

XYZ BANK

SUMMARY

ICRA assigned an unsolicited 'A' rating with a 'Stable' outlook to XYZ on xxx 2025, assuming no material adverse events affecting the business activities occur during the validity period. The assigned rating reflects a balanced assessment of the entity's business model, competitive advantages, market conditions, and overall financial stability, which contribute to the creditworthiness of the entity based on ICRA's credit rating methodology for banking institutions.

The rating highlights XYZ's strong business profile, ranking 5th in the market, supported by a well-established brand and extensive branch network. It also reflects a robust earnings profile with notable bottom-line growth in FY24, a well-diversified asset base comprising low-risk government investments and an improved loan portfolio, as well as stable and strong liquidity and capital adequacy levels, consistently maintained above regulatory benchmarks. However, ICRA will closely monitor the impacts arising from sensitivity to market conditions, including the country's economic environment and competitive pressures.

OUTLOOK

The 'Stable' outlook reflects XYZ's robust and stable capital structure, characterised by a low debt burden, a conservative lending strategy, strengthened risk management initiatives, and a stable earnings profile.

RATING UPGRADE TRIGGERS

- **Market Expansion:** Increased market share through entry into new customer segments or underserved regions.
- **Earnings Strength:** Notable improvement in net interest margin and overall earnings profile, reflecting stronger profitability.
- **Asset Quality:** Continued enhancement of asset quality supported by a high-yielding, well-diversified investment strategy.
- **Financial Resilience:** Strengthened capital adequacy and liquidity buffers reinforcing long-term financial stability.
- **Macro-Economic Support:** A stable and supportive economic and political environment in Uganda enabling sustainable growth and regulatory consistency.

RATING DOWNGRADE TIGGERS

- **Earnings Decline:** Significant deterioration in earnings profile, especially due to adverse net interest margin performance.
- **Regulatory Breach:** Breach of liquidity or capital adequacy requirements, undermining regulatory compliance and financial stability.
- **Credit Risk Surge:** Material increase in credit risk within the loan portfolio or investment holdings, leading to asset quality concerns.
- **Market Pressures:** Exposure to unfavourable market conditions that weaken operating performance or growth prospects.
- **Funding Strain:** Erosion of liquidity buffers or instability in funding sources that compromise resilience under stress scenarios.

Rating Date: DD-MM-YY

Rating Validity: 1 Year

Report Type: Unsolicited Rating

Rating Assignment

Rating	Outlook
A	Stable

Table 1

Key Financials

UGX bn	FY23	FY24
Net Interest Income	XX	XX
Operating Income	XX	XX
Net Profits	XX	XX
Loans to Customers	XX	XX
Investments	XX	XX
Total Assets	XX	XX
Customer Deposits	XX	XX
Total Liabilities	XX	XX

Table 2

Key Ratios

	FY23	FY24
Net Interest Margin	XX	XX
Cost to Income Ratio	XX	XX
LCR Ratio	XX	XX
Loan to Deposit Ratio	XX	XX
Gross NPL Ratio	XX	XX
Provision Coverage	XX	XX
Tier 1 Capital Ratio	XX	XX
Total Capital Ratio	XX	XX

Table 3

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BUSINESS PROFILE

XYZ Group is a leading Ugandan financial services conglomerate, led by XYZ Limited and best known for its primary subsidiary, XYZ Bank. XYZ Limited was incorporated in XXX and founded by the XXX of the UK and the XXX to support long-term development projects that were underserved by commercial banks. XYZ Limited went public in XXXX and was listed on the XXX.

XYZ Bank expanded its services to offer universal banking alongside equity finance, leasing, and working capital solutions following the acquisition of XXX in XXX. As of FY24, it ranks as XXX bank in Uganda. With a market capitalization of UGX XXX, XYZ Bank operates a robust network of XXX branches, XXX ATMs, and employs 1,301 staff across Uganda. The bank mainly caters its products and services to sectors such as agriculture, manufacturing, infrastructure & energy, trade & business, public sector, financial institutions, education & health, ICT (Information, Communication & Technology).

