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بنك

To: Jordan Securities Commission
Amman Stock Exchange

السادة: هيئة الاوراق المالية
السادة: بورصة عمان

Date : 18/4/2018
REF : 3591

التاريخ : ٢٠١٨/٤/١٨
الرقم : ٣٥٩١

Subject: Annual Report for the fiscal year ended 31/12/2017

الموضوع : التقرير السنوي للسنة المنتهية في ٢٠١٧/١٢/٣١

Kindly find attached the Annual Report of Capital Bank of Jordan for the fiscal year ended 31/12/2017, noting that financial statements were approved by the Central Bank of Jordan.

مرفق طيه نسخة من التقرير السنوي لبنك المال الاردني عن السنة المالية المنتهية في ٢٠١٧/١٢/٣١، علماً بان البيانات المالية الواردة في التقرير السنوي موافق عليها من قبل البنك المركزي الاردني.

Sincerely,

وتفضلوا بقبول فائق الاحترام،،،

Capital Bank of Jordan

Chief Executive Officer
Ala Qumsieh

بنك المال الاردني

الرئيس التنفيذي
علاء قمصية

بورصة عمان
الدائــــرة الإدارية والمالية
الديــــوان
١٩ نيسان ٢٠١٨
الرقم المتسلسل: ٤١٧٥
رقم الملف: ١١١٧
الجهة المختصة:

Capital Bank Of Jordan

Consolidated Financial Statements

31 December 2017

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Capital Bank of Jordan
Public Shareholding Company
Amman - Jordan

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Capital Bank of Jordan (a public shareholding Company) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies

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

Basis for Opinion

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

Other Matter

The consolidated financial statements for the year ended 31 December 2016 were audited by Ernst & Young – Jordan as the sole auditor of the Bank for the fiscal year 2016. Unqualified opinion was issued on the consolidated financial statements on 28 February 2017. Ernst & Young – Jordan and PricewaterhouseCoopers "Jordan" were appointed as joint auditors of the Bank for the fiscal year 2017 in accordance with Central Bank of Jordan regulations for corporate governance.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter provided in that context .

1. Provision for impairment losses of direct credit facilities	
Key audit matter:	**How the key audit matter was addressed in the audit:**
Impairment of loans and advances to customers is one of the most significant matters that impact the reported results of the Bank, in addition of being an area that requires a considerable amount of judgment for determining the impairment event and the measurement of impairment loss. Judgment is applied to the inputs of the measurement process of impairment including valuation of collateral, inputs and calculation of specific and collective impairment and determining the default date, and as a result, impairment is calculated including interest in suspense as at 31 December 2017. As at 31 December 2017, the gross loans and advances amounted to JD 997,293,481 against accumulated loan loss provision of JD 61,606,026 were recorded.	Our audit procedures included obtaining the non-performing and watch list loans schedules, samples were selected to test impairment which included collateral valuation and assessing the provision required based on the date of default. We also selected a sample from the performing loans to determine whether management had identified all impairment events In addition, we have assessed the basis applied by management for identifying impairment and impairment provision at portfolio level as at 31 December 2017. The provision for impairment losses of direct credit facilities is disclosed in note (8) on the consolidated financial statements.

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2. **Investment risks in Iraq**	
Key audit matter:	**How the key audit matter was addressed in the audit:**
The Bank's Subsidiary, National Bank of Iraq (NBI), faces operational risks imposed by the political and economic situation in Iraq, particularly the regulations related to the banking sector in Iraq that may impact NBI's operational results. The bank's inability to utilize the deposited balances at the Central Bank of Iraq (CBI) in Erbil and Sulaymaniyah, which amounted to JD 93,948,749 as at 31 December 2017 compared to JD 119,000,861 as at 31 December 2016, is considered as the most prominent risk.	Our audit procedures included reviewing correspondences with CBI in relation to NBI's operation, and correspondences with CBI branches at Erbil and Sulaymaniyah in relation to balances at these branches. We have reviewed management's assumptions to estimate the recoverable amount of deposited balances as at 31 December 2017. Additionally, we have assessed and reviewed the methodology and the appropriateness of key assumptions applied by management, including the discount rate and timing of estimated future cash flows. Also we have reviewed management's sensitivity analysis to assess the impact of reasonable possible changes in key assumptions. Accordingly a provision of JD 12,963,155 is recorded against investment risks in Iraq and particularly the risk associated with the deposited balances as disclosed in note (4) and note (19) on the consolidated financial statements. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

Other information included in the Group's 2017 annual report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Report on Other Legal and Regulatory Requirements

The Group maintains proper books of accounts, which are in agreement with the consolidated financial statements and we recommend to approve it.

Ernst & Young – Jordan

PricewaterhouseCoopers "Jordan"

Amman – Jordan
4 March 2018

Ernst + Young

Certified Public Accountants
pwc
Amman - Jordan

Capital Bank Of Jordan
Consolidated Statement of Financial Position
As of 31 December 2017

	Notes	2017	2016
		JD	JD
Assets			
Cash and balances at central banks	4	282,738,524	260,950,882
Balances at banks and financial institutions	5	194,421,910	166,478,834
Financial assets at fair value through income statement	6	3,261,060	4,071,180
Financial assets at fair value through other comprehensive income	7	9,135,100	9,498,110
Direct credit facilities - net	8	920,962,363	970,472,231
Financial assets at amortized cost - net	9	467,884,699	450,742,440
Property and equipment - net	10	30,268,752	29,938,896
Intangible assets - net	11	5,795,651	5,537,532
Deferred tax assets	20	10,286,431	10,698,156
Other assets	12	75,619,014	98,935,781
Total Assets		**2,000,373,504**	**2,007,324,042**
Liabilities And Equity			
Liabilities			
Banks and financial institutions' deposits	13	107,872,683	142,757,612
Customer deposits	14	1,217,020,225	1,224,710,400
Margin accounts	15	144,662,384	145,005,158
Loans and borrowings	16	118,914,171	77,885,428
Subordinated loans	17	17,725,000	17,725,000
Secondary loan	18	-	4,521,452
Sundry provisions	19	16,817,883	25,363,744
Income tax provision	20	2,446,732	11,020,115
Deferred tax liabilities	20	679,685	424,086
Other liabilities	21	24,840,278	23,803,793
Total Liabilities		**1,650,979,041**	**1,673,216,788**
Equity			
Equity attributable to the Bank's shareholders			
Issued and paid in capital	22	200,000,000	200,000,000
Additional paid in capital		709,472	709,472
Statutory reserve	24	34,689,204	32,257,341
General banking risk reserve	24	8,840,593	9,811,521
Foreign currency translation adjustments	25	(4,082,668)	(3,868,943)
Fair value reserve	26	416,990	(566,421)
Retained earnings	28	50,994,187	39,562,631
Total equity attributable to the Bank's shareholders		**291,567,778**	**277,905,601**
Non-controlling interest		**57,826,685**	**56,201,653**
Total Equity		**349,394,463**	**334,107,254**
Total Liabilities and Equity		**2,000,373,504**	**2,007,324,042**

The accompanying notes from 1 to 52 are an integrated part of these consolidated nancial statements.

Capital Bank Of Jordan
Consolidated Statement Of Income
For the Year Ended 31 December 2017

	Notes	2017	2016
		JD	JD
Interest income	29	95,379,292	95,835,693
Interest expense	30	44,636,315	38,425,704
Net interest income		**50,742,977**	**57,409,989**
Net commission income	31	31,616,575	24,417,810
Net interest and commission income		**82,359,552**	**81,827,799**
Gain from foreign currencies	32	3,293,234	8,522,587
(loss) Gain from financial assets at fair value through income statement	33	(209,629)	27,243
Dividends income from financial assets at fair value through other comprehensive income	7	356,510	344,265
Gain from financial assets at amortized cost	9	545,015	-
Other income	34	6,299,605	3,461,145
Gross Income		**92,644,287**	**94,183,039**
Employees' expenses	35	23,422,412	20,985,521
Depreciation and amortization	10,11	4,590,769	4,449,788
Other expenses	36	17,551,848	16,297,481
Loss on sale of seized property		207,696	207,705
Impairment losses on direct credit facilities	8	24,124,636	8,670,583
(Reversed from) Impairment losses and Other Sundry provisions	37	(8,635,567)	16,481,563
Total expenses		**61,261,794**	**67,092,641**
Profit before tax		31,382,493	27,090,398
Income tax expense	20	4,070,847	10,954,422
Profit for the year		**27,311,646**	**16,135,976**
Attributable to:			
Bank's shareholders		24,356,884	12,442,588
Non - controlling interest		2,954,762	3,693,388
		27,311,646	**16,135,976**
		JD/Fils	JD/Fils
Basic and diluted earnings per share	38	0.122	0.062

Capital Bank Of Jordan

Consolidated Statement Of Comprehensive Income

For the Year Ended 31 December 2017

	2017	2016
	JD	JD
Profit for the year	**27,311,646**	**16,135,976**
Add: Other comprehensive income items to be reclassified to profit or loss in subsequent periods:		
Foreign currency translation adjustments	(438,091)	(6,632,611)
Add: Other comprehensive income items not to be reclassified to profit or loss in subsequent periods:		
Change in financial assets at fair value through other comprehensive income	(468,727)	253,476
Total other comprehensive income for the year, net of tax	**(906,818)**	**(6,379,135)**
Total comprehensive income for the year	**26,404,828**	**9,756,841**
Attributable to:		
Bank's shareholders	23,662,177	8,437,469
Non-controlling interest	2,742,651	1,319,372
	26,404,828	**9,756,841**

The accompanying notes from 1 to 52 are an integrated part of these consolidated nancial statements.

Capital Bank Of Jordan

Consolidated Statement of Changes in Owners Equity

For the Year Ended 31 December 2017

			Reserves								
	Issued and Paid in Capital	Additional paid in capital	Statutory	Voluntary	General banking risk	Foreign currency translation adjustments	Fair value reserve	Retained earnings*	Equity attributable to the Bank's shareholders	Non-controlling interest	Total equity
31 December 2017	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Beginning Balance	200,000,000	709,472	32,257,341	-	9,811,521	(3,868,943)	(566,421)	39,562,631	277,905,601	56,201,653	334,107,254
Total comprehensive income for the year	-	-	-	-	-	(213,725)	(480,982)	24,356,884	23,662,177	2,742,651	26,404,828
Realized losses from selling financial assets at fair value through other comprehensive income (Note 7)	-	-	-	-	-	-	1,464,393	(1,464,393)	-	-	-
Cash dividends (Note 23)	-	-	-	-	-	-	-	(10,000,000)	(10,000,000)	(1,117,619)	(11,117,619)
Transferred to (From) reserves	-	-	2,431,863	-	(970,928)	-	-	(1,460,935)	-	-	-
Balance at 31 December 2017	200,000,000	709,472	34,689,204	-	8,840,593	(4,082,668)	416,990	50,994,187	291,567,778	57,826,685	349,394,463
31 December 2016											
Beginning Balance	200,000,000	709,472	30,116,739	9,690	8,882,456	379,962	(1,407,974)	30,777,787	269,468,132	54,882,281	324,350,413
Total comprehensive income for the year	-	-	-	(9,690)	-	(4,248,905)	253,476	12,442,588	8,437,469	1,319,372	9,756,841
Realized losses from selling financial assets at fair value through other comprehensive income (Note 7)	-	-	-	-	-	-	588,077	(588,077)	-	-	-
Transferred to (From) reserves	-	-	2,140,602	-	929,065	-	-	(3,069,667)	-	-	-
Balance at 31 December 2016	200,000,000	709,472	32,257,341	-	9,811,521	(3,868,943)	(566,421)	39,562,631	277,905,601	56,201,653	334,107,254

* The balance of retained earnings includes a restricted amount of JD10,286,431 as of 31 December 2017 against an amount of JD 10,698,156 as of 31 December 2016 which represents the deferred tax assets that cannot be utilized according to Central Bank of Jordan Regulations.

* The balance of retained earnings includes unrealized gain of JD 1,088,445 as of 31 December 2017 against an amount of JD 1,125,859 as of 31 December 2016 which represents the effect of early adoption of International Financial Reporting Standard (9) and this amount is restricted from use except for the amounts that become realized as per Securities and Exchange Commission.

- An amount equals to the negative balance of fair value reserve is a restricted reserve that cannot be utilized.

- Gains from revaluation of assets at fair value through income statement amounted to JD 168,096 as of 31 December 2017 against an amount of JD 460,031 as of 31 December 2016 which is restricted from utilization, according to the Jordan Securities commission.

- The general banking risks reserve is a restricted reserve that cannot be utilized without prior approval of the Central Bank of Jordan.

Capital Bank Of Jordan

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2017

	Note	2017	2016
Operating Activities		JD	JD
Profit before income tax		31,382,493	27,090,398
Adjustments for Non-Cash Items			
Depreciation and amortization		4,590,769	4,449,788
Impairment loss on direct credit facilities		24,124,636	8,670,583
loss from revaluation of financial assets at fair value through Income statement		282,071	137,043
Provision for lawsuits raised against the bank		(18,893)	-
Impairment losses and other sundry provisions		(8,616,674)	16,481,563
Net accrued interest		3,447,119	(2,959,375)
Effect of exchange rate changes on cash and cash equivalents		(2,208,271)	(2,647,437)
Cash flows from operating activities before changes in assets and liabilities		**52,983,250**	**51,222,563**
Changes in assets and liabilities -			
Restricted balances		(10,687)	(3,098)
Balances at central banks		25,318,263	14,517,249
Deposits at banks and financial institutions		-	15,158,414
Financial assets at fair value through income statement		528,049	(833,984)
Direct credit facilities		25,132,426	(73,102,831)
Other assets		20,765,925	(799,917)
Banks and financial institutions' deposits maturing in more than three months		(2,055,000)	55,000
Customers' deposits		(7,352,276)	(115,980,223)
Margin accounts		(78,635)	30,330,196
Other liabilities		(165,984)	1,726,587
Paid lawsuits provisions		(15,107)	-
Net cash flow from (used in) operating activities before income tax		**115,050,224**	**(77,710,044)**
Income tax paid		(12,268,944)	(10,993,283)
Net cash flow from (used in) operating activities		**102,781,280**	**(88,703,327)**
Investing Activities			
Purchase of financial assets at fair value through other comprehensive income		(2,573,054)	(3,226,029)
Sale of financial assets at fair value through other comprehensive income		2,747,116	401,750
Purchase of financial assets at amortized cost		(130,662,886)	(174,233,774)
Matured financial assets at amortized cost		113,520,627	100,948,353
Purchase of property and equipment		(3,375,562)	(2,676,935)
Sale of property and equipment		24,035	21,939
Purchase of intangible assets		(1,865,458)	(3,413,965)
Net cash flow used in investing activities		**(22,185,182)**	**(82,178,661)**
Financing Activities			
Proceeds from loans and borrowings		83,569,407	46,228,056
Repayment of loans and borrowings		(42,540,664)	(52,656,722)
Repayment of secondary loan		(4,521,452)	(3,151,111)
Cash dividends		(9,680,981)	-
Net cash flow from (used in) financing activities		**26,826,310**	**(9,579,777)**
Net increase (decrease) in cash and cash equivalents		107,422,408	(180,461,765)
Effect of exchange rate changes on National Bank of Iraq		(2,043,713)	2,647,437
Effect of exchange rate changes on cash and cash equivalents		2,223,378	(6,740,749)
Cash and cash equivalent at the beginning of the year		166,607,551	351,162,628
Cash and cash equivalent at the end of the year	40	**274,209,624**	**166,607,551**

The accompanying notes from 1 to 52 are an integrated part of these consolidated nancial statements.

(1) General Information

The Bank is a public shareholding company registered and incorporated in Jordan on 30 August 1995 in accordance with the Companies Law No. 1 of (1989) numbered 291. Its registered o ce is in Amman.

The Bank provides its banking services through its twelve branches located in Amman - Jordan and its subsidiaries Capital Investment and Brokerage Company in Jordan Ltd, National Bank of Iraq in Iraq, Capital Investment Fund Company in Bahrain, and Capital Bank Corporate Advisory (Dubai International Finance Center) Ltd.

The Bank has subsequently increased its capital during prior years from JD 20 million to reach JD 200 million. The increases in capital were effected through capitalizing its distributable reserves, retained earning and private placements to shareholders, in addition to the participation of International Finance Corporation (IFC) which became a strategic partner.

Capital Bank of Jordan shares are listed at Amman Stock Exchange.

The consolidated financial statements were authorized for issue by the Bank's Board of Directors in their meeting No.2/2018 held on 26 February 2018 and it is subject to the approval of the Central Bank of Jordan and shareholders general assembly. Moreover, the Bank's Board of Directors approved the ac on to recommend a 10% cash dividend distribution to the Shareholders, and the decision is subject to the approval of Central Bank of Jordan and the Shareholders' General Assembly.

(2) Significant Accounting Policies

(2-1) Basis of Prepara on of the Consolidated Financial Statements

The accompanying consolidated finanacial statements of the bank and its subsidiaries have been prepared in accordance with international Financial Reporting Standards (IFRS) and its interpretations (IFRICs), and in conformity with the applicable laws and regulations of the Central Bank of Jordan.

The consolidated financial statements are prepared on the historical cost basis except, financial assets at fair value through income statement, financial assets at fair value through other comprehensive income and financial derivatives which are presented at fair value as of the date of the consolidated financial statements. Moreover, financial assets and financial liabilities hedged against the risk of fluctuation in their value are stated at fair value.

