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التاريخ : ٢٠١٧/١١/١٦ م

الموافق : ٢٧ / صفر / ١٤٣٩ هـ

السادة بورصة عمان المحترمين ،،
عمان - الأردن

السلام عليكم ورحمة الله وبركاته،،

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

بالإشارة إلى الموضوع أعلاه ، يسرنا أن نرفق لكم طيه نسخة من التصنيف الائتماني الخاص
بمصرفنا والصادر عن الوكالة الاسلامية الدولية للتصنيف إصدار تشرين ثاني ٢٠١٧.

وتفضلوا بقبول فائق الاحترام،،،

محمد علان
نائب المدير العام

المرفقات: نسخة من تصنيف IIRA

HJ/RB

بورصة عمان
الدائرة الإدارية والمالية
السيد/ان
١٦ تشرين الثاني ٢٠١٧
الرقم المتسلسل: ٥٢٩٥
رقم الملف: ١١١١
الجهة المختصة: المدير العام

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Rating Report
Jordan Islamic Bank
November 2017



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency
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الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

RATING REPORT

Jordan Islamic Bank

Report Date:

November 14, 2017

Analyst:

Farah Parveen Khan

Credit Rating

	Latest Rating (November 14, 2017)	Previous Rating (November 03, 2016)
International Scale- LCY	BBB-/A3	BBB-/A3
International Scale- FCY	BB+/A3	BB+/A3
National Scale	A+(jo)/A1(jo)	A+(jo)/A1(jo)
Outlook	Stable	Stable

Company Information

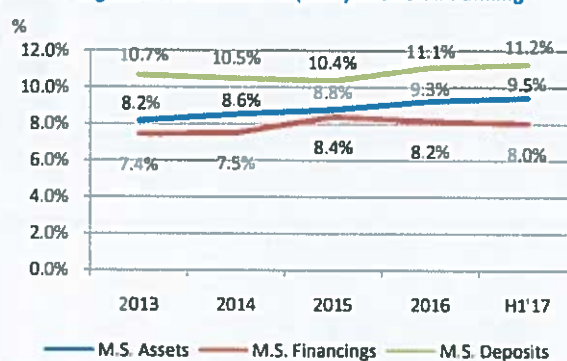
- **Incorporation year:** 1978
- **Sector:** Islamic Banking
- **Listed on:** Amman Stock Exchange
- **External auditors:** Ernst & Young jointly with Ibrahim Al-Abassi & Co.
- **Major Shareholding:** Albaraka Banking Group
- **Chairman:** H.E. Mr. Adnan Ahmed Yousif Abdulmalek
- **Chief Executive Officer:** H.E. Mr. Musa Abdelaziz Shihadeh
- **Branches & cash offices at end June 2017:** 74 & 26, respectively

CORPORATE PROFILE

Operating as one of the four Islamic banks in the Hashemite Kingdom of Jordan ("Jordan" or "the Kingdom" or "the country"), Jordan Islamic Bank ("JIB" or "the bank") leads the domain by representing more than half of the sector's deposit

and asset base¹. JIB has been operating under the Shari'a principles since inception in 1978. The bank is a publicly listed entity on Amman Stock Exchange. JIB is the second largest subsidiary of Al Baraka Banking Group ("ABG" or "the ultimate parent" or "the group") - one of the most prominent Islamic banking groups in the world. The bank enjoys good market position in the overall banking sector, as shown in Figure 1, while also ranking third in the system in terms of total assets and deposits². Under its 3-year medium-term strategy ending 2018, JIB

Figure 1: Market Share (M.S.) in Overall Banking



(Source: Central Bank of Jordan; Bank financials; Deposits including restricted investment accounts and due to banks)

envisages to continue to increase its market share. While growth in the overall banking sector assets and deposits moderated to 3% and 1% (2015: 5%; 8%), respectively during 2016, JIB grew at 8% in each segment. On the other hand, financings showed signs of slowdown at 2% increase after posting a sharp 17% escalation in the previous year, as the banks remain cautious towards corporate sector lending across the industry, owing to regional security challenges. As such, risk aversion seems to have deepened further in the banking sector beginning 2017, leading to a slight decline in JIB's financings during Q1'17 compared to end-2016, following which we witnessed some recovery at Q2'17. For full year 2017, the bank expects to grow its balance sheet footing at mid-single digit percent.

While expansion in JIB delivery network continued during 2016; it fell marginally short of its previous expectations of reaching 100 branches and cash offices. JIB operates with 98 domestic branches and cash offices as at end-June 2017 (2016: 97; 2015: 93), targeting to reach 105 by end 2017. In addition, the bank widened its footprint and connectivity through its 201 ATMs currently (2016: 190; 2015: 169). Besides shifting one of the branches for convenience of its customers during 2016, JIB added new services with upgraded security features to its ATMs that also aided the bank in gradually gaining ATM market share in the country to 12.8% at 2016,

¹ Deposits and asset base for Jordan operations of Al Rajhi Bank are not available

² After Arab Bank PLC (Assets: 2016- ~JD33.6b; H1'17- ~JD33.8b; Deposits: 2016- ~JD23.9b; H1'17- ~JD23.7b) and b) The Housing Bank for Trade and Finance (Assets: 2016- JD7.8b; H1'17- JD7.7b; Deposits: 2016 and H1'17- ~JD6b each) and higher than Jordan Ahli Bank (Assets: 2016 and H1'17- ~JD2.8b; Deposits: 2016 and H1'17- ~JD2.3b)

up from 11% in 2014. Further, the bank's headcount also increased to 2,236 at end 2016 (2015: 2,148), being commensurate with the growth in business.

