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الموافق : 13/ محرم / 1443هـ

السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،

الموضوع: التصنيف الائتماني للبنك الإسلامي الأردني من الوكالة الإسلامية الدولية للتصنيف (IIRA)

بالإشارة إلى الموضوع أعلاه يسُرنا أن نرفق لكم طيه نسخة من تقرير وخبر التصنيف الائتماني الخاص بمصرفنا والصادر عن الوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار آب 2021.

وتفضلوا بقبول فائق الإحترام،

المدير العام

د. حسين سعيد

المرفقات: نسخة من تقرير وخبر التصنيف الائتماني للوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار آب 2021

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Reaffirms Ratings of Jordan Islamic Bank

Manama, August 18, 2021 – Islamic International Rating Agency (IIRA) has maintained ratings of Jordan Islamic Bank ('JIB' or 'the Bank') at A+(jo)/A1(jo) on the national scale and BB+/A3 on the international scale with a 'Stable' outlook. Given the adverse economic and social challenges presented by the pandemic, JIB's rating reaffirmation is a representation of superior financial performance vis-à-vis the industry during 2020. Moreover, the Bank has continued to increase its market share, given a sustained strong franchise. Broad-based presence in the retail sector is considered a key advantage.

The economy continued to be in turmoil, with the pandemic affecting a broad range of economic sectors. Restricted movement impacted the business environment causing economic contraction of 1.6% during 2020. Despite the slowdown, total banking deposits grew by 3.1%, against which JIB posted 8.9% growth, with retail sector remaining dominant at 87% of total deposits and 69% in total financings excluding government financing. To support liquidity in the sector, Central Bank of Jordan reduced the reserve requirement. With the objective of providing relief to affected individuals and business, a moratorium on financings was also advised by the Central bank, which became effective in March 2020 and was last extended till June 2021.

Despite noteworthy growth in financings, the bank's liquidity ratio remained strong at a Liquidity Coverage Ratio (LCR) of 190% at end 2020. Asset quality indicators have improved further with gross non-performance declining to 3.13% during 2020 (2019: 3.97%), largely given the base effect. The Bank maintains provisions and risk reserves collectively in excess of impaired financings. We expect asset quality to remain strong even after the lifting of forbearance measures in effect. At 23.74% capitalization levels are sufficient to support growth for the foreseeable future and have not declined despite growth in business assets, being driven largely by government exposures. Despite some moderation in banking spreads in a reduced policy rate environment, the Bank's return indicators have remained range bound and denote steady earning generation ability.

For further information on this rating announcement, please contact us at iira@iirating.com

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RATING REPORT

Jordan Islamic Bank

August 2021

الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

Serving the Islamic Ummah

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

RATING REPORT

Jordan Islamic Bank

Report Date:

August 18, 2021

Credit Rating

	Latest Rating (August 18, 2021)	Previous Rating (Dec 08, 2020)
International Scale- FCY	BB+/A3	BB+/A3
National Scale	A+(jo)/A1(jo)	A+(jo)/A1(jo)
Outlook	Stable	Stable

Company Information

- **Incorporation year:** 1978
- **Listed on:** Amman Stock Exchange
- **External auditors:** Ernst & Young, Jordan
- **Key Shareholders:** Al Baraka Banking Group
- **Chairman:** H.E. Mr. Musa Abdelaziz Shihadeh
- **Chief Executive Officer:** H.E. Dr. Hussain Said Saifan
- **Branches & banking offices:** 108, at year-end 2020

CORPORATE PROFILE

With over 40 years of operations, Jordan Islamic Bank ('JIB' or 'the bank') is considered as one of the pioneers in Islamic Banking globally. JIB is one of the largest banks in the Kingdom of Jordan ('Jordan' or the country), and the largest Islamic Bank domestically. The Bank's market share has increased over the years to 8.49% in terms of total assets by end-2020 (2019: 8.29%) and it is designated as one of the systematically important financial institutions (D-SIB) in the country.

