AJIB

Arab Jordan Investment Bank

AJIB

40 YEARS

SINCE 1978

# ANNUAL REPORT 2018

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# Board of Directors

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**Mr. Abdulkadir Al-Qadi**
Founding Chairman
Member

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Member

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Member

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Representative of Petra Company for Restaurants  Establishment & Management
Member

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Member

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Member

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Member

# Mission Statement

To be recognized as the leading bank in Jordan and the region; in products, and in the use of technology, by being customer-focused, innovative and having customer-service excellence and highly skilled employees.

# Chairman’s Message

**Dear Shareholders,**

On behalf of the Board of Directors of the Arab Jordan Investment Bank (AJIB) and myself, I am pleased to present you with the bank’s 40th annual report, detailing our achievements and consolidated financial statements for 2018. The report includes the consolidated financial statements for the year ending on December 31, 2018, as well as the business objectives for 2019.

The year 2018 was a noteworthy one for AJIB on several fronts, most important of which was the bank’s 40th anniversary. Launched in 1978, AJIB’s journey has been punctuated by a series of successes and milestones that have seen it evolve from the first investment bank in Jordan with a capital of JD5 million and a staff of less than 10 people to a comprehensive commercial bank with a balance sheet that exceeds JD2 billion and shareholders’ equity that tops JD200 million. Today, AJIB has more than 750 employees in 35 branches distributed throughout the country, in addition to presence in the Gulf region and in Europe.

According to data released by the International Monetary Fund (IMF), the global economy maintained 2017’s steady pace of economic growth in 2018 of 3.7%. This was contrary to the optimistic expectations for a greater recovery in growth based on improvements in global industrial and commercial activity until the end of 2017. This recovery, however, relapsed at the beginning of last year when the United States imposed customs tariffs on imports of steel and aluminum from the European Union, Canada and Mexico. The United States also imposed a 25% charge on Chinese imports valued at $50 billion, prompting China and other countries to respond with reciprocal tariffs. The escalation of such protective measures in trade brought about an increase in uncertainty about trade policies, and as a result, investor confidence in the global economy dipped.

This global recession was offset by a major acceleration of the US economy, which grew by 3.5% in the last quarter of 2018. The unemployment rate in the United States was 3.7%, the lowest it has been in 49 years. This occurred after the government implemented massive tax reductions that lowered the highest rates of tax on income generated by individuals and companies in 2018 and led to a rise in expenditure and an increase in market demand. The Federal Reserve simultaneously continued to raise its prime interest rate at a faster pace, leading to an increase in the value of the US dollar against most other currencies. The fragile economies of emerging markets came under increased pressure, and most of these countries witnessed a rise in the cost of foreign borrowings.

In the Eurozone, the economic growth rate fell from 2.4% in 2017 to 2.1% in 2018, a decline that the European Commission attributed to several factors, including the uncertain atmosphere that dominates the process of Britain's exit from the European Union (Brexit) as well as the trade policies followed by the United States. Another reason for the downturn in growth is the austerity programs followed by a number of EU countries as a result of the extended effects of the global financial crisis that broke out a decade ago.

Regionally, the acceleration of economic activity in oil-exporting and importing countries has led to an increase in the Middle East and North Africa’s growth rate, which reached 1.7% in 2018. An increase in oil production and the rise of its prices have reduced the pressure resulting from controlling public finance conditions, which led to an increase in general expenditure and boosted current account balances.

The IMF lowered its global economic growth forecast for 2019 to 3.5% from an earlier growth forecast of 3.7%. It also lowered projected growth in 2020 to 3.6%, due to negative factors impacting the global economy including trade tensions, the tight monetary policies of central banks, the uncertainty surrounding Brexit, and a slower Chinese economy.

Reports from renowned global financial institutions indicate that growth rates in the Middle East and North Africa are expected to rise to 1.9% in 2019, due mainly to local policy reforms in these countries. Estimates show that the growth rate of oil exporting countries is expected to rise slightly this year, while growth in Gulf Cooperation Council (GCC) countries will go up to 2.6% from 2% in 2018.

Locally, most of the major economic indicators in the Kingdom showed a decline in performance in 2018. Economic growth slowed to 1.9% in 2018, below its rate in 2017, due mainly to external pressures. The IMF views weak growth and investment as detrimental to the economy and inadequate in terms of generating more job opportunities.

The tourism sector grew by 13.1% to reach $5.3 billion (JD3.7 billion); however, net direct investment declined by 54% to register at JD538.9 million compared to JD1.172 billion for the same period in 2017.

In the same context, remittances of Jordanians working abroad decreased by 1.1% to reach JD2.606 billion at the end of last year.

The overall unemployment rate rose to 18.7% compared to 18.5% for the same period in 2017. Results show unemployment rates are the highest among university graduates, clocking in at 24.1%.

Due to the rise of global oil prices and its effects on domestic prices, inflation rates went up to 4.5% last year, compared to 3.3% in 2017. The rise in inflation is also attributed to the package of measures taken by the government last year, which included eliminating tax exemptions on a number of goods and services.

The Amman Stock Exchange mirrored the slow economic performance, which was clear in the decline of the volume of liquidity and in the reduction in trading. Trading volume decreased by 20.7% in 2018, to reach JD2.3 billion, compared to JD2.9 billion in 2017. The number of traded stocks went down from 1.7 billion stocks traded through 717,000 contracts in 2017, to 1.2 billion stocks traded through 512,000 contracts in 2018. The Amman Stock Exchange price index fell by 10.25% to 1909 points.

As for public finances, domestic revenues in 2018 amounted to JD6.9 billion, while public expenditures amounted to about JD8.5 billion and grants amounted to approximately JD900 million.

Tax revenues increased by JD209 million, or 5.3%, to reach JD4.115 billion last year, compared with JD3.906 billion in 2017.

Due to the public finance deficit in 2018, the government undertook a number of decisions to increase revenue, mostly from taxes, and to cut expenditures. These measures saw the budget deficit total JD730 million, after grants, in 2018, which is the equivalent to approximately 2.4% of GDP. However, the gross deficit rose to 4% of GDP in 2018. In order to reduce this deficit to 2.5% of the estimated GDP for 2019, the government undertook several measures, most notable of which was the adoption of the new Income Tax Law, which raised tax rates for individuals and companies as of 2019.
At the end of 2018, the public debt ratio stood at 94% of GDP, compared to 94.3% of GDP in 2017.

The slowdown in economic growth and in both financial and monetary developments was reflected in various economic indicators, with data from the Department of Land and Surveys showing a 13% decline in the volume of real estate traded compared to 2017, reaching JD5.265 billion.

Despite the retreat in economic growth rates, the Central Bank of Jordan continued its policy of delivering monetary and financial stability. Foreign exchange reserves at the end of 2018, including gold, amounted to JD9.495 billion, covering the Kingdom's imports of goods and services for 7.3 months. The total balance of deposits with licensed banks amounted to JD33.9 billion at the end of 2018, up by 2.3% from 2017. The balance of total facilities registered a growth of 4.8% to reach JD25.9 billion.

In view of the increase in global interest rates, the Central Bank of Jordan raised interest rates on monetary policy instruments four times since December 14, 2017. Accordingly, the principle interest rate at the Central Bank of Jordan went up from 4% at the end of 2017 to 4.75% at the end of 2018.

Despite the unfavorable domestic economic developments during 2018 in the markets in which AJIB operates, the bank enhanced its pioneering position in the Jordanian market. It has developed an entire range of leading banking products and services for its customers and continued its distinguished upward trajectory in the banking system by applying the best of international banking practices. It also diversified income sources and studied all available investment opportunities in order to solidify its financial position and improve its revenues in a manner that serves the interests of its customers and shareholders. I would like to take a moment and highlight AJIB’s success as the first bank in the Middle East and North Africa (MENA) to implement the experiment of cross-border payment and transfer transactions using Blockchain technology. This symbolizes a qualitative leap for the bank's development in advanced financial technology and in harnessing it to serve its customers. This service is expected to be launched for customers in 2019, as a continuation of the bank's digital transformation strategy.

Despite the difficult political and economic conditions in the markets in which AJIB operates, its performance indicators maintained similar levels as compared to 2017. Profits after tax amounted to JD16.8 million, compared to JD17.2 million in 2017. Total profits before tax were JD24.4 million, slightly down from JD25.8 million in 2017.

Total customer deposits and cash guarantees amounted to JD1.070 billion and net direct credit facilities reached JD752.7 million. The bank maintained the integrity of its credit portfolio and the quality of its assets. The ratio of non-performing loans to total facilitations stood at 2.2%, which is one of the lowest ratios among Jordanian banks. The capital adequacy ratio, as per Basel III regulations, was 15.90%, well-exceeding the required international and local ratios of 8% and 12%, respectively, which confirms the bank’s solid financial position.

In light of the achieved results, AJIB’s Board of Directors recommended to the General Assembly in Jordan the distribution of cash dividends totaling JD13.5 million, representing 9% of the bank's capital, which is similar to its distribution ratio in 2017.

Finally, allow me to thank the Board of Directors, the executive management team and all staff members for their dedicated efforts and hard work in maintaining and advancing the bank's performance and providing the best banking services and solutions to its individual and corporate customers.

I would also like to use this platform to stress the dedication of AJIB's Board of Directors and the executive management team to the interests of the bank’s shareholders, depositors and customers. We value their trust, which will keep us motivated to continue our extensive efforts to maintain and strengthen this confidence in the future.

**Hani Al-Qadi**
**Chairman of the Board of Directors**

# OUR ACHIEVEMENTS IN 2018

# Our Achievements in 2018

## 1- Corporate Banking Department

AJIB managed to balance the growth requirements of various performance indicators, registering the highest levels of anticipated returns while maintaining the ability to preserve an acceptable level of risk by continuously pursuing its strategy of providing value-added banking products to suit the needs of customers. This runs parallel with the provision of distinguished banking services to the corporate sector by helping it achieve its objectives efficiently and with flexibility. This efficiency has strengthened the bank's pioneering role in maintaining the pace of economic development and has helped achieve comprehensive economic growth in the Kingdom.

The sector continued to realize positive performance indicators despite the overall economic challenges and their impact on corporate financing, including weak exports to nearby markets. The bank has maintained continuous communication with its customers in order to provide them with best alternatives and financial solutions possible.

The bank focused on reducing the negative impact of continuous domestic economic regression, which the country has witnessed since 2016, by creating an action plan that continues the prudent policy in managing the bank's credit portfolio. It stressed and enhanced developing credit relations with existing customers, meeting their requirements, keeping abreast of their business growth and offering support by examining their financial and credit positions to provide them with funding and advice.

The bank upheld the quality of its credit portfolio by committing to credit standards that are compatible with acceptable and studied risk percentages while also diversifying the economic sectors that are granted credit, in addition to attracting new customers in various targeted economic sectors based on credit studies that are compatible with the bank's strategy of aligning growth in its credit portfolios with maintaining quality and reasonable risk factors.

The bank's innovative funding products financed many companies that work in the field of renewable energy through Central Bank of Jordan programs in order to contribute to the development of the sector and reduce the cost of energy production at a macroeconomic level. The bank also focused on effective economic sectors in general commerce, industry, services, energy and transport, helping them grow and reflecting on the national economy in general. AJIB also focused on small and medium-sized businesses by providing them with supportive credit facilities and banking services and a fostering environment that guarantees sustainability.

The bank developed one of the banking sector's most advanced electronic business platform for companies, which will enable them to conduct their banking business electronically without having to go to the bank.

Additionally, AJIB continues to provide distinguished services to companies efficiently and quickly from the first floor of the headquarters building, offering its corporate customers services that include cheque deposits and the issuance of certified cheques, all which have been well received by customers.

## 2- Retail Banking Department

In order to continue offering the best solutions to the retail sector, in 2018 AJIB continued to create programs that target the needs of its customers. The bank offers a range of innovative banking and investment services and products such as AJIB Value, AJIB Advantage and AJIB Prestige.

The bank also continued to develop its cutting-edge e-services portals for all transactions based on best international banking practices in order to enable customers easy access to services and transactions, as well as allow them to keep up with the latest updates in banking businesses technology rapidly, efficiently and securely while achieving the highest levels of financial coverage.

The bank unveiled the instantaneous printing of debit cards when opening new accounts during 2018 in order to serve customers quickly and efficiently.

AJIB offers a diverse and comprehensive range of credit cards from both Visa and Mastercard in various categories and with a number of features. Mastercard World and Mastercard World Elite were added to this bundle in 2018, making AJIB's offerings one of the most expansive available among Jordanian banks.

All Mastercard Prestige cards were raised from the Platinum to the World classification in order to offer the cards' innovative features to customers. The cards allow customers to travel in style and make their trips memorable through a collection of exclusive international offers, such as dining at the most luxurious international restaurants as well as accessing unique offers and discounts while shopping.

The World Elite card is the highest Mastercard category and allows the utmost luxury while traveling by granting access to VIP airport lounges and memberships in multiple programs of luxurious global hotel groups. This is in addition to travel insurance and discounts at luxury stores around the world.

AJIB Rewards Program was updated to include the bank's most distinguished customers who hold the Mastercard World, Mastercard World Elite and Visa Infinite cards. The program rewards customers each time they use their cards by awarding points on every purchase and through any selling points that can later be redeemed with hotel reservations, airline tickets, among other things.

In order  to provide the latest electronic services to its customers, AJIB will replace ATM machines in 2019 with new more advanced ones, that allow customers access to enhanced electronic services, with a focus on the Queen Alia International Airport ATM network.

In its efforts to facilitate banking transactions in the current economic climate, AJIB offered housing loans with conditions that align with customer needs through a highly successful campaign that ran throughout 2018.

The bank also continued to improve technological systems and communication platforms, increasing the number of call center employees in order to serve customers speedily and efficiently in a streamlined manner.

In the spirit of financial inclusiveness, the bank provided services and provisions for persons with disabilities by ensuring the availability of dedicated parking spaces. Sign language interpretation is also available for those with hearing impairments in order to facilitate banking transactions at the bank's main branch, which is equipped with the tools to serve all sectors of society according to global standards.

In order to remain in touch with all sectors of society throughout the country, the network of ATM machines was expanded, a move that goes hand in hand with the bank's corporate identity, which focuses on offering services in a modern and convenient environment.

### 3- Trade Finance Department

AJIB is highly attentive to the commercial sector's needs, as it recognizes the vital role it plays in the national economy. Accordingly, the bank designed commercial funding services, with a focus on the import and export sectors, such as funding incoming and outgoing letters of credit, letters of guarantee, discounted bills of collection, promissory notes, and commercial loans of all kinds in order to meet the diverse commercial needs of the bank's customers.

As international trade is becoming more complex and may entail risks, the role of the Trade Finance Department is not limited to offering traditional trading services anymore, but requires all precautions be taken to protect the rights of customers and reduce risks involved in trade transactions.

This is made possible due to AJIB's highly qualified team and is supported by advanced electronic systems and applications available to customers. This, in turn, enables the bank to protect customer commercial transactions in order to serve them while simultaneously meeting their diverse commercial requirements by offering appropriate banking solutions in a transparent and controlled manner. All of this, combined with our highly competent work force and our advanced systems, has had a noticeable effect on AJIB's competitive position in the local market.

### 4- Transfers Department

AJIB has remained a pioneer in the area of specialized transfer services. In 2018 it continued to provide a wide range of transfer services, which were distinguished for their cost-effectiveness and efficiency. The bank provides incoming and outgoing transfer services to all parts of the world securely and easily at competitive rates.

Qualified teams at all AJIB branches and offices spread throughout the Kingdom offer customers a range of remittance services for customers.

The bank succeeds in achieving positive results due to its application of key international criteria that monitor money-laundering operations. It has also employed the most updated programs that align with the latest developments in the area of transfer services such as Straight Through Processing (STP) and Automated Clearing House (ACH), and remittance services are also available through the AJIB Mobile application and AJIB Online.

### 5- VIP Banking Department

The bank intensified its efforts to provide its customers with services that reflect the best practices of the banking industry. In this regard, the VIP Banking Department continued to build solid ties with distinguished individual and corporate customers by offering them the highest levels of services and the most innovative products. The VIP account responds to all customer demands and is ideal for those looking for unique and unmatched banking experiences.

The VIP Banking Department focuses on raising the level of services offered in order to match the latest developments in the banking industry, while also considering the accelerated pace of competition, technological changes and the changing nature of the needs of its customers.

### 6- International Investments Department

The bank follows clear and accurate policies in international investment services supported by a qualified team and the latest technology. AJIB is the ideal partner to help customers manage their investment portfolios by virtue of its exceptional achievements and the extensive experience of its team as well as its vast local, regional and international knowledge of financial services and investments.

In 2018, the bank introduced a range of innovative products and services, including investment offerings, designed to afford solutions to grow and manage personal wealth in the best possible manner. Bank customers also had the chance to benefit from short, medium, and long-term capital growth, helping them develop their investments. The bank's experience in this area is continuously updated to keep pace with the latest developments in local and international markets.

AJIB's team boasts extensive experience and is supported by innovative solutions that helped customers take investment decisions while remaining abreast of the latest developments in the markets. This was done while simultaneously guaranteeing that their personal financial portfolios matched their long-term goals through a mix of investments in international stocks, fixed income, joint investment funds, precious metals, and goods.

The International Investments Department analyzes and constantly monitors economic developments at all levels to avoid new risks in the market.

The bank also offered exclusive solutions on wealth management in 2018, designed to address customer needs specifically. The latest developments have proven to be efficient and successful despite the difficult circumstances encountered by most global financial markets last year. The bank's team continuously works on analyzing global market trends and economic developments in order to achieve higher performance levels and increased profit rates seeing as asset diversification is an element that may affect revenues on customer financial portfolios.

## 7- Prestige and Wealth Management Department

AJIB's Prestige personal banking services offer exclusive products and amenities designed with its customers in mind. The Prestige team boasts extensive expertise in the field, as well as an unmatched degree of professionalism.

AJIB Prestige offers exceptionally competitive interest rates and diverse and exclusive advantages through a network of seven service centers at the headquarters building, and our branches at the Interior Ministry Circle, Abdoun, Bayader Wadi Al-Seer, Jubeiha and Tla'a Al Ali.

AJIB Prestige includes advanced investment products and services provided by wealth management professionals tailored to individual customer requirements. The bank also offers a wide array of products and services of added value in global and local markets, including bancassurance services in cooperation with the American Life Insurance Company (MetLife) Jordan.
The Prestige Life program includes programs for life insurance, retirement insurance, study insurance and investment insurance, delivered by a licensed, qualified and highly experienced team of professionals.

The bank believes that its team is pivotal in delivering the best services to customers, and so, to that end, in 2018 AJIB continued to offer ongoing training opportunities to all its public relations staff members, guaranteeing that customers enjoy an exceptional banking experience.

## 8- Treasury Department

The Treasury and Foreign Currencies Department continued its pioneering and distinguished role of serving customers by offering investment tools and an entire range of contracts and options as viable solutions in order to mitigate risks in the market. In 2018, global central banks issued a number of decisions on interest rates that impacted local and global markets. The department's main focus was forecasting local and global financial indicators in Jordan, allowing it to take preemptive decisions that limited the negative impact of hikes in interest rates on the bank's actual and estimated budgets as much as possible. It also kept all the bank's customers abreast of the latest economic developments of 2018, as well as their expected impact by providing them with solutions and options, such as contracts dealing with various types of derivatives available in global markets.

AJIB maintained its leading role in the Jordanian capital market and the intra-banking Jordanian market. The bank witnessed the largest share of these transactions, which contributed to the revitalization of the markets and increased returns for the bank and its investments, especially in loans and investments in government bonds and Jordanian treasury bills.

## 9- ATMs and Cards Department

AJIB continued to offer a wide and comprehensive range of credit cards, diversifying its portfolio to include Mastercard World Elite and Mastercard World, both of which provide a variety of value-added features perfect for travel, hotel reservations and travel insurance, as well as numerous discounts at renowned prestigious international locations.

The bank also activated the OTP-3D Secure service, which provides a secure environment for customers to use their cards online. The service necessitates the use of a secret number sent by SMS to the cardholder's phone in order to complete purchases on websites participating in the 3D secure service, helping ensure highest levels of security for customers.

Moreover, in order to provide a well-developed and convenient customer service environment, the bank expanded its network of ATMs to cover as many areas as possible. This helps to meet the needs of its customers around the clock and to serve communities and businesses through presence in malls and key commercial centers. AJIB also enjoys a large number of ATMs at Queen Alia International Airport to serve both arriving and departing passengers.

### 10- Retail Branches and Offices Network

AJIB's institutional vision is centered on its commitment to being available to its clients at strategic locations throughout the Kingdom, ensuring exemplary customer service and expanding the bank's base. It also strives to enhance communication with customers and provide services based on the highest standards of quality and excellence. Accordingly, the bank expanded its ATM network, installing a new machine at the Royal Jordanian headquarters building in Abdoun, as well as one at the company's terminal building located near the Seventh Circle. A new ATM was also installed in the financial district of Shmeisani, bringing the total number of AJIB ATMs to 62.

Also, as part of the bank's strategy to increase branch performance and to provide banking services that are underserved, AJIB renovated its Zarqa branch, equipping it with the latest banking technologies in order to provide advanced services that match the bank's brand identity. By the end of 2018, AJIB had 35 branches and offices operating in Jordan.

AJIB maintains its leading role at Queen Alia International Airport and provides exclusive currency exchange services through its offices located in various areas of the airport that provide services to arrivals, departures and transit passengers. Additionally, the bank provides round-the-clock banking services at its airport branch, including withdrawals, deposits, exchange of major foreign currencies, opening accounts, personal and housing loans and the issuance of all types of credit cards to all employees working at the airport.

In line with the bank's commitment to provide distinguished banking services to its customers, the retail sales department was expanded to ensure ongoing communication. The Sales Department made visits to several major governmental institutions to showcase the bank's services and products.

### 11- Information Technology Department

The bank continued working on upgrading its technological development. AJIB was the first bank in the Middle East and North Africa region to successfully execute a Proof of Concept (PoC) to conduct cross-border payment and transfer transactions using Blockchain - a cutting-edge technology that operates on a distributed digital data log - between the main branch in Amman and its branch in Cyprus, representing a crucial milestone for AJIB in the world of advanced financial technology.

AJIB was selected by Oracle as a leading bank in the adoption of new financial technology, joining a group of elite global organizations and consortia to be part of an early adopter's program of Blockchain technology through Oracle Blockchain Platform.

Investment in advanced financial technology and digital transformation is a priority for AJIB, making modern financial services accessible to its customers and helping keep them up to date with the latest financial technologies. The future adoption of Blockchain technology will enable the bank to create new standards for cross-border payments and transfers by eliminating intermediaries, thus making them faster, more secure, accurate and less costly across all of its digital banking platforms available 24 hours a day, every day of the week.

Additionally, the bank continued to develop and upgrade its distribution outlets and electronic services, enabling customers to access services, conduct banking transactions, and keep up with the latest developments in banking technology in a fast, safe, and efficient manner. The bank also launched the instant issuing of debit cards upon the opening of new accounts. Additionally, customers can now settle their credit cards' balances immediately through AJIB Online and AJIB Mobile, and they can view the cheques deposited in their accounts through these digital platforms, which are available 24 hours a day, seven days a week.

In terms of the governance of information technology, the bank implemented the COBIT 5 framework to reap the highest advantages from information technology with the lowest risk and at the lowest costs. This framework includes a range of processes and practices that cover the bank’s different departments, enabling it to move from the first and second maturity levels and upgrading to the third maturity level (3.1) in most information technology governance and associated processes on COBIT 5 with the participation of the Board of Directors, the executive management, and department staff. The bank follows the methodology of information technology management and maintaining operations as well as executing needed policies to achieve AJIB’s strategic objectives. The bank also published information technology governance and the associated technology guide on its official website to clarify governance processes and the extent to which information technology achieves the bank's corporate objectives and strategy.

Regarding security and safety systems, AJIB was awarded the PCI certification for the advanced quality of the bank’s information security and developed monitoring systems for information centers to provide a safe working environment for the bank's customers and to increase their trust in the bank, which was reflected positively on the quality of services provided to customers. The bank added new security levels by developing the infrastructure of the headquarters site and the disaster recovery site, to provide a secure environment for the bank's customers and data, and to protect the banking systems to counter the increase in cyber attacks according to the best local and international standards.

In order to reinforce the bank’s technological infrastructure, AJIB continued to develop and upgrade its disaster recovery center, its business continuity plans and its dedicated communications systems, to ensure the quality of operations and smooth workflow. The bank also continued to implement best banking procedures in order to advance in its operations and risk assessments.

Investing in advanced financial technology and digital transformation is a priority for the bank in order to keep abreast of the technological revolution. AJIB believes that financial technology (Fintech) will radically change the way banking works in the near future, which is why it is moving ahead with its digital transformation project that will make modern financial services accessible to its customers, meeting their developing financial needs quickly, accurately, safely and at the lowest cost.

## 12- Administrative Affairs, Human Resources and Training Department

In 2018, the Human Resources Department continued to launch initiatives to develop and update human resources procedures so that they are on par with the best international management practices. These initiatives improve the bank's human resources, achieve the objectives of the institution and support the business with the highest professional standards and sustainability.

The department made remarkable achievements at various levels. The objectives of the department and its strategic plans align with the bank's vision of excellence in banking services and in creating a stimulating work environment along with a unified institutional culture that enhances efficiency, flexibility and integration. Human resource policies were also updated within the framework of the bank's strategy and there was a continuous review of organizational structures, which align with the changes resulting from the development of the bank's businesses, the expansion of the range of products and network of banking services, and the completion of the bank's organizational structure in general and its various departments in particular.

In light of these initiatives, the department applied an effective management methodology through a plan that seeks to recruit fresh graduates from local and international universities and colleges. Additionally, the bank will seek to recruit the most qualified professionals in the labor market at all its levels. The bank prioritizes internal development opportunities and promotions for its employees in order to create a motivating work environment. Employees can transfer between departments and enrich their experiences within fair and transparent conditions that ensure equal opportunity.

The bank adopted plans to develop employee career trajectories that will build capacities and develop skills in order for them to advance in the workplace. Through this plan, a sizeable number of staff members were promoted to higher positions on the employee scale.

Evaluations were made based on job descriptions in order to revise and renew them as per the restructured organizational chart, which helped describe the tasks and responsibilities of new positions in a transparent and well-defined manner.

The department also modernized its functions, developing its human resource systems (HRMS) in order to automate a number of its central activities and add new features and positions, thus increasing the department's efficiency. This project is being implemented in several stages, the first of which will be completed in 2019, with the others to follow in 2020.

In 2018, the bank's Training Department executed a number of activities and training programs that aim to build capacities, develop employee skills and enhance their experiences. 850 people took part in the department's activities and programs, including department heads, branch managers and staff from throughout the Kingdom. Some took advantage of more than one program and workshop from a diverse package that included seminars, training sessions, workshops and conferences. In total, there were 90 local and foreign workshops, including comprehensive workshops for branch employees in customer service, sales, and the bank's systems. Additionally, there were recurring awareness-raising programs in money laundering and a specialized program in office monitoring (CBJOSS), which were conducted by the program's representatives at the Central Bank of Jordan.

Due to recent developments and the security incidents that targeted many institutions, the bank organized an awareness session on security, which saw the participation of relevant departments, branch managers, heads of security and employees.

Eleven employees obtained specialized professional certificates including CAMs, PHRi, the comprehensive banking diploma, and the comprehensive banking credit diploma. Employees also attended advanced workshops in cyber security, in the 5th Cobit governance framework and on the analysis of banking credit in cooperation with Moody's Corporation.

Employment examinations were held for 300 job applicants in 2018, and another cycle of tests was arranged in order to promote employees, while 48 exams were conducted for purposes of promotion to certain positions.

The Training Department supervised 24 trainees from various Jordanian and foreign universities in order to meet compulsory university requirements, including members from the Association of Banks in Jordan and Amman College. The department looks forward to 2019 as a year of continuous development and improvement. Strategic plans are in place and include numerous initiatives and projects that will work on reinforcing the pivotal role of the Human Resources Department, aiding the advancement of operations and providing advanced systems and services.

## 13- The AJIB Solar Power Generating Plant

In October 2018, AJIB inaugurated a plant that produces 4 megawatts of power using photovoltaic (PV) cells/ solar technology by transduction. This aligns with the bank's social, economic and developmental sense of responsibility and its attempts at supporting sustainable energy projects that promote domestic and sustainable sources of energy. The plant also helps the bank play its part in reducing the national energy bill in an environmentally-friendly manner.

The plant is one of the largest in the Kingdom, housing 9,190 highly efficient solar panels by Sun Power, and stretches over 27,000 square meters. It produces 4 megawatts, which covers all the electricity consumption of the bank's headquarters, along with its branches and offices in the governorates of Amman and Zarqa.

