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الموافق : ٢٧ / ذو القعدة / ١٤٤٠ هـ

السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،،

الموضوع: التصنيف الائتماني للبنك الإسلامي الأردني من وكالة التصنيف ستاندرد آند بورز (S&P)

بالإشارة الى الموضوع أعلاه، يسرنا أن نرفق لكم طيه نسخة من تقرير التصنيف الائتماني الخاص بمصرفنا والصادر عن وكالة التصنيف ستاندرد آند بورز إصدار تموز ٢٠١٩.

وتفضلوا بقبول فائق الاحترام،،،

المدير العام  
د. حسين سعيد

بورصة عمان	
الدائرة الإدارية والمالية	
الديوان	
٢١ تموز ٢٠١٩	
الرقم التسلسل:	3786
رقم الملف:	11001
الجهة المختصة:	الإدارة العامة

سعيد

المرفقات: نسخة من تقرير تصنيف وكالة ستاندرد آند بورز (S&P)

ر/ب

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## Jordan Islamic Bank

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# Jordan Islamic Bank

<b>SACP</b>	<b>bb-</b>		+	<b>Support</b>	<b>0</b>	+	<b>Additional Factors</b>	<b>-1</b>
<b>Anchor</b>	<b>bb-</b>			<b>ALAC Support</b>	<b>0</b>		<b>Issuer Credit Rating</b>  <div style="background-color: #FFD700; padding: 10px; text-align: center;"><b>B+ / Stable / B</b></div>	
<b>Business Position</b>	Adequate	<b>0</b>		<b>GRE Support</b>	<b>0</b>			
<b>Capital and Earnings</b>	Adequate	<b>0</b>		<b>Group Support</b>	<b>0</b>			
<b>Risk Position</b>	Adequate	<b>0</b>		<b>Sovereign Support</b>	<b>0</b>			
<b>Funding</b>	Average	<b>0</b>						
<b>Liquidity</b>	Adequate	<b>0</b>						

## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Leading position as the largest Islamic financial institution in Jordan and the country's third-largest bank.</li> <li>• Good business resiliency to the current adverse economic conditions in Jordan.</li> </ul>	<ul style="list-style-type: none"> <li>• High geographic concentration in Jordan and related credit risk, notably through public-sector entities.</li> <li>• Adequate capitalization under our methodology, with strong internal capital generation hindered only by a high dividend payout ratio.</li> <li>• Asset quality continuously constrained by what we see as unfavorable economic and political conditions.</li> </ul>

**Outlook: Stable**

The stable outlook on Jordan Islamic Bank (JIB) mirrors S&P Global Ratings' stable outlook on Jordan over the next 12 months, which balances our expectation that the government's net debt stock as a percentage of GDP will marginally decrease over the period through 2021, against the risk that Jordan's external liquidity position will deteriorate further.

Any action on the sovereign would trigger a similar rating action on JIB, barring any material change in the bank's stand-alone creditworthiness.

Although remote, we could lower our ratings on JIB if we saw increased macroeconomic pressures in Jordan combined with a deterioration of the bank's asset quality and capitalization.

**Rationale**

The starting point for our ratings on JIB is its 'bb-' anchor, which we derive from our assessment of industry and economic risks in Jordan. The ratings also reflect our view of JIB's capacity to preserve its strong market share in the Jordanian Islamic banking market, and overall stable financial performance despite adverse economic conditions in Jordan.

Our assessment also reflects our anticipation that our risk-adjusted capital (RAC) ratio before adjustments for the bank will stabilize above 7% by year-end 2021. This is coupled with a sound risk profile, reflected by a nonperforming financings (NPF) ratio below the sector's average. We anticipate that asset quality will remain vulnerable to the prolonged adverse economic and geopolitical situation, but that the cost of risk will remain below 100 basis points (bps). JIB's risk profile is somewhat balanced by its elevated sovereign exposure, especially through the Jordanian publicly owned entity, the National Electric Power Company (NEPCO). Ties with the government will likely remain strong, as exemplified by JIB's announcement in April 2019 of a new agreement worth approximately Jordanian dinar (JOD) 334 million (about US\$470 million).

