



Ref: م ل / 05 / 445

Subject: "Consolidated Financial Statement for the year ended December 31, 2016"

With all due respect,

Bank of Jordan
Head Office



هيئة الأوراق المالية
الدائرة الإدارية / الديوان

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الرقم المتسلسل ١٩٤٤٩

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بنك الأردن Bank of Jordan

**BANK OF JORDAN
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN
CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2016
TOGETHER WITH THE
INDEPENDENT AUDITOR'S REPORT**

**BANK OF JORDAN
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN
DECEMBER 31, 2016**

<u>TABLE OF CONTENTS</u>	<u>Page</u>
Independent Auditor's Report	1-7
Consolidated Statement of Financial Position	8
Consolidated Statement of Income	9
Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Changes in Owners' Equity	11
Consolidated Statement of Cash Flows	12
Notes to the Consolidated Financial Statements	13-71



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Bank of Jordan
Public Shareholding Limited Company
Amman – The Hashemite Kingdom of Jordan

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of Jordan, and its subsidiaries “the Bank” which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of income and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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



Key Audit Matters

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

1. Adequacy of Credit Facilities Impairment Provision

The provision for credit facilities impairment is significant to the Bank's financial statements. Moreover, its calculation requires making assumptions and management's use of estimates for the drop in credit ratings and un-collectability due to some sectors' deteriorating financial and economic conditions and inadequate guarantees, and the suspension of interest arising from default according to regulatory authorities' instructions. Moreover, the net credit facilities granted by the Bank to customers amounted to JD1,226 million, which represent 52% of total assets as of December 31, 2016.

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

How our audit addressed the key audit matters

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

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



2. Financial Assets:

The Bank holds non-current financial assets within the financial assets portfolio through the comprehensive income statement of JD 8,854,046 as of December 31, 2016. These assets should be stated at fair value in accordance with International Financial Reporting Standard No. (9). Moreover, the Bank holds financial assets at amortized cost of JD172,637,680 as of December 31, 2016. In this regard, the Bank should measure the impairment in their value through comparing the recorded value to their fair value.

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

How our audit addressed the key audit matters

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

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

3. Consolidating the Financial Statements of the Bank and its Subsidiaries

The Bank's subsidiaries are consolidated from their acquisition date, which is the date on which the Bank assumes effective control over the subsidiaries. Furthermore, the consolidated financial statements reflect the financial position and results of operations at the Bank's consolidated level the evaluation of control following the requirements of IFRS (10) consider a key Audit matter.

How our audit addressed the key audit matters

The Bank's control over its subsidiaries as of fiscal year-end is significant for our audit. Moreover, our audit included reviewing the Bank's ability to control the subsidiaries' financial and operating policies and obtain benefits from their activities. Through appointing members for these companies' Board of Directors and Executive Management, the Bank controls and monitors their financial and operating policies. In addition, the Bank's audit requirements were sent to the subsidiaries and foreign branches. We also communicated with those companies' auditors and obtained the appropriate related audit evidence.

4. Foreign Currency Translation Reserve / Investments in Foreign Subsidiaries

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

How our audit addressed the key audit matters

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

5. Provision for Income Tax and Deferred Tax Assets

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

How our audit addressed the key audit matters

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

We also evaluated the adequacy of disclosures relating to income tax provision and deferred tax assets set out in Note (19).

**Other Matter**

The consolidated financial statements for the year ended December 31, 2015, the figures of which are shown for comparison purposes, have been audited by Deloitte & Touche (M. E) – Jordan, which issued an unqualified opinion thereon dated March 20, 2016.

Other Information

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

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

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

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

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

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

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

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

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



As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

Report on Other Legal and Regulatory Requirements

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

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

Kawasmy & Partners Co.
Amman - Jordan
January 31, 2017

Deloitte & Touche (M.E.) – Jordan
Amman - Jordan
January 31, 2017



BANK OF JORDAN
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	DECEMBER 31,	
		2016	2015
		JD	JD
Assets			
Cash and balances with central banks	4	228,197,814	234,500,507
Balances with banks and financial institutions	5	494,451,425	281,318,758
Deposits with banks and financial institutions	6	25,000,000	155,000,000
Financial assets at fair value through profit or loss	7	205,719	1,095,828
Financial assets at fair value through comprehensive income	8	92,128,338	62,655,399
Financial derivatives	38	-	866,107
Direct credit facilities - Net	9	1,226,013,033	1,142,237,246
Financial assets at amortized cost	10	172,637,680	227,655,707
Investments in associates	11	1	1
Property and equipment - Net	12	29,774,830	25,795,455
Intangible assets - Net	13	3,559,146	3,320,303
Deferred tax assets	19/b	11,926,470	12,217,573
Other assets	14	54,944,608	59,558,989
Total Assets		2,338,839,064	2,206,221,873
Liabilities and Owners' Equity			
Liabilities:			
Banks and financial institutions' deposits	15	145,623,458	123,589,030
Customers' deposits	16	1,606,979,130	1,564,886,963
Cash margins	17	129,292,102	111,171,152
Financial derivatives	38	17,655	-
Sundry provisions	18	5,015,992	6,226,165
Income tax provision	19/a	16,872,706	13,197,654
Borrowed money	20	424,879	500,956
Other liabilities	21	22,176,908	19,704,999
Total Liabilities		1,926,402,830	1,839,276,919
Owners' Equity:			
Equity attributable to the Bank's shareholders			
Paid-up capital	22	200,000,000	155,100,000
Statutory reserve	23	73,917,046	67,716,833
Voluntary reserve	23	113,124	13,709,740
General banking risks reserve	23	12,996,161	12,646,252
Special reserve	23	3,330,908	2,921,601
Foreign currencies translation differences	24	(12,401,835)	(11,481,891)
Fair value reserve	25	63,565,588	33,186,645
Retained earnings	26	63,926,237	88,442,614
Total Equity Attributable to the Bank's Shareholders		405,447,229	362,241,794
Non-controllers' interest		6,989,005	4,703,160
Total Owners' Equity		412,436,234	366,944,954
Total Liabilities & Owners' Equity		2,338,839,064	2,206,221,873

Board of Director's Chairman

Chief Executive Officer

THE ACCOMPANYING NOTES FROM (1) TO (47) CONSTITUTE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM.

BANK OF JORDAN
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN
CONSOLIDATED STATEMENT OF INCOME

	Note	For the Year Ended December 31,	
		2016	2015
		JD	JD
Interest income	28	109,915,974	111,672,273
Interest expense	29	17,153,738	20,826,542
Net Interest Income		92,762,236	90,845,731
Commissions income – Net	30	23,482,888	20,514,522
Net Interest and Commissions Income		116,245,124	111,360,253
Foreign currencies income	31	2,486,154	2,791,535
(Loss) from financial assets at fair value through income statement	32	(54,858)	(130,717)
Cash dividends from financial assets at fair value through comprehensive income	8	2,815,647	3,107,684
Other income	33	5,956,955	8,091,777
Total Income		127,449,022	125,220,532
Employees expenses	34	30,254,435	28,514,832
Depreciation and amortization	12,13	4,591,875	4,674,828
Other expenses	35	21,645,649	20,921,269
Provision for impairment of direct credit facilities	9	5,689,334	4,071,190
Provision for assets seized by the Bank	14	2,537,031	3,941,057
Sundry provisions	18	415,290	1,131,178
Total Expenses		65,133,614	63,254,354
Profit before Income Tax		62,315,408	61,966,178
Less: Income tax expense	19	20,113,384	21,903,385
Profit for the Year		42,202,024	40,062,793
Attributable to:			
Bank's Shareholders		41,396,285	40,835,470
Non–controllers' Interest		805,739	(772,677)
Profit for the Year		42,202,024	40,062,793
Earnings per share for the year attributable to the Banks' shareholders			
Basic/diluted	36	0.207	0.204

Board of Director's Chairman

Chief Executive Officer

THE ACCOMPANYING NOTES FROM (1) TO (47) CONSTITUTE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM.

BANK OF JORDAN
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the Year	
	Ended December 31,	
	2016	2015
	JD	JD
Profit for the Year	42,202,024	40,062,793
Other comprehensive income items:		
Items that may be reclassified subsequently to consolidated statement of income:		
Foreign currencies translation differences	2,583,450	4,065,419
	2,583,450	4,065,419
Items that will not be reclassified subsequently to consolidated statement of income:		
(Loss) from sales of financial assets at fair value through comprehensive income	(491,918)	-
Change in fair value reserve - Net of tax	32,217,724	15,227,173
	31,725,806	15,227,173
Total Comprehensive Income	76,511,280	59,355,385
Total Comprehensive Income Attributable to:		
The Bank's Shareholders	74,225,435	58,129,781
Non-controllers' Interest	2,285,845	1,225,604
	76,511,280	59,355,385

THE ACCOMPANYING NOTES FROM (1) TO (47) CONSTITUTE AN INTEGRAL
PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE
READ WITH THEM.

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

	Paid-up Capital		Reserves				Foreign Currencies Translation Differences	Fair Value Reserve - Net	Retained Earnings	Total Bank's Shareholders' Equity	New Shareholders' Interest	Total Shareholders' Equity
	JD	Statutory	General Banking			Special						
			Voluntary	Risks	JD							
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
For the Year Ended December 31, 2016												
Balance - Beginning of the year	155,100,000	67,716,433	13,789,748	12,646,252	2,921,601	(11,481,891)	33,116,645	88,442,614	362,241,794	4,703,160	766,944,954	
Foreign currencies translation differences	-	(2,401)	-	(11,645)	-	(919,944)	-	2,019,715	1,101,344	1,400,106	2,981,450	
Profit for the year	-	-	-	-	-	-	-	41,396,285	41,396,285	863,719	42,260,004	
(Changes) from sale of financial assets at fair value through comprehensive income	-	-	-	-	-	-	(1,818,781)	(1,818,781)	(1,818,781)	-	(1,818,781)	
(Changes) in fair value reserve	-	-	-	-	-	-	32,217,724	32,217,724	32,217,724	-	32,217,724	
Total Comprehensive Income	-	(2,401)	(2,401)	(11,645)	-	(919,944)	30,378,943	44,782,883	74,225,315	2,285,845	76,511,290	
Transfer to reserves	-	6,202,614	106,641	361,554	499,307	-	-	(7,092,118)	(7,092,118)	-	-	
Dividends paid *	-	-	-	-	-	-	-	(31,020,000)	(31,020,000)	-	-	
Increases in ("special")	-	-	(13,702,855)	-	-	-	-	(31,197,142)	(31,197,142)	-	(11,020,000)	
Balance - End of the Year	155,100,000	73,917,046	13,124,124	12,998,161	3,330,908	(12,401,835)	63,565,588	63,976,237	485,447,229	6,989,005	412,436,234	
For the Year Ended December 31, 2015												
Balance - Beginning of the year	155,100,000	61,177,419	13,714,541	13,128,998	2,921,601	(10,326,397)	17,559,472	82,770,084	715,745,710	4,116,322	719,862,032	
Adjusted beginning balance	-	-	-	-	-	-	-	(613,717)	(613,717)	(613,716)	(1,252,483)	
Foreign currencies translation differences	155,100,000	61,177,419	13,714,541	13,128,998	2,921,601	(10,326,397)	17,559,472	81,456,107	715,132,013	3,477,556	718,609,569	
Profit for the year	-	(4,803)	(4,803)	(21,293)	-	(1,153,494)	-	3,253,531	2,087,118	1,998,281	4,085,419	
(Changes) in fair value reserve	-	-	-	-	-	-	-	40,815,470	40,815,470	(773,677)	40,041,793	
Total Comprehensive Income	-	(4,803)	(4,803)	(21,293)	-	-	15,227,173	44,091,003	58,129,781	1,224,604	59,355,385	
Transfer to reserves	-	6,544,197	-	(459,441)	-	(1,153,494)	-	(6,084,734)	(6,084,734)	-	-	
Dividends paid *	-	-	-	-	-	-	-	(31,020,000)	(31,020,000)	-	(11,020,000)	
Balance - End of the Year	155,100,000	67,716,613	13,789,748	12,646,252	2,921,601	(11,481,891)	33,116,645	88,442,614	362,241,794	4,703,160	766,944,954	

* According to the resolution of the Bank General Assembly as its ordinary meeting held on April 9, 2016, it was approved to distribute 20% of the Bank's capital in cash to shareholders which is equivalent to JD 31,020,000 (against 20% of the Bank's capital in cash to shareholders which is equivalent to JD 31,020,000) in accordance to the resolution of the general assembly as its ordinary meeting held on March 28, 2015)

** According to the resolution of the Bank General Assembly as its extraordinary meeting held on April 9, 2016, it was approved to increase the Bank's capital from JD 155,100,000 to JD 206,100,000 by capitalizing a part from the voluntary reserve by JD 13,702,855, and capitalizing JD 31,197,142 from Retained Earnings and to distribute them as free shares on 1 shareholder each per one share, all legal obligations procedures related to the increase of capital on April 19, 2016

