FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Stanbic Bank Uganda at 'B+', Outlook Negative

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Fitch Ratings - London - 02 Apr 2024: Fitch Ratings has affirmed Stanbic Bank Uganda Limited's (SBU) Long-Term Issuer Default Rating (IDR) at 'B+'. The Outlook is Negative. Fitch has also affirmed the bank's Viability Rating (VR) at 'b+', Shareholder Support Rating (SSR) at 'b+' and National Long-Term Rating at 'AAA(uga)' with a Stable Outlook. A full list of ratings is at the end of this commentary.

KEY RATING DRIVERS

SBU's Long-Term IDR is driven by its standalone creditworthiness, as expressed by its VR, and underpinned by potential support from the bank's ultimate parent, South Africa-based Standard Bank Group Limited (SBG; BB-/Stable), as expressed by its SSR. The Negative Outlook on SBU's Long-Term IDR mirrors that on Uganda's 'B+' Long-Term IDR.

The VR reflects the concentration of the bank's operations in Uganda's challenging operating environment, as well as SBU's leading market position, diversified and healthy revenue streams, large capital buffers supported by internal capital generation and good asset quality. SBU's National Ratings are the highest attainable on Uganda's national scale due to potential support from SBG.

Strong Economic Growth: Fitch forecasts Ugandan real GDP growth to accelerate from 4.8% in 2023 to 5.5% in 2024 and 6.0% in 2025, primarily driven by agriculture and oil investments. Inflation (2023: 5.4%) has been trending down from its peak of 10.7% in October 2022 and is forecast to decline further to 4.5% in 2024. The Ugandan shilling has remained relatively stable, although a slight weakening in early 2024 prompted the Bank of Uganda to increase the central bank rate by 50bp to 10% in March 2024.

Leading Domestic Franchise: SBU is the largest bank in Uganda, representing about 20% of banking sector assets at end-2023. Its franchise is underpinned by a strong corporate and investment banking business, relationships with the leading corporates in Uganda, a notable retail footprint and significant benefits from being part of a large pan-African banking group.

High Balance Sheet Concentrations: SBU's direct exposure to the sovereign through investments in fixed-income securities represented 163% of total equity at end-2023. The loan book is also fairly concentrated, given the bank's focus on the largest domestic corporates and direct lending to the government. Foreign-currency lending is also significant, equal to 30% of gross loans at end-2023.

Good Asset Quality: SBU's impaired loans (Stage 3 loans under IFRS 9) ratio was a low 2.6% at end-2023 (end-2022: 2.9%). Specific loan loss allowance coverage of impaired loans is adequate (end-2023: 73%). We expect loan quality to remain sound in the medium term, with the impaired loans ratio flattered by expected loan growth.

Strong Profitability: SBU delivers strong profitability, as indicated by operating returns on risk-weighted assets (RWAs) that have averaged 6.7% over the past four years (2023: 8.2%). Strong profitability is supported by a wide net interest margin (9%), high non-interest income and manageable loan impairment charges. Fitch expects profitability to remain strong in 2024 due to the high interest-rate environment.

Healthy Capital Buffers: SBU's Fitch core capital ratio remained high at 26.3% at end-2023 (end-2022: 25.3%), supported by strong profitability and muted RWAs growth. Strong pre-impairment operating profit (15% of average gross loans in 2023) provides a large buffer to absorb impairment changes and protect capitalisation. SBU's regulatory capital ratios (end-2023: core capital ratio: 22.6%; total capital ratio: 24.7%) are comfortably above the minimum requirements, including capital conservation and systemic buffers.

Stable Deposit Base: SBU's funding profile is dominated by current and savings accounts (end-2023: 91% of deposits) supporting an inexpensive and stable deposit base. SBU's balance sheet is structurally liquid, which helps mitigate risks from high single-depositor concentration.

Shareholder Support: SBU's 'b+' SSR is one notch below SBG's Long-Term IDR, reflecting SBU's strategically important role in the group's regional operations outside its core market of South Africa. SBU's small size (end-2023: only 1% of SBG's assets) underpins SBG's ability to provide support. SBG has an indirect 80% shareholding in SBU.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of SBU's Long-Term IDR would require a downgrade of both the SSR and VR.

SBU's VR may be downgraded in case of a sovereign downgrade. Absent a sovereign downgrade, the VR may be downgraded as a result of a deterioration in the operating environment or a sharp weakening of SBU's asset quality, leading to a significant rise in impairments and a material weakening of capitalisation.

SBU's SSR 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 SSR 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 sovereign ratings.

A downgrade of the bank's National Ratings would result from a weakening of its creditworthiness relative to other Ugandan issuers.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The Outlook on SBU's Long-Term IDR could be revised to Stable if the sovereign Outlook was revised to Stable.

An upgrade of SBU's Long-Term IDR would result from an upgrade of the VR or SSR.

An upgrade of SBU's VR would require a sovereign upgrade accompanied by a material improvement in the operating environment, and stable profitability, while maintaining healthy capital buffers.

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

SBU's National Ratings are the highest attainable on Uganda's national scale and cannot be upgraded.

VR ADJUSTMENTS

The earnings and profitability score of 'b+' has been assigned below the 'bb' category implied score due to the following adjustment reason: revenue diversification (negative).

The capital and leverage score of 'b+' has been assigned below the 'bb' category implied score due to the following adjustment reason: risk profile and business model (negative).

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 ratings are linked to those of its ultimate parent, SBG.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Stanbic Bank Uganda Limited	LT IDR	B+ Rating Outlook Negative	Affirmed	B+ Rating Outlook Negative
	ST IDR	B	Affirmed	B
	Natl LT	AAA(uga) Rating Outlook Stable	Affirmed	AAA(uga) Rating Outlook Stable
	Natl ST	F1+(uga)	Affirmed	F1+(uga)

	Viability	b+	Affirmed	b+
	Shareholder Support	b+	Affirmed	b+

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Konstantin Alekseenko
Associate Director
Primary Rating Analyst
+44 20 3530 1165
konstantin.alekseenko@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

Elie Maalouf
Senior Analyst
Secondary Rating Analyst
+44 20 3530 1304
elie.maalouf@fitchratings.com

Redmond Ramsdale
Senior Director
Committee Chairperson
+44 20 3530 1836
redmond.ramsdale@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Stanbic Bank Uganda Limited	UK Issued, EU Endorsed

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No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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