JIB is listed on the Amman Stock Exchange. The Bank has a very strong franchise, which translates into its expansive presence in the retail sector, contributing 87% of its total deposits and 69% of financing excluding government financing. Broad-based geographical coverage through (83) branches and (25) cash offices across Jordan that supports the bank's retail footprint. Increased functionality was offered to customers through conversion of 3 cash offices to full scale branches in 2020 and through relocation of selected cash offices. The Bank has also instituted a large ATM network with 266 ATM points, forming 13% of the country's ATMs.

With 2,434 employees, as of end-2020, the management has remained stable. H.E. Musa Shihadeh is currently the Chairman of the Board of Directors, having held leadership roles in the bank for the last thirty-nine years. H.E. Dr. Hussein Said Saifan is the CEO/ General Manager and has also had a long standing association with JIB for over thirty years.

Progress towards digitalization is evident with enhanced services offered through the Mobile Banking application. The Bank has also launched an updated version on I-Banking application providing new services such as online services for customers of corporate sector, LCs / LGs requests, inquiries about credit cards, and other services.

Sponsors' profile

JIB is owned in majority by the Al Baraka Banking Group ("ABG" or "the group") with a stake of 66.01%. With a presence in 16 countries, ABG is one of the leading international Islamic banking groups globally and operates through 17 subsidiaries, associates and representative offices, providing investment and commercial banking services. ABG has a total asset base of USD 28.3b as of end-2020 (2019: USD 26.3bn), with a consolidated branch network at 697 branches and a workforce of 12,026. JIB has remained one of the Group's major subsidiaries constituting 24.1% of the Group's asset base.

RATING RATIONALE

Economic environment continues to be tough…

The COVID-19 pandemic has put significant pressure on Jordan's economy. The country went through multiple lockdowns which disrupted the economy with low market and economic activity. Twin deficits have persisted for many years, having exacerbated during the last year. The GDP posted a contraction of about 1.6% during 2020, with expectation of recovery for 2021 and forecasted growth of 2.5%, being above long-term growth potential, given significant slack in demand conditions in prior year.

Strong market presence…

JIB is the largest Islamic Bank in Jordan and has been designated as a Systemically Important Financial Institution by the Central Bank of Jordan. The Bank has a strong market share of 8.49%[1] in terms of total assets as at end-2020, with a strong presence in the retail sector contributing 87% in total deposits and 69% of financing excluding government financing. This has ensured diversification in exposures and a broad-based access to cost effective liquidity.

Asset Quality remained strong despite economic slowdown …

The asset quality of JIB has remained strong over the years. During the year 2020, gross non performing financings (NPFs) declined by 8.4% to JD 98.3mn (2019: JD 107.3mn). The decline in NPFs was accounted for by forbearance measures adopted by the Central Bank with the objective of supporting businesses in distress, in the wake of the pandemic. These measures will remain in place until end-2021. The Bank has maintained sizable provisions, covering non-performing financings fully.

Capitalization and liquidity buffers remained intact …

The Bank remains well-capitalized given consistent increase in net shareholders' equity which rose by 12.3% to JD 474mn during 2020 (2019: JD 422mn). The capitalization ratio of the bank has accordingly remained strong at 23.74% as at end-2020 (2019: JD 24.33%) against a minimum regulatory requirement of 12%. Capital is likely to be sufficient in relation to expected growth in the foreseeable future.

Largely sustained profitability performance…

Despite tough economic conditions during 2020, profitability has been largely maintained at JD 52.1mn during 2020 (2019: 54.3mn). With narrower spreads in a low policy rate environment, margin income has declined. Despite higher commission and other income of JD 31.3mn during 2020 (2019: JD 30.5mn) and given some increase in expenditures, both ROAA and ROAE declined to 1.12% and 11.63% respectively during 2020 (2019: ROAA: 1.26%, ROAE: 13.34%).