Table 1: Key Financial Indicators

Amount in JD'm, unless otherwise stated	2013	2014	2015	2016	H1'17
Total Assets	3,281.6	3,554.7	3,799.0	4,100	4,149
Net Financings³	2,125.9	2,213.3	2,587.7	2,640.5	2,689.1
Net Investments⁴	164.2	176.2	205.2	246.4	283.0
Total Deposits⁵	2,957.5	3,180.5	3,385.4	3,645.8	3,684.3
Net Equity	255.5	282.2	311.2	342.7	346.4
Off Balance Sheet Funds	240.8	300.5	370.8	403.1	446.0
ROAA (%)	1.4%	1.3%	1.3%	1.4%	1.3%
ROAE (%)	18.6%	16.8%	16.4%	16.5%	15.0%

(Source: IIRA adjusted bank financials)

Assuming no further deterioration in asset quality, we believe the bank's strong capitalization provides adequate capacity for loss absorption while also supporting its growth.

Operationally, the bank endeavors to further achieve efficiencies under its strategy layout for which it intends to centralize its back office operations in its branches and head office, automating and upgrading processes, shifting low-value transactions to electronic channels and enhanced use of IT with more services to be offered on internet and mobile banking. Further, the bank also plans to cut costs through power consumption savings and use of solar energy. The bank's ongoing energy conservation drive is being implemented in stages with phase 3 now operating in 17 of its branches.

On the organization front, there have been no changes to the bank's senior management and leadership profile since our last review which lends continuity to the bank's strategic direction.

³ Excluding Al Qard Al Hasan

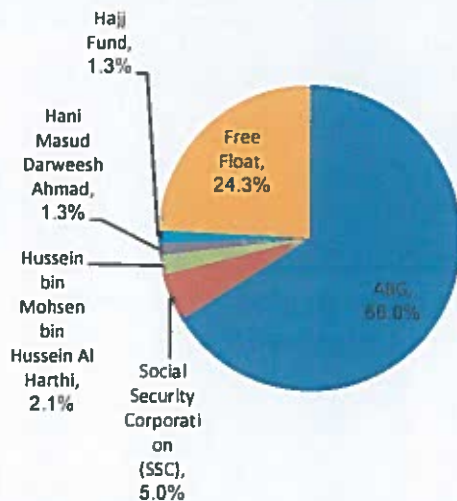
⁴ Includes investment accounts with banks and banking institutions and unrestricted investment accounts that are due within 3 months

⁵ Includes current and call accounts at banks and banking institutions

⁶ Gross non-performing financings

Shareholder's Profile

Figure 2: Shareholding Pattern – Aug. 2017



(Source: Security Depository Center - Jordan)

ABG continues to hold majority 66% stake in JIB, as shown in Figure 2; however there has been an increase in other institutional shareholding with Social Security Corporation ("SSC") now holding slightly over 5% stake in the bank.

ABG: ABG operates as one of the leading Islamic wholesale banks globally, functioning under a license from the CBB. It is also listed on Bahrain Bourse and Nasdaq Dubai stock exchanges. Besides JIB, the group has direct majority stake in 10 other Islamic retail banks, operating in countries including Turkey, Algeria, Bahrain, Egypt, Lebanon, Pakistan, Sudan, South Africa, Syria and Tunisia. Further, the group's JV in Morocco is also set to start operations this year. Through its subsidiaries, the group also holds

majority stake in businesses other than banking, and including investment management (through Itqan), education, real estate and information technology. It also has representative offices in Libya and in Indonesia. The group operations have grown steadily over the years; however it reported a decline during 2016 on account of tough macroeconomic conditions in host countries of a few of its subsidiaries. The group's asset base stood at US\$24.7b as of H1'17 and consolidated net earnings of US\$112.9m during the period. As of H1'17, ABG had a consolidated network of 667 branches and a workforce of 12,623 employees.

We consider JIB as a strategic subsidiary of the group, accounting for about 25% and 28% of the group's assets and profits, respectively in 2016. As such, we continue to factor ongoing group support in our rating assessment.

The group has an outstanding investment grade credit rating based on joint assessment by both IIRA and Dagong Global Credit Rating Company Limited.

SSC: Incorporated in 1980, SSC is a government-owned entity that provides accidental, sickness, old age, disability and mortality insurance to Jordanian citizens.

