S&P Global Ratings

Confidential Rating

Full Analysis

Stanbic IBTC Holdings PLC

Issuer Credit Rating: B-/Stable/B

August 20, 2024

Confidential Rating

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Credit Highlights

Overview

Key strengths	Key risks
Strategic importance to Standard Bank Group (SBG).	Prolonged period of economic challenges in Nigeria.
Excess regulatory capital buffers in the context of the weak naira.	Monetary policy settings exacerbate financial and operating conditions.
	High structural credit risks stem from single-obligor and foreign currency exposures.

We consider Stanbic IBTC Holdings to be strategically important to Standard Bank Group (SBG). Stanbic IBTC Holdings PLC (Stanbic IBTC; the group) is the non-operating holding parent company (NOHC) of Stanbic IBTC Bank Ltd. (the bank), whose ultimate parent is South Africa-based Standard Bank Group Ltd. The bank is a core component of the Stanbic IBTC subgroup and a strategically important entity to the broader SBG. In our view, SBG is unlikely to allow the bank to fail. SBG controls 67.55% of Stanbic IBTC Holdings PLC as of December 31, 2023. As such, we expect group support to the bank will come through the NOHC. Therefore, we equalize the ratings on the NOHC with that of the bank.

Our ratings on Stanbic IBTC are constrained by Nigeria weak sovereign creditworthiness.

We assess the group's SACP at 'b' and do not add any notch of support because of the lower sovereign rating. Nevertheless, we cap the ratings on the NOHC at the level of the sovereign ratings on Nigeria (B-/Stable/B) because of the likely direct and indirect influence a sovereign distress could have on their operations, including their ability to service foreign currency obligations.

Outlook

The stable outlook on Stanbic IBTC Holdings PLC reflects that of Stanbic IBTC Bank Ltd. Any rating action on Stanbic IBTC Bank Ltd would prompt a similar action on Stanbic IBTC Holdings PLC.

Downside scenario

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

Upside scenario

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

Key Metrics

Key Metrics

	2025f	2024f	2023a	2022a	2021a
Growth in operating revenue	14-15	30-33	48.4	40.1	-14.1
Growth in customer loans	15-20	35-40	68.9	30.9	44.4
Net interest income/average earning assets (NIM)	7.5-7.75	7.75-8	6.2	5.2	4.0
Cost to income ratio	50.5-52.5	47.5-50.5	46.5	53.7	61.2
Return on average common equity	25.5-28.5	28.5-31.5	30.6	20.4	14.7
New loan loss provisions/average customer loans	1-1.2	1-1.2	0.9	0.9	-0.2
Gross nonperforming assets/customer loans	2.4-2.6	2.4-2.6	2.4	2.3	2.1
Risk-adjusted capital ratio	3.1-3.3	3.1-3.3	3.6	4.4	4.9

a--Actual. e--Estimated. f--Forecast.

Anchor: ‘b’ For Banks Operating Only In Nigeria

S&P Global Ratings classifies the banking sector of Nigeria in group '10' under its Banking Industry Country Risk Assessment (BICRA). We use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Nigeria is 'b'.

Macroeconomic challenges will persist in 2024.

The naira has depreciated sharply over the past 12 months, leading to a jump in inflation and increased economic instability. The CBN raised its benchmark rate by 50 bps to 26.75% in July 2024 while inflation increased to 34.2%. High inflation and interest rates will constrain real lending expansion, as will banks' high cash reserve ratios (CRRs). The Central Bank of Nigeria (CBN) imposes CRRs on banks at a high statutory minimum of 45%. Although it has eased, we expect the supply of dollars to remain tight in 2024, also constraining banks' lending capacity. We see some growth opportunities in the oil and gas sector, thanks to increased refining capacity. Elevated prices and interest rates will continue to constrain household spending. GDP per capita will remain low, partly reflecting the country's large population growth. Average income levels will fluctuate at about $1,300 through 2025.

The banking industry's credit cycles are intrinsically linked to the oil and gas sector and foreign currency risk.

