



IIRA Maintains the Ratings of Bank ABC Islamic E.C.

Manama, December 10, 2020 – Islamic International Rating Agency (IIRA) has maintained the international scale ratings of Bank ABC Islamic E.C. (“ABCI” or “the Bank”) at ‘A- / A2’ (Single A Minus / A Two). Meanwhile, the national scale ratings have also been reaffirmed at ‘A+(bh) / A1(bh)’ (Single A Plus / A One). The recessionary impact of the ongoing COVID-19 pandemic has adverse implications globally; however as a wholly owned subsidiary of ABC Group (“Arab Banking Corporation B.S.C.” or “ABC B.S.C.” or “the Group”) with a diversified geographical presence and strong risk buffers in place, the ratings outlook has been maintained at ‘Stable’. We expect risk profile of ABCI to remain healthy, although with elevated credit risks in the operating environment, we expect an increase in asset charge-offs, during the year, though still contained. ABC Islamic Bank derives most of its funding from the parent bank and our credit evaluation derives strength from implicit support of the Group.

The Bank’s exposures continued to be concentrated in GCC at 94.5% of the portfolio. Outlook for the GCC countries is pressured due to low oil prices, straining fiscal balances. Sharp decline in interest rates in GCC would somewhat boost repayment capacity, but will be more than balanced out by weaker economy overall. The bank has maintained steady growth in 2019 and Q1’2020, albeit trending lower in more recent months. No new impairments were booked in 2019 and the share of stage-2 assets also retreated markedly, highlighting strong asset quality. Even though the Bank’s high exposure to sovereigns and fundamentally strong FIs provide relief on the asset quality front, some degree of asset quality deterioration will be inevitable and may materialize over 2020 and 2021 with required adjustments to ECL parameters, as also evident by increased charge-offs in H1’2020.

Overall, capitalization levels of the Bank are deemed high at 32% at H1-2020, particularly in the face of an expected slowdown in risk assets growth and continuing shift towards sovereign risk. Quality of capital is also sound with almost all of it being tier 1 capital. The Bank’s capital buffers are likely to remain adequate against potential asset quality deterioration.

ABCI continues to comply with CBB regulations aside from few exceptions, where CBB has granted exemption. The control framework of the Bank derives further strength from Group oversight. Sharia governance structure of the Bank is also deemed strong. IIRA maintained ABCI’s overall fiduciary score of ‘76-80’, while noting improvements on the Shari’a governance front. The Bank underwent its first external sharia audit, results of which confirmed adequacy of internal controls relating to Shari’a compliance and governance, in all material respects.

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