S&P Global Ratings

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Jordan Islamic Bank

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Jordan Islamic Bank

Ratings Score Snapshot

Issuer Credit Rating
B+/Stable/B

SACP: bb- → **Support: 0** → **Additional factors: -1**

Anchor	bb-	
Business position	Adequate	0
Capital and earnings	Adequate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
B+/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Leading position as the largest Islamic financial institution in Jordan and the country's fifth-largest bank in terms of assets.	Strong domestic focus is a key rating constraint and limits opportunities.
Good business resiliency through the cycle.	Asset quality will likely be affected by higher inflation and tighter financing conditions.
No reliance on wholesale financing.	High exposure to the public sector.

Jordan Islamic Bank (JIB) has a track record of resilient financial performances. This is despite pressure from its domestic operating environment--characterized by below-potential GDP growth, stubborn unemployment, political and regional instability. We expect JIB will continue to benefit from its leading position in Jordan, although financing growth is likely to moderate amid easing state support measures, tightening financing conditions, and weakening asset quality. Additionally, we anticipate JIB will benefit from a combination of probable regulatory protection and relatively high operational and financial independence from its 66% shareholder, Al Baraka Group B.S.C. (ABG).

The bank's relatively clean balance sheet provides room to absorb potential asset quality deterioration. JIB's nonperforming financing (NPF) ratio stood at 2.7% on Dec. 31, 2022. We expect this will slightly increase to about 3.1%-3.2% by end-2023. Although we also anticipate credit losses will increase, we think JIB will not need to materially set aside additional provisioning. This is because it can boost its NPF coverage ratio by using the excess balance at its mutual insurance fund or investment risk reserves. Together, the excess balances amounted to Jordanian dinar (JOD) 69.5 million (or 1.7% of its financing book) at end-2022.

We forecast JIB's capitalization will gradually improve. We expect the bank's risk-adjusted capital (RAC) ratio before adjustments will gradually converge to 7% by 2025. This is assuming resilient operating revenues, contained credit losses, and normalized dividend payments. Our expectation of a more contained dividend distribution underpins our view of the bank's solid capitalization. Any deviation from this assumption would erode the bank's capital buffers and our view of JIB's capitalization.

JIB's concentration in Jordan is a negative rating factor. We view the bank's high and concentrated exposure to Jordan (B+/Stable/B), which is a small and volatile economy, and its large exposure to sovereign risk as key ratings constraints.

Outlook

The stable outlook on JIB mirrors that on Jordan.

Downside scenario

We could lower the ratings on JIB over the next 12 months following a similar action on the sovereign. This is because we do not rate financial institutions operating solely in Jordan above the foreign currency sovereign ratings, due to the direct and indirect effects that hypothetical sovereign distress would have on the banks' operations.

Upside scenario

Similarly, we could raise the ratings on JIB if we took a similar action on Jordan.

Key Metrics

Jordan Islamic Bank--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in operating revenue	6.2	-1.6	6.9-8.4	6.5-8.0	9.9-12.1
Growth in customer loans	9.7	6.5	4.5-5.5	6.3-7.7	6.3-7.7
Growth in total assets	9.5	3.0	3.7-4.5	5.2-6.3	5.2-6.3
Net interest income/average earning assets (NIM)	3.5	3.1	2.5-2.8	2.6-2.9	2.8-3.1
Cost to income ratio	42.6	44.1	41.4-43.5	39.7-41.7	36.7-38.5
Return on average common equity	12.0	11.9	10.3-11.4	11.0-12.2	12.0-13.3
Return on assets	1.2	1.1	1.0-1.2	1.1-1.3	1.2-1.5
New loan loss provisions/average customer loans	0.2	0.2	0.2-0.2	0.1-0.1	0.1-0.1

Jordan Islamic Bank--Key ratios and forecasts (cont.)					
	--Fiscal year ended Dec. 31 --				
(%)	2021a	2022a	2023f	2024f	2025f
Gross nonperforming assets/customer loans	2.6	2.7	3.0-3.3	2.4-2.7	2.2-2.5
Net charge-offs/average customer loans	0.1	0.1	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	6.7	6.1	6.1-6.4	6.3-6.7	6.7-7.1

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor: 'bb-' For Banks Operating Only In Jordan

We use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Jordan Islamic Bank mainly operates in Jordan; the anchor for banks operating only in Jordan is 'bb-'.

