Annual Report 2018

Coins of Jordan,
The homeland story of the
Hashemite Kingdom of Jordan

البنك العربي الاسلامي الدولي
ISLAMIC INTERNATIONAL ARAB BANK

20 عام

تفوق ... إلتزام ... مسؤولية
Excellenc ... Commitment ... Responsibility

Coins of Jordan,

The homeland story of the Hashemite Kingdom of Jordan

In ancient ages, trade was based on barter system, coins were first introduced in the Bronze Age which afterword were indicated of the nation economic power and prosperity. We can read though coins the history of the previous nations.

Coins museum in Jordan (established by the Central Bank of Jordan) is considered as the main reference for the researchers are interested to read about coins history in Jordan. At the museum you can find a variety of coins from Greek empire, Islamic empire, and the modern country of Jordan.

البنك العربي الاسلامي الدولي

ISLAMIC INTERNATIONAL ARAB BANK

(Public Shareholding Limited Company)
Amman – Hashemite Kingdom of Jordan

Tel: 569 4901 Fax: 569 4914
P.O. Box 925802, Amman 11190 - Jordan

Our Vision ...

To be the leading Islamic Banking institution in the Arab world

Our Mission ...

To achieve leadership in our chosen markets in accordance with Islamic Sharia rules as an organization dedicated to deliver highest quality products and the special services to the customer presented through a highly qualified staff in compliance with the best professional and ethical standards within a motivating environment, supported by advanced technologies and efficient distribution channels to achieve high and advanced financial results.

Our Core Values ...

- Honesty and decency with ourselves and others.
- Pursuit of excellence and fulfillment of our promises.
- Adherence to the principles and rules of the Islamic Sharia throughout all our operations.
- Belief that there is always a better means and the challenge lies in discovering it.
- Commitment to Corporate Governance.
- Commitment to social responsibility.

His Majesty King Abdullah II Bin Al Hussein

HRH the Crown Prince
Hussein Bin Abdullah II

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Islamic International Arab Bank
(Public Shareholding Limited Co,)

Based on the conclusive verse differentiating between permitted and prohibited "Allah has permitted trading and forbidden usury" & our belief in the prominent message of Islam in economy being founded on equity and participation, and having the essential banking, commercial, investment and finance efficiency supported by distinguished banking expertise, IIAB commenced its banking operations on Shawwal 12, 1418 AH, February 9, 1998, Today, the Islamic International Arab Bank is one of the leading Islamic banking institutions in Jordan and the region.

The Bank was established as a public shareholding company in accordance with the Companies' ACT of 1989; IIAB was registered in the Public Shareholding Companies' Register under No. 327 on March 30, 1997.

The Jordan Currency Board, Issue No1.

Value: 500 fils

Size: 128 X 76 mm

Obverse: Wadi Al-Arab Irrigation Project

Reverse: Agricultural scene; a shepherd with his herd

Allah Almighty says in the Holy Qur'an:

"So ask the people of the message if you do not know"

(Surah Al-Anbya' Verse 7, Surah An-Nahl Verse 43)

His Eminence Dr, Ahmad Hlayel
Committee Chairman

Dr, Ahmad Ayade
Committee Executive Member

His Eminence Shaykh Saed Hejawe
Committee Member

Considering the breadth of the field of Islamic Fiqh, and in light of the many developments and changes of the modern economy and its complexity, in addition to the need for a good judgment and deep honest diligence to understand the Fiqh rules to get the Shariah opinion in financial, transactions, and modern banking issues, the necessity of Shariah Supervisory Committee of The Bank emerged based on the Shariah principle: "who works hard and does it right, is rewarded twice and who works hard and does it wrong, is rewarded once".

The Committee performs a significant role in issuing fatwas based on existing Shariah principles or effort that cope with the contemporary need. The committee approves all the contracts and agreements needed by the Bank with other bodies and institutions before they are accredited, sets an array of Shariah-compliant standards to govern the banking operations and offers consultations in issues presented by other relevant bodies.

In the name of Allah,
The All-Merciful, The Ever-Merciful

For the Financial period ending in 31/12/2018

All praise is due to Allah, the Lord of all that exists, and may peace and blessings be upon our Prophet Muhammad and upon his family and his companions in their entirety.

Dear Shareholders,

Greetings,

The Sharia Board committee would like to provide you with its annual report for the financial period ending in 31/12/2018 based on the bank statute and according to the commitment signed between us.

The committee has inspected the used principles and contracts related to transactions proposed by the bank during the financial period ending in 31/12/2018, in addition to conducting the due control for expressing opinion whether the bank is committing to the Islamic Sharia provisions and principles as well as Fatwa and guidelines issued by the committee.

The committee conducted inspection that included checking documentation and procedures followed by the bank based on examining each type of transaction. It also planned and implemented control to obtain all information and explanations considered necessary for providing adequate proofs that provide reasonable confirmation that the banks transaction did not breach the Sharia regulations of Islamic investment tools.

Through meetings; the committee continued setting the necessary basis and terms with the required processing in all aspects and matters needed by the nature of banking transactions in light of the developments appeared through practical application and in compatible with the Sharia regulations, with clarifying some new banking issues and indicating their Sharia status.

The committee revised the bank balance sheet as in 31/12/2018, income statement for the period ending in 31/12/2018 and clarifications of financial statements as they provide comprehensive illustration of bank works and required to be submitted to the concerned sections at the bank; and the committee did not find any Sharia breach within what was reviewed.

The committee reviewed the reports prepared by the Internal Sharia Audit Department for Headquarter and branches transaction in addition to the remarks and suggestions provided and procedures undertaken by the executive administration with this regard.

The committee ensured that all investment accounts of the bank are sound and achieving profits as in 31/12/2018, and it approved the case of amortization for estate sale loss (Joint Pot Funding) with the amount of 95355 JOD of the Investment Risks Fund, and it ensured that no violation nor shortage is committed by HQ.

The responsibility of Sharia Control Committee is represented in expressing independent opinion with indicating Islamic Sharia opinion according to Sharia principles and provisions, while the responsibility of implementation according to such principles and committee fatwa lies upon bank administration. Accordingly, we consider the following:

- Contracts, operations and transactions implemented by the bank during the period ending in 31/12/2018 that we reviewed are done according to the Islamic investment tools and Sharia regulations
- Basis of distributing profits and bearing loss by join investment holders and Investment Risks Fund are compatible with the accredited rules and basis followed by us according the Islamic Sharia provisions
- The revenues achieved from doubted resources of being incompatible with the Sharia regulations of Islamic investments were spent in charity

Hope Allah will guide the persons responsible for the bank towards more success and achievement, thanking them for their cooperation and commitment to the Islamic Sharia provisions.

This report is issued on Monday 22 Jumada I 1440 H corresponding to 28 January 2019.

Prof. Dr. Ahmad Hlayil	Prof. Dr. Ahmad Ayadi	Sheikh Saeed Al-Hijjawi
Committee Chairman	Executive Member	Committee Member

The Jordan Currency Board, Issue No1.

Value: 1 dinar

Size: 160 X 86 mm

Obverse: His Majesty the late King Abdullah I bin Al-Hussein

Reverse: The Forum of Jerash

Distinguished Shareholders

Peace, mercy and blessing of Allah be upon you, and we pray upon the most honored, envoy of mercy to all, our master prophet Mohammed, and upon his progeny and his companions.

On behalf of the Board of Directors and on my behalf I would like to present to you the Annual Report of 2018, renewing my thanks to the blessed efforts of the staff of the Bank and point out to their endless endeavor to achieve the Bank's strategic objectives. I also send a greeting and tribute to excellencies and grace Members of the Shari'a Supervisory Board for their active role in supervising, advising and guidance aimed at keeping the essence of the Bank's work which is in compliance with the rules and principles of Islamic Shari`a.

The financial results for 2018 show Earnings Before Tax (EBT) of 46.7 million JD with a growth rate of 7% compared to the year 2017, and bank net profit (after tax) of 31.8 million JD with a growth rate 11% compared to the year 2017. The portfolio of finance exceeded 1.400 billion JD with a growth rate of 10% compared to the year 2017, Total customer deposits', cash margins, and restricted and unrestricted deposits reached 2.133 billion JD with a growth rate 8% compared to 2017 and this proofs the success of the top management in applying best practices in managing Assets, liabilities, and revenues in light of boards' strategic plans.

During past years the bank focused on providing comprehensive banking services to supply all segments' demand at attainable terms and reasonable cost, and during 2018 the bank focused on added value to economic sectors through dedicated programs designed with the Central Bank of Jordan targeting many sectors specially Tourism, Agriculture, industry, renewable energy, Information and Communications Technology.

As bank plan to increase access to finance two new branches where opened in Amman which extend branches network to 45 to provide modern banking services in all governorates.

At the end, I cannot but thank you again for your confidence in the Executive Management Team of the Bank asking almighty Allah that next year will be a year of generosity and prosperity for Jordan and all Muslim countries. I hope that in presenting this annual report for 2018, we will present the results of the Bank's in transparency and honesty required by the international standards of financial disclosure, affirming our sincerity in keeping the confidence of our clients and keeping their money safe, and profitable.

May Allah grants us success

"Mohammed Said" Mohammed Shahin

Chairman

The Jordan Currency Board, Issue No1.

Value: 10 dinar

Size: 185 X 97 mm

Obverse: His Majesty the late King Abdullah I bin Al-Hussein

Reverse: The Treasury at Petra

Distinguished Shareholders

Peace, mercy and blessing of Allah be upon you, and we pray upon the most honored, envoy of mercy to all, our master prophet Mohammed, and upon his progeny and his companions.

On behalf of the Executive Management and on my behalf I would like to present the Annual Report of the year 2018 renewing my thanks to the Board of Directors of the Bank and the distinguished General Assembly for the trust they have extended to us and to the Bank's staff. I also send a greeting and tribute to excellencies and grace Members of the Shari'a Supervisory Board for their active role in supervising, advising and guidance aimed at keeping the essence of the Bank's work which is in compliance with the rules and principles of Islamic Shari`a.

TAM is the slogan of the bank's roadmap towards the future launched as a celebration for its 20th anniversary, TAM is an Arabic abbreviation for words of (Excellence, Commitment, and Responsibility)

Excellence (Tafawouq)

The financial results for 2018 show Earnings Before Tax (EBT) of 46.7 million JD with a growth rate of 7% compared to the year 2017, and bank net profit (after tax) of 31.8 million JD with a growth rate 11% compared to the year 2017. The portfolio of finance exceeded 1.400 billion JD with a growth rate of 10% compared to the year 2017, Total customer deposits', cash margins, and restricted and unrestricted deposits reached 2.133 billion JD with a growth rate 8% compared to 2017.

The bank exceled in increasing the market share beyond economic challenges through dedicated work and harmony between bank's staff at all levels, and to sustain this excellence the bank extended the branches network to 45 branches by opening new branches in Plaza Mall-Mecca St. and Areefa Mall in Amman, and 82 ATMs covering all governorates in Jordan.

Commitment (Iltizam)

Main commitments of the bank are complying with Sharia law and central bank regulations, and this commitment includes effectively participating in increasing the financial inclusion through innovative products and services easing access to finance for wide segments of individuals and SMEs at less efforts and reasonable cost. During 2018 the bank launched the new version of the internet banking to keep service up-to-date with new developments of the FinTech. The bank continued its commitment to support the national economy by continuing to provide SMEs easy financing through programs developed in cooperation with the Central Bank of Jordan and Jordan Loan Guarantee Corp. to keep the bank among leaders of supporting institutions for this segment believing in positive social, economic, and environment impacts achieved through SMEs financing.

The Jordan Currency Board, Issue No1.

Value: 5 dinar

Size: 169 X 88 mm

Obverse: His Majesty the late King Abdullah I bin Al-Hussein

Reverse: The Treasury at Petra

The bank continued to commit to participate in development of global Islamic banking industry through solid cooperation with supporting bodies such as the Accounting and Auditing organization for Islamic Financial Institutions (AAOIFI), the General Council for Islamic Banks and Financial Institutions (CIBAFI), and the Islamic Financial Services Board (IFSB).

The Bank continued its investments in the human capital aiming to strengthen staff commitment to bank's values, best banking practices, and professionalism to achieve goals, where 2577 employees participated in a large number of local and international training courses.

Responsibility (Mas'ouliyah)

Active corporate social responsibility is an integral part of the bank business, and this responsibility reflected on all bank's products and services offered to corporates and individuals through enhancement the added value and savings, additionally the bank applies responsible finance which aims of protecting customers' rights and their capacity to meet their family's needs and their responsibility towards and society.

TAM towards the future

The bank is very optimistic for the upcoming years, asking Allah to sustain the grace of safety and security in our country under the leadership of the Hashemite leader his Majesty King Abdullah II Bin Al Hussein. In this occasion we would like to seize the opportunity to thank the Central Bank of Jordan and all of its associates for their support to Islamic banking industry.

TAM is the future roadmap for the bank, and the celebration of the 20th anniversary was a pause for ourselves to review our performance to unleash our capabilities towards future goals.

Finally, I cannot but, thank you again for your confidence in the Executive Management Team of the Bank. I hope that we will in this 2018 annual report present the results of the Bank's work in accordance with the International Financial Reporting Standards with required transparency and honesty, asserting our sincerity in maintaining the confidence of our clients and keeping their money safe, and giving them an abundant Halal profit, Allah willing

Allah grants us success
Peace and mercy of Allah be upon you

Iyad Ghasoub Asali
General Manager

Board of Directors

Chairman

- "Mohamed Saed" Mohamed Shaheen

Vice Chairman

- Mr. Mohamed Ghanameh

Board Members

- Mr. Naim Al-Hussaini
- Mr. Basil Mousa
- Mr. Ziad Homsi

Secretary of the Board of Directors

- Dr. Mohsen Abu Awad

Auditors

- Ernst and Young - Jordan

The Jordan Currency Board, Issue No1.

Value: 50 dinar

Size: 190 X 100 mm

Obverse: His Majesty the late King Abdullah I bin Al-Hussein

Back: Aqaba

The Jordan Currency Board, Issue No2.

Obverse: His Majesty the late King Hussein bin Talal

Reverse: The Treasury at Petra

Obverse: His Majesty the late King Hussein bin Talal

Reverse: The Treasury at Petra

Obverse: His Majesty the late King Hussein bin Talal

Reverse: The Forum of Jerash

Obverse: Wadi Al-Arab Irrigation Project

Reverse: Agricultural scene; a shepherd with his herd

- **Mr. Iyad Asali**
  General Manager

- **Dr. Mohsen Abu Awad**
  Chief Business and Investment Officer
- **Dr. Nayef Abu Dhaim**
  Chief Support and Operations Officer
- **Mr. Yousif Al-Badri**
  Chief Credit Officer
- **Mr. Abbas Marei**
  Chief Finance Officer
- **Mr. Abdul-karim Al-Sukari**
  Head of Risk Division
- **Mr. Akef Hamam**
  Head of Human Resources Division
- **Mr. "Hussam Al-deen" Salah**
  Legal Consultant/ Head of Legal Department
- **Mr. Hamdi Al Mahmoud**
  Head of Audit division
- **Mr. "Mohammed Bashar" Al-Sarraj**
  Head of Regulatory Compliance Dept.
- **Dr. Omar Al Shareef**
  Internal Sharia Audit Manager/ Sharia Board Secretary

The Central Bank of Jordan, Issue No1.

Obverse: His Majesty the late King Hussein bin Tala

Reverse: The Baptism Site on the Jordan River

Obverse: His Majesty the late King Hussein bin Talal

Reverse: The Treasury at Petra

Obverse: His Majesty the late King Hussein bin Tala

Reverse: The Dome of the Rock in Al Quds

Obverse: His Majesty the late King Hussein bin Talal

Reverse: The Forum of Jerash

Auditor's Report and Financial Statements For the Period Ending on 31/12/2018

The Central Bank of Jordan, Issue No2.

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: Hussein Thermal Power Station, Zarqa, and olive tree

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: Cultural Palace, and Roman Theater, Amman, and Roman columns from Jarash

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: The Treasury at Petra

Obverse:
His Majesty the late King Hussein bin Talal

Reverse : The Dome of the Rock in Al Quds

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: The Forum of Jerash

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EY
Building a better working world

To The Shareholder Of Islamic International Arab Bank
Public Shareholding Company
Amman - Jordan

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Islamic International Arab Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and statement of income, statement of other comprehensive income, statement of changes in shareholders' equity, statement of cash flows, and statement of sources and uses of funds of Al Qard Al Hasan fund for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank and in accordance with Financial Accounting Standards as issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Basis for Opinion

We conducted our audit in accordance with Auditing Standards as issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Our responsibilities under those standards, are further described in the Auditor's Responsibilities for the Audit of the 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 (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Jordan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

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Expected credit loss of receivables and financing (Deferred sales receivables, Ijarah Muntahia Bittamleek receivables, Al Qard Al Hasan and other receivables), and financial assets at amortized cost. Disclosures related to the expected credit loss of receivables and financing (Deferred sales receivables, Ijarah Muntahia Bittamleek receivables, Al Qard Al Hasan and other receivables), and financial assets at amortized cost are detailed in notes (2), (6), (11) and (21) of the financial statements.	
Key audit matter:	**How the key audit matter was addressed in the audit:**
This is considered as a key audit matter as the Bank exercises significant judgement to determine when and how much to record as impairment. The expected credit loss of customer receivables and financing (Deferred sales receivables, Ijarah Muntahia Bittamleek receivables, Al Qard Al Hasan and other receivables), and financial assets at amortized cost is one of the most significant matters which affect the results of the Bank's business; Due to the significance of the judgments used in classifying receivables and financing into various stages and determining related provision requirements, this audit area is considered a key audit risk. The Bank appropriates 10% of net revenues from jointly financed financing, which is then transferred to the investment risk fund in accordance with Central Bank of Jordan regulations and Banks law. Judgment is applied on the inputs of impairment measurement process including the valuation of collaterals and the determination of the default date, and accordingly calculating the expected credit loss starting from the date thereof.	Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of receivables and financing, and measuring the expected credit loss including consideration of Central Bank of Jordan (CBJ) requirements, to validate the operating effectiveness of the key controls in place, which identify the expected credit loss of receivables, financing and financial assets at amortized cost and the required expected credit loss against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively. In addition, we performed procedures to evaluate the following: - Appropriateness of the bank's staging. - Appropriateness of determining Exposure at Default, including the consideration of repayments in the cash flows and the resultant arithmetical calculations - Appropriateness of the PD, EAD, LGD and EIR used for different exposures at different stages. - Appropriateness and objectivity of the internal rating. - Soundness and mathematical integrity of the ECL Model. - For exposures moved between stages, we have checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. We also checked the timely identification of exposures with a significant deterioration in credit quality. For exposures determined to be individually impaired we re-preformed the ECL calculation we also obtained an understanding of the latest developments in the counterparty's situation of the latest developments in estimate of future cash flows, current financial position any rescheduling or restructuring agreements. We inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. We assessed collateral valuation techniques against the Bank's valuation guidelines. We have recalculated the amounts transferred to the investment risks fund in accordance with Central Bank of Jordan regulations. We also assessed whether the financial statement disclosures appropriately reflect the requirements of the Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI).

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Other information included in the Bank's 2018 annual report.

Other information consists of the information included in the annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2018 annual report is expected to be made available to us after the date of the auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank and in accordance with the Financial Accounting Standards as issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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's 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the Financial Accounting Standards as issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), will always detect a material misstatement when it exist. 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 financial statements.

As part of an audit in accordance with Financial Accounting Standards as issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

The Bank maintains proper books of accounts which are in agreement with the financial statements

The partner in charge of the audit resulting in this auditor's report was Mohammad Ibrahim Al-Karaki; license number 882.

Amman – Jordan
4 February 2019

Ernst + Young

The Central Bank of Jordan, Issue No3 (modified).

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: The Dome of the Rock in Al Quds

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: Ajloun Castle

Obverse:
His Majesty the late King Hussein bin Talal

The Treasury at Petra

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: The Forum of Jerash

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: Quseir Amra

STATEMENT OF FINANCIAL POSITION

		December 31,	
ASSETS	Notes	**2018**	2017
		JD	JD
Cash and balances with central bank	4	**573,279,125**	588,819,337
Balances with banks and financial institutions	5	**20,438,681**	21,546,641
Deferred sales receivables and other receivables – Net	6	**779,119,614**	701,820,133
Deferred sales receivables through statement of income	7	**-**	-
Ijara Muntahia Bittamaleek assets – Net	8	**657,162,067**	620,283,994
Financial assets at fair value through shareholders' equity – Self financed	9	**5,324,798**	5,498,759
Financial assets at fair value through joint investment accounts holders' equity	10	**1,607,730**	198,366
Financial assets at amortized cost – Net	11	**31,786,910**	38,096,056
Investments in real estate	12	**21,794,384**	21,508,775
Al Qard Al Hasan loans – Net		**40,510,079**	27,695,418
Property and equipment – Net	13	**18,042,080**	18,758,098
Intangible assets – Net	14	**277,636**	473,854
Deferred tax assets	20	**3,348,751**	2,678,427
Other assets	15	**6,355,697**	4,701,307
TOTAL ASSETS		**2,159,047,552**	2,052,079,165
LIABILITIES			
Banks and financial institutions' accounts	16	**1,808,186**	257,629
Customers' current accounts	17	**665,748,540**	706,073,699
Cash margin	18	**30,914,889**	35,652,339
Other provisions	19	**3,006,658**	2,745,846
Provision for income tax	20	**12,124,837**	12,003,114
Deferred tax liabilities	20	**180,541**	227,174
Other liabilities	21	**31,382,960**	29,378,103
TOTAL LIABILITIES		**745,166,611**	786,337,904
Joint Investment Accounts Holders› Equity			
Unrestricted investment accounts	22	**1,193,071,250**	1,061,579,579
Total Joint Investment Accounts Holders' Equity		**1,193,071,250**	1,061,579,579
INVESTMENT RISKS FUND			
Investment risk fund	23	**23,994,101**	26,983,673
Provision for income tax on investment risk fund	23	**2,924,470**	2,594,950
		26,918,571	29,578,623
SHAREHOLDERS' EQUITY			
Paid-in capital	24	**100,000,000**	100,000,000
Statutory reserve	25	**30,412,149**	25,735,842
Voluntary reserve	25	**4,262,322**	4,262,322
General banking risks reserve	25	**-**	882,000
Fair value reserve - net	26	**294,566**	421,895
Retained earnings	27	**58,922,083**	43,281,000
Total Shareholders' Equity		**193,891,120**	174,583,059
Total Liabilities, Joint Investment Accounts Holders and Shareholders' Equity		**2,159,047,552**	2,052,079,165
Restricted investments		**206,637,799**	131,706,967
Wakalah investments		**36,294,140**	32,320,657

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (56) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

STATEMENT OF INCOME

	Notes	For the Year Ended 31 December	
		2018	2017
		JD	JD
Deferred sales revenue	28	**49,063,565**	44,550,457
Revenue from financing investments	29	**-**	7,664
Revenue from financial assets at amortized cost	30	**1,116,486**	1,141,294
Net expense from Investment in Real Estate	31	**(810,635)**	(713,892)
Revenue from Ijara Muntahia Bittamaleek Assets	32	**50,729,523**	46,681,918
Ju›alah commissions	33	**521,331**	397,339
Other revenue	40	**41,129**	-
Total Revenue from Joint Investments Accounts		**100,661,399**	92,064,780
Unrestricted investment accounts share	34	**(22,799,683)**	(19,343,977)
Investment risks fund share	23	**(10,066,140)**	(9,206,478)
Banks' Share in income from Joint Investment as Mudarib and Fund Owner (Rab Al-Mal)	35	**67,795,576**	63,514,325
Bank's self financed revenues	36	**69,562**	64,237
Bank's share in restricted investment profit as Mudarib	37	**645,274**	249,029
Bank's share in restricted investment profit as agent (Wakeel)	37	**427,749**	201,631
Gains from foreign currencies	38	**1,372,702**	2,165,332
Banking services revenue	39	**10,163,275**	9,161,948
Other revenue	40	**328,705**	356,350
Gross Income		**80,802,843**	75,712,852
Expenses			
Employees' expenses	41	**21,086,994**	19,326,308
Depreciation and amortization	13&14	**3,007,400**	3,129,541
Other expenses	42	**9,717,441**	9,224,989
Depreciation of Ijara muntahia bittamaleek assets	8	**21,631**	24,113
(Recoveries) provisions for expected credit loss - self financed	6	**(125,000)**	91,000
Other provisions	19	**331,309**	391,748
Total Expenses		**34,039,775**	32,187,699
Profit before income tax		**46,763,068**	43,525,153
Income tax	20	**(14,872,166)**	(14,727,449)
Profit for the year		**31,890,902**	28,797,704
Earnings per Share for the year basic / diluted	43	**0.319**	0.288

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (56) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

	For the Year Ended 31 December	
	2018	2017
	JD	JD
Profit for the year	**31,890,902**	28,797,704
Other comprehensive income:		
Items that will not be reclassified subsequently to statement of income		
Net change in fair value reserve	**(127,329)**	(13,710)
Total other comprehensive income for the year attributed to the banks shareholders	**31,763,573**	28,783,994

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (56) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

Statement Of Changes In Shareholders' Equity

	Note	Paid-in Capital	Reserves		General Banking Reserve	Fair Value Reserve Net (self)	Retained Earnings *	Total
			Statutory	Voluntary				
		JD	JD	JD	JD	JD	JD	JD
For the Year Ended 31 December 2018								
Balance at 1 January 2018		**100,000,000**	**25,735,842**	**4,262,322**	**882,000**	**421,895**	**43,281,000**	**174,583,059**
Effect of IFRS (9) adoption		-	-	-	-	-	**(455,512)**	**(455,512)**
Amended Balance at the beginning of the year		**100,000,000**	**25,735,842**	**4,262,322**	**882,000**	**421,895**	**42,825,488**	**174,127,547**
Profit for the year		-	-	-	-	-	**31,890,902**	**31,890,902**
Net change in fair value reserve after tax	26	-	-	-	-	**(127,329)**		**(127,329)**
Total comprehensive income		-	-	-	-	**(127,329)**	**31,890,902**	**31,763,573**
Transferred to reserves		-	**4,676,307**	-	-	-	**(4,676,307)**	-
Distributed dividends **		-	-	-	-	-	**(12,000,000)**	**(12,000,000)**
Transferred from general banking Reserve		-	-	-	**(882,000)**	-	**882,000**	-
Balance at the End of the Year		**100,000,000**	**30,412,149**	**4,262,322**	**-**	**294,566**	**58,922,083**	**193,891,120**
For the Year Ended 31 December 2017								
Balance at 1 January 2017		100,000,000	21,383,327	4,262,322	882,000	435,605	28,835,811	155,799,065
Profit for the year		-	-	-	-	-	28,797,704	28,797,704
Net change in fair value reserve after tax	26	-	-	-	-	(13,710)	-	(13,710)
Total comprehensive income		-	-	-	-	(13,710)	28,797,704	28,783,994
Transferred to reserves		-	4,352,515	-	-	-	(4,352,515)	-
Distributed dividends **		-	-	-	-	-	(10,000,000)	(10,000,000)
Balance at the End of the Year		100,000,000	25,735,842	4,262,322	882,000	421,895	43,281,000	174,583,059

* Retained earnings include an amount of JD 2,897,830 as of 31 December 2018 that cannot be used based on the instructions of the Central Bank of Jordan. This amount represents the amount of deferred tax assets related to the Bank's own operations (JD 2,410,268 as of December 2017).