Funding remains average, but is approaching the high range of the domestic average. JIB's very ample depositor base and granularity of its clientele balance limited funding alternatives and increased competition in the domestic market. Liquidity remains adequate as the bank maintains the allocation of most of its excess funds at the Central Bank of Jordan. We therefore assess JIB's stand-alone credit profile (SACP) at 'bb-'.

The likelihood of extraordinary government or parent support currently has no impact on our rating on JIB, given that its SACP is above the sovereign foreign currency rating. We consider JIB to be of high systemic importance in Jordan, whose support to its banking system we classify as uncertain.

**Anchor:'bb-' for banks operating in Jordan**

We use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Jordan is 'bb-'.

Jordan's ability to buffer economic swings is limited, in our view, because its economy is small and open, and the level of household income is low. Jordan's large current account deficits and lower reserves accumulation since 2016 have resulted in rising external financing needs, further constraining any government attempt to boost the economy. Domestic banks' performance and, in particular, cost of risk, closely reflect the vulnerability of Jordan's growth prospects to a combination of: oil prices, given the country's reliance on imported energy needs; foreign donors' willingness to provide financial support; and the political instability of its neighbors. Recent political instability in the region has had negative repercussions on trade and tourism, leading to trade route closures and decreasing tourist numbers. We think these factors will remain disadvantageous to Jordan, and result in sustained cost of risk over the coming two years.

With the exception of the sizable cross-border operations of Arab Bank PLC, Jordan's largest bank, the domestic banking system has limited complexity, focusing on pure commercial banking operations, both conventional and Islamic. We regard the sector as adequately regulated and supervised, and will likely maintain this view over the long term if the Central Bank of Jordan (central bank) continues to improve the system's sophistication. We anticipate Jordanian banks will continue to generate sufficient profitability to absorb the cost of risk. We think that the deposit base will remain ample and resilient, despite the security environment's ongoing instability.

On the downside, the country's funding relies heavily on foreign grants, and given the uncertainty surrounding this aid, it remains unclear whether the Jordanian government will be able to support the banking system in a period of stress. Conversely, the country's banks have in the past bridged the significant financing needs of public-sector entities, and consequently are exposed indirectly to the sovereign.

Table 1

Jordan Islamic Bank Key Figures					
--Year ended Dec. 31--					
(Mil. JOD)	2018	2017	2016	2015	2014
Adjusted assets	4,158.3	4,210.1	4,097.5	3,796.0	3,551.6
Customer loans (gross)	2,799.9	2,733.2	2,726.5	2,674.7	2,293.0
Adjusted common equity	410.4	396.3	356.3	320.4	289.3
Operating revenues	166.2	166.1	169.4	152.2	140.7
Noninterest expenses	70.8	65.8	63.5	59.3	52.0
Core earnings	49.8	54.1	54.0	48.7	45.1

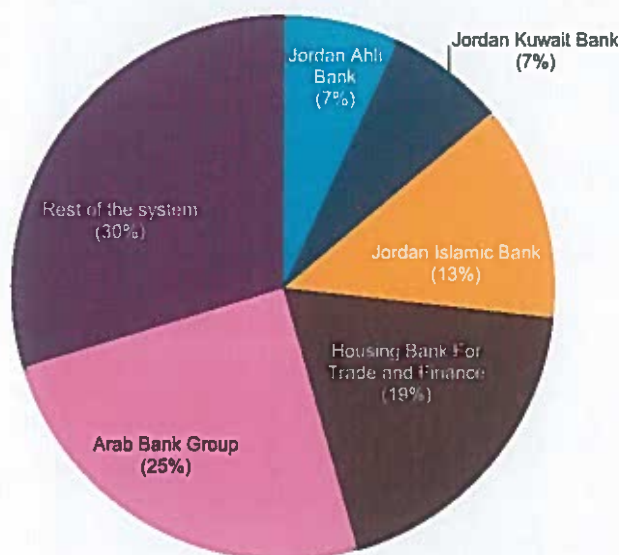
JOD--Jordanian dinar.

#### **Business position: Leading position as Jordan's largest Islamic financier and third-largest bank**

JIB has a long track record and a well-established position as the largest domestic Islamic bank and the third-largest bank in Jordan (see chart 1) with about 13% market shares in financing and deposits on Dec. 31, 2018. The bank has displayed stable market shares since 2012 in both financings and deposits. On the downside, revenue diversification is limited: JIB derives 98% of its revenue from Jordan.

