FitchRatings

Banks
Bank Holding Companies
Kenya

NCBA Group PLC/NCBA Bank Kenya 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-'. The VRs reflect the concentration of the group's operations within Kenya and high sovereign exposure relative to capital. 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 Stable Outlooks on both entities' IDRs mirror the Outlook on the sovereign.

NCBA Group's and NCBA Bank's National Long-Term Ratings of 'AA(ken)' are in line with those of their peers, KCB Group PLC and KCB Bank Kenya Limited, and two notches below Stanbic Bank Kenya Limited (AAA(ken)), which benefits from shareholder support.

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 accounts for the majority (end-1H24: 90%) of NCBA Group's consolidated assets. NCBA Group's VR also reflects acceptable double leverage at the BHC (114% at end-1H24), and high capital and liquidity fungibility within the group.

Tier 1 Bank in Kenya: NCBA Group is the fourth-largest banking group in Kenya, with an 8% market share in system total assets and 9% share in deposits through NCBA Bank. The group has subsidiaries in three other east African countries.

High Concentrations: NCBA Group's investments in Kenya's government securities accounted for a high 194% of its Fitch Core Capital (FCC) at end-1H24. Single-obligor and industry concentrations are also high, reflecting the size and structure of the domestic economy.

Weak Loan Quality: NCBA Group's regulatory impaired loans accounted for 12.2% of gross loans at end-1H24 (end-2023: 10.3%) and were 75% covered by total loan loss allowances, reflecting moderate reliance on collateral. We expect impaired loans to remain high in the near term as borrowers' debt-servicing costs have increased due to high interest rates.

Good Profitability Metrics: NCBA Group's operating profit/risk-weighted assets (RWAs) ratio was an annualised 4.9% in 1H24 (2023: 5.4%), supported by adequate net interest margins, strong non-interest income and good operating efficiency. Cost of risk (an annualised 1.6% of average loans in 1H24) will increase at end-2024 as loan quality remains pressured, but strong pre-impairment profit (an annualised 8.7% of average loans in 1H24) should cushion the risks.

Reasonable Capital Buffers: Strong earnings retention has supported NCBA Group's sound FCC ratio (end-1H24: 18.7%; end-2023: 18.4%). NCBA Group's regulatory core and total capital ratios are well above their regulatory minimums.

Deposit-Funded: NCBA Group's funding profile is dominated by customer accounts (90% of total liabilities at end-1H24) and is moderately reliant on price-sensitive term deposits. Liquidity is healthy, as underlined by a reasonable loans/deposits ratio of 63% at end-1H24.

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

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-Currency IDR	B-
Long-Term Local-Currency IDR	B-
Country Ceiling	B

Outlooks

Long-Term Foreign-Currency IDRs	Stable
National Long-Term Ratings	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms NCBA Group PLC at 'B-', Outlook Stable (November 2024)

Fitch Downgrades Kenya to 'B-'; Outlook Stable (August 2024)

Kenyan Banks' Strong Profitability to Cushion Moderate Asset-Quality Weakening (February 2024)

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

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Rating Sensitivities

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

A downgrade of NCBA Group's IDR would result from a downgrade of its VR. A downgrade of NCBA Bank's IDR would result from a downgrade of both its VR and GSR.

A sovereign downgrade could result in downgrades of the VRs of NCBA Group and NCBA Bank. Absent a sovereign downgrade, VR downgrades could result from greater-than-expected asset quality pressure if this leads to a marked weakening in profitability and in regulatory capital ratios falling below their minimum requirements. Funding instability and drainage of liquidity could also lead to downgrades of the VRs.

A downgrade of NCBA Bank's GSR would result from a downgrade of Kenya's Long-Term IDRs, or if NCBA Bank's domestic deposit franchise weakens materially.

A rise in double leverage above 120% on a sustained basis or regulatory restrictions on NCBA Bank channelling dividends or other cashflows to its BHC would pressure the BHC'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

Upgrades of the Long-Term IDRs and VRs would require a sovereign upgrade, with the entities maintaining stable financial metrics.

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

Three Kenyan Banks Downgraded Following the Sovereign Downgrade

Fitch's downgrade of the Long-Term IDRs of three domestically-owned Kenyan banks (KCB Bank Kenya Limited, NCBA Bank and I&M Bank LIMITED) and their BHCs (KCB Group PLC, NCBA Group and I&M Group Plc) to 'B-' from 'B' followed the sovereign downgrade. The Stable Outlooks on the banks' and BHCs' Long-Term IDRs reflect those on Kenya's Long-Term IDRs.

