

Jordan Islamic Bank

Key Rating Drivers

Jordan Islamic Bank's (JIB) Issuer Default Ratings (IDRs) are driven by its standalone strength, as indicated by its 'bb-' Viability Rating (VR). The VR considers JIB's only adequate capitalisation given the bank's high leverage and sovereign exposure. It also reflects JIB's strong domestic franchise, stable asset quality, acceptable profitability, and stable funding and good liquidity. The 'B' Short-Term IDR is the only option mapping to a 'BB-' Long-Term IDR.

Challenging Operating Environment: The operating environment remains challenging due to below-potential and structurally weak GDP growth, monetary tightening, high unemployment and geopolitical risks. Fitch expects moderate bank credit growth of 3%-4% in 2024, and forecasts low real GDP growth of 2.3% in 2024 and 2.8% in 2025 due to increased geopolitical risks and its negative impact on tourism. Acceptable domestic credit conditions should balance out gradual fiscal consolidation and slower regional growth.

Strong Domestic Franchise: JIB had a market share of 9% of banking-sector assets and 46% of Islamic banking-sector assets at end-2023. It has good distribution capabilities (89 branches) and a strong brand. The bank benefits from growth opportunities in Islamic banking. JIB has no direct or indirect exposures to the Palestinian Territories.

High Sovereign Exposure, Concentration: JIB is highly exposed to the sovereign through financing of government-related entities, holdings of sovereign securities and balances with the Central Bank of Jordan (CBJ; end-2023: 33% total assets; 3.9x common equity Tier 1 (CET1).

Financing is concentrated on real estate-related sectors, mostly ijara muntahia bittamleek (IMT; mostly leasing of residential properties; end-2023: 24% of gross financing), retail housing (10%) and wholesale real estate (4%). These risks are mitigated by JIB's adequate risk management.

Stable Asset Quality: JIB's stable Stage 2 and 3 financing ratios (end-2023: 10.3% and 3.1%, respectively), negligible Stage 3 financing generation, good total loss allowances coverage of Stage 3 financing (132%) and high exposures to the sovereign support our assessment of the bank's asset quality. However, high concentrations expose JIB to event risk. Fitch expects asset quality to remain stable, with a Stage 3 financing ratio of 3% at end-2024.

Acceptable Profitability; Mild Decline: JIB's operating profit was 1.7% of average total assets in 2023 (2022: 1.8%; 2021: 1.9%), but was under pressure from declining net financing margins (NFM; 2023: 2.9%; 2022: 3.2%; 2021: 3.6%) and low growth. Low cost of risk and stable operating efficiency support JIB's profitability. Fitch expects stable profitability, with operating profit at 4% of risk-weighted assets (RWAs) and 1.7% of average total assets in 2024.

Only Adequate Capitalisation: JIB's CET1 capital ratio is stable (end-2023: 20.2%) due to low growth and adequate internal capital generation. It is above the 15% sector average and 9% regulatory minimum (including buffers) due to 0% risk-weights on local-currency sovereign exposures (as for all banks), and the 30% alpha factor (as for all Jordanian Islamic banks). The latter provides a 70% discount to risk weightings on credit risk exposures financed by investment accounts (these were 48% of undiscounted credit risk exposures at end-2023).

The discount translates into high leverage that is above peers', with a Fitch-calculated tangible leverage ratio of 9.4%, demonstrating lower loss absorption buffers. Fitch expects stable capitalisation, with a 19.5% CET1 capital ratio and a 9.3% tangible leverage ratio at end-2024.

Stable Funding; Good Liquidity: JIB is mostly funded by stable and granular retail customer deposits (end-2023: 84% of customer deposits) that result in very low funding concentration. The bank's high-quality liquid assets represented an adequate 19% of total assets at end-2023, covering an adequate 22% of customer deposits and mitigating liquidity maturity mismatches.