Chart 1

**Jordan Islamic Bank Is A Purely Jordanian Player Of Moderate Size**  
Loan market shares of Jordanian banks



Source: S&P Global Ratings Estimates

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We expect that JIB will continue managing growth cautiously, although future revenue may be volatile due to muted domestic growth prospects for private-sector credit. In 2018, credit growth reached 2.4%, below the system's average, while net income was down by 8% year on year.

JIB has been governed by a stable management team for several years and we believe the approved succession plan of the former CEO Musa Shihadeh will ensure the continuity of the bank's strategy and management. The bank has a simple business model and has limited asset size. It funds itself predominantly through locally raised customer deposits, while generating the bulk of its earnings from its retail clients.

Table 2

**Jordan Islamic Bank Business Position**

(%)	--Year ended Dec. 31--				
	2018	2017	2016	2015	2014
Total revenues from business line (mil. JOD)	166.2	166.1	169.4	152.2	140.7
Commercial banking/total revenues from business line	25.8	29.9	N/A	N/A	N/A
Retail banking/total revenues from business line	54.3	62.9	N/A	N/A	N/A
Commercial & retail banking/total revenues from business line	80.1	92.8	N/A	N/A	N/A
Trading and sales income/total revenues from business line	7.9	7.1	N/A	N/A	N/A

Table 2

Jordan Islamic Bank Business Position (cont.)	--Year ended Dec. 31--				
	2018	2017	2016	2015	2014
Other revenues/total revenues from business line	12.0	0.1	100.0	100.0	100.0
Investment banking/total revenues from business line	7.9	7.1	N/A	N/A	N/A
Return on average common equity	13.0	15.1	14.3	14.3	14.9

JOD--Jordanian dinar. N/A--Not applicable.

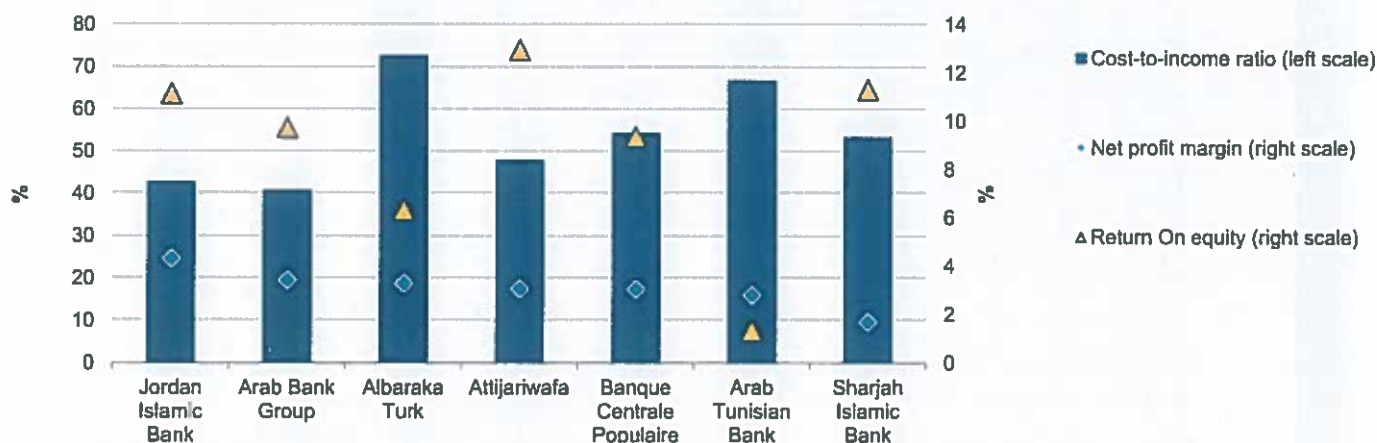
### Capital and earnings: Adequate capitalization and higher profitability than peers

Our assessment is predicated on our anticipation that our projected RAC ratio before diversification will lie in the 7.5%-7.7% range over 2019-2021 compared with 7.4% at year-end 2018. We consider that JIB's regulatory capital adequacy ratio is comfortable at 23% as of Dec. 31, 2018, which is well above the 12.5% minimum set by the central bank pertaining to Islamic banks under the Basel III framework. The quality of JIB's capital is high, given that the bulk of the capital base comprises core capital items and the bank does not rely on hybrid instruments.

