



IIRA Revises Outlook to 'Positive' on Ratings of United Capital Bank, Sudan

Manama, December 23, 2021 – Islamic International Rating Agency (IIRA) has revised outlook on ratings of United Capital Bank (“UCB” or “the Bank”) to ‘Positive’ in view of high capital adequacy, strong liquidity, and sound asset quality. Moreover, currency gains have significantly enhanced the bank’s net earnings and reserves. Given the economic uncertainties stemming from environmental factors, the ratings have been maintained at present at BBB+(sd)/A2(sd) till clarity emerges in the course of external trends. IIRA has also maintained the Bank’s overall fiduciary score in the range of “66-70”, denoting adequate fiduciary standards and strength in risk management capabilities, which compare well to peers. IIRA has taken note of pending CBoS approval for new members of the Board of Directors, which has implications for the Board to discharge their responsibilities effectively. While certain key positions fell vacant in Compliance, Internal audit and Shari’a Control functions, these have mostly been filled, while others are on the anvil. As these recently emerging impediments to effective organizational processes are addressed, ratings may be upgraded, given that financial indicators corroborate with a higher rating band at present. The assigned ratings represent UCB’s repayment capacity in the national context.

Political and economic uncertainty continues in Sudan which puts pressure on business environment through inflation and currency devaluation, and tends to weaken the repayment capacity of borrowers. The Country’s arrears in external debt have been reduced significantly in June 2021 under Enhanced Heavily Indebted Poor Countries Initiative of the IMF. IIRA is optimistic about economic recovery in the country in medium term.

Following significant devaluation of currency and unification of various exchange rates in February 2021, and a significantly higher component of FCY assets in UCB’s balance sheet, translation effects on asset base in SDG terms were substantial in the current year. On a similar note, the bank is likely to benefit from significant currency gains in the current year, while core profitability prospects are also steadily improving. Capital adequacy indicators have remained significantly above minimum capital requirements. The Bank is underleveraged with excess capital. At YE 2020, leverage was 4.2x, quite low when compared to the Sudanese Banking Sector average.

Asset quality of UCB continues to be sound. A single major exposure denominated in foreign currency had been declassified in 2018, in consideration of Central Bank’s (CBoS) direct guarantee with payments expected to commence from 2021 and to be paid monthly over the course of two years. The Bank has already received eleven installments from CBoS against this account. The Bank has not reported any increase in non-performing accounts on the back of severe conditions as an outcome of the stress posed by the pandemic or the political uncertainties of the past few periods.

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