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السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،،

**الموضوع: التصنيف الشرعي للبنك الإسلامي الأردني، من الوكالة الإسلامية الدولية  
للتصنيف (IIRA)**

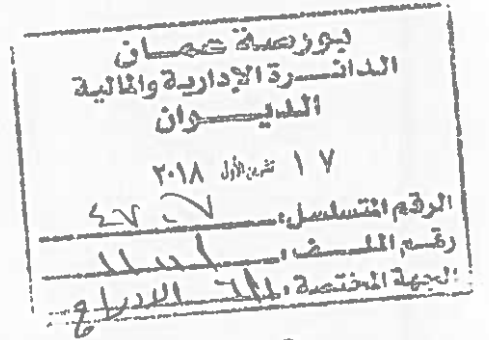
بالإشارة الى الموضوع أعلاه ، يسرنا أن نرفق لكم طيه نسخة من تقرير وخبر

تصنيف الجودة الشرعية الخاص بمصرفنا والصادر عن الوكالة الإسلامية الدولية

للتصنيف (IIRA) إصدار تشرين اول ٢٠١٨.

وتفضلوا بقبول فائق الاحترام،،،

المدير العام  
موسى عبدالعزيز شحادة



Handwritten signature

المرفقات: نسخة من تقرير وخبر الوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار تشرين اول ٢٠١٨

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الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

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## IIRA Upgrades Jordan Islamic Bank's Shari'a Quality Rating

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**Manama, October 11, 2018:** The Islamic International Rating Agency ("IIRA") has upgraded the Shari'a Quality Ratings of Jordan Islamic Bank ("JIB") at AA+(sq) (Double A Plus) based on recent review meetings and its assessment of disclosures pertaining to the year ended December 2017.

JIB is the first and largest Islamic bank in the Hashemite Kingdom of Jordan ("Jordan" or "the country"). IIRA continues to acknowledge the bank's perseverance to conform to very high standards of Shari'a principles, under the auspices of the Central Bank of Jordan. The latter's commitment to promoting the soundness and resilience of the systemically important industry is manifest in its latest amendments in Islamic banks' corporate governance regulations. More specifically, the amendments set international benchmark in strengthening coordination between various stakeholders, rendering Shari'a compliance an institution-wide responsibility and holding members of the Shari'a Supervisory Board to a higher order of diligence and accountability towards Investment Account Holders.

IIRA takes note of the further integration of Shari'a governance at JIB with the involvement of additional supervisory layers in ensuring Shari'a compliance. Indeed, compliance to Shari'a principles is well entrenched in the bank's culture, which emphasizes the importance of high ethical Islamic standards at all levels of personnel. In our estimation, JIB's business strategy depicts commitment to a triple bottom line.

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

**Sabeen Saleem, CFA**

**Chief Executive Officer**

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الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

## SHARI'A QUALITY RATING REPORT

### Jordan Islamic Bank

**Report Date:**  
October 11, 2018

**Analyst:**  
Alaa Alaabed, PhD

	<b>Latest Rating</b> (October 11, 2018)	<b>Previous Rating</b> ( January 30, 2018)
<b>Shari'a Quality Rating</b>	AA+ (sq)	AA (sq)

#### Corporate Profile

Established in 1978, Jordan Islamic Bank ('JIB' or 'the bank') is one of the oldest Islamic banks in the world and the largest licensed Islamic bank in the Hashemite Kingdom of Jordan ('Jordan' or 'the Kingdom' or 'the country'), commanding close to 55% of the local Islamic banking market, according to statistics by the Association of Banks in Jordan (2018). It is also the third largest of all banks in the Kingdom, representing 9.1% of the JD46.5b banking industry's asset base.

JIB has posted continued growth over the years, buoyed by its strong franchise and market outreach. The bank's delivery network comprises 74 branches, 26 banking offices and 206 ATMs, which account for 12.8% of all ATMs operating in the Kingdom.

