الإدارة العامة

البنك الإسلامي الأردني

39698

الرقــم : م.م ١١٩/تعاميم/٢٠١٨/٢٣٢/

التاريـخ : ٢٠١٨/١٢/١٣ م

الموافق : ٠٥ / ربيع الآخر / ١٤٤٠هـ

السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،

الموضوع: التصنيف الائتماني للبنك الإسلامي الأردني من *Capital Intelligence (CI)*

بالإشارة الى الموضوع أعلاه، يسرنا أن نرفق لكم طيه نسخة من تقرير وخبر التصنيف الائتماني الخاص بمصرفنا والصادر عن *Capital Intelligence (CI)* إصدار كانون أول ٢٠١٨.

وتفضلوا بقبول فائق الاحترام،،،

المدير العام
موسى عبدالعزيز شحادة

بورصة
الدائرة الإدارية
الديوان
١٦ كانون الأول ٢٠١٨
الرقم المتسلسل: ٥٥٩٧
رقم الملف:
الجهة المختصة: الإدارية

المرفقات: نسخة من تقرير وخبر تصنيف (CI) إصدار كانون أول ٢٠١٨

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Ref: JO01017CRA00-1

13th December 2018

Jordan Islamic Bank's Ratings Affirmed

Capital Intelligence Ratings (CI Ratings or CI), the international credit rating agency, announced today that it has affirmed Jordan Islamic Bank's (JIB) Long- and Short-Term Foreign Currency Ratings (FCRs) at 'BB-' and 'B', respectively, with a Negative Outlook. The Negative Outlook on the FCRs for JIB (and all other Jordanian banks) was assigned in June 2017, following a revision of the Outlook for Jordan's sovereign rating ('BB-'/'B'/Negative). Although JIB has adeptly managed its balance sheet in the face of continued elevated credit and geopolitical risks, CI Ratings notes that in common with other Jordanian banks, its ratings are increasingly pressured by heightened sovereign risk factors, as well as the challenging operating environment. The Bank's FCRs remain constrained by the ratings assigned to the sovereign, reflecting JIB's base of operations in Jordan and its exposure to the Jordanian sovereign in the form of balances at the Central Bank of Jordan (CBJ). As such, the ratings for JIB and all other Jordanian banks could be lowered if Jordan's FCRs are lowered. The Support Rating remains at '3' in view of the demonstrated shareholder support from the parent, Al-Baraka Banking Group (ABG), as well as the high likelihood of support from the CBJ.

JIB's Financial Strength Rating (FSR) is maintained at 'BBB-', with a Negative Outlook, supported by the Bank's satisfactory financing asset quality as demonstrated by more than full financing-loss reserve (FLR) cover for non-performing financings (NPFs), coupled with still comparatively low levels of NPFs and renegotiated financings, as well as abundant liquidity underpinned by a diversified customer deposit base. Sound profitability at both the operating and net levels, despite a decline, as well as JIB's established Islamic banking franchise and high market share of Islamic banking assets and customer deposits are also supporting factors. The FSR is constrained by the relatively moderate total capital to total assets ratio (although the leverage ratio is higher under Standards adopted by the Islamic Financial Services Board (IFSB) and approved by the CBJ), large government-guaranteed single borrower concentration, and the low share of non-profit sharing income (NPSI) to gross income. Also constraining the FSR is the challenging operating environment due to the ongoing high credit and geopolitical risks in the region (as is the case for all Jordanian banks).

JIB continues to control the lion's share of Islamic banking assets and customer deposits in Jordan, despite keen competition over the past few years. The Bank exhibits satisfactory financing asset quality metrics evidencing effective risk management practices. Despite accelerated growth of NPFs in H1 2018, reflecting the ongoing challenging economic conditions and heightened credit risk in Jordan, JIB continued to boast one of the lowest NPF ratios in Jordan, while FLR cover stayed above 100% despite a decline. The net financing portfolio, however, continues to be characterised by high – albeit reduced – borrower concentration, reflecting a large government guaranteed medium-term facility (in local currency) extended to a systemically important government related entity (GRE). Although exposure to this GRE decreased considerably in recent periods due to amortisations, the concentration remained material. A big part of the financing is due for repayment in 2019.

JIB's capitalisation as measured by the ratio of total capital to total assets remained moderate and below the average for conventional banks in Jordan, although under IFSB methodology (as adopted by CBJ) leverage is higher based on Unrestricted Investment Accounts' (URIAs) share of credit risk. Nonetheless, JIB's rate of internal capital generation remained sound, reflecting its good – albeit recently reduced – net profitability in addition to a moderate dividend payout ratio. The capital adequacy ratio (CAR), calculated according to CBJ regulations and in line with the IFSB methodology, was maintained at a very comfortable level at end June 2018, underscoring the Bank's high exposure to government guaranteed financings and still large balances with CBJ – both of which carry zero risk-weight factors. It has to be noted, however, that JIB's seemingly high CAR is largely a result of the substantial share of URIAs in the customer deposit base. In accordance with CBJ instructions and IFSB standards, the share of yielding assets financed by URIAs is assigned a lower risk weight factor in the calculation of total risk weighted assets. This is based on the principle that the credit risk is shared by both URIAs and the Bank according to their contribution to profit/loss.

The Bank's liquidity remained strong, with key funding and liquidity metrics remaining generally stable as both customer deposits and Islamic financing facilities (IFFs) continued to grow marginally in H1

2018. JIB's funding is sourced predominantly from retail deposits which, in turn, bestow granularity and effectively restrict concentrations in the customer deposit base. At the same time, usage of interbank or term funding stayed negligible. Being an Islamic bank, JIB is precluded from investing surplus liquidity in interest earning government securities and T-bills. Thus, while conventional banks continue to deploy their surplus JOD liquidity into relatively high-yielding Jordanian government paper, JIB had until recently channelled excess liquidity into government-guaranteed financings due to the limited – albeit recently increased – availability of government Sukuk instruments in Jordan. As a result, JIB's headline liquidity metrics remain tighter than those seen in the liquid Jordanian banking system, although they remain sound in a global context. The Kingdom of Jordan's recent Sukuk issuances, and JIB's subscription to a significant share of those issues, paves the way for a profitable option to invest surplus liquidity compared to the zero-reward balances at CBJ.

Although operating profitability declined in 2017 and into H1 2018, it remained above the sector average and sound in global terms, providing a good cushion for absorbing risk charges. The lower operating profitability was mainly caused by net profit sharing margin compression (as was the case with almost all local banks) and ongoing low NPSI generation. The latter continued to trail the sector average, although JIB expects this to improve on the back of higher asset management fees and other NPSI. The anaemic growth in higher yielding IFFs was also a contributing factor. Profitability at the net level, as measured by the return on average assets (ROAA) also declined, dragged down by the fall in operating profitability and ongoing high provision charges. Nevertheless, ROAA remained satisfactory and above the sector average.

Established in 1978 under a special decree, JIB is the oldest Islamic bank in Jordan. The Bank is listed on the Amman Stock Exchange and 66% of its capital is held by ABG. The latter is, in turn, owned by Saudi Arabia based Dallah Al-Baraka Group, a large diversified business conglomerate founded in 1969. JIB undertakes financing and investment through Islamic modes of Murabaha (cost plus profit margin), Mudaraba (the Bank shares profits as capital provider), Musharaka (participation investment), and Ijara (lease financing). The Bank operates a network of 75 branches, 29 cash offices, and 219 ATMs in Jordan. At end-June 2018 the Bank had total assets of JOD4.2 billion (USD5.96 billion) and total capital of JOD367mn (USD517mn).

CREDIT RATINGS

Foreign Currency		Financial Strength	Support	Outlook	
LT	ST			FC	FSR
BB-	B	BBB-	3	Negative	Negative

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The information sources used to prepare the credit ratings are the rated entity and public information. CI considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. CI does not audit or independently verify information received during the rating process.

