

بنك الأردن
Bank of Jordan



Date: 28/03/2019

Ref: Fin/280/2019

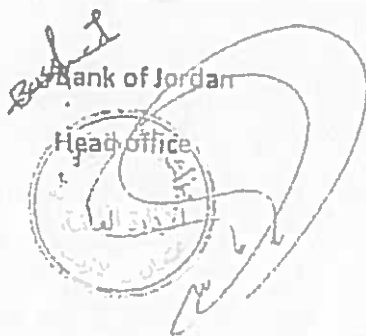
The Honorable,
Jordan Security Commission
Amman Stock Exchange
Amman, Jordan.

Dear Sirs,

Subject: "Consolidated Financial Statements for the year ended December 31,2018"

Kindly find attached the translated Consolidated Financial Statements for the year ended December 31,2018 subject to the Central Bank of Jordan approval.

With all due respect,



بورصة عمان
الدائرة الإدارية والمالية
الديوان

٢٠١٩ آذار ٣١

١٧٠٣

الرقم المتسلسل: ١١٥٢٢

رقم الملف: ١١٥٢٢

الجهة المختصة: ١١٥٢٢

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

**CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED DECEMBER 31, 2018
TOGETHER WITH THE
INDEPENDENT AUDITOR'S REPORT**

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

FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

Independent Auditor's Report

| | |
|---|------------------------------|
| Consolidated Statement of Financial Position | <u>Statement</u> A |
| Consolidated Statement of Profit or Loss | B |
| Consolidated Statement of Comprehensive Income | C |
| Consolidated Statement of Changes in Owners' Equity | D |
| Consolidated Statement of Cash Flows | E |
| | <u>Page</u> |
| Notes to the Consolidated Financial Statements | 1 -103 |



Kawasmy & Partners CO.
Amman – Jordan
Shmeisani, Al-Shareef Abdul Hameed Sharaf Str. BLD # 28
Tel : +962 6 5650700, Fax : +962 6 5688598

Independent Auditor's Report

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Bank of Jordan and its subsidiaries "The Bank"** which comprise the consolidated statement of financial position as of December 31, 2018, and the consolidated statements of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in owner's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis of Opinion

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

Key Audit Matters

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



1. Adequacy of Expected Credit Loss Provision against Direct Credit Facilities

| Key Audit Matters description | How our audit addressed the key audit matters |
|---|---|
| <p>The Bank has adopted International Financial Reporting Standard No. (9) starting from January 1st 2018, replacing International Accounting Standard No. (39), which replaced IAS (39) loss model for calculating the impairment against financial assets to the forward-looking model "Expected credit loss" that requires the management to establish assumptions, estimates and basis for calculating the expected credit losses.</p> <p>Credit facilities are considered important assets of the Bank. The nature and characteristics of credit facilities granted to customers vary from sector to sector and from country to country due to the nature of the Bank's geographical spread. Therefore, the methodology for calculating the expected credit loss provision against direct credit facilities is different due to sectors differences and different risk assessment related to these countries and their legal and organizational requirements.</p> <p>The calculation and accuracy of expected credit losses requires the Bank's management to make assumptions and definitions, including "probability of default", "significant increase in credit risk" etc, it also requires the use of estimates on the classification of direct credit facilities on different stages and the adequacy of the collaterals then the suspension of interest in the event of default in accordance with the instructions of the regulatory authorities. Such matters makes expected credit loss provision against direct credit facilities a key audit matter.</p> <p>Net credit facilities granted by the Bank to customers amounted to JD 1,469 million, which represent 56% of the total assets as of December 31, 2018. The expected credit loss provision against direct and indirect facilities amounted to JD 105 million as of December 31, 2018.</p> | <p>The audit procedures performed included a review and understanding of the nature of credit facilities portfolio, evaluating the Bank's credit policy, internal control system adopted in granting and monitoring credit and evaluating the extent to which they comply with the requirements of IFRS and comparing the results with the instructions of the regulatory authorities.</p> <p>We completed our understanding of the Bank's methodology for calculating expected credit losses by using experts where appropriate and assessing the expected credit loss model, which includes the following:</p> <ul style="list-style-type: none"> - Review of the methodology used by the Bank to calculate the expected credit losses and its conformity with the requirements of IFRS (9). - Review of the expected credit loss methodology preparation at the model's level. - Credit exposures stages classification of and their reasonableness and determining the significant increase in credit risk - Review the validity and accuracy of the model used in the calculation process and its components (Probability of Default (PD), Loss Given Default (LGD), Exposure to Default (EAD) and effective interest rate and related accruals). - Review the assumptions used for the forward looking and macroeconomic factors - Review of the of expected credit loss calculations. - Review of the completeness of information used in the calculation of expected credit losses and review of the related maker-checker process and it's related supporting documentation - Review of the governance procedures related to the expected credit loss calculations. <p>We also assessed the adequacy of the disclosures related to the credit facilities and the expected credit loss provision against credit facilities and related risks in the accompanying notes.</p> |



2. Foreign Currency Translation Reserve / Investments in Foreign Subsidiaries

| Key Audit Matters description | How our audit addressed the key audit matters |
|---|--|
| Due to the deployment of the Bank's foreign branches in several countries and the dealing in various foreign currencies, the Bank may be exposed to fluctuation of exchange rates arising from some of those countries' prevailing conditions. Therefore, translating the assets and liabilities of foreign branches and subsidiaries from the local currency (the functional currency) to Jordanian dinar is significant to our audit. Moreover, the exchange differences arising from evaluating the net investment in foreign branches and subsidiaries are shown within other comprehensive income items. | The audit procedures included testing the internal control system relating to determination of foreign currency exchange rates adopted by management. In addition, the audit procedures included reviewing a sample of foreign currency exchange rates adopted by management and matching them with those set by the Central Bank of Jordan. The audit procedures also included re-calculating a sample of the differences arising from translating those currencies shown within other comprehensive income items. They included as well obtaining the subsidiary's financial statements, verifying management's exchange rates, and matching them with the exchange rates of the Central Bank of Jordan. |

Other Information

Management is responsible for the other information. This comprises the other information in the annual report excluding the consolidated financial statements and the independent auditor thereon, in which we expected to be made available to us after the date of our audit report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence



that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Bank's effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Kawasmy and Partners
KPMG

Hatem Kawasmy
License No. (656)



Amman – Jordan
February 28, 2019

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

| | NOTE | DECEMBER 31, | |
|---|------|----------------------|----------------------|
| | | 2018 | 2017 |
| | | JD | JD |
| Assets | | | |
| Cash and balances with central banks | 4 | 360,142,503 | 268,583,151 |
| Balances with banks and financial institutions | 5 | 152,118,694 | 265,682,212 |
| Deposits with banks and financial institutions | 6 | 235,435,227 | 125,000,000 |
| Financial derivatives | 38 | 10,601 | - |
| Financial assets at fair value through profit or loss | 7 | 169,677 | 196,987 |
| Financial assets at fair value through comprehensive income | 8 | 51,391,078 | 114,791,862 |
| Direct credit facilities at amortized cost | 9 | 1,469,239,659 | 1,447,227,771 |
| Financial assets at amortized cost | 10 | 203,395,684 | 219,576,390 |
| Property and equipment – Net | 11 | 34,344,020 | 31,930,233 |
| Intangible assets | 12 | 4,998,823 | 4,839,231 |
| Deferred tax assets | 18 | 18,580,246 | 14,683,719 |
| Other assets | 13 | 89,253,998 | 72,620,383 |
| Total Assets | | 2,619,080,210 | 2,565,131,939 |
| Liabilities and Owners' Equity | | | |
| Liabilities: | | | |
| Banks and financial institutions' deposits | 14 | 145,242,827 | 64,896,195 |
| Customers' deposits | 15 | 1,867,792,486 | 1,845,800,756 |
| Cash margins | 16 | 117,268,917 | 149,356,693 |
| Financial derivatives | 38 | - | 178,833 |
| Other provisions | 17 | 5,194,240 | 5,006,765 |
| Income tax provision | 18 | 21,978,685 | 19,602,158 |
| Deferred tax liabilities | 18 | 3,296,665 | - |
| Borrowed funds | 19 | 4,557,811 | 2,437,716 |
| Other liabilities | 20 | 36,291,532 | 38,696,473 |
| Total Liabilities | | 2,201,623,163 | 2,125,975,589 |
| Owners' Equity: | | | |
| Equity Attributable to the Bank's shareholders | | | |
| Paid-up capital | 21 | 200,000,000 | 200,000,000 |
| Statutory reserve | 22 | 87,947,294 | 80,820,952 |
| Voluntary reserve | 22 | 134,330 | 134,330 |
| General banking risks reserve | 22 | 2,258,450 | 15,128,290 |
| Special reserve | 22 | 5,849,039 | 4,103,632 |
| Foreign currency translation differences | 23 | (12,256,254) | (12,256,254) |
| Fair value reserve | 24 | 26,668,016 | 81,288,341 |
| Retained earnings | 25 | 101,289,732 | 64,446,126 |
| Total Equity Attributable to the Bank's Shareholders | | 411,890,607 | 433,665,417 |
| Non-controlling interests | | 5,566,440 | 5,490,933 |
| Total Owners' Equity | | 417,457,047 | 439,156,350 |
| Total Liabilities and Owners' Equity | | 2,619,080,210 | 2,565,131,939 |

Board of Director's Chairman

Chief Executive Officer

The accompanying notes from (1) to (47) constitute an integral part of these consolidated financial statements and should be read with them.

STATEMENT (B)
BANK OF JORDAN
(PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – JORDAN
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Note | For the Year Ended December 31, | |
|---|-------|---------------------------------|--------------------|
| | | 2018 | 2017 |
| | | JD | JD |
| Interest income | 27 | 147,810,673 | 129,861,236 |
| Less: Interest expense | 28 | 37,072,130 | 26,919,012 |
| Net Interest income | | 110,738,543 | 102,942,224 |
| Net – Commissions income | 29 | 24,597,018 | 24,259,668 |
| Net interest and commissions income | | 135,335,561 | 127,201,892 |
| Foreign currencies income | 30 | 2,447,014 | 2,760,010 |
| (Loss) Gain from financial assets at fair value through profit or loss | 31 | (4,670) | 4,217 |
| Cash dividends from financial assets at fair value through comprehensive income | 8 | 524,261 | 4,636,746 |
| Gain on sale of financial assets at amortized cost | 10 | - | 87,724 |
| Other income | 32 | 3,440,414 | 20,327,389 |
| Total Income | | 141,742,580 | 155,017,978 |
| Employees expenses | 33 | 35,500,079 | 33,572,988 |
| Depreciation and amortization | 12,11 | 5,116,629 | 4,806,532 |
| Other expenses | 34 | 29,381,128 | 25,006,129 |
| Financial assets expected credit loss provision | 35 | 7,642,134 | - |
| Direct credit facilities provision | 9 | - | 20,637,508 |
| Provision for assets foreclosed by the Bank | 13 | 196,629 | 2,925,420 |
| Other provisions | 17 | 947,049 | 486,038 |
| Total Expenses | | 78,783,648 | 87,434,615 |
| Profit before Income Tax | | 62,958,932 | 67,583,363 |
| Less: Income tax expense | 18 | 21,714,509 | 21,973,902 |
| Profit for the Year Statements (C) and (D) | | 41,244,423 | 45,609,461 |
| Attributable to: | | | |
| Bank's Shareholders | | 41,527,540 | 46,795,537 |
| Non-controlling Interests | | (283,117) | (1,186,076) |
| Profit for the Year | | 41,244,423 | 45,609,461 |
| Earnings per share for the year attributable to the Banks' shareholders | | | |
| Basic/Diluted | 36 | 0.208 | 0.234 |

Board of Director's ChairmanChief Executive Officer

The accompanying notes from (1) to (47) constitute an integral part of these consolidated financial statements and should be read with them.

STATEMENT (C)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the Year | |
|--|---------------------------|-------------------|
| | Ended December 31, | |
| | 2018 | 2017 |
| | JD | JD |
| Profit for the Year - Statement (B) | 41,244,423 | 45,609,461 |
| Other comprehensive income items: | | |
| Items that may be reclassified subsequently to consolidated statement of profit or loss: | | |
| Foreign currencies translation differences | - | (612,098) |
| | - | (612,098) |
| Items that will not be reclassified subsequently to consolidated statement of profit or loss: | | |
| (Loss) from sales of financial assets at fair value through comprehensive income - net after tax | (4,266,804) | - |
| Change in fair value reserve in equity instrument classified as fair value through other comprehensive income - net of tax | (15,276,485) | 17,722,753 |
| | (19,543,289) | 17,722,753 |
| Total Comprehensive Income-Statement (D) | 21,701,134 | 62,720,116 |
| Total Comprehensive Income attributable to: | | |
| The Bank's Shareholders | 21,984,251 | 64,218,188 |
| Non-controlling Interests | (283,117) | (1,498,072) |
| | 21,701,134 | 62,720,116 |

The accompanying notes from (1) to (47) constitute an integral part of these consolidated financial statements and should be read with them.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

| | Reserves | | | | | | | | | | | | Total equity attributable to the Banks' Shareholders | | Non-Controlling Interests | | Total Owners' Equity | |
|--|-----------------|--|------------|--|-----------|--|-----------------------|--|-----------|--|--|--|--|--|---------------------------|--|----------------------|--|
| | Paid-Up Capital | | Statutory | | Voluntary | | General Banking Risks | | Special | | Foreign Currency Translation Differences | | | | | | | |
| | JD | | JD | | JD | | JD | | JD | | JD | | JD | | JD | | JD | |
| 2018 | | | | | | | | | | | | | | | | | | |
| Balance - beginning of the Year | 200,000,000 | | 80,820,952 | | 134,330 | | 15,128,290 | | 4,103,632 | | (12,256,254) | | 81,288,341 | | 64,446,126 | | 433,665,417 | |
| Effect of FRS (9) Implementation | - | | - | | - | | - | | - | | - | | - | | (7,342,151) | | (7,342,151) | |
| Adjusted Balance- Beginning of the Year | 200,000,000 | | 80,820,952 | | 134,330 | | 15,128,290 | | 4,103,632 | | (12,256,254) | | 81,288,341 | | 57,103,975 | | 426,323,266 | |
| Foreign currency translation differences | - | | - | | - | | - | | - | | - | | - | | - | | - | |
| Profit for the year – Statement (B) | - | | - | | - | | - | | - | | - | | - | | 41,527,540 | | 41,527,540 | |
| Change in fair value reserve in equity instrument classified as fair value through other comprehensive income - net of tax | - | | - | | - | | - | | - | | - | | (15,276,485) | | - | | (15,276,485) | |
| Recognized loss from sale of equity instrument classified as financial assets as fair value through other comprehensive income - Net after tax | - | | - | | - | | - | | - | | - | | (39,343,840) | | 35,077,036 | | (4,266,804) | |
| Total Comprehensive Income – Statement (C) | - | | - | | - | | - | | - | | - | | (54,620,325) | | 76,604,576 | | 21,984,251 | |
| Transfer to reserves | - | | 7,126,342 | | - | | (12,869,840) | | 1,745,407 | | - | | - | | 3,581,181 | | (416,910) | |
| Dividends paid* | - | | - | | - | | - | | - | | - | | - | | (36,000,000) | | (36,000,000) | |
| Balance – End of the Year | 200,000,000 | | 87,947,294 | | 134,330 | | 2,258,450 | | 5,849,039 | | (12,256,254) | | 26,668,016 | | 101,289,732 | | 411,890,607 | |
| For the Year Ended December 31, 2017 | | | | | | | | | | | | | | | | | | |
| Balance – Beginning of the year | 200,000,000 | | 73,917,046 | | 113,124 | | 12,996,161 | | 3,330,908 | | (12,401,835) | | 63,565,588 | | 63,926,237 | | 405,447,229 | |
| Foreign currency translation differences | - | | 21,206 | | 21,206 | | 4,072 | | - | | 145,581 | | - | | (492,167) | | (300,102) | |
| Profit for the year – Statement (B) | - | | - | | - | | - | | - | | - | | - | | 46,795,537 | | 46,795,537 | |
| Changes in fair value reserve | - | | - | | - | | - | | - | | - | | 17,722,753 | | - | | 17,722,753 | |
| Total Comprehensive Income – Statement (C) | - | | 21,206 | | 21,206 | | 4,072 | | - | | 145,581 | | 17,722,753 | | 46,303,570 | | 64,218,188 | |
| Transfer to reserves | - | | 6,882,700 | | - | | 2,128,057 | | 772,724 | | - | | - | | (9,783,481) | | - | |
| Dividends paid* | - | | - | | - | | - | | - | | - | | - | | (36,000,000) | | (36,000,000) | |
| Balance – End of the Year | 200,000,000 | | 80,820,952 | | 134,330 | | 15,128,290 | | 4,103,632 | | (12,256,254) | | 81,288,341 | | 64,446,126 | | 433,665,417 | |
| | | | | | | | | | | | | | | | | | 5,490,933 | |
| | | | | | | | | | | | | | | | | | 439,156,350 | |

*According to the resolution of the Bank's General Assembly in its ordinary meeting held on April 26, 2018, it was approved to distribute 18% of the Bank's capital in cash to shareholders which is equivalent to JD 36,000,000 (against 18% of the Bank's capital in cash to shareholders which is equivalent to JD 36,000,000 according to the resolution of the bank's general assembly in its ordinary meeting held on April 17, 2017).

**According to Central Bank of Jordan Circular No. 101/1359 dated January 25, 2018 and Central Bank of Jordan Circular No. 13/2018 dated June 6, 2018, General banking risks reserve accumulated balance as of January 1, 2018 related to the Jordan branches and its subsidiaries were transferred to the retained earnings.

*** According to the instructions of the regulatory bodies:

- The general banking risks reserve and special reserve cannot be utilized without prior approval from the Central Bank of Jordan and the Palestine Monetary Authority.
- Retained earnings include a restricted amount of JD 18,580,246 against deferred tax benefits as of December 31, 2018. This restricted amount cannot be utilized through capitalization or distribution unless actually realized based on the Central Bank of Jordan's instructions.
- Retained earnings include an amount of JD 3,302,537 as of December 31, 2018 which are restricted amounts and represents the effect of early adoption of FRS (9). These restricted amounts cannot be utilized unless realized through actual sale.
- The fair value reserve cannot be utilized including the capitalization, distribution, write-off losses or any other commercial acts unless realized through actual sale as instructed by the Central Bank of Jordan and Jordan Securities Commission also retained earnings include JD 813,437 as of December 31, 2018 that cannot be utilized through distribution or any other purposes unless there are a former approval from the Central Bank of Jordan resulting from the Central Bank of Jordan Circular no. 101/1359 dated January 25, 2018 and Central Bank of Jordan Circular No. 13/2018 dated June 6, 2018.

The accompanying notes from (1) to (47) constitute an integral part of these consolidated financial statements and should be read with them.

STATEMENT (E)

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

| | | For the Year Ended December 31, | |
|---|-------------|--|---------------------|
| | Note | 2018 | 2017 |
| | | JD | JD |
| Cash Flows from Operating Activities: | | | |
| Profit before income tax – Statement (B) | | 62,958,932 | 67,583,363 |
| Adjustments for non-cash items: | | | |
| Depreciation and amortization | 11,12 | 5,116,629 | 4,806,532 |
| financial assets expected credit loss provision | 35 | 7,642,134 | - |
| Direct credit facilities provision | 9 | - | 20,637,508 |
| Gain from sale of property and equipment | 32 | (11,626) | (204,110) |
| (Loss) from financial assets at fair value through profit or loss | | | |
| Unrealized | 31 | 17,109 | 8,732 |
| Effect of exchange rate fluctuations | 30 | (2,165,919) | (2,307,543) |
| Other provisions | 17 | 947,049 | 486,038 |
| Provision for assets foreclosed by the bank | 13 | 196,629 | 2,925,420 |
| Assets foreclosed by the bank revaluation loss | 32 | 1,488,560 | - |
| Foreign currency exchange differences | | - | (402,831) |
| Profit before changes in assets and liabilities | | 76,189,497 | 93,533,109 |
| Changes in Assets and Liabilities: | | | |
| (Increase) in restricted balances | | (1,367,787) | (1,174,192) |
| (Increase) decrease in deposits with banks and financial institutions (maturing over 3 months) | | (110,452,225) | (100,000,000) |
| Decrease in financial assets at fair value through profit or loss | | 10,201 | - |
| (Increase) in direct credit facilities at amortized cost | | (29,593,245) | (241,852,246) |
| (Increase) decrease in other assets | | (22,998,935) | (21,064,065) |
| Increase in deposits and financial institutions (maturing over 3 months) | | 109,405,874 | 21,531,993 |
| Increase in customer's deposits | | 21,991,730 | 238,821,626 |
| (Decrease) Increase in cash margins | | (32,087,776) | 20,064,591 |
| Increase in borrowed funds | | 2,120,095 | 2,012,837 |
| (Decrease) Increase in other liabilities | | (10,087,309) | 16,038,883 |
| Net Change in Assets and Liabilities | | (73,059,377) | (65,620,573) |
| Net Cash Flows from Operating Activities before paid taxes, end-of-service indemnity provision, and lawsuits provision | | 3,130,120 | 27,912,536 |
| End-of-service indemnity and lawsuits provisions paid | 17 | (759,574) | (533,936) |
| Taxes paid | 18 | (21,816,266) | (21,876,847) |
| Net Cash Flows (used in) from Operating Activities | | (19,445,720) | 5,501,753 |
| Cash Flows from Investing Activities: | | | |
| (Purchase) of financial assets at amortized cost | | (42,941,639) | (85,774,723) |
| Sale and Maturity of financial assets at amortized cost | | 58,521,996 | 38,836,013 |
| (Purchase) of financial assets at fair value through comprehensive income | | (610,884) | (5,015,771) |
| Sale of financial assets at fair value through comprehensive income | | 51,979,238 | 75,000 |
| Maturity (Purchase) of financial derivatives | | (189,434) | 161,178 |
| (Purchase) of property and equipment and advance payments to acquire property and equipment | | (6,845,067) | (5,489,943) |
| Sale of property and equipment | | 186,255 | 332,735 |
| (Purchase) of intangible assets | 12 | (1,019,570) | (2,101,181) |
| Net Cash Flows from (Used in) Investing Activities | | 59,080,895 | (58,976,692) |
| Cash Flows from Financing Activities: | | | |
| Foreign currency translation differences | | - | (612,098) |
| Dividends distributed to shareholders | | (35,916,117) | (35,519,318) |
| Net Cash Flows (used in) Financing Activities | | (35,916,117) | (36,131,416) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 30 | 2,165,919 | 2,307,543 |
| Net Increase (Decrease) in Cash and Cash Equivalents | | 5,884,977 | (87,298,812) |
| Cash and cash equivalents - Beginning of the year | | 476,846,860 | 564,145,672 |
| Cash and Cash Equivalents - End of the Year | 37 | 482,731,837 | 476,846,860 |

The accompanying notes from (1) to (47) constitute an integral part of these consolidated financial statements and should be read with them.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General

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

The Bank provides all financial and banking services within its scope of activities. Those services are offered at its (75) branches across Jordan, (14) branches across Palestine and its subsidiaries in Jordan and Syria (Excel for Financial Investments Company, Jordan Leasing Company and Bank of Jordan – Syria).

The Bank has established a branch at the Kingdom of Bahrain, which commenced its operations during the first quarter of 2018 after obtaining all necessary approvals from Central Bank of Jordan and regulatory authorities in the Kingdom of Bahrain.

The consolidated financial statements have been approved by the Board of Directors in its meeting No. 613 held on January 28, 2019.

2. Summary of Significant Accounting Policies

Financial Statements Basis of Preparation

- The consolidated financial statements for the Bank and its subsidiaries were prepared in accordance to standards issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Interpretation Committee Emanating from the International Accounting Standards Board and in conformity with the applicable laws and regulations of the Central Bank of Jordan.
- The consolidated financial statements were prepared on the historical cost basis except for financial assets at fair value through profit or loss, financial assets at fair value through comprehensive income and financial derivatives measured at fair value at the date of the consolidated financial statements. Moreover, hedged financial assets and financial liabilities are stated at fair value.
- The consolidated financial statements are presented in Jordanian Dinar "JD", as it is the Bank's functional currency.

Changes in the Accounting Policies

- The accounting policies adopted in the consolidated financial statement are consistent with those adopted in the year ended December 31, 2017 except for the following new adopted and modified standards, effective starting from January 1st, 2018:
 - International Financial Reporting Standard (9): Financial Derivatives
 - International Financial Reporting Standard (15): Revenue from Contracts with Customers.
 - International Financial Reporting Standard (2): Classification and Measurements of Share-Based Payments.
 - IAS (40): Clarify Transfers of Investment in Property.
 - Annual Improvements to IFRSs (2014 –2016) Cycle- Amendments on IFRS (1) and IAS (28).
 - IFRIC (22): Foreign currency transactions and Advance Consideration.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The adoption of the above standards has not affected the amounts or disclosures in the consolidated financial statements, except for the effect of applying International Financial Reporting Standard (9), the expected financial impact of applying IFRS (9) and IFRS (15) is as follows:

IFRS (9): Financial Instruments

The Bank has adopted IFRS (9) starting from January 1, 2018. IFRS (9) defines requirements for the recognition and measurement of both financial assets and liabilities and certain contracts for the purchase or sale of non-financial items. This standard replaces IAS No.(39) “Financial instruments” (Recognition and Measurement).

The following table summarizes the impact of the adoption of IFRS (9) net of tax on opening balances on provisions, deferred tax assets, retained earnings and non-controlling interests:

| <i>In Jordanian Dinar</i> | Impact of IFRS (9) Implementation on Opening Balances |
|---|--|
| Provisions | |
| Recognition of expected credit losses under IFRS (9) | 11,654,128 |
| Impact as of January 1, 2018 | <u>11,654,128</u> |
| Deferred Tax Assets | |
| Recognition of deferred tax assets on expected credit losses calculated in accordance with IFRS (9) | 4,253,691 |
| | <u>4,253,691</u> |
| Retained Earnings | |
| Recognition of expected credit losses in accordance with the requirements of IFRS (9) | 11,595,842 |
| Related taxes | (4,253,691) |
| Effect of application as of January 1, 2018 | <u>7,342,151</u> |
| Non- Controlling Interest | |
| Recognition of expected credit losses in accordance with the requirements of IFRS (9) | 58,286 |
| Effect of application as of January 1, 2018 | <u>58,286</u> |

The details of the new significant accounting policies and the nature of the impact of changes in previous accounting policies are set out below:

A- Classification and Measurement of Financial Assets and Financial Liabilities

IFRS (9) largely retains the existing requirements in IAS (39) for the classification and measurement of financial liabilities. However, it eliminates the classification of held-to-maturity financial assets, loans and receivables and available-for-sale assets that fall under the International Accounting standards No. (39). Criteria.

Financial Assets:

The Bank has early adopted the first phase of IFRS (9) as of January 1st, 2011 based on the Central Bank of Jordan and the Jordan Securities Commission request. There were no material differences between the first phase of the Standard and the final version of the Standard issued on July 24, 2014.

Under IFRS (9), on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income – debt investment or equity investment; or fair value through statement of profit or loss. The classification of financial assets under IFRS (9) is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through statement of comprehensive income:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows.
- Its contractual terms give rise on specified dates to cash flows (that are solely payments of principal and interest on the principal amount outstanding).

A debt investment is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Its contractual terms give rise on specified dates to cash flows (that are solely payments of principal and interest on the principal amount outstanding).

On initial recognition of an equity investment not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in the consolidated statement of comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above are measured at fair value through the consolidated statement of profit or loss. This includes all derivative financial assets. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The accounting policies applied are similar to the accounting policies adopted by the Bank (considering that the Bank has early adopted to the first phase of IFRS (9)) with the exception of the following accounting policies that became effective from January 1, 2018:

| | |
|---|---|
| Debt investments at fair value through statement of other comprehensive income | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in the consolidated statement of profit or loss. Other net gains and losses are recognized in the consolidated statement of other comprehensive income. On derecognition, accumulated gains and losses transferred from the consolidated statement of other comprehensive income to consolidated statement of profit or loss. |
|---|---|

The adoption of IFRS (9) did not have any impact on the Bank's consolidated financial statements with respect to financial assets.

| Financial Assets | Original Classification according to IAS (39) | Classification according to IFRS (9) | Book Value based on the Original Classification | Fair Value Based on the new Classification |
|-------------------------|--|---|--|---|
| Other assets | Other assets | Direct credit facilities at amortized cost | 3,301,382 | 3,301,382 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Financial Liabilities:

The adoption of IFRS (9) has no material impact on the Bank's accounting policies relating to financial liabilities. IFRS (9) has maintained the requirements of IAS (39) regarding the classification of financial liabilities. IAS (39) requires recognition of the differences in the assessment of financial liabilities classified as financial liabilities at fair value through profit or loss in the consolidated statement of profit or loss, whereas IFRS (9) requires:

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

The Bank has not classified any financial liabilities as financial liabilities at fair value through profit or loss. Accordingly, there is no impact of applying IFRS (9) to the consolidated financial statements:

B- Impairment on financial assets:

IFRS (9) replaces the "loss recognition" model adopted in IAS (39) to calculate the impairment of financial assets over "expected credit loss" model, which requires the use of estimates and judgments to estimate economic factors which has an effect on the impairment on the new module. The model will be applied to financial assets - debt instruments classified at amortized cost or at fair value through other statement of comprehensive income but not an investments in equity instruments. Where credit losses are recognized in accordance with IFRS (9), which is earlier than IAS (39).

