



IIRA Assigns Fiduciary Rating To Balad Bank

Manama, February 25, 2020 – The Islamic International Rating Agency (IIRA) has assigned a medium to long-term rating of BBB-(sd) (Triple B Minus) and a short-term rating of A-3(sd) (Single A Three) to Balad Bank (Balad) on the national scale. Outlook on the assigned rating is 'Stable'. The ratings denote the bank's repayment capacity in local currency terms.

The macroeconomic environment in Sudan remains challenging with very high inflation driven by sharp currency devaluation in 2018. Improving international relations bode well for the country's prospects in terms of external financial access. Despite the prevalent optimism, current macroeconomic indicators point to a high-risk economy and unfavorable conditions for the banking sector.

Supported by quasi-state entities as major shareholders, the Bank has been rebranded as 'Balad Bank' from 'Alshamal Bank' during the year 2019, and is strategically aiming to expand multifold, across all business lines, throughout the country. Net financing portfolio had doubled during the year 2018 as the inflationary pressures boosted the financing base. Meanwhile, impairment levels have been relatively contained and improved further in 2018. Liquid asset coverage to funds points to low liquidity risk.

Net earnings more than doubled during the year 2018 as a result of strong volume growth and partly due to the significantly higher FCY trading gains amidst sharp erosion of local currency. Despite a boost to earnings, internal capital generation could not keep pace with increasing risk assets, causing capital adequacy ratio to drop to 11% as of Jun'2019, which is below the regulatory minimum of 12%, as set by CBoS. Since then the bank has raised paid in capital to SDG 500mn, with further plans to reinforce capital, either through common equity or through supplementary capital, to enable growth as planned.

The bank's overall fiduciary score is in the range of '61 – 65', reflecting adequate protection of the rights of various stakeholders. The Bank's board composition remained weak given low independent representation. Given that business expansion is on the anvil, the Bank may benefit from enhanced compliance and risk management systems; internal risk rating frameworks, a comprehensive risk appetite statement and stress testing models need to be instituted. The recent acquisition of an advanced technology framework will assist the bank in modernizing its reporting framework and is considered favorably. Moreover, the bank is in the process of strengthening its human resources, which will assist in its growth drive, going forward. On the whole we believe that the infrastructure's readiness for growth is satisfactorily paced and will be monitored on an ongoing basis.

The Bank benefits from the presence of a Higher Shari'a Supervisory Board (HSSB). The Bank has an experienced Shari'a Supervisory Board which is responsible for ensuring that it is operating in accordance with principles of Islamic Banking, as prescribed by the HSSB. However, strengthening of the headcount of the Shari'a Audit function, separation of Shari'a Audit and Review functions and improvement in Shari'a related disclosures, if implemented, would be considered as a rating positive.

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

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