The rating has been disclosed to the rated entity and released with no amendment following that disclosure. Ratings on the issuer were first released in February 1995. The ratings were last updated in December 2017.

The principal methodology used in determining the ratings is the Bank Rating Methodology. The methodology, the meaning of each rating category, the time horizon of rating outlooks and the definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at www.ciratings.com. Historical performance data, including default rates, are available from a central repository established by ESMA (CEREP) at http://cerep.esma.europa.eu

Jordan
Islamic
Bank

Bank Rating Report

Jordan Islamic Bank

Jordan

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Ref: JO01017BNK00-1/12-18

JORDAN ISLAMIC BANK

Amman, Jordan
December 2018

RATINGS

	Current	Last Changed From	Date
Sovereign			
Long-Term:	BB-	BB	Dec 13
Short-Term:	B	-	-
Outlook	Negative	Stable	May 17
Foreign Currency			
Long-Term:	BB-	BB	Dec 13
Short-Term:	B	A3	Sep 99
Financial Strength	BBB-	BB+	Oct 06
Support	3	2	Sep 00
Outlook			
Foreign Currency	Negative	Stable	June 17
Financial Strength	Negative	Stable	June 17

FINANCIAL HIGHLIGHTS

USD (mn) / JOD (mn)	H1 2018 USD	H1 2018[1] JOD	2017 JOD	2016 JOD
Total Assets	5,957	4,229	4,212	4,100
Net Financing	3,815	2,709	2,652	2,648
Customer Deposits	5,264	3,737	3,711	3,637
Total Capital	517	367	375	343
Gross Income	115	81	166	169
Net Profit	33	23	54	54
Exchange Rate: USD/JOD		*0.7100*	*0.7100*	*0.7100*

%	H1 2018	2017	2016
NPF / Gross Financing	3.94	3.42	3.20
FLR / NPF	111.31	123.63	122.38
Capital Adequacy Ratio	23.22	23.04	22.02
Net Financing / Customer Deposits	72.48	71.48	72.82
Liquid Asset Ratio	29.19	30.45	28.73
Profit Sharing Margin (CI est.)	*3.28	3.31	3.50
Cost / Income	44.75	39.61	37.51
ROAA	*1.11	1.30	1.37

[1] Unaudited
**** Annualised***

RATINGS DRIVERS

Supporting the Ratings

- Well established business franchise, with dominant share of Islamic banking assets and customer funds in Jordan.
- Satisfactory financing quality and one of the peer group[1] lowest non-performing financings (NPF) ratios; low renegotiated financings.
- Ample liquidity underpinned by highly granular customer deposit base.
- Sound and above sector average profitability, reflecting healthy profit sharing margin and a lean cost base.

Constraining the Ratings

- Still very high single borrower concentration despite a decline, mitigated by explicit government guarantees.
- Low level of non-profit sharing income (NPSI), but more than offset by high net profit sharing (NPS) revenue.
- Relatively moderate ratio of total capital to total assets, which remained well below conventional banks in Jordan, although leverage under the IFSB methodology is much higher.
- Challenging operating environment, together with high credit and geopolitical risks (in common with other Jordanian banks).

RATING RATIONALE

Capital Intelligence Ratings (CI Ratings or CI) has affirmed the Financial Strength Rating (FSR) of Jordan Islamic Bank (JIB) at 'BBB-', with a 'Negative' Outlook. The rating is supported by the Bank's satisfactory financing asset quality as demonstrated by more than full financing-loss reserve (FLR) cover for NPFs, coupled with still low NPF ratio and renegotiated financings, abundant liquidity (underpinned by a diversified customer deposit base), and sound profitability at both the operating and net levels, despite a decline. JIB's established Islamic banking franchise in Jordan and high market share of Islamic banking assets and customer deposits is also a supporting factor. The FSR is constrained by the relatively ~~low~~ moderate total capital to total assets ratio, subject to higher leverage

1 *See Appendix for definition of peer group, which consists of eleven deposit taking banks.*

ratio under the IFSB methodology, large government-guaranteed single borrower concentration risk, the low share of NPSI to gross income, and the challenging operating environment due to ongoing high credit and geopolitical risks in the region (as is the case for all Jordanian banks).

CI also affirms JIB's Long- and Short-Term Foreign Currency Ratings (FCRs) at 'BB-' and 'B', respectively, with a 'Negative' Outlook. The Bank's Long-Term FCR remained constrained by the ratings assigned to the sovereign ('BB-'/'B'/'Negative), reflecting JIB's base of operations in Jordan and its exposure to the Jordanian sovereign in the form of balances at the Central Bank of Jordan (CBJ). The Support Rating remains at '3' in view of the demonstrated shareholder support from the parent, Al-Baraka Banking Group (ABG), as well as the high likelihood of support from the CBJ.

The Negative Outlook for the FSR and FCRs of JIB (and all other Jordanian banks) – assigned in June 2017) – follows a similar change in the Outlook for Jordan's sovereign's rating. This reflects the increased pressure on the Bank's ratings by heightened sovereign risk factors, as well as the challenging operating environment. As such, the ratings for JIB and all other Jordanian banks could be lowered if Jordan's FCRs are lowered. For the Outlook on both the FCR and FSR to revert to 'Stable', there would need to be an improvement in the Outlook for the sovereign's ratings.

JIB continues to control the lion's share of Islamic banking assets and customer deposits in Jordan, despite keen competition over the past years. The Bank exhibits satisfactory financing asset quality metrics evidencing effective risk management practices. Despite accelerated growth in NPFs in H1 2018 reflecting the ongoing challenging economic conditions and heightened credit risk in Jordan, JIB continued to boast one of the lowest NPF ratios in Jordan, while FLR cover stayed above 100% despite a decline. The net financing portfolio, however, continues to be characterised by high – albeit reduced – borrower concentration, reflecting a government guaranteed large medium-term facility (wholly in local currency) extended to a systemically important government related entity (GRE). Although exposure to this GRE decreased considerably in recent periods due to amortisations, the concentration remained material. A big part of the financing is due for repayment in 2019.

JIB's capitalisation as measured by the ratio of total capital to total assets remained moderate, and below the average for conventional banks in Jordan, although under the IFSB methodology, as adopted by the CBJ, leverage is higher based on URIAs' share of credit risk (see below treatment of URIAs on CAR calculation). Nonetheless, JIB's rate of internal capital generation has been sound in recent years, reflecting its good – albeit recently reduced – net profitability in addition to a moderate dividend payout ratio. The capital adequacy ratio (CAR), calculated according to CBJ regulations and in line with the Islamic Financial Services Board (IFSB) methodology, was maintained at a very comfortable level at end June 2018, underscoring the Bank's high exposure to government guaranteed financings and still large balances with CBJ – both of which carry zero risk-weight factors. It has to be noted, however, that JIB's seemingly high CAR is largely a result of the substantial share of Unrestricted Investment Accounts (URIAs) in the customer deposit base. In accordance with CBJ instructions and IFSB standards, the share of yielding assets financed by URIAs is assigned a lower risk weight factor in the calculation of total risk weighted assets (RWAs). This is based on the principle that the credit risk is shared by both URIAs and the Bank according to their contribution to profit/loss.

The Bank's liquidity remained strong, with key funding and liquidity metrics remaining generally unaltered as both customer deposits and Islamic financing facilities (IFFs) continued to grow marginally in H1 2018. JIB's funding is sourced predominantly from retail deposits which, in turn, bestow granularity and effectively restrict concentrations in the customer deposit base. At the same time, usage of interbank or term funding stayed negligible. Being an Islamic bank, JIB is precluded from investing surplus liquidity in interest earning government securities and T-bills. Thus, while conventional banks continue to deploy their surplus JOD liquidity into relatively high-yielding Jordanian government paper, JIB had until recently channelled excess liquidity into government-guaranteed financings due to limited – albeit recently increased – availability of government Sukuk instruments in Jordan. As a result, JIB's headline liquidity metrics remain tighter than those seen in the liquid Jordanian banking system, although they remain very sound in a global context. The Kingdom of Jordan's recent Sukuk issuances, and JIB's subscription to a significant share of those issues, paves the way for a profitable option to invest surplus liquidity compared to the zero-reward balances at CBJ.

