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السادة بورصة عمان المحترمين
عمان

السلام عليكم ورحمة الله وبركاته،،،

الموضوع: التصنيف الائتماني للبنك الإسلامي الأردني من

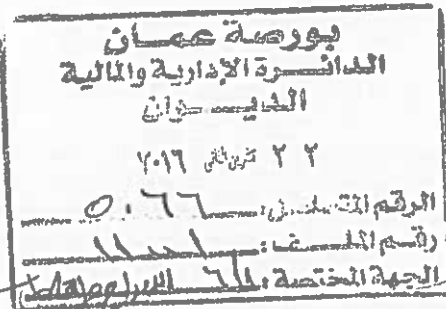
شركة التصنيف ستاندرد آند بورز

استنادا إلى أحكام المادة (٤٣/د) من قانون الأوراق المالية رقم (٧٦) لعام ٢٠٠٢م وأحكام المادة (٨) من تعليمات إفصاح الشركات المصدرة والمعايير المحاسبية ومعايير التدقيق لسنة ٢٠٠٤م.

يسرنا أن نرفق لكم في طيه نسخة من التصنيف الائتماني الخاص بمصرفنا والصادر عن الوكالة الإسلامية الدولية للتصنيف إصدار تشرين ثاني ٢٠١٦.

وتفضلوا بقبول فائق الاحترام،،،

موسى شحادة
الرئيس التنفيذي / المدير العام



RatingsDirect®

Jordan Islamic Bank

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Table Of Contents

Major Rating Factors

Outlook

Rationale

Related Criteria And Research

Jordan Islamic Bank

SACP	bb-	+	Support	0	+	Additional Factors	0
Anchor	bb		ALAC Support	0		Issuer Credit Rating BB-/Negative/B	
Business Position	Adequate	0	GRE Support	0			
Capital and Earnings	Moderate	0	Group Support	0			
Risk Position	Moderate	-1	Sovereign Support	0			
Funding	Average	0					
Liquidity	Adequate						

Major Rating Factors

Strengths:

- Leading position as the largest Islamic financial institution in Jordan and the country's third-largest bank in terms of assets, deposits, and financing.
- Good business resiliency to the current adverse economic conditions in Jordan.
- Sound earnings capacity.

Weaknesses:

- High geographic concentration in Jordan and related credit risk, notably to public sector entities, due to the fragile domestic economy.
- Moderate capitalization under our methodology, with internal capital generation hindered by high dividend payout ratios.
- Asset quality continuously constrained, in our view, by unfavorable economic and political conditions.

Outlook: Negative

S&P Global Ratings' outlook on Jordan-based Jordan Islamic Bank (JIB) is negative. This outlook mirrors our outlook on the ratings on the Hashemite Kingdom of Jordan (BB-/Negative/B).

Our ratings on JIB are closely tied to the sovereign rating given JIB's sizeable exposure to the public sector, its sole focus on its domestic market and financing bias toward small and midsize enterprises and government-related entities (GREs). Economic conditions in Jordan have deteriorated due to the difficult external environment that the Kingdom is facing which, in our view, is dragging on growth prospects and complicating structural fiscal consolidation efforts. We consider that this adverse economic environment in Jordan could hinder JIB's operations and expose the bank to further instability.

A downgrade of the sovereign would trigger a similar rating action on JIB. A downgrade could also be triggered by a weakening of JIB's stand-alone credit profile (SACP) by two notches given that a weakening of the SACP by one notch would be compensated for by JIB's moderately strategic status to its parent group, Bahrain-based Al Baraka Banking Group B.S.C. (ABG; BB+/Negative/B). This would allow JIB to benefit from one notch of group support into the long-term rating on the bank. The weakening of the SACP by two notches could come from the simultaneous decline in capitalization and asset quality, owing to further deterioration in the domestic economic environment. However, we do not believe that this is likely in the next 12 months.

We would revise the outlook on JIB to stable if we revised the outlook on Jordan to stable, barring any other change in the bank's financial profile.

Rationale

The starting point for our ratings on JIB is its 'bb' anchor, which we derive from our assessment of industry and economic risks in Jordan. Similarly, the ratings also reflect our view of JIB's adequate business position on the back of the bank's capacity to preserve its market share and overall financial performance despite adverse economic conditions in Jordan. Our assessment of JIB's capital and earnings is moderate, reflecting our anticipation that our risk-adjusted capital (RAC) ratio before adjustments for the bank will remain at about 5.3%-5.6%. We consider JIB's risk position to be moderate. We note that the bank's sovereign exposure has significantly increased and concentration and asset quality remain vulnerable to the prolonged adverse economic and geopolitical situation. Funding remains average, but borders the high range of the domestic average. Liquidity remains adequate as the bank maintains the allocation of most of its excess funds at the Central Bank of Jordan. We therefore assess JIB's SACP at 'bb'.

The likelihood of extraordinary government or parent support currently has no impact on the ratings on the bank, as the SACP on JIB is already at the same level as the sovereign foreign currency rating. We consider JIB to be of high systemic importance in Jordan, whose support to its banking system we classify as uncertain.

Anchor: 'bb' for banks operating in Jordan

Under our bank criteria, we use the Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Jordan is 'bb', based on an economic risk score of '7' and an industry risk score of '7'.

Jordan's ability to buffer swings in economic cycles is limited, in our view, because its economy is small and open, and income levels are low. Accordingly, domestic banks' performance is characterized by patterns in the cost of risk experience that closely reflect the vulnerability of Jordan's growth prospects to a combination of:

- Global economic performance;
- Oil prices, given its reliance on imported energy needs;
- Foreign donors' willingness to provide financial support; and
- The political instability of its neighbors.

Recently, the political instability of the region had negative repercussions on trade and tourism, leading to trade route closures and a decrease in tourist arrivals. Nonetheless, the decreasing oil price is narrowing the country's current account and fiscal deficit; but these are cyclical beneficial effects.

We anticipate that Jordanian banks will continue to generate sufficient profitability to absorb their elevated costs of risk burden. We think that the deposit base will remain ample and resilient, despite ongoing instability and deterioration in the security environment.

On the downside, Jordan's fiscal, monetary, and external vulnerabilities at the sovereign level substantially constrain its ability to provide meaningful liquidity support to the banking system. Furthermore, considering the uncertainty around foreign aid, it is not clear if the Kingdom would be able to support the banking system in a period of stress. Conversely, the country's banks have at times bridged the significant financing needs of public-sector entities, and are consequently highly exposed to the sovereign and GREs.

Table 1

Jordan Islamic Bank Key Figures

	--Year-ended Dec. 31--				
(Mil. JOD)	2015	2014	2013	2012	2011
Adjusted assets	3,796.0	3,551.6	3,279.4	3,020.0	2,897.7
Customer finance (gross)	2,674.7	2,293.0	2,203.9	2,107.3	1,383.0
Adjusted common equity	320.4	289.3	252.8	232.3	207.0
Operating revenues	152.2	140.7	132.7	117.8	94.7
Operating expenses	59.3	52.0	49.9	44.1	37.5
Core earnings	48.7	45.1	45.1	36.4	28.3

JOD--Jordanian dinar.

Business position: Leading position as Jordan's largest Islamic financier and third-largest bank

We view JIB's business position as adequate. The bank has displayed stable market shares since 2012 in both financings and deposits, owing to a consistent strategy implemented by an experienced and stable management team. Moreover, the bank has consolidated itself as the largest Islamic financial institutions in the country and Jordan's third-largest bank in terms of total assets (\$6.11 billion as of June 30, 2016).