## 14- Cyprus Branch

Cyprus continued to develop and maintain its position as one of the fastest growing economies in the Eurozone and has overcome the challenges it faced over the last few years. The Cypriot economy exceeded international expectations after implementing positive reforms, and the island was able to maintain a stable trend in reinforcing efficiency and gaining the trust of investors through its growing business environment.

Cyprus's quick return to global markets was a positive step in regaining trust and credibility from global businesses, which was seen through the international credit rating agency Standard & Poor's update to its credit classification for Cyprus after more than six years from BB to BBB-, indicating the country is capable of attracting investment projects.

Standard & Poor's also changed its future outlook of Cyprus to stable, and expectations are that the Cypriot economy will achieve solid growth in 2019.

The AJIB branch was established in Cyprus in 1989 and has seen 30 years of successful presence on the island. The bank offers an entire range of banking services for residents and non-residents including but not limited to deposits, loans, credit cards, commercial financing, domestic and global payments, and investment banking services.

The performance of the Cyprus branch exemplifies the bank's corporate vision that success depends on offering distinguished personal services, which help in building strong and permanent relations with customers.

## 15- The United Arab Jordan Company for Investment and Financial Brokerage

The United Arab Jordan Company for Investment and Financial Brokerage continued to offer its services in buying and selling local bonds in a comfortable and professional environment for VIP customers.

The Amman Stock Exchange market witnessed a decline in trade volumes during 2018 compared to 2017, with total trade volume in 2018 reaching JD2.3 billion compared to JD2.9 billion in 2017. The total number of stocks traded in 2018 dipped to 1.2 billion compared to 1.7 billion stocks in 2017. The general index of stock prices closed at 1908.8 points, registering a 217.9-point retreat, with a decline percentage of 10.25% compared to that registered in 2017, which came in at 2126.78 points.

## 16- Arab Jordan Investment Bank (Qatar) LLC

The Qatari economy remained one of the strongest in the region in 2018, with continuous growth in GDP of 2.4%. This performance is expected to continue in 2019, with a 3.20% growth in GDP and the growth of the non-oil sector by 5.20%.

Qatar maintained a very high credit rating of Aa3 after the international credit rating agencies Fitch, S&P, and Moody's revised their future outlook for the country from negative to stable during the past year.

It is expected that the decision to increase the production of liquefied natural gas by 30% by 2024 will push the next stage of development in Qatar. This increase in production capacity in the country will require massive investments, including the construction of three new plants for treating liquefied gas. In addition to its direct impact on the GDP in the non-oil sector, the new phase of investments, which is set to begin in 2020, will create a large impact on the economy as a whole, raising the demand for goods and services and pushing development forward in the country within Qatar's national vision for 2030.

AJIB in Qatar was able to maintain its achievements during the past 13 years and continue building on this solid foundation for a better future through exceptional banking services. These can achieve growth for the bank on all levels while maintaining a strong balance sheet characterized by a good cash flow and a solid capital.

Thanks to the support of the Board of Directors and the dedication of the management team and all the bank's employees, AJIB Qatar has succeeded in achieving positive results among the entities operating in the Qatar Financial Center.

## 17- Jordan International Bank (JIB), London

Jordan International Bank (JIB) - London is an affiliate company of AJIB. AJIB's share in JIB London is 25% of its capital.
A general air of uncertainty hovers over the British economy due to the country's expected exit from the European Union. Despite that, JIB London continued advancing on all fronts since it joined AJIB as an affiliate bank in 2010. The bank offers commercial funding, private banking and treasury services to a select group of individuals and corporations, in addition to granting short-term loans to real estate developers and investors in London and southeast England.

JIB London's operating profits reached £3.9 million before taxes in 2018, compared to £3.2 million in 2017. The bank's balance sheet achieved relative stability and reached £390 million at the end of 2018, compared to £393 million at the end of 2017.

# 2019 Business Objectives

• Expand the bank's base of customers in the retail banking sector and develop further by diversifying into new segments while simultaneously continuing our distinguished performance in banking services. This guarantees a unique experience based on the provision of exceptional services and innovative products that align with customer needs.

• Focus on providing an outstanding banking experience to VIP and Prestige customers with a carefully selected and highly qualified team of relationship managers to provide guidance and assistance in growing customers' wealth.

• Continue to maintain excellence and play a pivotal role in providing banking services to the corporate sector, offering an integrated group of banking products and services designed specifically to achieve the economic and financial objectives of leading companies and institutions.

• Increase and develop our corporate customer base in various sectors including industry, trade, transportation, energy and others, in a manner that ensures consistency in the quality of services provided according to well-studied and acceptable risk ratios.

• Maintain our leadership in electronic banking systems and the latest financial technologies (Fintech) to enhance customer experience and facilitating transactions at the highest levels of security. This is accomplished through a package of projects and programs intended to implement the bank's strategy of digital transformation. The bank will continue using Blockchain technology, the first bank in the Middle East and North Africa to do so, after the successes achieved during the testing phase of the technology in 2018, which occurred in collaboration with Oracle International.

• Achieve the highest levels of operating efficiency by focusing on expanding our customer base in commercial deposits and the less expensive demand deposits in a manner that supports banking performance indicators.

• Continue to expand throughout Jordan through new branches and an increase in the number of ATMs at selected locations to ensure smooth customer service that meets the needs for services and products around the clock.

• Improve and develop the skills of the bank's human resources in all departments and positions to reach the highest professional standards by providing training and workshops given by the highly qualified experts and instructors to enrich the employee knowledge with banking products and equip them with the advanced selling skills and mechanisms.

# SUMMARY OF KEY FINANCIAL INDICATORS FOR ARAB JORDAN INVESTMENT BANK GROUP

# Summary of Key Financial Indicators for AJIB Group

(Million JD)

| Statement/Year | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Total Assets | 2,033.1 | 1,838.0 | 1,809.6 | 1,793.2 |
| Net Credit Facilities | 752.7 | 755.2 | 753.2 | 736.6 |
| Financial Assets at Amortized Cost | 688.0 | 597.6 | 594.0 | 588.6 |
| Customer Deposits and Cash Margins | 1,069.6 | 1,110.4 | 1,140.0 | 1,105.9 |
| Total Equity | 215.4 | 219.4 | 220.4 | 221.6 |
| Gross Income | 58.1 | 59.9 | 67.6 | 69.5 |
| Net Profit before Tax | 24.4 | 25.8 | 33.5 | 33.5 |
| Net Profit after Tax | 16.8 | 17.2 | 22.6 | 23.2 |
| Net Shareholder Profit after Tax | 15.5 | 16.0 | 21.0 | 21.3 |
| Market Value | 192.0 | 262.5 | 255.0 | 286.5 |
| Share Price by End of Year (JD) | 1.28 | 1.75 | 1.70 | 1.91 |
| Earnings per Share (JD) | 0.103 | 0.107 | 0.140 | 0.142 |
| Proposed Dividend Distribution (JD) | 0.09 | 0.09 | 0.12 | 0.12 |

## Strength and Durability of the Financial Position

- Constant growth in volumes of operations as total assets reached JD2.03 billion at the end of 2018, with a growth rate of 10.6% compared to 2017, while maintaining acceptable risk ratios.
- Despite the economic and political challenges and increasing competition in the banking sector, the bank maintained the stability of its balance and the quality of its credit portfolio.
- Robust capital base enough to prudently face all credit risks associated with the bank.

(Million JD)

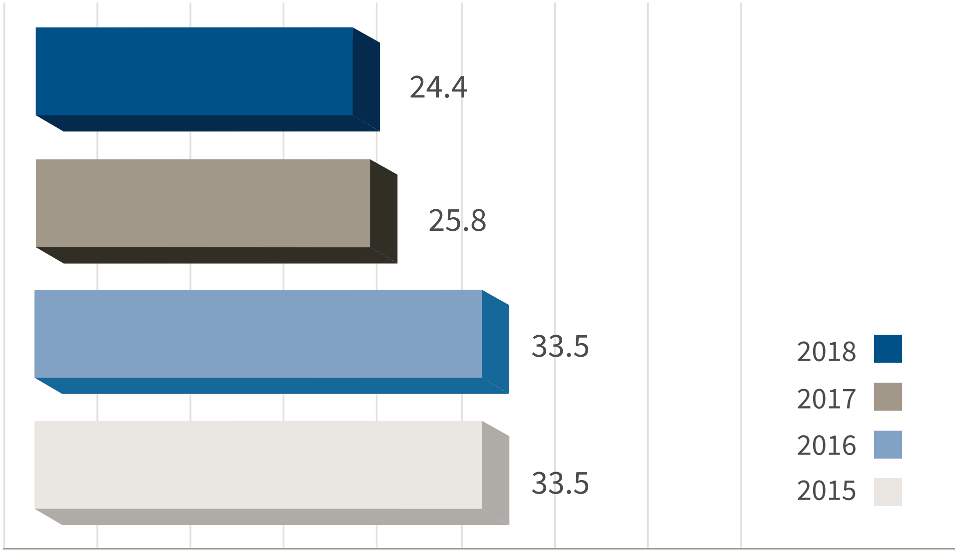
| | 2018 | 2017 | Change % |
|---|---|---|---|
| Net Credit Portfolio | 752.7 | 755.2 | (0.3%) |
| Securities Portfolio | 703.8 | 612.6 | 14.9% |
| Total Assets | 2,033.1 | 1,838.0 | 10.6% |
| Customer Deposits and Cash Margin | 1,069.6 | 1,110.4 | (3.7%) |
| Bank and Financial Institutions Deposits | 537.4 | 487.3 | 10.3% |
| Total Equity | 215.4 | 219.4 | (1.8%) |

| | 2018 Basel III | 2017 Basel III | 2016 Basel II | 2015 Basel II |
|---|---|---|---|---|
| Capital Adequacy Ratio | 15.90% | 15.95% | 16.25% | 15.94% |

## Net Profit Before Tax

In 2018, the bank generated net profits before tax of JD24.4 million, which is compatible with the economic conditions of the markets in which the bank operates. One of the most prominent events to affect the markets was the Central Bank of Jordan's decision to raise interest rates on monetary policy instruments four times during the 2018 by a total of 1.0% to match the interest rates of 1.0% raised by the US Federal Reserve. This had an immediate and direct impact on raising costs on customer and bank deposits, and therefore, on the net profits before tax.

(Million JD)

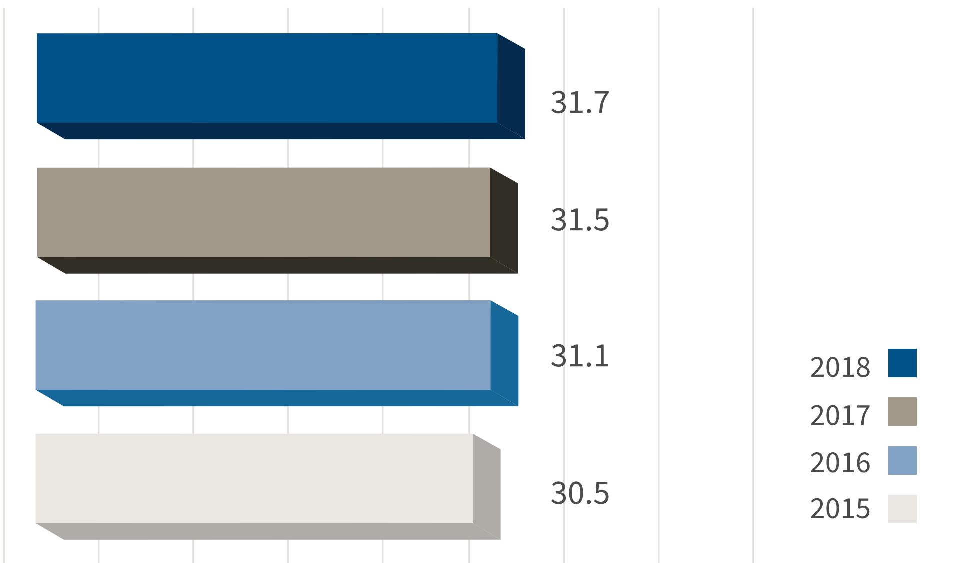



Net Profit Before Tax

## Total Operating Costs

Controlling operating expenses especially those that were easily managed and in alignment with revenue flows, allowed the bank to maintain a balanced level of operating expenses over the past years.

(Million JD)

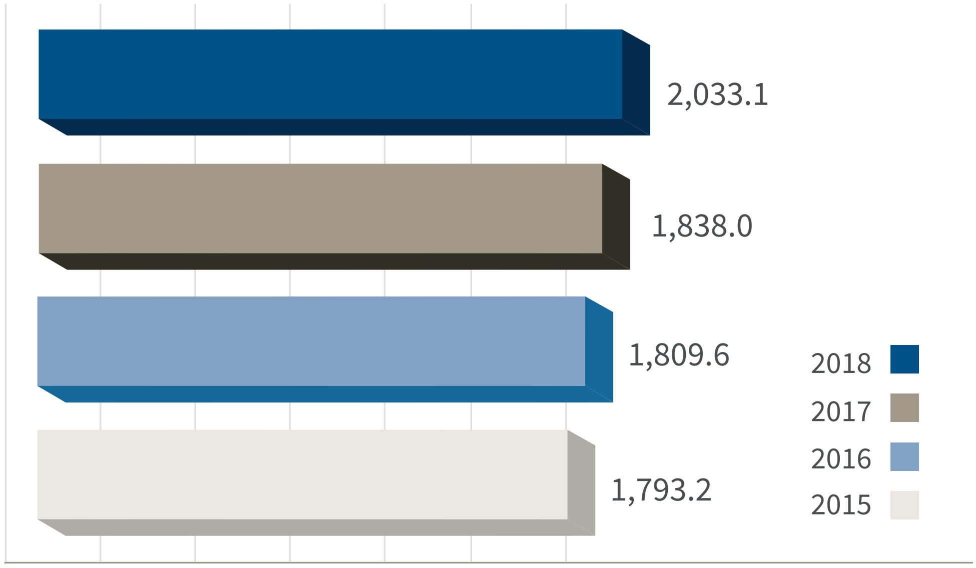



Total Operational Costs

## Steady and Balanced Growth in the Financial Position

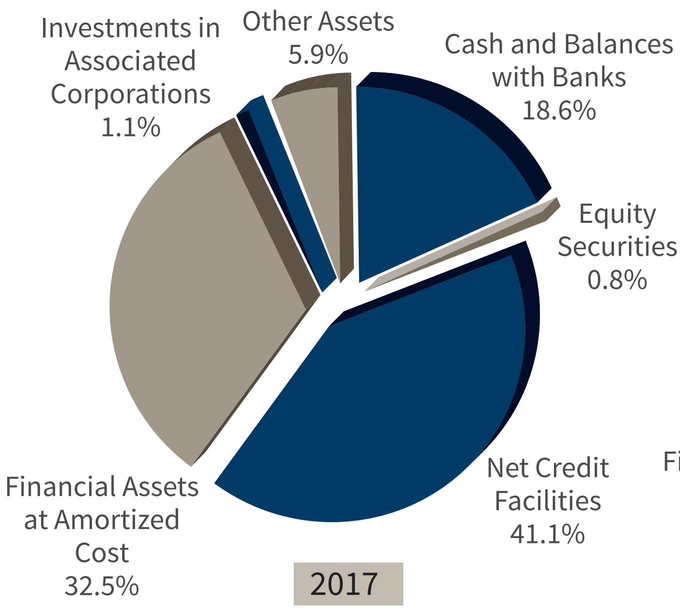
In 2018, the bank's assets grew noticeably by 10.6% to reach JD2.03 billion, compared to JD1.84 billion in 2017. This growth was achieved by diversifying revenue streams and utilization of funds in a way that generated worthwhile returns for our partners including shareholders, customers and employees and within well-studied and acceptable risk levels considering the economic and political challenges in the region.

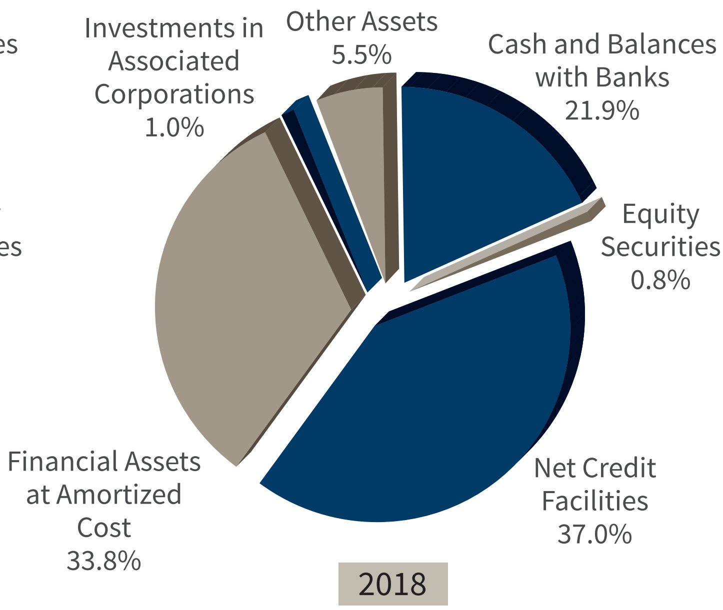
(Million JD)




Total Assets

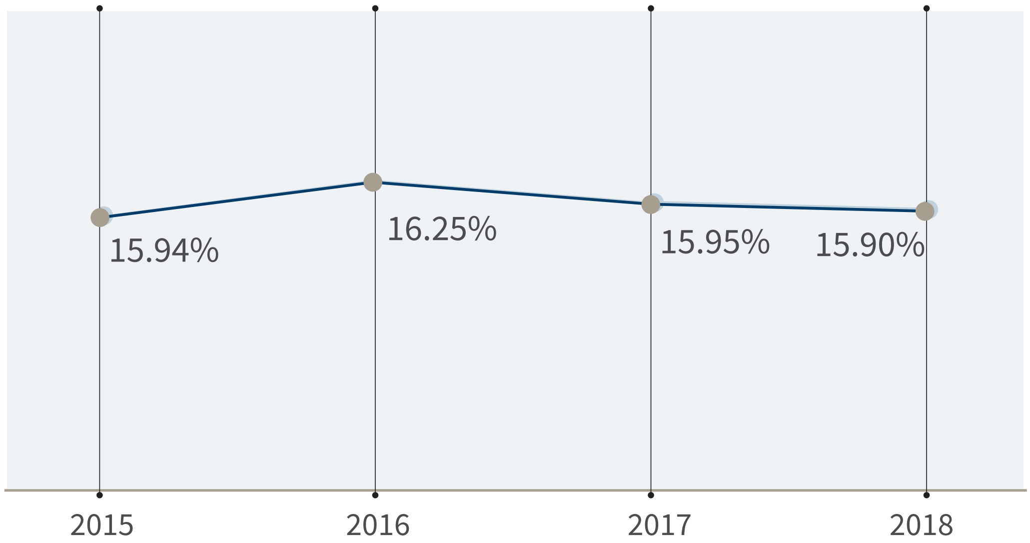
## Balanced Composition of Assets Reflects a Strong and Solid Financial Position



## Capital Adequacy Ratio

The bank's capital adequacy ratio surpassed the minimum 8% required by the Basel Committee, and also surpassed the minimum 12% requirement of the Central Bank of Jordan to reach 15.90% in 2018, as per Basel III requirements.

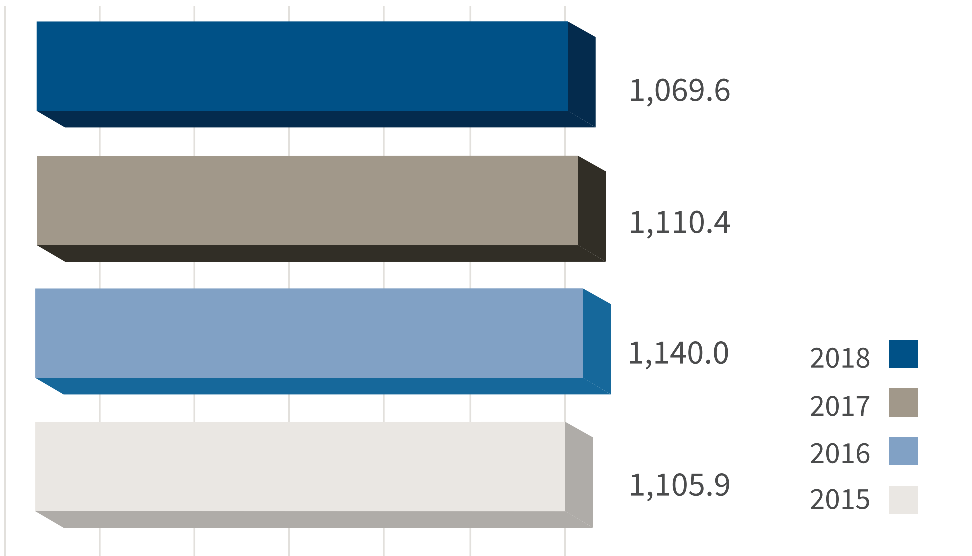



Capital Adequacy Ratio

## Growth of Customer Deposits and Cash Margins

Despite the rise in interest rates in 2018 and the competition among banks in the local market, AJIB maintained its customer base, which reflects the high level of confidence that the bank has earned in the Jordanian banking sector.

(Million JD)

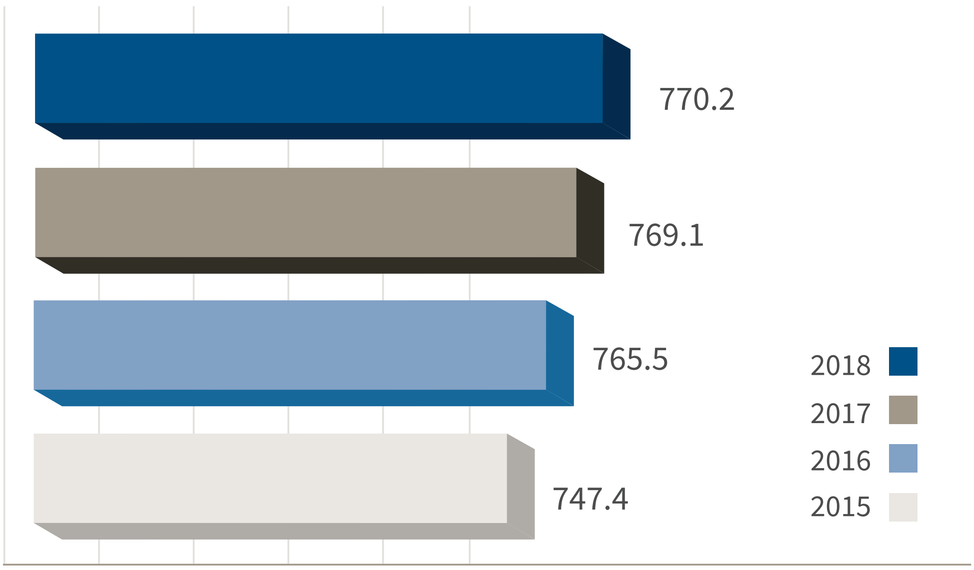



Growth of Customers' Deposits and Cash Margins

## Total Credit Facilities Portfolio

In 2018, the bank intensified its efforts to improve the quality of its credit portfolio by following two strategic pillars: pursuing a prudent and selective credit policy in granting facilities during these difficult economic conditions and intensifying its efforts in collecting and processing non-performing loans in a manner that improves its quality. As a result, the total balance of the credit facilities portfolio reached JD770.2 million in 2018, compared to JD769.1 million in 2017. The percentage of non-performing debts in 2018 reached 2.2% of the direct credit facilities balance after deducting the suspended interest, which is one of the lowest and best ratios in the banking sector.

(Million JD)

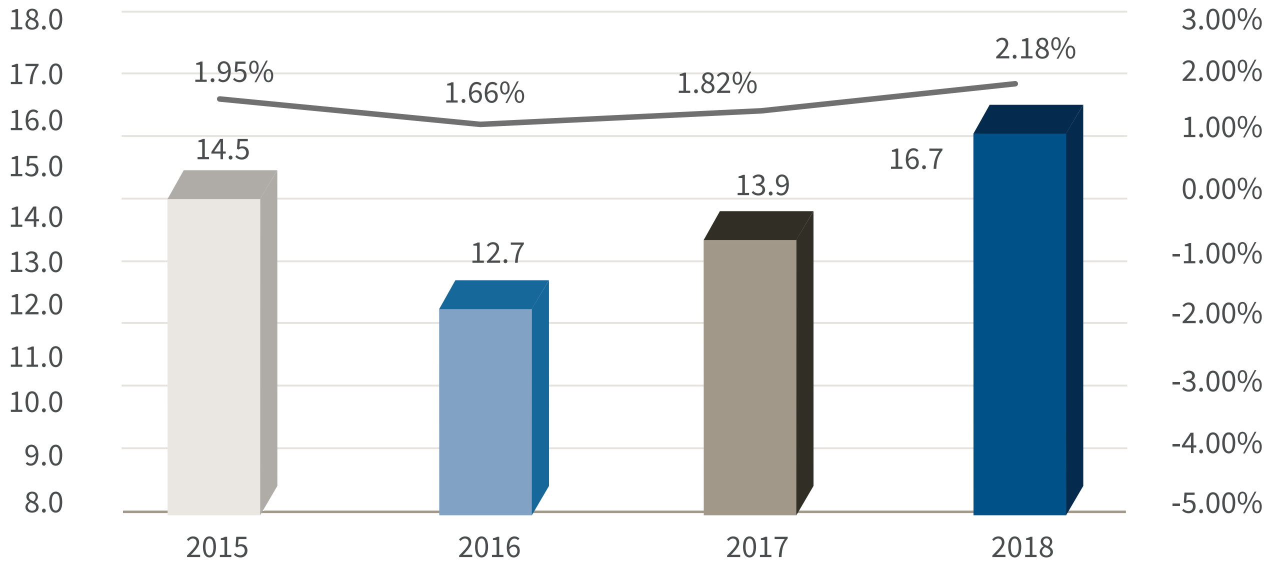



Total Credit Facilities Portfolio

## Non-Performing Credit Facilities

Despite the difficult economic circumstances in 2018, the net ratio of non-performing debts to total facilities is considered one of the lowest in the Jordanian banking sector.

(Million JD)

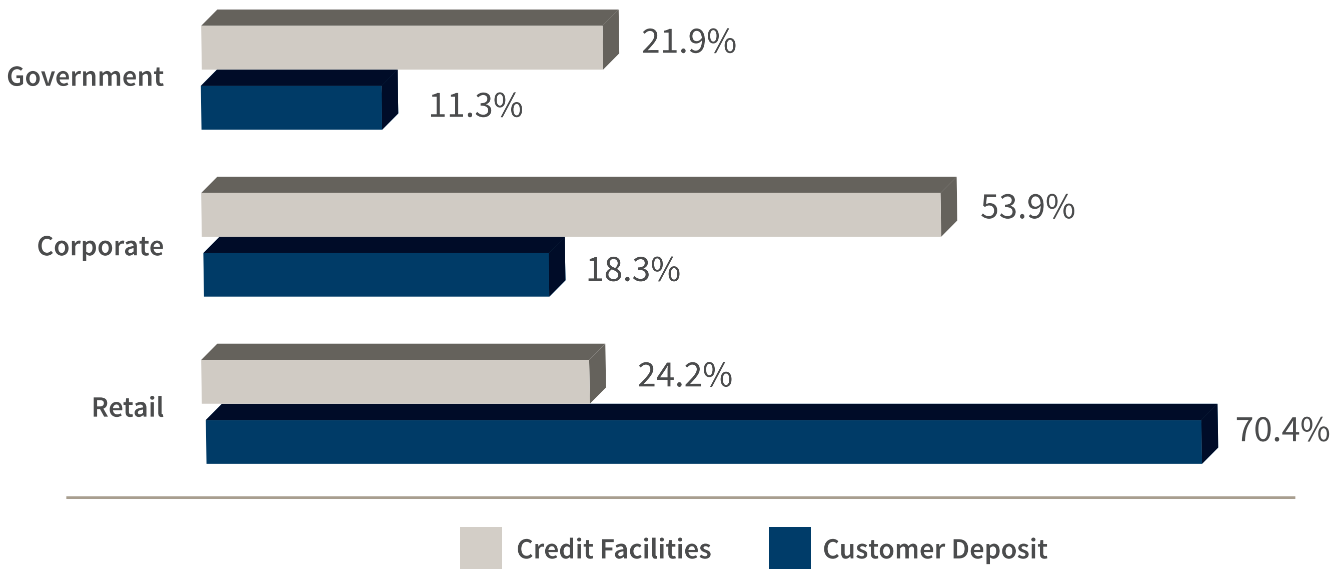



Net Non-Performing Facilities and their Ratio to Portfolio Facilities

## Composition of Customer Deposits and the Credit Facilities Portfolio

In general, retail deposits are considered stable deposits in the banking sector, and formed 70.4% of customer deposits at the end of 2018, compared with 24.2% of loans and facilities for the same sector. Loans extended to individuals are considered of lower risk than corporate loans.

