الرقـم : م.م 119/تعاميم /2020/86/ 7142

التاريخ : 2020/10/14 م

الموافق : 27 / صفر / 1442هـ

السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،

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

بالإشارة الى الموضوع أعلاه, يسرنا أن نرفق لكم طيه نسخة من تقرير التصنيف الائتماني الخاص بمصرفنا والصادر عن وكالة التصنيف ستاندرد آند بورز إصدار ايلول 2020.

وتفضلوا بقبول فائق الاحترام،،،

المدير العام

د. حسين سعيد

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

ب د/ ر ب

بورصة عمان
الدائـــرة الإدارية والمالية
الديـــوان
١٥ تشرين أول ٢٠٢٠
الرقم المتسلسل: 3676
رقم الملف: 11001
الجهة المختصة: ~~11000~~ 611

شركة مساهمة عامة محدودة
(سجل الشركة رقم ١٢٤)
عضو مجموعة البركة المصرفية
هاتف: ٥٦٧٧٣٧٧ ٦ ٩٦٢+
فاكس: ٥٦٦٦٣٢٦ ٦ ٩٦٢+
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Ratings

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Jordan Islamic Bank

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Table Of Contents

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:	Weaknesses:
• Leading position as the largest Islamic financial institution in Jordan and the country's fourth-largest bank in terms of assets. • Good business resiliency to the current adverse economic conditions in Jordan. • No reliance on wholesale financing.	• High geographic concentration in Jordan's fragile domestic economy and related credit risk, notably to public-sector entities. • Asset quality continuously constrained by unfavorable economic and political conditions. • Adequate capitalization under S&P Global Ratings' methodology, with internal capital generation hindered by high dividend payout ratios.

Outlook: Stable

The stable outlook on Jordan Islamic Bank (JIB) mirrors our stable outlook on Jordan over the next 12 months.

Any action on the sovereign would trigger a similar rating action on JIB, barring any material change in the bank's stand-alone creditworthiness. This is because we do not rate financial institutions operating solely in Jordan above the foreign currency sovereign ratings, due to the direct and indirect effects sovereign distress would have on banks' operations.

Although a remote scenario, we could lower our ratings on JIB if we saw increased macroeconomic pressures in Jordan due to the sharp economic contraction in Jordan associated with COVID-19, leading to a combined 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. Our ratings also reflects our view of JIB's adequate capitalization and solid market position as Jordan's largest Islamic bank, and its overall stable financial performance despite adverse economic conditions in Jordan. At the same time, we factor in the expected material impact of the COVID-19 pandemic on the bank's asset quality and its concentration in a small and volatile country.

Our assessment also reflects our anticipation that our risk-adjusted capital (RAC) ratio before adjustments for the bank will stabilize above 7% by year-end 2022. This is coupled with a sound risk profile, with a nonperforming financing ratio below the sector's average. That said we expect some deterioration as a result of the sharp GDP decline in 2020 (-4.5%): we anticipate that the cost-of-risk will surge to above 160 basis points (bps) from 30bps at year-end 2019. The bank's high sovereign exposure is a negative rating factor, especially through the Jordanian publicly owned entity National Electric Power Company (NEPCO).

JIB's funding and liquidity are neutral factors for our ratings. Funding remains average, but borders the high end of the domestic average range. JIB's very ample and granular depositor base mitigates limited funding alternatives and increased competition in the Jordanian domestic market. JIB has a liquid balance sheet, and it maintains the 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 (from Al Baraka Group) currently has no impact on the rating owing to low sovereign ratings, which caps our ratings on the bank as well. This is despite our view that JIB is of high systemic importance in Jordan, whose support to its banking system we classify as uncertain.

Anchor:'bb-' for banks operating in Jordan

We use our 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. Jordan Islamic Bank has its operations mainly in Jordan. The anchor for banks operating only in Jordan is 'bb-'.

The banks face an economic recession in 2020, with GDP declining by about 4.5%. In addition, low oil prices and the COVID-19 outbreak have debilitated macroeconomic activity in the Gulf Cooperation Council and reduced remittance and investment inflows to Jordan. The longer and deeper the economic contraction, the more it could impair Jordanian banks' asset quality, increase credit losses, reduce business and revenue generation, and potentially erode capital. The tourism, transportation, and trade sectors in particular will come under significant pressure from the pandemic. We expect the contraction in domestic economy will result in systemwide nonperforming loans reaching 8% and a spike in credit losses at about 200 basis points in 2020-2021.

