Bank, if required. SBG's ability to support considers its 'BB-' Long-Term IDR, but is constrained by Nigeria's Country Ceiling of 'B'.

Fitch's view of SBG's willingness to support considers Stanbic IBTC's and Stanbic IBTC Bank's strategic importance to SBG's pan-African franchise, SBG's controlling ownership of Stanbic IBTC, its high operational integration with Stanbic IBTC Bank, shared branding, and Stanbic IBTC's consistent and growing contribution to SBG's earnings.

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

Stabilisation of Nigeria's Operating Environment

Nigeria's economy is expected to grow by 1.9% in 2021 (compared to a 1.8% real GDP contraction in 2020) on the back of a rebound in oil prices, an expanding non-oil sector and the absence of renewed social containment measures. However, challenges linger in the form of FC scarcity, currency devaluation, high inflation and regulatory intervention from the Central Bank of Nigeria (CBN).

Our base case is that asset quality metrics are likely to hold up in 2021 (for the Fitch-rated banks, the average impaired loan ratio was 6.3% at end-2020) even though support measures are ending. According to the CBN, loans under Covid-19-related deferrals accounted for around 38% of total loans at end-April 2021. There is some risk that a proportion of these loans will migrate to Stage 3 but a material increase is unlikely.

We believe customers who have exited loan deferrals have resumed payments. New impaired loans are most likely to come from SMEs given the extent of the economic damage on businesses. More positively, current high oil prices are supportive of the banks' asset quality as they take pressure off the upstream sector, a traditionally problematic sector. Oil-related loans represent around 30% of sector loans; a large proportion are in FC.

We assume sector loan growth of 10% in 2021, reflecting pent-up demand, currency devaluation (around 40% of sector loans are in US dollars) and increasing lending to priority sectors. Loan growth will also come from a strategic shift towards consumer lending, with many banks investing in, and rolling out, digital channels.

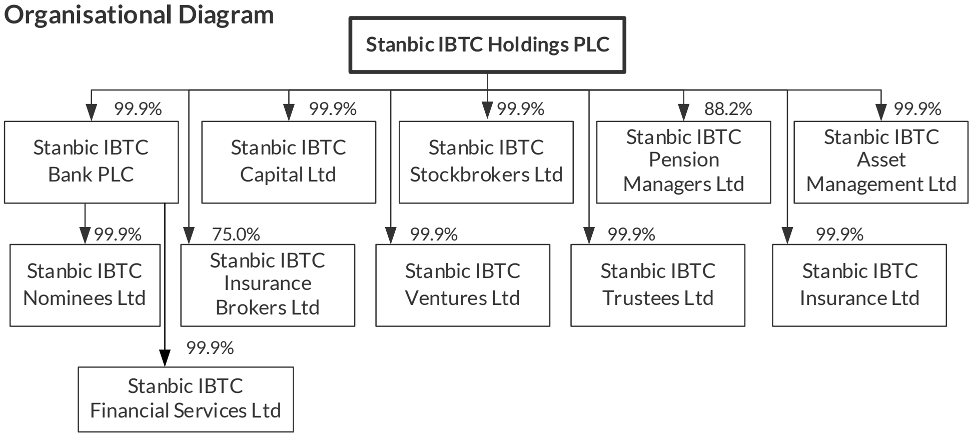
The low rate environment and modest loan growth will continue to depress earnings and profitability despite a slower pace of provisioning in 2021. Solid non-interest income generation (mainly from fees and commissions and trading income) will continue to underpin results. We believe performance metrics are unlikely to return to pre-pandemic levels for at least another two years. Capitalisation, funding and liquidity remain relative strengths.

Organisational Structure

A HoldCo structure was adopted in 2012 to comply with CBN regulations, and includes Stanbic IBTC's main operating subsidiary, Stanbic IBTC Bank, and other financial services subsidiaries. All entities complied with regulations, including minimum capital requirements, at end-1H21.

