GCR RATINGS

CREDIT RATING ANNOUNCEMENT

GCR affirms Globus Bank Limited's National Scale Issuer Ratings of BBB-$_{(NG)}$/A3$_{(NG)}$: Outlook Stable

Rating action

Lagos, 21 August 2024 – GCR Ratings (GCR) has affirmed Globus Bank Limited's national scale long and short-term ratings of BBB-$_{(NG)}$ and A3$_{(NG)}$ respectively, with a Stable Outlook.

Rated entity	Rating class	Rating scale	Rating	Outlook
Globus Bank Limited	Long Term Issuer	National	BBB-$_{(NG)}$	Stable
	Short Term Issuer	National	A3$_{(NG)}$	

Rating rationale

The affirmation of Globus Bank Limited's (Globus Bank or the bank) ratings reflects its modest franchise, well-managed risk profile, stable funding structure and good liquidity.

Globus Bank is a growing national commercial bank with a balance sheet size of NGN1.4 trillion ($864.0 million) as of 31 July 2024, reflecting a three-year CAGR of 64.5% and a 48.7% growth over the position as at 31 December 2023. Growth is primarily driven by wider branch networks and the adoption of digital innovations, which enhance customer reach. Nonetheless, the bank's competitive position is constrained by its small share of the broader industry's resources at c.1%. We view positively Globus Bank's relatively stable operating revenues, supported by the dominance of net interest income that accounted for 74.6% (2022: 86.4%) in 2023 while the contribution of volatile, market-sensitive income remained lower than peers. Furthermore, the bank's three-year (2021-2023) average cost-to-income ratio of 48.1% continues to show a moderating trend reflecting improved operational efficiency. Looking ahead, we believe that Globus Bank's ability to expand and defend its market share particularly in view of a mass recapitalisation of the Nigerian banking sector, while maintaining good revenues, would impact our assessment of the bank's competitive position.

Globus Bank's capitalisation is assessed at an intermediate level on the back of strong shareholders' support. Over the last two years, existing shareholders injected a total of NGN26.6 billion into the bank through rights issuance, split into NGN10.6 billion in 2023 and NGN16 billion in 2024. This, as well as good earnings accretion, supported the bank's aggressive growth in the last four years, registering the GCR core capital ratio at 18.8% as of 31 July 2024 from a high of 43.6% in 2020. The NGN16 billion raised by shareholders in 2024 are currently held as deposits for shares, awaiting approval from the Central Bank of Nigeria. Looking ahead, the bank has outlined plans to raise additional capital in the range of NGN25 billion to NGN50 billion by December 2024 through a combination of rights issuance and private placements. Should the capital raise be successful, the GCR core capital ratio could register between 19% to 22.5% over the next 12 months.

Globus Bank's risk profile is a positive rating factor. Gross loans grew by 45.7% to NGN350.5 billion ($389.8 million) as at 31 December 2023 and further to NGN521.2 billion ($325.7 million) as of 31 July 2024. Despite this substantial growth, no non-performing loan was reported, reflecting prudent underwriting standards and stringent credit monitoring. However, the credit loss ratio inched up to 2.1% (2022: 1.5%), driven by higher provisions in response to the prevailing weak macroeconomic climate and growth in the loan book. Counterparty risk remains moderate, with the top twenty obligors accounting for 43.1% (2022: 38.7%) of the loan portfolio as of 31 December 2023. Globus Bank is exposed to currency risks through its foreign currency (FCY) loans which accounted for 19.5% (2022: 22.0%) of gross loans as of 31 December 2023 (well below the industry's average of over 45%). We recognise that currency risks are mitigated by matching these FCY credits predominantly to obligors with FCY receivables. Over the next 12-18 months, we expect some pressure on asset quality ratios across the banking sector due to macroeconomic headwinds (including the high interest rates); however, we do not foresee any significant deterioration in Globus Bank's loan book in the short term.

Our assessment of funding and liquidity is positive to the ratings underpinned by a stable funding base and a liquid balance sheet. Globus Bank's activities are funded by core customer deposits, which accounted for 98.3% (2022: 87.9%) of the total funding base as of 31 December 2023. Customer deposits rose by 76.6% to NGN546.8 billion ($614.8 million) as of 31 December 2023 and further to NGN751. 1 billion ($469.3 million) as of 31 July 2024, supported by the strategic deployment of technology and the expansion of its branch network. The deposit mix is skewed towards interest rate sensitive term deposits, which constituted 56.7% (2022: 43.0%) of total customer deposits. However, despite this trend as well as the prevalent high interest-rate environment, interest expense as a percentage of the average funding base at 5.0% as of 31 July 2024 compared favourably with peers. Additionally, we view depositor concentration to be relatively low, as the twenty largest depositors accounted for 27.7% (2022: 19.0%) of total customer deposits as of 31 December 2023. Liquidity coverage remains adequate; GCR liquid assets coverage of customer deposits registered at 42.3% (2022: 52.6%) as of 31 December 2023. Furthermore, the bank continues to maintain a liquidity ratio above the regulatory minimum of 30%. We expect Globus Bank's funding and liquidity metrics to remain at acceptable levels over the next 12-18 months.

Outlook statement

The stable outlook reflects our expectation that Globus Bank will maintain a GCR Core Capital Ratio in the range of 19%-22.5% over the rating horizon, supported by a planned equity capital raise and increased earnings accretion. Asset quality metrics are likely to remain better than the industry's average, while the funding structure and liquidity position remain stable over the next 12-18 months.

Rating triggers

An upward rating action could result from (i) a sustained improvement in GCR Core Capital ratio, such that it is consistently maintained above 20% and (ii) a significant improvement in the bank's market share and franchise. Conversely, a downgrade could be triggered by (i) a decline in asset quality metrics below the industry's average and historic levels or (ii) a further drop in the GCR Core Capital Ratio below its current level of 18.8%.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Financial Institutions, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, July 2024
GCR Financial Institutions Sector Risk Score, August 2024

Ratings history

Globus Bank Limited					
Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	National	BBB-(NG)	Stable	July 2021
Short Term Issuer	Initial	National	A3(NG)		July 2021
Long Term Issuer	Last	National	BBB-(NG)	Stable	August 2023
Short Term Issuer	Last	National	A3(NG)		August 2023

Risk score summary

Rating Components & Factors	Score
Operating environment	**7.00**
Country risk score	3.50
Sector risk score	3.50
Business profile	**(2.00)**
Competitive position	(2.00)
Sustainability	0.00
Financial profile	**1.00**
Capital & Leverage	0.00
Risk	0.50
Funding & Liquidity	0.50
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**6.00**

Glossary

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
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 (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.

Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Obligor	The party indebted or the person making repayments for its borrowings.
Offset	A right (Right of Offset) to set liabilities against assets in any dispute over claims.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Private Placement	The sale of securities to a small number of institutional investors such as large banks, insurance companies and pension funds. Such issuances do not require a formal prospectus and are often not listed on an exchange.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Shareholders' Funds	The holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.

Salient points of accorded rating

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

The credit ratings have been disclosed to Globus Bank Limited.

The ratings above were solicited by, or on behalf of Globus Bank Limited.

The rated entity participated in the rating process via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Globus Bank Limited and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2023
- Unaudited interim management accounts as of July 2024
- Other related documents.
- Exchange Rate Source: Central Bank of Nigeria \$1.00 = NGN889.39 (31 December 2023); \$1.00 = NGN1,600.36 (31 July 2024)

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