#### In the name of Allah, the Entirely Merciful, the Especially Merciful

And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in Zakah, desiring the countenance of Allah - those are the multipliers

Al-Rum 39



## ISLAMIC INTERNATIONAL ARAB BANK

Islamic International Arab Bank (Pubic Shareholding Limited Co.) Amman – The Hashemite Kingdom of Jordan

The financial statements for the year ended in 31<sup>st</sup> Dec. 2010
Along with the External Auditor's report



His Majesty King Abdullah II ibn Al Hussein



His Royal Highnes Prince Hussein ibn Abdullah



**General Management Building** 

#### Our Vision

Our vision is to be the leading Islamic financial institution in the Arab World.

#### Our Mission

Our mission is to be leaders in our target markets by providing our clients the best financial and banking services, in accordance with the Islamic Shari'a. Our team is to be composed of very qualified professionals, who observe the highest ethical standards, work in a stimulating business environment supported by advanced technology and distribution channels, and achieve superior financial results.

#### **Our Core Values**

Honesty and decency with ourselves and with others
Pursuit of excellence and fulfillment of our promises
Adherence to the principles and rules of the Islamic Shari'a 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

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# Islamic International Arabic Bank (plc) (Public Shareholding Limited Co.)

The Bank commenced its banking operations on Shawwal 12, 1418 AH, corresponding to 09/02/1998, to meet the increasing demand, locally and in the Arab and Islamic markets, for banking services and products that are in accordance with the Islamic Shari'a.

The Bank was established as a public shareholding company in accordance with Companies' Act for the year 1989; the Bank was registered in the Public Shareholding Companies' Register under no. (327) on 30/03/1997.

#### **Shari'a Advisory Committee**

In the name of Allah, the Entirely Merciful, the Especially Merciful (... so ask the people of the message if you do not know)
Surah An-Nahl Verse 43 and Surah Al-Anbya' Verse 7

Since the field of Islamic Fiqh is wide, and in light of the many developments and changes of the modern economy and their complexity, in addition to the need for a good judgment and deep honest diligence to understand the Fiqh rules to get the Shari'a opinion in the financial, transactions, and modern banking issues, the necessity of Shari'a Advisory Committee of The Bank emerged to adopt the Shari'a principle: "who works hard and does it right, is rewarded twice and who works hard and does it wrong, is rewarded once".

The Committee goes hand in hand with the Bank in performing its tasks, and cooperates with it to achieve its objectives starting from issuing fatwas, which provide the Shari'a solutions while practicing its activities, which will be done in accordance with Shari'a to keep the bank in the safe side accordingly. At the same time, the Board approves all financing and investment contracts.







**His Eminence Dr. Ahmad Hlayel** 

**His Eminence Shaykh Saed Hejawe** 

Dr. Ahmad Ayade



In the name of Allah, the Entirely Merciful, the Especially Merciful

#### Chairman's Statement

All Praise be to Allah, lord of the worlds, And prayers and peace be upon Mohammed His servant and messenger.

#### Dear Shareholders,

It is a great pleasure to me to greet you in the best way possible, now our bank has finished its thirteenth year. I would also like to present you with the annual report of the Islamic International Arab Bank for the year ended 31 December, 2010, including the report of the committee of the Fatwa and Shari'a Controlling Committee, a review of our achievements over this year and the Auditing Board Committee concerning the results of their examination of those data.

IIAB managed to overcome all the repercussions of the international financial crisis thanks to Allah's support, to the wise monetary policy that the Jordanian Central Bank adopts in supervising banks as well as to our Bank's compliance with the controlling. IIAB does its activities, bearing in mind the highest levels of transparency, disclosure and honesty through applying the best practices with regard to institutional governance. This policy applies to all the parties dealing with the Bank, especially the local community, the shareholders, the clients and the employees.

With Allah's help and support, we achieved astonishing results last year, continuing to achieve more successes and achievements since IIAB's establishment. We were able to show a model of a successful business that overcame all the obstacles in spite of the current circumstances. Thank God, we managed to achieve growth in all aspects. For instance, the accounts payable and local financings portfolio reached JD 369 million at the end of 2010 and with a 24% increase over 2009, whereas deposits and securities for restricted and non-restricted accounts reached JD 984 million at the end of 2010 with a 13% increase over our outstanding balance for 2009. As for our Bank's net profits for 2010, they amounted to JD 10 million before tax with a 127% growth ratio over the net profits for 2009.

Continuing to update, develop and invent new products that establish the Islamic Banking principles is the distinctive feature and a benchmark of this stage that distinguished the bank over the previous year, so we could expand our clients' base and diversify our products portfolio various. The Bank has also launched the cash haggling sale to make it easier for clients willing to buy in installments through the Bank. In the same context, the Bank has also added rental-ending-in-ownership for medical equipment to the rental-ending-in-ownership package to make it easier for doctors and medicine-related professions to get the equipment that they need. In addition, it has added renting out new and used cars that end in ownership to the same package for both personal and commercial users. The bank is currently thinking of launching the receivable rental product, and this way it will become one of the pioneers who introduce that variety in terms of products in order to keep pace with the rapidly changing needs of people in a way that suits the Shari'a guidelines for Islamic financing. The Bank popularized the Istisnaa contract of kitchens, doors and buildings. The Bank continues to actively and continuously improve the quality of its products and services according to its future plans for the coming years.

As part of the bank's plan to expand and spread throughout the Hashemite Kingdom of Jordan, the number of branches has increased to 28 branches. Work is still under progress on two branches in Marj Al Hamam and Al-Hashmi Street, Irbid Governorate. It is expected that the work will start on both in the first quarter of 2011. The expansion process is still going on to cover all areas and governorates in the Kingdom. IIAB is still planning to inaugurate five new branches in 2011 so as to offer the best Islamic financial services and products in addition to the continued expansion in the ATM's network in all the branches and the dynamic areas.

Due to the Bank's belief that it should shoulder its social responsibility, in order to stress social solidarity and as part of its constant efforts to establish the principles of its messages that are based upon communication with the local community in its attempt to support the community's institutions and sharing with them, the bank buttressed many charitable institutions, the Ministry of social development, orphanages. It also contributed to many Bir and Ihsan campaigns and charitable packages campaigns. Moreover, the bank supported a lot of charitable initiatives to gather donations and distributed school bags. Furthermore, the Bank played a vital role in supporting both public and private Jordanian universities through offering all the possible aspects of money and in kind sponsorship

In line with the royal vision for the Decent Housing for Decent Living initiative which aims at providing the appropriate housing for citizens and at making it easier for citizens to buy their lifelong houses with competitive renting proceeds, the Bank signed an amended agreement for the beneficiaries from the royal initiative for housing projects.

To conclude, on behalf of the Bank's board of directors, I would like to seize this opportunity to thank and appreciate the Central Bank of Jordan for its support and encouragement and for its vital role in maintaining the safety and stability of the Jordanian Banking body.

I am also glad to extend my thanks and gratitude to all the current and previous members of the board of directors for the efforts that they have exerted over the previous year. At the same time, I am grateful to all the Bank's employees for what they have done at all levels. I should not forget to thank the esteemed members of the Shari'a Controlling Committee for their good deeds and their noble contributions in compliance with the glorious Islamic Shari'a . Without our clients' trust and support, we would not have been as successful, so we extend due thanks to them. We are eager to offer the best Shari'a -compliant banking services and products.

The IIAB still remains a trustworthy place for depositors, and a safe haven for investors and a halal investment for its shareholders.

Allah is the supporter

Salem Burqan Chairman

#### In the name of Allah, the Entirely Merciful, the Especially Merciful

**Board of Directors Report** 

# The thirteenth annual report of the Board of Directors' for the year ended on 31 December 2010

#### Dear shareholders,

Peace and Allah's blessings be upon you

The IIAB Board of Directors is pleased to provide you with the thirteenth annual report that includes the results of its achievements and activities along with the financial statements for the year ended on 31 December 2010.

#### The Financial Results

IIAB managed, thanks to God, to achieve a record growth ratio and a record operating level through increasing the size of investments in local and international assets. The results revealed profits amounting to JD 10 million, which is 5.6 million more than what it achieved in 2009 with a growth ratio of 127%.

#### The General Economic Situation

The global economy continued its recovery path in 2010 from the consequences of the global financial and economic crisis despite the risks that are still threatening the pace and expansion of this recovery. Those threats include the continuing weak financial situation markets and credit markets, in addition to lack of trust in the sustainability of the general financial position, especially in the Euro Zone.

The initial data of the national accounts issued by the General Statistics Department indicated that the Jordanian economy witnessed a limited slowdown in its performance. The GDP slowed down at fixed prices over the first three quarters of this year to grow with the percentage of (2.85%) in comparison with a growth ratio of (2.44%) in the same period in 2009, which means that the slowdown has receded and moved to stability. As for the development of the results over the second quarter of this year, the issued data show that this quarter is considered the first one in which growth has been achieved since the beginning of the recession period in the last quarter at fixed prices during the second quarter of this year with a percentage of (2.9%) compared to a growth ratio of (1.9%) during the same quarter in 2009. As a result of a limited growth in the GDP with a percentage of (4.2%) during the first half of the previous year, compared to (10.2%) over the same period in the previous year, the GDP achieved, at the current prices, a growth of (6.8%) in comparison with a tangible growth with the ratio of (13.2%) over that half of the previous year.

With regard to the general level of prices, the data of the General Statistics Department still emphasize the upward trend of the general level of prices in 2010 which is the opposite trend of inflation average that dominated 2009. The inflation ratio, measured by the relative change of the record number of the consumer prices, witnessed an increase of (4.7%) over the first eight months of this year in comparison with what it reached in terms of inflation below zero amounted to (0.4%) during the same period of the previous year.

With respect to monetary policy, the Central Bank continued to apply its policies that aim at enhancing monetary stability, controlling inflation, enhancing the attractiveness of the unencumbered deposits in the local currency through its wise management of the structuring of local interest rates and through reinforcing the attractiveness of the local currency which is reflected by the comfortable level of the net reserves of foreign currencies. The Central Bank of Jordan strengthened its control over the financial body, a thing that led to a noticeable improvement in the levels of financial creditworthiness, liquidity and profit-volume within a banking environment that is more open and freer.



#### **Board of Directors 'members**

#### Chairman



#### Mr. Salem Abdulmunim Burgan

- Chairman of Islamic International Arab Bank (plc) as from 29/12/2010
- CEO/Director General of IIAB as of 5/4/2009.
- Born in 1952 and has a B.A in Accounting/University of Jordan, 1975.
- Member of the Jordanian Society of Chartered Accountants (JACPA).
- Fellow of the Arab Society of Certified Accountants.
- Board member of the Association of Banks in Jordan.

#### **Members**



#### MR. Mohammed Mousa Dawood "Mohammed Issa"



- Vice Chairman of Islamic International Arab Bank.
- Born in 1956, and has a B.S in Mathematics/Business Administration/University of Jordan, 1978.
- Executive Vice President and Director of Corporate banking and investment for the Arab Bank in Jordan and Palestine.
- Worked at the Arab Bank since 1978 in several positions.
- Vice President of the board of directors for The Arab National Leasing Company.
- Board member of The Arab Bank / Syria.
- Board member of The Jordanian Company for Mortgage Refinancing.
- Board member of The Tourism & Hotels Company of Jordan.

#### DR. Ahmad A'awad Abd Al Haleem Al Hossein

- Born in 1966, and has a Ph.D. in Finance management.
- Board member of Islamic International Arab Bank.
- Director of the Department of Credit in the Arab Bank in Jordan & Palestine.
- Member of the board of directors for The Arab National Leasing Company.
- Board member in a number of public shareholding companies.
- Managed many training seminars on banking credit for many experienced banking institutions.



#### DR. Ayman Yehya Odeh

- Board member of Islamic International Arab Bank as of 27/12/2010.
- Born in 1961, and has a Bachelor of Law (University of Jordan), & a Master's degree of Law (University of Miami), United States of America.
- Member of The Senate (2010 present).
- Minister of Justice (2007-2010).
- A practicing advocate before the Jordanian courts and local and international arbitration bodies.
- Member of the Board of Trustees / King Abdullah II Fund for Development.
- Judge in the Arab Investment Court, the Arab League (2004-2006).
- Member of All Jordan Youth Commission / Committee of Economic Reforms (2006).
- Member of the Legislation and Justice Commission, the National Agenda (2005).
- Member of the Anti-Corruption Commission (2003).



#### MR. Montasir Izzat Abo Dawas

- Board member of Islamic International Arab Bank as of 16/1/2011.
- Born in 1972, and has a BA in Accounting and Financial Management, University of Buckingham - United Kingdom, 1994.
- Certified Public Accountant (CPA) United States of America, 2000.
- Chairman of Retail Banking Group, Arab Bank Jordan (6 / 2008).
- Chief Executive of the marketing group of Retail Banking -Standard Chartered Bank -Singapore (2007-2008).
- Regional Head of Retail Banking Group, North Gulf and Levant Standard Chartered Bank - Bahrain (2005-2007).
- Head of Retail Banking Standard Chartered Bank Jordan (2002-2005).
- Financial Manager Jordan Group Standard Chartered Bank Jordan (2001-2002).
- Financial Manager Jordan Group Citibank (1996-2001).

#### H.E. Dr. Taiseer Radwan Al-Smadi

- Chairman of Islamic International Arab Bank till 24/11/2010

#### Mr. Dawod Moh'd Al-Ghoul

Board Member of the Islamic International Arab Bank till 16/1/2011





#### Dr. Mohsen Abu Awad

- Born in 1963, and has a PhD in Commercial Banks.
- Secretary of the Board of Islamic International Arab Bank.
- Manager of Corporate sector in the Islamic International Arab Bank.

**Auditors** 

Messrs / Deloitte & Touché (Middle East)

#### **Executive Management**

Islamic International Arab Bank is proud to have a senior management that consists of a number of qualified bankers who have diversified and extensive knowledge and experience, and who received a high standard of training, and who hold special expertise in banking and management.

The members of the executive management of the bank dedicate all their expertise and their efforts towards a common goal which is to achieve the Bank's vision and mission, by providing excellent banking services to our valued customers.

The executive management consists of the following members:

Mr. Salem Burqan	Chairman/CEO	He was born in 1952 and has a B.A in Accounting from University of Jordan. He has about 36 years of experience out of which 26 years with Arab Bank where he handled many positions ending with the position of "Head of Corporate Sector in Jordan and Palestine". Furthermore, he is a member of several companies Board of Directors. He joined the Bank as from 5/4/2009.
Mr. Nihad Maraqa	Head of Support Sector	He was born in 1955, and has a BA in Accounting from Ain Shams University in 1980.  He has 28 years of banking experience in Jordan and Palestine in addition to the experience in the areas of trade and Islamic banking, including 18 years of banking experience in the Arab Bank.  He joined the Bank as from 18/2/1998.
Mr. Yousef Al Badri	Head of Credit Sector	He was born in 1961, and has a BA in Economics from the University of Jordan in 1983. He has 24 years experience in banking, as he worked at Jordan Kuwait Bank and at Arab Bank. He joined Islamic International Arab Bank in 03/06/2007.
Dr. Mohsen Abo A'awad	Head of Commercial and Corporate Department	He was born in 1963, and has a PhD in commercial banks from the Arab Academy for Banking and Financial Sciences in 2006. He has 25 years of banking experience, of which 18 years in banking facilities in the Islamic banking sector in Jordan (Jordan Islamic Bank). Joined the Islamic International Arab Bank in 08/28/2005.
Dr. Nayef Abo Dheim	Head of Retail Services Department	He was born in 1962, and has a BS in Accounting from the University of Jordan 1985, a Master's degree in Finance from the University of Jordan in 1994, and a Ph.D. in finance from Amman Arab University 2008.  He has 23 years of banking experience in banking facilities and managing the branches of Islamic banks, including 10 years with Jordan Islamic Bank.  He joined Islamic International Arab Bank in 1/12/1997.
Mr. Tariq Awad	Internal Audit	He was born in 1957, and has a Bachelor of Business Administration from the Arab University of Beirut in 1988. He has the years of experience in the Department of Banking transactions and Internal Audit Department at the Arab Bank where he served in several management positions. He joined Islamic International Arab Bank in 8/4/2007.
Mr. Abbas Mar'i,.	Head of the Finance Department	Hewas born in 1975, and has a BA in Accounting from Al Zaytoonah University of Jordan, 1997. He has 13 years of experience in accounting and financial management in commercial banks. He joined Islamic International Arab Bank in 2/5/2006.

#### **Bank's activities**

Islamic International Arab Bank is the second Islamic bank in Jordan that runs its banking operations in accordance with Islamic Shari'a principles. It commenced its business on 12<sup>th</sup> of Shawal 1418 h corresponding to 9<sup>th</sup> of Feb. 1998 through providing an integrated set of banking services that are accepting deposits, transfers, and commercial services, in addition to financing services that are (Murabaha, Mudaraba, Musharaka, Istisna', and leasing ending in ownership.

#### **Branches**

The bank offers its operations through its branches over the major cities of the country. The following list shows the necessary related information about the 27 branches.

Branch	No. of Employees	Date of establishment	Phone No.	Address
Head Office	311	Sep. 02, 1998	06/5694901	Wasfi AL-tall St. – Building No. 20
Gardens Branch	22	Sep. 02, 1998	06/5694623	Wasfi AL-tall St. – Building No. 20
Amman	12	Feb. 09, 1998	06/4643270	Rashid Tuleia> St. – Petra Avenue
Al-Wehdat	10	Feb. 09, 1998	06/4777801	Yarmouk St.
Irbid	11	Feb. 09, 1998	02/7276587	Al-Hisn St. – Al-Nuzha Avenue
Ma'daba	7	May 02, 1998	05/3248970	Al-Hashemi St.
Al-Zarqa	8	Jan. 04, 1999	05/3989094	26 Abdulmunim Riyadh St. – Al-Shuwam Avenue
North Marka	7	Sep. 07, 2000	06/4886650	King Abdulla St. – Building no. 457 Opposite to Jabri
Wadi Al-Seir	8	Mar. 15, 2001	06/5813600	Wadi Al-Seir – Major St. – LG Campus – Building no. 47
Jabal Al-Hussein	8	May 02, 2001	06/5657760	Haifa St. – Building no. 3 Ashnana Complex
Aqaba	9	Oct. 31, 2002	03/2019495	Aqaba – Al-Tabari St. – 3 <sup>rd</sup> Zone/ North City Avenue.
Al-Jubeiha	9	Apr. 28, 2003	06/5343569	Jubeiha – Queen Rania St.
Al-Swefeyeh	9	Mar. 11, 2007	06/5826669	Al- Swefeyeh – Sufian Al-Thawri St. – Surat Building
Al-Shmeisani	7	Mar. 18, 2007	06/5651110	Al-Shmeisani – Abdul -Hamid Shuman St. – Opposite to Canadian Embassy
Zarqa Private University	5	May 01, 2007	05/3821022	Zarqa – Zarqa Private University
Al-Ruseifa	7	Oct. 01, 2007	05/3748474	Al-Ruseifa King Hussein St. – Next to Arab Bank Building
Al-Zarqa El-Jadida	7	Oct. 24, 2007	05/3854240	Al-Zarqa el-Jadida – 36 St. – Al-Batrawi Avenue – Next to Samih Mall
Dahyat Al-Yasmeen Hai Nazzal	7	Apr. 15,.2008	06/4202126	Dahyat Al Yasmeen- Hai Nazzal- Jabal Arafat St. Next to Alkhareta Circle
Khalda	8	May 13, 2008	06/5511446	Khalda- Amer Bin Malik St. – Abu Hdeib Building No. 71
Al-Salt	7	Feb. 22, 2009	05/3532316	Al-Salt-Al-Salalem Area- Shahateet Center-in front of Al-Balqaa' Building
Abu Alanda	7	Jan. 22, 2009	06/4164426	$Abu\ Alanda-Abdel karim\ Al-Hadid\ StHussain\ Thawabteh\ Complex$
Al-Hashmi Al Shamali	8	July 19, 2009	06/5061993	Amman-Al-Hashmi-Al-Bathaa' St.
Al-Nozha	7	July 26, 2009	06/5684341	Amman-Al-Nozha-Dahyat Prince Hasan- Al-Sultan Qlawoon St.
Al-Karak	8	Sept. 1, 2009	03/2351728	Al-Karak- Hay Al-Baqaeen-AlOmari St.
Al-Mafraq	8	Feb. 16, 2010	02/6231941	Al-Mafraq – King Hussien Bin Ali St. – Opposite to Old Vegetables Market
Ajloun	8	Apr. 5, 2010	02/6422624	Ajloun – Amman St. – Salah Al-Deen Building 2
Tariq	8	Aug. 4, 2010	06/5066918	Amman – Tabarbour – Tariq St.
Al-Tafilah	7	Nov. 1, 2010	03/2241165	Al-Tafilah – King Hussien St.

