
IIRA Maintains Shari’a Quality Rating of Jordan Islamic Bank

Manama, December 27, 2020: Islamic International Rating Agency (“IIRA”) has reaffirmed the Shari’a Quality Ratings of Jordan Islamic Bank (“JIB”) at AA+ (SQ). Being a leading Islamic bank in the country, JIB is committed to offering standardized Shari’a compliant products.

The bank has an experienced SSB which is responsible for ensuring compliance with Islamic banking principles in operations. Besides, the bank also benefits from the supervision of Unified Shari’a Supervisory Board (USSB) of its parent company ABG. While the Shari’a governance structure of JIB is in line with the CBJ’s regulations, it may be further strengthened with the institution of a dedicated Shari’a compliance department, in addition to Shari’a internal audit department.

The bank has a strong corporate governance framework. High level of independence at the Board and its committees’ composition, gender diversity, effective internal controls, and mechanism for the protection of investment account holders' rights have contributed to a robust governance framework.

From a transparency standpoint, the bank disseminates material information, both financial and non-financial including Shari’a specific information, thereby conforming to a high level of standard in accordance with the regulatory requirements. The Bank also adheres to the principle of Corporate Social Responsibility (CSR) which is evident from having adopted relevant policy framework and given the commitment to society enshrined in the vision and mission statements of the bank. Continued contributions and donations for social causes as well as efficient use of resources for environmental safety indicate the bank’s dedication in the area of CSR.

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

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Shari'a Quality Rating Report
Jordan Islamic Bank
December 2020



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Islamic International Rating Agency

SHARI'A QUALITY RATING REPORT

Jordan Islamic Bank

Report Date:
December 27, 2020

Analyst:
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M. Owais Atta Siddiqui

	Latest Rating (December 27, 2020)	Previous Rating (December 19, 2019)
Shari'a Quality Rating	AA+ (sq)	AA+ (sq)

Company Information

- **Incorporation year:** 1978
- **Listed on:** Amman Stock Exchange
- **External auditors:** Ernst & Young
- **Key Shareholders:** AlBaraka Banking Group
- **Chairman:** H.E. Mr. Musa Abdul-Aziz Mohammad Shihadeh
- **Chief Executive Officer:** H.E. Dr. Hussien Said Saifan
- **Branches & banking offices at 2019 year-end:** 80 & 28, respectively.

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% of the JD 51.2bn 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 to 256 ATMs 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.

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 66.01%. 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.

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 identified as a D-SIBs 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 pandemic on the economy during 2020. The measures included: (1) Allowing banks to restructure the loans of individuals and companies, especially extended to 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 sector coverage, CBJ reduced 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 JD35.4bn as 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 39.5bn as at 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.

The Islamic Banking Industry in Jordan

The number of Islamic banks operating in Jordan stood at four – three Jordanian and one foreign. Islamic banking in the country accounts for 17.3% of banking assets in Jordan spread across 24 banks in the country. In terms of the total number of deposits, Islamic banking holds 20% of the total banking sector as a whole. Islamic investments represent 24.5% of all investments and lending of conventional and Islamic banking.

In 2018, the Central Bank of Jordan announced the third issuance of Murabaha to purchase orderer Sukuk for the National Electric Power Company (NEPCO). The total value of the offered Sukuk stands at JD150m with an annual return rate of 5.47% and a tenor of five years. It was part of an effort by the Central Bank of Jordan, the Finance Ministry, and the Jordan Securities Commission to develop the Sukuk market in the Kingdom and to provide new investment channels for those who seek financial tools that conform to Islamic law.

The Islamic Finance Development Report and Indicator (IFDI) has upgraded the ranking of Jordan from 8th to 6th globally in terms of industry-wide quantitative development, knowledge, governance, corporate social responsibility, and awareness in the 2019 edition.

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A. COMPLIANCE WITH SHARI'A PRINCIPLE AND RULES

Product Structure

Being a leading Islamic bank in the country, JIB is committed to offering standardized Shari'a compliant products. Besides, the bank also seeks Shari'a Board guidance for modification to existing product structures and new product development.

Asset Side: About two-thirds of

Table 1: Modes of Financing

In millions of JD	2017	2018	2019
Deferred sales receivables and other receivables	2,022	2,054	2,252
% Contribution	76.50%	76.30%	77.28%
Ijara Muntahia Bittamleek Assets	591	606	630
% Contribution	22.36%	22.50%	21.61%
Musharaka	31	33	32
% Contribution	1.17%	1.20%	1.10%
Net Financing Portfolio	2,643	2,692	2,914

the bank's assets comprise the financing portfolio at the end-2019. Deferred sales receivables and other receivables including Murabaha to the purchase orderer, Ijarah Mawsoofa Bill Thimma (Forward Ijarah), Ijarah Muntahia Bittamleek (lease-to-own), and Istisna'a depicted growth and remained the dominant segment at 77.3% and 21.6% of the banks' financings as shown in table 1 (2018: 76%). Murabaha is a well-diversified product catering to both short and long-term needs of retail, corporate, and SMEs for car, house, home appliances, projects, working capital, and agriculture financings. Ijarah Muntahia Bittamleek as the second most used structure at 22% mode of financing of the bank and is offered from medium to long term for house, project, and SMEs financings as well.