* The Central Bank of Jordan issued new regulations No.13/2018 dated 6 June 2018. In which it requested the transfer of the general banking reserve balance (calculated in accordance with the central bank of Jordan regulations) to the retained earnings to offset the effect of IFRS 9 in the opening balance of the retained earning as of 1 January 2018. The regulation also instructs that the balance of general banking risk reserve should be restricted and may not be distributed as dividend to the shareholders or used for any other purposes without prior approval from the Central Bank of Jordan amounting to JD 181,121.

** On March 28, 2018, the General Assembly of Shareholders approved the distribution of cash dividends of JD 12,000,000 to the sole shareholder (Arab Bank plc.), representing 12% of the authorized and paid in capital from distributable retained earnings for the year 2018 (JD 10,000,000 for the previous year).

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (56) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

Statement Of Cash Flows

	Notes	2018	2017
		JD	JD
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		**46,763,068**	43,525,153
Adjustments to Non- Cash Items:			
Depreciation and amortization	13 & 14	**3,007,400**	3,129,541
Depreciation of investments in real estate	12	**932,435**	802,693
Depreciation of Ijara muntahia bittamaleek assets		**65,145,358**	61,773,064
(Recoveries) provision for expected credit loss	6	**(125,000)**	91,000
Investment Risks Fund	23	**10,066,140**	9,206,478
Other provisions	19	**331,309**	391,748
Gains from sale of property and equipment		**-**	7,866
Effect of exchange rate fluctuations on cash and cash equivalents	38	**(2,401)**	(18,234)
Net cash from operating activities before change in the working capital		**126,118,309**	118,909,309
Change in working capital Items			
Increase in deferred sales receivables and other receivables		**(86,538,844)**	(90,991,747)
Decrease in financing investments		**-**	255,367
Increase in Ijara muntahia bittamaleek assets		**(102,023,431)**	(114,442,465)
(Increase) Decrease in other assets		**(1,976,565)**	15,526,500
Increase in Al – Qard Al - Hasan loan		**(12,814,661)**	(8,737,099)
Decrease in customers' current accounts		**(40,325,159)**	(9,348,519)
(Decrease) Increase in cash margins		**(4,737,450)**	6,914,056
(Decrease) Increase in other liabilities		**2,286,683**	(7,283,856)
Net Cash used in Operating Activities before Tax And Provisions Paid		**(120,011,118)**	(89,198,454)
Provisions paid	19	**(70,497)**	(108,297)
Tax paid	20 & 23	**(19,100,000)**	(16,500,136)
Net Cash used in Operating Activities		**(139,181,615)**	(105,806,887)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of in financial assets through shareholders' equity		**(1,301,981)**	(198,366)
Sale (Purchase) of financial assets at amortized costs – Net		**6,127,076**	(4,238,234)
Purchase of investment in real estates		**(1,241,117)**	(348,863)
Purchase of property and equipment		**(2,065,494)**	(1,875,620)
Purchase of intangible assets	14	**(52,854)**	(197,964)
Proceed from sale of property and equipment		**23,184**	28,644
Net Cash from (used in) Investing Activities		**1,488,814**	(6,830,403)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in joint investment account holders' equity		**131,491,671**	67,879,300
Distributed dividends	27	**(12,000,000)**	(10,000,000)
Net Cash Flows from Financing Activities		**119,491,671**	57,879,300
Effect of exchange rate fluctuations on cash and cash equivalents		**2,401**	18,234
Net decrease in Cash and Cash Equivalents		**(18,198,729)**	(54,739,756)
Cash and Cash Equivalents at beginning of the year		**610,108,349**	664,848,105
Cash and cash equivalents at the end of the year	44	**591,909,620**	610,108,349
Non-Cash Operations:			
Investment in Real estates resulted from revoked Ijara Contracts **Capitalization of property and equipment**		**757,042**	1,680,572
		42,305	184,460

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (56) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

Statement Of Sources And Uses Of Al - Qard Al - Hasan Fund

	For the Year Ended 31 December	
	2018	2017
	JD	JD
Balance at the beginning of the year	**27,348,846**	18,532,292
Sources of the fund:		
Shareholders' equity	**(42,398,647)**	(28,011,687)
Total sources of Fund's Assets during the Year	**(42,398,647)**	(28,011,687)
Uses of the Fund:		
Personal advances	**2,912,117**	1,773,492
Revolving Cards	**52,278,311**	35,054,749
Total uses during the Year	**55,190,428**	36,828,241
Balance at the end of the year	**40,140,627**	27,348,846
Currents and overdraft accounts	**832,919**	681,757
Less: Expected credit loss provision	**(463,467)**	(335,185)
Balance at the end of the year – Net	**40,510,079**	27,695,418

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (56) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

Statement Of Changes In Restricted Investments

	Note	International Murabaha	Ijara muntahia bittamaleek Assets *	Local Murabaha (Real Estate Financing) *	Cash Balances	Total
December 31, 2018						
		JD	**JD**	**JD**	**JD**	**JD**
Investments at the beginning of the year		**126,702,984**	**-**	**-**	**5,003,983**	**131,706,967**
Add: Deposits		**139,850,274**	**-**	**-**	**-**	**139,850,274**
Less: Withdrawals		**(66,657,632)**	**-**	**-**	**(929,224)**	**(67,586,856)**
Bank's fees as Mudarib	**37**	**(645,274)**	**-**	**-**	**-**	**(645,274)**
Add: Investment gains		**3,312,688**	**-**	**-**	**-**	**3,312,688**
Investments at the End of the Year		**202,563,040**	**-**	**-**	**4,074,759**	**206,637,799**
Revenues for distribution		**15,413**	**-**	**-**	**-**	**15,413**
Total		**15,413**	**-**	**-**	**-**	**15,413**

	Note	International Murabaha	Ijara muntahia bittamaleek Assets *	Local Murabaha (Real Estate Financing) *	Cash Balances	Total
December 31, 2017						
		JD	JD	JD	JD	JD
Investments at the beginning of the year		111,865,461	196,000	30,568	6,085,628	118,177,657
Add: Deposits		59,097,891	-	-	-	59,097,891
Less: Withdrawals		(45,347,412)	(198,806)	(31,856)	(1,081,645)	(46,659,719)
Bank's fees as Mudarib	37	(247,126)	(1,304)	(599)	-	(249,029)
Add: Investment gains		1,334,170	4,110	1,887	-	1,340,167
Investments at the End of the Year		126,702,984	-	-	5,003,983	131,706,967
Revenues for distribution		877	-	-	-	877
Total		877	-	-	-	877

* The bank decided to cancel the real estate financing product (nama') during 2017 and transfer its balances inside balance sheet statement after the approval of shari'a supervisory board.

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (56) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

Statement Of Changes In Wakalah Investment

	Local Murabaha	Cash Balances	Total
For the Year Ended 31 December December 31, 2018			
	JD	**JD**	**JD**
Investments at the beginning of the year	**23,153,420**	**9,167,237**	**32,320,657**
Add: Deposits	**22,296,453**	**-**	**22,296,453**
Less: Withdrawals	**(16,814,916)**	**(1,508,054)**	**(18,322,970)**
Add: Investments' gains	**1,055,560**	**-**	**1,055,560**
Less: Bank's fees as Agent (Wakeel)	**(427,749)**	**-**	**(427,749)**
Less: Client's share	**(627,811)**	**-**	**(627,811)**
Investments at the end of the year	**28,634,957**	**7,659,183**	**36,294,140**
Revenue received in advance	**2,521,825**	**-**	**2,521,825**
	2,521,825	**-**	**2,521,825**

	Local Murabaha	Cash Balances	Total
For the Year Ended 31 December December 31, 2017			
	JD	JD	JD
Investments at the beginning of the year	15,240,490	2,439,389	17,679,879
Add: Deposits	18,252,060	6,727,848	24,979,908
Less: Withdrawals	(10,339,130)	-	(10,339,130)
Add: Investments' gains	647,294	-	647,294
Less: Bank's fees as Agent (Wakeel)	(201,631)	-	(201,631)
Less: Client's share	(445,663)	-	(445,663)
Investments at the end of the year	23,153,420	9,167,237	32,320,657
Revenue received in advance	1,634,864	-	1,634,864
	1,634,864	-	1,634,864

THE ACCOMPANYING NOTES FROM NO. (1) TO NO. (56) CONSTITUTE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS AND SHOULD BE READ WITH THEM

1. General

- Islamic International Arab Bank ("the Bank') was established as a Public Shareholding Limited Company on 30 March 1997 pursuant to the provisions of the company's law No. (22) of 1997. Head office is in Amman.
- The Bank provides all banking, financial, and investment activities that comply with Islamic Shari'a standards through its headquarters and its 45 branches inside the Kingdom. The Bank's transactions are governed by the applicable Bank's Law.
- The Islamic International Arab Bank is wholly owned by the Arab Bank.
- The financial statements were authorized for issue by the Bank's Board of Directors in their meeting No. (1) held on 28 January 2019.
- The Bank's Shari'a Supervisory Board reviewed the financial statements on its meeting No. (1) held on 28 January 2019 and issued their annual report thereon.

2. Significant Accounting Policies

Basis of Financial Statements Preparation

- The Bank's financial statements have been prepared in accordance with the standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), and in conformity with applicable laws and regulations of the Central Bank of Jordan. And in the absence of Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions relating to financial statements items, the International Financial Reporting Standards and related interpretations are applied in conformity with the Shari'a standards, pending the promulgation of Islamic Standards therefor.
- The financial statements are prepared on the historical cost basis except for financial assets at fair value through shareholders' equity and sales receivables through the statement of income, which are recognized at fair value at the date of the financial statements.
- The financial statements have been presented in Jordanian Dinar, which is the functional currency of the Bank.
- The Bank adopted the principle of mixing owner's equity with the accounts of the holders of joint investment as from the beginning of May 2013, maintaining the existing investments financed by the holders of equity (self) until maturity.
- Amounts are deducted from the Investment Risk Fund to cover the impairment in receivables and financings, the impairment in investments in real estate, and any other investments financed from the joint investments accounts.
- In case of revoking an Ijara (lease to own) contract, the real estates resulting from the revoked contracts will be presented within the Bank's investment in real estate portfolio according to the Bank's investment policy.

Changes in accounting policies:

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Bank's financial statements for the year ended 31 December 2017, except for the adoption of the following new standards effective as of 1 January 2018:

IFRS 9 Financial Instruments

In conformity with Central Bank of Jordan regulation No. (13/2018) dated 6 June 2018 regarding the application of IFRS (9) for Islamic Banks, the expected credit loss is to be applied. The remaining aspects are subject to the requirements of Islamic Accounting Standard No. (25) until the issuance of the Islamic Accounting Standard No. (30).

The Bank has adopted IFRS (9) (2014) Financial Instruments on the required effective date 1 January 2018, the date on which the Bank has assessed the requirements of the new expected credit loss impairment model and the revised guidance on the classification and measurement requirements of financial instruments. The Bank had previously implemented the first phase of IFRS (9) (classification and measurement) as issued during 2009, The date of initial implementation of the first phase of IFRS (9) was 1 January 2011, by implementing the Islamic Accounting Standard No.(25) – Investments in Sukuk, Shares and Similar Instruments.

The standard has been applied retrospectively and in line with IFRS (9) (Financial Instruments), comparative amounts have not been restated. The impact of the adoption of standard was recognized on 1 January 2018 by reversing the impact on in retained earnings on the equity statement only for the bank's own funds. The standard eliminates the use of IAS (39) incurred loss impairment model approach, uses the revised hedge accounting framework, and the revised guidance on the classification and measurement requirements.

First: The descriptive disclosures:

The existence of an outstanding customer receivable for 90 days or more, customers with clear indicating factors towards default or bankruptcy, a late payment exceeding 90 days or more of profit and or principals by the issuer of the financial asset, banks in which our bank holds exposures at defaults.

The Relationship Officer take note of any negative indicators that may lead to a deterioration in the quality of the funds by communicating with the customer. The indicators may arise from a negative impact on the following aspects: the customer's management, financial position, economic environment, and collateral; as described in the credit policy.

The Bank monitors the outstanding receivables and collection occurs through the specified departments, each according to its practice. To monitor and reassess customer's credit, the Department of Credit Control issues a statement of accounts receivable that is reviewed on a daily by the business and credit sector officers. The Customer Relationship Development Officer, then prepares a detailed report explaining the reason of the delay of the customers' and submits the report to the concerned parties and committees according to the Bank's procedures.

The Bank owns an internal credit rating system, to raise the quality of the facilities granting process, the customer creditworthiness rating depends on the qualitative operating and quantitative financial criteria presented. In parallel, the bank has implemented Moody's Risk Analysis System (MRA), which aggregates quantitative and qualitative information to obtain assessment that can be used to determine a credit rating for each obligor and complements the Bank's "Internal Rating System", where a mapping is established between the MRA rating and the internal rating system.

Moody's credit rating system is centrally managed by the Risk Management Department at the head office noting that the corporate, investment banking and credit departments are the main users. The rating of customers, whether using the internal rating system or Moody's system, is reviewed on an annual basis.

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

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

Probability of Default (PD):

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

- **Probability of Default for Corporates:** The Probability of Default (PD) of Corporates is derived from Moody's credit rating. The system is currently being reviewed by a third party to verify the accuracy and quality of the system's results.
- **Probability of Default for Banks:** The Probability of Default of Banks is calculated according Moody's credit rating system which is generated by external credit rating agencies.
- **Probability of Default for Retail Customers:** The probability of default for Retail customers is calculated according to the analysis of the historical data.
- **Probability of Default for debt instruments at amortized cost:** The Probability of Default of debt instruments at amortized cost is calculated according to Moody's credit rating system which is generated by external credit rating agencies.

In accordance with IFRS 9, credit exposures / debt instruments included in stage 1, 12 months probability of default is used in the calculation, while for stages 2 and 3, life-time probability of default is used in the calculation.

The probability of default for the above four categories has taken into account the economic outlook. As a result, Islamic International Arab Bank has signed a contract with Moody's to provide the Bank with the necessary and suitable economic indicators.

Loss Given Default (LGD):

Loss Given Default is the amount of expected loss if the customer fails to repay. The Loss Given Default was calculated by considering the amount of collateral in lieu of facilities granted, reduced by specified rates set by Central Bank of Jordan in accordance with instructions No. (47/2009).

Unsecured Customers' Finances: The Bank applied 45% provision as potential loss on default according to Basel II (Fundamental Internal Financing) guidelines.
Secured Customers' Finances: The Bank calculated the LGD on secured financing by considering the amount of collateral in lieu of facilities granted, reduced by specified rates set by Central Bank of Jordan in accordance with instructions No. (47/2009).

Exposure at Default (EAD):

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

Time value of money

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

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

- **Stage 1:** Includes customers' finances either at origination (initial recognition) or customer finances that have not been subject to a significant increase in credit risk, thus are subject to a lower provision based on the Probability of Default within the next 12 months.
- **Stage 2:** Includes customers' finances which has a significant increase in credit risk since initial recognition. To determine whether a significant increase in credit risk has occurred the Bank considers the following indicators when considering the provision for impairment for these finances based on the probability of default over the expected life of the loan:

Key indicators used to classify customers' finances in Stage 2:

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

As for Sukuk (excluding government sukuk) and finances granted to banks, ratings from credit rating agencies have been adopted so that any customer rated below BBB is considered to be in this stage.

- **Stage 3:** includes customers' finances of customers that have been classified as non-performing according to the instructions of the Central Bank of Jordan (CBJ) No. (47/2009). The provisions resulting from the implementation of these instructions have been used for customers in this stage.

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

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

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

According to the corporate governance principles, which the bank should adhere to, IFRS 9 standard requires an effective governance to ensure the optimum implementation, control, and segregation of duties.

Board of Directors & the executive management responsibilities are as follows:

A. Board of directors:

1. Adopting an appropriate governance structure and procedures to ensure proper implementation of the standard.
2. Approving the committees, departments, and bank unit's roles & responsibilities.
3. Adopting the related policies and procedures.
4. Supervising the executive management to ensure the optimum implementation of the standard.
5. Ensuring that high quality and reliable systems in terms of inputs, operation processes, and outputs are in place.
6. Approving the business model(s) in which the objectives and financial instruments acquisition bases are determined.
7. Ensuring that the Bank's control units, especially risk management and internal audit divisions, are performing all the necessary work to verify the validity and integrity of the methodologies and systems that are used to implement IFRS 9 framework, and that the needed support is provided to these control units.
8. Deciding whether to exclude or amend any of the systems outputs.

B. Executive Management:

1. Developing and protecting the needed systems that will provide the information in secure and accurate manner.
2. Coordinating between the relevant business units in the bank to ensure proper implementation.
3. Preparing policies and procedures needed for the proper implementation of the standard.
4. Preparing business models through which the objectives and financial instruments acquisition bases are defined.
5. Validating and verifying the used methodologies and systems.
6. Providing a qualified and trained staff to effectively implement the standard.

Determinants of significant change in credit risk:

Central Bank of Jordan has issued the instructions of IFRS (9) implementation, and they have been adopted to establish the determinants of the significant change in credit risks, including but not limited to:

1) Decreasing the (internal / external / or expected) credit rating for the borrower, or for the (credit exposure / or the debt instrument) according to the internal rating system applied by the Bank.

2) Substantial negative changes in the borrower performance and behavior such as payments delay or unwillingness to respond to the bank.

3) The need to reorganize the obligations of the debtor (structuring obligations) due to poor repayment capacity, reduced cash flows , or the need to modify contractual terms with the debtor or to cancel (waiver) some certain existing contractual terms due to actual / predictable excesses of current terms.

4) Information on the existence of receivables on the debtor either for the bank or for any other creditor.

5) Actual or expected adverse changes in the borrower's operating activity such as (actual or expected decrease in income / margin, increase in operating risk, working capital deficit, asset quality decline, increase in leverage, weakness and decline in liquidity, Of customer and other activities) that may materially affect the borrower's ability to repay.

6) Change in the Bank's credit management methodology for credit exposure / debt instrument due to the emergence of indicators and negative changes in the credit risk of exposure / instrument so that the credit risk management of the exposure / instrument is expected to become more focused and actively monitored and maintained or the intervention of the Bank with The debtor party to manage the exposure / tool.

7) Significant increase in credit risk (credit exposures / other debt instruments) for the same borrower from other lenders.

Economic indicators:
One of the fundamental changes that IFRS 9 brings to the table is the way in which expected loss is measured through the incorporation of forward looking information. It is expected that forward looking information would be incorporated within both SICR and the measurement of ECL.

As a general rule, the time horizon for forecasts should be aligned with the average maturity of IIAB's financing portfolio. In this context, the horizon for forecast is considered to be 5 years based

Various macroeconomic factors such as GDP, Government Spending, Unemployment Rate, Oil Prices, and Exports etc. were analysed to identify the parameter with best correlation with default rate (NPLs). As a result of this analysis, according to the following model:

NPL = ƒ (GDP, Government spending, unemployment rates, oil price, exports ... etc.)

These macroeconomic indicators will be used in the ECL calculation in the following:

- Probability of default will be adjusted to reflect the forward-looking trend of the above economic indicators.
- These indicators will be used as an input in determining significant increase in credit risks
- These indicators will also be used to adjust probability weights for different stress testing scenarios in the future if needed.

Second: Quantitative Disclosures:

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

Item (JD)	The amount of provisions as of 31 December 2017	Differences resulting from recalculation	Balance in accordance with IFRS 9
Direct credit financing – self financed	3,827,408	59,493	3,886,901
Direct credit financing - joint	10,808,780	905,189	11,713,969
Debt instruments in a financial asset portfolio at amortized cost / joint	-	232,880	232,880
Guarantees	-	161,934	161,934
Unutilized balance - self financed	-	376,770	376,770
Unutilized balance - joint	-	382,307	382,307
Letter of credit - self financed	-	102,590	102,590

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

Item (JD)	Stage 1	Stage 2	Stage 3	Total
Direct credit financing – self financed	-	-	(125,000)	(125,000)
Direct credit financing - joint	62,518	453,931	7,509,742	8,026,191
Debt instruments within a portfolio of financial assets at amortized cost	13,104	(63,914)	-	(50,810)
Unutilized balance – self financed	(425,762)	73,538	352,224	-
Unutilized balance - joint	(154,976)	61,074	46,979	(46,923)

3. The impact of the implementation of International Financial Reporting Standards no. (9) on opening balances for 2018 is as follows:

Item	Amount as of 31 December 2017	Reclassified amount	Expected credit loss- self financed	Expected credit loss- Joint	Balance as of 1 January 2018 after the implementation of IFRS 9
Cash and balances with central banks	588,819,337	-	-	-	**588,819,337**
Balances and deposits with banks and financial institutions	21,546,641	-	-	-	**21,546,641**
Financial assets at fair value through other comprehensive income	5,498,759	-	-	-	**5,498,759**
Direct credit facilities	1,349,799,545	-	(59,493)	(905,189)	**1,348,834,863**
Debt instruments within a portfolio of financial assets at amortized cost	38,096,056	-	-	(232,880)	**37,863,176**
Financial guarantees	56,512,028	-	(161,934)	-	**56,350,094**
Unutilized balance	218,005,824	-	(376,770)	(382,307)	**217,246,747**
Letters of credit and Acceptances	31,663,848	-	(102,590)	-	**31,561,258**

Sectors' Information

- The business sector represents a group of assets and operations, which jointly provides products or services subject to risks and rewards different from those relating to other business sectors measured in accordance with the reports used by the Chief Operating Officer and key decision maker at the Bank.
- The geographical sector relates to providing products or services in a specific economic environment subject to risks and rewards different from those relating to segments operating in other economic environments.

Basis of distributing joint investments profit between joint investment accounts holders, shareholder's equity and investment risk fund

	Rate	
Share of Joint Investment Accounts Holders	40%	Which is 2,876% and 2,806% for the 1st and 2nd halves of 2018, respectively on the Jordanian Dinar (compared with 2,948% and 2,879% for the 1st and 2nd halves of 2017, respectively) and 0,82% and 1% on the US Dollar for the 1st and 2nd halves of 2018, respectively (compared with 0,53% and 0,66% for 2017, respectively)
Share of Shareholders› Equity	50%	
Share of the Investment Risk Fund	10%	

- The bank donate a certain amount from its share in income from joint investment as mudarib or fund owner (Rab- Almal) to raise the percentage of profit distributed to some/ all unrestricted investment accounts holders.
- The Bank grants priority in investment to the holders of the joint investment accounts. These accounts are charged with the advertisement and publicity expenses in respect of the products that the Bank releases. Such expenses are life insurance premiums in respect of those financed by Ijara muntahia bittamaleek contracts and the expenses related to investment in real estate, which are invested from the deposits accounts that participate in profits.
- The rate of distributing profits to the holders of the restricted investment deposits in US Dollars ranged from 1,55% to 2,4% for the year 2018 (compared with 0,76% and 1,37% for the year 2017).