Although operating profitability declined in 2017 and into H1 2018, it remained above the sector average and sound in global terms, providing a good cushion for absorbing risk charges. The lower operating profitability was mainly caused by net profit sharing margin (NPSM) compression (as was the case with almost all local banks) and ongoing low NPSI generation – the latter continued to trail the sector average, although JIB expects this to strengthen supported by higher asset management fees and other NPSI . The anaemic growth in higher yielding IFFs was also a contributing factor. Profitability at the net level, as measured by the return on average assets (ROAA) also declined, dragged down by the fall in operating profitability and ongoing high provision charges. Nevertheless, ROAA, remained satisfactory and above the sector average, despite some slippage.

PERFORMANCE OUTLOOK

Despite the keen competition from Conventional and Islamic Banks, JIB's dominant market position is unlikely to be challenged in the near future given its long track record and expanding nationwide branch network. The current year will, however, will probably remain challenging in terms of maintaining profitability at the current level, given the expected flat volume growth in higher yield IFFs. At the same time credit risks in the MENA region remain high due to the ongoing geopolitical risk, which may translate into a higher NPF accretion rate – as was seen in H1 2018 – over the near to medium-term for JIB, as well as other local banks. That said, the Bank's conservative lending policy is a strong risk mitigating factor. Of equal importance, JIB's good risk absorption capacity, as indicated by its still sound operating profitability, provides the flexibility to beef up provisions, if necessary. With regard to JIB's capitalisation, while CAR is anticipated to remain high, the ratio of total capital to total assets will probably remain below the average for the conventional banks and provide a moderate buffer in case of unforeseen losses. Net financings are expected to grow at a slower pace in view of large financing repayments in 2019 by the aforesaid systemically important GRE, thereby ensuring that liquidity is maintained at the current comfortable level.

BANK HISTORY AND OWNERSHIP

Jordan Islamic Bank was established in 1978 under a special decree. The Bank has an established position in the Jordanian banking market, although competition has intensified in recent years. JIB is listed on the Amman Stock Exchange and 66% of its capital is held by Bahrain-based Al-Baraka Banking Group (ABG). Four members of JIB's board, including its chairman, are appointed by ABG. The latter is owned by Jeddah-based Dallah Al-Baraka Group (ABG). ABG reported total consolidated assets and equity of USD25.5 and USD2.5 billion, respectively, as of December 2017. JIB's network of 74 branches, 26 cash offices, and 206 ATMs is among the largest in Jordan. Headcount increased by 4% to 2,335 at end 2017.

ABG holds a bank holding company licence issued by the Central Bank of Bahrain. The subsidiaries of ABG include AlBaraka Islamic Bank (Bahrain), [CI rating report dated September 2018 is available], Al Baraka (Tunisia), Al Baraka Turk Katilim Bankasi (Turkey) [CI rating report dated February 2018 is available], AlBaraka Algeria, AlBaraka Lebanon, Al Baraka (Egypt), AlBaraka Bank (South Africa), AlBaraka Sudan, AlBaraka Syria and AlBaraka Pakistan.

Current Business Model

The Bank's business model and strategies are set by the directive of JIB's leadership and insight vision to keep the JIB pioneering in banking sector. The Bank's principal activities include the provision of financing and investment through Islamic modes of Murabaha (cost plus profit margin), Mudaraba (the Bank shares profits as capital provider), Musharaka (participation investment) and Ijara (lease financing). The liability side of the balance sheet includes demand and joint investment accounts (savings, fixed, and notice accounts) and specified investment accounts (depositors' funds in fiduciary capacity managed without recourse to the Bank). JIB's stated objective is to reach all citizens who wish to deal in products, in compliance with the principles of Shari'a.

Principal Business Strategies

During 2017, the Board approved a new the five year strategic plan 2018 – 2022. JIB seeks to further grow its market share of deposits and financings in the local market through sustainable growth in corporate and retail banking. This is expected to be achieved through the following measures:

- Expand financing to individuals and SMEs.
- Continue the financing of government needs through direct finance or in the course of subscription to Islamic instruments tradable in the Stock Exchange.
- Issue / participate in Islamic Sukuk.
- Open two new branches and four offices.
- Introduce new financing products after obtaining Sharia (legal) approval.
- Utilise cross selling opportunities within the Al-Baraka Banking Group.
- Enhance corporate governance practices.

To continue supporting its expansion strategy, further investment is being made towards improving delivery channels, particularly through an increase in the number of branches and ATMs. While competition has intensified, JIB is well placed to safeguard its dominant market share.

OPERATING ENVIRONMENT

The Economy

Selected Economic and Financial Indicators

Indicator	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Forecast 2018
Socio-Economic Indicators								
GDP Per Capita, Current USD	4,619	4,850	5,152	5,375	5,513	5,549	5,678	5,838
Real GDP-Market Prices,% Change	2.6	2.7	2.8	3.1	2.4	2.0	2.0	2.8
Consumer Price Inflation, An. Avg.%	4.4	4.6	4.8	2.9	-0.9	-0.8	3.3	1.5
Official Unemployment Rate, %	12.9	12.2	12.6	11.9	13.1	15.3	18.5	18.1%
Public Finances								
Overall Budget Balance, %GDP	- 6.8	- 8.3	- 5.5	- 2.3	-3.5	-3.4	-2.5	-2.1
Gross Government Debt, % GDP	65.4	77.4	86.7	89.1	93.4	95.1	95.9	94.1
Government Debt, % Revenue	247.5	336.6	359.0	311.7	335.8	372.1	340.7	330.2
External Finances								
Gr.Offic. Foreign Reserves, USDbn	13.6	10.3	13.6	15.8	16.4	15.4	15.5	15.5
Off. Reserves % ST debt (rem.mat.)	128.0	94.5	106.1	102.3	125.0	138.9	144.3	154.2

Although economic activity is recovering moderately mainly due to low commodity-import prices, it is expected to remain relatively subdued over the near term, largely due to high geopolitical risk factors. Following a decade of robust growth during 2000–09 (averaging about 6½ percent), supported by a favourable external environment, economic activity slowed sharply in 2010 and 2011 as global economic conditions deteriorated. While the Jordanian economy is among the most open in the Middle East, it has suffered external shocks (like many other countries in the region) from commodity price inflation and fall-out from regional instability (in particular arising from neighbouring Syria). This has resulted in slower economic growth and larger fiscal deficits, although these challenges are partially mitigated by Jordan's close relations with donor countries. These relationships support comparably modest external borrowing needs, though these are rising. While the authorities have implemented an ambitious programme of structural reform to develop the private sector, unemployment remains high (18.5% in 2017), particularly among the young and graduates.

Macroeconomic Performance – moderate recovery but ongoing regional uncertainty poses serious downside risks to growth. Real GDP growth has continued its slow growth from its 2010 trough, expanding by 2.0% in 2017. Growth remains below its long-term potential of 6.1%, as construction and tourism continue to perform poorly, while the government fails to stimulate the economy in view of limited fiscal resources and its significant fiscal-consolidation efforts. Moreover, ongoing geopolitical uncertainties, low growth in private credit facilities and the cut of the main trade routes for Jordan through Syria and Iraq continue to weigh on the country's growth prospects. Consumer prices rebounded by 3.3% in 2017 compared to a 0.8% decline in 2016, reflecting higher oil prices.