The bank is majority-owned by Al Baraka Banking Group (ABG), a leading international Islamic banking group with extensive geographical presence in 16 countries, including key Islamic finance markets of Bahrain, Pakistan, Turkey and Saudi Arabia. ABG's asset base stood at USD 25.4b as of Dec'17 and it posted consolidated net earnings of USD 207m for the year 2017. As of Dec'17, ABG had a consolidated network of 675 branches and a workforce of 12,795. JIB constitutes 23.2% of the Group's asset base and contributed ~37% of the Group's net profit for 2017.

JIB clearly embodies the principles of Islamic banking in its vision and mission statements. The latter enshrines the values of Shari'a in serving the society, ensuring fairness to all stakeholders, all while keeping pace with innovation in technology and banking products. Such embodiment is evident in the organisational culture, which emphasises and demonstrates the importance of high ethical, Islamic and integrity standards at all levels of personnel. Jordan was named the Best Islamic Bank in Jordan by a number of publications, including: The Banker, Global Finance and World Finance.

### **The Islamic Banking Industry in Jordan**

There are four licensed Islamic banks in the country – three Jordanian and one foreign. Jordan's Islamic banking industry is systemically important with a share of 16.6% of total banking assets as of 2017 year-end (2016: 16.1%). Growth followed a moderate increase in Islamic banking asset base of almost 4.0%, which exceeded growth in the overall banking sector (2.2%).

Profitability in Islamic banks has also improved, with higher ROAs of 1.13% in 2017, compared to an industry-wide average of 1.04%. Islamic banks' cost-to-income ratios have been consistent, averaging 51.1% over the same period.

The liquid assets to short-term liabilities ratio (LA/SL) measures the amount of assets held by banks that are readily convertible to cash in order to meet obligations payable within a period of 90 days. The LA/SL ratio declined in Jordan during the 1H2017, but still represented a high 90.8%. The Islamic banking industry's financing-to-deposit (FDR) was reported at 76.5% as of 1H2017.

In terms of foreign exchange position, the overall exposure in Jordan Islamic banking industry remains low. Only 5% of total Islamic financings are denominated in foreign currency, whereas foreign currency-denominated funding accounts for 9.8% of total Islamic banks' funding, on average as of 1H2017. Islamic banks have carefully managed their foreign currency denominated financing-to-funding ratio (FFR). FFR stood at 50.8%, as of 1H2017 reflecting a fair utilization of foreign currency funding to support foreign currency financing transactions.

Activity in the Jordanian Islamic capital market failed to pick pace. There were no sovereign Sukuk issuances in 2017.

The 2017 edition of the Islamic Finance Development Report and Indicator (IFDI) ranked Jordan 8<sup>th</sup> globally in terms of industry-wide quantitative development, knowledge, governance, corporate social responsibility and awareness.

### *Shari'a Governance Framework*

### **Regulatory Environment**

Islamic banking in Jordan is guided by the Central Bank of Jordan ('CBJ'). CBJ has made a number of strides in promoting the soundness and resilience of the industry, including designing and implementing Islamic-banking-specific financial regulations, levelling at the same time, the playing field in a dual banking system. Regulations and standards are revised on a timely basis in line with international best practices, such as Basel capital requirements and core principles, and the increasing systemic importance of the Shari'a compliant industry. CBJ's latest amendments in Islamic banks' corporate governance set international benchmark in strengthening coordination between various stakeholders, rendering Shari'a compliance an institution-wide responsibility and holding members of the Shari'a Supervisory Board ('SSB' or 'the Board') to a higher order of diligence and accountability towards Investment Account Holders ('IAH').

Furthermore, Jordan adopts the Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) Accounting Standards for Islamic banking and standards issued by the Islamic Financial Services Board<sup>1</sup> (IFSB). Whereas AAOIFI Shari'a Standards have not been officially adopted, they have been voluntarily complied with by banks, including JIB.

The Shari'a governance infrastructure instituted at JIB conforms to the guidelines provided by the CBJ. It includes the following:

### Shari'a Supervisory Board

#### *SSB Composition*

The composition of the Shari'a Supervisory Board has remained unchanged since IIRA's last review. The SSB comprises four reputable members whose qualifications and experience meet CBJ's 'Fit and Proper Criteria'<sup>2</sup> and whose number exceeds the minimum requirements, as stipulated in the amended instructions for corporate governance no. (64/2016) dated 25/9/2016. Members were appointed in 2015 for a period of four renewable years. They will be eligible for re-appointment in 2019.

