الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA maintains the ratings of the Al Baraka Bank Tunisia

Manama, June 30, 2025 – Islamic International Rating Agency ("IIRA") has maintained the Al Baraka Bank Tunisia's ("Al Baraka Tunisia" or "the Bank") foreign currency and local currency ratings on the international scale at 'B+/B' (Single B Plus / Single B) and 'BB-/B' (Double B Minus/ Single B) and reaffirmed the national scale ratings of the Bank at 'A- (tn) /A2 (tn)' (Single A Minus (tn) / Single A Two (tn). Outlook on the ratings remains 'Stable'.

The Bank had around 1.4% market share in terms of sector assets, and 21.6% share in the Islamic banking sector, which comprises 3 banks. The new headquarters of the Bank became operational last year bringing all departments under one roof, which is expected to improve efficiency and boost franchise.

The economic growth of Tunisia has been below potential, as global uncertainties, coupled with a high-rate environment, weighed on economic activity. Growth is expected to accelerate in 2025, yet prone to elevated risks. Declining policy rates driven by lower inflation and easing energy prices, will likely provide relief to economic conditions.

Meanwhile, the Banking Sector has been subject to state interventions which include increasing corporate tax and social fund payments and the regulatory directive of halving the financing rates for certain credits, cancelling of certain fees & commissions to enhance financial inclusion, tighter general provisioning calculations, and the requirement of allocating interest-free loans totalling 8% of net income to micro, small and medium-sized enterprises.

Amidst a challenging macroeconomic environment, characterized by muted GDP growth and intensified regulatory pressures, the Bank opted for a more conservative approach to risk, prioritizing caution over growth, which limited asset growth to only 0.5%, coupled with a 2.0% decline in the financing portfolio. Despite the higher gross impairment[1] reaching 6.5% by YE2024 (2023: 5.9%), contributed also by the devaluation impact on foreign currency denominated non-performing accounts, the Bank's non-performance indicators remain well below sector average and Islamic banking peers. Overall, asset quality remains favourable in comparison to sector norms, as total coverage of impaired assets stood at around 70%. [2]

Al Baraka Bank Tunisia's Capital Adequacy Ratio went up to 20.8% from 18.0% in 2024, supported by an enhanced capital base and lower risk weighted assets, as the bank exited from certain higher risk relationships to politically exposed groups. The tier-1 ratio also notched up to 19.6% (2023: 17.1%). Both ratios stood well above CBT's thresholds of 10% and 7% respectively. Meanwhile, the Central Bank of

[1] Total impaired assets in relation to total assets.
[2] Total coverage of impaired assets.

Tunisia has directed banks to cap any dividend payment to 35% of their distributable profits under certain conditions, which led to the lower dividend payout ratio from Al Baraka Tunisia. In the near term, capital buffers are deemed strong given the moderate growth rate expectation, declining but healthy internal capital generation, and downward pressure on cash dividend payments, driven by regulatory restrictions.

In 2024, the Bank's profitability was negatively impacted from higher corporate tax and social fund payments, and regulatory directives such as cancellation of fees and charges. Despite the pressures, the bank's return indicators remain superior to its Islamic banking peers. In the ongoing year, most of the regulatory pressures will continue along with new ones, yet business volume growth should help mitigate any adverse consequences.

IIRA reaffirmed the Bank's overall fiduciary score of '71-75' reflecting that the rights of various stakeholders are adequately protected. There was only one change in the Board of Directors driven by Tunisian State's regular rotation practice. Independent representation is limited and should be enhanced in line with international best practices. Given the challenging economic conditions, considerable effort was allocated to strengthening risk management systems. Along with the amended Corporate Governance Code of the Bank during the year 2024, focus has been more on Group-wide governance, with incorporation of takaful and private equity subsidiaries. ABG's strict oversight adds another line of defence to the internal control framework. The Shari'a Supervisory Board remained unchanged for the year. Recent focus has been on diversification into new products, as the Bank expands its service offering. However, the Bank's Shari'a governance score has not been impacted by these developments, given the compelling nature of the relevant directives.

Within the context of Tunisia's green banking initiative, Tunisia's National Agency for Energy Management and the Tunisian Banking and Finance Council have signed an agreement in 2024 to ensure more funds are channelled towards Tunisia's national energy transition, to develop funding mechanisms for renewable energy and energy efficiency projects. The Country has also raised its target for the share of renewables in electricity production to 35% by 2030, up from the previous 30%. The Bank's recent efforts on the social responsibility front have been focused mainly on healthcare and education.

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