



## RATING ACTION COMMENTARY

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

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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Fitch has withdrawn the Support Ratings and Support Rating Floors of NCBA Bank and NCBA Group as they are no longer relevant to the agency's coverage following the publication of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](#)

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**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**

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UK Issued, EU Endorsed

NCBA Group PLC

UK Issued, EU Endorsed

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Banks Africa Kenya

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