[1]Source: Industry Assets extracted from 'Consolidated Balance Sheet of Licensed Banks' as part of Monthly Statistical Bulletin issued by Central Bank of Jordan

ECONOMIC OVERVIEW- Hashemite Kingdom of Jordan

Table 1: Macroeconomic Indicators

Figures as stated	2016	2017	2018	2019	2020
Population (Mn)	9.45	9.70	9.90	10.07	10.21
Nominal GDP (US$'bn)	39.95	41.47	42.99	44.57	42.61
GDP per capita (US$)	4,225	4,274	4,341	4,426	4,174
Real GDP Growth (%)	2.0	2.1	1.9	2.0	-1.6
Average CPI (%)	-0.6	3.6	4.5	0.8	0.3
Unemployment Rate (%)	15.3	18.3	18.6	19.1	-
Current Account Balance (% of GDP)	-9.7	-10.6	-6.9	-2.3	-6.8
Fiscal Balance (% of GDP)	-3.7	-3.6	-4.7	-4.9	-6.8

COVID-19 has put significant pressure on Jordan's economy. While infection and mortality rates had remained low during the first wave of COVID-19, the government took prompt and effective measures to impose movement restrictions, which expedited the economy's return to normalcy. However, during the second wave of COVID-19 since late 2020 and early 2021, both infection and mortality rates have remained high, reaching over 800 cases per 1 million (World: 64 per 1 million)[2] and around 9 deaths per million (World: 1.2 per 1 million)[3] in March 2021. To contain the spread, necessary movement controls have been imposed. Post March, a downward trend has been observed in both new cases and mortality. Jordan has administered at least one dose of the COVID-19 vaccine to about 14.4%[4] of the population up till June 2021. Although low by global standards, inoculations have recently picked pace in the current month.

A country of 10.2 million people with a nominal GDP of USD 42.6bn, Jordan has experienced a decline in GDP, with per capita GDP also reducing to USD 4,174 during 2020 (2019: USD 4,426). The economy had been growing at a steady pace with an average growth of 2.0% during 2016-2019. As the pandemic forced the world into a recession in 2020, Jordan's economy was also impacted and is estimated to have shrunk by around 3.0%.

The government took various fiscal measures to support the economy; these include sales tax exemptions, postponement of customs duty, cash transfers to unemployed, deferred tax payments for tourism companies, and reduced general sales and service tax, among others. As revenues and grants fell to JD 7.3bn during 2020 (2019: JD 7.8bn) and government expenditure rose by 1.5% to JD9.4bn (2019: JD 9.2bn), fiscal deficit is estimated to have increased to -6.8% of GDP (2019: -4.9%). In the backdrop of increasing fiscal deficit, government debt is also expected to have increased to 89.2% of GDP by end-2020 (2019: 78% of GDP). Government debt also includes debt raised by public entities including National Electric Company (NEPCO) and Water Authority (WAJ).

The government is expected to take a gradual approach towards fiscal consolidation to give enough time to the economy to recover from the pandemic. The long-term strategy is focused on broadening the tax base, eliminating pressure from public utilities and public private partnerships and improving fairness, efficiency and transparency in public finances.

The Central Bank of Jordan adopted an accommodative stance, bringing the policy rate down to 2.5% after a cumulative cut of 150bps in March 2020. With significant slowdown in demand, inflation remained low at 0.3% during 2020 (2019: 0.8%). While moderately higher inflation was noted in food items, health, education, restaurants and hotels, there were sectors that posted deflation including clothing and footwear, housing, transportation and culture. With expectations of

[2] https://ourworldindata.org/covid-cases
[3] https://ourworldindata.org/covid-deaths
[4] https://ourworldindata.org/covid-vaccinations

recovery in demand, especially during H2'21 and higher crude oil prices, inflation is expected to be higher in 2021.

