البنك الإسلامي الأردني

الإدارة العامة

للافصاح

- السوريه

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السادة هيئة الأوراق المالية المحترمين ،،

عمان – الأردن

السلام عليكم ورحمة الله وبركاته،،

<u>الموضوع: التصنيف الائتماني</u>

يسرنا أن نرفق لكم في طيه نسخة من التصنيف الخاص بمصرفنا والصادر عن **Capital Intelligence** إصدار كانون أول ٢٠١٢.

وتفضلوا بقبول فائق الاحترام،،،

محمد علان

نائب المدير العام

هيئة الأوراق المالية

الدائرة الإدارية

١٦ كانون الثاني ٢٠١٣

٣٦٠

ن ت/ن ت

هاتف : ٥٦٧٧٣٧٧ ٦ ٩٦٢+

فاكس : ٥٦٦٦٣٢٦ ٦ ٩٦٢+

ص.ب : ٩٢٦٢٢٥ عمان ١١١٩٠ الأردن

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شركة مساهمة عامة محدودة

(سجل الشركة رقم ١٢٤)

Bank Rating Report

Jordan Islamic Bank

Jordan

December 2012

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The information sources used to prepare the credit ratings are the rated entity and public information. Capital Intelligence had access to the accounts and other relevant internal documents of the issuer for the purpose of the rating and considers the quality of information available on the issuer to be satisfactory for the purposes of assigning and maintaining credit ratings. Capital Intelligence 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 October 1985. The ratings were last updated in December 2011.

The principal methodology used in determining the ratings: Bank Rating Methodology. The methodology and the meaning of each rating category and definition of default, as well as information on the attributes and limitations of CI's ratings, can be found at www.ciratings.com.

Ref: JO01011BNK00-1/12-12

JORDAN ISLAMIC BANK

Amman, Jordan
December 2012

RATINGS

	Current	Last Changed From	Date
Sovereign			
Long-Term:	**BB**	BB-	Sep 03
Short-Term:	**B**	-	-
Outlook	**Stable**	-	-
Foreign Currency			
Long-Term:	**BB**	BB-	Sep 03
Short-Term:	**B**	-	-
Financial Strength	**BBB-**	BB+	Oct 06
Support	**3**	-	-
Outlook			
Foreign Currency	**Stable**	Positive	Oct 04
Financial Strength	**Stable**	-	-

FINANCIAL HIGHLIGHTS

USD (mn) JOD (mn)	H1 2012 USD	H1 2012[1] JOD	2011 JOD	2010 JOD
Total Assets	4,156	2,951	2,898	2,604
Net Financing	2,478	1,760	1,329	1,231
Total Deposits*	3,770	2,676	2,636	2,345
Total Capital	305	217	212	202
Gross Income	83	59	95	82
Net Profit	27	19	28	29
Exchange Rate: USD/JOD		*0.7100*	*0.7100*	*0.7090*

**Customer + Interbank*

%	H1 2012	2011	2010
NPF / Gross Financing	4.57	6.04	5.42
FLR / NPF	62.31	61.04	68.45
Capital Adequacy Ratio	18.93	24.48	21.57
Net Financing / Customer Deposits	66.10	50.82	53.52
Liquid Asset Ratio	31.13	46.02	43.18
Profit Sharing Differential	6.32	5.86	5.71
Cost / Income	36.58	40.13	37.95
ROAA	**1.30	1.03	1.22

[1] Unaudited
***Annualised*

RATINGS DRIVERS

Supporting the Ratings

- Very strong liquidity, which rests on growing customer deposit funding, in common with conventional banks in Jordan.
- Improved profitability at both operating and net levels in H1 2012.
- Established business franchise, with major share of Islamic banking assets and customer funds.

Constraining the Ratings

- Non-performing financings (NPFs) increased further, coupled with low financings-loss reserve coverage.
- Comparatively low total capital to total assets ratio.
- Sector concentration risk.
- Challenging domestic operating environment, combined with high geopolitical risk factors.

RATING RATIONALE

Jordan Islamic Bank (JIB) continues to dominate the Islamic banking sector in Jordan, despite keen competition, following the entry of a number of other GCC-owned Islamic institutions over the past. The noticeably slower economic growth in Jordan, coupled with ongoing regional instability, has elevated credit risk in the local market and created a challenging operating environment for all banks as a group. This translated into higher non-performing financings (NPFs) for JIB in recent years, although the trend in H1 2012 suggests low growth in NPFs going forward. However, loss-reserve coverage for NPFs is currently at a rather low level and any further decline could put the ratings under pressure. While impaired financings are fully-secured, Capital Intelligence (CI) views collateral as being a loss mitigant rather than a source of repayment.

The Bank's liquidity position has consistently been strong, in common with conventional banks in Jordan, reflecting the rather low share of financings in total assets, together with the significant level of deposits held at the central bank. Although key liquidity ratios tightened moderately in H1 2012, due to financings extended to public sector entities, the Bank's liquidity remains very strong. Funding is sourced principally from customer deposits.

Having seen net profit and return on average assets (ROAA) slip in 2011, JIB's profitability at both the operating and net levels grew strongly in H1 2012 over the same period a year earlier, on the back of higher net profit sharing and non-profit sharing income. The higher level of gross income generated was driven by growth in the financings portfolio. Nevertheless, the Bank's ratio of gross income to average total assets remains below that of Jordanian conventional banks, due to the substantial amount of non-remunerative deposits held with the Central Bank. Nevertheless, JIB's profitability as measured by the ROAA ratio remained only slightly below the local industry average, thanks to a comparatively small cost base. The capital adequacy ratio (CAR) was satisfactory, although the ratio declined further into H1 2012, due to growth in total risk-weighted assets. It should be noted that JIB's total capital measured against total assets was quite low, in relation to its conventional peers denoting moderately high leverage.

CI affirms the Bank's Long- and Short-Term Foreign Currency Ratings at 'BB' and 'B' respectively. These Ratings are set in line with Jordan's Sovereign Ratings. The Financial Strength Rating (FSR) is maintained at 'BBB-', supported by very strong liquidity, improved operating profitability and ROAA in the first half of the current year, and JIB's established business franchise. The FSR is constrained by the rise in NPFs, low loss-reserve coverage, sector concentration risk, and the testing domestic and regional operating environment. The Support Level of '3' is affirmed, on the basis of the high likelihood of support from the central bank in case of need and from the parent Al-Baraka Banking Group. The Outlook for all the Ratings is 'Stable'.

PERFORMANCE OUTLOOK

Despite the increased number of GCC-owned Islamic banks operating in the local market, JIB continues to control a substantial share of Shari'a-compliant financings and deposits in Jordan. This dominant market position is likely to remain uncontested for the foreseeable future, supported by the Bank's long track record and nationwide branch network. Nevertheless, the new entrants have heightened competition, particularly for financings and to a lesser extent deposits.

Jordan's operating environment remains challenging due to the effect of slower economic growth and regional political instability. This has manifested into heightened credit risk for all banks as a group. While this may produce a further increase in NPFs over the near-term, new impaired financings are likely to be limited, as evidenced by the trend in H1 2012. Importantly, the Bank's improved operating profitability in the first half has strengthened its risk absorption capacity. This will pave the way for JIB to build the necessary provisions. Notwithstanding the downward trend in CAR in recent years, due to growth in risk-weighted assets, capital adequacy is likely to be maintained at an adequate level. The Bank's strong liquidity is expected to remain a major ratings driver going forward.

BANK HISTORY AND OWNERSHIP

Jordan Islamic Bank (JIB) 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 (DBG). The Bank's principal activities include the provision of 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 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). JIB's network of 64 branches, fifteen cash offices, and 124 ATMs operate on an online real-time basis.

ABG holds a bank holding company licence issued by the Central Bank of Bahrain. The subsidiaries of ABG include AlBaraka Islamic Bank (Bahrain), Al Baraka (Tunisia), AlBaraka Finance House (Turkey), 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 to some extent set by the parent ABG and, therefore, represent a part of the wider ABG business model and strategies. Currently, the principal activities of JIB include the provision of demand and investment accounts; finance and investment on the basis of Murabaha, Mudaraba, Musharaka, and Ijara. On the liability side of the balance sheet, investment (customer) accounts are managed on the basis of Mudaraba. The Bank operates through an extensive branch network in Jordan. 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

On the back of growing domestic demand for Islamic banking services, JIB seeks to further grow its market share of deposits and financings in the local market through sustainable growth in corporate and retail banking. 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 is expected to intensify over the near- to medium-term following the recent market entry of a number of GCC-based Islamic banks, JIB should be well able to safeguard its dominant market share.

Operating Environment

Economic activity in Jordan will remain subdued over the near-term, due largely to continuing high commodity-import prices and lingering regional political uncertainties. Following a decade of robust growth during 2000–09 (averaging about six and a half 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. This has resulted in slower economic growth and larger fiscal deficits, although these challenges are partially mitigated by Jordan's close relations with donour countries. These relationships support comparably modest external borrowing needs, though these are rising. While the authorities have implemented an ambitious program of structural reforms to develop the private sector, unemployment remains high, particularly among the young and university graduates. Jordan has seen some social and political unrest, although largely peaceful in nature. In response to the public protests, the government has announced constitutional amendments.

A difficult global environment (high imported fuel prices and rising sovereign financing costs) negatively affected the Jordanian economy in 2010–12. Because of a larger import bill, declining remittances, sharply lower tourism receipts, and lower FDI inflows, international reserves have dropped. Real GDP is expected to grow at a still slow pace of three percent in 2013. In 2012, real GDP growth is projected to have grown by 2.8% (2011: 2.6%).

In May 2011, Gulf Cooperation Council (GCC) leaders announced that Jordan, along with Morocco, have been invited to join the political bloc, which currently consists of the six states of Saudi Arabia, Kuwait, Bahrain, the UAE, Qatar, and Oman. Jordan is an immediate neighbour of GCC heavyweight Saudi Arabia and a major trading partner of alliance countries. Recently, the GCC discussed a five-year economic development plan for Jordan and Morocco: both countries hope to join the alliance of oil-rich monarchies.

The Jordanian banks as a group were not adversely impacted by the 2008-2009 global financial crisis, due to their high levels of liquidity and stable customer deposit funding base. The Central Bank of Jordan (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 announced a full guarantee of all bank deposits (including URIA) until end-2009 (then extended until end-2010). As they are 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.

KEY FINANCIAL ISSUES

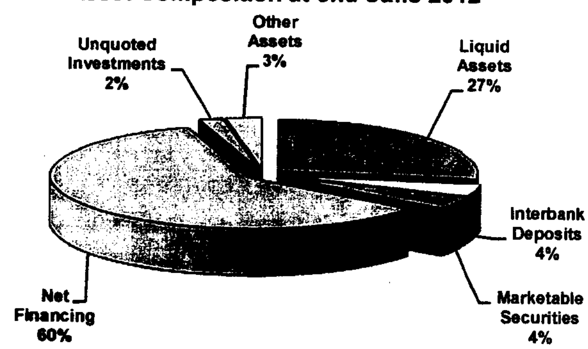
JIB's consolidated financial statements have been prepared in accordance with the rules and principles of the Islamic Shari'a, as determined by the Bank's Shari'a supervisory board, and in compliance with the accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The consolidated financial statements were audited by both Ernst & Young (Jordan) and the local firm of Ibrahim Al-Abbassi & Co., which jointly issued an unqualified audit opinion. Disclosure standards in the audited financial statements and notes have significantly improved in recent years.

BALANCE SHEET

Asset Quality

Asset mix shifted noticeably towards financing in H1 2012. While the Bank maintained its cautious stance in response to Jordan's economic slowdown, the trend towards higher liquidity reversed in H1 2012 as the financing portfolio expanded significantly. The growth in financings was driven by two large facilities granted to the state-controlled electric power company and the petroleum refinery. As a result, the share of financing in total assets rose markedly to a higher than sector average 60% at mid-year (see chart on the right) from 46% at end 2011.

Asset Composition at end-June 2012



The asset profile of Jordanian banks as a group is characterised by a relatively low net financings to total assets ratio, reflecting rather prudent lending policies, as well as the limited availability of sound credit opportunities. JIB's balance sheet continued to be ranked third largest in the local market at end 2011.

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 2011, about 40% of the financing book was short-term in tenor (less than one year).

Elevated credit risk in the local market. Amid Jordan's sluggish economy the rate of growth in net financings decelerated to an average 8% in 2011 (from 13% a year earlier) but rose markedly to 32% in H1 2012 driven by Murabaha facilities extended to strategic public sector entities. These financings bear the guarantee of the government. The Bank curtailed financings to the private sector as credit risk remained rather high in the local market due to regional political instability and challenging macroeconomic conditions. Subdued customer demand in the private sector contributed to slowing financing growth.

Distribution of Financings by Economic Sector (%)	2009	2010	2011
Commercial (corporate & SME)	41	36	41
Individuals	33	34	32
Real Estate (mainly housing)	24	22	21
Government & public sector	-	7	2
Banks & other financial institutions	-	-	4
Industrial	2	1	-
Total	100	100	100

Financing portfolio reveals some sector concentration. While the book appears reasonably balanced between commercial and retail borrowers at end 2011, there was a rather high degree of financing to the real estate sector (see adjacent table). These are mainly Ijara (housing finance). Exposure to the government / public sector increased to 30% of financings at end-June 2012, as a result of the large medium-term facilities extended.

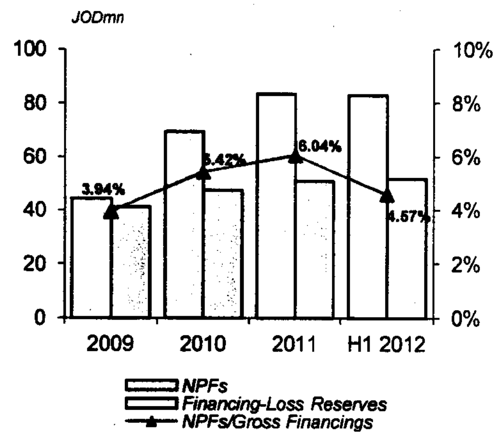
Real estate financing are within prudential limits. The Bank's total exposure to the real estate market remained significant and larger than the local industry average at 21% at end 2011. It should be noted that as an Islamic bank, JIB's financings are backed by assets, typically real estate, with the proceeds not necessarily being used for investment in real estate itself. The real estate sector in Jordan has expanded noticeably over the past, driven by strong demand from domestic, as well as regional investors.

While the commercial sector faces some challenges, consumer demand for housing remains brisk, with the sector in general not exposed to the excesses seen in some other MENA markets. The CBJ has set the exposure limit to the real estate sector at 20% of total customer deposits; JIB's actual exposure (including investments) was below that, at 10% of total customer deposits at end 2011. Lending to individuals (retail) has diversified risk and revenue streams and reduced borrower concentrations.

Increased borrower concentration in H1 2012. This was mainly the result of the large facilities granted to public entities (as mentioned above). As at end-June 2012, the top twenty five borrowers constituted 38% of gross financings. Excluding the largest government guaranteed facility, the concentration improves markedly to 11%. These exposures are well-diversified by economic sector. JIB's exposure to commercial companies continued to pose some degree of sector concentration risk. The higher-risk, but important SME sector accounted for a reasonable 11.5% of total financings. It is noteworthy that the bulk of the Bank's NPFs are derived from commercial entities and individuals. Commercial activity remains a very important contributor to Jordan's economic output.

Non-performing financings increased further, albeit at a slower pace. JIB's NPFs, calculated according to the classification criteria of the Central Bank of Jordan (90 days past due), grew by 20% to JOD83.3mn (USD117mn) at end 2011. In the first six months of 2012, growth in NPFs slowed markedly to 1.5%, suggesting that accretion of problem financings had peaked and credit stress was perhaps easing. The majority of new NPFs originated in mainly the trade (SME) sector, reflecting the challenging conditions in the local economy. Government delays in payment to contractors contributed to the increase in NPFs.

NPFs and Financing-Loss Reserves



As shown in the chart to the right, NPFs measured as a percentage of gross financings rose to 6.04% at end 2011, from 5.42% a year earlier, but remained below the sector average of 8%. The Bank has written off a considerable amount of NPFs in recent years. Most (but not all) banks in Jordan recorded a further rise in impaired financings in 2011. At end-June 2012 JIB's ratio of NPFs to gross financings dropped to 4.57%, as a result of a significant increase in the volume of facilities.

A majority of JIB's classified financings were in the 'loss' category. Reflecting the elevated level of credit risk in the economy, banks in Jordan have resorted to restructuring and rescheduling financings with their customers in recent years. JIB's rescheduled financings as at end 2011 amounted to JOD38.9mn or 2.8% of gross financings. Banks are required to comply with CBJ regulations when rescheduling financings. The write-off of NPFs requires the approval of the Shari'a Supervisory Board.

Financing-loss reserve coverage weakened. JIB's financing-loss reserves rose by just 7% and in money terms to JOD50.8mn (USD72mn) at end 2011, even though NPFs grew by 20%. This had the effect of weakening financings-loss reserve coverage to 61% from 68% at end 2010. Cover increased marginally to 62% in H1 2012. In common with other Jordanian banks, JIB actively uses collateral to mitigate risk. The value of collateral held against NPFs amounted to JOD83.2mn and covered nearly all classified financings. While banks may readily foreclose on security in the local market, CI views collateral as being a loss mitigant rather than a source of repayment.