The consolidated financial statements have been presented in Jordanian Dinars (JD) which is the functional currency of the Bank.

(2-2) Changes in accoun ng policies:

The accounting policies used in the preparation of the financial statements are consistent with those used in the prepara on of the annual nancial statements for the year ended 31 December 2016 except for the following:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Ini a ve

Limited amendments which require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). However, the adoption of these amendments have no impact on the Bank's consolidated financial statements.

Amendments to IAS 12 Income Taxes: Recogni on of Deferred Tax Assets for Un-recognized Losses

Limited amendments to clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference and some other limited amendments, the adoption of these amendments have no impact on the Bank's consolidated financial statements.

Equity Method in Separate Financial Statements (Amendments to IAS 27 and IFRS 1)

In August 2014, the IASB amended IAS 27 Separate Financial Statements which restore the op on for en es, in the separate financial statements, to account for investments in subsidiaries, associates and joint ventures using the equity method as described in IAS 28 Investments in Associates and Joint Ventures. A consequen al amendment was also made to IFRS 1 First- me Adop on of Interna onal Financial Repor ng Standards. The amendment to IFRS 1 allows a rst- me adopter accoun ng for investments in the separate nancial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

IAS 1 Presentation of Financial Statements – Amendments to IAS 1

The amendments to IAS 1 include narrow-focus improvements related to:

• Materiality.
• Disaggregation and subtotals.
• Notes structure.
• Disclosure of accounting policies.
• Presentation of items of other comprehensive income (OCI) arising from equity accounted investments.

(2-3) Basis of consolida on

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. Control exists when the bank controls the subsidiaries and relevant activities, and is exposed, or has right, to variable returns from its involvement with the subsidiaries, and has the ability to affect those returns.
All intra-company balances, transactions, income and expenses and profits and losses resulting from intra-company transactions that are recognized in assets or liabilities, between the Bank and the following subsidiaries are eliminated in full:

1- Capital Investment and Brokerage Company Ltd Jordan; of which the Bank owns 100% of its paid in capital of JD 10,000,000 as of 31 December 2017.The purpose of the company is to provide brokerage services, the company was established on 16 May 2005.

2- Na onal Bank of Iraq (NBI); of which the Bank owns 61.85% of its paid in capital of IQD 250 billion equivalent to JD 141,913,531 as of 31 December 2017. The Bank provide banking services, Na onal Bank of Iraq was acquired e ec ve 1 January 2005.

3- Capital Investment Fund Company Bahrain; of which the Bank owns 100% of its paid in capital of BHD 1,000 equivalent to JD 1,888 as of 31 December 2017. The purpose of the company is to manage mutual funds and it has not started its operations as of the date of preparing these consolidated financial statements.

4- Capital Bank Corporate Advisory (DIFC) UAE, of which the bank owns 100% of its paid in capital of USD 250,000 (JD 177,250) as of 31 December 2017. The purpose of the company is to o er in nancial consul ng services.The company was registered and incorporated on 23 February 2015.

- The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. If different accounting policies were applied by the subsidiaries, adjustments shall be made to their financial statements in order to comply with those of the Bank.
- The result of operations of the subsidiaries are consolidated in the consolidated statement of income from the acquisition date which is the date on which control over the subsidiaries is gained by the bank. The results of operations of the disposed subsidiaries are consolidated in the consolidated statement of income up to the disposal date which is the date of the bank loses control over the subsidiaries.

- Non-controlling interests represent the portion of equity and profit or loss not owned by the Bank.
- When preparing separate financial statements, investment in subsidiaries is recorded at cost.

Segment Information

- Business segment represents distinguishable components of the Bank that are engaged in providing products or services that are subject to risks and rewards that are different from those of other segments and reported based on the reports that are used by the Bank's chief executive decision maker.

- The geographical segment provides services and products in a certain economic environment that is subject to returns and risks that differ from other segments that operate in other economical environments.

Direct credit facilities

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

- Impairment of direct credit facilities is recognized in the provision for impairment loss when events occur after the initial recognition of the credit facility that have an impact on the estimated future cash flows of the facilities that can be reliably estimated. The impairment is recorded in the consolidated statement of income.

- Interest and commission arising from non-performing facilities is suspended according to the Central Bank of Jordan's regulations.

- Loans and the related allowance for credit losses are written off when collection procedures become ineffective. The excess in the allowance of possible loan losses, if any, is transferred to the consolidated statement of income, and cash recoveries of loans that were previously written off are credited to the consolidated statement of income.

Financial assets at amortized cost

- Financial assets are measured at amortized cost only if these assets are held within a business model whose objective is to hold the asset to collect their contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount.

- Debt instruments meeting these criteria are initially measured at cost plus transaction costs. Subsequently they are amortized using the effective interest rate method, less allowance for impairment. The losses arising from impairment are recognized in the consolidated statement of income.

- The amount of the impairment consists of the difference between the book value and present value of the expected future cash flows discounted at the original effective interest rate.

- It is not permitted to reclassify assets to or from this category except in certain circumstances specified in Interna oal Finanacial Repor ng Standards No.(9)

- If any of these assets are sold before maturity, the gain or loss arising is recognized in the consolidated statement of income.

Financial assets at fair value through Income Statement

- Financial assets which do not meet the business model for financial assets at amortized cost, and are purchased with the aim of resale in the near future in order to generate profit from the short-term market prices fluctuation or the trading profit margins.

- Financial instruments at fair value through Income Statement are initially measured at fair value, unless if the Bank classified the financial investments as not for trading at fair value through other comprehensive income at the purchase date.

- Subsequently, these assets are revalued at fair value. Gains or losses arising on subsequent measurement of these financial assets including the change in fair value arising from non-monetary assets in foreign currencies are recognized in the consolidated statement of income. When these assets or portion of these assets are sold, the gain or loss arising are recorded in the consolidated statement of income .

- Dividend and interest income are recorded in the consolidated statement of income.
- It is not permitted to reclassify assets to or from this category except in certain circumstances specified in Interna onal Financial Repor ng Standards (IFRS 9).

- It is prohibited to classify financial assets that do not hold a market value in active markets, and actively traded instruments under this category. Active trading constitutes the trading of financial assets within three months of the purchase date.

Financial assets at fair value through other comprehensive income

- These assets represent investments in equity instruments that are initially measured at their fair value plus transaction costs. Subsequently, they are measured at fair value. Gains or losses arising on subsequent measurement of these equity investments including the change in fair value arising from non-monetary assets in foreign currencies are recognized in other comprehensive income in the consolidated statement of changes in equity. The gain or loss on disposal of the asset is classified from fair value reserve to retained earnings, and not through consolidated statement of income.

- It is not permitted to reclassify assets to or from this category except in certain circumstances specified in Internatioal Finanacial Reporting Standards.
- These financial assets are not subject to impairment testing.

- Dividend income is recognized in the consolidated statement of income

Fair value

- The Bank values the financial instruments, such as derivatives and non-financial assets, at fair value at the date of the financial statements. The fair value of the financial instruments classified at amortized cost, are also disclosed.

- The fair value represents the price that will be obtained when selling the assets or the amount that will be paid to transfer liability of regulated transaction between participants in the market.

- In the absence of the principal market, the most advantageous market will be used to trade the assets or liabilities.

- The bank needs the opportunities to reach the primary or most suitable markets.

- The fair value of an assets or liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

- A fair value measurement of a non–financial assets takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

- The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

- The Bank uses the following valuation techniques in setting and disclosing the fair value of the financial instruments:
- All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 –Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

- For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

- The appraisal committee, along with the Group's external appraisers, compare the changes and the related external information on the fair value on the assets and liabilities to evaluate the reasonableness of the changes.

- For the purpose of the fair value disclosure, the Group classifies the assets and liabilities according to its nature, risks of the assets and liabilities, and fair value level.
- The valuation of the non–current assets and liabilities, and those that do not incur interest, in accordance with the discounted cash flow, and the effective interest rate, discount/ premium is amortized from the paid and received interest revenue in the consolidated income statement.

Impairment of financial assets

The Bank assesses at the date of each consolidated statement of financial position whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, the recoverable amount is estimated in order to determine the amount of impairment loss.

Impairment is determined as follows:
- For assets carried at amortized cost, impairment is based on the difference between the carrying value and the estimated cash flows discounted at the original effective interest method.

Impairment is recognised in the consolidated statement of income . If in a subsequent period, the amount of the impairment loss decreases, the carrying value of the asset is increased to its recoverable amount. The amount of the reversal is recognised in the consolidated statement of income and it is recognized in the consolidated statement of other comprehensive income for equity instruments.

Property and equipment

- Property and equipment is measured at cost less accumulated depreciation and accumulated impairment in value. Depreciation (except for lands) is calculated using the straight-line method when property and equipment are ready to be used to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation rates used are as follows:

	%
Buildings	2
Equipment and furniture	2.5 - 15
Vehicles	15
Computers	25
Other	10

- When the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the consolidated statement of income.

- Useful life for property and equipment is reviewed each year. If expected useful life is different from the previous one, the difference is adjusted prospectively as a change in accounting estimate.

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

Provisions

Provisions are recognized when the Bank has a present obligation at the date of the consolidated financial position arising from a past event and the costs to settle the obligation are both probable and reliably measured.

Income Tax

Tax expense comprises current tax and deferred taxes.

Current tax is based on taxable profits, which may differ from accounting profits disclosed in the consolidated statement of income. Accounting profits may include non-taxable profits or tax deductible expenses which may be exempted in the current or subsequent financial years.

Taxes are calculated based on tax rates confirmed under the laws, regulations and instructions of the Hashemite Kingdom of Jordan and the countries which subsidiaries are operating in.

The Deferred taxes are taxes expected to be paid or refunded as a result of the temporary differences between assets and liabilities – in the consolidated financial statements and the value of the tax basis profit. Deferred taxes are measured by adhering to the consolidated financial position statement and calculated based on tax rates that are expected to apply in the period when assets are realized or liabilities are settled.

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

Fiduciary assets

Assets held in a fiduciary capacity are not recognized as assets of the Bank. Fees and commissions received for administering such assets are recognized in the consolidated statement of income . A provision is recognized for decreases in the fair value of guaranteed fiduciary assets below their original principal amount.

Offsetting

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

Revenue and expense recognition

Interest income is recognized using the effective interest method except for fees and interest on non performing facilities, on which interest is transferred to the interest in suspense account and not recognized in the statement of income.

Expenses are recognized on an accrual basis.

Commission income is recognized upon the rendering of services. Dividend income is recognized when the right to receive payment is established.

Date of Recognition of Financial Assets

Purchases and sales of financial assets are recognized on the trade date (that being the date at which the sale or purchase is enforceable to the bank).

Financial instruments and hedge accounting

Hedge Financial Instruments

For the purpose of hedge accounting derivatives are presented at fair value, and are classified as follows:

- Fair value hedges

A fair value hedge is a hedge of the exposure to changes in the fair value of the Bank's recognized assets or liabilities that is attributable to a particular risk, for designated and qualifying effective fair value hedges, the change in the fair value of a hedging derivative is recognized in the consolidated statement of income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as adjustment to the carrying value of the hedged item and is also recognized in the consolidated statement of income.

- Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in the Bank's actual and expected cash flows which is attributable to a particular risk associated with a recognized asset or liability.

For designated and qualifying effective cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity, and is subsequently transferred to the consolidated statement of income in the period in which the hedged cash flows affect income, or at such time as the hedge becomes ineffective. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the statement of income.

- Hedge of net investments in foreign operations

Hedges of net investments in a foreign operation are accounted for by measuring the fair value of the hedging instrument. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity, while the ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the consolidated statement of income . On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the consolidated statement of income.

• For hedges which become ineffective, gains or losses resulting from the change in fair value of the hedge instrument is recognized directly in the consolidated statement of income.

Derivative financial instruments held for trading

Derivative financial instruments (such as foreign currency forward and future deals, interest rate forward and future deals, swaps, foreign currency options and others), are initially recorded at cost as other assets/liabilities, and subsequently carried at fair value in the consolidated statement of financial position. Fair value is determined by reference to current market prices. In case such prices were not available, the method of valuation is stated and changes in fair value are recognized in the consolidated statement of income.

Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) will continue to be recognized in the Bank's financial consolidated statements due to the Bank's continuing exposure to the risks and rewards of these assets using the same accounting policies (where the buyer has the right to use these assets (sell or re-lien) they are reclassified as liened financial assets).

The proceeds of the sale are recorded under loans and borrowings. The difference between the sale and the repurchase price is recognized as an interest expense over the agreement term using the effective interest method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the Bank's consolidated financial statements as assets since the Bank is not able to control these assets. The related payments are recognized as part of deposits at banks and financial institutions or direct credit facilities as applicable, and the difference between purchase and resale price is recognized in the consolidated statement of income over the agreement term using the effective interest method.

Financial assets pledged as collateral

The financial assets pledged by the Bank are for the purpose of providing collateral for the counter party to the extent that counter party is permitted (to sell and /or re-pledge the assets). The method of valuation is related to the financial policies for its original classification.

Assets Seized by the Bank

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

Intangible assets

Intangible assets are recognized on the basis of its useful life, whether it is a finite life or it has an infinite life. Intangible assets with finite lives are amortized over the useful economic life, while intangible assets with indefinite useful lives are assessed for impairment at each reporting date and is recognized in the consolidated statement of income.

Internally generated intangible assets are not capitalized and are expensed in the consolidated statement of income. Indications of impairment of intangible assets are reviewed for and their useful economic lives are reassessed at the date of the consolidated financial statements. Adjustments are reflected in the current and subsequent periods.

Intangible assets include trademarks, computer software and programs, Management estimates the useful life for each item. Amor za on is calculated using the straight-line method at 25%.

The following is the accounting policy for each of the bank's intangible assets:

- Trademarks: Amor zed using the straight line method at 25%.
- Computer so ware and programs: Amor zed using the straight line method at 25%.

Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into respective functional currencies at rates of exchange prevailing at the statement of financial position date as issued by Central Bank of Jordan.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any gains or losses are taken to the consolidated statement of income.

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

When consolidating the financial statements, the assets and liabilities of foreign branches and subsidiaries are translated into the functional currency of each entity at the average exchange rates of the Central Bank of Jordan prevailing at the date of the consolidated statement of financial position. Income and expense items are translated at the average rates for the year. Any exchange differences arising on translation are taken directly to a separate component of equity. On disposal of an entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is transferred to the consolidated statement of income.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and cash balances at banks and financial institutions that mature within three months, less banks and financial institutions deposits that mature within three months from acquisition date and restricted balances.

(3) Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in shareholder equity. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Furthermore, actual results may differ resulting in future changes in such provisions.

The Bank's management believe that the consolidated financial statements estimates are reasonable. The details of these estimates are as follows:

- Provision for impairment in direct credit facilities: The Bank reviews its credit facilities according to the regulations of the Central Bank of Jordan as a minimum reference and according to International Financial Reporting Standards as well.
- Impairment losses on repossessed assets are determined based on The appraisal reports prepared by certified appraisers and are reviewed periodically.
- The income tax provision is calculated based on the prevailing laws and regulations and International Financial Reporting Standards. Moreover, deferred tax assets and liabilities and the related provisions are recorded.
- Management periodically re-evaluates the useful lifes of the tangible and intangible assets in order to assess the depreciation and amortization for the year based on the useful life and the general status of these assets. Any related impairmant is charged to the consolidated income statement.
- Legal provisions are taken for lawsuits raised against the Bank based on the Bank legal advisor's opinion.

- Impairment of non-financial assets:

The group assessed any indicators of impairment on non- nancial assets as at 31 December 2016. The group estimates the recoverable amount of those assets if impairment indicators were found, or the annual depreciation testing surfaced an issue. The recoverable amount represents the fair value net of whichever is higher; the selling expenses or used amount. This calculation is executed on each asset separately, unless the asset has a separate fund-generating unit. If the asset's book value is higher than the recoverable amount the asset value is impaired to reflect the recoverable amount. To calculate the used amount, the asset's future cash flows are discounted back to the present value using a pre-tax discount rate. This in turn reflects the market evaluation of the time value of money and risks bared by the asset. Current market conditions are examined, if possible, when calculating the net fair value of these assets, otherwise proper valuation methods are used. Impairment losses are recorded on the consolidated income statement.

Impairment booked on those assets in prior periods are revisited on the date of the consolidated financial statements to examine whether the conditions in which those impairments were calculated have changed or changed in value. The group estimates the recoverable value of the asset. Impairment losses booked in prior periods are reversed only if the assumptions used to calculate the recoverable amount have changed. Impairment reversals are reflected on the consolidated statement of income. Impairment testing of these non-financial assets are based on the following:

* Intangible assets with indefinite life: Impairment testing on intangible assets with indefinite life are examined annually or if indicators of impairment is detected.

(4) Cash and Balances with Central Banks

	2017	2016
	JD	JD
Cash on hand	34,563,216	25,981,287
Balances at Central Banks:		
Current and demand deposits	152,191,762	164,636,332
Certificate of deposits	18,500,000	-
Statutory cash reserve	77,483,546	70,333,263
Total	**282,738,524**	**260,950,882**

- There are no balances maturing within a period of more than three months as of 31 December 2017 and 2016.
- Na onal Bank of Iraq balances at the Central Bank of Iraq's Irbil and Al - Sulaymaniah branches amounted to JD 62,089,584 and JD 31,859,165 respec vely , as of 31 December 2017, against JD 85,997,791 and JD 33,003,070 as of 31 December 2016 respec vely. Due to the current political and economic conditions in Iraq, exploitation of these balances through banking operations is limited.