Although future revenues may be volatile due to muted domestic growth prospects for private sector credit, we note that JIB has an overall resilient depositor base and sound commercial entrenchment.

JIB has a long track record and a well-established position as the largest domestic Islamic bank with market shares in

financing and deposits of about 10%-12% as of Dec. 31, 2015. On the downside, revenue diversification is limited, although in line with its peers'. JIB derives 99.5% of its revenues inside the Kingdom and total assets located outside national territory represent a mere 2.3%. This exemplifies the bank's minor geographic diversification and emphasizes its focus on its domestic market. Loan growth was well above industry levels, although we note that this was mainly driven by loans extended to a GRE. We note that JIB's financing tracks Jordan's main economic sectors, but it has a bias toward small and midsize enterprises and GRES.

JIB decided from 2012 to increase its financing position to public sector entities (concentrated exposure to public sector entities reached about 2x total adjusted capital [TAC] as of Dec. 31, 2015). Although we acknowledge JIB's consistently good asset quality, we remain cautious about the risks related to this strategy in a country that, in our view, carries high economic risks. Nonetheless, this strategy is largely responsible for the 8.2% increase in operating revenues in 2015, coupled with an above-average industry level of return on equity of 16.4%. However, we believe that doing so led to a weakening of its liquidity given the decrease of its regulatory liquidity coverage ratio down to 155% at end-2015 from 188% at end-2014. Although we expect public-sector exposure will remain sizeable going forward, we understand that the bank's strategy is not to increase these lines massively in the future but to pursue public-sector financing in order to maintain adequate profitability with reasonable risk taking.

JIB's strategy further includes enhancing its risk systems and integrating with ABG, which owns 66% of the bank.

Table 2

Jordan Islamic Bank Business Position

	--Year-ended Dec. 31--				
(%)	2015	2014	2013	2012	2011
Total revenues from business line (mil. JOD)	152.2	140.7	132.7	117.8	94.7
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on equity	16.4	16.8	18.6	16.7	14.1

JOD--Jordanian dinar.

Capital and earnings: Moderate capitalization but higher profitability than peers

We view JIB's capital and earnings position as moderate. Our assessment is predicated on our anticipation that our projected RAC ratio before diversification will lie in the 5.3%-5.6% range over the period to year-end 2017 compared with 5.2% at year-end 2015. Our moderate assessment is a neutral rating factor for a bank with a 'bb' anchor.

Our projections are based on the following assumptions:

- A 45% dividend payout ratio constraining the bank's capital build.
- A slight increase in the net profit margin over the next 18-24 months, due to a slowdown in deposit collection and stable financing to the public sector increasing JIB's profitability. We note that, if the opportunity arises, JIB could potentially invest in sukuks in 2017 to offset the effects of public sector financing that is denting JIB's liquidity buffer and decreasing the bank's liquidity position
- A 5% growth in financings, in line with the system average.
- Stable operating expenses to operating revenues at about 39% over the next 18-24 months.
- Stabilization of cost of risk at roughly 100 basis points through 2016 and 2017.

The quality of JIB's capital is high given that the bulk of the capital base is comprised of core capital items and the bank does not rely on hybrid instruments. We consider that JIB's capital adequacy ratio is comfortable at 20.11% as of June 30, 2016, which is well above the 12% minimum set by the Central Bank of Jordan pertaining to Islamic Banks under the Basel II framework. Our projections exclude any material capital strengthening as the regulatory capital ratio is already sufficiently high. JIB's regulatory capital ratios are much higher than our RAC ratio before adjustments because our ratio takes full stock of the high economic risk related to the bank's Jordan-focused asset mix, and therefore the higher risk weights we apply across asset classes compared with those of the regulator.

Despite economic headwinds in Jordan, JIB has displayed favorable profitability metrics compared with peers over the past five years. Net profit margin has remained in the 4.50%-4.60% range over that period, while net income, standing at \$69 million as of year-end 2015, has been increasing since 2009, proving the bank's capacity to generate a steady earnings stream. We believe that this is largely due to profitable financing toward the public sector and the bank's capacity to maintain a low cost base. JIB's operating expenses to operating income has averaged 38% for the 2014-2015 period. We believe JIB will maintain its earnings profile over the next 18-24 months, with stable financing toward public-sector entities and investment in sukuk securities if the opportunity arises.

JIB's exposure to public-sector entities represent more than 2x shareholder's equity and more than 28% of the financing base. Consequently, and although we acknowledge that JIB's earnings volatility remains low when compared with peers, we believe that the bank's net profit margin is highly correlated to public-sector financing as it is highly profitable. Should these lines not be renewed in the future or be replaced by less profitable placements, we believe the bank's earnings would decrease.

Table 3

Jordan Islamic Bank Capital And Earnings

	--Year-ended Dec. 31--				
(%)	2015	2014	2013	2012	2011
S&P Global Ratings RAC ratio before diversification	5.2	5.4	5.3	5.6	5.5
S&P Global Ratings RAC ratio after diversification	2.7	2.3	4.0	4.2	4.0
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net profit income/operating revenues	81.5	80.6	81.6	76.7	68.5
Fee income/operating revenues	10.0	10.8	9.7	11.2	12.8
Market-sensitive income/operating revenues	3.1	3.5	4.1	7.1	11.3
Operating expenses/operating revenues	39.0	37.0	37.6	37.4	39.6
Preprovision operating income/average assets	2.5	2.6	2.6	2.5	2.1
Core earnings/average managed assets	1.3	1.3	1.4	1.2	1.0

RAC--Risk-adjusted capital.

Table 4

Jordan Islamic Bank Risk-Adjusted Capital Framework Data

(Mil. JOD)	Exposure at default	Basel II RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	892	0	0	886	99

Table 4

Jordan Islamic Bank Risk-Adjusted Capital Framework Data (cont.)					
Institutions	75	0	0	33	44
Corporate	1,704	0	0	2,542	149
Retail	1,370	0	0	1,793	131
Of which mortgage	342	0	0	219	64
Securitization*	0	0	0	0	0
Other assets	180	0	0	384	213
Total credit risk	4,221	0	0	5,637	134
Market risk					
Equity in the banking book§	15	0	0	178	1,184
Trading book market risk	--	0	--	19	--
Total market risk	--	0	--	198	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	0	--	285	--
		Basel II RWA		S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
Diversification adjustments					
RWA before diversification		0		6,120	100
Total diversification/concentration adjustments		--		5,801	95
RWA after diversification		0		11,921	195
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		292	21.1	320	5.2
Capital ratio after adjustments†		292	21.1	320	2.7

*Securitization exposure includes the securitisation tranches deducted from capital in the regulatory framework. §Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. †Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. JOD--Jordanian Dinar. Sources: Company data as of Dec. 31, 2015, Standard & Poor's.

Risk position: Sizable public-sector exposure makes asset quality move in tandem with Jordan's economic and political conditions.

We view JIB's risk position as moderate. Our assessment is predicated on JIB's large single-name public-sector exposure, representing roughly one-third of its total financing operations. That said, we consider that JIB's improving asset quality metrics compare well against peers'.

Jordan's public sector finances have been under significant pressure due to the regional economic and political instability, notably the continued influx of refugees that is weighing on government finances. Similarly, lower-than-anticipated grants and lower-than-expected tax revenues have contributed to the negative trajectory of Jordan's public-sector finances. We consider that these challenges faced by the Kingdom weigh adversely on JIB's

financial profile, considering the bank's material and increasing exposure to Jordan's public sector.

