

# Confidential Rating

Research Update

Stanbic IBTC Holdings Plc

## Outlook On Stanbic IBTC Holdings Revised To Stable After Same Action On Sovereign; National Scale Ratings Raised To 'ngBBB/ngA-2'

Aug. 14, 2023

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### Overview

- S&P Global Ratings revised its outlook on Nigeria to stable from negative on Aug. 4, 2023, based on reform initiatives.
- We do not rate financial institutions in Nigeria above the sovereign foreign currency sovereign ratings, due to the direct and indirect effect sovereign stress would have on banks' operations and creditworthiness. At the same time, we assess Stanbic IBTC Holdings' group credit profile higher than the sovereign's creditworthiness because of its resilient performance through the cycle.
- We therefore revised our outlook on Stanbic IBTC Holdings Plc to stable from negative and raised our long- and short-term national scale ratings to 'ngBBB/ngA-2'.

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## Rating Action

JOHANNESBURG (S&P Global Ratings) Aug. 14, 2023--S&P Global Ratings today said it revised its outlook on Stanbic IBTC Holdings Plc to stable from negative. At the same time, S&P Global Ratings affirmed its 'B-/B' global scale ratings on the entity and raised its national scale ratings to 'ngBBB/ngA-2'. For full details of the rating actions, see "Ratings List" below.

## Rationale

The rating action follows the outlook revision on the foreign currency rating on Nigeria (see "Nigeria Outlook Revised To Stable From Negative On Reform Initiatives; 'B-/B' Ratings Affirmed," published Aug. 4, 2023, on RatingsDirect).

Our outlook revision on the sovereign to stable from negative followed a series of early reforms by President Bola Tinubu who was sworn in on May 29, 2023, including removal of fuel subsidies and securitization of the government's large central bank funding at a lower interest rate.

The exchange rate adjusted sharply following the announcement of the liberalization of the exchange rate regime with the currency depreciating to NGN780:US\$1 from NGN460:US\$1. In its fight against inflation, which averaged 18.8% in 2022, the Central Bank of Nigeria (CBN) raised its benchmark rate by another 50 bps to 18.75% in July 2023 and maintained the minimum cash reserve requirement (CRR) at 32.5% although it lowered this ratio to 10% for merchant banks. The CBN's discretionary cash debits of banks will continue to constrain lending growth and optimization of net interest margins. Nigerian banks are largely funded by customer deposits although small banks tend to rely on wholesale funding. Real lending expansion will likely be held back by high inflation and interest rates.

The CBN's naira and U.S. dollar liquidity management has created distortions in the banking sector, which in turn have had negative implications on banks' cost of funding and risk-adjusted returns. That said, we expect the banking sector's profitability will remain in line with its 2022 strong performance with return on average equity of about 16% for 2023. Banks' balance sheets are long on the U.S. dollar, and a naira depreciation will lead to additional earnings. At the same time, a currency depreciation will result in higher risk-weighted assets and reduce capitalization for the sector. We believe banks' regulatory capitalization is generally less at risk today than in 2016 but we do not exclude pressure on individual banks' capitalization in the case of a prolonged weakening of the Nigerian naira.

The banking sector is exposed to short credit cycles and high credit risks amid currency depreciation and Nigeria's high dependence on hydrocarbons, which leads to concentration and energy transition risks. The banking sector has material exposure to the oil and gas sector, averaging about 30% of total loans. Banks' credit losses outperformed our normalized loss estimates in 2022, at about 1.5% of total loans for rated banks. We expect credit losses will inch higher and average 2% in 2023, while the nonperforming loans (NPL) ratio will deteriorate to 5.7% in 2023 (above the 5% regulatory limit), amid high inflation and interest rates.

We do not rate financial institutions in Nigeria above the foreign currency sovereign ratings, due to the direct and indirect effects that sovereign distress would have on banks' operations. We assess Stanbic IBTC Holdings' group credit profile higher than the sovereign's creditworthiness because of the group's resilient performance through the cycle. We however, believe Stanbic IBTC Holdings'

operations would be significantly affected in the event of a sovereign default. However, we raised our national scale ratings on the entity to reflect its resilient performance through the economic cycle despite a challenging operating environment and the support from its parent, Standard Bank Group. Our national scale ratings consider the 'ngBBB+/ngA-2' sovereign national scale ratings as the highest benchmark and reflect the relative ranking of banks' creditworthiness in Nigeria.

## **Outlook**

The stable outlook on Stanbic IBTC Holdings Plc reflects that on Stanbic IBTC Bank PLC. Any rating action on the bank would prompt a similar action on Stanbic IBTC Holdings.

### **Downside scenario**

We would lower the ratings on Stanbic IBTC Holdings Plc over the next 12 months if we took a similar action on the bank.

### **Upside scenario**

We would take a positive rating action on Stanbic IBTC Holdings Plc over the next 12 months if we took a similar action on the bank, all else being equal.

## **Related Criteria**

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## **Related Research**

- Nigeria Outlook Revised To Stable From Negative On Reform Initiatives; 'B-/B' Ratings Affirmed, Aug. 4, 2023
- Banking Industry Country Risk Assessment: Nigeria, Dec. 5, 2022

## Ratings List

\*\*\*\*\* Stanbic IBTC Holdings PLC \*\*\*\*\*

Upgraded	To	From
Stanbic IBTC Holdings Plc		
<i>Issuer Credit Rating</i>		
Nigeria National Scale	ngBBB/--/ngA-2	ngBBB/--/ngA-3

Ratings Affirmed; Outlook Action

	To	From
Stanbic IBTC Holdings Plc		
<i>Issuer Credit Rating</i>	B-/Stable/B	B-/Negative/B

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