MARKET COMPETITION

Uganda's banking industry remains highly concentrated, with the top 5 banks controlling XX% of total assets and XX% of industry profits, underscoring the dominance of large players and the benefits of scale. XYZ Bank, holding the 5th position, commands a XX% share of deposits and XX% of profits, reflecting its solid presence but also highlighting the competitive gap with top-tier banks.

The sector faces mounting challenges, including elevated credit risk, with 11 banks reporting non-performing loans exceeding XX% of equity, and reduced yields on government securities, which are pushing banks to shift focus towards private sector lending and diversify revenue streams. Additionally, telecoms and fintechs are driving disintermediation, intensifying competition and reshaping customer expectations. Regulatory pressures and market dynamics are also fuelling bank consolidation, as institutions seek operational efficiency and resilience.

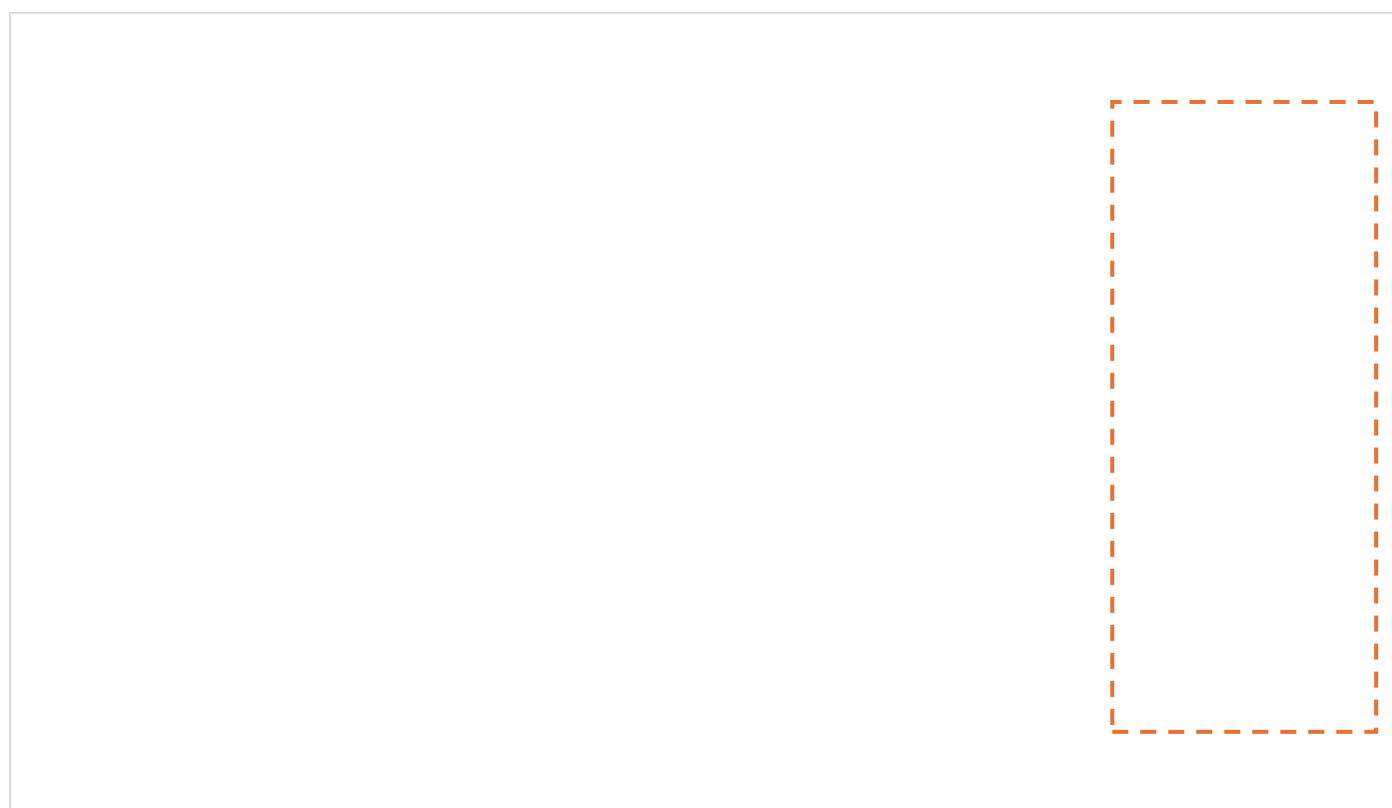


Exhibit 1

DETAILED CREDIT RATIONALE

Business Profile: Strong business profile with moderate leadership position in Uganda banking Industry:

XYZ Bank demonstrates a strong business profile supported by its position as the fifth-largest player in Uganda's banking sector, reflecting a moderate but stable market share. The bank's conservative business strategy, driven by its "Fired Up" transformation plan, emphasises phased growth, sector and customer focus, culture and talent development, and digital excellence. Recent upgrades to ATM and card management platforms have significantly enhanced the customer experience and operational efficiency. As the group's main operating entity, XYZ Bank benefits from strong institutional backing and easy access to capital markets through the group's listed status, ensuring financial flexibility and resilience. The group's commitment to social impact is evident in its 60th-anniversary "60 Acts of Kindness" initiative, which reached over 9,000 beneficiaries, and the XYZ Foundation's support for over 40,000 smallholder farmers and SMEs. Strategic partnerships, such as the Advancing Women Entrepreneurs (AWE) programme with MTN Uganda, reinforce XYZ's inclusive growth agenda and dedication to empowering women-owned businesses. These elements collectively underpin the bank's robust business profile.

Management Quality: Strong management quality with good governance