The SSB held seven meetings in 2017, satisfying the minimum regulatory requirement of six meetings per year. Meetings were fully attended, with the exception of one that had a single absence, thereby exceeding minimum attendance, as prescribed by the regulations. The summary of the meetings' attendance is disclosed in the annual report as follows:

**Table 1: SSB Meetings**

Members	No. of meetings attended
Dr. Mahmoud Ali Mosleh Sartawi (Chairman)	7
Dr. AbdSattar Abdul Karim Abu Ghoddeh (Vice-Chairman)	6
Dr. "Mohammad Khair" Mohammad Salem Al-Issa (Member)	7
Dr. Abdul Rahman Ibrahim Zaid Al Kelani (Member)	7

<sup>1</sup>Jordan joined IFSB's Prudential and Structural Islamic Financial Indicators (PSIFIs) program in 2014.

<sup>2</sup>The bank sends the CBJ updates on members' personal and academic information on a bi-annual basis to inform the regulator of any changes.



JIB's senior management actively participated in SSB meetings. While such participation is commendable to foster greater understanding and provide useful insights on any business, technical or operational matters discussed during the meeting, senior management must not be present during SSB's voting or decision-making. This is critical for good governance and organisational effectiveness. In addition, the Shari'a Supervisory Board also attended the annual meeting of the General Assembly to present SSB's annual report and answer any questions that may arise. Moreover, the Board met the BoD, the audit committee and the external auditor twice, as per CBJ's amended instructions.

#### *Independence of the SSB*

As part of the rigorous test of independence required by CBJ- initially and continuously, none of the SSB members obtained any benefits during his work in the bank, which may comprise independence, without declaring the same, either in cash or in-kind, and either for himself in person or to any person related to him, as acknowledged and disclosed in the annual report.

Furthermore, members have declared that they did not obtain any direct or indirect financing from the bank; have not been employed by the bank or its subsidiaries for at least 2 years prior to the appointment on the SSB; are not SSB members of any other Islamic Bank in the Kingdom; are not in breach of the maximum four memberships in non-deposit taking financial institutions; are not members of BOD of the bank or substantial client of the bank – except for the ordinary course of business and using market-determined rates and commissions; do not have up to a second degree relationship to any board member or senior executive of the bank and do not hold shares in the bank, its subsidiary or group.

#### *Terms of Reference*

As per applicable regulations, the SSB is responsible for supervising the bank's operations and activities in terms of their compliance with Shari'a and providing an independent opinion thereof. Responsibilities also include the review and approval of reports issued by the internal Shari'a audit department, the issuance of an annual report to shareholders and semi-annual reports to the BoD and executive management team. However, ensuring the conduct of business as per the provisions of Shari'a is the ultimate responsibility of the management as clearly stated in the SSB annual report. Pursuant to the new amendments, SSB has the added responsibility of confirming that any losses resulting from the bank's transactions regarding the holders of investment accounts are not on account of negligence.

As a means of increasing Board effectiveness, the bank has formalized an annual self-assessment for the SSB and its individual members. The assessment takes the form of a checklist, designed by the nomination and remuneration committee. In addition to allowing the Board to reflect on how well it meets its fiduciary responsibilities vis-à-vis key performance indicators, self-assessment helps focus on integral aspects of Shari'a governance, such as strategic direction setting, oversight and Shari'a control systems instituted in the bank. The current assessment formally recognizes the SSB's duty to confirm

that any losses resulting from the bank's transactions regarding investment accounts holders are not on account of negligence as referred earlier. As such, the nomination and remuneration committee may consider expanding the scope of responsibilities to include the protection of investment accounts holders in addition to the bank's and shareholders' interests. Furthermore, while the checklist approach to self-assessment is a step in the right direction, it may be worth considering the emerging trend of using evaluations as a thought-provoking process; by encouraging reflection on the current environment and new ways to optimize function and performance.