We estimate impairment charges of about 4% of loans in 2023 after banks used their exceptional earnings to boost provisions. We forecast the credit loss ratio at about 2% in 2024. Although the amount of nonperforming loans (NPLs) is likely to increase, the NPL ratio will likely decline to about 5% by year-end 2025, as gross loans increase because of the depreciation of the naira. Overall, we expect the share of foreign currency-denominated lending to remain high at about 50% of total loans in 2024. The industry has material exposure to the oil and gas sector, accounting for more than one third of total loans following the sharp naira depreciation in 2023 and early 2024.

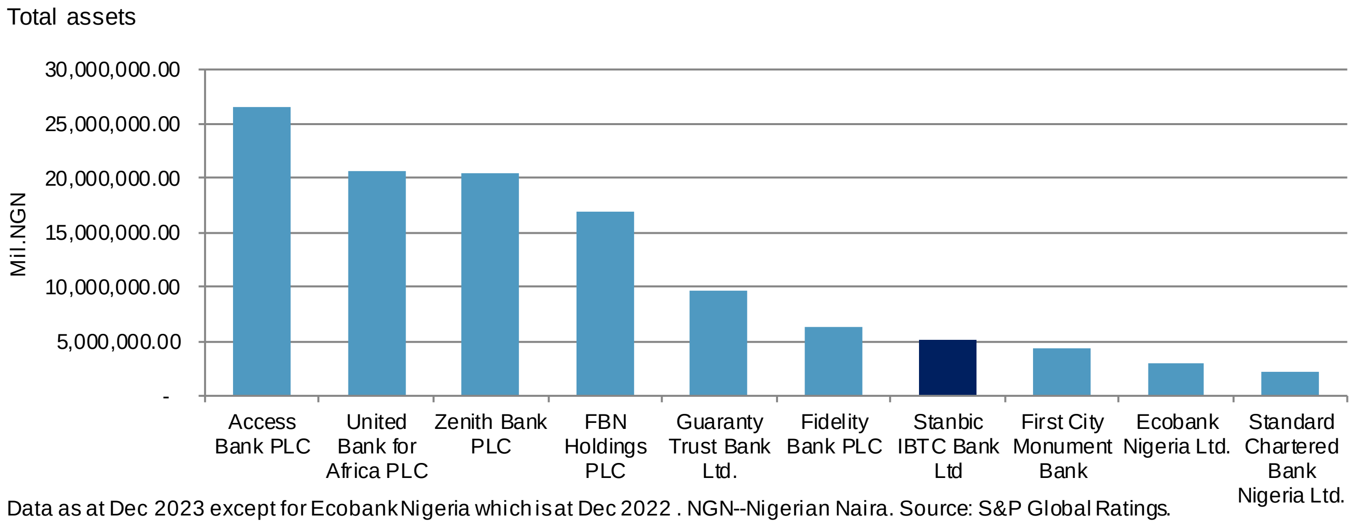
We anticipate the sector's profitability should stay resilient.

The depreciating naira has reduced banks' capitalization because of high risk-weighted assets, which offset banks' exceptional revaluation gains in 2023. We forecast return on equity (ROE) will normalize in 2024 to about 20% following exceptional ROE of 30% in 2023, supported by unrealized gains stemming from banks' re-evaluation of their USD-denominated assets. We foresee potential mergers, acquisitions, or changes in business models as a result of the CBN's recapitalization exercise. The CBN has raised banks' minimum paid-up capital 20x to NGN500 billion (about $380 million) for an international banking license and NGN200 billion for a national license. The deadline to comply is March 2026.

Business Position: Diversified Revenue Streams From Strong Wealth And Investment Banking Franchises

Although the group's business scope is diversified, we expect it to continue deriving most of its revenue from its CIB and IAM divisions over the medium term. Stanbic IBTC's strategy is to be the leading end-to-end financial services provider in Nigeria. Its retail banking operations focus on low-cost deposits and a stable transactional revenue base, notably through innovation, such as its integrated digital platform, combining bank and nonbank financial services.

