البنك الإسلامي الأردني

الإدارة العامة

الرقـم : م.م ١١٩/تعاميم/١٩٤/٢٠١٨/ 33175
التاريخ : ٢٠١٨/١٠/٢١ م
الموافق : ١٢ / صفر / ١٤٤٠هـ

السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،

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

بالإشارة الى الموضوع أعلاه ، يسرنا أن نرفق لكم طيه نسخة من تقرير وخبر التصنيف الائتماني الخاص بمصرفنا والصادر عن الوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار تشرين اول ٢٠١٨.

بورصة عمان
الدائرة الإدارية والمالية
الديوان
٢٣ تشرين الأول ٢٠١٨
الرقم المتسلسل: ٤٧٧٧
رقم الملف: ١١٠١
الجهة المختصة: مكتب المدير التنفيذي

وتفضلوا بقبول فائق الاحترام،،،

المدير العام
موسى عبدالعزيز شحادة

المرفقات: نسخة من تقرير وخبر الوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار تشرين اول ٢٠١٨

ري/ ر ب

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٥٦٨٤٧٥٥ ٦ ٩٦٢+

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Reaffirms Credit Ratings on Jordan Islamic Bank

Manama, October 21, 2018 – The Islamic International Rating Agency (IIRA) has reaffirmed Jordan Islamic Bank's ("JIB" or "the Bank") credit ratings. On the national scale, JIB is rated A+(jo)/ A1(jo) (Single A Plus / A One). On the international scale, the foreign currency rating was reaffirmed at BB+/A3 (Double B Plus / A Three). Further, IIRA has maintained a 'Stable' outlook on the assigned ratings.

JIB is the largest Islamic bank in the Hashemite Kingdom of Jordan ("Jordan" or "the country") and is also the third largest of all banks in the overall banking sector. The bank's growth moderated in 2017, reflecting in part greater risk aversion in the backdrop of constrained market conditions, which were characterized by a persistent, though decreasing fiscal deficit, an increasing current account deficit and high indebtedness amidst regional political dynamics, global monetary tightening as well as high unemployment and inflation in the domestic market.

The impact of market conditions was further evident on the bank's asset quality. Despite posting an increase in non-performing financing, overall indicators remain superior by regional standards and reinforced by adequate reserves and provisions. Similarly, liquidity remains in surplus, buoyed by the bank's high franchise value.

Despite market conditions, JIB maintained its net income at the same level as of year 2016. However, this is not construed to be reflective of fundamental changes to the bank's business strategy or risk profile. IIRA expects earnings growth to recover with growth in business and normalization of prevailing economic conditions. The bank's capitalization remains strong given steady internal capital generation and measured growth in risk assets.

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

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Rating Report

Jordan Islamic Bank

October 2018

الوكالة الإسلامية الدولية للتصنيف

Islamic International Rating Agency

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

RATING REPORT

Jordan Islamic Bank

Report Date:
October 21, 2018

Analyst:
Alaa Alaabed, PhD

Credit Rating

	Latest Rating (October 21, 2018)	Previous Rating (November 14, 2017)
International Scale- FCY	BB+/A3	BB+/A3
National Scale	A+(jo)/A1(jo)	A+(jo)/A1(jo)
Outlook	Stable	Stable

Company Information

- **Incorporation year:** 1978
- **Listed on:** Amman Stock Exchange
- **External auditors:** Ernst & Young jointly with Ibrahim AlAbassi & Co.
- **Key Shareholders:** AlBaraka Banking Group
- **Chairman:** H.E. Mr. Adnan Ahmed Yousif Abdulmalek
- **Chief Executive Officer:** H.E. Mr. Musa Abdelaziz Shihadeh
- **Branches &banking offices at 2017 year-end:** 74 &26, respectively

CORPORATE PROFILE

Established in 1978, Jordan Islamic Bank ('JIB' or 'the bank') is one of the oldest Islamic banks in the world and the largest licensed Islamic bank in the Hashemite Kingdom of Jordan ('Jordan' or 'the Kingdom' or 'the country'). The bankcommands close to 55% of the local Islamic banking market, according to statistics by the Association of Banks in Jordan (2018). It is also the third largest of all banks in the Kingdom, representing 9.1% of the JD46.5b banking industry's asset base, rendering it systemically important for the stability of the domestic financial system and the economy as a whole.

JIB has posted continued growth over the years, buoyed by its strong franchise and market outreach. The bank's delivery network comprises 74 branches, 26 banking offices and 206 ATMs. The bank employs 2335 employees, as of December 31, 2017.

JIB clearly embodies the principles of Islamic banking in its vision and mission statements. The latter enshrines 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. JIBwas named the Best Islamic Bank in Jordan by a number of publications, including: The Banker, Global Finance and World Finance.