Stanbic IBTC and Stanbic IBTC Bank are both regulated by the CBN, but regulatory focus is primarily on the bank, at least until Basel III implementation (expected in 2022). The HoldCo is not required to comply with minimum capital adequacy requirements under Basel II, yet Stanbic IBTC's CAR was a high 21.1% at end-3Q21 (end-1H21: 22.5%). Double leverage for Stanbic IBTC was moderate at 77% at end-1H21. There are no restrictions on upstreaming dividends or liquidity from the bank to the HoldCo, but CBN approval is required. Stanbic IBTC had no external borrowings at end-1H21.

Organisational Diagram



Source: Fitch Ratings, Stanbic IBTC

Company Summary and Key Qualitative Assessment Factors

Leading Wholesale Banking and Wealth Businesses in Nigeria

Stanbic IBTC is a listed HoldCo for SBG's market leading banking and related financial services businesses in Nigeria. Stanbic IBTC's main operating entity, Stanbic IBTC Bank, is a mid-sized universal bank, with a strong corporate banking franchise and a growing presence in retail and business banking. Wholesale banking franchise strengths come from being part of SBG's pan-African network and an ability to serve large domestic and multinational companies.

Stanbic IBTC Bank formed 96% of Stanbic IBTC's consolidated assets at end-1H21 (end-2020: 95%) and generated 59% (2020: 71%) of its revenues. The bank had 175 branches, which is moderate by Nigerian standards, and 2.4 million customers at end-2020. Stanbic IBTC also has well entrenched subsidiaries in stock broking, investment banking, asset management, pension management and trustee services. The establishment of a wholly-owned life insurance subsidiary, Stanbic IBTC Insurance Limited, in 1Q21 augments Stanbic IBTC's holistic financial services offering to clients and diversifies its revenue streams.

At end-1H21, Stanbic IBTC's operations were split into three main business lines: Corporate and Investment Banking (CIB), Personal and Business Banking (PBB) and Wealth, which is an important contributor of capital-light revenue for Stanbic IBTC (37% of revenue in 1H21). PBB contributed 27% of revenue but reported a loss in 1H21 due to a high cost base. Effective August 2021, Stanbic IBTC transitioned to a client segment led organisation from a product/ service focus. Its new operating segments include Wholesale Clients (formerly CIB); Consumer and High Net Worth Clients (formerly Personal Banking), with the inclusion of Wealth; and Business and Commercial Clients (formerly Business Banking).

Digitisation is a Key Focus Area

Stanbic IBTC's strategy, operations, corporate governance and financial reporting are aligned with SBG's and tailored for domestic conditions and regulations. Strategic execution for banks remains challenging in Nigeria given the fragile economic recovery and tough regulatory environment. Stanbic IBTC is strategically important in supporting SBG's growth ambitions on the African continent given its leading wholesale banking franchise in Nigeria, which is SBG's regional hub for its west African operations, and strong (though declining) returns (return on equity of 12.3% in 1H21; 2020: 24.4%).

The local market presents growth opportunities for Stanbic IBTC Bank's relatively small consumer banking franchise given Nigeria's large population and economy but achieving scale and efficiency will be difficult given strong competition from larger, more established retail-focused domestic banks. The successful acceleration of the bank's digital transformation will be key to achieving retail and business banking market gains.

The wholesale banking and wealth businesses are likely to maintain their market leadership positions and underpin earnings growth as they continue to benefit from loyal corporate banking relationships, a dominant global markets business, ties with Industrial and Commercial Bank of China, and balance sheet risk sharing with SBG.