We expect Jordan's economic recovery to continue, with GDP growing by 2.5% in 2023 and 2.9% in 2024. We do not expect economic imbalances to build, given lending activity is likely to moderate amid the tightening monetary policy. The Central Bank of Jordan (CBJ) already increased its main policy rate by a cumulative 500 basis points (bps) since March 2022. We expect further moderate tightening over the next months, in line with the U.S. Federal Reserve's moves, decelerating loan growth to 5% on average over 2023-2024, down from 8% in 2022.

We view the private sector's relatively high leverage and the country's weak per capita income as key banking sector weaknesses. Jordanian banks' relatively high exposure to sovereign risk and sectorial concentration also limits their creditworthiness.

In our view, nonperforming loans (NPLs) will increase over 2023 as borrowers face inflationary pressures and tougher financing conditions. Yet, the resilient economic activity together with some support measures should mitigate this. We therefore expect the NPL ratio to reach 5.3% by end-2023, up from 4.8% at end-2022, and credit losses to increase to about 110 bps in 2023 (versus 82 bps in 2022).

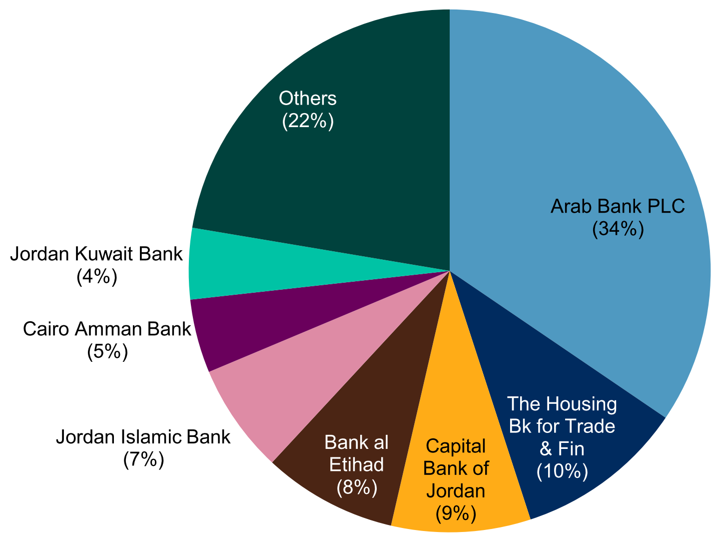
Nevertheless, we anticipate banks will continue to generate sufficient profitability to absorb additional credit losses and rising funding costs, thereby supporting capitalization. We anticipate competition to attract new deposits will likely remain intense, especially for smaller banks.

Business Position: A Well-Established Domestic Franchise

JIB is the largest Islamic bank in Jordan. Its leading position has enabled it to build a strong retail franchise and gives it a competitive advantage in deposit collection. Therefore, JIB maintains stable market shares in both financing and deposits, with a 12.8% share of banking sector deposits and 15.5% financing at end-2022.

Chart 1

Jordan Islamic Bank remains an important player among Jordanian banks
Market share by total assets in % as of December 2022



Source: S&P Global Ratings.

We take a positive view of JIB's management, considering its ability to generate stable revenues through regional instability. Bahrain-based ABG is the main shareholder with about 66% stake in JIB. JIB's business and financial prospects are highly independent from those of its parent, in our view, thus limiting any potential negative influence.

