بنك الاتحاد
Bank al Etihad

Ref: 3300/57/2019 الرقم: 2019/57/3300

Date: 01/04/2019 التاريخ: 2019/04/01

للاطلاع
* بورصة عمان
* السيد محمد
السيد عبدالله

Jordan Securities Commission
Amman Stock Exchange

السادة هيئة الاوراق المالية
السادة بورصة عمان

٢/٤

**Subject: Financial Statements for the fiscal year ended 31/12/2018**

**الموضوع: البيانات المالية السنوية للسنة المنتهية في 2018/12/31**

Attached are the English Financial Statements of Bank Al Etihad as of 31/12/2018 , which is subject to the Central Bank of Jordan approval.

مرفق طيه نسخة باللغة الانجليزية من البيانات المالية السنوية لبنك الاتحاد كما هي بتاريخ 2018/12/31 الخاضعة لموافقة البنك المركزي الاردني.

Best Regards,,,

وتفضلوا بقبول فائق الاحترام،،،

Nadia Al Saeed
Chief Executive Officer

ناديا السعيد
الرئيس التنفيذي

هيئة الأوراق المالية
الدائرة الإدارية / الديوان
٢ نيسان ٢٠١٩
الرقم المتسلسل ....٢٠١٨٦١....
الجهة المختصة ....

الإدارة العامة: هاتف ٥٦٠٧٠١١ ٦ ٩٦٢+ فاكس: ٥٦٦٦١٤٩ ٦ ٩٦٢+ ص.ب ٣٥١٠٤ عمان ١١١٨٠ الأردن
Head Office Tel: +962 6 5607011 Fax: +962 6 5666149 P.O.Box 35104 Amman 11180 Jordan www.bankaletihad.com info@bankaletihad.com

E-01-007-12

بنك الاتحاد
Bank al Etihad

Ref: 3300/57/2019

الرقم: 2019/57/3300

Date: 01/04/2019

التاريخ: 2019/04/01

Jordan Securities Commission
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السادة هيئة الاوراق المالية
السادة بورصة عمان

**Subject: Financial Statements for the fiscal year ended 31/12/2018**

**الموضوع: البيانات المالية السنوية للسنة المنتهية في 2018/12/31**

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مرفق طيه نسخة باللغة الانجليزية من البيانات المالية السنوية لبنك الاتحاد كما هي بتاريخ 2018/12/31 الخاضعة لمو افقة البنك المركزي الاردني.

Best Regards,,,

وتفضلوا بقبول فائق الاحترام،،،

Nadia Al Saeed
Chief Executive Officer

ناديا السعيد
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هاتف الإدارة العامة: ٥٦٠٧٠١١ ٦ ٩٦٢+ فاكس: ٥٦٦٦١٤٩ ٦ ٩٦٢+ ص.ب ٣٥١٠٤ عمان ١١١٨٠ الأردن
Head Office Tel: +962 6 5607011 Fax: +962 6 5666149 P.O.Box 35104 Amman 11180 Jordan www.bankaletihad.com info@bankaletihad.com

BANK AL ETIHAD
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - THE HASHEMITE KINGDOM OF JORDAN

CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31,2018
TOGETHER WITH THE AUDIT REPORT

BANK AL ETIHAD
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - THE HASHEMITE KINGDOM OF JORDAN
DECEMBER 31,2018

TABLE OF CONTENTS

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# Audit Report on the Consolidated Financial Statements

AM/ 010932

To the Board of Directors Chairman and Members
Bank Al Etihad
(A Public Shareholding Limited Company)
Amman - The Hashemite Kingdom of Jordan

## Opinion

We have audited the financial statements of Bank Al Etihad (A Public Shareholding Limited Company) "The Bank or the Group", which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in owners' equity, and consolidated statement of cash flows for the year and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## Basis for Opinion

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

## Other Matter

The accompanying consolidated financial statement are a translation of the original consolidated financial statements, which are in the Arabic language, to which reference should be made.

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## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

For each matter below, our description of how our audit addressed the matter is provided in that context.

| Key Audit Matters | Scope of Audit to Address the Risks |
|---|---|
| **1. Impairment in the credit facilities portfolio**<br>The Bank's management exercises significant judgment and uses assumptions to determine both the timing and amount of the provision to be recorded as expected credit losses.<br><br>Credit facilities are a major part of the Bank's assets. Due to the importance of the judgments used in the classification of credit facilities at the various stages set forth in International Financial Reporting Standard (9) and the related provision requirements, credit facilities have been considered as key audit risks.<br><br>The Bank's total direct credit facilities amounted to about JD 2.382 million, and the related provision for expected credit losses to JD 88 million, which includes a provision of JD 18 million against the exposures of Stage (1) and Stage (2) of about JD 70 million against the exposures classified within Stage (3).<br><br>The accounting policy related to expected credit loss provision is set out in note (2) in the consolidated financial statements. The expected credit loss provision for credit facilities is set out in note (9). | We have understood the Bank's key credit operations that include granting, certifying, controlling, and allocating provisions and reviewing the internal control system on these operations.<br><br>We have also examined the operational effectiveness of key control over these operations, read out the policy of determining the Bank's expected credit loss provision, and compared it with the requirements of IFRS 9 and the Central Bank's instructions in this regard.<br><br>Furthermore, we have understood the methodology used by the Bank to determine the provisions against the exposures classified as in (Stages I, II and III).<br><br>In this regard, we have selected a sample of credit facilities and conducted the following:<br><br>- Estimated the reasonableness of the basic assumptions and adequacy of the data used by the Bank.<br>- Reviewed the completeness of credit facilities included in the calculation process of the expected credit loss.<br>- Reviewed the appropriateness of the Bank's determination of the significant increase in credit risk and the basis for the classification of exposures into different stages.<br>- Reviewed the appropriateness of determining exposure when default occurs, probability of default, and loss in the event of default in calculating the expected credit loss of a sample of exposures. |

| Key Audit Matters | Scope of Audit to Address the Risks |
|---|---|
| | - Examined a sample of credit facilities whose impairment has been determined individually and classified as in Stage (3).<br><br>- Examined Management's estimate of future cash flows and their reasonableness, as well as the outcome of the calculation of provisions. Where appropriate, we have used experts to satisfy ourselves as to the integrity of that data. |
| **2. Application of International Financial Reporting Standard (9)**<br>The International Accounting Standards Board issued International Financial Reporting Standard (9) *"Financial Instruments"*, which replaces International Accounting Standard (39). The Bank has retroactively adopted International Financial Reporting Standard (9) as from January 1, 2018 without restating the comparative figures in accordance with the above standard.<br><br>The differences between the previously recorded carrying values and the new carrying values of the financial instruments of JD 12 million as at December 31, 2017 and January 1, 2018 have been recognized in the retained earnings opening balance.<br><br>The principal changes resulting from the adoption of International Financial Reporting Standard (9) are that the Bank's credit losses are currently based on the expected loss approach instead of the incurred loss method, and the change in the classification and measurement of the Bank's financial assets and liabilities. The related details are stated in Note (3) to the consolidated financial statements.<br><br>The significant accounting policies, accounting estimates and credit risk management disclosures are set out in Notes (2), (3), and (44) to the consolidated financial statements. | We have complied with the Bank's policy for the classification and measurement of financial assets and liabilities in accordance with International Financial Reporting Standard (9) and have compared them with the requirements of International Financial Reporting Standard (9) and the regulatory directives in this regard.<br><br>We have also understood the expected credit loss methodology adopted by the Bank through using experts, where appropriate, to satisfy ourselves about these data, which included several items, the most important of which are:<br><br>• Reviewing the Bank's policy on credit loss provision in accordance with International Financial Reporting Standard (9).<br><br>• Identifying a significant increase in credit risk.<br><br>• Classifying credit exposures into various stages, through studying a sample of credit facilities granted by the Bank.<br><br>• Understanding the key data sources and assumptions used in the Expected Credit Loss Models to determine the expected credit loss provisions and the forecast assumptions used in calculating the related expected credit loss.<br><br>• Reviewing the amount of exposure when a payment is impaired for a sample of exposures. |

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| Key Audit Matters | Scope of audit to address the risks |
|---|---|
| | • Reviewing the probability of default in the calculation of expected credit loss calculated based on several economic cycles with the information declared and appropriate, and turning it into the probability of default in accordance with a specific economic cycle.<br><br>• Reviewing the calculation of expected credit loss in case of default in use, including the adequacy of collateral and consequential calculations.<br><br>• Reviewing the effect of the adjustments on the beginning balances as of January 1, 2018.<br><br>• Reviewing the completion of credit facilities, investment securities and deposits used in the calculation of expected credit loss as of January 1, 2018.<br><br>• Estimating the financial statements disclosures arising from implementing IFRS (9) to determine whether they are in accordance with the standard requirements and instructions of the Central Bank of Jordan in this regard. |
| **3. Suspension of interests on non-performing loans**<br><br>Interest is suspended after 90 days from the impairment event (default date) in accordance with the Central Bank of Jordan's regulations. Judgment is exercised to determine when the default date occurs which affects the amount of interest to be suspended.<br><br>The disclosures related to suspended interest on non-performing loans are stated in Note (9) within the consolidated financial statements. | Our audit procedures included the assessment of the framework used and the adequacy of the assessments frameworks and the inputs used to estimate the non-trading investments. As part of the audit procedures, we have reviewed the reasonableness of the main inputs used in the estimation process such as the expected cash flows, and inflation rates through comparing them with market information. |

**Other Information**

Management is responsible for other information. Other information consists of information provided in the annual report other than the consolidated financial statements and the related auditor's report. We expect that the annual report will be provided to us after the date of our report. Our opinion on the consolidated financial statements does not include other information, and we do not express any form of assurance or conclusion thereon.

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

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**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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- Obtain sufficient and appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group ("The Bank and its subsidiaries") to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and implementation of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on Other Legal and Regulatory Requirements**
The Bank maintains proper books of accounts, which are in agreement with the consolidated financial statements. We recommend that the General Assembly of Shareholders approve these consolidated financial statements.

**Amman – The Hashemite Kingdom of Jordan**
**February 17, 2019**

**Deloitte & Touche (M.E.) – Jordan**

Deloitte & Touche (M.E.)
ديلويت آند توش (الشرق الأوسط)
010105

BANK AL ETIHAD

(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - THE HASHEMITE KINGDOM OF JORDAN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| | | JD | JD |
| Assets: | | | |
| Cash and balances at the Central Bank of Jordan | 5 | 333,205,500 | 338,311,743 |
| Balances at banks and financial institutions | 6 | 248,264,111 | 326,075,874 |
| Deposits at banks and financial institutions | 7 | 4,258,890 | 8,325,098 |
| Financial assets at fair value through profit or loss | 8 | 13,478,492 | 7,509,280 |
| Direct credit facilities and financing - net | 9 | 2,277,918,456 | 2,084,327,989 |
| Financial assets at fair value through other comprehensive income | 10 | 28,530,920 | 30,877,736 |
| Financial assets at amortized cost | 11 | 765,692,190 | 617,696,128 |
| Investments in associates | 12 | 376,618 | 377,262 |
| Property and equipment - net | 13 | 74,486,185 | 70,968,060 |
| Deferred tax assets | 21/b | 11,957,746 | 4,559,081 |
| Intangible assets - net | 14 | 22,186,281 | 20,945,239 |
| Other assets | 15 | 87,713,743 | 62,301,763 |
| TOTAL ASSETS | | 3,868,069,132 | 3,572,275,253 |
| LIABILITIES AND OWNERS' EQUITY: | | | |
| LIABILITIES: | | | |
| Banks and financial institutions deposits | 16 | 96,687,828 | 58,873,920 |
| Customers' deposits | 17 | 2,988,949,545 | 2,691,335,921 |
| Cash margins | 18 | 141,814,536 | 210,088,710 |
| Borrowed funds | 19 | 85,236,262 | 88,211,995 |
| Sundry provisions | 20 | 1,232,609 | 234,615 |
| Income tax provision | 21/a | 18,199,119 | 14,773,872 |
| Other liabilities | 22 | 68,702,089 | 50,245,187 |
| TOTAL LIABILITIES | | 3,400,821,988 | 3,113,764,220 |
| OWNERS' EQUITY: | | | |
| BANK'S SHAREHOLDERS' EQUITY: | | | |
| Paid-up capital | 23 | 160,000,000 | 160,000,000 |
| Share premium | 23 | 80,213,173 | 80,213,173 |
| Statutory reserve | 24 | 49,410,187 | 42,668,849 |
| Optional reserve | 24 | 34,279,172 | 29,271,414 |
| General banking risks reserve | 24 | - | 14,034,670 |
| Fair value reserve | 26 | (727,049) | 1,191,589 |
| Retained earnings | 27 | 53,566,049 | 43,243,353 |
| TOTAL BANK'S SHAREHOLDERS' EQUITY | | 376,741,532 | 370,623,048 |
| Non-controlling interests | | 90,505,612 | 87,887,985 |
| TOTAL OWNERS' EQUITY | | 467,247,144 | 458,511,033 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | | 3,868,069,132 | 3,572,275,253 |

THE ACCOMPANYING NOTES FROM (1) TO (50) CONSTITUTE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM AND WITH THE AUDIT REPORT.

BANK AL ETIHAD

(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - THE HASHEMITE KINGDOM OF JORDAN

CONSOLIDATED STATEMENT OF INCOME

| | Note | For the Year Ended December 31, 2018 | 2017 |
|---|---|---|---|
| | | JD | JD |
| Interest income and returns | 30 | 216,761,089 | 186,859,033 |
| Interest expenses | 31 | 88,809,011 | 72,169,059 |
| Net Interest Income and Returns | | 127,952,078 | 114,689,974 |
| Net commission income | 32 | 23,849,404 | 21,399,045 |
| Net interest, returns and commission income | | 151,801,482 | 136,089,019 |
| Gain from foreign currencies | 33 | 5,854,006 | 5,525,404 |
| (Loss) gain from financial assets at fair value through profit or loss | 34 | (2,455,797) | 3,358,359 |
| Net (losses) from sale of financial assets at amortized costs | | (3,037) | - |
| Gains from financial assets at fair value through other comprehensive income | 35 | 1,026,133 | 938,772 |
| Other income | 36 | 1,337,196 | 1,201,429 |
| Total Income | | 157,559,983 | 147,112,983 |
| | | | |
| Employees' expenses | 37 | 43,123,071 | 39,980,839 |
| Depreciation and amortization | 13 and 14 | 11,025,351 | 10,332,667 |
| Other expenses | 38 | 28,705,188 | 27,034,084 |
| Allowance for expected credit loss | 28 | 10,935,812 | 15,776,785 |
| Provision for impairment of foreclosed assets | 15 | 200,000 | 1,753,468 |
| Sundry provisions | 20 | 1,048,709 | 107,496 |
| Total Expenses | | 95,038,131 | 94,985,339 |
| Profit from operations | | 62,521,852 | 52,127,644 |
| Bank's share from associates profits | | 8,356 | 16,900 |
| Profit for the year before tax | | 62,530,208 | 52,144,544 |
| Income tax expense | 21/a | (21,444,297) | (17,345,461) |
| Profit for the Year | | 41,085,911 | 34,799,083 |
| | | | |
| Attributable to: | | | |
| Bank's Shareholders | | 35,736,582 | 31,364,269 |
| Non-Controlling Interests | | 5,349,329 | 3,434,814 |
| | | 41,085,911 | 34,799,083 |
| | | | |
| | | JD/ FILS | JD/ FILS |
| Basic and diluted earnings per share for the period attributable to the Bank's Shareholders | 39 | -/223 | -/209 |

THE ACCOMPANYING NOTES FROM (1) TO (50) CONSTITUTE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM AND WITH THE AUDIT REPORT.

BANK AL ETIHAD

(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - THE HASHEMITE KINGDOM OF JORDAN

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Profit for the Year | 41,085,911 | 34,799,083 |
| Other comprehensive income items which may be reclassified to profit or loss in the subsequent period | | |
| Net change in fair value reserve after tax | (2,104,192) | (1,481,941) |
| Total Comprehensive Income for the Year | 38,981,719 | 33,317,142 |
| Attributable to: | | |
| Bank's Shareholders | 33,650,791 | 29,882,698 |
| Non-Controlling Interests | 5,330,928 | 3,434,444 |
| | 38,981,719 | 33,317,142 |

THE ACCOMPANYING NOTES FROM (1) TO (50) CONSTITUTE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM AND WITH THE AUDIT REPORT.

BANK AL ETIHAD

(A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - THE HASHEMITE KINGDOM OF JORDAN

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

| | Paid-up | | Reserves | | | | * Retained Earnings | | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Share Premium | Statutory | Voluntary | General Banking Risks | Fair Value | Realized | Unrealized | Total | Shareholder's Equity | Non-Controlling Interest | Owners' Equity |
| For the Year Ended December 31, 2018 | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Beginning balance for the year | 160,000,000 | 80,213,173 | 42,668,849 | 29,271,414 | 14,034,670 | 1,191,589 | 38,145,782 | 5,097,571 | 43,243,353 | 370,623,048 | 87,887,985 | 458,511,033 |
| Effect of implementation of International Financial Reporting Standard No. (9) | - | - | - | - | - | - | (17,707,818) | 6,168,660 | (11,539,158) | (11,539,158) | (122,931) | (11,662,089) |
| Transferred from general banking risks | - | - | - | - | (14,034,670) | - | 14,034,670 | - | 14,034,670 | - | - | - |
| Adjusted beginning balance | 160,000,000 | 80,213,173 | 42,668,849 | 29,271,414 | - | 1,191,589 | 34,472,634 | 11,266,231 | 45,738,865 | 359,083,890 | 87,765,054 | 446,848,944 |
| Total comprehensive income for the year | - | - | - | - | - | (2,085,791) | 35,127,449 | 609,133 | 35,736,582 | 33,650,791 | 5,330,928 | 38,981,719 |
| Transferred during the year | - | - | 6,741,338 | 5,007,758 | - | - | (11,749,096) | - | (11,749,096) | - | - | - |
| Distributed dividends (note 23) | - | - | - | - | - | - | (16,000,000) | - | (16,000,000) | (16,000,000) | (2,602,635) | (18,602,635) |
| Realized gain from sold financial assets at fair value through other comprehensive income | - | - | - | - | - | 167,153 | (167,153) | - | (167,153) | - | - | - |
| Effect of disposal of a subsidiary | - | - | - | - | - | - | 6,851 | - | 6,851 | 6,851 | 12,265 | 19,116 |
| Ending Balance for the Year | 160,000,000 | 80,213,173 | 49,410,187 | 34,279,172 | - | (727,049) | 41,690,685 | 11,875,364 | 53,566,049 | 376,741,532 | 90,505,612 | 467,247,144 |
| For the Year Ended December 31, 2017 | | | | | | | | | | | | |
| Beginning balance for the year | 125,000,000 | 71,463,173 | 37,340,305 | 24,932,207 | 14,730,577 | 1,555,417 | 33,430,445 | 1,625,529 | 35,055,974 | 310,077,653 | 126,000 | 310,203,653 |
| Total comprehensive income for the year | - | - | - | - | - | (1,481,571) | 28,575,470 | 2,788,799 | 31,364,269 | 29,882,698 | 3,434,444 | 33,317,142 |
| Transferred during the year | - | - | - | - | - | - | (683,243) | 683,243 | - | - | - | - |
| Transfers to reserves | - | - | 5,328,544 | 4,339,207 | (695,907) | - | (8,971,844) | - | (8,971,844) | - | - | - |
| Distributed dividends (note 23) | - | - | - | - | - | - | (12,500,000) | - | (12,500,000) | (12,500,000) | - | (12,500,000) |
| Realized loss from sale of financial assets at fair value through other comprehensive income | - | - | - | - | - | 1,117,743 | (1,117,743) | - | (1,117,743) | - | - | - |
| Shares of non-controlling interests resulting from the acquisition of a subsidiary | - | - | - | - | - | - | - | - | - | - | 84,564,325 | 84,564,325 |
| Increase in paid-up capital | 35,000,000 | 8,750,000 | - | - | - | - | - | - | - | 43,750,000 | - | 43,750,000 |
| Expenses on increasing paid-up capital | - | - | - | - | - | - | (587,303) | - | (587,303) | (587,303) | (236,784) | (824,087) |
| Ending Balance for the Year | 160,000,000 | 80,213,173 | 42,668,849 | 29,271,414 | 14,034,670 | 1,191,589 | 38,145,782 | 5,097,571 | 43,243,353 | 370,623,048 | 87,887,985 | 458,511,033 |

- The retained earnings balance includes deferred tax assets of JD 11,957,746 as of December 31, 2018 (JD 4,559,081 as of December 31, 2017), which is restricted from use according to the Central Bank of Jordan.

- The retained earnings balance includes an amount of JD 82,382 that represents losses from differences oon the revaluation of financial assets at fair value through profit and loss.

- It is forbidden to use the excess from the personal financial risk reserve balance and the amount of JD 108,397 transferred to retained earnings as of December 31, that belongs to Safwa Islamic Bank without an acceptance from the central bank

* It is restricted to use an amount of JD 727,049 from the retained earnings which represents the negative balance for the fair value reserve as of December 31, 2018.

THE ACCOMPANYING NOTES FROM (1) TO (50) CONSTITUTE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM AND WITH THE AUDIT REPORT.

BANK AL ETIHAD

( A PUBLIC SHAREHOLDING LIMITED COMPANY)

AMMAN - THE HASHEMITE KINGDOM OF JORDAN

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | For the Year Ended December 31, 2018 | 2017 |
|---|---|---|---|
| | | JD | JD |
| Operating Activities | | | |
| Profit before income tax | | 62,530,208 | 52,144,544 |
| Adjustments for non-cash items: | | | |
| Depreciation and amortization | 13 & 14 | 11,025,351 | 10,332,667 |
| Provision for expected credit loss | 28 | 10,935,812 | 15,776,785 |
| Provision for impairment in foreclosed assets | 15 | 200,000 | 1,753,468 |
| Unrealized Losses (gains) from financial assets | 34 | 1,002,899 | (432,207) |
| Loss from sale of property and equipment | 38 | 315,651 | 268,463 |
| Sundry provisions | 20 | 1,048,709 | 107,496 |
| Banks' share from associates' profits | 12 | (8,356) | (16,900) |
| (Gains) from sale of foreclosed assets against debts | 36 | (208,038) | - |
| Effect of disposal of subsidary company | | 19,116 | - |
| Differences in exchange rates on cash and cash equivalents | | (1,914,563) | (2,796,196) |
| Profit before changes in assets and liabilities | | 84,946,789 | 77,138,120 |
| CHANGES IN ASSETS AND LIABILITIES: | | | |
| (Increase) decrease in restricted cash balances | | (736,983) | 119,351 |
| (Increase) decrease in financial assets at fair value through other comprehensive income | | (6,972,111) | 16,223,509 |
| Decrease (increase) in banks and financial institutions' deposits with maturity exceeding 3 months | | 4,065,637 | (3,232,271) |
| Decrease in deposits at banks and financial institutions with maturity exceeding 3 months | | 8,500,000 | 3,000,000 |
| (Increase) in direct credit facilities | | (221,433,607) | (113,291,334) |
| (Increase) in other assets | | (25,403,942) | (7,349,025) |
| Increase in customers deposits | | 297,613,624 | 78,304,949 |
| (Decrease) increase in cash margins | | (68,274,174) | 25,701,024 |
| Increase in other liabilites | | 17,074,372 | 6,925,865 |
| Net Cash Flows from Operating Activities Before Tax and Provisions Paid | | 89,379,605 | 83,540,188 |
| Income tax paid | a/21 | (18,402,776) | (17,920,819) |
| Sundry Provisions Paid | 20 | (50,715) | - |
| Net Cash Flows from Operating Activities | | 70,926,114 | 65,619,369 |
| Investing Activities | | | |
| (Purchase) of financial assets at fair value through comprehensive income | | (603,655) | (2,178,302) |
| (Purchase) of financial assets at amortized cost | | (147,474,105) | (90,729,136) |
| (Purchase) of property and equipment | | (11,949,707) | (9,417,583) |
| Proceeds from sale of property and equipment | 13 | 408,117 | 167,284 |
| Matured financial assets at amortized cost | 14 | (4,558,579) | (1,760,039) |
| Proceeds from acquisitions | | - | 164,854,581 |
| Cash dividends collected in associates | 12 | 9,000 | 10,000 |
| Net Cash Flows (used in) from Investing Activities | | (164,168,929) | 60,946,805 |
| Financing Activities | | | |
| Dividends distributed to shareholders | | (18,522,953) | (12,498,396) |
| (Decrease) increase in borrowing | | (2,975,733) | 31,342,749 |
| Increase in capital | | - | 35,000,000 |
| Increase in share premium | | - | 8,750,000 |
| Increase in capital fees | | - | (824,087) |
| - Non-controlling intersets | | - | (126,000) |
| Net Cash Flows (used in) from Financing Activities | | (21,498,686) | 61,644,266 |
| Net (decrease)increase in cash and cash equivalent | | (114,741,501) | 188,210,440 |
| Effect of the change in exchange rates on cash and cash equivalents | | 1,914,563 | 2,796,196 |
| Cash and cash equivalents - Beginning of the year | | 600,016,203 | 409,009,567 |
| Cash and cash equivalents - Ending of the Year | 40 | 487,189,265 | 600,016,203 |

THE ACCOMPANYING NOTES FROM (1) TO (50) CONSTITUTE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM AND WITH THE AUDIT REPORT.

BANK AL ETIHAD
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - THE HASHEMITE KINGDOM OF JORDAN
NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

## 1. GENERAL

- Bank Al Etihad is a public shareholding company incorporated in Jordan during 1978, in accordance with the Companies Law No (12) of (1964). Its main branch is located in Amman, and it was transformed to a bank during the year 1991.

- The Bank provides its financial and banking services through its main branch located in Amman and through its (48) branches and its subsidiaries in Jordan.

- The Bank's shares are listed and traded on Amman Stock Exchange - Jordan.

- The consolidated financial statements were approved by the Audit Committee on February 7, 2019, based on the authorization of the Bank's Board of Directors, subject to the approval of the General Assembly of Shareholders.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

- The accompanying consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with the standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpertation Committee arising from the International Accounting Standrads Committee, and in conformity with the local applicable laws and regulations and the regulations of the Central Bank of Jordan.

- The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that have been measured at fair value at the end of each financial period, as described in the accounting policies below.

- The reporting currency of the consolidated financial statements is the Jordanian Dinar, which is the functional currency of the Bank.

- The accounting policies adopted in preparing the consolidated financial statements are consistent with those applied in the year ended December 31, 2017 except for the effect of what is stated in Note (3 - a & 3 - b):

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries under its control. Meanwhile, control exists when the Bank has control over the investee company, or it is exposed to variable returns or holds rights for its participation in the investee company, and the Bank is able to use its control over the investee company to affect those returns.

- The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control listed above.

- When the Bank has less than the majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. In this regard, the Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders.
- Potential voting rights held by the Company, other vote holders or other parties.
- Rights arising from other contractual arrangements.
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

- All balances, transactions, income, and expenses between the Bank and its subsidiaries are eliminated.
- The subsidiaries financial statements are prepared under the same accounting policies adopted by the Bank. If the subsidiaries apply different accounting policies than those used by the Bank, the necessary modifications shall be made to the subsidiaries' financial statements to make them comply with the accounting policies used by the Bank.
- The results of the subsidiaries' operations are consolidated in the consolidated statement of income effective from their acquisition date, which is the date on which control over subsidiaries is effectively transferred to the Bank. Furthermore, the results of the disposed of subsidiaries are consolidated in the consolidated statement of income up to the date of their disposal, which is the date on which the Bank loses control over the subsidiaries.
- The non-controlling interests represent the portion not owned by the Bank in the subsidiaries. Non-controlling interests are shown in the subsidiaries' net assets as a separate line item within the Bank's statement of shareholders' equity.

The Bank owns the following subsidiaries as of December 31, 2018:

| Company's Name | Paid-up Capital | Ownership of the Bank | Nature of Operation | Date of Acquisition | Location |
|---|---|---|---|---|---|
| | JD | % | | | |
| Al-Etihad for Financial Brokerage Company L.L.C. | 5,000,000 | 100 | Financial Brokerage | 2006 | Jordan |
| Al-Etihad for Financial Leasing Company L.L.C | 7,500,000 | 100 | Finance Leasing | 2015 | Jordan |
| Al-Etihad Islamic Investment Company L.L.C | 65,562,636 | 58 | Acquisition of bonds and shares in companies and borrowing the necessary funds from banks | 2016 | Jordan |

Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect the investee's returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control listed above.

When the Bank has less than the majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. In this regard, the Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

When it loses control of a subsidiary, the Bank performs the following;

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the book value of any non-controlling interests.
- Derecognizes transfer differences accumulated in Owners' Equity.
- Derecognizes the fair value to the next controlling party.
- Derecognizes the fair value of any investment retained.
- Derecognizes any gain or loss in the income statement.
- Reclassifies owners' equity already booked in other comprehensive income to the profit or loss statement as appropriate.

The subsidiaries' financial statements are prepared under the same accounting policies adopted by the Bank. If the subsidiaries apply different accounting policies than those used by the Bank, the necessary modifications shall be made to the subsidiaries' financial statements to make them comply with the accounting policies used by the Bank.

The non-controlling interests represent the portion not owned by the Bank relating to ownership of the subsidiaries.

Segment Information

- Business sectors represent a group of assets and operations that jointly provide products or services subject to risks and returns different from those of other business sectors measured in accordance with the reports sent to the operations management and decision makers in the Bank.

- The geographical sector relates to providing products or services in a specific economic environment subject to risk and returns different from those of sectors functioning in other economic environments.

Net Interest Income

Interest income and expense for all financial instruments, except for those classified as held for trading, or those measured or designated as at fair value through the statement of income, are recognized in 'Net interest income' as 'Interest income' and 'Interest Expense' in the statement of income using the effective interest method. Interest on financial instruments measured as at fair value through the statement of income is included within the fair value movement during the period.

The effective interest rate (EIR) is the rate that exactly discounts the estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at fair value through profit or loss, transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets, interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI), EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income and expense in the Group's consolidated statement of income also includes the effective portion of the fair value changes of derivatives designated as hedging instruments in the cash flow hedges of interest rate risk. For fair value hedges of interest rate risk related to interest income and expense, the effective portion of the fair value changes of the designated derivatives, as well as the fair value changes of the designated risk of the hedged item, are also included in interest income and expense.

Net Fee and Commission Income

Fee and commission income and expense include fees other than those that are an integral part of EIR. The fees included in this part of the Group's consolidated statement of income include, among other things, fees charged for servicing a loan, non-utilization fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement, and loan syndication fees.

Fee and commission expenses concerning services are accounted for as the services are received.

Net Trading Income

Net trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading. The Group has elected to present the full fair value movement of trading assets and liabilities in trading income, including any related interest income, expense, and dividends.

Net Income from Other Financial Instruments at Fair Value through the Statement of Income

Net income from other financial instruments at fair value through the statement of income includes all gains and losses from changes in the fair value of financial assets and financial liabilities at fair value through the statement of income except those that are held for trading. The Group has elected to present the full fair value movement of assets and liabilities at fair value through the statement of income in this line, including the related interest income, expense, and dividends.

The fair value movement on derivatives held for economic hedging where hedge accounting is not applied is presented in 'Net income from other financial instruments at fair value through the statement of income'. However, for designated and effective fair value hedge accounting relationships, the gains and losses on the hedging instrument are presented in the same line in the statement of income as the hedged item. For designated and effective cash flow and net investment hedge accounting relationships, the gains and losses of the hedging instrument, including any hedging ineffectiveness included in statement of income, are presented in the same line as the hedged item that affects the statement of income.