We believe that JIB's creditworthiness is more closely tied to the sovereign's creditworthiness than peer banks, as the bank has built up a sizable financing position toward a GRE since 2012. In 2015, this exposure increased notably representing more than 2x TAC. We don't expect this trend will reverse in the near future, except if the bank manages to invest part of its public financing repayments in sukuk securities in 2017. In fact, we believe that this exposure could become more concentrated, particularly if the sovereign fiscal and external balance positions worsen further, as the government is likely to increase borrowing from domestic banks, including JIB.

We also expect the adverse economic and political conditions in Jordan will continue testing asset quality metrics in JIB's private-sector financing portfolio. The bank entered the current economic turbulence well-positioned. Its financing book to the private sector has historically shown good granularity; its business positioning enabled it to cherry pick customers; and it had a consistent record of better asset quality metrics than domestic peers. That said, we note single-name concentration is increasing over time, as stressed operating conditions translate into a focus on existing good customers and fewer new opportunities. The 20-largest performing on-balance-sheet financings, excluding public-sector entities, stood at about 0.80x the bank's TAC at year-end 2015, which still compares well with peers' on a global basis.

Given the adverse economic environment, we expect JIB's cost of risk will follow past years' trends and remain high, stabilizing at about 100 basis points for financing for the coming 12-18 months. Although we acknowledge that standing at 3.83% as of June 30, 2016, the bank's nonperforming assets to total financing ratio is at its lowest point since 2008, we believe that this is mainly driven by the large financing extended to public-sector entities. In the coming years, we expect a slight deterioration of this ratio as geopolitical tensions prevail and cause trade disruptions with neighboring countries, notably the trade route closure with Iraq.

Positively, thanks to JIB's sound profitability levels, coverage by provisions increased more than we expected, reaching 114.1% as of June 2016. This figure would increase even further if we were to take into consideration the JIB's Investment Risk Fund, an obligatory reserve fund maintained by Islamic banks. We expect this adequate level of provisioning will stabilize slightly above industry levels in the next 12-18 months, given JIB's provisioning efforts.

Table 5

Jordan Islamic Bank Risk Position

(%)	—Year-ended Dec. 31—				
	2015	2014	2013	2012	2011
Growth in customer finance	16.6	4.0	4.6	52.4	9.2
Total diversification adjustment/S&P Global Ratings RWA before diversification	94.8	136.7	32.0	33.7	38.6
Total managed assets/adjusted common equity (x)	11.9	12.3	13.0	13.0	14.0
New finance loss provisions/average customer loans	0.7	1.1	0.8	1.3	1.3
Gross nonperforming assets/customer loans + other real estate owned	3.5	4.5	4.8	4.7	7.0
Finance loss specific reserves/gross nonperforming assets	85.8	72.1	67.8	57.2	55.4

RWA—Risk-weighted assets.

Funding and liquidity: Ample core customer deposit base representing the total funding base

We assess the bank's funding as average and its liquidity as adequate. The assessment of funding rests on JIB's ample core customer deposit base, representing 99.9% of the total funding base, coupled with a strong stable funding ratio, which has remained above 100% for the last 10 years. The bank's liquidity position has deteriorated recently given decreased allocation of its excess funds at the Central Bank of Jordan, although it remains well within adequate levels given the still-abundant amount of broad liquid assets.

JIB's funding and liquidity ratios remain below the domestic system's average, since the bank continues to fund public-sector entities to improve the overall revenue base and profitability. Nonetheless, our base-case forecast does not include a further increase of the ratio of net financing to core customer deposits, as we believe financings toward public-sector entities will be renewed and increase at most in line with overall financing and deposit growth. In fact, we expect customer deposits will follow past years' trends and increase in the range of 5%-7% as the bank remains a major domestic market player.

JIB is wholly funded by customer deposits and has high granularity within its depositor base. Similarly, JIB benefits from no major deposit concentration that could limit its funding capacity while its leading market position ensures sufficient deposit growth to cover its private sector financing. Moreover, the bank's stable funding ratio at year-end 2015 amounted to 125%, which is above the peer group average, meaning that JIB's funding base has a very stable profile.

JIB continues to profit from the higher-yielding opportunities opened-up by the government's public finance troubles by switching its excess liquidity parked at the central bank to public-sector financing. This decision boosted revenues at the expense of liquidity. JIB's cash held at the central bank decreased from 29.4% of assets at year-end 2014 to 23.5% on Dec. 31, 2015.

As an Islamic bank, JIB's options to park excess liquidity are limited and reducing financing toward public entities could hamper the bank's profitability. As a result, we believe the bank's liquidity profile will remain unchanged in the next 18-24 months, except if the bank manages to invest part of the repayments in sukuk securities.

Table 6

Jordan Islamic Bank Funding And Liquidity

	—Year-ended Dec. 31—				
(%)	2015	2014	2013	2012	2011
Core deposits/funding base	99.9	99.9	99.6	99.5	99.3
Customer finance (net)/customer deposits	76.7	69.8	72.4	75.5	50.8
Long-term funding ratio	99.9	99.9	99.6	99.6	99.3
Stable funding ratio	124.7	135.1	130.3	124.6	172.7
Short-term wholesale funding/funding base	0.1	0.1	0.4	0.5	0.7
Broad liquid assets/short-term wholesale funding (x)	256.3	235.9	63.9	51.4	64.5
Net broad liquid assets/short-term customer deposits	46.9	56.5	46.1	44.6	91.6
Short-term wholesale funding/total wholesale funding	100.0	100.0	100.0	100.0	100.0
Narrow liquid assets/3-month wholesale funding (x)	254.0	N/A	63.7	51.4	64.5

N/A—Not applicable.

External support: No uplift to the SACP

We view JIB as a highly systemically important bank in Jordan and moderately strategic for its parent Al Baraka Group. Despite its importance, our assessment of the likelihood of extraordinary government or parent support currently have no impact on the ratings on the bank, given that the bank's SACP is at the same level as the sovereign ratings and the long-term rating on JIB is capped by the sovereign long-term rating. Furthermore, we assess the government's ability to support banks as uncertain. Despite a track record of willingness to provide guarantees and liquidity if needed, we believe that the government's ability to provide emergency liquidity is constrained by its limited fiscal flexibility.

With regards to its parent, JIB accounted for 24.3% of ABG's consolidated assets as of June 30, 2016, and we consider it to be moderately strategic to its parent group. While we acknowledge ABG's strong commitment toward its subsidiary, we have no clear evidence that ABG will support JIB in all scenarios.

Related Criteria And Research

Related Criteria

- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Research Update: Jordan 'BB-/B' Ratings Affirmed; Outlook Remains Negative - October 21, 2016
- Banking Industry Country Risk Assessment: Jordan - August 3, 2016

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 14, 2016)

Jordan Islamic Bank

Counterparty Credit Rating

BB-/Negative/B

Counterparty Credit Ratings History

26-Apr-2016

BB-/Negative/B

13-Nov-2014

BB-/Stable/B

28-May-2013

BB-/Negative/B

Sovereign Rating

Jordan (Hashemite Kingdom of)

BB-/Negative/B

Related Entities

Al Baraka Banking Group B.S.C.