Sponsors' profile

JIB is majority-owned by Al Baraka Banking Group ("ABG" or "the ultimate parent" or "the group"), a leading international Islamic banking group withextensive geographical presence in 16 countries, including key Islamic finance markets of Bahrain, Pakistan, Turkey and Saudi Arabia. ABG's asset base stood at USD 25.4b as of Dec'17 and it posted consolidated net earnings of USD 207m for the year 2017. As of Dec'17, ABG had a consolidated network of 675 branches and a workforce of 12,795. JIB constitutes 23.2% of the Group's asset base and contributed ~37% of the Group's net profit for 2017.

RATING RATIONALE

Macroeconomic environment poses constraints........

Jordan, as an economy, features steady GDP growth and a strong institutional framework compared with regional peers.However, twin deficits with a persistent though decreasing fiscal deficit and an increasing current account deficit have adversely impacted overall indebtedness with total debt to GDP being 96.1%. Moreover, regional political dynamics,global monetary tightening as well as high unemployment and presence of refugees, remain key challenges for the economy.

Implied support evident given systemic importance and contribution to the group.......

Though not likely to be needed, the probability of support from the Jordanian sovereign is noteworthy given the scale of the bank which renders it systemically significant. Support from the bank's main shareholder, Al Baraka Banking Group, is also implied. JIB is the second largest subsidiary of ABG - one of the most prominent Islamic banking groups in the world.

Slowdown in business growth; asset quality remains sound.......

The banking industry growth in Jordan slackened in 2017. In the backdrop of market conditions, JIB experienced a slowdown in business growth levels. While asset quality has remained sound, the bank posted an increase in non-performing financing translating into a higher gross non-performance ratio.On a net basis, asset quality impairments are nil given adequate reserves and provisions.

Surplus liquidity and strong local market access.......

Liquidity available to the bank has remained in surplus with sizable cash balances, a significant part of which is held as non-remunerative balances. Moreover the bank has strong access in both retail and corporate markets and high franchise value, which assures steady generation of fresh liquidity. As indicated by standard liquidity tests, the bank maintains a strong liquidity profile.

Adequate internal capital generation vis-à-vis growth in risk assets..........

Drawing on internal capital generation, the bank's capital base indicates surplus buffer over and above regulatory requirements.The bank has been deleveraging on a time-line basis. We expect capitalization levels to remain sufficient given steady internal capital generation and measured growth in risk assets.

Sound profitability though lower core profits in 2017........

Net income slightly increased in absoluteterms but return indicators fellslightly on a timeline, driven by lower revenues from business, narrower margins and gradual expansion of the expense base. However, this is not reflective of fundamental changes to the bank's business strategy or risk profile. We expect earningsgrowth to recover with growth in business that reflected a degree of caution in 2017, in the backdrop of the prevailing economic conditions.

ECONOMIC OVERVIEW

Jordan is a small Arab country of nearly 10 million people. It isbordered to the north by Syria, to the east by Iraq, to the southeast and south by the Kingdom of Saudi Arabia, and to the west by Israel and the West Bank.Geography has dictated thelower-middle-income country's political and economic conditions ever since it was founded.

Many of the challenges facing Jordan's economy are external factors over which the country has little control such as regional tensions and interruptions to trade routes and tourism receipts. Nevertheless, Jordan has performed relatively well to maintain its GDP growth in real terms at 2.0% during 2017 with a GDP of USD 40.1b (2016: 2.0%) which grew further at 1.9% during Q1 2018. The country thrives on foreign trade, mineral resources[1] and tourism.Other major GDP contributing sectors included finance and insurance services, transport, storage and communications, agriculture and manufacturing.Collectively these sectors contributed around 70% of real GDP growth during 2017. A security and military cooperation signed with Iraq on August 5, 2018 should be a positive sign for Jordan's economy as it marked resumption oftrade between the two sides.Jordan has also pushed forward with reforms that will make the economy more robust in the longer term. Jordan 2025, aten-year socio-economic blueprint, and the Jordan Economic Growth Plan 2018-22[2] focus on renewable energy, ICT, manufacturing and tourism as key drivers for economic growth and social development.

Economically, Jordan's strategic location allows access to over one billion consumers in neighboring markets. Access is facilitated bya modern transportation system and strong communication networks.Furthermore, Jordan's bilateral and regional trade agreements enhance the competitiveness of its exports in partner markets, and add to its attractiveness as an investment destination. Agreements include 55 Bilateral Investment Treaties, 27 Double Taxation agreements and eight Free Trade Agreements.Jordan's top exports in 2017 included potash, textiles, pharmaceuticals, phosphates, vegetables and fertilizers. Its main imports included petroleum, fabrics, manufactured goods, iron, cereals and machinery.One caveat to the substantial cross-border transactions is the increasedsusceptibility to systemic and contagion risk from abroad.

Despite one of the most highly qualified workforces in the region,Jordan has been facing high unemployment rate which increased further to an average 18.3% during 2017 from 15.3% in 2016 with a significant higher unemployment rate for females. Youth unemployment rate remained highest at 45.4% and 36.4% for 15-19 years and 20-24 years categories respectively. A major reason behind increased unemployment rate issubdued economic growth which resulted in an increasing supply-demand gap between newly passed graduates and available jobs in the market. Informal

[1] Jordan's Arab Potash Company (APC) is the eighth largest producer of potash worldwide.Jordanian potash is extract from the Dead Sea.

