FitchRatings

Banks
Bank Holding Companies
Kenya

NCBA Group PLC

Key Rating Drivers

NCBA Group PLC's and NCBA Bank Kenya Plc's Long-Term Issuer Default Ratings (IDRs) are driven by their standalone creditworthiness, as expressed by their Viability Ratings (VRs) of 'b'. NCBA Bank's Long-Term IDR is also underpinned by a limited probability of government support, as reflected in its Government Support Rating (GSR) of 'b'. The Negative Outlooks on both entities' IDRs mirror the Outlook on the sovereign. This reflects the concentration of their operations within Kenya and high sovereign exposure relative to capital.

NCBA Group's and NCBA Bank's National Long-Term Ratings of 'AA(ken)' reflect their creditworthiness relative to that of other Kenyan issuers.

VRs Equalised with Group VR: The VRs of NCBA Group, a non-operating bank holding company (BHC), and NCBA Bank, its main operating bank, are the same as the group VR, based on the consolidated assessment of NCBA Group. NCBA Bank is the majority (end-3Q23: 90%) of NCBA Group's consolidated assets. NCBA Group's VR also reflects acceptable double leverage at BHC (113% at end-3Q23) and high capital and liquidity fungibility within the group.

Challenging Operating Conditions: Kenya's operating environment has been affected by elevated inflation in 1H23, significant currency depreciation due to hard currency shortages and the accumulation of public sector arrears, which led to the banking sector's non-performing loans ratio rising to a high 15.3% at end-10M23. Large holdings of government debt securities (end-1H23: 2x banking sector equity) add further pressure given the Negative Outlook on the sovereign rating.

Strong Business Profile: NCBA Group is the fourth-largest banking group in Kenya with a 7% market share in system loans and 9% share in deposits through its main operating subsidiary, NCBA Bank. The group operates subsidiaries in three other East African countries.

High Exposure to the Sovereign: NCBA Group's investments in Kenya's government securities represented the majority of securities holdings and were a high 287% of its Fitch Core Capital (FCC) at end-3Q23. Single-obligor and industry concentrations are also high, reflecting the size and nature of the domestic economy.

Weak Loan Quality: NCBA Group's regulatory non-performing loans (NPLs) reached 12.9% of gross loans at end-3Q23 and were 58% covered by total loan loss allowances. We expect the NPL ratio to remain high in the medium term as borrowers' debt-servicing costs increase in the high interest-rate environment.

Strong Pre-Impairment Profitability: NCBA Group's operating profit/risk-weighted assets (RWAs) was 5% in 9M23 (annualised; 2022: 5.1%), supported by wide net interest margins, strong non-interest income and adequate operating efficiency. Cost of risk (2.6% in 9M23, annualised) is likely to increase in 2024 as asset quality remains under pressure, although pre-impairment profit (10.5% of average loans in 9M23, annualised) provides a strong cushion against a potential uptick in risk costs.

Reasonable Capitalisation: NCBA Group's FCC to regulatory RWAs decreased to 13.8% at end-3Q23 (end-2022: 16.6%) due to loan growth (12% in 9M23) and dividend pay-outs. NCBA Group's regulatory core and total capital ratios are well above the regulatory minimums.

Deposit-Funded: NCBA Group's funding profile is dominated by customer accounts (93% of total liabilities) and is moderately reliant on price-sensitive term deposits (about 40% of the total). Liquidity is good, as evidenced by a reasonable loans/deposits ratio of 61% at end-3Q23.

Ratings

NCBA Group PLC

Foreign Currency	
Long-Term IDR	B
Short-Term IDR	B
Viability Rating	b
Government Support Rating	ns
National Ratings	
National Long-Term Rating	AA(ken)
National Short-Term Rating	F1+(ken)

NCBA Bank Kenya Plc

Foreign Currency	
Long-Term IDR	B
Short-Term IDR	B
Viability Rating	b
Government Support Rating	b
National Ratings	
National Long-Term Rating	AA(ken)
National Short-Term Rating	F1+(ken)

Sovereign Risk (Kenya)	
Long-Term Foreign- and Local-Currency IDRs	B
Country Ceiling	B

Outlooks	
Long-Term Foreign-Currency IDRs	Negative
National Long-Term Ratings	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

Bank Rating Criteria (September 2023)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms NCBA Group PLC at 'B', Outlook Negative (December 2023)

Fitch Revises Kenya's Outlook to Negative; Affirms at 'B' (July 2023)

African Banks Resilient to Continued Challenging Operating Conditions (November 2023)

Higher Debt Servicing Costs to Weigh on Kenya's Credit Profile (November 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A sovereign downgrade could result in a downgrade of the Long-Term IDRs and VRs of NCBA Group and NCBA Bank. Absent a sovereign downgrade, a downgrade could result from greater-than-expected asset quality pressure, as indicated by the impaired loans ratio rising above 20%, if this results in a marked weakening in profitability and low buffers over minimum capital requirements.

