GCR RATINGS

Public credit rating report | Nigerian Financial Institution | June 2021*

Stanbic IBTC Bank PLC

Rated Entity	Rating class	Rating scale	Rating	Outlook
Stanbic IBTC Bank PLC	Long Term Issuer	National	AA+(NG)	Stable
	Short Term Issuer	National	A1+(NG)	

Strengths

- Strong capitalisation supported by good internal capital generation.
- Sound risk position with credit losses and non-performing loans ("NPL") ratio broadly comparable with industry's average.
- Adequate liquidity position.
- Sound competitive position underpinned by its membership of Stanbic IBTC Holdings PLC ("the Group").

Weakness

- Loan book concentration by obligors and foreign currency ("FCY").

Rating rationale

Stanbic IBTC Bank PLC ("Stanbic IBTC" or "the bank") is considered a core operating entity in the Group, as such, the national scale Issuer ratings on the bank reflect the strengths and weaknesses of the Group.

The rating upgrade is underpinned by Stanbic IBTC's sound competitive position and resilient financial profile (particularly capitalisation and risk position) amidst the strains in the operating environment. Further supporting the rating is the robust financial and technical support from its ultimate parent, Standard Bank Group ("SBG"), the largest banking group in Africa in terms of balance sheet size and earnings.

Competitive position is a positive ratings factor, balanced by the Group's strong and well-diversified business operations, spanning the full spectrum of the Nigerian financial landscape, such as: asset management, pension management, custodian services, insurance, trusteeship, stock broking, among others. Leveraging its membership of the Group, the bank continues to harness inherent cross selling opportunities to serve a wide range of customers and ultimately enhance its financial performance and market position. Furthermore, the improved value propositions, sustained investment in information technology, as well as retail penetration strategy have seen the relatively cheaper and stable current and savings deposits increase consistently over the review period, thereby leading to 140bps moderation in cost of funds to 2.5% at FY20. The bank also evidenced good revenue growth and robust return on equity and assets over the last five years. Management & Governance is a neutral ratings factor.

Stanbic IBTC is adequately capitalised, with capital adequacy ratio ("CAR") consistently maintained well above the regulatory minimum of 10% over the review period. Similarly, GCR's computed core capital ratio is considered robust

*The last rating announcement was on 14 June 2021. Rating reports are updated at least once a year from the date of the last announcement.

at 25.1% at 1Q FY21 (FY20: 24.1%) largely supported by strong earnings accretions over the years. We believe the current capitalisation level provides adequate headroom for loss absorption, with GCR core capital ratio expected to range between 23-24% over the next 12-18 months. While we believe earnings in FY21 may be somewhat impacted by sustained net interest margin compression and the absence of one-off trading gains realised in 2020, we think the bank's loss absorption capacity will remain sound. Positively, loan loss provision is viewed to be adequate, with reserve coverage of impaired loans consistently maintained above 100% over the review period.

Risk is viewed to be somewhat contained, with the NPL ratio of 3.6% at 1Q FY21 (FY20: 4.0%) broadly comparable with the regulatory tolerable limit of 5% and industry average of c.6%. Credit losses has also remained moderate, averaging 2.6% over the review period and stood at 1.6% at FY20. We expect the NPL ratio and credit losses to remain within similar range over the next 12-18 months. However, concentration risk by obligor is considered high, with the twenty largest exposures accounting for 52.4% of the loan portfolio at FY20. Also, FCY loans constituted a sizeable 48.1% of the loan portfolio at FY20 and measured above the estimated industry average of 35%. According to management, FCY risk is partly mitigated through proper hedging of credit facilities and extending FCY lending to obligors with FCY receivables. GCR is also cognisant of the bank's significant exposures to market risk in view of the substantial market sensitive income realised in FY20.

Funding and liquidity is assessed at an intermediate level. The funding structure is sound, predominantly made up of the relatively stable deposits. At FY20, total deposits accounted for 78.8% of funding base (FY19: 75.3%), with the behaviourally sticky non-core deposits increasing significantly during the period. Furthermore, the bank evidenced a well-diversified deposit book, with the single and twenty largest depositors accounting for 4.6% and 23.8% of customer deposits respectively at FY20. Liquidity is positive, with liquid assets covering 4.4x and 71.2% of wholesale funding and customer deposits respectively at FY20. We also view the liquidity management of the FCY book to be sound, with FCY liquid assets covering around 33% of total FCY liabilities at FY20.

The national scale Issuer ratings benefit from parental support. The Group is 67.02% owned by SBG, which is headquartered and listed in South Africa, delivering finance solutions across twenty African countries. Though the Group is not a material asset or revenue contributor to SBG, there is evidence of support from and assimilation with the parent. We believe SBG has the capacity to support the Group and bank based on its sound financial profile and good geographic diversification.

