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Date: 15/02/2018

Ref: GM/54/2018

The Honorable,  
Jordan Security Commission (JSC)  
Amman, Jordan.

Dear Sirs,

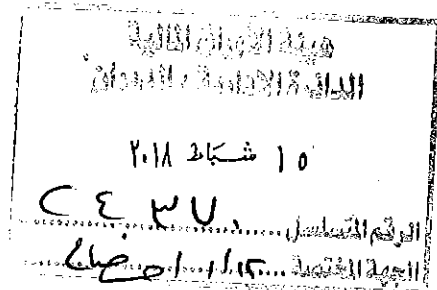
Subject: "Consolidated Financial Statements For The Year Ended Dec 31<sup>st</sup>, 2017"

Kindly find attached the translated Consolidated Financial Statements for the year ended Dec 31<sup>st</sup>, 2017 subject to the Central Bank of Jordan approval.

With all due respect,

Acting General Manager

Salah Hammad





**BANK OF JORDAN  
(PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN - JORDAN  
CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE YEAR ENDED DECEMBER 31, 2017  
TOGETHER WITH THE  
INDEPENDENT AUDITOR'S REPORT**

**BANK OF JORDAN  
(PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN – JORDAN**



**FOR THE YEAR ENDED DECEMBER 31, 2017**

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### **Independent Auditor's Report**

**To the Shareholders of  
Bank of Jordan  
Public Shareholding Limited Company  
Amman – The Hashemite Kingdom of Jordan  
Report on the audit of consolidated financial statements**

#### **Opinion**

We have audited the consolidated financial statements of Bank of Jordan, and its subsidiaries "the Bank" which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing. 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants together with the other ethical requirements that are relevant to our audit of the Bank's consolidated financial statements in Jordan, and we have fulfilled our other ethical responsibilities. 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 significant in our audit consolidated financial statements of the current year. 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:



## **1. Adequacy of Credit Facilities Impairment Provision**

The provision for credit facilities impairment is significant to the Bank's financial statements. Moreover, its calculation requires making assumptions and management's use of estimates for the drop in credit ratings and un-collectability due to some sectors' deteriorating financial and economic conditions and inadequate guarantees, and the suspension of interest arising from default according to regulatory authorities' instructions. Moreover, the net credit facilities granted by the Bank to customers amounted to JD 1,447 million, which represent 56% of total assets as of December 31, 2017.

The nature and characteristics of credit facilities granted to customers do vary from one sector to another and from one country to another, due to the Bank's geographical deployment. Consequently, the calculation method of the provision for credit facilities impairment varies due to diverse sectors and different risk assessments for those countries, as well as due to their legal and statutory requirements and the requirements of the Central Bank of Jordan.

### **How our audit addressed the key audit matters**

The performed audit procedures included understanding the nature of credit facilities portfolios, examining the internal control system adopted in granting and monitoring credit, and evaluating the reasonableness of management's estimates of the provision for credit facilities impairment, collection procedures and follow-up, as well as suspension of interest. Furthermore, we reviewed and understood the Bank's policy for calculating provisions. We also selected and reviewed a sample of performing, watch list, and non-performing credit facilities at the Bank's level as a whole. In addition, we evaluated the factors affecting the calculation of the provision for credit facilities impairment such as evaluating available guarantees and collaterals, customers' financial solvency, management's estimates of expected cash flows, and regulatory authorities' statutory requirements. We also discussed these factors with executive management to verify the adequacy of recorded provisions. Moreover, we re-calculated the provisions to be taken for those accounts and verified suspension of interest on non-performing or defaulted accounts and the Bank's adherence to the regulatory authorities' instructions, requirements and related International Accounting Standard No. (39), and assumptions used for the calculation of the provision for credit facilities impairment.

We also evaluated the adequacy of disclosures relating to credit facilities, provision for credit facilities impairment, and risks set out in Note (9).

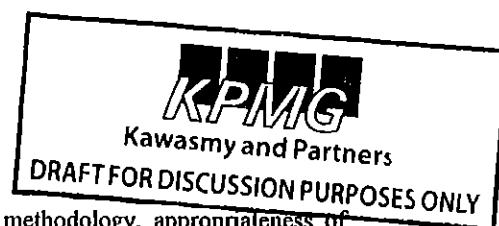
## **2. Financial Assets:**

The Bank holds non-current financial assets within the financial assets portfolio through the comprehensive income statement of JD 4,554,716 as of December 31, 2017. These assets should be stated at fair value in accordance with International Financial Reporting Standard No. (9). Moreover, the Bank holds financial assets at amortized cost of JD 219,576,390 as of December 31, 2017. That regard, the Bank should measure the impairment in their value through comparing the recorded value to their fair value.

Fair value determination of financial assets requires the Bank's management to make several judgments and assessments and to rely on non-listed prices input. Consequently, management's fair value estimation of these assets was significant to our audit.

### **How our audit addressed the key audit matters**

Audit procedures included evaluating internal procedures relating to the determination of financial assets fair value and examination of their efficiency. In addition, audit procedures include evaluating the estimates adopted by the Bank's management to determine the fair value of non-current financial assets. Moreover, these estimates have been compared to the requirements of International Financial Reporting Standards and discussed in light of available information.



The audit procedures also included evaluating the adopted methodology, appropriateness of evaluation models, and input used to determine the fair value of financial assets. They also included reviewing the reasonableness of the most significant input in the evaluation process through reviewing investee companies' financial statements or obtaining secondary market prices as well as other reviewed inputs.

**3. Foreign Currency Translation Reserve / Investments in Foreign Subsidiaries**

Due to deployment of the Bank's foreign branches in several countries and its dealing in various foreign currencies, the Bank may be exposed to fluctuation of exchange rates risks arising from some of those countries' prevailing conditions. Therefore, translating the assets and liabilities of foreign branches and subsidiaries from the local currency (the functional currency) to Jordanian dinar is significant to our audit. Moreover, the exchange differences arising from evaluating the net investment in foreign branches and subsidiaries are shown within other comprehensive income items.

**How our audit addressed the key audit matters**

The audit procedures included testing the internal control system relating to determination of foreign currency exchange rates adopted by management. In addition, the audit procedures included reviewing a sample of foreign currency exchange rates adopted by management and matching them with those set by the Central Bank of Jordan. The audit procedures also included re-calculating a sample of the differences arising from translating those currencies shown within other comprehensive income items. They included as well obtaining the subsidiary's financial statements, verifying management's exchange rates, and matching them with the exchange rates of the Central Bank of Jordan.

**4. Provision for Income Tax and Deferred Tax Assets**

The tax expense calculation for the year, tax provision for open tax years, and deferred tax assets involve assumptions and estimates of significant amounts in the consolidated financial statements as a whole. In addition, the Bank undertakes complex and extensive operations within its everyday activities, which renders judgments and estimates which is significant matter for tax purposes.

**How our audit addressed the key audit matters**

We have implemented audit procedures to gain an understanding of the nature of risks related to income tax and to assess the professionalism of the Bank's legal and tax consultants relating to the evaluation and calculation of due taxes and tax opinion they provided to us on the adequacy of the tax provisions. We have also discussed with management the scope of work of the Bank's legal and tax consultant to verify his efficiency and capability to calculate the required provisions. Furthermore, we have also discussed management's point of view on the accuracy and adequacy of the provisions taken, reasonableness of the adopted accounting estimates, and the Bank's adoption of International Accounting Standard No. (12). In addition, we discussed the impact of any tax differences with the tax authorities and their impact on the consolidated financial statements.

We also evaluated the adequacy of disclosures relating to income tax provision and deferred tax assets set out in Note (18).



#### **Other Information**

Management is responsible for the other information. The other information comprises the other information in the annual report excluding the consolidated financial statements and the independent auditor thereon, which is expected to be made available to us after the date of our audit report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 IFRS, 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 exists. 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 ISA's, we exercise professional judgement 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 risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure 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 Bank 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 represents 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 Bank 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 procedures.

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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude 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 reasonably be expected to outweigh the public interest benefits of such communication.





**Report on Other Legal and Regulatory Requirements**

The Bank maintains proper accounting records duly organized and in line with the accompanying consolidated financial statements. We recommend that the General Assembly of Shareholders approve these consolidated financial statements.

The accompanying consolidated financial statements are a translation of the statutory consolidated financial statements which are in the Arabic Language to which reference should be made.

**Kawasmy and Partners  
KPMG**

Hatem Kawasmy  
License No. (656)

Ainman – Jordan  
January 28, 2018



Kawasmy and Partners

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**BANK OF JORDAN  
(PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN – JORDAN**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	NOTE	DECEMBER 31,	
		2017	2016
		JD	JD
<b>Assets</b>			
Cash and balances with central banks	4	268,583,151	228,197,814
Balances with banks and financial institutions	5	265,682,212	494,451,425
Deposits with banks and financial institutions	6	125,000,000	25,000,000
Financial assets at fair value through profit or loss	7	196,987	205,719
Financial assets at fair value through comprehensive income	8	114,791,862	92,128,338
Direct credit facilities - Net	9	1,447,227,771	1,226,013,033
Financial assets at amortized cost	10	219,576,390	172,637,680
Property and equipment – Net	11	31,930,233	29,774,830
Intangible assets	12	4,839,231	3,559,146
Deferred tax assets	18	14,683,719	11,926,470
Other assets	13	72,620,383	54,944,609
<b>Total Assets</b>		<b>2,565,131,939</b>	<b>2,338,839,064</b>
<b>Liabilities and Owners' Equity</b>			
<b>Liabilities:</b>			
Banks and financial institutions' deposits	14	64,896,195	145,623,458
Customers' deposits	15	1,845,800,756	1,606,979,130
Cash margins	16	149,356,693	129,292,102
Financial derivatives	37	178,833	17,655
Other provisions	17	5,006,765	5,015,992
Income tax provision	18	19,602,158	16,872,706
Borrowed Funds	19	2,437,716	424,879
Other liabilities	20	38,696,473	22,176,908
<b>Total Liabilities</b>		<b>2,125,975,589</b>	<b>1,926,402,830</b>
<b>Owners' Equity:</b>			
<b>Equity attributable to the Bank's shareholders</b>			
Paid-up capital	21	200,000,000	200,000,000
Statutory reserve	22	80,820,952	73,917,046
Voluntary reserve	22	134,330	113,124
General banking risks reserve	22	15,128,290	12,996,161
Special reserve	22	4,103,632	3,330,908
Foreign currency translation differences	23	(12,256,254)	(12,401,835)
Fair value reserve	24	81,288,341	63,565,588
Retained earnings	25	64,446,126	63,926,237
<b>Total Equity attributable to the Bank's Shareholders</b>		<b>433,665,417</b>	<b>405,447,229</b>
Non-controlling interests		5,490,933	6,989,005
<b>Total Owners' Equity</b>		<b>439,156,350</b>	<b>412,436,234</b>
<b>Total Liabilities &amp; Owners' Equity</b>		<b>2,565,131,939</b>	<b>2,338,839,064</b>

Board of Director's Chairman

Chief Executive Officer

The accompanying notes from (1) to (46) constitute an integral part of these consolidated financial statements and should be read with them.

**BANK OF JORDAN  
(PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN – JORDAN**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

	Note	For the Year Ended December 31,	
		2017	2016
		JD	JD
Interest income	27	129,861,236	109,915,974
Less: Interest expense	28	26,919,012	17,153,738
<b>Net Interest income</b>		<b>102,942,224</b>	<b>92,762,236</b>
Commissions income – Net	29	24,259,668	23,482,888
<b>Net interest and commissions income</b>		<b>127,201,892</b>	<b>116,245,124</b>
Foreign currencies income	30	2,760,010	2,486,154
Gain (Loss) from financial assets at fair value through profit or loss statement	31	4,217	(54,858)
Cash dividends from financial assets at fair value through comprehensive income	8	4,636,746	2,815,647
Gain on sale of financial assets at amortized cost	10	87,724	-
Other income	32	20,327,389	5,956,955
<b>Total Income</b>		<b>155,017,978</b>	<b>127,449,022</b>
Employees expenses	33	33,572,988	30,406,781
Depreciation and amortization	12,11	4,806,532	4,591,875
Other expenses	34	25,006,129	21,493,303
Provision for impairment of direct credit facilities	9	20,637,508	5,689,334
Provision for assets fore closed by the Bank	13	2,925,420	2,537,031
Other provisions	17	486,038	415,290
<b>Total Expenses</b>		<b>87,434,615</b>	<b>65,133,614</b>
<b>Profit before Income Tax</b>		<b>67,583,363</b>	<b>62,315,408</b>
Less: Income tax expense	18	21,973,902	20,113,384
<b>Profit for the Year Statements (C) and (D)</b>		<b>45,609,461</b>	<b>42,202,024</b>
Attributable to:			
Bank's Shareholders		46,795,537	41,396,285
Non-controlling Interests		(1,186,076)	805,739
<b>Profit for the Year</b>		<b>45,609,461</b>	<b>42,202,024</b>
Earnings per share for the year attributable to the Banks' shareholders			
Basic/diluted	35	0.234	0.207

Board of Director's Chairman

Chief Executive Officer

The accompanying notes from (1) to (46) constitute an integral part of these consolidated financial statements and should be read with them.



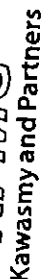
# STATEMENT (C)

**BANK OF JORDAN**  
**(PUBLIC SHAREHOLDING LIMITED COMPANY)**  
**AMMAN - JORDAN**

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>For the Year</b>	
	<b>Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>JD</b>	<b>JD</b>
<b>Profit for the Year</b>	45,609,461	42,202,024
Other comprehensive income items:		
Items that may be reclassified subsequently to consolidated statement of profit or loss:		
Foreign currencies translation differences	(612,098)	2,583,450
	<u>(612,098)</u>	<u>2,583,450</u>
Items that will not be reclassified subsequently to consolidated statement of profit or loss:		
(Loss) from sales of financial assets at fair value through comprehensive income	-	(491,918)
Change in fair value reserve	17,722,753	32,217,724
	<u>17,722,753</u>	<u>31,725,806</u>
<b>Total Comprehensive Income-Statement (D)</b>	<b><u>62,720,116</u></b>	<b><u>76,511,280</u></b>
Total Comprehensive Income Attributable to:		
The Bank's Shareholders	64,218,188	74,225,435
Non-controlleing Interests	(1,498,072)	2,285,845
	<u>62,720,116</u>	<u>76,511,280</u>

The accompanying notes from (1) to (46) constitute an integral part of these consolidated financial statements and should be read with them.



**DRAFT FOR DISCUSSION PURPOSES ONLY**

**CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**

	Reserves																					
	Paid-up Capital		Statutory		Voluntary		General Banking Risks		Special		Foreign Currency Translation Differences		Fair Value Reserve		Retained Earnings		Total equity attributable to the Banks' Shareholders		Non-Controlling Interests		Total owners' Equity	
	JD		JD		JD		JD		JD		JD		JD		JD		JD		JD		JD	
<b>For the Year Ended December 31, 2017</b>																						
Balance - Beginning of the year																						
	200,000,000		73,917,046		113,124		12,996,161		3,330,908		(12,401,835)		63,565,588		63,926,237		405,447,229		6,989,005		412,436,234	
Foreign currency translation differences																						
	-		21,206		21,206		4,072		-		145,581		-		(492,167)		(300,102)		(311,996)		(612,098)	
Profit for the year Statement (B)																						
	-		-		-		-		-		-		-		46,795,537		46,795,537		(1,186,076)		45,609,461	
Changes in fair value reserve																						
	-		-		-		-		-		-		17,722,753		-		17,722,753		-		17,722,753	
Total Comprehensive Income Statement (C)																						
	-		21,206		21,206		4,072		-		145,581		17,722,753		46,303,370		64,218,188		(1,498,072)		62,720,116	
Transfer to reserves																						
	-		6,882,700		-		2,128,057		772,724		-		-		(9,783,481)		-		-		-	
Dividends paid*																						
	-		-		-		-		-		-		-		(36,000,000)		(36,000,000)		-		(36,000,000)	
Balance - End of the Year																						
	200,000,000		80,820,952		134,330		15,128,290		4,103,632		(12,256,254)		81,288,341		64,446,126		433,665,417		5,490,933		439,156,350	
<b>For the Year Ended December 31, 2016</b>																						
Balance - Beginning of the year																						
	155,100,000		67,716,833		13,709,740		12,646,252		2,921,601		(11,481,891)		33,186,645		88,442,614		362,241,794		4,703,160		366,944,954	
Foreign currency translation differences																						
	-		(2,401)		(2,401)		(11,645)		-		(919,944)		-		2,039,735		1,103,344		1,480,106		2,583,450	
Profit for the year Statement (B)																						
	-		-		-		-		-		-		-		41,396,285		41,396,285		805,739		42,202,024	
(Loss) on sale of financial assets at fair value through comprehensive income																						
	-		-		-		-		-		-		(1,838,781)		1,346,863		(491,918)		-		(491,918)	
Changes in fair value reserve																						
	-		-		-		-		-		-		32,217,724		-		32,217,724		-		32,217,724	
Total Comprehensive Income statement (C)																						
	-		(2,401)		(2,401)		(11,645)		-		(919,944)		30,378,943		44,782,883		74,225,435		2,285,845		76,511,280	
Transfer to reserves																						
	-		6,202,614		108,643		361,554		409,307		-		-		(7,082,118)		-		-		-	
Dividends paid*																						
	-		-		-		-		-		-		-		(31,020,000)		(31,020,000)		-		(31,020,000)	
Increase in paid-up capital**																						
	44,900,000		-		(13,702,838)		-		-		-		-		(31,197,142)		-		-		-	
Balance - End of the Year																						
	200,000,000		73,917,046		113,124		12,996,161		3,330,908		(12,401,835)		63,565,588		63,926,237		405,447,229		6,989,005		412,436,234	

\* According to the resolution of the Bank General Assembly in its ordinary meeting held on April 17, 2017, it was approved to distribute 18% of the Bank's capital in cash to shareholders which is equivalent to JD 36,000,000 (against 20% of the Bank's capital in cash to shareholders which is equivalent to JD 31,020,000 in its ordinary meeting held on April 9, 2016).

\*\*\* According to the resolution of the Bank General Assembly in its extraordinary meeting held on April 9, 2016, it was approved to increase the Bank's capital from JD 55,100,000 to JD 200,000,000 by capitalizing a part from the voluntary reserve by JD 13,702,858, and capitalizing JD 31,197,142 from Retained Earnings and to distribute them as free shares over the shareholders each per ownership. All legal procedures related to the increase of capital, completed on April 19, 2016.