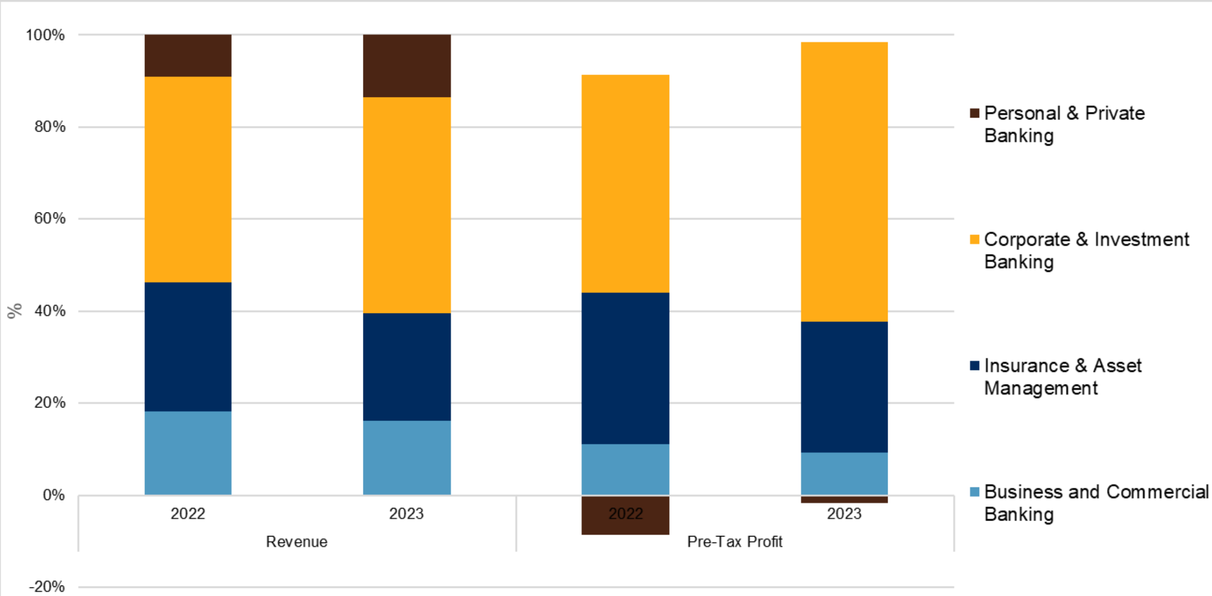
Chart 1: Stanbic IBTC Is The Seventh Largest Nigerian Banking Group By Assets



Data as at Dec 2023 except for Ecobank Nigeria which is at Dec 2022 . NGN--Nigerian Naira. Source: S&P Global Ratings.

The CIB and IAM client operations remain the group's largest revenue and profitability drivers. The CIB franchise 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. The CIB segment was the largest revenue contributor at 47% of total revenue in 2023, while the IAM clients segment was 23% of total revenue mainly supported by noninterest revenue from the insurance and asset management offering.

Chart 2: The CIB and IAM Business Segments Remain The Main Revenue and Profit Drivers For The Group



Source: S&P Global Ratings and Company financials.

Capital And Earnings: Issuance To Meet New Paid-Up Capital Requirements Will Strengthen Capital Buffers

