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السيد

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التاريخ: 2018/8/19

Messer's Jordan Securities Commission

Messer's Amman Stock Exchange

السادة هيئة الأوراق المالية المحترمين

السادة بورصة عمان المحترمين

Subject: Semi- Annual Report as of 30/6/2018

الموضوع: التقرير نصف السنوي كما في 2018/6/30

Attached are the English Financial Statements of Islamic International Arab Bank plc. As of 30/6/2018 after being reviewed by the Bank's external auditors, and are subject to the approval of the Central Bank of Jordan.

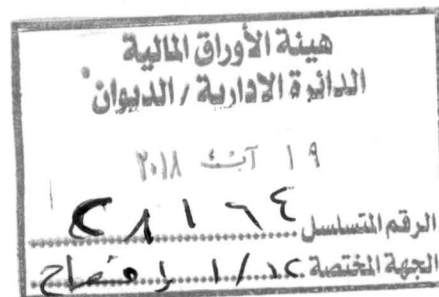
مرفق طيه نسخة باللغة الانجليزية من البيانات المالية لشركة البنك العربي الإسلامي الدولي. كما هي بتاريخ 2018/6/30 مراجعة من قبل مدقي حسابات البنك وهي خاضعة لموافقة البنك المركزي الأردني.

Yours Sincerely,

Iyad Asali  
General Manager

وتفضلوا بقبول فائق الاحترام...

إياد العسلي  
المدير العام



ISLAMIC INTERNATIONAL ARAB BANK

INTERIM CONDENSED FINANCIAL STATEMENTS (REVIEWED  
UNAUDITED)

FOR THE PERIOD ENDED 30 JUNE 2018

**REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS  
TO THE BOARD OF DIRECTORS OF ISLAMIC INTERNATIONAL ARAB BANK  
AMMAN - JORDAN**

**Introduction**

We have reviewed the accompanying interim condensed financial statements of ISLAMIC INTERNATIONAL ARAB BANK (Public Shareholding Company) as at 30 June 2018, comprising of interim condensed statement of financial position as at 30 June 2018 and the related interim statements of income, comprehensive income, changes in owners' equity, cash flows, and sources and uses of funds of Al Qard Al Hasan Fund for the six months period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements accordance with Islamic Shari'a rules and principles as determined by Shari'a Supervisory Board of the Bank and the financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Accounting and Auditing Standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with the accounting policies described in Note (2) to the interim condensed financial statements.

Amman – Jordan  
30 July 2018



**ISLAMIC INTERNATIONAL ARAB BANK – PUBLIC SHAREHOLDING COMPANY**  
**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**As At 30 JUNE 2018**

	Notes	30 June 2018 JD (Unaudited)	31 December 2017 JD (Audited)
<b><u>ASSETS</u></b>			
Cash and balances at Central Bank	4	507,825,245	588,819,337
Balances with banks and financial institutions	5	18,147,197	21,546,641
Deferred sales receivables and other receivables – Net	6	767,391,458	701,820,133
Deferred sales receivables through income statement	7	-	-
Ijara muntahia bittamleek assets – Net	8	650,243,425	620,283,994
Financial assets at fair value through shareholders' equity - Self	9	5,390,244	5,498,759
Financial assets at fair value through joint investment accounts holder's equity	10	264,488	198,366
Financial assets at amortized cost – Net	11	33,189,163	38,096,056
Investments in real estate	12	20,985,216	21,508,775
Qard Al - Hasan loans – Net		35,187,718	27,695,418
Property and equipment – Net		18,255,665	18,758,098
Intangible assets – Net		405,368	473,854
Deferred tax assets	(15/c)	3,029,090	2,678,427
Other assets	13	9,749,784	4,701,307
<b>TOTAL ASSETS</b>		<b>2,070,064,061</b>	<b>2,052,079,165</b>
<b><u>LIABILITIES</u></b>			
Banks and financial institutions accounts		6,274,023	257,629
Customers' current accounts	14	675,593,453	706,073,699
Cash margin		29,452,645	35,652,339
Other provisions		2,922,002	2,745,846
Provision for income tax	(15/a)	7,815,578	12,003,114
Deferred tax liabilities	(15/c)	189,194	227,174
Other liabilities	16	36,046,705	29,378,103
<b>TOTAL LIABILITIES</b>		<b>758,293,600</b>	<b>786,337,904</b>
<b><u>Joint Investment Accounts Holders' Equity</u></b>			
Unrestricted investment accounts	17	1,107,174,526	1,061,579,579
<b>Total Joint Investment Accounts Holder's Equity</b>		<b>1,107,174,526</b>	<b>1,061,579,579</b>
<b><u>INVESTMENT RISK FUND</u></b>			
Investment Risk Fund	18	25,050,031	26,983,673
Provision for income tax on Investment Risks Fund	18	1,781,167	2,594,950
		<b>26,831,198</b>	<b>29,578,623</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Paid-up capital		100,000,000	100,000,000
Statutory reserve		25,735,842	25,735,842
Voluntary reserve		4,262,322	4,262,322
General banking risks reserve	19	-	882,000
Fair value reserve - net	20	351,359	421,895
Retained earnings	21	31,707,488	43,281,000
Profit for the period		15,707,726	-
<b>Total Shareholders' Equity</b>		<b>177,764,737</b>	<b>174,583,059</b>
<b>Total Liabilities' Joint Investment Accounts Holders &amp; Shareholders' Equity</b>		<b>2,070,064,061</b>	<b>2,052,079,165</b>
Restricted investments		167,297,175	131,706,967
Wakalah investments		36,811,723	32,320,657

ISLAMIC INTERNATIONAL ARAB BANK – PUBLIC SHAREHOLDING COMPANY  
INTERIM CONDENSED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

	Notes	For the three months period ended 30 June		For the six months period ended 30 June	
		2018	2017	2018	2017
		JD	JD	JD	JD
Deferred sales revenues	22	12,315,957	11,333,732	23,950,728	21,860,397
Revenues from financing investments	23	-	3,747	-	6,894
Revenues from financial assets at amortized cost		259,359	293,573	545,842	548,956
Net (expenses) from Investment in Real Estates	24	(187,854)	(183,388)	(381,450)	(349,490)
Revenues from Ijara muntahia bittamleek assets		12,625,658	11,561,073	24,906,284	22,737,428
Ju'alah commissions		170,184	96,416	269,581	182,982
<b>Total Revenues from Joint Investments</b>					
<b>Accounts</b>		25,183,304	23,105,153	49,290,985	44,987,167
Unrestricted investment accounts holders share	25	(5,518,128)	(4,878,021)	(10,537,429)	(9,452,839)
Investment risks fund share	18	(2,518,631)	(2,310,516)	(4,929,099)	(4,498,717)
<b>Bank's share in income from Joint Investment as Mudarib and Fund Owner (Rab Al-Mal)</b>	26	17,146,545	15,916,616	33,824,457	31,035,611
Bank's revenues from its own investments	27	41,639	20,601	46,675	28,475
Bank's share in restricted investment revenues as Mudarib		144,596	55,015	251,107	99,322
Bank's share in restricted investment revenues as agent (Wakeel)		167,109	79,585	209,320	102,045
Gains from foreign currencies		404,428	403,919	782,132	818,684
Banking services revenues		2,478,910	2,177,918	4,918,217	4,383,359
Other revenues		81,794	85,930	155,470	168,671
<b>Gross Income</b>		<u>20,465,021</u>	<u>18,739,584</u>	<u>40,187,378</u>	<u>36,636,167</u>
<b>Expenses</b>					
Employees' expenses		5,310,466	4,775,286	10,491,815	9,609,942
Depreciation and amortization		734,761	756,584	1,456,171	1,485,516
Other expenses		2,518,959	2,350,816	4,625,094	4,649,432
Depreciation of Ijara Muntahia Bittamleek assets		5,359	5,988	10,623	13,862
Provisions for impairment of deferred sales receivables	6	10,000	32,000	10,000	49,000
Other provisions		115,890	234,941	246,652	339,941
<b>Total Expenses</b>		<u>8,695,435</u>	<u>8,155,615</u>	<u>16,840,355</u>	<u>16,147,693</u>
<b>Profit before tax</b>		<u>11,769,586</u>	<u>10,583,969</u>	<u>23,347,023</u>	<u>20,488,474</u>
<b>Income tax expense</b>	(15/b)	<u>(3,761,861)</u>	<u>(3,509,735)</u>	<u>(7,639,297)</u>	<u>(6,976,312)</u>
<b>Profit for the period</b>		<u>8,007,725</u>	<u>7,074,234</u>	<u>15,707,726</u>	<u>13,512,162</u>
Earnings per Share - Basic / Diluted	32	<u>0.08</u>	<u>0.071</u>	<u>0.157</u>	<u>0.135</u>

**ISLAMIC INTERNATIONAL ARAB BANK – PUBLIC SHAREHOLDING COMPANY**  
**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)**

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	For the three months period ended 30 June		For the six months period ended 30 June	
	2018	2017	2018	2017
	JD	JD	JD	JD
Profit for the period	8,007,725	7,074,234	15,707,726	13,512,162
Add: other comprehensive income which will not be reclassified to the income statement in future periods				
Change in the fair value reserve – net at tax	(29,692)	(62,555)	(70,536)	44,060
<b>Total Other Comprehensive Income for the period attributed to the bank's shareholder</b>	<b>7,978,033</b>	<b>7,011,679</b>	<b>15,637,190</b>	<b>13,556,222</b>

ISLAMIC INTERNATIONAL ARAB BANK – PUBLIC SHAREHOLDING COMPANY  
INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

	Notes	Reserves				General Banking Reserve	Fair Value Reserve Net (self)	Retained Earnings*	Profit for the period	Total
		Paid-up Capital	Statutory Reserve	Voluntary Reserve						
		JD	JD	JD	JD	JD	JD	JD	JD	JD
<b>For the six months ended 30 June 2018</b>										
Balance at the beginning of the period		100,000,000	25,735,842	4,262,322		882,000	421,895	43,281,000	-	174,583,059
Effect of IFRS (9) adoption		-	-	-		-	-	(455,512)	-	(455,512)
Revised Balance at the beginning of the period		100,000,000	25,735,842	4,262,322		882,000	421,895	42,825,488	-	174,127,547
Profit for the period		-	-	-		-	-	-	15,707,726	15,707,726
Net change in the fair value reserve net of tax	20	-	-	-		-	(70,536)	-	-	(70,536)
Other comprehensive income for the period		-	-	-		-	(70,536)	-	15,707,726	15,637,190
Dividends paid **		-	-	-		-	-	(12,000,000)	-	(12,000,000)
Transferred from general banking reserve	19	-	-	-		(882,000)	-	882,000	-	-
Balance at the end of the period		100,000,000	25,735,842	4,262,322		-	351,359	31,707,488	15,707,726	177,764,737
<b>For the six months ended 30 June 2017</b>										
Balance at the beginning of the period		100,000,000	21,383,327	4,262,322		882,000	435,605	28,835,811	-	155,799,065
Profit for the period		-	-	-		-	-	-	13,512,162	13,512,162
Net change in the fair value reserve after tax		-	-	-		-	44,060	-	-	44,060
Other comprehensive income for the period		-	-	-		-	44,060	-	13,512,162	13,556,222
Dividends paid		-	-	-		-	-	(10,000,000)	-	(10,000,000)
Balance at the end of the period		100,000,000	21,383,327	4,262,322		882,000	479,665	18,835,811	13,512,162	159,355,287

Retained earnings include an amount of JD 2,704,948 as of 30 June 2018 that cannot be utilized without prior approval from the Central Bank of Jordan. This amount represents the amount of deferred tax assets relating to the Bank's own operations (JD 2,410,268 as of 31 December 2017).

