

PRESS RELEASE



IIRA assigns investment grade ratings (on national scale) to Jaiz Bank Plc, Nigeria

Manama, January 16, 2020 – Islamic International Rating Agency (“IIRA”) has assigned to Jaiz Bank PLC (“Jaiz” or “the bank”) an investment grade rating of BBB (Triple B) for the medium to long-term and A2 in the short-term (A Two) on the national scale. A ‘Positive’ outlook has been assessed reflective of the improving performance in the most recent period reviewed. IIRA has also assigned a foreign currency rating of B-/B (Single B Minus/B) and local currency rating of B/B (Single B/B) on the international scale with a ‘Stable’ outlook. The international scale ratings also take into account the sovereign risk profile.

As the first Sharia compliant bank in Nigeria, the bank has developed a franchise reflected in its steady deposit growth. Established in 2011 as a regional bank in the northern part of Nigeria, Jaiz has since cultivated a national footprint. The bank has depicted rapid growth at a rate (CAGR) far above the country’s high inflation rates of recent years. Liquidity so generated is reflected in a burgeoning portfolio of Sharia compliant treasury securities and relatively slower growth in the banking book. As a result, the bank’s liquidity risk profile is superior in the context of the local banking sector as well as in relation to IIRA’s benchmark for assigned medium to long-term ratings, warranting a higher rating on the short-term scale.

While gross non-performance indicators in the financing portfolio suggest weakness, and are reflective of the heightened credit risk environment in the country, the financing portfolio is relatively limited in relation to assets, translating into moderate risk on the balance sheet. Moreover, the bank fares well compared to the sector and has posted amelioration in recent interim periods, with gross non-performance falling below 10%. Further, property collaterals provide protection against eventual losses. Lower exposure to high risk segments like Oil & Gas, Power and Energy and Transportation & Storage, vis-à-vis sector average, also provide the bank some advantage, although real estate and construction sectors are also considered high risk, and the bank carries notable exposure in these two segments.

The bank’s profitability indicators are improving rapidly with business growth, and as efficiency benefits of higher scale in operations, begin to materialize - particularly reflected in interim results of 2019. In recent periods, the cost of fresh provisions has undermined net profitability. With a burgeoning investment portfolio and further accruing efficiencies, the bank’s net returns are likely to achieve optimal levels, going forward. IIRA’s assessment for expected profitability and hence internal capital generation, in addition to gradually ameliorating indicators for non-performance in financings, underlies the assigned ‘Positive’ outlook.

Capital adequacy indicators are as yet sufficient, despite having fallen with business growth. Investors’ commitment has been demonstrated in the past and while the shareholding is fragmented, further support may be deemed likely, if needed.

The fiduciary score assigned to the bank falls in the range of 65-70 and reflecting adequate fiduciary ratings. The bank is viewed to be in compliance with CBN’s guidelines for corporate governance. However it may be strengthened to align better with international best practices. Independent representation on the Board may be enhanced to provide sufficient weight to independent view in Board Committee proceedings. Overall control framework has improved in recent periods with implementation of IFRS-9 in 2018 and CBN’s proactive oversight.

Sharia governance systems reflects adherence to high standard of purity maintained in transaction structure. The CBN’s specialized guidelines and regulatory framework for non-interest banks set baseline guidance for Islamic banks. As such the bank’s Sharia governance framework is well aligned with international guidance on the institution of Sharia control systems and independent supervision of bank level Advisory Committee of Experts.

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For further information on this rating announcement, please email at iira@iirating.com. Bahrain-based IIRA is recognized as an External Credit Assessment Institution (ECAI) by Central Bank of Bahrain, and is a global leader in rating Islamic Financial Institutions and Instruments.

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