



IIRA Maintains the Ratings of Omdurman National Bank

Manama, November 18, 2021 –The Islamic International Rating Agency (IIRA) has maintained the ratings of Omdurman National Bank (“ONB” or “the Bank”) on the national scale at ‘AA-(sd)/A1 (sd)’ (AA Minus / A One) whereas the outlook on the ratings is ‘Stable’. The assigned ratings denote the repayment capacity of the Bank in local currency terms only in the national context.

Sudan’s economic conditions continue to put pressure on the banking sector through inflation and currency devaluation, which in turn affects the repayment capacity of borrowers. Social and health disturbances have also contributed to a deepening of the ongoing recession over the last two years. However, with a focus on economic reforms, and improved governance standards, recapitalization and potentially, mergers in the banking sector, the financial sector’s prospects are likely to improve over the medium-term. The country’s arrears in external debt had been reduced significantly in June 2021 under Enhanced Heavily Indebted Poor Countries Initiative, which is expected to pave way for foreign investment to help growth and poverty reduction. This development also led to stability of the USD SDG exchange rate at around 450, which should help stabilize inflation going forward. However, recent political changes and the ensuing social unrest may have potentially retarded the pace of recovery, as was expected in the later part of 2021 and full year 2022.

Deposit base of the Bank has grown by over 33% in the year 2020 led by SDG denominated funds. Coupled with increasing short-term, low cost deposits, over-weighting of SDG denominated funds has improved the funds composition for the better. Current levels of liquidity are still high despite the recent increase in pace of financings off take, relative to deposits growth. Financing portfolio growth, has improved the earning potential of the balance sheet, albeit while putting pressure on capital adequacy, which has fallen to 18.3% at YE 2020 from 21.2% in 2019 and further eroded to 13.3% as of June 2021, following the slide in SDG. While above regulatory threshold of 12%, it is likely to need reinforcement going forward, beyond internal capital generation through profit retention. As of June 2021, asset quality remains sound, as gross impairment remained contained at 1.2% (2020: 1.0%) despite the slide of SDG, in H1’21.

The Bank’s fiduciary score has been reaffirmed to be within ‘71-75’ range reflecting adequate fiduciary standards. Since our previous review, there are changes in the position of Chairman and Vice Chairman of the Board of Directors. The increased headcount of the Compliance function has been noted positively as well as the improvements in the related policy framework. IIRA believes that the reorganization of the Risk Management function to better align with global best practices would notably improve the overall control framework within the bank. To that end the launch of risk management framework inclusive of Risk Appetite Statement as well as the introduction of sophisticated counterparty rating system would be supportive, given that a well-developed risk management system is imperative to detect and contain asset quality pressures. Meanwhile, on the Shari’a Governance front, IIRA has noted increased staff for the Shari’a function and higher share of participative modes of financings on the asset side.

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