The Central Bank of Jordan issued new regulations No. 13/2018 dated 6 June 2018. In which it requested the transfer of the general banking reserve balance (calculated in accordance with the central bank of Jordan regulations) to the retained earnings to offset the effect of IFRS 9 in the opening balance of the retained account as of 1 January 2018. The regulation also instructs that the balance of general banking risk reserve should be restricted and may not be distributed as dividend to the shareholders or used for any other purposes without prior approval from the Central Bank of Jordan amounting to JD 181,212.

\* The general assembly of shareholders approved the distribution of cash dividends on 28 March 2018 of JD 12,000,000 to the sole shareholder (Arab Bank), representing %12 of the authorized and paid up capital distributable retained earnings for the year 2017.

ISLAMIC INTERNATIONAL ARAB BANK – PUBLIC SHAREHOLDING COMPANY  
INTERIM STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

		For the six month period ended 30 June	
	Notes	2018 JD	2017 JD
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Profit for the period before tax		23,347,023	20,488,474
<b><u>Adjustments for Non- Cash Items:</u></b>			
Depreciation and amortization		1,456,171	1,485,516
Depreciation of investment in real estate	24	411,584	376,523
Depreciation of Ijara Muntahia Bittamleek assets		31,828,733	29,993,003
Provision for expected credit loss of deferred sales receivables and self-financing	6	10,000	49,000
Investment Risks Fund	18	4,929,099	4,498,717
Other provisions		246,652	339,941
Effect of exchange rate fluctuations on cash and cash equivalents		(2,968)	(6,493)
<b>Net cash generated by operating activities before change in the working capital</b>		<b>62,226,294</b>	<b>57,224,681</b>
<b><u>Change in working capital Items</u></b>			
(Increase) in deferred sales receivables and other receivables		(70,154,757)	(58,109,375)
Decrease in financing investments		-	37,686
(Increase) in Ijara muntahia bittamleek assets		(61,786,693)	(61,279,205)
(Increase) Decrease in other assets		(5,097,252)	753,592
(Increase) in Qard Al - Hasan loan		(7,503,878)	(2,752,350)
(Decrease) increase in customers' current accounts		(30,480,246)	10,016,484
(Decrease) increase in cash margins		(6,199,694)	2,702,594
Increase (decrease) in other liabilities		6,098,593	(5,700,175)
<b>Net Cash used in Operating Activities before Tax and Provisions Paid</b>		<b>(112,897,633)</b>	<b>(57,106,068)</b>
Tax paid		(15,100,000)	(12,802,866)
Provisions paid		(70,496)	(47,228)
<b>Net Cash used in Operating Activities</b>		<b>(128,068,129)</b>	<b>(69,956,162)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>			
Purchase financial assets from shareholder equity		(73,332)	(230,749)
Sale (purchase) of financial assets at amortized costs – Net		4,906,893	(9,663,802)
Sale (purchase) of investment in real estates		111,975	(348,863)
(Purchase) of property and equipment		(832,393)	(1,003,145)
(Purchase) intangible assets		(52,859)	-
Sale of property and equipment		-	2,639
<b>Net Cash from (used in) Investing Activities</b>		<b>4,060,284</b>	<b>(11,243,920)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>			
Increase (decrease) in joint investment accounts holders' equity		45,594,947	(2,637,045)
Distributed dividends		(12,000,000)	(10,000,000)
<b>Net Cash Flows from (used in) Financing Activities</b>		<b>33,594,947</b>	<b>(12,637,045)</b>
Effect of exchange rate fluctuations on cash and cash equivalents		2,968	6,493
<b>Net Decrease in Cash and Cash Equivalents</b>		<b>(90,409,930)</b>	<b>(93,830,634)</b>
Cash and Cash Equivalents - beginning of the period		610,108,349	664,848,105
<b>Cash and cash equivalents - End of the Period</b>	29	<b>519,698,419</b>	<b>571,017,471</b>



ISLAMIC INTERNATIONAL ARAB BANK – PUBLIC SHAREHOLDING COMPANY  
INTERIM STATEMENT OF SOURCES AND USES OF AL – QARD AL – HASAN FUND  
As AT 30 JUNE 2018

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	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Beginning Balance for the period/ year	27,348,846	18,532,292
<b><u>Sources of the fund</u></b>		
Shareholders' equity	(19,379,273)	(28,011,687)
Total sources of fund for the period/ year	(19,379,273)	(28,011,687)
<b><u>Uses of Fund's Sources</u></b>		
Personal advances	1,306,588	1,773,492
Visa Revolving Card	25,249,252	35,054,749
Total uses for the period /year	26,555,840	36,828,241
Total balance	34,525,413	27,348,846
Currents and overdraft accounts	1,080,551	681,757
Less: Expected credit loss provision for the period/ year	(418,246)	(335,185)
<b>Balance at the end of the period / year– net</b>	<b>35,187,718</b>	<b>27,695,418</b>

**(1) General**

Islamic International Arab Bank is a Public Shareholding Company incorporated in Jordan during 1997 in accordance with companies law No (22) of (1997). Its head office is located in Amman.

The Bank provides all banking, financial, and investment activities that comply with Islamic Shari'a standards through its headquarters and its 43 branches inside the Kingdom. The Bank's activities are subject to the provisions of the Banks' Law in force.

The Islamic International Arab Bank is wholly owned by the Arab Bank.

The Interim financial statements have been approved by the Shari'ah Supervisory Board in its Meeting held on 28 July 2018.

The accompanying condensed interim financial statements have been approved by the Bank's Board of Directors in its Meeting number (6) held on 28 July 2018 and is subject to approval of the Central Bank of Jordan.

**(2) Significant Accounting Policies**

**Basis of preparation**

The Interim condensed financial statements of the Bank have been prepared in accordance with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, in accordance with the applicable local laws and the instructions of the Central Bank of Jordan. In the absence of standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions relating to the items of the financial statements, the International Financial Reporting Standards (IFRS) and the interpretations issued thereon are applied until Islamic standards are issued.

The Interim condensed financial statements have been prepared under the historical cost convention except for financial assets at fair value through equity and sales receivables through the statement of income at fair value at the statement of financial position date.

The Jordanian Dinar is the functional currency of the Interim financial statements which represents the functional currency of the Bank.

The Bank follows the principle of mixing owners' equity funds with joint investment deposit funds as of the beginning of May 2013, while retaining the investments financed by the existing equity holders' equity until they mature.

The amount of the investment risk fund should be reduced to cover expected credit losses calculated in accordance with IFRS 9 and the impairment in real estate investments and any other investments financed from the joint investment accounts.

### **Change in accounting policies:**

The accounting policies adopted in the preparation of the Interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 December 2017. The Bank has applied the following amendments effective 1 January 2018:

### **IFRS 9 Financial Instruments**

As per Central Bank of Jordan regulations (No. 13/2018) of 6 June 2018, regarding the implementation of IFRS 9, Islamic Banks should implement the section of the standard concerned with calculating the expected credit loss. The remaining aspects are subject to the requirements of Islamic financial accounting standard 25, until instructions for Islamic Banks are issued by the Central Bank of Jordan in accordance with the Islamic Financial Accounting Standard No. (30) issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

IFRS 9 (2014) replaces the incurred loss model in IAS 39 (Financial Instruments: Recognition and measurement) with an expected credit loss model. The new impairment model also applies to certain loan commitments, financial guarantee contracts, and placements, but not to equity investments. If there is a low credit risk to the Financial Asset at the time of the initial application of IFRS 9, the credit risk related to these financial assets is not considered to have changed significantly since initial recognition. In accordance with IFRS 9 Financial Instruments, expected credit losses are recognized at an early date in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

The Bank has adopted IFRS 9 (2014) financial instruments on the required effective date January 1, 2018, the date on which the Bank has assessed the requirements of the new expected loss impairment model, hedge accounting and the revised guidance on the classification and measurement requirements of financial instruments. Note that the Bank has adopted the first phase (Classification and Measurement) of IFRS 9 of 2009 on January 2011 through the application of Islamic Financial Accounting Standards No.25 entitled "Shares, instruments and similar instruments".

The standard has been applied retrospectively and, in accordance with IFRS 9 without adjusting comparative figures. The impact of the adoption of the Standard was recognized on 1 January 2018 by reversing the impact on retained earnings on the equity statement only for the Bank's own funds.

**First: The descriptive disclosures:**

The definition of default used to measure expected credit losses used in the assessment of change between phases is consistent with the definition of default used by the Bank's internal credit risk management. The stumbling is not defined in the standard, and there is a presumption that default occurs when the payment is stopped for 90 days or more.

The Relationship Officer will communicate with the client and take note of any negative indicators that may lead to a decline in the quality of the funds. These indicators arise from the following aspects: management, financial position, environment, and collateral; as described in the credit policy.

In order to identify the problem in advance, to review the structure of funds and reassess the customer credit and thus finding a solution to avoid the classification or stumbling of the customer, the Department of Credit Control issues a statement of accounts receivable that is reviewed on a daily basis by the business and credit sector officers. The Customer Relationship Development Officer, then prepares a detailed report explaining the reason of the delay of the customers' and submits the report to the concerned parties and committees according to the Bank's procedures.

The Islamic International Arab Bank's credit review and control process is governed by credit rules set out in the corporate and individual credit policies. The credit rating of the borrower is an essential element of the credit review and evaluation. For this purpose, Islamic International Arab Bank has developed and applied an internal rating methodology for creditworthiness, which evaluates the corporate client according to the customer's financial and non-financial criteria. In parallel, Islamic International Arab Bank has implemented Moody's Risk Analysis System (MRA), a credit rating system issued by Moody's Credit Rating, which is based on financial and non-financial criteria for evaluating the corporate client and is equivalent to the "Internal Rating System", where mapping is connected between the MRA rating and the internal rating system.

Moody's credit rating system is centrally managed by the Risk Management Department including the business sector / corporate and credit / credit review sections. The rating of customers' risk, whether using the internal rating system or Moody's risk analysis system, is reviewed annually during the annual review of individual client financing.

The expected credit loss mechanism, based on Central Bank regulations No. 13/2018 and guidelines of IFRS 9, is based on three main inputs:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure At Default (EAD)

### Probability of Default:

The probability of default estimates the likelihood of default over a given time horizon, which includes:

- **Corporate credit:** The probability of default (PD) derived from Moody's credit rating system is based on the probability of default (PD) for customers under this classification. We would like to point out that the system is currently under review by a third party to verify the accuracy and quality of the system's results.
- **Credit facilities for the banking sector:** Moody's credit rating was based on the external classification of banks.
- **Retail Credit:** based on the historical default ratio of the bank's customers.
- **Debt instruments at amortized cost:** Depreciation is based on Moody's default rating based on the external rating of the issuer instruments'.

