الرقـــم : م.م 119/تعاميم /2020/108/ 9137
التاريـخ : 2020/12/9 م
الموافق : 24 / ربيع الثاني / 1442هـ

السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،

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

بالإشارة الى الموضوع أعلاه، يسُرنا أن نرفق لكم طيه نسخة من تقرير وخبر التصنيف الائتماني الخاص بمصرفنا والصادر عن الوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار كانون الاول 2020.

وتفضلوا بقبول فائق الاحترام،،،

المدير العام

د. حسين سعيد

المرفقات: نسخة من تقرير وخبر التصنيف الائتماني للوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار كانون الاول 2020

بورصة عمان
الدائـرة الإدارية والمالية
الديـوان
٩ • كانون الثاني ٢٠٢٠
الرقم المتسلسل: ٤٢٧٤
رقم الملف: ١١١١
الجهة المختصة: الادراج

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Reaffirms Ratings of Jordan Islamic Bank

Manama, December 8, 2020 – Islamic International Rating Agency (IIRA) has maintained ratings of Jordan Islamic Bank at A+(jo)/A1(jo)on the national scale and BB+/A3 on the international scale with a 'Stable' outlook. The reaffirmation takes into account largely maintained asset quality, strong capital adequacy and sustained profitability in 2019 and H1'20. With a wide network all over the country, JIB continued to benefit from steady deposit growth and a sustained high market share, despite the effects of the pandemic.

The operating environment remains challenging; adverse effects of the ongoing pandemic are reflected in further straining the already subdued economic growth in the country, translating into not only lower employment rate but also potentially contracting the economy by over 3% in 2020. An economic downturn is leading to weak market conditions with assets in the banking sector growing only 0.9% in H1'20 amid limited opportunities for business. The negative impact of the pandemic is likely to persist in H2'20, gradually easing through 2021.

Non-performing accounts remained contained in 2019 and in H1'20, despite the present pandemic conditions, given CBJ's protective measures and the conservative credit risk management of the Bank. Provisioning cover has historically been high. The Bank maintained profitability during 2019 and H1'20, with continued trends in income generation from financings and investments and buffered by the release of reserves from the investment risk fund in lieu of fresh provisions required, minimizing charge-offs during the period.

Capitalization indicators remain strong with CAR at 24.1% at end H1'20. Being further supported by high provisions and strong asset quality, as well as sustained profitability, capitalization is viewed to be sufficient to withstand emerging risks from COVID-19. IIRA takes note of the fact that the bank has been able to maintain its risk profile in difficult market conditions and in a globally heightened risk environment, which is deemed supportive of the ratings assigned.

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

TRUST . TRANSPARENCY . INDEPENDENCE

Rating Report

Jordan Islamic Bank

December 2020

الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

Jordan Islamic Bank

Report Date:

December 8, 2020

Credit Rating

	Latest Rating (December 8, 2020)	Previous Rating (July 15, 2019)
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:** AlBaraka 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 2019

CORPORATE PROFILE

Jordan Islamic Bank ('JIB' or 'the bank') is a pioneering Islamic bank globally and the oldest and the largest Islamic Bank in Jordan. It is also amongst systemically significant banks in the Kingdom, representing 8.7%[1] of the JD51.1bn total assets in the domestic banking industry. The bank is a publicly listed entity on Amman Stock Exchange. Market share has remained largely consistent over the years with the Bank's strong outreach. JIB offers banking, financing and investment services through its (80) branches and (28) cash offices in different locations in addition to259ATMs across the country. With the number of clients' accounts reaching 927,000, the bank has been in the premier league amongst its peers and has demonstrated progress in its digital transformation program, easing retail and SME customer interaction through digital channels.

