



IIRA Maintains Ratings of ABC Islamic, Bahrain

Manama, January 11, 2024 – 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 financial resilience of which, along with its organizational support to ABCI, has been a credit positive. The Group’s global footprint has been expanding with a recent acquisition in Egypt, while performance indicators demonstrate a strong rebound since 2021.

ABC Islamic has remained conservatively positioned in terms of its risk profile with limited incidence of stage-3 assets. The bank reports its Islamic financing assets in stage 3 to be nil, with total stage 3 assets on books being USD 8.5mn, 0.3% of assets. With no new NPF inflow, the Bank’s asset quality is deemed to be very sound. Asset allocation of the Bank is well diversified among sovereigns, private & public sector companies and financial institutions, which combined with the over-weighting of exposures towards steady economies, has limited NPF formation. Despite heightened credit risk in the financial system globally, we do not expect any material deterioration in reported asset quality indicators, in the near-term.

As inflationary pressures persist, policy rates are not expected to fall before late 2024. High rates in the region will constrain financing activity in the financial sector. However, wide margins and measured business growth will continue to support ABCI’s earnings. Capital adequacy remains significantly above requirement at 41.5% as at Sept 2023. Largely sourced from the Group, liquidity access is reliable.

IIRA assesses the Bank’s overall fiduciary score in the range of “76 - 80”, denoting strong fiduciary standards. In keeping with the evolution towards incorporation of climate change risks into business perspective and risk management, the bank has laid down a blueprint towards a focus on sustainability in its policy framework. This entails induction of specialized resources and regular reporting on progress that can be measured and evaluated. IIRA’s assessment of ESG risks has not impacted our credit risk evaluation of the Bank.

A comprehensive regulatory governance framework has ensured the institution of practices and policies supporting sound governance, under Group oversight. The bank’s financial and non-financial disclosures allow for detailed evaluation by stakeholders. The Shari’a Supervisory Board has had a lengthy association with the Bank and the standardized nature of contracts allows for smooth operations in compliance with Shari’a principles. No material adverse observations have been made in external Shari’a reviews.

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

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