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## IIRA revisits ratings on ABBE; improves outlook on national scale ratings

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**Manama, November 10, 2022** – The Islamic International Rating Agency (“IIRA”) has reaffirmed the outstanding international scale foreign currency and local currency ratings of ‘B-/B’ and ‘B/B’ respectively, on Al Baraka Bank Egypt (“ABBE” or “the Bank”), with ‘Stable’ outlook. Outlook on the national scale ratings of ‘A(eg)/A1(eg)’ (Single A (eg) /A one (eg)) has been revised to ‘Positive’ from ‘Stable’.

The ‘Positive’ outlook on the Bank’s ratings takes cognizance of recent developments which are focused on organization building, to ready the Bank for growth and optimization of profitability, as well as upgrade of the bank’s control and technology infrastructure. Headwinds on the macroeconomic front will pose risks to growth, with a tightening monetary policy, and raises asset quality concerns, with pressure persisting on the EGP since March of the current year. However, on the upside, the banking sector remains well regulated and soundly capitalized, with sufficient buffers to withstand mid-size disruptions.

Al Baraka Bank Egypt has historically maintained a highly liquid balance sheet, even in relation to a sector marked by low private sector offtake and high proportionate investment in government treasuries. This has ensured a conservative risk profile, with low asset risk indicators, steadily maintained profitability, and sufficient internal generation of capital year on year. Going forward, we believe that latent growth potential will allow the bank to expand business volumes and generate improved earnings, although checked by growth in cost base anticipated as a result of ongoing technology onboarding, and restaffing. While the combined effect of growth and resumption of dividend payout is likely to push capital adequacy downwards by year-end and in the next year, overall capitalization indicators are likely to remain sound, and well above minimum regulatory threshold for CAR, supported by likely increase in earnings. The regulatory requirement of minimum EGP5bn in capital is on target to be met.

International scale ratings assigned to the Bank are maintained despite rising external vulnerabilities to sovereign risk profile. An increasing current account deficit is putting pressure on reserves. The steep depreciation of the EGP over the last few months is noteworthy and supply chain disruptions internationally, has driven prices up. This is likely to put a dampener on GDP growth at least for the current year. On the other hand, ongoing rebalancing of the fiscal profile, demonstrated economic resilience over the last few years and maintained strong bilateral ties in the region are key positive factors.

The Bank’s fiduciary score has been maintained within ‘71-75’ range reflecting adequate fiduciary standards. Over the period under review, we have noted that the internal control functions have been reinforced with additional staff, enhanced technological resources, and widened scope. The new Board exhibits gender diversity and enhanced independent representation. Adequate and timely dissemination of financial and governance information may enhance the transparency score.

Despite the lack of relevant regulations for Islamic banks in Egypt, the Bank has developed an adequate Shari’a governance infrastructure with a well-versed Shari’a Supervisory Board, governed by a documented charter. Also, the Bank has established independent and separate internal Shari’a control

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functions, in line with Group policy and best practices. While the charter requires including an SSB member in the Board Governance and Nomination Committee (BGNC), no representation of SSB in the BGNC is seen as yet, which marks a deviation from its charter.

Egypt is noteworthy as a forerunner in its commitment to ESG. Guidelines from the Central Bank of Egypt give a roadmap to banks. We expect Al Baraka Egypt to make headway in line with CBE directives and Group policy. Accordingly, the bank is incorporating sustainable financing goals as part of the sustainable strategy under a dedicated Strategic Planning unit. ESG risks have not impacted the assigned ratings.

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

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