The IDR downgrades were driven by the downgrades of the VRs to 'b-' from 'b', reflecting the issuers' high sovereign securities exposure relative to FCC (end-1H24: KCB Group: 134%; NCBA Group: 194%; I&M Group: 106%) and the concentration of their operations within Kenya. The issuers are highly exposed to the domestic economy, including government contractors, SMEs and retail customers, and Fitch believes their strong pre-impairment operating profits (8%–9% of average loans in 1H24, annualised) and high FCC ratios may be insufficient to preserve their solvency in the event of a sovereign default.

The downgrades of KCB Bank's and NCBA Bank's Long-Term IDRs were also driven by the downgrades of their Government Support Ratings to 'b-' from 'b', which reflects the government's weaker ability to provide support, if required, as indicated by the recent sovereign downgrade.

Sovereign Downgraded Due to Heightened Risks to Public Finances

The downgrade of Kenya's Long-Term IDRs on 2 August 2024 reflects heightened risks to Kenya's public finances after the government backtracked on revenue measures in the Finance Bill 2024 in response to violent social protests. It also reflects the increased risk to political stability and rising domestic debt costs, even as the authorities embark on expenditure cuts. The risk to external financing has increased, partly due to higher external commercial borrowing costs, with foreign-exchange reserves being below the 'B' median.

The Stable Outlook reflects Fitch's expectation that continued strong official creditor support will help alleviate near-term external liquidity pressures, although the sovereign's funding needs will remain large and are expected to rise. The tightening of monetary policy will help to keep inflation anchored, providing support for the local currency.

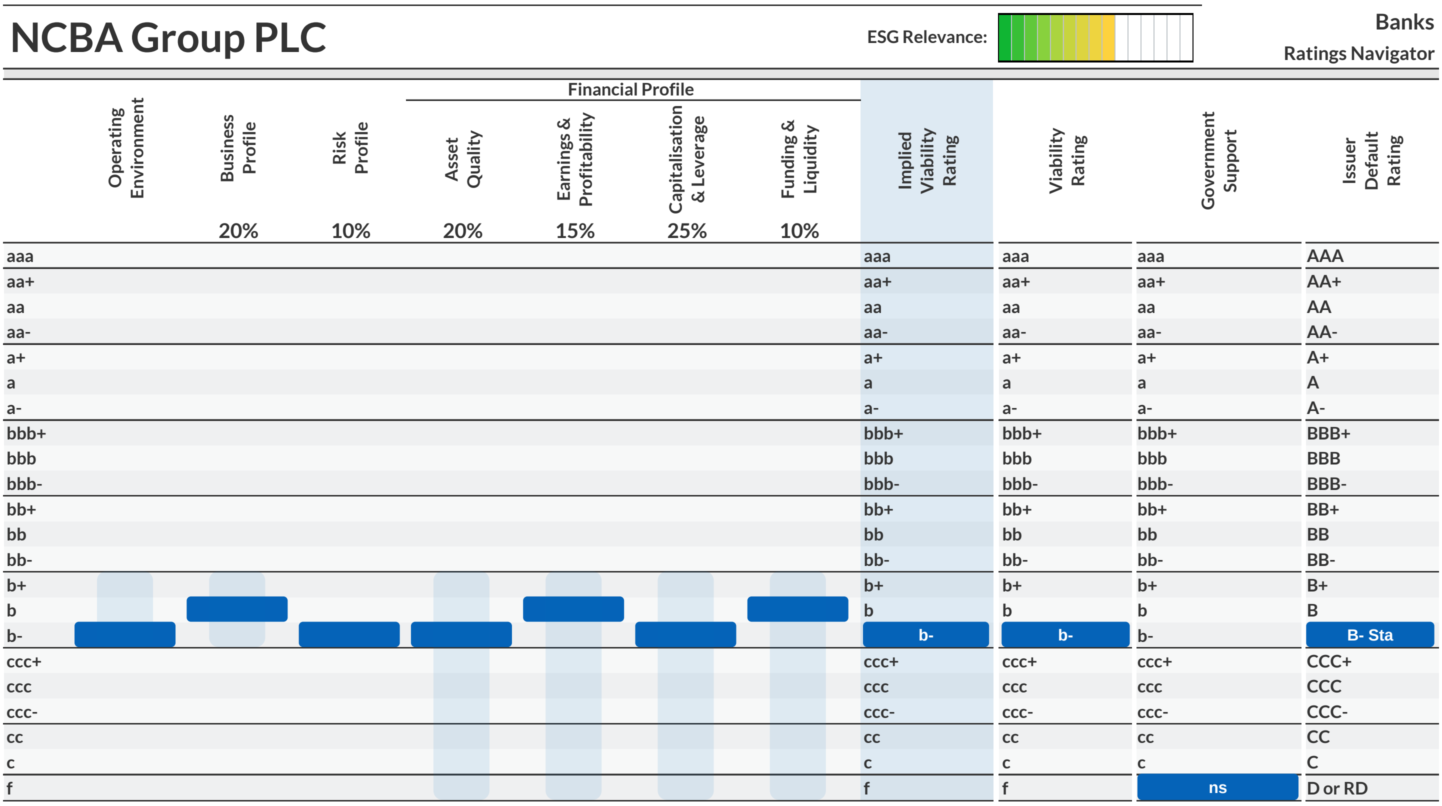
In addition, the authorities plan to continue with their fiscal consolidation agenda, although the path to fiscal targets has become increasingly challenging, in our view.

