



RATING ACTION COMMENTARY

Fitch Affirms Kenya's NCBA Group PLC at 'B+'; Outlook Negative

Fri 17 Jun, 2022 - 12:10 PM ET

Fitch Ratings - London - 17 Jun 2022: Fitch Ratings has affirmed NCBA Group PLC's and its core banking subsidiary NCBA Bank Kenya PLC's (NCBA Bank) Long-Term Issuer Default Ratings (IDRs) at 'B+'. The Outlooks are Negative.

Fitch has withdrawn the Support Ratings and Support Rating Floors of NCBA Bank and NCBA Group as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned a Government Support Rating (GSR) of 'b+' to NCBA Bank and 'no support' to NCBA Group.

KEY RATING DRIVERS

NCBA Group and NCBA Bank's Long-Term IDRs are driven by their standalone creditworthiness, as expressed by their Viability Ratings (VRs) of 'b+'. NCBA Bank's Long-Term IDR is underpinned by a limited probability of government support, as reflected in its GSR of 'b+'.

The Negative Outlooks on both entities' Long-Term IDRs mirror the Negative Outlook on Kenya (B+/Negative). This reflects the concentration of their operations within Kenya and significant sovereign exposure.

The National Ratings of NCBA Group and NCBA Bank reflect Fitch's view of their relative creditworthiness within Kenya. The Outlooks on the National Long-Term

Ratings have been revised to Stable from Negative as Fitch does not expect any change to the entities' creditworthiness relative to domestic peers.

High Double Leverage: NCBA Group's VR is equalised with the consolidated assessment of the group as Fitch believes the holding company's failure risk is substantially the same as that of the group as a whole. Double leverage at the holding company level is high (end-1Q22: 124%), but we weigh this against limited external borrowings and high capital and liquidity fungibility within the group.

Strong Business Profile: NCBA Group has a strong franchise and diverse business model. NCBA Group's main operating entity NCBA Bank, resulted from the merger of two mid-sized banks, Commercial Bank of Africa Limited and NIC Group PLC, in 2019. The enlarged post-merger business is expected to contribute to economies of scale, risk diversification, stronger earnings and cheaper funding.

Operating Environment Risks Threaten Domestic Recovery: The threat of global contagion poses downside risks to economic growth. Fitch estimates real GDP growth to slow to 6.0% in 2022 from 6.5% in 2021. Inflationary pressures are likely to lead the Central Bank of Kenya to further tighten monetary policy.

Weak Loan Quality: The impaired (IFRS 9 Stage 3) loan ratio worsened to 13.1% at end-2021 (end-2020: 11.5%) following the downgrade of some large corporate exposures from Stage 2 to Stage 3. Deteriorating asset quality was mitigated by high write-offs in 2021 (5% of average loans). Operating environment risks could pressure asset quality metrics, despite expected higher recoveries and write offs in 2022. Specific provisions cover an acceptable 64% of impaired loans at end-2021 (end-2020: 53%).

Good Profitability: NCBA Group's operating income/risk-weighted assets improved to 4.3% in 2021 (2020: 1.5%) following a significant reduction in loan impairment charges. The net interest margin is relatively modest due to the high cost of funding. However, profitability is supported by healthy non-interest revenue (47% of gross revenues in 2021), mainly in the form of fees and commissions.

Sound Capitalisation: NCBA Group's Fitch Core Capital ratio increased to 19.7% at end-2021 (end-2020: 18.7%) due to the recovery in profitability. NCBA Group's regulatory core and total capital ratios were comfortably above required minimum.

Deposit Funded: NCBA Group's funding profile is dominated by customer deposits (end-2021: 96% of total funding) but has structural weaknesses due to its reliance on more-expensive institutional term deposits (45% of deposits). Liquidity is a relative strength, with liquid assets covering 63% of customer deposits at end-2021.

Government Support: NCBA Group's GSR of 'no support' reflects Fitch's view that government support is unlikely to extend to a non-operating bank holding company, given its low systemic importance and a liability structure that could be more politically acceptable to be bailed in. NCBA Bank's GSR of 'b+' considers a high propensity of the authorities to provide support to the bank given its systemic importance but also Kenya's limited financial flexibility, as captured in the sovereign rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

NCBA Group's Long-Term IDR is sensitive to a downgrade of its VR. NCBA Bank's Long-Term IDR is sensitive to simultaneous downgrades of its VR and GSR. A downgrade of NCBA Group's and NCBA Bank's VRs as well as a downgrade of NCBA Bank's GSR would most likely result from a downgrade of Kenya's sovereign rating. A downgrade of the VRs could also result from greater-than-expected asset quality pressure, including rising levels of under-provisioned loans, particularly if this results in a marked weakening in earnings and capitalisation.

Weaker capital and liquidity fungibility within the group, combined with excessive double leverage, could result in a downgrade of NCBA Group's VR.

The National Ratings are sensitive to Fitch's view of the entities' creditworthiness relative to other issuers within Kenya.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

NCBA Group's and NCBA Bank's Long-Term IDRs are constrained by the sovereign rating and have limited upside.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

NCBA Bank's GSR of 'b+', which reflects a limited probability of support from the Kenyan authorities, is directly linked to Kenya's Long-Term IDR.

ESG CONSIDERATIONS

Unless otherwise stated, the highest level of ESG credit relevance is a score of '3'. ESG issues are credit neutral or have only a minimal credit impact on Stanbic Bank Kenya Limited, either due to their nature or the way in which they are being managed by Stanbic Bank Kenya Limited. For more information on Fitch's ESG Relevance Scores, visit <http://www.fitchratings.com/esg>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
NCBA Group PLC	LT IDR	B+ Rating Outlook Negative		B+ Rating Outlook Negative
		Affirmed		
	ST IDR	B	Affirmed	B
	Natl LT	AA(ken) Rating Outlook Stable		AA(ken) Rating Outlook Negative
		Affirmed		
	Natl ST	F1+(ken)	Affirmed	F1+(ken)
	Viability	b+	Affirmed	b+

	Support	WD	Withdrawn	5
	Support Floor	WD	Withdrawn	NF
	Government Support	ns	New Rating	
NCBA Bank Kenya Plc	LT IDR	B+ Rating Outlook Negative		B+ Rating Outlook Negative
	Affirmed			
	ST IDR	B	Affirmed	B

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Kurt Boere

Associate Director

Primary Rating Analyst

+44 20 3530 2707

kurt.boere@fitchratings.com

Fitch Ratings Ltd

30 North Colonnade, Canary Wharf London E14 5GN

Elie Maalouf

Senior Analyst

Secondary Rating Analyst

+44 20 3530 1304

elie.maalouf@fitchratings.com

James Watson

Managing Director

Committee Chairperson

+44 20 3530 1048

james.watson@fitchratings.com

MEDIA CONTACTS

Louisa Williams

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Bank Rating Criteria \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

NCBA Bank Kenya Plc

UK Issued, EU Endorsed

NCBA Group PLC

UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following

<https://www.fitchratings.com/rating-definitions-document> details Fitch's rating

definitions for each rating scale and rating categories, including definitions relating to

default. ESMA and the FCA are required to publish historical default rates in a central

repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the

European Parliament and of the Council of 16 September 2009 and The Credit Rating

Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its

contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those

subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Banks Africa Kenya