Strategic Investments

JIB acquired full ownership in one of its subsidiaries - Al Samaha Financing and Investment Co. Ltd., during 2016, increasing its paid-up capital to JD12m from JD8m at 2015 end. As such, currently the bank has three fully-owned subsidiaries while it holds slightly over 99% stake in one. These assets mainly include JIB's strategic interest in domestic entities engaged in the financing, brokerage, IT and education sectors, as shown in Table 2, representing a total paid up capital of JD30.6m as of end-2016. The bank recognized net income of JD2.1m from these subsidiaries' during 2016 (up 1.4% from 2015) that were fully distributed as unrestricted investment account holders' share. In addition, JIB's subsidiary in the education sector yielded a 6% dividend distribution amounting to about JD0.5m during 2016.

Table 2: JIB Subsidiaries

Subsidiary	Activity	Paid-up Capital (JD'm)	Ownership (%)	2016 Profits (JD'm)
Omariyah Schools Co. Ltd.	Education	8.6	99.4%	1.36
Al Samaha Financing and Investment Co. Ltd.	Financing	12.0	100%	0.35
Future Applied Computer Technology Co. Ltd.	Services	5.0	100%	0.43
Sanabel Al-Khair for Financial Investments Co. Ltd.	Brokerage	5.0	100%	0.3

(Source: JIB; Bank financials; Paid-up capital as of H1'17)

Table 3: JIB Affiliates

Affiliate	Activity	Ownership	Invested Amount (JD'm)
Jordan Center for International Trading Co.	Commercial	28.4%	1.1
Islamic Insurance Co.	Takaful Insurance	33.5%	4.6

(Source: JIB; Bank financials; Invested amount as of 2016)

On the other hand, the bank sold off its investment in two of its affiliates - AlAmin Investment Co. and Arabian Steel Pipes Mfg. Co. during 2016 which led to the 49%

decline in the total investments to JD7.7m from 2015. During 2016, the bank yielded JD513.3k on these investments (down from JD788.5k in 2015). The current investments are profitable for the bank; however the net yield to the bank's shareholders from these investments remains minimal. Over the long term, bank's takaful investment could further grow and represents a significant avenue of growth in further development of Islamic finance in the country.

RATING RATIONALE

Limited corporate business, a weakening credit risk environment reflecting economic challenges

Given the macroeconomic challenges in Jordan, the slowdown in banking credit growth is an industry wide trend negatively impacted by drop in corporate sector financings. As such, we noted JIB's financings to have only inched up slightly in 2016. With the recent positive developments in terms of improving regional environment, the corporate sector financings could get a boost over the coming periods.

While we continued to observe some improvement in the bank's asset quality indicators until 2016, JIB's non-performing financings increased during H1'17 mainly on account of a single counterparty which is also in the process of being rescheduled. Further, there is an uptick in the quantum of past due but not impaired financings on account of challenging macroeconomic conditions. However, the bank has maintained provisioning coverage in excess of 100% albeit some decline has been observed during H1'17. JIB's exposure remains concentrated towards NEPCO with the total exposure at JD594m at end 2016.

Strong profitability and superior return indicators

Net spread and fee and commission income remain the primary contributors of growth to the bank's net income. Further, the bank's majority retail deposit base bears positive implications by way of its low cost of funds. As such, JIB's ROAA and ROAE are superior compared to the banking sector aggregates.

Stable funding base benefiting from strong and granular depositor base; adequate liquidity profile

JIB's funding base, comprising largely of retail deposits, continues to be a positive rating driver given its strong franchise in the segment. Further, the bank has sizable liquid assets resulting in metrics well in excess of the minimum required under its legal liquidity ratio, liquidity coverage ratio and net stable funding ratio.

Adequate capital; rising business and systemic risks call for further reinforcement

JIB's capitalization remains sound and supported by internally generated funds.

Implicit support from ABG expected to continue to provide uplift to our assessment of JIB

Similar to ABG's other Islamic retail banks; JIB derives intangible benefits on account of the group's well recognized and globally widespread Islamic banking franchise. We believe JIB

would also continue to benefit from the implicit support from ABG in the form of control and oversight of governance practices.

ECONOMIC OVERVIEW OF JORDAN

Jordan is a strategically located Arab Kingdom, which has borders with Saudi Arabia, Iraq, Syria and Israel. Jordan is also an active member of the Arab League and a founding member of Organization of Islamic Cooperation ("OIC").

Jordan has a population of 7.7m⁷ and a GDP (PPP) of US\$85.57b⁸. The country's economy is challenged by high unemployment and weak growth, mainly due to global uncertainties as well as effects of the Syrian crisis at its doorstep, causing high influx of Syrian refugees. The economy had demonstrated uplift during 2010 – 2014 during which period, economic growth reached 3.09% in 2014 (2010: 2.31%) however, it has tapered off again to 2% during 2016 (2015: 2.39%). The decline in GDP growth is mainly because of decline in the output of agriculture and mining sectors. Closure of export routes to Iraq and Syria and decrease in tourism due to security reasons also played a significant role in slower growth.

Higher unemployment rate and lower labour force participation is also a major challenge faced by Jordan as unemployment rate reached its 10 year high of 16% being even higher for women and youth. To cater this, National Committee for Human Resource Development ("NCHRD") developed a National Strategy for Human Resource Development covering a 10 year plan with the aim of addressing skill mismatches, unlocking potential of women and reforming public sector hiring practices. Income inequality in the country indicated by its GINI coefficient⁹ is 33.7 as of 2010 which is in line with other emerging economies.

