الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Upgrades Fiduciary Ratings of United Capital Bank, Sudan

Manama, October 06, 2022 –Islamic International Rating Agency ("IIRA") has revisited and upgraded the national scale ratings of United Capital Bank ("UCB" or "the Bank") at 'A- (sd) / A2 (sd)' (Single A Minus / A Two) from 'BBB+ (sd) / A2 (sd)' (Triple B Plus / A Two). Outlook on the assigned ratings is 'Stable'. The ratings assigned represent the Bank's repayment capacity in local currency terms in the national context.

The national scale ratings assigned to UCB had been placed on a 'positive' outlook in December 23, 2021, with positive trends in core profitability, a potential for large, though essentially non-core currency gains, a sound capitalization profile and maintained strong asset quality. Despite a macroeconomic situation marked by hyper-inflation, continuing pressure on the Sudanese Pound and political uncertainty, positive trends in UCB risk profile and performance, as noted last year have persisted in 2022 and have driven the upgrade in ratings.

UCB is distinguished by its substantial net long FCY position which has driven the inflation of its balance sheet and underlies the dynamics of its earnings potential and capital adequacy. Foreign currency assets are mostly reflected in cash reserves, while financing to deposit ratio is low, given limited business opportunities. Although the general risk in the economy is elevated, assets are concentrated in top-tier clients, engaged in trade activities and with foreign currency exposures mostly confined to import financing of strategic goods. As such asset risk is low with no new additions to non-performance in recent periods and reported net non-performance being nil at end H1'22.

The balance sheet is increasingly liquid. On the capital adequacy front, risk weighted assets growth has outpaced internally generated capital, and with fresh FCY based financings having been initiated recently, we expect continued upward push on risk assets, driving the downward trend in CAR. Unrealized foreign currency gains do not translate fully as capital credit. Realization of some gains has generated sufficient eligible tier 1 capital, reinforcing both tier-1 capital ratio to a level substantially above minimum regulatory requirement, from its year-end 2021 level below the threshold, as well as raising the total capital adequacy ratio of the bank. There is no emergent need for capital, however, should external capital be required, shareholder support is considered constrained. This is mostly due to the present macroeconomic situation in Sudan as well as difficult economic conditions in the jurisdiction of one of the foreign shareholders.

Core profitability of UCB has increased with well-diversified sources of income, although headwinds in the form of inflation are noteworthy. As a forerunner in the launch of VISA card, the Bank's core income benefitted from both diversification of fee sources and increase in other fee income. Despite a manifolds increase in administrative expenses, core profits are still superior to prior periods with the trend likely to persist in future periods, and as also evident in half year performance.

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. While the Bank's Corporate Governance score has improved with resumption of regular functioning of the Board of Directors, since the start of the current year, as well as enhanced resources in internal controls, and an upgraded core banking system, there is a further need to reinforce headcount. Certain key positions had been vacant for a considerable period of time; need for further investment in succession planning for control level positions is therefore emphasized. Moreover, the Board and its committee composition lags best practices in terms of independent representation.

On the other hand, the Shari'a governance framework benefits from a sound regulatory environment. In addition, the process of segregating Shari'a compliance and audit responsibilities with dedicated staff, as per regulatory requirements, is a positive development. In the absence of regulatory directive on matters pertaining to the sector's commitment to ESG initiatives, we have not seen notable progress in the Bank in terms of addressing climate change risks within the portfolio, as yet. Assigned ratings however have not been affected by this assessment.

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