الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Upgrades the National Scale Ratings of Al Baraka Bank Tunisia

Manama, September 09, 2021 – The Islamic International Rating Agency ("IIRA") has upgraded the 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) from 'BBB+ (tn) /A2 (tn)' (Triple B Plus (tn) / Single A Two (tn). Outlook on the assigned ratings is 'Stable'.

Sustained progress of the Bank towards cultivating a stronger retail footprint, improving asset quality trends, strong capital buffers and improvement in profitability indicators are the key drivers of the upgrade. Over the last 3 years, the Bank's performance has been improving across the board as it expanded its product suite, even as the branch network of 37 remained unchanged over prior year, with focus on digital transformation and improving the efficiency of the existing network.

While growth has been muted since 2020, a strategic shift towards cost effective deposits has been noted. On the other hand, financing growth is rapid, with an increase in government exposures, indicating a defensive strategy. On the same note, gross and net impairment indicators depicted further decline in 2020. While asset quality concerns if any are likely to emerge more clearly only once the forbearance measures are lifted in September 2021, the high exposure component to financial institutions and government, deterioration if any, is likely to remain range bound. In addition, we note that meaningful increase in general provisions as per the new circular of CBT should help moderate future concerns on asset quality. Lastly, the large classified NPF in offshore oil sector commenced its operations with current oil prices being well above its breakeven price and is expected to pay back its debt at most in 2 years. IIRA will monitor the developments on this file closely as its resolution will improve the Bank's asset quality indicators significantly.

The bank's funding profile improved with steady expansion of TND denominated deposits whereas FCY deposits contracted. Moreover, shift towards demand deposits and retail accounts is also noted positively. NSFR levels indicate adequate medium to long term liquidity buffers. Degree of diversification improved in 2020, as top-20 and top-50 accounts corresponded to 29.1% and 39.2% of funding base, down from 38.7% and 48.4% at prior year-end. We note that despite the significant decline, concentration of funding resources is still elevated and there is further room for improvement.

Higher provisioning charges and operating expenses largely offset increase in operating income. However, in Q1'20, net income grew notably to TND7.4mn from TND2.6mn leading the improvement in annualized RoAA to 1.2%. In the remainder of 2021, there will likely be a narrowing of spreads which will slow down the growth in banking revenues whereas operating expenses are set to increase further, albeit at a slower pace. The prospective trend in profitability will be determined by the pace of provisioning charges, yet with the restructuring of the large-classified file, the Bank is expected to be able to maintain its favorable

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.

profitability performance in the coming quarters and likely be able to post improved net earnings over prior year.

At end 2020, total CAR and tier-1 ratios of the Bank declined due to the phased redemption of ABG mudaraba deposit, however, core capital indicators (CET1) remained largely stable as growth in capital matched the risk weighted asset growth of about 10%. As of March 2021, capital ratio improved over YE2020 given steady internal capital generation. The impact of IFRS-9 implementation scheduled for the year end 2021 is forecasted to be negligible mainly given the collective provisioning booked for the year 2020 which corresponded to ECL overlays.

Meanwhile IIRA has maintained the bank's foreign currency ratings at 'BB-/B' (Double B Minus / Single B), and a local currency rating of 'BB/B' (Double B / Single B) on the international scale. Following muted growth for the last few years, Tunisian economy contracted sharply by 8.8% in 2020 as sizable decline in domestic and external demand followed the Covid-19 pandemic. Growth is expected to accelerate to 4% in 2021 as the pandemic's effects on exports and tourism moderate and domestic demand recovers and as a base effect of contraction in 2020. Current account deficit contracted in 2020, yet remained sizable in relation to GDP, whereas the fiscal deficit widened notably due to pandemic related spending. Following relatively weaker performance against hard currencies in 2019, TND held up in 2020 and so far in 2021 with depreciation being limited, as current account deficit contracted and reserves strengthened. Going forward, the ongoing IMF program is expected to support the country's external debt payments and bolster transition to a rule based macroeconomic framework. Political turmoil in recent weeks has caused uncertainty in terms of the national economic and finance strategy. IIRA will follow developments on this front for any deterioration in sovereign risk profile with implications on the international scale ratings assigned.

IIRA reaffirmed the Bank's overall fiduciary score of '71-75'. While being in line with local regulations, independent representation at the Board level lags global best practices of one-third independent representation. Meanwhile, we note the positive development in risk and compliance functions both in terms of organization and scope as well as efforts to comply with IFRS 9 reporting to be effective starting from year-end 2021. No major change was seen in the Shari'a governance framework, the need to reinforce headcount of Shari'a audit and compliance functions persists.

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.