Likewise, Istisna'a has been structured for house, project and SMEs financing, notably renewable energy systems, whether for industrial, commercial, agricultural or domestic projects. Musharaka is also used, albeit sparingly for a new or existing professional and craftsman project funding and SMEs which ends with the transfer of ownership to the customer under the structure of Musharkah Muntahia Bittamleek. The bank also acts as a Wakeel (an agent) to manage and invest funds of the clients for an annual fee under the structure of Wakala Bi Al Istithmar. JIB is amongst the few Islamic banks which offers an interest-free loan (Al Qard Al Hasan) for social purposes such as education, health, and other social services. Besides, interbank acceptance is also structured under Al Qard Al Hasan basis. JIB offers 'Charge card' to account holders where the bank provides a ceiling limit for withdrawal and purchases for the period of a month. The amount of all transactions is deducted at end of the period. The bank charges an issuance and renewal fee annually.

Other exposures include bank's guarantee and Letter of Credit (LC). The bank provides guarantees to its client under Sponsorship (Kafala) agreement for an annual commission rate ranged 1%-4% as at Dec'2019. LC is structured under the Wakala structure for a fee ranged 0.25% -0.38% as at end of the year 2019.

Liability side: The bank is offering various deposit products for both individual and corporate accounts in local and foreign currencies across current, demand and joint investment accounts,

savings, notice, term, and restricted investment accounts. JIB mobilizes current and demand deposits on Qard and Trust (Amanah) basis and investment accounts on profit sharing basis under Mudarba structure. Interbank borrowings have been structured under the Qard basis as well.

Non-compliant Income

Following SSB guidance, Shari'a non-compliant income is forfeited within other liabilities account and is deployed only towards charitable causes. During 2019, an amount of USD 1K has been recognized as non-compliant income. Non-compliant income stems from conventional financial securities, for which the bank has been allowed to invest up to a certain percentage. Interest income from the said securities is then recognized as Shari'a non compliant income and is forfeited for the charitable purposes.

On the other hand, the bank is not authorized to dispense Zakah directly, given that it is not a legally accepted expense, nor do the Articles of Association or the General Assembly decisions provide for it. Therefore, the responsibility of Zakah payment is vested with the shareholders; unrestricted and restricted investment account holders and participants in Al Wakala Bi Al Istithmar upon the fulfillment of the applicable Shari'a conditions and requirements.

B. SHARI'A GOVERNANCE FRAMEWORK

Regulatory Environment

Jordan has a strong regulatory framework as governed by the Central Bank of Jordan and as exercised under the Banking Law 2000, wherein detailed Islamic Banking regulations have been laid out. The law covers conditions and restrictions, acts and activities, development and maintenance of an investment risk account, liquidation procedures and requirements, among others. The CBJ periodically revises Islamic Banking regulations to incorporate the latest global regulations and international best practices to continuously update the Islamic Banking sector environment such as Basel III regulations and introduction of the concept of systemically important banks that have been adopted all around the world. JIB has been assigned the status of such a bank signifying its importance not only as an Islamic Bank but also for the overall financial sector of Jordan.

For good corporate governance, CBJ has issued separate Instructions for Islamic Banks which were last amended in September 2016. These instructions explicitly define the criteria and appointment process of SSB members, SSB operation, roles and responsibilities, and the level of interaction with the Board and Executive Management. As per the regulatory requirements of CBJ, all Islamic Banks operating in Jordan are required to appoint, through a decision of its general assembly of shareholders, a board assigned as the Islamic Jurisprudence Supervision Board. The board should not have less than three members; it is considered binding on the bank to follow any opinion given by the Shari'a board. The primary responsibility of the Board includes monitoring the compliance of operations and activities of the Bank in accordance with Islamic jurisprudence rules, providing an opinion on the contracts underlying operations and activities of the bank and considering any matters referred there to pursuant to specific orders of the Central Bank. In 2019, CBJ has amended an Article 55 concerning investment risk fund in the Banking Law for Islamic banks which now requires that the annual allocation to the investment risk fund be discontinued.

Jordan has also adopted the standards issued by the 'Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) and Islamic Financial Services Board standards to further strengthen the regulatory and compliance environment of the Islamic Banking sector especially from an accounting perspective. CBJ adopted the AAOIFI standards and made it mandatory for all the Islamic Banks operating in Jordan to implement these standards.

Shari'a Supervisory Board ("SSB")

Composition

In line with regulatory requirement, SSB of JIB comprises three members. Members of the SSB are experienced and reputable scholars who fulfill all the Fit and Proper Test requirements as set forth by the CBJ. As per the regulatory requirements, the Bank has assigned a Chairman and Vice-Chairman of the SSB. . The members, as shown in the table 1, were appointed in April 2019 for a period of four years.

Table 2: SSB Composition and Meetings

Members	Role	Meetings attended as of Dec'2019	Membership
Dr. Mahmoud Ali Mosleh Sartawi	Chairman	6	26/4/2005
Dr. Abdul Rahman Ibrahim Zaid Al Kelani	Vice Chairman	6	28/4/2015
Dr. Mohammad Khair Mohammad Salem Al-Issa	Member	6	25/4/2012

Meetings and attendance

Number of the meetings and attendance level of SSB complies with the regulatory requirement. During 2019, SSB convened 6 times, meeting the minimum number of meetings required. Average level of attendance was 83% and well above the minimum two-third criteria. In addition, SSB also conducted 2 meetings with the Board of Directors, the audit committee and the external auditor during 2019 as per the CBJ requirement. Besides, JIB's senior management also attends SSB meetings. While such participation of the senior management is in line with regulatory requirements ensuring that SSB is provided all critical information regarding the Bank in a timely manner, SSB independence has been ensured in the SSB's charter in terms of appointment and reporting, which allows no influence on SSB from the management of the Bank.