#### *SSB Remuneration*

The SSB's remuneration, similar to its nomination, is determined by the respective Board of Director's committee, in accordance with the detailed requirements of the amended Islamic Banks Corporate Governance Instructions No. (64/2016).

Whereas the annual allocations to individual SSB members remained unchanged in 2017 (JD18k), total remuneration declined to JD 80.9k in 2017, as a result of lower travel and transportation related expenses (2016: JD 84.5k). Members do not hold shares in the Bank in compliance with the relevant regulations. Thus, the remuneration structure does not pose any conflict of interest.

#### *Internal Shari'a Audit*

As per regulatory requirements and international best practices, JIB has an independent Internal Shari'a Audit department that ensures the institutionalization of Shari'a standards at multiple levels. The function currently consists of nine qualified personnel with a plan to enhance the staff strength even further.

In keeping with its responsibility to confirm the adequacy and effectiveness of the internal Shari'a supervisory system and follow up on the compliance with SSB's fatwas, the internal Shari'a audit team is well-qualified and well-positioned within the bank. The team is accorded with clear authority and direct reporting to the SSB, as laid down by the organizational structure<sup>3</sup>. It also reports to the Audit Committee. Reporting to the bank's General Manager occurs in an administrative capacity only.

Furthermore, the team has unlimited access to any department within the bank in order to review transactions and make inquiries, as guaranteed by its charter. Staff members are completely independent and are not assigned any other executive jobs. They are rotated in various bank activities, as stipulated in the regulations, to gain better understanding of banking operations and further embed Shari'a aware staff in various functions.

Moreover, the internal Shari'a audit, as approved by the SSB and Board Audit Committee, is comprehensive in scope. Detailed audit observations and findings are reported to the SSB

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<sup>3</sup>The organizational structure is depicted in Annexure A.

on semi-annual basis. In 2017, the bank updated its internal proprietary methodology, which ranks individual branches with respect to Shari'a compliance. The updates related to the scoring mechanism and visit frequency and were reviewed and approved by the SSB. The size of audit sample used by internal shari'a team ranges from 10% to 20% of transactions depending on branches Shari'a compliance risk.

In addition, the department is also involved in providing Shari'a related trainings to the employees.

The performance of the internal Shari'a audit manager, who also serves as secretary to the SSB, is assessed by the latter to objectively define his remuneration.

### ***External Audit***

The Shari'a governance infrastructure in JIB also includes Shari'a audit by the holding entity, which is undertaken by subject-matter experts of ABG, the bank's largest shareholder. The annual audit involves on-site visit and review of sample transactions, at the conclusion of which, a report is submitted to SSBs of both JIB and ABG.

In addition, the external auditor provided unqualified opinion regarding the fair presentation of the bank's financial position, financial performance and cash flows in the consolidated financial statements for the year ended 31 December 2017, in accordance with Islamic Shari'a rules and principles as determined by the SSB and the Financial Accounting Standard issued by the Accounting and Auditing Organization for Islamic Financial Institutions, (AAOIFI). The audit was also conducted in accordance with AAOIFI's Auditing Standards.

### ***Shari'a Compliance***

The regulation recommends that the compliance department includes a Shari'a compliance division that is adequately staffed and empowered to implement Fatwa and decisions issued by the Shari'a Supervisory Board, to whom it is to report, in addition to the Board of Directors. The division has been formed in JIB. There are currently three Shari'a-certified personnel in the department.

### ***Stakeholders' Interest***

It is well-accepted that the list of stakeholders in Islamic banks is wider than their conventional counterparts, including shareholders; investment account holders; employees; regulators and the society at large, and that interests extend beyond financial considerations to ethical and religious principles. Few jurisdictions, however, have taken Jordan's stride in recognizing the place of investment account holders as being in certain ways akin to shareholders and further mandating the public disclosure of the policy governing the relationship between IAH and the Islamic bank. Moreover, Jordan has the



precedence of safeguarding IAH interests by instructing greater fiduciary responsibility of SSBs.