Alternatively, facilities granted to the public sector comprised 21.9%, and are made up of two types: the first is risk-free as the government guarantees these loans, while the second part is not guaranteed by the government.

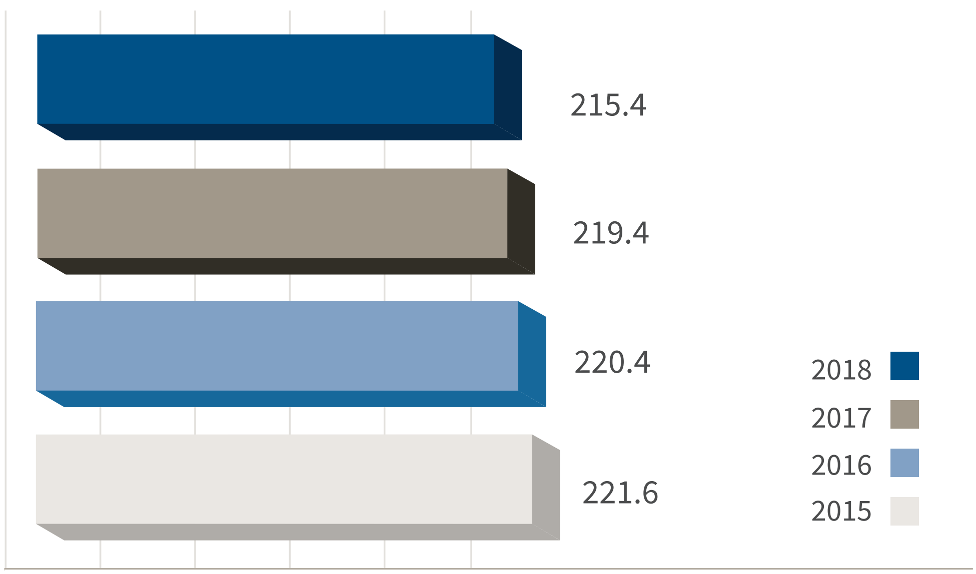



Composition of Customer Deposits and the Credit Facilities Portfolio

## Total Equity

The bank maintained its capital base, placing it within the ranks of well-capitalized and stable financial institutions, reaching JD215.4 million in 2018.

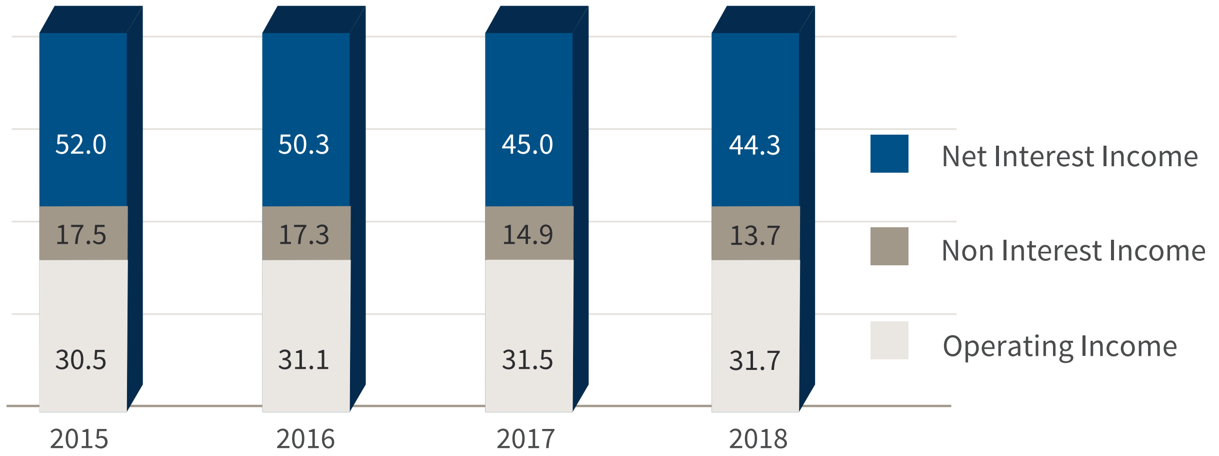
(Million JD)




Total Equity

## Net Revenues and Operational Expenses

Although operating expenses were stable over the past several years, the Operational Efficiency Index rose in that period to reach 54.6% by the end of 2018, compared to 52.6% at the end of 2017. This was due to the rise in the cost of funds resulting from raised interest rates on customer and bank deposits. The bank maintained an acceptable level compared to the banking sector



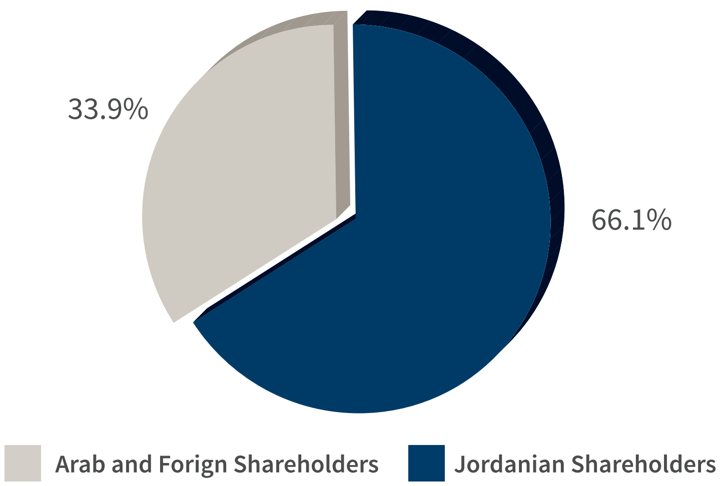

## Financial Highlights

| Statement/Year | 2018 | 2017 | 2016 |
|---|---|---|---|
| Return on Average Assets (ROaA) before Tax | 1.3% | 1.4% | 1.9% |
| Return on Average Assets (ROaA) after Tax | 0.9% | 0.9% | 1.3% |
| Return on Average Equity (ROaE) before Tax | 11.2% | 11.7% | 15.1% |
| Return on Average Equity (ROaE) after Tax | 7.7% | 7.8% | 10.2% |
| Non-Performing Loans / Credit Facilities Portfolio | 2.2% | 1.8% | 1.7% |
| Net Credit Facilities / Customer Deposits | 73.0% | 71.9% | 69.9% |
| Net Credit Facilities / Total Assets | 37.0% | 41.1% | 41.6% |
| Cash and Balances with Banks / Total Assets | 21.9% | 18.6% | 18.0% |
| Total Equity / Total Assets | 10.6% | 11.9% | 12.2% |

## Number of Bank Employees

By the end of 2018, the number of employees at AJIB reached 759 compared to 761 at the end of 2017.

## Bank Shares Ownership



ARAB JORDAN INVESTMENT BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN

# INDEPENDENT AUDITOR'S REPORT

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of**
**Arab Jordan Investment Bank**
**Amman – Jordan**

## Report on the Audit of the consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Arab Jordan Investment Bank “Bank” and its subsidiaries “the Group”, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Jordan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

<table>
<tr><td colspan="2">1. Inadequate allowances (ECL) for credit facilities<br>Refer to the note 9 on the consolidated financial statements</td></tr>
<tr><td>Key Audit matter 1<br><br>This is considered as a key audit matter as the group exercises significant judgement to determine when and how much to record as impairment.<br><br>The provision for credit facilities is recognized based on the Group’s provisioning and impairment policy which complies with the requirements of IFRS 9.<br><br>Credit facilities form a major portion of the Group's assets, there is a risk that inappropriate impairment provisions are booked, whether from the use of inaccurate underlying data, or the use of unreasonable assumptions. Due to the significance of the judgments used in classifying credit facilities into various stages stipulated in IFRS 9 and determining related provision requirements, this audit area is considered a key audit risk.<br><br>As at 31 December 2018, the Group's gross credit facilities amounted to JD 770,246,697 and the related impairment provisions amounted to JD 14,468,779. The impairment provision policy is presented in the accounting policies in note (2) to the consolidated financial statements.</td>
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</table>

| | |
|---|---|
| | • Soundness and mathematical integrity of the ECL Model.<br><br>• For exposures moved between stages we have checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. We also checked the timely identification of exposures with a significant deterioration in credit quality.<br><br>• For exposures determined to be individually impaired we re-preformed the ECL calculation we also obtained an understanding of the latest developments in the counterparty's situation of the latest developments in estimate of future cash flows, current financial position any rescheduling or restructuring agreements.<br><br>• For forward looking assumptions used by the Group in its Expected Credit Loss ("ECL") calculations, we held discussions with management and corroborated the assumptions using publicly available information.<br><br>• We assessed the financial statements disclosures to ensure compliance with IFRS 9. Refer to the accounting policies, critical accounting estimates and judgments, disclosures of credit facilities and on ECL in notes (2), (4), (10) and (44) to the consolidated financial statements. |

## Other information included in the Group's 2018 annual report.

Other information consists of the information included in The Group's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

## Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor’s Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exist, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonable be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

The Group maintains proper books of accounts which are in agreement with the financial statements.

The partner in charge of the audit resulting in this auditor's report was Waddah Barkawi; license number 591.

Amman, Jordan
3 February 2019

Ernst + Young

ARAB JORDAN INVESTMENT BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN

# CONSOLIDATED FINANCIAL STATEMENTS

ARAB JORDAN INVESTMENT BANK (A PUBLIC SHAREHOLDING LIMITED COMPANY)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Assets | Notes | 2018 | 2017 |
|---|---|---|---|
| | | JD | JD |
| Cash and balances at Central Bank of Jordan | 5 | 121,539,096 | 70,179,969 |
| Balances at banks and financial institutions - net | 6 | 307,520,994 | 254,895,109 |
| Deposits at banks and financial institutions - net | 7 | 15,877,685 | 16,535,460 |
| Financial assets at fair value through profit or loss | 8 | 263,244 | 169,390 |
| Financial assets at fair value through other comprehensive income | 9 | 15,506,988 | 14,817,140 |
| Direct credit facilities - net | 10 | 752,694,569 | 755,162,896 |
| Financial assets at amortized cost - net | 11 | 688,023,173 | 597,569,867 |
| Investment in associate company | 12 | 19,011,340 | 19,947,778 |
| Property and equipment - net | 13 | 74,301,592 | 68,754,517 |
| Intangible assets - net | 14 | 694,005 | 930,783 |
| Deferred tax assets | 21-D | 540,846 | 932,646 |
| Other assets | 15 | 37,116,887 | 38,130,272 |
| Total Assets | | 2,033,090,419 | 1,838,025,827 |
| Liabilities and Equity | | | |
| Liabilities: | | | |
| Banks and financial institutions' deposits | 16 | 537,381,551 | 487,339,879 |
| Customers' deposits | 17 | 1,030,562,047 | 1,050,715,661 |
| Borrowed money from the Central Bank of Jordan | 18 | 146,041,810 | 161,422 |
| Cash margins | 19 | 38,991,293 | 59,693,044 |
| Sundry provisions | 20 | 606,874 | 1,923,950 |
| Income tax provision | 21-A | 6,866,156 | 7,785,786 |
| Other liabilities | 22 | 57,242,485 | 11,047,721 |
| Total Liabilities | | 1,817,692,216 | 1,618,667,463 |
| Equity: | | | |
| Equity attributable to Bank's shareholders | | | |
| Paid-up capital | 23 | 150,000,000 | 150,000,000 |
| Share issuance premium | 24 | 1,418,000 | 1,418,000 |
| Statutory reserve | 25 | 31,447,469 | 29,279,131 |
| General banking risks reserve | | - | 5,888,551 |
| Foreign currency translation adjustments | 26 | (3,596,397) | (2,379,220) |
| Fair value reserve - net | 27 | (1,891,990) | (1,673,812) |
| Retained earnings | 28 | 17,479,705 | 16,168,304 |
| Total equity attributable to the Bank's shareholders | | 194,856,787 | 198,700,954 |
| Non-controlling interest | 30 | 20,541,416 | 20,657,410 |
| Total equity | | 215,398,203 | 219,358,364 |
| Total liabilities and shareholders' equity | | 2,033,090,419 | 1,838,025,827 |

The accompanying notes from (1) to (53) constitute an integral part of these statements and should be read with them.

ARAB JORDAN INVESTMENT BANK (A PUBLIC SHAREHOLDING LIMITED COMPANY)

## CONSOLIDATED STATEMENT OF INCOME

| | Notes | 2018 | 2017 |
|---|---|---|---|
| | | JD | JD |
| Interest income | 31 | 90,353,940 | 80,807,691 |
| Interest expense | 32 | (46,012,013) | (35,813,651) |
| Net interest income | | 44,341,927 | 44,994,040 |
| Net commission income | 33 | 8,289,626 | 8,468,863 |
| Net interest and commissions income | | 52,631,553 | 53,462,903 |
| Foreign currencies income | 34 | 3,747,495 | 3,586,162 |
| Loss from financial assets at fair value through profit or Loss | 35 | (43,568) | (7,924) |
| Cash dividends from financial assets at fair value through other comprehensive income | 36 | 268,424 | 383,644 |
| Other income | 38 | 1,178,117 | 1,717,082 |
| Gross income | | 57,782,021 | 59,141,867 |
| Employees expenses | 39 | 16,232,941 | 16,740,195 |
| Depreciation and amortization | 13, 14 | 3,030,943 | 3,068,516 |
| Other expenses | 40 | 12,426,711 | 11,726,260 |
| Provision for impairment | 37 | 1,424,673 | 1,808,167 |
| Sundry provisions | 15 & 20 | 551,070 | 796,529 |
| Total expenses | | 33,666,338 | 34,139,667 |
| Bank's share in the income of associate company | 12 | 280,739 | 772,057 |
| Profit for the year before income tax | | 24,396,422 | 25,774,257 |
| Income tax expense | 21-B | (7,580,095) | (8,599,308) |
| Profit for the year | | 16,816,327 | 17,174,949 |
| Attributable to: | | | |
| Bank's shareholders | | 15,506,052 | 15,984,051 |
| Non-controlling interest | | 1,310,275 | 1,190,898 |
| | | 16,816,327 | 17,174,949 |
| | | JD/Fils | JD/Fils |
| Basic and diluted earnings per share from profit for the year (bank's shareholder) | 41 | 0,103 | 0,107 |

The accompanying notes from (1) to (53) constitute an integral part of these statements and should be read with them.

ARAB JORDAN INVESTMENT BANK (A PUBLIC SHAREHOLDING LIMITED COMPANY)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Profit for the year | 16,816,327 | 17,174,949 |
| Comprehensive Income Items: | | |
| Other comprehensive income items which will be reclassified to profit or loss in future periods: | | |
| Foreign Currency translation adjustments - Associate Company | (1,217,177) | 1,799,434 |
| Other comprehensive income items which will not be reclassified to profit or loss in future periods: | | |
| Cumulative change in fair value of financial assets through comprehensive income - net after tax | (336,594) | (439,271) |
| (Loss) gain from the sale of financial assets through comprehensive income | (4,799) | 4,222 |
| Total other comprehensive income items for the year after tax | (1,558,570) | 1,364,385 |
| Total comprehensive income for the year | 15,257,757 | 18,539,334 |
| Total comprehensive income attributable to: | | |
| Bank's shareholders | 14,065,898 | 17,540,860 |
| Non-controlling interest | 1,191,859 | 998,474 |
| | 15,257,757 | 18,539,334 |

The accompanying notes from (1) to (53) constitute an integral part of these statements and should be read with them.

## CONSOLIDATED STATEMNET OF CHANGES IN SHAREHOLDERS' EQUITY

| For the year ended 31 December 2018 | Paid-in Capital | Share Issuance Premium | Reserve | | Foreign Currency Translation Adjustments | Fair Value Reserve - Net **** | Retained Earnings*** | Total Equity attributable to the Bank's shareholders | Non - Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Statutory Reserve | General Banking Risks Reserve** | | | | | | |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 150,000,000 | 1,418,000 | 29,279,131 | 5,888,551 | (2,379,220) | (1,673,812) | 16,168,304 | 198,700,954 | 20,657,410 | 219,358,364 |
| Transferred from general banking risks reserve | - | - | - | (5,888,551) | - | - | 5,888,551 | - | - | - |
| Effect of IFRS 9 adoption as of 1/1/2018 | - | - | - | - | - | - | (4,410,065) | (4,410,065) | (67,103) | (4,477,168) |
| Restated Balance at the beginning of the year | 150,000,000 | 1,418,000 | 29,279,131 | - | (2,379,220) | (1,673,812) | 17,646,790 | 194,290,889 | 20,590,307 | 214,881,196 |
| Total comprehensive income for the year | - | - | - | - | (1,217,177) | (218,178) | 15,501,253 | 14,065,898 | 1,191,859 | 15,257,757 |
| Distributed dividend to shareholders * | - | - | - | - | - | - | (13,500,000) | (13,500,000) | - | (13,500,000) |
| Transferred to reserves | - | - | 2,168,338 | - | - | - | (2,168,338) | - | - | - |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | (1,240,750) | (1,240,750) |
| Balance at the end of the year | 150,000,000 | 1,418,000 | 31,447,469 | - | (3,596,397) | (1,891,990) | 17,479,705 | 194,856,787 | 20,541,416 | 215,398,203 |
| For the year ended 31 December 2017 | | | | | | | | | | |
| Balance - beginning of the year | 150,000,000 | 1,418,000 | 26,957,710 | 5,788,551 | (4,178,654) | (1,429,227) | 20,603,714 | 199,160,094 | 21,254,186 | 220,414,280 |
| Total comprehensive income for the year | - | - | - | - | 1,799,434 | (244,585) | 15,986,011 | 17,540,860 | 998,474 | 18,539,334 |
| Distributed dividend to shareholders * | - | - | - | - | - | - | (18,000,000) | (18,000,000) | - | (18,000,000) |
| Transferred to reserves | - | - | 2,321,421 | 100,000 | - | - | (2,421,421) | - | - | - |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | (1,595,250) | (1,595,250) |
| Balance at the end of the year | 150,000,000 | 1,418,000 | 29,279,131 | 5,888,551 | (2,379,220) | (1,673,812) | 16,168,304 | 198,700,954 | 20,657,410 | 219,358,364 |

* According to the resolution of the Bank's General Assembly meeting held on 26 April 2018 it was approved to distribute 9 % of the Bank's capital as cash dividends to the shareholders which is equivalent to JD 13.5 million.

<u>In accordance to the instructions of the regulatory authorities</u>

** The Central Bank of Jordan issued memo No. 7702/1/10 at 6 June 2018 requesting to transfer general banking risks reserve balance to retained earnings to be offset with the effect of IFRS 9, which represents the beginning balance for retained earnings as of 1 January 2018. The memo also stated to keep general banking risks reserve balance restricted after the offset, and it should not be distributed as dividends or used for any other purposes unless an approval from the Central Bank of Jordan is obtained. The restricted balance amounted to JD 1,478,486.

*** Retained earnings include a restricted amount of JD 540,846 against deferred tax benefits as of 31 December 2018. This restricted amount cannot be utilized through capitalization or distribution unless actually realized in accordance to the Central Bank of Jordan regulations.

**** The negative fair value reserve which amounts to JD 1,891,990 as of 31 December 2018 cannot be utilized through capitalization, distribution or any other way unless realized from the actual sales transactions in accordance to the Central Bank of Jordan regulations.

The accompanying notes from (1) to (53) constitute an integral part of these statements and should be read with them.

ARAB JORDAN INVESTMENT BANK (A PUBLIC SHAREHOLDING LIMITED COMPANY)

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 2018 | 2017 |
|---|---|---|---|
| | | JD | JD |
| Operating activities | | | |
| Profit before income tax | | 24,396,422 | 25,774,257 |
| Adjustments for: | | | |
| Depreciation and amortization | 13, 14 | 3,030,943 | 3,068,516 |
| Provision for impairment | 37 | 1,424,673 | 1,808,167 |
| Unrealized loss on financial assets at fair value through profit or loss | 35 | 47,995 | 19,242 |
| Provision for end of service indemnity | 20 | 38,070 | 236,529 |
| Provision for seized assets | 15 | 513,000 | 500,000 |
| Other sundry provisions | 20 | - | 60,000 |
| Gain from sale of property and equipment | 38 | (5,530) | (27,147) |
| Loss (gain) from the sale of seized assets | 38 | 49,367 | (7,946) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 34 | (196,432) | (136,658) |
| Bank’s share in the income of associate company | 12 | (280,739) | (772,057) |
| Cash profit before changes in assets and liabilities | | 29,017,769 | 30,522,903 |
| Changes in assets and liabilities: | | | |
| Deposits with banks and other financial institutions (maturing over 3 months) | | 602,257 | 10,776,654 |
| Financial assets at fair value through profit or loss | | (141,849) | 35,128 |
| Direct credit facilities | | (2,790,696) | (3,727,761) |
| Other assets | | (4,174,213) | (2,354,421) |
| Banks and financial institutions deposits (maturing over 3 months) | | 40,000,000 | 80,000,000 |
| Customers' deposits | | (20,153,614) | (26,840,806) |
| Cash margins | | (20,701,751) | (2,767,530) |
| Other liabilities | | 45,693,968 | (5,878,951) |
| Net change in assets and liabilities | | 38,334,102 | 49,242,313 |
| Net cash flows from operating activities before taxes | | 67,351,871 | 79,765,216 |
| Sundry provisions paid | 20 | (1,355,146) | (356,656) |
| Income tax paid | 21-A | (8,107,925) | (10,785,573) |
| Net cash flows from operating activities | | 57,888,800 | 68,622,987 |
| Investing activities: | | | |
| Financial assets at amortized cost - net | | (90,574,098) | (3,578,034) |
| Sale of financial assets at fair value through other comprehensive income | | (1,031,241) | (185,693) |
| Purchase of property and equipment | 13 | (3,449,558) | (5,527,593) |
| Proceeds from sale of property and equipment and intangible assets | | 12,299 | 384,576 |
| Purchase of intangible assets | 14 | (273,220) | (202,686) |
| Net cash flows used in investing activities | | (95,315,818) | (9,109,430) |
| Financing activities: | | | |
| Borrowed money from the Central Bank of Jordan | | 145,880,388 | 161,422 |
| Change in non–controlling interest | | (1,240,750) | (1,595,250) |
| Dividends distributed to shareholders | | (13,427,397) | (17,792,433) |
| Net cash flows from (used in) financing activities | | 131,212,241 | (19,226,261) |
| Net increase in cash and cash equivalents | | 93,785,223 | 40,287,296 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | 196,432 | 136,658 |
| Cash and cash equivalent - beginning of the year | | (82,264,801) | (122,688,755) |
| Cash and cash equivalent - end of the year | 42 | 11,716,854 | (82,264,801) |

The accompanying notes from (1) to (53) constitute an integral part of these statements and should be read with them.

ARAB JORDAN INVESTMENT BANK
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# 1. General

The Arab Jordan Investment Bank is a public shareholding limited company with headquarters in Amman – Jordan, On January 1, 1978 it was registered according to the Companies Law and related subsequent amendments the last of which was amendment No, (22) for the year 1997. -Moreover the Bank's authorized and paid-up capital was increased gradually the last of which was during the year 2014 to become JD 150 million at face value of JD 1 each.

The Bank is engaged in commercial banking activities through its (33) branches and offices in Jordan and (1) branch in Cyprus and its subsidiaries in Qatar and Jordan (Arab Jordan Investment Bank - (Qatar) LLC and the United Arab Jordan Company for Investment and Financial Brokerage).

The Bank's shares are listed and traded in the Amman Stock Exchange.

The consolidated financial statements have been approved by the Board of Directors in its meeting held on 31 January 2019 meeting number (278) and are subject to the approval of the Central Bank of Jordan and the General Assembly of Shareholders.

# 2. Significant Accounting Policies

### Basis of Preparation of the Consolidated Financial Statements

The accompanying consolidated financial statements for the Bank and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards.

The consolidated financial statements are prepared on the historical cost basis except for financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income and financial derivatives which have been measured at fair value at the date of the consolidated financial statements, moreover fair value hedged assets and liabilities are stated at fair value.

The consolidated financial statements are presented in Jordanian Dinar (JD) which is the functional currency of the Bank.

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries where the Bank holds control over the subsidiaries. The control exists when the bank controls the subsidiaries significant and relevant activities and is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. All transactions balances, income and expenses between the Bank and subsidiaries are eliminated. The following subsidiaries were consolidated in the Group’s financial statements:

| Company’s Name | Ownership Percentage | Company’s Paid-up capital Equivalent JD | Head Quarter | Date of Incorporated | Company’s Objectives |
|---|---|---|---|---|---|
| United Arab Jordan Company for Investment and Financial Brokerage | 100% | 2,500,000 | Amman-Jordan | February 5, 2002 | Financial Brokerage |
| Arab Jordan Invest Bank / Qatar | 50% + two shares | 35,450,000 | Doha - Qatar | December 5, 2005 | Bank Activity |

The following are the most significant financial information for the subsidiary companies:

| | United Arab Jordan Company for Investment and Financial Brokerage | | Arab Jordan Investment Bank / Qatar | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD |
| Total assets | 2,728,334 | 2,799,178 | 241,205,414 | 192,800,408 |
| Total liabilities | 62,796 | 137,148 | 200,122,583 | 151,485,589 |
| Equity | 2,665,538 | 2,662,030 | 41,082,831 | 41,314,819 |
| | | | | |
| | For the year ending 31 December | | For the year ending 31 December | |
| | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD |
| Total revenue | 63,852 | 97,802 | 7,759,831 | 6,992,250 |
| Total expenses | 291,010 | 328,468 | 5,139,282 | 4,610,458 |

The financial statements of the subsidiaries are prepared for the same financial year of the Bank and by using the same accounting policies adopted by the Bank. If the accounting policies adopted by the subsidiaries are different from those used by the Bank the necessary adjustments to the financial statements of the subsidiaries are made to comply with the accounting policies used by the Bank.

The Results of operations of subsidiaries are included in the consolidated statement of income effective from the acquisition date, which is the date of transfer of control over the subsidiary to the Group. The results of operations of subsidiaries disposed are included in the consolidated statement of income up to the effective date of disposal, which is the date of loss of control over the subsidiary.

Non-controlling interest represents the portion that is not owned by the Bank in the owner's equity in the subsidiary companies.

## SIGNIFICANT ACCOUNTING POLICIES

### Segmental Information

Business sector represents a group of assets and operations that jointly provide products or services subject to risks and returns different from those of other business segments, which were measured according to the reports used by the General Manager and the Bank’s decision maker.

Geographical sector relates to providing products or services in an economic environment subject to specific risks and returns different from those operating in other sectors of other economic environments.

### Direct Credit Facilities

Direct credit facilities are financial assets with fixed or determinable payments which are provided basically by the Bank or have been acquired and have no market price in the active markets, which are measured at amortized cost.

A provision for the impairment in direct credit facilities is recognized through the calculation of the expected credit loss in accordance with International Financial Reporting Standard number 9.

Interest and commission earned on non-performing granted credit facilities are suspended in accordance with the instructions of the Central Bank of Jordan and in accordance with the instructions of the regulatory authorities whichever is more conservative in countries where the Bank has its branches or subsidiaries. When direct credit facilities are uncollectible they are written off against the provision account, any surplus in the provision is reversed through the consolidated statement of income, and subsequent recoveries of amounts previously written off are credited to revenue.

### Fair Value

Fair value represents the closing market price (Assets Purchasing / Liabilities Selling) of financial assets and derivatives on the date of the consolidated financial statements in active markets. In case declared market prices do not exist, active trading of some financial assets and derivatives is not available or the market is inactive, fair value is estimated by one of several methods including the following:

- Comparison with the fair value of another financial asset with similar terms and conditions.
- Analysis of the present value of expected future cash flows for similar instruments.
- Adoption of the option pricing models.
- Evaluation of long-term assets and liabilities that bear no interest through discounting cash flows and amortizing premium / discount using the effective interest rate method within interest revenue / expense in the consolidated statement of income.

The valuation methods aim to provide a fair value reflecting the market’s expectations taking into consideration the market expected risks and expected benefits when the value of the financial assets. When the financial assets fair value can’t be reliably measured, they are stated at cost less any impairment.

### Investment in Associate

An associate company is the company whereby the Bank exercises effective influence over their decisions related to financial and operational policies without control, with the Bank owning from (20%) to (50%) of the voting rights and is stated in accordance to the equity method.

Revenues and expenses resulting from transactions between the Bank and the associate company are eliminated according to the Bank's ownership percentage in these company.

## Financial Assets at Amortized Cost
Are the assets that the Bank's management intends to hold for the purpose of collecting the contractual cash flows which represents the cash flows that are solely payments of principal and interest on the outstanding principal.