Outlook statement

The stable outlook reflects GCR's expectation that Stanbic IBTC's financial profile would remain resilient despite the strains in the operating environment. We anticipate a strong GCR core capital ratio, underpinned by solid internal capital generation and adequate loan loss reserving. Credit losses and NPL ratio are expected to be sustained at strong range, albeit with the loan book concentration by obligor and FCY anticipated to remain high. We also factored in adequate liquidity on account of the highly liquid balance sheet.

Rating triggers

The rating could be upgraded if the GCR core capital ratio is maintained above 30% on a sustainable basis, the bank achieves a well-diversified loan book, moderation in credit losses to below 1%, as well as significant improvement in competitive position and market share. Conversely, a downward rating movement could be triggered by material deterioration in capitalisation and asset quality metrics.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Nigeria Country Risk Scores, February 2021
GCR Financial Institutions Sector Risk Score, February 2021

Ratings history

Stanbic IBTC Bank PLC					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	AA-(NG)	Stable Outlook	December 2006
Short Term Issuer	Initial	National	A1+(NG)		December 2006
Long Term Issuer	Last	National	AA(NG)	Stable Outlook	May 2020
Short Term Issuer	Last	National	A1+(NG)		May 2020

Analytical entity: Stanbic IBTC Bank PLC

Stanbic IBTC commenced operations in 1989 and became a member of SBG in 2007, after the merger of Stanbic Bank Limited and IBTC Chartered Bank PLC. Following the adoption of a holding company structure in 2012, the bank (the flagship brand of the Group) was delisted from The Nigerian Stock Exchange and was subsequently licensed as a national commercial bank, transferring most of its subsidiaries to the Group. As at 31 December 2020, the bank had two wholly owned subsidiaries, namely: Stanbic IBTC Nominees Limited and Stanbic IBTC Bureau De Change Limited. However, the bank discontinued its Bureau De Change operations in January 2021, with the services now provided directly by the bank.

Being a wholly owned subsidiary, the bank's shares are entirely controlled by the Group, with Mr. Yinka Sanni (the erstwhile Chief Executive of the Group) allotted one share as a nominee shareholder. As at 31 March 2021, SBG owned 67.02% stake in the Group, while the remainder is held by diverse shareholders of over 92,000.

Operating environment

The operating environment assessment is anchored by Stanbic IBTC Bank PLC's 100% exposure to the Nigerian market.

Country risk

Nigeria's country risk score of 3.75 balances its strong economic base, supported by significant natural resources and large population, against low wealth levels, moderately weak institutional scores and currently restrained economic growth. Nigeria is one of Africa's three largest economies, with a population of approximately 190m people and contributing around 19% of continental GDP. The size of the economy is bolstered by significant natural resources, most pertinently it is the largest oil exporter on the continent. However, like many of the continental peer group, wealth levels are low. Furthermore, commodity concentrations can cause significant economic, fiscal and currency volatility in Nigeria. This is due to both the government dependency on oil exports for revenues and the country's high import dependency, both belying a too narrow economic base. In part due to low oil prices, but also due to restrained economic activity, GDP contracted by around 3% in 2020. We could see some rebound to positive growth in 2021 due to the base effect and some return to normality if global conditions improve.

The moderately weak institutional scores are constrained by voice and accountability, rule of law, corruption and control, deterioration in security (particularly the protracted fight with the Boko Haram insurgents) and the recent surge in banditry (particularly kidnaping for ransom) across the country.

Sector risk

The Nigerian Financial Institutions Risk Score of 3.5 is supported by strong local currency liquidity within the sector and stability in the funding (which is largely deposit based). Also, the banking sector appears well capitalized on the average. In addition, consideration was given to regulatory compliance, which is considered adequate and in line with the regional average. However, concentration of the loan book by sector (oil and gas) heightens credit risk, though with modest levels of non-performing loans. We note that the Nigerian banking sector is highly fragmented, with the top tier of the sector controlled by a few players and increasing competition amongst players within the sector. The relatively low private sector debt is expected to continually increase going forward given the regulatory backed position of increased lending to the private sector, which would enable diversification.

Business profile

Competitive position

Stanbic IBTC is the core operating entity of the Group, a non-operating holding company. The Group provides an array of products and services, such as: asset management, pension management, custodian services, insurance, trusteeship, stock broking, among others, through its various subsidiaries, with an overall objective of capturing the financial life of the different classes of customer base. The bank ranks as one of the two leading tier 2 banks in Nigeria, with an estimated market share of 5.0%, 3.1% and 3.6% of the industry’s total assets, customer deposits and loan portfolio respectively at FY20. Specifically, the bank's market position is largely supported by its membership of the Group and the ultimate parent (SBG) through which increased cross selling opportunities has over time been harnessed. Although the bank has historically maintained strong position within the corporate and investment banking space, its current strategy, which is largely geared towards deepening retail segment penetration, has seen retail deposit mobilisation increased significantly over the review period, thereby leading to 140bps moderation in cost of funds to 2.5% at FY20.

