



IIRA Reaffirms the Ratings of Omdurman National Bank

Manama, January 4, 2021 – The Islamic International Rating Agency (IIRA) has reaffirmed the ratings of Omdurman National Bank (“ONB” or “the Bank”) on the national scale at ‘AA-(sd)/A1 (sd)’ (AA Minus / A One) while maintaining the outlook of the assigned ratings at ‘Stable’. The assigned ratings denote the repayment capacity of the Bank in local currency terms only in the national context.

Challenging macroeconomic conditions are marked by hyper inflation, steep currency depreciation in the parallel market, and contraction in real GDP which presents hurdles for the banking sector and is not conducive to real growth in banking business. The approved SMP of the IMF promises structural reforms, which may begin the process of recovery and economic stability in the country. IIRA expects rating movement to be constrained on the upside for the sector as a whole over 2020 and 2021.

Omdurman National Bank (‘ONB’ or ‘the Bank’) has historically been one of the three larger-sized banks in Sudan with market share in terms of deposits registered at 16.5%. There had been a major shift in ownership in Q4’2019 whereby Central Bank of Sudan’s majority stake had been transferred to private entities. Currently the shareholder structure is more fragmented.

The Bank has traditionally been focused on larger corporates and government related entities as major clientele and has historically remained underleveraged with lower financings exposure as a proportion of assets and deposits, compared to peers, and marked by conservative asset allocation. Going forward, the bank may explore opportunities in the private sector. Despite the challenging operating environment, net non-performance in assets remains in check.

Capital adequacy ratio registered at 21.2% as of year-end 2019 and slightly deteriorated to 20.3% in June 2020. The existence of sizable-large exposures and probability of any impairment in any of them as well as prospects of meaningful SDG depreciation as demanded by IMF may pressure buffers by inflating risk weighted assets or in case of non-performance. However, existing level of capital buffers and internal capital generation is deemed adequate to absorb prospective negative impact on the capital front.

After more than doubling in the year 2018, boosted by FCY trading gains, net earnings up trended only 0.6% in 2019 as stronger spread income was balanced out by dissipation of FCY gains and surging operating expenses in a highly inflationary economy. In the current year, net earnings improved by around 40% despite about 59% surge in operating costs with robust spread income and recovered currency gains. We note that return on assets had been relatively stable at around 2.0% since the year 2018 indicating the capacity of the Bank to generate adequate profitability in a very challenging economic environment.

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. However, we revised the Bank’s score on the Corporate Governance front to ‘66-70’ from ‘61-65’. Central Bank of Sudan issued standards for corporate governance for banks in the beginning of the year 2020, reinforcing the Corporate Governance framework in the Country. These require enhancement of independent representation in the board and committees while also bolstering control functions among others. The

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direction of the sector in terms of corporate governance is clearly on the positive side. Omdurman National Bank specifically, has enhanced the headcounts of Risk Management, Internal Audit, and Compliance Departments to improve effectiveness of controls instituted.

Supported by the oversight of a Higher Shari'a Commission of Control on Banks and Financial Institutions, overall Shari'a governance framework is deemed strong. Aside from the retirement of the former head of the Fatwa and Shari'a Supervisory Board of the Bank, there had been no major change in the Shari'a governance infrastructure. Given the scope of work and the bank's growing operations, the workforce, with only one person in the department is viewed as low. Additional reinforcement for the Shari'a Audit function as well as the separation of the Shari'a Audit and Review functions is recommended.

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

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