



Shari'a Quality Rating

AA (SQR)

This rating means that JIB conforms to very high level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.

Strengths

- Shari'a Supervisory Board (SSB) consists of four highly qualified and experienced Shari'a scholars who meet regularly.
- JIB has vibrant Internal Shari'a Audit department headed by a person having high qualifications in Islamic Banking, Audit and Advisory.
- The management and staff possess a good level of Shari'a knowledge and experience.
- JIB management preserves its Islamic identity by having procedures for choosing employees who are aware of Shari'a and by requiring ladies to abide by the Islamic dress code.
- JIB has established its own training institute to provide training to its employees.

Suggestions

- A policy could be adopted to enhance further the share of more desirable participatory modes of financing.

Analyst

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Introduction¹

Jordan Islamic Bank (JIB) for Finance and Investment was established in 1978, as a public shareholding limited company to carry out banking, financing and investment business operations in compliance with the holy Shari'a. The bank started with a paid up capital of 2 million Jordanian Dinars (JD) out of an authorized capital of 4 million JD. By the year 2008 the paid up capital reached 81.25 million JD compared to 38.5 million in the year 2000; and shareholders equity reached 161 million by the year 2008 compared to 54.5 million in the year 2000.

The Bank's first branch commenced its business on 22/9/1979. The bank now has 56 branches, 12 cash offices and 74 Automatic Teller Machines throughout Jordan with total assets of 2.170 billion JD (3.061 billion U.S.D.) which amounts to 7.3% to total assets of banks working in Jordan. The Bank's staff reached 1656 employees by 2008, working in different branches, compared to 1395 in the year 2000. The number of deposit and investment accounts reached 702 thousand accounts by 2008 compared to 498 thousand in 2000.

The bank's mission statement is "Commitment to providing banking services based on compliance with the rules and principles of the glorious Islamic Sharia in all our activities to serve our community as a whole; to equally serve the interests of all related parties including shareholders, depositors, and employees; and to apply the latest innovative products in the banking and technology in order to meet the expectations and needs of customers and to maintain a competitive edge."

JIB accepts deposits in JD and foreign currencies in current and demand accounts and in joint investment accounts. Joint investment accounts are classified as: Saving Accounts; Notice Accounts; Term Accounts, Restricted Investment Accounts and Wakala (investment by proxy) accounts.

The bank invests in Islamic modes such as Mudaraba, Musharaka, Murabaha, direct investment, Istisna and Ijara Muntahia Bittamleek. The highest mode of investment historically and until now is Murabaha due to risk/reward and practical grounds.

Organizational Structure

The board of directors is at the head of the organizational structure. There are five committees reporting directly to the board as follows: Corporate Governance Committee, Risk Management Committee, Credit Facilities Committee, Audit Committee and Nominations and Award Committee. The Shari'a Supervisory Board is independent and only reports to the shareholders. The General Manager has a direct reporting line to the board of directors. He is followed by Deputy General Manager. There are five assistant general managers who report to the Deputy General Manager and three departments who report directly to the General Manager. The Internal and Shari'a Auditing (ISA) department reports directly to the Audit Committee and the Shari'a Supervisory Board.

The Board of Directors consists of 11 members with four members representing Al Baraka Banking Group (ABG), one member representing Global Investment House (GIH) and six others. The major representatives are shown below. For a more detailed profile of each member please refer to Annex 1 of this report.

¹For more information, refer to bank's website www.jordanislamicbank.com/establishment.html and bank annual reports

	Member Name	Position	Share Representation	
			June 2009	2008
ABG Representatives	Mr. Adnan Ahmed Yousif	Chairman	%66	%58.715
	Mr. Othman Ahmad Suleiman Ahmad	Member		
	Mr. Abdellatif Abdallah Al Rajhi	Member		
	Mr. Hamad Abdallah Eqab	Member		
GIH Representative	Mr. Talal Fawzi Al Samhour	Member	%3.339	%11.351

The bank's management consists of the following members. For more detailed information about all executive management members and practical experience please refer to Annex 2 of this report.

Member Name	Position
Mr. Musa Abdul Aziz Shihadeh	CEO & General Manager
Mr. Saleh Musa Al Shanteer	Deputy General Manager
Mr. Wael Mohammed Barakat	Assistant General Manager
Mr. Nabil Mostafa Asaad	Assistant General Manager
Mr. Mohammed Majed Allan	Assistant General Manager
Mr. Omar Rebhi Jabari	Assistant General Manager
Dr. Hussein Saeed	Assistant General Manager

Shari'a Supervisory Board (SSB)

SSB membership

The bank's SSB consists of four members who have high experience and qualifications. Membership is approved by the general Assembly of Shareholders and appointed by the bank's management. Here is a profile on each of the members:

- Dr. Abdul Sattar Abu Ghudda – Chairman

The chairman of the board, Dr. Abdul Sattar was born in 1940 in Aleppo, Syria. He obtained his PhD in Shari'a from Al Azhar University in 1975. He is a member in the Shari'a supervisory boards of a number of Islamic financial institutions and a member in the Islamic Fiqh Academy in Jeddah. He has held various teaching posts at different institutions and participated in international conferences and seminars on Islamic finance. He published a number of books in a wide array of topics in Islamic jurisprudence.