Notwithstanding the economic headwinds, Jordan had adopted monetary easing during 2015 – 2016 which assisted credit growth. Decrease in discount rates promoted business activity as credit growth was fuelled by excess liquidity in the market. Major areas of funding included promotion of small and medium sized enterprises ("SMEs"). Since then Federal Reserve has initiated monetary tightening, raising its policy rate twice in 2017 in the range of 1% to 1.25% in June 2017 due to stable economic growth and declining unemployment rate.

Changes in US monetary policy has also impacted Jordan as it has already started monetary tightening to support its currency peg and maintain adequate reserves. In June 2017, Jordan increased its policy rate further by 25 basis points reaching one week repurchase rate of 3.75%

⁷Source: IMF Country Report – Jordan – July 2017

⁸Source: World Bank Dataset for Jordan

⁹A statistical measure of the degree of variation represented in a set of values. It is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive. Ranges between '0' in the case of 'perfect equality' and '1' for 'perfect inequality'.

which is 100 basis points higher since February 2017 as CBI increased policy rate by 50 basis points and 25 basis points in February 2017 and March 2017 respectively citing stability of Jordanian dinar and provision of adequate volume of loanable funds, as the basis of its policy action. Inflation has also risen during February 2017, reaching 4.6% due to resurgence in oil and food prices vis-à-vis increased fuel excises and removal of general sales tax ("GST") exemption.

Monetary easing during 2015 – 2016 resulted in better performance of banking sector in Jordan which remained well capitalized and profitable during the period, however, monetary tightening in 2017 will have a negative impact on credit off take and in turn economic growth in Jordan. Capital adequacy ratio of banks stood at 18.5% during 2016 which is well above the regulatory capital requirement. While credit to household sector including mortgages and retail increased during the recent years, NPL ratio has remained low owing to stable to upwardly inclined housing prices. CBI has also taken various regulatory measures to strengthen financial sector including issuance of Basel III implementation guidelines and AML/ CFT framework.

Jordan has deployed a policy of fiscal consolidation to curtail its debt which had reached 95.1% of GDP as at December 2016. Overall fiscal deficit has however improved significantly, reaching 3.2% of GDP in 2016 (2014: deficit of 10.3%) owing to various revenue related structural reforms such as removal of exemptions related to general sales tax and custom duties. Jordan has envisaged to further increase its tax base through amendments to the tax exemption framework, income tax imposition and new automatic electricity tariff adjustment mechanism. The government curtailed its expenditures mainly through cuts to capital expenditures and lower repayments of health and fuel arrears. While the latter is temporary relief, the former is also detrimental to long-term development. On a positive note, energy and water utilities including Electricity Company ("NEPCO") and Water Authority of Jordan ("WAJ") have posted operating profits during 2016 which contributed to containing its fiscal deficit.

Jordan's current account deficit has increased to 9.3% of GDP in 2016 (2015: 9.1% and 2014: 7.3%). Major reason behind increasing current account deficit is decline in exports owing to close of borders with Jordan's major trading partners Syria and Iraq. Exports to Iraq account for almost 20% of Jordan's overall export which has decreased by around 50% post closure of borders. Conflict in Syria has also impacted exports to other markets including Lebanon, Europe, Turkey and Central Asia which were routed through Syria. Current account deficit is also impacted by increase of non-oil imports precipitated by the rising number of Syrian refugees.

Changing global uncertainties and US policies, global geo-political situation, Syrian crisis, disturbance in GCC due to decrease in oil prices as well as diplomatic tensions, weakening global economy and subdued trade, coupled with Jordan's domestic challenges of unemployment and Syrian refugee management, pose threats to the economy. Various

economic and structural reforms supported by effective monetary and fiscal policies should assist Jordan in achieving its economic targets as IMF has projected¹⁰ a growth of 2.3% and 2.5% in 2017 and 2018 respectively.

BANKING SECTOR OVERVIEW

Owing to the domestic macroeconomic environment, Jordan's banking sector showed some signs of slowdown during 2016 driven by deposits, with the total assets growth registered at 2.6% compared to 5% in 2015. Overall credit facilities grew at about 8.9% during the year; the proportion of these in total assets has increased to about two-thirds from 65% in 2015. As noted earlier, Jordanian banking sector's exposure remains concentrated towards the public sector with government securities and public sector lending altogether being JD11.1b (breakdown as JD8.5b as government bonds and JD2.6b as loans) at 2016 corresponding to 24% of total banking sector assets (2015: JD11.6b; 25.5%). Overall the proportion of government and public sector lending by banks in the country slightly reduced to 11.4% of total loans in 2016 from 12.3% in 2015.

Table 4: Jordan – Banking Sector Trends

%; unless otherwise stated	2014	2015	2016
Non-performing Loans/Total Loans	5.6%	4.9%	4.3%
Coverage Ratio	77.6%	74.7%	77.9%
NPLs (net of provisions)/Equity	4.3%	4.5%	3.6%
Capital Adequacy Ratio	18.40%	19.1%	18.5%
Leverage Ratio	12.5%	12.7%	12.9%
ROE	11.0%	10.3%	8.9%
ROA	1.4%	1.3%	1.1%
Interest Margin/Gross Income	77.9%	77.4%	79.0%
Net Profits After Taxes (JD'm)	596.0	582.0	522.2
Liquidity Ratio	152.2%	149.0%	137.8%

The financial soundness indicators of Jordan's banking sector generally continued to improve in 2016 as shown in the Table 4; however some decline was noted in earnings.