(5) Balances at Banks and Financial Institutions

	Local banks and financial institutions		Foreign Banks and Financial Institutions		Total	
	2017	2016	2017	2016	2017	2016
	JD	JD	JD	JD	JD	JD
Current and demand deposits	2,650,873	9,166,372	166,814,287	63,613,358	169,465,160	72,779,730
Deposits maturing within or less than 3 months	-	87,411,704	24,956,750	6,287,400	24,956,750	93,699,104
Total	**2,650,873**	**96,578,076**	**191,771,037**	**69,900,758**	**194,421,910**	**166,478,834**

- Non-interest bearing balances at banks and nancial ins tu ons amounted to JD 169,440,318 as of 31 December 2017 against JD 72,735,758 as of 31 December 2016.
- Restricted balances amounted to JD 1,129,379 as of 31 December 2017 against JD 1,118,692 as of 31 December 2016 (Note 40).

(6) Financial Assets at Fair Value through income statement

	2017	2016
	JD	JD
Equities	3,175,506	2,785,111
Bonds	-	479,257
Investment funds	85,554	806,812
Total	**3,261,060**	**4,071,180**

(7) Financial Assets at Fair Value through Other Comprehensive Income

	2017	2016
	JD	JD
Quoted shares	4,608,894	5,088,627
Unquoted shares	4,526,206	4,409,483
Total	**9,135,100**	**9,498,110**

- Realized losses resulted from sales of nancial assets at fair value through other comprehensive Income amounted to JD 1,464,393 as of 31 December 2017 against JD 588,077 as of 31 December 2016.

- The cash dividends amounted to JD 356,510 and it re ects the shares that the bank owns in other companies as of 31 December 2017 against JD 344,265 as of 31 December 2016.

(8) Direct Credit Facilities, Net

	2017	2016
	JD	JD
Retail customers		
Overdrafts	9,229,190	11,189,619
Loans and bills *	79,297,196	93,913,407
Credit cards	7,324,567	6,760,968
Realestate Mortgages	154,609,224	155,234,146
Corporate Lending		
Overdrafts	87,089,700	117,608,731
Loans and bills *	442,393,520	461,309,457
Small and medium enterprises "SMEs" facilities		
Overdrafts	34,066,264	31,071,059
Loans and bills *	113,985,177	85,423,928
Government and public sector lending	69,298,643	98,104,698
Total	997,293,481	1,060,616,013
Less: Suspended interest	14,725,092	34,880,731
Less: Allowance for impairment in direct credit facilities	61,606,026	55,263,051
Net direct credit facilities	920,962,363	970,472,231

* Net of interest and commissions received in advance amounted to JD 982,854 as of 31 December 2017 against JD 955,928 as of 31 December 2016.

- Non-performing credit facili es amounted to JD 111,345,767 as of 31 December 2017 against JD 100,019,129 as of 31 December 2016 Which represents 11.16 % of total direct credit facili es as at 31 December 2017 against 9.43 % as of 31 December 2016.
- Non-performing credit facili es, net of suspended interest, amounted to JD 96,620,675 as of 31 December 2017 against JD 65,138,398 as of December 2016 which represents 9.83 % against 6.35 % as of December 2016 of total direct credit facili es a er excluding the suspended interest.
- Total credit facili es granted to and guarnteed by the government amounted to JD 57,251,864 as of 31 December 2017 against JD 86,540,369 as of 31 December 2016 which represents 5.74 % of total direct credit facili es as of 31 December 2017 against 8.16 % as of 31 December 2016.

Provision for impairment losses:

The movement of the provision for impairment losses of direct credit facilities is as follows:

	Retail	Real estate mortgages	Corporates	SMEs	Total
31 December 2017	JD	JD	JD	JD	JD
Balance at 1 January 2017	9,216,828	1,475,749	42,658,663	1,911,811	55,263,051
Charge for the year	1,979,526	1,316,714	19,206,072	1,622,324	24,124,636
Amounts written off	(2,321,451)	(234,781)	(14,560,116)	(555,429)	(17,671,777)
Foreign exchange differences	(5,327)	-	(104,550)	(7)	(109,884)
Balance at the end of the year	8,869,576	2,557,682	47,200,069	2,978,699	61,606,026
Impairment on individual basis	8,464,547	2,456,036	44,565,774	2,904,222	58,390,579
Watch list impairment on portfolio basis	405,029	101,646	2,634,295	74,477	3,215,447
Balance at the end of the year	8,869,576	2,557,682	47,200,069	2,978,699	61,606,026
31 December 2016					
Balance at 1 January 2016	9,861,102	1,374,161	34,300,134	1,637,667	47,173,064
Charge for the year	(443,313)	101,588	8,738,164	274,144	8,670,583
Amounts written off	(66,914)	-	(25,493)	-	(92,407)
Foreign exchange differences	(134,047)	-	(354,142)	-	(488,189)
Balance at the end of the year	9,216,828	1,475,749	42,658,663	1,911,811	55,263,051
Impairment on individual basis	9,091,587	1,463,822	34,109,073	1,885,952	46,550,434
Watch list impairment on portfolio basis	125,241	11,927	8,549,590	25,859	8,712,617
Balance at the end of the year	9,216,828	1,475,749	42,658,663	1,911,811	55,263,051

The provisions no longer needed due to settlements or repayments and transferred against other debts amounted to JD 9,789,307 as at 31 December 2017 against JD 12,040,322 as of 31 December 2016.

The Board of Directors approved to write o JD 43,502,345 of the non-performing credit facili es and reclassify these loans with the related provisions and suspended interest to o balance sheet accounts. Whereby the Bank retains the legal rights to claim these loans amounted to JD 42,541,832 Non-performing loans amounted to JD 115,438,998 as of 31 December 2017 are fully covered by provisions and interest in suspense.

Interest in suspense

The movement of interest in suspense is as follows:

	Retail	Real estate	Corporates	SMEs	Total
31 December 2017	JD	JD	JD	JD	JD
Balance at 1 January 2016	5,117,309	916,174	27,740,735	1,106,513	34,880,731
Add: Suspended interest during the year	788,964	657,835	4,232,467	662,434	6,341,700
Interest transferred to income	(239,634)	(172,339)	(118,872)	(122,027)	(652,872)
Amounts written off	(1,848,290)	(257,421)	(23,274,918)	(449,939)	(25,830,568)
Foreign exchange differences	(4,968)	-	(8,931)	-	(13,899)
Balance at the end of the year	**3,813,381**	**1,144,249**	**8,570,481**	**1,196,981**	**14,725,092**
31 December 2016					
Balance at 1 January 2016	4,367,916	845,719	24,222,653	780,629	30,216,917
Add: Suspended interest during the year	1,300,905	261,097	6,375,099	494,751	8,431,852
Interest transferred to income	(357,964)	(190,642)	(2,277,628)	(132,049)	(2,958,283)
Amounts written off	(156,397)	-	(500,986)	(36,818)	(694,201)
Foreign exchange differences	(37,151)	-	(78,403)	-	(115,554)
Balance at the end of the year	**5,117,309**	**916,174**	**27,740,735**	**1,106,513**	**34,880,731**

Direct credit facilities portfolio is distributed as per the following geographical and industrial sectors classification:

	Inside Jordan	Outside Jordan	31 December 2017	31 December 2016
	JD	JD	JD	JD
Financial	33,971,058	-	33,971,058	40,121,399
Industrial	104,505,303	6,676,655	111,181,958	116,888,831
Commercial	160,682,152	47,216,320	207,898,472	175,475,806
Real estate	243,533,484	19,674,368	263,207,852	260,569,720
Tourism and hotels	30,224,605	15,937,491	46,162,096	31,840,801
Agriculture	11,300,942	-	11,300,942	15,287,305
Shares	54,748,236	-	54,748,236	81,392,765
Services and public utilities	69,436,930	1,799,764	71,236,694	92,831,674
transportation services (including air transportation)	11,846,558	-	11,846,558	12,065,836
Government and public sector	69,298,643	-	69,298,643	98,104,698
Retail	80,733,985	6,604,196	87,338,181	95,760,588
Other	29,102,791	-	29,102,791	40,276,590
Total	**899,384,687**	**97,908,794**	**997,293,481**	**1,060,616,013**

(9) Financial Assets at Amortized Cost

This item consists of the following:	2017	2016
	JD	JD
Treasury bonds	371,360,178	376,502,517
Governmental debt securities and its guarantee's	59,531,804	38,835,386
Bonds, Corporate debt securities *	36,044,998	24,682,217
Other government bonds	947,719	10,722,320
Total	467,884,699	450,742,440
Analysis of bonds and bills:		
Fixed Rate	454,981,699	443,453,190
Floating rate	12,903,000	7,289,250
Total	467,884,699	450,742,440

* Net of impairment loss amounted to JD 500,000 as of 31 December 2017 and 2016.

- The bank sold nancial assets at amor zed cost amoun ng to JD 21,881,613, and thats due to the increased risks of these assets, which is inconsistent to the Bank's bussiness model. This transac on resulted in in a pro t of JD 545,015 for 31 December 2017 (2016:JD 0)

(10) Property and Equipment - Net

2017	Lands	Buildings	Furniture & Fixtures	Vehicles	Computers	Others*	Total
Cost	JD	JD	JD	JD	JD	JD	JD
Balance at 1 January 2017	12,263,031	7,170,437	10,173,844	536,968	5,242,410	8,885,600	44,272,290
Additions	465,913	-	1,441,631	108,591	240,301	256,612	2,513,048
Disposals	-	-	(181,416)	(102,317)	(167,833)	-	(451,566)
Foreign exchange differences	(17,829)	(3,923)	(15,468)	(469)	-	-	(37,689)
Balance at the end of the year	12,711,115	7,166,514	11,418,591	542,773	5,314,878	9,142,212	46,296,083
Accumulated depreciation:							
Balance at 1 January 2017	-	1,083,972	5,784,268	407,080	3,191,872	5,939,090	16,406,282
Depreciation charge for the year	-	100,707	1,441,547	45,608	694,227	705,997	2,988,086
Disposals	-	-	(173,613)	(93,347)	(160,395)	-	(427,355)
Foreign exchange differences	-	140	5,213	59	-	-	5,412
Balance at the end of the year	-	1,184,819	7,057,415	359,400	3,725,704	6,645,087	18,972,425
Net book value of property and equipment	12,711,115	5,981,695	4,361,176	183,373	1,589,174	2,497,125	27,323,658
Advanced payment to purchase property & equipment	-	-	904,006	-	-	2,041,088	2,945,094
Net book value of property and equipment at the end of the year 2017	12,711,115	5,981,695	5,265,182	183,373	1,589,174	4,538,213	30,268,752
2016							
Cost							
Balance at 1 January 2016	12,464,582	7,214,907	8,215,426	538,392	4,257,431	8,406,698	41,097,436
Additions	-	-	2,438,256	3,892	1,417,982	478,902	4,339,032
Disposals	-	-	(353,488)	-	(433,003)	-	(786,491)
Foreign exchange differences	(201,551)	(44,470)	(126,350)	(5,316)	-	-	(377,687)
Balance at the end of the year	12,263,031	7,170,437	10,173,844	536,968	5,242,410	8,885,600	44,272,290
Accumulated depreciation:							
Balance at 1 January 2016	-	989,045	4,906,129	356,176	3,130,916	5,199,545	14,581,811
Depreciation charge for the year	-	101,191	1,261,238	55,757	493,826	739,545	2,651,557
Disposals	-	-	(331,682)	-	(432,870)	-	(764,552)
Foreign exchange differences	-	(6,264)	(51,417)	(4,853)	-	-	(62,534)
Balance at the end of the year	-	1,083,972	5,784,268	407,080	3,191,872	5,939,090	16,406,282
Net book value of property and equipment	12,263,031	6,086,465	4,389,576	129,888	2,050,538	2,946,510	27,866,008
Advanced payment to purchase property & equipment	177,250	284,814	527,410	-	-	1,083,414	2,072,888
Net book value of property and equipment at the end of the year 2016	12,440,281	6,371,279	4,916,986	129,888	2,050,538	4,029,924	29,938,896

* Others represent renovation, interior design and decoration of buildings and branch offices.
- The es mated costs to complete the projects in progress amounted to around JD 551,283 as of 31 December 2017.
- Fully depreciated property and equipment amounted to JD 8,844,541 as of 31 December 2017 against JD 6,772,316 as of 31 December 2016.

(11) Intangible Assets, Net

This Item Consists of the following:

	Computer Software & Systems	
	2017	**2016**
	JD	**JD**
Balance at 1 January	4,308,221	2,987,808
Additions	1,153,923	3,159,232
Amortization for the year	(1,602,683)	(1,798,231)
Foreign currency differences	(6,207)	(40,588)
Balance at the end of the year	**3,853,254**	**4,308,221**
Projects under construction	1,942,397	1,229,311
Balance as of 31 December	**5,795,651**	**5,537,532**

- The es mated cost to complete projects under construc on is JD 794,800 as of 31 December 2017.

- Fully amor zed intangible assets amounted to JD 10,116,069 as of 31 December 2017 against JD 9,646,483 as of 31 December 2016.

(12) Other Assets

The details are as follows:

	2017	**2016**
	JD	**JD**
Accrued interest and revenue	16,170,077	18,680,510
Prepaid expenses	1,719,932	1,607,113
Collaterals seized by the bank against matured debts*	45,394,698	54,812,646
Purchased banks acceptances	9,336,513	6,862,320
Export documents and bills purchased	317,897	317,897
Assets / deriva ves unrealized gain (Note 41)	277,362	-
Other assets seized **	-	12,113,849
Refundable deposits	1,438,968	2,822,610
Others	963,567	1,718,836
Total	**75,619,014**	**98,935,781**

* According to the regulaions of the Central Bank of Jordan, the bank is required to dispose seized real estate in a maximum period of two years from the acquisition date. The Central Bank may approve of an extension up to two execu ve years at most. According to the Central Bank circular No. 10/1/4076 , a provision should be calculated for real estate seized for a period longer than four years .

** There was no accumulated impairment of the other seized real estate as of 31 December 2017 against JD 8,075,894 as of 31 December 2016, by which the Bank sold the seized real estates during 2017.

The following is summary of the movement of assets seized by the bank:

	2017			2016
	Seized real estate	Other seized assets***	Total	Total
	JD	JD	JD	JD
Balance at the beginning of the year	53,151,354	1,661,292	54,812,646	59,503,052
Foreign currency translation differences	(21,914)	-	(21,914)	(146,156)
Additions	2,409,155	-	2,409,155	7,128,094
Disposals	(3,444,528)	(399,434)	(3,843,962)	(10,562,595)
Impairment losses	(3,678,924)	(1,261,858)	(4,940,782)	(361,251)
Provision for seized real estate	(3,020,445)	-	(3,020,445)	(748,498)
Balance at the end of the year	45,394,698	-	45,394,698	54,812,646

*** This item represents shares seized by the Bank to settle debts.

(13) Banks and Financial Institutions' Deposits

The details are as follows:

	2017			2016		
	Inside Jordan	Outside Jordan	Total	Inside Jordan	Outside Jordan	Total
	JD	JD	JD	JD	JD	JD
Current and demand deposits	1,019,043	90,279,134	91,298,177	2,598,140	22,777,867	25,376,007
Term deposits	16,574,506	-	16,574,506	83,556,605	33,825,000	117,381,605
Total	17,593,549	90,279,134	107,872,683	86,154,745	56,602,867	142,757,612

(14) Customer Deposits

The details are as follows:

2017	Retail	Corporate	SMEs	Government and public Sectors	Total
	JD	JD	JD	JD	JD
Current and demand deposits	137,577,730	177,636,023	74,200,074	26,494,779	415,908,606
Saving accounts	59,472,924	11,158	276,069	-	59,760,151
Time and notice deposits	459,713,470	168,316,642	26,832,865	32,138,517	687,001,494
Certificates of deposit	52,307,974	-	42,000	2,000,000	54,349,974
Total	709,072,098	345,963,823	101,351,008	60,633,296	1,217,020,225

2016	Retail	Corporate	SMEs	Government and public Sectors	Total
	JD	JD	JD	JD	JD
Current and demand deposits	183,632,902	129,739,569	63,723,430	38,377,529	415,473,430
Saving accounts	53,751,315	68,910	374,229	-	54,194,454
Time and notice deposits	458,760,802	174,611,782	34,126,263	35,619,784	703,118,631
Certificates of deposit	48,408,785	50,000	1,465,100	2,000,000	51,923,885
Total	744,553,804	304,470,261	99,689,022	75,997,313	1,224,710,400

- The deposits of government and general public sector inside Jordan amounted to JD 60,633,296 represen ng 4.98% of the total deposits as of 31 December 2017 against JD 75,997,313 represen ng 6.21% as of 31 December 2016.
- Non-interest bearing deposits amounted to JD 388,472,799 represen ng 31.93 % of total deposits as of 31 December 2017 against JD 383,926,252 represen ng 31.35 % of the total deposits as of 31 December 2016.
- No deposits are reserved (restricted withdrawals) as of 31 December 2017 and 31 December 2016.
- Dormant deposits amounted to JD 1,206,645 as of 31 December 2017 against JD 1,121,565 as of 31 December 2016.