*** In accordance to the instructions of the regulatory bodies

- The general banking risks reserve and the special reserve cannot be utilized without prior approval from the Central Bank of Jordan and Palestine Monetary Authority
- Retained earnings include a restricted amount of JD 11,926,470 against deferred tax benefits as of December 31, 2016. According to the Central Bank of Jordan instructions, this restricted amount cannot be utilized through capitalization or distribution unless actually realized.
- Retained earnings include an amount of JD 5,160,455 as of December 31, 2016 which represents the effect of early adoption of IFRS (9). These restricted amounts cannot be utilized unless realized through actual sale
- The fair value reserve cannot be utilized including the capitalization, distribution, write-off losses or any other commercial acts unless realized through actual sale as instructed by Central Bank of Jordan and Jordan Security Commission

THE ATTACHED NOTES FORM (1) TO (47) CONSTITUTE AN INHERENT PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

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

		For the year ended December 31,	
	Note	2016	2015
Cash Flows From Operating Activities		JD	JD
Profit before income tax		62,315,408	61,966,178
Adjustments for:			
Depreciation and amortization	12,13	4,591,875	4,674,828
Provision for impairment in direct credit facilities	9	5,689,334	4,071,190
(Gain) from sale of property and equipment	33	(64,547)	(16,988)
Loss from financial assets at fair value through profit or loss – Unrealized	32	36,351	61,466
Effect of exchange rate fluctuations	31	(2,341,645)	(2,758,803)
Sundry provisions	18	415,290	1,131,178
Provisions for assets foreclosed by the Bank	14	2,537,031	3,941,057
Foreign currency exchange differences		1,466,147	3,214,347
Profit before Changes in Assets and Liabilities		74,645,244	76,284,453
Changes in Assets and Liabilities:			
Decrease (increase) in restricted balances		(746,708)	221,572
(Increase) decrease in deposits with banks and financial institutions (maturing over 3 months)		130,000,000	(155,000,000)
Decrease in financial assets at fair value through profit or loss		853,758	3,698,605
(Increase) in direct credit facilities		(89,465,121)	(45,691,135)
Decrease in other assets		2,077,350	6,882,672
(Decrease) increase in deposits and financial institutions (maturing over 3 months)		(3,159,000)	3,159,000
increase (Decrease) in customers, deposits		42,092,167	(63,586,340)
Increase in cash margins		18,120,950	9,059,666
(Decrease) in borrowing money		(76,077)	-
Increase (decrease) in other liabilities		2,399,248	(781,850)
Net Change in Assets and Liabilities		102,096,567	(242,037,810)
Net Cash Flows from (used in) Operating Activities before Taxes, End-of-Service Indemnity Provision, and Lawsuits Provision		176,741,811	(165,753,357)
Paid from end-of-service indemnity provision and lawsuits provision	18	(1,525,128)	(3,627,631)
Income tax paid	19	(16,811,866)	(19,562,896)
Net Cash Flows from (used in) Operating Activities		158,404,817	(188,943,884)
Cash Flows From Investing Activities			
(Purchase) of financial assets at amortized cost		(37,503,238)	(94,490,374)
Maturity of financial assets at amortized cost		92,521,265	318,792,131
(Purchase) of financial assets at fair value through comprehensive income		(2,988,738)	-
Sale of financial assets at fair value through comprehensive income		5,237,547	-
Maturity (Purchase) of financial derivatives		883,762	(115,362)
(Purchase) of property and equipment and advance payments to acquire property and equipment		(8,895,633)	(4,634,780)
Sale of property and equipment		213,092	199,536
(Purchase) of intangible assets	13	(960,792)	(609,886)
Net Cash Flows from Investing Activities		48,507,265	219,141,265
Cash Flows From Financing Activities			
Foreign currencies translation differences		2,583,450	4,065,419
Dividends distributed to shareholders		(30,947,339)	(30,555,289)
Net Cash Flows (used in) Financing Activities		(28,363,889)	(26,489,870)
Effect of exchange rate fluctuations on cash and cash equivalents	31	2,341,645	2,758,803
Net Increase in Cash and Cash Equivalents		180,889,838	6,466,314
Cash and cash equivalents - Beginning of the year		383,255,834	376,789,520
Cash and Cash Equivalents - End of the Year	37	564,145,672	383,255,834

THE ACCOMPANYING NOTES FROM (1) TO (47) CONSTITUTE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM.

BANK OF JORDAN
(A PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN - JORDAN
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

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

The Bank provides all financial and banking services within its scope of activities. Those services are offered through its (71) branches in Jordan, (14) branches in Palestine and its subsidiaries in Jordan and Syria (Excel for Financial Investments Company, Jordan Leasing Company and Bank of Jordan - Syria).

The consolidated financial statements have been approved by the Board of Directors in its meeting No.595 held on January 24, 2017 and remain subjected to the Central Bank of Jordan approval.

2. Summary of Significant Accounting Policies

Basis of Preparation

- The consolidated financial statements for the Bank and its subsidiaries were prepared in accordance with the standards issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Interpretation Committee Emanating from the International Accounting Standards Board and in conformity with the applicable laws and regulations of the Central Bank of Jordan.
- The consolidated financial statements were prepared on the historical cost basis except for financial assets at fair value through profit or loss, financial assets at fair value through comprehensive income and financial derivatives which are measured at fair value at the date of the consolidated financial statements. Moreover, hedged assets and liabilities are stated at fair value.
- The consolidated financial statements are presented in Jordanian Dinar "JD", being the functional currency of the Bank.
- The accounting policies adopted for the current year are consistent with those applied in the year ended December 31, 2015 except for the effect of the adoption of new and modified standard as stated in Note (47 - A).

Basis of Consolidation

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

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

As of December 31, 2016 and 2015, the Bank has the following subsidiary companies:

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

The most important information of the subsidiaries for the year 2016 is as follows:

	December 31, 2016		For the Year 2016	
Name of Subsidiary	Total Assets	Total Liabilities	Total Revenues	Total Expenses
	JD	JD	JD	JD
Excel for Financial Investments Company	12,234,986	4,032,604	6,045,049	1,642,649
Bank of Jordan – Syria*	42,027,798	27,356,050	2,929,648	1,349,768
Jordan Leasing Company	22,860,991	262,202	1,356,380	569,105

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

Segmental Information

- Business is a group of assets and operations that jointly provide products or services subject to risks and returns different from those of other business segments, to the effect that it is measured according to the reports used by the Executive Directors and the main decision maker at the Bank.
- Geographical sector relates to providing products or services in an economic environment subject to specific risks and returns different from those operating in other sectors of other economic environments.

Direct Credit Facilities

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

Financial Derivatives and Hedge Accounting

Financial Derivatives for Trading:

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

Financial Derivatives for Hedging:

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

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

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

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

- Cash flow hedge:
Hedge for the change in the current and expected cash flows Exposures of the Bank's assets and liabilities.

When the conditions of an effective cash flow hedge are met, the gain or loss of the hedging instruments is recognized in owners' equity. Such gain or loss is transferred to the consolidated statement of income in the period in which the hedge transaction impacts the consolidated statement of income.

- When the conditions of the effective hedge do not apply, the gain or loss resulting from change in the fair value of the hedging instrument is recorded in the consolidated statement of income in the same year.
- Profit or loss resulting from the foreign exchange of interest-bearing debt instruments and within financial assets at fair value through other comprehensive income is included in the consolidated statement of income. Differences in the foreign currency translation of equity instruments are included in the cumulative change in fair value reserve within owners' equity in the consolidated statement of financial position.

Financial Assets at Amortized Cost

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

Financial Assets at Fair Value through Profit or Loss

- Financial assets at fair value through profit or loss are the financial assets purchased by the Bank for the purpose of trading in the near future and achieving gains from the fluctuations in the short-term market prices or trading margins.
- Financial assets at fair value through profit or loss are initially stated at fair value at acquisition date (purchase costs are recorded in the consolidated statement of income upon acquisition) and subsequently measured in fair value. Moreover, changes in fair value are recorded in the consolidated statement of income including the change in fair value resulting from translation of non-monetary assets stated at foreign currency. Gains or losses resulting from the sale of these financial assets or part of them are taken to the consolidated statement of income.
- Dividends and interests from these financial assets are recorded in the consolidated statement of income.
- It is not allowed to reclassify any financial assets to / from this category except for the cases specified in the International Financial Reporting Standards.

Financial Assets at Fair Value through Other Comprehensive Income

- These financial assets represent the investments in equity instruments held for long term.
- These financial assets are recognized at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in the consolidated statement of other comprehensive income and within owner's equity, including the changes in fair value resulting from translation of non-monetary assets stated in foreign currency. Gain or loss from the sale of these investments or part of them should be recognized in the consolidated statement of comprehensive income and within the consolidated owner's equity, and the balance of the revaluation reserve for these assets should be transferred directly to the retained earnings not through the consolidated statement of income.
- No impairment testing is required for these assets.
- Dividends are recorded in the consolidated statement of income.

Fair Value

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

In case declared market prices do not exist, active trading of some financial assets and derivatives is not available, or the market is inactive, fair value is estimated by:

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

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

Impairment in Financial Assets

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

Investments in Associates

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

Property and Equipment

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

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

- When the carrying amounts of Property and Equipment exceed their recoverable values, assets are written down, and impairment losses are recorded in the consolidated statement of income.
- The useful lives of Property and Equipment are reviewed at the end of each year. In case the expected useful life is different from what was determined before, the change in estimate is recorded in the following years, being a change in estimate.
- Property and Equipment are derecognized when disposed of or when there is no expected future benefit from their use.

Provisions

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

End-of-Service Indemnity Provision

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

Income Tax

- Income tax expenses represent accrued taxes and deferred taxes.
- Income tax expenses are accounted for on the basis of taxable income. Taxable income differs from declared income in the consolidated financial statements because the latter includes non-taxable revenues or disallowed taxable expenses in the current year but deductible in subsequent years, tax acceptable accumulated losses, and items not accepted for tax purposes or subject to tax.
- Taxes are calculated on the basis of the tax rates according to the prevailing laws, regulations, and instructions enforced in the countries where the Bank operates.
- Deferred taxes are taxes expected to be paid or recovered as a result of temporary timing differences between the value of assets and liabilities in the consolidated financial statements and the value of taxable amounts. Deferred tax is calculated on the basis of liability method in the consolidated statement of financial position according to the rates expected to be applied when the tax liability is settled or deferred tax assets are recognized.
- Deferred tax assets and deferred tax liabilities are reviewed as of the date of the consolidated statement of financial position, and reduced in case it is expected that no benefit or need will arise, partially or totally.

Paid-up Capital

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

Accounts Managed on Behalf of Customers

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

Offsetting

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

Realization of Income and Recognition of Expenses

- Interest income is realized by using the effective interest method except for interest and commissions from non-performing credit facilities, which have not been recognized as income and registered in interest and commissions in suspense.
- Revenues and expenses are recognised according to the accrual basis.
- Commission is recorded as revenue when the related services are provided. Moreover, dividends are recorded when realized (decided upon by the General Assembly of Shareholders).

Recognition of Financial Assets

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

Mortgaged Financial Assets

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

Foreclosed Assets

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

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

Intangible Assets

A - Goodwill:

- Goodwill is recorded at cost which represents the excess of the acquisition costs or investment costs in a subsidiary over the net assets fair value of the subsidiary as of the acquisition date. Goodwill that arises from the investment in the subsidiary is recognised in a separate item as intangible assets. Later on, goodwill will be reviewed and reduced by any impairment amount.
- Goodwill is allocated to cash generating unit(s) to test impairment in its value.
- Impairment testing is done on the date of the consolidated financial statements. Goodwill is reduced if the test indicates that there is impairment in its value, and that the estimated recoverable value of the cash generating unit(s) relating to goodwill is less than the book value of the cash generating unit(s). Impairment is recognised in the consolidated statement of income.

B - Other intangible assets:

- Intangible assets raised through combination are stated at fair value on the date of acquisition. Other intangible assets raised other than combination are recorded at cost.
- Intangible assets are classified on the basis of either a definite or an indefinite useful life. Intangible assets with definite useful economic lives are amortized over their useful lives and recorded as an expense in the consolidated statement of income. Intangible assets with indefinite lives are reviewed for impairment as of the consolidated financial statements date, and impairment loss is treated in the consolidated statement of income.
- No capitalization of intangible assets resulting from the Bank's operations is made. They are rather recorded as an expense in the consolidated statement of income for the year.
- Any indications of impairment in the value of intangible assets as of the consolidated financial statements date are reviewed. Furthermore, the estimated useful lives of the impaired intangible assets are reassessed, and any adjustment is made in the subsequent period.

The accounting policy for the intangible assets of the Bank:

Computer Software

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

Foreign Currency

- Transactions in foreign currencies during the year are recorded at the exchange rates prevailing on the date of the transaction.
- Financial assets and financial liabilities denominated in foreign currencies are translated at the average rates prevailing on the consolidated statement of financial position date as declared by the Central Bank of Jordan, Central Bank of Syria and the Palestinian Monetary Authority.
- Non-monetary assets and liabilities denominated in foreign currencies and recorded at fair value are translated on the date when their fair value is determined.
- Gains or losses resulting from foreign currency translation are recorded in the consolidated statement of income.
- Translation differences for non-monetary assets and liabilities denominated in foreign currencies (such as equity securities) are recorded as part of the change in fair value.
- When consolidating the financial statements, the assets and liabilities of foreign branches and subsidiary companies are translated into the functional currency of each entity at the average exchange rates of the Central Bank of Jordan prevailing on the consolidated statement of financial position date. Income and expense items are translated at the average exchange rates for the year. Any exchange differences are taken directly to a foreign currency translation adjustment reserve within owners' equity. Exchange differences arising from the sale of foreign branches or subsidiaries are recorded as part of the revenues or expenses within the consolidated statement of income.