Under IFRS (9), impairment losses are measured according to the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the consolidated financial statements date.
- Lifetime ECLs: These ECLs result from all possible default events over the expected life of a financial instrument from the date of consolidated financial statements.

The Bank measures impairment allowances equal to expected credit losses within 12 months if these assets are classified as Tier 1 and have the following characteristics:

- Debt securities that are determined to have low credit risk at the consolidated financial statements date.
- Other debt securities and balances at central Banks and financial institutions and for which credit risk has not significantly increased since initial recognition.

The expected impairment of the life of the financial instrument to maturity is calculated in the event of a significant increase in credit risk, which requires the conversion of the financial instrument from level 1 to level 2, or if the financial instrument is applied to specific situations within the Standard, within the second level directly.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

If the financial instrument is impaired or there is objective evidence of impairment as a result of a loss or default after initial recognition with a negative impact on the future cash flow, the financial instrument is transferred to the third level. The expected credit loss model requires recognition of expected loss over the life of asset debt instruments that are very similar to the requirements of IAS (39).

When determining whether the credit risk of financial assets has significantly increased since initial recognition and in estimating expected credit loss, the Bank relies on reasonable and supportive information available and relevance, including quantitative and qualitative information and analysis of this information based on the Bank's past experience and credit study, the Bank assumes that the credit risk of the financial asset has substantially increased if it is over 30 days past due or the credit rating of the customer has decreased by two levels.

The Bank considers financial assets to be impaired when:

- The borrower likely be unable to pay its credit obligations to the Bank without recourse to the procedures for using collateral held against such obligations (if any).
- If over, 90 days have elapsed on financial assets maturity.

The expected credit loss calculation mechanism depends on the probability of default, which is calculated according to credit risk and future economic factors loss given default which depends on the value of existing collateral, the exposure at default. The expected credit loss is discounted at the effective interest rate of the financial asset.

In every financial period, the Bank evaluates the credit rating of financial assets at amortized cost and debt securities at fair value through other comprehensive income. The credit rating of financial assets is considered to be impaired when one or more event that has a negative impact on estimated future cash flows of financial asset occur.

Provisions loss for financial assets measured at amortized cost are deducted from the total carrying amount of the financial asset. For debt securities at fair value through statement of other comprehensive income, the provision for impairment is recognized in consolidated statement of comprehensive income and is not deducted from the carrying amount of the financial asset. The losses of other financial assets are presented under 'Financing Expenses' in the same manner of disclosure used in accordance with IAS (39). Such disclosure is not included in the consolidated statement of profit or loss and consolidated statement of comprehensive income based on material considerations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In general, it is expected that impairment losses will increase and become more fluctuate for the financial assets according to IFRS (9), as a result of the implementation resulted expected credit loss on January 1, 2018 was as follows:

| Items (in Jordanian Dinar) | Balance as of December 31, 2017 | Reclassified Balance | Expected Credit Loss | Balance as of January 1, 2018 After Adopting IFRS (9) | Effect of Reclassification | Statement of Financial Position Items Affected by the Adoption of IFRS (9) |
|--|------------------------------------|----------------------|-------------------------|---|-------------------------------|---|
| Cash and balances with central banks | 268,583,151 | - | 200,884 | 268,382,267 | - | Retained earnings |
| Balances with banks and financial institutions | 265,682,212 | - | 17,291 | 265,664,921 | - | Retained earnings |
| Deposits with banks and financial institutions | 125,000,000 | - | 7,150 | 124,992,850 | - | Retained earnings |
| Financial assets at fair value through profit or loss | 196,987 | - | - | 196,987 | - | - |
| Financial assets at fair value through comprehensive income | 114,791,862 | - | - | 114,791,862 | - | - |
| Debt instruments within financial assets at amortized cost portfolio | 219,576,390 | - | 74,293 | 219,502,097 | - | Retained earnings |
| Direct credit facilities at amortized cost | 1,447,227,771 | 3,301,382 | 4,830,069 | 1,445,699,084 | - | Credit facilities, other assets and Retained earnings |
| Individual | 352,809,746 | 971,967 | 447,918 | 353,333,795 | - | - |
| Real estate loans | 227,882,269 | 1,363,840 | 676,587 | 228,569,522 | - | - |
| Corporate | 409,712,199 | 642,538 | (7,235,768) | 417,590,505 | - | - |
| SMEs | 227,470,820 | 323,037 | 10,714,428 | 217,079,429 | - | - |
| Government and public sector | 229,352,737 | - | 226,904 | 229,125,833 | - | - |
| Other Assets | 72,620,383 | (3,301,382) | - | 69,319,001 | - | Other assets |
| Letters of guarantees | 133,848,164 | - | 5,299,963 | 128,548,201 | - | Retained earnings |
| Un-utilized balances | 440,916,414 | - | 1,089,758 | 439,826,656 | - | Retained earnings |
| Letters of credit | 97,469,846 | - | 35,016 | 97,434,830 | - | Retained earnings |
| Acceptances | 52,615,066 | - | 99,704 | 52,515,362 | - | Retained earnings |
| | 3,238,528,246 | - | 11,654,128 | 3,226,874,118 | - | |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The effect of IFRS (9) implementation was as follows:

| Financial Instrument | Provisions Balance before IFRS (9) Implementation | Result of Recalculation Difference | Provisions Balance According to IFRS 9 |
|---|--|---|---|
| Balances with central banks | - | 200,884 | 200,884 |
| Balances with banks and financial institutions | - | 17,291 | 17,291 |
| Deposits with banks and financial institutions | - | 7,150 | 7,150 |
| Direct credit facilities at amortized cost | 86,485,514 | 4,830,069 | 91,315,583 |
| Debt instruments within financial assets at amortized cost portfolio | - | 74,293 | 74,293 |
| Letters of guarantees | - | 5,299,963 | 5,299,963 |
| Un-utilized balances | - | 1,089,758 | 1,089,758 |
| Letters of credit | - | 35,016 | 35,016 |
| Acceptances | - | 99,704 | 99,704 |
| | 86,485,514 | 11,654,128 | 98,139,642 |

The expected credit loss was distributed according to IFRS 9 on the opening balances as follows:

| Item (in JOD) | Stage One | | Stage Two | | Stage Three | Total |
|---|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|
| | Individual | Collective | Individual | Collective | | |
| Balances with central banks | 200,884 | - | - | - | - | 200,884 |
| Balances with banks and financial institutions | 17,291 | - | - | - | - | 17,291 |
| Deposits with banks and financial institutions | 7,150 | - | - | - | - | 7,150 |
| Direct credit facilities at amortized cost | 1,287,889 | 3,382,752 | 896,716 | 335,632 | 85,412,594 | 91,315,583 |
| Debt instruments within financial assets at amortized cost portfolio | 74,293 | - | - | - | - | 74,293 |
| Letters of guarantees | 46,865 | - | 1,835 | - | 5,251,263 | 5,299,963 |
| Un-utilized balances | 562,440 | 346,187 | 175,023 | 6,108 | - | 1,089,758 |
| Letters of credit | 28,589 | - | 6,427 | - | - | 35,016 |
| Acceptances | 96,657 | - | 3,047 | - | - | 99,704 |
| | 2,322,058 | 3,728,939 | 1,083,048 | 341,740 | 90,663,857 | 98,139,642 |

Transmission to IFRS (9):

The Bank has utilized the exception provided by the standard on the implementation as of January 1, 2018, by recording the impact from adopting IFRS (9) to the opening balances of retained earnings and non-controlling interests rather than restating the consolidated financial statements for the year ended December 31, 2017 and earliest, note (40) provides detailed information about the Bank methodology and the distribution of financial assets according to IFRS (9) requirements.

IFRS (15) Revenue from Contracts with Customers

IFRS (15) revenue from contracts with customers, which sets out a comprehensive framework for determining the value and timing of revenue recognition, applies to all entities entering into contracts for the supply of services and goods with customers except for contracts subject to other accounting standards such as the International Financial Reporting Standard NO. (9), International Accounting Standards No.(17), which superseded IAS (1), Construction Contracts, IAS (18) Revenue and the Report Standards Committee's Interpretation (13): Customer Loyalty Program, Interpretations Committee Report Criteria (15): Agreements creation of real estate, and the interpretation of the Standards Committee reports (18): operations of assets from customers transfer, interpretation (31) - barter transactions involving advertising services, were no material impact of the application of the standard on the summary of the Bank's consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Basis of Consolidation

- The consolidated financial statements include the financial statements of the Bank and the subsidiaries controlled by the Bank. Control is achieved whereby the Bank has the power to govern the financial and operating policies of the subsidiaries to obtain benefits from their activities. All intra-group transactions, balances, income, and expenses are eliminated in full.
- The financial statements of the subsidiary Companies are prepared for the same financial year of the Bank using the same accounting policies adopted by the Bank. If the accounting policies adopted by the subsidiary Companies are different from those used by the Bank, the necessary adjustments to the financial statements of the subsidiary companies are made so as to comply with the accounting policies used by the Bank.

The Bank has the following subsidiary Companies as of December 31, 2018:

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

The most important information of the subsidiaries for the year 2018 and 2017 is as follows:

| <u>Name of Subsidiary</u> | <u>December 31, 2018</u> | | <u>For the Year 2018</u> | |
|---|--------------------------|--------------------------|--------------------------|-----------------------|
| | <u>Total Assets</u> | <u>Total Liabilities</u> | <u>Total Revenues</u> | <u>Total Expenses</u> |
| | JD | JD | JD | JD |
| Excel for Financial Investments Company | 5,858,341 | 501,270 | 1,618,578 | 639,506 |
| Bank of Jordan – Syria* | 51,119,962 | 40,052,837 | 2,612,253 | 3,164,907 |
| Jordan Leasing Company | 25,961,127 | 4,439,320 | 1,932,007 | 1,066,581 |

| <u>Name of Subsidiary</u> | <u>December 31, 2017</u> | | <u>For the Year 2017</u> | |
|---|--------------------------|--------------------------|--------------------------|-----------------------|
| | <u>Total Assets</u> | <u>Total Liabilities</u> | <u>Total Revenues</u> | <u>Total Expenses</u> |
| | JD | JD | JD | JD |
| Excel for Financial Investments Company | 10,179,364 | 780,213 | 1,820,557 | 624,230 |
| Bank of Jordan – Syria* | 47,522,921 | 35,788,915 | 2,599,306 | 4,924,946 |
| Jordan Leasing Company | 28,453,373 | 4,701,395 | 2,084,798 | 931,610 |

- The results of the subsidiaries are incorporated into the consolidated statement of profit or loss from the effective date of acquisition which is the date actual control over the subsidiary is assumed by the Bank. Moreover, the operating results of the disposed subsidiaries are incorporated into the consolidated statement of profit or loss up to the effective date of disposal which is the date the Bank loses control over the subsidiaries.
- Non-controlling interest's represents the portion of equity not held by the Bank in the subsidiary Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- * The results of Bank of Jordan – Syria have been consolidated in the accompanied consolidated financial statements due to the Bank's power to govern the financial and operating policies of the subsidiary Company.

Segmental Information

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

Effective Interest Rate

Policy applicable from 1 January 2018

Interest income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset, or the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss.

For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows including expected credit loss.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Calculation of Interest Income and Expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. This applies on information on when financial assets are credit-impaired.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Net Commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, is recognized as the related services performed.

A contract with a customer that results in a recognized financial instrument may be partially in the scope of IFRS (9) and IFRS (15). If this is the case, then the Group first applies IFRS (9) and then applies IFRS (15) to the residual.

Leases

Bank acting as a lessee – Finance Leases

Assets held by the Group under leases that transfer to the Group substantial risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

Bank acting as a lessee – Operating Leases

Assets held under other leases are classified as operating leases and are not recognized in the Bank's consolidated statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Bank acting as a lessor – Finance Leases

Where the Bank is the lessor in a lease agreement that transfers substantial risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

Dividend Income

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

From 1 January 2018, dividends on equity instruments designated as at fair value through consolidated statements of profit or loss that clearly represent a recovery of part of the cost of the investment are presented in other comprehensive income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial Assets and Financial Liabilities

a) Recognition and Initial Measurement

Loans, advances, deposits and debt instruments are initially recognized at inception. All other financial assets and financial liabilities are recognized initially when the Bank becomes a party to the contractual provisions of the financial asset or liability.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

b) Classification

Financial Assets- Policy Applicable from 1 January 2018

Upon initial recognition, financial assets are classified as assets at amortized cost or at fair value through statement of comprehensive income or at fair value through statement of profit or loss.

Financial assets are measured at amortized cost if the following two conditions are met and are not designated as a fair value instrument through statement of profit or loss:

- These financial assets are retained in the business model whose objective is to hold the assets to collect contractual cash flows.
- Be on specific dates and these flows are only payments out of the amount and interest on the original amount outstanding.

Financial assets are measured at fair value through statement of comprehensive income if the following two conditions are met and are not designated as a fair value through statement of profit or loss:

- These financial assets are held in a business model whose objective is to be achieved through the collection of contractual cash flows and the sale of financial assets.
- Be on specific dates and these flows are only payments out of the amount and interest on the original amount outstanding.

Upon initial recognition of investment in shares not held for trading, the Bank may, with no right to withdraw its decision, choose to present subsequent changes in the fair value of the investment in consolidated comprehensive income. These decisions are made for each investment separately.

All other financial assets are measured at fair value through profit or loss.

Business Model Assessment: Policy Applicable from 1 January 2018

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:-

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank stated objective for managing the financial assets is achieved and how cash flows are realized.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial Assets - Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as the profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows.
- Prepayment and extension terms.
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans).

c) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

The Bank classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
 - held-for-trading; or
 - Designated as at fair value through profit or loss.

The bank classifies its financial liabilities, other than financial guarantees and loan commitments, The bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss.

d) Derecognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The difference between the carrying amount of the assets derecognised and the recoverable amount of the Bank is recognized in the consolidated statement of profit or loss and the cumulative portion of the consolidated comprehensive income for the consolidated profit or loss relating to that asset is reversed.

From January 1st 2018 any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated as at fair value through other comprehensive income is not recognized in the consolidated statement of profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial Liabilities

The Bank derecognises financial liabilities when their contractual obligations are discharged, cancelled or expired.

e) Modifications of Financial Assets and Financial Liabilities - Policy Applicable from 1 January 2018

Adjusted Financial Assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the new asset.
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

Adjusted Financial Liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in the consolidated statement of profit or loss.

Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Offsetting

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

Fair Value

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

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

- Comparison with the current market value of a highly similar financial instrument.
- The estimated future cash flows and discounted cash flows at current rates applicable for items with similar terms.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Options pricing models.

Evaluation of long-term assets and liabilities that bear no interest in accordance with discounted cash flows using effective interest rate. Premiums and discounts are amortized within interest revenues or expense in the consolidated statement of profit or loss.

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

Impairment in Financial Assets

Policy applicable from 1 January 2018

Financial Assets

The Bank recognises expected credit loss on:

- Financial assets at amortized cost.
- Finance lease receivables
- Contractual guarantees

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime expected credit loss, except for the following, for which they are measured as 12-month expected credit loss:

- Debt investment securities determined to have low credit risk at the date of consolidated financial statements.
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime expected credit loss.

The 12 month expected credit loss is the portion of the expected credit loss arising from the possible default of the financial instruments within 12 months from the date of the consolidated financial statements.

The 12 month expected credit loss recognized (financial instruments - the first stage).

The expected credit loss on the life of the financial instrument is the portion of the expected credit loss that results from the possible default of the financial instruments over the life of the financial instrument.

The expected credit losses are recognized over the life of the recognized financial instrument (financial instruments - the second phase).

Expected credit loss are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the date of the consolidated financial statements.
- Financial assets that are credit-impaired at the date of the consolidated financial statements.
- Undrawn loan commitments.
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The provision for credit loss is presented in the consolidated statement of financial position

The provision for credit losses is presented in the consolidated statement of financial position as follows:

- Less the total carrying amount of financial assets at amortized cost.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Loan commitments and financial guarantee contracts: generally, they are recognized as a provision.
- For debt securities that are measured at fair value through the statement of comprehensive income, an allowance is not recognized in the consolidated statement of financial position because the carrying amounts of these assets are measured at fair value. However, the provision for loss is disclosed and recognized in the fair value reserve.

Write-off

Loans and debt securities are written off partially or in full when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the consolidated statement of profit or loss and consolidated statement of other comprehensive income.

Direct Credit Facilities

- A provision for the impairment of direct credit facilities is recognized when the Bank cannot obviously recover the overdue amounts, and there is objective evidence that the future cash flows of the direct credit facilities have been negatively impacted by an event as well as the estimation of the impairment loss. The provision amount is charged to in the consolidated statement of profit or loss.
- Interest and commission earned on non-performing credit facilities are suspended in accordance with the instructions of the Central Bank of Jordan, and in accordance with the instructions of the regulatory authorities in Syria and the Palestinian Monetary Authority, whichever is more conservative.
- The credit facilities and their own suspended interests that have been fully provided for with provisions, are transferred to items off the consolidated statement of financial position based on the board of directors' decisions regarding this issue.
- The suspended interests related to accounts which have legal suits are recorded at items off the consolidated statement of financial position based on the board of directors' decisions with this regards.

Financial Derivatives and Hedge Accounting

Financial Derivatives for Trading:

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

Financial Derivatives for Hedging:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Financial Assets at Amortized Cost

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

Financial Assets at Fair Value Through Profit or Loss

- Financial assets at fair value through profit or loss are the financial assets purchased by the Bank for the purpose of trading in the near future and achieving gains from the fluctuations in the short-term market prices or trading margins.
- Financial assets at fair value through profit or loss are initially stated at fair value at acquisition date (purchase costs are recorded in the consolidated statement of profit or loss upon acquisition) and subsequently measured in fair value. Moreover, changes in fair value are recorded in the consolidated statement of profit or loss including the change in fair value resulting from translation of non-monetary assets stated at foreign currency. Gains or losses resulting from the sale of these financial assets or part of them are taken to the consolidated statement of profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Dividends and interests from these financial assets are recorded in the consolidated statement of profit or loss.
- It is not allowed to reclassify any financial assets to/from this category except for the cases specified in the International Financial Reporting Standards.

Financial Assets at Fair Value Through Comprehensive Income

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

Impairment in Financial Assets- Policy Applicable Before December 1, 2018

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

Investments in Associates

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

Property and Equipment

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

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

- When the carrying amounts of Property and Equipment exceed their recoverable values, assets are written down, and impairment losses are recorded in the consolidated statement of profit or loss.
- The useful lives of Property and Equipment are reviewed at the end of each year. In case the expected useful life is different from what was determined before, the change in estimate is recorded in the following years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Property and Equipment are derecognized when disposed of or when there is no expected future benefit from their use.

Provisions

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

End-of-Service Indemnity Provision

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

Income Tax

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

Paid-Up Capital

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accounts Managed on Behalf of Customers

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

Realization of Income and Recognition of Expenses

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

Recognition of Financial Assets

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

Mortgaged Financial Assets

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

Foreclosed Assets

Assets that have been subjected to foreclosure by the Bank are shown at the consolidated financial position under "other assets" at the acquisition value or fair value, whichever is lower. As of the consolidated financial statements date, these assets are re-valued individually at fair value. Any decline in their market value is taken to the consolidated statement of profit or loss as a loss whereas any such increase is not recognized. Subsequent increase is taken to the consolidated statement of profit or loss to the extent that it does not exceed the previously recorded impairment. Moreover, at the beginning of 2015 and in accordance with the dissemination of the Central Bank of Jordan No. 15/1/4076 dated on March 27, 2014 and No. 10/1/2510 dated on February 14, 2017 the bank has started to calculate gradual provision against the assets foreclosed against debts with a period exceeding 4 years, noting that The Central Bank of Jordan issued circular No. 10/1/13967 dated 25 October 25, 2018 approving the extension of Circular No. 10/1/16607 on December 17, 2017, in which it confirmed postponing the provision calculation until the end of year 2019.

Intangible Assets

A - Goodwill:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

B - Other Intangible Assets:

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

The accounting policy for the intangible assets of the Bank:

Computer Software

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

Foreign Currency

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

Cash and Cash Equivalents

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

3. Accounting Estimates

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A) Judgments

The following are the most significant judgments that have a material effect on the amounts of assets and liabilities in the consolidated financial statements applied in 2018 only:

- Classification of financial assets: Valuation of the business model under which the asset is to be held and determining whether the contractual terms of the SPPI are on the outstanding balance.
- The development of new criteria to determine whether financial assets have declined significantly since initial recognition, and determine the methodology of future expectations and methods of measuring expected credit loss.

B) Estimates

The following are the most significant accounting estimates affecting the consolidated financial statements as of December 31 2018:

- Impairment of financial instruments: input and measurement of expected credit loss and future expectations. Note (40) provides more detailed information on the Bank's methodology according to IFRS (9) requirements.

Applicable in 2017 and 2018:

The estimates included in the consolidated financial statements are reasonable and are detailed as follows:

- A provision for expected credit loss against financial assets is provided on the basis and estimates approved by management in conformity with the International Financial Reporting Standards (IFRS). The outcomes of these basis and estimates are compared against the adequacy of the provisions as per the instructions of the Central Banks where the Bank branches and subsidiaries operate. The more conservative outcomes that conform are used for the purpose of determining the provision according to the IFRS. Note (40) provides more detailed information about the Bank's methodology used.
- Management periodically reassesses the useful economic lives of tangible and intangible assets for the purpose of calculating annual depreciation and amortization based on the general condition of these assets and the assessment of their expected useful economic lives. Impairment loss is taken to the consolidated statement of profit or loss.

Impairment of assets foreclosed are recorded based on recent and approved evaluations of these assets performed by approved evaluators for the purposes of calculating the impairment. The impairment for these assets is reviewed periodically. Moreover, at the beginning of 2015 and in accordance with the dissemination of the Central Bank of Jordan No. 15/1/4076 dated on March 27, 2014 and No. 10/1/2510 dated on February 14, 2017 the bank has started to calculate gradual provision against the assets foreclosed against debts with a period exceeding 4 years, noting that The Central Bank of Jordan issued circular No. 10/1/13967 dated 25 October 25, 2018 approving the extension of Circular No. 10/1/16607 on December 17, 2017, in which it confirmed the postpone the provision calculation until the end of year 2019.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Income tax expense is charged for the current period according to the accounting regulations, laws and standards. Deferred tax assets, liabilities and tax provision are calculated and recognized.
- A provision for income tax is taken on the current year's profit and for accrued and estimated tax of the deducted provision for the prior year in case a final settlement with the Income Tax Department is reached for the prior year.
- Management periodically review financial assets that presented at amortized cost to estimate if there are any indication of impairment in its fair value, impairment loss is recorded in the consolidated condensed interim statement of profit or loss.

Fair value hierarchy: the Bank is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in the IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability. When assessing the financial assets and liabilities' fair value, the Bank uses market information when available. In case level 1 inputs are not present, the Bank will deal with independent, qualified parties to prepare evaluation studies. Proper evaluation methods and inputs used in preparing the evaluation are reviewed by the management.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Cash and Balances with Central Banks

This item consists of the following:

| | December 31, | |
|--|--------------------|--------------------|
| | 2018 | 2017 |
| | JD | JD |
| Cash at vaults | 74,159,406 | 71,753,575 |
| Balances at Central Banks: | | |
| - Current accounts and demand deposits | 45,256,616 | 60,563,818 |
| - Term and notice deposits | 128,078,099 | 11,801,899 |
| - Certificates of deposit | 11,500,000 | 20,400,000 |
| - Statutory cash reserve | 101,342,436 | 104,063,859 |
| | 360,336,557 | 268,583,151 |
| Less: Expected credit loss | (194,054) | - |
| | 360,142,503 | 268,583,151 |

- Balances at central banks amounted to JD 286,177,151 as of December 31, 2018 (JD 196,829,576 as of December 31, 2017), these balances are distributed to credit stages according to the requirements of IFRS (9) as follows:

| Item | Stage One | Stage Two | Stage Three | Total |
|---|--------------------|-----------|-------------|--------------------|
| Balance at the beginning of the year | 196,829,576 | - | - | 196,829,576 |
| New balances during the year | 116,276,200 | - | - | 116,276,200 |
| Paid balances | (26,928,625) | - | - | (26,928,625) |
| | 286,177,151 | - | - | 286,177,151 |
| Transferred to first stage | - | - | - | - |
| Transferred to second stage | - | - | - | - |
| Transferred to third stage | - | - | - | - |
| Changes due to the adjustments | | | | |
| Written off- Balances | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - |
| Balance at the End of the Year | 286,177,151 | - | - | 286,177,151 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Distribution of the total balances with central banks according to the banks internal credit rating categories was as follows:

| As of December 31, 2018 | | | | | | |
|---|------------------|------------------|------------------|------------------|-------------|-------------|
| Item | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating based on the Bank's internal credit rating system: | | | | | | |
| 1 | 227,637,131 | - | - | - | - | 227,637,131 |
| 2 | - | - | - | - | - | - |
| 3 | - | - | - | - | - | - |
| 4 | - | - | - | - | - | - |
| 5 | - | - | - | - | - | - |
| 6 | 58,540,020 | - | - | - | - | 58,540,020 |
| 7 | - | - | - | - | - | - |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | - | - | - | - | - | - |
| Total | 286,177,151 | - | - | - | - | 286,177,151 |

- The expected credit loss provision which calculated in accordance with the requirements of IFRS (9) amounted to JD 194,054 as of December 31, 2018 (JD 200,884 As of January 1, 2018), the movement on the expected credit loss provision was as follows:

| Item | Stage One | Stage Two | Stage Three | Total |
|--|----------------|-----------|-------------|----------------|
| Balance at the beginning of the year after IFRS (9) implementation | 200,884 | - | - | 200,884 |
| Credit loss on new balances during the year | 2,955 | - | - | 2,955 |
| Expected credit loss reversal on Paid balances | (9,785) | - | - | (9,785) |
| | 194,054 | - | - | 194,054 |
| Transferred to stage one | - | - | - | - |
| Transferred to stage two | - | - | - | - |
| Transferred to stage three | - | - | - | - |
| Changes due to the adjustments: | - | - | - | - |
| Written off- Balances | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - |
| Balance at the End of the Year | 194,054 | - | - | 194,054 |

- Statutory cash reserve, amounted to JD 101,342,436 as of December 31, 2018 (JD 104,063,859 as of December 31, 2017).
- Restricted balances other than cash reserve amounted to JD 2,443,099 as of December 31, 2018 (JD 2,443,099 as of 31 December 2017).
- Term and notice Deposit balance includes JD 10,635,000 maturing within a period exceeding three months as of December 31, 2018 (JD 9,358,000 as of December 31, 2017).

BANK OF JORDAN
(PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – JORDAN
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Balances with Banks and Financial Institutions

This item consists of the following:

| | Local Banks and Financial Institutions | | Foreign Banks and Financial Institutions | | Total | |
|---|---|--------------------|---|-------------------|--------------------|--------------------|
| | As of December 31, | | As of December 31, | | As of December 31, | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Current accounts and demand deposits | - | - | 24,583,280 | 18,476,828 | 24,583,280 | 18,476,828 |
| Deposits maturing within 3 months or less | 95,372,559 | 177,538,910 | 32,166,489 | 69,666,474 | 127,539,048 | 247,205,384 |
| | 95,372,559 | 177,538,910 | 56,749,769 | 88,143,302 | 152,122,328 | 265,682,212 |
| Less: Expected credit | (152) | - | (3,482) | - | (3,634) | - |
| | 95,372,407 | 177,538,910 | 56,746,287 | 88,143,302 | 152,118,694 | 265,682,212 |

Distribution of the total balances with banks and financial institutions according to the banks internal credit rating categories was as follows:

| Item | As of December 31, 2018 | | | | | |
|---|-------------------------|------------------|------------------|------------------|-------------|--------------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating based on the Bank's internal credit rating system: | | | | | | |
| 1 | 5,346,817 | - | - | - | - | 5,346,817 |
| 2 | 11,063,216 | - | - | - | - | 11,063,216 |
| 3 | 26,908,111 | - | - | - | - | 26,908,111 |
| 4 | 1,925,055 | - | - | - | - | 1,925,055 |
| 5 | 9,576,900 | - | - | - | - | 9,576,900 |
| 6 | 96,398,810 | - | - | - | - | 96,398,810 |
| 7 | - | - | 903,419 | - | - | 903,419 |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | - | - | - | - | - | - |
| Total | 151,218,909 | - | 903,419 | - | - | 152,122,328 |

-Balances at Banks' and financial institutions credit stages distribution according to the requirements of IFRS (9) was as follows

| Item | Stage One | | Stage Two | | Stage Three | Total |
|---|--------------------|------------------|------------------|------------------|-------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the beginning of the year | 265,682,212 | - | - | - | - | 265,682,212 |
| New balances during the year | 42,699,189 | - | 903,419 | - | - | 43,602,608 |
| Paid balances | (157,162,492) | - | - | - | - | (157,162,492) |
| | 151,218,909 | - | 903,419 | - | - | 152,122,328 |
| Transfer to Stage One | - | - | - | - | - | - |
| Transfer to Stage Two | - | - | - | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| Changes due to the adjustments | - | - | - | - | - | - |
| Written off- Balances | - | - | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - | - |
| Balance at the End of the Year | 151,218,909 | - | 903,419 | - | - | 152,122,328 |

The provision for expected credit loss which was calculated in accordance with the requirements of IFRS(9) amounted to JD 3,634 as of December 31, 2018 (JD 17,291 as of January 1, 2018), the movement on the expected credit loss provision was as follows:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|-------------|--------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the beginning of the year after IFRS (9) implementation | 17,291 | - | - | - | - | 17,291 |
| Credit loss on new balances during the year | 3,006 | - | - | - | - | 3,006 |
| Expected credit loss reversal- Paid balances | (16,663) | - | - | - | - | (16,663) |
| | 3,634 | - | - | - | - | 3,634 |
| Transfer to Stage One | - | - | - | - | - | - |
| Transfer to Stage Two | - | - | - | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| Changes due to the adjustments | - | - | - | - | - | - |
| Written off- Balances | - | - | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - | - |
| Balance at the End of the Year | 3,634 | - | - | - | - | 3,634 |

Non-interest bearing balances at banks and financial institutions amounted to JD 17,231,357 as of December 31, 2018 (JD 15,073,372 as of December 31, 2017).
Restricted balances at banks and financial institutions amounted to JD 2,343,989 as of December 31, 2018 (JD 2,253,202 as of December 31, 2017).

