IIRA Reaffirms the Ratings of Omdurman National Bank

Manama, March 10, 2020–The Islamic International Rating Agency (IIRA) has affirmed the ratings of Omdurman National Bank (“ONB” or “the Bank”) on the national scale at ‘AA-(sd)/A1 (sd)’ (AA Minus / A One), initially assigned on March 2019. The outlook on the assigned ratings has been maintained as ‘Stable’. The ratings represent the repayment capacity in local currency terms only in the national context, and factors in the effects of constraints stemming from the operating environment of the bank which is characterized by very high inflation, and continued stress on the external account pressuring the currency. The official exchange rate has posted sharp depreciation in the value of the SDG, in early 2020, giving the banking sector opportunity for short-term gains in terms of exchange revenue, with adverse implications in the medium term, imposing constraints on the capacity of the banking sector to enable real growth with anticipated shortfalls in capital adequacy, as well as pressures on the corporate sector’s repayment ability, possibly leading to higher impairments.

Incorporated in 1993, Omdurman National Bank had an 18.3% market share in deposits as of September 2019. In the last quarter of 2019, the shareholder structure of the bank underwent significant change as the Central Bank of Sudan (CBoS) transferred its 56.2% stake to mostly new shareholders and partly to other pre-existing shareholders. As a result, the bank has relatively fragmented sharesholding with largest shareholder commanding 17.0% stake. This was a major shift for the bank, as the new ownership structure comprises private companies in contrast to its previously being directly government controlled; nevertheless, major shareholders remain under public sector control.

ONB features a relatively high share of FCY deposits in its funding base which has resulted in a more pronounced surge in balance sheet and particularly cash balances held, relative to peers. Historically, the bank’s net financings to deposit ratio stands well below the sector average with ONB having maintained surplus liquidity and a conservative asset mix. Level of impairments is rather contained as the net non-performing financings correspond to only 0.5% of total assets as of September 2019. However, asset concentration is evident as top-20 financings corresponded to 81% of aggregate portfolio as of September ‘2019.

The Bank commands relatively strong capital buffers as indicated by CAR registering 23.6% as of September ‘2019, reinforced by asset revaluation gains and retained earnings. Despite having declined during the year 2019 to 13.4x, ONB’s leverage stood above sector average. Given its conservative asset mix, it nevertheless remains consistent with IIRA’s estimation of strong capital buffers in relation to risks.

The bank’s net profit more than doubled during the year 2018 partly due to non-recurring cash gains on FCY trading. However, ONB booked decline in net earnings during Q1-Q3’19 as trading gains normalized and cost base surged given the persistent inflationary pressures in the economy, whereas core profitability improved owing to wider spreads and strong fee income growth.

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. The bank’s Board composition, albeit aligning with local regulations, diverges from international best practices specially as
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regards, independent representation. Consequently, this reflects onto the Board Committees’ composition. Meanwhile, IIRA noted improvements in headcount of Internal Audit and Compliance departments as well as structural improvements in these departments during the year. On the other hand, the Bank’s Sharia governance framework derives support from the presence of a Higher Shari’a Supervisory Board (HSSB) in Sudan. IIRA opines that the Shari’a governance framework could be enhanced with strengthening of the headcount of the Shari’a Audit function (only one currently) and the separation of Shari’a Audit and Review functions, in addition to enhanced levels of transparency at the bank.

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