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## IIRA Maintains the Ratings of Bank AlJazira

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**Manama, November 03, 2016** – Islamic International Rating Agency (IIRA) has maintained the ratings of Bank AlJazira ('BAJ' or 'the bank') at 'A-/A2' (Single A Minus / A Two) on the international scale and at 'A+(sa)/A1(sa)' (Single A Plus / A One) on the national scale. The outlook on the ratings has been assessed as 'negative'. The fiduciary score has been reassessed and maintained in the range of '71-75', reflecting adequate fiduciary standards, wherein rights of various stakeholders are adequately protected.

Fiscal pressures on account of decline in oil prices have led the government of Kingdom of Saudi Arabia ('KSA' or 'the country') to tap liquidity from the banking system, resulting in an increase in funding costs. Across the banking sector, business growth levels have significantly tapered down in recent periods. The deposit base of BAJ reduced in 2015 as the bank shed expensive deposits. However, fresh funding has been generated in HY 2016, enabling some growth in the current year. While spread income has declined during 1H16, and pressures are likely to persist in the face of rising market rates, the bank's profitability has remained satisfactory, aided also by sizeable non-recurring gains on real estate asset sales in 2015 and HY 2016.

Strengthened capital adequacy is a positive development and provides room for business growth. A fresh tier 2 sukuk issue of SR 2b in June 2016, replacing the outstanding SR 1b issue, which was called by the bank as per related terms and conditions, has given a boost to the bank's capital position. The bank is also considering a right share issuance to support its future growth plans. Liquid reserves of the bank, though reduced with enhanced financing operations, provide adequate coverage to financial obligations.

The bank has pursued diversification in its consumer product suite to achieve enhanced scale in its financing activities. Asset quality indicators have remained controlled. Rising credit risk in the banking system however warrants close monitoring in the coming quarters.

The corporate governance framework has been strengthened as the board composition was amended in 2015 to realign it with regulatory requirements. Efforts to strengthen the risk management function, both in terms of human capital and systems employed have also been undertaken.

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

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