[2] The plan was devised by the Economic Policies Council, an independent 15-member council chaired by King Abdullah II that was created in 2016 and comprises a mix of public and private sector representatives. The plan aims to triple the growth rate to 6.5% in 2021 and reach 7.5% in 2025 via a broad range of reforms and incentives affecting all sectors of the economy.

employment of refugees is also straining the job market. Work permits issued to Syrian refugees in Jordan increased from 4000 to 40,000 during 2016[3].

Inflation increased to 4.1% during January – May 2018 vis-à-vis 3.7% during the same period last year owing to increase in oil prices and sales tax. Against the backdrop of increasing inflation and interest rates globally, Central Bank of Jordan's (CBJ) Open Market Operations Committee increased all interest rates on monetary policy by 25 basis points during March 2018. Further, Central Bank of Jordan increased its overnight deposit window rate by 25 basis points to 3.25%. CBJ's main rate is currently at 4.25% in May 2018 while rediscount rate is at 5.25%. As a positive development, CBJ kept its refinancing rates unchanged at prior levels for targeted priority and productive sectors including Small and Medium Enterprises (SMEs), in the sectors of; Manufacturing, Tourism, Agriculture, Renewable Energy, Engineering Consultants and Information Technology to ensure continuous growth in these priority sectors.

Jordan has been effectively working towards fiscal consolidation, as efforts to fulfill the stipulations of USD723m extended fund facility agreement with the International Monetary Fund continue. Fiscal deficit has been shrinking since 2015 coming down to JD -747.9m or -2.6% of GDP during 2017 (2016: JD -878.6m or -3.2% of GDP). Despite Jordan's continuous efforts to increase its tax base, tax revenues grew moderately by 2.0% during 2017 with 3.8% growth in general sales tax which constitutes a hefty 69% of total tax revenues. Non-tax revenues with a share of around 35% in total domestic revenues registered a strong growth of 20.3% during 2017. On the expenditure front, public expenditure grew by 2.8% during 2017 reaching JD8.1b due to increase in current expenditure during the period. Almost all sub-components of current expenditure including compensation of employees, interest payments, subsidies, social benefits and military expenditures increased during 2017.

Following the trend, Jordan's current account deficit has further widened to JD3.0b or 10.6% of GDP during 2017 (2016: JD2.6b or 9.5% of GDP). Due to regional crisis, Jordan's exports have been declining significantly with declines in exports to its key trade partners including Iraq, UAE, Qatar and Kuwait. Commodity total exports declined moderately by 0.5% reaching JD5.3b during 2017 (2016: JD5.3b). Total commodity imports grew by 6.2% to JD 14.5b during 2017, driven chiefly by higher oil prices, thus creating an increased trade balance deficit of JD -9.2b or 32.3% of GDP during 2017 (2016: JD8.3b or 30.3% of GDP).

Twin deficits in both fiscal and current accounts have caused significant rise in public debt with gross public debt reaching JD27.9m or 96.1% of GDP as at end June 2018.Net outstanding domestic debt reached JD15.0b or 51.6% of GDP as at end June 2018 with a significant portion of Public sector entities including National Electric Company (NEPCO) and Water Authority (WAJ) which stood at JD 7.3b or 26% of Jordan's total debt. Outstanding external public debt[4] stood at JD11.6b as at end June 2018, which is sufficiently covered by its reserves with a 67.8%[5] debt coverage ratio.Public debt could rise further if efforts to propel domestic revenue fail and the government needs to borrow to

[3] Source: World Employment Social Outlook – Trends 2018 published by International Labour Organisation.
[4] Including government and government guaranteed debt
[5] Ratio is calculated using reserves as numerator and external debt as denominator.

cover further fiscal deficits.Despite the country's successful national public-private partnership (PPP) program,large financing needs have often been met through international funds.

Jordan has a strong institutional framework compared with regional peers.However, regional political dynamics, increasing current account deficit owing to rising trade deficit, global monetary tightening as well as high unemployment and presence of refugees remain key challenges for the economy.

FINANCIAL SECTOR OVERVIEW

Jordan's financial sector represents 20% of the GDP and is dominated by highly capitalised 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 will impose an additional capital charge for domestic systemically important banks (D-SIBs)to further reduce system-wide risks; however CBJ has not yet announced the names of these institutions[6].Planned amendments of the Deposit Insurance Corporation law were expected to create a more robust bank recovery and resolution framework.

Total deposits in Jordan's licensed banks stood at JD33.9b at end-May 2018 with around 77% of deposits denominated in Jordanian Dinar while remaining in foreign currency.With a financial inclusion rate of only around 25%, the 2025 national development plan includes measures to increase access to finance for small and medium businesses, as well as improved facilities for microfinance.Against this backdrop, the country's first credit bureau was established in 2015, by Italy's CRIF.CBJ has also increased loan guarantees for SMEs and entrepreneurs through the restructuring of the Jordan Loan Guarantee Corporation, and increased funds available to them through the provision of CBJ funding programmes in certain industries and the establishment of a fund to support SME start-ups in partnership with the World Bank.