#### *Protection of Investment Account Holders' Rights*

In conformity with the above, JIB Shari'a Supervisory Board opines on the policies that organize the relationship between the shareholders and the investment accounts holders. Policies outline the distribution of profits and losses, setting aside earnings in investment risk reserves, and the mechanism of dealing with Shari'a non-compliant income. More importantly, SSB is mandated with confirming that any losses resulting from the bank's transactions regarding the holders of investment accounts are not on account of negligence. A sub-set of these policies are disclosed publicly on the bank's website. In its current format, the disclosed Shareholders - Investment Account Holders Relationship Regulation Policy lays down a set of guidelines and standards which determine counterparties' rights and duties, as per the investment relationship governing shareholders and unrestricted investment account holders. However, the bank may consider updating the policy to present SSB's new responsibilities, similar to the current presentation of "Responsibilities of the Board of Directors (BOD)" towards IAHs.

In meeting with stakeholder's religious interests, the SSB's Shari'a report validates the adequacy of the bank's Shari'a governance framework and provides information regarding Shari'a compliance and commitment to AAOIFI standards.

Aside from SSB's duties of care, the bank adopts a sound investment strategy that is commensurate with IAH's risk appetite, in order to protect their financial interests.

Furthermore, the bank has updated its Corporate Governance Guide<sup>4</sup> ( "CGG" ) to formally recognize the rights of investment account holders and made it available on the website. The CGG outlines principles with regards to the Board of Directors, its committees, the responsibility of the executive management, control environment, internal control, transparency and disclosure. The Guide complies with the Islamic Financial Services Board's Guiding Principles on Corporate Governance, the instructions of the CBJ and international best practices.

Overall, the bank upholds the rights of investment account holders and has formally documented this in the corporate governance guide, the annual report and the bank's website, through which the bank maintains consistent and regular communication with stakeholders.

#### *Transparency & Disclosures*

JIB conforms to high standards of transparency and disclosures. Adequate disclosures are made on the website and in the annual report, which in turn enables various stakeholders to monitor the bank's operations and financial and Shari'a position. In addition to standard

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<sup>4</sup> CGG was first issued on 31/12/2007.

financial information, disclosures include the basic criteria for sharing risks and returns with unrestricted investment accountholders, the maximum percentage of investor funds deemed invested in the joint investment pool, Mudharib share of joint investment profits, off-balance sheet exposures arising from commitments, contingencies and investment by proxyas well as the consolidated statement of sources and uses of Al Qard Al Hasan Fund and social responsibility.

Non-financial, Shari'a relevant disclosures, on the other hand, include composition of the SSB along with members' brief profiles, meetings' attendance matrix, annual remuneration and amounts paid in form of travel expenses inside and outside the Kingdom. The bank also issues a Governance Report, which forms part of its annual report, in accordance with the instructions issued by Jordan Securities Commission for the Public Shareholding Companies Listed in Amman Stock Exchange for 2017.

#### *Quality Assurance*

In line with its pursuit of providing high quality products and services that comply with Shari'a, the bank adheres to the requirements of ISO 9001-2000 quality management system.

#### *Profit Purification Policy*

JIB has a clear policy for dealing with Shari'a non-compliant income. As per SSB's 2017 annual report, all amounts that the bank received from sources or in manners inconsistent with the teachings and principles of Shari'a were excluded and given to charity. These totalled JD 1,295 in 2017 (2016: JD 2,326).

As for Zakat, the bank is not authorised to dispense it directly, since there is no law with this regard, nor does the Articles of Association or the General Assembly decisions provide for it. Therefore, the responsibility of Zakat payment rests on the shareholders; unrestricted and restricted investment account holders and participants in Al Wakala Bi Al Istithmar Muqarada bonds (Investments Portfolio), upon the fulfilment of the applicable Shari'a conditions and requirements.