\*\*\* In Accordance to the instructions of the regulatory bodies:

- The general banking risks reserve and the special reserve cannot be utilized without prior approval from the Central Bank of Jordan and Palestine Monetary Authority.
  - Retained earnings include a restricted amount of JD 14,683,719 against deferred tax benefits as of December 31, 2017. According to the Central Bank of Jordan instructions, this restricted amount cannot be utilized through capitalization or distribution unless actually realized.
  - Retained earnings include an amount of JD 5,060,455 as of December 31, 2017 which represents the effect of early adoption of IFRS (9). These restricted amounts cannot be utilized unless realized through actual sale.
  - The fair value reserve cannot be utilized including the capitalization, distribution, write-off losses or any other commercial acts unless realized through actual sale as instructed by Central Bank of Jordan and Jordan Security Commission.
- The accompanying notes from (1) to (46) constitute an integral part of these consolidated financial statements and should be read with them.



STATEMENT (E)

**BANK OF JORDAN  
(PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN - JORDAN  
CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	For the year ended December 31,	
		2017	2016
<b>Cash Flows From Operating Activities:</b>		<b>JD</b>	<b>JD</b>
Profit before income tax-Statement (B)		67,583,363	62,315,408
<b>Adjustments for Non-cash items:</b>			
Depreciation and amortization	11,12	4,806,532	4,591,875
Provision for impairment in direct credit facilities	9	20,637,508	5,689,334
(Gain) from sale of property and equipment	32	(204,110)	(64,547)
Loss from financial assets at fair value through profit or loss – Unrealized	31	8,732	36,351
Effect of exchange rate fluctuations	30	(2,307,543)	(2,341,645)
Other provisions	17	486,038	415,290
Provisions for assets foreclosed by the Bank	13	2,925,420	2,537,031
Foreign currency exchange differences		(402,831)	1,466,147
<b>Profit before changes in assets and liabilities</b>		<b>93,533,109</b>	<b>74,645,244</b>
<b>Changes in Assets and Liabilities:</b>			
(Increase) in restricted balances		(1,174,192)	(746,708)
(Increase) decrease in deposits with banks and financial institutions (maturing over 3 months)		(100,000,000)	130,000,000
Decrease in financial assets at fair value through profit or loss		-	853,758
(Increase) in direct credit facilities		(241,852,246)	(89,465,121)
(Increase) decrease in other assets		(21,064,065)	2,077,350
Increase (Decrease) in deposits and financial institutions (maturing over 3 months)		21,531,993	(3,159,000)
Increase in customer's deposits		238,821,626	42,092,167
Increase in cash margins		20,064,591	18,120,950
Increase (decrease) in borrowed funds		2,012,837	(76,077)
Increase in other liabilities		16,038,883	2,399,248
<b>Net Change in Assets and Liabilities</b>		<b>(65,620,573)</b>	<b>102,096,567</b>
<b>Net Cash Flows from Operating Activities before paid taxes, end-of-service indemnity provision, and Lawsuits Provision</b>		<b>27,912,536</b>	<b>176,741,811</b>
End-of-service indemnity and lawsuits provisions paid	17	(533,936)	(1,525,128)
Taxes paid	18	(21,876,847)	(16,811,866)
<b>Net Cash Flows from Operating Activities</b>		<b>5,501,753</b>	<b>158,404,817</b>
<b>Cash Flows From Investing Activities:</b>			
(Purchase) of financial assets at amortized cost		(85,774,723)	(37,503,238)
Sale and Maturity of financial assets at amortized cost		38,836,013	92,521,265
(Purchase) of financial assets at fair value through comprehensive income		(5,015,771)	(2,988,738)
Sale of financial assets at fair value through comprehensive income		75,000	5,237,547
Maturity (Purchase) of financial derivatives		161,178	883,762
(Purchase) of property and equipment and advance payments to acquire property and equipment		(5,489,943)	(8,895,633)
Sale of property and equipment		332,735	213,092
(Purchase) of intangible assets	12	(2,101,181)	(960,792)
<b>Net Cash Flows (Used in) from Investing Activities</b>		<b>(58,976,692)</b>	<b>48,507,265</b>
<b>Cash Flows From Financing Activities:</b>			
Foreign currency translation differences		(612,098)	2,583,450
Dividends distributed to shareholders		(35,519,318)	(30,947,339)
<b>Net Cash Flows (used in) Financing Activities</b>		<b>(36,131,416)</b>	<b>(28,363,889)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	30	2,307,543	2,341,645
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>		<b>(87,298,812)</b>	<b>180,889,838</b>
Cash and cash equivalents - Beginning of the year		564,145,672	383,255,834
<b>Cash and Cash Equivalents - End of the Year</b>	36	<b>476,846,860</b>	<b>564,145,672</b>

The accompanying notes from (1) to (46) constitute an integral part of these consolidated financial statements and should be read with them.



**BANK OF JORDAN  
(PUBLIC SHAREHOLDING LIMITED COMPANY)  
AMMAN – JORDAN**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. General**

Bank of Jordan was established in 1960 as a public shareholding limited company with headquarters in Amman – Jordan. On March 3, 1960, it was registered under number (1983) according to the Companies Law No. 33 for the Year 1962 with an authorized capital of JD 350,000, represented by 70,000 shares at a par value of JD 5 per share. However, the Bank's authorized and paid-up capital was increased in stages last of which took place in accordance to the resolution of the general assembly in their extraordinary meeting held on April 9, 2016, thus, the Bank's capital was increase from 155/1 million to become 200 million through the capitalization of JD 13,702,858 from voluntary reserve and JD 31,197,142 from retained earnings, All of the legal procedures related to the capital increase have been completed on April 19, 2016.

The Bank provides all financial and banking services within its scope of activities. Those services are offered through its (73) branches in Jordan, (14) branches in Palestine and its subsidiaries in Jordan and Syria (Excel for Financial Investments Company, Jordan Leasing Company and Bank of Jordan - Syria).

The consolidated financial statements have been approved by the Board of Directors in its meeting No.605 held on January 25, 2018.

**2. Summary of Significant Accounting Policies**

**Financial Statements Basis of Preparation**

- The consolidated financial statements for the Bank and its subsidiaries were prepared in accordance with the standards issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Interpretation Committee Emanating from the International Accounting Standards Board and in conformity with the applicable laws and regulations of the Central Bank of Jordan.
- The consolidated financial statements were prepared on the historical cost basis except for financial assets at fair value through profit or loss, financial assets at fair value through comprehensive income and financial derivatives which are measured at fair value at the date of the consolidated financial statements. Moreover, hedged assets and liabilities are stated at fair value.
- The consolidated financial statements are presented in Jordanian Dinar "JD", being the functional currency of the Bank.
- The accounting policies adopted for the current year are consistent with those applied in the year ended December 31, 2016 except for the effect of the adoption of new and modified standards as stated in Note (46 - A).

**Basis of Consolidation**

- The consolidated financial statements include the financial statements of the Bank and the subsidiaries controlled by the Bank. Control is achieved whereby the Bank has the power to govern the financial and operating policies of the subsidiaries to obtain benefits from their activities. All intra-group transactions, balances, income, and expenses are eliminated in full.



- The financial statements of the subsidiary companies are prepared for the same financial year of the Bank using the same accounting policies adopted by the Bank. If the accounting policies adopted by the subsidiary companies are different from those used by the Bank, the necessary adjustments to the financial statements of the subsidiary companies are made so as to comply with the accounting policies used by the Bank.

As of December 31, 2017 and 2016, the Bank has the following subsidiary companies:

Name of Subsidiary	Paid-up Capital	Bank's Ownership Percentage %	Subsidiary's Nature of Business	Place of Operation	Acquisition Date
Excel for Financial Investments Company	JD 3.5 Million	100	Financial Brokerage	Amman	March 23, 2006
Bank of Jordan – Syria*	3,000 Million (Syrian – Lira)	49	Banking Activities	Syria	May 17, 2008
Jordan Leasing Company	JD 20 Million	100	Finance Lease	Amman	October 24, 2011

The most important information of the subsidiaries for the year 2017 is as follows:

Name of Subsidiary	December 31, 2017		For the Year 2017	
	Total Assets	Total Liabilities	Total Revenues	Total Expenses
	JD	JD	JD	JD
Excel for Financial Investments Company	10,179,364	780,213	1,820,557	624,230
Bank of Jordan – Syria*	47,522,921	35,788,915	2,599,306	4,924,946
Jordan Leasing Company	28,447,312	4,695,335	2,084,798	931,610

- The results of the subsidiaries are incorporated into the consolidated statement of profit or loss from the effective date of acquisition which is the date on which actual control over the subsidiary is assumed by the Bank. Moreover, the operating results of the disposed subsidiaries are incorporated into the consolidated statement of profit or loss up to the effective date of disposal which is the date on which the Bank loses control over the subsidiaries.
- Non-controlling interests represents the portion of equity not held by the Bank in the subsidiary company.
- \* The results of Bank of Jordan – Syria have been consolidated in the accompanied consolidated financial statements due to the Bank's power to govern the financial and operating policies of the subsidiary company.





#### Segmental Information

- Business is a group of assets and operations that jointly provide products or services subject to risks and returns different from those of other business segments, to the effect that it is measured according to the reports used by the Executive Directors and the main decision maker at the Bank.
- 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

- A provision for the impairment of direct credit facilities is recognized when the Bank cannot obviously recover the overdue amounts, and there is objective evidence that the future cash flows of the direct credit facilities have been negatively impacted by an event as well as the estimation of the impairment loss. The provision amount is charged to in the consolidated statement of profit or loss.
- Interest and commission earned on non-performing 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 in Syria and the Palestinian Monetary Authority, whichever is more conservative.
- Credit facilities are written off against its provision when the procedures to collect these direct credit facilities are not feasible. Any surplus in the gross provision - if any - is reversed through the consolidated statement of profit or loss. Subsequent recoveries of amounts previously written off are credited to revenue.
- The credit facilities and their own suspended interests that have been fully provided for with provisions, are transferred to items off the consolidated statement of financial position based on the board of directors' decisions regarding this issue.
- The suspended interests related to accounts which have legal suits are recorded at items off the consolidated statement of financial position based on the board of directors' decisions with this regards.

#### Financial Derivatives and Hedge Accounting

##### Financial Derivatives for Trading:

The fair value of financial derivatives for trading (such as forward foreign currency contracts, future interest rate contracts, swap agreements, and foreign currency options) is recorded in the consolidated statement of financial position. Fair value is measured according to the prevailing market prices; the change in fair value is recognized in the consolidated statement of profit or loss.

##### Financial Derivatives for Hedging:

For hedge accounting purposes, the financial derivatives are stated at fair value. Hedges are classified as follows:

- Fair value hedge:  
Hedge for the change in the fair value exposures of the Bank's assets and liabilities.

When the conditions of an effective fair value hedge are met, the resulting gains and losses from re-measuring the valuation of fair value hedge and the change in the fair value of the hedged assets or liabilities is recognized in the consolidated statement of profit or loss.

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 is recorded in the consolidated statement of profit or loss for the same year.

- Cash flow hedge:  
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 owners' equity. Such gain or loss is transferred to the consolidated statement of profit or loss in the period in which the hedge transaction impacts the consolidated statement of profit or loss.

- When the conditions of the effective hedge do not apply, the gain or loss resulting from change in the fair value of the hedging instrument is recorded in the consolidated statement of profit or loss in the same year.
- 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 profit or loss. Differences in the foreign currency translation of equity instruments are included in the cumulative change in fair value reserve within owners' equity in the consolidated statement of financial position.

#### **Financial Assets at Amortized Cost**

- Financial assets at amortized cost are the financial assets which the Bank management intends, according to its business model, to hold for the purpose of collecting the contractual cash flows which comprise the contractual 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 rate method, and recorded as debit or credit in the interest account. Provisions associated with the decline in value of these investments leading to the inability to recover the investment or parts thereof are deducted. Any impairment is recorded in the consolidated statement of profit or loss and should be presented subsequently at amortized cost less any impairment losses.
- The amount of the impairment loss recognised at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.
- It is not allowed to reclassify any financial assets to / from this category except for certain cases specified at the International Financial Reporting Standards (and in the case of selling any of those assets before its maturity date, the results should be recorded in a separate account in the consolidated statement of comprehensive income, disclosures should be made in accordance with the requirements of relevant International Financial Reporting Standards).

#### **Financial Assets at Fair Value through Profit or Loss**

- Financial assets at fair value through profit or loss are 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 profit or loss upon acquisition) and subsequently measured in fair value. Moreover, changes in fair value are recorded in the consolidated statement of profit or loss 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 profit or loss.
- Dividends and interests from these financial assets are recorded in the consolidated statement of profit or loss.
- It is not allowed to reclassify any financial assets to / from this category except for the cases specified in the International Financial Reporting Standards.

**Financial Assets at Fair Value through Comprehensive Income**

- These financial assets represent the investments in equity instruments held for long term.
- These financial assets are recognized at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in the consolidated statement of other 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 the consolidated owner's equity, and the balance of the revaluation reserve for these assets should be transferred directly to the retained earnings not through the consolidated statement of profit or loss.
- No impairment testing is required for these assets.
- Dividends are recorded in the consolidated statement of profit or loss.

**Fair Value**

The closing price (Asset Purchase/Liabilities Selling) as of the date of the consolidated financial statements in active markets represent the fair value of financial assets and derivatives that have declared market prices.

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:

- Comparison with the current market value of a highly similar financial instrument.
- The estimated future cash flows and discounted cash flows at current rates applicable for items with similar term.
- Options pricing models.
- Evaluation of long-term assets and liabilities that bear no interest in accordance with discounted cash flows using effective interest rate. Premiums and discounts are amortized within interest revenues or expense in the consolidated statement of profit or loss.

The evaluation methods aim to obtain a fair value that reflects market expectations and takes into consideration market factors and any expected risks or benefits at the time of evaluation of the financial instruments. In case the fair value of a financial instrument cannot be measured reliably, it is stated at cost less any impairment.

**Impairment in Financial Assets**

The Bank reviews the values of financial assets recorded on the date of the consolidated statement of financial position in order to determine if there are any indications of impairment in their value individually or in the form of a portfolio. In case such indication exists, the recoverable value is estimated so as to determine the impairment loss.

**Investments in Associates**

- An associate is an entity over which the Bank has significant influence on the decisions related to Financial and operating policies (but does not control) and whereby the Bank owns 20% - 50% of its voting rights. Moreover, the Bank recognizes its share in the associate based on the equity method.
- Profits and losses resulting from transactions between the Bank and its associates are eliminated according to the Bank's ownership percentage in these companies.

### **Property and Equipment**

- Property and equipment are stated at cost less accumulated depreciation and any impairment loss in its value. Moreover, depreciation is calculated (except for lands) when the assets are ready for use on the straight-line basis over the estimated useful lives of these assets as follows:

	%
Buildings	2 – 15
Equipment and Fixtures	15
Furniture	9
Vehicles	15
Computers	15
Improvements and Decorations	15

- When the carrying amounts of Property and Equipment exceed their recoverable values, assets are written down, and impairment losses are recorded in the consolidated statement of profit or loss.
- 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 estimate.
- Property and Equipment are derecognized when disposed of or when there is no expected future benefit from their use.

### **Provisions**

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

### **End-of-Service Indemnity Provision**

The annual end-of-service indemnities paid to resigned employees are deducted from the related provision when paid, moreover, the excess in the amounts paid to resigned employees than the booked provision are recorded in the consolidated statement of profit or loss. Furthermore, provision against commitments of end-of-service indemnity is taken to the consolidated statement of profit or loss.

### **Income Tax**

- Income tax expenses represent accrued taxes and deferred taxes.
- Income tax expenses are accounted for on the basis of taxable income. Taxable income differs from declared income in the consolidated financial statements because the latter includes non-taxable revenues or disallowed taxable expenses in the current year but deductible in subsequent years, tax acceptable accumulated losses, 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 enforced in 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 assets and liabilities in the consolidated financial statements and the value of taxable amounts. Deferred tax is calculated on the basis of liability method in the consolidated statement of financial position according to the rates expected to be applied when the tax liability is settled or deferred tax assets are recognized.
- Deferred tax assets and deferred tax liabilities are reviewed as of the date of the consolidated statement of financial position, and reduced in case it is expected that no benefit or need will arise, partially or totally.



#### **Paid-up Capital**

- Cost of issuing or purchasing the Bank's shares  
The cost of issuance or purchase of the Bank's shares is recognized in the Retained Earnings (net after tax effect if any). If the purchase/issue transaction has not been completed, then the cost will be recognized as an expense in the consolidated statement of profit or loss.
- Treasury Shares  
No gain or loss is recognised in the consolidated statement of profit or loss on the sale of treasury shares but recognised in owners' equity within share premium/discount. Moreover, loss is recorded in retained earnings in case the share premium of treasury shares has been used up.

#### **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 profit or loss.
- 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 is 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 have not been recognized as income and registered in interest and commissions in suspense.
- Revenues and expenses are recognised according to the 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).

#### **Recognition of Financial Assets**

Purchase and sale of financial assets are recognized on the trading date (which is the date on which the Bank commits itself to purchase or sell the financial asset).

#### **Mortgaged Financial Assets**

Mortgaged financial assets are assets mortgaged to third parties, which hold the right to sell or refinance the mortgage. Those assets are continuously evaluated according to the accounting policies designated for each of them and to its original class.

#### **Foreclosed Assets**

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

In accordance with the dissemination of the Central Bank of Jordan No. 10/1/4076 and 10/1/2510 dated on March 27, 2014 and February 14, 2017 respectively, the Bank has started from the beginning of the year 2015 to calculate a gradual provision against the assets foreclosed against debts with period exceeding 4 years.



### **Intangible Assets**

#### **A - Goodwill:**

- Goodwill is recorded at cost which represents the excess of the acquisition costs or investment costs in a subsidiary over the net assets fair value of the subsidiary as of the acquisition date. Goodwill that arises from the investment in the subsidiary is recognised in a separate item as intangible assets. Later on, goodwill will be reviewed and reduced by any impairment amount.
- Goodwill is allocated to cash generating unit(s) to test impairment 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 recognised in the consolidated statement of profit or loss.

#### **B - Other intangible assets:**

- Intangible assets raised through combination are stated at fair value on the date of acquisition. Other intangible assets raised other than combination are recorded at cost.
- Intangible assets are classified on the basis of either a definite or an 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 profit or loss. Intangible assets with indefinite lives are reviewed for impairment as of the consolidated financial statements date, and impairment loss is treated in the consolidated statement of profit or loss.
- No capitalization of intangible assets resulting from the Bank's operations is made. They are rather recorded as an expense in the consolidated statement of profit or loss for the 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 period.

The accounting policy for the intangible assets of the Bank;

### **Computer Software**

Software is shown at cost at the time of purchase and amortized at an annual rate of 15% - 20%.

### **Foreign Currency**

- Transactions in foreign currencies during the year are recorded at the exchange rates prevailing on the date of the transaction.
- Financial assets and financial liabilities denominated in foreign currencies are translated at the average rates prevailing on the consolidated statement of financial position date as declared by the Central Bank of Jordan, Central Bank of Syria and the Palestinian Monetary Authority.
- 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 profit or loss.
- 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, the assets and liabilities of foreign branches and subsidiary companies are translated into the functional currency of each entity at the average exchange rates of the Central Bank of Jordan prevailing on the consolidated statement of financial position date. Income and expense items are translated at the average exchange rates for the year. Any exchange differences are taken directly to a foreign currency translation adjustment reserve within owners' equity. Exchange differences arising from the sale of foreign branches or subsidiaries are recorded as part of the revenues or expenses within the consolidated statement of profit or loss.

