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السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،،

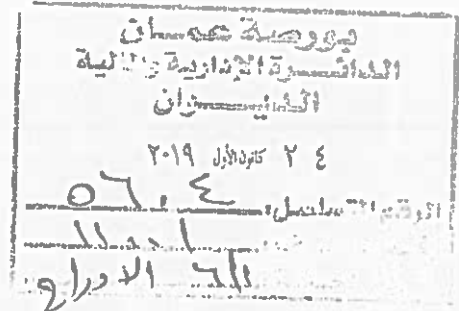
الموضوع: التصنيف الشرعي للبنك الإسلامي الأردني من الوكالة الإسلامية الدولية
للتصنيف (IIRA)

بالإشارة الى الموضوع أعلاه، يسرنا أن نرفق لكم طيه نسخة من تقرير وخبر
التصنيف الشرعي الخاص بمصرفنا والصادر عن الوكالة الإسلامية الدولية للتصنيف
(IIRA) إصدار كانون الأول 2019.

وتفضلوا بقبول فائق الاحترام،،،

المدير العام
د. حسين سعيّد

المرفقات: نسخة من تقرير وخبر التصنيف الشرعي للوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار كانون الأول 2019





IIRA Maintains Shari'a Quality Rating of Jordan Islamic Bank

Manama, December 19, 2019: Islamic International Rating Agency ("IIRA") has reaffirmed the Shari'a Quality Ratings of Jordan Islamic Bank ("JIB") at AA+ (SQ). JIB continued improving the Shari'a regulatory environment of the Bank with an updated code of conduct and organizational restructurings.

Ratings are driven by the continuous process of self-improvement in the Shari'a infrastructure of the bank and the leadership's commitment to high standards of adherence to Shari'a principles, which percolates throughout the organization. The ratings are further strengthened by a strong regulatory framework in the country led by the Central Bank of Jordan (CBJ) which has recently updated regulatory and governance practices in the Islamic Banking sector, setting a standard for global best practices, in our view.

JIB has reported implementation of the revised code of conduct, incorporating regulatory and governance related aspects of the framework as issued by the CBJ, and its implementation will be continually monitored. The Bank has a strong Shari'a infrastructure supported by an independent Shari'a Supervisory Board (SSB) consisting of four highly qualified, experienced and well-reputed scholars, further supported by a highly qualified internal Shari'a audit team. The Bank also has an independent Internal Shari'a Compliance department reporting to the Compliance Department.

Rooted in the principles of Shari'a and recently gaining traction in international finance, JIB has maintained a strong tradition of social contribution, continuing in the period under review, by means of gradually increasing donations and implementation of various projects for community development. Additionally, the Bank conducted a number of Shari'a related training programs during the year, to ensure a high level of awareness and staff level commitment to Shari'a principles.

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 2019



الهيئة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

Serving the Islamic Ummah



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

SHARI'A QUALITY RATING REPORT

Jordan Islamic Bank

Report Date:
December 19, 2019

Analyst:
M Owais Atta Siddiqui, FRM

	Latest Rating (December 19, 2019)	Previous Rating (October 11, 2018)
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 AbdelazizShihadeh
- **Chief Executive Officer:** H.E. Dr. Hussain Said Saifan
- **Branches & banking offices at 2018 year-end:** 76 & 29, respectively

CORPORATE PROFILE

Jordan Islamic Bank ('JIB' or 'the bank') was established in 1978 and is considered a pioneering Islamic bank globally. It is the largest Islamic bank in the Hashemite Kingdom of Jordan ('Jordan' or 'the Kingdom' or 'the country') with a share of around 55%¹ of the local Islamic banking market. It is also a significant bank in the sector as a whole, representing 8.2% of the JD50.9b banking industry's asset base in the Kingdom, rendering it systemically important for the stability of the domestic financial system and the economy as a whole.

JIB has been consistently posting growth over the years, buoyed by its strong franchise and market outreach. The bank's delivery network comprises 76 branches, 29 banking offices, and 232 ATMs, employing 2405 staff, as of December 31, 2018. Having led the bank for thirty-eight years, H.E. Musa Shihadeh resigned as CEO/ General Manager as of April 30, 2019, and was appointed as Chairman of the Board of Directors, given his extensive experience in banking and a lengthy association with JIB. H.E. Dr. Hussein Said Saifan, who has also been serving the bank at senior level, has been appointed as a CEO/ General Manager effective from April 30, 2019.

