



IIRA revisits its assessment for Al Baraka Bank Syria

Manama, October 27, 2021 – Islamic International Rating Agency (“IIRA”) has reviewed the ‘Domestic Financial Risk Assessment’ (“DFRA”) of Al Baraka Bank Syria (“the Bank” or “Al Baraka Syria”) and reaffirmed the “BBB” (“Triple B”) band. DFRA comments on the Bank in a standalone context and hence excludes environmental factors and possibility of government or regulatory intervention whereby the assessed band is mainly driven by the entity’s own financial strength. Meanwhile, IIRA continues to classify the Bank as “NR” (Non-rated).

Al Baraka Bank Syria has a market share of about 15% in terms of assets, within the private sector banks in Syria, up from 13% at YE 2019. However, the share of financings in total assets dropped markedly given its cautious outlook in 2020. Cash equivalents comprised 91% of assets at YE 2020 and have traditionally remained the mainstay of the balance sheet, with generally limited exposure to the financings market. In H1’21, financing growth has gained some momentum. Despite surge in nominal terms and as proportion of financings, net impaired assets remain low in relation to assets and show relative recovery in H1’21.

While capital buffers are as yet sufficient, capital adequacy has been falling on a timeline, more particularly in H1’21, given steep devaluation of SYP which inflated the risk assets balance. Core net earnings have been trending up in 2020 and H1’21, even if adjusted for large currency gains and driven mostly by enhanced fee income. Despite the rising operating expense base in tandem with elevated inflation, revenue growth has led to improved efficiency relative to prior year. We expect a continuation of trends in core indicators over the current year.

IIRA reaffirmed the Bank’s overall fiduciary score in the range of “71 - 75”, denoting adequate fiduciary standards. On the other hand, IIRA notes the strengthening of both headcount and scope of Compliance and Risk Management Function, enhancing the latter’s scope to incorporate IT Security risks. As a listed Bank on the Damascus Stock Exchange, the Bank’s disclosures are strong and include quarterly exchange filings of financial statements. The Bank’s annual reports are deemed comprehensive and covering corporate governance related information, stress testing results, and self-regulatory framework, in addition to details pertaining to financial statements. On the Shari’a Governance front, a key development was the revision of the Shari’a governance regulation by the Central Bank of Syria (“CBS”) requiring reinforcement of the Shari’a Supervisory Board in terms of number of members to a minimum of five. The Bank has taken steps to comply with new regulations pending CBS approval. IIRA believes that recent regulatory drive to streamline the Shari’a governance framework serves to strengthen the Islamic banks’ practices in this respect.

AlBaraka Banking Group (ABG) owns 23% stake in the Bank, although through a management agreement the Group has an advisory role in Al Baraka Syria, thereby offering support as needed.

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