
IIRA Reaffirms Fiduciary Ratings on Al Baraka Banking Group B.S.C.

Manama, September 10, 2020 - Islamic International Rating Agency (“IIRA”) has reaffirmed the international scale ratings assigned to AlBaraka Banking Group B.S.C. at BBB+/A3 (Triple B Plus / A Three), while also maintaining the national scale ratings at A+ (bh)/ A2 (bh) (Single A Plus / A Two). Incorporated in the Kingdom of Bahrain (“Bahrain” or “the Country”), Al Baraka Banking Group B.S.C. (“ABG” or “the Group”) is an Islamic wholesale bank licensed by the Central Bank of Bahrain (“CBB”). The Group operates through subsidiary banking units in 12 countries across three continents, in addition to a digital bank in Germany, an investment company in Saudi Arabia and 2 branches in Iraq. Further, the Group has representative offices in Indonesia and Libya. As such, business diversification limits the effect of systemic risks in each of the key jurisdictions.

ABG’s aggregate financial strength remains susceptible to the weighted country risk in its operating host jurisdictions. With the heightened risks and challenges posed by the Covid-19 pandemic, ABG’s host countries are faced with macroeconomic headwinds. It may be noteworthy to mention positive traction in ABG’s assets in 2019, The change in asset size was minimal during H1’20; however, continued condition of uncertainty weighs on the Group’s growth potential over the near-term. Strong franchise in the local retail deposit markets continues to provide stable and relatively cost effective funding to ABG units.

With slight deterioration in asset quality indicators over the last 12 months, the Group may face further challenges in the light of evolving credit risk environment precipitated by Covid-19. Provision and collateral coverage is noted to be adequate, albeit having declined from previous year.

During H1’20, the Group posted 61.8% higher pre-provision income in H1’20 vis-à-vis H1’19 benefiting from strong core earnings despite the low rate environment coupled with favorable efficiency indicators during the period. Net earnings though, remained mostly consistent with the corresponding prior year period due to higher provision charge-offs and elevated tax expenses. and With normalization of business activity as expected in later periods, long-term earning expectations remain healthy.

While being above the minimum regulatory requirement, ABG’s consolidated capital buffers have narrowed. This is attributable to slower internal capital generation and adverse currency movements across most units’ host jurisdictions. Outlook has been revised to ‘Negative’ given continued pressure on host jurisdictions’ currencies, an anticipated slowdown and required adjustments to Expected Credit Loss (“ECL”) parameters. Capital reinforcement is on the anvil to be completed over the next 12 months. Outlook may be revised to ‘Stable’ with reinforcement of capital buffers, whether internally generated or externally sourced. IIRA will closely watch progress in this regard. Prolonged capital constraints may put downside pressure on ratings.

IIRA's assessment of ABG's fiduciary scores remains in the range of '81-85', reflecting strong fiduciary standards, wherein the rights of various stakeholders are well defined and protected. However, favorable developments in corporate and Shari'a governance framework have further reflected in improved scores over the previous year. The Group's governance infrastructure presently benefits from alignment of Board composition with best practices and deployment of enhanced technological capabilities. IIRA considers that the Group's risk management framework is comprehensive and appropriate strategy measures have been undertaken across A_BG Group in the backdrop of Covid-19 pandemic. The Group remains committed towards achieving the sustainable development goals, which is viewed favorably. ABG has a sound system of checks and balances, while the units continue to enjoy operational autonomy.

ABG benefits from the strong regulatory supervision in Bahrain, which has also put in place specialized rules and regulations for local Islamic banks. The Group remains compliant with Shari'a rules and principles as ratified by the Unified Shari'a Supervisory Board. Further, the Shari'a governance framework is being enhanced at the units through strong collaboration with the local Shari'a Supervisory Boards for harmonization of practices and policies.

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