الرقــم : م.م ١١٩/تعاميم /٢٠١٩/١٢٢/ 23501هـ
التاريـخ : ٢٠١٩/٠٩/١٧ م
الموافق : ١٨ / محرم / ١٤٤١هـ

السادة بورصة عمان المحترمين ،،،

السلام عليكم ورحمة الله وبركاته،،

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

بالإشارة الى الموضوع أعلاه، يسرنا أن نرفق لكم طيه نسخة من تقرير وخبر التصنيف الائتماني الخاص بمصرفنا والصادر عن الوكالة الإسلامية الدولية للتصنيف (*IIRA*) إصدار أيلول ٢٠١٩.

وتفضلوا بقبول فائق الاحترام،،،

بورصة عمان
الدائرة الإدارية والمالية
الديوان
١٨ أيلول ٢٠١٩
الرقم المتسلسل: ٤٢٧١
رقم الملف: [illegible]
الجهة المختصة: [illegible]

المدير العام

د. حسين سعيد

المرفقات: نسخة من تقرير وخبر التصنيف الائتماني للوكالة الإسلامية الدولية للتصنيف (IIRA) إصدار أيلول ٢٠١٩

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الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

IIRA Reaffirms Credit Ratings of Jordan Islamic Bank

Manama, September 16, 2019–The Islamic International Rating Agency (IIRA) has reaffirmed foreign currency credit ratings, assigned to Jordan Islamic Bank ("JIB" or "the Bank") at BB+/A3 (Double B Plus / A Three) and national scale ratings at A+(jo)/A1(jo) (Single A Plus / A One).Further, IIRA has maintained a 'Stable' outlook on the assigned ratings.

JIB is the largest Islamic bank and the third largest bank in the Hashemite Kingdom of Jordan ("Jordan" or "the country"). On the economic front, Jordan has suffered in the last few years due to geo-political tensions in the region and increasing presence of refugees. Nevertheless, economic growth has remained consistent with a strong institutional framework compared to regional peers.

A er pos ng a minor decline during 2018, Bank's assets have registered growth during H1'2019. Net financing and investments portfolio also continued to grow, albeit at a slackened pace. While asset quality has remained sound on the whole, gross non-performing financings (NPFs) have increased in 2018 vis-à-vis prior year, and are reflective of the macroeconomic situation in the country. However, the bank has continued to take fresh provisions with net financing impairment being almost negligible at 0.3%as at end-2018 (2017: 0.7%).

While JIB's net income in 2018 declined slightly over last year, it has posted slight amelioration in H1'2019 YoY. The bank maintains adequate capital buffers, with increasing shareholder's equity on a timeline basis. Supported by internal capital generation over the years, the bank's capital base indicates surplus buffer over and above regulatory requirements.

JIB is owned in majority by AlBaraka Banking Group which may in case of need, provide the Bank access to group resources, financial or otherwise. Central Bank of Jordan has also assigned the bank the status of domestic systemically important bank (D-SIB), which makes it highly probable that it will receive support from the sovereign, if needed, though unlikely.

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

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Rating Report

Jordan Islamic Bank

September 2019

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

RATING REPORT

Jordan Islamic Bank

Report Date:
September 16, 2019

Analyst:
M Owais Atta Siddiqui, FRM
Alaa Alaabed, PhD

Credit Rating

	Latest Rating (September 16, 2019)	Previous Rating (October 21, 2018)
International Scale- FCY	BB+/A3	BB+/A3
National Scale	A+(jo)/A1(jo)	A+(jo)/A1(jo)
Outlook	Stable	Stable

<u>Company Information</u>

- **Incorporation year:** 1978
- **Listed on:** Amman Stock Exchange
- **External auditors:** Ernst & Young, Jordan
- **Key Shareholders:** AlBaraka Banking Group
- **Chairman:** H.E. Mr. Musa Abdelaziz Shihadeh
- **Chief Executive Officer:** H.E. Dr. Hussein Said Saifan
- **Branches &banking offices:** 76& 29, respectively, at year-end 2018

CORPORATE PROFILE

Jordan Islamic Bank ('JIB' or 'the bank') was established in 1978 and is considered as one of the pioneering Islamic banks globally. It is the largest Islamic bank in the Hashemite Kingdom of Jordan ('Jordan' or 'the Kingdom' or 'the country') with a share of around 55.9%[1] of the local Islamic banking market. It is also one of the largest banks in the Kingdom, representing 8.2% of the JD 50.9bn banking industry, and rendering it systemically important, for the stability of the domestic financial system and the economy as a whole.

JIB had been consistently posting growth over the years, buoyed by its strong franchise and market outreach. Although a minor decline was posted in assets in the most recent full year, however, asset growth was seen to resume growth in H1'2019. The bank's delivery network comprises 76 branches, 29 banking offices and 234 ATMs. The bank has 2,405 employees, as of December 31, 2018. As of April 30, 2019, H.E. Musa Shihadeh has resigned as CEO/ General Manager having served in this capacity for a period of thirty eight years. He has since been appointed as Chairman of the Board of Directors. H.E. Dr. Hussein Said Saifan, who has been serving the bank for over thirty two years, has been appointed as CEO/ General Manager, effective from April 30, 2019.

JIB clearly embodies the principles of Islamic banking in its vision and mission statements. Such embodiment is evident in the organizational culture, which emphasizes and demonstrates the importance of high ethical and Islamic standards at all levels of personnel. Moreover the bank has actively participated in social causes in addition to cultivating a green focus in its banking operations. A clearly defined focus on developing the institution as a good corporate citizen, is evident in the bank's strategic blueprint.

Sponsors' profile

Al Baraka Banking Group ("ABG" or "the ultimate parent" or "the group") holds majority ownership in JIB with a stake of 66.01%. ABG is a leading international Islamic banking group with extensive geographical presence in 16 countries. ABG's asset base stood at USD 23.8bn as of end-2018 with a consolidated branch network at 697 branches and a workforce of 12,937. JIB constitutes 24.6% of the Group's asset base and has contributed 32% of consolidated net earnings of USD 217mn for 2018.

[1]Source: Excluding Al Rajhi Bank

RATING RATIONALE

Geo-political scenario poses constraints to economic growth:

With geo-political tensions in the region and increasing presence of refugees, Jordan's economy has suffered in the last few years. Nevertheless, economic growth has remained consistent with strong institutional framework compared to regional peers. The country posted 2.0% growth during 2018 (2017: 2.2%) led by foreign trade and tourism. However, interruptions to trade routes and twin deficits in fiscal and current accounts coupled with high indebtedness, and severe unemployment remain key challenges to the economy in coming years.

Strong sponsor profile and likely support from sovereign owing to JIB's status as D-SIB:

JIB is owned in majority by AlBaraka Banking Group that may in case of need, provide the Bank access to group resources, financial or otherwise. Central Bank of Jordan has also assigned the bank the status of domestic systemically important bank (D-SIB), which makes it highly probable that it will receive support from the sovereign, if needed, though unlikely.

Diversified asset mix with sound asset quality:

After posting a minor decline during 2018, Bank's assets have registered a growth during H1'2019. Net financing and investments portfolio also continued to grow, albeit at a slackened pace. While asset quality has remained sound on the whole, gross non-performing financings (NPF) ratio has relatively increased in 2018 vis-à-vis 2017. However, the bank has continued to take fresh provisions with net financing impairment being almost negligible at 0.3% as at end-2018 (2017: 0.7%).

Superior liquidity positioning with a strong franchise value:

Notwithstanding the 22.2% decline in cash and bank balances during 2018, followed by marginal recovery, it still constitutes around 22% of overall asset base as of H1'2019, indicating a strong liquidity position. Moreover, the bank holds a significant share in overall banking system with strong access in both retail and corporate markets and has high franchise value, which assures steady generation of fresh liquidity.

Consistent internal capital generation:

The bank presents adequate capital buffers, with total net shareholder's equity reaching JD392mn as at H1'2019. Supported by internal capital generation over the years, the bank's capital base indicates surplus buffer over and above regulatory requirements. While leverage remained in a medium range at 10.7x as at end-2018, the bank has been deleveraging over time. Capitalization levels are expected to remain sufficient, given steady internal capital generation and measured growth in risk assets.

Business portfolio evidences concentration:

Following a slight contraction during 2017, net financings grew by around 1.9% during 2018, led by corporate and government sector. While share of net investments in overall assets still remained lower at 10.7% as ofend-2018, it posted a strong increase of 53.2% during the year. Net financings feature concentration with National Electric Power Company(NEPCO)being the largest exposure; compounded by investment in the NEPCO Sukuk issue and amounting JD 166.8mn.

Still resilient earnings profile, amid a slowdown during the year:

While JIB's net income in 2018 declined slightly over prior year, it has posted slight amelioration in H1'2019 YoY. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) registered a decline to 1.2% and 13.0% during 2018 respectively (2017: ROAA: 1.3%, ROAE: 15.1%). JIB's moderated but consistently strong profitability is reflective of its conservative approach in the present scenario. Compared to other major banks in Jordan, JIB has a competitive advantage, having posted slight contraction in cost of non-shareholder funds. Moreover, a reversal was witnessed during H1'2019, during which profit after tax grew by 5.0% YoY reaching JD 24.5m (H1'2018: JD 23.3m).

ECONOMIC OVERVIEW

Jordan is located strategically at the cross roads of Asia, Africa and Europe. It is a relatively small country with 10.3 million people and an increasing presence of refugees from neighboring countries, owing to persistent geo-political tension in the region. This has led to interruptions to trade routes and adversely affected tourism receipts. Despite these challenges, Jordan has been growing consistently, having maintained its GDP growth in real terms at 2.0% during 2018 (2017: 2.2%), with a GDP of USD 42.3b (2017: USD 40.1b).

The country thrives on foreign trade, mineral resources[2] and tourism. During February 2019, Jordan signed multiple agreements in energy, shipping and industry with Iraq, which is expected to boost economic growth in coming years. Jordan has also pushed forward with reforms that will make the economy more robust in the longer term. Jordan 2025, a ten-year socio-economic blueprint, and the Jordan Economic Growth Plan 2018-22[3] focuses on renewable energy, ICT, manufacturing and tourism, as key drivers for economic growth and social development.

The Kingdom has been facing high unemployment, which increased further to an average of 18.6% during 2018 from 18.3% in 2017. A major reason behind increased unemployment rate is subdued economic growth, which has resulted in an increasing supply-demand gap in the market. Informal employment of refugees is also straining the job market.

Creeping inflation poses another threat to economic growth, having risen to 4.5% during 2018 (2017: 3.3%). Against the backdrop of increasing inflation, a pegged currency and interest rate hikes by the Federal Reserve, Central Bank of Jordan (CBJ) had been increasing interest rates, with repurchase agreements rate reaching 5.5% as of December 23, 2018. Increasing interest rates have also narrowed margins in the banking sector. Further rate hikes are not anticipated given no further expectation of an increase in Fed rate in the current year.

Jordan has been effectively working towards fiscal consolidation, as efforts to fulfill the stipulations of USD723mn fund facility agreement with the International Monetary Fund continue. Fiscal deficit has been shrinking since 2015 coming down to JD 727.6mn or -2.4% of GDP during 2018 (2017: JD -747.9mn or -2.6% of GDP). An uptick of 3.38% was noted in domestic revenues reaching JD 6,944mn (2017: JD 6,716mn). Tax revenues constituting 65% of total domestic revenues, increased by around 4.4% to JD 4,535mn (2017: JD 4,343mn). On the other hand, public expenditure grew by 4.8% (2017: 2.8%) to JD 8,567mn (2017: JD 8,173mn) due to strong increase in current expenditure, while capital expenditure registered a marginal decline during the period.

Owing to some improvement in regional geo-political conditions, Jordan's exports have increased by 3.5% reaching JD 5,518mn during 2018 (2017: JD 5,333mn). Total imports shrank by around 1.3% to JD 12,758mn during 2018 (2017: JD 12,926mn). With improvement in the trade balance and strong growth in secondary income account, current account deficit has improved to JD -2,107m or -7% of GDP (2017: JD -3,053mn or -10.6% of GDP).

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

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

However public debt has risen significantly over the years, reaching JD 28,308mn or 94% of GDP as at end-2018, and only marginally falling from prior year-end(2017: JD 27,269mn or 94.3% of GDP). Net outstanding domestic debt reached JD 16,221mn or 53.9% of GDP as at end-2018 with a significant portion of public sector entities' debt including NEPCO and Water Authority (WAJ). Outstanding external public debt[4] stood at JD 12,088mn as at end- 2018, which is covered up to 67.8%[5]by official reserves. Debt levels are nevertheless high and unsustainable at current levels, underscoring the need for continued efforts towards consolidation of the economy.

Jordan has a strong institutional framework compared with regional peers. However, twin deficits, although declining, and a high debt burden constrain economic recovery. Moreover, regional political dynamics, high unemployment and presence of refugees continue to pose challenges.

FINANCIAL SECTOR OVERVIEW

Financial sector represents around one-fifth of GDP in Jordan and is supported by profitable, highly capitalised banks. Central Bank of Jordan (CBJ) issued Basel III regulations on capital requirements in November 2016 and announced additional capital charge for D-SIBs to further reduce system-wide risks; JIB is one of the D-SIBs as identified by CBJ with an additional capital requirement of 0.5%.

Total deposits in Jordan's licensed banks stood at JD33.7bn as at end-February 2019, with around 92% of deposits coming from the private sector. With a growth of around 7% during 2018, total financings stood at JD 35.6bn as at end-February 2019. Jordan Economic Growth Plan 2018-2022 plans to enhance financial inclusion and ensure adequate financing to small and medium enterprises (SMEs), and allocate 15% of the international and regional financial institutions' loans to SMEs start-ups.

The Islamic Banking Industry in Jordan

There are four licensed Islamic banks in the country – three Jordanian and one foreign. Jordan's Islamic banking industry is systemically important with a share of around 16%[6] of total banking assets as of 2018 year-end. Growth followed a moderate increase in Islamic banking asset base of almost 3.0%, which is largely in line with banking sector asset growth of 3.7% during 2018.

Gross financing in Islamic banks[7] grew by around 5.8%, which is marginally lower than industry credit growth of 7% during 2018, despite higher pace in deposits[8] growth of 2.7%, vis-à-vis industry deposit growth of 2.0%, and resulting in improved liquidity buffers.

Following the issuance of its maiden sovereign Sukuk of USD105.9mn in May 2016, further Sukuk issuance was noted during 2018, with another Sukuk issue from NEPCO. The market nevertheless lacks depth with the sovereign and state owned NEPCO being the only issuers to date.

[4] Including government and government guaranteed debt
[5] Ratio is calculated using reserves as numerator and external debt as denominator.
[6] Estimated number based on last year asset size of Al Rahji Bank
[7] Excluding Al Rahji bank
[8] Excluding Al Rahji bank

The 2017 edition of the Islamic Finance Development Report and Indicator (IFDI) ranked Jordan 8th globally in terms of industry-wide quantitative development, knowledge, governance, corporate social responsibility and awareness.

FINANCIAL PROFILE

Asset Composition

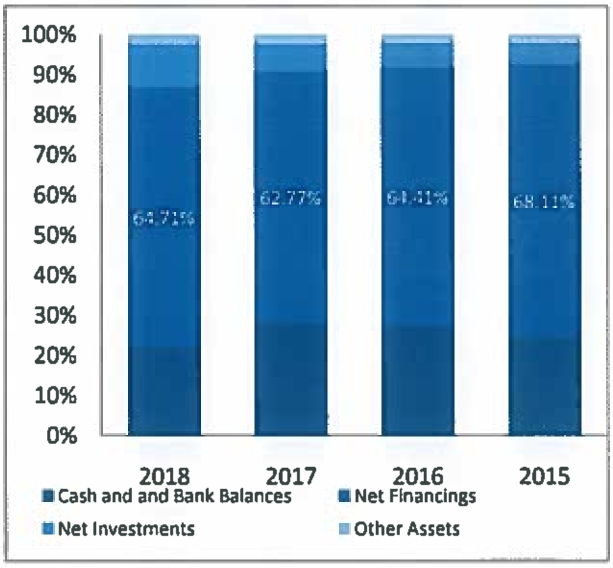
Following a period of steady growth prior to 2017, growth slackened, being slightly negative (-1.2%) during 2018 (2017: 2.7%, Average 2012-2016: 7.2%). However, assets growth was seen to resume during H1'2019 with total assets reaching JD 4,240m (2018: JD 4,160m). Most of the liquidity was channeled into investments, which grew by 53.2% during the year. As such cash and bank balances recorded a 22% dip having reached JD 917.5m in 2018 (2017: JD 1,180m).

Table 1: Asset Composition

	2015	2016	2017	2018
Cash & Bank Balances	925	1,122	1,180	917.5
% Growth	-14.7%	21.3%	5.2%	-22.2%
Net Financings	2,588	2,640	2,643	2,692
% Growth	16.9%	2.0%	0.1%	1.9%
Net Investments	205	246	290	444
% Growth	16.4%	20.1%	17.6%	53.2%
Other Assets	81	91	99	107
% Growth	0.8%	12.0%	8.5%	8.3%
Total Assets	3,799	4,100	4,212	4,160
% Growth	6.9%	7.9%	2.7%	-1.2%

After posting subdued growth of 0.1% during 2017, net financings marked a slight reversal with a 1.9% increase during 2018, and being 64.7% of total assets (2017: 62.8%). Net investments posted a notable increase during 2018. Limited availability of investment options is reflected in the small scale of investment portfolio, which despite the increase in 2018, accounted for only 10.7% of total assets (2017: 6.9%).

Figure 1: Share of Asset Mix



Given increase in net investments and financings and decline in cash and bank balances, the share of earning asset[9] increased to 75.4% of total assets in 2018 (2017: 69.6%).

Financing Portfolio

General economic conditions are reflected in the lukewarm growth in financings over the past 3 years, since 2016. Gross financings[10] grew by2.4% during 2018, lagging the 7% growth in industry's credit facilities' growth (2017: 0.2% growth against industry average of 4%), and increasing marginally to JD 2,791m (2018: JD 2,785m) as of Q1'2019. The slow growth in JIB is driven by a more cautious stance in undertaking financing exposures amidst a difficult business environment.

[9] Including net financing and net investments
[10] Adjusted for QardHasan

The main drivers of growth during 2018 include exposures taken in corporate and SME sector. Exposure to the government and public sector entities remains high, having declined marginally to 19.1% as of end-2018 (2017: 19.2%). Gross financing to NEPCO remained at mostly last year's level with a marginal growth of 1.2% reaching JD 527m as at year-end 2018 (2017: JD 521m), and remains the single largest exposure, forming 18.9% (2017: 19.2%) of gross financings. With subscription to another issue by NEPCO, total exposure to NEPCO including investment in Sukuk, has risen and corresponds to 16.7% (2017: 14%) of the bank's assets as at 2018 year-end. Although government guarantee reduces NEPCO's credit risk, concentration and event risk remain high given the quantum of the exposure. The top 20 exposures account for 28.1% of total gross financing in 2018, which comes down to 9.2% after excluding exposure to the single largest account, and suggests adequate diversification in the portfolio, barring NEPCO.

While the retail financing remained almost constant at end-2018 at JD 1,678m (2017: JD 1,681m), the proportionate share has slightly declined to 60.3% as of end-2018 from 61.8% as at end-2017. Nonetheless the slowdown in retail financing growth momentum may be partially attributed to caution called for, in an increasing rate environment.

SMEs remain a primary focus area of the government. Increasing financing to SMEs at the national level is a primary target of 2025 national development plan. While growth in SME sector remained constrained during 2016 and 2017, an increase of 4.61% has been noted during 2018 (2017: 1.24%) despite which, share of SMEs in total financing remained low and almost stagnant at 5.2%. Moving forward, the bank targets expanding individuals' financing and SMEs project financing, while continuing to finance the government needs, as opportunities arise. Continued uplift in SME financing may also come from JIB's agreement with Jordan Loan Guarantee Corporation (JLGC) to finance SME sector.

With an increased share of around 15.4% in total financing during 2018, corporate sector financing posted the strongest growth of 15.0% during 2018 (2017: 5.6%). Both industry and mining sectors and general trade sector posted double digit growth during the year, leading the business momentum in the corporate sector.

Foreign currency denominated financings have declined to less than 1% of the portfolio, as at year-end 2018 from around 2.8% as at end-2017, indicating limited foreign currency exposure in the local market.

Asset Quality

In the foreground of adverse market and geopolitical conditions, a significant increase of 8.5% (2017: 7.5%) was observed in gross NPFs to JD 102.8m (2017: JD 94.8m). The increase has translated into a higher NPF ratio of 3.7% during 2018 (2017: 3.5%). With a higher NPF ratio, household sector (~6.5%) and real estate (~6.2%), retail sector[11] stress contributed nearly 66% of gross NPFs during 2018.

Credit risk management remains conservative and provisioning coverage has historically remained high. Therefore, a general improvement in the net NPF ratio is observable over time, after

[11] Including retail, real estate financing and Ijarah Muntahia Bittamleek

accounting for impairment provisions. Net NPFs declined to 0.3% as at 2018 year-end (2017: 0.7%) despite higher gross impairment. Total charge-offs, including investment risk fund, have provided cumulative coverage in excess of the quantum of classified accounts in the last five years. Impairment provisions accounted for 75.2% of total provisions (including risk fund) against financings in 2018.

Nevertheless, JIB's asset quality metrics remain sound. The bank secures its credit exposures using a myriad of risk mitigation techniques, including real estate collaterals and JLGC for SMEs, export oriented companies and direct salary transfers for retail exposures. Other risk mitigants include cash margins, and bank guarantees. That said, rising policy rate, inflation and increasing unemployment continue to restrict fresh demand for high quality financing. The Bank implemented IFRS 9 effective from January, 2018 as suggested by CBJ, with no material impact on bank's impairment position.

Table2: Asset Quality Indicators

In JD'000s/%	2014	2015	2016	2017	2018
Gross Non-Performing Financing (NPF)	87,585	94,282	88,084	94,758	102,842
Net NPF[12]	13,580	13,384	10,090	18,452	9,482
Gross NPF % Gross Financings	3.5%	3.2%	3.0%	3.5%	3.7%
Net NPFs % Net Financings	0.6%	0.5%	0.4%	0.7%	0.3%
Net NPFs % Total Equity	4.8%	4.3%	2.9%	3.4%	2.4%
Total Provisions Against Financing[13]	91,256	100,806	107,614	117,155	127,640
Provision Coverage Ratio	104.2%	106.9%	122.2%	125.1%	124.1%

Investments

The size and composition of the investment portfolio had remained limited due to the absence of Shari'a compliant investment options. However, a significant uplift in investments was observed in 2018, when share of investments increased from 6.9% of total assets in 2017 to 10.7% in 2018, with the surge in unquoted Sukuk portfolio, on the back of fresh issuance of another Sukuk by NEPCO. Investment in NEPCO's Sukuk at JD 166.8m, formed 89.1% of total Sukuk portfolio as at end-2018. Other Sukuk investments include the debut sovereign Sukuk issue of Jordan, and issuances by Central Bank of Bahrain and AlBaraka Turk (Turkey) Sukuk. Investment in Sukuk further increased to JD 196.5m as of H1'2019. A sizeable surge was also observed in investment accounts at banks and banking institutions reached JD 70.1m in 2018 (2017: JD 35.2m).

Table 2: JIB's Investments

	2014	2015	2016	2017	2018
Quoted Equities	23.3	23.3	25.1	24.5	22.7
Unquoted Equities	3.8	3.3	3.4	4.2	6.4
Quoted Sukuk	-	10.0	10.5	9.9	8.5
Unquoted Sukuk	4.6	4.6	42.4	67.7	178.7
Investment accounts at Banks and Banking Institutions[14]	20.2	20.9	28.7	35.2	70.1
Islamic banks portfolio	7.2	6.8	4.4	3.0	7.1
Al Wakala Bi Al Istithmar (Investment portfolio)[15]	8.8	13.2	14.1	18.6	17.5
Investment in affiliates	15.6	15.1	7.7	8.4	8.4
Real Estate	92.8	108.0	110.2	120.2	126.4
Total	176.3	205.2	246.5	291.7	444

Investment in real estate has remained a significant portion of JIB's investment during last five years averaging around 48% during 2014-2017. Despite a 5% increase in real estate investments during

[12] Net of impairment provisions only
[13] Including investment risk fund.
[14] Including unrestricted investment accounts maturing within 3 months
[15] Muqarada bonds prior to 2017

2018, its share in overall investment declined to 28% owing to the surge in unquoted Sukuk and investment accounts.

Funding and Liquidity

Table 3: Funding Sources

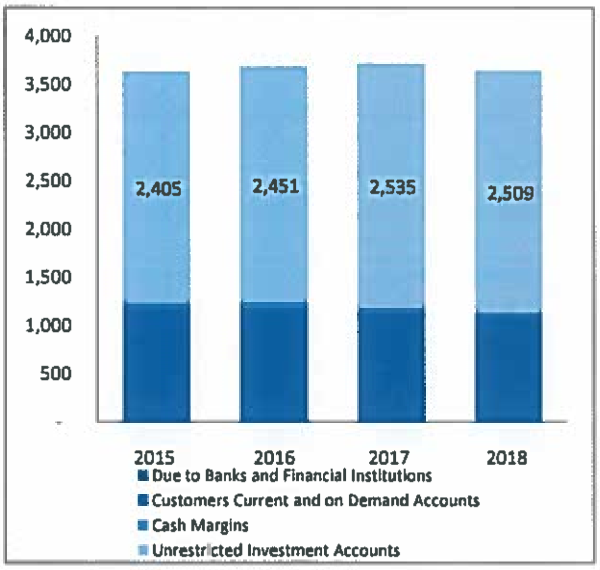
	2014	2015	2016	2017	2018
Retail	2,856	3,059	3,259	3,279	3,213
Corporate	25	20	20	26	23
SME	235	252	271	311	324
Government	55	47	87	90	59
Financial Institutions	10	9	9	11	20
Total Deposits	3,181	3,385	3,646	3,716	3,638

After registering moderate growth of 1.9% during 2017, total deposit declined by around 2% during 2018, against industry wide growth of 2% during the period. Total deposits reached JD 3,638m as at end-2018 (2017: JD 3,716m), with a slight but wide-ranging drop in retail, government and corporate deposits. Total deposits grew by 2.3% YTD increasing to JD 3,720m as of H1'2019. As a result, JIB's market share in terms of deposits declined slightly to 10.7% in 2018 from 11.2% in 2017.

Retail deposits constituting 88% of total deposits stood at JD 3,213m, having declined by 2% during 2018 (2017: 0.61%). The decline in total deposits is largely explained by decline in government deposits in banking sector and lower retail deposits due to increased market competition.

The bank relies primarily on domestic sources of funding. With a slight decline in deposits and continued growth in financings, some decline was noted in cash balances, leading to a sharp drop in liquid assets[16] to funding ratio to 28% during 2018 (2017: 33.6%). Liquid assets stood at JD 1,019m as at year end-2018 (2017: 1,249m), with an 18.5% decline during the period. Nevertheless overall liquidity indicators are strong comprising mostly of high quality assets including deposits with central bank and other banks, Cash placed with the Central Bank is non-remunerative (86% of liquid assets and 21.1% of total assets). JIB's liquidity coverage ratio and net stable funding ratio suggest sufficient reserves and stability of funds at 1,330% and 213%, respectively, as of end-April'2019, being well above regulatory requirements.

Figure 2: Funding Profile



[16] Including cash and cash equivalents (including mandatory cash reserves), bank placements, quoted equity investments and quoted Islamic Sukuk

Capitalization

Over time net equity position has been trending upwards, reaching JD 393m in 2018 (2017: JD 375m), and remained almost constant at JD 392m as of H1'2019. The last bonus share issue in 2017 raised paid up capital by 20% from JD 150m to JD 180m. Growth in equity has been achieved solely through internal capital generation since 2007. The bank has maintained a steady dividend rate at 15% of paid up capital since 2015.

Table 4: Capitalization Indicators

In JD'm unless stated otherwise	2014	2015	2016	2017	2018
Net Shareholders' Equity	282	311	343	375	393
- Paid-up Capital	*150*	*150*	*150*	*180*	*180*
- Reserves	*61*	*76*	*93*	*109*	*124*
- Retained Earnings	*71*	*86*	*100*	*86*	*90*
Dividend Rate (% Paid-up capital)	13.0%	15.0%	15.0%	15.0%	15%
Equity to Total Assets	7.9%	8.2%	8.4%	9.1%	9.5%
Leverage Ratio	12.6x	12.2x	12.0x	11.0x	10.7x
Internal Growth Rate of Capital	9.5%	8.8%	9.6%	7.6%	6.0%
CAR[17]	21.0%	21.1%	22.0%	23.0%	22.8%

As per regulatory requirements, all banks are required to maintain a minimum of 12% capital adequacy ratio (CAR). As a D-SIB, being assigned as such by CBJ, JIB is required to maintain a higher CAR of 12.5%. The bank maintains significant buffer in excess of regulatory requirements and has generally been deleveraging on a time-line basis. After witnessing a steady increase since 2014, CAR[18] fell in 2018 to 22.78% and further to 22.33% as of H1'2019. On an overall basis, capitalization levels are sound, being further supported by strong provisioning, providing adequate loss-absorbing buffer.

Profitability

JIB's profitability[19] has slightly declined by 5.2% during 2018 (2017: -3.4%). Operating profit before provision and taxes declined to JD 94.9m as at year-end 2018 (2017: JD 100.1m), being representative of tough business conditions. Resultantly, profit after tax declined to JD 49.8m, (2017: JD 54.1m, 0.2% growth) over prior year and reflected in declining ROAA and ROAE to 1.2% and 13.0% during 2018 respectively (2017: ROAA: 1.3%, ROAE: 15.1%). A reversal was witnessed during H1'2019 when profit after tax grew by 5.0%, reaching JD 24.5m (H1'2018: JD 23.3m).

Total income from financing and investment remained almost same at JD 194.4m during 2018 (2017: JD 194.4m), however indicating a slight drop in yields, given continued business growth. Coupled with a minor decline in return to URIAs, net margin income increased slightly to JD 140.1m during 2018 (2017: 137.7m), given slight volume growth in business and despite spreads having narrowed continually over the 5 years under review. As CBJ continued monetary tightening during 2018, increasing policy rate to 5.5%, overall banking spreads were impacted. Return on Mark-up-bearing Earning Assets (Net) of JIB declined slightly to 6.72% during 2018 (2017: 6.96%). On the other hand, the cost of non-shareholders' funds remained slightly lower at 1.46%, causing net spreads to contract to 5.17% during the year (2017: 5.43%).

[17] The bank computes the capital adequacy ratio in accordance with CBJ's instructions based on the Islamic Financial Services Board (IFSB) standards.
[18] CAR is calculated based on IFSB standard adapted from Central Bank of Jordan, applying an alpha of 30%.
[19] In terms of Operating Income

The 4% fall in commissions and other income constituting around 11.6% of total income[20] in 2018, was noted (2017: growth of 7.0%). While decline in income from commissions and other income impacted profitability, increase in operating expenditure was the most notable contributor to lower net earnings for the year. Operating expenses increased by 7.7% during 2018(2017: 3.5%), reaching JD 70.8mn (2017: JD 65.8mn), primarily accounted for by on-boarding of new delivery channels and continued broadening of the scale of operations and delivery network. The number of the Bank's staff reached 2,405 as at 2018 year-end with 3% growth during the year.

Table 5: Profitability Indicators

In JD '000s/%	2014	2015	2016	2017	2018
Total Income from Financing and Investments	169,711	180,074	200,963	194,427	194,400
Return to URIAs	50,696	50,492	55,325	56,717	54,265
Net Margin Income	119,015	129,582	145,639	137,710	140,135
Commissions and Other Income	19,590	21,919	22,023	23,569	22,572
Income from RIAs Management	2,181	813	1,731	4,823	3,276
Operating Expenses	52,008	59,293	63,543	65,782	70,822
Operating Profit Before Provision and Tax	88,929	92,424	103,542	100,062	94,332
Share of Investment Risk Fund	24,957	17,739	19,795	19,123	19,176
Net Income for the Year	45,129	48,720	54,019	54,139	49,807
ROAA (%)	1.32%	1.33%	1.37%	1.30%	1.20%
ROAE (%)	16.79%	16.42%	16.52%	15.09%	13.26%
Spread	5.81%	5.65%	5.59%	5.39%	5.17%
- Return on Mark-up-bearing Earning Assets	7.45%	7.17%	7.15%	6.92%	6.63%
- Cost of non-shareholders fund	1.64%	1.52%	1.56%	1.53%	1.46%
Efficiency Ratio[21]	33.21%	33.34%	33.47%	35.10%	38.68%

Notwithstanding the fall in 2018, JIB's profitability still remains largely resilient, being rooted in core banking activities and given minimal to no reliance on volatile sources of income. The level of earnings also suggests a seasoned business portfolio that yields adequate margins over a well-spread out funding base. Going forward, an expansion of investment opportunities by way of increased Sukuk issuances or resumed growth in the financing portfolio, can result in an improvement in average yields; and improving profitability by allowing for a more lucrative deployment of the largely non-remunerative cash balances, presently held on books.

[20] Including net margin income, commissions and other income and income from RIAs management

[21] Adjusted for depreciation and amortization expenses.

IIRA Rating Scales & Definitions

Ratings on International Scale

Foreign Currency Ratings

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

Local Currency Ratings

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

Ratings on National Scale

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

Issue/Issuer Rating Scale & Definitions

Medium to Long Term

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

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

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

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

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

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

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

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

CC : A high default risk

C : A very high default risk

D: Defaulted obligations

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

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

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

Short Term

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

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

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

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

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

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

C : Capacity for timely payment of obligations is doubtful.

Fiduciary Rating Score

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

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

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

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

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

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

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Islamic International Rating Agency