- Dr. Abdul Aziz Al Khayat - Member

Dr. Al Khayat was born in Nablus, Palestine in 1924. He has a doctorate degree in Shari'a from Al Azhar University. He held various educational, supervising and government posts in Jordan. He was Minister of Awqaf (Religious Endowments) between 1973-1976 and 1985-1989. He is currently a lecturer to PhD and Masters students at the Arab Academy for Banking and Financial Sciences and was the president of Jarash Private University. He has published more than 50 books.

- Dr. Ibrahim Zaid Al Kilani- Member

Dr. Al Kilani was born in Jordan in 1937. He obtained his PhD in Quran science and interpretation from Al Azhar University. He held various posts in Jordan including: Minister of Awqaf; Shari'a department head at the University of Jordan; membership in Jordanian parliament; chairman of legal committee at the Jordanian parliament; and others. He published a number of research studies and books in various topics including: law, history, Islamic economics and Shari'a.

- Dr. Mahmoud Al Sartawi – Member

Dr. Al Sartawi was born in Jordan in 1943. He is a lecturer at the department of Shari'a, University of Jordan, and he was the Dean of the Shari'a College. He obtained his PhD in Shari'a from Al Azhar University in 1976. He participated in a number of conferences and is an author of a number of articles published in newspapers.

SSB governance and activities

The activities of the SSB are governed by JIB Corporate Governance Guide – section six. This section delineates the tasks and functions of SSB at the bank. In the following paragraphs, we will compare the contents of section six of this guide with the best practices as recommended by AAOIFI Governance Standard for Islamic Financial Institutions No. 2 (Shari'a Review) and with the actual agenda as practiced by the bank's SSB during the past three years. This comparison will provide an appraisal of SSB governance and activities which is our aim here.

I. Overview: JIB Corporate Governance Guide – Section Six

This section requires the SSB to comprise of at least three members; gives its decisions the credence over any other decisions; and requires the board to meet at least twice per year or when necessary by call from its chairman, the board of directors, two of its members or the bank's General Manager; and that a board secretary be appointed and that he should take down the meeting minutes; and that it is incumbent upon the bank to publish Fatwas of the Shari'a board to make the public aware.

It further specifies the tasks to be taken up by the SSB as follows:

- a. Controlling the bank's transactions and activities in terms of their conformity to the Shari'a provisions.
- b. Expressing the Shari'a opinion in formulating the contracts required for the transactions and its activities.
- c. Considering the issues assigned to it according to the directives of the Central Bank which are issued thereto.
- d. Expressing the Shari'a opinion to the Board of Directors and the General Manager concerning the transactions of the bank.
- e. Issuing an annual report to the General Assembly of shareholders.

II. Overview: SSB Agenda

The board has met four to five times a year in the past two years for an average duration of two hours per meeting. The meeting minutes are taken for all meetings. These minutes are generally accurate as all questions and answers and discussions are accurately documented. These minutes represent a valuable resource for future reference.

The agenda for the past three years consisted of six major areas as follows.

- Approval and discussion of new contracts and modification of existing contracts
- Reading ISA reports biannually and annually and accepting these reports
- Preparing a biannual report sent to the Central Bank of Jordan as per the requirements of the central bank
- Preparing a brief annual report at the year end which is incorporated in the bank's annual report
- Approving transactions of Investment Risk Fund
- Answering Shari'a related questions from the management

III. Analysis: SSB Governance and Agenda in light of AAOIFI Governance Standard No.2 - Shari'a Review

This standard was established to "assist Shari'a Supervisory Boards of IFIs in performing Shari'a reviews to ensure compliance with Islamic Shari'a Rules and Principles." According to the standard, the review must be carried out in three stages. The first stage (Planning and Designing) is the joint responsibility of SSB and management. The second and third stages are responsibility of SSB. Relevant portions are reproduced below. Here are the stages taken from Standard No.2 along with our Findings based on the studying the SSB agenda, the Corporate Governance Guide and the other governance documents.

- *Stage 1: Planning and Designing Shari'a Review Procedures*

Findings:

1. Planning and designing Shari'a review procedures is a joint function of SSB and management. This stage exists at JIB in the form of an annual Shari'a audit plan that is approved by management and reported to the Audit Committee. The Corporate Governance Guide includes provision for this stage under the responsibilities of the ISA department. This plan will be further discussed later.
2. Standard No.2 requires the availability of review procedures that cover all activities, products and locations. These procedures are available in the form of "Audit and Review Procedures" and are used in practice by the ISA department (refer to ISA documents below.)
3. The SSB is found to understand management's awareness and attitude towards Shari'a compliance as management is always present in its meetings. The highest level of management (general manager) and deputy general manager are usually present in SSB meetings. Other management members also attend these meetings and actively participate in the discussions or in raising questions to the SSB. This is an essential element of planning and design stage.