SSB Independence

The corporate governance regulation for Islamic banks holds the Board of Directors responsible for ensuring the independence of Shari'a Board members, both at the time of appointment as also during the term of their engagement with the Bank, validated on a periodic basis. To comply, the Bank publishes an acknowledgment duly signed by all of the members of the SSB, stating that, for the past year, none of the SSB members obtained any benefits during the course of discharge of their professional obligations to the bank, without declaring the same, either in cash or in-kind, and either for himself in person or any person related to it. In addition, the Bank has also disclosed in the annual report that the SSB members do not hold any shares in the Bank.

Furthermore, as per JIB's Corporate governance guide, following requirements are required to be met to ensure total autonomy of the SSB members:

- The SSB member has not taken any financing for him/herself or for his/her first- or second-degree relatives from the Bank or from any of its affiliates.
- The SSB member must not have worked as an employee at the Bank or at any of its affiliates for the past three years.
- The SSB member must not be an SSB member at any other licensed Islamic bank in the Kingdom, and must not be an SSB member at more than four financial institutions operating in the Kingdom that do not accept deposits, subject to non-conflict of interests.
- The SSB member must not be a member in the BoD of the Bank or an owner of a company that conducts transactions with the Bank,
- The SSB member must not have any first or second-degree family relationship with a Board member or any Senior Executive Management member in the Bank, and must not receive from the Bank any salary, monetary amount, remuneration, benefits or gifts, except for those received in return for its membership in SSB or in return for any additional works assigned to him/her without affecting his/her autonomy.
- The SSB member shall not be a shareholder of the Bank or a representative of a major shareholder of the Bank or a shareholder of any of the companies affiliated to the Bank or a shareholder of the group owning the Bank.

While the SSB charter of the JIB limits the commercial relationship of SSB with the Bank there's no limit for the number of terms a member can serve. At present, some members have had a long-term association with the SSB. In line with best practices, an institution of a rotation policy of SSB members may further enhance the independence of the Shari'a Board.

Terms of Reference

As per broad ToRs, and as defined by the regulations and also covered under JIB's Corporate Governance Guide (CGG), the SSB is also responsible for preparing a procedural manual that includes SSB work system, authorities responsibilities, SSB's relationship with the BoD and senior management, methodology of Shari'a supervision and mechanism of holding meetings. The SSB is also assigned to observe the Shari'a and legislative environment in Jordan as per the Banking laws and also implement the Code of Conduct applicable to the Bank.

The ToRs also discuss expectations from an SSB member including maintaining equity and justice among other stakeholders, preserving honesty and integrity, and ensuring lawful and legal aspects as well as technical aspects of Shari'a while taking decisions, among others. The CGG also lays down specific guidelines to follow, while issuing Fatwa and undertaking Shari'a supervision.

The SSB is chiefly responsible for supervising the bank's operations and activities ensuring compliance with Shari'a principles and provide an independent opinion thereof. Responsibilities also include review and approval of reports issued by the Internal Shari'a department and the issuance of an annual report to shareholders and semi-annual report to the BoD and executive management.

However, SSB's prime responsibility lies in ensuring the conduct of business as per the Shari'a guidelines. As per the newly amended regulations, SSB has been given additional responsibility of confirming that any losses resulting from the bank's transactions regarding the holders of investment accounts, are not on account of negligence.

SSB Effectiveness Measures

The Bank has implemented an annual self-assessment mechanism for the SSB and its members to ensure the effectiveness and proper functioning of the SSB. The checklist has been designed by the nomination and remuneration committee and is submitted to the Board as well as to the CBJ annually. The checklist assists the Bank not only to measure SSB's effectiveness and performance, but it also allows SSB to self-improve its performance in areas including Shari'a governance, strategic direction setting, oversight, and Shari'a control systems instituted in the bank among others. While self-assessment checklists are a good measure to assess effectiveness, the Bank may also consider moving towards further enhanced methods of measuring effectiveness such as scorecards to not only use qualitative factors, but also quantitative factors (such as days required to design a product flow-chart, amount of non-Shari'a compliant income etc.) to measure SSB's performance and effectiveness in a more holistic manner.

SSB Remuneration

In line with the CBJ regulation, the Board with the consent of general assembly is authorized to determine the remuneration and fee of the SSB. Remunerations are decided based on the evaluation system that has been approved by the BoD, in accordance with the policy of awarding the financial remuneration established by the Nomination and Remuneration Committee and approved by the Shari'a Board.

Members are remunerated in the form of annual fixed fee as well as travel and lodging expense. Annual fixed remuneration allocation to individual SSB members witnessed increase to JD 24k (2018: JD18k) during 2019. Similarly, total remuneration of the SSB also increased to JD 99.9k during 2019 (2018: JD 77.8k) on account of increase in said fee.