Cash and Cash Equivalents

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

3. Accounting Estimates

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

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

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

4. Cash and Balances with Central Banks

This item consists of the following:

	December 31,	
	2016	2015
	JD	JD
Cash in vaults	61,925,791	60,743,739
Balances at Central Banks:		
- Current accounts and demand deposits	64,139,425	43,126,936
- Term and notice deposits*	10,626,907	9,958,189
- Certificates of deposit	-	33,700,000
- Statutory cash reserve	91,505,691	86,971,643
	228,197,814	234,500,507

- Except for the statutory cash reserve, restricted balances amounted to JD 2,402,507 as of December 31, 2016 (JD 2,513,689 as of December 31, 2015).
- * This balance includes JD 8,224,400 maturing within a period exceeding three months (JD 7,444,500 as of December 31, 2015).

5. Balances with Banks and Financial Institutions

This item consists of the following:

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Current accounts and demand deposits	-	-	38,434,350	54,171,877	38,434,350	54,171,877
Deposits maturing within 3 months or less	390,387,634	160,141,720	65,629,441	67,005,161	456,017,075	227,146,881
	390,387,634	160,141,720	104,063,791	121,177,038	494,451,425	281,318,758

- Non-interest bearing balances at banks and financial institutions amounted to JD 34,597,230 as of December 31, 2016 (JD 49,667,196 as of December 31, 2015).
- Restricted balances at banks and financial institutions amounted to 2,253,202 JD as of December 31, 2016 (JD 2,175,212 as of December 31, 2015).

6. Deposits with Banks and Financial Institutions

This item consists of the following:

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Deposits maturing within 3 to 6 months	10,000,000	10,000,000	-	-	10,000,000	10,000,000
Deposits maturing within 6 to 9 months	-	90,000,000	-	-	-	90,000,000
Deposits maturing within 9 months to a year	15,000,000	55,000,000	-	-	15,000,000	55,000,000
	25,000,000	155,000,000	-	-	25,000,000	155,000,000

- There are no restricted deposits as of December 31, 2016 and 2015.

7. Financial Assets at Fair Value through Profit or Loss

This item consists of the following:

	December 31,	
	2016	2015
	JD	JD
Shares listed in local active markets	122,600	173,300
Shares unlisted in local active markets	83,119	68,770
Shares listed in foreign active markets	-	853,758
	205,719	1,095,828

8. Financial Assets at Fair Value Through Comprehensive Income

This item consists of the following:

	December 31,	
	2016	2015
	JD	JD
Shares listed in local active markets	79,021,668	47,209,483
Shares unlisted in local active markets*	7,146,541	7,324,125
Shares listed in foreign active markets	4,252,624	6,407,983
Shares unlisted in foreign active markets*	1,707,505	1,713,808
	92,128,338	62,655,399

- Total cash dividends from financial assets at fair value through comprehensive income amounted to JD 2,815,647 for the year ended December 31, 2016 (JD 3,107,684 for the year ended December 31, 2015).

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

9. Direct Credit Facilities - Net

This item consists of the following:

	December 31,	
	2016	2015
	JD	JD
Individual (Retail Customers):	328,815,801	276,767,171
Overdraft accounts	10,453,963	10,941,372
Loans and discounted bills*	305,735,908	254,102,985
Credit cards	12,625,930	11,722,814
Real estate loans	224,886,600	208,815,795
Corporate:	604,772,198	586,872,921
Large corporate customers	456,804,426	460,396,554
Overdraft accounts	128,944,650	62,930,449
Loans and discounted bills*	327,859,776	397,466,105
SMEs	147,967,772	126,476,367
Overdraft accounts	39,217,032	36,179,899
Loans and discounted bills*	108,750,740	90,296,468
Government and public sector	139,357,534	149,510,740
Total	1,297,832,133	1,221,966,627
Less: Provision for impairment in direct credit facilities	(64,840,522)	(70,706,100)
Less: Interest in suspense	(6,978,578)	(9,023,281)
Net Direct Credit Facilities	1,226,013,033	1,142,237,246

- * Net of interest and commission received in advance amounting to JD 12,623,079 as of December 31, 2016 (JD 10,118,604 as of December 31, 2015).

- Non-performing credit facilities amounted to JD 66,206,464 representing (5.1%) of the direct credit facilities balance for the year (JD 81,073,382 representing (6.63%) for prior year).
- Non-performing credit facilities after deducting the suspended interest amounted to JD 59,227,886 representing (4.59%) of direct credit facilities after deducting the suspended interest for the year (JD 72,050,101 representing (5.94%) for prior year).
- Credit facilities granted to and guaranteed by the Jordanian Government amounted to JD 87,000,117 representing (6.7%) of total direct credit facilities for the year (JD 84,054,200 representing (6.88%) for prior year). Moreover, credit facilities granted to the public sector in Palestine amounted to JD 52,357,417 for the year (JD 65,456,540 for prior year).

Provision for impairment in direct credit facilities:

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

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

2015	Individual (Retail Customers)	Real Estate Loans	Corporate Entities		Public Sector	Total
			Large Corporate Customers	SMEs		
	JD	JD	JD	JD	JD	JD
Balance – Beginning of the year	17,328,609	3,465,954	45,130,258	19,189,212	-	85,114,033
Foreign currency differences	(411,477)	(52,758)	6,971,806	(12,596,534)	-	(6,088,963)
Provision for the year taken from revenues	3,061,198	(1,130,136)	2,305,307	(165,179)	-	4,071,190
Provisions transferred to off- statement of financial position accounts	(2,506,012)	-	(8,462,767)	(1,421,381)	-	(12,390,160)
Balance – End of the year	17,472,318	2,283,060	45,944,604	5,006,118	-	70,706,100

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

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

2015	Individual (Retail Customers)	Real Estate Loans	Corporate Entities			Total
			Large Corporate Customers	SMEs	Public Sector	
	JD	JD	JD	JD	JD	JD
On a single client basis	17,254,739	2,283,060	45,800,617	4,921,414	-	70,259,830
On a portfolio basis	217,579	-	143,987	84,704	-	446,270
Balance – End of the Year	17,472,318	2,283,060	45,944,604	5,006,118	-	70,706,100

- The provisions no longer needed due to settlements or repayments and transferred against other debts amounted to JD 6,714,569 as of December 31, 2016 (JD 11,006,261 as of December 31, 2015).
- There are direct credit facilities with a balance of JD 9,920,148, a suspended interest of JD 1,454,933 and a provision of JD 8,465,215 as of December 31, 2016 which have been transferred to off- statement of financial position accounts as per the Board of Directors decisions, as these credit facilities are fully provided for as of the date of the consolidated financial statements. (Against direct credit facilities with a balance of JD 13,673,729, a suspended interest of JD 1,283,569, and a provision of JD 12,390,160 as of December 31, 2015)

Interest in Suspense:

The following is the movement on the interest in suspense:

2016

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

2015

	Individual (Retail Customers)	Real Estate Loans	Corporate Entities		
			Large Corporate Customers	SMEs	Total
	JD	JD	JD	JD	JD
Balance – Beginning of the Year	2,792,647	762,950	5,805,793	1,762,917	11,124,307
<u>Add:</u> Interest suspended during the year	290,860	138,064	(265,351)	378,726	542,299
<u>Less:</u> Interest in suspense reversed to income	(211,913)	(310,639)	(408,802)	(428,402)	(1,359,756)
Suspended interest transferred to off -statement of financial position accounts	(343,340)	-	(672,028)	(268,201)	(1,283,569)
Balance - End of the Year	2,528,254	590,375	4,459,612	1,445,040	9,023,281

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

2016	Inside Kingdom JD	Outside Kingdom JD	Total	
			December 31,	
			2016 JD	2015 JD
Financial	2,851,395	-	2,851,395	2,707,341
Industrial	105,485,118	33,821,838	139,306,956	189,908,858
Trading	230,408,273	26,717,134	257,125,407	271,776,255
Real estate	181,654,124	1,007,176	182,661,300	141,951,532
Constructions	42,225,300	-	42,225,300	47,451,139
Agriculture	8,080,448	8,869,752	16,950,200	16,186,262
Tourism, restaurants and public facilities	88,826,440	4,937,397	93,763,837	67,392,470
Shares	11,202,167	-	11,202,167	9,176,609
Individuals	353,999,338	58,388,699	412,388,037	325,905,421
Government and public sector	87,000,117	52,357,417	139,357,534	149,510,740
Total	1,111,732,720	186,099,413	1,297,832,133	1,221,966,627

10. Financial Assets at Amortized Cost

This item consists of the following:

	December 31,	
	2016 JD	2015 JD
Financial assets with market prices:		
Governmental bonds or guaranteed by the government	112,596,012	202,032,574
Bonds and debentures of companies	60,041,668	25,623,133
Total financial assets with market prices	172,637,680	227,655,707
Financial assets without market prices:		
Treasury bills or guaranteed by the government	-	-
Total financial assets without market prices	-	-
Financial assets at amortized cost – Net	172,637,680	227,655,707

Analysis of bonds and bills:

	December 31,	
	2016 JD	2015 JD
Financial assets with fixed-rate-of-return	160,343,376	227,655,707
Financial assets with variable-rate-of-return	12,294,304	-
	172,637,680	227,655,707

The maturities of these assets are as follows:

	Up to 1 Month	More than 1 Month up to 3 Months	More than 3 Months up to 6 Months	More than 6 Months up to 1 Year	More than 1 Year up to 3 Years	More than 3 Years	Total
		JD	JD	JD	JD	JD	
December 31, 2016	5,173,074	4,193,787	1,422,450	14,424,134	71,633,705	75,790,530	172,637,680
December 31, 2015	-	32,930,822	9,998,971	78,688,145	63,049,691	42,988,078	227,655,707

The proceeds of the financial assets at amortized cost are to be paid in semi-annual instalments.

11. Investments in Associates

The summarized movement on the Bank's investment in associates is as follows:

	2016	2015
	JD	JD
Balance – beginning of the year	1	1
Balance – End of the Year *	1	1

- * The Bank's share in National Industries Company is one Jordanian Dinar only, since the Company is under liquidation and a full provision has been booked against the value of the Bank's investment in previous years for this Company.

The details of investments in associates are as follows:

December 31, 2016						
Cost						
Company's Name	Percentage of Ownership	Book Value - Beginning of the Year	Additions (Disposals)	Value According to Equity Method	Bank's Share	Industry Type
	%	JD	JD	JD	JD	
Jordanian companies:						
National Industries Co. (under liquidation)	46.74	1	-	1	-	Industrial
		1	-	1	-	
December 31, 2015						
Cost						
Company's Name	Percentage of Ownership	Book Value - Beginning of the Year	Additions (Disposals)	Revaluation Using the Equity Method	Bank's Share of (Losses)	Industry Type
	%	JD	JD	JD	JD	
Jordanian companies:						
National Industries Co. (under liquidation)	46.74	1	-	1	-	Industrial
		1	-	1	-	

12. Property and Equipment - Net
The details of this item are as follows:

	Land	Buildings	Equipment Furniture and Fixtures	Vehicles	Computer	Decorations and Improvements	Total
	JD	JD	JD	JD	JD	JD	JD
2016							
Cost:							
Beginning balance	3,133,046	13,322,945	20,186,108	964,842	10,563,486	20,124,904	68,295,331
Additions	609,928	942,048	1,474,646	315,787	957,731	1,412,863	5,713,003
(Disposals)	-	-	(1,432,933)	(243,448)	(652,856)	(1,959,603)	(4,288,840)
Foreign currencies differences	(71,497)	(781,030)	(185,465)	(10,686)	(65,965)	(205,501)	(1,320,144)
Ending balance	3,671,477	13,483,963	20,042,356	1,026,495	10,802,396	19,372,663	68,399,350
Accumulated depreciation:							
Beginning balance	-	5,893,117	14,909,167	844,340	7,684,325	15,968,103	45,299,052
Annual depreciation	-	201,924	1,311,248	49,969	862,352	1,454,822	3,880,315
(Disposals)	-	-	(1,344,508)	(243,430)	(639,981)	(1,912,376)	(4,140,295)
Foreign currencies differences	-	(79,055)	(123,956)	(9,699)	(51,128)	(168,908)	(432,746)
Ending balance	-	6,015,986	14,751,951	641,180	7,855,568	15,341,641	44,606,326
Net book value of property and equipment	3,671,477	7,467,977	5,290,405	385,315	2,946,828	4,031,022	23,793,024
Payments on acquisition of property and equipment*		77,562	87,956	-	647,362	5,168,926	5,981,806
Net Property and Equipment at the End of the Year	3,671,477	7,545,539	5,378,361	385,315	3,594,190	9,199,948	29,774,830
2015							
Cost:							
Beginning balance	3,237,388	14,881,753	19,796,496	1,131,660	10,941,103	20,116,449	70,104,849
Additions	38,652	50,687	1,384,714	66,221	1,115,950	1,190,416	3,846,640
(Disposals)	-	(47,880)	(641,856)	(211,960)	(1,374,628)	(772,709)	(3,049,033)
Foreign currencies differences	(142,994)	(1,561,615)	(353,246)	(21,079)	(118,939)	(409,252)	(2,607,125)
Ending balance	3,133,046	13,322,945	20,186,108	964,842	10,563,486	20,124,904	68,295,331
Accumulated depreciation:							
Beginning balance	-	5,855,328	14,124,474	989,159	8,572,983	15,305,829	44,847,773
Annual depreciation	-	197,885	1,571,866	78,260	513,677	1,668,460	4,030,148
(Disposals)	-	(29,218)	(584,761)	(206,048)	(1,316,979)	(729,479)	(2,866,485)
Foreign currencies differences	-	(130,878)	(202,412)	(17,031)	(85,356)	(276,707)	(712,384)
Ending balance	-	5,893,117	14,909,167	844,340	7,684,325	15,968,103	45,299,052
Net book value of property and equipment	3,133,046	7,429,828	5,276,941	120,502	2,879,161	4,156,801	22,996,279
Payments on acquisition of property and equipment*	-	1,874,162	281,333	-	502,907	140,774	2,799,176
Net Property and Equipment at the End of the Year	3,133,046	9,303,990	5,558,274	120,502	3,382,068	4,297,575	25,795,455

* The financial obligations relating to the acquisition of property and equipment amounted to JD 1,701,430 for the year 2016, and will be settled in accordance with the contractual conditions on the purchase of these assets.