- *Stage 2: Executing review procedures and preparation and review of working papers.*

“At this stage all the planned review procedures are executed. The SSB review procedures shall normally include:

- Obtaining an understanding of the management’s awareness, commitment and compliance control procedures for adherence to Shari’a
- Reviewing of contracts, agreements, etc.
- ascertaining whether transactions entered into during the year were for products authorized by SSB
- reviewing other information and reports such as circulars, minutes, operating and financial reports, policies and procedures, etc.
- consultation/coordination with advisors such as external auditors; and
- discussing Findings with an IFI’s management

The execution of the above review procedures shall be documented in work papers which shall be complete, neat and cross referenced to review procedures.”

Findings:

1. The JIB Corporate Governance Guide - section six specifies that the SSB “controls” the bank’s transactions, “expresses its opinions” and “considers the issues assigned to it to the directives of the central bank” and “issuing a report to the general assembly.” This is compatible with stage 2 as described above.

2. The SSB executes Shari’a review procedures by reading ISA biannual reports and by approving new contracts or changes to existing contracts. We do not expect SSB to conduct a detailed Shari’a review but it is expected to collect sufficient information to formulate an opinion beyond reasonable doubt that the bank’s activities are Shari’a compliant in compliance with Standard No.2 which specifies that the SSB shall itself review other information such as contracts, agreements, transactions, financial statements, audit and central bank inspection reports, circulars, minutes and operating reports.

Evidence collected from meeting minutes indicates that the review procedures of SSB are confined to reading the ISA reports and raising some questions and by looking at the bank’s financial results at the year end. This is not enough to formulate a robust and independent opinion in our view because the time spent reading and discussing the reports is not sufficient and discussions have not been thorough because SSB has not requested sufficient documents as per Standard No.2. Optimal execution of review procedures requires detailed discussion and thorough questioning of ISA reports, requesting supporting documents for these reports and discussing them, to inspect circulars and individual branch reports that include the details of correspondence, to request the rationale for sample selection and to request a random sample of transactions. This would likely take more than one meeting.

This issue was raised with an SSB member of JIB. The member explained to us that SSB’s role is supervisory and it does not have sufficient time to discuss ISA reports in detail. While we understand that SSB’s time is limited, SQR is aimed at encouraging the best practices which pronounce that Shari’a review must be thoroughly discussed by SSB from all aspects as described in AAOIFI Standard No.2.

And due to the same reasons, the SSB does not interact with the board of directors except for Mr. Musa Shihadeh, the bank’s General Manager and vice chairman of the board of directors, who regularly attends SSB meetings; and does not interact with the external auditor. However, the Shari’a reports are

discussed by the Audit Committee of the BOD. A formal interaction with the board of directors and the external auditor would enhance control on Shari'a compliance in line with Standard No.2.

3. For the companies that JIB owns shares in and which their core business is Halal (Shari'a Compliant) but they may deposit or lend with interest (Riba), JIB reviews the annual audited financial statements of these companies and then transfers its Non-Halal proportion into the exceptional profit account in accordance with AAOIFI Standard No. 21. But, the policy of exceptional profits and distribution of these profits is approved by the SSB and it is a firm policy.

It is also observed that the SSB has not set a clear scale explaining the nature of violation which leads to channeling income from a certain transaction into the exceptional profit account. This scale is not available neither in writing or practice. As an example, in Murabaha transactions, the Shari'a audit discovered that, in some cases, Murabaha was executed despite the preexistence of a contract between the original seller and the purchase orderer.

As a second example, one company, acting as a Murabaha purchase orderer, appointed a company member of staff as an agent who buys the object directly from the seller on behalf of the bank. The purpose of the company is to conceal the fact that the company is taking financing from banks. There is potential for serious Shari'a violations in this transaction, including misrepresentation, but there is no scale to decide whether income should go to exceptional profit account or not.

The formulation of a scale that defines the cut-off for non Shari'a compliant income and the authority of decision on this income is an important element of Shari'a compliance.

- *Stage 3: Documenting conclusions and report*

"The SSB shall document their conclusions and prepare their report to the shareholders based on the work done and discussions held..."

Findings:

1. Section six prescribes an annual SSB report. In practice the SSB produces an annual report that is presented to the Annual General Meeting of shareholders. This is in line with stage 3 of the review procedures in Standard No.2. This report is included in the bank's annual report and is prepared in accordance with AAOIFI model annual report for Shari'a boards. The SSB attends the General Assembly on an annual basis and answers Shari'a related questions raised by the shareholders.

Internal and Shari'a Auditing (ISA)

There is a department for both internal and Shari'a audit which is responsible for both types of review. The department consists of twenty staff members including one designated Shari'a auditor who is responsible to oversee Shari'a review reports and to conduct all Shari'a review tasks and to act as a secretary to the SSB. The Shari'a auditor is qualified with a Master's degree in Islamic Banking and is expected to complete Certified Shari'a Auditor and Adviser (CSAA) degree in mid 2009.

