الإدارة العامة

البنك الإسلامي الأردني

الرقــم : م.م 119/تعاميم /2020/14/ 1065

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الموافق : 17 / جمادى الآخرة / 1441هـ

السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،

الموضوع: التصنيف الائتماني للبنك الاسلامي الأردني من مؤسسة فيتش للتصنيف الائتماني (Fitch Ratings)

بالإشارة الى الموضوع أعلاه، يسرنا أن نرفق لكم طيه نسخة من خبر التصنيف الائتماني الخاص بمصرفنا والصادر عن مؤسسة فيتش للتصنيف الائتماني إصدار شباط 2020.

وتفضلوا بقبول فائق الاحترام،،،

المدير العام

د. حسين سعيد

المرفقات: نسخة من خبر تصنيف Fitch Rating

ب د/ ر ب

بورصة عمان
الدائـــرة الإدارية والمالية
الديـــوان
١١ شباط ٢٠٢٠
الرقم المتسلسل: ٦٩٧
رقم الملف: ١١٠٤١١
الجهة المختصة: الادراج ٦١١

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FitchRatings

Fitch Affirms Jordan Islamic Bank at 'BB-'; Outlook Stable

Fitch Ratings - London - 10 February 2020:

Fitch Ratings has affirmed Jordan Islamic Bank's (JIB) Long-Term Issuer Default Rating (IDR) at 'BB-'. The Outlook is Stable. At the same time, Fitch has affirmed all of JIB's other ratings. A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

IDRS and VIABILITY RATING

JIB's IDRs are driven by its standalone credit profile, as defined by its Viability Rating (VR).

The domestic operating environment remains challenging, in our view. This is characterised by below-potential GDP growth, elevated unemployment and a difficult regional environment constraining the country's growth prospects. We believe external assistance from the international donor community, multilateral organisations and bilateral allies will continue over the rating horizon, underpinning the country's macroeconomic stability which relates, especially, to the stability of its foreign-exchange rate peg regime to the US dollar.

JIB is highly exposed to the sovereign through the bank's sizeable exposure to government-related entities, which results in elevated single-name concentration. At end-3Q19, the bank's largest financing (to National Electric Power Company - NEPCO - against a 100% government guarantee) equalled 1.9x JIB's common equity tier 1 capital (CET1). This underpins the strong correlation between the bank's credit profile and that of the Jordanian sovereign. The remaining exposures within the top 20 single obligors equalled 0.6x the bank's CET1 at end-3Q19. JIB is also exposed to NEPCO through its sukuk investments.

The VR considers JIB's well-established domestic franchise. JIB is the largest Islamic bank in Jordan (53.8% of total Islamic financing in Jordan at end-2018) and the third-largest bank in Jordan, with a 9.1% and 12.7% share of total banking sector deposits and financing at end-2018, respectively. The bank is classified as a domestic-systemically important bank (D-SIB) by the Central Bank of Jordan (CBJ). JIB represented 52% and 54% of total Islamic banking sector assets and financing at end-2018, respectively.

We view JIB's asset quality as resilient, supported by the bank's conservative risk appetite and longstanding relationship with customers. This has enabled the bank to support its asset quality metrics despite adverse operating conditions. The impaired (stage 3) financing ratio mildly increased in 9M19 (to 4.7% at end-3Q19 excluding deferred revenues on profit). The potential problem financing generation ratio (including stage 3, restructured and rescheduled financing) increased to 2.3% of average gross financing in 9M19 from 0.3% in 2018 due to higher restructuring. However, the mild deterioration reflects the trend in the market.

We expect the bank's asset quality metrics to stabilise owing to recoveries and rescheduling of stage 3 exposures. JIB's reserve coverage of impaired financing was moderate (79.1%) at end-3Q19, below Fitch-rated domestic peers but compares well with the broader domestic banking sector. However, if we include the bank's surplus investment risk fund reserves, the bank's reserve coverage was 94.5%, comparing well with Fitch-rated domestic peers.