A downgrade of NCBA Bank's GSR would result from a downgrade of Kenya's Long-Term IDRs.

A rise in double leverage above 120% on a sustained basis or regulatory restrictions on NCBA Bank channelling dividends/other cash flow to its BHC would pressure NCBA Group's VR.

A downgrade of both entities' National Ratings would result from a weakening of their creditworthiness relative to that of other Kenyan issuers.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The Outlooks on the Long-Term IDRs could be revised to Stable if the Outlook on Kenya's Long-Term IDRs was revised to Stable. An upgrade of the Long-Term IDRs and VRs would require a sovereign upgrade.

An upgrade of NCBA Bank's GSR would require an upgrade of Kenya's Long-Term IDRs.

An upgrade of both entities' National Ratings would result from a strengthening of their creditworthiness relative to that of other Kenyan issuers.

Significant Changes from Last Review

Rising Sovereign Risks

Fitch revised the Outlook on Kenya's Long-Term IDRs of 'B' to Negative from Stable on 20 July 2023. The Negative Outlook reflects increased external financing constraints amid high funding requirements, including a USD2 billion Eurobond maturing in 2024, weakening international reserves, rising financing costs, and uncertainty regarding the fiscal trajectory, for example, due to execution risks of the announced tax rises amid social unrest.

As is the case for most Sub-Saharan Africa banking sectors, the Kenyan banking sector has high exposure to the sovereign through government securities held for revenue and liquidity purposes, which equalled 2x of the banking sector's equity at end-1H23. High sovereign exposure relative to capital leaves Kenyan banks' solvency sensitive to losses imposed on creditors in the event of a sovereign default.

Banks are also exposed to the sovereign through placements with the Central Bank of Kenya (CBK), including the Cash Reserve Ratio which equates to 4.25% of total customer accounts. We estimate the CRR balance to equal 23% of the end-1H23 sector equity.

Public Sector Pending Bills

Frequent undersubscriptions of government securities resulting from the investors' (including local banks) expectation of higher returns and shift to the shorter end of the yield curve influenced an accumulation of public sector arrears in 1H23. These pending bills to contractors, service providers and public sector employees (around USD4 billion equivalent in total), have weakened borrowers' repayment capacity and influenced an increase in the banking sector's regulatory non-performing loans ratio to 15.3% at end-10M23 (end- 2022: 13.4%).