- Fully depreciated property and equipment amounted to JD 33,355,029 for the year 2016 (JD 32,444,421 for the year 2015)

13. Intangible Assets - Net

This item consists of softwares which are amortized at an annual rate ranging from 15% to 20%, the details are as Follows:

	For the year ended December 31,	
	2016	2015
	JD	JD
Balance - Beginning of the year	3,320,303	3,371,359
Additions during the year	960,792	609,886
Amortization for the year	(711,560)	(644,680)
Foreign currencies differences	(10,389)	(16,262)
Balance - End of the Year	3,559,146	3,320,303

14. Other Assets

This item consists of the following:

	December 31,	
	2016	2015
	JD	JD
Accrued interest income	4,810,872	6,638,640
Prepaid expenses	2,587,778	2,107,795
Assets foreclosed by the Bank in repayment of debts*	34,705,556	37,373,852
Clearance cheques	1,634,270	2,434,194
Advanced payments on the acquisition of lands & real estate	912,359	1,015,307
Prepaid tax expenses	1,970,506	1,473,124
Accounts receivables and other debit balances	8,302,713	8,448,822
Transactions in transit	20,554	67,255
	54,944,608	59,558,989

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

	Foreclosed Assets	
	2016	2015
	JD	JD
Balance - Beginning of the Year	41,642,564	42,714,825
Additions	2,430,218	2,379,766
Disposals	(2,561,483)	(3,452,027)
End of the year balance	41,511,299	41,642,564
Impairment provision of assets foreclosed by the Bank**	(6,805,743)	(4,268,712)
Balance - End of the Year	34,705,556	37,373,852

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

** The following is the movement on the impairment provision of assets foreclosed by the Bank which include assets impairment provision and the foreclosed assets provision that is calculated in accordance with Central Bank of Jordan dissemination 10/1/4076 :

	2016	2015
	JD	JD
Balance - Beginning of the Year	4,268,712	327,655
Additions	2,537,923	3,941,057
Disposals	(892)	-
Balance - End of the Year	6,805,743	4,268,712

15. Banks and Financial Institutions' Deposits

This item consists of the following:

	December 31,					
	2016			2015		
	Inside the Kingdom of Jordan	Outside the Kingdom of Jordan	Total	Inside the Kingdom of Jordan	Outside the Kingdom of Jordan	Total
	JD	JD	JD	JD	JD	JD
Current accounts and demand deposits	-	43,248,408	43,248,408	-	14,763,256	14,763,256
Time Deposits	47,500,000	54,875,050	102,375,050	-	108,825,774	108,825,774
	47,500,000	98,123,458	145,623,458	-	123,589,030	123,589,030

There are no deposits maturing within 3 months as of December 31, 2016 (against 3,159,000 as of December 31, 2015 maturing within more than 3 months and less than 6 months).

16. Customers' Deposits

This item consists of the following:

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

	December 31, 2015				
	Individuals	Large Corporates	SMEs	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Current accounts and demand deposits	328,240,342	55,898,871	82,188,847	22,522,530	488,850,590
Saving accounts	650,414,852	1,342,623	15,734,630	60,065	667,552,170
Time and notice deposits	235,603,488	50,752,929	24,982,634	45,204,607	356,543,658
Certificates of deposit	49,509,355	40,000	2,391,190	-	51,940,545
Total	1,263,768,037	108,034,423	125,297,301	67,787,202	1,564,886,963

- Deposits of the Jordanian Government and the public sector inside Jordan amounted to JD 16,118,947 equivalent to (1%) of total customers' deposits for the year (JD 58,092,471 equivalent to (3.71%) for the prior year).
- Non-interest bearing deposits amounted to JD 901,249,775 equivalent to (56.08%) of total customers' deposits for the year (JD 864,982,291 equivalent to (55.27%) of total deposits for the prior year).
- Restricted deposits amounted to JD 20,715,053 equivalent to (1.29%) of total customers' deposits for the year (JD 13,059,220 equivalent to (0.83%) of total deposits for the prior year).
- Dormant deposits amounted to JD 82,178,656 for the year (JD 82,805,617 for the prior year).

17. Cash Margins

The details of this item are as follows:

	December 31,	
	2016	2015
	JD	JD
Cash margins on direct credit facilities	111,304,651	90,930,302
Cash margins on indirect credit facilities	17,987,451	20,240,850
Total	129,292,102	111,171,152

18. Sundry Provisions

The details of this item are as follows:

	Beginning Balance	Provision Created during the Year	Provision Used During the Year	Foreign Currencies Differences	Ending Balance
	JD	JD	JD	JD	JD
2016					
Provision for end-of-service indemnity	5,337,873	353,166	(1,504,804)	-	4,186,235
Provision for lawsuits raised against the Bank	600,801	41,628	(15,715)	-	626,714
Other provisions	287,491	20,496	(4,609)	(100,335)	203,043
	<u>6,226,165</u>	<u>415,290</u>	<u>(1,525,128)</u>	<u>(100,335)</u>	<u>5,015,992</u>
2015					
Provision for end-of-service indemnity	8,165,555	776,715	(3,604,397)	-	5,337,873
Provision for lawsuits raised against the Bank	346,924	277,111	(23,234)	-	600,801
Other provisions	280,464	77,352	-	(70,325)	287,491
	<u>8,792,943</u>	<u>1,131,178</u>	<u>(3,627,631)</u>	<u>(70,325)</u>	<u>6,226,165</u>

19. Income Tax**a. Income tax provision**

The movement on the income tax provision is as follows:

	2016	2015
	JD	JD
Balance - Beginning of the Year	13,197,654	15,998,305
Income tax paid	(16,811,866)	(19,562,896)
Accrued Income tax	20,486,918	16,762,245
Balance - End of the Year	16,872,706	13,197,654

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

	2016	2015
	JD	JD
Income tax on current year's profit	20,486,918	16,762,245
Deferred tax assets for the year-addition	(1,517,791)	(1,587,473)
Amortization of deferred tax assets	1,144,257	6,728,613
	<u>20,113,384</u>	<u>21,903,385</u>

- Legal income tax rate in Jordan amounts to 35% starting from the beginning of the year 2015, whereas the legal income tax rate in Palestine where the Bank has investments and branches amounts to 15%, in Syria (a subsidiary) to 25% and 24% for the subsidiary companies in Jordan.

- A final settlement was reached with the Income and Sales Tax Department in Jordan up to the end of the year 2013. Moreover the Bank submitted its tax returns for the years 2011, 2014 and 2015 and has paid the required amounts according to the law. However, no final settlement has been reached with the Income and Sales Tax Department for these years yet. The Income and Sales Tax Department claims the Bank with tax differences against the year 2011 amounting to JD 1,750,030. The Bank has objected this assessment and raised a lawsuit against Income and Sales Tax Department in this regards which is still at the court of first instance. Furthermore, the Income and Sales Tax Department also requested for the Bank with tax differences against the year 2014 and it's still in the objection period at which the Bank intends to object the assessment made by the Income and Sales Tax Department. In the opinion of the management and its legal and tax consultant, the Bank will not entail any obligations in excess of the provision booked in the consolidated financial statements.
- The Bank has reached a final settlement up to the end of the year 2015 with the Income Tax and Value added Tax Department on the Bank's operations in Palestine. Moreover, the Bank has allocated an amount of JD 1,130,000 to meet the Tax obligations on the Bank's results for the year 2015 (JD 495,000 against income tax and JD 635,000 against value added tax). In the opinion of the Bank's management and its tax consultant the allocated provisions are sufficient to meet the tax obligations for the year 2016.
- A final settlement was reached with the Income and Sales Tax Department up to the end of the year 2014 regarding Excel for Financial Investments Company (subsidiary). Furthermore, the Company has submitted its tax returns for the year 2015. However, no final settlement has been reviewed by the Income and Sales Tax Department yet. In the opinion of the Company's management and its tax consultant, the allocated provisions in the financial statements are sufficient to meet any tax obligations.
- Jordan Leasing Company (subsidiary) has reached a final settlement with the Income and Sales Tax Department up to the year 2013. Moreover, the Company has submitted its tax returns for the years 2014 and 2015 and paid the declared taxes, however, it has not been reviewed by the Income and Sales Tax Department yet. In the opinion of the Company's management and its tax consultant, the allocated provisions in the financial statements are sufficient to meet any tax obligations

b. Deferred Tax Assets

The details of this item are as follows:

	2016					2015
	Balance -	Amounts Released	Amounts Added	Balance -	Deferred Tax	Balance -
	Beginning of the Year			End of the Year		Deferred Tax
	JD	JD	JD	JD	JD	JD
<u>Accounts Included</u>						
Deferred Tax Assets:						
Provisions for non-performing debts	16,403,056	-	1,375,995	17,779,051	6,222,668	5,741,070
Provision for non-performing debts - Prior years	3,781,736	27,501	-	3,754,235	1,082,233	1,090,151
Provision for staff end-of-service indemnity	5,337,873	1,622,963	471,325	4,186,235	1,243,573	1,663,191
Interest in suspense	998,113	-	-	998,113	261,797	263,258
Provision for lawsuits raised against the Bank	600,801	15,715	41,628	626,714	208,612	201,900
Impairment in assets foreclosed by the Bank	4,268,712	892	2,537,923	6,805,743	2,219,558	1,331,622
Impairment in assets available for sale	62,831	-	-	62,831	21,991	21,991
Other provisions	7,617,560	4,953,408	-	2,664,152	666,038	1,904,390
	39,070,682	6,620,479	4,426,871	36,877,074	11,926,470	12,217,573

The movement on deferred tax assets is as follows:

	2016	2015
	JD	JD
Balance – Beginning of the Year	12,217,573	19,984,865
Adjustments	-	(1,252,483)
Adjusted balance – Beginning of the year	12,217,573	18,732,382
The effect of the amendments of Income Tax Law on Palestine and Jordan*	-	(414,598)
Added during the year	1,517,791	1,587,473
Amortized during the year	(1,144,257)	(6,314,015)
Foreign currencies differences	(664,637)	(1,373,669)
Balance – End of the Year	11,926,470	12,217,573

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

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

	2016	2015
	JD	JD
Accounting profit	62,315,408	61,966,178
Tax-exempt profit	(5,979,800)	(23,222,541)
Tax-unacceptable expenses	7,493,529	7,976,757
Taxable profit	63,829,137	46,720,394
Income tax rate	32.1%	35.9%
	20,486,918	16,762,245

20. Borrowed Money

The details of this item are as follows:

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

2015	Amount JD	Number of Instalments		Installments Maturity	Collaterals	Price of Borrowing Interest
		In total	The Remaining			
Borrowing from the Central Bank of Jordan	500,956	60	60	Monthly	Treasury bonds	2.25%
Total	500,956					

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

21. Other Liabilities

The details of this item are as follows:

	December 31,	
	2016	2015
	JD	JD
Accrued interest payable	2,748,843	3,449,363
Accepted cheques	7,261,564	7,346,676
Temporary deposits	2,452,353	2,114,422
Dividends payable	1,880,403	1,807,742
Deposits on safe boxes	169,226	166,306
Sold real estate margins	291,472	96,850
Other liabilities*	7,373,047	4,723,640
	22,176,908	19,704,999

* The details of other liabilities are as follows:

	December 31,	
	2016	2015
	JD	JD
Social security deposits	264,323	240,624
Income tax deposits	283,396	207,090
Accrued expenses	3,459,949	2,628,509
Incoming transfers	231,740	197,322
Board of Directors' remuneration	55,000	55,000
Other credit balances	3,078,639	1,395,095
	7,373,047	4,723,640

22. Paid-up Capital

- The authorized capital of the Bank is JD 200,000,000 as of December 31, 2016 (JD 155,100,000 as of December 31, 2015)
- The authorized capital of the Bank is JD 200,000,000 by year end, divided into 200,000,000 shares at a par value of JD 1 each.