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 16.6% of total banking assets as of 2017 year-end (2016: 16.1%). Growth followed a moderate increase in Islamic banking asset baseof almost 4.0%, which exceeded growth in the overall banking sector (2.2%).

Profitability in Islamic banks has also improved, with higher ROAs of 1.13% in 2017, compared to a more stagnant industry-wide average of 1.04%. Islamic banks' cost-to-income ratioshave been consistent, averaging 51.1%over the same period.

The Islamic banking industry's financing-to-deposit (FDR) was reported at 76.5% as of 1H2017.Only 5% of total Islamic financings are denominated in foreign currency. Whereas funding in foreign currency-denominated funds account for 9.8% of total Islamic banks' funding, on average.Islamic bankshave carefully managed their foreign currency denominated financing-to-funding ratio (FFR). FFR stood at 50.8%, as of 1H2017 reflecting a fair utilization of foreign currency funding to support foreign currency financing transactions.

[6] However, the CBJ gave banks some indicators to determine the D-SIB banks.

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 overall volume of sovereign issuances in 2017.

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.

FINANCIAL PROFILE

Asset Composition

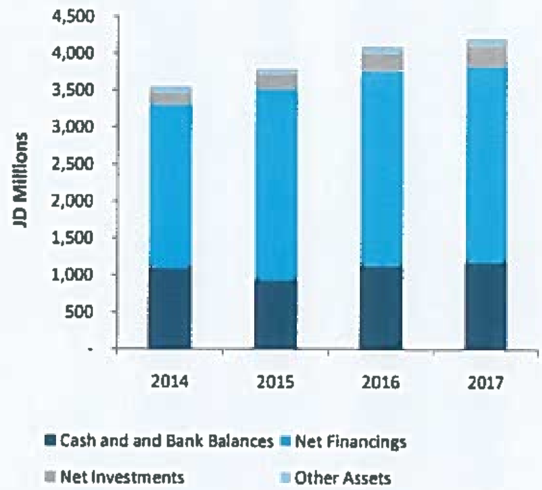
Against the backdrop of the general economic environment and the slow pace of growth in the financial services sector, JIB's asset base continued its gradual expansion at a rate of 2.7% in 2017, closing the year at JD4,212m (2016:JD4,100m). While this is better than an industry-wide growth rate of 2.08% (ABJ, 2018), it lags the growth of Islamic banks during the same period, which averaged 3.91%, albeit from a smaller base[7] (ABJ, 2018).

Table 1: Asset Composition

	2014	2015	2016	2017
Cash & Bank Balances	1,085	925	1,122	1,180
% Growth	18.5%	-14.7%	21.3%	5.2%
Net Financings	2,213	2,588	2,640	2,643
% Growth	4.1%	16.9%	2.0%	0.1%
Net Investments	176	205	246	290
% Growth	7.3%	16.4%	20.1%	17.6%
Other Assets	81	81	91	99
% Growth	6.0%	0.8%	12.0%	8.5%
Total Assets	3,555	3,799	4,100	4,212
% Growth	8.3%	6.9%	7.9%	2.7%

The share of earning assets evidences a slight downward trend (2017: 70.8%; 2016: 71.4%) as growth in cash and cash equivalents outpaced growth in the business portfolio, accounting for 28.0% of total assets at 2017 year-end, compared to 27.4% the previous year (2017: JD1,180m; 2016:JD1,122m).Concurrently, net financings, accounted for 62.8% of total assets, down from 64.4% at 2016 year-end, following growth of only 0.1% during the year and significantly trailing the industry. This is attributable to reallocation in the portfolio through the year with lower exposures in public sector and despite healthy growth in other key segments and is reflective of the bank's cautious stance.

Figure 1: Asset Mix



With limited investment options, the investment portfolio has remained small in relation to the bank's asset base, despite marked growth over the years and 17.6% growth in 2017. Its share of total assets resultantly increased from 6.0% at 2016 year-end to 6.9% at 2017 year-end.

Investments managed off balance sheet were equivalent to 10.8% of assets as of 2017 year-end. They mainly consisted of assets funded withAl Wakala Bi Al Istithmar Investment Portfolios and restricted investment accounts.Other contingencies and commitments, including letters of credit and bank acceptances accounted for a further 6.5% of assets.

The bank developed and updated its five years' strategy for 2018-2022 during 2017.

[7] Al Rajhi bank experienced the highest growth at 13.77%.

Financing Portfolio

Extending the slowdown in prior year, JIB's financing portfolio did not post much growth in 2017. The low growth is attributable to a 12.6% decline in the bank's exposure to the government and public sector entities while continuing to expand retail and corporate financings.Gross financings[8] stood at JD2,720m as at 2017 year-end, recording a growth of 0.2% y-o-y (2016: JD2,714m). Net financings[9] also posted 0.1% increase over the same period, amounting to JD2,652m at 2017 year-end (2016: 2.1%), and lagging aggregate industry average growth of 8.4% and Islamic banking industry average growth of 6.4%. Notwithstanding this, the growth in net financing excluding government financing is 3.8%). The slow growth in JIB is driven by a more cautious stance in undertaking financing exposures amidst a difficult business environment.