Issuer Credit Rating

BB+/Negative/B

Albaraka Turk Katilim Bankasi AS

Issuer Credit Rating

BB-/Stable/B

Turkey National Scale

trA+/-/trA-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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السادة بورصة عمان المحترمين

عمان - الأردن

السلام عليكم ورحمة الله وبركاته،،،

الموضوع: التصنيف الائتماني للبنك الإسلامي الأردني من

الوكالة الإسلامية الدولية للتصنيف

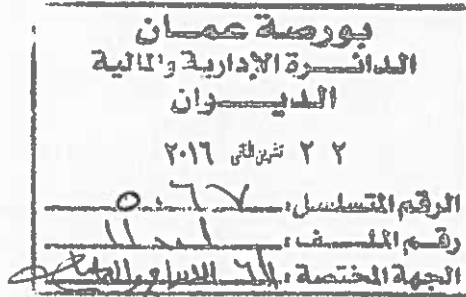
بالإشارة إلى الموضوع أعلاه ، يسرنا أن نرفق لكم في طيه نسخة من التصنيف الائتماني

الخاص بمصرفنا والصادر عن الوكالة الإسلامية الدولية للتصنيف إصدار تشرين ثاني ٢٠١٦.

وتفضلوا بقبول فائق الاحترام،،،

موسى شحادة

الرئيس التنفيذي / المدير العام



رئيس

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TRUST . TRANSPARENCY . INDEPENDENCE

Rating Report

Jordan Islamic Bank

November 2016



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

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Islamic International Rating Agency

RATING REPORT

Jordan Islamic Bank

Report Date:
November 03, 2016

Analyst:
Avinash Asar

Credit Rating

	Latest Rating (November 03, 2016)	Previous Rating (September 03, 2015)
International Scale		
LCY Scale	BBB-/A3	BBB-/A3
FCY Scale	BB+/A3	BB+/A3
National Scale	A+(jo)/A1(jo)	A+(jo)/A1(jo)
Rating Outlook	Stable	Stable

Company Information

- Incorporation year: 1978
- Chairman: H.E. Mr. Adnan Ahmad Yousif
- Major Shareholding: Albaraka Banking Group
- Listed on: Amman Stock Exchange
- Sector: Islamic Banking
- Chief Executive Officer: H.E. Mr. Musa Abdul Aziz Mohammed Shihadeh
- External auditors: Ibrahim Al-Abassi & Co.

CORPORATE PROFILE

Jordan Islamic Bank ('JIB' or 'the bank') was established in 1978 and operates under the precepts and principles of Islamic Shari'a. It is the oldest and largest amongst the four banks which provide Islamic banking services in the Hashemite Kingdom of Jordan ('Jordan' or 'the Kingdom' or 'the country'), representing more than 50% of the sector's deposit and asset base. In terms of the overall banking sector, JIB ranks third in terms of total assets and total deposits. During 2015, JIB's asset base¹ and net financing portfolio² grew by 8% and 17%, respectively, outpacing the industry's growth of 5%. As of end 2015, JIB's share of the total industry assets was 8.8% (2014: 8.6%) and the bank represented 8.4% (2014: 7.5%) of the total financings. The bank's share of the total industry deposits (including restricted investment accounts) remained at prior year's level at 11.5%.

JIB's growth in the business operations is supported by the expansion of its delivery network comprising 93 branches and cash offices (2014: 86), in addition to 170 ATMs as of end-2015 (2014: 147). As part of its expansion strategy, the bank plans to increase its existing network to around 100 branches and cash offices by end-2016. Commensurate with the growth in business, JIB's employee strength reached 2,148 as of end-2015 (2014: 2,051). Through the years, the bank's top management cadre has evolved with the induction of new members in areas such as strategic planning. However, the bank's leadership has remained stable and features a consistent approach to business.

Amount in JD'millions	2012	2013	2014	2015
Total Assets	3,021.3	3,281.6	3,554.7	3,799.0
Net Financings	2,046.1	2,125.9	2,213.3	2,587.7
Net Investments ³	205.9	164.2	176.2	205.2
Total Deposits ⁴	2,726.0	2,957.6	3,180.5	3,385.4
Net Equity	228.8	255.5	282.2	311.2
Off Balance Sheet Funds	234.3	240.8	300.5	370.8
ROAA	1.2%	1.4%	1.3%	1.3%
ROAE	16.7%	18.6%	16.8%	16.4%

The bank has, as part of its commitment to the environment and as its contribution to the energy shortfall in Jordan, dedicated resources to energy conservation by setting up 'green branches' fully fuelled by solar energy. This has generated cost savings for the branches, and ongoing transformation holds a promise for significant alleviation of energy costs.

....Shareholder's Profile

JIB is listed on the Amman Stock Exchange. Al Baraka Banking Group (ABG), with a stake of 66%, is the bank's only significant shareholder. As such none of the other shareholders own more than 5% of the bank's shares. ABG operates under an Islamic wholesale banking license from the Central Bank of Bahrain (CBB) and was established in 2002 to consolidate the operations of the group's subsidiaries, presently spanning the Middle Eastern, European, North and South African regions. With a majority stake in 11 Islamic retail banks, operating in countries including Algeria, Bahrain, Egypt, Jordan, Lebanon, Pakistan, Sudan, South Africa, Syria, Tunisia and Turkey, ABG is one of the largest Islamic banking groups in the world. ABG is in advanced stages to acquire

¹ Including off-balance sheet assets

² Only on-balance sheet exposures

³ Includes investment accounts with banks and banking institutions

⁴ Includes current and call accounts at banks and banking institutions

a banking license in Morocco, which will further solidify its presence in the North African belt. A recent acquisition in Pakistan, has also entrenched the group deeper in the emerging market. The business operations of the group have grown steadily over the years and as of end-2015, it reported an asset and deposit base of USD 24.6b and USD 19.4b respectively. The group recorded a growth of 4% in its net profit, amounting to USD 286.2m during 2015. The number of branches in ABG's network has expanded to 587, with an employee base of 11,458 as of end-2015.

....Subsidiaries & Affiliates

JIB has four subsidiary concerns, of which two are fully owned and the bank holds a stake of more than 90% in the other two. The subsidiaries operate in diverse sectors, with the total paid up capital of JD 26.6m as of end-2015. The net income from the subsidiaries' operations increased by 7% to JD 2.1m during 2015 of which 95% was distributed as unrestricted investment account holder's share.

Subsidiary	Type of Activity	Paid up Capital (JD' millions)	Ownership
Omariah Schools Co. Ltd.	Education	8.6	94.4%
Al Samaha Funding and Investment Co. Ltd.	Financing	8.0	98.7%
Future Applied Computer Technology Co. Ltd.	Services	5.0	100%
Sanabel Al-Khair for Financial Investments Co. Ltd.	Brokerage	5.0	100%

The bank's investment in its affiliates declined slightly to JD 15.1m as of end-2015 (2014: JD 15.6m), as the value of its investment in three of its holdings declined during the year. Moreover, fair value of the investments reduced to JD 12.9m in 2015 when compared to JD 15.4m as of end-2014. The bank's yield on these investments increased slightly during 2015 as dividends received from the affiliates amounted to JD 788.5k (2014: JD 688.8k). Overall, the net yield of these investments to the bank's shareholders has been minimal; however, the bank's investment in the country's takaful industry is notable and can potentially play an important role in further development of Islamic finance in the country.

Affiliate	Type of Activity	Ownership	Value of Investment (JD' millions)
Jordan Center for International Trading Co.	Commercial	28.4%	1.6
AlAmin Investment Co.	Financial Services	29.9%	3.9
Islamic Insurance Co.	Takaful	33.4%	5.9
Arabian Steel Pipes Mfg. Co.	Manufacturing	26.0%	3.7

RATING RATIONALE

....Resilient banking sector amidst economic pressures

Despite a slowdown in growth experienced by the Jordanian banking sector due to regional pressures on the economy, the financial indicators of the banking sector have remained sound. Asset quality metrics remain satisfactory and is further supported by the regulatory initiatives to tighten credit disbursement standards. Provisioning levels maintained by the sector remain adequate and reduce the need for undertaking impairment allowances, which has positively impacted the return indicators.