Dividend Income
Dividend income is recognized when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the consolidated statement of income depends on the classification and measurement of the equity investment, i.e.:

- For equity instruments which are held for trading, dividend income is presented as trading income; and
- For equity instruments designated at fair value through other comprehensive income, dividend income is presented in other income; and
- For equity instruments not designated at fair value through other comprehensive income and not held for trading, dividend income is presented as net income from other instruments at fair value through the statement of income.

Financial Instruments
Initial recognition and measurement:
Financial assets and financial liabilities are recognized in the Bank's consolidated statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through the statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities on initial recognition, as appropriate. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through the statement of income are recognized immediately in profit or loss.

If the transaction price differs from the fair value at initial recognition, the Bank will account for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognized in the statement of income on initial recognition (i.e. day 1 profit or loss);

- In all other cases, fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to the statement of income on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability or when derecognizing the instrument.

Financial Assets
Initial Recognition
All financial assets are recognized on the trading date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. They are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through the statement of income. Transaction costs directly attributable to the acquisition of financial assets classified as at fair value through the statement of income are recognized immediately in the consolidated statement of income.

Subsequent Measurement
All recognized financial assets that are within the scope of IFRS (9) are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- Debt instruments held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at fair value through the statement of income.

However, the Bank may irrevocably make the following selection / designation at initial recognition of a financial asset on an asset- by-asset basis:

- The Bank may irrevocably select to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS (3) applies, in other comprehensive income; and
- The Bank may irrevocably designate a debt instrument that meets the amortized cost or fair value through other comprehensive income criteria as measured at fair value through the statement of income if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt Instruments at Amortized Cost or at Fair Value Through Other Comprehensive Income
The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at fair value through other comprehensive income, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of (SPPI) test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

Assessment of Business Models
An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments that reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- The stated policies and objectives of the portfolio and application of those policies concerning if the management strategy focuses on obtaining contractual revenues, maintaining a specific profit rate, and matching the maturity period of financial assets with that of the financial liabilities that finance those assets.
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How the business managers are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period, the Bank has not identified any change in its business models.

When a debt instrument measured at fair value through other comprehensive income is derecognized, the cumulative gain/loss previously recognized in other comprehensive income is reclassified from equity to the statement of income. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortized cost or at fair value through other comprehensive income are subject to impairment.

<u>Financial Assets at fair Value Through the Statement of Income</u>
Financial assets at fair value through profit or loss are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at fair value through profit or loss using the fair value option.

These assets are measured at fair value, with any gains/losses arising on re-measurement recognized in the statement of income.

<u>Reclassifications</u>
If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model, which results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period, there was no change in the business model under which the Bank holds financial assets, and therefore, no reclassifications were made. The changes in the contractual cash flows are considered under the accounting policy on the modification and de-recognition of financial assets described below.

Foreign Exchange Gains and Losses
The carrying amount of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in the statement of income; and
- For debt instruments measured at fair value through other comprehensive income that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in the statement of income. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve; and
- For financial assets measured at fair value through the statement of income that are not part of a designated hedge accounting relationship, exchange differences are recognized in the statement of income either in 'net trading income', if the asset is held for trading, or in 'net income from other financial instruments at fair value through the statement of income if otherwise held at fair value through the statement of income; and
- For equity instruments measured at fair value through other comprehensive income, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

Fair Value Option
A financial instrument with a fair value that can be reliably measured at fair value through the income statement (fair value option) may be classified at initial recognition even if the financial instruments are not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option may be used for financial assets if it significantly eliminates or significantly reduces the measurement or recognition inconsistency that would otherwise have resulted in the measurement of the asset or liability or recognized the related gain or loss on a different basis ("accounting mismatch"). The fair value option for financial liabilities can be chosen in the following cases:

- If the selection leads to a significant cancellation or reduction of the accounting mismatch;

- If the financial liabilities are part of a portfolio managed on a fair value basis, in accordance with a documented risk management or investment strategy; or

- If a derivative is included in the underlying financial or non-financial contract and the derivative is not closely related to the underlying contract.

These instruments can not be reclassified from the fair value category through the statement of income while retained or issued. Financial assets at fair value through the income statement are recognized at fair value with any unrealized gain or loss arising from changes in fair value recognized in investment income.

Impairment
The Bank recognizes loss allowances for expected credit losses on the following financial instruments that are not measured at fair value through the statement of income:

- Balances and deposits at banks and financial institutions;
- Direct credit facilities (loans and advances to customers);
- Financial assets at amortized cost (debt investment securities);
- Financial assets at fair value through other comprehensive income;
- Off-statement of financial position exposure subject to credit risk (financial guarantee contracts issued).

No impairment loss is recognized on equity investments.

With the exception of purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECLs, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or

- Full lifetime ECLs, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

For utilized loan limits, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is utilized; and

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the client, or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

<u>Credit-impaired Financial Assets</u>
A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or fair value through other comprehensive income are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession, the risk of not receiving the contractual cash flows has reduced significantly, and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit-impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of *default* includes unlikeliness to pay indicators and a back- stop if amounts are overdue for 90 days or more. However, cases where the assets impairment is not recognized after 90 days of their becoming due are supported by reasonable information.

Purchased or Originated Credit-impaired (POCI) Financial Assets
POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in the statement of income. A favorable change for such assets creates an impairment gain.

Definition of Default
Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in determining whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in the credit risk below.

The Bank considers the following as constituting an event of default:

- The borrower is past due for more than 90 days on any material credit obligation to the Bank; or

- The borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset. For example, in corporate lending, a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default that is either developed internally or obtained from external sources.

Significant Increase in Credit Risk
The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank measures the loss allowance based on lifetime rather than 12-month ECL.

The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior.

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking, and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending, there is particular focus on assets included in the 'watch list', as exposure is watch-listed once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending, the Bank considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce, or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes more than (45) days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Modification and Derecognition of Financial Assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default, or default has already happened, and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy, which applies for corporate and retail lending.

When a financial asset is modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, and maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

In the case where the financial asset is derecognized, the loss allowance for ECL is re-measured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default that has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at fair value through other comprehensive income, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Write-off
Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion thereof). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off, which constitutes a derecognition event. In this respect, the Bank may apply enforcement activities to financial assets written off. Meanwhile, recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of Allowance for ECL in the Consolidation Statement of Financial Position
Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at fair value through other comprehensive income: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.
- For loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial Liabilities and Equity
Debt and equity instruments issued are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is:

- a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or

- a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments; or

- a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Equity Instruments
Paid-up Capital
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Treasury Shares
Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in statement of income on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Compound instruments

The component parts of compound instruments (e.g. convertible notes) issued by the Bank are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. In the case where there are non-closed related embedded derivatives, these are separated first with the remainder of the financial liability being recorded on an amortized cost basis, using the effective interest method until extinguished upon conversion, or at the instrument's maturity date.

Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through the statement of income' or 'other financial liabilities'.

Financial Liabilities at Fair Value through the Statement of Income

Financial liabilities are classified as at fair value through the statement of income when the financial liability is (i) held for trading, or (ii) it is designated as at fair value through the statement of income. A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through the statement of income upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS (9) permits the entire hybrid (combined) contract to be designated as at fair value through the statement of income.

Financial liabilities at fair value through the statement of income are stated at fair value, with any gains/losses arising on re-measurement recognized in the statement of income to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at fair value through the statement of income.

However, for non-derivative financial liabilities designated as at fair value through the statement of income, the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts designated as at fair value through the statement of income, all gains and losses are recognized in profit or loss.

In determining whether recognizing changes in the liability's credit risk in other comprehensive income will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at fair value through the statement of income. This determination is made at initial recognition.

Other Financial Liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR, see the "net interest income section" above.

Derecognition of Financial Liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the statement of income.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least (10) per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Derivative Financial Instruments

The Bank enters into a variety of derivative financial instruments some of which are held for trading while others are held to manage the Bank's exposure to interest rate risk, credit risk, and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain/loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Bank designates certain derivatives as hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions, hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than (12) months, and it is not expected to be realized or settled within (12) months. Other derivatives are presented as current assets or current liabilities.

Embedded Derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value through profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

Financial Guarantee Contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at fair value through profit or loss and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS (9); and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts not designated at fair value through profit or loss are presented as provisions in the consolidated statement of financial position, and the re-measurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at fair value through profit or loss.

Commitments to Provide a Loan at a Below-Market Interest Rate
Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS (9); and
- The amount initially recognized less, where appropriate, cumulative amount of income recognized in accordance with the Bank's revenue recognition policies.

Commitments to provide a loan below market rate not designated at fair value through profit or loss are presented as provisions in the consolidated statement of financial position, and the re-measurement is presented in other revenue.

The Bank has not designated any commitments to provide a loan below market rate designated at fair value through profit or loss.

Hedge Accounting
The Bank designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. The Bank does not apply fair value hedge accounting of portfolio hedges of interest rate risk. In addition, the Bank does not use the exemption to continue using IAS (39) hedge accounting rules, i.e. the Bank applies IFRS (9) hedge accounting rules in full.

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of the hedged item.

The Bank rebalances a hedging relationship in order to comply with the hedge ratio requirements, when necessary. In such cases, discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship; hence, hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio, but the risk management objective for that designated hedging relationship remains the same, the Bank adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In some hedge relationships, the Bank designates only the intrinsic value of options. In this case, the fair value change of the time value component of the option contract is deferred in OCI, over the term of the hedge, to the extent that it relates to the hedged item and is reclassified from equity to profit or loss when the hedged item does not result in the recognition of a non-financial item. The Bank's risk management policy does not include hedges of items that result in the recognition of non-financial items, because the Bank's risk exposures relate to financial items only.

The hedged items designated by the Bank are time-period related hedged items, which means that the amount of the original time value of the option that relates to the hedged item is amortized from equity to profit or loss on a rational basis (e.g. straight- line) over the term of the hedging relationship.

In some hedge relationships, the Bank excludes from the designation the forward element of forward contracts or the currency basis spread of cross currency hedging instruments. In this case, a treatment is applied similar to the one applied for the time value of options. The treatment for the forward element of a forward and the currency basis element is optional and the option is applied on a hedge-by-hedge basis, unlike the treatment for the time value of the options, which is mandatory. For hedge relationships with forwards or foreign currency derivatives such as cross currency interest rate swaps, where the forward element or the currency basis spread is excluded from the designation, the Bank generally recognizes the excluded element in OCI.

The fair values of the derivative instruments used for hedging purposes and movements in the hedging reserve are determined in equity.

Fair Value Hedges

The fair value change on qualifying hedging instruments is recognized in profit or loss except when the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income in which case it is recognized in OCI. The Bank has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at fair value through other comprehensive income, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognized in profit or loss instead of OCI. When the hedged item is an equity instrument designated at fair value through other comprehensive income, the hedging gain/loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains/losses are recognized in profit or loss, they are recognized in the same line as the hedged item.

The Bank discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortized cost or at fair value through other comprehensive income) arising from the hedged risk is amortized to profit or loss commencing no later than the date when hedge accounting is discontinued.

Cash Flow Hedges
The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognized in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. If the Bank no longer expects the transaction to occur, that amount is immediately reclassified to profit or loss.

The Bank discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognized immediately in profit or loss.

Hedges of Net Investments in Foreign Operations
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain/loss on the hedging instrument relating to the effective portion of the hedge is recognized in OCI and accumulated in the foreign currency translation reserve.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation as described above.

Property and Equipment
Property and equipment are measured at cost less accumulated depreciation and any impairment. Property and equipment (except land) are depreciated when ready for use using the straight line method over their expected useful life.

The depreciation rates used are as follows:

| | % |
|---|---|
| Buildings | 2-4 |
| Equipment, furniture and fixtures | 7-15 |
| Vehicles | 15 |
| Computer | 20 |
| Other | 2.5-20 |

- The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is charged to the income statement.

- The useful life of property and equipment is reviewed at each year end, and changes in the expected useful life are treated as changes in accounting estimates.

- An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Fair Value
Fair value is defined as the price at which an asset is to be sold or paid to convert any of the liabilities in a structured transaction between the market participants on the measurement date, irrespective of whether the price can be realized directly or whether it is estimated using another valuation technique. When estimating the fair value of an asset or liability, the Bank takes into consideration, when determining the price of any asset or liability, whether market participants are required to take these factors into account at the measurement date. Fair value for the purposes measurement and / or disclosure in these financial statements is determined on the same basis, except for measurement procedures that are similar to the fair value procedures and are not fair value such as fair value as used in IAS (36).

In addition, fair value measurements are classified, for the purposes of financial reporting to level (1), (2) or (3), based on the extent to which the inputs are clear concerning the fair value measurements and the importance of inputs to the full fair value measurements. The details are as follows:

Level (1) Inputs: Inputs derived from quoted (unadjusted) prices of identical assets or liabilities in active markets that an enterprise can obtain on the measurement date;

Level (2) Inputs: Inputs derived from data other than quoted prices used at level 1 and observable for assets or liabilities, either directly or indirectly;

Level (3) Inputs: Inputs to assets or liabilities that are not based on observable market prices.

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

<u>Income Tax</u>
- Tax expense comprises current tax and deferred taxes.

- Current tax is based on taxable profits, which may differ from accounting profits published in the financial statements. Accounting profits may include non-taxable profits or tax non-deductible expenses which may be exempted in the current or subsequent financial years, or accumulatted losses that are tax acceptable or items not subject to deduction for tax purposes.

- Tax is calculated based on tax rates and laws that are applicable in the country of operation.

- Deferred tax is the tax expected to be paid or recovered due to temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates expected to be applied in the period when the asset is realized or the liability is settled, based on the laws enacted or substantially enacted at the date of the consolidated statement of financial position.

- The carrying values of deferred tax assets are reviewed at the date of the consolidated financial statement and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

<u>Revenue and Expense Recognition</u>
- Interest income is recorded using the effective interest rate method except for fees and interest on non-performing facilities and financing, on which interest is transferred to the interest in suspense account and not recognized in the consolidated income statement.

- Expenses are recognized on an accrual basis.

Commission income is recognized upon the rendering of services. Dividend income is recognized (when approved by the General Assembly).

<u>Recognition Date of Financial Assets</u>
Purchase or sale of financial assets is recognized on the trade date, (the date that the Bank commits to purchase or sell the asset).

<u>Derivatives</u>
<u>Derivatives for Trading</u>
The fair value of derivative financial instruments held for trading (such as forward foreign exchange contracts, future interest contracts, swaps, foreign exchange options rights) is recognized in the consolidated statement of financial position, and fair value is determined at the prevailing market rates. If this information is not available, the methodology of assessment is disclosed, and the change in fair value is recognized in the consolidated statement of income.

Repurchase and Resale Agreements

- Assets sold with a simultaneous commitment to repurchase at a specified future date will continue to be recognized in the Bank's consolidated financial statements due to the Bank's control of these assets and the fact that continuing exposure to the risks and rewards of these assets remains with the Bank and continue to be evaluated in accordance with the applied accounting policies. The proceeds of the sale are recorded under loans and borrowings. The difference between the sale and the repurchase price is recognized as an interest expense over the agreement term using the effective interest rate method.

- Assets purchased with a corresponding commitment to resell at a specified future date are not recognized in the Bank's consolidated financial statements since the Bank is not able to control these assets or the associated risks and benefits. The related payments are recognized as part of deposits at banks and financial institutions or direct credit facilities as applicable, and the difference between purchase and resale price is recognized as interest income over the agreement term using the effective interest rate method.

Assets Repossesed by the Bank

Assets repossesed by the Bank through calling upon collateral are shown in the consolidated statement of financial position under "other assets" at the lower of their carrying value or fair value. These assets are revalued at the date of the consolidated financial statements on an individual basis, and losses from impairment are transferred directly to the consolidated income statement, while revaluation gains are not recognized as income. Reversal of previous impairment losses shall not result in a carrying value that exceeds the carrying amount that would have been determined had no impairment been charged to the consolidated income statement and loss been recognized for the asset in prior years.

Intangible Assets

- Intangible assets are measured on initial recognition at cost.

- Intangible assets are classified as indefinite or with definite useful life. Intangible assets with finite lives are amortized over the useful economic life, and amortization is recorded in the consolidated statement of income using the straight-line metthod during a period not exceeding 5 years from the date of the purchase transaction. Meanwhile, intangible assets with indefinite useful lives are assessed for impairment at each reporting date, and impairment losses are recorded in the consolidated statement of income.

- Internally generated intangible assets are not capitalized and are expensed in the consolidated income statement.

- Intangible assets include computer software, programs, Safwa Islamic Bank's license and customers' deposits. The Bank's management estimates the useful life for each intangible asset, where the assets are amortized using the straight- line method from 3 to 7 years. As for Safwa Bank's license, its useful life is indefinite and it is not amortized.

Business Combinations and Goodwill

- Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any non-controlling interests in the acquiree.

- For each business combination, the Bank elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses in the consolidated income statement.

- Goodwill is measured at cost, which represents the excess of the amounts granted in addition to the amount of non-controlling interests over the net fair value of the assets and liabilities owned after deducting the impairment amount.

- When the Bank acquires a business, it reviews the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Investment in Associates

- Investment in an associate is_accounted for using the equity method. An associate is an entity over which the Bank has significant influence. In this regard, significant influence is the Bank's power to participate in the financial and operating policy decisions of the investee. These investments are not held for trading.

- Investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Bank's share of the net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Bank's share in the associate's results is recorded in the consolidated income statement. Unrealized gains and losses resulting from transactions between the Bank and its associate are eliminated to the extent of its interest in the associate.

Foreign Currencies

For the purpose of the consolidated financial statements, the results and financial position of each entity of the Group are presented in the functional currency unit of the Bank and the presentation currency of the consolidated financial statements.

The Standalone financial statements of the Bank's subsidiaries are prepared. Moreover, the Standalone financial statements of each entity of the Group are presented in the functional currency in which it operates. Transactions in currencies other than the functional currency of the Bank are recorded at the rates of exchange prevailing at the dates of those transactions. At the balance sheet date, financial assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are not reclassified.

Exchange differences are recognized in the consolidated statement of income in the period in which they arise except for:

- Foreign exchange differences on transactions made in order to hedge foreign exchange risk.

- Foreign exchange differences on monetary items required to / from a foreign operation that are not planned to be settled, are unlikely to be settled in the near future (and therefore, these differences form part of the net investment in the foreign operation), and are initially recognized in the comprehensive income statement and reclassified from equity to the income statement when selling or partially disposing of net investment.

In order to present the consolidated financial statements, the assets and liabilities of the Bank's foreign operations are translated at the rates of exchange prevailing at the statement of financial position date. Income is also converted to average exchange rates for the period, unless exchange rates change significantly during that period, in which case the exchange rates are used on the date of the transactions. Exchange differences arising, if any, are recognized in other consolidated statement of comprehensive income under a separate line item of equity.

When foreign operations are disposed of (i.e. disposal of the entire share of the Bank from foreign operations, or resulting from loss of control of a subsidiary in foreign operations, or partial exclusion by its share in a joint arrangement, or an associate company of a foreign nature in which the share held is a financial asset), all foreign exchange differences accumulated in a separate item under equity in respect of that transaction attributable to the Bank's owners are reclassified to the consolidated statement of income.

In addition, in respect of the partial disposal of a subsidiary involving foreign operations that do not result in the Bank losing control of the subsidiary, its share of the accumulated exchange differences is credited to net comprehensive income at a rate that is derecognized and not recognized in the consolidated statement of income. For all other partial liquidation (such as partial liquidation of associates or joint ventures that do not result in the Bank losing significant influence or joint control), the share of accumulated exchange differences is reclassified to the consolidated statement of income.

Leases
Leases are classified as finance leases when the terms of the lease provide for substantially all the risks and rewards of ownership of the lessee. All other leases are classified as operating leases.

As a Lessor
Operating lease income is recognized using the straight-line method over the life of the lease. The initial direct costs incurred in the discussion and arrangement of the operating contract are added to the carrying amount of the leased assets and recognized in accordance with the straight-line method over the lease term.

As a Lessee
Assets acquired through leases are recognized on initial recognition at their fair value at the inception of the lease or at the present value of the minimum lease payments, whichever is lower. Financial leasing liabilities are recorded at the same value. The lease payments are distributed between the financing expenses and the amortization of the financial lease liabilities in order to achieve a fixed rate of interest on the remaining balance of the lease liabilities. Direct financing expenses are recognized in the consolidated statement of income.

Operating lease payments are recognized as an expense on a straight-line basis over the life of the lease.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand and cash balances with central banks and balances with banks and financial institutions that mature within three months, less banks and financial institutions deposits that mature within three months and restricted balances.

3- Application of New and Amended International Financial Reporting Standards

A- Amendments that did not have a material impact on the Bank's consolidated financial statements:

The following new and revised IFRSs, which are effective for annual periods beginning on or after January 1, 2018, have been adopted in the preparation of the Bank's consolidated financial statements. These new and revised IFRSs have not materially affected the amounts and disclosures in the consolidated financial statements for the year and prior years, which may have an impact on the accounting treatment of future transactions and arrangements:

| New and revised standards | Amendments to new and revised IFRSs |
|---|---|
| **Annual improvements to IFRSs issued between 2014 and 2016.** | The improvements include amendments to IFRS 1, *"Application of International Standards for the First Time"* and IAS 28 *"Investments in Associates and Joint Ventures (2011)".*<br><br>The amendments clarify that the option of investment and other similar enterprises to measure investments in associates and joint ventures at fair value through the income statement is available separately for each associate or joint venture and that the selection should be made at initial recognition.<br><br>As for the option of an entity, which is not an investment property, the fair value measurement applied by the associate, and the joint venture that is an investment property shall be maintained when applying the equity method. The amendments provide a similar clarification that this option is available to each associate of an investment nature or a joint venture with an investment nature. |

**IFRIC 22: "Foreign currency transactions and advances".**

This interpretation deals with how to determine the *"date of the transaction"* for determining the exchange rate to be used at the time of initial recognition, expense or income is recognized when the item is paid or received in advance by a foreign operation that results in recognition of non-monetary assets or non-monetary liabilities.

The interpretation determines that the transaction date is the date on which the non-monetary assets or non-monetary liabilities arising from the payment or receipt of payments are recognized in advance. If there are multiple payments or receipts received in advance, the interpretation requires the Bank to specify the transaction date for each payment or receive the cash receipt in advance.

This interpretation relates to transactions made in foreign currency or parts of such transactions in the event that:

- A consideration exists in foreign currency or is priced in foreign currency;
- An entity recognizes an asset that has been paid in advance or deferred income liabilities related to that consideration on a date prior to recognition of the relevant assets, income or expenses;
- Prepaid assets or deferred income liabilities are not cash.

**Amendments to IAS 40: "Investment properties".**

The amendments indicate that transfers to or from real estate investments require an assessment of whether the properties meet or no longer meet the definition of real estate investments and are backed up by observable evidence of a change in use. The amendments also indicate that the cases included in the standard are not comprehensive and that a change in use can be made with respect to the properties under construction (i.e. the change in use is not limited to completed properties).

**Amendments to IFRS 2 "Share-based payment".**

These amendments relate to the classification and measurement of payment transactions on an equity basis. These amendments clarify the following:

1. When estimating the fair value of a payment based on shares paid in cash, the effects of the accrual and non-accrual provisions should be accounted for by the same approach used for payments based on shares paid from owners' equity.

2. If the tax code / laws require the company to keep a certain number of equity instruments equal to the monetary value of the employee's tax liability to meet his tax obligations and then to the tax authority (usually cash), that is, the share-based payment arrangement has the "feature of net settlement", then the entire arrangement should be classified as a payment of equity, provided that the share-based payment could have been classified as

a payment from equity even if it did not include the net settlement feature.

3. The accounting treatment of the payment adjustment on the equity basis that modifies the transaction from cash payment to payment of equity shall be made as follows:
   A. Derecognizing the original obligation;

   B. Recognizing the share-based payment at the date of adjusting the fair value of the granted equity instrument to the extent that the services have been performed up to the date of the adjustment;

   C. Recognizing any difference between the present value of the liability at the date of the adjustment and the amount recognized in equity in the statement of income.

**Amendments to IFRS 4: "Insurance contracts".**

These amendments relate to the difference between the effective date of IFRS (9) and the new standard for insurance contracts.

**IFRS 15 "Revenue from contracts with customers".**

IFRS 15 was issued in May 2014, which established a comprehensive model for enterprises to be used in accounting for revenue generated from contracts with customers. This standard will replace the current income recognition guidance, including IAS 18 *"Revenue"*, IAS *11 "Construction contracts and related interpretations"*.
The basic principle of this standard is that an entity must recognize revenue to indicate the transfer of goods or services to the customer in an amount that reflects the consideration that the entity expects to receive for such goods or services. In particular, the standard provides a five-step approach to revenue recognition:

Step 1: Determining the contract (s) concluded with the client.
Step 2: Defining performance obligations in the contract.
Step 3: Determining the selling price.
Step 4: Assigning a sale price to the performance obligations in the contract.
Step 5: Recognizing revenue when the entity meets (or fulfills) an obligation to perform.

Under this Standard, an entity recognizes revenue when (or at the time) it fulfills its performance obligation, that is, when control over the goods or services underlying the performance obligation is transferred to the customer. More mandatory guidelines have been added to the Standard to deal with specific scenarios. In addition, the standard requires comprehensive disclosures.

| | |
|---|---|
| **Amendments to IFRS 15 "Revenue from contracts with customers".** | These amendments relate to the clarification of three aspects of the standard (determination of performance obligations, client versus agent considerations, and licensing) and some transitional exemption for modified contracts and completed contracts. |

**B- Amendments Affecting the Bank's Consolidated Financial Statements:**

**IFRS (9) "Financial Instruments"**

IFRS (9) was issued in November 2009, and new requirements for the classification and measurement of financial assets were introduced. Subsequently, the Standard was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and derecognition of financial liabilities. The Standard was amended in November 2013 to include new requirements for general hedge accounting. An amended version of the Standard was issued in July 2014 to include: (a) the requirements for impairment of financial assets; and (b) limited adjustments to the classification and measurement requirements by introducing the "fair value through other comprehensive income" category of some simple debt instruments.

IFRS (9) *"Financial Instruments"* issued by the International Accounting Standards Board (IASB) was adopted in July 2014. The initial date of implementation of this standard was December 1, 2018. The application of IFRS (9) has led to changes in the accounting policies and amendments to the amounts previously recognized in the consolidated financial statements. Moreover, the Bank has early adopted IFRS 9 (first phase) of 2009, regarding the classification and measurement of financial assets since the beginning of 2010.

As required by the transitional provisions of IFRS (9), the Bank has not restated the comparative figures. Any changes in the carrying amounts of financial assets and liabilities have been recognized on the date of transition in the opening balances of retained earnings and non-controlling interests for the current period. The Bank has also chosen to continue to apply the accounting requirements of IAS (39) *"Financial Instruments: Recognition and Measurement"*, on the application of IFRS (9).

IFRS (9) has resulted in changes in the accounting policies for the identification, classification, and measurement of financial assets and liabilities and the impairment in value of financial assets. IFRS (9) also modifies other standards that address financial instruments such as IFRS (7) *"Financial Instruments: Disclosures"*

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The final version of IFRS (9) contains the accounting requirements for financial instruments and supersedes IAS (39) *"Recognition and Measurement"*. The new version of the standard includes the following requirements:

**Classification and Measurement:**

Financial assets are classified based on the business model and contractual cash flow characteristics. The 2014 version provided a new classification of certain debt instruments that could be classified as "financial assets at fair value through other comprehensive income". The financial liabilities are classified similarly to IAS 39, but there are differences in the requirements applied to the measurement of credit risk relating to the entity.

**Impairment:**

The 2014 version provided the "expected credit loss" model to measure the impairment loss of financial assets, and therefore, it is not necessary to increase the credit risk before recognizing the credit loss.

**Hedge accounting:**

The 2014 version provided a new model for hedge accounting designed to be more appropriate with how an entity manages risk when exposed to financial and non-financial hedging risks.

**Derecognition:**

The requirements for derecognition of financial assets and financial liabilities have been followed in accordance with International Accounting Standard (IAS) (39).

- The Bank has applied the International Financial Reporting Standard No. (9) (for stage 1), published in 2009, which is related to the classification and measurement of the financial assets since the beginning of the year 2010. The Bank has also adopted the final version of IFRS (9) starting from January 1st 2018, retroactively and in coonsistency with the standard requirements. However, the Bank did not adjust the comparitive figures. Instead, it recognized the cumulative effect of the application of JD 11,539,158, net after the deferred tax assets effect of JD 6,168,660, as an adjustment to the beginning balance of retained earnings and an amount of JD 122,931 as an adjustment to the beginning balance of non-controlling interests as of January 1st 2018:

| | Balance as of December 31, 2017 | Reclassified amounts | Excpected credit loss* | Balance as of January 1, 2018 after implementation |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Balances and deposits at banks and financial institutions | 326,075,874 | - | (390,482) | 325,685,392 |
| Deposits at banks and financial institutions | 8,325,098 | - | (125,765) | 8,199,333 |
| Direct credit facilities | 2,084,327,989 | - | (14,778,272) | 2,069,549,717 |
| Debt instruments within portfolio of financial assets at amortized costs | 617,696,128 | - | (235,192) | 617,460,936 |
| Financial guarantees | 178,422,988 | - | (2,547,271) | 175,875,717 |
| Un-utilized ceilings | 383,471,409 | - | (1,472,030) | 381,999,379 |
| Letter of credits and acceptances | 377,970,169 | - | (741,420) | 377,228,749 |

* Expected credit loss is calculated for items after the classification.

