



IIRA Revisits Ratings of Al Baraka Islamic Bank B.S.C. (c)

Manama, July 26, 2020 – Islamic International Rating Agency (“IIRA”) has maintained the national scale rating assigned to Al Baraka Islamic Bank B.S.C. (c) (“ABIB” or “the Bank”) at BBB+ (bh) / A3 (bh) (Triple B Plus / A Three). International scale ratings have been lowered to BB / A3 (Double B / A Three) from BBB-/A3 (Triple B Minus / A Three) and reflective of reassessment of the sovereign ceiling for the Kingdom of Bahrain (“Bahrain”). There is heightened downside risk in the near-term for the overall banking sector in Bahrain and Pakistan, due to challenging macroeconomic conditions facing both jurisdictions and exacerbated by the prevailing COVID-19 crisis.

ABIB operates as a locally incorporated Islamic retail bank in Bahrain, and is represented overseas through its majority-held subsidiary in Pakistan (Al Baraka Bank (Pakistan) Limited (“ABPL”). ABIB is majority owned by the Al Baraka Banking Group (“ABG” or “the Group”), with a strong franchise and multi-jurisdictional presence across Asia, Europe and Africa. As a controlling shareholder, ABG has demonstrated financial support to ABIB, as and when needed. Expectations of continuing Group support underpin the ratings assessment on ABIB.

Following US\$14mn rights issue and supplementary capital issuance to the tune of US\$30mn in 2019, the minimum regulatory requirement for capital has been met and capital adequacy shored up in the process. The Bank’s liquidity metrics are also deemed adequate. In prior years, pressure on asset quality indicators has been witnessed and remains a function of a difficult macroeconomic environment.

Return indicators of the Bank posted turnaround in 2019, having recognized positive consolidated net income following two consecutive loss years. However, margins are expected to remain constrained in the current year, amidst a low policy rate environment. With limited business growth potential in both jurisdictions of operations and increased risk of provisions, downside risks to profitability are evident. Outlook on the ratings remains ‘Negative’ and may improve to ‘Stable’, if the present macroeconomic risks wane-off by the end of the year and asset quality indicators do not deteriorate beyond expectations. On the other hand, downward pressure on ratings may materialize in case of significant asset losses and continued pressure on business trends.

IIRA’s assessment on ABIB’s fiduciary score ranges between ‘71 – 75’, reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected. The Bank’s governance scores have benefitted from enhanced independent representation on the Board of Directors and changes in Board committee composition to better align with international best practices.

The Bank’s self-regulatory framework exhibits strong adaptive capabilities required to respond to the existing elevated stress scenario. Further, regulatory and ABG oversight supplements the overall

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governance framework of ABIB. The Bank remains positively committed to the Group's UN sustainable development goals. ABIB's Shari'a governance ("SG") framework remains compliant with Shari'a rules and principles as ratified by the SSB and Central Bank of Bahrain's SG module. This is also affirmed in the debut independent external Shari'a compliance audit report, issued for 2019.

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

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