Ratings

Foreign Currency

Long-Term IDR	BB-
Short-Term IDR	B

Viability Rating	bb-
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Government Support Rating	b
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Sovereign Risk (Hashemite Kingdom of Jordan)

Long-Term Foreign-Currency IDR	BB-
Long-Term Local-Currency IDR	BB-
Country Ceiling	BB

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

- Fitch Rates Jordan Islamic Bank 'BB-'; Outlook Stable (May 2024)
- Hashemite Kingdom of Jordan (May 2024)
- Fitch Affirms Jordan at 'BB-'; Outlook Stable (May 2024)
- EMEA Islamic Banks Outlook 2024 (December 2023)
- Middle East Banks Outlook 2024 (December 2023)
- EM100 Banks Tracker - End-1H23 (December 2023)

Analysts

Gilbert Hobeika
+971 4 424 1214
gilbert.hobeika@fitchratings.com

Redmond Ramsdale
+44 20 3530 1836
redmond.ramsdale@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade


A downgrade of the Jordanian sovereign rating or a significant deterioration in the domestic operating environment would lead to a downgrade of JIB's ratings.

An increase in JIB's risk appetite, pressuring asset quality, profitability and capitalisation, could also lead to a downgrade of the bank's ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of JIB's ratings would require an upgrade of the Jordanian sovereign rating and sustained improvements to the operating environment, in tandem with stable business, risk and financial profiles.

Ratings Navigator

Jordan Islamic Bank							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB- Sta
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'bb-' is above the 'b' category implied score due to the following adjustment reason: macroeconomic stability (positive).

The business profile score of 'bb-' is above the 'b' category implied score due to the following adjustment reason: market position (positive).

The capitalisation and leverage score of 'b+' is below the 'bb' category implied score due to the following adjustment reason: leverage and risk-weight calculation (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Stable Sovereign Rating; Increased Geopolitical Risks

Fitch's affirmation of Jordan's sovereign rating with a Stable Outlook in May reflects Jordan's progress in fiscal and economic reforms, which should help stabilise debt/GDP (including guarantees) at 91% in 2024 and 89.7% in 2025. The sovereign's resilient financing is linked to the liquid banking sector, the social security corporation, and funding from international partners, which together support the sovereign rating and the country's macroeconomic stability, particularly the foreign-exchange-rate peg regime to the US dollar. However, high government debt, weak growth, political and social risks, and large external financing needs all constrain Jordan's rating.

The war between Israel and Hamas has increased geopolitical risks. In Fitch's view, these risks are mitigated by strong multilateral and bilateral official support, including military and economic assistance from the US, reduced exposure to food and energy price volatility, and potential supply disruptions. The risk of the conflict jeopardising Jordan's exports, energy, water or food supply is limited due to long-term gas contracts, alternative trade routes, and supply arrangements, and strategic reserves of fuel and wheat. However, a prolonged or expanded conflict, even if it does not involve Jordan directly, could weaken growth prospects and increase the challenges for fiscal consolidation.

Challenging Operating Environment

Jordan's 'bb-/stable' operating environment score is supported by the sovereign rating, some growth, mostly due to the services sector, including tourism, and still-supportive domestic credit conditions. However, the operating environment remains challenging due to below-potential and structurally weak real GDP growth. Fitch forecasts low real GDP growth of 2.3% in 2024 and 2.8% in 2025 due to increased geopolitical uncertainty and likely reduced tourism inflows, most notably from the US and Europe. High unemployment (2023: 22.6%), monetary tightening and difficult regional economic environment also pose risks to growth, although high oil prices have created positive spillovers to Jordan from the GCC, which is a key source of tourist entries, investment and remittances.

Mild Pressure on Loan Quality; Profitability Recovers

Loan growth will remain moderate at 3%–4% in 2024 (1Q24: 1.5%) given the challenging economic conditions and risks to loan quality, especially as high interest rates pressure credit demand and borrowers' repayment capabilities. Profitability recovered in 2023 and will likely remain stable in 2024, supported by high interest rates and acceptable business volumes. Fitch expects capital ratios to remain stable up to end-2024, with the CET1 capital ratio above 15%, given moderate loan growth and adequate internal capital generation. Single-obligor concentration, mostly from loans to government-related entities (GREs) and utility companies, will continue to expose banks to event risk. Jordanian banks' exposures to the sovereign (30%–35% of which are deposits at the CBJ) are high (end-1Q24: 36% of total assets, or 3.3x equity). Liquidity is well-managed, and funding, mostly customer deposits, is stable. Dollarisation is moderate (end-1Q24: 20% of assets, 12% of loans and 21% of customer deposits). Market risk is well-contained.