(15) Margin Accounts

The details are as follows:	2017	2016
	JD	JD
Margins on direct credit facilities	32,535,019	33,940,773
Margins on indirect credit facilities	40,430,004	48,984,699
Margin dealings	552,857	403,314
Others	71,144,504	61,676,372
Total	144,662,384	145,005,158

(16) Loans and Borrowings

The details are as follows :

2017	Amount	Number of Instalments Total	Outstanding	Frequency of Instalments	Collaterals	Interest rate	Re-financed Interest rate
	JD	JD	JD		JD	%	
Amounts borrowed from central banks	41,180,585	1,640	1,307	Monthly and semi annual payment and payment at maturity	-	0.70 % - 5.50 %	4.00 % - 6.50 %
Amounts borrowed from local banks and financial institutions	60,000,000	6	6	One payment	-	4.05 % - 5.75 %	4.50 % - 11.78 %
Amounts borrowed from foreign banks and financial institutions	17,733,586	100	88	Monthly and semi annual payment and payment at maturity	-	1.77 % - 2.58 %	3.75 % - 10.00 %
Total	118,914,171				-		
2016							
Amounts borrowed from central banks	38,696,347	814	699	Monthly and semi annual payment and payment at maturity	-	0.70% - 3.05%	4.00% - 6.50%
Amounts borrowed from local banks and financial institutions	20,000,000	2	2	One payment	-	4.05% - 4.50%	3.38% - 11.75%
Amounts borrowed from foreign banks and financial institutions	19,189,081	103	73	Monthly and semi annual payment and payment at maturity	-	1.77%- 3.50%	3.50% - 10.00%
Total	77,885,428				-		

- Borrowed money from the Central Bank includes JD 41,180,585 that represents amounts borrowed to refinance the customers' loans in the medium term nancing programs that have been re-borrowed. These loans mature during 2018 - 2039.
- The amounts borrowed from local institutions are all borrowed from the Jordan Mortgagee Refinance Company with a total amount of JD 60 Million. The loans mature during 2018 - 2020.
- The amounts borrowed from foreign banks / institutions are all borrowed from the European Bank for Reconstruction and Development and amounted to USD 8,571,429 and the last payment falls due during 2020.
- Loans bearing fixed - interest rates amounted to JD 112,837,028, and loans bearing floating - interest rates amounted to JD 6,077,143 as of 31 December 2017.

(17) Subordinated Loans

2017	Amount	Frequency of Instalments	Collaterals	Interest Rate
	JD		JD	%
Subordinated Loan	17,725,000	One payment maturing on 1 March 2020	-	6.85%
Total	17,725,000		-	

- The bank has obtained Amman Stock Exchange's approval to include these bonds in Amman Stock Exchange star ng from 26 July 2015. These bonds are US Dollar bonds.

(18) Secondary loan (convertible to shares)

	2017	2016
	JD	JD
Nominal value of the convertible loan	-	4,726,667
Issue cost	-	(205,215)
Total	-	4,521,452

(19) Sundry Provisions

2017	Balance at the beginning of the year	Provided	Utilized	Transferred to income	Balance at the end of the year
	JD	JD	JD	JD	JD
Provision for lawsuits raised against the bank (Note 37)	34,000	3,850,406	(15,107)	(18,893)	3,850,406
Provision against Iraq risks (Note 37)	25,354,563	-	-	(12,391,408)	12,963,155
Other provisions	-	38,995	-	-	38,995
Foreign Currency translation differences	(24,819)	(9,854)	-	-	(34,673)
Total	25,363,744	3,879,547	(15,107)	(12,410,301)	16,817,883
2016					
Provision for lawsuits raised against the bank (Note 37)	34,000	-	-	-	34,000
Provision against Iraq risks (Note 37)	12,001,722	13,352,841	-	-	25,354,563
Foreign Currency translation differences	(24,819)	-	-	-	(24,819)
Total	12,010,903	13,352,841	-	-	25,363,744

- In light of the improvements in the poli cal and the economic situa ons in Iraq during 2017, the Bank has collected a deposited amount of JD 25,052,113 from National Bank of Iraq balances at the Central Bank of Iraq's Irbil and Al - Sulaymaniah branches. Therefore, the bank reversed a provision of JD 12,963,155 during 2017. No ng that the provision will be reviewed annually.

(20) Income Tax

A- Income Tax liabilities

The movement on income tax liability is as follows:

	2017	2016
	JD	JD
Balance at the beginning of the year	11,020,115	7,870,942
Income tax paid	(12,268,944)	(10,993,283)
Income tax charge for the year	3,716,713	14,234,562
Income tax on other comprehensive income	(155,096)	-
Income tax charge for previous years	131,672	(42,824)
Foreign exchange translation differences	2,272	(49,282)
Balance at the end of the year	2,446,732	11,020,115

Income tax presented in the consolidated income statement as follows:

	2017	2016
	JD	JD
Current income tax charge for the year	3,716,713	14,234,562
Previous years income tax charges	131,672	-
Deferred tax assets for the year	207,633	(2,647,314)
Deferred tax liabilities for the year	14,829	(632,826)
	4,070,847	10,954,422

- Legal income tax rate on the bank revenues and brokerage rm is 35% and 24% respec vely.
- Legal income tax on the bank revenues in Iraq is 15%.
- A nal se lement has been made with the income and sales tax department regarding the bank's tax ll the end of 2014.
- The income and sales tax department has reviewed the tax return for the year 2015, and has not released the nal se lement yet.
- A nal se lement has been made with the income and sales tax department regarding the tax on the brokerage rm ll the end of 2015.
- A nal se lement has been made with the income and sales tax department regarding the tax on Na onal Bank of Iraq ll the end of 2016, the Bank obtained reciepts con rming the amounts se led, and the Bank will se le the amounts due on 31 December 2017 during 2018.
- The Bank and its subsidiaries have submi ed the tax return for the year 2016. Final se lements are s ll pending as of the date of this consolidated financial statements.
- The management believes that the income tax provision recorded is su cient to meet the tax obliga ons as of 31 December 2017.

B- Deferred tax assets / Liabilities

The details is as follows:

Included accounts	2017 Balance the beginning of the year	Released	Additions	Balance the end of the year	Deferred Tax	2016
	JD	JD	JD	JD	JD	JD
a) Deferred tax assets						
Provision for lawsuits held against the bank	34,000	(34,000)	355,500	355,500	85,320	11,900
Impairment loss on seized shares	5,929,983	-	1,261,858	7,191,841	2,517,144	2,075,494
Losses from revaluation of financial assets through income statement	355,862	(216,634)	366,123	505,351	135,728	102,821
Provision for watch list facilities	304,518	(154,608)	-	149,910	52,481	106,280
Losses from revaluation of financial assets through other comprehensive income	2,335,227	(1,412,620)	613,096	1,535,703	514,673	718,765
Additional provision on other credit facilities	2,977,988	(76,296)	3,266,729	6,168,421	1,898,329	816,319
Losses on impairment of financial assets at amortized cost	500,000	-	-	500,000	175,000	175,000
Impairment of seized assets	10,384,161	(8,085,554)	6,048,415	8,347,022	2,921,458	3,634,456
Impairment loss in investment in subsidries	24,782,816	(12,391,408)	-	12,391,408	1,239,141	2,478,282
Other deferred tax assets	1,653,829	(1,528,807)	2,060,000	2,185,022	747,157	578,839
Total	**49,258,384**	**(23,899,927)**	**13,971,721**	**39,330,178**	**10,286,431**	**10,698,156**
b) Deferred tax liabilities						
Unrealized gains – financial assets at fair value though OCI	1,369,597	(117,320)	741,644	1,993,921	635,765	394,995
Unrealized gain from financial assets – at fair value through income statement	92,175	(65,140)	98,455	125,490	43,920	29,091
Total	**1,461,772**	**(182,460)**	**840,099**	**2,119,411**	**679,685**	**424,086**

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

	2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
Balance at the beginning of the year	10,698,156	424,086	8,235,623	862,360
Additions	4,768,082	286,960	3,257,311	212,699
Released	(5,179,807)	(31,361)	(794,778)	(650,973)
Balance at the end of the year	**10,286,431**	**679,685**	**10,698,156**	**424,086**

- The Income tax rates on de ered tax assets and liabili es ranged between 24% - 35%.

- Reconciliation between taxable profit and the accounting profit is as follows:

	2017	2016
	JD	JD
Accounting profit	31,382,493	27,090,398
Non-taxable income	(25,767,185)	(2,122,750)
Non-deductible expenses	12,587,080	22,440,322
Taxable profit	**18,202,388**	**47,407,970**
Effective rate of income tax	**12.97%**	**40.44%**

(21) Other Liabilities

The details is as follows:

	2017	2016
	JD	JD
Accrued interest expense	6,548,245	5,611,559
Accrued expenses	2,709,339	2,273,266
Certified cheques	2,911,545	2,737,820
Cheques payable	1,311,421	2,141,389
Board of directors' remuneration	573,383	85,000
Brokerage payables	6,174,335	7,069,058
Nega ve fair value of deriva ves (Note 41)	-	9,904
Guarantees	99,849	-
Others	4,512,161	3,875,797
Total	**24,840,278**	**23,803,793**

(22) Paid In Capital

The authorized and paid in capital amounted to JD 200,000,000 is divided into shares at a par value of JD 1 per share as of 31 December 2017 and 31 December 2016.

(23) Cash Dividends and Proposed Cash Dividends

In the meeting No. 2/2018 held on 26 February 2018, the Bank's Board of Directors have approved the proposed cash dividends equivalent to 10% of the Bank's authorized and paid-in capital and the decision is subject to the approval of Central Bank of Jordan and the Shareholders' General Assembly.

In the mee ng held on 25 May 2017, the Bank's Board of Directors have approved to distribute cash dividends equivalent to 5% of the Bank's authorized and paid-in capital.

(24) Reserves

Statutory Reserve

As required by the Law, 10% of the pro t before tax is transferred to the statutory reserve. This reserve is not available for distribu on to shareholders.

General banking risk reserve

This reserve is appropriated from retained earnings in compliance with the Central Bank of Jordan regulations.

The use of the following reserves is restricted by law:

Description	Amount	Restriction Law
	JD	
Statutory reserve	34,689,204	Companies Law and Banks law
General banking risk reserve	8,840,593	Central Bank of Jordan

(25) Foreign currency translation reserve

The Forgeign currency translation differences represents the exchange differences resulted from translation of the net assets of the National Bank of Iraq upon the consolidation of the financial statements.

	2017	2016
	JD	JD
Balance at the beginning of the year	(3,868,943)	379,962
Net movement	-	(4,248,905)
Balance at the end of the year	**(3,868,943)**	**(3,868,943)**

(26) Fair value reserve

The movement for this account is as follows:	2017	2016
	JD	JD
Balance at the beginning of the year	(566,421)	(1,407,974)
Change in fair value for financial assets at fair value through other comprehensive income	(36,120)	632,809
Realized losses transferred losses to retained earnings	1,464,393	588,077
Deferred tax liability	(240,770)	(194,552)
Deferred tax assets	(204,092)	(184,781)
Balance at the end of the year	**416,990**	**(566,421)**

Fair value reserve is stated at net after the deduction of deferred tax assets and liabilities.

(27) Material partially - owned subsidiaries

First: Proportion of equity interest held by non controlling interests is as follows:

31 December 2017	**Country**	**Nature of activity**	**Country**	**Dividends distribution**
National Bank of Iraq	Iraq	Banking	38.15%	1,117,619
31 December 2016				
National Bank of Iraq	Iraq	Banking	38.15%	-

Second: The following is the summarised financial information of these subsidiaries, this information is based on amounts before inter-company eliminations.

A. Summarized statement of financial position before elimination entries as of :

	31 December 2017	**31 December 2016**
	National Bank of Iraq	**National Bank of Iraq**
	JD	**JD**
Cash, balances and deposits	226,825,814	242,449,078
Financial assets through OCI	921,282	920,533
Credit facilities, net	77,125,452	63,150,888
Other assets	38,164,033	48,291,353
Total assets	**343,036,581**	**354,811,852**
Banks, customers deposits' and margin accounts	171,889,488	191,137,936
Loans & borrowings	1,816,493	1,025,884
Provisions and other liabilities	18,040,350	15,736,754
Total liabilities	**191,746,331**	**207,900,574**
Shareholders' equity	151,290,250	146,911,278
Total liabilities and shareholder's equity	**343,036,581**	**354,811,852**
Non-Controlling interest	**57,826,685**	**56,201,653**

B. Summarized statement of comprehensive income before elimination entries as of:

	31 December 2017	**31 December 2016**
	National Bank of Iraq	**National Bank of Iraq**
	JD	**JD**
Interest and commission income, net	20,232,275	20,559,491
Other income	1,541,091	7,296,195
Total Income	**21,773,366**	**27,855,686**
General and administrative expenses	10,643,606	9,568,029
Provisions	1,714,483	6,187,277
Total expenses	**12,358,089**	**15,755,306**
Profit before tax	9,415,277	12,100,380
Income tax	1,670,161	2,419,154
Profit after tax	**7,745,116**	**9,681,226**
Other comprehensive income	(8,853)	(8,888)
Total comprehensive income for the year	**7,736,263**	**9,672,338**
Non-Controlling interest	**2,954,762**	**3,693,388**

C. Summarized cash flow for National Bank if Iraq:

	31 December 2017 National Bank of Iraq JD	31 December 2016 National Bank of Iraq JD
Cash flows		
Operating	34,288,530	39,041,268
Investing	(1,408,667)	(1,453,233)
Financing	(2,635,777)	455,949
Net Increase	**30,244,086**	**38,043,984**

(28) Retained Earnings

The details are as follow:

	2017 JD	2016 JD
Balance at the beginning of the year	39,562,631	30,777,787
Profit for the year	24,356,884	12,442,588
Transferred to reserves	(1,460,935)	(3,069,667)
Realized losses from selling financial assets at fair value through comprehensive income	(1,464,393)	(588,077)
Distributed dividends	(10,000,000)	-
Balance at the end of the year	**50,994,187**	**39,562,631**

- The balance of retained earnings includes a restricted amount of JD 10,286,431 as of 31 December 2017 against JD 10,698,156 as of 31 December 2016 which represents the deferred tax assets that cannot be u lized according to the Central Bank of Jordan Regulations.
- The balance of retained earnings includes unrealized gain of JD 1,088,445 as of 31 December 2017 against JD 1,125,859 as of 31 December 2016 which represents the e ect of early adop on of IFRS (9). However, this amount is restricted from use except for the amounts that become realized regulations according to Securities and Exchange Commission.
- A negative balance of a fair value reserve is considered a restricted reserve that cannot be utilized.
- Gains from revalua on of nancial assets at fair value through income statement amounted to JD 168,096 compared to against JD 460,031 as of 31 December 2016 is restricted from u liza on, according to the Security and Exchange commission regulations.

(29) Interest Income

The details are as follow:

	2017 JD	2016 JD
Direct Credit Facilities:-		
Retail		
Overdrafts	902,102	894,847
Loans and bills	7,224,159	7,950,504
Credit cards	623,512	728,137
Real estate mortgages	11,318,213	11,144,943
Corporate		
Overdrafts	6,841,009	6,760,944
Loans and bills	25,542,792	29,478,371
Small and medium enterprises (SMEs)		
Overdrafts	2,968,305	2,454,349
Loans and bills	8,484,964	5,527,432
Government and public sectors	5,062,041	4,040,779
Balances at central banks	93,774	637,340
Balances at banks and financial institutions	968,460	2,357,958
Financial assets at amortized cost	25,349,961	23,860,089
Total	**95,379,292**	**95,835,693**

(30) Interest Expense

The details are as follow:

	2017	2016
	JD	JD
Banks and financial institutions deposits	1,813,879	1,625,713
Customer deposits :		
Current accounts and deposits	1,445,120	996,731
Saving deposits	563,181	608,971
Time and notice deposits	29,973,398	25,675,999
Certificates of deposits	2,099,657	1,994,720
Margin accounts	1,096,980	1,519,643
Loans and borrowings	5,562,331	3,795,172
Deposits guarantee fees	2,081,769	2,208,755
Total	**44,636,315**	**38,425,704**

(31) Net Commission Income

The details are as follow:

	2017	2016
	JD	JD
Commission income :		
Direct credit facilities	1,508,921	1,810,648
Indirect credit facilities	13,726,031	11,940,804
Other commission	18,575,007	11,775,675
Commission expense	(2,193,384)	(1,109,317)
Net Commission Income	**31,616,575**	**24,417,810**

(32) Net Gain From Foreign Currencies

The details are as follow:

	2017	2016
	JD	JD
Revaluation of foreign currencies	2,208,271	2,647,437
Revaluation trading in foreign currencies	1,084,963	5,875,150
Total	**3,293,234**	**8,522,587**

(33) (Loss) Gain from financial assets at fair value through income statement

The details are as follow:

2017 -	Realized (losses) gains	Unrealized losses	Dividends income	Total
	JD	JD	JD	JD
Equity shares	(75,345)	(282,071)	138,064	(219,352)
Bonds	9,723	-	-	9,723
Total	**(65,622)**	**(282,071)**	**138,064**	**(209,629)**
2016 -				
Equity shares	51,071	(130,169)	45,602	(33,496)
Bonds	67,613	(6,874)	-	60,739
Total	**118,684**	**(137,043)**	**45,602**	**27,243**

(34) Other Income

The details are as follow:

	2017	2016
	JD	JD
Recovery from written - off debts	950,556	1,350,471
Income and commission from investments and securities	5,081,393	1,830,611
Others	267,656	280,063
Total	**6,299,605**	**3,461,145**

(35) Employees' Expenses

The details are as follow:

	2017	2016
	JD	JD
Salaries and benefits	19,415,870	17,424,327
Bank's contribution in social security	1,732,031	1,619,589
Medical expenses	1,031,898	970,289
Employees' training	603,197	491,108
Paid vacations	370,701	187,137
Bank's contribution to social activities fund	36,330	21,059
Others	232,385	272,012
Total	**23,422,412**	**20,985,521**

(36) Other Expenses

The details are as follow:	2017	2016
	JD	JD
Rent and building services	3,586,984	3,407,629
Consulting and professional fees	2,450,486	2,358,360
Stationary and printing	387,475	397,645
Board of Directors' transportation	755,148	776,890
Reuters' and Bloomberg subscription expense	165,115	155,987
Donations	581,220	362,367
Advertisement	2,590,681	2,358,333
Subscriptions, fees and licenses	852,217	842,135
Security services	206,951	193,259
Travel and transportation	410,614	581,287
Computer expenses	1,475,456	1,310,406
Post, telephone, swift and Internet	447,452	403,988
Subscriptions	367,926	318,268
Cash transportation services	69,471	57,084
Insurance	305,132	358,248
Hospitality	77,345	76,072
Board of directors' remuneration	592,849	85,000
Maintenance	668,157	600,207
Others	1,561,169	1,654,316
Total	**17,551,848**	**16,297,481**

(37) (Reversed) Impairment Losses and other Sundry Provisions

The details are as follow:	Note	2017	2016
		JD	JD
Gain from selling (impairment loss) of Seized assets		(114,667)	3,128,722
Other sundry provisions		(12,352,413)	13,352,841
Lawsuits Provision	19	3,831,513	-
Total		**(8,635,567)**	**16,481,563**

(38) Earnings Per Share

Basic and diluted earnings per share

The details are as follow:

	2017	2016
	JD	JD
Profit for the year attributable to Bank's shareholders	24,356,884	12,442,588
Weighted average number of shares during the year	200,000,000	200,000,000
	JD / Fils	JD / Fils
Basic and diluted earnings per share	**0.122**	**0.062**

- The basic earning per share is equivalent to the diluted earning per share, since the bank did not issue any convertible financial instruments.

