الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Upgrades Fiduciary Rating of Balad Bank

Manama, March 20, 2022 – The Islamic International Rating Agency (IIRA) has upgraded the national scale rating assigned to Balad Bank ('BB' or 'the Bank'), Sudan, to 'BBB (sd) /A3 (sd)' (Triple B / Single A Three). Outlook on the assigned rating is 'Stable'.

After posting an economic contraction for three consecutive years during 2018-2020, Sudan is estimated to have posted growth of around 1% during 2021, with an expectation of around 3% growth in 2022. The country has also shown improvement in both current and fiscal accounts during 2021. The government and the Central Bank of Sudan have been making efforts to bring structural reforms to strengthen the economy. Significant devaluation of currency and unification of various exchange rates in February 2021 was a major step forward; re-organization of the banking sector is on the anvil, through improved governance standards, recapitalization and potentially, mergers. Recent political unrest has cast uncertainty over the substantial international assistance allocated to Sudan in 2021.

During H1'2021, both National Pensions and Social Insurance Funds and Social Security Investment Authority divested part shareholding. The divested shares have been acquired by Elsheik Mustafa family, who are now the most significant shareholder in the Bank. In the process of acquisition by new shareholders, fresh capital of SDG 500mn was injected, bringing paid up capital to SDG 1bn as at end-H1'2021 (2020: SDG 500mn). The State remains a significant partner in the Bank.

Following the trend in the industry, the Bank's asset base has grown by 6.6x since 2018, reflecting the translation effect of hyperinflation in the country. Almost half of the assets have been placed in cash equivalents representing a dearth of opportunities to create revenue generating streams, amid constrained market dynamics. Inflated holdings of cash equivalents caused liquid assets to total assets to rise to 71.5% as of end H1'2021. While averaging around 50% of the asset base during 2018-2020, the share of financing portfolio shrunk to 33.1% by-end H1'2021. Sector-wise, the Bank has maintained a diversified financing portfolio with all financing denominated in local currency. Asset quality metrics do not show any adverse effects with non-performing financing ratio declining in both gross and net terms, partly due to the inflated base effect, higher recoveries and rescheduling, and higher provisioning.

Profitability has been improving over the years, with the Bank posting YoY growth of 134% in total operating income during H1'2021, exceeding also operating income earned during full year 2020. Return metrics improved accordingly. We expect trends to have continued during H2'21, given that the bank has not benefitted from volatile income sources in performance posted over the first half of the year.

The bank's overall fiduciary score is in the range of '66 – 70', reflecting adequate protection of the rights of various stakeholders. The corporate governance infrastructure of the Bank may be strengthened with independent representation to be enhanced on the Board. Additionally, as per the new CBoS regulations, the Bank should form a Compliance Committee. Internal control infrastructure, particularly risk management may benefit from an upgrade in terms of reporting capabilities, to enable efficient oversight, as the bank focuses on growth. Further, the bank's disclosures on the website and in published reports, requires enhancement. Supported by the Higher Shari'a Supervisory Board (HSSB) and an internal Shari'a Supervisory Board, the Shari'a governance framework of the Bank is adjudged as adequate. The Bank appointed a new Head of Internal Shari'a Audit; the department is minimally staffed and requires enhancement for effective supervision. Shari'a related disclosures are deemed to weak, reflective of sector norms.

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