Moderate Exposures to the Palestinian Territories Could Pose Additional Risks

Jordanian banks are moderately exposed to the Palestinian Territories through branches due to historical ties and common interests. Branches in the Palestinian Territories represented 9% of Jordanian banks' consolidated assets at end-2023. Exposures include loans (46% of total assets; largely to the Palestinian authority and related entities backed by taxes or invoices, and some monopolistic large entities; some retail loans to civil servants and employees of the large private groups), placements with the Palestine Monetary Authority and local banks (35% of total assets), and some securities and cash. Banks are not involved in activity in Gaza; only in the West Bank. Jordanian banks do not take excessive risks, in Fitch's view, and impaired loans ratios are typically low (below 7%). Fitch views these exposures as highly sensitive to the geopolitical situation, and that they therefore pose continuous risks to Jordanian banks' asset quality, profitability and capital.

Business Profile

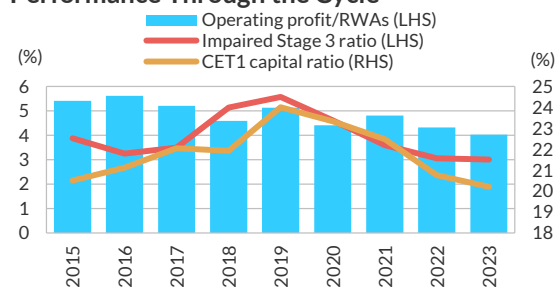
JIB is a systemically important bank in Jordan, with a market share of 9% of banking-sector assets and 46% of Islamic banking-sector assets at end-2023. As the largest Islamic bank in Jordan, JIB benefits from growth opportunities in Islamic banking. The bank solely operates in Jordan (end-2023: 96% of credit risk exposures), with no foreign expansion plans and no direct or indirect exposures to the Palestinian Territories.

JIB focuses on organic growth to consolidate its good market position, with a focus on financing (end-2023: 70% of total assets; more than peers) given the small Islamic investment and placements opportunities in Jordan. Financing growth, likely to be 3%–4% in 2024 and 2025, will concentrate on retail (end-2023: 53% of gross financing and 68% excluding GRE financing; retail is mostly housing to civil servants) and GREs – mostly National Electricity Power Company (NEPCO; 100% state-owned; end-2023: 22% of gross financing). JIB also aims to grow its small trade

finance business (end-2023: 3% of total assets; smaller than peers) leveraging on the geographical presence of its parent, Al Baraka Group (ABG; 66% ownership), a Bahrain-based international Islamic financial group that operates across 14 countries, but group business benefits will remain limited. Non-loan assets, mostly focused on Jordanian sovereign instruments and CBJ placements, will remain for liquidity and capital purposes.

JIB's digitalisation efforts support its competitive position for business origination and retention, deposit collection and for cost efficiency. Like peers, JIB's net financing income remains high (2023: 77% of operating income), which will continue to expose the bank to credit and interest rate cycles. Fees and commissions are weaker than peers, due to some Islamic finance constraints (for example, JIB does not have commissions on financing), small trade finance business and high financing to NEPCO. The bank has a good and experienced management team, but execution is sensitive to the challenging domestic operating conditions.

Performance Through the Cycle

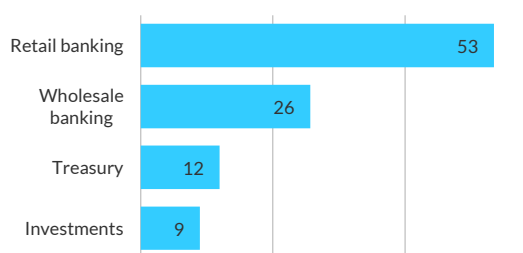


^a Annualised

Source: Fitch Ratings, Fitch Solutions, JIB

Operating Income Split by Segment (%)