### Cash and Cash Equivalents

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

### 3. Accounting Estimates

Preparation of the consolidated financial statements and the application of the accounting policies require the Bank's management to perform assessments and assumptions that affect the amounts of assets, liabilities, disclosures and contingent liabilities. Moreover, these assessments and assumptions affect revenues, expenses, provisions and the balance of fair value reserves within capital and reserves. In particular, this requires the Bank's management to issue significant judgments and assumptions to assess the future cash flows amounts and their timing. Moreover, the beforementioned assessments are necessarily based on assumptions and factors with varying degrees of consideration and uncertainty. In addition, actual results may differ from assessments due to the changes arising from the conditions and circumstances of those assessments in the future.

We believe that the assumptions and estimates with material impacts on the recognition of balances recorded in the consolidated financial statements are fairly presented. And the details of these assumptions are as follows:

- A provision for credit facilities is taken on the basis and estimates approved by management in conformity with the International Financial Reporting Standards (IFRS). The outcomes of these basis and estimates are compared against the adequacy of the provisions as per the instructions of the Central Banks where the Bank branches and subsidiaries operate. The strictest outcomes that conform with the IFRS are used for the purpose of determining the provision.
- Management periodically reassesses the economic useful lives of tangible and intangible assets for the purpose of calculating annual depreciation and amortization based on the general condition of these assets and the assessment of their expected useful economic lives. Impairment loss is taken to the consolidated statement of profit or loss.
- Impairment of assets foreclosed are recorded based on recent and approved evaluations of these assets performed by approved evaluators for the purposes of calculating the impairment. The impairment for these assets is reviewed periodically. In accordance with the dissemination of the Central Bank of Jordan No. 10/1/4076 and 10/1/2510 dated on March 27, 2014 and February 14, 2017 respectively, the Bank has started from the beginning of the year 2015 to calculate a gradual provision against the assets foreclosed against debts with a period exceeding 4 years.
- A provision for lawsuits raised against the Bank is taken. This provision is based on a legal study prepared by the Bank's legal advisors. Moreover, the study highlights potential risks that the Bank may encounter in the future. Such legal assessments are reviewed periodically.
- A provision for income tax is taken on the current year's profit and for accrued and estimated tax of the deducted provision for the prior year in case a final settlement with the Income Tax Department is reached for the prior year.
- Fair value hierarchy  
The Bank is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in the IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability. When assessing the financial assets and liabilities' fair value, the Bank uses market information when available. In case level 1 inputs are not present, the Bank will deal with independent, qualified parties to prepare evaluation studies. Proper evaluation methods and inputs used in preparing the evaluation are reviewed by the management.

**4. Cash and Balances with Central Banks**

This item consists of the following:

	December 31,	
	2017	2016
	JD	JD
Cash in vaults	71,753,575	61,925,791
<b>Balances at Central Banks:</b>		
- Current accounts and demand deposits	60,563,818	64,139,425
- Term and notice deposits*	11,801,899	10,626,907
- Certificates of deposit	20,400,000	-
- Statutory cash reserve	104,063,859	91,505,691
	<b>268,583,151</b>	<b>228,197,814</b>

- Except for the statutory cash reserve, restricted balances amounted to JD 2,443,099 as of December 31, 2017 (JD 2,402,507 as of December 31, 2016).

- \* This balance includes JD 9,358,000 maturing within a period exceeding three months (JD 8,224,400 as of December 31, 2016).

**5. Balances with Banks and Financial Institutions**

This item consists of the following:

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	December 31,		December 31,		December 31,	
	2017	2016	2017	2016	2017	2016
	JD	JD	JD	JD	JD	JD
Current accounts and demand deposits	-	-	18,476,828	38,434,350	18,476,828	38,434,350
Deposits maturing within 3 months or less	177,538,910	390,387,634	69,666,474	65,629,441	247,205,384	456,017,075
	<b>177,538,910</b>	<b>390,387,634</b>	<b>88,143,302</b>	<b>104,063,791</b>	<b>265,682,212</b>	<b>494,451,425</b>

- Non-interest bearing balances at banks and financial institutions amounted to JD 15,073,372 as of December 31, 2017 (JD 34,597,230 as of December 31, 2016).
- Restricted balances at banks and financial institutions amounted to 2,253,202 JD as of December 31, 2017 and 2016.

**6. Deposits with Banks and Financial Institutions**

This item consists of the following:

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	December 31,		December 31,		December 31,	
	2017	2016	2017	2016	2017	2016
	JD	JD	JD	JD	JD	JD
Deposits maturing within 3 to 6 months	10,000,000	10,000,000	-	-	10,000,000	10,000,000
Deposits maturing within 6 to 9 months	-	-	-	-	-	-
Deposits maturing within 9 months to a year	-	15,000,000	-	-	-	15,000,000
Deposits maturing after w year	115,000,000	-	-	-	115,000,000	-
	<b>125,000,000</b>	<b>25,000,000</b>	<b>-</b>	<b>-</b>	<b>125,000,000</b>	<b>25,000,000</b>

- There are no restricted deposits as of December 31, 2017 and 2016.



**7. Financial Assets at Fair Value through Profit or Loss**

This item consists of the following:

	December 31,	
	2017	2016
	JD	JD
Shares listed in local active markets	112,200	122,600
Shares unlisted in local active markets	84,787	83,119
	<u>196,987</u>	<u>205,719</u>

**8. Financial Assets at Fair Value Through Comprehensive Income**

This item consists of the following:

	December 31,	
	2017	2016
	JD	JD
Shares listed in local active markets	100,843,880	79,021,668
Shares unlisted in local active markets*	2,856,601	7,146,541
Shares listed in foreign active markets	9,393,266	4,252,624
Shares unlisted in foreign active markets*	1,698,115	1,707,505
	<u>114,791,862</u>	<u>92,128,338</u>

- Total cash dividends from financial assets at fair value through comprehensive income amounted to JD 4,636,746 for the year ended December 31, 2017 (JD 2,815,647 for the year ended December 31, 2016).

- \* The fair value for unlisted investments had been calculated in accordance to Bank's share of the net assets of these Investments based on the latest audited financial statements for the company in which the Bank invested.

**9. Direct Credit Facilities - Net**

This item consists of the following:

	December 31,	
	2017	2016
	JD	JD
<b>Individual (Retail Customers):</b>	<b>377,216,321</b>	<b>328,815,801</b>
Overdraft accounts	9,255,980	10,453,963
Loans and discounted bills*	350,692,614	305,735,908
Credit cards	17,267,727	12,625,930
<b>Real estate loans</b>	<b>234,024,646</b>	<b>224,886,600</b>
<b>Corporate:</b>	<b>700,988,262</b>	<b>604,772,198</b>
Large corporate customers	459,850,066	456,804,426
Overdraft accounts	75,961,510	128,944,650
Loans and discounted bills*	383,888,556	327,859,776
SMEs	241,138,196	147,967,772
Overdraft accounts	56,231,895	39,217,032
Loans and discounted bills*	184,906,301	108,750,740
<b>Government and public sector</b>	<b>229,352,737</b>	<b>139,357,534</b>
<b>Total</b>	<b>1,541,581,966</b>	<b>1,297,832,133</b>
<b>Less: Provision for impairment in direct credit facilities</b>	<b>(86,485,514)</b>	<b>(64,840,522)</b>
<b>Less: Interest in suspense</b>	<b>(7,868,681)</b>	<b>(6,978,578)</b>
<b>Net Direct Credit Facilities</b>	<b><u>1,447,227,771</u></b>	<b><u>1,226,013,033</u></b>

- \* Net of interest and commission received in advance amounting to JD 13,765,564 as of December 31, 2017 (JD 12,623,079 as of December 31, 2016).

- Non-performing credit facilities amounted to JD 76,806,921 representing (4.98%) of the direct credit facilities balance for the year (JD 66,206,464 representing (5.1%) for prior year).

- Non-performing credit facilities after deducting the suspended interest amounted to JD 68,938,240 representing (4.5%) of direct credit facilities after deducting the suspended interest for the year (JD 59,227,886 representing (4.59%) for prior year).
- Credit facilities granted to and guaranteed by the Jordanian Government amounted to JD 163,529,430 representing (10.6%) of total direct credit facilities for the year (JD 87,000,117 representing (6.7%) for prior year). Moreover, credit facilities granted to the public sector in Palestine amounted to JD 65,823,307 for the year (JD 52,357,417 for prior year).

**Provision for impairment in direct credit facilities:**

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

2017	Corporate Entities					Total
	Individual (Retail Customers)	Real Estate Loans	Large Corporate Customers	SMEs	Public Sector	
	JD	JD	JD	JD	JD	JD
Balance – Beginning of the year	18,953,345	2,785,243	35,966,394	7,135,540	-	64,840,522
Foreign currency differences	103,241	6,855	855,790	41,598	-	1,007,484
Provision for the year taken from revenues	2,905,243	2,602,326	10,738,645	4,391,294	-	20,637,508
Balance – End of the year	21,961,829	5,394,424	47,560,829	11,568,432	-	86,485,514

2016	Corporate Entities					Total
	Individual (Retail Customers)	Real Estate Loans	Large Corporate Customers	SMEs	Public Sector	
	JD	JD	JD	JD	JD	JD
Balance – Beginning of the year	17,472,318	2,283,060	45,944,604	5,006,118	-	70,706,100
Foreign currency differences	(122,648)	(1,196)	(2,890,903)	(74,950)	-	(3,089,697)
Provision for the year taken from revenues	1,603,675	503,379	1,377,908	2,204,372	-	5,689,334
Provisions transferred to off- statement of financial position accounts	-	-	(8,465,215)	-	-	(8,465,215)
Balance – End of the year	18,953,345	2,785,243	35,966,394	7,135,540	-	64,840,522

The amount of calculated provisions on a single client basis and on a portfolio basis and not reported yet is as follows:

2017	Corporate Entities					Total
	Individual (Retail Customers)	Real estate Loans	Large Corporate Customers	SMEs	Public Sector	
	JD	JD	JD	JD	JD	JD
On a single client basis	21,529,943	5,298,261	45,389,037	11,531,525	-	83,748,766
On a portfolio basis	431,886	96,163	2,171,792	36,907	-	2,736,748
Balance – End of year	21,961,829	5,394,424	47,560,829	11,568,432	-	86,485,514

2016	Individual (Retail Customers)	Real Estate Loans	Corporate Entities			Total
			Large Corporate Customers	SMEs	Public Sector	
	JD	JD	JD	JD	JD	JD
On a single client basis	18,653,906	2,713,020	35,261,391	7,002,432	-	63,630,749
On a portfolio basis	299,439	72,223	705,003	133,108	-	1,209,773
Balance – End of the Year	18,953,345	2,785,243	35,966,394	7,135,540	-	64,840,522

- The provisions no longer needed due to settlements or repayments and transferred against other debts amounted to JD 4,333,080 as of December 31, 2017 (JD 6,714,569 as of December 31, 2016).
- There are direct credit facilities with a balance of JD 9,920,148, a suspended interest of JD 1,454,933 and a provision of JD 8,465,215 as of December 31, 2016 which have been transferred to off- statement of financial position accounts as per the Board of Directors decisions, as these credit facilities are fully provided for as of the date of the consolidated financial statements.

**Interest in Suspense:**

The following is the movement on the interest in suspense:

**2017**

	Individual (retail customers)	Real estate Loans	Corporate Entities		Total
			Large corporate customers	SMEs	
	JD	JD	JD	JD	JD
Balance – Beginning of the Year	2,526,228	524,594	2,304,247	1,623,509	6,978,578
Add: Interest suspended during the year	499,700	372,198	429,842	639,862	1,941,602
Less: Interest in suspense reversed to profit or loss	(433,662)	(148,839)	(157,051)	(164,427)	(903,979)
Suspended interest transferred to off- statement of financial position accounts	(147,520)	-	-	-	(147,520)
Balance – End of the Year	2,444,746	747,953	2,577,038	2,098,944	7,868,681

**2016**

	Individual (Retail Customers)	Real Estate Loans	Corporate Entities		Total
			Large Corporate Customers	SMEs	
	JD	JD	JD	JD	JD
Balance – Beginning of the Year	2,528,254	590,375	4,459,612	1,445,040	9,023,281
Add: Interest suspended during the year	228,273	155,680	(175,346)	838,189	1,046,796
Less: Interest in suspense reversed to profit or loss	(230,299)	(221,461)	(525,086)	(659,720)	(1,636,566)
Suspended interest transferred to off- statement of financial position accounts	-	-	(1,454,933)	-	(1,454,933)
Balance - End of the Year	2,526,228	524,594	2,304,247	1,623,509	6,978,578

Direct credit facilities are distributed in accordance with geographical distribution and economic sectors as following:

	Inside Kingdom JD	Outside Kingdom JD	Total December 31,	
			2017	2016
			JD	JD
Financial	9,011,477	-	9,011,477	2,851,395
Industrial	136,845,715	26,954,123	163,799,838	139,306,956
Trading	251,243,359	48,210,399	299,453,758	257,125,407
Real estate	200,685,900	3,277,683	203,963,583	182,661,300
Constructions	42,626,267	542,003	43,168,270	42,225,300
Agriculture	10,152,199	9,455,179	19,607,378	16,950,200
Tourism, restaurants and public facilities	166,957,646	8,205,559	175,163,205	93,763,837
Shares	10,038,543	-	10,038,543	11,202,167
Individuals	316,131,941	71,891,236	388,023,177	412,388,037
Government and public sector	163,529,430	65,823,307	229,352,737	139,357,534
<b>Total</b>	<b>1,307,222,477</b>	<b>234,359,489</b>	<b>1,541,581,966</b>	<b>1,297,832,133</b>

**10. Financial Assets at Amortized Cost**

This item consists of the following:

	December 31,	
	2017	2016
	JD	JD
<b>Financial assets quoted in the market :</b>		
Governmental bonds guaranteed by the government	147,095,719	112,596,012
Corporate bonds and debentures	35,151,182	29,443,668
Foreign governmental bonds	2,137,169	-
<b>Total financial assets quoted in the market</b>	<b>184,384,070</b>	<b>142,039,680</b>
<b>Financial assets unquoted in the market:</b>		
Treasury bills or guaranteed by the government	35,192,320	30,598,000
<b>Total financial assets unquoted in the market</b>	<b>35,192,320</b>	<b>30,598,000</b>
<b>Net financial assets at amortized cost</b>	<b>219,576,390</b>	<b>172,637,680</b>

Analysis of bonds and bills:

	December 31,	
	2017	2016
	JD	JD
Financial assets with fixed-interest rate	216,002,472	160,343,376
Financial assets with floating interest rate	3,573,918	12,294,304
	<b>219,576,390</b>	<b>172,637,680</b>

The maturities of these assets are as follows:

	Up to 1 Month	More than 1 Month up to 3 Months	More than 3 Months up to 6 Months	More than 6 Months up to 1 Year	More than 1 Year up to 3 Years	More than 3 Years	Total
	JD	JD	JD	JD	JD	JD	
December 31, 2017	-	17,000,095	2,141,421	39,280,656	102,938,133	58,216,085	219,576,390
December 31, 2016	5,173,074	4,193,787	1,422,450	14,424,134	71,633,705	75,790,530	172,637,680

- The proceeds of the financial assets at amortized cost are to be paid in semi-annual instalments.
- During the first half of 2017 financial assets with amortized cost were sold with a book value of 21,979,000 JD due to the decrease of the credit rating of the majority of those assets, which resulted in a gain amounted 87,724 for the year ended December 31, 2017.

# 11. Property and Equipment - Net

The details of this item are as follows:

	Equipment Furniture and Fixtures					Vehicles			Computers			Improvements and Decorations		Total
	Lands	Buildings	Furniture and Fixtures		JD	Vehicles		JD	Computers		JD	Improvements and Decorations		JD
2017	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
<b>Cost:</b>														
Beginning balance	3,671,477	13,483,963	20,042,356	1,026,495	10,801,396	19,372,663	68,399,350							
Additions	462,871	92,869	1,250,321	249,583	2,147,663	1,301,737	5,505,044							
(Disposals)	-	-	(801,555)	(386,896)	(1,019,454)	(185,077)	(2,392,982)							
Foreign currencies differences	24,999	273,095	78,264	3,736	26,030	83,481	489,605							
Ending balance	4,159,347	13,849,927	20,569,386	892,918	11,956,635	20,572,804	72,001,017							
<b>Accumulated depreciation:</b>														
Beginning balance	-	6,015,986	14,751,951	641,180	7,855,568	15,341,641	44,606,326							
Annual depreciation	-	215,190	1,390,072	79,361	964,300	1,334,028	3,982,951							
(Disposals)	-	-	(765,321)	(343,422)	(1,005,622)	(149,993)	(2,264,358)							
Foreign currencies differences	-	32,404	50,527	3,661	19,783	69,065	175,440							
Ending balance	-	6,263,580	15,427,229	380,780	7,834,029	16,594,741	46,500,359							
Net book value of property and equipment	4,159,347	7,586,347	5,142,157	512,138	4,122,606	3,978,063	25,500,658							
Payments on acquisition of property and equipment*	-	1,298,106	601,954	-	207,905	4,321,610	6,429,575							
<b>Net Property and Equipment at the End of the Year</b>	<b>4,159,347</b>	<b>8,884,453</b>	<b>5,744,111</b>	<b>512,138</b>	<b>4,330,511</b>	<b>8,299,673</b>	<b>31,930,233</b>							
<b>2016</b>														
<b>Cost:</b>														
Beginning balance	3,133,046	13,322,945	20,186,108	964,842	10,563,486	20,124,904	68,295,331							
Additions	609,928	942,048	1,474,646	315,787	957,731	1,412,863	5,713,003							
(Disposals)	-	-	(1,432,933)	(243,448)	(652,856)	(1,959,603)	(4,288,840)							
Foreign currencies differences	(71,497)	(781,030)	(185,465)	(10,686)	(65,965)	(205,501)	(1,320,144)							
Ending balance	3,671,477	13,483,963	20,042,356	1,026,495	10,802,396	19,372,663	68,399,350							
<b>Accumulated depreciation:</b>														
Beginning balance	-	5,893,117	14,909,167	844,340	7,684,325	15,968,103	45,299,052							
Annual depreciation	-	201,924	1,311,248	49,969	862,352	1,454,822	3,880,315							
(Disposals)	-	-	(1,344,508)	(243,430)	(639,981)	(1,912,376)	(4,140,295)							
Foreign currencies differences	-	(79,055)	(123,956)	(9,699)	(51,128)	(168,908)	(432,746)							
Ending balance	-	6,015,986	14,751,951	641,180	7,855,568	15,341,641	44,606,326							
Net book value of property and equipment	3,671,477	7,467,977	5,290,405	385,315	2,946,828	4,031,022	23,793,024							
Payments on acquisition of property and equipment*	-	77,562	87,956	-	647,362	5,168,926	5,981,806							
<b>Net Property and Equipment at the End of the Year</b>	<b>3,671,477</b>	<b>7,545,539</b>	<b>5,378,361</b>	<b>385,315</b>	<b>3,594,190</b>	<b>9,199,948</b>	<b>29,774,830</b>							

\* The financial obligations relating to the acquisition of property and equipment amounted to JD 1,696,882 for the year 2017, and will be settled in accordance with the contractual conditions on the purchase of these assets.

