



IIRA Reaffirms Fiduciary Ratings on Al Baraka Islamic Bank B.S.C. (c)

Manama, October 30, 2019 – Islamic International Rating Agency (IIRA) has reaffirmed the international scale rating assigned to Al Baraka Islamic Bank B.S.C. (c) (“ABIB” or “the Bank”) at BBB- / A3 (Triple B Minus / A Three). The national scale ratings have been maintained at BBB+ (bh) / A3 (bh) (Triple B Plus / A Three). Outlook on the ratings is ‘Negative’.

Incorporated in the Kingdom of Bahrain (“Bahrain” or “the country”), ABIB operates as a locally incorporated Islamic retail bank, while being represented overseas through its flagship subsidiary in Pakistan (Al Baraka Bank (Pakistan) Limited (“ABPL”). The Bank operates through its 7 domestic branches in Bahrain, capturing about 7% of the local Islamic retail banking deposit share on a standalone basis as of March 2019. Al Baraka Bank Pakistan’s footprint stands at 198 branches at a Shari’a compliant banking share of 4.5% in terms of deposits.

Outlook on the assigned ratings is reflective of the persisting macroeconomic challenges and external vulnerabilities that continue to pose risks in both operating jurisdictions. Amidst economic slowdown in Bahrain and a cautious business sentiment in Pakistan, growth prospects for the local banking sector in both jurisdictions remain weak at-least in the near-term. Furthermore, the ratings are constrained by the continuing deterioration of consolidated asset quality indicators over time and vis-à-vis industry average.

Pre-provision profits depicted improvement in 2018 and Q1’2019, buoyed by improvement in net profit share income, ancillary income and cost rationalization measures. In 2018, ABIB’s internal capital generation was weak due to much higher provisioning charge-off, thereby causing the consolidated common equity Tier 1 (“CET 1”) to decline by year-end. This had precipitated a haircut on eligible additional Tier 1 capital as per Basel and Central Bank of Bahrain’s (“CBB”) guidelines at end-2018 and the first quarter of 2019. Nonetheless, capital reinforcement plan has been implemented at ABIB in the form of a rights issue with CET 1 and overall capital adequacy ratio meeting CBB requirements at Q3’2019. Additionally in the recent quarter, further capital has also been provided by the parent bank. Liquidity levels stands enhanced over the recent reporting periods and regulatory indicators for both Bahrain and Pakistan operations indicate low liquidity risk.

Continuing financial and operational support from Al Baraka Banking Group (“ABG” or “the Group”), holding majority 91.1% stake in ABIB, is considered as a pivotal factor in the assigned ratings. The Group is one of the leading Islamic wholesale banks globally, with a strong franchise and multi-jurisdictional presence across Asia, Europe and Africa via operating subsidiaries. IIRA expects that there is high likelihood of Group support (both operational and financial) to continue to flow to Bahrain and Pakistan operations, as has been demonstrated in the recent past.

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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 has been in the process of restructuring its operations, which has brought about changes in the governance layout both in terms of leadership and streamlining reporting lines. IIRA has favorably noted enhancement in some of the Board committee composition. Various policies are being revisited and renewed at ABIB, while strategic guidance still gets cascaded from the Group. Furthermore, the Bank's Shari'a governance framework is gradually evolving and adapting to CBB's SG module.

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

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