JIB's profitability metrics (Fitch calculated annualised operating profit/risk-weighted assets was 5.0% in 9M19; after deducting operating expenses and impairment charges) are under pressure but compare well with peers. This is due to lower net financing margins (NFMs) and higher cost-to-income. JIB's NFMs were 4.1% in 9M19, lower than peers, given the bank's small investment portfolio and limited sharia-compliant investment opportunities to deploy its excess liquidity in substitution of the non-earning placements at the CBJ.

The higher cost-to-income is partially due to new deposits insurance expense. However, the annualised pre-impairment operating profit remains good (at 3.3% of average gross financing in 9M19) and provides the bank with a reasonable cushion to absorb potential credit losses through the income statement. Financing impairment charges have been well contained, supported by the bank's prudent financing.

JIB's capital buffers are only adequate given the bank's risk profile and high exposure to sovereign risks. The bank's CET1 ratio (22.5% at end-3Q19) is well above domestic peers. However, capital ratios benefit from 0% risk weighting on local currency financing to government-related entities and government guaranteed and cash balances with the CBJ. This is in addition to lower risk-weighted assets (RWAs) under the CBJ instructions based on IFSB standards for Islamic banks. JIB applies an alpha factor of 30% when calculating credit RWAs that are funded by unrestricted investment accounts (URIA deposits). This means only 30% of the bank's credit RWAs that are financed by URIA deposits feed into the bank's regulatory RWAs calculation.

JIB's tangible common equity to tangible assets ratio of only 9.4% at end-3Q19 is significantly lower than domestic peers, highlighting lower loss absorption buffers. However, this is common among Islamic banks as investment accounts represent a big part of their funding (about 68% of JIB's customer deposits at end-3Q19).

JIB's funding and liquidity is strong. This is underpinned by a resilient and granular deposit base supported by the bank's strong domestic franchise. Retail deposits (including SMEs) accounted for 97% of the bank's deposit base at end-3Q19, resulting in a low concentrated deposit base, with the 20 largest depositors accounting for only 3.3% of the total at end-3Q19. JIB also has a good liquidity position. Liquid assets (including interbank placements, cash and balances at central banks less mandatory reserves and sovereign sukuk) covered a good 21% of total customer deposits at end-3Q19. The bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) stood at 419.9% and 178% at end-3Q19, respectively.

SUPPORT RATING AND SUPPORT RATING FLOOR

JIB's Support Rating (SR) of '4' and Support Rating Floor (SRF) of 'B+' reflect a limited probability of support from the Jordanian sovereign due to constraints on its ability to provide support, although we believe willingness to provide support would be high as JIB is systemically important. Support from the bank's main shareholder, Al Baraka Banking Group, is possible, but is not factored into the ratings.

RATING SENSITIVITIES

IDRS and VR

JIB's IDRs and VR are mainly sensitive to fluctuations in the operating environment, material deterioration in asset quality or further pressures on capitalisation arising from high financing growth and weaker earnings retention. A downgrade of Jordan's sovereign rating (BB-/Stable) would be mirrored in the bank's ratings. An upgrade of JIB's ratings would require an upgrade of the sovereign rating.

SR AND SRF

JIB's SR and SRF are sensitive to changes in Jordan's ability (as reflected in the sovereign rating) and propensity to support the bank.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Islamic banks need to ensure compliance of their 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' (in contrast to a typical ESG relevance score of '3' for comparable conventional banks), which has a negative impact on the banks' credit profiles in combination with other factors.

In addition Islamic banks have an Exposure to Social Impacts score of '3' (in contrast to a typical ESG relevance score of '2' for comparable conventional banks), which reflects that Islamic banks have certain sharia limitations imbedded in their operations and obligations, although this only has a minimal credit impact on the entities.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Jordan Islamic Bank	LT IDR BB- ⭘ Affirmed	BB- ⭘
	ST IDR B Affirmed	B
	Viability bb- Affirmed	bb-
	Support 4 Affirmed	4
	Support Floor B+ Affirmed	B+

Additional information is available on www.fitchratings.com

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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
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