- Fully depreciated property and equipment amounted to JD 29,833,847 for the year 2017 (JD 28,745,157 for the year 2016).

**12. Intangible Assets**

This item consists of computer software's which are amortized at an annual rate ranging from 15% to 20%, the details are as follows:

	For the year ended December 31,	
	2017	2016
	JD	JD
Balance - Beginning of the year	3,559,146	3,320,303
Additions during the year	2,101,181	960,792
Amortization for the year	(823,581)	(711,560)
Foreign currencies differences	2,485	(10,389)
Balance - End of the Year	4,839,231	3,559,146

**13. Other Assets**

This item consists of the following:

	December 31,	
	2017	2016
	JD	JD
Accrued interest income	8,132,535	4,810,872
Prepaid expenses	3,282,556	2,587,777
Assets foreclosed by the Bank in repayment of debts*	45,050,608	34,705,556
Clearance cheques	3,589,269	1,634,270
Advanced payments on the acquisition of lands & real estate	699,123	912,360
Prepaid tax expenses	1,101,552	1,970,506
Accounts receivables and other debit balances	10,707,290	8,302,714
Transactions in transit	57,450	20,554
	72,620,383	54,944,609

\* The following is the movement on the assets foreclosed by the Bank in repayment of debts:

	Foreclosed Assets	
	2017	2016
	JD	JD
Balance - Beginning of the Year	41,511,299	41,642,564
Additions	14,968,144	2,430,218
Disposals	(1,697,672)	(2,561,483)
End of the year balance	54,781,771	41,511,299
Impairment provision of assets foreclosed by the Bank**	(9,731,163)	(6,805,743)
Balance - End of the Year	45,050,608	34,705,556

- According to the Jordanian Banks' Law, buildings and plots of land foreclosed by the Bank against debts due from customers should be sold within two years from the foreclosure date. However, the Central Bank of Jordan may extend this period for a maximum of two more years in exceptional cases. In accordance with the dissemination of the Central Bank No. 10/1/4076 dated on March 27, 2014, the Bank has started to calculate a gradual provision against the assets foreclosed against debts with period exceeding 4 years according to Central Bank of Jordan circular number 10/1/2510 dated February 14, 2017.

\*\* The movement on the impairment provision of assets foreclosed by the Bank is as follows:

	2017	2016
	JD	JD
Balance - Beginning of the Year	6,805,743	4,268,712
Additions	2,925,420	2,537,923
Disposals	-	(892)
Balance - End of the Year	9,731,163	6,805,743



#### 14. Banks and Financial Institutions' Deposits

This item consists of the following:

	December 31,					
	2017			2016		
	Inside the Kingdom of Jordan	Outside the Kingdom of Jordan	Total	Inside the Kingdom of Jordan	Outside the Kingdom of Jordan	Total
	JD	JD	JD	JD	JD	JD
Current accounts and demand deposits	-	16,109,902	16,109,902	-	43,248,408	43,248,408
Deposits maturing within 3 months	-	27,254,300	27,254,300	47,500,000	54,875,050	102,375,050
Deposits maturing within 3-6 months	-	1,063,500	1,063,500	-	-	-
Deposits maturing within 6-9 months	-	-	-	-	-	-
Deposits maturing within 9-12 months	-	-	-	-	-	-
Deposits maturity exceeds one year	-	20,468,493	20,468,493	-	-	-
	-	64,896,195	64,896,195	47,500,000	98,123,458	145,623,458

#### 15. Customers' Deposits

This item consists of the following:

	December 31, 2017				
	Individuals	Large Corporates	SMEs	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Current accounts and demand deposits	359,179,245	59,273,278	82,724,253	8,194,986	509,371,762
Saving accounts	728,405,946	4,136,458	14,585,865	104,141	747,232,410
Time and notice deposits	261,365,266	123,126,021	26,440,518	87,296,528	498,228,333
Certificates of deposit	85,987,776	1,157,675	3,822,800	-	90,968,251
<b>Total</b>	<b>1,434,938,233</b>	<b>187,693,432</b>	<b>127,573,436</b>	<b>95,595,655</b>	<b>1,845,800,756</b>

	December 31, 2016				
	Individuals	Large Corporates	SMEs	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Current accounts and demand deposits	355,601,307	84,696,037	83,093,736	11,818,041	535,209,121
Saving accounts	661,287,174	1,384,695	13,092,843	78,767	675,843,479
Time and notice deposits	202,401,692	85,959,821	25,621,116	9,860,366	323,842,995
Certificates of deposit	65,897,325	570,890	5,615,320	-	72,083,535
<b>Total</b>	<b>1,285,187,498</b>	<b>172,611,443</b>	<b>127,423,015</b>	<b>21,757,174</b>	<b>1,606,979,130</b>

- Deposits of the Jordanian Government and the public sector inside Jordan amounted to JD 90,414,825 equivalent to (4.9%) of total customers' deposits for the year (JD 16,118,947 equivalent to (1%) for the prior year).
- Non-interest bearing deposits amounted to JD 675,443,252 equivalent to (36.59%) of total customers' deposits for the year (JD 901,249,775 equivalent to (56.08%) of total deposits for the prior year).
- Restricted deposits amounted to JD 14,245,341 equivalent to (0.77%) of total customers' deposits for the year (JD 20,715,053 equivalent to (1.29%) of total deposits for the prior year).
- Dormant deposits amounted to JD 82,220,824 for the year (JD 82,178,656 for the prior year).

**16. Cash Margins**

The details of this item are as follows:

	December 31,	
	2017	2016
	JD	JD
Cash margins on direct credit facilities	106,152,279	111,304,651
Cash margins on indirect credit facilities	43,204,414	17,987,451
<b>Total</b>	<b>149,356,693</b>	<b>129,292,102</b>

**17. Other Provisions**

The details of this item are as follows:

	Beginning Balance	Provision Created during the Year	Provision Used During the Year	Foreign Currencies Differences	Ending Balance
	JD	JD	JD	JD	JD
<b>2017</b>					
Provision for end-of-service indemnity	4,186,235	411,600	(524,426)	-	4,073,409
Provision for lawsuits raised against the Bank	626,714	53,877	(4,027)	-	676,564
Other provisions	203,043	20,561	(5,483)	38,671	256,792
	<u>5,015,992</u>	<u>486,038</u>	<u>(533,936)</u>	<u>38,671</u>	<u>5,006,765</u>
<b>2016</b>					
Provision for end-of-service indemnity	5,337,873	353,166	(1,504,804)	-	4,186,235
Provision for lawsuits raised against the Bank	600,801	41,628	(15,715)	-	626,714
Other provisions	287,491	20,496	(4,609)	(100,335)	203,043
	<u>6,226,165</u>	<u>415,290</u>	<u>(1,525,128)</u>	<u>(100,335)</u>	<u>5,015,992</u>

**18. Income Tax**

**A. Income tax provision:**

The movement on the income tax provision is as follows:

	2017	2016
	JD	JD
Balance - Beginning of the Year	16,872,706	13,197,654
Income tax paid	(21,876,847)	(16,811,866)
Accrued Income tax	24,606,299	20,486,918
<b>Balance - End of the Year</b>	<b>19,602,158</b>	<b>16,872,706</b>

Income tax in the consolidated statement of profit or loss represents the following:

	2017	2016
	JD	JD
Income tax on current year's profit	24,606,299	20,486,918
Deferred tax assets for the year-addition	(2,840,086)	(1,517,791)
Amortization of deferred tax assets	207,689	1,144,257
	<u>21,973,902</u>	<u>20,113,384</u>

- Legal income tax rate in Jordan amounts to 35%, whereas the legal income tax rate in Palestine where the Bank has investments and branches amounts to 15%, in Syria (a subsidiary) to 25% and 24% for the subsidiary companies in Jordan.



- A final settlement was reached with the Income and Sales Tax Department in Jordan up to the end of the year 2013 and 2015. Moreover, the Bank submitted its tax returns for the years 2011, 2014 and 2016 and has paid the required amounts according to the law. However, no final settlement has been reached with the Income and Sales Tax Department for these years yet. The Income and Sales Tax Department claims the Bank with tax differences against the year 2011 amounting to JD 1,800,000. The Bank has objected this assessment and raised a lawsuit against Income and Sales Tax Department in this regards which is still at the court of first instance. Furthermore, the Income and Sales Tax Department also requested for the Bank with tax differences against the year 2014 amounted JD 2,900,000 and it's still in the objection period at which the Bank intends to object the assessment made by the Income and Sales Tax Department. In the opinion of the management and its legal and tax consultant, the Bank will not entail any obligations in excess of the provision booked in the consolidated financial statements.
- The Bank has reached a final settlement up to the end of the year 2016 with the Income Tax and Value added Tax Department on the Bank's operations in Palestine. Moreover, the Bank has allocated an amount of JD 1,895,924 to meet the Tax obligations on the Bank's results for the year 2017 (JD 819,507 against income tax and JD 1,076,418 against value added tax). In the opinion of the Bank's management and its tax consultant the allocated provisions are sufficient to meet the tax obligations for the year 2017.
- A final settlement was reached with the Income and Sales Tax Department up to the end of the year 2015 regarding Excel for Financial Investments Company (subsidiary). Furthermore, the Company has submitted its tax returns for the year 2016. However, no final settlement has been reviewed by the Income and Sales Tax Department yet. In the opinion of the Company's management and its tax consultant, the allocated provisions in the financial statements are sufficient to meet any tax obligations.
- Jordan Leasing Company (subsidiary) has reached a final settlement with the Income and Sales Tax Department up to the year 2015. Moreover, the Company has submitted its tax returns for 2016 and paid the declared taxes, however, it has not been reviewed by the Income and Sales Tax Department yet. In the opinion of the Company's management and its tax consultant, the allocated provisions in the financial statements are sufficient to meet any tax obligations

**b. Deferred Tax Assets**

The details of this item are as follows:

	2017			2016		
	Balance - Beginning of the Year	Amounts Released	Amounts Added	Balance - End of the Year	Deferred Tax	Deferred Tax
	JD	JD	JD	JD	JD	JD
<b>Accounts Included</b>						
Deferred Tax Assets:						
Provisions for non-performing debts	17,779,051	-	4,754,297	22,533,348	7,886,672	6,222,668
Provision for non-performing debts - Prior years	3,754,235	48,198	-	3,706,037	1,068,355	1,082,233
Provision for staff end-of-service indemnity	4,186,235	524,426	411,600	4,073,409	1,187,361	1,243,573
Interest in suspense	998,113	-	-	998,113	254,360	261,797
Provision for lawsuits raised against the Bank	626,714	4,027	53,877	676,564	225,624	208,612
Impairment in assets foreclosed by the Bank	6,805,743	-	2,925,420	9,731,163	3,243,455	2,219,558
Impairment in assets available for sale	62,831	-	-	62,831	21,991	21,991
Other provisions	2,664,152	-	519,451	3,183,603	795,901	666,038
	<b>36,877,074</b>	<b>576,651</b>	<b>8,664,645</b>	<b>44,965,068</b>	<b>14,683,719</b>	<b>11,926,470</b>

- The movement on deferred tax assets is as follows:

	2017	2016
	JD	JD
Balance – Beginning of the Year	11,926,470	12,217,573
Added during the year	2,840,086	1,517,791
Amortized during the year	(207,689)	(1,144,257)
Foreign currencies differences	124,852	(664,637)
Balance – End of the Year	<u>14,683,719</u>	<u>11,926,470</u>

\* The accrued tax ratio used in deferred tax calculation is the effective ratio in these countries.

- C. The following is a summary of the reconciliation between accounting profit and taxable profit:

	2017	2016
	JD	JD
Accounting profit	67,583,363	62,315,408
Tax-exempt profit	(6,898,739)	(5,979,800)
Tax-unacceptable expenses	11,281,313	7,493,529
Taxable profit	<u>71,965,937</u>	<u>63,829,137</u>
Income tax rate	<u>%34.2</u>	<u>32.1%</u>
	<u>24,606,299</u>	<u>20,486,918</u>

#### **19. Borrowed Funds**

The details of this item are as follows:

		Number of Instalments		Periodic Installments Maturity	Collaterals	Price of Borrowing Interest
		In total	The Remaining			
<u>2017</u>	Amount JD				JD	
Borrowing from the Central Bank of Jordan	310,747	60	44	Monthly	Treasury bonds	2.25%
Borrowing from the Central Bank of Jordan	258,686	113	107	Monthly	bill	1.75%
Borrowing from the Central Bank of Jordan	917,461	60	55	Monthly	bill	1%
Borrowing from the Central Bank of Jordan	950,822	60	55	Monthly	bill	1%
<b>Total</b>	<u>2,437,716</u>					

		Number of Instalments		Installments Maturity	Collaterals	Price of Borrowing Interest
		In total	The Remaining			
<u>2016</u>	Amount JD				JD	
Borrowing from the Central Bank of Jordan	424,879	48	60	Monthly	Treasury bonds	2.25%
<b>Total</b>	<u>424,879</u>					

- The above amount has been re-borrowed to one of the Bank's customers listed under small and medium entities with an interest rate range from 3% - 5.25%.
- This balance is borrowed at fixed interest rate, and there are no borrowing at floating interest rates or with zero interest rate as of December 31, 2016 and 2017.



## 20. Other Liabilities

The details of this item are as follows:

	December 31,	
	2017	2016
	JD	JD
Accrued interest payable	5,079,792	2,748,843
Accepted cheques	6,315,946	7,261,564
Temporary deposits	17,814,290	2,452,353
Dividends payable	2,361,085	1,880,403
Deposits on safe boxes	173,945	169,226
Margins against sold real estate	289,250	291,472
Other miscellaneous liabilities*	6,662,165	7,373,047
	<b>38,696,473</b>	<b>22,176,908</b>

\* The details of other miscellaneous liabilities are as follows:

	December 31,	
	2017	2016
	JD	JD
Social security deposits	277,056	264,323
Income tax deposits	322,528	283,396
Accrued expenses	4,947,970	3,459,949
Incoming transfers	294,037	231,740
Board of Directors' members remuneration	55,000	55,000
Other credit balances	765,574	3,078,639
	<b>6,662,165</b>	<b>7,373,047</b>

## 21. Paid-up Capital

- The authorized capital of the Bank is JD 200,000,000 as of December 31, 2017 (JD 200,000,000 as of December 31, 2016)
- The authorized capital of the Bank is JD 200,000,000 by year end, divided into 200,000,000 shares at a par value of JD 1 each.

## 22. 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 Banks Law and Companies Law. This reserve cannot be distributed to shareholders.
- **Voluntary Reserve**  
The amounts accumulated in this account are transferred from the annual net income before taxes at 10% during the previous years. This reserve will be used for the purposes approved by the Board of Directors. Moreover, the General Assembly of Shareholders has the right to capitalize or distribute the whole reserve or part thereof as dividends.
- **General Banking Risks Reserve**  
This item represents the general banking risks reserve in line with the instructions of the Central Bank of Jordan, and other regulatory bodies.
- **Special Reserve**  
This reserve represents the periodic fluctuation reserve calculated according to the instructions of the Palestinian Monetary Authority concerning The Bank's branches operating in Palestine.

The restricted reserves are as follows:

Reserve	Amount	Nature of Restriction
	JD	
Legal reserve	80,820,952	Companies and Banks Laws
General banking risks reserve	15,128,290	Regulatory bodies requirements
Special reserve	4,103,632	Regulatory bodies requirements

### 23. Foreign Currency Translation Differences

This item represents the differences resulting from the translation of net investment in foreign subsidiary (Bank of Jordan – Syria) upon consolidating the financial statements.

The movement on this item during the year is as follows:

	2017	2016
	JD	JD
Balance – Beginning of the Year	(12,401,835)	(11,481,891)
Changes in the translation of net investment in the subsidiary company during the year*	145,581	(919,944)
Balance – End of the Year	<u>(12,256,254)</u>	<u>(12,401,835)</u>

- \* This item includes the Bank's net share of the structural position related to the investment in the capital of Bank of Jordan - Syria for the years 2017 and 2016.

### 24. Fair Value Reserve

The details of the fair value reserve are as follows:

	2017	2016
	JD	JD
Balance - Beginning of the Year	63,565,588	33,186,645
Unrealized gains	17,722,753	32,217,724
(Transferred) to retained earnings as a result for shares sale recognized	-	(1,838,781)
Balance – End of the Year	<u>81,288,341</u>	<u>63,565,588</u>

### 25. Retained Earnings

The details of this item are as follows:

	2017	2016
	JD	JD
Balance – Beginning of the Year	63,926,237	88,442,614
Dividends distributed to shareholders	(36,000,000)	(31,020,000)
Profit for the year	46,795,537	41,396,285
Transferred to reserves	(9,783,481)	(7,082,118)
Transferred as a result for sale of financial assets through comprehensive income	-	1,346,863
The currencies translation differences	(492,167)	2,039,735
(Transferred) increase in paid-up capital – Note (1)	-	(31,197,142)
Balance – End of the Year*	<u>64,446,126</u>	<u>63,926,237</u>

- \* Retained earnings include an amount of JD 14,683,719 restricted against deferred tax assets as of December 31, 2017 (JD 11,926,470 as of December 31, 2016).
- Retained earnings include an amount of JD 5,060,455 as of December 31, 2017 which represents the effect of early adoption of IFRS (9). These restricted amounts cannot be utilized unless realized as instructed by Jordan Securities Commission.



## 26. Declared Dividends

The Board of Directors recommended the distribution of 18% of capital as cash dividends to the shareholders, equivalent to JD 36,000,000 which remain subject to the approval of the General Assembly (while a dividend of 18% of the capital was distributed during the year 2017 in the amount of JD 36,000,000 according to the general assembly decision in it's meeting on April 17, 2017.