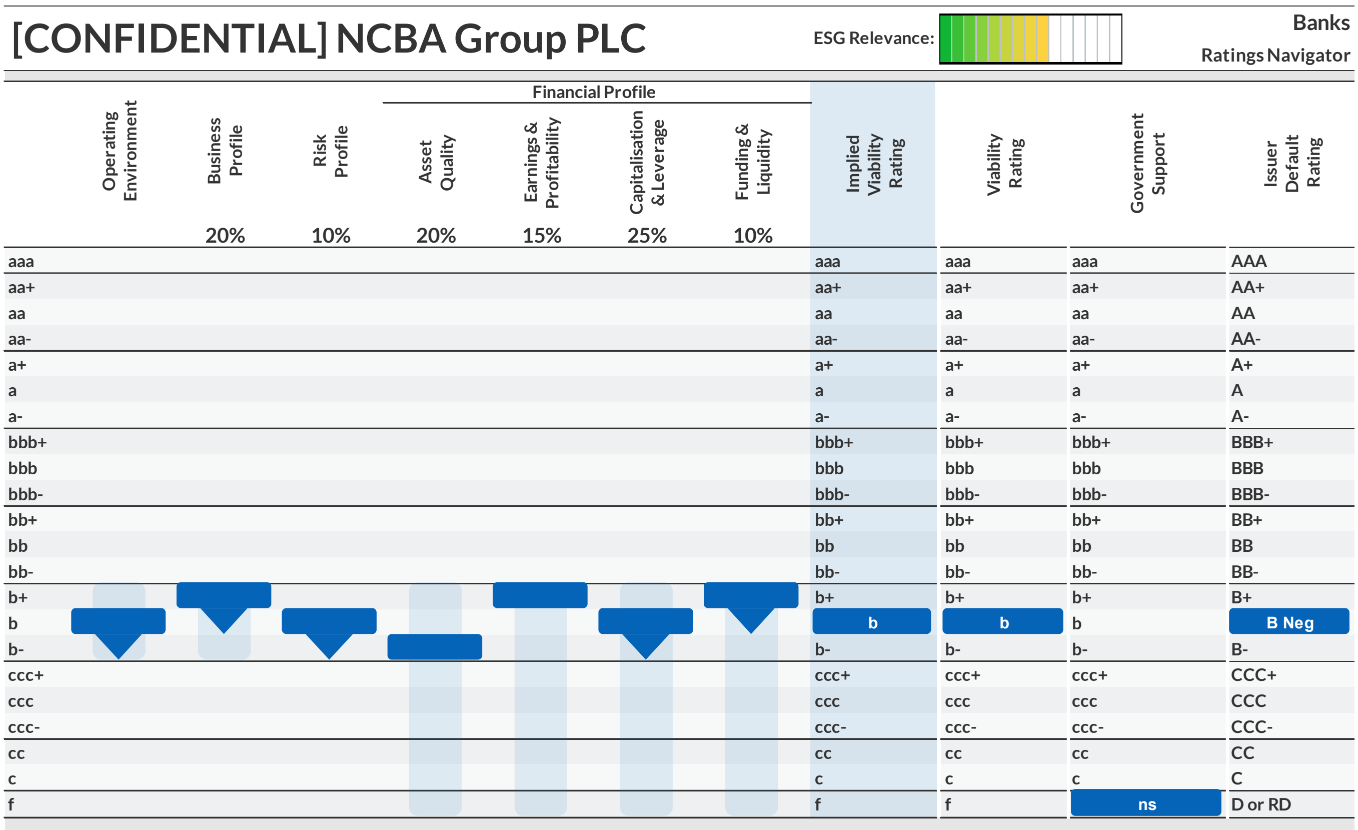
Kenyan government has issued an infrastructure bond in November 2023 in the amount of KES67 billion (USD443 million), and part of the proceeds are intended to repay the pending bills (although a small portion so far). Recent taxes hike in Kenya in summer 2023 is also aimed at improving the revenue collection and addressing the pending bills.

Risks to Retail Lending

Retail lending accounted for a material 27% of net sector loans at end-2022, with a quarter attributing to secured mortgages and the rest being unsecured retail lending. We understand that the vast majority of retail loans bear floating interest rates, meaning that the debt servicing costs have materially increased in the last 18 months, as the Central Bank Rate increased by 375bps in 11M23 from 8.75% at the beginning of 2022. This was also accompanied by a reduction in the households' real disposable incomes due to higher food and goods prices, but also due to a sharp increase of income taxes in June 2023.

We expect the share of retail impaired loans to increase in 2023 and 2024 from a moderate level of around 8% at end-2022. However, we expect the build-up of impairments to be constrained by the banks' generally conservative underwriting standards with prudent payment-to-income and loan-to-value (for collateralised mortgages) limits. Banks' strong profitability, influenced by recently adopted risk-based pricing models, should also be sufficient to curb a moderate spike in new impairments.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Company Summary and Key Qualitative Factors

Operating Environment

Inflationary Pressures Persist, But Economic Growth Strong

Kenya experienced persistently high inflation in 1H23 caused by the removal of the fuel subsidy at the beginning of the year and high global food prices. Monthly annualised inflation peaked at 9.2% in March 2023 and the Central Bank of Kenya (CBK) increased the Central Bank Rate by 175bp in 1H23 to 10.5%, the highest level for the last 7 years. Inflation started to ease in 3Q23, but a continuing sharp depreciation of Kenyan shilling (19% in 11M23, not annualised) adds further pressure on consumer prices. As a result, the CBK decided to increase the policy rate by another 200bp at its early-December meeting in order to keep the inflation within the target band of 5% +- 2.5%.