We expect banks' profitability will reduce after the Jordan Central Bank's 150bps cuts to interest rates, mirroring those of the U.S. Federal Reserve, and because of the sharp reduction in economic activity in 2020. At the same time, we see moderate overcapacity in Jordan's banking system, with little consolidation and intense competition to attract new deposits, especially for low-tier banks, leading to potential imbalances in the funding profile of Jordanian banks. That said, Jordan's conservative and effective banking regulations play an important role in supporting banks' credit profiles, in our view. We will likely maintain this view over the long term if the Central Bank of Jordan (CBJ) continues to improve the system's sophistication. In addition, we believe that the deposit base will remain resilient, despite the security environment's ongoing instability, and that banks' liquidity will remain comfortable with a high proportion of liquid assets, especially cash and Jordanian government securities.

Table 1

Jordan Islamic Bank--Key Figures

	--Year ended Dec. 31--				
(Mil. JOD)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	4,544.5	4,446.6	4,158.3	4,210.1	4,097.5
Customer financing	3,221.7	3,031.5	2,799.9	2,733.2	2,726.5
Adjusted common equity	469.9	430.7	410.4	396.3	356.3
Operating revenues	85.2	172.0	166.2	166.1	169.4
Nonprofit expenses	40.5	75.1	70.8	65.8	63.5
Core earnings	27.3	54.3	49.8	54.1	54.0

*Data as of June 30.
JOD--Jordanian dinar.

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

Our assessment of JIB's business position balances the bank's solid domestic franchise across most business lines in Jordan with the limited growth potential considering its focus on Jordan and the impact of COVID-19 on demand for new financing.

JIB has a long track record and a well-established position as the largest domestic Islamic bank, with a 10%-13% market share in financing and deposits on Dec. 31, 2019. The bank has displayed stable market shares since 2012 in both financings and deposits. On the downside, revenue diversification is limited: JIB derives 97.8% of its revenue from Jordan.

We anticipate the bank will finance cautiously going forward and expect muted new financing due to deteriorating economic conditions.

The bank has a simple business model. It funds itself predominantly by locally raised customer deposits, while generating the bulk of its earnings from its retail clients.

Table 2

Jordan Islamic Bank--Business Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	85.2	172.0	166.2	166.1	169.4
Commercial banking/total revenues from business line	31.7	29.3	25.8	29.9	N/A
Retail banking/total revenues from business line	53.9	56.6	61.0	62.9	N/A
Commercial & retail banking/total revenues from business line	85.6	87.0	90.8	92.8	N/A
Trading and sales income/total revenues from business line	14.1	12.6	8.8	7.1	N/A

Table 2

Jordan Islamic Bank--Business Position (cont.)					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Other revenues/total revenues from business line	0.4	0.4	0.4	0.1	100.0

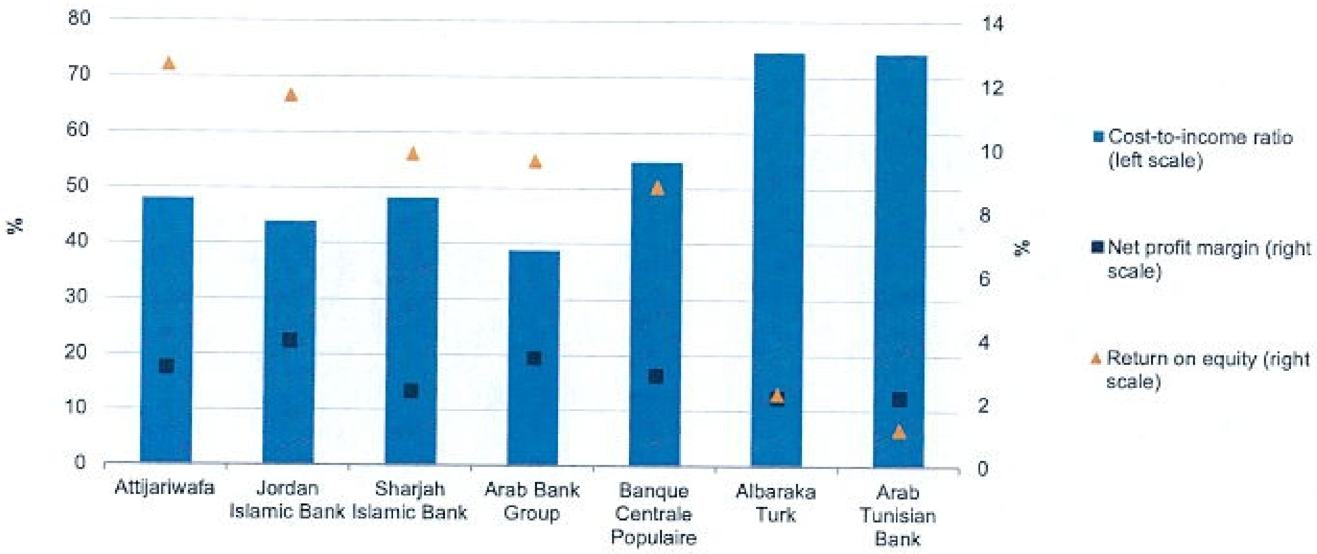
*Data as of June 30. N/A--Not applicable.