Despite economic headwinds in Jordan, JIB has displayed favorable profitability metrics compared with peers over the past five years (see chart 2) with return on equity slightly down in 2018 to 13%, from 15.1% at year-end 2017. However, capital build-up capacities are balanced by somewhat higher than average dividends payout. Finally, revenue stability through the cycle stems partly from JIB's high exposure to public-sector entities.

Chart 2

### Jordan Islamic Bank Adequate Profitability compared to Peers



Source: S&P Global Ratings.

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Our projections are based on the following assumptions:

- Contained operation costs, driven by the bank's digitalization and stable operating expenses to operating revenue at about 43% over the next 18-24 months;

- Stable net profit margin, despite increased cost of funding following the central bank's interest rate hike, and thanks to i) rapid repricing of the financing portfolio, ii) a high share of current account deposits (35% of total deposits), and iii) an increase in exposure to NEPCO. We believe overall return on equity will stabilize around 13%, above the industry average;
- Tax rate on banks' profits to increase to 38%;
- High dividends payout with distribution of bonus shares in the next two years;
- No material deterioration in asset quality, allowing for good coverage of NPFs without a significant increase in the cost of risk;
- Our projections exclude any material capital strengthening, as the regulatory capital ratio is already sufficiently high.

Table 3

Jordan Islamic Bank Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Tier 1 capital ratio	21.9	22.0	21.1	N/A	N/A
S&P Global Ratings' RAC ratio before diversification	7.4	7.2	N/A	N/A	N/A
S&P Global Ratings' RAC ratio after diversification	2.3	2.4	N/A	N/A	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	78.6	78.5	79.2	81.5	80.6
Fee income/operating revenues	13.6	14.7	12.1	10.0	10.8
Market-sensitive income/operating revenues	4.1	4.1	6.0	3.1	3.5
Noninterest expenses/operating revenues	42.6	39.6	37.5	39.0	37.0
Provision operating income/average assets	2.3	2.4	2.7	2.5	2.6
Core earnings/average managed assets	1.2	1.3	1.4	1.3	1.3

N/A--Not applicable.

Table 4

Jordan Islamic Bank Risk-Adjusted Capital Framework Data					
(Mil. JOD)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	1,600	0	0	1,085	68
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	118	0	0	45	38
Corporate	802	0	0	1,283	160
Retail	1,644	0	0	1,979	120
Of which mortgage	1,021	0	0	944	92
Securitization§	0	0	0	0	0
Other assets†	136	0	0	340	250
Total credit risk	4,300	0	0	4,732	110
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--



Table 4

Jordan Islamic Bank Risk-Adjusted Capital Framework Data (cont.)					
Market Risk					
Equity in the banking book	49	0	0	520	1,063
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	520	--
Operational risk					
Total operational risk	--	0	--	317	--
(Mil. JOD)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	--	0	--	5,568	100
Total Diversification/ Concentration Adjustments	--	--	--	12,274	220
RWA after diversification	--	0	--	17,842	320
(Mil. JOD)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		361	0.0	410	7.4
Capital ratio after adjustments†		361	0.0	410	2.3

\*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. JOD -- Jordanian Dinar. Sources: Company data as of Dec. 31, 2018, S&P Global Ratings.

### Risk position: Sizable public-sector exposure makes asset quality move in tandem with Jordan's economic and political conditions

Our assessment of JIB's risk position balances JIB's large single-name public sector exposure, representing roughly one-fifth of its total financing operations with JIB's superior asset quality metrics compared with peers'.

Excluding public-sector entities, JIB's top 20 funded and unfunded corporate exposures represented only about 0.6x total adjusted capital (TAC) at year-end 2018. However, we believe that JIB's creditworthiness is more closely tied to the sovereign's creditworthiness than that of peer banks, as the bank has built a sizable financing position toward government-related entity (GRE) NEPCO since 2012. In 2018, exposure to GREs alone reached about 1.3x TAC; however, this doesn't include direct exposure to Jordan sovereign risk. We do not expect a reduction in this exposure in the near future, especially since the government and the bank reaffirmed their strong ties in April 2019 when they announced a new agreement worth approximately JOD334 million.