....Key Shareholder Franchise

The bank's association with ABG, which is a well recognized Islamic banking franchise with multi-jurisdictional presence, lends support to the ratings. The control exercised by the group on 10 other Islamic retail banks apart from JIB and operating in different countries, presents the bank with an opportunity to benefit from business synergies and also reflect upon and adopt governance practices that may be superior at sister concerns.

....Adequate liquid reserves despite accelerated growth in financings

Despite channelizing funds towards financings in 2015, the liquid reserves at the bank's disposal remain adequate. The bank's legal liquidity ratio, liquidity coverage ratio and net stable funding ratio remain in excess of 100%. JIB's penetration in the retail market is prominent and it commands strong franchise as a Shari'a compliant retail bank. This has enabled the bank to raise funds through low cost and relatively more stable current & saving accounts.

....Improving Asset Quality Indicators

The asset quality indicators of the bank continued its improving trend despite slight uptick in the quantum of non performing financings on account of challenging macroeconomic conditions. Viewed in relation to a sharp increase in the financing portfolio, the gross impairment ratio improved further in 2015 and compared favorably to the industry. Provisioning coverage remains in excess of 100%. The bank's exposure towards NEPCO has further increased in 2015, translating into concentration in the financing portfolio. The total exposure towards NEPCO stands reduced as of end-October'2016, to JD 629m through financings and a further JD 27m in Sukuk, leading to reduced aggregate exposure, vis- a- vis 2015 year end, but still considered high in relation to the overall portfolio.

.....Sound Profitability and Capitalization indicators

Increase in net spread and fee & commission income contributed towards the growth in the bank's bottom line in 2015. The bank's ROAA is in line with the banking sector aggregate; whereas, its ROAE is superior to the industry. Overall capitalization level remains sound supported by internally generated funds. The bank's current capitalization level is sufficient to fund growth in business assets.

ECONOMIC OUTLOOK

	2012	2013	2014	2015
Real GDP ⁵ (JD' millions)	10,515.3	10,812.9	11,147.6	11,413.2
Real GDP Growth (%)	2.7	2.8	3.1	2.4
Nominal GDP (JD' millions)	21,965.5	23,851.6	25,437.1	26,637.4
Nominal ⁶ GDP Growth (%)	7.3	8.6	6.6	4.7
Inflation (%)	4.5	4.8	2.9	-0.9
Domestic Debt (% of GDP)	53.0	49.7	49.2	50.5
External Debt (% of GDP)	22.5	30.3	31.6	35.3
Fiscal Account Balance ⁷ (% of GDP)	-8.3	-5.5	-2.3	-3.5
Current Account Balance (% of GDP)	-15.2	-10.4	-7.3	-9.0
Gross Official Reserves (JD' millions)	4,702.5	8,512.0	9,981.9	10,034.8
Population (millions)	7.4	8.1	8.8	9.5
Source: Central Bank of Jordan				

Jordan's real GDP growth slowed down to 2.4% in 2015, as unstable regional circumstances affected the macroeconomic environment in the country. The conflicts in neighboring countries such as Iraq and Syria have negatively affected the growth of wholesale & retail trade and tourism⁸ sectors to 1.2% (2014: 3.9%) and -3.3% (2014: 2.9%) respectively. The loss of investor confidence amidst regional instability and the delay in the disbursement of grants by Gulf Cooperation Council (GCC) countries has led to a deceleration in the growth of construction sector to -1.3% (2014: 6.8%). However, certain sectors such as electricity & water and finance & insurance services performed well during 2015. Concurrently, the decline in economic growth has led to an increase in the unemployment rate in 2015 to 13.1% (2014: 11.9%).

On the positive side, the decline in oil prices and a strong US Dollar led to deflationary conditions in 2015 which has benefitted the country to some extent. Within this environment, the Central Bank of Jordan reduced the policy rate to 3.75% in order to encourage credit off take and stimulate the economy. The Central bank official reserves at JD 10.03b have helped to boost the confidence in Jordanian Dinar and maintenance of the dollar-peg.

The country's imports reduced by 11.3% in 2015, which was mainly contributed by 22.2% reduction in the imports of crude materials & intermediate goods due to significant drop in oil prices. The import of crude products accounts for more than half of the country's total imports. The exports also suffered a decline due to violence at the country's borders by insurgents in neighboring countries. This led to the closure of trade path between Jordan and Syria and further diminished already decreasing cargo shipments between Jordan and Iraq. The 7.1% decline in total exports in 2015 was lower than the imports decline, leading to a contraction in trade deficit which was reported at 27.2% of GDP (2014: 33.4%). The current account deficit widened to 9.0% of GDP in 2015, despite the contraction in trade deficit. This was mainly due to the decline in the receipts from tourism services as an unstable regional environment along with a strong US dollar affected Jordan's tourism sector. Moreover, a decrease in foreign grants by about 40% also impacted the current account balance.

⁵ At Market Prices

⁶ At market Prices

⁷ Including Grants

⁸ Restaurant and Hotels

The fiscal balance deteriorated as external grants, mainly contributed by the GCC countries, underwent a sharp decline in 2015. Jordan has been a beneficiary of support from GCC over the recent years; however amidst declining oil prices and liquidity pressures in the region, such assistance has reduced. The domestic revenues also declined slightly by 2%. Revenues earned through tax and pension contributions remained almost at prior year's level; however revenues from selling goods and services and property income declined during 2015. Government expenditure declined by 2% as both current and capital expenditures were controlled. Amongst various expenditure heads, grants declined notably by 43% and food & oil subsidies were lower by 11%.

The government debt levels continued to increase and stood at 85.8% of the GDP (2014: 80.8%). The increase was due to the issuance of sovereign Eurobonds in international markets and the receipt of final tranches of the loan from International Monetary Fund (IMF), overweighting external debt as a proportion of overall debt. Sustained fiscal adjustment efforts, from the government, are required in order to reduce the high debt ratio to more acceptable levels.

BANKING SECTOR OVERVIEW

Jordan's banking sector indicators largely remained sound amidst regional pressures and ensuing effects on the domestic economic environment. The total assets of the banking system achieved a similar growth of 5% in 2015 as in the prior year. Financings represented the majority of the asset base at 65%. The banks' lending to both the public and private sector increased by 5% during the year. Much of the growth in public sector lending is due to the increase in banks' exposure towards National Electric Power Company (NEPCO), as part of the government's investment drive. The growth in the private sector lending has slowed down in recent periods given limited financing opportunities in the current stressed environment. The regulatory authorities have taken certain initiatives in order to increase the financings to the SME sector. Also, the establishment of a credit bureau recently will improve the underwriting standards. The deposit growth of the banking sector has slowed down to 8% in 2015 compared to an average growth of 10% recorded in the prior two years. The deposit base mainly comprises stable resident private sector deposits to the extent of 79%, which enables the banks to finance its operations by local currency funds vis-à-vis having to access foreign funding and being exposed to fluctuations in global credit markets.