In accordance with IFRS 9 regarding credit exposures / debt instruments included in the first stage use the probability of default taken with 12 months exposures, while for the second and third phases, probability of default was taken on the whole life span of credit exposure.

The probability of default for the above four sectors has been adjusted based on economic outlook. To that end, Arab Islamic Bank and the Arab Bank Group have contracted with Moody's to provide the necessary economic indicators.

### Loss Given Default:

Loss given default estimates the loss arising in case a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral (approved by the Central Bank of Jordan):

- Unsecured customer financing: based on Basel II (Fundamental Internal Financing) guidelines', unsecured financing apply 45% provision as a potential loss on default.
- Secured Customers' Financing: Discount rates for the accepted guarantees are approved in accordance with the instructions of the Central Bank of Jordan in particular.

### Exposure at Default (EAD):

Exposure at default provides an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

#### ❖ Time value of money

In accordance with the requirements of IFRS 9 Standards, the expected credit loss shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate (EIR) determined at initial recognition or an approximation thereof.

For the purpose of allocating financial instruments subject to the scope of the Impairment Standard, three stages are required by the Standard to measure impairment and determinants of significant change in the credit risk on which the Bank has relied on the calculation of expected credit losses. As required by the Standard, the three stages should be calculated, based on the definitions outlined in the Standard.

- **Stage 1:** Includes customer financing either at the beginning of the transaction or those who have not been subject to a significant increase in credit risk and thus, are subject to a lower provision based on the probability of default of the next 12 months.
- **Stage 2:** Customers' financing, which has a significant increase in the customer's credit risk and quality, based on the following indicators, for which a provision for impairment should be taken based on the probability of default during the lifetime of the loan:

Key indicators used to classify customer financing within Stage 2:

- IFRS 9 (Financial Instruments) includes an assumption that there is a significant increase in the credit risk of the financial instruments when it has been impaired for more than 45 days. As per the Central Bank of Jordan's instructions, it is assumed that there is a substantial increase in the credit risk of financial instruments that have defaulted and have matured more than 60 days and this period will be reduced to 30 days within 3 years.

As for Sukuk (excluding government issuances) and financing to banks, ratings from credit rating agencies have been adopted so that any client rated below BBB is considered to be in this category.

- **Stage 3:** includes the financing of customers who have been classified as non-operating according to the instructions of the Central Bank of Jordan for the classification of funds, where the provisions resulting from the implementation of these instructions have been approved for customers under this stage.

The Bank's policy for identifying the common elements (s) on which the credit risk and expected credit loss is measured on an individual basis is as follows:

- Retail Credit: Individual at the client / product level.
- Corporate Credit: Individual at the client / product level.
- Credit financing for banks: individual at the bank level.
- Debt instruments at amortized cost: individually at the instrument / level.

In order to ensure compliance with the requirements of application of the standard and to ensure the implementation of the application, a special committee has been established. The committee makes the necessary decisions regarding the mechanisms of implementation, ensuring that the general policies, procedures and systems are updated in accordance with the requirements of the standard. Additionally, their task includes presenting the results of the calculation of expected credit losses based on the standard, to the Senior Management and to the Board of Directors through its committees.

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**Second: Quantitative Disclosures:**

1. The opening balance of provisions after application of IFRS 9 is as follows:

Item	The amount of the provisions as at 31 December 2017	Difference due to IFRS 9 adoption	Balance in accordance with IFRS 9
	JD	JD	JD
Direct credit financing - self	3,827,408	59,493	3,886,901
Direct credit financing - joint	10,808,780	1,246,217	12,054,997
Debt instruments in a financial asset portfolio at amortized cost / joint	-	232,880	232,880
Guarantees	-	161,934	161,934
Unutilized balance - self	-	376,770	376,770
Unutilized balance - joint	-	382,307	382,307
Letter of credit - self	-	102,590	102,590

2. The expected credit losses for upcoming period for 1 January 2018 as follows:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Direct credit financing - self	-	-	10,000	10,000
Direct credit financing - joint	(739,592)	(2,214)	4,146,919	3,405,113
Debt instruments within a portfolio of financial assets At amortized cost	(1,000)	(26,690)	-	(27,690)
Unutilized balance - self	-	-	-	-
Unutilized balance - joint	(68,092)	728	-	(67,364)
Letters of credit	-	-	-	-

Effect of implementing of International Financial Reporting Standards no. (9) on opening balances for 2018 as follows:

Item	Amount as of 31 December 2017	Amount reclassified	The expected credit loss- self	The expected credit loss- Joint	Balance as of 1 January 2018 after IFRS 9
	JD	JD	JD	JD	JD
Cash and balances with central banks	588,819,337	-	-	-	588,819,337
Balances and deposits at banks and financial institutions	21,546,641	-	-	-	21,546,641
Financial assets at fair value through other comprehensive income	5,498,759	-	-	-	5,498,759
Direct credit facilities	1,349,799,545	-	(59,493)	(1,246,217)	1,348,493,835
Debt instruments within a portfolio of financial assets at amortized cost	38,096,056	-	-	(232,880)	37,863,176
Financial guarantees	56,512,028	-	(161,934)	-	56,350,094
Unutilized balance	218,005,824	-	(376,770)	(382,307)	217,246,747
Letters of credit and Acceptances	31,663,848	-	(102,590)	-	31,561,258

**(3) Uses of estimates accounting estimate**

Preparation of the Interim financial statements and application of accounting policies require the Bank's Management to perform estimates and assumptions that affect the amounts of financial assets and liabilities, fair value reserve and disclosure of contingent liabilities. These estimates and judgements also affect the revenue, expenses and provisions as well as the changes in fair value reported in the statement of comprehensive income. In particular, it requires the Bank's Management to make significant judgments for estimating the amounts and timing of future cash flows. These estimates are based on several assumptions and multiple factors with varying degrees of estimations and uncertainty. Furthermore, the actual results may differ from the estimates due to the changes resulting from the conditions of such estimates in the future. In the opinion of management, the estimates used in the financial statements are reasonable.

We believe that our estimates in financial statements are reasonable and determined as follows:

A provision for lawsuits raised against the Bank is taken based on a legal study prepared by the Bank's legal advisor. The study highlights potential risks that the Bank may encounter in the future. Such legal assessments are reviewed periodically.

Provision for impairment of financial assets requires management to make judgements to estimate the amounts, timing of future cash flows, any significant increase in the credit risk of financial assets after initial recognition, and to take into account future measurement information for expected credit losses.

The fiscal year shall be charged in respect of the income tax expense in accordance with accounting regulations, laws and standards, thus tax provision shall be calculated.

Management periodically reassesses the economic useful lives of tangible and intangible assets for calculating annual depreciation and amortization based on the general status of these assets and the assessment of their useful economic lives expected in the future. Impairment loss is taken to the condensed interim statement of income (if any).

Management periodically recalculated the useful lives of tangible and intangible assets for the purpose of calculating annual depreciation and amortization based on the overall condition of those assets and estimates of expected future production work, and the impairment loss (if any) is charged to the income statement.



**Bases of Dividends Distribution among Owners of Shareholders' Equity and Holders of the Joint Investment Accounts:**

The return on equity of equity holders and holders of joint investment accounts for the first half of 2018 is distributed as follows:

	<u>Rate</u>	
Share of Joint Investment Accounts Holders	40%	Which is 2.876% on the Jordanian Dinar and 0.82% on the US Dollar for the 1st half of 2018 and which is 2.948% on the Jordanian Dinar and 0.53% on the US Dollar for the 1 <sup>st</sup> half of 2017.
Share of shareholders' equity	50%	
Share of the Investment Risks Fund	10%	

The Bank shall contribute its share of the profits as a Mudaraba or its share in the profits as a capital to raise the general percentage distributed to the holders of deposit accounts participating in the profits for all/some of its customers.

Fair value measurement: The standard requires identification and disclosure of the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety. . The fair value measurements are classified in accordance with the levels set out in the International Financial Reporting Standard (IFRS). The difference between level (2) and level (3) of the fair value measurements means assessing whether the inputs are observable and whether the unobservable inputs are significant. This may require judgment and careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

**Useful lives of tangible and intangible assets intangible assets:**

Management estimates the useful lives of tangible and intangible assets upon initial recognition. Moreover, Management periodically re-assesses the useful lives of tangible and intangible assets to calculate annual depreciation and amortization based on the general status of such assets and the estimates of the productive activities expected in the future. The impairment loss (if any) is charged to the statement of income.

Factors affecting the estimated useful lives of tangible and intangible assets include Management's estimates for the period in which the Bank is expected to use these assets as well as technological development and obsolescence. If the useful lives of tangible and intangible assets differ from Management's estimates significantly the expense of depreciation and/or profit and loss on disposal will be materially impaired.

Management periodically revaluates the real estate within the investments in real estate portfolio and a provision is taken for any impairment in their value within the investment risks fund. Moreover, the portfolio is within the joint investment whereby building within such portfolio are depreciated at 10% per annum.

**(4) Cash and balances at the Central Bank**

The details of this item as following:

	30 June 2018 (Unaudited) JD	31 December 2017 (Audited) JD
Cash in safe	28,908,434	33,226,507
Balances at central bank		
Current and call accounts	366,051,737	445,552,304
Cash reserve requirements	112,865,074	110,040,526
Total	<b>507,825,245</b>	<b>588,819,337</b>

**(5) Balances at banks and financial institutions**

The details of this item as following:

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	30 June 2018 (Unaudited) JD	31 December 2017 (Audited) JD	30 June 2018 (Unaudited) JD	31 December 2017 (Audited) JD	30 June 2018 (Unaudited) JD	31 December 2017 (Audited) JD
Current and Call accounts	14,983,587	16,502,514	3,163,610	5,044,127	18,147,197	21,546,641
	<b>14,983,587</b>	<b>16,502,514</b>	<b>3,163,610</b>	<b>5,044,127</b>	<b>18,147,197</b>	<b>21,546,641</b>

- There are no restricted cash balances as of 30 June 2018 and 31 December 2017.

