البنك الإسلامي الأردني

الإدارة العامة

الرقـــم : م.م ١١٩/تعاميم /١٣٩/٢٠١٨/ 23025

التاريـخ : ٢٠١٨/٠٧/١٩ م

الموافق : ٠٦ / ذو القعدة / ١٤٣٩هـ

معالي رئيس هيئة الأوراق المالية المحترم،،،

السلام عليكم ورحمة الله وبركاته،،

الموضوع: التصنيف الائتماني للبنك الإسلامي الأردني من شركة التصنيف ستانـــدرد آنـــد بـــورز (S&P)

بالإشارة الى الموضوع أعلاه ، يسرنا أن نرفق لكم طيه نسخة من تقرير التصنيف الائتماني الخاص بمصرفنا والصادر عن مؤسسة ستانـــدرد آنـــد بـــورز (S&P) إصدار تموز ٢٠١٨.

وتفضلوا بقبول فائق الاحترام،،،

هيئة الأوراق المالية
الدائرة الادارية / الديوان
١٩ تموز ٢٠١٨
الرقم المتسلسل
الجهة المختصة

المدير العام
موسى عبدالعزيز شحادة

المرفقات: نسخة من تصنيف ستانـدرد آنـد بـورز (S&P)

ر ب

شركة مساهمة عامة محدودة
(سجل الشركة رقم ١٢٤)
عضو مجموعة البركة المصرفية

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Ratings

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Jordan Islamic Bank

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Jordan Islamic Bank

SACP	bb-	+	Support	0	+	Additional Factors	-1

Anchor	bb-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
B+/Stable/B

Major Rating Factors

Strengths:

- Leading position as the largest Islamic financial institution in Jordan and the country's third-largest bank in terms of assets, deposits, and financing.
- Good business resiliency to the current adverse economic conditions in Jordan.

Weaknesses:

- High geographic concentration in Jordan and related credit risk, notably to public-sector entities, due to the fragile domestic economy.
- Adequate capitalization under our methodology, with internal capital generation hindered by high dividend payout ratios.
- Asset quality continuously constrained, in our view, by unfavorable economic and political conditions.

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 adequate business position on the back of the bank's capacity to preserve its market share and overall financial performance despite adverse economic conditions in Jordan. Our assessment of JIB's capital and earnings is adequate, reflecting our anticipation that our risk-adjusted capital (RAC) ratio before adjustments for the bank will stabilize above 7% by year-end 2020. We consider JIB's risk position to be adequate. We note that the bank's sovereign exposure remains high and concentration and asset quality remain vulnerable to the prolonged adverse economic and geopolitical situation. Funding remains average, but borders the high range of the domestic average. 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 the ratings of the bank, as the SACP on JIB 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

Under our bank criteria, we use the Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Jordan is 'bb-', based on an economic risk score of '8' and an industry risk score of '7'.

Banks in Jordan now face high economic risks due to the country's weakening debt profile, amid low growth and implementation pressures related to fiscal reforms, and higher external risks. Real GDP growth decelerated to 2.1% in 2017 from over 5% annually before 2009, and we expect it to remain subdued at 2.8% through 2020. Regional developments have significantly affected tourist arrivals and foreign investment, while low oil prices have depressed macroeconomic activity in the Gulf Cooperation Council countries and reduced remittance and investment inflows.

We anticipate that Jordanian banks will continue to generate sufficient profitability to absorb their elevated cost of risk burden. We think that the deposit base will remain ample and resilient, despite political and economic instability.

On the downside, Jordan's fiscal, monetary, and external vulnerabilities at the sovereign level substantially constrain its ability to provide meaningful liquidity support to the banking system. Furthermore, considering the uncertainty around foreign aid, it is not clear if the Kingdom would be able to support the banking system in a period of stress. Conversely, the country's banks have at times bridged the significant financing needs of public-sector entities, and are consequently highly exposed to the sovereign and government-related entities (GREs).

Table 1

Jordan Islamic Bank Key Figures					
	--Year-ended Dec. 31--				
(Mil. JOD)	2017	2016	2015	2014	2013
Adjusted assets	4,210.1	4,097.5	3,796.0	3,551.6	3,279.4
Customer financing (gross)	2,733.2	2,726.5	2,674.7	2,293.0	2,203.9
Adjusted common equity	396.3	356.3	320.4	289.3	252.8
Operating revenues	166.1	169.4	152.2	140.7	132.7
Operating expenses	65.8	63.5	59.3	52.0	49.9
Core earnings	54.1	54.0	48.7	45.1	45.1

JOD--Jordanian dinar.

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

We view JIB's business position as adequate. The bank has been governed by a stable management team for several years. JIB has a simple business model and has limited asset size. It funds itself predominantly by locally raised customer deposits, while generating the bulk of its earnings from its retail clients. The bank has displayed stable market shares since 2012 in both financings and deposits. Moreover, JIB has consolidated itself as the largest Islamic financial institution in the country and Jordan's third-largest bank in terms of total assets ($5.9 billion on Dec. 31, 2017).

JIB has a long track record and a well-established position as the largest domestic Islamic bank with about 12%-13% market shares in financing and deposits on Dec. 31, 2017. On the downside, revenue diversification is limited: JIB derives 99% of its revenues from Jordan. We note that financing growth has slowed significantly in 2016 and 2017, but this is largely due to reduced exposure to a large domestic GRE. JIB's financing to public-sector entities significantly declined to 1.4x total adjusted capital (TAC) as of Dec. 31, 2017, from a relatively high 2x over 2012-2015.

We expect that the bank will continue to manage growth cautiously although future revenues may be volatile due to muted domestic growth prospects for private-sector credit.

Table 2

Jordan Islamic Bank Business Position					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Total revenues from business line (mil. JOD)	166.1	169.4	152.2	140.7	132.7
Return on average equity	15.1	16.5	16.4	16.8	18.6

JOD--Jordanian dinar.

Capital and earnings: Adequate capitalization and higher profitability than peers

We view JIB's capital and earnings position as adequate. Our assessment is predicated on our anticipation that our projected RAC ratio before diversification will lie in the 7.0%-7.25% range over 2019-2020 compared with 7.2% at year-end 2017.

Our projections are based on the following assumptions:

- Contained operation costs, driven by digitalization of the bank and stable operating expenses to operating revenues at about 38% over the next 18-24 months.
- Stable net profit margin despite increased cost of funding following the Central Bank of Jordan's interest rate hike, thanks to i) rapid repricing of the financing portfolio, ii) a high share of current account deposits (27% of total deposits), and iii) an expected increase in exposure to more profitable GREs.
- Corporate tax to remain at 35%.
- Low expected impact of the implementation of International Financial Reporting Standard (IFRS)9.
- High dividends payout with distribution of bonus shares in the next two years, which limit internal capital generation.
- No material deterioration in asset quality, allowing for good coverage of nonperforming financings (NPF) without a significant increase in the cost of risk.

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. We consider that JIB's capital adequacy ratio is comfortable at 23% as of Dec. 31, 2017, which is well above the 12.5% minimum set by the Central Bank of Jordan pertaining to Islamic banks under the Basel III framework. Our projections exclude any material capital strengthening as the regulatory capital ratio is already sufficiently high. JIB's regulatory capital ratios are much higher than our RAC ratio before adjustments because our ratio takes full stock of the high economic risk related to the bank's Jordan-focused asset mix, and therefore we apply higher risk weights across asset classes compared with the regulator.

Despite economic headwinds in Jordan, JIB has displayed favorable profitability metrics compared with peers over the past five years. JIB's exposure to public-sector entities represents more than 1.4x shareholder's equity. Consequently, and although we acknowledge that JIB's earnings volatility remains low compared with peers, we believe that the bank's net profit margin is highly correlated to public-sector financing as it is highly profitable. For this reason, net profit margin dropped in 2017 to 4.3% from 4.6% in 2016, and income growth was close to 0%. Should these lines not be renewed in the future or be replaced by less profitable placements, we believe the bank's earnings would decrease.

Table 3

Jordan Islamic Bank Capital And Earnings

	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
S&P RAC ratio before diversification	7.2	6.1	5.2	5.4	5.3
S&P RAC ratio after diversification	2.4	1.6	2.7	2.7	4.0
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net profit income/operating revenues	78.5	79.2	81.5	80.6	81.6
Fee income/operating revenues	17.1	14.2	15.0	15.6	14.1
Market-sensitive income/operating revenues	4.1	6.0	3.1	3.5	4.1
Operating expenses/operating revenues	39.6	37.5	39.0	37.0	37.6
Preprovision operating income/average assets	2.4	2.7	2.5	2.6	2.6
Core earnings/average managed assets	1.3	1.4	1.3	1.3	1.4

Table 4

Jordan Islamic Bank Risk-Adjusted Capital Framework Data

(Mil. JOD)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	560	0	0	857	153
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	152	0	0	111	73
Corporate	761	0	0	1,371	180
Retail	1,644	0	0	1,981	121
Of which mortgage	1,010	0	0	934	92
Securitization§	0	0	0	0	0
Other assets†	208	0	0	521	250
Total credit risk	3,326	0	0	4,841	146
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	30	0	0	338	1,125
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	338	--
Operational risk					
Total operational risk	--	0	--	318	--
		Basel III RWA		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		0		5,496	100
Total Diversification/Concentration Adjustments		--		11,172	203
RWA after diversification		0		16,668	303
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		343	0.0	396	7.2
Capital ratio after adjustments‡		343	0.0	396	2.4

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡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, 2017, S&P Global.