Financial assets are recorded at cost upon purchase plus acquisition expenses, moreover the issue premium \ discount is amortized using the effective interest associated with the decline in value of these investments leading to the in ability to recover the investment or parts thereof are deducted, any impairment is registered in the consolidated statement of income and should be presented subsequently at amortized cost less any impairment losses.

The amount of impairment loss recognised at amortized cost is the expected credit loss of the financial assets at amortized cost.

It is not allowed to reclassify any financial assets from/to this category except for certain cases that are specified by the International Financial Reporting Standards (and if in any cases these assets are sold before the maturity date, the result of sale will be recorded in the consolidated statement of income in a separated disclosure and caption in accordance to the International Financial Reporting Standards in specific).

## Financial Assets at Fair Value through Profit or Loss
It is the financial assets purchased by the Bank for the purpose of trading in the near future and achieving gains from the fluctuations in the short-term market prices or trading margins.

Financial assets at fair value through profit or loss are initially stated at fair value at acquisition date (purchase costs are recorded in the consolidated statement of income upon acquisition) and subsequently measured in fair value, moreover changes in fair value are recorded in the consolidated statement of income including the change in fair value resulting from translation of non-monetary assets stated at foreign currency, gains or losses resulting from the sale of these financial assets or part of them are taken to the consolidated statement of income.

Dividends and interests from these financial assets are recorded in the consolidated statement of income.

It is not allowed to reclassify any financial assets to / from this category except for the cases specified in International Financial Reporting Standard.

## Financial Assets at Fair Value through other Comprehensive Income
These financial assets represent the investments in equity instruments held for the long term.

These financial assets are recognized at fair value plus transaction costs at purchase date and are subsequently measured at fair value in the consolidated statement of comprehensive income and within owner's equity including the changes in fair value resulting from translation of non-monetary assets stated in foreign currency. Gain or loss from the sale of these investments or part of them should be recognized in the consolidated statement of comprehensive income and within owner's equity and the balance of the revaluation reserve for these assets should be transferred directly to the retained earnings not to the consolidated statement of income.

No impairment testing is required for these assets. Unless classified debt instrument as financial assets at fair value through other comprehensive income, in that case, the impairment is calculated through the expected credit loss model.

Dividends are recorded in the consolidated statement of income.

## Impairment in Financial Assets

The adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018.

The Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group categorizes its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

## The Calculation of ECLs

The Group calculates the expected credit losses in accordance with the International Financial Reporting Standard Number 9 which is illustrated in Note 4.

## Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation and any impairment loss in its value, moreover Property and Equipment (except for land) are depreciated according to the straight-line method over the estimated useful lives when ready for use of these assets using the following annual rates:

| | % |
|---|---|
| Buildings | 2 |
| Equipment furniture and fixtures | 9-15 |
| Vehicles | 20 |
| Computer | 12-15 |
| Others | 2-12 |

When the carrying amount of property and equipment exceeds their recoverable value, assets are written down and impairment loss is recorded in the consolidated statement of income.

The useful lives of property and equipment are reviewed at the end of each year, in case the expected useful life is different from what was determined before the change in estimate is recorded in the following years being a change in estimates.

Property and equipment are derecognized when disposed or when there is no expected future benefit from their use or disposal.

## Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

## Intangible Assets

**A. Goodwill**

Goodwill is recognized at cost and represents the excess of the acquisition costs or investment costs in an affiliate or a subsidiary over the net assets fair value of the affiliate or subsidiary as of the acquisition date. Goodwill arises from the investment in the subsidiary recognized as a separate item in intangible assets. Later on, goodwill will be reviewed and reduced by any impairment amount.

Goodwill is allocated to cash generating unit(s) to test impairments in its value.

Impairment testing is done on the date of the consolidated financial statements. Goodwill is reduced if the test indicates that there is impairment in its value, and that the estimated recoverable value of the cash generating unit(s) relating to goodwill is less than the book value of the cash generating unit(s). Impairment is recognized in the consolidated statement of income.

**B. Other Intangible assets**

Intangible assets purchased in an acquisition are stated at fair value at the date of acquisition. Other intangible assets purchased other than through acquisition are recorded at cost.

Intangible assets are to be classified on the basis of either definite or indefinite useful life. Intangible assets with definite useful economic lives are amortized over their useful lives and recorded as an expense in the consolidated statement of income. Intangible assets with indefinite lives are reviewed for impairment as of the consolidated financial statements date, and impairment loss is recorded in the consolidated statement of income.

No capitalization of intangible assets resulting from the banks' operations is made. They are rather recorded as an expense in the consolidated statement of income in the same year.

Any indications of impairment in the value of intangible assets as of the consolidated financial statements date are reviewed. Furthermore, the estimated useful lives of the impaired intangible assets are reassessed, and any adjustment is made in the subsequent periods.

The intangible assets with a specified useful life appears of cost after deducting the annual amortization. These assets were amortized by using the straight-line method on the useful life using a percentage of 25% annually.

## Provisions

Provisions are recognized when the Bank has an obligation on the date of the consolidated financial statement arising from a past event and the costs to settle the obligation is probable and can be reliably measured.

## Provision for Employees' End-of-Service Indemnity

Provision for end of service indemnity is established by the Bank to fare any legal or contractual obligations at the end of employees' services and is calculated based on the service terms as of the financial statements date.

## Income Tax

Income tax expenses represent accrued taxes and deferred taxes.

Income tax expenses are accounted for on the basis of taxable income. Moreover taxable income differs from income declared in the consolidated financial statements because the latter includes non-taxable revenues or taxable expenses disallowed in the current year but deductible in subsequent years' accumulated losses acceptable by the tax law and items not accepted for tax purposes or subject to tax.

Taxes are calculated on the basis of the tax rates according to the prevailing laws regulations and instructions of the countries where the bank operates.

Deferred taxes are taxes expected to be paid or recovered as a result of temporary timing differences between the value of the assets and liabilities in the consolidated financial statements and the value of the taxable amount. Deferred tax is calculated on the basis of the liability method in the consolidated statement of financial position according to the rates expected to be applied when the tax liability is settled or tax assets are recognized.

Deferred tax assets and liabilities are reviewed as of the date of the consolidated financial statements and reduced in case it is expected that no benefit will arise from payment or the elimination of the need for deferred tax liabilities partially or totally.

## Capital Cost of Issuing or Buying the Bank's Shares

Cost arising from the issuance or purchase of the Bank's shares are charged to retained earnings (net of the tax effect of these costs if any). If the shares issuance or purchase process is incomplete these costs are recorded as expenses in the consolidated statement of income.

## Accounts Managed on Behalf of Customers

These represent the accounts managed by the Bank on behalf of its customers but do not represent part of the bank's assets. The fees and commissions on such accounts are shown in the consolidated statement of Income. A provision against the impairment in the capital-guaranteed portfolios managed on behalf of customers is taken.

## Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Bank intends to either settle them on a net basis or to realize the asset and settle the liability simultaneously.

## Realization of Income and Recognition of Expenses

Interest income is realized by using the effective interest method except for interest and commissions from non-performing credit facilities which are not recognized as income and are recorded in the interest and commissions in suspense account.

Expenses are recognised on accrual basis.

Commission is recorded as revenue when the related services are provided, moreover dividends are recorded when realized (decided upon by the General Assembly of Shareholders).

## Date of Recognizing Financial Assets

Purchases and sales of financial assets are recognized on the trading date (which is the date on which the bank commits itself to purchase or sell the asset).

## Hedge Accounting and Financial Derivatives

**Financial Derivatives for Hedging:**

For the purpose of hedge accounting the financial derivatives appear at fair value.

A fair value hedge is a hedge against the exposure to changes in the fair value of the bank's recognised assets or liabilities.

When the conditions of an effective fair value hedge are met the resulting gains and losses from the valuation of the fair value hedge and the change in the fair value of the hedged assets or liabilities is recognised in the consolidated statement of income.

When the conditions of an effective portfolio hedge are met the gain or loss resulting from the revaluation of the hedging instrument at fair value as well as the change in the fair value of the assets or liabilities portfolio are recorded in the consolidated income statement for the same year.

**Cash flow Hedges:**

Hedge for the change in the current and expected cash flows exposures of the Bank’s assets and liabilities.

When the conditions of an effective cash flow hedge are met the gain or loss of the hedging instruments is recognized in the statement of comprehensive income and owner’s equity, such gain or loss is transferred to the consolidated statement of income in the period in which the hedge transaction impacts the consolidated statement of income.

When the condition of the effective hedge do not apply the gain or loss resulting from the change in the fair value of the hedging instrument is recorded in the consolidated statement of income the same year.

## Assets Seized by the Bank against Due Debts

Assets that have been the subject of foreclosure by the bank are shown under "other assets" at the acquisition value or fair value whichever is lower. As of the consolidated statement of financial position date these assets are revalued individually at fair value, any decline in their market value is taken to the consolidated statement of income as a loss whereas any such increase is not recognized. Subsequent increase is taken to the income statement to the extent it does not exceed the previously recorded impairment.

## Repurchase and Resale Agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) will continue to be recognised in the Bank's consolidated financial statements due to the Bank's continuing exposure to the risks and rewards of these assets using the same accounting policies, (the buyer has the right to control such assets (by sale or pledge as collateral) which are reclassified as financial assets pledged as collateral). The proceeds of the sale are recorded under loans and borrowings. The difference between the sale and repurchase price is recognised as an interest expense over the agreement term using the effective interest method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the bank's consolidated financial statements since the Bank is not able to control these assets and since any risks and benefits do not accrue to the Bank when they occur. The related payments are recognised as part of deposits at banks and financial institutions or direct credit facilities as applicable Moreover the difference between the purchase and resale price is recognised in the consolidated statement of income over the agreement term using the effective interest method.

## Foreign Currencies

Transactions in foreign currencies during the year are recorded at the exchange rates prevailing at the date of the transactions. Moreover, financial assets and financial liabilities are translated to Jordanian Dinar based on the average exchange rates declared by the Central Bank of Jordan on the date of the consolidated financial statements.

Non-monetary assets and liabilities denominated in foreign currencies and recorded at fair value are translated on the date when their fair value is determined.

Gains or losses resulting from foreign currency translation are recorded in the consolidated statement of income.

Translation differences for non-monetary assets and liabilities denominated in foreign currencies (such as equity securities) are recorded as part of the change in fair value.

When consolidating the financial statements assets and liabilities of the branches and subsidiaries abroad are translated from the primary currency to the currency used in the financial statements using the average exchange rates prevailing on the consolidated statement of financial position date and declared by the Central Bank of Jordan. Revenue and expense items are translated using the average exchange rates during the year and exchange differences are shown in a separate item within the consolidated statement of other comprehensive income equity. In case of selling one of the subsidiaries or branches the related amount of exchange difference is booked in revenues/expenses in the consolidated statement of income.

Profit or loss resulting from the foreign exchange of interest-bearing debt instruments and within financial assets at fair value through other comprehensive income is included in the consolidated statement of income. Differences in the foreign currency translation of equity instruments are included in the cumulative change in fair value reserve within owner's equity in the consolidated statement of financial position.

## Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances with central banks and balances with banks and financial institutions maturing within three months less balances due to banks and financial institutions maturing within three months and restricted funds.

# 3. Changes in Accounting Polices

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017, except for the adoption of new standards and amendments effective as of 1 January 2018:
The management believes that their estimates are reasonable:

**IFRS 9 Financial Instruments**

The Bank has adopted IFRS 9 (2014) Financial Instruments on the required effective date 1st January 2018, the date on which the Bank has assessed the requirements of the new expected loss impairment model, hedge accounting, and the revised guidance on the classification and measurement requirements of financial instruments. The Bank had previously implemented the first phase of IFRS 9 as issued during 2009. The date of initial implementation of the first phase of IFRS 9 was 1 January 2011.

The standard has been applied retrospectively and, in line with IFRS 9 financial instruments, comparative amounts have not been restated. The impact of the adoption of IFRS 9 as at 1st January 2018 has been recognized in retained earnings in the statement of changes in equity. The standard eliminates the use of IAS 39 (Financial Instruments: recognition and measurement) incurred loss impairment model approach, uses the revised hedge accounting framework, and the revised guidance on the classification and measurement requirements.

IFRS 9 (2014) (Financial Instruments) provides revised guidance on how an entity should classify and measure its financial assets and financial liabilities. IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Bank reviewed and assessed the classification and measurement of financial assets and financial liabilities on the adoption of IFRS 9 (2009) and has further reviewed and assessed the existing financial assets and financial liabilities at the date of the required application on 1 January 2018. There have been no material changes in the classification and measurement of financial assets or financial liabilities on the adoption of IFRS 9 (2014).

IFRS 9 (2014) replaces the incurred loss model in IAS 39 Financial Instruments: Recognition and Measurement with an expected credit loss model. The new impairment model also applies to certain loan commitments, financial guarantee contracts, and placements, but not to equity investments. If a financial asset had low credit risk at the date of initial application of IFRS 9, then the credit risk of the asset has been deemed to have not increased

The impact of this change in accounting policy on the consolidated financial statements as at 1 January 2018 has been to decrease retained earnings and non-controlling interest by JD 4,477,168 as follows:

| Item (JD) | Balance as of 31 December 2017 | Reclassified Amount | Expected credit losses | Balance as of 1 January 2018 |
|---|---|---|---|---|
| Retained earnings | 16,168,304 | 5,888,551 | (4,410,065) | 17,646,790 |
| Non-controlling interest | 20,657,410 | - | (67,103) | 20,590,307 |
| Cash and balances at Central Bank of Jordan | 70,179,969 | - | - | 70,179,969 |
| Balances and deposits at bank and financial institutions | 271,430,569 | - | 80,945 | 271,349,624 |
| Direct credit facilities - net | 755,162,896 | - | 3,883,738 | 751,279,158 |
| Debt instruments in the portfolio of financial assets at amortized cost | 597,569,867 | - | 84,292 | 597,485,575 |
| Indirect credit facilities | - | - | - | - |
| Letters of guarantee | 76,650,460 | - | 136,812 | 76,513,648 |
| Letters of credit | 32,893,879 | - | 42,707 | 32,851,172 |
| Acceptances | 45,703,226 | - | 248,674 | 45,454,552 |

Beginning balance for provision after IFRS 9 adoption:

| Item (JD) | Balance as of 31 December 2017 | Difference due to recalculation | Balance as of 1 January 2018 |
|---|---|---|---|
| Balances and deposits at banks and financial institutions | - | 80,945 | 80,945 |
| Direct credit facilities - net | 11,093,862 | 3,883,738 | 14,977,600 |
| Debt instruments in the portfolio of financial assets at amortized cost | 73,000 | 84,292 | 157,292 |
| Letters of guarantee | - | 136,812 | 136,812 |
| Letters of credit | - | 42,707 | 42,707 |
| Acceptances | - | 248,674 | 248,674 |

Effect of IFRS 9 adoption on deferred tax assets and deferred tax liabilities as follows:

| Item (JD) | Deferred tax assets | Deferred tax liabilities |
|---|---|---|
| Increase (decrease) in ECL for assets | - | - |
| Reclassification of financial assets | - | - |

ECL for the year ended 31 December 2018:

| Item (JD) | Stage 1 (Individual) | Stage 1 (Collective) | Stage 2 (Individual) | Stage 2 (Collective) | Stage 3 (Individual) | Total |
|---|---|---|---|---|---|---|
| Balances and deposits at banks and financial institutions | 31,041 | - | 62,792 | - | - | 93,833 |
| Direct credit facilities - net | 2,557,037 | 2,296,157 | 2,258,120 | 446,990 | 6,910,474 | 14,468,779 |
| Debt instruments in the portfolio of financial assets at amortized cost | 84,292 | - | - | - | 109,500 | 193,792 |
| Letters of guarantee | 136,812 | - | - | - | - | 136,812 |
| Letters of credit | 42,707 | - | - | - | - | 42,707 |
| Acceptances | 248,674 | - | - | - | - | 248,674 |

**IFRS 15 Revenue from Contracts with Customers**
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The implementation of the new standard does not have any impact on the Bank's consolidated financial statements.

**IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations**
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

This Interpretation does not have any impact on the Bank's consolidated financial statements.

**Amendments to IAS 40 Transfers of Investment Property**
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

These amendments do not have any impact on the Bank's consolidated financial statements.

**Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions**
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

These amendments do not have any impact on the Bank's consolidated financial statements.

**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**
The amendments address concerns arising from implementing the new financial instrument standard, IFRS 9, before implementing IFRS 17 insurance contracts, which replaces IFRS 4.

The amendments introduce two options for entities issuing contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Bank.

**Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice**
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments do not have any impact on the Bank's consolidated financial statements.

# 4. Use Of Estimate

**Income Tax**
Income tax expenses represent accrued taxes and deferred taxes.

Income tax expenses are accounted for on the basis of taxable income. Moreover taxable income differs from income declared in the consolidated financial statements because the latter includes non-taxable revenues or taxable expenses disallowed in the current year but deductible in subsequent years' accumulated losses acceptable by the tax law and items not accepted for tax purposes or subject to tax.

Taxes are calculated on the basis of the tax rates according to the prevailing laws regulations and instructions of the countries where the bank operates.

Deferred taxes are taxes expected to be paid or recovered as a result of temporary timing differences between the value of the assets and liabilities in the consolidated financial statements and the value of the taxable amount. Deferred tax is calculated on the basis of the liability method in the consolidated statement of financial position according to the rates expected to be applied when the tax liability is settled or tax assets are recognized.

Deferred tax assets and liabilities are reviewed as of the date of the consolidated financial statements and reduced in case it is expected that no benefit will arise from payment or the elimination of the need for deferred tax liabilities partially or totally.

**Fair Value**

Fair value represents the closing market price (Assets Purchasing / Liabilities Selling) of financial assets and derivatives on the date of the consolidated financial statements in active markets. In case declared market prices do not exist active trading of some financial assets and derivatives is not available or the market is inactive fair value is estimated by one of several methods including the following:

- Comparison with the fair value of another financial asset with similar terms and conditions.

- Analysis of the present value of expected future cash flows for similar instruments.

- Adoption of the option pricing models.

- Evaluation of long-term assets and liabilities that bear no interest through discounting cash flows and amortizing premium / discount using the effective interest rate method within interest revenue / expense in the consolidated statement of income.

The valuation methods aim to provide a fair value reflecting the market's expectations taking into consideration the market expected risks and expected benefits when the value of the financial assets. When the financial assets fair value can't be reliably measured, they are stated at cost less any impairment.

**Provisions for Impairment / Allowance for Direct Credit Facilities**

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

**Inputs, Assumptions and Techniques used for ECL Calculation – IFRS 9 Methodology**

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

- **Detailed explanation of the bank's internal credit rating system and its working mechanism.**

- The Bank relies on Moody's RA to classify corporate credit risk ratings, which reviews and analyses financial and objective information about the borrower. The program generates a comprehensive assessment of the creditworthiness of the borrower, that results in the probability of default (PD). The system classifies the corporate customers within 7 levels of active accounts and 3 levels of non-performing accounts. The probability of default (PD) increase with the level of risk, wherein, 3 segments are adopted at each level (grade) except for grade 1 as shown in the table below:

| Risk Grade of the Customer | Credit Rating | Credit Quality |
|---|---|---|
| 1 | Aaa | Exceptional business credit, judged to be of highest quality, with minimal credit risk. |
| 2+ | Aa1 | Very good business credit with very good asset quality, consistently great liquidity and debt capacity; highly regarded in the industry with strong market share. |
| 2 | Aa2 | |
| 2- | Aa3 | |
| 3+ | A1 | Good business credit considered upper - medium grade, subject to low credit risk; good asset quality, strong liquidity and debt capacity. Company is above average size and holds a good position in the industry. |
| 3 | A2 | |
| 3- | A3 | |
| 4+ | Baa1 | Acceptable business credit subject to moderate credit risk, considered medium grade and as such possess certain higher than average risk characteristics. Company has demonstrated adequate to good performance. |
| 4 | Baa2 | |
| 4- | Baa3 | |
| 5+ | Ba1 | Average to below average business credit subject to moderate credit risk, considered medium grade and as such possess certain higher risk characteristics. Company has demonstrated adequate performance. |
| 5 | Ba2 | |
| 5- | Ba3 | |
| 6+ | B1 | Below average business credit and subject to high credit risk. Company is likely lower than their competitor in its industry. Acceptable but requiring close monitoring and support of strong risk mitigants. |
| 6 | B2 | |
| 6- | B3 | |
| 7+ | Caa1 | Weak business credit: judged to be of poor standing and subject to very high credit risk. Constitutes undue and unwarranted credit risk. Currently in performing status and not to the point of justifying a substandard classification. |
| 7 | Caa2 | |
| 7- | Caa3 | |
| 8 | Default | In Default (Substandard): unacceptable business credit with normal repayment in jeopardy. |
| 9 | Default | In Default (Doubtful): full repayment questionable. Serious problems to the point where partial loss of principle is likely. |
| 10 | Default | In Default (Loss): expected loss. Such an asset may have recovery but not to the point of avoiding loss classification |

- Risk of individuals is measured based on portfolio valuation through customer behaviour records and their commitment for timely payments.
- Global ratings are used to measure the risk of other financial assets (fixed-rate financial instruments and credit claims on banks and financial institutions).

**The mechanism for calculating expected credit losses (ECL) on financial instruments and for each item separately.**

The Bank has adopted a special mechanism for calculating expected credit losses based on the type of financial instrument:

- <u>Financial instruments for the portfolio of companies and instruments with fixed income and credit claims on banks and financial institutions:</u>

In calculating the expected credit losses for this portfolio, the Bank relies on a specialized and developed system from Moody's. Each customer / instrument is calculated individually at the level of each account / instrument.

- **Portfolio financial instruments:**

In collaboration with Moody's, the Bank has developed a retail portfolio model to calculate expected credit loss based on the requirements of the Standard. The provision for the Retail Portfolio is calculated on an aggregate basis

Governs the application of the requirements of IFRS 9 and includes the responsibilities of the board of directors and executive management to ensure compliance with the requirements of the IFRS

The Board of Directors has several specialized committees, each with its own objectives and () to implement the Standard.

- **Risk Management and Compliance Committee**

- Review the implementation strategy of the standard and its impact on the risk management of the bank before its adoption by the Board.
- Keeping pace with developments affecting the Bank's risk management and reporting periodically to the Board.
- Verify that there is no difference between the actual risks taken by the Bank and the level of acceptable risks approved by the Board.
- To create the appropriate conditions to ensure the identification of risks that have a material impact and any activities carried out by the Bank that could expose it to risks greater than the acceptable risk level, report to the Board and follow up on their treatment.

- **Audit Committee**

- Review the financial statements after application of the Standard to verify the orders of the Central Bank of Jordan regarding the adequacy of the provisions and to give an opinion on the non-performing bank debts before submitting them to the Board of Directors.
- Review the observations contained in the reports of the Central Bank and the reports of the external auditor and follow up the actions taken thereon.
- Review the accounting issues that have a significant impact on the financial statements of the Bank and ensure the accuracy of the accounting and control procedures and their compliance.

- **Financial Department**

- Participate with the departments in the development and construction of the business model, including the classification of the Bank's financial assets in accordance with the principles of IFRS 9.
- Make necessary accounting adjustments and restrictions after the results are approved and verify that all products have been calculated.
- Prepare the necessary disclosures in cooperation with the concerned departments in the bank in accordance with the requirements of the standard and the instructions of the Central Bank.

Definition and mechanism for calculating and monitoring the probability of default (PD) and exposure at default (EAD) and loss given default(LGD).

**Corporate and fixed-income financial instruments and credit claims on banks and financial institutions:**

**- Probability of default (PD):** The percentage of the probability of the borrower defaulting or failing to meet the payment of the installment or obligations towards the bank on its due dates.

The probability of default is calculated for each customer using **Moody's Risk Analyst MRA,** which is based on the customer's financial data and / or based on the objective evaluation of the customer.

The system has three calculation models to reach the default rate:
a. Large and medium-sized companies (with financial statements).
B. Small businesses (without financial statements).
T. Individuals with high solvency.

- **Loss Given Default (LGD)**

The percentage that represents the portion of the exposure that will be lost in case of default

The Loss Given Default (LGD) is calculated through a specialized system from Moody's. The system has a model calculation that is used to reach the(LGD):

A. Clean Basis Exposure: The loss ratio is calculated based on the economic sector, the probability of default and the geographical area of the customer.

B. Exposure to Acceptable Collateral Credits: which include the covered and unsecured portion, are considered when calculating losses at default. Haircut ratios are defined in accordance with the requirements of the Central Bank of Jordan

**Exposure at Default (EAD):** This is the present value of used and unused facilities at defaults, in addition to any outstanding receivables, plus any accrued interest not received.

All the above ratios shall be entered at the level of each account / instrument together with details of facilities / financial instruments on the expected credit loss calculation system which also calculates exposure at default (EAD).

Retail Portfolio:

**- Probability of Default (PD):** is calculated based on the relationship between the historical regression ratios of each product and the economic variables.
**- Loss Given Default (LGD):** is calculated based on historical bad debts compared with its time of default.
**- Exposure at Default (EAD):** for both personal loans and housing loans is calculated based on future cash flows (cash flows according to repayment schedules). For credit cards, credit exposure is assumed to be equal to the current outstanding balance plus a certain percentage of the unutilized balance based on a study by Moody's.
Determines the significant change in credit risk that the Bank has relied on in calculating the expected credit losses.

| Stage | Nature of the accounts within the stage. |
|---|---|
| First Stage<br>(First recognition) | Regular financial instruments<br>- Financial instruments with less than 60 days' receivables. Note that this period will be reduced by 10 days per year to become 30 days within 3 years from the date of application.<br>- Customers with a risk rating of -6 and below.<br>- Bonds and financial investments with a credit rating of B1 and above according to Moody's. |
| Second Stage<br>(Credit quality decline) | Regular financial instruments that have shown a significant increase in credit risk since the date of initial recognition.<br>- Financial instruments that have dues from 60 - 90 days, noting that the minimum period will be reduced by 10 days per year to become 30 - 90 days within 3 years from the date of application.<br>- Current and under-exposed accounts if the period of non-payment is more than 30 days and less than 90 days.<br>- Customers with a risk score of +7, 7, and -7.<br>- Bonds and financial investments that carry a credit rating between B1 and Caa3<br>- A decline in the possibility of stumbling to the customer by 2% and above.<br>- A decline in the credit rating since the initial recognition of bonds and financial investments by four degrees or more.<br>- All accounts classified under observation.<br>- The ceilings that have expired and have not been renewed or have not been postponed. |
| Third Stage<br>(Decrease in credit value) | Unregulated financial instruments that have objective evidence / evidence to default with a negative impact on the future cash flow of the financial instrument. |

1. The Bank's policy in identifying the common elements (s) on which the credit risk and expected credit loss were measured on a collective basis.
The Retail Portfolio is calculated on a lump sum basis. The portfolio was divided into three categories:

1) Personal loans
2) Housing loans
3) Credit cards

These categories share the same credit characteristics:
4) Credit product type
5) Quality guarantees

- **Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios**

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

Our base case scenario will be based on macroeconomic forecasts (e.g.: GDP, inflation, interest rate). Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.

Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

- **Definition of Default**

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

# 5. Cash And Balances At The Central Bank Of Jordan

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Cash in vaults | 20,443,867 | 18,454,887 |
| Balances at Central Bank of Jordan: | - | - |
| Statutory cash reserve | 64,490,248 | 51,725,082 |
| Current accounts | 36,604,981 | - |
| Total | 121,539,096 | 70,179,969 |

Except for the statutory cash reserve there are no restricted balances at the Central Bank of Jordan as of 31 December 2018 and 2017.

Cash and balances at the Central Bank of Jordan classification based on the Bank's internal credit rating is as follows:

| | 2018 | | | | 31 December 2017 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | |
| | JD | JD | JD | JD | JD |
| Low risk (2 - 6) | 101,095,229 | - | - | 101,095,229 | 51,725,082 |
| Acceptable risk (7) | - | - | - | - | - |
| High risk (8 - 10) | - | - | - | - | - |
| Total balances as of 31 December 2018 | 101,095,229 | - | - | 101,095,229 | 51,725,082 |

The movement on balances at Central Bank of Jordan as of 31 December 2018 is as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Total balances as of 1 January 2018 | 51,725,082 | - | - | 51,725,082 |
| New balances | 51,121,556 | - | - | 51,121,556 |
| Paid balances | (1,751,409) | - | - | (1,751,409) |
| Total balances as of 31 December 2018 | 101,095,229 | - | - | 101,095,229 |

The movement on expected credit losses for balances at Central Bank of Jordan as of 31 December 2018 is as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Total balances as of 1 January 2018 | - | - | - | - |
| New balances | - | - | - | - |
| Paid balances | - | - | - | - |
| Total balances as of 31 December 2018 | - | - | - | - |

# 6. Balances At Banks And Financial Institutions - Net

This item consists of the following:

| Description | Local Banks and Financial Institutions | | Foreign Banks and Financial Institutions | | Total | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Current and call accounts | 442,526 | 170,433 | 102,081,211 | 57,389,439 | 102,523,737 | 57,559,872 |
| Deposits maturing with 3 months or less | - | 18,302,183 | 205,035,572 | 179,033,054 | 205,035,572 | 197,335,237 |
| Total | 442,526 | 18,472,616 | 307,116,783 | 236,422,493 | 307,559,309 | 254,895,109 |
| ECL provision | - | - | (38,315) | - | (38,315) | - |
| Total | 442,526 | 18,472,616 | 307,078,468 | 236,422,493 | 307,520,994 | 254,895,109 |

The balances at banks and financial institutions that bears no interest amounted to JD 117,109,425 as of 31 December 2018 (JD 57,559,263 as of 31 December 2017).