In spite of increase in remuneration, there is no observation of conflict of interest in the SSB remuneration structure as none of the SSB members hold shares of the Bank as per the bank's disclosures. Moreover, the SSB's remuneration is also delinked from the performance of the Bank as suggested by the best practices.

Shari'a Board Report

An annual report is presented by the SSB on the Bank's Shari'a compliance to the shareholders in the general assembly which is published in the annual report. Report of the SSB provides information about reviews held from a Shari'a perspective & its opinion on the degree of compliance of all contracts and transactions, financial statements, external auditor report review, policy review, and allocation of profit or loss to investment accounts; and Zakah calculation.

Internal Shari'a Audit

The Bank has a separate internal Shari'a audit department to meet the regulatory requirements in this regard, as well as international best practices. The Corporate Governance Guidelines of the Bank discuss the detailed role of the Internal Shari'a department which primarily include ensuring all Bank's operations are in agreement with the principles of the Islamic Shari'a and SSB decisions and recommendations are duly implemented. The head of the department acts as a secretary to the SSB. The staff strength of the department has improved with 1 additional recruitment. At present, the headcount stands at 10 (2018: 9) including the head of the department.

Internal Shari'a Audit department has its own documented charter. The charter lays the concept, objectives, work area, organizational hierarchy, qualifications of the team and roles and responsibilities. The department is equipped with a qualified team to confirm the adequacy and effectiveness of the internal Shari'a supervisory system and follow up on the compliance with SSB's Fatwas. The department is considered to be independent in terms of its reporting lines with clear authority and direct reporting to the SSB as per the Bank's organizational structure. Besides, it also reports to the Board Audit Committee for reporting purposes and administratively to the Bank's CEO/General Manager.

As per the core objective of the department as discussed in the charter, the department is tasked to carry out oversight functions by providing special reports to the SSB regarding the compliance of processes and principles of Shari'a in all banking practices. The department is also assigned the task of promoting awareness in the Bank's employees through periodic trainings. It is also responsible for preparing the annual Shari'a audit plan and implement the approved plan throughout the year, following the approval of the SSB, to ensure effective and consistent practices as followed by the Bank under the Shari'a guidelines and principles. The charter also covers a step-wise procedure to be followed to carry out the Shari'a audit process. The department also ensures swift implementation of the standards adopted by the Bank, as issued by AAOIFI and IFSB.

The Internal Shari'a Audit team has been given unlimited access to any department within the Bank in order to review transactions and make inquiries, as guaranteed by its charter. The BoD ensures that none of the Internal Shari'a Audit staff has been involved in any other task. The staff is rotated in various bank activities, as stipulated in the regulations, to gain a better understanding of banking operations and further embed Shari'a expert staff in various functions.

External Shari'a Audit

A prominent feature of the Shari'a controls exercised by the Bank is the annual external Shari'a review conducted by ABG in its capacity as the bank's largest shareholder entity, which is undertaken by the subject-matter experts of ABG. The review involves an on-site visit and assessment of sample transactions, at the conclusion of which, a report is submitted to SSBs of both JIB and ABG. It is to be noted that the Central Bank of Bahrain requires external audit of all banking companies, in which Bahrain based Islamic entities hold controlling share.

Summary: The bank has an experienced SSB which is responsible for ensuring that the Bank's operations remain in compliance with Islamic banking principles. Besides, the bank also benefits from the supervision of the Unified Shari'a Supervisory Board (USSB) of its parent company ABG. While the Shari'a governance structure of JIB is broadly in line with the CBJ's

regulations, it may be further strengthened with the institution of a dedicated Shari'a compliance department, in addition to Shari'a internal audit department. Given the bank's growing operations, the Shari'a compliance department may focus on the review of policies, procedures, contracts, agreements, testing and implementation of new products, and training while the Shari'a audit department may focus to check the alignment of the overall bank operations as per Shari'a policies and procedures.

C. CORPORATE GOVERNANCE

Regulatory framework

CBJ acts as the regulatory authority and governs all Islamic financial institutions in the country. CBJ has issued Corporate Governance (CG) guidelines No. 64/2016 for Islamic financial institution. The guidelines are reviewed and updated to align with best practices and were last updated in September 2016. These guidelines set out corporate governance rules and regulations covering Boards and its committees composition and operation, appointment criteria, responsibilities, remuneration, executive management, and to internal control function of risk management, internal audit and compliance. In addition, the guidelines also lay down rules for transparency and disclosures to uphold and protect the rights of the stakeholders.

To comply with the regulatory requirement, JIB has its own documented Corporate Governance Guide ("CGG"), published on the banks' website. The CGG outlines principles with regards to the Board of Directors, its committees, the responsibility of the executive management, control environment, internal control, transparency, and disclosure. The Guide complies with the Islamic Financial Services Board's Guiding Principles on Corporate Governance, the instructions of the CBJ and international best practices. The Board Corporate Governance Committee monitors CG framework at the bank and updates the CG Guide to align with regulatory requirements.