Revenue, Earnings and Losses Not Compliant with Islamic Shari'a

The Bank's revenue, earnings, and losses not in compliance with Islamic Shari'a (if any) are recorded in a special account in the statement of financial position within other credit balances. They are not recorded in the statement of income and are disbursed on charity as determined by the Shari'a Supervisory Board.

Zakah

The responsibility for Zakah is assumed by the holders of deposits and shareholders separately.

Deferred Sales Receivables

Murabaha Contracts

These are sale of a commodity at its first purchase price paid by the seller (the Bank) with known and an agreed upon mark-up. The sale may be on an ordinary Murabaha basis called (Simple Murabaha), in which the Bank practices trade. According to simple Murabaha, the Bank buys the commodities without reliance on a prior promise by a customer to buy them, and then the Bank offers such commodities for sale by Murabaha at an agreed upon price and profit. Otherwise, the sale could be Murabaha coupled with a promise from a customer, i.e. the Bank buys the commodity only after the customer determines his desires with the existence of a prior promise to buy, which is then called (Murabaha to purchase order).

- The Bank applies the principle of commitment of promise in the sale contracts of Murabaha to purchase order, but in the event of abstention, the Bank sells the commodity and refers to the commander of purchase to compensate for the actual losses.

- Murabaha receivables are recorded upon their occurrence at their nominal value. They are measured at the end of the financial year at the net cash value expected to be realized.

- The profits are recorded upon concluding the cash Murabaha contracts or to a period not exceeding the financial year.

- Income of deferred sales for a period exceeding the financial year is recorded by distributing it over the future financial years for the term, whereby a share of the profits is allocated for each financial year regardless of whether or not it is a cash delivery.

Al Ju'alah

It is a contract in which one of the parties (the Ja'il) offers specified compensation (the Ju'alah / commission) to anyone who will achieve a determined result (the 'Amil) in a known or unknown period.

Al Istisna'

It is a sale contract between Al Mustasnee (buyer) and Al Sanee' (seller), whereby the latter, upon the request of the former, manufactures a described commodity (Masnou') or obtains it on the delivery date. This is provided that the manufacturing material and/or cost of work is provided by the manufacturer against the price and payment method (immediate, deferred, or installed) agreed on by both.

- Cost of Istisna' includes direct and indirect costs related to Istisna' contracts. Such costs do not include general and administrative, marketing expenses and costs of research and development.

- The costs of Istisna' process and the costs prior to signing the contract are recorded in the financial year under the item Istisna' under process at the amounts disbursed by the Bank. The invoices sent to Al Mustasnee (the buyer) by the Bank are recorded under Istisna' receivables account and deducted from the account of Istisna' under process in the statement of financial position.

- Istisna' revenue is recorded upon concluding the contract either through completion of execution or expiry of the contract, whichever is earlier.

- If Al Mustasnee (the buyer) does not fully pay the agreed upon price and reach an agreement to pay in installments during the contract execution or after its completion, deferred profits are recorded and deducted from the balance of Istisna' receivables account in the Bank's statement of financial position. This is carried out whether the method followed in recording Istisna' revenues is the percentage of completion method or the completed contract method. Moreover, the deferred profits distribution is made over the future financial years whereby a share of the profits is allocated for each financial year, whether the settlement is made by cash or not.

- If the Bank retains the manufactured item for any reason, such assets are measured at the expected cash value to be realized or at cost, whichever is lower. The difference (if any) is recorded as a loss in the statement of income in the financial year in which it is realized.

Assets Available for Deferred Payment Sale

- These are assets which the Bank acquires for the purpose of future sale (by installments). The sale of such assets is called Musawamah sale by installments in order to differentiate it from Murabaha to purchase order.

- The assets available for deferred payment sale are recorded at cost at the time of contracting and measured on a cost basis (purchase value and any direct expenses which are acquisition-related).

- The assets available for deferred payment sale are measured at the end of the financial period at fair value. The amount of change resulting from the re-valuation process (if any) is measured on the basis of book value compared with fair value, and the unrealized profit (loss) is recorded in the investments fair value reserve.

- Profits from the deferred payment sale operations are recorded according to the maturity principle distributed over the financed periods for the contract term. The profits for deferred payment sale are recorded in the revenues of future sales account.

- Receivables of deferred payment sale are recorded upon contracting at par value (the contracted for).

Financing Investments

Mudaraba Financing

- It is a partnership in profit regarding money and work, and it is instituted between the holders of investment accounts (Rab AlMal) and the Bank (Mudarib). The Bank and the division of gain as agreed, whereby losses are charged to Rab Al-Mal except in the events of infringement of the Bank (Al Mudarib),its default, or violation of the conditions. In such cases, the Bank bears the consequences arising therefrom. The partnership is also instituted between the Bank in its capacity as the capital holder in its own name or on behalf of the holders of investment accounts and craftsmen and other business owners such as farmers and industrialists. Such Mudaraba is different from the traditional speculation that involves adventure and taking risks in sale and purchase activities.
- Mudaraba finance is recorded upon delivering the capital to Al Mudarib or putting it under his control. The provided capital is measured by the paid amount or at fair value if in-kind. If a difference results from the valuation of the in-kind item between the fair value and the book value, it is recognized as a profit (loss) in the statement of income. At the end of the financial year, the amount the Bank redeems from the Mudaraba capital is deducted.
- The Bank's share of the gains (losses) arising and expiring during a financial year is recorded after the settlement of the Mudaraba process. In events where Mudaraba process continues for more than a financial year, the Bank's share of the profits is recorded upon realization of the profits by accounting for them, in whole or any part thereof, in the financial year in which the profits occur to the extent of distributed profits. Moreover, losses for that year are recorded to the extent of losses by which the Mudaraba capital is reduced.
- If losses are incurred due to Mudareb infringement or default, such losses are recorded as receivables debited to Mudareb's account.

Musharaka Financing

- It is the provision of funds by the Bank and customer equally or differently in order to set up a new project or participate in an existing one, whereby each of them would own a share in the capital either on a fixed or diminishing basis and would been titled to its share of the gains. Losses are divided proportionate to the partner's share in capital, whereby it would be inappropriate to stipulate otherwise.
- The Bank's share in Musharaka capital is recorded upon delivery to the managing partner or when it is deposited in Musharaka account, as it is measured at the cash paid value or at fair value if in-kind. If a difference results from the evaluation of the in-kind item between fair value and book value, it is recognized as a profit (loss) in the statement of income.
- The capital in the diminishing Musharaka is measured at the end of the financial year at the historical value less the historical value of the share sold at the agreed upon fair value, and the difference between both values is recorded as a profit or loss in the statement of income.
- The Bank's share of the gains or (losses) of Musharaka financing which arises or expires during the financial year is recorded after settlement. In the event that Musharaka continues for more than a financial year, the Bank's share of the profits is recorded upon their realization by accounting for them, in whole or any part thereof, between the Bank and the partner in the financial year in which the profits occur to the extent of the distributed profits. Moreover, losses for a financial year are recorded in that year to the extent of the losses by which the Bank's share in the Musharaka capital is reduced.
- An Additional provision of expected credit losses for Deferred Sale Receivable and Other Receivables in case there is an indication of a significant increase in credit risk.
- At the end of the financial year, the financing assets are recorded at cost or at cash value expected to be realized, whichever is lower, and the difference is recorded as a financings impairment provision.
- The income from future sales and non-performing financing granted to customers is held in suspense in accordance with the Central Bank instructions.

- The deferred sales receivables and funding financed from the joint investment accounts are written off in case efforts relating to their collection are not successful against the Investment Risks Fund (except for what has been granted / financed and then written off of the deferred sales receivables and finances in the same year whereby they are recorded in the statement of income within investment income). Any amounts collected from the previously written-off receivables and finances are added to the Investment Risks Fund, except for what has been recorded in the statement of income within investment income. Moreover, deferred sales receivables and funding financed from the Bank's own funds for which an impairment provision is taken are written off, if the related collection procedures are not successful, and deducted from the impairment provision. Any surplus in the total impairment provision is transferred to the statement of income, and any amounts of the previously written-off receivables and finances collected are added to income.

Financial Assets at Amortized Cost

- These represent financial assets the Bank's Management aims to hold according to its business model to collect their contractual cash flows. Moreover, they represent fixed or determinable payments for their capital and gains.
- These assets are recorded at cost upon purchase plus acquisition costs, and they are re-valued at the end of the current period based on the effective profit method. Any profits or losses resulting from the amortization process are recognized in the statement of income, and any impairment in value is recorded in the statement of income.
- The amount of impairment in the value of these assets represents the difference between the book value and present value of the expected cash flows discounted at the original effective profit rate whereby any provisions resulting from impairment in the value of these assets are deducted. Moreover, any financial assets may not be reclassified to/ from this item.
- If any of these assets financed from the Bank's own funds is sold before maturity, the result of the sale is recorded in a separate item within the statement of comprehensive income and disclosed accordingly.

Financial Assets at Fair value through Shareholders' Equity - Self Financed

- These assets represent investments in equity instruments financed from the Bank's funds for retaining them for the long term.
- These assets are recorded upon purchase at fair value plus acquisition costs. Subsequently, these assets are re-valued at fair value. The change in fair value is recognized under the fair value reserve within shareholders' equity.
- If such assets or any part thereof is sold, gains or losses resulting therefore are recorded in retained earnings.
- Gains generated from such financial assets are recorded on the date of the declaration of their distribution in the statement of income.
- Gains or losses resulting from foreign currency exchange differences relating to these assets are recorded in the fair value reserve.

Financial Assets at Fair value through joint investment accounts holder's equity

- These assets represent investments in equity instruments financed from joint investment account for retaining them for the long term.
- These assets are recorded upon purchase at fair value plus acquisition costs. Subsequently, these assets are re-valued at fair value. The change in fair value is recognized under the fair value reserve within joint investment account holder's equity.
- If such assets or any part thereof is sold, gains or losses resulting therefore are recorded in statement of income.
- The impairment loss previously recorded in the statement of income may be recovered if it is objectively found that the increase in fair value occurred in a period subsequent to recording the impairment losses through the fair value reserve recognized within joint investment accounts holders' equity
- Gains generated from such financial assets are recorded on the date of the declaration of their distribution in the statement of income.

- Gains or losses resulting from foreign currency exchange differences relating to these assets are recorded in the fair value reserve within joint investment account holders' equity.
- Financial assets whose fair value cannot be reliably determined are recognized at cost, and the impairment test is carried out at the end of every financial period. Moreover, the impairment in their value is recorded in the statement of income and may not be recovered during subsequent periods.

Deferred Sales Receivables through the Statement of Income / Self - Financed

- These are sale receivables (International Murabaha) due to the Bank's buying of commodities with the purpose of selling them in the near future.
- These receivables are recorded at fair value upon sale and subsequently re-valued at fair value through the market indicators of these receivables. Moreover, the change in fair value is recognized in the statement of income.
- The Bank may dispose of these receivables by a debt assignment to another person at their net nominal or book value, and the difference is recorded in the statement of income.

Ijara (Lease to Own)

- It is a benefit contract for a compensation which expires by the lessee's acquisition of the leased assets.
- The assets acquired for Ijara are measured, at the date of their acquisition, at historical cost, including direct costs to render them usable. The leased assets are depreciated according to the straight-line method over the life of Ijara contract.
- When the recoverable amount from any of the acquired Ijara assets is lower than their net book value, their value is reduced to the recoverable amount, and the impairment amount is recorded in the statement of income.
- The income from Ijara is distributed over the financial years covered by the Ijara contract.

Investment in Real Estate

It is the acquisition of real estate to obtain periodical income or in anticipation of the increase of value thereof or both. Initially, the investment in real estate is recognized at cost plus direct cost, and it is subsequently measured depending on its application whether for utilization (cost or fair value model) or for sale. When the Bank approves either model, it has to apply it to all investments in real estate.

a. Investment in Real Estate Held–for-Use

The cost or fair value model is applied as follows:

- Cost Model:

Investments in real estate are recorded at cost less accumulated depreciation and impairment (if any). In the event that the Bank decides to apply this model, it has to apply it to all investments in real estate.

- Fair Value Model:

Investments are measured at fair value, and the increase in value is recorded in the fair value reserve. Moreover, any decrease in fair value is deducted from previously recorded increase. If there is no increase in the previously recorded value, the difference is recognized in the statement of income. Furthermore, if the Bank decides to apply this model, it has to apply it to all investments in real estate.

b. Investments in Real Estate Held-for-Sale

- Investments in real estate are recorded at the book value or fair value less costs of sale, whichever is lower. Moreover, these investments are not depreciated. The difference is recorded in the statement of income.
- Real estates may be transferred from the investment portfolio to the property and equipment portfolio or vice versa if the change in the purpose of their utilization can be established. The transfer is made at cost less deprecation if the Bank uses the cost model in measuring the portfolio's real estates. If the Bank uses the fair value model, real estates are transferred at their fair value at the date of transfer.
- If real estate is transferred from the Bank's property and equipment to the investment in real estate portfolio, the transfer is made at the cost of the real estate less depreciation and impairment provision (if any) as at the date of cessation of use.

Provisions

Provisions are recognized when the Bank has obligations at the date of the statement of financial position arising from past events and settlement of these obligations is probable and can be measured reliably.

Investment Risk Fund

- The Bank deducts at least 10% of the gross profits of the joint investment realized on various ongoing operations through the year in accordance with the Banks Law. The rate is increased based on the instructions of the Central Bank of Jordan. The amended rate, after being increased, becomes valid in the financial year subsequent to the year in which the amendment is decided.
- The balance of the Investment Risks Fund is transferred to the Zakat Fund after covering all expenses and losses for which the Fund was established to cover or amortize. Thereof, it can be inferred that investors in the Bank have no right to the deducted amounts, at the determined rate, which accrue in the Investment Risks Fund. Rather, these amounts are allocated to cover the losses which the joint investment activities may incur.
- If losses occur in some joint investment activities that begin and end in a certain year, such losses are covered from the gains realized by the other joint investment activities which begin and end in the same year. If the losses are greater than the gains in the same year, loss is covered from the Investment Risks Fund.
- Yet, if the joint investment activities began and continued in past years, and it was ultimately found out during a certain year that such investment activities resulted in losses, the losses are covered from the Investment Risks Fund.

Fair Value of Financial Assets

- The closing prices (purchase/sale) at the date of the financial statements in an active market represent the fair value of financial instruments that have market prices. If there are no actual prices, there is no active trading for certain financial instruments, or there is no active market, then their fair value is estimated by comparison with the current market value of a highly similar financial instrument.
- The objective of the measurement methods is to obtain a fair value that reflects the market and takes into consideration the market factors and any expected risks or benefits upon estimating the value of financial assets. Moreover, financial assets, the fair value of which cannot be measured reliably, are stated at cost after deducting any impairment in their value.

Impairment of Financial Assets

The Bank reviews the values recorded in the financial assets registers at the date of the statement of financial position to determine whether there are indicators of impairment in their value individually or collectively. If such indicators exist, the recoverable value is estimated in order to determine the impairment loss.

Property and Equipment

Property and equipment are stated at cost after deducting accumulated depreciation and any impairment in their value. Property and equipment (except for lands) are depreciated when ready for use according to the straight-line method over their expected useful lives at the following annual rates:

	Percentage
Buildings	2%
Furniture, fixture and equipment	2%-15%
Vehicles	20%
Computers	25%
Improvements and decorations	15%

The useful lives of property and equipment are reviewed at the end of each financial year. In case the expected useful life is different from what was determined before, the change in estimate is recorded in the following years, being a change in estimates.

When the recoverable amount of any property and equipment is less than their net carrying value, their value is reduced to the recoverable amount, and the impairment loss is taken to the statement of income.

Intangible Assets

- Intangible assets acquired through a method other than merger are recorded at cost.
- Intangible assets are classified based on the estimation of their useful life for a definite or an indefinite period. Intangible assets with definite useful economic lives are amortized over their useful lives, and amortization is recorded in the statement of income. Furthermore, the impairment in the value of intangible assets with indefinite useful lives are reviewed at the date of the financial statements, and any impairment in their value is recorded in the statement of income.
- Intangible assets resulting from the Bank's operations are not capitalized but included in the statement of income in the same year.
- Indications of impairment of intangible assets are reviewed at the date of the financial statements, their useful lives are reassessed, and any adjustments are made in the subsequent years.
- Software and systems are stated in the statement of financial position at cost after deducting accumulated amortization. They are amortized when ready for use based on the straight- line method over their expected useful lives at an annual rate of 25%.

End- of- Service Indemnity Provision

Annual indemnities paid to the employees who leave employment are recorded in the end-of- service indemnity provision when paid. Indemnity paid in excess of the provision is taken to the statement of income upon payment, and a provision for the Bank's obligations in respect of staff end- of -service indemnity is taken in the statement of income in accordance with the Bank's personnel by laws and the provisions of the Labor Law.

Income Tax

- Tax expenses represent accrued taxes and deferred taxes.
- Tax expenses are accounted for on the basis of taxable income which differs from income declared in the financial statements because the latter includes non-taxable revenue or taxable expenses disallowed in the current year but deductible in subsequent years, accumulated losses acceptable by the tax law, 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 of the Hashemite Kingdom of Jordan.
- Deferred taxes are taxes expected to be paid or recovered as a result of temporary timing differences between the value of the assets and liabilities in the financial statements and the value of the taxable amount. Deferred taxes are calculated, using the financial position liability method. Moreover, these deferred taxes are calculated according to the tax rates expected to be applied upon settling the tax liability or the realization of the deferred tax assets.
- Deferred tax assets are reviewed at the date of the financial statements and reduced when it is no longer probable to benefit from these tax assets partially or totally.

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 for managing these accounts are recognized in the statement of income.

Accounts Managed by Wakalah

These represent accounts managed by the Bank as Wakalah according to a program with the Central Bank of Jordan. The funds invested by Wakalah are recognized off-the statement of financial position whereas the Bank's share from the Wakalah (returns) is recorded in the statement of income.

Realization of Income and Recognition of Expenses

- Realization of income and recognition of expenses are recognized on the accrual basis, except for revenue from deferred sales and non-performing finances that are not recognized as revenue but recorded in the suspense income accounts.
- Commissions are recorded upon rendering the related services. Dividend income is recognized when earned (when approved by the General Assembly of Shareholders).

Recognition Date of Financial Assets

Purchases and sales of financial assets are recognized on the trading date (the date on which the Bank commits itself to purchase or sell financial assets).

Foreign Currencies

- Transactions in foreign currencies during the year are recorded at the exchange rates prevailing at the date of the transactions.
- Financial assets and financial liabilities are translated based on the average exchange rates declared by the Central Bank of Jordan on the date of the financial position.
- 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 and losses resulting from foreign currency translation are recorded in the statement of income.

Cash and Cash Equivalents

This item represents cash and cash balances that mature within three months and comprise cash and balances at the Central Bank, and balances at banks and financial institutions less banks and financial institutions' accounts that mature within three months and restricted balances.

3. Use of estimates

- Preparation of the financial statements and application of accounting policies require the Bank's Management to perform estimates and assumptions that affect the amounts of financial assets and financial liabilities, fair value reserve and disclosure of contingent liabilities. These estimates and assumptions also affect the revenue, expenses and provisions as well as the changes in fair value reported in the statement of comprehensive income. In particular, the Bank's Management is required to make significant judgements for estimating the amounts and timing of future cash flows. Moreover, the said assessments are necessarily based on several assumptions and factors with varying degrees of consideration and uncertainty. Furthermore, the actual results may differ from the estimates due to the changes resulting from the conditions of such estimates in the future. In the opinion of management, the estimates used in the financial statements are reasonable.
- A provision for lawsuits raised against the Bank is taken based on a legal study prepared by the Bank's legal advisor. Moreover, the study highlights potential risks that the Bank may encounter in the future. Such legal assessments are reviewed periodically.
- A provision for impairment in the facilities self-financed by the Bank is taken based on assumptions approved by the Bank's Management in respect of estimating the provision. Moreover, the results of these bases and assumptions are

compared with the provision to be taken by virtue of the instructions of the Central Bank of Jordan. The more stringent results are approved in compliance with the Islamic Accounting and Auditing Organization of Financial Institutions.

- The financial year is charged with its share of the income tax expense in accordance with the accounting regulations, laws and standards; and the necessary tax provision is calculated.

- Management carries out a periodical review of financial assets recorded at cost to estimate any impairment in their value. This impairment (if any) is recorded in the statement of income for the year.

- Fair value measurement: The standard requires determination and disclosure of the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRSs. The difference between level (2) and level (3) of the fair value measurements, i.e., assessing whether the inputs are observable and whether the unobservable inputs are significant. This may require judgement and careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

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

- The factors that affect the estimated useful lives of tangible and intangible assets include Management's estimates for the period in which the Bank is expected to use these assets as well as technological development and obsolescence.

- The difference between the useful lives of tangible and intangible assets and Management's estimates significantly affect the depreciation expense and the gain/ loss arising from their disposal.

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

4. Cash and Balances with Central Bank

This item consists of the following:

	31 December	
	2018	2017
	JD	JD
Cash in vaults	**32,914,765**	33,226,507
Balances with Central Bank		
Current and call accounts	**429,220,357**	445,552,304
Statutory Cash Reserve	**111,144,003**	110,040,526
Total	**573,279,125**	588,819,337

Except for the mandatory cash reserve, there are no restricted cash balances as at 31 December 2018 and 2017.

5. Balances with Banks and Financial Institutions

This item consists of the following:

	Local Banks and Financial Institutions		Foreign Banks and Financial Institutions		Total	
	31 December		31 December		31 December	
	2018	2017	**2018**	2017	**2018**	2017
	JD	JD	**JD**	JD	**JD**	JD
Current and call accounts	**17,714,126**	16,502,514	**2,724,555**	5,044,127	**20,438,681**	21,546,641
	17,714,126	16,502,514	**2,724,555**	5,044,127	**20,438,681**	21,546,641

There are no restricted cash balances as at 31 December 2018 and 2017.

6. Deferred Sales Receivables and other Receivables - Net

This item consists of the following:

	Joint		Self-financed		Total	
	31 December		31 December		31 December	
	2018	2017	**2018**	2017	**2018**	2017
	JD	JD	**JD**	JD	**JD**	JD
Retail						
Murabaha to purchase order	**255,076,989**	236,475,444	**-**	-	**255,076,989**	236,475,444
Ju'alah guarantees	**4,682,498**	3,261,533	**-**	-	**4,682,498**	3,261,533
Receivables – Ijara muntahia bittamaleek	**1,357,651**	1,006,396	**-**	-	**1,357,651**	1,006,396
Real estate finances	**166,586,092**	142,998,279	**-**	-	**166,586,092**	142,998,279
Corporates						
International Murabaha	**167,539,110**	148,314,301	**457,595**	460,117	**167,996,705**	148,774,418
Murabaha to purchase order	**211,449,354**	189,178,642	**3,143,302**	3,356,003	**214,592,656**	192,534,645
Receivables – Ijara muntahia bittamaleek	**1,446,187**	1,291,047	**-**	-	**1,446,187**	1,291,047
Small and Medium Enterprises						
Murabaha to purchase order	**57,095,434**	50,938,587	**-**	-	**57,095,434**	50,938,587
Ju›alah guarantees	**16,281**	9,785	**-**	-	**16,281**	9,785
Receivables – Ijara muntahia bittamaleek	**627,890**	540,065	**3,972**	8,585	**631,862**	548,650
Total	**865,877,486**	774,014,079	**3,604,869**	3,824,705	**869,482,355**	777,838,784
Less: Deferred revenue	**65,975,328**	60,789,048	**426**	1,169	**65,975,754**	60,790,217
Expected credit loss provision	**19,740,160**	10,808,780	**3,298,434**	3,492,223	**23,038,594**	14,301,003
Revenues in suspense	**1,331,531**	911,067	**16,862**	16,364	**1,348,393**	927,431
Net Deferred Sales Receivables and Other Receivables	**778,830,467**	701,505,184	**289,147**	314,949	**779,119,614**	701,820,133

Expected credit loss Provision for Deferred Sales Receivables, and Qard Hasan - Self financed

The following is the movement on the provision:

2018	Retail	Corporates	Small and Medium Enterprises	Total
	JD	JD	JD	JD
Balance at the beginning of the year (adjusted)	**247,942**	**3,500,050**	**138,909**	**3,886,901**
Deducted from the profits	-	**10,000**	-	**10,000**
Recoveries	-	**(135,000)**	-	**(135,000)**
Settlements during the year	**97,671**	**(161,261)**	**63,590**	-
Balance at the end of the year	**345,613**	**3,213,789**	**202,499**	**3,761,901**
Provision for ECL of non- performing sales receivables stage3 on individual client basis	**331,604**	**3,206,831**	**199,585**	**3,738,020**
Provision for ECL of under watch-list sales receivables- stage2 on a single client basis	**1,867**	**5,719**	**227**	**7,813**
Provision for ECL on performing sales receivable- stage1 on individual client basis	**12,142**	**1,239**	**2,687**	**16,068**
Balance at the end of the year	**345,613**	**3,213,789**	**202,499**	**3,761,901**

2017	Retail	Corporates	Small and Medium Enterprises	Total
	JD	JD	JD	JD
Balance at the beginning of the year	139,886	3,506,664	89,858	3,736,408
Deducted from the profits	-	91,000	-	91,000
Settlements during the year	93,816	(142,854)	49,038	-
Balance at the end of the year	233,702	3,454,810	138,896	3,827,408
Provision for impairment of non- performing sales receivables on individual client basis	231,656	3,448,773	138,875	3,819,304
Provision for impairment of under watch-list sales receivables on individual client basis	2,046	6,037	21	8,104
Balance at the end of the year	233,702	3,454,810	138,896	3,827,408

- The total provisions prepared for debts calculated on individual customer basis have been disclosed.
- Provisions no longer required due to settlements or re-payment of debts and transferred against receivables and other finances amounted to JD 1,421,680 as at 31 December 2018 (JD 1,922,659 as at 31 December 2017).

The following is the movement on deferred sales receivables and Qard Al-Hasan balances as of 31 December 2018:

	Joint				Self financed				Total			
Item	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Total balance at the beginning of the year (adjusted)	644,417,232	50,953,919	17,853,880	713,225,031	27,665,497	402,104	3,786,538	31,854,139	672,082,729	51,356,023	21,640,418	745,079,170
New facilities granted during the year	370,642,908	70.236.966	4.674.175	445,554,049	18.064.012	701.498	-	18.765.510	388,706,920	70.938.464	4.674.175	464,319,559
Settled facilities	(262,857,703)	(86.928.749)	(9.090.470)	(358,876,922)	(4,997,586)	(797.057)	(247,017)	(6,041,660)	(267,855,289)	(87.725.806)	(9.337.487)	(364,918,582)
Transferred to stage 1	6,121,429	(6,121,429)	-	-	2,731	(2,731)	-	-	6,124,160	(6,124,160)	-	-
Transferred to stage 2	(44,095,884)	44,095,884	-	-	(1,037,486)	1,037,486	-	-	(45,133,370)	45,133,370	-	-
Transferred to stage 3	(10,791,787)	(2,881,124)	13,672,911	-	(98,369)	(112,162)	210,531	-	(10,890,156)	(2,993,286)	13,883,442	-
Total balance at the end of year	703,436,195	69,355,467	27,110,496	799,902,158	39,598,799	1,229,138	3,750,052	44,577,989	743,034,994	70,584,605	30,860,548	844,480,147

The following is the movement on expected credit loss provision for Deferred sales receivables and Qard Al-Hasan as of 31 December 2018:

	Joint				Self financed				Total			
Item	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Balance at beginning of the year (adjusted)	966,488	429,718	10,317,763	11,713,969	35.411	32.186	3,819,304	3.886.901	1.001.899	461.904	14,137,067	15.600.870
Deducted from profits	-	-	-	-	-	-	10,000	10,000	-	-	10,000	10,000
Recoveries	-	-	-	-	-	-	(135,000)	(135,000)	-	-	(135,000)	(135,000)
Transferred to stage 1	71,905	(71,905)	-	-	119	(119)	-	-	72,024	(72,024)	-	-
Transferred to stage 2	(182,152)	182,152	-	-	(3,943)	3,943	-	-	(186,095)	186,095	-	-
Transferred to stage 3	(69,012)	(33,784)	102,796	-	(5,514)	(21,528)	27,042	-	(74,526)	(55,312)	129,838	-
Adjustments during the year	241,777	377,468	7,406,946	8,026,191	(10.005)	(6.669)	16.674	-	231.772	370.799	7,423,620	8.026.191
Total balance at end the year	1,029,006	883,649	17,827,505	19,740,160	16,068	7,813	3,738,020	3,761,901	1,045,074	891,462	21,565,525	23,502,061

The following is the movement on corporates direct facilities balances:

2018				
	Corporates			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (adjusted)	**295,894,970**	**28,041,790**	**14,086,989**	**338,023,749**
New facilities granted during the year	**169,134,301**	**51,642,648**	**2,242,226**	**223,019,175**
Settled facilities	**(123,190,542)**	**(57,636,836)**	**(2,308,215)**	**(183,135,593)**
Transferred to stage 1	**313,405**	**(313,405)**	**-**	**-**
Transferred to stage 2	**(19,064,375)**	**19,064,375**	**-**	**-**
Transferred to stage 3	**(8,927,187)**	**(112,042)**	**9,039,229**	**-**
Balance at the end of the year	**314,160,572**	**40,686,530**	**23,060,229**	**377,907,331**

The following is the movement on the expected credit loss for corporates' direct facilities as of 31 December 2018:

2018				
	corporates			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (adjusted)	**394,882**	**224,770**	**9,800,917**	**10,420,569**
Deducted from the profits	**-**	**-**	**10,000**	**10,000**
Recoveries	**-**	**-**	**(135,000)**	**(135,000)**
Transferred to stage 1	**2,010**	**(2,010)**	**-**	**-**
Transferred to stage 2	**(51,393)**	**51,393**	**-**	**-**
Transferred to stage 3	**(64,118)**	**(21,521)**	**85,639**	**-**
Adjustments during the year	**348,434**	**61,171**	**6,420,503**	**6,830,108**
Balance at the end of the year	**629,815**	**313,803**	**16,182,059**	**17,125,677**

The following is the movement on Small and Medium Enterprises direct facilities balances:

2018				
	Small and Medium Enterprises			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (adjusted)	**37,259,048**	**6,351,605**	**5,516,385**	**49,127,038**
New facilities granted during the year	**48,872,572**	**6,337,049**	**1,774,842**	**56,984,463**
Settled facilities	**(34,524,516)**	**(10,025,412)**	**(7,029,272)**	**(51,579,200)**
Transferred to stage 1	**537,911**	**(537,911)**	**-**	**-**
Transferred to stage 2	**(5,768,375)**	**5,768,375**	**-**	**-**
Transferred to stage 3	**(1,480,553)**	**(1,957,366)**	**3,437,919**	**-**
Balance at the end of the year	**44,896,087**	**5,936,340**	**3,699,874**	**54,532,301**

The following is the movement on the expected credit loss for Small and Medium Enterprises direct facilities as of 31 December 2018:

2018				
	Small and Medium Enterprises			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (adjusted)	**229,486**	**41,853**	**2,974,247**	**3,245,586**
Deducted from the profits/ ECL	-	-	-	-
Recoveries	-	-	-	-
Transferred to stage 1	**7**	**(7)**	-	-
Transferred to stage 2	**(19,623)**	**19,623**	-	-
Transferred to stage 3	**(10,336)**	**(31,969)**	**42,305**	-
Adjustments during the year	**(74,302)**	**36,044**	**(460,722)**	**(498,980)**
Balance at the end of the year	**125,232**	**65,544**	**2,555,830**	**2,746,606**

The following is the movement on Real Estate direct facilities balances:

2018				
	Real estate			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	**117,513,344**	**4,739,940**	**551,093**	**122,804,377**
New facilities granted during the year	**58,348,188**	**11,507,309**	**267,584**	**70,123,081**
Settled facilities	**(43,707,618)**	**(4,806,852)**	-	**(48,514,470)**
Transferred to stage 1	**418,723**	**(418,723)**	-	-
Transferred to stage 2	**(10,932,646)**	**10,932,646**	-	-
Transferred to stage 3	**(482,416)**	**(923,878)**	**1,406,294**	-
Balance at the end of the year	**121,157,575**	**21,030,442**	**2,224,971**	**144,412,988**

The following is the movement on the expected credit loss for Real Estate direct facilities as of 31 December 2018:

2018				
	Real estate			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (adjusted)	**226,534**	**53,373**	**177,310**	**457,217**
Deducted from the profits/ ECL	-	-	-	-
Recoveries	-	-	-	-
Transferred to stage 1	**16,495**	**(16,495)**	-	-
Transferred to stage 2	**(91,102)**	**91,102**	-	-
Transferred to stage 3	**(72)**	**(1,822)**	**1,894**	-
Adjustments during the year	**28,429**	**261,565**	**1,152,921**	**1,442,915**
Balance at the end of the year	**180,284**	**387,723**	**1,332,125**	**1,900,132**

The following is the movement on Retail Direct facilities balances:

2018				
	Retail			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (adjusted)	**221,415,367**	**12,222,688**	**1,485,951**	**235,124,006**
New facilities granted during the year	**112,351,859**	**1,451,458**	**389,523**	**114,192,840**
Settled facilities	**(66,432,613)**	**(15,256,706)**	**0**	**(81,689,319)**
Transferred to stage 1	**4,854,121**	**(4,854,121)**	-	-
Transferred to stage 2	**(9,367,974)**	**9,367,974**	-	-
Transferred to stage 3	-	-	-	-
Adjustments during the year	-	-	-	-
Balance at the end of the year	**262,820,760**	**2,931,293**	**1,875,474**	**267,627,527**

The following is the movement on the expected credit loss for retail direct facilities as of 31 December 2018:

2018				
	retail			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (adjusted)	**150,997**	**141,908**	**1,184,593**	**1,477,498**
Deducted from the profits	-	-	-	-
Recoveries	-	-	-	-
Transferred to stage 1	**53,512**	**(53,512)**	-	-
Transferred to stage 2	**(23,977)**	**23,977**	-	-
Transferred to stage 3	-	-	-	-
Adjustments during the year	**(70,789)**	**12,019**	**310,918**	**252,148**
Balance at the end of the year	**109,743**	**124,392**	**1,495,511**	**1,729,646**

The following is the movement on Total Direct facilities Balances:

2018				
	Total			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	**672,082,729**	**51,356,023**	**21,640,418**	**745,079,170**
New facilities granted during the year	**388,706,920**	**70,938,464**	**4,674,175**	**464,319,559**
Settled facilities	**(267,855,289)**	**(87,725,806)**	**(9,337,487)**	**(364,918,582)**
Transferred to stage 1	**6,124,160**	**(6,124,160)**	-	-
Transferred to stage 2	**(45,133,370)**	**45,133,370**	-	-
Transferred to stage 3	**(10,890,156)**	**(2,993,286)**	**13,883,442**	-
Adjustments during the year	-	-	-	-
Balance at the end of the year	**743,034,994**	**70,584,605**	**30,860,548**	**844,480,147**

Cumulative movement on the expected credit loss for direct facilities as of 31 December 2018:

2018				
	Total			
Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (adjusted)	**1,001,899**	**461,904**	**14,137,067**	**15,600,870**
Deducted from the profits/ ECL	-	-	**10,000**	**10,000**
Recoveries	-	-	**(135,000)**	**(135,000)**
Transferred to stage 1	**72,024**	**(72,024)**	-	-
Transferred to stage 2	**(186,095)**	**186,095**	-	-
Transferred to stage 3	**(74,526)**	**(55,312)**	**129,838**	-
Adjustments during the year	**231,772**	**370,799**	**7,423,620**	**8,026,191**
Balance at the end of the year	**1,045,074**	**891,462**	**21,565,525**	**23,502,061**

Revenue in Suspense

The following is the movement on the revenue in suspense:

	Self- financed	
	Corporates	
	2018	2017
	JD	JD
Balance at the beginning of the year	**16,364**	15,105
Add: Revenue in suspense during the year	**498**	1,288
Less: Revenue in suspense transferred to income	-	(29)
Balance at the End of the Year	**16,862**	16,364

2018	Joint				
	Retail	Real Estate Finances	Corporates		Total
			Large	Small and Medium Enterprises	
	JD	JD	JD	JD	JD
Balance at the beginning of the year	**144,429**	**47,781**	**336,001**	**382,856**	**911,067**
Add: Revenue suspended during the year	**145,224**	**39,060**	**514,167**	**72,835**	**771,286**
Less: Revenue in suspense reversed to income	**(75,948)**	**(7,805)**	**(215,863)**	**(51,206)**	**(350,822)**
Balance at the End of the Year	**213,705**	**79,036**	**634,305**	**404,485**	**1,331,531**
2017					
Balance at the beginning of the year	120,520	45,436	319,093	395,110	880,159
Add: Revenue suspended during the year	81,733	10,352	61,804	218,427	372,316
Less: Revenue in suspense reversed to income	(57,824)	(8,007)	(44,896)	(230,681)	(341,408)
Balance at the End of the Year	144,429	47,781	336,001	382,856	911,067

The movement on segmented expected credit loss as of 31 December 2018:

	Self- financed					
Item (JD)	corporates	Small and Medium Enterprises	Retail	Real estate	Government and public sector	Total
Balance at the beginning of the year	**3,500,050**	**138,909**	**247,942**	**-**	**-**	**3,886,901**
Deducted from the profits	**10,000**	**-**	**-**	**-**	**-**	**10,000**
Recoveries	**(135,000)**	**-**	**-**	**-**	**-**	**(135,000)**
Transferred to stage 1	**-**	**-**	**119**	**-**	**-**	**119**
Transferred to stage 2	**222**	**2,226**	**1,495**	**-**	**-**	**3,943**
Transferred to stage 3	**22,659**	**4,383**	**-**	**-**	**-**	**27,042**
Effect of reclassification between stages	**22,881**	**6,609**	**1,614**	**-**	**-**	**31,104**
Settlements during the year	**(184,142)**	**56,981**	**96,057**	**-**	**-**	**(31,104)**
Balance at the end of the year	**3,213,789**	**202,499**	**345,613**	**-**	**-**	**3,761,901**

	Joint					
Item (JD)	corporates	Small and Medium Enterprises	Retail	Real estate	Government and public sector	Total
Balance at the beginning of the year	**6,841,577**	**3,136,423**	**1,278,752**	**457,217**	**-**	**11,713,969**
Deducted from the profits	**-**	**-**	**-**	**-**	**-**	**-**
Recoveries	**-**	**-**	**-**	**-**	**-**	**-**
Transferred to stage 1	**2,010**	**7**	**53,392**	**16,496**	**-**	**71,905**
Transferred to stage 2	**51,170**	**17,398**	**22,481**	**91,103**	**-**	**182,152**
Transferred to stage 3	**62,980**	**37,922**	**-**	**1,894**	**-**	**102,796**
Effect of reclassification between stages	**116,160**	**55,327**	**75,873**	**109,493**	**-**	**356,853**
Settlements during the year	**6,954,151**	**(647,643)**	**29,408**	**1,333,422**	**-**	**7,669,338**
Balance at the end of the year	**13,911,888**	**2,544,107**	**1,384,033**	**1,900,132**	**-**	**19,740,160**

7. Deferred Sales Receivables through the Statement of Income

The sales receivables through the statement of income - self financed amounted to JD 6,513,267 and an impairment provision for sales receivables of JD 6,513,267 was taken.

8. Ijara Muntahia Bittamaleek Assets - Net

The details of this item are as follows:

	Joint			Self- financed			Total		
	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value	Cost	Accumulated Depreciation	Net Value
	JD	JD	JD	JD	JD	JD	JD	JD	JD
31 December 2018									
Ijara muntahia bittamaleek Assets–Real Estate	**832,400,168**	**(184,911,151)**	**647,489,017**	**1,338,000**	**(996,016)**	**341,984**	**833,738,168**	**(185,907,167)**	**647,831,001**
Ijara muntahia bittamaleek Assets– Machinery	**9,963,229**	**(636,056)**	**9,327,173**	-	-	-	**9,963,229**	**(636,056)**	**9,327,173**
Ijara muntahia bittamaleek Assets – Vehicles	**33,000**	**(29,107)**	**3,893**	-	-	-	**33,000**	**(29,107)**	**3,893**
Total	**842,396,397**	**(185,576,314)**	**656,820,083**	**1,338,000**	**(996,016)**	**341,984**	**843,734,397**	**(186,572,330)**	**657,162,067**
31 December 2017									
Ijara muntahia bittamaleek Assets–Real Estate	774,181,293	(160,111,940)	614,069,353	1,338,000	(974,385)	363,615	775,519,293	(161,086,325)	614,432,968
Ijara muntahia bittamaleek Assets– Machinery	12,968,133	(7,127,951)	5,840,182	-	-	-	12,968,133	(7,127,951)	5,840,182
Ijara muntahia bittamaleek Assets – Vehicles	44,200	(33,356)	10,844	-	-	-	44,200	(33,356)	10,844
Total	787,193,626	(167,273,247)	619,920,379	1,338,000	(974,385)	363,615	788,531,626	(168,247,632)	620,283,994

- Total due Ijara installments amounted to JD 3,435,700 as at 31 December 2018 (JD 2,846,093 as at 31 December 2017). Moreover, due Ijara balances were disclosed within the deferred sales receivables and other receivables (Note 6).

- Non-performing Ijara muntahia bittamaleek amounted to 1,225,071 JD i.e., 0.2% of the balance of Ijara muntahia bittamaleek as at 31 December 2018 (JD 816,682 i.e., 0.1% as at 31 December 2017).

- Non-performing Ijara muntahia bittamaleek after deducting revenue in suspense amounted to JD 603,336 representing. 0.1% of the balance of Ijara muntahia bittamaleek as at 31 December 2018 (JD 335,017 representing of the balance of Ijara muntahia bittamaleek 0.1% as at 31 December 2017).

- Non-performing deferred sales receivables and other receivables, financings, Ijara Muntahia Bittamaleek and Qard Al - Hasan amounted to JD 30,860,548 representing 1.9% of the balance of deferred sales receivables and other receivables, financings, Ijara Muntahia Bittamaleek and Qard Al - Hasan for the year (JD 21,640,418 representing 1.5% of the balance as at 31 December 2017).

- Non-performing deferred sales receivables and other receivables, financings, Ijara Muntahia Bittamaleek and Qard Al - Hasan after deducting revenues in suspense amounted to JD 29,512,155 representing 1.9% of the balance of deferred sales receivables and other receivables, financings, Ijara Muntahia Bittamaleek and Qard Al - Hasan after deducting revenue in suspense (JD 20,712,987 representing 1.5% of the balance as at 31 December 2017).

9. Financial Assets at Fair Value Through Shareholders' Equity- self financed

This item consists of the following:

	31 December	
	2018	2017
	JD	JD
Quoted financial assets		
Investment portfolios managed by other parties *	**5,324,798**	5,498,759
Total financial Assets at fair Value through shareholders› Equity	**5,324,798**	5,498,759

* This item represents the investment portfolios managed by al – Arabi Investment Group Company and includes external shares, Islamic Sukuk and International Murabaha.

- There was no transfer to retained earnings under shareholders' equity related to financial assets through shareholders' equity - self.

10. Financial Assets at Fair Value Through Joint Investment Accounts Holder's Equity

This item consists of the following:

	Joint	
	31 December	
	2018	2017
	JD	JD
Unquoted financial assets		
Companies shares *	**1,607,730**	198,366
Total	**1,607,730**	198,366

* This represents the bank's share in establishing the following companies:

- Jordan payment and clearing company
- Jordanian Islamic Banks Co. for Investment**
- Islamic Banks group Co. for SMEs contribution.

** Classified from Other Assets to Financial Assets at Fair Value through Joint Investment Accounts Holder's Equity.

Financial assets stated at cost as their fair value cannot be reliably measured amounted to JD 1,607,730 for the year 2018 (JOD 198,366 for the year 2017).

11. Financial Assets at Amortized Costs – Net

This item consists of the following:

	Joint	
	31 December	
	2018	2017
	JD	JD
Islamic Sukuk - quoted	**23,947,380**	28,010,256
Islamic Sukuk - unquoted	**8,021,600**	10,085,800
Expected credit loss for financial assets	**(182,070)**	-
Total	**31,786,910**	38,096,056

The above assets have fixed and determinable payments and mature within the period from 2019 until the end of 2025.

The movement on assets at amortized costs balances as of 31 December 2018:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Balance at the beginning of the year (adjusted)	**24,378,086**	**13,717,970**	-	**38,096,056**
New Investments	**6,795,465**	-	-	**6,795,465**
Matured investments	**(5,697,776)**	**(7,224,765)**	-	**(12,922,541)**
Transferred to stage 1	**3,657,205**	**(3,657,205)**	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Balance at the end of the year	**29,132,980**	**2,836,000**	-	**31,968,980**

The movement on expected credit loss for financial assets at amortized cost as of 31 December 2018:

Item	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Balance at the beginning of the year (adjusted)	**3,550**	**229,330**	-	**232,880**
New Investments	**9,266**	-	-	**9,266**
Recoveries from matured Investments	**(3,189)**	**(56,887)**	-	**(60,076)**
Transferred to stage 1	**7,027**	**(7,027)**	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Balance at the end of the year	**16,654**	**165,416**	-	**182,070**

12. Investments in Real Estate

This item consists of the following:

	Joint	
	31 December	
	2018	2017
	JD	JD
Investments in real estate	**29,142,063**	27,924,456
Accumulated depreciation	**(2,808,431)**	(1,899,506)
Impairment provision	**(4,539,248)**	(4,516,175)
Total	**21,794,384**	21,508,775

Buildings within the real estate portfolio are depreciated according to the straight-line method at a rate of 10%.

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

	Balance at the Beginning of the year	Additions/Transfers during the Year	Sales during the Year	Balance at the End of the Year
	JD	JD	JD	JD
2018				
Investments in real estate	**27,924,456**	**1,817,472**	**(599,865)**	**29,142,063**
Accumulated depreciation	**(1,899,506)**	**(932,435)**	**23,510**	**(2,808,431)**
Total	**26,024,950**	**885,037**	**(576,355)**	**26,333,632**
Real estate impairment provision	**(4,516,175)**	**(154,595)**	**131,522**	**(4,539,248)**
Net	**21,508,775**	**730,442**	**(444,833)**	**21,794,384**

	Balance at the Beginning of the year	Additions/Transfers during the year *	Sales during the year	Balance at the End of the year
	JD	JD	JD	JD
2017				
Investments in real estate	26,303,595	2,832,128	(1,211,267)	27,924,456
Accumulated depreciation	(1,148,611)	(802,693)	51,798	(1,899,506)
Total	25,154,984	2,029,435	(1,159,469)	26,024,950
Real estate impairment provision	(4,131,018)	(421,504)	36,347	(4,516,175)
Net	21,023,966	1,607,931	(1,123,122)	21,508,775

The fair value of investments in real estate portfolio amounted to JD 25,477,076 as of 31 December 2018 (JD 24,118,346 as of 31 December 2017).

13. Property and Equipment - Net

This item consists of the following:

	Land	Buildings	Furniture, Fixtures and Equipment	Vehicles	Computers	Improvements & Decorations	Total
2018	JD	JD	JD	JD	JD	JD	JD
Cost							
Balance at the beginning of the year	**7,152,508**	**4,818,668**	**6,847,052**	**279,208**	**6,120,607**	**11,689,256**	**36,907,299**
Additions / Capitalization	**-**	**-**	**618,772**	**82,470**	**1,012,116**	**394,441**	**2,107,799**
Disposals	**-**	**-**	**(293,644)**	**(40,370)**	**(915,862)**	**(340)**	**(1,250,216)**
Balance at the end of the year	**7,152,508**	**4,818,668**	**7,172,180**	**321,308**	**6,216,861**	**12,083,357**	**37,764,882**
Accumulated Depreciation							
Accumulated depreciation at the beginning of the year	**-**	**1,388,719**	**4,184,197**	**251,831**	**4,580,658**	**8,892,444**	**19,297,849**
Depreciation of the year	**-**	**100,969**	**658,888**	**22,027**	**850,457**	**1,125,987**	**2,758,328**
Disposals	**-**	**-**	**(271,348)**	**(40,368)**	**(915,159)**	**(157)**	**(1,227,032)**
Accumulated depreciation at the end of the year	**-**	**1,489,688**	**4,571,737**	**233,490**	**4,515,956**	**10,018,274**	**20,829,145**
Net Book value for property and equipment	**7,152,508**	**3,328,980**	**2,600,443**	**87,818**	**1,700,905**	**2,065,083**	**16,935,737**
Projects under Process	**-**	**53,640**	**-**	**-**	**1,051,275**	**1,428**	**1,106,343**
Net Property and Equipment at the end of the year	**7,152,508**	**3,382,620**	**2,600,443**	**87,818**	**2,752,180**	**2,066,511**	**18,042,080**
Depreciation rate %	**-**	**2**	**2-15**	**20**	**25**	**15**	
2017							
Cost							
Balance at the beginning of the year	7,152,508	4,818,668	6,819,529	279,208	5,450,796	11,219,877	35,740,586
Additions / Capitalization	-	-	386,069	-	835,712	469,379	1,691,160
Disposals	-	-	(358,546)	-	(165,901)	-	(524,447)
Balance at the end of the year	7,152,508	4,818,668	6,847,052	279,208	6,120,607	11,689,256	36,907,299
Accumulated Depreciation							
Accumulated depreciation at the beginning of the year	-	1,287,750	3,839,310	227,060	3,875,988	7,645,312	16,875,420
Depreciation of the year	-	100,969	676,773	24,771	860,721	1,247,132	2,910,366
Disposals	-	-	(331,886)	-	(156,051)	-	(487,937)
Accumulated depreciation at the end of the year	-	1,388,719	4,184,197	251,831	4,580,658	8,892,444	19,297,849
Net Book value for property and equipment	7,152,508	3,429,949	2,662,855	27,377	1,539,949	2,796,812	17,609,450
Projects under process	-	44,172	22,135	-	1,082,341	-	1,148,648
Net Property and Equipment at the end of the year	7,152,508	3,474,121	2,684,990	27,377	2,622,290	2,796,812	18,758,098
Depreciation rate %	-	2	15-2	20	25	15	

The cost of fully depreciated property and equipment amounted to JD 8,872,315 as of 31 December 2018 (JD 7,968,653 as of 31 December 2017).