	2012	2013	2014	2015
Nonperforming Loans/Total Loans	7.7%	7.0%	5.6%	4.9%
Coverage Ratio	69.4%	77.0%	77.6%	74.7%
NPLs (net of provisions)/Equity	8.3%	5.6%	4.3%	4.5%
Capital Adequacy Ratio	19.01%	18.39%	18.40%	19.1%
Leverage Ratio	13.31%	12.93%	12.46%	12.7%
ROE	8.6%	9.9%	11.0%	10.3%
ROA	1.1%	1.2%	1.4%	1.3%
Interest Margin/Gross Income	76.6%	77.6%	77.9%	77.4%
Net Profits After Taxes	413.94	501.78	595.90	582
Liquidity Ratio	143.5%	149.1%	152.2%	149.0%

The financial soundness indicators continued to improve in 2015, as gross impairment ratio declined during the year, supported by tighter credit disbursement standards which have helped in the curtailment of NPLs. Although, the coverage ratio decreased in 2015, it still reflects adequate provisioning levels. The aggregate capital and liquidity levels continue to remain above the regulatory requirements and are considered sound.

FINANCIAL REVIEW

JIB, as part of its medium term strategic plan for the period 2016-2018, has focused on increasing its market share through the expansion of its delivery network and introduction of new products and services. This has enabled the bank to grow its asset base at a rate, slightly higher than the overall industry in 2015. The asset base of the bank increased by 7% in 2015 and amounted to JD 3,799.0m. However, as the bank deployed surplus liquidity in financings, the business portfolio grew sharply by about 16.9% growth, significant increase in the bank's net financing portfolio. The share of earning assets in the overall portfolio increased in 2015, as excess liquidity was absorbed by growth in business assets.

	2012	2013	2014	2015
Cash & Cash Equivalents	23%	28%	31%	24%
Net Financings	68%	65%	62%	68%
Net Investments	7%	5%	5%	5%
Fixed, Intangible & Other assets	2%	2%	2%	2%

....Financings

The strong growth in JIB's financing portfolio in 2015 was led by an increase in the bank's exposure towards the public sector by 51%, and secondarily towards the consumer financing segment, which rose by 14%. The increase in public sector exposures stems from increased exposure to NEPCO. While the same is considered to be of low risk in the local context as it is guaranteed by the federal government, JIB's exposure to NEPCO stands at around three times its own capital. Despite low probability of a delinquency on this account, the implications of this risk to the bank are still noteworthy, given the size of the exposure. As of end-2015 public sector represented 28% of the bank's gross portfolio (2014: 22%). The bank has invested in Sukuk issued by NEPCO to finance its future operations, to the tune of USD 27m. Despite this, JIB's exposure towards NEPCO has decreased to JD 629m by October 2016.

The consumer segment has continued to represent more than half of the gross financing portfolio, given JIB's strong penetration in the country's retail banking sector. However, its share slightly reduced to 53% (2014: 55%), despite an increase of 14% recorded by the segment during 2015. Within the consumer segment, mortgage financing undertaken through Ijarah Muntahia Bittamleek structure represents about 34% of the gross consumer portfolio, and has increased by 16% in 2015 to JD 483.1m. Moreover, residential mortgages pertaining to financing provided to consumers for the construction of their own houses increased by 44% in 2015 to JD 333.8m, representing about a quarter of the consumer portfolio. The rest of the portfolio comprises personal financings and financings for autos, household products, education and hajj.

Amount in JD' millions	2014	Increase/Decrease	2015
Consumer ⁹	1,246.6	14%	1,421.8
SME	137.9	7%	147.4
Corporate	406.4	-14%	350.0
Government	493.1	51%	746.5
Gross Financings	2,284.0	17%	2,665.7

Recognizing the importance of small and medium enterprises (SMEs) towards the overall growth of the country's economy, certain initiatives have been undertaken by the regulatory authorities to encourage Jordanian banks to increase their exposure towards this sector. Jordan Loan Guarantee Corporation (JLGC), a public shareholding company with Central Bank of Jordan (CBI) as its major shareholder, focuses on providing guarantees for the financings extended towards SMEs, thus reducing risks faced by the banks to a certain

⁹ Includes Ijara Muntahia Bittamleek which is mostly retail

extent. Moreover, the banks utilizing the services of JLGC are eligible for certain exemptions from CBJ, with respect to required provisions to be maintained and eligible capital to be maintained against facilities extended through this scheme. JLGC has recently tripled its capital in order to furthering its support towards the SME sector. JLGC provided guarantees amounting JD 41m, for the financings extended towards 872 enterprises during 2015. Additionally, United States Agency for International Development (USAID) in partnership with Overseas Private Investment Corporation (OPIC) formed the Jordan Loan Guarantee Facility (JLGF), which also provides loan guarantees to facilitate financing to the sector. JIB's exposure towards the SME segment has increased by 7% during 2015, however it still constitutes a relatively low proportion of total financings at about 6%. The bank's exposure towards this segment is expected to increase in the coming periods.

A distressed regional environment and the resulting repercussions on the country's macroeconomic climate have had an effect on the corporate sector. JIB's management has been cautious with respect to financing this segment, as its proportion in the gross portfolio declined to 13% by end-2015 (2014: 18%). The industrial and trade sectors have been mainly affected due to the closure of Jordan's borders with neighboring countries amidst security threats. JIB's corporate portfolio is dominated by the construction and trade segments and features counterparty concentration with top 10 clients representing more than half of the funded exposures.

Sector-wise composition of the net financing portfolio has undergone a shift in 2015 when compared to the previous year, with the share of industrial and trade sectors reducing and government exposure inclining upwards, in line with the management strategy. JIB's financing portfolio, excluding its exposure to NEPCO, is well diversified given the significant retail presence with twenty largest exposures (funded & unfunded) representing around 9% of the gross exposures (funded & unfunded) as of end-2015.

Most of the financing exposures have been undertaken in local currency and foreign currency exposures, mostly in USD, remain low at 4.7% of total financings. The bank's foreign currency exposures are largely matched against its foreign currency liabilities.

Amount in JD' millions	2012	2013	2014	2015
Non-Performing Financings	85.0	90.2	87.6	94.3
Gross Impairment Ratio	4.1%	4.4%	4.2%	3.9%
Provisions ¹⁰	71.2	79.2	91.0	100.8
Net Impairment Ratio ¹¹	0.6%	0.9%	0.7%	0.5%
Coverage Ratio ¹²	83.5%	87.7%	104.2%	106.9%

....Credit Quality

As a result of challenging macroeconomic conditions, non performing financings (NPFs) increased by around 8% during 2015. Much of this increase was due to the corporate and SME sectors which were affected as the trade links between Jordan and its neighboring countries deteriorated. Overall, the gross impairment ratio reduced to 3.9% on account of growth in the portfolio and compares favorably to the industry ratio of 4.9%. JIB maintains sufficient provisions against its impaired financings, with the coverage ratio (including Investment Risk Fund) increasing to 106.9% in 2015 and much higher than the industry aggregate of 74.7%. Additionally, the bank also holds collateral to the extent of 46% of the gross exposures with 76% of the collateral held being in the form of real estate assets.

JIB's exposure against watch-list clients increased to JD 86.1m (2014: JD 61.9m). The significant increase mainly pertains to the corporate and real estate financing exposures. However, the quantum of past due but not impaired financings decreased during the year by around 6%. Collectively, these represented about 3.5%

¹⁰ (Investment Risk Fund + Self Impairment Provision)

¹¹ Based on Specific Provisions only

¹² Based on Impairment Provisions and Investment Risk Fund

of gross financings as of end-2015 (2014: 3.1%). JIB also rescheduled exposures amounting JD 5.2m during 2015, of which JD 0.5m are classified under watch-list.

Segment-wise, JIB's experience vis-à-vis delinquencies has been superior in the consumer segment, when compared to SME and corporate segments. The gross impairment ratio of consumer segment declined in 2015 to 2.9% (2014: 3.1%). NPFs related to both SME and corporate segments increased in quantum, leading to deterioration in the performance of both segments. SME segment's gross impairment ratio increased to 15.6% (2014: 12.8%), whereas the gross impairment ratio of corporate segment increased to 10.0% in 2015 (2014: 7.9%).

....Investments

The bank's investment portfolio, though increased in quantum during 2015, remains small in the context of the overall portfolio. Islamic banks in Jordan have limited investment avenues given underdeveloped capital markets in general and Islamic capital markets in particular. CBJ has undertaken steps to address this issue and recently concluded most of the legal and legislative groundwork for the issuance of Sukuk. In the coming periods, CBJ is expected to issue JD 75m in Sukuk, of which a significant take up is intended by JIB, according to management presentations. Moreover, JIB also plans to subscribe to Sukuk, to be issued for financing the operations of NEPCO, with an expected yield of 3.5%. Investments in these instruments will enable the bank to optimally manage its liquidity.

Amount in JD' millions	2012	2013	2014	2015
Quoted Equities	33.5	30.4	23.3	23.3
Unquoted Equities	2.9	3.0	3.8	3.3
Quoted Sukuk	-	-	-	10.0
Unquoted Sukuk	9.9	6.4	4.6	4.6
Investment accounts with banks & banking institutions	30.7	21.8	20.2	20.9
Islamic Banks Portfolio	13.6	10.6	7.2	6.8
Muqarada Bonds	29.8	0.2	8.8	13.2
Investment in affiliates	14.6	14.8	15.6	15.1
Real Estate	71.0	77.0	92.8	108.0
Total	205.9	164.2	176.2	205.2

Given the lack of Shari'a compliant investment alternatives, real estate investments dominate the portfolio. The bank's investment in real estate increased by 16% during 2015, as the government introduced certain reforms which provided the bank more opportunities to invest in the sector. With persistent shortage in housing units, the price of residential real estate has continued to inch up in recent years.

JIB's exposures against equities (quoted & unquoted) has continued to decline over the years and represented 13% of the overall portfolio as of end-2015 (2014:15%), translating into less than 1% exposure against the bank's equity base. The bank's investment in Muqarada bonds, which is an off-balance sheet restricted investment fund managed by the bank, increased by 49% during 2015. The rest of the portfolio comprises placements with Islamic banks and investment in affiliates.

....Liquidity

JIB's deposit base, amounting JD 3,385.4m, grew by 6% in 2015 vis-à-vis the industry aggregate of 8%. There

has been a sector-wide decline in deposit growth rates, since end-2013, and reflects the challenging macro-economic conditions. JIB's share of the total industry deposits in 2015 has largely remained at prior year's level. The fundamental strength of the institution is the diversified composition of the deposit mix which has been sustained over the years, with the retail segment representing about 90% of the overall portfolio. Also, the proportion of deposits raised through low-cost current & saving accounts has inched up to 48% (2014: 47%) in 2015. Much of the growth in deposits, in 2015, is attributable to current & saving accounts. Segment-wise, growth in total deposits has emanated from retail and SME segments, as the deposits pertaining to corporate and government segments declined during the year. JIB's strong retail access has translated into low counterparty concentration with top 100 depositors representing 7.8% of the total as of end-2015 (2014: 8.6%).

Amount in JD' millions	2012	2013	2014	2015
Retail	2,524.9	2,677.5	2,855.6	3,058.8
Corporate	67.6	19.7	24.8	19.7
SME	91.9	206.3	234.8	251.6
Government	28.7	34.9	55.0	46.7
Financial Institutions	12.8	19.2	10.2	8.5
Total	2,726.0	2,957.6	3,180.5	3,385.4

Due to an underdeveloped Islamic capital market, Shari'a compliant investment opportunities remain limited for JIB. As a result, liquidity is managed by the bank in the form of cash and placements with CBI and other local & foreign banks, with implications for profitability, as most of these placements are non-earning in nature. Liquid assets, though reduced in quantum in 2015, as the bank channelized funds towards financings, remain sizable in relation to total funding at 29% (2014: 35%). The liquidity ratio as per CBI regulations reduced to 115% (2014: 130%), but remained above the minimum requirement of 100%. LCR & NSFR both remained high at 245% and 194% respectively as of end-April'2016 indicating strong liquidity profile of the bank. Maturity analysis between assets and liabilities as of end-2015 also indicates adequate coverage of liabilities.

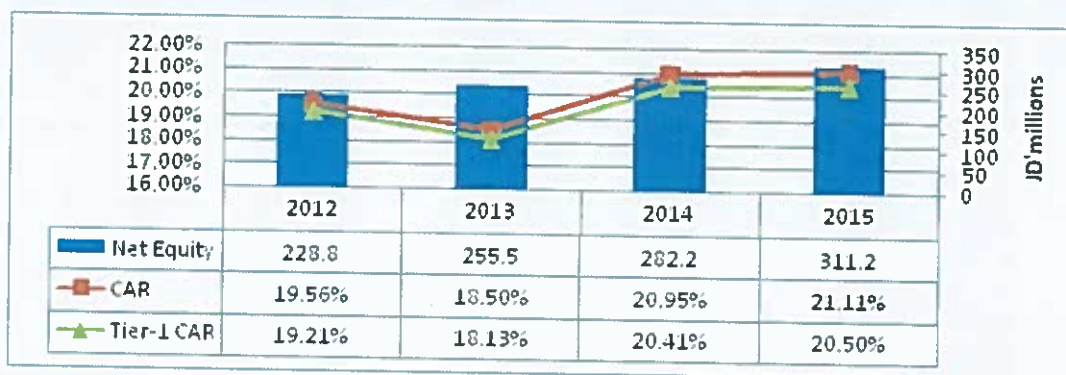
Amount in JD' millions	Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year	More than 1 year	Without Maturity
Total assets	1,101.0	118.2	219.8	419.3	1,806.8	134.0
Total Liabilities	685.3	373.7	356.6	404.0	1,630.9	37.2
Net Equity						311.2
Cumulative Maturity Mismatch	415.6	160.1	23.3	38.6	214.4	-

Funds raised by the bank through off-balance sheet investment accounts increased by 23% in 2015 to JD 370.8m (2014: JD 300.5m). These mainly comprise Muqarada bonds to the tune of JD 338.7m (2014: JD 270.1m). The assets held under Muqarada bonds comprise financings, real estate and other investments and cash & equivalents. Financings represent the largest proportion of the overall asset-mix, while cash & equivalents represent less than 5% of the assets held under Muqarada bonds. The remaining funds are raised through restricted investment accounts and wakalah accounts. Assets under restricted investment accounts mainly comprise commodity Murabaha, placed with internationally well positioned banks.

....Capitalization

The bank's net equity position has steadily increased on a timeline basis and stood at JD 311.2m as of end-2015 (2014: JD 282.2m). The growth in the capital position has been achieved through internally generated funds as the bank has had no external capital injection since 2007 and has maintained a sustained retention ratio averaging 53% since end-2011 and stood at 54% for the year 2015.

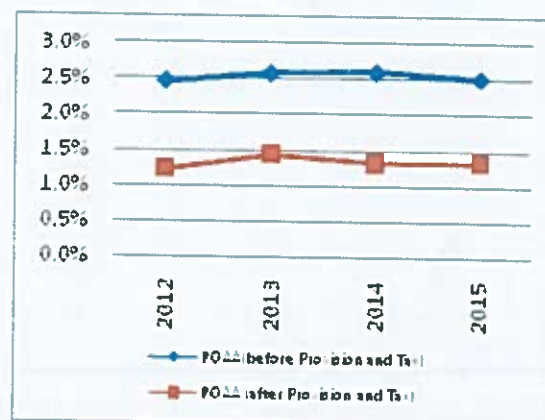
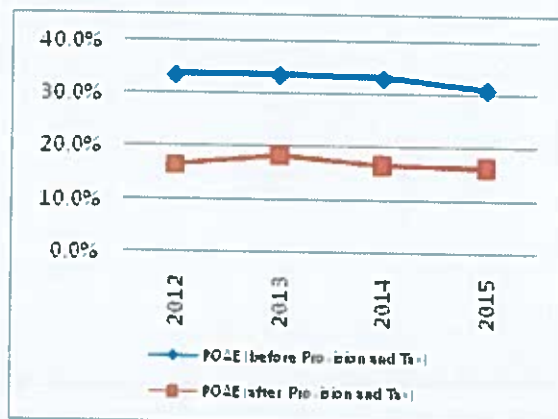
JIB's Capital Adequacy Ratio (CAR), calculated as per IFSB standards and CBJ instructions, increased to 21.11% in 2015 (2014: 20.95%) and compares favorably vis-à-vis the industry. With increasing exposure to zero risk weighted exposures with the public sector, the bank has optimized its risk based return indicators, leading to increased earnings, with relatively moderate increase in risk assets. The minimum requirement for CAR is 12% as per CBJ instructions. The bank's current capitalization level is sufficient to fund growth in business assets. As an institution, which has achieved maturity in its market of operations, the bank is self sustaining and does not require external capital to fund normal growth.



....Profitability

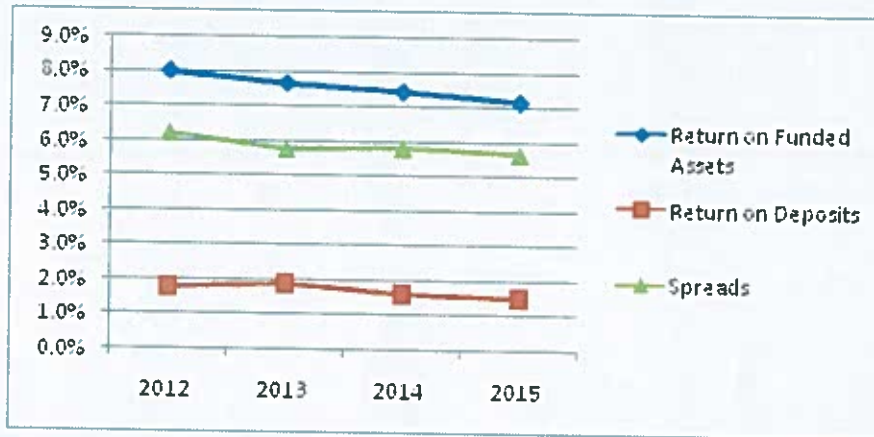
Increase in net spread income and fee & commission income have supported the growth in the bottom line by 8% during 2015 to JD 48.7m (2014: JD 45.1m). The provisions set aside by the bank for Investment Risk Fund (IRF) decreased to JD 17.7m in 2015 vis-à-vis JD 25.0m in 2014. However the impact of the same on the bottom line was offset by a higher tax rate of 35% in 2015 vis-à-vis 29% in 2014, which became applicable to the entire banking sector, as the government adjusted tax rates in a bid to balance its budget.

Overall, the bank's ROAA, both after and prior to adjustments for IRF and taxes, has remained at prior year's level at 1.3% (2014: 1.3%) and 2.5% (2014: 2.6%) respectively, whereas ROAE, both after and prior to adjustments for IRF and taxes, has slightly declined to 16.4% (2014: 16.8%) and 31.2% (2014: 33.1%) respectively. The bank's ROAA is in line with the banking sector aggregate of 10.3%; whereas, its ROAE is superior to the banking sector's aggregate of 10.3%. JIB's net profit accounts for about 8% of the industry's profitability.



The bank's revenue from jointly and self financed contracts and investments increased to JD 177.6m in 2015 (2014: JD 166.6m) with the corresponding growth in earning assets. This is despite the reduction in the return on funded assets, having fallen to 7.2% in 2015 (2014: 7.5%) on account of two separate rate cuts of 25bps by

CBJ in 2015, leading to the fall in policy rate to 3.75% at present. The return on funded assets has steadily declined on a time line basis as CBJ has gradually reduced the policy rates from 5% in mid-2013 to its current level. This has also led to a reduction of profit attributable to unrestricted investment account holders, when compared to allocated profit in 2013, to JD 48.1m (2014: JD 47.7m, 2013: JD 52.1m). The decrease in the return paid on deposits was only 10 bps vis-à-vis 30 bps reduction in return on funded assets, leading to a narrower spread of 5.6% in 2015 (2014: 5.8%).



Non-fund based income, increased by 12% to JD 21.9m and represented a gradually improving proportion to 14% of the bank's operating income. However, the bank's income from restricted investment accounts, mainly as an investor, reduced to a mere JD 0.8m (2014: JD 2.2m) and continued its downward trajectory.

The bank's total expenses increased by 16% in 2015 to JD 59.8m (2014: JD 51.8m) against the backdrop of increase in scale of operations and continued growth in the delivery network. Also contributing towards the increase in total expenditure was a higher amount of depreciation & amortization expense, which increased by 79% to JD 9.0m (2014: JD 5.0m) on account of revision in the depreciation rates as required by Ministry of Finance. Employment cost represented 54% of the total expenses. The bank's efficiency ratio (adjusted for depreciation and amortization expense) remained at prior year's level and was recorded at 33.3% in 2015 (2014: 33.2%). JIB's efficiency level compares favorably vis-à-vis its peers.

In the coming periods, the bank plans to reduce its operating costs and has undertaken certain initiatives in order to achieve its objectives. These include improving branch space utilization by transferring services for low value transactions to e-channels, implementing Power Audit and Photovoltaic system for branches. JIB is the first bank in Jordan to establish a Wheeling station which stores solar energy and fulfills the electricity consumption requirements of all branches in Amman. As such, IIRA expects moderate growth in profitability, despite thinning spreads, with sustained growth in business and cost controls.

IIRA Rating Scales & Definitions

Ratings on International Scale

Foreign Currency Ratings

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

Local Currency Ratings

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

Ratings on National Scale

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

Issue/Issuer Rating Scale & Definitions

Medium to Long Term

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

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

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

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

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

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

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

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

CC : A high default risk

C : A very high default risk

D: Defaulted obligations

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

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

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

Short Term

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

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

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

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

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

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

C : Capacity for timely payment of obligations is doubtful.

Fiduciary Rating Score

(91-100) – Very Strong Fiduciary Standards

(91-93), (94-97), (98-100)*

Rights of various stakeholders are well protected and the overall governance framework is strong.

(76-90) – Strong Fiduciary Standards

(76-80), (81-85), (86-90)*

Rights of various stakeholders are protected. Minor weaknesses have been identified in the overall governance framework.

(61-75) – Adequate Fiduciary Standards

(61-65), (66-70), (71-75)*

Rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.

(40-60) – Basic Fiduciary Standards

(40-46), (47-56), (54-60)*

Rights of various stakeholders are relatively vulnerable. Significant weaknesses have been identified in the overall governance framework.

(Less than 40) – Low Fiduciary standards

Rights of various stakeholders are at high risk and the overall governance framework is weak.

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