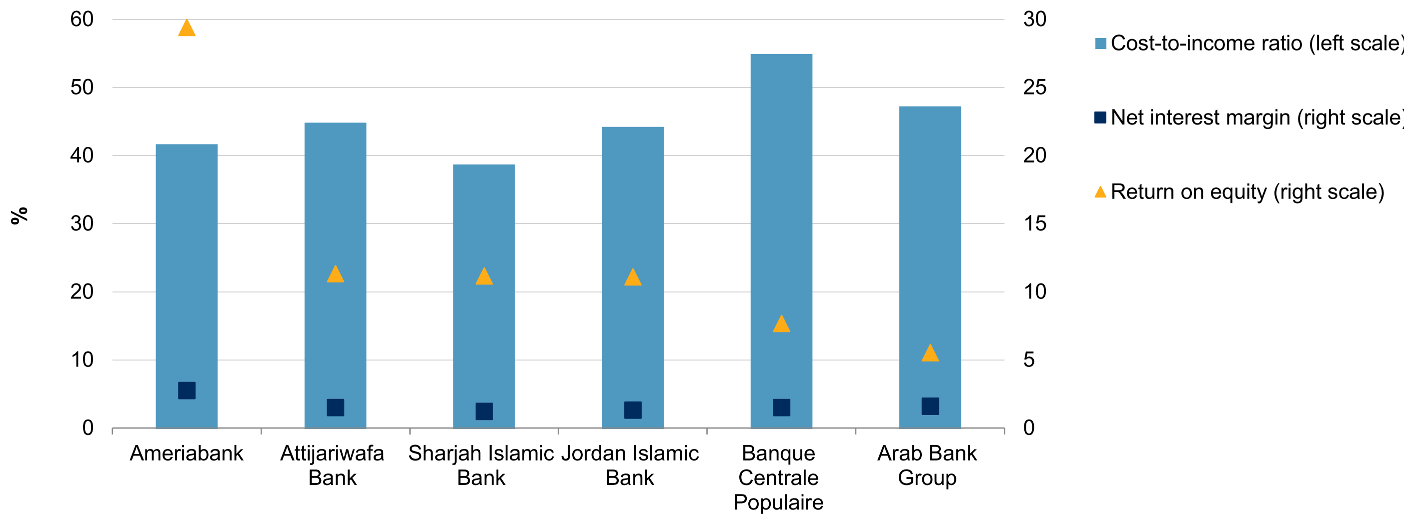
On the other hand, revenue diversification is limited given that JIB derives 98.7% of its revenues from Jordan. The concentration reflects the bank's simple business model, which includes funding predominantly raised from local customer deposits, and the bulk of earnings generated from retail clients and government-related exposures.

Capital And Earnings: A Neutral Stand-Alone Factor

We anticipate JIB's capitalization will remain neutral for the rating. This is based on our expectations that its RAC ratio (before adjustments), will gradually converge to the former 6.9%-7.0% level by end-2025, from 6.1% as of Dec. 31, 2022. Our forecast considers JIB's resilient profitability (see chart 2) and a normalized dividend policy.

Chart 2

Jordan Islamic Bank has adequate profitability compared to peers
As of end-December 2022



Source: S&P Global Ratings.