14. Intangible Assets – Net

This item consists of the following:

	Systems and Software	
	2018	2017
	JD	JD
Balance at the beginning of the year	**473,854**	495,065
Additions	**52,854**	197,964
Amortization for the Year	**(249,072)**	(219,175)
Balance at the end of the year	**277,636**	473,854
Amortization rate %	**25**	25

15. Other Assets

This item consists of the following:

	31 December	
	2018	2017
	JD	JD
Clearing cheques	**228,323**	25,937
Prepaid expenses	**1,791,834**	1,505,817
Accrued revenue	**617,911**	464,444
Repossessed Assets	**2,593,692**	2,042,354
Investment in companies *	**-**	107,383
Others	**1,123,937**	555,372
Total	**6,355,697**	4,701,307

* This item represents the bank's share in the establishment of Jordanian Islamic Banks Co. for Investment and Islamic Banks Group Co. for SMEs. This amount was reclassified to Financial Assets at Fair Value Through Joint Investment Accounts Holders Equity.

The following is a summary of the movement on the Repossessed assets:

	2018	2017
	JD	JD
Balance at the beginning of the year	**2,047,225**	1,921,224
Additions	**773,240**	126,001
Sales	**(189,872)**	-
Total	**2,630,593**	2,047,225
Impairment losses in real estate	**(36,901)**	(4,871)
Balance at the end of the year *	**2,593,692**	2,042,354

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

- The Central Bank instructions require the disposal of assets repossessed by the Bank during a duration not more than two years from the date of disposal. The Central Bank can in exceptional cases make the duration longer for no more than two executive years.

16. Banks and Financial Institutions Accounts

This item consists of the following:

	31 December					
	2018			2017		
	Inside Kingdom	Outside Kingdom	Total	Inside Kingdom	Outside Kingdom	Total
	JD	JD	JD	JD	JD	JD
Current and call accounts	**4,233**	**1,803,953**	**1,808,186**	35,115	222,514	257,629
Total	**4,233**	**1,803,953**	**1,808,186**	35,115	222,514	257,629

17. Customers' Current Accounts

This item consists of the following:

	31 December 2018				
	Retail	Corporates	Small and Medium Enterprises	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Current accounts	**527,765,136**	**36,860,319**	**94,897,092**	**6,225,993**	**665,748,540**
Total	**527,765,136**	**36,860,319**	**94,897,092**	**6,225,993**	**665,748,540**
	31 December 2017				
	Retail	Corporates	Small and Medium Enterprises	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Current accounts	548,572,457	43,501,500	109,301,605	4,698,137	706,073,699
Total	548,572,457	43,501,500	109,301,605	4,698,137	706,073,699

- Government of Jordan and public sector deposits inside the Kingdom amounted to JD 6,225,993 as of 31 December 2018, representing 0.94% of the total customers' current accounts (JD 4,698,137 as of 31 December 2017, representing 0.66%).
- Restricted deposits amounted to JD 4,413,642 as of 31 December 2018, representing 0.66% of the total customers' current accounts (JD 4,828,492 as of 31 December 2017, representing 0.68%).
- Dormant accounts amounted to JD 8,797,438 as of 31 December 2018 (JD 9,336,289 as of 31 December 2017).

18. Cash Margins

This item consists of the following:

	31 December	
	2018	2017
	JD	JD
Cash margins against sales receivables and financings	**21,221,720**	27,798,396
Cash margins against indirect credit facilities	**8,262,297**	6,327,503
Other cash margins	**1,430,872**	1,526,440
Total	**30,914,889**	35,652,339

The Bank distributed an amount of JD 402,503 to the insurance account holders participating in the profit for the year (JD 478,897 for 2017).

19. Other Provisions

The movement on other provisions is as follows:

	Balance at the Beginning of the Year	Provision (recovery) for the Year	Paid during the Year	Balance at the End of the Year
2018	JD	JD	JD	JD
Provision for end-of-service indemnity	**2,702,279**	**353,809**	**(68,497)**	**2,987,591**
Provision for lawsuits against the Bank	**43,567**	**(22,500)**	**(2,000)**	**19,067**
Total	**2,745,846**	**331,309**	**(70,497)**	**3,006,658**

2017				
Provision for end-of-service indemnity	2,430,895	364,912	(93,528)	2,702,279
Provision for lawsuits against the Bank	31,500	26,836	(14,769)	43,567
Total	2,462,395	391,748	(108,297)	2,745,846

20. Income Tax

a. Provision for Income Tax

The movement on income tax provision is as follows:

	2018	2017
	JD	JD
Balance at the beginning of the year	**12,003,114**	10,204,258
Income tax paid	**(14,992,730)**	(12,892,799)
Income tax paid for previous years	-	(97,270)
Provision for income tax expense for the year	**15,114,453**	14,788,925
Balance at the end of the year	**12,124,837**	12,003,114

b. Income tax appearing in the Statement of Income represents the following:

	2018	2017
	JD	JD
Current year provision for income tax	**15,114,453**	14,788,925
Deferred tax assets for the year	**(352,609)**	(173,862)
Amortization of deferred tax assets	**110,322**	112,386
Total	**14,872,166**	14,727,449

- A final settlement was reached with the Income and Sales Tax Department until the end of the year 2015. Moreover, the tax return for the years 2016 and 2017 was submitted and the declared taxes were paid but not yet reviewed by the Income and Sales Tax Department.
- The accrued income tax for the year ended 31 December 2018 was calculated in accordance with the Income Tax Law in force.
- In the opinion of the Management and the tax consultant, no additional provisions are required for the year ended 31 December 2018.

C. Deferred Tax Assets / Liabilities – Self financed and Joint

	31 December 2018							31 December 2017
Accounts Included	Beginning Balance	Effect of IFRS(9) adoption	Adjusted Beginning Balance	Released Amounts	Added Amounts	Ending Balance	Deferred Tax	Deferred Tax
	JD	JD	JD	JD	JD	JD	JD	JD
1. Deferred Tax Assets - Joint								
Revenue in suspense	**766,169**	-	**766,169**	**(350,822)**	**771,286**	**1,186,633**	**450,921**	268,159
	766,169	-	**766,169**	**(350,822)**	**771,286**	**1,186,633**	**450,921**	268,159
2. Deferred Tax Assets – Self financed								
Provision for end-of-service indemnity	**2,702,279**	-	**2,702,279**	**(68,497)**	**353,809**	**2,987,591**	**1,135,285**	945,798
Impairment provision for self- financing	**1,342,848**	-	**1,342,848**	**(187,210)**	-	**1,155,638**	**439,142**	469,997
Provision for fees for lawsuits against the Bank	**43,567**	-	**43,567**	**(24,500)**	-	**19,067**	**7,245**	15,248
Impairment in the financial assets at fair value through shareholders' equity	**2,727,786**	-	**2,727,786**	-	-	**2,727,786**	**1,036,559**	954,725
Unacceptable tax expenses and deferred for coming years	**70,000**	-	**70,000**	**(35,000)**	-	**35,000**	**13,300**	24,500
Effect of IFRS (9) adoption	-	**700,788**	**700,788**	-	-	**700,788**	**266,299**	-
	6,886,480	**700,788**	**7,587,268**	**(315,207)**	**353,809**	**7,625,870**	**2,897,830**	2,410,268
Grand Total	**7,652,649**	**700,788**	**8,353,437**	**(666,029)**	**1,125,095**	**8,812,503**	**3,348,751**	2,678,427

- Joint deferred tax assets of JD 450,921 as of 31 December 2018 resulted from time differences of the revenue in suspense against unacceptable joint financing and deferred for years to come. These deferred tax assets were calculated at a tax rate of 35% in addition to 3% national tax. In the Management's opinion, these tax benefits for the investment risk fund will be utilized in the future.

- Self financed deferred tax assets of JD 2,897,830 as of 31 December 2018 resulted from time differences of the provision for end-of- service indemnity, provision for impairment in self – financings, provision for fees on lawsuits against the Bank, impairment in financial assets, and unacceptable tax expenses and deferred for years to come. These deferred tax assets were calculated at a tax rate of 35% in addition to 3% national tax. In the Management's opinion, these tax benefits from profits will be utilized in the future.

3. Deferred Tax Liabilities - Self

	31 December 2018							31 December 2017
	Beginning Balance	Effect of IFRS (9) adoption	Adjusted Beginning Balance	Released Amounts	Added Amounts	Ending Balance	Deferred Tax	Deferred Tax
	JD	JD	JD	JD	JD	JD	JD	JD
Financial assets at fair value through shareholders' equity	**649,069**	**-**	**649,069**	**(173,960)**	**-**	**475,109**	**180,541**	227,174
	649,069	**-**	**649,069**	**(173,960)**	**-**	**475,109**	**180,541**	227,174

- The deferred tax liabilities of JD 180,541 as of 31 December 2018 (JD 227,174 as of 31 December 2017) resulted from gains from valuation of financial assets presented within the fair value reserve of shareholders' equity.

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

	31 December 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
	JD	JD	JD	JD
Balance at the beginning of the year	**268,159**	**-**	257,342	-
Additions during the year	**305,550**	**-**	130,310	-
Amortized during the year	**(122,788)**	**-**	(119,493)	-
Balance at the End of the Year	**450,921**	**-**	268,159	-

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

	31 December 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
	JD	JD	JD	JD
Balance at the beginning of the year	**2,410,268**	**227,174**	2,348,792	234,557
Additions during the year	**597,884**	**14,253**	173,862	-
Amortized during the year	**(110,322)**	**(60,886)**	(112,386)	(7,383)
Balance at the End of the Year	**2,897,830**	**180,541**	2,410,268	227,174

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

	2018	2017
	JD	JD
Accounting Income	**46,763,068**	43,525,153
Add: Non deductible tax expenses	**13,087,999**	11,859,821
Tax-exempt Income	**(350,822)**	(341,408)
Other adjustments	**(3,316,862)**	(1,311,018)
Taxable Income	**56,183,383**	53,732,548
Declared income tax rate	**35%**	35%
Effective Tax rate	**42%**	43%
Income Tax Provision - Net	**19,664,184**	18,806,392
Attributable to:		
Declared provision – Bank	**15,114,453**	14,788,925
Declared provision – Investment Risks Fund	**3,636,937**	3,233,085
Declared provision – Mutual insurance fund *	**912,794**	784,382
	19,664,184	18,806,392

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

21. Other Liabilities

The details of this item are as follows:

	31 December	
	2018	2017
	JD	JD
Certified cheques	**7,611,859**	9,006,880
Promissory notes, bills of collection and inward transfers	**5,916,160**	5,730,484
Accrued and unpaid expenses	**36,599**	209,552
Customers' share of revenue from joint investments (saving and time deposit)	**6,339,272**	6,023,821
Customers' share of revenues from joint investments (cash margin)	**174,302**	175,458
Commissions received in advance	**408,397**	406,552
Temporary deposit's and others *	**9,152,940**	7,171,544
Expected credit loss (off Balance sheet)- self (note 53)	**641,294**	-
Expected credit loss (off Balance sheet)- joint (note 53)	**335,384**	-
Income tax of mutual insurance fund (Note 23)	**741,753**	628,812
Board of Directors' remunerations	**25,000**	25,000
	31,382,960	29,378,103

* This item includes intermediate accounts amounting to JD 5,606,097 as of 31 December 2018, (JD 4,992,379 at 31 December 2017) representing accepted L/C's and deferred customers' bills that will be paid at their maturity date.

22. Unrestricted Investment Accounts

The details of this item are as follows:

	31 December 2018					
	Retail	Corporates	Small and Medium Enterprises	Government and Public Sector	Central Bank Deposits **	Total
	JD	JD	JD	JD		JD
Saving accounts	**220,506,592**	**891,073**	**2,229,423**	**3,316**	**2,406,863**	**226,037,267**
Time deposits *	**691,384,675**	**99,576,747**	**67,964,151**	**76,975,964**	**9,049,561**	**944,951,098**
Total	**911,891,267**	**100,467,820**	**70,193,574**	**76,979,280**	**11,456,424**	**1,170,988,365**
Depositors' share of the investment returns	**17,698,635**	**1,842,176**	**1,580,992**	**877,271**	**83,811**	**22,082,885**
Total Joint Investment Accounts	**929,589,902**	**102,309,996**	**71,774,566**	**77,856,551**	**11,540,235**	**1,193,071,250**

	31 December 2017				
	Retail	Corporates	Small and Medium Enterprises	Government and Public Sector	Total
	JD	JD	JD	JD	JD
Saving accounts	**241,101,112**	**443,217**	**3,023,277**	**47,146**	**244,614,752**
Time deposits *	**627,686,284**	**75,672,225**	**55,824,618**	**39,013,403**	**798,196,530**
Total	**868,787,396**	**76,115,442**	**58,847,895**	**39,060,549**	**1,042,811,282**
Depositors' share of the investment returns	**14,403,029**	**2,444,867**	**1,170,914**	**749,487**	**18,768,297**
Total Joint Investment Accounts	**883,190,425**	**78,560,309**	**60,018,809**	**39,810,036**	**1,061,579,579**

* Time deposits include JD 13,201,380 (net after tax) as at 31 December 2018 (JD 10,621,470 as at 31 December 2017). This item is the balance of the Mutual Insurance Fund established during 2013 to cover defaults on repayments of financings due to the death or total disability of the customers as per the Fund's Articles of Association approved by the Central Bank of Jordan (Note 23).

* Two investment agreements have been signed with the Central Bank of Jordan on 21 February 2018 whereby the Bank will open two accounts, saving account with a 40% contribution rate and time deposit with a 65% contribution rate, these amounts are granted as a loans to specific sectors and with a special revenue rates under the approval of the Central Bank of Jordan.

The joint investment accounts participate in profits based on the following:

- 30% from the monthly balance of saving accounts.
- 85%for the first six months and 90% for the second six months of the lowest balance of time deposits.
- The general rate of profit on the Jordanian Dinar for the first and second halves of the year 2018, i.e. 2,876% and 2,806%, respectively (2,948% and 2,879% in the previous year).
- The general rate of profit on USD for the first and second halves of the year 2018, 0.82% and 1%, respectively (0.53% and 0.66% in the previous year).
- The restricted accounts amounted to JD 1,269,647 as at 31 December 2018 (JD 1,290,432 as at 31 December 2017).
- The joint investment accounts of the Government of Jordan and Public Sector inside the Jordan amounted to JD 77,856,551 as at 31 December 2018- at 6.5% of the total joint investment accounts (JD 39,810,036 as at 31 December 2017- 3.7%).
- Dormant accounts amounted to JD 3,445,858 as of 31 December 2018 (JD 2,561,621 as at 31 December 2017).

23. Investment Risk Fund

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

	2018	2017
	JD	JD
Balance at the beginning of the year	**42,313,499**	36,061,933
Add: Transferred from joint investment revenue for the year	**10,066,140**	9,206,478
Amortized losses for the year	**(95,355)**	-
Transferred of Investment risk fund – Nama'a Aqari *	**-**	261,239
Balances settlement	**-**	1,392
Difference in valuation of foreign currencies	**(2,245)**	4,725
Less: income tax	**(3,454,175)**	(3,222,268)
Balance at the End of the Year	**48,827,864**	42,313,499

The Fund's income tax item represents the following:

	2018	2017
	JD	JD
Accrued income tax on the transferred amounts transferred from investment revenues	**3,636,937**	3,233,085
Deferred tax assets	**(305,550)**	(130,310)
Amortization of deferred tax assets	**122,788**	119,493
	3,454,175	3,222,268

* The bank decided to cancel the real estate financing product (Nama' Aqari) during 2017 and transfer its balances inside statement of financial position after the approval of shari'a supervisory board.

B- The Balance of the Investment Risk Fund is distributed as follows:

	31 December	
	2018	2017
	JD	JD
Against Expected credit loss on deferred sales receivables (Note 6)	**19,740,160**	10,808,780
Against Expected credit loss on deferred for financial assets at amortized cost (note 11)	**182,070**	-
Against impairment in investments in real estate (Note 12)	**4,539,248**	4,516,175
Against impairment in repossessed assets (Note 15)	**36,901**	4,871
Against Expected credit loss for off Balance sheet items (Note 21)	**335,384**	-
Remaining Balance (undistributed)	**23,994,101**	26,983,673

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

- The remaining balance represents the undistributed portion over the joint investments accounts.

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

	2018	2017
	JD	JD
Balance at the beginning of the year	2,594,950	2,279,185
Less: Income tax paid	(3,307,417)	(2,915,928)
Add: Accrued income tax for the year	3,636,937	3,233,085
Settlement balances	-	(1,392)
Balance at the End of the Year	2,924,470	2,594,950

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

c. Mutual Insurance Fund

The movement on the mutual insurance fund is as follows:

	2018	2017
	JD	JD
Balance at the beginning of the year	10,621,470	7,432,990
Add: Fund investment profits for the year	287,410	472,039
Insurance installments received during the year	3,622,756	3,826,776
Less: Fund's income tax for the year	(912,794)	(784,382)
Administrative Expenses	(1,800)	(1,800)
Subscribers' compensation during the year	(381,610)	(285,928)
Financial stamp›s expenses during the year	(34,052)	(38,225)
Balance at the End of the Year	13,201,380	10,621,470

The movement on the tax of the Joint Insurance Fund is as follows:

	2018	2017
	JD	JD
Balance at the beginning of the Year	628,812	438,569
Less: Paid Income tax	(799,853)	(594,139)
Add: Accrued income tax for the year	912,794	784,382
Balance at the End of Year	741,753	628,812

- The Balance of Income tax of Mutual Insurance Fund is included in other liabilities (Note 21).
- A final settlement was reached with the Income and Sales Tax Department until the end of the year 2015. Moreover, the tax return for the years 2016, 2017 and 2018 were submitted and the declared taxes were paid but not yet reviewed by the Income and Sales Tax Department.
- The by laws of the Mutual Insurance Fund are based on Paragraph No. (D/3) of Article (54) of the Banking Law No. 28 for the Year 2000.
- The Central Bank of Jordan's approval is required in case of any amendment to the Mutual Insurance Fund.
- In case the Mutual Insurance Fund ceases its activities, the Board of Directors decides on the manner of disbursing of the Fund's cash for charitable causes.
- Compensation for Participants to the Fund is made as follows:
  - Participant's death.
  - Participant's total or permanent physical disability.

24. Paid - in Capital

The authorized and paid-in capital at the end of the fiscal year amounted to JD100 million divided into 100 million shares at a par value of JD 1 per share as at 31 December 2018 (100 million shares at a par value of JD 1 per share as at 31 December 2017).

25. Reserves

Statutory Reserve

The accumulated amounts in this account are appropriated from the annual net income before tax at 10% in accordance with the Banks Law. This reserve may not be distributed to shareholders.

Voluntary Reserve

The accumulated amounts in this account represent appropriations from annual net income before tax during the previous years at a rate not exceeding 20%. This reserve is used for the purposes determined by the Board of Directors. Moreover, the General Assembly is entitled to distribute it in whole or in part as dividends to shareholders.

General Banking Risk Reserve

This reserve represents the general banking risk reserve on deferred sales receivables and the Bank's self - financings in accordance with the instructions of the Central Bank of Jordan.

The restricted reserves are as follows:

	31 December		
	2018	2017	Nature of restriction
	JD	JD	
Reserve Name			
Statutory reserve	**30,412,149**	25,735,842	Requirement of the Law
General Banking Risk Reserve	-	882,000	Central Bank's Instructions

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

Proposed Dividends to Shareholders

During its meeting Session No. (1) held on January 28, 2019, the Board of Directors recommended the distribution of JD 14,000,000 to the sole shareholder (Arab Bank), equivalent to 14% of authorized and paid-up capital from distributable retained earnings, subject to the approval of the Shareholders' General Assembly.

Note that the percentage of dividends distributed to the shareholders during 2018 is 12% of the capital, (12,000,000) JD.

26. Fair Value Reserve – Net

The details of this item are as follows:

	Self	
	31 December	
	2018	2017
	JD	JD
Financial assets at fair value through shareholders' equity	**294,566**	421,895
Balance at the End of the Year	**294,566**	421,895

The movement on the fair value reserve was as follows:

	Self	
	2018	2017
	JD	JD
Balance at the beginning of the year	**421,895**	435,605
Unrealized losses	**(173,962)**	(21,093)
Deferred tax liabilities	**46,633**	7,383
Balance at the End of the Year	**294,566**	421,895

The fair value reserve is stated at net (after deducting deferred tax liabilities-self) amounted to JD 294,566 as at 31 December 2018 (JD 421,895 as at 31 December 2017).

27. Retained Earnings

The details of this item are as follows:

	2018	2017
	JD	JD
Balance at the beginning of the year	**43,281,000**	28,835,811
Transferred from general Banking risk reserve *	**882,000**	-
The Effect of implementing IFRS(9) **	**(455,512)**	-
Adjusted retained earning Balance as of 31 December 2018	**43,707,488**	28,835,811
Profit for the year	**31,890,902**	28,797,704
(Transferred) to the statutory reserve	**(4,676,307)**	(4,352,515)
Dividends ***	**(12,000,000)**	(10,000,000)
Balance at the End of the Year **	**58,922,083**	43,281,000

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

** The effect of IFRS (9) appears after deducting related deferred tax assets.

*** On 28 March 2018, the Shareholders' General Assembly approved the distribution of cash dividends to the sole shareholder (Arab Bank plc.) at an amount of JD 12,000,000.

28. Deferred Sales Revenue

The details of this item are as follows:

	Joint		Self		Total	
	2018	2017	**2018**	2017	**2018**	2017
	JD	JD	**JD**	JD	**JD**	JD
Retail						
Murabaha to purchase order	**18,627,546**	16,898,838	**-**	-	**18,627,546**	16,898,838
Real estate financings	**9,625,076**	8,430,727	**-**	-	**9,625,076**	8,430,727
Large Companies			**-**			
International Murabaha	**3,073,849**	1,465,805	**-**	-	**3,073,849**	1,465,805
Murabaha to purchase order	**13,744,225**	13,118,910	**-**	654	**13,744,225**	13,119,564
Small and Medium Enterprises						
Murabaha to purchase order	**3,992,869**	4,624,529	**-**	-	**3,992,869**	4,624,529
Deferred sale	**-**	11,648	**-**	-	**-**	11,648
Total	**49,063,565**	44,550,457	**-**	654	**49,063,565**	44,551,111

29. Revenue from Financing Investments

The details of this item are as follows:

	Joint	
	2018	2017
	JD	JD
Large companies:		
Mudaraba	**-**	7,664
	-	7,664

30. Revenue from Financial Assets at Amortized Costs

The details of this item are as follows:

	Joint	
	2018	2017
	JD	JD
Islamic Sukuk	**1,116,486**	1,141,294
	1,116,486	1,141,294

31. Net Expenses to Investment in Real Estate

The details of this item are as follows:

	Joint	
	2018	2017
	JD	JD
Acquired for the purpose of Utilization		
Real estate rents	**280,009**	198,081
Gains from real estate sales	**9,783**	13,425
Other expenses	**(167,992)**	(122,705)
Depreciation of buildings	**(932,435)**	(802,693)
	(810,635)	(713,892)

32. Revenue from Ijara muntahia bittamaleek Assets

The details of this item are as follows:

	Joint		Self	
	2018	2017	**2018**	2017
	JD	JD	**JD**	JD
Ijara muntahia bittamaleek – Real estate	**113,513,002**	103,700,153	**37,666**	49,113
Ijara muntahia bittamaleek – Machinery	**2,332,689**	3,920,336	**-**	-
Ijara muntahia bittamaleek - Vehicles	**7,559**	800,694	**-**	-
Depreciation of Ijara muntahia bittamaleek assets	**(65,123,727)**	(61,739,265)	**-**	-
Total	**50,729,523**	46,681,918	**37,666**	49,113

33. Ju'alah commissions

The details of this item are as follows:

	Joint	
	2018	2017
	JD	JD
Ju'alah commissions (Bargaining)	**521,331**	397,339
Total	**521,331**	397,339

34. Unrestricted Investment Accounts Share

The details of this item are as follows:

	2018	2017
	JD	JD
Customers:		
Revenue of investments saving accounts	**1,645,693**	1,700,308
Revenue of time deposit accounts	**20,752,643**	17,216,940
Revenue of cash Margin accounts	**401,347**	426,729
Total	**22,799,683**	19,343,977

The Bank donates a certain amount from its share in income from Joint Investment as Mudarib or Fund Owner (Rab Al-Mal) to raise the percentage of profit distributed to some/all Unrestricted Investment Accounts holders. During 2018 the Bank donated an amount of JD 973K to some account holders representing 4% of Unrestricted Investment Accounts' share.