On a time-line basis, exposure to the government and public sector entities declined from 31.7% in 2015 to 21.7% at 2016 year-end and 19.0% more recently at 2017 year-end. Notwithstanding this, the National Electricity Petroleum Company (NEPCO) remains JIB's largest exposure at 19.2% of gross financings (JD521m), which corresponds to 1.4x the bank's equity as at 2017 year-end (2016: 1.7x). The exposure is lower than the JD594m outstanding at 2016 year-end, despite a JD130m Murabaha agreement in April 2017 to finance the company's needs of petroleum derivatives and liquefied gas, which was also guaranteedby the government. The exposure may increase in the ongoing year, as JIB signed an additional JD200m financing agreement with NEPCOin May 2018 to finance the same. While government guarantee reduces NEPCO's credit risk, concentration and event risk remain high given the quantum of the exposure. NEPCO is by far the largest of JIB's outstanding exposures. The top 20 exposures account for 28.3% of total gross financing in 2017. Excluding NEPCO's exposure, JIB's financing portfolio is adequately diversified with the top nineteen largest funded exposures accounting for 9.2% of gross financings, as of 2017 year-end.

JIB's key financing segment – retail financing - continued to experience healthy growth buoyed by the bank's strong domestic franchise, albeit at a substantially lower momentum when compared to its 5-year average growth rate of 11.6%. In 2017, retail financings' dominant share further increased to 62.3% of gross financings reaching JD1,831m by year-end(2016: 60.3%; JD1,773m). The bank's high exposure to households increases its vulnerability to economic fundamentals such as increasing policy rates,which in addition to inflation and increasing unemployment are likely to pressure households' repayment ability. The threat is increasing, particularly after the Federal Reserve signaled more hikes in 2018 and 2019 on 24 August 2018, which is likely to result in correspondingrate increases by the CBJ in order to maintain JD's peg to USD. Indeed, the slowdown in retail financing growth momentum may be partially attributed to caution called for, in the increasing rate environment.

On a more positive note, recoveries in exports and mining, as well as double-digit growth in tourism and economic growth, in general, lifted the bank's corporate sector exposureto a share of 13.6% of gross financings (2016: 12.9%), following an increase of 5.4% y-o-y. Sector-wise, trade accounts for 13.2% of JIB's financing portfolio, while construction & housing and transportation services account for 39.3% and 18.0% respectively. 9 of JIB's top 20 exposures operate in the trade sector. In terms of

[8] Excluding Qard Hasan and including deferred sales, Ijara Muntahia Bittamleek and Musharaka financings.

[9] Net of impairment provision, deferred and suspended revenues, and before collaterals and other risk mitigation factors.

growth, financings to tourism, hotels & restaurants industry grew by 20.5% in 2017, albeit from a low base. Growth was also registered in the agriculture and industry and mining segments, which were up 12.0% and 18.3% respectively in 2017.

In spite of measures to increase access to finance at the national level as part of the 2025 national development plan, financing to small and medium-sized enterprises (SMEs) was almost flat in 2017 at JD143m (2016: JD141m). This includes direct financing and financing through agreements signed with the CBJ or Jordan Loan Guarantee Corporation (JLGC), which collectively contributed 5.1% of gross financings in 2017 (2016: 5.1%). However, SMEs financing may catch up with the government aspirations to increase investment in this burgeoning sector of the economy, which represent 98% of all businesses in the country, according to the Organisation for Economic Co-operation and Development (OECD). In fact, JIB signed another agreement with JLGC in March 2018 to finance small and medium-sized economic projects in sectors targeted by the European Union (IGADA) program. Under this agreement, JIB agreed to provide the necessary financing for qualifying applicants of up to JD550k with repayment scheduled over 3 to 8 years. Moving forward, the bank targets expanding individuals' financing and SMEs projects financing and continuingto finance the government needs, as opportunities arise.

Only 2.8% of the bank'total financing portfoliois denominated in foreign currency, having fallen from 4.3% at 2016 year-end. This corresponds to 20.2% of total owners' equity, keeping foreign currency risk at bay.

Investments

The size and composition of JIB's investment portfolio has, hitherto, been limited by the absence of Shari'a compliant investment opportunities. At JD290m, net investments accounted for 6.9% of 2017 year-end balance sheet (2016: 6.0%), the majority of which is in the real estate sector (41.5%). However, investments in Sukuk have been gaining traction, with its share of investments increasing from 21.4% at 2016 year-end to 26.8% at 2017 year-end. Qualitatively, the bank's sukuk portfolio features mostly government or government guaranteed Sukuk that is denominated in local currency. The share of equity investments, on the other hand, continued its downward trend, representing 9.9% of the overall portfolio as of 2017 year-end.The rest of the portfolio, comprising mostly of investment accounts at banks and banking institutions, increased by22.6%.

