



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

Manama, November 21, 2018 – 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) with ‘Negative’ outlook. The national scale ratings have been maintained at BBB+ (bh) / A3 (bh) (Triple B Plus /A Three) with ‘Stable’ outlook.

ABIB operates as a locally incorporated Islamic retail bank in the Kingdom of Bahrain (“Bahrain” or “the country”) through its 8 domestic branches. On a standalone basis, ABIB holds about 7% of the local Islamic retail banking deposit share as of June 2018. Its overseas flagship subsidiary – AlBaraka Bank (Pakistan) Limited (“ABPL”) further adds 188 branches to ABIB’s physical footprint.

Ratings are underpinned by our expectation of continuing financial and operational support from Al Baraka Banking Group (“ABG” or “the Group”), which holds a substantial 91.1% stake in the Bank. ABG is one of the leading global Islamic wholesale banks with a strong franchise and multi-jurisdictional presence through operating subsidiaries across Asia, Europe and Africa. Despite ABIB being a relatively small contributor to the Group’s composite financial indicators, ABG has demonstrated financial support to ABIB and indirectly to ABPL, either in the form of capital infusion or subordinated debt instruments in the past.

The ‘Negative’ outlook reflects the prevailing macroeconomic challenges in Bahrain and Pakistan. Bahrain’s fiscal constraints and external geopolitical risks have amplified the weakness in domestic credit environment, leaving little room for growth in the local banking sector. At the same time, economic fundamentals in Pakistan remain weak owing to widening twin deficits, also putting pressure on Pakistan rupee (“PKR”). As such, the present macroeconomic environment poses challenges for ABIB in terms of both overall growth momentum and credit risk.

Deposit rationalization measures implemented over the last couple of years, have enabled the Bank to post improved margins over time. However, higher operating overheads and provision charge-offs have constrained the Bank’s internal capital generation over the recent financial reporting periods.

However, reinforcement of ABIB’s consolidated capital position by ABG during early 2018 is viewed favorably. This was primarily achieved through issuance of US\$110mn equivalent, perpetual additional Tier 1 Mudaraba Sukuk, which also entailed conversion of ABIB’s previous subordinated debt. This has enabled the Bank to meet the Central Bank of Bahrain’s (“CBB”) stipulated minimum capital requirement and boosted the Bank’s overall loss absorption capacity.



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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 reporting lines have been streamlined with the reorganization last year; however governance infrastructure may be further enhanced by improving the composition of some of the Board committees. In Bahrain, the Bank has also implemented the Shari'a Governance module as stipulated by the CBB in the specialized rules and regulations for local Islamic banks. The Bank may consider strengthening the human capital in the recently segregated departments.

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

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