



IIRA Maintains Ratings and Outlook on ABC Islamic, Bahrain

Manama, August 17, 2022 – Islamic International Rating Agency (IIRA) has reaffirmed ratings of ABC Islamic (“ABCI” or “the Bank”) at A+(bh)/A1(bh) on the national scale and A-/A2 on the international scale. Outlook on the assigned ratings is ‘Stable’.

ABCI operates as a wholesale banking services provider in the Kingdom of Bahrain. The Bank is a wholly owned subsidiary of Arab Banking Corporation B.S.C. (“ABC B.S.C.”, or “the Group”). The Group’s continuing support in terms of being the primary source of funds for ABCI in addition to organizational support and oversight, is a credit positive, given also its financial strength, and demonstrated willingness to extend support, as and when required. 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 expects business sentiment to improve in the current year, especially in ABCI’s core markets, in a high oil price environment, which is likely to provide impetus to financing and investment activities. Portfolio quality has remained strong so far, with no fresh delinquencies in 2021 and high provision cover, translating into net non-performing exposures being 0.13% of aggregate assets. Until so far, asset allocation of the Bank has remained conservative, thereby limiting non-performing financings formation. IIRA shall continue to monitor the emerging asset quality trends in the upcoming period once the regulatory forbearance measures are withdrawn, while we do not expect any material deterioration in reported indicators.

In a low rate environment, lower business volumes and surge in operating expenses affected operating profitability in 2021; net income was nevertheless reported higher vis-à-vis prior year due to lower asset impairment charges. Anticipation of accelerated business generation in the current year may likely have positive impact on earnings. Capital adequacy remained significantly above requirement in 2021 supported by higher earnings and retention in relation to prior year. Liquidity risk remains low, given the ease of access to Group funds as needed for deployment.

IIRA assesses the Bank’s overall fiduciary score in the range of “76 - 80”, denoting strong fiduciary standards. Regulatory supervision and Group oversight lead to a strong governance framework. The Bank’s financial reporting and public disclosures are indicative of a high level of transparency. Further, the growing focus and initiatives on ‘environmental’ and ‘social’ aspects of ESG are noted favorably. The Bank is in the process of embedding the capability to assess climate risk in its portfolio and adequately respond to changing regulations in the area. IIRA’s assessment of ESG risks has not impacted our credit risk evaluation of the Bank.

The Bank also continued to benefit from a robust Shari’a governance regulatory environment, well-versed Shari’a Supervisory Board members, adequate internal Shari’a controls, and no material adverse observations in external Shari’a reviews. A new AAOIFI standard called for revisiting the sale of debt mode

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Islamic International Rating Agency

based transactions, and has since been complied with through necessary amendments to related documentation.

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

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