Fiscal Performance – budget deficit decreased a little to 2.6% in 2017. The central government's budget deficit – including grants – has decreased marginally to 2.6% of GDP in 2017, from 3.4% in 2016, reflecting substantial corrective measures taken by the government to rein in public spending such as the full removal of food and oil subsidies. Other measures include the improvement of revenue mobilisation through income tax and mining tax reforms. These reforms were in line with the International Monetary Fund's (IMF) economic adjustment programme, which entitled the government to benefit from a USD2 billion Standby Agreement. Despite the enacted reforms, the government budget structure remained weak on account of the government's reliance on volatile foreign grants to bridge its fiscal gap. In 2017 the government is estimated to have received a lower JOD777mn grants from the US and GCC states (2016: JOD832mn). Without grants, the budget deficit would increase to 5.1% of GDP (2016: 6.2%). The primary budget position has rebounded to a small surplus of 0.5% (2016: deficit of 0.3%). According to official estimates, the government's primary budget position is expected to strengthen to 1.4%, conditional on the stabilisation of regional political environment and the introduction of tougher spending measures. Meanwhile, overall budget deficit including grants is expected to decline to 2.1% of GDP in 2018; however, this outlook hinges on full implementation of the reform agenda, easing geopolitical risk factors, and a speedier economic recovery.

A new Tax Bill is expected to come in force in 2019. On Sep 24 2018, Jordan's cabinet sent to parliament an IMF-backed draft tax bill, a main board of austerity measures to ease rising public debt. The government hopes to push through the new legislation within two months despite opposition, saying the law promotes social justice by targeting high earners and combats long-time corporate tax evaders. The legislation aims to gain JOD280mn (US$395mn) in additional revenue in 2019, JOD180mn (US$254mn) of which will come from increased taxes and the remaining by cracking down on an estimated 132,000 companies Jordanian companies committing tax evasion.

An agreement for a three-year Extended Fund Facility (EFF) was reached in June 2016. The approval of the EFF helped catalyse loans and grants from multilateral and bilateral sources during the program period, in support of the Jordan Compact agreed in the London Conference on February 2016, where donors had pledged considerable financial support for Jordan to address the impact of Syrian refugees. Jordan had completed a three-year Stand-By Arrangement with the IMF in the amount of about US$2 billion in August 2015.

Government debt remains high and on increasing trajectory. Government debt ratios have followed an upward trend since 2009, owing to the deterioration in the budget position. Gross public debt reached 95.9% of GDP in 2017, up from 95.1% in 2016.

External Finance – higher current account deficit. The current account deficit increased slightly to 10.6% of GDP in 2017 (2016: 9.6%), mainly due to higher oil prices in 2017.

Gross foreign reserves were almost unchanged at USD15.6 billion at end 2017. Although foreign reserves buffers are expected to surpass $16 billion, after the receipts of the $1 billion Eurobond that is planned in November 2018, they are expected to remain under some strain. Reserve coverage remained moderate, as CI's preferred measures of international liquidity suggest that gross foreign exchange reserves covered 144% of the country's short-term debt (based on remaining maturity) compared to 139% in 2016.

The Banking System

Prudent Regulatory Environment. Jordanian banks as a group were not adversely impacted by the 2008-09 global financial crisis due to their high levels of liquidity and stable customer deposit funding base. The CBJ had no need to inject liquidity or equity into Jordan's banking system as international financial markets came under severe pressure. Rather, the CBJ took pre-emptive steps to maintain confidence and support the domestic money market, following the onset of the global credit crisis. In addition (in October 2008) the CBJ had announced a full guarantee of all bank deposits until end 2009 (then extended until end 2010). Being almost exclusively focused on domestic lending opportunities, the vast majority of Jordanian banks (apart from Arab Bank and Housing Bank for Trade and Finance) also carried very little, if any, regional credit exposures and were therefore effectively insulated from credit events in the GCC region.

Recent Regulatory Guidelines and Instructions. The most recent instructions issued by the CBJ in June 2018 related to IFRS 9 implementation. The CBJ had initiated the preparations in May 2016, by issuing a circular, clarifying the general framework for IFRS 9 requirements. At the time, banks were asked to provide the CBJ with their plan, and this was followed by the issuance of the first draft of the instructions in November 2017. The IFRS 9 adoption is expected to decrease the banks' equity to some extent after the transfer of a proportion of equity to impairment provisions.

Another important guideline pertained to Regulatory Capital Instructions for Islamic Banks No. (72/2018), which was issued in February 2018. These instructions focus on improving the quality and quantity of the capital of Islamic banks in order to enhance their ability to absorb non-expected losses.

Asset quality for the sector is holding up well with a relatively moderate NPL ratio and very sound LLR coverage, despite 8 years of continuous low economic growth.

Jordanian Banking Sector remains highly liquid and well-capitalised. Strong liquidity remains a key strength of the banking system, mainly due to the large amount of government securities in JOD held by the banks, which can be repo'd with the CBJ. In addition, capital adequacy remained solid with the average CAR hovering around 17% in 2017. This is mainly the result of a prudent policy being imposed by the CBJ, which among others stipulates that banks in Jordan must maintain a minimum CAR of 12% (14% for banks with branches out of Jordan), and a minimum leverage ratio of total capital to total assets of 6%.

The profitability of the sector remains pressured by falling yields on Jordanian government securities as well as ongoing provisioning. Despite a decline in operating profitability, the banks' loss absorption capacity remains sound. Operating profitability for the sector was close to 2% in 2017, denoting a still effective cushion for absorbing unforeseen losses.

KEY FINANCIAL ISSUES

JIB's 2017 consolidated financial statements have been prepared in accordance with the rules and principles of the Islamic Shari'a, as determined by the Bank's Shari'a supervisory board, and in compliance with the accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The consolidated financial statements were jointly audited by Ernst & Young (Jordan) together with the local firm of Ibrahim Al-Abbassi & Co. (an affiliate of Moore Stephens), which issued an unqualified audit opinion. Interim reviewed (but not audited) financial statements for the six months to June 2018, which have been reviewed by Ernst & Young (Jordan), are also used in the following analysis. Disclosure standards in the audited financial statements and notes have significantly improved in recent years.

Adjustments on opening balances after IFRS 9 implementation in January 2018 were equivalent to a very low 0.9% of end 2017 equity. After the recognition of impairment provisions, the balance sheet components that were mostly affected were financings and contingent liabilities. It has to be noted that although the net impact of IFRS 9 adoption on opening equity (JOD3.5mn) only affected the retained earnings as part of prior year adjustments, the Bank transferred the whole amount of General Banking Risk Reserve of JOD1mn to retained earnings during H1 2018, as per CBJ instructions.

BALANCE SHEET

Asset Composition and Quality

A very liquid balance sheet with no significant change in asset mix. Reflecting higher holdings of government securities (Islamic Sukuk) the share of liquid assets was up to 30.5% of TA in 2017 before slipping to a still very sound 29.2% of TA in H1 2018 (see adjacent table. At the same time, growth in net Islamic financing facilities (IFFs) was restricted to 0.2% after significant repayments of Murabaha financing from government and public sector entities, reducing the share of financings to a still high 63.0% of TA. Despite the sovereign issuances in 2016, 2017 and 2018, JIB has a very low exposure to government Sukuk compared to other local banks.

Asset Composition (%)	H1 2018	2017	2016	2015
Cash & Central Bank	25.45	27.03	26.61	23.48
Government securities	1.60	1.61	0.67	-
Bank Deposits	2.14	1.81	1.45	1.42
Subtotal (Liquid Assets)	29.19	30.45	28.73	24.90
Net IFFs	64.05	62.98	64.60	68.28
Other Securities	1.24	1.04	1.58	1.41
Real estate investments	2.83	2.85	2.84	2.84
Fixed Assets & other	2.69	2.68	2.69	2.57
Total	**100%**	**100%**	**100%**	**100%**
%Δ in Total Assets	**0.42%**	**2.73%**	**7.91%**	**6.87%**
%Δ in Net IFFs	**2.13%**	**0.15%**	**2.11%**	**16.89%**

In H1 2018, the IFF book (net) continued growing at a measured pace of 2.1%, and given the almost flat expansion in TA JIB's asset composition was broadly unchanged. The proportion of net financing in total assets rose only fractionally to 64.1%. This was the highest share seen among Jordanian banks, and remained well above the average in a banking system characterised by a relatively low net loans to total assets ratio (53% at end 2017).