23. Reserves

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

The restricted reserves are as follows:

Reserve	Amount	Nature of Restriction
	JD	
Legal reserve	73,917,046	Companies and Banks Laws
General banking risks reserve	12,996,161	Regulatory bodies requirements
Special reserve	3,330,908	Regulatory bodies requirements

24. Foreign Currencies Translation Differences

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

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

	2016	2015
	JD	JD
Balance – Beginning of the Year	(11,481,891)	(10,326,397)
Changes in the translation of net investment in the subsidiary company during the year*	(919,944)	(1,155,494)
Balance – End of the Year	(12,401,835)	(11,481,891)

- * This item includes the Bank's net share of the structural position related to the investment in the capital of Bank of Jordan - Syria for the years 2016 and 2015.

25. Fair Value Reserve

The details of the fair value reserve are as follows:

	2016	2015
	JD	JD
Balance - Beginning of the Year	33,186,645	17,959,472
Unrealized gains	32,217,724	15,227,173
(Transferred) as a result for shares sale to retained earning recognized	(1,838,781)	-
Balance – End of the Year	63,565,588	33,186,645

26. Retained Earnings

The details of this item are as follows:

	2016	2015
	JD	JD
Balance – Beginning of the Year	88,442,614	82,070,084
Adjustments	-	(613,717)
Adjusted Balance - Beginning of the Year	88,442,614	81,456,367
Dividends distributed to shareholders	(31,020,000)	(31,020,000)
Profit for the year	41,396,285	40,835,470
Transferred to reserves	(7,082,118)	(6,084,754)
Transferred as a result for sale of financial assets through comprehensive income	1,346,863	-
The currencies translation differences	2,039,735	3,255,531
(Transferred) increase in paid-up capital – Note (1)	(31,197,142)	-
Balance – End of the Year*	63,926,237	88,442,614

- * Retained earnings include an amount of JD 11,926,470 restricted against deferred tax benefits as of December 31, 2016 (JD 12,217,573 as of December 31, 2015).
- Retained earnings include an amount of JD 5,060,455 as of December 31, 2016 which represents the effect of early adoption of IFRS (9). These restricted amounts cannot be utilized unless realized as instructed by Jordan Securities Commission.

27. Proposed Dividends

The Board of Directors recommended the distribution of 18% of capital as cash dividends to the shareholders, equivalent to JD 36,000,000 which remain subject to the approval of the General Assembly (while a dividends of 20% of the capital was distributed during the year 2016 in the amount of JD 31,020,000 in addition to capital increase in the amount of JD 44,900,000 as stated in note (1)).

28. Interest Income

The details of this item are as follows:

	2016	2015
	JD	JD
Direct Credit Facilities:		
Individual (retail customers):	29,195,069	27,000,838
Overdraft accounts	1,183,948	933,050
Loans and discounted bills	25,605,225	23,512,401
Credit cards	2,405,896	2,555,387
Real estate loans	16,089,973	14,588,962
Corporate Entities:	39,361,772	42,736,340
Large corporate customers:	27,137,126	31,230,700
Overdraft accounts	6,032,824	6,253,408
Loans and discounted bills	21,104,302	24,977,292
SMEs:	12,224,646	11,505,640
Overdraft accounts	2,761,334	2,731,466
Loans and discounted bills	9,463,312	8,774,174
Government and public sector	5,909,340	5,455,068
Balances with central banks	891,188	1,592,584
Balances and deposits with banks and financial institutions	10,465,324	3,677,829
Financial assets at amortized cost	8,003,308	16,620,652
Total	109,915,974	111,672,273

29. Interest Expense

The details of this item are as follows:

	2016	2015
	JD	JD
Banks and financial institution deposits	1,113,990	981,608
Customers' deposits:		
Current and demand deposits	198,543	187,585
Saving accounts	1,217,806	1,936,905
Time and notice deposits	8,133,639	10,347,143
Certificates of deposit	2,010,710	2,985,355
Borrowed funds	63,168	11,250
Cash margins	1,098,867	952,606
Fees of deposits guarantees	3,317,015	3,424,090
	17,153,738	20,826,542

30. Commissions Income – Net

The details of this item are as follows:

	2016	2015
	JD	JD
Commission's income:		
Direct credit facilities commissions	5,144,413	5,221,393
Indirect credit facilities commissions	5,624,180	2,906,688
Other commissions	12,984,290	12,650,131
Less: Commissions expense	(269,995)	(263,690)
Net Commissions Income	23,482,888	20,514,522

31. Foreign Currency Income

The details of this item are as follows:

	2016	2015
	JD	JD
From trading\dealing	144,509	32,732
From revaluation	2,341,645	2,758,803
	<u>2,486,154</u>	<u>2,791,535</u>

32. (Loss) from Financial Assets at Fair Value through Profit or Loss

The details of this item are as follows:

Year 2016	Realized (Losses) JD	Unrealized (Losses) JD	Returns on Share Dividends JD	Total JD
Local shares	-	(36,351)	6,082	(30,269)
Foreign shares	(43,841)	-	19,252	(24,589)
	<u>(43,841)</u>	<u>(36,351)</u>	<u>25,334</u>	<u>(54,858)</u>

Year 2015	Realized (Losses) JD	Unrealized (Losses) JD	Returns on Share Dividends JD	Total JD
Local shares	135,324	(51,487)	11,845	95,682
Foreign shares	(306,721)	(9,979)	90,301	(226,399)
	<u>(171,397)</u>	<u>(61,466)</u>	<u>102,146</u>	<u>(130,717)</u>

33. Other Income

The details of this item are as follows:

	2016	2015
	JD	JD
Revenue from prior years returned to income	1,192,926	1,074,059
Gains from the sale of assets foreclosed by the Bank	645,607	1,628,485
Revenue from telephone, post, and swift	493,111	476,359
Real estate rent	354,793	170,896
Gain from the sale of property and equipment	64,547	16,988
Interest in suspense reversed to income	1,636,566	1,359,756
Gains from sale of financial assets foreclosed by the Bank	-	1,861,500
Other income	1,569,405	1,503,734
	<u>5,956,955</u>	<u>8,091,777</u>

34. Employees Expenses

The details of this item are as follows:

	2016	2015
	JD	JD
Salaries, bonuses, and employees' benefits	24,173,266	22,846,565
Bank's contribution to social security	2,029,156	1,895,371
Bank's contribution to provident fund	1,549,808	1,477,886
Medical expenses	1,460,682	1,360,857
Staff training expenses	281,195	295,605
Transportation and travel expenses	760,328	638,548
	<u>30,254,435</u>	<u>28,514,832</u>

35. Other Expenses

The details of this item are as follows:

	2016	2015
	JD	JD
Rent	3,186,977	3,191,913
Printing and stationery	790,281	895,352
Telephone, post and swift	1,560,783	1,560,769
Maintenance, repairs, and cleaning	2,898,817	3,039,529
Fees, taxes, and licences	2,769,587	1,853,840
Advertisements and subscriptions	3,397,142	3,508,021
Insurance expenses	1,995,673	1,908,703
Electricity and heating	2,212,085	2,455,768
Donations	544,925	522,106
Hospitality	245,171	236,702
Professional, consultancy and legal fees	1,145,878	1,056,962
Board of Directors remunerations	55,000	55,000
Miscellaneous	843,330	636,604
	21,645,649	20,921,269

36. Earnings Per Share

The details of this item are as follows:

	2016	2015
	JD	JD
Profit for the year (Bank's shareholders)	41,396,285	40,835,470
Weighted average number of shares*	200,000,000	200,000,000
Net income for the year/share (Bank's shareholders):		
Basic	0.207	0.204
Diluted	0.207	0.204

- * The weighted average number of shares for the year ended December 31, 2015 has been adjusted to be JD 200 million instead of JD 155/1 million as the increase in the shares was due to distributed bonus shares.

37. Cash and Cash Equivalents

The details of this item are as follows:

	December 31,	
	2016	2015
	JD	JD
Cash and balances with central banks maturing within 3 months	219,973,414	227,056,007
<u>Add:</u> Balances with banks and other financial institutions maturing within 3 months	494,451,425	281,318,758
<u>Less:</u> Banks and financial institutions' deposits maturing within 3 months	(145,623,458)	(120,430,030)
Restricted balances	(4,655,709)	(4,688,901)
	564,145,672	383,255,834

38. Financial Derivatives Instruments

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

2016	Positive Fair Value	Negative Fair Value	Total Nominal Value	Nominal Value Maturities		
	JD	JD	JD	During 3 Months	From 3 To 12 Months	Total
Foreign currencies forward contracts (purchase)	-	236	1,428,188	1,428,188	-	1,428,188
Foreign currencies forward contracts (purchase)	-	31,193	1,187,132	1,187,132	-	1,187,132
Foreign currencies forward contracts (purchase)	13,774	-	699,274	699,274	-	699,274
Total	13,774	31,429	3,314,594	3,314,594	-	3,314,594

2015	Positive Fair Value	Negative Fair Value	Total Nominal Value	Nominal Value Maturities		
	JD	JD	JD	During 3 Months	From 3 To 12 Months	Total
Foreign currencies forward contracts (purchase)	866,107	-	2,995,051	2,995,051	-	2,995,051
Total	866,107	-	2,995,051	2,995,051	-	2,995,051

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

39. Related parties transaction

Within its normal activities, the Bank entered into transactions with its major shareholders, members of the Board of Directors, executive management and the associate company at the commercial rates of interest and commission. Moreover, all loans and advances with related parties are performing, and no provision for probable credit losses has been taken thereon.

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

	Related Parties				Total	
	Board of Directors		Staff	Other Parties	December 31,	
	Major Shareholders	Members	Executives Management		Fund	2016
<u>Consolidated Statement of Financial Position Items:</u>						
Credit facilities	JD *9,491,296	JD 4,016,723	JD 1,225,623	JD -	JD 47,153,356	JD 31,564,028
Deposits	36,515,318	356,476	1,873,217	394,040	45,243,054	10,470,840
Cash margins	5,172,177	900	-	-	5,690,705	595,907
<u>Off-consolidated Statement of Financial Position Items:</u>						
Letters of guarantee	-	4,687	4,277	-	2,606,355	338,557
<u>Consolidated Statement of Income Items:</u>						
Credit interest and commission	44,119	1,493	258,064	22,938	1,520,445	1,704,764
Debit interest and commission	41,383	18	9,481	-	64,011	74,196

Interest rates:

Interest income prices in JD ranged between (6.15%) to (9.7%)

Interest income in foreign currency was 0%

Interest prices in JD ranged between (0.25%) to (3.9%)

Interest prices in JD foreign currency ranged between (0.2%) to (0.4%)

* This balance represents the partial financing made by the Bank to a company related to one of the Bank's major shareholders for the sale of the portion of investments which exceeded the allowed limits per Article (38/A/1) of the Banks Law No. (28) for the Year 2000. These investments summarized by financial assets at fair value through comprehensive income represented by 984,835 shares in El-Eqbal Investment Company at its fair value as of the sale date which is equivalent to JD 13 per share, in addition to the sale of 1,940,000 shares of the Bank's investment in North Industrial Company (a non traded associate company).

Salaries and Remunerations of Executive Management summary:

	2016	2015
	JD	JD
Salaries and benefits	2,457,340	1,966,566
Transportation and board secretary	48,000	45,242
Total	2,505,340	2,011,808

40. Risk Management

First: Descriptive Disclosures:

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

- * In this context, the Bank has formed a Risk and compliance Management Committee, derived from the Board of Directors to ensure the presence of an effective internal monitoring function in accordance with the policies and scope of work set for it by the Board of Directors.
- * Risk management assumes the responsibility of managing the various types of risks through:
 - Preparing policies and getting them approved by the Board of Directors.
 - Analysing the risk types (credit, market, or operations).
 - Developing measurement and control methodologies for each risk type.
 - Providing the Board of Directors and executive management with reports and information about quantitative and qualitative measurements of the Bank risks.
- * The Bank has contracted to purchase several systems to prepare the requirements needed for the purpose of Basel III calculation and Stress Testing as well as preparing an internal valuation for Capital adequacy ICAAP.

