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## IIRA Affirms the Fiduciary Ratings of Banque Al Baraka D'Algérie

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**Manama, October 15, 2019**– The Islamic International Rating Agency (IIRA) has reaffirmed the outstanding foreign currency ratings 'BBB- / A3' (Triple B Minus / A Three), and a local currency rating of 'BBB / A2' (Triple B / A Two) on the international scale, assigned to Banque Al Baraka D'Algérie ('Al Baraka Algeria' or 'the Bank'). National scale rating has also been maintained at 'A+ (dz) / A1 (dz)' (Single A Plus / A One). The outlook on the assigned ratings remains stable.

Incorporated in 1991, Al Baraka Algeria is one of two banking institutions in Algeria operating in accordance with participation finance principles. The bank operates through a network of 31 branches as of year-end 2018 and has around 2% market share in total deposits.

Ownership structure of the bank with Al Baraka Banking Group (ABG) and Banque de l'Agriculture et du Développement Rural (BADR) commanding 55.9% and 44.1% respective shares is deemed rating positive. Al Baraka Banking Group (ABG) is a leading international Islamic banking group with extensive geographical presence in 17 countries, including Algeria and other key Islamic financial markets of Bahrain, Turkey, Egypt and Jordan, among others. BADR is one of the largest state banks in Algeria commanding around 9.5% market share in terms of assets with a particular focus on developing the country's agriculture sector and promoting rural development.

Operating environment remains challenging as despite the pick-up in non-oil GDP growth, overall growth has remained stable at below potential levels, twin deficits maintained albeit at lower rates, and political uncertainties ahead of the elections to be held in December weighs negatively on the policy front. On a positive note, low external debt levels provide cushion to currency value, with depreciation having remained contained over the last two years.

Al Baraka Algeria's asset profile is deemed as conservative, as a large proportion of assets are held as cash & cash equivalents (mainly placements with BA) and the share of financings is relatively low despite the healthy growth booked in the last few years. While reckoning the relatively low levels of net impairments in terms of assets, IIRA noted and will be monitoring the increasing trend of impairments. Relatively low concentration of financings and conservative provisioning policies are considered as mitigants for asset quality concerns

The bank's profitability displayed a major uplift in 2018, owing to strong gains on the spread income front as well as ancillary income which almost quintupled over prior year on the back of effective implementation of regulation in July 2017, allowing banks to apply a margin on exchange rate in FCY transactions. In the near term, IIRA expects the continuation of top line growth with stable margins, maintained pace of financings, and ancillary income generation compensating for increasing provisioning burden. On the other hand, efficiency gains are expected with increasing business volumes in a low inflation environment and drive towards digitalization.



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Al Baraka Algeria's financing portfolio has grown at a relatively high rate in the last 3 years while dividend payout remained elevated. As a result, internal capital generation was not commensurate with risk weighted asset growth despite healthy profitability levels. Even though the dividend paid out to the shareholders remained stable in nominal terms, we noted the meaningful reduction in dividend payout ratio from 2018 earnings which will allow the bank's internal capital generation to support double digit risk weighted asset growth in the next two years.

Al Baraka Algeria's fiduciary score has been maintained in the range of '66-70', reflecting adequate fiduciary standards wherein rights of various stakeholders are adequately defined and protected. The national corporate governance framework requires modernization and reinforcement for enhanced alignment with international best practices. However, the Bank's corporate governance is supported by ABG's oversight, which particularly benefits the bank on the risk management front. Meanwhile, lack of independent representation in the Board affects the overall governance infrastructure. For focused attention to certain key banking areas, further committees may be constituted. On a positive note, a multilayered control structure and recent acquisition of new tools for compliance function as well as strengthening of human resources in the control departments have been noted. Al Baraka Algeria's sustainability and social responsibility efforts are deemed strong. Transparency levels need to be enhanced to be in line with international standards.

The bank's SSB has met only three times annually in the last two years as against four times a year as dictated by the SSB Charter and best practices. The segregation of responsibilities within the Shari'a Audit and Compliance Cell is noted favorably. Further, starting from this year, the bank will be obtaining external audit of its Shari'a practices and the compliance status of transactions to allow ABG to claim compliance with regulations imposed by the CBB. This is likely to lead to a stronger control environment as regards Shari'a compliance within the bank.

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

### ***About Al Baraka Banking Group***

Al Baraka Banking Group B.S.C. ("ABG") is licensed as an Islamic wholesale bank by the Central Bank of Bahrain and is listed on Bahrain Bourse and NasdaqDubai. It is a leading international Islamic banking group providing its unique services in countries with a population totaling around one billion.

The Group 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. Al Baraka Banking Group has operations in Jordan, Egypt, Tunis, Bahrain, Sudan, Turkey, South Africa, Algeria,

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Pakistan, Lebanon, Saudi Arabia, Syria, Morocco and Germany, in addition to two branches in Iraq and two representative offices in Indonesia and Libya.

ABG and its Units offer retail, corporate, treasury and investment banking services, strictly in accordance with the principles of the Islamic Shari'a. The authorized capital of ABG is US\$ 2.5 billion.

ABG is rated BBB+ (long term) / A3 (short term) by Islamic International Rating Agency (IIRA). IIRA has also rated ABG on the national scale at A+ (bh) / A2 (bh) with a fiduciary score of 81-85, the highest level amongst Islamic Financial Institutions in the region.

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