



September 30, 2019

PUBLIC RELEASE

NCB FINANCIAL GROUP ANNOUNCES RATING UPDATE FOR SUBSIDIARY, NATIONAL COMMERCIAL BANK JAMAICA LIMITED

NCB Financial Group Limited announces that S&P Global Ratings upgraded its subsidiary, National Commercial Bank Jamaica Limited's credit rating to **'B+'** from **'B'** with outlook - **stable**. The rating report is attached below.

About NCB Financial Group

NCB Financial Group Limited ("NCB") was incorporated in April 2016 to be licensed under the Banking Services Act as the financial holding company for National Commercial Bank Jamaica Limited ("NCBJ"). NCB is the largest and most profitable financial services group in Jamaica with roots dating back to 1837. Through the bank and its wealth management, life and general insurance, and offshore banking subsidiaries, NCB provides a wide array of financial products and services to meet the needs of individual and business clients. The NCB Group includes NCBJ, NCB Capital Markets Limited and its subsidiaries in Barbados and Cayman, NCB Insurance Company Limited, NCB (Cayman) Limited, Clarien Group Limited and its subsidiaries in Bermuda, Guardian Holdings Limited and its subsidiaries as well as NCB Global Finance Limited in Trinidad and Tobago.

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Research Update:

National Commercial Bank Jamaica Upgraded To 'B+' From 'B' After A Similar Action On The Sovereign, Outlook Stable

September 30, 2019

Overview

- On Sept. 27, 2019, S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Jamaica to 'B+' from 'B', reflecting the country's substantial progress in achieving macroeconomic stability and strengthening its external position, which improves its ability to withstand external shocks.
- The sovereign rating action doesn't affect our Banking Industry Country Risk Assessment (BICRA) on Jamaica, which remains at group '8', with an anchor for banks operating in Jamaica at 'bb-'.
- Following the sovereign rating action, we're raising our long-term ratings on domestic lender, NCBJ, to 'B+' from 'B'. The sovereign ratings still limit those on the bank, because we believe its operations would suffer during a hypothetical sovereign default scenario.
- The stable outlook on NCBJ reflects that on Jamaica.

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Rating Action

On Sept. 30, 2019, S&P Global Ratings raised its long-term issuer credit ratings on National Commercial Bank Jamaica Ltd. (NCBJ) to 'B+' from 'B' after a similar action on the sovereign. In addition, we affirmed the 'B' short-term issuer credit ratings on the bank. The outlook on NCBJ is now stable.

Rationale

The upgrade of NCBJ reflects a similar action on Jamaica. Nevertheless, the ratings on NCBJ continue to be below its stand-alone credit profile (SACP) of 'bb-' because these are limited by the sovereign ratings. This is because we don't believe that the bank could withstand a sovereign default scenario, given its large risk exposure to Jamaica in the form of loans and securities.

SACP of NCBJ is our assessment of its credit profile on its own, before sovereign limitations. It reflects the economic and operating environment of the country where the bank bases its operations. It also reflects NCBJ's leading position in Jamaica's banking sector, its diversified income sources by business line, and an effective management direction that helps the bank's competitive position. We consider NCBJ's capitalization metrics to be in line with its business plan, with a forecasted risk adjusted capital ratio (RAC) of about 6.4% for the next two years. However, NCBJ's loan portfolio concentration by economic group and client still somewhat limit its SACP. The bank's funding structure is in line with that of the Jamaican banking system and its liquidity is adequate, in our view.

Rating action on the Sovereign does not impact Jamaica BICRA

The upgrade of the sovereign reflects the continued improvement in Jamaica's external liquidity. A stronger overall external position, along with continued adherence to the government's fiscal strategy, bolsters the country's resilience against external shocks. Our ratings on Jamaica continue to be limited by the country's high debt and interest burden, which restrict its fiscal flexibility. Despite a recent pick-up, GDP growth remains low, constrained by structural impediments. Nevertheless, the government's commitment to fiscal prudence fosters macroeconomic stability--including low inflation--and supports the country's creditworthiness. The country's external position has improved in recent years with declining debt and growing international reserves. We believe that Jamaica's policymaking stability and predictability are bolstered by the continuity and institutionalization of fiscal consolidation policies. In addition, ongoing changes in the governance and mandate of the central bank could gradually improve Jamaica's currently limited monetary flexibility.

Improvement in the sovereign's external conditions doesn't affect our BICRA evaluation on Jamaica, given that the assessment already incorporates a moderate vulnerability of the system to external risks. The banking system is not widely dependent on external funding, and it has a limited exposure to foreign currency denominated loans and deposits.

Outlook

The stable outlook on NCBJ mirrors that on Jamaica, which reflects our view that the country's fiscal policy will remain broadly consistent following the expiration of its IMF Standby Agreement (SBA) in November 2019. We expect the government to continue delivering robust primary fiscal surpluses, leading to a gradual reduction in debt and interest burden, and helping to boost external reserves. We also expect the country to maintain its growth momentum, with modest GDP growth, and that the government will continue advancing toward a more effective monetary policy framework, including a more flexible exchange rate. The stable outlook on the bank also reflects our expectation that it will keep the current fundamentals that support its 'bb-' SACP in the next 12 months.

Downside scenario

We could downgrade NCBJ if we downgrade Jamaica, although this isn't in our base-case scenario in the next year given the current stable outlook. We could also downgrade the bank if its SACP drops to below 'b+', which we don't consider likely in the next 12 months.

Upside scenario

We would raise our ratings on NCBJ if we upgrade Jamaica and the bank's credit profile fundamentals remain the same. However, this is not our base-case scenario for the next year given the current outlook on Jamaica.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	B+/Stable/B	B/Positive/B
SACP	bb-	bb-
Anchor	bb-	bb-
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Moderate (0)	Moderate (0)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	-1	-2

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Jamaica Sovereign Credit Rating Raised To 'B+' From 'B' On Improved External Position; Outlook Is Stable, Sept. 27, 2019

Ratings List

Upgraded; Outlook Action

	To	From
National Commercial Bank Jamaica Ltd.		
Issuer Credit Rating	B+/Stable/B	B/Positive/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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