GCR RATINGS

CREDIT RATING ANNOUNCEMENT

GCR affirms Stanbic IBTC Bank Limited's national Scale long and short-term Issuer ratings of $AAA_{(NG)}$/ $A1+_{(NG)}$; Outlook Stable

Rating action

Lagos, 28 May 2024 – GCR Ratings (GCR) has affirmed Stanbic IBTC Bank Limited's national scale long and short-term issuer ratings of $AAA_{(NG)}$ and $A1+_{(NG)}$ respectively, with a Stable outlook.

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

Rating rationale

The ratings affirmation on Stanbic IBTC Bank Limited (Stanbic IBTC Bank or the bank) 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 (the group), 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.

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, operating across major segments of the Nigerian financial services landscape including banking, investment banking, asset management, pension management, custodian services and insurance. The group's strong presence in the non-bank financial services supports its diversification, provides cross-selling opportunities, and strengthens earnings capacity for the bank in a highly competitive market. With a balance sheet size of NGN5.0 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 group's revenue base remains largely stable supported by the dominance of stable earnings sources for its core banking operations.

The group's capitalisation metrics were pressured from the impact of the steep Naira devaluation on the bank's risk-weighted assets in 2023 and first quarter of 2024 given that a sizeable portion of the bank's loan book is foreign currency (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 range between 18%-20% over the next 12-18 months, however this remains below five-year (2018 to 2022) historical average of 23.0%. Any further devaluation in the Naira value would have a negative impact on capitalisation metrics and could place downward pressure on the ratings. Nonetheless, the group's regulatory capital adequacy ratio has consistently been maintained above regulatory minimum of 10% for its license category.

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 non-performing loans (NPL) registered at 2.9% as of 31 March 2024 (31 December 2023: 2.3%) and has been maintained below the regulatory tolerance 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%). The percentage of stage 2 loans to gross loans remains well below the industry's average at 1.4% as of Q1 2024 (2023: 1.0%). Asset quality metrics are expected to remain relatively stable and better than the banking sector's averages over the next 12-18 months, although susceptible to the challenging operating environment.

Counterparty concentration improved slightly, as the top twenty obligors accounted for 37.2% of the loan book as at 31 December 2023 (December 2022: 46.8%), with top two names breaching the regulatory single obligor limit (SOL) of 20% of shareholders' funds. While the bank had 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 reduce the proportion of FCY loans to gross loans from 62.2% as at 2023 to between 40%-45% over the next 12-18 months through the conversion of FCY loans to local currency loans as well as through a moderation in the creation of new FCY loans.

GCR's assessment of funding and liquidity is positive to the rating, underpinned by a stable funding 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.

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, we expect the bank's liquidity ratio 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.

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.

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.

Analytical contacts

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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, February 2024
GCR Financial Institutions Sector Risk Score, December 2023

Ratings history

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

Risk score summary

Rating Components & Factors	Risk Scores
Operating environment	**7.00**
Country risk score	3.50
Sector risk score	3.50
Business profile	**1.00**
Competitive position	1.00
Sustainability Assessment	0.00
Financial profile	**1.25**
Capital and Leverage	0.00
Risk	0.50
Funding and Liquidity	0.75
Comparative profile	**1.75**
Group support	1.75
Government support	0.00

Peer analysis	0.00
Total Score	**11.00**

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 Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
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.
Exchange Rate	The value of one country's currency expressed in terms of another.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an indivdual or company's vulnerability to various risks
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
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.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Market	An assessment of the property value, with the value being compared to similar properties in the area.
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.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
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 Rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings process was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) the ratings process was 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, the Stanbic IBTC Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.

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)