Furthermore, the bank has improved its value propositions and continuously invested in information technology to improve digital offerings and onboard more customers on its digital platforms in line with its "future ready transformation initiatives" while also transitioning into a platform bank. According to management, over 80% of transactions in 2020 were initiated and completed by customers on its digital platforms, with minimal interface with branch networks. Also, the bank provides end-to-end financial services covering corporate & investment banking, personal & business banking and custodian services (through its wholly owned Nominee subsidiary) to a wide range of customers. As being a member of a wider Group (SBG) with operations across different African countries and in line with its business focus, Stanbic IBTC operations is currently 100% Nigerian and evidencing widespread local geographic diversification. As at 31 December 2020, Stanbic IBTC operated through a network of 175 branches (FY19: 176), 773 ATMs (FY19: 732), 11,579 point of sales terminals (FY19: 11,839) and a direct staff complement of 2,055 (FY19: 2,096).

Management and governance

Management and governance is considered neutral to the ratings. The bank’s governance structure is considered satisfactory and in line with international best practices.

Financial profile

Capital and Leverage.

Capitalisation is considered sound.

Stanbic IBTC is adequately capitalised, with CAR consistently maintained well above the regulatory minimum of 10% required for its license category over the review period. Similarly, GCR's computed core capital ratio is considered robust at 25.1% at 1Q FY21 (FY20: 24.1%) largely supported by strong earnings accretion over the years. We believe the current capitalisation level provides adequate headroom for loss absorption, with the GCR core capital ratio expected to range between 23-24% over the next 12-18 months. While we believe earnings in FY21 may be somewhat impacted by sustained net interest margin compression and the absence of one-off trading gains realised in 2020, we expect the bank's loss absorption capacity to remain sound. Positively, loan loss provision is viewed to be adequate, with reserve coverage of impaired loans consistently maintained above 100% over the review period.

Our forecast factors over the next 12-18 months include the following:

- Internal capital generation ranging from 14%-16% in the rating horizon.
- Credit losses is expected to hover around 0.5% in 2021 and 2022.
- Core earnings to moderate to 1.8% of adjusted assets in 2021 and further down to 1.7% in 2022.
- We expect operating revenue to moderate by c.17% in 2021 on the back of sustained net interest margin compression and the absence of one-off trading gains realised in 2020.

Table 1: Capitalisation

	2022(f)	2021(e)	1Q 2021	2020	2019
GCR Total Capital to RWA (%)	23.4%	23.7%	25.1%	24.1%	21.5%
Core Earnings to adjusted assets (%)	1.7%	1.8%	1.6%	3.1%	3.7%

f: Based on GCR forecasts
Source: Stanbic IBTC financial results and GCR financial tool.

Risk

Loan book concentration by obligors and FCY

Stanbic IBTC's risk position is considered sound and broadly compares favourably with peers. Over the last five years, credit losses averaged 2.6% and stood at 1.6% as at 31 December 2020 (FY19: 0.3%). Also, NPL ratio remained within a strong range of 3.6% at 1Q FY21 (FY20: 4.0%) relative to the regulatory tolerable limit of 5% and industry's average of around 6%. Given the inherent challenges posed by the COVID-19 pandemic in 2020, the bank took advantage of the regulatory forbearances and restructured approximately 9.6% of the loan portfolio at FY20. While over half of the restructured facilities have so far been restated to the pre-restructured position, the remainder were indicated to be performing in line with the restructured terms. That said, we expect NPL ratio and credit losses to remain within similar strong range over the next 12-18 months.

Although the loan book largely skewed towards the manufacturing, and oil & gas sector, constituting 26%, and 25.5% of the loan portfolio respectively at FY20, the bank indicated plans to slow down exposures to the oil & gas sector (particularly to the non-international oil companies) in view of the embedded volatility. Going forward, the bank intends to redirect lending focus to the more resilient non-cyclical sectors that are considered less vulnerable to adverse macroeconomic dynamics. Furthermore, loan book concentration by obligor remains high, with the twenty largest exposures accounting for 52.4% of the loan book at FY20. While management considers these obligors to be top quality counterparties, we also expect the expansion drive of customer base to moderate the concentration risk somewhat. FCY loans constituted 48.1% of the loan portfolio at FY20 and measured above the industry average of 35%. FCY risk is mitigated through proper hedging of facilities and extending FCY lending to obligors with FCY receivables. GCR is also cognisant of the bank's significant exposures to market risk in view of the substantial market sensitive income realised in FY20.