Monetary Policy Begins to Ease

The Central Bank of Kenya (CBK) began easing monetary policy in August 2024, cutting the Central Bank Rate (CBR) by 25bp, and cut the CBR by a further 75bp to 12% in October 2024. The decision to ease monetary policy has been influenced by inflation having been within the CBK's target range of 5% +/- 2.5% since 4Q23 (September 2024: 3.6%) and the Kenyan shilling having remained stable at about USD/KES 130 since March 2024. The stabilisation of the shilling, following a sharp depreciation in recent years (to about USD/KES 160 in February 2024 from USD/KES 123 at end-2022), was supported by continuing foreign-currency inflows, mainly from commodity exports and remittances, and increased confidence following the refinancing and partial repayment of the sovereign Eurobond in February 2024, which reduced the speculative FX demand. Along with the tight monetary policy, this supported an increase in the CBK's international reserves to USD8.25 billion at end-9M24 (end-8M23: USD6.9 billion).

Fitch forecasts annual inflation to average 5.3% in 2024 and decline to 4.6% in 2025, enabling the CBK to continue easing monetary policy. Declining interest rates and continued strong real GDP growth (2024: 5%; 2025: 5.3%; 2026: 5.4%) will be supportive of loan growth and contribute to a reduction in loan quality pressures facing the banking sector.

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

Public Sector Arrears Undermine Loan Quality

The banking sector's NPL ratio increased to 16.7% at end-8M24 (among the highest globally; end-8M23: 15%). High NPLs have been heavily influenced by significant pending public-sector bills to government contractors and service providers, which have been accumulating for several years and reached KES700 billion (USD5.4 billion) at end-1H24. The Kenyan government has established a pending bills committee mandated to verify and clear arrears, and has been trying to reduce them through revenue mobilisation efforts. However, little progress has been achieved as the audit of the pending bills is a lengthy process, and we expect them to remain high in the near term due to revenue constraints and limited controls to reduce leakages.

High interest rates in recent years have also contributed to a high stock of impaired loans. Sharp increases in the CBR in 2023 and 1Q24 were passed on to borrowers as almost all loans are at floating interest rates, pressuring debt-service capacity. Fitch expects the banking sector's NPL ratio to peak in 2024, before gradually declining in 2025 as interest rates decline. However, the stock of NPLs are expected to remain high in the medium term, primarily reflecting the large public sector pending bills.

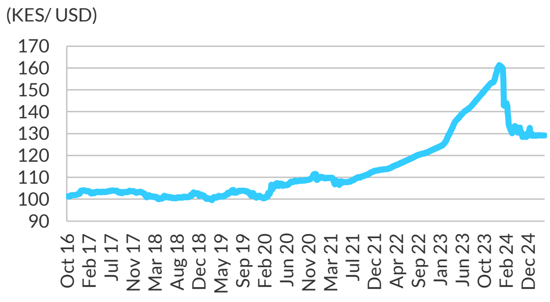
Uneven Profitability Across the Sector

The Kenyan banking sector continues to generate strong pre-impairment operating profits that are sufficient to absorb loan impairment charges stemming from high NPLs, while supporting credit growth. Net interest margins were high in 1H24 (estimated at 7.5% of average earning assets, annualised) due to high yields on loans and securities investments and relatively inexpensive funding. However, cost efficiency varies significantly across the banking sector, with smaller banks generally reporting notably higher cost-to-income ratios than their larger peers, undermining their ability to absorb loan impairment charges and grow.