Table 2: JIB's Investments

	2014	2015	2016	2017
Quoted Equities	23.3	23.3	25.1	24.5
Unqouted Equities	3.8	3.3	3.4	4.2
Quoted Sukuk	-	10.0	10.5	9.9
Unquoted Sukuk	4.6	4.6	42.4	67.7
Investment accounts at Banks and Banking Institutions[10]	20.2	20.9	28.7	35.2
Islamic banks portfolio	7.2	6.8	4.4	3.0
Al Wakala Bi Al Istithmar (investment portfolio)[11]	8.8	13.2	14.1	18.6
Investment in affiliates	15.6	15.1	7.7	8.4
Real Estate	92.8	108.0	110.2	120.2

Asset Quality

The impact of market conditionson the financings'asset quality was evident in relative terms in 2017;as challenges in the operating environment weighed on customers' credit profiles. Gross non-performing financings (NPFs) increased by7.3% during the year from JD 88.1m at 2016 year-end to

[10]Including unrestricted investment accounts maturing within 3 months.
[11]Muqarada bonds prior to 2017.

JD 94.8m[12]. This translated to a gross NPF ratio of 3.2% (2016: 3.0%), considered superior in the regional industry context. Three of the new non-performances in 2017 featured among the bank's top 20 NPFs. The exposuresemanated from the disrupted trade and manufacturing sectors and were secured by real estate and machinery. Retail sector[13] stress contributed nearly 63% of gross NPFs.

The bank follows conservative credit risk management and strict provisioning. Therefore, a general improvement in the net NPF ratio is observable on a timeline basis, after accounting for impairment provisions, as illustrated in Table 3. Net NPFs stood at -0.5% at 2017 year-end (2016: 0.4%-). NPFs, net of provision to equity, inched slightly higher at 3.4% at 2017 year-end (2016: 2.9%). Total provisions, including investment risk fund, provided cumulative coverage in excess of the quantum of classified accounts in the last four years. Impairment provisions accounted for 69.0% of total provisions against financings in 2017.

Nevertheless, JIB's asset quality metrics remain sound. The banksecures its credit exposures using a myriad of risk mitigation techniques, including real estate collaterals and Jordan Loan Guarantee Corporation (JLGC)forSME and corporate financings and direct salary transfers for retail exposures. Other risk mitigants include cash margins,bank guarantees and Mutual Insurance Fund. That said, rising policy rate, inflation and increasing unemployment, continue to restrict improvement in asset quality.

Given its high levels of reserve coverage, JIB is unlikely to face difficulties to meet requirements of AAIOFI's Financial Accounting Standard 30. The standard, which will be effective for accounting periods beginning on or after 1 January 2020, specifies the accounting treatment of impairment and credit losses for financingand investments and onerous commitments in Islamic financial institutions.

Table 3: Asset Quality Indicators

In JD'000s/%	2014	2015	2016	2017
Gross Non-Performing Financing (NPF)	87,585	94,282	88,084	94,758
Net NPF[14]	13,580	13,384	10,090	12,880
Gross NPF % Gross Financings	3.5%	3.2%	3.0%	3.2%
Net NPFs % Net Financings	0.6%	0.5%	0.4%	0.5%
Net NPFs % Total Equity	4.8%	4.3%	2.9%	3.4%
Total Provisions Against Financing[15]	91,256	100,806	107,614	117,155
Provision Coverage Ratio	104.2%	106.9%	122.2%	125.1%

[12] Net of suspended revenues.

[13] Includes Ijarah Muntahia Bittamleek and real estate financings.

[14] Net of impairment provisions only.

[15] Including investment risk fund.

Funding and Liquidity

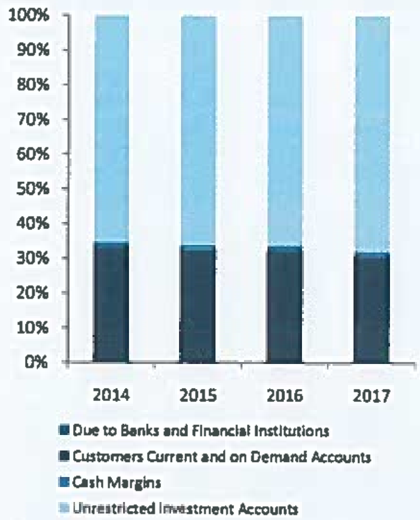
After having outperformed peers in 2016 in terms of deposit growth rate (7.7% vis-à-vis an aggregate average growth rate of 0.9%), slowdown in JIB's deposit growth in 2017 indicates convergence with long-term trends. The bank's funding base expanded by 1.9% in 2017, closing the year at JD3,716m, compared to an industry-wide growth of 0.9%. Growth was observed in all funding sources, albeit at varying degrees. Retail deposits grew the least at 0.6% while deposits from corporates grew the most at 28.1% due to small-scale effect. Growing at 14.9%, SMEs deposits contributed 57.7% of theincremental growth in funding during the year, representing 8.4% of total deposits. Deposits from financial institutions and the government grew by 13.0% and 3.6% respectively. The continued diversification in deposit sources is a positive trend.

JIB's market share inched up to 10.8% of total industry deposits asat 2017 year-end (2016: 10.5%). Stability remains an overarching characteristic in JIB's funding profile. Retail deposits are the main source of funding, accounting for 88.2% of total deposits in 2017 (2016: 89.4%). On the other hand, short-term market funding is limited to 0.1% of total funding (2016: 0.1%)

Table 4: Funding Sources

	2014	2015	2016	2017
Retail	2,856	3,059	3,259	3,279
Corporate	25	20	20	26
SME	235	252	271	311
Government	55	47	87	90
Financial Institutions	10	9	9	11
Total Deposits	3,181	3,385	3,646	3,716

Figure 2: Funding Base



JIB relies primarily on domestic sources of funding. Foreign currency-denominated deposits comprised 7.8% of total funding at 2017 year-end. Limited reliance on foreign funds is viewed favorably as a mitigant against external risk to the economy.

JIB has a sound liquidity position with liquid assetstofunding ratio of 33.6%.This was up from 32.5% in 2016, partly on account of lower financing growth.Liquid assets stood at JD 1,249m as at 2017 year-end (2016: JD 1,186m), and comprised mostly high quality assets including deposits with banks, cash balances, Sukuk and listed shares.The bulk of liquid assets is non-remunerative and isplaced as cash balances and reserves with the CBJ (91.2% of liquid assets and 27.0% of total assets). The assets and liabilities maturity profile of the bank at the end of 2017 indicates a strong liquidity margin. JIB's liquidity coverage ratio and net stable funding ratio stood at 350% and 190% respectively, indicating the availability of surplus liquidity buffers.

Capitalization

JIB's net equity position has been steadily trending upward. It stood at JD375m as of 2017 year-end (2016: JD 343m). Growth has been achieved through internalcapital generation, as the bank has had no external capital injection since 2007. The recent increase in paid up capital was on account of a bonus issueequivalent to 20% of paid-up capital, which increased from JD150m to JD180m. The bank maintained dividend rate at 15% of paid up capital over the past three years.

Table 5: Capitalization Indicators

in JD'm unless stated otherwise	2014	2015	2016	2017
Net Shareholders' Equity	282	311	343	375
- **Paid-up Capital**	*150*	*150*	*150*	*180*
- **Retained Earnings**	*71*	*86*	*100*	*86*
- **Reserves**	*61*	*76*	*93*	*109*
Dividend Rate (% Paid-up capital)	13.0%	15.0%	15.0%	15.0%
Equity to Total Assets	7.9%	8.2%	8.4%	9.1%
Leverage Ratio	12.6x	12.2x	12.0x	11.0x
Internal Growth Rate of Capital	9.1%	8.4%	9.2%	7.2%
CAR[16]	21.0%	21.1%	22.0%	23.0%

The bank is required to maintaina capital adequacy ratio of at least 12% as per CBJ instructions. However, the bank maintains significant buffers in excess of the regulatory minimum requirement, which have been increasing on a time-line basis. With growth in total regulatory capital outpacing that of risk-weighted assets in the year under review, CAR inched upward to 23.0%[17] as of December 2017.

Overall, JIB's capital levels are sound, and combined with strong provisioning, offer adequateloss-absorbing buffer.The bank has been deleveraging on a time-line basis, as illustrated in Table 5. The riskof adverse asset quality changes are mitigated by the bank's limited aggregate net exposure to single counterparties, barring government-guaranteed NEPCO. The largest 19funded exposures were 0.7x its equity of as of December 2017.

Profitability

JIB's profitability fell marginally to the pressure of low financing growth,higher operating costs and squeezing spreads in 2017 with operating profit before provision and tax declining from JD103.5m in 2016 to JD100.0m in 2017 (-3.4%[18]), as illustrated in Table 6.Notwithstanding this, profit after tax was marginally higher at JD54.1m (2016: JD54.0m; +0.2%), due to increase in tax-shield revenues and lower income tax as a result.Accordingly returns on equity and assets were adversely affected in the past year. While the trend in profitability is contradictory to the general industry trends, whereby institutions have generally posted improving earnings, it is reflective of JIB's cautious growth in the present scenario and is not directly attributable to fundamental changes in the institution's strategy or risk profile.

Total Income from Financing and Investments, before distribution of profit to account holders, were JD194m as of 2017 year-end, down 3.3% from JD201m at 2016 year-endon account of lower average margin on financings. This is despite the rate hikes by CBJ, which led to an increase in

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[16] The bank computes the capital adequacy ratio in accordance with CBJ's instructions based on the Islamic Financial Services Board (IFSB) standards.
[17]CAR is calculated based onIFSB standardadapted from Central Bank of Jordan, applying an alpha of 30%.
[18]Islamic Banking industry's pre-tax profits growth rate was 5.4% over the same period. Overall banking industry's pre-tax profits growth rate was 5.0%.

prevailingmarket rate. On the other hand, the cost of non-shareholders' fundsremained almost constant at 1.5%, causing net spreads to decline from 5.6% to 5.3%.JIB's share of the joint investment accounts revenues as Mudarib and Rab-bul Mal declined in 2017. However, its share as Mudarib and Wakeel of restricted investment accounts increased significantly. Commissionsand other income also posted positive growth during the year.

