



IIRA Affirms the Ratings of Al Baraka Bank Sudan

Manama, December 31, 2019– The Islamic International Rating Agency (IIRA) has reaffirmed the ratings of Al Baraka Bank Sudan (“the Bank”) on the national scale at ‘A-(sd)/A2 (sd)’ (A Minus / A Two). The outlook on the assigned ratings remains stable. The ratings represent the repayment capacity in local currency terms only in the national level context, and reflects the effects of a challenging operating environment for the bank which is characterized by very high inflation, stress on the external account precipitating pressure on the currency and weak labor market prospects.

Incorporated in 1984, Al Baraka Bank Sudan has a 2.7% market share in deposits as of June 2019. The bank is owned by the Al Baraka Banking Group (‘ABG’ or ‘the group’ or ‘the parent’) that commands 75.7% stake in the bank, while the rest of the shares are listed on Khartoum Stock Exchange. 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 Nasdaq Dubai. It is a leading international Islamic banking group with a wide geographical presence in the form of subsidiary banking units and representative offices in 17 countries, providing banking services through over 700 branches.

Asset deployment at the bank is deemed conservative as the share of financing portfolio is just below 40% in terms of asset base, sizable proportion of which comprises liquid assets. Exposures are more diversified than is characteristic of Sudan based corporate banking, and impairment levels are relatively low at 3.5%; provisioning and collateralization levels are also deemed strong. Following the sector trends in the prior year, the bank decoupled positively from peers and posted very strong volume growth in H1’2019. Meanwhile, the bank’s liquidity buffers were adequate and its deposit base displayed sufficient diversification.

As a result of volume growth booked in the last few years, the bank’s capital adequacy ratio dropped to 13% as of June 2019, which is above the regulatory suggested minimum of 12% by the Central Bank of Sudan. Capital reinforcement is on the anvil via real estate sales that would suffice for volume growth over the next 1.5-2 years, barring another sharp currency devaluation or material adverse impact of currently unforeseen events.

Net earnings depicted very strong growth in 2018 partly due to non-recurring gains on FCY trading and real estate sale. For the ongoing year, spread income is expected to post positive traction, owing to healthy volume growth and likely to partly offset the loss of prior year’s non-recurring gains.

The Bank’s fiduciary score has been maintained in the range of ‘71-75’, reflecting adequate fiduciary standards wherein rights of various stakeholders are adequately defined and protected. On the Corporate Governance front, Al Baraka Bank Sudan stands at a relatively better position vis-à-vis its peers, given ABG oversight and monitoring. Since our prior review, the main change was the establishment of a Compliance and Governance Committee on the CG front. Given the rapid business growth, control functions need to improve their headcount, whereby we noted some decline vis-a-vis our prior review. Shari’a Governance at the Bank derives support from the presence of a Higher Shari’a Supervisory Board (HSSB) and association with ABG, however, currently the Bank’s infrastructure needs

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strengthening on aspects such as cultivating independent Sharia Audit and Compliance functions. IIRA noted the appointment of an external Sharia Auditor for the audit exercise of 2019, positively.

For further information on this rating announcement, please contact us at iira@iirating.com.

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