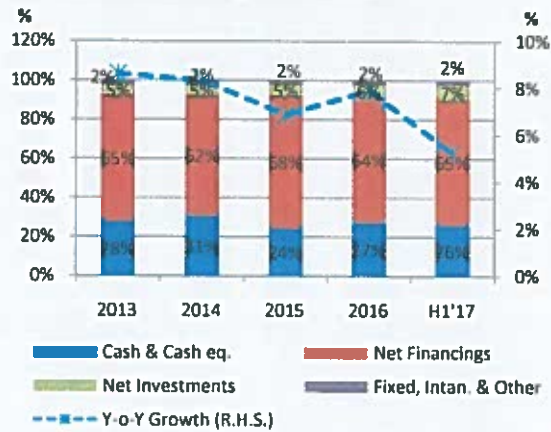
(Source: JIB; CBJ – Financial soundness indicators and Jordan economy in figures)

¹⁰ Source: IMF Country Report – Jordan – July 2017

FINANCIAL REVIEW

With the steady expansion in branch and office network¹¹, JIB's asset base continued to register growth during 2016 increasing to about JD4.1b from JD3.8b in 2015. While the growth momentum compared favorably vis-à-vis the overall banking sector during 2016 at 8% (banking sector at about 2.6%), the pace moderated to mid-single digit percent (5.2%) during H1'17 on a year-over-year ("YoY") basis. Slower growth in net financings portfolio at 2.0% during 2016 (H1'17: 1.8%), followed the sharp 16.9% growth witnessed in the previous year, despite the sustained supply trend in liquidity¹². Excess funds were placed in the bank's investment book which registered gradual growth, increasing to JD246m in 2016 and later to JD283m in H1'17 (2015: JD205m). Nevertheless, significant surplus cash was held as non-earning placements at CBJ, with the bank's earning assets falling to 71% at 2016 (2015: 75%; H1'17: 73%).

Figure 3: Asset Composition & Trend



(Source: Bank financials)

Financings: Growth at slower pace than previous year; rising credit risk

Following slightly above mid-teen percent growth in the prior year period, JIB's financing portfolio increased at low-single digit rate in 2016. JIB's gross financings¹³ stood at JD2,714m at 2016 (2015: JD2,665m), which further grew to JD2,770m at H1'17. This growth was mostly led by the consumer segment¹⁴ (up 17% YoY), while SME coupled with government and public sector exposures declined by 25% and 20%, respectively.

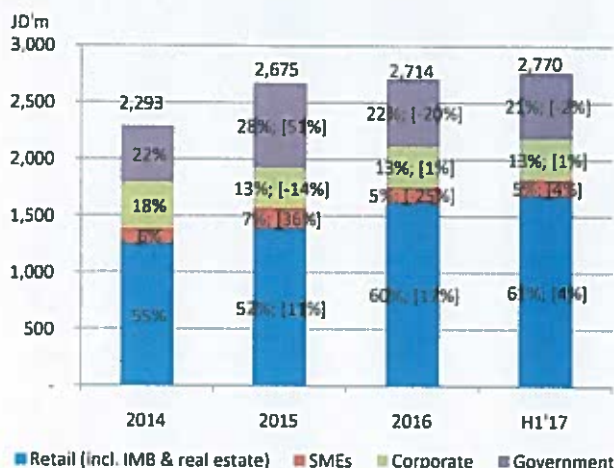
¹¹ Branches / cash offices: 2016: 74/23 and 2015: 73/20

¹² Liquid assets / Funding at 33% in 2016 as against 29% in 2015

¹³ Including deferred sales, Ijara Muntahia Bittamleek, Musharaka

¹⁴ Including Ijara Muntahia Bittamleek and real estate financings

Figure 4: Gross Financings – Composition & Growth Trend



(Source: JIB; % outside the brackets refer to the composition of gross financings; % in square brackets reflect growth trend with YTD growth for H1'17)

The retail segment share in the overall gross financings of the bank has grown to about 60% from 52% in 2015. This also comprises the mortgage financing undertaken through Ijarah Muntahia Bittamleek ("IMB") structure that represents about 35% of the gross retail portfolio, growing about 17% YoY during 2016 and further by 5% YTD¹⁵ during H1'17. Besides this, property financings remained strong in 2016 despite the oversupply conditions in the housing industry, registering a 12% growth¹⁶. This was in the backdrop of stable property prices during 2016 owing to the tax incentives introduced by the government. The bank's

residential mortgages that represent about 20% of the retail portfolio, remained almost flat vis-à-vis 2015. We expect the real estate prices to follow similar trend and largely remain stable in 2017.