#### Capital

Authorized capital 100,000,000 JD

#### **Affiliates**

The Bank has no affiliates.

#### **Major Shareholders**

Shareholder	No. of shares
Arab Bank	100,000,000 Share/JD

#### **Competitive Position**

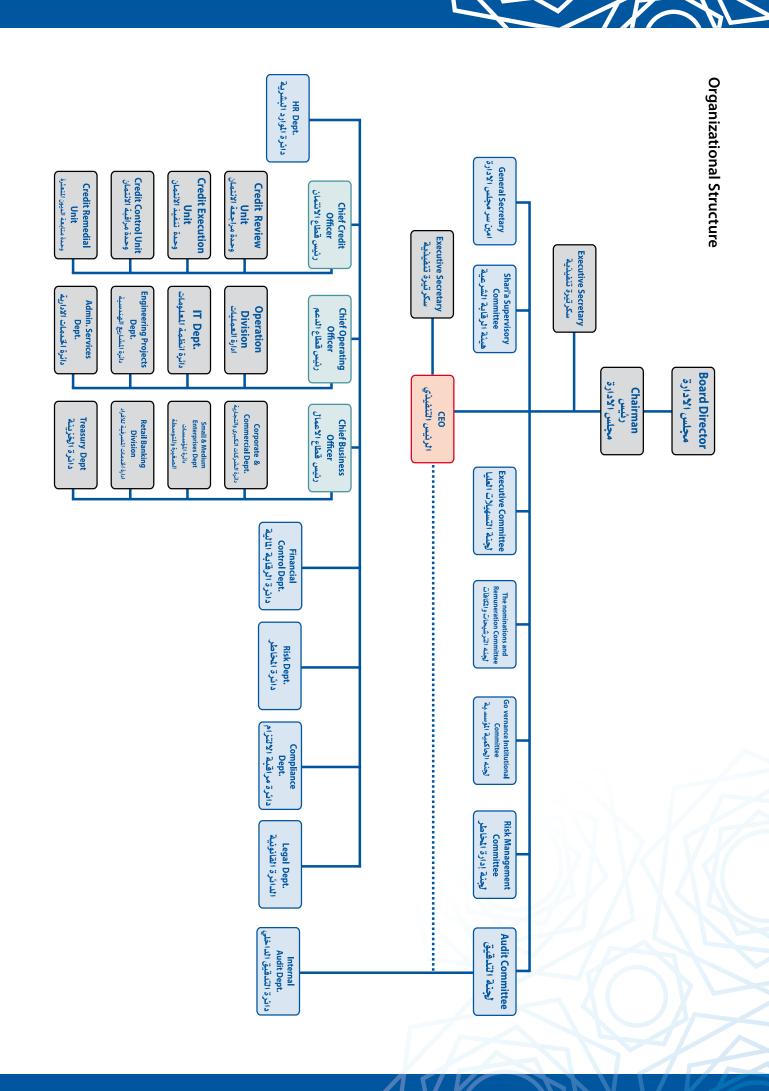
The Bank works hard to get a market share well fitting its capital and technical, administrative and financial capabilities and to position itself well among the other Islamic banks in both Arab and Islamic worlds. At the end of 2010, the Bank's share of customers' deposits reached of 4.19% of total banking deposits in Jordan; the total direct facilities realized a percentage of 2.69% of total banking facilities in Jordan; and the Bank's assets realized a percentage of 3.79% of total banking sector assets in Jordan

#### **Key Customers**

The Bank's portfolio is diversified, and the Bank does not rely on major customers (locally or internationally).

# Governmental Concessions and Resolutions Issued by Government and/or International Organizations

The Bank does not enjoy any governmental concessions or resolutions issued by Government and/ or international organizations, which may have any material effect on the Bank's operations or its competitiveness as per Article (6) of Disclosure Regulations and Accounting Standards issued by the Board of Commissioners of Jordan Securities Commission.



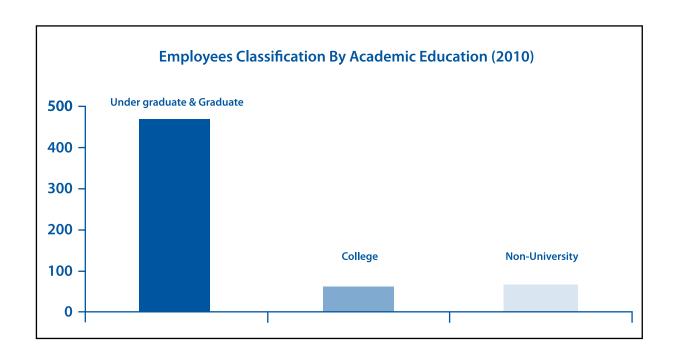
#### **Human Resources**

The Human Resources Division undertakes to support and facilitate the implementation of the strategic directions of human resources, systems and services, and maintains a dynamic and renewable work environment for the employees.

At the end of 2010, the Bank's employees' number reached (540), 74% of which are university graduates. Due to the expansion of the volume of work in the currently existing branches and those branches that will be opened in the near future, the number of employees is expected to increase. The Bank was concerned as well with sponsoring scholarships for some of its ambitious employees who are looking to build their careers by earning various degrees (Diploma, BA, MA, and PhD) in fields of finance, management, and Islamic banking.

The following table shows the categories and qualifications of employees:

	2009	2010
As per Category		
Classified	376	473
Un-classified	59	67
Total	435	540
As per education		
PhD	4	4
M.A	33	40
Higher diploma	-	3
B.A	265	352
Diploma	66	73
Other	67	68
Total	435	540
Turnover		
Resignations	35	47
Retirements	1	-
Total	36	47
Percentage to total number of employees	8.2%	8.7%



The HR Department, furthermore, held (178) training programs in different fields of banking and administration out of which (81) were held internally within the bank and (97) were held by external supplies.



#### **Achievements during 2010**

The vision of IIAB focused on reaching a pioneering position amongst the financial institutions in general, and the banking institutions in the Arab World in particular. Its message is an obvious translation of this vision. IIAB seeks to offer the best products and services to its clients according to Shari'a -compliant controls and criteria that are based on fatwas issued by the Shari'a Controlling Committee that makes sure that the Bank follows the Shari'a criteria in applying contemporary financial transactions, which gives clients the desired safety.

The institutional identity of the Bank is based on three main pillars: trust, security and halal investment. These mainly attract sums of money and employ them according to a comprehensive system that is free of high uncalculated risks and exerting all the efforts in asking for the Shari'a -compliant precautions and guarantees, reinforcing the Bank's path in the Islamic banking experience both locally and internationally.

In 2010, the Bank's efforts culminated in several achievements, and the Bank was eager to offer Shari'a -compliant banking products and services that meet the needs of all walks of society. For instance, the Bank developed its products in a way that meets the market and clients' needs. The focus in 2010 was on retail and individual services in addition to corporate services.

Consequently, the Bank has also launched the Musawamah finance to make it easier for clients willing to buy in installments through the Bank. In the same context, the Bank has also added lease to own for medical equipment to the Ijara package to make it easier for doctors and medicine-related professions to get the equipment that they need. In addition, it has added leasing to own new and used cars to the same package for both personal and commercial users. The bank is currently thinking of launching the receivable rental product, and this way it will become one of the pioneers who introduce that variety in terms of products in order to keep pace with the rapidly changing needs of people in a way that suits the Shari'a guidelines for Islamic financing. The Bank popularized the Istisna contract of kitchens, doors and buildings. The Bank continues to actively and continuously improve the quality of its products and services according to its future plans for the coming years. The Bank continues to actively and continuously improve the quality of its products and services according to its future plans for the coming years because of the belief in the comprehensiveness of this religion that is capable of offering the best services for all times and places.

The Bank continued to offer a number of comprehensive and complementary Islamic banking products and services that are targeted on individuals and corporations that comply with Islamic law. These include various types of deposit accounts, savings and co-investment accounts, restricted investment as well as direct financing of clients in the following fields: Murabaha, swap, Istisna, exchange, rentals of both kinds: operational and ending-in-ownership, Musaharaka, Mudarabah and investment agencies. These also include financial transfers and security funds and so on.

The Bank also offers a number of Islamic products and investment instruments that are highly flexible, hence meeting the needs of the corporate sector. Such instruments include partnerships and Murabaha letters of credit, Murabaha transfers, investment agencies, insurance bills, assurance letters and guarantees in their different forms.

IIAB is also keen on continuing to apply the most recent technologies and the latest updated aspects of information technology. Moreover, it provided a number of electronic services to the clients to make their transactions easier and meet their banking and financial needs. The Bank offers banking

services over the Internet, including electronic overdraft, the electronic bank, and ATM services, in addition to developing SMS in a new form that enables the client to access his accounts easily and safely, seeking to upgrade the level and quality of the services offered to its clients and to other users of the Bank's services.

The Bank continues to examine its clients' needs and desires in an attempt to develop new banking services and products that comply with Islamic Shari'a and that meet those needs. In order to do that, the Bank will focus on finding profit-yielding and high-quality investment opportunities.

As part of the bank's plan to expand and spread throughout the Hashemite Kingdom of Jordan, the number of branches has increased to 28 branches. The expansion process is still going on to cover all areas and governorates in the Kingdom. It is still planning to inaugurate five new branches in 2011 so as to offer the best Islamic financial services and products in addition to the continued expansion in the ATM's network in all the branches and the dynamic areas. Moreover, the Professional Syndicates Complex in Amman has been provided with an ATM.

The Service Quality Unit continued to work to enhance and improve the level of the clients' satisfaction through upgrading the level of services offered to reach the highest standards of quality.

Since the Bank realizes the significance of the conservative media and its noble and committed mission, it patronized the first national media conference and the conference of the centennial anniversary of Al-Furqan Magazine. It also signed several media joint agreements with Hayat Voice, The Holy Koran Voice, along with a number of conservative electronic websites, to cover the Bank's events and its campaigns so that it communicates with the local community.

IIAB still remains a trustworthy place for depositors, and a safe haven for investors and a halal investment for its shareholders.



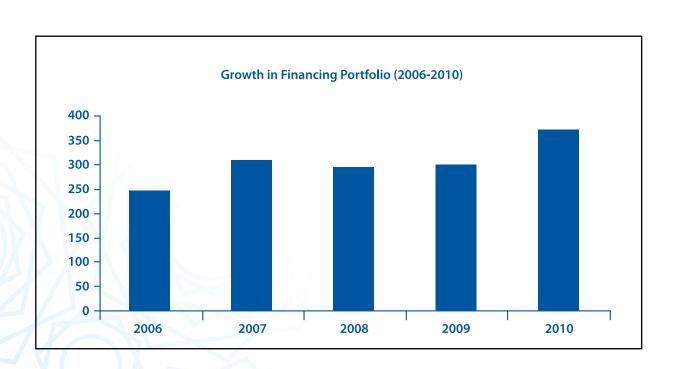
#### **Investment Portfolio (Direct credit facilities)**

The Bank's local financing portfolio reached JD (369) million as of 31/12/2010, with an increase of JD (72) millions, (24%) compared to the previous year.

The following table shows the items of the customers' financing portfolio and accompanying risks, on and off-balance sheet for the years (2006–2010):

	r	-
ı	ı	
,	ı	

ltem/Year	2006	2007	2008	2009	2010
Murabaha	190,581,762	230,282,173	215,760,540	209,069,266	235,090,632
Mudaraba	8,840,018	11,509,376	4,494,906	3,511,178	7,416,717
Istisna	3,196,225	4,999,636	7,041,469	5,561,435	6,726,972
Musharaka	410,855	357,240	308,080	42,239	31,999
ljara (Lease)	41,031,276	58,334,434	63,769,812	78,942,297	120,106,427
Investments for Customers	21,118,688	16,286,309	131,154,600	255,911,983	247,937,680
Self investment (for the Bank)	61,228,453	32,659,657	159,167,581	378,142,621	421,464,542
Specified Investments	194,090,846	222,157,139	205,809,884	179,001,566	163,719,548
Customers> Liabilities against Letters of Credit	11,891,685	13,163,233	13,075,475	23,200,012	17,064,092
Customers> Liabilities Against Guarantees	6,242,375	12,063,637	12,342,668	12,812,069	14,355,267
Acceptances	4,369,219	3,885,536	4,316,491	3,443,567	6,437,707



### The financing and investment portfolio is diversified over the following sectors:

JD

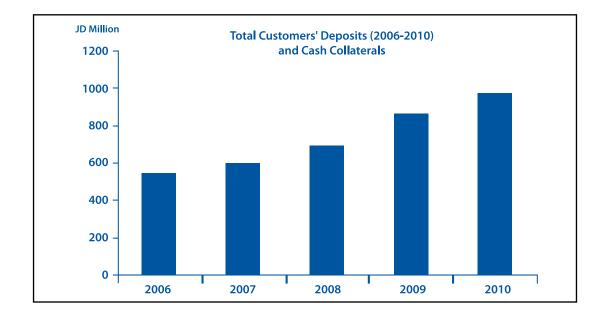
Item/Year	2006	2007	2008	2009	2010
Industry and Mining	8,493,464	16,908,006	13,033,742	28,755,394	34,735,070
Agriculture	691,021	1,445,678	943,808	807,436	11,199,527
Constructions	8,292,822	22,946,704	14,413,203	19,030,751	1,500,118
General Trade	64,987,794	91,028,868	70,425,219	70,042,675	73,153,277
Transportation	1,510,043	892,421	1,642,681	2,189,857	7,677,779
Real Estate Financing	51,365,446	51,627,499	44,618,834	41,498,142	41,899,986
Vehicles Financing	23,426,226	25,130,385	23,916,852	19,028,613	34,785,069
Consumers> Goods Financing	28,941,724	26,601,777	25,251,404	19,250,646	13,387,153
Other	15,320,320	10,567,087	33,359,252	17,580,604	30,928,341

#### **Customers' Deposits**

Customers' deposits are deemed as one of the most important sources of fund in the Bank. Customers' deposits portfolio in its various current, joint and specified investment accounts reached JD (962) million, representing a growth of 12% compared to the previous year, reflecting customers' growing trust in the Bank.

The Bank's external resources of fund as on 31/12/2010 are as follows:

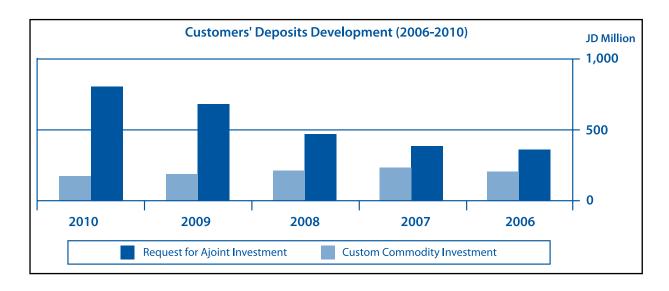
	JD
Customers' Deposits	961,535,060
Banks' Deposits	173,134,203
Cash collaterals	21,430,751
Total	1,156,100,014



The following table shows the positive development in customers' deposits (Demand deposits and joint investment) and (specified investment) during the years 2006-2010:

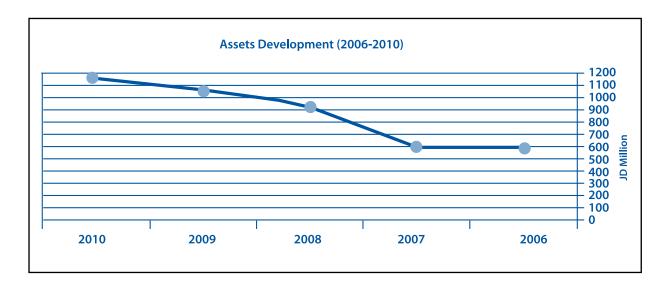
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	2006	2007	2008	2009	2010
Customers' Deposits (Demand and Joint Investment)	347,786,087	372,512,868	460,257,755	676,292,094	797,892,743
Specified Investments (Customers)	194,090,846	222,157,139	205,809,884	179,001,566	163,719,548
Total	541,876,933	595,670,007	666,067,639	855,293,660	961,612,291



### **Financial Effect from Extraordinary Activities**

No financial impact of any extraordinary activities occurred during fiscal year.



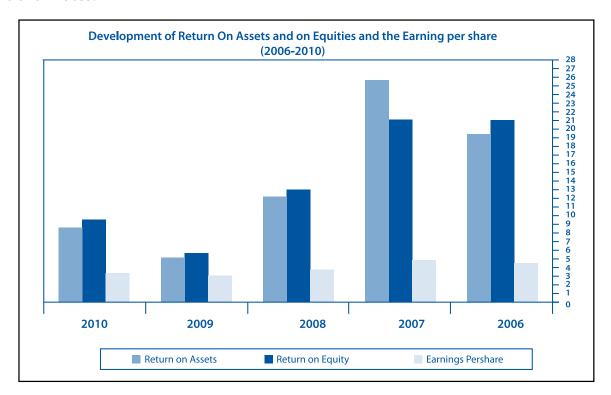
The below table shows the Bank's profits and the net shareholders' equity from 2006 to 2010:

JD

					30
Item/Year	2006	2007	2008	2009	2010
Operational Profits	17,698,669	23,687,556	19,528,582	15,597,967	23,554,658
Net profit before tax	12,260,199	16,075,267	11,372,172	4,402,512	10,013,634
Net shareholders' equity	62,788,193	74,083,055	93,524,698	117,600,288	124,345,882
Earnings per share (after tax)	0.200	0.275	0.11	0.03	0.07
Unearned Revenues	20,638,701	19,821,772	15,674,766	14,647,744	18.885.673

- ← The Bank's shares are not traded in Amman Stock Market.
- $\leftarrow$  The Bank does not issue any securities.

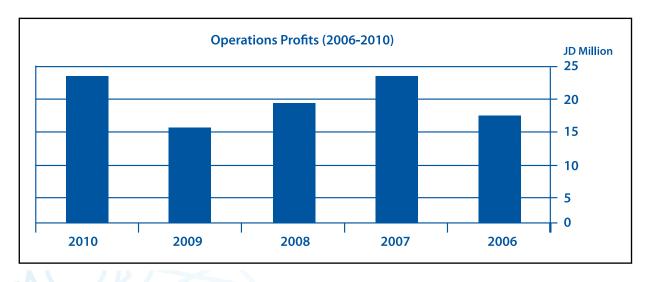
#### **Additional Notes:**



This part of the annual report includes some notes to the financial statements in addition to those mentioned in the Board of Directors' report. It is an integral part of the report in accordance with the instructions of "The Instructions and Auditing Standards and the Conditions to be fulfilled in Auditors of the Entities Subject to Securities Commission's supervision No. (1) for the year 1998" issued by the Board of Commissioners of Securities Commission based upon Articles no. (9) and (53) of Securities' Act no. (23) of 1997.

