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## IIRA Reaffirms Ratings of ABC Islamic, Bahrain

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**Manama, January 27, 2022** – Islamic International Rating Agency (IIRA) has maintained ratings of ABC Islamic (“ABCI”) at A+(bh)/A1(bh) on the national scale and A-/A2 on the international scale. With sustained capital adequacy, ready access to liquidity as needed and geographical diversification, IIRA does not expect material deterioration to the bank’s risk profile or long-term business prospects. As such, ABCI rating outlook has been maintained at ‘Stable’. While profitability had been affected by falling business volumes and continuing margin contraction in 2021, we expect full year profitability to mark improvement from prior year, driven by lower charge-offs.

IIRA is sanguine about resurgence in business activity in much of ABCI core markets in 2022, partly driven by continued revival in the global economy, and bullish oil prices set to benefit the region. As such, growth may be expected to pick up, indicating possibility of a turnaround, in terms of the Bank’s business volumes.

Asset quality of ABCI has remained sound at end-September 2021 with net non-performing assets at below 0.2%, given substantial allowance set aside. Portfolio shift towards sovereigns continues, reducing overall risk of the portfolio. While there is some risk of non-performance emerging following the close of CBB forbearance measures, it is largely mitigated by the insignificant percentage of forbearance to total portfolio, the high quality of investments and financings exposures, with a large proportion invested in low risk i.e. sovereigns and financial institutions’ sector, and the business turnaround expected in the bank’s key markets.

Primarily due to declining exposures as well as a shift in portfolio composition in 2021, and the adoption of AAOIFI’s FAS 31 accounting standard in 2020, which allows for capital relief on wakala based structures, capital adequacy has trended up continuously over the last few reporting periods. At 43.2% as of end Q3’21, it remains significantly above minimum requirements. Liquidity risk is low, given the nature of funding obtained and ease of access to Group funds as needed for deployment. IIRA takes note that the bank has been able to maintain its risk profile in a globally heightened risk environment, which supports ratings assigned.

The ratings also derive strength from majority ownership of ABC B.S.C. (“ABC” or “the Group”), given the Group’s financial strength and willingness to extend support, as and when required. The Bank is expected to continue to benefit from the Group as the primary source of funds, and the oversight and controls exercised. The Group’s global network also presents opportunities for the Bank in Islamic banking, within host jurisdictions of the Group’s subsidiaries and offices.

IIRA reaffirmed the Bank’s overall fiduciary score in the range of “76 - 80”, denoting strong fiduciary standards. ABCI is in compliance with CBB’s corporate governance requirements with few exceptions, whereby CBB has provided exemptions. The Bank’s financial reporting and public disclosures are

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indicative of a high level of transparency, in the context of global reporting standards. Ongoing developments in terms of regulatory guidelines are reflected in the Bank's policy framework through periodic updates.

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

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