(39) Fair Value of Financial Assets not Presented at Fair Value in the Financial Statements

	31 December 2017		31 December 2016	
	Book value	Fair value	Book value	Fair value
Financial assets at amortized cost	467,884,699	468,149,488	450,742,440	458,018,026
Direct credit facilities, net	920,962,363	920,962,363	970,472,231	970,472,231

(40) Cash and Cash Equivalents

The details are as follow:

	2017	2016
	JD	JD
Cash and balances with central banks maturing within 3 months	188,789,776	141,950,021
Balances at banks and nancial ins tu ons maturing within 3 months	194,421,910	166,478,834
Banks and financial institutions' deposits maturing within 3 months	(107,872,683)	(140,702,612)
Restricted cash balances at Banks and Financial Ins tu ons (Note 5)	(1,129,379)	(1,118,692)
	274,209,624	166,607,551

(41) Derivative financial instruments

The table below shows the details of derivative financial instruments at the end of the year.

			Par (nominal) value maturity		
2017	Positive fair value	Negative fair value	Total nominal amount	Within 3 months	3-12 months
	JD	JD	JD	JD	JD
Currency sale contract	-	-	205,829,191	205,829,191	-
Currency purchases contract	317,955	-	206,147,146	206,147,146	-
Currency swaps contracts	-	40,593	39,416,525	-	39,416,525
2016					
Currency sale contract	-	-	4,683,648	4,683,648	-
Currency purchases contract	-	9,904	4,673,744	4,673,744	-

The par (nominal) value indicates the value of the outstanding transactions at year end and does not indicate market risk or credit risk.

(42) Related Party Transactions

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

Company name	Ownership 2017	Ownership 2016	Paid in capital 2017	Paid in capital 2016
	%	%	JD	JD
Capital Investment and Brokerage Company	100%	100%	10,000,000	10,000,000
National Bank of Iraq	61.85%	61.85%	86,739,856	86,739,856
Bahrain Investment Fund Company	100%	100%	1,888	1,888
Capital Bank Corporate Advisory (DIFC) Limited	100%	100%	177,250	177,250

The Bank deals with major shareholders, directors, senior management in The ordinary course of business at commercial commission and interest rates.

- The following related party transactions took place during the year:

	Related party				Total	
	BOD members and related parties	Executive management	Subsidiaries	Major Shareholders	2017	2016
	JD	JD	JD		JD	JD
Statement of financial position items:						
Bank Deposits with related parties	-	-	-	-	-	38,266,462
Bank Deposits	17,777,295	948,477	48,697,123	2,794	67,425,689	29,991,052
Margin accounts	758,637	19,214	24,570,068	300	25,348,219	70,134,700
Direct credit facilities	33,134,932	1,731,027	-	2,396,826	37,262,785	35,810,472
Direct credit facilities - watch list	1,982,063	-	-	-	1,982,063	4,298,964
Off-balance sheet items:						
Indirect credit facilities	8,101,061	1,000	25,476,077	300	33,578,438	44,160,733
Statement of income items:						
Interest and commission income	3,278,040	71,947	559,832	116,746	4,026,565	2,743,545
Interest and commission expense	964,097	27,336	839,154	-	1,830,587	2,646,038

- Interest rates on credit facili es in Jordanian Dinar range between 4.5% - 11%
- Interest rates on credit facili es in foreign currency range between 3.75% - 4.62%
- Interest rates on deposits in Jordanian Dinar range between 3.03% - 5.50%.
- Interest rates on deposits in foreign currency range between 0.40% - 1.75%.

Compensation of the key management personnel is as follows:

	2017	2016
	JD	JD
Benefits (Salaries, wages, and bonuses) of executive management	4,003,034	2,281,561

(43) Fair Value of Financial Instruments

Financial instruments include cash balances, deposits at banks and the Central Bank of Jordan, direct credit facilities, other financial assets, customers' deposits, banks deposits and other financial liabilities.

There are no material differences between the fair value of financial instruments and their book value.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in ac ve markets for iden cal assets or liabili es.

Level 2: Other techniques by which all inputs signi cantly e ect the recorded fair value may be observed, either directly or indirectly from market information.

Level 3: Other techniques using inputs signi cantly e ec ng the recorded fair values; which are not based on observable market data.

The following table shows the breakdown of the financial instruments at fair value and according to the above hierarchy:

	Level 1	Level 2	Level 3	Total
	JD	JD	JD	JD
2017 -				
Financial assets-				
Financial assets at fair value through income statement	3,175,506	85,554	-	3,261,060
Financial assets at fair value through other comprehensive income	4,608,894	4,526,206	-	9,135,100
Derivative instruments	-	-	277,362	277,362
2016 -				
Financial assets-				
Financial assets at fair value through income statement	3,264,368	806,812	-	4,071,180
Financial assets at fair value through other comprehensive income	5,088,627	4,409,483	-	9,498,110
Financial liabilities-				
Derivative instruments	-	-	(9,904)	(9,904)

(44) Risk Management Policies

The Bank follows a comprehensive strategy aimed at maintaining the best practices in risk management relating to (Credit Risk, Operational Risk, Market Risk, Liquidity Risk, Interest Rate Risk, Concentration Risk, Information Security Risk, in addition to Other types of risk) in order to maintain both the financial position and profitability of the Bank.

The process of identifying, managing, and mitigating risk, as well as complying with the instructions of regulatory authorities and The Basel Committee is considered an overall shared responsibility throughout the bank. These tasks are carried out by several entities within the Bank; beginning with the Board of Directors and its committees, such as the Risk Committee, the Audit Committee, the Compliance Committee, in addition to other internal committees within the Bank such as the Internal Risk Management Committee, Assets and Liabilities Committee, the various Credit Committees, in addition to all of the Bank's branches and departments.

As an independent and specialized department in the Bank, the Risk Management Department focuses its efforts in accordance with its approved policies, in identifying the existing and potential threats (Financial & Non-Financial). The Risk Management Department designs methods that help in measuring and dealing with such threats and report them to the relevant parties on a regular basis. In addition to adapting and complying with instructions set by CBJ and Basel Committee, and keeping up with the best practices in relation to measuring and managing risk.

The Risk Management Department also participates in evaluating the Bank's Capital Adequacy as well as its effectiveness in employing this capital in order to achieve its strategic goals, and determine the requirements needed to manage and control the strategy related risks.

In addition, the Risk Management Department at the Bank operates within the general principles and corporate governance code which are consistent with the regulator's instructions, international best practices in relation to the Bank's size, volume of its activities, and complexity of its operations. These principles are as follows:

1. The Board of Directors and its risk committee both review and approve the Bank's Risk Appetite for potential losses associated with the various risk factors, as well as review and approve the Risk Management Policies in order to ensure that these policies keep up with all developments in the banking industry in terms of growth its operations and expansion of its services. In addition the Board of Directors ensures that the Bank's strategies are being implemented in relation to the bank's risk management.
2. The Chief Executive Officer is considered the primary responsible person for risk management and its associated practices within the activity framework of the Bank, and is also the head of the Internal Risk Management Committee.
3. The risk management philosophy at the Bank is based on knowledge, experience ,the judgment capability of the supervisory management , and the availability of a clear authority matrix set by the Board of Directors.
4. Continuously developing the risk management systems and taking on the necessary steps and measures needed to make sure that the Bank is in compliance with the new international standards, namely the requirements of Basel III and IFRS 9.
5. The Risk Department manages the Bank's risks according to a comprehensive centralized methodology, with the presence of systems that assist in managing these risks, and by providing various business units at the Bank with the methodologies and tools that are necessary for achieving an efficient and proper management of all types of risks. The Risk Department, which is headed by theChief Risk Officer, is linked to the Board's Risk Committee. There is also a direct link that connects the Chief Risk Officer with the Chief Executive Officer.
6. Risk management is the responsibility of all employees.
7. The role of the Assets and Liabilities Committee is in planning the optimal deployment and allocation of capital, assets and liabilities and the continuous monitoring of liquidity and market risks.
8. The Internal Audit Department provides an independent assurance on the compliance of the Bank's business units with the risk management policies and procedures, and the effectiveness of the Bank's risk management framework.
9. The Chief Financial Officer (CFO) is responsible for identifying the financial risks, as well as monitoring and maintaining the quality and soundness of financial information, and ensuring the accuracy and integrity of the disclosed financial statements.
10. The Chief Compliance Officer is responsible for ensuring that the Bank complies with all the relevant regulations, legislation and laws, especially those issued by the regulatory authorities.

During 2017 the Bank has worked on several primary principles in risk management, mainly on the following:

1. Review risk management policies in relation to new requirements and the strategic vision of the Bank as well as to enhance the measurement and management of risk.
2. Adopt and Implement the Risk Adjusted Return of Capital (RAROC) concept
3. Implement Moody's Rating System in Capital Investment
4. Make the necessary prepera on to implement the IFRS 9 Standard, including developing the calcula on model and developing the framework and methodology that will be put into practice. An impact study was also conducted on the e ect of the implementa on of the IFRS9 Standard on the Bank's nancial posi on and Capital Adequacy Ra o.
5. Update and develop the authority matrix of the credit process to be in line with the new structure.
6. Measure Internal CAR using ICAAP.
7. The Bank obtained PCI DSS cer cate for the 2nd year
8. PCI DSS requirements are implemented in National Bank of Iraq
9. Developing informa on technology controls to cover SWIFT and COBIT5 regula ons
10. Implementing new information security software's such as Data Loss Prevention Software (DLP).
11. Prepare for the application of the standardized approach to measure Operational Risk.

For the year 2018, the Bank is planning to work on several primary principles in risk management, mainly on the following:

1. Con nue working on the new IFRS 9 Standard and enhace its methodology
2. Produce and develop a credit risk system.
3. Implemente Moodys Rating System in the National Bank of Iraq
4. Obtain the PCI DSS certificate for the third year in Capital Bank and attain PCI DSS certificate for the first in year in NBI
5. Apply all informaiton technology controls to cover SWIFT and COBIT5 regula ons.
6. Full Implementation of CRSA on all National Bank of Iraq operational branches.
7. Apply the standardized approach to measure Operational Risk.

Credit Risk

Credit risk is the potential that a borrower or counterparty will fail or will be unable to meet his contractual obligations towards the bank in accordance with the agreed terms which could lead to possible losses. Credit Risk comprises the default and concentration risk that may arise from direct or indirect borrowings in addition to treasury investments classified within the Bank's portfolio.

The Bank generally manages Credit Risk through:

- A clear and comprehensive policy for managing credit risk in addition to approved credit policies.
- Setting clear and specific limits for credit risks level that are set by the Board of Directors and then circulated to the different business units.
- Adopting the concept of credit committees to ensure that the credit decisions are not made on individual or subjective basis.
- Having a clear criteria for selecting clients, the target market and the acceptable level of credit.
- A comprehensive and thorough financial and credit analysis covering the various aspects of risk for each clients and/or credit processes.
- The results of Moody's Credit Rating System in determining each client's risk classification.
- Reviewing and analyzing the quality of the credit portfolio periodically, according to specific performance indicators.

- Evaluating and monitoring constantly to avoid high credit concentration, and implementing the required remedial actions.
- Adopting early warning indicators and recognition of possible risks in the credit portfolio while revising them on a regular basis.
- Effective management and follow up of the preservation of the legal documentation process and collateral administration to ensure that there are no negative indicators or regress that may necessitate the undertaking of pre-emptive or safety actions.
- Periodical revision, or when necessary, of all extended credit facilities on individual basis to ensure that there are no negative indicators or regress that necessitate the undertaking of pre-emptive or safety actions.

Credit Risk Management Methods:

1- Credit Risk Appetite & Early Warning Procedures:

Key Risk Indicators for credit risk are set along with their corresponding limits which represent the general framework of the credit risk profile for the Board of Directors and are monitored on a monthly basis. In addition, early warning procedures are set in advance within pre-agreed upon limits in order to avoid any breaches, they are also reviewed on an annual basis to keep up with any developments.

2- Internal Risk Rating :

Clients are internally rated according to specialized and advanced internally developed systems through Moody's Credit Rating System to classify Corporate, SMEs, Retail, Banks and Financial Institutes clients as well as countries relative to a set of pre-determined standards, in addition to a score card rating system for lending the companies' employees. The results of these systems are then used to identify client's risk upon which the credit decision is made. The credit portfolio is monitored periodically to ensure that each client is rated and re-distributed according to the rating grades.

3- Stress Testing:

Stress testing is an imperatively effective and robust tool used by the Bank as part of the risk management process in general, including credit risk. It is highly effective in alerting the Board of Directors and the Executive Management on the impact of unexpected adverse events that may increase default rates, and in measuring the impact of such events on the Bank's profits/ losses and capital adequacy ratio, in order to take the necessary actions and precautions to be in compliance with the Central Bank of Jordan instructions and enhance the risk management at the Bank.

Credit Risk Mitigation Techniques:

The Bank follows several techniques to reduce credit risk:

1- Collaterals against Loans and Facili es, which include:

a- Real estate mortgages.
b- Car and vehicle mortgages.
c- Machinery and equipment mortgages.
d- Possession of goods stored in the bonded warehouse on behalf of the Bank mortgages.
e- Financial instruments' such as stocks and bonds mortgages.
f- Bank guarantees.
g- Cash collateral.
h- Governmental guarantees.
i- Assignment of Proceeds.
j- Debt instruments, whereby the external ratings issued by international rating agencies such as Standard & Poor's, Moody's and Fitch or other equivalent agencies, are used in managing credit risk exposure to debt instruments.

The Credit Review Department and Business Units determine the acceptable collaterals and its terms, taking into consideration:

a- Accepting quality collaterals that can be easily liquidated at the appropriate time and value as needed by the Bank.
b- The lack of correlation between the value of the collateral and the client activity.
c- Monitoring the market value of collaterals on a regular basis, and in case of a decrease in the value of the collateral, the Bank requests additional collaterals to cover the deficit.
d- Evaluating periodically the collaterals that are against non-performing loans.
e- The Bank also sets insurance policies on some portfolios and set the appropriate provisions to mitigate the credit risks.

2- Credit Evalua on, Monitoring and Follow-up:

The Bank develops the necessary policies and procedures to determine the method of evaluating credit, while maintaining the impartiality and objectivity of the decision-making process in an institutional manner and within clear credit standards and principles.

A er changing the organiza onal structure in the bank during year 2017, mainly joining the credit review departments (Corporate, SMEs and Retail) to the risk department for the aim of enhancing independence and mitigating credit risk on a customer level, the credit process follows these phases:

A- Business Departments: mainly attracting clients, prepare the credit study reports as well as prepare the credit rating for the clients.
B- Credit Review Departments (Corporate, SMEs and Retail): receives credit reports and the attached documents in order to conduct its own analysis; credit-related, financial or non-financial, as well as contribute their own recommendations and review the credit rating of the client.
C- Credit Control Department and Credit Admin Department: reviews credit decisions, monitors credit limits and collaterals, follows-up to obtain any missing documents, and prepares the necessary control reports. In addition, the department monitors the compliance with the credit policies of the Bank, and directives of the Central Bank of Jordan in this regard.