BANK OF JORDAN
(PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – JORDAN
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Deposits with Banks and Financial Institutions

This item consists of the following:

| | Local Banks and Financial Institutions | | Foreign Banks and Financial Institutions | | Total | |
|---|---|--------------------|---|----------|--------------------|--------------------|
| | | | As of December 31, | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Deposits maturing within 3 to 6 months | - | 10,000,000 | - | - | - | 10,000,000 |
| Deposits maturing within 6 to 9 months | - | - | - | - | - | - |
| Deposits maturing within 9 months to a year | - | - | - | - | - | - |
| Deposits maturing after 1 year | 196,085,000 | 115,000,000 | 39,367,225 | - | 235,452,225 | 115,000,000 |
| | 196,085,000 | 125,000,000 | 39,367,225 | - | 235,452,225 | 125,000,000 |
| Less: Expected credit | (15,281) | - | (1,717) | - | (16,998) | - |
| | 196,069,719 | 125,000,000 | 39,365,508 | - | 235,435,227 | 125,000,000 |

Distribution of the total deposits with banks and financial institution according to the banks internal credit rating categories was as follow:

| Item | As of December 31, 2018 | | | | | |
|---|-------------------------|------------------|------------------|------------------|-------------|--------------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit rating categories based on the Bank's rating system: | | | | | | |
| 1 | 11,007,225 | - | - | - | - | 11,007,225 |
| 2 | - | - | - | - | - | - |
| 3 | - | - | - | - | - | - |
| 4 | - | - | - | - | - | - |
| 5 | 28,360,000 | - | - | - | - | 28,360,000 |
| 6 | 196,085,000 | - | - | - | - | 196,085,000 |
| 7 | - | - | - | - | - | - |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | - | - | - | - | - | - |
| Total | 235,452,225 | - | - | - | - | 235,452,225 |

-Deposits with banks and financial institutions are credit stages distribuion according to the requirements of IFRS(9) was as follows:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|---|--------------------|------------------|------------------|------------------|-------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the beginning of the year | 125,000,000 | - | - | - | - | 125,000,000 |
| New balances during the year | 125,542,225 | - | - | - | - | 125,542,225 |
| Paid balances | (15,000,000) | - | - | - | - | (15,000,000) |
| | 235,542,225 | - | - | - | - | 235,542,225 |
| Transfer to Stage One | - | - | - | - | - | - |
| Transfer to Stage Two | - | - | - | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| Changes due to the adjustments | - | - | - | - | - | - |
| Written off- Balances | - | - | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - | - |
| Balance at the End of the Year | 235,542,225 | - | - | - | - | 235,542,225 |

Provision for expected credit loss which was calculated in accordance with the requirement of IFRS(9) amounted to JD 16,998 as of December 31, 2018 (JD 7,150 as of January 1, 2018), the movement on the expected credit loss provision was as follows:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|-------------|---------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the beginning of the year after IFRS (9) implementation | 7,150 | - | - | - | - | 7,150 |
| Credit loss on new balances during the year | 11,524 | - | - | - | - | 11,524 |
| Expected credit loss reversal of matured Balances | (1,676) | - | - | - | - | (1,676) |
| | 16,998 | - | - | - | - | 16,998 |
| Transfer to Stage One | - | - | - | - | - | - |
| Transfer to Stage Two | - | - | - | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| Changes due to the adjustments | - | - | - | - | - | - |
| Written off- Balances | - | - | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - | - |
| Balance at the End of the Year | 16,998 | - | - | - | - | 16,998 |

There are no restricted deposits as of December 31, 2018 and 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Financial Assets at Fair Value through Profit or Loss

This item consists of the following:

| | As of December 31, | |
|---|--------------------|----------------|
| | 2018 | 2017 |
| | JD | JD |
| Shares listed in local active markets | 61,200 | 112,200 |
| Shares unlisted in local active markets | 108,477 | 84,787 |
| | 169,677 | 196,987 |

8. Financial Assets at Fair Value Through Comprehensive Income

This item consists of the following:

| | As of December 31, | |
|--|--------------------|--------------------|
| | 2018 | 2017 |
| | JD | JD |
| Shares listed in local active markets | 40,970,486 | 100,843,880 |
| Shares unlisted in local active markets* | 3,397,719 | 2,856,601 |
| Shares listed in foreign active markets | 5,512,994 | 9,393,266 |
| Shares unlisted in foreign active markets* | 1,509,879 | 1,698,115 |
| | 51,391,078 | 114,791,862 |

- Total cash dividends from financial assets at fair value through comprehensive income amounted to JD 524,261 for the year ended December 31, 2018 (JD 4,636,746 for the year ended December 31, 2017).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Direct Credit Facilities at amortized cost

This item consists of the following:

| | December 31, | |
|---|----------------------|----------------------|
| | 2018 | 2017 |
| | JD | JD |
| Individual (Retail Customers): | 447,634,876 | 377,216,321 |
| Overdraft accounts | 12,402,174 | 9,255,980 |
| Loans and discounted bills* | 412,272,989 | 350,692,614 |
| Credit cards | 22,959,713 | 17,267,727 |
| Real estate loans | 248,820,243 | 234,024,646 |
| Corporate: | 743,969,204 | 700,988,262 |
| Large corporate customers | 485,610,545 | 459,850,066 |
| Overdraft accounts | 72,572,930 | 75,961,510 |
| Loans and discounted bills* | 413,037,615 | 383,888,556 |
| SMEs | 258,358,659 | 241,138,196 |
| Overdraft accounts | 61,478,453 | 56,231,895 |
| Loans and discounted bills* | 196,880,206 | 184,906,301 |
| Government and public sector | 134,694,447 | 229,352,737 |
| Total | 1,575,118,770 | 1,541,581,966 |
| Less: expected credit loss provision | (97,004,644) | (86,485,514) |
| Less: Interest in suspense | (8,874,467) | (7,868,681) |
| Net Direct Credit Facilities at amortized cost | 1,469,239,659 | 1,447,227,771 |

- * Net of interest and commission received in advance amounting to JD 17,143,016 as of December 31, 2018 (JD 13,765,564 as of December 31, 2017).
- Non-performing credit facilities amounted to JD 91,750,968 representing (%5/83) of the direct credit facilities balance for the year (JD 76,806,921 representing (4/98 %) for prior year).
 - Non-performing credit facilities after deducting the suspended interest amounted to JD 82,912,912 representing (%5/3) of direct credit facilities after deducting the suspended interest for the year (JD 68,938,240 representing (4/5%) for prior year).
 - Credit facilities granted to and guaranteed by the Jordanian Government amounted to JD 62,383, 704 representing (%3/96) of total direct credit facilities for the year (JD 78,267,657 representing (5/08%) for the prior year). Moreover, credit facilities granted to the public sector in Palestine amounted to JD 44,387,835 for the year (JD 65,823,307 for the prior year).

BANK OF JORDAN
(PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – JORDAN
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Total Direct credit facilities credit stages Distribution according to the requirements of IFRS (9) was as follows:

| Item | As of December 31, 2018 | | | | |
|---|-------------------------|--------------------|-------------------|-------------------|----------------------|
| | Stage One | | Stage Two | | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | |
| Total balance at the beginning of the year after IFRS (9) implementation | 862,917,501 | 518,253,341 | 60,036,556 | 26,970,527 | 1,544,883,348 |
| New facilities During the year | 253,557,738 | 235,440,198 | 6,971,225 | 6,188,264 | 513,489,950 |
| Facilities paid | (286,419,501) | (153,810,416) | (28,939,887) | (4,114,298) | (485,385,584) |
| | 830,055,738 | 599,883,123 | 38,067,894 | 29,044,493 | 1,572,987,714 |
| Transfer to Stage One | | | | | |
| Transfer to Stage Two | 11,049,068 | 9,721,599 | (11,049,068) | (9,268,092) | - |
| Transfer to Stage Three | (18,050,529) | (13,456,500) | 18,052,679 | 14,143,170 | - |
| Effect on the provision at the end of the year as a result of classification changes between the three stages during the year | (6,975,690) | (3,975,655) | (1,790,560) | (4,295,143) | - |
| Changes due to the adjustments | - | - | - | - | - |
| Written -off Balances | 4,186,237 | (881,266) | 554,804 | (1,648,500) | 2,131,056 |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - |
| Balance at the End of the Year | 820,264,824 | 591,291,301 | 43,835,749 | 27,975,928 | 1,575,118,770 |

- The movement on the total expected credit loss provision was as follows:

| Item | Stage One | | Stage Two | | Total |
|---|------------------|------------------|-------------------|------------------|-------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | |
| | Individual Level | Collective Level | Individual Level | Collective Level | |
| Balance at the beginning of the year after IFRS (9) implementation | 1,287,889 | 3,382,752 | 23,430,064 | 335,632 | 91,315,583 |
| Credit loss on new balances during the year | 343,900 | 978,038 | 140,958 | 438,442 | 12,181,937 |
| Expected credit loss reversal of matured facilities | (182,822) | (261,445) | (8,534,121) | (189,416) | (15,987,993) |
| | 1,448,967 | 4,099,345 | 15,036,901 | 584,658 | 87,509,527 |
| Transfer to Stage One | | | | | |
| Transfer to Stage Two | (66,064) | (56,096) | 44,932 | 56,096 | - |
| Transfer to Stage Three | 167,215 | 83,829 | (412,594) | (83,829) | - |
| Effect on the provision at the end of the year as a result of classification changes between the three stages during the year | - | - | - | - | - |
| Changes due to the adjustments | (136,870) | (32,537) | 2,837 | 404,814 | 9,219,853 |
| Written off- Balances | 332,143 | (8,299) | 468 | 153,218 | 638,876 |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - |
| Balance at the End of the Year | 1,745,391 | 4,086,242 | 14,672,544 | 1,114,957 | 97,004,644 |

BANK OF JORDAN
(PUBLIC SHAREHOLDING LIMITED COMPANY)
AMMAN – JORDAN
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Provision for expected credit loss provision against credit facilities

The following is the movement on the expected credit loss provision against direct credit facilities:

| | As of December 31, 2018 | | | | | |
|---|-------------------------------|-------------------|---------------------------|-------------------|------------------------------|-------------------|
| | Individual (Retail Customers) | Real Estate Loans | Corporates | | Government and Public sector | Total |
| | | | Large Corporate Customers | SMEs | | |
| | JD | JD | JD | JD | JD | JD |
| Balance – Beginning of the year | 21,961,829 | 5,394,424 | 47,560,829 | 11,568,432 | - | 86,485,514 |
| Effect of adopting IFRS (9) | 447,918 | 676,587 | (7,235,768) | 10,714,428 | 226,904 | 4,830,069 |
| Adjusted Balance – Beginning of the Year | 22,409,747 | 6,071,011 | 40,325,061 | 22,282,860 | 226,904 | 91,315,583 |
| Impairment loss of new facilities during the year | 8,510,955 | 1,400,317 | 999,660 | 1,054,819 | - | 11,965,751 |
| Reversed from impairment loss of the (settled) balances | (1,732,527) | (1,450,016) | (9,050,506) | (3,516,444) | (22,314) | (15,771,807) |
| | 29,188,175 | 6,021,312 | 32,274,215 | 19,821,235 | 204,590 | 87,509,527 |
| Transfer to Stage One | - | - | - | - | - | - |
| Transfer to Stage Two | - | - | - | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| Effect on the provision at the end of the year as a result of classification changes between the three stages during the year | 394,233 | (6,413) | 7,496,286 | 1,335,747 | - | 9,219,853 |
| Changes due to the adjustments | 173,496 | 135,700 | 126,531 | 203,149 | - | 638,876 |
| Written off- Balances | - | - | - | - | - | - |
| Adjustment due to exchange rates fluctuations | (246,969) | - | (24,542) | (92,101) | - | (363,612) |
| Balance at the End of the Year | 29,508,935 | 6,150,599 | 39,872,490 | 21,268,030 | 204,590 | 97,004,644 |
| Distributed as follow: | | | | | | |
| Provision on individual level | 3,690 | 85,443 | 862,673 | 778,191 | 204,590 | 1,934,587 |
| Provision on collective level | 29,505,245 | 6,065,156 | 39,009,817 | 20,489,839 | - | 95,070,057 |
| Balance at the End of the Year | 29,508,935 | 6,150,599 | 39,872,490 | 21,268,030 | 204,590 | 97,004,644 |

The movement on the impairment loss in accordance with Central Bank instructions no. 47/2009 as of December 31, 2017 was as follows:

| | As of December 31, 2017 | | | | | |
|---|-------------------------------|-------------------|---------------------------|-------------------|------------------------------|-------------------|
| | Individual (Retail Customers) | Real Estate Loans | Corporates | | Government and Public sector | Total |
| | | | Large Corporate Customers | SMEs | | |
| | JD | JD | JD | JD | JD | JD |
| Balance – Beginning of the Year | 18,953,345 | 2,785,243 | 35,966,394 | 7,135,540 | - | 64,840,522 |
| Foreign currency differences | 103,241 | 6,855 | 855,790 | 41,598 | - | 1,007,484 |
| Provision for the year deducted from revenues | 2,905,243 | 2,602,326 | 10,738,645 | 4,391,294 | - | 20,637,508 |
| Balance – End of the Year | 21,961,829 | 5,394,424 | 47,560,829 | 11,568,432 | - | 86,485,514 |
| Distributed as follows: | | | | | | |
| On a single client basis | 21,529,943 | 5,298,261 | 45,389,037 | 11,531,525 | - | 83,748,766 |
| On a portfolio basis | 431,886 | 96,163 | 2,171,792 | 36,907 | - | 2,736,748 |
| Balance – End of the Year | 21,961,829 | 5,394,424 | 47,560,829 | 11,568,432 | - | 86,485,514 |

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

The following are the details for each business segment as of December 31, 2018:

A) Individual Portfolio (Retail)

As of December 31, 2018

| Item | Stage One | | Stage Two | | Stage Three | Total |
|---|------------------|--------------------|------------------|-------------------|-------------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating based on the Bank's internal credit rating system: | | | | | | |
| 1 | - | - | - | - | - | - |
| 2 | - | - | - | - | - | - |
| 3 | - | - | - | - | - | - |
| 4 | - | - | - | - | - | - |
| 5 | - | - | - | - | - | - |
| 6 | 393,809 | - | - | - | - | 393,809 |
| 7 | - | - | 77,034 | - | - | 77,034 |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | - | - | - | - | 332,074 | 332,074 |
| No classified | 730,189 | 402,377,559 | - | 15,419,716 | 28,304,495 | 446,831,959 |
| Total | 1,123,998 | 402,377,559 | 77,034 | 15,419,716 | 28,636,569 | 447,634,876 |

Related facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|--------------------|------------------|-------------------|-------------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 628,041 | 340,861,207 | 2,521 | 14,534,349 | 22,162,170 | 378,188,288 |
| New facilities During the Year | 586,866 | 198,133,310 | 31,180 | 4,887,342 | 2,783,542 | 206,422,240 |
| Facilities Released | (33,050) | (130,834,383) | (2,521) | (2,910,806) | (1,060,103) | (134,840,863) |
| | 1,181,857 | 408,160,134 | 31,180 | 16,510,885 | 23,885,609 | 449,769,665 |
| Transfer to Stage One | - | 6,134,316 | - | (5,758,946) | (375,370) | - |
| Transfer to Stage Two | (45,854) | (8,001,915) | 45,854 | 8,450,750 | (448,835) | - |
| Transfer to Stage Three | - | (3,106,217) | - | (2,484,994) | 5,591,211 | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | (12,005) | (808,759) | - | (1,297,979) | (16,046) | (2,134,789) |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 1,123,998 | 402,377,559 | 77,034 | 15,419,716 | 28,636,569 | 447,634,876 |

Expected credit loss provision movment:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|-------------------|-------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 2,575 | 2,752,419 | - | 195,198 | 19,459,555 | 22,409,747 |
| Impairment Loss of new balances during the year | 2,465 | 837,298 | 307 | 219,599 | 7,451,286 | 8,510,955 |
| Recoveries from impairment loss on facilities due | (1,642) | (209,480) | - | (70,692) | (1,450,713) | (1,732,527) |
| | 3,398 | 3,380,237 | 307 | 344,105 | 25,460,128 | 29,188,175 |
| Transfer to Stage One | - | (53,772) | - | 53,772 | - | - |
| Transfer to Stage Two | - | 62,702 | - | (62,702) | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | - | (23,770) | - | 404,891 | 13,112 | 394,233 |
| Changes resulting from modification | (15) | 20,558 | - | 152,953 | - | 173,496 |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | (246,969) | (246,969) |
| Total Balance at the End of the Year | 3,383 | 3,385,955 | 307 | 893,019 | 25,226,271 | 29,508,935 |

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

B) Real Estate Loan Portfolio

| Item | As of December 31, 2018 | | | | | |
|--|-------------------------|--------------------|------------------|-------------------|-------------------|--------------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating categories based on the Bank's internal credit rating system: | | | | | | |
| 1 | 4,749 | - | - | - | - | 4,749 |
| 2 | - | - | - | - | - | - |
| 3 | - | - | - | - | - | - |
| 4 | 1,059,061 | - | - | - | - | 1,059,061 |
| 5 | 3,242,293 | - | - | - | - | 3,242,293 |
| 6 | 20,223,140 | - | - | - | - | 20,223,140 |
| 7 | - | - | 4,204,948 | - | - | 4,204,948 |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | 16,589 | 16,589 |
| 10 | - | - | - | - | 1,001,649 | 1,001,649 |
| No classified | 12,103,467 | 184,148,903 | 435,805 | 12,473,667 | 9,905,972 | 219,067,814 |
| Total | 36,632,710 | 184,148,903 | 4,640,753 | 12,473,667 | 10,924,210 | 248,820,243 |

Related facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|-------------------|--------------------|------------------|-------------------|-------------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 39,373,426 | 172,381,397 | 1,250,908 | 12,133,365 | 10,249,390 | 235,388,486 |
| New facilities During the Year | 10,922,345 | 34,055,055 | 263,197 | 1,281,148 | 513,589 | 47,035,334 |
| Facilities Released | (9,870,447) | (19,475,845) | (44,000) | (1,036,972) | (2,968,144) | (33,395,408) |
| | 40,425,324 | 186,960,607 | 1,470,105 | 12,377,541 | 7,794,835 | 249,028,412 |
| Transfer to Stage One | 106,968 | 3,495,693 | (106,968) | (3,417,556) | (78,137) | - |
| Transfer to Stage Two | (4,172,406) | (5,408,986) | 4,172,406 | 5,646,821 | (237,835) | - |
| Transfer to Stage Three | - | (836,492) | (847,824) | (1,810,149) | 3,494,465 | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | 272,824 | (61,919) | (46,966) | (322,990) | (49,118) | (208,169) |
| Changes resulting from modification | - | - | - | - | - | - |
| Written-off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 36,632,710 | 184,148,903 | 4,640,753 | 12,473,667 | 10,924,210 | 248,820,243 |

Expected credit loss provision movment:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 99,229 | 591,172 | 13,801 | 68,548 | 5,298,261 | 6,071,011 |
| Impairment Loss of new balances during the year | 38,277 | 122,446 | - | 1,268 | 1,238,326 | 1,400,317 |
| Recoveries from impairment loss on facilities due | (48,355) | (47,879) | (1,800) | (48,546) | (1,303,436) | (1,450,016) |
| | 89,151 | 665,739 | 12,001 | 21,270 | 5,233,151 | 6,021,312 |
| Transfer to Stage One | (1,688) | (2,090) | 1,673 | 2,090 | 15 | - |
| Transfer to Stage Two | 932 | 19,725 | (12,000) | (19,725) | 11,068 | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | (742) | (8,093) | - | - | 2,422 | (6,413) |
| Changes resulting from modification | (4,352) | (22,076) | 468 | 314 | 161,346 | 135,700 |
| Written-off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 83,301 | 653,205 | 2,142 | 3,949 | 5,408,002 | 6,150,599 |

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

C) Facilities granted to corporates

| Item | As of December 31, 2018 | | | | | |
|--|-------------------------|------------------|------------------|------------------|-------------|-------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating categories based on the Bank's internal credit rating system: | | | | | | |
| 1 | 235,635 | - | - | - | - | 235,635 |
| 2 | 6,825,609 | - | - | - | - | 6,825,609 |
| 3 | 87,429,473 | - | - | - | - | 87,429,473 |
| 4 | 45,781,697 | - | - | - | - | 45,781,697 |
| 5 | 167,148,937 | - | - | - | - | 167,148,937 |
| 6 | 118,722,460 | - | - | - | - | 118,722,460 |
| 7 | - | - | 31,478,470 | - | - | 31,478,470 |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | 6,040,054 | 6,040,054 |
| 10 | - | - | - | - | 20,639,378 | 20,639,378 |
| No classified | - | 1,246,622 | - | - | 62,210 | 1,308,832 |
| Total | 426,143,811 | 1,246,622 | 31,478,470 | - | 26,741,642 | 485,610,545 |

Related facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|--------------------|------------------|-------------------|------------------|-------------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 395,590,304 | 701,146 | 46,220,150 | 3,924 | 17,977,080 | 460,492,604 |
| New facilities During the Year | 153,586,719 | 986,965 | 5,536,635 | - | 6,718,662 | 166,828,981 |
| Facilities Released | (117,957,420) | (441,489) | (24,522,821) | (3,924) | (4,218,564) | (147,144,218) |
| | 431,219,603 | 1,246,622 | 27,233,964 | - | 20,477,178 | 480,177,367 |
| Transfer to Stage One | 6,771,281 | - | (6,771,281) | - | - | - |
| Transfer to Stage Two | (10,698,942) | - | 10,699,330 | - | (388) | - |
| Transfer to Stage Three | (5,747,776) | - | (516,923) | - | 6,264,699 | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | 4,599,645 | - | 833,380 | - | 153 | 5,433,178 |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 426,143,811 | 1,246,622 | 31,478,470 | - | 26,741,642 | 485,610,545 |

Expected credit loss provision movment:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|-------------------|------------------|-------------------|-------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 523,808 | 7,064 | 23,230,708 | 65,057 | 16,498,424 | 40,325,061 |
| Impairment Loss of new balances during the year | 143,630 | 5,103 | 140,184 | 129,841 | 797,088 | 1,215,846 |
| Recoveries from impairment loss on facilities due | (71,546) | (116) | (8,413,763) | (65,057) | (716,210) | (9,266,692) |
| | 595,892 | 12,051 | 14,957,129 | 129,841 | 16,579,302 | 32,274,215 |
| Transfer to Stage One | (59,893) | - | 42,005 | - | 17,888 | - |
| Transfer to Stage Two | 104,064 | - | (333,597) | - | 229,533 | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | (86,135) | - | (1,189) | - | 7,583,610 | 7,496,286 |
| Changes resulting from modification | 127,745 | (1,214) | - | - | - | 126,531 |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | (24,542) | (24,542) |
| Total Balance at the End of the Year | 681,673 | 10,837 | 14,664,348 | 129,841 | 24,385,791 | 39,872,490 |

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

D) Facilities granted to SME's

As of December 31, 2018

| Item | As of December 31, 2018 | | | | | |
|--|-------------------------|------------------|------------------|------------------|-------------|-------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating categories based on the Bank's internal credit rating system: | | | | | | |
| 1 | 3,461,303 | - | - | - | - | 3,461,303 |
| 2 | - | - | - | - | - | - |
| 3 | 41,127 | - | - | - | - | 41,127 |
| 4 | 1,822,271 | - | - | - | - | 1,822,271 |
| 5 | 65,873,050 | - | - | - | - | 65,873,050 |
| 6 | 150,472,107 | - | - | - | - | 150,472,107 |
| 7 | - | - | 7,639,495 | - | - | 7,639,495 |
| 8 | - | - | - | - | 1,111,671 | 1,111,671 |
| 9 | - | - | - | - | 240,252 | 240,252 |
| 10 | - | - | - | - | 23,531,817 | 23,531,817 |
| No classified | - | 3,518,217 | - | 82,542 | 564,807 | 4,165,566 |
| Total | 221,669,858 | 3,518,217 | 7,639,495 | 82,542 | 25,448,547 | 258,358,659 |

Related facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|--------------------|------------------|------------------|------------------|-------------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 197,972,993 | 4,309,591 | 12,562,977 | 298,889 | 26,316,783 | 241,461,233 |
| New facilities During the Year | 55,655,193 | 2,264,868 | 1,140,213 | 19,774 | 1,316,732 | 60,396,780 |
| Facilities Released | (31,093,679) | (3,058,699) | (4,370,542) | (162,599) | (3,854,671) | (42,540,190) |
| | 222,534,507 | 3,515,760 | 9,332,648 | 156,064 | 23,778,844 | 259,317,823 |
| Transfer to Stage One | 4,170,819 | 91,590 | (4,170,819) | (91,590) | - | - |
| Transfer to Stage Two | (3,133,327) | (45,599) | 3,135,089 | 45,599 | (1,762) | - |
| Transfer to Stage Three | (1,227,914) | (32,946) | (425,813) | - | 1,686,673 | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | (674,227) | (10,588) | (231,610) | (27,531) | (15,208) | (959,164) |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 221,669,858 | 3,518,217 | 7,639,495 | 82,542 | 25,448,547 | 258,358,659 |

Expected credit loss provision movment:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|-------------------|-------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 435,373 | 32,097 | 185,555 | 6,829 | 21,623,006 | 22,282,860 |
| Impairment Loss of new balances during the year | 159,528 | 13,191 | 467 | 87,734 | 793,899 | 1,054,819 |
| Recoveries from impairment loss on facilities due | (38,965) | (3,970) | (118,558) | (5,121) | (3,349,830) | (3,516,444) |
| | 555,936 | 41,318 | 67,464 | 89,442 | 19,067,075 | 19,821,235 |
| Transfer to Stage One | (4,483) | (234) | 1,254 | 234 | 3,229 | - |
| Transfer to Stage Two | 62,219 | 1,402 | (66,997) | (1,402) | 4,778 | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | (49,993) | (674) | 4,026 | (77) | 1,382,465 | 1,335,747 |
| Changes resulting from modification | 208,765 | (5,567) | - | (49) | - | 203,149 |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | (92,101) | (92,101) |
| Total Balance at the End of the Year | 772,444 | 36,245 | 5,747 | 88,148 | 20,365,446 | 21,268,030 |

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

E) Facilities Granted to the Government and the Public Sector

| Item | As of December 31, 2018 | | | | | |
|--|-------------------------|------------------|------------------|------------------|-------------|--------------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating categories based on the Bank's internal credit rating system: | | | | | | - |
| 1 | 90,306,615 | - | - | - | - | 90,306,615 |
| 2 | - | - | - | - | - | - |
| 3 | - | - | - | - | - | - |
| 4 | - | - | - | - | - | - |
| 5 | - | - | - | - | - | - |
| 6 | 44,387,832 | - | - | - | - | 44,387,832 |
| 7 | - | - | - | - | - | - |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | - | - | - | - | - | - |
| No classified | - | - | - | - | - | - |
| Total | 134,694,447 | - | - | - | - | 134,694,447 |

Related facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|--------------------|------------------|------------------|------------------|-------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 229,352,737 | - | - | - | - | 229,352,737 |
| New facilities During the Year | 32,806,615 | - | - | - | - | 32,806,615 |
| Facilities Released | (127,464,905) | - | - | - | - | (127,464,905) |
| Transfer to Stage One | 134,694,447 | - | - | - | - | 134,694,447 |
| Transfer to Stage Two | - | - | - | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | - | - | - | - | - | - |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 134,694,447 | - | - | - | - | 134,694,447 |