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**Deferred sales receivables and other receivables - Net**

details of this item are as follows:

	Joint		Self		Total	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	(Unaudited) JD	(Audited) JD	(Unaudited) JD	(Audited) JD	(Unaudited) JD	(Audited) JD
<b>Individuals (retail)</b>						
abaha to purchase order	242,539,488	236,475,444	-	-	242,539,488	236,475,444
lah guarantees	3,940,643	3,261,533	-	-	3,940,643	3,261,533
ceivables – Ijara muntahia bittamleek	1,351,022	1,006,396	-	-	1,351,022	1,006,396
l estate financing	163,609,800	142,998,279	-	-	163,609,800	142,998,279
<b>Corporates</b>						
national Murabaha	157,690,161	148,314,301	458,864	460,117	158,149,025	148,774,418
abaha to purchase order	223,747,048	189,178,642	3,337,083	3,356,003	227,084,131	192,534,645
ceivables – Ijara muntahia bittamleek	1,726,678	1,291,047	-	-	1,726,678	1,291,047
<b>Small and Medium Enterprise</b>						
abaha to purchase order	52,838,702	50,938,587	-	-	52,838,702	50,938,587
lah guarantees	15,314	9,785	-	-	15,314	9,785
ceivables – Ijara muntahia bitatmleek	648,980	540,065	3,971	8,585	652,951	548,650
<b>Total</b>	848,107,836	774,014,079	3,799,918	3,824,705	851,907,754	777,838,784
Less: deferred revenues	64,600,492	60,789,048	678	1,169	64,601,170	60,790,217
ected credit losses provision	15,348,735	10,808,780	3,478,655	3,492,223	18,827,390	14,301,003
venues in suspense	1,071,018	911,067	16,718	16,364	1,087,736	927,431
<b>Net deferred sales receivables and other receivables</b>	767,087,591	701,505,184	303,867	314,949	767,391,458	701,820,133

**Expected credit losses provision for deferred sales receivables, financing investment, ijara muntahia bettamleek and qard al-hasan lease - self**

The following is the movement on the provision:

	Individuals	Corporates	Small and Medium Enterprises	Total
	JD	JD	JD	JD
<b>30 June 2018 ( Unaudited)</b>				
Balance at the beginning of the period (adjusted)	247,942	3,500,050	138,909	3,886,901
Deducted from the profits	-	10,000	-	10,000
Settlements during the period	33,502	(50,980)	17,478	-
<b>Balance at the end of the period</b>	<b>281,444</b>	<b>3,459,070</b>	<b>156,387</b>	<b>3,896,901</b>
Provision for ECL of non- performing sales receivables-third stage on a single client basis	267,272	3,416,584	153,552	3,837,408
Provision for ECL of sales receivables under watch list second stage on a single client basis	1,820	19,859	2,822	24,501
Provision for ECL of performing sales receivables first stage on a single client basis	12,352	22,627	13	34,992
<b>Balance at the end of the period</b>	<b>281,444</b>	<b>3,459,070</b>	<b>156,387</b>	<b>3,896,901</b>
<b>31 December 2017 (Audited)</b>				
Balance at the beginning of the year	139,886	3,506,664	89,858	3,736,408
Deducted from the profits	-	91,000	-	91,000
Settlements during the period	93,816	(142,854)	49,038	-
<b>Balance at the end of the year</b>	<b>233,702</b>	<b>3,454,810</b>	<b>138,896</b>	<b>3,827,408</b>
Provision for impairment of non- performing sales receivables on a single client basis	231,656	3,448,773	138,875	3,819,304
Provision for impairment of under watch-list sales receivables on a single client basis	2,046	6,037	21	8,104
<b>Balance at the end of the year</b>	<b>233,702</b>	<b>3,454,810</b>	<b>138,896</b>	<b>3,827,408</b>

- The total provisions prepared for debts calculated on the single client basis have been disclosed.
- The amount of the provisions no longer required due to settlements or re-payment of debts and transferred against receivables and other finances amounted to JD 723,802 as at 30 June 2018 (JD 1,922,659 as at 31 December 2017).

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The movement on deferred sales receivables, financing investments, Ijara Muntahia Bittamleek and Al-Qard Al-Hasan after deducting deferred revenues as of 30 June 2018:

Item	Joint			Self			Total		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	JD	JD	JD	JD	JD	JD	JD	JD	JD
Total balance at the beginning of period (adjusted)	1,264,701,226	50,953,919	17,853,880	27,665,497	402,104	3,786,538	1,292,366,723	51,356,023	21,640,418
New facilities during the period	314,450,176	2,085,072	-	7,861,653	-	-	322,311,829	2,085,072	-
Settled facilities	(187,730,022)	(27,095,856)	(1,356,251)	(306,354)	(44,019)	-	(188,036,376)	(27,139,875)	(1,356,251)
Transferred to stage 1	8,454,482	(8,454,482)	-	2,500	(2,500)	-	8,456,982	(8,456,982)	-
Transferred to stage 2	(21,249,693)	21,249,693	-	-	-	-	(21,249,693)	21,249,693	-
Transferred to stage 3	(2,905,812)	(925,572)	3,831,384	-	-	-	(2,905,812)	(925,572)	3,831,384
Changes result from modifications	-	-	-	-	-	39,785	-	-	39,785
<b>Total balance at the end of period</b>	<b>1,375,720,357</b>	<b>37,812,774</b>	<b>20,329,013</b>	<b>35,223,296</b>	<b>355,585</b>	<b>3,826,323</b>	<b>1,410,943,653</b>	<b>38,168,359</b>	<b>24,155,336</b>

the movement on expected credit loss as of 30 June 2018:

Item	Joint				Self				Total			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Balance at beginning of period (adjusted)	1,961,455	560,975	9,532,567	12,054,997	42,463	46,530	3,797,908	3,886,901	2,003,918	607,505	13,330,475	15,941,898
What has been deducted from profits / loss												
if impairment	-	-	-	-	-	-	10,000	10,000	-	-	10,000	10,000
Transferred to stage 1	112,492	(112,492)	-	-	482	(482)	-	-	112,974	(112,974)	-	-
Transferred to stage 2	(47,533)	47,533	-	-	-	-	-	-	(47,533)	47,533	-	-
Transferred to stage 3	(34,809)	(25,166)	59,975	-	-	-	-	-	(34,809)	(25,166)	59,975	-
Changes result from modifications	(769,742)	87,911	4,086,944	3,405,113	(7,953)	(21,547)	29,500	-	(777,695)	66,364	4,116,444	3,405,113
Total balance at end of period	1,221,863	558,761	13,679,486	15,460,110	34,992	24,501	3,837,408	3,896,901	1,256,855	583,262	17,516,894	19,357,011

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**Revenue in Suspense**

The following is the movement on the revenue in suspense:

	Self - financed	
	Corporate	
	30 June 2018	31 December 2017
	(Unaudited)	(Audited)
	JD	JD
Balance at the beginning of the period/ year	16,364	15,105
Add: Revenue in suspense during the period/ year	354	1,288
Less: Revenue in suspense transferred to income	-	(29)
<b>Balance at the end of the period/ year</b>	<b>16,718</b>	<b>16,364</b>

	Joint				
	Corporates				
	Individuals	Real Estate Finances	Large Corporates	Small & Medium Enterprises	Total
	JD	JD	JD	JD	JD
<b>30 June 2018 (Unaudited)</b>					
Balance at the beginning of the period	144,429	47,781	336,001	382,856	911,067
Add: Revenue suspense during the period	53,525	6,241	128,717	33,339	221,822
Less: Revenue in suspense transferred to income	(28,593)	(5,074)	-	(28,204)	(61,871)
Settlement during the period	(6,107)	-	14,102	(7,995)	-
<b>Balance at the end of the period</b>	<b>163,254</b>	<b>48,948</b>	<b>478,820</b>	<b>379,996</b>	<b>1,071,018</b>
<b>31 December 2017 (Audited)</b>					
Balance at the beginning of the year	120,520	45,436	319,093	395,110	880,159
Add: Revenue suspense during the year	81,733	10,352	61,804	218,427	372,316
Less: Revenue in suspense reversed to income	(57,824)	(8,007)	(44,896)	(230,681)	(341,408)
<b>Balance at the end of the year</b>	<b>144,429</b>	<b>47,781</b>	<b>336,001</b>	<b>382,856</b>	<b>911,067</b>

Credit exposures in accordance with the instructions of classification No. (47/2009) and in a comparative manner with IFRS 9 as of 30 June 2018 – self as follows:

Credit exposures in accordance with the instructions of Classification No. (47/2009) and in a comparative manner with IFRS 9 as of 30 June 2018 - joint as follows:

(7) Deferred sales receivables through the statement of income

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**(8) Ijara muntahia bittamleek assets - Net**

The details of this item are as follows:

	Joint				Self				Total			
	Cost	Accumulated depreciation	Expected credit loss provision	Net value	Cost	Accumulated depreciation	Expected credit loss provision	Net value	Cost	Accumulated depreciation	Expected credit loss provision	Net value
<b>30 June 2018 (unaudited)</b>	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Ijara muntahia bittamleek assets--real estate	811,969,866	(171,365,833)	(111,375)	640,492,658	1,338,000	(985,008)	-	352,992	813,307,866	(172,350,841)	(111,375)	640,845,650
Ijara muntahia bittamleek assets-- machinery	14,409,186	(5,018,353)	-	9,390,833	-	-	-	-	14,409,186	(5,018,353)	-	9,390,833
Ijara muntahia bittamleek assets -- vehicles	44,200	(37,258)	-	6,942	-	-	-	-	44,200	(37,258)	-	6,942
<b>Total</b>	<u>826,423,252</u>	<u>(176,421,444)</u>	<u>(111,375)</u>	<u>649,890,433</u>	<u>1,338,000</u>	<u>(985,008)</u>	<u>-</u>	<u>352,992</u>	<u>827,761,252</u>	<u>(177,406,452)</u>	<u>(111,375)</u>	<u>650,243,425</u>
<b>31 December 2017 (audited)</b>												
Ijara muntahia bittamleek assets--real estate	774,181,293	(160,111,940)	-	614,069,353	1,338,000	(974,385)	-	363,615	775,519,293	(161,086,325)	-	614,432,968
Ijara muntahia bittamleek assets-- machinery	12,968,133	(7,127,951)	-	5,840,182	-	-	-	-	12,968,133	(7,127,951)	-	5,840,182
Ijara muntahia bittamleek assets -- vehicles	44,200	(33,356)	-	10,844	-	-	-	-	44,200	(33,356)	-	10,844
<b>Total</b>	<u>787,193,626</u>	<u>(167,273,247)</u>	<u>-</u>	<u>619,920,379</u>	<u>1,338,000</u>	<u>(974,385)</u>	<u>-</u>	<u>363,615</u>	<u>788,531,626</u>	<u>(168,247,632)</u>	<u>-</u>	<u>620,283,994</u>

- Total due Ijara installments amounted to JD 3,730,651 as at 30 June 2018 (JD 2,846,093 as at 31 December 2017). Ijara balances were disclosed within the deferred sales receivables and other receivables (Note 6).
- Non-performing Ijara muntahia bittamleek amounted to 930,799 representing %0.1 of the balance of Ijara muntahia bittamleek as at 30 June 2018 (JD 816,682 equivalent to 0.1% as at 31 December 2017).
- Non-performing Ijara muntahia bittamleek after deducting revenue in suspense amounted to JD 381,734 representing %0.1 of the balance of Ijara muntahia bittamleek as at 30 June 2018 (JD 335,017 - equivalent to 0.1% as at 31 December 2017).



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- Non-performing deferred sales receivables and other receivables, financings, Ijara muntahia bittamleek and Al - Qard Al - Hasan amounted to JD 24,155,336 representing 1.6% of the balance of deferred sales receivables and other receivables, financings, Ijara muntahia bittamleek and Al - Qard Al - Hasan as of 30 June 2018 (JD 21,640,418 as of 31 December 2017 - representing 1.6% of the balance granted at the end of the previous year).
- Non-performing deferred sales receivables and other receivables, financings, Ijara muntahia bittamleek and Al - Qard Al - Hasan after deducting revenues in suspense amounted to JD 23,067,344 as of 30 June 2018 - representing 1.5% of the balance of deferred sales receivables and other receivables, financings, Ijara muntahia bittamleek and Al - Qard Al - Hasan after deducting revenues in suspense (JD 20,712,987 as of 31 December 2017 - representing 1.5% of the balance granted at the end of the previous year).
- Deferred sales receivables and other receivables, Ijara almantahia bittamleek, which structured amounted to JD 2,676 thousand JD during the period ended 30 June 2018.
- Deferred sales receivables and other receivables and other receivables, Ijara almantahia bittamleek which scheduled amounted to JD 154 thousand during the period ended 30 June 2018.

**(9) Financial assets at fair value through shareholder's equity / self**

The details of this item are as follows:

	Self	
	30 June 2018	31 December 2017
	JD (Unaudited)	JD (Audited)
Financial assets quoted in the Market		
Investment portfolios managed by third parties *	5,390,244	5,498,759
Total financial assets at fair value through shareholders' equity	<u>5,390,244</u>	<u>5,498,759</u>

- \* This item represents the investments portfolios managed by Al - Arabi Investment Group Company and include foreign Islamic sukuk and international murabaha.
- There was no transfer to retained earnings under shareholders' equity related to financial assets through shareholders' equity.

**(10) Financial Assets at Fair Value through joint investment accounts holders Equity**

The details of this item are as follows:

	Joint	
	30 June 2018	31 December 2017
	JD (Unaudited)	JD (Audited)
Financial assets not quoted in the market		
Companies Shares *	264,488	198,366
Total financial assets at fair value through shareholders' equity	<u>264,488</u>	<u>198,366</u>

- \* This item represents Islamic International Arab Bank shares of the establishment of the Jordan Payment and Clearing Co.
- The financial assets appearing at cost, because their fair value cannot be estimated.

**(11) Financial assets at amortized cost - Net**

The details of this item are as follows:

	Joint	
	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Islamic sukuk quoted in the market	24,340,653	28,010,256
Islamic sukuk not quoted in the market	9,053,700	10,085,800
Expected credit loss provision	(205,190)	-
	<u>33,189,163</u>	<u>38,096,056</u>

- The above assets have fixed and determinable payments and mature within the period from 2018 until the end of the year 2025.

Disclosure of movement on investment at the end of period:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Balance at the beginning of period (adjusted)	24,378,086	13,717,970	-	38,096,056
Matured investments / Amortization during period	(1,079,021)	(3,622,682)	-	(4,701,703)
Transferred to stage 1	3,657,205	(3,657,205)	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
<b>Total balance at the end of period</b>	<u>26,956,270</u>	<u>6,438,083</u>	<u>-</u>	<u>33,394,353</u>

Disclosure of movement on expected credit loss in aggregation form:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Total balance at the beginning of period (adjusted)	3,550	229,330	-	232,880
Pay back form impairment loss on matured investments	(1,000)	(26,690)	-	(27,690)
Transferred to stage 1	7,000	(7,000)	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
<b>Total balance at the end of period</b>	<u>9,550</u>	<u>195,640</u>	<u>-</u>	<u>205,190</u>

**(12) Investment in real estate**

The details of this item are as follows:

	Joint	
	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Investment in real estate	27,710,926	27,924,456
Accumulated Depreciation	(2,309,618)	(1,899,506)
Provision for impairment	(4,416,092)	(4,516,175)
	<u>20,985,216</u>	<u>21,508,775</u>

- Building within the real estate portfolio above are depreciated under the straight - line method at a rate of 10%.

The movement on the investment in real estate portfolio during the period was as follows:

	Balance at the Beginning of the Period	Additions/Tra nsfers during the Period	disposal during the Period	Balance at the End of the Period
	JD	JD	JD	JD
<b>30 June 2018 (unaudited)</b>				
Investments in real estate	27,924,456	60,058	(273,588)	27,710,926
Accumulated depreciation	(1,899,506)	(411,584)	1,472	(2,309,618)
<b>Total</b>	<u>26,024,950</u>	<u>(351,526)</u>	<u>(272,116)</u>	<u>25,401,308</u>
Real estate impairment provision	(4,516,175)	15,825	84,258	(4,416,092)
<b>Net</b>	<u>21,508,775</u>	<u>(335,701)</u>	<u>(187,858)</u>	<u>20,985,216</u>
<b>31 December 2017 (audited)</b>				
Investments in real estate	26,303,595	2,832,128	(1,211,267)	27,924,456
Accumulated depreciation	(1,148,611)	(802,693)	51,798	(1,899,506)
<b>Total</b>	<u>25,154,984</u>	<u>2,029,435</u>	<u>(1,159,469)</u>	<u>26,024,950</u>
Real estate impairment provision	(4,131,018)	(421,504)	36,347	(4,516,175)
<b>Net</b>	<u>21,023,966</u>	<u>1,607,931</u>	<u>(1,123,122)</u>	<u>21,508,775</u>

- The fair value of investments in real estate portfolio amounted to JD 23,925,842 as of 30 June 2018 (JD 24,118,346 as of 31 December 2017).

**(13) Other Assets**

The details of this item are as follows:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Clearing cheques	3,189,086	25,937
Prepaid expenses	2,887,719	1,505,817
Accrued revenue	483,625	464,444
Assets seized by the Bank against due debts – Net **	2,121,827	2,042,354
Payment on investment in corporation account *	114,592	107,383
Others	952,935	555,372
<b>Total</b>	<b>9,749,784</b>	<b>4,701,307</b>

\* Islamic International Arab bank share in the establishment of the Islamic Banking Company of Jordan for investment activities and the group of Islamic banks to contribute to companies

The summary of the movement on the assets seized by the Bank against due debt was as follows:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Balance at the beginning of the year	2,047,225	1,921,224
Additions	269,344	126,001
Disposals	(189,871)	-
Impairment losses in real estate	(4,871)	(4,871)
Balance at the end of the period / year *	<u>2,121,827</u>	<u>2,042,354</u>

\*\* This balance represents the balance of assets seized by the Bank against distressed settlement of bad debts. The Bank is prohibited from disposing of these assets for one year from the date of registration of the real estate in the Banks name.

- The instructions of the Central Bank of Jordan require the disposal of properties that have been transferred to the Bank within a maximum period of two years from the date of the assignment. In exceptional cases, the Central Bank of Jordan may extend this period for a maximum of two consecutive years.

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**(14) Customers' Current Accounts**

The details of this item are as follows:

	Individuals	Corporate	Small and Medium enterprises	Government and Public Sector	Total
	JD	JD	JD	JD	JD
<b>30 June 2018 (Unaudited)</b>					
Current accounts	535,241,736	35,767,484	98,753,807	5,830,426	675,593,453
<b>Total</b>	<u>535,241,736</u>	<u>35,767,484</u>	<u>98,753,807</u>	<u>5,830,426</u>	<u>675,593,453</u>

	Individuals	Large corporate	Small and Medium Companies	Government and Public Sector	Total
	JD	JD	JD	JD	JD
<b>31 December 2017 (Audited)</b>					
Current accounts	548,572,457	43,501,500	109,301,605	4,698,137	706,073,699
<b>Total</b>	<u>548,572,457</u>	<u>43,501,500</u>	<u>109,301,605</u>	<u>4,698,137</u>	<u>706,073,699</u>

- Deposits of the Government of Jordan and public sector in the Kingdom amounted to JD 5,830,426 as at 30 June 2018- representing 0,86% of the total customers' current accounts (JD 4,698,137 as at 31 December 2017 equivalent to 0,66%).
- Restricted deposits amounted to JD 4,617,055 as at 30 June 2018 - representing 0,68% of the total customers' current accounts (JD 4,828,492 as at 31 December 2017 – equivalent to 0,68%).
- Dormant accounts amounted to JD 7,837,737 as at 30 June 2018 (JD 9,336,289 as at 31 December 2017).

**(15) Provision for income tax**

**a. Provision for Income Tax**

The movement on the income tax provision are as follows:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Balance at the beginning of the period / year	12,003,114	10,204,258
Income tax paid during the period / year	(11,876,238)	(12,892,799)
Income tax paid for the pervious years	-	(97,270)
Accrued income tax expense for the period / year	<u>7,688,702</u>	<u>14,788,925</u>
<b>Balance at the end of the period / year</b>	<u>7,815,578</u>	<u>12,003,114</u>

b. The income tax balance presented in the statement of income consists of the following:

	30 June 2018 JD (Unaudited)	31 December 2017 JD (Audited)
Accrued income tax of profit for period	7,688,702	7,037,437
Deferred tax assets for the period	(86,328)	(118,979)
Amortization of deferred tax assets	36,923	57,854
	<u>7,639,297</u>	<u>6,976,312</u>

- A final settlement was reached with the Income and Sales Tax Department until the end of the year 2015. Moreover, the tax return for the years 2016 and 2017 were submitted and the declared taxes were paid but not yet reviewed by the Income and Sales Tax Department.
- The accrued income tax for the period ended 30 June 2018 was calculated in accordance with the Income Tax Law in force.
- In the opinion of the management and the tax advisor, the provisions taken are sufficient to meet the tax liabilities as of 30 June 2018.

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C. Deferred tax assets / liabilities – (self – joint)

	30 June 2018 (Unaudited)				31 December 2017 (Audited)	
	Beginning balance for the year	Released amounts	Added amounts	The effect of implementing IFRS 9	Ending balance for the period	Deferred tax
	JD	JD	JD	JD	JD	JD
Accounts included						
1. Deferred tax assets - joint						
Revenue in suspense	766,169	61,871	221,822	-	926,120	268,159
	<u>766,169</u>	<u>61,871</u>	<u>221,822</u>	<u>-</u>	<u>926,120</u>	<u>268,159</u>
2. Deferred tax assets - self						
The effect of implementing IFRS 9	-	-	-	700,788	700,788	-
Provision for end-of-service indemnity	2,702,279	68,497	246,652	-	2,880,434	945,798
Impairment provision for expected credit losses	1,342,848	-	-	-	1,342,848	469,997
Provision for fees for lawsuits against the Bank	43,567	2,000	-	-	41,567	15,248
Impairment in the financial assets at fair value through shareholders' equity	2,727,786	-	-	-	2,727,786	954,725
Unacceptable tax expenses and deferred for years to come	70,000	35,000	-	-	35,000	24,500
	<u>6,886,480</u>	<u>105,497</u>	<u>246,652</u>	<u>700,788</u>	<u>7,728,423</u>	<u>2,410,268</u>
	<u>7,652,649</u>	<u>167,368</u>	<u>468,474</u>	<u>700,788</u>	<u>8,654,543</u>	<u>2,678,427</u>
Total						

- The joint-deferred tax assets amounted to JD 324,142 as of 30 June 2018 resulting from time differences of the revenue in suspense against unacceptable joint financing and deferred for years to come have been calculated at a tax rate of 35%. In the Management's opinion, these tax benefits from the investment risk fund will be utilized in the future.

- The self-deferred tax assets amounted to JD 2,704,948 as of 30 June 2018 resulting from time differences of the provision for end-of- service indemnity, provision for impairment in self – financings provision for fees on lawsuits against the Bank. impairment in financial assets and provision for operating losses and unacceptable tax expenses and deferred for years to come and IFRS 9 implementing have been calculated at a tax rate of 35%. In the Management's opinion, these tax benefits from profits will be utilized in the future.

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3. Deferred tax liabilities - self

	30 June 2018 (Unaudited)				31 December 2017 (Audited)
	Beginning balance for the year	Released amounts	Added amounts	Ending balance for the period	
	JD	JD	JD	JD	JD
Financial assets at fair value through shareholders' equity	649,069	108,515	-	540,554	227,174
	649,069	108,515	-	540,554	227,174
				189,194	
				189,194	

- The deferred tax liabilities amounted to JD 189,194 as of 30 June 2018 (JD 227,174 as of 31 December 2017) resulted from gains from valuation of financial assets presented within the fair value reserve of shareholders' equity.

The movement on the deferred tax assets and liabilities Joint was as follows:

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Assets	Liabilities	Assets	Liabilities
	JD	JD	JD	JD
Balance at the beginning of the year	268,159	-	257,342	-
Additions during the year	77,638	-	130,310	-
Amortized during the year	(21,655)	-	(119,493)	-
Balance at the end of the year	324,142	-	268,159	-



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The movement on the deferred tax assets and liabilities – Self are as follows:

	30 June 2018		31 December 2017	
	(unaudited)		(audited)	
	Assets	Liabilities	Assets	Liabilities
	JD	JD	JD	JD
Balance at the beginning of the period/ year	2,410,268	227,174	2,348,792	234,557
Additions during the period/ year	331,604	-	173,862	-
Amortized during the period/ year	(36,924)	(37,980)	(112,386)	(7,383)
<b>Balance at the end of the period/ year</b>	<b>2,704,948</b>	<b>189,194</b>	<b>2,410,268</b>	<b>227,174</b>

d. Summary of the Reconciliation between Accounting Income with Taxable Income:

	30 June 2018	31 December 2017
	JD	JD
	(unaudited)	(audited)
Accounting Income	23,347,023	43,525,153
Add: Unacceptable tax expenses	6,397,472	11,859,821
Tax-exempt Income	(61,871)	(341,408)
Other adjustments	(1,404,133)	(1,311,018)
Taxable Income	28,278,491	53,732,548
Effective income tax rate	%35	%35
Income Tax Provision - Net	9,897,472	18,806,392
Attributable to:		
Declared provision – Bank	7,688,702	14,788,925
Declared provision – Investment Risks Fund	1,781,167	3,233,085
Declared provision – Mutual insurance fund *	427,603	784,382
	9,897,472	18,806,392

\* The mutual insurance fund has been established to cover defaults on repayments due to death or total disability of the customers of sales receivables and financing as per the Fund's Articles of Association approved by the Central Bank of Jordan.

**(16) Other Liabilities**

The details of this item are as follows:

	30 June 2018	31 December 2017
	JD	JD
	(unaudited)	(audited)
Certified cheques	11,216,426	9,006,880
Promissory notes, bills of collection and inward transfers	6,650,537	5,730,484
Accrued and unpaid expenses	346,607	209,552
Customers' share of revenues from joint investments (saving and time deposits)	6,459,874	6,023,821
Customers' share of revenues from (cash margin)	152,968	175,458
Commissions received in advance	359,997	406,552
Temporary deposit's and others *	9,463,957	7,171,544
Expected credit loss provision (off balance sheet items) self (note 33)	641,294	-
Expected credit loss provision (off balance sheet items) joint (note 33)	314,943	-
Tax of mutual insurance fund	427,602	628,812
Board of Directors' remunerations	12,500	25,000
	<u>36,046,705</u>	<u>29,378,103</u>

- \* Includes intermediate accounts amounted to JD 3,720,830 as of 30 June 2018 (JD 4,992,379 as of 31 December 2017) representing accepted Letters of Credit and deferred bills from customers and transferred to deferred sales receivables. This amount will be paid at the maturity date.

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**(17) Unrestricted Investment Accounts**

The details of this item are as follows:

	Individuals		Corporates		Small and Medium enterprises		Government and Public Sector		Total	
	JD		JD		JD		JD		JD	
30 June 2018 (unaudited)										
Saving accounts	238,706,123		720,712		2,393,865		1,103		241,821,803	
Time deposits *	664,840,444		83,987,104		56,591,353		50,033,758		855,452,659	
Total	903,546,567		84,707,816		58,985,218		50,034,861		1,097,274,462	
Depositors' share of the investment returns	8,043,416		853,128		765,944		237,576		9,900,064	
<b>Total joint investment accounts</b>	<b>911,589,983</b>		<b>85,560,944</b>		<b>59,751,162</b>		<b>50,272,437</b>		<b>1,107,174,526</b>	
31 December 2017 (audited)										
Saving accounts	241,101,112		443,217		3,023,277		47,146		244,614,752	
Time deposits	627,686,284		75,672,225		55,824,618		39,013,403		798,196,530	
Total	868,787,396		76,115,442		58,847,895		39,060,549		1,042,811,282	
Depositors' share of the investment returns	14,403,029		2,444,867		1,170,914		749,487		18,768,297	
<b>Total joint investment accounts</b>	<b>883,190,425</b>		<b>78,560,309</b>		<b>60,018,809</b>		<b>39,810,036</b>		<b>1,061,579,579</b>	

\* Time deposits include amount of JD 11,847,632 as of 30 June 2018 (JD 10,621,470 as of 31 December 2017) (net after tax). the balance of the Mutual Insurance Fund which was established, during the year 2013, to cover defaults on repayments due to death or total disability of the customers of sales receivables and financing as per the Fund's Articles of Association approved by the Central Bank of Jordan.

- The joint investment accounts participate in profits based on the following:
  - 30% from the monthly balance of saving accounts.
  - 85% of the lowest balance of time deposits.
- The restricted accounts amounted to JD 1,274,278 as at 30 June 2018 (JD 1,290,432 as at 31 December 2017).
- The joint investment accounts of the Government of Jordan and Public Sector inside the Kingdom amounted to JD 50,272,437 as at 30 June 2018- representing 4.5% of the total joint investment accounts (JD 39,810,036 as at 31 December 2017- equivalent to 3.7%).
- Dormant accounts amounted to JD 2,876,410 as of 30 June 2018 (JD 2,561,621 as at 31 December 2017).

**(18) Investment Risk Fund**

a. The movement on the Investment Risk Fund is as follows:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Balance at the beginning of the period/year	42,313,499	36,061,933
Add: Transferred from joint investment revenue for the period / year – Statement	4,929,099	9,206,478
Transferred of Investment risk fund / real estate namaia	-	261,239
Balances settlement	-	1,392
Difference in transaction of foreign currencies	(1,422)	4,725
Less amortized losses during the period	(64,754)	-
Income tax	(1,725,185)	(3,222,268)
<b>Balance at the end of the period/ year</b>	<b>45,451,237</b>	<b>42,313,499</b>

The Fund's income tax item represents the following:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Accrued income tax on the transferred amounts from investment profits	1,781,167	3,233,085
Deferred tax assets	(77,638)	(130,310)
Amortization of deferred tax assets	21,656	119,493
	<b>1,725,185</b>	<b>3,222,268</b>

b. The Balance of the Investment Risk Fund is distributed as follows:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Against expected credit losses deferred sales receivables (note 6)	15,348,735	10,808,780
Provision for expected credit losses for Ijara Muntahia Bittamleek assets (note 8)	111,375	-
Provision for expected credit losses for financial assets at amortized cost (note 11)	205,190	-
Impairment against investment in real estate (note 12)	4,416,092	4,516,175
Impairment against assets seized by the bank against due debts (note 13)	4,871	4,871
Provision for expected credit losses of balance sheet items (note 16)	314,943	-
<b>Balance (unallocated part)</b>	<b>25,050,031</b>	<b>26,983,673</b>

- Deduction of 10% of the gross revenue of the joint investment accounts continues to be made until the Investment Risk Fund balance reaches 200% of the Bank's authorized and paid-up capital.
- The remaining balance represents the undistributed portion over the joint investments accounts.

The movement on the tax of the Investment Risk Fund is as follows:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Balance at the beginning of the period/year	2,594,950	2,279,185
<u>Less: Income tax paid</u>	( 2,594,950)	(2,915,928)
<u>Add: Accrued income tax for the period/year</u>	1,781,167	3,233,085
Settlement balances	-	(1,392)
<b>Balance at the end of the period/ year</b>	<b>1,781,167</b>	<b>2,594,950</b>

- A final settlement was reached with the Income and Sales Tax Department until the end of the year 2015. Moreover, the tax return for the year 2016 and 2017 was submitted and the declared taxes were paid but not yet reviewed by the Income and Sales Tax Department until the date of these financial statements.

#### **(19) General banking risk reserve**

The details of this item are as follows:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
The Balance at the beginning period / year	882,000	882,000
The effect of implementing IFRS no.(9) and CBJ regulations no. 13/2018 (note 21)	(882,000)	-
Balance at the end of the period/ year	-	882,000

#### **(20) Fair value reserve – Net**

The details of this item are as follows:

	Self	
	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Financial assets at fair value through shareholders' equity	351,359	421,895
<b>Balance at the end of the period / year</b>	<b>351,359</b>	<b>421,895</b>

The movement on the fair value reserve was as follows:

	Self	
	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Balance at the beginning of the Period / year	421,895	435,605
Unrealized (losses)	(108,515)	(21,093)
Released from the deferred tax liabilities	37,979	7,383
Balance at the End of the Period / Year	<u>351,359</u>	<u>421,895</u>

- The fair value reserve is stated at net (after deducting deferred tax liabilities-self) of JD 351,359 as of 30 June 2018 (JD 421,895 as of 31 December 2017).

## **(21) Retained earnings**

The effect of implementing of Islamic accounting earning item as follows:

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
the beginning of the period / year	43,281,000	28,835,811
Transferred from general banking risk reserve *	882,000	-
The effect of implementing IFRS 9	(455,512)	-
<b>Adjusted retained earning balance as of 1 January 2018</b>	<b>43,707,488</b>	<b>28,835,811</b>
The profit period / year	-	28,797,704
(Transferred) to the statutory reserve	-	(4,352,515)
Distributed profits **	(12,000,000)	(10,000,000)
<b>The balance at the end of period/ year</b>	<u><b>31,707,488</b></u>	<u><b>43,281,000</b></u>

\* The Central Bank of Jordan issued a new regulations No. 13/2018 dated 6 June 2018, in which it requested the transfer of the general banking risk reserve balance (calculated in accordance with the Central Bank of Jordan's regulations) to the retained earnings to offset the effect of IFRS 9 on the opening balance of the retained earnings account as of 1 January 2018. The regulations also instructs that the balance of the general banking risk reserve should be restricted and may not be distributed as dividends to the shareholders or used for any other purposes without prior approval from the Central Bank of Jordan.

\*\* On 28 March 2018, the Shareholders' General Assembly approved the distribution of cash dividends to the sole shareholder (Arab Bank) at an amount of JD 12,000,000, representing 12% of authorized and paid-up capital from the distributable retained earnings.