Capital and earnings: Good earnings generation underpins a stable capital position

On Dec. 31, 2019, our RAC ratio (before adjustments) for JIB stood at an estimated 7.3%. We forecast that the RAC ratio will reduce but remain slightly above 7.0% over 2020-2022. Our forecast takes into account JIB's sound profitability (see chart 1), already high coverage, and better asset quality, which would lead to lower provisioning throughout the crisis compared with peers. In addition, revenue stability through the cycle also stems from JIB's high exposure to public-sector entities, which represent about 2.1x JIB's total adjusted capital. The common equity tier ratio (CET1) stands at 24% in 2019, comfortably above the regulatory minimum of 12.5%. Our assessment is also supported by the high quality of JIB's capital with no hybrid instruments.

Chart 1

Jordan Islamic Bank Adequate Profitability Compared To Peers



Source: S&P Global Ratings.

That said, despite the impact of COVID-19, we expect JIB will continue to achieve double-digit return on average common equity in the medium term. We also note that structural factors such as lower interest rates following the cuts in the policy rate, and stiff competition within the corporate and household segments could constrain the bank's margins and profitability.

In addition, we anticipate the following over the next 12-24 months:

- Moderate financing growth for 2020 coupled with margin compression will result in net profit income to decline by 10%-20% in 2020. We anticipate a moderate rebound in 2021-2022.
- We expect the cost of risk will increase to 140-170bps in 2020 and 2021, from 65bps on average over the past four years. We recognized, however, that there is great uncertainty relating to credit loss levels for the coming two years.
- We expect the cost efficiency ratio will remain close to 50% because the bank continues to invest in its digital infrastructure.

Our projections include dividend payment in 2020 since they have only been postponed to 2021 following a Central Bank's request, and not cancelled.

Table 3

Jordan Islamic Bank--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	23.8	24.0	21.9	22.0	21.1
S&P Global Ratings' RAC ratio before diversification	N/A	7.3	7.4	7.2	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	2.5	2.3	2.4	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net profit income/operating revenues	71.8	74.6	78.6	78.5	79.2
Fee income/operating revenues	17.9	15.2	13.6	14.7	12.1
Market-sensitive income/operating revenues	10.3	7.0	4.1	4.1	6.0
Nonprofit expenses/operating revenues	47.6	43.6	42.6	39.6	37.5
Preprovision operating income/average assets	2.0	2.3	2.3	2.4	2.7
Core earnings/average managed assets	1.2	1.3	1.2	1.3	1.4

*Data as of June 30. N/A--Not applicable.

Table 4

Jordan Islamic Bank--Risk-Adjusted Capital Framework Data

(Mil. JOD)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	1,865.9	0.0	0.0	1,434.5	76.9
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	93.8	0.0	0.0	46.2	49.2
Corporate	717.9	0.0	0.0	1,152.1	160.5
Retail	1,638.7	0.0	0.0	1,962.3	119.7
Of which mortgage	1,027.6	0.0	0.0	950.5	92.5
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	173.1	0.0	0.0	432.8	250.0
Total credit risk	4,489.5	0.0	0.0	5,027.9	112.0

Table 4

Jordan Islamic Bank--Risk-Adjusted Capital Framework Data (cont.)					
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	0.0	--
Market Risk					
Equity in the banking book	49.0	0.0	0.0	523.3	1,068.7
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	0.0	--	523.3	--
Operational risk					
Total operational risk	--	0.0	--	322.4	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	0.0	--	5,873.6	100.0
Total Diversification/ Concentration Adjustments	--	--	--	11,327.1	192.8
RWA after diversification	--	0.0	--	17,200.7	292.8
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		414.9	0.0	430.7	7.3
Capital ratio after adjustments‡		414.9	0.0	430.7	2.5

*Exposure at default. §Securitizationexposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. JOD--Jordanian Dinar. Sources: Company data as of Dec. 31 2019, S&P Global Ratings.