Expected credit loss provision movment:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|-------------|----------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 226,904 | - | - | - | - | 226,904 |
| Impairment Loss of new balances during the year | - | - | - | - | - | - |
| Recoveries from impairment loss on facilities due | (22,314) | - | - | - | - | (22,314) |
| | 204,590 | - | - | - | - | 204,590 |
| Transfer to Stage One | - | - | - | - | - | - |
| Transfer to Stage Two | - | - | - | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | - | - | - | - | - | - |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 204,590 | - | - | - | - | 204,590 |

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

Interest in Suspense:

The following is the movement on the interest in suspense:

| | As of December 31, 2018 | | | | |
|---|-------------------------------------|-------------------|---------------------------------|------------------|------------------|
| | Individual Retail) (Customers | Real Estate Loans | Corporates | | Total |
| | | | Large Corporate Customers | SMEs | |
| | JD | JD | JD | JD | JD |
| Balance at the Beginning of the Year | 2,444,746 | 747,953 | 2,577,038 | 2,098,944 | 7,868,681 |
| Add: Interest suspended during the year | 404,140 | 430,950 | 600,999 | 405,964 | 1,842,053 |
| Less: Interest in suspense reversed to revenues | (242,144) | (212,326) | (90,593) | (291,204) | (836,267) |
| classification | (651,314) | - | (801,247) | 1,452,561 | - |
| Balance at the End of the Year | 1,955,428 | 966,577 | 2,286,197 | 3,666,265 | 8,874,467 |

| | As of December 31, 2017 | | | | |
|---|-------------------------------------|-------------------|---------------------------------|------------------|------------------|
| | Individual Retail) (Customers | Real Estate Loans | Corporates | | Total |
| | | | Large Corporate Customers | SMEs | |
| | JD | JD | JD | JD | JD |
| Balance at the Beginning of the Year | 2,526,228 | 524,594 | 2,304,247 | 1,623,509 | 6,978,578 |
| Add: Interest suspended during the year | 499,700 | 372,198 | 429,842 | 639,862 | 1,941,602 |
| Less: Interest in suspense reversed to revenues | (433,662) | (148,839) | (157,051) | (164,427) | (903,979) |
| Less: interest in suspense written off based on settlements | (147,520) | - | - | - | (147,520) |
| Balance at the End of the Year | 2,444,746 | 747,953 | 2,577,038 | 2,098,944 | 7,868,681 |

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

| | Inside Kingdom | Outside Kingdom | Total | |
|--|----------------------|--------------------|----------------------|----------------------|
| | | | As of December 31, | |
| | | | 2018 | 2017 |
| | JD | JD | JD | JD |
| Financial | 8,856,920 | - | 8,856,920 | 9,011,477 |
| Industrial | 158,371,449 | 81,321,784 | 239,693,233 | 163,799,838 |
| Trading | 275,659,169 | 49,965,986 | 325,625,155 | 299,453,758 |
| Real estate | 214,270,294 | 5,144,253 | 219,414,547 | 203,963,583 |
| Constructions | 80,290,618 | 577,387 | 80,868,005 | 43,168,270 |
| Agriculture | 10,378,772 | 9,222,819 | 19,601,591 | 19,607,378 |
| Tourism, restaurants and public facilities | 101,654,011 | 17,398,640 | 119,052,651 | 175,163,205 |
| Shares | 8,750,746 | - | 8,750,746 | 10,038,543 |
| Individuals | 347,891,807 | 70,669,668 | 418,561,475 | 388,023,177 |
| Government and public sector | 90,306,615 | 44,387,832 | 134,694,447 | 229,352,737 |
| Total | 1,296,430,401 | 278,688,369 | 1,575,118,770 | 1,541,581,966 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Financial Assets at Amortized Cost

This item consists of the following:

| | December 31, | |
|--|--------------------|--------------------|
| | 2018 | 2017 |
| | JD | JD |
| Financial assets quoted in the market: | | |
| Governmental bonds guaranteed by the government | 122,203,545 | 147,095,719 |
| Corporate bonds and debentures | 47,813,637 | 35,151,182 |
| Foreign governmental bonds | 5,633,346 | 2,137,169 |
| Total financial assets quoted in the market | 175,650,528 | 184,384,070 |
| Financial assets unquoted in the market: | | |
| Corporate bonds and debentures | 28,192,320 | 35,192,320 |
| Treasury bills or guaranteed by the government | 153,185 | - |
| Total financial assets unquoted in the market | 28,345,505 | 35,192,320 |
| Total Financial Assets at Amortized Cost | 203,996,033 | 219,576,390 |
| Less: Expected credit loss provision | (600,349) | - |
| Net financial assets at amortized cost | 203,395,684 | 219,576,390 |

Analysis of bonds and bills:

| | December 31, | |
|--|--------------------|--------------------|
| | 2018 | 2017 |
| | JD | JD |
| Financial assets with fixed-interest rate | 195,430,823 | 216,002,472 |
| Financial assets with floating interest rate | 8,565,210 | 3,573,918 |
| | 203,996,033 | 219,576,390 |

- During the year 2017, financial assets at amortized cost were sold with a nominal value of JD 21,979,000 as a result of the decrease in the credit rating of the majority of these assets. The sale resulted in profits of 87,724 for the year ended 31 December 2017.

Distribution of financial assets at amortized cost according to the Bank's internal credit rating categories as of December 31, 2018 was as follows:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--------------|--------------------|------------------|-------------------|------------------|-------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| 1 | 122,203,546 | - | - | - | - | 122,203,546 |
| 2 | 5,673,334 | - | - | - | - | 5,673,334 |
| 3 | 16,421,330 | - | - | - | - | 16,421,330 |
| 4 | 23,742,757 | - | - | - | - | 23,742,757 |
| 5 | 14,525,549 | - | - | - | - | 14,525,549 |
| 6 | 3,652,150 | - | - | - | - | 3,652,150 |
| 7 | - | - | 17,777,367 | - | - | 17,777,367 |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | - | - | - | - | - | - |
| Total | 186,218,666 | - | 17,777,367 | - | - | 203,996,033 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Financial assets at amortized cost to credit stages distribution according to the requirements of IFRS (9) was as follows:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|--------------------|------------------|-------------------|------------------|-------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the Beginning of the Year after IFRS (9) implementation | 219,576,390 | - | - | - | - | 219,576,390 |
| New invesment during the year | 42,938,819 | - | - | - | - | 42,938,819 |
| Matured invesments | (58,476,138) | - | - | - | - | (58,476,138) |
| | 204,039,071 | - | - | - | - | 204,039,071 |
| Transferred to stage one | - | - | - | - | - | - |
| Transferred to stage two | (17,820,405) | - | 17,820,405 | - | - | - |
| Transferred to stage three | - | - | - | - | - | - |
| Changes due to the adjusments | - | - | (43,038) | - | - | (43,038) |
| Written -off Investments | - | - | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - | - |
| Balance at the End of the Year | 186,218,666 | - | 17,777,367 | - | - | 203,996,033 |

- The movement on the expected credit loss provision was as follows:

| Item | Stage One | Stage Two | Stage Three | Total |
|--|----------------|----------------|-------------|----------------|
| Balance at the Beginning of the Year after IFRS (9) Implementation | 74,293 | - | - | 74,293 |
| Credit loss on new balances during the year | 60,169 | - | - | 60,169 |
| Expected credit loss reversal of matured investments | (4,459) | - | - | (4,459) |
| | 130,003 | - | - | 130,003 |
| Transferred to stage one | - | - | - | - |
| Transferred to stage two | (6,207) | 6,207 | - | - |
| Transferred to stage three | - | - | - | - |
| Effect on the provision at the end of the period– as a result of classification changes between the three stages during the year | - | - | - | - |
| Changes due to adjusments | - | 470,346 | - | 470,346 |
| Written off- Investments | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - |
| Balance at the End of the Year | 123,796 | 476,553 | - | 600,349 |

The maturities of these financial assets at amortized cost are as follows:

| | Up to 1 Month | Over 1 Month and Up to 3 Months | Over 3 Months and Up to 6 Months | Over 6 Months and Up to 1 Year | Over 1 Year and Up to 3 Years | Over 3 Years | Total |
|-------------------|---------------|---------------------------------|----------------------------------|--------------------------------|-------------------------------|--------------|-------------|
| | JD | JD | JD | JD | JD | JD | |
| December 31, 2018 | 5,673,334 | 25,145,321 | 15,050,437 | 3,573,513 | 83,206,715 | 71,346,713 | 203,996,033 |
| December 31, 2017 | - | 17,000,095 | 2,141,421 | 39,280,656 | 102,938,133 | 58,216,085 | 219,576,390 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 - Property and Equipment – Net

The details of this item are as follows:

| | Lands JD | Buildings JD | Equipment Furniture and Fixtures JD | Vehicles JD | Computers JD | Decorations and Improvements JD | Total JD |
|--|------------------|-------------------|--|----------------|-------------------|---------------------------------------|-------------------|
| | | | | | | | |
| 2018 | | | | | | | |
| Cost: | | | | | | | |
| Beginning balance | 4,159,347 | 13,849,927 | 20,569,386 | 892,918 | 11,956,635 | 20,572,804 | 72,001,017 |
| Additions | - | 682,302 | 2,117,958 | 16,096 | 678,882 | 2,028,331 | 5,523,569 |
| (Disposals) | - | - | (679,395) | - | (280,050) | (1,240,454) | (2,199,899) |
| Foreign currencies differences | - | - | - | - | - | - | - |
| Ending balance | 4,159,347 | 14,532,229 | 22,007,949 | 909,014 | 12,355,467 | 21,360,681 | 75,324,687 |
| Accumulated depreciation: | | | | | | | |
| Beginning balance | - | 6,263,580 | 15,427,229 | 380,780 | 7,834,029 | 16,594,741 | 46,500,359 |
| Annual depreciation | - | 253,738 | 1,479,214 | 94,503 | 1,025,582 | 1,403,614 | 4,256,651 |
| (Disposals) | - | - | (647,770) | - | (242,941) | (1,134,559) | (2,025,270) |
| Foreign currencies differences | - | - | - | - | - | - | - |
| Ending balance | - | 6,517,318 | 16,258,673 | 475,283 | 8,616,670 | 16,863,796 | 48,731,740 |
| Net book value of property and equipment | 4,159,347 | 8,014,911 | 5,749,276 | 433,731 | 3,738,797 | 4,496,885 | 26,592,947 |
| Payments on acquisition of property and equipment* | - | 2,393 | 4,894,432 | - | 1,371,160 | 1,483,088 | 7,751,073 |
| Net Property and Equipment at the End of the Year | 4,159,347 | 8,017,304 | 10,643,708 | 433,731 | 5,109,957 | 5,979,973 | 34,344,020 |
| 2017 | | | | | | | |
| Cost: | | | | | | | |
| Beginning balance | 3,671,477 | 13,483,963 | 20,042,356 | 1,026,495 | 10,802,396 | 19,372,663 | 68,399,350 |
| Additions | 462,871 | 92,869 | 1,250,321 | 249,583 | 2,147,663 | 1,301,737 | 5,505,044 |
| (Disposals) | - | - | (801,555) | (386,896) | (1,019,454) | (185,077) | (2,392,982) |
| Foreign currencies differences | 24,999 | 273,095 | 78,264 | 3,736 | 26,030 | 83,481 | 489,605 |
| Ending balance | 4,159,347 | 13,849,927 | 20,569,386 | 892,918 | 11,956,635 | 20,572,804 | 72,001,017 |
| Accumulated depreciation: | | | | | | | |
| Beginning balance | - | 6,015,986 | 14,751,951 | 641,180 | 7,855,568 | 15,341,641 | 44,606,326 |
| Annual depreciation | - | 215,190 | 1,390,072 | 79,361 | 964,300 | 1,334,028 | 3,982,951 |
| (Disposals) | - | - | (765,321) | (343,422) | (1,005,622) | (149,993) | (2,264,358) |
| Foreign currencies differences | - | 32,404 | 50,527 | 3,661 | 19,783 | 69,065 | 175,440 |
| Ending balance | - | 6,263,580 | 15,427,229 | 380,780 | 7,834,029 | 16,594,741 | 46,500,359 |
| Net book value of property and equipment | 4,159,347 | 7,586,347 | 5,142,157 | 512,138 | 4,122,606 | 3,978,063 | 25,500,658 |
| Payments on acquisition of property and equipment* | - | 1,298,106 | 601,954 | - | 207,905 | 4,321,610 | 6,429,575 |
| Net Property and Equipment at the End of the Year | 4,159,347 | 8,884,453 | 5,744,111 | 512,138 | 4,330,511 | 8,299,673 | 31,930,233 |

*The financial obligations relating to the acquisition of property and equipment amounted to JD 1,731,328 for the year 2018, and will be settled in accordance with the contractual conditions on the purchase of these assets.

- Fully depreciated property and equipment cost amounted to JD 31,601,660 for the year 2018 (JD 29,833,847 for the year 2017).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Intangible Assets

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

| | December 31, | |
|--------------------------------------|------------------|------------------|
| | 2018 | 2017 |
| | JD | JD |
| Balance at the Beginning of the Year | 4,839,231 | 3,559,146 |
| Additions during the year | 1,019,570 | 2,101,181 |
| Amortization for the year | (859,978) | (823,581) |
| Foreign currencies differences | - | 2,485 |
| Balance end of the Year | 4,998,823 | 4,839,231 |

13. Other Assets

This item consists of the following:

| | December 31, | |
|---|-------------------|-------------------|
| | 2018 | 2017 |
| | JD | JD |
| Accrued interest income | 10,106,510 | 8,132,535 |
| Prepaid expenses | 4,346,029 | 3,282,556 |
| Assets foreclosed by the Bank in repayment of non performing debts* | 50,063,535 | 45,050,608 |
| Financial Assets foreclosed by the bank | 6,816,468 | - |
| Clearance cheques | 7,593,695 | 3,589,269 |
| Advanced payments on the acquisition of lands and real estates | 1,579,037 | 699,123 |
| Prepaid tax expenses | 1,750,077 | 1,101,552 |
| Accounts receivables and other debit balances | 6,998,647 | 10,764,740 |
| | 89,253,998 | 72,620,383 |

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

| | Foreclosed Assets | |
|--|-------------------|-------------------|
| | 2018 | 2017 |
| | JD | JD |
| Balance at the Beginning of the Year | 54,781,771 | 41,511,299 |
| Additions ** | 5,640,794 | 14,968,144 |
| Disposals | (431,238) | (1,697,672) |
| End of the year balance | 59,991,327 | 54,781,771 |
| Impairment provision of assets foreclosed by the Bank*** | (9,927,792) | (9,731,163) |
| Balance at the End of the Year | 50,063,535 | 45,050,608 |

- According to the Jordanian Banks' Law, buildings and plots of lands foreclosed by the Bank in repayment of debts from clients should be sold within two years from the foreclosure date. However, the Central Bank of Jordan may extend this period for two more years in exceptional cases. Noting at the beginning of 2015 and in accordance with the dissemination of the Central Bank of Jordan No. 15/1/4076 dated on March 27, 2014 and No. 10/1/2510 dated on February 14, 2017 the bank has started to calculate gradual provision against the assets foreclosed against debts with a period exceeding 4 years, noting that The Central Bank of Jordan issued circular No. 10/1/13967 dated 25 October 25, 2018 approving the extension of Circular No. 10/1/16607 on December 17, 2017, in which it confirmed postponing the provision calculation until the end of year 2019.

** Additions during the year ended December 31, 2018 include assets foreclosed in fulfilment of debt obligations as settled with a client, amounting to JD 3.1 million, which were registered based on an irrevocable power of attorney affirmed by the Land and Survey Department. Moreover, the Bank possesses declarations and documents confirming that the land ownership and its proceeds are in favour of the Bank and that is according to the settlement agreement between both parties, which gives the debtor the right to repossess these foreclosed assets within a specified period of time.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

***The movement on the assets foreclosed by the Bank in repayment of non-performing debts provision loans was as follows:

| | 2018 | 2017 |
|---------------------------------------|------------------|------------------|
| | JD | JD |
| Balance at the Beginning of the Year | 9,731,163 | 6,805,743 |
| Additions | 196,629 | 2,925,420 |
| Balance at the End of the Year | 9,927,792 | 9,731,163 |

14. Banks and Financial Institutions' Deposits

This item consists of the following:

| | December 31, 2018 | | | December 31, 2017 | | |
|--------------------------------------|-------------------------------------|--------------------------------------|--------------------|-------------------------------------|--------------------------------------|-------------------|
| | Inside the Kingdom of Jordan | Outside the Kingdom of Jordan | Total | Inside the Kingdom of Jordan | Outside the Kingdom of Jordan | Total |
| | JD | JD | JD | JD | JD | JD |
| Current accounts and demand deposits | - | 9,429,939 | 9,429,939 | - | 16,109,902 | 16,109,902 |
| Deposits maturing within 3 months | - | 4,875,021 | 4,875,021 | - | 27,254,300 | 27,254,300 |
| Deposits maturing within 3-6 months | - | - | - | - | 1,063,500 | 1,063,500 |
| Deposits maturing within 6-9 months | - | - | - | - | - | - |
| Deposits maturing within 9-12 months | - | - | - | - | - | - |
| Deposits maturity exceeds one year | 70,000,000 | 60,937,867 | 130,937,867 | - | 20,468,493 | 20,468,493 |
| | 70,000,000 | 75,242,827 | 145,242,827 | - | 64,896,195 | 64,896,195 |

15. Customers' Deposits

This item consists of the following:

| | December 31, 2018 | | | | |
|--------------------------------------|--------------------------|-------------------------|--------------------|-------------------------------------|----------------------|
| | Individuals | Large Corporates | SMEs | Government and Public Sector | Total |
| | JD | JD | JD | JD | JD |
| Current accounts and demand deposits | 308,314,659 | 147,922,939 | 87,403,900 | 9,639,094 | 553,280,592 |
| Saving accounts | 731,787,872 | 1,759,724 | 11,357,537 | 52,203 | 744,957,336 |
| Time and notice deposits | 254,608,734 | 89,293,564 | 33,534,295 | 26,702,514 | 404,139,107 |
| Certificates of deposit | 156,026,951 | 4,382,080 | 5,006,420 | - | 165,415,451 |
| Total | 1,450,738,216 | 243,358,307 | 137,302,152 | 36,393,811 | 1,867,792,486 |

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Deposits of the Jordanian Government and the public sector inside Jordan amounted to JD 28,539,472 equivalent to (1/53%) of total customers' deposits for the year (JD 90,414,825 equivalent to (4.9%) for the prior year).
- Non-interest bearing deposits amounted to JD 627,781,302 equivalent to (33,61%) of total customers' deposits for the year (JD 675,443,252 equivalent to (36,59%) of total deposits for the prior year).
- Restricted deposits amounted to JD 16,128,531 equivalent to (0,86%) of total customers' deposits for the year (JD 14,245,341 equivalent to (0,77%) of total deposits for the prior year).
- Dormant deposits amounted to JD 88,913,192 for the year (JD 82,220,824 for the prior year).

16. Cash Margins

The details of this item are as follows:

| | December 31, | |
|--|---------------------|--------------------|
| | 2018 | 2017 |
| | JD | JD |
| Cash margins on direct credit facilities at amortized cost | 97,690,528 | 106,152,279 |
| Cash margins on indirect credit facilities | 19,578,389 | 43,204,414 |
| | 117,268,917 | 149,356,693 |

17. Other Provisions

The details of this item are as follows:

| | Beginning Balance | Provision Created during the Year | Provision Used During the Year | Foreign Currencies Differences | Ending Balance |
|--|--------------------------|--|---------------------------------------|---------------------------------------|-----------------------|
| | JD | JD | JD | JD | JD |
| 2018 | | | | | |
| Provision for end-of-service indemnity | 4,073,409 | 514,366 | (683,010) | - | 3,904,765 |
| Provision for lawsuits raised against the Bank | 676,564 | 432,570 | (76,564) | - | 1,032,570 |
| Other provisions | 256,792 | 113 | - | - | 256,905 |
| | 5,006,765 | 947,049 | (759,574) | | 5,194,240 |
| 2017 | | | | | |
| Provision for end-of-service indemnity | 4,186,235 | 411,600 | (524,426) | - | 4,073,409 |
| Provision for lawsuits raised against the Bank | 626,714 | 53,877 | (4,027) | - | 676,564 |
| Other provisions | 203,043 | 20,561 | (5,483) | 38,671 | 256,792 |
| | 5,015,992 | 486,038 | (533,936) | 38,671 | 5,006,765 |

18. Income Tax

A. Income tax provision:

The movement on the income tax provision is as follows:

| | 2018 | 2017 |
|---------------------------------------|-------------------|-------------------|
| | JD | JD |
| Balance at the Beginning of the Year | 19,602,158 | 16,872,706 |
| Income tax paid | (21,816,266) | (21,876,847) |
| Accrued Income tax | 24,192,793 | 24,606,299 |
| Balance at the End of the Year | 21,978,685 | 19,602,158 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Income tax on current year's profit | 19,978,599 | 24,606,299 |
| Previous years income tax | 1,378,746 | - |
| Deferred tax assets for the year-addition | (3,253,263) | (2,840,086) |
| Amortization of deferred tax assets | 3,610,427 | 207,689 |
| | 21,714,509 | 21,973,902 |

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

| | 2018 | 2017 |
|---|------------------|-------------|
| Accrued income tax on profits from the sale of shares of financial assets through the statement of comprehensive income | 4,214,194 | - |
| | 4,214,194 | - |

- Legal income tax rate in Jordan amounts to 35%, whereas the legal income tax rate in Palestine where the Bank has investments and branches amounts to 15%, in Syria (a subsidiary) to 25% and 24% for the subsidiary companies in Jordan.
- A final settlement was reached with the Income and Sales Tax Department in Jordan up to the end of the years 2013 and 2015. Moreover, the Bank submitted its tax returns for the years 2014, 2016 and 2017 and has paid the required amounts according to the law. However, no final settlement has yet been reached with the Income and Sales Tax Department for these years. The Income and Sales Tax Department claims the Bank with tax differences against the year 2014 amounting to JD 2.9 Million. The Bank has objected this assessment and raised a lawsuit against the Income and Sales Tax Department in this regards which is still at the court of appeal. In the opinion of the management and its legal and tax consultant, the Bank will not entail any obligations in excess of the provision booked in the consolidated financial statements.
- The Bank has reached to final tax settlements with the Income Tax and Value Added Tax up to the end of the year 2017 on the Bank operation in Palestine. Moreover, in 2016 the Bank has booked an amount of JD 2,1 million to meet the tax liabilities of the Bank's results for the year 2018 (JD 0.9 million for income tax and JD 1.2 million for added value tax). In the opinion of the management and the tax consultant, the provisions recorded are adequate to meet the tax commitments.
- A final settlement was reached with the Income and Sales Tax Department up to the end of the year 2015 regarding Excel for Financial Investments Company (subsidiary). Furthermore, the Company has submitted its tax returns for the year 2016 and 2017. However, no final settlement has been reviewed by the Income and Sales Tax Department yet. In the opinion of the Company's management and its tax consultant, the allocated provisions in the financial statements are sufficient to meet any tax obligations.
- Jordan Leasing Company (subsidiary) has reached a final settlement with the Income and Sales Tax Department up to the year 2015. Moreover, the Company has submitted its tax returns for 2016 and 2017 and paid the declared taxes, however, it has not been reviewed by the Income and Sales Tax Department yet. In the opinion of the Company's management and its tax consultant, the allocated provisions in the financial statements are sufficient to meet any tax obligations.
- The Bank calculated the accrued income tax for the year ended December 31, 2018 for the Bank and its subsidiary Companies and external branches. In the opinion of the management and its tax consultant, the balance is sufficient to meet the tax commitments as of that date.

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

NOTES TO THE CONSOLIDATED CONDENSED ITEM FINANCIAL STATEMENTS

b. Deferred Tax Assets

The details of this item are as follows:

| Accounts Included | 2018 | | | | 2017 | | | |
|--|--------------------------------------|--------------------------------------|----------------------------|------------------|---------------|--------------------------------|------------|--------------|
| | Balance at the Beginning of the Year | Effect of implementation of IFRS (9) | Adjusted Beginning Balance | Amounts Released | Amounts Added | Balance at the End of the Year | | Deferred Tax |
| | | | | JD | | JD | JD | |
| Deferred Tax Assets: | | | | | | | | |
| Provisions for non-performing debts | 22,533,348 | - | 22,533,348 | 8,050,000 | - | 14,483,348 | 5,503,672 | 7,886,672 |
| Provision for non-performing debts | 3,706,037 | - | 3,706,037 | 183,440 | - | 3,522,597 | 1,016,154 | 1,068,355 |
| Provision for staff end-of-service indemnity | 4,073,409 | - | 4,073,409 | 683,010 | 514,366 | 3,904,765 | 1,129,221 | 1,187,361 |
| Interest in suspense | 998,113 | - | 998,113 | 96,870 | - | 901,243 | 226,469 | 254,360 |
| Provision for lawsuits raised against the Bank | 676,564 | - | 676,564 | 76,564 | 432,570 | 1,032,570 | 373,962 | 223,624 |
| Impairment in assets foreclosed by the Bank | 9,731,163 | - | 9,731,163 | - | 196,629 | 9,927,792 | 3,531,592 | 3,243,455 |
| Impairment in assets available for sale | 62,831 | - | 62,831 | - | - | 62,831 | 23,876 | 21,991 |
| Revaluation of assets foreclosed by bank | - | - | - | - | 1,488,560 | 1,488,560 | 565,653 | - |
| Expected credit loss provision | - | 12,379,866 | 12,379,866 | 15,211 | 2,845,237 | 15,209,892 | 5,635,812 | - |
| Other provisions | 3,183,603 | - | 3,183,603 | 888,262 | - | 2,295,341 | 573,835 | 795,901 |
| C. Deferred Tax Liabilities: | 44,965,068 | 12,379,866 | 57,344,934 | 9,993,357 | 5,477,362 | 52,828,939 | 18,580,246 | 14,683,719 |
| Fair value reserve | - | - | - | - | 34,605,578 | 34,605,578 | 3,296,665 | - |

The Bank has changed the accounting estimates relating to the calculation of deferred tax liabilities on the gains on financial assets at fair value through the statement of comprehensive income during the first quarter of 2018 based on the decision of the Court of Cassation issued on February 6, 2018.