As against the previous year, the bank's government and public sector exposure declined to about JD594m at 2016 from JD746m at 2015. Following a JD300m additional financing disbursement to NEPCO in 2015, the bank's exposure towards the counterparty lowered during 2016 and stood at about JD594m¹⁷, corresponding to 1.7 times the bank's capital base (2015: ~2.8 times). Nonetheless, IIRA considers this exposure as low risk in the local context given the federal government guarantee backing repayment. As per the bank, the cumulative exposure to the electric power utility companies (both public and private) was over JD1.3b at end 2016, in line with its policy to contribute to essential sectors of the economy.

Likewise in the SMEs segment, the bank signed an agreement with the Jordan Loan Guarantee Corporation ("JLGC") to provide guaranteed financings for start-up micro projects in the industrial, agricultural, commercial sectors in addition to crafts, education and IT sectors. During 2016, JLGC guarantee-backed financing to this segment amounted to about JD 0.53m. However, the overall gross exposure towards this segment slightly declined during 2016 and later grew at a moderate pace during H1'17 to about JD146m.

¹⁵ Year-to-date

¹⁶ On gross basis (2016: JD459.5m vis-à-vis JD409.8m in 2015)

¹⁷ Based on management representation

The prevailing turmoil in Jordan's neighboring countries and the closure of borders with its major trade partners has continued to negatively impact the country's industrial and trade sectors. Nonetheless, the bank's corporate sector exposure grew albeit at just about 1% following a 14% decline in 2015. Majority of the corporate financing clientele in Jordan are susceptible to economic challenges given the trade slowdown in the country. JIB's top 10 clients¹⁸ account for about 47% of JIB's corporate financing portfolio. Further, the top 20 exposures are extended in the trade sector (~32% of corporate financing at Q1'17) followed by real estate and manufacturing sectors each comprising 10%-11% of the corporate financing portfolio. Nonetheless, the recent diplomatic discussions with Iraq to open the borders for trade purposes could potentially provide some uplift to corporate financing in the coming quarters.

Within the overall financings portfolio, construction and housing sectors account for the major portion at 37.5% in 2016 (2015: 32.6%), followed by the public utility services at 23.6% (2015: 28.8%). The share of transportation services has inched up to 17.5% during the year (2015: 15.4%), while the industrial and trade sectors has lowered to 16.5% (2015: 18.1%).

The bank continues to undertake mostly local currency financings, while its foreign currency exposures remain under 5%.

The bank's non-performing financings ("NPFs") registered slight improvement on a timeline basis declining to JD86m at 2016 from JD94m at 2015. As such, the gross non-performance ratio improved to 3.2% in 2016. However, some deterioration was noted during H1'17 with the ratio increasing to 4.1%. More specifically, the increase in impairment indicators was led by a single corporate counterparty in the education sector and amounting JD 12m. The principal outstanding against this classified account is secured by JD14m

collateral. As per management representation, JIB is in the process of rescheduling this exposure. Amongst the top 20 classified exposures, accounting for about 37% of the total NPFs at Q1'17, about 43% emanates from the real estate sector, followed by trade (~30%). The

Table 5: Asset Quality

Amounts in JD'm, unless stated otherwise	2014	2015	2016	H1'17
NPFs	87.6	94.3	85.9	113.8
Gross NPF Ratio (%)	3.8%	3.5%	3.2%	4.1%
- Retail*	2.8%	2.4%	3.2%	3.8%
- SME	14.5%	14.2%	12.9%	14.8%
- Corporate	7.9%	10.0%	4.6%	7.6%
Net NPF Ratio (%)	0.6%	0.5%	0.5%	1.2%
- Retail	0.2%	0.0%	0.7%	1.1%
- SME	5.4%	4.3%	2.1%	3.9%
- Corporate	1.3%	2.0%	-0.4%	2.7%
Provisions¹⁹	91.0	100.8	103.6	112.6
Coverage Ratio (%)²⁰	103.8%	107.0%	120.6%	98.9%

(Source: Bank financials; JIB; * Retail including IMB and real estate financings)

¹⁸ Other than power sector

¹⁹ Investment Risk Fund + Impairment Provision

²⁰ Based on Impairment Provisions and Investment Risk Fund

bank's past due but not impaired financings stood at JD9.7m at 2016 which rose to JD14.2m at H1'17. Further, JIB's exposure against watch-list clients was JD75.9m at 2016 (2015: JD86.1m) and JD63.1m at Q1'17. We will continue to monitor the portfolio in the backdrop of the existing macroeconomic situation, to assess any adverse implications for JIB's overall asset quality. As witnessed in the earlier periods, most of these delinquencies arose from the SME, real estate and corporate sectors (Table 5). Nonetheless, JIB maintains adequate provisions against its impaired financings, with the coverage ratio (including Investment Risk Fund) of about 120.6% at 2016, albeit lower at 98.9% at H1'17.

In addition to the annual review of credit policies, the CBJ guidelines require banks to secure at least 80% of the financings by way of collateral. JIB also has a formal collateralization policy in place for its SME and corporate financings, within which the corporate financings is specifically backed by real estate collateral. For its retail lending, the bank generally seeks direct salary transfers as security.

