FitchRatings

Fitch Revises Stanbic Bank Uganda's Outlook to Negative; Affirms at 'B+'; Upgrades VR to 'b+'

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Fitch Ratings has revised the Outlook on Stanbic Bank Uganda Limited's (SBU) Long-Term Issuer Default Rating (IDR) to Negative from Stable and affirmed the IDR at 'B+'. The Outlook revision follows a similar rating action on the Ugandan sovereign on 24 March 2023.

Simultaneously, Fitch has upgraded SBU's Viability Rating (VR) to 'b+' from 'b' due to improved capital buffers relative to its risk profile. Fitch has also affirmed the bank's National Ratings at 'AAA(uga)'. A full list of rating actions is below.

KEY RATING DRIVERS

Stanbic Bank Uganda Limited's (SBU) Long-Term Issuer Default Rating (IDR) is driven by potential support from the bank's ultimate parent, South Africa-based Standard Bank Group Limited (SBG; BB-/Stable), which has an indirect 80% shareholding, and is underpinned by the bank's Viability Rating (VR).

The VR reflects the concentration of the bank's operations in Uganda's relatively weak operating environment as well as SBU's leading market position, its large capital buffers supported by internal capital generation, diversified and healthy revenue streams and good asset quality. The Negative Outlook on SBU's IDR mirrors the Negative Outlook on Uganda's 'B+' Long-Term IDR.

SBU's National Ratings are the highest possible on Uganda's national scale and consider potential support available from SBG.

Shareholder Support Rating (SSR): SBU's Long-Term IDR is one notch below SBG's, which reflects its strategically important role in the group's regional operations outside South Africa. SBU's small size (end-2022: only 1% of SBG's assets) underpins SBG's ability to provide support.

Resilient Operating Environment: Fitch Ratings forecasts Uganda's real GDP will grow by 5.5% in 2023 (2022: estimate 4.9%). The economy has been resilient to adverse global conditions and domestic climate risk events, as well as an Ebola outbreak in 4Q22. Inflation was 9.2% in February 2023, prompting the Bank of Uganda to maintain the policy rate at 10% while also maintaining the cash reserve requirement at 10%.

Leading Domestic Franchise: SBU is the largest bank in Uganda, with around 20% of banking sector assets. Its leading domestic franchise is underpinned by a strong corporate and investment banking business, relationships with the leading corporates operating in Uganda, and significant benefits derived from being part of a large pan-African banking group.

Good Asset Quality: SBU's impaired loans (Stage 3 loans under IFRS 9) ratio decreased to 2.9% at end-2022 (end-2021: 4.6%), supported by significant write-offs and large recoveries. Total loan loss allowances/impaired loans significantly increased to 127% at end-2022. The majority of loans under pandemic-related payment moratoriums, which expired in October 2022, have recovered and we do not expect further pressure on asset quality.

Strong Profitability: Operating profit/risk-weighted assets (RWA) was 7.7% in 2022, driven by a wide net interest margin (8.3%), high non-interest income and lower loan-impairment charges. We expect profitability to remain high in 2023 as we anticipate high rates to persist.

Healthy Capital Buffers: SBU's Fitch Core Capital ratio improved to a high 25.3% at end-2022 (end-2021: 21.2%) due to strong internal capital generation and muted risk-weighted assets (RWA) growth. Strong pre-impairment operating profit (13.9% of average loans in 2022) 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-2022: 92% of deposits), supporting an inexpensive and stable deposit base. SBU's balance sheet is structurally liquid, which helps mitigate high single-depositor concentration.

RATING SENSITIVITIES

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

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

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 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 a sovereign downgrade accompanied by a worsening operating environment, or a significant weakening of capitalisation.

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

An upgrade of SBU's Long-Term IDR requires either an upgrade of the SSR or VR.

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.

An upgrade of SBU's VR would likely require a sovereign upgrade accompanied by an improvement in operating environment and stable 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).

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).

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 those of its ultimate parent, 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	RATING			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+	Upgrade	b
	Shareholder Support	b+	Affirmed	b+

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Additional information is available on www.fitchratings.com

Applicable Criteria
Bank Rating Criteria (pub.07-Sep-2022)(includes rating assumption sensitivity)
National Scale Rating Criteria (pub.22-Dec-2020)

Additional Disclosures
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