The movement of Deferred tax assets and liabilities as follows :

| | For the Year Ended December 31, 2018 | For the Year Ended December 31, 2017 | For the Year Ended December 31, 2017 |
|---|--|--|--|
| | JD | JD | JD |
| Balance- beginning of the year | 14,683,719 | 11,926,470 | - |
| Effect of adopting IFRS (9) | 4,253,691 | - | - |
| Adjusted balance- beginning of the year | 18,937,410 | 11,962,470 | - |
| Effect of new income tax law | 1,249,475 | - | - |
| Addition | 2,003,788 | 2,840,086 | 3,296,665 |
| Amortized | (3,610,427) | (207,689) | - |
| Foreign currency difference | - | 124,852 | - |
| Balance- Ending of the year | 18,580,246 | 14,719,719 | 3,296,665 |

*The percentage of tax used in the calculation of deferred taxes is the rate in force in the countries where the bank is operating

During the year 2018, the amended Income Tax Law No. (38) for the year 2018 was adopted. Accordingly, the deferred tax assets and liabilities have been adjusted to match the new tax rates, as the Bank will benefit from these assets and liabilities in subsequent years based on new tax rate of 38%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| | 2018 | 2017 |
|---------------------------|-------------------|-------------------|
| | JD | JD |
| Accounting profit | 62,958,932 | 67,583,363 |
| Tax-exempt profits | (20,570,736) | (6,898,739) |
| Undetectable tax expenses | 23,653,818 | 11,281,313 |
| Taxable profit | 66,042,014 | 71,965,937 |
| Income tax rate | %36,6 | %34,2 |
| | 24,192,793 | 24,606,299 |

19. Borrowed Funds

The details of this item are as follows:

| December 31, 2018 | Amount | Number of Installments | | Periodic Installments Maturity | Collaterals | Price of Borrowing Interest |
|---|------------------|-------------------------------|----------------------|---------------------------------------|--------------------------|------------------------------------|
| | | In Total | The Remaining | | | |
| | JD | | | | JD | |
| Borrowing from the Central Bank of Jordan | 4,557,811 | 725 | 611 | Monthly | Treasury Bonds and bills | 1%-2.25% |
| Total | 4,557,811 | | | | | |

| December 31, 2017 | Amount | Number of Installments | | Periodic Installments Maturity | Collaterals | Price of Borrowing Interest |
|---|------------------|-------------------------------|----------------------|---------------------------------------|--------------------------|------------------------------------|
| | | In Total | The Remaining | | | |
| | JD | | | | JD | |
| Borrowing from the Central Bank of Jordan | 2,437,716 | 293 | 261 | Monthly | Treasury Bonds and bills | 1%-2.25% |
| Total | 2,437,716 | | | | | |

- The above amount has been re-borrowed to the Bank's customers listed under small and medium entities with an interest rate ranging from 3% - 5,25%.
- This balance is borrowed at a fixed interest rate, and there is no borrowing at floating interest rates or with zero interest rate as of December 31, 2018 and 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Other Liabilities

The details of this item are as follows:

| | December 31, | |
|--|---------------------|-------------------|
| | 2018 | 2017 |
| | JD | JD |
| Accrued interest payable | 7,379,940 | 5,079,792 |
| Accepted cheques | 5,598,178 | 6,315,946 |
| Temporary deposits | 5,658,133 | 17,814,290 |
| Dividends payable | 2,444,968 | 2,361,085 |
| Deposits on safe boxes | 174,124 | 173,945 |
| Margins against sold real estate | 140,200 | 289,250 |
| Expected credit loss provision against indirect credit facilities ** | 7,598,485 | - |
| Other liabilities* | 7,297,504 | 6,662,165 |
| | 36,291,532 | 38,696,473 |

* The details of other liabilities are as follows:

| | December 31, | |
|--|---------------------|------------------|
| | 2018 | 2017 |
| | JD | JD |
| Social security deposits | 285,413 | 277,056 |
| Income tax deposits | 318,262 | 322,528 |
| Accrued expenses | 4,740,394 | 4,947,970 |
| Incoming transfers | 245,236 | 294,037 |
| Out coming transfers | - | 12,953 |
| Board of Directors' members remuneration | 55,000 | 55,000 |
| Other credit balances | 1,653,199 | 752,621 |
| | 7,297,504 | 6,662,165 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Indirect credit facilities credit stages distribution according to the requirements of IFRS (9) was as follows:

| item | Stage One | | Stage Two | | Stage Three | Total |
|---|--------------------|-------------------|-------------------|----------------|-------------------|--------------------|
| | Individual | Collective | Individual | Collective | | |
| Balance at the Beginning of the Year after IFRS (9) Implementation | 651,983,786 | 42,172,143 | 20,505,269 | 432,998 | 9,755,293 | 724,849,489 |
| New exposures during the year | 141,250,360 | 15,698,076 | 8,943,433 | 90,777 | - | 165,982,646 |
| Accrued exposures | (247,941,772) | (10,141,536) | (4,576,948) | (261,017) | (297,460) | (263,218,733) |
| Transferred to stage one | 1,712,501 | 159,757 | (1,712,501) | (157,493) | (2,264) | - |
| Transferred to stage two | (11,447,006) | (232,740) | 11,511,747 | 232,797 | (64,798) | - |
| Transferred to stage three | (678,613) | - | (206,578) | - | 885,191 | - |
| Effect on the provision at the end of the year – as a result of classification changes between the three stages during the year | (2,298,429) | (364,399) | (101,568) | (1,501) | 5,251 | (2,760,646) |
| Changes due to the adjustments | - | - | - | - | - | - |
| Written – off facilities | - | - | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - | - |
| Balance at the End of the Year | 532,580,827 | 47,291,301 | 34,362,854 | 336,561 | 10,281,213 | 624,852,756 |

** Expected credit loss provision distribution in accordance with the requirements of IFRS (9) against indirect credit facilities was as follows:

| item | Stage One | | Stage Two | | Stage Three | Total |
|---|------------------|----------------|----------------|--------------|------------------|------------------|
| | Individual | Collective | Individual | Collective | | |
| Balance at the Beginning of the Year after IFRS (9) Implementation | 734,551 | 346,187 | 186,332 | 6,108 | 5,251,263 | 6,524,441 |
| Credit loss on new exposures during the period | 471,751 | 135,459 | 480,901 | 2,567 | 530,201 | 1,620,879 |
| Impairment loss over accrued exposures | (271,442) | (79,322) | (130,115) | (4,419) | (476,956) | (962,254) |
| Transferred to stage one | (6,989) | (419) | 923 | 419 | 6,066 | - |
| Transferred to stage two | 394 | 1,574 | (406) | (1,574) | 12 | - |
| Transferred to stage three | - | - | 1,526 | - | (1,526) | - |
| Effect on the provision at the end of the year – as a result of classification changes between the three stages during the year | 14,623 | (276) | 2,277 | (7) | 333,881 | 350,498 |
| Changes due to the adjustments | 67,624 | (2,567) | - | (136) | - | 64,921 |
| Written -off facilities | - | - | - | - | - | - |
| Adjustment due to exchange rates fluctuations | - | - | - | - | - | - |
| Balance at the End of the Year | 1,010,512 | 400,636 | 541,438 | 2,958 | 5,642,941 | 7,598,485 |

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

Indirect credit facilities distribution in accordance with the requirements of IFRS (9) as of December 31, 2018 at the Prouduct level was as follows

A) Letter of credit

| Item | As of December 31, 2018 | | | | | |
|---|-------------------------|------------------|------------------|------------------|-------------|-------------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating based on the Bank's internal credit rating system: | | | | | | |
| 1 | - | - | - | - | - | - |
| 2 | - | - | - | - | - | - |
| 3 | - | - | - | - | - | - |
| 4 | 15,973,907 | - | - | - | - | 15,973,907 |
| 5 | 29,744,844 | - | - | - | - | 29,744,844 |
| 6 | 12,732,817 | - | - | - | - | 12,732,817 |
| 7 | - | - | 6,667,657 | - | - | 6,667,657 |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | - | - | - | - | - | - |
| Total | 58,451,568 | - | 6,667,657 | - | - | 65,119,225 |

Indirect facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|-------------------|------------------|------------------|------------------|-------------|-------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the beginning of the year after IFRS (9) implementation | 93,945,557 | - | 3,524,289 | - | - | 97,469,846 |
| New facilities during the year | 3,369,155 | - | 3,393,601 | - | - | 6,762,756 |
| Facilities paid | (38,791,902) | - | (250,358) | - | - | (39,042,260) |
| | 58,522,810 | - | 6,667,532 | - | - | 65,190,342 |
| Transfer to Stage One | - | - | - | - | - | - |
| Transfer to Stage Two | (125) | - | 125 | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | (71,117) | - | - | - | - | (71,117) |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 58,451,568 | - | 6,667,657 | - | - | 65,119,225 |

Movement of the provision impairment disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|-------------|---------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Total balance at the beginning of the year after IFRS (9) implementation | 28,589 | - | 6,427 | - | - | 35,016 |
| Impairment Loss of new balances during the year | 27,278 | - | 32,044 | - | - | 59,322 |
| Recoveries from impairment loss on investments due | (1,866) | - | (16) | - | - | (1,882) |
| | | | | | | |
| Transfer to Stage One | (21) | - | 21 | - | - | - |
| Transfer to Stage Two | - | - | - | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of the reclassification between the three stages during the year | - | - | (21) | - | - | (21) |
| Changes resulting from modifications | 923 | - | - | - | - | 923 |
| Written off Investment | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 54,903 | - | 38,455 | - | - | 93,358 |

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

B) Acceptances

| Item | As of December 31, 2018 | | | | | |
|---|-------------------------|------------------|------------------|------------------|-------------|-------------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating based on the Bank's internal credit rating system: | | | | | | |
| 1 | - | - | - | - | - | - |
| 2 | - | - | - | - | - | - |
| 3 | - | - | - | - | - | - |
| 4 | 659,318 | - | - | - | - | 659,318 |
| 5 | 30,422,413 | - | - | - | - | 30,422,413 |
| 6 | 8,935,981 | - | - | - | - | 8,935,981 |
| 7 | - | - | 276,412 | - | - | 276,412 |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | - | - | - | - | - | - |
| Total | 40,017,712 | - | 276,412 | - | - | 40,294,124 |

Indirect facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|-------------------|------------------|------------------|------------------|-------------|-------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the Beginning of the year after IFRS (9) Implementation | 52,349,699 | - | 265,367 | - | - | 52,615,066 |
| New facilities during the year | 18,065,999 | - | 132,317 | - | - | 18,198,316 |
| Facilities paid | (30,385,472) | - | (111,855) | - | - | (30,497,327) |
| | 40,030,226 | - | 285,829 | - | - | 40,316,055 |
| Transfer to Stage One | 35,450 | - | (35,450) | - | - | - |
| Transfer to Stage Two | (49,719) | - | 49,719 | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | 1,755 | - | (23,686) | - | - | (21,931) |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 40,017,712 | - | 276,412 | - | - | 40,294,124 |

Movement of the provision impairment disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|-------------|---------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the Beginning of the year after IFRS (9) Implementation | 96,657 | - | 3,047 | - | - | 99,704 |
| Impairment Loss of new balances during the year | 25,484 | - | 905 | - | - | 26,389 |
| Recoveries from impairment loss on investments due | (75,590) | - | (564) | - | - | (76,154) |
| Transfer to Stage One | (181) | - | 181 | - | - | - |
| Transfer to Stage Two | 109 | - | (109) | - | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of the reclassification between the three stages during the year | (31) | - | 432 | - | - | 401 |
| Changes resulting from modifications | 8,565 | - | - | - | - | 8,565 |
| Written off Investment | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 55,013 | - | 3,892 | - | - | 58,905 |

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

C) Letters of guarantee

| Item | As of December 31, 2018 | | | | | |
|---|-------------------------|------------------|------------------|------------------|-------------------|--------------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating based on the Bank's internal credit rating system: | | | | | | |
| 1 | 41,840 | - | - | - | - | 41,840 |
| 2 | 138,500 | - | - | - | - | 138,500 |
| 3 | 3,033,834 | - | - | - | - | 3,033,834 |
| 4 | 39,404,731 | - | - | - | - | 39,404,731 |
| 5 | 28,049,699 | - | - | - | - | 28,049,699 |
| 6 | 50,070,222 | - | - | - | - | 50,070,222 |
| 7 | - | - | 1,199,952 | - | - | 1,199,952 |
| 8 | - | - | - | - | 617,074 | 617,074 |
| 9 | - | - | - | - | 135,990 | 135,990 |
| 10 | - | - | - | - | 9,528,149 | 9,528,149 |
| Total | 120,738,826 | - | 1,199,952 | - | 10,281,213 | 132,219,991 |

Indirect facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|--------------------|------------------|------------------|------------------|-------------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the beginning of the year after IFRS (9) implementation | 122,489,102 | - | 1,603,768 | - | 9,755,293 | 133,848,163 |
| New facilities during the Year | 18,718,650 | - | 236,822 | - | - | 18,955,472 |
| Facilities paid | (19,482,348) | - | (553,701) | - | (297,460) | (20,333,509) |
| | 121,725,404 | - | 1,286,889 | - | 9,457,833 | 132,470,126 |
| Transfer to Stage One | 341,148 | - | (341,148) | - | - | - |
| Transfer to Stage Two | (381,708) | - | 446,449 | - | (64,741) | - |
| Transfer to Stage Three | (678,613) | - | (206,578) | - | 885,191 | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | (267,405) | - | 14,340 | - | 2,930 | (250,135) |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total balance at the end of the year | 120,738,826 | - | 1,199,952 | - | 10,281,213 | 132,219,991 |

Movement of the provision impairment disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the beginning of the year after IFRS (9) implementation | 46,865 | - | 1,835 | - | 5,251,263 | 5,299,963 |
| Impairment Loss of new balances during the year | 124,361 | - | 6,554 | - | 530,201 | 661,116 |
| Recoveries from impairment loss on investments due | (4,632) | - | (163) | - | (476,956) | (481,751) |
| Transfer to Stage One | (5,183) | - | 239 | - | 4,944 | - |
| Transfer to Stage Two | 213 | - | (225) | - | 12 | - |
| Transfer to Stage Three | - | - | 1,526 | - | (1,526) | - |
| The effect on the provision as at the end of the year as a result of the reclassification between the three stages during the year | 14,712 | - | 403 | - | 335,003 | 350,118 |
| Changes resulting from modifications | 53,991 | - | - | - | - | 53,991 |
| Written off Investment | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total balance at the end of the year | 230,327 | - | 10,169 | - | 5,642,941 | 5,883,437 |

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

D) Un-utilized facilities limits

| Item | As of December 31, 2018 | | | | | |
|---|-------------------------|-------------------|-------------------|------------------|-------------|--------------------|
| | Stage One | | Stage Two | | Stage Three | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Credit risk rating based on the Bank's internal credit rating system: | 406,156 | - | - | - | - | 406,156 |
| 1 | - | - | - | - | - | - |
| 2 | 18,798,895 | - | - | - | - | 18,798,895 |
| 3 | 54,246,165 | - | - | - | - | 54,246,165 |
| 4 | 123,859,138 | - | - | - | - | 123,859,138 |
| 5 | 114,123,356 | - | - | - | - | 114,123,356 |
| 6 | - | - | 25,882,272 | 336,561 | - | 26,218,833 |
| 7 | - | - | - | - | - | - |
| 8 | - | - | - | - | - | - |
| 9 | - | - | - | - | - | - |
| 10 | 1,939,011 | 47,291,301 | 336,561 | - | - | 49,566,873 |
| Total | 313,372,721 | 47,291,301 | 26,218,833 | 336,561 | - | 387,219,416 |

Indirect facilities Movment Disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|--------------------|-------------------|-------------------|------------------|-------------|--------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the Beginning of the year after IFRS (9) Implementation | 383,199,428 | 42,172,143 | 15,111,845 | 432,998 | - | 440,916,414 |
| New facilities during the year | 101,096,556 | 15,698,076 | 5,180,693 | 90,777 | - | 122,066,102 |
| Facilities paid | (159,282,050) | (10,141,536) | (3,661,034) | (261,017) | - | (173,345,637) |
| | 325,013,934 | 47,728,683 | 16,631,504 | 262,758 | - | 389,636,879 |
| Transfer to Stage One | 1,335,903 | 159,757 | (1,335,903) | (157,493) | (2,264) | - |
| Transfer to Stage Two | (11,015,454) | (232,740) | 11,015,454 | 232,797 | (57) | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of a change in classification between the three stages during the year | (1,961,662) | (364,399) | (92,222) | (1,501) | 2,321 | (2,417,463) |
| Changes resulting from modification | - | - | - | - | - | - |
| Written off facilities | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 313,372,721 | 47,291,301 | 26,218,833 | 336,561 | - | 387,219,416 |

Movement of the provision impairment disclosure:

| Item | Stage One | | Stage Two | | Stage Three | Total |
|--|------------------|------------------|------------------|------------------|--------------|------------------|
| | Individual Level | Collective Level | Individual Level | Collective Level | | |
| Balance at the Beginning of the year after IFRS (9) Implementation | 562,440 | 346,187 | 175,023 | 6,108 | - | 1,089,758 |
| Impairment Loss of new balances during the year | 294,628 | 135,459 | 441,398 | 2,567 | - | 874,052 |
| Recoveries from impairment loss on investments due | (189,354) | (79,322) | (129,372) | (4,419) | - | (402,467) |
| Transfer to Stage One | (1,604) | (419) | 482 | 419 | 1,122 | - |
| Transfer to Stage Two | 72 | 1,574 | (72) | (1,574) | - | - |
| Transfer to Stage Three | - | - | - | - | - | - |
| The effect on the provision as at the end of the year as a result of the reclassification between the three stages during the year | 4,145 | (2,567) | - | (136) | - | 1,442 |
| Changes resulting from modifications | - | - | - | - | - | - |
| Written off Investment | - | - | - | - | - | - |
| Adjustments due to changes in exchange rates | - | - | - | - | - | - |
| Total Balance at the End of the Year | 670,327 | 400,912 | 487,459 | 2,965 | 1,122 | 1,562,785 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Paid – Up Capital

- The authorized capital of the Bank is JD 200,000,000 as of December 31, 2018 and 2017.
- The authorized capital of the Bank is JD 200,000,000 by year end, divided into 200,000,000 shares at a par value of JD 1 each.

22. Reserves

- **Statutory Reserve**
The amount accumulated in this account is transferred at 10% from the annual net income before tax during the year and previous years according to the Banks Law and Companies Law. This reserve cannot be distributed to shareholders.
- **Voluntary Reserve**
The amounts accumulated in this account are transferred at 10% from the annual net income before taxes during the previous years. This reserve will be used for the purposes approved by the Board of Directors. Moreover, the General Assembly of Shareholders has the right to capitalize or distribute the whole reserve or part thereof as dividends.
- **General Banking Risks Reserve**
This item represents the general banking risks reserve in line with the instructions of the Central Bank of Jordan, The balance of the general bank risk reserve has been transferred to retained earnings as of January 1ST 2018 based on Central Bank of Jordan Circular No. 1359/1/10 dated January 25, 2018 and Central Bank Instructions No. 13/2018 dated June 6, 2018 and other regulatory authorities.
- **Special Reserve**
This reserve represents the periodic fluctuation reserve calculated according to the instructions of the Palestinian Monetary Authority concerning the Bank's branches operating in Palestine.

The restricted reserves are as follows:

| Reserve | Amount | Nature of Restriction |
|-------------------------------|---------------|--------------------------------|
| | JD | |
| Legal reserve | 87,947,294 | Companies and Banks Laws |
| General banking risks reserve | 2,258,450 | Regulatory bodies requirements |
| Special reserve | 5,849,039 | Regulatory bodies requirements |

23. Foreign Currency Translation Differences

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

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

| | 2018 | 2017 |
|---|---------------------|---------------------|
| | JD | JD |
| Balance at the Beginning of the Year | (12,256,254) | (12,401,835) |
| Changes in the translation of net investment in the subsidiary Company during the year* | - | 145,581 |
| Balance at the End of the Year | (12,256,254) | (12,256,254) |

- * This item includes the Bank's net share of the structural position related to the investment in the capital of Bank of Jordan – Syria for the years 2018 and 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Fair Value Reserve

The details of the fair value reserve are as follows:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | JD | JD |
| Balance at the Beginnings of the Year | 81,288,341 | 63,565,588 |
| Unrealized (loss) gains | (11,979,820) | 17,722,753 |
| (Loss) of equity instruments at fair value through comprehensive income transferred to retained earnings as a result of the sale | (39,343,840) | - |
| Deferred Tax Liabilities | (3,296,665) | - |
| Balance at the End of the Year* | 26,668,016 | 81,288,341 |

* The fair value reserve is presented net of deferred tax in amount of JD 3,296,665.

25. Retained Earnings

The details of this item are as follows:

| | 2018 | 2017 |
|--|--------------------|-------------------|
| | JD | JD |
| Balance at the Beginnings of the Year | 64,446,126 | 63,926,237 |
| Expected credit losses over the assets as a result of IFRS (9) implementation | (11,595,842) | - |
| Effect of IFRS (9) implementation on the deferred tax assets | 4,253,691 | - |
| Adjusted Balance- Beginning of the year | 57,103,975 | 63,926,237 |
| Dividends distributed to shareholders | (36,000,000) | (36,000,000) |
| Profit for the year | 41,527,540 | 46,795,537 |
| Transferred from (to) reserves | 3,581,181 | (9,783,481) |
| Profit transferred as a result for sale of financial assets through comprehensive income | 35,077,036 | - |
| The currencies translation differences | - | (492,167) |
| Balance at the End of the Year | 101,289,732 | 64,446,126 |

- Retained earnings include an amount of JD 18,580,246 restricted against deferred tax assets as of December 31, 2018 (JD 14,683,719 as of December 31, 2017).
- Retained earnings include an amount of JD 3,302,537 as of December 31, 2018 which represents the effect of early adoption of IFRS (9). These restricted amounts cannot be utilized unless realized as instructed by Jordan Securities Exchange Commission. Also retained earnings include an amount of JD 813,437 as of December 31, 2018 that cannot be utilized by distribution or any purpose unless there is a formal approval from Central Bank of Jordan resulting from the application of Central Bank of Jordan circular No. 10/1/1359 dated January 25, 2018.

26. Declared Dividends

The Board of Directors recommended the distribution of 18% of capital as cash dividends to the shareholders its meeting held during the year 2019 equivalent to JD 36 Million which remain subject to the approval of the General Assembly (while a dividend of 18% of the capital was distributed during the year 2018 in the amount of JD 36 million according to the general assembly decision in it's meeting held on April 26, 2018).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Interest Income

The details of this item are as follows:

| | 2018 | 2017 |
|---|--------------------|--------------------|
| | JD | JD |
| Direct Credit Facilities at amortized cost: | | |
| Individual (retail customers): | 43,674,550 | 36,208,858 |
| Overdraft accounts | 1,401,145 | 1,318,994 |
| Loans and discounted bills | 38,581,909 | 32,240,938 |
| Credit cards | 3,691,496 | 2,648,926 |
| Real estate loans | 19,142,570 | 17,310,483 |
| Corporate Entities: | 53,160,940 | 46,339,863 |
| Large corporate customers: | 34,216,166 | 30,423,105 |
| Overdraft accounts | 4,927,052 | 5,705,555 |
| Loans and discounted bills | 29,289,114 | 24,717,550 |
| SMEs: | 18,944,774 | 15,916,758 |
| Overdraft accounts | 4,064,077 | 3,410,265 |
| Loans and discounted bills | 14,880,697 | 12,506,493 |
| Government and Public Sector | 10,501,155 | 10,433,905 |
| Other items: | | |
| Balances with central banks | 1,008,608 | 1,724,849 |
| Balances and deposits with banks and financial institutions | 11,239,472 | 9,456,054 |
| Financial assets at amortized cost | 9,083,378 | 8,387,224 |
| Total | 147,810,673 | 129,861,236 |

28. Interest Expense

The details of this item are as follows:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | JD | JD |
| Banks and financial institution deposits | 3,381,364 | 1,388,386 |
| Customers' deposits: | | |
| Current and demand deposits | 48,849 | 499,248 |
| Saving accounts | 4,017,155 | 1,901,997 |
| Time and notice deposits | 18,088,044 | 15,530,072 |
| Certificates of deposit | 5,941,725 | 2,811,574 |
| Borrowed funds | 48,188 | 68,714 |
| Cash margins | 1,575,377 | 1,215,514 |
| Deposits insurance fees | 3,971,428 | 3,503,507 |
| | 37,072,130 | 26,919,012 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. Net – Commissions Income

The details of this item are as follows:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | JD | JD |
| Commission's Income: | | |
| Direct credit facilities commissions | 5,328,169 | 5,381,011 |
| Indirect credit facilities commissions | 3,705,590 | 5,071,054 |
| Other commissions | 16,007,310 | 14,174,321 |
| Total | 25,041,069 | 24,626,386 |
| <u>Less: Commissions Expense</u> | <u>444,051</u> | <u>366,718</u> |
| Net Commissions Income | 24,597,018 | 24,259,668 |

30. Foreign Currency Income

The details of this item are as follows:

| | 2018 | 2017 |
|----------------------|------------------|------------------|
| | JD | JD |
| From trading dealing | 281,095 | 452,467 |
| From revaluation | 2,165,919 | 2,307,543 |
| | 2,447,014 | 2,760,010 |

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

The details of this item are as follows:

| Year 2018 | Realized Gain | Unrealized (Losses) | Shares Dividends | Total |
|------------------|--------------------------|----------------------------|-------------------------|----------------|
| | JD | JD | JD | JD |
| Local shares | | | | |
| | 3,847 | (17,109) | 8,592 | (4,670) |
| | 3,847 | (17,109) | 8,592 | (4,670) |
| Year 2017 | Realized (Losses) | Unrealized (Losses) | Shares Dividends | Total |
| | JD | JD | JD | JD |
| Local shares | | | | |
| | - | (8,732) | 12,949 | 4,217 |
| | - | (8,732) | 12,949 | 4,217 |

32. Other Income

The details of this item are as follows:

| | 2018 | 2017 |
|--|------------------|-------------------|
| | JD | JD |
| Revenues returned from written-off-debts | 1,610,139 | 15,247,317 |
| Gain from the sale of assets foreclosed by the Bank | 740,340 | 1,251,773 |
| Revenue from telephone, post, and swift | 597,941 | 552,276 |
| Rents received from the Bank's real estate | 212,277 | 505,978 |
| Gains from the sale of property and equipment | 11,626 | 204,110 |
| Interest in suspense reversed to income | 836,267 | 903,979 |
| Financial assets foreclosed by the bank valuation loss | (1,488,560) | - |
| Other revenues | 920,384 | 1,661,956 |
| | 3,440,414 | 20,327,389 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. Employees Expenses

The details of this item are as follows:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | JD | JD |
| Salaries, bonuses, and employees' benefits | 27,983,983 | 26,781,918 |
| Bank's contribution to social security | 2,308,215 | 2,221,077 |
| Bank's contribution to provident fund | 1,670,592 | 1,651,824 |
| Medical expenses | 1,614,458 | 1,555,588 |
| Staff training expenses | 948,498 | 619,331 |
| Transportation and travel expenses | 888,986 | 646,220 |
| Life insurance | 85,347 | 97,030 |
| | 35,500,079 | 33,572,988 |

34. Other Expenses

The details of this item are as follows:

| | 2018 | 2017 |
|--|-------------------|-------------------|
| | JD | JD |
| Rent | 4,230,069 | 3,389,558 |
| Printing and stationery | 1,092,634 | 955,744 |
| Telephone, post and swift | 1,634,606 | 1,633,516 |
| Maintenance, repairs, and cleaning | 4,295,374 | 3,553,662 |
| Fees, taxes, and licences | 3,682,945 | 3,050,321 |
| Advertisements and subscriptions | 6,062,016 | 4,958,617 |
| Insurance expenses | 2,466,019 | 2,156,311 |
| Electricity and heating | 1,806,266 | 2,218,021 |
| Donations | 668,663 | 689,897 |
| Hospitality | 452,041 | 322,817 |
| Professional, consultancy and legal fees | 1,627,866 | 1,369,315 |
| Board of Directors members remunerations | 55,000 | 55,000 |
| Miscellaneous | 1,307,629 | 653,350 |
| | 29,381,128 | 25,006,129 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. Financial Assets Expected Credit Losses Provision

The Bank has adopted IFRS(9) effective from January 1, 2018 which requires the Bank to calculate the expected credit losses on financial assets and as stated in note (2), the details on this item are as follows:

| | For the year ended December 31, | |
|--|--|-------------|
| | 2018 | 2017 |
| | JD | JD |
| Expected credit losses over cash at central banks balances | (6,830) | - |
| Expected credit losses over banks and financial institutions balances | (13,657) | - |
| Expected credit losses over deposits with banks and financial institutions | 9,848 | - |
| Expected credit losses over direct credit facilities at amortized cost | 6,052,673 | - |
| Expected credit losses over financial assets at amortized cost | 526,056 | - |
| Expected credit losses over indirect facilities | 1,074,044 | - |
| | 7,642,134 | - |

36. Earnings Per Share from Profit for the Year

The details of this item are as follows:

| | 2018 | 2017 |
|---|-------------|-------------|
| | JD | JD |
| Profit for the year (Bank's shareholders) | 41,527,540 | 46,795,537 |
| Weighted average number of shares | 200,000,000 | 200,000,000 |
| Net income for the year/share (Bank's shareholders) | | |
| Basic | 0.208 | 0.234 |
| Diluted | 0.208 | 0.234 |

37. Cash and Cash Equivalents

The details of this item are as follows:

| | December 31, | |
|---|---------------------|--------------------|
| | 2018 | 2017 |
| | JD | JD |
| Cash and balances with central Banks maturing within 3 months | 349,701,557 | 259,225,151 |
| <u>Add:</u> Balances with banks and other financial institutions maturing within 3 months | 152,122,328 | 265,682,212 |
| <u>Less:</u> Banks and financial institutions' deposits maturing within 3 months | (14,304,960) | (43,364,202) |
| Restricted balances | (4,787,088) | (4,696,301) |
| | 482,731,837 | 476,846,860 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. Financial Derivatives

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

| | Positive Fair Value | Negative Fair Value | Nominal Value Maturities | | | |
|---|------------------------|------------------------|---------------------------|--------------------|------------------------|-------------------|
| | | | Total Nominal Value | Within 3 Months | From 3 To 12 Months | Total |
| | JD | JD | JD | JD | JD | JD |
| Foreign currencies forward contracts (purchase) | 165,322 | (154,721) | 10,008,421 | 6,346,825 | 3,661,596 | 10,008,421 |
| Total | 165,322 | (154,721) | 10,008,421 | 6,346,825 | 3,661,596 | 10,008,421 |

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

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

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

39. Related parties Transactions

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

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

| <u>Consolidated Statement of Financial Position Items:</u> | <u>Related party</u> | | | | | <u>Total</u> | |
|--|----------------------|-----------------------------------|------------------------------|-----------------------------|----------------------|--|--|
| | <u>Subsidiaries*</u> | <u>Board of Directors Members</u> | <u>Executives Management</u> | <u>Staff Provident Fund</u> | <u>Other Parties</u> | <u>December 31,</u> | |
| | | | | | | <u>2018</u> | <u>2017</u> |
| | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> |
| <u>Assets:</u> | | | | | | | |
| Investments | 45,415,294 | - | - | - | - | 45,415,294 | 45,415,294 |
| Credit Facilities | - | 438,632 | 983,071 | - | 55,936,886 | 57,358,589 | 47,647,304 |
| Deposits | 1,190,099 | - | - | - | - | 1,190,099 | 4,208,460 |
| Cash Margins | 3,982,000 | - | - | - | - | 3,982,000 | 3,982,000 |
| <u>Liabilities:</u> | | | | | | | |
| Customer Deposits | 7,285,439 | 942,125 | 2,630,294 | 223,934 | 143,270,090 | 154,351,882 | 110,697,713 |
| Bank Deposits | 9,990,749 | - | - | - | - | 9,990,749 | 7,973,957 |
| Borrowed funds | 3,716,071 | - | - | - | - | 3,716,071 | 3,523,235 |
| <u>Off-balance sheet items</u> | | | | | | | |
| Letters of guarantee | 778,000 | 300 | - | - | 3,029,617 | 3,807,917 | 4,365,843 |
| | | | | | | <u>Total</u> | <u>Total</u> |
| | | | | | | <u>for the year ended December 31,</u> | <u>for the year ended December 31,</u> |
| | | | | | | <u>2018</u> | <u>2017</u> |
| <u>Consolidated Statement of Profit or Loss Items:</u> | | | | | | <u>JD</u> | <u>JD</u> |
| Credit interest and commission | 21,111 | 33,116 | 63,159 | - | 4,185,767 | 4,303,153 | 2,504,446 |
| Debit interest and commission | 1,057,224 | 15,235 | 83,253 | 55,341 | 3,283,460 | 4,494,513 | 4,509,055 |

Interest rates:

- Credit interest rates against facilities in JOD range from 3.375% (represent the minimum price for interest margin against 100% cash margin) to 15%.

- Credit interest rate against facilities in foreign currency is 6.053%.

- Debit interest rates for JOD range from 0.0025% to 5.75%.

- Debit interest rates for foreign currency range from 0.1%.

* Balances and transactions with subsidiary companies are excluded from the consolidated financial statements, but presented for clarification purposes only.

- Investment in subsidiary - Syria shown at cost, noting that the bank has accounted for this investment impairment in its records.

Bank's Executive Management Salaries and Remunerations Summary is as follows

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|------------------|------------------|
| | <u>JD</u> | <u>JD</u> |
| Salaries and benefits | 2,391,404 | 1,553,451 |
| Transportation and board secretary | 18,000 | 48,000 |
| Total | 2,409,404 | 1,601,451 |

The foreclosed assets in repayment of debts include assets foreclosed in fulfillment of debt obligations as settled with a client, amounting to JD 3.1 million, which were registered based on an irrevocable power of attorney affirmed by the Land and Survey Department. Moreover, the Bank possesses declarations and documents confirming that the land ownership and its proceeds are in favor of the Bank and that is according to the settlement agreement between both parties, which gives the debtor the right to repossess these foreclosed assets within a specified period of time

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. Risk Management

First: Qualitative Disclosures:

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

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

❖ Credit Risks

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

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

1. Setting up independent specialized departments for the credit management as follows:
 - Companies Credit Risk Department (for the management of companies' credit risks).
 - Small and Medium Size Enterprises (SMEs) Risk Management Department (for management of SMEs credit risks).
 - Individuals Credit Risk Department (for management of individual's credit portfolios risks).
 - Credit Portfolios Risk Management Department: the department focuses on maintaining the quality of credit granted to the Bank's clients (Corporate, SME & Individual). Studying the Key Risk Indicators (KRI) and Key Performance Indicators (KPI) through preparing studies and reports covering the performance of economic sectors and industries and comparing it with the performance of the Bank's credit portfolios and associated provisions. Utilizing the aforementioned reports to establish proper recommendations which in turn provide guidance for the business development units to target promising economic sectors/industries or to avert expansion in the deteriorating ones. In addition to the above, the department of Credit Portfolios Risk Management conducts periodical studies and reports to shed light on the below aspects:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- The concentration of credit portfolio across economic activity levels.
 - The concentration of credit portfolio across product levels.
 - Reports covering the Bank's default ratios and coverage ratios compared to the banking sector.
 - Credit portfolios performance reports, conducted on segment basis (Corporate, SME, Government and Individuals) compared to the banking sector in terms of growth and profitability rates.
 - The preparation for the implementation of IFRS (9) through conducting scenarios and reports required to comply with the IFRS (9) implementation by the beginning of 2018.
 - Applying a risk rating system through which the clients will be classified under ten stages (ratings) and according to the below factors:
 - Obligor Risk Rating (economic sector, management, financial standing, experience, etc).
 - Facility Risk Rating (risk weight will be assigned according to the type and nature of the facility).
 - Collateral Rating: (risk weight will be assigned according to the type and nature of the collateral), which will directly impact the Recovery Ratio, thus the calculation of Loss Given Default LGD.
2. Separating the Business Development Department from Credit Risk Departments.
 3. Implementing a set of approved policies and procedures that outline principles for defining, measuring, and managing the type of risk.
 4. Determining credit concentrations at the credit type level, economic sector, geographical distribution, and credit portfolios, etc. Credit risks are managed by departments according to their specialization.
 5. Implementing an authorization and relationship management system:
Bank of Jordan adopts an authorization system that includes authority granting, delegation, monitoring and relationship management of the various credit activities.
 6. Determining credit risk mitigation methods:
Bank of Jordan adopts various methods to mitigate credit risks such as the following:
 - Providing the proper credit structure that matches its purpose and repayment period.
 - Ensuring the completion of all control aspects relating to the utilization of credit and the sources of its payment.
 - Obtaining proper guarantees to hedge against any risks in this regard.
 - Analysing and evaluating credit transactions by credit risk departments.
 - Periodically evaluating guarantees according to the nature, type, and degree of risks to reinforce guarantees and ensure their adequacy constantly.
 - Setting up specialized committees for approving credit.
 7. Controlling credit execution by the credit control department in addition to a unit concerned with documentation, completion of legal audit, and execution.
 8. Applying credit management mechanisms (CREMS and E-loan).
 9. Setting up a specialized department to follow up on the collection of dues and non-performing debts.
 10. Setting up a committee for risk and compliance management at the Board of Directors level to review policies, credit strategies, investments and risks.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Determining the duties of the various credit risk departments concerning the mechanism and periodicity of controls and issuance/submission of reports to the Board of Directors and Executive Management.
12. Analysing economic fluctuations and changes in the structure and quality of credit portfolios.
13. Preparation and implementation of Stress Testing procedures.
14. Control Reports:
The credit risks departments, each according to its specialization, control and evaluate all credit operations through a set of control procedures:
 - Daily control:
Monitoring credit violations, un-renewed due credit ceilings, due accounts, and others.
 - Controlling the quality and distribution of the credit portfolio.
 - Rating credit risks, economic sector, credit type, guarantees, concentration, credit asset quality trends, and others.
 - Monitoring credit exposure at the customer level (Total Exposure), geographic area, credit type, economic sector, maturity date, guarantee type, and others.

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

❖ **Operational Risk**

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

The Bank manages operational risks through the following process:

1. Setting the operational risks policy, approving it by the Board of Directors, and implementing it across the bank and its affiliates. This includes the standards for defining and measuring risks in addition to the Risk Appetite accepted for these risks.
2. Implementing an operational risk management system (CAREWeb).
3. Creating risk profiles for all Bank entities which include all operational risks that may affect the entity, the related controls to mitigate them and the frequency of their testing to ensure effective and continuous implementation. Reports on risk profiles are submitted to the Risk and Compliance Committee on the Board level for approval.
4. Internal Audit Department evaluates the validity of monthly self-assessment tests for the Bank's various units, classifies these units according to the approved classification standards and incorporates them into the internal audit reports it submits to the Audit Committee on a timely basis. The Operational Risk Unit incorporates self-assessment results in comparison with internal audit results for all of the Bank's entities and submits them to the Audit Committee on a quarterly basis.
5. Continuous evaluation of the Risk Profiles:
In this regard, a self-assessment tool (Control & Risk Self-Assessment) has been applied to manage operational risks through continuous evaluation of risks to identify new risks, ensure the efficiency of control procedures to mitigate these risks, and update the risk profiles on a timely basis to reflect the actual internal control environment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Setting up a database for operational incidents, analysing them and submitting reports on the concentration and type of these incidents to the Risk and Compliance Committee/Board of Directors.
7. Applying rating standards and evaluating the Bank's entities according to international classification standards for internal control environment.
8. Setting up and determining key risk indicators (KRIs) at the Bank's level and provides the related departments within the Bank with the results of these indicators to be monitored as well as applying rating standards and the correction procedures to avoid the risk before its occurrence.
9. Providing the Risk and Compliance committee on the Board of Directors level with periodic reports (monthly, quarterly) that reflect the actual internal control environment for the various units in the Bank.
10. Evaluating the policies and procedures in the Bank to identify any control gaps in these processes and arrange with concerned entities to rectify these gaps.
11. Conducting trainings and awareness sessions for the Bank's employees on Operational Risk Management to enhance the internal control environment at the Bank.
12. The entity's risk profile is updated in coordination with the Internal Audit Department to identify the risks to which the entity may be exposed and adversely affect the achievement of the objectives and strategy of the entity and its profits. Any amendments to the entity's risk profile shall be presented to the Risk Management Committee to be approved. The Internal Audit Department annually evaluates the entity's control procedures and presents the results of the examinations to the Risk Management and Compliance Committee.
13. The Operational Risk profile is updated at the entity level for AML Risk in coordination with the compliance department at the bank level for identifying AML and CTF risks and controls that mitigate them. Any amendments to the entity's AML risk profile shall be presented to the risk management committee to be approved by them. The Internal Audit Department annually evaluates the entity's control procedures and presents the results of the examinations to the and the Risk Management and Compliance Committee.
14. Risk assessment of strategic projects is evaluated in addition to the assessment of the risks of banking operations and the assessment of the risks of any new banking products to be put in place to establish control procedures to control these risks.

Liquidity and Market Risk

▪ **Liquidity Risk**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Market Risk

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

- Interest rate risks.
- Currency exchange rate risks (dealing with foreign currency).
- Fluctuation in shares prices risks.
- Goods risks.

Market risks arise from:

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

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

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

The Bank manages the market and liquidity risk through:

A set of policies and procedures approved by the Board of Directors that define the principles for defining, measuring, monitoring, monitoring and managing market risks and liquidity risks.

Asset and liability management system to adjust and measure liquidity risk and interest rates.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Monitoring investment tools and analyzing the range of conformity with the issued investment limits in the investment policy and the allowed losses limits.
- Analyzing ceilings and limitations of the investments and providing a recommendation to adjust it according to improvements and circumstances of international and local markets, and diversifying investment with what achieves best returns and less risks.
- Analyzing the investment concentrations on the level of each tool.
- Reviewing and assessing the portfolio's assets and liabilities.
- Analyzing credit rating for international and local banks according to the financial situation and how much it is effected by the economic crises and the spread of its range globally.
- Monitor interest trends on the volume of deposits, maturity date and its suspended range.
- The preparation of reports about the exceeding limit in investments tools.
- Monitoring the changes on interest prices in international and local markets.
- Monitoring the sensitivity of investment tools for changes in interest prices on each investment tool.
- Monitoring the pricing process for borrowing and lending/investments ceiling.
- Monitoring the concentration on markets/tool and geographical distribution.
- Submitting periodic reports to the Investment Committee, Executive Risk Management Committee, and Risk Management Committee/Board of Directors.

❖ **Information Security Risk**

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

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

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

❖ **Compliance Risks**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Risks of money laundering and terrorist financing:

As for Anti-Money Laundering activities, an autonomous unit within the Compliance Department has been set up with appropriate and qualified capabilities and systems. The Bank manages the unit of Anti-Money Laundering and Terrorism Finance as follows:

1. Preparing the policy of combating money laundering and terrorism financing and approving it by the Board of Directors in accordance with the Law No. 46/2007 to combat money laundering and terrorist financing, and the instructions issued pursuant to it and to monitor its application on the ground and review it permanently.
2. The implementation of an automated system to check daily customer's transactions.
3. Rating of customers in accordance to their risk grade.
4. A periodic automated check to ensure that none of the Bank's customers are included in prohibited lists.
5. Periodic check for customers with high risks.
6. Awareness of the Bank's employees, each as per their specialities.

- Risks of FATCA Non-compliance and dealing with fraud cases:

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

- The preparation and adoption of a policy to deal with the FATCA law.
- The preparation and adoption of a compliance program with the FATCA law.
- Rehabilitation and training of all employees of the Bank to deal with the requirements of the FATCA law.
- Contracting with a specialized company to implement an automated system to manage the requirements of FATCA.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Adjusting the application forms for opening new accounts to meet the requirements of the FATCA law.
- Developing a mechanism to update customer data on an ongoing basis.
- The compliance committee/Board of Directors is responsible for overseeing cases of fraud and suspicion by following up on the periodic reports submitted to the committee.

The unit submits a periodic report on compliance with the FATCA requirements to the compliance committee/Board of Directors.

- The Bank manages and handles customer complaints according to the following:

Based on the instructions of dealing with customers with the fairness and transparency of No. 56/2012 issued by the Central Bank of Jordan on 31/10/2012, a unit was established to manage and handle customer complaints and provide them with qualified human cadres and automated systems and administratively follow the Compliance Department. The unit complies to the following basis:

- Prepare a mechanism for the management and handling of customer complaints and their adoption as required.
- Preparation of the policy of dealing with customers fairly and transparently and duly adopted.
- Preparing the policy of dealing with customer complaints and approving them according to the rules according to the internal procedures instructions to deal with the complaints of customers of financial and banking services providers No. 1/2017 dated 28/8/2017 issued by the Central Bank of Jordan.
- Providing different communication channels to receive customer complaints.

IFRS (9) implementation related disclosures

First: Qualitative Disclosures

On July 24th 2014, the International Accounting Standards Board issued the final version of IFRS 9 related to Financial Instruments and Provisions, which will replace IAS 39 and will be mandatory effective from 1 January 2018. The standard includes the below:

- Classification and measurement of financial instruments.
- Determination of expected credit loss allowance.
- Hedge accounting.

The standard came in response to the lessons learned from the global financial crisis, since one of the reasons for the crisis was the delay in recognition of debt losses whereas Losses are recognized when realized. The new standard requires establishing provisions for credit facilities based on the expectations of borrower default or inability to meet financial commitments.

This standard introduced radical amendments to the methods used to calculate bank provisions as the current concept of assigning provisions is based on losses resulted from non-performing loans while the new standard works in proactive basis by assigning provision against current performing credit facilities assuming the occurrence of future default for such credit facilities. Based on the expectations of the future of the working debt Proactive as expected credit loss provision.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Bank of Jordan carried out IFRS 9 implementation works in cooperation with Moody's where the historical data of Bank of Jordan Group's were used to measure the expected credit losses weighted by the impact of economic scenarios.

The Central Bank of Jordan instructions as well as the Bank's business Model, risk departments (risk framework) and supervisory departments were all taken into consideration when forming Bank of Jordan IFRS (9) methodology. The Bank's management ensured that the methodology emulate the Bank's business model and apply the best practices, quantitative methods and statistical models to produce the components of the expected credit loss formula in:

Expected Credit Loss = Probability of Default x Exposure at Default x Loss Given Default

IFRS (9) Scope of Implementation:

Bank of Jordan IFRS (9) methodology catered for applying the standard on group level (foreign branches) and its subsidiaries and in line with the host country laws and regulations. The model of Expected Credit Loss calculation covers the following:

- Loans and credit facilities (direct and indirect).
- Debt instruments carried at amortized cost.
- Financial guarantees (as per the standards requirements).
- Credit claims on banks and financial institutions (excluding current accounts used to cover the bank operations such as remittances, Letters of Guarantee and Letters of Credit) which falls within a short period of time (days).

The following are the main information and definitions used by the Bank to implement this standard:

- Definition of Default:
The occurrence of 90 days or more past due where such event indicates the obligor inability to meet the contractual obligations in full with the Bank.
- Definition of Probability of Default PD:
Probability of Default represent the risk of the customer's inability to meet its obligations toward the bank.
- Determination of PD for Corporate and SME Portfolios: through mapping the obligors ratings generated by the internal risk rating system with it's equivalent Probability of Default at this level of risk, taking into account that each risk rate reflects a certain level of risk and weighted by the portfolios historical default events (Corporates and SMEs).
- Determination of PD for Retail Portfolio: these PDs were established based on the historical product default data (collective level) for each product, where the Observed Default Rate is calculated by applying a statistical model (Autoregressive Model) for evaluating the default rate for each product of individual's credit portfolio.
- Definition of Exposure at Default EAD: represent the borrower outstanding indebtedness toward the bank when default takes place.

The calculation of exposure at default were carried out in line with the historical utilization for the credit facilities and according to its nature (direct, indirect, revolving and/or amortizing) thus the basis for calculating the exposure at default was set based on the facility nature and age.
- Loss Given Default LGD: represent the bank loss resulted from non-performing credit loss impairment, in other terms (1- Recovery Ratio).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- At the level of corporate and SME portfolios: The Bank determine LGDs for credit instruments under Corporate and SME portfolios through using Moody's RiskCalc the LGD model, the model depends on the availability of several input such as obligor PD, business sector in addition to credit facility nature (revolving/amortizing) and takes into consideration the availability of tangible collaterals (secured or unsecured) and the collateral type and value. In addition to the above, the risk calculation LGD model avails LGD results according to credit maturity and its stage (12 months LGDs and the lifetime LGDs) accompanied with recovery ratios for each credit instrument.
- At the level of the individual portfolio: the rate of loss was determined at the product level and conservatively based on the results of the bad debt sample for the previous five years.
- Zero LGDs was assigned for 100% cash collateralized facilities (dominated in the same currency) and for facilities availed for the Government of Jordan and/or backed by the Government of Jordan (regardless of credit facilities currency).
- **Calculating the Expected Credit Loss ECL for Time Deposits Held with Other Banks:**
 - Using the Banks Risk Calculation model, the probability of default and default due to default has been reached. Through Banks Risk Calculation, the called Expected Default Frequency EDF is produced, which is equivalent to the probability of default for the banks with which deposits are held. The risk of default in the inputs of the Risk Calculation LGD model Loss due to default and then the balance is calculated at default on the assumption of the entire deposit value without any modification to the possibility of default as the deposits can be subject to the calculation of the possibility of default for a period of time adjustment.
- **Calculating the Expected Credit Loss ECL for Bonds:**
 - The largest share of the bond portfolio is bonds guaranteed by the Government of Jordan and are not subject to the expected credit loss.
 - The PDs calculated by using Banks Risk Calculation model to cater for banks bonds while PDs for corporate bonds generated by mapping the Internal Risk Rate for the subject companies with the equivalent PDs. LGDs determination by using the Risk Calculation LGD model (same as other assets subject to ECL). Bond value at reporting date represent EAD. Once the ECL formula components defined, the Bank executes the calculations to define the ECL for bonds.
- **Internal Credit Risk Rating:**
 - Bank of Jordan applies an internal risk rating system to classify the risks of corporate and small and medium-sized companies (SMEs) on a scale of 1-10, so each degree reflects the risk of default, thus identifying the possibility of the customer's failure through its risk rating.
 - The customer risk rating process includes the study and analysis of the customer's quantitative data so that the financial performance of the client is evaluated, the financial performance of the client, the business activity and its relationship with the Bank as well as industry risks.

The risk rating table consists of 10 grades, each of which internally reflects the degree of risk associated with the customer. The higher the level of the customer's risk, the greater the risk of default. Consequently, more control is imposed on the client's account and more stringent procedures are followed. The grades from 1 to 6 generally reflect relatively acceptable risks (hence credit is included in the first stage), Grade 7 reflects a significant increase in the degree of risk to the client (therefore included in the second stage/watchlist), finally grades 8-10 reflects the customer's entry in the default case, accordingly to be classified within stage as a non-performing classification.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The table below shows the internal credit risk rating against customer risks and the probability of default corresponding to each rating:

| <u>Internal credit Risk Rating</u> | <u>Credit Stage</u> | <u>Propability of Default</u> |
|------------------------------------|------------------------------|-------------------------------|
| 1-6 | Stage One – performing | From %0,008 to %4,2 |
| 7 | Stage Two - watchlist | From %6,5 to %15 |
| 8-10 | Stage Three – Non performing | %100 |

Calculating Obligors Risk Rating and the Expected Credit Loss on Collective Basis:

- Retail portfolio: Based on the historical product default data (collective level) for each product, where the Observed Default Rate calculated by applying a statistical model (Autoregressive Model) for evaluating the default rate for each product. Retail products categorized in 4 groups: housing loans, personal loans, auto loans and revolving loans including credit cards knowing that these products share the same characteristics in terms of: credit risk, collateral type, interest rate and maturity.

Calculating Obligors Risk Rating and the Expected Credit Loss on Individual Basis:

- At the level of the portfolio of corporates and SMEs: By determining the classification of the client by the business segment (Business Segment), whether companies or small and medium enterprises and then study the historical default rate of the portfolio Historical Default Data (for the previous five years) and therefore give the customer degree of risk commensurate The Segment Level Risk Rating is the historical default rate of the portfolio.
- After determining the probability of default for the client at the portfolio level, the expected credit loss for the customer is calculated on an individual basis, depending on the nature of the facilities granted to the customer/age of credit and guarantees (as applicable to all SME customers).

IFRS (9) Implementation Governance:

- Bank of Jordan IFRS (9) methodology covers the Governance procedures followed in applying the IFRS (9) which summarize the roles and responsibilities for all parties involved in implementation works in addition to data checking mechanisms applied in checking the data used in IFRS (9) implementation.
- Governance procedures covers audit role and the validation of expected credit loss adequacy allocated by the Bank. In addition to the above Audit is also responsible for conducting periodic review to ensure data accuracy used in applying the IFRS9 in order to meet the regulator requirements. Furthermore, Audit are in charge of monitoring involved units and evaluate the IFRS 9 implementation by generating periodic reports to the board who in turn approve the results and role responsible for applying effective monitoring through defining committees and unit roles in the Bank to unit roles in the Bank to provide the proper infrastructure and ensure work integration between these units ensure work integration between these units.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Changes in Credit Risk and Determinants Followed by the Bank's in Calculation of Expected Credit Loss:

Adopting the Internal Credit Rating System adopted by the Bank of Jordan in addition to the decisions of the Credit Committee. For the purpose of determining a significant change in the classification of a customer's risk rating, the rating of the customer five years ago is compared with their current rating or (due appearance) for 30 days or more, which requires the transfer of the customer from Stage 1 to Stage 2 while a decline in customer rating (two notches) indicates a substantial change in the credit type.

For the purpose of transfer of credit claims between the stages, the following controls have been set:

- 1- Adoption of a standard (30-day due period) since the inception of the application as an indication of an increase in credit risk.
- 2- If there is a maturity of more than 30 days and up to 59 days at the account level, all the facilities granted to the customer are classified as Stage 2.
- 3- Client classified under watchlist, all its products granted shall remain within Stage 2 until the customer is obliged to pay (3) monthly instalments, two quarterly instalments or one semi-annual premium. In the case of a customer's commitment and the transfer of its classification to a regular transaction, the customer is treated according to the base number of days due only.
- 4- If the classified client is not performing all the products granted to him remain within Stage 3. If the account is settled, the client is transferred to Stage 2, the classification of the customer will be under watch list transferred from non performing and the client will stay under this classification until point 3 is met.

Applying Macroeconomic Scenarios on the Expected Credit Loss (ECL) Results:

The ECL result is a weighted average of 3 scenarios (40% of baseline scenario + 30% of downside scenario + 30% of upside scenario) on the final result of the expected credit loss at the facility/instrument level and the expected credit loss is the result of the maturity of each facility and the stage at which the customer is classified (Stage 1, Stage2 & Stage3).

Several factors were used to predict the expected future events and to use more than one scenario (basic, negative and positive). These factors were summarized in the adoption of the impact of change in GNP, the performance of the financial market (for the corporate portfolio and SMEs) and the change in the consumer price index and the performance of the financial market (For the individual portfolio).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Employing the impact of economic scenarios in calculating the expected credit loss:

| | |
|--------------------------------|--|
| Corporates and SMEs Portfolio | <p>The most statistically relevant model is one that includes the performance of the financial market Equity and GDP as independent variables having an impact on credit quality (dependent variable). Whenever one of these variables changes, it will affect the quality of credit (negatively or positively).</p> <p>Based on the results of the statistical test (t-statistics), the economic variables (the performance of the financial market and the GDP) were adopted as they were considered the most appropriate to determine the change in the credit quality of the customer.</p> |
| Individuals Portfolio | <p>The economic indicators adopted in the calculation of the credit loss are the Consumer Price Index (CPI) and the Stock Prices Proxies Index (SPI) as an indicator that reflects the position of the labor market.</p> |
| Bonds | <p>The probability of default PD and the loss given default: financial data were entered for the Banks bonds purchased as this process produces Expected Default Frequency which is equivalent to the probability of default. Then LGD is generated after that exposure at default EAD is calculated assuming the full bond value. The expected ECL loss is calculated using the Moody's Impairment calculation model.</p> |
| Jordan Leasing Company | <p>EAD is calculated based on the total value of the contract and not on the value of the receivables (net of utilized), regardless of the percentage of utilization linked to the percentage of completion. The calculation of the loss given default, taking into consideration the good coverage through the percentage of contribution and real estate value coverage of the loan, as the percentage of the contribution is fixed whether the project is within the stages of completion or completed. Linking the customer's portfolio probability of default with the point in time probability of default PIT PD to be subject to economic scenarios. Accordingly, the expected credit loss results have been produced at the customer level by classifying them within the corporate or individuals portfolio.</p> |
| Excel for Financial investmnet | <p>EAD is calculated on the gross limits although the utilization is tied to the deposit of shares (it is not possible to utilize without a contribution from the customer) which represents the most conservative balance. Calculation of the LGD based on the percentage of the customer's contribution (1-percentage of the customer's contribution). Linking the customer's portfolio probability of default with the point in time probability of default PIT PD to be subject to the economic scenarios and will therefore produce the expected credit loss at the client and portfolio levels.</p> |
| Bank's Deposits | <p>Calculating the probability of default and the loss given default LGD for the production of Expected Default Frequency EDF, which is equivalent to the probability of default for the banks whose deposits are held. The LGD is then generated and then EAD is calculated assuming the full deposit value then ECL is calculated using the Moody's ImpairmentCalc model.</p> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Second: Quantitative Disclosures:

(40/A) Credit Risk

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

| | 2018 | 2017 |
|---|----------------------|----------------------|
| | JD | JD |
| Consolidated Statement of Financial Position items | | |
| Balances with central banks | 285,983,097 | 196,829,576 |
| Balances with banks and financial institutions | 152,118,694 | 265,682,212 |
| Deposits with banks and financial institutions | 235,435,227 | 125,000,000 |
| Direct credit facilities at amortized cost | 1,469,239,659 | 1,447,227,771 |
| Individuals (retail customers) | 416,170,513 | 352,809,746 |
| Real estate loans | 241,703,067 | 227,882,269 |
| Corporates | 676,876,222 | 637,183,019 |
| Large corporate customers | 443,451,858 | 409,712,199 |
| SMEs | 233,424,364 | 227,470,820 |
| Government and public sector | 134,489,857 | 229,352,737 |
| Financial assets at amortized cost (Bonds & Treasury Bills) | 203,395,684 | 219,576,390 |
| Other assets | - | 25,769,100 |
| | 2,346,172,361 | 2,280,085,049 |
| Off-Balance Sheet | | |
| Letters of guarantee | 126,336,554 | 133,848,164 |
| Letters of credit | 65,025,867 | 97,469,846 |
| Acceptances | 40,235,219 | 52,615,066 |
| Un-utilized direct and indirect facilities limits | 385,656,631 | 440,916,414 |
| Total | 2,963,426,632 | 3,004,934,539 |

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

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

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

Table below illustrates credit exposures distribution according to the risk grades:

| December 31, 2018 | | | | | | |
|---|----------------|--|---|---|-----------------------------|---|
| Credit risk Rating Based on the Bank's internal risk Rating System: | | | Category Classification according to Instructions (47/2009) | Classifications by External Classification Institutions | | |
| | | | Total Exposure | Expected Credit Losses (ECL) | Probability of Default (PD) | Exposure at Default (EAD) in Million Dinars |
| | | | | | | Average Loss given Default (LGD)% |
| 1 | Performing | | 458,669,526 | 67,006 | 0.008% | 460,652,537 |
| 2 | Performing | | 24,890,751 | 685 | 0.012% - 0.028% | 24,890,751 |
| 3 | Performing | | 117,200,843 | 4,575 | 0.042% - 0.100% | 116,557,106 |
| 4 | Performing | | 221,265,036 | 84,093 | 0.150% - 0.35% | 207,958,989 |
| 5 | Performing | | 547,802,920 | 561,112 | 0.51% - 1.30% | 530,218,607 |
| 6 | Performing | | 840,360,478 | 2,377,257 | 1.90% - 4.20% | 826,592,816 |
| 7 | Performing | | 97,835,832 | 16,731,145 | 6.50% - 15% | 91,783,617 |
| Unclassified | Performing | | 667,625,050 | 4,563,840 | 0.212% | 697,272,269 |
| Non - Performing exposure | | | | | | |
| 8 | Non-performing | | 1,727,837 | 189,828 | 100% | 1,728,839 |
| Unclassified | Non-performing | | 1,754,710 | 730,401 | 100% | 1,759,787 |
| 9 | Non-performing | | 6,285,948 | 6,232,720 | 100% | 6,432,671 |
| Unclassified | Non-performing | | 4,411,687 | 2,952,805 | 100% | 4,495,482 |
| 10 | Non-performing | | 51,489,402 | 44,903,654 | 100% | 57,348,335 |
| Unclassified | Non-performing | | 27,524,776 | 26,019,043 | 100% | 30,242,399 |
| Total | | | 3,068,844,796 | 105,418,164 | | 3,057,934,205 |

| December 31, 2017 | | | | | | |
|---------------------------------------|-------------------|---------------------------|--------------|--------------|------------------------------|--|
| Corporates | | | | | | |
| Individual Retail) | Real Estate Loans | Large Corporate Customers | | SMEs | Government and Public Sector | Banks and Other Financial Institutions |
| | | JD | JD | | | |
| Low risk | - | JD | JD | JD | JD | Total |
| Accepted grade risk of which due (*): | 347,375,058 | 217,183,251 | 24,979,662 | 224,656,170 | 351,468,794 | 573,278,032 |
| Up to 30 days | 17,954,282 | 573,274 | 5,049,154 | 4,240,917 | 2,137,169 | 1,677,921,410 |
| From 31 to 60 days | 816,797 | 76,625 | 6,569,012 | 607,867 | - | 27,817,627 |
| Watch list | 4,357,067 | 6,658,410 | 33,243,712 | 2,173,692 | - | 8,070,301 |
| Non-performing: | 25,484,196 | 10,182,985 | 26,831,406 | 14,308,334 | - | 46,432,881 |
| Substandard | 1,721,441 | 474,682 | 3,477,998 | 47,184 | - | 76,806,921 |
| Doubtful | 2,361,843 | 2,875,523 | 560,019 | 405,411 | - | 5,721,305 |
| Losses written-off | 21,400,912 | 6,832,780 | 22,793,389 | 13,855,739 | - | 6,202,796 |
| Total | 377,216,321 | 234,024,646 | 524,433,603 | 241,138,196 | 353,605,963 | 64,882,820 |
| Less: interest in suspense | (2,444,746) | (747,953) | (2,577,038) | (2,098,944) | 618,251,415 | 2,374,439,244 |
| Less: Provision for impairment | (21,961,829) | (5,394,424) | (47,560,829) | (11,568,432) | - | (7,868,681) |
| Net | 352,809,746 | 227,882,269 | 474,295,736 | 227,470,820 | 353,605,963 | 2,280,085,049 |

- Exposure include direct credit facilities, balances and deposit with banks and financial institutions, Treasury bonds and any assets with credit exposures.