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

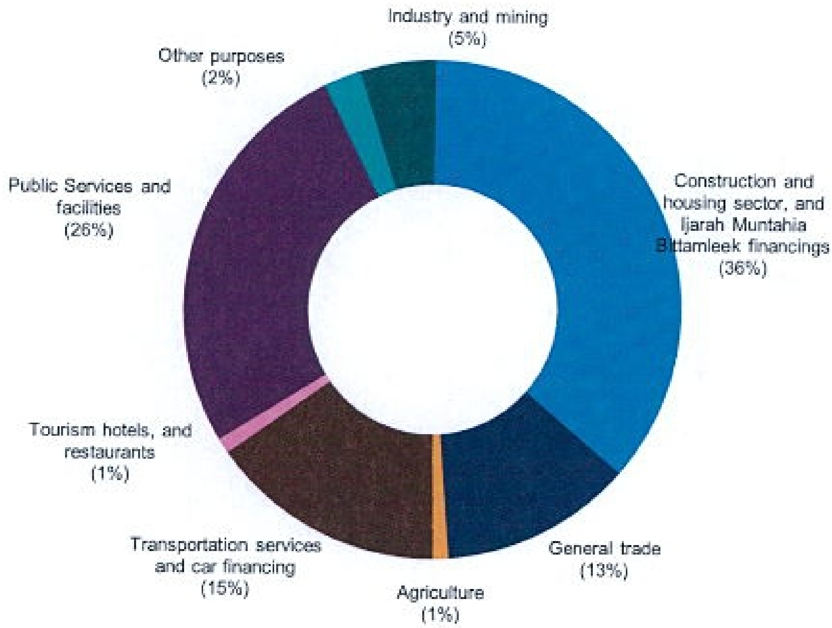
Our assessment of JIB's risk position reflects the bank's lack of geographic diversification and presence in a concentrated market. This risk is not fully captured by our capital assessment, in our view, and might become more apparent as the COVID-19 pandemic bites.

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

JIB's financing portfolio is fairly diversified across sectors, reflecting that of the Jordanian economy (see chart 2). The bank has historically had a strong retail franchise, which has been built up thanks to its leading position in the Islamic banking business. We believe there is some inherent stability in asset quality due to JIB's high exposure to the government, representing about 30% of total exposures. Additionally, JIB's private sector financing book has historically shown good granularity and it has limited exposure toward sectors most impacted by the COVID-19 pandemic, like tourism and transportation. JIB's business positioning enabled it to cherry pick customers; and it had a consistent record of better asset quality metrics than domestic peers. .

Chart 2

JIB's Financing Portfolio Breakdown



Source: JIB annual report

Real estate and construction represents 13.3% of the total financing book in June 2020, of which most is residential. This is in addition to Ijarah Muntahia Bittamleek financing (slightly above 20% of the book) that mostly relates to housing. We do not expect the recession will lead to a correction in real estate prices, because residential housing investment is mostly nonspeculative, with prices being flat for several years.

JIB has entered the recession with a relatively clean balance sheet--its reported nonperforming financings (NPFs) stood at 4% as of year-end 2019, but International Financial Reporting Standards 9 stage 3 financings reached 5.2% of its customer financings on the same date, and 4.7% at June-end 2020. We expect the latter could reach up to 7% in the next 18-24 months, with coverage falling below 60%.

About 8% of bank's assets are denominated in foreign currency. But, foreign-exchange risks are limited as the bank doesn't carry an open position, and the Jordanian dinar is pegged to the U.S. dollar.