Murabaha receivables dominated the financing book. The net financing portfolio was composed of principally Murabaha receivables, and to a much lesser extent Ijara and Musharaka financing. Murabaha financing represents sale contracts on deferred terms. In this context, JIB arranges a Murabaha transaction by buying a commodity and then selling the same commodity with a profit margin to the beneficiary (Murabeh). The sale price, representing the sum of the cost and profit margin, is repaid by the beneficiary in instalments over the agreed period. In the event of customer default, the Bank has the legal right to foreclose on the collateral. In terms of remaining maturity as at end 2017, about 37% (2016: 34%) of the financing book was short-term in tenor (less than one year), which was lower than the sector average, reflecting the large term financing granted to the aforesaid GRE.

Ongoing high credit risk in the local market. The Bank continues to limit financings to the private sector in light of ongoing high credit risk in the local economy due to the challenging macroeconomic conditions brought on by regional geopolitical instability. The sharply reduced rate of growth in net financings in 2016 together with the low growth in 2017 and H1 2018 were chiefly the result of considerable repayments by the aforementioned government entity. Continued subdued customer demand in the private sector also contributed to slower financing growth.

Distribution of Financings by Economic Sector (%)	2016	2017	H1 2018
Government & public sector	27	25	24
Commercial (corporate & SME)	23	24	25
Individuals (retail)	31	31	31
Real Estate (mainly housing)	19	20	20
Total	**100**	**100**	**100**

Moderately diversified financing book with relatively high exposure – albeit declined – to government and public sector. In 2017, total exposure to government and public sector borrowers decreased to some extent to ca. JOD521mn (from JOD594mn), mainly due to repayments from a systemically important GRE. At the same time, financings to individuals increased moderately, and continued to make up 31% of total IFFs at end 2017 (see table above). The moderate real estate exposure comprises mainly housing finance. In H1 2018, financing to state-controlled entities including the systemically important GRE was broadly unchanged, equivalent to roughly a quarter of the IIF book.

Real estate financing is within prudential limits. The Bank's total exposure to the real estate market was broadly comparable to the local industry average at end 2017. It should be noted that as an Islamic bank, JIB's financings are backed by assets, typically real estate, with the proceeds not necessarily being used for investment in real estate itself. The real estate sector in Jordan has attracted both domestic as well as regional investors.

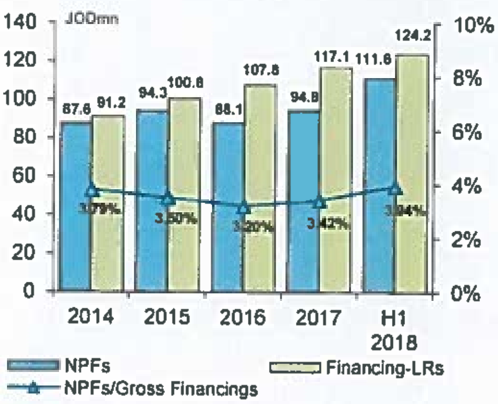
While the commercial real estate sector faces some challenges, consumer demand for housing remains sound with property prices holding up well, especially in the greater Amman region. The CBJ has set the exposure limit to the real estate sector at 20% of total customer deposits in local currency; JIB's actual exposure (13% at end June 2018 excluding investments) was well below that limit.

Large customer concentration. This mainly relates to the single government guaranteed medium to long term facility granted in 2012 (mentioned earlier), which made up a substantial 20% of total gross financings at end H1 2018. This exposure was reduced considerably from 30% in H1 2016 due to the noted large repayments in H2 2016 and into 2017. Management anticipates the balance of this facility to remain roughly unchanged at end 2018, while at end 2019 the amount is expected to be reduced to an equivalent of 15% of gross financings due to amortisations. As at end-June 2018, the top twenty customers (all of which were performing except from one classified borrower in the real estate sector for the amount of JOD4.2mn) constituted a significant 27% of gross financings. Excluding the largest government guaranteed facility, the concentration improves markedly to 8%. The second largest exposure made up a low 1.0% of the gross IFF book. The other exposures were well-diversified by economic sector. Commercial activity remains a very important contributor to Jordan's gross domestic product.

Small investment portfolio at end June 2018. The Bank's total investments increased to JOD259mn (from JOD255mn at end 2017), forming a relatively low 6% of total assets at end June 2018. As much as 46% of the portfolio was investment in real estate (JOD120mn), a common occurrence observed with Islamic banks, due to the limited availability of Islamic financial instruments. Aside from real estate investments, the largest category was financial assets at amortised cost of JOD83mn, consisting of quoted Islamic Sukuk (JOD8mn), as well as unquoted Islamic Sukuk issued by sovereigns (JOD72.4mn) and banks (JOD 2.7mn). Other large categories were financial assets at fair value through equity composed mainly of quoted equities (JOD24mn) and Islamic Sukuk (JOD8mn), as well as unquoted Islamic bank securities and bonds (JOD16mn). Investment in affiliates made up a slightly higher JOD9mn.

Large increase in NPFs in H1 2018. Having resumed growth by a moderate 7.6% in 2017, NPFs, calculated according to the classification criteria of the CBJ (90 days past due), accelerated to 17.8% in H1 2018, reflecting the ongoing challenging economic conditions in Jordan as well as many business sectors. New classified financings were JOD29.2mn while repayments were only JOD4.9mn and rescheduling JOD7.5m. JIB expects NPFs to reduce to JOD100mn, or to below 3.9% of gross financings at the year-end 2018 due to recoveries and rescheduling. It is noteworthy that at end June 2018 around a quarter of the Bank's NPFs was in real estate financing, with another 43% related to the trade sector and 9% to manufacturing.

NPFs and Financing-Loss Reserves



One of the lowest NPF ratios in Jordan notwithstanding the increase in 2017 and H1 2018. The Bank's NPF ratio was up marginally to 3.42% in 2017 (from 3.20% in 2016), following the 7.6% increase in NPFs (see adjacent chart). The Bank's NPF ratio remained well below the sector average of around 6.3%. An overwhelming majority (86%) of JIB's classified IFFs were in the 'loss' category denoting some ageing in NPFs. Most (but not all) banks in Jordan recorded a small improvement in impaired loans in 2017.

At end-June 2018, JIB's ratio of NPFs to gross financings increased further to 3.94%, but remained one of the lowest in the local banking system and sound in a global context.

Higher – albeit still moderate estimated NPF net accretion rate in 2017... The Bank has written off a negligible amount of NPFs in recent years. Write-offs occur after the approval of the Shari'a Supervisory Board. IFFs written-off during 2017 were very low at JOD4.9mn, and given the rise in NPFs the estimated NPF net accretion rate rose to 18% (from a negative 0.2% in 2016) – although this is calculated from a low base.

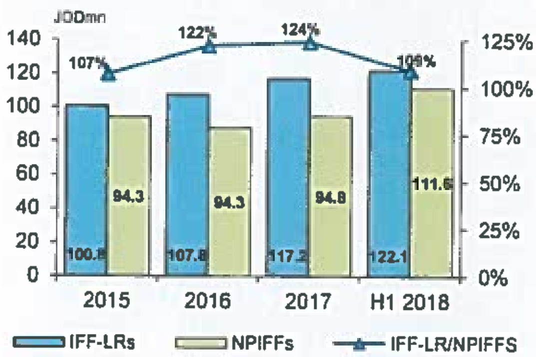
... while in H1 2018 it increased to a relatively high level. Given nil write-offs in H1 2018, the rapid increase in NPFs pushed up the net accretion rate to a relatively high 36% (annualised). It is worth mentioning that the average rate during the years 2011 to 2017 was a low 10%.