The effect of implementing IFRS (9) on the beginning balances for the year 2018:

| Item | Balance as of December 31, 2017 | Reclassified Balance | Expected Credit Loss | Balance Adjusted as of January 31, 2018 after the Implementation of IFRS (9) | The Implementation Effect on Reclassification | Financial Position Items Affected by the Reclassification |
|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | |
| Cash and balances at Central Banks | 338,311,743 | - | - | 338,311,743 | - | Retained Earnings |
| Balances and deposits at banks and financial institutions | 334,400,972 | - | (516,247) | 333,884,725 | - | Retained Earnings |
| Financial assets at fair value through profit or loss | 7,509,280 | - | - | 7,509,280 | - | Retained Earnings |
| Financial assets at fair value through other comprehensive income | 30,877,736 | - | - | 30,877,736 | - | Retained Earnings |
| Direct credit facilities and financing | 2,084,327,989 | - | (14,778,272) | 2,069,549,717 | - | Retained Earnings |
| Debt instruments within the portfolio of financial assets at amortized costs | 617,696,128 | - | (235,192) | 617,460,936 | - | Retained Earnings |
| Transferred to the portfolio of financial assets at fair value through profit or loss | - | - | - | - | - | Retained Earnings |
| Transferred to the portfolio of financial assets at fair value through other comprehensive income | - | - | - | - | - | Retained Earnings |
| Financial guarantees | 178,422,988 | - | (2,547,271) | 175,875,717 | - | Retained Earnings |
| unutalized cielings | 383,471,409 | - | (1,472,030) | 381,999,379 | - | Retained Earnings |
| Letter of credits and acceptances | 377,970,169 | - | (741,420) | 377,228,749 | - | Retained Earnings |

Beginning balance for the provisions balances after implementing IFRS (9):

| Item | Current Provisions Balances as of December 31, 2017 | Difference due to Recalculation | Balance as of December 31, 2018 based on IFRS (9) |
|---|---|---|---|
| | JD | JD | JD |
| Balances at Central Banks | - | - | - |
| Balances and deposits at banks and financial institutions | - | 516,247 | 516,247 |
| Direct credit facilities and financing | 72,295,950 | 14,778,272 | 87,074,222 |
| Debt instruments withing portfolio of financial assets at amortized costs | 1,390,625 | 235,192 | 1,625,817 |
| Debt instruments withing portfolio of financial assets at fair value through other comprehensive income | - | - | - |
| Financial guarantees | - | 2,547,271 | 2,547,271 |
| Un-utilized facilities ceilings | - | 1,472,030 | 1,472,030 |
| Letter of credits and acceptances | - | 741,420 | 741,420 |
| Others | - | - | - |

### C- New and Revised IFRSs Issued and Not Yet Effective:

The Bank has not adopted the following new and amended IFRSs issued but not yet effective as of the date of the consolidated financial statements. The details are as follows:

| New and revised standards | Amendments to new and revised IFRSs |
|---|---|
| **Annual improvements to IFRSs issued between 2015 and 2017**<br><br>**(Effective January 1, 2019)** | Improvements include amendments to IFRS (3) Business Combinations, (11) Joint Arrangements, International Accounting Standards (12), Income Taxes and (23) Borrowing Costs. |
| **IFRIC (23) "Uncertainty on the Treatment of Income Tax".**<br><br>**(Effective January 1, 2019).** | The interpretation clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax benefits and tax rates when there is uncertainty about the treatment of income tax under IAS (12) and specifically addresses:<br><br>• whether the tax treatment should be considered in aggregate;<br>• assumptions regarding the procedures for the examination of tax authorities;<br>• determination of taxable profit (tax loss), tax basis, unused tax losses, unused tax breaks, and tax rates;<br>• The impact of changes in facts and circumstances. |
| **IFRS (16) "Leases"**<br><br>**(Effective January 1, 2019).** | IFRS 16 defines how the reporting entity can recognize, measure, present, and disclose lease contracts. The Standard also provides a separate accounting model for lessees that requires the lessee to recognize the assets and liabilities of all lease contracts unless the lease is 12 months or less or the asset is of low value. Lessors continue to classify leases as operating or financing leases. IAS 16's on lessor accounting has not changed significantly compared to IAS 17. |
| **Amendments to IFRS 9 "Financial Instruments".**<br><br>**(Effective January 1, 2019).** | These amendments relate to the advantages of prepayment with negative compensation, where the current requirements of IFRS (9) regarding termination rights have been amended to allow for the measurement at amortized cost (or on the business model at fair value through other comprehensive income) status of negative compensation payments. |
| **Amendments to IAS (28) "Investment in Associates and Joint Ventures".**<br><br>**(Effective January 1, 2019).** | These amendments relate to long-term shares in allied enterprises and joint ventures. These amendments clarify that an entity applies IFRS (9) *"Financial Instruments"* to long-term interests in an associate or joint venture that forms part of the net investment in an associate or joint venture if the equity method has not been applied to it. |

| | |
|---|---|
| **Amendments to IAS 19 "Employee Benefits".**<br><br>**(Effective January 1, 2019).** | These amendments relate to adjustments to plans, reductions, or settlements. |
| **Amendments to IAS 1 "Presentation of Financial Statements".**<br><br>**(Effective January 2020).** | These amendments relate to the definition of materiality. |
| **Amendments to IFRS 3 "Business Combinations".**<br><br>**(Effective January 2020.)** | These amendments clarify the definition of business as the International Accounting Standards Board published the Revised Financial Reporting Framework. This includes revised definitions of assets and liabilities as well as a new guidance on measurement, derecognition, presentation, and disclosure.<br><br>In addition to the amended conceptual framework, the IASB issued amendments to the guidelines on the conceptual framework in the IFRS Standards, which contain amendments to IFRS (2), (3), (6) and (14) and IAS (1), (34), (37) and (38)) and IFRIC (12), Interpretation (19), Interpretations 20 and 22 and Interpretations of the Standing Committee for the Interpretation of Standards Number (32) in order to update those statements with regard to references and quotations from the framework or to refer to a different version of the conceptual framework. |
| **IFRS 17 "Insurance Contracts"**<br><br>**(Effective January 1, 2022.)** | Provides a more consistent measurement and presentation approach to all insurance contracts. These requirements are aimed at achieving a consistent, principled accounting objective for insurance contracts. IFRS (17) replaces IFRS (4) *"Insurance Contracts".*<br><br>IFRS (17) requires measurement of insurance liabilities at present value to meet. |
| **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures (2011)"**<br><br>**(The start date has been postponed indefinitely, and the application is still permitted)** | These amendments relate to the treatment of the sale or contribution of the assets of the investor in the associate or joint venture. |

Management expects to apply these new standards, interpretations, and amendments to the consolidated financial statements of the Bank when they are applicable. Moreover, the adoption of these new standards, interpretations, and amendments may have no material impact on the Bank's consolidated financial statements in the initial application period except for the effect of the adoption of IFRS (16), as shown below:

**Effect of Application of IFRS 16 "Leases"**

The Standard provides a comprehensive model for determining and treating lease arrangements in the consolidated financial statements of both lessors and lessees. It will also replace IAS (17) "Leases" and related interpretations when they become effective for financial periods beginning on or after January 1, 2019.

As permitted by the transitional provisions of IFRS (16), the Bank has not restated the comparative figures. Any changes in the carrying amounts of assets and liabilities have been recognized on the transition date in the opening balances of the related balances.

There is no material difference between the accounting treatment in the lessor's books and IFRS (16) and IAS (17).

The change in the definition of the lease relates mainly to the concept of control. IFRS (16) distinguishes between leases and service contracts based on whether the customer controls the use of a specific asset, and control is present if the customer has:

- The right to a substantial degree of all economic benefits arising from the use of specific assets; and
- The right to direct the use of this asset.

<u>Effect of Accounting Treatment on the Lessee's Records</u>

<u>Operating Leases</u>

Under IAS (16), the accounting treatment has been changed for leases previously classified as operating leases in accordance with IAS (17), which were classified as off-the consolidated statement of financial position items.

In the initial application of IFRS (16) (except as referred to below), the Bank will undertake the following for all leases:

A- Recognize "right of use" assets and lease commitments in the consolidated statement of financial position, initially measured on the basis of the present value of future cash flows paid;

B- Recognize the depreciation of "right of use" assets and interest on lease commitments in the consolidated statement of income.

C- Separate the total amount of cash paid into a principal portion (shown under financing activities) and interest (presented under operating activities) in the consolidated statement of cash flows.

For short-term leases (12 months or less) and low-value asset leases (such as personal computers and office furniture), the Bank will choose to recognize rental expenses on a straight-line basis as permitted by the International Financial Reporting Standard (16).

On December 31, 2018, the Bank had non-cancellable operating lease commitments of JD 3.8 million.

Based on preliminary estimates of the Bank's management, there are operating leases of JD 3.7 million except for short-term operating leases and low-value assets. Accordingly, the Bank will record an asset usage value of JD 21.4 million and corresponding operating lease commitments of JD 17.8 million. The impact on the income statement is a reduction of the rent expense of JD 3.7 million, an increase in depreciation expense of JD 3.2 million, and an increase in interest expense of JD 0.8 million.

The provision for leases that were required by IAS (17) will be derecognized.

Recognition of lease obligation incentives previously recognized in respect of operating leases will be derecognized, and the amount will be calculated in the measurement of the leasehold assets and liabilities.

Under IAS (17), all lease payments relating to operating leases are recognized as part of the cash flows from operating activities. The effect of the changes under IFRS (16) will be to reduce cash generated from operating activities and increase the net cash used in financing activities with the same amount.

Finance Leases
The main differences between IFRS (16) and IAS (17) with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS (16) requires that the Company recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS (17). On initial application, the Company will present the related asset previously included in the financial statements within the line item for right-of-use assets. Moreover, the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Bank's finance leases as at December 31, 2018 in light of the facts and circumstances existing at that date, the Company's Board of Directors and Management have assessed that this change will not affect the amounts recognized in the Bank's financial statements.

Impact on Lessor Accounting
Under IFRS (16), a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS (16) has changed and expanded the disclosures required, in particular, regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS (16), an intermediate lessor accounts for the head lease and the sublease as two separate contracts.

The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS (17).

Because of this change, the Bank will reclassify certain of its sublease agreements as finance leases. As required by IFRS (9), an allowance for expected credit losses will be recognized on the finance lease receivables. The leased assets will be derecognized and finance lease asset receivables recognized. This change in accounting will change the timing of recognition of the related revenue recognized in finance income.

The Company's Management expects that IFRS (16) will be applied to the Bank's consolidated financial statements for the period starting on January 1, 2019.

## 4. Significant Accounting Judgments and key Sources of Uncertainty Estimates
Preparation of the consolidated financial statements and application of accounting policies require management to make judgments, estimates and assumptions that affect the amounts of financial assets and financial liabilities and to disclose potential liabilities. Moreover, these estimates and judgments affect revenues, expenses, and provisions, in general; as well as expected credit losses and changes in fair value that appear in the consolidated statement of comprehensive income and within shareholders' equity. In particular, the Bank's management requires judgments to be made to estimate the amounts and timing of future cash flows. These estimates are necessarily based on multiple hypotheses and factors with varying degrees of estimation and uncertainty. Meanwhile, the actual results may differ from estimates due to the changes arising from the conditions and circumstances of those estimates in the future.

Judgments, estimates, and assumptions are reviewed periodically. Moreover, the effect of the change in estimates is recognized in the financial period in which the change occurs if the change affects only the financial period. On the other hand, the effect of the change in estimates is recognized in the financial period in which the change occurs and in future periods if the change affects the financial period and future financial periods.

Management believes that its estimates in the consolidated financial statements are reasonable. The details are as follows:

Impairment of property acquired
Impairment in value of properties acquired is recognized based on recent real estate valuations by qualified independent evaluators for calculating impairment of the asset and is reviewed periodically for impairment.

Productive lifespan of tangible assets and intangible assets
The Bank's management periodically recalculates the useful lives of tangible assets and intangible assets for calculating annual depreciation and amortization based on the general condition of those assets and estimated future useful lives. The impairment loss is recognized in the consolidated statement of income for the year.

Income tax
The fiscal year is charged with income tax expense in accordance with accounting regulations, laws and standards. Moreover, deferred tax assets and liabilities required tax provisions are recognized.

Provision for lawsuits

A provision for lawsuits is taken to meet any legal obligations that might arise based on the legal study prepared by the Bank's legal advisor. The study identifies risks that might occur in the future, and is reviewed periodically.

Provision for end- of- service indemnity
The provision for end- of- service indemnity, representing the Bank's obligations to employees, is calculated in accordance with the Bank's internal regulations.

Assets and liabilities at cost
Management reviews the assets and liabilities at cost for estimating any impairment in value, which is recognized in the consolidated statement of income for the year.

Provision for expected credit losses
Management is required to use significant judgments and estimates to estimate the amounts and timing of future cash flows and assess the risks of a significant increase in credit risk for financial assets after initial recognition and future measurement information for the expected credit losses. The most important policies and estimates used by the Bank's management are detailed in Note (44).

Evaluation of business model
The classification and measurement of financial assets depends on the results of the principal and interest payments test on the principal outstanding and the business model test. The Bank defines a business model at a level that reflects how the groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment that reflects all relevant evidence, including how to assess the performance of the assets and measure their performance, and the risks that affect the performance of assets, how they are managed, and how asset managers are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income and derecognized before maturity to understand the reason for derecognition and whether the reasons are consistent with the objective of the business held. In this respect, control is part of the Group's continuous assessment of whether the business model under which the remaining financial assets are retained is appropriate, and whether it is not appropriate if there is a change in the business model, and therefore, a future change is made in the classification of those assets.

Significant increase in credit risk
The expected credit loss is measured as an allowance equivalent to the expected credit loss of (12) months for the assets of the first stage, or the credit loss over the life of the assets of the second or third stage. The asset moves to the second stage if credit risk increases significantly since initial recognition. IFRS (9) does not specify what constitutes a significant increase in credit risk. In assessing whether the credit risk of any asset has increased significantly, the Bank takes into account reasonable and reliable quantitative and qualitative information. The estimates and uses by the Bank's management relating to the significant change in credit risk that result in a change in classification within the three stages (1, 2 and 3) are shown in details in Note (44).

Establish groups of assets with similar credit risk characteristics
When the expected credit losses are measured on a collective basis, the financial instruments are grouped on the basis of common risk characteristics (e.g. instrument type, credit risk, collateral type, initial recognition date, remaining maturity period, industry, borrower's geographic location, etc.). The Bank monitors the appropriateness of credit risk characteristics on an ongoing basis to assess whether they are still similar. This is required to ensure that, in the event of a change in the credit risk characteristics, the asset is properly reallocated. This may result in the creation of new portfolios or the transfer of assets to an existing portfolio that better reflects the credit risk characteristics of that group of assets.

Redivision of portfolios and movements between portfolios
The re-division of portfolios and movements between portfolios is more common when credit risk increases significantly (or when such a large increase is reflected). Therefore, assets are transferred from expected credit losses of between (12) months to another portfolio or vice versa. However, this may happen within the portfolios that continue to be measured on the same basis as expected credit losses for a period of (12) months or a lifetime, but the amount of credit loss changes are expected due to the varying credit risk of portfolios.

Models and assumptions used
The Bank uses various models and assumptions in measuring the fair value of financial assets as well as in assessing the expected credit loss described in Note (44). The judgment is applied when determining the best models for each type of asset as well as for the assumptions used in those models, which include assumptions regarding the main drivers of credit risk.

A) Classification and measurement of financial assets and liabilities
The Bank classifies financial instruments or components of financial assets at initial recognition either as a financial asset or a financial liability, or as a title in accordance with the substance of the contractual agreements and the definition of the instrument. The reclassification of a financial instrument is subject to the substance of the financial statements and not to its legal form.

The Bank shall determine the classification at initial recognition as well as a reassessment of such determination, if possible and appropriate, at each date of the consolidated statement of financial position.

When measuring financial assets and liabilities, certain of the Bank's assets and liabilities are re-measured at fair value for financial reporting purposes. In assessing the fair value of any assets or liabilities, the Bank uses available observable market data. In the absence of Tier 1 inputs, the Bank conducts evaluations using professionally qualified independent evaluators. The Bank works closely with qualified external evaluators to develop appropriate valuation and data valuation techniques.

B) Fair value measurement
If the fair values of financial assets and financial liabilities included in the consolidated statement of financial position cannot be obtained from active markets, these fair values are determined using a range of valuation techniques involving the use of accounting models. If possible, the data entered from those models will be obtained from market data. In the absence of such market data, fair values are determined by making judgments. These provisions include liquidity considerations and model data such as derivative volatility, longer-term discount rates, pre-payment ratios and default rates on asset-backed securities. Management believes that the valuation techniques used are appropriate to determine the fair value of financial instruments.

C) Derivative financial instruments

The fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and, where appropriate, recognized pricing models. In the absence of prices, fair values are determined using valuation techniques that reflect observable market data. These techniques include comparison with similar instruments at observable market prices, discounted cash flow analysis, pricing option models and other valuation techniques commonly used by market participants. The main factors that the Administration takes into consideration when applying the model are:

- The expected timing and probability of future cash flows on the instrument where such cash flows are generally subject to the terms of the instrument, although the management judgment may be required where the counterparty's ability to repay the instrument in accordance with contractual terms is in doubt; and

- Appropriate discount rate for the instrument. Management determines the instrument discount rare at a rate higher than the non-risk rate. In assessing the instrument by reference to comparative instruments, management considers the maturity, structure and degree of classification of the instrument based on the system in which the existing position is compared. When evaluating tools on a model basis using the fair value of the main components, management also considers the need to make adjustments for a number of factors, such as bid differences, credit status, portfolio service costs, and uncertainty about the model.

**Key Sources of Uncertainty Estimates**

The main principal estimates used by management in applying the Bank's accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Determining the number and relative weight of scenarios of the outlook for each type of product / market and the identification of future information relevant to each scenario

When measuring the expected credit loss, the Bank uses reasonable and supported future information based on the assumptions of the future movement of the various economic engines and how these affect each other.

Probability of default

The potential for default is a key input in measuring the expected credit loss. The probability of default is an estimate of the probability of default over a given period of time, which includes the calculation of historical data, assumptions and expectations relating to future circumstances.

Loss given default

Loss on the assumption of default is an estimate of the loss arising from default. It is based on the difference between the contractual cash flows due and those that the financer expects to collect, taking into account cash flows from collateral and integrated credit adjustments.

Fair value measurement and valuation procedures

When estimating the fair value of financial assets and financial liabilities, the Bank uses available observable market data. In the absence of level (1) inputs, the Bank conducts evaluations using appropriate valuation models to determine the fair value of financial instruments.

5. Cash and Balances at the Central Bank of Jordan

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Cash in treasury | 92,196,682 | 55,826,325 |
| **Balances at central banks:** | | |
| Current accounts and demand deposits | 41,419,234 | 55,759,508 |
| Term and notice deposits | - | 45,000,000 |
| Statutory cash reserve | 199,589,584 | 181,725,910 |
| Total | 333,205,500 | 338,311,743 |

- Except for the statutory cash reserve at Central Banks and regulatory authorities, there are no restricted balances as of December 31, 2018 and 2017.

- There are no accrued amounts during a period exceeding three months as of December 31, 2018 and December 31, 2017.

- All balances at the Central Bank of Jordan are classified within stage 1 based on the requirements of IFRS (9). There are also no transfers between Stages (1,2,3) or written-off balances during the year ended December 31, 2018.

- Disclosure on the movements of the central bank balances:

| | Stage (1) - Individual |
|---|---|
| | JD |
| Balance at beginning of period | 282,485,418 |
| New balances during period | 3,523,400 |
| Paid balances | (45,000,000) |
| Balance at end of period | 241,008,818 |

6. Balances at Banks and Financial Institutions

The details of this item are as follows:

| | Local Banks and Financial Institutions | | Foreign Banks and Financial Institutions | | Total | |
|---|---|---|---|---|---|---|
| | December 31, | | December 31, | | December 31, | |
| Description | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Current accounts and demand deposits | 821,867 | 613,846 | 100,300,855 | 229,036,500 | 101,122,722 | 229,650,346 |
| Deposits maturing within or less than 3 months | - | - | 147,283,348 | 96,425,528 | 147,283,348 | 96,425,528 |
| Total | 821,867 | 613,846 | 247,584,203 | 325,462,028 | 248,406,070 | 326,075,874 |
| Provision for expected credit loss | - | - | (141,959) | - | (141,959) | - |
| Net | 821,867 | 613,846 | 247,442,244 | 325,462,028 | 248,264,111 | 326,075,874 |

- Non-interest bearing balances at banks and financial institutions amounted to JD 27,033,140 as of December 31, 2018 (JD 48,064,730 as of December 31, 2017).

- Restricted balances at banks and financial institutions amounted to JD 9,234,477 as of December 31, 2018 and (JD 8,497,494 as of December 31, 2017).

- The movement on balances at banks and financial institutions for the the year ended December 31, 2018 is as follows:

| | Stage (1) Individual | Stage (2) Individual | Stage (3) | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Balance - beginning of the year | 326,075,874 | - | - | 326,075,874 |
| New balances during the year | 214,925,790 | - | - | 214,925,790 |
| Paid balances during the year | (292,595,594) | - | - | (292,595,594) |
| Balance - End of the Year | 248,406,070 | - | - | 248,406,070 |

- The following represents the movement on the provision for impairment loss:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | JD | JD | JD | JD |
| Balance – beginning of the year | - | - | - | - |
| Effect of implementing IFRS (9) | 390,482 | - | - | 390,482 |
| Adjusted balance after implementing IFRS (9) | 390,482 | - | - | 390,482 |
| Impairment on the new balances during the year | 141,959 | - | - | 141,959 |
| Recovered from impairment on the paid balances | (390,482) | - | - | (390,482) |
| Transferred to stage (1) | - | - | - | - |
| Transferred to stage (2) | - | - | - | - |
| Transferred to stage (3) | - | - | - | - |
| Classification between | - | - | - | - |
| Changes from adjusting | - | - | - | - |
| the bad balances and deposits | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - |
| Total balance at the year end | - | - | - | - |
| Balance – End of the Year | 141,959 | - | - | 141,959 |

7. Deposits at Banks and Financial Institutions

The details of this item are as follows:

| | Local Banks and Financial Institutions | | Foreign Banks and Financial Institutions | | Total | |
|---|---|---|---|---|---|---|
| | December 31, | | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| **Deposits mature during the period:** | | | | | | |
| More than 3 months to 6 months | - | - | 1,259,461 | 4,261,598 | 1,259,461 | 4,261,598 |
| More than 6 months to 9 months | 3,000,000 | - | - | - | 3,000,000 | - |
| More than 9 months to 12 months | - | - | - | - | - | - |
| More than a Year | - | 3,000,000 | - | 1,063,500 | - | 4,063,500 |
| Total | 3,000,000 | 3,000,000 | 1,259,461 | 5,325,098 | 4,259,461 | 8,325,098 |
| Provision for expected credit losses | - | - | (571) | - | (571) | - |
| Net | 3,000,000 | 3,000,000 | 1,258,890 | 5,325,098 | 4,258,890 | 8,325,098 |

| | Stage (1) | Stage (2) | Stage (3) | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Balance – beginning of the year | 8,325,098 | - | - | 8,325,098 |
| New deposits during the year | 1,259,461 | - | - | 1,259,461 |
| Paid deposits during the year | (5,325,098) | - | - | (5,325,098) |
| Balance - End of the Year | 4,259,461 | - | - | 4,259,461 |

| | Stage (1) Individual | Stage (2) Individual | Stage (3) | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| Balance – beginning of the year | - | - | - | - |
| Effect of implementing IFRS (9) | 125,765 | - | - | 125,765 |
| Adjusted balance after implementing IFRS (9) | 125,765 | - | - | 125,765 |
| Impairment on the new balances during the year | 571 | - | - | 571 |
| Recovered from impairment on the paid balances | (69,003) | - | - | (69,003) |
| Transferred to stage (1) | - | - | - | - |
| Transferred to stage (2) | - | - | - | - |
| Transferred to stage (3) | - | - | - | - |
| Classification between | - | - | - | - |
| Changes from adjusting | (56,762) | - | - | (56,762) |
| the bad balances and deposits | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - |
| Total balance at the year end | - | - | - | - |
| Balance – End of the Year | 571 | - | - | 571 |

8. Financial Assets at Fair Value through Profit or Loss

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Government bonds listed in financial markets | 65,641 | - |
| Corporate bonds listed in financial markets | 688,489 | - |
| Corporate shares listed in financial markets | 5,815,710 | 3,658,948 |
| Investment Funds | 6,908,652 | 3,850,332 |
| Total | 13,478,492 | 7,509,280 |

9. Direct Credit and Financing Facilities - Net

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| **Individuals (retail):** | | |
| Overdraft accounts | 14,128,985 | 11,727,365 |
| Loans and promissory notes* | 425,192,861 | 346,626,917 |
| Credit cards | 10,047,891 | 7,967,050 |
| **Real estate loans** | 676,724,409 | 582,624,848 |
| **Large Companies** | | |
| Overdraft accounts | 115,962,039 | 121,778,528 |
| Loans and promissory notes * | 861,212,816 | 835,326,438 |
| **Small and Medium** | | |
| Overdraft accounts | 32,977,931 | 37,256,005 |
| Loans and promissory notes * | 109,222,969 | 94,077,515 |
| **Government and public sector** | 136,294,904 | 135,307,843 |
| **Total** | 2,381,764,805 | 2,172,692,509 |
| Less: Provision of expected credit losses | 16,198,168 | 16,068,570 |
| Interest in suspense | 87,648,181 | 72,295,950 |
| Net Direct Credit and financing Facilities | 2,277,918,456 | 2,084,327,989 |

* Net after deducting interest and commission received in advance of JD 3,026,798 as of December 31, 2018 (JD 1,874,992 as of December 31, 2017).

- Non-performing credit and financing facilities included in stage (3) amounted to JD 117,508,889, which is equivalent to 4.93% of total direct credit and financing facilities as of December 31, 2018 (JD 107,481,008,which is equivalent to 4.95% of total direct credit and financing facilities as of December 31, 2017).

- Non- performing credit and financing facilities included in stage (3) after deducting interest and commissions in suspense amounted to JD 101,310,721, which is equivalent to 4,28% of total direct credit facilities balance after deducting interest and commission in suspense as of December 31, 2018 (JD 91,412,438, which is equivalent to 4.24% of total credit facilities balance after deducting interest and commission in suspense as of December 31, 2017).

- Direct credit facilities granted to and guaranteed by the Government of the Hashemite Kingdom of Jordan amounted to JD 103,848,9 which is equivalent to 4.36% of total direct credit facilities as of December 31, 2018 (JD 107,331,399, which is equivalent to 4.94% as of December 31, 2017).

- The facilities according to the Islamic law related to Safwa Islamic Bank amounted to JD 773,335,043, which is equivalent to 32.47% of total direct credit facilities as of December 31, 2018 (JD 678,302,346, which is equivalent to 31.22% as of December 31, 2017).

The movement on direct credit and financing facilities during the year were as follows:

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | collective | Individual | collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 1,540,548,219 | 330,462,462 | 187,530,992 | 6,669,828 | 107,481,008 | 2,172,692,509 |
| New credit and financing facilities during the year | 729,883,014 | 125,489,679 | 37,502,886 | 580,927 | 10,756,072 | 904,212,578 |
| Paid credit facilities | (506,348,206) | (64,813,740) | (87,857,689) | (4,677,650) | (19,991,486) | (683,688,771) |
| Transferred to stage (1) | 22,594,023 | 307,505 | (21,980,780) | (302,034) | (618,714) | - |
| Transferred to stage (2) | (147,103,698) | (8,220,289) | 148,118,028 | 8,690,412 | (1,484,453) | - |
| Transferred to stage (3) | (13,121,943) | (423,011) | (17,720,986) | (1,552,033) | 32,817,973 | - |
| Effect of adjustment | - | - | - | - | - | - |
| Written off credit facilities | - | - | - | - | (11,451,511) | (11,451,511) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 1,626,451,409 | 382,802,606 | 245,592,451 | 9,409,450 | 117,508,889 | 2,381,764,805 |

The movement on the provision for expected credit and financing loss during the period were as follows:

| | Individual | Real Estate | Corporations | | Governmental | Total |
|---|---|---|---|---|---|---|
| | | | Large Corprate | SME's | and Public | |
| | JD | JD | JD | JD | JD | JD |
| For the Year ended December 31, 2018 | | | | | | |
| Balance at the beginning of the year | 7,618,092 | 3,700,092 | 56,838,583 | 4,139,183 | - | 72,295,950 |
| Impact of Implementing IFRS (9) | 1,911,832 | 1,683,804 | 10,332,629 | 766,929 | 83,078 | 14,778,272 |
| Adjusted beginning balance of the year | 9,529,924 | 5,383,896 | 67,171,212 | 4,906,112 | 83,078 | 87,074,222 |
| Impairment on new Credit facilities during the year | 1,491,378 | 2,130,436 | 8,683,792 | 694,929 | 280,000 | 13,280,535 |
| Recovered from Impairment on paid credit facilities | (1,638,022) | (1,635,033) | (5,788,040) | (987,795) | (186) | (10,049,076) |
| Transferred to stage (1) | 359,874 | (13,367) | (449,023) | (79,191) | - | (181,707) |
| Transferred to stage (2) | 108,480 | 146,600 | 417,602 | 5,405 | - | 678,087 |
| Transferred to stage (3) | (468,354) | (133,233) | 31,421 | 73,786 | - | (496,380) |
| Effect due to adjustments | 2,485,717 | 1,111,522 | 1,485,816 | 2,215,690 | (15,651) | 7,283,094 |
| Written off credit facilities | (115,905) | (164,413) | (9,620,117) | (40,159) | - | (9,940,594) |
| Balance at the Ending of the Year | 11,753,092 | 6,826,408 | 61,932,663 | 6,788,777 | 347,241 | 87,648,181 |
| **Redistribution:** | | | | | | |
| Provision on an Individual basis | 11,420,511 | 6,824,371 | 61,932,663 | 6,709,244 | 347,241 | 87,234,030 |
| Provision on a collective basis | 332,581 | 2,037 | - | 79,533 | - | 414,151 |
| | 11,753,092 | 6,826,408 | 61,932,663 | 6,788,777 | 347,241 | 87,648,181 |
| For the Year Ended December 31, 2017 | | | | | | |
| Balance at the beginning of the year | 4,703,668 | 3,793,242 | 48,573,823 | 1,397,828 | - | 58,468,561 |
| Resulted from the acquisition of Safwa Islamic Bank | 1,108,733 | - | 7,957,745 | - | - | 9,066,478 |
| Surplus from risk investment banking reserve | - | - | (843,358) | - | - | (843,358) |
| Deducted (recovered) during the year from revenues | 1,807,673 | (90,937) | 10,719,216 | 2,793,333 | - | 15,229,285 |
| Written-off debts | (1,982) | (2,213) | (9,568,843) | (51,978) | - | (9,625,016) |
| Balance as at the end of the year | 7,618,092 | 3,700,092 | 56,838,583 | 4,139,183 | - | 72,295,950 |
| Provision for watch lists credit facilities and financing as per client | 203,594 | 10,307 | 1,420,194 | 36,630 | - | 1,670,725 |
| Provision for non-performing credit facilities and financing as per client | 7,414,498 | 3,689,785 | 55,418,389 | 4,102,553 | - | 70,625,225 |
| Balance as at the End of the Year | 7,618,092 | 3,700,092 | 56,838,583 | 4,139,183 | - | 72,295,950 |

- During the year ended December 31, 2018, an amount of JD 10,485,181 was transferred to off-balance sheet items (JD 8,964,834 as of December 31, 2017), and direct credit facilities of JD 906,338 were written off according to the Board of Directors' decision regarding this matter (JD 1,031,597 as of December 31, 2017).

* The Bank has implemented the Central Bank of Jordan's instructions related to the IFRS (9) starting from 1 January 2018 retrospectively, and the cumulative credit loss due to the implementation amounted to JD 14,778,272 before tax as an adjustment to the opening balance of the provision for direct credit facilities as of January 1, 2018.

