

04 MAY 2021

# Fitch Affirms Stanbic Bank Uganda at 'B+'; Outlook Negative

Fitch Ratings - London - 04 May 2021: Fitch Ratings has affirmed Stanbic Bank Uganda Limited's (SBU) Long-Term Issuer Default Rating (IDR) at 'B+'. The Outlook is Negative. A full list of ratings actions is detailed below.

## Key Rating Drivers

### IDR, SUPPORT RATING AND NATIONAL RATINGS

SBU's IDRs and National Ratings are driven by a limited probability of support from South Africa-based Standard Bank Group Limited (SBG; BB-/Negative), if required.

SBG's ability to provide support is underpinned by SBU's small size, representing just 1% of consolidated group assets at end-2020. SBU's 'B+' Long-Term IDR is one notch below that of SBG, reflecting the cross-border nature of the parent-subsidary relationship. The Negative Outlook on SBU's Long-Term IDR mirrors that on SBG.

Fitch's view of support also considers the high propensity of SBG to provide support to SBU given its indirect majority ownership (80%), common branding, reputational risks, a high level of integration and SBU's healthy performance record. Despite operating outside of the parent's core market of South Africa, Fitch regards SBU as a strategically important subsidiary due to its role in SBG's pan-African strategy.

SBU's National Ratings reflect Fitch's view of SBU's creditworthiness relative to that of other issuers within Uganda. The Stable Outlook on the National Long-Term Rating reflects our view that SBU's creditworthiness compared with that of other domestic issuers is unlikely to change over a one- to two-year period.

### VIABILITY RATING

SBU's Viability Rating (VR) of 'b' is constrained by Uganda's weak operating environment, which has a high influence on the VR. This reflects Fitch's view that, despite healthy performance and capitalisation and a strong company profile, the concentration of SBU's operations in Uganda's small and undiversified economy constrains the bank's standalone credit profile. The pandemic has had a significant impact on Uganda's economy, with real GDP contracting 1.1% in 2020 as a result of lockdown measures, border closures and the global shock to trade and financial flows. Fitch expects real GDP growth to recover to 5% in 2021 and 6% in 2022.

SBU is the largest bank in Uganda, accounting for around 20% of banking-sector loans, customer deposits and assets. SBU's franchise is also underpinned by close links with the parent.

Impaired loans (Stage 3 loans under IFRS 9) ratio increased only moderately to 4.7% at end-2020 from 4.3% at end-2019, as a 27% loan growth cushioned a significant increase in impaired loans. Impaired loans were 66% covered by specific reserves. Loans under active repayment moratoria (recently extended till end-9M21) at end-2020 equalled 4% of gross loans. Fitch expects some of these loans to become impaired when the moratoria period ends.

Profitability is a rating strength, supported by a wide net interest margin (NIM) and strong non-interest income in the form of trading income and net fees and commissions. NIM decreased in 2020 due to interest-rates cuts, which in combination with lower economic activity and higher loan impairment charges, resulted in the operating profit to risk-weighted assets ratio declining to 5.5% in 2020 from 7.1% in 2019. Return on equity remained solid at 21% in 2020.

SBU's Fitch Core Capital (FCC) ratio was a high 18% at end-2020 and the bank has reasonable cushions over regulatory capital ratios. Strong pre-impairment operating profit, which equalled 12% of average of gross loans in 2020, provides a strong buffer to absorb asset-quality pressures without deterioration of capital.

SBU's funding profile benefits from a strong local franchise. Customer deposits (81% of total funding) are mainly represented by current and savings accounts (CASA) deposits, translating into a low cost of funding. Single-depositor concentration is a key risk, with the 20-largest depositors representing 39% of total customer deposits at end-2020. Liquidity coverage in both local- and foreign-currency is healthy.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- SBU's Long-Term IDR is sensitive to a weakening in SBG's ability or propensity to provide support. Reduced ability to support would most likely result from a downgrade of SBG's Long-Term IDR.
- The rating is also sensitive to a downward revision of Uganda's Country Ceiling of 'B+', which captures Fitch's view of transfer and convertibility risk, most likely to be triggered by a downgrade of Uganda's ratings.
- SBU's VR may be downgraded in case of marked asset-quality deterioration in combination with a significant weakening of profitability and capitalisation.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of SBU's Long-Term IDR would require both an upgrade of SBG's Long-Term IDR and an upward revision of Uganda's Country Ceiling.

- An upgrade of SBU's VR is unlikely given that SBU's operations are concentrated on Uganda's weak operating environment.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

### **Public Ratings with Credit Linkage to other ratings**

SBU's Long-Term IDR is directly linked to that of SBG.

## **ESG Considerations**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Stanbic Bank Uganda Limited	LT IDR	B+ 	Affirmed	B+ 
	ST IDR	B	Affirmed	B
	Natl LT	AAA(uga) 	Affirmed	AAA(uga) 
	Natl ST	F1+(uga)	Affirmed	F1+(uga)
	Viability	b	Affirmed	b
	Support	4	Affirmed	4

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Stanbic Bank Uganda Limited    UK Issued, EU Endorsed

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