



IIRA reaffirms ratings of Bank Al Jazira and places them on 'Watch' status

Manama, May 05, 2020 – The Islamic International Rating Agency (IIRA) has reaffirmed the ratings assigned to Bank AlJazira (“BAJ” or “the Bank”), backed by a reinforced balance sheet over the prior two years and resurgence in business activity. Ratings have been placed on “Rating Watch” due to uncertainties in the global and domestic market stemming from the COVID-19 pandemic and translating into recessionary conditions globally and in several economies including in the Kingdom of Saudi Arabia (‘KSA’ or the ‘country’). A severe oil price slump and expectation of reduced tourism inflows would put pressure on the government budget, and has implications on asset risk in the banking sector. Saudi Arabia Monetary Agency’s proactive stance to support the SME sector has been noted and expectation of government support to the banking sector has reinforced ratings. Nevertheless the sector’s risk profile is heightened, though moderated by strong capital indicators on a sector-wide basis. While the drivers behind the present economic situation are essentially transient in nature, there is significant uncertainty as to the duration of the prevailing circumstances. We expect to resolve the ‘Watch’ status when signs of recovery begin to materialize and appear sustainable in the last quarter of the year or in early 2021, as the case may be.

BAJ is listed on the Tadawul Stock Exchange of KSA and operates locally with a gradually optimized network of 78 branches. The bank posted an accelerated growth pace in 2019 reaching 3.4% market share by year-end, and marked by increasing pace in financings. A significant uptick was also noted in corporate financing, as credit off-take recovered across the economy. Asset quality has remained strong with adequate allowances for losses. However, the volume of watch listed exposures has been steadily rising, even in proportion to outstanding financings. The bank’s exposure to construction industry has been falling over time, and the corporate real estate segment has made no contribution to more recent growth, which is seen positively given that risk in this segment is considered elevated in the present scenario.

Following the cash equity injection in 2018, CAR and tier-1 ratios improved significantly, however, it has notched down slightly by end 2019 due to growth in risk assets. Yet, capitalization is comfortably above regulatory thresholds and presents adequately strong buffers, allowing room for growth once economic activity reverts. Profitability indicators are sound and steady retention ensures continued supply of internally generated capital.

The Board has inducted 4 new members in 2018 and maintains its one-third independent member representation. Overall control framework further improved in recent periods with implementation of IFRS-9 in 2018 and IFRS-15 and 16 more recently. Risk management tools deployed are at par with international best practices and continue to be upgraded under SAMA’s guidance. Transparency standards are also satisfactory, as regards both financial and general corporate governance related information for investors; however, Shari’a governance related disclosures warrant improvement. The utilization of participatory modes of finance on both the funding and financing sides remains limited. In this context the bank’s Fiduciary scores have been maintained at 71-75, and indicating adequate protection of rights of all stakeholders.

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