Board of Directors ("The Board") ("BoD")

Composition

The Board of Directors (BoD) comprises 11 members. Since our last review, there have been changes in the Board composition with 2 new members having been elected including the

Table 3: Board Composition

Board	Role & Shareholder Representation
H.E. Mr. Musa Abdul-Aziz Mohammad Shihadeh	Chairman / Non-Executive
H.E. Mr. Hamad Abdulla Ali Al Oqab	Vice Chairman / Non-Executive / ABG
H.E. Mr. Adnan Abdulla Alsulaiman AL Bassam	Non-Executive & Non-Independent / ABG
H.E. Mr. Hood Hashem Ahmed Hashem	Non-Executive & Non-Independent / ABG
H.E. Mr. Nour "Mohamed Shafer" "Mohamed Lotfy" Mahayeni	Non-Executive & Non-Independent / ABG
H.E. Mr. Salem Ahmad Jamil Alkhaza'leh	Non-Executive / Independent
H.E. Mr. Ayman Abdel Karim Bashir Hathat	Non-Executive / Independent
H.E. Mr. Issa Haidar Issa Murad	Non-Executive / Independent
H.E. Mrs. Malak F. R. Ghanem	Non-Executive / Independent
H.E. Dr. Nabeeh Ahmad Salama Al Zinat	Non-Executive / Independent
H.E. Mr. Saleh Yacoub Mohamed Hussein	Non-Executive / Independent

Chairman and the Vice Chairman of the Board. The Chairman of the Board is a non-executive and non-independent member. Having an independent chair is not required by local regulations but is considered advisable under international best practices. Among the 11 members, 4 are represented by parent company AlBaraka Banking Group (ABG). More than half of the Board comprises

independent members and well exceeds the minimum regulatory requirement and best practices recommendation.

Meetings

The Board met nine times during 2019 with frequency well exceeding the regulatory requirement, and an average attendance of over 90%, also exceeding the minimum 75% attendance of best practice requirement. Active board involvement is evident from high attendance level during Board meetings of all members.

Remuneration

As per remuneration policy of the bank, members of the Board are compensated in the form of annual fixed membership fee as well as traveling and lodging expenses. During 2019, total remuneration of the Board increased on account of increase in travel allowance.

Table 4: Board Remuneration

JD in thousands	2018	2019
Membership fee	66	55
Travel & lodging allowances	314	414
Total	380	469

Evaluation

The bank has in placed the assessment & evaluation of Board performance. Board Nomination & Remuneration Committee ("BNRC") conducts annual performance evaluation of the Board, and the Board committees. The committee ensures that deliberations take place in fairness and without any conflict of interest.

Board Committees

For effective oversight, the Board has established 8 committees, namely Board and Governance Committee ("BGC"), Nomination & Remuneration Committee ("NRC"), Risk Management Committee ("RMC"), Audit Committee ("AC"), Credit Facility Committee ("CFC"), Social Responsibility & Sustainability Committee ("SRSC"), IT Governance Committee ("ITGC"), and Compliance Committee ("CC").

As per best corporate governance practices, composition of the BAC is well aligned as half of the members are independent directors including the Chairman. While independent representation complies with local regulation in BRC, it may benefit from increase to enhance the risk management oversight, given the high independent representation at the Board. IIRA views that the inclusion of an SSB member in BCGC may harmonize the assessment of the governance framework. Meetings held by the Board committees during the preceding year were in line with the TORs with high level of attendance.

Table 5: Board Committees Composition

Committee	Members	Role	Meeting held as of 2019	Comments
Corporate Governance Committee "BCGC"	H.E. Mr. Ayman Abdel Karim Bashir Hathat H.E. Mr. Musa Abdul-Aziz Mohammad Shihadeh H.E. Mr. Hamad Abdulla Ali Al-Oqab H.E. Mr. Issa Haider Issa Murad H.E. Mr. Saleh Yaqoub Mohamed Hussein	Chairman Vice Chairman Member Member	2	3 independent members including the Chairman and 2 Non-Executive members
Nomination and Remunerations Committee "BNRC"	H.E. Mr. Issa Haider Issa Murad H.E. Mr. Ayman Abdel Karim Bashir Hathat H.E. Mrs. Malak Fawzi Ragheb Ghanem H.E. Mr. Musa Abdul-Aziz Shihadeh H.E. Mr. Hamad Abdulla Ali Al-Oqab	Chairman Vice Chairman Member Member	5	3 independent members including the Chairman and 2 Non-Executive members
Risk Management Committee "BRC"	Mr. Saleh Yacoub Mohamed Hussein Mr. Adnan Abdullah Al-Suleiman Al-Bassam H.E. Mr. Hood Hashem Ahmed Hashem H.E. Dr. Hussein Said Mohammad Saifan H.E. Dr. Munawar Atallah Hassan Masadeh	Chairman Vice Chairman Member Member	4	1 Independent member as a Chairman of the Committee, 2 Non-Executive member, 1 Executive member and Head of Risk Management Department also a member
Audit Committee "BAC"	H.E. Mrs. Malak F. R. Ghanem H.E. Mr. Adnan Abdulla Al-Suleiman Al-Bassam H.E. Mr. Hamad Abdulla Ali Al Oqab H.E. Dr. Nabeeh Ahmad Salameh Al Zinat	Chairman Vice Chairman Member	4	2 independent members including the Chairman and 2 No-Executive members
Credit Facilities Committee "BCFC"	H.E. Mr. Hamad Abdulla Ali Al Oqab H.E. Mr. Musa Abdulaziz Mohammad Shihadeh H.E. Mr. Hood Hashem Ahmed Hashem H.E. Mr. Adnan Abdulla Al-Suleiman Al-Bassam H.E. Mr. Nour "Mohamed Shaheer" "Mohamed Lotfy" Mahayni	Chairman Vice Chairman Member Member	9	5 Non-Executive members
Social Responsibility and Sustainability Committee "BSRSC"	H.E. Mr. Nour "Mohamed Shaheer" "Mohamed Lotfy" Mahayni H.E. Mr. Issa Haider Issa Murad H.E. Mr. Ayman Abdel Karim Bashir Hatahet H.E. Mr. Musa Abdulaziz Mohammad Shihadeh H.E. Dr. Hussein Said Mohammad Saifan	Chairman Vice Chairman Member Member	1	2 Independent members, 2 No-Executive members and 1 Executive member
IT Governance Committee "BITC"	H.E. Mr. Hood Hashem Ahmed Hashem H.E. Mr. Salem Ahmed Jamil Alkhaza'leh H.E. Mr. Issa Haider Issa Murad H.E. Mr. Adnan Abdulla Al-Suleiman Al-Bassam	Chairman Vice Chairman Member Member	4	2 Independent members and 2 No-Executive members
Compliance Committee "BCC"	H.E. Mr. Salem Ahmad Jamil Alkhaza'leh H.E. Mr. Adnan Abdulla Alsulaiman Albassam H.E. Dr. Nabeeh Ahmad Salameh Al Zenat	Chairman Vice Chairman Member	2	2 independent members including the Chairman and 1 No-Executive member

