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## IIRA Reaffirms Credit Ratings on Al Baraka Banking Group and Raises the Fiduciary Assessment

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**Manama, July 22, 2019** - Islamic International Rating Agency (“IIRA”) has reaffirmed the international scale ratings assigned to Al Baraka Banking Group B.S.C. at BBB+ / A3 (Triple B Plus / A Three). IIRA has also maintained the national scale ratings of ABG at A+ (bh) / A2 (bh) (Single A Plus / A Two). Outlook on the assigned ratings remains ‘Stable’.

Al Baraka Banking Group B.S.C. (“ABG” / “the Group”) is licensed as an Islamic wholesale bank by the Central Bank of Bahrain and is listed on Bahrain Bourse and Nasdaq Dubai. The Group is headquartered in the Kingdom of Bahrain and has a wide geographical presence in the form of subsidiary banking units and representative offices in 17 countries, which in turn provide their services through over 700 branches. ABG has operations in Jordan, Egypt, Tunisia, Bahrain, Sudan, Turkey, South Africa, Algeria, Pakistan, Lebanon, Saudi Arabia, Syria, Morocco and Germany, in addition two branches in Iraq and two representative offices in Indonesia and Libya.

The assigned ratings weigh in the substantial contribution in aggregate assets and earnings of the Group’s four key subsidiary banks based in Turkey, Jordan, Egypt and Algeria. As such, persisting tough operating conditions across the host countries of these units may continue to pose challenges to overall Group performance. At the same time, the assessment benefits from the Group’s geographic diversification, with key units’ host jurisdictions depicting low-to-moderate economic correlation.

While most of the ABG units posted growth in local currency terms in their respective jurisdictions in 2018, overall momentum of the Group remained constrained due to adverse currency movements across six of the banking units’ host countries, most notably in Turkey. Relative weakening in asset quality metrics has been noted, particularly amidst heightened credit risk environment facing ABG’s key units. Nonetheless, the Group has adequate provision and collateral coverage. Emerging trends in asset quality will be an important driver to earnings performance in the ongoing year. The pace of internal capital generation has remained slow in 2018 due to dividend distributions, in addition to adverse currency fluctuations. This also led to some contraction in capital buffers, albeit remained adequate for growth and loss absorption over the next 12-24 months. Strong franchise of ABG’s subsidiary units in host markets continues to support the Group’s overall maintained funding access.

ABG’s fiduciary score has been raised to the higher range of ‘81 - 85’, reflecting strong fiduciary standards, wherein rights of various stakeholders are well defined and protected. Our assessment on ABG’s overall fiduciary score has weighed the improvement in all three aspects of asset manager quality, corporate governance and Shari’ah governance framework of the Group over the previous year. The Group has been progressing towards strengthening and enhancing risk management policy framework, which is viewed favorably. ABG has a sound system of checks and balances, while the units continue to

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enjoy operational autonomy. Further, the Group continues to benefit from the strong regulatory supervision of the Central Bank of Bahrain, which has put in place specialized rules & regulations for Islamic Banks.

For further information on this rating announcement, please contact IIRA at [iira@iirating.com](mailto:iira@iirating.com).

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