Stanbic IBTC's enterprise risk management framework and risk control mechanisms are considered adequate. From a risk perspective, the operational and business continuity risk of the COVID-19 appears to be well managed, as the deployment and continuous investment in information technology has aided business continuity amidst the challenges posed by the pandemic so far.

Table 2: Risk	2022(f)	2021(e)	1Q 2021	2020	2019
New loan loss provisions to average customer loans (%)	0.5%	0.5%	-0.1%	1.6%	0.3%
Loan loss reserves to non-performing loans (%)	132.0%	126.3%	119.9%	113.8%	112.4%
Gross non-performing loans to gross customer loans (%)	3.4%	3.6%	3.6%	4.0%	3.9%

f: Based on GCR forecasts
Source: Stanbic IBTC financial statements and GCR financial tool

Funding and Liquidity

The funding structure is sound, predominantly made up of the relatively stable deposits. At FY20, total deposits accounted for 78.8% of funding base (FY19: 75.3%), with the behaviourally sticky non-core deposits (interbank funding) increasing significantly by 103.1% during the period. According to management, the bulk of the interbank funding (deposits from banks) were largely transient vostro balances and relates to foreign portfolio deposit from foreign counterparties of the bank's custodian subsidiary awaiting FX allocations from the CBN. Similarly, customer deposits sustained upward trajectory over the last three years, increasing by 28.6% at FY20 and further by 5.7% at 1Q FY21, underpinned by improved low-cost deposits mobilisation efforts through deepened retail segment penetration. As a result, the relatively cheaper and stable current and savings deposits constituted an improved 82.1% of customer deposits at FY20 (FY19: 70.4%). Further analysis of the liability pool reflected a well-diversified deposit book, with the single and twenty largest depositors accounting for 4.6% and 23.8% of customer deposits respectively at FY20. While cognisance is taken of the fact that the bank redeemed two of its existing bonds during 2020, management informed GCR of the bank's plans to raise additional bonds and other funding considerations in the near term on a need basis. Positively, Stable funding ratio and long-term funding ratio stood strong at 74.3% and 74.2% respectively at FY20.

Liquidity position is sound, this is indicated by the highly liquid balance sheet evidenced over the review period, with a strong regulatory liquidity ratio of 139% at FY20 relative to the regulatory minimum of 30%. Similarly, the GCR adjusted liquid assets covers 4.4% and 71.2% of wholesale funding and customer deposits respectively at FY20. We also view the liquidity management of the FCY book to be sound, with FCY liquid assets covering around 33% of total FCY liabilities at FY20.

Table 3: Funding and Liquidity	2022(f)	2021(f)	1Q 2021	2020	2019
Long term funding ratio (%)	>100%	>100%	76.9%	74.2%	73.7%
GCR Stable funds ratio (%)	>100%	>100%	74.6%	74.3%	71.2%
GCR liquid assets/ customer deposits (%)	>100%	>100%	71.8%	71.2%	55.7%
GCR liquid assets/wholesale funding	5.2x	5.6x	3.5x	4.4x	2.4x

f: Based on GCR forecasts
Source: Stanbic IBTC financial results and GCR financial tool

Comparative profile

The comparative profile is positive to the ratings due to group support

Peer analysis

The peer analysis is neutral to the ratings.

Group support

The national scale Issuer ratings benefit from parental support. The Group is 67.02% owned by SBG which is headquartered and listed in South Africa, delivering finance solutions across twenty African countries. Though the Group is not a material asset or revenue contributor to SBG, there is evidence of support from and assimilation with the parent. We believe SBG has the capacity to support the Group and bank based on its sound financial profile and good geographic diversification.

Rating Adjustment Factors

Structural adjustments

No structural adjustments have been made to the Anchor Credit Evaluator in arriving at the final ratings.

Instrument ratings

No instrument rating adjustments.

Risk Score Summary

Rating Components & Factors	Risk Scores
Operating environment	**7.25**
Country risk score	3.75
Sector risk score	3.50
Business profile	**1.00**
Competitive position	1.00
Management and governance	0.00
Financial profile	**1.00**
Capital and Leverage	0.50
Risk	0.50
Funding and Liquidity	0.00
Comparative profile	**1.50**
Group support	1.50
Government support	0.00
Peer analysis	0.00
Total Score	**10.75**

Glossary

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	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
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.
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 individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
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	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

Salient Points of Accorded Ratings

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 were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were 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 PLC. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Stanbic IBTC Bank PLC 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 PLC and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2020
- Four years of comparative audited numbers
- Management account as at 31 March 2021
- Other related documents.