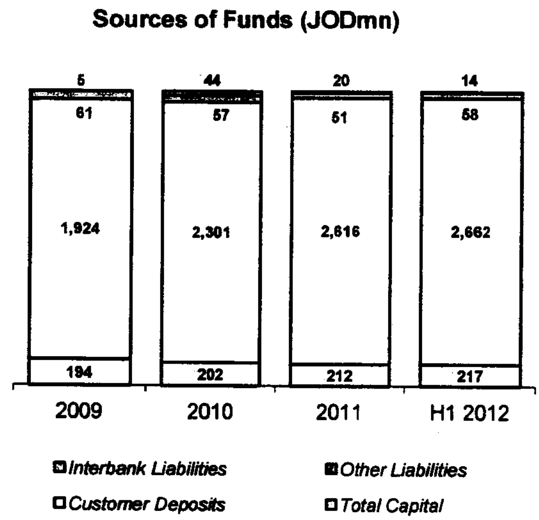
The CBJ has established clear regulations for building provisions against impaired financings. These rules oblige banks to create provisions for each credit risk category (net of the fair value of permissible collateral) as follows: 25% for substandard, 50% for doubtful, and 100% for bad. For financings secured by eligible collateral, the regulatory framework obliges all banks to build full (100%) provision coverage within five years from date of classification. On the basis of H1 2012 operating profit level, it would require the equivalent of five months operating profit for JIB to fully cover NPFs.

Small investment portfolio. The Bank's total investments formed a relatively low 6% of total assets at end 2011. Within JIB's total investments, large categories were available-for-sale (AFS) securities composed of mainly unquoted Muqarada bonds (Sukuk) (JOD65mn) and quoted equities (JOD39mn), unquoted investments in real estate (JOD59mn), and Islamic securities including Sukuk (JOD11mn).

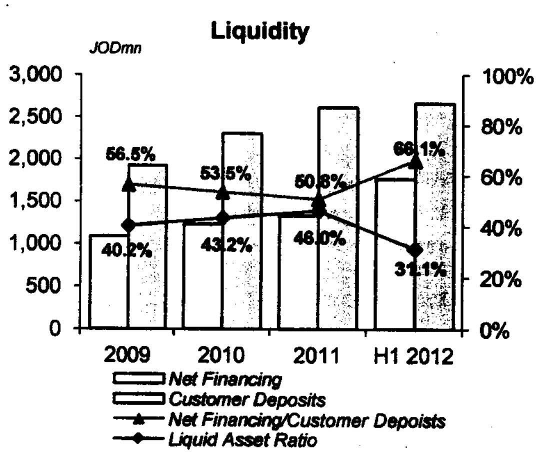
Funding and Liquidity

Customer deposits growth slowed noticeably in H1 2012. In common with Jordanian conventional banks, JIB's principal source of funding is customer deposits. The Bank's good liquidity rests on a strong customer deposit base, which until recently had grown briskly and faster than the sector average, despite keen competition from new entrants. This reflects JIB's effective deposit mobilising capability, aided by a large nationwide branch network. In general, the domestic market has seen increased demand for Islamic banking products and services.

Having expanded by 14% in 2011, customer deposits growth slowed to 2% in H1 2012 to reach JOD2,662mn (USD3.75 billion), as shown in the chart on the right. The customer deposit base funded a substantial 90% of the asset base at end-June 2012.



Unrestricted investment accounts (URIAs) dominated the customer funding base (see Capital Adequacy below). In H1 2012 JIB's unrestricted investment accounts grew fractionally to JOD1,814mn (USD2.5 billion). URIAs contributed a steady 68% to customer deposit funding, albeit the comparatively expensive time variety remained the largest component of URIAs. Although cheap current deposits continued growing at a faster pace than time deposits, they contributed about one-fourth of the Bank's customer deposit funding. There was no undue funding concentration with respect to customer deposits, highlighting the predominantly retail nature of the client base.



Liquidity ratios tightened at end H1 2012, but remained strong. As is the case with conventional banks in the local market, JIB has maintained consistently high levels of liquidity over the last four years, reflecting the comparatively low share of financings in total assets. The Bank's already strong key liquidity ratios improved for a third year in a row in 2011, as customer deposit growth outstripped that of net financing. Prior to 2009, liquidity had been on a tightening trend, due to rather rapid financings expansion amid buoyant economic conditions in the country.

As at end-June 2012, the Bank's ratios of net financing to both total customer deposits and stable funds rose noticeably to 66% and 63% respectively (from 51% and 48% six months earlier), due to significant expansion in financings (already mentioned above). On both these counts, JIB's liquidity was still strong, although moderately tighter than the sector average.

Liquid asset holdings declined, but remained at a good level. JIB's liquid asset ratio retreated to 31% at end-June 2012, having risen to 46% in 2011, as surplus funds were redeployed into financings. The trend with respect to the ratios of liquid assets and net financing to customer deposits are indicated in the chart above.

Total customer deposits exceeded net financings by JOD902mn (USD1.27 billion) at end-June 2012, compared with JOD1,287mn at year-end 2011.

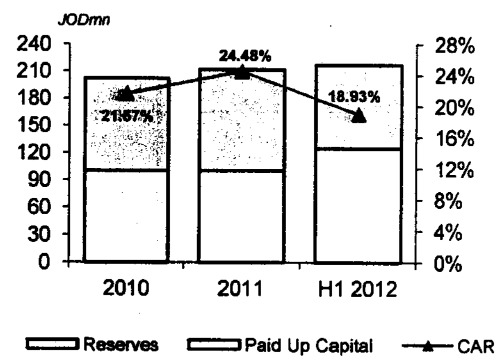
CBJ placements dominated liquid assets. The bulk of JIB's liquidity continued to be invested in deposits held with the central bank. These decreased by 31% to JOD802mn (USD1.1 billion) at end-June 2012, as funds were reallocated to the financing portfolio. CBJ balances continued to account for over three-fourths of total liquid asset holdings. A major portion of these monies was placed in non-remunerative current accounts with the central bank; less than 20% comprised mandatory reserves. JIB's deposits with other banks contributed a steady 13% to total liquid assets at year-end. The majority were placed with prime institutions in Europe, US, and the GCC, and to a lesser extent Group banks.

The maturity profile of the Bank's total assets and total liabilities remained predominantly short-term, with the proportion of assets maturing over the near term (twelve months) at 65% at end 2011. The share of total liabilities maturing over the short-term was 53%. JIB's total short-term assets exceeded total short-term liabilities by JOD441mn (USD621mn) at end 2011. Despite the short tenor of customer liabilities in the Jordanian banking system, these funds are viewed as stable, given that customers normally rollover their deposits upon maturity.

Capital Adequacy

Comfortable capital adequacy ratio. JIB's capital adequacy ratio (CAR), calculated to CBJ rules and based on Islamic Financial Services Board (IFSB) methodology, fell to 18.93% (not including net profit) at end H1 2012, from a stronger 24.48% at end-December 2011, as growth in total risk-weighted assets outpaced total regulatory capital (see adjoining chart).

Capital Composition & Adequacy



IFSB methodology tends to produce a high CAR. The Bank's seemingly high CAR is due to the contention that URIAs are not 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. URIAs are, therefore, viewed as part of regulatory capital. Accordingly, shareholders' equity only absorbs that part of losses which arise as the share of JIB's own funds in lending and investing. That said, despite being a partner in profit and loss sharing with the Bank, URIAs are not treated as shareholders, because they do not enjoy the same ownership rights (voting rights and entitlement to profits in the form of dividends).

Total capital to total assets ratio significantly below conventional banks. Notwithstanding a high CAR, the Bank's ratio of total capital to total assets was a comparatively low 7.3% at end-June 2012, denoting a higher degree of leverage than Jordanian conventional banks. The average ratio for the CI rated banks in Jordan was a sound 14%. While JIB's balance sheet was third largest of the banks, its capital base ranked just seventh. On that basis, and in view of the leverage limits stipulated under the evolving Basel III accord, the Bank may find its future business expansion plans constrained.

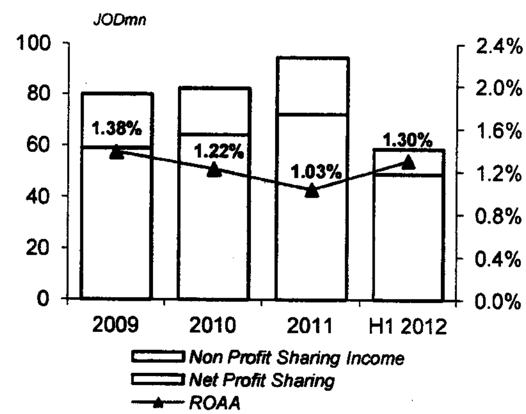
Paid-up capital increased in H1 2012. Banks in Jordan have steadily increased their paid-up capital over the last five years in anticipation of a hike in CBJ's minimum paid up capital requirement to JOD100mn. JIB had increased its paid-up capital to USD100mn in 2009 through the capitalisation of reserves (bonus shares). Paid-up capital was increased again in H1 2012 to JOD125mn (USD176mn). The capital base expanded by 4.9% in 2011 and by 2.4% in the first six months 2012 to JOD217mn (USD305mn) from retained earnings. However, free capital is impaired to a degree by unprovided NPFs. The latter constituted a higher than average 21% of free capital at end-June 2012.

Satisfactory internal capital generation. JIB's rate of internally generated capital of 6.3% was at about the same level as the industry average in 2011. However, the rate was lower than the previous year's 8.5%, because of a higher dividend payout. The Bank paid JOD15mn cash dividends to shareholders with respect to 2010 earnings, equating to a 53% dividend payout ratio (2010: 41%). JIB's policy of transferring a significant share of net profit to reserves has served to reinforce the capital base over the years.

PROFITABILITY

Further decline in ROAA in 2011, but in H1 2012 both operating and net profitability grew strongly. Although JIB's profit at both the operating and net levels had recovered in 2010, in the subsequent year net profit slipped by 3% to JOD28.3mn on higher operating costs and provisioning. However, operating profit grew further by 11% to JOD56.7mn (USD80mn), or 2.06% of average total assets (down from 2.14% in 2010). The Bank's ROAA continued trending downwards in 2011 to a slightly lower than sector average 1.03%.

Breakdown of Income & ROAA



Strong financing growth and better profit sharing differential drove performance in H1 2012. Despite a larger provision charge and significant rise in the cost base in H1 2012 over the same period in 2011, net profit rebounded by 42% to JOD19mn (USD27mn), driven by marked expansion in the financing portfolio and an improved profit sharing differential. This performance yielded a better ROAA of 1.3% on an annualized basis (see chart above). The first half net profit was equivalent to more than two-thirds of full-year 2011's net profit.

Improved operating profitability in first half 2012. Similarly, operating profit increased noticeably by 42% to JOD37mn (USD52mn) in H1 2012, mainly on the back of higher net profit sharing income and to a lesser extent non-profit sharing income. Operating profitability as measured to average total assets recovered to 2.55% (annualized) from 2.06% in full-year 2011 and 2.14% in 2010.

The banking sector had shown rather varied results for 2011 again. However, as had been the case in 2010, the majority of banks showed generally more positive results, thanks to improved operating profit, coupled with lower provisioning. The industry ROAA ratio calculated on a simple average basis was relatively stable at 1.3% in 2011. It should be noted that JIB's lower than sector average ROAA in 2011 is partly a function of the high level of non-remunerative deposits held at CBJ.

Gross income generation remains lower than at conventional banks. JIB's gross income advanced 15% to JOD95mn (USD133mn) in 2011, having recovered by 3% in 2010. However, measured to average total assets gross income stood at an unchanged 3.44%, compared with a better 4.51% for the sector average. In the event the Bank was to start earning a return on the considerable amount of non-remunerative deposits it holds, gross income generation can be expected to improve. In H1 2012 gross income rose significantly by 33% to JOD59mn (USD83mn) over H1 2011, led by higher net profit sharing and non-profit sharing income. Accordingly, the ratio of gross income to average assets improved to 4.02%.

Net profit sharing grew further. Although net financings expansion slowed to 8% in 2011, net profit sharing income growth accelerated to 12% to JOD72mn (USD101mn), on the back of an improved profit sharing differential. A lower cost of funds produced a wider profit sharing differential of 5.86% (2010: 5.71%). This healthy margin remained better than the sector's interest differential of about 4%. While JIB's good profit sharing differential is partly due to the significant share of high margin retail facilities, it also demonstrates the Bank's ability to defend its market share and business franchise. Net profit sharing income rose by a marked 36% in H1 2012 to JOD49mn, equivalent to 68% of full-year 2011 net profit sharing income.

Modest levels of non profit sharing income. JIB's non-profit sharing income recovered by 23% to JOD22mn (USD32mn) in 2011, having declined successively in each of the preceding two years. The rise in non-profit sharing income was fuelled by a JOD3.7mn realized gain from sale of FVTPL financial assets, and to a lesser extent higher fee and commission income and a provision write back. Measured to average total assets, non-profit sharing income recovered to a still modest 0.81% in 2011.

The Bank's level of non-profit sharing income remains lower than the non-interest income that conventional banks generate in Jordan. This is partly a reflection of the rather low volumes of contingent accounts business (LCs and LGs) at JIB, and the consequential limited fee and commission income generated. In H1 2012 non-profit sharing income rose by 20% to JOD9.6mn, over same period in 2011.

Nonetheless, fee and commission income remained the largest (46%) contributor to non-profit sharing income. In 2011 fees and commissions recorded positive growth of 3% to JOD10.4mn (USD15mn), following declines in 2010 and 2009. Fees and commissions had been negatively impacted by falling brokerage commissions and declining documentary credit fees (LCs and LGs), although the latter showed signs of recovery in 2011.

The category 'other income' on CI's spreads rebounded by 16% to JOD6.8mn in 2011, on the back of a JOD1.08mn provision write back. Credit card commissions rose by 19% to JOD2.18mn and are also included under 'other income'.

Ongoing sound operating efficiency. JIB's total operating expenses rose briskly by 21% to JOD38mn (USD53mn) in 2011, reflecting increased staffing requirements at new branches and employee pay rises. Other operating costs rose by 11% to JOD10.5mn. With the 15% growth in gross income, JIB's cost to income ratio rose moderately to a still sound 40% in 2011, from 38% a year earlier. This measure of operating efficiency remained better than the Jordanian banking sector average of 43%. Although the Bank's cost base expanded by 19% in H1 2012 from the same period in 2011, the cost to income ratio improved to 37%, reflecting the large growth in gross income.

Improved risk absorption capacity in H1 2012. Provisions set aside for financings and investments rose by a considerable 62% to JOD17mn in 2011, underscoring the rise in NPFs. With operating profit growing by just 11%, however, the risk charge eroded a larger 30% of operating profit, compared to 20% in 2010. Looking ahead, it is CI's expectation that JIB's provision expense is likely to remain at a rather high level, given ongoing elevated credit risk in the market, coupled with the need to build up financings-loss reserves. In H1 2012, provisions rose by 34% to JOD10.7mn and consumed 29% of operating profit. In this regard, the Bank's satisfactory operating profitability will continue to provide the flexibility to increase provisioning as necessary.