Low level of renegotiated financings. In 2017, JIB continued to report limited restructured IFFs of JOD2.2mn (facilities whose terms such as duration, grace period etc. have been altered), compared to JOD1.0mn a year earlier. At the same time, the amount of rescheduled IFFs (defined as IFFs previously classified as NPFs that were reclassified as performing IFFs in the 'watch-list' category) was up by 39% to JOD36.5mn. Taken together, restructured and rescheduled facilities, which the Bank reported as performing, remained low at 1.3% of gross IFFs at end 2017. At end H1 2018, both restructured and rescheduled facilities stayed very low at 1.3% of gross IFFs. Many banks in Jordan have resorted to restructuring credit facilities as customers' cash flows have come under pressure due to the economic slowdown. That said, JIB's level of renegotiated financings, as a percentage of gross credit portfolio, was one of the lowest among Jordanian banks.

Good FLR coverage. Total FLRs include financing impairment provisions and the amount allocated to the Investment Risk Fund (IRF). Notwithstanding the 7.6% rebound in NPFs, FLR coverage was broadly unchanged at a good 124%, as both financing impairment provisions and IRF were increased to JOD81mn and JOD36mn respectively.

In H1 2018, in view of the accelerated growth in NPFs, JIB increased FLRs to JOD89mn, and despite the fall of IRF to JOD28mn total FLRs grew by 4% to JOD122.1mn. However, given the larger increase in NPFs, the Bank's IFF loss reserve coverage declined to a still good 109.4%.

Financing-Loss Reserves Coverage



Banks in Jordan are required to calculate the provision charge for each stage under both IFRS 9 and CBJ rules, and apply the higher provision of the two. The Central Bank regulations for setting aside provisions for impaired financings specify that provisions are created for each credit risk category (net of the fair value of permissible collateral) as follows: 25% for substandard, 50% for doubtful and 100% for bad. For special mention (watch list) financing, banks are also required to create a 1.5% provision for corporate credit, and 15% for retail credit. For financings secured by eligible collateral, the regulatory framework obliges all banks to amortise the value of deductible collateral over a five year period. The regulation also stipulates that unsecured credits shall be fully covered by provisions within one year from the classification date.

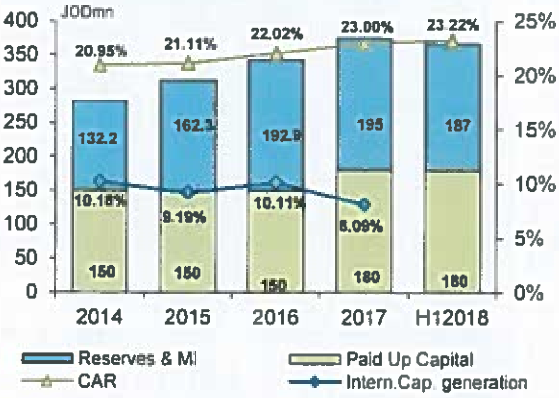
JIB has also been using an expected loss model to calculate provisions post IFRS 9 implementation. Banks are required to choose the most conservative result (higher amount) of the two alternatives per stage, as per the CBJ requirements.

In common with other Jordanian banks, JIB actively uses collateral to mitigate risk. The value of collateral held against NPFs covered 90% of all classified financings by end 2017. However, it should be noted that CI views security as being a partial loss mitigant rather than a direct source of repayment, as experience has shown that foreclosing on and then disposing of collateral can be a lengthy and expensive process, and one that can be subject to legal uncertainty. As a result, foreclosing is normally undertaken as a last resort since lenders would rather engage in debt restructuring where possible.

Capital Adequacy

CAR continued its upward trend increasing to 23.22% in H1 2018. The Bank's CAR, calculated to CBJ rules and based on IFSB methodology, increased to a still solid 23.22% at end H1 2018 from 23.00% at end-December 2017 (see adjoining chart). It should be noted that in contrast to previous years, the calculation of H1 2018 CAR included the interim profit after tax (JOD23.3mn) less expected cash dividends to be distributed out of the 2018 net profit (JOD13.5mn) for the same period. Had the interim net profit of JOD9.8mn (after cash dividends) not been included, then the reported CAR would have been around 22.59%.

Capital Composition & Adequacy



During 2017, the CAR had increased by 98 basis points (bps) as regulatory capital grew by 8.9% to JOD358mn from retained earnings, while expansion in RWAs slowed to 4.2% (from 8.2% in 2016) following the slowdown in TA growth to 2.7% (from 7.9%) in 2016.

IFSB methodology tends to produce a high CAR. The Bank's apparently high CAR underscores that URIAs are not classed as a liability under IFSB standards, given that in case of loss the Bank is not obliged to return the original amount of funds received from account holders, unless the loss is due to negligence or breach of contract. Under IFSB standards, and based on CBJ instructions for Islamic Banks, the share of yielding assets financed by URIAs benefits from a lower risk weight factor (70% as opposed to 100%) for the purpose of calculating total RWAs. This is premised on the principle that the credit risk is shared by both the Bank and URIAs according to their contribution to profit/loss.

Total capital to total assets ratio is significantly below conventional banks. In spite of a high CAR, the Bank's ratio of total capital to total assets remained at a comparatively low 8.7% at end-June 2018, signifying a higher degree of leverage than Jordanian conventional banks. The minimum regulatory leverage ratio is 6%, while the actual average ratio for the CI rated banks in Jordan was close to a very sound 13.5%. While JIB's balance sheet was third largest of the banks in CI's peer group of eleven banks, its capital base ranked fourth in size and very close to the fifth, sixth and seventh largest banks in terms of Balance sheet size. On that basis, and in view of the leverage limits stipulated under the Basel III accord, the Bank may find its future business expansion plans somewhat constrained.

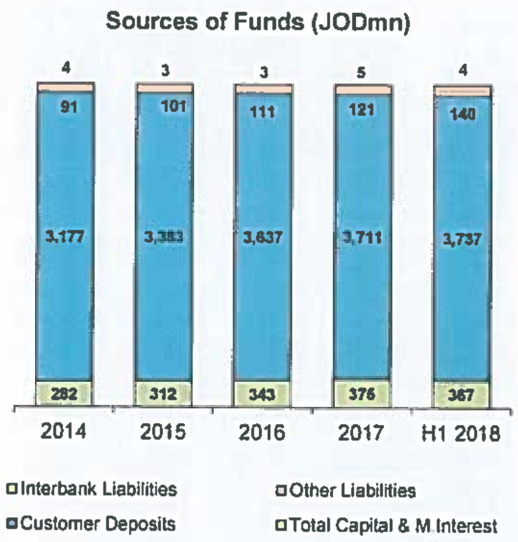
It has to be noted, however, that the Leverage Ratio doubles to 17% under IFSB standards (as adopted by the CBJ), based on the same reasons elaborated above under the calculation of CAR; i.e. that the credit risk is shared by both the Bank and URIAs according to their contribution to profit/loss.

Paid-up capital was increased to JOD180mn at end 2017 from retained earnings. JIB's policy of transferring a significant share of net profit to reserves has served to reinforce the capital base over the years. Having reached the CBJ's minimum paid up capital requirement to JOD100mn by end 2011, the Bank has since increased its capital through capitalisation of reserves another three times; to JOD125mn (USD176mn) in 2012, to JOD150mn (USD211mn) in 2014, and to JOD180mn (USD254mn) in 2017. While the capital base expanded by 8.9% in 2017, in the first six months 2018 total equity edged lower by 0.9% to JOD367mn (USD518mn), reflecting the higher dividend payment with respect to 2017 net profit, as well as the IFRS 9 adoption that decreased opening equity by JOD3.5mn.

Still sound internal capital generation despite higher dividend payout ratio. Although JIB's rate of internally generated capital decreased to 8.1% in 2017 (from 10.1% in 2016), it stayed well above the sector average of around 4%. It has to be noted, however, that JIB's internal capital generation is calculated off a proportionately smaller capital base than other banks in Jordan. The Bank paid a higher amount of JOD27mn (2016: JOD22.5mn) cash dividends to shareholders in 2017, and this combined with a flat growth in net profit in the same year, translated into a higher dividend payout ratio of 50% (2016: 42%).