ISA governance and activities

I. ISA Governance

This department is governed by the following documents:

- a. **Work Procedures Manual:** the purpose of this four page manual is to describe the aims, scope and present definitions relating auditing of branches; to state the responsibilities of the internal audit manager, internal auditors and the Shari'a board secretary (who is also Shari'a auditor); and to emphasize the importance of monitoring the application of internal audit recommendations; and the importance of formulating an annual agenda for the audit process. The manual describes the list of responsibilities of all auditors which includes the Shari'a auditor. This document does not include specific information about Shari'a auditing but is a comprehensive guide explaining the responsibilities of generic auditing which also apply to Shari'a auditors.
- b. **Corporate Governance Guide:** this guide includes a two page section describing of the role of internal and Shari'a audit department in the organizational structure of the bank. This section applies to both internal and Shari'a auditing. The section starts by describing the importance of the existence of a proper control environment. It then describes the powers given to the department which include access to all information from within the bank's departments and branches as required without any exception and a direct reporting line to the Audit Committee. It also assigns this department the responsibility of pointing out any conflicts of interest which may be discovered in addition to other tasks.
- c. **Shari'a Audit and Review Procedures:** these procedures relate solely to reviewing Shari'a compliant products by explaining the step by step process of reviewing the Shari'a compliant financing and transactions of the bank. It includes the following modes: Murabaha, Mudaraba, Musharaka, Ijara Muntahia Bittamleek, Direct Investment, Murabaha Letter of Credit, Policy for Collection, Bank Guarantee, Commodity Murabaha and External Investment. These procedures are an essential part of Shari'a audit as they are followed closely during the review process. It is by following these procedures that Shari'a violations will be discovered in the application of bank's products. The contents are found to be closely related to the Shari'a standards published by AAOIFI and thus constitute a solid basis for Shari'a review.
- d. **Job Description:** this document describes the responsibilities of internal audit manager, the deputy audit manager, Shari'a auditor, and the team leader of internal auditing. Relating to the Shari'a auditor there is specific description of the Shari'a auditor's role in terms of Shari'a auditing and secretarial role to the SSB. These include visiting the bank's branches, preparing reports, following up, attending and documenting SSB meetings, providing suggestions and answering queries. This document when combined with (a) and (b) above would constitute a comprehensive guide for Shari'a auditing as prescribed by AAOIFI Governance Standard No.3 (Internal Shari'a Review).

II. ISA Activities

The ISA conducts its review by assigning teams who would visit the branches and conduct the internal and Shari'a audit process. The teams visit each branch twice a year as per the audit plan which is prepared annually and sent to the Audit Committee. The teams' Shari'a related work has to be reviewed by the Shari'a auditor before being formulated into a report. The first visit to the branches occurs during

the first half of the year. Following this visit, a biannual Shari'a review report will be prepared and sent to the SSB. The second visit occurs during the second half of the year. At the year end, an annual Shari'a report is prepared based on the findings of the whole year. This report is sent to the SSB. Simultaneously, another report is prepared and sent to the general manager to inform him about the Shari'a review process during the year; and another Shari'a report is prepared and included in the ISA report which is sent to the Audit Committee at the year end.

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Following is a description of these reports.

- a. **Biannual and annual Shari'a review reports:** the purpose of these reports is to present the SSB with an account of the Shari'a violations that have been discovered during the review period and the action taken by the ISA. The report for year end 2007 included the following headings: Murabaha, foreign currency investment, Murabaha LCs, Ijara, scheduling of Non-performing loans, Trusts, exceptional profit account, loss on investment and Shari'a queries from branches. Here are sample mistakes taken from Murabaha:
 - In some cases, the purchase orderer's name was imprinted as the recipient from the seller although the bank has accepted title to the object before passing it to the purchase orderer.
 - Sometimes the object is passed to an agent of the purchase orderer without permission from the purchase orderer.
 - In certain cases, there was no signature by the purchase orderer documenting receipt of the object although receipt had already happened.
- b. **Annual Report to the General Manager:** prepared by the Shari' auditor, this report includes details of the steps taken to review each activity and financial instrument. The procedures detailed in this report are similar to the procedures included in the Audit and Shari'a Review Procedures as will be described below. For example, the report explained that for Ijara Muntahia Bittamleek operations the auditors reviewed and ensured the Shari'a compatibility of the following areas:
 - The Shari'a compatibility of the contract
 - The quality of the rented asset has been properly checked
 - Whether the bank has borne the expenses which Shari'a imposes on the asset owner
 - The Shari'a compatibility of any guarantees
 - There has been proper documentation of paid and accrued installments
 - Review the accuracy of registration and negotiation of titles
- c. **Annual ISA report to the Audit Committee:** approved by the chief of ISA department, this report includes both internal audit and Shari'a audit details. The Shari'a related content is similar to the annual report presented to the Shari'a board as described in (a).
- d. **Annual Shari'a and financial audit plan:** this plan is approved by the chief of ISA department and sent to the Audit Committee. The plan includes the list of branches to be visited (which

includes all branches) and the team designated for each visit. It also includes a brief description of the tasks the Shari'a audit is planning to accomplish.