Fitch forecasts annual inflation to average 8% in 2023 and to ease slightly to 6.8% in 2024, and the Central Bank Rate to follow this trend. However, we expect the high interest-rate environment in 2023 and 1H24 to add to the already high banking sector impaired loans ratio (15.3% at end-10M23), although banks' strong pre-impairment profitability should be sufficient to withstand a moderate asset quality deterioration. Strong economic growth (real GDP growth forecast at 5.2% in 2023, accelerating to 5.5% in 2024) and only moderate credit penetration (banking sector loans at 23% of GDP) should be supportive of loan growth.

Strong Profitability to Absorb Further Asset Quality Weakening

Fitch expects the banking sector's asset quality to weaken slightly in the short- term due to increased debt servicing costs in a high interest-rate environment and the substantial accumulation of government arrears. We expect the regulatory non-performing loans (NPLs) ratio to peak in 1H24 at 16% - 17%, before starting to decline gradually as the CBK begins monetary policy easing.

Banks will continue to have large safety buffers in the form of strong pre-impairment profitability to absorb the expected asset quality weakening, supported by wide net interest margins, strong non-interest income flows and good cost efficiency. We expect the banking sector's cost of risk (2.1% of average gross loans in 1H23, annualised) to moderately increase in 2024 (up to 3%) but for pre-impairment operating profit (9% of average gross loans in 1H23, annualised) to be large enough to absorb these new impairments and provide room for a further lending expansion.

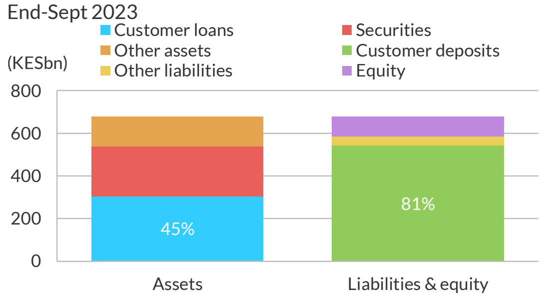
Business Profile

Large Kenyan Banking Group

We consider NCBA Group's business profile as a strength in light of its large franchise and relatively diverse business model. NCBA Group is a Kenyan-listed holding company with its wholly-owned subsidiary, NCBA Bank, being its main operating entity (end-1H23: 8% domestic market share by assets). Other group entities include regional banking subsidiaries in Uganda, Tanzania and Rwanda, and a strong digital presence in Ivory Coast, as well as subsidiaries operating in leasing, insurance and investment banking.

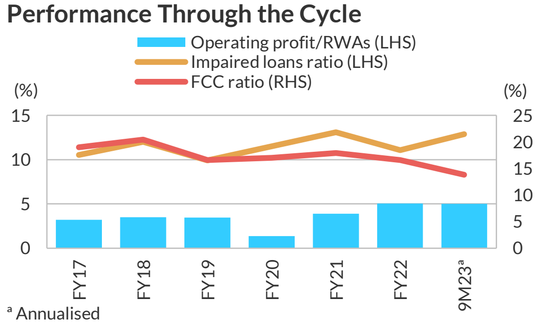
NCBA Group's business model is weighted towards financing of corporate customers, i.e. local manufacturers, exporters, farmers etc., with a moderate contribution of retail products and services.

Balance Sheet
End-Sept 2023



Source: Fitch Ratings, Fitch Solutions, NCBA Group

Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Fitch Solutions, NCBA Group

Risk Profile

Sovereign Exposure Constrains Ratings

Securities represent a material element of NCBA Group's balance sheet (34% of total assets vs. the sector average of around 30%; or 261% of total equity at end-3Q23), 87% of which were Kenyan government fixed-income securities.

High sovereign exposure relative to capital, together with the concentration of operations in Kenya, constrain the Long-Term IDR and the VR at the level of Kenya's sovereign rating. However, a large part of the securities is accounted at amortised cost (65% of the total), limiting the group's exposure to market volatility. We estimate that NCBA Group's exposure to Kenya's Eurobonds stood at around 28% of equity at end-2022.