Table 5

Jordan Islamic Bank--Risk Position

	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Growth in financings	N/A	8.3	2.4	0.2	1.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	192.8	220.4	203.3	N/A
Total managed assets/adjusted common equity (x)	9.7	10.3	10.1	10.6	11.5
New financings loss provisions/average financings	0.0	0.3	0.7	0.7	0.8
Net charge-offs/average customer financings	N.M.	0.3	N.M.	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	~4.0	~3.9	5.1	3.5	3.2
Loan loss reserves/gross nonperforming assets	112.0	112.0	67.1	85.3	88.5

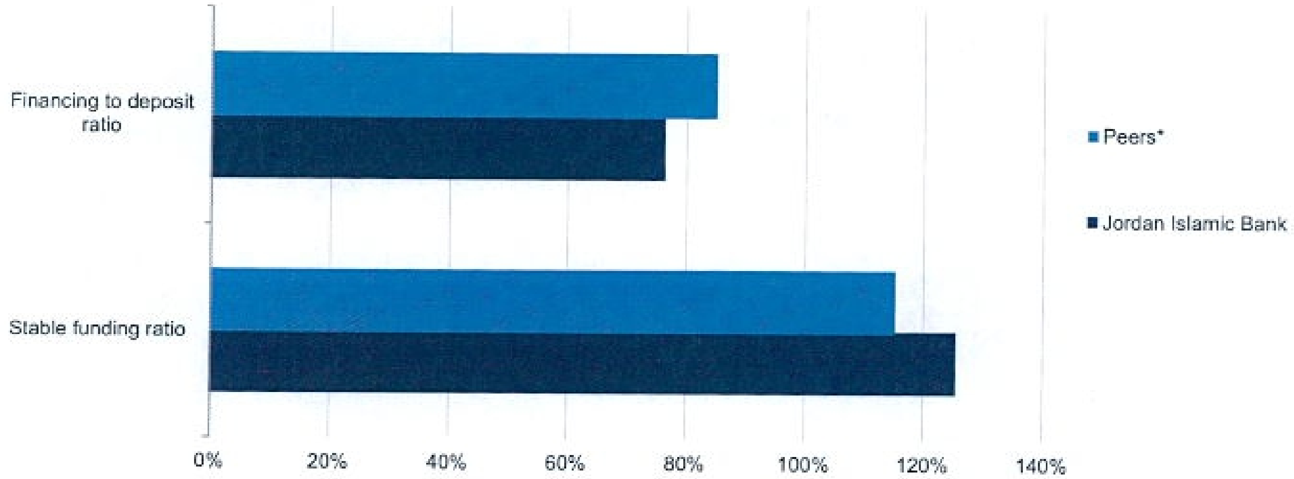
*Data as of June 30. N/A--Not applicable.

Funding and liquidity: Fully funded with core customer deposits

Our view of funding and liquidity is neutral to the ratings. JIB is wholly funded by highly granular customer deposits. The ratio of net financing to core customer deposits stands at a low 77% and we calculated the bank's stable funding deposits ratio at a healthy 121% as of June-end, 2020, which compares favorably with peers that of (see chart 3). Finally, JIB does not display any marked assets-liabilities mismatch.

Chart 3

Jordan Islamic Bank Compares Favorably With Peers In Terms Of Metrics As Of Year-End 2019



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

High amount of cash balances held at the central bank demonstrates the bank's liquidity position. As an Islamic bank, JIB's options to park excess liquidity are limited given regulatory limits on foreign investments. Consequently, the ratio of broad liquid assets to short-term wholesale funding was 23.3x as of June 2020. We expect limited sukuk issuances in the coming years, which could ease the bank's asset and liability management. However, there is limited need for such issuances owing to moderate financing growth due to the current economic recession. 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--				
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	97.9	98.8	99.1	99.2	99.2
Customer financings (net)/customer deposits	80.0	76.1	75.0	72.0	73.2
Long-term funding ratio	98.4	99.3	99.2	99.3	99.3
Stable funding ratio	120.7	125.3	127.8	133.3	130.8
Short-term wholesale funding/funding base	1.0	0.1	0.2	0.1	0.2
Broad liquid assets/short-term wholesale funding (x)	23.4	214.1	121.2	225.5	118.5
Net broad liquid assets/short-term customer deposits	52.0	58.9	52.7	58.5	54.2
Short-term wholesale funding/total wholesale funding	46.8	10.4	26.3	16.4	30.7
Narrow liquid assets/3-month wholesale funding (x)	22.9	214.1	114.8	221.1	116.5

*Data as of June 30.

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 28% of ABG's consolidated TAC as of Dec. 31, 2019, and we consider it to be moderately strategic to its parent group. While we acknowledge ABG's strong commitment toward its subsidiary, we have see no clear indication that ABG will support JIB in all scenarios.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And

Assumptions, July 17, 2013

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating 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 September 10, 2020)*

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/Negative/B
Turkey National Scale	trBBB+/--/trA-2

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