During the year 2020, exports of goods were estimated to have increased marginally by 3.8% to USD 8.7bn (2019: USD 8.4bn). On the other hand, imports were estimated to have risen by 4.6% to USD 18.1bn during 2020 (2019: USD 17.3bn). As a result, current account deficit is expected to have widened to -6.9% of GDP during 2020 (2019: -5.7% of GDP). Meanwhile, Foreign Direct Investment is projected to remain stable at USD 685mn (2019: USD 687mn). Portfolio outflows are of USD -216mn during 2020 versus USD 62mn in the preceding year were also notable, as capital flight was observed from a number of developing countries.

Despite one of the highest literacy rates in the region, the country has reported high unemployment rate over the years. The COVID-19 pandemic further worsened the labor market conditions with unemployment reaching 23% during 2020. Unemployment rate, if adjusted for Syrian refugee population, would be significantly higher.

Having received the second highest number of refugees in relation to its population in the world at almost 10.7%, the country hosts around 660,000 people from Syria alone, with thousands of refugees coming from Iraq, Yemen, Sudan and Somalia in late 2020. There was a shortfall of USD 1.4bn between planned and received donor financing in 2019, which is expected to have further widened in 2020. Despite the shortfall, Jordan is committed to meet all the essential services required for refugees, putting additional pressure on government expenses.

In 2020, the government signed a staff level agreement with IMF on a new four-year program targeted to stimulate growth and create jobs, strengthen external and fiscal balances, increase transparency, and improve social spending. Jordan is expected to post recovery in 2021, with GDP growth projected at 3.4%, off a low base in prior years.

FINANCIAL SECTOR OVERVIEW

Financial sector has remained one of the most important economic sectors, contributing around 20% in GDP. The Banking sector is well capitalized, with an industry CAR of 17.9% as at June 2020 and an asset base of JD 57.0bn at end 2020 (2019: JD 53.6bn), having posted strong growth of 6.3% during the year.

In 2020, Central Bank of Jordan took a number of initiatives to support the banking sector amid COVID-19. Simplified instructions were extended for scheduling and structuring and postponing instalments until 31/12/2021. The discount rate was reduced from 5% to 3.5%. CBJ also reduced the compulsory cash reserve ratio on time deposits from 7% to 5% for Conventional Banks, from 7% to 4% on investment accounts and from 7% to 6% on current accounts for Islamic Banks, for a period of 3 years. With these initiatives, liquidity available in the domestic market increased to provide additional space for credit support to the economy.

Other key developments include Anti-Money Laundering and Terrorism Financing Law and the Insurance Law presented for amendment to the parliament. A new system for financing companies is under processing. There were a number of Islamic banking regulations which were implemented during 2020 including AAOIFI standards on FAS 30 (Impairment, Credit Losses and Onerous

Commitments), FAS 35 (Risk Reserves), FAS 33 (Investments in Sukuk, Shares and Similar Instruments) and new disclosures requirement for FAS 26 (Investment in Real Estate). Regulatory commitment to Islamic banking and its growth is evident.

FINANCIAL PROFILE

The business mix of the bank has remained almost consistent over the years. Gross financings have remained the largest contributor to assets comprising an average of 65.7% to total assets during 2015-2020. Due to limited Shari'a compliant options for investments in the Kingdom, net investments have remained limited averaging 7.8% of assets during 2015-2020.

Table 2: Asset Mix

JdMn	2018	2019	2020	Q1'2021	Industry 2019	Industry 2020
Cash & Bank Balances	918	939	852	890	10,429	11,635
% Growth	-22.2%	2.3%	-9.2%	4.5%	4.5%	11.6%
Net Financings	2,692	2,914	3,329	3,410	26,796	28,234
% Growth	1.9%	8.2%	14.3%	2.5%	3.8%	5.4%
Net Investments	425	423	424	428	12,072	12,886
% Growth	46.6%	-0.4%	0.3%	0.8%	11.6%	6.7%
Other Assets	126	174	239	245	4,346	4,283
% Growth	27.6%	38.0%	37.5%	2.6%	-1.4%	1.1%
Total Assets	4,161	4,449	4,844	4,974	53,642	57,038
% Growth	-1.2%	6.9%	8.9%	2.7%	5.4%	6.3%

Cash is largely maintained as balance with central bank being 76.3% of cash held. During the year 2020, a decline of 9.3% was noted in cash and equivalents to JD 852mn (2019: JD 939mn), reflecting the dip in statutory cash reserve requirements. As such statutory cash reserves held reduced to JD 155.6mn at end-2020 from JD 258.6mn as at end 2019. A similar decline was observed in balances at banks and financial institutions amounting JD 50.6mn as at end 2020 (2019: JD 70.0mn).