Concentrated Balance Sheet

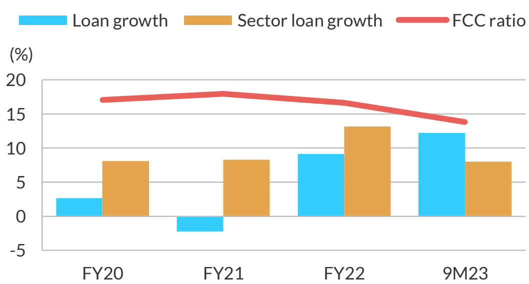
NCBA Group's corporate loan portfolio (79% of gross loans) is mainly concentrated in the manufacturing, trade, transport & communication and energy & water sectors, which together represented 60% of gross loans at end-2022. Single-name concentration is moderate with the 20 largest funded exposures amounting to 35% of the group's gross loans at end-1H23 (125% of the group's equity). Retail mortgages represented 4% of gross loans at end-1H23 and were extended at conservative LTVs (64% on average). The share of non-mortgage retail loans was equal to 117% of the group's FCC at end-1H23.

Heightened Exposure to Market Risk

Dollarisation of NCBA Group's loan book is higher than the sector average, with FC loans representing 42% of gross loans at end-2022. FC loans are generally issued to naturally-hedged borrowers, i.e. those with FC receivables, which helps to manage credit risk. However, inflation of FC component of RWAs in case of further depreciation of Kenyan shilling will exert negative pressure on the group's capitalisation.

The loan book is predominantly priced at floating rates (including retail loans), which supports margins with rising rates but could negatively affect asset quality as the repayment capacity of some borrowers diminishes.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, NCBA Group

Financial Profile

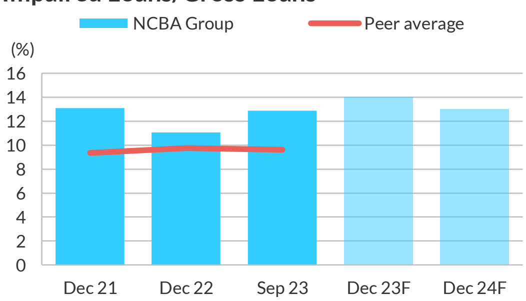
Asset Quality

Credit risk mainly stems from the loan book, which accounted for 45% of total assets at end-2022. The impaired loans ratio declined to 11% at end-2022 from 13% at end-2021, but we expect impairments to rise in 2023 due to the challenging operating environment and slow recovery process. The higher regulatory NPLs ratio of 12.9% at end-3Q23 already reflects this trend. The majority of impaired loans are concentrated within the corporate loan book, but we also expect crystallisation of NPLs in the retail portfolio in 2024, due to increased debt-servicing costs. We forecast the impaired loans ratio to remain elevated in 2024, as newly originated NPLs offset recovery efforts and write-offs of legacy impaired loans. We also estimate that NCBA Group's strong pre-impairment profitability will be sufficient to address even a sharp increase in NPLs.

Stage 2 loans stood at 10.6% of gross loans at end-2022, adequately covered by specific loan loss allowances (9%). We understand from the bank's management that Stage 2 loans comprise the exposures affected by delayed government payments to its contractors to a large extent. We expect this ratio to remain elevated until the pending bills are starting to get cleared.

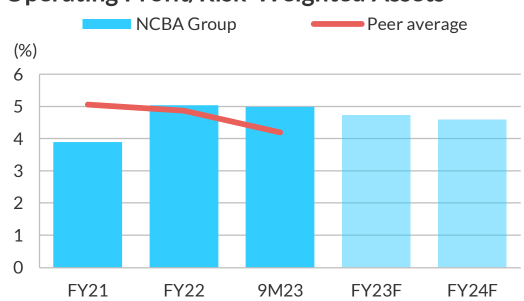
Our assessment of the asset quality at NCBA Group also considers a relatively high share of assets invested in debt securities (34% of assets at end-3Q23), 87% of which are Kenyan sovereign bonds.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Profitability remained exceptionally strong at NCBA Group in 9M23, as evidenced by wide net interest margin (6.1%, annualised) and strong fee and commission income (27.5% of revenues). Operating expenses stood at 47% of revenues in 9M23, and the bank expects it to remain below 50% in the medium term. Cost of risk (2.6% of average loans in 9M23, annualised) is the main area of vulnerability for NCBA Group, as well as for other banks in Kenya, due to asset quality pressures. However, it has remained well below the group's strong pre-impairment profit (10.5% of average loans in 9M23, annualised).

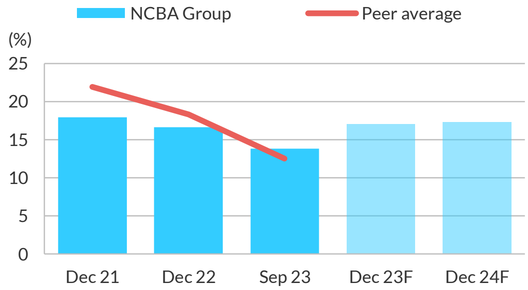
We expect NCBA Group to continue posting strong earnings in 2024, supported by the high interest-rate environment, strong fee generation and reasonable operating expenses due to the economies of scale. Pre-impairment operating profit should therefore be sufficient to withstand even a sharp increase in cost of risk without hitting capital.

Capital and Leverage

NCBA Group's regulatory core and total capital ratios both stood at 17.2% at end-3Q23 and were comfortably above the required minimums (10.5% and 14.5%, respectively). Our assessment of capitalisation also reflects increasing, but moderate, capital encumbrance from net-impaired loans (16% of FCC at end-2022 compared to 7% at end-2021) and large holdings of government securities (forming 3.4x FCC at end-3Q23). However, asset quality risks relative to capital are mitigated by NCBA Group's large buffer to absorb the cost of risk through pre-impairment operating profits.

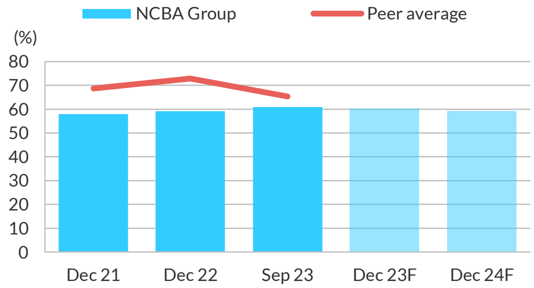
All NCBA Group's subsidiary banks are compliant with minimum regulatory capital requirements in their respective jurisdictions.

FCC Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

The group is funded mainly by a large and granular customer deposit base, which provided 93% of non-equity funding at end-3Q23. There are, however, structural weaknesses in the deposit base with a high reliance on more expensive wholesale deposits, while funding from retail customers made up around a quarter of the total. CASA provided 52% of total customer deposits at end-1H23, which we assume will increase with the bank's deposit-gathering initiatives and network-expansion plans. The overall deposit growth stood at 9% in 9M23 (not annualised), broadly in line with the sector average.

Wholesale funding is limited at NCBA Group and includes medium-term borrowings from multilateral banks and agencies. Balance sheet liquidity is sound with a low loans/ deposit ratio of 61% at end-3Q23. The group's regulatory liquidity ratio was a solid 52.5% at end-3Q23, compared to a minimum requirement of 20%. Liquidity in FC was good, with cash and net placements with foreign highly-rated banks covering 29% of FC customer accounts at end-2022.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market
To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'b&below' category. Light-blue columns represent Fitch's forecasts.

Peer average includes KCB Group PLC (VR: b), Stanbic Bank Kenya Limited (b), Guaranty Trust Holding Company Plc (b-), Zenith Bank Plc (b-). Latest average uses 1H13 data for Zenith Bank Plc.

