



IIRA Maintains Fiduciary Ratings of Jaiz Bank Plc, Nigeria

Manama, December 7, 2020 – Islamic International Rating Agency (“IIRA”) has reaffirmed the foreign currency ratings of Nigeria (“Nigeria” or “the country”) based - Jaiz Bank PLC (“Jaiz” or “the Bank”) at B-/B (Single B Minus/B) and local currency rating at B/B (Single B/B) on the international scale. National scale ratings have also been maintained at BBB(ng)/A2(ng) (Triple B/ A Two). Outlook on the assigned ratings is ‘Stable’.

In 2011 Jaiz Bank became the first Shari’a compliant bank to be licensed by the Central Bank of Nigeria (“CBN”) in the country. The Bank had 39 operating branches in 2019, with gradual footprint expansion further on the anvil and a 0.5% market share in the country currently. Key owners feature prominent local individuals and institutional investors in addition to foreign shareholders including Islamic Development Bank. Sponsor support maybe expected given shareholders’ commitment to reinforce capital when required.

Given the relatively small deposit base, the Bank’s growth has surpassed the high inflation in past periods, and has maintained sizable liquid reserves deployed in government Sukuk issuances. Financings growth has been relatively slow, much in line with sector trends, which features an exceptionally low financing to deposit ratio. However, a conservative balance sheet protects the Bank from rising credit risk in the environment. Having recorded recoveries and write-offs in 2019, improvement has been noted in the overall quality of assets with additional reserves and limited incremental non-performance in relation to overall assets. Slight deterioration has been noted in H1’20 vis-a-vis year-end 2019. With the increasing burden of the pandemic on the economy, a potential escalation in fresh delinquencies may be anticipated in vulnerable sectors such as real estate, where the Bank maintains notable exposure.

The Bank continued to post improvement in profitability with enhanced scale of operations and efficiencies, albeit asset charge-offs also remained elevated. IIRA expects measured pace of earnings growth in 2020 due to likely narrow margins and continued provisions against potential asset losses. Due to rapid business growth, capital buffers have been gradually depleting. While the capital adequacy indicators are adequate, the metrics may fall below the minimum regulatory levels over the medium-term.

Nigeria has registered below potential growth over the last few years given its economic dependence on hydrocarbons. Weak oil price environment may continue to constrain the country’s external trade balances and fiscal account, particularly amidst the Covid-19 pandemic, with the economy expected to contract sharply in the current year. Headwinds in the form of inflation and currency depreciation also pose challenges for the economy. Further, banking sector may face margin squeeze due to policy rate cuts by CBN, in addition to a general rise in credit risk across the economy. Despite improvement in financial performance and operating indicators at Jaiz Bank, IIRA expects rating movement to be constrained on the upside for the sector as a whole.

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Overall fiduciary score of the Bank has been assessed in the range of '66-70' and reflects adequate fiduciary standards wherein rights of various stakeholders are adequately defined and protected. While the Bank complies with Central Bank of Nigeria corporate governance guidelines, the governance framework may be enhanced in terms of independent representation on Board and Board committees, to better align with international best practices. IIRA has also noted enhancement in fiduciary capacity measured in terms of resilience in returns generated for investment accountholders. Overall self-regulatory and control framework is being further strengthened. Shari'a governance framework conforms to the CBN's specialized guidelines and regulatory framework for non-interest banks. The Shari'a infrastructure is strengthened with presence of CBN's Financial Regulatory Advisory Committee of Experts ("FRACE") and individual bank-level Advisory Committee of Experts. The Bank may consider segregating the Shari'a audit and compliance function to further enhance the internal Shari'a control system. Sharia governance systems reflects adherence to high standard of purity maintained in transaction structure.

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

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