There are no restricted balances at banks and financial institutions as of 31 December 2018 and 2017.

Balances at banks and financial institutions' classification based on the Bank's internal credit rating.

| Credit rating categories based on banks internal system | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Stage 1 "Individual" | Stage 2 "Individual" | Stage 3 "collective" | Total | Total |
| | JD | JD | JD | JD | JD |
| Low risk (2 - 6) | 302,275,510 | - | - | 302,275,510 | 230,704,271 |
| Acceptable risk (7) | - | 5,283,799 | - | 5,283,799 | 24,190,838 |
| High risk (8 - 10) | - | - | - | - | - |
| Total | 302,275,510 | 5,283,799 | - | 307,559,309 | 254,895,109 |

The movement on balances at banks and financial institutions as of 31 December 2018 is as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Total balances as of 1 January 2018 | 230,704,271 | 24,190,838 | - | 254,895,109 |
| New balances | 215,069,926 | - | - | 215,069,926 |
| Paid balances | (143,498,687) | (18,907,039) | - | (162,405,726) |
| Total balances as of 31 December 2018 | 302,275,510 | 5,283,799 | - | 307,559,309 |

The movement on the expected credit losses for balances at banks and financial institutions as of 31 December 2018 is as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Total balances as of 1 January 2018 (Adjusted) | 18,153 | 7,274 | - | 25,427 |
| New balances | 12,888 | - | - | 12,888 |
| Paid balances | - | - | - | - |
| Total balances as of 31 December 2018 | 31,041 | 7,274 | - | 38,315 |

# 7. Deposits At Banks And Financial Institutions - Net

| | Local Banks and Financial Institutions | | Foreign Banks and Financial Institutions | | Total | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Deposits maturing within 3 - 6 months | - | - | 5,294,846 | 5,511,348 | 5,294,846 | 5,511,348 |
| Deposits maturing within 6 - 9 months | - | - | 5,308,473 | 5,511,348 | 5,308,473 | 5,511,348 |
| Deposits maturing from 9 months to one year | - | - | 5,329,884 | 5,512,764 | 5,329,884 | 5,512,764 |
| Total | - | - | 15,933,203 | 16,535,460 | 15,933,203 | 16,535,460 |
| Less: ECL Provision | - | - | (55,518) | - | (55,518) | - |
| Total | - | - | 15,877,685 | 16,535,460 | 15,877,685 | 16,535,460 |

There are no restricted balances at banks and financial institutions of 31 December 2018 and 2017.

Distribution of deposits at banks and financial institutions according to the Bank's internal credit rating:

| Credit rating categories based on Bank's internal system | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Stage 1 "individual" | Stage 2 "individual" | Stage 3 "Individual" | Total | Total |
| | JD | JD | JD | JD | JD |
| Low risk (2 - 6) | - | - | - | - | - |
| Acceptable risk (7) | - | 15,933,203 | - | 15,933,203 | 16,535,460 |
| High risk (8 - 10) | - | - | - | - | - |
| Total | - | 15,933,203 | - | 15,933,203 | 16,535,460 |

The movement on deposits at banks and financial institutions as of 31 December 2018 is as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Total balances as of 1 January 2018 (Adjusted) | - | 16,535,460 | - | 16,535,460 |
| New balances | - | 2,975,507 | - | 2,975,507 |
| Paid balances | - | (3,577,764) | - | (3,577,764) |
| Total balances as of 31 December 2018 | - | 15,933,203 | - | 15,933,203 |

The movement on the expected credit losses for deposits at banks and financial institutions as of 31 December 2018 is as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Total balances as of 1 January 2018 (Adjusted) | - | 55,518 | - | 55,518 |
| New balances | - | - | - | - |
| Paid balances | - | - | - | - |
| Total balances as of 31 December 2018 | - | 55,518 | - | 55,518 |

# 8. Financial Assets At Fair Value Through Profit Or Loss

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Quoted equity shares | 263,244 | 169,390 |

# 9. Financial Assets At Fair Value Through Other Comprehensive Income

Financial assets at fair value through comprehensive income classified based on IFRS 9:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Quoted financial assets: | | |
| Corporate equity shares | 13,104,260 | 13,384,653 |
| Total quoted financial assets | 13,104,260 | 13,384,653 |
| Unquoted financial assets: | | |
| Corporate equity shares | 2,402,728 | 1,432,487 |
| Total unquoted financial assets | 2,402,728 | 1,432,487 |
| Total | 15,506,988 | 14,817,140 |

Cash dividends on the investments above amounted to JD 268,424 for the year ended 31 December 2018 (JD 383,644 for the year ended 31 December 2017).

# 10. Direct Credit Facilities - Net

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Individuals (Retail): | | |
| Loans | 95,128,314 | 92,585,951 |
| Credit cards | 9,388,751 | 9,448,232 |
| Housing loans | 100,855,698 | 91,578,633 |
| Large companies: | | |
| Loans * | 247,721,903 | 246,844,342 |
| Overdraft | 119,331,110 | 82,713,613 |
| Small and medium companies: | | |
| Loans * | 23,480,732 | 34,862,172 |
| Overdraft | 5,571,496 | 8,209,895 |
| Government & public sector | 168,768,693 | 202,870,110 |
| Total | 770,246,697 | 769,112,948 |
| Less: provision for impairment of direct credit facilities | (14,468,779) | (11,093,862) |
| Less: suspended interest | (3,083,349) | (2,856,190) |
| Net credit facilities | 752,694,569 | 755,162,896 |

*Net after deducting interests and commission received in advance.

- Non-performing credit facilities amounted to JD 18,974,146 representing 2.46% of direct credit facilities balance as of 31 December 2018 (JD 16,220,840 representing 2.11% of the granting balance for the previous year).

- Non-performing credit facilities net of interest in suspense amounted to JD 16,747,105 representing 2.18% of direct credit facilities balance net of interest in suspense (JD 13,918,004 representing 1.82% for the previous year).

- Credit facilities granted to and guaranteed by the Jordanian Government amounted to JD 145,901,821 representing 18.94% of total direct credit facilities (JD 179,452,826 representing 23.33% for the previous year).

# The Bank's internal credit rating

| | Individual | | | | Small and medium entities | | | | Corporate | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Low risk (2- 6) | 98,990,857 | - | - | 98,990,857 | 18,312,108 | - | - | 18,312,108 | 355,521,671 | - | - | 355,521,671 |
| Acceptable risk (7) | - | 2,584,514 | - | 2,584,514 | - | 4,344,430 | - | 4,344,430 | - | 6,059,928 | - | 6,059,928 |
| High risk (8- 10) | - | - | 2,941,694 | 2,941,694 | - | - | 6,395,690 | 6,395,690 | - | - | 5,471,414 | 5,471,414 |
| Balance as of 31 December 2018 | 98,990,857 | 2,584,514 | 2,941,694 | 104,517,065 | 18,312,108 | 4,344,430 | 6,395,690 | 29,052,228 | 355,521,671 | 6,059,928 | 5,471,414 | 367,053,013 |

# The movement on the credit facilities:

| | Individual | | | | Small and medium entities | | | | Corporate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Balance as of 31 December 2017 | 96,748 ,537 | 2,143,976 | 3,141,670 | 102,034,183 | 21,569,841 | 13,462,547 | 8,039,679 | 43,072,067 | 329,557,955 | - |
| Credit facilities for new balances through the year | 4,549,343 | 706,097 | 263,131 | 5,518,571 | - | 1,127,014 | 932,217 | 2,059,231 | 25,963,716 | 727,374 |
| Recovered from credit losses on repaid balances | (161,822) | (430,681) | (123,963) | (716,466) | (1,671,256) | (430,411) | (2,048,844) | (4,150,511) | - | - |
| Net transferred in stage 1 | - | - | - | - | 375,388 | (375,388) | - | - | - | - |
| Net transferred in stage 2 | (345,424) | 652,271 | (306,847) | - | (387,708) | 586,494 | (198,786) | - | - | - |
| Net transferred in stage 3 | (1,128,686) | (373,783) | 1,502,469 | - | (586,903) | (847,181) | 1,434,084 | - | - | - |
| Changes from adjustments | - | 44,147 | (44,147) | - | (987,254) | (9,178,645) | (343,195) | (10,509,094) | - | 5,332,554 |
| Written off balances | (671,091) | (157,513) | (1,490,619) | (2,319,223) | - | - | (1,419,465) | (1,419,465) | - | - |
| Adjustments result from foreign exchange | - | - | - | - | - | - | - | - | - | - |
| Balance as of 31December 2018 | 98,990,857 | 2,584,514 | 2,941,694 | 104,517,065 | 18,312,108 | 4,344,430 | 6,395,690 | 29,052,228 | 355,521,671 | 6,059,928 |

| Real-estate loans | | | | Government and public sector | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| 92,736,124 | - | - | 92,736,124 | 168,768,693 | - | - | 168,768,693 | 734,329,453 | - | - | 734,329,453 |
| - | 3,954,226 | - | 3,954,226 | - | - | - | - | - | 16,943,098 | - | 16,943,098 |
| - | - | 4,165,348 | 4,165,348 | - | - | - | - | - | - | 18,974,146 | 18,974,146 |
| 92,736,124 | 3,954,226 | 4,165,348 | 100,855,698 | 168,768,693 | - | - | 168,768,693 | 734,329,453 | 16,943,098 | 18,974,146 | 770,246,697 |

| Corporate | | Real - estate loans | | | | Government and Public Sector | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| - | 329,557,955 | 81,655,185 | 4,883,957 | 5,039,491 | 91,578,633 | 202,870,110 | - | - | 202,870,110 | 769,112,948 |
| 38,846 | 26,729,936 | 11,938,770 | 7,036 | 147,201 | 12,093,007 | - | - | - | - | 46,400,745 |
| - | - | - | (1,552,797) | (874,003) | (2,426,800) | (34,101,417) | - | - | (34,101,417) | (41,395,194) |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | (182,619) | 1,360,242 | (1,177,623) | - | - | - | - | - | - |
| - | - | (675,212) | (593,369) | 1,268,581 | - | - | - | - | - | - |
| 5,432,568 | 10,765,122 | - | (145,366) | (14,372) | (159,738) | - | - | - | - | 96,290 |
| - | - | - | (5,477) | (223,927) | (229,404) | - | - | - | - | (3,968,092) |
| - | - | - | - | - | - | - | - | - | - | - |
| 5,471,414 | 367,053,013 | 92,736,124 | 3,954,226 | 4,165,348 | 100,855,698 | 168,768,693 | - | - | 168,768,693 | 770,246,697 |

| item | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Balance as of 31 December 2017 | 732,401,628 | 20,490,480 | 16,220,840 | 769,112,948 |
| ECL for paid balances | 42,451,829 | 2,567,521 | 1,381,395 | 46,400,745 |
| Recovered from ECL for paid balances | (35,934,495) | (2,413,889) | (3,046,810) | (41,395,194) |
| Net transferred in stage 1 | 375,388 | (375,388) | - | - |
| Net transferred in stage 2 | (915,751) | 2,599,007 | (1,683,256) | - |
| Net transferred in stage 3 | (2,390,801) | (1,814,333) | 4,205,134 | - |
| Changes from adjustments | (987,254) | (3,947,310) | 5,030,854 | 96,290 |
| Written off balances | (671,091) | (162,990) | (3,134,011) | (3,968,092) |
| Adjustments result from foreign exchange | - | - | - | - |
| Balance as of 31 December 2018 | 734,329,453 | 16,943,098 | 18,974,146 | 770,246,697 |

# Provision for impairment of direct credit facilities:

The following is the movement on the provision for impairment of direct credit facilities:

| | Individual | | | | Small and medium entities | | | | Corporate | | | | Real- estate loans | | | | Government and public sector | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Balance as of 31 December 2017 | 12,105 | 321,447 | 2,220,298 | 2,553,850 | 73,545 | 2,085,282 | 3,557,320 | 5,716,147 | 1,064,000 | - | - | 1,064,000 | 82,697 | 73,259 | 1,603,909 | 1,759,865 | - | - | - | - | 11,093,862 |
| IFRS9 effect | 1,864,184 | - | - | 1,864,184 | 505,705 | 3,327 | - | 509,032 | 1,291,994 | - | - | 1,291,994 | 218,529 | - | - | 218,529 | - | - | - | - | 3,883,739 |
| Amended balance | 1,876,289 | 321,447 | 2,220,298 | 4,418,034 | 579,250 | 2,088,609 | 3,557,320 | 6,225,179 | 2,355,994 | - | - | 2,355,994 | 301,226 | 73,259 | 1,603,909 | 1,978,394 | - | - | - | - | 14,977,601 |
| New balances through the year | 48,367 | 237,944 | 283,957 | 570,268 | 205,057 | 10,993 | 156,961 | 373,011 | 28,211 | 241,454 | 641,342 | 911,007 | 70,275 | 21,400 | 173,016 | 264,691 | - | - | - | - | 2,118,977 |
| Paid balances | - | (171,714) | (17,887) | (189,601) | - | (9,491) | (202,410) | (211,901) | (21,587) | - | - | (21,587) | - | (35,346) | (285,257) | (320,603) | - | - | - | - | (743,692) |
| Net transferred in stage 1 | - | - | - | - | 714 | (714) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net transferred in stage 2 | - | 79,259 | (79,259) | - | (840) | 840 | - | - | 120,938 | (120,938) | - | - | (260) | 353,547 | (353,287) | - | - | - | - | - | - |
| Net transferred in stage 3 | - | (13,512) | 13,512 | - | (80) | (7,375) | 7,455 | - | (82,078) | 82,078 | - | - | (961) | (9,147) | 10,108 | - | - | - | - | - | - |
| Changes from adjustments | - | (65,747) | 697,687 | 631,940 | (576,892) | (1,807,650) | (70,440) | (2,454,982) | (51,649) | 1,780,314 | 81,488 | 1,810,153 | 1,221 | (344,400) | 343,179 | - | - | - | - | - | (12,889) |
| Written off balances | - | - | (990,410) | (990,410) | - | - | (679,008) | (679,008) | - | - | - | - | - | - | (201,800) | (201,800) | - | - | - | - | (1,871,218) |
| Adjustments result from foreign exchange | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Balance as of 31 December 2018 | 1,924,656 | 387,677 | 2,127,898 | 4,440,231 | 207,209 | 275,212 | 2,769,878 | 3,252,299 | 2,349,829 | 1,982,908 | 722,830 | 5,055,567 | 371,501 | 59,313 | 1,289,868 | 1,720,682 | - | - | - | - | 14,468,779 |

| Item | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Balance as of 31 December 2017 | 1,232,347 | 2,479,988 | 7,381,527 | 11,093,862 |
| Impact of IFRS 9 adoption | 3,880,412 | 3,327 | - | 3,883,739 |
| Adjusted balance | 5,112,759 | 2,483,315 | 7,381,527 | 14,977,601 |
| New balances during the year | 351,910 | 511,791 | 1,255,276 | 2,118,977 |
| Paid balances | (21,587) | (216,551) | (505,554) | (743,692) |
| Net transferred in stage 1 | 714 | (714) | - | - |
| Net transferred in stage 2 | 119,838 | 312,708 | (432,546) | - |
| Net transferred in stage 3 | (83,119) | 52,044 | 31,075 | - |
| Changes from adjustments | (627,320) | (437,483) | 1,051,914 | (12,889) |
| Written off balances | - | - | (1,871,218) | (1,871,218) |
| Adjustments result from foreign exchange | - | - | - | - |
| Balance as of 31 December 2018 | 4,853,195 | 2,705,110 | 6,910,474 | 14,468,779 |

| For the year ended 31 December 2017 | Individuals | Housing Loans | Large Companies | Small and Medium Companies | Total |
|---|---|---|---|---|---|
| | JD | JD | JD | JD | |
| Balance at the beginning of the year | 2,270,177 | 2,058,376 | 1,064,000 | 4,843,729 | 10,236,282 |
| Provision for the year taken from revenues used during the year | 783,777 | - | - | 987,890 | 1,771,667 |
| Transfer to off-statement of financial position accounts | (500,104) | (298,511) | - | (115,472) | (914,087) |
| Balance at the end of the year | 2,553,850 | 1,759,865 | 1,064,000 | 5,716,147 | 11,093,862 |
| Provision on individual basis | 2,232,403 | 1,686,606 | 1,064,000 | 3,630,865 | 8,613,874 |
| Provision for on collective basis | 321,447 | 73,259 | - | 2,085,282 | 2,479,988 |
| Balance as of 31 December 2018 | 2,553,850 | 1,759,865 | 1,064,000 | 5,716,147 | 11,093,862 |

- Comparative figures for the year ended 31 December 2017 are presented in accordance with International Accounting Standards IAS 39 (financial instruments: recognition and measurement).

- The provisions no longer needed due to settlements or repayments and transferred against other debts amounted to JD 3,065,216 for the year ended 31 December 2018 (JD 3,215,082 as of 31 December 2017).

## Interest in suspense:

The following is the movement on the interest in suspense:

| For the year ended 31 December 2018 | Individuals | Housing Loans | Large Companies | Small and Medium Companies | Total |
|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | 336,486 | 910,490 | - | 1,609,214 | 2,856,190 |
| Add: Interest suspended during the year | 590,101 | 312,939 | 9,305 | 763,649 | 1,675,994 |
| Less: Interest in suspense reversed to revenues | (117,319) | (116,340) | - | (343,715) | (577,374) |
| Less: Interest in suspense transferred to off - statement of financial position accounts | (368,050) | (91,324) | - | (396,452) | (855,826) |
| Less: Interest in suspense written off | (4,612) | (11,023) | - | - | (15,635) |
| Balance at the end of the year | 436,606 | 1,004,742 | 9,305 | 1,632,696 | 3,083,349 |

| For the year ended 31 December 2017 | Individuals | Housing Loans | Large Companies | Small and Medium Companies | Total |
|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | 253,496 | 749,639 | - | 1,007,637 | 2,010,772 |
| Add: Interest suspended during the year | 272,656 | 455,817 | - | 689,179 | 1,417,652 |
| Less: Interest in suspense reversed to revenues | (90,516) | (234,261) | - | (9,291) | (334,068) |
| Less: Interest in suspense transferred to off - statement of financial position accounts | (97,268) | (55,925) | - | (78,311) | (231,504) |
| Less: Interest in suspense written off | (1,882) | (4,780) | - | - | (6,662) |
| Balance at the end of the year | 336,486 | 910,490 | - | 1,609,214 | 2,856,190 |

Following is the economic sector of credit facilities - net:

| | 2018 | | | 2017 |
|---|---|---|---|---|
| | Inside Jordan | Outside Jordan | Total | |
| | JD | JD | JD | JD |
| Financial | 7,422,402 | - | 7,422,402 | 15,484,879 |
| Industrial | 173,435,947 | - | 173,435,947 | 149,532,954 |
| Trading | 175,161,333 | 29,222,167 | 204,383,500 | 198,433,580 |
| Real estate | 92,958,161 | 5,172,113 | 98,130,274 | 88,908,278 |
| Equities | 913,526 | - | 913,526 | 789,248 |
| Retail | 91,931,074 | 7,709,153 | 99,640,227 | 99,143,847 |
| Governmental and public sector | 168,768,693 | - | 168,768,693 | 202,870,110 |
| Total | 710,591,136 | 42,103,433 | 752,694,569 | 755,162,896 |

Following is the geographical distribution of credit facilities - net:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Inside Jordan | 710,591,136 | 705,417,666 |
| Asia | 38,272,539 | 45,935,729 |
| Europe | 3,830,894 | 3,809,501 |
| Total | 752,694,569 | 755,162,896 |

# 11. Financial Assets At Amortized Cost - Net

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Quoted financial assets | | |
| Governmental bonds and with their guarantee | 2,303,786 | 4,613,554 |
| Foreign government bonds | 5,919,331 | 6,026,881 |
| Companies bonds | 19,789,265 | 22,411,869 |
| Total quoted financial assets | 28,012,382 | 33,052,304 |
| Unquoted financial assets | | |
| Governmental bonds and with their guarantee | 656,622,083 | 556,908,063 |
| Companies bonds | 3,582,500 | 7,682,500 |
| Total unquoted financial assets | 660,204,583 | 564,590,563 |
| | 688,216,965 | 597,642,867 |
| Less: Provision for impairment | (193,792) | (73,000) |
| Total | 688,023,173 | 597,569,867 |

The Financial assets at amortized cost includes Jordanian Treasury bonds amounted to JD 149,133,000 collateralized against borrowed a money from the Central Bank of Jordan.

**Debt instruments analysis**

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Fixed rate | 669,468,064 | 581,695,022 |
| Variable rate | 18,555,109 | 15,874,845 |
| Total | 688,023,173 | 597,569,867 |

Financial assets at amortized cost classifications based on the Bank’s internal credit rating:

| Credit rating categories based on Bank's internal system: | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Stage 1 “individual” | Stage 2 “individual” | Stage 3 "Collective" | Total | Total |
| | JD | JD | JD | JD | JD |
| Low risk (2- 6) | 688,034,465 | - | - | 688,034,465 | 597,460,367 |
| Acceptable risk (7) | - | - | - | - | - |
| High risk (8- 10) | - | - | 182,500 | 182,500 | 182,500 |
| Total | 688,034,465 | - | 182,500 | 688,216,965 | 597,642,867 |

The movement on the financial assets at amortized cost during 2018 is as follows:

| | Stage 1 “individual” | Stage 2 “individual” | Stage 3 "Collective" | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Total balance as of 1 January 2018 | 597,460,367 | - | 182,500 | 597,642,867 |
| New balances during the year | 146,704,617 | - | - | 146,704,617 |
| Paid balances | (56,130,519) | - | - | (56,130,519) |
| Net transferred in stage 1 | | - | - | - |
| Net transferred in Stage 2 | - | - | - | - |
| Net transferred in Stage 3 | - | - | - | - |
| Changes resulting from modifications | - | - | - | - |
| Written-off investment | - | - | - | - |
| Adjustments due to exchange rate changes | - | - | - | - |
| Total balance as of 31 December 2018 | 688,034,465 | | 182,500 | 688,216,965 |

The movement of the impairment provision of the financial assets at amortized cost is as follows:

| | 2018 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | JD | JD | JD | JD |
| Total balances as of 1 January 2018 (Adjusted) | 84,292 | - | 73,000 | 157,292 |
| New balances | - | - | 36,500 | 36,500 |
| Paid balances | - | - | - | - |
| Total balances as of 31 December 2018 | 84,292 | - | 109,500 | 193,792 |

| | 2017 |
|---|---|
| | JD |
| Balance as of 1 January 2017 | 36,500 |
| Provision for the year | 36,500 |
| Balance at the end of the year | 73,000 |

# 12. Investment In Associate Company

The following is the movement on the investment in the associate company:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 19,947,778 | 17,376,287 |
| The Bank's share in the associate company's profit | 280,739 | 772,057 |
| Foreign currency translation adjustment | (1,217,177) | 1,799,434 |
| Balance at the end of the year | 19,011,340 | 19,947,778 |

- Investment in associate company represents the Bank's share in Jordan International Bank / London (United Kingdom, which amounts to 25% of capital (GBP 65,000,000)), the Bank's share in net income for the year ended 31 December 2018 was calculated based on latest unaudited available financial statements as of 31 December 2018, in addition to Bank's share percentage which is 25%.

- The Bank's right to vote on the General Assembly's decisions regarding this investment is based on the ownership percentage in the investment.

- The Bank's share in the associate company's assets, liabilities, and revenues is as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Total assets | 357,158,516 | 384,193,346 |
| Total liabilities | 281,113,158 | 304,402,236 |
| Net assets | 76,045,358 | 79,791,110 |
| The Bank's share in net assets | 19,011,340 | 19,947,778 |
| Net income for the year | 1,122,956 | 3,088,228 |
| The Bank's share in net income for the year | 280,739 | 772,057 |

The Bank's share of 25% in the assets and liabilities and net profit of Jordan International Bank / London has been calculated for the year 2018 as shown above according to the latest financial statements available on 31 December 2018.

# 13. Property And Equipment - Net

This item consists of the following:

| For the year-ended 31 December 2018 | Land | Buildings | Equipment furniture and fixtures | Vehicles | Computers | Solar Energy | Others | Payments to acquire property and equipment | Total |
|---|---|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Cost: | | | | | | | | | |
| Balance at the beginning of the year | 17,930,283 | 38,936,517 | 14,196,255 | 1,391,898 | 2,959,554 | - | 7,419,213 | 3,066,290 | 85,900,010 |
| Additions** | 4,625,231 | - | 187,101 | 290,133 | 131,502 | 2,126,315 | 151,822 | 565,695 | 8,077,799 |
| Disposals | - | - | (1,105,855) | (74,993) | - | - | - | (3,010) | (1,183,858) |
| Transfers* | - | - | 28,185 | - | 516 | 2,257,932 | 206,629 | (2,506,637) | (13,375) |
| Balance at the end of the Year | 22,555,514 | 38,936,517 | 13,305,686 | 1,607,038 | 3,091,572 | 4,384,247 | 7,777,664 | 1,122,338 | 92,780,576 |
| Accumulated depreciation : | | | | | | | | | |
| Balance at the beginning of the year | - | 2,245,802 | 7,849,838 | 972,554 | 2,131,952 | - | 3,945,347 | - | 17,145,493 |
| Depreciation for the year | - | 810,009 | 795,896 | 168,004 | 229,034 | 18,268 | 486,359 | - | 2,507,570 |
| Disposals | - | - | (1,099,380) | (74,699) | - | - | - | - | (1,174,079) |
| Balance at the end of the Year | - | 3,055,811 | 7,546,354 | 1,065,859 | 2,360,986 | 18,268 | 4,431,706 | - | 18,478,984 |
| Net property and equipment at the end of the year | 22,555,514 | 35,880,706 | 5,759,332 | 541,179 | 730,586 | 4,365,979 | 3,345,958 | 1,122,338 | 74,301,592 |
| For the year-ended 31 December 2017 | | | | | | | | | |
| Cost: | | | | | | | | | |
| Balance at the beginning of the year | 17,911,860 | 36,469,078 | 14,068,335 | 1,429,170 | 2,920,048 | - | 7,069,960 | 881,720 | 80,750,171 |
| Additions | 18,423 | 2,240,348 | 167,456 | 190,750 | 122,233 | - | 298,536 | 2,489,847 | 5,527,593 |
| Transfers | - | 227,091 | 26,096 | - | 1,373 | - | 50,717 | (305,277) | - |
| Disposals | - | - | (65,632) | (228,022) | (84,100) | - | - | - | (377,754) |
| Balance at the end of the Year | 17,930,283 | 38,936,517 | 14,196,255 | 1,391,898 | 2,959,554 | - | 7,419,213 | 3,066,290 | 85,900,010 |
| Accumulated depreciation : | | | | | | | | | |
| Balance at the beginning of the year | - | 1,481,057 | 7,098,063 | 1,034,247 | 1,981,279 | - | 3,463,041 | - | 15,057,687 |
| Depreciation for the year | - | 764,745 | 817,396 | 154,890 | 234,563 | - | 482,306 | - | 2,453,900 |
| Disposals | - | - | (65,621) | (216,583) | (83,890) | - | - | - | (366,094) |
| Balance at the end of the year | - | 2,245,802 | 7,849,838 | 972,554 | 2,131,952 | - | 3,945,347 | - | 17,145,493 |
| Net property and equipment at the ending of the year | 17,930,283 | 36,690,715 | 6,346,417 | 419,344 | 827,602 | - | 3,473,866 | 3,066,290 | 68,754,517 |

* Transfers represents an amount of JD 13,375 which has been transferred to intangible assets- note (14) during 2018.

** The addition include the value of a land that was transferred to property and equipment amounted to JD 4,625,231.

- Property and equipment consists of assets that has been fully depreciated amounting to JD 10,265,631 as of 31 December 2018 (JD 10,073,367 as of 31 December 2017).