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JORDAN ISLAMIC BANK

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PERFORMANCE RATIOS External Audit	UNAUD 06/2012	AUD 12/2011	AUD 12/2010	AUD 12/2009
A . SIZE FACTORS				
1 . Total Assets (USD 000)	4,156,254	4,082,114	3,667,161	3,074,737
2 . Total Capital (USD 000)	305,076	297,941	283,934	273,111
B . ASSET QUALITY				
3 . Total Assets Growth Rate (Year on Year %)	1.82	11.32	19.27	18.11
4 . IFFI -Loss Reserve to Gross IFFI (%)	2.85	3.68	3.71	3.64
5 . Non-Performing IFFI to Gross IFFI (%)	4.57	6.04	5.42	3.94
6 . IFFI -Loss Reserve to Non-Performing IFFI (%)	62.31	61.04	68.45	92.28
7 . Unprovided Non-Performing IFFI to Free Capital (%)	20.72	22.00	15.66	2.43
8 . IFFI -Loss Provision Charge on Gross IFFI (%)*	1.18	1.23	0.82	0.89
9 . Reserve for Dimin. of Investments to Total Investments (%)				
10 . Related Party Loans to Total Capital (%)				
11 . Total Contingents on Total Assets (%)		6.82	7.03	5.49
C . CAPITAL ADEQUACY				
12 . CI Risk Asset Ratio (%)	7.57	8.84	8.86	10.36
13 . Estimated BIS Risk Asset Ratio (%)	9.90	11.47	11.49	12.88
14 . Estimated BIS RAR on Tier One Capital (%)	9.90	11.47	11.49	12.88
15 . Actual Risk Asset Ratio to IFSB Standards (%)**	18.93	24.48	21.57	14.47
16 . Internal Capital Generation (%)*	17.57	6.30	8.48	8.10
17 . Total Capital Growth Rate (Year on Year %)	2.39	4.93	3.96	2.60
18 . Total Capital to Total Assets (%)	7.34	7.30	7.74	8.88
19 . Total Capital to Gross IFFI (%)	11.96	15.32	15.76	17.20
20 . Free Capital Funds (JOD 000)	150,705	147,529	139,587	141,288
21 . Estimated BIS RAR Shortfall (JOD 000)	0	0	0	0
22 . Risk Weighted Assets on Total Footings (%)	69.16	55.48	58.18	60.95
D . LIQUIDITY				
23 . Net IFFI to Total Deposits (%)	65.74	50.44	52.51	56.32
24 . Net IFFI to Total Customer Deposits (%)	66.10	50.82	53.52	56.47
25 . Net IFFI to Stable Funds (%)	62.56	48.11	50.46	52.60
26 . Customer Deposits to Total Deposits (%)	99.46	99.26	98.12	99.73
27 . Liquid Asset Ratio (%)	31.13	46.02	43.18	40.19
28 . Quasi-Liquid Asset Ratio (%)	35.34	47.22	44.63	41.79
29 . FX Currency Assets to FX Currency Liabilities (%)		105.73	114.28	105.64
30 . FX Currency IFFI to FX Currency Deposits (%)		91.35	86.28	50.79
31 . Interbank Assets to Interbank Liabilities (%)	805.95	602.77	309.50	2,043.69
32 . Net Interbank Assets (JOD 000)	101,847	98,281	92,266	101,033
E . PROFITABILITY				
33 . Return on Average Assets (%)*	1.30	1.03	1.22	1.38
34 . Return on Average Equity (%)*	17.78	13.71	14.71	14.57
35 . Underlying Profits on Average Assets (%)			1.89	2.09
36 . Underlying Profits on Average Equity (%)			22.85	22.05
37 . Funding Cost (%)*	1.50	1.50	1.71	2.32
38 . Profit Sharing on Average Earning Assets (%)*	7.82	7.36	7.42	8.32
39 . Profit Sharing Differential (%)	6.32	5.86	5.71	6.00
40 . Non-Profit Sharing Income to Gross Income (%)	16.37	23.67	22.01	26.28
41 . Operating Expenses to Gross Income (%)	36.58	40.13	37.95	38.90
42 . Operating Profit Growth Rate (%)*	31.52	10.75	4.62	-18.82
43 . Operating Profit on Average Assets (%)*	2.55	2.06	2.14	2.43
44 . Risk Provisioning Charge to Operating Profit (%)	28.68	29.88	20.45	20.41
45 . Dividend Payout Ratio (%)	0.00	52.96	41.25	43.70
RATES				
Exchange Rate (Units per USD)	0.7100	0.7100	0.7100	0.7100
Inflation Rate (%)	NA	NA	5.44	-0.70
Imputed Interest Rate on Free Capital (%) (Discount Rate)	NA	NA	4.25	4.75

NOTES:

* Annualised ratios for June 2012.

** Calculated to Islamic Financial Services Board methodology, which tends to produce a high capital adequecy ratio.

BALANCE SHEET - ASSETS (JOD 000)

RISK WGHT	External Audit	06/2012 USD 000	UNAUD 06/2012	AUD 12/2011	AUD 12/2010	AUD 12/2009	Growth (%) 06/2012	Growth (%) 12/2011	Growth (%) 12/2010	Growth (%) 12/2009	Breakdown (%) 06/2012	Breakdown (%) 12/2011	Breakdown (%) 12/2010	Breakdown (%) 12/2009
	LIQUID ASSETS:													
0%	Cash & 7 Day			50,026	44,161	39,510		13.28	11.77	8.34		1.73	1.70	1.81
0%	Central Bank	1,130,272	802,493	1,165,984	943,906	731,741	-31.17	23.53	28.99	35.37	27.19	40.23	36.25	33.52
10%	Treasury Bills													
20%	Government Securities													
20%	Other - Interbranch Bal.													
	TOTAL LIQUID ASSETS	1,130,272	802,493	1,216,010	988,067	771,251	-34.01	23.07	28.11	33.66	27.19	41.96	37.95	35.33
	DEPOSITS WITH BANKS:													
20%	Short - Up to 1 Year			21,395	50,171	15,400		-57.36	225.79	-34.82		0.74	1.93	0.71
20%	Short - Foreign Banks	163,766	116,274	96,434	86,137	90,831	20.57	11.95	-5.17	2.25	3.94	3.33	3.31	4.16
100%	Non - OECD Medium Term													
	TOTAL DEPOSITS WITH BANKS	163,766	116,274	117,829	136,308	106,231	-1.32	-13.56	28.31	-5.54	3.94	4.07	5.24	4.87
100%	MARKETABLE SECURITIES	174,652	124,003	34,672	37,611	34,838	257.65	-7.81	7.96	18.43	4.20	1.20	1.44	1.60
	ISL. FIN. FACILITIES & INV.													
20%	Gov't Guaranteed	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
50%	Specified investments													
100%	Social Financing (Qard Al-Hassan)			7,579	7,704	8,644		-1.62	-10.87	-22.78		0.26	0.30	0.40
100%	Mudaraba, Murabaha, Musharaka	2,089,555	1,483,584	1,066,526	1,033,200	939,107	39.10	3.23	10.02	12.64	50.27	36.80	39.68	43.02
100%	Ijara	344,641	244,695	222,922	168,540	134,951	9.77	32.27	24.89	22.34	8.29	7.69	6.47	6.18
100%	Non-Performing IFFI	116,703	82,859	83,319	69,305	44,445	-0.55	20.22	55.93	22.18	2.81	2.87	2.66	2.04
100%	IFFI - Loss Reserve	-72,720	-51,631	-50,859	-47,441	-41,016	1.52	7.20	15.66	9.50	-1.75	-1.75	-1.82	-1.88
	NET ISL. FIN. FACILITIES & INV.	2,478,179	1,759,507	1,329,487	1,231,308	1,086,131	32.34	7.97	13.37	13.83	59.63	45.87	47.29	49.75
100%	UNQUOTED/OTHER INVESTMENTS	98,670	70,056	129,369	140,589	125,629	-45.85	-7.98	11.91	3.85	2.37	4.46	5.40	5.75
100%	NON-FINANCIAL SUBS & AFFILS.	6,346	4,506	5,063	7,950	6,714	-11.00	-36.31	18.41	3.21	0.15	0.17	0.31	0.31
	FINANCIAL SUBS & AFFILIATES	20,454	14,522	14,494	15,245	13,125	0.19	-4.93	16.15	-11.44	0.49	0.50	0.59	0.60
100%	FIXED ASSETS	66,015	46,871	44,452	38,811	32,782	5.44	14.53	18.39	17.59	1.59	1.53	1.49	1.50
100%	OTHER ASSETS	17,899	12,708	6,925	7,795	6,362	83.51	-11.16	22.52	23.99	0.43	0.24	0.30	0.29
	TOTAL ASSETS	4,156,254	2,950,940	2,898,301	2,603,684	2,183,063	1.82	11.32	19.27	18.11	100.00	100.00	100.00	100.00
	CONTINGENT ACCOUNTS:													
100%	Fin. Gtees/SLCs/Acceptances			130,721	116,781	82,507		11.94	41.54	0.26		66.09	63.78	68.83
50%	Bid & Performance Bonds													
20%	LCs/Bank & Govt Guarantees			67,061	66,330	37,367		1.10	77.51	27.23		33.91	36.22	31.17
10%	Bonding for Banks & Govts													
5%	IR Swaps/Bank & Govt LCs													
	TOTAL CONTINGENT ACCOUNTS			197,782	183,111	119,874		8.01	52.75	7.36		100.00	100.00	100.00
	TOTAL FOOTINGS	4,156,254	2,950,940	3,096,083	2,786,795	2,302,937	-4.69	11.10	21.01	17.49	-	-	-	-
	RISK WEIGHTED ASSETS	2,874,515	2,040,906	1,717,667	1,621,373	1,403,683	18.82	5.94	15.51	11.87	-	-	-	-

BALANCE SHEET - LIABILITIES (JOD 000)

	USD 000	06/2012	12/2011	12/2010	12/2009	06/2012	12/2011	12/2010	12/2009	06/2012	12/2011	12/2010	12/2009
INTERBANK LIABILITIES:													
Current & 7 Day - Domestic Dep.													
Short - Foreign Dep (Demand)	20,320	14,427	19,548	44,042	5,198	-26.20	-55.62	747.29	-39.03	0.49	0.67	1.69	0.24
Other - Foreign Dep (Fixed)													
TOTAL INTERBANK LIABILITIES	20,320	14,427	19,548	44,042	5,198	-26.20	-55.62	747.29	-39.03	0.49	0.67	1.69	0.24
CUSTOMER DEPOSITS:													
Current accounts			657,772	561,966	503,587		17.05	11.59	12.35		22.70	21.58	23.07
Demand saving accounts			124,401	106,693	91,584		16.60	16.50	<<<<		4.29	59.90	57.48
Unrestricted Inv. Accounts	3,704,317	2,630,065	1,766,135	1,559,683	1,254,859	48.92	13.24	24.29	<<<<	89.13	60.94	59.90	48.20
Other - Cash Margins	44,910	31,886	67,828	72,452	73,397	-52.99	-6.38	-1.29	10.06	1.08	2.34	2.78	3.36
TOTAL CUSTOMER DEPOSITS	3,749,227	2,661,951	2,616,136	2,300,794	1,923,427	1.75	13.71	19.62	21.62	90.21	90.26	88.37	88.11
OFFICIAL DEPOSITS													
TOTAL DEPOSITS + INTERBANK	3,769,546	2,676,378	2,635,684	2,344,836	1,928,625	1.54	12.40	21.58	21.30	90.70	90.94	90.06	88.34
OTHER LIABILITIES	81,631	57,958	51,079	57,255	60,529	13.47	-10.79	-5.41	-12.76	1.96	1.76	2.20	2.77
MEDIUM/LONG TERM LIABILITIES													
TIER TWO CAPITAL:													
Asset Revaluation Reserve	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
Hybrid Capital Instruments	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
Subordinated Term Debt	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
TOTAL TIER TWO CAPITAL	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
TIER ONE CAPITAL:													
Paid Up Capital	176,056	125,000	100,000	100,000	100,000	25.00	0.00	0.00	23.08	4.24	3.45	3.84	4.58
Minority Interests	1,287	914	661	648	600	38.28	2.01	8.00	4.53	0.03	0.02	0.02	0.03
Reserves	127,732	90,690	110,877	100,945	93,309	-18.21	9.84	8.18	-12.93	3.07	3.83	3.88	4.27
TOTAL TIER ONE CAPITAL	305,076	216,604	211,538	201,593	193,909	2.39	4.93	3.96	2.60	7.34	7.30	7.74	8.88
TOTAL CAPITAL	305,076	216,604	211,538	201,593	193,909	2.39	4.93	3.96	2.60	7.34	7.30	7.74	8.88
TOTAL LIABILITIES AND CAPITAL	4,156,254	2,950,940	2,898,301	2,603,684	2,183,063	1.82	11.32	19.27	18.11	100.00	100.00	100.00	100.00

PROFIT AND LOSS ACCOUNT (JOD 000)

	USD 000	06/2012	12/2011	12/2010	12/2009	Growth (%) 06/2012	Growth (%) 12/2011	Growth (%) 12/2010	Growth (%) 12/2009	% of Average Total Assets 06/2012	% of Average Total Assets 12/2011	% of Average Total Assets 12/2010	% of Average Total Assets 12/2009
Investment Revenues	97,193	69,007	109,714	100,830	99,823	-37.10	8.81	1.01	-1.89	2.36	3.99	4.21	4.95
Depositors' Share	-27,999	-19,879	-37,472	-36,533	-40,825	-46.95	2.57	-10.51	20.21	-0.68	-1.36	-1.53	-2.03
Net Profit Sharing	69,194	49,128	72,242	64,297	58,998	-32.00	12.36	8.98	-12.97	1.68	2.63	2.69	2.93
Fees and Commissions	7,717	5,479	10,402	10,135	10,556	-47.33	2.63	-3.99	-11.32	0.19	0.38	0.42	0.52
FX Trading Income	1,232	875	1,760	1,652	1,645	-50.28	6.54	0.43	-13.65	0.03	0.06	0.07	0.08
Dealing Securities Income	-28	-20	3,464	536	2,565	-100.58	546.27	-79.10	186.25	0.00	0.13	0.02	0.13
Other Investment Income													
Other Income	4,625	3,284	6,772	5,824	6,268	-51.51	16.28	-7.08	-46.72	0.11	0.25	0.24	0.31
Non Profit Sharing Income	13,546	9,618	22,398	18,147	21,034	-57.06	23.43	-13.73	-6.93	0.33	0.81	0.76	1.04
GROSS INCOME	82,741	58,746	94,640	82,444	80,032	-37.93	14.79	3.01	-11.46	2.01	3.44	3.44	3.97
Administrative Expenses	27,872	19,789	34,317	28,318	28,499	-42.33	21.18	-0.64	2.62	0.68	1.25	1.18	1.41
Depreciation	2,394	1,700	3,166	2,869	2,325	-46.30	10.35	23.40	34.32	0.06	0.12	0.12	0.12
Other Expenses			500	100	310		400.00	-67.74	-52.38		0.02	0.00	0.02
OPERATING EXPENSES	30,266	21,489	37,983	31,287	31,134	-43.42	21.40	0.49	3.25	0.73	1.38	1.31	1.54
OPERATING PROFIT	52,475	37,257	56,657	51,157	48,898	-34.24	10.75	4.62	-18.82	1.27	2.06	2.14	2.43
Provisions for Doubtful IFFI	-15,052	-10,687	-16,931	-10,462	-9,982	-36.88	61.83	4.81	-1.90	-0.37	-0.62	-0.44	-0.50
Prov. for Dimin. of Investments													
GROSS PROFIT (or -LOSS)	37,423	26,570	39,726	40,695	38,916	-33.12	-2.38	4.57	-22.26	0.91	1.44	1.70	1.93
Extraordinary Items													
Tax & Equivalent	-10,615	-7,537	-11,401	-11,601	-11,027	-33.89	-1.72	5.21	-26.09	-0.26	-0.41	-0.48	-0.55
NET PROFIT (or -LOSS)	26,807	19,033	28,325	29,094	27,889	-32.80	-2.64	4.32	-20.64	0.65	1.03	1.22	1.38
Transfers/Adjustments	-55,239	-39,220	-3,393	-9,458	-10,807	-1,055.91	64.13	>>>>	-111.25	-1.34	-0.12	-0.40	-0.54
APPROPRIATION:													
Minority Interests	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
Bonus Shares Issued	0	0	0	0	18,750	-	-	-100.00	15.38	0.00	0.00	0.00	0.93
Dividends			15,000	12,000	12,188		25.00	-1.54	56.26		0.55	0.50	0.60
Movement in Reserves	-28,432	-20,187	9,932	7,636	-13,856	-303.25	30.07	155.11	-112.93	-0.69	0.36	0.32	-0.69
TOTAL	-28,432	-20,187	24,932	19,636	17,082	-180.97	26.97	14.95	-86.98	-0.69	0.91	0.82	0.85