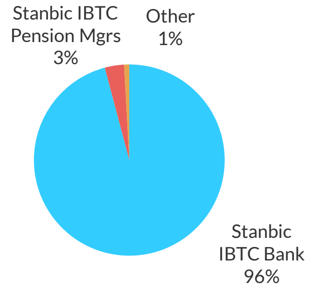
Capable Management Team

Stanbic IBTC is led by experienced executives, supported by expertise from SBG's leadership. The local management has formal reporting lines to SBG's management and interact regularly with their product, business and operational counterparts. Recent management changes at Stanbic IBTC, which were based on a succession plan, did not affect our assessment of management quality.

Risk Profile Reflects High Sovereign Exposure

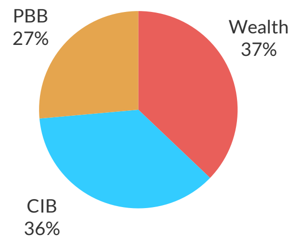
Stanbic IBTC's risk profile reflects its high concentration of assets in Nigerian treasury bills and government bonds (30% of assets at end-1H21) given their generally high-yielding nature and lower relative credit risk. Its risk profile also reflects restricted cash balances held with the CBN (equivalent to a substantial 14% of assets at end-1H21), which are not available for use by Stanbic IBTC Bank for daily liquidity management. The loan book is small (end-1H21: 31% of assets) given high credit risks in Nigeria and low FC availability. Risk management policies and reporting tools are adopted from SBG and are strong compared with peers.

Total Assets by Subsidiary
End-1H21



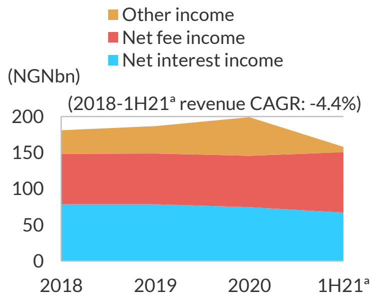
Source: Fitch Ratings, Stanbic IBTC

Operating Income by Segment
1H21



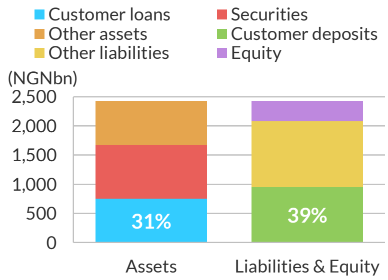
Source: Fitch Ratings, Stanbic IBTC

Revenue Breakdown



[a] Annualised data
Source: Fitch Ratings, Stanbic IBTC

Balance Sheet, End-1H21



Source: Fitch Ratings, Stanbic IBTC

Summary Financials and Key Ratios

	30 Jun 21		31 Dec 20	31 Dec 19	31 Dec 18
	6 months - interim	6 months - interim	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	81	33.3	74.4	78.3	78.5
Net fees and commissions	101	41.3	71.2	70.4	69.8
Other operating income	9	3.8	53.2	37.9	32.4
Total operating income	191	78.4	198.9	186.6	180.7
Operating costs	135	55.4	93.4	93.4	95.8
Pre-impairment operating profit	56	23.0	105.4	93.2	84.9
Loan and other impairment charges	-3	-1.3	10.8	2.3	-3.2
Operating profit	59	24.3	94.6	90.9	88.1
Other non-operating items (net)	1	0.4	0.1	0.0	0.1
Tax	5	2.2	11.5	15.9	13.7
Net income	55	22.5	83.2	75.0	74.4
Other comprehensive income	-34	-14.1	4.4	1.9	-2.7
Fitch comprehensive income	21	8.5	87.6	77.0	71.8
Summary balance sheet					
Assets					
Gross loans	1,930	790.6	655.3	556.4	456.6
- of which impaired	62	25.5	26.5	21.6	17.7
Loan loss allowances	76	31.0	30.2	24.3	23.9
Net loans	1,854	759.6	625.1	532.1	432.7
Interbank	20	8.2	7.8	3.0	8.5
Derivatives	61	24.8	46.2	32.9	30.3
Other securities and earning assets	2,251	922.3	952.5	636.2	626.9
Total earning assets	4,186	1,714.9	1,631.7	1,204.3	1,098.4
Cash and due from banks	1,273	521.4	627.1	456.4	455.8
Other assets	466	191.0	227.5	215.8	109.4
Total assets	5,925	2,427.4	2,486.3	1,876.5	1,663.7
Liabilities					
Customer deposits	2,339	958.4	819.9	637.8	807.7
Interbank and other short-term funding	1,118	457.9	652.3	370.4	240.2
Other long-term funding	352	144.2	158.4	153.0	130.5
Trading liabilities and derivatives	327	134.1	101.1	178.9	49.9
Total funding	4,137	1,694.6	1,731.7	1,340.1	1,228.3
Other liabilities	943	386.3	376.0	234.1	195.7
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	846	346.4	378.6	302.2	239.7
Total liabilities and equity	5,925	2,427.4	2,486.3	1,876.5	1,663.7
Exchange rate		USD1 = NGN409.66	USD1 = NGN381	USD1 = NGN307	USD1 = NGN306.31