Management

The bank's management is headed by Dr. Hussien Said Saifan who has replaced Mr. Musa Abdel Aziz Mohammad Shihadeh as the new CEO/General Manager of the Bank in May 2019. He has been associated with the bank for more than 30 years having garnered diversified experience over this period. Senior management of the bank are experienced and have generally had a long association with the bank. Self-regulation functions report directly to the respective Board Committees and administratively to the CEO/GM.

Internal Control Function

The internal control infrastructure at JIB is aligned with international best practices, in addition to compliance with local regulations. The Bank has instituted an independent and separate department for each, Risk Management, Internal Audit and Compliance and further supported by IT department. Corporate governance at the Bank is also aided by supplementary audits undertaken by ABG.

Risk Management Department ("RMD") is headed by Chief Risk Officer (CRO) and is responsible for covering all key primary and secondary risks. An Enterprise Risk Management (ERM) has been instituted under which continuous update of risk management methodologies is required. The department has its own internal credit rating system to assess the creditworthiness of the counterparty. The head of RMD directly reports to BRC and administratively to the CEO/GM.

Internal Audit (IA) department is responsible for monitoring and controlling the effectiveness of the internal control system. The scope of the IA department covers all branches, department offices and subsidiaries of the Bank. The department functionally reports to BAC and administratively to the CEO/GM. Besides, IA department submits periodic reports to the BAC about the most important observations and recommendations.

Similarly, a separate Compliance department is instituted at the bank. The department is responsible to review the bank's policies and procedure in compliance with the regulations. Compliance department primarily covers rules and regulations concerning Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT), international sanctions and Foreign Account Tax Compliance Act (FATCA) in addition to regulatory compliance. As such, the bank has also developed and implemented related policies like AML/CFT, Know Your Customer (KYC) policy. The head of the department directly reports to the BCC and administratively to the CEO/GM. The department also submits periodic reports to BCC and CBJ.

Stakeholders' Relations***Protection of the Investment Account Holders' Rights***

The Bank is committed to protecting the rights of the investment account holders. The Bank discloses the right of the Joint Investment Account Holders' Equities and their relationship with the shareholders in the annual report. As per the report, the Bank protects the rights of the joint account holders and can be accessed through various sources such as the annual report, Corporate Governance Guide or the Bank's website. The disclosures also include the policy governing the relationship between the owners of the joint investment account holders with the shareholders.

The SSB periodically opines on the policies that govern the relationship between the shareholders and investment account holders. The policies broadly cover the distribution of profits and losses, setting aside earnings in investment risk reserves, and the mechanism of dealing with Shari'a non-compliant income. The SSB has been given the responsibility of independently confirming that any losses resulting from the bank's transactions regarding the holders of investment accounts are not on account of negligence.

The Bank has published a brief policy in relation to Investment Account Holders on its website, titled "Shareholders - Investment Account holders Relationship Regulation Policy". The policy covers the nature of the relationship between shareholders and unrestricted investment account holders, policies regarding the management of unrestricted investment account holders' equity and responsibilities of the BoD. Moreover, the Bank has incorporated rights of investment account holders in significant detail in its Corporate Governance Guidelines, as available on the Bank's website. In addition to the above-mentioned policies, the bank adopts a sound investment strategy that is commensurate with IAH's risk appetite, in order to protect their financial interests.

Relationship with Employees

The bank's commitment to its employees is well exhibited from the extensive training programs, and low turnover. The bank has its own training academy where various seminars and training programs are arranged to enhance the skills and the knowledge of the employees. During 2019, the Bank has arranged 571 courses and seminars where about 6,390 numbers of participants were enrolled.