III. Analysis: ISA Governance and Activities in light of AAOIFI Governance Standard No.3 – Internal Shari'a Review

The purpose of Standard No.3, which consists of five pages, is to provide guidance on the internal Shari'a review in IFI's. The standard requires that internal Shari'a reviewers are to have no executive authority or responsibility for the activities they review. Of our concern here is the section on performance of the internal Shari'a review work. This section is divided into four subsections:

- Section 1: General – explains the necessity of planning the review. This includes: obtaining background information about the activities to be reviewed such as location, products/services, branches and divisions; establishing review objectives; obtaining Fatwas and resource; communicating the plan to all concerned individual; obtaining plan approval from SSB; and other areas.

Findings:

1. There is an adequate plan produced by ISA in compliance with the Audit and Shari'a review procedures of the bank which prescribe the preparation of an annual plan. As described, this plan establishes the objectives and prescribes the visits to the branches. The Fatwas of the SSB are published and available to all departments. We believe background information about the products and branches is available to the ISA since products are mostly typical with the largest mode being Murabaha and because ISA has adequate access to all information it requires and this is in compliance with Standard No.3. We recommend here, in light of Standard No.3, that approval for the annual audit plan is attained from the SSB in addition to the Audit Committee at the start of the year in order to assure completeness of the plan.

2. As mentioned earlier, there is no Shari'a standard governing the cut-of for "exceptional income". In the past few years, there has been no income from financing transactions channeled to the exceptional profit account. Hence, the size of this account is negligible. Still, non compliant income from investment operations go into this account. For example, in certain cases, money is placed in shares representing companies whose balance sheet includes small amounts of deposits in conventional banks and therefore would receive a certain percentage of its income in terms of interest. JIB deducts this percentage from the dividends it receives from these shares and takes that amount to the exceptional profit account.

- Section 2: Examining and Evaluating internal Shari'a review information – this section explains Shari'a auditor's responsibility in collecting, analyzing and interpreting preliminary information and documenting the review process in appropriate working papers.

Findings:

1. The corporate governance guide includes a comprehensive description of the auditor's responsibilities and authority to collect, analyze and interpret relevant information without any restrictions from any party. During our visit, we observed that all review is documented in working papers and internal reports. We were informed that sample sizes would be chosen based on the branch size and history. When an audit team accomplishes the Shari'a review at one branch, its Findings are documented and communicated to the Shari'a auditor. The ISA, on the recommendation of the Shari'a auditor, would

then correspond with the concerned branch. Overall, the collection, analysis, interpretation and documentation are found to be in compliance with AAOIFI Standard No.3.

- **Section 3: Reporting** – explains that reporting must be based on appropriate discussions with management and that at least quarterly Shari'a control reports are to be sent to the Audit Committee with a copy to SSB and management; and requires the report to be objective, clear, constructive and timely and to present the purpose, scope and results of internal Shari'a review, and it shall contain an expression of the reviewer's opinion and the reviewee's views about the Shari'a review. It shall further include recommendations for improvement and corrective action and acknowledge satisfactory performance where appropriate.

Findings:

1. The JIB work procedures manual and Shari'a auditor job description prescribe that comprehensive reports are to be produced based on detailed collection of information and evidence from the branches. However, it is observed that these do not recommend the frequency of reports. Standard No.3 recommends that reports be produced at least quarterly as described above. At the moment, only two reports are produced. This is acceptable from a ratings point of view but a quarterly report that includes comprehensive information as described by Standard No.3 would warrant a higher standing.

2. By inspecting Shari'a auditor's biannual and annual reports to the SSB, we find the reports very informative in terms of describing the mistakes discovered and what action has followed. These reports could be further enhanced by expanding them to include the reviewee's replies and an opinion about reviewee's degree of cooperation and the acknowledgment of satisfactory performance as prescribed by Standard No.3. And as mentioned earlier in this report, a more thorough discussion of these reports with the SSB would enhance the awareness of SSB which in turn provide further control over ISA review practices.

- **Section 4: Follow Up** – explains that "Shari'a reviewer shall follow to ascertain that appropriate action has been taken on Shari'a review findings and on any other Shari'a Findings of SSB, external auditors and regulatory bodies."

Findings:

1. The job description of Shari'a auditor specifies comprehensively that he is expected to follow up the action taken by the branches and to coordinate with the management at the branches. The Shari'a auditor applies this function through sending his comments and recommendations to the branches and receives a reply from the branches. There is a separate report for each branch including this sequence of correspondence. The ISA department further follows the application of its recommendations in its next visit to the branch. These procedures are consistent with AAOIFI Standard No.3. With assets consisting mostly of Murabaha and Cash, the bank's operations resemble similarity every year and therefore the review and follow up process does not generally face entirely new challenges.

Accounting Regulations

The external auditor confirmed in his report that the bank's accounting practices are compatible with the Accounting Standards for Islamic Financial Institutions. We believe the bank's statements presented do not violate Islamic accounting standards and that the auditor's statement is a fair representation.