Table 1: Key Financial Indicators

JD mn / %	2017	2018	2019	1H'20
Total Assets	4,212	4,161	4,449	4,547
Net Financing	2,643	2,692	2,914	3,060
Deposits	3,716	3,638	3,881	3,956
Equity	375	393	422	449
Operating Income	100	95	96	45
Net Income	54	50	54	27
RoAA	1.3%	1.2%	1.3%	1.2%
RoAE	15.1%	13.0%	13.3%	12.5%
Cost/ Income Ratio	35.1%	38.6%	39.0%	42.7%
Net Impairment Ratio	0.6%	0.3%	0.2%	0.1%
CAR	23.0%	22.8%	24.3%	24.1%
Net Financing/Deposit	71.1%	74.0%	75.1%	77.3%

The bank has 2,440 employees, as of December 31, 2019. H.E. Musa Shihadeh is the Chairman of the Board of Directors since his retirement as CEO/General Manager in 2019, prior to which he had been serving the bank at this position for thirty-eight years. H.E. Dr. Hussein Said Saifan who has been serving the bank for over thirty years, is the incumbent CEO/ General Manager since April 30, 2019.

JIB has been operating under Shari'a principles since its inception in 1978.The principles of Islamic banking are evident in the Bank's vision and mission while also being reflected in the organizational culture. The Bank has been granted recognition as the best Islamic Bank of Jordan and as a global Islamic finance player for several years by global industry accreditation institutions.

Sponsors' profile

Al Baraka Banking Group ("ABG" or "the group") holds majority ownership in JIB with a stake of 66%.ABG is a leading international Islamic banking group with extensive geographical presence in 16 countries and manages 17 subsidiaries providing commercial banking, retail, treasury and investment banking services. ABG's asset base stood at USD 26.3bn as of end-2019 with a consolidated branch network of 702 branches and a workforce of 12,662. JIB is one of the largest subsidiaries of the Group contributing 24% to group assets and 43% (2018: 32%) to consolidated net earnings in 2019.

[1]Based ondata of Association of Banks in Jordan Hand Book

RATING RATIONALE

The operating environment remains challenging...

Adverse effects of the ongoing pandemic are reflected in further straining the already subdued economic growth, translating into not only lower employment rates but also potentially contracting the economy by over 3%[2] in 2020. An economic downturn is leading to weak market conditions with assets in the banking sector growing only 0.9% in H1'20 amid limited oportunities for business. The negative impact of the pandemic is likely to persist in H2'20, gradually easing through 2021.

Strong Retail Positioning ...

JIB is the oldest and largest Islamic Bank in Jordan. It is also one of the largest banks in the Kingdom, representing 8.3% of the JD53.6bn total assets in the banking industry. With 80 branches, 28 cash offices and 260 ATMs, the Bank enjoys wide network all over the country, enabling it to take benefit of steady deposit growth and a sustained high market share.

High exposure to Sovereign ...

There was notable growth in government and public sector financings in 2019, mainly to National Electric Power Company (NEPCO)in Jordan. The share of NEPCO in total net financings increased to 25% (17% of total assets) in 2019 from 19.6% in 2018. While government guarantee reduces NEPCO's credit risk, concentration and event risk remain high, given the quantum of the exposure. The exposure partly matures during 2020.

Asset Quality maintained during on-going pandemic ...

Non-performing accounts remained contained in 2019 and in H1'20, despite the present pandemic conditions, given CBJ's protective measures and the conservative credit risk management of the Bank. Provisioning cover has historically been high in the Bank, further improving the already minimal net non-performance in 2019.

At 24.1% in H1'20,CAR indicates sufficient capitalization and continued resilience with sustained earnings...

Capitalization indicators remain strong with CAR at 24.1% at end H1'20. Being further supported by high provisions and strong asset quality, as well as sustained profitability, capitalization is viewed to be sufficient to withstand emerging risks from COVID19. The Bank maintained profitability during 2019 and H1'20, with continued trends in income generation from financings and investments as well as positive impact of release from provisioning in lieu of the investment risk fund. Margins have thinned to 4.59% in H1'20 due to lower return on financing in parallel with the decline in benchmark rates, despite which profitability trends remained stable for the period. Earnings are likely to remain steady through 2020, with limited room for growth in a strained domestic operating environment. The ability to maintain risk profile in difficult market conditions and a globally heightened risk environment, is supportive of the ratings assigned to the bank.