Source: Fitch Ratings, Fitch Solutions, Stanbic IBTC

Summary Financials and Key Ratios

	30 Jun 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.4	7.0	7.6	9.2
Net interest income/average earning assets	4.0	5.0	6.9	8.1
Non-interest expense/gross revenue	70.7	47.0	50.1	53.0
Net income/average equity	12.3	24.4	27.6	35.5
Asset quality				
Impaired loans ratio	3.2	4.0	3.9	3.9
Growth in gross loans	20.7	17.8	21.9	13.1
Loan loss allowances/impaired loans	121.8	113.8	112.3	135.0
Loan impairment charges/average gross loans	-0.2	1.6	0.3	-0.7
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	22.8	26.7	24.1	24.6
Tangible common equity/tangible assets	13.7	14.6	15.4	14.2
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	-1.7	-1.0	-0.9	-2.6
Funding and liquidity				
Loans/customer deposits	82.5	79.9	87.2	56.5
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	57.0	48.4	47.8	66.0
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Stanbic IBTC

Key Financial Metrics – Latest Developments

Asset Quality Pressures Abating

Asset quality risks are less marked at Stanbic IBTC compared to peers. Impaired loans fell to 3.2% of gross loans at end-1H21 (end-2020: 4%) but increased slightly to 3.4% at end-3Q21. Stage 2 loans accounted for 3.2% (end-2020: 2.4%) of gross loans at end-1H21, which is much lower than at peers. Total restructured loans (including Covid-19-related deferrals) were a low 2.2% of gross loans at end-1H21, down from 9.6% at end-2020.

Stanbic IBTC's asset quality remains sensitive to industry and borrower concentrations. The CIB loan book accounts for the majority of lending (end-1H21: 58%). Exposure to the vulnerable oil & gas and manufacturing sectors accounted for 25% and 26% of gross loans, respectively, at end-1H21. Higher oil prices and the economic recovery have eased pressures on borrowers in these sectors but US dollar shortages remain a key credit risk. Stanbic IBTC's FC loans are significant (52% of gross loans). The 20 largest loans accounted for half of gross loans and 1.2x FCC at end-1H21.

Non-loan assets are substantial and support asset quality. Stanbic IBTC's effective cash reserve requirement remains well above the 27.5% regulatory requirement due to significant Naira balances on behalf of foreign portfolio investors. Other than cash balances with the CBN, Stanbic IBTC holds a large book of investment securities (27% of total assets at end-1H21, being mainly treasury bills) for revenue generation and liquidity purposes.

Earnings Facing Headwinds

Earnings are largely driven by non-interest income, including asset management fees. Fees and commissions have held up but trading revenue declined sharply in 1H21 given lower market activity. Stanbic IBTC's net interest margin contracted by around 100 bp to 4% in 1H21 (2020: 5%) given low interest rates and low yields on government securities but this has been partly offset by a lower cost of funding.