❖ Credit Risks

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

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

1. Setting up independent specialized departments for the management of credit as follows:
 - Companies Credit Risk Department (for management of companies credit risks).
 - Small and Medium Size Enterprises (SMEs) Risk Management Department (for management of SMEs credit risks).
 - Individuals Credit Risk Department (for management of individuals credit portfolios risks).
 - Credit Portfolios Risk Management Department: the department focuses on maintaining the quality of credit granted for the Bank's clients (Corporate, SME & Individual). Studying the Key Risk Indicators (KRI) and Key Performance Indicators (KPI) through preparing studies and reports covering the performance of economic sectors and industries and compare it with the performance of the Bank's credit portfolios and associated provisions. Utilizing the

aforementioned reports to establish proper recommendations which in turn provide guidance for the business developments units to target promising economic sectors/industries or to avert expansion in the deteriorating ones. In addition to the above, the department of Credit Portfolios Risk Management conducts periodical studies and reports shed lights on the below aspects:

- The concentrations of credit portfolio on economic activity level.
 - The concentrations of credit portfolio on product level.
 - Reports cover the Bank's default ratios and coverage ratios compared to the banking sector.
 - Credit portfolios performance reports, conducted on segment basis (Corporate, SME, Government and Individuals) compared to the banking sector in terms of growth and profitability rates.
 - The preparation for the implementation of IFRS 9 through conducting scenarios and reports required to comply with the IFRS 9 implementation by the beginning of 2018.
 - Applying a risk rating system through which the clients will be classified to ten ranks (ratings) and according to the below factors:
 - Obligor Risk Rating (economic sector, management, financial standing, experience..etc).
 - Facility Risk Rating (risk weight will be assigned according to the type and nature of the facility).
 - Collateral rating: (risk weight will be assigned according to the type and nature of the collateral), which will directly impact the Recovery Ratio thus the calculation of Loss Given Default LGD.
2. Separation of Business Development Department from Credit Risk Departments.
 3. Implementing a set of approved policies and procedures that outline principles for defining, measuring, and managing the type of risk.
 4. Determining credit concentrations at the credit type level, economic sector, geographical distribution, credit portfolios, etc. Credit risks are managed by departments according to their specialization.
 5. Implementing an authorization and relationship management system:
Bank of Jordan adopts an authorization system that includes authority granting, delegation, monitoring and relationship management of the various credit activities.
 6. Determining credit risk mitigation methods:

Bank of Jordan adopts various methods to mitigate credit risks such as the following:
 - Providing the proper credit structure that matches its purpose and repayment period.
 - Ensuring the completion of all control aspects relating to the utilization of credit and the sources of its payment.
 - Obtaining proper guarantees to hedge against any risks in this regard.
 - Analysing and evaluating credit transactions by credit risks departments.
 - Periodically evaluating guarantees according to the nature, type, and degree of risks to reinforce guarantees and ensure their adequacy constantly.
 - Setting up specialized committees for approving credit.

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

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

❖ **Operational Risk**

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

The Bank manages operational risks through the following process:

1. Setting the operational risks policy, approving it by the Board of Directors, and implementing it across the bank and its affiliates. This includes the standards for defining and measuring risks in addition to the Risk Appetite accepted for these risks.
2. Implementing an operational risk management system (CAREWeb).
3. Creating risk profiles for all bank entities which include all operational risks that may affect the entity, the related controls to mitigate them and the frequency of their testing to ensure effective

and continuous implementation. Reports on risk profiles are submitted to the Risk and Compliance Committee on the Board level for approval.

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

Liquidity and Market Risk

Liquidity risk

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

- **Funding Liquidity Risk**
This risk represents the Bank's inability to change assets into cash - such as the collection of receivables - or to obtain funding to meet its obligations.
- **Market Liquidity Risk**
This risk represents the Bank's inability to sell the asset in the market or selling the asset at a huge financial loss due to weak liquidity or demand in the market.

Market Risk

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

Market risks arise from:

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

- The substantial tools used in measure and manage markets risks as following:

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

The Bank manages the market and liquidity risk through:

- Installing a set of liquidity management policies and procedures, approved by the Board of Directors, that specifies the criteria for definition, measurement, control, follow-up, and management of liquidity risk.
- Setting up a liquidity crisis management plan that includes the following:
 - Specialized procedures for the management of liquidity risk.
 - Specialized committee to manage liquidity risk.
 - A liquidity contingency plan.
- Developing measurement, management, and monitoring liquidity and market risk tools through:
 - Preparing liquidity risk reports according to the maturity scale.
 - Monitoring ceilings and quality of the investment portfolio.
 - Identifying sources of funds, and classifying/analysing them according to their nature.

- Controlling legal liquidity and daily cash liquidity. This means keeping an adequate amount of liquid assets (cash and cash equivalents) to meet obligations.
- Matching maturities of assets and liabilities, taking into consideration all internal and external cash flows.
- Performing stress testing.
- The preparation of a periodic analysis about the developments in local and international markets.
- Monitor investment tools and analyze the range of conformity with the issued investment limits in the investment policy and the allowed losses limits.
- Analysing ceilings and limitations of the investments and provide a recommendation to adjust it according to improvements and circumstances of international and local markets, diverse investment with what achieve best returns and less risks.
- Analysing the investment concentrations on the level of each tool.
- Review and assess the portfolios assets and liabilities.
- Analysing credit rating for international and local banks according to the financial situation and how much it is effected from economic crises and the range of its spread globally.
- Monitor interest trends on the volume of deposits, Maturity date and its suspended range.
- The preparation of reports about the exceeding limit in investments tools.
- Monitor the changes on interest prices in international and local markets.
- Monitor the sensitivity of investment tools for changes in interest prices on each investment tool.
- Monitor pricing process for borrowing and lending/Investments ceiling.
- Monitor the concentration on, markets/tool and geographical distribution.
- Submitting periodic reports to the Investment Committee, Executive Risk Management Committee, and Risk Management Committee/Board of Directors.

❖ **Information Security Risk**

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

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

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

❖ **Compliance Risks**

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

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

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

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

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

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

- The preparation and adoption of a policy to deal with the law of the FATCA.
- The preparation and adoption of a compliance program with the law of FATCA.
- Rehabilitation and training of all employees of the Bank to deal with the requirements of the law FATCA.
- Contract with a specialized company to implement an automated system to manage the requirements of FATCA.
- Adjusting opening new accounts application forms to meet the requirements of the law FATCA.
- Develop a mechanism to update customer data on an ongoing basis.

Second: Quantitative Disclosures:**(40/A) Credit Risk**

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

	2016	2015
	JD	JD
On-Statement of Financial Position Items		
Balances with central banks	166,272,023	173,756,768
Balances with banks and financial institutions	494,451,425	281,318,758
Deposits with banks and financial institutions	25,000,000	155,000,000
Credit facilities:	1,226,013,033	1,142,237,246
Individual (retail customers)	307,336,228	256,766,599
Real estate loans	221,576,763	205,942,360
Corporate entities	557,742,508	530,017,547
Large corporate customers	418,533,785	409,992,338
SMEs	139,208,723	120,025,209
Government & public sector	139,357,534	149,510,739
Financial derivatives instruments	-	866,107
Financial assets at amortized cost (Bonds & Treasury Bills)	172,637,680	227,655,707
Other assets	17,356,187	19,696,706
Off-Statement of Financial Position Items		
Letters of guarantee	117,565,620	104,648,914
Letters of credit	80,542,151	45,308,135
Acceptances	74,535,617	30,657,185
Un-utilized facilities	86,932,724	136,379,535
Total	2,461,306,460	2,317,525,061

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

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

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

	December 31, 2016							
	Corporate Entities							
	Individual (Retail Customers)	Real Estate Loans	Large Corporate Customers	SMEs	Other Assets	Government & Public Sector	Banks & other Financial Institutions	Total
	JD	JD	JD	JD	JD	JD	JD	JD
Low grade risk	-	-	-	-	-	-	-	418,225,569
Standard grade risk	303,221,658	213,236,925	413,624,860	127,442,384	17,356,187	251,953,546	166,272,023	1,623,777,107
From which past due*:								
Up to 30 days	3,417,767	125,998	2,432,768	2,200,967	-	-	-	8,177,500
From 31 to 60 days	58,768	81,179	906,972	535,453	-	-	-	1,582,372
Watch list	2,852,675	4,984,465	50,594,088	6,909,080	-	-	-	65,340,308
Non-performing:	22,741,468	6,665,210	23,183,478	13,616,308	-	-	-	66,206,464
Substandard	1,000,802	624,976	310,902	3,173,602	-	-	-	5,110,282
Doubtful	1,733,535	2,055,218	43,872	304,566	-	-	-	4,137,191
Losses written-off	20,007,131	3,985,016	22,828,704	10,138,140	-	-	-	56,958,991
Total	328,815,801	224,886,600	487,402,426	147,967,772	17,356,187	251,953,546	715,167,116	2,173,549,448
Less: Interest in suspense	(2,526,228)	(524,594)	(2,304,247)	(1,623,509)	-	-	-	(6,978,578)
Less: Impairment provision	(18,953,345)	(2,785,243)	(35,966,394)	(7,135,540)	-	-	-	(64,840,522)
Net	307,336,228	221,576,763	449,131,785	139,208,723	17,356,187	251,953,546	715,167,116	2,101,730,348

	December 31, 2015						
	Corporate Entities						
Individual (Retail Customers)	Real Estate Loans	Large Corporate Customers	SMEs	Other assets	Government & Public Sector	Banks & other Financial Institutions	Total
JD	JD	JD	JD	JD	JD	JD	JD
Low grade risk	-	-	-	-	351,543,314	174,622,875	526,166,189
Standard grade risk	200,546,466	424,415,343	105,915,579	19,696,706	-	446,306,891	1,454,426,773
From which past due*:							
Up to 30 days	834,308	4,486,294	1,350,895	-	-	-	8,304,567
From 31 to 60 days	33,235	848,564	540,557	-	-	-	1,900,789
Watch list	2,793,366	9,721,011	3,964,497	-	-	-	18,594,329
Non-performing:	5,475,963	41,895,200	16,596,291	-	-	-	81,073,382
Substandard	593,771	1,682,720	285,999	-	-	-	3,951,763
Doubtful	1,010,483	864,583	1,115,828	-	-	-	4,858,539
Losses written-off	3,871,709	39,347,897	15,194,464	-	-	-	72,263,080
Total	208,815,795	476,031,554	126,476,367	19,696,706	351,543,314	620,929,766	2,080,260,673
Less: Interest in suspense	(590,375)	(4,459,612)	(1,445,040)	-	-	-	(9,023,281)
Less: Impairment provision	(2,283,060)	(45,944,604)	(5,006,118)	-	-	-	(70,706,100)
Net	205,942,360	425,627,338	120,025,209	19,696,706	351,543,314	620,929,766	2,000,531,292

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

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

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

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

December 31, 2015						
	Individual (Retail Customers)	Real Estate	Corporate Entities		Government and Public Sector	Total
			Large Corporate Customers	SMEs		
	JD	JD	JD	JD	JD	JD
Collaterals:						
Low grade	-	-	-	-	-	-
Standard grade	40,043,562	175,213,476	107,481,641	74,028,359	-	396,767,038
Watch list	674	2,748,959	1,347,306	3,936,695	-	8,033,634
Non-performing:	1,103,084	4,782,671	22,903,837	10,976,346	-	39,765,938
Substandard	28,224	537,998	1,814,300	920,728	-	3,301,250
Doubtful	60,232	835,813	375,518	1,262,120	-	2,533,683
Losses written-off	1,014,628	3,408,860	20,714,019	8,793,498	-	33,931,005
Total	41,147,320	182,745,106	131,732,784	88,941,400	-	444,566,610
As:						
Cash margins	12,920,358	33,950	17,732,635	7,913,390	-	38,600,333
Real estate	16,052,513	182,677,306	84,271,617	68,482,274	-	351,483,710
Listed shares	-	-	24,679,606	506,850	-	25,186,456
Equipment and vehicles	12,174,449	33,850	5,048,926	12,038,886	-	29,296,111
Total	41,147,320	182,745,106	131,732,784	88,941,400	-	444,566,610

1. Rescheduled Loans

These represent loans classified previously as non-performing, removed from non-performing credit facilities according to proper scheduling, and reclassified as debts under watch list. Total rescheduled loans amounted to JD 9,162,639 as of December 31, 2016 (JD 9,147,883 as of December 31, 2015).

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

2. Restructured Loans

Restructuring means to rearrange facilities instalments by increasing their duration, postponing some instalments, or increasing their grace period. They are classified as debts under watch list and amounted to JD 38,261,806 as of December 31, 2016 (JD 23,839,111 as of December 31, 2015).