2023



Source: Fitch Ratings, Fitch Solutions, JIB

Risk Profile

JIB is highly exposed to the Jordanian sovereign, through financing of GREs, holding of sovereign securities, and balances with the CBJ (end-2023: 33% of total assets or 3.9x CET1 capital), 65% of which are related to NEPCO financing and sukuk, 100% guaranteed by the government. This translates into high single-obligor concentration – at end-2023, the 20 largest-single group obligors represented 30% of gross financing, or 2.7x CET1 capital. The concentration was mostly driven by NEPCO (22% of gross financing or 1.8x CET1 capital), not subject to single-obligor limit and mostly bilateral financing for working capital needs. This also translates into volatile financing growth, sensitive to NEPCO credit demand and settlement. However, this supports JIB's regulatory capital through lower risk weights, offers higher yields compared to CBJ placements, and reflects conservative risk appetite given the limited financing opportunities.

JIB's financing is concentrated on real estate-related sectors, split between IMT (end-2023: 24% of gross financing; mostly leasing of residential properties to government employees with salary assignments), retail housing (10%) and wholesale real estate (4%). JIB's retail financing has appropriate financing-to-value and debt-burden ratios. Other wholesale financing is spread across various economic sectors. Financing to hospitality, transportation and shares is limited. SME financing is small (5%), well-collateralised, and backed by the Jordan Loan Guarantee Corporation. Financing is adequately provisioned and collateralised (end-2023: total collateral covered 54% of gross loans), mostly real estate (75%). JIB's financing is mostly murabaha (75%) and IMT (23%), both non-participation profit-and-loss financing, which means lower risk in Fitch's view. Financing growth is conservative and has not put any pressure on capitalisation.

JIB is highly sensitive to interest rate changes (75%–80% of operating income comes from financing income), due to negative repricing gaps for short maturities, which pressure JIB's NFM (2023: 2.9%; 2022: 3.2%; 2021: 3.6%) when interest rates are higher. This mostly comes from the agreed and fixed pricing at inception of the murabaha contracts (end-2023: 60% mature after 12 months; IMT: variable pricing), fixed-rate sovereign securities (end-2023: 90% mature after 12 months) and sizeable term deposits (end-2023: 59% of customer deposits). Fierce market competition adds pressure to the repricing capabilities on the financing and deposits. JIB does not have a profit equalisation reserve that can be used to mitigate fluctuation in profit rates. The bank can have recourse to shareholders to maintain the competitiveness of profit rates offered, as done few times in the past few years but only for small amounts. Fitch expects JIB to benefit slightly from a lower interest rate environment.

The long-standing peg of the Jordanian dinar with the US dollar, the small foreign-currency (FC) positions, and the natural hedging of FC corporate lending by FC earnings mitigate FC risk. Mark-to-market valuation risk is low, as 85%–90% of securities are at amortised cost. Investment properties are small, with no major pressure in the domestic real estate market. Trading is negligible. Equity price risk is limited due to low equity securities, negligible share financing and collateralised shares.

Financial Profile

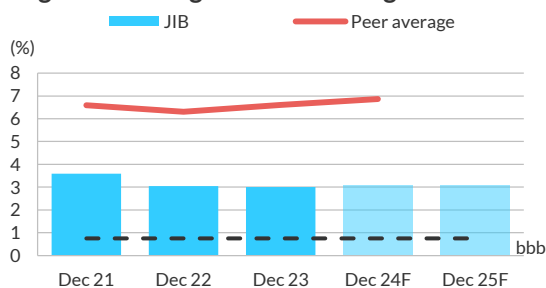
Asset Quality

JIB's stable Stage 3 financing ratio (end-2023 and end-2022: 3.1%) is supported by lower Stage 3 financing stock (repayments, some write-offs), financing growth and IMT impairment classification. An IMT asset is subject to impairment based on the fair value of the leased asset, while only the receivables' 90-day-past-due portion is classified as impaired, rather than the total related principal. Foreclosed assets add some pressure to financing quality, adding a moderate 100bp–120bp to the Stage 3 financing ratio. Properties are regularly appraised and disposal of these assets at appropriate price is challenging in the current operating environment. The Stage 3 financing generation ratio (change in Stage 3 financing plus written-off financing/average gross financing) was negligible in 2022 and 2023. JIB's Stage 2 financing ratio was also stable (end-2023: 10.3%; end-2022: 9.6%; in line with peers). Fitch expects stable financing quality, with a 3% Stage 3 financing ratio at end-2024.