Training and Human Resources

The bank has established its own institute to provide for the needs of its own employees. This is a very welcome establishment and signals the bank's awareness about training needs. The Training Institute offers courses in different areas of banking analysis and banking skills. Among these areas is Islamic finance. During 2007 and 2008, 18 programs in Islamic finance were held and more than 260 employees participated in these programs.

The management also sends employees to training at external training institutes inside and outside of Jordan. During 2007 and 2008, the management informed us that it sent 86 employees to external programs in Islamic banking. The most common destination is the Banking Training Institute in Jordan. Other destinations included the Islamic Financial Services Board and the AAOIFI. This flexibility of training location provides diversity of knowledge that effectively enhances the Shari'a compliance practices.

We were provided with the annual training plan for 2009. The plan indicates five programs in Islamic banking to be held during the year with each program being held several times at different locations in order to permit employees from different branches to attend these programs. The plan specified the targeted designation of employees for each program and the trainer(s) involved.

The internal programs offer fundamental insight into the applications and Shari'a compliance of different Islamic instruments. The Islamic banking program titles for 2007 and 2008 included: Shari'a compliance in banking, Fundamentals of Islamic Banking, Awareness in Islamic Banking, Accounting for Islamic Banking and Islamic Investment Funds, Guarantees, Murabaha, Mudaraba, Clearing and others.

We were provided with a number of PowerPoint presentations of these programs. As an example, the outline of the program on Guarantees consisted of:

- Authentication
- Protecting Lenders' Rights
- Default
- Types of Guarantees
- Shari'a compliance of Guarantees
- Parties' rights in: Mortgages, Letters of Guarantee, Letters of Credit, Cheques, Bonds and Loan Insurance.

Other external programs included Corporate Governance Issues in Islamic Finance held by the IFSB, Certified Islamic Public Accountant held by the AAOIFI, and Certified Shari'a Advisor and Auditor held by the AAOIFI.

The plan for 2009 included more than ten trainers who are mostly experienced professionals from within the bank. In most cases, the plan specifies substitute trainers in case the designated person is not available.

We believe the management and staff possess a good level of Shari'a knowledge and experience. In particular, Mr. Musa Shehadeh, the general manager, has accumulated significant experience through constant interaction with Shari'a scholars for nearly three decades.

It is observed that the Shari'a board members do not participate in staff training programs as this is out of the scope of their responsibilities but the board's Fatwas were compiled and published and are available for use in the bank. This aspect requires improvement as AAOIFI Governance Standard No.2 recommends SSB to participate in training programs in an IFI. Although nonparticipation of SSB does not signify lack of Shari'a compliance, its participation is seen as a best practice.

Zakah

The bank has not been delegated by its shareholders or its depositors to pay Zakah on their behalf. The Shari'a responsibility remains with the shareholders and depositors. In addition, legislation in Jordan does not require the bank to pay Zakah on behalf of its shareholders and depositors.

The bank's Shari'a Board, however, reminds the shareholders on an annual basis to pay their Zakah in its report which is presented at the Annual General Meeting of shareholders.

The bank offers help to calculate Zakah upon request but it does not have channels for Zakah distribution because, as mentioned above, it is not responsible to pay Zakah on behalf of its stakeholders.

Social Action

The bank has a professions fund which was created to finance socially beneficial projects at more favorable terms. Created in 1994, the total projects financed until 2008 were 71 with a total of around 1.6 million JD given in financing. These projects included a pharmaceutical company, a school and a hospital. The bank also states that it takes social aspects into consideration in its Murabaha financings.

In 2007, the bank had given 201.5 thousand JD in donations for charities and 190 thousand JD in donation for educational purposes.

There is a Takaful fund managed by the bank which provides for misadventures within the specified conditions to clients who obtained financing from the bank. Participation in this fund is automatically granted for financings up to 40 thousand JD. The fund's size at the beginning of 2008 was around 17.9 million JD providing for liabilities of around 240 million JD.

The bank also gives benevolent loans for those in need. In 2008, the amount of benevolent loans reached 21.8 million JD (8.7 million in 2007). These have gone to various causes including education, medical treatment and 229 thousand JD to young people for marriage. In its Murabaha financings, the bank does not charge a penalty on defaulting clients although a penalty that goes to charity is approved by the bank's Shari'a board.

Overall, the bank's social awareness places it among the top players in the industry in this field.

Modes of Financing

The Murabaha mode of financing captures the largest percentage of financing in the balance sheet, amounting to 39% of total assets. Cash and balances at central banks and cash at banks and financial institutions constitutes 40% of total assets. The next largest item is financial assets available for sale amounting to 6.8%, followed by Ijara Muntahia Bittamleek which amounts to 3.1% of total assets. There is a negligible share of Diminishing Musharaka (less than 1%) and there is no Mudaraba financing.