The Minister of Finance has announced that absolute capital requirements would be increased to KES10 billion (from KES1 billion), but the CBK has not yet announced the policy details. Fitch expects the new requirement, if introduced, to encourage consolidation among smaller and weaker banks, and contribute to improved profitability over time.

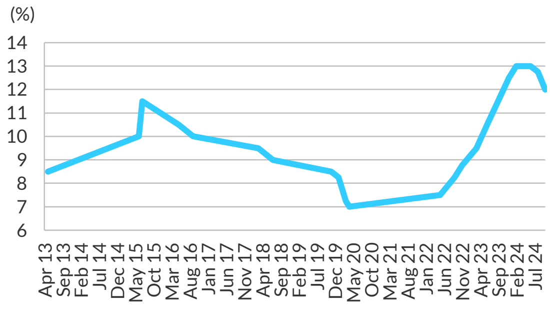
Fitch expects the banking sector's loan impairment charges to be contained below 2% of average loans in 2024 (1H24: 1.8%, annualised) and to decline in 2025 as loan quality risks moderate. Therefore, pre-impairment operating profit (1H24: 8.6% of average loans, annualised) will comfortably absorb loan impairment charges and support internal capital generation while allowing for dividend distributions.

Kenya's Shilling Exchange Rate



Source: Fitch Ratings, Central Bank of Kenya

CBK Policy Rate



Source: Fitch Ratings, Central Bank of Kenya

Business Profile

Large Kenyan Banking Group

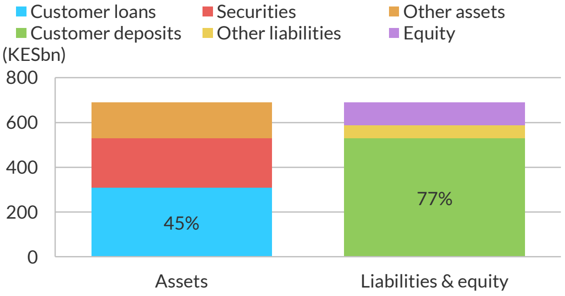
We consider NCBA Group's business profile as a strength in light of its large franchise and fairly diverse business model. NCBA Group is a Kenyan-listed holding company with its wholly-owned subsidiary, NCBA Bank, being its main operating entity (end-1H24: 8% domestic market share by assets). Other group 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, such as local manufacturers, exporters and farmers, with a moderate contribution of retail products and services.

Acquisition of AIG Kenya

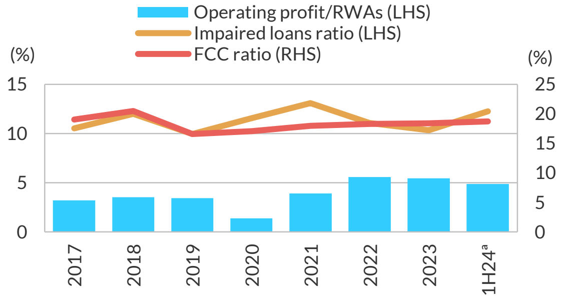
Having received regulatory approvals, NCBA Group completed the acquisition of AIG Kenya Insurance Company in July 2024. NCBA Group is now on the path of integration, as stipulated in the transition plan agreed with America International Group, Inc., which is intended to complete in January 2025. We estimate that the acquisition will have a small positive effect on NCBA Group's earnings diversification and synergies between the products (such as with car finance or mortgages), as the insurance business will remain small relative to the size of banking subsidiaries.

Balance Sheet
End-June 2024



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 an above-average element of NCBA Group's balance sheet (32% of total assets vs. the sector average of around 28%; or 216% of total equity at end-1H24), 83% 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 securities is accounted at amortised cost (65% of the total), limiting the group's exposure to market volatility.

