



IIRA Concludes the Re-assessment of Al Baraka Bank Syria

Manama, November 16, 2023 – Islamic International Rating Agency (“IIRA”) has concluded the reassessment of Al Baraka Bank Syria (“the Bank” or “Al Baraka Syria”) which is classified as “NR” (Non-ratable). Meanwhile, IIRA’s ‘Domestic Financial Risk Assessment’ (“DFRA”) reaffirms its placement of the Bank within the “BBB” (“Triple B”) band. DFRA assesses the Bank in a standalone context, (excluding environmental factors and government or regulatory intervention, but accounting for potential parent support, if any).

Al Baraka Syria is the second largest private bank in Syria in terms of assets as of YE2022, with a market share of 12%, and 28% within the Islamic banking segment, which comprises three banks. The Bank’s network stood at 14 branches and 2 offices.

Following the negative repercussions of the ongoing sanctions and Russia-Ukraine conflict, macroeconomic activity in Syria was further hit by the earthquakes in February 2023. In the absence of foreign currency inflows into the Country, Syrian Pound was devalued to as low as 8,542 against USD, having fallen from 2,814 at the time of our prior review. The Government responded with significant wage hikes for public sector employees as well as lifting the subsidies on petroleum and partially removing the subsidies on fuel-oil. Despite positive developments, sanctions imposed on Syria, especially Caesar Act, are considerable obstacles to investments planned from Saudi Arabia, the UAE and other Arab countries.

Given the ongoing economic challenges and the limited SYP depreciation in 2022, asset growth for Al Baraka Syria remained muted in nominal terms during the year, whereas translation effects of the notable SYP depreciation in 2023 are evident in the surge of balances during the current year. On a positive note, the financing portfolio has grown notably within the asset mix, from a very low base. In the absence of new NPF inflows, asset quality indicators improved, and the Bank compares favourably to its peers on this front. The impact of the twin earthquakes on asset quality prospects of the Bank are expected to be minimal given the limited exposure to the earthquake affected areas. However, weakening of domestic economic activity further, as well as the sharp increase in new financing extended during 2022, are indicative of increasing credit risk. Relatively lower proportion of credits in total assets and high provision coverage ratios are deemed to be mitigating factors.

Adjusted for the unrealized gain on FCY adjustment, the Bank’s net earnings grew modestly in 2022 as growth in non-spread income was limited vis-à-vis the increase in operating expenses. This was followed by a period of strong uptick in both margin and fee income in H1’23 The Bank compares favourably to private banking peers, with its relatively lower cost of funding and the diversified revenue base.

The information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information herein is provided “as is” without any representation or warranty of any kind. IIRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) / score(s) mentioned. Rating is an opinion and not a warranty of a rated entity’s current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

Despite the superior profitability levels relative to private banking peers, the Bank did not pay cash dividends from 2022 earnings due to the Central Bank of Syria's suspension of cash dividend payments, which in turn bolstered internal capital generation. Capital adequacy ratio of Al Baraka Syria improved further to 48.6% in June 2023 given healthy profitability, and relatively high portion of capital being denominated in USD in an environment of continuous SYP depreciation. Going forward, relatively low level of financing in asset mix and internal capital generation should help the Bank to maintain its strong capital buffers well above the 8% regulatory threshold.

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. The Board of Directors remained stable with one-third independent representation. IIRA noted the steps taken to improve the control infrastructure, including strengthening of headcount of Risk Management, Compliance, and Internal Audit functions. In 2023, following the resignation of the Chairman and Deputy Chairman of the Shari'a Supervisory Board, two new members joined the SSB. Al Baraka Bank Syria 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 highlighting the bank's efforts on the social responsibility front. Increasing allocation of financing portfolio towards alternative energy, particularly solar energy, has also been noted.

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

The information contained herein is obtained by IIRA from sources believed to be accurate and reliable. IIRA does not audit or verify the truth or accuracy of any such information. As a result, the information herein is provided "as is" without any representation or warranty of any kind. IIRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating(s) / score(s) mentioned. Rating is an opinion and not a warranty of a rated entity's current or future ability to meet contractual obligations, nor it is a recommendation to buy, sell or hold any security.