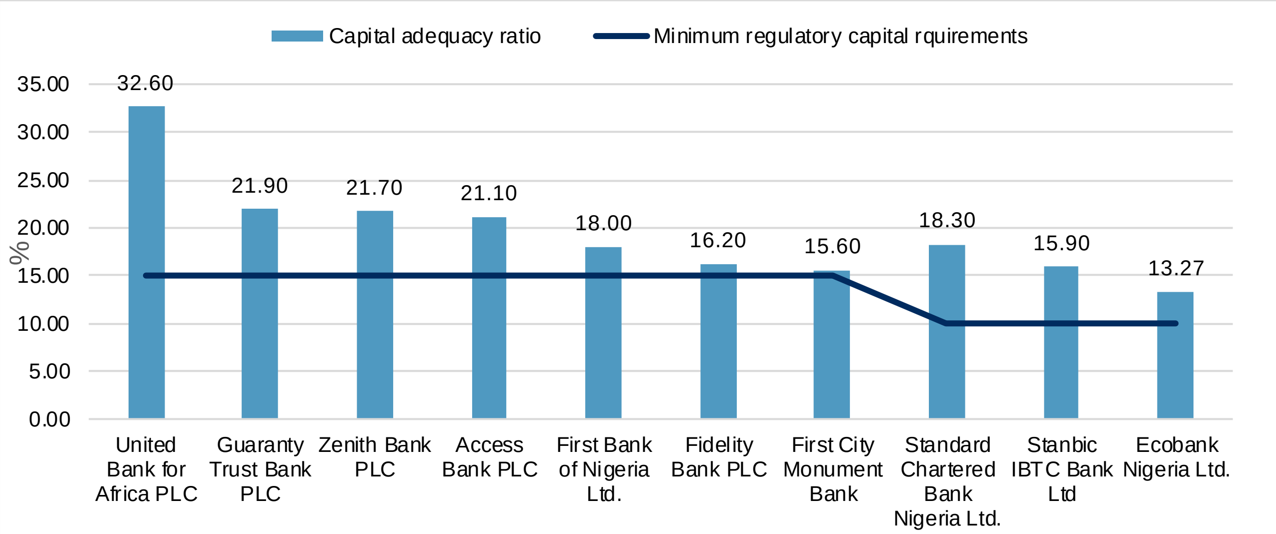
We expect the group will maintain its CAR above the 10% regulatory minimum over the next 12 months, supported by good earnings accretion. In March 2024, the CBN increased the minimum paid-up capital requirement for commercial banks with a national bank license to NGN200 billion ($133 million) from NGN25 billion. As of March 31, 2024, the group's paid-up capital was NGN109 billion, resulting in a shortfall of NGN91 billion ($60.5 million) to meet the new requirement. The group is looking to raise NGN150 billion through a rights issue program by the end of March 2026. This will further bolster capital buffers, strengthen its loss absorption capacity, and support growth. Stanbic IBTC Group's capital adequacy ratio (CAR) declined by 420 basis points (bps) to 14.6% as of March 2024, down from 19% at Dec. 31, 2023, reflecting the impact of the naira depreciation.

At the same time, we forecast the group's Risk-Adjusted Capital (RAC) ratio at 3.3%-3.4% over the next 12-18 months, slightly down from 3.6% at year-end 2023, balancing growth in earnings, dividend payouts, and asset growth. Our RAC ratio declined by 70 bps to 3.6% in 2023, from 4.3% in 2022, due to a significant increase in risk-weighted assets amid the naira depreciation. Our measure of RAC reflects higher risk charges compared with regulatory capital because of the very high economic risk in Nigeria and treatment of elevated mandatory cash reserves in Nigeria in our RAC model.

Our projected RAC ratio assumes the following over 2024-2025:

- Loan growth of 30% in 2024, balancing a weaker naira compared to the end of March 2024, and the group's drive to increase loans to top corporates and retail clients;
- An increase in NIMs to 8% in 2024, reflecting higher interest rates and growth in retail lending;
- Operating expenses to increase by 35% in 2024, reflecting high inflation, but the cost-to-income ratio to remain broadly stable at about 48% supported by higher income.
- Nominal NPLs to increase by about 40%, reflecting the impact of high inflation, rising interest rates, and the weakened naira--although the NPL ratio will remain below 3% because of high loan growth;
- Cost of risk of 120 bps, below the expected 2% average for the sector; and
- Dividend distribution of 30% of net income.