[2]IMF estimates contraction of 3.7% in 2020

ECONOMIC OVERVIEW

With a population of around 10.1 million people in 2019 and a GDP of USD 43.74bn, Jordan's GDP per capita places it as a lower middle-income country. Geopolitical tensions in the region have impacted not only the growth potential of the country, but also resulted in a high number of refugees. As of April 5, 2020, Jordan was hosting around 656,213 refugees largely from neighboring Syria. In recent years, the economy has been adversely affected by the closure of trade routes, both land and marine, impacting trade and tourism in the country. Amid challenges, Jordan has been sustaining a growth rate of around 2.0% in both 2017 and 2018 and 2.2% in 2019. Key economic drivers are the country's mineral resources, tourism, finance and insurance services, transport, storage and communications, agriculture and manufacturing. Jordan is currently implementing Jordan Economic Growth Plan 2018-22 which focuses on renewable energy, ICT, manufacturing and tourism as catalysts for future economic growth and social development. The government also announced measures with core objectives being stimulating the economy through financial reforms and improving citizens' livelihood.

While the economy was expected to grow by 2.2% in 2020, a downtrend is likely with expectations of a severe global recession amid the on-going COVID-19 pandemic. The country remained under lockdown for several weeks with all major businesses and retail sector closed with sharply reduced economic activity. Around 95% of the private sector businesses are SMEs, contributing around 40% of GDP, which may have been adversely affected during the lockdown. During March 2020, Jordan signed a USD 1.3bn program under IMF's Extended Fund Facility. While the program was signed for economic and structural reforms to increase job opportunities, the fund has also been utilized for measures taken to fight against COVID-19. According to CBJ, real GDP at market prices has already declined by 1.2% during the H1'20, compared to growth of 1.9% during the same period of 2019. Besides, nationwide lockdowns have been imposed again in October 2020, with a spike in coronavirus infections.

Despite housing a highly qualified workforce, Jordan has been facing high unemployment being 23% as of end Q2'20 having deteriorated over same period last year with a slow economy having worsened labor market conditions. A vast majority of the workforce working in the retail and SME sector as well as daily wage earners in the construction and agricultural sector may face distress, likely resulting in diminished buying power.

On the monetary policy front, Central Bank of Jordan has been following an easing stance in line with emergency rate cuts, to zero percent range by the Federal Reserve. During March 2020, the CBJ cut its policy rate by 150 bps to 2.5%. Due to slower demand and lower oil prices, inflation is expected to remain on the lower side during 2020. With the economic slowdown and higher public spending, a higher fiscal deficit of 4.0% of GDP is expected during 2019 (2018: -2.4% of GDP). Fiscal consolidation efforts would be further dented during 2020 as the government will spend more to combat the ongoing pandemic. Government has taken various fiscal measures to ease the economic burden of the pandemic, including sales tax exemptions for medical equipment, postponement of customs duty collections and reduction in social security contributions from private sector establishments. The government also allocated additional budget of USD 71mn for medical equipment purchase and cash transfers of USD 114mn to the unemployed and self-employed in addition to tax relief to the tourism sector which has been the worst hit by the crisis.

Jordan's balance of payment position has posted significant improvement in recent periods as the current account deficit had declined to JD 770mn during Q1-Q3'2019 against a deficit of JD 2.1bn during 2018. The improvement is largely derived from strong exports supported by the gradual opening of trade routes in conflicted areas including Syria and Iraq. Moreover, imports recorded a decline with significant reduction in energy related imports as oil prices moderated during the year. With economic downturn, travel and trade bans, the balance of payments maybe hit during 2020, although checked by further fall in energy imports with hydrocarbon prices having plummeted in the current year.

As the country runs twin deficits on both the fiscal and current accounts, public debt has remained on the higher side further increasing to 97.2% of GDP as at end-Oct'19 (2018: 94.4% of GDP). Public institutions including the National Electric Company (NEPCO) and Water Authority (WAJ) remain highly indebted institutions in the country.

As the world has entered a recession, likely to be worse than the Financial Crisis of 2008, Jordan's economy is also expected to suffer in the short to medium term. Subject to the ongoing global health crisis easing off, by next year, the global economy is expected to show some recovery during 2021, with concurrent recovery in MENA and local business levels.