Non-interest income contributed 58% of operating income, underpinned by higher asset management fees as volumes rose. Recoveries on previously written-off loans more than covered loan impairment charges in 1H21, supporting profitability. The cost/income ratio increased to 71% in 1H21 from 47% in 2020 mainly due to lower operating income and seasonal regulatory induced costs. We expect operating efficiency to recover, though not fully, in 2021.

Solid Capital Buffers

Stanbic IBTC Bank remains well capitalised. Its CAR decreased to 15.7% at end-3Q21 (end-1H21: 17.1%) but remains comfortably above the 10% regulatory requirement for banks, like Stanbic IBTC Bank, with a licence to operate in Nigeria only. We expect Stanbic IBTC Bank to maintain solid capital buffers in the medium term, supported by USD-denominated subordinated debt of USD40 million (equivalent to 7.5% of its total regulatory capital at end-1H21) maturing in 2031 from SBG, which provides a partial hedge against naira depreciation.

Risk-weighted assets density is fairly low (end-1H21: 60%) for Stanbic IBTC, as for peers, given large holdings of government securities which carry a 0% risk-weighting. This supports strong regulatory capital ratios. Nevertheless, its tangible common equity/assets ratio was a high 13.7% at end-1H21.

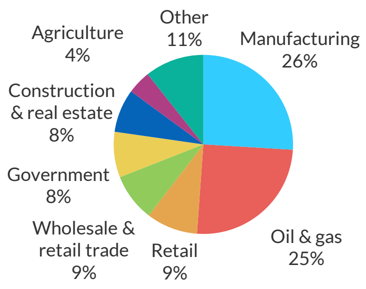
Stable Funding and Liquidity Profile

Stanbic IBTC's funding profile is supported by the bank's recognisable brand, long standing corporate relationships and roll-out of alternative delivery channels. At end-1H21, domestic customer deposits represented 57% of total funding, while non-domestic bank deposits were a high 23%. Other funding included on-lending borrowings (end-1H21: 6%), debt securities (4%) and trading liabilities (10%). Related-party funding was around 4% of total liabilities at end-1H21. Stanbic IBTC has a USD50 million contingency funding line from the SBG.

Customer deposits comprised a moderate amount of retail deposits (29%) and a higher share of deposits from commercial (32%) and corporate (39%) customers. Stanbic IBTC's funding profile is less concentrated than that of peers (the 20 largest depositors were 21% of total deposits at end-1H21). Stanbic IBTC's liquidity ratio was above the regulatory minimum requirement of 30% at end-3Q21.

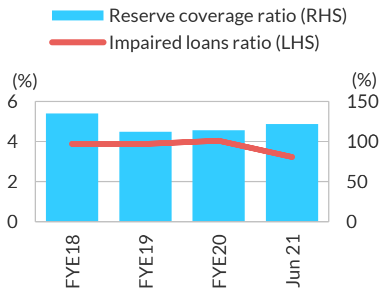
Gross Loans by Sector

End-1H21



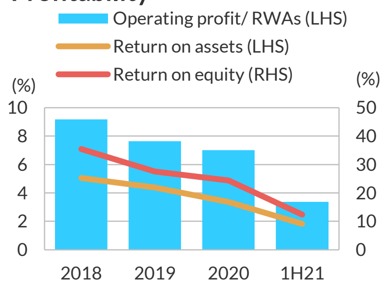
Source: Fitch Ratings, Stanbic IBTC

Asset Quality



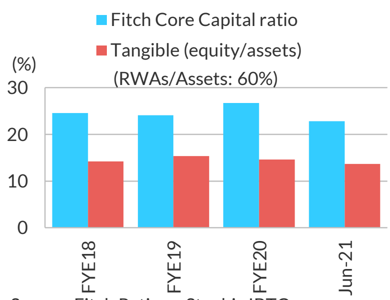
Source: Fitch Ratings, Stanbic IBTC

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.