35. Bank's Share in income from Joint Investment as Mudarib and Fund Owner (Rab Al-Mal)

The details of this item are as follows:

	2018	2017
	JD	JD
Bank's share as Mudarib	**27,136,150**	23,505,426
Bank's share as (Rab Al-Mal)	**40,659,426**	40,008,899
Total	**67,795,576**	63,514,325

36. Bank's Self Financed Revenue

The details of this item are as follows:

	2018	2017
	JD	JD
Income from deferred sales (Note 28)	**-**	654
Income from Ijara muntahia bittamaleek assets (Note 32)	**37,666**	49,113
Returns of distributions of financial assets at fair value through shareholders' equity	**31,896**	14,470
Total	**69,562**	64,237

37. Bank's Share in Restricted Investment Profit as Mudarib and as agent (Wakeel)

a. Bank's Share in Restricted Investment profit as Mudarib:

	2018	2017
	JD	JD
Income from restricted investments	**3,312,688**	1,349,853
Less: Depreciation of Ijara (Nama'a Aqari)	**-**	(9,686)
Net income from restricted investments	**3,312,688**	1,340,167
Less: Share of holders of restricted investments accounts	**(2,667,414)**	(1,091,138)
Bank's share as Mudarib	**645,274**	249,029

b. Bank's share in restricted investment profit as agent (Wakeel)*

	2018	2017
	JD	JD
Income from sales receivables	**1,055,560**	647,294
Less: Muwakel's share	**(627,811)**	(445,663)
Bank's Share (Wakeel)	**427,749**	201,631

* This item represents revenue from Murabaha to Purchase order for Small Entities within the Wakaleh investment agreement signed with the Central Bank of Jordan.

38. Gains from Foreign Currencies

The details of this item are as follows:

	Self	
	2018	2017
	JD	JD
Resulting from trading / dealing	**1,375,103**	2,183,566
Resulting from revaluation	**(2,401)**	(18,234)
Total	**1,372,702**	2,165,332

39. Banking Services Revenue

The details of this item are as follows:

	2018	2017
	JD	JD
Commissions on certified cheques	**45,318**	49,362
Commissions on letters of credit and bills	**972,574**	1,018,496
Commissions on guarantees	**752,387**	734,188
Commissions on transfers	**464,892**	361,108
Commissions on Visa	**2,749,962**	2,081,870
Commissions on cheques	**594,496**	512,159
Commissions on electronic services	**1,255,571**	1,137,887
Commissions on execution of financings	**718,460**	755,450
Commissions on transferred salaries	**1,623,296**	1,553,507
Other commissions	**986,319**	957,921
Total	**10,163,275**	9,161,948

40. Other Revenue

The details of this item are as follows:

	Joint		Self	
	2018	2017	**2018**	2017
	JD	JD	**JD**	JD
Revenue from customers services (post, telephone, custody)	**-**	-	**309,160**	325,897
	41,129	-	**-**	-
Other income	**-**	-	**19,545**	30,453
Total	**41,129**	-	**328,705**	356,350

41. Employees' Expenses

The details of this item are as follows:

	2018	2017
	JD	JD
Salaries, bonuses and employees benefits	**17,977,537**	16,458,255
Bank's contribution in social security	**1,989,736**	1,827,458
Medical expenses	**888,446**	835,534
Staff training	**124,969**	136,614
Others	**106,306**	68,447
Total	**21,086,994**	19,326,308

42. Other Expenses

The details of this item are as follows:

	2018	2017
	JD	JD
Rents	**1,296,884**	1,147,472
Stationery and printing	**489,598**	486,965
Postage and telephone	**411,518**	465,708
Maintenance and cleaning	**731,072**	654,137
Advertising	**486,301**	503,310
Insurance expenses	**102,166**	89,412
Electricity and water	**1,170,377**	1,151,230
Donations	**439,849**	479,559
Subscriptions and fees	**574,705**	524,787
Transportation and travel expenses	**471,245**	457,493
Consultancy and professional fees	**460,821**	455,601
Information systems expenses	**2,050,257**	2,060,263
Board of Directors' remunerations	**25,000**	25,000
Others	**1,007,648**	724,052
Total	**9,717,441**	9,224,989

43. Earnings Per Share

The details of this item are as follows:

	2018	2017
	JD	JD
Profit for the Year	**31,890,902**	28,797,704
Weighted-average number of shares	**100,000,000**	100,000,000
Basic and Diluted Earnings per Share for the year	**0.319**	0.288

44. Cash and Cash Equivalent

The details of this item are as follows:

	31 December	
	2018	2017
	JD	JD
Cash and balances with the Central Bank maturing within three months	**573,279,125**	588,819,337
Add: Balances at banks and financial institutions maturing within three months	**20,438,681**	21,546,641
Less: Banks and financial institutions' accounts maturing within three months	**(1,808,186)**	(257,629)
	591,909,620	610,108,349

45. Balances and Transactions with Related Parties

The Bank conducts transactions with shareholders, members of the Board of Directors, Executive Management, and Sister Companies in the ordinary course of its business using the Murabaha and commercial commissions rates.

The following is a summary of the transactions with related parties:

	Arab Bank (Parent Company)	Board Members	Parent Company's subsidiaries	Shari'a Supervisory, board members	Executive Management	Total	
						31 December	
						2018	2017
Statement of Financial Position Items:	JD	JD	JD	JD	JD	JD	JD
Balances with banks and financial instiinstitutions	18,502,301	-	-	-	-	**18,502,301**	17,286,621
International Murabaha (commodities investment)	117,780,234	-	-	-	-	**117,780,234**	107,071,059
Banks' and financial institutions accounts	3,756	-	310,262	-	-	**314,018**	255,616
Joint investment accounts and current accounts	-	36,957	-	193,091	1,145,740	**1,375,788**	886,604
Financial assets at fair value through shareholders' equity managed by sister company	-	-	5,324,798	-	-	**5,324,798**	5,498,759
Sales receivables and Ijara financings	-	631,076	-	-	2,055,532	**2,686,608**	1,580,404
Off – Statement of Financial Position Items:							
Guarantees	12,547,369	-	-	-	-	**12,547,369**	12,547,369
International Murabaha (Investment in Commodity)	158,363,980	-	-	-	-	**158,363,980**	96,558,033
Statement of Income Items:							
Distributed profit – deposits' accounts	-	-	-	341	19,969	**20,310**	11,798
Received profit - receivables	-	28,824	-	2,060	55,474	**86,358**	83,747
Shares' dividends	-	-	31,896	-	-	**31,896**	14,470
Received commissions-off - statement of financial position items	62,687	-	-	-	-	**62,687**	62,687
Salaries and remunerations *	-	25,000	-	84,000	1,806,618	**1,915,618**	1,775,570
Transportation – Committees Membership	-	116,400	-	-	-	**116,400**	120,000

- The lowest Murabaha rate that the Bank received was 3% and the highest Murabaha rate was 5.89%. Meanwhile, the lowest dividends distribution rate was 2.806%, and the highest rate of dividends distribution was 2.876%.
- All financings granted to related parties are performing, and consequently, no related provisions have been booked.

* The Central Bank of Jordan Circular No. 4676/2/10 regarding the definition of Executive Management has been implemented.

46. Risk Management

Islamic International Arab Bank deals with the challenges related to banking risks comprehensively within an overall risk management framework according to the best banking standards, conventions, and practices, reinforced by a governance structure at the level of the Board of Directors, in particular the committees emanating from the Board and Executive management level.

Risk management represents one of the main control levels within the institutional structural framework of the Bank's risk management. Moreover, Risk Management is responsible for developing an effective and secured system to identify the risks by the Bank is exposed to, and its tasks include the following:

- Reviewing the Bank's risk management framework before approval by the Board of Directors.
- Implementing risk management strategy as well as developing policies and work procedures to manage whole risk types.
- Developing methodologies for identifying, measuring, controlling and detecting each type of risks.
- Submitting reports to the Board members through the risk management committee and a copy of the reports to senior executive management, including information about the actual risk profile compared with accepted risk appetite, and following up and resolving negative deviations.
- Checking the integration of the risk measurement mechanism with management information systems.
- Studying and analyzing all risk types the Bank is exposed to.
- Submitting recommendations to the risk management committee about the Bank's risk exposure, as well as registering the exceptions in the risk management policy.
- Providing the necessary information about the Bank's risks for disclosure purposes.
- Reinforcing and raising awareness about risks through the best banking practices and standards.

Risk Management at the Bank is divided into the following sections:

1. Credit Risk

The Islamic international Arab Bank adopts initiative and a dynamic approach and implements a conservative strategy in managing this type of risk. This is a key factor to achieving its strategic objective in respect of continuous improvement and maintenance of the quality of assets and credit portfolio components.

The Bank also relies on well-established, conservative, and prudent credit standards. Furthermore, the Bank implements policies, procedures, methodologies, and general frameworks to manage risks, taking into consideration all the developments in the legislative and banking environment. Additionally, the Bank has in place clear organizational structures and technical systems, close follow-up, and effective controls that enable it to deal with probable risks and challenges arising from the changing environment at a high level of confidence and determination. Credit management decisions are based on the adopted strategy and the accepted levels of risk. Furthermore, periodic review and analysis of the credit portfolio type and quality are performed periodically based on specific performance indicators. These decisions also focus on diversity, which is considered key to mitigating and diversifying risks on the individual customers' level and sectors levels.

2. Liquidity Risk

Liquidity is the Bank's ability to meet its obligations on their maturity dates without incurring unacceptable losses, according to the definition of Islamic Financial Services Board (IFSB).

The Islamic international Arab Bank has established a strong liquidity infrastructure fulfilled at maturity under all circumstances without additional costs.

The Assets and Liabilities Committee (ALCO) manages the Bank's liquidity strategy. Moreover, the Treasury Department's employees carry out their duties according to the powers granted to them to meet the needs and goals of the Bank's different units.

(ALCO) analyzes the statement of financial position and the statement of income, determines market risk, and takes all the required procedures to amend all the prices and products combination, as needed, in order to maintain the optimum structure for the Bank's financial position and related risks.

3. Market Risk

Market risk is the probable loss arising from the change in value of the Bank's portfolios due to fluctuation in stock prices, profit rates, foreign exchange rates, and commodity prices. Moreover, market risks are managed on the trading portfolio and banking portfolio in a manner consistent with Islamic Sharia. In addition, three main activities expose the Bank to market risk: trading in cash market instruments, foreign currencies, and capital market instruments; trading in the banking portfolio; and trading in the trading portfolio.

The essential tools in measuring and managing market risk include:

- Net open position for foreign currencies.
- Value at risk.
- Stress testing.

4. Capital Market Risk

Investment in capital market instruments is exposed to market risk because of the change in profit rate.

The Bank's probable risk resulting from this kind of investment is limited due to the strict control on credit risk and profit rate risk. In this regard, the Bank's stocks investment portfolio constitutes a small percentage of the Islamic International Arab Bank's total assets.

5. Foreign Currencies Exchange Rates Risk:

Foreign currencies income is generated basically from the clients' operations. Restrictions are imposed on the Bank as regards trading in foreign currencies for its own account. In addition, these operations are properly hedged against expected currency fluctuations in a manner that reduces exchange rate risk to the minimum.

6. Compliance with Shari'a Standards Risk:

The Islamic International Arab Bank fully adheres to Shari'a Standards in force in all of its deals. For this purpose, IIAB provides its employees from all managerial levels with Shari'a banking courses to reinforce their abilities and efficiencies and enhance their knowledge and understanding of all Shari'a Standards.

In order to ensure its compliance with Shari'a Standards, the Bank established three Shari'a control units:

1. Shari'a Internal Audit Department supervised directly by the Shari'a Supervisory Board.
2. Shari'a control concurrent with implementation.
3. Shari'a compliance in the Compliance Department.

7. Other Risks

Islamic international Arab Bank is exposed to other types of risks, which it manages proactively and prudently.

47. Credit Risk

1. Distribution of credit Risk according to the Economic sector:

A. Exposure Distribution according Financial instruments (Net) as of 31 December 2018

	Financial	Industrial	Trade	Real Estate	Agriculture	Shares	Retail	Government and public sector	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD
Balances with central Bank	-	-	-	-	-	-	-	540,364,360	540,364,360
Balances with banks and financial institutions	20,438,681	-	-	-	-	-	-	-	20,438,681
Deferred sales Receivables and Other receivables and financings	1,263,996	66,422,879	319,148,133	142,433,820	24,676,689	-	265,684,176	-	819,629,693
Sukuk:	-	-	-	-	-	-	-	-	-
Within financial assets at amortized cost	10,689,169	-	-	-	-	-	-	21,097,741	31,786,910
Other Assets	-	-	-	-	-	-	-	-	-
Accrued revenues	114,986	-	333,092	-	-	-	-	169,833	617,911
Prepaid expenses	138,574	-	876,321	-	-	-	728,083	48,856	1,791,834
Total	32,645,406	66,422,879	320,357,546	142,433,820	24,676,689	-	266,412,259	561,680,790	1,414,629,389
Off- statement of financial position:									
Guarantees	199,811	16,388,885	38,327,851	-	104,325	-	-	-	55,020,872
Letters of credit	-	8,355,550	11,498,893	-	768,313	-	-	-	20,622,756
Acceptances	-	2,175,718	6,210,473	-	303,395	-	-	-	8,689,586
Unutilized limits	723,906	68,374,959	61,911,822	-	5,092,936	-	10,051,185	-	146,154,808
Total of financial position items	923,717	95,295,112	117,949,039	-	6,268,969	-	10,051,185	-	230,488,022
Total as of 31 December 2018	**33,569,123**	**161,717,991**	**438,306,585**	**142,433,820**	**30,945,658**	**-**	**276,463,444**	**561,680,790**	**1,645,117,411**
Total as of 31 December 2017	37,377,018	71,364,286	388,156,770	122,299,379	32,317,228	1,760,738	734,028,405	579,701,509	1,967,005,333

B. Distribution of exposures by stages according to IFRS (9) (Net) as of 31 December 2018:

Item (JD)	Stage 1	Stage 2	Stage 3	Total
Financial	**33,569,123**	**-**	**-**	**33,569,123**
Industrial	**141,301,025**	**20,138,456**	**278,510**	**161,717,991**
Trade	**382,337,912**	**48,472,850**	**7,495,823**	**438,306,585**
Real Estate	**121,545,299**	**20,642,718**	**245,803**	**142,433,820**
Agriculture	**30,927,853**	**17,805**	**-**	**30,945,658**
Shares	**-**	**-**	**-**	**-**
Retail	**273,864,895**	**2,326,852**	**271,697**	**276,463,444**
Government and public sector	**558,967,842**	**2,712,948**	**-**	**561,680,790**
Total	**1,542,513,949**	**94,311,629**	**8,291,833**	**1,645,117,411**

2. Distribution of exposures by geographical region:

Distribution of exposures according to geographical region (Net) as of 31 December 2018:

	Jordan	Other Middle East countries	Europe	Asia	America	Australia	Other	Total
	JD	JD	JD	JD	JD	JD	JD	JD
Balances with central Bank	540,364,360	-	-	-	-	-	-	540,364,360
Balances with banks and financial institutions	17,714,126	838,571	1,472,562	69,660	-	197,963	145,799	20,438,681
Deferred sales Receivables, other Receivables and financings:	651,632,988	108,949,947	38,479,314	20,567,444	-	-	-	819,629,693
Within financial assets at amortized cost	8,021,600	23,765,310	-	-	-	-	-	31,786,910
Other Assets	-	-	-	-	-	-	-	-
Accrued revenues	42,488	453,402	105,218	16,803	-	-	-	617,911
Prepaid expenses	1,791,834	-	-	-	-	-	-	1,791,834
Total	1,219,567,396	134,007,230	40,057,094	20,653,907	-	197,963	145,799	1,414,629,389
Guarantees	55,020,872	-	-	-	-	-	-	55,020,872
Letters of credit	20,622,756	-	-	-	-	-	-	20,622,756
Acceptances	8,689,586	-	-	-	-	-	-	8,689,586
Other obligations	146,154,808	-	-	-	-	-	-	146,154,808
Total as of 31 December 2018	**1,450,055,418**	**134,007,230**	**40,057,094**	**20,653,907**	**-**	**197,963**	**145,799**	**1,645,117,411**
Total as of 31 December 2017	1,784,766,361	124,514,079	42,042,840	12,236,266	2,785,058	400,590	260,139	1,967,005,333

Distribution of exposures by stages according to IFRS (9) (Net) as of 31 December 2018:

Item (JD)	Stage 1	Stage 2	Stage 3	Total
Jordan	**1,350,164,904**	**91,598,681**	**8,291,833**	**1,450,055,418**
Other Middle East countries	**131,294,282**	**2,712,948**	**-**	**134,007,230**
Europe	**40,057,094**	**-**	**-**	**40,057,094**
Asia	**20,653,907**	**-**	**-**	**20,653,907**
Australia	**197,963**	**-**	**-**	**197,963**
Other regions	**145,799**	**-**	**-**	**145,799**
Total	**1,542,513,949**	**94,311,629**	**8,291,833**	**1,645,117,411**

3- Total credit exposures and fair value of collaterals as of 31 December 2018:

A. Total exposures of the Bank's portfolio as of 31 December 2018:

Item (JD)	Total Exposures	Collaterals fair value							Net exposures after collaterals	(ECL)
		Cash margins	Quoted Shares	Banks guarantees	Real estate	Vehicles and equipment	Other	Total collaterals		
Balances with central Bank	540,364,360	-	-	-	-	-	-	-	540,364,360	-
Balances with banks and financial institutions	20,438,681	-	-	-	-	-	-	-	20,438,681	-
Deferred sales Receivables and other Receivables:										
Retail	267,627,527	1,274,627	-	-	23,010,483	61,266,502	-	85,551,612	182,075,915	1,729,646
Real estate financing	144,412,988	-	-	-	17,914,714	2,323,598	-	20,238,312	124,174,676	1,900,132
Corporates:										
Large Companies	377,907,331	5,072,992	-	-	82,542,453	7,622,948	-	95,238,393	282,668,938	17,125,677
Small and Medium Enterprises	54,532,301	3,701,388	-	59,800	7,357,681	3,188,720	-	14,307,589	40,224,712	2,746,606
Sukuk:										
Within financial assets at amortized cost	31,968,980	-	-	-	-	-	-	-	31,968,980	182,070
Accrued revenues	617,911	-	-	-	-	-	-	-	617,911	-
Prepaid expenses	1,791,834	-	-	-	-	-	-	-	1,791,834	-
Total	1,439,661,913	10,049,007	-	59,800	130,825,331	74,401,768	-	215,335,906	1,224,326,007	23,684,131
Off- statement of financial position items:										
Guarantees	55,415,847	4,534,691	-	-	-	-	-	4,534,691	50,881,156	394,975
Letters of credit	20,677,086	2,240,737	-	-	-	-	-	2,240,737	18,436,349	54,330
Acceptances and unutilized limits	155,371,767	62,995	-	-	36,051,433	48,932	-	36,163,360	119,208,407	527,373
Total of off- statement of financial position items	231,464,700	6,838,423	-	-	36,051,433	48,932	-	42,938,788	188,525,912	976,678
Total as of 31 December 2018	**1,671,126,613**	**16,887,430**	**-**	**59,800**	**166,876,764**	**74,450,700**	**-**	**258,274,694**	**1,412,851,919**	**24,660,809**

B. Credit exposures within stage 3 as of 31 December 2018:

Item (JD)	Total Exposures	Collaterals fair value							Net exposures after collaterals	(ECL)
		Cash margins	Quoted Shares	Bank guarantees	Real estate	Vehicles and equipment	Other	Total collaterals		
Balances with central Bank	-	-	-	-	-	-	-	-	-	-
Balances with banks and financial institutions	-	-	-	-	-	-	-	-	-	-
Deferred sales Receivables and other Receivables:										
Retail	1,875,474	-	-	-	118,824	10,000	-	128,824	1,746,650	1.495.511
Real estate financing	2,224,971	-	-	-	1,381,710	-	-	1,381,710	843,261	1,332,125
Corporates:										
Large Companies	23,060,229	600,587	-	-	6,237,442	135,000	-	6,973,029	16,087,200	16,182,059
Small and Medium Enterprises	3,699,874	194,950	-	-	2,504,057	929,418	-	3,628,425	71,449	2,555,830
Sukuk:										
Within financial assets at amortized cost	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-
Accrued revenues	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-	-
Total	30,860,548	795,537	-	-	10,242,033	1,074,418	-	12,111,988	18,748,560	21,565,525
Off- statement of financial position items										
Guarantees	485,499	279,011	-	-	-	-	-	279,011	206,488	321,857
Letters of credit	-	-	-	-	-	-	-	-	-	-
Acceptances and unutilized limits	258,907	-	-	-	77,880	-	-	77,880	181,027	77,346
Total of off- statement of financial position items	744,406	279,011	-	-	77,880	-	-	356,891	387,515	399,203
Total	31,604,954	1,074,548	-	-	10,319,913	1,074,418	-	12,468,879	19,136,075	21,964,728

4- Total reclassified credit exposures and total expected credit losses:

A. Total reclassified credit exposure as of 31 December 2018:

	Stage 2		Stage 3		Total reclassified exposures	Percentage of reclassified exposures
Item (JD)	Total exposures	Reclassified exposures	Total exposures	Reclassified exposures		
Deferred sales Receivables and other Receivables	70,584,605	45,123,438	30,860,548	13,942,948	59,066,386	58%
Within financial assets at amortized cost	2,836,000	-	-	-	-	
Other Assets	-	-	-	-	-	
Accrued revenues	-	-	-	-	-	
Prepaid expenses	-	-	-	-	-	
Total	73,420,605	45,123,438	30,860,548	13,942,948	59,066,386	57%
Off- statement of financial position items:						
Guarantees	2,030,175	2,030,176	485,499	445,105	2,475,281	98%
Letters of credit	1,096,190	1,096,190	-	-	1,096,190	100%
Acceptances	-	-	-	-	-	
Unutilized limits	18,913,785	13,270,187	258,907	258,907	13,529,094	71%
Total of off- statement of financial position items	22,040,150	16,396,553	744,406	704,012	17,100,565	75%
Total	95,460,755	61,519,991	31,604,954	14,646,960	76,166,951	60%

B. The amount of expected credit losses as of 31 December 2018:

	Stage 2		Stage 3		Total reclassified exposures	Percentage of reclassified exposures
Item (JD)	Total exposures	Reclassified exposures	Total exposures	Reclassified exposures		
Balances with banks and financial institutions						
Deferred sales Receivables and other Receivables	891,462	186,095	21,565,525	129,838	315,933	1%
Financial assets at amortized cost	165,416	-	-	-	-	
Other Assets	-	-	-	-	-	
Accrued revenues	-	-	-	-	-	
Prepaid expenses	-	-	-	-	-	
Total	1,056,878	186,095	21,565,525	129,838	315,933	1%
Off- statement of financial position items:						
Guarantees	17,062	3,310	318,857	845	4,155	1%
Letters of credit	3,561	-	-	-	-	
Acceptances	14	-	-	-	-	
Unutilized limits	113,975	112,327	80,346	50,282	162,609	84%
Total of off- statement of financial position items	134,612	115,637	399,203	51,127	166,764	31%
Total	1,191,490	301.732	21,964,728	180,965	482,697	2%

C. Reclassified expected credit loss:

	Reclassified exposures			ECL Reclassified exposures				
Item (JD)	Total exposures reclassified from stage 2	Total exposures reclassified from stage 3	Total exposure reclassified	Stage 2 (individual)	Stage 2 (collective)	Stage 3 (individual)	Stage 3 (collective)	Total
Deferred sales Receivables and other Receivables	9,117,446	-	9,117,446	127,336	-	-	-	127,336
Within financial assets at amortized cost	3,657,205	-	3,657,205	7,027	-	-	-	7,027
Total	12,774,651	-	12,774,651	134,363	-	-	-	134,363
Off- statement of financial position items:								
Guarantees	-	-	-	-	-	-	-	-
Letters of credit	-	-	-	-	-	-	-	-
Acceptances	-	-	-	-	-	-	-	-
Unutilized limits	-	-	-	-	-	-	-	-
Total of off- statement of financial position items	-	-	-	-	-	-	-	-
Total	12,774,651	-	12,774,651	134,363	-	-	-	134,363

48. A. Credit Risk

1. Exposures to Credit Risk (after expected credit losses and before collateral held and other risk mitigating factors)

	Joint		Self		Total	
	31 December		31 December		31 December	
	2018	2017	**2018**	2017	**2018**	2017
Statement	JD	JD	JD	JD	JD	JD
financial position items:						
Balances with Central Bank	**-**	-	**540,364,360**	555,592,830	**540,364,360**	555,592,830
Balances with banks and financial institutions	**-**	-	**20,438,681**	21,546,641	**20,438,681**	21,546,641
Deferred Sales Receivables and Other Receivables:						
Retail	**226,780,006**	707,356,174	**38,904,170**	26,155,762	**265,684,176**	733,511,936
Real estate financings	**142,433,820**	122,299,379	**-**	-	**142,433,820**	122,299,379
Corporates:						
Large companies	**358,308,610**	401,738,884	**1,821,877**	1,689,719	**360,130,487**	403,428,603
Small and Medium Enterprises	**51,308,031**	90,031,126	**73,179**	528,501	**51,381,210**	90,559,627
Financing Investments:						
Musharaka:						
Retail	**-**	-	**-**	-	**-**	-
Real estate financings	**-**	-	**-**	-	**-**	-
Mudaraba:						
Corporates						
Large companies	**-**	-	**-**	-	**-**	-
Sukuk:						
Within financial assets at amortized cost	**31,786,910**	38,096,056	**-**	-	**31,786,910**	38,096,056
Other assets						
Accrued revenue	**617,911**	464,444	**-**	-	**617,911**	464,444
Prepaid expenses	**-**	-	**1,791,834**	1,505,817	**1,791,834**	1,505,817
Off – Statement of Financial Position:						
Letters of Guarantee	**-**	-	**55,020,872**	56,512,028	**55,020,872**	56,512,028
Letters of credit	**-**	-	**20,622,756**	25,781,677	**20,622,756**	25,781,677
Acceptances	**-**	-	**8,689,586**	5,882,171	**8,689,586**	5,882,171
Unutilized limits	**99,283,916**	165,101,101	**46,870,892**	13,913,032	**146,154,808**	179,014,133
Total	**910,519,204**	1,525,087,164	**734,598,207**	709,108,178	**1,645,117,411**	2,234,195,342

2. Distribution of Credit Risk Exposure according to the degree of risk, Central Bank of Jordan regulations, and the International Accounting Standards.

