



IIRA Reaffirms Ratings of Bank of Khartoum

Manama, July 17, 2017 – Islamic International Rating Agency (IIRA) has reaffirmed ratings of Bank of Khartoum ('BoK' or 'the bank') at AA-(sd)/A1 (Double A Minus/ Single A-One) on the national scale with a 'Stable' outlook. Rights of various stakeholders are adequately protected, reflected in a Fiduciary Score of '71-75'.

The ratings take cognizance of BoK's market position, as the largest commercial bank in Sudan, and a still growing market share. An expansive branch network within Sudan and continued expansion in GCC markets, with a wholesale banking license in Bahrain and a banking license in UAE, has enabled the bank's franchise to grow, both domestically and regionally.

IIRA has however taken note of the increasing pressure on the bank's shock absorption capacity vis-à-vis its core banking operations. This is underpinned by persistently high concentration in financing assets, and further amplified by the recent, sizable acquisition in the telecommunication sector. While the latest acquisition may diversify revenue streams for the bank in the near term, with the management being committed to offload the holding in due course of time, it does pose increased stress on the bank's risk buffers. Provision coverage, while as per requirements, is deemed low in relation to exposures classified as being at risk. As such, reinforcement of capital is warranted to cushion the effects of any adverse events. The recent decision by the shareholders confirming the 25% right issue would ease the pressures.

Systemic risks have also risen since 2016, with liquidity of short-term treasury securities affected. Given limited options available for funds placement, this has impacted the liquidity management ability of the sector. IIRA will continue to monitor developments with regards to the bank's key exposures, both financing and equity based, and market factors noted above, for implications on assigned ratings.

The bank has been assigned a corporate governance score in the range of '66-70'. Overall Corporate governance practices in the bank have improved with reinforcement of risk management over recent periods. Areas identified for improvement include increased independent representation on Board and Board Committees.

For further information on this rating announcement, please contact Mr. M. Aarsal Ayub at arsal.ayub@iirating.com or email to iira@iirating.com.

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