## 27. Interest Income

The details of this item are as follows:

	2017 JD	2016 JD
Direct Credit Facilities:		
Individual (retail customers):	36,208,858	29,195,069
Overdraft accounts	1,318,994	1,183,948
Loans and discounted bills	32,240,938	25,605,225
Credit cards	2,648,926	2,405,896
Real estate loans	17,310,483	16,089,973
Corporate Entities:	46,339,863	39,361,772
Large corporate customers:	30,423,105	27,137,126
Overdraft accounts	5,705,555	6,032,824
Loans and discounted bills	24,717,550	21,104,302
SMEs:	15,916,758	12,224,646
Overdraft accounts	3,410,265	2,761,334
Loans and discounted bills	12,506,493	9,463,312
Government and public sector	10,433,905	5,909,340
Balances with central banks	1,724,849	891,188
Balances and deposits with banks and financial institutions	9,456,054	10,465,324
Financial assets at amortized cost	8,387,224	8,003,308
<b>Total</b>	<b>129,861,236</b>	<b>109,915,974</b>

## 28. Interest Expense

The details of this item are as follows:

	2017 JD	2016 JD
Banks and financial institution deposits	1,388,386	1,113,990
Customers' deposits:		
Current and demand deposits	499,248	198,543
Saving accounts	1,901,997	1,217,806
Time and notice deposits	15,530,072	8,133,639
Certificates of deposit	2,811,574	2,010,710
Borrowed funds	68,714	63,168
Cash margins	1,215,514	1,098,867
Deposits insurance fees	3,503,507	3,317,015
	<b>26,919,012</b>	<b>17,153,738</b>

## 29. Commissions Income – Net

The details of this item are as follows:

	2017 JD	2016 JD
Commission's income:		
Direct credit facilities commissions	5,381,011	5,144,413
Indirect credit facilities commissions	5,071,054	5,624,180
Other commissions	14,174,321	12,984,290
<b>Total</b>	<b>24,626,386</b>	<b>23,752,883</b>
<b>Less: Commissions expense</b>	<b>366,718</b>	<b>269,995</b>
<b>Net Commissions Income</b>	<b>24,259,668</b>	<b>23,482,888</b>



**30. Foreign Currency Income**

The details of this item are as follows:

	2017	2016
	JD	JD
From trading\dealing	452,467	144,509
From revaluation	2,307,543	2,341,645
	<u>2,760,010</u>	<u>2,486,154</u>

**31. Gain (Loss) from Financial Assets at Fair Value through Profit or Loss**

The details of this item are as follows:

Year 2017	Realized (Losses)	Unrealized (Losses)	Shares Returns	Total
	JD	JD	JD	JD
Local shares	-	(8,732)	12,949	4,217
	<u>-</u>	<u>(8,732)</u>	<u>12,949</u>	<u>4,217</u>
Year 2016	Realized (Losses)	Unrealized (Losses)	Shares Returns	Total
	JD	JD	JD	JD
Local shares	-	(36,351)	6,082	(30,269)
Foreign shares	(43,841)	-	19,252	(24,589)
	<u>(43,841)</u>	<u>(36,351)</u>	<u>25,334</u>	<u>(54,858)</u>

**32. Other Income**

The details of this item are as follows:

	2017	2016
	JD	JD
Previous years refundable to income	15,247,317	1,192,926
Gain from the sale of assets foreclosed by the Bank	1,251,773	645,607
Revenue from telephone, post, and swift	552,276	493,111
Real estate rent	505,978	354,793
Gain from the sale of property and equipment	204,110	64,547
Interest in suspense reversed to income	903,979	1,636,566
Other income	1,661,956	1,569,405
	<u>20,327,389</u>	<u>5,956,955</u>

**33. Employees Expenses**

The details of this item are as follows:

	2017	2016
	JD	JD
Salaries, bonuses, and employees' benefits	26,781,918	24,557,697
Bank's contribution to social security	2,221,077	2,029,156
Bank's contribution to provident fund	1,651,824	1,549,808
Medical expenses	1,555,588	1,460,682
Staff training expenses	619,331	281,195
Transportation and travel expenses	646,220	430,328
Life insurance	97,030	97,915
	<u>33,572,988</u>	<u>30,406,781</u>



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### 34. Other Expenses

The details of this item are as follows:

	2017	2016
	JD	JD
Rent	3,389,558	3,186,977
Printing and stationery	955,744	790,281
Telephone, post and swift	1,633,516	1,560,783
Maintenance, repairs, and cleaning	3,553,662	2,898,817
Fees, taxes, and licences	3,050,321	2,769,587
Advertisements and subscriptions	4,958,617	3,397,142
Insurance expenses	2,156,311	1,897,758
Electricity and heating	2,218,021	2,212,085
Donations	689,897	544,925
Hospitality	322,817	245,171
Professional, consultancy and legal fees	1,369,315	1,145,878
Board of Directors members remunerations	55,000	55,000
Miscellaneous	653,350	788,899
	<u>25,006,129</u>	<u>21,493,303</u>

### 35. Earnings Per Share

The details of this item are as follows:

	2017	2016
	JD	JD
Profit for the year (Bank's shareholders)	46,795,537	41,396,285
Weighted average number of shares*	<u>200,000,000</u>	<u>200,000,000</u>
Net income for the year/share (Bank's shareholders)		
Basic	0.234	0.207
Diluted	<u>0.234</u>	<u>0.207</u>

### 36. Cash and Cash Equivalents

The details of this item are as follows:

	December 31,	
	2017	2016
	JD	JD
Cash and balances with central Banks maturing within 3 months	259,225,151	219,973,414
<u>Add:</u> Balances with banks and other financial institutions maturing within 3 months	265,682,212	494,451,425
<u>Less:</u> Banks and financial institutions' deposits maturing within 3 months	(43,364,202)	(145,623,458)
Restricted balances	<u>(4,696,301)</u>	<u>(4,655,709)</u>
	<u>476,846,860</u>	<u>564,145,672</u>



### 37. Financial Derivatives

This details of financial derivatives at the year-end are as follows:

	Positive Fair Value	Negative Fair Value	Total	Nominal Value Maturities			
				within 3 Months	From 3 To 12 Months	Total	
	JD	JD	JD	JD	JD	JD	
Foreign currencies forward contracts (purchase)	17,981	(196,814)	18,904,820	18,904,820	-	18,904,820	
<b>Total</b>	<b>17,981</b>	<b>(196,814)</b>	<b>18,904,820</b>	<b>18,904,820</b>	<b>-</b>	<b>18,904,820</b>	

	Positive Fair Value	Negative Fair Value	Total	Nominal Value Maturities			
				Within 3 Months	From 3 To 12 Months	Total	
	JD	JD	JD	JD	JD	JD	
Foreign currencies forward contracts (purchase)	13,774	(31,429)	3,332,249	3,332,249	-	3,332,249	
<b>Total</b>	<b>13,774</b>	<b>(31,429)</b>	<b>3,332,249</b>	<b>3,332,249</b>	<b>-</b>	<b>3,332,249</b>	

Nominal value indicates the value of transactions at year-end, and does not relate to market risk or credit risk.





The following are summaries of balances and transactions with related parties:

**Consolidated Statement of Profit or loss Items:**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
Credit interest and commission	22,037	152,923	44,570	53,515	-	2,231,401	2,504,446	1,520,445																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		



**Interest rates:**

Credit interest rates against facilities in JOD range between (3.375%) to (13.5%).

Credit interest rates against facilities in JOD range in foreign currency is 5.186 %.

Debit interests-rates for JOD range from 0.25% to 5%.

Debit interests-rates of foreign currency range between 0.01% - 2%.

Balances and Transactions with related parties are eliminated from the consolidated financial statements and only disclosed for clarifications.

**Bank's Executive Management Salaries and Remunerations summary is as follows:**

	2017	2016
	JD	JD
Salaries and benefits	1,553,451	2,457,340
Transportation and board secretary	48,000	48,000
<b>Total</b>	<b>1,601,451</b>	<b>2,505,340</b>

**39. Risk Management**

**First: Descriptive Disclosures:**

The Bank manages banking risks through identifying the risks that it might be exposed to and methods of challenging and mitigating them. This is achieved through implementing a group of restructuring projects using best standards and banking acts that aim at separating risk management activities from those related to development of business and operations (execution).

- \* In this context, the Bank has formed a Risk and compliance Management Committee, derived from the Board of Directors to ensure the presence of an effective internal monitoring function in accordance with the policies and scope of work set for it by the Board of Directors.
- \* Risk management assumes the responsibility of managing the various types of risks through:
  - Preparing policies and getting them approved by the Board of Directors.
  - Analysing the risk types (credit, market, liquidity, operations information security).
  - Developing measurement and control methodologies for each risk type.
  - Providing the Board of Directors and executive management with reports and information about quantitative and qualitative measurements of the Bank risks.
- \* The Bank has established several systems to control and measure risks like capital adequacy, liquidity risk and ratios (LCR, NSFR) operating risks and events and market risk.

❖ **Credit Risks**

Credit risks arise from the probable inability and/or lack of desire of the borrower or third party to fulfil its obligations in a timely manner. These risks include on-consolidated financial statements items such as loans and bonds and off-consolidated financial statements items such as guarantees and/or documentary credits causing financial losses to the Bank.

In this regard, the Bank reinforces institutional frameworks that govern the management of credit through the following:

1. Setting up independent specialized departments for the credit management as follows:

- Companies Credit Risk Department (for management of companies credit risks).
- Small and Medium Size Enterprises (SMEs) Risk Management Department (for management of SMEs credit risks).
- Individuals Credit Risk Department (for management of individuals credit portfolios risks).
- Credit Portfolios Risk Management Department: the department focuses on maintaining the quality of credit granted for the Bank's clients (Corporate, SME & Individual). Studying the Key Risk Indicators (KRI) and Key Performance Indicators (KPI) through preparing studies and reports covering the performance of economic sectors and industries and compare it with the performance of the Bank's credit portfolios and associated provisions. Utilizing the aforementioned reports to establish proper recommendations which in turn provide guidance for the business developments units to target promising economic sectors/industries or to avert expansion in the deteriorating ones. In addition to the above, the department of Credit Portfolios Risk Management conducts periodical studies and reports shed lights on the below aspects:
  - The concentrations of credit portfolio on economic activity level.
  - The concentrations of credit portfolio on product level.
  - Reports cover the Bank's default ratios and coverage ratios compared to the banking sector.
  - Credit portfolios performance reports, conducted on segment basis (Corporate, SME, Government and Individuals) compared to the banking sector in terms of growth and profitability rates.
  - The preparation for the implementation of IFRS 9 through conducting scenarios and reports required to comply with the IFRS 9 implementation by the beginning of 2018.
  - Applying a risk rating system through which the clients will be classified to ten stages (ratings) and according to the below factors:
    - Obligor Risk Rating (economic sector, management, financial standing, experience..etc).
    - Facility Risk Rating (risk weight will be assigned according to the type and nature of the facility).
    - Collateral rating: (risk weight will be assigned according to the type and nature of the collateral), which will directly impact the Recovery Ratio thus the calculation of Loss Given Default LGD.
- 2. Separation of Business Development Department from Credit Risk Departments.
- 3. Implementing a set of approved policies and procedures that outline principles for defining, measuring, and managing the type of risk.
- 4. Determining credit concentrations at the credit type level, economic sector, geographical distribution, credit portfolios, etc. Credit risks are managed by departments according to their specialization.
- 5. Implementing an authorization and relationship management system:  
Bank of Jordan adopts an authorization system that includes authority granting, delegation, monitoring and relationship management of the various credit activities.
- 6. Determining credit risk mitigation methods:

Bank of Jordan adopts various methods to mitigate credit risks such as the following:

- Providing the proper credit structure that matches its purpose and repayment period.
- Ensuring the completion of all control aspects relating to the utilization of credit and the sources of its payment.
- Obtaining proper guarantees to hedge against any risks in this regard.

- Analysing and evaluating credit transactions by credit risks departments.
  - Periodically evaluating guarantees according to the nature, type, and degree of risks to reinforce guarantees and ensure their adequacy constantly.
  - Setting up specialized committees for approving credit.
7. Controlling credit execution by the credit control department in addition to a unit concerned with documentation, completion of legal audit, and execution.
  8. Applying the credit management mechanisms (CREMS and E-loan).
  9. Setting up a specialized department to follow up on the collection of dues and non-performing debts.
  10. Setting up a committee for risk and compliance management committee at Board of Directors level to review policies, credit strategies, investments and risks.
  11. Determining the duties of the various credit risks departments concerning the mechanism and periodicity of controls and issuance/submission of reports to the Board of Directors and Executive Management.
  12. Analysing economic fluctuations and changes in the structure and quality of credit portfolios.
  13. Preparation and implementation of Stress Testing procedures.
  14. Control Reports:  
The credit risks departments, each according to its specialization, control and evaluate all credit operations through a set of control procedures:
    - Daily control:  
Monitoring credit violations, un-renewed due credit ceilings, due accounts, and others.
    - Controlling the quality and distribution of the credit portfolio.
    - Rating credit risks, economic sector, credit type, guarantees, concentration, credit asset quality trends, and others.
    - Monitoring credit exposure at the customer level (Total Exposure), geographic area, credit type, economic sector, maturity date, guarantee type, and others.

These reports are submitted periodically to the risk and compliance management committee at Board of Directors level. Timely reports on daily operations are submitted to the General Manager.

#### ❖ **Operational Risk**

Operational risks arise from the inefficiency or failure of internal operations, employees, or systems or may stem from external events including legal risks. The Operational Risk Unit was established in 2003 under the Risk Management Department to manage the Operational Risks in the bank where qualified staff were appointed and automated systems were supplied since that date to empower the unit to perform its duties effectively.

The Bank manages operational risks through the following process:

1. Setting the operational risks policy, approving it by the Board of Directors, and implementing it across the bank and its affiliates. This includes the standards for defining and measuring risks in addition to the Risk Appetite accepted for these risks.
2. Implementing an operational risk management system (CAREWeb).

3. Creating risk profiles for all bank entities which include all operational risks that may affect the entity, the related controls to mitigate them and the frequency of their testing to ensure effective and continuous implementation. Reports on risk profiles are submitted to the Risk and Compliance Committee on the Board level for approval.
4. Internal Audit Department evaluates the validity of the monthly self-assessment tests for the Bank's various units, classifies these units according to the approved classification standards and incorporates them into the internal audit reports it submits to the Audit Committee on a timely basis. The Operational Risk Unit incorporates the self-assessment results in comparison with the internal audit results for all of the Bank's entities and submit them to the Audit Committee on a quarterly basis.
5. Continuous evaluation of the Risk Profiles:  
In this regard, a self-assessment tool (Control & Risk Self-Assessment) has been applied to manage operational risks through continuous evaluation of risks to identify new risks, ensure the efficiency of control procedures to mitigate these risks, and update the risk profiles on a timely basis to reflect the actual internal control environment.
6. Setting up a database for operational incidents, analysing them and submitting reports on the concentration and type of these incidents to the Risk and Compliance Committee/Board of Directors.
7. Applying rating standards and evaluating the Bank's entities according to international classification standards for internal control environment.
8. Setting up and determining key risk indicators (KRIs) at the Bank's level and provides the related departments within the Bank with the results of these indicators to be monitored as well as applying rating standards and the correction procedures to avoid the risk before its occurrence.
9. Develop and implement the stress testing scenarios for Operational Risks in the Bank.
10. Providing the Risk and Compliance committee on the Board of Directors level with periodic reports (monthly, quarterly) that reflect the actual internal control environment for the various units in the Bank.
11. Evaluating the policies and procedures in the Bank to identify any control gaps in these processes and arrange with concerned entities to rectify these gaps.
12. Conducting trainings and awareness sessions for the Bank's employees on Operational Risk Management to enhance the internal control environment at the bank.
13. Creating the Corporate Risk Profile to identify risks that may arise on strategic level and affect the achievement of the Bank's strategy and income targets negatively. The Internal Audit department evaluates the implementation of the corporate controls on an annual basis and submits a report of their findings to the Audit Committee and the Risk and Compliance Committee. The Corporate Risk Profile is evaluated on an annual basis by the Internal Audit department and the Operational Risk Unit and the updates are submitted in a report to the Risk and Compliance Committee.
14. The Operational Risk Unit has created an AML Risk profile at the bank level for identifying AML and CTF risks and controls that mitigate them. The Internal Audit department evaluates the implementation of these controls on an annual basis and submits a report of their findings to the Audit Committee and the Risk and Compliance Committee. The AML Risk Profile is evaluated on an annual basis by the Operational Risk Unit and the Compliance department and the updates are submitted in a report to the Risk and Compliance Committee.

#### **Liquidity and Market Risk**

##### **▪ Liquidity risk**

Liquidity risk represents the Bank's inability to make available the necessary funding to meet its obligations on their maturity dates or to finance its activities without incurring high costs or losses. Moreover, liquidity risks are divided into two types:



- **Funding Liquidity Risk**  
This risk represents the Bank's inability to change assets into cash - such as the collection of receivables - or to obtain funding to meet its obligations.
- **Market Liquidity Risk**  
This risk represents the Bank's inability to sell the asset in the market or selling the asset at a huge financial loss due to weak liquidity or demand in the market and includes the following:  
**Market Risk**
- **Market risks:** are the risks of exposure of the positions on and off the Bank's Consolidated Statement of Financial Position to losses as a result of price fluctuations in the market. This includes the risks arising from the volatility of interest rates and stock prices of investment portfolios, both for the purpose of trading or exchange and include the followings:
  - Interest rate risks.
  - Currency exchange rate risks (Dealing with Foreign Currency)
  - Fluctuation in shares prices risks.
  - Goods Risks.

Market risks arise from:

- 1- Changes that may occur in the political and economic conditions in markets.
- 2- Fluctuations in interest rates.
- 3- Fluctuations in the prices of financial instruments held for future buying and selling.
- 4- Gaps in maturities of assets and liabilities and interest rate re-pricing.
- 5- Holding of uncovered positions.

- The substantial tools used to measure and manage markets risks are as follows:

- 1- Basis Point Value
- 2- Value at Risk
- 3- Stress Testing

The Bank manages the market and liquidity risk through:

- Setting up a liquidity crisis management plan that includes the following:
  - Specialized procedures for the management of liquidity risk.
  - Specialized committee to manage liquidity risk.
  - A liquidity contingency plan.
- Developing measurement, management, and monitoring liquidity and market risk tools through:
  - Preparing liquidity risk reports according to the maturity scale.
  - Monitoring ceilings and quality of the investment portfolio.
  - Identifying sources of funds, and classifying/analysing them according to their nature.
  - Controlling legal liquidity and daily cash liquidity. This means keeping an adequate amount of liquid assets (cash and cash equivalents) to meet obligations.
  - Matching maturities of assets and liabilities, taking into consideration all internal and external cash flows.
  - Performing stress testing.
  - The preparation of a periodic analysis about the developments in local and international markets.
  - Monitor investment tools and analyze the range of conformity with the issued investment limits in the investment policy and the allowed losses limits.

- Analysing ceilings and limitations of the investments and provide a recommendation to adjust it according to improvements and circumstances of international and local markets, diverse investment with what achieve best returns and less risks.
- Analysing the investment concentrations on the level of each tool.
- Review and assess the portfolios assets and liabilities.
- Analysing credit rating for international and local banks according to the financial situation and how much it is effected from economic crises and the range of its spread globally.
- Monitor interest trends on the volume of deposits, Maturity date and its suspended range.
- The preparation of reports about the exceeding limit in investments tools.
- Monitor the changes on interest prices in international and local markets.
- Monitor the sensitivity of investment tools for changes in interest prices on each investment tool.
- Monitor pricing process for borrowing and lending/Investments ceiling.
- Monitor the concentration on, markets/tool and geographical distribution.
- Submitting periodic reports to the Investment Committee, Executive Risk Management Committee, and Risk Management Committee/Board of Directors.

❖ **Information Security Risk**

Defined as any potential threat that may lead to a failure in confidentiality, availability, and integration of Bank's information. Information security unit has been establish to protect the Bank's information, users and assets by applying policies and procedures to be high level, though specific definitions of mandatory baseline controls.

Bank of Jordan adopts the following principles to manage information security risks:

1. Review Information Security Polices and update the policies to be in line with international standards.
2. Comply with PCI-DSS Requirements.
3. Monitor all systems, servers, and network component on regular basis by using special tools to counter any threat.
4. Review privileges based on job classification and function and restricted to least privileges necessary to perform job responsibilities.
5. Identify threats and vulnerabilities and identify appropriate controls to mitigate any new risks.
6. Review and update Business Continently Plan periodically and do the necessary tests to check the effectiveness of the plan as well as the Disaster Recovery Plan periodically.
7. Review and evaluate the physical security controls on a regular basis.
8. Coordinate or conduct security orientation and security awareness programs
9. Reporting information security/Communication Progress and related cases to the high management
10. Complying with SWIFT \_ CSR requirements.
11. Preparation of IT management Governance guide and related technology and to be published on the Bank's website.
12. Applying IT management Governance and related technology COBIT5.

❖ **Compliance Risks**

These represent the risks that arise from the probable failure by the Bank to comply with (violate/transgress) the prevailing laws, regulations, instructions, banking laws, and code of ethics issued by the international and local regulatory bodies, including the Bank's internal policies.

The Bank has set up a compliance department, staffed with qualified and trained personnel, equipped with automatic systems, and assigned with the task of managing this type of risk according to the following criteria:

- Preparing the compliance policy, approving it by the Board of Directors, and enforcing it. This policy includes the principles for defining, measuring, and controlling risks.
- Applying an automatic system for managing compliance risks.
- Evaluating and adopting all work policies and procedures and ensuring their compliance with laws, regulations, and instructions governing the Bank's work.
- Preparing and applying compliance matrices, which include limiting the violation of laws and regulations and ensuring compliance with them periodically according to the nature and type of the matrix.
- Preparing and applying a conflict of interests management mechanism.
- Promulgating and applying the code of ethics to all employees of the Bank.
- Qualifying and training all employees of the Bank.
- Providing the Board of Directors and Executive Management with periodic reports that include violations and non-compliance at the Bank's unit level.

As for Anti-Money Laundering activities, an autonomous unit within the Compliance Department has been set up with appropriate and qualified capabilities and systems, the Bank manages the unit of Anti-money laundering and terrorism finance as follows:

1. Preparing a policy for anti-money laundering and Terrorism Financing Combat approved from the Board of Directors, the policy is in line with the instruction of Anti-Money Laundering and Terrorism Financing Combat number 51 for the year 2010, and implementing it effectively.
2. The implementation of an automated system to check daily customer's transactions.
3. Rating of customers in accordance to their risk grade.
4. A periodic automated check to ensure that none of the Bank's customers are included in prohibited lists.
5. Periodic check for customers with high risks.
6. Awareness of the Bank's employees, each as per their specialities.

The Bank has also established a unit to meet the requirements of tax compliance for foreign accounts (FATCA) and supply them with qualified human resources. The requirements of compliance operation management for FATCA law were prepared within the following basis:

- The preparation and adoption of a policy to deal with the law of the FATCA.
  - The preparation and adoption of a compliance program with the law of FATCA.
  - Rehabilitation and training of all employees of the Bank to deal with the requirements of the law FATCA.
  - Contracting with a specialized company to implement an automated system to manage the requirements of FATCA.
  - Adjusting opening new accounts application forms to meet the requirements of the law FATCA.
  - Develop a mechanism to update customer data on an ongoing basis.
  - The compliance committee/Board of Directors is responsible for overseeing cases of fraud and suspicion by following up on the periodic reports submitted to the committee.
  - The unit submit periodic report on compliance with the FATCA requirements periodically to the compliance committee/Board of Directors.
  - Based on the transparency instruction for dealing with customer's No. 66/ 2012 issued by the Central Bank Jordan on October 21, 2012 Bank established a unit to manage and handle customer complaints and provided this unit with a qualified human resources and automated application under the compliance Department of supervision.
- The Bank manage and handles customer complaints according to the following:
- Proportion and adoption of a mechanism to handle and manage customers complaints as appropriate.



- Preparation of a policy for the way of fairly and transparently dealing with customers and to be approved according to internal instructions and procedures related to the financial and banking services providers customers compliance No 1/2017 date / august 28, 2017 issued by Central Bank of Jordan.
- Providing different communication channels to receive customer complaints.

**Second: Quantitative Disclosures:**

**(39/A) Credit Risk**

Exposure to credit risk (after impairment provisions and interest in suspense and before collateral held or other mitigation factors):

	<b>2017</b>	<b>2016</b>
	<b>JD</b>	<b>JD</b>
<b>Items On the Consolidated Statement of Financial Position</b>		
Balances with central banks	196,829,576	166,272,023
Balances with banks and financial institutions	265,682,212	494,451,425
Deposits with banks and financial institutions	125,000,000	25,000,000
Credit facilities:	1,447,227,771	1,226,013,033
Individual (retail customers)	352,809,746	307,336,228
Real estate loans	227,882,269	221,576,763
Corporate entities	637,183,019	557,742,508
Large corporate customers	409,712,199	418,533,785
SMEs	227,470,820	139,208,723
Government & public sector	229,352,737	139,357,534
Financial assets at amortized cost (Bonds & Treasury Bills)	219,576,390	172,637,680
Other assets	25,769,100	17,356,187
	<b>2,280,085,049</b>	<b>2,101,730,348</b>
<b>Off-Statement of Financial Position Items</b>		
Letters of guarantee	133,848,164	117,565,620
Letters of credit	92,190,075	39,109,648
Acceptances	56,193,136	74,535,617
Un-utilized facilities	108,819,747	86,932,724
<b>Total</b>	<b>2,671,136,171</b>	<b>2,419,873,957</b>

The guarantees and mitigating credit risk factors against credit exposure mentioned above include the following:

- Obtaining suitable guarantees and recording them correctly against any potential risks. These guarantees represent cash guarantees, and non-cash guarantees such as real estate, vehicles, equipment and stock mortgages in addition to guarantees and credit derivatives binding to all parties involved and legally exercisable at all competent courts.
- Having a credit rating system for the Bank's customers and relying on the credit ratings issued by international credit agencies for banks and companies.
- Performing periodic evaluations of guarantees according to the nature, type and degree of risk to ensure regularly their adequacy against the credit granted.
- Conducting a legal audit of all contracts and documents and their applicability according to the Bank's system, laws and regulations.
- Having financial derivatives that mitigate market risks.

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Kawasmy and Partners

DRAFT FOR DISCUSSION PURPOSES ONLY

December 31, 2016

Corporate Entities

	Individual (Retail Customers)	Real Estate Loans	Large Corporate Customers	SMEs	Other assets	Government & Public Sector	Banks & other Financial Institutions	Total
	JD	JD	JD	JD	JD		JD	JD
Low risk	-	-	-	-	-	251,953,546	166,272,023	418,225,569
Acceptable risk	303,221,658	213,236,925	413,624,860	127,442,384	17,356,187	-	548,895,093	1,623,777,107
From which past due*:								
Up to 30 days	3,417,767	125,998	2,432,768	2,200,967	-	-	-	8,177,500
From 31 to 60 days	58,768	81,179	906,972	535,453	-	-	-	1,582,372
Watch list	2,852,675	4,984,465	50,594,088	6,909,080	-	-	-	65,340,308
Non-performing:	22,741,468	6,665,210	23,183,478	13,616,308	-	-	-	66,206,464
Substandard	1,000,802	624,976	310,902	3,173,602	-	-	-	5,110,282
Doubtful	1,733,535	2,055,218	43,872	304,566	-	-	-	4,137,191
Losses written-off	20,007,131	3,985,016	22,828,704	10,138,140	-	-	-	56,958,991
Total	328,815,801	224,886,600	487,402,426	147,967,772	17,356,187	251,953,546	715,167,116	2,173,549,448
Less: Interest in suspense	(2,526,228)	(524,594)	(2,304,247)	(1,623,509)	-	-	-	(6,978,578)
Less: Impairment provision	(18,953,345)	(2,785,243)	(35,966,394)	(7,135,540)	-	-	-	(64,840,522)
Net	307,336,228	221,576,763	449,131,785	139,208,723	17,356,187	251,953,546	715,167,116	2,101,730,348

- Credit risk exposure include balances and deposits at banks and financial institutions, treasury bills and any assets which has credit exposure.

\* All of the loan balance is considered mature if any instalment or interest matures for a period that exceeds 90 days, as for the overdraft it is considered mature if it exceeds the limit of a period that exceeds 90 days.

The following table illustrates the fair value of collaterals held as security for credit facilities:

December 31, 2017						
	Individual (Retail Customers)	Real Estate Loans	Corporate Entities		Government and Public Sector	Total
			Large Corporate Customers	SMEs		
	JD	JD	JD	JD	JD	JD
<b>Collaterals:</b>						
Low grade	-	-	-	-	-	-
Standard grade	42,837,575	239,388,563	85,172,125	124,641,226	-	492,039,489
Watch list	185,554	5,494,073	9,295,388	2,819,136	-	17,794,151
<b>Non-performing:</b>	<b>870,856</b>	<b>5,298,292</b>	<b>3,501,236</b>	<b>24,903,943</b>	<b>-</b>	<b>34,574,327</b>
Substandard	426,847	399,111	138,146	10,749,822	-	11,713,926
Doubtful	6,046	1,458,905	943,002	178,333	-	2,586,286
Losses written-off	437,963	3,440,276	2,420,088	13,975,788	-	20,274,115
<b>Total</b>	<b>43,893,985</b>	<b>250,180,928</b>	<b>97,968,749</b>	<b>152,364,305</b>	<b>-</b>	<b>544,407,967</b>
<b>Of -which:</b>						
Cash margins	10,174,472	6,698,637	10,633,385	19,923,363	-	47,429,857
Real estate	8,674,005	240,341,649	65,852,155	128,897,909	-	443,765,718
Listed shares	-	-	15,773,583	630,046	-	16,403,629
Equipment and vehicles	25,045,508	3,140,642	5,709,626	2,912,987	-	36,808,763
<b>Total</b>	<b>43,893,985</b>	<b>250,180,928</b>	<b>97,968,749</b>	<b>152,364,305</b>	<b>-</b>	<b>544,407,967</b>

December 31, 2016						
	Individual (Retail Customers)	Real Estate	Corporate Entities		Government and Public Sector	Total
			Large Corporate Customers	SMEs		
	JD	JD	JD	JD	JD	JD
<b>Collaterals:</b>						
Low risk	-	-	-	-	-	-
Acceptable risk	39,427,602	205,970,022	106,546,591	71,826,172	-	423,770,387
Watch list	7,198	3,420,881	16,785,177	6,708,232	-	26,921,488
<b>Non-performing:</b>	<b>835,646</b>	<b>4,810,892</b>	<b>18,959,079</b>	<b>10,102,610</b>	<b>-</b>	<b>34,708,227</b>
Substandard	372,297	538,286	9,136,086	1,377,611	-	11,424,280
Doubtful	3,400	758,038	11,048	118,472	-	890,958
Losses written-off	459,949	3,514,568	9,811,945	8,606,527	-	22,392,989
<b>Total</b>	<b>40,270,446</b>	<b>214,201,795</b>	<b>142,290,847</b>	<b>88,637,014</b>	<b>-</b>	<b>485,400,102</b>
<b>Of -which:</b>						
Cash margins	11,940,062	1,687,780	33,052,562	15,547,376	-	62,227,780
Real estate	6,485,323	210,266,731	70,411,845	65,765,169	-	352,929,068
Listed shares	-	-	31,664,982	321,372	-	31,986,354
Equipment and vehicles	21,845,061	2,247,284	7,161,458	7,003,097	-	38,256,900
<b>Total</b>	<b>40,270,446</b>	<b>214,201,795</b>	<b>142,290,847</b>	<b>88,637,014</b>	<b>-</b>	<b>485,400,102</b>



### **1. Rescheduled Loans**

These represent loans classified previously as non-performing, removed from non-performing credit facilities according to proper scheduling, and reclassified as debts under watch list. Total rescheduled loans amounted to JD 4,742,800 as of December 31, 2017 (JD 9,162,639 as of December 31, 2016).

This balance represents the rescheduled loans either classified as watch list or returned to performing loans.

### **2. Restructured Loans**

Restructuring means to rearrange facilities instalments by increasing their duration, postponing some instalments, or increasing their grace period. They are classified as debts under watch list and amounted to JD 6,165,742 as of December 31, 2017 (JD 38,261,806 as of December 31, 2016).

### **3. Bonds, Debentures and Treasury Bills**

The schedule below shows the distribution of bonds, debentures and bills according to the international agencies' classification:

Rating Grade	Rating Agency	Classification	Within Financial Assets at	Total
			Amortized Cost	
			JD	JD
Foreign Bank Bonds	Moody's	A2	4,974,868	4,974,868
Foreign Bank Bonds	Moody's	A3	5,802,933	5,802,933
Foreign Bank Bonds	Moody's	Ba1	22,231,960	22,231,960
Foreign Bank Bonds	Moody's	Baa1	2,141,421	2,141,421
Foreign Government Bonds	Moody's	Baa2	2,137,169	2,137,169
Jordanian Government Bonds			147,095,719	147,095,719
Unrated Bonds			35,192,320	35,192,320
<b>Total</b>			<b>219,576,390</b>	<b>219,576,390</b>

**4. Concentration in credit exposure according to geographical distribution as follows:**  
Distributed according to the country of residence of the counterparty)

Items	December 31, 2017					
	Geographical area			Other		
	Inside Jordan	Middle East	Europe	Asia*	America	Total
	JD	Countries	JD	JD	JD	JD
Balances with central banks	144,081,489	52,748,087	-	-	-	196,829,576
Balances with banks and financial institutions	187,538,969	51,875,569	14,142,933	694,440	5,999,267	265,682,212
Deposits with banks and financial institutions	125,000,000	-	-	-	-	125,000,000
<b>Credit facilities:</b>						
Individual (retail customers)	1,234,234,298	212,993,473	-	-	-	1,447,227,771
Real estate Loans	306,696,656	46,113,090	-	-	-	352,809,746
<b>Corporate entities</b>						
Large corporate customers	224,812,746	3,069,523	-	-	-	227,882,269
SMEs	539,195,466	97,987,553	-	-	-	637,183,019
Government & public sector	391,871,557	17,840,642	-	-	-	409,712,199
Bonds & Treasury Bills:	147,323,909	80,146,911	-	-	-	227,470,820
Financial assets at amortized cost	163,529,430	65,823,307	-	-	-	229,352,737
Other assets	162,095,719	35,248,711	22,231,960	-	-	219,576,390
<b>Total for the Year 2017</b>	25,769,100	-	-	-	-	25,769,100
<b>Total for the Year 2016</b>	1,878,719,575	352,865,840	36,374,893	694,440	5,999,267	2,280,085,049
	1,720,852,453	357,808,969	14,339,649	3,625,398	5,027,919	2,101,730,348

\*Except for Middle East Countries

**5. Concentration in credit exposure according to the economic sector as follows:**

Economic Sector												
	Items	Financial	Industrial	Trading	Real Estate	Construction	Agriculture	Touristic Hotels Restaurants Public Facilities	Stock	Individuals	Government and public sector	Total
Balances with central banks	196,829,576	-	-	-	-	-	-	-	-	-	-	196,829,576
Balances with banks and financial institutions	265,682,212	-	-	-	-	-	-	-	-	-	-	265,682,212
Deposits with banks and financial institutions	125,000,000	-	-	-	-	-	-	-	-	-	-	125,000,000
Credit facilities:	8,664,723	155,651,536	280,849,600	201,079,819	42,626,267	19,384,626	144,734,306	10,038,543	354,845,614	229,352,737	-	1,447,227,771
Bonds & Treasury Bills	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortized cost	68,069,116	4,411,555	-	-	-	-	24,979,662	-	-	122,116,057	-	219,756,390
Other assets	25,699,978	24,248	44,579	227	-	-	-	-	-	68	-	25,769,100
Total for the Year 2017	689,945,605	160,087,339	280,894,179	201,080,046	42,626,267	19,384,626	169,713,968	10,038,543	354,845,682	351,468,794	-	2,280,085,049
Total for the Year 2016	749,845,726	133,645,769	261,620,634	223,079,792	43,548,050	16,737,743	88,038,099	11,304,687	321,956,302	251,953,546	-	2,101,730,348

### **39/b Market Risks:**

#### **Descriptive Disclosure:**

These risks arise from the fluctuations in the fair values or the future cash flows of financial instruments due to the changes in market prices such as interest rate, currency exchange rate, and shares prices. Moreover, market risks arise from the existence of open positions in interest rates, currency exchange rates, and investments in shares. These risks are monitored according to specific policies and procedures through special committees and associated work centres and include the following:

- Interest rate risks.
- Currency exchange rate risks.
- Fluctuation in shares prices risks.
- Market risks: are the risks of exposure of the positions on and off the Bank's Consolidated Statement of Financial Position to losses as a result of price fluctuations in the market. This includes the risks arising from the volatility of interest rates and stock prices of investment portfolios, both for the purpose of trading or exchange.

Market risks arise from:

- Changes that may occur in the political and economic conditions in markets.
- Fluctuations in interest rates.
- Fluctuations in the prices of financial instruments held for future buying and selling.
- Foreign currency fluctuations.
- Gaps in maturities of assets and liabilities and interest rate re-pricing.
- Creation of uncovered positions.

#### **Interest Rate Risks**

Interest rate risks arise 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 undertaken by the Asset and Liability Management Committee. The Bank follows a policy of hedging all financial assets and financial liabilities whenever the need arises. Hedging is against anticipated future risks.

The Bank has developed analysis scenarios to measure the sensitivity of interest rate risk in addition to providing a system for controlling the difference in the history of re-pricing. This ensures control; reduces risk, and takes into account acceptable risk and balancing maturities of assets with liabilities, as well as the gaps and benefits of hedging their prices.

#### **Foreign Currency Risks**

Foreign currency risks are the risks arising from changes in the values of financial instruments as a result of fluctuations in the prices of foreign currencies using good policy to manage its foreign currency positions.

The Bank's investment policy includes a set of controls that limit this type of risk monitored by a market risk unit such as follows:

- Exceeding limits is not allowed, and any currency excess is settled immediately.
- Any dealer should close the position immediately when the loss reaches the allowed maximum limit.
- The Treasury and Investment Department analyses and controls open positions daily. It closes the positions in case of excesses of ceiling, loss limits or heightened risks due to market fluctuations.