The Bank adopts the principle of segregation of duties between the commercial function, the credit management and the executing operations to ensure control over the credit granting process to ensure control over the credit granting process and that all the conditions are in full compliance with the bank credit policy; in terms of credit ceilings, guarantees and any other limitations. Moreover, the Bank authenticates all documents and credit contracts prior to execution. Furthermore, the credit policies specify clear and detailed granting authority matrixes, according to the credit size, cash flow, and pertinent guarantees and collateral.

The Bank also places a great importance to provide training courses and programs for the employees working in the credit field, in order to enable them to carry out their duties and responsibilities proficiently and competently.

4) Credit Concentration based on geographic distribution is as follows:

Geographic sector	Inside Jordan	Other Middle Eastern countries	Europe	Asia*	America	Other	Total
	JD	JD	JD	JD	JD	JD	JD
Balances at Central Banks	107,687,584	140,499,888	-	-	-	-	248,187,472
Balances at banks and financial institutions	2,650,873	43,910,792	26,909,912	21,682,428	78,577,397	20,698,243	194,429,646
Direct credit facilities:							
Retail	79,309,632	4,983,702	-	-	-	-	84,293,334
Real Estate morgages	152,015,439	-	-	-	-	-	152,015,439
Corporate lending:							
Large corporations	405,831,183	72,054,059	-	-	-	-	477,885,242
Small and medium enterprises (SMEs)	143,219,972	1,578,729	-	-	-	-	144,798,701
Governmental and public Sector	70,246,521	-	-	-	-	-	70,246,521
Bonds and treasury bills within:							
Financial assets at amortized cost	465,839,598	8,574,320	564,285	648,673	-	-	475,626,876
Other assets	5,454,087	4,242,818	-	-	-	-	9,696,905
Total 2017	**1,432,254,889**	**275,844,308**	**27,474,197**	**22,331,101**	**78,577,397**	**20,698,243**	**1,857,180,136**
Total 2016	**1,533,415,605**	**271,380,326**	**13,286,582**	**2,770,013**	**26,382,648**	**1,767,912**	**1,849,003,086**

* Excluding inside the Kingdom and Middle east countries.

The following table shows the distribution of collaterals measured at fair value over credit facilities:

2017	Retail	Real estate mortgages	Corporate	SMEs	Total
	JD	JD	JD	JD	JD
Collaterals					
Low risk	9,957,711	40,372	5,059,904	7,242,405	22,300,392
Acceptable risk	41,933,974	62,061,662	149,249,813	48,385,979	301,631,428
Watch list	277,156	2,026,665	4,672,770	1,486,678	8,463,269
Non performing:					
Substandard	536,262	302,995	3,323,789	215,577	4,378,623
Doubtful	816,203	2,227,096	15,682,059	2,257,698	20,983,056
Loss	4,033,541	3,708,603	17,992,309	1,994,964	27,729,417
Total	**57,554,847**	**70,367,393**	**195,980,644**	**61,583,301**	**385,486,185**
Comprising of:					
Cash margin	10,393,336	330,713	8,904,799	7,910,686	27,539,534
Real Estate	26,077,250	69,763,414	144,452,094	47,144,574	287,437,332
Quoted equities	-	-	12,981,957	2,871,654	15,853,611
Vehicles and machinery	21,084,261	273,266	29,641,794	3,656,387	54,655,708
Total	**57,554,847**	**70,367,393**	**195,980,644**	**61,583,301**	**385,486,185**
2016					
Collaterals					
Low risk	6,310,869	673,171	8,944,395	10,709,329	26,637,764
Acceptable risk	36,776,437	109,307,828	116,826,259	44,130,045	307,040,569
Watch list	1,029,208	1,608,411	35,857,468	1,162,633	39,657,720
Non performing:					
Substandard	404,221	-	115,428	103,778	623,427
Doubtful	584,915	1,308,798	392,362	150,092	2,436,167
Loss	821,124	3,560,247	14,796,880	2,335,364	21,513,615
Total	**45,926,774**	**116,458,455**	**176,932,792**	**58,591,241**	**397,909,262**
Comprising of:					
Cash margin	6,310,869	673,171	8,944,395	10,709,329	26,637,764
Real Estate	20,601,475	115,785,284	123,511,751	39,411,370	299,309,880
Quoted equities	-	-	14,178,315	2,942,236	17,120,551
Vehicles and machinery	19,014,430	-	30,298,331	5,528,306	54,841,067
Total	**45,926,774**	**116,458,455**	**176,932,792**	**58,591,241**	**397,909,262**

The fair value of collaterals shown above does not exceed the value of the loan for each individual client.

Rescheduled loans

Are defined as loans that were classified as "Non-performing" credit facilities, and subsequently removed and included under "Watch List" based upon a proper rescheduling that complies with the Central Bank of Jordan's regulations. These loans amounted to JD 8,332,672 as of 31 December 2017, against JD 16,236,208 as of 31 December 2016.

The rescheduled loans balances represents the scheduled loans either still classified as watch list or transferred as to performing.

Restructured loans

Restructuring is defined as reorganizing credit facilities in terms of installments, extending the term of credit facilities, deferment of instalments, or extending the grace period and accordingly are classified as "Watch List" in case of restructuring twice during the year according to the Central Bank of Jordan instructions number 47/2009 issued on 10 December 2009 and its amendments. These debts amounted to JD 71,237,889 as of 31 December 2017 against JD 70,126,546 as of 31 December 2016.

3) Bonds and Treasury Bills

The following table shows the classifications of bonds and treasury bills based on the international credit rating agencies as of 31 December 2017:

Bonds and Bills

Risk Rating Class	Financial assets at fair value through income statement	Financial assets at amortized cost	Financial assets at fair value through other comprehensive	Total
	JD	JD		JD
Non-rated	-	30,683,997	-	30,683,997
Governmental	-	430,891,981	-	430,891,981
(A- / A+) S&P	-	5,193,149	-	5,193,149
(BBB+ /BBB-) S&P	-	1,115,572	-	1,115,572
Total	-	**467,884,699**	-	**467,884,699**

1) **Credit Risk Exposures** (after impairment provisions and suspended interest and before collateral held or other mitigation factors):

	2017	2016
	JD	JD
Statement of financial position items:		
Balances at Central Banks	248,187,472	234,969,595
Balances at banks and financial institutions	194,429,646	166,807,232
Financial assets at fair value through income statement	-	486,160
Direct credit facilities		
Retail	84,293,334	100,874,275
Mortgages	152,015,439	154,172,938
Corporate & SMEs		
Corporate	477,885,242	512,257,512
Small and medium enterprises (SMEs)	144,798,701	114,416,121
Governmental and public sector	70,246,521	99,411,546
Bonds and treasury bills:		
Financial assets at amortized cost , net	475,626,876	458,420,444
Other assets	9,696,905	7,187,263
Total statement of financial position Items	**1,857,180,136**	**1,849,003,086**
Off - statement of financial position items		
Letters of guarantee	143,235,118	142,028,092
Export Letters of credit	47,553,193	76,250,162
Confirmed Import Letters of credit	7,577,588	16,205,224
Issued acceptances	53,167,056	40,732,449
Unutilized credit facilities	82,207,585	33,381,425
Forward purchase contracts	81,720,341	2,241,000
Total off - statement of finanacial position items	**415,460,881**	**310,838,352**
Total	**2,272,641,017**	**2,159,841,438**

• The table above represent the maximum limit of the Bank's credit risk exposure as of 31 December 2017 and 2016, without taking into consideration the collateral and the other factors which will decrease the Bank's credit risk.

• For the statement of financial position items, the exposure in the above table is based on the balances as appeared on the consolidated statement of financial position, in addition to the related accrued interests.

2) Credit exposures are classified by the level of risks according to the following table:

2017	Retail	Real estate mortgages	Corporate	SMEs	Governmental and Public Sector	Banks and Financial Institutions	Total
	JD	JD	JD	JD	JD	JD	JD
Low risk	9,957,711	40,372	5,059,904	7,242,405	604,337,156	-	626,637,548
Acceptable risk	76,859,849	137,602,316	438,185,509	128,266,111	152,068,265	204,131,374	1,137,113,424
Past due:							
Up to 30 days	1,808,188	616,150	7,806,672	3,916,110	109,863	-	14,256,983
From 31 to 60 days	333,194	163	13,681,143	254,660	-	-	14,269,160
Watch list	1,116,855	6,776,338	45,786,922	4,734,400	-	-	58,414,515
Non performing:							
Substandard	884,529	2,018,019	1,557,483	1,557,336	-	-	6,017,367
Doubtful	1,573,294	3,190,352	34,209,365	2,555,986	-	-	41,528,997
Loss	6,584,053	6,089,973	46,507,234	4,618,143	-	-	63,799,403
Total	**96,976,291**	**155,717,370**	**571,306,417**	**148,974,381**	**756,405,421**	**204,131,374**	**1,933,511,254**
Less: Suspended interest	(3,813,381)	(1,144,249)	(8,570,481)	(1,196,981)	-	-	(14,725,092)
Less: Allowance for impairment losses	(8,869,576)	(2,557,682)	(47,200,069)	(2,978,699)	-	-	(61,606,026)
Net	**84,293,334**	**152,015,439**	**515,535,867**	**144,798,701**	**756,405,421**	**204,131,374**	**1,857,180,136**

2016	Retail	Real estate mortgages	Corporate	SMEs	Governmental and Public Sector	Banks and Financial Institutions	Total
	JD	JD	JD	JD	JD	JD	JD
Low risk	6,310,869	673,171	8,944,395	10,709,329	579,596,599	-	606,234,363
Acceptable risk	93,686,245	148,455,234	454,705,705	100,830,343	178,061,950	184,721,426	1,160,460,903
Past due:							
Up to 30 days	1,628,116	55,499	12,084,209	799,203	-	-	14,567,027
From 31 to 60 days	839,919	12,700	16,660,098	142,213	-	-	17,654,930
Watch list	3,433,874	970,890	66,404,701	1,623,005	-		72,432,470
Non performing:							
Substandard	1,013,897	211,104	753,181	571,459	-	-	2,549,641
Doubtful	1,754,500	2,465,674	742,466	76,090	-	-	5,038,730
Loss	9,009,026	3,788,787	76,008,727	3,624,220	-	-	92,430,760
Total	**115,208,412**	**156,564,861**	**607,559,176**	**117,434,445**	**757,658,549**	**184,721,426**	**1,939,146,868**
Less: Suspended interest	(5,117,309)	(916,174)	(27,740,735)	(1,106,513)	-	-	(34,880,731)
Less: Allowance for impairment losses	(9,216,828)	(1,475,749)	(42,658,663)	(1,911,811)	-	-	(55,263,051)
Net	**100,874,275**	**154,172,938**	**537,159,778**	**114,416,121**	**757,658,549**	**184,721,426**	**1,849,003,086**

- Credit exposure includes facilities, balances and deposits at banks, bonds, treasury bills, and any other assets with credit exposure.
- The total debt balance is considered due if one instalment or interest is due.
- The overdraft account is considered due if it exceeds it limit.

5) Concentration in credit exposures based on economic sectors is as follows:

Economic sector	Financial	Industrial	Commercial	Real estate*	Agriculture	Shares	Retail	Governmental and Public Sector	Other	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Balances at Central Banks	-	-	-	-	-	-	-	248,187,472	-	248,187,472
Balances at banks and financial institutions	194,429,646	-	-	-	-	-	-	-	-	194,429,646
Credit facilities	33,432,274	90,546,928	197,919,579	250,295,437	10,933,296	53,052,897	73,124,714	70,246,521	149,687,591	929,239,237
Bonds and treasury bills :										
Financial Assets at amortized Costs, net	10,301,690	-	-	20,151,347	-	-	-	438,312,095	6,861,744	475,626,876
Other assets	9,336,513	-	-	-	-	-	-	360,392	-	9,696,905
Total 2017	**247,500,123**	**90,546,928**	**197,919,579**	**270,446,784**	**10,933,296**	**53,052,897**	**73,124,714**	**757,106,480**	**156,549,335**	**1,857,180,136**
Total 2016	**223,243,443**	**126,794,437**	**161,222,775**	**248,396,884**	**14,780,406**	**54,996,059**	**88,497,173**	**767,761,789**	**163,310,120**	**1,849,003,086**

* The balance includes real estate loans granted to large corporations and housing loans.

Market Risk

Market Risk is the risk of fluctuations and changes in the fair value or the cash flow of financial instruments, due to changes in market prices such as interest rates, exchange rates, and stock prices. Market risk arises from open positions in interest rates, currency rates and equity and security investments. These risks are monitored through specific policies and procedures by specialized committees and concerned business units. The risks include the following:

- Interest Rate Risk
- Exchange Rate Risk
- Equity Price Risk

The Bank manages the expected market risk by adopting financial and investment policies within a specific strategy, and through the Assets and Liabilities Committee, which is tasked with the supervision of market risk and providing advice regarding the acceptable risks and the policy that is being followed.

The Market Risk Unit has been established and staffed by qualified and trained personnel to manage this type of risk according to the following:

1. Policies and procedures that are approved by the Board of Directors and the Central Bank of Jordan.
2. Market Risk Policy that includes principles of identifying, managing, measuring and monitoring this type of risk and having it approved by the relevant committees.
3. Monitoring reports for managing and monitoring market risk.
4. Developing tools and measures to manage and monitor market risk through:
   - Sensitivity Analysis
   - Basis Point Analysis
   - Value at Risk (VaR)
   - Stress Testing
   - Stop-Loss Limit Reports
   - Monitoring the Bank's investment limits
   - Monitoring the Bank's investment portfolio at fair value through other comprehensive income and conducting revaluations of the portfolio on a regular basis.
5. The Middle Office Unit is tasked with monitoring, on a daily basis, all the investment limits in the money market and the foreign exchange transactions.

Interest Rate Risk:

Interest rate risk arises from the possible impact of changes in interest rates on the Bank's profits or the fair value of financial instruments. The Bank is exposed to interest rate risk due to the possible interest rate mismatch or gap between assets and liabilities valued at different time intervals, or the revision of the interest rates at a given time interval. The Bank manages these risks by reviewing the interest rates on assets and liabilities on a regular basis.

The Assets and Liabilities Management Policy includes limits for interest rate sensitivity. The Asset and Liability Committee evaluates the interest rate risk through periodic meetings and examines the gaps in the maturities of assets and liabilities and the extent by which it is affected by the current and expected interest rates, while comparing it with the approved limits, and implementing hedging strategies when needed.

The Bank uses hedging instruments such as Interest Rate Swaps to curb the negative impact of fluctuations in interest rates.

Interest Rate Risk Reduction Methods:

The Asset and Liability Committee, through periodic meetings convened for this purpose, evaluates the assets and liabilities maturity gaps, and the extent of their exposure to the impacts of current and expected interest rates are examined. In addition, solutions are proposed to reduce the impact of these risks.

Balancing due dates of assets and liabilities; the management of the Bank seeks to harmonize the impact of interest rates changes within the assets and liabilities maturity categories to mitigate any negative impact that may arise from fluctuations in interest rates.

Interest Rate Gaps:

The Bank mitigates any gaps in interest rates through a circular that adjusts interest rates on its assets and liabilities that links and balances the maturities and interests.

Interest Rate Hedging:

The sensitivity of statement of income is represented by the effect of the possible expected changes in interest rates on the Bank's profits for one year. It is calculated based on the financial assets and liabilities that carry a variable interest rate as at 31 December 2017.

2017

Currency	Increase in interest rate	Sensitivity of interest income (profit and loss)	Sensitivity of equity
	%	JD	JD
US Dollar	1	545,345	-
Euro	1	16,185	-
Pound Sterling	1	12,686	-
Japanese Yen	1	55,199	-
Other Currencies	1	19,452	-

2016

Currency	Decrease in interest rate	Sensitivity of interest income (profit and loss)	Sensitivity of equity
	%	JD	JD
US Dollar	1	2,250,704	-
Euro	1	6,970	-
Pound Sterling	1	4,847	-
Japanese Yen	1	30,228	-
Other Currencies	1	11,561	-

2017

Currency	Decrease in interest rate	Sensitivity of interest income (profit and loss)	Sensitivity of equity
	%	JD	JD
US Dollar	1	(545,345)	-
Euro	1	(16,185)	-
Pound Sterling	1	(12,686)	-
Japanese Yen	1	(55,199)	-
Other Currencies	1	(19,452)	-
2016			
US Dollar	1	(2,250,704)	-
Euro	1	(6,970)	-
Pound Sterling	1	(4,847)	-
Japanese Yen	1	(30,228)	-
Other Currencies	1	(11,561)	-

2- Currency Risks

The currency risk is the risk of change in the value of financial instruments due to change in exchange rates. The Jordanian Dinar is the base currency of the Bank. The Board of Directors imposes limits for the financial position of each currency at the Bank. The foreign currency positions are monitored on a daily basis, and hedging strategies are implemented to ensure the maintenance of foreign currencies' positions within the approved limits.

The Bank's investment policy states that it is possible to hold positions in major foreign currencies, provided that they do not exceed 5% of shareholders' equity for each currency, and that the gross foreign currencies position does not exceed 15% of shareholders equity. Also, the foreign currency positions are monitored on a daily basis. In addition, complex market instruments can be used to hedge against fluctuations in currency exchange rates according to limits that ensure the Bank is not exposed to additional risks.

