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## IIRA Reaffirms Fiduciary Ratings of United Capital Bank, Sudan

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**Manama, March 10, 2020** –Islamic International Rating Agency (“IIRA”) has reaffirmed the national scale ratings of United Capital Bank (“UCB” or “the Bank”) at ‘BBB (sd) / A3 (sd)’ (Triple B / A Three). The assigned ratings represent UCB’s repayment capacity in the national context, and reflect the effects of a challenging operating environment locally, characterized by very high inflation, pressure on the domestic currency and weak labor market prospects. Outlook on the assigned ratings has been maintained at ‘Stable’.

Having commenced operations in the Republic of Sudan (“Sudan” or “the country”) in 2006, UCB operates as a small-sized Islamic bank, holding a deposit market share of about 1.4% at end Q3’19. More recently, UCB is amongst the first few banks to have obtained a permit to offer Visa cards to its customers, which is a noteworthy development that marks a turning point in Sudan’s international financial inclusion. The Bank primarily caters to an institutional client base, partly accounting for concentration in both exposures and funding sources. The increased degree of concentration observed in recent periods, was also due to inflated exposure levels arising from successive currency devaluation in 2018. Reported asset quality indicators have posted improvement in 2018; this was due to declassification of the largest counterparty in lieu of the direct payment guarantee obtained from the Central Bank of Sudan.

The present level of capitalization offers adequate shock absorption capacity to meet any potential scenarios of impairment. High magnitude one-off foreign currency gains and provision reversal boosted the net income in 2018, which was normalized during the interim periods of 2019. While improvement in core operating income was driven by better net yields in 2018, margins dipped in interim periods of 2019 across the sector. Nevertheless, higher fee income has supported the improvement in core operating income in 2018 and also subsequently. Liquid assets amplified in 2018, given the high component of foreign currency cash assets, reflected in favourable trends in liquidity risk profile.

IIRA’s assessment on UCB’s fiduciary score ranges between ‘66-70’, reflecting adequate fiduciary standards and protection of rights of various stakeholders. The Bank may consider enhancing the governance framework by instituting higher independence of board leadership in the ongoing year election. This is particularly important in the light of the high magnitude of related party business relationships with certain key shareholders. Further, self-regulation and internal control framework may be further strengthened to better align with best practices. The Bank’s Shari’a governance practices are deemed adequate and supported by a well-coordinated Shari’a Supervisory Committee, albeit, some room for improvement remains, as regards transparency of practices in this area. Timely dissemination of financial and non-financial disclosures (including Shari’a related) will serve to enhance the transparency score in general.

For further information on this rating announcement, please contact us at [iira@iirating.com](mailto:iira@iirating.com).

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