Additionally, Jordan's public-sector finances have been under significant pressure due to the regional economic and political instability, notably the continued influx of refugees that is weighing on government finances. Similarly, lower-than-expected tax revenue has contributed to the negative trajectory of Jordan's public-sector finances. We consider that these challenges the kingdom faces weigh adversely on JIB's financial profile, given the bank's material and increasing exposure to Jordan's public sector.

We also expect the adverse economic and political conditions in Jordan will continue testing asset quality metrics in

JIB's private-sector financing portfolio. The bank has proven resilient to the current economic turbulence. Its financing book to the private sector has historically shown good granularity; its business positioning enables it to choose the best customers; and it has a consistent record of better asset quality metrics than domestic peers. Although the NPF ratio stands at a low 3.7% as of Dec. 31, 2018, we also believe that the large financing extended to public-sector entities partly drives this performance in comparison with peers.

Given the adverse economic environment, we expect JIB's cost of risk will follow past years' trends and stabilize between 75-85bps in the coming 12-18 months. We expect the NPF ratio to remain at similar levels and the bank to increase its coverage ratio over the next two years, notwithstanding any unexpected negative events caused by asset quality.

Table 5

Jordan Islamic Bank Risk Position					
	--Year ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Growth in customer loans	2.4	0.2	1.9	16.6	4.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	220.4	203.3	N/A	N/A	N/A
Total managed assets/adjusted common equity (x)	10.1	10.6	11.5	11.9	12.3
New loan loss provisions/average customer loans	0.7	0.7	0.8	0.7	1.1
Gross nonperforming assets/customer loans + other real estate owned	3.7	3.5	3.2	3.5	4.5
Loan loss reserves/gross nonperforming assets	93.3	85.3	88.5	85.8	72.1

N/A--Not applicable.

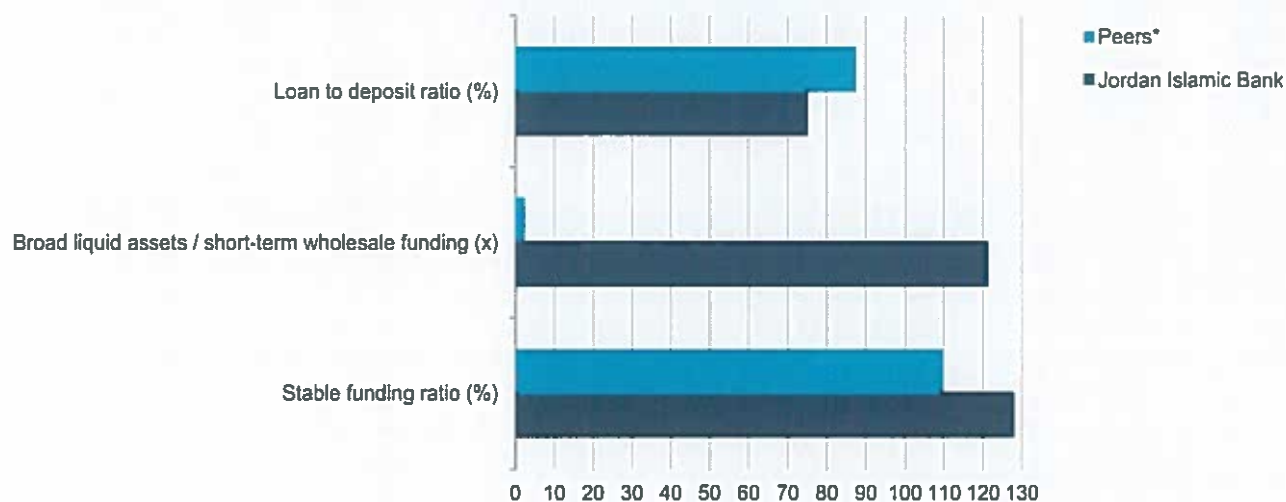
#### Funding and liquidity: Ample and granular depositor base

We assess the bank's funding as average. We calculated the bank's stable funding deposit ratio at a healthy 128% as of Dec. 31, 2018, which compares favorably on a global scale. Moreover, JIB is wholly funded by customer deposits and has high granularity within its depositor base. Its top 10 deposits represented only about 4% of total customer deposits at year-end 2018. The ratio of net financing to core customer deposits stands at a low 75%, but increased in 2018 as the bank faced outflows of JOD40 million of government deposits and increased competition from other Jordanian banks to attract or retain deposits following government deposits outflows at the system level. This led JIB to voluntarily let go of some retail deposits; rather than engaging in a price war with domestic peers.