The credit exposure is distributed according to the degree of risk according to the following table:

31 December 2018	Joint: Retail	Joint: Real Estate	Joint: Large Companies	Joint: Medium Enterprises	Joint: Banks and other Financial Institutions	Joint: Government and Public Sector	Joint: Total	Self: Retail	Self: Government and public sector	Self: Banks and other Financial Institutions	Self: Large Companies	Self: Medium Enterprises	Self: Total	Total
	JD	JD	JD	JD	JD	JD	JD	JD	JD		JD	JD	JD	JD
Low risk	1,274,627	-	5,071,374	3,761,188	-	21,267,574	31,374,763	-	540,364,360	-	1,618	-	540,365,978	571,740,741
Acceptable risk	255,703,478	163,051,814	351,265,936	48,337,856	10,804,155	-	829,163,239	39,623,470	48,856	20,438,681	2,358,754	68,032	62,537,793	891,701,032
Past due														
Up to 30 days	342,328	23,276	568,462	75,002	-	-	1,009,068	-	-	-	-	-	-	1,009,068
From 31 to 90 days (stage 2)	951,489	64,854	1,315,365	352,111	-	-	2,683,819	10,343	-	-	109,319	6,549	126,211	2,810,030
Watch list	1.301,346	1,221,177	2,705,240	1,713,159	-	-	6,940,922	12,449	-	-	379,295	1,512	393,256	7,334,178
Non-performing:														
Sub-standard	248,889	349,806	146,202	163,952	-	-	908,849	27,083	-	-	-	7,267	34,350	943,199
Doubtful	324,989	835,116	5,405,482	241,241	-	-	6,806,828	64,105	-	-	-	14,698	78,803	6,885,631
Loss	969,992	1,040,049	14,289,682	3,095,096	-	-	19,394,819	240,416	-	-	3,218,863	177,620	3,636,899	23,031,718
Total	261,117,138	166,586,092	380,767,743	57,739,605	10,804,155	21,267,574	898,282,307	39,977,866	540,413,216	20,438,681	6,067,849	275,678	607,173,290	1,505,455,597
Less:														
Deferred revenue	32,739,394	22,173,104	7,579,848	3,482,982	-	-	65,975,328	-	-	-	426	-	426	65,975,754
Revenues in suspense	213,705	79,036	634,305	404,485	-	-	1,331,531	-	-	-	16,862	-	16,862	1,348,393
Provision for impairment	1,384,033	1,900,132	13,911,888	2,544,107	-	-	19,740,160	345,613	-	-	3,213,789	202,499	3,761,901	23,502,061
Net	226,780,006	142,433,820	358,641,702	51,308,031	10,804,155	21,267,574	811,235,288	39,632,253	540,413,216	20,438,681	2,836,772	73,179	603,394,101	1,414,629,389
31 December 2017														
Low risk	1,471,347	186,672	5,926,552	2,843,311	-	24,025,741	34,453,623	-	555,592,830	-	72,981	-	555,665,811	590,119,434
Acceptable risk	728,162,235	139,884,764	395,725,755	86,051,877	14,410,183	-	1,364,234,814	26,650,070	82,938	21,546,641	2,178,682	528,241	50,986,572	1,415,221,386
Past due										-				
Up to 30 days	1,143,358	35,526	116,639	10,764	-	-	1,306,287	-	-	-	-	-	-	1,306,287
From 31 to 60 days	7,793,713	35,959	626,417	53,683	-	-	8,509,772	13,208	-	-	568	179	13,955	8,523,727
Watch list	837,514	2,304,064	1,116,924	1,878,080	-	-	6,136,582	10,999	-	-	400,234	102	411,335	6,547,917
Non-performing:														
Sub-standard	210,524	53,152	1,573,100	505,611	-	-	2,342,387	24,046	-	-	-	2,150	26,196	2,368,583
Doubtful	225,632	11,842	5,454,224	2,243,820	-	-	7,935,518	44,747	-	-	-	32,055	76,802	8,012,320
Loss	817,814	486,300	3,643,421	2,628,440	-	-	7,575,975	162,863	-	-	3,416,007	104,670	3,683,540	11,259,515
Total	740,662,137	142,998,279	414,183,032	96,215,586	14,410,183	24,025,741	1,432,494,958	26,905,933	555,675,768	21,546,641	6,068,472	667,397	610,864,211	2,043,359,169
Less:														
Deferred revenue	32,008,832	20,193,902	5,921,133	2,665,181	-	-	60,789,048	-	-		1,169	-	1,169	60,790,217
Revenues in suspense	144,429	47,781	336,001	382,856	-	-	911,067	-	-		16,364	-	16,364	927,431
Provision for impairment	1,152,702	457,217	6,062,438	3,136,423	-	-	10,808,780	233,702	-		3,454,810	138,896	3,827,408	14,636,188
Net	707,356,174	122,299,379	401,863,460	90,031,126	14,410,183	24,025,741	1,359,986,063	26,672,231	555,675,768	21,546,641	2,596,129	528,501	607,019,270	1,967,005,333

Fair value of collaterals against deferred sales receivables, other receivables and financings :

	Joint					Self					Total
2018	Retail	Real Estate Financing	Large Companies	Small and Medium Enterprises	Total	Retail	Real Estate Financing	Large Companies	Small and Medium Enterprises	Total	
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Collaterals against:											
Low risk	**1,274,627**	**-**	**5,071,374**	**3,761,188**	**10,107,189**	-	-	**1,618**	-	**1,618**	**10,108,807**
Acceptable risk	**83,821,452**	**18,007,131**	**81,730,998**	**6,874,049**	**190,433,630**	-	-	**265,770**	-	**265,770**	**190,699,400**
Watch list	**326,709**	**821,761**	**1,223,314**	**43,927**	**2,415,711**	-	-	-	-	-	**2,415,711**
Non-performing:											
Sub-standard	-	**145,214**	**654,390**	**58,898**	**858,502**	-	-	-	-	-	**858,502**
Doubtful	-	**808,819**	**848,540**	**2,340,395**	**3,997,754**	-	-	-	-	-	**3,997,754**
Loss	**128,824**	**455,387**	**4,827,068**	**1,229,132**	**6,640,411**	-	-	**615,321**	-	**615,321**	**7,255,732**
Total	**85,551,612**	**20,238,312**	**94,355,684**	**14,307,589**	**214,453,197**	-	-	**882,709**	-	**882,709**	**215,335,906**
Of which:											
Cash margins	**1,274,627**	-	**5,071,374**	**3,701,388**	**10,047,389**	-	-	**1,618**	-	**1,618**	**10,049,007**
Real estate	**23,010,483**	**17,914,714**	**81,661,362**	**7,357,681**	**129,944,240**	-	-	**881,091**	-	**881,091**	**130,825,331**
Quoted shares	-	-	-	-	-	-	-	-	-	-	-
Vehicles and equipment	**61,266,502**	**2,323,598**	**7,622,948**	**3,188,720**	**74,401,768**	-	-	-	-	-	**74,401,768**
Accepted bank guarantees	-	-	-	**59,800**	**59,800**	-	-	-	-	-	**59,800**
	85,551,612	**20,238,312**	**94,355,684**	**14,307,589**	**214,453,197**	-	-	**882,709**	-	**882,709**	**215,335,906**
2017											
Collaterals against:											
Low risk	1,471,347	186,672	5,926,552	2,843,311	10,427,882	-	-	72,981	-	72,981	10,500,863
Acceptable risk	81,915,028	19,893,020	80,428,664	9,861,822	192,098,534	-	-	-	-	-	192,098,534
Watch list	1,385,972	1,673,087	846,000	466,220	4,371,279	-	-	324,065	-	324,065	4,695,344
Non-performing:											
Sub-standard	316,375	-	1,811,321	240,887	2,368,583	-	-	-	-	-	2,368,583
Doubtful	237,825	11,423	1,220,408	176,264	1,645,920	-	-	-	-	-	1,645,920
Loss	5,220,136	161,773	1,121,453	890,201	7,393,563	-	-	615,810	-	615,810	8,009,373
Total	90,546,683	21,925,975	91,345,398	14,478,705	218,305,761	-	-	1,012,856	-	1,012,856	219,318,617
Of which:											
Cash margins	1,471,347	-	5,926,552	2,780,803	10,178,702	-	-	72,981	-	72,981	10,251,683
Real estate	24,861,693	19,883,887	69,136,641	7,684,046	121,566,267	-	-	939,875	-	939,875	122,506,142
Quoted shares	-	-	-	-	-	-	-	-	-	-	-
Vehicles and equipment	64,213,643	1,855,416	16,291,205	3,951,348	86,311,612	-	-	-	-	-	86,311,612
Accepted bank guarantees	-	186,672	-	62,508	249,180	-	-	-	-	-	249,180
	90,546,683	21,925,975	91,354,398	14,478,705	218,305,761	-	-	1,012,856	-	1,012,856	219,318,617

3- Sukuk: The following table shows the classification of Sukuk according to external rating agencies:

Rating Grade	Rating Agency	Within Financial Assets at Amortized Cost
		JD
A	Fitch	10,689,169
B+	S & P	2,670,584
BBB+	S & P	3,619,358
BB+	Fitch	6,786,199
Unrated/guaranteed by Jordanian government		8,021,600
Total		31,786,910

Deferred Sales Receivables and Other Receivables and Re-Scheduled Financings:

- These are the receivables previously rated as non-performing receivables/financings and excluded from the non-performing receivables and financings framework by virtue of proper scheduling. These receivables have been classified within watch-list receivables/financings and amounted to JD 1,210 thousand as of 31 December 2018, regardless of whether they remain in the watch list or get transferred to the performing receivables (JD 1,303 thousand as of 31 December 2017).

Deferred Sales Receivables and Other Receivables and Re-structured Financings:

- Restructuring means re-arranging receivables/financings in terms of amending installments, extending their life of receivables/financings, deferring some installments, or extending their grace period. They are classified as watch-list receivables/financings and amounted to JD 14,561 thousand as of 31 December 2018 (JD 28,133 thousand as of 31 December 2017).

4. Concentration of Credit Risk Exposures as per Geographical Distribution is as follows:

Item / Geographical Area	Jordan	Other Middle Eastern Countries	Europe	America	Australia	Other	Total
	JD	JD	JD	JD	JD	JD	JD
Balances with Central Bank	540,364,360	-	-	-	-	-	540,364,360
Balances with banks and financial institutions	17,714,126	838,571	1,472,562	-	197,963	215,459	20,438,681
Deferred Sales Receivables: other Receivables and Financings:							
Retail	265,684,176	-	-	-	-	-	265,684,176
Real estate financings	142,433,820	-	-	-	-	-	142,433,820
Corporates:							
Large companies	192,133,782	108,949,947	38,479,314	-	-	20,567,444	360,130,487
Small and Medium Enterprises	51,381,210	-	-	-	-	-	51,381,210
Within financial assets at amortized cost	8,021,600	23,765,310	-	-	-	-	31,786,910
Other Assets:							
Accrued revenue	42,488	453,402	105,218	-	-	16,803	617,911
Prepaid expenses	1,791,834	-	-	-	-	-	1,791,834
Total as of 31 December 2018	**1,219,567,396**	**134,007,230**	**40,057,094**	**-**	**197,963**	**20,799,706**	**1,414,629,389**
Total as of 31 December 2017	1,784,766,361	124,514,079	42,042,840	2,785,058	400,590	12,496,405	1,967,005,333

5. Concentration of Credit Risk Exposures as per Economic Activities is as follows:

Item / Sector	Finance	Industrial	Trade	Real Estate	Agriculture	Shares	Retail	Government and Public Sector	Total
	D	JD	JD	JD	JD	JD	JD	JD	JD
Balances at Central Bank	-	-	-	-	-	-	-	540,364,360	540,364,360
Balances at banks and financial institutions	20,438,681	-	-	-	-	-	-	-	20,438,681
Deferred sales Receivables, other receivables, and Financings	1,263,996	66,422,879	319,148,133	142,433,820	24,676,689	-	265,684,176	-	819,629,693
Sukuk:									
Within financial assets at amortized cost	10,689,169	-	-	-	-	-	-	21,097,741	31,786,910
Other assets									
Accrued revenues	114,986	-	333,092	-	-	-	-	169,833	617,911
Prepaid expenses	138,574	-	876,321	-	-	-	728,083	48,856	1,791,834
Total as of 31 December 2018	**32,645,406**	**66,422,879**	**320,357,546**	**142,433,820**	**24,676,689**	**-**	**266,412,259**	**561,680,790**	**1,414,629,389**
Total as of 31 December 2017	37,377,018	71,364,286	388,156,770	122,299,379	32,317,228	1,760,738	734,028,405	579,701,509	1,967,005,333

48. B- Market Risk

The Bank adopts financial policies form an aging various risks within a defined strategy. Moreover, the Bank's Assets and Liabilities Management Committee monitors and controls risks and carries out the optimal strategic distribution for assets and liabilities, whether on- or off-the statement of financial position.These risks include:

- Up-dating the Bank's investment policies; presenting them periodically to the Board of Directors for approval; reviewing the implementation of the investment policies and evaluating their results in comparison with the market indicators and banking competitiveness.
- Forming investment decision-making committees and vesting authorities in conformity with the Bank's investment policy.
- Setting-up an annual investment plan, taking into consideration projections of the Assets and Liabilities Committee in respect of the expected returns and market rate fluctuations. The plan has to include the investment instruments available in the low-risk market.
- Preparing reports on the market rates and presenting them to the Assets and Liabilities Committee to monitor any sudden drop in the prices of the invested financial instruments to avoid the risks of market rates fluctuations.

1. Rate of Return Risks

- Rate of return risks arise from the increase in long-term fixed rates in the market, which do not correspond immediately with the emerging changes in the high return index. The necessary steps must be taken to ensure availability of administrative measures related to renewal, measurement and follow-up of the average return risk. Moreover, reports should be prepared on rate of return risks. They should also be monitored, and the soundness of their structure should be verified.

- The Bank is exposed to the average return risks due to a gap in the amounts of assets and liabilities as per the multiple maturity times or due to re-pricing of the average return over the subsequent transactions during a specific period. The Bank manages such risks by determining the future profit rates in accordance with the projections of market conditions and developing new instruments that are Shari'a compliant through the Bank's risk management strategy.

1- Obtaining the best possible returns available in the market based on the International Market Index (Libor) as a standard and benchmark for both the portfolio and investments managed by the Bank.

2- Observing the risks arising from these investments based on the diversity option and countries, institutions, and regions; and ensuring mitigation of the risk effects arising from managing investment

3- Complying with management of investments by matching the Bank's liabilities, represented by deposits, and assets in foreign currencies comprised of investments in foreign currencies. Accordingly, time restricted deposits are invested on a short-term investment basis while the long- term deposits are invested on a medium- or long- term investment basis.

2. Foreign Exchange Risk

Foreign currencies are managed on a spot basis rather than on a forward basis. Accordingly, the foreign currency positions are monitored daily, and so are the limits for the positions for every currency. Moreover, the Bank's general policy for managing foreign currencies is based on liquidating the position on time and covering the required positions as per the customers' needs. In respect of open foreign currency positions held against each other, the Bank relies on the instructions of the Central Bank of Jordan. These instructions prescribe that licensed banks should hold open positions (long and short) in foreign currencies, not exceeding 5% of the shareholders' equity for each currency separately. This percentage does not apply to the US Dollar, as it is a base currency. As such, the total position for all currencies may not exceed 15% of the shareholders' equity of the Bank.

2018	Change in Currency Exchange Rate	Effect on Profit and Loss	Effect on Shareholders' Equity
	(%)	JD	JD
Total currencies	**5**	**113,772**	**-**
2017	Change in Currency Exchange Rate	Effect on Profit and Loss	Effect on Shareholders' Equity
	(%)	JD	JD
Total currencies	5	161,478	-

3. Change in Share Prices Risk

The policy adopted by the Treasury Department for managing shares and securities is based on analyzing and fairly evaluating the financial indicators of these prices, depending on the shares' evaluation models. Such analysis and evaluation take into account the changes in fair value risks of the investments that the Bank manages by diversifying investments and economic sectors.

2018	Change in the Index	Effect on Profit and Loss	Effect on Shareholders' Equity
Indicator	(%)	JD	JD
Financial Markets	**5**	**-**	**266,240**
2017	Change in the Index	Effect on Profit and Loss	Effect on Shareholders' Equity
Indicator	(%)	JD	JD
Financial Markets	5	-	274,938

4. Commodities' Risks

The commodities' risks arise from the fluctuations in the prices of tradable or leasable assets. Moreover, they are associated with the present and future fluctuations in the market values of specific assets. In this respect, the Bank is exposed to the fluctuations in the prices of commodities bought and fully paid for after concluding sales contracts and during the year of acquisition. It is also exposed to the fluctuations in the residual value of the leased premises as at the end of the lease period.

Concentration of Foreign Currency Risk

(To the nearest 000 JDs)

31 December 2018	US Dollar	Euro	Sterling Pound	Japanese Yen	Others	Total
Assets:						
Cash and Balances with Central Bank	**19,578**	**407**	**11**	**-**	**592**	**20,588**
Balances with banks and financial institutions	**73**	**16,533**	**447**	**352**	**2,024**	**19,429**
Sales receivables, other receivables, financings and Ijara	**163,124**	**24**	**2,731**	**3**	**6,031**	**171,913**
Financial assets at fair value through shareholders' equity	**5,158**	**-**	**-**	**-**	**-**	**5,158**
Financial assets at amortized cost	**23,765**	**-**	**-**	**-**	**-**	**23,765**
Other assets	**582**	**-**	**1**	**-**	**8**	**591**
Total assets	**212,280**	**16,964**	**3,190**	**355**	**8,655**	**241,444**
Liabilities:						
Banks and financial institutions' account	**1,456**	**-**	**-**	**-**	**41**	**1,497**
Customers' deposits (current, savings and time)	**201,067**	**14,055**	**3,118**	**350**	**7,709**	**226,299**
Cash margins	**3,928**	**241**	**62**	**4**	**15**	**4,250**
Other liabilities	**3,816**	**2,601**	**7**	**1**	**392**	**6,817**
Total Liabilities	**210,267**	**16,897**	**3,187**	**355**	**8,157**	**238,863**
Net concentration within the statement of financial position for the current year	**2,013**	**67**	**3**	**-**	**498**	**2,581**
Contingent liabilities off- statement of financial position for the current year	**23,936**	**6,177**	**14**	**180**	**546**	**30,853**
31 December 2017						
Total Assets	200,243	15,502	4,419	466	8,485	229,115
Total Liabilities	197,188	15,379	4,414	466	7,983	225,430
Net Concentration within the Statement of Financial Position	3,055	123	5	-	502	3,685
Contingent Liabilities off- Statement of Financial Position	22,504	7,575	119	31	-	30,229

48. C- Liquidity Risk

Management of cash liquidity is a clear expression of the Bank's ability to meet its cash obligations in the short and long terms within its general strategic frame work that aims at realizing an optimal return on its investments. Moreover, the Bank's cash liquidity is reviewed and studied over many years. At the branches, the Branch's management and Treasury review and study the cash obligations and the available funds daily. On the Bank's level in general, cash liquidity is studied by the Financial Control Department and General Treasury Department daily. Moreover, the cash liquidity and the Bank's assets and liabilities are studied and analyzed on a monthly basis. The cash liquidity review includes analyzing the maturity dates of assets and liabilities as a whole to ensure that they match properly. The review also includes analyzing the sources of funds in accordance with the nature of their sources and uses.

First: The following table summarizes the distribution of liabilities (not discounted) on the basis of the remainder of the contractual maturity at the date of the financial statements:

(To the nearest 000JDs)

31 December 2018	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to one year	Up to 3 years	More than 3 years	Without maturity	Total
Liabilities								
Banks and financial institutions accounts	**1,808**	-	-	-	-	-	-	**1,808**
Customers' current accounts	**248,811**	**100,658**	**80,686**	**60,713**	**174,880**	-	-	**665,748**
Cash margins	**17,873**	**1,987**	**3,348**	**7,881**	-	-	-	**31,089**
Other provisions	-	-	-	-	-	-	**3,007**	**3,007**
Income tax provision	**2,921**	-	**9,204**	-	-	-	-	**12,125**
Other liabilities	**16,594**	**6,273**	**1,025**	-	-	-	**1,157**	**25,049**
Investment risk fund	**743**	-	**2,182**	-	-	-	**23,994**	**26,919**
Joint investment accounts	**302,032**	**299,806**	**162,953**	**372,880**	**61,740**	-	-	**1,199,411**
Total	**590,782**	**408,724**	**259,398**	**441,474**	**236,620**	-	**28,158**	**1,965,156**
Total Assets (according to expected maturities)	**677,944**	**254,326**	**109,369**	**159,061**	**467,564**	**438,073**	**52,711**	**2,159,048**
31 December 2017								
Liabilities								
Banks and financial institutions accounts	258	-	-	-	-	-	-	258
Customers' current accounts	263,765	106,402	85,220	64,038	186,649	-	-	706,074
Cash margins	17,295	4,268	3,617	10,647	-	-	-	35,827
Other provisions	-	-	-	-	-	-	2,746	2,746
Income tax provision	3,123	-	8,880	-	-	-	-	12,003
Other liabilities	17,009	582	5,588	-	-	-	227	23,406
Investment Risks Fund	655	-	1,940	-	-	-	26,984	29,579
Joint investment accounts	224,739	224,503	162,902	387,956	67,503	-	-	1,067,603
Total	526,844	335,755	268,147	462,641	254,152	-	29,957	1,877,496
Total Assets (according to expected maturities)	688,048	239,424	106,209	149,987	399,822	417,500	51,089	2,052,079

Second: Off-Statement of Financial Position Items

	Up to One Year	
	2018	2017
	JD	JD
Letters of credit and acceptances	**29,383,888**	31,663,848
Unutilized limits	**146,664,965**	218,005,824
Letters of Guarantees	**55,415,847**	56,512,028
Total	**231,464,700**	306,181,700

49. Information about the Bank's Business Sectors

A. Information about the Bank's Activities

The Bank is organized, for administrative purposes, whereby the sectors are measured in accordance with the reports used by the Bank's Executive Manager and decision-maker through the following four major sectors:

Retail Banking

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

Corporate Banking

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

Treasury

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

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

					Total	
					31 December	
	Retail	Corporates	Treasury	Others	2018	2017
	JD	JD	JD	JD	JD	JD
Gross income (Joint and Self)	53,538	29,307	7,985	16	**90,846**	84,895
Share of Investment Risks Fund	(7,772)	(2,294)	-	-	**(10,066)**	(9,206)
ECL of sales receivables and other receivables - self	-	125	-	-	**125**	(91)
Business Sector Results	45,766	27,138	7,985	16	**80,905**	75,598
Undistributed expenses	(13,211)	(3,868)	(283)	(16,780)	**(34,142)**	(32,073)
Income before Tax	32,555	23,270	7,702	(16,764)	**46,763**	43,525
Income tax	(10,353)	(7,402)	(2,449)	5,332	**(14,872)**	(14,727)
Income for the Year	22,202	15,868	5,253	(11,432)	**31,891**	28,798
Segment's Assets	898,315	443,396	766,175	-	**2,107,886**	2,004,066
Sector's Undistributed Assets	-	-	-	51,162	**51,162**	48,013
Total Segment's Assets	898,315	443,396	766,175	51,162	**2,159,048**	2,052,079
Segment's Liabilities, Joint Investment Equity and Investment Risks Fund	1,463,122	450,607	1,808	-	**1,915,537**	1,830,547
Undistributed Liabilities, Joint Investment Equity and Investment Risk Fund	-	-	-	49,619	**49,619**	46,949
Total Segment's Liabilities, Joint Investment Equity and Investment Risk Fund	1,463,122	450,607	1,808	49,619	**1,965,156**	1,877,496
					2018	2017
					JD	JD
Capital expenses	-	-	-	2,118	**2,118**	2,074
Depreciation and Amortization	1,613	5	2	1,387	**3,007**	3,130

b. Information on the Geographical Distribution

This note represents the geographical distribution of the Bank's operations. The Bank performs its operations mainly in the Hashemite Kingdom of Jordan, and these operations represent the local activities.

