



IIRA Upgrades Fiduciary Ratings of Al Baraka Bank Egypt

Manama, January 9, 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 been upgraded to ‘A(eg)/A1(eg)’ (Single A (eg) / A one (eg)) from A-(eg)/A-2(eg) (Single A Minus(eg)/A-Two(eg)) and follows from the ‘positive’ outlook assigned at the time of the last review. The outlook on the ratings is now deemed ‘Stable’.

With an increased market share of 1.4% in deposit base, Al Baraka Bank Egypt has been operating as per Islamic principles as dictated by its Articles of Association. Al Baraka Banking Group (“ABG”), a leading international Islamic banking group, holds a majority stake of 73.7% in the Bank. State-owned Misr Life Insurance Company and Misr Insurance Company also held 5.3% and 4.5% stakes, respectively, as of the year-end 2018.

Egypt has shown rapid recovery after witnessing a high inflationary and interest rate environment following a change in foreign exchange rate regime. Since then, the economy has posted recovery with an improving current account balance, and amelioration in reserve position. Inflation has been reined in, allowing for successive cuts in policy rate. Fiscal deficit however, remains unsustainably high, resulting in continuous deficit funding requirements and minimal room for development expenditure. As a result, private sector credit off-take remains diminished with public funding requirements soaking up the market’s liquidity.

Al Baraka Egypt’s CAR has improved over time, supported by internal capital generation through strong profitability and thereby higher retained earnings. The new banking law by CBE (not issued yet) requires banks in Egypt to increase capital to at least LE 5b by 2022. The Bank’s strategy is to retain earning reserves to be generated over the course of the next 3 years; this will allow ABBE to cover the capital increase requirements. The Bank posts overall strong asset quality indicators, as per the announced financial figures. The short-term rating enhancement on the national scale is partially driven by the substantial liquidity reserves held on books.

The Bank’s overall fiduciary score is in range of ‘71 – 75’, reflecting adequate protection of the rights of various stakeholders. The Bank has been strengthening its corporate governance framework through updated policies and procedures, staff recruitments in critical governance functions and through continuous upgrade of IT infrastructure. The Bank adopted updated Shari’a governance regulations in accordance with the requirements of Al Baraka Banking Group issued by Central Bank of Bahrain, which is under implementation and will be monitored closely.

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