Concentrated Balance Sheet

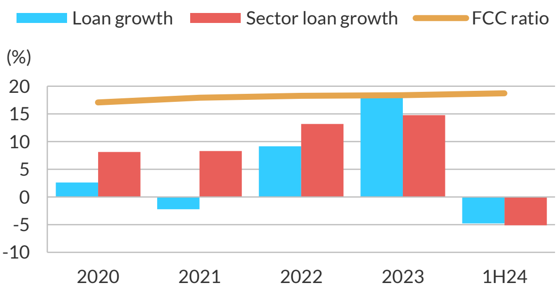
NCBA Group's corporate loan book (78% of gross loans) is mainly concentrated in the manufacturing, trade and transport & communication sectors, which together represented slightly over half of gross loans at end-1H24. Single-name concentration is moderate, with the 20 largest funded exposures accounting for 36% of the group's gross loans at end-1H24 (119% of equity). Retail mortgages represented 5% of gross loans at end-1H24 and were extended at conservative loan-to-values. The share of non-mortgage retail loans was equal to 45% of the group's FCC at end-1H24.

Heightened Exposure to Market Risk

Dollarisation of NCBA Group's loan book has declined over the past year to 30% of gross loans at end-2023 (end-2022: 42%), which is now in line with the market average. The de-dollarisation continued in 2024. FC loans are generally issued to naturally-hedged borrowers, such as those with FC receivables, which helps to manage credit risk. However, such FC loans expose the group to increasing concentration risk in case of shilling depreciation, such as in 2H23.

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

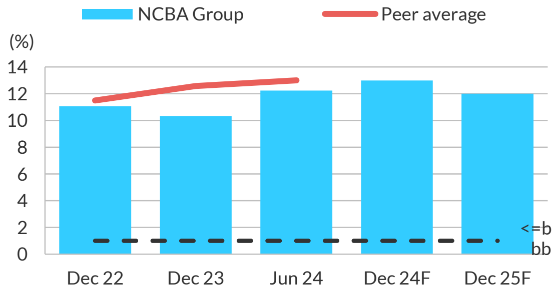
Credit risk mainly stems from the loan book, which accounted for 45% of total assets at end-1H24. The impaired loans ratio increased to 12.2% at end-1H24 (end-2023: 10.3%) on the back of the high interest rates leading to borrowers' high debt-servicing costs, and the accumulation of government arrears to its contractors and service providers affecting the timeliness of their loan repayments. Coverage of the impaired loans by specific loan loss allowances stood at 60% at end-1H24, reflecting the group's reliance on hard collateral.

We expect the impaired loans ratio to peak at end-2024 before declining in 2025, as inflation has come down and the CBK started cutting rates. However, we expect the stock of impaired loans to remain high in the medium term, until the pending bills are starting to get cleared. We also estimate that NCBA Group's strong pre-impairment profitability (8.7% of average loans in 1H24, annualised) will be sufficient to cover newly-originated impaired loans and to write off legacy problem exposures.

Stage 2 loans accounted for a moderate 12% of gross loans at end-1H24, and were adequately covered by specific loan loss allowances (10%). Stage 2 loans are concentrated within the corporate portfolio, with government-related entities dominating the stock.

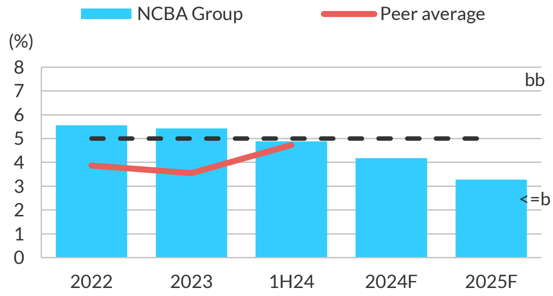
Our assessment of the asset quality at NCBA Group also considers the fairly high share of assets invested in debt securities (32% of assets at end-1H24), 83% of which are Kenyan sovereign bonds (B-/Stable).

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 metrics remained strong at NCBA Group in 1H24, despite the net interest margin contracting slightly (1H24: 5.5%, annualised; 2023: 6.2%) due to more expensive customer deposits. Non-interest income has been consistently contributing around half of revenues over the past four years, which compares well to peers and the market average. The group expects operating expenses (1H24: 53% of revenues) to decline below 50% in the medium term, supported by cost optimisation and continuing strong earnings. Cost of risk (an annualised 1.6% of average loans in 1H24) 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 operating profitability (an annualised 8.7% of average loans in 1H24).