The bank's management explained that Mudaraba and Musharaka modes of financing require a sincere Mudarib or agent, an issue where they have always faced difficulty in finding the sincere Mudarib or agent. In addition, these modes constitute risk to shareholder value and the shareholders are content with the bank's current risk appetite and do not wish to enter into more risky modes. Moreover, the bank's management explained that Murabaha and other modes are modes approved by Shari'a and, given shareholder appetite, the management chose to apply mostly these modes in order to fulfill their decree.

Despite these difficulties with Mudaraba and Musharaka, what is desirable here is to dedicate sufficient resources for conducting studies to find the best ways of increasing these modes and finding ways to circumvent these difficulties. This would further show the bank's concern about the economic aims of Shari'a where Mudaraba and Musharaka are considered closer to these aims from the other modes of financing.

In 2008, returns on unrestricted investment accounts reached 101.8 million JD out of which 34 million was allocated to account holders; 57.6 million to the bank both as a Mudarib and capital provider (rab al maal); and 10.2 million to the Investment Risk Fund (IRF). The Central Bank of Jordan requires at least 10% to be deducted from returns on unrestricted investment accounts for the IRR. Although Shari'a permits the bank to deduct its share as Mudarib before deduction of the risk reserve, JIB deducts the IRR share first in compliance with the Central Bank of Jordan requirements.

Identity and Corporate Image

The bank's name gives the first impression about its Islamic identity. Its mission statement includes: "Commitment to consolidating the values of the Islamic Approach in all of its dealings according to provisions and principles of the Islamic Shari'a for the good of the whole society".

The annual report starts In the Name of Allah, Most Compassionate, Most Merciful and with the verse: "Allah hath permitted trade and forbidden usury". In each floor at the bank's headquarters in Amman there is a verse from the holy Quran encouraging refraining from interest and endorsing good overall behavior.

The bank has a strict policy for accepting new employees. There is a personality check for prospective employees through a quick examination which confirms knowledge of basic Islamic principles. The bank also requires females to abide by Islamic uniform.

Other Considerations

There is a decently sized prayer room at the head office and the Athan is being raised and heard throughout the building for Thuhr and Asr prayers. There are no special ladies branches and there is no formal separation between genders, but the management preserves an Islamic atmosphere by allowing distance between genders, by having procedures for choosing employees who are aware in Shari'a and by requiring ladies to abide by Islamic uniform.

Annex 1: Board of Directors

Member's Name	Scientific Qualification	Practical Experience
H.E. Mr. Adnan Youssif AbdelMalek. Bahraini. Representative of Al-Baraka Banking Group/ Bahrain. Chairman	MBA	Joined the banking venture in 1975. In 2000, he became the Chief Executive Manager of AlBaraka Banking Group. In 2002, he became the Chief Executive Manager of Bahrain Islamic Bank. On 01.08.2004, he again became the Chief executive manager of Al-Baraka Banking Group
H.E. Mr. Musa Abdelaziz Mohammed Shihadeh. Jordanian. Vice Chairman/ General Manager	-Bachelor of Commerce 1969 from the Arab University of Beirut. - MBA 1979 from the University of San Francisco, USA	Joined the banking venture in 1961 and is currently Vice Chairman and General Manager of the Jordan Islamic Bank. He is also a Board of Directors member in a number of Islamic banks outside Jordan and head as well as Boards of Directors member in a number of industrial, trading, investment, educational and insurance corporations
H.E. Mr. Ayman AbdelKareem Hatahit	BA of Business Administration - London 1982	Chairman in a number of industrial and mining companies.
H.E. Eng. Raef Youssif Mahmoud Najm. Jordanian	BSc. Civil Engineering 1951, Cairo Univ.	Former Minister of Awqaf and former Public Works Minister. Currently a partner in the Jordanian Center for Engineering Consultations
H.E. Salem Mohammed Salem Massaede. Jordanian	Law Licensee	Former Minister of Finance, Former Minister of Interior and Former Member of the Upper House.
H.E. Kamal Sami Salman Asfour. Jordanian	Bachelor of Commerce and Business Administration 1960 from the American Univ. of Beirut	Businessman and Board of Directors member/ Manager of a number of companies
H.E. Othman Ahmad Suleiman Ahmad. Representative of AlBaraka Banking Group Sudanese	Bachelor of Economics. Khartoum University 1965	Started his career in Elnilen Bank – Sudan until he became board of director chairman and General Manager of the bank. In 1988, he joined AlBaraka Co. for Investments and Development in Jeddah as Deputy General Manager for Banking Coordination. In 1995, he became an executive manager in AlBaraka Banking Group – Bahrain, then he became Vice Chief of the Group

