GCR RATINGS

Credit Rating Announcement

GCR upgrades Stanbic IBTC Bank PLC's National Scale Long-term Issuer Rating to AA+(NG); Outlook Stable

Rating action

Lagos, 14 June 2021 – GCR Ratings ("GCR") has upgraded the national scale long term rating assigned to Stanbic IBTC Bank PLC to AA+(NG) from AA(NG) and affirmed the national scale short term rating at A1+(NG), with a Stable Outlook.

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)	

Rating rationale

Stanbic IBTC Bank PLC ("Stanbic IBTC" or "the bank") is considered a core operating entity in 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 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 consistently maintained well above the regulatory minimum of 10% 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 accretions 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 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 non-performing loans ("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, Foreign currency ("FCY") loans constituted a sizeable 48.1% of the loan portfolio at FY20 and measures above the estimated industry average of 35%.

According to management, FCY risk is partly mitigated through natural 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 GCR core capital ratio is maintained above 30% on a sustainable basis, achieve a well-diversified loan book, moderation in credit losses to below 1%, as well as achieve 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.

Analytical contacts

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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 Scales, Symbols & Definitions, May 2019
GCR 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	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	AA(NG)	Stable	May 2020
Short Term issuer	Last	National	A1+(NG)		May 2020

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	Funds that can be readily spent or used to meet current obligations.
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	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.
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 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 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.