



Credit Rating Announcement

GCR upgrades Bank of Kigali Plc's long term Rwandan national scale rating to AA_(RW); Outlook Stable.

Rating Action

Johannesburg, 15th November 2019 - GCR Ratings ('GCR') has reviewed the ratings of Bank of Kigali Plc ('BK', 'the bank') under the recently released Criteria for Rating Financial Institutions, May 2019.

BK's long term Rwanda national scale rating has been upgraded to AA_(RW) from AA_(RW) while the short term Rwandan national scale issuer rating has been affirmed at A1_(RW). GCR has also assigned long and short term Rwandan national scale issuer ratings for BK Group Plc ('BK Group', 'the group') of AA_(RW) and A1_(RW), respectively. The outlooks are stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Bank of Kigali Plc	Issuer Long Term	National	AA _(RW)	Stable Outlook
	Issuer Short Term	National	A1 _(RW)	n.a

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
BK Group Plc	Issuer Long Term	National	AA _(RW)	Stable Outlook
	Issuer Short Term	National	A1 _(RW)	n.a

On May 22, 2019 GCR announced that it had released new criteria for all banks and bank-like entities. This methodology is titled Criteria for Rating Financial Institutions. As a result, the ratings were placed "Under Criteria Observation".

Subsequently, GCR has finalised the review under the new methodology. As a result, the ratings have been removed from 'Under Criteria Observation' and the rating revised in line with the new methodology.

Rating Rationale

The below ratings factor in the following core elements of Rwandan Country and Financial Institutions Sector risk into the assessment.

Rwandan Country Risk Score: '4.25'

The Rwandan Country Risk Score of '4.25' balances the low wealth levels with strong economic growth and above average institutional scores, underpinned by perceptions of better control of corruption than regional peers. We expect economic growth to remain around 8% in 2019, somewhat supported by expansion led government fiscal policies but also strong private sector investment.

Rwanda, Financial Institutions Sector Risk Score: 4

The Rwandan financial institutions sector risk score of '4' balances the low wealth, the moderate size and diversification of the economy with modest levels of non-performing and foreign currency loans versus regional peers and regulation which is deemed to appropriate from its current levels of development and complexity. We consider the sector to be somewhat overbanked given the size of the economy, we note that the top tier of the sector is controlled by a few players but that regional banks are increasingly competitive in the country. Positively the banking sector appears well capitalised on average, but profitability can be modest. Funding is largely deposit based, with limited wholesale and external funding. The local capital markets are underdeveloped.

BK is the largest subsidiary of BK Group, a holding company with three other subsidiaries, namely BK General Insurance, BK TechHouse and BK Capital Ltd. These subsidiaries are still fairly new businesses to the group, hence the revenue contribution to the group is not yet significant. We think that BK will continue to be 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 BK balance the bank's position as a market leader in Rwanda, strong capitalisation, sound funding structure, good liquidity with its modest risk position.

BK is the largest bank in Rwanda's somewhat overbanked and increasingly competitive banking sector, and had strong market shares of 34% by total assets, 42.9% by net loans and 32.4% by customer deposits at 1H19. 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 considered to be fairly diversified in the Rwandan market context, with corporate, retail and SME divisions accounting for 78.4%, 13.5% and 7.3% of the bank's total loan book at 1H19, respectively. 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. Net interest margins registered at 10.6% at 1H19 (FY18: 10.1%).

GCR considers BK to be well capitalised on the back of a GCR total capital ratio of 26% at 1H19 (FY18: 32%; FY17: 19%). The spike in capital in FY18 was as a result of the bank cross listing on the Nairobi Stock Exchange. However, we expect capital to gradually erode to a range between 22% - 24%, as the bank's risk assets base increases in line with its growth strategy, over the rating horizon. We think that the bank will be able to manage capital within this range on the back of well contained risk, good internal capital generation and an expected lower dividend pay-out ratio.

The risk position of the bank is a relative weakness relative compared with rated peers. A deterioration in the quality of the bank's loan book is noted, with credit losses increasing significantly to 4.4% at 1H19 from the 2% -3% range registered in the past 24 months. BK's nonperforming loans ratio of 6.4% is weaker compared with the industry average of 5.6% at 1H19, and this is mainly attributable to exposures in the construction and hospitality sectors as well as SMEs. However, we consider loan loss reserving of 100.3% at 1H19 (FY18: 100.0%) to be adequate. Foreign currency lending, which is restricted to a regulatory loan to deposit ratio of 50%, accounted for 18.6% of total loans at 1H19 and is considered to be modest. The bank's short net-open position of 3.8% of shareholder funds at FY18 is considered to be ratings neutral.

Funding and liquidity is considered to be a positive ratings factor for the bank. The bank's funding is considered to be stable, with customer deposits making up 86% of the group's funding base at FY18.

Though deposits are predominantly demand deposits from corporates, they have historically been behaviourally sticky. Positively, the funding base presents a relatively fair level of diversification and modest depositor concentrations at the top twenty depositors' level (FY18: 30% to total deposits). Whilst also a common depositor across all top tier banking peers, the contribution of around 10% to total deposits by the largest depositor at FY18 is viewed less positively. BK's cost of funds equated to a modest 3.1% at 1H19 (FY18: 3.0%). The bank's liquidity is viewed to be adequate, with liquid asset covering total wholesale funding. 4.7 times and 31% of customer deposits at 1H19.

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

Rating Outlook

The outlook is stable, balancing our expectation that the bank will sustain its competitive position, strong capitalisation, sound funding and liquidity in a modest operating environment.

Rating Triggers

Further increases in credit losses and non-performing loans, weakening in capital, funding and liquidity could result in a negative rating action.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
 Criteria for Rating Financial Institutions, May 2019
 GCR Ratings Scale, Symbols & Definitions, May 2019
 GCR Country Risk Scores, June 2019
 GCR Financial Institutions Sector Risk Score, October 2019
 Bank of Kigali Plc report, September 2018.

Ratings History

Bank of Kigali Plc (Rwandan national scale)					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	A+ _(RW)	Stable	October 2010
	Last	National	AA- _(RW)	Stable	September 2018
Issuer Short Term	Initial	National	A1 _(RW)	n.a	October 2010
	Last	National	A1+ _(RW)	n.a	September 2018

BK Group Plc (Rwandan national scale)					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial/Last	National	AA _(RW)	Stable	November 2019
Issuer Short Term	Initial/Last	National	A1+ _(RW)	n.a	November 2019

Risk Score Summary

Risk score	
Operating environment	8.25
Country risk score	4.25
Sector risk score	4.0
Business profile	1.50
Competitive position	1.50
Management and governance	0.00
Financial profile	1.50
Capital and Leverage	1.00
Risk	-0.50
Funding structure and Liquidity	1.00
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Score	11.25
National scale rating	AA+/A1+

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 entity, and therefore, GCR has been compensated for the provision of the ratings.

BK Group Plc participated in the rating process via face-to-face 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 2018;
- Unaudited financial results as at 30 June 2019;
- Banking sector information;
- A breakdown of facilities available and related counterparties;
- Industry comparative data.

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