



IIRA Revisits Ratings of Bahrain Islamic Bank B.S.C. improvement noted in asset quality and core earning potential on a timeline. Corporate Governance assessment enhanced

Manama, August 17, 2021 – Islamic International Rating Agency (“IIRA”) has aligned the international scale ratings assigned to Bahrain Islamic Bank B.S.C. (“BIsB” or “the Bank”) at BB+ / A3 (Double B Plus / A Three) at ‘Negative’ outlook and reflective of the sovereign rating assigned to the Kingdom of Bahrain (“Bahrain” or “the country”). On the other hand, national scale rating has been upgraded by to A (bh) / A2 (bh) (Single A / A Two) with ‘Stable’ Outlook following consolidation in shareholding through a sovereign-owned banking institution in addition to improvement noted in the Bank’s asset quality and core earning potential.

BIsB operates as a locally incorporated Islamic retail bank. Due to consolidation in shareholding in 2020, BIsB is now 78.81% owned by National Bank of Bahrain (“NBB”), up from 29.06% earlier, although effective government shareholding previously vested through another State owned entity, has remained broadly consistent. NBB is a prominent domestic systemically important bank, and is held about 55% by the government. As a controlling shareholder, NBB has demonstrated support to BIsB in conjunction with majority share acquisition. With a high degree of state ownership and 90% assets in Bahrain, the Bank’s ratings are strongly linked to the sovereign ratings. The assigned outlook reflects downside risks for the banking sector as a whole, given the weak economic fundamentals.

BisB reported 1% contraction in balance sheet in 2020, given the upstream transfer of certain non-yielding assets, including financings, to NBB during the year, adjusting for which the bank experienced gross financing growth of 3%. In addition to accelerated write-offs of impaired assets and increased provisions, the transfer reflected favorably on the Bank’s asset quality indicators vis-à-vis prior years.

Despite lower benchmark yields, margins remained largely consistent in 2020 from prior year. Improvement in efficiency indicators has been noted, causing improvement in core earning indicators and likely to continue to flow through in the current year. Operational efficiency has also benefitted from the ongoing digitalization efforts. Higher provisioning charges precipitated into a negative bottom line in 2020 and while further provisions may require to be taken as the forbearance measures are lifted, the total quantum of charge-offs in the current year, is likely to be lower than prior year.

Despite constrained internal capital generation in 2020, the Bank’s capital adequacy remained above the minimum regulatory requirement. At end-June 2021, BIsB’s capital stands further reinforced with the issuance of additional Tier 1 convertible Sukuk of BHD25mn that was fully subscribed by NBB, thereby taking the total capital adequacy to 19.2% from about 16.0% at end-2020. Liquidity indicators are deemed adequate. There is marked increase in reliance on wholesale funds on a timeline. Increased market rates and competition for funds has created liquidity pressures in the industry.

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IIRA's assessment on BlsB's fiduciary score ranges between '71 – 75', reflecting adequate fiduciary standards, wherein the rights of various stakeholders are considered to be adequately protected. Corporate governance score has been uplifted from last review for the Bank with high independent representation and adequate disclosures. Board committee composition may be better aligned with international best practices. In addition, the Bank depicted strong commitment towards corporate social responsibility through implementation of ESG initiatives. Risk management infrastructure has also been continually enhanced over the past few years. NBB oversight also supplements the overall governance framework through board representation and provides supervision to control functions of the Bank.

BlsB remains compliant with Shari'a rules and principles as ratified by the SSB with strong Shari'a governance and Islamic banking related disclosures. Further, the external Shari'a audit report affirms the Bank's compliance with the implemented framework.

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

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