FINANCIAL SECTOR OVERVIEW

Financial sector represents around one fifth of GDP in Jordan and is supported by profitable, highly capitalised banks. Banking system asset size has reached JD53.8bn as of end-April 2020, with a 5.3% annual growth in 2019. Central Bank of Jordan (CBJ) issued Basel III regulations on capital requirements in November 2016 and announced additional capital charge for D-SIBs to further reduce system-wide risks; JIB is one of the D-SIBs as identified by CBJ with an additional capital requirement of 0.5%.

The Central Bank of Jordan has taken a set of precautionary procedures aimed to contain the negative impact of the COVID-19 virus on the economy during 2020.The measures included: (1) Allowing banks to restructure the loans of individuals and companies, especially on SMEs, which have been affected by the pandemic. (2)Injected additional liquidity of JD 550mn by reducing the mandatory reserve ratio on deposits from 7% to 5%.(3) To expand the sector coverage, CBJ reduced interest rates on its refinancing program from 1.75% to 1% in Amman and from 1% to 0.5% in other governorates, while increasing loan tenors and volume limits; (4) Reduced the cost and expanded the coverage of guarantees provided by the Jordan Loan Guarantee Corporation on SME loans.

Total deposits in Jordan's licensed banks stood at JD35.4bnas at end-August 2020, with around 94% of deposits coming from the private sector. With growth of around 6.4% during 2019, total domestic credit extended by the banking system stood at JD 39.5bnasat end-August 2020.Jordan Economic Growth Plan 2018-2022 plans to enhance financial inclusion and ensure adequate financing to small and medium enterprises (SMEs), and allocate 15% of the international and regional financial institutions' loans to SMEs and startups.

FINANCIAL PROFILE

Asset Composition

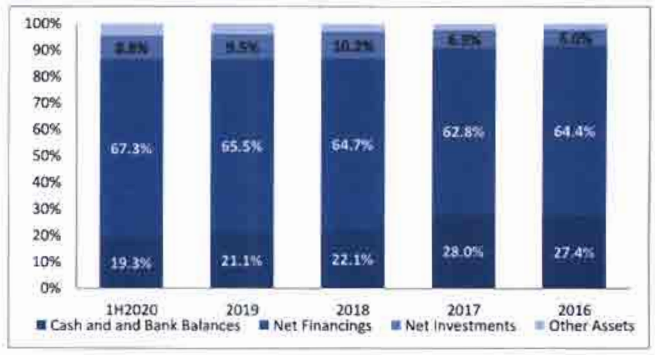
JIB's asset growth reverted to its historical average with 6.9% expansion in 2019 (average growth between 2012-2016:7.2%). Following a two-year slowdown, asset growth exceeded sector growth, allowing the Bank to recoup market share. While we expect 2020 to be relatively slow again, growth persisted in H1'20 at 2.2% Ytd growth.

Table 2: Asset Composition

JD m / %	2016	2017	2018	2019	1H'20[3]
Cash & Bank Balances	1,122	1,180	918	939	876
% Growth	21.3%	5.2%	-22.2%	2.3%	-6.7%
Net Financings	2,640	2,643	2,692	2,914	3,060
% Growth	2.1%	0.1%	1.9%	8.4%	5.0%
Net Investments	246	290	425	423	402
% Growth	20.1%	17.6%	46.6%	-0.4%	-5.0%
Other Assets	91	99	126	174	209
% Growth	12.0%	8.5%	27.6%	38.0%	20.5%
Total Assets	4,100	4,212	4,161	4,449	4,547
% Growth	7.9%	2.7%	-1.2%	6.9%	2.2%

[3] 1H'20 growth rate represents the growth over end-2019 figures

Figure 1: Share of Asset Mix



Financings offtake is a noteworthy development in the last 18 months and represents the renewed focus on growing the bank's banking business. On the other hand, following significant increase in investments in 2018 on the back of fresh issuance of sukuk by NEPCO and with redirection of excess cash holdings into investments, we observed a decline (-0.4% YoY) in net investments in 2019 and the 6 months thereafter. Limited availability of investment options is reflected in the small scale of investment portfolio, accounting for only 9.5% of total assets (2018: 10.2%). Cash reserves have remained largely range-bound, with financings growth in latest periods being funded by fresh liquidity access and redirecting investment liquidation proceeds. Given the strong increase in financings and gradual decline in excess cash and bank balances, the share of earning assets[4]reached 76.1% of assets in H1'20– a significant improvement from 69.6% in 2017.