3. Bonds, Debentures and Treasury Bills

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

<u>Rating Grade</u>	<u>Rating Agency</u>	<u>Classification</u>	<u>Within Financial Assets at</u>	<u>Total</u>
			<u>Amortized Cost</u>	
			JD	JD
Foreign Bank Bonds	Moody's	A1	4,980,044	4,980,044
Foreign Bank Bonds	Moody's	A2	2,845,666	2,845,666
Foreign Bank Bonds	Moody's	A3	2,127,000	2,127,000
Foreign Bank Bonds	Moody's	Aa3	7,759,193	7,759,193
Foreign Bank Bonds	Moody's	Ba2	8,817,257	8,817,257
Foreign Bank Bonds	Moody's	Baa2	2,914,508	2,914,508
Jordanian Government Bonds			112,596,012	112,596,012
Unrated Bonds			30,598,000	30,598,000
Total			172,637,680	172,637,680

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

Items	December 31, 2016					
	Geographical area		Other		Total	
	Inside Jordan	Middle East Countries	Europe	Asia*	America	Other Countries
	JD	JD	JD	JD	JD	JD
Balances with central banks	106,853,686	59,418,337	-	-	-	166,272,023
Balances with banks and financial institutions	390,387,632	84,555,415	14,339,649	64,850	5,027,919	494,451,425
Deposits with banks and financial institutions	25,000,000	-	-	-	-	25,000,000
Credit facilities:	1,059,043,161	166,969,872				1,226,013,033
Individual (retail customers)	259,533,927	47,802,301	-	-	-	307,336,228
Real estate Loans	220,760,993	815,770	-	-	-	221,576,763
Corporate entities	491,748,124	65,994,384				557,742,508
Large corporate customers	372,418,721	46,115,064	-	-	-	418,533,785
SMEs	119,329,403	19,879,320	-	-	-	139,208,723
Government & public sector	87,000,117	52,357,417	-	-	-	139,357,534
Financial derivatives instruments	-	-	-	-	-	-
Bonds & Treasury Bills.	127,596,012	41,484,847	-	3,556,821	-	172,637,680
Financial assets at amortized cost	11,971,962	5,380,498	-	3,727	-	17,356,187
Other assets						
Total for the Year 2016	1,720,852,453	357,808,969	14,339,649	3,625,398	5,027,919	2,101,730,348
Total for the Year 2015	1,660,110,878	307,246,881	20,642,223	523,998	12,007,312	2,000,531,292

*Except for Middle East Countries

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

Economic Sector											
Items	Financial	Industrial	Trading	Real Estate	Construction	Agriculture	Touristic Hotels Restaurants Public Facilities	Stock	Individuals	Government and public sector	Total
Balances with central banks	166,272,023	-	-	-	-	-	-	-	-	-	166,272,023
Balances with banks and financial institutions	494,451,425	-	-	-	-	-	-	-	-	-	494,451,425
Deposits with banks and financial institutions	25,000,000	-	-	-	-	-	-	-	-	-	25,000,000
Credit facilities:	2,507,541	133,600,427	245,998,438	223,078,216	43,548,050	16,737,743	88,038,099	11,202,167	321,944,818	139,357,534	1,226,013,033
Financial assets at fair value	-	-	-	-	-	-	-	-	-	-	-
Financial derivatives	-	-	-	-	-	-	-	-	-	-	-
Bonds & Treasury Bills	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortized cost	44,443,668	-	15,598,000	-	-	-	-	-	-	112,596,012	172,637,680
Other assets	17,171,069	45,342	24,196	1,576	-	-	-	102,520	11,484	-	17,356,187
Total for the Year 2016	749,845,726	133,645,769	261,620,634	223,079,792	43,548,050	16,737,743	88,038,099	11,304,687	321,956,302	251,953,546	2,101,730,348
Total for the Year 2015	647,881,363	184,331,261	269,221,200	139,349,716	43,291,495	15,963,955	66,303,190	9,176,609	273,469,189	351,543,314	2,000,531,292

40/b Market Risks:

Descriptive Disclosure:

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

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

Market risks arise from:

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

Interest Rate Risks

Interest rate risks arise from the probable impact of changes in interest rates on the value of other financial assets. The Bank is exposed to the risk of interest rates due to a mismatch or a gap in the amounts of assets and liabilities, according to the various time limits or review of interest rates in a certain period. Moreover, the Bank manages these risks through reviewing the interest rates on assets and liabilities based on the risk management strategy undertaken by the Asset and Liability Management Committee. The Bank follows a policy of hedging all financial assets and financial liabilities whenever the need arises. Hedging is against anticipated future risks.

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

Foreign Currency Risks

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

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

- Exceeding limits is not allowed, and any currency excess is settled immediately.
- Any dealer should close the position immediately when the loss reaches the allowed maximum limit.

- The Treasury and Investment Department analyses and controls open positions daily. It closes the positions in case of excesses of ceiling, loss limits or heightened risks due to market fluctuations.

The following is the net of major foreign currencies positions at the Bank:

<u>Currency Type</u>	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>JD</u>	<u>JD</u>
US Dollar	(31,027,943)	(20,004,009)
Sterling Pound	262,188	1,071,016
Euro	(1,689,464)	(3,590,984)
Japanese Yen	8,139	188,325
Other currencies	(21,566,026)	(21,491,911)
	<u>(54,013,106)</u>	<u>(43,827,563)</u>

Share Price Risks

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

Market Risk Management

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

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

Quantitative Disclosures:

1. Interest rate risks

December 31, 2016

Currency	Increase in Currency Exchange Rate (%)	Sensitivity of Interest Revenue Analysis (Profits and Losses)	Sensitivity of Equity
		JD	JD
US Dollar	2%	(620,559)	-
Sterling Pound	2%	5,244	-
Euro	2%	(33,789)	-
Japanese Yen	2%	163	-
Other Currencies	2%	(431,321)	-

Currency	Decrease in Interest Rate (%)	Sensitivity of Interest Revenue Analysis (Profits and Losses)	Sensitivity of Equity Analysis
		JD	JD
US Dollar	2%	620,559	-
Sterling Pound	2%	(5,244)	-
Euro	2%	33,789	-
Japanese Yen	2%	(163)	-
Other Currencies	2%	431,321	-

December 31, 2015

Currency	Increase in Interest Rate (%)	Sensitivity of Interest Revenue Analysis (Profits and Losses)	Sensitivity of Equity Analysis
		JD	JD
US Dollar	2%	(400,080)	-
Sterling Pound	2%	21,420	-
Euro	2%	(71,820)	-
Japanese Yen	2%	3,767	-
Other Currencies	2%	(429,838)	-

Currency	Decrease in Interest Rate (%)	Sensitivity of Interest Revenue Analysis (Profits and Losses)	Sensitivity of Equity Analysis
		JD	JD
US Dollar	2%	400,080	-
Sterling Pound	2%	(21,420)	-
Euro	2%	71,820	-
Japanese Yen	2%	(3,767)	-
Other Currencies	2%	429,838	-

2. Foreign Currencies Risks

December 31, 2016			
Currency	Increase in Currency Exchange Rate (%)	Effect on Gain or Loss	Effect on Equity
		JD	JD
US Dollar	5%	(1,551,397)	-
Sterling Pound	5%	13,109	-
Euro	5%	(84,473)	-
Japanese Yen	5%	407	-
Other Currencies	5%	(1,078,301)	-

December 31, 2015			
Currency	Increase in Currency Exchange Rate (%)	Effect on Gain or Loss	Effect on Equity
		JD	JD
US Dollar	5%	(1,000,200)	-
Sterling Pound	5%	53,551	-
Euro	5%	(179,549)	-
Japanese Yen	5%	9,416	-
Other Currencies	5%	(1,074,596)	-

3. Fluctuation in Share Price Risks

December 31, 2016			
Indicator	Increase in Index	Effect on Gain or Loss	Effect on Equity
		JD	JD
Amman Stock Exchange	5%	6,130	3,951,083
Palestine Stock Exchange	5%	-	88,947
New York Stock Exchange	5%	-	123,684

December 31, 2015			
Indicator	Increase in Index	Effect on Gain or Loss	Effect on Equity
		JD	JD
Amman Stock Exchange	5%	8,665	2,360,474
Palestine Stock Exchange	5%	-	320,399
New York Stock Exchange	5%	42,688	-

Interest Re-pricing Gap

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

Items	Currency	Less than 1 month	From 1 to 3 Months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More Than 3 years	Items without interests	Total
		JD	JD	JD	JD	JD	JD	JD	JD
2016									
Assets									
Cash and balances with Central Banks		42,648,313	-	-	-	-	8,224,400	177,325,101	228,197,814
Balances with banks and financial institutions		456,849,757	3,004,438	-	-	-	-	34,597,230	494,451,425
Deposits with banks and financial institutions		-	-	10,000,000	15,000,000	-	-	-	25,000,000
Financial assets at fair value through profit and loss		-	-	-	-	-	-	205,719	205,719
Financial assets at fair value through OCI		-	-	-	-	-	-	92,128,338	92,128,338
Direct credit facilities - Net		72,184,183	133,747,520	176,877,510	252,103,189	240,291,427	350,809,204	-	1,226,013,033
Financial assets at amortized cost		5,173,074	4,193,787	1,422,450	14,424,134	71,633,705	75,790,530	-	172,637,680
Investments in associates		-	-	-	-	-	-	1	1
Property, plant and equipment		-	-	-	-	-	-	29,774,830	29,774,830
Intangible assets		-	-	-	-	-	-	3,559,146	3,559,146
Deferred assets		-	-	-	-	-	-	11,926,470	11,926,470
Other assets		-	-	-	-	-	-	54,944,608	54,944,608
TOTAL ASSETS		576,855,327	140,945,745	188,299,960	281,527,323	311,925,132	434,824,134	404,461,443	2,338,839,064
LIABILITIES									
Banks and financial institutions' deposits		97,638,360	2,056,500	-	-	-	-	45,928,598	145,623,458
Customers' deposits		170,391,648	77,245,315	74,923,260	59,069,880	151,844,475	172,254,777	901,249,775	1,606,979,130
Cash margins		12,796,511	14,956,606	26,404,081	4,406,742	6,690,552	10,180,950	53,856,660	129,292,102
Financial instruments derivative		17,419	-	-	-	-	-	236	17,655
Sundry provisions		-	-	-	-	-	-	5,015,992	5,015,992
Income tax provision		-	-	-	-	-	-	16,872,706	16,872,706
Borrowed money		9,539	19,078	28,617	57,234	-	81,475	-	424,879
Other liabilities		-	-	-	-	-	-	22,176,908	22,176,908
TOTAL LIABILITIES		280,853,477	94,277,499	101,355,958	63,533,856	158,763,963	182,517,202	1,045,100,875	1,926,402,830
Interest Re-pricing Gap		296,001,850	46,668,246	86,944,002	217,993,467	153,161,169	252,306,932	(640,639,432)	412,436,234
For 2015									
Total Assets		358,006,628	240,805,707	165,512,440	439,655,312	293,659,957	305,549,877	403,031,952	2,206,221,873
Total Liabilities		236,357,780	88,613,053	77,738,277	105,973,222	95,255,000	260,287,356	975,052,231	1,839,276,919
Interest Re-pricing Gap		121,648,848	152,192,654	87,774,163	333,682,090	198,404,957	45,262,521	(572,020,279)	366,944,954

CONCENTRATION OF FOREIGN CURRENCY RISK

Items	December 31, 2016				
	US Dollar	Sterling Pound	Euro	Japanese Yen	Other
	JD	JD	JD	JD	JD
ASSETS					
Cash and balances with Central Banks	65,573,089	273,361	1,762,236	486	32,227,973
Balances with banks and financial institutions	130,085,333	8,063,159	16,381,099	61,796	38,712,360
Financial derivatives instruments	-	-	-	-	-
Direct credit facilities - Net	180,304,595	-	1,982,001	-	93,129,198
Financial assets (at amortized cost and at fair value and investments in associates)	55,519,885	-	-	-	-
Other assets	2,266,501	4,949	52,999	40	7,149,966
TOTAL ASSETS	433,749,403	8,341,469	20,178,335	62,322	171,219,497
LIABILITIES					
Banks and financial institutions' deposits	44,353,967	4,235	151,569	-	6,767,265
Customers' deposits	349,128,086	8,029,644	19,739,139	23,354	155,218,403
Cash margins	26,727,721	33,379	1,937,084	30,829	6,936,824
Other liabilities	44,567,572	12,023	40,007	-	23,863,031
TOTAL LIABILITIES	464,777,346	8,079,281	21,867,799	54,183	192,785,523
Net position inside financial position 2016	(31,027,943)	262,188	(1,689,464)	8,139	(21,566,026)
Commitments and contingent liabilities off the Statement of Financial Position during the year 2016	180,437,285	41,661	11,916,436	1,058,568	14,616,326
					208,070,276

Items	December 31, 2015				
	US Dollar	Sterling Pound	Euro	Japanese Yen	Other
	JD	JD	JD	JD	JD
TOTAL ASSETS	414,743,911	8,995,322	39,467,367	282,612	170,635,083
TOTAL LIABILITIES	434,747,920	7,924,306	43,058,351	94,287	192,126,994
Net concentrations inside financial position for 2015	(20,004,009)	1,071,016	(3,590,984)	188,325	(21,491,911)
Commitments and contingent liabilities off the Statement of Financial Position during the Year 2015	89,699,325	12,991	3,173,882	1,852,830	13,840,145
					108,579,173