The bank's liquidity position also remains well within adequate levels (see chart 3), given the still abundant cash balances held at the central bank. As an Islamic bank, JIB's options to park excess liquidity are limited with regulatory limits on foreign investments (maximum of 10% of total investments per the central bank's regulation), which could hamper the bank's profitability. We don't expect significant additional sukuk issuance in 2018 that would ease the bank's liquidity management. Excess liquidity will continue to be mainly channeled into government-guaranteed financing or placement at the central bank. This last investment option hampers the bank's profitability because of the zero-reward central bank placement.

Chart 3

## Jordan Islamic Bank Compares Favorably With Peers In Terms Of Metrics



Source: S&P Global Ratings. \*Peers are Sharjah Islamic Bank, Atijariwafa Bank, Banque Centrale Populaire, Albaraka Turk, Arab Bank Group, and Arab Tunisian Bank.

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Table 6

## Jordan Islamic Bank Funding And Liquidity

(%)	--Year ended Dec. 31--				
	2018	2017	2016	2015	2014
Core deposits/funding base	99.1	99.2	99.2	99.3	99.1
Customer loans (net)/customer deposits	75.0	72.0	73.2	77.1	70.4
Long-term funding ratio	99.2	99.3	99.3	99.4	99.2
Stable funding ratio	127.8	133.3	130.8	124.7	134.1
Short-term wholesale funding/funding base	0.2	0.1	0.2	0.1	0.1
Broad liquid assets/short-term wholesale funding (x)	121.2	225.5	118.5	256.2	235.5
Net broad liquid assets/short-term customer deposits	52.7	58.5	54.2	46.9	56.5
Short-term wholesale funding/total wholesale funding	26.3	16.4	30.7	13.9	14.3
Narrow liquid assets/3-month wholesale funding (x)	114.8	221.1	116.5	253.9	N/A

N/A—Not applicable.

## Support: No uplift to the SACP

We view JIB as having high systemic importance in Jordan and moderately strategic for its parent Al Baraka Group (ABG). Despite its importance, our assessment of the likelihood of extraordinary government or parent support currently have no impact on the ratings on the bank, given that the bank's SACP is above the long-term sovereign rating and the long-term rating on JIB is capped by the sovereign long-term rating. Furthermore, we assess the government's ability to support banks as uncertain. Despite a track record of willingness to provide guarantees and

liquidity if needed, we believe that the government's ability to provide emergency liquidity is constrained by its limited fiscal flexibility.

As regards its parent, JIB accounted for 28% of ABG's consolidated TAC as of Dec. 31, 2018, and we consider it to be moderately strategic to its parent group. While we acknowledge ABG's strong commitment toward its subsidiary, we have no clear evidence that ABG will support JIB in all scenarios

#### Additional rating factors:

In our view, JIB has high systemic importance in Jordan, and we assess the government's tendency to support private-sector domestic banks as uncertain. The long-term rating on JIB is one notch lower than our SACP assessment because we cap it at the level of the long-term foreign currency rating on Jordan.

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

## Ratings Detail (As Of July 29, 2019)\*

**Jordan Islamic Bank**

Issuer Credit Rating	B+/Stable/B
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**Issuer Credit Ratings History**

24-Oct-2017	B+/Stable/B
26-Apr-2016	BB-/Negative/B
13-Nov-2014	BB-/Stable/B

**Sovereign Rating**

Jordan	B+/Stable/B
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**Related Entities****Al Baraka Banking Group B.S.C.**

Issuer Credit Rating	BB/Negative/B
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**Albaraka Turk Katilim Bankasi AS**

Issuer Credit Rating	B/Negative/B
<i>Turkey National Scale</i>	trBBB+/-/trA-2

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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