#### Financial Analysis of Bank's Position and Results of Operations

The Bank is committed with the widely applicable international accounting standards, and with the accounting and auditing principles of the Islamic financial institutions issued by The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), since the beginning of its businesses.



#### **Investment Revenues**

Joint Investment revenues as on 31/12/2010 amounted to JD (20,420,010). These revenues were distributed as per the Bank's Articles of Association and according to the Board of Directors' resolutions, as follows:

- Joint Investment Risks Fund : JD (2,046,001)

- Joint investment accounts' share :JD (11,610,164)

- Bank's share of joint investments profits :JD (6,803,845)

Joint investment accounts contribute to the profitable results of investment according to the ratios specified for Current Year, as follows:

- Term accounts **90%** 

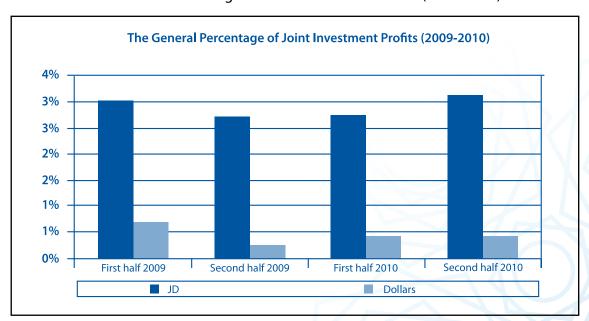
- Saving accounts **50%** 

The general ratio of profits on joint investment accounts for the first half of 2010 was (2.72%), and (3.01%) for the second half in Jordanian Dinar, and in US Dollar (0.39%) for the first half and (0.40%) for the second half.

The following table shows the general development in profits on joint investment accounts for the period (2009-2010):

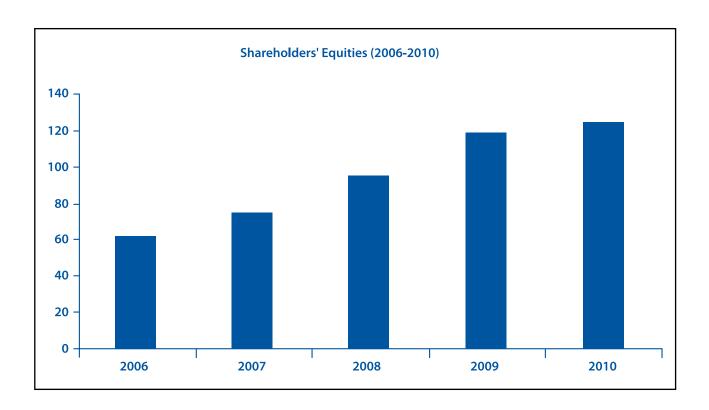
							%
2010			2009				
1 <sup>st</sup> h	alf	2 <sup>nd</sup> half		1 <sup>st</sup> half		2 <sup>nd</sup> half	
USD	JD	USD	JD	USD	JD	USD	JD
0.39	2.72	0.40	3.01	0.66	3.0	0.23	2.70

The General Percentage of Joint Investment Profits (2009-2010)



#### **Shareholders' Equities Management**

The Bank's Top Management is mainly responsible for the Shareholders' equity management, which in turn works constantly on maximizing these equities in a manner assuring realization of a feasible return for shareholders. In 2010, shareholders' equity reached JD (124.3) million with an increase of JD (6.7) million recording a growth of (6%) compared to the previous year. This resulted in strengthening the capital base and enhancing the Bank's financial position. The ratio of total shareholders' equities to total assets reached (11%) compared with (11%) in 2009.



#### **Credit Commissions**

Total revenues on credit commissions for the year ending on 31/12/2010 amounted to JD (2,601,505). Net credit commissions represented (11%) of the Bank's total net revenues. Basically, this item covers credit commissions on all banking products and services.

#### **Foreign Exchange Revenues**

The foreign exchange trading revenues for the year ending on 31/12/2010 reached JD (1,698,679). This amount was mainly generated from the Bank customers' activities.

#### **Revenues on other Banking Services**

The revenues of banking services for the year ending on 31/12/2010 amounted to JD (349,849). This amount was mainly generated out of various charges collected against servicing customers.

#### **Capital Adequacy**

The Bank's Management takes into account the Central Bank's requirements, which entail the availability of adequate capital to cover certain ratios of risk weighted assets that correspond to the nature of the granted finance and direct investment.

The Bank's capital adequacy ratio, according to the standards Islamic Financial Services Board, based on the risk weighted assets, stood at 31.34% by the end of 2010 whereas the minimum capital adequacy requirements set by the Central Bank of Jordan is 12%.

#### The Bank's Future Plan for 2011

- Expanding local distribution through opening five new branches and expanding the ATM network.
- Increasing the Bank's market share and deposits.
- Enhancing operations control within the Bank.
- Developing a system to evaluate and follow-up the achieved performance in light of the approved objectives, policies and strategies.
- Promoting the culture of sales, service and commitment to client requirements and needs in the present and future, and achieving customer satisfaction on an ongoing basis.
- Achieving a competitive position over the competitors through improving the quality and efficiency of the services offered to the clients, increasing the efficiency of the utilized technologies, enhancing the effectiveness of training activities to provide the employees with the necessary knowledge and skills in order to develop their performance.
- Expanding the Bank's network through opening new five branches according to the Bank's strategy of enhancing the Bank's clients' base and increasing the market share.
- Diversifying and improving the e-banking services and expanding the ATM network in addition to linking it with JONET.
- Establishing and operating the Phone Banking service.
- Developing the efficiency and effectiveness of the security and control systems among the branches.
- Offering innovative Islamic products through providing new Islamic banking products to meet the banking sector's needs.

#### **First: The Strategic Goals**

The Bank's strategic plan for the years 2011-2012 aims at achieving the following:

- 1. Offering distinguished and high-quality banking and financial services to the clients efficiently through innovating and using various Islamic banking products and increasing the efficiency of the technology used.
- 2. Upgrading all the automated systems used in the bank to improve the efficiency of the banking services and operations offered to the clients and to reinforce the control level.

- 3. Maximizing the profits through using various investments and financing portfolios that the Bank offers, which helps achieve a competitive and high proceeds and maximizing shareholders equity.
- 4. Expanding the geographical distribution for the bank throughout Jordan and expanding the clients' base.
- 5. Reinforcing relationships with individuals and corporations through offering distinguished banking services and reinforcing the operating capacity and high quality for the products and services that the Bank offers.
- 6. Expanding the clients' base and focusing on individuals and small & medium corporate financings and meeting their demands through innovating and using various products and services that meet their needs.

#### **Second: Career Development**

Career development plans have been prepared for the year 2011, based on the current employees' training needs and on the future expansion and branching plans. The Bank's management will continue to hold seminars concerning Shari'a -compliant contracts and Islamic economy and using computer and advanced programs in investment and distinction in performance.

#### **Third: Developing the Financial Services**

The Bank will continue to actively develop its products and services within 2011 through the expansion of applying some Islamic financing contracts. It will also continue to study its clients' needs and their desires in order to develop new banking services and products according to Shari'a principles. The focus will be on finding profitable and high-quality investment opportunities.

#### **Fourth: Assets and Liabilities Management**

The Bank will continue to increase growth levels in the funds available for use in 2011, according to its investment needs and funding channels available that make a lot of profits. The Bank is determined to manage its assets and liabilities in a way that guarantees the best return possible against an acceptable risk level.

#### **Fifth: Islamic Banking Awareness**

The Bank is interested in positive and effective participation in several local conferences and meetings and presents papers in some of them. The Bank accepted the invitation of a number of Jordanian universities to give lectures about the principles of Islamic banking, the experience of IIAB and the role of Islamic banks in investment and other aspects.

# **Information Technology**

Over 2010, the management of Information systems offered its distinguished technological services to all the users of the systems and applications offered by the Bank, which enabled the bank employees to offer their constant services to all their clients over the year.

The projects of 2010 focused on continuing to develop infrastructure, enhance controls, improve tangible the security level of tangible assets and information in addition to enhancing and supporting the banking applications in an attempt to improve the working environment and automating the manual procedures and further control and quicken the services offered to the clients. It also developed the special policies and measures that organize information systems and finishing work on the Emergency Centre and the Continuing to Work Centre on our branch in new Zarqa, which ensures the best service and the protection of the clients' data at emergency times.

The bank network was expanded by opening new branches and installing ATMs and queuing machines in branches. In addition, the study and assessment of a number of new applications was started, amongst which is installing controlling and recording devices in the headquarters and all the branches. Furthermore, the other services added include controlling and absence systems, ATM systems and related services, the centre of calling centre and other banking services such as paying bills up through electronic channels and others.

We look forward to, God willing, achieving the aims outlined in an organized and well-planned strategy by the top management for the next year that aims at maintaining the same advanced financial position and ranking among local and regional banks through a number of new modern systems to serve the local managers and branches with the full cooperation with all departments of the Bank.



# **Auditing and Consultations Fees**

The total fees paid by the Bank to all external auditors and consultants amounted to JD (205,604).

The following table shows these expenses in details:

ltem	2010
Quarterly and Annual Auditing Fees	23,310
Tax and Corporate Consultation Fees	23,024
Legal Fees	123,270
Sharia Consultation Fees	36,000
Total	205.604

The following table shows the benefits and remunerations given to the Chairman and members of the Board of Directors for the year 2010:

JD

Name	Salaries and benefits	Transport Expenses in Jordan in 2010	Net Membership Allowances Fees
Dr. Tayseer Rudwan Al Smadi		11,000	5,000
Mr. Salim Abdulmunim Burqan	259,200	12,000	5,000
Mr. Mohammad Dawoud Mousa		12,000	5,000
Dr. Ahmed Awad Abdulhalim		12,000	5,000
Mr. Moh'd Al-Ghoul		11,806	5,000
H.E. Dr. Ayman Y. Odeh		-	-
Mr. Montassir Izzat Abu Dawwas		-	-

The following tables represents a summary of the (salaries and remunerations) paid to the executive senior management of the Bank:

Name	2010
Mr. Salim Abdulmunim Burqan	259,200
Mr. Nihad Yaqoub Maraqa	69,837
Dr. Muhsin Fayez Abu Awadh	53,561
Mr. Abbas Jamal Mar'ie	36,341
Mr. Tariq Mousa Awwad	59,310
Mr. Yousif Ali Al-Badri	75,876
Dr. Nayef Mousa Abu Dheim	56,377

# **Donations**

As an integral part of its general objectives, the Bank carried out some charitable, scientific, cultural and vocational activities, and offered financial donations to a number of charitable associations and public interest organizations amounting to JD (92,683). The following table shows the bodies which the Bank has donated for:

Organization	Amount
Islamic Charity Center Society	25,000
Several Charity associations	12,800
Aman Orphans Fund	12,550
Ministry of social development	18,000
Supporting academic institutions and research councils	3,000
Supreme Judge Department	2,283
Supporting the Quran Memorization Competition of the Faculty of Shari'a – University of Jordan	2,000
Supporting the conference on "toward a scientific methodology	2,000
Excellence Skills for Human development Center	2,000
Alwasateya Global Forum	2,000
Quran Memorization Association/supporting the annual competition for 2010	1,500
Al-Salehin Center for Quran Memorization	1,500
Jordan Medical Aid for Palestinians	1,200
Jordan Engineers Association/supporting the Association's Award for Graduation projects	1,200
Al-Fayha' Charity Association	1,150
Dar Al-Quran – Alfaqih Mosqu	1,000
Quran Memorization Association-women branch	1,000
Islamic Cultural Center	1,000
Arts & Science Faculty – UNRWA / Omra trips	1,000
Jordan Hashemite Charity Organization/food aid to Gaza Strip	500
Total	92,683

# Contracts and Affiliations with Members of Board of Directors and Executive Management

The Bank did not sign any contracts or affiliations with members of the Board of Directors. The contracts concluded by the Bank with the executive staff and their relatives fall under the Bank's normal scope of business. There are no exceptional or extraordinary contracts that require disclosure as per Article (6) of Disclosure and Accounting Standards Regulations issued by the Securities Commission's Board of Commissioners.

# **Local Community Service**

As part of IIAB's faith in its social responsibilities and ensuring the principles of social synergy, and as part of its attempt to establish the principles of its message to interact with the local community in supporting and sharing with its institutions, the Bank supported a number of charitable societies and institutions, the Ministry of Social Development and orphanages. It contributed to a number of Bir and Ihsan campaigns and the charitable packages campaign, and distributing sacrifices within the 111 Lambs Campaign. The Bank also offered many charitable initiatives to gather alms such as the Zaka campaign for the Al-Hussein Centre for Cancer in Ramadan, Al-Orwa Al-Wuthqa donations campaign, the lifetime Omra campaign in cooperation with Al-Hyat voice, the winter assistance campaign with the Charitable Islamic Centre Society in addition to distributing school bags in various governorates in the Kingdom.

The Bank also paid special attention to children as it sponsored the national club (Build, Jordan!) that is organized by the Excellence Skills Centre for Human Development, which is the first club for purposeful communal children projects in the Kingdom. Moreover, it supported the events and activities that enhance the cultural aspect of youth through sponsoring the lectures of both Dr Mohammad Areefi and Dr Mohammad Ratib Nabulsi. Moreover, it sponsored the anti-drugs campaign that is organized by the Civil Security Department/Anti-drugs Section because protecting our youth is considered a national duty and a common responsibility.

In addition, the Bank played a vital role in supporting both public and private Jordanian universities through offering all the possible aspects of material sponsorship such as supporting the research competition for Jordanian university students, patronizing the Holy Koran competition, supporting the needy students' fund as well as offering computers and providing classrooms with the necessary equipment.

Because of the Bank's constant interest in supporting the purposeful events in society and in establishing Islamic values, the Bank supported and sponsored the World Forum for Arbitration and Intellectual Property in addition to sponsoring a number of conferences and events, among which the conference of "The Contemporary Global Financial and Economic Crisis from an Islamic Economy perspective" that was organized by the Islamic Sciences University and the Global Institute for Islamic Ideology. It also sponsored the celebration for giving prizes to the participants in the fifth competition for memorizers of the Holy Koran who are members of different Islamic centers, which is organized each year by the Islamic Organizations and Societies Council. It also sponsored the "Miraculous Aspects of the Holy Koran" seminar that was organized by the Society for the Protection of the Holy Koran entitled "On earth, there are pieces of evidence [that prove the existence of Allah] for believers" as well as the third Quranic seminar that was organized by the Society for the Protection of the Holy Koran entitled "the Holy Koran and the pillars of renaissance".

# **Key Financial Indicators for the year 2010**

The Bank achieved remarkable successes along the way over the last 10 years. The Bank's financial performance was increasingly advanced. Among the financial indicators for the year 2010 compared with previous years are as follows:

JD

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Key Operational Results	2006	2007	2008	2009	2010
Unearned Revenues	20,638,701	19,821,772	15,674,766	14,647,744	18.885.673
Credit Commissions	1,051,375	1,196,984	1,600,423	1,791,288	2,601,505
Net profit before Tax	12,260,199	16,075,267	11,372,172	4,402,512	10,013,634
Net Profit after Tax	7,990,691	10,870,118	7,823,727	2,596,472	7,009,544
Main Balance Sheet Items					
Total Assets	574,758,562	593,987,017	907,628,014	1,040,778,297	1,133,111,480
Total Clients' Deposits*	541,721,614	595,670,007	666,067,639	855,293,660	961,612,291
Finance & Investment	326,514,407	354,498,159	581,696,988	931,181,019	1,038,302,961
Total Shareholding Equities	62,788,193	74,083,055	93,524,698	117,600,288	124,345,882
Number of shares	40,000,000	40,000,000	73,000,000	100,000,000	100,000,000
Some financial ratios					
Return on assets (Before tax)	2.5%	2.8%	1.3%	0.4%	0.9%
Return on equity (before tax)	21%	23.4%	12.1%	3.7%	8%
Operational expenses/operational revenues	30.7%	32%	41.7%	71.7%	57.5%
Shareholders equity/total assets	11%	12.5%	10.3%	11.2%	11%
Off-Balance Sheet					
L/C's	11,891,685	13,163,233	13,075,475	23,200,012	17,064,092
L/G's	6,242,375	12,063,637	12,342,668	11,637,213	14,355,267
Acceptances	4,369,219	3,885,536	4,316,491	4,618,422	6,437,707
-					

<sup>\*</sup> Including the clients deposits (specified investment)



## **Board of Directors' Declaration**

As per Clause (e) of Article (6) of Regulations of Disclosure and Accounting Standards issued by Securities Commission's Board of Commissioners, the Board of Directors of the Islamic International Arab Bank P.L.C declares it is responsible for preparing the financial statements and providing an effective internal auditing system, and affirms as well there are no vital issues which may affect the sustainability of the Bank's operations in the next fiscal year.

Mr. Mohammed Mousa Daoud Deputy Chairman Mr. Salem Burqan Chairman

-

**Declaration of Chairman, CEO and Financial Manager** 

According to Clause (e) of Article (6) of Regulations of Disclosure and Accounting Standards issued by Securities Commission's Board of Commissioners, we declare the financial information and statements provided in the report are correct, accurate and comprehensive.

Abbas Mar'ie Financial Manager Mr. Salim Burqan Chairman/CEO

# Shari'a Advisory Committee's Annual Report for the Fiscal Year Ending on 31/12/2010

In Name of Allah, Most Merciful, Most Gracious

Praise Be to Allah, and Allah's Peace and Blessings be upon Prophet Mohammad

#### Dear Shareholders,

The Shari'a Advisory Committee would like to present its twelfth annual report for the fiscal ending on 31/12/2010 according to the Bank's Articles of Association:

- 1. The Shari'a Advisory Committee, in cooperation with the Bank's Executive Management and technical and legal specialists working for the Bank, have examined all topics brought to the Committee, answered all related inquiries, and ensured that all Islamic rules and regulations were observed.
- 2. The Committee, through its meeting, continued to address all the necessary provisions and regulations to treat all aspects of the banking businesses in light of the developments that occurred during performance, in accordance with the Islamic rules and regulations. In addition, the Committee clarified some new banking issues, and provided the Islamic rules pertaining to them.
- 3. The Committee reviewed the Bank's balance sheet, statement of income, and notes to the financial statements of the year ended on 31/12/2010 which reflect comprehensively the Bank's operations and the information required to be submitted to any concerned party in the Bank. The committee did not notice any Shari'a violations in this regard.
- 4. The Shari'a Advisory Committee is responsible for providing an independent opinion in accordance with Shari'a controls and principles. The management of the Bank is responsible for ensuring that the Bank operations are compliant with Shari'a principles. Accordingly, in our point of view:
  - The contracts and transactions performed by the Bank during the year ending on 31/12/2010, reviewed and examined by us, are in compliance with the Islamic rules and regulations. The management has cooperated with the Shari'a Advisory Committee by applying the remarks provided to the Committee to certain practical applications.
  - Bases of profit allocation and distribution to joint investment accounts and to the Investment Risk Fund are in compliance with the Bank's Articles of Association as well as with the Islamic rules and regulations.
- 5. The Committee reviewed and examined the reports prepared by the Shari'a auditor of the branches' operations, and reviewed the auditors' observations and recommendations, and the procedures taken by the executive management in this regard.
- 6. In respect of the non-operating receivables, the Committee verified that the Bank's investment accounts were all sound, and that the Bank was not exposed to any investment losses as at 31/12/2010. Accordingly, there was no need to perform Article (16) of the Bank's Articles of Association related to loss, if any.