General economic conditions are reflected in the lukewarm growth in financings at an average of 1.1% between 2016-2018. However, after a couple of years of caution to financings, gross financings grew by 8.3% during 2019, outpacing industry's credit facilities' growth of 4% (2018: 2.4% growth against industry average of 5.4%), to JD 3,031mn (2018: JD 2,800mn) by end 2019.

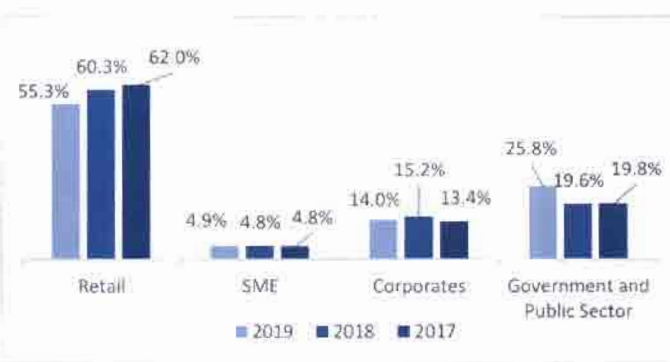
The higher than sector growth in JIB is largely driven by an increasing exposure in government&public sector, mainly to NEPCO. Exposure to the government and public sector entities remains high, having increased to 26% as of end-2019 from 20% in 2018.Gross financing to NEPCO increased significantly in 2019 with a YoY growth of 42%, reaching JD 751mn as at year-end 2019 (2018: JD 528mn), and remains the single largest exposure, constituting 25% (2018: 18.9%) of gross financings. Sukuk exposure on NEPCO, on the other hand, remained at the same level as the previous year, totaling JD 166.8mn. Nevertheless, total exposure to NEPCO including investment in Sukuk, has risen to 21% (2018 16.7%) of the bank's assets as at 2019 year-end. Although government guarantee reduces NEPCO's credit risk, concentration and event risk remain high given the quantum of the exposure. With the elevated portion of NEPCO, the top 20 exposures account for 31.6% of total gross financing in 2019 (2018:28.1%). The remaining top20 exposures constituted 7% of total gross financings and suggest adequate diversification in the portfolio.

Despite challenging economic conditions during the pandemic, recent growth trends in financings continued, bringing total gross financing portfolio of JIB to JD3.2bn in the first half of 2020 from JD3.0bn at end-2019 marking 6.4% growth and outpacing the sector growth of 2.67% during the period. Foreign currency denominated financings constituted 5% of the portfolio, as at year-end 2019indicating limited foreign currency exposure in the local market.

[4]Including net financing and net investments

The proportionate share of retail financing continued to decline in 2019 as for the last couple of years and constituted a 55.3% share in total financing in 2019, down from 60.3% in 2018. Nonetheless the slowdown in retail financing momentum may be partially attributed to caution called for in an increasing rate environment in 2019. We expect the cautious stance in retail financing to continue in 2020, due to a harsh operating environment i.e. lower GDP growth and an elevated unemployment rate.

Figure 2: Sector Wise Breakdown of Financings



SMEs remain a primary focus area of the government. The share of SME financing in total financing remained low and almost stagnant at 4.8% in the previous two years, the proportion increased slightly to 4.9% levels in 2019 at JD 144.2mn. The bank targets expanding SMEs financing on the back of an agreement with Jordan Loan Guarantee Corporation (JLGC), but is focused on maintaining a defensive portfolio, continuing to finance government needs, as opportunities arise.