We expect NCBA Group's earnings in 2H24 and 2025 to moderate from high levels as interest rates fall, but to remain strong compared to domestic peers. Pre-impairment operating profit should therefore be sufficient to withstand even a sharp increase in cost of risk without affecting capital.

Capitalisation and Leverage

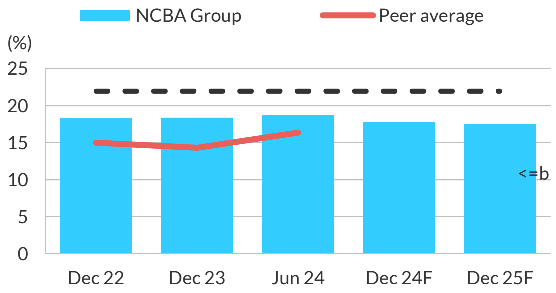
Our assessment of NCBA Group's capitalisation considers its high exposure to Kenya's sovereign debt securities (end-1H24: 194% of FCC) and the group's exposure to the Kenyan operating environment. Nevertheless, we view NCBA Group's capitalisation as adequate relative to the risks undertaken.

The small improvements in NCBA Group's consolidated FCC ratio (end-1H24: 18.7%; end-2023: 18.4%) was due to earnings retention and limited growth of RWAs, helped by the shilling appreciation and deflation of the FC component of RWAs in shilling terms. Our assessment of capitalisation is further supported by an adequate tangible leverage ratio (end-1H24: 13.8%; end-2023: 11.9%) and strong pre-impairment operating profitability, which should be sufficient to cover loan impairments, distribute dividends (the group targets a 50% pay-out ratio) and provide room for continuing moderate RWA growth.

The group's consolidated regulatory Tier 1 and total capital ratios were both 19.9% at end-1H24, well above the minimum requirements of 10.5% and 14.5%, respectively, including a 2.5% capital conservation buffer. NCBA Bank's standalone Tier 1 and total capital ratios (end-1H24: 19.5% each) were also comfortably above the minimum requirements and above the group's internal target of 300bp over the minimum requirements. All NCBA Group's subsidiary banks have been compliant with minimum regulatory capital requirements in their respective jurisdictions.

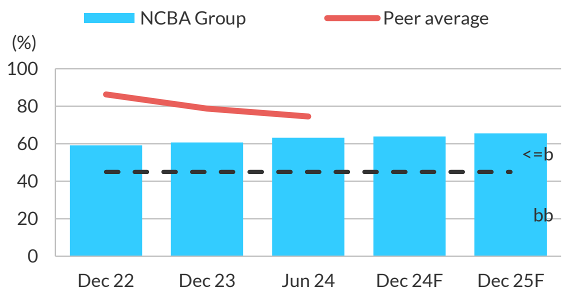
Capital incumbrance by unreserved impaired loans remained moderate at 17.5% of FCC at end-1H24, and hard collateral on some of the impaired loans mitigates the risks. We expect NCBA Group's capitalisation to decline slightly in the medium term as credit growth outpaces internal capital generation, but for the regulatory capital ratios to remain within the 300bp internal buffer.

FCC Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

The large and granular customer deposit base provided 95% of non-equity funding at end-1H24. The deposit base does have structural weaknesses, however, with a high reliance on more expensive wholesale deposits, which drove the cost of funding up to 7.5% of interest-bearing liabilities in 1H24 (annualised), the highest level for the past five years. Funding from retail customers made up around 20% of the total. Current and savings accounts provided 49% of total customer deposits at end-1H24, which the group is aiming to increase with deposit-gathering initiatives and network-expansion plans.

The overall deposit contraction in 1H24 (by 9%) was similar to the sector-average dynamics and reflected the local currency appreciation and deflation of FC-denominated deposits in shilling terms, as well as intense competition for customer funding on the market. Wholesale funding is limited at NCBA Group (2% of liabilities at end-1H24) and includes medium-term borrowings from multilateral banks and agencies.

Balance sheet liquidity is sound, with a low loans/deposit ratio of 63% at end-1H24. The group's regulatory liquidity ratio was a solid 53.6% at end-1H24, well above the minimum requirement of 20%. Liquidity in FC was also good, with cash and net placements with foreign highly-rated banks covering 40% of FC customer accounts at end-1H24. Local-currency liquidity is mostly represented by investments in sovereign bonds and Treasury bills repoable with the CBK.

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 boundaries for 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.