The following table illustrates the possible effect on the statement of income as a result of fluctuations in exchange rates against the Jordanian Dinar, assuming that all other variables remain constant:

2017 -

Currency	Change in currency exchange rate	Effect on profit and loss
	%	JD
Euro	5	55,663
Pound Sterling	5	(2,784)
Japanese Yen	5	522
Other currencies	5	3,566,789

2016 -

Currency	Change in currency	Effect on profit and loss
	%	JD
Euro	5	41,037
Pound Sterling	5	4,441
Japanese Yen	5	645
Other currencies	5	5,167,350

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

3- Equity Price Risk

Equity price risk arises from the change in the fair value of equity investments. The Bank manages this risk by distributing its investments over various geographic and economic sectors. Most of the Bank's equity investments are listed in Amman Stock Exchange.

The following table illustrates the statement of income sensitivity and the cumulative change in fair value as a result of possible reasonable changes in the equity prices, assuming that all other variables remain constant:

Indicator	Change in indicator	Effect on profit and loss	Effect on equity
2017 -	%	JD	JD
Amman Stock exchange	5	159,618	275,650
Regional Markets	5	3,435	181,106

Indicator	Change in indicator	Effect on profit and tax	Effect on equity
2016 -	%	JD	JD
Amman Stock exchange	5	153,688	238,533
Regional Markets	5	13,805	236,256
International markets	5	12,103	-

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

The sensitivity of the interest rates is as follows:

The following analysis shows interest rate re-pricing or maturity dates, whichever is earlier:

31 December 2017	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 3 years	3 years or more	Non-interest bearing	Total
	JD	JD	JD	JD	JD	JD	JD	JD
Assets-								
Cash and balances at Central Banks	18,500,000	-	-	-	93,948,749	-	170,289,775	282,738,524
Balances at banks and financial institutions	21,149,592	3,832,000	-	-	-	-	169,440,318	194,421,910
Direct credit facilities	178,716,804	82,557,736	59,763,032	90,508,277	195,401,889	247,290,887	66,723,738	920,962,363
Financial assets at fair value through income statement	-	-	-	-	-	-	3,261,060	3,261,060
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	9,135,100	9,135,100
Financial assets at amortized Cost - net	13,240,588	20,004,062	4,700,170	79,166,647	102,217,215	248,556,017	-	467,884,699
Property and equipment - net	-	-	-	-	-	-	30,268,752	30,268,752
Intangible assets - net	-	-	-	-	-	-	5,795,651	5,795,651
Deferred tax assets	-	-	-	-	-	-	10,286,431	10,286,431
Other assets	8,763,215	3,348,110	3,808,879	3,942,046	3,850,433	4,180,129	47,726,202	75,619,014
Total Assets	240,370,199	109,741,908	68,272,081	173,616,970	395,418,286	500,027,033	512,927,027	2,000,373,504
Liabilities-								
Banks and financial institution deposits	16,574,507	-	-	-	-	-	91,298,176	107,872,683
Customers' deposits	185,821,200	109,198,416	181,367,134	218,455,169	122,685,232	11,026,129	388,466,945	1,217,020,225
Cash Margin accounts	25,028,072	28,166,117	14,553,981	12,845,271	26,967,227	29,157,875	7,943,841	144,662,384
Loans and borrowings	1,657,231	6,309,102	11,277,635	16,346,511	58,196,840	25,126,852	-	118,914,171
Subordinated loans	-	-	-	-	17,725,000	-	-	17,725,000
Sundry provisions	-	-	-	-	-	-	16,817,883	16,817,883
Income tax provisions	-	-	-	-	-	-	2,446,732	2,446,732
Deferred tax liabilities	-	-	-	-	-	-	679,685	679,685
Other liabilities	7,991,911	938,427	1,581,339	1,911,491	1,062,736	96,821	11,257,553	24,840,278
Total liabilities	237,072,921	144,612,062	208,780,089	249,558,442	226,637,035	65,407,677	518,910,815	1,650,979,041
Interest rate sensitivity gap	3,297,278	(34,870,154)	(140,508,008)	(75,941,472)	168,781,251	434,619,356	(5,983,788)	349,394,463
31 December 2016								
Total Assets	292,764,183	99,069,454	66,827,796	175,243,395	436,167,859	454,084,444	483,166,911	2,007,324,042
Total Liabilities	352,634,963	238,364,353	147,493,171	245,713,716	165,139,484	92,231,162	431,639,939	1,673,216,788
Interest rate sensitivity gap	(59,870,780)	(139,294,899)	(80,665,375)	(70,470,321)	271,028,375	361,853,282	51,526,972	334,107,254

Concentration in Foreign currency risk:

2017	US Dollar	Euro	Pound sterling	Japanese Yen	Other	Total
Assets						
Cash and balances at Central Bank of Jordan	57,433,902	1,363,065	247,709	-	124,851,496	183,896,172
Balances at banks and financial institutions	145,440,580	15,839,271	6,271,763	20,841,738	5,990,946	194,384,298
Financial assets at fair value through other comprehensive income	511,321	-	-	-	2,911,556	3,422,877
Financial assets at amortized cost, net	68,717,195	-	-	-	-	68,717,195
Direct credit facilities	151,037,348	66,736	6	-	21,516,834	172,620,924
Property and equipment - net	417,572	-	-	-	9,172,980	9,590,552
Intangible assets - net	1,384	-	-	-	1,799,905	1,801,289
Other assets	1,480,928	3,801,170	4,283	-	27,252,785	32,539,166
Total Assets	**425,040,230**	**21,070,242**	**6,523,761**	**20,841,738**	**193,496,502**	**666,972,473**
Liabilities						
Banks and financial institution deposits	86,406,413	9,434,296	7,232	2,750	1,156,155	97,006,846
Customers' deposits	287,243,883	16,779,891	6,185,802	20,817,100	67,179,066	398,205,742
Margin accounts	33,740,874	6,243,137	1,942	11,453	49,344,096	89,341,502
Loans and borrowings	11,656,443	-	-	-	1,816,493	13,472,936
Secondary loans	17,725,000	-	-	-	-	17,725,000
Sundry provisions	16,462,383	-	-	-	-	16,462,383
Income tax provision	-	-	-	-	1,652,459	1,652,459
Other liabilities	1,953,142	2,736	1,258	-	1,979,123	3,936,259
Total Liabilities	**455,188,138**	**32,460,060**	**6,196,234**	**20,831,303**	**123,127,392**	**637,803,127**
Net concentration in the statement of financial position	(30,147,908)	(11,389,818)	327,527	10,435	70,369,110	29,169,346
Forward contracts	59,056,623	12,503,085	(383,200)	-	966,670	72,143,178
Net concentration in foreign currency	**28,908,715**	**1,113,267**	**(55,673)**	**10,435**	**71,335,780**	**101,312,524**

2016	US Dollar	Euro	Pound sterling	Japanese Yen	Other	Total
Total Assets	**419,731,717**	**6,916,037**	**8,079,679**	**2,768,800**	**220,217,499**	**657,713,732**
Total Liabilities	**441,554,683**	**33,512,288**	**8,121,207**	**2,755,897**	**116,870,493**	**602,814,568**
Net concentration in the statement of financial position	(21,822,966)	(26,596,251)	(41,528)	12,903	103,347,006	54,899,164
Forward contracts	(7,024,421)	27,417,000	130,350	-	-	20,522,929
Net concentration in foreign currency	**(28,847,387)**	**820,749**	**88,822**	**12,903**	**103,347,006**	**75,422,093**

Liquidity Risk

Liquidity risk refers to the risk arising from the probability of the Bank being unable to raise adequate funds in any geographical region, currency and time, to meet its obligations when they are due, or to finance its activities without bearing high costs or incurring losses because of resorting to:

1. Selling Bank assets at low prices; leading to a decrease in the expected returns and the financial profits of the Bank.
2. Acquiring high-cost obligations in order to meet its commitments, which would lead to an increase in the costs and a consequent decrease in the expected profits of the Bank.

The impact of a liquidity risk is identified by ascertaining the extent of the liquidity of its assets and the ability of the Bank to convert liquid and semi-liquid assets into cash with the least amount of losses if the prices decrease. The Bank should provide the assets that can be sold at a price that is close to its fair value. Accordingly, the liquidity risk which the Bank may be subject to can be divided into the following:
A- Funding Liquidity Risk: the inability of the Bank to convert assets into cash such as accounts receivable, or obtain financing to meet commitments
B- Market Liquidity Risk: the inability of the Bank to sell assets in the market or the sale of these assets at a large financial loss due to the poor liquidity or demand in the market.

The treasury and Investment department is resposible for managing the Bank's liquidity, while the Asset and Liability Committee (ALCO) manages, measures and monitors the liquidity risk which are governed by pre-set policies and procedures as well as the Contingency Funding Plan. The Committee is tasked with monitoring and controlling liquidity and ensuring the optimum strategic distribution of the Bank assets and liabilities, whether in the on/off-statement of financial position items of it in coordination with the head of Treasury and Investment Department. The management of liquidity risk is conducted within the following group of inputs:

1- A set of policies and procedures approved by the committees which determine principles, definition, management, measurement and monitoring of liquidity risk.
2- Contingency Funding Plan, which includes:
   a. Specific procedures for liquidity contingency management.
   b. A specialized committee for liquidity contingency management.
   c. Liquidity Contingency Plan.
   d. Analysis of the liquidity position of the Bank based on the following liquidity reports:

- Duration gap analysis of assets and liabilities
- Legal liquidity ratio, liquidity according to maturity ladder (in Jordanian dinar and foreign currencies).
- Certificate of Deposits (CDs) issued by Capital Bank (in Jordanian dinar and foreign currencies).
- Customers Deposits (in Jordanian dinar and foreign currencies)
- Liquidity Indicators Report
- Stress testing

The Treasury and Investment Department, in coordination with the Market Risk Unit, diversifies funding sources and matches its maturity dates, and maintains sufficient liquid assets, in order to mitigate liquidity risk. Accordingly, this is accomplished through:

Analysis and monitoring of assets and liabilities maturity dates: the Bank examines the liquidity of its assets and liabilities as well as any changes that may occur on a daily basis. Through the Asset and Liability Committee, the Bank seeks to achieve a balance between the maturity dates of the assets and liabilities, and monitors the gaps in relation to those specified by the policies of the Bank.

Liquidity Contingency Plan: Assets and Liabilities Risk Management Committee submits its recommendations regarding the liquidity risk management and its procedures and sets necessary orders to apply the effective monitoring controls and issues reports regarding liquidity risk and the ability to adhere to the policies and controls. In addition to providing analytical resources to top management including monitoring all the technical updates related to the measurements and liquidity risk and its application.

Geographical and sectorial distribution: the assets and liabilities of the Bank are distributed regularly into local and foreign investments depending on more than one financial and capital market. The facilities are also distributed among several sectors and geographical regions while maintaining a balance between providing customer and corporate credit. Furthermore, the Bank seeks to diversify the sources of funding and their maturity dates.

Cash reserves at the banking monitoring authorities: The Bank maintains a statutory cash reserve at the banking monitoring authorities amounting to JD 77,483,546 .

First: The table below summarizes the undiscounted cash flows of the financial liabilities:

	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 3 years	3 years or more	No fixed maturity	Total
31 December 2017	JD	JD	JD	JD	JD	JD	JD	JD
Liabilities-								
Banks and financial institution deposits	107,900,583	-	-	-	-	-	-	107,900,583
Customers' deposits	574,814,622	110,126,602	184,450,375	225,882,644	135,199,126	12,900,571	-	1,243,373,940
Margin accounts	32,989,354	28,216,816	14,606,376	12,937,757	27,549,719	30,207,558	-	146,507,580
Loans and borrowings	1,662,700	6,371,562	11,500,933	16,993,832	65,110,624	30,101,968	-	131,741,619
Subordinated loans	-	-	-	-	-	23,893,300	-	23,893,300
Sundry provisions	-	-	-	-	-	-	16,817,883	16,817,883
Income tax provision	1,674,504	764,136	8,092	-	-	-	-	2,446,732
Deferred tax liabilities	-	679,685	-	-	-	-	-	679,685
Other liabilities	10,608,046	1,040,209	1,766,201	2,167,224	1,285,506	122,853	-	16,990,039
Total Liabilities	**729,649,810**	**147,199,010**	**212,331,977**	**257,981,457**	**229,144,975**	**97,226,250**	**16,817,883**	**1,690,351,362**
Total Assets	**273,195,865**	**116,931,980**	**65,655,064**	**180,587,845**	**421,719,975**	**497,194,523**	**445,088,251**	**2,000,373,504**
31 December 2016								
Liabilities-								
Banks and financial institution deposits	126,750,562	14,280,678	2,084,181	-	-	-	-	143,115,421
Customers' deposits	566,161,227	207,174,579	130,043,198	236,144,643	108,808,491	4,441,157	-	1,252,773,295
Margin accounts	33,298,548	9,520,977	9,209,169	16,305,985	36,566,433	44,943,864	-	149,844,976
Loans and borrowings	2,577,789	8,423,910	3,640,430	1,651,331	36,498,769	34,049,420	-	86,841,649
Subordinated loans	-	-	-	-	-	23,884,438	-	23,884,438
Secondary loans	-	-	1,604,171	1,632,786	1,519,671	-	-	4,756,628
Sundry provision	-	-	-	-	-	-	25,363,744	25,363,744
Income tax provision	2,438,979	8,581,136	-	-	-	-	-	11,020,115
Deferred tax liabilities	-	417,170	6,916	-	-	-	-	424,086
Other liabilities	15,126,445	1,490,715	959,622	1,747,386	784,510	32,383	-	20,141,061
Total Liabilities	**746,353,550**	**249,889,165**	**147,547,687**	**257,482,131**	**184,177,874**	**107,351,262**	**25,363,744**	**1,718,165,413**
Total Assets	**404,570,208**	**91,038,928**	**64,063,668**	**176,104,886**	**420,559,502**	**440,427,464**	**410,559,386**	**2,007,324,042**

Second: The table below summarizes the maturities of financial derivatives as of the date of the consolidated financial statements:

Financial derivatives / liabilities which are settled in net include; foreign currency derivatives, off-the statement of Financial position items market currency options, currency futures, and on-statement of financial position foreign currency swap contracts:

Foreign Currency Derivatives

	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	Total
2017	JD	JD	JD	JD	JD
Derivatives held for trading:					
Outflows	-	49,713,291	32,007,050	-	81,720,341
Inflows	-	49,815,465	32,154,685	-	81,970,150

	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	Total
2016	JD	JD	JD	JD	JD
Derivatives held for trading:					
Outflows	-	2,241,000	-	-	2,241,000
Inflows	-	2,301,977	-	-	2,301,977

Third: Off-the statement of Financial position items:

	Up to 1 year	1 – 5 years	Total
2017	JD	JD	JD
Acceptances and Letters of Credit	60,744,644	47,553,193	108,297,837
Unutilized credit limits	-	82,207,585	82,207,585
Letters of guarantee	143,235,118	-	143,235,118
Foreign Currency Forward Deals	81,720,341	-	81,720,341
Total	**285,700,103**	**129,760,778**	**415,460,881**

	Up to 1 year	1 – 5 years	Total
2016	JD	JD	JD
Acceptances and Letters of Credit	40,732,449	92,455,386	133,187,835
Unutilized limits credit	-	33,381,425	33,381,425
Letters of guarantee	142,028,092	-	142,028,092
Foreign Currency Forward Deals	2,241,000	-	2,241,000
Total	**185,001,541**	**125,836,811**	**310,838,352**

Operational risk:

Operational risk is defined as the risk of loss arising from inadequate or failure of internal processes, human factor or systems, or resulting from external events. From a management perspective, this definition also includes legal risk, strategic risk and reputational risk for the purposes of managing these types of risk.

Due to the continuous change in the working environment and the management's desire to remain in-sync with all the technological advancements and to introduce new banking services and products. Operational Risk Policy has been designed and developed the Bank's departments, branches and its subsidiary, whereby the main principles are included and the policy's objectives are aligned with the Bank's strategic objectives.

As a result Bank's strategies has been implemented to enhance the role of operational risk management which is represented by Operational Risk Management Framework, which includes all the bank's divisions, branches and subsidiaries. This requires determining, evaluating, supervising and rendering the operational risk to each branch separately as it is outlined in Basel committee accords through which control Risk Self Assessment (CRSA) made by:

1. holding "Workshops" based on adopted analysis procedures and audit reports thus identifying risks, controls, and determine the regulatory gap through the matrix of risk, In this context, a model of "regulatory examinations" manager of the unit/ department/ branch or his representative "coordinator or responsible".
2. Building key risk indicator to cover all Bank and its branches.
3. Provide a mechanism to collect operational events and calculate expected losses based on the events using "Actuarial Model" thus determine the carrying capacity" Risk Appetite" at every level all alone.
4. Supervising over the renovation and development of a business continuity plan in the Bank and its subsidiaries.

From this point, the continuity and effectiveness of operational risk management is an integral part of the responsibilities of all those concerned in the applications in the Bank and on all levels through:

1- Adherence to regulatory examinations conducted by their schedules and without delay.
2- Showing the result of regulatory tests with transparency and accuracy.
3- Reporting and disclosing any losses or operating events without delay or hesitation.
4- Adopt and implement the recommendations "Remedial Actions/ Recommendations/ Mitigations" that are put forward by the operational risk unit, that would mitigate the risks identified through workshops/ Reporting of events or operating losses/ Regulatory examinations.
5- The role of the board of directors, Risk and compliance committee, Senior management, Audit department to activate the importance of operational risk and make it an integral part of the daily activities.