RATIO FORMULAE

A. Size Factors	
1. TOTAL ASSETS (USD 000)	
2. TOTAL CAPITAL (USD 000)	
B. Asset Quality Ratios	
3. TOTAL ASSETS GROWTH RATE (YEAR ON YEAR %)	(CURRENT YEAR TOTAL ASSETS - LAST YEAR TOTAL ASSETS) X 100 / LAST YEAR TOTAL ASSETS
4. LOAN-LOSS RESERVE TO GROSS LOANS (%)	LOAN-LOSS RESERVE X 100 / GROSS LOANS
5. NON-PERFORMING LOANS TO GROSS LOANS (%)	NON-PERFORMING LOANS X 100 / GROSS LOANS
6. LOAN-LOSS RESERVE TO NON-PERFORMING LOANS (%)	LOAN-LOSS RESERVE X 100 / NON-PERFORMING LOANS
7. UNPROVIDED NON-PERFORMING LOANS TO FREE CAPITAL (%)	NON-PERFORMING LOANS - LOAN LOSS RESERVE X 100 / FREE CAPITAL
8. LOAN-LOSS PROVISION CHARGE ON GROSS LOANS (%)	PROVISIONS FOR DOUBTFUL DEBTS CHARGE X 100 / GROSS LOANS
9. RESERVE FOR DIMINUTION OF INVESTMENTS TO TOTAL INVESTMENTS (%)	RESERVE FOR DIMINUTION OF INVESTMENTS X 100 / TOTAL INVESTMENTS
10. RELATED PARTY LOANS TO TOTAL CAPITAL (%)	RELATED PARTY LOANS X 100 / TIER ONE + TIER TWO CAPITAL
11. TOTAL CONTINGENTS ON TOTAL ASSETS (%)	TOTAL CONTINGENTS X 100 / TOTAL ASSETS
C. Capital Adequacy Ratios	
12. CI RISK ASSET RATIO (%)	FREE CAPITAL FUNDS X 100 / RISK WEIGHTED ASSETS - NON-FINANCIAL SUBS. - FIXED ASSETS
13. ESTIMATED BIS RISK ASSET RATIO (%)	(TOTAL CAPITAL - FINANCIAL SUBSIDIARIES) X 100 / RISK WEIGHTED ASSETS
14. ESTIMATED BIS RAR ON TIER ONE CAPITAL (%).	TIER ONE CAPITAL - FINANCIAL SUBSIDIARIES X 100 / RISK WEIGHTED ASSETS
15. ACTUAL RISK ASSET RATIO TO LOCAL STANDARDS (%)	AS REPORTED BY LOCAL CENTRAL OR COMMERCIAL BANKS
16. INTERNAL CAPITAL GENERATION (%).	(NET PROFIT - DIVIDENDS -EXTRAORDINARY ITEMS) X 100 / TIER ONE CAPITAL
17. TOTAL CAPITAL GROWTH RATE (YEAR ON YEAR %)	(CURRENT YEAR TOTAL CAPITAL - LAST YEAR TOTAL CAPITAL) X 100 / LAST YEAR TOTAL CAPITAL
18. TOTAL CAPITAL TO TOTAL ASSETS (%)	TOTAL CAPITAL X 100 / TOTAL ASSETS
19. TOTAL CAPITAL TO GROSS LOANS (%)	TOTAL CAPITAL X 100 / GROSS LOANS
20. FREE CAPITAL FUNDS (LOCAL CURRENCY)	TOTAL CAPITAL - FINANCIAL & NON FINANCIAL SUBSIDIARIES - FIXED ASSETS
21. ESTIMATED BIS RAR SHORTFALL (LOCAL CURRENCY)	IF BIS RISK ASSET RATIO IS LESS THAN 8% (0.08 X RISK WEIGHTED ASSETS) - (TOTAL CAPITAL - FINANCIAL SUBSIDIARIES)
22. RISK WEIGHTED ASSETS ON TOTAL FOOTINGS (%)	RISK WEIGHTED ASSETS X 100 / TOTAL FOOTINGS
D. Liquidity Ratios	
23. NET LOANS TO TOTAL DEPOSITS (%)	NET LOANS X 100 / TOTAL CUSTOMER DEPOSITS & INTERBANK
24. NET LOANS TO TOTAL CUSTOMER DEPOSITS (%)	NET LOANS X 100 / TOTAL CUSTOMER DEPOSITS
25. NET LOANS TO STABLE FUNDS (%)	NET LOANS X 100 / STABLE FUNDS
26. CUSTOMER DEPOSITS TO TOTAL DEPOSITS (%)	TOTAL CUSTOMER DEPOSITS X 100 / TOTAL DEPOSITS & INTERBANK
27. LIQUID ASSET RATIO (%)	(TOTAL LIQUID ASSETS + TOTAL DEPOSITS WITH BANKS) X 100 / TOTAL ASSETS
28. QUASI-LIQUID ASSET RATIO (%)	QUASI-LIQUID ASSETS X 100 / TOTAL ASSETS
29. FOREIGN CURRENCY ASSETS TO FOREIGN CURRENCY LIABILITIES (%)	FOREIGN CURRENCY ASSETS X 100 / FOREIGN CURRENCY LIABILITIES
30. FOREIGN CURRENCY LOANS TO FOREIGN CURRENCY DEPOSITS (%)	FOREIGN CURRENCY LOANS X 100 / FOREIGN CURRENCY BORROWINGS + FOREIGN CURRENCY DEPOSITS
31. INTERBANK ASSETS TO INTERBANK LIABILITIES (%)	TOTAL DEPOSITS WITH BANKS X 100 / TOTAL INTERBANK LIABILITIES
32. NET INTERBANK ASSETS (LOCAL CURRENCY)	TOTAL DEPOSITS WITH BANKS - TOTAL INTERBANK LIABILITIES

E. Profitability Ratios

33. RETURN ON AVERAGE ASSETS (%)	NET PROFIT (or LOSS) X 100 / AVERAGE TOTAL ASSETS
34. RETURN ON AVERAGE EQUITY (%)	NET PROFIT (or LOSS) X 100 / AVERAGE TIER ONE CAPITAL +AVERAGE REVALUATION RESERVE
35. UNDERLYING PROFITS ON AVERAGE ASSETS (%)	(OPERATING PROFIT - INTEREST ON AVERAGE FREE CAPITAL) X 100 / AVERAGE TOTAL ASSETS
36. UNDERLYING PROFITS ON AVERAGE EQUITY (%)	(OPERATING PROFIT - INTEREST ON AVERAGE FREE CAPITAL) X 100 / AVERAGE TIER ONE CAPITAL + AVERAGE REVALUATION RESERVE
37. FUNDING COST (%)	INTEREST EXPENSE X 100 / AVERAGE TOTAL DEPOSITS & INTERBANK+AVERAGE MEDIUM/LONG TERM LIABILITIES+AVERAGE HYBRID CAPITAL INSTRUMENTS+AVERAGE SUBORDINATED TERM DEBT
38. INTEREST ON AVERAGE EARNING ASSETS (%)	INTEREST INCOME X 100 / AVERAGE CASH & 7 DAY+AVERAGE T-BILLS+AVERAGE GOVERNMENT SECURITIES+AVERAGE OTHER LIQUID ASSETS+AVERAGE TOTAL DEPOSITS WITH BANKS+AVERAGE MARKETABLE SECURITIES+AVERAGE NET LOANS
39. INTEREST DIFFERENTIAL (%)	INTEREST ON AVERAGE EARNING ASSETS (%) - FUNDING COST (%)
40. NON-INTEREST INCOME TO GROSS INCOME (%)	(GROSS INCOME - NET INTEREST) X 100 / GROSS INCOME
41. OPERATING EXPENSES TO GROSS INCOME (%)	OPERATING EXPENSES X 100 / GROSS INCOME
42. OPERATING PROFIT GROWTH RATE (YEAR ON YEAR %)	(CURRENT YEAR OPERATING PROFIT - LAST YEAR OPERATING PROFIT) X 100 / LAST YEAR OPERATING PROFIT
43. OPERATING PROFIT ON AVERAGE ASSETS (%)	OPERATING PROFIT X 100 / AVERAGE TOTAL ASSETS
44. RISK PROVISIONING CHARGE TO OPERATING PROFIT (%)	PROV. CHARGE FOR DOUBTFUL DEBTS & DIM. OF INVESTMENTS X 100 / OPERATING PROFIT
45. DIVIDEND PAYOUT RATIO (%)	DIVIDENDS X 100 / NET PROFIT (or LOSS)

Definitions

FREE CAPITAL:- FREE CAPITAL FUNDS - TIER TWO CAPITAL

STABLE FUNDS:- TOTAL CUSTOMER DEPOSITS + OFFICIAL DEPOSITS + MEDIUM/LONG TERM LIABILITIES + FREE CAPITAL FUNDS.

QUASI LIQUID ASSETS:- TOTAL LIQUID ASSETS + TOTAL DEPOSITS WITH BANKS + MARKETABLE SECURITIES.

TOTAL INVESTMENTS:- MARKETABLE SECURITIES + UNQUOTED INVESTMENTS + NON-FINANCIAL SUBSIDIARIES & AFFILIATES + FINANCIAL SUBSIDIARIES & AFFILIATES.

RISK WEIGHTED ASSETS:- WEIGHTED TOTAL OF ASSETS APPLYING THE FOLLOWING PERCENTAGES:-

100%	Non-OECD medium term deposits, marketable securities, bills discounted & short term loans, medium/long term loans, other loans, non-performing loans, loan-loss provisions, unquoted investments, non-financial subsidiaries & affiliates, fixed assets, other assets, financial guarantees / standby LCs / acceptances.
50%	First mortgage loans, bid & performance bonds.
20%	Government securities, other liquid assets, up to 1 year deposits with banks, short/other deposits with banks, government guaranteed / collateralised loans, LCs / bank & government guarantees.
10%	T-Bills, bonding for banks & governments.
5%	Interest rate swaps/bank & government LCs.

GROSS LOANS:- GOVERNMENT GUARANTEED, FIRST MORTGAGE LOANS, BILLS DISC. & SHORT TERM, MEDIUM/LONG TERM LOANS, OTHER LOANS, NON-PERFORMING LOANS.

EQUITY:- TIER ONE CAPITAL + ASSET REVALUATION RESERVE

RATINGS DEFINITIONS

Foreign and Local Currency Ratings

Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

Local currency ratings for non-sovereign issuers are an opinion of an entity's ability and willingness to meet all of its financial obligations on a timely basis, regardless of the currency in which those obligations are denominated and absent transfer and convertibility restrictions. Both foreign currency and local currency ratings are internationally comparable assessments.

Foreign and local currency ratings take into account the economic, financial and country risks that may affect creditworthiness as well as the likelihood that an entity would receive external support in the event of financial difficulties.

Ratings assigned to banks and corporates are generally not higher than the local and foreign currency ratings assigned by CI to the relevant sovereign government. However, it may be possible for an issuer with particular strengths and attributes such as inherent financial strength, geographically diversified cash flow, substantial foreign assets, and guaranteed external support, to be rated above the sovereign.

The following rating scale applies to both foreign currency and local currency ratings. Short-term ratings assess the time period up to one year.

Long-Term Issuer Ratings

Investment Grade

AAA The highest credit quality. Exceptional capacity for timely fulfilment of financial obligations and most unlikely to be affected by any foreseeable adversity. Extremely strong financial condition and very positive non-financial factors.

AA Very high credit quality. Very strong capacity for timely fulfilment of financial obligations. Unlikely to have repayment problems over the long term and unquestioned over the short and medium terms. Adverse changes in business, economic and financial conditions are unlikely to affect the institution significantly.

A High credit quality. Strong capacity for timely fulfilment of financial obligations. Possesses many favourable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions.

BBB Good credit quality. Satisfactory capacity for timely fulfilment of financial obligations. Acceptable credit characteristics but some vulnerability to adverse changes in business, economic and financial conditions. Medium grade credit characteristics and the lowest investment grade category.

Speculative Grade

BB Speculative credit quality. Capacity for timely fulfilment of financial obligations is vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors do not provide significant safeguard and the possibility of investment risk may develop.

B Significant credit risk. Capacity for timely fulfilment of financial obligations is very vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors provide weak protection; high probability for investment risk exists.

C Substantial credit risk is apparent and the likelihood of default is high. Considerable uncertainty as to the timely repayment of financial obligations. Credit is of poor standing with financial and/or non-financial factors providing little protection.

RS Regulatory supervision. The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Short-Term Issuer Ratings

Investment Grade

A1 Superior credit quality. Highest capacity for timely repayment of short-term financial obligations that is extremely unlikely to be affected by unexpected adversities. Institutions with a particularly strong credit profile have a "+" affixed to the rating.

A2 Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.

A3 Strong capacity for timely repayment that may be affected by unexpected adversities.

Speculative Grade

B Adequate capacity for timely repayment that could be seriously affected by unexpected adversities.

C Inadequate capacity for timely repayment if unexpected adversities are encountered in the short term.

RS Regulatory supervision. The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Capital Intelligence appends "+" and "-" signs to foreign and local currency **long term** ratings in the categories from "AA" to "C" to indicate that the strength of a particular bank is, respectively, slightly greater or less than that of similarly rated peers. Rating symbols written in lower case (e.g. aaa/a1) indicate that the issuer has not participated in the rating process and CI has relied on publicly available information and other information sources it considers reliable.

Outlook – expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.

Financial Strength Ratings

CI's financial strength ratings provide an opinion of a bank's inherent financial strength, soundness and risk profile. These ratings do not address sovereign risk factors, including transfer risk, which may affect an institution's capacity to honour its financial obligations, be they local or foreign currency. Financial strength ratings also exclude support factors, which are addressed by foreign and local currency ratings, as well as CI's support ratings. However, financial strength ratings do take into account the bank's operating environment including the economy, the structure, strength and stability of the financial system, the legal system, and the quality of banking regulation and supervision. Financial strength ratings do not assess the likelihood that specific obligations will be repaid in a timely manner.

The following rating scale applies to the financial strength rating.

AAA	Financially in extremely strong condition with positive financial trends; significant strengths in other non-financial areas. Operating environment likely to be highly attractive and stable.
AA	Financially in very strong condition and significant strengths in other non-financial areas. Operating environment likely to be very attractive and stable.
A	Strong financial fundamentals and very favourable non-financial considerations. Operating environment may be unstable but institution's market position and/or financial strength more than compensate.
BBB	Basically sound overall; slight weaknesses in financial or other factors could be remedied fairly easily. May be limited by unstable operating environment.
BB	One or two significant weaknesses in the bank's financial makeup could cause problems. May be characterised by a limited franchise; other factors may not be sufficient to avoid a need for some degree of temporary external support in cases of extraordinary adversity. Unstable operating environment likely.
B	Fundamental weaknesses are present in the bank's financial condition or trends, and other factors are unlikely to provide strong protection from unexpected adversities; in such an event, the need for external support is likely. Bank may be constrained by weak market position and/or volatile operating environment.
C	In a very weak financial condition, either with immediate problems or with limited capacity to withstand adversities. May be operating in a highly volatile operating environment.
D	Extremely weak financial condition and may be in an untenable position.

Capital Intelligence appends "+" and "-" signs to financial strength ratings in the categories from "AA" to "C" to indicate that the strength of a particular institution is, respectively, slightly greater or less than that of similarly rated peers. Rating symbols written in lower case (e.g. aaa/a1) indicate that the issuer has not participated in the rating process and CI has relied on publicly available information and other information sources it considers reliable.

Outlook – expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.

Support Ratings

CI's support ratings assess the likelihood that, in the event of difficulties, a bank would receive sufficient financial assistance from the government or private owners to enable it to continue meeting its financial obligations in a timely manner. Support ratings complement CI's financial strength ratings which, in effect, indicate the likelihood that a bank will fail due to inherent financial weaknesses and/or an unstable operating environment and therefore may require external support to avoid defaulting on its obligations. Neither financial strength ratings or support ratings take account of transfer and convertibility risks associated with sovereign events. The overall creditworthiness of an institution and default risk is captured by CI's foreign currency ratings. Foreign currency ratings take into account all factors affecting the likelihood of repayment including inherent financial strength, external support, the operating environment, and sovereign-related risks.

Although subjective, support ratings are based on a thorough assessment of a bank's ownership, market position and importance within the sector and economy, as well as the country's regulatory and supervisory framework and the credit standing of potential supporters.

The following rating scale applies to support ratings.

1. The likelihood of a bank receiving support in the event of difficulties is extremely high. The characteristics of a bank with this support rating may include strong government ownership and/or clear legal guarantees on the part of the state. The bank may also be of such importance to the national economy that state intervention is virtually assured. The ability and willingness of potential supporters to provide sufficient and timely support is extremely strong.

2. The likelihood of support is very high. The ability and willingness of potential supporters to provide sufficient and timely support is very strong.

3. The likelihood of support is high. The ability and willingness of potential supporters to provide sufficient and timely support is strong.

4. The likelihood of support is moderate. There is some uncertainty about the ability and willingness of potential supporters to provide sufficient and timely assistance.

5. The likelihood of support is low. There is considerable uncertainty about the ability and willingness of potential supporters to provide sufficient and timely assistance.

Ci

البنك الإسلامي الأردني

الإدارة العامة

للافصاح
- الموقع
١٦/ ١

الرقم : ١١٩/capi/ 002281
التاريخ : ٢٠١٣/١/١٦

السادة هيئة الأوراق المالية المحترمين ،،
دائـــرة الإفصـــاح
عمـــان – الأردن

السلام عليكم ورحمة الله وبركاته،،

الموضوع: تصنيف الوكالة الاسلامية للتصنيف - البحرين

بالإشارة إلى الموضوع أعلاه ، يسرنا أن نرفق لكم نسخة من تصـــنيف الجـــودة الشرعية والتصنيف الائتماني الخاص بمصرفنا .

وتفضلوا بقبول فائق الاحترام،،،

محمد علان
نائب المدير العام

١٦ كانون الثاني ٢٠١٣
٣٦١

هاتـف : ٥٦٧٧٣٧٧ ٦ ٩٦٢+
فاكس : ٥٦٦٦٣٢٦ ٦ ٩٦٢+
ص.ب : ٩٢٦٢٢٥ عمان ١١١٩٠ الأردن
Email:jib@islamicbank.com.jo
شركة مساهمة عامة محدودة
(سجل الشركة رقم ١٢٤)

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

SHARIA QUALITY RATING REPORT

Jordan Islamic Bank

December 21, 2012

Shari'a Rating : AA (SQR)

Shari'a Rating Rating Definition
In IIRA's opinion, an entity/instrument rated AA (SQR) conforms to very high level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.

Rating Rationale

Jordan Islamic Bank (JIB or 'the bank') was incorporated in 1978 and is owned in majority by the Albaraka Banking Group (ABG) - one of the largest Islamic Banking Groups in the world. Besides developing a strong franchise as an institution that adheres to the Islamic Principles of Shari'a, the bank has also paved the way for development of Islamic finance in Jordan, as the first and largest Islamic bank in the country. Commitment to ensuring a high level of Shari'a compliance at the bank is evident from the vision of the shareholders and the bank's management.

The bank has an eminent Shari'a Supervisory Board (SSB) in place which is governed by specifically laid down Terms of Reference. JIB has four members on the SSB who are appointed in the Annual General Meeting of the shareholders, with a term of one year. SSB members comprise experienced professionals in the area of Islamic jurisprudence. Besides one member, who has been inducted in the on-going year following the demise of one of the previous board members, the remaining SSB personnel have had a lengthy association with the bank. The SSB approves all banking contracts, ensures periodic review of operations with regards to the level of Shari'a compliance and also advises the bank on general matters to raise the standard of Shari'a related practices at the bank.

The board meets regularly and opines on the level of compliance with SSB pronouncements and Shari'a principles. With occasional exceptions, attendance level of 100% has been maintained by members of the SSB, over the course of the last three years.

