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## IIRA Revisits Ratings of Bank of Khartoum

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**Manama, March 10, 2020** – Islamic International Rating Agency (IIRA) has revised ratings of Bank of Khartoum ('BoK' or 'the Bank') to A+(sd)/A1(sd) (Single A Plus/ A One) from AA-(sd)/A1(sd) (Double A Minus / A One) on the national scale. Ratings are driven by weakness in capitalization indicators, which have fallen sharply in interim periods of 2019 and are below regulatory minima. While the bank remains fundamentally well positioned in the local context, it has been affected by challenging market conditions, while top management continues to be in transition. The banking sector as a whole has been affected by the spillover effects of difficult economic conditions marked by very high inflation and steep erosion in the SDG/USD exchange rate, further gaining momentum in the current year.

BOK is the leading bank of Sudan not only in terms of asset size but also as regards customer base, and distribution network. This has translated into the lowest cost of funds in the industry, giving it substantial market power and a healthy income stream, both in terms of margin income and ancillary earnings. BoK's ratings take cognizance of the Bank's strong market positioning and local franchise. As one of the first few banks to have recently obtained license to issue Visa cards to its customers, which marks a turning point in Sudan's international financial inclusion, the bank's leadership in the sector stands reinforced.

While profitability deteriorated in 2019 with thinner margins accounted for by excess liquidity held on books, higher operating costs and sizable charge-offs, it is likely to recover meaningfully in ensuing quarters, with lower expectations of charge-offs in 2020 and as asset allocation normalizes with resumption in business growth. Nevertheless, pressure on operational costs is likely to persist given further currency depreciation.

Shortfall in capital poses as the most significant risk to business growth. We have noted the Bank's plans to strengthen the capital base and will continue to closely monitor developments. With a slowdown in business activities in 2019, the bank currently holds high reserves of liquidity. Asset quality has remained strong on a net basis, with the largest probable loss assets, having been provisioned in recent periods and despite inflation of USD denominated non-performing financings.

The bank's shareholders including Dubai Islamic Bank (DIB) and Islamic Development Bank (IDB) are financially strong and are amongst the most well-noted financial entities in the region. The continuing transition in terms of top management can potentially lead to delays in decision-making at a time critical to the bank's future strategic planning. Outlook on the ratings is therefore 'Negative'. Ratings may be revised downwards in case of delay in on boarding of permanent top management and emergence of a clear strategic plan addressing the bank's key challenges. Outlook may be revised to 'Stable' if positive traction is observed in financial risk profile and if key concerns regarding capital adequacy and management stability are addressed during the current year.

The Bank's Fiduciary Score has been assessed within the range of '71-75', which signifies adequate protection of stakeholder rights. Delay in release of interim financial statements has adversely affected



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the transparency score; timely release of important financial and non-financial data needs to be reinforced.

For further information on this rating announcement, please contact us at [iira@iirating.com](mailto:iira@iirating.com)

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