JIB clearly incorporates the principles of Islamic banking in its vision and mission statements, which in turn identify the values of Shari'a in serving the society, ensuring fairness to all stakeholders, while keeping pace with innovation in technology and banking products. Such embodiment is evident in the organizational culture, which emphasizes and demonstrates the importance of high ethical and Islamic standards at all levels of personnel. JIB was named the Best Islamic Bank in Jordan by a number of publications, including The Banker, Global Finance and World Finance.

Sponsors' profile

Al Baraka Banking Group ("ABG" or "the ultimate parent" or "the group") holds majority ownership in JIB, which is a leading international Islamic banking group with extensive geographical presence in 17 countries, including key Islamic finance markets of Bahrain, Pakistan, Turkey, and Saudi Arabia. JIB constitutes 24.6% of the Group's asset base and contributed 33% of the Group's net profit for 2018. ABG is a leading international Islamic banking group with extensive geographical presence in 17 countries, including key Islamic finance markets of Bahrain, Pakistan, Turkey, and Saudi Arabia. ABG's asset base stood at USD 24.2 b as of H1'2019 and total owners' equity of USD 2.2b during the same period.

FINANCIAL SECTOR OVERVIEW

Financial Sector represents around one-fifth of the GDP in Jordan and is supported by profitable, highly capitalized banks. There are 25 banks in operation, 15 of which are listed on the Amman Stock Exchange (ASE); 16 banks are local and nine foreign. CBJ issued Basel III regulations on capital requirements in November 2016. The CBJ announced additional capital charge for domestic

¹Source: Association of Banks in Jordan (2018)

systemically important banks (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%.

Total deposits in Jordan's licensed banks stood at JD33.7b at end-February 2019, with around 92% of deposits coming from the private sector. With growth of around 2% during 2018, the financial sector's total financing stood at JD 29.0b as at end-2018. To increase financial inclusion, Jordan Economic Growth Plan 2018-2022 plans to enhance financial inclusion and ensure adequate financing to SMEs, advising allocation of 15% of the internal and regional financial institutions' loans to SMEs startups.

The Islamic Banking Industry in Jordan

There are four licensed Islamic banks in the country – three Jordanian and one foreign. Jordan's Islamic banking industry is systemically important with a share of around 16% of total banking assets as of 2018 year-end. Growth followed a moderate increase in the Islamic banking asset base of almost 3.0%, vis-à-vis 3.7% in the aggregate banking sector, during 2018.

Gross financing in Islamic banks² grew by around 5.8%, which is marginally lower than industry credit growth of 7% during 2018. Total deposits³ of Islamic banks posted a growth of 2.7% during 2018, which is superior to industry deposit growth of 2.0%. The Islamic banking industry's financing-to-deposit (FDR) was reported at 76.5% as of year-end 2018.

Following the issuance of its maiden sovereign Sukuk of USD105.9m in May 2016, activity in the Jordanian Islamic capital market has dampened with a decline in the overall volume of sovereign issuances in 2017. However, uplift in Sukuk issuance was noted during 2018, with another major Sukuk issuance from NEPCO.

The 2017 edition of the Islamic Finance Development Report and Indicator (IFDI) ranked Jordan 8th globally in terms of industry-wide quantitative development, knowledge, governance, corporate social responsibility and awareness.

² Excluding Al Rahji bank

³ Excluding Al Rahji bank

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, where in detailed Islamic Banking regulations have been laid out. The law covers conditions and restrictions, permitted course of pursuing its objectives, 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 systematically important banks that have been adopted all around the world. JIB has been assigned the status of domestic systematically Important bank (D-SIB) signifying its importance not only in Islamic Banking but also for the overall financial sector of Jordan.

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 in the country. CBJ adopted the AAOIFI standards and made it mandatory for all the Islamic Banks operating in Jordan to implement these standards.

The Shari'a governance environment and system in place at JIB is in compliance with the guidelines issued by the CBJ and entails the following:

Shari'a Supervisory Board

SSB Infrastructure

As per the regulatory requirements of the 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 board. The primary responsibility of the Board includes monitoring the compliance of operations and activities of the Islamic 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 thereto pursuant to specific orders of the Central Bank.

In light of the above-mentioned regulation, JIB has constituted the Islamic Jurisprudence Supervision Board under the name of the Shari'a Supervisory Board (SSB). The Board comprises four experienced and reputable members who fulfil 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 were appointed in 2015 for a period of four years and have been reappointed again this year during April 2019.