We pray for Allah the Almighty to bless those in charge with this Bank for more effort and achievement as per the Islamic rules and regulations.

Report made on Wednesday Safar 20, 1432 AH, corresponding to 25/01/2011 AD.

Sheikh Saeed Al-Hijjawi Member Dr. Ahmad Al-Ayyadi Executive Member Dr. Ahmad Helayyel Chairman of Committee

# **Guide of Corporate Governance**

The Islamic International Arab Bank pays a big deal of interest to proper practices of corporate governance. Its Board of Directors is as well committed with implementation of highest professional standards of performance in all of the Bank's activities. In this course, the Bank follows both the Central Bank of Jordan's instructions based upon Basel II Committee's recommendations on corporate governance and Islamic Financial Service Board's recommendations.

The Bank was one of the institutions having firstly complied with concepts of corporate governance in the Middle East. The Auditing Committee was composed in early 1998 since the Bank's establishment. The Board of Directors as well holds regular and irregular full-house meetings to discuss the Bank's strategic direction and change in key indicators of general strategy.

This Guide has been prepared as based upon Guide of Corporate Governance of Jordanian banks as issued by the Central Bank of Jordan after matching provisions of both Banks' and Companies Acts applicable in Jordan, and the Bank's both Contract of Establishment and Articles of Association.

The Bank will revise, develop and amend this Guide from time to time when necessary so as to meet any changes in needs and expectations of banking industry.

# **Guide's Basic Principles**

## First: compliance with the Corporate Governance

The Islamic International Arab Bank (the «Company») has a systematic set of relationships with members of Board of Directors and shareholders as well as all other related parties. These relationships tackle the Bank's general framework of strategy and means required to implement it. The general framework of corporate governance assures the fair equation based upon dealing equally with all shareholders, and as well recognizes all shareholders equity stated by Law and affirms providing them with all important information about the Company's activities and Board of Directors compliance with responsibility toward the Company and shareholders.

The Bank prepared this Guide as per requirements of Guide of Corporate Governance issued by the Central Bank of Jordan in a manner going with the Bank's needs and policies. Board of Directors approved this Guide in its meeting held on 19/01/2008 and publicized with an updated copy of it in the Bank's website and for people at request.

Within the annual report, the Bank includes a report for people regarding the Bank's compliance with the Guide's items, along with mentioning reasons behind incompliance of any of these items when not implemented.

#### **Second: Board of Directors**

#### 1- General Principles

- a. The main duty handled by Board of Directors is to protect and increase shareholders equity on long terms. For such a duty, the Board is completely responsible for corporate governance, and this includes implementing the Bank's strategic direction, defining Executive Management's general goals and supervising the achievement of these goals.
- b. The Board is wholly responsible for the Bank's operations and financial safety, making sure that requirements of the Central Bank and interests of shareholders, depositors, debtors, employees, and other related bodies have been fulfilled, and that the Bank is managed prudently and within

the framework of laws and regulations applicable and the Bank's internal policies.

- c. The Board is concerned with strengthening the principle of compliance of each member of the Board with the Bank and all of its shareholders, not only a certain one.
- d. The Board assumes designing the Bank's strategic goals in addition to monitoring its Executive Management concerned in turn with daily operations. The Board as well assumes approving all regulatory and internal control systems making sure of their efficiency and assuring the Bank's compliance with the strategic plan and the policies and procedures approved or required as per the laws and by-laws regarding them, besides making sure that all the Bank's risks have been managed properly.

# 2- Chairman/General Manger

- a. Positions of Chairman of the Board (the «Chairman») and CEO shall be segregated, and there shall be no any kinship between Chairman and CEO below third degree. Separation shall be as well in responsibilities as per written instructions approved by the Board and revised when necessary.
- b. In case that the Chairman is executive, the Bank shall appoint an independent member as a deputy chairman in sake of having an independent source to be a spokesperson of shareholders. The chairman of the Board can be executive (if he is unemployed and occupies a certain position in the Bank).
- c. Chairman's status as whether executive or non-executive shall be disclosed.

#### 3- Chairman's Role

The Chairman assumes the following:

- a. Having a constructive relationship between Board of Directors and Executive Management, and between executive and non-executive members.
- b. Creating a culture during the Board's meetings encouraging constructive criticism regarding any controversial issues among members of the Board.
- c. Making sure that there is sufficient information conveyed to both members of the Board and shareholders on time.
- d. Making sure that there are high standards of corporate governance in the Bank.

## 4- Composition of the Board

- a. The Board of Directors in the Islamic International Arab Bank is composed of five members. The members of the Board are elected by the General Assembly for a period of four years. The Chairman of the Board is elected by the members of the Board themselves as well.
- b. Professional experiences and technical skills shall be considered in composing the Board. These are which qualify each member of the Board to give his opinion in the Board's discussions in an independent manner. The Board includes the CEO and non-executive members (members who do not occupy any positions in the Bank).

- c. There shall be three independent members at least among the members of the Board.
- d. An independent member is defined as the member (whether in his personal capacity or as a representative of a legal body) who hasn't any connection with the Bank other than his being a member in the Board of Directors where his judgments on any affairs are not anyhow affected by any external considerations. The following is the minimal limit required to be fulfilled by the independent member:
  - 1. He has not worked as an employee in the Bank during the latest three years for his being selected to be a member of the Board.
  - 2. He shall not have any kinship with any administrator in the Bank below second degree.
  - 3. He shall not earn any salaries or amounts from the Bank except for what he earns for his being a member of the Board.
  - 4. He shall not be a member of the board, or owner, of a company having relationships with the Bank except for those relationships arising from the ordinary services/operations offered by the Bank to its customers provided that they are governed by the same conditions regulating any similar transactions with any other party with no any deliberate conditions.
  - 5. He shall not be a partner of, or employee for, the external auditor during the latest three years for his being selected a member of the Board.
  - 6. His equity shall not largely affect the Bank's capital, and he shall not be an ally of another shareholder.

## 5- Organization of the Board's Agenda

- a. Meetings of the Board shall not be less than (6) a year, for assuring that all topics presented in agenda are covered well.
- b. Executive Management shall propose any topics it deems vital to be presented in each meeting's agenda.
- c. The topics presented in the board's meetings shall be discussed in a comprehensive manner.
- d. There shall be, as per the Bank's policy, independent members in the Board so as to assure that the Board's resolutions are objective and there is a level of control assuring balanced effects on all parties including Executive Management and major shareholders. The resolutions made shall be directed toward the Bank's interest.
- e. The Bank shall provide the members of the Board with all information with a proper period of time before their certain meeting so that they can make proper resolutions.
- f. The Board's secretary shall assume documenting all discussions conducted during meetings of the Board.
- g. Responsibilities of the Board are specific and obvious in a manner going with any related

legislations, and the bank shall provide each member of the Board with a letter explaining his rights and duties.

- h. All banking operations requiring the Board's consent shall be prepared in writing. Among them are:
  - The Board's authority in providing banking facilities exceeding a certain amount.
  - The Board's authority in regard with any transactions with any related parties.
- i. The members of the Board shall examine in a permanent manner all developments inside both the Bank and any local and international banking sectors. The Bank shall provide the members with a proper summary about the Bank's operations.
- j. All contacts between members of the Board and committees, and Executive Management are permitted.
- k. The Bank shall set an organizational structure showing the administrative structure of the Bank (including the Board's committees and Executive Management). The public have the right to see part of structure showing the higher administrative levels of the Bank.
- I. The Board's secretary shall make sure that the members of the Board follow the procedures specified by the Board, and that information is well tackled among the Board's member and committees, and Executive Management. The secretary shall as well define when the Board is to assemble along with writing minutes of the meetings. The Board shall specify the jobs and duties of the secretary in a formal manner in writing in a manner going with levels of responsibility referred to above. The Board as well is in charge with making any resolutions regarding appointment or resignation of the secretary.

# 6- Activities of the Board: Designations, Succession and Development

- a. A CEO is to be appointed, as per the Board's policy, enjoying technical integrity and efficiency, and banking experience.
- b. The Board's consent shall be obtained at appointing some executive directors such Director of Internal Auditing and Financial Inspector, and the Board shall make sure of their proper experiences.
- c. The Board shall approve succession plans of executive directors of the Bank, and these plans shall include all qualifications and requirements having to be fulfilled by occupiers of these positions.

#### 7- Activities of the Board: Self Assessment and CEO's Performance Assessment

- a. The Board shall assess its own performance as a whole at least once a year through following specific procedures duly approved in performance assessment in an objective manner including a comparison with other similar banks and financial institutions, and covering as well standards of integrity and accuracy of financial statements and compliance with control requirements.
- b. The Board of Directors shall assess the General Manager annually.

# 8- Activities of the Board: Planning, Regulatory and Control Systems, Code of Ethics and Conflict of Interests

- a. The Board shall define the Bank's goals and objectives, and set and approve the strategies concerned with attaining these goals. Executive Management shall in turn set the work plans going with these strategies throughout a planning process including all of the Bank's divisions. The Board shall approve the strategy and work plan and make sure that Executive Management revises performance and achievement as per the work plan and that there are proper corrective procedures whenever necessary. The budget preparation process shall be an integral short-term part of the planning and performance assessment processes.
- b. The Board shall always make sure that the Bank enjoys high integrity in all of its operations. That is through providing policies and ethics charter including definitions of conflict of interests and deals conducted by the Bank's personnel for their personal interests as based upon internal information about the Bank obtained / examined as per their authorities. These policies and ethics charter shall be publicized to, and approved by, all of the Bank's personnel and members of the Board, and as well publicized to the public in general. These policies shall include the following:
  - 1. Rules and procedures regulating all operations with related parties whether between the Bank and its personnel, members of the Board or their [partners, or any related parties. This includes all joint financing and trading operations with the Bank. This includes as well what can assure that credit are provided to the members of the Board and their partners as per the prevailing rates in the market and not as per any deliberate conditions. The member shall not participate in any meeting of the Board where any transactions or contracts are conducted or voted. Operations with related parties shall be disclosed in the Bank's annual report, and the Bank's divisions concerned with internal regulatory and control systems shall make sure that the related parties' operations have been conducted as per this policy.
  - 2. Clear-cut regulatory systems preventing the members of the Board and personnel from utilizing any internal information regarding the Bank for their personal interest.
- c. There shall written policies approved by the Bank covering all of its banking activities. These shall be publicized to all administrative levels, and shall be as well revised in a regular manner to make sure that they cover all amendments or changes occurring to the laws and regulations in effect, and the economic conditions as well as any other affairs related to the Bank.
- d. The Bank shall, as part of approval of credit provisions, assess quality of corporate governance of corporate customers particularly public-shareholding companies in a manner including risk assessment of customers by strengths and weaknesses in their practices in field of governance.

#### **Third: Board's Committees**

#### 1. General Provisions:

- a. The Board, in order to enhance its efficiency, composes a number of committees out of it with specific goals. The Board gives these committees certain authorities and responsibilities for a certain period of time. The committees report on a regular basis to the Board as a whole, knowing that these committees do not exempt the Board from being in charge directly with all affairs related to the Bank.
- b. Transparency shall be a principle taken into account in appointing members of the Board's committees. These members' names shall be disclosed along with a summary about their duties and responsibilities within the Bank's annual report.
- c. The Board of Directors may merge the duties of a number of committees if appropriate or adequate from the administrative perspective.

# 2. Corporate Governance Committee

- a. The Corporate Governance Committee is composed of the Chairman of the Board and two non-executive members, directs the process of preparation, updating and implementation of the Guide of Corporate Governance.
- b. This Committee is charged with supervising the practice of corporate governance in the Bank and assuring that all elements required for corporate governance are available

## 3. Auditing Committee

- a. The Auditing Committee in the Bank is composed at least of three non-executive members. Names of these members shall be disclosed in the Bank's annual report.
- b. As per the Bank's policy, there shall be at least two members of the Auditing Committee having academic qualifications or practical experiences in field of financial administration, and there shall be at least two independent members in the Committee.
- c. The Auditing Committee assumes its authorities and responsibilities as per the Bank's Act and any other related regulations. This includes the following points:
  - 1. Scope, results and extent of adequacy of internal and external auditing in the Bank.
  - 2. Accounting issues having an essential impact on financial statements.
  - 3. Internal regulatory and control systems of the Bank.
- d. The Committee reports its recommendations to the Board in regard with appointment, resignation, remuneration of the external auditor, and any other related contractual conditions. This is beside assessment of how objective the external auditor is, taking into account any other works outside the auditing system in sake of assuring that extent of objectivity.

- e. The Auditing Committee is authorized to obtain any information from the Executive Management in addition to its right to call up any executive employee or member of the Board to attend its meetings.
- f. The Committee meets the external auditor, internal auditor, and compliance officer at least once a year in absence of the Executive Management.
- g. The responsibility of the Auditing Committee does not exempt the Board or the Executive Management in regard with monitoring the adequacy of the Bank's internal regulatory and control systems.
- h. The Committee as well approves the annual audit plan and monitors its implementation, beside its duty to revise audit notes. The Committee is deemed the direct body responsible for supervising the Internal Auditing Division's work and operations.

#### 4. Selection and Remuneration Committee

- a. The Selection and Remuneration Committee is composed of at least three non-executive members, provided that most of them (including the Committee's Chairman) are independent members.
- b. This Committee is charged with defining whether a member is independent or not, taking into account the minimal limit of requirements having to be fulfilled by him as stated in this Guide.
- c. This Committee assumes the responsibility of providing any information and summaries regarding some certain vital topics about the Bank to members of the Board upon request. It shall ensure that they are constantly informed of any latest topics associated with banking. The Bank encourages the members of this Committee to attend any sessions or events which expose them to the opportunity to meet local and international companies and institutions.
- d. This Committee reports the remunerations (including monthly salaries and other benefits) to the CEO, and revises the remunerations (including the salaries) given to the members of the Executive Management.
- e. This Committee is charged with ensuring that there is a proper remuneration policy in the Bank. It ensures that these remunerations / salaries are suitable and adequate for attracting and retaining qualified personnel for the Bank, and that the remunerations / salaries are on par with similar banks in the market.
- f. A summary of the remuneration policy in the Bank shall be disclosed in the Bank's annual report, particularly the remunerations given to the members of the Board individually along with the highest salaries paid during the year to the executive managers.
- g. This Committee is in no way hindered to nominate certain members of the Board to be reelected, as per the provisions of the Companies' Act, taking into account the number of times they attend and the quality and efficiency of their participation in the Board's meetings. Knowing that the Companies' Act states that the Board's validity ends four years after the date of its being elected, each member of the Board shall propose himself to election during the annual meeting of the General Assembly in order for his membership to be renewed.

# 5. Risk Management Committee

- a. The Risk Management Committee is composed of members of the Board and Executive Management.
- b. This Committee assumes the responsibility of revising the risk management policies and strategies before they are being approved by the Board. The Bank's Executive Management bears the responsibility of implementing these strategies in addition to developing the policies and procedures through which all sorts of risks shall be managed.
- c. The Bank's Executive Management shall propose the corporate hierarchy of the Risks Management Division and the process through which it is to be developed. These proposals shall also be reviewed by the Risk Management Committee and approved by the Board of Directors.
- d. This Committee shall follow up on any rapid developments and increasing complexities occurring in risk management within the Bank; it shall report regularly to the Board of Directors on these developments and complexities.
- e. The Board of Directors is concerned with ensuring that there is an effective internal control system and making sure of its effective operation. The Board as well defines, and sets the framework of, the risk management policies in the Bank.

#### **Fourth: Internal Controls Environment**

# 1. Internal Control Systems

- a. The structure of internal regulatory and control systems is reviewed by both internal and external auditors at least once a year.
- b. The Board is concerned with enriching the Bank's annual report with a report about the adequacy of the internal regulatory and control systems in field of financial reporting. This report shall include the following:
  - 1. A paragraph explaining the responsibility of the Executive Management for setting and maintaining the internal regulatory and control systems in field of financial reporting in the Bank.
  - 2. A paragraph about the scope of work done by the Executive Management to assess the efficiency of the internal regulatory and control systems.
  - 3. A assessment by the Executive Management of the efficiency of the internal regulatory and control systems at the date of the financial statements included in the Bank's annual report.
  - 4. A The disclosure of any significant weaknesses in the internal regulatory and control systems (one or more significant weaknesses resulting in the potential incapability for preventing or detecting any incorrect statements).
  - 5. A report by the external auditor showing his opinion of the assessment conducted by the Executive Management of efficiency of the internal regulatory and control systems.

- 6. A report by the Shari'a Advisory Committee showing their opinion of the Executive Management's implementation of the Islamic rules and regulations in the Bank's operations.
- c. The Bank sets the necessary procedures to enable employees to report, timely and confidentially, any fears regarding potential violations, in a manner allowing the independent investigation and following up of these fears. The Auditing Committee shall monitor the implementation of these procedures.

# 2. Internal Auditing

- a. The Bank provides the Internal Auditing Division with a sufficient number of qualified personnel who are trained and rewarded properly. The Internal Auditing Division may obtain any information and contact any employee inside the Bank and has been granted all authorities to be capable for performing its duties properly. The Bank documents the Internal Auditing Division's duties, authorities and responsibilities within Internal Audit Charter approved by the Board and publicized within the Bank.
- b. The Internal Auditing Division reports to the Chairman of the Auditing Committee.
- c. The Internal Auditing employees are not assigned any executive responsibilities, and the Internal Auditing Division shall be responsible for proposing both the hierarchy and scope of work of internal auditing in the Bank, and as well for informing the Auditing Committee of any potential conflict of interests.
- d. The Internal Auditing Division practices its duties and prepares its reports completely without external interference, and it may discuss its reports with the division audited.
- e. The basic responsibilities of the Internal Auditing Division include:
  - 1. The financial reporting operations in the Bank (to make sure that the main information about the financial and administrative affairs and operations is accurate, reliable and punctual).
  - 2. Compliance with the Bank's internal policies and the international standards and procedures, as well as any related instructions.
- f. The basic responsibility of the Internal Auditing Division also includes examining the implementation of the banking operations in accordance with the Islamic rules and regulations, and with what the Shari'a Advisory Committee sets and states.

# 3. Shari'a Advisory Committee

- a. Board of Directors appoints the Shari'a Advisory Committee, of which at least three members are to be Islamic scholars.
- b. This Committee's duties are to:
  - 1. Examine all financing topics, inquiries and formulas adopted by the Bank to make sure that they are in compliance with the Islamic rules and regulations.
  - 2. Ensure that there is a jurisprudence statement supporting any loss arisen in the joint investment operations.

- 3. Ensure that the Islamic rules have been followed for all contracts, instructions and any other sort of operations and procedural requirements and to correct any non-compliance with Islamic rule.
- 4. Issue the Shari'a Advisory Committee's annual report at the end of each fiscal year, in which the Bank's balance sheet is reviewed and all profits and losses are stated with all required explanations and no violations committed.

#### 4. External Audit

- a. The Bank regularly rotates external auditing among auditing bureaus and requires a regular rotation of the major partner in charge of the external auditing in the Bank in case of difficult implementation of former rule.
- b. The external auditor provides the Auditing Committee with a copy of his report; and he shall meet with the Auditing Committee in absence of the Executive Management at least once a year.