#### *Corporate Social Responsibility*

JIB has a strong commitment towards society as can be discerned from its Social Responsibility Report and the existence of two social responsibility committees at both the Board and executive management levels. The committees are tasked with guiding the bank's social responsibility program and effectively integrating Islamic values in the normal banking transactions. The Social Responsibility Report, published on the bank's website, details key projects carried out during 2017 for the benefit of its customers, employees, the community, and the environment. Some of the initiatives undertaken by the bank during 2015 include a few of those projects are briefly discussed below.

## *Donations*

In 2017, JIB's investment in the community included JD 880k in corporate donations. Beneficiaries served various charitable aspects. They included mosques, welfare organizations, and families of martyrs of the Armed Forces and Public Security Forces, as well as special needs individuals, underprivileged communities, and orphans. Table 2 shows the donations made during 2017.

**Table 2: Donations made during 2017**

<i>In JD thousands</i>	<b>2017</b>
<b>Mosques</b>	<b>15.1</b>
International Hashemite Competition for the Memorization and Recital of the Holy Quran	40.0
Other Groups and Competitions for the Memorization and Recital of the Holy Quran	37.5
Charitable and Medical Societies and Bodies and Zakat Committees	307.5
Scientific Conferences and Educational and Cultural Programs	108.4
Jordanian Hashemite Fund for Human Development	104.4
Jordan Hashemite Charity Organization	55.0
Al Aman for the Future of Orphans	42.5
Princess Alia Foundation	8.0
Tkiet Umm Ali	10.0
Project of Dissemination of Community Financial Culture	51.7
Support fund for families of martyrs of the Armed Forces and Public Security Forces	100.0
<b>Total</b>	<b>880.1</b>

## *Al Qard Al Hasan*

The bank continued to meet its moral duty of funding those in need while also fostering the values of brotherhood and empathy by mobilizing Al-Qard-Al-Hasan-based deposits for the financing of various social needs, based on the same concept. In 2017, the bank disbursed a total of JD13.6m in Al Qard Al Hasan loans, which benefited more than 20 thousand citizens, bringing the total number of beneficiaries to 447 thousand citizens since the bank's founding. Beneficiaries included youth wishing to marry, students, teachers and those seeking medical treatment. The loans were funded by both Shareholders and Al-Qard-Al-Hasan-based deposits.

## *Professionals and Artisans Financing Program*

In 2017, the bank continued its support and finance of professionals and artisans through Diminishing Musharakah that ends in artisan's full ownership of the project. A total of 106 projects were financed during 2017, with the bank's capital contribution amounting to JD1.9m.

### *Mutual Insurance Fund*

The bank's Mutual Insurance Fund protects eligible customers from harm in the event of death, permanent disability or continuing financial hardships, by paying all or some of the financing owed to JIB. There were 158 thousand participants in the fund, by the end of 2017, with total debt obligations of around JD1.24b. Compensation was disbursed for more than 230 participants during 2017. The total value of these compensations reached JD1.5m. The fund covers customers whose debt obligation reached JD100k or less, including financial leasing and Murabaha customers.

### *Green Initiatives*

The bank's contribution to green and pollution-free environment is ever more evident by its expanding initiatives, the latest of which includes the financing of hybrids and electric cars at easy and preferential rates. JIB also extended its alternative solar energy projects to 18 branches. Work is underway to apply the system in five other branches, as well as the bank's bonded center and Center of Disasters Recovery. This will ultimately result in savings on electricity bill and alleviate electricity loads at the national grid. Furthermore, the bank Society has installed water-saving panels in 39 branches and offices, its Head Office Building, three investment complexes and one of its subsidiaries. JIB further reduced its electricity consumption by using energy-saving LED lights in its offices and installing an efficient air conditioning system.

### *Human Capital Development*

JIB continued advancing its human capital through training. 3,171 employees participated in courses and conferences organized by the bank's Human Resources Development and Training Academy throughout 2017, 252 employees were involved in training programs through e-learning, 1,097 employees received trainings from other training centers within Jordan and other 50 employees to centers outside of Jordan. The scope of trainings was wide and covered banking, financial and administrative activities, including deposits, credits, bills of exchange, letters of guarantee, investment, financial analysis, Shari'a issues, accounting standards of Islamic financial institutions, combating money laundering and terrorism financing. Moreover, employees newly appointed in branches receive practical training in branches.

