



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA reassesses Al Baraka Bank Syria

Manama, October 04, 2022 –Islamic International Rating Agency (“IIRA”) has revisited the ‘Domestic Financial Risk Assessment’ (“DFRA”) of Al Baraka Bank Syria (“the Bank” or “Al Baraka Syria”), and maintained the “BBB” (“Triple B”) band. DFRA comments on the Bank in a standalone context, whereby the assessed band is mainly driven by the entity’s own financial strength.

The Bank is one of the three Islamic Banks in the country with a market share of around 13.7% in terms of assets within private banks and ranks third in this segment as of year-end 2021. Al Baraka Banking Group (“ABG”) holds 23% ownership in the Bank, although through a management agreement the Group has an advisory role in Al Baraka Syria, thereby offering support on need basis. In addition, UAE based Emirates Islamic Bank and Kuwait based Kuwait Syria Holding have a respective share of 10% and 5% in the Bank.

After remaining stable for around a year, USDSYP devalued to 2,814 by April 2022. Total assets of BBSY increased by 71.7% in 2021 owing mainly to the SYP devaluation, yet depicted decline in USD terms given the challenging economic conditions in the economy, particularly due to weaker purchasing power and therefore reduced savings potential in the economy. Central Bank of Syria (“CBS”) has taken steps to encourage financing by lifting the limit to financings in trade and manufacturing and facilitated financing of renewable energy projects. Nevertheless, with financings at 6.4% of assets (2020: 6.0%), cash and equivalents dominate at 90.6% of assets. These are maintained in large part (61.6% of assets) as overseas FCY exposures, significantly reducing potential vulnerability to asset losses. Non-performing exposures increased in 2021 due to classification of a significant FI exposure. However, high coverage of this exposure and overall impaired assets, kept net impairments low. Other than the referenced exposure, new impairments remained very limited and relatively low percentage of financings within asset mix, provides assurance of projected sound asset quality.

The bank continues to compare favorably to peers in terms of profitability, given diversification of revenues with strong fee income generation, spread income supported by relatively higher weight of less costly deposits in funding mix, and better efficiency. In H1’22, the Bank posted further enhanced earnings, with continued growth in core income more than covering the increase in provisioning charges and notable rise in operating expenses.

After staying steady at SYP15bn for the previous 2 years, paid-in capital is to be raised to SYP30bn via bonus issuance of shares, as approved by the General Assembly in July 2022. Meanwhile, as in prior year, the Bank has not paid cash dividends from its earnings due to the CBS’s suspension of cash dividend payments from Syrian banks. At 37.0% capital adequacy ratio (CAR) of the bank stands higher than 29% in 2020 with profitability driven growth in regulatory capital being well above increase in risk weighted assets. Capital buffers are sizable and significantly above the 8% regulatory minimum CAR.

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IIRA maintained the Bank's overall fiduciary score in the range of "71 – 75", denoting adequate fiduciary standards, wherein rights of various stakeholders are sufficiently protected. Improvement in control functions has been noted with development of more sophisticated risk models, revision of compliance related policies and strengthening of the headcount of compliance function. The Bank was the first in Syria to have been rated as per the International Standard of Social Responsibility (ISO26000: 2010), with an advanced performance rating of 4 out of 5. This rating reflects the bank's efforts in supporting society in various fields, especially education, training and humanitarian assistance, through projects, contributions, and fellowships offered. The Bank's Shari'a governance framework is aligned with regulatory requirements and benefits from Group-level supervision. Notwithstanding, the bank's internal Shari'a control function may be strengthened with additional resource deployment.

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

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