The bank's operating expenses increased by 3.5% in 2017 to JD 65.8m (2016: JD 63.5m) against the backdrop of continued growth in the scale of operations and delivery network.The bank opened three new banking offices during 2017.The number of the Bank's staff reached 2335 at 2017 year-end (+4.4% y-o-y).Overall, the bank's operating efficiency came under further pressure in 2017, trending upwardon a timeline basis.

Notwithstanding the fall in 2017, JIB's profitability remains good, with operating profit before provision and tax covering 3.7% of its gross financing in 2017, which provides an extra cushion against any potential increase in NPFs without hurting capital.Going forward, an expansion of investment opportunities by way of increased Sukuk issuances or resumed growth in the financing portfolio, can result in a better-yielding assets mix; improving profitability and mobilizing a portion of largely non-remunerative liquid assets.

Table 6: Profitability Indicators

In JD '000s/%	2014	2015	2016	2017
Total Income from Financing and Investments	169,711	180,074	200,963	194,427
Return to URIAs	50,696	50,492	55,325	56,717
Net Margin Income	119,015	129,582	145,639	137,710
Commissions and Other Income	19,590	21,919	22,023	23,569
Income from RIAs Management	2,181	813	1,731	4,823
Operating Expenses	52,008	59,293	63,543	65,782
Operating Profit Before Provision and Tax	88,929	92,424	103,542	100,062
Share of Investment Risk Fund	24,957	17,739	19,795	19,123
Net Income for the Year	45,129	48,720	54,019	54,139
ROAA (%)	1.32%	1.33%	1.37%	1.30%
ROAE (%)	16.79%	16.42%	16.52%	15.09%
Spread	5.81%	5.65%	5.59%	5.37%
- Return on Mark-up-bearing Earning Assets	7.45%	7.17%	7.15%	6.9%
- Cost of non-shareholders fund	1.64%	1.52%	1.56%	1.53%
Efficiency Ratio[19]	33.21%	33.34%	33.47%	35.10%

[19] Adjusted for depreciation and amortization expenses.

IIRA Rating Scales & Definitions

Ratings on International Scale

Foreign Currency Ratings

The foreign currency ratings by IIRA measure the ability of the rated entities to service their foreign currency obligations. These ratings incorporate all the sovereign risks of a country, including the risk of converting local currency to foreign currency.

Local Currency Ratings

The local currency ratings by IIRA measure the ability of the rated entities to service their local currency obligations. These ratings incorporate all the sovereign risks of a country, except the risk of converting local currency to foreign currency.

Ratings on National Scale

The national scale local currency ratings assigned by IIRA are tiered against an assumed local government rating of 'AAA' and, therefore, do not incorporate all the sovereign risks of a country.

Issue/Issuer Rating Scale & Definitions

Medium to Long Term

IIRA uses a scale of AAA to D to rate credit worthiness of the issuer and long term issues, with AAA being the highest possible rating and D being the lowest possible rating.

AAA: Highest credit quality. Represent the least credit risk.

AA : High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A : Good credit quality. Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB : Adequate credit quality. Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB : Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B : Obligations deemed likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC : Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC : A high default risk

C : A very high default risk

D: Defaulted obligations

Note: IIRA appends modifiers + or - to each generic rating classification from AA through B. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier - indicates a ranking in the lower end of that generic rating category.

Rating Outlook : The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of rating change.

Rating Watch-list : IIRA places entities and issues on 'Watch-list' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). A 'Watch-list' announcement means that the status of the assigned rating(s) is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

Short Term

IIRA uses a scale of A1+ to C to rate credit worthiness of the issuer and its short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+ : Highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative source of funds, is outstanding and safety is just below risk free short-term obligations.

A1 : High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A2 : Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A3 : Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B : Speculative investment characteristics. Liquidity may not be sufficient to ensure timely payment of obligations.

C : Capacity for timely payment of obligations is doubtful.

Fiduciary Rating Score

(91-100) – Very Strong Fiduciary Standards
(91-93), (94-97), (98-100)*
Rights of various stakeholders are well protected and the overall governance framework is strong.

(76-90) – Strong Fiduciary Standards
(76-80), (81-85), (86-90)*
Rights of various stakeholders are protected. Minor weaknesses have been identified in the overall governance framework.

(61-75) – Adequate Fiduciary Standards
(61-65), (66-70), (71-75)*
Rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

(40-60) – Basic Fiduciary Standards
(40-46), (47-53), (54-60)*
Rights of various stakeholders are relatively vulnerable. Significant weaknesses have been identified in the overall governance framework.

(Less than 40) – Low Fiduciary standards
Rights of various stakeholders are at high risk and the overall governance framework is weak.

**Apart from the lowest score range, all score ranges have been split into three sub-divisions for further clarity*

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