Also as part of its mission to spread Islamic banking knowledge, the bank provided training to 864 students in local educational institutions and 34 employees of non-Jordanian banks. Moreover, it continued to take part in national and international conferences and seminars, which help develop the Shari'a compliant industry.

In addition to the above, JIB continues financing the health and education sectors at low rates, as well as creating new job opportunities through its support for small and medium-sized enterprises, all the while contributing to financial inclusion by expanding the umbrella of beneficiaries of financial services.

In recognition of the bank's social responsibility, it was conferred the award of the Financial Institution Committed to Social Responsibility among Islamic banks for 2017 by the Regional Network for Social Responsibility, a member of the United Nations Global Compact. The bank also obtained ISO 26000, which is based on the International Organisation for Standardisation's guidelines for social responsibility in the Middle East and North Africa. Furthermore, JIB was awarded the Social Responsibility and Environment 2017 award from the General Council for Islamic Banks and Financial Institutions (CIBAFI) at their inaugural awards ceremony.

### Product Profile & Funding Structure

The bank continued diversifying its services and introducing new products to meet the demands and needs of its expanding customer base. New products included Visa Signature card, a charge card with Near Field Communication (NFC) technology<sup>6</sup> that targets the affluent and frequent travelling customers. The card provides the holder with a range of concierge services including flight reservations, recommendations and travel insurance.

Table 3: Modes of Financing

<i>In millions of JD</i>	2017	2016	2015	2014
<b>Deferred sales receivables and other receivables<sup>5</sup></b>	2,022	2,044	2,077	1,773
% Contribution	76%	77%	80%	80%
<b>IjarahMuntahiaBittamleek Assets</b>	591	566	483	415
% Contribution	23%	21%	19%	19%
<b>Musharaka</b>	31	30	28	25
% Contribution	1%	1%	1%	1%
<b>Net Financing Portfolio</b>	2,643	2,640	2,588	2,213

As expected from a pioneer Islamic bank, JIBuses a wide array of Shari'a compliant contracts. On the financing side, deferred sales contracts dominate. Though it has been losing some share to the IjarahMuntahiaBittamleek structure, which gained greater prominence over the last few years. Musharaka is used in financing customers, albeit sparingly. While bank abstains from using Tawarruq due to Shari'a contentions surrounding its application in banking transactions, it remains the only bank in Jordan offering interest-free loans on the basis of Al Qard Al Hasan. Table 3 shows the various distribution of the financing portfolio with reference to the underlying contract.

Deposit products offered to corporate and individual customers include current and call accounts, unrestricted investment accounts (saving, notice and time deposits), both in local and foreign currency and off-balance sheet restricted investment accounts. The bank mobilizes these deposits on primarily Qard and trust (Amanah) bases for current and call accounts and Mudaraba for Investment accounts. On 1 July 2017, the deployment of Muqarada bonds contract (Investment Portfolio) was switched from Mudaraba basis to Al Wakala Bi Al Istithmar basis, after obtaining the approval of the Shari'a Supervisory Board

<sup>5</sup>Includes Murabaha to the purchase orderer, deferred sales, IjarahMawsoofa BilThimma and Istisna'.

<sup>6</sup>NFC technology is used for most contactless tap-and-go options.



and Board of Directors of the Bank. The rights and obligations of the Muqarada bonds were liquidated on 30 June 2017. This change was in line with the Islamic Accounting Standard No. 27 / Investment Accounts issued by AAOIFI.

All of the above contracts and products are launched after the approval of the SSB. The latter's approval is also required in case of any modification or amendment to existing contracts or products.

The bank does not charge any late payment fee on non-performances that arise from financial distress. Any impairment in the value of joint-financings is recognized within investment risk fund<sup>7</sup> (IRF). Impairments in the value of self-financings are recognized at the consolidated income statement.