Total loss allowances coverage has been improving since 2020, and has reached 132% of Stage 3 financing at end-2023, which is better than peers. Total loss allowances of gross financing remain moderate (end-2023: 4%). Fitch expects stable financing loss allowances coverage in 2024.

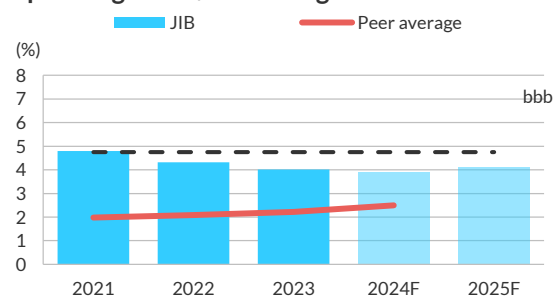
Fitch's asset quality assessment incorporates high sovereign-related credit risk exposures, good quality of the non-government-related financing, and stress testing on IMT with several Stage 3 financing ratio scenarios (5%, 7% and 10%). The latter does not weaken JIB's financing quality much, and does not pull down the bank's score.

Stage 3 Financing/Gross Financing



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

JIB's profitability is still recovering from the pandemic. Net income increased 2% in 2023 due to good control over impairment charges, supported by stable asset quality, and stable operating efficiency. However, the declining NFM's (2023: 2.9%; 2022: 3.2%; 2021: 3.6%; all weaker than peers) and low growth put pressure on the bank's profitability.

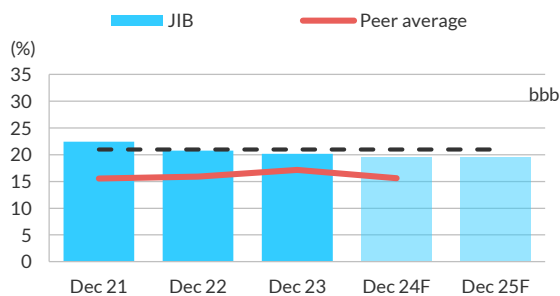
The cost/income ratio remains high (2023: 45%), despite being stable and comparable to peers. Pressure on JIB's profitability from stiff domestic competition amid challenging operating conditions will continue. The operating profit/RWA ratio was 4% in 2023, higher than peers, benefitting from low RWA asset density. The bank's operating profit/average total assets was 1.7% in 2023, comparing well with peers. Pre-impairment operating profit equalled a moderate 2.3% of JIB's average gross financing in 2023, providing the bank with moderate buffers to absorb additional impairments through the income statement. Fitch expects stable profitability, with operating profit at 4% of RWAs and 1.7% of average total assets in 2024.

Capital and Leverage

JIB's capital buffers are only adequate given the bank's high exposure to sovereign risk and the low risk weights applicable in its regulatory capital calculations. The CET1 capital ratio (end-2023: 20.2%) and capital adequacy ratio (20.5%) are much higher than domestic peers', and well above the minimum regulatory requirements (9% and 12.5%, respectively; including all buffers; a domestic systemically important bank (D-SIB) buffer of 0.5% is also applicable). This is due to 0% risk-weights on local-currency sovereign exposures, including financing to NEPCO and cash balances with the CBJ, which applies for all banks operating in Jordan. All Islamic banks in Jordan are also subject to the 30% alpha factor under CBJ instructions based on IFSB standards. The latter provides a 70% discount to risk weightings on credit risk exposures financed by investment accounts (these were 48% of undiscounted credit risk exposures at end-2023). The discount translates into high leverage, which is above peers', with a Fitch-calculated tangible leverage ratio of 9.4%, demonstrating lower loss absorption buffers.