Interest in Suspense

The following is the movement on interest in suspense:

| | | | Corporate Entities | | | |
|---|---|---|---|---|---|---|
| | Individual | Real estate loans | Corporates | SMEs | Government and Public Sector | Total |
| | JD | JD | JD | JD | JD | JD |
| For the Year ended December 31, 2018 | | | | | | |
| Balance beginning of the period | 1,661,408 | 4,809,524 | 8,779,001 | 703,075 | 115,562 | 16,068,570 |
| Add: Interests and returns suspended during the period | 988,161 | 649,945 | 964,338 | 592,138 | - | 3,194,582 |
| Less: Interests and returns transferred to revenues | 176,893 | 1,263,222 | 71,123 | 42,831 | - | 1,554,069 |
| Written-off suspended interest | 88,482 | 419,959 | 869,547 | 132,927 | - | 1,510,915 |
| Balance at the Ending of the Year | 2,384,194 | 3,776,288 | 8,802,669 | 1,119,455 | 115,562 | 16,198,168 |
| For the Year ended December 31, 2017 | | | | | | |
| Balance beginning of the Year | 1,190,119 | 4,440,522 | 8,983,839 | 459,877 | 115,562 | 15,189,919 |
| Result from the acquisition of Safwa Islamic Bank | 150,326 | - | 489,084 | - | - | 639,410 |
| Add: Interest and returns suspended during the period | 618,502 | 707,304 | 1,312,477 | 325,494 | - | 2,963,777 |
| Less: Interests and returns transferred to revenue | 244,417 | 301,456 | 1,756,265 | 50,983 | - | 2,353,121 |
| Written-off suspended interest | 53,122 | 36,846 | 250,134 | 31,313 | - | 371,415 |
| Balance End of the Year | 1,661,408 | 4,809,524 | 8,779,001 | 703,075 | 115,562 | 16,068,570 |

Following the expousures according to IFRS (9):

As of December 31, 2018

| | Stage (1) | | | Stage (2) | | | Stage (3) | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct Credit Facilities | Provision for Expected Credit Loss | Interest in Suspense | Direct Credit Facilities | Provision for Expected Credit Loss | Interest in Suspense | Direct Credit Facilities | Provision for Expected Credit Loss | Interest in Suspense | Direct Credit Facilities | Provision for Expected Credit Loss | Interest in Suspense |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Individual | 424,819,242 | 1,186,778 | - | 8,190,527 | 411,947 | - | 16,359,968 | 10,154,367 | 2,384,194 | 449,369,737 | 11,753,092 | 2,384,194 |
| Real Estate Loans | 591,439,446 | 109,348 | - | 68,164,691 | 2,541,438 | - | 17,120,272 | 4,175,622 | 3,776,288 | 676,724,409 | 6,826,408 | 3,776,288 |
| Corporate entities | 745,078,413 | 10,822,336 | - | 162,346,127 | 1,630,692 | - | 69,750,315 | 49,479,635 | 8,918,231 | 977,174,855 | 61,932,663 | 8,918,231 |
| SME's | 111,622,010 | 347,630 | - | 16,300,556 | 225,608 | - | 14,278,334 | 6,215,539 | 1,119,455 | 142,200,900 | 6,788,777 | 1,119,455 |
| Governmental and Public | 136,294,904 | 347,241 | - | - | - | - | - | - | - | 136,294,904 | 347,241 | - |
| | 2,009,254,015 | 12,813,333 | - | 255,001,901 | 4,809,685 | - | 117,508,889 | 70,025,163 | 16,198,168 | 2,381,764,805 | 87,648,181 | 16,198,168 |

As of January 1, 2018

| | Stage (1) | | | Stage (2) | | | Stage (3) | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct Credit Facilities | Provision for Expected Credit Loss | Interest in Suspense | Direct Credit Facilities | Provision for Expected Credit Loss | Interest in Suspense | Direct Credit Facilities | Provision for Expected Credit Loss | Interest in Suspense | Direct Credit Facilities | Provision for Expected Credit Loss | Interest in Suspense |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Individual | 345,823,837 | 1,668,534 | - | 9,999,908 | 441,714 | - | 10,497,587 | 7,419,676 | 1,661,408 | 366,321,332 | 9,529,924 | 1,661,408 |
| Real Estate Loans | 521,625,817 | 317,582 | - | 43,013,661 | 587,873 | - | 17,985,370 | 4,478,441 | 4,809,524 | 582,624,848 | 5,383,896 | 4,809,524 |
| Corporate entities | 756,551,844 | 8,668,908 | - | 129,795,529 | 3,041,846 | - | 70,757,593 | 55,460,458 | 8,894,563 | 957,104,966 | 67,171,212 | 8,894,563 |
| SME's | 111,701,340 | 651,767 | - | 11,391,722 | 151,734 | - | 8,240,458 | 4,102,611 | 703,075 | 131,333,520 | 4,906,112 | 703,075 |
| Governmental and Public | 135,307,843 | 83,078 | - | - | - | - | - | - | - | 135,307,843 | 83,078 | - |
| | 1,871,010,681 | 11,389,869 | - | 194,200,820 | 4,223,167 | - | 107,481,008 | 71,461,186 | 16,068,570 | 2,172,692,509 | 87,074,222 | 16,068,570 |

The movement on the credit and financing facilities on a collective basis as of the year end:

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 1,540,548,219 | 330,462,462 | 187,530,992 | 6,669,828 | 107,481,008 | 2,172,692,509 |
| New Exposures during the year | 729,883,014 | 125,489,679 | 37,502,886 | 580,927 | 10,756,072 | 904,212,578 |
| Exposures paid during the year | (506,348,206) | (64,813,740) | (87,857,689) | (4,677,650) | (19,991,486) | (683,688,771) |
| Transferred to stage (1) | 22,594,023 | 307,505 | (21,980,780) | (302,034) | (618,714) | - |
| Transferred to stage (2) | (147,103,698) | (8,220,289) | 148,118,028 | 8,690,412 | (1,484,453) | - |
| Transferred to stage (3) | (13,121,943) | (423,011) | (17,720,986) | (1,552,033) | 32,817,973 | - |
| Effect on the volume of exposures due to changes in the classifications between stages | (137,631,618) | (8,335,795) | 108,416,262 | 6,836,345 | 30,714,806 | - |
| Changes from adjusting | - | - | - | - | - | - |
| the bad exposures | - | - | - | - | (11,451,511) | (11,451,511) |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Total balance at year- end | 1,626,451,409 | 382,802,606 | 245,592,451 | 9,409,450 | 117,508,889 | 2,381,764,805 |

The movement of the provision for expected credit losses on a collectve basis as for the year-end:

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 11,235,480 | 154,389 | 4,185,528 | 37,639 | 71,461,186 | 87,074,222 |
| Impairment losses on the new exposures during the year | 7,012,145 | 151,950 | 2,327,408 | 20,416 | 3,768,616 | 13,280,535 |
| Recovered from impairment on the paid exposures during the year | (3,929,556) | (25,695) | (1,355,853) | (917) | (4,737,055) | (10,049,076) |
| Transferred to stage (1) | 1,118,859 | 3,753 | (784,996) | (3,753) | (333,863) | - |
| Transferred to stage (2) | (1,190,747) | (12,590) | 1,594,422 | 189,754 | (580,839) | - |
| Transferred to stage (3) | (97,901) | (3,081) | (273,097) | (44,243) | 418,322 | - |
| Effect on the impairment loss due to changes in the classifications between stages | (169,789) | (11,918) | 536,329 | 141,758 | (496,380) | - |
| Effect on the provision resulting from adjustment | (1,615,589) | 11,916 | (1,017,236) | (65,387) | 9,969,390 | 7,283,094 |
| Impairment on the bad exposures | - | - | - | - | (9,940,594) | (9,940,594) |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Total balance at the year-end | 12,532,691 | 280,642 | 4,676,176 | 133,509 | 70,025,163 | 87,648,181 |

The distribution of total credit and financing facilities by the internal credit rating for Individuals is as follows:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Stage (1) Individual | Stage (1) Collective | Stage (2) Individual | Stage (2) Collective | Stage (3) Individual | Total | Total |
| | JD | JD | JD | JD | JD | JD | JD |
| Credit rating categories based on the Bank's internal system: | | | | | | | |
| 1 | 1,149,338 | - | - | - | - | 1,149,338 | - |
| 2 | 6,579,002 | - | 47,469 | - | - | 6,626,471 | - |
| 3 | 3,018,137 | - | 155,227 | - | - | 3,173,364 | - |
| 4 | 3,258,328 | - | 167,220 | - | - | 3,425,548 | 34,492 |
| 5 | 1,634,766 | - | 650,503 | - | - | 2,285,269 | 7,628 |
| 6 | 665,001 | - | 705,130 | - | - | 1,370,131 | 77,124 |
| 7 | 438,271 | - | - | - | - | 438,271 | - |
| 8 | - | - | - | - | 1,572,580 | 1,572,580 | - |
| Not rated | 282,301,868 | 125,774,531 | 4,103,818 | 2,361,160 | 14,787,388 | 429,328,765 | 366,202,088 |
| Total | 299,044,711 | 125,774,531 | 5,829,367 | 2,361,160 | 16,359,968 | 449,369,737 | 366,321,332 |

The movement on credit and financing facilities for Individuals is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 237,235,838 | 108,587,999 | 8,189,367 | 1,810,541 | 10,497,587 | 366,321,332 |
| New credit facilities during the year | 120,925,920 | 49,456,454 | 464,492 | 116,215 | 2,443,220 | 173,406,301 |
| Paid credit facilities | (55,825,031) | (29,805,279) | (1,899,598) | (915,757) | (1,686,028) | (90,131,693) |
| Transferred to stage (1) | 3,241,277 | 88,436 | (2,936,017) | (82,965) | (310,731) | - |
| Transferred to stage (2) | (3,897,385) | (2,173,996) | 4,156,078 | 2,388,759 | (473,456) | - |
| Transferred to stage (3) | (2,635,908) | (379,083) | (2,144,955) | (955,633) | 6,115,579 | - |
| Effect on the volume of exposures due to the changes between stages | (3,292,016) | (2,464,643) | (924,894) | 1,350,161 | 5,331,392 | - |
| Effect of adjustment | - | - | - | - | - | - |
| Written-off credit facilities | - | - | - | - | (226,203) | (226,203) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 299,044,711 | 125,774,531 | 5,829,367 | 2,361,160 | 16,359,968 | 449,369,737 |

The movement on the provision for credit loss for Individuals credit facilities during the year ended December 31, 2018 is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 1,521,846 | 146,688 | 405,061 | 36,653 | 7,419,676 | 9,529,924 |
| Impairment losses on the new exposures during the year | 351,012 | 99,634 | 31,330 | 5,094 | 1,004,308 | 1,491,378 |
| Recovered from impairment on the paid exposures during the year | (623,680) | (11,527) | (37,571) | (421) | (964,823) | (1,638,022) |
| Transferred to stage (1) | 444,888 | 3,753 | (187,873) | (3,753) | (257,015) | - |
| Transferred to stage (2) | (44,143) | (9,898) | 228,476 | 187,062 | (361,497) | - |
| Transferred to stage (3) | (33,204) | (1,522) | (75,257) | (40,175) | 150,158 | - |
| Effect on impairment losses due to the changes in the classifications between stages | 367,541 | (7,667) | (34,654) | 143,134 | (468,354) | - |
| Effect on the provision resulting from adjustment | (646,702) | (10,367) | (68,039) | (68,640) | 3,279,465 | 2,485,717 |
| Impairment loss on written-off credit facilities | - | - | - | - | (115,905) | (115,905) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 970,017 | 216,761 | 296,127 | 115,820 | 10,154,367 | 11,753,092 |

The distribution of total credit and financing facilities by internal credit rating for Real Estate is as follows:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Stage (1) | Stage (1) | Stage (2) | Stage (2) | Stage (3) | | |
| | Individual | Collective | Individual | Collective | Individual | Total | Total |
| Credit rating categories based on the Nank's internal system: | JD | JD | JD | JD | JD | JD | JD |
| 1 | 856,232 | - | - | - | - | 856,232 | - |
| 2 | 15,759,032 | - | 130,348 | - | - | 15,889,380 | 3,347,429 |
| 3 | 14,621,774 | - | 1,474,627 | - | - | 16,096,401 | 13,890,093 |
| 4 | 43,971,081 | - | 1,435,346 | - | - | 45,406,427 | 16,044,823 |
| 5 | 53,399,890 | - | 8,438,093 | - | - | 61,837,983 | 43,868,282 |
| 6 | 12,871,693 | - | 18,196,570 | - | - | 31,068,263 | 30,877,343 |
| 7 | 2,514,011 | - | 20,864,736 | - | - | 23,378,747 | 12,620,825 |
| 8 | - | - | - | - | 5,232,609 | 5,232,609 | 2,966,391 |
| Not rated | 202,694,757 | 244,750,976 | 10,951,887 | 6,673,084 | 11,887,663 | 476,958,367 | 459,009,662 |
| Total | 346,688,470 | 244,750,976 | 61,491,607 | 6,673,084 | 17,120,272 | 676,724,409 | 582,624,848 |

The movement on credit and financing facilities for Real Estate is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 303,597,224 | 218,028,593 | 38,536,747 | 4,476,914 | 17,985,370 | 582,624,848 |
| New credit facilities during the year | 108,811,030 | 64,623,322 | 16,302,454 | 131,784 | 1,365,820 | 191,234,410 |
| Paid credit facilities | (42,950,373) | (32,150,502) | (11,335,952) | (3,460,695) | (6,674,770) | (96,572,292) |
| Transferred to stage (1) | 8,013,447 | 219,069 | (7,713,340) | (219,069) | (300,107) | - |
| Transferred to stage (2) | (27,809,638) | (5,969,506) | 28,199,157 | 6,224,866 | (644,879) | - |
| Transferred to stage (3) | (2,973,220) | - | (2,497,459) | (480,716) | 5,951,395 | - |
| Effect on the volume of exposures due to the changes between stages | (22,769,411) | (5,750,437) | 17,988,358 | 5,525,081 | 5,006,409 | - |
| Effect of adjustment | - | - | - | - | - | - |
| Written-off credit facilities | - | - | - | - | (562,557) | (562,557) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 346,688,470 | 244,750,976 | 61,491,607 | 6,673,084 | 17,120,272 | 676,724,409 |

The movement on the provision for credit loss for Real Estate credit facilities is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 317,354 | 228 | 587,873 | - | 4,478,441 | 5,383,896 |
| Impairment losses on the new exposures during the year | 22,290 | 377 | 2,080,276 | - | 27,493 | 2,130,436 |
| Recovered from impairment on the paid exposures during the year | (16,630) | - | (632,434) | - | (985,969) | (1,635,033) |
| Transferred to stage (1) | 81,348 | - | (9,346) | - | (72,002) | - |
| Transferred to stage (2) | (86,578) | (9) | 190,575 | 9 | (103,997) | - |
| Transferred to stage (3) | (8,128) | - | (34,638) | - | 42,766 | - |
| Effect on impairment losses due to the changes in the classifications between stages | (13,358) | (9) | 146,591 | 9 | (133,233) | - |
| Effect on the provision resulting from adjustment | (202,320) | 1,416 | 359,107 | 16 | 953,303 | 1,111,522 |
| Impairment loss on written off credit facilities | - | - | - | - | (164,413) | (164,413) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 107,336 | 2,012 | 2,541,413 | 25 | 4,175,622 | 6,828,408 |

The distribution of total credit and financing facilities by internal credit rating for corporates is as follow:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Stage (1) | Stage (1) | Stage (2) | Stage (2) | Stage (3) | | |
| | Individual | Collective | Individual | Collective | Individual | Total | Total |
| Credit rating categories based on theBank's internal system: | JD | JD | JD | JD | JD | JD | JD |
| 1 | - | - | - | - | - | - | - |
| 2 | 26,079,425 | - | - | - | - | 26,079,425 | 34,971,287 |
| 3 | 103,441,035 | - | 2,662,885 | - | - | 106,103,920 | 59,120,004 |
| 4 | 213,884,201 | - | 8,371,855 | - | - | 222,256,056 | 149,902,325 |
| 5 | 189,145,978 | - | 5,381,781 | - | 406,352 | 194,934,111 | 87,578,284 |
| 6 | 180,637,284 | - | 18,300,519 | - | - | 198,937,803 | 193,460,710 |
| 7 | 31,684,771 | - | 110,438,782 | - | - | 142,123,553 | 172,797,885 |
| 8 | - | - | - | - | 26,397,693 | 26,397,693 | - |
| Not rated | 205,719 | - | 17,190,305 | - | 42,946,270 | 60,342,294 | 259,274,471 |
| **Total** | 745,078,413 | - | 162,346,127 | - | 69,750,315 | 977,174,855 | 957,104,966 |

The movement on credit and financing facilities for corporates is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 756,551,844 | - | 129,795,529 | - | 70,757,593 | 957,104,966 |
| New credit facilities during the year | 424,611,683 | - | 13,356,691 | - | 4,247,290 | 442,215,664 |
| Paid credit facilities | (338,425,770) | - | (65,252,119) | - | (7,978,221) | (411,656,110) |
| Transferred to stage (1) | 10,080,825 | - | (10,080,825) | - | - | - |
| Transferred to stage (2) | (104,112,694) | - | 104,451,004 | - | (338,310) | - |
| Transferred to stage (3) | (3,627,475) | - | (9,924,153) | - | 13,551,628 | - |
| Effect on the volume of exposures due to the changes between stages | (97,659,344) | - | 84,446,026 | - | 13,213,318 | - |
| Effect of adjustment | - | - | - | - | - | - |
| Written-off credit facilities | - | - | - | - | (10,489,665) | (10,489,665) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 745,078,413 | - | 162,346,127 | - | 69,750,315 | 977,174,855 |

The movement on the provision for credit loss for corporates credit facilities is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 8,668,908 | - | 3,041,846 | - | 55,460,458 | 67,171,212 |
| Impairment losses on the new exposures during the year | 6,173,000 | - | 146,083 | - | 2,364,709 | 8,683,792 |
| Recovered from impairment on the paid exposures during the year | (2,909,522) | - | (625,013) | - | (2,253,505) | (5,788,040) |
| Transferred to stage (1) | 576,384 | - | (576,384) | - | - | - |
| Transferred to stage (2) | (1,000,859) | - | 1,090,213 | - | (89,354) | - |
| Transferred to stage (3) | (24,548) | - | (96,227) | - | 120,775 | - |
| Effect on impairment losses due to the changes in the classifications between stages | (449,023) | - | 417,602 | - | 31,421 | - |
| Effect on the provision resulted from adjustment | (661,027) | - | (1,349,826) | - | 3,496,669 | 1,485,816 |
| Impairment loss on written off credit facilities | - | - | - | - | (9,620,117) | (9,620,117) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 10,822,336 | - | 1,630,692 | - | 49,479,635 | 61,932,663 |

The distribution of total credit and financing facilities by internal credit rating for (SME's) as follow:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Stage (1) | Stage (1) | Stage (2) | Stage (2) | Stage (3) | | |
| | Individual | Collective | Individual | Collective | Individual | Total | Total |
| | JD | JD | JD | JD | JD | JD | JD |
| Credit rating categories based on the bank's internal system: | | | | | | | |
| 1 | - | - | - | - | - | - | - |
| 2 | 371,505 | - | - | - | - | 371,505 | 737,762 |
| 3 | 28,502,989 | - | 405,822 | - | - | 28,908,811 | 30,411,754 |
| 4 | 27,148,674 | - | 2,797,663 | - | - | 29,946,337 | 28,334,296 |
| 5 | 22,195,743 | - | 1,262,702 | - | - | 23,458,445 | 19,271,397 |
| 6 | 15,961,923 | - | 3,224,559 | - | - | 19,186,482 | 25,687,388 |
| 7 | 5,164,077 | - | 6,816,463 | - | - | 11,980,540 | 20,877,903 |
| 8 | - | - | - | - | 7,467,396 | 7,467,396 | - |
| Not rated | - | 12,277,099 | 1,418,141 | 375,206 | 6,810,938 | 20,881,384 | 6,013,020 |
| Total | 99,344,911 | 12,277,099 | 15,925,350 | 375,206 | 14,278,334 | 142,200,900 | 131,333,520 |

The movement on credit and financing facilities for SME's during the year ended December 31, 2018 is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 107,855,470 | 3,845,870 | 11,009,349 | 382,373 | 8,240,458 | 131,333,520 |
| New credit facilities during the year | 54,885,864 | 11,409,903 | 7,379,249 | 332,928 | 2,699,742 | 76,707,686 |
| Paid credit facilities | (49,485,576) | (2,857,959) | (9,370,020) | (301,198) | (3,652,467) | (65,667,220) |
| Transferred to stage (1) | 1,258,474 | - | (1,250,598) | - | (7,876) | - |
| Transferred to stage (2) | (11,283,981) | (76,787) | 11,311,789 | 76,787 | (27,808) | - |
| Transferred to stage (3) | (3,885,340) | (43,928) | (3,154,419) | (115,684) | 7,199,371 | - |
| Effect on the volume of exposures due to the changes between stages | (13,910,847) | (120,715) | 6,906,772 | (38,897) | 7,163,687 | - |
| Effect of adjustment | - | - | - | - | - | - |
| Written-off credit facilities | - | - | - | - | (173,086) | (173,086) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 99,344,911 | 12,277,099 | 15,925,350 | 375,206 | 14,278,334 | 142,200,900 |

The movement on the provision for credit loss for (SME's) credit facilities is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 644,294 | 7,473 | 150,748 | 986 | 4,102,611 | 4,906,112 |
| Impairment losses on the new exposures during the year | 185,843 | 51,939 | 69,719 | 15,322 | 372,106 | 694,929 |
| Recovered from impairment on the paid exposures during the year | (379,538) | (14,168) | (60,835) | (496) | (532,758) | (987,795) |
| Transferred to stage (1) | 16,239 | - | (11,393) | - | (4,846) | - |
| Transferred to stage (2) | (59,167) | (2,683) | 85,158 | 2,683 | (25,991) | - |
| Transferred to stage (3) | (32,021) | (1,559) | (66,975) | (4,068) | 104,623 | - |
| Effect on impairment losses due to the changes in the classifications between stages | (74,949) | (4,242) | 6,790 | (1,385) | 73,786 | - |
| Effect on the provision resulted from adjustment | (89,889) | 20,867 | 41,522 | 3,237 | 2,239,953 | 2,215,690 |
| Impairment loss on written off credit facilities | - | - | - | - | (40,159) | (40,159) |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 285,761 | 61,869 | 207,944 | 17,664 | 6,215,539 | 6,788,777 |

The distribution of total credit and financing facilities by internal credit rating for Government and Public Sector is as follows:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Stage (1) | Stage (1) | Stage (2) | Stage (2) | Stage (3) | | |
| | Individual | Collective | Individual | Collective | Individual | Total | Total |
| | JD | JD | JD | JD | JD | JD | JD |
| Credit rating categories based on the bank's internal system: | | | | | | | |
| 1 | 89,551,625 | - | - | - | - | 89,551,625 | 107,290,073 |
| 2 | - | - | - | - | - | - | - |
| 3 | 12,363,769 | - | - | - | - | 12,363,769 | 9,844,831 |
| 4 | 15,708,671 | - | - | - | - | 15,708,671 | 12,344,713 |
| 5 | 4,373,551 | - | - | - | - | 4,373,551 | 5,786,884 |
| 6 | 14,185,767 | - | - | - | - | 14,185,767 | 34,671 |
| 7 | - | - | - | - | - | - | 6,657 |
| 8 | - | - | - | - | - | - | - |
| Not rated | 111,521 | - | - | - | - | 111,521 | 14 |
| Total | 136,294,904 | - | - | - | - | 136,294,904 | 135,307,843 |

The movement on credit and financing facilities for Government and Public Sector is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 135,307,843 | - | - | - | - | 135,307,843 |
| New credit facilities during the year | 20,648,517 | - | - | - | - | 20,648,517 |
| Paid credit facilities | (19,661,456) | - | - | - | - | (19,661,456) |
| Transferred to stage (1) | - | - | - | - | - | - |
| Transferred to stage (2) | - | - | - | - | - | - |
| Transferred to stage (3) | - | - | - | - | - | - |
| Effect on the volume of exposures due to the changes between stages | - | - | - | - | - | - |
| Effect of adjustment | - | - | - | - | - | - |
| Written-off credit facilities | - | - | - | - | - | - |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 136,294,904 | - | - | - | - | 136,294,904 |

The movement on the provision for credit loss for Government and Public Sector credit facilities is as follows:

| | Stage (1) | | Stage (2) | | Stage (3) | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Individual | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 83,078 | - | - | - | - | 83,078 |
| Impairment losses on the new exposures during the year | 280,000 | - | - | - | - | 280,000 |
| Recovered from impairment on the paid exposures during the year | (186) | - | - | - | - | (186) |
| Transferred to stage (1) | - | - | - | - | - | - |
| Transferred to stage (2) | - | - | - | - | - | - |
| Transferred to stage (3) | - | - | - | - | - | - |
| Effect on impairment losses due to the changes in the classifications between stages | - | - | - | - | - | - |
| Effect on the provision resulted from adjustment | (15,651) | - | - | - | - | (15,651) |
| Impairment loss on written-off credit facilities | - | - | - | - | - | - |
| Adjustments due to change in exchange rates | - | - | - | - | - | - |
| Balance - End of the Year | 347,241 | - | - | - | - | 347,241 |

## 10. Financial Assets at Fair Value through Other Comprehensive Income

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Quoted shares in active markets | 22,038,515 | 26,751,131 |
| Unquoted shares in active markets | 6,492,405 | 4,126,605 |
| | 28,530,920 | 30,877,736 |

- Losses transferred to retained earnings on the sale of financial assets at fair value through other comprehensive income of JD 170,199 as of December 31, 2018 (JD 1,117,743 as of December 31, 2017).

- Cash dividends on the financial assets mentioned above amounted to JD 1,026,133 for the year ended December 31, 2018 (JD 938,772 for the year ended December 31, 2017).

## 11. Finanical Assets at Amortized Cost - Net

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| **Quoted Financial Assets:** | | |
| Foreign treasury bonds | 47,858,829 | 33,352,441 |
| Corporate bonds and debentures | 63,262,689 | 46,058,847 |
| **Unquoted Financial Assets:** | | |
| Governmental guaranteed bonds and bills | 614,264,340 | 496,187,965 |
| Corporate bonds and debentures | 41,175,000 | 43,487,500 |
| | 766,560,858 | 619,086,753 |
| Less: Provision for excepted credit loss related to financial assets within stage (1) | 618,668 | - |
| Provision for excepted credit loss related to financial assets within stage (2) | - | - |
| Provision for excepted credit loss related to financial assets within stage (3) | 250,000 | 1,390,625 |
| | 765,692,190 | 617,696,128 |
| **Bonds and Bills Analysis** | | |
| With Fixed rate | 746,889,318 | 618,000,425 |
| With Floating rate | 19,671,540 | 1,086,328 |
| Total | 766,560,858 | 619,086,753 |
| **Bonds Analysis IFRS 9:** | | |
| stage (1) | 766,310,858 | 616,099,253 |
| stage (2) | - | - |
| stage (3) | 250,000 | 2,987,500 |
| Total | 766,560,858 | 619,086,753 |

- The following is the movement on financial assets at amortized cost:

| | Stage (1) Individual | Stage (2) Individual | Stage (3) Individual | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| **For the year ended December 31, 2018** | | | | |
| Balance - beginning of the year | 616,099,253 | - | 2,937,500 | 619,036,753 |
| New investments during the year | 263,084,420 | - | - | 263,084,420 |
| Accrued investment | (112,872,815) | - | (2,737,500) | (115,610,315) |
| Change in the fair value | - | - | - | - |
| Transferred to Stage (1) | - | - | - | - |
| Transferred to Stage (2) | - | - | - | - |
| Transferred to Stage (3) | - | - | - | - |
| Changes from adjustments | - | - | - | - |
| Written off invetments | - | - | - | - |
| Adjustments due to change in exchange rates | - | - | - | - |
| Balance - End of the Year | 766,310,858 | - | 250,000 | 766,560,858 |

- The following is the movement on the provision for expected credit losses for financial assets at amortized cost:

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | Stage (1) Individual | Stage (2) Individual | Stage (3) Individual | Total | Total |
| | JD | JD | JD | JD | JD |
| Balance - beginning of the year | - | - | 1,390,625 | 1,390,625 | 843,125 |
| Effect of implementing IFRS (9) - Note (3) | 235,192 | - | - | 235,192 | - |
| Adjusted beginning balance for the year | 235,192 | - | 1,390,625 | 1,625,817 | 843,125 |
| Expected credit losses on new investments during the year | 411,505 | - | - | 411,505 | - |
| Recovered from impairment losses on accrued investments | (38,162) | - | (1,140,625) | (1,178,787) | - |
| Transferred to Stage (1) | - | - | - | - | - |
| Transferred to Stage (2) | - | - | - | - | - |
| Transferred to Stage (3) | - | - | - | - | - |
| Impact on the provision - for the year ended- due to reclassifications between the three stages during the year | - | - | - | - | - |
| Changes from adjustments | 10,133 | - | - | 10,133 | - |
| Written off invetments | - | - | - | - | - |
| Adjustments due to change in exchange rates | - | - | - | - | - |
| Deducted during the period from the revenues | - | - | - | - | 547,500 |
| Balance - End of the Year | 618,668 | - | 250,000 | 868,668 | 1,390,625 |

## 12. Investments in Associates

The details of this item are as follows:

| Company Name | Country of Residence | Ownership % | Nature of Activity | December 31, 2018 | December 31, 2017 |
|---|---|---|---|---|---|
| Jordan Blending & Packing of Fertilizers Co. | Jordan | 25% | Industrial | 376,618 | 377,262 |

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balance beginning of the Year | 377,262 | - |
| Result from the acquisition of Safwa Islamic bank | - | 370,362 |
| Group's share from profit of the year | 8,356 | 16,900 |
| Collected cash dividends | (9,000) | (10,000) |
| Balance End of the Year | 376,618 | 377,262 |

The details of the associate's assets and liabilities are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Total Assets | 1,907,964 | 1,905,096 |
| Total Liabilities | (401,492) | (396,052) |
| Net Assets | 1,506,472 | 1,509,044 |

13. Property and Equipment - Net

The details of this item are as follows:

| | Lands | Buildings | Equipment, Furniture and Fixtures | Vehicles | Computers Hardware | Total |
|---|---|---|---|---|---|---|
| **For the year ended December 31, 2018** | JD | JD | JD | JD | JD | JD |
| Cost: | | | | | | |
| Balance - beginning of the year | 20,678,588 | 22,629,802 | 45,384,622 | 1,204,497 | 12,007,837 | 101,905,346 |
| Additions | 300,443 | - | 9,310,298 | 280,995 | 3,633,976 | 13,525,712 |
| Disposals | - | (118,112) | (987,950) | (174,027) | (538,478) | (1,818,567) |
| Balance - End of the Year | 20,979,031 | 22,511,690 | 53,706,970 | 1,311,465 | 15,103,335 | 113,612,491 |
| **Accumulated Depreciation:** | | | | | | |
| Balance - beginning of the year | - | 6,902,105 | 21,816,001 | 632,203 | 7,334,621 | 36,684,930 |
| Annual depreciation | - | 425,784 | 5,086,291 | 170,888 | 2,024,851 | 7,707,814 |
| Disposals | - | (118,082) | (361,018) | (129,130) | (486,569) | (1,094,799) |
| Balance - End of the Year | - | 7,209,807 | 26,541,274 | 673,961 | 8,872,903 | 43,297,945 |
| Net book value of property and equipment | 20,979,031 | 15,301,883 | 27,165,696 | 637,504 | 6,230,432 | 70,314,546 |
| Payments on purchased property and equipment | - | - | 2,847,973 | - | 1,323,666 | 4,171,639 |
| Net Book Value – End of the Year | 20,979,031 | 15,301,883 | 30,013,669 | 637,504 | 7,554,098 | 74,486,185 |
| **For the year ended December 31, 2017** | | | | | | |
| Cost: | | | | | | |
| Balance - beginning of the year | 14,761,236 | 9,138,250 | 28,324,870 | 851,076 | 6,940,677 | 60,016,109 |
| Result from the acquisition of Safwa Islamic bank | 4,893,557 | 13,403,439 | 11,281,916 | 302,944 | 2,793,001 | 32,674,857 |
| Additions | 1,023,795 | 107,572 | 6,482,861 | 396,000 | 2,623,107 | 10,633,335 |
| Disposals | - | (19,459) | (705,025) | (345,523) | (348,948) | (1,418,955) |
| Balance - End of the Year | 20,678,588 | 22,629,802 | 45,384,622 | 1,204,497 | 12,007,837 | 101,905,346 |
| **Accumulated Depreciation:** | | | | | | |
| Balance - beginning of the year | - | 5,587,863 | 11,047,674 | 555,406 | 4,446,863 | 21,637,806 |
| Result from the acquisition of Safwa Islamic bank | - | 899,596 | 6,530,073 | 156,748 | 1,617,349 | 9,203,766 |
| Annual depreciation | - | 431,679 | 4,629,830 | 149,812 | 1,615,245 | 6,826,566 |
| Disposals | - | (17,033) | (391,576) | (229,763) | (344,836) | (983,208) |
| Balance - End of the Year | - | 6,902,105 | 21,816,001 | 632,203 | 7,334,621 | 36,684,930 |
| Net book value of property and equipment | 20,678,588 | 15,727,697 | 23,568,621 | 572,294 | 4,673,216 | 65,220,416 |
| Payments on purchased property and equipment ** | 196,000 | - | 5,110,813 | - | 440,831 | 5,747,644 |
| Net Book Value – End of the Year | 20,874,588 | 15,727,697 | 28,679,434 | 572,294 | 5,114,047 | 70,968,060 |

* This item represents the difference between the book value and fair value resulting from acquiring Safwa Islamic Bank (Note 43).