The following is the distribution of the Bank's income, assets and capital expenditures as per geographical sector based on their measurement method in accordance with the reports used by the Bank's Executive Manager and decision-maker at the Bank:

(To the nearest 000 JDs)

	Inside Jordan		Outside Jordan		Total	
	2018	2017	Outside Jordan	2017	Outside Jordan	2017
Gross income	**83,609**	81,277	**7,237**	3,618	**90,846**	84,895
Total assets	**1,963,986**	1,869,840	**195,062**	182,239	**2,159,048**	2,052,079
Capital expenditures	**2,118**	2,074	**-**	-	**2,118**	2,074

50. Capital Management

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

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

The most significant reason for the change in regulatory capital during the year is that profits realized during the year were not distributed but rather capitalized in shareholders' equity through the statutory, voluntary and special reserves.

The Capital Adequacy Ratio is calculated based on the Central Bank of Jordan Regulations and the (IFSB). The following represents the Capital Adequacy Ratio compared to prior year:

(to the nearest 000 JDs)

	31 December 2018
	JD
Common equity Tier 1 – net (CET1)	**176,490**
Common equity Tier 1 – (CET1)	**193,892**
Authorized and paid up capital	**100,000**
Statutory reserve	**30,412**
Voluntary reserve	**4,262**
Retained earnings	**58,923**
Fair value reserve	**295**
Less:	
Intangible assets	**(278)**
Proposed profit for distribution	**(14,000)**
Retained earnings restricted to use	**(181)**
Deferred tax assets – self and joint	**(2,943)**
Tier 2	**12,865**
Expected credit losses provisions against direct and indirect facilities, self and joint	**868**
The Bank's share from the investment risk fund's surplus - joint	**11,997**
Total Regulatory Capital	**189,355**
Total Risk-weighted Assets	**1,001,689**
Capital Adequacy Ratio (%)	**18.90%**
CET1 (%)	**17.62%**
Tier1 (%)	**17.62%**
Tier2 (%)	**1.28%**
Leverage Ratio (%)	**14.44%**

The Central Bank of Jordan has issued the capital adequacy regulations in accordance with the adjusted standard (15) issued by the (IFSB), on the 4th of February 2018 which was used to calculate the Capital Adequacy Ratio:

(to the nearest 000 JDs)

	31 December 2017
	JD
Primary capital	158,395
Authorized and paid-up capital	100,000
Statutory reserve	25,736
Voluntary reserve	4,262
Retained earnings	28,871
Less: Intangible assets	(474)
Supplementary capital	
Fair value reserve	190
General banking risks reserve	882
Bank's share of the general banking risks reserve – Joint	5,725
Bank's share of the surplus of Investment Risks Fund – Joint	7,767
Total Regulatory Capital	172,959
Total Risk-weighted Assets	1,047,973
Capital Adequacy Ratio (%)	16.5%
Primary Capital Ratio (%)	15.11%

51. Assets and Liabilities maturity analysis

The following table analyzes assets and liabilities in accordance with the expected period of their recoverability or settlement:

(to the nearest 000 JDs)

	Up to 1 Year	Over 1 Year	Total
31 December 2018	JD	JD	JD
Assets:			
Cash and balances with Central Banks	**573,279**	-	**573,279**
Balances with banks and financial institutions	**20,439**	-	**20,439**
Deferred sales receivables and other receivables – Net	**463,221**	**315,899**	**779,120**
Deferred sales receivables through the statement of income	-	-	-
Financing investments - Net	-	-	-
Financial assets at fair value through shareholders' equity – accounts' holders	-	**5,325**	**5,325**
Financial assets at fair value through joint investment	-	**1,607**	**1,607**
Financial assets at amortized cost	-	**31,787**	**31,787**
Ijara muntahia bittamaleek assets – Net	**101,202**	**555,960**	**657,162**
Investments in real estate	-	**21,794**	**21,794**
Qard Hasan loans	**39,177**	**1,333**	**40,510**
Property and equipment - Net	-	**18,042**	**18,042**
Intangible assets	**69**	**209**	**278**
Deferred tax assets	-	**3,349**	**3,349**
Other assets	**3,313**	**3,043**	**6,356**
Total Assets	**1,200,700**	**958,348**	**2,159,048**
Liabilities and Joint Investment Accounts' Holders			
Banks and financial institutions accounts	**1,808**	-	**1,808**
Customers' current and demand account	**490,868**	**174,880**	**665,748**
Cash margins	**31,089**	-	**31,089**
Other provisions	-	**3,007**	**3,007**
Income tax provision	**12,125**	-	**12,125**
Other liabilities	**23,892**	**1,157**	**25,049**
Joint investment accounts	**1,137,671**	**61,740**	**1,199,411**
Investment Risks Fund	-	**23,994**	**23,994**
Income tax provision for the Investment Risks Fund	**2,925**	-	**2,925**
Total Liabilities and Joint Investment Accounts Holders	**1,700,378**	**264,778**	**1,965,156**
Net	**(499,678)**	**693,570**	**193,892**

(to the nearest 000 JDs)

31 December 2017	Up to 1 Year JD	Over 1 Year JD	Total JD
Assets:			
Cash and balances with Central Banks	588,819	-	588,819
Balances with banks and financial institutions	21,547	-	21,547
Deferred sales receivables and other receivables – Net	431,387	270,433	701,820
Deferred sales receivables through the statement of income	-	-	-
Financing investments - Net	-	-	-
Financial assets at fair value through shareholders' equity – accounts' holders	-	5,499	5,499
Financial assets at fair value through joint investment	-	198	198
Financial assets at amortized cost	10,799	27,297	38,096
Ijara muntahia bittamaleek assets – Net	102,585	517,699	620,284
Investments in real estate	-	21,509	21,509
Qard Hasan loans	26,414	1,281	27,695
Property and equipment - Net	-	18,758	18,758
Intangible assets	119	355	474
Deferred tax assets	12	2,666	2,678
Other assets	1,986	2,716	4,702
Total Assets	1,183,668	868,411	2,052,079
Liabilities and Joint Investment Accounts' Holders			
Banks and financial institutions accounts	258	-	258
Customers' current and demand account	519,425	186,649	706,074
Cash margins	35,827	-	35,827
Other provisions	-	2,746	2,746
Income tax provision	12,003	-	12,003
Other liabilities	23,179	227	23,406
Joint investment accounts	1,000,100	67,503	1,067,603
Investment Risks Fund	-	26,984	26,984
Income tax provision for the Investment Risks Fund	2,595	-	2,595
Total Liabilities and Joint Investment Accounts Holders	1,593,387	284,109	1,877,496
Net	(409,719)	584,302	174,583

52. Fair Value Measurement

The standard requires determining the level and disclosure of the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. The difference between level (2) and level (3) of the fair value measurements, i.e., assessing whether the inputs are observable and whether the unobservable inputs are significant. This may require judgement and careful analysis of the inputs used to measure fair value including consideration of factors specific to the asset or liability.

a. The Bank's Fair Value of Financial Assets and Financial Liabilities Measured at Fair Value on a Recurring Basis:

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each financial period. The following table gives information about the method of determining the fair value of such financial assets and financial liabilities (valuation techniques and key inputs).

Financial Assets / Financial Liabilities	Fair Value 31 December 2018	Fair Value 31 December 2017	Fair Value Hierarchy	Valuation Techniques and Key Inputs	Significant unobservable Inputs	Relationship between Unobservable Inputs and Fair Value
	JD	JD				
Financial Assets at Fair Value:						
Financial Assets at Fair Value through Shareholders' Equity						
Quoted shares	**5,324,798**	5,498,759	Level 1	Quoted rates in the Financial Markets	Not Applicable	Not Applicable
Financial Assets at fair value through joint investment						
Unquoted shares	**1,607,730**	198,366	Level 2	Compared to a similar financial asset	Not Applicable	Not Applicable
Total	**6,932,528**	5,697,125				

There were no transfers between Level (1) and Level (2) during 2018 and 2017.

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

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

	31 December 2018		31 December 2017		Level
	Book Value	Fair Value	Book Value	Fair Value	
	JD	JD	JD	JD	
Financial Assets not measured at Fair Value					
Deferred sales receivables	**779,119,614**	**779,452,706**	701,820,133	701,944,709	Level 2
Investments in real estate	**21,794,384**	**25,477,076**	21,508,775	24,118,346	Level 2
Financial assets at amortized cost	**31,786,910**	**32,071,729**	38,096,056	38,435,924	Level 1
Total financial assets not measured at fair value	**832,700,908**	**837,001,511**	761,424,964	764,498,979	
Financial Liabilities not measured at Fair Value					
Customers' current and unrestricted accounts	**1,858,819,790**	**1,865,159,062**	1,767,653,278	1,773,677,099	Level 2
Cash margins	**30,914,889**	**31,089,191**	35,652,339	35,827,797	Level 2
Total Financial Liabilities not measured at Fair Value	**1,889,734,679**	**1,896,248,253**	1,803,305,617	1,809,504,896	

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

53. Commitments and Contingent Liabilities (Off – Statement of Financial Position)

Contingent credit commitments:

	31 December	
	2018	2017
	JD	JD
Letters of credit	**20,677,086**	25,781,677
Acceptances	**8,706,802**	5,882,171
Letters of Guarantee:		
Payment	**28,890,548**	25,322,405
Performance	**15,312,376**	17,324,851
Others	**11,212,923**	13,864,772
Unutilized limits – self	**47,045,665**	52,904,723
Unutilized limits – joint	**99,619,300**	165,101,101
Total	**231,464,700**	306,181,700

Following is the movement on indirect facilities and unutilized limits- self financed as of 31st December 2018:

Item (JD)	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Balance at beginning of the year	**141,040,206**	-	**40,393**	**141,080,599**
New Exposures during the year	-	-	-	-
Matured Exposures	**(9,235,199)**	-	-	**(9,235,199)**
Transferred to stage 1	-	-	-	-
Transferred to stage 2	**(8,437,528)**	**8,437,528**	-	-
Transferred to stage 3	**(704,013)**	-	**704,013**	-
Balance at the end of the year	**122,663,466**	**8,437,528**	**744,406**	**131,845,400**

The Central Bank of Jordan, Issue No4.

Obverse:
His Majesty the late King Hussein bin Talal

Reverse: The Dome of the Rock in Al Quds

Obverse: His Majesty the late King Talal bin Abdullah, Um Qais Museum, a stamp commemorating the establishment of the Parliament

Reverse: First building of the Parliament, Wadi Rum and Mosaic from Alqastal.

Following is the movement on expected credit losses for indirect facilities and unutilized limits – self finance as of 31st December 2018:

Item (JD)	Stage 1	Stage 2	Stage 3	Total
	JD	JD	JD	JD
Balance at beginning of the year (Adjusted)	**641,294**	-	-	**641,294**
ECL on new exposures during the year	-	-	-	-
ECL on Matured Exposures	**(367,051)**	-	-	**(367,051)**
Transferred to stage 1	-	-	-	-
Transferred to stage 2	**(54,563)**	**54,563**	-	-
Transferred to stage 3	**(4,148)**	-	**4,148**	-
Impact on year end ECL caused by transfers between stages during the year	-	**18,975**	**348,076**	**367,051**
Balance at the end of the year	**215,532**	**73,538**	**352,224**	**641,294**

Face:
King Abdullah II bin Al Hussain in Formal Dress

Obverse:
His Majesty King Abdullah II in Arab dress

Reverse: Raghadan Palace and the logo of the Kingdom

Reverse: Raghadan Palace, Black Iris and Carved Marble from Al-Aqsa Mosque.

Following is the movement on unutilized limits - Joint as of 31 December 2018:

Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year (Adjusted)	**158,307,076**	**5,643,598**	**1,150,427**	**165,101,101**
New Exposures during the year	-	-	-	-
Matured Exposures	**(64,331,374)**	-	**(1,150,427)**	**(65,481,801)**
Transferred to stage 1	-	-	-	-
Transferred to stage 2	**(7,959,024)**	**7,959,024**	-	-
Transferred to stage 3	-	-	-	-
Balance at the end of the year	**86,016,678**	**13,602,622**	-	**99,619,300**

Following is the movement on expected credit losses for unutilized limits – Joint as of 31st December 2018:

Item (JD)	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year (Adjusted)	**382,307**	-	-	**382,307**
ECL on new exposures during the year	-	-	-	-
ECL on Matured Exposures	**(46,923)**	-	-	**(46,923)**
Transferred to stage 1	-	-	-	-
Transferred to stage 2	**(61,074)**	**61,074**		-
Transferred to stage 3	**(46,979)**	-	**46,979**	-
Impact on year end ECL caused by transfers between stages during the year (Adjusted)	-	-	-	-
Adjustment during the year	-	-	-	-
Balance at the end of the year	**227,331**	**61,074**	**46,979**	**335,384**

The expected credit loss provision for the off balance sheet items – self and joint is shown within other liabilites (note 21), according IFRS (9) and CBJ instructions.

54. Lawsuits against the Bank

The lawsuits filed against the Bank amounted to JD 752,732 with a provision of JD 19,067 as at 31 December 2018 (lawsuits amounting to JD 1,210,168 with a provision of JD 43,567 as at 31 December 2017). Based on the opinion of the legal consultant, no additional amounts will be claimed from the Bank in respect to those lawsuits.

55. New Standards

During January 2016, the Accounting and Auditing Organization for Islamic Financial Institutions has issued financial accounting standard 16 "Leases, which defines the principles of recognition, measurement, presentation and disclosure of lease contracts.

The requirements of this standard are similar to those of IAS 17.

This standard shall be effective from the financial periods beginning on or after 1 January 2019, early adoption is permitted.

Adopting the IFRS 16

The Bank has the option to adopt IFRS (16) retrospectively and restate each prior reporting period presented or using the modified retrospective approach by applying the impact as an adjustment on the opening retained earnings. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS (17) and IFRIC (4).

The Bank will adopt IFRS 16 using the modified retrospective approach. During 2018.

The standard implementation mechanism will be reviewed for IFRS (16), taking into consideration related Central Bank of Jordan instructions.

56. Comparative Figures

Some of the comparative figures of 2017 have been reclassified to correspond to those of 2018.

Agenda of the 21th Ordinary Genera Assembly Meeting of the Shareholders of Islamic International Arab Bank

27 Rajab, 1440
Corresponding to 3 April 2019

1- Address the outcomes of the previous 21th General Assembly Meeting.

2- Address the Board of Directors' Report for 2018 and the Company's business plan for the coming year.

3- Attend the Bank's Auditors' Report for the financial year 2018.

4- Address the Bank's Accounts and Balance Sheet for the financial year 2018.

5- Approval of the General Assembly to allocate the realized dividends for 2018.

6- Subrogation and release of the Board of Directors for the said year.

7- Elect the Bank's auditors for the financial year 2019 and determine their fees.

8- Any other matters proposed to be discussed by the General Assembly which are within the authority of the Ordinary General Assembly Meeting, provided that such proposal shall have the approval of a number of shareholders representing not less than 10% of the shares represented in the meeting.

The Central Bank of Jordan, Issue No4.

Obverse: His Majesty the late King Abdullah I bin Al- Hussein, another picture of his late Majesty saluting the army, seal of His Late Majesty, Golden Hashemite Coin struck in 1916 commemorating the Great Arab Revolution.

Obverse: His Majesty the late Sherief Hussein bin Ali, Hashemite Silver Coin struck in 1916.

Reverse: His Majesty the late King Abdullah I bin Al- Hussein Palace in Ma'an and an Ummayed coin.

Reverse: Renaissance Medal, the flag of the Great Arab Revolution and an Antique Compass

Branches and ATMs

Capital's Governorate
- Gardens Branch
- Amman Branch
- Wehdat Branch
- Marka Branch
- Bayader Wadi Seer Branch
- Jabal Hussein Branch
- Jubeiha Branch
- Sweifieh Branch
- Shmeisani Branch
- Yasameen Branch
- Khalda Branch
- Abu Alanda Branch
- North Hashimi Branch
- Nuzha Branch
- Tareq Branch
- Marj Al Hamam Branch
- City Mall Branch
- Madina Munawara Branch
- Abu Nsair Branch
- Huriya Branch
- Al Khalidi Branch
- Izmir Mall Branch
- Plaza Mall Branch - mecca st.
- Jabal Al-Naser Branch
- Areefa Mall Branch

Central Governorates
- Zarka Branch
- Zarka University Branch
- Ruseifa Branch
- New Zarka Branch
- North Mountain Ruseifa Branch
- Madaba Branch
- Salt Branch
- Dair Alla Branch

North Governorates
- Irbed Branch
- Hashimi Irbed Branch
- Al Qaselah Irbed Branch
- Arabella Mall Branch
- Mafraq Branch
- Ajloun Branch
- Jerash Branch

South Governorates
- Aqaba Branch
- Karak Branch
- Mu'ta Branch
- Tafileh Branch
- Ma'an Branch

Location of ATMs Network

Outside the Bank's Branches (Amman)
- **Customs Department-** Abdali
- **Professional Associations Complex-** Shmeisani
- **University of Islamic Sciences-** Tabarbour
- **Leaders Center-** King Abdallah II St.
- **Greater Amman Municipality-** Ras Al – Ein
- **Haboub Supermarket-** Jabal Amman
- **Orange Pharmacy-** Jamal Abdel Nasser Square
- AbuSheikha Exchange- AL Wehdat
- Supreme Judge Department- Tlaa' Al-Ali
- Ministry of Islamic Awqaf Trust Affairs- Abdali
- Abu Sheikha Exchange- Al Abdali
- Ibn Al-Nafees Pharmacy - Al Ashrafiyeh
- Abu Shaeerah Complex- Jabal Alnasser
- King Hussein Business Park
- General Ifta'a Department- Jordan Street
- Al istishari Hospital - Wadi Saqrah Street
- Pharmacy One - Abdoon Street
- Tatal Station - Makah Street
- Go Gas - Shmeisani Street
- Pharmacy One - Makah Street
- Malaki - Makah Street
- Royal Court – Raghadan
- Total Station- Al Quds Street.
- Rawan Cake- Queen Rania St.
- KHCF- Queen Rania St.

Outside the Bank's Branches (Governorates)
- Mafraq: Hussain bin Ali St.
- Maan: MCE- Al Wafaa Market
- Zarqa: Zarqa University Schools
- Irbid: Biet Yafa- near municipality building
- Aqaba: Aqaba Gateway

To Contact any of our Branches Please Contact the Arab Islamic Center Customer Service: 06/5003300 or Toll Free: 080022224

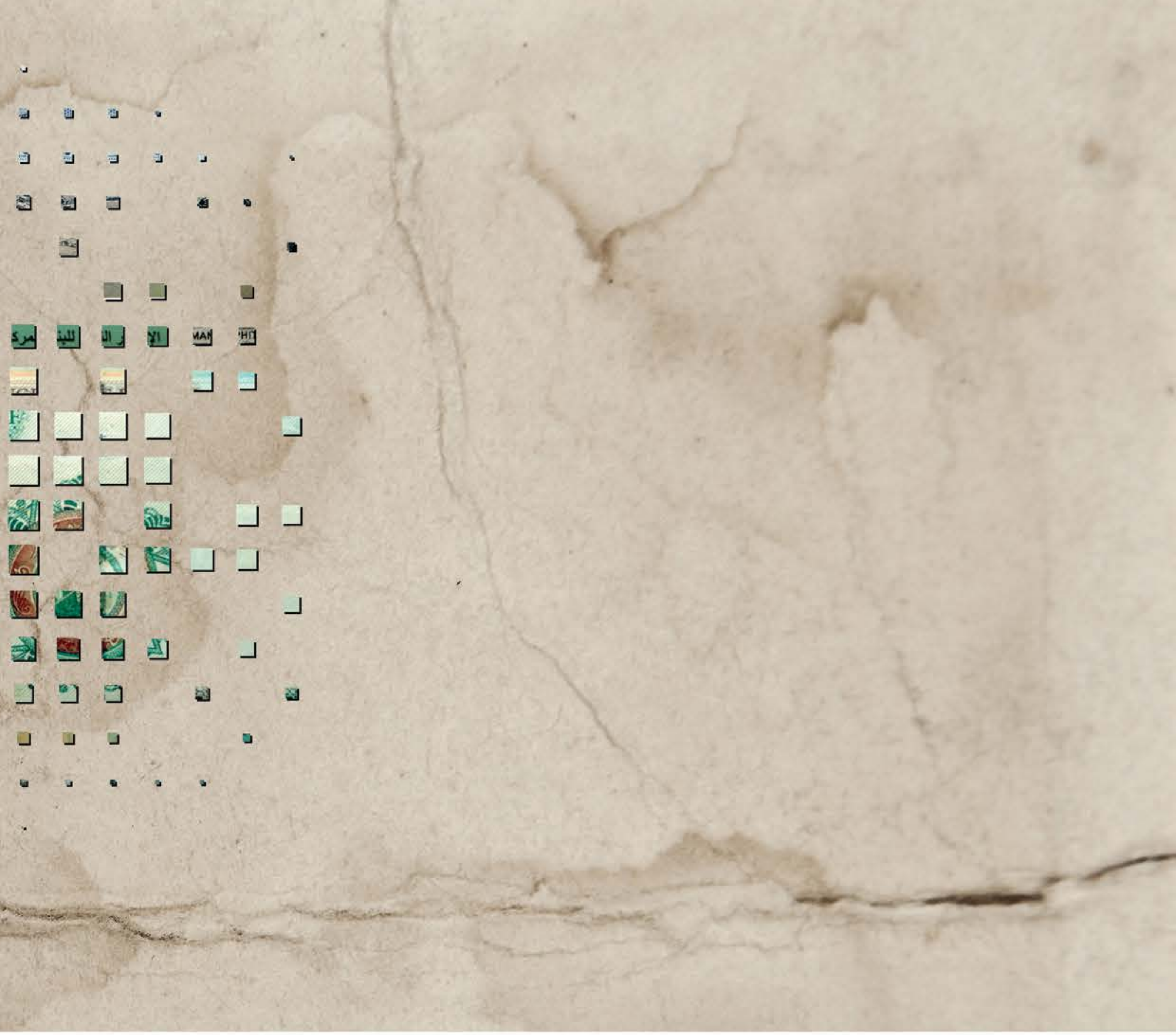
In February, 2018 Islamic International Arab Bank has celebrated its 20th anniversary whereas the achieved growth lead the bank to be among top banks in the Hashemite Kingdome of Jordan.

During this celebrations for this anniversary, IIAB launched TAM slogan as an Arabic abbreviation for words of (Excellence, Commitment, and Responsibility).

Excellence *(Tafawouq)*: excels in customer service through values of creativity and innovation in products and services development within highest quality standards.

Commitment *(Iltizam)*: commits with Sharia Law, regulations, and traditions.

Responsibility *(Mas'ouliyah)*: acts responsible towards society, environment, and economy as a national financial institution dedicated for serving the country.



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