GCR RATINGS

Credit Rating Announcement

GCR affirms Bank of Kigali Plc's and BK Group Plc's national scale issuer ratings of AA+(RW) and AA(RW), respectively; Outlooks Stable

Rating Action

Johannesburg, 14 July 2021, GCR Ratings ('GCR') has affirmed the national scale long and short-term issuer ratings on Bank of Kigali Plc ('Bank of Kigali', 'the bank') of AA+(RW) and A1+(RW), respectively, with outlook accorded as Stable. At the same time, GCR has affirmed BK Group Plc's ('BK Group', 'the group') national scale long and short-term issuer ratings of AA(RW) and A1+(RW), respectively, with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Bank of Kigali Plc	Long Term issuer	National	AA+(RW)	Stable Outlook
	Short Term issuer	National	A1+(RW)	

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
BK Group Plc	Long Term issuer	National	AA(RW)	Stable Outlook
	Short Term issuer	National	A1+(RW)	

Rating Rationale

Bank of Kigali is the largest subsidiary of BK Group, a holding company with three other subsidiaries, namely BK General Insurance, BK TecHouse and BK Capital Ltd. The smaller subsidiaries are growing revenue contributions and represented approximately 5% of the profit before tax ('PBT') to the group in FY20. We opine that Bank of Kigali will continue to be the most significant subsidiary of the group for the foreseeable future and will therefore continue to drive the rating accorded to the group.

The ratings on the bank balances its position as a market leader in Rwanda, strong capitalisation, sound funding structure, good liquidity with its modest risk position.

Bank of Kigali is the largest bank in Rwanda's relatively overbanked and increasingly competitive banking sector and had strong market shares of approximately 30.8% by total assets, 36.2% of loans, and 30.1% by customer deposits as of March 2021. While geographical diversification is limited to Rwanda, it has the broadest geographical reach within the country, relative to peers through physical branches, ATM's, POS and agents. Business lines are moderately diversified in the Rwandan market context, with corporate banking accounting for 70% of revenues and retail accounting for 16%. The bank's revenue stability, augmented by sustained year-on-year increases in both interest and non-interest income in the past five years, is viewed positively especially during this extended stress period.

GCR considers the bank to be well capitalised on the back of a GCR total capital ratio of 25.1% at FY20. We anticipate that the capital ratio will moderate slowly, as risk weighted asset growth broadly increases quicker than the internally generated capital (post dividends). We anticipate moderate loan growth of around 10% over the next couple of years, however the increased impairments will likely raise the risk-weighting more. Profitability is expected to moderate but remain at robust levels, with return on assets expected to be around 2.5%-3% over the next two years.

The risk position of the bank is relatively weak compared with rated peers and a deterioration in the quality of the bank's loan book is noted. Annualised credit losses have averaged around 3.6% over the past five years with FY20 at 4.2%, which is high even in a regional context. In FY20, the risk costs increased to 4.5% from 2.7% in 2019 due to deterioration in asset quality coupled with a conservative macroeconomic overlay due to the COVID-19 pandemic. Given the severe economic pressures, cost of risk is expected to remain high for the next 12-18 months. The bank's nonperforming loans (NPL) ratio of around 6.7% is broadly in line with Rwandan peers, however its stronger than most of the Kenyan peer group. We expect NPLs to increase moderately going forward, because the bank is exposed to some vulnerable sectors such as transport and communication (19.5% of gross loans), hotels and restaurants (12.1%), and manufacturing (10.0%). The retail loan book (23% of gross loans) may also face some pressure, as only 45% of the retail loan book is collateralised. Overall, the bank had restructured over 43% of its loan book at FY20 but this has subsequently improved to around 14% of total loans in the first half of 2021. Positively, we consider loan loss reserving of c.105% or nearly 8% of total loans at FY20 to provide good coverage of expected losses. Foreign currency lending accounted for 14% of total loans at FY20 and is considered to be modest versus regional peers. The bank's short net-open position of 5% of shareholder funds at FY20 is considered to be ratings neutral.

The bank's funding is considered to be stable, with customer deposits making up 93% of the group's funding base at FY20. Though deposits are predominantly demand deposits at c.61%, they have historically been sticky. Furthermore, there is increasing diversification in the customer base. At FY20, the deposit base was split between large corporate (40.7%), SMEs (10.9%), NBAs (9.7%) and retail (24.5%). Despite, increasing diversification the deposit book is somewhat concentrated (like many Rwandan peers), with the top 20 depositors accounting for 29.3% of total depositors. Cost of funds was a modest 2.3% in FY20 (FY19: 2.0%). The bank's liquidity has been stable throughout the pandemic and is viewed to be good, with liquid asset covering total wholesale funding by 4,4 times and 31% of customer deposits at FY20.

The long-term national scale rating of $AA_{(RW)}$ accorded to BK Group (the non-operating holding company – 'NOHC') is one notch below the bank's rating of $AA+_{(RW)}$ to reflect the NOHC's structural subordination.

Rating Outlook

The outlook is stable. Despite the highly pressurised environment, we expect the bank's financial profile to remain resilient over the next two years. Capital is expected to range between 22.5% and 25%, cost of risk around 4.5%, and liquidity to remain robust.

Rating Triggers

We could lower the rating if asset quality or capitalisation deteriorate at quicker than anticipated levels. Positive rating is unlikely in the current environment but improved internal capital generation against risk-weighted asset growth and better asset quality could improve the ratings.

Analytical Contacts

Primary analyst Johannesburg, ZA	Simbarake Chimutanda SimbarakeC@GCRratings.com	Financial Institutions Analyst +27 11 784 1771
Secondary analyst Johannesburg, ZA	Matthew Pirnie MatthewP@GCRratings.com	Group Head of Ratings +27 11 784 1771
Committee chair Johannesburg, ZA	Vinay Nagar Vinay@GCRratings.com	Senior Financial Institutions Analyst +27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Rating Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, July 2021
GCR Financial Institutions Sector Risk Score, June 2021

Ratings History

Bank of Kigali Plc

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	A+(RW)	Stable	October 2010
	Last	National	AA+(RW)	Stable	September 2020
Short Term issuer	Initial	National	A1(RW)	n.a	October 2010
	Last	National	A1+(RW)	n.a	September 2020

BK Group Plc

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial/last	National	AA(RW)	Stable	November 2019
Short Term issuer	Initial/last	National	A1+(RW)	n.a	September 2020

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**7.25**
Country risk score	3.50
Sector risk score	3.75
Business profile	**1.50**
Competitive position	1.50
Management and governance	0.00
Financial profile	**1.50**
Capital and Leverage	1.50
Risk	(1.00)
Funding and Liquidity	1.00
Comparative profile	**0.00**
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	**10.25**

Glossary

Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
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.
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.
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.

Salient Points of Accorded Ratings

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 BK Group Plc. The ratings above were solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the ratings.

BK Group Plc participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from BK Group Plc and other reliable third parties to accord the credit rating included:

- Audited financial results as at 31 December 2020;
- Quarterly financial results as at 31 March 2021;
- Banking sector information;
- A breakdown of facilities available and related counterparties;
- Industry comparative data.