



IIRA Assigns Fiduciary Ratings to Banque Al Baraka D'Algerie

Manama, November 12, 2018 – The Islamic International Rating Agency (IIRA) has assigned ratings of BBB- / A3 (FCY) | BBB / A2 (LCY) (Triple B Minus /A Three (Foreign Currency)| Triple B / A Two (Local Currency)), on the international scale, to Banque Al Baraka D'Algerie ('ABA' or 'the bank'). Furthermore, ABA has also been assessed on the national scale, and has been assigned a rating of 'A+/A1' (Single A Plus / A One). The outlook on the assigned ratings is stable.

ABA is one of the two banking institutions in Algeria ('Algeria' or 'the country') operating in accordance with participation finance principles. Within Algeria's private banking sector, ABA is the third largest. The bank currently has presence in 26 of Algeria's 48 states, through its network of 30 branches.

IIRA's assessment of ABA is supported by its association with Al Baraka Banking Group (ABG) and Banque de l'Agriculture et du Développement Rural (BADR) that own 55.9% and 44.1% of ABA's shareholding, respectively. The former is a prominent Islamic Banking Group, headquartered in the Kingdom of Bahrain and having subsidiary banking operations in 16 countries, mainly spread across MENA, South Africa, Levant, Turkey, Pakistan and having a representative office in the Far East. The latter is a large-sized public banking institution in Algeria, being mainly involved in developing the country's agriculture sector and promoting rural development. Both institutions have remained profitable over the years.

The ratings are further supported by the bank's conservative asset deployment strategy with significant liquid reserves (mainly placements with Bank of Algeria). Furthermore, asset quality concerns are also minimal, given low level of non-performing financings. IIRA has noted the steady decline in bank's capital adequacy indicators, given growth in asset base in combination with very low profit retention. As a result, the bank's leverage now exceeds that of peer banks and without significant reduction in payout ratio, the bank would require capital infusion to continue to post growth as before.

The banks' profitability stacks well against peers on account of a leaner expense base; this can largely be attributed to the size of the bank's branch network, which is smaller than similar-sized banks in the country. Nonetheless, given the lack of participation finance compliant asset placement avenues, a sizable proportion of the bank's surplus liquidity is maintained in the form of non-remunerative placements with the central bank, Banque d'Algerie, thus diminishing the bank's profitability potential.

ABA's fiduciary score has been assessed in the range of '66-70', reflecting adequate fiduciary standards wherein rights of various stakeholders are adequately defined and protected. The fiduciary score is an aggregation of scores assigned to its three sub-sections, namely Corporate and Shari'a Governance, and Asset Manager Quality. The fiduciary score captures the role of the management of the institution as Mudarib, the entity's governance practices and compliance with Shari'a principles adopted by the bank.

Mirroring the general development in corporate governance in the country, recent organizational restructuring and staff reinforcement have notably strengthened ABA's corporate governance framework. The acquisition of new information solutions has further strengthened risk management and control functions while conserving limited resources. ABA remains strongly committed to CSR

The information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information herein is provided "as is" without any representation or warranty of any kind. IIRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) / score(s) mentioned. Rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

initiatives. Weaknesses in operational risk management and transparency have been noted. The level of independence at board level requires enhancement. Moreover the allocation of key oversight functions like governance and nomination & remuneration to specialized board committees would be viewed favorably.

The bank's new organizational structure features independent Shari'a Audit and Compliance functions, which are responsible for compliance with Shari'a precepts and the decisions issued by the Shari'a Supervisory Board. The function is supported by well qualified Shari'a auditors, who are AAOIFI certified. However, the oversight of the Shari'a Supervisory Board can be further strengthened by increasing the meeting frequency.

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

The information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information herein is provided "as is" without any representation or warranty of any kind. IIRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) / score(s) mentioned. Rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.