Asset Quality

The bank's asset quality has been a fundamental strength given a conservative asset allocation with relatively higher concentration in liquid investments and cash, and noteworthy contribution from government backed financings, further exemplified by low levels of asset infection. Gross NPFs increased by 4.3% in 2019, tapering lower than 8.5% in 2018(2017: 7.5%), which combined with an increasing base translated in to lower NPF ratio of 3.5% at 2019end (2018:3.7%). However, non-performance increased slightly to 2018 levels at 3.65% in H1'20 in pandemic conditions, despite CBJ's protective measures. CBJ allowed banks to postpone due installments on the companies affected by the pandemic and also allowed banks to conduct scheduling of clients' exposures without any down payment or further charges or penalties of any kind. Accordingly, gross NPFs of JIB remained at manageable levels at 3.65% at end June 2020.

Table 3: Asset Quality Indicators

In JD'000s/%	2017	2018	2019	1H'20
Gross Non-Performing Financing (NPF)	94,758	102,842	107,314	117,726
Net NPF[5]	18,452	6,928	5,990	3,026
Gross NPF % Gross Financings	3.47%	3.67%	3.54%	3.65%
Net NPFs % Net Financings	0.6%	0.3%	0.2%	0.1%
Net NPFs % Total Equity	4.2%	1.8%	1.4%	0.7%
Total Provisions Against Financing[6]	115,292	127,569	131,340	131,812
Provision Coverage Ratio	121.7%	124.0%	122.4%	112.0%

Credit risk management remains conservative and provisioning coverage has historically been high resulting in net non-performance remaining contained. Net NPFs declined to 0.2% as at 2019 year-end (2018: 0.3%) despite higher gross impairment. Total charge-offs, including investment risk fund, have provided cumulative coverage in excess of the quantum of classified accounts in the last

[5]Net of impairment provisions only, Al Qard Al Hasan included

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

five years. Impairment provisions at JD 101.3mn accounted for 77.1% of total provisions (including risk fund) in 2019. Provision cover has historically remained above 100%, at 122.4% as of end-2019.

On the other hand, the appropriation to the investment risk fund was discontinued in May 2019 by a CBJ regulation change and the surplus balance of the fund was set as a provision for any expected future investment risks. JIB transferred JD32.0mn as a provision for expected future investment risk in end-2019. The total balance of this fund stands at JD 17.1mn as of H1'20, after transferring JD 12.9mn as provision for expected credit loss.

Overall, JIB's asset quality metrics remain sound. The Bank manages credit risk with advanced risk management principles, clearly defined criteria for granting credit to all customers and conducting due diligence for all applications. Credit risk mitigations against credit exposure include cash margin, bank guarantees, real estate collaterals, vehicles and machinery mortgages as well as direct salary transfers for retail exposures.

Funding and Liquidity

As part of the measures taken to counter the potential negative impact of the pandemic, CBJ decided to reduce the mandatory reserve ratio on deposits from 7% to 5% in 2020, for the first time since 2009in order to provide additional liquidity to the sector during tight market conditions. Market liquidity conditions have therefore remained conducive to supporting the supply of financings in the domestic market.

Table 4: JIB's Investments

	2016	2017	2018	2019	1H'20
Quoted Equities	25.1	24.5	22.7	22.0	20.2
Unquoted Equities	3.4	4.2	6.4	8.3	8.7
Quoted Sukuk	10.5	9.9	8.5	12.3	11.6
Unquoted Sukuk	42.4	67.7	178.7	182.8	175.8
Investment accounts at Banks and Banking Institutions[7]	28.7	35.2	70.1	55.2	45.1
Islamic banks portfolio	4.4	3.0	7.1	6.8	6.1
Al Wakala Bi Al Istithmar (Investment portfolio)[8]	14.1	18.6	17.5	17.9	16.6
Investment in affiliates	7.7	8.4	8.4	8.2	8.2
Real Estate	110.2	120.2	107.3	111.2	111.3

After registering a moderate decline of 2.1% during 2018, total deposits increased by 6.7% in 2019 and a further 1.9% in H1'20, outpacing industry wide growth of 4.3% and a decline of 1% in respective periods. Total deposits reached JD 3.9bn as at end-2019 (2018:JD3,64bn), with broad-based expansion in retail, government, financial institutions and corporate deposits and on the back of a wide distribution network. As a result, JIB's market share in terms of deposits elevated to 11.3% by June 2020, from 10.7% in 2018. Diversified deposit access is evident with retail deposits, which increased by 8.3% during 2019, constituting89.7% of total deposits by year-end. The bank relies primarily on domestic sources of funding.