* The entire debt balance is due if one installment or interest is due for more than 90 days. The current account is considered receivable if the limit exceeds 90 days.

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

Distribution of collaterals fair value against total credit exposures:

| Item | December 31, 2018 | | | | | | | | | |
|--|---------------------------|-------------------|-------------------|-------------------------------|--------------------|--------------------|--------------------|----------------------------|--------------------------------|----------------------------|
| | Fair value of collaterals | | | | | | | | | |
| | Total Exposure Value | Cash Collaterals | Quoted Stocks | Accepted Letter of Guaranteed | Real Estate | Cars and Mechanics | Others | Total Value of Collaterals | Net Exposure after Collaterals | Expected Credit Loss (ECL) |
| Balances with central banks | 286,177,151 | - | - | - | - | - | - | - | 286,177,151 | 194,054 |
| Balances with banks and financial institutions | 152,122,328 | - | - | - | - | - | - | - | 152,122,328 | 3,634 |
| Deposits with banks and financial institutions | 235,452,225 | - | - | - | - | - | - | - | 235,452,225 | 16,998 |
| Direct credit facilities at amortized cost: | | | | | | | | | | |
| Individuals (retail customers) | 445,679,448 | 16,826,512 | 2,275,943 | - | 5,778,843 | 38,285,630 | 16,266 | 63,183,194 | 382,497,554 | 29,508,935 |
| Real estate Loans | 247,853,666 | 1,022,441 | - | - | 236,955,863 | 4,373 | 2,650,971 | 240,633,648 | 7,220,018 | 6,150,599 |
| Corporate | | | | | | | | | | |
| Large corporate customers | 483,324,348 | 23,080,033 | 10,432,626 | 2,524,057 | 35,469,699 | 7,984,198 | 8,862,145 | 88,352,758 | 394,971,590 | 39,872,490 |
| SMEs | 254,692,394 | 17,818,603 | 2,779,304 | 2,194 | 96,008,648 | 6,294,790 | 5,187,736 | 128,091,275 | 126,599,819 | 21,268,030 |
| Government and Public Sector | 134,694,447 | - | - | - | - | - | 91,524,517 | 91,524,517 | 43,169,930 | 204,590 |
| Bonds and Treasury Bills: | | | | | | | | | | |
| Within financial assets at amortized cost | 203,996,033 | - | - | - | - | - | - | - | 203,996,033 | 600,349 |
| Total | 2,443,992,040 | 58,747,589 | 15,487,873 | 2,526,251 | 374,213,053 | 52,568,991 | 108,241,635 | 611,785,392 | 1,832,206,648 | 97,819,679 |
| Financial Guarantees | 132,219,991 | 2,186,192 | 8,500 | 552,423 | 7,374,266 | 82,480 | - | 10,203,861 | 122,016,130 | 5,883,437 |
| Letters of Credit and acceptances | 105,413,349 | 587,635 | - | - | 1,081,074 | 20,882 | - | 1,689,591 | 103,723,758 | 152,263 |
| Other Liabilities | 387,219,416 | - | - | - | - | - | - | - | 387,219,416 | 1,562,785 |
| Gross total | 3,068,844,796 | 61,521,416 | 15,496,373 | 3,078,674 | 382,668,393 | 52,672,353 | 108,241,635 | 623,678,844 | 2,445,165,952 | 105,418,164 |

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

Exposure under stage 3:

| Item | Total Exposure Value | December 31, 2018 | | | | | | | Net Exposure after Collaterals | Expected Credit Loss (ECL) |
|---|----------------------|---------------------------|---------------|-------------------------------|-------------|--------------------|--------|----------------------------|--------------------------------|----------------------------|
| | | Fair value of collaterals | | | | | | | | |
| | | Cash Collaterals | Quoted Stocks | Accepted Letter of Guaranteed | Real Estate | Cars and Mechanics | Others | Total Value of Collaterals | | |
| Direct credit facilities at amortized cost: | | | | | | | | | | |
| Individual (retail customers) | 26,715,089 | 31,608 | - | - | 61,600 | 9,778 | - | 102,986 | 26,612,103 | 25,226,271 |
| Real estate Loans | 9,960,094 | 4,957 | - | - | - | 7,736,258 | 4,373 | 7,745,588 | 2,214,506 | 5,408,002 |
| Corporate | | | | | | | | | | |
| Large corporate customers | 24,455,448 | 29,014 | - | 127,170 | 4,811,392 | 65,771 | - | 5,033,347 | 19,422,101 | 24,385,791 |
| SMEs | 21,782,281 | 914,010 | 2,376 | 2,194 | 11,496,404 | 816,951 | - | 13,231,935 | 8,550,346 | 20,365,446 |
| Government and Public Sector | - | - | - | - | - | - | - | - | - | - |
| Total | 82,912,912 | 979,589 | 2,376 | 129,364 | 24,105,654 | 896,873 | - | 26,113,856 | 56,799,056 | 75,385,510 |
| Financial Guarantees | 10,281,213 | 1,454,253 | - | - | 607,499 | - | - | 2,061,752 | 8,219,461 | 5,642,941 |
| Gross total | 93,194,125 | 2,433,842 | 2,376 | 129,364 | 24,713,153 | 896,873 | - | 28,175,608 | 65,018,517 | 81,028,451 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The fair value distribution of guarantees provided against facilities is as follows:

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

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

1. Rescheduled Loans

These represent loans classified previously as non-performing, removed from non-performing credit facilities according to proper scheduling, and reclassified as debts under watch list.

Total rescheduled loans amounted to JD 6,343,863 as of December 31, 2018 (JD 4,742,800 as of December 31, 2017).

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

2. Restructured Loans

Restructuring means to rearrange facilities instalments by increasing their duration, postponing some instalments, or increasing their grace period.

and classified as debts under watch list total amounted to JD 9,170,414 as of December 31, 2018 (JD 6,165,742 as of December 31, 2017).

3. Bonds, Debentures and Treasury Bills

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

| Rating Grade | Rating Agency | Classification | Within Financial Assets at Amortized Cost | Total |
|----------------------------|---------------|----------------|--|--------------------|
| | | | JD | JD |
| Foreign Bank Bonds | Moody's | Aa3 | 5,673,334 | 5,673,334 |
| Foreign Bank Bonds | Moody's | A1 | 5,674,318 | 5,674,318 |
| Foreign Bank Bonds | Moody's | A2 | 5,775,022 | 5,775,022 |
| Foreign Bank Bonds | Moody's | A3 | 4,971,990 | 4,971,990 |
| Foreign Bank Bonds | Moody's | Baa1 | 3,550,437 | 3,550,437 |
| Foreign Bank Bonds | Moody's | Ba1 | 6,525,548 | 6,525,548 |
| Jordanian Government Bonds | Moody's | B1 | 122,203,547 | 122,203,547 |
| Foreign Bank Bonds | Moody's | B1 | 10,696,765 | 10,696,765 |
| Foreign Bank Bonds | Moody's | B2 | 10,579,566 | 10,579,566 |
| Unrated Bonds | | | 28,345,505 | 28,345,505 |
| Total | | | 203,996,033 | 203,996,033 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Concentration in credit exposure according to geographical distribution was as follows:

A. Gross Distribution Exposures Based on Geographic Areas:

| Item | December 31, 2018 | | | | | | | |
|--|----------------------|-----------------------------|-------------------|-------------------|------------------|------------------|-------------------|----------------------|
| | Inside Jordan | Other Middle East Countries | Europe | Asia | Africa | America | Other Countries | Total |
| Balances with central banks | 227,637,131 | 58,345,966 | - | - | - | - | - | 285,983,097 |
| Balances with banks and financial institutions | 95,372,407 | 15,724,121 | 11,333,407 | 2,343,218 | - | 6,145,337 | 21,200,204 | 152,118,694 |
| Deposits with banks and financial institutions | 196,069,719 | 28,358,935 | - | 11,006,573 | - | - | - | 235,435,227 |
| Direct credit facilities at amortized cost | 1,212,259,981 | 248,175,451 | - | - | 8,804,227 | - | - | 1,469,239,659 |
| Bonds and Treasury Bills: | | | | | | | | |
| Within financial assets at amortized cost | 130,126,768 | 51,585,064 | 21,683,852 | - | - | - | - | 203,395,684 |
| Total/Current year | 1,861,466,006 | 402,189,537 | 33,017,259 | 13,349,791 | 8,804,227 | 6,145,337 | 21,200,204 | 2,346,172,361 |
| Financial Guarantees | 90,229,091 | 8,729,975 | 19,641,374 | 6,021,979 | 73,691 | 1,625,443 | 15,001 | 126,336,554 |
| Letters of Credit | 50,288,586 | 12,125,393 | - | 2,611,888 | - | - | - | 65,025,867 |
| Acceptances | 39,985,333 | 249,886 | - | - | - | - | - | 40,235,219 |
| Un-utilized balances | 346,869,065 | 38,787,566 | - | - | - | - | - | 385,656,631 |
| Total | 2,388,838,081 | 462,082,357 | 52,658,633 | 21,983,658 | 8,877,918 | 7,770,780 | 21,215,205 | 2,963,426,632 |

B. Exposure Distribution According to Stages Classification as Per IFRS (9):

| | December 31, 2018 | | | | | |
|-----------------------------|----------------------|--------------------|-------------------|-------------------|-------------------|----------------------|
| | Stage One | | Stage two | | | |
| Item | Individual Level | Collective Level | Individual Level | Collective Level | Stage Three | Total |
| Inside Kingdom | 1,730,498,478 | 565,756,990 | 54,773,109 | 25,241,166 | 12,568,338 | 2,388,838,081 |
| Other middle east countries | 383,983,831 | 68,338,734 | 8,154,369 | 2,008,087 | (402,664) | 462,082,357 |
| Europe | 35,357,819 | - | 17,300,814 | - | - | 52,658,633 |
| Asia | 21,983,658 | - | - | - | - | 21,983,658 |
| Africa | 8,877,918 | - | - | - | - | 8,877,918 |
| America | 7,770,780 | - | - | - | - | 7,770,780 |
| Other Countries | 21,215,205 | - | - | - | - | 21,215,205 |
| Total | 2,209,687,689 | 634,095,724 | 80,228,292 | 27,249,253 | 12,165,674 | 2,963,426,632 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Items | December 31, 2017 | | | | | | |
|--|----------------------|-----------------------------|-------------------|----------------|------------------|------------------|----------------------|
| | Geographical area | | | | | | |
| | Inside Jordan | Other Middle East Countries | Europe | Asia* | America | Other Countries | Total |
| | JD | JD | JD | JD | JD | JD | JD |
| Balances with central banks | 144,081,489 | 52,748,087 | - | - | - | - | 196,829,576 |
| Balances with banks and financial institutions | 187,538,969 | 51,875,569 | 14,142,933 | 694,440 | 5,999,267 | 5,431,034 | 265,682,212 |
| Deposits with banks and financial institutions | 125,000,000 | - | - | - | - | - | 125,000,000 |
| Direct Credit Facilities: | 1,234,234,298 | 212,993,473 | - | - | - | - | 1,447,227,771 |
| Individual (retail customers) | 306,696,656 | 46,113,090 | - | - | - | - | 352,809,746 |
| Real estate loans | 224,812,746 | 3,069,523 | - | - | - | - | 227,882,269 |
| Corporate entities | 539,195,466 | 97,987,553 | - | - | - | - | 637,183,019 |
| Large corporate customers | 391,871,557 | 17,840,642 | - | - | - | - | 409,712,199 |
| SMEs | 147,323,909 | 80,146,911 | - | - | - | - | 227,470,820 |
| Government and public sector | 163,529,430 | 65,823,307 | - | - | - | - | 229,352,737 |
| Bonds and Treasury Bills: | | | | | | | |
| Within financial assets at amortized cost | 162,095,719 | 35,248,711 | 22,231,960 | - | - | - | 219,576,390 |
| Other Assets | 25,769,100 | - | - | - | - | - | 25,769,100 |
| Total for the year 2017 | 1,878,719,575 | 352,865,840 | 36,374,893 | 694,440 | 5,999,267 | 5,431,034 | 2,280,085,049 |

*Except for Middle Eastern countries.

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

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

A. Gross distribution exposures based on financial instruments:

| Item | December 31, 2018 | | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|-------------------|--|------------------------------------|
| | Financial | Industrial | Trading | Real Estate | Agriculture | Touristic Hotels Restaurants Public Facilities | Government and Public Sector |
| Balances with central banks | 285,983,097 | - | - | - | - | - | - |
| Balances with banks and financial institutions | 152,118,694 | - | - | - | - | - | - |
| Deposits with banks and financial institutions | 235,435,227 | - | - | - | - | - | - |
| Direct credit facilities at amortized cost | 8,824,447 | 230,921,821 | 288,649,030 | 294,259,206 | 19,057,146 | 83,996,425 | 134,489,857 |
| Bonds and Treasury Bills: | | | | | | | |
| Within financial assets at amortized cost | 56,699,587 | 4,383,038 | 20,175,869 | - | - | 24,918,031 | 97,219,159 |
| Total current year | 739,061,052 | 235,304,859 | 308,824,899 | 294,259,206 | 19,057,146 | 108,914,456 | 231,709,016 |
| Financial Guarantees | 33,828,122 | 7,394,324 | 19,488,385 | 39,049,107 | 363,035 | 23,460,032 | - |
| Letters of Credit | 14,582,254 | 12,139,016 | 33,356,738 | 1,089,139 | 2,593,497 | 1,265,223 | - |
| Acceptances | - | 2,427,274 | 13,313,081 | 5,393,911 | 19,100,953 | - | - |
| Un-utilized balances | 7,377,058 | 93,523,699 | 135,399,887 | 26,249,503 | 21,217,886 | 55,146,937 | - |
| Total for 2018 | 794,848,486 | 350,789,172 | 510,382,990 | 366,040,866 | 62,332,517 | 188,786,648 | 231,709,016 |
| | | | | | | 7,691,460 | 450,845,477 |
| | | | | | | | 231,709,016 |
| | | | | | | | 2,963,426,632 |

B. Exposure distribution according to stages classification as per IFRS (9)

| Item | December 31, 2018 | | | | |
|--|----------------------|--------------------|-------------------|-------------------|----------------------|
| | Stage One | | Stage Two | | Total |
| | Individual Level | Collective Level | Individual Level | Collective Level | |
| Financial | 653,319,405 | 124,631,954 | 16,827,260 | - | 794,848,486 |
| Industrial | 327,443,334 | 3,777,825 | 18,930,844 | 97,491 | 350,789,172 |
| Trade | 465,634,887 | 11,878,947 | 32,207,657 | - | 510,382,990 |
| Real estates | 151,089,027 | 191,577,952 | 5,905,524 | 12,441,576 | 366,040,866 |
| Agriculture | 58,526,771 | 413,407 | 3,351,078 | - | 62,332,517 |
| Tourism, restaurants and public facilities | 176,430,039 | 3,921,853 | 2,954,803 | 102,580 | 188,786,648 |
| Stocks | 7,619,357 | 72,103 | - | - | 7,691,460 |
| Individuals | 137,915,853 | 297,821,683 | 51,126 | 14,607,606 | 450,845,477 |
| Government and Public Sector | 231,709,016 | - | - | 449,209 | 231,709,016 |
| Total 2018 | 2,209,687,689 | 634,095,724 | 80,228,292 | 27,249,253 | 2,963,426,632 |

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

December 31, 2017

| Economic sector | | | | | | | | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|--------------------|------------------------------------|--------------------|--------------------|-------------|------------------------------------|----------------------|
| Items | Financial | | Industrial | Trading | Real Estate | Construction | Agriculture | Touristic Hotels Restaurants | | Stock | Individuals | Government and Public Sector | Total |
| | JD | | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD | JD |
| Balances with central banks | 196,829,576 | | - | - | - | - | - | - | - | - | - | - | 196,829,576 |
| Balances with banks and financial institutions | 265,682,212 | | - | - | - | - | - | - | - | - | - | - | 265,682,212 |
| Deposits with banks and financial institutions | 125,000,000 | | - | - | - | - | - | - | - | - | - | - | 125,000,000 |
| Direct credit facilities | 8,664,723 | 155,651,536 | 280,849,600 | 201,079,819 | 42,626,267 | 19,384,626 | 144,734,306 | 10,038,543 | 354,845,614 | 229,352,737 | | | 1,447,227,771 |
| Bonds & Treasury Bills: | | | | | | | | | | | | | |
| Within financial assets at amortized cost | 68,069,116 | 4,411,555 | - | - | - | - | 24,979,662 | - | - | 122,116,057 | | | 219,576,390 |
| Other Assets | 25,699,978 | 24,248 | 44,579 | 227 | - | - | - | - | 68 | - | | | 25,769,100 |
| Total for the year 2017 | 689,945,605 | 160,087,339 | 280,894,179 | 201,080,046 | 42,626,267 | 19,384,626 | 169,713,968 | 10,038,543 | 354,845,682 | 351,468,794 | | | 2,280,085,049 |

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

6. Re-classified credit exposures

A. Total re-classified credit exposure:

| Item | December 31, 2018 | | | | |
|--|-------------------------|---------------------------|-------------------------|---------------------------|--|
| | Stage Two | | Stage Three | | Percentage of Reclassified Exposures |
| | Total Exposure Value | Reclassified exposures | Total Exposure Value | Reclassified exposures | |
| Cash and balances with central banks | - | - | - | - | 0.0% |
| Balances with banks and financial institutions | - | - | - | - | 0.0% |
| Deposits with banks and financial institutions | - | - | - | - | 0.0% |
| Direct credit facilities at amortized cost | 71,811,677 | 4,699,290 | 91,750,968 | 15,814,502 | 12.5% |
| Bonds and Treasury Bills: | | | | | |
| Within financial assets at amortized cost | 17,777,367 | 17,777,367 | - | - | 100.0% |
| Total | 89,589,044 | 22,476,657 | 91,750,968 | 15,814,502 | 21.1% |
| Letters of guarantees | 1,199,952 | (86,937) | 10,281,213 | 823,380 | 6.4% |
| Letters of credit | 6,667,657 | 125 | - | - | 0.0% |
| Acceptances | 276,412 | (9,417) | - | - | (3.4%) |
| Un-utilized balances | 26,555,394 | 9,661,132 | - | - | 36.4% |
| Gross total | 124,288,459 | 32,041,560 | 102,032,181 | 16,637,882 | 21.5% |

B. Expected credit loss against reclassified exposures:

| Item | December 31, 2018 | | | | |
|--|--|--|---|----------------------------------|------------------------------------|
| | Reclassified exposures | | Expected credit loss for reclassified exposures | | |
| | Gross Reclassified Exposure from Stage Two | Reclassified Exposure from Stage Three | Gross Reclassified Exposure | Stage Two Individual Level | Stage Three Individual Level |
| Cash and balances with central banks | - | - | - | - | - |
| Balances with banks and financial institutions | - | - | - | - | - |
| Deposits with banks and financial institutions | - | - | - | - | - |
| Direct credit facilities at amortized cost | 165,942 | 9,409,466 | 9,575,408 | (364,357) | 9,409,466 |
| Bonds and Treasury Bills: | | | | | |
| Within financial assets at amortized cost | 476,553 | - | 476,553 | - | - |
| Total | 642,495 | 9,409,466 | 10,051,961 | 112,196 | 9,409,466 |
| Letters of guarantees | 1,943 | 338,433 | 340,376 | 1,943 | 338,433 |
| Letters of credit | - | - | - | - | - |
| Acceptances | 553 | - | 553 | 553 | - |
| Un-utilized balances | 3,519 | 338,433 | 341,952 | 4,817 | 338,433 |
| Gross total | 648,510 | 10,086,332 | 10,734,842 | 119,509 | 10,086,332 |
| | | | | | 10,734,842 |

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

Total Credit Exposure according to classification instructions (47/2009) compared to IFRS (9):

| As of December 31, 2018 | According to IFRS (9) | | | | | | | | | |
|-------------------------|--|----------------------|----------------------|-------------------|--|----------------------|------------------|----------------------|-------------------|----------------------|
| | According to Classification Instructions No. (47/2009) | | | | | Stage One | | | | |
| | Total | Interest in Suspense | Outstanding Balance | Provision | | Gross | ECL | Interest in Suspense | Gross | Interest in Suspense |
| Performing | 1,454,635,923 | 36,412 | 1,454,599,511 | 2,914 | | 1,411,556,125 | 5,831,633 | 36,411 | - | - |
| Watch list | 28,590,570 | - | 28,590,570 | 1,164,788 | | - | - | - | 71,811,677 | 1,304,153 |
| Non performing | - | - | - | - | | - | - | - | - | - |
| Of which: | | | | | | | | | | |
| Substandard | 2,861,608 | 6,079 | 2,855,529 | 1,793,214 | | - | - | - | - | - |
| Doubtful | 10,938,897 | 236,715 | 10,702,182 | 8,061,905 | | - | - | - | - | - |
| Losses written-off | 78,091,772 | 8,595,261 | 69,496,511 | 63,867,043 | | - | - | - | - | - |
| Total | 1,575,118,770 | 8,874,467 | 1,566,244,303 | 74,889,864 | | 1,411,556,125 | 5,831,633 | 36,411 | 71,811,677 | 1,304,153 |
| | | | | | | | | | 91,750,968 | 75,385,510 |
| | | | | | | | | | | 8,838,056 |

| As of January 1, 2018 | According to IFRS (9) | | | | | | | | | |
|-----------------------|--|----------------------|----------------------|-------------------|--|----------------------|------------------|----------------------|-------------------|----------------------|
| | According to Classification Instructions No. (47/2009) | | | | | Stage One | | | | |
| | Total | Interest in Suspense | Outstanding Balance | Provision | | Gross | ECL | Interest in Suspense | Gross | Interest in Suspense |
| Performing | 1,418,342,163 | 24,619 | 1,418,317,540 | - | | 1,418,342,163 | 4,670,641 | 24,621 | - | - |
| Watch list | 46,432,882 | - | 46,432,882 | 2,736,750 | | - | - | - | 1,232,348 | 1,407,957 |
| Non performing | - | - | - | - | | - | - | - | - | - |
| Of which: | | | | | | | | | | |
| Substandard | 5,721,305 | 22,257 | 5,699,048 | 4,319,210 | | - | - | - | - | - |
| Doubtful | 6,202,796 | 128,085 | 6,074,710 | 3,871,352 | | - | - | - | - | - |
| Losses written-off | 64,882,820 | 7,693,716 | 57,189,105 | 53,024,854 | | - | - | - | - | - |
| Total | 1,541,581,966 | 7,868,677 | 1,533,713,285 | 63,952,166 | | 1,418,342,163 | 4,670,641 | 24,621 | 1,232,348 | 1,407,957 |
| | | | | | | | | | 76,806,921 | 62,879,246 |
| | | | | | | | | | | 7,844,060 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40/b Market Risks:

Qualitative Disclosure:

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

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

Market risks arise from:

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

Interest Rate Risks

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

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

Foreign Currency Risks

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

| <u>Currency Type</u> | <u>December 31,</u> | |
|----------------------|---------------------|--------------------|
| | <u>2018</u> | <u>2017</u> |
| | JD | JD |
| USD | 17,190,069 | 4,923,107 |
| GBP | 44,848 | 1,401,199 |
| Euro | 36,931 | 1,410,118 |
| JPY | 272 | 9,633,041 |
| Other currencies | (23,307,421) | (20,876,901) |
| | (6,035,301) | (3,509,436) |

Share Prices Risks

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

Markets Risk Management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Quantitative Disclosures:

1. Interest Rate Risks

| December 31, 2018 | | | |
|--------------------------|--------------------------------------|--|------------------------------|
| Currency | Increase in Interest Rate (%) | Sensitivity of Interest Revenue Analysis (Profits and Losses) | Sensitivity of Equity |
| | | JD | JD |
| USD | 2% | 343,801 | - |
| GBP | 2% | 897 | - |
| Euro | 2% | 739 | - |
| JPY | 2% | 5 | - |
| Other Currencies | 2% | (466,148) | - |

| Currency | Decrease in Interest Rate (%) | Sensitivity of Interest Revenue Analysis (Profits and Losses) | Sensitivity of Equity Analysis |
|------------------|--------------------------------------|--|---------------------------------------|
| | | JD | JD |
| USD | 2% | (343,801) | - |
| GBP | 2% | (897) | - |
| Euro | 2% | (739) | - |
| JPY | 2% | (5) | - |
| Other Currencies | 2% | 466,148 | - |

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Foreign Currency Risks

| December 31, 2018 | | | |
|--------------------------|---|------------------------------------|-------------------------|
| Currency | Increase in Currency Exchange Rate (%) | Effect on Profits or Losses | Effect on Equity |
| | | JD | JD |
| USD | 5% | 859,503 | - |
| GBP | 5% | 2,242 | - |
| Euro | 5% | 1,847 | - |
| JPY | 5% | 14 | - |
| Other Currencies | 5% | (1,165,371) | - |

| December 31, 2017 | | | |
|--------------------------|---|------------------------------------|-------------------------|
| Currency | Increase in Currency Exchange Rate (%) | Effect on Profits or Losses | Effect on Equity |
| | | JD | JD |
| USD | 5% | 246,155 | - |
| GBP | 5% | 70,060 | - |
| Euro | 5% | 70,506 | - |
| JPY | 5% | 481,652 | - |
| Other Currencies | 5% | (1,043,845) | - |

3. Fluctuation in Share Prices Risks

| December 31, 2018 | | | |
|--------------------------|--------------------------|------------------------------------|-------------------------|
| Indicator | Increase in Index | Effect on Profits or Losses | Effect on Equity |
| | | JD | JD |
| Amman Stock Exchange | 5% | 3,060 | 2,048,524 |
| Palestine Stock Exchange | 5% | - | 275,650 |

| December 31, 2017 | | | |
|--------------------------|--------------------------|------------------------------------|-------------------------|
| Indicator | Increase in Index | Effect on Profits or Losses | Effect on Equity |
| | | JD | JD |
| Amman Stock Exchange | 5% | 5,610 | 5,042,194 |
| Palestine Stock Exchange | 5% | - | 276,234 |
| New York Stock Exchange | 5% | - | 193,429 |

