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## IIRA Reaffirms the Ratings of Omdurman National Bank while Revising up the Corporate Governance Score

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**Manama, August 07, 2022** –The Islamic International Rating Agency (IIRA) has reaffirmed the ratings of Omdurman National Bank (“ONB” or “the Bank”) on the national scale at ‘AA-(sd)/A1 (sd)’ (AA Minus / A One) while maintaining the outlook on the ratings as ‘Stable’. The assigned ratings reflects the repayment capacity of the Bank in local currency terms only in the national context.

Challenging economic conditions in Sudan further deteriorated due to the political volatility which led to suspension of foreign currency inflows to the Country allocated under Enhanced Heavily Indebted Poor Countries Initiative. Russia-Ukraine crisis and associated spike in energy prices has also weighed negatively on the external buffers, which were already weak. Trade deficit reached USD1.2bn in the first quarter of 2022 while gold exports constituted majority of export receipts. In a bid to manage the external balances, CBOS decided to freely float the Sudanese Pound in the first quarter of the current year, which resulted in USD-SDG parity to reach around 570 currently from 435 at year-end 2021. Despite heading down from its peak levels, consumer price inflation is still too high at 192.2%. Meanwhile, capital buffers in the banking sector are narrow with sector wide aggregate CAR being only 11.5% at year-end 2020, even as liquidity buffers remain strong, given ample excess capacity.

In 2021, the bank’s asset growth performance was superior to the sector average, owing partly to higher share of FCY funding within its deposit mix and sharp depreciation of SDG. On the other hand, there was a notable decline in financing assets, reflected in accumulation of cash equivalents, given the absence of attractive avenues to place excess liquidity. For the year 2022, the Bank looks for more moderate asset growth given that the SDG is projected to be relatively stable.

In tandem with financing growth and decline in nominal non-performance, gross impairment levels retreated to 0.4% from 1.0% and depicts a much more benign asset quality picture vis-a-vis the sector. For the ongoing year, asset quality indicators are expected to be broadly stable given defensive portfolio characteristics and close follow up of exposures. Inclusive of general provisions, total provision coverage stood at 973% (2020: 131%) Denoting significant excess buffers in case of any worsening in asset quality in future years.

In 2021, ONB’s net earnings after tax and zakat surged to SDG7.4bn from only SDG2.1bn in the year 2020 depicting YoY increase of 248.8%. The surge was driven by 7.3x increase in FCY trading revenues, 5.3x increase in banking service revenues whereas the net spread income grew by 120.1% on YoY basis. Meanwhile, 223.7% YoY rise in total expenses in tandem with elevated inflation in the Country remained below revenue growth. Uptrend in profitability indicators was carried onto the year 2022 despite elevated cost base given further improvement in spread income, fee income, and foreign currency trading gains.

There had been significant growth in risk weighted assets in 2021 in tandem with the exchange rate unification and massive devaluation of SDG. Nevertheless, given similarly enhanced profit retention, capital adequacy ratio of the bank inched up to 19.2% and exceeding regulatory thresholds by a comfortable margin.

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The Bank's fiduciary score has been maintained within '71-75' range reflecting adequate fiduciary standards. On a positive, note score for the Corporate Governance was revised up to '71-75' from '66-70' mainly reflecting the separation of Board Audit and Board Risk committees as well as improvements in risk management and compliance functions. The Bank has been revising all of its policies and procedures and expected completion of this exercise shall further support control framework. As for the Shari'a Governance framework, bank-wide practices remained broadly stable whereas there were further reporting requirements as per CBoS regulations.

IIRA reckons that the ESG practices does not constitute a major risk to Bank's ratings.

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

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