# 5. Risk Management

- a. Risk Management Division reports to Risk Management Committee; however, it reports to CEO with regard to daily operations.
- b. The responsibilities of the Risk Management Division in the Bank include the following:
  - 1. Analyzing all risks including credit risks, market risks, liquidity risks, and operational risks.
  - 2. Developing proper methodologies of measurement and regulation of all sorts of risks.
  - 3. Giving recommendations to the Risk Management Committee about certain proof of risks, and reporting and recording any exceptions in the risk management policy.
  - 4. Providing both the Board and higher Executive Management with proper information about measurement of risks and risk profile in the Bank (the Board, in turn, revises risk statistics in the Bank whether in quality or quantity in a regular manner at each meeting).
  - 5. Providing information about the risks in the Bank to be used for purposes of disclosure and publication.
- c. The Bank's committees, such as the Credit Committee, as well as the Assets and Liabilities Division, Treasury Division, and Operational Risk Division assist the Risk Management Division in fulfilling its duties as per the authorities stated for them.
- d. The Bank's annual report shall include information about the Risk Management Division, with regard to its hierarchy, operations, and developments.

# 6. Compliance

- a. The Bank includes a unit concerned with compliance, and it provides this unit with well-trained and sufficiently rewarded personnel.
- b. The Compliance Unit is concerned with preparing an effective methodology to assure the Bank's compliance with all laws and regulations in effect and any related instructions and guides; and the Bank shall record and publicize this Unit's duties and responsibilities.
- c. The Board approves and monitors the Bank's policy of compliance. However preparing and developing it, and making sure that this policy is implemented in the Bank is the bank's Compliance division authority.
- d. The Compliance Unit reports to the Board the results of its operations and regulations of compliance, with a copy given to the Executive Management in accordance with the Central Bank's instructions issued in this regard.

# Fifth: Relationship with Shareholders

- 1. The Bank undertakes certain steps to encourage shareholders to attend the General Assembly's annual meetings and to vote, whether in person or via a proxy in case of absence.
- 2. The chairmen of both Audit and Remuneration Committees, as well as any other related committees composed out of the Board, shall attend the annual meeting of the General Assembly.
- 3. Representatives for the external auditors shall attend the annual meeting of the General Assembly in order to answer any questions posed about the auditing and auditor's report.
- 4. Each issue shall be voted on individually, as arisen during the annual meeting of the General Assembly.
- 5. Members of the Board, as per the Companies' Act, shall be elected or re-elected during the annual meeting of the General Assembly in accordance with the Bank's Articles of Association. The external auditor is elected during the same meeting.
- 6. After the annual meeting of the General Assembly is completed, a report shall be prepared for the shareholders. It shall contain the notes of the discussions during the meeting, including the results of voting, and questions the shareholders have posed along with the Executive Management's answers to them.

## **Sixth: Relationships with Investment Accounts' Holders**

- 1. The Bank declares that investment accounts' holders may follow up on the performance of their investments and related risks faced, as well as setting any sufficient means to assure that their rights are well-preserved and practiced.
- 2. The Bank is concerned with approving a proper strategy, for all risks and returns expected, for investment accounts' holders (taking into account distinction between restricted and unrestricted investment accounts' holders) along with approving transparency in supporting any returns.

# **Seventh: Transparency and Disclosure**

- 1. The Bank makes disclosures, as per Islamic accounting standards issued by Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI). In case that there are no certain Islamic accounting standards, the Bank implements the International Financial Report Standards (IFRS) in a manner complying with both the Islamic rules and regulations and the Central Bank of Jordan's instructions issued as per Banks' Act applicable and related legislations. Moreover, the Bank shall be informed of any changes occurring to the international practices regarding financial reporting and scope of transparency required by the certain financial institution. The Bank is also charged with making sure that any amendments to the international financial reporting standards are well implemented and performed. The Executive Management shall report to the Board of these changes, in addition to submitting recommendations regarding the means of enhancement of the Bank's practices in field of disclosure in a manner exceeding the Central Bank's requirements in this regard.
- 2. The Bank undertakes to provide significant information about its activities to the Central Bank, shareholders, depositors of other banks and the public in general, concentrating upon the issues about which shareholders are concerned, and the Bank discloses this information regularly and conveniently to all.
- 3. The Bank explains in its annual report its responsibility for providing accurate and adequate financial statements and information stated in its annual report.
- 4. The Bank undertakes to preserve all lines of contact with control authorities, shareholders, depositors of other banks and the public in general, and these lines shall be via:
  - a. A position for investor relationships, which is occupied by a well-qualified staff being capable of providing comprehensive, objective and updated information about the Bank along with its financial position, performance and activities.
  - b. The annual report, which is issued at the end of each fiscal year.
  - c. The regular meetings between the Executive Management of the Bank and both investors and shareholders.
  - d. A regular summary which is provided to shareholders, investment accounts' holders, financial analysts and journalists concerned with financial issues by the higher Executive Management, and in particular by both the general manager and Financial manager
  - e. Information provided, as stated in the Bank's annual report or in the lectures conducted by the Executive Management, through the position of investors' relationships and at the Bank's official website in an updated manner in both Arabic and English.
- 5. The annual report of the Bank includes the Executive Management's disclosure, called as Management Discussion and Analysis (or "MD&A"), which allows the investors to understand the results of both current and future operations, and the Bank's financial position including as well any potential effect of known directions and events as well as uncertainties. The Bank undertakes to ensure that the explanations stated in this disclosure are approved, complete, fair, balanced, understandable and based upon the financial statements officially publicized.

- 6. The annual report includes, as part of commitment to transparency and complete disclosure, the following specific points:
  - a. Guide of Corporate Governance approved by the Bank and the annual details of the Bank's commitment to its items.
  - b. Information about each member of the Board: qualifications, experiences, amount of share in capital, whether independent or not, whether executive or not, membership in the Board's committees, date of being elected in the Board, any memberships in any other boards, rewards / salaries obtained from the Bank, loans granted by the Bank and any other operations between the Bank and this member or any of his partners or related parties.
  - c. A summary of the Bank's corporate hierarchy.
  - d. A summary of duties and responsibilities of the Board's committees and any other authorities given by the Board to these committees.
  - e. Number of meetings of the Board and the Board's committees.
  - f. A summary for the remuneration policy in the Bank, and the highest salary paid to the Executive Management.
  - g. The Board's certification that the internal regulatory and control systems are adequate.
  - h. A description of the Risk Management Division's hierarchy and activities.
  - i. Key shareholders of the Bank.
- 7. The Bank shall provide essential and significant information about the investment accounts managed by it for investment accounts' holders and the public in a sufficient and timely manner.

Assuring its compliance with applying the terms and conditions stipulated in the corporate governance guide, that is approved by the Board on 19/01/2008, the Bank states that, in terms of item (Second 2-b) of the guide, Mr. Salem Burqan (Board Member) was elected on 29/12/2010 as the Chairman of the Bank, taking into account that the Board approved in its meeting dated 12/1/2011 to appoint Mr. lyad Al-Assali in the capacity of General Manager as from 1/3/2011.

as for item (third 3-b and 4-a) it is worth mentioning that the Arab Bank is the sole shareholder in Islamic International Arab Bank which restricts all the elected board members to be from the Arab Bank.

In accordance with the Corporate Governance's instructions and the Central Bank of Jordan's requirements, the following committees were formed:

#### 1. Governance Committee

Mr. Salem Burgan/Board Chairman Chairman

Mr. Ayman Odeh/Board Member Member

Mr. Muntasser Abu Dawwass/Board Member Member

One meeting was held during 2010

#### 2. Selection and Remuneration Committee

Mr. Ayman Odeh/Board Member Chairman

Mr. Mohammad Mousa Dawoud / Deputy Chairman Deputy Member

Mr. Muntasser Abu Dawwass/Board Member Member

Three meetings were held during 2010

# 3. Risks Management Committee

Mr. Salem Burgan/Board Chairman Chairman

Mr. Ahmad Awad Abdul Halim/ Member of the Board Member

Manager of Risk Management/ Islamic International Arab Bank Member

Manager of Internal Audit/ Islamic International Arab Bank Member

Four meetings were held during 2010

# 4. Auditing Committee

Mr. Mohammad Mousa Dawoud/ Deputy Chairman of the Board Chairman

Dr. Ahmad Awad – Abdul Haleem / Member of the Board Member

Mr. Muntasser Abu Dawwass/Board Member Member

Six meetings were held during 2010

#### 5. Credit Facilities and Investments Committee

Mr. Salem Burgan/Board Chairman Chairman

Mr. Mohammad Mousa Dawoud / Deputy Chairman Deputy Member

The committee holds periodic meetings during the year.

# **Financial Statements**

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# In Name of Allah, The Most Merciful, The Most Gracious External Auditors' Report

# Dear Shareholders,

Amman – Jordan

We have audited the attached financial statements of the Islamic International Arab Bank (a public-shareholding limited company). These statements include the balance sheet as at 31/12/2010, and statement of income, statement of comprehensive income, changes in shareholders' equity, and cash flows for the year then ending, along with a summary of the vital accounting policies and other necessary notes.

# **Responsibility of Management for Financial Statements**

The Bank's Management is totally responsible for preparing and fairly presenting the financial statements according to the Islamic accounting standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions, as adequate for the Bank's Articles of Association and the Islamic rules and regulations defined by the Bank's Shari'a Advisory Committee. This responsibility includes maintaining the adequate internal control for the purposes of preparing fair financial statements free of any significant misstatements, whether arising from mistakes or frauds.

# **Responsibility of Auditors**

Our responsibility is to express opinion regarding these financial statements as based on our audit. Our audit was conducted in accordance with international auditing standards, which require that we comply with the rules of professional conduct, plan and perform the audit to obtain a reasonable assurance as to whether these financial statements are free of any material misstatements.

The audit includes that we take certain procedures to obtain audit evidences supporting the amounts and disclosures in the financial statements concerned. These procedures selected depend on the auditor's discretion, including assessment of risks of material misstatements, whether arising from mistakes or frauds. When assessing these risks; the auditor takes into account the Bank's internal auditing procedures that are related to preparation and presentation, in a fair manner, of the financial statements, in order to design appropriate auditing procedures according to prevailing circumstances, and not to give opinion about the efficiency of the Bank's internal auditing system. Moreover, the audit includes assessment of suitability of the accounting policies followed and reasonability of the accounting estimates prepared by Management, as well as evaluating the overall presentation of financial statements.

We believe that the audit evidences we have obtained are adequate and suitable to provide a reasonable ground for our opinion on auditing.

# **Our opinion**

In our opinion, the financial statements fairly reflect, from all material aspects, the financial position of the Islamic International Arab Bank as at 31 December 2010, its financial performance, and cash flows for the year then ending according to the Islamic accounting standards by the Accounting and Auditing Organization of Islamic Financial Institutions, which are consistent with the Bank's Articles of Association and the Islamic rules and regulations.

# **Report on Legal Requirements**

The Bank duly maintains organized accounting records and registers which are consistent with the financial statements attached and with the financial statements stated in the Board of Directors' report.

Amman – Jordan Safar 20, 1432 AH Cor. January 25, 2011 AD Deloitte & Touché (Middle East) – Jordan

# Balance Sheet as on 31/12/2010 and 2009

Statement (A)

Statement	Note	31	Dec.
Assets		2010	2009
Cash and Balances with the Central Bank	4	58,257,159	46,324,466
Balances at Banks and other Financial Institutions	5	46,105,196	67,085,126
Net Receivables of Deferred Sales & Other Receivables	6/A	854,221,888	804,080,346
Financing	6/B	7,448,716	3,553,416
Financial Assets Available for Sale	7	6,389,356	12,857,577
Financial Assets Held to Maturity	8	3,567,156	5,605,531
Net Ijara Assets	9	120,106,427	78,942,297
Investments in Real-Estate	10	16,534,257	3,485,296
Net Qurd Hassan	Statement (A)	479,409	584,796
Equipment and tools – Net	11	12,506,580	11,872,584
Intangible Assets	12	1,628,976	1,779,632
Deferred Taxes Assets	18/C	1,750,790	2,696,591
Other Assets	13	4,115,570	1,910,639
Total Assets		1,133,111,480	1,040,778,297
Liabilities			
Banks and Financial Institutions Accounts	14	173,134,203	209,690,141
Customers' Current Accounts	15	220,500,949	168,607,606
Cash Margin	16	21,430,751	17,761,723
Other Provisions	17	1,234,207	1,105,654
Income Tax Provision	18/A	2,279,433	3,049,663
Deferred Taxes Liabilities	18/C	77,045	-
Other Liabilities	19	10,952,365	12,547,248
Total Liabilities		429,608,953	412,762,035
<b>Unrestricted Investment Accounts Holders Equities</b>			
Unrestricted Investment Accounts	20	577,391,794	507,684,488
Investment Risks Fund			
Investment Risks Fund	22	1,173,000	2,185,485
Income Tax on Investment Risks Fund Provision	22	591,851	546,001
		1,764,851	2,731,486

Statement	Note	31	Dec.
Shareholders Equities		2010	2009
Paid-up Capital	23	100,000,000	100,000,000
Statutory Reserve	24	8,090,760	7,076,782
Voluntary Reserves	24	5,537,312	3,509,356
General Banking Risks Reserves	24	882,000	882,000
Cumulative Change in fair Value	21	179,770	443,720
Retained Earnings	25	9,656,040	5,688,430
Total Shareholders Equities		124,345,882	117,600,288
Total Liabilities, Unrestricted Investment Account Holders equities, and Shareholders' Equity		1,133,111,480	1,040,778,297
Restricted Investments – Customers - statement (B)		163,719,548	179,001,566

Notes attached from (1) to (52) constitute an integral part of these Financial Statements.

# Income Statement for Fiscal Years Ending on 31/12/2010 and 2009

Statement (B)

		31	Dec.
Statement	Note	2010	2009
Deferred Sales Revenues	26	13,466,549	11,619,699
Financing Revenues	27	305,219	241,043
Revenues from Ijara Assets	31	6,688,242	4,550,282
Unrestricted Investment Accounts Total Revenues		20,460,010	16,411,024
Unrestricted Investment Accounts holders' Share	32	(11,610,164)	(9,240,625)
Investment Risks Fund Share	22	(2,046,001)	(1,641,103)
Bank's Share of Unrestricted Investment Accounts Revenues as Mudarib	33	6,803,845	5,529,296
Bank Self-Owned Revenues	34	11,764,918	6,702,668
Bank's Share of restricted Investment Accounts Revenues as Mudarib	35	183,701	229,522
Foreign Currency Profits	36	1,698,679	1,042,169
Banking Services Revenues	37	2,601,505	1,791,288
Other Revenues	38	502,010	303,024
Total Income		23,554,658	15,597,967
Expenses			
Staff Expenses	39	6,440,279	5,381,339
Depreciations and Amortizations	11812	1,603,708	1,168,443
Other Expenses	40	4,348,679	3,508,749
Ijara Assets Depreciation	9	314,896	319,443
Deferred Sales Receivables and Financing impairment – self owned	6	675,000	625,000
Other Provisions	17	158,462	192,481
Total Expenses		13,541,024	11,195,455
Pre-Tax Profit		10,013,634	4,402,512
Income Tax	18/B	3,004,090	1,806,040
Year's Profit		7,009,544	2,596,472
Earnings Per Share for the year – basic/diluted	41	%7	%3

Explanations attached from (1) to (54) constitute an integral part of these Financial Statements.

# **Statement of Comprehensive Income**

# Statement (C)

	31 Dec.			
Statement	2010	2009		
Profit for Year- Statement (B)	7,009,544	2,596,472		
Comprehensive Income Items:				
Net Change in Fair Value Reserve- Statement (D)	(263,950)	2,979,118		
Total Comprehensive Income - Statement (D)	6,745,594	5,575,590		

Explanations attached from (1) to (52) constitute an integral part of these Financial Statements.

Statement of Changes in Shareholders' Equity for Fiscal Years Ending on 31/12/2010 and 2009

Statement D

Statement	Subscribed	Rese	Reserves	General	Fair Value	Retained	ļ
	capital (paid)	Regulatory	Voluntary	Banking Kisk Reserve	Reserve-Net	Earnings*	lotal
For Year Ending on Dec. 31, 2010							
Balance at Beginning of Year	100,000,000	7,076,782	3,509,356	882,000	443,720	5,688,430	117,600,288
Profit for Year – Statement (B)	1	-	-	1	-	7,009,544	7,009,544
Net Change in Fair Value (note 21)	1	-	-	1	(263,950)	ı	(263,950)
Total comprehensive income -Stm. (C)					(263,950)	7,009,544	6,745,594
Transferred to Reserves	1	1,013,978	2,027,956	1	-	(3,041,934)	1
Balance at End of Year	100,000,000	8,090,760	5,537,312	882,000	179,770	9,656,040	124,345,882
For Year Ending on Dec. 31, 2009							
Balance at Beginning of Year	73,000,000	6,624,292	3,304,376	882,000	(2,535,398)	12,249,428	93,524,698
Profit for Year – Statement (B)	1	-	-	1	-	2,596,472	2,596,472
Net Change in Fair Value (note 21)	1	-	1	1	2,979,118	1	2,979,118
Total comprehensive income -Stm. (C)	ı	-	-	1	2,979,118	2,596,472	5,575,590
Transferred to Reserves	ı	452,490	904,980	1		(1,357,470)	-
Capital Increase	27,000,000	1	(700,000)	1		(7,800,000)	18,500,000
Balance at End of Year	100,000,000	7,076,782	3,509,356	882,000	443,720	5,688,430	117,600,288

Retained earnings balance covers an amount of JD 1,750,790 as on 31/12/2010, unusable as per the Central Bank of Jordan's instructions, representing the deferred tax assets value.

Explanations attached from (1) to (52) constitute an integral part of these Financial Statements.

It is not permitted to use General Banking Risks Reserve balance amounting to JD (882,000) as on December 31, 2010 without a prior approval from the Central Bank of Jordan

# Statement of Cash Flows for the Years Ending on 31/12/2010 and 31/12/2009

Statement E

			Statement E
Statement	Note		Dec.
		2010	2009
Cash Flows from Operational Activities		10.012.624	4 402 512
Profit Before Tax		10,013,634	4,402,512
Adjustments of Non-Cash Items:		1 (02 700	1.160.143
Depreciations and Amortizations		1,603,708	1,168,443
Ijara Assets Depreciation		12,532,699	8,976,815
Allocation of Deferred Sales Receivables and Financing Impairment –		675,000	625,000
Investment Risks Fund		2,046,001	1,641,103
Other provisions		158,462	192,481
Impairment losses from financial assets available for sale		70,250	2,581,383
Effect of Exchange Rate Changes on Cash and Equivalents		(643,376)	(467,633)
Profit before Change in Assets and Liabilities		26,456,378	19,120,104
Change in Assets and Liabilities:			
(Increase) in Deferred Sales Receivables and Other Receivables		(53,262,082)	(343,090,082)
Increase (Decrease) in Financing		(3,895,300)	1,249,570
Increase (Decrease) in Ijara Assets		(53,696,829)	(24,149,300)
Increase (Decrease) in Other Assets		(2,204,931)	(249,706)
(Increase) Decrease in Qurd Hassan		105,387	(316,824)
Increase in Current and Demand Accounts		51,893,343	63,386,283
Increase (Decrease) in Cash Margin Deposits		3,669,028	(3,299,091)
(Decrease) Increase in Other Liabilities		(1,594,883)	2,850,999
Paid Staff Indemnity compensation		(29,909)	(24,102)
Net (Uses) of Cash Flows from Operational Activities before Tax		(32,559,798)	(284,522,149)
Paid Tax		(3,395,614)	(5,706,777)
Net (uses) of cash flows from operational Activities		(35,955,412)	(290,228,926)
Cash Flows from Investment Activities	,		
Redemption of Financial Assets held to maturity		2,038,375	11,255,198
Selling (Purchasing) Financial Assets Available For Sale		6,211,066	(815,350)
(increase) in fixed assets and projects in progress - Net		(2,477,450)	(3,362,472)
Collections of selling fixed assets		24,423	67,096
(Purchasing) intangible Assets		(210,124)	(171,192)
(Purchasing) investments in real estate		(12,472,859)	(2,563,606)
Net (uses) of cash flows from Investment Activities		(6,886,569)	4,409,674
Cash Flows from Financing Operations			
Increase in unrestricted Investment accounts		69,707,306	152,648,056
Increase in Capital		-	18,500,000
Net Cash flows from Financing Operations		69,707,306	171,148,056
		643,376	467,633
		043,370	
Effect of Exchange Rate Changes on Cash and Equivalents			
		27,508,701 (96,280,549)	(114,203,563) 17,923,014

Explanations attached from (1) to (52) constitute an integral part of these Financial Statements.