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**(22) Deferred Sales Revenues**

The details of this item are as follows:

	Joint		Self		Total	
	For the six-months period ended 30 June		For the six-months period ended 30 June		For the six-months period ended 30 June	
	2018	2017	2018	2017	2018	2017
	JD	JD	JD	JD	JD	JD
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Individuals (retail):</b>						
Murabaha to purchase order	9,035,254	8,173,106	-	-	9,035,254	8,173,106
Real estate financings	4,981,205	4,198,722	-	-	4,981,205	4,198,722
<b>Large Companies:</b>						
International Murabaha	1,315,334	594,061	-	-	1,315,334	594,061
Murabaha to purchase order	6,657,267	5,868,326	137	510	6,657,404	5,868,836
<b>Small and medium size enterprises:</b>						
Murabaha to purchase order	1,961,668	3,017,446	-	-	1,961,668	3,017,446
Deferred sales	-	8,736	-	-	-	8,736
<b>Total</b>	<b>23,950,728</b>	<b>21,860,397</b>	<b>137</b>	<b>510</b>	<b>23,950,865</b>	<b>21,860,907</b>

**(23) Revenue from Financing Investments**

The details of this item are as follows:

	Joint	
	For the six-months period ended 30 June	
	2018	2017
	JD	JD
	(Unaudited)	(Unaudited)
<b>Large companies:</b>		
Mudaraba	-	6,894

**(24) Real estate net (expenses)**

The details of this item are as follows:

	Joint	
	For the six-months period ended 30 June	
	2018	2017
	JD	JD
	(Unaudited)	(Unaudited)
Real estate rents	114,839	80,943
Losses from real estate sales	(321)	-
Depreciation of buildings	(411,584)	(376,523)
Other expenses	(84,384)	(53,910)
	<b>(381,450)</b>	<b>(349,490)</b>

**(25) Unrestricted investment accounts holders share**

The details of this item are as follows:

	For the six-months period ended 30 June	
	2018	2017
	JD	JD
	(Unaudited)	(Unaudited)
Customers:		
Revenue of investments saving	841,096	835,410
Revenue of investments time deposits accounts	9,495,020	8,381,713
Revenue of investments cash margin accounts	201,313	235,716
<b>Total</b>	<b>10,537,429</b>	<b>9,452,839</b>

**(26) Bank's share in income from joint investment as Mudarib and Fund Owner (Rab Al-Mal)**

The details of this item are as follows:

	For the six-months period ended 30 June	
	2018	2017
	JD	JD
	(Unaudited)	(Unaudited)
Bank's share as Mudarib	12,884,741	11,275,652
Bank's share as Fund Owner (Rab Al-Mal)	20,939,716	19,759,959
<b>Total</b>	<b>33,824,457</b>	<b>31,035,611</b>

**(27) Bank's Revenues from its own Investments**

The details of this item are as follows:

	For the six-months period ended 30 June	
	2018	2017
	JD	JD
	(Unaudited)	(Unaudited)
Deferred sales revenues (Note 22)	137	510
Revenue from Ijara muntahia bittamleek assets	14,642	13,495
Shares dividends	31,896	14,470
<b>Total</b>	<b>46,675</b>	<b>28,475</b>



**(28) Capital Management**

The Bank's Management takes into consideration the requirements of the Central Bank. These requirements necessitate making available sufficient self-funds to cover a specific rate of the risk-weighted assets consistent with the nature of the granted financing and direct investment for this purpose. Moreover, capital consists of what the Central Bank has determined as regulatory capital (being the primary capital and the supplementary capital).

The capital's Management aims at investing the funds in financial instruments with various risks (high risk and low risk) in order to realize a good return as well as to realize the capital adequacy ratio of 12% required by the Central Bank.

Capital adequacy ratio is calculated according to the Central Bank of Jordan regulations based on the Islamic Financial Services Board Regulations. The capital adequacy ratio compared with previous period:

	30 June 2018
	JD'000
	(Unaudited)
<b>Common Equity Tier 1 – net (CET1)</b>	167,256
Authorized and paid up capital	100,000
Statutory reserve	25,736
Voluntary reserve	4,262
The profit for the period (after tax)	15,708
Retained earnings	31,708
Fair value reserve	351
<b>Less:</b>	
Intangible assets	(405)
Profit proposed for distribution	(7,000)
Retained earnings restricted to use	(426)
Deferred tax assets – self and bank share - joint	(2,678)
<b>Tier 2</b>	<b>13,969</b>
Expected credit losses provisions against of direct and indirect facilities, self and the bank's share from joint	1,444
<b>The banks share from a surplus of investment risk fund - joint</b>	<b>12,525</b>
<b>Total regulatory capital</b>	<b>181,225</b>
<b>Total risk-weighted assets</b>	<b>968,339</b>
<b>Capital adequacy ratio (%)</b>	<b>%18.71</b>
<b>Primary capital ratio (%)</b>	<b>%17.30</b>

- The Central Bank of Jordan issued regulatory capital instructions in accordance with the amended Standard No. (15) issued by the Islamic Financial Services Board (IFSB) on February 4, 2018. The capital adequacy ratio has been calculated accordingly.

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	31 December 2017
	JD'000
	(Audited)
<b>Primary capital items</b>	<b>158,395</b>
Authorized and paid up capital	100,000
Statutory reserve	25,736
Voluntary reserve	4,262
The profit for the period (after tax)	
Retained earnings	28,871
<b>Less:</b>	
Intangible assets	(474)
<b>Additional capital</b>	
Fair value reserve	190
General banking risk reserve	882
The bank's share from general banking risk reserve - Joint	5,725
The banks share from a surplus of investment risk fund - joint	7,767
<b>Total regulatory capital</b>	<b>172,959</b>
Total risk-weighted assets	1,047,973
Capital adequacy ratio (%)	%16.5
Primary capital ratio (%)	%15.11

**(29) Cash and Cash Equivalent**

The details of this item are as follows:

	For the six months period ended 30 June	
	2018	2017
	JD	JD
	(Unaudited)	(Unaudited)
Cash and balances with the Central Bank maturing within six months	507,825,245	549,080,916
<u>Add:</u> Balances at banks and financial institutions maturing within six months	18,147,197	22,598,366
<u>Less:</u> Banks and financial institutions' accounts maturing within six months	(6,274,023)	(661,811)
	<u>519,698,419</u>	<u>571,017,471</u>

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**(30) Balances and transactions with related parties**

The Bank conducts transactions with shareholders, members of the Board of Directors, Executive Management, and Sister Companies in the ordinary course of its business using the Murabaha and commercial commissions rates and the following is a summary of the transactions with related parties:

	Arab Bank (Parent Company)	Members of the Board of Director	Subsidiaries of the Parent Companies	Member Of Shari'a Supervisory Board	Executive Management	Total
	JD	JD	JD	JD	JD	31 December 2017
					(Unaudited)	JD
					(Audited)	
<b>Statement of Financial Position Items:</b>						
Balances with banks and financial institutions	15,607,152	-	-	-	-	17,286,621
International Murabaha ( commodities investment)	120,343,082	-	-	-	-	107,071,059
Banks' and financial institutions accounts	399,936	-	-	-	-	255,616
Joint investment accounts and current accounts	-	16,872	-	63,313	1,147,055	886,604
Financial assets at fair value through shareholders' equity managed by sister company	-	-	5,390,244	-	-	5,498,759
Sales receivables and Ijara financings	-	631,076	-	32,546	1,667,260	1,580,404
<b>Off balance sheet items:</b>						
Guarantees	12,547,369	-	-	-	-	12,547,369
International Murabaha (Investment in Commodity)	120,541,011	-	-	-	-	96,558,033

For the six months ended 30 June

	2018	2017
	JD	JD
	(Unaudited)	(Unaudited)
Distributed profit – customer's deposits'	7,206	5,603
Received profit - receivables	27,384	42,945
Shares' dividends revenue	-	14,470
Received commissions-off statement of financial position	-	-
Salaries and remunerations *	31,338	31,338
Transportation – committees membership	1,130,450	1,049,781
	58,200	62,700

- The lowest Murabaha rate that the Bank received was (3%), and the highest Murabaha rate was (5.4%). Meanwhile, dividends distribution rate in JD was 2.876%.
- All financings granted to related parties are performing, and consequently, no related provisions have been booked.
- \* The Central Bank of Jordan Circular No. 10/2/4676 regarding the definition of Executive Management has been implemented.

**(31) Information about the Bank's business sectors**

**Information about the Bank's Activities**

The Bank is organized for administrative purposes. Whereby the sectors are measured in accordance with the reports used by the Bank's Executive Manager and decision-maker through the following three major sectors as follows:

**Individual (Retail) Banking**

This includes following up on the joint investment accounts, deferred sales receivables, financings, credit cards and other banking services.

**Companies Banking**

This includes following up on the joint investment accounts, deferred sales receivables, financings, credit cards and other banking services.

**Treasury**

This sector includes providing trading and treasury services and Bank's funds management.

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The following represents information about the Bank's business sectors distributed according to activities (amounts in 000 JD):

	Total					
	For the six months ended 30 June					
	2018		2017			
	Retail	Corporates	Treasury	Others	2018	2017
	JD	JD	JD	JD	JD (Unaudited)	JD (Unaudited)
Gross income (Joint and Self)	22,770	18,857	3,489	-	45,116	41,135
Share of Investment Risks Fund	-	(4,929)	-	-	(4,929)	(4,499)
Impairment in value of sales receivables and other receivables -self	-	(10)	-	-	(10)	(49)
Business Sector Results	22,770	13,918	3,489	-	40,177	36,587
Undistributed expenses	(6,565)	(1,885)	(139)	(8,241)	(16,830)	(16,099)
Profit before tax	16,205	12,033	3,350	(8,241)	23,347	20,488
Income tax	(5,302)	(3,937)	(1,096)	2,696	(7,639)	(6,976)
Profit for the period	10,903	8,096	2,254	(5,545)	15,708	13,512
Segment's assets	866,328	457,254	694,057	-	2,017,639	1,913,984
Undistributed assets to the sector	-	-	-	52,425	52,425	63,394
Total segment's assets	866,328	457,254	694,057	52,425	2,070,064	1,977,378
Segment's liabilities joint investment equity and investment risks fund for the sector	1,451,907	387,143	6,275	-	1,845,325	1,775,129
Segment's liabilities joint investment equity and investment risks fund undistributed to the sector	-	-	-	46,974	46,974	42,893
Total segment's liabilities	1,451,907	387,143	6,275	46,974	1,892,299	1,818,022
For the six months ended 30 June						
	2018		2017			
	JD		JD			
	(Unaudited)		(Unaudited)			
Capital cost	-	-	-	885	885	1,003
Depreciation and amortization	838	3	1	614	1,456	1,486

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**(32) Earnings per share**

The details of this item are as follows:

	For the six-months period ended 30 June	
	2018	2017
	JD	JD
	(Unaudited)	(Unaudited)
Income for the period	15,707,726	13,512,162
Weighted-average number of shares	100,000,000	100,000,000
Earnings per share for the period - basic diluted	0.157	0.135

**(33) Commitments and contingent liabilities (off – balance sheet)**

Credit Commitments and Obligations

	30 June 2018	31 December 2017
	JD	JD
	(Unaudited)	(Audited)
Letters of credit	24,251,249	25,781,677
Acceptances	4,446,283	5,882,171
Letters of guarantee:		
Payment	25,261,925	25,322,405
Performance	14,767,108	17,324,851
Others	9,756,350	13,864,772
Unutilized limits – self	48,240,800	52,904,723
Unutilized limits - joint	129,116,981	165,101,101
<b>Total</b>	<b>255,840,696</b>	<b>306,181,700</b>

The movement on indirect facilities and unutilized limits at the end of the period / self as follows:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Total balance at the beginning of period	141,040,206	-	40,393	141,080,599
New exposures during the period	48,309,069	-	-	48,309,069
Settled balances	(62,665,953)	-	-	(62,665,953)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
<b>Total balance at the end of period</b>	<b>126,683,322</b>	<b>-</b>	<b>40,393</b>	<b>126,723,715</b>

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The movement on expected credit loss for indirect facilities and unutilized limits at the end of period / self as follows:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
the beginning of period (adjusted)	641,294	-	-	641,294
Impairment loss on new exposures during the period	-	-	-	-
Impairment loss on matured exposures during the period	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Changes resulted about transfers	-	-	-	-
<b>Total balance at the end of period</b>	<b>641,294</b>	<b>-</b>	<b>-</b>	<b>641,294</b>

The movement on unutilized limits at the end of period – Joint as follows:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Total balance at the beginning of period (adjusted)	158,307,076	5,643,598	1,150,427	165,101,101
New exposures during the period	59,546,974	-	-	59,546,974
Settled balances matured exposures	(90,995,710)	(4,535,384)	-	(95,531,094)
Transferred to stage 1	702,738	(702,738)	-	-
Transferred to stage 2	(264,941)	264,941	-	-
Transferred to stage 3	(2,195,191)	-	2,195,191	-
<b>Total balance at the end of</b>	<b>125,100,946</b>	<b>670,417</b>	<b>3,345,618</b>	<b>129,116,981</b>

The movement on expected credit loss of unutilized limits at the end of period – Joint as follows:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
The beginning of period (adjusted)	382,307	-	-	382,307
Impairment loss on new exposures during the period	-	-	-	-
Impairment loss on matured exposures	-	-	-	-
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
The Effect on provision - as at end of period (adjusted) as a result of change in classification of three stages through the period (adjusted)	-	-	-	-
Changes resulted about modifications	(68,092)	728	-	(67,364)
<b>Total balance at the end of period</b>	<b>314,215</b>	<b>728</b>	<b>-</b>	<b>314,943</b>

Expected credit losses provision appeared for off balance sheet items self and Joint in other liabilities (note 16) according to IFRS 9 and Central Bank of Jordan regulations.

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14) Credit Risks

1- Distribution of exposures by economic sectors:

a) Total distribution of exposures by financial instrument (Net) as of 30 June 2018:

Item	Financial		Industry		Trade		Real estates		Agriculture		Stocks		Individuals		Government and public sector		Others		Total	
	JD		JD		JD		JD		JD		JD		JD		JD		JD		JD	
Balances with central banks	-		-		-		-		-		-		-		478,916,811		-		478,916,811	
Balances with banks and financial institutions	18,147,197		-		-		-		-		-		-		-		-		18,147,197	
Deposits with banks and financial institutions	-		-		-		-		-		-		-		-		-		-	
Credit facilities	-		116,426,277		345,236,290		140,791,439		20,390,407		-		757,458,970		-		72,519,218		1,452,822,601	
Within financial assets at amortized cost	10,696,698		-		-		-		-		-		-		22,492,465		-		33,189,163	
Derivatives of financial instruments	-		-		-		-		-		-		-		-		-		-	
Financial assets encumbered (debt instruments)	-		-		-		-		-		-		-		-		-		-	
Other assets	208,960		-		469,115		-		-		-		1,683,002		424,960		585,307		3,371,344	
<b>Gross total for the period</b>	<b>29,052,855</b>		<b>116,426,277</b>		<b>345,705,405</b>		<b>140,791,439</b>		<b>20,390,407</b>		<b>-</b>		<b>759,141,972</b>		<b>501,834,236</b>		<b>73,104,525</b>		<b>1,986,447,116</b>	
Financial guarantees	-		-		49,623,449		-		-		-		-		-		-		49,623,449	
Letters of credit	-		-		28,594,942		-		-		-		-		-		-		28,594,942	
Other obligations	-		23,652,220		74,489,078		25,039,238		2,893,632		-		9,976,808		-		40,615,092		176,666,068	
<b>Total</b>	<b>29,052,855</b>		<b>140,078,497</b>		<b>498,412,874</b>		<b>165,830,677</b>		<b>23,284,039</b>		<b>-</b>		<b>769,118,780</b>		<b>501,834,236</b>		<b>113,719,617</b>		<b>2,241,331,575</b>	



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b) Distribution of exposures by classification stages according to IFRS 9 (Net) as of 30 June 2018:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Financial	29,052,855	-	-	29,052,855
Industry	138,986,654	896,393	195,450	140,078,497
Trade	476,562,302	17,842,492	4,008,080	498,412,874
Real estates	159,687,931	5,890,299	252,447	165,830,677
Agriculture	22,990,284	293,755	-	23,284,039
Stocks	-	-	-	-
Individuals	756,914,351	11,294,457	909,972	769,118,780
Government and public sector	495,590,773	6,243,463	-	501,834,236
Other	108,108,835	2,265,065	3,345,717	113,719,617
Total	<u>2,187,893,985</u>	<u>44,725,924</u>	<u>8,711,666</u>	<u>2,241,331,575</u>

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2- Distribution of exposures by geographical distribution:

a) Total distribution of exposures by geographic region (Net) as of 30 June 2018:

Item	Inside the Kingdom		Other Middle Eastern countries		Europe		Asia		Africa		USA		Other countries		Total	
	JD		JD		JD		JD		JD		JD		JD		JD	
Balances with central banks	478,916,811		-		-		-		-		-		-		478,916,811	
Balances with banks and financial institutions	14,983,587		267,667		2,338,126		28,721		-		-		529,096		18,147,197	
Deposits with banks and financial institutions	-		-		-		-		-		-		-		-	
Credit facilities	1,294,673,576		116,931,057		26,144,837		15,073,131		-		-		-		1,452,822,601	
Within financial assets at amortized cost	9,053,700		24,135,463		-		-		-		-		-		33,189,163	
Other assets	2,935,517		388,068		38,888		8,871		-		-		-		3,371,344	
<b>Gross total for the period</b>	<b>1,800,563,191</b>		<b>141,722,255</b>		<b>28,521,851</b>		<b>15,110,723</b>		<b>-</b>		<b>-</b>		<b>529,096</b>		<b>1,986,447,116</b>	
Financial guarantees	49,623,449		-		-		-		-		-		-		49,623,449	
Letters of credit	28,594,942		-		-		-		-		-		-		28,594,942	
Other obligations	176,666,068		-		-		-		-		-		-		176,666,068	
total summation	<b>2,055,447,650</b>		<b>141,722,255</b>		<b>28,521,851</b>		<b>15,110,723</b>		<b>-</b>		<b>-</b>		<b>529,096</b>		<b>2,241,331,575</b>	

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b. Distribution of exposures by classification stages in accordance with IFRS 9 as at 30 June 2018:

Item	Stage 1 JD	Stage 2 JD	Stage 3 JD	Total JD
Inside the Kingdom	2,008,253,523	38,482,461	8,711,666	2,055,447,650
Other Middle Eastern countries	135,478,792	6,243,463	-	141,722,255
Europe	28,521,851	-	-	28,521,851
Asia	15,110,723	-	-	15,110,723
Africa	-	-	-	-
USA	-	-	-	-
Other countries	529,096	-	-	529,096
<b>Total</b>	<b>2,187,893,985</b>	<b>44,725,924</b>	<b>8,711,666</b>	<b>2,241,331,575</b>

**(35) Lawsuits against the Bank**

There are lawsuits raised against the Bank amounting to JD 656,139 with an impairment provision JD 41,567 as of 30 June 2018 (lawsuits amounting to JD 1,210,168 with an impairment provision JD 43,567 as of 31 December 2017). Based on the opinion of the legal consultant. No additional amounts will be claimed from the Bank in respect of those lawsuits.

**(36) Statutory Reserves**

The Bank didn't take any legal reserve as per the instruction of the Company's law since these financial statements are condensed interim. a provision will be taken at the end of the year.

**(37) Fair value hierarchy**

The standard requires the identification and disclosure of a level in the fair value hierarchy in which fair value measurements are categorized in full and the fair value measurements are classified according to the levels specified in IFRS. The difference between level (2) and level (3) for fair value measurements means assessing whether information or inputs are observable and the importance of information that is not observable, which requires careful judgment and analysis of the inputs used to measure fair value including consideration of all factors affecting asset or liabilities.

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- a. Fair value of the Bank's financial assets and financial liabilities specified in fair value on a recurring basis:

Some of the financial assets and financial liabilities of the Bank are valued at fair value at the end of each financial period. The table below provides information on how to determine the fair value of these financial assets and financial liabilities (valuation methods and inputs used).

	Fair value as at		Fair value hierarchy	Valuation methods and used Inputs	Significant unobservable inputs	Relationship of unobservable inputs and fair value
Financial assets / financial liabilities	30 June 2018	31 December 2017				
	JD (Unaudited)	JD (Audited)				
Financial assets at fair value:						
Financial assets at fair value through shareholders' equity - self						
Shares Quoted in the market:	5,390,244	5,498,759	Level 1	Quoted rates in the financial markets	Not applicable	Not applicable
Financial assets at fair value through Joint investment accounts holders equity						
Shares Not Quoted in the market	264,488	198,366				
<b>Total</b>	<b>5,654,732</b>	<b>5,697,125</b>				

There were no transfers between Level (1) and Level (2) during the first semiannual of 2018 and 2017.

- b. The Bank's Fair Value of Financial Assets and Financial Liabilities Not Measured at Fair Value on a Recurring Basis:

Except for what is detailed in the table below, we believe that the carrying amounts of the financial assets and financial liabilities presented in the Bank's financial statements approximate their fair values.

	30 June 2018		31 December 2017		
	Book value	Fair value	Book value	Fair value	Level
	JD (Unaudited)	JD (Unaudited)	JD (Audited)	JD (Audited)	
<b>Financial assets not determined at fair value</b>					
Deferred sales receivables	768,527,575	768,703,204	701,820,133	701,944,709	Level 2
Investments in real estate	20,985,216	23,925,842	21,508,775	24,118,346	Level 2
Financial assets at amortized cost	33,394,353	33,702,349	38,096,056	38,435,924	Level 1
<b>Total financial assets not measured at fair value</b>	<b>822,907,144</b>	<b>826,331,395</b>	<b>761,424,964</b>	<b>764,498,979</b>	
<b>Financial liabilities not determined at fair value</b>					
Customers' deposits	1,782,767,979	1,789,227,853	1,767,653,278	1,773,677,099	Level 2
Cash margins	29,452,645	29,605,613	35,652,339	35,827,797	Level 2
<b>Total financial liabilities not measured at fair value</b>	<b>1,812,220,624</b>	<b>1,818,833,466</b>	<b>1,803,305,617</b>	<b>1,809,504,896</b>	

Regarding the items described above the fair value of the financial assets and liabilities has been determined for Levels (2) and (3) in accordance with the generally accepted pricing models which reflect the credit risk with the parties dealt with.

**(38) Comparative figures**

Some comparative figures for the year 2017 were classified to match classification figures ended in June 2018.