JIB has an effective Internal Shari'a Audit unit, which reports independently to the Board of Directors (BoD) and the SSB. An audit plan ensures periodic review of branches. Reports are comprehensive and

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violations noted have been of a minor nature. Further staff training and incentivizing branch staff as also advised by the SSB, should assist in reducing the number of findings that appear to be repetitive in nature. Segregating the functions of Shari'a audit and Shari'a compliance, which is currently combined, is also more in line with best practices.

The bank offers a variety of Islamic modes of finance; however, Murabaha remains the dominant transaction mode. All product structures are approved by SSB prior to being launched with clarifications and modifications being advised from time to time or when necessary. Recently, SSB has approved two new products for individual customers. The structure and design of products is generally perceived to be good and in line with AAOIFI published standards.

A detailed profit sharing policy is in place and the Corporate Governance guide of the bank lays down the mechanism by way of which, the rights of investment account holders should be protected. The bank maintains an Investment Risk Fund, which is funded annually through a specific percentage of investment revenues being transferred. The bank also charges a modarib's fee and generates investment revenues both as Modarib as well as Rabbulmaal. The bank's profit sharing rates have trended down over the last five years, although these remain in line with depositors' expectations. Profit rates are close to average deposit rates in the banking sector.

Profit purification policy outlining the avenues in which financings and investments can be undertaken is also documented. The bank extracts any investment revenues deemed to be not 'halal' and transfers it to charity.

Jordan Islamic Bank is a socially responsible institution. A most notable aspect of the bank's operations is the Al Qard Al Hasan Fund being maintained and a specific deposit category which accepts funds for onward 'good' lending. In terms of transparency and disclosures, information available in the public domain is substantial and conveys important information to stakeholders. Financial statements and website disclosures are fairly complete. However, there is some room for improvement in the latter with respect to Shari'a related disclosures, including qualification of SSB members, other memberships held, and a compilation of Fatwas issued, or a reference as to how these may be accessed.

The bank's employee base depicts exceptional loyalty, and the satisfaction of the staff at being associated with an institution that holds on to high standards of Shari'a compliance, is one of the bank's key strengths.

Jordan Islamic Bank is a financially sound institution, having maintained strong asset quality indicators and a level of capitalization that is considerably above minimum requirements. With a healthy balance sheet, the bank has demonstrated its ability to generate good returns and has a regular dividend paying history.

Sector Overview

Islamic banking was first introduced in Jordan through the Jordan Islamic Bank Law published in 1978, and Jordan Islamic Bank (JIB or 'the bank') was established shortly thereafter in the same year. Since then Islamic banking began to take root as an alternative to conventional banking in Jordan. It was not until 1997, that the second Islamic bank in the country was established. In 2000, Islamic banking rules and regulations were crystallized through an addition in the Banking Law. Besides regulations pertaining to conducting operations in line with Shari'a principles, the Central Bank of Jordan (CBJ) regulations include articles on liquidation and functioning of the Shari'a Supervisory Board (SSB), Investment Risk Fund requirements and Capital Adequacy reporting rules under the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards.

Islamic banks' assets grew by an estimated 14% in 2011. This growth came in the backdrop of general, though slower growth in the banking sector of 7.5%, even while the macroeconomic performance of Jordan remains less than robust. At present, Jordan's Islamic banking sector comprises four banks, which command an estimated market share of 16% of the overall banking sector deposits. Islamic banking in Jordan is mainly dominated by two banks, Jordan Islamic Bank and Islamic International Arab Bank, which represent over 90% of Islamic Banking deposits. Since conventional banks are not allowed to set up Islamic banking windows, competition is not likely to intensify meaningfully.

The IFSB recommendations for Islamic banking include the setting up of a central body, specializing in Islamic jurisprudence and akin to a Shari'a Supervisory Board (SSB) on a national level, under the auspices of the central banks in each Islamic country. The Fatwa Board of Jordan is a general body issuing edicts on matters of general national importance. While this body does not specialize in Islamic finance and banking, it occasionally issues pronouncements in these areas also, which are taken into consideration by the Islamic banks' SSBs.

Islamic banks in Jordan currently face the challenge of limited Shari'a compliant avenues for deploying excess liquidity, which is affecting the yield-mix of these institutions vis-à-vis their conventional counter-parts. This is expected to be addressed to some extent with the law allowing the Kingdom of Jordan to issue a Sovereign Sukuk passed by both houses of parliament on September 16, 2012.

Corporate Background

Jordan Islamic Bank is owned in majority by the Albaraka Banking Group, (ABG) which remains one of the largest Islamic Banking Groups in the world, and which has subsidiaries and branches spread over the Islamic World. Headquartered in Bahrain, Albaraka Banking Group operates in 13 Islamic countries through its subsidiaries and another 2 countries through its representative offices. Each of the group's banking and finance interests are driven by the precepts of Shari'a. As such, JIB's commitment to maintaining and enhancing the level of compliance with the spirit of Shari'a rulings in Islamic finance, stems from the vision of ABG and the Board of Directors of JIB, as well as the bank's managerial leadership.

The AlBaraka Banking Group owns 66% of JIB. The bank is listed on the Amman Stock Exchange and no other shareholder holds more than 5% of the bank's ownership. ABG has 4 nominees on the 11 member board of Jordan Islamic Bank. There were noteworthy changes in the composition of the board in 2011 with 2 of the 4 ABG nominees and another member having been replaced by 3 new members. The composition of the Board of Directors is given below:

Board Members

Member Name	Position
Mr. Adnan Ahmed Yousif	Chairman (Representative of ABG)
Mr. Hood Hashem Ahmed Hashem	Representative of ABG
Mr. Adnan Abdulla Albassam	Representative of ABG
Mr. Hamad Abdallah Eqab	Representative of ABG
H.E. Mr. Musa Abdelaziz Mohammed Shihadeh	Vice Chairman-Executive (General Manager)
H.E. "Eng" Raef Yousif Mahmoud Najm	Non-Executive
H.E. Mr. Salem Mohammed Salem Massaedeh	Non-Executive
H.E. Mr. Kamal Sami Salman Asfour	Non-Executive
H.E Mr. Haider Isa Murad Murad	Non-Executive
H.E. Mr. Ayman AbdelKareem Basheer Hatahit	Non-Executive
H.E. Mr. Noor "Mohammed Shahir" "Mohammed Lutfi" Mahayni	Non Executive

The board governs and oversees the operations of the bank through five board committees; namely the Corporate Governance Committee, Audit Committee, Risk Management Committee, Nominations and Remuneration Committee and Credit Facilities Committee. The Corporate Governance Committee is entrusted the responsibility of ensuring the application of best practices to all spheres of the bank's management, including the conduct of Executive Management and the Shari'a Supervisory Board and the cultivation of a robust internal control environment. Furthermore, the bank's code of corporate governance guide mandates that the Board of Directors would be responsible for internally setting guidelines for accepting investment deposits, issuing Al-Muqarda Bonds, calculating and determining the share of profit on deposits and organizing the overall management of joint investments.

As one of the oldest Islamic banks in the world, and the very first in Jordan, JIB is the group's second largest banking outfit, in terms of total assets at US$ 4.1b (JD 2.9b) as at end December 31, 2011. Within its country of origin, the bank has cultivated a strong franchise as an institution that stands by the principles of Shari'a compliant banking.

JIB has continued to grow in 2011 and the first half of 2012, marking growth of 11.1% and 1.8% in these two periods respectively. The bank's physical infrastructure has also grown rapidly over the years, along with a steady increase in its human resources. JIB's branch network had grown to 62 branches and 13 banking offices by December 31, 2011, and employs 1904 personnel. The customer base of the bank also continues to expand, and reflects growing market confidence. JIB is widely regarded as a premiere Islamic bank in the country which offers Islamic banking and superior product quality, in terms of its compliance with Shari'a principles.

At the same time, the bank remains financially robust with a capital adequacy ratio of 24.48%, according to the Islamic banks' CAR standards as issued by the CBJ. The bank has generated an average ROAA of 1.2% over the last two years and has posted a net profit of US$ 40m (JD28.32m) for 2011, indicating strong earnings generation capacity and a healthy balance sheet. The bank has continually posted sound asset quality indicators. Its dividend history depicts cash payout or stock dividends to the shareholders every year since at least 2002.

JD in m	**2011**	**2010**	**2009**
Total Assets	2,898	2,604	2,183
Financing	1,29	1231	1,072
Deposits	2,636	2345	1,929
Net Profits	28	29	28
CAR (%)	24.48	21.57	14.47
Provisioning Coverage (%)	72	79	108
Employees	1,904	1,829	1,755
Branches	75	72	69

JIB was awarded the distinction of the best retail Islamic bank in the world for three consecutive years, 2009, 2010 and 2011. Public communication of the bank including the BoD statement and the Chairman's message reiterate the bank's commitment to adhere to Shari'a principles and contribute to the evolution of Islamic Finance to be able to cater to the needs of the modern age. The BoD has recently advised the bank to conduct a study that scientifically gauges the level of customer satisfaction with the bank's products and services, the perception of the bank as an Islamic bank and the improvement in receptiveness to Islamic banking.

The external auditors have expressed their opinion for the financial statements of 2011 to be in line with the rules and principles of the Islamic Shari'a as determined by the SSB and in compliance with the standards set by the AAOIFI.

Management, Human Resource and Training

Jordan Islamic bank employs a number of highly qualified persons with doctorate in Islamic finance and banking. Amongst senior management members with executive authorities, 4 have a PhD in methodologies of jurisprudence of Islamic banking, and a total of 7 staff members have a doctorate degree. Employee loyalty has been exceptional, with average duration of stay of senior management of over 20 years. This is also attributable to general employees' perception of the bank as an institution which aims to excel in Shari'a compliant banking business, and in line with their individual preference. Key members of the senior management team are identified below:

Member Name	Position
Mr. Musa Abdelaziz Shihadeh	General Manager & Vice Chairman
Mr. Mohammed Majed Allan	Deputy General Manager
Dr. Hussein Said Saifan	Deputy General Manager
Mr. Naeem Mohemmed Alkhmos	Assistant General Manager

The bank's employee selection process ensures a personal commitment of the employees to the Islamic way of life. Together with goals and objectives ingrained by the bank to further Shari'a compliance, this goes to set institutional values in the bank and ensure a Shari'a conscious environment.

The bank has its own training institute, which trains employees in Shari'a compliant banking to support its staff's career advancement. Average training course participation per person was higher at 1.4 (2010: 1.2) in 2011.

Apart from in-house training, employees are also sent to external training courses within Jordan, as well as abroad. Courses designed to enhance knowledge in Shari'a related aspects of banking are offered on a regular basis. JIB has over 10 trainers in Islamic Finance.

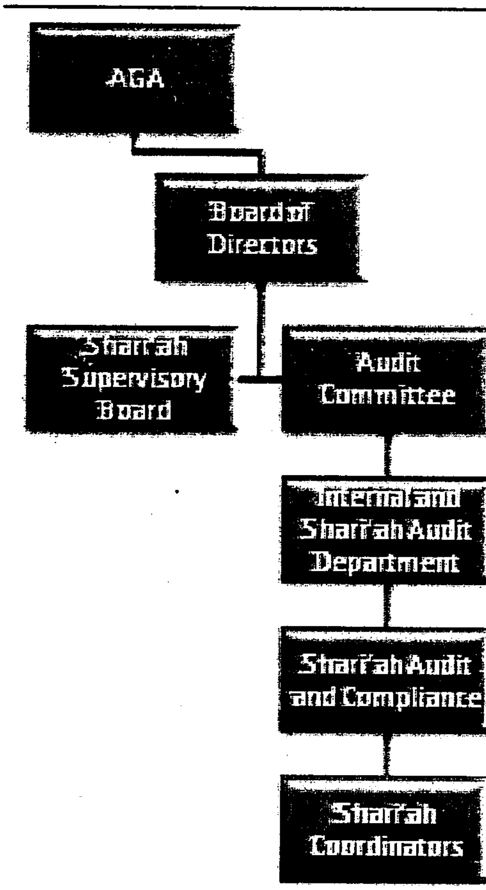
Shari'a Governance of Jordan Islamic Bank

The strength of the bank's Shari'a infrastructure stems from the Shari'a Supervisory Board. The bank has incorporated in its Articles of Association, the provisions that define its identity as an Islamic Financial Institution, and according to which it must comply with the teachings of Islamic Shari'a. It has laid down a corporate governance guide, under instructions from the Central Bank of Jordan, which further details the provisions of the SSB. These provisions are derived from specifically laid down 'Terms of Reference' (TORs) of the SSB which also delineate the role of the Shari'a Supervisory Department, the second pillar of the bank's Shari'a Governance Framework. There are clear and documented instructions regarding the management's responsibility to ensure that Shari'a based edicts are implemented in each division and in all aspects of the bank's operations. In case of doubt or pending resolution, the management cannot carry out the subject transaction, until the situation is resolved by the SSB. It is the management's responsibility to keep the SSB informed of key developments and involve the Board from the very beginning of a product idea.

Shari'a Supervisory Board

a) Composition: According to the TORs governing the SSB of JIB, the minimum number of scholars on the Board will be three. This is in line with the Central Bank regulations as well as AAOFI standards. The bank has historically had 4 members on the board. The board members are appointed / reappointed in The Annual General Meeting of the shareholders, with a term of one year, renewable annually, and upon the recommendation of the Board of Directors. To terminate an SSB member, a majority decision by the BoD is required, following which an approval has to be obtained in the AGM. Furthermore, the Central Bank of Jordan is to be informed with every induction or change in the composition of the SSB. During the period referenced for this document, 2006-2012, no SSB member has been terminated.

Shari'a Framework



Following the demise of one of the members in 2011, a new member – Dr. Mohammed Khair Mohammed Salim Al Essa - has been brought on board. Also a Jordanian by nationality, Dr. Mohammed Khair is highly qualified in Quran teachings, and has attended institutions in Medinah Al Munnawara, Jordan and Sudan. Dr. Mohammed Khair was the Mufti of Public Security and he is also a board member in the Jordanian Fatwa Board. The remaining three board members have all been associated with the bank for a period greater than 5 years. The IFSB recommendations in this regard warrant a policy to ensure an orderly change in SSB members with at least one member to change every five years. Due to the recent induction in JIB's SSB, the membership of the bank's Shari'a Board is currently in line with best practices, although a policy in this area will ensure institutionalization of this practice.

The SSB terms of reference require all members to have a university degree in Shari'a jurisprudence and be knowledgeable in Fiqh-al-Muamalat. The ToRs also require minimum experience, whereby the Chairman of the SSB should have experience in similar capacity of not less than 10 years and other members, not less than 5 years. If a member is not qualified in Fiqh, but specializes in the knowledge of Islamic Financial Institutions, he can be represented on the board, but cannot vote. To ensure independence, the members cannot have an executive position or hold meaningful shares in the bank.

All Shari'a board members of JIB have an eminent academic and experience profile in the area of Islamic jurisprudence. The board is chaired by H.E Dr. Mahmoud Al-Sartawi, whereas, H.E Dr. AbdelSattar Abu Ghuda is the Vice Chairman. The latter is represented on several Shari'a boards in Islamic banks, across the Ummah. This adds multijurisdictional experience to the profile of the board. According to AAOIFI and IFSB guidance, board members should be represented on a minimal number of boards, to ensure adequate attention to detail in every institution. The nationality of the remaining SSB members is Jordanian and this ensures active participation in meetings.

Remuneration of the Shari'a Supervisory Board has mostly remained steady over the years and is a function of the number of meetings held.

JD in 000	2011	2010	2009	2008
SSB Remuneration	46.7	48	48.3	40

The SSB of JIB has appointed a General Secretary as recommended, and who assists the board in examination of the bank's activities, reporting, and arranging SSB meetings. Duration of SSB meetings is two to three hours.

b) Role of the Shari'a Supervisory Board: The SSB is required to meet at least twice annually. The bank's SSB meets every quarter with senior executive members including the bank's General Manager, Deputy General Manager and Head of Audit group, also in attendance, along with the head of Shari'a Audit and Compliance, who also serves as the SSB's Secretary General. Other departmental heads may also be present for discussion on specific areas, if required.

A review of meeting minutes during the period 2011 and 2012, shows that a minimum of three SSB members, has always been in attendance. Quorum is specified as majority of the members and was complete for all meetings held. Apart from regular meetings, the SSB may also be required to meet in addition to whenever necessary, including on call of the Chairman of the SSB, or any two members, the Board of Directors of the Bank or the General Manager.

Attendance Level of SSB Members	2010	2011	2012
Dr. Mahmoud Al Sartawi	100%	100%	100%
Dr. Abd Sattar Abu Goddeh	100%	100%	50%
Dr. Abdel Aziz Al-Khayat*	100%	100%	100%
Dr. Ibrahim Zaid Al-Kilani	100%	100%	100%
Dr. Mohmmad Khair Al-Isa**			100%

**Passed away on 22nd Nov, 2011*

***Joined the board in 2012*

Decision making requires a majority vote and in case of an equal split, the Chairman of the SSB has the final vote. The Chairman of the board is elected from within the group, in line with the SSB's term of reference. The position of the Chairman has been rotated and is generally held by each incumbent for a year.