# List of Sources and Uses of Qurd Hassan Fund

List A

Statement	31 Dec.		
Statement	2010	2009	
Balance at the Beginning of Year	119,930	71,052	
Fund's Cash Sources:			
Shareholders' Equity	133,570	85,259	
Total Cash Sources of Fund during Year	133,570	85,259	
Uses of Fund's Cash:			
Personal Advances	188,904	134,137	
Total Uses during Year	188,904	134,137	
Total Balance	175,264	119,930	
Current and overdrawn Accounts	360,162	784,568	
Deduct: Impairment Provision	(56,017)	(319,702)	
Net Balance at the End of Year	479,409	584,796	

# List of Changes in Restricted Investments (Customers' Deposits)

List B

	December 31							
Statement	International Murabaha		ljara		Local Murabaha (real-estate financing)		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Investments at Beginning	173,138,417	201,278,477	1,080,000	1,080,000	4,783,149	3,451,407	179,001,566	205,809,884
Add: Deposits	114,513,952	144,624,790	-	-	1,186,917	3,039,268	115,700,869	147,664,058
Deduct: Withdrawals	128,593,639	173,615,385	217,750	-	2,882,513	1,918,288	131,693,902	175,533,673
Deduct: Bank's Share As a Mudarib	76,120	144,624	-	-	107,581	84,898	183,701	229,522
Add: Profit on Investments	526,836	995,159	-	-	367,880	295,660	894,716	1,290,819
Investments at End of the year	159,509,446	173,138,417	862,250	1,080,000	3,347,852	4,783,149	163,719,548	179,001,566
<u> </u>	<u> </u>							
Unearned revenues	4 -	<u>-</u>	-	-	476,028	788,896	476,028	788,896
Ijara Depreciation Provision		<u>-</u>	285,405	388,989	-	-	285,405	388,989
Investment Risk Provision	-	_	-	-	178,214	142,292	178,214	142,292
Dividends for distribution	-	-	-	-	102,162	104,397	102,162	104,397
Revenues in suspense		-	-	-	-	46,013	-	46,013
Total	-	-	285,405	388,989	756,404	1,081,598	1,041,809	1,470,587

#### **Notes to the Financial Statements**

#### 1. General Information

- The Islamic International Arab Bank is a Jordanian Public-Shareholding Company with its head office registered on March 30, 1997 in Amman – Jordan as per the Companies Registration Act no. 22 of 1997.
- The Bank conducts its organized banking, financial and investment operations in accordance with the Islamic rules and regulations via its network that includes 27 branches in Jordan. The Bank operates in compliance with the applicable Banks' Act.
- The Islamic International Arab Bank is wholly owned by the Arab Bank
- The financial statements were endorsed by the Bank's Board of Directors in the Meeting no. (1) held on January 25, 2011. The statements are subject to the Shareholders General Assembly's approval.
- The financial statements were examined and revised by the Shari'a Advisory Committee in the Meeting no. (1) held on January 25, 2011, which issued its own report regarding these statements.

# 2. Significant Accounting Policies

## **Basics of Financial Statements Preparation**

- The Bank's financial statements were prepared in accordance with the standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions, in accordance with the national laws in effect, and the regulations of the Central Bank of Jordan. In case of absence of standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions related to the financial statements items, the international standards on financial statements and their interpretations will be applied until related Islamic standards are issued.
- The financial statements were prepared according to the historical cost basis, except for financial assets available for sale and real estate investments that appear in fair value on the date of the financial statements.
- The Jordanian Dinar is the currency through which the financial statements are presented, which is the main currency used by the Bank.
- The accounting policies adopted this year are the same as those adopted in the year ending 31 Dec. 2009.
- Shareholders' equity and unrestricted investment accounts' share will be dealt with independently.
- It should be taken into consideration that certain amounts will be deducted from Investment Risk Fund to offset the decline in collecting debts and funds financed by unrestricted investment accounts.
- The General Banking Risk Reserve is not allowed to be used without the Central Bank of Jordan's prior consent.

#### **Sectors' Information**

- The business sector represents a set of assets and operations, which offer together products and services subject to risks and revenues different from those associated with other business sectors, which are evaluated according the reports that are used by the executive manager and key decision maker in the Bank.
- The geographical sector is connected with provision of products and services in a specific economic environment which is subject in turn to risks and revenues different from those associated with sectors operating in other economic environments.

# Basics of Profits Distribution among Shareholders and Unrestricted Investment Accounts' Holders

 investment revenues are distributed among shareholders and joint investment accounts' holders for the year 2010 as follows:

Pe	ercentage	
Joint Investments Accounts' Holders	55%	That is %2.72 and %3.01 by Jordanian Dinar for the first and second halves of 2010 respectively (against %3 and %2.7 for the first and second halves of 2009), and %39 & and %0.40 by US Dollar for the first and second halves respectively of 2010 (against %0.66 and %0.23 for 2009)
Shareholders' Equity	35%	
Investment Risks Fund Share	10%	

- The Bank denotes a maximum of 5% of the shareholders' equity according to the segments announced in the branches for the profit sharing deposit accounts.
- The Bank gives priority in investment to unrestricted investment accounts' holders. Advertising
  expenses related to the new products offered by the Bank, invested from the profit sharing
  deposit accounts, are charged on these accounts.
- The annual rate of profits distributed on restricted investment accounts' holders during 2010 ranged between 0.41% and 0.36% compared to 0.6% and 0.23% during 2009.

## Revenues, Earnings, and Losses Discrepant to Islamic Shari'a rules

The revenues, earnings, and losses discrepant to Islamic rules (if any) will be recognized by being recorded in a special account in the balance sheet within other credit accounts, and will not be recorded in the income statement .Theses shall be distributed among charities in accordance with the decisions of the Shari'a Advisory Committee.

#### **Zakat**

Zakat is the obligation of depositors and shareholders, separately.

#### **Deferred Sales Receivables**

#### **Murabaha Contracts**

A Murabaha contract is one in which a commodity is sold at the former price paid by the seller (i.e. the Bank) plus a known and agreed profit. This sale might be an ordinary Murabaha contract (simple Murabaha, in which the Bank is concerned with trade) if the Bank buys a commodity without relying upon a prior promise from the customer to buy the commodity. The Bank then offers it for sale in a Murabaha manner with a price and profit agreed. The sale is known as a Murabaha contract for the purchase orderer if there is a prior promise on the customer's part to buy the commodity, i.e. the Bank shall not buy the commodity unless the customer has shown his desire and promised to buy it (it is called Murabaha for the Purchase Orderer).

- The Bank applies the principle of commitment to obligations in Murabaha contracts for the purchase orderer. However, in case of default, the Bank will sell the related items and the orderer shall compensate the Bank for the actual losses.
- Murabaha receivables are recognized upon their occurrence at their nominal value, and they shall be calculated at the end of the fiscal year on basis of net estimated cash value.
- Profits are recognized in cash upon concluding Murabaha contracts, or until a term that does not exceed the current fiscal year.
- The revenues of deferred sales are recognized in terms that may exceed the current fiscal year, by distributing them on future fiscal years for the term period, whereby the revenues will be allocated for each fiscal year regardless if delivery will be in cash or not.

#### Istisna

Istisna is a sale contract between a buyer (Mustasni'a) and seller (Sani'a). Upon the request of the buyer, the seller manufactures a specified commodity (Masnou'a), or obtains it at the time of delivery, provided that its materials and cost are the seller's responsibility. Delivery would be at an agreed price whereby the payment approach shall be specified: either at time of delivery, by installments, or in whole at a certain period of time.

- Istisna expenses include direct and indirect expenses related to Istisna contracts. Those
  expenses do not include administrative, general and marketing expenses, or research and
  development costs.
- The costs of Istisna operations and pre-contracting are recognized in the fiscal year under In-Progress Istisna Item with the expenses incurred by the Bank. The invoices sent by the Bank to the buyer are charged on Istisna receivables and shall be deducted from the In-Progress Istisna account in the balance sheet.
- Istisna revenues are recognized at the completion of contract execution, and that is by the end
  of its execution, or at the expiry of the contract, whichever is closer.
- In case the buyer fails to pay the total agreed upon price, and the two parties agree to settle the payments during contract execution or after execution; the deferred profits shall be recognized and deducted from Istisna receivables accounts' in the balance sheet of the Bank, whether the method applicable in recognizing Istisna revenues is the completion rate method or the complete contract method, The deferred profits shall be allotted over the future fiscal years, where each year's share shall be decided regardless if payments are received in cash or not.
- In case the Bank retains the commodity (Masnou'a') for any reason, these assets shall be measured in monetary value expected to be realized or in its cost, whichever is less, and the difference (if any) shall be recognized as a loss in the income statement in the fiscal year in which they are realized.

#### **Financial Assets Available for Sale**

- Financial assets available for sale are the ones owned for purpose of being retained available for deferred sale (by installments), and this kind is called "Musawamah by installments" so it's different from Murabaha for the Purchase Orderer.
- Assets available for deferred sale are recorded at cost when signing the contract and shall be measured at cost basis (the purchase value plus any direct expenses related to the asset acquisition).
- Profits realized from financial assets available for deferred sale, shall be recorded according the
  accrual basis distributed to the financial periods of the contract term while the profits of the
  next years shall be recorded in the deferred sales revenues.
- Deferred sales receivables are recorded at the date of the contract by the nominal value (contracted value).

# **Financing**

# **Mudaraba Financing**

Mudaraba is a partnership in profit between funds and effort. It is held between investment accounts' holders (investor) and the Bank (Mudarib), who declares a general acceptance for these funds to invest them and share the profits of this investment as agreed. The investor shall bear any loss except when the Bank fails or violates any of the conditions agreed, and then The Bank shall bear the loss arising from that failure or violation. A Mudaraba is also held between the Bank as a fund-provider, in person or on behalf of investment accounts' holders, and between craftsmen and any other laborer, such as farmer, trader or manufacturer. This Mudaraba is different from any traditional form of Mudaraba (referred to as speculation); which mainly means a venture or hazard in sale and purchase operations.

- Mudaraba financing shall be recorded upon delivering the principal to the Mudarib or putting it at his disposal. The delivered principal shall be valued at the paid amount or at the fair value if it was in-kind. If the in-kind assessment resulted in a difference between the fair value and the book value; then it shall be recognized as a profit (or loss) in the income statement and what the Bank recovered from Mudaraba principal shall be deducted at the end of the fiscal year.
- The Bank's share in profits (or losses) arising during a fiscal year is recorded after settling the Mudaraba. However In cases when Mudaraba continues for more than one fiscal year, the Bank's share of profits is recorded after their total or partial calculation in the fiscal year in which they occurred according to profit distribution ratios. Any losses for that year shall be recognized within limits of the losses by which the Mudarib principal is decreased accordingly.
- The Mudarib is held responsible for any losses that occur as a result of his/her negligence or inefficiency and shall be debited to him.

# **Musharaka Financing**

Musharaka is a form of partnership financing, where both the Bank and the customers provide equal or unequal amounts of funds for the sake of founding a new enterprise or contributing in an existing one, so that each of them owns a share in the principal paid in a constant or changing capacity and deserves a ratio of profit accordingly. Any loss shall be borne by both, according to how much each of them owns in the main principal, and nothing different than that shall be conditioned.

- The Bank's share in Musharaka principal shall be recorded upon delivering the capital to the managing partner or when depositing it in the Musharaka account. It shall be measured in the amount paid in cash or in the fair value if it was an in-kind. If the in-kind assessment at the contract time resulted in a difference between the fair value and the book value; it shall be recognized as profit (or loss) in the income statement.
- The capital of decreasing Musharaka shall be measured at the end of the fiscal year, at the historical cost, while deducting the historical cost of the share sold in fair value which was agreed upon. The difference between the two values shall be recognized as profit (or loss) in the income statement.
- The Bank's share in profits (or losses) of Musharaka financing transactions, arising and ending during the fiscal year, is registered after settling the Musharaka. In cases when Musharaka continues for more than one fiscal year; the Bank's share of profits is recorded after the total or partial calculation between the Bank and the Musharik, in the fiscal year in which they occurred according to profit distribution ratios. Any losses for the bank's part recognized for that year shall be recorded in the Bank's books in that year, and shall be limited to the losses by which the Bank's share in Musharaka principal is decreased accordingly.
- An impairment provision shall be made for the deferred sales' receivables and other receivables, if there is a sign that the Bank's due amounts are not to be collected and when there is an objective evidence that an event occurred, which negatively affected the future cash flows of deferred sales' receivables and other receivables. When this impairment is estimated; it shall be recorded in the income statement.
- Financing assets, at the end of the fiscal year, shall be recorded at cost or at cash value expected to be realized, whichever is less. The difference shall be recognized as financing impairment provision.
- The revenues of non-operating finances granted to customers and deferred sales receivables,
   shall be pended according to the Central Bank of Jordan regulations.
- The deferred sales' receivables and financings from unrestricted investment accounts, shall be canceled in case of infeasibility of followed procedures to collect them for investment risks fund (except for what is granted / financed then cancelled from deferred sales' receivables and financings in the same year, where they shall be recorded in the income statement / investment revenues). The collected receivables / financings that were previously cancelled shall be added to investment risks fund, except for what is recorded in the income statement / investment revenues. With regard to deferred sales' receivables and financings that are financed by the Bank's self owned funds, for which an impairment provision is allocated; they shall be cancelled in case of infeasibility of followed procedures to collect them, by deducting it from the impairment provision. Any surplus in the total impairment provision shall be transferred to the income statement, and the collected bad receivables and financings shall be added to revenues.

#### **Financial Assets Available for Sale**

Financial assets available for sale are the ones owned for purpose of being available for sale and not for trade or held to maturity

 Assets available for sale are recorded in fair value while adding the acquisition expenses upon purchase. They shall be re-evaluated later in fair value. And the Change in fair value shall be registered within the fair value reserve item, either in the unrestricted investment accounts holder's share if financed from it or in the shareholders equity share if these assets are financed

- by the banks self-owned funds.
- In case of selling this asset or part of it or occurrence of impairment in its value, the profits (losses) resulting from that are registered in the income statement including the previously credited amounts to the unrestricted investment accounts holders or to the shareholder's accounts which relate to this asset.
- Any impairment loss previously recorded in the income statement can be recovered if it objectively
  appears that the increase in the fair value has occurred in a later period to the recording of the
  impairment losses through the fair value reserve.
- Profits realized from financial assets available for sale, shall be recorded in the income statement as
  of the date of announcing their distribution.
- Profits (losses) resulting from foreign currency exchange differences shall be registered in the shareholder's equity side within the fair value reserve item.
- Financial assets which fair value cannot be determined shall appear based on cost. Any impairment in their value shall be recorded in the income statement.

# **Financial Assets held to maturity**

- Financial assets held to maturity are the ones having fixed installments or specified by due date, and the Bank intends and is able to retain them until due date.
- Financial assets held to maturity are recorded at cost while adding any direct costs related to acquisitions. In case there is an indicator that the Bank's principal or any portion of it, will not be collected by the end of the fiscal year; such impairment loss shall be recorded in the income statement.

# Ijara

ljara ended with ownership is a utility-ownership contract, ending with the lessee owning the leased asset.

- Assets possessed for Ijara purposes are recorded at historical cost including direct expenses to make the asset usable. Leased assets shall be depreciated according to the (straight-line depreciation method throughout the Ijara contract term.
- When the collectable amount from assets possessed for Ijara purposes, is less than their net book value, their value shall be depreciated to the expected recoverable value and impairment value shall be recorded in the income statement.
- Ijara revenues are distributed in proportion to the fiscal years included in the Ijara contract.
- Leased assets' expenses of maintenance are recorded in the income statement in the fiscal year in which they occur.

#### **Real Estate Investments**

Real estate investments are the acquisition of land or properties or part of them in order to generate periodic revenue or to maintaining them for expecting an increase in their value in the future, or for both purposes:

 Real estate investments are recorded in order to expect the increase in their value at cost, in addition to any expenses related to their acquisition. Real estate investments are re-evaluated later on at fair value. The change in fair value shall be recorded within the fair value reserve under the

- unrestricted investment accounts holders equities; however, they shall be within the shareholders' equities accounts in case these assets are financed from the Bank.
- Unrealized losses resulted from evaluating these investments acquired for the purpose of increasing their value shall be recorded in the fair value reserve to the extent that such reserve allows to. In case such losses exceeded the balance of this reserve, the exceeding amount shall be recorded in income statement within "unrealized profits (losses) resulted from evaluating investment in real estate hold for increasing in value.
- In case of any unrealized losses that belong to previous financial period, and there are unrealized profits in later financial period, then such profits shall be recorded in the income statement to the extent of being equal to the unrealized losses that were recorded in the previous periods in the income statement. Any exceeding amounts in these profits shall be added to the fair value reserve.
- Profits (losses) resulted from selling any of these investments that are held for increase of their value shall be recorded on the basis of the difference between the book value and the net collected amount. The difference added to the investment's share in the fair value reserve (if any) shall be stated in the income statement of the current financial period.
- Investments in real estate held for the purpose of generating periodic revenue shall be recorded at cost added to any related expenses. Such Real Estate shall be depreciated according to the depreciation method adopted by the Bank. When the collectable amount from these assets is less than their net book value, their value shall be depreciated to the expected recoverable value and impairment value shall be recorded in the income statement

#### **Provisions**

 Provisions shall be recognized, when the Bank has liabilities at the date of the balance sheet, resulting from previous events, and it is possible to pay these liabilities and their value can be reliably measured.

# **Investment Risks Fund**

- The Bank deducts no less than 10% from the net realized profits in joint accounts as resulting from various current transactions during the year with accordance to the laws of banks. Such percentage may be raised according to the instructions of the Central Bank of Jordan. The amended percentage shall be effective in the fiscal year following the year of amendment.
- The balance of investment risks fund shall be transferred to Zakat fund after covering and amortizing all losses or expenses for which the fund was established. The investors in the Islamic International Arab Bank plc. have no right to the deducted amounts according to the determined rate accumulated in the investment risks fund, as they are allocated to cover the losses resulting from the joint investment operations.
- If any losses occurred in some investment operations that started and ended in a specified year; those losses shall be covered from the profits realized by other joint investment operations that started and ended at the same year. If losses exceeded profits in the same year; the losses shall covered from the investment risks fund.
- If a joint investment operation was started and continued in previous years; and it was concluded in
  a certain year that these investment operations were of loss; then the losses shall be covered from
  the investment risks fund.

