



IIRA Upgrades Fiduciary Ratings of United Capital Bank, Sudan

Manama, December 08, 2020 –Islamic International Rating Agency (“IIRA”) has revisited and upgraded the national scale ratings of United Capital Bank (“UCB” or “the Bank”) at ‘BBB+ (sd) / A2 (sd)’ (Triple B Plus / A Two) from ‘BBB (sd) / A3 (sd)’ (Triple B / A Three). Outlook on the assigned ratings is ‘stable’. The ratings assigned represent the Bank’s repayment capacity in local currency terms in the national context.

Incorporated in 2006, UCB is a small-sized yet growing Islamic bank with a deposit market share of about 1.3% at end 2019 up from 1% a year ago. UCB’s shareholding pattern indicates both prominent local and foreign institutional ownership. The rating action is indicative of the Bank’s continued business growth along with improvement in the Bank’s financial indicators. Having received the permit to offer Visa cards to its customers in early 2020, UCB recently rolled out the Visa corporate card services.

While revising the credit ratings of the Bank, IIRA remains cognizant of persisting challenges in the local operating environment in the Republic of Sudan (“Sudan” or “the country”) amidst high inflation and currency devaluation pressure stemming from continued stress on external account. While the IMF debt relief program and developments in diplomatic relations over recent months may be viewed favorably for the country, upside rating potential for the banking sector in general may be deemed to be limited until next year.

The Bank’s predominantly institutional client base features concentration in both financings and funding sources. Outstanding exposure to large financing customers has grown further since 2018, partly accounted for by currency devaluation. In the light of the ongoing pandemic conditions, the Central Bank of Sudan (“CBoS”) has relaxed prudential limits and UCB has been exempted for single obligor concentration. Following the declassification of a large foreign currency (“FCY”) denominated exposure on the back of a CBoS guarantee, the Bank has not registered any significant non-performance. Further, the ratings assigned, factor in the anticipated cash inflows from CBoS relating to this exposure over the coming years. Nonetheless, the Bank remains vulnerable to a potential surge of non-performance in case of repayment delays at any of its top six counterparties.

Liquidity reserves remain adequate, albeit having gradually depleted vis-à-vis 2018. Coupled with this and increasing financing exposures have caused the capital buffers to contract sharply over the last two years. Nonetheless, capital remains adequate with limited requirement of any external infusion through the next year. The Bank posted steady and continued improvement in core earnings in 2019 buoyed by higher margin and fee income, albeit checked by higher cost of non-shareholder funds translating into narrowed spreads. Core earnings trends may be expected to stabilize in the ongoing year. Further, due to higher operating expenses net profitability was normalized vis-à-vis 2018 that marked high magnitude



reversals and gains. The defensive long FCY position may translate into potential gains in 2020 due to currency depreciation.

IIRA has assessed UCB's overall fiduciary score in the range of '66-70', reflecting adequate fiduciary standards and protection of rights of various stakeholders. Our assessment on the Bank as an asset manager has improved vis-à-vis prior year depicted in the well-balanced strategy. The Bank's Board composition diverges from international best practices and CBoS corporate governance guidelines in terms of independent and external expert representation. In the light of the high magnitude of related party business relationships with certain key shareholders, further strengthening of Board independence is deemed important. While infrastructure developments are ongoing, strengthening control functions in terms of resource enhancements; advancement in risk measurement and management applications, and timely disclosures of financial and non-financial information may improve the overall governance framework. While the Bank's Shari'a governance framework and practices are deemed adequate, it may be further enhanced by the segregation of Shari'a audit and supervision function in addition to succession planning at the Shari'a Supervisory Committee.

For further information on this rating announcement, please contact us at iira@iirating.com.

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