



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

# ECONOMIC & BANKING SECTOR OVERVIEW

**Syrian Arab Republic**

*December , 2019*

**Brief Macroeconomic Overview and Corporate Background**

The Syrian conflict has exacted a heavy toll, in terms of both economic & humanitarian losses to the country. The country's GDP, is estimated to have dropped down from USD 59.8bn in 2010 to USD 15.18bn in 2017. However, estimated growth of 1.9% was noted in 2017, after registering contraction for consecutive five years, and which is expected to have escalated in 2018 and 2019. As the government regains control of a large part of Syria, returning refugees are expected to fuel private consumption and stimulate economic growth. The 2019 government budget sets out a relatively ambitious SYP3.9tn spending target (up from SYP3.2tn in 2018), with roughly a third being in lieu of capital expenditure. This is further reflective of a general expectation of improving security situation and a gradual transition towards reconstruction.

Economic growth may also benefit from foreign aid and investment. Syria is expecting significant investment from China under BRI. At the July 2018 China-Arab States Cooperation Forum, China announced a loans and aid package of USD 23bn for the Arab region. While investment to be directed to Syria is not clearly spelled out, it is expected to constitute a fair share of the package.

The Syrian pound remained largely stable in 2018, while year-over-year inflation fell to 0.28% in Aug'2018 from 38.5% as of Jan'2017. This has also supported increasing credit and investment activity in the financial sector.

The future economic outlook of Syria depends on the early resumption of reconstruction efforts and resolution of key issues such as the outcome of the territory still occupied by rebel forces. The latter is of significant importance, as the respective territory comprises some of the country's oil reserves, estimated at 2.5bn barrels or roughly 0.15% of world reserves. Repossession of these areas may drive investment into pipelines and refinery construction, bringing much needed investment in the country.

Al Baraka Bank Syria ('BBSY' or 'the bank'), is a closed shareholding company licensed to operate as an Islamic Bank in accordance with the provisions of Legislative Decree issued by the Government of Syrian Arab Republic ('Syria' or 'the country'). BBSY was incorporated in 2009 and started operations mid-2010. The bank is listed on Damascus Securities Exchange (DSE) and operates with a network of 11 branches and 2 offices as of Dec'18. With the return to normalcy in some of the regions previously affected by the ongoing conflict in Syria, 2 of the three branches previously shut down were reopened.

Following this positive development, the bank intends to expand on its network as the security situation improves, while also leveraging on the group wide strategic focus on digitalization. By developing new channels to access its clients, the bank aims to offer increasingly automated solutions to customers and also enhance operational efficiency with the ongoing drive.

BBSY is part of the Al Baraka Banking Group ('ABG' or 'the Group'), a prominent Islamic banking group with subsidiary banking operations in 17 countries. With ABG's shareholding standing at 23%, BBSY is one of the two ABG banking entities, where ABG has a minority (<50%), though single largest, stake. Nevertheless, ABG reserves full management control of BBSY by virtue of a management agreement. The agreement also outsources certain back office functions to ABG in lieu of an annual fee.

ABG's asset base stood at USD 24.2bn as of Jun'19 and posted consolidated net earnings of USD 95.4mn during H1'19 (H1'18: USD 121.8mn; full year 2018: USD 217mn). As of Jun'19, ABG had a consolidated network of 702 branches and a workforce of 12,600. BBSY constitutes 3.8% of the ABG's asset base at end-2018.

## Highlights

BBSY has maintained its market leadership as bank in the Country. Its market share inched Dec'17 to 18% as of Dec'18 . BBSY's long term remains affixed on being part of the reconstruction Syrian conflict is resolved. In the meanwhile view of the prevailing macroeconomic position, remains invested in low risk /low return assets.

This has translated in minimal presence, in market, with funds deployed in very short-term liquidity, primarily being placements in foreign surplus liquidity, which is considered appropriate difficult operating environment. This is also surge in non-performance in 2018, which while bank's loss absorption capacity, is a reminder risk in the environment.