Member's Name	Scientific Qualification	Practical Experience
H.E. Abdellatif Abdallah Abdelaziz AlRajhi. Saudi. Representative of AlBaraka Banking Group	MBA from the American University of Beirut in 2006 BA of Business Administration from the High Institute of Cooperative Studies in Cairo 1986	Regional Manager of AlRajhi Bank since 1996 and General supervisor in AlRajhi Co. for Industry and Commerce - AlKhat Presses. Also a member of the Board of Directors in AlSharqiah Agricultural Co.
H.E. Hamad Abdallah Ali Eqab. Bahraini. Representative of AlBaraka Banking Group	Bachelor of Accounting	14 years banking experience and financial manager in AlBaraka Banking Group
H.E. Haidar Issa Murad Jordanian	Bachelor of Economics	Former member of Amman Chamber of Industry and Commerce and Head of Amman Chamber of Commerce
H.E. Talal Fawzi Mahmoud AlSamhuri - Representative of the International Investment House Jordanian	MBA	Board of Directors member in a number of companies in Jordan and Palestine. He is also a financial manager of the Middle East and North Africa in the Global Investment House

Annex 2: Senior Management

Names of the Senior Management Members	Scientific Qualification	Practical Experience
Mr. Saleh Musa AlShantir <i>Deputy General Manager</i>	BA of Commerce/ Accounting 1967, Ain Shams Univ.	Joined the Central Bank of Jordan in 1967 and moved to the Jordan Islamic Bank in 1979. Currently Head or member of the Board of Directors/ Board of Directors of a number of companies.
Mr. Wael Mohammed Musa Barakat <i>Assistant General Manager</i>	Bachelor of Economics and Political Sciences in 1971	Started his banking career in 1974. In 1982, he moved to the Jordan Islamic Bank. In 2005, he was promoted to the position of Assistant General Manager in the Bank. He is currently a Board of Directors member in one of the public shareholding companies
Mr. Nabil Mostafa Hussein Asaad <i>Assistant General Manager</i>	Bachelor of Commerce in 1973, Ain Shams University. Licensed Accounts Auditor	Started his career in 1973 as accounts auditor. In 1974, he joined the banking venture and in 1982 he moved to the Jordan Islamic Bank. He currently occupies the position of Assistant General Manager / Board of Directors member in one of the companies.
Mr. "Mohammed Majed" Allan <i>Assistant General Manager</i>	Bachelor of Business Administration 1986 from the Arab University of Beirut Higher Diploma in Financial and Banking Sciences, 1978, Institute of Banking Studies, Amman	Joined the banking venture in 1974. In 1980, he joined Jordan Islamic Bank. He currently occupies the position of Assistant General Manager in the Bank and a Board of Directors member in one of the companies.
Mr. Omar Rebhi Jabari <i>Assistant General Manager</i>	Bachelor of Computer Sciences and Business Administration in 1981, Univ. of Livingston, USA	Started his career in 1982 in a Kuwaiti company and then in a Saudi company in 1986. In 1990 he joined one of the Jordanian banks. In 1993, he joined the computer office in the Jordan Islamic Bank. He is currently an Assistant General Manager for Computer Affairs and supervises the management of Fact Co. subsidiary to the Bank. He is also a board of directors member in more than one company

Names of the Senior Management Members	Scientific Qualification	Practical Experience
Dr. Hussein Said "Amar Saifan" <i>Assistant General Manager</i>	PhD. Islamic Banks – Arab Academy for Banking and Financial Sciences, 2006 Master of Financial and Banking Sciences/ Islamic Banks - Arab Academy for Banking and Financial Sciences, 1994 BA of Accounting/ Economics and Statistics. Univ. of Jordan, 1985	Joined the Bank in 1987 and currently occupies the position of Assistant General Manager and a Board of Directors member in more than one company
Mr. Rohi Hassan Ashour <i>Executive Manager</i>	Diploma in Commerce and Bureau Management	Joined work about 32 years ago. He currently occupies the position of Financing and Investment Manager in the Bank. He is a Board of Directors member in more than one company.
Mr. Saadi Abdelrahman Qattawi – Executive Manager	Bachelor of Accounting – Alexandria University, 1970	Joined the banking venture in 1970 and the Jordan Islamic Bank in 1992. He currently occupies the position of banking cards office manager in the bank and a Board of Directors member in one of the companies.
Mr. Baseem Musa Assi <i>Executive Manager</i>	Bachelor of Accounting – Suleimaniah University, 1980 Licensed Accounts Auditor (JCPA)	Worked as an external accounts auditor from 1980-2000-. He joined the Islamic Bank and currently assumes the position of Director of Internal and Sharia Audit and a Board of Directors member in more than one company.
Mr. Abdelkarim Ibrahim Mahmoud Wabbeh <i>Executive Manager</i>	High School Certificate, 1970	8 years banking experience. He joined the bank in 1982 and currently occupies of the position as a director of the Personnel Affairs and Administrative and training Affairs.
Mr. Mahmoud Mohammed Mahmoud Jarwan <i>Executive Manager</i>	English Language Diploma, 1973 Bachelor of Information Systems, 2005	Two and a half years of banking experience, joined the bank in 1983 and currently occupies the position of Manager of Follow-up and Credit Control Dept. since 1997
Mr. Hosni Abdelaziz Hussein Yahia <i>Executive Manager</i>	Bachelor of Economics, 1979 MA in Islamic Banking, 1995	Joined the Jordan Islamic bank on 23.06.1987 and currently occupies the position of Executive Manager in the Investment Dept.

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