The following is the net foreign currency positions at the Bank:

<u>Currency Type</u>	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>JD</u>	<u>JD</u>
USD	4,923,107	(31,027,943)
GBP	1,401,199	262,188
Euro	1,410,118	(1,689,464)
JPY	9,633,041	8,139
Other currencies	(20,876,901)	(21,566,026)
	<u>(3,509,436)</u>	<u>(54,013,106)</u>

#### Shares Prices Risks

Shares prices risks result from the changes in the fair values of investments in shares. The Bank manages these risks through diversifying investments across various geographical areas and economic sectors. Most of the investments held by the Bank are listed in Amman Stock Exchange.

#### Markets Risk Management

The Bank follows financial and investment policies for risk management within a specified strategy. Moreover, the Bank has an Asset and Liability Management Committee that supervises and controls risks and performs the optimal strategic distribution of assets and liabilities both on and off the Consolidated Statement of Financial Position. Moreover, a market risk unit was established, staffed with qualified human resources, and equipped with electronic systems. These risk management procedures include the following:

- Preparation and implementation of an investment policy approved by the Board of Directors and the Central Bank of Jordan.
- Preparation and application of a market risk management policy approved by the Board of Directors including the criteria for the definition, measurement, and monitoring of this type of risk.
- implementation of (Reuters) Application to monitor continuity risk in the global capital market, cash markets and currency exchange.
- Preparation of a mechanism for management of ceilings of local and foreign investments.
- Development of market risk measurement, management, and monitoring tools through:
  - Value at risk (VAR).
  - Basis point analysis.
  - Stress testing.
  - Defining stop loss limit.
  - Preparation of investment concentration reports (geographical distribution, economic sector, currency, tool, etc.).
  - Controlling investment ceilings.
  - Controlling investment operations, open financial positions, local and international stocks.
- Preparation of periodic reports, to be presented to the Investment Committee, Executive Risk Management Committee, and Risk Management Committee/ Board of Directors.

**Quantitative Disclosures:**

1. **Interest rate risks**

December 31, 2017			
Currency	Increase in Currency Exchange Rate (%)	Sensitivity of Interest Revenue Analysis (Profits and Losses)	Sensitivity of Equity
		JD	JD
USD	2%	98,462	-
GBP	2%	28,024	-
Euro	2%	28,202	-
JPY	2%	192,661	-
Other Currencies	2%	(417,538)	-

Currency	Decrease in Interest Rate (%)	Sensitivity of Interest Revenue Analysis (Profits and Losses)	Sensitivity of Equity Analysis
		JD	JD
USD	2%	(98,462)	-
GBP	2%	(28,024)	-
Euro	2%	(28,202)	-
JPY	2%	(192,661)	-
Other Currencies	2%	417,538	-

December 31, 2016			
Currency	Increase in Interest Rate (%)	Sensitivity of Interest Revenue Analysis (Profits and Losses)	Sensitivity of Equity Analysis
		JD	JD
USD	2%	(620,559)	-
GBP	2%	5,244	-
Euro	2%	(33,789)	-
JPY	2%	163	-
Other Currencies	2%	(431,321)	-

Currency	Decrease in Interest Rate (%)	Sensitivity of Interest Revenue Analysis (Profits and Losses)	Sensitivity of Equity Analysis
		JD	JD
USD	2%	620,559	-
GBP	2%	(5,244)	-
Euro	2%	33,789	-
JPY	2%	(163)	-
Other Currencies	2%	431,321	-



Kawasmy and Partners

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## 2. Foreign Currency Risks

December 31, 2017

Currency	Increase In Currency Exchange Rate (%)	Effect on Gain or Loss	Effect on Equity
		JD	JD
USD	5%	246,155	-
GBP	5%	70,060	-
Euro	5%	70,506	-
JPY	5%	481,652	-
Other Currencies	5%	(1,043,845)	-

December 31, 2016

Currency	Increase in Currency Exchange Rate (%)	Effect on Gain or Loss	Effect on Equity
		JD	JD
USD	5%	(1,551,397)	-
GBP	5%	13,109	-
Euro	5%	(84,473)	-
JPY	5%	407	-
Other Currencies	5%	(1,078,301)	-

## 3. Fluctuation in Shares Prices Risks

December 31, 2017

Indicator	Increase in Index	Effect on Gain or Loss	Effect on Equity
		JD	JD
Amman Stock Exchange	5%	5,610	5,042,194
Palestine Stock Exchange	5%	-	276,234
New York Stock Exchange	5%	-	193,429

December 31, 2016

Indicator	Increase in Index	Effect on Gain or Loss	Effect on Equity
		JD	JD
Amman Stock Exchange	5%	6,130	3,951,083
Palestine Stock Exchange	5%	-	88,947
New York Stock Exchange	5%	-	123,684

### Interest Re-pricing Gap

Rating on basis of re-pricing periods or maturity whichever is nearer

	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More Than 3 years	Items without interests	Total
2017	JD	JD	JD	JD	JD	JD	JD	JD
<b>Assets</b>								
Cash and balances with Central Banks	71,207,151	-	-	-	-	9,358,800	188,017,200	268,583,151
Balances with banks and financial institutions	193,888,840	56,720,000	-	-	-	-	15,073,372	265,682,212
Deposits with banks and financial institutions	-	-	10,000,000	-	115,000,000	-	-	125,000,000
Financial assets at fair value through profit or loss	-	-	-	-	-	-	196,987	196,987
Financial assets at fair value through OCI	-	-	-	-	-	-	114,791,862	114,791,862
Direct credit facilities - Net	166,936,558	157,760,878	163,341,435	205,052,088	370,454,770	383,682,042	-	1,447,227,771
Financial assets at amortized cost	-	17,000,095	2,141,421	39,280,656	102,938,133	58,216,085	-	219,576,390
Property and equipment - Net	-	-	-	-	-	-	31,930,233	31,930,233
Intangible assets	-	-	-	-	-	-	4,839,231	4,839,231
Deferred assets	-	-	-	-	-	-	14,683,719	14,683,719
Other assets	-	-	-	-	-	-	72,620,383	72,620,383
<b>TOTAL ASSETS</b>	<b>432,032,549</b>	<b>231,480,973</b>	<b>175,482,856</b>	<b>244,332,744</b>	<b>588,392,903</b>	<b>451,256,927</b>	<b>442,152,987</b>	<b>2,565,131,939</b>
<b>LIABILITIES</b>								
Banks and financial institutions' deposits	25,463,500	-	1,063,500	20,468,493	-	-	17,900,702	64,896,195
Customers' deposits	413,771,600	122,420,469	128,658,828	200,808,756	171,182,698	133,515,153	675,443,252	1,845,800,756
Cash margins	14,518,210	6,426,182	6,145,855	10,151,523	15,083,085	16,459,680	80,572,158	149,356,693
Financial instruments derivative	178,833	-	-	-	-	-	-	178,833
Sundry provisions	-	-	-	-	-	-	5,006,765	5,006,765
Income tax provision	-	-	-	-	-	-	19,602,158	19,602,158
Borrowed money	48,426	96,852	145,278	290,556	581,112	1,275,492	-	2,437,716
Other liabilities	-	-	-	-	-	-	38,696,473	38,696,473
<b>TOTAL LIABILITIES</b>	<b>453,980,569</b>	<b>128,943,503</b>	<b>136,013,461</b>	<b>231,719,328</b>	<b>186,846,895</b>	<b>151,250,325</b>	<b>873,221,508</b>	<b>2,125,975,589</b>
<b>Interest Re-pricing Gap</b>	<b>(21,948,020)</b>	<b>102,537,470</b>	<b>39,469,395</b>	<b>12,613,416</b>	<b>401,546,008</b>	<b>300,006,602</b>	<b>(395,068,521)</b>	<b>439,156,350</b>
<b>For 2016</b>								
<b>Total Assets</b>	<b>576,855,327</b>	<b>140,945,745</b>	<b>188,299,960</b>	<b>281,527,323</b>	<b>311,925,132</b>	<b>434,824,134</b>	<b>404,461,443</b>	<b>2,338,839,064</b>
<b>Total Liabilities</b>	<b>280,853,477</b>	<b>94,277,499</b>	<b>101,355,958</b>	<b>63,533,856</b>	<b>158,763,963</b>	<b>182,517,202</b>	<b>1,045,100,875</b>	<b>1,926,402,830</b>
<b>Interest Re-pricing Gap</b>	<b>296,001,850</b>	<b>46,668,246</b>	<b>86,944,002</b>	<b>217,993,467</b>	<b>153,161,169</b>	<b>252,306,932</b>	<b>(640,639,432)</b>	<b>412,436,234</b>

# **CONCENTRATION OF FOREIGN CURRENCY RISK**

Items/Currency	December 31, 2017				
	USD	GBP	Euro	JPY	Total
	JD	JD	JD	JD	JD
<b>ASSETS</b>					
Cash and balances with Central Banks	62,229,360	78,487	1,835,607	849	105,070,248
Balances with banks and financial institutions	213,969,492	9,327,722	16,463,999	683,728	246,682,212
Direct credit facilities - Net	176,579,089	-	2,166,410	8,996,038	321,250,509
Financial assets (at amortized cost and at fair value and associates)	69,433,733	-	-	-	69,433,733
Other assets	2,365,487	8,413	11,334	11,419	10,588,186
<b>TOTAL ASSETS</b>	<b>524,577,161</b>	<b>9,414,622</b>	<b>20,477,350</b>	<b>9,692,034</b>	<b>753,024,888</b>
<b>LIABILITIES</b>					
Banks and financial institutions' deposits	17,166,146	76	850,356	-	22,149,731
Customers' deposits	397,932,658	7,963,596	15,218,895	58,160	596,560,171
Cash margins	54,121,118	35,911	1,342,900	833	61,335,276
Other liabilities	50,434,132	13,840	1,655,081	-	76,489,146
<b>TOTAL LIABILITIES</b>	<b>519,654,054</b>	<b>8,013,423</b>	<b>19,067,232</b>	<b>58,993</b>	<b>756,534,324</b>
<b>Net position inside financial position 2017</b>	<b>4,923,107</b>	<b>1,401,199</b>	<b>1,410,118</b>	<b>9,633,041</b>	<b>(3,509,436)</b>
Commitments and contingent liabilities items off the Statement of Financial Position for the year 2017	181,443,132	11,422	13,555,639	16,652	209,697,827
<b>Items/Currency</b>	<b>USD</b>	<b>GBP</b>	<b>Euro</b>	<b>JPY</b>	<b>Total</b>
	JD	JD	JD	JD	JD
<b>TOTAL ASSETS</b>					
433,749,403	8,341,469	20,178,335	62,322	171,219,497	633,551,026
464,777,346	8,079,281	21,867,799	54,183	192,785,523	687,564,132
(31,027,943)	262,188	(1,689,464)	8,139	(21,566,026)	(54,013,106)
<b>Net concentrations inside financial position for 2016</b>					
Commitments and contingent liabilities items off the Statement of Financial Position during the Year 2016	180,437,285	41,661	11,916,436	1,058,568	208,070,276



### Liquidity Risk

First: this table summarizes below the (undiscounted) liabilities on the remaining period for contractual maturities at the date of consolidated financial statements:

December 31, 2017	Within 1 Month	From 1 to 3 Months	From 3 to 6 Months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Without Maturity	Totals
	JD	JD	JD	JD	JD	JD	JD	JD
<b>Assets</b>								
Deposits with banks and financial institutions	43,364,202	-	1,063,500	-	20,468,493	-	-	64,896,195
Customers' deposits	463,048,344	124,293,883	151,406,714	248,970,653	360,707,169	442,036,180	55,337,813	1,845,800,756
Cash margins	76,310,761	493,071	5,518,359	11,945,933	22,366,764	32,721,805	-	149,356,693
Financial derivatives	178,833	-	-	-	-	-	-	178,833
Borrowed money	48,426	96,852	145,278	290,556	581,112	1,275,492	-	2,437,716
Sundry provision	-	-	-	-	-	-	5,006,765	5,006,765
Income tax provision	3,997,321	-	15,604,837	-	-	-	-	19,602,158
Other liabilities	24,929,879	4,261,052	3,545,515	4,864,441	3,228	-	1,092,358	38,696,473
<b>Total liabilities</b>	<b>611,877,766</b>	<b>129,144,858</b>	<b>177,284,203</b>	<b>266,071,583</b>	<b>404,126,766</b>	<b>476,033,477</b>	<b>61,436,936</b>	<b>2,125,975,589</b>
<b>Total Assets (According to expected maturity)</b>	<b>539,056,293</b>	<b>234,376,141</b>	<b>184,447,596</b>	<b>267,439,676</b>	<b>634,510,074</b>	<b>407,733,850</b>	<b>297,568,309</b>	<b>2,565,131,939</b>

December 31, 2016	within 1 month	From 1 to 3 Months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Without Maturity	Totals
	JD	JD	JD	JD	JD	JD	JD	JD
<b>Assets</b>								
Deposits with banks and financial institutions	143,566,958	2,056,500	-	-	-	-	-	145,623,458
Customers' deposits	384,930,854	134,873,985	97,349,853	201,534,523	374,255,660	358,428,636	55,605,619	1,606,979,130
Cash margins	14,229,867	15,077,104	34,404,081	28,906,742	16,418,373	20,253,129	2,806	129,292,102
Financial derivatives	17,655	-	-	-	-	-	-	17,655
Borrowed money	9,539	19,078	28,617	57,234	228,936	81,475	-	424,879
Sundry provision	203,043	-	-	-	-	-	4,812,949	5,015,992
Income tax provision	4,218,177	-	12,654,529	-	-	-	-	16,872,706
Other liabilities	4,618,495	2,996,155	3,631,822	9,118,604	12,611	-	1,799,221	22,176,908
<b>Total liabilities</b>	<b>551,794,588</b>	<b>155,022,822</b>	<b>148,068,902</b>	<b>239,617,103</b>	<b>390,915,580</b>	<b>378,763,240</b>	<b>62,220,595</b>	<b>1,926,402,830</b>
<b>Total Assets (According to expected maturity)</b>	<b>720,352,190</b>	<b>143,308,631</b>	<b>199,295,250</b>	<b>290,211,833</b>	<b>315,527,918</b>	<b>457,805,871</b>	<b>212,337,371</b>	<b>2,338,839,064</b>



Second: this table summarize the accrual financial instruments derivative on the remaining period of contractual maturity from the date of the financial statements

Financial derivative/Liabilities which have been adjusted to gross which involves:

	December 31, 2017		December 31, 2016	
	For 3 months	Total	For 3 months	Total
	JD	JD	JD	JD
Derivative for trading				
Currency Derivative				
Outflow	(18,904,820)	(18,904,820)	(3,332,249)	(3,332,249)
Inflow	18,725,987	18,725,987	3,314,594	3,314,594
Total	(178,833)	(178,833)	(17,655)	(17,655)

Items Off-consolidated statement of financial position:

	December 31, 2017			Total
	Up to 1 Year	1 to 5 Years	Over 5 Years	
	JD	JD	JD	JD
Letters of credit and acceptances	174,176,350	-	-	174,176,350
Un-utilized facilities	108,819,747	-	-	108,819,747
Letters of guarantee	133,848,164	-	-	133,848,164
Operational lease contracts	3,238,718	7,286,346	1,477,268	12,002,332
Capital commitments	1,696,882	-	-	1,696,882
Total	421,779,861	7,286,346	1,477,268	430,543,475

	December 31, 2016			Total
	Up to 1 Year	1 to 5 Years	Over 5 Years	
	JD	JD	JD	JD
Letters of credit and acceptances	155,077,768	-	-	155,077,768
Un-utilized facilities	86,932,724	-	-	86,932,724
Letters of guarantee	117,565,620	-	-	117,565,620
Operational leases contracts	2,427,285	8,892,066	1,532,812	12,852,163
Capital commitments	1,701,430	-	-	1,701,430
Total	363,704,827	8,892,066	1,532,812	374,129,705



#### 40. Information on the Bank's Business Segments

##### 1. The Bank's business segments are:

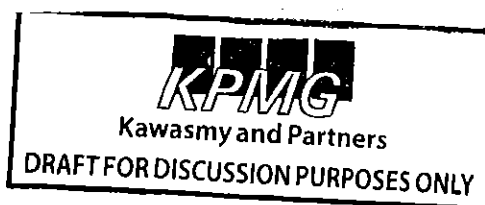
The Bank is organized for management purposes in a manner that allows measurement of its segments according to reports used by its Chief Executive Officer and main decision-makers through the following main segments:

- Retail Banking: includes following up on individual customers' accounts, granting them loans, credit, credit cards, and other services.
- Corporate Banking: includes following up on deposits, credit facilities, and other banking services pertinent to corporate customers.
- Treasury: includes providing dealing and treasury services and management of the Bank's funds.
- Financial Brokerage Services: includes providing purchase and sale of customers' portfolios on their behalf, custody of investments, financial consultations, custody service, and management of initial public offerings.

Information for Bank business segments distributed in accordance with the activities:

	Total				
	Individual (Retail Customers)		Financial Brokerage		
	JD	Corporation JD	Treasury JD	Other JD	2017 JD
					2016 JD
Total Revenues	47,425,323	62,324,507	26,749,969	1,818,308	155,017,978
Provision for impairment in direct credit facilities	(3,271,866)	(17,365,642)	-	-	(20,637,508)
Segments operations results	44,153,457	44,958,865	26,749,969	1,818,308	134,380,470
Other expenses	(36,579,075)	(20,414,306)	(3,102,650)	(244,174)	(66,797,107)
Profit before tax	7,574,382	24,544,559	23,647,319	1,574,134	67,583,363
Income tax	(2,360,390)	(8,014,281)	(5,959,867)	(377,806)	(21,973,902)
Net profit for the year	5,213,992	16,530,278	17,687,452	1,196,328	45,609,461
Other information					
Capital Expenditures	1,641,327	360,697	14,077	6,515	5,489,943
Depreciation and amortization	2,363,153	46,906	21,162	4,538	4,806,532
Total Assets	514,411,524	963,844,669	992,788,447	1,281,887	2,565,131,939
Total Liabilities	1,459,227,028	533,061,086	66,366,583	780,653	2,125,975,589
					2,338,839,064
					1,926,402,830





## **2. Information about Geographical Distribution:**

This item represents the geographical distribution of the Bank's activities. The Bank conducts its activities mainly in Jordan, representing local activities. Additionally, the Bank performs international activities through its branches in Palestine and the subsidiary company Bank of Jordan - Syria.