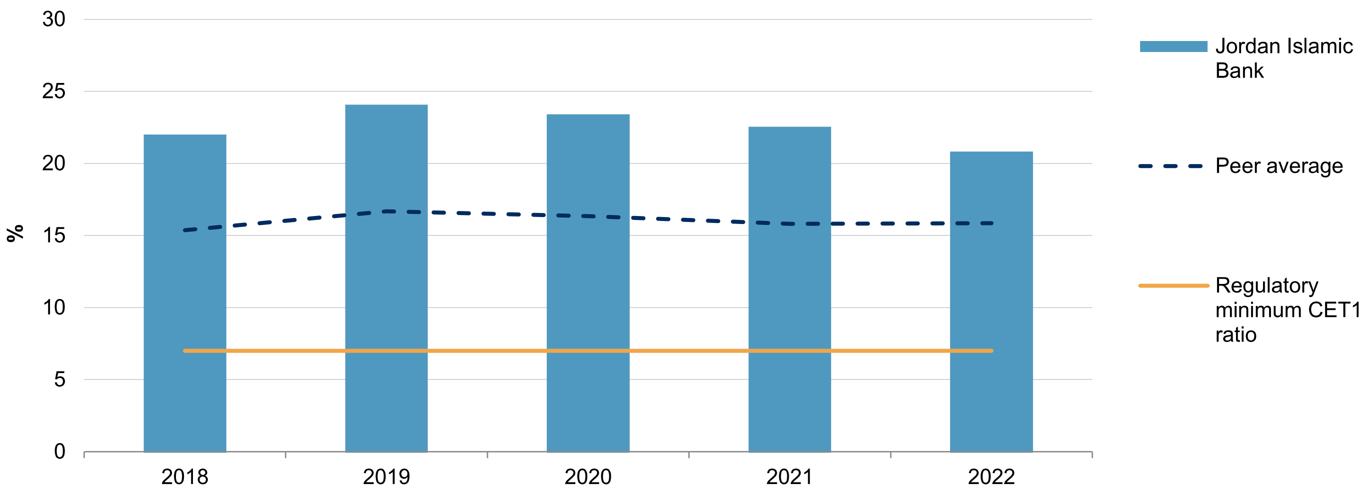
Our main assumptions over the next 12-24 months, which support our forecast include:

- Decelerating financing growth over 2023 to about 5% (versus 5.7% in 2022) and margin stabilization to roughly 2.7% amid higher cost of funding and slowing financing activity.
- Cost of risk increasing this year but remaining contained at around 20 bps (5 bps in 2022) as the bank has JOD69.5 million of buffers set aside between its mutual insurance fund and investment risk fund, which it can use if needed.
- Cost-to-income ratio slightly decreasing and stabilizing at roughly 40% (44% at end-2022) as earnings will slightly improve while costs remain under control thanks to the bank's investment in its digital infrastructure.
- Normalizing dividend payout ratio over the next years--between 12%-15% of paid-in capital, following 25% in 2022.

JIB demonstrates strong regulatory capital ratios compared to domestic peers. Despite its high buffers, the bank will likely adopt a prudent dividend policy distribution as we expect the CBJ to prevent it from upstreaming significant amount of capital to its parent. A more aggressive dividend policy might erode JIB's solid capital buffers.

Chart 3

Jordan Islamic Bank's common equity tier 1 ratio is stronger than domestic peers'



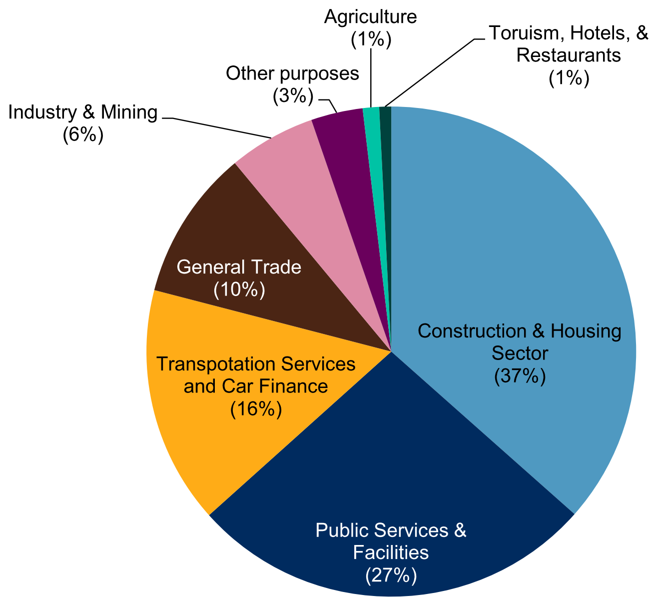
Source: S&P Global Ratings.

