



IIRA Assigns Fiduciary Ratings on Al Baraka Banking Group

Manama, October 25, 2018 - Islamic International Rating Agency (“IIRA”) has assigned international scale ratings to Al Baraka Banking Group (“ABG” / “the Group”) at BBB+ / A3 (Triple B Plus / A Three). IIRA has maintained the national scale ratings of ABG at A+ (bh) / A2 (bh) (Single A Plus / A Two). Outlook on the assigned ratings is ‘Stable’.

The Kingdom of Bahrain headquartered ABG, is a locally incorporated wholesale Islamic bank, with operations geographically spread across 16 jurisdictions. While the subsidiary banks based in Turkey, Jordan, Egypt and Algeria, feature dominant contribution in the Group’s consolidated assets and earnings, overall host jurisdictions depict low-to-moderate economic correlation, ensuring adequate diversification benefits to ABG. However, it may be noted that the economic landscape in the host countries of the key units of the Group presents a difficult operating environment, exacerbated by geopolitical risks, and pressure on emerging market currencies. In our view, prolonged adverse currency movements in ABG’s jurisdictions of operations, may temper the Group’s growth trends and internal capital generation over the next 12-24 months.

Over the recent quarters, the Group exhibited some weakness in asset quality indicators, with increase in gross non-performing financings, and reflective of rising credit risk in some of the host countries, most notably in Turkey. Overall credit risk has so far been adequately buffered by provisions and collaterals. With the issuance of additional Tier 1 perpetual Sukuk in 2017, ABG’s loss-absorption buffers stand reinforced. Furthermore, strong franchise of ABG’s subsidiary units in host markets, continues to support the Group’s overall funding profile.

IIRA’s assessment of ABG’s fiduciary score falls in the range of ‘76-80’, reflecting strong fiduciary standards, wherein rights of various stakeholders are well defined and protected. The Group’s governance infrastructure exhibits cohesiveness in strategy formulation and implementation of policies, while the units continue to operate autonomously under the regulatory framework in respective host jurisdictions. ABG’s Shari’a Governance (“SG”) infrastructure benefits from the strong regulatory supervision of the Central Bank of Bahrain, which has put in place specialized rules & regulations for local Islamic Banks under the SG Module. The Group’s completed reorganization last year to ‘early comply’ with the SG module, has enabled segregation of Shari’a audit and product review functions, addressing any potential self review threats.

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