

CREDIT RATING ANNOUNCEMENT

GCR affirms NIC Bank Limited's rating of A+(KE); Outlook Stable.

Johannesburg, 27 Aug 2015 - Global Credit Ratings has today affirmed the national scale ratings assigned to NIC Bank Limited of A+(KE) and A1(KE) in the long term and short term respectively; with the outlook accorded as Stable. The rating(s) are valid until August 2016.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating(s) to NIC Bank Limited's ("NIC" and/or "the group") based on the following key criteria:

The accorded ratings reflect NIC's long history and established market position in Kenya, built off the back of its pioneering work in asset finance and corporate banking, although the bank has recently expanded its scope, targeting the retail and small and medium sized enterprises ("SME") segments. The improved capitalisation, appropriate risk management systems, resilient financial performance and demonstrated shareholder commitment, were also factored into the ratings. These positive rating drivers mitigate the bank's structural reliance on wholesale funding.

NIC has also expanded its geographical reach, establishing banking subsidiaries in Tanzania and Uganda in addition to its local non-banking subsidiaries (bancassurance, brokerage, leasing and investment banking) in Kenya. The subsidiaries contributed a combined 7.0% of the group's consolidated assets at FYE14 (FYE13: 7.9%).

The group's capital position was strengthened in F14 following a KES2.1bn rights issue, USD20m in subordinated debt secured from the International Finance Corporation, and KES5.7bn from the first tranche of a KES8bn Subordinated Medium Term Note Programme (the latter two qualifying as Tier II capital). Consequently, NIC reported a total risk weighted capital adequacy ratio ("CAR") of 21.0% at FYE14, up from 16.4% at FYE13. The additional capital raised will support loan growth in the SME and corporate segments, and the retail branch and regional expansion drives.

Asset quality indicators improved in F14 following increased collection efforts and some write-offs. The overall level of impaired loans for the group decreased by 10.8% in F14, after sharp growth (93.8%) in F13. On a consolidated basis, the gross non-performing loan ("NPL") ratio declined from 5.4% at FYE13 to 3.9% at FYE14 (domestic industry average at 5.6%). Pre-collateral, provisions covered 66.5% of gross NPLs at FYE14 (FYE13: 57.3%). The net NPL/core capital ratio was a lower 5.9% at FYE14 (FYE13: 11.2%), benefiting from higher provisions and capital levels.

NIC's consolidated pre-tax profit grew by 24.4% to KES6.2bn in F14 (F13: 10.9%) supported by credit growth and significantly lower impairment charges. Overall, the consolidated ROaE and ROaA increased slightly to 20.6% (F13: 20.1%) and 3.1% (F13: 2.8%) respectively in F14.

Although the structural makeup of the group's funding base remains an issue due to the high wholesale component and short maturity structure, direct funding and liquidity risks are partly ameliorated by the high coverage of short dated liabilities by liquid assets (excluding mandatory reserves deposits required to be held at the central bank) at 31.5% as at FYE14 (FYE13: 28.7%). Furthermore, the liquidity ratio was maintained well above the prudential minimum of 20% throughout F14.

NIC's accorded national scale credit ratings reflect a critical assessment of the group's market position, prospects, performance, and risks, on an absolute basis and relative to those of other leading rated players in the Kenyan and East African regional banking markets. In particular, the requirement of national scale credit ratings to express risk in relative rank order (providing an ordinal measure of credit risk which is not predictive of a specific frequency of default or loss), within the context of Kenya's highly fragmented banking sector, which has significant potential for medium-term sector consolidation, informed this view.

The group's ratings could be positively impacted by consolidation and substantial enhancement of its market share, together with appropriate deployment of capital/funding, continued solid financial performance (while maintaining sound credit protection factors) and reduced reliance on wholesale depositor funding supported by the SME and retail strategy. However, a prolonged and significant decline in capitalisation related to asset losses, inadequately controlled growth or adverse economic developments, could see the ratings come under pressure.

NATIONAL SCALE RATINGS HISTORY

Initial rating (Aug/2002)
Long term: A+(KE); Short term: A1(KE)
Outlook: Stable

Last rating (Aug/2014)
Long term: A+(KE); Short term: A1(KE)
Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2015
Kenya Bank Statistical Bulletin (June 2015)
NIC rating reports (2002-14)

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

NIC Bank Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to NIC Bank Limited with no contestation of the rating.

Information Received

- Audited financial results of the group as at 31 December 2014 (plus four years of comparative figures)
- Unaudited interim results of the group as at 30 June 2015
- Budgeted financial statements for 2015
- Latest internal and/or external audit report to management
- Reserving methodologies
- A breakdown of facilities available and related counterparties
- Corporate governance and enterprise risk framework
- Industry comparative and regulatory framework

The ratings above were solicited by, or on behalf of, NIC Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset Quality	Asset quality refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (i.e. being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Audit Report	An audit report is a written opinion of an auditor (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Collateral	Asset provided to a creditor as security for a loan.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Equity	Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Franchise	Business or banking franchise; a bank's business.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long term	Not current; ordinarily more than one year.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Non-Performing Loan	When a borrower is overdue, typically 90+ days in arrears or as defined by the lender, or in the transaction documents.
NPL Ratio	The ratio of non-performing loans and advances to total gross loans and advances, expressed as a percentage.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.

For a detailed glossary of terms utilised in this announcement please click [here](#)



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