Chart 3: Stanbic IBTC Operates With Excess Regulatory Capital Buffers



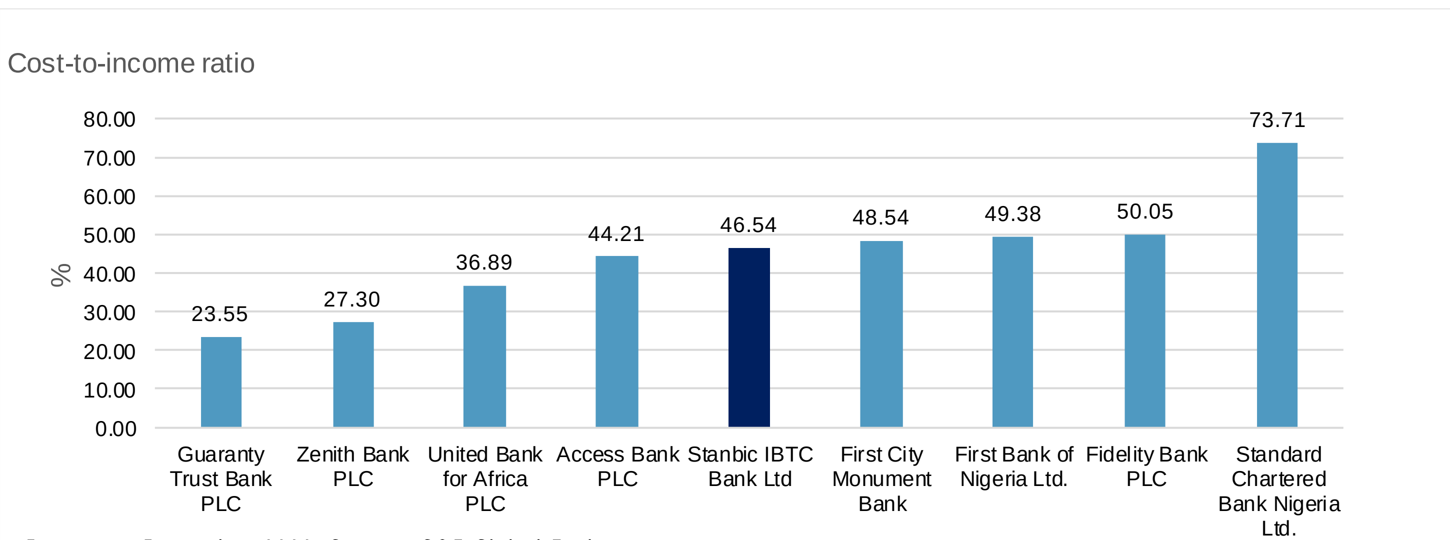
Data as at December 2023 except for Ecobank Nigeria Ltd. which is as at December 2022. Source: Bank financials.

The group's quality of capital is comparable to peers, with Tier 2 debt constituting about 18.8% of qualifying capital as of March 31, 2024. Included within Tier 2 capital is U.S dollar denominated subordinated debt of $40 million (NGN92.5 billion), which provides some hedging against naira depreciation. It was obtained from Standard Bank of South Africa and matures in February 2031.

Earnings capacity is relatively strong compared to mid-tier peers. ROE was 30.6% in 2023 compared to a mid-tier rated peer average of 22.0%. We forecast ROE will remain stable at current levels over the next 12-18 months. We expect the group's earnings buffer to average 0.6% of S&P Global Ratings risk-weighted assets through 2024. This buffer is constrained by our more conservative estimate of normalized credit losses (average losses over an entire credit cycle).

The group's operating efficiency also supports profitability; it has one of the lowest cost-to-income ratios of rated Nigerian banks at 46.5% at year-end 2023 down from 53.7% in 2022.