XYZ Bank maintains a robust governance framework at both group and bank level, ensuring strategic oversight, accountability, and operational resilience. The Board sets clear objectives and monitors internal controls through seven specialised committees, including audit, risk, and remuneration. Each operating entity has its own governance and reporting structure, while also aligning collectively to group-wide standards reflecting a commitment to transparency, regulatory compliance, and sustainable growth, underpinning the bank's strategic direction.

The Board of Directors (BOD) is chaired by Dr. Winifred Mary, appointed in 2019, with over 20 years' expertise in Corporate Law, Governance, and Finance. The Board comprises 10 members of which eight non-executive directors and two executive directors, bringing a balanced mix of independence and operational insight. Members possess strong qualifications and diverse experience, contributing to strategic oversight and risk management. In 2024, six Board meetings were held and 5 members marked XX% attendance while 3 members achieved XX% attendance. Succession planning was a key focus, with an evaluation of skills and tenure to ensure alignment with long-term strategy.

Management is led by XXX XXX, who brings over 26 years of banking experience and a proven track record in business transformation and profitability. His leadership is marked by strategic agility and operational excellence. In 2024, the executive team initiated a review of the five-year strategy to realign with market trends, client expectations, and competitive dynamics. This process identified transformational outcomes aimed at unlocking growth, with a strong emphasis on expanding financial services. Supporting the XXX is a seasoned executive team including XXX, XXX, and XXX, XXX, along with eight other highly experienced professionals.

Profitability & Performance: Stable core earnings with improved net profitability benefitted from improved risk management initiatives.

Total operating income remained stable at UGX XXX (+XXX% y/y), marking a CAGR of XX% during FY20–24. Net Interest Income grew by XX% y/y to UGX XXX, supported by expansion in the loan portfolio and increased investments in government securities. Net non-interest income declined by XX% to UGX XXX due to lower income from other financial instruments. Profit before tax and profit after tax increased to UGX XXX and UGX XXX from UGX XXX and UGX XXX in FY23, mainly attributable to a notable positive reversal of impairment losses during the period, owing to the implementation of enhanced risk management, increased monitoring of the loan portfolio, and a rigorous customer recovery process. Over the last 5 years, the bank has shown a volatile performance due to the pandemic and economic headwinds.

