FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - London - 22 Apr 2022: Fitch Ratings has affirmed Stanbic Bank Uganda Limited's (SBU) Long-Term Issuer Default Rating (IDR) at 'B+'. The Rating Outlook is Negative.

Fitch has withdrawn SBU's Support Rating as it is no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned a Shareholder Support Rating (SSR) of 'b+'.

KEY RATING DRIVERS

SBU's IDRs reflect a limited probability of support, if required, from the bank's ultimate parent, South Africa-based Standard Bank Group Limited (SBG; BB-/Stable), which has an indirect 80% shareholding. The Negative Outlook reflects Uganda's 'B+' Long-Term IDR, and zero uplift to the Country Ceiling.

SBU's 'b' Viability Rating (VR) reflects the concentration of its operations in Uganda's weak operating environment, characterised by very low GDP per capita and a weak operational risk index score, despite a relatively strong business and financial profile.

SBU's National Ratings reflect its creditworthiness relative to other issuers in Uganda. SBU's 'AAA(uga)' National Long-Term Rating is the highest possible on Uganda's national scale, and considers potential support available from SBG. The Stable Outlook reflects our view that SBU's creditworthiness compared to other domestic issuers is unlikely to change over a one- to two-year period.

Shareholder Support: SBU's Long-Term IDR is one notch below that of SBG, reflecting SBU's strategically important role in the group's regional operations. SBG's ability to provide support is underpinned by SBU's small size (only 1% of SBG's assets at end-2021).

Risks to Operating Environment Recovery: Second-order effects from the Russia-Ukraine conflict and lingering pandemic risks could negatively impact the economic recovery given Uganda's small and undiversified economy, low vaccination rates and oil import reliance.

Leading Domestic Franchise: SBU is the largest bank in Uganda, accounting for 22% of banking sector assets at end-November 2021. Its leading domestic franchise is underpinned by a strong corporate and investment banking (CIB) business, relationships with the leading corporates operating in Uganda, and other benefits derived from being part of a large pan-African banking group.

Stable Asset Quality: SBU's impaired loans (Stage 3 loans under IFRS 9) ratio was stable at 4.6% at end-2021 (end-2020: 4.7%) supported by write-offs (1.7% of average loans). Total loan loss allowances/impaired loans were reasonable and stable at 99%. Loans under repayment moratoria, mainly in the real estate, education and industrial sectors, increased to 8% of gross loans at end-2021 (end-2020: 4%) and may pressure asset quality when remaining credit relief measures expire at end-September 2022.

Stable Profitability: Profitability (operating profit/risk-weighted assets: 5.6%) remained strong in 2021, driven by a wide net interest margin (6.9%), high non-interest income and lower loan-impairment charges (LICs). Profitability is expected to further recover in 2022 given a likely rise in interest rates and stronger loan growth, but could be partially offset by elevated LICs due to write-offs and expiry of debt relief measures.

Healthy Capital Buffers: SBU's Fitch Core Capital (FCC) ratio recovered to a high 21.2% at end-2021 (end-2020: 18.0%) due to strong internal capital generation and restrictions on dividend distribution. Strong pre-impairment operating profit (11.2% of average loans in 2021) provides a large buffer to absorb potential asset quality pressures. SBU's regulatory capital ratios have healthy buffers above the new minimum requirements.

Stable Deposit Base: SBU's funding profile is dominated by current and savings accounts (end-2021: 96% of deposits), supporting an inexpensive and stable deposit base. SBU's balance sheet is structurally liquid, helping to mitigate high single-depositor concentration.

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 would likely require an upgrade of Uganda's operating environment, along with stable asset quality, improving profitability, while maintaining healthy capital buffers.

VR ADJUSTMENTS

The Earnings and Profitability score of 'b+' has been assigned below the 'bb' category implied score due to the following adjustment reason: Risk-Weight Calculation (negative).

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 ratings are linked to the ratings of SBG.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on SBU, either due to their nature or to the way in which they are being managed by SBU. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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
	Support	WD	Withdrawn	4
	Shareholder Support	b+	New Rating	

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 12 Nov 2021) (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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Banks Africa Uganda