Financing Portfolio

Additional liquidity generated by the bank was mostly channeled in a growing financing portfolio. As Financings increased by 14.3% to JD 3,329mn (2019: JD 2,914mn), government exposure constituted the bank's largest asset allocation at 27.6% at end 2020. Growth was noteworthy in government and retail based exposures. As part of the government portfolio, NEPCO has remained the largest borrower of the Bank with a financing of JD 920mn as of end 2020, or 27.6% of the net financing portfolio (2019: JD 751mn). NEPCO financing grew further by 22.7% in 2020, although financing needs are likely to moderate in 2021.

NEPCO exposure remained guaranteed by the government of Jordan, and is as such considered low-risk. The Bank has also invested in NEPCO Sukuk which has remained constant at JD 166.89mn since 2018, forming 86% of Sukuk investments at end-2020. Combining both financings and investments, exposure to NEPCO stood at JD 975mn as of Q1'2021 or 19.6% of assets.

The Bank has sizeable financing in the real estate sector. In 2020, real estate financings and Ijarah Muntahia Bittamleek also structured for real estate, comprised 12.8% and 21.2% of total net financings respectively. Real estate financing stood at JD 427.1mn, having risen 7.1% over prior year end on a gross basis. Activity in real estate remained limited due to COVID-19 with trade volume dropping by 29% to JD 2.26bn during the first nine months of 2020. The sector has since bounced back, with sales volume increasing by 34% during Q1'2021 and apartment sales increasing by 19%.

SME sector has been affected adversely in 2020 as small businesses, particularly high customer contact enterprises, faced disruptions amid COVID19. With a small share of 4.2% in total financings, SME sector financings posted a contraction of 3.33% during 2020, reaching JD 139.4mn (2019: JD 144.2mn). The Bank has historically been focused on the retail sector, with Corporate (excluding government) sector financing remaining limited at 15.1% of the financing portfolio. During the year 2020, corporate sector financing posted a strong growth of 23.1% increasing to JD 502.2mn (2019: JD 408.1mn).

With a share of around 69% in the total financing portfolio excluding government financing, retail sector is the most dominant business segment. In addition to JD 634.4mn in retail financing, a majority of real estate financing at JD 329mn also pertains to retail finance. Further, JD 674mn constitutes retail financing under the Ijarah Muntahia Bittamleek assets, largely allocated to housing finance.

Asset Quality

The asset quality of JIB has remained strong over the years. Gross NPFs declined by 8.4% to JD 98.3mn during 2020 (2019: JD 107.3mn), taking gross NPF ratio[5] from 3.97% at end-2019 to 3.13% in 2020. The decline in NPFs was supported by government initiatives of supporting failing businesses and offering loan moratoriums, which will remain in place until end-2021, and following which we may expect some surge in non-performance, albeit we believe that it will remain range-bound, given the bank's relatively contained exposure to SME sector, being most severely affected.

The bank has booked higher provisions against financings of JD 141.0mn during 2020 (2019: JD 131.3mn). The higher provision fully covered NPF with provision coverage of 104% during the year. Around 48% of the total nonperforming financings pertain to the Trade sector which has remained the most impacted sector in 2020.

As per the CBJ risk classification, high risk financings (under watch segment) amounted JD 124.9mn and constituted 3.6% of gross financings.