The SSB conducted six meetings during the year 2018, just meeting the minimum number of meetings required by the regulator. All the meetings were fully attended by all of the members satisfying the regulatory attendance requirements. The Shari'a Supervisory Board also conducted

two meetings with the Board of Directors, the audit committee and the external auditor during 2018. The summary of the meetings as mentioned in the annual report are as follows:

Table 1: SSB Meetings

Members	No. of meetings attended
Dr. Mahmoud Ali MoslehSartawi (Chairman)	6
Dr. AbdSattar Abdul Karim Abu Ghoddeh (Vice-Chairman)	6
Dr. "Mohammad Khair" Mohammad Salem Al-Issa (Member)	6
Dr. Abdul Rahman Ibrahim Zaid Al Kelani (Member)	6

As a usual practice, JIB's senior management has also been actively participating in 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. However, it should be ensured that the senior management does not have any influence on decision making of the SSB, as the SSB is the supreme authority that has been tasked to take any decision regarding Shari'a related matters of the Bank without any pressure from the management.

SSB Independence

As per corporate governance regulation in 2016, the Board of Directors have the prime responsibility of 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 on a periodic basis. To fulfil this independence criteria, 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. The Bank has also disclosed in the annual report that the Shari'a Supervisory Board 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.

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

To ensure the effectiveness and proper functioning of the SSB, the Bank has developed and implemented a self-development checklist for the SSB and its individual members which is submitted on an annual basis to Nominations and Remunerations Committee. The checklist has been designed by the nomination and remuneration committee. The checklist assists the Bank not only to measure SSB's effectiveness and performance, but it also allows SSB to self-reflect on its own performance and fulfilling its key responsibilities including Shari'a governance performance, 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

The remuneration and fees of the SSB are determined by the BoDs (through the authorization from the general assembly for shareholders) in line with guidelines covered in the Corporate Governance Guidelines. 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 Sharia Board.

The annual remuneration allocation to individual SSB members remained the same at JD 18,000 during the year 2018. However, total remuneration of the SSB declined to JD 77.8k during 2018 (2017: JD 80.9k) due to lower travel expenses. Moreover, none of the SSB members hold shares of the Bank as per the relevant regulations. Hence, no conflict of interest is apparent, in SSB's remuneration structure of the Bank.

Internal Shari'a Audit

The Bank has developed a dedicated Internal Shari'a 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 that primarily includes ensuring all Bank's operations are in agreement with the provisions and principles of the Islamic Shari'a and ensuring implementation of SSB decisions and recommendations and that these standards are followed at an institutional level. The department currently has nine qualified personnel and the management has plans to increase the strength further, with no specific timelines in the plan.

The Bank has approved a comprehensive Internal Shari'a Audit Charter that specifies the concept, objectives, work area, organizational hierarchy, qualifications of the team and roles and responsibilities. As per the charter, the Internal Shari'a audit is an independent department within the organizational structure. The department has a well-qualified team that is in a good position 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 has also been given independence in terms of its reporting lines with clear authority and direct reporting to the SSB as per the Bank's organizational structure. The department also reports to the Audit Committee for reporting purposes and also reports to the Bank's General Manager in an administrative capacity only.

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 as specified by Shari'a in all banking practices. The department is also assigned the task of developing the jurisprudential awareness to the Bank's employees through periodic training. 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 the 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 aware staff in various functions.

External 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 holding entity, which is undertaken by the subject-matter experts of the bank's largest shareholder - 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.

In addition to the external Shari'a review referred above, the Bank conducts an external audit for the Bank's financial position in accordance with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI's) Auditing Standards. During the year 2018, the external auditor, Ernst & Young, provided unqualified opinion regarding the fair presentation of the bank's financial position, financial performance and cash flows in the consolidated financial statements for the year ended 31 December 2018, in accordance with Islamic Shari'a rules and principles as determined by the SSB and the Financial Accounting Standards of AAOIFI.

Shari'a Compliance

The Bank is in full compliance with the local regulations issued by the Central Bank of Jordan. It has a Shari'a compliance division under the Compliance Department which consists of qualified staff with appropriate skills and capabilities. The division is entitled to review business transactions and banking operations in line with the SSB instructions and the Shari'a circulars issued to the branches and business centers by the management. The division is also reporting its comments related to Shari'a issues directly to the SSB and the Audit Committee emerged from the Board of Directors as well.

Stakeholders' Interest

As opposed to their conventional counterpart, Islamic Banks have an expansive spread of stakeholders including major shareholders as well as investment account holders, employees, regulators as well as the community and the society at large, extending the stakeholders' interest beyond financial considerations to ethical, social and religious principles. The Jordan Islamic Banking sector has taken significant measures to recognize the place of investment account holders, as being in certain ways akin to shareholders and further mandating the public disclosure of the policy governing the relationship between IAH and the Islamic bank.

Protection of the Investment Account Holders' Rights

Through its Annual Report, the Bank disclosed the privilege of the Joint Investment Account Holders' Equities and their relationship with the shareholders. The report mentioned that the Bank protects the rights of the joint account holders and can be assessed 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 accounts with the shareholders.