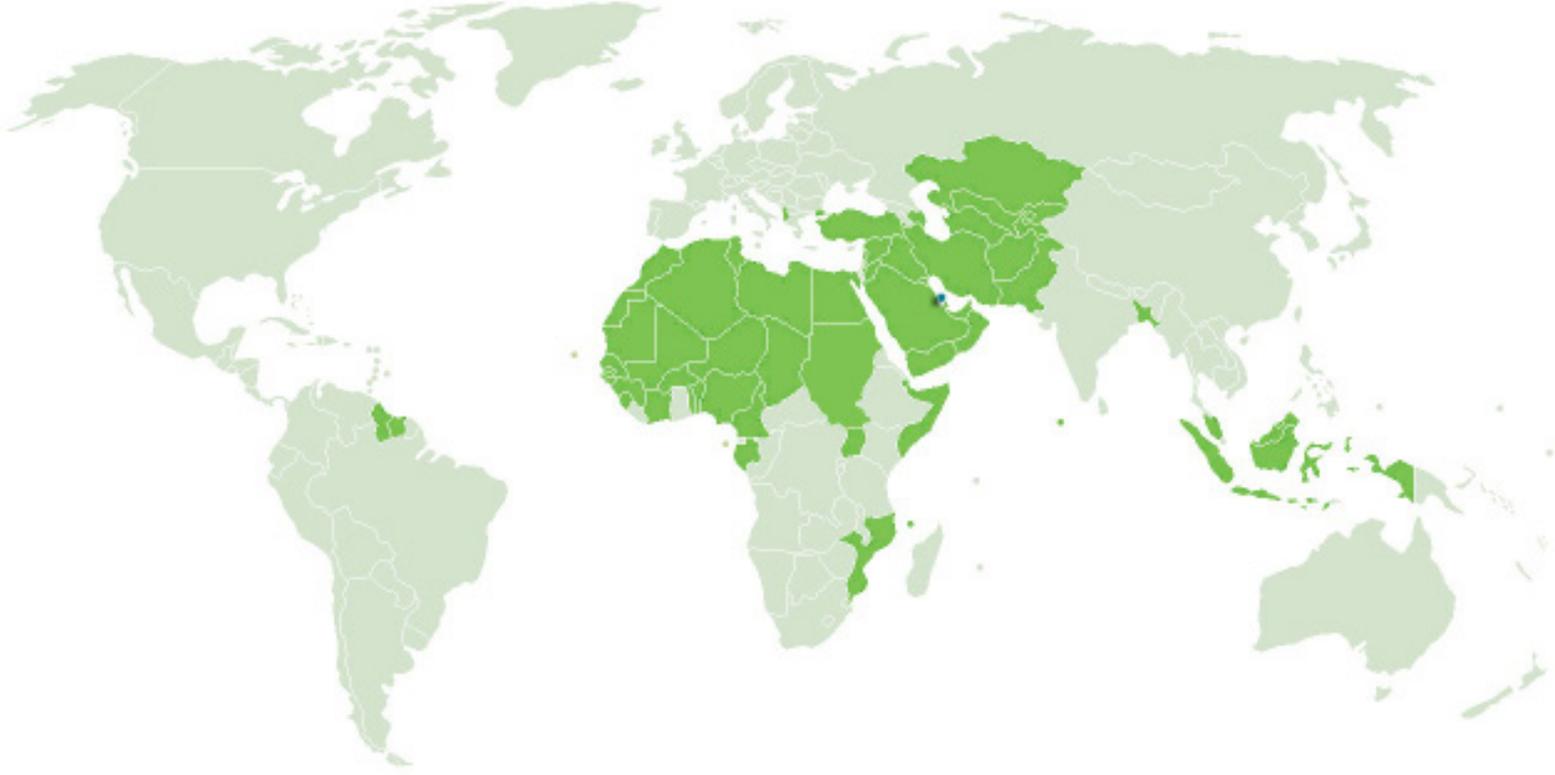
Despite the difficult economic and market bank has remained profitable throughout the review. In 2018, BBSY's operational profitability improvement with balanced gains in all areas of on the back of a steadily growing investment portfolio. Access to cost effective funds has allowed the bank to generate increasing margin income, with slight improvement in spreads and complimenting the increase in fee based income. As exchange rates remained stable through the year, the bank did not post extraordinary gains or losses on its equity position. Even as core profitability indicators moderated, the bank posted a turnaround in the bottom-line for 2018.

| Table 1: Key Financial Indicators          |        |        |        |
|--|--------|--------|--------|
| Figures in SYP'bn, unless otherwise stated | Dec'16 | Dec'17 | Dec'18 |
| Total Assets                               | 247    | 329    | 396    |
| Total Assets (USD' Millions)               | 478    | 754    | 909    |
| Net Financings                             | 21     | 32     | 38     |
| Net Investments                            | 4      | 2      | 0      |
| Cash & Cash Equivalents                    | 214    | 286    | 348    |
| Deposits                                   | 123    | 134    | 183    |
| Net Shareholder's Equity                   | 28     | 28     | 32     |
| Net Impairment (%)                         | -      | 1.1%   | 11.6%  |
| CAR (%)                                    | 15.5%  | 11.9%  | 22.0%  |
| Financing (Net) to Deposit Ratio (%)       | 16.6%  | 24.0%  | 20.8%  |
|  | 2016   | 2017   | 2018   |
| Pre Tax Operating Income                   | 5.5    | 5.4    | 5.9    |
| Net Income                                 | 10.7   | 0.3    | 4.3    |
| ROAA (%)                                   | 2.7%   | 1.9%   | 1.6%   |
| ROAE2 (%)                                  | 23.6%  | 19.0%  | 20.0%  |

the largest private from 17% as of business strategy business once the and specifically in the bank largely

the local credit instruments of banks, resulting in in the context of a exemplified by the still within the of the high credit

conditions, the 5 years under posted banking activity and placement



## الوكالة الإسلامية الدولية للتصنيف Islamic International Rating Agency

, P.O. Box 20582, Kingdom of Bahrain  
Tel: +973 17211606, Fax: +973 17211605  
Website: [www.iirating.com](http://www.iirating.com) | Email: [iira@iirating.com](mailto:iira@iirating.com)

*The rating assignment has been carried out with cooperation of the rated entity. 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) 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.*