

GCR lowers Rwandan Financial Institutions Sector Risk Score to '3.75' from '4.00'

Summary

Johannesburg, 26th May 2021, GCR Ratings ('GCR') have lowered the Financial Institutions Sector Risk Score for Rwanda to '3.75' from '4.00'. The Financial Institutions Sector Risk Scores are available for download at <https://gcrratings.com/risk-scores/>.

The GCR Financial Institutions Sector Risk Assessment

The Financial Institutions sector risk score (ranging from 0 to 15) is a key factor in the operating environment component score. The core of the GCR Ratings Framework is based on GCR's opinion that an entity's operating environment largely frames its creditworthiness. As a result, the operating environment analysis anchors the underlying risk score for the GCR rating methodology. GCR combines elements of the country risk and sectoral risk analysis, blended across countries for entities operating across multiple jurisdictions, to anchor an insurer to its current operating conditions. For more details on the above, please read the related criteria and research listed below.

GCR will periodically publish updated "Financial Institution Sector Risk Scores", which will supersede previous publications. The publication titled "GCR Financial Institutions Sector Risk Scores, * May 2021", available at <https://gcrratings.com/risk-scores/>, supersedes the article published on 21st May 2021.

Financial Institutions Sector Risk Score

Rwandan Financial Institutions Sector Risk score: '3.75'. Country Risk Score ,3,5^[1], Mapping Table 3,5 to 4.0

The Rwandan Financial Institutions Sector Risk Score of '3.75' balances the weakening government fiscal position (government debt to GDP ratio is expected to increase to 80% by end of 2022 from 71% in 2020) with the banking sector's rising levels of non-performing loans (non-performing loans increased to 6.6% at 31 March 2021 and the cost of risk reached a five year high of 3.6% in 2020). It also reflects the estimated high degree of restructured lending (c.20%) and relatively moderate foreign currency loans versus regional peers. Additionally, it factors in regulation and sector wide governance standards, which are deemed to be appropriate for its current levels of development and complexity. We do consider the sector to be somewhat overbanked given the size of the economy, noting 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 (c.20%), and profitability is solid and stable. Funding is largely deposit based, with limited wholesale and external funding, but some banks are reliant on interbank funding. The local capital markets are considered to be relatively underdeveloped.

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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 Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, March 2021