Table 5: Funding Sources

	2016	2017	2018	2019	1H'20
Retail	3,259	3,279	3,213	3,480	3,485
Corporate	20	26	23	27	32
SME	271	311	324	265	284
Government	87	90	59	79	74
Financial Institutions	9	11	20	31	81
Total Deposits	3,646	3,716	3,638	3,881	3,956

[7] Including unrestricted investment accounts maturing within 3 months

[8] Muqarada bonds prior to 2017

With anuptick in deposits and continued growth in financings, we observed very limited growth in cash balances and decline in investments, leading to a notable drop in liquid assets[9] to funding ratio successively for 2 years to 26.5% by end 2019 (2018:28.0%, 2017: 33.6%) and further to 24.1% at June 2020. Nevertheless, when viewed in the context of diversified funds access and a stable market share indicative of strong franchise, liquidity risk is deemed low overall. Further, the composition of liquidity reserves with high-quality assets including deposits with central bank which constitutes 88.1% of liquid assets and 20.4% of total assets in 2019, and placements with other banks, lends support to the general liquidity risk profile. JIB's liquidity ratio and net stable funding ratio also suggest sufficient reserves at 131%[10]and 147% respectively as of end-2019, being well above regulatory requirements.

Capitalization

Over time, net equity has grown to JD 422mn in 2019 (2018: JD 393mn). After raising paid up capital by 20% through a bonus share issue in 2017, the Bank increased its paid-up capital in 2019 by a further 11% with another bonus share issuance to JD 200mn. Growth in equity has been achieved solely through internal capital generation since 2007.

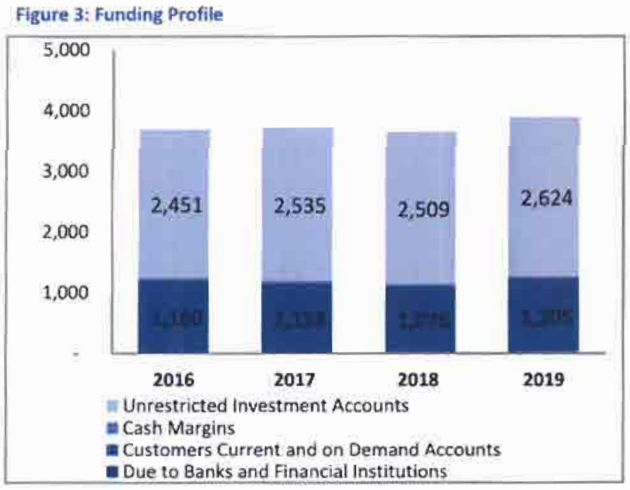
Table 6: Capitalization Indicators

In JD'mn unless stated otherwise	2016	2017	2018	2019	1H'20
Net Shareholders' Equity	343	375	393	422	449
- Paid-up Capital	*150*	*180*	*180*	*200*	*200*
- Reserves	*93*	*109*	*124*	*132*	*132*
- Retained Earnings	*100*	*86*	*90*	*89*	*89*
Dividend Rate (% Paid-up capital)	15.0%	15.0%	15.0%	-	-
Equity to Total Assets	8.4%	9.1%	9.4%	9.8%	10.0%
Leverage Ratio	12.0x	11.0x	10.7x	10.2x	10.0x
CAR[11]	22.0%	23.0%	22.8%	24.3%	24.1%

The bank has maintained a steady dividend rate at 15% of paid up capital since 2015. However, the Jordan Central Bank ruled (dated 9/4/2020) that Jordanian banks defer distribution of shareholders' dividends for the year 2019. The decision was taken in consideration of the possibility of adverse implications of the COVID-19 outbreak.

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 on a time-line. Except 2018, a steady increase has been witnessed in CAR[12]since 2014having increased to 24.3% as of end-2019 (2018: 22.8%). The Bank has maintained a strong CAR in H1'20, at 24.1% indicating sound

Figure 3: Funding Profile



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

[10] Liquid assets over liabilities up to one month

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

[12] CAR is calculated based on IFSB standard adapted from Central Bank of Jordan, applying an alpha of 30%.

capitalization levels overall and likely to stay comparable at year-end and over prior year.