Net Interest Margin remained stable at XX% over the last 4 years, demonstrating a well-disciplined and stable core earnings profile. However, the cost-to-income ratio increased to XX% from XX% in FY23, reflecting ongoing investments in human resources due to strategic hires, the launch of a digital platform, and a revamp of the ATM network. Despite fluctuated net profit returns, the bank recorded improved ROA and ROE at XX% and XX% in FY24 from XX% and XX%, owing to the improved positive impairment losses during the period.

The overall performance and earnings profile reflect strong and stable core income generation and improving profitability through robust risk management initiatives. The increased cost-to-income ratio is expected to generate a positive impact on the long-term earnings profile of the bank.

Profitability					
	FY20	FY21	FY22	FY23	FY24
Net Interest Margin (NIM)	XX	XX	XX	XX	XX
Cost to Income Ratio (CIR)	XX	XX	XX	XX	XX
Return on Assets (ROA)	XX	XX	XX	XX	XX
Return on Equity (ROE)	XX	XX	XX	XX	XX

Table 4

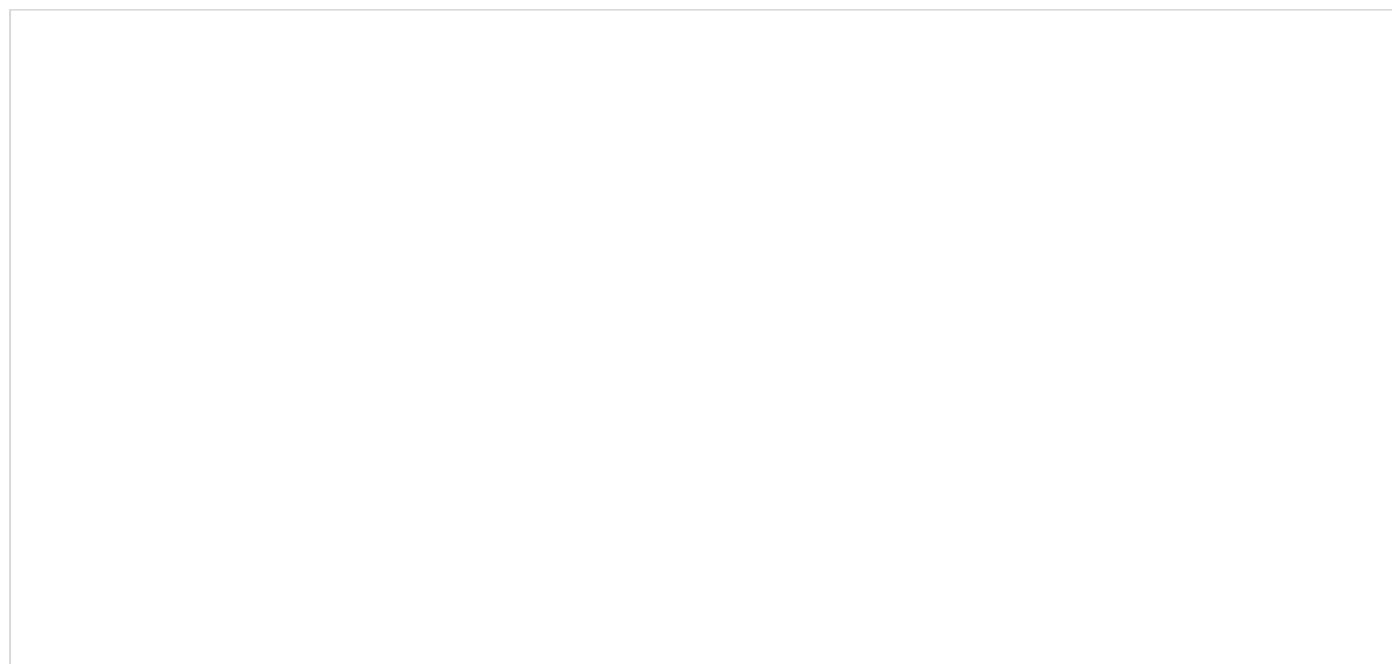


Exhibit 3

Asset Quality: Strong asset quality supported by conservative lending strategy, strong risk management, well diversified asset and portfolio mix.

Total assets of XYZ Bank grew by XX% y/y to UGX XXX, mainly driven by increased investments to UGX XXX (+XXX% y/y), reflecting higher utilisation in government securities in line with the bank's investment strategy. Total investments accounted for XX% of assets, while the loan portfolio stood at XX%. Bank demonstrates a diversifying trend in the asset base where loans accounted for XXXX and investments XX% in FY20, now shifted to loans at XX% and investments at XX%, which is a positive factor for the asset mix.

Loan portfolio remained stable at UGX XXX with a balanced mix of corporate lending (XX%) and retail lending (XX%). Further, the loan book shows good sectoral diversification, with the largest exposure to personal and household lending at XX%. The bank initiated strict risk management practices and robust recovery strategies during FY24, resulting in improved credit quality across the portfolio.

Gross NPL ratio marked the lowest in FY24 at XX%, compared to XX% in FY23 and XX% in FY21. Following successful strategic initiatives, the bank reduced its ECL provision ratio to XX% from XX% in FY23. However, net NPL ratio fluctuated between XX% over the last 5 years, marking XX% in FY24. As a result, provision coverage ratio remained below XX%, indicating ECL provision is lower than Stage 3 loans. Given the bank's robust recovery and risk management initiatives, ICRA assumes less concern on the lower coverage ratio. However, it remains vital to closely monitor provisioning strategy given the volatile nature and headwinds in the industry.

Overall asset quality remained strong, backed by improved credit quality, well-diversified loan portfolio, and high-quality investments led by govt securities with a well-balanced asset mix.

Asset Quality					
	FY20	FY21	FY22	FY23	FY24
ECL Provision to Gross Loans	XX	XX	XX	XX	XX
Gross NPL Ratio	XX	XX	XX	XX	XX
Net NPL Ratio	XX	XX	XX	XX	XX
Provision Coverage Ratio (PCR)	XX	XX	XX	XX	XX

Table 5

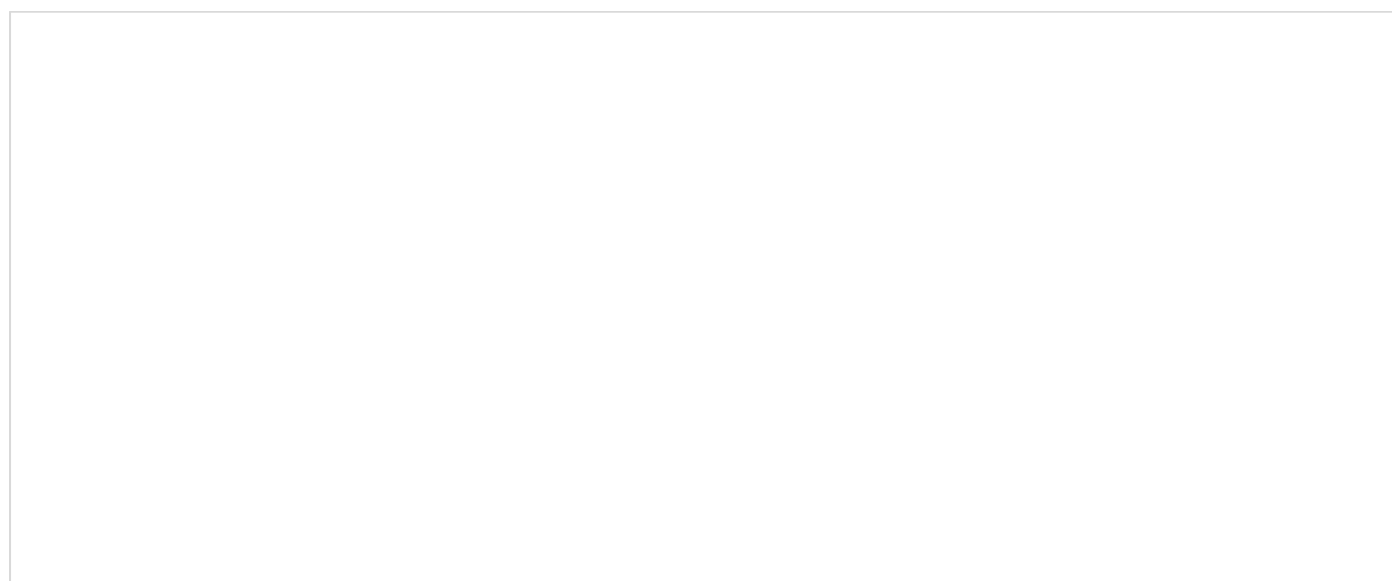


Exhibit 4

Liquidity: Sustainable liquidity position with conservative lending strategy.

During FY24, XYZ Bank's unrestricted cash balance declined by XX% y/y to UGX XXX, primarily reflecting increased statutory reserves and higher investments in government securities. Effective from 2023, regulators require institutions to maintain Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) above XX%, alongside a Liquidity Assets Ratio, to ensure adequate liquidity for meeting obligations and planning for any unforeseeable commitments.

When reviewing the regulatory liquidity ratios, the bank consistently maintained levels well above the required benchmarks, indicating prudent liquidity asset management and sound asset-liability practices. The LCR stood at XX%, (vs. XX% in FY23) reflecting more than three times the minimum liquidity coverage. Additionally, the Liquidity Assets Ratio of XX% (vs. XX% in FY23) suggests XYZ BANK held excess liquid assets equivalent to XX% after deducting all deposits in FY24.

Looking at the bank's loan-to-deposits ratio, a systematic decline to XX% in FY24 from XX% in FY20 is evident, aligning with the conservative lending strategy under the new initiatives.

In FY24, XYZ BANK's external borrowings rose to UGX XXX from UGX XXX in FY23, mainly linked to facilities from the Uganda Government (KFW V Loan), Central Bank (ACF Loan), and European Investment Bank. With UGX XXX maturing within one year, the bank's adequate unrestricted cash balance of UGX XXX reflects low repayment pressure and strong liquidity positioning to meet short-term obligations without strain.

Overall, the bank's liquidity position remained strong and well-managed, with full compliance to regulatory benchmarks. The conservative lending approach, coupled with diversified and liquid assets, provides a robust buffer to sustain liquidity in the event of any unforeseeable adverse developments.

Liquidity					
	FY20	FY21	FY22	FY23	FY24
Loan to Deposit Ratio	XX	XX	XX	XX	XX
Liquidity Coverage Ratio (LCR>100%)	XX	XX	XX	XX	XX
Net Stable Funding Ratio (NSFR<100%)	XX	XX	XX	XX	XX
Liquid Assets Ratio	XX	XX	XX	XX	XX

Table 6

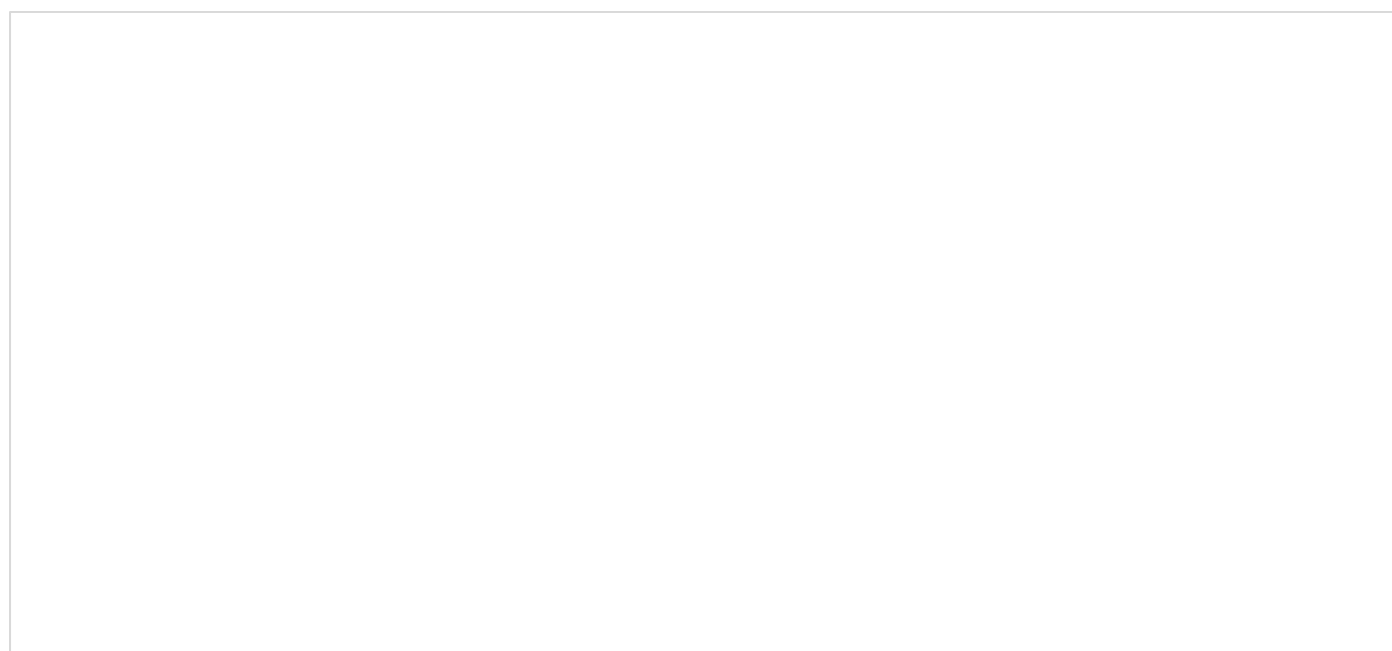


Exhibit 5

Capital Adequacy: Robust capital adequacy with an improving capital buffer.

In FY24, XYZ Bank demonstrated strong capital adequacy, maintaining a solid buffer well above regulatory thresholds. The Core Capital Ratio (Tier 1) stood at XX, significantly exceeding the XX% regulatory minimum, resulting in a Tier 1 capital buffer of 22.8ppts. Likewise, the Total Capital Ratio reached XX%, surpassing the XX% requirement by 19.4ppts.

This consistent upward trajectory in capital ratios over the past five years reflects prudent capital management, effective earnings retention, and strong internal capital generation. The bank's capital strength provides a reliable cushion to absorb potential shocks, ensuring resilience in a dynamic regulatory landscape. They have strong capital adequacy supported by a well-capitalised balance sheet, conservative risk appetite, and a disciplined approach to capital planning. This positions XYZ BANK favourably to pursue strategic growth while maintaining regulatory compliance and financial stability.

Capital Adequacy					
	FY20	FY21	FY22	FY23	FY24
Regulatory requirement (Tier 1 capital)	XX	XX	XX	XX	XX
Core Capital Ratio (Tier 1 capital)	XX	XX	XX	XX	XX
Tier 1 capital buffer (PPTS)	XX	XX	XX	XX	XX
Regulatory requirement (Total Capital Ratio)	XX	XX	XX	XX	XX
Total Capital Ratio (Total Capital)	XX	XX	XX	XX	XX
Total capital buffer (PPTS)	XX	XX	XX	XX	XX

Table 7

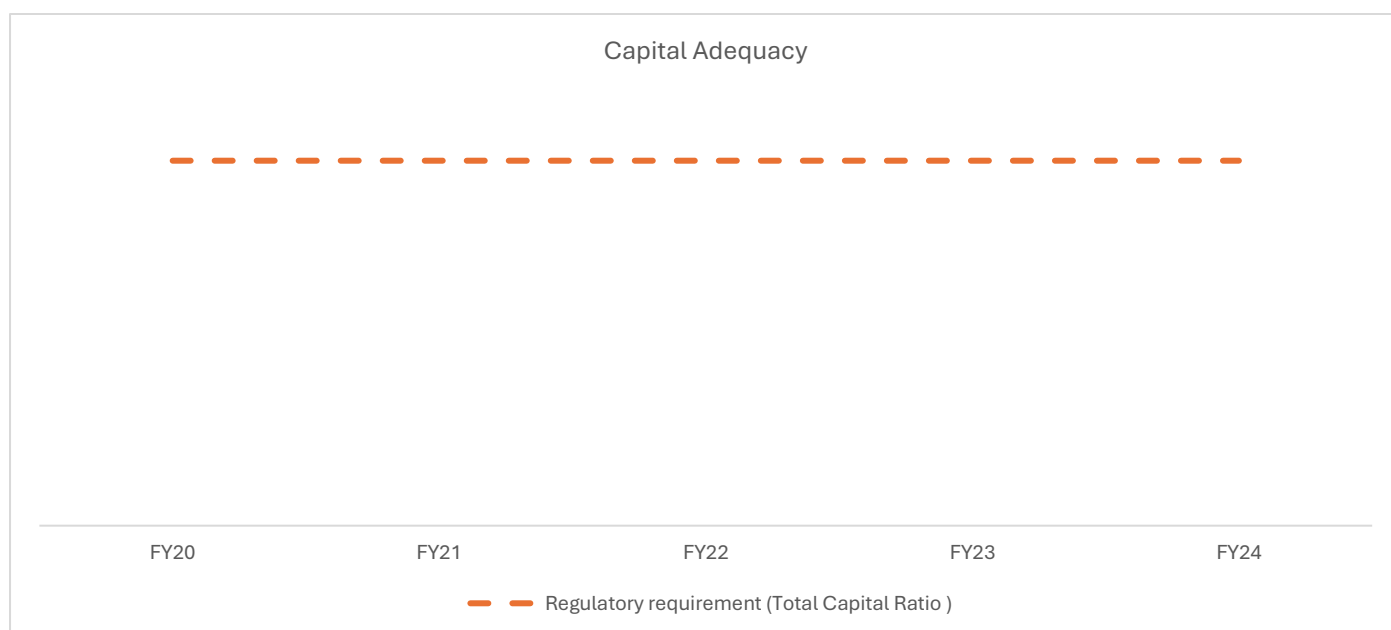


Exhibit 6

OTHER CONSIDERATIONS

RISK MATRIX (CAMELS FRAMEWORK)

Risk Category	Risk Level	Overview	Mitigants
Capital Adequacy	Low	Through regulatory changes and potential credit shocks that could erode capital buffers.	Robust capital adequacy and cautious lending practices with refined risk management framework.
Asset Quality	Moderate	Arise from credit risk in lending operations, and provisioning shortfalls.	Improving credit quality of the portfolio, further diversification of asset mix through low risk government securities, conservative lending strategy.
Management Quality	Low	Expose through potential strategic misalignment, leadership transitions, and reliance on executive decision-making to navigate regulatory and market complexities	Well balanced and qualified governance structure with skilled management and board.
Earnings Quality	Moderate	Due to macroeconomic volatility, inflation and other cost increments due to market headwinds.	Diversification of earnings mix in terms of interest income as well as non interest income, and segments as well. Strategic cost management with stable cost to income.
Liquidity	Low	Inability to fulfill short term obligation and regulatory liquidity requirements.	Strong and growing liquidity ratios with well above the regulatory guidelines, low external debts and loan to deposit ratio.
Sensitivity to Market Risk	High	Arise due to volatile economic conditions, high competition and changes in the macro economic environment.	Strong brand name with customer retention, considerable market share, strong capital buffer to absorb any unforeseeable losses due to adverse market conditions.

Table 8

REFERENCES

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- <https://ariseinvest.com/XYZCOMPANY-limited-posts-record-profit-for-2024-net-earnings-soar-to-shs-72-billion/>
- <https://www.bou.or.ug/bouwebsite/BOU-HOME/>

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