



IIRA Affirms Fiduciary Ratings of Al Baraka Bank Egypt

Manama, December 23, 2020—The Islamic International Rating Agency (“IIRA”) has reaffirmed the outstanding foreign currency rating of ‘B-/B’ (Single B Minus/ Single B), and a local currency rating of ‘B/B’ (Single B/Single B) on the international scale, assigned to Al Baraka Bank Egypt (“Al Baraka Egypt” or “the Bank”). The national scale rating has also been affirmed at ‘A (eg) / A1(eg)’ (Single A (eg) /A one (eg)). The outlook on the ratings is ‘Stable’.

Al Baraka Bank Egypt has continued its positive momentum in growth and profitability with an increasing market share reaching 1.5% in terms of deposits. The Bank operates as per Islamic principles as outlined in its Articles of Association. Al Baraka Banking Group (“ABG”), a leading international Islamic banking group, holds a majority of 73.7% of stake. The other key shareholders include state-owned Misr Life Insurance Company and Misr Insurance Company, which also held 5.3% and 4.5% stakes respectively as of year-end 2019.

Egypt had posted a strong economic turnaround in 2018-2019 with a flexible exchange rate regime and gradual reining in of inflation to single digit levels. At the same time, significant improvement was evidenced in both the current and fiscal account. Trends are set to reverse in the current year, with the effects of the pandemic on the global economy, adversely affecting trade, tourism and foreign investment. To blunt the economic impact of COVID-19, the Central Bank of Egypt has cut policy rates by 3% to 9.75% in March 2020, and again in September 2020 by a further 50bps, which is likely to affect banking sector margins.

IIRA has been following Al Baraka Egypt’s capital position closely over the last couple of years as the new banking law by the Central Bank of Egypt requires banks to increase capital to at least LE 5BN by 2022. The Bank has been building its capital buffers, supported by internal capital generation through strong profitability and thereby higher retained earnings. IIRA expects the Bank to generate required capital over the course of the next 2 years, with minimum or no requirement of external equity injection. Equity increased to LE 4.1b as at end-2019; the Bank’s capital adequacy ratio at 17.4% is indicative of strength. However, with the expected deceleration of the economy, repayment capacity of financed counterparties is likely to be affected, following notable increase in non-performance over 2019 and H1’20, taking non-performing financings to 6.8% of total financings by end June 2020.

The Bank’s overall fiduciary score is in the range of ‘71 – 75’, reflecting adequate protection of the rights of various stakeholders. The Bank has been strengthening its corporate governance framework not only to meet the local regulatory requirements, but also by adopting international best practices. Operational disruptions caused by COVID-19 pandemic have been addressed ensuring constant functioning of the Bank. All major components of the governance system including the risk management function, compliance, IT and internal audit have remained coordinated to ensure the well-being of the bank’s employees and customers. Implementation of IFRS-9 and ICAAP framework, have uplifted the risk management system instituted in the Bank.

The Bank adopted updated Shari’a governance regulations in accordance with the requirements of Al Baraka Banking Group issued by Central Bank of Bahrain. Segregation of independent Shari’a audit and supervision has led to enhancement of Shari’a Infrastructure which is expected to be further strengthened through availability of Shari’a compliant investment options, expected to gain momentum in the near term.

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