Funding and Liquidity

Growth in customer deposits slowed to a low level after sound growth in 2016. Aided by a large nationwide branch network along with strong customer demand for Islamic banking, JIB's customer base had grown faster than the sector average up to 2016, bestowing the Bank with solid funding and liquidity metrics. Nonetheless, having expanded by 6.4% in 2015 and 7.5% in 2016, customer deposits growth decelerated to 2.0% in 2017, as JIB attempted to rationalise its funding cost. This was in line with the general trend in the banking sector, which saw customer deposit growth slow to a very low 1% in 2017. Liquidity pressures continued in H1 2018, with customer funds growing by only 0.7%. Competition for gathering customer deposits remains fierce, aggravated by the transfer of a significant part of government-related deposits from commercial banks to an account with the CBJ in 2016 and 2017.

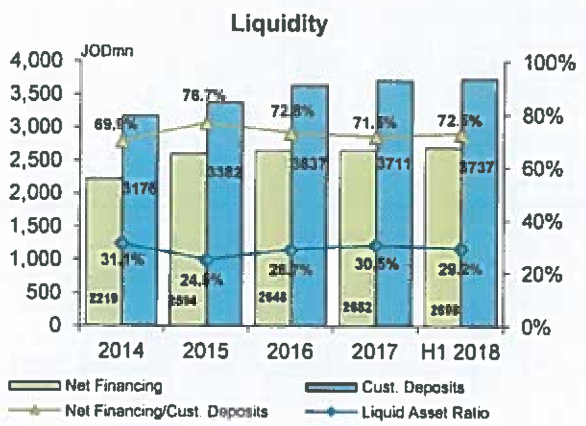


The customer deposit base remained sizeable totalling JOD3.7 billion (USD5.2 billion) at end June 2018, as shown in the chart above, and ranked among the largest of the medium sized banks. It also continued to fund a substantial 87% of the asset base at end-June 2018. Despite the short tenor of customer liabilities at JIB and in the local market, these funds are viewed as stable and exhibit a high rollover ratio at maturity.

URIAs dominated the customer funding base (see *Capital Adequacy*). In 2017, JIB's URIAs grew by 4% to JOD2,535mn before slipping to JOD2,514mn (USD3.5 billion) in H1 2018. URIAs continued to make up around two thirds of customer deposit funding, with the comparatively expensive time variety remaining the largest component of URIAs (75% at end 2017). At the same time, cheap current deposits continued to grow at the same pace as time deposits, contributing a steady 25% to the Bank's customer deposit funding at end 2017.

No undue funding concentration with respect to customer deposits, highlighting the predominantly retail nature of the client base. As at end-June 2018, the top 20 customer depositors accounted for 5% of total deposits (H1 2017: 4%).

Headline liquidity ratios were largely unchanged at a comfortable level. Following some improvement in 2016, the Bank's ratios of net financing to both total customer deposits and stable funds further strengthened to 71.5% and 66.5%, respectively, at end 2017 (from 72.8% and 68.1% a year earlier), as customer deposit grew by 2.0% while net financings were flat (see net financings to customer deposits ratio trend in the adjacent chart). By a way of comparison the corresponding averages of Jordan very liquid banking system were 75% and 62% respectively. The Bank's liquidity metrics were broadly unchanged (albeit



fractionally tightened) at end-June 2018 due to similar growth rates in both financings and customer deposits. JIB's customer deposits exceeded net financings by JOD1,039mn (USD1,465mn) at end-June 2018, compared to JOD1,059mn at year end 2017.

Very comfortable liquidity ratios. The Bank's liquid asset ratio remained broadly unchanged at 29% at end June 2018. Although this liquidity indicator remained below the average of 37% of what is considered a highly liquid banking system, it is considered sound in a global context.

Importantly, the net liquid asset ratio stood at a very comfortable 29% in H1 2018 in line with the sector average, highlighting JIB's negligible interbank liabilities, in combination with a strong customer deposit base. The trend seen in the ratio of liquid assets in the last four years is depicted in the chart above.

The CBJ continues to treat part of JIB's government guaranteed financing as part of liquid assets for the purposes of calculating the regulatory liquidity ratio.

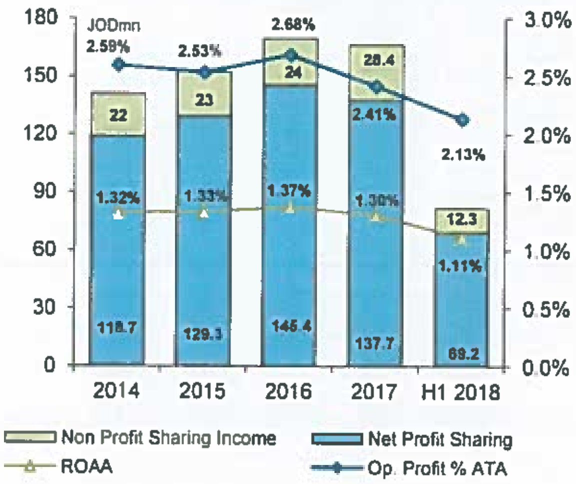
CBJ placements continued to dominate liquid assets depressing profitability to some extent. The bulk of JIB's liquidity continued to be invested in deposits held with the CBJ. These increased by 4.4% in 2017, before contracting moderately by 5.5% to JOD1,076mn in H1 2018, as excess liquidity was channelled into placements with other banks. CBJ balances continue to make the vast majority (87%) of total liquid asset holdings at end 2017 and into H1 2018. A major portion of these monies was placed in non-remunerative current accounts with the central bank; 24% comprised mandatory reserves at end H1 2018. JIB's deposits with other banks contributed the remaining 7% to total liquid assets at year end or a very low 2.1% of total assets at end H1 2018. These deposits were placed with prime institutions in the Middle East (excluding Jordan) and Europe, with no excessive concentration by counterparty.

First issuance of Sukuk by the CBJ in May 2016, followed by another three issuance by the Jordanian government in October 2016, March 2017 and August 2018, provides a profitable alternative to invest surplus liquidity. The Jordanian government (through the CBJ) issued its first JOD75mn Sukuk in May 2016 (of which JIB subscribed JOD27mn) followed by a JOD34mn government Sukuk issue in October 2016 (of which JIB subscribed JOD27mn) followed by another JOD75mn government Sukuk issue in March 2017 where JIB subscribed JOD27.4mn. The last sovereign issuance under Islamic principles was a JOD150mn Sukuk issued by the CBJ on behalf of NEPCO in August 2018, where JIB subscribed the lion's share of JOD111mn. Additional sovereign issuances are currently in the pipeline.

PROFITABILITY

Sound and above sector average profitability at both the operating and net levels despite some weakening. Notwithstanding a 5.2% decline in operating profit to JOD100mn (141mn), the ratio of operating profit to average total assets (ATA) remained very sound at 2.41% (2016: 2.68%). This metric was the second highest in the sector, whose average declined to 1.94% from 2.17% in 2016. Notwithstanding the fall in operating profit, JIB's net profit edged forward by a fractional 0.2% to JOD54.1mn (USD76mn) thanks to lower provisions and tax charges (the latter was in turn due to increase in tax shield revenues). This performance produced a slightly lower ROAA of 1.30% – although 25 bps higher than the average for the banking system. Historically, JIB's ROAA had been lower than sector average, in large part due to

Breakdown of Gross Income, Operating Profit to ATA and ROAA (%)



the high level of non-remunerative deposits held at the CBJ.

Further decline in profitability in H1 2018 due to lower NPSI. In H1 2018, operating profit declined by 7.8% to JOD45.0mn (USD63mn) compared to H1 2017, and as a result operating profitability to ATA decreased further to a still sound at 2.13%. Similarly, net profit retreated by 9.7% to JOD23.3mn versus H1 2017, despite a lower tax charge, and consequently ROAA (annualized) declined to 1.11%.