#### **Financial Assets Fair Value**

- Closing rates (purchase / sale) on the date of financial statements in active markets shall represent the fair value of financial instruments that have quoted market prices. When no actual quoted market rates are available, or when no active trade of some financial assets is available, or when the market is not active; a reasonable estimate of the fair value shall be determined through comparing it to the current market value of a similar financial instrument.
- Evaluation methods aim at obtaining a fair value that reflects market expectations and takes into account market factors and any expected risks or profits when estimating the value of financial assets. In case the fair value of financial assets cannot be reliably measured; it is then represented at cost after deducting any impairment in their value.

# **Impairment in Financial Assets Value**

The Bank reviews the amounts fixed in the financial assets records on date of Balance Sheet to identify whether there is indication of impairment in the value, individually or collectively. In case there are any such indicators, the retrievable value shall be estimated so as to specify the impairment loss and record it in the income statement.

#### **Fixed Assets**

- Fixed assets shall be presented at cost after deducting accumulated depreciation and any impairment in its value. Fixed assets (except for lands) shall be depreciated when they are ready to be used, using the straight-line depreciation method over their expected useful life, using the following annual rates:

Item	Percentage
Buildings	2%
Equipment, Machines and Furniture	2.5 % - 15%
Transportation Means	15%
Computers	25%
Decorations	10%

- The useful lives of fixed assets shall be reviewed at the end of each year. If their expectations
  are different from the previously set estimations, the change in estimations of subsequent
  years shall be recorded as a change in estimations.
- If the retrievable amount of fixed assets is less than their net book value, its value shall be reduced to the retrievable value, and the impairment loss shall be recorded in the income statement.

# **Intangible Assets**

- Intangible assets obtained by means other than merger, shall be recorded at cost.
- Intangible assets shall be classified according to their useful life for a specified or unspecified

- period of time. Intangible assets which useful life is limited shall be amortized during that life, and amortization shall be recorded in the income statement. As for intangible assets which useful life is unlimited; their impairment in value shall be reviewed at the date of financial statements and any impairment in their value shall be recorded in the income statement.
- Intangible assets arising from the Bank's operations shall not be capitalized and shall be recorded in the income statement of the same year.
- Any indicators of impairment of intangible assets shall be reviewed at the date of financial statements, in addition to reviewing the useful life of those assets and performing any amendments on subsequent years
- Software and computer systems are represented at cost after deducting accumulated depreciation. These items are depreciated when they are ready for use based on the straightline depreciation method throughout their useful life and using rates that range between 10-25%.

# **End of Service Indemnity**

The annual provision for staff indemnity for the employees who quit shall be recorded on the indemnity provision when they are paid. The increase in paid indemnity shall be taken from their provision in the income statement when they are paid. The provision of Bank's liabilities resulting from staff indemnity shall be recorded in income statement according to the Bank's by-laws and the regulations of the Labor Law.

#### Income Tax

- Tax expenses represent the due and deferred taxes.
- Expenses of accrued taxes shall be accounted for, on basis of taxable profits. Taxable profits are different from those stated in the financial statements, since the stated profits include non-taxable revenues or non-impaired expenses in the fiscal year, and shall be impaired in subsequent fiscal years, or accumulated taxable losses or items that are not subject to taxes or accepted for impairment, for tax purposes.
- Taxes shall be accounted for, in accordance with the taxing ratios applicable by the laws and regulations of the Hashemite Kingdom of Jordan.
- Deferred taxes are those expected to be recovered or paid as a result of temporary time differences between the value of assets and liabilities in the financial statements, and the value upon which tax profits are calculated. Deferred taxes shall be calculated using the method of commitment to the balance sheet, and shall be accounted for according to tax rates expected to be applicable when settling tax liabilities or when realizing deferred tax assets.
- The balance of deferred tax assets shall be reviewed in the date of financial statements and shall be impaired in case of infeasibility of these tax assets, fully or partially.

# **Accounts Managed for Customers**

These accounts are managed by the Bank on behalf of customers, and are not part of the Bank's assets. The commissions and fees to manage those accounts are registered in the income statement.

#### **Revenue Realization and Expense Recognition**

- Revenues and expenses are recognized on an accrual basis, except for the revenues of deferred sales and non-operating financings, which are not recognized as revenues, and shall be recorded in the outstanding revenues' account.
- The commissions shall be recognized as revenues when related services are rendered.
   Companies' dividends shall be recognized when they are realized (when approved by General Assembly).

# **Financial Assets Recognition Date**

Sale and purchase of financial assets shall be recognized on the date of trading (the date of Bank's commitment to sell or purchase the financial assets).

# **Foreign Currencies**

- Transactions in foreign currencies during the year shall be recorded at the prevailing exchange rates at the time of executing such transactions.
- Financial assets and liabilities' balances denominated in foreign currencies are transferred at the average exchange rate at the date of the balance sheet as announced by the Central Bank of Jordan.
- Non-financial assets and liabilities denominated in foreign currencies stated at fair value are transferred at date of determining their fair value.
- Profits and losses resulting from foreign currency transfers shall be recorded in the income statement.

# **Cash and Cash Equivalents**

Such is the cash and monetary balances that are due within three months. They include: cash
in hand, balances at the Central Bank, cash at banks and other financial institutions. Deposits
of banks and other financial institutions that are due within three months in addition to
withdrawal-restricted balances shall be deducted.

# 3. Accounting Estimates

Preparing the financial statements and applying the accounting policies require the bank to perform estimates that affect the amounts of the financial assets and liabilities and the accumulated change in the fair value in addition to the disclosure of the contingent accounts. Such estimates affect the revenues, expenses, the provisions and the changes in the fair value that are recorded in the income statement. In particular, the Bank should make significant decisions to estimate the future cash flows and their timing. The said estimates shall be based on several assumptions and factors that have different levels of estimation and uncertainty. The actual results may vary from the estimates due to the changes that are resulted from the conditions of such estimate in the future.

- A provision shall be made for lawsuits filed against the Bank (if necessary) depending on a legal study prepared by the Bank's consultants, according to which the potential future risks are determined. Those studies shall be periodically reconsidered.
- A provision shall be made for impairment on self-financed facilities based on the foundations

and assumptions adopted by the Bank's management for estimating the provision to be made and comparing the result with the provision to be made as per the regulations of the Central Bank. The strictest results that comply with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions shall be adopted.

- The Management shall periodically re-estimate the useful lives of tangible and intangible assets for purposes of calculating annual amortizations and depreciations based on the general condition of those assets and the estimates of future productive operations. Impairment loss (if any) shall be recorded in the income statement.
- The financial year shall be accounted for its income tax expenses according to the accounting rules and standards. The necessary tax provision shall be calculated.
- The Management shall periodically review the financial assets represented at cost in order to estimate any impairment in their value, and shall record any impairment (if any) in the income statement.
- Fair Value levels: fair value levels shall be disclosed and identified that include all the fair value standards and the fair value measurements according to the levels of the IFRS. The difference between levels 2 and 3 for measuring the fair value indicates whether the information or the inputs can be observed or not in addition to the information significance that cannot be noted, which, in this case, requires making judgments and accurate analysis for the inputs used to measure the fair value including taking into consideration all the factors related to the asset or the liability.

# 4. Cash and Balances at the Central Bank

This item is detailed as follows:

	2010	2009
Cash in Treasury	7.473.819	6.436.837
Balances with Central Bank		
Current and Demand Accounts	46.964.379	37.107.689
Regulatory Cash Reserves	3.818.961	2.779.940
Total	58.257.159	46.324.466

- Except for cash reserve, there are no restricted cash balances as on December 31, 2010 and 2009.

#### 5. Balances with Banks and Financial Institutions

This item is detailed as follows:

Item	Local Banks and Financial Institutions		International Banks and Financial Institutions		Total	
item	2010	2009	2010	2009	2010	2009
Current and on Demand Accounts	42.451.369	64.043.606	3.653.827	3.041.520	46.105.196	67.085.126

- There are no restricted cash balances as on December 31, 2010 and 2009.

6/a. Net Deferred Sales Receivables and Other Receivables. This item is detailed as follows:

	Joi	Joint Self-owned		То	tal	
ltem	2010	2009	2010	2009	2010	2009
Retail						
Murabaha for the Purchase Orderer	34.129.279	13.200.612	-	-	34.129.279	13.200.612
Deferred Sale	454.542	-	-	-	454.542	-
Receivables – Ijara	895.844	463.378	-	-	895.844	463.378
Real-Estate Financing	40.664.954	39.370.910	1.235.032	2.127.232	41.899.986	41.498.142
Large Corporates						
International Murabaha*	247.937.680	255.911.983	394.501.766	356.194.217	642.439.446	612.106.200
Murabaha for the Purchase Orderer	111.520.693	122.965.692	30.672.819	28.598.766	142.193.512	151.564.458
Receivables – Ijara	-	-	-	73.191	-	73.191
Small & Medium Enterprises						
Murabaha for the Purchase Orderer	21.684.633	2.402.292	-	4.524.129	21.684.633	6.926.421
Deferred Sale	24.381	-	-	-	24.381	-
Total	457.312.006	434.314.867	426.409.617	391.517.535	883.721.623	825.832.402
Deduct: Deferred Revenues	18.040.495	13.636.786	845.178	1.010.958	18.885.673	14.647.744
Impairment Provision	7.748.931	5.306.242	2.110.456	1.221.788	9.859.387	6.528.030
Outstanding Revenues	719.128	559.142	35.547	17.140	754.675	576.282
Net Deferred Sales Receivables and Other Receivables	430.803.452	414.812.697	423.418.436	389.267.649	854.221.888	804.080.346

Changes in Net Deferred Sales Receivables were as follows:

	Deferred Sales Receivables	Deferred Revenues	Impairment Provision
Balance, Beginning of Year		-	
Adds	640.642	90.635	<del>-</del>
Deducts	161.719	19.855	-
Balance, end of year	478.923	70.780	-

# 6/b. Financings

Item	2010	2009
Real-Estate Financings	31.999	42.238
Large Corporate		
Mudaraba	7.416.717	3.511.178
Net Financings	7.448.716	3.553.416

- Deferred sales receivables and other receivables and non-operating financings amounted to JD 62,116,106 i.e.: at a percentage of 7% of total deferred sales receivables, other receivables and financings as on December 31, 2010 (compared to JD 60,988,240 at a percentage of 7.4% as on the end of the previous year).
- Deferred sale receivables and other receivables and non-operating financings amounted, after deducting revenues in suspense, to JD 61,455,371 i.e.: at a percentage of 6.9% of total deferred sales receivables and other receivables and financings (compared to JD 60,507,688 i.e.: at a percentage of 7.3% as on the end of the previous year).

# **Deferred Sales and Financings Impairment Provision / Self-Owned**

Action on impairment provision is detailed as follows:

2010	Real-Estate Financings	Large Corporate	Total
Balance, Beginning of year	-	1,541,490	1,541,490
Amount transferred to Profit	41,483	633,517	675,000
Utilized during the year	-	(50,017)	(50,017)
Balance, end of year	41,483	2,124,990	2,166,473

2009	Real Estate Financings	Large Corporate	Total
Balance, Beginning of year	-	916.490	916.490
Amount transferred to Profit	-	625.000	625.000
Balance, end of year	-	1.541.490	1.541.490

- The above disclosure is for the provisions made to the receivables accounted based the one customer.
- Provisions that were not utilized as a result of settlements or debt payments and transferred against other receivables and financings amounted to JD 1,840,151 as on December 31, 2010 (compared to JD 2,805,923 as on December 31, 2009).

**Outstanding Revenues**Changes in the outstanding revenues are detailed as follows:

	Self-owned					
	Large carports		Real Estate Financings		Total	
	2010	2009	2010	2009	2010	2009
Balance, Beginning of year	17.140	-	-	-	17.140	-
Add: Outstanding Revenues During Year	28.100	17.140	18.307	-	46.407	17.140
Deduct: outstanding Revenues Written Off	28.000	-	-	-	28.000	-
Balance, end of year	17.240	17.140	18.307	-	35.547	17.140

	Joint					
2010		Real Estate	Corporate			
	Retail		Large	Small & Medium	Total	
Balance, Beginning of year	87.347	97.460	212.095	162.240	559.142	
Add: Outstanding Revenues During Year	12.064	177.277	174.564	210.329	574.234	
Deduct: outstanding Revenues Written Off	42.046	109.791	137.151	125.260	414.248	
Balance, end of year	57.365	164.946	249.508	247.309	719.128	
2009						
Balance, Beginning of year	137.290	168.479	320.450	132.241	758.460	
Add: Outstanding Revenues During Year	13.635	122.939	379.057	153.919	669.550	
Deduct: outstanding Revenues Written Off	63.578	193.958	487.412	123.920	868.868	
Balance, end of year	87.347	97.460	212.095	162.240	559.142	

# 7. Financial Assets Available For Sale

This item is detailed as follows:

ltem	Self-Owned		
item	2010	2009	
Financial Assets With Market Rates			
Companies Shares	438.250	537.750	
Islamic Sukuk	855.538	815.350	
Investment Portfolio Managed by Third Party*	5.095.568	11.504.477	
Total Financial Assets Available For Sale	6.389.356	12.857.577	

<sup>\*</sup> This item represents the investment portfolio managed by the Al-Arabi Investment Group including foreign shares, Islamic Sukuk international Murabaha.

# 8. Financial Assets Held to Maturity

	Self-Owned			
	2010 2009			
Financial Assets With Market Rates:				
Islamic Sukuk	3.567.156	5.605.531		
Total	3.567.156	5.605.531		

<sup>\*</sup> Islamic Sukuk held to maturity are due after 3 years and their returns are paid quarterly.

9. Net Ijara Assets

31 Dec.		Joint			Self-Owned			Total	
2010	Cost	Accumulated depreciation	Net Value	Cost	Accumulated depreciation	Net Value	Cost	Accumulated depreciation	Net Value
ljara Assets – Real Estate	139.322.729	(27.103.057)	112.219.672	1.338.000	(612.745)	725.255	140.660.729	(27.715.802)	112.944.927
ljara Assets – Machines	10.349.091	(3.682.573)	6.666.518	1.150.000	(672.072)	477.928	11.499.091	(4.354.645)	7.144.446
ljara Assets – vehicles	17.800	(746)	17.054	1	-	1	17.800	(746)	17.054
Total	149.689.620	(30.786.376)	118.903.244	2.488.000	(1.284.817)	1.203.183	152.177.620	(32.071.193)	120.106.427
2009									
ljara Assets – Real Estate	93.165.367	(19.580.000)	73.585.367	1.338.000	(505.199)	832.801	94.503.367	(20.085.199)	74.418.168
ljara Assets – Machines	6.446.920	(2.608.069)	3.838.851	1.150.000	(464.722)	685.278	7.596.920	(3.072.791)	4.524.129
Total	99.612.287	(22.188.069)	77.424.218	2.488.000	(969.921)	1.518.079	102.100.287	(23.157.990)	78.942.297

- due Ijara balances were presented within sale receivables and other receivables (Note 6/A). Total due Ijara installments amounted to JD 895,844 as on December 31, 2010 (compared to JD 536,569 as on December 31, 2009). The
- Non-performing ljara amounted to JD 2,068,616 i.e.: 1.7% of the ljara balances as on December 31, 2010 (compared to JD 1,445,621 i.e.: 1.8% as on December 31, 2009).
- Non-performing ljara after deducting profits in suspense amounted to JD 1,974,676, i.e.: 1.6% of ljara balances as on December 31, 2010 (compared to JD 1,349,891 i.e.: 1.7% as on December 31, 2009).

# **10. Real Estate Investments**

Real estate investments are investments acquired for the expected increase in their value. The details of this item are as follows:

	31 [ Self-0	
	2010	2009
Real Estate Investments	16.534.257	3.485.296
Total	16.534.257	3.485.296

 Most of Real estate investments acquired during the second half of 2010. They appear in book value, equal to the fair value. The abovementioned amount includes a plot in the amount of JD 576,102which was reclassified into real estate investments during 2010.

# 11. Net Fixed Assets

2010	Lands	Buildings	Equipment, Devices and Furniture	Transportation means	Computers	Decorations	Total
Cost:		'					
Balance, Beginning of year	2,680,709	4,307,346	3,158,937	176,292	2,651,109	4,544,321	17,518,714
Additions	-	57,443	550,052	46,001	860,276	977,757	2,491,529
Disposals	(576,102)	-	(61,093)	(46,722)	(2,850)	-	(686,767)
Balance, end of year	2,104,607	4,364,789	3,647,896	175,571	3,508,535	5,522,078	19,323,476
Accumulated Depreciation:							
Accumulated Depreciation, beginning of year	-	776,274	1,643,791	67,699	1,793,175	2,381,996	6,662,935
During the year	-	90,636	305,385	28,695	476,289	341,923	1,242,928
Disposals	-	-	(49,104)	(35,240)	(1,897)	-	(86,241)
Accumulated Depreciation, end of year	-	866,910	1,900,072	61,154	2,267,567	2,723,919	7,819,622
Net Book Value of Fixed Assets	2,104,607	3,497,879	1,747,824	114,417	1,240,968	2,798,159	11,503,854
Projects in Progress	-	1,002,726	-	-	-	-	1,002,726
Net Fixed Assets at the End of the Year	2,104,607	4,500,605	1,747,824	114,417	1,240,968	2,798,159	12,506,580
2009							
Cost:							
Balance, Beginning of year	2,884,592	3,316,013	2,538,806	163,192	2,317,022	3,527,478	14,747,103
Additions	717,807	1,047,640	623,828	59,600	336,918	1,016,843	3,802,636
Disposals	(921,690)	(56,307)	(3,697)	(46,500)	(2,831)	-	(1,031,025)
Balance, end of year	2,680,709	4,307,346	3,158,937	176,292	2,651,109	4,544,321	17,518,714
Accumulated Depreciation:							
Accumulated Depreciation, beginning of year	-	700,765	1,428,488	80,599	1,462,310	2,174,044	5,846,206
During the year	-	75,509	218,743	23,694	333,070	207,952	858,968
Disposals	-	-	(3,440)	(36,594)	(2,205)	-	(42,239)
Accumulated Depreciation, end of year	-	776,274	1,643,791	67,699	1,793,175	2,381,996	6,662,935
Net Book Value of Fixed Assets	2,680,709	3,531,072	1,515,146	108,593	857,934	2,162,325	10,855,779
Projects in Progress	-	1,016,805	-	-	-	-	1,016,805
Net Fixed Assets at the End of the Year	2,680,709	4,547,877	1,515,146	108,593	857,934	2,162,325	11,872,584

<sup>-</sup> The cost of total depreciated fixed assets amounted to JD 2,800,909as on December 31, 2010 (compared to JD 2,020,395 as on December 31, 2009).

# 12. Intangible Assets

This item is detailed, as follows:

	Computer Syster	ns and Software
	2010	2009
Balance, beginning of year	1.779.632	1.917.915
Additions	210.124	171.192
Amortizations of the Year	(360.780)	(309.475)
Balance, End of year	1.628.976	1.779.632

#### 13. Other Assets

This item is detailed, as follows:

Item	2010	2009
Clearance Checks	2.587.795	2.100
Prepaid Expenses	558.469	308.921
Accrued Due Earnings	199.402	534.176
Real-estate Assets *	472.007	472.007
Others	297.897	593,435
Total	4.115.570	1.910.639

<sup>\*</sup> This item represents the value of a plot which the Bank acquired in order to transfer its ownership to one of its clients under Murabaha financing agreement in the amount of JD 750,000. However, this transaction was not completed since it was not possible to be implemented. The guarantee provided by the client was settled, taking into consideration that the balance of the client amounted to JD 277,993 as at 31 December 2009. The Bank intends to sell the plot once an appropriate price is offered. The fair value of these real estate assets amounted to JD 600,960 according to the last available evaluation as of 31/12/2010.