# 14. Intangible Assets - Net

This item consists of the following:

| | Computer's Software and programs | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Balance at the beginning of the year | 930,783 | 1,688,482 |
| Additions | 273,220 | 202,686 |
| Transfers (Note 13)* | 13,375 | - |
| Disposals | - | (345,769) |
| Amortization for the year | (523,373) | (614,616) |
| Balance at the end of the Year | 694,005 | 930,783 |

* This represents what has been transferred from payments to acquire property and equipment during the year 2018.

# 15. Other Assets

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Accrued interest and commissions revenue | 17,932,921 | 15,924,542 |
| Prepaid expenses | 1,554,334 | 1,416,582 |
| Assets seized by the Bank * | 15,145,544 | 18,680,902 |
| Stationery and printing | 230,100 | 254,573 |
| Refundable deposits | 451,327 | 456,363 |
| Cheque clearing | 286,632 | 98,177 |
| Others | 1,516,029 | 1,299,133 |
| Total | 37,116,887 | 38,130,272 |

* The following is the movement on the assets seized by the Bank:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 20,006,902 | 18,890,249 |
| Additions | 1,978,239 | 1,158,257 |
| Disposals* | (5,000,597) | (41,604) |
| | 16,984,544 | 20,006,902 |
| Less: Provision for assets seized by the Bank ** | (1,839,000) | (1,326,000) |
| Balance at the end of the year | 15,145,544 | 18,680,902 |

* Disposals include the amount of a land that has been transferred to property and equipment, amounted to JD 4,625,231.

** According to Central Bank of Jordan's Law, buildings and plots of land that were foreclosed by the Bank against debts due from clients should be sold within two years from the foreclosure date, however this period could be extended for two more years in exceptional cases by the Central Bank of Jordan.

Provision for assets seized by the Bank is as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 1,326,000 | 826,000 |
| Provision during the year | 513,000 | 500,000 |
| Balance at the end of the year | 1,839,000 | 1,326,000 |

# 16. Banks And Financial Institutions' Deposits

This item consists of the following:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Inside the Kingdom | Outside the Kingdom | Total | Inside the Kingdom | Outside the Kingdom | Total |
| | JD | JD | JD | JD | JD | JD |
| Current accounts and demand deposits | 81,547 | 8,399,933 | 8,481,480 | 62,664 | 3,224,354 | 3,287,018 |
| Time deposits due within 3 months | 115,809,321 | 293,090,750 | 408,900,071 | 176,630,620 | 227,422,241 | 404,052,861 |
| Time deposits over 1 year | 120,000,000 | - | 120,000,000 | 80,000,000 | - | 80,000,000 |
| Total | 235,890,868 | 301,490,683 | 537,381,551 | 256,693,284 | 230,646,595 | 487,339,879 |

# 17. Customers' Deposits

This item consists of the following:

| | Individual | Large companies | Small and medium companies | Government and Public Sector | Total |
|---|---|---|---|---|---|
| 31 December 2018 | JD | JD | JD | JD | JD |
| Current accounts and demand deposits | 83,392,236 | 82,009,917 | 52,887,554 | 12,734,348 | 231,024,055 |
| Saving accounts | 169,903,845 | 3,151,169 | 965,357 | 5,348 | 174,025,719 |
| Time deposits | 471,611,415 | 39,632,272 | 10,194,983 | 104,073,603 | 625,512,273 |
| Total | 724,907,496 | 124,793,358 | 64,047,894 | 116,813,299 | 1,030,562,047 |
| 31 December 2017 | | | | | |
| Current accounts and demand deposits | 77,693,611 | 106,601,631 | 40,409,612 | 23,411,946 | 248,116,800 |
| Saving accounts | 194,270,211 | 3,469,308 | 1,067,884 | 9,193 | 198,816,596 |
| Time deposits | 415,497,959 | 73,838,216 | 13,076,922 | 101,369,168 | 603,782,265 |
| Total | 687,461,781 | 183,909,155 | 54,554,418 | 124,790,307 | 1,050,715,661 |

- Deposits of the government and the general public sector inside the Kingdom of Jordan amounted to JD 81,363,299 and the government deposits outside the Kingdom of Jordan JD 35,450,000 equivalent to 11.33% from the total deposits as of 31 December 2018 (JD 124,790,307 equivalent to 11.88% as of 31 December 2017).

- Non-interest bearing deposits amounted to JD 214,435,376 equivalent to 20.81% of total deposits as of 31 December 2018 (JD 241,292,196 equivalent to 22.96% as of 31 December 2017).

- Restricted deposits amounted to JD 4,815,195 equivalent to 0.47% of total deposits as of 31 December 2018 of which JD 4,218 is at Cyprus branch and JD 4,810,977 at Jordan branches (JD 3,097,302 equivalent to 0.29% as of 31 December 2017 of which JD 5,128 is at Cyprus branch and JD 3,092,174 at Jordan branches).

- Dormant deposits amounted to JD 776,022 as of 31 December 2018 (JD 1,460,668 for the previous year).

## 18. Borrowed Money from the Central Bank of Jordan

This item represents a repurchase agreement between the Central Bank of Jordan and Arab Jordan Investment Bank, as treasury bonds were sold from the Bank's portfolio to the Central Bank of Jordan portfolio. The Bank will repurchase the bonds at maturity date, in addition to that, this item includes borrowed money from Central Bank of Jordan to be relend to customers to finance production projects.

This item consists of the following:

| 31 December 2018 | Amount | Maturity date | Collaterals | Payment terms | Interest rate |
|---|---|---|---|---|---|
| Central Bank of Jordan | 15,000,000 | 2 January 2019 | Tax bonds and bills | One payment | 5.5% |
| Central Bank of Jordan | 50,000,000 | 2 January 2019 | Tax bonds and bills | One payment | 5.5% |
| Central Bank of Jordan | 80,000,000 | 7 January 2019 | Tax bonds and bills | One payment | 4.75% |
| Central Bank of Jordan | 1,041,810 | 31 December 2023 | - | Monthly payments | 1.75% |
| Total | 146,041,810 | | | | |
| 31 December 2017 | | | | | |
| Central Bank of Jordan | 161,422 | 21 March 2018 | - | One payment | 1.75% |
| Total | 161,422 | | | | |

## 19. Cash Margins

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Cash margins against direct credit facilities | 29,540,428 | 46,626,294 |
| Cash margins against indirect credit facilities | 9,450,865 | 13,066,750 |
| Total | 38,991,293 | 59,693,044 |

# 20. Sundry Provisions

This item consists of the following:

| 2018 | Beginning balance | Provided during the year | Used During the Year | Ending Balance |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Provision for end of service indemnity | 1,736,950 | 38,070 | (1,267,837) | 507,183 |
| Lawsuits provision | 127,000 | - | (27,309) | 99,691 |
| Other provisions | 60,000 | - | (60,000) | - |
| Total | 1,923,950 | 38,070 | (1,355,146) | 606,874 |
| 2017 | | | | |
| Provision for end-of-service indemnity | 1,777,077 | 236,529 | (276,656) | 1,736,950 |
| Lawsuits provision | 127,000 | - | - | 127,000 |
| Other provisions | 80,000 | 60,000 | (80,000) | 60,000 |
| Total | 1,984,077 | 296,529 | (356,656) | 1,923,950 |

# 21. Income Tax

**A- Income tax provision**

The movement on the income tax provision is as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 7,785,786 | 9,975,825 |
| Income tax paid | (8,107,925) | (10,785,573) |
| Accrued income tax expense | 7,188,295 | 8,595,534 |
| Balance at the end of the year | 6,866,156 | 7,785,786 |

**B- Income tax in the statement of income represents the following:**

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Accrued Income tax expense for the year | 7,188,295 | 8,595,534 |
| Amortization of deferred tax assets | 391,800 | 3,774 |
| Total | 7,580,095 | 8,599,308 |

**C- Tax situation**

The Bank has reached a final settlement with the Income and Sales Tax Department for all previous years up to 2015, in addition, 2014 record was reviewed during the year 2017 and no additional tax burdens will be resulted for that year.

The Bank paid the taxes declared for the years 2016, 2017 on the legal date and there are no accrued balances due to the Department as of 31 December 2018 relating to previous years.

United Arab Jordan Company for Investment and Financial Brokerage (a subsidiary) has reached a final settlement with the Income and Sales Tax Department in Jordan up to the year 2015, In addition the company has submitted its tax returns for the year 2016. All tax balances due were paid by the Company.

A final tax settlement has been reached for the Bank in Qatar up to the year 2017.

A final tax settlement has been reached for Cyprus branch up to the year 2017.

The Bank has booked a provision against any expected tax liabilities for the declared years which includes the above-mentioned years, in the opinion of the Bank's management and its tax consultant the income tax provision booked in the consolidated financial statement is sufficient to cover any future tax liabilities that may arise.

**D- Deferred Tax Assets**

The details of this item are as follows:

| | 2018 | | | | | 2017 |
|---|---|---|---|---|---|---|
| | Beginning of the Year | Amount Released | Additional Amounts | End of the Year | Deferred Tax | Deferred Tax |
| | JD | JD | JD | JD | JD | JD |
| Accounts Included | | | | | | |
| Provision for impairment of direct credit facilities | 1,202,335 | - | - | 1,202,335 | 456,887 | 420,817 |
| Provision for staff end-of-service Indemnity* | 1,462,365 | (1,241,420) | - | 220,945 | 83,959 | 511,829 |
| | 2,664,700 | (1,241,420) | - | 1,423,280 | 540,846 | 932,646 |

* Deferred tax assets has not been calculated on the total balance of the staff's end-of-service indemnity provision as a part of this balance relates to Arab Jordan Investment Bank – Qatar.

The movement on deferred tax assets is as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 932,646 | 936,420 |
| Additions | - | 63,000 |
| Released | (434,497) | (66,774) |
| Social contribution | 42,697 | - |
| Balance at the end of the year | 540,846 | 932,646 |

**E. Reconciliation between accounting profit and taxable profit is as follows:**

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Accounting profit | 24,396,422 | 25,774,257 |
| Non-taxable income | (2,952,797) | (2,362,119) |
| Non-deductible expenses | 780,106 | 1,378,752 |
| Taxable profit | 22,223,731 | 24,790,890 |
| Income tax for the year | 7,188,795 | 8,595,534 |
| Effective income tax rate | 31.07% | 33.36% |

According to the Income Tax Law which has come effective from 1 January 2015 income tax expense was calculated at tax rate of 35% as of 31 December 2018 (35% as of 31 December 2017).

The tax rate on the Bank's branch in Cyprus is 12.5 % and the subsidiary in Qatar is 10% and 24% for the subsidiary in Jordan.

Deferred tax assets are calculated according to the applicable tax regulations effective at the expected time to utilize the deferred tax assets. Deferred tax assets in Jordan were calculated based on the Income Tax law No. 38 for the year 2018 which includes 35% income tax rate and 3% national contribution income tax. Deferred tax assets balance has been adjusted and the impact was recorded in the income statement for the deferred taxes of provision for impairment and end of service provision for the years 2018 and 2017. The deferred tax assets will be utilized in the future periods.

## 22. Other Liabilities

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Accrued interest expense | 7,593,713 | 4,197,726 |
| Accounts payable | 39,314,065 | 832,007 |
| Accrued unpaid expenses | 1,342,747 | 1,330,173 |
| Transfers and checks payable | 664,007 | 34,119 |
| Bank cheques issued | 2,735,031 | 1,904,277 |
| Safe boxes deposits | 131,266 | 110,156 |
| Other deposits | 53,492 | 131,041 |
| Creditors | 726,135 | 335,699 |
| Dividends payable | 1,295,613 | 1,223,010 |
| Due to income tax | 128,515 | 90,936 |
| Restricted deposits | 38,418 | 38,518 |
| ECL Provision* | 428,193 | - |
| Prepaid Revenues | 297,264 | - |
| Others | 2,494,026 | 820,059 |
| Total | 57,242,485 | 11,047,721 |

* Indirect credit facilities classification based on the Banks internal credit rating.

| | Stage 1 | Stage 2 | Stage 3 | Total | |
|---|---|---|---|---|---|
| | | | | 2018 | 2017 |
| | JD | JD | JD | JD | JD |
| Low risk (2- 6) | 168,873,998 | - | - | 168,873,998 | 155,247,565 |
| Acceptable risk (7) | - | - | - | - | - |
| High risk (8- 10) | - | - | - | | - |
| Balance as of 31 December 2018 | 168,873,998 | - | - | 168,873,998 | 155,247,565 |

The movement on the indirect credit facilities as of 31 December 2018 is as follows:

| | Letters of guarantee | | | | Letters of credit | | | | Acceptances | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| For the year-ended 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Balance as of 31 December 2017 (adjusted) | 76,650,460 | - | - | 76,650,460 | 32,893,879 | - | - | 32,893,879 | 45,703,226 | - | - | 45,703,226 | 155,247,565 | - | - | 155,247,565 |
| New balances | 3,967,613 | - | - | 3,967,613 | 15,419,983 | - | - | 15,419,983 | - | - | - | - | 19,387,596 | - | - | 19,387,596 |
| Paid balances | - | - | - | - | - | - | - | - | 5,761,163 | - | - | 5,761,163 | 5,761,163 | - | - | 5,761,163 |
| Balance as of 31 December 2018 | 80,618,073 | - | - | 80,618,073 | 48,313,862 | - | - | 48,313,862 | 39,942,063 | - | - | 39,942,063 | 168,873,998 | - | - | 168,873,998 |

The following is the movement on the provision for impairment of indirect credit facilities:

| | Letters of guarantee | | | | Letters of credit | | | | Acceptances | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of 31 December 2017 (adjusted) | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Balance as of 31 December 2017 (adjusted) | 136,812 | - | - | 136,812 | 42,707 | - | - | 42,707 | 248,674 | - | - | 248,674 | 428,193 | - | - | 428,193 |
| New balances | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Paid balances | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Balance as of 31 December 2018 | 136,812 | - | - | 136,812 | 42,707 | - | - | 42,707 | 248,674 | - | - | 248,674 | 428,193 | - | - | 428,193 |

# 23. Paid-up Capital

The paid-up capital of the Bank is JD 150,000,000 divided into 150,000,000 shares at a par value of JD 1 each as of 31 December 2017 and 2018.

# 24. Share Premium

During 2012 Arab Jordan Investment Bank – Qatar raised its capital from USD 25,000,000 to USD 50,000,000 through the issuance of shares at a share price of USD 1.16, which includes an issuance premium of USD 0.16 for a total of USD 4,000,000 where the share of Arab Jordan Investment Bank was USD 2,000,000 (which is equivalent to JD 1,418,000).

# 25. Reserves

**Statutory Reserve**

The amount accumulated in this account is transferred from the annual net income before tax at 10% during the year and previous years according to the companies Law, this reserve cannot be distributed to shareholders.

The restricted reserves are as follows:

| Reserve | Amount<br>JD | Nature of restriction |
|---|---|---|
| Statutory reserve | 31,447,469 | According to companies laws |

# 26. Foreign Currency Translation Adjustments

This represents differences resulting from the translation of the net investment in associates and foreign branches outside of Jordan upon consolidation of the financial statements of the Bank and the movement for this account is the following:

| | 2018<br>JD | 2017<br>JD |
|---|---|---|
| Balance at the beginning of the year | (2,379,220) | (4,178,654) |
| Movement during the year | (1,217,177) | 1,799,434 |
| Balance at the end of the year | (3,596,397) | (2,379,220) |

# 27. Fair Value Reserve - Net

The details of fair value reserve for financial assets at fair value through other comprehensive income according to the international financial reporting standard (9) are as follows:

| | 2018<br>JD | 2017<br>JD |
|---|---|---|
| Balance at the beginning of the year | (1,673,812) | (1,429,227) |
| Effect of IFRS 9 adoption | - | - |
| Effect of IFRS 9 adoption on deferred tax assets and deferred tax liabilities | - | - |
| Balance at the beginning of the year (adjusted) | (1,673,812) | (1,429,227) |
| Unrealized (losses) shares | (218,898) | (246,847) |
| Gains from financial assets at fair value through other comprehensive income transferred to retained earnings | 720 | 2,262 |
| Balance at the end of the year | (1,891,990) | (1,673,812) |

- There are no hedging derivatives.

Its restricted to use the negative fair value amounting to JD (1,891,990), including capitalization, distribution, or amortization of losses or any other use, except to that realized from the sales operations based on the instructions of the Central Bank of Jordan.

## 28. Retained Earnings

The movement on retained earnings account as the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balance at the beginning of the year | 16,168,304 | 20,603,714 |
| Transferred from general banking risks reserve | 5,888,551 | - |
| Effect of IFRS 9 adoption (note 3) | (4,410,065) | - |
| Adjusted balance at the beginning of the year | 17,646,790 | 20,603,714 |
| Profit for the year | 15,506,052 | 15,984,051 |
| (Losses) gain from sale of financial assets through comprehensive income | (4,799) | 1,960 |
| Transferred reserves | (2,168,338) | (2,421,421) |
| Distributed dividends to shareholders | (13,500,000) | (18,000,000) |
| Balance at the end of the year | 17,479,705 | 16,168,304 |

- Retained earnings include an amount of JD 540,846 as of 31 December 2018 (JD 932,646 as of 31 December 2017) restricted against deferred tax assets.

- Retained earnings include an amount of JD 1,478,486 restricted balance according to the Central Bank of Jordan memo No.(10/1/7702) which is related to the early implementation of IFRS 9.

## 29. Proposed Dividends To The General Assembly

The Board of Directors recommended the distribution of 9% of capital as cash dividends to the shareholders equivalent to JD 13,500,000 subject to the approval of the General Assembly of Shareholders (during the year 2018 the Bank distributed 9% of capital as cash dividends to shareholders equivalent to JD13,500,000 for the year 2017).

## 30. Non-controlling Interest

This item represents other shareholders' interest of 50% (minus two shares) as of 31 December 2018 from the net shareholders' equity of Arab Jordan Investment Bank in Qatar (subsidiary company).

# 31. Interest Income

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Direct credit facilities: | | |
| Individuals (retail): | | |
| Loans | 8,459,685 | 7,895,432 |
| Credit cards | 1,270,220 | 1,547,340 |
| Real estate loans | 9,218,725 | 8,527,986 |
| Large companies | | |
| Loans | 14,337,772 | 11,801,883 |
| Overdraft | 5,108,192 | 3,301,181 |
| Small and medium companies | | |
| Loans | 4,887,209 | 3,466,778 |
| Overdraft | 578,693 | 381,435 |
| Government and public sector | 8,730,793 | 9,898,789 |
| Balances at the Central Bank of Jordan | 8,260 | 104,315 |
| Balances and deposits at banks and financial institutions | 4,267,249 | 3,016,895 |
| Financial assets at amortized cost | 33,487,142 | 30,865,657 |
| Total | 90,353,940 | 80,807,691 |

# 32. Interest Expense

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Deposits from banks and financial institutions | 18,811,418 | 11,397,743 |
| Customers' deposits: | | |
| Current accounts and demand deposits | 1,929,773 | 2,157,282 |
| Saving accounts | 1,508,004 | 1,337,707 |
| Time and notice deposits | 21,569,626 | 18,342,256 |
| Cash margins | 728,588 | 1,090,942 |
| Deposits guarantee | 1,464,604 | 1,487,721 |
| Total | 46,012,013 | 35,813,651 |

# 33. Net Commissions Income

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Commissions income: | | |
| Direct credit facilities | 1,830,725 | 1,621,559 |
| Indirect credit facilities | 7,979,650 | 8,100,149 |
| Less: Commission expense | (1,520,749) | (1,252,845) |
| Net commissions income | 8,289,626 | 8,468,863 |

# 34. Foreign Currencies Income

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Resulting from trading | 3,551,063 | 3,449,504 |
| Resulting from revaluation | 196,432 | 136,658 |
| Total | 3,747,495 | 3,586,162 |

# 35. Loss From Financial Assets At Fair Value Through Profit Or Loss

The details of gains on financial assets of fair value through profit and loss in accordance with IFRS (9) are as follows:

| For the year ended 31 December 2018 | Realized gains | Unrealized (losses) | Total |
|---|---|---|---|
| | JD | JD | |
| Corporate equity shares | 4,427 | (47,995) | (43,568) |
| Total | 4,427 | (47,995) | (43,568) |

| For the year ended 31 December 2017 | | | |
|---|---|---|---|
| Corporate equity shares | 11,318 | (19,242) | (7,924) |
| Total | 11,318 | (19,242) | (7,924) |

# 36. Cash Dividends On Financial Assets At Fair Value Through Other Comprehensive Income

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Dividends return on local corporates equity shares | 268,424 | 309,634 |
| Dividends return on foreign corporates equity shares | - | 74,010 |
| Total | 268,424 | 383,644 |

# 37. Provision For Impairment
This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balances and deposits at banks and financial institutions | 12,888 | - |
| Bonds at amortized cost | 36,500 | 36,500 |
| Direct credit facilities | 1,375,285 | 1,771,667 |
| Indirect credit facilities | - | - |
| Total | 1,424,673 | 1,808,167 |

# 38. Other Income
This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Income from sale of property and equipment | 5,530 | 27,147 |
| (Losses) gains from sales of repossessed assets | (49,367) | 7,946 |
| Returns from managed portfolios | 41,273 | 130,754 |
| Commission of salary transfer | 55,360 | 53,404 |
| Returns from shares trading on behalf of customers | 155,745 | 28,698 |
| Recorded revenues from pervious provisions | 72,889 | 80,000 |
| Recovered revenues from bad debts | 633,715 | 840,761 |
| Revenues from credit cards sponsorship | 56,707 | 447,516 |
| Other revenues | 206,265 | 100,856 |
| Total | 1,178,117 | 1,717,082 |

# 39. Employees Expenses
This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Salaries, bonuses and employees benefits | 13,177,585 | 13,535,039 |
| Bank’s contribution in social security | 1,377,113 | 1,432,462 |
| Bank’s contribution in provident fund | 389,892 | 478,431 |
| Employees' life insurance | 192,497 | 178,760 |
| Medical expenses | 768,239 | 701,522 |
| Staff training | 45,805 | 55,559 |
| Travel expenses | 179,146 | 265,365 |
| Other | 102,664 | 93,057 |
| Total | 16,232,941 | 16,740,195 |

# 40. Other Expenses

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Rent | 2,233,286 | 2,168,715 |
| Stationery and printing | 315,638 | 299,763 |
| Subscriptions | 740,244 | 763,095 |
| Legal and audit fees | 227,926 | 233,821 |
| Telephone, telex, postage and stamps | 895,611 | 882,421 |
| Insurance expenses | 144,046 | 167,556 |
| Maintenance and repair | 608,055 | 657,982 |
| General services | 1,577,522 | 1,815,660 |
| Swift services | 160,810 | 145,379 |
| Security | 274,088 | 295,437 |
| Donations | 114,683 | 108,183 |
| Board of directors remunerations | 55,000 | 55,000 |
| Board of directors expenses | 1,020,975 | 743,874 |
| Foreign currency trading fees | 151,348 | 188,549 |
| Registration and governmental fees | 149,608 | 99,021 |
| Mortgage and insurance fees | 346,411 | 334,844 |
| Consultations | 751,096 | 266,395 |
| Automated clearing (offset) expenses | 8,247 | 17,500 |
| Property tax fees | 268,413 | 203,013 |
| Marketing and advertising expenses | 457,281 | 259,741 |
| Computers and ATMs expenses | 1,038,471 | 971,699 |
| Other expenses | 887,952 | 1,048,612 |
| Total | 12,426,711 | 11,726,260 |

# 41. Basic And Diluted Earnings Per Share (Bank's Shareholders)

This item consists of the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Income for the year - statement (B) | 15,506,052 | 15,984,051 |
| Weighted average number of shares | 150,000,000 | 150,000,000 |
| Basic and diluted earnings per share (Bank shareholders) | 0.103 | 0.107 |

# 42. Cash And Cash Equivilants

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Cash and balances at the Central Bank of Jordan maturing within 3 months | 121,539,096 | 70,179,969 |
| Add: balances at banks and other financial institutions maturing within 3 months | 307,559,309 | 254,895,109 |
| Less: deposits from banks and financial institutions maturing within 3 months | (417,381,551) | (407,339,879) |
| Total | 11,716,854 | (82,264,801) |

# 43. Related Parties Transactions

The Consolidated Financial Statements includes the financial statements of the Bank and its subsidiaries include the following:

| Company's Name | Ownership Percentage | Company's Capital | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | JD | JD |
| United Arab Jordan Company for Investment and Financial Brokerage | 100% | 2,500,000 | 2,500,000 |
| Arab Jordan Investment Bank /Qatar LLC | 50% + two shares | 35,450,000 | 35,450,000 |

The Bank has entered into transactions with members of the Board of Directors and Executive Management within the normal course of its activities at the commercial interest rates and commissions.

The following is a summary of the transactions with related parties during the year:

| | Related party | | | | | Total | |
|---|---|---|---|---|---|---|---|
| | Subsidiary company | Board of directors members | Management executives | Associate company | Other* | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD | JD |
| Statement of Financial Position Items: | | | | | | | |
| Total deposits for related parties | 50,463,823 | 149,870,608 | 893,970 | 4,855,891 | 7,609,075 | 213,693,367 | 157,919,709 |
| Total Bank deposits with related parties | 40,317,154 | 665,893 | - | 23,147,837 | - | 64,130,884 | 39,432,463 |
| Loans and credit facilities granted to related parties | - | - | 675,683 | - | 2,553,715 | 3,229,398 | 2,694,975 |
| Off-Statement of Financial Position Items: | | | | | | | |
| Letter of credit and guarantee | 16,211,107 | - | - | - | - | 16,211,107 | 17,098,081 |
| Managed account | 8,505,485 | - | - | - | - | 8,505,485 | 9,237,422 |
| Statement of Income Items: | | | | | | | |
| Credit interest and commission | 279,544 | - | 14,285 | 124,547 | 139,400 | 557,776 | 448,676 |
| Debit interest and commission | 1,270,769 | 2,577,454 | 44,980 | 228,725 | 355,785 | 4,477,713 | 4,708,190 |

* This item represents employees' deposits and facilities for other than Board of Directors and the executive management.

- Balances transactions revenues and expenses between the Bank and the subsidiaries are eliminated.

- Interest expense rates ranges from 0% - 7.25% (current accounts included).

- Interest revenue rates ranges from 1.75% - 7%.

- All credit facilities granted to related parties are performing and consequently no related provisions have been booked.

The following is a summary of the benefits (salaries and remunerations plus other benefits) of the executive management of the Bank:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Salaries, remunerations and other benefits | 1,770,415 | 1,875,572 |
| Travel and transportation | 23,443 | 31,837 |
| Total | 1,793,858 | 1,907,409 |

# 44. Risk Management

Risk is an integral part of the Bank's operations, the general framework of the Risk Management Department in the Bank is to identify understand and evaluate risks associated with the Bank's operations, The Department also ensures that risk is maintained within approved and accepted limits and that the necessary measures are taken to reduce risk and attain a balance between risks and rewards.

The Risk Department's policies are developed in order to identify, analyse, control and place caps on risk, Moreover risk is also monitored through the Bank's risk database system.

The Bank periodically reviews the policies and procedures associated with the Risk Department in order to incorporate new market developments and practices best suited to the Bank's operations.

The Risk Management Department in the Bank is responsible for managing risk through close alignment of the policies and procedures authorized by the Bank's Board of Directors, furthermore the Risk Committee which is emerged from the Board of Directors reviews the said department's activities and continually issues reports to the Board of Directors disclosing whether the risk is maintained according to the Bank's policies and approved and accepted risk levels.

The Assets and Liabilities Management Committee and Investment Committee also partake in risk management within the Bank. In addition, all the Bank's work centres are responsible for identifying the risks associated with their activities, they also set the necessary and appropriate risk controls; the most important risks are credit risk liquidity risk operation risk and market risk which also includes interest rate risk and currency risk.

**Credit Risk**

Credit risk arises from the probable default or inability of the borrower or third party to fulfil its obligations to the Bank. Moreover, this risk is one of the most important risks the Bank faces during the conduct of its activities, Therefore the Bank manages credit risk continuously this risk relates to items such as loans bonds and activity investments in debt instruments in addition to credit risk related to off-statement of financial position items such as unutilized loans guarantees and documentary credits.

**Measurement of Credit Risk:**

1. Debt Instruments

The external rating issued by the International Rating Institutions such as (Standard and Poor) and (Moodys) or the like is used in managing exposure to credit risk relating to debt instruments.

This rating is within specific categories and as instructed by the regulatory authorities in the countries where the Bank has its branches or subsidiaries.

2. Control on Risk Ceilings and Credit Risk Mitigation Policies

The Bank manages credit ceilings and controls the credit concentrations risks on the customers’ levels (individual or corporate) in addition to managing and controlling the exposure to credit risk for each sector or geographical area.

The Bank determines the accepted credit risk levels through installing ceilings for the acceptable risks relating to one borrower or a group of borrowers and for each sector or geographical area.

