

## RATING ACTION COMMENTARY

# Fitch Rates Jordan Islamic Bank 'BB-'; Outlook Stable

Thu 16 May, 2024 - 6:36 AM ET

Fitch Ratings - Dubai - 16 May 2024: Fitch Ratings has assigned Jordan Islamic Bank (JIB) a Long-Term Issuer Default Rating (IDR) of 'BB-' with a Stable Outlook. Fitch has also assigned JIB a Viability Rating (VR) of 'bb-'.

## KEY RATING DRIVERS

JIB's IDRs are driven by its standalone strength, as indicated by its 'bb-' VR. The VR considers JIB's only adequate capitalisation given the bank's high leverage and sovereign exposure. It also reflects JIB's strong domestic franchise, stable asset quality, acceptable profitability, and stable funding and good liquidity. The 'B' Short-Term IDR is the only option mapping to a 'BB-' Long-Term IDR.

**Challenging Operating Environment:** The operating environment remains challenging due to below-potential and structurally weak GDP growth, monetary tightening, high unemployment and geopolitical risks. Fitch expects moderate bank credit growth of 3%-4% in 2024, and forecasts low real GDP growth of 2.3% in 2024 and 2.8% in 2025 due to increased geopolitical risks and its negative impact on tourism. Acceptable domestic credit conditions should balance out gradual fiscal consolidation and slower regional growth.

**Strong Domestic Franchise:** JIB had a market share of 9% of banking-sector assets and 46% of Islamic banking-sector assets at end-2023. It has good distribution capabilities (89 branches) and a strong brand. The bank benefits from growth opportunities in Islamic banking. JIB has no direct or indirect exposures to Palestine.

**High Sovereign Exposure and Concentration:** JIB is highly exposed to the Jordanian sovereign through financing of government-related entities, holdings of sovereign securities and balances with the Central Bank of Jordan (CBJ; end-2023: 33% of total assets, or 3.9x common equity Tier 1 (CET1) capital). JIB's financing is concentrated on real

estate-related sectors, split between Ijara Muntahia Bittamleek (mostly leasing of residential properties; end-2023: 24% of gross financing), retail housing (10%) and wholesale real estate (4%). These risks are mitigated by JIB's adequate risk management.

**Stable Asset Quality:** JIB's stable Stage 2 and 3 financing ratios (end-2023: 10.3% and 3.1%, respectively), negligible Stage 3 financing generation, good total loss allowances coverage of Stage 3 financing (132%) and high exposures to the sovereign support our assessment of the bank's asset quality. However, high concentrations expose JIB to event risk. Fitch expects asset quality to remain stable, with a Stage 3 financing ratio of 3% at end-2024.

**Acceptable Profitability; Mild Decline:** JIB's operating profit was 1.7% of average total assets in 2023 (2022: 1.8%; 2021: 1.9%) but under pressure from declining net financing margins (2023: 2.9%; 2022: 3.2%; 2021: 3.6%) and low growth. Low cost of risk and stable operating efficiency support JIB's profitability. Fitch expects stable profitability, with operating profit at 4% of risk-weighted assets (RWAs) and 1.7% of average total assets in 2024.

**Only Adequate Capitalisation:** JIB's CET1 capital ratio is stable (end-2023: 20.2%) due to low growth and adequate internal capital generation. It is above the 15% sector average and 9% regulatory minimum (including buffers) due to 0% risk-weights on local-currency sovereign exposures (as for all banks), and the 30% alpha factor (as for all Jordanian Islamic banks). The latter provides a 70% discount to risk weightings on credit risk exposures financed by investment accounts (these were 48% of undiscounted credit risk exposures at end-2023).

The discount translates into high leverage that is above peers', with a Fitch-calculated tangible leverage ratio of 9.4%, demonstrating lower loss absorption buffers. Fitch expects stable capitalisation, with a 19.5% CET1 capital ratio and 9.3% tangible leverage ratio at end-2024.

**Stable Funding; Good Liquidity:** JIB is mostly funded by stable and granular retail customer deposits (end-2023: 84% of customer deposits) that result in very low funding concentration. The bank's high-quality liquid assets represented an adequate 19% of total assets at end-2023, covering an adequate 22% of customer deposits and mitigating liquidity maturity mismatches.

## RATING SENSITIVITIES

## **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

A downgrade of the Jordanian sovereign rating or a significant deterioration in the domestic operating environment would lead to a downgrade of JIB's ratings.

An increase in JIB's risk appetite pressuring asset quality, profitability and capitalisation could also lead to a downgrade of the bank's ratings.

## **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

An upgrade of JIB's ratings would require an upgrade of the Jordanian sovereign rating and sustained improvements to the operating environment, in tandem with stable business, risk and financial profiles.

JIB's Government Support Rating (GSR) of 'b' reflects a limited probability of support from the Jordanian authorities. This considers the sovereign's weak financial flexibility, but also JIB's high systemic importance, and the authorities' strong willingness, in Fitch's view, to support domestic banks to maintain market confidence and stability given high contagion risk among domestic banks.

A downgrade of the sovereign rating would likely result in a downgrade of JIB's GSR. An upgrade of JIB's GSR would require a stronger ability to support domestic banks, either through an upgrade of the sovereign rating or a strong reduction in sovereign indebtedness. The GSR is also sensitive to changes in Fitch's view of the Jordanian sovereign's willingness to support the bank.

## **VR ADJUSTMENTS**

The operating environment score of 'bb-' is above the 'b' category implied score due to the following adjustment reason: macroeconomic stability (positive).

The business profile score of 'bb-' is above the 'b' category implied score due to the following adjustment reason: market position (positive).

The capitalisation and leverage score of 'b+' is below the 'bb' category implied score due to the following adjustment reason: leverage and risk-weight calculation (negative).

## **DATE OF RELEVANT COMMITTEE**

26 April 2024

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

JIB's GSR is driven by Jordan's sovereign Long-Term IDR.

## ESG CONSIDERATIONS

As an Islamic bank, JIB needs to ensure compliance of its 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' for the bank, which has a negative impact on the bank's credit profile and is relevant to its rating in combination with other factors.

In addition, Islamic banks have an ESG Relevance Score of '3' for exposure to social impacts, above sector guidance for an ESG relevance score of '2' for comparable conventional banks, which reflects certain sharia limitations being embedded in Islamic banks' operations and obligations, although this only has a minimal credit impact on the entities.

Except for the matter discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅		PRIOR ⇅
Jordan Islamic Bank	LT IDR	BB- Rating Outlook Stable	WD
	New Rating		

ST IDR	B	New Rating	WD
--------	---	------------	----

Viability	bb-	New Rating	WD
-----------	-----	------------	----

Government Support	b	New Rating
--------------------	---	------------

[VIEW ADDITIONAL RATING DETAILS](#)
**FITCH RATINGS ANALYSTS****Gilbert Hobeika**

Director

Primary Rating Analyst

+971 4 424 1214

gilbert.hobeika@fitchratings.com

Fitch Ratings Ltd

Dubai Branch Maze Tower, 18th Floor Sheikh Zayed Road, P.O. Box 215584, Dubai

**Redmond Ramsdale**

Senior Director

Secondary Rating Analyst

+44 20 3530 1836

redmond.ramsdale@fitchratings.com

**Olga Ignatieva**

Senior Director

Committee Chairperson

+44 20 3530 1300

olga.ignatieva@fitchratings.com

**MEDIA CONTACTS****Peter Fitzpatrick**

London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 16 Mar 2024\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

Jordan Islamic Bank

UK Issued, EU Endorsed

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at

<https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch

Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on

historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide



credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.