Chart 4: Stanbic IBTC's Operating Efficiency Compares Favorably Amongst Peers

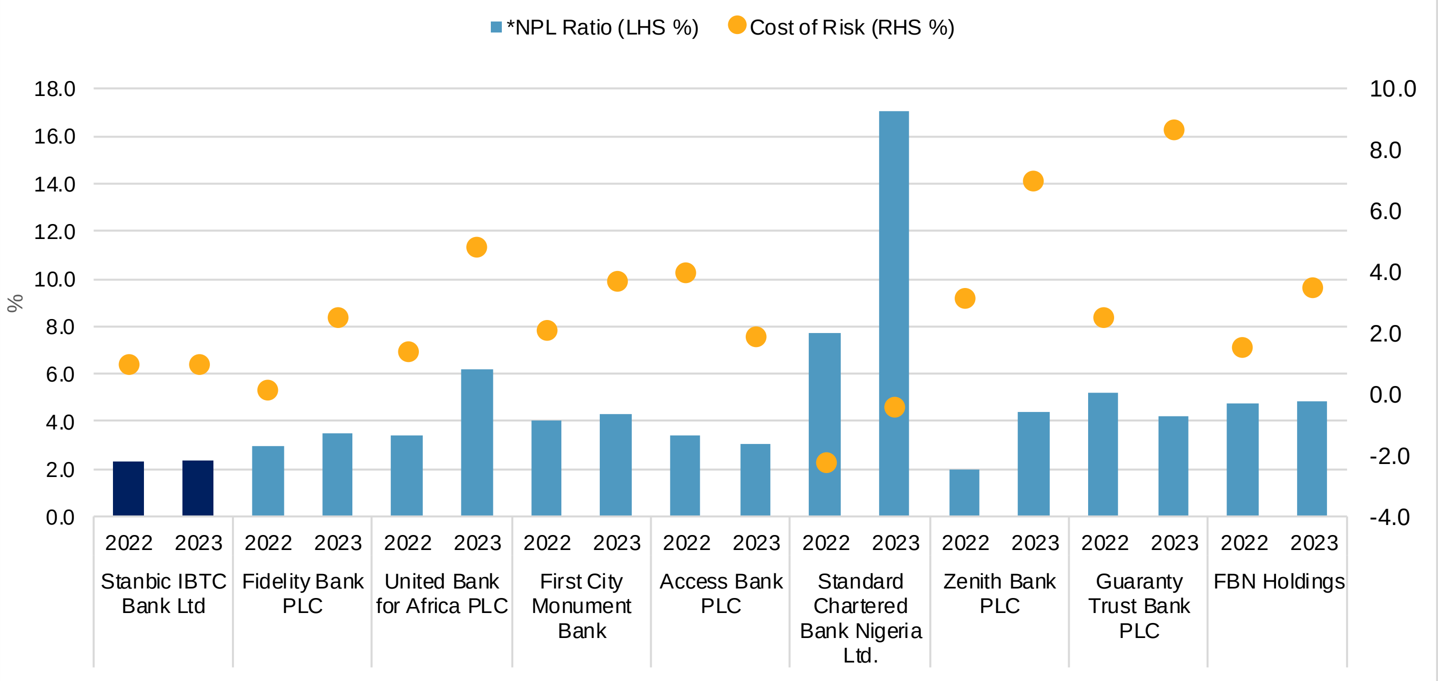


Data as at December 2023. Source: S&P Global Ratings.

Risk Position: Good Asset Quality Metrics Despite Some Concentration Risks

Challenging macroeconomic conditions in Nigeria have had adverse effects on the Stanbic IBTC Bank's asset quality. NPLs in nominal value increased by 72% in 2023 largely reflecting the impact of the naira depreciation. However, the NPL ratio remained relatively stable at 2.4% in 2023, compared to 2.3% the previous year, reflecting the impact of the larger denominator. Higher interest rates, inflation, and currency depreciation in the first quarter of 2024 led to an increase in the NPL ratio to 2.96%. We anticipate NPLs will average 2.6% of gross loans through 2024 and pressure will moderate slightly in 2025, leading to a decrease in NPLs to around 2.3% as loan growth remains robust. We estimate new loan loss provisions at 1.2% of average total loans over the next 12-18 months. The group maintains a good loan-loss-reserve coverage of NPLs, which should remain above 100% through our forecast period. Stanbic IBTC Bank has better asset quality metrics than most peers, reflecting its prudent underwriting and risk management standards.

Chart 5: Stanbic IBTC Bank's Asset Quality Compares Well To That Of Peers, With One Of The Lowest NPL Ratio Amongst Rated Nigerian Banks



*Adjusted nonperforming assets/customer loans + other real estate owned. Source: S&P Global Ratings.