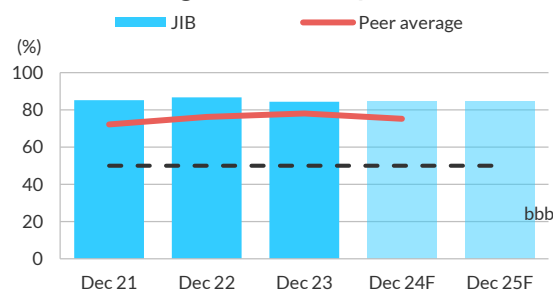
Full loss allowance coverage of Stage 3 financing and moderate pre-impairment operating profit provide an adequate cushion against deteriorating credit conditions. The bank's capital base is mostly composed of CET1 capital without any hybrid capital. Given the regulatory capital ratios level, Fitch does not expect any capital-raising, and that the bank will continue to manage its capital ratios at the same level. Fitch expects stable capitalisation, with a 19.5% CET1 ratio and 9.3% tangible leverage at end-2024.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Financing/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

JIB is mostly funded by stable and granular customer deposits (end-2023: 98% of non-equity funding). Retail deposits represented a high 84% of customer deposits at end-2023, with no dependence on government-related deposits (4%). This reflects low deposit concentration, with the 20 largest depositors accounting for only 7% of the total at end-2023. The bank has limited non-resident deposits (1%) which are mostly from Jordanian expatriates and low FC deposits (less than 10% of customer deposits). The deposit insurance scheme (up to JOD50,000) in Jordan further supports the stability of funding.

The bank's gross financing/customer deposits (including cash margins) ratio is adequate (end-2023: 84%), but higher than peers due to the larger focus on financing as sharia-compliant investments and placements opportunities are more limited. High-quality liquid assets (used for the liquidity coverage ratio calculation) represented an adequate 19% of total assets at end-2023, covering 22% of customer deposits, which is adequate but lower than at peers'. The bank does not have refinancing risks and no debt issuance.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bb' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Bank Al Etihad (VR: bb-), Bank of Jordan Plc (bb-), Jordan Ahli Bank Plc (b+). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	12 months	12 months	12 months	12 months	12 months
	(USDm)	(JODm)	(JODm)	(JODm)	(JODm)
	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement					
Net financing & dividend income	188	134	137	145	143
Net fees and commissions	26	19	18	14	17
Other operating income	29	20	19	18	11
Total operating income	243	172	174	177	171
Operating costs	110	78	78	74	79
Pre-impairment operating profit	133	94	96	104	92
Financing & other impairment charges	-1	-1	1	7	8
Operating profit	133	95	96	97	84
Other non-operating items (net)	0	0	0	0	0
Tax	45	32	34	37	32
Net income	88	62	61	59	52
Other comprehensive income	1	1	0	0	1
Fitch comprehensive income	89	63	61	59	53
Summary balance sheet					
Assets					
Gross financing	5,799	4,117	4,089	3,866	3,548
– Of which Stage 3	175	124	125	139	164
Financing loss allowances	231	164	164	151	141
Net financing	5,567	3,953	3,925	3,715	3,407
Interbank	179	127	80	88	86
Islamic derivatives	0	0	0	0	0
Other securities and earning assets	816	580	571	446	362
Total earning assets	6,563	4,660	4,577	4,249	3,854
Cash and due from banks	1,095	777	719	894	829
Other assets	266	189	168	160	162
Total assets	7,924	5,626	5,463	5,303	4,845
Liabilities					
Customer deposits	6,878	4,883	4,718	4,537	4,112
Interbank and other short-term funding	123	87	100	108	114
Other long-term funding	0	0	0	0	0
Trading liabilities and Islamic derivatives	0	0	0	0	0
Total funding and Islamic derivatives	7,000	4,970	4,818	4,645	4,226
Other liabilities	172	122	124	148	144
Preference shares and hybrid capital	0	0	0	0	0
Total equity	752	534	521	510	474
Total liabilities and equity	7,924	5,626	5,463	5,303	4,845
Exchange rate		USD1 = JOD0.71	USD1 = JOD0.71	USD1 = JOD0.71	USD1 = JOD0.71