Investments: Small although gradually growing with real estate investments

Given the limited investment avenues for Islamic banks in the country, the bank's investment base remains small although registering growth over the last few years. As anticipated, the bank's investment in sukuk²² grew to JD52.8m at 2016 (2015: JD14.6m), which was on account of subscription to CBJ's maiden sukuk issuance last year. Overall, since last year JIB has subscribed to the three sukuk issuances by the central government including two for financing the operations of NEPCO totaling about JD64m and bearing semi-annual cash coupons in the range of 3%-4%. With this, JIB's sukuk investment has further increased to JD79.1m at H1'17, thereby also boosting its liquidity.

Table 6: Investments Book

Amounts in JD'm	2014	2015	2016	H1'17
Quoted Equities	23.3	23.3	25.1	24.2
Unquoted Equities	3.8	3.3	3.4	4.0
Quoted Sukuk	-	10.0	10.5	10.4
Unquoted Sukuk	4.6	4.6	42.4	68.8
Investment accounts with banks & banking institutions ²¹	20.2	20.9	28.7	28.9
Islamic Banks Portfolio	7.2	6.8	4.4	3.5
Muqarada Bonds	8.8	13.2	14.1	14.9
Investment in affiliates	15.6	15.1	7.7	8.3
Real Estate	92.8	108.0	110.2	121.8
Total	176.2	205.2	246.4	283.0

(Source: Bank financials)

Real estate investments continue to form majority of the investments portfolio, growing 2% in 2016 and further by 10% during H1'17. Equity investments (quoted and unquoted) of the bank inched up slightly to about JD28.5m at 2016, following the gradual decline observed in the past.

²¹ Including unrestricted investment accounts maturing within 3 months

²² Unquoted and quoted

The bank's investments in Muqarada bonds²³ grew moderately in 2016 following the sharp 49% increase during 2015. On the other hand, the bank's investment in affiliates almost halved during 2016 in addition to lower placements with Islamic banks.

Liquidity & Funding: Sufficient liquidity and stable funding base benefiting from strong retail base

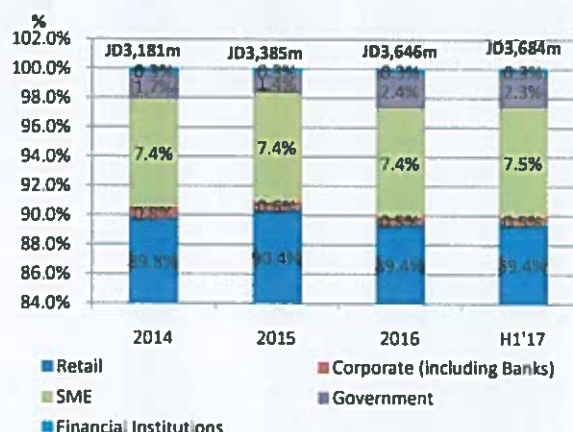
JIB's funding base continued to expand in 2016 to JD3,646m (up ~8%) driven by growth in deposits, including URIA, much higher than the industry aggregate growth of 1%. JIB's growth trends run contrary to the sector-wide trend of decline in deposit growth rates over the last few years. Consequently, JIB's share of the total industry deposits improved further in 2016.

The bank stands to benefit from its steady funding base, with about 90% retail deposits that is viewed positively. Within these, the low-cost current and saving account deposits have remained stable at 48% in 2016, registering an 8% growth each.

Comparing the segments, growth in retail and SME deposits continued as in the previous year. The deposits pertaining to the government segment grew notably and contributed 15% of the incremental growth in deposits during the year while some improvement was also observed in the corporate segment. Given this, depositor concentration is low with top 100 depositors representing about 8.1% of the aggregate deposits at Q1'17 (2016: ~7.4%; 2015: 7.8%).

Further, the bank's liquidity²⁴ levels have remained sufficient with liquid asset coverage of total funds at 33% at 2016, up from 29% as of 2015. Given the limited availability of sukuk, JIB's liquidity placements remain heavily concentrated in cash and placements with CBJ and other local & foreign banks which are mostly non-earning in nature. Liquid assets remain sizable with a 21% growth in 2016 resulting in liquidity ratio exceeding the minimum 100% requirement. Even from the regulatory requirements as per CBJ guidelines, the overall liquidity position is strong as evidenced from the liquidity coverage ratio ("LCR") of over 300% and the net stable funding ratio calculated of over 200% at Q1'17. Maturity analysis between assets and liabilities as of end-2016 also indicates adequate coverage of liabilities.

Figure 5: Funding Profile



(Source: Bank financials)

²³ An off-balance sheet restricted investment fund managed by the bank

²⁴ Including cash and cash equivalents (including mandatory cash reserves), bank placements, quoted equity investments and Islamic sukuk

On the other hand, off-balance sheet investment accounts grew 8.7% during 2016 to JD403.1m from JD370.8m in 2015. Most of these funds raised were by way of Muqarada bonds of JD368.1m (2015: JD338.7m).

