GCR Financial Institutions Sector Risk Scores
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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Country Risk Scores: June 2019

Financial Institutions Sector Risk Scores (0-15)

The financial institutions sector risk score, assessed on a scale between 0-15, is important in a number of ways. Firstly, as a key factor in the operating environment component score. The core of the GCR Ratings Framework is based on GCR Ratings' ("GCR") 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 ratings methodology. Financial institutions are especially vulnerable to these factors. GCR combines elements of the country risk and sectoral risk analysis, blended across countries for entities operating across multiple jurisdictions, to anchor a financial institution to its current operating conditions. Furthermore, the operating environment (the country risk score combined with the financial sector risk score) creates the floor from which government support can be provided for banks and the hurdle which may cap risk scores for entities significantly exposed to one jurisdiction. For more details on any of the above, please read the related criteria and research listed above.

GCR will periodically publish updated "Financial Institutions Sector Risk Scores", which will supersede previous publications. The publication titled "Financial Institutions Sector Risk Scores, 23 July 2019", available at https://gcrratings.com/risk-scores/, supersedes the article published on 15 July 2019.

Financial Institutions Sector Risk Scores (0-15)

Botswana Financial Institutions Sector Risk Score: 5.5

Botswana's financial institutions sector risk score of '5.5' reflects the strong sovereign risk, small and concentrated economy, generally modest levels of non-performing loans and low foreign currency lending. We also factor in adequate levels of regulation and a relatively concentrated, profitable and well capitalised banking sector. Lastly, we balance the largely deposit-led funding base with underdeveloped local capital markets.

Cote D'Ivoire Financial Institutions Sector Risk Score: 3.5

The financial institutions sector risk score of '3.5' for Cote D'Ivoire balances the strong economic growth and sound government fiscal position with moderately high non-performing loans and aggressive competition in the sector, as demonstrated by generally low levels of capital adequacy and profitability. Lastly, we balance the largely deposit-led funding base with underdeveloped capital markets.

Ghana Financial Institutions Sector Risk Score: 2

The Ghanaian financial institutions sector risk score of '2' is restrained by the weak but improving fiscal position of the government and state-owned enterprises, the currently high stock of sector wide non-performing loans of approximately 19% at April 2019 and moderately high foreign currency lending (33% of total loans). We also consider the banking sector to be somewhat fragmented, regulated in line with regional norms, adequately capitalised (average around 17% at April 2019) and profitability to be sound. Local deposits are the primary funding source, with limited wholesale or external funding. Fixed income markets are underdeveloped.

Kenya Financial Institutions Sector Risk Score: 3.5

The Kenyan financial institutions sector risk score of '3.5' balances the good economic growth and diversification with an increasingly strained government fiscal position and weak sector-wide asset quality, with non-performing loans of around 12% at Dec 31st, 2018. Positively, the foreign currency exposures (around 20-25%) are moderate for the region. We also consider the sector to be somewhat overbanked and strongly competitive. Regulation is broadly in line with the regional average, however, the interest rate cap which restrains profitability and moderate credit extension is not considered positively. We consider the funding for the top end of the market to be stable, dominated by retail and corporate deposits. However, institutional investor concentrations permeate elements of the second and third tiers of the sector.

Malawi Financial Institutions Sector Risk Score: 2

The Malawian financial institutions sector risk score of '2' reflects the modest economic growth of the country, alongside the restrained government fiscal position, weak but improving levels of non-performing loans and moderately high industry concentrations (trade, agriculture and manufacturing) in the loan and non-performing loan book. We consider regulation to be broadly in line with the region and complexity of the system. The banking sector is somewhat concentrated. Two out of the total nine banks dominate the sector with a combined market share of just over 45%. Positively, profitability and capitalisation remain at fairly good levels. Short-term deposits dominate the funding structure of the system. There are moderately high levels of foreign currency funding and lending (approximately 25%) and underdeveloped capital markets.

Mozambique Financial Institutions Sector Risk Score: 2

The Mozambican financial institutions sector risk score of '2' is restrained by the current fiscal position of the government and some state-owned enterprises. Furthermore, non-performing loans are high but improving. Foreign currency lending is at moderately high levels, at approximately 25%. We view regulation as broadly in line with the region. The funding base of the sector is predominantly made up of retail and corporate deposits. Capital markets remain underdeveloped.