Table 3: Asset Quality Indicators

In JD'000s/%	2017	2018	2019	2020	Q2'2021
Gross Non-Performing Financing (NPF)	94,758	102,842	107,314	98,341	108,881
Net NPF	21,970	26,440	29,788	22,004	27,563
Gross NPF % Gross Financings	4.03%	4.21%%	3.97%	3.13%	3.39%
Net NPFs % Net Financings	0.60%	0.33%	0.26%	0.70%	0.86%
Net NPFs % Total Equity	5.86%	6.72%	7.07%	4.64%	5.65%
Total Provisions Against Financing[6]	117,155	127,570	131,340	141,032	141,754
Provision Coverage Ratio[7]	123.64%	124.0%	122.4%	88.0%	95.89%

[5] Using Gross Financings including Qard Hasn

[6] Including investment risk fund and provision for future expected risk

[7] Total provisioning including Investment Risk Fund

Funding and Liquidity

Table 1: Funding Sources

	2017	2018	2019	2020	Q1'2021
Retail	3,231	3,167	3,433	3,624	3,658
Corporate	26	23	27	38	41
SME	311	324	265	295	342
Government	90	59	79	105	129
Financial Institutions	11	20	31	114	111
Total Deposits	3,668	3,593	3,834	4,175	4,280

As compared to the growth of 3.1% in industry deposits, JIB posted stronger growth of 8.9%. Total deposits reached JD 4,175mn (2019: JD 3,834mn), largely represented by the retail sector, which at JD 3,624mn as at end 2020 (2019: JD 3432mn), posted a growth of 5.6%, and comprised 86.8% of deposits. Much of the new growth has come about on the back of increase in retail deposits. Nevertheless the consistent inflow of liquidity from the retail sector, in smaller denominations is a fundamental strength of the Bank. Moreover, current accounts increased from JD 1,210mn in 2019 to JD 1,332mn in 2020, posting a growth of 10.1%. A similar trend was observed in the URIA accounts, which increased to JD 2,843mn as at end 2020 (2019: JD 2,624mn), indicating even growth in the two segments, with the deposit mix largely maintained and indicating favorable funds composition overall.

Table 5: Liquidity Indicators

%	2018	2019	2020	Q1'2021
Net Financings / Total Deposits	75.3%	78.5%	81.6%	81.43%
Liquid Assets /Total Funding	28.0%	26.2%	22.2%	22.7%
Liquid Assets /Total Assets	24.5%	22.8%	19.4%	19.7%

With an increase in the available funding, we have seen an increase in the financing portfolio, with cash and cash equivalents and investments declining during the year. To support the liquidity in the bank sector, Central Bank of Jordan also reduced reserve requirement. Accordingly, liquid assets[8] to funding ratio has declined further to 22.2% as at end 2020 (2019: 26.2%). Liquid assets stood at JD 949mn at end-2020, declining from JD 1027mn as at end 2019. However, the high quality of these assets including deposits with central banks and Sukuk investments provides comfort, as does the historical stability of funds and the Bank's well-established access to fresh deposits.

Capitalization

Table 6: Capitalization Indicators

In JD'm unless stated otherwise	2017	2018	2019	2020	Q1'2021
Net Shareholders' Equity	375	393	422	474	488
- Paid-up Capital	180	180	200	200	200
- Reserves	109	124	132	149	149
- Retained Earnings	86	90	89	125	125
- Profit for the Period	-	-	-	-	13.9
Dividend Rate (% Paid-up capital)	15.0%	15.0%	12.0%	-	-
Equity to Total Assets	9.1%	9.4%	9.8%	9.8%	9.8%
Leverage Ratio (Regulatory)	-	-	17.3%	18.9%	-
CAR[9]	23.0%	22.8%	24.3%	23.74%	23.46%

Strong capitalization over the years has been maintained with consistent increase in net shareholders' equity. Net shareholders' equity increased by 12.3% to JD 474mn (2019: JD 422mn) in 2020. The increase stemmed largely from higher retained earnings and reserves. In response to the COVID-19 pandemic and to support the banking sector, the Central Bank of Jordan has capped cash dividend distributed to shareholders at 12% of paid up capital. Following the restrictions, the Bank has proposed distribution of 12% dividend or JD 24mn during the current year.