Risk Position: Sizable Public Sector Exposure Means Asset Quality Moves In Tandem With Economic And Political Conditions

JIB's high exposure to the public sector constrains its risk profile. Jordan's public sector finances have been under significant pressure from regional economic and political instability, notably the influx of Syrian refugees weighing on government finances. We consider that these challenges could weigh adversely on JIB's financial profile, given the bank's material exposure to the public sector, especially through the Jordanian, publicly owned entity National Electric Power Company (NEPCO). The latter remains JIB's largest exposure (against a 100% government guarantee), and represented about 24.8% of JIB's gross financings (or 1.9x of common equity capital) and about 51% of its investment portfolio at end-2022. Although this elevates its single-name concentration, it also indirectly exposes JIB to sovereign risk.

Chart 4

Jordan Islamic Bank's financing portfolio breakdown
As of December 2022



Source: JIB Annual Report 2022

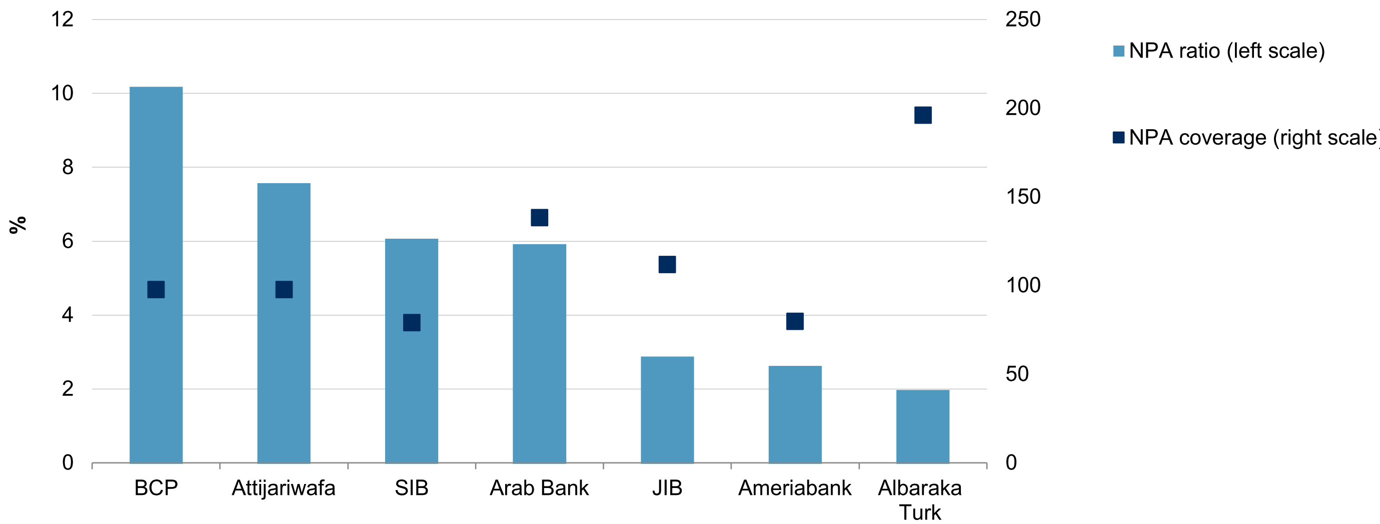
Aside from exposure to public-sector entities, JIB's financing portfolio is fairly diversified across sectors and has historically shown good granularity. The bank has limited exposure to volatile sectors such as tourism while the real estate and construction sectors do not represent a major threat to JIB's risk profile. These sectors represented 13.3% of JIB's total financing book in 2021, of which most were residential. This is in addition to Ijarah Muntahia Bittamleek financing (at 23% of the book), which mostly relates to housing. While house prices in real terms modestly declined in 2022, we now expect real estate prices will marginally stabilize over the next two years.

JIB will continue to display a clean balance sheet despite some pressure. Further tightening financing conditions and rising inflation will weigh on Jordanian borrowers' creditworthiness. Yet, resilient economic activity together with some government support measures should mitigate this. We therefore expect JIB's asset quality deterioration to remain manageable with its NPF ratio increasing toward 3.1%-3.2% at end-2023 from 2.7% at end-2022. JIB's business position enables it to cherry pick customers, and it has a consistent record of better asset quality metrics than domestic peers.

We see limited currency risk exposure for JIB. About 7%-8% of the bank's assets are denominated in foreign currency. But foreign exchange risks are limited as the bank does not carry an open position and the Jordanian dinar is pegged to the U.S. dollar.

Chart 5

Jordan Islamic Bank's asset quality outperforms peers'



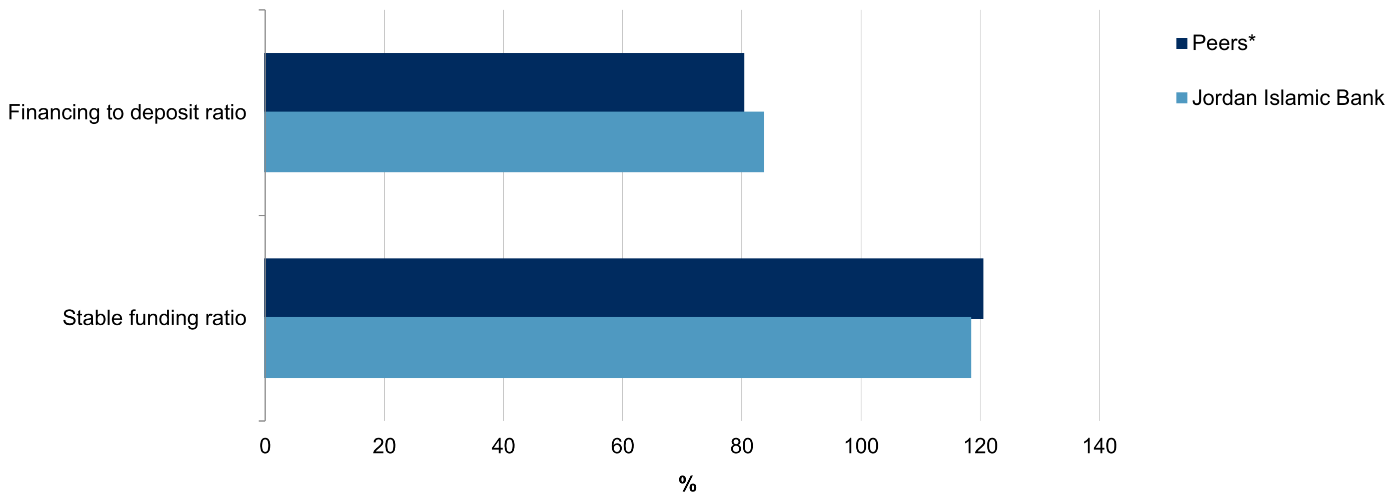
Note: Data as of end-December 2022. NPA--Nonperforming assets. Source: S&P Global Ratings.

Funding And Liquidity: JIB Benefits From Ample Core Customer Deposits

JIB is wholly funded by highly granular customer deposits, which represented 97% of its funding base at end-December 2022. Historically, JIB's financing-to-deposit ratio has been consistently below 100% and stood at 81.7% at end-December 2022. The bank's stable funding ratio has been healthy over the years and was 118% at end-December 2022, in line with peers (see chart 6). JIB does not display any marked asset-liability mismatch.

Chart 6

Jordan Islamic Bank's funding metrics are in line with peers'
As of December 2022



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

JIB benefits from an ample liquidity buffer. The bank's liquid assets--mainly composed of cash balances held at the central bank--constituted 18.5% of total assets and covered 21.6% of customer deposits at end-December 2022. As an Islamic bank, JIB's options to park excess liquidity are limited given regulatory limits on foreign investments. Consequently, the ratio of broad liquid assets to short-term wholesale funding remained elevated at 94x as of December 2022.