Financials

		30 Sep 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019
	9 Months	9 Months	12 Months	12 Months	12 Months	12 Months
	USDm	KESm	KESm	KESm	KESm	KESm
	Unaudited	Unaudited	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified
Summary Income Statement						
Net interest and dividend income	175	25,957	28,750	25,055	23,851	13,009
Net fees and commissions	87	12,842	18,084	16,956	15,960	11,705
Other operating income	53	7,898	13,228	5,722	6,133	7,819
Total operating income	315	46,697	60,062	47,733	45,944	32,533
Operating costs	149	22,053	25,077	21,535	20,752	14,848
Pre-impairment operating profit	166	24,643	34,985	26,198	25,192	17,684
Loan and other impairment charges	41	6,073	12,509	11,165	20,094	5,635
Operating profit	125	18,570	22,476	15,033	5,098	12,049
Other non-operating items (net)	–	–	16	2	-116	-735
Tax	26	3,924	8,714	4,811	411	3,472
Net income	99	14,647	13,778	10,224	4,571	7,842
Other comprehensive income	-13	-1,964	-2,186	-1,078	724	-88
Fitch comprehensive income	86	12,683	11,592	9,146	5,295	7,754
Summary Balance Sheet						
Assets						
Gross loans	2,252	333,512	297,180	272,271	278,452	271,342
– of which impaired	290	43,014	32,869	35,650	32,109	26,962
Loan loss allowances	168	24,811	21,147	30,807	30,945	22,457
Net loans	2,084	308,701	276,033	241,464	247,507	248,885
Interbank	348	51,609	9,748	9,870	41,664	25,556
Derivatives	–	–	17	97	89	80
Other securities and earning assets	1,593	235,898	236,690	226,252	169,159	150,300
Total earning assets	4,026	596,207	522,488	477,682	458,419	424,822
Cash and due from banks	272	40,348	54,571	78,404	34,512	37,195
Other assets	285	42,238	42,604	35,002	34,937	32,700
Total assets	4,583	678,793	619,663	591,088	527,868	494,717
Liabilities						
Customer deposits	3,701	548,135	502,677	469,890	421,505	378,237
Interbank and other short-term funding	76	11,323	5,914	14,775	6,303	10,893
Other long-term funding	26	3,912	4,207	6,097	13,320	22,081
Total funding and derivatives	3,804	563,370	512,798	490,762	441,127	411,211
Other liabilities	182	26,909	24,443	22,339	14,193	16,247
Total equity	598	88,514	82,422	77,987	72,548	67,260
Total liabilities and equity	4,583	678,793	619,663	591,088	527,868	494,717
Exchange rate		USD1 = KES148.1	USD1 = KES123.373529	USD1 = KES113.141177	USD1 = KES109.171765	USD1 = KES101.336471

Source: Fitch Ratings, Fitch Solutions, NCBA Group

	30 Sep 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019
Ratios (%; annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	5.0	5.1	3.9	1.4	3.4
Net interest income/average earning assets	6.1	5.6	5.3	5.4	4.3
Non-interest expense/gross revenue	47.2	41.9	45.2	45.3	45.8
Net income/average equity	22.6	17.1	13.7	6.5	15.2
Asset quality					
Impaired loans ratio	12.9	11.1	13.1	11.5	9.9
Growth in gross loans	12.2	9.2	-2.2	2.6	113.5
Loan loss allowances/impaired loans	57.7	64.3	86.4	96.4	83.3
Loan impairment charges/average gross loans	2.6	4.4	4.0	7.3	2.8
Capitalisation					
Fitch Core Capital ratio	13.8	16.6	17.9	17.1	16.6
Tangible common equity/tangible assets	10.4	12.1	11.9	12.3	12.0
Net impaired loans/Fitch Core Capital	26.5	15.9	7.0	1.8	7.7
Funding and liquidity					
Gross loans/customer deposits	60.8	59.1	57.9	66.1	71.7
Customer deposits/total non-equity funding	97.3	98.0	95.8	95.6	92.0

Source: Fitch Ratings, Fitch Solutions, NCBA Group

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	b
Actual jurisdiction D-SIB GSR	b
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	B/ Negative
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Negative
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

NCBA Group's GSR of 'no support' reflects Fitch's view that government support is unlikely to extend to a non-operating holding company given its low systemic importance and a liability structure that may be more politically acceptable to be bailed in.

NCBA Bank's GSR of 'b' is in line with Kenya's D-SIB GSR of 'b' and considers a high propensity of the authorities to provide support to the bank given its high systemic importance but also Kenya's limited financial flexibility, as captured in the sovereign rating.

We believe the Kenyan authorities have a strong propensity to support NCBA Bank and the wider banking system, reflecting our view that the authorities have an incentive to maintain financial stability in order to preserve Kenya's position as a regional financial hub.

The authorities' ability to support banks is constrained by Kenya's limited financial flexibility, as captured by its Long-Term IDR of 'B'. However, the ability to support banks is positively influenced by the banking system's small size (with total assets and private sector credit at end-1H23 equivalent to 41% and 21% of forecast 2023 GDP), a fragmented market structure, high foreign ownership and only moderate foreign-currency external funding.

Environmental, Social and Governance Considerations

FitchRatings **[CONFIDENTIAL] NCBA Group PLC**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

NCBA Group PLC has 5 ESG potential rating drivers

- NCBA Group PLC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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