



IIRA maintains National Scale Ratings of the Al Baraka Bank Tunisia while improving the Bank's Corporate Governance Score

Manama, June 28, 2022 – Islamic International Rating Agency (“IIRA”) has reaffirmed national scale ratings of Al Baraka Bank Tunisia (“Al Baraka Tunisia” or “the Bank”) to ‘A- (tn) /A2 (tn)’ (Single A Minus (tn) / Single A Two (tn)). The Bank registered gradual growth as funding and liquidity indicators improved, profitability depicted sharp uptick and the Bank’s capital buffers remained intact with accelerated internal capital generation. Despite the aforementioned improvements on a relative basis, ratings on the national scale have been maintained on grounds of persistent macroeconomic risks. The prevailing economic scenario in the Republic of Tunisia is reflected in the the Bank’s foreign currency and local currency ratings on the international scale, which were placed at ‘B+/B’ (Single B Plus / Single B) and ‘BB-/B’ (Double B Minus/ Single B) respectively. Outlook on the ratings is ‘Stable’.

Asset growth of Al Baraka Bank Tunisia decelerated in 2021 given the slowdown in customer deposit collection and decline in FI deposits. However, meaningful growth was noted in financings, primarily in government exposures reflecting the Bank’s conservative stance towards business growth. Moreover, net non-performance remained contained. Asset quality profile of the Bank will derive strength from the further diversification of the portfolio and increasing share of government exposures.

The Bank’s deposit growth pace slowed due to subdued economic activity and in a bid to avoid expensive deposits, given the strong competition for TND denominated deposits. Meanwhile, decline in relatively volatile FI funding is reflective of the Bank’s deliberate approach to remain cautious and limit any compliance related or other risks, particularly given the present economic conditions. Coupled with this, funding mix has improved with higher reliance on stable customer deposits, in addition to increasing current accounts. Further, enhanced diversification in deposit sources is evident. LCR and NSFR ratios pointed to adequate liquidity buffers.

Higher net spread income and fee income vis-à-vis controlled operating expense growth supported profitability, despite a surge in provisions due to sizable charge-offs for a non-performing investment deposit exposure, so that annual Return on Average Equity more than doubled to 18% in the year 2021 from 8.9% a year earlier. Although deferred profit share income on a non-performing large exposure, supported revenue in 2021 and its complete winding down last year, will limit its favorable impact in the current year, growth in fee income and lower provision will support profitability, likely mitigating the effects of higher expenses. Overall, profitability performance of the Bank is likely to modestly improve in the year 2022 and remain above its historical profitability trends.

CAR improved to 36.7% (2020: 30.1%) with accelerated growth in regulatory capital, owing to strong profitability. The Bank paid TND23mn cash dividends from 2021 earnings as capital indicators denote self-sufficiency in tandem with better prospects for internal capital generation. The strong shareholder



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structure with ABG as the major shareholder (owning 78.4% of the Bank as of year-end 2021) and Tunisian Government as the second largest shareholder, has been noted.

IIRA maintained the Bank's overall fiduciary score of '71-75' while revising the sub-score for Corporate Governance up to '76-80'. The upgrade mainly reflects improvements in risk and compliance functions in order to be fully in line with the new corporate governance framework for Tunisian banks as per the CBT Circular issued in August 2021. On the Shari'a governance front, there has been no major change whereas the recent external sharia audit yielded no material adverse observations.

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

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