Relationship with Customers

The Bank benefits from being a well-established franchise in the banking sector, represented by a high share of retail customers in deposit base. JIB serves its customers through a network including 80 branches, 28 banking offices, and more than 256 ATMs, as well as via mobile and internet banking. In addition, the bank has also deployed customized ATMs as a service for handicapped individuals and customers in different locations country-wide. JIB launched 'My Finances', a tool that allows customers to more easily review their finances, including all paid and outstanding instalments. The bank's My Cards service, meanwhile lets users track all card transactions and limits. At the beginning of 2019, JIB made an extra effort to modernise its mobile banking offering by launching Token Solution, a biometric authentication tool delivered in collaboration with international partners. Token Solution improves the in-app experience for customers, making services more user-friendly and allowing clients to log in using a fingerprint scanner and facial recognition technology.

Summary: The bank has a strong corporate governance framework. High level of independence at the Board and its committees composition, gender diversity, effective internal controls, and mechanism for the protection of the investment account holders' rights contributed to the robust governance framework. Albeit, in conjunction with best practices recommendations, representation of SSB in the governance oversight committee may further enhance the governance framework.

D. TRANSPARENCY AND DISCLOSURES

Financial Disclosure

The Bank displays high standards of transparency and disclosures through several mediums including the annual report and Bank's website. The disclosed information enables various stakeholders to monitor the Bank's operational and financial position, also in respect of Shari'a related considerations.

The annual report also covers standard financial information relevant to Shari'a compliant banking; disclosures include the basic criteria for sharing risks and returns with unrestricted investment account holders, the maximum percentage of investor funds deemed invested in the joint investment pool, Mudarib share of joint investment profits, off-balance sheet exposures arising from investment by proxy as well as the consolidated statement of sources and uses of Al Qard Al Hasan Fund and social responsibility.

Other Disclosures

Non-financial, Shari'a relevant disclosures, on the other hand, include a composition of the SSB along with members' brief profiles, meetings' attendance matrix, annual remuneration and amounts paid in lieu of expenses inside and outside the Kingdom. The bank also publishes a Governance Guide of the Bank, which forms part of its annual report, Board and Board committee composition along with ToRs, meetings and attendance, policies, and organizational structure with reporting lines.

Summary: From a transparency standpoint, the bank disseminates material information, both financial and non-financial as well as Shari'a related to a high level of standard in accordance with the regulatory requirements.

E. ETHICS AND VALUES

Code of Conduct

A documented policy of "Code of Ethics and Conduct" is in place at the Bank. The policy is approved by the Board IT Governance Committee and is applied to the Board, senior management, employee, and internal & external auditors of the Bank to comply with the best international professional practices.

Corporate Social Responsibility ("CSR")

Historically, the Bank has shown strong commitment towards social responsibilities as covered in the section, "Social Role of the Bank". At the Board-level, the Bank has established the "Social Responsibility and Sustainability Committee" which has been tasked to supervise the initiatives taken under the umbrella of the social role of the Bank. Recently, JIB has won the Excellence Award in the field of CSR for Islamic Bank (commitment) for the year 2020.

The annual report covers various aspects including major projects undertaken by the Bank during the year, a few of which have been discussed below:

Conferences and Seminars, Scientific Research and Professional Training

During 2019, the Bank continued to participate in conferences and seminars that focused on disseminating and developing the operations of Islamic banks. The Bank also made contributions to scientific research and training. A total of JD 256K was contributed to these activities during 2019. The Bank has also conducted various Shari'a related trainings during the year to promote awareness about the Islamic banking.

Donations

To support social and cultural events, the Bank continuously contributes to give donation to different charitable organizations across the country. During 2019, the amount of donation is shown in the table 6. The Bank served various social causes in the society including human development, medical, science and culture, and religious organizations among others.

Al Qard Al Hasan "The Good Loan"

The Bank receives deposits as "Al-Qard Al-Hasan" from depositors who wish to lend such deposits through the bank as interest-free loans (good loans). Lending under the ambit of good loans reached JD 1.8m as of end-2019. The Bank also provides good loans for

Table 6: Donations made during 2019

<i>In JD'000</i>	Number	Amount
Jordanian Hashemite Fund for Human Development (JHFHD)	1	70
The Hashemite Charity Association	2	7
Princess Aliaa Foundation	1	0.7
Al Aman Fund for the Future of Orphans	1	42.5
King Hussein Cancer Center	1	25
Associations and competition of the Holy Quran Memorization	2	13
Charity Associations and Organizations and Zakah committees	48	357.2
Scientific Conferences and educational and cultural programs	6	130.2
Mosque Commissions	2	6.1
Tkiyet Um Ali	1	10
Societal Financial Culture Dissemination Project	1	149.1
Total	66	810.8

appropriate social causes such as education, medical treatment and marriages. Such loans provided by the Bank including money allocated for these purposes, reached JD 20.4m benefiting around 24.1K citizens during 2019.

Funding Professionals and Craftsman

The Bank has been funding the projects and requirements of professionals and craftsmen by way of Murabaha and then in 1994, developed a specialized product for this segment under the Musharakah Muntahia Bittamleek structure (diminishing Musharakah). The Bank has also been financing small and medium enterprises through joint investment funds or through investment by proxy accounts funds (investment portfolios) or through the special agreements signed with the Central Bank of Jordan in this regard. The Bank is also working on these projects through its subsidiary Al Samaha Financing and Investment Company.