The SSB is directly responsible to opine on the policies that govern the relationship between the shareholders and the 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. Also, the responsibilities of the SSB are disclosed in a separate document titled "The Bank Framework Guide of Shari'a Supervisory Board". 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. 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. 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.

Transparency and Disclosures

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, Mudharib 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. For the restricted investment accounts, Bank's share as Mudarib was deducted between 7.7% to 25% in Jordanian Dinars pro t and at a rate of 40% in foreign currencies pro t. Moreover, general profit rate was also distributed to restricted investment accounts at 4% for local currency accounts and 0.9% for foreign currencies as at 31 December 2018 (2017 : 0.6%).

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, in accordance with the instructions issued by Jordan Securities Commission for the Public Shareholding Companies Listed in Amman Stock Exchange for the year 2018.

Quality Assurance

In line with its pursuit of providing high-quality products and services that comply with Shari'a, the bank adheres to the requirements of the ISO 9001-2000 quality management system.

Profit Purification Policy

JIB has a clear policy for dealing with Shari'a non-compliant income. As per SSB's 2018 annual report, all amounts that the bank received from sources or in manner inconsistent with the teachings and principles of Shari'a, were excluded and given to charity.

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 rests on the shareholders; unrestricted and restricted investment account holders and participants in Al Wakala Bi Al Istithmar Muqarada bonds (Investments Portfolio), upon the fulfillment of the applicable Shari'a conditions and requirements.

Corporate Social Responsibility

Historically, the Bank has shown strong commitment towards social responsibilities as covered in the section, "Social Role of the Bank". 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. The annual report covers various aspects including major projects undertaken by the Bank during the year 2018, a few of which have been discussed below:

Donations

The Bank contributed a higher amount in developing communities during the year 2018. The amount contributed increased to JD 1,032K during 2018 (2017: JD 880.1K). The Bank served various social causes in the society including human development, medical, science and culture, and religious organizations among others.

Table 2: Donations made during 2018

In JD	Number	Amount
Jordanian Hashemite Fund for Human Development (JHFHD)	2	107,691
The Hashemite Charity Association	3	10,000
Princess Aliaa Foundation	1	235
Al Aman Fund for the Future of Orphans	1	42,500
King Hussein Cancer Center	1	25,000
Associations and competition of the Holy Quran Memorization	5	61,850
Charity Associations and Organizations and Zakah committees	48	304,461
Scientific Conferences and educational and cultural programs	7	192,786
Mosque Commissions	12	25,851
Tkiyet Um Ali	1	10,000
Societal Financial Culture Dissemination Project	1	51,700
Fund to support the families of the martyrs of the armed forces and security agencies	1	100,000
Educational Endowment Initiative and Community Partnerships	1	100,000
Total	84	1,032,074

Al Qard Al Hasan "The Good Loan"

The Bank has been receiving 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 2.3m as of end-2018. The Bank also provides good loans for appropriate social causes and the loans already provided by the Bank including money allocated for this purpose, reached JD 14.4m benefiting around 23.4K citizens during 2018. The cumulative amount lent through this program since the Bank's inception reached JD 282m till end-2018 benefiting around 472K citizens.

Conferences and Seminars, Scientific Research and Professional Training

In an effort to promote Islamic Banking in the country, 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 372K was contributed to these activities during the year 2018. The Bank conducted forty five Shari'a related trainings during 2018 and twenty trainings during H1'2019 covering around nine hundred participants collectively.

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. 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

In the year 1994, the Bank created a special Mutual Insurance Fund through which, 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 the year 2018, the Bank indemnified 211 cases with compensation of JD 1.6m. On a cumulative basis, the Bank has indemnified 2,695 cases with a total compensation amount of JD 11.4m. As of end-2018, the Fund's balance reached JD 75m with around 159K funds participants. During 2018, the Bank has expanded the umbrella of insured people to cover all persons with indebtedness of JD 150K or less.

Interaction with the Local Community

The Bank has been working actively to continue its engagement with the local community by means of various social initiatives. During the year 2018, the Bank participated in a project of Public Security Directorate / Central Traffic Directorate during Ramadan. The Bank has also been engaged with the Ministry of Education to improve the educational environment in the schools run by the Ministry. It has further been engaged with the Eyes Bank and the Friends Society of Jordan Eye Bank and Prevention of Blindness.

Energy and Environment

To promote 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 the 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.

