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## IIRA Reaffirms Ratings of Bank Al Jazira, Kingdom of Saudi Arabia

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**Manama, November 09, 2021** – Islamic International Rating Agency (IIRA) has maintained ratings of Bank Al Jazira (BAJ) at A+(sa)/A1(sa) on the national scale and A-/A2 on the international scale. Ratings have been removed from 'Watch' status, on which they were placed on May 5, 2020, in view of the uncertainty stemming from the 1<sup>st</sup> wave of the pandemic. The banking sector in KSA has remained resilient. With maintained capital adequacy, sustained access to capital markets and high reserves against probable losses, BAJ rating outlook has been assessed at 'Stable'. While net earnings had been impacted by the significant provisions taken in 2020, the Bank's operating performance has remained on an improving course, with a turnaround in net earnings in Q1-Q3'2021, given significantly lower asset mark downs.

IIRA is also optimistic about economic recovery in the Kingdom of Saudi Arabia (KSA or 'the Kingdom'), which is already evident in GDP growth from Q2'21 and expected to have picked further pace in the later part of the current year, likely to continue through 2022. An extensive inoculation drive against COVID-19 in the Kingdom, is translating into better business sentiment and given pent-up demand, is likely to increase opportunities for the banking sector. As such, growth may be expected to pick up and profitability trends likely to improve in 2021, relative to the prior year.

Despite deterioration on a timeline, asset quality of BAJ continues to be sound, with strong reserving against potential asset losses. Risk buffers are in place, with substantial allowances set aside for potential losses. On the other hand, given that Saudi Central Bank (SAMA) forbearance measures regarding suspension of repayments for Small and Medium Enterprises (SME) financings are due to expire by YE 2021, high watch list exposure will be monitored as an emerging indicator of asset risk.

Capital adequacy indicators have remained significantly above minimum capital requirements. A Tier 1 issuance in June 2021 allows the Bank to leverage on the present low expected return environment and caters to any eventuality of balance sheet stress arising from potential non-performance. Tier-1 capital ratio stands reinforced to 23%, and comprises 97% of total capital, indicative of high quality of capital, and leaving sufficient room for growth. LCR and NSFR at 170.8% and 117.9% respectively, as at end-2020 indicate a sound liquidity profile. IIRA takes note of the fact that the bank has been able to maintain its risk profile in a globally heightened risk environment, which supports ratings assigned.

IIRA reaffirmed the Bank's overall fiduciary score in the range of "71 - 75", denoting adequate fiduciary standards. Control framework of the Bank features effective functional segregation and defined reporting lines. The Risk framework is comprehensive in scope and organization and management tools deployed are at par with international banking standards. Board and Board committee structures, are also found to be responsive to institutional needs and sufficiently empowered to exercise controls. Financial and governance disclosures are timely. With the latest Shari'a Governance framework issued by SAMA, Islamic banking framework of the bank is also set to improve, with amendments to the BAJ charter empowering the Shari'a Committee. More participatory forms of investing, financing and funding are needed, to add depth to the product profile.

For further information on this rating announcement, please contact us at [iira@iirating.com](mailto:iira@iirating.com)

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