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

We view JIB's risk position as adequate. Our assessment is based on JIB's large single-name public-sector exposure, representing roughly one-fifth of its total financing operations. That said, we consider that JIB's asset quality metrics compare well against peers'.

Excluding public-sector entities, JIB's top-20 funded and nonfunded corporate exposures represented about 0.6x TAC at year-end 2017. However, we believe that JIB's creditworthiness is more closely tied to the sovereign's creditworthiness than peer banks, as the bank has built up a sizable financing position toward a GRE since 2012. In 2015, this exposure increased notably representing more than 2x TAC. Since then, exposure has fallen to about 1.4x TAC. We do not expect a further reduction in the near future, nor do we expect an increase in concentration.

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-anticipated grants and lower-than-expected tax revenues have contributed to the negative trajectory of Jordan's public-sector finances. We consider that these challenges faced by the Kingdom weigh adversely on JIB's financial profile, considering 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 entered the current economic turbulence well-positioned. Its financing book to the private sector has historically shown good granularity; its business positioning enabled it to cherry pick customers; and it had a consistent record of better asset quality metrics than domestic peers. Given the adverse economic environment, we expect JIB's cost of risk will follow past years' trends and stabilize at about 75 basis points for financing for the coming 12-18 months. Although we acknowledge that the NPF ratio stands at 3.5% as of Dec. 31, 2017, we believe that the large financing extended to public-sector entities mainly drives this low NPF ratio. 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 derived from asset quality.

Table 5

Jordan Islamic Bank Risk Position

	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Growth in customer financing	0.2	1.9	16.6	4.0	4.6
Total managed assets/adjusted common equity (x)	10.6	11.5	11.9	12.3	13.0
New financing loss provisions/average customer financing	0.7	0.8	0.7	1.1	0.8
Gross nonperforming assets/customer financing + other real estate owned	3.5	3.2	3.5	4.5	4.8
Loan loss reserves/gross nonperforming assets	85.3	88.5	85.8	72.1	67.8

Funding and liquidity: Ample core customer deposit base representing the total funding base

We assess the bank's funding as average. We calculated the bank's stable funding deposits ratio at a healthy 134% as of Dec. 31, 2017, 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-20 deposits represented about 4% of total customer deposits at year-end 2017. The ratio of net financing to core customer deposits remains below the domestic system's average but has improved in 2017 and 2016 with deposits growing faster than financing.

The bank's liquidity position also remains well within adequate levels, given the still abundant cash balances held at the central bank. As an Islamic bank, JIB's options to park excess liquidity are limited, while reducing financing toward public entities, coupled with regulatory limits on foreign investments (maximum of 10% of total investments as per the central bank's regulation), could hamper the bank's profitability. As a result, we believe the bank's liquidity profile will remain unchanged in the next 18-24 months, except if the bank manages to invest part of the repayments in sukuk securities. 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.

Table 6

Jordan Islamic Bank Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Core deposits/funding base	99.9	99.8	99.9	99.9	99.6
Customer finance (net)/customer deposits	71.5	72.8	76.7	69.8	72.4
Long-term funding ratio	99.9	99.8	99.9	99.9	99.6
Stable funding ratio	134.1	131.5	124.7	135.0	130.2
Short-term wholesale funding/funding base	0.1	0.2	0.1	0.1	0.4
Broad liquid assets/short-term wholesale funding (x)	225.2	118.4	255.9	235.2	63.9
Net broad liquid assets/short-term customer deposits	58.5	54.2	46.8	56.4	46.0
Short-term wholesale funding/total wholesale funding	100.0	100.0	100.0	100.0	100.0
Narrow liquid assets/3-month wholesale funding (x)	220.9	116.3	253.6	N/A	63.6

N/A--Not available.

External support: No uplift to the SACP

We view JIB as a highly systemically important bank 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 sovereign ratings 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.

With regards to its parent, JIB accounted for 17% of ABG's consolidated TAC as of Dec. 31, 2017, 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.

Related Criteria

- 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: Group Rating Methodology, 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 18, 2018)

Jordan Islamic Bank	
Issuer Credit Rating	B+/Stable/B
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
Related Entities	
Al Baraka Banking Group B.S.C.	
Issuer Credit Rating	BB/Stable/B
Albaraka Turk Katilim Bankasi AS	
Issuer Credit Rating	B+/Stable/B
Turkey National Scale	trA+/--/trA-1

*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.