Globus Bank Limited

2024 Abridged Entity Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Globus Bank Limited

Rating Assigned:
A-

A financial institution of good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.

ESG Score
3

Outlook: Stable
Issue Date: 19 August 2024
Expiry Date: 30 June 2025
Previous Rating: A-

Industry: Banking

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RATING RATIONALE

Agusto & Co. affirms the "A-" rating assigned to Globus Bank Limited ("Globus Bank" or "the Bank") reflecting the Bank's good profitability, acceptable capitalisation ratios, and experienced management team. However, the rating is constrained by loan book concentration, limited operating history, low market share and negative operating environment which has impacted businesses and households in Nigeria. We also note the intended regulatory headwinds and the adverse impact on banks' profitability in the near term. A "3" ESG score has also been attached to the rating, reflecting our view that environmental, social and governance issues are material to the Bank's credit risk profile.

Globus Bank Limited commenced operations as a regional commercial bank in July 2019 and upscaled to a national commercial bank in November 2021. Notwithstanding the four-year operating history, total assets and contingents reached the ₦1 trillion mark (FYE 2022: ₦640.7 billion) as at 31 December 2023 on the back of strong shareholders' support and improving brand franchise. Thus, the Bank ranked 14th in the banking industry based on asset size as at FYE 2023 of the 27 banks tracked by Agusto & Co. As at the same date, the loan book stood at ₦350.5 billion, a 45.7% year-on-year growth owing to new disbursements and the steep naira devaluation to an extent. However, obligor concentration persists as 20 customers accounted for 45% (FYE 2022: 38.3%) of gross loans as at FYE 2023. Notwithstanding, 99.8% (FYE 2022: 100%) of the loan book was classified in the stage 1 category based on the IFRS 9 accounting standard. The delay in settling the matured foreign currency forward contracts by the Central Bank of Nigeria resulted in the downgrade of the remaining 0.2% of the loan book to the stage 2 category. The loan book is skewed towards strategically important but import-dependent sectors such as manufacturing and general commerce. Thus, we believe the raging macroeconomic headwinds characterised by intense inflationary pressure and currency depreciation should further test the credit risk management framework's resilience.

Shareholders' support has underpinned Globus Bank's consistent growth trajectory. During the year under review, the shareholders injected an additional ₦20.7 billion which strengthened the capital base in addition to the improved profitability. As a result, shareholders' funds surged to ₦82 billion (FYE 2022: ₦53.8 billion) as at FYE 2023, significantly above the ₦25 billion regulatory minimum. While the capital adequacy ratio declined to 18.5% (FYE 2022: 24%) due to the surge in risk assets, it remained above the 10% regulatory threshold. Given the ongoing business expansion and the Central Bank of Nigeria's ₦200 billion minimum paid-up capital directive for national commercial banks, the Bank is undertaking a ₦155 billion capital-raising exercise. This initiative will be executed through a combination of rights issues, private placements, and public offers. It is expected that ₦25 billion will be raised through a rights issue exercise and a private placement programme before December 2024. As at 31 July 2024, ₦15.7 billion has been raised from shareholders and other investors. The Bank expects the capital-raising exercise to be successful based on the strong shareholders' support exhibited over the years and the growing brand franchise.

During the year under review, aggressive deposit mobilisation resulted in a 77% year-on-year surge in the total customer deposit liabilities to ₦546.8 billion as at 31 December 2023. Deposit growth was most prominent in the relatively high-cost term deposit reflecting the challenges in penetrating the retail market. Thus, term deposits accounted for 48.2% (FYE 2022: 30.1%) of the deposit liabilities as at FYE 2023. The deteriorating funding mix in a high interest rate environment raised the weighted average cost of funds (WACF) to 4.6% (FY 2022: 4%) in FY 2023. In the near term, we expect a further rise in the WACF based on the sustained hawkish monetary policy, which should compress the Bank's interest margins. As at FYE 2023, Globus Bank recorded a liquidity ratio of 33% (FYE 2022: 44.4%), just above the 30% regulatory minimum.

In FY 2023, Globus Bank's net earnings surged by 95% to ₦43.4 billion due to the enlarged loan book, rising yield environment, foreign exchange revaluation gains, and improved fixed-income trading activities. Given the intense inflationary pressure and business growth, operating expenses increased by 54.9% to ₦10.3 billion. Notwithstanding, the cost-to-income (CIR) ratio declined to 46% from 57.9% in the prior year based on the growth in earnings. Overall, pre-tax profit grew by 150% to ₦23.4 billion and translated to a 2.9% (FY 2022: 1.9%) pre-tax return on average assets (ROA) and a 34.5% (FY 2022: 21.1%) pre-tax return on average equity (ROE) in FY2023. The profitability ratios were lower than the banking industry average (ROA: 3.3% and ROE: 44.9%). The projected loan book expansion and efforts to grow the low-cost deposits are expected to sustain profitability notwithstanding the challenging macroeconomic conditions. Subsequent to the year-end, the profitability ratios improved with an annualised ROA of 3.6% and annualised ROE of 49.2% in seven months of 2024, in line with our expectations. We view the Bank's profitability as good.

Based on the aforementioned, we attached a stable outlook to the rating of Globus Bank Limited.

Strengths

- Experienced management team with strong knowledge of the banking terrain
- Good profitability
- Acceptable capitalisation ratio
- Nil disclosed impaired loan since inception

Weaknesses

- Obligor concentration in the loan book
- Low market share
- Limited operating history

Challenges

- Maintaining asset quality given the adverse impact the macro-environment is having on businesses and households.
- Limited liquidity in the foreign exchange market.
- Regulatory headwinds

Table 1: Background Information

	31 Dec 2022	31 Dec 2023
Total assets & contingents	₦640.7 billion	₦1 trillion
Net earnings	₦22.3 billion	₦43.4 billion
Pre-tax return on average assets & contingents (ROA)	1.9%	2.9%
Pre-tax return on average equity (ROE)	21.1%	34.5%

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