الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Reaffirms Ratings of Al Baraka Islamic Bank B.S.C. (c)

Manama, September 06, 2021 – Islamic International Rating Agency ("IIRA") has reaffirmed the international scale ratings of Al Baraka Islamic Bank B.S.C. (c) ("ABIB" or "the Bank") at BB / A3 (Double B / A Three) with a 'Negative' outlook reflecting the sovereign rating outlook on the Kingdom of Bahrain ("Bahrain"). Mean while IIRA has maintained the national scale ratings assigned to the Bank at BBB+ (bh) / A3 (bh) (Triple B Plus /A Three) with a 'Stable' outlook. ABIB is a locally incorporated Islamic retail bank in Bahrain, with overseas operations being conducted through its majority-held subsidiary in Pakistan (AlBaraka Bank (Pakistan) Limited ("ABPL")).

Macroeconomic challenges in Bahrain and Islamic Republic of Pakistan ("Pakistan") were amplified in the aftermath of the outbreak of Covid-19. Oil prices recovery as noted so far since the beginning of this year may support the economic growth in Bahrain, while improving trend in the external account may also continue to shore up reserves in Pakistan in 2021. Continuing fiscal stimulus in both countries along with gradual resumption and steady pace of business may serve as a backstop to a further economic slide. With adoption of the market determined exchange rate regime in Pakistan, sharp volatility in subsidiary's host jurisdiction currency (Pakistani Rupee "PKR") against the USD is unlikely, although some pressure on the currency value persists.

Growth in Bahrain-based operations was maintained, with the subsidiary also contributing to overall expansion in business during 2020. Over the last couple of years, ABIB has increasingly focused on government-related exposures and also further enhanced its portfolio quality through write-offs and settlements. Increase in core profitability has precipitated into overall higher net income during 2020 despite higher provisioning charges. However, margin pressure may continue to loom amidst low policy rate environment and expectation of constrained business volumes in both jurisdictions. Nonetheless, currency stability at ABPL may continue to provide some buoyancy to the Bank's income aggregation over the coming periods.

Improvement in internal capital generation has supported the Bank's consolidated capitalization ratios, which remained well above the minimum regulatory requirement. However, it may be noted that capital buffer vis-à-vis minimum regulatory threshold and CET 1 ratio requirement remains thin. Capital reinforcement is required and will be an area of close monitoring over the next few quarters.

The ratings derive strength from Al Baraka Banking Group's ("ABG" or "the Group") majority ownership. ABG has a strong franchise and multi-jurisdictional presence. Further, the Group has demonstrated financial support to ABIB in the past, as and when needed. This underpins our expectations of continuing Group support to ABIB and ABPL.

IIRA has assessed ABIB's fiduciary score in the '71 – 75' range, reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected. The Bank's asset manager quality and Shari'a governance scores have been uplifted to reflect the improvement in Mudarib's efficiency and improvement in overall asset quality. Presence of strong regulatory supervision and ABG oversight, supports the overall corporate and Shari'a governance framework of ABIB. The Bank's Shari'a governance reflects oversight of well-versed members at the Shari'a Supervisory Board. Adequate Shari'a controls and disclosures, in addition to structured products utilization and conduct of external Shari'a review strengthen the Bank's Shari'a governance framework.

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