The bank has been growing its loan book above the sector average over the past two years. Its gross loan book grew by 69% in 2023, from 31% in 2022, with naira depreciation serving as the main driver. Around 49% of loan growth was attributed to naira depreciation while 20% was real growth. Like its rated Nigerian peers, the bank exhibits high single-obligor concentrations and foreign currency lending. The top 20 loans accounted for 28% of total loans at year-end 2023, while the top 20 NPLs represented about 45% of total NPLs during the same period. The high single obligor concentration reflects the group's concentration on large corporate clients--more than 67% of the loan book. Foreign currency lending represented 63% of total loans in 2023. Although these loans are extended to customers with revenue in the same currency, foreign currency risk persist amid the tight U.S dollar supply in Nigeria.

Stanbic IBTC Bank is exposed to energy transition risk given the material share of oil and gas loans in its loan book. Its oil and gas exposures accounted for about 20% of total loans as of end-2023, still below the sector average of 30%. Oil and gas will remain a significant component of Nigerian banks' loan books. As refining capacity increases in 2024, the sector provides lucrative opportunities for Nigerian banks to capitalize on.

Funding And Liquidity: A Growing Funding Base Underpins Comparatively Lower Cost Of Funding

The group's funding structure has improved as the bank is mostly reliant on customer deposits. Core customer deposits remained stable at 57% of the group's funding base in 2023. Low-cost current and savings account deposits continued to grow, accounting for 72% of total deposits. Like peers, the cost of funding has increased--to 3.24% in 2023 from 1.94% in 2022--due to rising interest rates. The group benefits from a strong brand and the expertise available within the broader SBG to drive its corporate and investment banking relationships. It reported a stable funding ratio of 112% on Dec. 31, 2023.

The group maintains a liquid balance sheet and its liquidity indicators are in line with those of its peers. Broad liquid assets covered short-term wholesale funding by 1.53x as of Dec. 31, 2023. It also has access to foreign currency facilities that ensure stable access to foreign currency liquidity. Stanbic IBTC has maintained a committed foreign currency revolving facility with Standard Bank of South Africa since 2017, to provide up to $50 million. To date, the group has not drawn funds under the agreement. With a weaker naira, the share of foreign currency deposits have increased as clients use them as a hedging mechanism. They represented about 47% of total deposits as of Dec. 31, 2023, compared to 32% in 2022.

Support: Uplift For Group Support Constrained By The Low Sovereign Rating

We assess the group's SACP at 'b' and do not add any notch of support because of the lower sovereign rating.

However, we continue to view the group as strategically important to its South African parent, SBG. This reflects SBG's strategic emphasis on Africa and the importance of the Stanbic IBTC subgroup within its African operations. Furthermore, the subgroup benefits from risk management support and additional capital and liquidity from SBG.

Consequently, we believe Stanbic IBTC and, by extension, the bank, is likely to receive capital and liquidity support if needed. Stanbic IBTC is a member of SBG, which has a 67.55% equity holding interest through Stanbic Africa Holdings Ltd.

Additional Rating Factors:

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

Environmental and governance factors are negative considerations in our analysis of the Nigerian banking sector. Consequently, we apply the same considerations to our credit rating analysis of Stanbic IBTC.

Energy transition risk is material for the Nigerian banking system because of the large direct exposures to the oil and gas sector. This industry makes up at least one third of systemwide loans, which weakens economic resilience and credit risk in the economy, in our view.

The governance indicator is largely driven by the weak banking regulation and supervision in Nigeria, which weighs on our institutional framework score, under our banking industry country risk assessment. Gaps in corporate governance in the wider economy exist and could affect the banking sector. Stanbic IBTC, however, benefits from governance and risk management oversight from its parent SBG.

Ratings Score Snapshot

Issuer Credit Rating	B-/Stable/B
Holding Company ICR	B-/Stable/B
SACP	B
Anchor	B
Economic risk	10
Industry risk	9
Business position	Adequate
Capital and earnings	Constrained
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	0
GRE support	0
Group support	+1
Sovereign support	0
Additional factors	-2

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 8, 2023
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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 Ratings Affirmed At 'B-/B'; Outlook Remains Stable, Feb. 2, 2024
- Nigerian Banking Outlook 2024: Banks Stand Firm Amid Macroeconomic Pressures, Jan. 18, 2024
- Banking Industry Country Risk Assessment: Nigeria, Nov. 30, 2023