الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA observes stronger corporate governance practices; maintains ratings of the Al Baraka Bank Tunisia

Manama, July 17, 2023 – 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 as 'B+/B' (Single B Plus / Single B) and 'BB-/B' (Double B Minus/ Single B) while reaffirming the national scale ratings of the Bank at 'A- (tn) /A2 (tn)' (Single A Minus (tn) / Single A Two (tn). Outlook on the ratings is 'Stable'.

Tunisian economy is relatively more diversified compared to peers in MENA region. Proximity to and favorable relations with EU markets is a competitive advantage. In 2022, growth slowed to 2.4% despite strong recovery in tourism related sectors as mining and construction segments contracted. As per Government estimates, GDP is to grow 1.8% YoY in the current year whereas IMF forecasts point to 1.3% growth. Unemployment and particularly youth unemployment remain elevated as the economy could not recover as fast as other emerging countries following a deep recession from Covid-19 crisis. High current account deficits accumulated into wide external debt in relation to GDP. Sizable subventions lead to fragile budget balances. Foreign currency reserves remain modest while the long-waited IMF deal and structural reforms are expected to contribute to the growth and FCY debt payment capacity.

At YE2022, the Bank had a branch network of 38 which is expected to increase to 43 by YE2023 in an effort to serve a broader geographic base in the Country. In addition, ongoing digitalization efforts will assist in expanding coverage. Over the last few years, particularly since 2018, the Bank has successfully implemented the strategy of reaching out to an increasingly retail clientele and large corporates, and reduce concentrations both on deposit and financing side, significantly improve profitability, and maintain superior non-performance indicators compared to local peers.

Asset base of Al Baraka Tunisia contracted by 6.4% YoY reflecting a decline in deposits sourced from financial institutions. This was accompanied by the higher weight of financing in total assets replacing the investment portfolio. IIRA notes the gradual shift in the balance sheet towards financing as well as lower concentration in financing exposures positively. Despite the challenging economic environment, non-performing exposures decreased on both gross and net basis. Asset quality indicators fare better than sector wide figures, owing to defensive portfolio characteristics, prudent underwriting, and decreasing concentration.

Funding base of the Bank declined on account of deleveraging on FI deposits whereas the customer deposits continued to grow albeit at a modest rate, as the Bank refrained from costlier deposit competition. In addition to a more favorable breakdown of funding mix, the granularity of deposits also improved during the year while liquidity indicators depict sufficient buffers.

The Bank's total capital adequacy ratio stood at 19%, standing well above 10% regulatory threshold whereas tier 1 ratio of 15.9% is superior to the 7% limit set by the Central Bank. Going forward, healthy internal capital generation and already strong capital buffers will likely be sufficient to maintain growth without recourse to cash capital increase, given also that the medium-term outlook for Tunisian economy is not currently conducive to very strong financing growth. In addition, the current cash dividend payout ratio at around 50% could be moderated to provide room for accelerated financing growth in case of need. Meanwhile, Group support and the shareholding of Tunisian State is considered to be a credit positive.

A positive trend in profitability performance was carried into 2022, with net earnings after tax reaching TND50.1mn with a YoY increase of 37.7%, causing return on average assets to increase to 2.0% versus 1.4% in the prior year. The better profitability was achieved mainly on account of writeback of provisions in tandem with better asset quality and controlled cost growth whereas the core profitability also improved adjusted for one-off revenues booked in 2021. In the current year, profitability trends will likely improve further with increased spread income on account of business growth, healthy increase in commissions and trading income, with operating expenses to grow at a faster pace than last year. All in all, the Bank is expected to maintain positive trends in profitability in 2023.

Even though IIRA maintained the Bank's overall fiduciary score of '71-75', there were continuous improvements in the governance aspects reflected in higher sub-scores. The fiduciary score indicates that the rights of various stakeholders are adequately protected. Since our previous review, the Bank completed its implementation of the most recent CBT Circular regarding corporate governance. Changes at the Supervisory Board were noted with its members enhanced to four from three.

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