Table 7: Maturity Profile

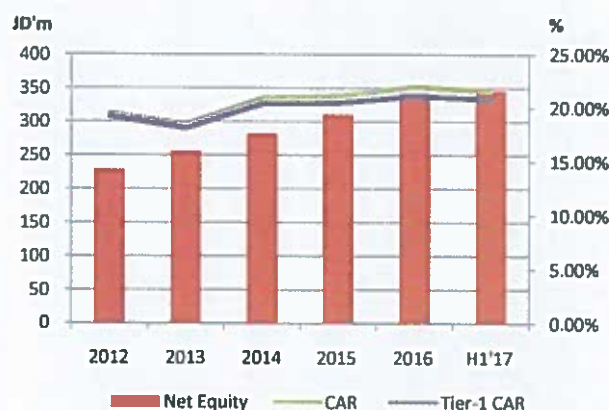
Amounts in JD'm	Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year	More than 1 year	Without Maturity
Total assets	1,311.6	179.8	184.3	449.6	1834.1	140.1
Total Liabilities	775.3	389.1	404.4	435.1	1,705.1	47.9
Net Equity						342.7
Cumulative Maturity Mismatch	536.3	327.0	106.9	121.5	250.5	-

(Source: Bank financials)

Capitalization - Well exceeding minimum regulatory requirements

JIB's paid-up capital has increased by JD30m during H1'17 to JD180m due to the bonus shares issuance, having remained stable over the last three years. The bank's net equity position has shown a steady increasing trend and stood at JD346.4m as of H1'17 (2016: JD342.7m). Major portion of the bank's total capital is comprised of Tier 1 capital. Dividend payouts have been declining over the last few years (averaging 44% over the last 3 years); however the bank has continued to display good internal capital generation over the past.

Figure 6: Capitalization Indicators



(Source: Bank financials)

JIB's Capital Adequacy Ratio (CAR), calculated as per IFSB standards and CBJ instructions, was higher at 22.02% in 2016 (2015: 21.11%), while we witnessed some decline in H1'17 to 21.6%. Nonetheless, this compares favorably vis-à-vis the industry and much higher than the required 12% minima regulatory levels. However, internal models are not used for enabling advanced approaches to risk control. As a systemically important bank, JIB should also consider putting in place buffers as part of its main threshold of capital.

The bank's leverage²⁵ has remained high at about 12x as of end-2016albeit declining from 12.2x at 2015.

²⁵ Assets to equity

Profitability- Remained sound albeit slight contraction in net spreads

JIB's operating performance registered an improvement vis-à-vis the previous year with the net income up by 11% to about JD54m, mostly buoyed by the growth in net spread income (up 8% YoY in 2016) also coupled with the fee and commission income (up 4%). Unlike in 2015, the tax expenses have gradually moderated as the impact of higher tax rate in 2015 has normalized. During H1'17, the bank registered a slightly lower net income (down 7% YoY) constrained by lower margin on financings and investments.

Income from jointly and self-financed contracts and investments registered higher growth during 2016 increasing to JD198.2m²⁶ (2015: JD177.6m) with higher profit bearing assets²⁷ while the average returns on earning assets remained almost constant with last year at about 7.2%. Coupled with this and slightly higher funding cost, the net spreads have slightly narrowed at 5.6% compared to about 5.7% in 2015. The CBJ raised the policy rate thrice during H1'17 by a cumulative 100bps, notwithstanding this the bank's return on earning assets contracted to 6.8% with the resultant contraction in the net spreads to 5.3% during the period.

Overall contribution from non-fund based income in 2016 almost remained same on a timeline basis as previous year at about JD23.8m, although representing a slightly lower proportion of the bank's operating income at 14.0% (2015: 14.9%). Within these, fees and general banking services has been showing slow yet gradual traction increasing to about JD18.8m in 2016 (2015: JD18m). Other ancillary sources of income including foreign exchange gains and other revenues were recorded at about JD7m (2015: JD7.5m). On the other hand, the bank's income from restricted investment accounts, mainly as an investor, rose to about JD1.7m in 2016 after having fallen by over 60% in 2015 to JD0.8m.

Given the growth in the bank's delivery network, JIB's total expenses continued to increase during 2016 to JD65.8m (up 10% YoY). Employee expenses form about 53% of these expenses which grew about 8% during the year. The bank also recorded higher loss on assets impairment to the tune of JD1.6m (2015: 0.2m). As such, the bank's efficiency ratio (adjusted for depreciation and amortization expense) remained at prior year's level at 33.5% in 2016 (2015: 33.3%). JIB's efficiency level compares favorably vis-à-vis its peers. With the bank's ongoing drive towards the use of solar energy in its offices, we could expect some benefits to trickle on to profitability.

²⁶ Including bank's self-financed profits

²⁷ Comprising of a) performing jointly and self financed contracts, and b) investments: Muqarada bonds, Islamic banks portfolio, Islamic Sukuk and deposits with banking institutions including unrestricted investment accounts due within 3 months and accounts due within a year

Overall, the bank's return ratios - ROAA and ROAE, both after and prior to adjustments for provision and taxes, showed slight improvement vis-à-vis 2015. In line with prior year periods, JIB compares much favorably vis-à-vis the banking sector average in terms of ROAE (16.5% versus industry average: 8.9% in 2016) and ROAA (1.4% versus industry average: 1.1%).

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 C to rate credit worthiness of the issuer and long term issues, with AAA being the highest possible rating and C 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), (47-56), (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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