We expect limited sukuk issuances in the market and, therefore, limited investment opportunities for JIB. Our expectation is supported by the current operational context marked by high uncertainties, moderate financing growth, and unfavorable market conditions. JIB's excess liquidity will continue to be mainly channeled into government-guaranteed financing or placement at the central bank. This last investment option hampers the bank's profitability because of the zero-reward central bank placement.

Support: No Uplift To The Stand-Alone Credit Profile

We see JIB as an insulated subsidiary of ABG. JIB's business and financial prospects are highly independent to those of its parent. Our view is underpinned by a combination of likely regulatory protection and JIB's relatively low integration within ABG. Moreover, while JIB represents 26% of ABG's consolidated assets, its client base and funding are mostly local and relatively independent from the group. JIB is also subject to stringent regulation on dividend distribution and related-party exposure, which limits the potential exposure to its parent.

The long-term rating on JIB is capped by that on the sovereign. In our view, JIB is unlikely to withstand a hypothetical sovereign default since the bulk of its exposure is in Jordan. As such, we cap our ratings on JIB at the level of the foreign currency ratings on the sovereign. We view JIB as a highly systemically important bank in Jordan. At the same time, we assess the government's ability to support banks as uncertain. Despite a track record of willingness to provide guarantees and liquidity if needed, we believe the government's ability to provide emergency liquidity is constrained by its limited fiscal flexibility.

Environmental, Social, And Governance

We believe environmental, social, and governance credit factors influence JIB's credit quality to a similar extent as industry and country peers. The bank's well-balanced board composition, with 55% of its members being independent, is an element of adequate governance. JIB has a strong track record of dealing with challenging operating environments, while maintaining stringent lending and underwriting standards. Environmental risks do not significantly affect our ratings on JIB, which, like its peers, is exposed to energy transition risks in its lending and investing activities.

Key Statistics

Table 1

Jordan Islamic Bank--Key figures

	--Fiscal year end Dec. 31--				
(Mil. JOD)	**2022**	**2021**	**2020**	**2019**	**2018**
Adjusted assets	5,456.1	5,298.3	4,841.3	4,446.6	4,158.3
Customer financings	4,054.2	3,834.2	3,521.6	3,031.5	2,799.9
Adjusted common equity	481.4	482.5	479.1	457.7	410.4
Operating revenues	174.4	181.5	170.9	172.0	166.2
Noninterest expenses	76.8	77.3	78.6	75.1	70.8
Core earnings	61.1	59.1	52.1	54.3	49.8

JOD--Jordanian Dinar.

Table 2

Jordan Islamic Bank--Business position

	--Fiscal year end Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (mil. JOD)	174.4	181.5	170.9	172.0	166.2
Commercial banking/total revenues from business line	29.3	30.4	30.8	29.3	25.8
Retail banking/total revenues from business line	53.1	50.8	51.4	54.3	54.3
Commercial & retail banking/total revenues from business line	82.5	81.2	82.3	83.6	80.1
Trading and sales income/total revenues from business line	17.2	15.3	12.7	12.3	7.9
Other revenues/total revenues from business line	0.3	3.5	5.0	4.1	12.0
Return on average common equity	11.9	12.0	10.4	11.7	11.1

JOD--Jordanian dinar.

Table 3

Jordan Islamic Bank--Capital and earnings

	--Fiscal year end Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	20.8	22.5	23.3	24.0	21.9
S&P Global Ratings' RAC ratio before diversification	6.1	6.7	7.1	7.6	7.4
S&P Global Ratings' RAC ratio after diversification	2.5	2.4	2.5	2.7	2.3
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net profit income/operating revenues	66.9	70.8	73.6	74.6	78.6
Fee income/operating revenues	21.1	17.2	15.8	15.2	13.6
Market-sensitive income/operating revenues	11.7	9.8	7.9	7.0	4.1
Cost to income ratio	44.1	42.6	46.0	43.6	42.6
Preprovision operating income/average assets	1.8	2.1	2.0	2.3	2.3
Core earnings/average managed assets	1.1	1.2	1.1	1.3	1.2

RAC--Risk-adjusted capital.