Profitability

Earnings profile of JIB has largely remained resilient with some volatility in margins stemming from policy rate movements and the general financing environment in the country. Net margin has expanded by 1.2% to JD 141.8mn during 2019(2018: 140.1 mn) as operating profit before provision and taxes increased to JD 96.2mnas at year-end 2019 (2018: JD 94.9mn), while still being below 2017 levels and representative of tough business conditions and rising operating expenses along with narrower spreads. Overall, net income grew by 9.1% in 2019 YoY to JD 54.3mnvis-à-vis an 8.0% decline in the previous year and an improved ROAA of 1.26% (2018: ROAA: 1.19%, ROAE: 12.96%).

Total income from financings and investments increased by 2.2% to JD199mn in 2019 vis-à-vis no growth in 2018 and 3.4% decline in 2017, although overall yields dropped with decline in financing returns and despite an uplift in investment returns due to higher rates on Islamic leasing sukuk.

The 9.3% rise in commissions and other income in 2019 shows strong fee income generation capacity of the Bank, stemming mainly from rising commissions on salary transfers, return checks, credit card and other commissions. The proportion of commissions and other income in total operating income[13] notched up to 14.1% in 2018 from 13.6%in 2018.

Table 7: Profitability Indicators

In JD '000s/%	2016	2017	2018	2019	1H'20
Total Income from Financing& Investments	200,963	194,427	194,426	198,715	98,299
Return to URIAs	55,325	56,717	54,265	57,228[14]	28,006[14]
Net Margin Income	**145,639**	**137,710**	**140,135**	**141,486**	**70,293**
Commissions&Other Income	22,023	23,569	22,572	24,664	11,917
Income from RIAsManagement	1,731	4,823	3,499	5,823	2,982
Operating Expenses	63,543	65,782	70,822	75,051	40,543
Operating Profit Before Provision& Tax	**103,542**	**100,062**	**94,880**	**96,200**	**44,649**
Share of Investment Risk Fund	19,795	19,123	19,176	6,469	0
Net Income for the Year	**54,019**	**54,139**	**49,808**	**54,349**	**27,268**
ROAA (%)	1.37%	1.30%	1.19%	1.26%	1.21%
ROAE (%)	16.52%	15.09%	12.96%	13.34%	12.53%
Spread	**5.59%**	**5.39%**	**5.17%**	**4.94%**	**4.48%**
- Return on Earning Assets	7.15%	6.92%	6.63%	6.45%	5.90%
- Cost of non-shareholders fund	1.56%	1.53%	1.46%	1.51%	1.42%
Efficiency Ratio[15]	33.47%	35.10%	38.62%	39.60%	43.74%

While rise in income from commissions and other income impacted profitability positively, operational expenses increased to JD 75mn in 2019. The number of the Bank's staff reached 2,440as at 2019 year-end with 1.6% growth during the year, which pushed staff emoluments up by 1.5%. On the other hand, depreciation expenses of the bank increased by 18.6%YoY on the back of additional depreciation for

[13]Including net margin income, commissions and other income and income from RIAs management

[14]On 1 April 2019, an amendment was issued for the Deposit Insurance Corporations law to include Islamic banks' joint investment accounts and current accounts into the Jordan Depository insurance company's laws and regulations. Thus, deposit insurance cost added to URIA account cost for 2019 and 1H'20

[15]Adjusted for depreciation and amortization expenses.

right of use assets after adoption of IFRS 16for 'leases' in the beginning of 2019. Efficiency ratios realized as 39.60% in 2019, while remaining healthy.

JIB's profitability remains largely resilient, being rooted in core banking activities and a strong business base, with minimal to no reliance on volatile sources of income. Profitability trends were maintained in H1'20 as growth continued. While upside potential remains restricted given constraints in the domestic operating environment, i.e. economic contraction, restricted trade and higher unemployment rate for the rest of the year, we expect core income generation capacity of the bank to remain intact with a projected ROAA of 1.2% in 2020.

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