
IIRA Maintains Ratings of Al Baraka Bank Sudan

Manama, November 17, 2022– 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.

After posting economic contraction for a couple of years, 2021 marked 0.5% growth for Sudan economy, with about 0.3% growth expectation for 2022. Efforts undertaken to avail debt relief and attracting new capital investment have largely been overshadowed by the political turmoil starting in 2021. The Banking sector has been growing in nominal terms, in a hyper inflationary environment, and in significant part also because of translation impact for foreign currency depreciation.

In line with sector trends, the asset base of Al Baraka Sudan has increased significantly, reflected largely in the accumulation of excess liquidity, with liquid assets to total assets further increasing to 60.4% at YE 2021 (2020: 39.7%). Financings in relation to total assets are on a declining trend since 2019, although increased momentum has been seen in H1’2022; investment portfolio has remained limited over the years. Considerable foreign currency reserves are held with the Central Bank of Sudan (CBOS) or with correspondent banks outside Sudan, resulting in a large FCY component to the bank’s liquidity reserves.

Supported by higher profitability and high retention, capital adequacy ratio has improved significantly to 21% at YE2021. This is also due to low growth in risk assets, and significant holdings of zero risk cash equivalents. With a more optimized asset allocation, capital adequacy ratio is expected to fall to below 20% at YE2022. Ratings benefit from shareholder support, with prior precedent of supplementary capital contribution, in addition to the equity stake.

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 Board composition remains unchanged since our last review and still lacks one-third representation of independent board members advised as per best practices. The Bank has a well-established control infrastructure, with independent reporting lines and is in process of updating system infrastructure, with implementation of a new system for ECL, ICAAP and stress testing.

In the absence of a regulatory directive for ESG, the bank has yet to make substantial progress in developing a strategy for mitigation of climate transition risk on its portfolio. However, the bank is amongst the pioneers in social sustainability reporting in Sudan through the platform of Al Baraka Group (erstwhile Al Baraka Banking group). Shari’a governance is also strong further supported by the ultimate approving authority vested in Higher Shari’a Supervisory Board (HSSB). Moreover, the oversight and guidance of the ABG Shari’a Board provides strength to the Bank’s overall governance framework.

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

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