

Announcement

To: Bahrain Bourse

Bahrain Islamic Bank B.S.C would like to announce the following:

إعلان

السادة / بورصة البحرين،

يعلن بنك البحرين الإسلامي ش.م.ب عن التالي:

Date	05-05-2021	التاريخ
Company Name	Bahrain Islamic Bank بنك البحرين الإسلامي ش.م.ب	إسم الشركة
Trading Code	BISB	رمز التداول
Rating Category	b2	فئة التصنيف
Future Outlook	Negative سلبية	النظرة المستقبلية
Impact	Not applicable لا ينطبق	الأثر المترتب
Summary of Credit Rating Report	BisB confirms the rating affirmation and outlook change to negative from stable as detailed in the attached Moody's Article dated 04-May-2021. يؤكد بنك البحرين الإسلامي على تأكيد التصنيف وتغيير التوقعات إلى سلبي من مستقر كما هو مفصل في مقالة Moody's المرفقة بتاريخ 04 مايو 2021.	ملخص تقرير التصنيف الانتمائي

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BisB

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Company Seal ختم الشركة		Signature التوقيع	
			

Rating Action: Moody's affirms ratings of three Bahraini banks and changes outlook to negative from stable

04 May 2021

Rating actions follow the affirmation of Bahrain's B2 sovereign rating and outlook change to negative from stable

Limassol, May 04, 2021 -- Moody's Investors Service ("Moody's") has today affirmed the long-term ratings of three banks it rates in Bahrain, as well as the senior unsecured and subordinated debt ratings where applicable. Moody's has also affirmed the banks' Baseline Credit Assessments (BCA), Adjusted BCAs, Counterparty Risk Assessments (CRAs) and Counterparty Risk Ratings (CRRs). The affected institutions are National Bank of Bahrain BSC (NBB), BBK B.S.C. (BBK) and Bahrain Islamic Bank B.S.C. (BISB).

The outlook on the banks' long-term ratings has been changed to negative from stable.

The action follows Moody's decision to affirm the Bahraini government's B2 issuer rating and change the outlook to negative from stable, on 29 April 2021. Please see "Moody's changes Bahrain's outlook to negative, affirms B2 ratings", https://www.moody's.com/research/--PR_444021.

Please click on this link https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL445143 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

AFFIRMATION OF NBB, BBK AND BISB'S LONG TERM RATINGS AND CHANGE IN OUTLOOK TO NEGATIVE

Moody's affirmation and change in outlook to negative from stable on the long-term ratings of BBK, NBB and BISB is driven by the affirmation of the Bahraini government's B2 issuer rating and the change in outlook to negative. Since the banks' BCAs are already at the government rating level, reflecting their standalone strengths, their long term ratings do not benefit from government support uplift as the Bahraini sovereign cannot extend financial support beyond its own capacity, despite our view of the strong willingness of the government to provide support for banks in case of need.

Also, the banks' BCAs reflect the interconnectedness between their balance sheets and sovereign credit risk, owing to the banks' high direct exposures to government securities. According to Moody's estimates, the banks' direct exposures to government credit risk stood at around 2.6 times reported CET1 capital for NBB, 1.9 times for BBK Bank and 2.4 times for BISB as of December 2020. The high direct exposure to government credit risk together with the primarily domestic focus of their operations renders the banks susceptible to event risk at the sovereign level and constrains their standalone credit profiles to the level of the government's bond rating.

NBB's b2 BCA reflects the bank's (1) resilient deposit funding and healthy liquidity, which benefit from its leading retail franchise in Bahrain; (2) healthy loss-absorption capacity, supported by its adequate capital, moderated by the acquisition of a majority shareholding in BISB; and (3) sound profitability (net income to tangible assets at 1.2% in 2020), although weakened during 2020 on the back of the pandemic-induced economic disruption. These strengths are moderated by (1) the bank's high deposit and credit concentrations, and (2) asset-quality risks (problem loans to gross loans at 6.9%) as some borrowers remain vulnerable to the current operating environment challenges.

BBK's b2 BCA captures its (1) a strong domestic franchise, which supports its sound profitability (net income to tangible assets at 1.4% in 2020) although lower during 2020 from the coronavirus economic shock; (2) solid liquidity buffers and resilient funding; and (3) strong capital (tangible common equity to risk weighted assets at 14.7%). These strengths are moderated by the bank's high deposit and credit concentrations in addition to pressures on asset-quality from an already-elevated position as some borrowers remain vulnerable in the current operating context.

BISB's b2 BCA reflects its (1) adequate but moderating core capital adequacy, and (2) solid funding, despite tightening liquidity in Bahrain. These strengths are counterbalanced by (1) the bank's weak asset quality (problem loans to gross loans at 6.5%), (2) elevated credit risk in the bank's unseasoned loan portfolio, (3) material borrower and sector concentration risks amid challenging operating conditions, and (4) strained profitability. BISB benefits from some extended support from its majority owner NBB. However, despite our assessment of a very high probability of support from its parent, BISB's ratings do not benefit from any rating uplift because its BCA of b2 is currently at the same level as NBB's b2 BCA.

OUTLOOK

The negative outlook assigned on the long-term ratings of NBB, BBK, and BISB mirrors the negative outlook assigned to Bahrain government's issuer rating.

The negative outlook on the banks' ratings also captures the strong interlinkages between the banks' standalone creditworthiness and the credit profile of the sovereign given their large direct government exposures making them subject to event risk.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the banks' Baseline Credit Assessments and long-term ratings is limited as indicated by the negative outlook. However, the outlook on the banks' long-term ratings could change to stable if Bahrain's B2 sovereign rating outlook is changed to stable.

Conversely, downward pressure on the banks' baseline credit assessments and long term ratings would develop following (1) a downgrade of the government rating reflecting the correlation of the banks' standalone credit profiles to the one of the sovereign together with economic and market conditions in Bahrain; (2) a deterioration in the operating environment which may results in a lower Macro Profile for Bahrain; and/or (3) a weakening in the banks' solvency or liquidity profiles.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1261354 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The local market analyst for these ratings is Ashraf Madani, +971 (423) 795-42.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL445143 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Disclosure to Rated Entity
- Lead Analyst
- Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections

Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1263068.

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody.com for additional regulatory disclosures for each credit rating.

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