Liquidity Risk

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

December 31, 2016	For 1 Month JD	From 1 to 3 Months JD	From 3 to 6 Months JD	From 6 months to 1 year JD	From 1 to 3 years JD	More than 3 years JD	Without Maturity JD	Totals JD
Assets								
Deposits with banks and financial institutions	143,566,958	2,056,500	-	-	-	-	-	145,623,458
Customers' deposits	384,930,854	134,873,985	97,349,853	201,534,523	374,255,660	358,428,636	55,605,619	1,606,979,130
Cash margin	14,229,867	15,077,104	34,404,081	28,906,742	16,418,373	20,253,129	2,806	129,292,102
Sundry provision	203,043	-	-	-	-	-	4,812,949	5,015,992
Income tax provision	4,218,177	-	12,654,529	-	-	-	-	16,872,706
Borrowed money	9,539	19,078	28,617	57,234	228,936	81,475	-	424,879
Financial instruments derivative	17,655	-	-	-	-	-	-	17,655
Other liabilities	4,618,495	2,996,155	3,631,822	9,118,604	12,611	-	1,799,221	22,176,908
Total liabilities	551,794,588	155,022,822	148,068,902	239,617,103	390,915,580	378,763,240	62,220,595	1,976,402,830
Total Assets (According to expected maturity)	720,352,190	143,308,631	199,295,250	290,211,833	315,527,918	457,805,871	212,337,371	2,338,839,064
December 31, 2015	For 1 month JD	From 1 to 3 Months JD	From 3 to 6 months JD	From 6 months to 1 year JD	From 1 to 3 years JD	More than 3 years JD	Without Maturity JD	Totals JD
Assets								
Deposits with banks and financial institutions	116,849,830	3,580,200	3,159,000	-	-	-	-	123,589,030
Customers' deposits	355,863,716	147,853,782	121,397,937	303,272,202	224,783,530	328,910,179	82,805,617	1,564,886,963
Cash margin	15,662,250	7,851,450	7,001,549	14,506,262	6,393,726	9,755,649	50,000,266	111,171,152
Sundry provision	-	-	-	-	-	-	6,226,165	6,226,165
Income tax provision	3,306,417	-	9,891,237	-	-	-	-	13,197,654
Borrowed money	-	-	-	-	-	500,956	-	500,956
Other liabilities	6,504,502	5,180,662	5,915,453	90,633	156,909	-	1,856,840	19,704,999
Total liabilities	498,186,715	164,466,094	147,365,176	317,869,097	231,334,165	339,166,784	140,888,888	1,839,276,919
Total Assets (According to expected maturity)	535,409,693	237,369,494	165,512,440	439,655,312	293,659,958	298,105,377	236,509,600	2,206,221,874

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

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

	December 31, 2016		December 31, 2015	
	For 3 months	Total	For 3 months	Total
	JD	JD	JD	JD
Derivative for trading				
Currency Derivative				
Outflow	(3,332,249)	(3,332,249)	(2,128,944)	(2,128,944)
Inflow	3,314,594	3,314,594	2,995,051	2,995,051
Total	(17,655)	(17,655)	866,107	866,107

Off-consolidated statement of financial position items:

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

	December 31, 2015			
	Up to 1 Year	1 to 5 Years	Over 5 Years	Total
	JD	JD	JD	JD
Letters of credit and acceptances	75,965,320	-	-	75,965,320
Un-utilized facilities	136,379,535	-	-	136,379,535
Letters of guarantee	104,648,914	-	-	104,648,914
Operational leases contracts and capital commitments	2,123,913	-	-	2,123,913
Total	319,117,682	-	-	319,117,682

1. The Bank's business segments are:

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

Total63

2. Information about Geographical Distribution:

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

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

	Inside the Kingdom		Outside the Kingdom		Total	
	2016	2015	2016	2015	2016	2015
	JD	JD	JD	JD	JD	JD
Total Revenues	126,978,242	131,376,085	17,895,403	14,934,679	144,873,645	146,310,764
Total Assets	1,877,695,284	1,809,983,454	461,179,780	396,238,419	2,338,839,064	2,206,221,873
Capital Expenditures	8,648,725	3,638,732	246,908	996,048	8,895,633	4,634,780

42. Analysis of Assets and Liabilities Maturities

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

	December 31, 2016		
	Up to 1 Year	Over 1 Year	Total
	JD	JD	JD
Assets			
Cash and balances with Central Banks	150,387,106	77,810,708	228,197,814
Balances with banks and financial Institutions	494,451,425	-	494,451,425
Deposits with banks and financial Institutions	25,000,000	-	25,000,000
Financial assets at fair value through profit or loss	-	205,719	205,719
Financial assets at fair value through comprehensive income	-	92,128,338	92,128,338
Financial derivatives instruments	-	-	-
Direct Credit facilities – Net	636,560,424	589,452,609	1,226,013,033
Financial assets at amortized cost	25,213,445	147,424,235	172,637,680
Investments in associates	-	1	1
Property and equipment – Net	-	29,774,830	29,774,830
Intangible assets	-	3,559,146	3,559,146
Deferred tax assets	-	11,926,470	11,926,470
Other Assets	21,555,504	33,389,104	54,944,608
TOTAL ASSETS	1,353,167,904	985,671,160	2,338,839,064
LIABILITIES			
Banks and financial institutions' deposits	145,623,458	-	145,623,458
Customers' deposits	818,689,215	788,289,915	1,606,979,130
Cash margins	92,617,794	36,674,308	129,292,102
Financial instruments derivative	17,655	-	17,655
Sundry provisions	203,043	4,812,949	5,016,992
Income tax provision	16,842,706	-	16,842,706
Borrowing money	114,468	310,411	424,879
Other liabilities	20,365,076	1,811,832	22,176,908
TOTAL LIABILITIES	1,094,473,415	831,899,415	1,926,372,830
Net	258,694,489	153,771,745	412,466,234

Their recoverability or settlement:

	December 31, 2015		
	Up to 1 Year	Over 1 Year	Total
	JD	JD	JD
Assets			
Cash and balances with Central Banks	161,731,165	72,769,342	234,500,507
Balances with banks and financial institutions	279,143,546	2,175,212	281,318,758
Deposits with banks and financial institutions	155,000,000	-	155,000,000
Financial assets at fair value through profit or loss	-	1,095,828	1,095,828
Financial assets at fair value through comprehensive income	-	62,655,399	62,655,399
Financial derivatives instruments	866,107	-	866,107
Direct Credit facilities – Net	653,692,992	488,544,254	1,142,237,246
Financial assets at amortized cost	121,617,938	106,037,769	227,655,707
Investments in associates	-	1	1
Property and equipment – Net	-	25,795,455	25,795,455
Intangible assets	-	3,320,303	3,320,303
Deferred tax assets	-	12,217,573	12,217,573
Other Assets	5,895,191	53,663,798	59,558,989
TOTAL ASSETS	1,377,946,939	828,274,934	2,206,221,873
LIABILITIES			
Banks and financial institutions' deposits	123,589,030	-	123,589,030
Customers' deposits	928,387,637	636,499,326	1,564,886,963
Cash margins	45,021,511	66,149,641	111,171,152
Sundry provisions	-	6,226,165	6,226,165
Income tax provision	13,197,654	-	13,197,654
Borrowing money	-	500,956	500,956
Other liabilities	17,691,250	2,013,749	19,704,999
TOTAL LIABILITIES	1,127,887,082	711,389,837	1,839,276,919
Net	250,059,857	116,885,097	366,944,954

43. Capital Management

Capital Components:

- **Paid-up Capital:**
The paid-up capital of Bank of Jordan consists of (200/1) million ordinary shares at a nominal value of JD 1 per share. The Bank maintains capital, statutory reserves, and retained earnings to meet the growth in its operations and the requirements of branching locally and regionally.
- **Regulatory Capital:**
Regulatory capital is considered a control tool according to the requirements of regulatory authorities and Basel (II) for the purposes of achieving control over the adequacy of capital and the ratio of regulatory capital to risky and weighted assets and market risk. Regulatory capital consists of:
 - Paid-up capital, legal reserve, voluntary reserve, and retained earnings.
 - Undisclosed reserves, general banking risks reserve, special reserve subordinated debts, and the positive fair value reserve at 100% and deduct regulatory adjustments according Basel III.
 - Foreign currency translation differences.
- **Regulatory Authorities' Requirements:**
The regulatory authorities' instructions entail that the minimum capital shall be JD 100 million. Moreover, banks have been requested to increase their capital adequacy ratio to no less than 12% according to the Central Bank of Jordan instructions. The ratio of owners' equity to total assets must not be less than 6%.

- **Achieving the Objectives of Capital Management:**

The Bank's management aims at achieving the capital management objectives through developing (enhancing) the Bank's activities, achieving a surplus in operating profits and revenues, and optimally investing available funds. All of this is geared towards reaching the targeted growth in owners' equity through the increase in the compulsory reserve at 10% of the profits earned, voluntary reserve at 20%, and retained earnings.

During the year 2016, the Bank calculated the organizational capital and capital adequacy according to Basel III in accordance to the instructions issued by Central Bank of Jordan dated October 31, 2016 and cancelling the instructions related to Basel II, the organizational capital as per Base III follows:

	In Thousands of JD
	2016
	JD
<u>Regulatory capital for ordinary shares holders (CET 1):</u>	
Subscribed and paid-up capital	200,000
Statutory reserve	73,917
Voluntary reserve	113
Other reserves	3,331
Fair value reserve	63,566
Retained earnings	27,926
Minority interest in the capital of subsidiaries	3,381
<u>Less: Intangible assets</u>	(3,559)
Foreign currency translation	(12,402)
Deferred tax assets	(11,926)
Total Primary Capital	344,347
<u>Additional Capital Items</u>	
General banking risk reserve	12,996
Total additional capital	12,996
Total regulatory capital	357,343
Total risk weighted assets	1,716,372
Capital adequacy ratio (%)	20.82%
Regulatory capital for ordinary shareholders (CET 1)	20.06%
Capital adequacy for first layer (%)	20.06%

The organizational capital and capital adequacy according to standardized methodology for the year 2015 as following:

	2015
	JD
<u>Primary Capital Items</u>	
Subscribed and paid-up capital	155,100
Statutory reserve	67,717
Voluntary reserve	13,710
Other reserves	2,922
Retained earnings	42,146
Minority interest in the capital of subsidiaries	777
<u>Less: Intangible assets</u>	(3,320)
50% in the investments in banks and insurance companies	(2,232)
Total Primary Capital	276,820
<u>Additional Capital Items</u>	
Foreign currency translation	(11,482)
Financial assets assessment reserve	14,934
General banking risk reserve	12,646
<u>Less: 50% in the investments in banks and insurance companies</u>	(2,232)
Total additional capital	13,866
Total regulatory capital	290,686
Total risk weighted assets	1,596,094
Capital adequacy ratio (%)	18.21%
Regulatory capital adequacy ratio (%)	17.34%

45. Commitments and Contingent Liabilities**a. Contingent Liabilities:**

	<u>2016</u>	<u>2015</u>
	<u>JD</u>	<u>JD</u>
Letters of credit	80,542,151	45,308,135
Acceptances	74,535,617	30,657,185
Letters of guarantee:		
Payment	31,659,395	28,963,635
Performance	49,829,921	43,153,376
Other	36,076,304	32,531,903
Direct un-utilized credit facilities	86,932,724	136,379,535
Total	<u>359,576,112</u>	<u>316,993,769</u>

b. Contractual Liabilities:

	<u>2016</u>	<u>2015</u>
	<u>JD</u>	<u>JD</u>
Contracts for purchasing property and equipment*	1,701,430	2,123,913
Contracts for operating and capital lease**	12,852,163	-
Total	<u>14,553,593</u>	<u>2,123,913</u>

* These commitments mature in less than a year.

** These commitments mature between a year to 10 years

46. Lawsuits against the Bank

The Bank is a defendant in lawsuits demanding cancellation of the Bank's claims against others, lifting of real estate mortgages, compensation for damages, and non-cashing of cheques. These lawsuits amounted to JD 17,585,485 as of December 31, 2016 (JD 49,926,727 as of December 31, 2015). In the opinion of the management and legal counsel, no material financial liability is likely to be incurred as a result of these lawsuits in excess of provision recorded which amounted to JD 626,715 as of December 31, 2016 (JD 600,801 as of December 31, 2015). However, amounts that will probably be paid by the Bank as a result of dismissal or amicable settlement of these lawsuits will be taken to the consolidated Statement of Income or against the recorded provision when paid.

47. Adoption of New and Revised International Financial Reporting Standards (IFRSs)**4. a. New and revised IFRSs applied with no material effect on the financial statements:**

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 Regulatory Deferral Accounts.
- Amendments to IAS 1 Presentation of Financial Statements relating to Disclosure initiative.
- Amendments to IFRS 11 Joint arrangements relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relating to clarification of acceptable methods of depreciation and amortisation.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants.
- Amendments to IAS 27 Separate Financial Statements relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities.
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

4. b. New and revised IFRSs in issue but not yet effective and not early adopted

The Bank has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017
Amendments to IAS 12 <i>Income Taxes</i> relating to the recognition of deferred tax assets for unrealized losses	January 1, 2017
Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	January 1, 2017
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none"> • There is consideration that is denominated or priced in a foreign currency; • The entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • The prepayment asset or deferred income liability is non-monetary. 	January 1, 2018
Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions.	January 1, 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018
Amendments to IAS 40 <i>Investment Property</i> : Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	January 1, 2018

Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 <i>Financial Instruments: Disclosures</i> relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 16 <i>Leases</i> IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014). IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . The standard contains requirements in the following areas:	January 1, 2018
<ul style="list-style-type: none"> • Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. 	

- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Amendments to IFRS 15 *Revenue from Contracts with customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

January 1, 2018

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

January 1, 2018

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Bank's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Bank in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Bank's consolidated financial statements for the annual period beginning January 1, 2018 and that IFRS 16 will be adopted in the Bank's financial statements for the annual period beginning January 1, 2019.

The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Bank's consolidated financial statements in respect of revenue from contracts with customers and the Bank's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Bank's consolidated financial statements in respect of its leases.