



IIRA Affirms the Ratings of Al Baraka Bank Sudan

Manama, January 28, 2021– The Islamic International Rating Agency (IIRA) has reaffirmed the ratings of Al Baraka Bank Sudan (“Al Baraka Sudan” / “the Bank”) on the national scale at ‘A-(sd)/A2 (sd)’ (A Minus / A Two) with a “Stable” outlook. The assigned ratings denote the repayment capacity of the Bank in local currency terms only in the national context.

The ratings assigned factor in the still tough macroeconomic environment marked by hyperinflation, steep currency depreciation in the parallel market, and contraction in real GDP, which present hurdles 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.

Al Baraka Sudan is owned in majority by the Al Baraka Banking Group (‘ABG’ or ‘the Group’), a leading international Islamic banking group, which holds 75.7% stake in the Bank, with remaining shares listed on Khartoum Stock Exchange.

For the second consecutive year, the Bank has posted strong growth in the backdrop on high inflationary environment. With an increased market share of 2.8% in terms of deposits during 2019, the asset mix has remained conservative over the years with financings forming around 40% of total assets. Liquid assets comprising cash placements and Investment in government securities remained high at around 45% of total assets and representing sufficient liquidity buffers.

Capital levels are deemed a key area of concern as capital adequacy declined further to 13.0% in 2019 and just above minimum capital adequacy ratio of 12.0%. Following the sale of real estate early this year, some reinforcement in capital would be evident and should suffice for volume growth for the next 1.5-2 years. Meanwhile, sponsor support is assessed to be supportive of the assigned rating as evidenced by past instances of financial support by way of a tier II subordinated convertible loan of USD 13m.

The Bank posted nominally increasing earnings with net profit after tax and zakat rising by 20.7% to SDG 444mn during 2019 (2018: SDG 368mn). Net returns have normalized vis-à-vis prior year at an RoAA of 3.5% in 2019 and a largely maintained 3.3% in H1’20, despite the disruptive effects of COVID-19. Non-performing financings have been generally declining over time.

The Bank’s fiduciary score has been maintained in the range of ‘71-75’, showing adequate fiduciary standards wherein rights of various stakeholders are adequately defined and protected. With the support of Al Baraka Banking Group, corporate governance practices have remained superior to peers. The Bank currently has a combined committee for Audit and Risk, while splitting the two may enable better board oversight of these distinct responsibilities. The Bank has a dedicated department for Compliance but keeping in view the scope of the function and growing operations of the bank, the human and technological resources of the function warrant enhancement.



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

The presence of a Higher Shari'a Supervisory Board (HSSB) uplifts the Shari'a Governance of the Bank. However, the Bank does not have a separate Shari'a Audit and Compliance Function; independent functions in these two areas will improve Shari'a process controls and implementation. An external Shari'a audit is yet to be finalized.

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

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.