Source: Fitch Ratings, Fitch Solutions, Jordan Islamic Bank

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	4.0	4.3	4.8	4.4
Operating profit/average total assets	1.7	1.8	1.9	1.8
Net financing income/average earning assets	2.9	3.2	3.6	4.0
Non-financing expense/gross revenue	45.4	44.7	41.5	46.2
Impairment charges/pre-impairment operating profit	-0.5	0.9	6.9	8.8
Net Income/average equity	11.9	12.0	12.1	11.6
Asset quality				
Stage 2 financing ratio	10.3	9.7	11.8	12.4
Stage 3 financing ratio	3.0	3.1	3.6	4.6
Growth in gross financing	0.7	5.8	9.0	16.2
Financing loss allowances/Stage 3 financing	132.4	131.4	108.6	86.5
Financing loss allowances/gross financing	4.0	4.0	3.9	4.0
Financing impairment charges/average gross financing	0.0	0.0	0.2	0.2
Net charge-offs/average gross financing	0.1	0.0	0.2	0.1
Capitalisation				
Common equity Tier 1 capital ratio	20.2	20.8	22.5	23.3
Tier 1 capital ratio	20.2	20.8	22.5	23.3
Total capital ratio	20.5	21.2	23.0	23.7
Tangible common equity/tangible assets	9.4	9.4	9.5	9.7
Basel leverage ratio	18.8	18.5	17.8	19.0
Net Stage 3 financing/common equity Tier 1 capital	-8.5	-8.5	-2.7	5.0
Risk weighted assets/total assets	41.9	40.5	37.9	39.2
Cash dividends paid and declared/net income	70.6	81.8	84.6	46.1
Funding & liquidity				
Gross financing/customer deposits	84.3	86.7	85.2	86.3
Customer deposits/total non-equity funding	98.3	97.9	97.7	97.3
Growth in customer deposits	3.5	4.0	10.3	6.8
Liquidity coverage ratio	342.1	202.4	217.7	n.a.
Net stable funding ratio	119.8	119.6	126.5	n.a.

Source: Fitch Ratings, Fitch Solutions, Jordan Islamic Bank

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bb- or b+
Actual jurisdiction D-SIB GSR	b
Government Support Rating	b
Government ability to support D-SIBs	
Sovereign Rating	BB-/Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Negative
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Positive
Ownership	Negative

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

Fitch believes the Jordanian authorities have a strong willingness to provide support to domestic banks, including JIB, in order to maintain market confidence and stability, given JIB's high systemic importance, high contagion risk among domestic banks and their high importance to the economy and the country's development plans. However, the D-SIBs' Government Support Rating (GSR) of 'b' is below Fitch's typical D-SIB GSR for 'bb-' rated sovereigns with a high propensity to provide support (0–1 notches below the sovereign rating), due to the sovereign's weak financial flexibility. Fitch therefore assigns JIB a GSR of 'b' at the same level as the actual D-SIB GSR.

Fitch does not factor into the ratings any support from ABG as it cannot be relied on because of JIB's high relative size (end-2023: JIB's total assets represented 31% of ABG consolidated assets), which could constrain ABG's ability to support.

Environmental, Social and Governance Considerations

FitchRatings Jordan Islamic Bank

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ESG Relevance to
Credit Rating

Jordan Islamic Bank has 1 ESG rating driver and 5 ESG potential rating drivers		key driver	0	issues	5	
➡	Jordan Islamic Bank has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating.	driver	1	issues	4	
➡	Jordan Islamic Bank has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.					
➡	Jordan Islamic Bank has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating.	potential driver	5	issues	3	
➡	Jordan Islamic Bank has exposure to operational implementation of strategy but this has very low impact on the rating.					
➡	Jordan Islamic Bank has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.	not a rating driver	3	issues	2	
➡	Jordan Islamic Bank has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.		5	issues	1	

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1 n.a.	n.a.		5
Energy Management	1 n.a.	n.a.		4
Water & Wastewater Management	1 n.a.	n.a.		3
Waste & Hazardous Materials Management; Ecological Impacts	1 n.a.	n.a.		2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5) and provides a brief explanation for the score.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1 n.a.	n.a.		2
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	4	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

As an Islamic bank, JIB needs to ensure compliance of its entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit. This results in a Governance Structure Relevance Score of '4' for the bank, which has a negative impact on the bank's credit profile and is relevant to its rating in combination with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for exposure to social impacts, above sector guidance for an ESG relevance score of '2' for comparable conventional banks, which reflects certain sharia limitations being embedded in Islamic banks' operations and obligations, although this only has a minimal credit impact on the entities.

Except for the matter discussed above, the highest level of ESG credit relevance, if present, is a score of '3' - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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