Product Profile and Funding Structure

As a leading Islamic Bank, JIB has a well-diversified, Shari'a permissible product portfolio available to cater to all the banking needs of its clients. A majority of 76.3% of the financing portfolio is represented by deferred sales receivables and other receivables including Murabaha to the purchase orderer, deferred sales, Ijarah Mawsoofa Bil Thimma and Istisna'. Ijarah Muntahia Bittamleek

Table 3: Modes of Financing

In millions of JD	2015	2016	2017	2018
Deferred sales receivables and other receivables⁴	2,077	2,044	2,022	2,054
% Contribution	80.3%	77.4%	76.5%	76.3%
Ijarah Muntahia Bittamleek Assets	483	566	591	606
% Contribution	18.7%	21.4%	22.4%	22.5%
Musharaka	28	30	31	33
% Contribution	1.1%	1.1%	1.2%	1.2%
Net Financing Portfolio	2,588	2,640	2,643	2,692

remains the second most utilized product structure in terms of its share in the overall

⁴Includes Murabaha to the purchase orderer, deferred sales, Ijarah Mawsoofa Bil Thimma and Istisna'.

financing portfolio which has been increasing over time and reaching 22.5% of net financings during 2018 from 18.7% of net financings during 2015. Musharaka is also used, albeit sparingly. The Bank has abstained from using Tawarruq due to Shari'a contentions surrounding its application in banking transactions. JIB remains one of the only few Islamic Banks in Jordan offering interest-free loans on the basis of Al Qard Al Hasan. Table 3 shows the distribution of the financing portfolio with reference to the underlying contract.

On the liability side, the Banks offer various deposit products for both individual and customer accounts, including among others the Qard al Hassan loan fund accounts. The Bank offers both local currency and foreign currency accounts and mobilizes these deposits on primarily Qard and Trust (Amanah) basis for current and call accounts and on Mudarba basis for investment accounts.

All of the above contracts and products are introduced only after the approval of the SSB. The latter's approval is also required in case of any modification or amendment to existing contracts or products. The bank has a policy of not charging any late payment fee on non-performance that arise from financial distress. Any impairment in the value of joint-financings is recognized within investment risk fund (IRF). Impairments in the value of self-financings are recognized at the consolidated income statement.

Losses incurred in joint investment operations that were initiated and ended during the same year will be covered from the profits of other joint investment operations of the same year. If losses exceed profits in the same year, they will be covered from the investment risk fund. If, on the other hand, joint investment operations were initiated and continued from preceding years, and the results of these investment operations are determined in a specific year to be losses, such losses shall be covered from IRF. As highlighted in our last review, JIB's calculation of IRF diverges from AAOIFI's prescribed methodology. The Bank practices the calculation of IRF as per local banking regulations. The Bank is cognizant of its deviation from the AAOIFI recommended practice and applies reserves as per local regulations. In the event of liquidation, the balance of the Investment Risk Fund is to be transferred to the Zakat Fund after adjusting all expenses and losses for which the fund has been established. Thus, investors do not have any rights to the amounts deducted and accumulated therein; as these amounts are allocated to cover the losses of joint investment operations.

Profit Distribution Mechanism

The Bank has disclosed the basis of distributing joint investment profits between owners' equity, unrestricted investment account holders, restricted investment account holders and Wakalah Bi Al Istithmar accounts holders (Investment portfolio) in its Annual Report 2018 with significant details. As per Article (55) of the Jordanian Banks Law, 10% shall be distributed to the investment risks fund (2017: 10%). The Bank's share as Mudarib for local currency and foreign currency 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/some of the joint investment account holders.

The profit percentage of Joint Investment accounts depends on the account agreement signed with the Bank. Joint investment account percentage of profit remained at 40% of the annual average balance of saving accounts, 70% of the annual average balance of notice accounts and 90% of the minimum balance of term deposit accounts. In the case of IjarahMuntahiaBittamleek, the Bank bears all the administrative expenses except for the insurance expense which is allocated to the joint investment accounts profit.

Restricted investment accounts are managed under 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. They are not charged to investor accounts for the calculation of net profit. For the year 2018, rates between 7.7% and 25% are deducted for Bank's share as Mudarib for restricted accounts in local currency and at 40% for restricted accounts in foreign currencies' profit.

For Al Wakala Bi Al Istithmar account's capital (investment portfolio), the Bank's fees as agent (wakeel) was deducted at a rate of 0.36% for the period ending at June 30, 2018, and at a rate of 1.3% for the full year 2018. Both of these rates are actually lower than the actual authorized rates of 1.5% as of both June 30, 2018, and December 31, 2018. The Bank waived some portion of its share as Mudarib to increase the profit rate distributed to joint investment account holders which amounted around JD 2m during 2018.

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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