These risks are continuously controlled and are subject to annual / periodic reviews in addition to controlling the actual exposure against the risk ceilings daily.

### Credit Risk Mitigation Methods

The Bank adopts several methods and practices to mitigate credit risk such as obtaining guarantees according to acceptable standards.

The most prevalent guarantees against loans and credit facilities are the following:
- Real estate mortgages
- Mortgages of financial instruments such as shares
- Bank guarantees
- Cash Collaterals
- Government guarantees

Moreover, the Bank adopts the following methods to improve the quality of credit and mitigate risks:

- A system of three approvals for granting a credit.
- Credit approval authority that varies from one management level to another depending on the volume of the customer's portfolio extent of exposure maturity and customer's risk degree.
- Complete segregation between credit management departments (business) credit control and analysis departments.

## Second: quantitative disclosures:

**(44/A) Credit Risk**

1-A Exposure to credit risks (after provision for impairment and interest in suspense and before collaterals and any other risk decreasing factors).

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Statement of Financial Position items: | | |
| Cash and balances at Central Bank of Jordan | 101,095,229 | 51,725,082 |
| Balances at banks and financial institutions - Net | 307,520,994 | 254,895,109 |
| Deposits at banks and financial Institutions - Net | 15,877,685 | 16,535,460 |
| Credit Facilities - Net: | | |
| Individual | 99,640,228 | 99,143,847 |
| Real-estate loans | 98,130,274 | 88,908,278 |
| Large companies | 361,988,141 | 328,493,955 |
| Small and medium companies | 24,167,233 | 35,746,706 |
| Government & public sector | 168,768,693 | 202,870,110 |
| Bonds and Treasury Bills: | | |
| Within financial assets at amortized cost- net | 688,023,173 | 597,569,867 |
| Other assets | 17,932,921 | 15,924,542 |
| Total | 1,883,144,571 | 1,691,812,956 |
| Contingent liabilities: | | |
| Letters of guarantee | 80,618,073 | 76,650,460 |
| Letters of credit | 48,313,862 | 32,893,879 |
| Acceptances | 39,942,063 | 45,703,226 |
| Un-utilized facilities | 78,070,287 | 48,350,039 |
| Total | 246,944,285 | 203,597,604 |
| Grand Total | 2,130,088,856 | 1,895,410,560 |

The Bank obtains cash and in-kind collaterals representing real estates and shares to mitigate credit risks to which the Bank might be exposed.

The above schedule represents the Bank's maximum exposure to credit risk as of 31 December 2018 and 2017 without taking into consideration guarantees and other credit risk mitigation factors.

B- Distribution of credit exposure:

| The Bank's internal credit rating | Classification category based on (47/ 2009) instruction | Total exposure amount | Expected credit loss (ECL) | Probability of default (PD) | Rating according to external rating institutions | Exposure at default (EAD) in JD Millions* | Loss given default (LGD) % |
|---|---|---|---|---|---|---|---|
| | | JD | JD | | | JD | |
| 2- 7 | Performing | 751,272,551 | 7,558,305 | 2.4% | Moody's | 669,321,246 | 30.3% |
| 8- 10 | Non performing | 18,974,146 | 6,910,474 | 100% | Moody's | 18,974,146 | 27.9% |

* The exposure at default (EAD) includes unutilized credit facilities amounting to JD 78,070,287.

Regarding assets items within consolidated financial statements, the exposure mentioned above is based on the balance presented in the consolidated financial statements.

2. Credit exposure is distributed according to the degree of risk as follows:

| 31 December 2018 | Individual | Housing loans | Large companies | Small and medium companies | Government and public sector | Banks and other financial institutions | Total |
|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD |
| Low risk | 7,462,173 | 2,845,179 | 2,953,015 | 347,874 | 914,670,956 | - | 928,279,197 |
| Acceptable risk | 94,678,197 | 91,961,091 | 368,406,769 | 17,964,234 | 31,114,614 | 332,375,353 | 936,500,258 |
| From which past due: | | | | | | | |
| Up to 30 days | - | - | - | - | - | - | - |
| From 31 to 60 days | - | - | - | - | - | - | - |
| Watch list | 2,584,514 | 3,954,226 | 6,059,928 | 4,344,430 | - | - | 16,943,098 |
| Non performing: | | | | | | | |
| Substandard | 332,891 | 279,908 | - | - | - | - | 612,799 |
| Doubtful | 1,304,009 | 713,603 | 5,471,414 | 351,113 | - | - | 7,840,139 |
| Loss | 1,304,794 | 3,171,837 | - | 6,044,577 | - | - | 10,521,208 |
| Total | 107,666,578 | 102,925,844 | 382,891,126 | 29,052,228 | 945,785,570 | 332,375,353 | 1,900,696,699 |
| Deduct: interest in suspense | 436,606 | 1,004,742 | 9,305 | 1,632,696 | - | - | 3,083,349 |
| Provision for impairment | 4,440,231 | 1,720,682 | 5,055,567 | 3,252,299 | - | - | 14,468,779 |
| Net | 102,789,741 | 100,200,420 | 377,826,254 | 24,167,233 | 945,785,570 | 332,375,353 | 1,883,144,571 |

| 31 December 2017 | Individual | Housing loans | Large companies | Small and medium companies | Government and public sector | Banks and other financial institutions | Total |
|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD |
| Low risk | 8,354,304 | 2,987,754 | 13,572,231 | 717,546 | 799,273,268 | - | 824,905,103 |
| Acceptable risk | 91,616,818 | 85,855,423 | 331,989,232 | 20,852,296 | 32,118,844 | 281,713,973 | 844,146,586 |
| From which past due: | | | | | | | |
| Up to 30 days | 25,813 | 16,317 | - | - | - | - | 42,130 |
| From 31 to 60 days | - | - | - | 12,841 | - | - | 12,841 |
| Watch list | 2,143,975 | 4,883,957 | - | 13,462,547 | - | - | 20,490,479 |
| Non performing: | | | | | | | |
| Substandard | 616,277 | 1,046,598 | - | - | - | - | 1,662,875 |
| Doubtful | 1,161,674 | 853,172 | - | 2,213,478 | - | - | 4,228,324 |
| Loss | 1,363,719 | 3,139,722 | - | 5,826,200 | - | - | 10,329,641 |
| Total | 105,256,767 | 98,766,626 | 345,561,463 | 43,072,067 | 831,392,112 | 281,713,973 | 1,705,763,008 |
| Deduct: interest in suspense | 336,486 | 910,490 | - | 1,609,214 | - | - | 2,856,190 |
| Provision for impairment | 2,553,850 | 1,759,865 | 1,064,000 | 5,716,147 | - | - | 11,093,862 |
| Net | 102,366,431 | 96,096,271 | 344,497,463 | 35,746,706 | 831,392,112 | 281,713,973 | 1,691,812,956 |

* Exposures include credit facilities balances and deposits with banks and Treasury bonds and any assets of its credit exposures.

* The full balance of the debt owed in the event of a single maturity premiums or benefits and the overdraft is considered payable if it exceeds the ceiling.

3. The following table breaks down the fair value of the collaterals held as security for credit facilities:

| 31 December 2018 | Individual | Housing loans | Large companies | Small and medium companies | Government and public sector | Total |
|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD |
| Low risk | 7,462,173 | 2,845,179 | 2,953,015 | 347,874 | 143,666,003 | 157,274,244 |
| Acceptable risk | 70,893,126 | 68,712,656 | 272,013,588 | 16,652,617 | 25,102,690 | 453,374,677 |
| Watch list | 21,076 | 3,614,652 | 550,000 | 1,138,140 | - | 5,323,868 |
| Non- performing: | | | | | | |
| Substandard grade | - | 279,908 | - | - | - | 279,908 |
| Doubtful | - | 699,923 | 4,040,000 | 185,013 | - | 4,924,936 |
| Loss | 1,294,892 | 2,993,589 | - | 4,909,651 | - | 9,198,132 |
| Total | 79,671,267 | 79,145,907 | 279,556,603 | 23,233,295 | 168,768,693 | 630,375,765 |
| As: | | | | | | |
| Cash margins | 7,462,173 | 609,361 | 2,953,015 | 347,874 | - | 11,372,423 |
| Governmental guarantees | - | 2,235,818 | - | - | 168,768,693 | 171,004,511 |
| Real estate | 63,981,214 | 76,300,728 | 248,365,731 | 22,669,605 | - | 411,317,278 |
| Listed shares | 7,869,256 | - | 25,874,981 | 215,816 | - | 33,960,053 |
| Vehicles and equipment | 358,624 | - | 2,362,876 | - | - | 2,721,500 |
| 31 December 2017 | | | | | | |
| Low risk | 8,354,304 | 2,987,754 | 13,572,231 | 717,546 | 176,929,313 | 202,561,148 |
| Acceptable risk | 70,603,687 | 60,802,850 | 243,362,455 | 17,647,354 | 25,940,797 | 418,357,143 |
| Watch list | 35,808 | 4,836,251 | - | 7,207,224 | - | 12,079,283 |
| Non- performing : | | | | | | |
| Substandard grade | - | 1,038,244 | - | - | - | 1,038,244 |
| Doubtful | - | 832,719 | - | 1,867,640 | - | 2,700,359 |
| Loss | 1,164,415 | 2,862,045 | - | 5,159,352 | - | 9,185,812 |
| Total | 80,158,214 | 73,359,863 | 256,934,686 | 32,599,116 | 202,870,110 | 645,921,989 |
| As : | | | | | | |
| Cash margins | 8,354,304 | 464,241 | 13,572,231 | 717,546 | - | 23,108,322 |
| Governmental guarantees | - | 2,523,513 | - | - | 202,870,110 | 205,393,623 |
| Real estate | 66,040,317 | 70,372,109 | 220,400,556 | 31,881,570 | - | 388,694,552 |
| Listed shares | 4,372,213 | - | 22,961,899 | - | - | 27,334,112 |
| Vehicles and equipment | 1,391,380 | - | - | - | - | 1,391,380 |

3- B-1Distribution of fair value of collateral against total credit exposures:

| Item | Gross exposure amount | Fair value of collaterals | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Cash margin | Quoted shares | Accepted banking guarantees | Housing | Vehicles and machines | Others | Gross collateral amount | Net exposure after collaterals | Expected credit loss (ECL) |
| Balances at central bank | 101,095,229 | - | - | - | - | - | - | - | 101,095,229 | - |
| Balances at banks and financial institutions | 307,559,309 | - | - | - | - | - | - | - | 307,559,309 | 38,315 |
| Deposits at banks and financial institutions | 15,933,203 | - | - | - | - | - | - | - | 15,933,203 | 55,518 |
| Credit facilities: | | | | | | | | | | |
| Retail | 104,517,065 | 7,462,172 | 7,869,256 | - | 63,981,214 | 358,624 | - | 79,671,266 | 24,845,799 | 4,440,231 |
| Housing loans | 100,855,698 | 609,361 | - | - | 76,300,728 | - | 2,235,818 | 79,145,907 | 21,709,791 | 1,720,682 |
| Corporate | - | - | - | - | - | - | - | - | - | - |
| Large corporate | 443,142,201 | 2,953,016 | 25,874,981 | - | 248,365,731 | 2,362,876 | - | 279,556,604 | 163,585,597 | 5,055,567 |
| Small and medium entities | 31,033,327 | 347,874 | 215,816 | - | 22,669,605 | - | - | 23,233,295 | 7,800,032 | 3,252,299 |
| Government and public sector | 168,768,693 | - | - | - | - | - | 168,768,693 | 168,768,693 | - | - |
| Bonds and bills: | | | | | | | | | | |
| Within financial assets at amortized cost | 688,216,965 | - | - | - | 182,500 | - | - | 182,500 | 688,034,465 | 193,792 |
| Other assets | 17,932,921 | - | - | - | - | - | - | - | 17,932,921 | - |
| Total | 1,979,054,611 | 11,372,423 | 33,960,053 | - | 411,499,778 | 2,721,500 | 171,004,511 | 630,558,265 | 1,348,496,346 | 14,756,404 |
| Letters of guarantee | 80,618,073 | - | - | - | - | - | - | - | 80,618,073 | 136,812 |
| Letters of credit | 48,313,862 | - | - | - | - | - | - | - | 48,313,862 | 42,707 |
| Acceptances | 39,942,063 | - | - | - | - | - | - | - | 39,942,063 | 248,674 |
| Grand total | 2,147,928,609 | 11,372,423 | 33,960,053 | - | 411,499,778 | 2,721,500 | 17,004,511 | 630,558,265 | 1,517,370,344 | 15,184,597 |

3- B-2 The fair value of collateral against total stage 3 credit exposures:

| Item | | Fair value of collaterals | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure stage 3 | Cash margin | Quoted shares | Accepted banking guarantees | Housing | Vehicles and machines | Others | Gross collateral amount | Net exposure after collaterals | Expected credit loss (ECL) |
| Balances at central bank | - | - | - | - | - | - | - | - | - | - |
| Balances at banks and financial institutions | - | - | - | - | - | - | - | - | - | - |
| Deposits at banks and financial institutions | - | - | - | - | - | - | - | - | - | - |
| Credit facilities: | | | | | | | | | | |
| Retail | 2,941,695 | - | 1,294,892 | - | - | - | - | 1,294,892 | 1,646,803 | 2,127,898 |
| Housing loans | 4,165,347 | - | - | - | 3,973,420 | - | - | 3,973,420 | 191,927 | 1,289,868 |
| Corporate | | | | - | | | | | | |
| Large corporate | 5,471,414 | - | - | - | 1,677,124 | 2,362,876 | - | 4,040,000 | 1,431,414 | 722,830 |
| Small and medium entities (SME'S) | 6,395,690 | - | - | - | 5,094,664 | - | - | 5,094,664 | 1,301,026 | 2,769,878 |
| Government and public sector | - | - | - | - | - | - | - | - | - | - |
| Bonds and bills: | | | | | | | | | | |
| Within financial assets at amortized cost | 182,500 | - | - | - | 182,500 | - | - | 182,500 | - | 109,500 |
| Other assets | - | - | - | - | - | - | - | - | - | - |
| Total | 19,156,646 | - | 1,294,892 | - | 10,927,708 | 2,362,876 | - | 14,585,476 | 4,571,170 | 7,019,974 |
| Letters of guarantee | - | - | - | - | - | - | - | - | - | - |
| Letters of credit | - | - | - | - | - | - | - | - | - | - |
| Acceptances | - | - | - | - | - | - | - | - | - | - |
| Grand total | 19,156,646 | - | 1,294,892 | - | 10,927,708 | 2,362,876 | - | 14,585,476 | 4,571,170 | 7,019,974 |

3-B-3 Total reclassified exposures

| Item | Stage 2 | | Stage 3 | | Reclassified exposures | Reclassified exposures % |
|---|---|---|---|---|---|---|
| | Total exposure amount | Reclassified exposures | Exposure amount | Reclassified exposures | | |
| Direct credit facilities | 14,237,988 | 2,286,299 | 12,063,672 | 4,174,059 | 6,460,358 | %0.855 |

3-B-4 ECL for reclassified facilities

| Item | Reclassified exposures | | | ECL for reclassified exposures | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reclassified exposures Stage 2 | Reclassified exposures Stage 3 | Total reclassified exposures | Stage 2 individual | Stage 2 cumulative | Stage 3 individual | Stage 3 cumulative | Total |
| Direct credit facilities | 2,286,299 | 4,174,059 | 6,460,358 | 312,708 | - | 31,075 | - | 343,783 |

**Rescheduled loans:**
These represent loans classified previously as non-performing and reclassified as performing but taken out therefrom according to proper scheduling and classified as watch list loans they amounted to JD 2,408,696 for the current year (JD 3,257,131 for the previous year).

The balance of the rescheduled loans represents the loans which were rescheduled either still classified as watch list or transferred to performing.

**Restructured loans:**
Restructuring means to rearrange facilities instalments or by increasing their duration postpone some instalments or increase the grace period…etc, they are classified as a watch-list debt and it amounted to JD 107,231,075 for the current year (JD 5,233,770 for the previous year-end).

4. Bills bonds and debentures
The table below shows the classification of bills bonds and debentures according to external rating agencies:

| Risk rating class | Rating agency | Included in assets at amortized cost |
|---|---|---|
| Government guaranteed bonds | Moody's | 650,118,576 |
| Government guaranteed bonds B1 | Moody's | 8,807,293 |
| Foreign governmental bonds Aa3 | Moody's | 2,139,194 |
| Foreign governmental bonds BBB - | Moody's | 693,275 |
| Foreign governmental bonds B2 | Moody's | 1,639,293 |
| Foreign governmental bonds Ba1 | Moody's | 711,922 |
| Foreign governmental bonds Baa2 | Moody's | 708,985 |
| Companies Bond A | Moody's | 711,695 |
| Companies Bond A1 | Moody's | 1,421,889 |
| Companies Bond A3 | Moody's | 1,423,676 |
| Companies Bond Ba1 | Moody's | 1,406,827 |
| Companies Bond Ba2 | Moody's | 712,643 |
| Companies Bond Baa3 | Moody's | 9,334,247 |
| Companies Bond Caa3 | Moody's | 1,401,141 |
| Companies Bond without classification | Moody's | 6,792,517 |
| Net Total | | 688,023,173 |

5.A- The schedule below shows the geographical distribution of the credit risk exposure

| Item | Inside the Kingdom | Other Middle East Countries | Europe | Asia | Africa | America | Other countries | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at Central Bank of Jordan | 101,095,229 | - | - | - | - | - | - | 101,095,229 |
| Balances at banks and financial institutions | 442,526 | 209,621,044 | 30,274,014 | 674,074 | 665,894 | 65,843,442 | - | 307,520,994 |
| Deposits at banks and financial institutions | - | - | 15,877,685 | - | - | - | - | 15,877,685 |
| Credit facilities-net: | 710,591,136 | 38,272,539 | 3,830,894 | - | - | - | - | 752,694,569 |
| Bonds and bills: | | | | | | | | |
| Financial assets at amortized cost - Net | 664,994,011 | 3,573,458 | 6,224,194 | 4,982,722 | 2,332,567 | 5,916,221 | - | 688,023,173 |
| Other assets | 16,468,702 | 690,466 | 498,832 | 95,676 | 73,410 | 105,835 | - | 17,932,921 |
| Grand total | 1,493,591,604 | 252,157,507 | 56,705,619 | 5,752,472 | 3,071,871 | 71,865,498 | - | 1,883,144,571 |
| Letters of guarantee | 74,138,447 | 6,262,338 | 217,288 | - | - | - | - | 80,618,073 |
| Letters of credit | 42,594,704 | 5,719,158 | - | - | - | - | - | 48,313,862 |
| Acceptances | 38,903,248 | 1,038,815 | - | - | - | - | - | 39,942,063 |
| Un-utilized facilities | 77,319,806 | 750,481 | - | - | - | - | - | 78,070,287 |
| Grand total | 1,726,547,809 | 265,928,299 | 56,922,907 | 5,752,472 | 3,071,871 | 71,865,498 | - | 2,130,088,856 |
| Total comparative figures | 1,508,578,896 | 239,614,148 | 51,970,551 | 2,093,765 | 3,020,355 | 41,355,335 | 427,471 | 1,847,060,521 |

Exposure distribution according to IFRS 9- Net:

| Item | Stage 1 Individual | Stage 1 Collective | Stage 2 Individual | Stage 2 Collective | Stage 3 Individual | Total |
|---|---|---|---|---|---|---|
| Inside Jordan | 1,549,763,920 | 154,955,085 | 6,350,821 | 5,568,352 | 9,909,631 | 1,726,547,809 |
| Other middle east countries | 265,928,299 | - | - | - | - | 265,928,299 |
| Europe | 34,193,590 | - | 22,729,317 | - | - | 56,922,907 |
| Asia | 5,752,472 | - | - | - | - | 5,752,472 |
| Africa | 3,071,871 | - | - | - | - | 3,071,871 |
| America | 71,865,498 | - | - | - | - | 71,865,498 |
| Others | - | - | - | - | - | - |
| Total | 1,930,575,650 | 154,955,085 | 29,080,138 | 5,568,352 | 9,909,631 | 2,130,088,856 |

5.B- The schedule below shows the credit risk exposure according to financial instruments

| Item | Finance | Industrial | Trade | Real estate | Shares | Retail | Government and public sector | Total |
|---|---|---|---|---|---|---|---|---|
| Balances at Central Bank of Jordan | | | | | | | 101,095,229 | 101,095,229 |
| Balances at banks and financial institutions - Net | 307,520,994 | - | - | - | - | - | - | 307,520,994 |
| Deposits at banks and financial institutions - Net | 15,877,685 | - | - | - | - | - | - | 15,877,685 |
| Credit facilities - Net | 7,422,402 | 173,435,947 | 204,383,500 | 98,130,274 | 913,526 | 99,640,227 | 168,768,693 | 752,694,569 |
| Bonds and bills: | | | | | | | | |
| Financial assets at amortized cost - Net | 7,792,702 | 9,737,635 | 3,678,632 | 1,995,669 | - | - | 664,818,535 | 688,023,173 |
| Other assets | 1,183,974 | 977,249 | 1,441,474 | 74,477 | 3,120 | 3,149,514 | 11,103,113 | 17,932,921 |
| Total / Current year | 339,797,757 | 184,150,831 | 209,503,606 | 100,200,420 | 916,646 | 102,789,741 | 945,785,570 | 1,883,144,571 |
| Letters of guarantee | - | - | 80,618,073 | - | - | - | - | 80,618,073 |
| Letters of credit | - | - | 48,313,862 | - | - | - | - | 48,313,862 |
| Acceptances | - | | 39,942,063 | - | - | - | - | 39,942,063 |
| Un- utilized ceilings | 500,000 | 36,596,134 | 40,974,153 | - | - | - | - | 78,070,287 |
| Grand total | 340,297,757 | 220,746,965 | 419,351,757 | 100,200,420 | 916,646 | 102,789,741 | 945,785,570 | 2,130,088,856 |
| Total comparative figures | 297,309,652 | 161,111,024 | 357,994,518 | 96,096,271 | 790,513 | 102,366,431 | 831,392,112 | 1,847,060,521 |

The distribution of the risk exposure according to the staging classification as per IFRS (9) - Net.

| Item | Stage 1 Individual | Stage 1 Collective | Stage 2 Individual | Stage 2 Collective | Stage 3 Individual | Total |
|---|---|---|---|---|---|---|
| Finance | 319,070,547 | - | 21,154,210 | - | 73,000 | 340,297,757 |
| Industry | 215,932,532 | - | - | - | 4,814,433 | 220,746,965 |
| Trade | 409,231,118 | - | 7,925,928 | - | 2,194,711 | 419,351,757 |
| Real estate | 26,101,494 | 68,308,235 | - | 3,648,920 | 2,141,771 | 100,200,420 |
| Shares | 916,646 | - | - | - | - | 916,646 |
| Retail | 13,537,743 | 86,646,850 | - | 1,919,432 | 685,716 | 102,789,741 |
| Government and public sector | 945,785,570 | - | - | - | - | 945,785,570 |
| Total | 1,930,575,650 | 154,955,085 | 29,080,138 | 5,568,352 | 9,909,631 | 2,130,088,856 |

**44/B Market risks:**

Market risk is the risk of the fluctuation in the fair value or cash flows of financial instruments due to changes in market prices such as interest rates, currency rates and stock prices. The risks subject to this requirement are foreign currency, risk price risk, commodity risk and market risks arise due to open positions for interest rate, foreign currency exchange rate, investment rate and share prices. These risks are controlled according to predetermined policies and procedures and through specialized committees and work centres.

Sensitivity analysis is based on estimating the loss risk in fair value due to changes in interest rate and exchange rate. Moreover, fair value is calculated according to the current value of future cash flows that will be affected by price changes.

1. Interest Rate Risks

Interest rate risk arises from the probable impact of changes in interest rates on the value of other financial assets. The Bank is exposed to the risk of interest rates due to a mismatch or a gap in the amounts of assets and liabilities according to the various time limits or review of interest rates in a certain period. Moreover, the Bank manages these risks through reviewing the interest rates on assets and liabilities based on the risk management strategy. The Bank will study all the factors that have an effect on the interest rates whether they are local regional or global in addition to studying the interest rate gap and their future expectations to determine the degree of risk in the short and long term so as to be able to put a suitable future plan and make the right decisions such as amending the maturity date and repricing the deposits and loans and the purchase and sale of the financial investments.

Sensitivity Analysis 2018

| Currency | Change (increase) in interest rate (%) | Sensitivity of interest revenue profit and (loss) | Sensitivity of shareholders' equity |
|---|---|---|---|
| | | JD | JD |
| US Dollar | 1 | (535,716) | - |
| Euro | 1 | (150,802) | - |
| British Pound | 1 | (41,720) | - |
| Japanese Yen | 1 | (2) | - |
| Others | 1 | 187,983 | - |

| Currency | Change (increase) in interest rate (%) | Sensitivity of interest revenue profit and (loss) | Sensitivity of shareholders' equity |
|---|---|---|---|
| | | JD | JD |
| US Dollar | 1 | 535,716 | - |
| Euro | 1 | 150,802 | - |
| British Pound | 1 | 41,720 | - |
| Japanese Yen | 1 | 2 | - |
| Others | 1 | (187,983) | - |

Sensitivity Analysis 2017

| Currency | Change (increase) in interest rate (%) | Sensitivity of interest revenue profit and (loss) | Sensitivity of shareholders' equity |
|---|---|---|---|
| | | JD | JD |
| US Dollar | 1 | 676,963 | - |
| Euro | 1 | 225,716 | - |
| British Pound | 1 | (40,756) | - |
| Japanese Yen | 1 | (3) | - |
| Others | 1 | 144,720 | - |

| Currency | Change (increase) in interest rate (%) | Sensitivity of interest revenue profit and (loss) | Sensitivity of shareholders' equity |
|---|---|---|---|
| | | JD | JD |
| US Dollar | 1 | (676,963) | - |
| Euro | 1 | (225,716) | - |
| British Pound | 1 | 40,756 | - |
| Japanese Yen | 1 | 3 | - |
| Others | 1 | (144,720) | - |

2. Foreign Currencies Risk
This is the risk that results from the changes in foreign exchange rates with potential impact on the Bank's assets and liabilities in foreign currencies The Bank prepares a sensitivity analysis to monitor the changes in exchange rates at (± 5%) of net profits and losses.

Sensitivity analysis 2018

| Currency | Change in currency exchange rate (%) | Effect on profits and losses | Sensitivity of shareholders' equity |
|---|---|---|---|
| | | JD | JD |
| Euro | 5 | 1,694 | - |
| British Pound | 5 | (14,037) | (935,161) |
| Japanese Yen | 5 | 840 | - |
| Other currencies | 5 | 717,059 | - |

Sensitivity analysis 2017

| Currency | Change in currency exchange rate (%) | Effect on profits and losses | Sensitivity of shareholders' equity |
|---|---|---|---|
| | | JD | JD |
| Euro | 5 | 814 | - |
| British Pound | 5 | 38,603 | 958,786 |
| Japanese Yen | 5 | 142 | - |
| Other currencies | 5 | 171,990 | - |

In case the decrease in the currency exchange rate amounts to 5% the same financial effect will result with an opposite sign.

3. Shares Prices Risks
Is the risk arising from changes in the prices of stocks within the portfolio of financial assets at fair value through the statement of income and comprehensive income. The Bank manages the risks of stock prices by analysing value at losses.

Sensitivity Analysis 2018

| Indicator | Change in Equity Prices (%) | Effect on Profit/Losses | Effect on Shareholders |
|---|---|---|---|
| | | JD | JD |
| Amman Stock Exchange | 5 | 13,162 | 635,184 |
| Qatar Stock Exchange | 5 | - | 20,029 |

Sensitivity Analysis 2017

| Indicator | Change in Equity Prices (%) | Effect on Profit/Losses | Effect on Shareholders |
|---|---|---|---|
| | | JD | JD |
| Amman Stock Exchange | 5 | 8,470 | 637,362 |
| Qatar Stock Exchange | 5 | - | 31,870 |

If the stock exchanges indicator decreases by the same percentage the same financial effect will arise but with an opposite sign.