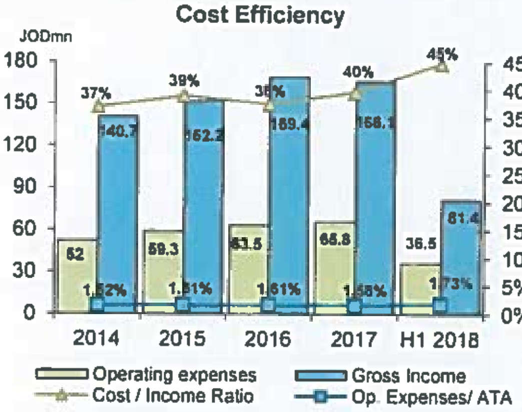
Following two successive years of either improved or stable results in 2014 and 2015, Banks in Jordan reported slightly lower returns in 2016 and 2017 at both the operating and net levels, due to falling yields on Jordanian government securities and elevated funding costs – the latter was mainly the result of three interest rate hikes by the CBJ in 2017.

Gross income generation declined in money terms, as well as in terms of ATA in 2017 and H1 2018. Following a growth of 11% in 2016 JIB's gross income edged lower by 2% to JOD166mn in 2017, caused by lower NPS revenue (see next paragraph). Measured to ATA, gross income was down by 29 bps to 4.00%, remaining slightly lower than the sector average that also decreased to 4.19% from of 4.35% in 2016. In H1 2018, gross income declined by 1.2% to JOD81.5mn compared to H1 2017, decreasing to a more moderate though still very acceptable 3.86% in terms of ATA (annualised).

Contraction in NPS revenue in 2017 – but a small rebound during H1 2018. NPS revenue declined by 5.3% to JOD137.7mn (USD193.9mn) in 2017, in line with the 1% contraction in net financings and concurrently the increase in low-yield liquid assets. The Bank's lower profit margin, which decreased by 37 bps to a still sound 3.31% in 2017 (CI estimate), was also a contributing factor to the fall in NPS revenue. Although the Bank's cost of funds was down by 4 bps to 1.29% in 2017, this was more than offset by a 41 bps decline on profit sharing on average earning assets to 4.60%.

In H1 2018, NPS margin slipped by 3 bps to 3.28% (annualised), although NPS revenue inched up to JOD69.2mn compared to H1 2017. By a way of comparison the sector averaged a lower – although sound in a global context – 3.04%. JIB's good profit spread reflects the significant share of high margin retail facilities in its book and the large proportion of low cost retail deposits, as well as a demonstrated ability to safeguard its dominant market share in spite of intense competition.

Very moderate levels of NPSI. The Bank's NPSI remained noticeably lower than the non-interest income (NII) generated by conventional banks in Jordan. This is partly a reflection of rather low volumes of contingent accounts business (Letters of Credit, LCs, and Letters of Guarantee, LGs) at JIB, and the consequential limited fee and commission income generated. On a positive note, in 2017 NPSI increased by 18% to JOD28.4mn, (albeit from a low base), on account of higher 'other income' (mainly credit card commissions). NPSI continued to contribute a moderate 15% to gross income during H1 2018 (2017:17%) when other local banks were averaging around 27%.

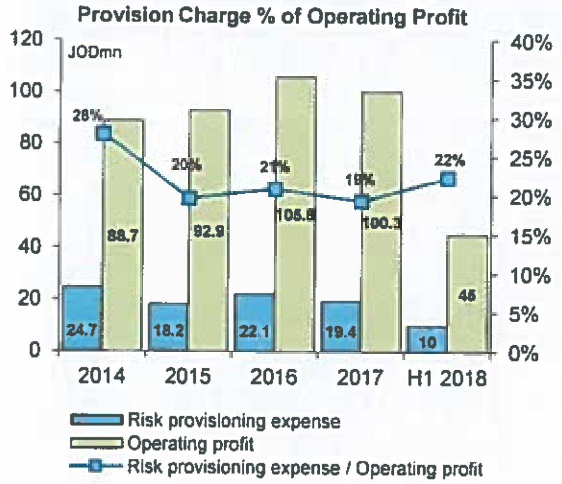


Fee and commission income remained the largest (69%) contributor to NPSI. In 2017, fees and commissions grew by 4.4% to JOD19.6mn, lifted by higher fees from credit cards (JOD4.4mn), salary transfer (JOD4.2mn) as well as from bounced cheques (JOD2.7mn), which more than offset the decline in fees and commissions from LGs and LCs. In H1 2018, fee and commission income fell by 3.3% to JOD9.5mn compared to H1 2017, although it continued to make up a dominant 77% of the total.

Operating efficiency remained good and better than sector average – lean cost base. The Bank's cost-to-income ratio has historically been favourable with no significant fluctuations in the last four years, as depicted in the adjacent chart. JIB's total operating expenses rose by a lower 3.5% (2016: 7.2%) to JOD65.8mn in 2017, as depreciation and amortisation was down by 15% to

JOD7.7mn. At the same time, payroll costs (57% of total overheads) were up moderately by 6.9% to JOD37.4mn, reflecting a 4% increase in headcount and higher paid bonuses. Given the 1.9% contraction in gross income in 2017, JIB's cost-to-income ratio increased slightly to 39.6% from 37.5% in 2016. This measure of operating efficiency remained better than the Jordanian banking sector average of 53%.

In H1 2018, given higher growth in opex (8.3%), combined with another marginal decline in gross income (1.2%) – both against H1 2017 – the ratio deteriorated further to a still sound 44.8%. The Bank's favourable operating efficiency is attributable more to the favourable cost structure than revenue generation, as the Bank's cost base measured to ATA has hovered between 1.52% and 1.73% over the last four years. By comparison, the banking sector averaged about 2% during the same period.



Good risk absorption capacity. JIB's very sound operating profitability over the last five years has clearly helped to build the necessary provisions in the face of ongoing high credit risk in the economy. Following a significant 21% increase in provisions in 2016, impairment provisions for financings and investments declined by 12% to JOD19mn in 2017. Nonetheless, total risk charges consumed an only fractionally lower 19.3% of operating profit, given the 5.2% decline in the latter.

In H1 2018, provision charges were up slightly to JOD10.0mn compared to H1 2017, eroding a little higher 22% of operating profit compared to H1 2017. In view of the weakening in FLR coverage in H1 2018, CI expects JIB's provision charges to remain at a rather elevated level.

APPENDIX

JORDANIAN BANKS RATED BY CI RATINGS

Rank	Bank name	31/12/2017 Total Assets (USDmn)	Market share (%)
1	Arab Bank PLC*	10,192	14.7
2	Housing Bank for Trade & Finance	11,466	16.6
3	Jordan Islamic Bank	5,931	8.6
4	Jordan Kuwait Bank	3,989	5.8
5	Cairo Amman Bank	3,935	5.7
6	Jordan Ahli Bank	3,844	5.6
7	Capital Bank of Jordan	2,817	4.1
8	Arab Jordan Investment Bank.	2,589	3.7
9	Jordan Commercial Bank	1,947	2.8
10	Bank ABC (Arab Banking Corporation)	1,589	2.3
11	Investbank	1,511	2.2
	Total of eleven banks rated by CI Ratings	**49,810**	72.0
	Other local and foreign banks	**19,375**	**28.0**
	Total of all licensed banks in Jordan	**69,185**	**100.0**

Source: CBJ website and 2017 Annual Reports of commercial banks

Note: *Ranking and market share are estimates. Figures used in the comparison are consolidated for all of the Jordanian banks above.*

* Arab Bank PLC's total consolidated assets were USD34.3 billion at end 2017, of which around USD10.2 billion in Jordan.

The peer group referred to in this report, unless otherwise stated, consists of the rated 11 deposit banks above. As of 31 December 2017, the Jordanian banking system consisted of 25 deposit banks, including the branches of foreign banks.

Peer group average ratios, unless otherwise stated, are calculated on a simple average basis.