** This item represents payments on purchased property and equipment of JD 1,070,727, which resulted from acquiring Safwa Islamic Bank .

- Property and equipment include fully depreciated assets of JD 15,167,630 as of December 31, 2018 (JD 10,508,522 as of December 31, 2017), which are still used by the Bank.

14. Intangible Assets

The details of this item are as follows:

| | Computer Software | Bank's License (Fair Value) | Customers Deposits | Goodwill * | Total |
|---|---|---|---|---|---|
| **For the year ended December 31, 2018** | JD | JD | JD | JD | JD |
| Balance - beginning of the year | 6,512,560 | 9,928,000 | 3,124,167 | 1,380,512 | 20,945,239 |
| Additions | 4,558,579 | - | - | - | 4,558,579 |
| Amortization for the year | (2,692,704) | - | (624,833) | - | (3,317,537) |
| Balance - End of the Year | 8,378,435 | 9,928,000 | 2,499,334 | 1,380,512 | 22,186,281 |
| **For the year ended December 31, 2017** | | | | | |
| Balance - beginning of the year | 5,891,223 | - | - | - | 5,891,223 |
| Result from the acquisition of Safwa Islamic bank * | 1,742,566 | 9,928,000 | 3,749,000 | 1,380,512 | 16,800,078 |
| Additions | 1,760,039 | - | - | - | 1,760,039 |
| Amortization for the year | (2,881,268) | - | (624,833) | - | (3,506,101) |
| Balance - End of the Year | 6,512,560 | 9,928,000 | 3,124,167 | 1,380,512 | 20,945,239 |

* These items represent intangible assets from acquiring Safwa Islamic Bank during the year 2017. Moreover, the intangible assets item (others) represents the fair value of key customers' deposits which resulted from the distribution of the purchase amount of Safwa Islamic Bank (Note 43).

## 15. Other Assets

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Accrued interests and revenues | 12,963,625 | 10,592,220 |
| Prepaid expenses | 4,099,033 | 3,803,129 |
| Foreclosed assets against debts * | 40,501,004 | 31,992,554 |
| Clearing Cheques | 69,571 | 161,360 |
| Transfers and cheques under collection | 213,790 | 18,434 |
| Paid guaranteed insurance | 4,865,274 | 5,174,311 |
| Discounted commercial papers | 19,636,744 | 6,793,343 |
| Other | 5,364,702 | 3,766,412 |
| Total | 87,713,743 | 62,301,763 |

- The regulations of the Central Bank of Jordan require disposing of the foreclosed assets against debts during a maximum period of two years from the date of the acquisition. However, in some exceptional cases, the Central Bank of Jordan has the right to extend the period for a maximum of two subsequent years.

- The following is a summary of the movement on the foreclosed assets against debts:

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Balance - beginning of the year | 31,992,554 | 27,414,157 |
| Balance added from the acquisition of Safwa Islamic bank | - | 3,969,355 |
| Additions | 12,186,490 | 4,110,783 |
| Disposals | (3,413,659) | (1,748,273) |
| Impairment (Losses) | (264,381) | (1,753,468) |
| Balance - End of the Year | 40,501,004 | 31,992,554 |

Below is a summary of the movement on the provision for the foreclosed assets:

| | | |
|---|---|---|
| Balance beginning of year | 3,690,239 | 1,593,330 |
| Balance added from the acquisition of Safwa Islamic bank | - | 343,441 |
| Additions during the year | 200,000 | 1,753,468 |
| Deducted from risks fund / associate Company | 64,381 | - |
| Balance end of the year | 3,954,620 | 3,690,239 |

- The impairment provision against the foreclosed assets amounted to JD 1,313,575 as of December 31, 2018. Also, the provision for the assets seized by the Bank for a period more than (4) years amounted to JD 2,641,045 as of December 31, 2018.

## 16. Bank and Financial Institutions Deposits

The details of this item are as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Inside Jordan | Outside Jordan | Total | Inside Jordan | Outside Jordan | Total |
| | JD | JD | JD | JD | JD | JD |
| Current accounts and demand deposits | 266,546 | 59,276,955 | 59,543,501 | 28 | 34,416,840 | 34,416,868 |
| Time deposits | 3,000,000 | 34,144,327 | 37,144,327 | 3,000,000 | 21,457,052 | 24,457,052 |
| | 3,266,546 | 93,421,282 | 96,687,828 | 3,000,028 | 55,873,892 | 58,873,920 |

17. Customers' Deposits

The details of this item are as follows:

| | Individual | Corporate | SMEs | Government and Public Sector | Total |
|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD |
| **December 31, 2018** | | | | | |
| Current accounts and demand deposits | 267,566,939 | 180,788,367 | 88,564,540 | 1,601,014 | 538,520,860 |
| Saving deposits | 549,342,450 | 19,539,458 | 6,199,819 | 767,389 | 575,849,116 |
| Time and notice deposits | 887,002,197 | 481,432,204 | 92,465,559 | 187,769,788 | 1,648,669,748 |
| Certificates of deposit | 203,545,539 | 1,418,000 | 7,946,282 | 13,000,000 | 225,909,821 |
| Total | 1,907,457,125 | 683,178,029 | 195,176,200 | 203,138,191 | 2,988,949,545 |
| **December 31, 2017** | | | | | |
| Current accounts and demand deposits | 254,620,894 | 231,955,524 | 71,692,522 | 3,873,495 | 562,142,435 |
| Saving deposits | 512,087,556 | 10,126,781 | 6,327,419 | 17,110,550 | 545,652,306 |
| Time and notice deposits | 795,684,084 | 328,202,529 | 91,862,127 | 184,661,100 | 1,400,409,840 |
| Time and notice certificates | 153,655,116 | 15,379,000 | 6,097,224 | 8,000,000 | 183,131,340 |
| Total | 1,716,047,650 | 585,663,834 | 175,979,292 | 213,645,145 | 2,691,335,921 |

- The deposits of the public sector and the government of Jordan inside Jordan amounted to JD 203,138,191 , representing 6.8% of total deposits as of December 31, 2018 (JD 213,645,145 , representing 7.94% of total deposits as of December 31, 2017).

- Non-interest bearing deposits amounted to JD 564,675,631, representing 18.89% of total deposits as of December 31, 2018 (JD 573,155,164, representing 21.3% of total deposits as of December 31, 2017).

- Restricted deposits amounted to JD 1,974,041, representing 0.07% of total deposits as of December 31, 2018 (JD 1,068,100 , representing 0.04% of total deposits as of December 31, 2017).

- Dormant accounts amounted to JD 55,457,285 , representing 1.86% of total deposits as of December 31, 2018 (JD 65,946,533 , representing 2.45% of total deposits as of December 31, 2017).

- Customers deposits include an amount of JD 777,719,768, which represents the shared customers' investments related to Safwa Islamic Bank as of December 31, 2018.

18. Cash Margins

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Margins against direct credit facilities | 87,115,535 | 98,837,068 |
| Margins against indirect credit facilities | 43,760,287 | 101,187,443 |
| Margin dealings | 5,106,274 | 4,015,146 |
| Other margins | 5,832,440 | 6,049,053 |
| Total | 141,814,536 | 210,088,710 |

## 19. Loans and Borrowing

The details of this item are as follows:

| | Amount | Nubmer of total payments | | Payments frequency | Collaterals | Loan interest rate price |
|---|---|---|---|---|---|---|
| | | Total no. of payments | Remaining payments | | | |
| | JD | | | | | |
| **December 31, 2018** | | | | | | |
| Central Bank of Jordan borrowing * | 28,699,815 | 5419 | 3524 | Monthly | Bank Promissory | 1.00% - 2.25% |
| Central Bank of Jordan borrowing * | 381,197 | 34 | 9 | Quarterly | Bank Promissory | 1.75% - 2.25% |
| Central Bank of Jordan borrowing * | 55,004 | 3 | 1 | Annual | Bank Promissory | 2.00% |
| International Bank for Reconstruction and Development ** | 5,400,000 | 40 | 36 | from September 15, | Bank Promissory | 4.370% |
| Arab Fund for Economic and Social Development *** | 2,370,000 | 15 | 12 | Semi annual | Bank Promissory | 2.500% |
| Arab Fund for Economic and Social Development *** | 1,589,016 | 84 | 84 | Semi annual | Bank Promissory | 3.000% |
| The European Bank for Reconstruction and Development **** | 4,385,713 | 14 | 9 | Semi annual | Bank Promissory | 5.750% |
| Jordan Mortgage Refinance Company | 40,000,000 | 4 | 4 | One payment | Bank Promissory | 4.50% - 6.0% |
| Local Banks (related to a subsidiary) | 2,355,517 | 697 | 573 | Monthly/ Quarterly | Bank Promissory | 6.00% - 7.5% |
| | 85,236,262 | | | | | |
| **December 31, 2017** | | | | | | |
| Central Bank of Jordan borrowing | 28,717,090 | 4595 | 3118 | Monthly | Bank Promissory | 2.75% - 1.00% |
| Central Bank of Jordan borrowing | 312,500 | 16 | 15 | Quarterly | Bank Promissory | 2.25% |
| Central Bank of Jordan borrowing | 1,677,508 | 4 | 4 | One payment | Bank Promissory | 1.75% |
| Central Bank of Jordan borrowing | 110,008 | 4 | 3 | Annual | | 2.00% |
| International Bank for Reconstruction and Development | 6,000,000 | 40 | 40 | September 15, 2018 | Bank Promissory | Libor 6 months +1.8% |
| Arab Fund for Economic and Social Development | 2,790,000 | 15 | 14 | Semi annual | Bank Promissory | 2.50% |
| Arab Fund for Economic and Social Development | 1,589,151 | 84 | 84 | | Bank Promissory | 3.00% |
| The European Bank for Reconstruction and Development | 6,578,571 | 14 | 12 | Semi annual | Bank Promissory | 5.25% |
| Jordan Mortgage Refinance Company | 40,000,000 | 4 | 4 | One payment | Bank Promissory | 6.00% - 4.5% |
| Local Banks (related to a subsidiary) | 437,167 | 48 | 47 | Monthly/ Quarterly | Bank Promissory | 6.00% |
| | 88,211,995 | | | | | |

* Funds have been reborrowed from the Central Bank of Jordan to corporates and SMEs sectors at an interest rate ranging from 3.75% - 6.5%.

** Funds have been reborrowed from the International Bank for Reconstruction and Development to corporates and SMEs sectors at an interest rate ranging from 7% - 11.75%.

*** Funds have been reborrowed from the Arab Fund for Economic and Social Development to corporates and SMEs sectors at an interest rate ranging from 6% - 8.25%.

**** Funds have been reborrowed from the European Bank for Reconstruction and Development to corporates and SMEs sectors at an interest rate ranging from 7.25% - 9.25%.

- All borrowings have fixed payment terms.

## 20. Sundry Provisions

The details of this item are as follows:

| | Balance at the beginning of the year | Result from the acquisition of Safwa Islamic Bank | Addition during the year | Paid during the year | Transferred to income | Balance at the end of the year |
|---|---|---|---|---|---|---|
| **For the Year Ended December 31, 2018** | JD | JD | JD | JD | JD | JD |
| Provision for end-of-service indemnity | 23,818 | - | - | 8,554 | 15,264 | - |
| Provision for lawsuits and contingent liabilities | 210,797 | - | 774,953 | 42,161 | 30,980 | 912,609 |
| Other provisions | - | - | 320,000 | - | - | 320,000 |
| Total | 234,615 | - | 1,094,953 | 50,715 | 46,244 | 1,232,609 |
| **For the Year Ended December 31, 2017** | | | | | | |
| Provision for end-of-service indemnity | - | 23,818 | - | - | - | 23,818 |
| Provision for lawsuits and contingent liabilities | 42,516 | 60,785 | 112,496 | - | 5,000 | 210,797 |
| Total | 42,516 | 84,603 | 112,496 | - | 5,000 | 234,615 |

## 21. Income Tax

### a. Income tax provision

The movement on the income tax provision is as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Balance - beginning of the year | 14,773,872 | 10,595,594 |
| Result from the acquisition of Safwa Islamic Bank | - | 2,438,733 |
| Income tax paid | (18,402,776) | (17,920,819) |
| Accrued income tax | 20,974,275 | 17,226,452 |
| Provision for prior years income tax | 853,748 | 2,433,912 |
| Balance - End of the Year | 18,199,119 | 14,773,872 |

Income tax appearing in the consolidated income statement represents the following:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Income tax accrued for the current year profit | 20,974,275 | 17,226,452 |
| Income tax for prior years | 853,748 | 2,433,912 |
| Amortization of deferred tax assets | (383,726) | (2,314,903) |
| | 21,444,297 | 17,345,461 |

b. Deferred Income Tax Assets / Liabilities

The details of this item are as follows:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Beginning Balance | Impact of implementing IFRS (9) | Amounts Released | Amounts Added | Ending Balance | Deferred Tax | Deferred Tax |
| Deferred Tax Assets | JD | JD | JD | JD | JD | JD | JD |
| Unrealized losses from financial assets at fair value through other comprehensive income | 460,785 | - | 3,064,880 | 308,541 | (2,295,554) | 1,577,289 | 731,010 |
| Unrealized losses from financial assets at fair value through profit or loss | 432,207 | - | 991,531 | 457,395 | (101,929) | 212,589 | (31,644) |
| Provision for watchlisted credit facilities | 1,375,256 | - | 1,375,256 | - | - | - | 481,340 |
| Provision for foreclosed assets | 3,690,239 | - | - | 200,000 | 3,890,239 | 1,478,291 | 1,291,583 |
| Provision for bonuses | 2,549,468 | - | 2,549,468 | 2,999,996 | 2,999,996 | 1,139,998 | 892,314 |
| Capital maintenance expenditures 2012 | 231,248 | - | 77,083 | - | 154,165 | 58,583 | 80,937 |
| Capital maintenance expenditures 2013 | 129,515 | - | 43,171 | - | 86,344 | 32,811 | 45,330 |
| Provision for the lawsuits against the Bank | 210,797 | - | 73,141 | 774,953 | 912,609 | 346,791 | 73,779 |
| Provision for credit facilties | 1,182,598 | - | 1,182,598 | 356,550 | 356,550 | 135,489 | 413,909 |
| General provision | 349,106 | - | 349,106 | - | - | - | 122,187 |
| Provision for expected credit losses | - | 17,624,744 | 767,098 | - | 16,857,646 | 6,405,905 | - |
| Provision for end-of-service indemnity | 23,818 | - | 23,818 | - | - | - | 8,336 |
| Legal expenses | 1,500,000 | - | - | - | 1,500,000 | 570,000 | 450,000 |
| Total | 12,135,037 | 17,624,744 | 10,497,150 | 5,097,435 | 24,360,066 | 11,957,746 | 4,559,081 |

- The movement on the deferred income tax assets / liabilities is as follows:

| | Assets | |
|---|---|---|
| | December 31, | |
| | 2018 | 2017 |
| | JD | JD |
| Balance - beginning of the year | 4,559,081 | 1,602,674 |
| Result from acquisition of Safwa Islamic Bank | - | 599,815 |
| Impact of Implementing IFRS (9) | 6,168,660 | - |
| Adjusted balance as of January 31, 2018 | 10,727,741 | 2,202,489 |
| Additions | 3,430,248 | 2,894,248 |
| Disposals | (2,200,243) | (537,656) |
| Balance - End of the Year | 11,957,746 | 4,559,081 |

c. Reconciliation of the accounting profit with taxable profit

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Accounting profit for the year | 62,530,208 | 52,144,544 |
| Non-taxable income | (10,224,635) | (7,988,082) |
| Non-deductible expenses for tax purposes | 8,482,830 | 7,593,115 |
| Prior years' accumulated losses | (155,925) | (115,004) |
| | 60,632,478 | 51,634,573 |
| Effective income tax rate | 34.29% | 33.26% |

Taxable Profit

- The Bank has reached a final settlement with the Income and Sales Tax Department on the Bank's activities up to the year 2014.

- Bank Al Etihad (Parent Company) has submitted the tax returns for the years 2015 , 2016 and 2017. Moreover, there is a case before the court related to the year 2015, and no decision has been issued thereon yet. The Income and Sales Tax Department has not reviewed the Bank's accounting records for the years 2017 and 2016.

- A final clearance with Safwa Islamic Bank (subsidiary) has been reached up to the year 2013. As for the years 2014 and 2015, the related tax returns have been reviewed by the Income and Sales Tax Department. These returns are before the court, as the said department neither accepted the legal fees for the aforementioned years nor deducted the gains on the sale of plots of land, which should be considered as capital gains.

  Moreover, a settlement has been reached with the Income and Sales Tax Department before the end of the year 2018 concerning part of the lawsuit related to the income from the sale of a repossessed real estate during the year 2015. The Bank has filed its income tax returns for the years 2016 and 2017, which have not yet been audited by the Income and Sales Tax Department until the date of preparation of the consolidated financial satements.

- A final settlement for Al Etihad for Financial Brokerage Service Co. has been reached up to the years 2014, 2016 and 2017.

- A final settlement with the Income and Sales Tax Department for Al Etihad for Financial Leasing Co. has been reached up to the year 2016.

- The deferred tax rates have reached 38% and 13%. In the opinion of the Bank's management, these deferred taxes may be realized in the future.

## 22. Other Liabilities

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Accrued interest expenses | 27,373,621 | 21,748,139 |
| Revenues received in advance | 1,341,001 | 1,205,293 |
| Accounts payable | 355,329 | 194,978 |
| Accrued expenses | 8,157,279 | 6,633,949 |
| Incoming transfers | 477,596 | 9,367 |
| Manager checks | 7,380,522 | 4,172,457 |
| Investment risk fund balance | 3,834,712 | 5,344,209 |
| Provision of expected credit losses for the off-balance sheet items | 3,294,904 | - |
| Other liabilities | 16,487,125 | 10,936,795 |
| Total | 68,702,089 | 50,245,187 |

Below is the movement of the indirect facilities on a collective basis during the year:

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | 927,607,279 | - | 10,057,049 | - | 2,200,238 | 939,864,566 |
| New exposurea during the period | 603,968,593 | - | 28,678,215 | - | 1,504,488 | 634,151,296 |
| Accrued exposure | (640,691,358) | - | (9,117,077) | - | (1,738,985) | (651,547,420) |
| Transferred to stage (1) | 1,569,071 | - | (99,163) | - | - | 1,469,908 |
| Transferred to stage (2) | (10,685,336) | - | 10,685,336 | - | - | - |
| Transferred to stage (3) | (245,315) | - | - | - | 245,315 | - |
| Changes from adjustments | - | - | - | - | - | - |
| Written-off Facilities | - | - | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Balance at the End of the Year | 881,522,934 | - | 40,204,360 | - | 2,211,056 | 923,938,350 |

Below is the movement on the expected credit loss for indirect facilities on a collective basesduring the year:

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | - | - | - | - | - | - |
| Impact of implementing IFRS (9) | 2,646,482 | - | 133,182 | - | 1,981,057 | 4,760,721 |
| Adjusted balance as of January 1, 2018 | 2,646,482 | - | 133,182 | - | 1,981,057 | 4,760,721 |
| Impairment loss on new exposures during the year | 2,167,278 | - | 115,647 | - | 723,619 | 3,006,544 |
| Recovered from the impairment loss of the accrued exposures | (2,167,910) | - | (103,329) | - | (1,981,057) | (4,252,296) |
| Transferred to stage (1) | 6,274 | - | (6,274) | - | - | - |
| Transferred to stage (2) | (70,843) | - | 70,843 | - | - | - |
| Transferred to stage (3) | (1,860) | - | - | - | 1,860 | - |
| Impact on the provision as of the end of the year due to the reclassifications between the stages during the year | - | - | - | - | - | - |
| Changes from adjustments | (212,371) | - | (9,440) | - | 1,746 | (220,065) |
| Written-off Facilities | - | - | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Balance at the End of the Year | 2,367,050 | - | 200,629 | - | 727,225 | 3,294,904 |

The distribution of the total indirect facilities (guarantees) according to the Bank's internal credit ratings:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Stage (1) Individual | Stage (1) Collective | Stage (2) Individual | Stage (2) Collective | Stage (3) Individual | Total | Total |
| | JD | JD | JD | JD | JD | JD | JD |
| Credit rating categories based on the Bank's internal system: | | | | | | | |
| 1 | 11,000 | - | - | - | - | 11,000 | - |
| 2 | 20,060,255 | - | - | - | - | 20,060,255 | 2,275,834 |
| 3 | 28,037,600 | - | - | - | - | 28,037,600 | 36,952,337 |
| 4 | 18,889,730 | - | 41,801 | - | - | 18,931,531 | 15,173,625 |
| 5 | 27,467,789 | - | 47,500 | - | - | 27,515,289 | 33,977,015 |
| 6 | 28,211,021 | - | 1,747,968 | - | - | 29,958,989 | 29,649,859 |
| 7 | 5,516,184 | - | 4,935,904 | - | - | 10,452,088 | 11,979,620 |
| 8 | - | - | - | - | 1,095,348 | 1,095,348 | - |
| Not rated | 24,285,083 | - | 14,671,595 | - | 1,115,708 | 40,072,386 | 48,414,698 |
| Total | 152,478,662 | - | 21,444,768 | - | 2,211,056 | 176,134,486 | 178,422,988 |

Below is the movement on the indirect facilities (guarantees):

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | 175,188,818 | - | 1,033,932 | - | 2,200,238 | 178,422,988 |
| New exposurea during the period | 6,105,117 | - | 13,102,862 | - | 1,504,488 | 20,712,467 |
| Accrued exposure | (20,636,475) | - | (625,509) | - | (1,738,985) | (23,000,969) |
| Transferred to stage (1) | 260,440 | - | (260,440) | - | - | - |
| Transferred to stage (2) | (8,193,923) | - | 8,193,923 | - | - | - |
| Transferred to stage (3) | (245,315) | - | - | - | 245,315 | - |
| Changes from adjustments | - | - | - | - | - | - |
| Written-off Facilities | - | - | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Balance at the End of the Year | 152,478,662 | - | 21,444,768 | - | 2,211,056 | 176,134,486 |

Below is the movement on the expected credit loss for the indirect facilities - guarantees:

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | - | - | - | - | - | - |
| Impact of implementing IFRS (9) | 560,955 | - | 5,259 | - | 1,981,057 | 2,547,271 |
| Adjusted balance as of January 1, 2018 | 560,955 | - | 5,259 | - | 1,981,057 | 2,547,271 |
| Impairment loss on new exposures during the year | 103,347 | - | 7,053 | - | 723,619 | 834,019 |
| Recovered from the impairment loss of the accrued exposures | (100,967) | - | (2,298) | - | (1,981,057) | (2,084,322) |
| Transferred to stage (1) | 1,155 | - | (1,155) | - | - | - |
| Transferred to stage (2) | (61,841) | - | 61,841 | - | - | - |
| Transferred to stage (3) | (1,860) | - | - | - | 1,860 | - |
| Impact on the provision as of the end of the year due to the reclassifications between the stages during the year | - | - | - | - | - | - |
| Changes from adjustments | (65,681) | - | 7,531 | - | 1,746 | (56,404) |
| Written-off Facilities | - | - | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Balance at the End of the Year | 435,108 | - | 78,231 | - | 727,225 | 1,240,564 |

The distribution of the total indirect facilities (unutilized limits) according to the Bank's internal credit ratings:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Stage (1) Individual | Stage (1) Collective | Stage (2) Individual | Stage (2) Collective | Stage (3) Individual | Total | Total |
| | JD | JD | JD | JD | JD | JD | JD |
| Credit rating categories based on the bank's internal system: | | | | | | | |
| 1 | 335,032 | - | - | - | - | 335,032 | - |
| 2 | 73,220,389 | - | - | - | - | 73,220,389 | 19,823,263 |
| 3 | 80,017,261 | - | - | - | - | 80,017,261 | 8,811,980 |
| 4 | 49,051,819 | - | - | - | - | 49,051,819 | 6,434,136 |
| 5 | 68,933,336 | - | - | - | - | 68,933,336 | 38,001,561 |
| 6 | 63,725,504 | - | 73,507 | - | - | 63,799,011 | 23,968,922 |
| 7 | 9,348,889 | - | 3,671,650 | - | - | 13,020,539 | 16,824,667 |
| 8 | - | - | - | - | - | - | - |
| Not rated | 78,605,191 | - | 5,457,342 | - | - | 84,062,533 | 269,606,880 |
| **Total** | 423,237,421 | - | 9,202,499 | - | - | 432,439,920 | 383,471,409 |

Below is the movement on the indirect facilities - unutilized limits

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | 375,106,489 | - | 8,364,920 | - | - | 383,471,409 |
| New exposurea during the period | 358,747,224 | - | 7,045,956 | - | - | 365,793,180 |
| Accrued exposure | (310,323,164) | - | (7,971,413) | - | - | (318,294,577) |
| Transferred to stage (1) | 734,954 | - | 734,954 | - | - | 1,469,908 |
| Transferred to stage (2) | (1,028,082) | - | 1,028,082 | - | - | - |
| Transferred to stage (3) | - | - | - | - | - | - |
| Changes from adjustments | - | - | - | - | - | - |
| Written-off Facilities | - | - | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Balance at the End of the Year | 423,237,421 | - | 9,202,499 | - | - | 432,439,920 |

Below is the movement on the expected credit loss for the indirect facilities - unutilized limits:

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | - | - | - | - | - | - |
| Impact of implementing IFRS (9) | 1,347,839 | - | 124,191 | - | - | 1,472,030 |
| Adjusted balance as of January 1, 2018 | 1,347,839 | - | 124,191 | - | - | 1,472,030 |
| Impairment loss on new exposures during the year | 1,707,173 | - | 87,256 | - | - | 1,794,429 |
| Recovered from the impairment loss of the accrued exposures | (1,411,169) | - | (100,552) | - | - | (1,511,721) |
| Transferred to stage (1) | 4,735 | - | (4,735) | - | - | - |
| Transferred to stage (2) | (4,858) | - | 4,858 | - | - | - |
| Transferred to stage (3) | - | - | - | - | - | - |
| Impact on the provision as of the end of the year due to the reclassifications between the stages during the year | - | - | - | - | - | - |
| Changes from adjustments | (122,426) | - | (14,102) | - | - | (136,528) |
| Written-off Facilities | - | - | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Balance at the End of the Year | 1,521,294 | - | 96,916 | - | - | 1,618,210 |

The distribution of the total indirect facilities (letter of credits and acceptances) according to the Bank's internal credit ratings:

| | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Stage (1) | Stage (1) | Stage (2) | Stage (2) | Stage (3) | | |
| | Individual | Collective | Individual | Collective | Individual | Total | Total |
| | JD | JD | JD | JD | JD | JD | JD |
| Credit rating categories based on the bank's internal system: | | | | | | | |
| 1 | - | - | - | - | - | - | - |
| 2 | 33,901,758 | - | - | - | - | 33,901,758 | 20,983,071 |
| 3 | 25,575,116 | - | - | - | - | 25,575,116 | 62,497,045 |
| 4 | 57,640,852 | - | - | - | - | 57,640,852 | 65,771,076 |
| 5 | 80,096,193 | - | - | - | - | 80,096,193 | 47,939,817 |
| 6 | 32,920,540 | - | - | - | - | 32,920,540 | 18,260,465 |
| 7 | 2,805,403 | - | 179,490 | - | - | 2,984,893 | 11,704,888 |
| 8 | - | - | - | - | - | - | - |
| Not rated | 72,866,989 | - | 9,377,603 | - | - | 82,244,592 | 150,813,807 |
| Total | 305,806,851 | - | 9,557,093 | - | - | 315,363,944 | 377,970,169 |

Below is the movement on the indirect facilities - letters of credit :

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | 377,311,972 | - | 658,197 | - | - | 377,970,169 |
| New exposurea during the period | 239,116,252 | - | 8,529,397 | - | - | 247,645,649 |
| Accrued exposure | (309,731,719) | - | (520,155) | - | - | (310,251,874) |
| Transferred to stage (1) | 573,677 | - | (573,677) | - | - | - |
| Transferred to stage (2) | (1,463,331) | - | 1,463,331 | - | - | - |
| Transferred to stage (3) | - | - | - | - | - | - |
| Changes from adjustments | - | - | - | - | - | - |
| Written-off Facilities | - | - | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Balance at the End of the Year | 305,806,851 | - | 9,557,093 | - | - | 315,363,944 |

Below is the movement on the expected credit loss for the indirect facilities - letters of credit:

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Balance at the beginning of the year | - | - | - | - | - | - |
| Impact of implementing IFRS (9) | 737,688 | - | 3,732 | - | - | 741,420 |
| Adjusted balance as of January 1, 2018 | 737,688 | - | 3,732 | - | - | 741,420 |
| Impairment loss on new exposures during the year | 356,758 | - | 21,338 | - | - | 378,096 |
| Recovered from the impairment loss of the accrued exposures | (655,774) | - | (479) | - | - | (656,253) |
| Transferred to stage (1) | 384 | - | (384) | - | - | - |
| Transferred to stage (2) | (4,144) | - | 4,144 | - | - | - |
| Transferred to stage (3) | - | - | - | - | - | - |
| reclassifications | - | - | - | - | - | - |
| Changes from adjustments | (24,264) | - | (2,869) | - | - | (27,133) |
| Written-off Facilities | - | - | - | - | - | - |
| Adjustments due to changes in the exchange rates | - | - | - | - | - | - |
| Balance at the End of the Year | 410,648 | - | 25,482 | - | - | 436,130 |

## 23. Paid-up Capital and Share Premium

Capital:

The authorized and paid-in capital amounted to JD 160 million, divided into 160 million shares at a par value of JD 1 per share as of December 31, 2018 and December 31, 2017.

Share Premium:

Share premium amounted to JD 80,213,713 as of December 31, 2018 and December 31, 2017.

Distributed Dividends:

Dividends distributed to shareholders for the year 2017 amounted to JD 16 million (JD 12.5 million during the year 2016)

## 24. Reserves

The details of the reserves as of December 31, 2018 and December 31, 2017 are as follows:

a. Statutory Reserve

This reserve represents amounts transferred from income before tax at a rate of 10% during previous years. The statutory reserve is not available for distribution to shareholders.

b. Voluntary reserve

This reserve represents amounts transferred from the pre-tax profits at a rate not exceeding 20%. The voluntary reserve shall be utilized for the purposes determined by the Board of Directors. The General Assembly shall have the right to distribute it in whole or in part as dividends to shareholders.

c. General Banking Risk Reserve

This reserve represents the general banking risks reserve according to the regulations of the Central Bank of Jordan.

Restricted reserves are as follows:

| Reserve | December 31, 2018 | December 31, 2017 | Regulation |
|---|---|---|---|
| | JD | JD | |
| General banking risk reserves | - | 14,034,670 | According to the regulations of the Central Bank of Jordan |
| Statutory reserve | 49,410,187 | 42,668,849 | According to the regulatory authoroties' regulations |
| Fair value reserve | (727,049) | 1,191,589 | According to the regulations of the Central Bank od Jordan and Jordan Securities Commission |

## 25. Proposed Dividends

The Board of Directors proposed cash dividends at 14% of paid-in capital, equivalent to JD 22,400,000. Moreover, the cash dividends distributed to the shareholders in the prior year amounted to 10% of the Bank's paid-in capital, equivalent to JD 16,000,000.

The distributable profits amounted to JD 41 million.