The following is the geographical distribution of the Bank's revenues, assets, and capital expenditures according to geographical location:

	Inside the Kingdom		Outside the Kingdom		Total	
	2017	2016	2017	2016	2017	2016
	JD	JD	JD	JD	JD	JD
Total Revenues	159,515,297	126,978,242	22,788,411	17,895,403	182,303,708	144,873,645
Total Assets	1,977,069,000	1,877,659,284	588,062,939	461,179,780	2,565,131,939	2,338,839,064
Capital Expenditures	4,487,797	8,648,725	1,002,146	246,908	5,489,943	8,895,633

## **41. Analysis of Assets and Liabilities Maturities**

The following table provides analysis of assets and liabilities according to the expected period of its recovery or settlement:

	December 31, 2017		
	Up to 1 Year	Over 1 Year	Total
	JD	JD	JD
<b>Assets</b>			
Cash and balances with Central Banks	155,160,492	113,422,659	268,583,151
Balances with banks and financial Institutions	263,429,010	2,253,202	265,682,212
Deposits with banks and financial Institutions	10,000,000	115,000,000	125,000,000
Financial assets at fair value through profit or loss	-	196,987	196,987
Financial assets at fair value through comprehensive income	-	114,791,862	114,791,862
Direct credit facilities – Net	693,117,712	754,110,059	1,447,227,771
Financial assets at amortized cost	58,422,172	161,154,218	219,576,390
Property and equipment – Net	-	31,930,233	31,930,233
Intangible assets	-	4,839,231	4,839,231
Deferred tax assets	-	14,683,719	14,683,719
Other Assets	45,190,320	27,430,063	72,620,383
<b>Total Assets</b>	<b>1,225,319,706</b>	<b>1,339,812,233</b>	<b>2,565,131,939</b>
<b>Liabilities</b>			
Banks and financial institutions' deposits	44,427,702	20,468,493	64,896,195
Customers' deposits	987,719,594	858,081,162	1,845,800,756
Cash margins	94,268,124	55,088,569	149,356,693
Financial derivatives	178,833	-	178,833
Other provisions	-	5,006,765	5,006,765
Income tax provision	19,602,158	-	19,602,158
Borrowed funds	581,112	1,856,604	2,437,716
Other liabilities	37,600,887	1,095,586	38,696,473
<b>Total Liabilities</b>	<b>1,184,378,410</b>	<b>941,597,179</b>	<b>2,125,975,589</b>
<b>Net</b>	<b>40,941,296</b>	<b>398,215,054</b>	<b>439,156,350</b>

Their recoverability or settlement:

	December 31, 2016		
	Up to 1 Year	Over 1 Year	Total
	JD	JD	JD
<b>Assets</b>			
Cash and balances with Central Banks	150,387,106	77,810,708	228,197,814
Balances with banks and financial institutions	494,451,425	-	494,451,425
Deposits with banks and financial institutions	25,000,000	-	25,000,000
Financial assets at fair value through profit or loss	-	205,719	205,719
Financial assets at fair value through comprehensive income	-	92,128,338	92,128,338
Direct Credit facilities – Net	636,560,424	589,452,609	1,226,013,033
Financial assets at amortized cost	25,213,445	147,424,235	172,637,680
Property and equipment – Net	-	29,774,830	29,774,830
Intangible assets	-	3,559,146	3,559,146
Deferred tax assets	-	11,926,470	11,926,470
Other assets	21,555,504	33,389,105	54,944,609
<b>Total Assets</b>	<b>1,353,167,904</b>	<b>985,671,160</b>	<b>2,338,839,064</b>
<b>Liabilities</b>			
Banks and financial institutions' deposits	145,623,458	-	145,623,458
Customers' deposits	818,689,215	788,289,915	1,606,979,130
Cash margins	92,617,794	36,674,308	129,292,102
Financial derivatives	17,655	-	17,655
Other provisions	203,043	4,812,949	5,016,992
Income tax provision	16,872,706	-	16,872,706
Borrowing funds	114,468	310,411	424,879
Other liabilities	20,365,076	1,811,832	22,176,908
<b>Total Liabilities</b>	<b>1,094,473,415</b>	<b>831,899,415</b>	<b>1,926,402,830</b>
<b>Net</b>	<b>258,664,489</b>	<b>153,771,745</b>	<b>412,436,234</b>

**42. Capital Management**  
**Capital Components:**

- **Paid-up Capital:**  
The paid-up capital of Bank of Jordan consists of (200/1) million ordinary shares at a nominal value of JD 1 per share. The Bank maintains capital, statutory reserves, and retained earnings to meet the growth in its operations and the requirements of local and regional expansion.
- **Regulatory Capital:**  
Regulatory capital is considered a control tool according to the requirements of regulatory authorities and Basel (III) for the purposes of achieving control over the adequacy of capital and the ratio of regulatory capital to risky and weighted assets and market risk. Regulatory capital according to Basel (III) consists of:
  - Paid-up capital, legal reserve, voluntary reserve, and retained earnings.
  - Undisclosed reserves, general banking risks reserve, special reserve subordinated debts, and the positive fair value reserve at 100% and deduct regulatory adjustments according Basel III.
  - Foreign currency translation differences.

- **Regulatory Authorities' Requirements:**  
The regulatory authorities' instructions entail that the minimum capital shall be JD 100 million. Moreover, banks have been requested to increase their capital adequacy ratio to be not less than 14.125% according to the Central Bank of Jordan instructions, the ratio of owners' equity to total assets financial leverage ratios must not be less than 4%.
- **Achieving the Objectives of Capital Management:**  
The Bank's management aims at achieving the capital management objectives through developing (enhancing) the Bank's activities, achieving a surplus in operating profits and revenues, and optimally investing available funds. All of this is geared towards reaching the targeted growth in owners' equity reflected the increase in the reserves and retained earnings.

The regulatory capital adequacy ratio according to the standard approach are as follows:

	In Thousands of JD	In Thousands of JD
	2017	2016
<b><u>Primary capital items for ordinary shareholders (CET 1):</u></b>	<b>JD</b>	<b>JD</b>
Paid-up capital	200,000	200,000
Statutory reserve	80,821	73,917
Voluntary reserve	134	113
Other reserves	4,104	3,331
Fair value reserve	81,288	63,566
Retained earnings	28,446	27,926
Non-controlling interest in the capital of subsidiaries	3,198	3,381
<u>Less:</u> Intangible assets	(4,839)	(3,559)
Foreign currency translation differences	(12,256)	(12,402)
Deferred tax assets	(14,684)	(11,926)
<b>Total Primary Capital</b>	<b>366,212</b>	<b>344,347</b>
<b><u>Additional Capital Items</u></b>		
General banking risk reserve	15,129	12,996
<b>Total additional capital</b>	<b>15,129</b>	<b>12,996</b>
<b>Total regulatory capital</b>	<b>381,341</b>	<b>357,343</b>
<b>Total risk weighted assets</b>	<b>1,929,472</b>	<b>1,716,372</b>
<b>Capital adequacy ratio (%)</b>	<b>19,76%</b>	<b>20,82%</b>
<b>Primary capital for ordinary shareholders (CET 1)%</b>	<b>18,98%</b>	<b>20,06%</b>
<b>Capital adequacy for first layer (%)</b>	<b>18,98%</b>	<b>20,06%</b>

**43. Fair Value Hierarchy**

**A. The fair value of financial assets and financial liabilities of the Bank specified at fair value on an ongoing basis:**

Some financial assets and liabilities of the Bank are evaluated at fair value at the end of each fiscal period, the following table shows the information about how to determine the fair value of these financial assets and liabilities (evaluation methods and inputs used).

Financial Assets/Financial Liabilities	Fair Value		The Level of Fair Value	Evaluation Method and Inputs Used	Important Intangible Inputs	Relation Between the Fair Value and the Important Intangible Inputs
	December 31, 2017	December 31, 2016				
	JD	JD				
<b>Financial Assets at Fair Value</b>						
<b>Financial Assets at Fair Value Through Income Statement</b>						
Shares that have an available market price	112,200	122,600	Level One	Stated Rates in financial markets	Doesn't Apply	Doesn't Apply
Shares that do not have an available market price	84,787	83,119	Level Two	Financial Statements issued by companies		
<b>Total</b>	<b>196,987</b>	<b>205,719</b>				
Forward Contracts (Foreign Currency)	-	-	Level One	Stated Rates in financial markets	Doesn't Apply	Doesn't Apply
<b>Financial Assets at Fair Value through Comprehensive Income</b>						
Shares that have available market price	110,237,146	83,274,292	Level One	Stated Rates in financial markets	Doesn't Apply	Doesn't Apply
Shares that do not have available market price	4,554,716	8,854,046	Level Two	Financial Statements issued by companies	Doesn't Apply	Doesn't Apply
<b>Total</b>	<b>114,791,862</b>	<b>92,128,338</b>				
<b>Total Financial Assets at Fair Value</b>	<b>114,988,849</b>	<b>92,334,057</b>				
<b>Financial Liabilities at Fair Value</b>						
Forward Contracts (Foreign Currency)	178,833	17,655	Level One	Stated Rates in financial markets	Doesn't Apply	Doesn't Apply
<b>Total Financial Liabilities at Fair Value</b>	<b>178,833</b>	<b>17,655</b>				

There were no transfers between level 1 and level 2 during the year 2017.

**B. The fair value of financial assets and financial liabilities of the Bank (non-specific fair value on an ongoing basis):**

Except as detailed in the table below, we believe that the carrying amount of financial assets and liabilities shown in the financial statements of the Bank approximate their fair value, because the Bank management believes that the carrying value of the items is equivalent to the fair value, and this is due to either maturity or short-term interest rates that have been repriced during the year.

	December 31, 2017		December 31, 2016		The Level of Fair Value
	Book value	Fair Value	Book value	Fair Value	
	JD	JD	JD	JD	JD
<b>Financial Assets of non-specified Fair Value</b>					
Balances at central banks	196,829,576	196,847,990	166,272,023	166,272,023	Level Two
Balances at banks and financial institutions	265,682,212	266,402,186	494,451,425	495,300,577	Level Two
Deposits at banks and financial institutions	125,000,000	127,536,945	25,000,000	25,415,685	Level Two
Loans, bills and other	1,382,864,854	1,385,372,118	1,106,590,558	1,108,702,501	Level Two
Financial assets at amortized cost	219,576,390	221,758,509	172,637,680	173,980,219	Level Two
Other assets	45,050,608	102,837,646	34,705,556	83,584,255	Level Two
<b>Total Financial Assets of Non-specified Fair Value</b>	<b>2,235,002,640</b>	<b>2,300,750,394</b>	<b>1,999,637,242</b>	<b>2,053,255,260</b>	
<b>Financial Liabilities of Non-specified Fair Value</b>					
Deposits at banks and financial institutions	64,896,195	64,986,870	145,623,438	145,670,169	Level Two
Customer's deposits	1,845,800,756	1,850,715,176	1,606,979,130	1,609,675,022	Level Two
Cash Insurance	149,356,693	149,367,014	129,292,102	129,299,201	Level Two
<b>Total Financial Liabilities of Non-specified Fair Value</b>	<b>2,060,053,644</b>	<b>2,065,119,060</b>	<b>1,881,894,690</b>	<b>1,884,644,392</b>	

The fair value for the financial assets and liabilities for the level 2 and level 3 were determined in accordance to an agreed pricing models, which reflects the credit risk of the parties that are dealing with it



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#### 44. Commitments and Contingent Liabilities

##### a. Contingent Liabilities:

	2017	2016
	JD	JD
Letters of credit	117,983,214	80,542,151
Acceptances	56,193,136	74,535,617
Letters of guarantee:		
Payment	38,782,029	31,659,395
Performance	61,137,598	49,829,921
Other	33,928,537	36,076,304
Un-utilized direct credit facilities limits	108,819,747	86,932,724
<b>Total</b>	<b>416,844,261</b>	<b>359,576,112</b>

##### b. Contractual obligations:

	2017	2016
	JD	JD
Contracts for purchasing property and equipment*	1,696,882	1,701,430
Contracts for operating and capital lease**	12,002,332	12,852,163
<b>Total</b>	<b>13,699,214</b>	<b>14,553,593</b>

\* These commitments mature in less than a year.

\*\* These commitments mature between a year to 10 years.

#### 45. Lawsuits against the Bank

The Bank is a defendant in lawsuits demanding cancellation of the Bank's claims against others, lifting of real estate mortgages, compensation for damages, and non-cashing of cheques. These lawsuits amounted to JD 17,056,280 as of December 31, 2017 (JD 17,585,485 as of December 31, 2016). In the opinion of the management and legal counsel, no material financial liability is likely to be incurred as a result of these lawsuits in excess of provision recorded which amounted to JD 676,564 as of December 31, 2017 (JD 626,714 as of December 31, 2016). However, amounts that will probably be paid by the Bank as a result of dismissal or amicable settlement of these lawsuits will be taken to the consolidated Statement of Profit or loss or against the recorded provision when paid.

#### 46. Adoption of New and Revised International Financial Reporting Standards (IFRSs)

A- New and revised IFRSs that have no material impact on the consolidated financial statements:

The following new and revised IFRSs have been adopted and are effective for financial periods beginning on or after 1 January 2017 or later in the preparation of the Bank's consolidated financial statements that did not materially affect the amounts and disclosures in the consolidated financial statements for the year and prior years, which may have an impact on the accounting treatment of transactions and future arrangements:

- IAS 7 Disclosure.
- IAS 12 Recognition of deferred tax assets for unrealized losses.
- Annual Amendments to IFRSs 2014-2016 (Amendments to IFRS 12 Disclosure of Ownership in Other Entities).

B- The new and amended international financial reporting standards issued and not yet effective:

The new and revised IFRSs issued below have been issued but are not yet effective. The Bank has not yet adopted these new and amended standards knowing that they are available for early adoption:

**New Standards:**

- IFRS 9 Financial Instruments (effective 1 January 2018 with the exception of insurance companies, effective 1 January 2021 with early adoption).
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018 with early application permitted).
- IAS 16 Leasing (effective 1 January 2019 with early application permitted).
- IFRS 17 Insurance Contracts (effective 1 January 2021 with early application permitted).

**Amendments:**

- IFRS 2 Classification and Measurement of Share-based Payment Account (effective 1 January 2018 with early application permitted).
- IFRS 10 and IAS 28 Sale or Contribution of Assets between Investor and its Joint Venture Partners (no date specified).
- IAS 40 (Clarification of the transfer of investment property (effective 1 January 2018)).
- Amendments to IFRS 4 in applying IFRS 9 (effective 1 January 2018).
- IFRIC 23: Uncertainty on Income Tax Processes (effective 1 January 2018).
- Amendments to International Financial Reporting Standards (IFRS) (2014-2016) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures (effective January 1, 2018).
- IFRIC 22: Foreign currency transactions and prepayment allowance.

Management anticipates that these standards and amendments will be applied in the preparation of the consolidated financial statements at the dates set out above, which will have no material impact on the Bank's consolidated financial statements except for the adoption of IFRS 9 Financial Instruments and below is the expected financial impact from the implementation, and IFRS (16) Leases where the expected impact of its application will be disclosed when the Bank reviews the impact because it is not practicable to provide a reasonable estimate of the implications for the application of this standard in the current period.

**Effect of application of International standards No. (9):**

The Bank is required to apply IFRS 9 starting from January 1<sup>st</sup>, 2018. Accordingly, the Bank has estimated the expected impact of the adoption of the standard on the consolidated financial statements. The effect may differ from actual application on January 1<sup>st</sup> 2018 for the following reasons:

- The expected impact is calculated on balances and information as at November 30, 2017, but the Bank's management does not expect a material difference for the impact when calculating it on the balances and information as at December 31, 2017.
- The Bank will book the full-expected impact taking into consideration the full estimates and tests required by the standard when issuing the Company's first interim consolidated condensed interim financial statements for the period ending March 31, 2018.
- Any matters that many require amendment when issuing the instructions of the Central Bank of Jordan regarding the application of IFRS (9) finally.

**The following are the most important aspects of application:**

**A- Classification and measurement of financial assets:**

The Bank's management does not expect any material impact from applying this standard; the Bank has early adopted the first phase of IFRS (9) as from January 1<sup>st</sup>, 2011 based on the request of Central Bank of Jordan and the Jordan Securities Commission.



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**B- Classification and measurement of financial liabilities:**

IFRS (9) has retained the requirements of IAS (39) regarding the classification of financial liabilities. IAS 39 (Revised) requires recognition of the differences in the assessment of financial liabilities classified as financial liabilities at fair value through profit or loss in the consolidated statement of profit or loss, whereas IFRS (9) requires:

- Recognition of differences in the assessment of financial liabilities classified as financial liabilities at fair value through statement of profit or loss as a result of changes in credit risk in the consolidated statement of comprehensive income.
- The remaining amount of fair value valuation differences is recognized in the consolidated statement of profit or loss.

The Bank has not classified any financial liabilities in financial liabilities at fair value through profit or loss. Moreover, there is no intention by the management to classify any financial liabilities in this category. Therefore, there is no impact from the application of IFRS (9) to the consolidated financial statements.

**C- Hedge accounting**

When initially applying IFRS (9), the Bank has the choice to continue applying the hedge accounting requirements of IAS (39) instead of the requirements of IFRS (9).

As the Bank does not make material movements that require the use of hedge accounting, it will continue to use hedge accounting policies based on requirements of IAS (39).

**D- Impairment of financial assets**

IFRS (9) replaces the 'incurred loss' model in IAS (39) with a forward-looking 'expected credit loss' model. Which requires the use of estimates and judgments to estimate economic factors. The model will be applied to all financial assets - debt instruments which classified as amortized cost or at fair value through statement of comprehensive income or at fair value through profit or loss.

Impairment losses will be calculated in accordance with the requirements of IFRS (9) in accordance with the following rules:

- 12 month impairment loss: The expected impairment will be calculated for the next 12 months from the date of the consolidated financial statements.
- Impairment losses for the lifetime of the instrument: The expected impairment of the life of the financial instrument will be calculated until the maturity date from the date of the consolidated financial statements.

The expected credit loss mechanism depends on the probability of default (PD), which is calculated according to the credit risk and future economic factors, the loss in default (LGD), which depends on the value of the existing collateral, the exposure at default (EAD).

The following table shows the expected value of the effect of applying the new standard compared with what was recorded by the Bank in accordance with the instructions of the Central Bank of Jordan:

Classification	Credit facilities				Other financial assets	Total
	Retail	Mortgage Loans	Corporate	SME and retail		
Stage 1	2,753,958	718,832	760,364	808,813	524,843	5,566,810
Stage 2	-	6,627	296,580	65,488	-	368,695
Stage 3	-	-	-	-	-	-
<b>Total</b>	<b>2,753,958</b>	<b>725,459</b>	<b>1,056,944</b>	<b>874,301</b>	<b>524,843</b>	<b>5,935,505</b>

The Bank retains additional provisions covering the expected value of the effect of the new standard. Therefore, the application of the Standard will have no material impact on the consolidated financial statements.

#### E- Disclosures

IFRS (9) requires detailed disclosures, particularly with regard to hedge accounting, credit risk and expected credit losses. The Bank is working to provide all the necessary details for these disclosures to be presented in the subsequent consolidated financial statements after application.

#### F- Implementation

The Bank will take advantage of the exception provided by the standard at the implementation on January 1<sup>st</sup>, 2018 by recording potential effects (if any) on the opening balances of retained earnings, provisions and non-controlling interests rather than restating the figures of the consolidated financial statements for the year ended December 31, 2017 and earlier.