Peer average includes KCB Group PLC (VR: b-), I&M Group Plc (b-), Stanbic Bank Kenya Limited (b). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	30 Jun 24 1st half		31 Dec 23	31 Dec 22	31 Dec 21
			12 months	12 months	12 months
	(USDm)	(KESm)	(KESm)	(KESm)	(KESm)
	Unaudited	Unaudited	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement					
Net interest and dividend income	127	16,451	35,533	28,750	25,055
Net fees and commissions	72	9,262	16,837	18,085	16,956
Other operating income	44	5,647	9,241	13,228	5,722
Total operating income	242	31,360	61,611	60,063	47,733
Operating costs	127	16,486	28,696	25,120	21,535
Pre-impairment operating profit	115	14,874	32,915	34,943	26,198
Loan and other impairment charges	21	2,710	7,441	12,466	11,165
Operating profit	94	12,165	25,473	22,477	15,033
Other non-operating items (net)	–	–	9	15	2
Tax	18	2,349	4,025	8,714	4,811
Net income	76	9,815	21,457	13,778	10,224
Other comprehensive income	-1	-132	-625	-2,186	-1,078
Fitch comprehensive income	75	9,683	20,832	11,592	9,146
Summary balance sheet					
Assets					
Gross loans	2,580	334,117	350,902	297,180	272,271
– Of which impaired	316	40,897	36,253	32,869	35,650
Loan loss allowances	189	24,454	20,688	21,147	30,807
Net loans	2,391	309,663	330,214	276,033	241,464
Interbank	458	59,349	28,245	9,748	9,870
Derivatives	–	–	8	17	97
Other securities and earning assets	1,723	223,173	250,770	236,689	226,252
Total earning assets	4,572	592,184	609,238	522,487	477,682
Cash and due from banks	392	50,714	81,832	54,571	78,404
Other assets	357	46,180	43,552	42,603	35,002
Total assets	5,320	689,078	734,621	619,662	591,088
Liabilities					
Customer deposits	4,083	528,885	579,402	502,676	469,890
Interbank and other short-term funding	156	20,157	26,681	5,914	14,775
Other long-term funding	73	9,496	6,412	4,207	6,097
Total funding and derivatives	4,312	558,538	612,495	512,797	490,762
Other liabilities	225	29,136	25,464	24,443	22,339
Total equity	783	101,404	96,663	82,422	77,987
Total liabilities and equity	5,320	689,078	734,621	619,662	591,088
Exchange rate		USD1 = KES129.527	USD1 = KES156.4618	USD1 = KES123.373529	USD1 = KES113.141177

Source: Fitch Ratings, Fitch Solutions, NCBA Group

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	4.9	5.4	5.6	3.9
Net interest income/average earning assets	5.5	6.2	5.6	5.3
Non-interest expense/gross revenue	52.6	46.6	42.0	45.2
Net income/average equity	20.0	24.2	17.1	13.7
Asset quality				
Impaired loans ratio	12.2	10.3	11.1	13.1
Growth in gross loans	-4.8	18.1	9.2	-2.2
Loan loss allowances/impaired loans	59.8	57.1	64.3	86.4
Loan impairment charges/average gross loans	1.6	2.3	4.4	4.0
Capitalisation				
Fitch Core Capital ratio	18.7	18.4	18.3	17.9
Tangible common equity/tangible assets	13.8	11.9	12.1	11.9
Net impaired loans/Fitch Core Capital	17.5	18.1	15.9	7.0
Funding and liquidity				
Gross loans/customer deposits	63.2	60.6	59.1	57.9
Customer deposits/total non-equity funding	94.7	94.6	98.0	95.8

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-/ Stable
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 the authorities' high propensity to provide support to the bank given its high systemic importance. We also believe that the Kenyan authorities have a moderate propensity to support the broader banking system, in order to maintain financial stability and to preserve Kenya's position as a regional financial hub.

However, Kenya's limited financial flexibility constrains the authorities' ability to support banks, as captured by the sovereign's Long-Term IDR of 'B-'. This is despite the banking system's small size – with total assets and private sector credit at end-1H24 equivalent to 48% and 23% of 2024 forecast GDP, respectively – a fragmented market structure, high foreign ownership and only-moderate foreign-currency external funding.

Environmental, Social and Governance Considerations

FitchRatings **NCBA Group PLC**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
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.	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

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

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 reflect 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.

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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