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

Concentration of Foreign Currency Risk

| Item | Currency | December 31, 2018 | | | | | Total |
|---|----------|--------------------|------------------|-------------------|---------------|---------------------|--------------------|
| | | USD | GBP | Euro | JPY | Other | |
| | | JD | JD | JD | JD | JD | JD |
| Assets: | | | | | | | |
| Cash and balances with Central Banks | | 65,485,946 | 117,167 | 2,951,091 | 321 | 41,412,667 | 109,967,192 |
| Balances with banks and financial institutions | | 167,732,389 | 8,265,744 | 13,453,026 | 60,082 | 23,557,241 | 213,068,482 |
| Direct credit facilities at amortized cost | | 213,465,186 | - | 2,144,613 | - | 115,399,739 | 331,009,538 |
| Financial assets (at amortized cost and at fair value and associates) | | 81,555,826 | - | - | - | 292,112 | 81,847,938 |
| Other assets | | 3,241,660 | 2,087 | 12,112 | 42 | 6,965,551 | 10,221,452 |
| Total assets | | 531,481,007 | 8,384,998 | 18,560,842 | 60,445 | 187,627,310 | 746,114,602 |
| Liabilities: | | | | | | | |
| Banks and financial institutions' deposits | | 11,183,115 | 79,005 | 925,864 | - | 1,038,086 | 13,226,070 |
| Customers' deposits | | 392,526,415 | 8,208,881 | 15,125,583 | 58,971 | 181,376,412 | 597,296,262 |
| Cash margins | | 20,490,971 | 39,149 | 2,491,818 | 1,202 | 6,055,371 | 29,078,511 |
| Other liabilities | | 90,090,437 | 13,115 | (19,354) | - | 22,464,862 | 112,549,060 |
| Total Liabilities | | 514,290,938 | 8,340,150 | 18,523,911 | 60,173 | 210,934,731 | 752,149,903 |
| Net position- financial position items 2018 | | 17,190,069 | 44,848 | 36,931 | 272 | (23,307,421) | (6,035,301) |
| Commitments and contingent liabilities off | | | | | | | |
| Balance Sheet items for the year 2018 | | 115,320,196 | 16,910 | 20,354,989 | 24,034 | 5,644,662 | 141,360,791 |

| Item | Currency | December 31, 2017 | | | | | Total |
|---|----------|-------------------|-----------|------------|-----------|--------------|-------------|
| | | USD | GBP | Euro | JPY | Other | |
| | | JD | JD | JD | JD | JD | JD |
| Total assets | | 524,577,161 | 9,414,622 | 20,477,350 | 9,692,034 | 188,863,721 | 753,024,888 |
| Total Liabilities | | 519,654,054 | 8,013,423 | 19,067,232 | 58,993 | 209,740,622 | 756,534,324 |
| Net position - financial position items 2017 | | 4,923,107 | 1,401,199 | 1,410,118 | 9,633,041 | (20,876,901) | (3,509,436) |
| Commitments and contingent liabilities off | | | | | | | |
| Balance Sheet items for the year 2017 | | 181,443,132 | 11,422 | 13,555,639 | 16,652 | 14,670,982 | 209,697,827 |

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

Interest Re-pricing Gap

Rating on basis of re-pricing periods or maturity :

| <u>Year 2018</u> | <u>Less Than 1</u> | <u>From 1 to 3</u> | <u>From 3 to 6</u> | <u>From 6 Months</u> | <u>From 1 to 3</u> | <u>More Than 3</u> | <u>Items Without</u> | <u>Total</u> |
|--|--------------------|--------------------|--------------------|----------------------|--------------------|--------------------|----------------------|----------------------|
| | <u>Month</u> | <u>Months</u> | <u>Months</u> | <u>to 1 Year</u> | <u>Years</u> | <u>Years</u> | <u>Interests</u> | |
| <u>Assets</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> | <u>JD</u> |
| Cash and balances with Central Banks | 127,884,045 | - | - | - | - | - | 232,258,458 | 360,142,503 |
| Balances and deposit with banks and financial institutions | 134,887,337 | - | - | - | 235,435,227 | - | 17,231,357 | 387,553,921 |
| Financial assets at fair value | - | - | - | - | - | - | 51,560,755 | 51,560,755 |
| Direct credit facilities at amortized cost | 254,633,390 | 221,606,842 | 163,834,303 | 155,247,006 | 298,513,022 | 375,405,096 | - | 1,469,239,659 |
| Financial assets at amortized cost | 5,673,320 | 25,145,106 | 15,049,824 | 3,540,171 | 83,173,612 | 70,813,651 | - | 203,395,684 |
| Property and equipment – Net | - | - | - | - | - | - | 34,344,020 | 34,344,020 |
| Intangible assets | - | - | - | - | - | - | 4,998,823 | 4,998,823 |
| Deferred assets | - | - | - | - | - | - | 18,580,246 | 18,580,246 |
| Other assets | - | - | - | - | - | - | 89,264,599 | 89,264,599 |
| Total Assets | 523,078,092 | 246,751,948 | 178,884,127 | 158,787,177 | 617,121,861 | 446,218,747 | 448,238,258 | 2,619,080,210 |

Liabilities

| | | | | | | | | |
|--|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|----------------------|
| Banks and financial institutions' deposits | 4,875,021 | - | - | - | 130,937,867 | - | 9,429,939 | 145,242,827 |
| Customers' deposits | 782,516,082 | 125,660,148 | 95,886,596 | 163,511,506 | 47,545,174 | 24,891,678 | 627,781,302 | 1,867,792,486 |
| Cash margins | 33,887,656 | 2,054,493 | 583,627 | 4,923,900 | 145,898 | 29,040,451 | 46,632,892 | 117,268,917 |
| Sundry provisions | - | - | - | - | - | - | 5,194,240 | 5,194,240 |
| Income tax provision | - | - | - | - | - | - | 21,978,685 | 21,978,685 |
| Borrowed funds | 104,799 | 211,564 | 327,195 | 673,607 | 1,802,309 | 1,438,337 | - | 4,557,811 |
| Deferred tax liabilities | - | - | - | - | - | - | 3,296,665 | 3,296,665 |
| Other liabilities | - | - | - | - | - | - | 32,994,867 | 36,291,532 |
| Total liabilities | 821,383,558 | 127,926,205 | 96,797,418 | 169,109,013 | 180,431,248 | 58,667,131 | 747,308,590 | 2,201,623,163 |

Interest Re-pricing Gap

| | | | | | | | | |
|--|----------------------|--------------------|-------------------|---------------------|--------------------|--------------------|----------------------|--------------------|
| | (298,305,466) | 118,825,743 | 82,086,709 | (10,321,836) | 436,690,613 | 387,551,616 | (299,070,332) | 417,457,047 |
|--|----------------------|--------------------|-------------------|---------------------|--------------------|--------------------|----------------------|--------------------|

Year 2017

| | | | | | | | | |
|--------------------------------|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------|----------------------|
| Total Assets | 432,032,549 | 231,480,973 | 175,482,856 | 244,332,744 | 588,392,903 | 451,256,927 | 442,152,987 | 2,565,131,939 |
| Total Liabilities | 453,980,569 | 128,943,503 | 136,013,461 | 231,719,328 | 186,846,895 | 151,250,325 | 837,221,508 | 2,125,975,589 |
| Interest Re-Pricing Gap | (21,948,020) | 102,537,470 | 39,469,395 | 12,613,416 | 401,546,008 | 300,006,602 | (395,068,521) | 439,156,350 |

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

Liquidity Risk

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

| | Within 1 Month | | From 1 to 3 | | From 3 to 6 | | From 6 Months to 1 Year | | From 1 to 3 | | Over 3 Years | | Without Maturity | | Total | |
|--|--------------------|--|--------------------|--|--------------------|--|-------------------------|--|--------------------|--|--------------------|--|--------------------|--|----------------------|--|
| | JD | | JD | | JD | | JD | | JD | | JD | | JD | | JD | |
| <u>Liabilities</u> | | | | | | | | | | | | | | | | |
| Banks and financial institutions' deposits | 14,304,960 | | - | | - | | - | | 130,937,867 | | - | | - | | 145,242,827 | |
| Customers' deposits | 485,215,406 | | 135,809,392 | | 165,064,932 | | 288,273,114 | | 372,336,039 | | 421,093,603 | | - | | 1,867,792,486 | |
| Cash margins | 41,182,736 | | 2,394,259 | | 5,083,389 | | 12,788,310 | | 22,818,123 | | 33,002,100 | | - | | 117,268,917 | |
| Financial derivatives | - | | - | | - | | - | | - | | - | | - | | - | |
| Borrowed funds | 104,799 | | 211,563 | | 327,195 | | 673,607 | | 2,143,227 | | 1,097,420 | | - | | 4,557,811 | |
| Sundry provisions | 283,905 | | 3,750,000 | | 50,000 | | 50,000 | | 115,656 | | - | | 944,679 | | 5,194,240 | |
| Income tax provision | 8,431,153 | | - | | 4,215,577 | | 9,331,955 | | - | | - | | - | | 21,978,685 | |
| Deferred tax liabilities | - | | - | | - | | - | | - | | - | | 3,296,665 | | 3,296,665 | |
| Other liabilities | 19,112,374 | | 381,971 | | 81,865 | | 8,765,877 | | - | | - | | 7,949,445 | | 36,291,532 | |
| Total liabilities | 568,635,333 | | 142,547,185 | | 174,822,958 | | 319,882,863 | | 528,350,912 | | 455,193,123 | | 12,190,789 | | 2,201,623,163 | |
| Total Assets (According to expected maturity) | 701,746,995 | | 246,785,034 | | 179,136,237 | | 170,673,381 | | 713,490,407 | | 361,467,296 | | 245,780,860 | | 2,619,080,210 | |

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

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

Second: this table summarizes the financial derivatives maturities on the remaining period of contractual maturity from the date of the consolidated financial statements.

Financial derivatives/liabilities which have been totally reconciled includes:

| | December 31, 2018 | | | December 31, 2017 | | |
|----------------------|-------------------|---------------------------|---------------|-------------------|---------------------------|------------------|
| | Up to 3 Months | from 3 Months to One Year | Total | Up to 3 Months | From 3 Months to One Year | Total |
| | JD | JD | JD | JD | JD | JD |
| Trading Derivatives | | | | | | |
| Currency Derivatives | | | | | | |
| Outflow | (6,333,777) | (3,664,043) | (9,997,820) | (18,904,820) | - | (18,904,820) |
| Inflow | 6,346,825 | 3,661,596 | 10,008,421 | 18,725,987 | - | 18,725,987 |
| Total | 13,048 | (2,447) | 10,601 | (178,833) | - | (178,833) |

Items off-consolidated statement of financial position:

| | December 31, 2018 | | | |
|-----------------------------------|--------------------|------------------|------------------|--------------------|
| | Up to 1 Year | 1 to 5 Years | Over 5 Years | Total |
| | JD | JD | JD | JD |
| Letters of credit and acceptances | 105,413,349 | - | - | 105,413,349 |
| Un-utilized balances | 387,219,416 | - | - | 387,219,416 |
| Letters of guarantee | 132,219,991 | - | - | 132,219,991 |
| Operational lease contracts | 3,599,220 | 9,102,589 | 4,636,800 | 17,338,609 |
| Capital commitments | 1,731,328 | - | - | 1,731,328 |
| Total | 630,183,304 | 9,102,589 | 4,636,800 | 643,922,693 |

| | December 31, 2017 | | | |
|-----------------------------------|--------------------|------------------|------------------|--------------------|
| | Up to 1 Year | 1 to 5 Years | Over 5 Years | Total |
| | JD | JD | JD | JD |
| Letters of credit and acceptances | 150,084,912 | - | - | 150,084,912 |
| Un-utilized balances | 440,916,414 | - | - | 440,916,414 |
| Letters of guarantee | 133,848,164 | - | - | 133,848,164 |
| Operational lease contracts | 3,238,718 | 7,286,346 | 1,477,268 | 12,002,332 |
| Capital commitments | 1,696,882 | - | - | 1,696,882 |
| Total | 729,785,090 | 7,286,346 | 1,477,268 | 738,548,704 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. Bank's Business Segments

1. Information about the Bank's business segments:

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

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

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

Information about Bank business segments distributed in accordance with the activities is as follows:

| | Individual (Retail Customers) | | | Financial | | | Total | |
|--|-------------------------------|--------------------|----------------------|------------------|--------------------|----------------------|----------------------|----|
| | JD | Corporation | Treasury | Brokerage | Other | 2018 | 2017 | JD |
| Total Revenues | 51,823,475 | 68,628,177 | 20,655,045 | 1,594,174 | (958,291) | 141,742,580 | 155,017,978 | |
| Expected credit loss provision | (6,984,940) | (136,307) | (515,345) | (5,542) | - | (7,642,134) | - | |
| Provision for impairment in direct credit facilities | - | - | - | - | - | - | (20,637,508) | |
| Segments operations results | 44,838,535 | 68,491,870 | 20,139,700 | 1,588,632 | (958,291) | 134,100,446 | 134,380,470 | |
| Other expenses | (41,079,175) | (33,983,260) | (4,832,676) | (300,735) | 9,054,332 | (71,141,514) | (66,797,107) | |
| Profit before tax | 3,759,360 | 34,508,610 | 15,307,024 | 1,287,897 | 8,096,041 | 62,958,932 | 67,583,363 | |
| Income tax | (1,369,803) | (10,701,744) | (7,336,634) | (308,825) | (1,997,503) | (21,714,509) | (21,973,902) | |
| Net profit for the Year | 2,389,557 | 23,806,866 | 7,970,390 | 979,072 | 6,098,538 | 41,244,423 | 45,609,461 | |
| Other information | | | | | | | | |
| Capital Expenditures | 1,786,594 | 237,105 | 79,222 | 1,613 | 4,740,533 | 6,845,067 | 5,489,943 | |
| Depreciation and amortization | 1,990,133 | 239,219 | 52,572 | 3,947 | 2,830,758 | 5,116,629 | 4,806,532 | |
| Total Assets | 582,693,089 | 902,592,843 | 1,015,369,349 | 893,275 | 117,531,654 | 2,619,080,210 | 2,565,131,939 | |
| Total Liabilities | 1,494,032,160 | 473,534,061 | 174,967,235 | 501,271 | 58,588,436 | 2,201,623,163 | 2,125,975,589 | |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Information about Geographical Distribution:

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

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

| | Inside the Kingdom | | Outside the Kingdom | | Total | |
|----------------------|--------------------|---------------|---------------------|-------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | JD | JD | JD | JD | JD | JD |
| Total Revenues | 151,710,250 | 159,515,297 | 27,548,502 | 22,788,411 | 179,258,752 | 182,303,708 |
| Total Assets | 1,796,184,264 | 1,977,069,000 | 822,895,946 | 588,062,939 | 2,619,080,210 | 2,565,131,939 |
| Capital Expenditures | 5,799,352 | 4,487,797 | 1,045,715 | 1,002,146 | 6,845,067 | 5,489,943 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. Analysis of Assets and Liabilities Maturities:

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

| | December 31, 2018 | | |
|---|----------------------|----------------------|----------------------|
| | Up to 1 Year | Over 1 Year | Total |
| | JD | JD | JD |
| Assets | | | |
| Cash and balances with Central Banks | 270,431,363 | 89,711,140 | 360,142,503 |
| Balances with banks and financial institutions | 152,118,694 | - | 152,118,694 |
| Deposits with banks and financial institutions | - | 235,435,227 | 235,435,227 |
| Financial assets at fair value through profit or loss | - | 169,677 | 169,677 |
| Financial assets at fair value through comprehensive income | - | 51,391,078 | 51,391,078 |
| Direct credit facilities at amortized cost | 794,582,562 | 674,657,097 | 1,469,239,659 |
| Financial assets at amortized cost | 49,408,425 | 153,987,259 | 203,395,684 |
| Property and equipment – Net | - | 34,344,020 | 34,344,020 |
| Intangible assets | - | 4,998,823 | 4,998,823 |
| Deferred tax assets | - | 18,580,246 | 18,580,246 |
| Other Assets | 31,800,603 | 57,463,996 | 89,264,599 |
| Total Assets | 1,298,341,647 | 1,320,738,563 | 2,619,080,210 |
| Liabilities | | | |
| Banks and financial institutions' deposits | 14,304,960 | 130,937,867 | 145,242,827 |
| Customers' deposits | 1,074,362,844 | 793,429,942 | 1,867,792,786 |
| Cash margins | 61,448,694 | 55,820,223 | 117,268,917 |
| Financial derivatives | - | - | - |
| Other provisions | 4,133,905 | 1,060,335 | 5,194,240 |
| Income tax provision | 21,978,685 | - | 21,978,685 |
| Borrowed funds | 1,317,164 | 3,240,647 | 4,557,811 |
| Deferred tax liabilities | - | 3,296,665 | 3,296,665 |
| Other liabilities | 32,994,867 | 3,296,665 | 36,291,532 |
| Total Liabilities | 1,210,541,119 | 991,082,044 | 2,201,623,163 |
| Net | 87,800,528 | 329,656,519 | 417,457,047 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. Capital Management

Capital Components:

- **Paid-Up Capital:**
The paid-up capital of Bank of Jordan consists of (200/1) million ordinary shares at a nominal value of JD 1 per share. The Bank maintains capital, statutory reserves, and retained earnings to meet the growth in its operations and the requirements of local and regional expansion.
- **Regulatory Capital:**
Regulatory capital is considered a control tool according to the requirements of regulatory authorities and Basel (III) for the purposes of achieving control over the adequacy of capital and the ratio of regulatory capital to risky and weighted assets and market risk. Regulatory capital according to Basel (III) consists of:
 - Ordinary shares, retained earnings, accumulated comprehensive income items, declared reserves, minority interest and interim profit after tax and expected distributions and regulatory adjustments.
- **Regulatory Authorities' Requirements:**
The regulatory authorities' instructions entail that the minimum capital shall be JD 100 million. Moreover, banks have been requested to increase their capital adequacy ratio to not be less than 14.125% according to the Central Bank of Jordan instructions, and the ratio of owners' equity to total assets financial leverage ratios must not be less than 4%.
- **Achieving the Objectives of Capital Management:**
The Bank's management aims at achieving the capital management objectives through developing (enhancing) the Bank's activities, achieving a surplus in operating profits and revenues, and optimally investing available funds. All of this is geared towards reaching the targeted growth in owners' equity, reflected in the increase in the reserves and retained earnings.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| | In Thousands of JD | In Thousands of JD |
|---|-------------------------------|-------------------------------|
| | 2018 | 2017 |
| <u>Primary Capital Items for Ordinary Shareholders (CET 1):</u> | JD | JD |
| Paid-up capital | 200,000 | 200,000 |
| Statutory reserve | 87,947 | 80,821 |
| Voluntary reserve | 134 | 134 |
| Other reserves | 5,849 | 4,104 |
| Fair value reserve | 26,668 | 81,288 |
| Retained earnings | 61,174 | 28,446 |
| Non-controlling interest in the capital of subsidiaries | 3,103 | 3,198 |
| <u>Less:</u> Intangible assets | (4,999) | (4,839) |
| Foreign currency translation differences | (12,256) | (12,256) |
| Deferred tax assets | (18,581) | (14,684) |
| Total Primary Capital Ordinary Shareholder (CET 1) | 349,039 | 366,212 |
| <u>Additional Capital Items</u> | | |
| Stage one provision balance against debt instruments not exceeding 1.25 % of the total risk weighted assets | 7,581 | - |
| General banking risk reserve | 2,258 | 15,129 |
| Total additional capital | 9,839 | 15,129 |
| Total regulatory capital | 358,878 | 381,341 |
| Total risk weighted assets | 2,134,526 | 1,998,965 |
| Capital adequacy ratio (%) | %16,81 | 19,08% |
| Primary capital for ordinary shareholders (CET 1)% | %16,35 | 18,32% |
| Capital adequacy Tier 1 (%) | %16,35 | 18,32% |

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

44. Fair Value Hierarchy

A. The Fair Value of Financial Assets and Financial Liabilities of the Bank Specified at Fair Value on an Ongoing Basis:

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

| Financial Assets/Financial Liabilities | Fair Value | | The Level of Fair Value | Evaluation Method and Inputs Used | Important Intangible Inputs | Fair Value and the Important Intangible Inputs |
|--|-------------------|--------------------|-------------------------|--|-----------------------------|--|
| | December 31, 2018 | December 31, 2017 | | | | |
| | JD | JD | | | | |
| Financial Assets at Fair Value | | | | | | |
| Financial Assets at Fair Value Through Income Statement | | | | | | |
| Shares that have an available market price | 61,200 | 112,200 | Level One | Stated Rates in financial markets | Does Not Apply | Does Not Apply |
| Shares that do not have an available market price | 108,477 | 84,787 | Level Two | Financial Statements issued by companies | | |
| Total | 169,677 | 196,987 | | | | |
| Financial Assets at Fair Value through Comprehensive Income | | | | | | |
| Shares that have available market price | 46,483,480 | 110,237,146 | Level One | Stated Rates in financial markets | Does Not Apply | Does Not Apply |
| Shares that do not have available market price | 4,907,598 | 4,554,716 | Level Two | Financial Statements issued by companies | Does Not Apply | Does Not Apply |
| Total | 51,391,078 | 114,791,862 | | | | |
| Assets Foreclosed by Bank | 6,816,468 | - | Level One | Stated Rates in financial markets | Does Not Apply | Does Not Apply |
| Forward contracts foreign currency | 10,601 | - | Level One | Stated Rates in financial markets | Does Not Apply | Does Not Apply |
| Total Financial Assets at Fair Value | 51,571,356 | 114,988,849 | | | | |
| Financial Liabilities at Fair Value | | | | | | |
| Forward contracts foreign currency | - | 178,833 | Level One | Stated Rates in financial markets | Does Not Apply | Does Not Apply |
| Total | - | 178,833 | | | | |

There were no transfers between level 1 and level 2 during the year 2018.

B. The Fair Value of Financial Assets and Financial Liabilities of the Bank (Non-Specific Fair Value on an Ongoing Basis):

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

| | December 31, 2018 | | December 31, 2017 | | The Level of Fair Value |
|--|----------------------|----------------------|----------------------|----------------------|-------------------------|
| | Book Value | Fair Value | Book Value | Fair Value | |
| | JD | JD | JD | JD | JD |
| Financial Assets of Non-Specified Fair Value | | | | | |
| Balances at central banks | 286,177,151 | 286,193,941 | 196,829,576 | 196,842,990 | Level Two |
| Balances at banks and financial institutions | 152,122,328 | 153,134,705 | 265,682,212 | 266,402,186 | Level Two |
| Deposits at banks and financial institutions | 235,452,225 | 239,298,074 | 125,000,000 | 127,536,945 | Level Two |
| Loans, bills and other | 1,405,705,500 | 1,408,994,013 | 1,382,864,854 | 1,385,372,118 | Level Two |
| Financial assets at amortized cost | 203,996,033 | 205,933,214 | 219,576,390 | 221,758,509 | Level Two |
| Total Financial Assets of non-specified Fair Value | 2,343,444,564 | 2,402,043,219 | 2,235,003,640 | 2,300,750,394 | |
| Financial Liabilities of Non-Specified Fair Value | | | | | |
| Deposits at banks and financial institutions | 145,242,827 | 146,062,258 | 64,896,195 | 64,986,870 | Level Two |
| Customers' deposits | 1,867,792,486 | 1,874,252,746 | 1,845,800,756 | 1,850,775,176 | Level Two |
| Cash insurance | 117,268,917 | 117,276,687 | 149,356,693 | 149,367,014 | Level Two |
| Total Financial Liabilities of Non-Specified Fair Value | 2,130,304,230 | 2,137,591,692 | 2,060,053,644 | 2,065,129,060 | |

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

(C) Non-Financial Assets and Liabilities not Measured at Fair Value but its in fair Value disclosed in the Consolidated Financial Statements:

| | December 31, 2018 | | December 31, 2017 | | The Level of Fair Value |
|--------------|-------------------|--------------------|-------------------|--------------------|-------------------------|
| | Book Value | Fair Value | Book Value | Fair Value | |
| | JD | JD | JD | JD | JD |
| Other assets | 59,991,327 | 108,489,272 | 45,050,608 | 102,837,646 | Level Two |
| | 59,991,327 | 108,489,272 | 45,050,608 | 102,837,646 | |

The above items set out the fair value of non-financial assets that are determined on the basis of prices of similar instruments in an inactive market.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45- Adoption of New and Revised International Financial Reporting Standards (IFRSs)

New Standards:

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

- International Financial Reporting Standards (16): Leases (effective on January 1st, 2019 with earlier application permitted).
- International Financial Reporting Standards (17): Insurance Contracts (effective on January 1st, 2021 with earlier application permitted).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective on January 1st, 2019).
- Amendments to IFRS 9 "Pre-Payment Features with Negative Compensation" (effective 1 January 2019).
- Amendments to IAS (19) Amendments to the Plan, Amortization or Settlement (effective 1 January 2019).
- Annual improvements to IFRS 2015-2017 (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective December 1, II 2019).
- Amendments to IFRS (10) and IAS (28) Sale or Contribution of Assets between Investor and its Associates or Joint Venture (no date specified).

Bank management does not expect that there will be a material impact from following the above standards upon application except for the effect of the adoption of IFRS (16) "Leases".

Effect of the Application of IFRS (16) "Leases":

The Bank is required to adopt IFRS (16) "Leases" from January 1, 2019. The Bank has assessed the estimated impact that initial application of IFRS (16) will have on its consolidated financial statement for the year ended December 31, 2018, as described below. The actual impact of adopting the standard on January 1, 2019 may change because:

- The Bank has not finalized the testing and assessment of controls over its new IT systems.
- The new accounting policies are subject to change until the Bank presents its first consolidated financial statement that includes the date of initial application.

IFRS (16) defines the accounting treatment model for lessees. Where the lessee recognizes and discloses the assets in the consolidated financial statements. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payment. There are recognition exemptions for short-term leases and leases of low value-items.

IFRS (16) did not have a material impact on the accounting treatment of leases for current policies, in the lessor's perspectives.

IFRS (16) replaces existing leases guidance, including IAS (17) Leases and IFRIC (4) determining whether an arrangement contains a lease.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Leases in which the Bank is a lessee :

The Bank will recognize new assets and liabilities related to operational leases. These assets will be depreciated and the expense will be reflected in the consolidated statement of profit or loss in addition to the interest expense arising from the acquisition of the asset.

Previously, the Bank recognized operating lease expense on a straight-line basis over the term of the lease, and recognized the asset and liabilities only to the extent that there was a timing difference between actual lease payments and the expenses recognized.

In addition, the Bank will no longer recognize provisions for operating leases that it assesses to be onerous. Instead, the Bank will include the payments due under the lease in its lease liability.

No significant impact is expected for the Bank's finance leases.

Based in the information currently available, the Bank estimates that it will recognize additional lease liabilities approximately by the amount of JD 14,2 million and assets right of use by the same amount as of January 1, 2019. The Bank do not expect the adoption of IFRS (16) to impact its ability to comply with the revised maximum leverage threshold loan.

Leases in which the Bank is a lessor

No significant impact is expected for other leases in which the Bank is a lessor.

Transition Period:

The Bank plans to apply IFRS (16) initially on January 1, 2019, using the second option of the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS (16) will not impact the opening balance of retained earnings at January 1, 2019, and with no restatement of comparative information.

46. Commitments and Contingent Liabilities

a. Contingent Liabilities:

| | 2018 | 2017 |
|--|--------------------|--------------------|
| | JD | JD |
| Letters of credit includes: | | |
| Inwards letters of credit | 65,119,225 | 117,983,214 |
| | - | 20,513,368 |
| Acceptances includes: | | |
| Unguaranteed inward acceptances | 40,294,124 | 56,193,136 |
| | - | 3,578,070 |
| Letters of guarantee: | | |
| Payment | 32,187,987 | 38,782,029 |
| Performance | 64,243,430 | 61,137,598 |
| Other | 35,788,574 | 33,928,537 |
| Un-utilized direct and indirect credit facilities limits | 387,219,416 | 440,916,414 |
| Total | 624,852,756 | 748,940,928 |

Expected credit loss provision based on IFRS (9) requirements on the off – balance sheet items (unfunded) amounted to JD 7,598,485 for the year ended December 31, 2018 (JD 5,415,620 as of January 1st 2018).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b. Contractual Obligations:

| | 2018 | 2017 |
|---|-------------------|-------------------|
| | JD | JD |
| Contracts for purchasing of property and equipment* | 1,731,328 | 1,696,882 |
| Contracts for operating and financing lease** | 17,338,609 | 12,002,332 |
| Total | 19,069,937 | 13,699,214 |

* These commitments mature in less than 1 year.

** These commitments mature between 1 year to 10 years.

46. Lawsuits against the Bank

The Bank is a defendant in lawsuits demanding cancellation of the Bank's claims against others, lifting of real estate mortgages, compensation for damages, and non-cashing of cheques. These lawsuits amounted to JD 17,573,962 as of December 31st, 2018 (JD 17,056,280 for prior year). In the opinion of the management and legal counsel, no material financial liability is likely to be incurred as a result of these lawsuits in excess of provision recorded which amounted to JD 1,032,570 as of December 31st, 2018 (JD 676,564 prior year). However, amounts that will probably be paid by the Bank as a result of dismissal or amicable settlement of these lawsuits will be taken to the consolidated Statement of Profit or Loss or against the recorded provision when paid.

47. Comparative Figures

Some comparative figures have been reclassified to conform with the current year classification, this amendment did not have any impact on the consolidated statement of changes in equity, the consolidated statement of profit or loss and consolidated statement of comprehensive income for the year ended December 31, 2017.