4. Interest Rate Sensitivity Gap

Classification is done according to interest re-pricing or maturity whichever is closer.

| 31 Dec 2018 | Less than 1 month | From 1 to 3 months | From 3 to 6 months | From 6 months to 1 year | From1 to 3 years | Over 3 years | Non - interest bearing Items | Total |
|---|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD | JD |
| Assets | | | | | | | | |
| Cash and balances at Central Bank of Jordan | 121,539,096 | - | - | - | - | - | - | 121,539,096 |
| Balances at banks and financial institutions - Net | - | 190,411,569 | - | - | - | - | 117,109,425 | 307,520,994 |
| Deposits at banks and financial institutions - Net | - | - | 5,276,525 | 10,601,160 | - | - | - | 15,877,685 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | - | 15,506,988 | 15,506,988 |
| Direct credit facilities- Net | 155,080,956 | 69,669,212 | 73,186,400 | 50,513,324 | 175,173,587 | 229,071,090 | - | 752,694,569 |
| Financial assets at amortized cost- Net | 25,000,049 | 26,730,075 | 47,199,032 | 96,019,706 | 164,316,618 | 328,757,693 | - | 688,023,173 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | 263,244 | 263,244 |
| Investments in associate company | - | - | - | - | - | - | 19,011,340 | 19,011,340 |
| Property and equipment – Net | - | - | - | - | - | - | 74,301,592 | 74,301,592 |
| Intangible assets – Net | - | - | - | - | - | - | 694,005 | 694,005 |
| Deferred tax assets | - | - | - | - | - | - | 540,846 | 540,846 |
| Other assets | - | - | - | - | - | - | 37,116,887 | 37,116,887 |
| Total assets | 301,620,101 | 286,810,856 | 125,661,957 | 157,134,190 | 339,490,205 | 557,828,783 | 264,544,327 | 2,033,090,419 |
| Liabilities | | | | | | | | |
| Banks and financial institution deposits | 8,481,480 | 408,900,071 | - | - | 120,000,000 | - | - | 537,381,551 |
| Customers' deposits | 442,774,862 | 194,083,730 | 105,679,385 | 69,547,257 | 4,000,000 | 41,437 | 214,435,376 | 1,030,562,047 |
| Borrowed funds from the Central Bank of Jordan | 145,245,500 | - | - | - | - | 796,310 | - | 146,041,810 |
| Cash Collaterals | 11,986,864 | 7,320,505 | 3,500,583 | 6,824,255 | 130,161 | 70,204 | 9,158,721 | 38,991,293 |
| Sundry provisions | - | - | - | - | - | - | 606,874 | 606,874 |
| Income tax provisions | - | - | - | - | - | - | 6,866,156 | 6,866,156 |
| Other liabilities | - | - | - | - | - | - | 57,242,485 | 57,242,485 |
| Total Liabilities | 608,488,706 | 610,304,306 | 109,179,968 | 76,371,512 | 124,130,161 | 907,951 | 288,309,612 | 1,817,692,216 |
| Interest rate sensitivity gap | (306,868,605) | (323,493,450) | 16,481,989 | 80,762,678 | 215,360,044 | 556,920,832 | (23,765,285) | 215,398,203 |
| 31 December 2017 | | | | | | | | |
| Total Assets | 202,931,799 | 264,003,572 | 107,790,815 | 89,786,698 | 457,743,380 | 514,527,774 | 201,241,789 | 1,838,025,827 |
| Total Liabilities | 510,792,275 | 611,648,612 | 68,301,283 | 73,113,146 | 82,427,232 | 94,755 | 272,290,160 | 1,618,667,463 |
| Interest rate sensitivity gap | (307,860,476) | (347,645,040) | 39,489,532 | 16,673,552 | 375,316,148 | 514,433,019 | (71,048,371) | 219,358,364 |

## 5. Foreign Currency Sensitivity Gap

| Item/Currency | USD | Euro | Sterling Pounds | Japanese Yen | Others | Total |
|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD |
| 31 December 2018 | | | | | | |
| Assets: | | | | | | |
| Cash and balances at Central Bank of Jordan | 28,489,242 | 1,821,266 | 387,972 | 1,208 | 407,507 | 31,107,195 |
| Balances and deposits at banks and financial institutions | 217,483,345 | 68,168,127 | 17,886,178 | 23,540 | 19,496,460 | 323,057,650 |
| Direct credit facilities | 164,465,680 | 4,526,154 | - | - | 36,883,517 | 205,875,351 |
| Financial securities at amortized cost | 161,076,315 | 6,728,533 | - | - | - | 167,804,848 |
| Financial assets through Comprehensive Income | 35,672 | - | - | - | 400,577 | 436,249 |
| Investments in associate company | - | - | 19,011,340 | - | - | 19,011,340 |
| Property and equipment - Net | 1,775,104 | - | - | - | - | 1,775,104 |
| Other assets | 41,269,345 | 965,352 | 52,513 | (104) | (5,843,499) | 36,443,607 |
| Total assets | 614,594,703 | 82,209,432 | 37,338,003 | 24,644 | 51,344,562 | 785,511,344 |
| Liabilities: | | | | | | |
| Banks and financial institutions deposits | 245,505,506 | 29,442,735 | 375,451 | - | 18,985 | 275,342,677 |
| Customers' deposits | 348,248,425 | 51,974,838 | 17,744,542 | 7,753 | 33,269,979 | 451,245,537 |
| Cash Margins | 6,781,475 | 370,079 | 200,880 | - | 3,366,506 | 10,718,940 |
| Sundry provisions | - | - | - | - | 286,238 | 286,238 |
| Income Tax Provision | - | - | - | - | 277,408 | 277,408 |
| Other liabilities | 3,642,273 | 387,905 | 22,059 | 81 | 14,401 | 4,066,719 |
| Retained earnings | 406,731 | - | - | - | - | 406,731 |
| Share Issuance Premium | 1,418,000 | - | - | - | - | 1,418,000 |
| Fair value reserve | - | - | - | - | (230,140) | (230,140) |
| Non - Controlling Interest | 20,541,416 | - | - | - | - | 20,541,416 |
| Total Liabilities | 626,543,826 | 82,175,557 | 18,342,932 | 7,834 | 37,003,377 | 764,073,526 |
| Net concentration on - balance sheet for the current year | (11,949,123) | 33,875 | 18,995,071 | 16,810 | 14,341,185 | 21,437,818 |
| Contingent liabilities off - balance sheet for the current year | 174,512,499 | 14,816,726 | 82,744 | 90,138 | 20,525,820 | 210,027,927 |
| 31 December 2017 | | | | | | |
| Total Assets | 567,942,400 | 70,785,005 | 43,608,890 | 29,410 | 58,091,950 | 740,457,655 |
| Total Liabilities | 581,438,495 | 70,768,732 | 23,630,885 | 26,565 | 54,652,160 | 730,516,837 |
| Net concentration on - balance sheet for the current year | (13,496,095) | 16,273 | 19,978,005 | 2,845 | 3,439,790 | 9,940,818 |
| Contingent liabilities off - balance sheet for the current year | 134,343,314 | 19,512,416 | 197,903 | 1,785,980 | 21,384,668 | 177,224,281 |

## (44/C) Liquidity Risk

Liquidity risk is defined as the Bank's inability to provide the necessary funding to cover its obligations at the due date. Liquidity risk is managed through the following:

Funding requirements are managed through daily oversight of future cash flows to ensure the possibility of meeting them and the Bank maintains a presence in the market of cash that allows the bank to achieve it.

Holding highly marketable assets that can be easily liquidated to meet any unexpected liquidity requirements.

Monitoring the liquidity ratios according to the internal requirements and the requirements of the regulatory authorities.

Managing concentrations in assets / liabilities and their maturities.

Maintaining a portion of customers' deposits as a cash reserve at the Central Bank of Jordan; this reserve cannot be disposed of except for certain conditions as specified by the Central Bank of Jordan.

Liquidity is measured on the basis of normal and emergency conditions, this includes analysing the remaining period of the contractual maturity and financial assets on the basis of the expected recoverability.

The treasurer is in charge of controlling the liquidity of the Bank taking into consideration loans and any related commitments letters of credit and guarantees.

### Sources of funds

The Bank diversifies its funding sources according to geographical areas, currencies customers, and products in order to achieve financial flexibility and reduce funding costs. It also endeavours to maintain stable and reliable funding sources. Moreover, the Bank has a large customer base including individual customers companies and corporations.

1. The table below summarizes the distribution of liabilities (not discounted) on the basis of the remainder of the contractual maturity at the date of the financial statements:

| Item/Currency | Less than 1 Month | 1 to 3 Months | From 3 to 6 Months | From 6 Months to 1 year | From 1 to 3 Years | Over 3 Years | Without Maturity | Without |
|---|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD | JD |
| 31 December 2018 | | | | | | | | |
| Liabilities: | | | | | | | | |
| Banks' and financial institution's deposits | 8,627,096 | 409,174,071 | - | - | 128,857,123 | - | - | 546,658,290 |
| Customers' deposits | 442,786,730 | 194,096,811 | 105,695,334 | 69,617,052 | 4,015,142 | 41,437 | 214,435,376 | 1,030,687,882 |
| Borrowed funds from the Central Bank of Jordan | 145,245,500 | - | - | - | - | 796,310 | - | 146,041,810 |
| Cash margins | 12,321,488 | 8,052,477 | 5,127,847 | 8,039,723 | 457,918 | 70,204 | 9,158,721 | 43,228,378 |
| Sundry provisions | - | - | - | - | - | - | 606,874 | 606,874 |
| Income tax provision | 1,511,215 | 4,694,503 | - | - | - | - | 660,438 | 6,866,156 |
| Other liabilities | 38,515,028 | - | - | - | - | - | 18,727,457 | 57,242,485 |
| Total | 649,007,057 | 616,017,862 | 110,823,181 | 77,656,775 | 133,330,183 | 907,951 | 243,588,866 | 1,831,331,875 |
| Total assets (according to expected maturities) | 935,545,921 | 260,890,362 | 79,361,265 | 63,247,057 | 190,270,460 | 239,231,027 | 264,544,327 | 2,033,090,419 |
| 31 December 2017 | | | | | | | | |
| Liabilities: | | | | | | | | |
| Banks' and financial institution's deposits | 3,389,746 | 404,128,259 | - | - | 86,481,630 | - | - | 493,999,635 |
| Customers' deposits | 482,080,368 | 198,754,972 | 64,131,948 | 65,760,983 | 2,330,887 | 41,437 | 241,292,196 | 1,054,392,791 |
| Borrowed funds from the Central Bank of Jordan | - | 163,834 | - | - | - | - | - | 163,834 |
| Cash margins | 25,798,201 | 9,670,327 | 4,963,742 | 9,080,144 | 109,199 | 53,318 | 10,240,507 | 59,915,438 |
| Sundry provisions | - | - | - | | | | 1,923,950 | 1,923,950 |
| Income tax provision | - | - | - | | | | 7,785,786 | 7,785,786 |
| Other liabilities | - | - | - | - | - | | 11,047,721 | 11,047,721 |
| Total | 511,268,315 | 612,717,392 | 69,095,690 | 74,841,127 | 88,921,716 | 94,755 | 272,290,160 | 1,629,229,155 |
| Total assets (according to expected maturities) | 764,453,414 | 264,003,572 | 84,785,536 | 66,782,798 | 211,744,391 | 245,014,327 | 201,241,789 | 1,838,025,827 |

2. The following table summarizes forward currency contracts based on the remaining period to the contractual maturity date on the date of the financial statements:

| December 2018 | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 Months to 1 Year | 1 to 3 Years | Over 3 Years | Total |
|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD |
| Forward currency contracts | | | | | | | |
| Outflows | 25,524,000 | - | - | 2,133,000 | - | - | 27,657,000 |
| Inflows | 25,524,000 | - | - | 2,133,000 | - | - | 27,657,000 |
| December 2017 31 | | | | | | | |
| Forward currency contracts | | | | | | | |
| Outflows | - | - | - | - | - | - | - |
| Inflows | - | - | - | - | - | - | - |

Off-the statement of financial position items:

| | Up to 1 Year | More than 1 - 5 Years | Over 5 Years | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| 2018 | | | | |
| Letters of credit and acceptances / issued | 95,012,464 | - | - | 95,012,464 |
| Un-utilized facilities | 78,070,287 | - | - | 78,070,287 |
| Letters of guarantee | 75,944,392 | 4,625,681 | 48,000 | 80,618,073 |
| Total | 249,027,143 | 4,625,681 | 48,000 | 253,700,824 |
| 2017 | | | | |
| Letters of credit and acceptances / issued | 87,476,221 | - | - | 87,476,221 |
| Un-utilized facilities | 48,350,039 | - | - | 48,350,039 |
| Letters of guarantee | 57,478,461 | 19,148,999 | 23,000 | 76,650,460 |
| Total | 193,304,721 | 19,148,999 | 23,000 | 212,476,720 |

# 45. Segment Analysis

**A. Information about the Bank's Business Segments**

The Bank is organized for administrative purposes to the following four main business segments:

**1. Individual accounts:** Include following up on individual customers accounts, real estate loans, overdrafts, credit cards facilities and transfer facilities.

**2. Institutions and corporate:** The loans and the credit facilities, other sector services, deposits, currant accounts related to the customers of the corporations and institutions.

**3. Treasury:** Principally providing money market trading and treasury services as well as management of the Bank's funding operations through treasury bills, and bond government securities placements, and acceptances with other banks and that is through treasury and banking services.

**4. Institutional financing:** This sector relates to finance structure special arrangements and share issuance.

The Following represents information about the bank's sector activities:

| | Individual bank sector activities | Corporate bank sector activities | Treasury | Others | 2018 | 2017 |
|---|---|---|---|---|---|---|
| | JD (In Thousands) | JD (In Thousands) | JD (In Thousands) | JD (In Thousands) | JD (In Thousands) | JD (In Thousands) |
| Gross revenues | 11,264 | 42,861 | 41,735 | 7,934 | 103,794 | 94,956 |
| Investment in associate company | - | - | 281 | - | 281 | 772 |
| Provision for impairment | (1,050) | (325) | (50) | - | (1,425) | (1,808) |
| Segment results | 10,214 | 42,536 | 41,966 | 7,934 | 102,650 | 93,920 |
| Undistributed expenses | | | | | (78,254) | (68,146) |
| Income before tax | | | | | 24,396 | 25,774 |
| Income tax expense | | | | | (7,580) | (8,599) |
| Net income for the period | | | | | 16,816 | 17,175 |
| Capital expenditures | - | - | - | - | 3,722 | 5,730 |
| Depreciation and amortization | - | - | - | - | 3,031 | 3,069 |
| Segment's assets | 178,911 | 573,783 | 1,148,732 | - | 1,901,426 | 1,709,330 |
| Investments in associate company | - | - | 19,011 | - | 19,011 | 19,948 |
| Undistributed assets | - | - | - | 112,653 | 112,653 | 108,748 |
| Total assets | 178,911 | 573,783 | 1,167,743 | 112,653 | 2,033,090 | 1,838,026 |
| Segment's liabilities | 752,201 | 317,352 | 683,423 | - | 1,752,976 | 1,597,909 |
| Undistributed liabilities | - | - | - | 64,716 | 64,716 | 20,758 |
| Total Liabilities | 752,201 | 317,352 | 683,423 | 64,716 | 1,817,692 | 1,618,667 |

**(2-A) Geographical Information**

This item represents the geographical distribution of the Bank's activities. Moreover, the Bank conducts its activities mainly in Jordan representing local activities, additionally, the Bank performs its international activities through its branch in Cyprus, and its subsidiary in Qatar.

The following table shows the distribution of the Bank's operating income, total assets and capital expenditure by geographical segment:

| | Inside Jordan | | Outside Jordan | | Total | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Total revenues | 92,824,199 | 85,971,816 | 11,250,574 | 9,755,759 | 104,074,773 | 95,727,575 |
| Capital expenditure | 3,632,698 | 5,691,658 | 90,080 | 38,621 | 3,722,778 | 5,730,279 |

| | Inside Jordan | | Outside Jordan | | Total | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Total Assets | 1,619,207,733 | 1,470,116,827 | 413,882,686 | 367,909,000 | 2,033,090,419 | 1,838,025,827 |

# 46. Capital Management:

The Bank seeks to achieve the following goals:

- Compliance with the Central Bank of Jordan requirements relating to share capital.
- Maintaining the ability to continue as a going concern.
- Maintaining a strong capital base for supporting the expansion and development of the Bank's activities.

Capital adequacy is monitored and reviewed by the Bank's management moreover the Bank provides the Central Bank of Jordan with quarterly reports on the adequacy of its capital.

According to the Central Bank of Jordan instructions the minimum requirements for the capital adequacy ratio is 12%. Moreover, banks are classified into five categories the best one having an average capital adequacy ratio equal to or more than 14%. The Bank's capital adequacy ratio is 15.9% as of 31 December 2018 (15.95% as of 31 December 2017).

The schedule below shows capital components total risk weighted assets and capital adequacy ratio according to the Central Bank of Jordan instructions in accordance with Basel III 2018 Committee regulations:

| Primary capital according to bank's management requirements | 2018 JD In Thousands | 2017 JD In Thousands |
|---|---|---|
| Paid-up capital | 150,000 | 150,000 |
| Retained earnings | 3,980 | 2,668 |
| Profit for the year after tax and deducting expected distributions | | |
| Other comprehensive income items: | | |
| Cumulative change in fair value | (1,892) | (1,674) |
| Foreign currency translation adjustments | (3,596) | (2,379) |
| Share issuance premium | 1,418 | 1,418 |
| Statutory reserve | 31,447 | 29,279 |
| Authorized minority rights | 6,353 | 5,654 |
| Total ordinary share capital | 187,710 | 184,966 |
| Total regulatory adjustments (deductions from capital) | | |
| Goodwill and intangible assets | (694) | (931) |
| Deferred tax assets resulting from provisions of credit facilities | (541) | (933) |
| Investment in Bank's Capital and financial institutions and insurance companies Outside the scope of regulatory consolidation and where the bank owns more than 10% | (364) | (1,637) |
| Net ordinary shareholders | 186,111 | 181,465 |
| Additional capital | - | - |
| Total primary capital | 186,111 | 181,465 |
| Secondary capital | | |
| General banking risk reserve | - | 5,889 |
| Provision required against credit facilities / credit compensation in stage 1 | 3,425 | - |
| Total stable capital | 3,425 | 5,889 |
| Net stable capital | 3,425 | 5,899 |
| Total regulatory capital | 189,536 | 187,354 |
| Total risk weighted assets | 1,192,262 | 1,174,614 |
| Capital adequacy ratio % | 15.90% | 15.95% |
| Primary capital ratio % | 15.61% | 15.45% |

# 47. Accounts Managed on Behalf of Customers

This item represents the accounts managed by the Bank on behalf of its customers but are not considered part of the bank's assets and its balances as of 31 December 2018 was 43,199,818 JD (JD 32,886,344 as of 31 December 2017), The fees and commissions on such accounts are stated in the consolidated statement of Income.

# 48. Assets and Liabilities Maturity Analysis

The following table analyses assets and liabilities according to the expected period of their recoverability or settlement:

| 31 December 2018 | Up to 1 year | Over 1 year | Total |
|---|---|---|---|
| | JD | JD | JD |
| Assets | | | |
| Cash and balances at Central Bank of Jordan | 121,539,096 | - | 121,539,096 |
| Balances at banks and financial institutions - net | 307,520,994 | - | 307,520,994 |
| Deposits at banks and financial institutions - net | 15,877,685 | - | 15,877,685 |
| Financial assets at fair value through other comprehensive income | - | 15,506,988 | 15,506,988 |
| Financial assets at fair value through Profit or Loss | 263,244 | - | 263,244 |
| Direct credit facilities- net | 348,449,892 | 404,244,677 | 752,694,569 |
| Financial assets at amortized cost | 662,766,363 | 25,256,810 | 688,023,173 |
| Investments in associate company | - | 19,011,340 | 19,011,340 |
| Property and equipment - net | - | 74,301,592 | 74,301,592 |
| Intangible assets - net | - | 694,005 | 694,005 |
| Deferred tax assets | - | 540,846 | 540,846 |
| Other assets | - | 37,116,887 | 37,116,887 |
| Total assets | 1,456,417,274 | 576,673,145 | 2,033,090,419 |
| Liabilities | | | |
| Banks and financial institutions' deposits | 417,381,551 | 120,000,000 | 537,381,551 |
| Customers' deposits | 812,085,234 | 218,476,813 | 1,030,562,047 |
| Borrowed funds from the Central Bank of Jordan | 145,245,500 | 796,310 | 146,041,810 |
| Cash margins | 29,632,207 | 9,359,086 | 38,991,293 |
| Sundry provisions | - | 606,874 | 606,874 |
| Income tax provision | 6,205,718 | 660,438 | 6,866,156 |
| Other liabilities | 38,515,028 | 18,727,457 | 57,242,485 |
| Total liabilities | 1,449,065,238 | 368,626,978 | 1,817,692,216 |
| Net | 7,352,036 | 208,046,167 | 215,398,203 |

| 31 December 2017 | Up to 1 Year | Over 1 Year | Total |
|---|---|---|---|
| | JD | JD | JD |
| Assets: | | | |
| Cash and balances at Central Bank of Jordan | 70,179,969 | - | 70,179,969 |
| Balances at banks and financial institutions | 254,895,109 | - | 254,895,109 |
| Deposits at banks and financial institutions | 16,535,460 | - | 16,535,460 |
| Financial assets at fair value through comprehensive income | 14,817,140 | - | 14,817,140 |
| Financial assets at fair value through profit or loss | 169,390 | - | 169,390 |
| Direct credit facilities - Net | 246,521,451 | 508,641,445 | 755,162,896 |
| Financial assets at amortized cost | 567,231,486 | 30,338,381 | 597,569,867 |
| Investments in associate company | - | 19,947,778 | 19,947,778 |
| Property and equipment - Net | - | 68,754,517 | 68,754,517 |
| Intangible assets - Net | - | 930,783 | 930,783 |
| Deferred tax assets | - | 932,646 | 932,646 |
| Other assets | - | 38,130,272 | 38,130,272 |
| Total assets | 1,170,350,005 | 667,675,822 | 1,838,025,827 |
| Liabilities: | | | |
| Banks and financial institutions' deposits | 407,339,879 | 80,000,000 | 487,339,879 |
| Customers' deposits | 705,154,124 | 345,561,537 | 1,050,715,661 |
| Borrowed money from Central Bank of Jordan | 161,422 | - | 161,422 |
| Cash margins | 49,297,590 | 10,395,454 | 59,693,044 |
| Sundry provisions | - | 1,923,950 | 1,923,950 |
| Income tax provision | - | 7,785,786 | 7,785,786 |
| Other liabilities | - | 11,047,721 | 11,047,721 |
| Total Liabilities | 1,161,953,015 | 456,714,448 | 1,618,667,463 |
| Net | 8,396,990 | 210,961,374 | 219,358,364 |

# 49. Fair Value Hierarchy

**A. Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis:**

Some of the financial assets and financial liabilities are measured at fair value at the end of each reporting period, The following table gives information about

How the fair value of these financial assets and financial liabilities are determined (valuation techniques and key inputs).

| Financial Assets/ Financial Liabilities | Fair Value as at | | Fair Value Hierarchy | Valuation techniques and key inputs | Significant unobservable | Relationship of Unobservable Inputs to fair value |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | | | | |
| | JD | JD | | | | |
| Financial assets at fair value | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | |
| Quoted corporate equity shares | 263,244 | 169,390 | Level 1 | quoted rates in financial markets instruments | Not Applicable | Not Applicable |
| Total | 263,244 | 169,390 | | | | |
| Financial assets at fair value through comprehensive income | | | | | | |
| Quoted shares | 13,104,260 | 13,384,653 | Level 1 | quoted rates in financial markets | Not Applicable | Not Applicable |
| Unquoted shares | 2,402,728 | 1,432,487 | Level 2 | compare to similar financial instruments | Not Applicable | Not Applicable |
| Total | 15,506,988 | 14,817,140 | | | | |

**There were no transfers between level 1 and 2 during 2018 and 2017.**

**B. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis,**

Except what is detailed in following table we believe that the carrying amounts of financial assets recognized in the Company's financial statements approximate their fair values, due to that the bank's management believes that the item's book value are equals to the fair value which is due to its short term maturity or to the interest rates being revaluated during the year.

| | 2018 | | 2017 | | Fair value hierarchy |
|---|---|---|---|---|---|
| | Book value | Fair value | Bookvalue | Fair value | |
| | JD | JD | JD | JD | JD |
| Financial assets not calculated at fair value | | | | | |
| Balances at central banks | 101,095,229 | 101,095,229 | 51,725,082 | 51,725,082 | level 2 |
| Balances at banks and financial institutions | 307,520,994 | 308,230,505 | 254,895,109 | 255,101,343 | level 2 |
| Deposits at banks and financial institutions | 15,877,685 | 15,956,936 | 16,535,460 | 16,571,563 | level 2 |
| Loans and other bills | 752,694,569 | 758,137,904 | 755,162,896 | 760,572,218 | level 2 |
| Financial assets at amortized costs | 688,023,173 | 699,442,904 | 597,569,867 | 607,355,672 | level 1&2 |
| Total Financial assets not calculated at fair value | 1,865,211,650 | 1,882,863,478 | 1,675,888,414 | 1,691,325,878 | |
| Liabilities not calculated at fair value | | | | | |
| Banks and financial institution deposits | 537,381,551 | 540,674,472 | 487,339,879 | 488,053,997 | level 2 |
| Customer deposits | 1,030,562,047 | 1,034,495,807 | 1,050,715,661 | 1,053,821,803 | level 2 |
| Borrowed money from the central bank of Jordan | 146,041,810 | 146,041,810 | 161,422 | 161,958 | level 2 |
| Cash margins | 38,991,293 | 39,170,804 | 59,693,044 | 59,769,606 | level 2 |
| Total Liabilities not calculated at fair value | 1,752,976,701 | 1,760,382,893 | 1,597,910,006 | 1,601,807,364 | |

- The fair values of the financial assets included in level 2 and 3 categories above have been determined in accordance with the generally accepted pricing.

# 50. Commitments and Contingent Liabilities (Off-Statement of Financial Position)

**A. Contingent liabilities:**

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Letters of credit | | |
| Export | 47,006,472 | 32,202,294 |
| Import (backed) | 1,307,390 | 691,585 |
| Import (not backed) | 64,444,035 | 70,358,389 |
| Acceptance | | |
| Export / letter of credit | 39,942,063 | 45,703,226 |
| Export / policies | 8,063,929 | 9,570,701 |
| Import (not backed) | 7,790,234 | 6,143,745 |
| Letters of guarantee | | |
| Payments | 27,955,736 | 23,233,230 |
| Performance | 29,453,390 | 30,372,402 |
| Other | 23,208,947 | 23,044,828 |
| Forward contracts | 27,657,000 | - |
| Un-utilized facilities | 78,070,287 | 48,350,039 |
| Total | 354,899,483 | 289,670,439 |

Operating lease contracts in Arab Jordan Investment Bank - Qatar (subsidiary) amounted to JD 119,776 as of 31 December 2018 (JD 181,161 as of 31 December 2017).

**B. There are no contractual commitments to purchase fixed assets or constructional contracts.**

**C. There are no guarantees provided against contractual obligations.**

**D. Operating and finance lease contracts.**

The minimum capital lease payment is as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Within one year | 119,776 | 181,161 |
| Total | 119776 | 181,161 |

# 51. Lawsuits against the Bank

The lawsuits against the Bank amounted to JD 6,737,335 as of 31 December 2018 (10,234,144 as of 31 December 2017) which represents lawsuits that clients have raised to respond to lawsuits that the Bank has raised against them in the opinion of the Bank's lawyer. The Bank will not incur any significant amounts against these lawsuits except for the booked provision which amounted to JD 99,691 as of 31 December 2018. Moreover, the amounts paid by the Bank against concluded or settled lawsuits are taken to the statement of income upon payment.

# 52. New International Financial Reporting Standards and its explanations and issued amendments and not implemented yet

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The intends to adopt these standards, if applicable, when they become effective.

**IFRS 16 Leases**

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

Transition to IFRS 16

The Bank has the option to adopt IFRS 16 retrospectively and restate each prior reporting period presented or using the modified retrospective approach by applying the impact as an adjustment on the opening retained earnings. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Bank will adopt IFRS 16 using the modified retrospective approach. During 2018, the Bank has performed a detailed impact assessment of IFRS 16. The Bank expects the effect of adopting IFRS 16 to be JD 3,859,493 on the total assets and JD 3,859,493 on the total liabilities.

**IFRS 17 Insurance Contracts**

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4 - Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.

The new standard will be effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1January 2019, but certain transition reliefs are available.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

**Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

**Amendments to IAS 28: Long-term interests in associates and joint ventures**

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted.

## 52. Comparative Figures

Some of 2017 balances were reclassified to correspond with those of 2018 presentation, the reclassification has no effect on the profit and total equity of the year 2017.

# DOMESTIC AND INTERNATIONAL BRANCHES, OFFICES, SUBSIDIARIES, AND AFFILIATED BANK

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Passports (2)
Transit
Gates (1)
Gates (2)
Crew Center
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# SUBSIDIARIES AND AFFILIATED BANK

## SUBSIDIARIES:

### Arab Jordan Investment Bank (Qatar) L.L.C.

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### The United Arab Jordan Company for Investment & Financial Brokerage

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AJIB

Arab Jordan Investment Bank

**General Management**

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