The following areas are typically covered by the SSB:

- Discussion on new and existing contract that require modification.
- Discussion on the biannual Shari'a Audit report
- Preparing an opinion on the bank's compliance with the Shari'a principles, and which is to be disclosed publically.
- Responding to Shari'a related queries from the management and enquiring after the bank's state of affairs.

The Shari'a audit report is presented to the board and proceedings include a discussion on audit findings, in addition to the bank's general performance. The SSB enquires after the progress of the bank in financial terms and whether it met its targets set. This ensures the SSB's awareness of the general state of affairs in the bank. Matters that require Shari'a advice or pronouncements are also brought before the board and resolutions are documented. Duration of SSB meetings is two to three hours.

The SSB is also responsible for undertaking any Shari'a related responsibilities that are directed by the Central Bank of Jordan. Furthermore, Dr. Mahmoud Al Sartawi, the Chairman of the SSB, is personally involved in Shari'a related training

The SSB is also advised to establish a degree of contact with the bank's staff including branch visits. However such direct contact is not a regular feature in the bank. The SSB ensures that revenues from non-compliant sources are taken to charity. Additionally, the SSB guides the shareholders in calculating their Zakah, although actually giving out and deducting Zakah is the shareholders' own responsibility.. JIB's management is not authorized to pay Zakah directly, as there is no law to that effect.

The annual Shari'a Audit report of ABG is also discussed periodically, and guidance is taken from Shari'a related policies advised at group level. H.E Dr. AbdelSattar Abu Ghuda is the only member of the JIB SSB, who is also represented on the Shari'a Supervisory Board of ABG and is its incumbent Chairman.

Minutes of SSB meetings indicate that meetings conducted in the later years are progressively more comprehensive than deliberations carried out in earlier periods and prior to 2011, both from the perspective of comprehensiveness of contents and the depth of issues discussed.

c) Reporting: The Shari'a board makes an annual statement, which accompanies the bank's financial statements and makes a declaration regarding having tested each type of transaction being in accordance with Shari'a principles, through the Internal and Shari'a audit department. Furthermore the SSB also issues a report on a half-yearly basis, which while not in the public domain, does record the SSB's observations on a regular basis. The report also validates all non-compliant investment revenues to have been passed into charity.

The Shari'a Supervisory Department

An important aspect of the Corporate Governance Guide is the Control Environment and Internal Monitoring Guidelines for the bank. One of the pillars of this section is the practices inculcated in the Internal and Shari'a Audit Department. This unit is responsible for ensuring the adequacy of the control system, and confirming that the business is in accordance with Shari'a principles. Staff Strength of the department is 16. The department's responsibilities also include verifying compliance with SSB decrees, issued from time to time. The guidelines envisage complete independence of the audit staff from executive responsibilities.

a) Audit Planning and Methodology: The Internal and Shari'a Auditing department reports directly to the Audit Committee of the board and the SSB. An audit plan which is submitted to the audit committee in advance of each audit period, ensures periodic review of all branches. Detailed Shari'a Audit and Review procedures have been laid out which sets the objectives of the audit and the areas that the audit will cover, particularly with respect to the transactions and their underlying structure. The document comprehensively delineates the procedures of audit for each type of financing structure in use by the bank. It covers modes of finance including Murabaha, Moudaraba, Musharaka, Ijara Muntahia Bittamleek, Direct Investment, Letter of Credit, Letter of Guarantee, and Commodity Murabaha. These standards are similar to those published by the AAOIFI and are comprehensive enough to allow for a stringent review of transactions. This methodology is approved by the SSB.

b) Audit Conduct: Shari'a audit and compliance is combined with a senior resource delegated the responsibility of Shari'a review. While the bank has a separate compliance division, it is mostly responsible for ensuring compliance with the regulatory or audit findings in terms of general bank activities and not from a Shari'a perspective. Branch visits are undertaken by the assigned team to conduct an audit. The team is responsible for inspecting branches and identifying control or procedural weaknesses in the execution of transactions. The audit team has complete authority in requesting for, obtaining and analyzing any and all required information. Concerns have generally been raised on the execution of the various modes of Islamic transactions with few violations being reported in some branches.

Continuous training of branch staff may resolve several of these findings which appear to be of a similar nature. The SSB had also advised to incentivize staff for obtaining clear reports for their respective branches.

c) Reporting: Irregularities identified are reported through biannual reports presented to the Shari'a Supervisory Board. These reports were found to be elaborate. Findings are discussed with branch staff and are rectified, which is reconfirmed by a follow up inspection. The Shari'a Audit report declares that most transactions were found to be compliant with Shari'a rulings of the SSB in the branches audited during the period.

Product Profile

The bank offers mostly Murabaha and Ijara based financing to its customers, whereas the utilization of what is widely believed to be the purer forms of Islamic finance are still minimal. The bank's product suite while being comprehensive, does demonstrate absence of certain standard banking products like credit cards, with the SSB remaining committed to ensuring that products offered are based on structures that are well synchronized with the spirit of Shari'a. This has led to further internal research in the area, which may lead to structure refinement and innovation. As one of the larger Islamic banks globally, in addition to being one of the oldest, JIB is geared to lead product and service innovation, which is needed to expand the scope of Islamic finance globally. The SSB has also recently reiterated the need to be innovative in product design. The composition of the bank's financing portfolio as at year-end 2010 and 2011 is as follows:

Products Composition	2011	2010
Deferred Sale and Other Receivables	82%	85%
Ijara	17%	14%
Diminishing Musharika	1%	1%

Recently and in the second meeting of the Shari'a Supervisory Board in 2012, two new products for individual consumers – 'Labaik' and 'Iqra', have been approved.

All product structures are approved by Shari'a Supervisory Board. From time to time, the SSB makes clarifications with regards to details pertaining to these products, which further fine tunes these productstructures. A brief synopsis of financing product features is given below:

Deferred Sale Receivable The standard agreement for murabaha as approved, clearly lays down the ownership and the associated risk and rewards pertaining to the subject goods. Deferred sale is differentiated with murabaha only on the basis that incase of deferred sale the profit on the sale is not required to be disclosed as in the case of murabaha. The Shari'a supervisory infrastructure ensures that only those goods which can be used under Murabaha transaction and only permissible payments are included in the booked financing amount. Since Murabaha is one of the most frequently used modes of transaction, the structure design has been fine tuned considerably over the years. The reporting of these transactions is in line with AAOIFI standards.

Ijara The standard agreement of Ijara finance is framed to clearly spell out the risk, cost and ownership benefits during and at the end of the contract to be in line with the approved contracts of Ijara finance. The agreements are detailed enough to cater to multiple situations. Reporting of these transactions are in line with AAOIFI standards.

Istisna The standard agreements for this product are comprehensive, specifying selling price explicitly and indicating the responsibility of other costs to be incurred. A detailed price schedule, term of the contract and product features, are a standard part of the contract.

Muqawala Muqawala was recently approved by the SSB as a practical solution to some of the bank's transactions in the area of construction and the execution of which did not correspond to the standard structure features of other modes of finance, which were so far being used by the bank. The product design is good, giving out the project's specification, time of delivery, price and ensuring that risks and rewards are borne in the spirit of ownership rights, before and after completion of the project and are transferred along with ownership rights.

Moreover the bank's stance on restructuring of non-paying client amounts is clearly laid out, as also losses that can be charged from the customer, but paid into charity.

Investments: The bank only invests in Shari'a compliant avenues. It has strict guidelines for which shares can be invested into. In case of losses, the share of joint investment accountholders in losses will be recovered from the Investment Risk Fund, as approved by the SSB.

Deposits: There are various deposit account facilities available under both, corporate and individual account categories. The account opening form and terms and conditions of each are approved by SSB and are in line with Shari'a rules and principles. A synopsis of deposit categories is stated below:

Category	Individual	Corporate	Nature of account
Current account	✓	✓	These funds are guaranteed by the bank and are also commingled. Profit / loss on these are not shared.
Salary Current account	✓	×	
Call accounts	✓	×	
Saving accounts	✓	✓	Deposits obtained under this category are based on unrestricted moodaraba and form part of the Investment account holder pool. Depositors of these categories share in the profit / loss of the pool. Except saving accounts, both, the term accounts and notice accounts are subject to time constraints where profit / loss has to be forgone in case of early withdrawal.
Term accounts	✓	✓	
Notice accounts	✓	✓	
Specified investment accounts	✓	✓	Deposits obtained under this category are based on restricted modaraba. These depositors form a separate pool of Investment account holders. Depositors of this category share in the profit / loss of the pool.
Investment portfolio accounts / muqarada bonds	✓	✓	
Investment by proxy accounts	✓	✓	
Al Qard Al Hassan fund accounts	✓	✓	This is a unique deposit category at JIB where Ffunds in this deposit category are received purely for the purpose of achieving social solidarity. Funds are received and on the basis of Al Qard Al Hasan; the bank is entitled to utilize the funds for fulfilling the cash requirements of the less fortunate ones.

It is also advisable that the account opening forms should explicitly identify, which Islamic mode of investment underlies each type of account.

Protection of Rights of Investment Accountholders

The Corporate Governance guide of the bank also lays down the rights of the investment accountholders. It acknowledges their right to know the status of their investments, making them aware of the bank's policies regarding their accounts and their contractual rights and risks associated with their investments. The bank undertakes to exempt the depositors from any losses incurred due to its negligence. The bank is required to ensure that its investment strategy is in keeping with depositors' expectations regarding quality, and that undue risk is avoided.

An Investment Risk Fund is to be maintained, with mandatory reserving each year, based on a given percentage and as advised by the CBJ. This reserve has to be taken from annual investment revenues till such time that the reserve is less than twice the bank's paid up capital or any other amount specified by the regulatory authorities.

Profit Distribution Mechanism: The bank has a detailed policy on profit distribution. The bank mobilizes funds from three sources, one being, the equity providers, the second being the current account holders and the largest proportion of funds is contributed by Joint Investment account holders (restricted and unrestricted). Among these deposits, the deposits generated from current account, call account, salary current account and Al Qard Al Hasan account are not utilized for investment purposes.

A table giving the proportion of funds generated from each source over the last 4 years is given below:

Deposits	2011	2010	2009	2008
Current and Call Accounts	31%	30%	32%	34%
Saving Accounts	14%	14%	15%	15%
Notice Accounts	1%	1%	1%	2%
Time Accounts	54%	55%	52%	49%
Total (JD b)	2.5	2.2	1.9	1.5

The amount deemed to have been invested for each category of customer deposits varies, with 50% of saving accounts, 75% of notice accounts and 90% of term accounts being considered invested. Deposits in the foreign currency (FC) accounts are translated into local currency using the central bank average exchange rate.

The terms and conditions of the account opening form, for each deposit category, are found to be in line with the Shari'a rules and principles. As per the terms and conditions, the distribution of the returns will be decided by the BOD.

Banking services such as, Cards, ATMs, Remittances, Letter of credits (LCs), letter of guarantees (LGs) and various others services, whether funded or non-funded are all backed by equity, therefore the revenues derived from such services are not attributed to joint investment account holders. The bank also charges a modarib's fee. The bank commingles its own equity in the investment account holders pool, thereby generating investment revenues both as a Modarib as well as a Rabbulmaal. Administrative expenses are borne by the bank.

In case losses are incurred on investments funded by the joint investment accountholders, these can be funded through the Investment Risk Fund, which is a mandatory reserve as mentioned earlier. The percentage of profit taken to the Investment Risk Fund every year is as per the directives of the Central Bank. This has increased in 2011 to 15% from 10% previously. The bank does not guarantee the joint investment accounts. Rate of return is also not guaranteed. In case of negligence on the part of the bank, the SSB would ensure that the bank absorbs the loss of depositors.

On an off-balance sheet basis, the bank raises funds in Muqarda accounts also. These funds are invested in a separate pool of investments, segregated from the pool of investments funded by the unrestricted joint investment account holders.

The bank's profit sharing rates have trended down over the last five years. While the decline is steady in case of foreign currency accounts, profit sharing rates increased in 2008 from 2007 with a marginal decline in 2009 and have tended downwards steadily since. These returns have however remained in line with sector trends and customer expectations. Segment wise return on local and foreign currency deposits is as follows:

Local Currency	2011	2010	2009	2008
General Percentage	3.35%	3.89%	5.69%	5.70%
Term	3.02%	3.50%	5.12%	5.13%
Notice	2.35%	2.72%	3.98%	3.99%
Savings	1.68%	1.95%	2.85%	2.80%

Foreign Currency	2011	2010	2009	2008
General Percentage	0.69%	0.72%	1.25%	2.71%
Term	0.62%	0.65%	1.13%	2.43%
Notice	0.48%	0.50%	0.88%	1.89%
Savings	0.35%	0.36%	0.63%	1.30 %

Profit Purification Mechanism: JIB's profit purification policy outlines the companies to which financing can be extended and the method for purifying any investment revenues that may be deemed non-compliant. All investment in shares shall be limited to companies that undertake Shari'a compliant business and whose capital structure should not comprise more than 30% riba based debt in its capital structure. Moreover, revenues from non-Shari'a compliant investment revenues should not exceed 5% of the total revenues. All revenues from such sources have to be maintained in a separate account.

Purification of profits is undertaken by distributing the proportion of non-Shari'a compliant investment revenues to charity, which is determined as the exact proportion of the investee company's non-compliant investment revenues in relation to its total investment revenues. Responsibility of disposing profits is upon the management of the bank and this is done on the basis of the subject company's audited financial statements. However, if the percentage of profit cannot be determined then, as per policy, the bank should conduct a study in this regard and make an estimate on the basis of which profits will be distributed.

The profit purification policy further outlines the following instances in which the profits are required to be disposed off:

- If the customer has agreed the terms with the seller and decides to enter into a financing contract before the goods are under the ownership of the bank
- Financing in non-Shari'a compliant product or investment
- Transfer of ownership, where it is legally not permissible except for contingencies or unintentional mistakes
- Excess fees charged over the administrative cost incurred in case of Al Qard Al Hasan loans
- In case a subsidiary brokerage company entered into sale of shares to a third party in a non-compliant way

Corporate Culture

a) Corporate Social Responsibility: JIB is a socially responsible bank and makes donations, funds professionals and craftsmen, and also utilizes the Al Qard Al Hasan funds for meeting basic and justifiable consumption requirements. JIB's donation policy is geared to promote the spirit of Islamic Brotherhood. Beneficiaries include Jordanian Hashemite Fund for Human Development, Al-Aman Fund for the Future of Orphans, Associations and Competitions of Holy Quran memorization, charity Associations and Organizations and Zakah Committees as well as Mosque Commissions. The bank also participates in supporting the Kingdom's vision to provide decent housing to its people and has outstanding loans of JD 17.7m at December 31, 2011. The board's report to stakeholders mentions the donations and grants provided by the bank.

The bank's Al Qard Al Hasan Fund benefitted some 27,000 citizens and amounts JD 23.4m during 2011. The sources and uses of this fund is also audited along with the bank's financial statements. The bank has a specific deposit account for receiving Al Qard Al Hasan funds, the year-end balance of which was JD 771,000 for 2011.

JIB also maintains a Mutual Insurance Fund for its borrowing clients, whereby the participants insure each other partly against damage inflicted on any of them and assist in loan repayment. The bank has progressively increased its threshold for covered amount from JD 25,000 or less to JD 40,000 in 2007, JD 50,000 in 2010 and has further raised the bar to JD 75,000 in 2012.

The bank offers incentives to its customers including rewards for holders of saving accounts given in the form of Hajj or Umra expenses, for a select few, in order to generate further brand loyalty. The cost of these investments is borne by the shareholders of the bank in accordance with the edict of the SSB.

b) Transparency: Information available in the public domain is substantial and conveys important information to stakeholders. While the financial statements disclose the qualification of the Board of Directors and management personnel, it only mentions the name and compensation of the SSB. Brief profile of SSB members along with other memberships held may also be disclosed in the financial statements. The bank's entire corporate governance guide has been annexed with the financial statements which includes the role of the SSB and guides the relationship with various stakeholders including investment account holders. With respect to the latter, financial statements also include disclosure on last year's returns given out. However, there is room for improvement in disclosures regarding asset allocation and investment strategy for various investment account holders. Disclosure related to profit calculation and related parties are also present in the financial statements.

While website disclosures are considered satisfactory, there is also room for improvement with regards to Shari'a related disclosures on the websites. In this regard, profile of SSB members, including other memberships held and Fatwas issued by the SSB, while available in the public domain, may also be included or referenced on the website, in line with the disclosure recommendations of the IFSB. During 2011, the board decided that all its pronouncements since inception should be published. A comprehensive document will thus be available to all stakeholders. All fatwas are however available in hard copy form.

Overall, the bank's operations and organizational structure distinguishes it as an Islamic financial institution. The attention to detail in product design and implementation is evident and systems & controls are deemed to be in place, which ensure ongoing deliberation and implementation of Shari'a principles in the bank.

IIRA Rating Scales & Definitions

Ratings on International Scale

The three types of ratings assigned by Islamic International Rating Agency (IIRA) on international scale are detailed below:

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

Long Term

The obligations having an original maturity exceeding one year are considered long term. IIRA uses a scale of AAA to C to rate credit worthiness of the banks' long term obligations, with AAA being the highest possible rating and C being the lowest possible rating.

AAA: Obligations rated AAA are considered the best quality. They present the least investment risk. While changes can be anticipated in business and economic conditions such changes as can be assessed are not likely to impact the fundamentally strong position of such obligors.

