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## IIRA Reaffirms Fiduciary Ratings of Al Baraka Group

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**Manama, February 16, 2023** - Islamic International Rating Agency (“IIRA”) has maintained the ratings on Al Baraka Group (“ABG” or “the Group”, erstwhile Al Baraka Banking Group) at BBB+ / A3 (Triple B Plus / A Three) on international scale and at A+ (bh) / A2 (bh) (Single A Plus / A Two) on the national scale. Outlook on the assigned ratings is ‘Stable’. Following our last review, the Group successfully converted its license into an investment business firm – category 1 (Islamic Principles) issued by the Central Bank of Bahrain, (“CBB” or “the Central Bank”) from a full-fledged Islamic wholesale bank.

As anticipated, the conversion has had no material impact on the Group’s dynamics and its ratings continue to weigh in the country risk metrics and political landscape of key host jurisdictions. With increasing global recessionary concern, risk persists in emerging economies including ABG’s operating jurisdictions in the form of inflationary pressure, monetary policy tightening in most countries and currency weaknesses. These challenges might exacerbate with continued supply chain disruptions amidst ongoing geopolitical situation and possible resurgence of Covid variants. Despite the cautionary outlook, most of the Group’s host banking sector margins may continue to benefit under high policy rate environment.

Post license change, the Group is undergoing a strategy and business refocus, the effects of which may pan out over the medium-term. Broad strategic focus is realigned to consolidate the Group’s position, improving portfolio management, optimizing capital and maximizing efficiency. Business growth in ABG’s subsidiaries (“Units”) is expected to be at a measured pace, given the current macroeconomic situation. Consolidated asset quality indicators posted improvement over the last 21 months until Q3’22 with declining non-performing financings due to write-offs and enhanced risk buffers. Asset deployment in relatively capital light government Sukuk also ensures safe and steady returns. The Group’s Units continue to enjoy steady access to the local retail deposit markets.

The Group posted higher net earnings in 9M’22 vis-à-vis 9M’21 benefiting from positive momentum in margin income, growth in ancillary income and boosted by one-off real estate valuation gains in ABG’s Unit in Turkey, not completely offset by higher provisioning charge. While tighter policy rate environment may put pressure on profit share margins over the coming periods, cost efficiencies and lower expected provisioning cost may continue to support the bottom line.

ABG’s consolidated equity has continued to trend down due to adverse currency movements across most Units’ host jurisdictions, which is likely to persist over the next 12-24 months. Combined with somewhat tempered profitability prospects, leverage is expected to increase over time, although moderated by the Group’s prioritization of profitability and efficiency over growth in this period. Overall, the Group’s capital position is well in excess of CBB’s minimum regulatory thresholds under Volume 4 of the Rulebook.

IIRA has assessed ABG's fiduciary scores in the range of '81-85', reflecting strong fiduciary standards, wherein the rights of various stakeholders are well defined and protected. As a newly licensed investment firm, ABG is governed under the new Volume 4 of the CBB Rulebook; however, the Group continues to enforce stricter policies, as required under the wholesale banking license. Governance infrastructure of the institution features several best practices and adequate disclosures, faring well on the overall governance related measures. Given that the prudential disclosures under Volume 4 are comparatively less vis-a-vis Volume 2, changes in the Group's disclosures have been noted. Since our last review, major changes mainly included appointment of a new Group CEO on the Board and the Board Executive Committee as an Executive member and organizational restructuring at ABG. Integration with the Units is now ensured through ABG representation on the respective Boards.

ABG remains compliant with Shari'a rules and principles as ratified by the Unified Shari'a Supervisory Board ("USSB"). A strong USSB, adequate Shari'a controls at Head office and Units along with adequate disclosures mark an effective Shari'a governance framework. IIRA's assessment of ESG risks has not impacted the Group's credit risk evaluation.

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