Namibia Financial Institutions Sector Risk Score: 6.5

The Namibian financial institutions sector risk score of '6.5' is supported by the oligopolistic structure of the banks, with the top four banks controlling around 90% of total assets. Furthermore, the banks are generally considered to be well managed, transparent and have consistently demonstrated adequate levels of capitalisation, low foreign currency exposure and good levels of profitability. Nevertheless, there are clear weaknesses in the sector including rising non-performing loans (up to 3.6% at Dec, 2018 from 2.5% a year earlier), caused by the currently weak economy and high amounts of private sector indebtedness. We also see some structural weaknesses in the funding base of the system, due to the significant concentrations from the large institutional investors.

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.

South Africa Financial Institutions Sector Risk Score: 8

The South African financial institutions sector risk score of 8 is the highest in the Africa region. It is supported by the oligopolistic structure of the system, with the top five banks controlling around 90% of total assets. The top tier banks have good levels of diversification, by business line and extended franchises across the Africa region. Generally, they are adequately capitalised and profitable. We expect return on equity to range between 15.5% and 16.5% in the next 12-18months. We consider regulation and supervision to be strong in a regional context, generally being early adopters of international best practice. Nevertheless, private sector debt and especially household debt is relatively high in comparison to other emerging markets and for the wealth levels of the country. Positively, there is a low amount of foreign currency lending. We expect credit losses of the major banks to range between 1-1.5% over the next 12-18months. One of the key weaknesses of the system is the short to medium term funding concentrations, created by dominant role of institutional money managers in contractual savings. Capital markets are developed versus regional peers.

Tanzania Financial Institutions Sector Risk Score: 2.5

The relatively low financial institutions sector risk score of Tanzania of '2.5' reflects the long-term weak asset quality of the sector, which has caused low levels of provisioning. Furthermore, there are relatively high (approximately 30%) levels of foreign currency lending and funding. The banking sector is moderately fragmented, with the top five and ten banks contributing 54% and 71% of total assets, and modestly profitable. We also note some shortfalls in the supervision and prudential regulation of the banking sector. The systemwide funding is largely retail and corporate deposit based, however, there have been historically large concentrations from institutional investors especially from those banks in the second and third tier.

The United Kingdom of Great Britain & Northern Ireland Financial Institutions Sector Risk Score: 11

The UK Financial Institutions Sector Risk Score of '11' is supported by the wealthy and diverse economy, its position as a global hub for financial services, low through-the-cycle credit losses, a good regulatory regime and generally strong risk management, alongside diverse funding structures and deep, liquid capital markets. Conversely, the score is somewhat restrained by the moderate profitability of the sector, high interest rate sensitivity of households and domestic real estate, modest economic growth and the potential instability caused by the ongoing 'Brexit' process.

Uganda Financial Institutions Sector Risk Score: 3.5

The Ugandan financial institutions sector risk score of '3.5' balances the low levels of private sector leverage (approximately 15% of GDP) and currently modest levels of non-performing loans, with high amounts of foreign currency lending (35% of total loans) and high concentration risks. The system is dominated by the largest commercial banks, which largely have well managed foreign owners. Positively, profitability and capital adequacy of the system currently appear to be robust. Banking supervision and regulation are sound. Deposits dominate the funding base of the system. Capital markets are underdeveloped.

Zambia, Financial Institutions Sector Risk Score: 2

The Zambian financial institutions sector risk score of '2' is restrained by the currently high fiscal strain facing the Zambian government and public sector more generally, but also high levels of foreign currency lending (over 35%) and high lending concentrations. We consider the regulation to be broadly behind the regional average, but the structure of the sector benefits somewhat from the dominance of foreign owned banks, which control 83% of the banking sector assets. We believe corporate and retail deposits make up the majority of the funding base, although we also anticipate a high amount of foreign lines. Capital markets remain underdeveloped.

Zimbabwe, Financial Institutions Sector Risk Score: 1

Zimbabwe's financial institutions sector risk of '1' is restrained by severe currency fluctuations, volatile monetary policy, long-term weak fiscal position of the government and high through the cycle industry wide non-performing loans. Regulation is broadly in line with the regional average. The sector is somewhat fragmented, which has created stiff competition, but the banks are generally profitable and adequately capitalised. Funding is largely deposit based, spread between corporate and retail deposits. However, there can be large concentrations in the funding base.