AA: Obligations rated AA are considered high quality in all respects. Combined with the AAA obligations they constitute the high grade group. The differentiation is in the magnitude and range of fluctuations in elements that assure safety. Such elements in this category will not be as stable or predictable as for AAA category.

A: Obligations rated as A are considered upper medium grade obligations possessing sound credit characteristics and reflect safe margins of protection at this time but may be susceptible to changes in future due to industry or product characteristics.

BBB: Obligations rated BBB normally posses sound credit characteristics. The safety elements are adequate at present but hostile business factors may bring about a change in the credit characteristics.

BB: Obligations rated BB reflect significant speculative characteristics and volatility in protection factors. The obligation is not well assured even in positive economic environment.

B: Obligations rated B do not typically reflect characteristics of desirable investment. There is significant doubt that obligation can be met over any period of time.

CCC: Obligations rated CCC are high risk and unpredictable with very poor protective elements.

CC: Obligations rated CC are highly speculative. Such obligations are often in default or reflect limitations on repayment capacity.

C: Obligations rated C have extremely high level of risk and they are unlikely to meet their commitments.

D: 'D' rated Obligors are in default with respect to their 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.

Short Term

The obligations having an original maturity not exceeding one year are considered short term. IIRA uses a scale of A1+ to C to rate credit worthiness of the banks' short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+: Obligations rated A1+ have a superior ability for repayment of obligations and is evidenced by extremely strong liquidity conditions.

A1: Obligations rated A1 have a strong ability for repayment and reflect very good liquidity conditions.

A2: Obligations rated A2 have a sound capacity of repayment but could be effected by external market conditions.

A3: Obligations rated A3 have an acceptable ability to repay the obligations. However, they are more susceptible to adverse market conditions and require careful management.

B: The obligations rated B have weak capacity for repayment and economic changes can harm the liquidity conditions.

C: Obligations rated C shows considerable uncertainty towards timely payments of obligations. The liquidity conditions appear very weak.

Shari'a Rating Scale and Definations

IIRA uses a scale of AAA (SQR) to B (SQR) to rate Shari'a Quality Compliance with AAA (SQR) being the highest possible rating and B (SQR) being the lowest possible rating.

AAA (SQR) – In IIRA's opinion, an entity/instrument rated AAA (SQR) conforms to highest level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.

AA (SQR) – In IIRA's opinion, an entity/instrument rated AA (SQR) conforms to very high level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.

A (SQR) – In IIRA's opinion, an entity/instrument rated A (SQR) conforms to high level of standards of Shari'a requirements and has very few weaknesses in some areas of Shari'a quality analysis.

BBB (SQR) – In IIRA's opinion, an entity/instrument rated BBB (SQR) conforms to moderately high level of standards of Shari'a requirements and has few weaknesses in some areas of Shari'a quality analysis.

BB (SQR) – In IIRA's opinion, an entity/instrument rated BB (SQR) conforms to satisfactory level of standards of Shari'a requirements and has some weaknesses in some areas of Shari'a quality analysis.

B (SQR) – In IIRA's opinion, an entity/instrument rated B (SQR) conforms to adequate level of standards of Shari'a requirements and has weaknesses in some areas of Shari'a quality analysis.

الوكالة الإسلامية الدولية للتصنيف

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الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

RATING REPORT

Jordan Islamic Bank

December 21, 2012

Analysts:
Talha Iqbal
Anum Irfan

Credit Rating

	Latest Rating	Previous Rating
International Scale		
Local Currency	BBB-/A-3	BBB-/A-3
Foreign Currency	BB+/A-3	BB+/A-3
National Scale	A+(jo)/A-1	A(jo)/A-2
Rating Outlook	Stable	Stable

Rating Rationale

The on-going year and 2011 remained challenging both in response to the global economic slow-down and regional instability. Resultantly, GDP growth of the Kingdom of Jordan has remained modest at around 3%. While inflation has slowed down, fiscal and current account deficits have trended upwards largely on account of a number of external developments on the energy front. Despite the tough operating environment, the financial sector has remained relatively buoyant.

Jordan Islamic Bank is the third largest bank in Jordan with a market share of 10.7% at year-end 2011. The bank's strong domestic operations and franchise has allowed it to mobilize a sizeable re-tail deposit base which comprises over 90% of total deposits. Resultantly, deposit base features granularity with top 10 depositors comprising only 2.3% of the overall deposits. Liquidity profile of the institution is considered strong in view of sizeable liquid assets maintained consistently in rela-tion to deposits.

While asset base has depicted moderate growth (1.8%) in the on-going year after posting significant year on year growth in prior years (4 year CAGR =16%), financing portfolio has increased sig-nificantly as funds from cash and bank balances have been channeled towards financing certain public sector exposures.

Resultantly, proportion of cash and cash equivalents, a major portion of which is non-earning, was lower at 31% (2011: 46%; 2010: 43%) at end-June'12. However, the proportion of the same is still on the higher side on account of limited Shari'a compliant avenues for deploying excess liquidity. Consequently, the balance sheet yield mix is compromised.

In line with overall banking sector exposure trends, financing remains concentrated in two major sectors; general trade, followed by construction which together comprise over 70% of the financing book. Exposure to individuals (28%) comprises the largest proportion of the financing portfolio, closely followed by the corporate segment (25%). Amidst weakening macroeconomic indicators, non-performing finances were higher at JD 94m (2010: JD 69.3m), translating into gross impair-ment of 6.5% (2010: 5.1%). However, the same still compares favorably to other large banks. Pro-visioning coverage is moderate at 71.9%, though it has increased on a timeline basis in 2011. More-over, comfort can be drawn from adequate collateral against un-provided financing.

Financial Highlights *(JD in millions)*	**2011**	**2010**	**2009**
Total Assets	2,898	2,604	3.52
Net Financing	1,329	1,231	1,072
Gross Impairment (%)	6.5	5.1	3.7
Provisioning Coverage (%)	71.9	79	108
Deposits	2,616	2,301	1,926
Net Profits	28.3	29.1	27.9
Equity	206.9	193.6	176.8
CAR (%)	24.5	21.6	

JD/USD parity: 1 JD = 1.41 USD

Current level of capitalization is considered adequate with the latest reported Capital Adequacy Ra-tio of 17.95% (2011: 24.5%; 2010: 21.6% according to Islamic banks CAR standard issued by CBJ). Internal capital generation has remained limited on account of high dividend payout ratio (53% for 2011).

Despite increase in revenues from joint investment accounts, net profits for 2011 were slightly lower than preceding year on account of higher operating expenses and increased share of Invest-ment Risk Fund. Profitability of the bank has showcased improvement in the ongoing year on the back of growth in financing portfolio and increase in rediscount rates. By Sep'12, net profits were at par with full year profits for 2011.

Country Overview

A number of external developments including commodity price inflation and regional instability has resulted in larger fiscal deficits and increased reliance on foreign grants for the State of Jordan. With regional tension adversely affecting tourism, remittance and foreign direct investment, Jordan posted lower than anticipated GDP growth (constant prices) of 2.6% (2010: 2.3%) in 2011. Ex-pected growth has improved to 3% in the on-going year with recovery in remittances and rebound in tourism receipts.

Jordan is faced with significant challenges on the energy front. Gas imports from Egypt, which are utilized for 80% of Jordan's electricity generation, have experienced disruptions on account of in-terruptions in supply through Arab Gas Pipeline. Consequently, reliance on import of expensive liq-uid diesel oil has increased which along with higher oil prices of imports, translated into widening trade deficits and higher current account deficit of 10% (2010: 7.1%) of GDP in 2011. The latter has largely been funded by foreign currency reserves which declined by around 35% in the on-going year to $6.9b, significantly reducing import coverage to 3.9 months.

Kev Indicators	2008	2009	2010	2011
GDP (USD b)	22.0	23.8	26.5	28.9
GDP Per Capita (USD)	3,760	3,989	4,329	4,619
Current Account				
Deficit (% GDP)	-9.3	-4.7	-7.1	-10.0
Fiscal Deficit (% GDP)	-2.2	-8.9	-5.6	-6.8
Inflation (CPI year end, %)	13.9	-0.7	5.0	4.4
Unemployment Rate	12.7	12.9	12.5	12.9
Debt to GDP (%)	54.8	57.1	61.1	65.4
Intrn'l Reserves (Net, USD b)		10.9	12.0	9.3
Exports (USD b)	7.9	6.4	7.0	8.0
Imports (USD b)	15.1	12.7	13.8	16.3

****Summary of Jordanian Economic Developments in 2011 (Central Bank of Jordan);* Central Bank of Jordan Monthly Reports***

On the revenue front, tax revenues as a proportion of GDP have declined from 20% of GDP in 2007 to 15% in 2011. Efforts for the improvement of the same are underway. The economy continues to remain reliant on foreign grants which were three times higher in 2011 and represented 22% (2010: 9%) of total government revenues. The same amounted to $1.7b in 2011 and represented almost 6% (2010: 2%) of the country's GDP.

Stemming from a degree of public dissatisfaction, expenditures have also depicted growth of 21%, with salaries which comprise almost one-fifth of current expenditures, increasing by 15%. Food and oil subsidies represent the other major proportion of current expenditures and were over four times higher as compared to the preceding year while interest payments comprised 7% of current expenditures. Resultantly, fiscal deficit (excluding grants) was higher at 12.8% (2010: 7.8%).

In August'12, Jordan signed a $2b stand-by arrangement (3 years) with IMF for addressing budge-tary and balance of payment imbalances. This is expected to provide liquidity relief in the short-term. Moreover, the $1.25b grant from State of Kuwait for developmental projects will also help in undertaking planned capital expenditures. Going forward, timing of future grants will remain crucial in restricting deficits at manageable levels.

External political risk stems from spill over of Syrian conflict into Jordan. Currently the country is hosting around 210,000 Syrian refugees - the largest in the region. Moreover, the crisis has also af-fected exports of Sugar and Rice to European countries via Syria. On the domestic front, there has been instability with frequent changes in Government.

Overall debt levels have increased on account of rising deficits. While there has been a slight de-crease in outstanding external debt, the increase in debt pertains entirely to domestic debt which comprised 67% of the total debt. Overall debt levels represent almost two-thirds of the country's GDP.

The main indicators of Amman Stock Exchange (ASE) were bearish in comparison with 2010. The stock price index weighted by free float was lower by 16% while market capitalization and trading volumes were lower by 12% and 58%, respectively. The Jordan Dinar is pegged to the dollar at a conversion rate of 1JD=$1.41. Central Bank of Jordan raised the re-discount rate by 25 basis points in Jun'11, followed by another increase of 50 basis points to 5% in Feb'12 to curb inflationary pres-sures and to promote domestic and foreign investment environment. Overnight deposit rates have been increased further by 50 basis points in May'12, while the re-discount rate and overnight repo rate have been maintained at 5% and 4.75%, respectively.

Banking Sector Overview

The on-going year and 2011 have remained challenging both in response to the global economic retardation and regional political turmoil. However, the financial sector has remained relatively buoyant. Since the on-set of slowdown in economic activity, the banking sector's exposure to the sovereign is on the rise. Additional liquidity generated by way of an increasing deposit base has been channeled towards domestic treasury bills and bonds to finance the growing fiscal deficit. Exposure to the domestic public sector debt increased by 27% during 2011. Despite the slowdown in the construction sector, exposure to the same represents over one-fifth of banks' lending portfolio on account of significant lending to the sector prior to the economic recession. General trade represents the largest exposure, with lending to the sector representing 24% of total finances.

Amidst weakening macroeconomic indicators, non-performing exposures of the banking sector have increased, with non-performance having more than doubled over the last 4 years. Total non-performing finances as at end-Jun'11 stood at JD. 1.29b (2010: JD. 1.16b; 2008: JD: 550m). Resul-tantly, gross impairment was also higher at 8.5% (2010: 8.2%; 2008: 4.2%). While provisioning coverage has improved on a timeline basis, profitability has remained under pressure on account of incremental provisioning charges against financing losses.

USD b	2008	2009	2010	2011
Total Assets	42.[illegible]	45.2	49.4	53.2
Advances	18.4	18.8	20.4	22.4
Deposits	25.5	28.7	31.8	34.4
CAR (%)	18.4	19.6	20.3	18.2
Provisioning Cover-age (%)	63.4	52.0	52.4	56.3

Source: Central Bank of Jordan

Liquidity profile of the banking sector is considered strong in view of the sizeable retail deposit base, depicting stability and a Financing/Deposit ratio of 65% as at end December 2011. Capitalization levels are also adequate, with industry CAR well over international benchmarks and a higher domestic regulatory requirement, providing cushion against future losses in a challenging envi-ronment.

Corporate Profile

Established in 1978 as a public shareholding limited liability company, Jordan Islamic Bank (JIB) is the largest Islamic Bank and the third largest commercial bank in Jordan. JIB's shares are listed on the Amman Stock Exchange. AlBaraka Banking Group (ABG) remains the primary shareholder, holding 66% of JIB's shares. No other institution holds more than 5% of the bank's shares.

ABG is licensed as an Islamic Wholesale Bank by Central Bank of Bahrain. ABG has a wide geographic presence with subsidiary banking units (13) and representative offices (2) in 15 countries. These include Jordan, Tunisia, Sudan, Egypt, Turkey, Bahrain, Algeria, Pakistan, South Africa, Lebanon, Sy-ria, Indonesia, Libya, Iraq and Saudi Arabia. The bank operates through over 400 branches which provide banking services in accordance with principles of Shari'a. ABG is also listed on Bahrain and Nasdaq Dubai stock exchanges. Asset base of the group increased by 8% in 2011 and amounted to $17.2b while net income of the bank was higher by 10% at $212m. Net equity of the bank stood at $1.8b at end-2011 and Capital Adequacy Ratio (CAR) was reported at 20.7% (2010: 19.7%).

JIB operates through its head office in Amman, 64 (2010: 60) branches and 15 (2010: 12) banking offices as at December 2011. Two new branches and cash offices have been opened during the on-going year with one additional branch planned to be opened before year-end. The bank has a net-work of 122 (2010: 84) ATMs. JIB's ATMs are also connected to Jordanian Automated Teller Ma-chines Network which comprises nearly 1200 ATMs. Total staff strength stood at 1,904 (2010: 1,829) employees at year-end 2011.

The Board of Directors of JIB comprises 11 members and is Chaired by Mr. Adnan Ahmad Yousif Abdulmalek, who is also the CEO of ABG. Besides the Chairman, there are three other representa-tives of ABG. Apart from the CEO, the remaining directors are non-executive directors. During 2011, Mr. Adnan Abdallah Al-Hamad Al-Bassam and Mr. Hood Hashem Ahmed Hashem were inducted as ABG's nominees, replacing Mr. Othman Ahmed and Mr. Abdellatif Abdallah. In addition to this, Mr. Khalid Tawfiq Zakaria, representative of Global Investment House Co., was replaced by Mr. Noor Mahayni.

The board maintains its oversight through five committees – Audit, Credit Facilities, Risk Manage-ment, Nominations & Remuneration and Corporate Governance Committee. In order to comply with rules of Islamic Sharia, JIB has instituted a Sharia Supervisory Board (SSB), the opinion of which is considered binding to the bank. SSB comprises four members and is chaired by Dr. Mehmoud Al-Sartawi. SSB and Audit committee work in coordination through the Internal & Shariah Audit department.

The management team is spearheaded by Mr. Musa Abdelaziz Shihadeh, who has over 50 years of experience in the banking industry and has been associated with the bank since 1980. Senior man-agement comprises experienced professionals in the field of banking and finance. During 2011, Mr. Naeem Mohemmed Al-khmos was appointed as Assistant General Manager. There has been some change at the top management level, the most noticeable of which is the retirement of Mr. Saleh Musa Al-Shantir, ex-Deputy General Manager of the bank. Second Deputy General Managers, Mr. Mohammed Majed Allan and Dr. Hussein Said Saifan, have been assigned the position of Deputy General Managers subsequent to his retirement. Generally, stability in management is deemed to be exceptionally high with senior management of the bank being associated with the bank for about 20 years on an average.

The bank follows a system of co-audit with the financial statements for 2011 being audited jointly by M/s Ibrahim Abbasi & Co. and Ernst & Young- Jordan. The auditor's report for the year does not highlight any violations in any material respects. On the information technology front, JIB had mi-grated to centralized Oracle based software from the system based on COBOL, during the outgoing year. By end 2011, the system had been applied to 25 branches and 6 offices. As per latest informa-tion available on the website, JIB has completed the implementation of the new banking system in all branches and offices.

Subsidiaries and other long-term investments

JIB has total capital in subsidiaries amounting to JD 16.5m. Subsidiaries operate in diverse sectors. The following table presents JIB's subsidiaries.

Table 1: Investment in subsidiaries

Company	Paid-up capital (JD m)	% Ownership
AlRizq Trading Company	1.0	90.0
AlOmariah Schools Co.	4.5	94.4
AlSamaha Real Estate Co.	1.0	95.0
Future Applied Computer Tech. Co.	5.0	99.8
Sanabel AlKhair For Financial Investments Co.	5.0	100.0

Table 2 shows the bank's investment in affiliates. Total investments in associates amounted to JD 14.5m. Fair value of these investments stood lower at JD 15.5m (2010: JD: 18.7m) as compared to the preceding year's value.

