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United Capital Bank's National Ratings Upgraded

Capital Intelligence Ratings (CI Ratings or CI), the international credit rating agency, today announced that it has raised the National Scale Long-Term Rating of United Capital Bank (UCB) to 'suA-' from 'suBBB-' and the National Scale Short-Term Rating to 'suA2' from 'suA3'. At the same time, CI Ratings has affirmed UCB's Long- and Short-Term Foreign Currency Ratings (FCRs) of 'C+' and 'C', respectively, and the Financial Strength Rating (FSR) of 'B'. The Support Rating of '4' and the 'Negative' Outlook of all the ratings are also affirmed.

The rating action reflects the significant strengthening of UCB's liquidity ratios, the increased growth of total capital and higher return on average assets in Q1 2018. It is however noted that the improvements are mainly a result of the revaluation gain arising from the change in the official exchange rate of the Sudanese Pound and the cancellation of the additional incentive rate. The upgrade is also supported by the improved Islamic Financing Facilities (IFFs) loss reserve coverage, notwithstanding the increase of the non-performing financings (NPFs) to gross IFF ratio. The Bank's largest NPF of USD16mn has been rescheduled. This took place after the year end and the exposure has a government guarantee of payment. While the Central Bank of Sudan approved a zero provision requirement for this exposure in May 2018, it nevertheless stipulated that it should remain classified as an NPF.

Other factors supporting the rating are the Bank's sound capital adequacy, notwithstanding the decline in Q1 2018, the good franchise and niche in corporate banking (including syndicated financing), and good management. It is however noted that the good capital adequacy ratio is to a diminishing extent due to the zero risk-weight assigned to Sudanese government exposures. The rating is also supported by the partial lifting of U.S. sanctions on Sudan, which may in turn lead to an improvement in correspondent bank relations and international transactions in the medium to long term.

The main constraining factors on the ratings are external to UCB itself and include elevated geopolitical and sovereign risk factors. These include credit risk, as well as the effects of the recent devaluations and intense upward pressure on the SDG exchange rate, coupled with high and rising inflation, and a serious shortage of foreign exchange. It is worth noting however, that the restrictions on imports imposed by the government have stopped the rapid depreciation of the Sudanese Pound in the parallel market. Although the U.S. sanctions have been partially lifted, it would take a considerable time for Sudan to overcome fundamental structural weaknesses in the economy and develop a domestic capital market liquid enough to attract significant foreign portfolio investment, although foreign direct investment is a more immediate prospect. Other factors constraining the rating include the decline in the Bank's operating profitability and estimated net profi sharing margin, the rise in the cost-to-income ratio and the fall in the total capital to total assets ratio, as well as high concentrations in both the financings book and deposits.

UCB commenced its business activities in Sudan in August 2006. Its shares were listed in Khartoum Stock Exchange in November 2007. The Bank specializes in financing corporate entities and major projects through its three branches in Khartoum, Khartoum North, and Omdurman. The Bank's current main foreign shareholders are Boubyan Bank in Kuwait and Fransabank in Lebanon, while its main local shareholders include Alategahat Almtadeda Co., Seen Development Company and Sudatel Telecommunications. As with all other banks operating in Sudan, UCB is an Islamic bank, supervised and regulated by the Central Bank of Sudan. UCB has a proven track record in successfully managing risk through its economic cycle and periods of stress, having dealt with the financial and economic challenges in the operating environment. As at end-March 2018, UCB's total assets were SDG3.4 billion (USD188mn) and total capital was SDG559mn (USD31mn).

CREDIT RATINGS

Foreign Currency		Financial Strength	Support	Outlook	
LT	ST			FC	FSR
C+	C	B	4	Negative	Negative

CREDIT RATINGS

National Ratings		Outlook
LT	ST	National
suA-	suA2	Negative

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The information sources used to prepare the credit ratings are the rated entity and public information. CI considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. Ratings on the issuer were first released and last updated in March 2018.

The principal methodology used in determining the ratings is Bank Rating Methodology. The methodology, the meaning of each rating category, the time horizon of rating outlooks and the definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at www.ciratings.com. CI's policy on solicited ratings including an explanation of the colour coding of credit rating symbols can be found at the same location. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu.