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## IIRA assigns 'Positive' outlook to national scale ratings of Al Baraka Bank Tunisia

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**Manama, January 6, 2020**– The Islamic International Rating Agency (“IIRA”) has affirmed the outstanding foreign currency rating of ‘BB-/B’ (Double B Minus / Single B), and a local currency rating of ‘BB/B’ (Double B / Single B) on the international scale, assigned to Al Baraka Bank Tunisia (“AlBaraka Tunisia” or “the Bank”). National scale rating has also been reaffirmed at ‘BBB+ (tn) /A2 (tn)’ (Triple B Plus (tn) / Single A Two (tn)). The outlook on the national scale ratings has been revised to ‘Positive’ from ‘Stable’.

Al Baraka Banking Group (“ABG”) is the largest shareholder of the Bank with a majority stake of 78.4%. The Tunisian Republic is the Bank’s second largest shareholder with a total stake of 20% through direct and indirect shareholding. Strong shareholder structure is deemed a rating positive indicating a very high likelihood of sponsor support if needed.

During 2018, economic activity accelerated slightly over the previous year in Tunisia, yet growth was not supportive of improvement in labor market prospects. Fiscal balances improved in 2018, with some slight amelioration also registered in external account in the current year. In H1’2019, we saw some weakening of growth momentum in the economy. The Central Bank’s monetary tightening continued with 100bps rate hike in February. Both monetary policy stance and the TND have demonstrated stability since then, with the latter having gained some ground following the sharp depreciation in 2018. On a positive note, given the relatively low share of Islamic Banking in the country, the AlBaraka Tunisia remains poised for growth and is able to withstand challenges of the local economy, with its strong capital and liquidity buffers.

The Bank’s asset base grew by more than 30% during the year 2018 exceeding banking sector growth, as the new management’s growth focus led to expansion in funding base and financings. Growth momentum was carried onto H1’2019 as mainly bank & FI deposits funded the balance sheet growth, with fresh liquidity so generated, channeled mostly into investments. Meanwhile, aside from the additional impairment booked on a single large ticket account, the Bank’s new impairments remained minimal. This account is backed by a deposit account in addition to other collaterals and has been restructured in 2017. Adjusting for the deposit account held in lieu of the subject exposure, net non-performance as a percentage of assets stood at moderate levels. However, increasing concentration levels have been noted; this is partly due to TND depreciation as most of the larger financings were denominated in foreign currency.

Interbank funding continued to comprise a rising share in overall funds; however, strong growth was also noted in customer deposits during 2018. Mostly due to the sharp depreciation of the currency in 2018, the concentration of funding base increased in 2018 and further in the H1’19 despite healthy growth in number of new retail depositor accounts. Al Baraka Bank Tunisia’s liquidity metrics have maintained their strong levels, with a less than optimal focus on the banking book. Further in H1’19, new growth was mostly placed as investments, causing liquidity reserves to increase further. However, fresh liquidity is largely sourced from short-term wholesale deposits, which are likely to be more vulnerable to cost pressures.



The Bank's bottom-line turned positive in 2018, owing to sizable volume growth, widening of spreads and strong fee & commission generation, even though provisioning expenses rose notably. Cost controls also contributed to the improvement in operating performance. In H1'2019, positive operational trends led to significantly improved profitability metrics with annualized RoAA reaching 1.0% from 0.2% in the prior year, and despite the challenging macroeconomic environment. For the current year, we expect the continuation of similar trends which is expected to lead to further improvement in operating performance, barring any unforeseen developments or impairments.

The Bank's overall fiduciary score has also been maintained in the range of '71 – 75' reflecting the adequate protection of the rights of various stakeholders. With the appointment of the second independent board member, the Bank is in compliance with CBT's regulations, yet independent representation on the board falls short of best practices, with implications on composition of board committees and the independence of vital control functions. Strengthening of the compliance department vis-à-vis regulatory compliance is well-noted, however, the internal audit and risk management departments may need enforcement in terms of headcount.

The separation of Shari'a audit and review functions was effected last year in line with best practices and is viewed positively. The Bank has commenced allocating Profit Equalization Reserve from Q1'19, in response to the newly introduced regulations by CBT, regarding the conduct of Islamic banks. In general, the CBT has been improving its oversight on Islamic Banks in the country. The Bank's Sharia governance framework also derives strength from ABG oversight. IIRA opines that the Shari'a audit and review functions need to be reinforced given the bank's rapidly growing operations.

For further information on this rating announcement, please contact us at [iira@iirating.com](mailto:iira@iirating.com).

### ***About Al Baraka Banking Group***

Al Baraka Banking Group B.S.C. ("ABG") is licensed as an Islamic wholesale bank by the Central Bank of Bahrain and is listed on Bahrain Bourse and NasdaqDubai. It is a leading international Islamic banking group providing its unique services in countries with a population totaling around one billion.

The Group has a wide geographical presence in the form of subsidiary banking units and representative offices in 17 countries, which in turn provide their services through over 700 branches. Al Baraka Banking Group has operations in Jordan, Egypt, Tunisia, Bahrain, Sudan, Turkey, South Africa, Algeria, Pakistan, Lebanon, Saudi Arabia, Syria, Morocco and Germany, in addition to two branches in Iraq and two representative offices in Indonesia and Libya.

ABG and its Units offer retail, corporate, treasury and investment banking services, strictly in accordance with the principles of the Islamic Shari'a. The authorized capital of ABG is US\$2.5 billion.

ABG is rated BBB+ (long term) / A3 (short term) by Islamic International Rating Agency (IIRA). IIRA has also rated ABG on the national scale at A+ (bh) / A2 (bh) with a fiduciary score of '81-85', the highest level amongst Islamic Financial Institutions in the region.