26. Fair Value Reserve - Net

The details are as follows:

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Balance – beginning of the year | 1,191,589 | 1,555,417 |
| Impact of the implementing IFRS (9) | - | - |
| Adjusted balance as of January 1, 2018 | 1,191,589 | 1,555,417 |
| Unrealized gains (losses) | (2,932,070) | (1,523,260) |
| Deffered tax assets | 846,279 | 41,689 |
| Transferred to reserves | - | - |
| Losses from sale of financial assets at fair value through other comprehensive income | 167,153 | 1,117,743 |
| Balance at the End of the Year | (727,049) | 1,191,589 |

27. Retained Earnings

The movement on retained earnings is as follows:

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Balance – beginning of the year | 43,243,353 | 35,055,974 |
| General banking risks reserve | 14,034,670 | - |
| Expected credit losses for financial assets (ECL) due to the application of IFRS (9) | (17,707,818) | - |
| Impact of implementing IFRS (9) on deferred tax assets | 6,168,660 | - |
| Adjusted balance as of January 1, 2018 | 45,738,865 | 35,055,974 |
| Income for the year | 35,736,582 | 31,364,269 |
| (Losses) from sale of financial assets through other comprehensive income | (167,153) | (1,117,743) |
| Transferred to reserves | (11,749,096) | (8,971,844) |
| Dividends distributed | (16,000,000) | (12,500,000) |
| Capital increase expenses | - | (587,303) |
| Effect of disposal of a subsidiary | 6,851 | - |
| Balance – End of the Year | 53,566,049 | 43,243,353 |

- Retained earnings includes a restricted amount of JD 82,382, which represents gains from the differences on the revaluation of the financial assets at fair value through profit or loss.

- Retained earnings includes a restricted amount of JD 11,957,746 as of December 31, 2018 (JD 4,559,081 as of December 31, 2017), which represents deferred tax assets, and according to the Central Bank of Jordan's instructions, it is restricted from being used unless after a permission is obtained.

- It is restricted to use an amount equivalent to the negative fair value reserve of JD 727,049.

The effect of implementing IFRS (9) on the deferred tax assets/ liabilitie as of December 31, 2018:

| Item | Deferred tax assets | Deferred tax liabilities |
|---|---|---|
| | JD | JD |
| Increase (decrease) in the expected credit losses for the assets | 6,168,660 | - |
| Reclassification of the financial assets | - | - |

28. Provision for Expected Credit Losses on Financial Assets

The Bank has started implementing IFRS (9) effective from January 1, 2018, which requires the Bank to calculate the expected credit losses on the financial assets. The details are as follows

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Deposits at banks and financial institutions | (83,843) | - |
| Financial assets at fair value through profit or loss | - | - |
| Financial assets at amortized costs | (744,309) | 547,500 |
| Direct credit facilities | 13,064,868 | 15,229,285 |
| Contingent liabilities | (1,300,904) | - |
| | 10,935,812 | 15,776,785 |

## 29. Subsidiaries with Material Non-controlling Interests

First: Percenatage owned by non-controlling interests

As of December 31, 2018

| Company's Name | Country | Ownership Percentage | Activity Nature | Distributions |
|---|---|---|---|---|
| Safwa Islamic Bank (Owned by Al Etihad Islamic for Investment Company) | Jordan | 64.16% | Provides all financial, banking and investment services according to Islamic Sharia | 5,000,000 |
| Al Etihad Islamic for Investment Company LLC. | Jordan | 42.00% | The Company's purposes is to acquire companies' stocks, bonds and shares | 1,648,445 |

Second: The following is selected financial information for subsidiaries with material non-controlling interests

a. Condensed statemnet of financial position before the elimination of inter-company transactions:

| | (Al Etihad Islamic for Investment Company) | (Al Etihad Islamic for Investment Company) |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| | JD | JD |
| Financial assets | 1,078,226,197 | 926,008,691 |
| Other assets | 34,908,755 | 30,723,486 |
| Total assets | 1,113,134,952 | 956,732,177 |
| Financial Liabilities | 943,501,419 | 796,612,440 |
| Other Liabilities | 28,338,551 | 21,974,247 |
| Total Liabilities | 971,839,970 | 818,586,687 |
| Total Equtiy | 141,294,982 | 138,145,490 |
| Total Liabilities and Equity | 1,113,134,952 | 956,732,177 |
| Equity attributed to non-controlling interests | 90,376,684 | 88,355,989 |
| Non-Controlling Interest Share at Al Etihad Islamic for Investment Company | 128,928 | (468,004) |
| Total non-controlling interests | 90,505,612 | 87,887,985 |

b. Condensed Statemnet of income statement before the elimination of the inter-Company transactions:

| | (Al Etihad Islamic for Investment Company) | (Al Etihad Islamic for Investment Company) |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| | JD | JD |
| Total revenue | 43,150,943 | 36,149,557 |
| Profit for the year | 8,350,661 | 5,713,955 |
| Total Comprehensive Income | 8,321,979 | 5,713,379 |
| Attributable to non-controlling interests | 5,339,326 | 3,665,665 |
| Non-conntrolling interests share in profits (losses) of Al Etihad Islamic for Investment Company | 1,289,279 | (231,221) |
| Non-Controlling Interests | 6,628,605 | 3,434,444 |

30. Interest Income and Returns

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Direct Credit Facilities and Financing | | |
| **Individual retail customer** | | |
| Overdraft | 1,154,574 | 1,040,007 |
| Loans and discounted bills | 36,162,776 | 28,803,199 |
| Credit cards | 1,202,149 | 1,304,124 |
| **Real estate** | 53,040,298 | 41,830,891 |
| **Large corporates** | | |
| Overdraft | 9,580,213 | 9,652,680 |
| Loans and discounted bills | 59,488,439 | 57,323,240 |
| **SME's** | | |
| Overdraft | 3,273,069 | 2,897,509 |
| Loans and discounted bills | 8,600,437 | 7,415,507 |
| **Government and Public Sector** | 8,762,407 | 7,343,783 |
| Balances at central banks | 810,495 | 872,863 |
| Balances and deposits at banks and financial institutions | 3,146,088 | 1,955,179 |
| Financial assets at fair value through profit or loss | 48,670 | 415,970 |
| Financial assets at amortized cost | 30,686,797 | 25,661,508 |
| Others | 804,677 | 342,573 |
| Total | 216,761,089 | 186,859,033 |

31. Interest Expense

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Banks and financial institutions deposits | 1,862,618 | 1,354,308 |
| Customers' deposits: | | |
| Current accounts and demand deposits | 907,186 | 1,071,645 |
| Saving deposits | 7,008,603 | 6,453,230 |
| Time and notice deposits | 60,096,814 | 49,130,145 |
| Certificates of deposit | 9,698,042 | 5,706,236 |
| Cash Margin | 2,735,637 | 2,776,029 |
| Borrowed funds | 3,268,683 | 2,597,660 |
| Deposits Insurance Corporation fees | 3,231,428 | 3,079,806 |
| | 88,809,011 | 72,169,059 |

32. Net Commission Income

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Direct credit facilities and financing commissions | 7,290,667 | 4,748,536 |
| Indirect credit facilities and financing commissions | 9,193,251 | 9,956,637 |
| Other | 8,316,506 | 7,434,979 |
| Less: Commission expense | (951,020) | (741,107) |
| Net Commission Income | 23,849,404 | 21,399,045 |

33. Gains from Foreign Currencies

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Resulted from dealings / tradings | 3,939,443 | 2,729,208 |
| Resulted from valuations | 1,914,563 | 2,796,196 |
| | 5,854,006 | 5,525,404 |

34. (Losses) Gains from Financial Assets at Fair Value Through profit or Loss

The details of this item are as follows:

| | (Losses) gains Realized | (Losses) gains Unrealized | Dividends Received | Total |
|---|---|---|---|---|
| | JD | JD | JD | JD |
| **2018** | | | | |
| Treasury bills and bonds | 20,345 | 19,429 | - | 39,774 |
| Coprorate shares | (2,268,189) | (1,005,135) | 161,637 | (3,111,687) |
| Financial derivatives | 658,071 | - | - | 658,071 |
| Investment funds | (24,762) | (17,193) | - | (41,955) |
| | (1,614,535) | (1,002,899) | 161,637 | (2,455,797) |
| **2017** | | | | |
| Treasury bills and bonds | 115,960 | - | - | 115,960 |
| Coprorate shares | 2,617,768 | (46,304) | 194,806 | 2,766,270 |
| Financial derivatives | (2,382) | - | - | (2,382) |
| Investment funds | - | 478,511 | - | 478,511 |
| | 2,731,346 | 432,207 | 194,806 | 3,358,359 |

35. Dividends from Financial Assets at Fair Value through other Comprehensive Income

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Dividends distributed on corporate shares | 1,026,133 | 938,772 |

36. Other Income

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Safety deposits boxes rental income | 144,622 | 124,535 |
| Dormant accounts | 107,157 | 85,121 |
| Gains from the sale of repossesed assets | 208,038 | - |
| Bonded revenues | 298,720 | 321,029 |
| Net income from recovered bad debts | 322,480 | 375,292 |
| Income from liquidation of invested companies | 55,468 | 120,000 |
| Other income | 200,711 | 175,452 |
| Total | 1,337,196 | 1,201,429 |

## 37. Employees' Expenses

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Salaries, benefits and allowances | 33,518,579 | 31,252,997 |
| Bank's contribution to social security | 3,609,843 | 3,342,818 |
| Bank's contribution to saving fund | 1,372,538 | 1,280,000 |
| Medical expenses | 1,587,423 | 1,403,009 |
| Per diems | 326,608 | 329,732 |
| Training expenses | 736,691 | 812,160 |
| Uniforms | 80,525 | 27,317 |
| Advertising and marketing incentives | 1,704,228 | 1,211,172 |
| Employees' life insurance expense | 180,612 | 200,644 |
| Other | 6,024 | 120,990 |
| | 43,123,071 | 39,980,839 |

## 38. Other Expenses

The details of this item are as follows:

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Postage, telephone telex and reuters | 2,117,044 | 2,053,363 |
| Stationery and printing | 1,159,377 | 1,249,199 |
| Rents | 3,894,694 | 3,511,546 |
| Water, electricity and fuel expense | 1,274,053 | 1,461,754 |
| Maintenance of machines and equipment | 7,529,647 | 5,634,548 |
| Insurance expenses on the bank's assets and activities | 805,888 | 713,005 |
| Consultation and professional fees | 1,664,303 | 2,430,230 |
| Licenses and governmental fees | 1,172,793 | 1,479,558 |
| Loss from disposal of property and equipment | 315,651 | 268,463 |
| Board of Directors' transportations and allowances | 1,275,991 | 1,244,851 |
| Advertising | 5,067,065 | 4,731,743 |
| Donations and subscriptions | 957,227 | 667,894 |
| Board of Directors' remuneration | 108,438 | 110,000 |
| Others | 1,363,017 | 1,477,930 |
| | 28,705,188 | 27,034,084 |

## 39. Earnings Per Share

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Profit for the year | 35,736,582 | 31,364,269 |
| Weighted average number of shares (share) * | 160,000,000 | 150,364,284 |
| Earnings per share attributable to the Bank's shareholders: | | |
| Basic and diluted | 0.223 | 0.209 |

* The weighted average number of shares per share has been calculated from the profit of the year attributed to the Bank's shareholders divided by the subscribed number of shares for the year 2018. As for the year 2017, the weighted average has been calculated based on the weighted average number of shares from the date of the increase in the capital.

40. Cash and Cash Equivalents

The details of this item are as follows:

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Cash and balances with central banks maturing within 3 months | 333,205,500 | 338,311,743 |
| Add: Balances with banks and financial institutions maturing within 3 months | 248,406,070 | 326,075,874 |
| Less: Banks and financial institutions deposits maturing within 3 months | 85,187,828 | 55,873,920 |
| Restricted balances | 9,234,477 | 8,497,494 |
| | 487,189,265 | 600,016,203 |

41. Financial Derivative Instruments

The following table shows the positive and negative fair value for the financial derivatives along with the distribution of its nominal value based on its maturities.

| | Positive Fair Value | Negative Fair Value | Total Nominal Value | Par Value Maturity: Due in three Months | Due in 3 - 12 Months | From 1 to 3 Years | More than 3 Years |
|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD |
| 2018 | | | | | | | |
| Customers' purchased forward agreements | 379,397 | 64,516 | 50,551,832 | 34,672,955 | 15,878,877 | - | - |
| Interest rates swap contracts | 20,150 | 103,747 | 20,561,000 | - | 2,127,000 | 18,434,000 | - |
| Banks' purchased forward agreements | 122,458 | 334,016 | 109,623,864 | 101,464,913 | 8,158,951 | - | - |
| | 522,005 | 502,279 | | | | | |
| 2017 | | | | | | | |
| Customers' purchased forward agreements | 153,362 | 136,895 | 36,066,406 | 25,565,776 | 7,600,950 | 2,899,680 | - |
| Interest rates swap contracts | 849 | 19,841 | 9,926,000 | 3,545,000 | - | 6,381,000 | - |
| Banks' purchased forward agreements | 201,832 | 79,068 | 80,534,667 | 80,534,667 | - | - | - |
| | 356,043 | 235,804 | | | | | |

Nominal value represents the value of transactions outstanding at year-end and does not refer to market risks or credit risks.

42. Related Party Transactions

The accompanying consolidated financial statements include the financial statements of the Bank and the following subsidiaries:

| Company Name | Ownership | The Company's Capital 2018 | 2017 |
|---|---|---|---|
| | % | JD | JD |
| Al Etihad Islamic for Investment Company LLC. | 58 | 113,039,028 | 113,039,028 |
| Safwa Islamic Bank | 35.8 | 100,000,000 | 100,000,000 |
| Al- Etihad for Financial Brokerage Co. Ltd | 100 | 5,000,000 | 5,000,000 |
| Al- Etihad for Financial Leasing Co. Ltd | 100 | 7,500,000 | 5,000,000 |

Balances and transactions between the bank and its subsidiaries were excluded.

The Bank entered into transactions with major shareholders, directors, senior management in the ordinary course of business at commercial interest rates, returns and commission rates. All the credit facilities granted to related parties are performing, and no provisions have been taken except for what is shown below:

The details of this item are as follows:

| | Related Party | | | | Total | |
|---|---|---|---|---|---|---|
| | Major Shareholders | Subsidiaries | Board of Directors | Executive Management | December 31, 2018 | December 31, 2017 |
| | JD | JD | JD | JD | JD | JD |
| On- Consolidated Statement of Financial Position Items: | | | | | | |
| Direct credit facilities and financing | 1,506,915 | 3,543,392 | 950,000 | 42,909,439 | 48,909,746 | 38,748,195 |
| Deposits | 75,241,692 | 2,565,583 | 7,607,732 | 6,537,405 | 91,952,412 | 21,131,537 |
| Deposits at banks and financial institutions | - | - | 192,603 | - | 192,603 | 33,281 |
| Off- Consolidated Statement of Financial Position Items: | | | | | | |
| Letter of credits | - | - | 409,956 | 1,614,209 | 2,024,165 | 247,157 |
| Acceptance | - | - | - | 3,680,288 | 3,680,288 | 145,024 |
| Letter of guarantee | 18,000 | - | 2,589,000 | 11,353,278 | 13,960,278 | 4,432,629 |

| | | | | | For the Year Ended December 31, | |
|---|---|---|---|---|---|---|
| | | | | | 2018 | 2017 |
| | | | | | JD | JD |
| Consolidated Income Statement Items | | | | | | |
| Interests, returns and commissions income | 54,913 | 189,671 | 51,745 | 2,803,234 | 3,099,563 | 3,613,368 |
| Interests and commissions expense | 1,888,560 | 28,855 | 28,151 | 175,434 | 2,121,000 | 1,200,843 |
| Extra Information | | | | | | |
| Direct credit facilities and financing during stage (2) | - | - | - | - | - | 1,917 |
| Impairment loss of direct credit facilities and financing during stage (2) | - | - | - | - | - | 31 |

- Interest income rates on credit facilities range from 3.5% to 17%, and interest expense rates on customers' deposits range from 0.5% to 4.75%.

Below is a summary of the remunerations for the Bank's executive management:

| | For the Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Salaries and bonuses of the Executive Management | 5,056,160 | 5,375,095 |
| Board of Directors' transportation and allowances | 1,303,483 | 1,302,777 |
| Total | 6,359,643 | 6,677,872 |

## 43. Purchase of Controlling Interests at Safwa Islamic Bank

The subsidiary Al-Etihad Islamic Investment Company, which is 58% owned by Bank Al Etihad , acquired a controlling interest of 61.8% during January 2017 in Safwa Islamic Ba for JD 113,000,000. Since the Bank controls the subsidiary and Safwa Islamic Bank, their accounts were consolidated in the consolidated financial statement of the Group. Moreover, the purchase price allocation has been completed during 2017, and the effect has been reflected in the Group's consolidated financial statements.

The schedule below summarizes the fair value of the assets and liabilities of Safwa Islamic Bank at the date of acquisition of 3 January 2017 after making some adjustments in the financial statements to match the accounting policies implemented by Bank Al-Etihad:

| | Book Value | Fair Value Adjustments | Fair Value |
|---|---|---|---|
| | JD | JD | JD |
| Assets: | | | |
| Cash and balances at Central Bank | 204,028,358 | - | 204,028,358 |
| Balances at banks and financial institutions | 28,530,937 | - | 28,530,937 |
| Deposits at banks and financial institutions | 5,092,827 | - | 5,092,827 |
| Financial assets at fair value through other comprehensive income | 1,695,710 | - | 1,695,710 |
| Financial assets held at amortized cost- net | 47,904,288 | - | 47,904,288 |
| Investments in associate | 370,362 | - | 370,362 |
| Direct credit facilities and financing- net | 600,599,852 | - | 600,599,852 |
| Property and equipment - net | 21,778,480 | 2,763,337 | 24,541,817 |
| Intangible assets - net | 1,742,566 | - | 1,742,566 |
| Deferred tax assets | 599,815 | - | 599,815 |
| Other assets | 6,569,373 | - | 6,569,373 |
| Total Assets | 918,912,568 | 2,763,337 | 921,675,905 |
| Liabilities: | | | |
| Banks and financial institution deposits | 2,142,078 | - | 2,142,078 |
| Customers' deposits | 756,257,366 | - | 756,257,366 |
| Margin accounts | 8,224,198 | - | 8,224,198 |
| Sundry provisions | 84,603 | - | 84,603 |
| Income tax liabilities | 2,438,733 | - | 2,438,733 |
| Other liabilities | 1,733,479 | - | 1,733,479 |
| Total Liabilities | 770,880,457 | - | 770,880,457 |
| Net assets acquired | 148,032,111 | 2,763,337 | 150,795,448 |
| Less: Bank Al-Etihad's share of the account paid | - | - | (65,562,636) |
| Non-controlling interest | - | - | (84,690,324) |
| Intangible assets resulting from acquisition * | | | 15,057,512 |

The details of this item are as follows:

| | JD |
|---|---|
| Safwa Islamic Bank license** | 9,928,000 |
| Customers' deposits** | 3,749,000 |
| Goodwill ** | 1,380,512 |
| | 15,057,512 |

Cash flow analysis at acquisition:

| | |
|---|---|
| Net cash acquired from the subsidiary | 230,417,217 |
| Net cash paid | (65,562,636) |
| Net cash flow | 164,854,581 |

** The Bank recorded the business combination of Safwa Islamic Bank's assets and liabilities at fair value, after completing the purchase price allocation of the acquisition in accordance with International Financial Reporting

Standard (3) and intangible assets were recognized and recorded (Note 14).

## 44. Risk Mananagement:

The Bank continuously develops the risk and credit management structure to ensure effective administration of all of its operations, efficiency of the risk and credit management process, and proper application of the regulatory controls across all of the Bank's operations. The risk management responsibility is allocated among various levels as summarized below :

### 1. Business Units:

The Business units comprise employees who, through their daily work, manage the various risks associated with the Bank's operations according to acceptable risk levels determined by the Bank and specified in its policies.

To ensure efficient risk management, the Bank fully separates the functions of the business units from those of risk management. For example, the study and management of credit control is completely separated from Custmer Relations Management (CRM) within the business units. This ensures the integrity of studies and credit decisions, continuous development of their efficiency, and business quality. In addition, the Middle Office is placed under market risk management and separated from the Treasury.

### 2. Risk Management and Compliance Department:

This Department has been activated, and it operates independently across all business lines. It reports to the Board through the Risk Management Committee to ensure its independence and ability to detect, measure, control, and monitor risks within acceptable levels as determined by the Bank; as well as submit regular reports to the Board in this regard.

### 3. Internal Audit:

The Internal Audit Department is fully independent and directly reports to the Board Audit Committee. The Department functions as the last defense line through applying an audit plan that includes periodic audits of all of the Bank's activities in order to ensure detection of any violations to the system and noncompliance with the Banks' policies and procedures or regulatory bodies' intructions.

### 4. Risk Management Committee:

The Board of Directors endorsed the Risk Management Committee's charter, which has been developed based on the best risk management practices and CBJ requirements. The Committee comprises Board members and the Head of the Risk Management Department and is headed by the Chairman. All reports prepared by the Risk Management Department are submitted to the Committee periodically to ensure that the Committee's members are informed of all risks in a timely manner. This is to enable them make decisions, or take measures to change risk levels in the event risk levels are not in line with the established acceptable risks levels, and submit reports to the Board in this regard.

### 5. Board of Directors:

The Board of Directors has the following responsibilities with regard to risk management:

- Determining the acceptable risk levels for the Bank's various activities.
- Reviewing and approving the various risk policies.
- Monitoring risks and ensuring application of the necessary controls through the Risks Management Committee.

- Delegating authority related to the approval, amendment, and renewal of credit to the various credit committees and reviewing their performance and the validity of their decisions, a matter which would reflect on the quality of the credit portfolio.
- Approving the investments policies and decisions and approving investment dealings and trading ceilings.

6. Assets and Liabilities Management Committee:

The Assets and Liabilities Management Committee comprises the Chairman as President and the General Manager, operations directors, financial manager, and Risk Management Department Head as members. The Committee reviews the statement of financial position and recommends any amendments thereto, in addition to approving the liquidity and market risk management principles. Moreover, the Committee reviews the policies related to these risks, recommends their approval by the Board, and studies the various risk reports in order to take any necessary decisions related to amending the acceptable risks levels by the Bank.

The Committee also recommends to the Board the allocation of capital for the various activities of the Bank in a manner that ensures the most effective use of capital.

A. Credit risks:

Credit risks are controlled within acceptable risk levels by the Bank through the following:

1. Credit Policy: This policy accurately determines the basis for extending credit, levels of acceptable credit risks, and basis used for establishing credit risks pricing and acceptable guarantees. In addition, the policy outlines the monitoring basis and procedures over credit to ensure early detection of any deterioration in the credit portfolio quality.

2. Training and Development: The continuous training and development of all credit staff and managers ensures better understanding of the client's requirements, availability of high level credit analysis expertise, and a good understanding of these risks when recommending their acceptance; as well as ensures the effective management of these accounts.

3. Authority to Grant Credit: Credit is approved by specialized credit committees which are formed and granted authority by the Board of Directors.

4. Credit Risk Measurement: The Bank implements a credit rating system for corporate and medium-size companies. In addition, the Bank implements a scoring system for retail products as a basis for credit granting decisions for retail and SME customers.

5. Internal Valuation for Capital Adequacy: The Bank develops a model to measure capital adequacy based on a 5-year data forecast to calculate the potential capital requirements and the effect of stress testing on the Bank's capital adequacy, profitability, and liquidity.

6. Credit Monitoring:
   A specialized unit within the Risk Management Department monitors the credit portfolio and prepares the relevant reports.

The role of this Unit starts with managing legal risks resulting from the granting of credit. The Unit, in cooperation with the Bank's legal advisor, ensures that all facilities and guarantees contracts meet all the legal conditions that protect the rights of the Bank.

It ensures that all credit terms are fulfilled prior to allowing the borrower to execute the credit facility. All this is done due to the importance of having more than one monitoring entity oversee these highly sensitive transactions.

Through the early credit risk warning system, the Risk Management Department examines any indicators that may signal the deterioration of the credit status of a customer. Such indicators include customer's transactions, financial performance, and the performance of the economic sector he / she operates in, in addition to indicators related to the performance of the client's account at the Bank. This system allows us to detect, early on, any deterioration in the performance of the account and enables us to take the necessary measures to reduce any possible losses that may result therefrom.

7. Credit Portfolio Management:
   All departments concerned with credit continuously review the credit portfolio to maintain a good level of credit exposure quality.

   In managing the portfolio, efforts are made to ensure that it is distributed in a balanced manner to avoid any concentration that could lead to an increase in the risk level of the portfolio. In this regard, the sectoral and the geographical distribution of the portfolio are considered, in addition to avoiding large credit exposures of a single client except in exceptional cases and for exceptional clients.

8. Credit Risk Alleviation:
   As a key measure to hedge against credit risk, the cash flows of financed projects are taken into account when determining the repayment schedule of any credit extended to our clients. Moreover, the necessary controls are determined regarding the monitoring of these cash flows that will be used for loan repayments, and collaterals in-kind are obtained if required by the credit risk level. In this respect, the quality and liquidity of these collaterals are taken into consideration, in addition to the effective implementation of procedures that ensure sound control over these collaterals, monitoring of their value, and ease of their liquidation.

Operational Risks:

The Unit implements a comprehensive system at the level of the Bank to identify the operational risks that arise from the Bank's operations, including reputation risk and the best practices to limit the effect of those risks and reach the opitimum balance between risks and control procedures. Furthermore, the Unit reviews controls and procedures regularly in coordination with the Internal Audit Department to assess compliance with those procedures and thier efficiency.

In coordination with all of the Bank's departments, the Unit gathers data related to losses resulting from operational risks to set up an adequate data base for accurately and effectively predicting these risks in the future.

The Unit implements a comprehensive policy for data and assets security based on the best international practices. The employees of the Unit follow up on the implementation of the plan especially with the Internal Audit and the IT Departments.

The department has prepared an emergency plan and a business continuity plan. In addition, a new location is under progress that will be fully equipped according to the best Internatioanl Standards due to the fact that such preparations are important during the emergence of catastrophies that may have an effect on the Bank's buisness operations.

**Stress testing situations**

Within the Bank's expected risk management framework and hedging of these risks, negative stress situations that might face the Bank and its operations are detected, and their impact on the Bank's liquidity and reputation is measured. In addititon, the vulnerabilties that the Bank faces as a result of stress are identified and reported to the Board of Directors and Executive Management, in order to develop a strategic plan to limit their effects, tackle them, or even avoid them altogeth should they recur. Stress testing also targets improving and enhancing the Bank's risk management through complying with the intructions of the regulatory bodies and best international practices in this regard.

Choosing the stress testing senarios mechanism.

Case senarios that cover all risks encountered by the Bank are chosen, where stress is measured on different bank investments, either on the level of the facilites portfolio or that of the investments portfolio, as follows:

1. Measuring the effect of stress sitiuations on the Bank's credit portfolio concerning the increase in the percentage of non-performing loans due to many factors, including concentration in granting credits, deterioration of the economic sectors due to financial crises, quality of the credit portfolio, decrease in the value of advanced guarantees, and other factors. The effect of these risk scenarios is relflected in the income statement, statement of financial position, and capital adequecy ratios.

2. Measuring the effect of stress sitiuations on the Bank's investments regarding the liquidity of the investments markets and imparment of the investments due to financial and economic crises. The effect of these risk scenarios is reflected in the income statement, statement of financial position, and capital adecuacy ratios.

3. Measuring the effect of stress sitiuations on the Bank's assets and liabilities in the case of changes in the JD prices against foreign currencies.

4. Measuring the effect of stress situtations on the Bank's liquidity due to several factors, including loss of the Bank's investments from deposits at other banks, concentration of the deposits of the Bank's clients and other banks' deposits at our bank, extensive deposit withdrawls, and changes in JD prices against foreign currencies. The effect of these risk scenarios is factored into the calculation of the legal liquidity ratio and liquidty according to the accrual base.

5. Measuring the effect of stress on the Bank's operating risks. The effect of this risk scenario is calculated in the capital adequacy ratio.

Based on the results of these tests, contingency plans are prepared to face financial and economic crises, and policies are set up for determining the concentration of facilities and investments, in addition to the policies for facing the Bank's assets and liabilities. Furthermore, risk mitigation tools are implemented, such as hedging and offseting of on-balance sheet items and accepted guarantees, in accordance with the stress testing results.

Govenonce of the Application of Stress-testing Situations:
The Board of Directors is responsible for:

1. Revewing stress testing results semi-annualy (every 6 months), to take decisions that suit these results, and therefore, ensure the Bank's safety in case it is exposed to any of these scenarios.

2. Ensuring that Executive Management complies with the prepared plans and policies to face any stress scenarios to which the Bank might be exposed.

3. Verifying that the Risk Management Department is performing stress testing periodicaly. The Board shall have a pivotal role in approving the scenarios and assuptions used, analysing the test results, and approving the right procedures to be taken based on these results.

Executive Management's Responsibility

Executive Management is responsible for:

1. Making the right recommendations, based on the stress-testing results, and reporting them to the Board of Directors.

2. Implementing the decisions of the Board of Directors related to the Bank's stress testing results, in addition to informing the Board about these results.

3. Implementing and controling stress testing, in compliance with the methodology approved by the Board of Directors.

4. Taking the stress testing results into consideration when planning capital with the aim of reaching the capital that matches the Bank's strategy and risk structure, in addition to taking the results into consideration while performing (ICAAP).

5. Ensuring full cooperation among the Bank's different departments through coordianting with the Risk Management Department to come up with the closest real world stress testing results that the Bank might be prone to as a result of the local and international financial and economic circumstances.

**The Bank's Definition for Applying Default and the Mechanism for Processing Default:**
The is in line with the regulatory bodies' instructions and banking sector best practices related to the application of defaults and mechanism for processing troubled debts.

Default debts are the facilities that have a watch list risk or worse. The following is a brief description on these degrees:

- **Watch List:** borrower with no assured profits and extremely unstable operational revenues. His assets are witnessing a decrease in their value, coupled with an increase in doubtful debts without sufficient guarantees. Meanwhile, his exposure is constnatly increasing and is greater than the accepted standards in his sector. In addition, his management and controls are weak. Debts calssified as watch list will remain as such for a period of time, so that they can be controlled to improve their credit classification in case the given facts lead to their classification under the watch list category or a decrease in their credit classification.

- **Substandard:** Borrower to whom it is no longer acceptable to extend credit. Recovering the granted credit facilities based on the client's operational revenues is questionable, and his assets are not protected at an acceptable degree by net equity. In addition, his ability to committ to debts or provide additional guarantees is weak. The facilities classified under this level of risks require a special provision according to the instructions of the Central Bank of Jordan.

**Doubtful:** The Bank's chances of recovering the debts granted to the borrower is doubtful, and part of the principal is likely to be lost under the given circumstances that demonstrate the borrower's inability to fulfill his obligations towards the Bank. The facilities classified under this level of risks require a special provision according to the instructions of the Central Bank of Jordan.

- **Loss:** It is probable that part of the granted amount will be recovered in the future, and the Bank is still not fully convinced that collectibity is unlikely. This matter does not encourage the Bank to irrevocably write off the debts, leave them, and stop claiming them. The facilities classified under this level of risks require a special provision according to the instructions of the Central Bank of Jordan.

**General Rules to be Followed When Dealing with Defaults:**

- Any suggested schedule must be based on the client's ability to commit to it, as the Bank's aim is not only to improve the credit portfolio classification, but to also recover the loan amount granted to the client.

- While sceduling debt repayment, a study of the borrowers's cash flows must be conducted, especially if the borrower has liabilities towards creditors other than the Bank. This entails studying the borrower's cash flows, current guarantees, and any other extra assets that can be liquidated as a an extra source for the repayment, or as an additional guarantee to mitigate the client's credit risk. Other aspects of the client are also studied, including his ability to manage the facilities, and validity of the legal documents and contracts in the Bank's posession, to ensure that they maintain the Bank'ss rights in case legal actions are taken against the borrower.