Table 4

Jordan Islamic Bank--Risk-Adjusted Capital Framework Data

(Mil. JOD)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government & central banks	2,130	0	0	2,120	100
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	90	0	0	47	52
Corporate	942	0	0	1,679	178
Retail	2,248	0	0	2,696	120
Of which mortgage	1,407	0	0	1,301	92
Securitization§	0	0	0	0	0
Other assets†	188	0	0	469	250
Total credit risk	5,597	0	0	7,012	125
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	52	0	0	554	1,068
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	554	--
Operational risk					
Total operational risk	--	0	--	349	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	0	--	7,915	100

Table 4

Jordan Islamic Bank--Risk-Adjusted Capital Framework Data (cont.)					
Total Diversification/ Concentration Adjustments	--	--	--	11,703	148
RWA after diversification	--	0	--	19,618	248
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		459	0.0	481	6.1
Capital ratio after adjustments‡		459	0.0	481	2.5

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.JOD -- Jordanian Dinar. Sources: Company data as of 'Dec. 31 2022', S&P Global Ratings.

Table 5

Jordan Islamic Bank--Risk position					
	--Fiscal year end Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Growth in financings	6.5	9.7	16.2	8.3	2.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	147.9	176.7	182.2	185.3	220.4
Total managed assets/adjusted common equity (x)	11.3	11.0	10.1	9.7	10.1
New financings loss provisions/average financings	0.1	0.2	0.3	0.3	0.7
Net charge-offs/average customer financings	0.1	0.1	0.1	0.3	N.M.
Gross nonperforming assets/customer financings + other real estate owned	2.7	3.4	4.3	5.3	4.8
Loan loss reserves/gross nonperforming assets	111.8	93.0	75.6	63.6	71.9

N.M.--Not meaningful. RWA--Risk-weighted assets.

Table 6

Jordan Islamic Bank--Funding and liquidity					
	--Fiscal year end Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	97.3	97.2	97.2	98.8	99.1
Customer financings (net)/customer deposits	81.7	82.0	82.6	76.1	75.0
Long-term funding ratio	98.3	98.8	99.2	99.3	99.2
Stable funding ratio	118.3	121.1	121.0	125.3	127.8
Short-term wholesale funding/funding base	0.2	0.1	0.0	0.1	0.2
Broad liquid assets/short-term wholesale funding (x)	94.8	371.0	506.7	214.1	121.2
Net broad liquid assets/short-term customer deposits	48.5	54.2	52.7	58.9	52.7
Short-term wholesale funding/total wholesale funding	8.2	2.2	1.6	10.4	26.3
Narrow liquid assets/3-month wholesale funding (x)	N/A	N/A	497.3	214.1	114.8

N/A--Not applicable.

Jordan Islamic Bank--Rating component scores	
Issuer Credit Rating	B+/Stable/B
SACP	bb-

Jordan Islamic Bank--Rating component scores (cont.)	
Anchor	bb-
Economic risk	8
Industry risk	7
Business position	Adequate
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	-1

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions , Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: Jordan, July 19, 2023
- Jordan, March 13, 2023
- Jordan Islamic Bank Ratings Affirmed At 'B+/B' On Insulation From Parent; Outlook Stable Dec. 19, 2022

Ratings Detail (As Of August 21, 2023)*	
Jordan Islamic Bank	
Issuer Credit Rating	B+/Stable/B
Issuer Credit Ratings History	
23-Jun-2022	B+/Stable/B
14-Mar-2022	B+/Negative/B
24-Oct-2017	B+/Stable/B
Sovereign Rating	
Jordan	B+/Stable/B

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