[8] Including cash and cash equivalents (including mandatory cash reserves), bank placements, quoted equity investments and quoted Islamic Sukuk

[9] The bank computes the capital adequacy ratio in accordance with CBJ's instructions based on the Islamic Financial Services Board (IFSB) standards.

The eligible capital of the bank increased to JD 451.1mn during 2020 (2019: JD 420.6mn), posting a growth of 7.3%, entirely on the back of retained earnings. A significant 98.3% of total capital or JD 443.3mn is Tier 1 capital representing high quality capital. As bank's financing saw double digit growth during the year, risk weighted assets also increased by 9.9% to JD 1,900mn as at end 2020 (2019: JD 1,729mn) with the credit risk component contributing the most significant 82.7% of total risk weighted assets.

As such, the capitalization ratio of the bank has remained strong at 23.74% during 2020 (2019: JD 24.33%). As per regulatory requirements, all banks are required to maintain a minimum of 12% capital adequacy ratio (CAR). As a D-SIB, being assigned as such by CBJ, JIB is required to maintain a higher CAR of 12.5%. The bank maintains significant buffer in excess of regulatory requirements and has generally been deleveraging over time. The capitalization levels have remained significantly higher than the industry which stood at 17.9% as of H1'2020.

Profitability

Table 7: Profitability Indicators

In JD '000s/%	2018	2019	2020	Q1'2021
Total Income from Financing & Investments	191,758	196,731	200,219	54,119
Return to URIAs	51,629	55,280	60,646	16,235
Net Margin Income	140,129	141,451	139,573	37,884
Commissions & Other Income	22,598	24,695	25,447	6,494
Income from RIAs Management	3,499	5,823	5,867	102
Operating Expenses	71,647	76,947	79,121	22,459
Operating Profit Before Provision & Tax	94,880	88,554	91,765	21,972
Share of Investment Risk Fund ECL	19,176	-6,469	-8,000	-
Net Income for the Year	49,808	54,349	52,122	13,910
ROAA (%)	1.19%	1.26%	1.12%	1.13%
ROAE (%)	13.04%	13.34%	11.63%	11.56%
Spread	5.17%	4.96%	4.39%	4.03%
- Return on Earning Assets	6.63%	6.47%	5.91%	5.60%
- Cost of non-shareholders fund	1.46%	1.51%	1.52%	1.56%
Efficiency Ratio[10]	38.62%	39.60%	43.46%	45.75%

Despite tough economic conditions, JIB's profitability has largely been maintained being JD 52.1mn during 2020 (2019 54.3mn). As the central bank adopted monetary easing during the year, bringing policy rates down from 5% to 3.5%, spreads in the banking sector shrunk during 2020. As such, while the Bank's income from financings and investments has increased slightly to JD 200.2mn (2019: JD 196.7mn), share of income distributed to unrestricted investment accounts increased to JD 60.6mn during 2020 (2019: JD 55.2mn), reflecting tighter margins characteristic of a low policy rate environment. Given also the participatory nature of these accounts, the decline in return to URIA, lags behind the fall in yields. The return on earning assets declined from 6.47% during 2019 to 5.91% in 2020, while cost of funds increased marginally to 1.52% (2019: 1.51%), narrowing JIB's spread to 4.39% during 2020 (2019: 4.96%). Moreover, the Bank posted higher charge-offs against expected credit loss of JD 8mn. Combining the impact of both, net margin income declined to JD 139.6mn during 2020 (2019: JD 141.4mn).

Higher commission and other income earned at JD 31.3mn (2019: JD 30.3mn) was mostly contributed into by banking service revenues, foreign currency gain and other income. Banking services income contributed the majority of the revenues at JD 21.2mn during 2020 (2019: JD 20.3mn) and mostly comprise commissions on guarantees, card-based payments and transfers. The quantum of banking card and E-channels commissions increased notably from JD 5.5mn in 2019 to

[10] Adjusted for depreciation and amortization expenses.