- In case the client commits to his repayment schedule for a period of not less than 3 months, then his account's classification is improved to a performing debt.

**Internal Credit Classification System:**

The Bank adopts Moody's system to classify clients acting as corporates and SME's. The aim of this system is to asses credit risks at the level of the client and facilities granted, and express them quantitavely so that each client with granted facilities is given a rank from 1-10, where level (1) is the least risk. In this respect, the classification of clients is the Credit Department's responsibility.

When applying the system, the following can be guaranteed:

- Ability to maintain a high quality for the Bank's credit portfolio, control the portfloio's performance, and determine the effective plans and strategies for the future management of credit risks.

- Connecting credit quality to the efficiency of performance and pricing.

- Determining the party responsible for granting and/or renewing the facilities.

The following table clarifies the standards with different weights for the classification of clients:

| Indicator | Indicator's nature |
|---|---|
| Financial items | Quantitative |
| Management | Qualitative |
| Corporate | Qualitative |
| Economic sector | Qualitative |

In order to calculate the classification, financial statements for 3 years and information about the economic sectors performance should be made available, thus clients with granted facilities are classified according to the following table:

| Risk level | Risk rank |
|---|---|
| Excellent | 1 |
| Strong | 2 |
| Good | 3 |
| Satisfactory | 4 |
| Adequate | 5 |
| Marginal | 6 |
| Watch List | 7 |
| Loss | 8 |

**Mechanism Used to Calculate the Expected Credit Losses on the Financial Instruments for Each Item Seperately**

Expected credit losses are calculated on an individual basis on the system that was previously applied by the Bank according to the calculation methodolgy adopted by the Board of Directors and external auditor in the preparation of interim and year-end financial statements

.

**A. Probability of Default (PD):**

The probability of default is measured for the purpose of calculating the expected credit losses for each IFRS (9) stage through using statistical models based on historical default data, credit exposure classification, and stress testings related to the economic indicators of corporates and SME's facilities portfolio. As for the retail facilities portfolio, statistical models have been adopted based on the product characteristics and the client's credit behaviour.

The system calculates the probability of defualt through the following the next steps:

The process starts with the Computation of a yearly composite cyclicality index (CI) of the 12 month CPI factor (CPIt divided by CPI t-12 months).The yearly composite cyclicality index obtained is added to the cumulative inverse of the long-run average rating transition probability matrix. Post addition of the yearly composite cyclicality index, the values of the resultant matrix are converted back to probabilities by applying the function "Normal Distribution".

The values of the resultant matrix are further converted into (PIT) probabilities by computing the marginal probabilities for each rating transition. Thereafter, the PIT rating transition probability matrix for next one year has been obtained.

Further to computing the PIT rating transition probability matrix for the subsequent years, is obtained using the Markov chain method that uses matrix multiplication as the basis.

According to what IFRS (9) includes, all credit exposures and debt instruments are listed in Stage (1). The probability of defualt on an exposure is taken into consideration. As for the credit exposures under Stage 2, the probability of default on a credit exposure is taken into consideration over the lifetime of the credit exposure.

**B. Loss Given Default:**

When calculating the loss given default (LGD) , the guarantees obtained against granting the credit exposure are evaluated. Moreover, only collatrals classified as risk mitigators are taken into consideration (legally documented within credit contracts, while nothing precludes the Bank from reaching the collateral) for the purpose of calculating the repayable amount of the credit exposure after applying the discount rates prescribed in CBJ Debt Classification Instructions No. (47/2009). In addition, loss rates are applied by LGDs on the uncovered portion of the credit exposure based on the historical data related to debt recoveries and the confiscation and liquidation of the collaterals due to defaults while taking the time dimension into consideration.

**C. Exposure at Default:**

When calculating Exposure at Default (EAD), the amounts to be used by the debtor and type of debt instrument will be taken into consideration for the purpose of calculating the expected credit loss for every IFRS (9 )stage. Moreover, the usage rate is calculated after performing a study on the withdrawals and rates of the currencies and different types of debt.

Furthermore, indirect credit exposures (not financed) are considered actual credit exposures on which credit loss is claculated. Their propapiliy of default is calculated as well based on hsitorical studies.

**D. Time Value of Money:**

The current expected credit value loss is calculated by using the time value and active interest rate (EIR) given for credit exposures as a discounting factor.

The governance for applying the Internatioanl Financial Reporting Standard requirements which ensure the responsibility of Management and Executive Management should be excericsed to ensure compliance therwith.

**The Board of Directors:**

The Board of Directors will review the process and results of calculating the provisions acccording to the international standard to take the right decisions compatible with the results. The Board will also make sure that Executive Management complies with the established processes and policies to ensure adequacy of the provisions. Moreover, an approved policy is adopted for identifying the exceptional and justified cases in which amendments to the system results and deliverables are made. Furthemore, an independent party is authorized to make the exceptional decision or amendment, and these cases are presented to the Board for approval.

**Risk Committee**

The Risk Committee is responsible for supervising the provision calculation process according to the international standard and ensuring the following:

- The expected credit loss provsions are adeqaute;
- The capital adequacy ratios are within the required level, and will not decrease below the specified limit; and
- The price mechanism covers provision costs

**Audit Committee**

The provision calculation results according to the international standard are submitted to the Audit Committee, which verifies the adequacy of the Bank's coverage of the expected credit loss in all of the Bank's financial statements.

**Executive Management**

Executive Management discloses risks, and when pricing credit exposures, updates policies and procedures for assesing and measuring credit risks for all concerned indivduals.

Furthermore, Executive Management is responsible for implementing the reliable credit risk strategies approved by the Board of Diretors and for developing the policies and procedures stated above.

**Risk Management Department**

The Risk Management Department ensures that the provisions fully cover the credit losses according to the international standard and submits the results to the Board of Directors, Risk Committee, and Executive Management.

1 - Credit Expousures Distributions

| Internal Rating for the Bank | Category Classification According to (2009/47) | Total Exposure Value | Expected Credit Loss | Probability of Default | Exposure when Default (in Millions) | Average Loss on Default |
|---|---|---|---|---|---|---|
| | | JD | JD | % | JD | % |
| 1 | Performing Loans | 91,903,227 | 8,810 | 4.55% - 0.34% | 83,000,000 | 59.9% |
| 2 | Performing Loans | 175,798,316 | 416,539 | 63.02% -0.34% | 95,000,000 | 45.5% |
| 3 | Performing Loans | 299,988,501 | 430,689 | 25.88% - 0.34% | 193,000,000 | 44.6% |
| 4 | Performing Loans | 442,283,122 | 1,244,517 | 63.02% - 0.34% | 307,000,000 | 46.6% |
| 5 | Performing Loans | 460,602,992 | 2,525,022 | 30.58% - 0.34% | 318,000,000 | 47.6% |
| 6 | Performing Loans | 385,248,780 | 3,223,300 | 63.41% - 0.34% | 242,000,000 | 43.2% |
| 7 | Performing Loans | 204,199,141 | 4,693,637 | 30.58% - 0.34% | 104,000,000 | 47.3% |
| Unclassified | Performing Loans | 2,379,488,005 | 8,409,381 | 63.41% - 0.01% | 1,585,000,000 | 53.3% |
| Total | | 4,439,512,084 | 20,951,895 | | 2,927,000,000 | |
| 8 | Non - performing Loans | 42,171,978 | 60,369,869 | 100% | 38,000,000 | 57.51% |
| Unclassified | Non - performing Loans | 77,797,967 | 10,632,519 | 100% | 82,000,000 | 49.20% |
| Total | | 119,969,945 | 71,002,388 | | 120,000,000 | |
| Grand Total | | 4,559,482,029 | 91,954,283 | | 3,047,000,000 | |

2. Credit risk according to economic sectors:

**a. Distributios according to financial instuments exposure:**

| | Finanical | Industrial | Trading | Real Estate | Agriculture | Equities | Individuals | Government and Public | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Cash at central banks | 241,008,818 | - | - | - | - | - | - | - | - | 241,008,818 |
| Balances at banks and financial institutions | 248,264,111 | - | - | - | - | - | - | - | - | 248,264,111 |
| Deposits at banks and financial institutions | 4,258,890 | - | - | - | - | - | - | - | - | 4,258,890 |
| Direct credit facilities and financing | 11,057,339 | 238,594,289 | 481,939,942 | 666,121,713 | 40,154,281 | 48,978,202 | 367,926,097 | 135,947,663 | 287,198,930 | 2,277,918,456 |
| Treasury, bills and Bonds and as follows: | 90,845,345 | 7,698,181 | 5,310,156 | - | - | - | - | 661,883,360 | 709,278 | 766,446,320 |
| Within: Financial assets at fair value through profit and loss | 688,489 | - | - | - | - | - | - | 65,641 | - | 754,130 |
| Within: Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | - | - | - | - |
| Within: Financial assets at amortized cost | 90,156,856 | 7,698,181 | 5,310,156 | - | - | - | - | 661,817,719 | 709,278 | 765,692,190 |
| Other Assets | 1,849,534 | 3,744,027 | 8,283,109 | 2,897,992 | 7,791,932 | 43,019 | 579,689 | 7,114,447 | 12,559,984 | 44,863,733 |
| Total | 597,284,037 | 250,036,497 | 495,533,207 | 669,019,705 | 47,946,213 | 49,021,221 | 368,505,786 | 804,945,470 | 300,468,192 | 3,582,760,328 |
| Financial guarantees | 7,878,143 | 11,047,204 | 63,771,196 | - | 489,128 | 640,881 | 20,584,234 | 3,500 | 71,720,200 | 176,134,486 |
| Letter of credit and acceptances | 330,961 | 30,101,838 | 114,878,397 | 443,612 | 24,942,085 | - | 45,724,832 | - | 46,868,023 | 263,289,748 |
| Other Liabilities | 3,547,212 | 45,339,455 | 206,329,228 | - | 6,661,534 | 2,547,316 | 29,522,693 | 1,189,719 | 137,302,763 | 432,439,920 |
| Grand Total | 609,040,353 | 336,524,994 | 880,512,028 | 669,463,317 | 80,038,960 | 52,209,418 | 464,337,545 | 806,138,689 | 556,359,178 | 4,454,624,482 |

b. Distribution of exposure according to staging (IFRS 9)

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Financial | 602,145,797 | - | 6,893,246 | - | 1,310 | 609,040,353 |
| Industrial | 290,716,516 | 1,565,999 | 41,209,424 | 1,532 | 3,031,523 | 336,524,994 |
| Trading | 806,044,761 | 7,543,813 | 57,740,790 | 234,072 | 8,948,592 | 880,512,028 |
| Real Estates | 349,922,738 | 244,748,964 | 58,950,194 | 6,673,059 | 9,168,362 | 669,463,317 |
| Agriculture | 63,545,120 | - | 15,333,626 | - | 1,160,214 | 80,038,960 |
| Equity | 13,079,506 | 37,861,779 | 622,336 | 343,705 | 302,092 | 52,209,418 |
| Individual | 369,987,741 | 81,823,899 | 9,472,751 | 1,303,777 | 1,749,377 | 464,337,545 |
| Government and public sector | 806,138,689 | - | - | - | - | 806,138,689 |
| Other | 446,628,460 | 8,977,510 | 90,898,268 | 719,796 | 9,135,144 | 556,359,178 |
| Total | 3,748,209,328 | 382,521,964 | 281,120,635 | 9,275,941 | 33,496,614 | 4,454,624,482 |

### 3. Exposure distribution according to geographical distribution

#### a. Total exposure distribution according to the geographical regions - net:

| | Inside Jordan | Other Middle East Countries | Europe | Asia * | Africa | America | Other Countries | Total |
|---|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD | JD |
| Cash and balances at central banks | 241,008,818 | - | - | - | - | - | - | 241,008,818 |
| Balances at banks and financial institutions | 821,867 | 81,863,565 | 84,733,014 | 37,391,298 | - | 40,225,671 | 3,228,696 | 248,264,111 |
| Deposits at banks and financial institutions | 3,000,000 | - | 1,258,890 | - | - | - | - | 4,258,890 |
| Direct credit facilities and financing | 2,277,918,456 | - | - | - | - | - | - | 2,277,918,456 |
| Treasury Bills and Bonds are as follows: | 655,172,909 | 26,668,470 | 28,562,350 | 2,790,894 | - | 51,834,212 | 1,417,485 | 766,446,320 |
| Within: Financial assets at fair value through profit and loss | - | - | 688,489 | - | - | 65,641 | - | 754,130 |
| Within: Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | - | - |
| Within: Financial assets at amortized cost | 655,172,909 | 26,668,470 | 27,873,861 | 2,790,894 | - | 51,768,571 | 1,417,485 | 765,692,190 |
| Derivatives | - | - | - | - | - | - | - | - |
| Mortgaged financial assets (liabilities) | - | - | - | - | - | - | - | - |
| Other Assets | 44,863,733 | - | - | | - | - | - | 44,863,733 |
| Total | 3,222,785,783 | 108,532,035 | 114,554,254 | 40,182,192 | - | 92,059,883 | 4,646,181 | 3,582,760,328 |
| Financial guarantees | 176,134,486 | - | - | - | - | - | - | 176,134,486 |
| Letter of credit and acceptances | 263,289,748 | - | - | - | - | - | - | 263,289,748 |
| Other Liabilities | 432,439,920 | - | - | - | - | - | - | 432,439,920 |
| Grand Total | 4,094,649,937 | 108,532,035 | 114,554,254 | 40,182,192 | - | 92,059,883 | 4,646,181 | 4,454,624,482 |

#### b. Exposure distribution according to staging (IFRS 9)

| | Stage (1) | | Stage (2) | | | |
|---|---|---|---|---|---|---|
| | Individual | Collective | Individual | Collective | Stage (3) | Total |
| | JD | JD | JD | JD | JD | JD |
| Inside Jordan | 3,388,234,783 | 382,521,964 | 281,120,635 | 9,275,941 | 33,496,614 | 4,094,649,937 |
| Other Middle East countries | 108,532,035 | - | - | - | - | 108,532,035 |
| Eurpoe | 114,554,254 | - | - | - | - | 114,554,254 |
| Asia | 40,182,192 | - | - | - | - | 40,182,192 |
| Africa | - | - | - | - | - | - |
| America | 92,059,883 | - | - | - | - | 92,059,883 |
| Other Countries | 4,646,181 | - | - | - | - | 4,646,181 |
| Total | 3,748,209,328 | 382,521,964 | 281,120,635 | 9,275,941 | 33,496,614 | 4,454,624,482 |

4. Credit exposures that have been reclassified

a. Total credit exposures that have been reclassified

| | Stage (2) | | Stage (3) | | | |
|---|---|---|---|---|---|---|
| | Total Exposure Amount | Exposure that have been Reclassified | Total Exposure Amount | Exposure that have been Reclassified | Total Exposure that have been Reclassified | Percentage of Exposure that have been Reclassified |
| | JD | JD | JD | JD | JD | % |
| Cash and balances at central banks | - | - | - | - | - | 0.00% |
| Balances at banks and financial institutions | - | - | - | - | - | 0.00% |
| Deposits at banks and financial institutions | - | - | - | - | - | 0.00% |
| Direct credit facilities and financing | 255,001,901 | 156,808,440 | 117,508,889 | 32,817,973 | 189,626,413 | 7.96% |
| Treasury Bills and Bonds are as follows: | - | - | 250,000 | - | - | 0.00% |
| Within: Financial assets at fair value through profit and loss | - | - | - | - | - | 0.00% |
| Within: Financial assets at fair value through other comprehensive income | - | - | 250,000 | - | - | 0.00% |
| Within: Financial assets at amortized cost | - | - | - | - | - | 0.00% |
| Derivatives | - | - | - | - | - | 0.00% |
| Mortgaged financial assets (debt instruments) | - | - | - | - | - | 0.00% |
| Other Assets | - | - | - | - | - | 0.00% |
| Total | 255,001,901 | 156,808,440 | 117,758,889 | 32,817,973 | 189,626,413 | 5.02% |
| Financial guarantees | 21,444,768 | 8,193,923 | 2,211,056 | 245,315 | 8,439,238 | 4.79% |
| Letter of credit and acceptances | 9,557,093 | 1,463,331 | - | - | 1,463,331 | 0.56% |
| Other Liabilities | 9,202,499 | 1,028,082 | - | - | 1,028,082 | 0.24% |
| Grand Total | 295,206,261 | 167,493,776 | 119,969,945 | 33,063,288 | 200,557,064 | 4.31% |

Credit exposures that have been reclassified:

b. Expected credit loss for exposures that have been reclassified

| | Exposures that have been reclassified | | | Expected credit loss due to reclassified exposures | | | | |
|---|---|---|---|---|---|---|---|---|
| | Exposure Reclassified from Stage (2) | Exposure Reclassified from Stage (3) | Total Exposures That Have Been Reclassified | Stage (2) - Individual | Stage (2) - Collective | Stage (3) - Individual | Stage (3) - Collective | Total |
| | JD | JD | JD | JD | JD | JD | JD | JD |
| Cash and balances at central banks | - | - | - | - | - | - | - | - |
| Balances at banks and financial institutions | - | - | - | - | - | - | - | - |
| Deposits at banks and financial institutions | - | - | - | - | - | - | - | - |
| Direct credit facilities and financing | 156,808,440 | 32,817,973 | 189,626,413 | 1,594,422 | 189,754 | 370,998 | 47,324 | 2,202,498 |
| Treasury Bills and Bonds are as follows: | - | - | - | - | - | - | - | - |
| Within: Financial assets at fair value through profit and loss | - | - | - | - | - | - | - | - |
| Within: Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | - | - |
| Within: Financial assets at amortized cost | - | - | - | - | - | - | - | - |
| Derivatives | - | - | - | - | - | - | - | - |
| Mortgaged financial assets (debt instruments) | - | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - | - |
| Total | 156,808,440 | 32,817,973 | 189,626,413 | 1,594,422 | 189,754 | 370,998 | 47,324 | 2,202,498 |
| Financial guarantees | 8,193,923 | 245,315 | 8,439,238 | 61,841 | - | 1,860 | - | 63,701 |
| Letter of credit and acceptances | 1,463,331 | - | 1,463,331 | 4,144 | - | - | - | 4,144 |
| Other Liabilities | 1,028,082 | - | 1,028,082 | 4,858 | - | - | - | 4,858 |
| Grand Total | 167,493,776 | 33,063,288 | 200,557,064 | 1,665,265 | 189,754 | 372,858 | 47,324 | 2,275,201 |

5 - Credit Risk Exposures (after provision for impairment, outstanding interests and returns, and before collateral and other risk mitigants):

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| **On-Consolidated Financial Position Items** | | |
| Balances at central banks | 241,008,818 | 282,485,418 |
| Balances at banks and financial institutions | 248,264,111 | 326,075,874 |
| Deposits at banks and financial institutions | 4,258,890 | 8,325,098 |
| Direct Credit Facilities and Financing - Net: | | |
| Individual | 435,232,451 | 357,041,832 |
| Real estate mortgages | 666,121,713 | 574,115,232 |
| Corporates | | |
| Large corporates | 905,976,720 | 891,371,820 |
| SME's | 134,292,668 | 126,491,262 |
| Government and Public Sector | 136,294,904 | 135,307,843 |
| Total | 2,277,918,456 | 2,084,327,989 |
| Treasury Bills and Bonds | | |
| Within Financial assets at fair value through profit and loss | 754,130 | - |
| Within Financial assets at amortized cost | 765,692,190 | 617,696,128 |
| Other assets | 44,863,733 | 27,757,157 |
| Total On-Consolidated Financial Position Items | 3,582,760,328 | 3,346,667,664 |
| **Off- Consolidated Financial Position Items** | | |
| Letter of guarantees | 176,134,486 | 178,422,988 |
| Letter of credits | 167,179,667 | 162,215,287 |
| Acceptances | 96,110,081 | 182,116,425 |
| Un-utilized facilities ceilings | 432,439,920 | 383,471,409 |
| Total Off-Consolidated Financial Position Items | 871,864,154 | 906,226,109 |
| Total On and Off - Consolidated Financial Position Items | 4,454,624,482 | 4,252,893,773 |

The above table represents the Bank's maximum credit exposure as of December 31, 2018 and 2017 without taking into account collateral or other credit risk mitigators.

6. Expected Credit Losses as of December 31, 2018:

| | Stage (1) - Individual | Stage (1) - Collective | Stage (2) - Individual | Stage (2) - Collective | Stage (3) | Total |
|---|---|---|---|---|---|---|
| Description | JD | JD | JD | JD | JD | JD |
| Cash and balances at central banks | - | - | - | - | - | - |
| Balances and deposits at banks and financial institutions | 142,530 | - | - | - | - | 142,530 |
| Direct credit facilities and financing | 12,532,691 | 280,642 | 4,676,176 | 133,509 | 70,025,163 | 87,648,181 |
| Debt instruments within portfolio of the financial assets at amortized costs | 618,668 | - | - | - | 250,000 | 868,668 |
| Debt instruments within financial assets at fair value through other comprehensive income | - | - | - | - | - | - |
| Financial guarantees | 435,108 | - | 78,231 | - | 727,225 | 1,240,564 |
| Un-utilized facilities ceilings | 1,521,294 | - | 96,916 | - | - | 1,618,210 |
| Letter of credit and acceptances | 410,648 | - | 25,482 | - | - | 436,130 |
| Other | - | - | - | - | - | - |

Expected Credit Facilities as of December 31, 2018

| | Stage (1) - Individual | Stage (1) - Collective | Stage (2) - Individual | Stage (2) - Collective | Stage (3) | Total |
|---|---|---|---|---|---|---|
| Description | JD | JD | JD | JD | JD | JD |
| Cash and balances at central banks | - | - | - | - | - | - |
| Balances and deposits at banks and financial institutions | 516,247 | - | - | - | - | 516,247 |
| Direct credit facilities and financing | 11,235,480 | 154,389 | 4,185,528 | 37,639 | 71,461,186 | 87,074,222 |
| Debt instruments within portfolio of the financial assets at amortized costs | 235,192 | - | - | - | 1,390,625 | 1,625,817 |
| Debt instruments within financial assets at fair value through other comprehensive income | - | - | - | - | - | - |
| Financial guarantees | 560,955 | - | 5,259 | - | 1,981,057 | 2,547,271 |
| Un-utilized facilities ceilings | 1,347,839 | - | 124,191 | - | - | 1,472,030 |
| Letter of credit and acceptances | 737,688 | - | 3,732 | - | - | 741,420 |

The distribution of the collaterals' fair value against the total credit exposures are as follows:

| | | Collaterals' Fair Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Description | Total Exposure | Cash Margin | Trading Shares | Accepted Bank Guarantees | Real Estates | Vehicles and Equipment | Other | Total Collaterals | Net Exposures after the Collaterals | Expected Credit Loss |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| 2018 | | | | | | | | | | |
| Balances at central banks | 241,008,818 | - | - | - | - | - | - | - | 241,008,818 | - |
| Balances at banks and financial institutions | 248,406,070 | - | - | - | - | - | - | - | 248,406,070 | 141,959 |
| Deposits at banks and financial institutions | 4,259,461 | - | - | - | - | - | 3,000,000 | 3,000,000 | 1,259,461 | 571 |
| Direct Credit Facilities and Financing | | | | | | | | | | |
| Individual | 449,369,737 | 19,100,834 | 865,600 | - | 22,756,429 | 134,534,318 | 79,200 | 177,336,381 | 272,033,356 | 11,753,092 |
| Real estate mortgages | 676,724,409 | 662,539 | 486,480 | - | 573,700,706 | 43,367,084 | 1,270,500 | 619,487,309 | 57,237,100 | 6,826,408 |
| Large corporates | 977,174,855 | 20,987,458 | 38,967,600 | - | 297,166,730 | 4,993,397 | 49,099,090 | 411,214,275 | 565,960,580 | 61,932,663 |
| SME's | 142,200,900 | 14,009,510 | 1,660,433 | - | 80,756,745 | 10,177,637 | 4,847,609 | 111,451,934 | 30,748,966 | 6,788,777 |
| Government and Public Sector | 977,174,855 | - | - | - | - | - | - | - | 977,174,855 | 347,241 |
| Treasury Bills and Bonds are as follows: | | | | | | | | | | |
| Within Financial assets at fair value through profit and loss | 754,130 | - | - | - | - | - | - | - | 754,130 | - |
| Within Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | - | - | - | - |
| Within Financial assets at amortized cost | 766,560,858 | - | - | - | - | - | - | - | 766,560,858 | 868,668 |
| Other assets | 44,863,733 | - | - | - | - | - | - | - | 44,863,733 | - |
| Total | 4,528,497,826 | 54,760,341 | 41,980,113 | - | 974,380,610 | 193,072,436 | 58,296,399 | 1,322,489,899 | 3,206,007,927 | 88,659,379 |
| Financial guarantees | 176,134,486 | 16,769,882 | - | - | - | - | - | 16,769,882 | 159,364,604 | 1,240,564 |
| Letter of credit and acceptances | 263,289,748 | 16,917,783 | - | - | - | - | - | 16,917,783 | 246,371,965 | 436,130 |
| Other Liabilities | 432,439,920 | - | - | - | - | - | - | - | 432,439,920 | 1,618,210 |
| Grand Total | 5,400,361,980 | 88,448,006 | 41,980,113 | - | 974,380,610 | 193,072,436 | 58,296,399 | 1,356,177,564 | 4,044,184,416 | 91,954,283 |

The distribution of the collaterals' fair value against the total credit exposures within stage (3) are as follows:

| Description | Total Exposure | Collaterals' Fair Value | | | | | | | Net Exposures after the Collaterals | Expected Credit Loss |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Cash Margin | Trading Shares | Accepted Bank Guarantees | Real Estates | Vehicles and Equipment | Other | Total Collaterals | | |
| | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| 2018 | | | | | | | | | | |
| Balances at central banks | - | - | - | - | - | - | - | - | - | - |
| Balances at banks and financial institutions | - | - | - | - | - | - | - | - | - | - |
| Deposits at banks and financial institutions | - | - | - | - | - | - | - | - | - | - |
| Direct Credit Facilities and Financing | - | - | - | - | - | - | - | - | - | - |
| Individual | 16,359,968 | 58,827 | 39,013 | 12,481 | 4,910,226 | 3,117,726 | - | 8,138,273 | 8,221,695 | 4,175,622 |
| Real estate mortgages | 17,120,272 | - | - | - | 9,543,928 | - | - | 9,543,928 | 7,576,344 | 4,175,622 |
| Large corporates | 69,750,315 | 76,853 | - | - | 20,863,122 | 6,393,045 | 90,000 | 27,423,020 | 42,327,295 | 49,479,635 |
| SME's | 14,278,334 | 919,987 | - | 405,178 | 7,843,072 | 393,263 | 25,136 | 9,586,636 | 4,691,698 | 6,215,539 |
| Government and Public Sector | - | - | - | - | - | - | - | - | - | - |
| Treasury Bills and Bonds are as follows: | | | | | | | | | | |
| Within Financial assets at fair value through profit and loss | - | - | - | - | - | - | - | - | - | - |
| Within Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | - | - | - | - |
| Within Financial assets at amortized cost | 250,000 | - | - | - | - | - | - | - | 250,000 | 250,000 |
| Other assets | - | - | - | - | - | - | - | - | - | - |
| Total | 117,758,889 | 1,055,667 | 39,013 | 417,659 | 43,160,348 | 9,904,034 | 115,136 | 54,691,857 | 63,067,032 | 64,296,418 |
| Financial guarantees | 2,211,056 | - | - | - | - | - | - | - | 2,211,056 | 727,225 |
| Letter of credit and acceptances | - | - | - | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - | - | - | - |
| Grand Total | 119,969,945 | 1,055,667 | 39,013 | 417,659 | 43,160,348 | 9,904,034 | 115,136 | 54,691,857 | 65,278,088 | 65,023,643 |

**Rescheduled Loans:**

These represent loans previously classified as credit facilities within Stage (3) according to proper rescheduling. These loans amounted to JD 12,422,821 as of December 31, 2018 (JD 46,969,590 as of December 31, 2017).

**Restructured Loans:**

Restructuring means rearranging credit facilities in terms of adjusting installments, prolonging the life of credit facilities, postponing some installments, or extending the grace period. These loans amounted to JD 109,125,670 during the year 2018 (JD 26,837,518 during the year 2017).

Debt Securities and Treasury Bills

The Schedule below shows the distribution of bonds and bills according to the foreign agencies classification:

| Rating grade | Rating Institution | Within financial assets at fair value through P&L 2018 | Within Financial f amortized cost 2018 | Total 2017 |
|---|---|---|---|---|
| | | JD | JD | JD |
| AA+ | S&P | - | 40,179,840 | 29,765,384 |
| AA | S&P | - | - | 709,390 |
| AA- | S&P | - | 2,126,763 | 1,066,008 |
| A+ | S&P | - | 4,409,155 | 4,166,926 |
| A | S&P | - | 9,514,101 | 9,120,409 |
| A- | S&P | - | 7,181,497 | 8,511,226 |
| BBB+ | S&P | - | 13,669,029 | 10,826,713 |
| BBB | S&P | - | 5,363,679 | 2,529,483 |
| BBB- | S&P | - | 4,977,758 | - |
| BB+ | S&P | - | 4,126,581 | 3,188,348 |
| BB | S&P | 668,489 | 1,409,492 | - |
| BB- | S&P | - | 3,867,347 | 3,587,058 |
| B+ | S&P | 65,641 | 9,632,349 | 937,784 |
| Un-rated | S&P | - | 44,970,259 | 47,099,434 |
| Governmental | S&P | - | 614,264,340 | 496,187,965 |
| Total | | 754,130 | 765,692,190 | 617,696,128 |

B. Market Risks

Market risks are defined as those risks resulting from price fluctuations in a way that affect the Bank's addition to the interest rates. This definition includes the change in the currencies exchange rates, stocks prices in addition to the interest rates.

The Bank uses a conservative policy in market risk management. The Bank controls these risks through the adoption of clear policies in their regard and establishing risk limits for each risk type. Our policy aims to reduce these risks to lowest levels.

1. Interest Rate Risks:

A conservative policy is adopted in managing interest rate risks whereby most of the Bank's assets and liabilities can be re-priced in the short term. This limits the effect of interest rates change on the Bank's profitability and on the price of its assets and investments.

Interest rate risks are managed by the Assets and Liabilities Committee whereby it is provided with regular gap reports of interest rates re-pricing in addition to per currency interest rate price changes sensitivity reports, these reports shows that interest rate risks are within the lowest range.

For the Year 2018

| Currency | Change increase in interest rate | Sensitivity of net interest income (gains/ losses) in (thousands) | Sensitivity on equity |
|---|---|---|---|
| | | JD | JD |
| Jordanian Dinar | 1% | 3,870 | 3,870 |
| US Dollar | 1% | 736 | 736 |
| Euro | 1% | 326 | 326 |
| GBP | 1% | (5) | (5) |
| Japanese Yen | 1% | 163 | 163 |
| Other Currencies | 1% | 200 | 200 |

For the Year 2017

| Currency | Change increase in interest rate | Sensitivity of net interest income (gains/ losses) in (thousands) | Sensitivity on equity |
|---|---|---|---|
| | | JD | JD |
| Jordanian Dinar | 1% | 3,358 | 3,358 |
| US Dollar | 1% | 1,084 | 1,084 |
| Euro | 1% | 446 | 446 |
| GBP | 1% | (24) | (24) |
| Japanese Yen | 1% | 149 | 149 |
| Other Currencies | 1% | 247 | 247 |

In case there is a negative change in the interest price, then the effect will be the same as the change in the table mentioned above with an opposite sign.