Table 2: Investment in Affiliates

Affiliates	% Ownership
Jordan Center for International Trading Co.	28.4
AlAmin Investment Co.	29.7
Islamic Insurance PLC	33.2
Arabian Steel Pipes Mfg. Co.	26.0

Dividends received from subsidiaries and affiliates during 2011 amounted to JD 1.35m (2010: JD 0.8m).

Financial Analysis

Asset Mix

Growth momentum in assets continued during 2011. Total assets depicted an increase of 11% to JD 2.9b (2010: JD 2.6b), increasing JIB's market share to 7.7% (2010: 7.4%) and contributing to a four year CAGR of 16%. By end-Jun'12, assets increased to JD 3.0b. Given the limited Shari'a compliant avenues for deploying excess liquidity, cash equivalents including balances at central bank comprise 46% (2010: 43%) of total assets. Much of this is placed in non-earning account with the Central Bank on account of which the balance sheet yield mix is compromised. However, cash equivalents as a proportion reduced to 31% of total assets at end-Jun'12 as some of these have been channeled towards financing certain public sector exposures. Consequently, share of financing portfolio in the total resource base was higher at 60% (2011: 46%; 2010: 47%).

JD in Millions	1H12	2011	2010
Cash & balances at Central Banks	802	1,216	988
Financing (net)	1,765	1,329	1,231
Investments	207	184	201
Total Assets	2,951	2,898	2,604
Total Deposits	2,656	2,616	2,301

Asset Quality

Financing

Total financing portfolio of the bank stood higher at JD 1.3b (2010: JD 1.2b) at year-end 2011. Mu-rabaha based receivables remain the largest mode of financing portfolio. Exposure in Ijara Muntahia Bittamleek (IMB), which largely comprises real estate exposures, has also witnessed an increase, and appears to be a trend. Going forward, the bank plans to increase individual financing grants on Murabaha and IMB basis.

With the exception of financing to government and public sector, increase in financing was wit-nessed across all segments. Financing to government and public sector decreased to one-third of that in the preceding year, reducing its exposure to 2% (2010: 6%) of total financing. Subsequent to year-end, there has been an increase in public sector financing with government guaranteed expo-sure undertaken against National Electric Power Company (NEPCO) for importing machinery and fuel derivatives. Another major exposure also taken in 2012 in the public sector, comprises financ-ing to a petroleum based company. These exposures reflect Jordan's growing need for public financ-ing, particularly in the area of energy financing. Exposure to individuals comprises the largest pro-portion of the financing portfolio, closely followed by the corporate segment. In 2012, SME project financing grants are expected to continue their gradually increasing volumes.

Table 3: Financing Composition

In JD million	2011	in %	2010	in %
IMB	222.9	17%	168.5	14%
Real Estate	243.6	18%	225.0	18%
Retail	375.8	28%	336.7	27%
Corporate	332.3	25%	304.9	25%
SME	131.4	10%	125.1	10%
Govt	23.4	2%	71.1	6%

The bank has a credit and investment policy and strategy approved by the Board of Directors. The credit policy includes maximum exposures that can be taken against any counterparty. Moreover, there are credit limits assigned to various administrative levels, delineating financing approval and disbursement authority. Overall financing portfolio is well diversified with 148,000 outstanding transactions.

In terms of geographic distribution, 95% of the outstanding financings had been disbursed within Jordan as at end-Dec'11. In line with overall banking sector exposure trends, JIB's financing portfolio remains concentrated in two major sectors; general trade, followed by construction, which together comprise over 70% of the financing book. However, the real estate financing exposure limits are in compliance with regulations requiring per sector exposure not to exceed 20% of local currency deposits. The following table presents proportion of economic sector-wise financing by the bank.

Table 4: Economic sector-wise financing

Economic Sectors %	2011	2010
General Trade	37.6	38.0
Construction	35.9	31.9
Transportation Services	16.3	17.5
Industry & Mining	2.7	1.1

Significant increase in non-performing financing has been witnessed across all segments, with the exception of real estate. Total NPFs amounted to JD 94m (2010: JD 6[illegible].3m) at year-end 2011. With decline in NPFs in real estate segment, impairment in the segment remained the lowest. Growth in overall impairment is largely led by increasing non-performing financing in the retail segment, with the bank's portfolio being most notably extended in this area.

Table 5: Segment-wise Non-Performing Financing

Segment	2011	2010
Individual (Retail)	12.9%	9.3%
Real Estate	1.4%	1.6%
Corporate	5.9%	4.2%
SME	6.3%	4.5%

Overall impairment in the portfolio was higher at 6.5% (2010: 5.1%) on account of higher non-performing exposures. However, the bank's NPFs are largely collateralized by real estate and other collateral. While portfolio quality has deteriorated over the course of the last two years, the same compares favorably to sector average. Portfolio quality indicators are exhibited in the table below:

Table 6: Portfolio Quality Indicators

Non Performing Financing (in %)	2011	2010
NPFs to Gross Financing	6.8	5.5
Loss reserves to NPFs	71.9	79
Growth in Non Performing Finances	32.8	57.3

Riskiness of the bank's portfolio has increased as compared to the preceding year which is reflected not only in the non performing ratio but also on a risk weighted ratio based on the table given below.

2011	Retail	RE	Corporate	SME
Low risk	2.1%		15.0%	1.2%
Acceptable Risk	76.8%	95.0%	63.8%	81.5%
Under-control	8.2%	3.5%	15.3%	11.0%
Non-Operating	12.9%	1.4%	5.9%	6.3%

2010	Retail	RE	Corporate	SME
Low risk	3.4%		14.9%	
Acceptable Risk	80.6%	95.4%	71.1%	87.6%
Under-control	6.7%	3.0%	9.8%	7.9%
Non-Operating	9.3%	1.6%	4.2%	4.5%

NPL coverage was higher during 2011 at 71.9% (2010: 79%). Restructuring of financing/ receiables was significantly lower and amounted to JD 0.33m (2010: JD 1.6m) at year-end 2011.

Investments

Investment portfolio depicted a decline of 9% during 2011 to JD 183.6m (2010: JD 201.4m; 2009: JD: 194.3m), representing 6% (2010: 8%) of total assets. However by end-Jun'12, the portfolio in-creased to JD 206.9m.

The year-end decline in portfolio was largely led by reduction in investment in Muqarada bonds to JD 48.2m (2010: JD 64.7m). Investment in Sukuk increased to JD 9.9m (2010: JD 5.3m), while re-maining minimal in absolute terms. The following table presents the break-up of investment portfo-lio of the bank.

Table 7: Investment Portfolio

	2011	2010
Real Estate	37%	32%
Muqarada Bonds	26%	32%
Quoted Equity	20%	19%
Affiliates	8%	8%
Sukuk	5%	3%
Unquoted Equity	2%	3%
Islamic Banks portfolio	2%	2%
Investment Funds	-	1%
Total (JD)	183.6m	201.4m

Investment in real estate at JD 68m remains the largest exposure in the investment portfolio, com-prising 2.4% of total assets and 33.2% of total equity as at end-Jun'12. Market value of the same was higher by 16% as compared to the cost as at end-Dec'11.

The political and security issues across the region has affected the performance of Amman Stock Exchange (ASE general weighted price index fell by 12.6% in 2011). Investment in equity remained minimal comprising 1.4% (2010: 1.7%) of total assets and 19% (2010: 23%) of total shareholder's equity, and does not pose materially significant further risk, given that the market has fallen by 62% since the decline began in June'08.

Accounts Managed for Others

On an off-balance sheet basis, the bank raises funds in Muqarda bonds, restricted investments and proxy accounts. These funds are invested in a separate pool of investments, segregated from the pool of investments funded by the unrestricted joint investment account holders. Muqarada bonds remain the largest account managed for others, amounting to JD 249.3m (2010: JD 229.5m) as at end-Jun'12. JIB receives 20% of the total profits from these investments.

Returns after adjusting for mudarib fees witnessed a sharp decline in 2009 and have continued the declining trend subsequently. A comparison of returns from Muqarada bonds and Unrestricted IAH over the last five years is as follows:

	2011	2010	2009	2008	2007
Returns distributed to Muqarada bond holders	3.20%	4.22%	4.40%	30.02%	8.46%
Returns for URIA	3.35%	3.89%	5.69%	5.70%	5.30%

Restricted investments, which have witnessed a gradual decline, were lower at JD 33.8m (2010: 38.1m; 2009: JD 52.2m) as at end-Jun'12. JIB charges 25% from accounts' profits in JD and 45% from profits in foreign currencies.

Investment by proxy accounts were completely eliminated by end-Jun'12 (2011: JD 9.5m; 2010: JD 9.5m). These represented cash deposited at the bank, which manages and invests them. As fee, the bank receives 1.5% of the invested capital. The agreement is based on commission agency contract. Any losses arising out of these are to be incurred by the depositor.

Liquidity Risk

JIB benefits from a large and diversified retail deposit base, which has continued to grow on a year on year basis. Deposits are sourced primarily from the private sector, with public sector deposits being marginal in relation to total funds sourced. Total deposits of the bank increased to JD 2.7b (2011: JD 2.6b; 2010: JD 2.3b). Resultantly, JIB's market share in terms of total deposits stood at 10.7% (2010: 10.2%) at end-2011. Of the total deposits, total clients' current and call accounts amounted to JD 782.2m (2010: JD 668.7m), constituting 30% of total deposits as of December 31, 2011. Clients' current and call accounts increased further to JD 816.0m by end-Jun'12. The primary source of deposits remains Unrestricted Investment Accounts (URIA), which increased to JD 1.8b (2010: JD 1.6b). Deposit mix of the bank has largely remained unchanged. The table below presents the deposit mix of the bank as at end-Dec'11.

Table 8: Deposit Mix

	2011	2010
Current	30%	29%
Cash Margin	1%	2%
Term – URIA	54%	55%
Savings	15%	14%
Total	2,616.1	2,300.8

Top 10 depositors comprised 2.3% of the total deposit base, depicting high degree of diversification. Also exemplifying the bank's market presence and funding access is the sizeable proportion of deposits mobilized through individuals at over 90% of overall deposits at end-Dec'11, which lends stability to the depositors' profile.

Cash and cash equivalents in relation to total deposits and borrowings were higher at 48.4% (2010: 44.7%) as at end-Dec'11 but declined subsequently. Total liquid assets (including placement with banks) in relation to total deposits and borrowings were significantly lower at 34% as at end-Jun'12 (2011: 51%; 2010: 48%). The bank has maintained a financing to deposit ratio of 53% on an average over the last three years. With growth in financing during the on-going year, financing to deposit ratio was higher at 66% as at end-Jun'12 (2011: 51%; 2010: 54 %), though still being at a conservative level. At end-2011, the number of accounts managed by the bank had reached 823,000, highlighting the bank's reach in the retail market.

The maturity profile of assets is well synchronized with deposit terms. Overall liquidity profile of the institution is considered strong also in view of the very granular deposit base and sizeable liquid assets in relation to deposits and borrowings.

Capitalization

During the on-going year, the bank increased its paid-up capital to JD 125m from JD 100m at year-end 2011, by distributing 25% as bonus shares to shareholders. Bonus shares were distributed through capitalizing JD 3.0m from special reserves, JD 10m from voluntary reserves and JD 12.0m from retained earnings. Total shareholders' equity increased to JD 211m by end-Jun'12 (Dec'11: JD 207m; 2010: JD 194m). Growth in the same has been limited on account of a substantial dividend payout ratio historically, which has remained largely consistent over the years. During 1H12, the bank paid dividends to the tune of JD. 14.9m from net profit of JD.19m. Dividend payout ratio of the bank over the past three years is as follows:

	2011	2010	2009
Dividends Paid	15	12	12
Net Profit	28	29	28
Dividend Payout	53%	41%	44%

While capital adequacy ratio increased to 24.5% (2010: 21.6%) as at end-Dec'11 on account of in-crease in capital base and lower risk weighted assets, the same was reported at 17.95% at end-Sep'12. Decline in capitalization levels is on account of limited increase in equity base and growth in financing portfolio during 2012 with funds partly being channeled away from less risky sources.

Profitability

Total revenues of joint investment accounts (including income from subsidiaries and affiliates) in-creased by 9% to JD 111.2m (2010: JD 102.1m) stemming from a 4% growth in earning assets while return on average financing portfolio remained comparable to the previous year at about 8%. Funds from URIA increased by 13%, however funding expense did not increase in a commensurate manner, with return to investment account holders falling consistently over the last 4 years. At 2.2% (2010: 2.5%) return on URIA, spreads were slightly higher at 5.8% (2010: 5.6%) in 2011. Share of Investment Risk Fund (IRF) increased to JD 16.5m (2010: JD 10.1m) during 2011 attributable to an increase in percentage of joint investment revenues to be taken to the IRF to 15% (2010: 10%) as per the directives of the Central Bank. Accounting for share of URIA, IRF and expenses related to joint investment accounts, Bank's share of investment revenues as mudarib and Rab-ul-Mal was slightly higher at JD 55.8m (2010: JD 54.2m). JIB's share as modarib was reported at 45% for 2011 (2010: 45%; 2009: 30%).

Non finance revenues increased to JD 22.5m (2010: JD: 17.7m). Bank service income remained its most significant contributor and comprised 46% of other revenues, consistent with prior year le-vels. Resultantly, gross income was higher at JD 78.3m (2010: JD 71.9m).

Operating expenses witnessed a significant increase by 24% to JD 38.5m (2010: JD 31.2m), largely led by increase in employee expenses to JD 23.8m (2010: JD 18.8m). Employee related cost represented 62% (2010: 60%) of total expenses. Per employee cost was also higher at JD 12,484 as compared to JD 10,277 in preceding year, which underlines significant increase in staff emoluments, a trend which persisted in HY2012 and may be substantiated by the increase in public sector salaries and wages in Jordan.

Despite higher gross income during 2011 at JD 78.3m (2010: JD 71.9), profit before taxation was lower at JD 39.7m (2010: JD 40.7m) due to increase in operating expenses. Net profit after tax was reported at JD 28.3m (2010: 29.1m). ROAA and ROAE were lower at 1.0% (2010: 1.2%) and 14.1% (2010: 15.7%), respectively, but higher than the overall local peers and banks average.

During 1HFY12, JIB reported net profit amounting to JD 19m (1H2011: JD 13m), higher as com-pared to the same period in the preceding year. With increase in financing portfolio as well as addi-tional 50 basis points increase in policy rate in Feb'12, following the 25 basis points increase in June 2011, profitability of the bank for the current year may reflect considerable improvement on a full year basis.

The bank is expected to maintain its superior performance track record in the current year. Howev-er, the mac-roeconomic situation in Jordan continues to put pressure on key variables in the banking sector. Most notably, the rising trend in non-performing financing has led to increase in provision charges, which coupled with an inflationary environment has resulted in declining overall returns.

IIRA Rating Scales & Definitions

Ratings on International Scale

The three types of ratings assigned by Islamic International Rating Agency (IIRA) on international scale are detailed below:

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

Long Term

The obligations having an original maturity exceeding one year are considered long term. IIRA uses a scale of AAA to C to rate credit worthiness of the banks' long term obligations, with AAA being the highest possible rating and C being the lowest possible rating.

AAA: Obligations rated AAA are considered the best quality. They present the least investment risk. While changes can be anticipated in business and economic conditions such changes as can be assessed are not likely to impact the fundamentally strong position of such obligors.

AA: Obligations rated AA are considered high quality in all respects. Combined with the AAA obligations they constitute the high grade group. The differentiation is in the magnitude and range of fluctuations in elements that assure safety. Such elements in this category will not be as stable or predictable as for AAA category.

A: Obligations rated as A are considered upper medium grade obligations possessing sound credit characteristics and reflect safe margins of protection at this time but may be susceptible to changes in future due to industry or product characteristics.

BBB: Obligations rated BBB normally posses sound credit characteristics. The safety elements are adequate at present but hostile business factors may bring about a change in the credit characteristics.

BB: Obligations rated BB reflect significant speculative characteristics and volatility in protection factors. The obligation is not well assured even in positive economic environment.

B: Obligations rated B do not typically reflect characteristics of desirable investment. There is significant doubt that obligation can be met over any period of time.

CCC: Obligations rated CCC are high risk and unpredictable with very poor protective elements.

CC: Obligations rated CC are highly speculative. Such obligations are often in default or reflect limitations on repayment capacity.

C: Obligations rated C have extremely high level of risk and they are unlikely to meet their commitments.

D: 'D' rated Obligors are in default with respect to their 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.

Short Term

The obligations having an original maturity not exceeding one year are considered short term. IIRA uses a scale of A1+ to C to rate credit worthiness of the banks' short term obligations, with A1+ being the highest possible rating and C being the lowest possible rating.

A1+: Obligations rated A1+ have a superior ability for repayment of obligations and is evidenced by extremely strong liquidity conditions.

A1: Obligations rated A1 have a strong ability for repayment and reflect very good liquidity conditions.

A2: Obligations rated A2 have a sound capacity of repayment but could be effected by external market conditions.

A3: Obligations rated A3 have an acceptable ability to repay the obligations. However, they are more susceptible to adverse market conditions and require careful management.

B: The obligations rated B have weak capacity for repayment and economic changes can harm the liquidity conditions.

C: Obligations rated C shows considerable uncertainty towards timely payments of obligations. The liquidity conditions appear very weak.

الوكالة الإسلامية الدولية للتصنيف
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