After covering all expenses and losses for which the fund is established, the balance of IRF is transferred to a Zakat fund. Thus, investors do not have any rights to the amounts deducted and accumulated therein; as these amounts are allocated to cover the losses of joint investment operations. Losses incurred in joint investment operations that were initiated and ended during the same year will be covered from the profits of other joint investment operations of the same year. If losses exceed profits in the same year, they will be covered from the investment risk fund. If, on the other hand, joint investment operations were initiated and continued from preceding years, and the results of these investment operations are determined in a specific year to be losses, such losses shall be covered from IRF. It is worth noting that JIB's calculation of IRF diverges from AAOIFI's prescribed methodology. However, the Shari'a team is cognizant of this divergence and have accounted for any future re-alignment in the methodology.

#### *Profit Distribution Mechanisms*

##### *- Unrestricted Investment Accounts*

As approved by the SSB, 10%<sup>8</sup> of joint investments' profit was set aside in the investment risks fund, pursuant to CBJ laws (2016: 10%), after which, 44.3% (50%) of joint investments' profit was allocated to the bank as its share as Mudarib of JD (foreign currency) denominated accounts (2016: 45% for JD-denominated accounts, 50% for FCY-denominated accounts). The remaining balance was then distributed between unrestricted investment account holders and the bank, according to the percentage of their participation and conditions of the underlying agreements. Saving and notice accounts were deemed to be invested up to 50% and 70% of the annual average balance respectively, for determining investors' share in profit. Term accounts, on the other hand, were deemed to be invested up to 90% of the

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<sup>7</sup> The balance in IRF at the end of December 2017 stood at JD 105.2m, which comprised 58% of the bank's paid-up (2016: JD95.6; 64%). The drop in proportionate terms is on account of capital increase in 2017. The bank can discontinue the transfer of joint investment profits to the fund once it reaches twice the size of paid-up capital.

<sup>8</sup> This percentage is subject to change based on CBJ regulations. Any amended percentage is applicable at the beginning of the subsequent year.



minimum balance during the year. As per the bank's disclosures, the priority for funds investment is preserved to unrestricted investment accounts holders.

The Bank bears all administrative expenses, except insurance expenses on Ijarah Muntahia bittamleek assets, which are paid from joint income.

As per the Shareholders - Investment Account Holders Relationship Regulation Policy, the minimum balance for participation in the results of investment profits is JD100 (or the equivalent to JD1,000 for foreign currencies accounts) for saving and notice accounts and JD500 (or the equivalent to JD1,000 for foreign currencies) for term accounts. Limits for all types of investment accounts are subject to change at the discretion of the BOD. IAHS are excluded from participation, if the balance in any month during the fiscal year is less than the prescribed limit.

- *Restricted Investment Accounts (RIA)*

Restricted investment accounts are managed under separate investment pools, in accordance with each fund's specific investment policy and terms and conditions. The bank's share as Mudarib is determined at the beginning of the year. This is done separately for each fund. All administrative expenses are borne by the bank. They are not charged to investor accounts for the calculation of net profit.

Profit was distributed among restricted investment account holders in proportion to their contribution ratio, after deducting the Bank's share as Mudarib. The bank's share as Mudarib ranged from 7.7% to 25% of JD-denominated restricted investment accounts' profit. As for foreign-currencies-denominated RIA, the bank's share as Mudarib was equal to 40% of profit.

- *Al Wakala Bi Al Istithmar*

Following the change of the underlying contract for the management of Muqarada bonds<sup>9</sup>, the bank charged account holders a Wakeel fee, which was equivalent to 1.2% of the Al Wakala Bi Al Istithmar account capital.

After deducting the bank's fees as Wakeel, profits were distributed to accounts holders corresponding to 3.64% return for 2017.

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<sup>9</sup>The bank's share as a Mudarib was deducted at a rate of 25% of the total Muqarada bonds profits as at 30 June 2017 (30 June 2016: 5%; 31 December 2016: 15%). Profits distributed to the Muqarada bonds holders' as at 30 June 2017 were equivalent to 3.69%, compared to 3.40% and 3.62% as at 30 June 2016 and 31 December 2016 respectively.

# ANNEXURE A – ORGANIZATIONAL STRUCTURE