To ensure that the above is implemented, the operational risk management unit is keen on spreading knowledge and increasing awareness about operational risk management by conducting training courses and workshops for all Bank departments and by creating an effective work environment between the operational risk management unit and the concerned parties from each department. In addition, the operational risk management unit is responsible for raising reports to the Internal Risks Committee concerning any short comings or violations. This will ultimately lead to the development of risk profile at each department / unit level and the Bank level as a whole.

In addition to the above, the operational risk management unit is concerned with the following:
1 - Reviewing the Bank's internal policies and procedures to highlight the associated risks and work on minimizing such risks prior to implementation.
2 - Conducting stress testing and observing the results.
3 - Internal assessment of capital with respect to operational risks in accordance with Central Bank of Jordan instructions.
4 - Continuous development of the systems used to manage.
5 - Continue the development of the integrated program for business continuity plans.

Information Security :

The responsibility of the Information Security / Risk management unit lies in ensuring security, availability and accuracy of the Banks information through the following:-

1. Developing an Information security program based on leading International standards (ISO 27k, PCI DSS), that is in line with the Bank's strategy.
2. Providing the tools and means necessary to reduce Information security risks.
3. Developing security policies related to Information systems and resources.
4. Continuous security awareness for the Bank's employees and ensuring their compliance to the security program.
5. Managing security incidents related to Information management systems and raising recommendations to Top Management.
6. Developing security standards for various Information systems.
7. Working on developing a business continuity plan to ensure business continuity in the event of any disaster.
8. Identifying the appropriate controls to mitigate the risks faced by the bank through analyzing various Information security risks.
9. Preparing and developing security measures related to Information systems security incidents.

10. Managing Information systems security incidents and raising relevant recommendations to Top Management.
11. Ensuring the security and Integrity of hardware, software and various applications through risk analysis and periodic testing to ensure safe use of these resources.

(45) Segment Information

1. Information about bank Activities:

Retail banking: Includes handling individual customers' deposits, credit facilities, credit card, and other services.

Corporate banking: Includes monitoring deposits, credit facilities, and other banking facilities provided to corporate customers.

Corporate finance: Principally arranging structured financing, and providing services relating to privatizations, IPOs, and mergers and acquisitions.

Treasury: Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations.

These segments are the basis on which the Bank reports its segment information:

	Retail Banking	Corporate Banking	Corporate Finance	Treasury	Other	Total 2017	Total 2016
	JD	JD	JD	JD	JD	JD	JD
Total revenue	25,545,445	56,463,220	2,864,801	32,872,780	22,009,811	139,756,057	133,736,419
Impairment losses on direct credit facilities	(3,296,240)	(20,828,396)	-	-	-	(24,124,636)	(8,670,583)
Segment results	4,263,781	10,797,814	2,864,801	28,583,446	22,009,809	68,519,651	85,512,456
Unallocated expenses						(37,137,158)	(58,422,058)
Profit before tax						**31,382,493**	**27,090,398**
Income tax						**(4,070,847)**	**(10,954,422)**
Net profit						**27,311,646**	**16,135,976**
Other Information							
Segmental assets	250,460,177	670,502,186	-	957,441,293	121,969,848	2,000,373,504	2,007,324,042
Segmental liabilities	709,072,098	652,610,511	-	244,511,854	44,784,578	1,650,979,041	1,673,216,788
Capital expenditure						(5,241,020)	(6,090,900)
Depreciation and amortization						(4,590,769)	(4,449,788)

2. Geographical Information

This segment represents the geographical operations of the bank. The bank operates primarily in Jordan and also operates internationally in the Middle East, Europe, Asia, America and the Far-East.

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

	Inside Jordan		Outside Jordan		Total	
	2017	2016	2017	2016	2017	2016
	JD	JD	JD	JD	JD	JD
Total revenue	112,117,495	122,525,272	27,638,562	11,211,147	139,756,057	133,736,419
Total assets	1,750,320,266	1,815,695,759	250,053,238	191,628,283	2,000,373,504	2,007,324,042
Capital expenditure	3,256,822	4,098,727	1,984,198	1,992,173	5,241,020	6,090,900

(46) Capital Management

The Bank maintains an appropriate paid in capital in order to meet its operational risk, and it regularly monitors its capital adequacy in accordance with BASEL to comply with the Central Bank of Jordan's regulations.

According to Central Bank of Jordan regulations (52/2010), the minimum paid in capital of Jordanian banks should be JD 100 million before the end of 2011 and the capital for the foreign banks in Jordan should not be less than half of the capital for the Jordanian banks in accordance to article (12) and article (8) from the Law and Banks number (28) for the year 2000 and its adjustments. In addition, the regulation requires a minimum leverage ratio of 6%.

Through its operational years; the Bank maintained a capital adequacy ratio in excess of 12%, being the minimum capital adequacy rate required by the Central Bank of Jordan (8% as per Basel). Furthermore, the Bank regularly reviews and complies with the concentration ratios using regulatory capital as an indicator; noting that the instructions impose a ratio of no less than 14%.

The Bank manages and restructures its capital in light of the changes in the business environment. There has been no change on the Bank's capital structure during 2017 and 2016.

Description of paid in capital

Description of paid in capital

According to CBJ regulations regarding Basel III, regulatory capital comprises of:

1- Tier 1 capital, which refers to the Bank's core capital, and consists of:

- Common Equity Tier 1 (CET1) which includes the following: (paid in capital, retained earnings, statutory and voluntary reserves,cumulative change in fair value, foreign currency translation adjustment, minority interest (recognizable under CET1)), it also includes the following deductions (year/period losses, goodwill and intangible assets, deferred tax assets, treasury stocks, shortage in required provisions, shortages in tier 2 capital, restricted balances, gross insignificant investments (<10%) and significant investments (>10%) in other banks, financial institutions, insurance companies and unconsolidated subsidiaries.
- Additional Tier 1 (AT1), Additional Tier 1 capital consists of the sum of the following elements:

(convertible bonds, preferred stocks, financial instruments issued by the bank and holds the characteristics of additional capital, minority interest (recognizable under AT1), it also includes the following deductions (gross insignificant investments (<10%) and significant investments (>10%) in other banks, financial institutions, insurance companies, and unconsolidated subsidiaries.

2- Tier 2 capital, which is the supplementary capital, consists of the following elements; subordinated debt, general banking risk reserve and minority interest, and deducts the following; insignificant investments (<10%) and significant investments (>10%) in other banks, financial institution, insurance companies and unconsolidated subsidiaries.

The transition period for the deductions in tier 1 and tier 2 related to the investments in banks, financial institutions, insurance companies and unconsolidated subsidiaries occurs gradually over 5 years according to CBJ regulations. By the end of the year 2020, these deductions will be fully deducted from Tier 1.

Central Bank of Jordan emphasized on the importance of complying with Basel III regulation in building up addition capital as a percentage of risk weighted assets, which restricts cash dividends, through the following buffers:

1- Conservation Buffer

2- Countercyclical Buffer

3- D-SIBs

Regulatory Requirements for paid in capital

Capital adequacy ratio is calculated based on the simplified approach (standardized approach) in accordance with the regulations of the Central Bank of Jordan, which in turn are based on the verdicts of the Basel committee. Below are the comparative figures of the capital adequacy ratio:

	2017	2016
	JD	JD
Primary capital-		
Paid in capital	200,000,000	200,000,000
Statutory reserves	34,689,204	32,257,341
Share premium	709,472	709,472
Retained earning	50,994,187	39,562,631
Fair value reserve	187,646	(566,000)
Foreign Currency translation reserve	(4,082,668)	(3,868,943)
Non-controlling interest	47,452,938	50,354,657
Proposed issue of shares	(20,000,000)	(10,000,000)
Less-		
Intangible assets	5,795,651	5,537,532
Deferred tax assets	10,286,431	10,698,156
Balances at Central Bank of Iraq (net)	81,557,340	94,218,045
Total Primary capital	**212,311,357**	**197,995,425**
Supplementary Capital		
General banking risk reserve	8,840,593	9,811,521
Non-controlling interest	709,106	1,800,013
Subordinated loans	7,090,000	10,950,111
Total Supplementary Capital	**16,639,699**	**22,561,645**
Total Regulatory Capital	**228,951,056**	**220,557,070**
Total Risk weighted assets	**1,514,338,178**	**1,589,768,876**
Capital adequacy (%)	**15.12%**	**13.87%**
Primary Capital (%)	**14.02%**	**12.45%**

(47) Fiduciary Accounts

Investment custody accounts amounted to JD 39,988,858 as of 31 December 2017 compared to JD 23,255,244 in 31 December 2016.

In the normal course of business, the Bank performs investment management services for its clients. Investments and other assets held by the Bank (Horizon fund) in a fiduciary capacity amounting to JD 884,525 as of 31 December 2017 are segregated from the Bank's assets and are not included in the Consolidated financial statements.

(48) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

2017 -	Up to 1 year	More than 1 year	Total
	JD	JD	JD
Assets			
Cash and balances at CBJ	188,789,775	93,948,749	282,738,524
Balances at banks and financial institutions	194,421,910	-	194,421,910
Direct credit facilities , net	454,800,408	466,161,955	920,962,363
Financial assets at fair value through income statement	3,261,060	-	3,261,060
Financial assets at fair value through other comprehensive income	-	9,135,100	9,135,100
Financial assets at amortized cost ,net	117,111,467	350,773,232	467,884,699
Property and equipment (net)	-	30,268,752	30,268,752
Intangible assets (net)	-	5,795,651	5,795,651
Deferred tax assets	-	10,286,431	10,286,431
Other assets	67,588,452	8,030,562	75,619,014
Total Assets	**1,025,973,072**	**974,400,432**	**2,000,373,504**
Liabilities			
Banks and financial institution deposits	107,872,683	-	107,872,683
Customers' deposits	1,083,308,864	133,711,361	1,217,020,225
Margin accounts	88,537,282	56,125,102	144,662,384
Loans and borrowings	35,590,480	83,323,691	118,914,171
Subordinated loans	-	17,725,000	17,725,000
Sundry provisions	16,817,883	-	16,817,883
Income tax provision	2,446,732	-	2,446,732
Deferred tax liabilities	679,685	-	679,685
Other liabilities	23,556,679	1,283,599	24,840,278
Total Liabilities	**1,358,810,288**	**292,168,753**	**1,650,979,041**
Net	**(332,837,216)**	**682,231,679**	**349,394,463**

2016 -	Within1 year	More than 1 year	Total
	JD	JD	JD
Assets			
Cash and balances at Central Banks	141,950,021	119,000,861	260,950,882
Balances at banks and financial institutions	166,478,834	-	166,478,834
Direct credit facilities	478,205,159	492,267,072	970,472,231
Financial assets at fair value through income	4,071,180	-	4,071,180
Financial assets at fair value through other comprehensive income	-	9,498,110	9,498,110
Financial assets at amortized cost	90,319,257	360,423,183	450,742,440
Property and equipment (net)	-	29,938,896	29,938,896
Intangible assets (net)	-	5,537,532	5,537,532
Deferred tax assets	699,141	9,999,015	10,698,156
Other assets	17,521,122	81,414,659	98,935,781
Total Assets	**899,244,714**	**1,108,079,328**	**2,007,324,042**
Liabilities			
Banks and financial institution deposits	142,757,612	-	142,757,612
Customers' deposits	1,124,570,565	100,139,835	1,224,710,400
Margin accounts	67,968,415	77,036,743	145,005,158
Loans and borrowings	16,088,859	61,796,569	77,885,428
Subordinated loans	-	17,725,000	17,725,000
Secondary loans	3,151,111	1,370,341	4,521,452
Sundry provisions	-	25,363,744	25,363,744
Income tax provision	8,581,136	2,438,979	11,020,115
Deferred tax liabilities	424,086	-	424,086
Other liabilities	19,204,056	4,599,737	23,803,793
Total Liabilities	**1,382,745,840**	**290,470,948**	**1,673,216,788**
Net Assets	**(483,501,126)**	**817,608,380**	**334,107,254**

(49) Contingent Liabilities and Commitments (Off statement of financial position)

a) The total outstanding commitments and contingent liabilities are as follows:

	2017	2016
	JD	JD
Export letters of credit	47,553,193	76,250,162
Confirmed import letter of credit	7,577,588	16,205,224
Acceptances	53,167,056	40,732,449
Letters of guarantee -		
Payments	30,799,360	31,155,007
Performance	65,314,628	64,938,282
Other	47,121,130	45,934,803
Foreign currency forward	81,720,341	2,241,000
Unutilized direct credit limits	82,207,585	33,381,425
Total	**415,460,881**	**310,838,352**

b) The contractual commitments of the Bank are as follows:

	2017	2016
	JD	JD
Intangible assets contracts	780,122	882,378
Fixed assets contracts	208,139	788,206
Construction contracts	791,033	1,054,681
	1,779,294	**2,725,265**

Annual rent of the Bank's main building and branches amounted to JD 1,547,206 as 31 December 2017 (2016: JD 1,343,611).

(50) Lawsuits against the Bank

- The lawsuits raised against the Bank, as part of the ordinary course of business, amounted to JD 24,525,979 as of 31 of December 2017 compared to JD 24,545,479 in 31 December 2016. According to the Bank's management and legal counselor, the Bank will not be liable in any of these cases.
- The lawsuits raised against Capital Investment and Brokerage Company Ltd/Jordan, as part of the ordinary course of business, amounted to JD 355,686 as of 31 of December 2017 and 31 December 2016. According to the Bank's management and legal counselor, provisions amounted to JD 355,500 were taken against these lawsuits.
- The lawsuits raised against National Bank of Iraq, as part of the ordinary course of business, amounted to JD 7,087,147 as of 31 of December 2017 compared to JD 3,579,196 in 31 December 2016. According to the Bank's management and legal counselor, provisions amounted to JD 3,519,455 were taken against these lawsuits.

(51) Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The Bank has implemented the first phase of IFRS 9 as issued during 2009. The date of initial implementation of the first phase of IFRS 9 was 1 January 2011.

The new version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required; however, the entities are exempted from restating their comparative information.

The Bank plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Bank has performed an impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank adopts IFRS 9. The Bank expects based on preliminary figures an increase in the loss allowance for an amount of 9.58 million resulting in an equal negative impact on equity, as well as it might affect the deferred taxes. In addition, the Bank will implement changes in classification of certain financial instruments.

(a) Classification and Measurement

The Bank does not expect a significant impact on its balance sheet or equity on applying the new classification and measurement category of IFRS 9. It expects to continue being measured at amortised cost and to use the new category starting from 1 January 2018 for classifying part of the debt securities portfolio to be measured at fair value through OCI.

Credit facilities are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Bank analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost or FVTOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Incurred Loss versus Expected Loss Methodology

The application of ECL will significantly change the credit loss methodology and models. ECL allowances represent credit losses that should reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. This compares to the present incurred loss model under IAS 39 that incorporates a single best estimate, the time value of money and information about past events and current conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition. This compares to the present incurred loss model which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses. Because of the inclusion of relative credit deterioration criteria and consideration of forward looking information, the ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier under IFRS 9.

Stage Migration and Significant Increase in Credit Risk

- For non-Impaired Financial Instruments

Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12 months of ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL.

- For Impaired Financial Instruments

Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under IAS 39 for impaired financial instruments.

For the business and government portfolios, the individually assessed allowances for impaired instruments recognized under IAS 39 will generally be replaced by stage 3 allowances under IFRS 9, while the collective allowances for non-impaired financial instruments will generally be replaced by either stage 1 or stage 2 allowances under IFRS 9. For the retail portfolios, the portion of the collective allowances that relate to impaired financial instruments under IAS 39 will generally be replaced by stage 3 allowances, while the non-impaired portion of the collective allowances will generally be replaced by either stage 1 or stage 2 allowances under IFRS 9.

Key Drivers of Expected Credit Loss

The following concepts are subject to a high level of judgment, will have a significant impact on the level of ECL allowances and will be the cause of increased volatility of allowances:

1- Determining when a SICR of a financial asset has occurred.

2- Measuring both 12-month and lifetime credit losses.

3- Incorporating forward-looking information using multiple probability-weighted scenarios.

4- Collateral and quality.

Further, the preliminary expected impact disclosed above may change as a result of the following factors:

- The systems and associated controls in place have not been operational for an extended period.
- The Bank has not finalized the testing and assessment of controls over its IT systems and changes to its governance framework.
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to re-assessment and changes upon instructions of the regulatory authority.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 16 Leases. IFRS 15 supersedes the below:

- IAS 11 Construction Contracts
- IAS 18 Revenue
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers
- SIC-31 Revenue—Barter Transactions Involving Advertising Services

The standard is effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

Entities may apply the amendments prospectively and are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 16 Leases

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

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

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

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

IFRS 17 Insurance Contracts

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

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

Transfers of Investment Property (Amendments to IAS 40)

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

Entities should apply the amendments prospectively and effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, a temporary exemption from implementing IFRS 9 to annual periods beginning before 1 January 2021 at latest and an overlay approach that allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. Entities may apply the amendments on a fully retrospective or prospective basis. The new interpretation will be effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

(52) <u>Comparative Figures:</u>

Some of 2016 balances were reclassified to correspond with 2017 presentation. The reclassification did not have any effect on profits or equity for 2017.