JD 7.0mn during 2020, due to high usage of cards for payments during 2020. Foreign currency gains coming from trading and valuations remained almost constant at JD 2.1mn during 2020 (2019: JD 2.1mn).

On the expenditure front, the bank has maintained the expenses on a timeline. Employee expenses remained almost constant at JD 41.5mn during 2020 (2019: JD 41.4mn). On the other hand, general and administrative expenditures increased from JD 24.8mn in 2019 to JD 28.7mn during 2020. The increase was mainly driven by deposit insurance premium which stood at JD 4.0mn during 2020 (2019: JD 2.5mn). Increase in donation expense by 2.0mn to support affected Covid-19 sectors. Payment cards related expenses also increased to JD 3.1mn during 2020 (2019: 2.2mn), with further slight increase in system maintenance licenses to 3.4mn during 2020 (2019: JD 3.1mn).

On the whole, the decline in margin income drove net earnings downwards, not offset by the improvement in fee income. As the Bank posted slightly lower net profit, and both net equity and total assets posted growth, both ROAA and ROAE declined to 1.12% and 11.63% respectively during 2020 (2019: ROAA: 1.26%, ROAE: 13.34%).

IIRA Rating Scales & Definitions

Ratings on International Scale

Foreign Currency Ratings

The foreign currency ratings by IIRA measure the ability of the rated entities to service their foreign currency obligations. These ratings incorporate all the sovereign risks of a country, including the risk of converting local currency to foreign currency.

Local Currency Ratings

The local currency ratings by IIRA measure the ability of the rated entities to service their local currency obligations. These ratings incorporate all the sovereign risks of a country, except the risk of converting local currency to foreign currency.

Ratings on National Scale

The national scale local currency ratings assigned by IIRA are tiered against an assumed local government rating of ‘AAA’ and, therefore, do not incorporate all the sovereign risks of a country.

Issue/Issuer Rating Scale & Definitions

Medium to Long Term

IIRA uses a scale of AAA to D to rate credit worthiness of the issuer and long term issues, with AAA being the highest possible rating and D being the lowest possible rating.

AAA: Highest credit quality. Represent the least credit risk.

AA : High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A : Good credit quality. Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB : Adequate credit quality. Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB : Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B : Obligations deemed likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC : Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC : A high default risk

C : A very high default risk

D: Defaulted obligations

Note: IIRA appends modifiers + or - to each generic rating classification from AA through B. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier - indicates a ranking in the lower end of that generic rating category.

Rating Outlook : The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of rating change.

Rating Watch-list : IIRA places entities and issues on 'Watch-list' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). A 'Watch-list' announcement means that the status of the assigned rating(s) is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

Short Term

IIRA uses a scale of A1+ to C to rate credit worthiness of the issuer and its short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+ : Highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative source of funds, is outstanding and safety is just below risk free short-term obligations.

A1 : High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A2 : Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A3 : Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B : Speculative investment characteristics. Liquidity may not be sufficient to ensure timely payment of obligations.

C : Capacity for timely payment of obligations is doubtful.

Fiduciary Rating Score

(91-100) – Very Strong Fiduciary Standards
(91-93), (94-97), (98-100)*
Rights of various stakeholders are well protected and the overall governance framework is strong.

(76-90) – Strong Fiduciary Standards
(76-80), (81-85), (86-90)*
Rights of various stakeholders are protected. Minor weaknesses have been identified in the overall governance framework.

(61-75) – Adequate Fiduciary Standards
(61-65), (66-70), (71-75)*
Rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

(40-60) – Basic Fiduciary Standards
(40-46), (47-53), (54-60)*
Rights of various stakeholders are relatively vulnerable. Significant weaknesses have been identified in the overall governance framework.

(Less than 40) – Low Fiduciary standards
Rights of various stakeholders are at high risk and the overall governance framework is weak.

**Apart from the lowest score range, all score ranges have been split into three sub-divisions for further clarity*

الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency