جمعية البنوك في الأردن
ASSOCIATION OF BANKS IN JORDAN

DEVELOPMENT OF
THE JORDANIAN BANKING SECTOR

2003 - 2012

Amman - Jordan
2013

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2003 - 2012

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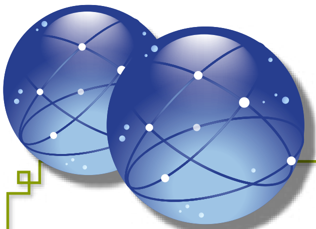

Our Vision

To maintain our leadership as one of the most efficient association of banks in the region by providing services to member banks so as to uphold their capabilities and enable them to maximize their contribution towards achieving sustainable development in the Kingdome.

Our Mission

We seek to upgrade and advance the banking business by keeping the interests of member banks and achieving the highest levels of coordination between them and with the other partners. Weaspire to develop the process of delivering and updating banking services as well as deepening the understanding of banking functions and norms besides pursuing unified systems and measures for this purpose.

Our Values

- Collaboration: We work with members in a team spirit for serving the society and the national economy
- Development and modernism: We seek to upgrade the methods of delivering the banking services in accordance with the best international practices.
- Innovation and distinctiveness: We inspire innovative ideas that serve the members and marks their services with quality and distinctiveness.
- Integrity and transparency: Transferring of knowledge and exchanging information in accordance with the highest degrees of integrity and transparency
- Professionalism: We practice our work with a high professionalism, comprehensive coverage and full vigilance to all what happens in the Jordanian, Arab and international banking environment.
- Credibility: We abide by accuracy and reliability and we verify our sources of information with high precision.
- Continuity in training: We endeavor to elevate the academic and practical levels as well as keeping up with all what is new in the banking and financial areas.

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Chairman's Foreword

Banks in Jordan registered a recognizable progress in all arenas in the past decade. The number of banks went up from 21 banks in 2003 to 26 banks in 2012. The number of branches also witnessed an annual growth rate of 5.3%, making them standing at 702 branches in 2011, while the number of ATM units grew by annual rate of 9.6%, reaching 1219 units in the same year.

Indicators of the consolidated budget of banks operating in Jordan show that the total assets of banks recorded a noticeable increase that grew annually by 10.8% during the period of 2003-2012, reaching the amount of 39.3 billion JDs by the end of 2012. Credit facilities extended by banks operating in Jordan increased by an annual growth rate of 12.3%, reaching 17.8 billion dinar in 2012. Deposits at banks also grew during the same period by an annual rate of 10.4%, touching 25 billion JD by the end of 2012. Capital, Reserves, and Allowances of banks rose by 14.6%, standing at 8.4 billion JD by the end of 2012.

Indicators of financial strength of Jordanian banking system also displayed outstanding results. The percentage of non-performing debts began a down-the-hill trend since 2003 until it reached 8.4% in the first half of 2012, which remains within the internationally acceptable levels.

The coverage ratio registered 63.2 during the first half of 2012. The capital adequacy ratio reached 18.6% during the same period, which is much higher than the minimum limit required by the central bank (12%), and the minimum requirement of Basel Committee (8%). The leverage ratio witnessed a remarkable growth during the period of 2003 until the first half of 2012, rising to 13.3% in the first half of 2012.

Banks' profitability indicators experienced relative stability during the past four years, even though at levels less than those realized in the past years. The return on equity ratio registered 4.8%, while the average return on assets reached 0.6% by the end of the first half of 2012.

We wish our banking system further progress and growth in the coming years, thus playing their desired role in strengthening Jordanian economy under the leadership of His Majesty King Abdullah II.

Basem Khalil Al Salem

Chairman of the board of directors

Director General's Address

As an indication of its keenness to furnish all those who are concerned with the latest information, data and indicators on the Jordanian banking sector, the Association of Banks in Jordan decided to issue the fifth edition of its study on The Development of Jordan's Banking Sector, in order to update data on this sector.

This edition, as can be seen, is divided into ten chapters. The first chapter handles the role of the central bank of Jordan in administrating fiscal policy, while the second chapter deals with the structure of banks operating in Jordan in addition to the updated number of banks, branches, and ATM units.

The third chapter focuses on the development of assets; capital, reserves and allowances; deposits; and, facilities, whereas the fourth chapter sheds light on the most important indicators of the financial strength of the Jordanian banking system.

The fifth and sixth chapters provide a reading of the shares of commercial banks, Islamic banks and non-Jordanian banks in the total deposits, assets and facilities in Jordan's banking system.

The issue of concentration in Jordan's banking market was the focus of the seventh chapter which studied the concentration in three ways: the concentration of the two biggest banks in the market, the concentration of the three biggest banks, and the Herfindahl–Hirschman Index (HHI) in terms of the market share of assets, facilities and deposits.

The eighth chapter reviewed the performance of banks listed in the Amman Stock Exchange (ASE) as regards the share price index of banks listed on ASE, the trading volume, and the share of non-Jordanians in the equity of banks listed on Amman Stock Exchange.

The ninth chapter dealt with the development of the interest rate structure in the banking sector, while the tenth chapter dealt with check clearing.

As this study is finally at the hands of the public, the ABJ wishes that it would shed more light on the performance of the Jordanian banking sector during the first decade of the 21st century, taking into consideration in particular the financial and economic crises that the decade had experienced in different parts of the world. The ABJ also hopes that this study would be a valuable reference to all those concerned and interested.

Dr. Adli Kandah

Director General

CHAPTER ONE

THE CENTRAL BANK OF JORDAN AND THE MONETARY POLICY

1-1 INTRODUCTION

The Central Bank of Jordan (CBJ) was established as an independent legal entity in 1964 with a capital fully owned by the Jordanian government. The CBJ carries out several tasks; some of the most important of which are issuing of banknotes and coinage in the Kingdom, maintaining monetary stability, providing necessary liquidity for licensed banks and managing reserves of banks. It also seeks to enhance the security of the banking institutions through various means of control. The Central Bank also maintains and manages the Kingdom's gold and foreign currency reserves and acts as a bank and a consultant for the government.

The CBJ focuses on achieving three national objectives which are: taking part in securing monetary and financial stability, creating the comprehensive economic and social development of the kingdom , and providing an attractive environment for investments. To achieve these objectives, the CBJ drew six institutional goals that include:

1. Maintaining monetary stability by:

a. Maintaining a stable and appropriate inflation rate.

b. Maintaining exchange rate stability and ensuring the convertibility of the Jordanian Dinar.

c. Maintaining an interest rate structure consistent with the level of economic activity.

d. Establishing the appropriate environment to accumulate savings and finance investment.

e. Holding and managing the Kingdom's reserve in foreign currencies and gold.

2. Ensuring the convertibility of the Jordanian dinar By:

a. Supplying the domestic market with an adequate supply of foreign currency.

b. Holding and managing the Kingdom's reserve in foreign currencies and gold.

c. Continuous monitoring over the exchange rates of the major currencies.

d. Supervising money exchangers and banks to ensure their compliance with CBJ regulations.

3. Ensuring the soundness of the banking sector by:

a. Verifying the healthy conduct and performance of the banking sector institutions and the soundness of their financial positions according to CBJ regulations, which are based on international core principles.

b. Verifying the banking sector's compliance with corporate governance principles.

4. Maintaining a secure and well developed domestic payments system by:

a. Monitoring and managing the Real Time Gross Settlement System (RTGS-JO).

b. Clearing of incoming and outgoing Cheques through the Electronic Cheques Clearing System (ECCS-JO).

5. Maintaining the integrity and confidence in the Jordanian currency by:

a. Applying high security features in the banknotes.

b. Maintaining high quality banknotes by withdrawing and destroying the unfit banknotes from circulation.

c. Providing the Jordanian market with adequate supply of banknotes and coins to accommodate normal demand and exceptional demand in case of emergencies.

d. Combating counterfeit of the national currency.

6. Promoting monetary and financial knowledge by:

a. Managing the bank's library and providing it with proper sources of information.

b. Publishing local economic data and statistics on daily, weekly, bi-weekly, semi-annually, and annually basis.

c. Holding public awareness campaigns to educate people about jobs of the Central Bank and its role in the national economy. Furthermore, designing brochures, pamphlets, and booklets concerning related topics.

d. Supporting the Institute of Banking Studies.

1-2 Monetary Policy Tools

In the management of monetary policy, the Central Bank of Jordan adopted two types of tools: Direct (traditional) tools, and indirect tools. The central bank has also updated the operational framework of monetary policy in 2012.

A) Direct (Traditional) Tools:

Until the early 1990's, the Central Bank relied on direct traditional tools in managing the kingdom's monetary policy and controlling the volume and growth of liquidity in Jordanian economy. These tools included the rediscount rate, the required reserve ratio, and, sometimes, direct ceilings on credit facilities. Moreover, the Central Bank resorted during the same period to administrative measures to influence the banking credit structure and its cost through determining the interest rate on loans and deposits, and obliging the banks to direct a portion of their financial portfolios to specific investments.

B) Indirect Tools:

Experience proved that direct tools adopted by the CBJ's did not have the desired influence on liquidity level in Jordanian economy. Those tools also caused price and structural distortions in the banking sector, hence contributing to diminishing the efficiency of resource allocations in Jordanian economy. Therefore, the CBJ adopted since the end of 1993 the indirect approach in managing the monetary policy through open market operations, which is commonly used by the central banks of developed countries for managing monetary policy. The Central Bank used certificates of deposit specifically issued for this purpose as a tool for managing domestic liquidity. Issuing certificates of deposit helps to absorb excess liquidity in economy and, subsequently, nullifies the effect it has on prices and exchange rate. By contrast, the repurchase of certificates of deposit helps in pumping more liquidity, whenever needed, into economy, besides its role in facilitating the banks' short term management of their portfolios. In addition to the certificates of deposit, the Central Bank uses also the rediscount rate and the overnight deposit window for managing the monetary policy.

C) Updating the Current Operational Framework for Monetary Policy

In order to increase the effectiveness and efficiency of managing the monetary policy, and to expand the base of its tools to achieve its operational goals of influencing banks' excess reserves and guiding the interbank lending rates to the targeted overnight level, the CBJ's Open Market Operations Committee decided to effect some amendments on the operational framework of monetary policy. These amendments include the following:

1. The Corridor System

The Central Bank of Jordan continues to implement the corridor system as a component of the operational framework of monetary policy intended to direct the short-term interest rates in interbank market towards its targeted level. This system includes defining two rates that represent the return on overnight facilities (Standing Facilities), implemented by the CBJ upon an initiative of banks so that the overnight window rate is the minimum limit and the overnight repo rate is the maximum limit for this system. The CBJ will also continue to provide banks with their overnight needs of liquidity upon their request through repurchase agreements at the declared repo rate, and to accept banks' overnight deposits at the declared window rate.

2. The Temporary Open Market Operations

The new operational framework aims at enhancing the role of temporary open market operations as one of the main indirect monetary policy tools, to enable the central bank to influence the volume of excess reserves, direct the interbank lending rate within the corridor system, as well as to direct the prevailing interest rates in the financial market. The central bank has identified the tools used in money market operations as follows:

A) Repo and Reverse Repo: the central bank will use these tools to inject and withdraw liquidity in order to give signals about the monetary policy by influencing the volume of excess reserves and guiding the interbank lending rate to its targeted level.

B) Certificates of Deposit Auctions: Certificates of deposits (CDs) denominated in Jordanian dinar that are issued by the Central Bank is one of the monetary policy tools in open market operations. It can be manipulated to withdraw excess liquidity when needed.

C) Currency Swap: licensed banks can upon their own initiative use currency swap by submitting a request to the central bank.

3. Strengthening the Central Bank's portfolio of government securities and securities guaranteed by the government for monetary policy purposes

The Central Bank seeks to strength its securities portfolio in order to influence the level of domestic liquidity and to direct the prevailing interest rates in the market.

1-3 Monetary Policy Trends (2003 - 2012)

Year	Most important monetary policies
2003	The Central Bank was keen to preserve monetary stability represented by the stability of the general price level and an interest rate structure that corresponds with domestic and international economic conditions. The CBJ continued to use open market operations through certificates of deposit, and also lowered the interest rates on its monetary tools. It also maintained the measures adopted to enhance the security and soundness of Jordan's banking system through raising the minimum capital of licensed banks, and extending capital adequacy ratio to include market risk as well as country risk. Moreover, the last stage of the national payments system, which aimed to reduce inter-bank liquidity risks, was executed.
2004	The Central Bank raised interest rates on its monetary tools several times during the year in line with interest rate movements in the international money markets. It also continued its measures to develop and upgrade the efficiency of Jordan's banking sector through issuing new instructions to regulate the Jordanian banks' presence abroad and the electronic money transfer operations.
2005	In line with interest rate movements in the international money markets, the Central Bank raised interest rates on its monetary policy tools several times during the year. The outstanding balance of the certificates of deposit also declined. The Central Bank policies resulted in higher local liquidity and controlled inflation rate. It also continued to adopt measures to enhance the strength of Jordan's banking sector through regulating the operations of banks and boosting their capability to keep up with developments in the international banking industry, especially the requirements of Basel II committee.
2006	The Central Bank continued its monetary policy and raised interest rates on its monetary policy tools several times during the year. The CBJ also applied more measures to upgrade the performance of the banking system and enhance its risk management techniques in accordance with the best international practices, especially the requirements of Basel II committee.
2007	The Central Bank continued to use the indirect tools represented basically by certificates of deposit. It also amended the interest rate on repurchase agreements, allowing licensed banks to execute repurchase agreements with the Central Bank for one night instead of one week.
2008	The monetary policy adopted by the Central Bank was characterized with flexibility, so that the CBJ was able to interact positively and correctly with domestic economic developments and the repercussions of the global financial crisis that followed the increase in the prices of basic commodities. The bank was keen to achieve the highest balance possible between containing inflationary pressures and safeguarding the exchange rate on the one hand, while stimulating economic activity on the other. The Central Bank continued to use certificates of deposit to control the volume of local liquidity. It twice lowered interest rates on all monetary tools and reduced the required reserve ratio. It also applied more measures to upgrade the performance of the banking system and enhance its capability to manage risks in accordance with best international practices, especially the requirements of Basel II committee. It also took a number of precautionary measures that contributed to shield local banks from the risks faced by international banks.
2009	The Central Bank followed a gradual expansionary monetary policy to ease the repercussions of the global financial crisis on the Jordanian economy, while boosting monetary stability. It cut interest rates on all monetary policy tools for three times during 2009, by 50 basis points a time. Also, the Central Bank reduced the required reserve ratio twice to reach 7%, and stopped issuing certificates of deposit in order to enhance local currency liquidity in domestic economy.
2010	The Central Bank continued to use monetary policies that aimed to help the recovery of the Jordanian economy from the repercussions of the global financial and economic crisis, while maintaining the monetary stability in the kingdom. The Central Bank reduced interest rates on all monetary policy tools by 50 basis points, and upheld the suspension on issuing certificates of deposit in order to enhance local liquidity in the Jordanian market.
2011	The Central Bank continued in 2011 its policy of not issuing certificates of deposit in order to provide sufficient liquidity in banks to stimulate them to expand lending processes. The Central Bank also raised the major interest rate on all monetary policy tools by 25 basis points aiming to enhance the attractiveness of Jordanian dinar.
2012	The Central Bank also continued its policy of not issuing certificates of deposit during 2012 in order to provide sufficient liquidity in banks to stimulate them to expand lending processes. The Central Bank also raised the major interest rates on all monetary policy tools by 50 basis points in February 2012 in order to enhance the attractiveness of Jordanian dinar as a currency for savings. Moreover, the Central Bank decided to raise the overnight window rate by 75 basis points in December 2012 while keeping the interest rates on other monetary policy tools unchanged as of Dec. 3, 2012 in order to increase the attractiveness of financial instruments denominated in Jordanian Dinar and boost national savings.

1-4 Most Important Instructions Issued By the Central Bank of Jordan (2003 - 2012)

The Central Bank of Jordan issued a number of instructions that regulated the banking operations and enhanced the strength and soundness of Jordan's banking system. The following are the principal instructions issued by the Central Bank during the period of 2003–2012.

2003

- Instructions on the minimum capital for banks operating in Jordan
- Instructions on organizational capital and capital adequacy

2004

- Instructions on electronic transfer of funds
- Instructions on cross-border establishment for Jordanian banks
- Instructions on mandatory cash reserve

2005

- Instructions on returned checks unit
- Instructions on licensing the insurance agent and regulating its operations and responsibilities
- Instructions on cash fines on violations of credit concentrations and credit facilities in foreign currencies
- Instructions on cash fines on banks' investments in securities.

2006

- Rules and regulations pertaining to electronic clearing
- Instructions on management of banks' assets/liabilities in foreign currencies
- Instructions on margin trading in foreign currencies and major precious metals for the benefit of clients
- Compliance Instructions
- Treasury stocks Instructions
- Instructions on business continuity plan
- Instructions on classification of credit facilities and calculating impairment provisions and reserves for general banking risks
- Compliance
- Instructions on management of banks assets/liabilities in foreign currencies

2007

- Instructions on managing and marketing portfolios and investment funds in foreign currencies on behalf of clients
- Instructions on internal control systems
- Instructions on liquidity
- Instructions on licensed banks' branching inside Jordan
- Amendments to internal control systems instructions
- Instructions on corporate governance for banks in Jordan

2008

- Instructions on liquidity for Islamic banks
- Amendments to liquidity Instructions based on maturity ladder
- Instructions on liquidity based on maturity ladder for Islamic banks
- Instructions on ratio of investments in Jordanian dinar to sources of funds in Jordanian dinar
- Amendments to Instructions on classification of credit facilities and calculating impairment provisions and reserve for general banking risks
- Instructions on anti-money laundering and terrorism financing

2009

- Instructions on ownership of influential interest in the capital of Jordanian banks
- Instructions on stress test

2010

- Instructions on minimum capital for banks operating in Jordan
- Instructions on Acquiring Effective Interest
- Instructions on anti-money laundering and terrorist financing

2011

- Instructions on direct credit facilities in foreign currencies extended to the export and re-export sectors
- Instructions on medium term advances
- Returned checks unit Instructions

2012

- Updating of the current operational framework for monetary policy
- The general conditions of permanent open market operations
- Dealing with customers in a fair and transparent way
- Temporary Open Market operations

1-5 Banking Control Tools Used By the Central Bank of Jordan

The Central Bank carries out its role of controlling banks operating in Jordan through a number of means that include the following:

1. **Licensing**: The Central Bank of Jordan is the sole authority to license Jordanian banks and their branches inside and outside the Kingdom.

2. **Deskwork supervision:** The Central Bank supervises and follows up on the financial situation of banks through the data and statements it periodically receives. This information gets analyzed and most important ratios and financial indicators are calculated to grasp the financial situation of banks and the extent of their adherence to laws, regulations and instructions.

3. **Field control:** This type of supervision includes visits to banks to ensure their abidance by the laws, regulations and instructions in force and to evaluate the situation of banks in a comprehensive way especially the quality and administrative aspects that cannot be evaluated through financial reports and lists, such as administrative systems and adequacy of internal audit and controls. It should be noted that the Central Bank uses the "CAMEL" system in the assessment of local banks.

1-6 Implementation of Basel II in Jordan

In 2005, a higher committee was formed with the chairmanship of the deputy governor of the Central Bank and the membership of a number of general managers of banks. This panel set up a joint technical committee and secondary working teams from the Central Bank and the banks entrusting each with one aspect of the new standard. The committees included those of credit risks, market risks, operational risks, market discipline and oversight review.

A decision was taken to start implementing the Basel II standards as from the data of the first quarter of 2008, provided that the year 2007 is an experimental implementation period. As a first step, the simple methods permissible under the Basel II capital adequacy decisions were applied. These included the standardized approach regarding credit and market risks and the application of the basic index method for measuring the operational risk. Implementation of more sophisticated means to measure the aforementioned risks was pushed by five years from the date of starting the actual application.

The committees prepared the instructions for credit, operational and market risks, and the Central Bank issued instructions on the scope of application that explain the components of organizational capital according to Basel II standard.

As for the actual implementation of the new standard, the Central Bank issued instructions to the banks asking them for capital adequacy forms according to the Basel II requirements starting from the first quarter of 2008. The banks were also asked to continue sending in parallel the adequacy forms according to Basel I until March 31, 2009. The Central Bank started to verify the accuracy of the computation in accordance with the new instructions by sending a specialized team who conducted field checks on data of 15 banks until September 2009. The work is currently underway to complete the checking on the rest of the banks.

Among the most significant difficulties and challenges facing the banks and regulators in the application of the new standard is the absence of local credit rating agencies. This deficiency restricts the capability of banks to benefit from preferential weights of customers who possess a high credit rating. Other impediments are the scarcity of clients rated by foreign credit rating agencies, the recent establishment of risk management departments at some banks, especially smaller ones, and the need to upgrade the efficiency of employees both at banks and at control authorities in order to qualify them for implementing the requirements of the new standard.

In addition to the above, other challenges appear to surface including the lack of comprehensive and complete historical data that can be relied on for the application of advanced methods in measuring risks, poor coordination between regulatory authorities in host countries concerning the application of Basel II standard on external embranchment, and, finally, the poor coordination with regulatory authorities in the mother country of foreign banks working in host countries.

1-7 Implementation of Basel III in Jordan

Within the context of implementing the decisions of Basel Committee on Banking Supervision in December of 2010, and its revision in June 2011 under the title Basel III, the Central Bank of Jordan issued a circular to the licensed banks in 16/10/2011 requiring them to review the impacts of implementing Basel III on the following aspects:

1 - Capital Adequacy Ratio (CAR)

2 - The Ratio of permanent net financing and Liquidity Coverage Ratio

3 - Leverage Ratio

4 - ROE and Dividends Policy

5 - Systems, Data, Reporting and Information Technology

6 - Bank's Strategic Plan

In addition, the circular required banks to evaluate their ability according to Basel III requirements in the following areas:

- Determining capital needed to meet financial risks that they may be exposed to, and predicting capital needed to meet any stress testing scenarios.
- Matching the current reserves with the required reserves according to Basel III.
- Updating Corporate Governance in the Banks.

The circular requested that the report be based on 30/6/2011 financial statements, and to report the results to the CBJ by the end of Dec. 2011. However, the Central Bank postponed reporting the study results to the end of June, 2012, based on 31/12/2011 financial statements.

CHAPTER TWO

THE STRUCTURE OF
THE JORDANIAN BANKING SYSTEM

2-1 The Structure of Jordan's Banking System

Jordan's banking system is comprised of the Central Bank of Jordan and the licensed banks. Licensed banks include all Jordanian banks and non-Jordanian banks (commercial and Islamic) operating in Jordan and accept deposits. This definition does not cover financial institutions. The banks operating in Jordan are divided as follows as is at the end of 2012:

Table (1)

Jordanian and Non- Jordanian banks operating in Jordan at the end of 2012

		#	Bank's Name	Established in
Jordanian Banks	Commercial Banks	1	Arab Bank	1930
		2	Jordan Ahli Bank	1956
		3	Cairo Amman Bank	1960
		4	Bank of Jordan	1960
		5	The Housing Bank for Trade & Finance	1974
		6	Jordan Kuwait Bank	1977
		7	Arab Jordan Investment Bank	1978
		8	Jordan Commercial Bank	1978
		9	Investbank	1989
		10	Arab Banking Corp./ Jordan	1989
		11	Union Bank	1991
		12	Societe General - Jordan	1993
		13	Capital Bank	1996
	Islamic Banks	1	Jordan Islamic Bank	1978
		2	International Islamic Arab Bank	1997
		3	Jordan Dubai Islamic Bank	2009
Foreign Banks	Commercial Banks	1	HSBC	1949
		2	Egyptian Arab Land Bank	1951
		3	Rafidain Bank	1957
		4	CitiBank	1974
		5	Standard Chartered	2002
		6	Bank Audi	2004
		7	National Bank of Kuwait	2004
		8	BLOM Bank	2004
		9	National Bank of Abu Dhabi	2009
	Islamic Banks	1	Al-Rajhi Bank	2011

2-2 Number of Licensed Banks

The number of licensed banks operating in Jordan rose from 21 banks in 2003 to 26 banks at the end of 2012. Of the total, 16 banks are Jordanian (three of them are Islamic banks) and ten banks are foreign (one of them is an Islamic bank). This rise in the number of banks was the result of an increase in the number of foreign banks operating in Jordan from five banks in 2000 to eight banks as the Central Bank of Jordan granted licenses to three foreign banks to operate in the kingdom in 2004. These banks were: BLOM Bank, Audi Bank and the National Bank of Kuwait. By contrast, the number of Jordanian banks declined from 16 banks to 15 banks as a result of a merger between Philadelphia Bank and Jordan Ahli Bank on 12/1/2005. Again, the number of licensed banks increased in 2009 to reach 25 banks, after the Central Bank granted licenses to two banks (Jordan Dubai Islamic Bank, and National Bank of Abu Dhabi), then the CBJ granted licenses to another bank, Al Rajhi Bank, in 2011.

Table (2)

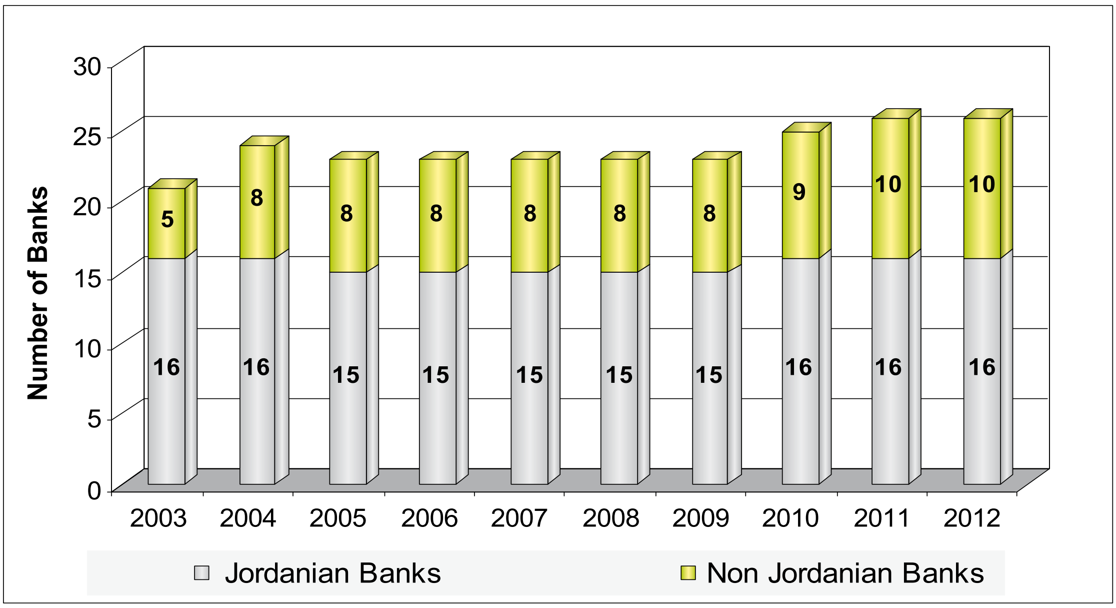
Number of Jordanian and non jordanian banks operating in Jordan (2003 –2012)

Year	# of Jordanian Banks		# of Non Jordanian Banks		Total
	Commercial Banks	Islamic Banks	Commercial Banks	Islamic Banks	
2003	14	2	5	0	21
2004	14	2	8	0	24
2005	13	2	8	0	23
2006	13	2	8	0	23
2007	13	2	8	0	23
2008	13	2	8	0	23
2009	13	2	8	0	23
2010	13	3	9	0	25
2011	13	3	9	1	26
2012	13	3	9	1	26

- Source: Association of Banks in Jordan, Annual Reports.

Figure (1)

Development of number of Jordanian and foreign banks operating in Jordan (2003-2012)



2-3 Banking Embranchments

A. Number of branches and geographical Spread

The number of licensed banks' branches at the end of 2011 reached 702 inside the Kingdom, with an annual growth rate reaching an average of 5.3% for the period of 2003-2011.

The banking density index (population/ total number of branches of banks operating in the Kingdom) stood at around 8.9 thousand people per branch at the end of 2011 compared to 9.2 thousand people per branch in 2010 and 9.7 thousand people per branch in 2009, and 9.9 thousand people per branch in 2008.

Table (3)

Development of banking density index (2003 - 2011)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
banking density index **	11779	11942	10816	10853	10238	9865	9661	9179	8902

**banking density index is the census divided by the number of branches of banks operating in Jordan.

The expansion and spread of banks outside Jordan show a total of 165 branches at the end of 2011, with an annual growth rate reaching an average of 5.3% for the period of 2003-2011.

This strategic option of expanding abroad by a number of Jordanian banks in some of the neighboring and regional markets was due to the limited local market. By seeking new and vital outlets for business and investments in the region, the banks sought to benefit from growth opportunities and new scopes to develop their operations and activities and be able to compete besides widening their clientele base.

Table (4)

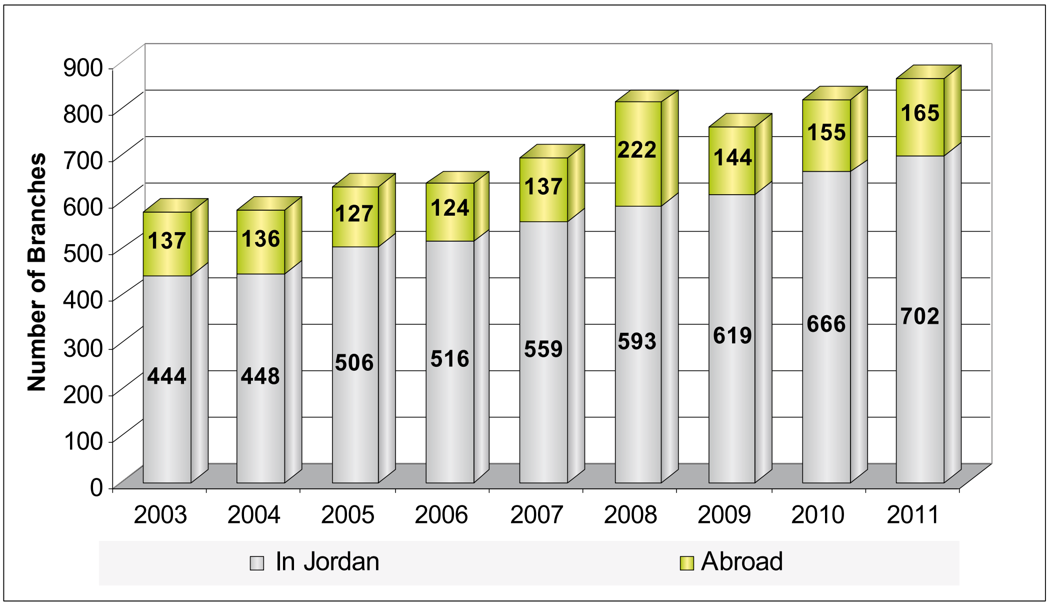
Number of branches, offices and automated teller machines (2003 – 2011)

year	Number of Branches		Number of offices		Number of
	In Jordan	Abroad	In Jordan	Abroad	(ATMs)
2003	444	137	138	25	577
2004	448	136	156	27	617
2005	506	127	96	20	663
2006	516	124	83	22	724
2007	559	137	79	19	846
2008	593	222	65	20	944
2009	619	144	66	23	1023
2010	666	155	81	7	1129
2011	702	165	72	9	1219
Average growth rate	5.34%	5.33%	-6.72%	4.03%	9.64%

- Source: Association of Banks in Jordan, Annual Reports

Figure (2)

Number of banks' branches in and outside Jordan (2003-2011)



The geographical distribution of branches by governorate indicates that the largest number of branches is concentrated in Amman, which accounts for 62.8% of total branches, followed by Irbid which accounts for 10%, then Zarqa by 9%, while the share of the remaining nine governorates is about 18% of branches in the Kingdom.

Within this context, and by dividing the Kingdom into three regions, branches in the central region account for 78.5 percent of the total branches in Jordan, the northern region follows with 13.7 percent and the southern region trails with 7.8 percent.

Figure (3)

Distribution of Banks' Branches on the Kingdom's governorates at the end of 2011 (%)

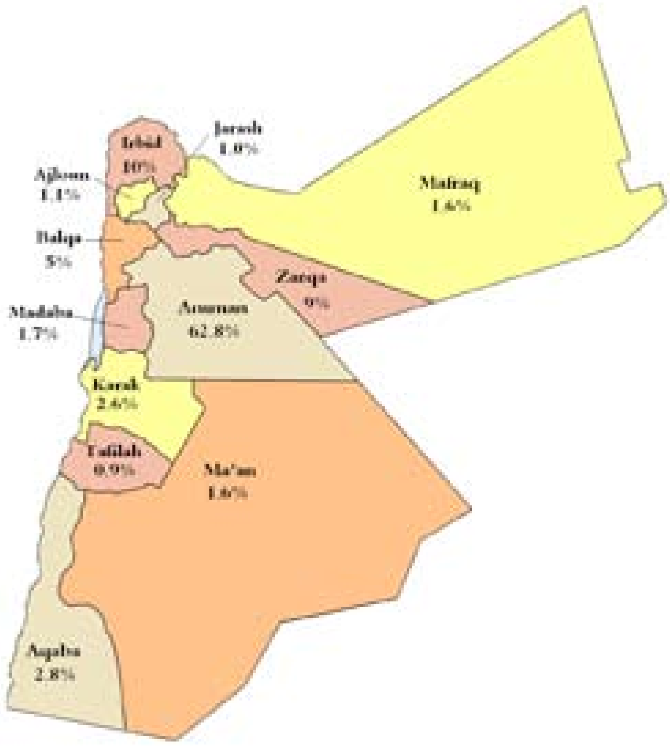
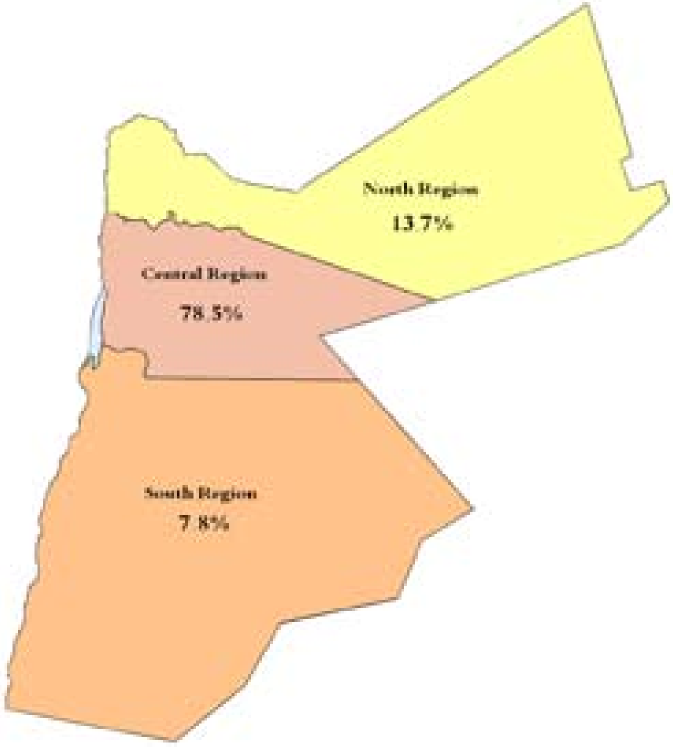


Figure (4)

Distribution of Banks' Branches on the Kingdom's Regions at the end of 2011 (%)



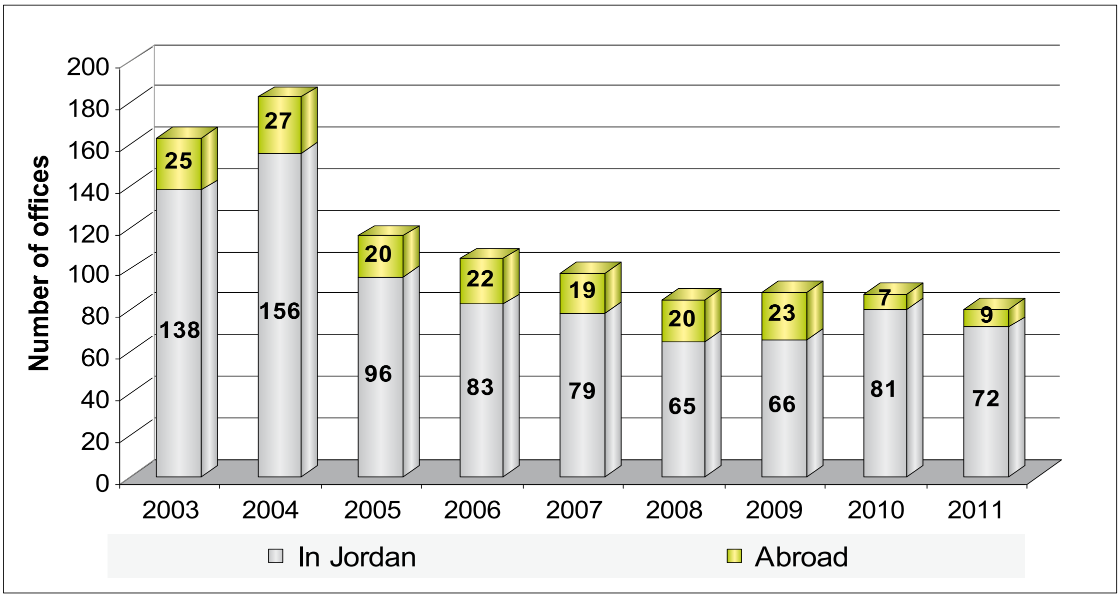
B. Number of offices

The number of banks' offices in Jordan declined to 72 at the end of 2011, compared to 138 offices at the end of 2003. This represents an annual decrease by an average of 6.7% in the number of offices in Jordan. The decline in the number of offices can be explained by the expansion strategies of banks operating in Jordan, which include transferring some offices into branches, thus resulting in the decline in the number of offices and the increase in branches.

The number of offices outside Jordan reached 9 offices at the end of 2011, with an annual average growth rate of 4% during the period of (2003-2011). The number of offices outside Jordan had achieved its highest growth rate (79%) in 2003, when the number of offices soared from 14 to 25 offices. However, the following years had witnessed obvious fluctuation in the number of offices in which the average rate of growth and regression recorded 4%.

Figure (5)

Number of offices in and outside Jordan (2003-2011)



C. Number of ATMs and its geographical spread

Banks operating in the Kingdom were pioneers in introducing and using the most advanced technologies in their various operations. ATMs were first used in the Kingdom in the early '80s of the past century. Today, ATMs and points of sale are spread all over the governorates of Jordan and at the branches of banks as well as major commercial centers, hospitals and universities. In this way, services are rendered to clients around the clock in an easy and flexible way.

The number of ATMs in Jordan had increased dramatically during the period of (2003-2011) with a 9.6% average growth rate. By the end of 2011, the total number of ATMs all over the Kingdom reached 1219 units.

It should be noted that the number of ATMs for every million inhabitants in Jordan increased from 110 units in 2003 to 195 units at the end of 2011.

The banking density index (population/ total number of ATMs) dropped from 9.1 thousand people per unit in 2003 to 5.1 thousand people per unit in 2011.

In terms of the number of ATMs per 1,000 square kilometers in Jordan, the number increased from 6 ATMs / 1,000 km^2 in 2003 to 14 ATM / 1000 km^2 in 2011.

Table (5)

Main Indicators of ATMs (2003-2011)

Year	Number of ATMs / Million Inhabitants	Population/ number of ATMs	Number of ATMs /1,000 Km2
2003	110	9064	6
2004	115	8671	7
2005	121	8255	7
2006	129	7735	8
2007	148	6765	9
2008	161	6197	11
2009	171	5846	11
2010	185	5415	13
2011	195	5126	14

Figure (6)

Number of ATM's (2003-2011)

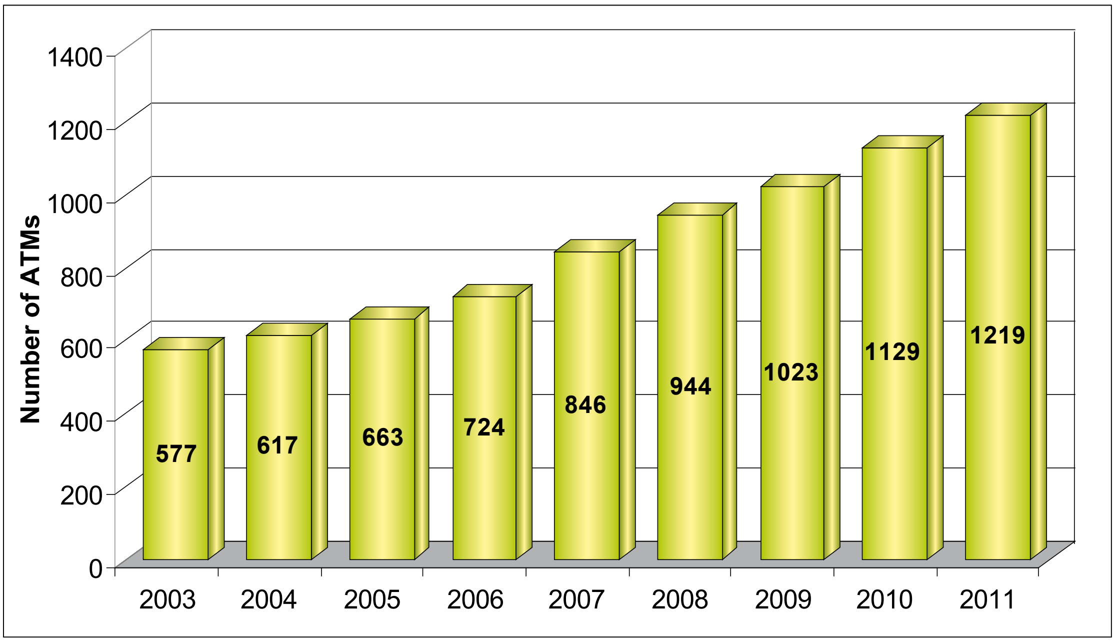


Figure (7)

Number of ATMs /Million Inhabitants in Jordan (2003-2011)

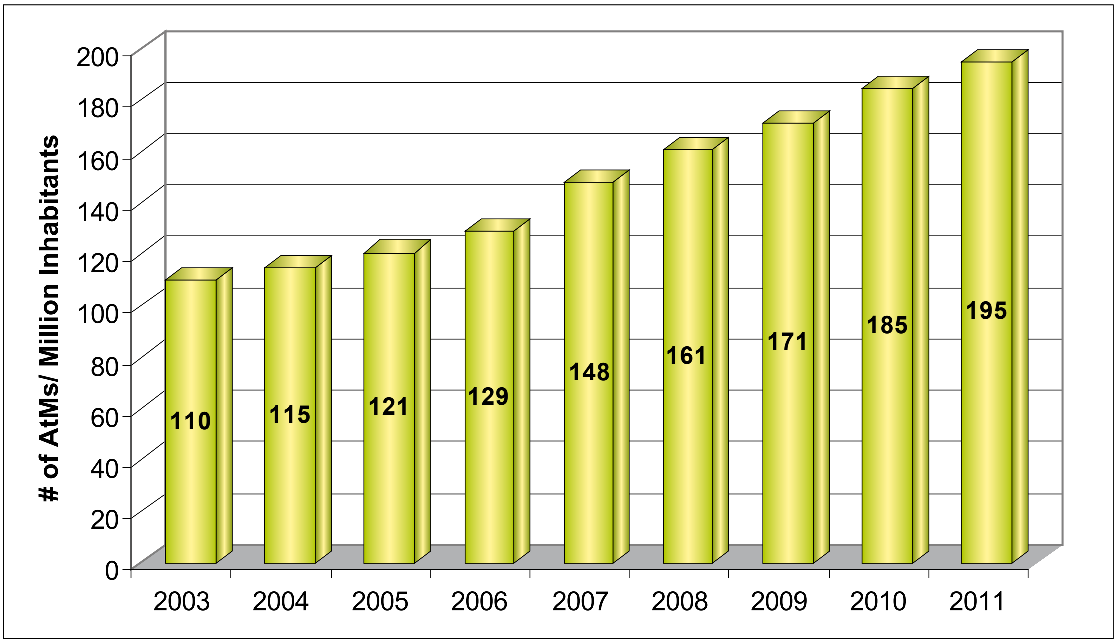
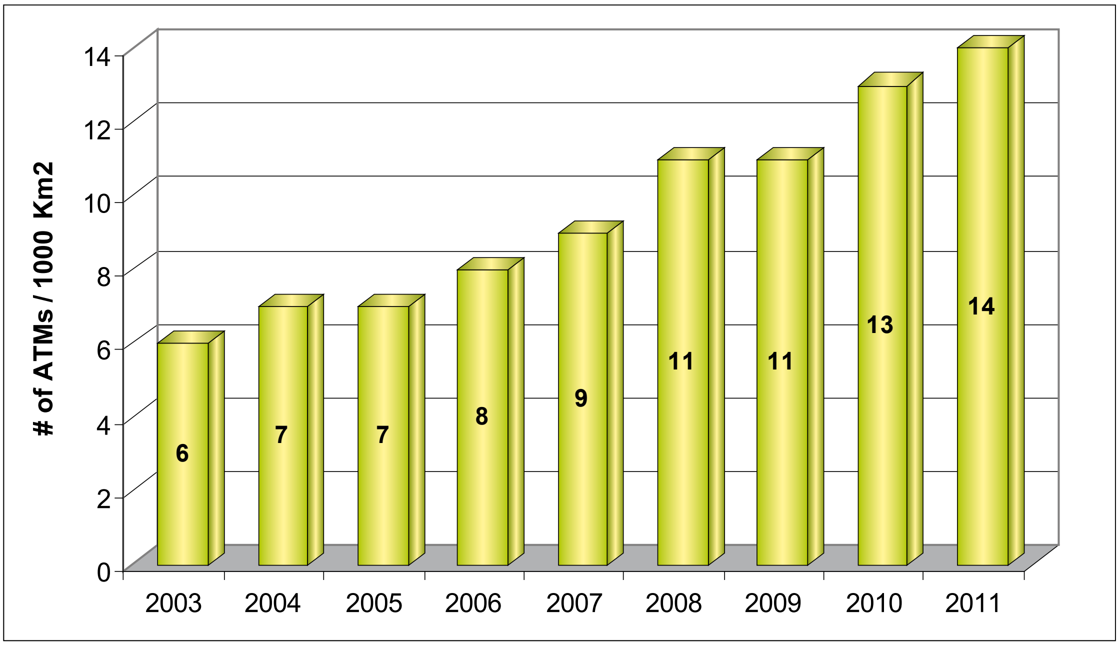


Figure (8)

Number of ATMs /1,000 Km2



Geographically, statistics show that 66.5 percent of all ATMs exist in Amman at the end of 2011. Irbid comes in second place with 10.3 percent followed by 6.9 percent in Zarqa. The share of remaining governorates does not exceed 16.3 percent.

Within this context, and by dividing the Kingdom into three regions, ATMs in the central region account for 78.8 percent of the total, the northern region follows with 13.5 percent and the southern region trails with 7.8 percent.

Figure (9)

Distribution of ATMs in the Kingdom according to governorates (%)

Figure (10)

Distribution of ATMs in the Kingdom according to region (%)

CHAPTER THREE

DEVELOPMENT OF JORDAN's BANKING SYSTEM

3-1 Development of Assets

3-2 Development of Capital, Reserves and Allowances

3-3 Development of Credit Facilities

3-4 Development of Deposits

3-1 Development of Assets

Total assets of banks operating in Jordan rose markedly by JD23.6 billion or approximately a 150 percent growth rate during the period 2003–2012. The total assets increased from JD15.7 billion at the end of 2003 to JD39.3 billion at the end of 2012, which means a 10.8 percent annual growth rate.

Total assets of licensed banks as a percentage of GDP stood at about 205 percent during the period 2003-2012, reflecting the importance and the size of the Jordanian banking sector in Jordan's economy as a whole.

On another sphere, there was a noticeable increase in the rate of domestic assets to total assets of banks in Jordan during the period 2003-2012, reaching 83.8 percent at the end of 2012, while the rate of foreign assets to total assets relatively regressed to 16.2 percent at the end of 2012. One reason for the change in the structure of banks' assets might be the global financial crisis and its impact on the external sector.

Table (6)

Total Assets of Banks Operating in Jordan in Millions of Dinars and It's Ratio to GDP (2003 – 2012)

year	Total Assets JD Million	Change in Total Assets (%)	Domestic Assets		Foreign Assets		Total Assets/ GDP (%)
			JD Million	of total Assets (%)	JD Million	of total Assets (%)	
2003	15701.5	3.85	11319.7	72.09	4381.8	27.91	217.21
2004	17821.1	13.50	12819	71.93	5002.1	28.07	220.27
2005	21086.5	18.32	15724.7	74.57	5361.8	25.43	236.25
2006	24237.6	14.94	18034.2	74.41	6203.4	25.59	227.04
2007	26815.6	10.64	20299.1	75.70	6516.5	24.30	221.04
2008	29796.6	11.12	23986.3	80.50	5810.3	19.50	191.08
2009	31956.9	7.25	26647.2	83.38	5309.7	16.62	188.96
2010	34973.1	9.44	28868.6	82.55	6104.5	17.45	186.40%
2011	37686.4	7.76	31400.5	83.32	6285.9	16.68	184.05%
2012	39275.4	4.22	32922.3	83.82	6353.1	16.18	178.8%

Source: Central Bank of Jordan

Figure (11)

Domestic and foreign assets of banks operating in Jordan (2003 – 2012)

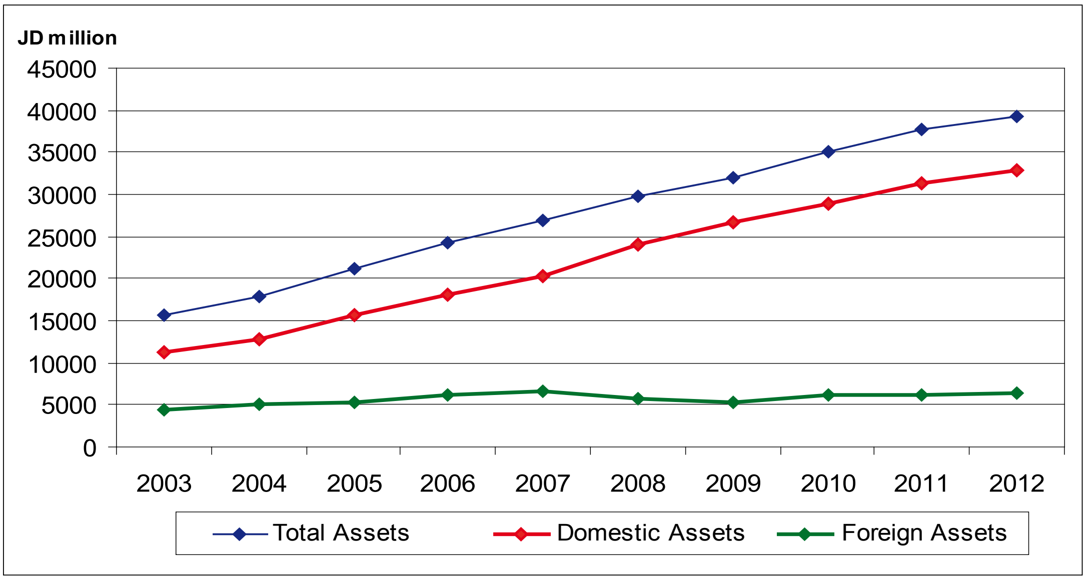
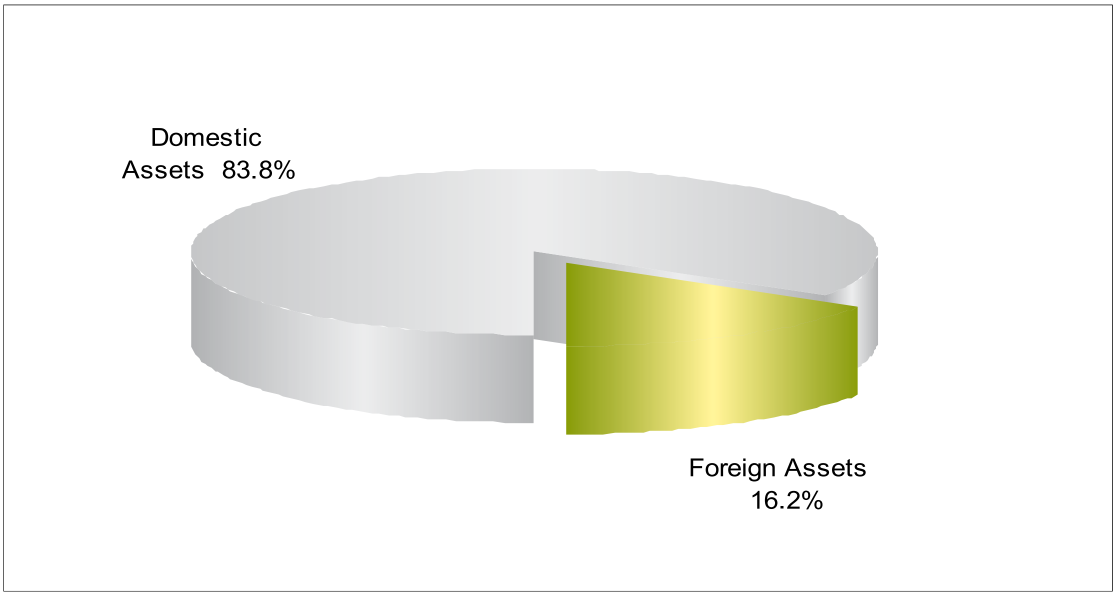


Figure (12)

Distribution of assets of banks operating in Jordan at the end of 2012



3-2 Development of Capital Accounts, Reserves and Allowances

The considerable growth in capital accounts, reserves and allowances account of licensed banks in Jordan from the year 2003 until 2012 is one of the most noticeable indicators of the strength and soundness of Jordan's banking sector, as it directly enhances the financial strength of banks and boosts their competence to counter various risks and, consequently, provide better protection to depositors.

Capital accounts, reserves and allowances increased by JD4225 million during the period 2003-2012, meaning a growth rate of 14.6 percent in average.

This growth was markedly accelerated starting from 2004, and reached its highest level in 2006 when the growth rate in capital accounts, reserves and allowances of banks operating in Jordan raised to 41.3 percent, with an increase of approximately JD931million from 2005. It should be noted here that the main reason for the growth in this account was due to the CBJ's request from Jordanian banks on 20/8/2003 to raise their minimum capital from JD20 million to JD40 million by the end of 2007. All banks but one, were able to increase their capital requirements to more than JD40 million before the deadline. Also, in 16/12/2010, the CBJ requested the licensed banks to raise their minimum capital before the end of 2011 to JD 100 million for Jordanian Banks, and to JD 50 million for foreign banks.

Table (7)

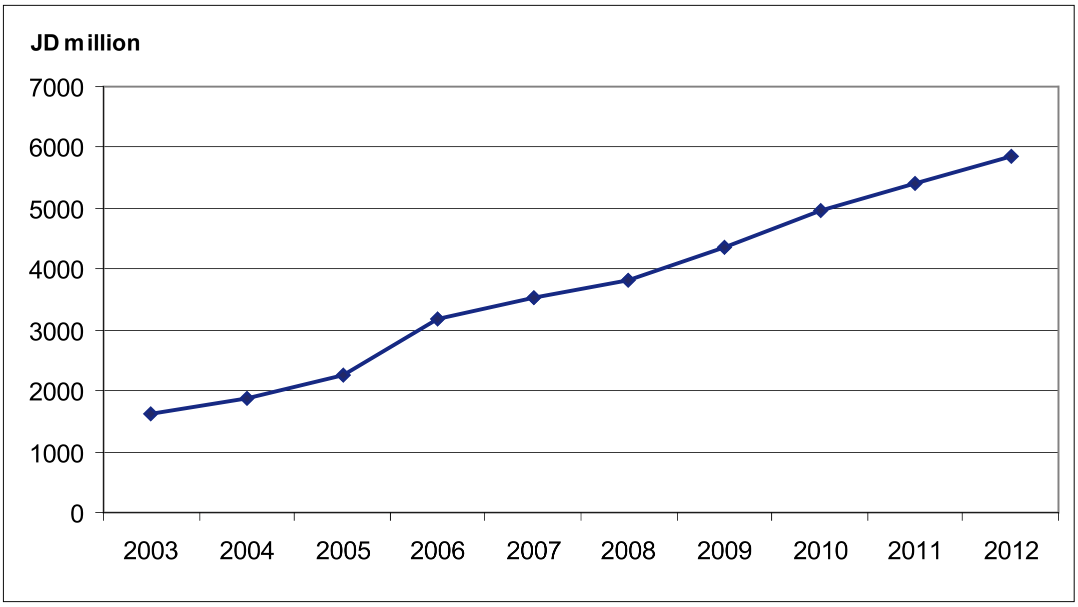
Development of Capital Accounts, Reserves and Allowances (2003 – 2012)

year	Capital Accounts and Allowances (JD Million)	Growth Rate (%)
2003	1623.2	5.05
2004	1874.3	15.47
2005	2252.6	20.18
2006	3183.3	41.32
2007	3523.0	10.67
2008	3803.5	7.96
2009	4374.8	15.02
2010	4949.7	13.14
2011	5397.2	9.04
2012	5848.2	8.36

Source: Central Bank of Jordan

Figure (13)

Development of Capital accounts, reserves and Allowances (2003 –2012)



3-3 Development of credit facilities

A) Development of Credit Facilities Extended By Banks Operating in Jordan in Jordanian Dinars and in Foreign Currencies:

- Total credit facilities extended by banks operating in Jordan increased from JD5.3 billion in 2003 to JD17.8 billion at the end of 2012. The JD 12.5 billion rise represents a 239 percent increase at an annual growth rate of 12.3 percent.
- Credit facilities extended by banks in Jordanian dinars went up from JD4.3 billion in 2003 to JD15.5 billion at the end of 2012. The JD11.2 billion rise represents a 258 percent increase at an annual growth rate of 14 percent. Credit facilities in foreign currencies increased by JD1.4 billion at an annual growth rate of 12.1 percent in average.
- Credit facilities in Jordanian Dinars as a percentage of total credit facilities extended by banks in Jordan ranged from 82-90 percent during the period of 2003-2012, and reached 87.1 percent at the end of 2012. As for credit facilities in foreign currencies, their percentage ranged between 10-18 percent of total credit facilities during the same period, and reached 12.9 percent at the end of 2012.
- Total credit facilities as a percentage of GDP ranged between 73-93 percent during the period of 2003-2012, reflecting the significant role of banks in financing all sectors of the Jordanian economy.

Table (8)

Total Credit Facilities Extended By Banks Operating in Jordan and Its Ratio to GDP (2003 – 2012)

year	Total Credit Facilities JD Million	Change in Total Credit facilities (%)	Domestic Credit Facilities		Foreign Credit Facilities		Total Credit Facilities/GDP (%)
			JD Million	of Total Credit Facilities (%)	JD Million	of Total Credit Facilities (%)	
2003	5,262.4	2.58	4,333.0	82.34	929.4	17.66	72.80
2004	6,189.2	17.61	5,227.9	84.47	961.3	15.53	76.50
2005	7,744.3	25.13	6,887.4	88.94	856.9	11.06	86.77
2006	9,761.9	26.05	8,761.8	89.76	1,000.1	10.24	91.44
2007	11,295.6	15.71	10,199.7	90.30	1,095.9	9.70	93.11
2008	13,044.3	15.48	11,370.1	87.17	1,674.2	12.83	83.65
2009	13,317.2	2.09	11,771.7	88.39	1,545.5	11.61	78.74
2010	14451.4	8.52	12750.7	88.23	1700.7	11.77	77.02
2011	15851.2	9.69	14044.9	88.60	1806.3	11.40	77.41
2012	17829.8	12.48	15532.1	87.11	2297.7	12.89	81.2

Source: Central Bank of Jordan

Figure (14)

Credit facilities extended by operating banks in local and foreign currencies (2003 –2012)

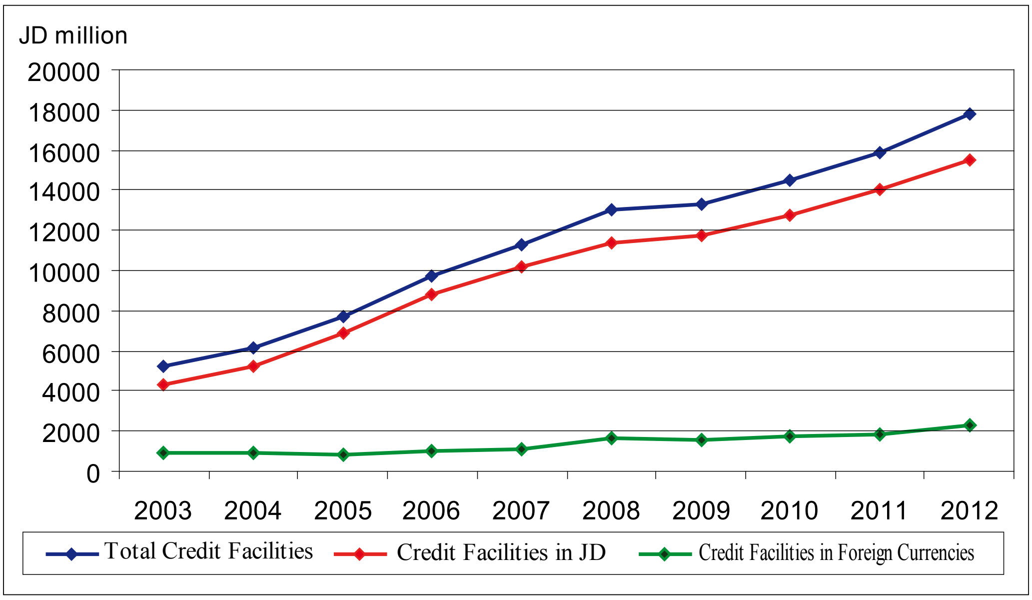
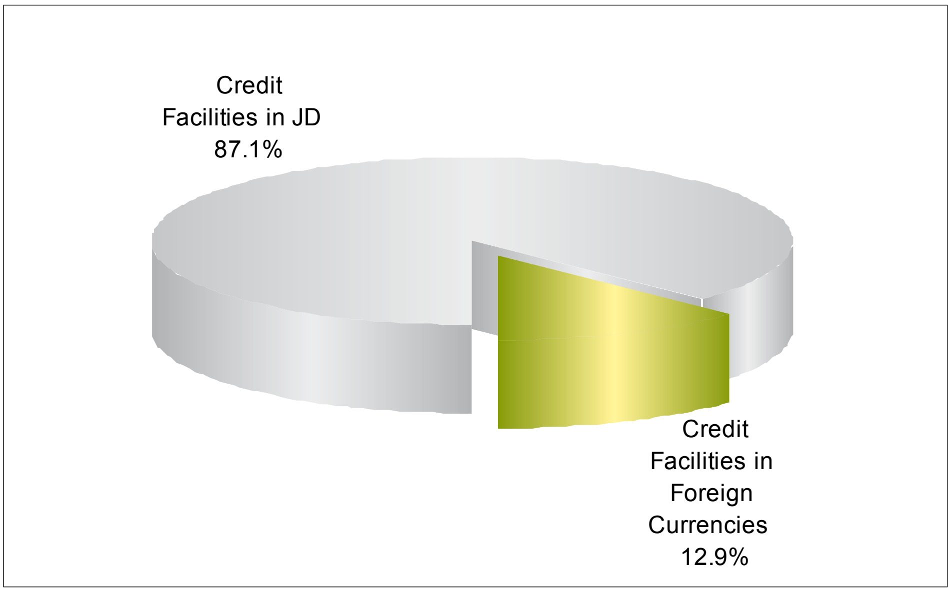


Figure (15)

Distribution of credit facilities extended by banks in 2012



B) Development of Credits According To Type

- The rate of loans and advances to total credit facilities went up progressively from the year 2003 until 2012, raising from 68.8 percent in 2003 to 85.8 percent at the end of 2012.

- The rate of overdrafts to total credit facilities declined markedly from 24.8 percent in the year 2003 to 12.7 percent at the end of 2012, at a gradual pace.

- The rate of bills discounted to total credit facilities has dropped from 6.4 percent in 2003 to 1.5 percent at the end of 2012.

Table (9)
Types of Credit Facilities Extended By Licensed Banks (2003 – 2012)

year	Overdraft		Loans & Advances		Bills Discounted		Total
	JD Million	%	JD Million	%	JD Million	%	
2003	1304.7	24.8	3620.5	68.8	337.2	6.4	5262.4
2004	1343.4	21.7	4499.6	72.7	346.2	5.6	6189.2
2005	1572.9	20.3	5813.9	75.1	357.5	4.6	7744.3
2006	1580.5	16.2	7722.1	79.1	459.3	4.7	9761.9
2007	1658.6	14.7	9199.8	81.4	437.2	3.9	11295.6
2008	1769.6	13.6	10859.0	83.2	415.7	3.2	13044.3
2009	1599.6	12.0	11418.0	85.7	299.6	2.2	13317.2
2010	1782.0	12.3	12403.8	85.8	265.6	1.9	14451.4
2011	2025.5	12.8	13538.0	85.4	287.7	1.8	15851.2
2012	2257.3	12.7	15297.5	85.8	275.0	1.5	17829.8

Source: Central Bank of Jordan

Figure (16)
credit facilities according to type (2003 –2012)

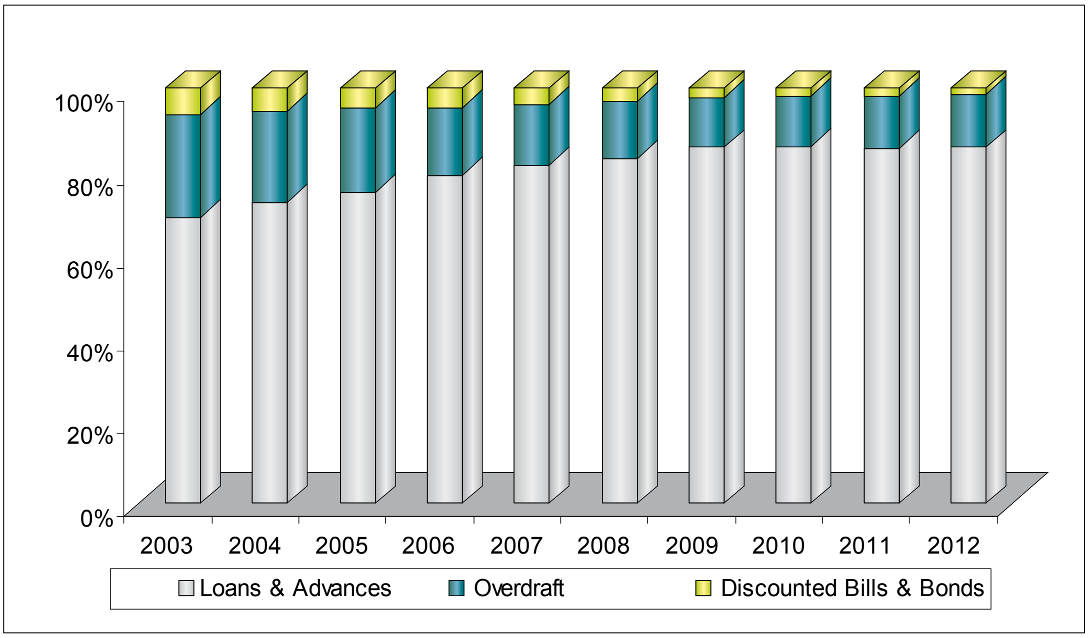
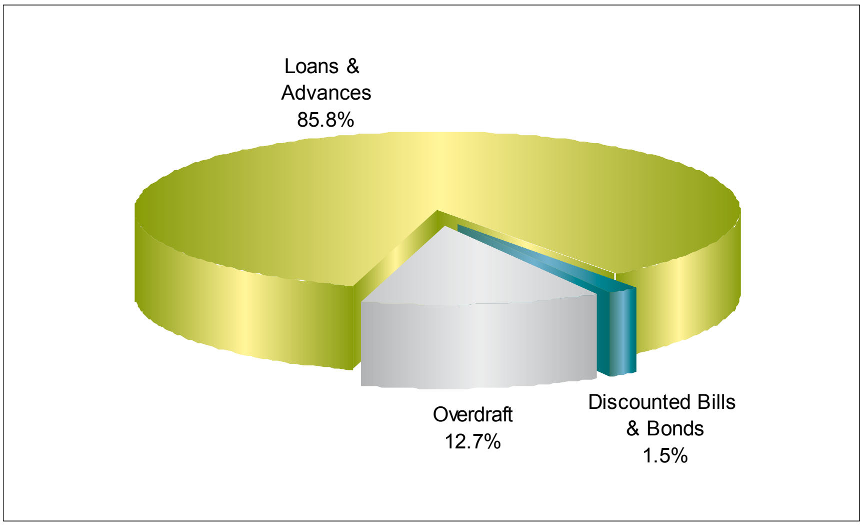


Figure (17)
credit facilities according to type in 2012



C) Distribution of Credits on Economic Sectors

Three main economic sectors (general trade, construction and industry) accounted for 54.7 percent of total credit facilities extended by banks operating in Jordan during the period from 2003 – 2012. Figures show that 22.6 percent went for general trade activities, the construction sector benefited from 18.8 percent and 13.3 percent was the share of industry sector. The share of other sectors did not exceed 18.5 percent of total credit facilities extended by banks during the same period. Other credits represented 26.8 percent of total credit facilities.

Table (10)
Distribution of Credit Facilities According to Economic Sectors (2003 – 2012)

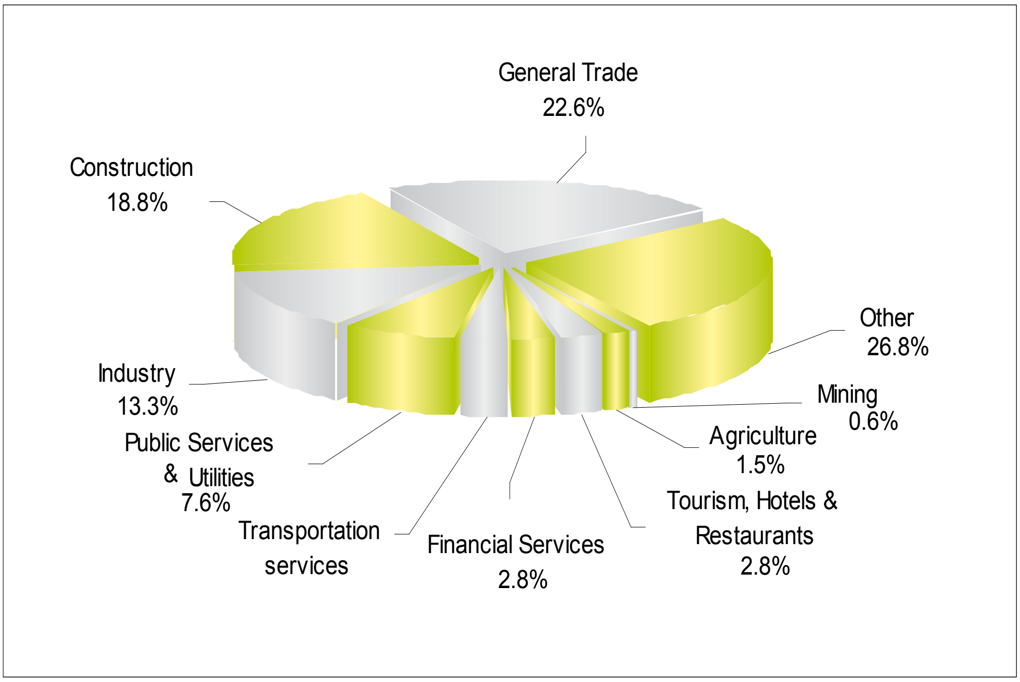
JD Million

Sectors	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Percentage distribution (2003-2012)
Agriculture	98.8	113.6	110.9	140.9	156.2	210.0	231.2	211.8	229.2	254.9	1.5%
Mining	78.0	77.7	56.5	42.8	65.7	48.3	60.2	55.4	79.5	73.0	0.6%
Industry	801.4	895.3	981.6	1093.1	1348.1	1597.6	1631.2	1929.0	2297.2	2672.0	13.3%
General Trade	1327.3	1472.9	1585.0	1916.6	2434.7	2897.5	3195.4	3594.0	3779.0	3754.9	22.6%
Construction	804.5	953.2	1162.1	1560.8	1942.1	2293.1	2582.5	3167.7	3463.6	3682.6	18.8%
Transportation services	166.6	174.1	219.6	291	352.3	370.5	453.1	484.1	531.6	554.5	3.1%
Tourism, Hotels & Restaurants	172.8	154.9	181.2	195.1	255.8	366.6	427.9	457.3	493.7	505.6	2.8%
Public Services & Utilities	349.0	494.3	554.1	637.3	733.7	870.3	909.5	1050.0	1135.3	2015.7	7.6%
Financial Services	133.1	97.2	176.1	242.1	390.1	437.7	434.1	408.3	430.5	486.1	2.8%
Other	1330.9	1756.0	2717.2	3642.2	3616.9	3952.7	3392.1	3093.8	3411.6	3830.5	26.8%
Total	5262.4	6189.2	7744.3	9761.9	11295.6	13044.3	13317.2	14451.4	15851.2	17829.8	100.0%

Source: Central Bank of Jordan

Figure (18)

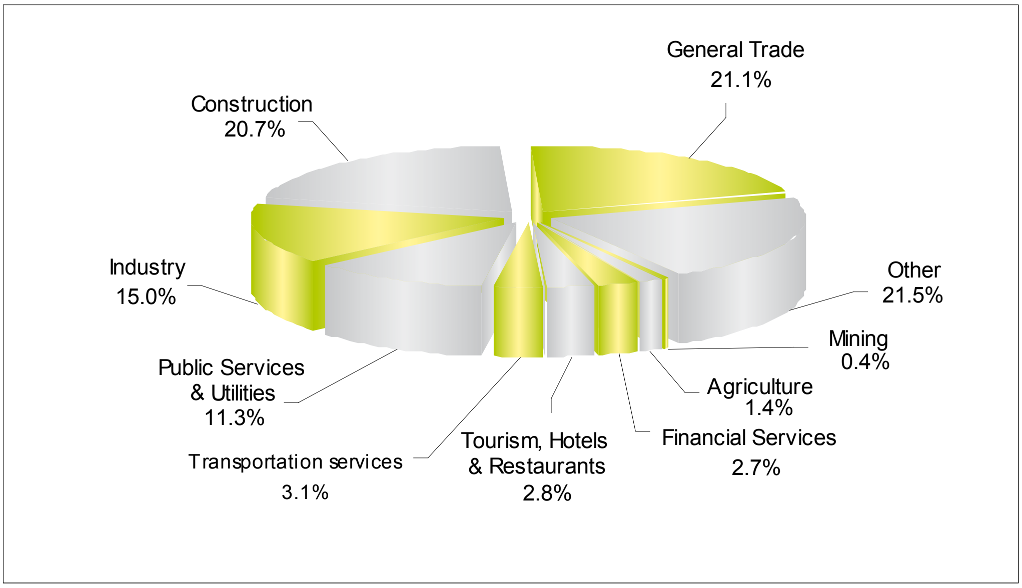
Distribution of credit facilities according to economic sectors (2003 –2012)



* Rates shown in this Figure were calculated by adding credit facilities extended to each sector from the year 2003 until 2012 and then dividing the result by the total credits extended during the same period

Figure (19)

Distribution of credit facilities according to economic sectors in 2012



3-4 Development of deposits

A) Deposits in Jordanian Dinars and in Foreign Currencies:

Total deposits at the banks operating in Jordan rose gradually from JD10 billion in 2003 to JD25 billion at the end of 2012. The JD15 billion increase or 150 percent translates into a 10.4 percent annual growth rate.

The percentage of total deposits to GDP at current market prices slipped from 137.9 percent in 2003 to 113.7 percent at the end of 2012.

Regarding the structure of deposits by currency, the local currency deposits as a percentage of total deposits grew steadily during the last decade, except for the year of 2012 where the ratio fell to 70.9%, compared with more than 78% in the past three years.

By contrast, the foreign currency deposits as a percentage of total deposits regressed considerably during the last decade, except for the year 2012 where the ratio increased to 29.1%, compared with a percentage that did not exceed 22% in the past three years.

It is noteworthy that the change in the structure of deposits over the last year reflects the fears that have emerged as a result of the decline in foreign currency reserves at the Central Bank, and the high budget deficit in addition to concerns about the devaluation of Jordanian dinar, which alarmed some depositors prompting them to convert their deposits from the dinar to the dollar.

Table (11)
Total Deposits at Banks Operating in Jordan and its Ratio to GDP (2003 – 2012)

Year	Total Deposits (JD Million)	Change in Total Deposits (%)	Domestic Deposits		Foreign Deposits		Total Deposits/GDP (%)
			JD Million	of Total Deposits (%)	JD Million	of Total Deposits (%)	
2003	9969.4	6.4	6082.9	61.0	3886.5	39.0	137.9
2004	11564.1	16.0	6878.7	59.5	4685.4	40.5	142.9
2005	13119.3	13.4	8364.5	63.8	4754.8	36.2	147.0
2006	14591.9	11.2	9427.1	64.6	5164.8	35.4	136.7
2007	15988.1	9.6	10618.0	66.4	5370.1	33.6	131.8
2008	18102.6	13.2	13348.5	73.7	4754.1	26.3	116.1
2009	20298.4	12.1	15865.0	78.2	4433.4	21.8	120.0
2010	22504.8	10.9	17617.2	78.3	4887.6	21.7	119.9
2011	24377.9	8.3	19119.1	78.4	5258.8	21.6	119.1
2012	24969.7	2.4	17711.1	70.9	7258.6	29.1	113.7%

Source: Central Bank of Jordan

Figure (20)
Deposits at banks in local and foreign currencies (2003 – 2012)

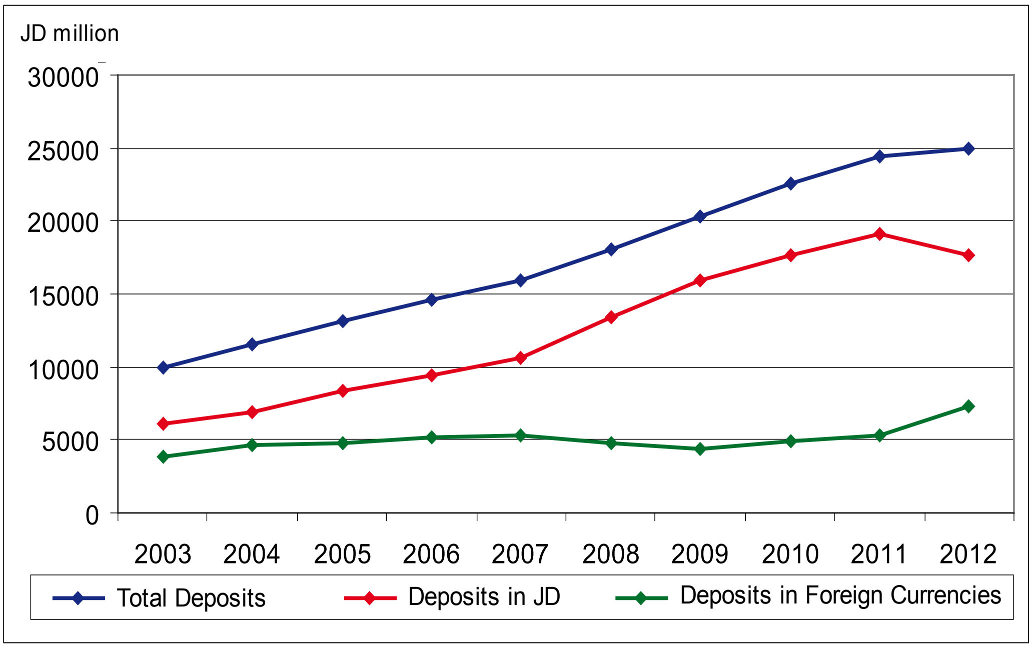
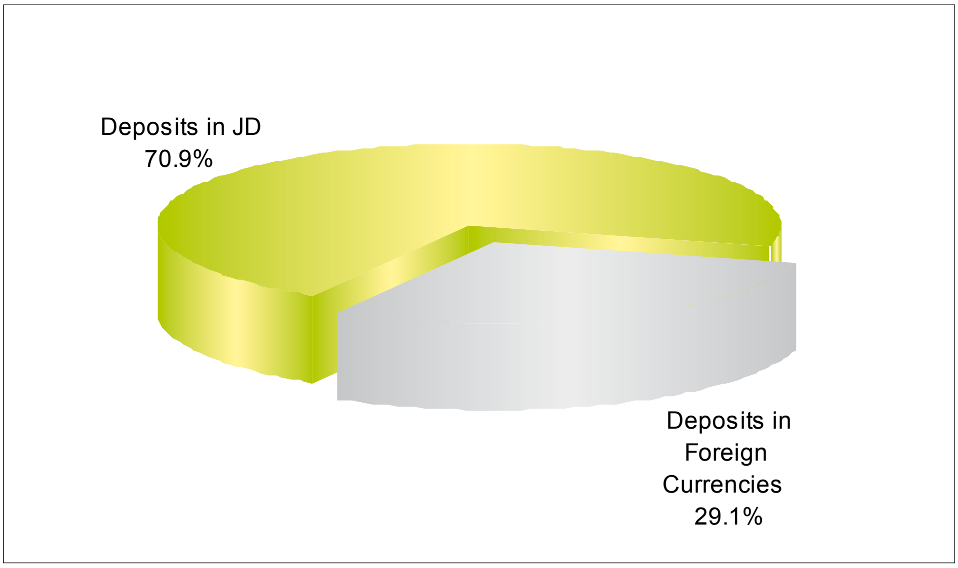


Figure (21)
Distribution of deposits according to currency in 2012



B) Development of Deposits According To Type

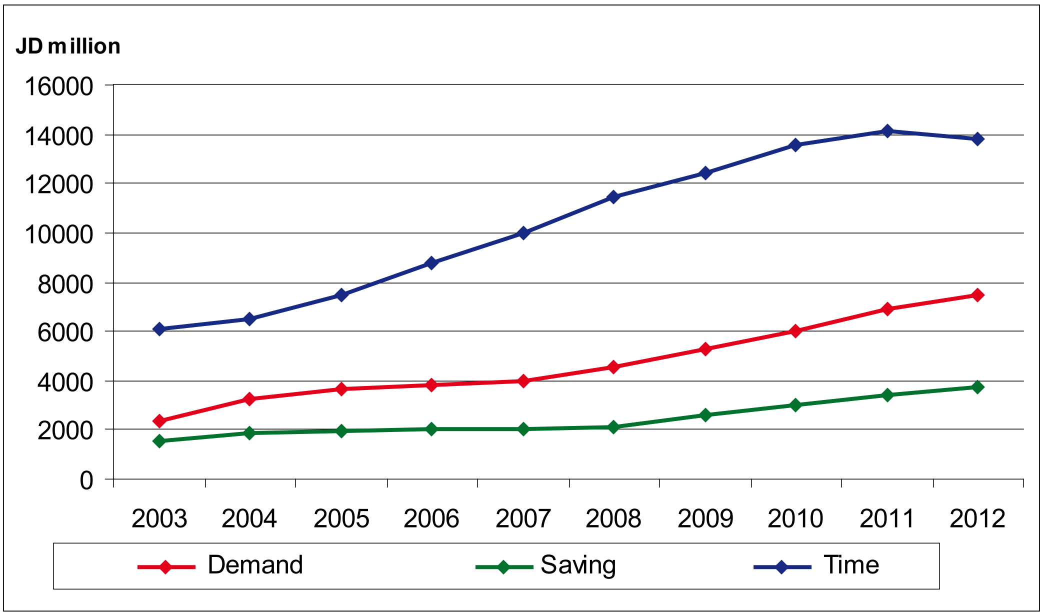
The structure of deposits, in terms of type, changed significantly during the period 2003-2012. The percentage of demand deposits to total deposits increased from 23.5 percent in 2003 to 29.8 percent at the end of 2012. In contrast, the time deposits dropped from 61.4 percent in 2003 to 55.3 percent at the end of 2012. Saving deposits edged up slightly to 14.9 percent at the end of 2012 compared to 15.1 percent in the year 2003.

Table (12)
Distribution Of Deposits Accordin To Type (2003 – 2012)

year	Demand		Saving		Time		Total
	JD Million	%	JD Million	%	JD Million	%	
2003	2338.8	23.5	1510.6	15.1	6120	61.4	9969.4
2004	3244.1	28.1	1828.6	15.8	6491.4	56.1	11564.1
2005	3674.4	28.0	1956.6	14.9	7488.3	57.1	13119.3
2006	3835.4	26.3	1997.1	13.7	8759.4	60.0	14591.9
2007	4001.9	25.0	2002.9	12.5	9983.3	62.5	15988.1
2008	4512.0	24.9	2143.6	11.9	11447.0	63.2	18102.6
2009	5307.4	26.2	2566.4	12.6	12424.6	61.2	20298.4
2010	5971.1	26.5	2976.9	13.2	13556.8	60.3	22504.8
2011	6876.8	28.2	3374.7	13.8	14126.4	58.0	24377.9
2012	7452.8	29.8	3714.4	14.9	13802.5	55.3	24969.7

Source: Central Bank of Jordan

Figure (22)
Development of deposits according to type (2003 –2012)



CHAPTER FOUR

Financial Soundness Indicators for the Jordanian Banking Sector

4-1 Introduction

4-2 Asset Quality Indicators

4-3 Capital Adequacy Indicators

4-4 Profitability and Efficiency Indicators

4-1 Introduction

This chapter aims to review the main soundness indicators of the Jordanian banking system during the period from 2003 to June 2012.

These indicators include three major groups; the first one is asset quality indicators, which include the ratio of non-performing loans to total loans and coverage ratio. The second group is capital adequacy indicators, which include capital adequacy ratio and leverage ratio. The third group is profitability and efficiency indicators, which include the ratio of interest margin to gross income, return on equity, return on assets, profits before and after tax, and liquidity ratio.

4-2 Asset Quality Indicators

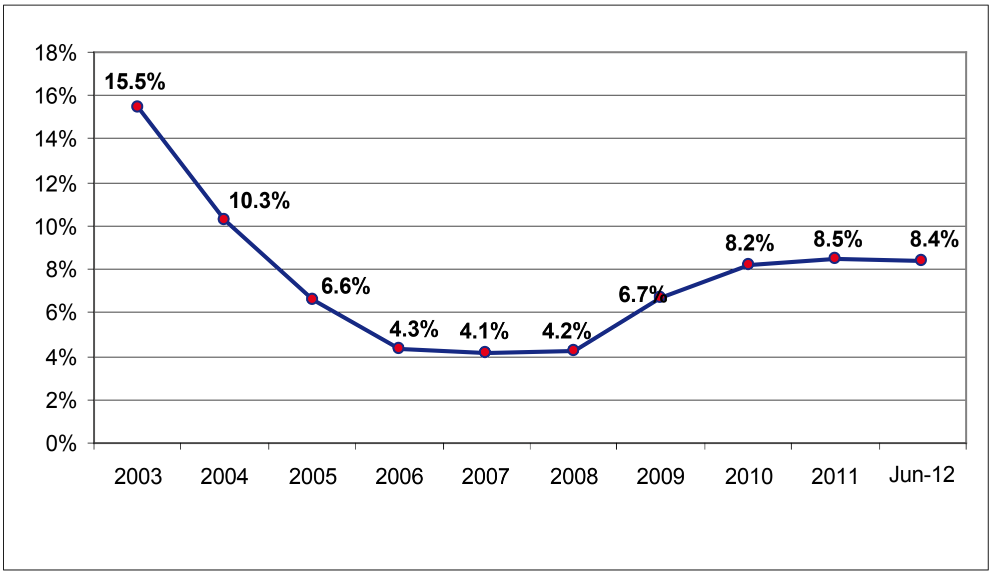
1- Non-Performing Loans to Total Loans.

CBJ's instructions No 10/1/15040 issued on 10 Dec.2009 defined non-performing loans as the credit facilities that are characterized by any of the following:

1. Past due in all or any one installment of it, or irregular settlements of the original debt and/or its interest, or a dormant current account for (90-179) days in the case of substandard credit facilities; for (180-359) for doubtful credit facilities; and for (360 days or more) for bad credit facilities.
2. Overdraft exceeding the ceiling by (10%) and more over a period of 90 days and more.
3. Credit facilities that expired without renewal for (90) days or more.
4. Credit facilities granted to any customer declared bankrupt or any company declared under liquidation.
5. Credit facilities that have been restructured three times in one year.
6. Current and demand accounts that are overdrawn for (90) days or more.
7. The value of warranties paid on behalf of clients for (90) days or more but not recorded on their accounts.

The percentage of non-performing loans to total loans recorded a noticeable decrease since 2003 reaching their lowest level in 2007 and 2008, when they recorded 4.1 and 4.2 percent respectively. This drop was due to several factors, the most important of which is the improvement in the kingdom's economic performance which positively affected clients' ability to settle their obligations. Other factors include the higher efficiency of banks in managing their assets and collecting their dues, besides adopting another significant step, namely, the write-offs by banks of non-performing loans that have full collaterals. The percentage of non-performing loans, however, has started to increase since 2008 and reached 8.5 percent at the end of 2011, and 8.4% in June 2012. Despite the increase, the percentage of non-performing debts remains within the internationally acceptable rates.

Figure (23)
Nonperforming loans / total loans (%)

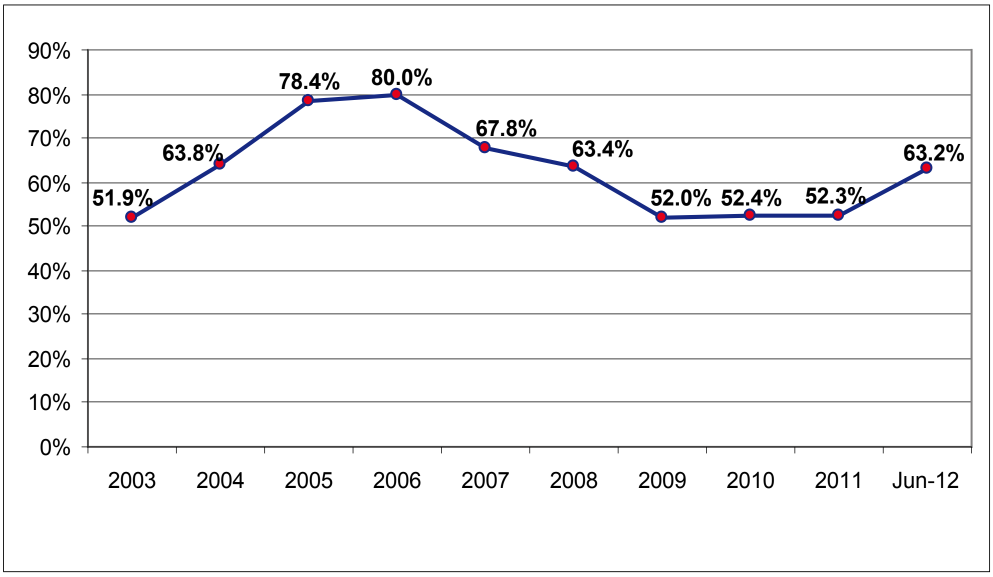


2- Coverage Ratio:

This ratio measures the adequacy of allowances deducted by the banks to meet their non-performing loans. The coverage ratio during the period of 2003 to June 2012 shows that it reached its highest level (80%) in 2006. Nevertheless, it began to decline after that to reach 52.3% in 2011, and increased markedly in the first half of 2012 to reach 63.2%.

It can be said, in general, that banks in Jordan had been able to maintain adequate provisions to cover more than 60% of non-performing loans during the period of (2003-June 2012). However, it should be noted here that banks are able to meet the non-covered portion of non-performing loans because of their high levels of capital.

Figure (24)
Coverage Ratio (%)



4-3 Capital Adequacy Indicators

1- Capital Adequacy Ratio

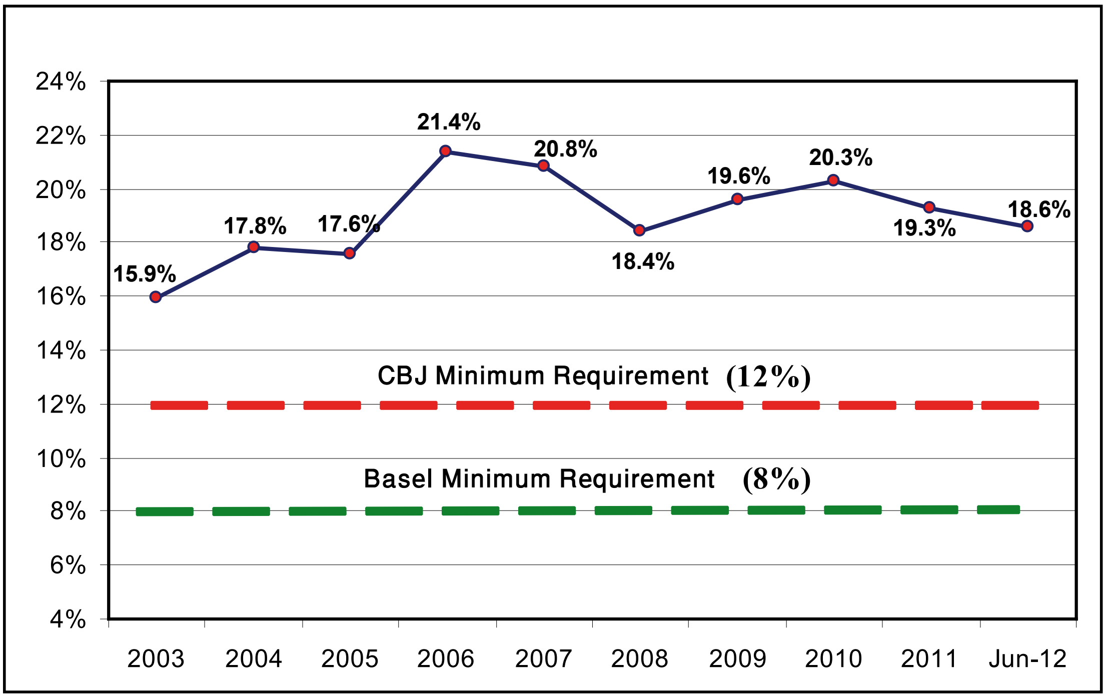
This ratio measures the extent of capital sufficiency held by a bank to face risks it may encounter. According to the instructions of the Central Bank of Jordan, the regular capital should not be less than 12 percent of assets and off balance sheet items weighted by risks as well as market risks. This percentage is the minimum for capital adequacy. The ratio numerator is comprised of the bank's regular capital which includes (paid-up capital, reserves, retained earnings/ losses and other items such as supporting debts, the accumulated change in the fair value of shares available for sale and the reserve of general banking risks after subtracting the bank's investments in the capital of other banks and financial companies). The denominator is comprised of the credit risks that include (assets and off-balance sheet items weighted by underlying risks) and market risks.

Banks operating in Jordan maintained a high level of capital adequacy ratio during the period of 2003-June 2012 so that it retained a comfortable margin that is above the 12 percent minimum set by the Central Bank and the 8 percent minimum set by the Basel Committee. This ratio reached its lowest level at the end of 2003 when the average for all banks stood at 15.9 percent. The highest level was reached at the end of 2006 when it stood at 21.4 percent. This noticeable increase was mainly the result of banks raising their capital during 2006 and the posting of higher profits, which reflected positively on the capital adequacy ratio. However, the capital adequacy ratio went down to 18.6 percent at the end of June 2012.

By maintaining a comfortable margin of capital adequacy that is above the minimum required by both the Central Bank and the Basel Committee during the period 2003- 6/2012, banks had asserted holding enough capital to face risks despite the big expansion in the usage of funds, especially in extending credit facilities. This strengthens the stability of the banking system in particular, and the financial stability in general.

Figure (25)

Capital Adequacy Ratio (%)



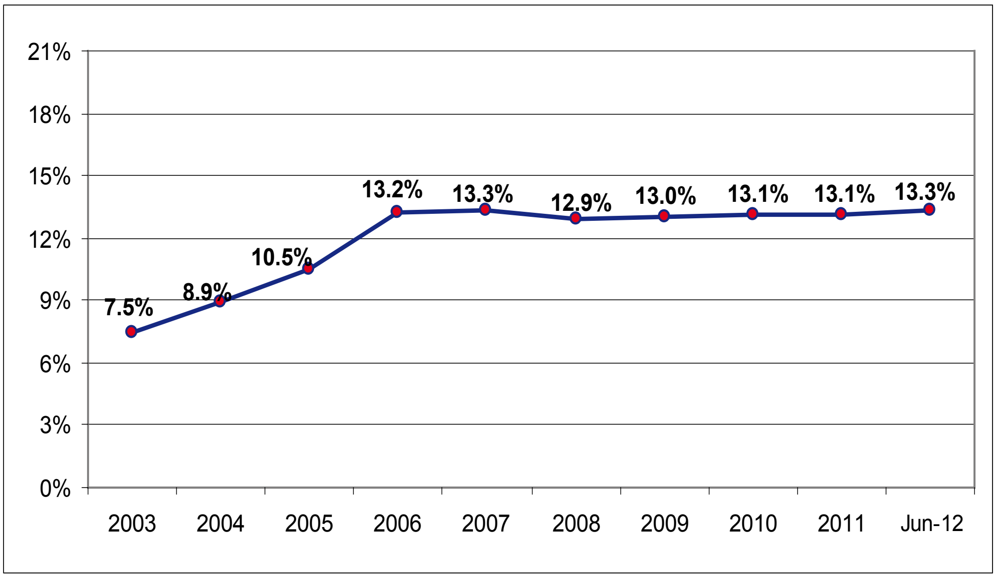
2- Leverage Ratio

This ratio reflects the rate of shareholders' equity to total assets. The ratio had witnessed a remarkable growth during the period of 2003-June 2012 where it increased from 7.5% in 2003 to 13.3% at the end of June 2012.

Banks operating in Jordan maintained a comfortable level of leverage ratio during the period of 2003-June

2012 that is above the 6 percent minimum set by the Central Bank. This indicates banks' ability to face risks they may encounter, and emphasizes the financial strength of the banking system.

Figure (26)
Leverage Ratio (%)



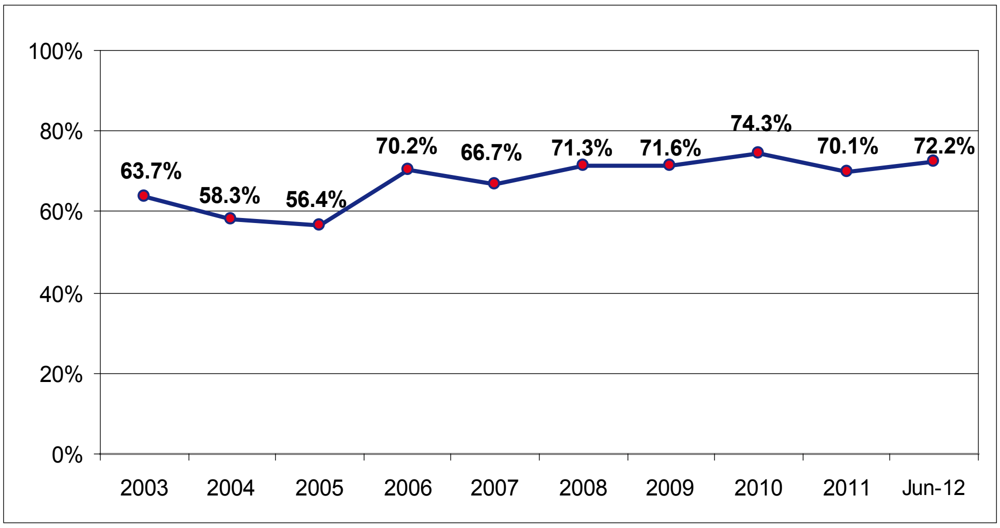
4-4 Profitability and Efficiency Indicators

1. Interest Margin to Gross Income

This ratio measures the contribution of banks' net profit of interest income in the total income of the bank, thus reflecting the extent to which the basic function of the bank, the Core Business that includes accepting deposits and granting loans, contributes to banks' profits.

Despite the fluctuation in the ratio of interest margin to gross income during the period of 2003- June 2012, yet it remained restricted between 56.4% and 74.3%, with an average of 67.5%. This demonstrates that interest income represents more than two-thirds of the banks' income, while the non-interest income accounts for 32.5% of income. This reflects the banks' dependence on their basic function in making profits, which in turn contributes to strengthening and sustaining their earnings.

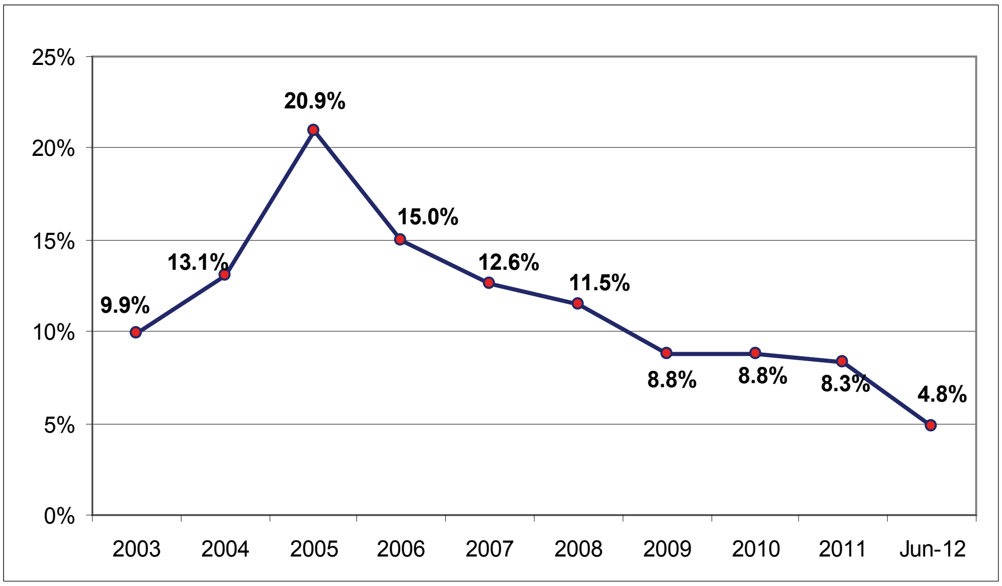
Figure (27)
Interest Margin / gross income (%)



2. Return on Equity

The return on shareholders' equity increased remarkably during the period of 2003-2005, where it went up from 9.9% in 2003 to 20.9% in 2005. However, this ratio gradually started to fall back until it reached 4.8 percent at the end of June 2012 (which is equivalent to 9.6% annual rate of return).

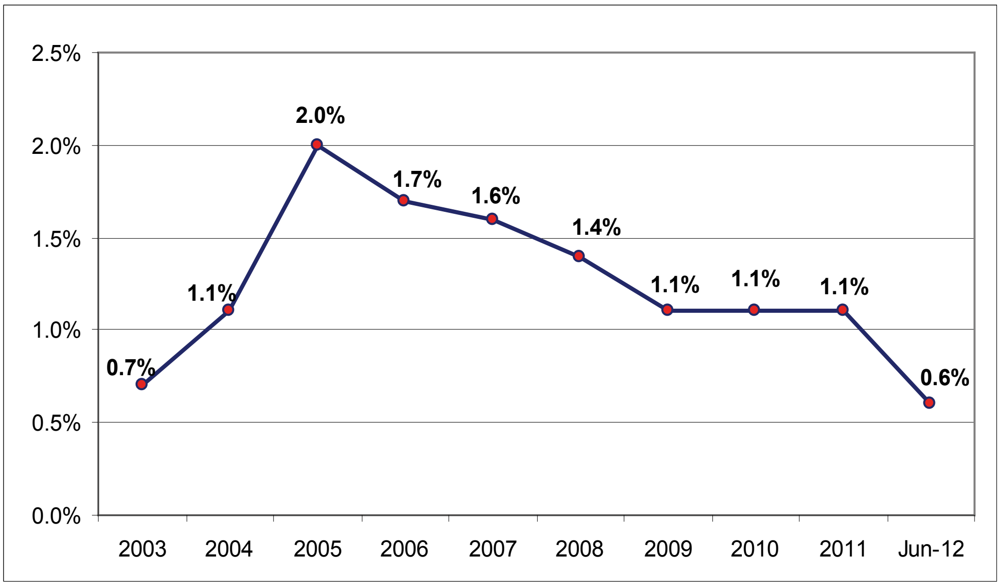
Figure (28)
Average Return on Shareholders' Equity (%)



3. Return On Assets

The return on Banks' assets began an upward movement since 2004 and reached its highest level at the end of 2005, when it stood at two percent. However, the return on assets regressed gradually to reach 0.6 percent at the end of June 2012 (which is equivalent to 1.2% annual rate of return).

Figure (29)
Average Return on Assets (%)



4. Net Profits Before and After Taxes

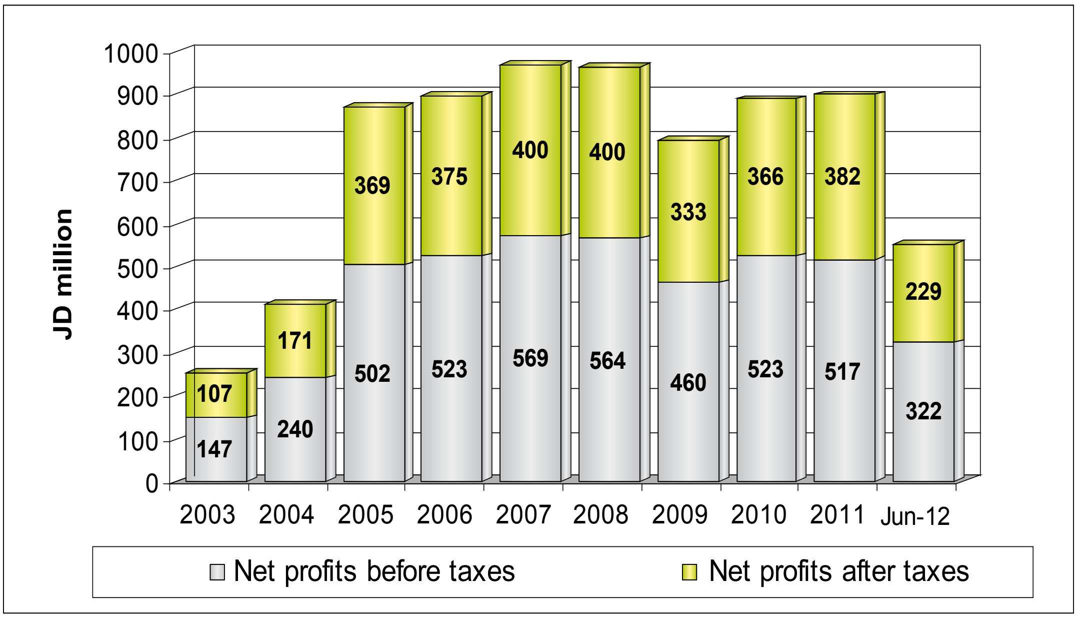
Banks' profits grew notably in 2005 by more than 200 percent, and continued to grow until 2009 when the profits regressed because of the repercussions of global financial crisis on Jordanian economy.

The banks' Pre-tax profits stood at JD322 million at the end of June 2012, while the after tax profits reached to JD229 million.

It is noteworthy in this regard that the taxes paid by banks in Jordan exceeded JD1.2 billion during the last ten years.

Figure (30)

Net profits before taxes and after taxes

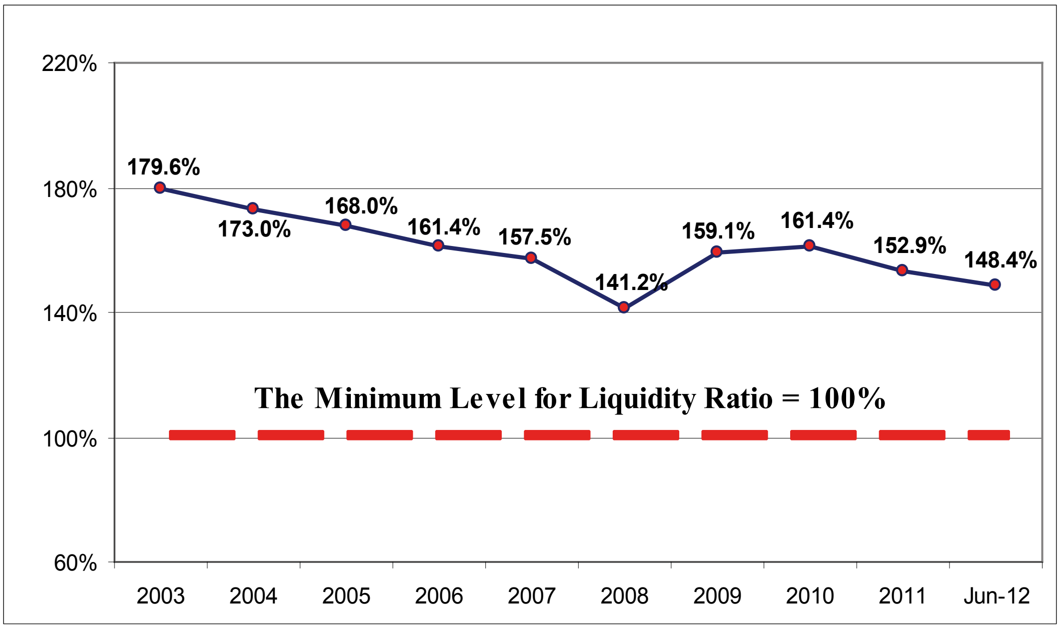


5. Liquidity

The legal liquidity ratio measures the liquid assets available at a certain bank against its obligations that are due. At the end of 2003, the legal liquidity ratio of Jordanian banks reached the highest level of 179.6 percent before going down continuously until it reached 141.2 percent at the end of 2008. The liquidity ratio edged up to 148.4 percent at the end of June 2012. In all regards, the liquidity ratio from 2003 until now is considered much higher than the 100 percent minimum required by the central bank.

In this context, the Central Bank's control over the banking system focuses on the sound management of liquidity that is indicated by the instructions it issued in 2000 on Liquidity based on Maturity Ladder. These instructions take into consideration balancing the tenures between the resources of funds and their uses without depending on fluctuating and short term resources of funds to finance long term assets.

Figure (31)
Liquidity Ratio (%)



CHAPTER FIVE

ISLAMIC BANKS OPERATING IN JORDAN

5-1 Introduction

The number of Islamic banks operating in Jordan reached four banks at the end of 2012, three of them are Jordanian banks, and one is foreign.

5-2 Islamic Banks' Share of Assets

Table (13) reveals that the share of Islamic banks from the total assets of banking sector in Jordan went up from 9.9 percent in 2003, to a higher level of 13.2 percent at the end of 2011. This increase in the share of Islamic banks brought about a reduction in the share of assets of commercial banks operating in Jordan from 90.1 percent in 2003 to 86.8 percent at the end of 2011.

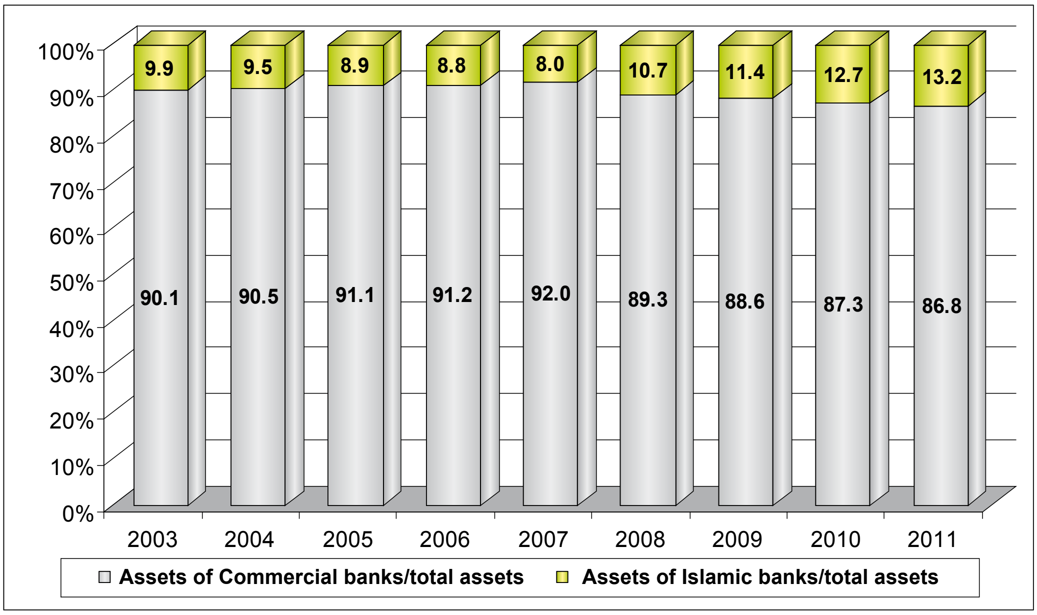
Table (13)
Distribution of Assets between Commercial Banks and Islamic Banks (2003 – 2011)

year	Assets of Commercial banks/total assets (%)	Assets of Islamic banks/total assets (%)
2003	90.14	9.86
2004	90.53	9.47
2005	91.13	8.87
2006	91.18	8.82
2007	92.00	8.00
2008	89.29	10.71
2009	88.62	11.38
2010	87.27	12.73
2011	86.80	13.20

Source: Banks in Jordan

Figure (32)

Distribution of Assets between Commercial Banks and the Islamic Banks (2003 - 2011)



5-3 Islamic Banks' Share of Deposits

The share of Islamic banks from total deposits of the banking sector in Jordan increased from10.2 percent in 2003 to the highest level of 16.3 percent at the end of 2011. Conversely, the share of commercial banks from total deposits declined from 89.8 percent in 2003 to 83.7 percent at the end of 2011.

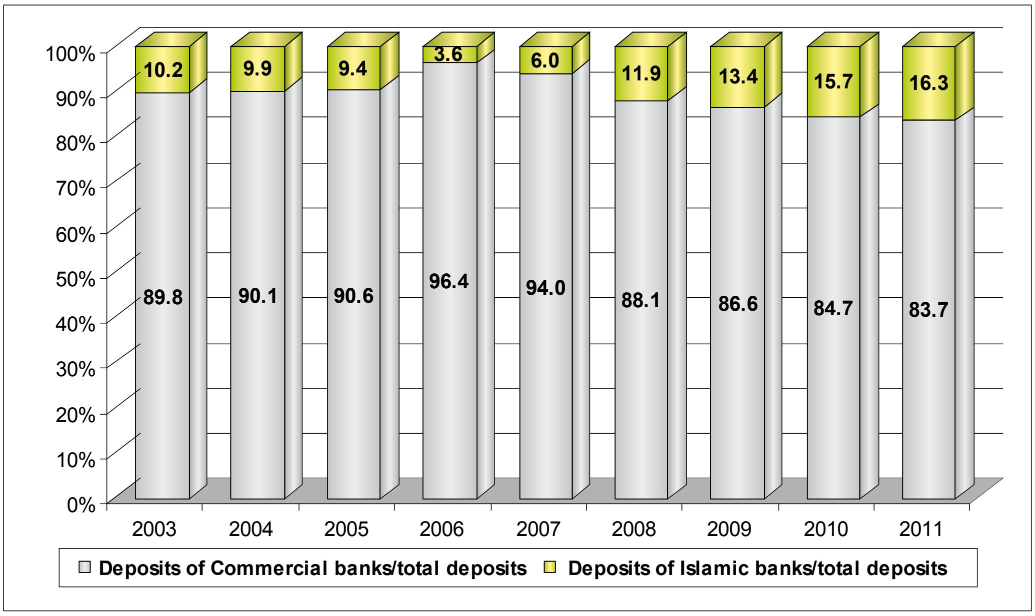
Table (14)

Distribution of Deposits between Commercial Banks and Islamic Banks (2003 – 2011)

Year	Deposits of Commercial banks/total deposits (%)	Deposits of Islamic banks/total deposits (%)
2003	89.82	10.18
2004	90.10	9.90
2005	90.60	9.40
2006	96.40	3.60
2007	94.00	6.00
2008	88.09	11.91
2009	86.58	13.42
2010	84.73	15.72
2011	16.30	13.20

Source: Banks in Jordan

Figure (33)
Distribution of Deposits between Commercial Banks and Islamic Banks (2003 – 2011)



5-4 Islamic Banks' Share of Credit Facilities

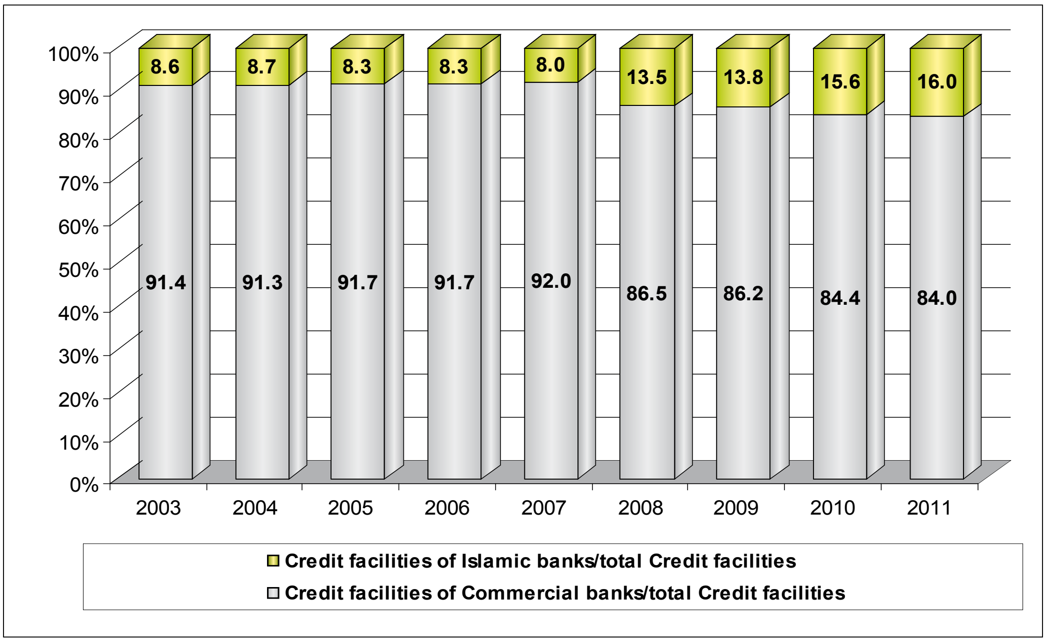
Table (15) indicates that Islamic banks' share of total credit facilities extended by banks operating in Jordan rose markedly from 8.6 percent in 2003 to a higher level of 16 percent at the end of 2011. This increase in the share of Islamic banks yielded a reduction in the share of commercial banks from 91.4 percent in 2003 to 84 percent at the end of 2011.

Table (15)
Distribution of Credit Facilities between Commercial Banks and Islamic Banks (2003 – 2011)

Year	Credit facilities of Commercial banks/total Credit facilities (%)	Credit facilities of Islamic banks/total Credit facilities (%)
2003	91.38	8.62
2004	91.28	8.72
2005	91.69	8.31
2006	91.67	8.33
2007	92.00	8.00
2008	86.46	13.54
2009	86.21	13.79
2010	84.44	15.56
2011	84.04	15.96

Source: Banks in Jordan

Figure (34)
Distribution of Credit Facilities between Commercial Banks and Islamic Banks (2003 – 2011)



CHAPTER SIX

FOREIGN BANKS OPERATING IN JORDAN

6-1 Introduction

The number of foreign banks operating in Jordan rose from five banks in the year 2005 to ten banks at the end of 2012. These banks are seven Arab banks and three foreign banks. Nine of them are commercial banks and one is an Islamic bank

6-2 Non- Jordanian (Foreign) Banks' Share of Assets

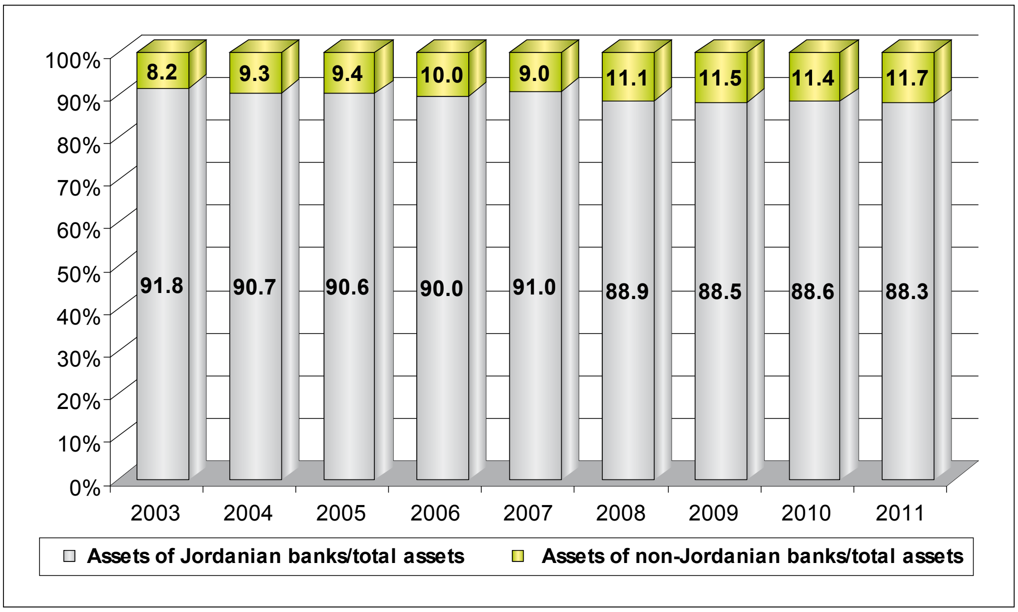
The share of foreign banks from total assets of banking sector increased from 8.2 percent in the year 2003 to 11.7 percent at the end of 2011. Conversely, the assets of Jordanian banks represented around 88.3 percent at the end of 2011.

Table (16)
Distribution of Assets between Jordanian Banks and Non-Jordanian Banks (2003 – 2011)

Year	Assets of Jordanian banks/total assets (%)	Assets of non-Jordanian banks/total assets (%)
2003	91.78	8.22
2004	90.71	9.29
2005	90.56	9.44
2006	90.02	9.98
2007	91.00	9.00
2008	88.86	11.14
2009	88.49	11.51
2010	88.58	11.42
2011	88.29	11.71

Source: Banks in Jordan

Figure (35)
Distribution of Assets between Jordanian Banks and Non-Jordanian Banks (2003 – 2012)



6-3 Non- Jordanian (Foreign) Banks' Share of Deposits

The foreign banks' share of total deposits of banks operating in Jordan increased from 7.9 percent in the year 2003 to 11.8 percent at the end of 2011. On the other hand, the deposits of Jordanian banks represented around 88.2 percent at the end of 2011.

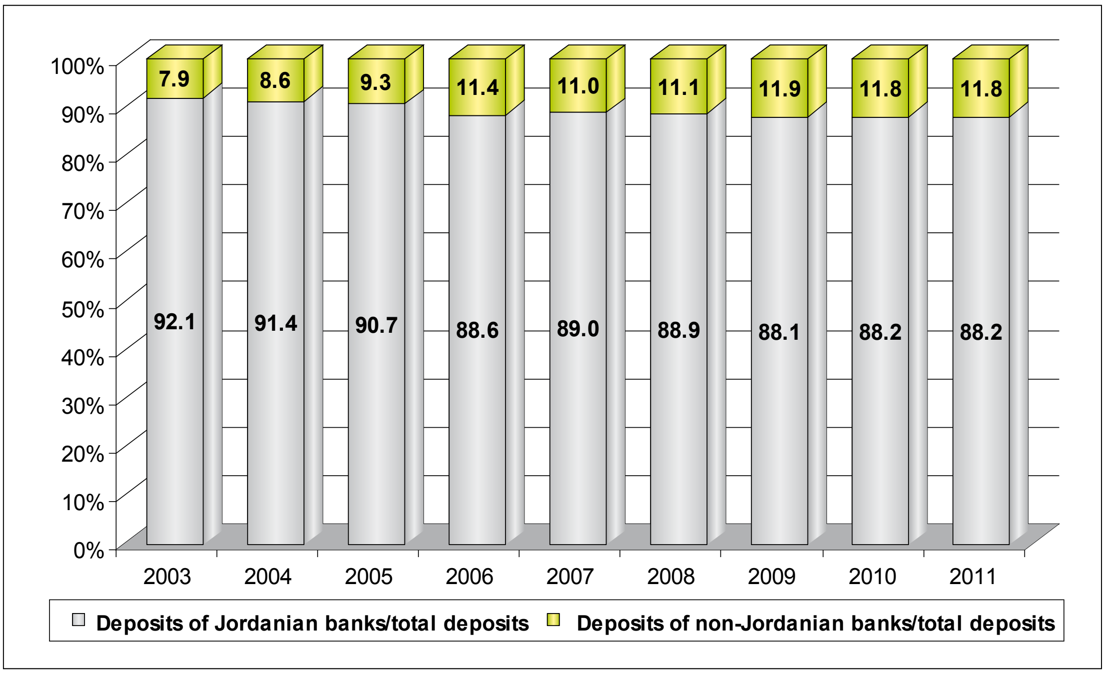
Table (17)
Distribution of Deposits between Jordanian Banks and Non-Jordanian Banks (2003 – 2011)

Year	Deposits of Jordanian banks/total deposits (%)	Deposits of non-Jordanian banks/total deposits (%)
2000	89.97	10.03
2001	91.06	8.94
2002	89.49	10.51
2003	92.12	7.88
2004	91.41	8.59
2005	90.74	9.26
2006	88.58	11.42
2007	89.00	11.00
2008	88.86	11.14
2009	88.09	11.91
2010	88.23	11.77
2011	88.22	11.78

Source: Banks in Jordan

Figure (36)

Distribution of Deposits between Jordanian Banks and Non-Jordanian Banks (2003 – 2012)



6-4 Non- Jordanian (Foreign) Banks' Share of Credit Facilities

The percentage of credit facilities extended by foreign banks fluctuated widely between 2003 and 2011. The highest level was reached in 2007 with a 14.0 percent of total credit facilities extended by the banking sector. This percentage, however, regressed to 10.4 percent at the end of 2011.

Table (18)

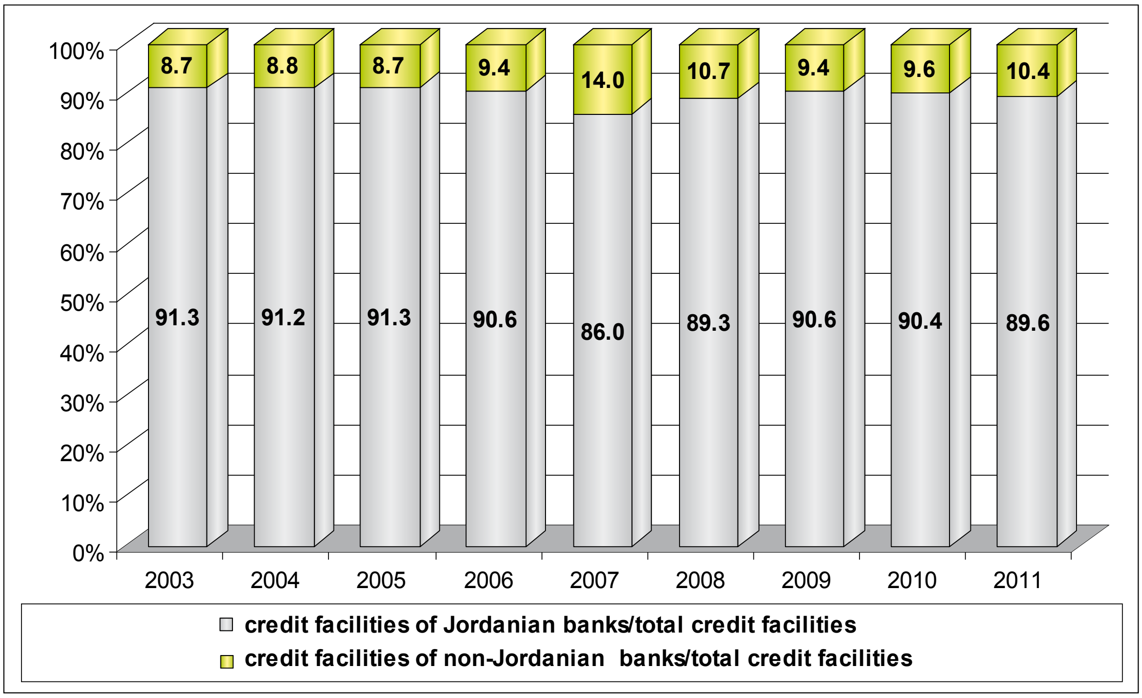
Distribution of Credit Facilities between Jordanian Banks and Non-Jordanian Banks (2003 – 2011)

Year	credit facilities of Jordanian banks/total credit facilities (%)	credit facilities of non-Jordanian banks/ total credit facilities (%)
2003	91.26	8.74
2004	91.22	8.78
2005	91.31	8.69
2006	90.61	9.39
2007	86.00	14.00
2008	89.34	10.66
2009	90.64	9.36
2010	90.44	9.56
2011	89.58	10.42

Source: Banks in Jordan

Figure (37)

Distribution of Credit Facilities between Jordanian Banks and Non-Jordanian Banks (2003 – 2012)



CHAPTER SEVEN

BANKING CONCENTRATION

7-1 Introduction

Concentration of banks can be measured in different ways, the most important of which are the share of the biggest two banks in the market; the share of the biggest three banks; and, the Herfindahl–Hirschman Index (HHI). Each of these methods is applied by using the market share of assets, facilities and deposits.

The share of the biggest two banks can be calculated by dividing the market share of the two biggest banks on the total market shares of all banks in terms of assets, deposits and facilities.

The concentration rate of the three biggest banks can be calculated by dividing the share market of the three biggest banks on the total market shares of all banks in terms of assets, deposits and facilities.

The higher the concentration percentage is the lower is the competitiveness in the banking market. This is an evidence of the presence of hegemony of banks in the market. In contrast, the lower the concentration is the higher is the competitiveness. Studies indicate that if the concentration of the three biggest banks is more than 40 percent, the banking system will be characterized by low competitiveness.

Herfindahl–Hirschman Index (HHI) indicates the size of companies in relation to the sector in which they work; thus it is an indicator of the level of competitiveness among the sector. HHI is calculated by adding the squares of the market share of all companies working in the same industry. The significance of doing quadrature up to the second power of the market share of each company is that big companies can be differentiated from small ones, so that the relative weight of the big companies is higher than that of smaller companies. Furthermore, the addition of the square of the market shares of all companies eventually gives one value that expresses the weighted market share of all companies, the matter that enables us eventually to judge the level of competitiveness in the industry and all companies working therein. The value of HHI ranges from zero to one, so that one indicates a total monopoly of the market because there is only one producer, while the lower values indicate an increase in the number of companies working in the sector and consequently an increase in competitiveness.

In the following context, the above-mentioned three measures of concentration during the period of 2003-2011 will be reviewed in order to have a closer look at the developments of competitiveness in the Jordanian banking sector.

7-2 Concentration of Assets

As Figure no. (38) demonstrates, the share of the two biggest banks in the total assets of banks in Jordan went down from 45.7 percent in 2003 to 39.0 percent in 2011.

Figure (38)

The Share Of Largest Two Banks From Assets

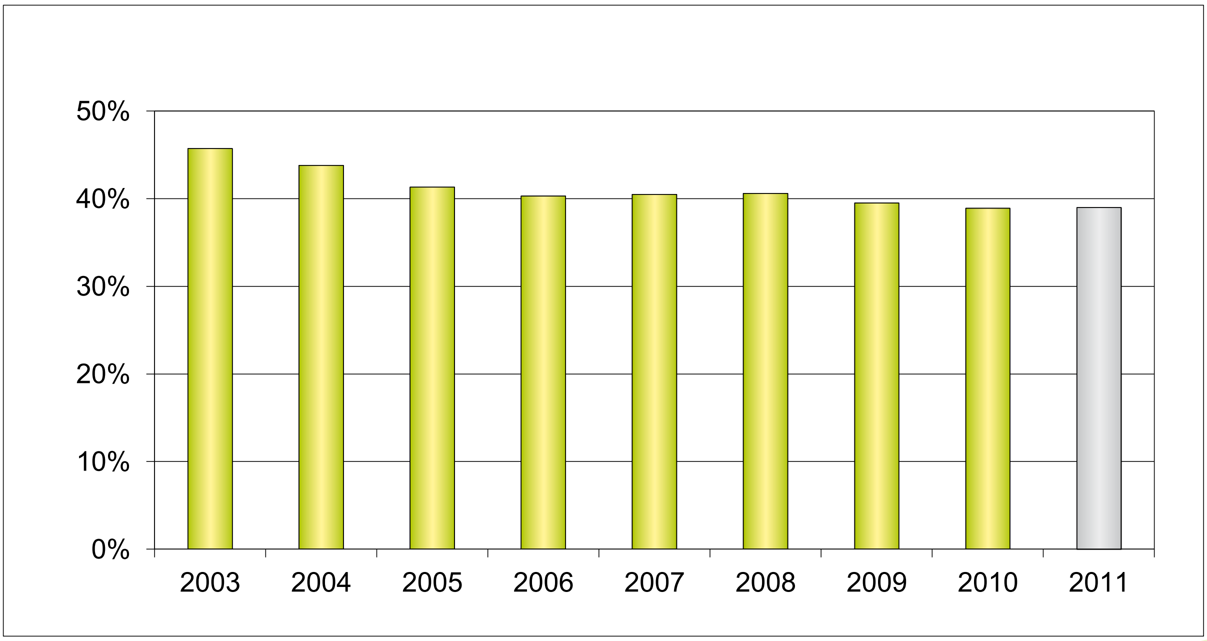


Figure no (39) shows that the share of the three biggest banks in the total assets of banks in Jordan decreased from 53.1 percent in 2003 to 47.7 percent in 2011.

Figure (39)
The Share Of Largest Three Bank From Assets

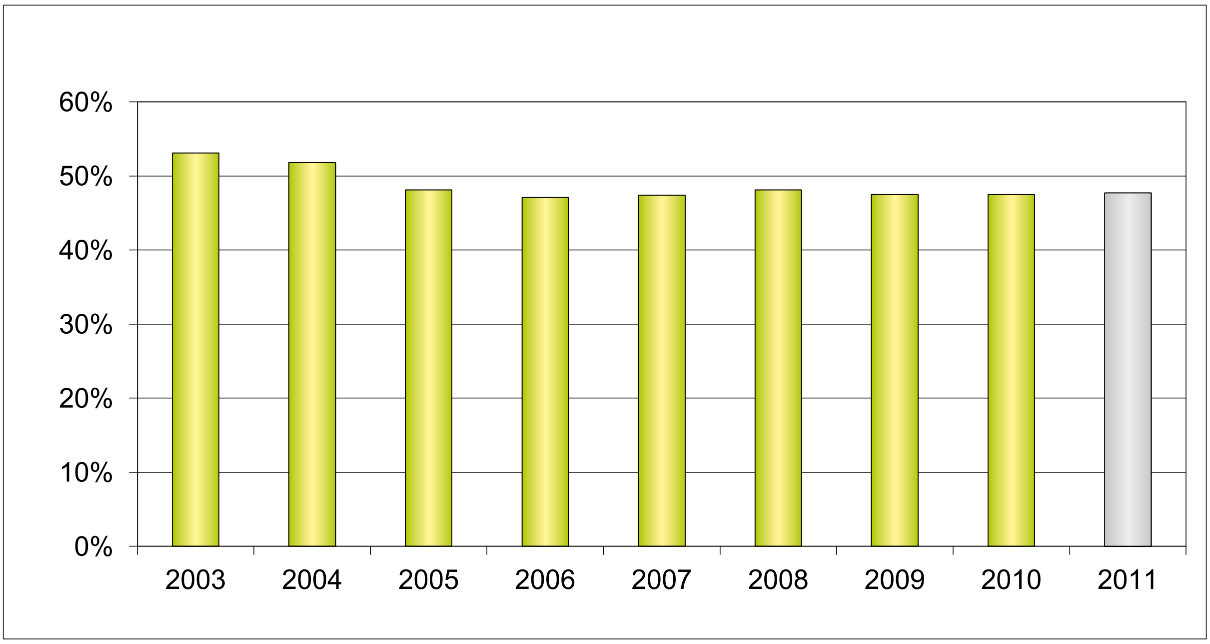
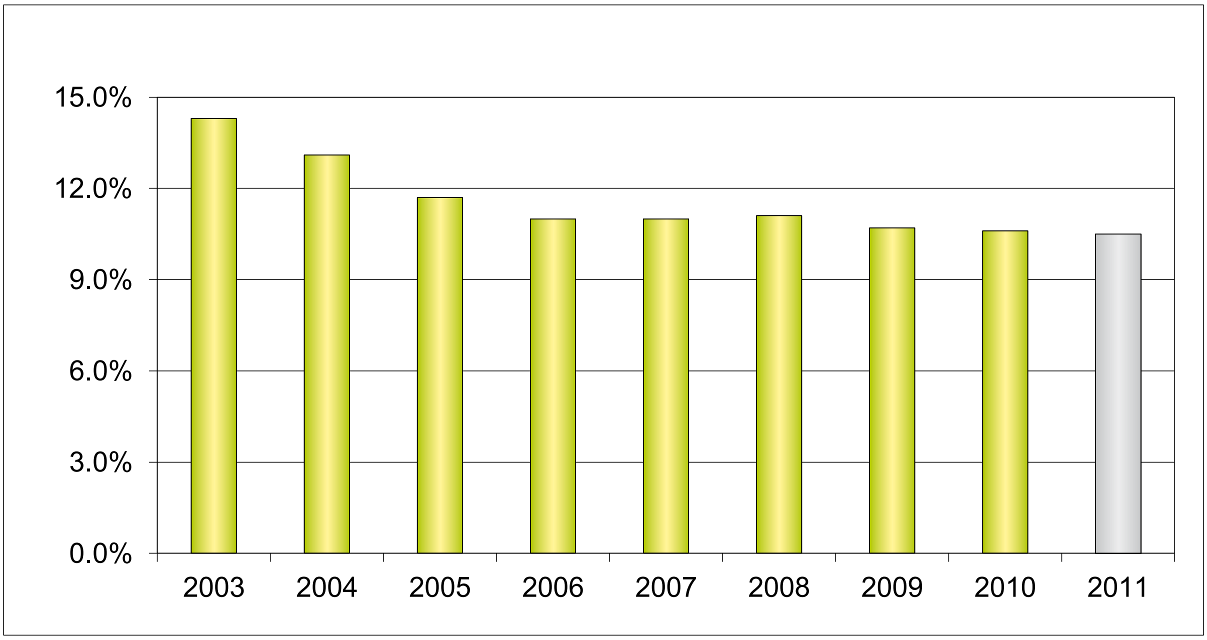


Figure no (40) shows that the value of HHI of the total assets of banks in Jordanian banking market went down from 14.3 percent in 2003 to 10.5 percent in 2011.

Figure (40)
HHI For Assets



7-3 Concentration of Deposits

It is noticeable from Figure no (41) that the share of the two biggest banks in the total deposits of banks in Jordan slid from 46.2 percent in 2003 to 38.8 percent in 2011.

Figure (41)

The Share Of Largest Two Banks From Deposits

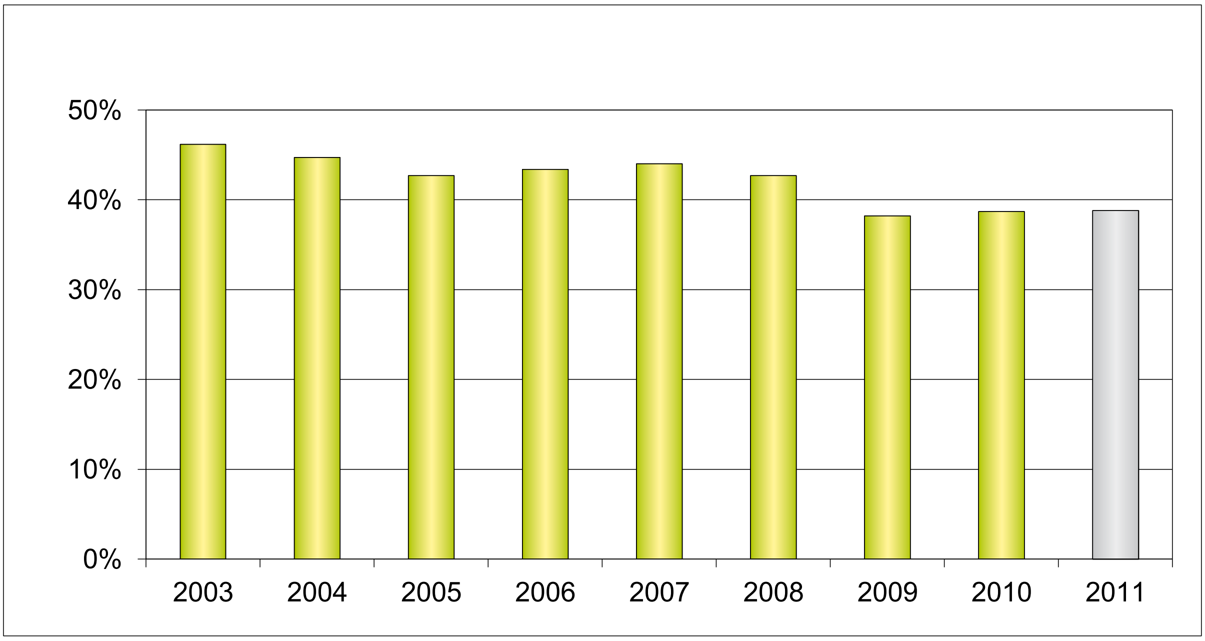


Figure no (42) indicates that the share of the three biggest banks in the total deposits of banks in Jordan went down from 53.8 percent in 2003 to 50.4 percent in 2011.

Figure (42)

The Share Of Largest Three Bank From Deposits

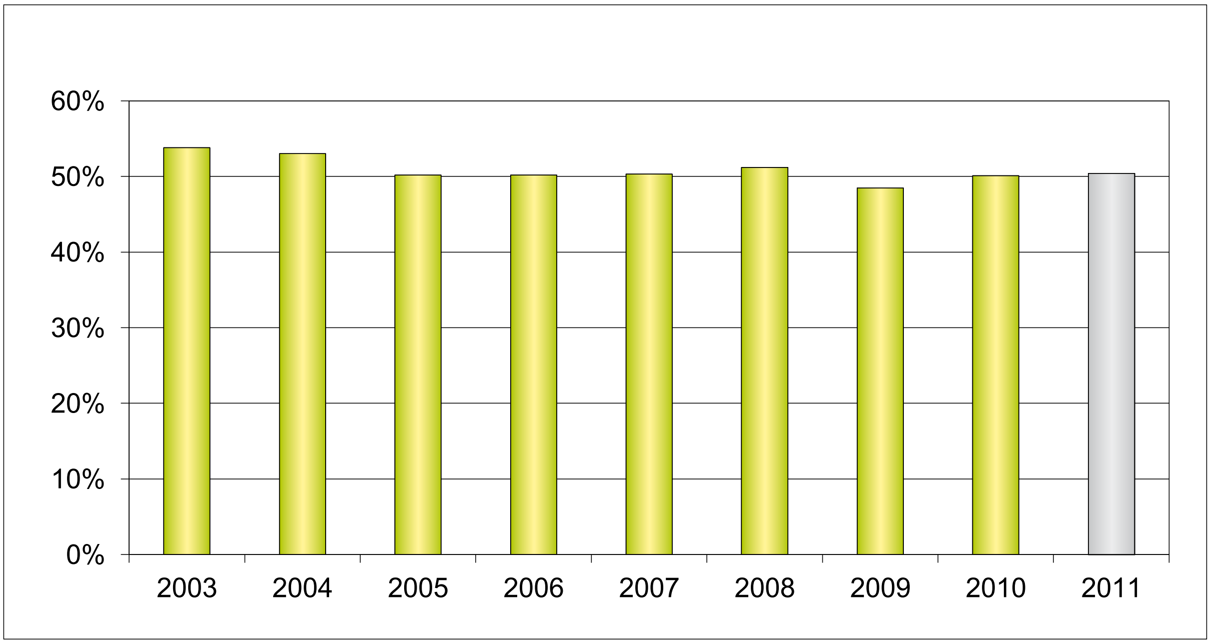
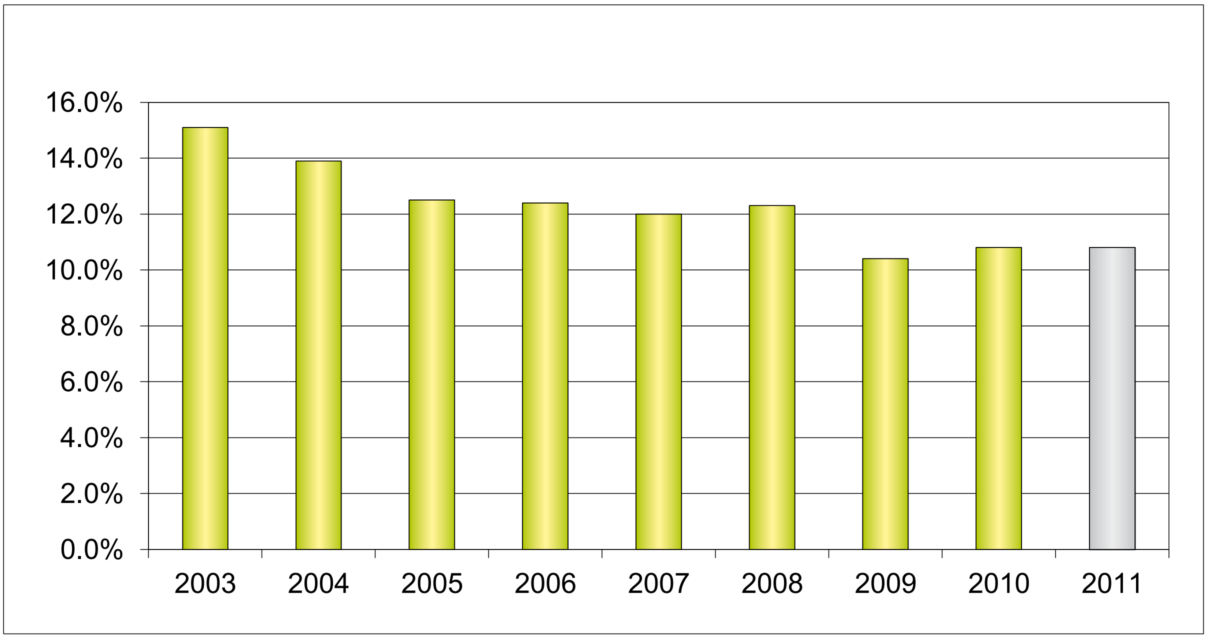


Figure no (43) shows that the HHI value of the total deposits of banks in the Jordanian banking market went down from 15.1 percent in 2003 to 10.8 percent in 2011.

Figure (43)

HHI For Deposits



7-4 Concentration of Credit Facilities

Figure no (44) shows that the share of the two biggest banks in the total facilities extended by banks in Jordan went down from 38.4 percent in 2003 to 29.1 percent in 2011.

Figure (44)

The Share Of Largest Two Banks From Credit Facilities

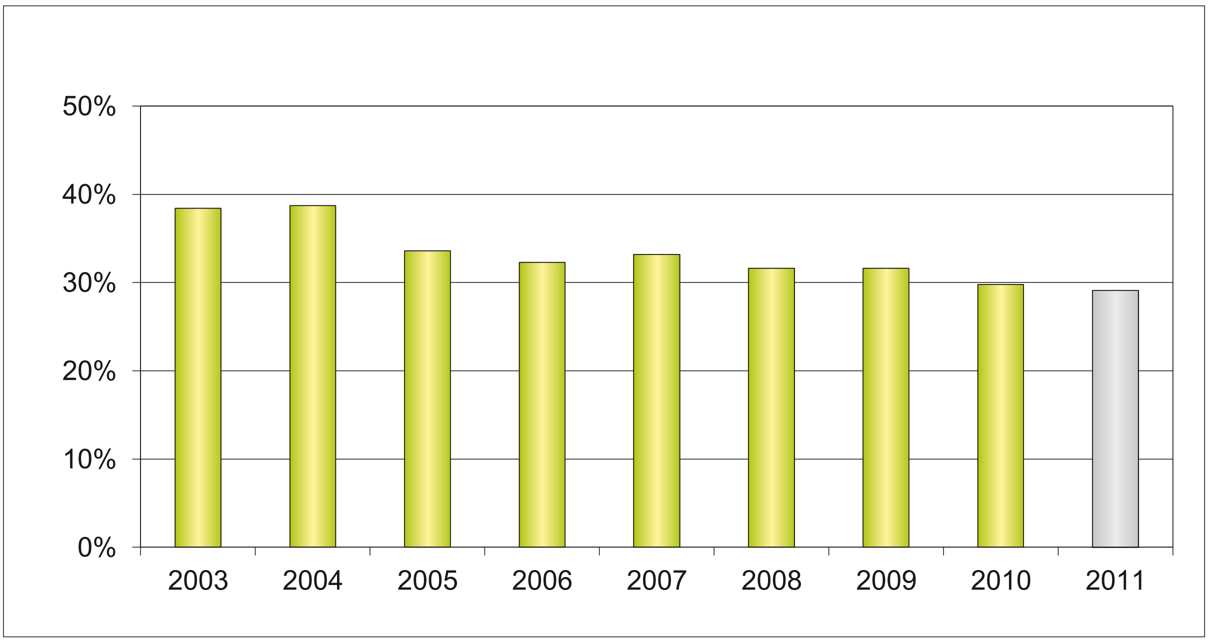


Figure no (45) shows that the share of the three biggest banks in the total facilities extended by banks in Jordan decreased from 46.7% in 2003 to 41.1 percent in 2011.

Figure (45)

The Share Of Largest Three Banks From Credit Facilities

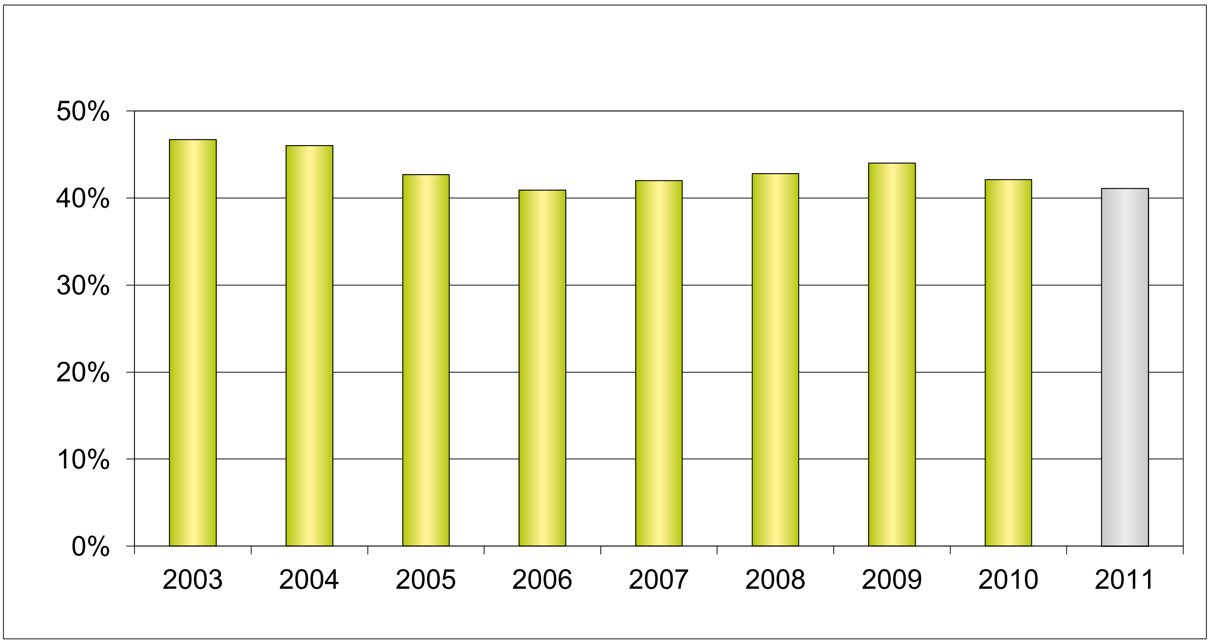
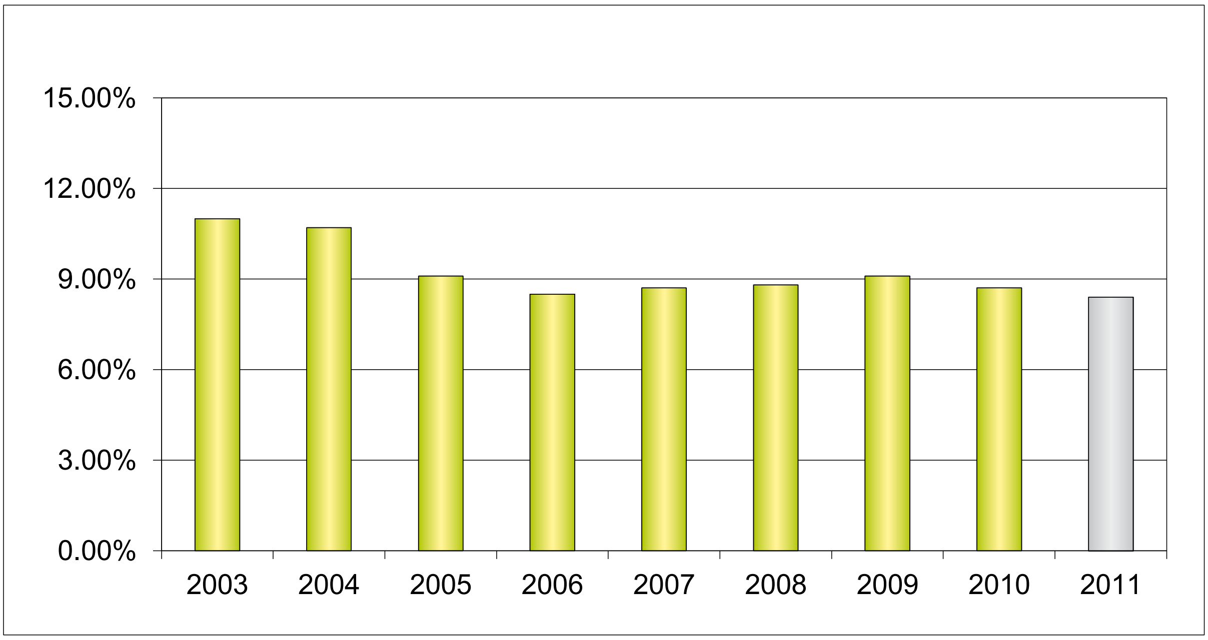


Figure no (46) shows that the HHI value of the total facilities in the Jordanian banking market dropped off from 11.0 percent in 2003 to 8.4 percent in 2011.

Figure (46)

HHI For Credit Facilities



CHAPTER EIGHT

PERFORMANCE OF THE BANKS LISTED ON AMMAN STOCK EXCHANGE

8-1 Share Price Index of Banks Listed on Amman Stock Exchange

8-2 Trading Volume of Bank's Shares Listed on Amman Stock Exchange

8-3 Ownership of Non-Jordanians in the Equity of Banks Listed on Amman Stock Exchange

8-1 Share Price Index of Banks Listed on Amman Stock Exchange

At the end of 2012, the share price index of banks listed on Amman Stock Exchange stood at 7297.4 points compared to 7542.3 points at the end of 2012. This shows a 3.2 percent decline against a drop in the general price index of Amman Stock Exchange which reached 1.2 percent for the same period.

Table (19)

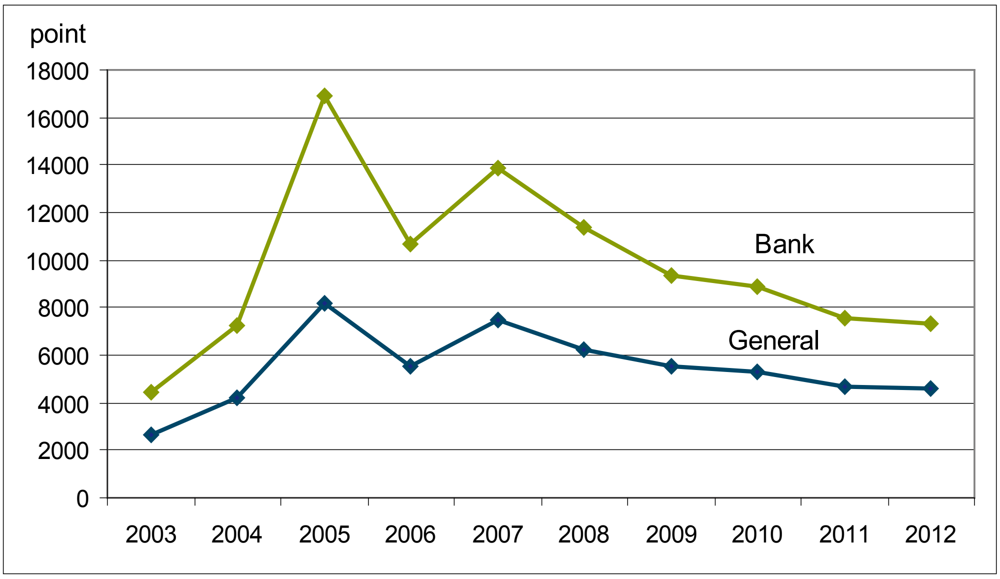
Share Price Index Weighted By Market Value (2003 – 2012)

Year	Share price index weighted by market value	
	General	Banks
2003	2614.5	4433.6
2004	4245.5	7230.9
2005	8191.5	16892.0
2006	5518.1	10704.7
2007	7519.3	13886.7
2008	6243.1	11380.1
2009	5520.1	9368.0
2010	5318.0	8848.3
2011	4648.4	7542.3
2012	4593.9	7297.4

Source: Amman Stock Exchange

Figure (47)

The weighted index by market value (2003 –2012)



8-2 Trading Volume of Bank's Shares Listed on Amman Stock Exchange

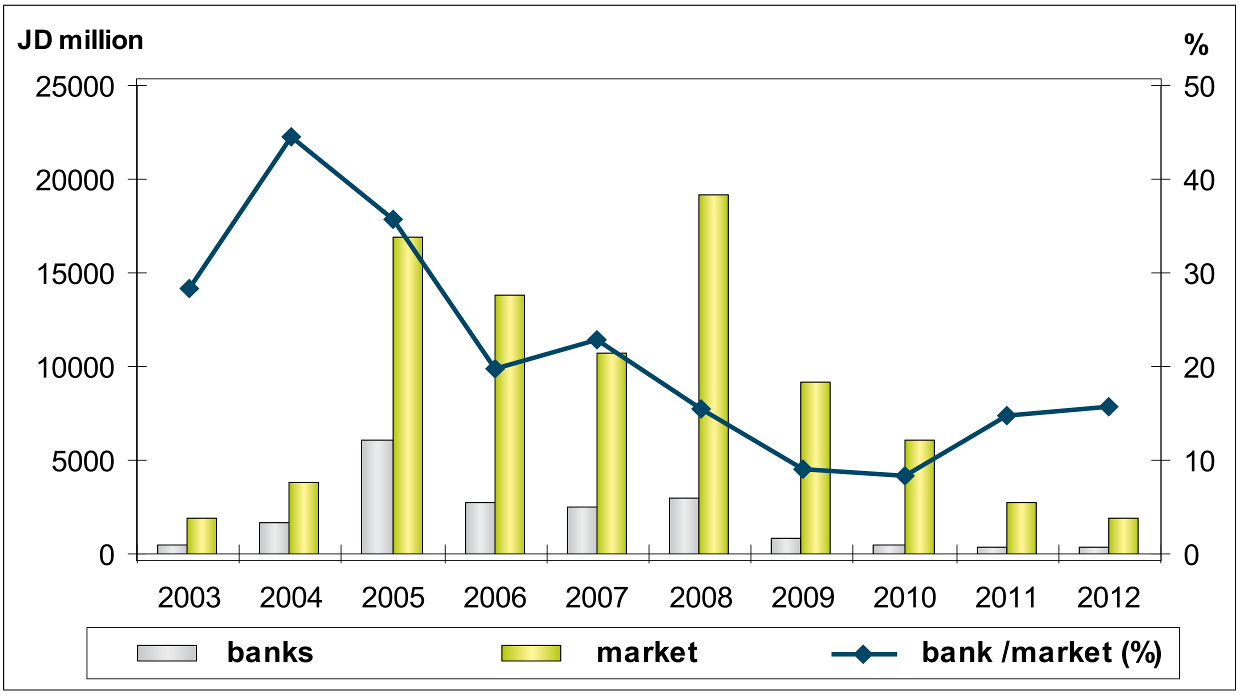
The percentage of the trading volume of banks' shares to the total trading volume of Amman Stock Exchange declined gradually during 2009 and 2010, recording its lowest level since 2003. However, the percentage went up in 2011 to reach 15.7 percent.

Table (20)
Trading Volume Of Bank Shares Listed On Amman Stock Exchange (2003 – 2012)

Year	Trading volume (JD million)		
	Banks	Market	Banks / Market (%)
2003	524.84	1855.17	28.29
2004	1693.00	3793.25	44.63
2005	6043.41	16871.05	35.82
2006	2736.10	13853.21	19.75
2007	2460.87	10736.03	22.92
2008	2983.90	19225.53	15.52
2009	826.50	9134.18	9.05
2010	514.75	6088.62	8.45
2011	405.81	2762.71	14.69
2012	303.55	1931.91	15.71

Source: Amman Stock Exchange

Figure (48)
Trading volume (2003 – 2012)



8-3 Ownership of Non-Jordanians in the Equity of Banks Listed on Amman Stock Exchange

The share of non-Jordanians in the equity of banks listed on Amman Stock Exchange rose from 49.8 percent in 2003 to 60 percent at the end of 2012.

Table (21)

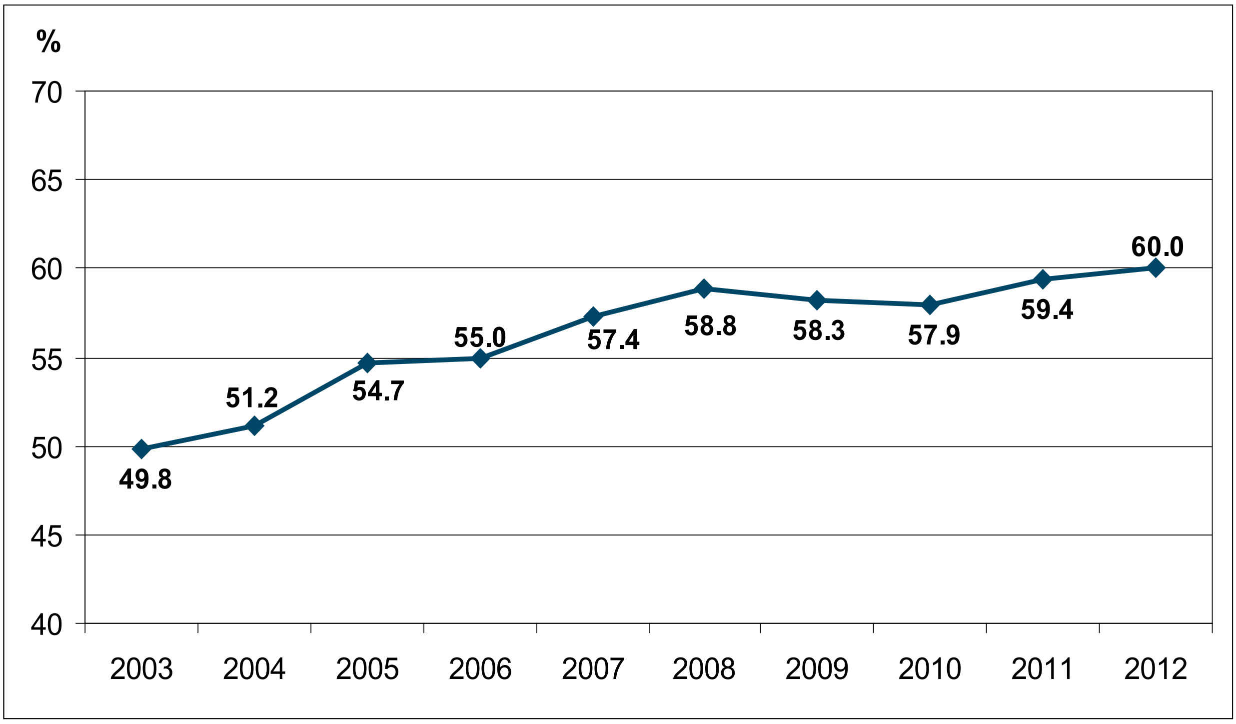
Share Of Non-Jordanians in The Equity Of Banks (2003 – 2012)

Year	Share of non-Jordanians in the equity of banks (%)
2003	49.80
2004	51.20
2005	54.70
2006	54.95
2007	57.35
2008	58.84
2009	58.25
2010	57.90
2011	59.40
2012	60.0

Source: Amman Stock Exchange

Figure (49)

Share of non-Jordanians in the equity of banks (2003 – 2012)



CHAPTER NINE

DEVELOPMENT OF INTEREST RATE STRUCTURE IN JORDAN

9-1 Development of Interest Rates on Deposits

Developments of the interest rates on all types of deposits during the period of 2003-2012 show the following trends:

-The weighted average of the interest rate on demand deposits witnessed a rise from 2005 until the end of 2008. The rate recorded the biggest hike during the period of 2003-2012 in the year 2006, where it registered a hike of 40 basis points compared to its level in 2005. After 2008, the rate began to dwindle until it reached 0.42 percent by the end of 2012.

-The weighted average of the interest rate on savings witnessed an increase from 2005 until the end of 2007, and then it began to drop off gradually from 2008 until the end of 2011. In 2012 it began once again to rise by 6 points, reaching 0.76 percent by the end of 2012.

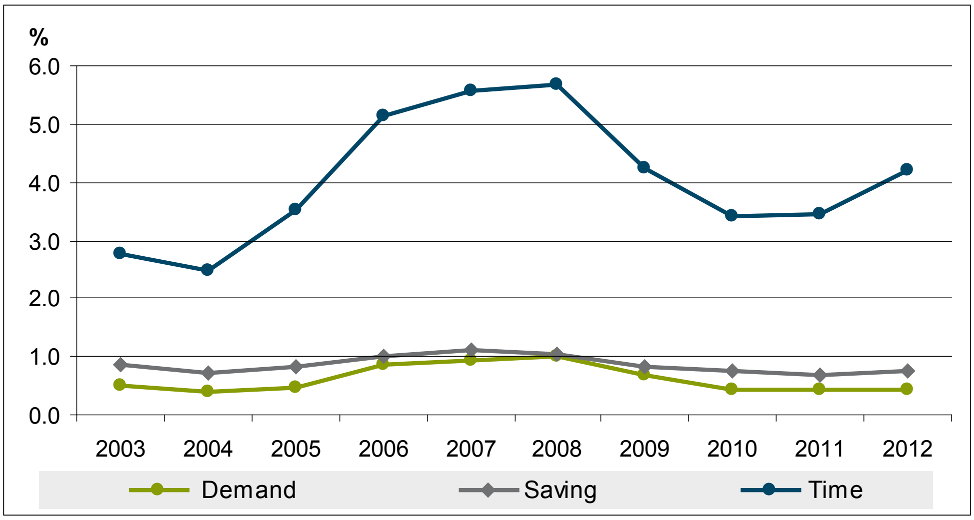
-The weighted average of the interest rate on time deposits witnessed an increase from 2005 until the end of 2008, where it registered in 2006 the biggest hike by 161 basis points. Then between 2009 and 2010, it dropped only to gradually rise again until the end of 2012, in which it registered 73 basis points to reach a rate of 4.19 percent by the end of 2012.

Table (22)
Weighted Average Interest Rates On Deposits (2003 –2012)

Year	Demand %	Saving %	Time %
2003	0.50	0.88	2.75
2004	0.38	0.73	2.49
2005	0.47	0.83	3.52
2006	0.87	0.99	5.13
2007	0.94	1.10	5.56
2008	1.01	1.04	5.66
2009	0.67	0.84	4.23
2010	0.44	0.77	3.40
2011	0.43	0.70	3.46
2012	0.42	0.76	4.19

Source: Central Bank of Jordan

Figure (50)
Development of interest rates on all types of deposits (2003-2012)



9-2 Development of Interest Rates on Credit Facilities

Developments of the interest rates on facilities during the period of 2003-2012 show the following trends:

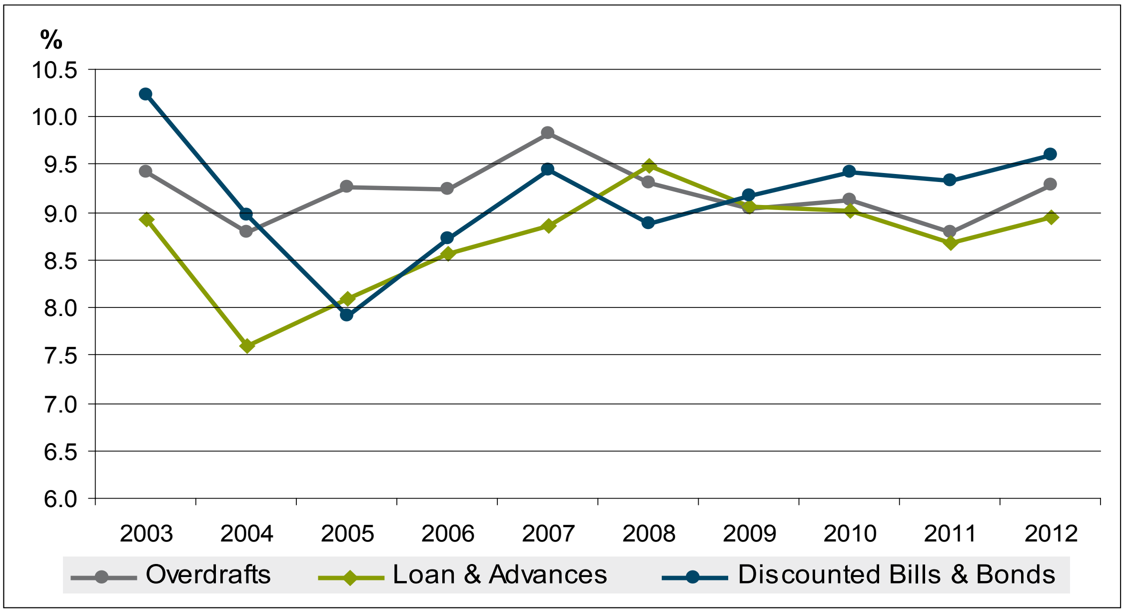
- The weighted average of the interest rate on the overdraft fluctuated during the period of 2003-2012, where the rate registered in 2007 its biggest hike by 60 basis points. It also witnessed a rise during 2012 by 48 basis points, reaching 9.28 percent by the end of the said year.
- The weighted average of the interest rate on loans and advances experienced a rise from 2005 until 2008, the year that registered the biggest hike by 62 basis points. After that, the rate began to drop from 2009 until the end of 2011, regaining strength in 2012 where it rose by 28 basis points, reaching 8.95 percent by the end of 2012.
- The weighted average of the interest rate on bills and discounted bonds witnessed a state on instability during the period from 2003 until 2012. It registered the biggest hike in 2006 by 80 basis points. The year 2012 also witnessed an increase by 25 basis points, reaching 9.59 percent by the end of the year.

Table (23)
Weighted Average Of Interest Rates On Credit Facilities Extended By Banks (2003 –2011)

year	Overdrafts %	Loans & Advances %	Discounted Bills & Bonds %
2003	9.43	8.92	10.24
2004	8.79	7.59	8.98
2005	9.26	8.10	7.92
2006	9.23	8.56	8.72
2007	9.83	8.86	9.45
2008	9.31	9.48	8.89
2009	9.03	9.07	9.17
2010	9.12	9.01	9.41
2011	8.80	8.67	9.34
2012	9.28	8.95	9.59

Source: Central Bank of Jordan

Figure (51)
Development of interest rates on all types of credit facilities (2003 –2012)



9-3 Interest Rate Margin

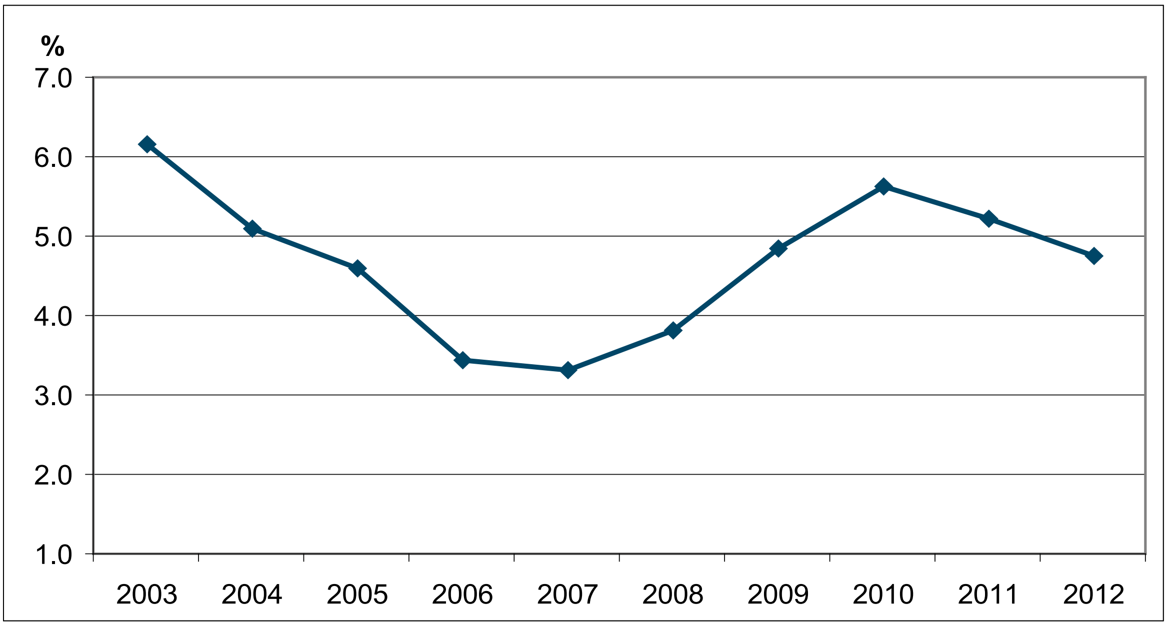
In light of the developments on interest rates on deposits and facilities, the interest rate margin, calculated by the difference between the interest rate on loans and advances on the one hand and the interest rate on time deposits on the other, witnessed a fall from 2004 until the end of 2007. It began to rise gradually until the end of 2010. The rate registered its biggest rise in 2009 by 102 basis points. After that, the rate margin went back to gradual fall since the beginning of 2011, until it reached 4.76 percent by the end of 2012.

Table (24)
Interest Rate Margin (2003 –2012)

Year	Loans & Advances %	Time deposit %	Interest rate margin %
2003	8.92	2.75	6.17
2004	7.59	2.49	5.10
2005	8.10	3.52	4.58
2006	8.56	5.13	3.43
2007	8.86	5.56	3.30
2008	9.48	5.66	3.82
2009	9.07	4.23	4.84
2010	9.01	3.40	5.61
2011	8.67	3.46	5.21
2012	8.95	4.19	4.76

Source: Central Bank of Jordan

Figure (52)
Interest rate margin (2003 – 2012)



9-4 Prime Lending Rates

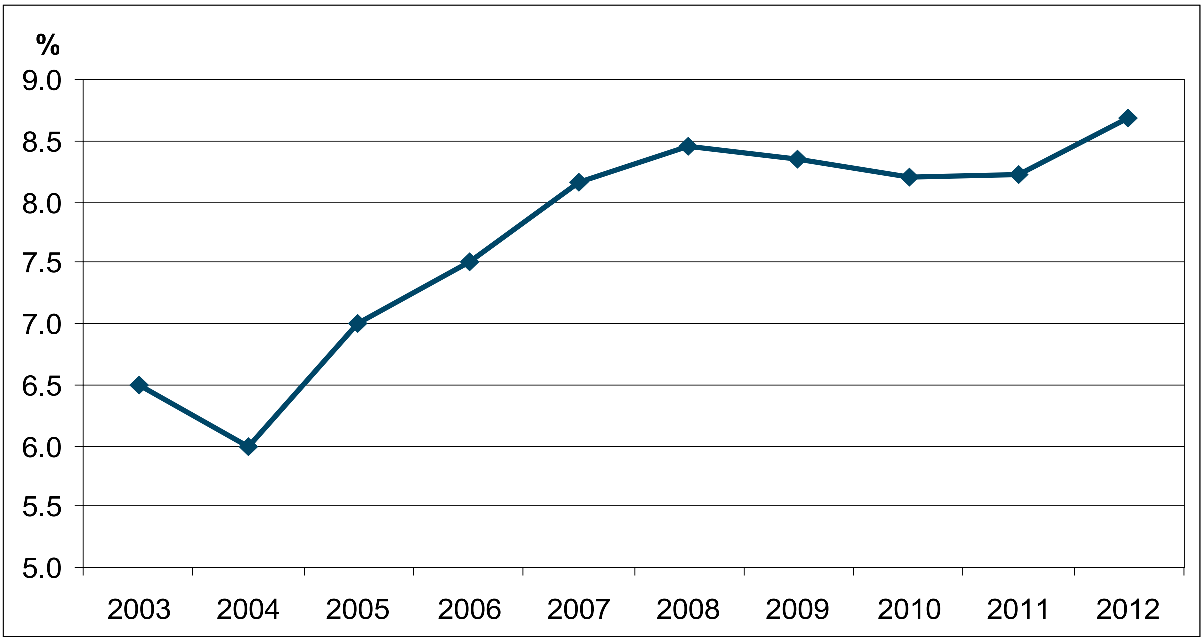
The prime lending rate began to rise ever since 2005 where the highest rate was registered, reaching 100 basis points. The rate continued to rise until the end of 2008, when the downward trend prevailed in 2009 and 2010, then it went back to increase gradually until the end of 2012, where it increased by 46 basis points, reaching 8.68 percent by the end of 2012.

Table (25)
Prime Lending Rate (2003 –2012)

Year	Prime lending rate %
2003	6.50
2004	6.00
2005	7.00
2006	7.50
2007	8.15
2008	8.45
2009	8.34
2010	8.20
2011	8.22
2012	8.68

Source: Central Bank of Jordan

Figure (53)
Prime interest rate (2003 – 2012)



9-5 Development of interest rates on monetary policy tools

In response to developments in the international money markets and in keeping up with the local economic developments, the Central Bank made several changes on the interest rates of monetary policy tools during the period of 2003-2012. During the second half of 2004, the Central Bank of Jordan increased interest rates on monetary policy tools five times by 25 basis points each time on the rediscount rate and repurchase agreements. The increase continued in 2005 when rates were hiked nine times by 25 or 50 basis points each time on the rediscount rate and repurchase agreements. During 2006, four consecutive additions were effected by 25 basis points each time on the Central Bank's monetary policy tools except the interest rate on overnight "window deposits" which was raised only three times during 2006. The Central Bank reverted to lowering interest rates in 2007 when it reduced interest rates on all monetary policy tools by 50 basis points besides modifying the interest rate structure of repurchase agreements in early May 2007. Under the amendment, the licensed banks were allowed to execute repurchase agreements with the Central Bank for one night instead of a week at an interest rate that stood then at 6.75 percent. The CBJ continued to lower interest rates on monetary policy tools by reducing them twice by 75 basis points in 2008, and three times by 50 basis points each time in 2009, and one time by 50 basis points in 2010. During 2011, the Central Bank increased interest rates on monetary policy tools by increasing them one time by 25 basis points.

In 2012, the CBJ effected some changes in this regard. On Feb.5, 2012, interest rates on rediscount rates, repurchase rates and the window deposits in dinar were raised by 50 basis points for each. After that, the CBJ raised twice the interest rate on window deposits in dinar, keeping the interest rates on other monetary tools unchanged. The first rise was on May 31, 2012 by 50 basis points and the second one on Dec. 3, 2012 by 75 basis points.

It should also be noted that the last time deposit certificates for 3 months and 6 months were issued by the central bank was on Oct. 26, 2008.

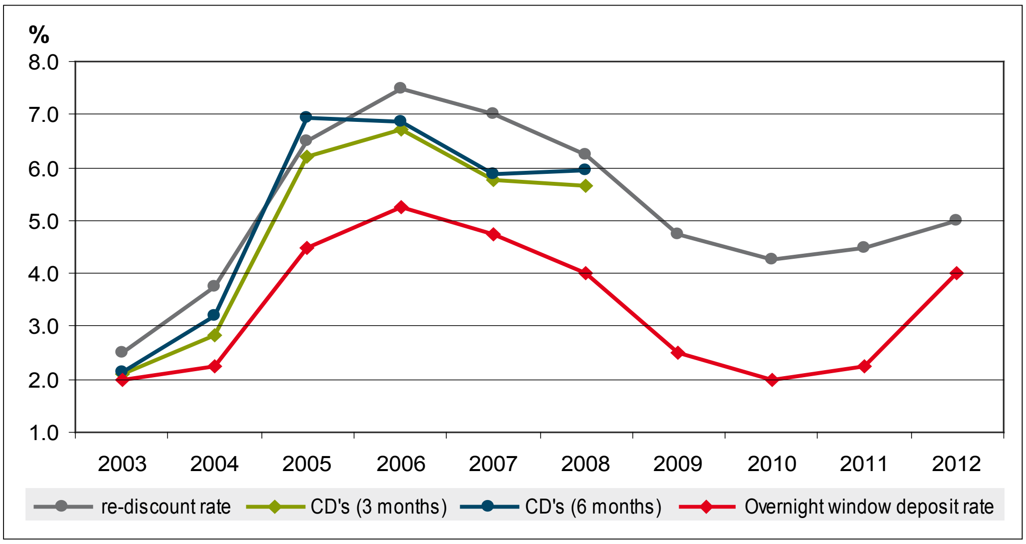
Table (26)
Interest Rates On Monetary Policy Tools (2003 –2012)

Year	Re-Discount Rate %	Repurchase Agreements		Certificates of Deposit			Overnight window deposit rate %
		Overnight %	One Week %	Three Months %	Six Months %	Twelve Months %	
2003	2.500		3.500	2.100	2.150		2.000
2004	3.750	4.000	4.750	2.850	3.200		2.250
2005	6.500		7.500	6.200	6.950	6.850	4.500
2006	7.500		8.500	6.700	6.862	6.850	5.250
2007	7.000	6.750		5.750	5.867	–	4.750
2008	6.250	6.000		5.641	5.936		4.000
2009	4.750	4.500		–	–		2.500
2010	4.250	4.000		–	–		2.000
2011	4.500	4.250		–	–		2.250
2012	5.000	4.750					4.000

Source: Central Bank of Jordan

The Central Bank stopped issuing certificates of deposit for three and six months maturities from Nov.2008.

Figure (54)
Development of interest rates on monetary policy tools (2003 – 2012)



9-6 Development of inter bank lending rates (JODIBOR)

The Association of Banks proposed during the first half of 2005 to member banks the idea of forming an interest rate index for inter-bank lending in Jordanian dinars because there was no index interest rate for inter-bank lending. Joint efforts between the Association of Banks, the Central Bank of Jordan and the banks operating in Jordan focused on forming a local benchmark rate for short-term (one day to 12 months) inter- bank lending rates in Jordanian dinars. The objective of this step was to come up with a yield curve for the money market in Jordanian dinars. Through such a curve, it would be possible to compare the returns of the money market and prepare to find tools and derivatives for the interest rates in Jordanian dinar.

Banks agreed on JODIBOR as a name for the key short-term interest rate index used between banks, financial institutions and investors to specify the cost of borrowing in Jordanian dinars in the monetary and capital market. JODIBOR was officially launched on 1-11-2005 after a trial period that started on 1-8-2005.

With the consensus of all parties concerned, standards were introduced as a code of conduct that morally binds all the banks participating in this scheme, and forms a framework for dealing within moral values commonly practiced in this field.

The mechanism of calculating the JODIBOR interest rate index was based on the following:

- Number of participating banks: Ten banks were chosen and entrusted with pricing for all maturities. These banks represented all the banks operating in the Kingdom and included Jordanian and non-Jordanian banks whether small or large. The banks are: Arab Bank, the Housing Bank for Trade and Finance, Capital Bank, Jordan Ahli Bank, Bank of Jordan, Union Bank, Jordan Kuwait Bank, Cairo Amman Bank, Egyptian Arab Land Bank and Audi Bank.
- Pricing all maturities: The ten banks price all maturities by using three decimals (for one night, one week, one month, three months, six months and one year).
- Mechanism of calculation: The Association calculates the JODIBOR average for each maturity after excluding the highest two prices and the lowest two prices and working out the simple mathematical average for the remaining six prices. The methodology of calculation was amended to exclude only the highest and lowest prices and working out the simple mathematical average for the remaining eight prices.
- Calculation of the coefficient of variation: To measure the price discrepancy, the coefficient of variation for the ten banks is calculated by dividing the deviation for the ten banks by the prices average of the ten banks and multiplying the result by hundred.
- Extracting the yield curve: On that day also, the yield curve is extracted and its direction is compared to the previous day and to the 29-8-2005 that was considered the base day.
- Announcing the JODIBOR rates: At 11:00 am of each working day, the JODIBOR rates are announced and published also at the website of the Association and the website of the Central Bank.

It is noticed that the inter-bank lending rates for all maturities began to decline gradually from 2007 until the end of 2010, then they began to increase in 2011 until the end of 2012.

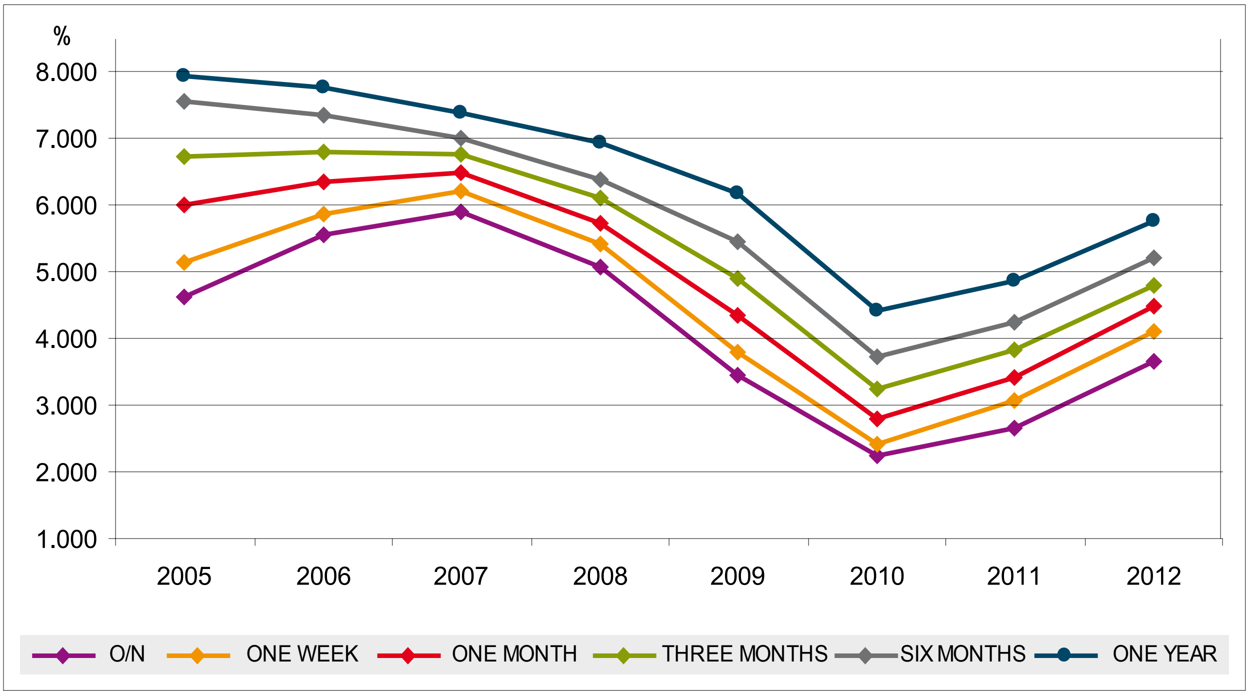
Table (27)

Development Of Inter-Bank Lending Interest Rates (JODIBOR) (2005 –2012)

	2005	2006	2007	2008	2009	2010	2011	2012
O/N	4.625	5.552	5.904	5.066	3.438	2.236	2.668	3.658
One Week	5.142	5.885	6.219	5.419	3.797	2.409	3.073	4.126
One Month	6.008	6.372	6.492	5.748	4.363	2.783	3.435	4.498
Three Months	6.742	6.814	6.756	6.107	4.916	3.257	3.840	4.812
Six Months	7.583	7.364	7.005	6.397	5.459	3.745	4.235	5.229
One Year	7.942	7.780	7.411	6.939	6.176	4.414	4.871	5.762

Source: Association of Banks in Jordan

Figure (55)
Development of inter-bank lending interest rates – JODIBOR (2005-2012)



9-7 Development of inter bank lending and borrowing rates for one night

Regarding the inter-bank lending interest rate for one night (actual and declared rates), the pricing margin was calculated by the difference between the actual rate issued by the Central Bank and the declared rate (JODIBOR) issued by the Association.

The margin between the two prices was fluctuating (2005-2012) and there was just a little margin between the actual and declared prices in 2005, while the margin widened in 2006 to record the highest level during that period when it reached (0.94%), then it returned to fluctuate till it reached (0.65%) in 2012.

Table (28)
Inter-Bank Weighted Lending Rates for One Night (Actual /Declared Price) (2005 – 2011)

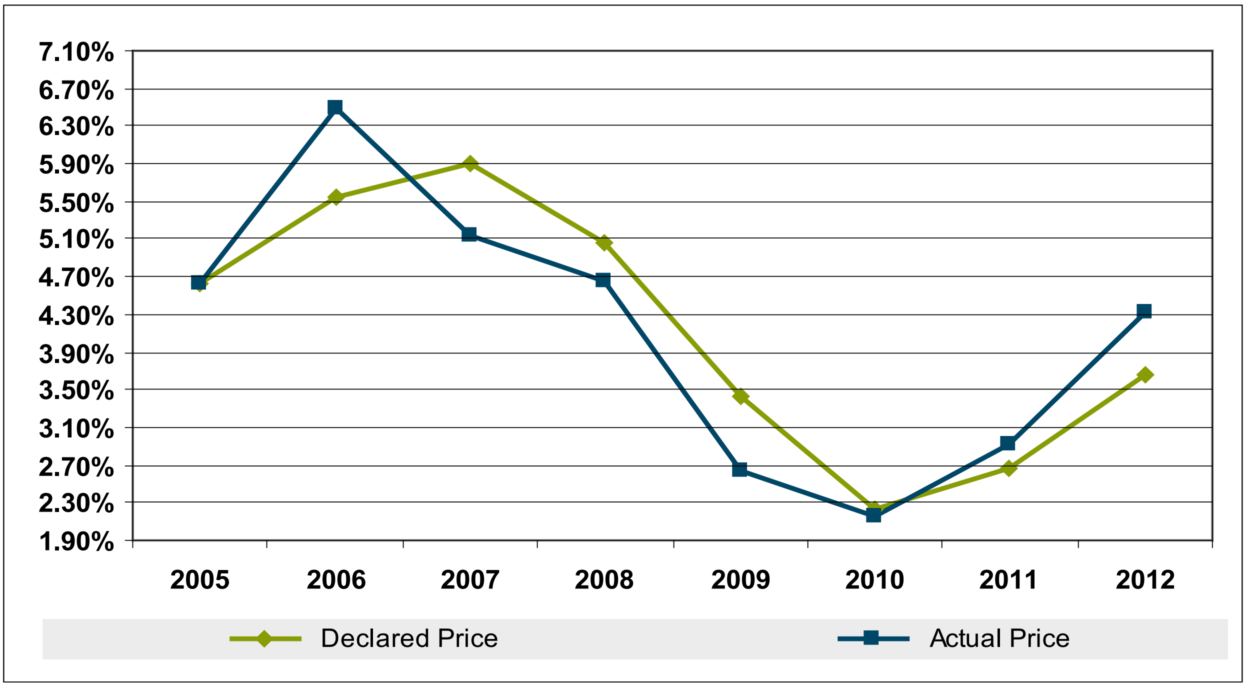
Year	Inter-bank weighted lending interest rate for one night (declared price)*	Inter-bank weighted lending interest rate for one night (actual price)**	pricing margin
2005	4.625%	4.629%	0.004%
2006	5.552%	6.495%	0.943%
2007	5.904%	5.147%	-0.757%
2008	5.066%	4.649%	-0.417%
2009	3.438%	2.645%	-0.793%
2010	2.236%	2.150%	-0.086%
2011	2.668%	2.917%	0.249%
2012	3.658%	4.309%	0.651%

* from (JODIBOR) daily bulletins issued by the Association of banks in Jordan.

** from Central Bank of Jordan.

Figure (56)

Inter-bank weighted Lending Rates (Actual/Declared) for One Night (2005-2012)



CHAPTER TEN

10-1 Introduction

This chapter reviews the most important changes undergone by check clearance in the kingdom. It also reviews the development of checks presented for clearance and returned checks during the period of 2003-2012.

10-2 Historical Overview of Check Clearing

The central bank of Jordan provides licensed banks with the service of check clearing pursuant to its law no. 23 for the year 1971 and its amendments in Article 37 Paragraph B.

The system of check clearing passed through many stages. The beginning was done manually until July 1997, when the system of automatic clearing began work until July 2007. After that date, a quantitative step was taken with the initiation of the electronic clearing, when checks were collected by banks at the same day as of Nov. 4, 2007. Electronic clearing is defined as the process of exchanging data, including checks' information, images and symbols, electronically via the CBJ's Electronic Clearing Center, as well as defining the net balances resulting from this process at a specific time.

Checks are collected between banks at the same day as follows:

- Checks deposited by clients from 8:00 AM until 12:00 noon are collected at the same working day; the client is allowed to withdraw the value of the check the following working day.
- Checks deposited after 12:00 noon are collected at the session of the next working day.

The service of checks clearance is done through electronic clearance under a legal cover to operate them, which is the Central Bank of Jordan's Law, Electronic Transactions Law, and the Principles and Rules of Work and the Electronic Clearance ad hoc Instructions.

The goal behind the electronic clearance was to move out of the automatic clearance system and into the electronic clearance of checks, to stop circulation of paper checks for the purposes of clearance at the stage of their deposit at banks, and collecting checks at the same day for all governorates of the kingdom, in addition to increasing confidence in checks as an instrument of payment and limiting as much as possible the volume of returned checks.

This system of electronic clearance had benefits on two levels: the level of banks and that of clients. For banks, the benefits include being aware of the bank's financial position before hand, the optimal employment of monies available at banks, getting exact information and statistics on checks as well as a detailed and swift archiving system, minimizing the risks of moving paper checks from and into banks, the possibility of getting images and data on checks via the electronic clearance speedily and easily. The system works 24/24; therefore, there is plenty of time to dispatch checks whatever their number is.

As for clients, the check's collection is done at the same date in which it is deposited; it can be known whether the check is accepted or rejected at the same day. The check's amount is credited to the beneficiary's account at the same day if deposition was done before noon, or the next working day if the deposition is done after 12:00 noon. To this we can add the increased confidence in dealing with checks.

10-3 Annual Development of Checks' Clearance

1. Checks Presented for Clearance

Checks presented for clearance witnessed ebbs and flows during the period of 2003-2012, as they registered change averages as regards quantity: the highest growth average in 2006 which is 14 percent; the highest regress in 2010 which registered minus 8.6 percent, while the change averages as for quality recorded that highest growth average in 2005 by 33.3 percent, and the highest retreat average in 2009 by 13.3 percent.

By calculating the annual change average for the period of 2003-2012, it is clear that checks presented for clearance increased by 2.9 percent in regard with quantity and 12.8 percent in regard with quality.

Table (29)
Development of Circulated Cheques (2003-2012)

Year	Circulated Cheques	
	Number (thousand)	Value(JD million)
2003	8475.40	14269.20
2004	8516.40	17058.40
2005	9588.90	22732.20
2006	10931.90	26521.60
2007	10901.90	30233.70
2008	11943.60	40175.80
2009	11484.90	34830.60
2010	10498.80	34305.30
2011	10908.80	37448.70
2012	11141.80	39808.00
Annual Change Average (2003-2012)	**2.88**	**12.76**

Source: Central Bank of Jordan

Figure (57)
Development of Number of Circulated Cheques (2003-2012)

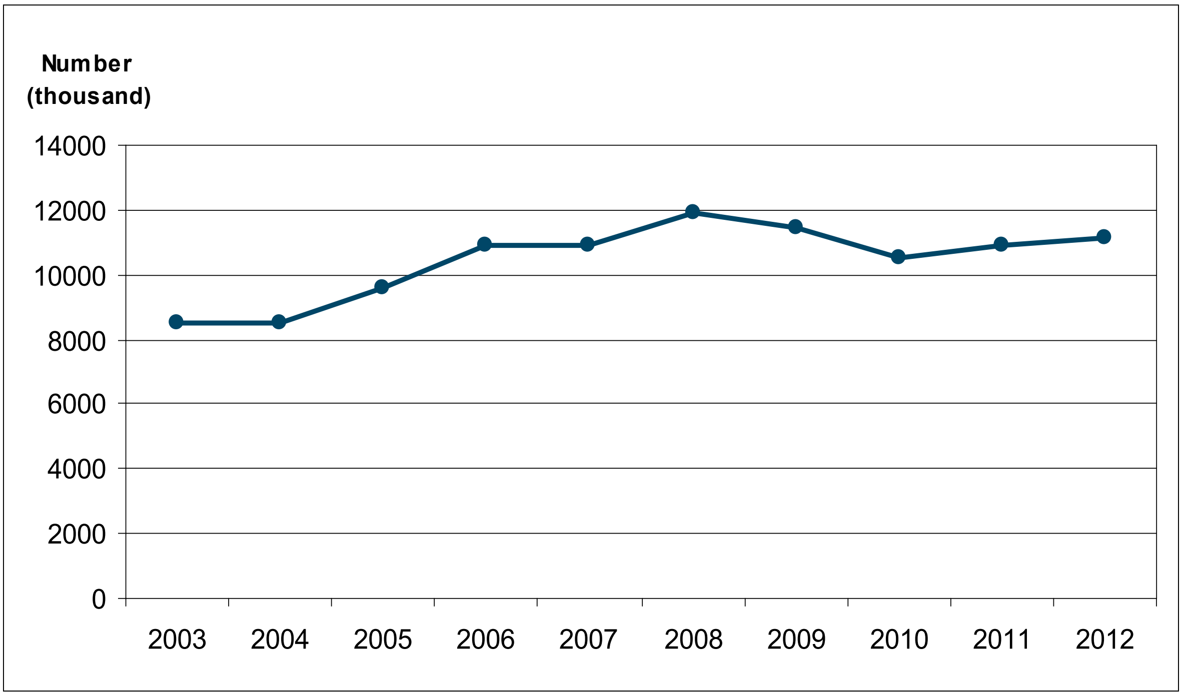
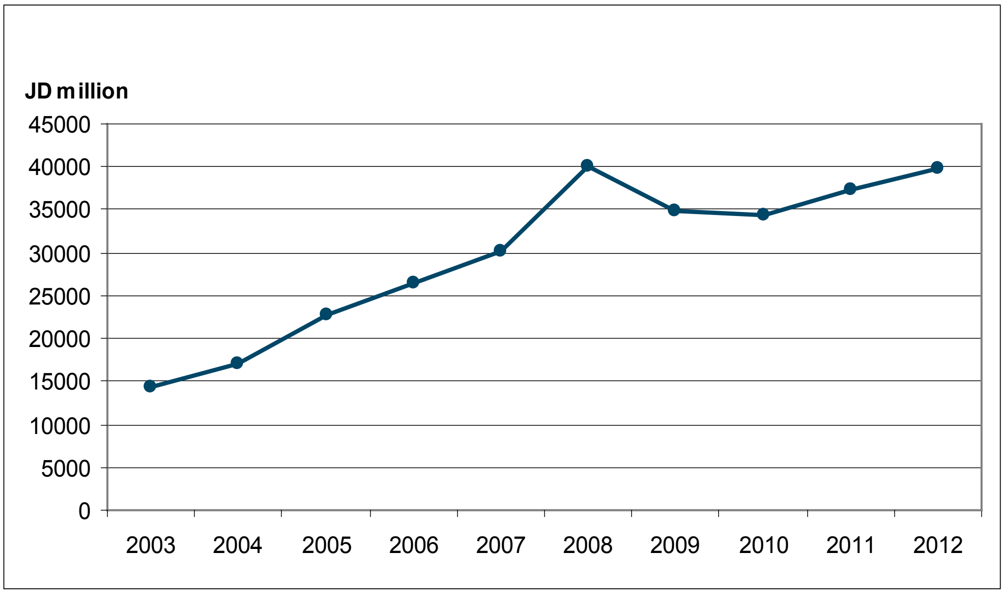


Figure (58)
Development of Value of Circulated Cheques (2003-2012)



2. Returned Checks

Annual change averages of returned checks also witnessed instability during the period of 2003-2012, as the highest growth average in terms of quality and quantity was recorded in 2007, while the highest regression average in terms of quality and quantity was registered in 2011.

Table (30)
Development of Returned Cheques (2003-2012)

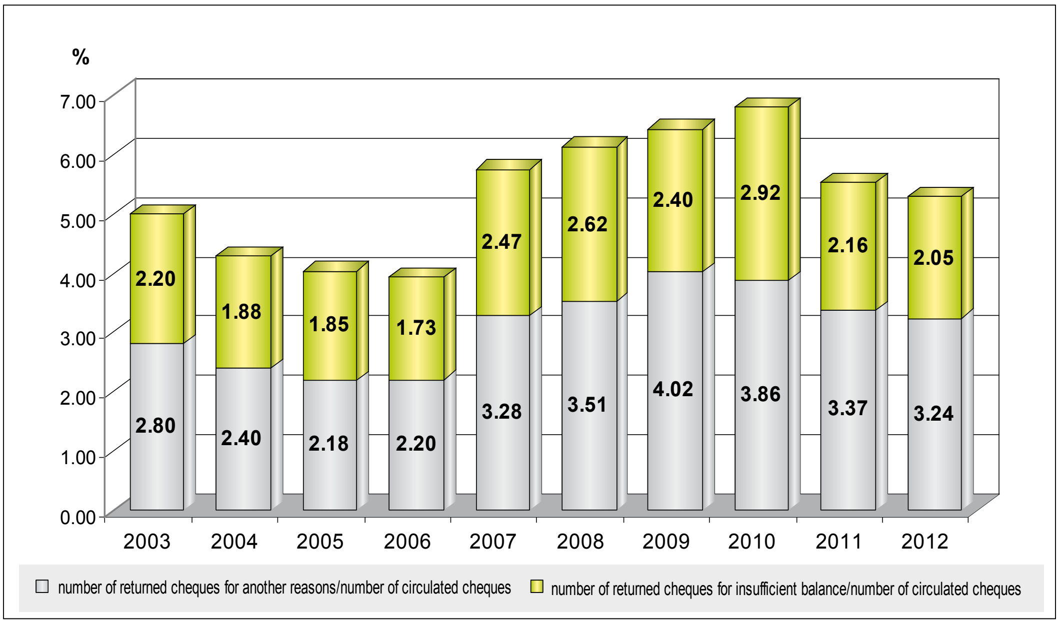
Description	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Annual Change Averages (2003-2012)
Returned Cheques											
Number (thousand)	423.9	364.1	386.4	429.4	626.6	732.0	738.2	712.5	603.8	589.1	3.53
Value(JD million)	497.1	466.4	626.8	797.1	1404.6	2124.5	2128.4	1877.7	1566.8	1557.5	15.63
The ratio to the number of Circulated Cheques (%)	5.00	4.28	4.03	3.93	5.75	6.13	6.43	6.79	5.53	5.29	0.86
The ratio to the value of Circulated Cheques (%)	3.48	2.73	2.76	3.01	4.65	5.29	6.11	5.47	4.18	3.91	2.42
Returned Cheques for insufficient balance											
Number (thousand)	237.3	204.1	209.4	240.8	357.3	418.9	462.2	405.7	367.7	360.6	4.90
Value(JD million)	260.0	249.0	297.3	380.6	733.2	1056.9	1344.2	1079.4	939.0	915.1	17.50
The ratio to the number of Returned Cheques (%)	55.98	56.06	54.19	56.08	57.02	57.23	62.61	56.94	60.90	61.21	1.37
The ratio to the value of Returned Cheques (%)	52.30	53.39	47.43	47.75	52.20	49.75	63.16	57.49	59.93	58.75	1.74
Returned Cheques for another reasons											
Number (thousand)	186.6	160.0	177.0	188.6	269.3	313.0	276.0	306.8	236.1	228.4	2.10
Value(JD million)	237.1	217.4	329.5	416.5	671.4	1067.9	784.3	798.3	627.8	642.6	14.73
The ratio to the number of Returned Cheques (%)	44.02	43.94	45.81	43.92	42.98	42.76	37.39	43.06	39.10	38.77	-1.43
The ratio to the value of Returned Cheques (%)	47.70	46.61	52.57	52.25	47.80	50.27	36.85	42.51	40.07	41.26	-0.86

Source: Central Bank of Jordan

Data also indicate that the ratio of the number of returned checks to the checks presented for clearance hit 6.8 percent in 2010, which is the highest percentage during the period of 2003-2012. 56.9 percent of them were checks returned for insufficient funds, and 43.1 percent of them were returned for other reasons.

The ratio of returned checks to the total checks presented for clearance registered their lowest percentage in 2006, when it registered 3.9 percent. 56.1 percent of these are checks returned for insufficient funds, while 43.9 percent of them were checks returned for other reasons.

Figure (59)
Development of the number of Returned Cheques to the number of Circulated Cheques



As regards the ratio of the value of returned checks to that of checks presented for clearance, the highest rate was registered in 2009 when it settled at 6.1 percent. 62.6 percent of these were checks returned for insufficient funds, and 37.4 percent were checks returned for other reasons. The lowest rate was registered in 2004, by 2.7 percent, when 53.4 percent of these were checks returned for insufficient funds, and 46.6 percent were checks returned for other reasons.

Figure (60)
Development of the value of Returned Cheques to the value of Circulated Cheques