Mutual Insurance Fund

JIB has created a special Mutual Insurance Fund in 1994, through which the Bank's participants share in indemnifying the damage that may be inflicted on any of them to repay all or some of their debt to the Bank in case of death, permanent disability, or permanent insolvency. During 2019, the Bank indemnified 222 cases with compensation of JD 1.6m. On a cumulative basis, the Bank has indemnified 2,917 cases with a total compensation amount of JD 13m.

Other Social Initiatives

The Bank is working actively to engage with the local community by means of various social initiatives. During 2019, the Bank presented prizes to the winners of Holy Quran memorization competition in the Hashemite International Competition for Memorization of Holy Quran. The event was organized by the Ministry of Awqaf and Islamic Holy Places. In addition, the Bank also contributes to various orphanages, pays unfulfilled debts of female prisoners, and provides support to the needs of elderly citizens.

Energy and Environment

To uphold the policy of green energy and a safe environment, the Bank has been running most of its operations at branches through electric power generation using solar cells, taking advantage of space on the roofs of branches for the installation of such cells. The Bank has also initiated the provision of renewable energy at its headquarters through solar power generation since May 2019 with a view to generating more solar energy. The Bank has also initiated installation of a similar solar power generation system in branches and offices in the northern governorates. Currently, renewable energy through solar panels is provided in 50 branches and offices, in addition to Head Office buildings, the Information Technology building and the Disaster Recovery Center.

Summary: Adherence to the principle of Corporate Social Responsibility (CSR) is evident in having adopted relevant policy and given the commitment to Islamic banking. Continued contributions and donations for social causes as well as efficient use of resources for environmental safety has augmented the bank's values in the area of CSR.

F. FIDUCIARY RESPONSIBILITY AND PERFORMANCE**Profit Distribution Mechanism**

The Bank has adequately and broadly disclosed the basis of distributing joint investment profits between owners' equity, unrestricted investment account holders, restricted investment account holders and Wakala Bi Al Istithmar accounts holders (Investment portfolio) in its Annual Reports.

In April 2019, CBJ has suspended the Article (55) of the Jordanian Banks Law, where Islamic banks were required to allocate 10% from joint investment accounts net profit to the investment risks fund (2018: 10%). As such, the bank has discontinued allocating to this fund effective from May 2019 and the surplus balance of the investment risk fund has been set aside

as a provision for any expected future investment risk for any asset funded by joint investment accounts.

During 2019, the Bank's share as Mudarib for local currency and foreign currency remain consistent with previous year and was allocated at 45% and 50% respectively. The remaining balance was distributed between the unrestricted investment accounts and the Bank's invested funds while considering the percentage of each contribution. The Bank also waived some portion of its share as Mudarib to improve the overall share of profits distributed to all joint investment account holders with an amount of JD 370k and some with JD 2.4mn, based on the tiers in accordance with CBJ instructions.

The profit sharing ratio (PSR) of Joint Investment accounts is pre-agreed at the time of agreement, signed with the Bank. Joint investment account PSR remained at 40% of the annual average balance of saving accounts, 70% of notice accounts and 90% of the minimum balance of term deposit accounts. In case of Ijarah Muntahia Bittamleek, the Bank bears all the administrative expenses except for insurance expense which is allocated to the joint investment accounts profit.

Restricted investment accounts are managed under Mudarabah contracts in separate investment pools, in accordance with each fund's specific investment policy and terms and conditions. The bank's share as Mudarib is determined at the beginning of the year. This is done separately for each fund. All administrative expenses are borne by the bank and are not charged to investor accounts for the calculation of net profit. While the share of the bank as a Mudarib remains between 7.7% and 25% in Jordanian Dinar for the year 2019, it has been increased to 45% (2018: 40%) for restricted accounts in foreign currencies' profit.

Likewise, for Al Wakala Bi Al Istithmar account's capital (investment portfolio), the Bank's fees as an agent (wakeel) recorded at a rate of 1.5% (2018: 1.3%) at the end-2019. Profit to investment portfolio was distributed after deducting the Bank's fee as an agent. The Bank has also waived some portion of its share as Wakeel to increase the profit rate distributed to joint investment account holders which amounted around JD 779k during 2019.

Shari'a Quality Rating Scales & Definitions

IIRA uses a scale of AAA (sq) to B (sq) to rate Shari'a Quality Compliance with AAA (sq) being the highest possible rating and B (sq) being the lowest possible rating.

AAA (sq) – In IIRA's opinion, an entity/instrument rated AAA (sq) conforms to highest level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.

AA (sq) – In IIRA's opinion, an entity/instrument rated AA (sq) conforms to very high level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.

A (sq) – In IIRA's opinion, an entity/instrument rated A (sq) conforms to high level of standards of Shari'a requirements and has very few weaknesses in some areas of Shari'a quality analysis.

BBB (sq) – In IIRA's opinion, an entity/instrument rated BBB (sq) conforms to moderately high level of standards of Shari'a requirements and has few weaknesses in some areas of Shari'a quality analysis.

BB (sq) – In IIRA's opinion, an entity/instrument rated BB (sq) conforms to satisfactory level of standards of Shari'a requirements and has some weaknesses in some areas of Shari'a quality analysis.

B (sq) – In IIRA's opinion, an entity/instrument rated B (sq) conforms to adequate level of standards of Shari'a requirements and has weaknesses in some areas of Shari'a quality analysis.

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.



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