



IIRA Improves Outlook on the Fiduciary Rating of Balad Bank

Manama, March 11, 2021–The Islamic International Rating Agency (IIRA) has affirmed the medium to long-term rating of Balad Bank (Balad), incorporated in Republic of the Sudan (Sudan) at BBB-(sd) (Triple B Minus) and a short-term rating of A-3 (Single A Three) on the national scale. Outlook, has been assessed as, 'Positive'. The ratings denote the bank's repayment capacity in local currency terms.

The macroeconomic environment in Sudan remains difficult with very high inflation; the current year commenced with sharp devaluation of the Sudanese pound (SDG) in February 2021, as the currency regime moved towards a flexible exchange rate system. This is part of the ongoing economic and financial reforms and together with improving international relations, bode well for the country's prospects in terms of external financial access.

Balad Bank has grown rapidly in nominal terms over the past two years, continuing its pace in 2020 and supported by capital increase in 2019 and 2020. With quasi-state entities as major shareholders, the recapitalization process is targeted to continue allowing the bank to pursue its objectives of scaling up on a national level.

While financings growth was slower relative to deposits, resulting in further build up of already excess liquidity, it nevertheless remains considerably above sector average. This is also noteworthy in the context of limited foreign currency exposures which could contribute to growth through currency translation effects. Reported non-performance is low, indicating sound asset quality. Regulatory requirement of obtaining 133% collateral over financings protects the banks from ultimate loss. Given rapid nominal growth in recent periods, the portfolio may yet be considered unseasoned; further the prevailing economic stress may contribute to some increase in non-performance going forward.

Net earnings more than doubled during the year 2020 as a result of strong volume growth in business and sustained margins. Internal capital generation and paid up capital increase allowed capital adequacy to remain above 13% as of Dec'2020. The bank has further plans to reinforce capital, through common equity to enable growth as planned.

The bank's overall fiduciary score is in the range of '66 – 70', reflecting adequate protection of the rights of various stakeholders. A new board has been elected, despite which independent representation remained below requirements. Given that business expansion is on the anvil, the Bank may benefit from an enhanced compliance and risk management structure, including an internal risk rating framework, a comprehensive risk appetite statement and stress testing models. The current banking system is to be replaced and the new system based on Oracle is expected to go live in March 2021 which is expected to substantially enhance the bank's data management capacity, and reporting capabilities.



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The Bank has an experienced Shari'a Supervisory Board. However, strengthening of the headcount of the Shari'a Audit function, separation of Shari'a Audit and Review functions and improvement in Shari'a related disclosures, if implemented, would be considered as a rating positive.

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

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