



---

## IIRA Maintains Fiduciary Ratings of Al Baraka Bank Tunisia

---

**Manama, September 09,2020** – The Islamic International Rating Agency (“IIRA”) has reaffirmed the foreign currency ratings of Al Baraka Bank Tunisia (“Al Baraka Tunisia” or “the Bank”) at ‘BB-/B’ (Double B Minus / Single B), and a local currency rating of ‘BB/B’ (Double B / Single B) on the international scale, while the National scale rating has also been maintained at ‘BBB+ (tn) /A2 (tn)’ (Triple B Plus (tn) / Single A Two (tn)), with a ‘Stable’ outlook. Challenges stemming from the Covid-19 pandemic pose significant risks to the operating environment, affecting the earnings outlook of the banking sector and potential deterioration in asset quality.

The Bank’s market share stands at 1.9% in terms of assets at year-end 2019 - gradually but consistently gaining ground from 1.4% in 2017. Majority owned by Al Baraka Banking Group (“ABG” or “Group”) with a 78.4% stake, the Group’s strong franchise and multi-jurisdictional presence supports the ratings. Moreover, the 20% direct and indirect ownership of the Tunisian Republic is indicative of potential State support, if needed.

Amidst weak growth, the spillovers of Covid-19 will adversely affect the tourism sector and trade in Tunisia. Expectations point to over 4% contraction in GDP for 2020 with further downside risks, triggering likely elevation in unemployment and deterioration in budget balances. On a positive note, the economy had been on a favorable trajectory prior to Covid-19 and registered lower budget and current account deficit in the year 2019, with resumption of improving trends expected from 2021 onwards. Postponement of payment of some loan categories may stress the banking sector’s liquidity as credit risk increases across the global economy. Moreover, the rate cut by CBT, cancellation of some fees and expected rise in provisioning charges are to pressure industry wide profitability.

Al Baraka Bank Tunisia extended its market share gains into the year 2019 with asset growth of 20%, as FI deposits surged and customer deposits maintained strong volumes. Even though financing growth was healthy, much of the new growth was reflected in investments. In 2020, the Bank will not be impacted materially from loan repayment postponement measures, given its portfolio structure and niche positioning with measured growth also expected in low risk assets such as exposures to financial institutions and government related entities. However, given the significant operating challenges, we do not expect significant outperformance vis-à-vis the sector as witnessed in the last couple of years. Asset growth realized in Q1’2020 points to marked deceleration compared to prior year.

The Bank’s new impairments were limited in 2019 and with the appreciation of TND, total NPFs declined, being mostly denominated in FCY. Consequently, non-performance measures improved. Should there be resolution to the single large legacy exposure, asset quality profile of the Bank could improve markedly in the short-term, barring which there will be pressure on non-performance, albeit at a lower scale vis-a-vis sector trends, given the bank’s concentration on the more secure FI segment. Prospects of further surge

---

The information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information herein is provided "as is" without any representation or warranty of any kind. IIRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) / score(s) mentioned. Rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.



in unemployment, following the spread of the pandemic will strain the consumer segment as well. On the other hand, relief measures offered by the government and declining benchmark rates along with a still broadly stable local currency mitigates the headwinds to asset quality.

The bank's excess liquid reserves point to low liquidity risk. While strong growth was also noted in customer deposits, interbank funding continued to comprise a rising share in overall funds. As such maturity profile of funding shortened markedly during 2019 and is indicative of increasing reliance on liquid liabilities. In more recent quarters, the Bank was able to expand customer base, posting a sharper increase in current accounts.

The Bank's earnings depicted sizable increase in 2019 over prior year, as business growth coupled with further widening of margins, and marked decline in charge-offs, culminated in raising return on average assets (RoAA) to 0.7% against 0.2% in 2018 and -0.2% in 2017, and representing efficiency gains. In the current year, the banking sector will be pressured from downside risks to economic activity, which will moderate volume growth, whereas the lower Central Bank rates will translate into narrower profit share margins, as would regulatory curbs on commissions. However, for Al Baraka Bank Tunisia, we expect the margins to be broadly stable compared to 2019 due to both its Islamic Banking niche and increased share of non-remunerative funds vis-a-vis prior year. On the other hand asset charge-offs may be higher, and compounded also by a 2pps increase in tax rate, may likely diminish net earnings markedly over prior year. Q1'2020 performance confirms the pressures on profitability, although expected to resume its improving trend both in absolute terms and return measures from 2021 onwards.

IIRA maintained the Bank's overall fiduciary score of '71-75', while noting improvements on the participation banking governance front. The assigned score denotes adequate protection of the rights of various stakeholders. We noted the increasing female representation on the Board and strengthening of the risk management function. During the year 2019, Central Bank of Tunisia took steps to standardize the Participation Banking Governance framework in the Country. Two members of the Supervisory Board for Compliance with Islamic Banking Standards were replaced to comply with rotation requirements. Moreover, an external Shari'a review was conducted largely confirming the adequacy of controls instituted to effect a sound system for Shari'a compliance. Meanwhile, we believe that the headcount of Shari'a audit and compliance functions may need to be strengthened.

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