



IIRA Reaffirms Fiduciary Ratings of United Capital Bank, Sudan

Manama, October 21, 2018 – The Islamic International Rating Agency (IIRA) has reaffirmed the national scale ratings of United Capital Bank ('UCB' or 'the Bank') Sudan at 'BBB (sd) / A3 (sd)' (Triple B / A Three). The outlook on the assigned ratings remains 'Stable'.

UCB was incorporated in 2006 and operates as an Islamic bank in the Republic of Sudan ('Sudan' or 'the country'). The bank's operations are geared towards wholesale banking, providing banking solutions to Sudanese corporate institutions, primarily in the export domain. Accordingly, the bank's business is constrained by the challenging operating environment in the country. While the recent revocation of US sanctions bodes well for the future of banking in Sudan, challenges persist in the short to medium term, in the form of weak economic growth, high inflation rate and shortage of foreign currency.

UCB's credit profile continues to derive strength from its institutional shareholders. Following the recent 40% divestment of large GCC-based shareholders, and subsequent uptake by prominent, local shareholders, the bank's shareholder base has become more spread out. While strong in the local economic context, the new sponsors are relatively more exposed to similar macroeconomic risks as faced by the bank.

The bank's business model continues to feature concentration, both on the assets and liabilities side, rendering counterparty risk high. Risk to capital has increased over time, given the quantum of exposure at risk in case of default.

The bank's considerable liquid asset reserves are a credit positive. Asset quality at UCB improved in 2017, on account of declining NPFs and record high new provisions. Notwithstanding the high charge-offs, a more optimal earning asset and funding mix contributed to improved core profitability. Moving forward, future profitability is likely to be supported by continued business growth and the strengthening of foreign correspondent banking relationships after the lifting of US sanctions.

UCB's fiduciary score has been reaffirmed in the range of '66-70', reflecting adequate protection of rights of various stakeholders. The dominant nature of related party relationships raise corporate governance concerns, despite having been partly addressed through firewalls ensuring no participation of related party representatives in relevant financing decisions.

The Shari'a oversight function at the bank is adequate and supported by a well-coordinated Shari'a Supervisory Committee (SSC), which meets on a frequent basis. Disclosures pertinent to Shari'a, in general, need to be further enhanced.

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