2. Currency Risks:

The Bank's policy is to fully hedge the currency risk by not maintaining open positions in foreign currencies only within the limits set and according to a clear policy which reduces the sensitivity of the Bank's profitability to currency price changes. Ceilings are placed for open positions for each currency and total currencies, and daily evaluations of these positions are made to reduce the risks of currency exchange rates to a minimum.

| Currency | change in currency exchange rate | Effect on profits and losses | Effect on Equity |
|---|---|---|---|
| | | JD | JD |
| For the Year 2018 | | | |
| US Dollar | 1% | (132,248) | 28,199 |
| Euro | 1% | (159,740) | - |
| GBP | 1% | (88,260) | - |
| Japanese Yen | 1% | 118,395 | - |
| Other Currencies | 1% | 247,420 | - |
| For the Year 2017 | | | |
| US Dollar | 1% | 158,867 | 35,691 |
| Euro | 1% | (85,968) | - |
| GBP | 1% | (8,958) | - |
| Japanese Yen | 1% | 151,506 | - |
| Other Currencies | 1% | 768 | - |

In case of a 1% decrease in the currency exchange rate, the effect will be the same as the financial effect mentioned in the tables above with an opposite sign.

3. Change in Stock Price Risks:

Trading portfolio risk management depends on a policy that is based on diversification of investments. Investments are distributed on a sectoral basis, to include the most stable sectors, and across several financial markets to reduce risks to acceptable levels.
Regular monitoring of risks is also conducted through:

Determining the different investments ceilings
Determining limits to stop losses per investment coupled with daily monitoring
Regularly assessing the investment portfolio by an independent body (intermediary office)
Performing sensitivity analysis to measure the extent to which these investments may be impacted should the markets invested in drop, so as to maintain risks within levels acceptable to the Bank

These risks are managed by the Risks Management Department in cooperation with the Treasury Department. Moreoverm their recommendations are submitted to the Assets and Liabilities Management Committee.

| Market | Change in Market Index | Effect on profits and losses | Effect on Equity |
|---|---|---|---|
| | | JD | JD |
| For the Year 2018: | | | |
| Amman Stock Exchange | 5% | 271,041 | 379,061 |
| Al-Quds Stock Exchange (Palestine) | 5% | - | 722,865 |
| FTSE 100 | 5% | 4,765 | - |
| Hang Seng Index | 5% | 7,023 | - |
| Borsa Italiana | 5% | 401 | - |
| Swiss Market index (SMI) | 5% | 7,557 | - |
| For the Year 2017: | | | |
| Amman Stock Exchange | 5% | 159,561 | 504,846 |
| Al-Quds Stock Exchange (Palestine) | 5% | 23,386 | 832,710 |

- In the event of an opposite change in the indicator, the effect will remain constant but with an opposite sign.

C. Liquidity Risks

The Bank continuously expands its depositors' base and diversifies the sources of its funds with the aim of maintaining its stability. In this respect, the Bank maitains its liquidity level within clear limits to ensure minimizing liquidity risks as much as possible.

Meanwhile, the Bank's liquidity risk management policy endeavors to maintain liquidity limits at the corresponding banks to ensure easy access to liquidity within a reasonable time and at reasonable costs in case of any unexpected demand for liquidity.

To measure the Bank's liquidity levels, a schedule is prepared periodically to verify that liquidity is within the acceptable levels. In addition, the liquidity ratio is caclulated daily to ensure compliance with the regulatory requirements and internal policies. In this respect, the various stress scenarios' effects on the Bank's portfolio are identified and measured to ensure the Bank's ability to withstand any changes that might take place in the financial markets.

The Treasury Department manages funds in line with the Bank's liquidity policy endorsed by the Assets and Liabilities Management Committee and submits regular reports to the Committee. Moreover, the Risk Management Department monitors the liquidity levels and ensures adherence to the Bank's internal policies.

(44/c) Liquidity Risks:

The following table illustrates the distribution of the liabilities (un-discounted) on the basis of the remaining period from the date of the consolidated financial statements until the date of contractual maturity.

| | Less than a Month | 1-3 Months | 3-6 Months | More than 6 Months | 1-3 Years | More than 3 Years | No Specific Maturity | Total |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2018: | JD | JD | JD | JD | JD | JD | JD | JD |
| Liabilities: | | | | | | | | |
| Banks and financial institution deposits | 75,922,249 | 8,069,041 | 3,300,000 | 1,500,000 | 8,500,000 | - | - | 97,291,290 |
| Customers' deposits | 1,029,398,623 | 592,960,395 | 487,544,200 | 650,723,577 | 261,135,115 | - | - | 3,021,761,910 |
| Margin accounts | 25,757,707 | 12,014,184 | 8,725,025 | 10,327,847 | 18,996,265 | 70,855,843 | - | 146,676,871 |
| Borrowed Funds | - | 67,917 | 10,225,081 | 11,656,953 | 37,064,002 | 32,229,995 | - | 91,243,948 |
| Sundry provisions | - | - | - | - | - | - | 1,232,609 | 1,232,609 |
| Income tax liabilities | - | - | - | - | - | - | 18,199,119 | 18,199,119 |
| Other liabilities | - | - | - | - | - | - | 68,702,089 | 68,702,089 |
| Total | 1,131,078,579 | 613,111,537 | 509,794,306 | 674,208,377 | 325,695,382 | 103,085,838 | 88,133,817 | 3,445,107,836 |
| Total assets (according to expected maturities) | 872,874,498 | 258,193,077 | 269,040,269 | 272,318,727 | 631,761,064 | 1,373,670,849 | 190,210,648 | 3,868,069,132 |

| | Less than a Month | 1-3 Months | 3-6 Months | More than 6 Months | 1-3 Years | More than 3 Years | No Specific Maturity | Total |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2018: | | | | | | | | |
| Liabilities: | | | | | | | | |
| Banks and financial institution deposits | 43,914,396 | 12,039,035 | - | - | 3,264,167 | - | - | 59,217,598 |
| Customers' deposits | 1,028,393,740 | 557,376,558 | 422,991,020 | 467,440,106 | 236,546,375 | - | - | 2,712,747,799 |
| Margin accounts | 56,572,130 | 9,532,131 | 14,094,202 | 14,352,916 | 22,469,837 | 109,075,657 | - | 226,096,873 |
| Borrowed Funds | 465,576 | 114,442 | 722,710 | 909,912 | 53,884,552 | 40,050,711 | - | 96,147,903 |
| Sundry provisions | - | - | - | - | - | - | 234,615 | 234,615 |
| Income tax liabilities | - | - | - | - | - | - | 14,773,872 | 14,773,872 |
| Other liabilities | - | - | - | - | - | - | 50,245,187 | 50,245,187 |
| Total | 1,129,345,842 | 579,062,166 | 437,807,932 | 482,702,934 | 316,164,931 | 149,126,368 | 65,253,674 | 3,159,463,847 |
| Total assets (according to expected maturities) | 982,264,796 | 174,632,825 | 207,959,684 | 226,295,242 | 539,141,221 | 1,273,595,955 | 168,385,530 | 3,572,275,253 |

Interest Rate Re-Pricing Gap:

Classification is based on interest re-pricing or maturing, whichever is closer.

Interests rates sensitivity is as follows:

| As of December 31, 2018 | Less than 1 Month | From 1 Month to 3 Months | More than 3 Months to 6 Months | More than 6 Months to 1 Year | From 1-3 Years | More than 3 Years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD | JD | JD |
| **Assets** | | | | | | | | |
| Balances at central banks | - | - | - | - | - | - | 333,205,500 | 333,205,500 |
| Balances at banks and financial institutions | 214,837,000 | 6,535,930 | - | - | - | - | 26,891,181 | 248,264,111 |
| Deposits at banks and financial institutions | - | - | 1,259,461 | 3,000,000 | - | - | (571) | 4,258,890 |
| Financial assets at fair value through profit and loss | - | - | - | - | 688,489 | 65,641 | 12,724,362 | 13,478,492 |
| Direct credit facilities and financing - net | 56,979,760 | 75,135,907 | 1,593,301,505 | 77,912,952 | 198,573,296 | 262,352,496 | 13,662,540 | 2,277,918,456 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | 28,530,920 | 28,530,920 |
| Financial assets at amortized cost | 11,098,089 | 62,371,577 | 61,696,163 | 68,697,328 | 210,973,707 | 351,473,996 | (618,670) | 765,692,190 |
| Investments in associates | - | - | - | - | - | - | 376,618 | 376,618 |
| Prperty and equipment | - | - | - | - | - | - | 74,486,185 | 74,486,185 |
| Intangible assets | - | - | - | - | - | - | 22,186,281 | 22,186,281 |
| Deferred tax assets | - | - | - | - | - | - | 11,957,746 | 11,957,746 |
| Other assets | 516,179 | 2,296,771 | 960,213 | 402,200 | - | - | 83,538,380 | 87,713,743 |
| Total Assets | 283,431,028 | 146,340,185 | 1,657,217,342 | 150,012,480 | 410,235,492 | 613,892,133 | 606,940,472 | 3,868,069,132 |
| **Liabilities** | | | | | | | | |
| Banks and financial institution deposits | 17,144,327 | 7,000,000 | - | 4,500,000 | 8,500,000 | - | 59,543,501 | 96,687,828 |
| Customers' deposits | 1,066,678,618 | 431,464,549 | 352,509,724 | 514,549,301 | 59,071,722 | - | 564,675,631 | 2,988,949,545 |
| Margin accounts | 71,481,393 | - | - | - | - | - | 70,333,143 | 141,814,536 |
| Borrowed Funds | - | 67,500 | 10,085,761 | 11,347,851 | 34,631,981 | 29,103,169 | - | 85,236,262 |
| Sundry provisions | - | - | - | - | - | - | 1,232,609 | 1,232,609 |
| Income tax liabilities | - | - | - | - | - | - | 18,199,119 | 18,199,119 |
| Other liabilities | - | - | - | - | - | - | 68,702,089 | 68,702,089 |
| Total Liabilities | 1,155,304,338 | 438,532,049 | 362,595,485 | 530,397,152 | 102,203,703 | 29,103,169 | 782,686,092 | 3,400,821,988 |
| Interest Rate Re- Pricing Gap | (871,873,310) | (292,191,864) | 1,294,621,857 | (380,384,672) | 308,031,789 | 584,788,964 | (175,745,620) | 467,247,144 |
| **As of December 31, 2017** | | | | | | | | |
| Total Assets | 359,517,499 | 112,844,274 | 1,505,635,366 | 105,097,090 | 374,615,121 | 560,709,884 | 553,856,019 | 3,572,275,253 |
| Total Liabilities | 1,142,585,504 | 414,740,103 | 295,061,315 | 365,112,706 | 82,159,396 | 36,260,921 | 777,844,275 | 3,113,764,220 |
| Interest Rate Re- Pricing Gap | (783,068,005) | (301,895,829) | 1,210,574,051 | (260,015,616) | 292,455,725 | 524,448,963 | (223,988,256) | 458,511,033 |

Concentration in currency risk:

| As of December 31, 2018 | US Dollar | Euro | GBP | Japanese Yen | Other | Total |
|---|---|---|---|---|---|---|
| | JD | JD | JD | JD | JD | JD |
| Assets | | | | | | |
| Balances at central banks | 92,930,243 | 19,346,775 | 1,217,443 | - | 27,867,078 | 141,361,539 |
| Balances at banks and financial institutions | 189,278,265 | 23,487,062 | 7,654,374 | 3,756,021 | 23,714,601 | 247,890,323 |
| Deposits at banks and financial institutions | - | - | 1,259,461 | - | - | 1,259,461 |
| Financial assets at fair value through profit and loss | 4,377,283 | 3,293,513 | 95,290 | - | 291,595 | 8,057,681 |
| Direct credit facilities and financing - net | 195,394,837 | 1,558,120 | 69,540 | 19,447,426 | 15,269,209 | 231,739,132 |
| Financial assets at fair value through other comprehensive income | 9,039,750 | - | - | - | - | 9,039,750 |
| Financial assets at amortized cost | 191,642,387 | 22,778,004 | 911,777 | - | - | 215,332,168 |
| Other assets | 11,974,651 | 684,882 | 17,203 | 6,475 | 10,431,157 | 23,114,368 |
| Total Assets | 694,637,416 | 71,148,356 | 11,225,088 | 23,209,922 | 77,573,640 | 877,794,422 |
| Liabilities | | | | | | |
| Banks and financial institution deposits | 23,585,906 | 13,205,016 | 9,873 | 10,744,377 | 21,970,558 | 69,515,730 |
| Customers' deposits | 645,891,938 | 69,781,418 | 19,876,298 | 604,216 | 26,477,705 | 762,631,575 |
| Margin accounts | 31,984,550 | 3,657,877 | 128,049 | - | 4,332,353 | 40,102,829 |
| Other liabilities | 6,399,824 | 478,064 | 36,824 | 21,792 | 51,068 | 6,987,572 |
| Total Liabilities | 707,862,218 | 87,122,375 | 20,051,044 | 11,370,385 | 52,831,684 | 879,237,706 |
| Net concentration in the Consolidated Statement of Financial Position | (13,224,802) | (15,974,019) | (8,825,956) | 11,839,537 | 24,741,956 | (1,443,284) |
| Contingent Liabilities Off - Consolidated Statement of Financial Position | 387,086,298 | 38,264,533 | 300,089 | 20,753,884 | 27,229,349 | 473,634,153 |
| As of December 31, 2017 | | | | | | |
| Total Assets | 663,013,601 | 78,027,248 | 9,750,544 | 22,648,535 | 59,408,438 | 832,848,366 |
| Total Liabilities | 647,126,865 | 86,624,097 | 10,646,315 | 7,497,915 | 59,331,652 | 811,226,844 |
| Net concentration in the Consolidated Statement of Financial Position | 15,886,736 | (8,596,849) | (895,771) | 15,150,620 | 76,786 | 21,621,522 |
| Contingent Liabilities Off - Consolidated Statement of Financial Position | 419,477,650 | 39,129,602 | 157,346 | 20,247,501 | 8,618,502 | 487,630,601 |

Secondly: Off- Consolidated of Financial Position Items:

| | Up to 1 Year | 1 - 5 Years | Over 5 Years | Total |
|---|---|---|---|---|
| As of December 31, 2018 | JD | JD | JD | JD |
| Letters of credit and acceptances | 301,642,587 | 13,721,357 | - | 315,363,944 |
| Un-utilized ceilings | 432,439,920 | - | - | 432,439,920 |
| Letters of guarantee | 163,093,948 | 12,749,315 | 291,223 | 176,134,486 |
| Total | 897,176,455 | 26,470,672 | 291,223 | 923,938,350 |
| As of December 31, 2017 | | | | |
| Letters of credit and acceptances | 376,197,669 | 1,772,500 | - | 377,970,169 |
| Un-utilized ceilings | 383,471,409 | - | - | 383,471,409 |
| Letters of guarantee | 165,916,765 | 12,289,300 | 216,923 | 178,422,988 |
| Total | 925,585,843 | 14,061,800 | 216,923 | 939,864,566 |

45. Segment Analysis

A. Bank Activities Information:

For management purposes, the Bank is organized into the following major business segments based on the reports sent to the chief operating decision maker:

- Individual accounts: This item includes following up on individual customer's deposits and granting them credit.

- Small and Medium Enterprises: This item includes following up on the client's deposits and credit facilities. Moreover, these clients are classified based on the volume of the granted deposits and facilities according to the Bank's instructions and principles and in compliance with the regulatory bodies' instructions.

- Corporate Accounts: This item includes following up on the client's deposits and credit facilities. Moreover, these clients are classified based on the volume of the granted deposits and facilities according to the Bank's instructions and principles and in compliance with the regulatory bodies' instructions.

- Treasury: This item includes providing treasury and trading services and managing the Bank's funds and long- term investments at amortized costs, which are maintained to collect the contractual cash flows.

- Investments and Foreign Currencies Management: This item includes the Bank's local and foreign investments which are recorded at fair value, in addition to the foreign currencies trading\ services.

- Others: This sector includes all the accounts not listed within the sectors mentioned above, such as shareholder's rights, investments in associates, property and equipment, general management, support management, and the treasury.

The following table represents information on the Bank's sectors according to activities:

| | | | | | Total | |
|---|---|---|---|---|---|---|
| | | | | | For the Year Ended December 31, | |
| | Individual | Corporates | Treasury | Other | 2018 | 2017 |
| Description | JD | JD | JD | JD | JD | JD |
| Total Income | 86,490,698 | 118,542,159 | | 853,470 | 247,320,014 | 220,023,149 |
| (Provision) for expected credit loss | (3,945,998) | (6,989,814) | 41,433,687 | - | (10,935,812) | (15,229,285) |
| Segments' results | | | | | | |
| Unallocated expenses | 30,807,541 | 83,681,503 | 31,281,657 | 853,470 | 146,624,171 | 131,883,698 |
| Operating income before tax | | | | | (84,102,319) | (79,756,054) |
| Bank's share of profit from investments in associates | | | | | 62,521,852 | 52,127,644 |
| Income before tax | | | | | 8,356 | 16,900 |
| Income tax | | | | | 62,530,208 | 52,144,544 |
| Income for the Year | | | | | (21,444,297) | (17,345,461) |
| | | | | | 41,085,911 | 34,799,083 |
| | | | | | | |
| Capital Expenditures | | | | | 16,508,286 | 11,177,622 |
| Depreciation and Amortization | | | | | 11,025,351 | 10,332,667 |

| | | | | | December 31, | |
|---|---|---|---|---|---|---|
| | | | | | 2018 | 2017 |
| Other Information | | | | | JD | JD |
| Segment Assets | 920,687,116 | 1,347,106,668 | 1,250,271,320 | - | 3,518,065,104 | 3,279,921,356 |
| Undistributed assets | - | - | - | 350,004,028 | 350,004,028 | 292,353,897 |
| Total Assets | 920,687,116 | 1,347,106,668 | 1,250,271,320 | 350,004,028 | 3,868,069,132 | 3,572,275,253 |
| Segment Liabilities | 2,008,092,104 | 1,013,351,006 | 270,194,681 | - | 3,291,637,791 | 3,048,561,067 |
| Undistrubuted liabilities | - | - | - | 109,184,197 | 109,184,197 | 65,203,153 |
| Total Liabilities | 2,008,092,104 | 1,013,351,006 | 270,194,681 | 109,184,197 | 3,400,821,988 | 3,113,764,220 |

B. Geographical Information

This sector represents the geographical distribution of the Banks' operations. The Bank performs its operations mainly inside the Kingdom, and these operations represent the local operations.

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

| | Inside Jordan | | Outside Jordan | | Total | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Total Income | 242,067,364 | 211,811,157 | 5,252,650 | 8,211,992 | 247,320,014 | 220,023,149 |
| Capital Expenditure | 16,508,286 | 11,177,622 | - | - | 16,508,286 | 11,177,622 |

| | Inside Jordan | | Outside Jordan | | Total | |
|---|---|---|---|---|---|---|
| | December 31, | | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Total Assets | 3,508,094,587 | 3,145,249,879 | 359,974,545 | 427,025,374 | 3,868,069,132 | 3,572,275,253 |

## 46. Capital Management

a. The capital adequacy ratio as of December 31, 2018 and 2017 was calculated based on Basel III Instructions, and the Bank's regulatory capital consists of a primary capital representing ordinary shares (CET1) and a supplementary capital, in addition to Tier 2.

b. The regulatory bodies' requirements related to the ordinary shares capital

The Central Bank of Jordan's instructions require that minimum regulatory capital be (12%) of assets and off-balance sheet items weighted by risks, market risks, and operational risks. This percentage represents the minimum, as the Bank adheres to maintaining, at all times, an adequate ratio that exceeds the minimum by an appropriate margin in line with Basel III requirements.

c. Manner of achieving capital management objectives

Capital management represents the optimal employment of the sources of funds to achieve the highest return on capital within the acceptable risk limits approved by the Board of Directors. In addition, capital management endeavors to maintain the minimum capital prescribed by the laws and regulations in force. In this regard, the Bank adopts a policy that aims to minimize the costs of funds as much as possible through obtaining funds from low-cost sources, expanding the customers' base, and optimally employing these sources within acceptable risk limits to achieve the highest possible return on capital.

d. Capital Adequacy

In addition to subscribed capital, capital includes the statutory reserve, voluntary reserve, share premium, retained earnings, cumulative change in fair value , general banking risk reserve, other reserves and treasury stocks.

The Bank is committed to applying the requirements set forth by regulators concerning capital adequacy, as follows:

1- The Central Bank of Jordan's instructions that capital adequacy ratio should not go below 12%.

2- Compliance with the minimum limit set for the paid capital of Jordanian Banks, so that it is not less than JD 100 million.

3- The Bank's investments in stocks and shares should not exceed 50% of subscribed capital.

4-The ratio of credit limits (credit concentration) to regulatory capital.

5- Banks and Companies' laws related to the deduction of the legal reserve at a rate of 10% of the Bank's profit before tax.

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| **Common Equity Shareholders Rights** | | |
| Paid-up capital | 160,000,000 | 160,000,000 |
| Retained earnings after deduction of the expected distributions | 31,166,049 | 27,243,353 |
| The cumulative change in fair value | (727,049) | 1,191,589 |
| Share premium | 80,213,173 | 80,213,173 |
| Statuary reserve | 49,410,187 | 42,668,849 |
| Voluntary reserve | 34,279,172 | 29,271,414 |
| Recognizable non controlling shareholders | 28,576,821 | 23,424,090 |
| Interim profit (losses) after tax and deduction of the expected distributions | - | - |
| **Total Common Equity Tire 1 before regulatory adjustments** | **382,918,353** | **364,012,468** |
| | | |
| **Regulatory Adjustments (Propositions of the Capital)** | | |
| Goodwill and intangible assets | 22,186,281 | 20,945,239 |
| Deferred tax assets resulting from investments within Tier 1 (10%) | 11,957,746 | 4,559,081 |
| **Total Tier 1 capital** | **348,774,326** | **338,508,148** |
| | | |
| **Additional capital** | | |
| Recognizable minority rights | 5,042,968 | 4,133,663 |
| **Total Capital (Tier 1)** | **353,817,294** | **342,641,811** |
| | | |
| **Tier 2 Capital** | | |
| General Banking risk reserve | - | 14,034,670 |
| Provision for debts tools listed in Tier 1 | 14,095,732 | - |
| Recognizable non-controlling shareholders | 6,723,958 | 5,511,551 |
| **Total Supporting Capital** | **20,819,690** | **19,546,221** |
| **Total Regulatory Capital** | **374,636,984** | **362,188,032** |
| **Total Risk Weighted Assets** | **2,653,984,734** | **2,464,358,929** |
| | | |
| Capital Adequacy Ratio (CET 1) (%) | %14/12 | %14/70 |
| Primary Capital Ratio (%) | %13/14 | %13/74 |
| Supporting Capital Ratio (%) | %0/78 | %0/79 |

| | 2018 | 2017 |
|---|---|---|
| | JD | JD |
| Financial leverage rate | | |
| Tier 1 Capital | 353,817,294 | 342,641,811 |
| Total assets in and out of the financial positons after removing deductible items from Tier 1 | 4,463,642,028 | 4,127,174,086 |
| Financial leverage rate | %7/93 | %8/30 |

Capital adequacy was calculated on December 31, 2018 and December 31, 2017 based on the instruction of Basel Committee III.

## 47. Analysis of the Maturities of Assets and Liabilities

The following table illustates the assets and liabilities according to the expected maturity periods:

| | Up to 1 Year | Over 1 Year | Total |
|---|---|---|---|
| December 31, 2018 | JD | JD | JD |
| **Assets** | | | |
| Cash and balances at central banks | 333,205,500 | - | 333,205,500 |
| Balances at banks and financial institutions | 248,264,111 | - | 248,264,111 |
| Deposits at banks and financial institutions | 4,258,890 | - | 4,258,890 |
| Direct credit facilities and financing - net | 854,170,590 | 1,423,747,866 | 2,277,918,456 |
| Financial assets at fair value through profit or loss | 13,478,492 | - | 13,478,492 |
| Financial assets at fair value through other comprehensive income | - | 28,530,920 | 28,530,920 |
| Financial assets at amortized cost | 186,273,320 | 579,418,870 | 765,692,190 |
| Investments in associates | 376,618 | - | 376,618 |
| Propert and equipment | - | 74,486,185 | 74,486,185 |
| Intangible assets | - | 22,186,281 | 22,186,281 |
| Deferred tax assets | 11,957,746 | - | 11,957,746 |
| Other assets\ | 86,133,875 | 1,579,868 | 87,713,743 |
| **Total Assets** | 1,738,119,142 | 2,129,949,990 | 3,868,069,132 |
| **Liabilities:** | | | |
| Banks and financial institutions deposits | 96,687,828 | - | 96,687,828 |
| Customers' deposits | 2,920,589,768 | 68,359,777 | 2,988,949,545 |
| Margin accounts | 56,484,374 | 85,330,162 | 141,814,536 |
| Borrowed funds | 21,501,112 | 63,735,150 | 85,236,262 |
| Sundry provisions | 1,232,609 | - | 1,232,609 |
| Income tax provision | 18,199,119 | - | 18,199,119 |
| Other liabilities | 66,913,546 | 1,788,543 | 68,702,089 |
| **Total Liabilities** | 3,181,608,356 | 219,213,632 | 3,400,821,988 |
| **Net** | (1,443,489,214) | 1,910,736,358 | 467,247,144 |

| December 31, 2017 | Up to 1 Year<br>JD | Over 1 Year<br>JD | Total<br>JD |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 338,311,743 | - | 338,311,743 |
| Balances at banks and financial institutions | 326,075,874 | - | 326,075,874 |
| Deposits at banks and financial institutions | 4,261,598 | 4,063,500 | 8,325,098 |
| Direct credit facilities and financing - net | 796,417,355 | 1,287,910,634 | 2,084,327,989 |
| Financial assets at fair value through profit or loss | 7,509,280 | - | 7,509,280 |
| Financial assets at fair value through other comprehensive income | - | 30,877,736 | 30,877,736 |
| Financial assets at amortized cost | 98,453,408 | 519,242,720 | 617,696,128 |
| Investments in associates | - | 377,262 | 377,262 |
| Propert and equipment | - | 70,968,060 | 70,968,060 |
| Intangible assets | - | 20,945,239 | 20,945,239 |
| Deferred tax assets | 3,661,696 | 897,385 | 4,559,081 |
| Other assets | 60,778,153 | 1,523,610 | 62,301,763 |
| **Total Assets** | 1,635,469,107 | 1,936,806,146 | 3,572,275,253 |
| | | | |
| **Liabilities:** | | | |
| Banks and financial institutions deposits | 55,873,920 | 3,000,000 | 58,873,920 |
| Customers' deposits | 2,208,739,069 | 482,596,852 | 2,691,335,921 |
| Margin accounts | 80,991,592 | 129,097,118 | 210,088,710 |
| Borrowed funds | 1,870,611 | 86,341,384 | 88,211,995 |
| Sundry provisions | 234,615 | - | 234,615 |
| Income tax provision | 14,773,872 | - | 14,773,872 |
| Other liabilities | 46,094,757 | 4,150,430 | 50,245,187 |
| **Total Liabilities** | 2,408,578,436 | 705,185,784 | 3,113,764,220 |
| **Net** | (773,109,329) | 1,231,620,362 | 458,511,033 |

## 48. Contingent Liabilites and Commitments

### a. Credit liabilities and commitments:

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Letters of credit | 219,253,863 | 195,853,744 |
| Acceptances | 96,110,081 | 182,116,425 |
| Letters of guarantee: | | |
| - Payments | 43,473,574 | 48,260,272 |
| - Performance | 67,548,002 | 71,307,780 |
| - Other | 65,112,910 | 58,854,936 |
| Unused Limits of Direct Credit Facilities and Financing | 432,439,920 | 383,471,409 |
| Total | 923,938,350 | 939,864,566 |

### b. Contractual Obligations:

The details of this item are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | JD | JD |
| Property and equipment purchase contracts | 486,338 | 1,898,007 |
| Intangible assets purchase contracts | 1,418,008 | 1,505,882 |

## 49. Lawsuits against the Bank

Lawsuits against the Bank amounted to JD 3,916,023 as of December 31, 2018 (JD 3,497,551 as of December 31, 2017), and the related provisions to JD 912,609 as of December 31, 2018 (JD 210,797 as of December 31, 2017). In the opinion of the Bank's management and its legal counsel, the said provisions are adequate.

50. Fair Value Hierarchy

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

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

| Financial Assets | Fair Value December 31, 2018 | Fair Value December 31, 2017 | The Level of Fair Value | Evaluation Method and Inputs used | Important Intangible Inputs | Relation between the Fair Value and the Important Intangible Inputs |
|---|---|---|---|---|---|---|
| | JD | JD | | | | |
| **Financial Assets at Fair Value** | | | | | | |
| Financial Assets at Fair Value through Profit or Loss | | | | | | |
| Government bonds listed on financial markets | 65,641 | - | Level 1 | Quoted prices in financial markets | N/A | N/A |
| Companies bonds listed on financial markets | 688,489 | - | Level 1 | Quoted prices in financial markets | N/A | N/A |
| Companies shares listed on financial market | 5,815,710 | 3,658,948 | Level 1 | Quoted prices in financial markets | N/A | N/A |
| Investments Funds | 6,908,652 | 3,850,332 | Level 2 | The treasury manager evaluation of fair value | N/A | N/A |
| | **13,478,492** | **7,509,280** | | | | |
| Financial Assets at Fair Value through Other Comprehensive Income: | | | | | | |
| Quoted Shares in active markets | 22,038,515 | 26,751,131 | Level 1 | Quoted prices in financial markets | N/A | N/A |
| Unquoted Shares in active markets | 6,492,405 | 4,126,605 | Level 3 | Through using equity method and based on the latest available financial information | N/A | N/A |
| **Total** | **28,530,920** | **30,877,736** | | | | |
| **Total Financial Assets at Fair Value** | **42,009,412** | **38,387,016** | | | | |

There were no transfers between level 1 and level 2 during the year ended December 31, 2018.

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

Except for what is set out in the table below, we believe that the carrying amount of financial assets and liabilities shown in the consolidated financial statements of the Bank approximates their fair value:

| | December 31, 2018 | | December 31, 2017 | | The level of |
|---|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value | Fair Value |
| | JD | JD | JD | JD | |
| **Financial Assets of Non-specified Fair Value** | | | | | |
| Term deposits, and certificate of deposits at the Central Bank | - | - | 45,000,000 | 45,007,397 | Level 2 |
| Current accounts, and balances at Banks and Financial Institutions | 252,523,001 | 252,846,007 | 334,400,972 | 334,514,049 | Level 2 |
| Direct credit facilities at amortized costs | 2,277,918,456 | 2,281,749,449 | 2,084,327,989 | 2,100,310,512 | Level 2 |
| Other financial assets at amortized costs | 765,692,190 | 774,304,399 | 617,696,128 | 624,646,198 | Level 1 and 2 |
| Total Financial Assets of Non-specified Fair Value | 3,296,133,647 | 3,308,899,855 | 3,081,425,089 | 3,104,478,156 | |
| **Financial Liabilities of Non-specified Fair Value** | | | | | |
| Banks' and Financial Institutions' deposits | 96,687,828 | 97,040,430 | 58,873,920 | 58,985,911 | Level 2 |
| Customers' deposits | 2,988,949,545 | 3,015,013,034 | 2,691,335,921 | 2,712,076,501 | Level 2 |
| Cash margin | 141,814,536 | 141,875,100 | 210,088,710 | 210,094,536 | Level 2 |
| Borrowed funds | 85,236,262 | 86,115,199 | 88,211,995 | 89,101,327 | Level 2 |
| Total Financial Liabilities of Non-specified Fair Value | 3,312,688,171 | 3,340,043,763 | 3,048,510,546 | 3,070,258,275 | |

The fair value of the financial assets and liabilities for level 2 was determined in accordance with agreed pricing models, which reflect the credit risk of the parties dealt with.