# 14. Balances of Banks and Financial Institutions

	Outside J	ordan
	2010	2009
Current and demand Accounts	173.134.203	209.690.141
Total	173.134.203	209.690.141

# **15. Customers' Current Accounts**

2010	Retail	Large Corporate	SME's	Gov. & Public Sector	Total
Current Accounts	157,912,607	34,517,519	25,746,875	2,323,948	220,500,949
Total	157,912,607	34,517,519	25,746,875	2,323,948	220,500,949

2009	Retail	Large Corporate	SME's	Gov. & Public Sector	Total
Current Accounts	114.889.625	27.128.616	18.246.648	8.342.717	168.607.606
Total	114.889.625	27.128.616	18.246.648	8.342.717	168.607.606

- Deposits of the public sector inside Jordan amounted to JD 2,323,948 as on December 31, 2010 at a percentage of 1% of total customers' current accounts (against JD 8,342,717 as on December 31, 2009 at a percentage of 4.9%).
- Blocked accounts amounted in total to JD 1,872,722as on December 31, 2010 at a percentage of 0.9% of total customers' current accounts (against JD 1,131,834 as on December 31, 2009 at a percentage of 0.6%).
- Dormant accounts amounted to JD 1,913,683 as on December 31, 2010 (against JD 1,693,359 as on December 31, 2009).

# 16. Cash Margin

This item is detailed, as follows:

	2010	2009
Cash Margin Against Sales' Receivables and Financings	14.695.086	13.657.106
Cash Margin Against Indirect Facilities	6.109.925	3.618.612
Other Cash Margins	625.740	486.005
Total	21.430.751	17.761.723

# **17. Other Provisions**

Action occurring to other provisions is detailed, as follows:

2010	Balance at the Beginning of the Year	Accumulated During the Year	Paid During the Year	Balance at the End of the Year
End of Service Indemnity	1.093.254	158.462	17.509	1.234.207
Suits against Bank Provision	12.400	-	12.400	-
Total	1.105.654	158.462	29.909	1.234.207

2009				
End of Service Indemnity	937.275	180.081	24.102	1.093.254
Suits against Bank Provision	-	12.400	-	12.400
Total	937.275	192.481	24.102	1.105.654

# 18. Income Tax Provision

# a. Income Tax Provision

Action occurring to income tax provision is detailed, as follows:

Item	2010	2009
Balance, Beginning of year	3,049,663	5,373,724
Paid income tax	(2,828,519)	(5,046,107)
Income Tax due on Year's Profit	2,058,289	2,722,046
Balance, End of year	2,279,433	3,049,663

# b. Income tax balance stated in income statement consists of the following:

	2010	2009
Income Tax due on Year's Profit	2,058,289	2,772,046
Tax Deferred Assets for the Year	(68,614)	(1,177,606)
Amortization of Deferred Tax Assets	1,014,415	261,600
Total	3,004,090	1,806,040

- A final settlement was made with the Income and Sales Tax Department until the end of 2009.
- As per the Bank's Management and Tax consultant opinion, there is no need to take additional provisions for the year 2010.

# c. Deferred Tax Assets / Liabilities - Self owned

		2010				2009
	Balance at the Beginning of the Year	Released amounts	Added amounts	Balance at the End of the Year	Deferred Taxes	Deferred Taxes
Included Accounts	-					
a. Deferred Tax Assets						
End of Service Indemnity	1,093,254	17,509	158,462	1,234,207	370,262	327,976
Provision for Self-owned financings that have future tax benefits	1,541,490	50,017	-	1,491,473	447,442	462,447
Law suits against the Bank Provision	12,400	12,400	-	-	-	3,720
Impairment in Financial Assets Available for Sale	6,341,493	3,301,457	70,250	3,110,286	933,086	1,902,448
	8,988,637	3,381,383	228,712	5,835,966	1,750,790	2,696,591
b- deferred tax liabilities						
Fair value reserve	443,720	(428,126)	241,222	256,816	77,045	-
	443,720	(428,126)	241,222	256,816	77,045	-

Deferred income tax in the amount of JD 1,750,790 as at 31 December 2010 resulting from time differences of the end of service provision, provision for self-owned financing impairment, and the impairment in the investment portfolios calculated on a 30% tax rate. The management believes that these tax benefits will be utilized from expected profits in the future.

Transactions made to the self deferred tax assets/liabilities are as follows:

ltem	20	10	2009	
Rem	Assets	Liabilities	Assets	Liabilities
Balance, Beginning of year	2,696,591	-	1,780,585	-
Added during the year	68,614	77,045	1,177,606	-
Amortized during the year	(1,014,415)	-	(261,600)	-
Balance, End of year	1,750,790	77,045	2,696,591	-

# d. Reconciliation of Taxable Income:

	2010	2009
Accounting Profit	10.013.634	4.402.512
Deduct: Tax Exempt Revenues		-
Add: Non-deductable expenses	2.191.935	2.353.382
Other adjustments	(3.301.457)	2.581.383
Taxable income	8.904.112	9.337.277
Announced Rate of Income Tax	30%	35%
Net Income Tax Provision	2.671.234	3.268.047
Referring to:		
Announced Provision – the Bank	2.058.289	2.722.046
Announced Provision – Investment Risk Fund	612.945	546.001
	2.671.234	3.268.047

# 19. Other Liabilities

Item	2010	2009
Sold securities	4.140.690	4.077.287
Bills for Settlement & Incoming Transfers	3.565.296	6.013.942
Unpaid Accrued Expenses	24.814	111.658
Customers' Share from Joint Investments Profits	1.966.058	1.211.238
Commissions Received in Advance	153.391	153.104
Temporary Trusts	975.972	857.632
Jordanian Universities' Fees Provision	101.144	45.249
Board's Members Remuneration	25.000	25.000
Scientific Research Fund	-	45.249
Technical and Vocational Education and Training Support Fund	-	6.889
Total	10.952.365	12.547.248

# 20. Unrestricted Investment Accounts

This item is detailed, as follows:

2010	Retail	Large Corporations	SME's	Gov. & Public Sector	Total
Saving accounts	48.825.735	2.727.056	610.993	1	52.163.784
Time deposits	399.578.883	91.147.336	3.422.767	20.223.680	514.372.666
Total	448.404.618	93.874.392	4.033.760	20.223.680	566.536.450
Customers' Share from Investment Revenues	8.591.833	1.798.717	77.290	387.504	10.855.344
Total Unrestricted Investment Accounts	456.996.451	95.673.109	4.111.050	20.611.184	577.391.794
2009	Retail	Large Corporations	SME's	Gov. & Public Sector	Total
Saving accounts	36.233.695	-		,	36.233.695
Time deposits	361.345.560	78.127.933	3.105.169	19.060.020	461.638.682
Total	397.579.255	78.127.933	3.105.169	19.060.020	497.872.377
Customers' Share from Investment Revenues	6.256.950	3.076.003	46.148	433.010	9.812.111
Total Unrestricted Investment Accounts	403.836.205	81.203.936	3.151.317	19.493.030	507.684.488

# Unrestricted investment accounts contribute to profits according to the following ratios:

- 50% of the saving accounts' monthly balance
  - 90% of the time accounts' minimum balance.
- Profits' general percentage in Jordanian Dinar for the first and second halves of 2010 amounted to 2.72% and 3.01% respectively (against 3% and 2.7% in the previous year).
- Profits' general percentage for the first and second halves of 2010 in US Dollar amounted to 0.39% and 0.40% respectively (against 0.66% and 0.23% respectively in the previous year).
- Blocked accounts amounted to JD 905,844 as on December 31, 2010 (against JD 775,681 as on December 31, 2009).
- Unrestricted investment accounts (public sector) inside Jordan amounted to JD 20,611,184 as on December 31, 2010, i.e. 3.6% of total unrestricted investment accounts (against JD 19,493,030 as on December 31, 2009, i.e. 3.8%).

# 21. Net Fair Value Reserve- Self Owned

This item is detailed, as follows:

	Financial Assets Available for Sale				
Item		2009			
	Shares	Investment portfolio	Total	Total	
Balance, Beginning of year	-	443,720	443,720	(2,535,398)	
Unrealized Profits (Losses)	(99,500)	197,157	97,657	397,735	
Deferred Tax Liabilities	8,775	(85,820)	(77,045)	-	
(profits) realized transferred to income statement	-	(354,812)	(354,812)	-	
Recorded in the income statement for impairment	70,250	-	70,250	2,581,383	
Balance, end of year	(20,475)	200,245	179,770	443,720	

# 22. Investment Risks Fund

Action occurring to investments risks fund is detailed, as follows:

	2010	2009
Balance, Beginning of year	7,491,727	6,476,400
Transferred from Joint Investment Revenues of the Year – Income Statement	2,046,001	1,641,103
Deduct: Income Tax for 2010	(612,945)	(546,001)
Bad debts	-	(81,100)
Add: Foreign Currency Evaluation Difference	(2,852)	1,325
Balance, End of year	8,921,931	7,491,727

The balance of investment risks fund is distributed, as follows:

	2010	2009
Deferred Sales Receivables Impairment Provision (Note. 6/a)	7,748,931	5,306,242
Balance	1,173,000	2,185,485

Action occurring to investment risks fund income tax is detailed, as follows:

	2010	2009
Balance, Beginning of year	546,001	660,670
Deduct: Paid Income Tax	(567,095)	(660,670)
Add: Accrued Income Tax for the Year	612,945	546,001
Balance, End of year	591,851	546,001

- A final settlement was reached with the Income and Sales Tax Department until the end of 2009.

# 23. Capital

The subscribed (paid-up) capital amounted to JD 100 million at the end of the year, distributed on 100 million shares, with a nominal value per share of one Jordanian Dinar, (against JD 100 million shares with a nominal value of one Jordanian Dinar per share for the previous year).

#### 24. Reserves

# Statutory Reserve

The accumulated amounts in this account represent the transferred annual profits before taxes by (10%) during the year and the previous years, according to Bank's Act. This reserve is non-distributable to shareholders.

# Voluntary Reserve

The accumulated amounts in this account represent the transferred annual profits before taxes by a maximum of 20% during the year and the previous years. This reserve is used for purposes determined by the Board of Directors, and the General Assembly is entitled to distribute it in part or in whole to shareholders.

# General Banking Risks Reserve

This item represents the general banking risks reserve for deferred sales receivables and the Bank's self-financing according to the Central Bank of Jordan's regulations.

The restricted reserves are as follows:

Decemb	31 Dec. 2010			
Reserve	JD	Туре		
Statutory Reserve	8,090,760	Legal requirements		
General Banking Risks Reserve	882,000	Central Bank's Instructions		

# 25. Retained Earnings

This item is detailed, as follows:

	2010	2009
Balance, Beginning of year	5,688,430	12,249,428
Profit of the Year	7,009,544	2,596,472
(Transferred to) Reserves	(3,041,934)	(1,357,470)
Capital Increase	-	(7,800,000)
Balance, end of year*	9,656,040	5,688,430

<sup>\*</sup> Retained earnings' balance includes an amount of JD 1,750,790 as restricted to be used against deferred tax utilities as on December 31, 2010 (against JD 2,696,591 as on December 31, 2009).

# 26. Deferred Sales Revenues

This item is detailed, as follows:

	Joint		Self-owned		
	2010	2009	2010	2009	
International Murabaha	2,624,116	2,304,641	7,951,890	5,363,322	
Murabaha for the Purchase orderer	10,826,318	9,315,058	2,654,686	3,206,939	
Deferred sale	16,115	-	+	-	
Total	13,466,549	11,619,699	10,606,576	8,570,261	

# 27. Financing Revenues

Item	Joint		
	2010	2009	
Real Estate Financings	-	(27,741)	
Large Companies			
Mudaraba	305,219	268,784	
Total	305,219	241,043	

# 28. Profits (Losses) of Financial Assets Available for Sale

This item is detailed, as follows:

ltem	Self-Owned		
nem	2010	2009	
Profits of Financial Assets Available for Sale	690,185	-	
Islamic Sukuk Revenues-Available for Sale	40,353	7,982	
Deduct: Impairment of Available for Sale Financial Assets	(70,250)	(2,581,383)	
Total	660,288	(2,573,401)	

# 29. Revenues from Financial Assets held to Maturity

This item is detailed, as follows:

Item	Self-Ov	vned
	2010	2009
Islamic Sukuk-Ijara	67,989	267,963
Total	67,989	267,963

# 30. Real Estate Revenues

Item	Self-owned		
	2010	2009	
Value Increase expected	24,666	-	
Total	24,666	-	

# 31. Ijara Revenues

This item is detailed, as follows:

No. of	Joint		Self-Owned	
Item	2010	2009	2010	2009
Ijara Assets – Real Estate	16,931,716	11,741,605	218,024	235,465
Ijara Assets – Machines	1,973,311	1,466,049	187,375	202,380
Ijara Assets – vehicles	1,018	-	-	-
Ijara Assets depreciation	(12,217,803)	(8,657,372)	-	-
Total	6,688,242	4,550,282	405,399	437,845

# 32. Unrestricted Investment Account Holders' Share

This item is detailed, as follows:

Item	2010	2009
Customers:		
Savings Investment Accounts Revenues	451,607	288,308
Term Investment Accounts Revenues	11,158,557	8,952,317
Total	11,610,164	9,240,625

# 33. Bank's Share of Unrestricted Investment Accounts' Revenues as Mudarib

Item	2010	2009
Bank's Share as Mudarib	6,803,845	5,529,296
Total	6,803,845	5,529,296

# 34. Bank's Self Revenues

This item is detailed, as follows:

Item	2010	2009
Deferred Sales' Revenues (Note 26)	10,606,576	8,570,261
(loss) profits of Financial Assets-Available for Sale (Note 28)	660,288	(2,573,401)
Revenues of Financial Assets-Held to Maturity (Note 29)	67,989	267,963
Revenues of real estate investments (Note 30)	24,666	-
Ijara Revenues (Note 31)	405,399	437,845
Total	11,764,918	6,702,668

# 35. Bank's Share of Restricted Investment Accounts as Mudarib

This item is detailed, as follows:

Item	2010	2009
Restricted Investments Revenues	1,004,831	1,419,323
Deduct: Nama' Ijara Depreciation	(110,115)	(128,504)
Net Restricted Investment Revenues (List B)	894,716	1,290,819
Deduct: Restricted Investment Accounts Share	(711,015)	(1,061,297)
Total	183,701	229,522

**36. Foreign Currency Profits**This item is detailed, as follows:

Item	2010	2009
Resulted from Trading / Transaction	1,055,303	574,536
Resulted from Evaluation	643,376	467,633
Total	1,698,679	1,042,169

# **37. Revenues from Banking Services**

This item is detailed, as follows:

Item	2010	2009
Sold Securities Commissions	176,523	157,817
Letters of Credit Commissions	869,213	650,050
Guarantees Commissions	278,214	219,223
Transfers Commissions	46,512	18,831
Visa Commissions	300,339	199,741
Others	930,704	545,626
Total	2,601,505	1,791,288

# 38. Other Revenues

This item is detailed, as follows:

Item	2010	2009
Mail, Telephone and Telex Revenues	349,849	203,013
Other Revenues	152,161	100,011
Total	502,010	303,024

# 39. Staff Expenses

Item	2010	2009
Salaries, Benefits and Allowances	5,525,763	4,653,609
Bank's Contribution at Social Security	537,084	422,491
Medical Expenses	281,611	252,356
Staff Training	83,744	44,594
Insurance Expenses	12,077	8,289
Total	6,440,279	5,381,339

# 40. Other Expenses

This item is detailed, as follows:

Item	2010	2009
Rents	387,005	330,382
Stationery and Prints	229,187	197,482
Telephone and Mail	399,712	250,109
Maintenance and Cleaning	334,103	202,592
Fees and Licensing	18,903	14,681
Advertising and Promotion Fees	614,747	663,063
Insurance Expenses	12,636	17,080
Water and Electricity	292,216	217,624
Donations	92,683	27,113
Subscriptions	309,981	380,370
Transport and Travel Expenses	193,232	152,656
Consultations & Professional Services Expenses	205,604	72,058
Information Systems Expenses	849,131	735,141
Jordanian Universities Fees	101,144	45,249
Scientific Research Fund	-	45,249
Board Members' Remuneration	25,000	25,000
Technical and Vocational Education and Training Fund	-	6,889
Miscellaneous	283,395	126,011
Total	4,348,679	3,508,749

**41. Earnings per Share**This item is detailed, as follows:

Item	2010	2009
Profit of the Year – Statement (B)	7,009,544	2,596,472
Weighted Average of Number of Shares	100,000,000	90,875,000
Profit Per Share for the Year - basic	0/07	0/03

# 42. Cash and Cash Equivalents

Item	2010	2009	
Central Bank's Cash and Balances Due in Three Months	58,257,159	46,324,466	
Add: Banks and Financial Institutions' Balances Due in Three Months	46,105,196	67,085,126	
Deduct: Banks and Financial Institutions' Deposits Due in Three Months	173,134,203	209,690,141	
Total	(68,771,848)	(96,280,549)	

# 43. Transactions with related Parties

Management and sister companies using Murabaha rates and trade commissions. Transactions with concerned parties are detailed, as follows: The Bank considers, within its normal activities, transactions with shareholders, members of Board of Directors, members of Top Executive

ltem	Arab Bank	Members	Sister	Members of Shari'a	Total	<u>a</u>
	Company)	Directors	Companies	Advisory Committee	2010	2009
Balance Sheet Items						
Banks and Financial institutions' Balances	44,128,473	-	1	-	44,128,473	66,734,105
International Murabaha (investments in commodities)	592,524,056	-	-	-	592,524,056	560,707,693
Mudaraba financing	-	-	6,174,901	-	6,174,901	3,511,178
Banks and Financial institutions' Accounts	121,155,025	-	-	-	121,155,025	144,545,293
Unrestricted Investment Accounts	-	20,251	-	70,092	90,343	158,063
Financial asset available for sale managed by sister company	-	-	5,095,568	-	5,095,568	11,504,477
Sales receivables	-	117,146	-	88,103	205,249	101,868
Off-balance sheet Items						
Guarantees	-	1,200	-	-	1,200	1,200
Income Statement Items						
Paid Commissions	-	-	134,385	-	134,385	46,462
Received Profits-Receivables	-	7,487	305,219	6,656	319,362	268,784
Dividends-Deposit accounts	-	-	-	397	397	632
Bonuses	-	25,000	-	48,000	73,000	73,000
Transport Expenses	-	59,000	-	•	59,000	51,000

dividends rate 3 %. The minimal Murabaha rate earned by the Bank was (3%), maximal Murabaha rate (3.75%), minimal dividends rate 2.7% and the maximum

In 2009, the international Murabaha balance in the amount of JD 42 Million was transferred from the Bank's records to the owner company's records as per a sale agreement.

in the owner company records as at 31 December 2010 and 31 December 2009. As detailed in Note (6), the international Murabaha balance includes the amount of JD 43.4 Million, for which the required provisions were made A summary of the benefits (salaries and bonuses) of the Bank's Senior Executive Management is detailed as follows:

Item	2010	2009
Salaries and Bonuses	610,502	632,498
Total	610,502	632,498

# 44. Fair Value of Financial Assets and Liabilities Unrecorded in Fair Value in the Financial Statements

There are no significant differences between book value and fair value of the financial assets and liabilities in the financial statements.

# 45. Risk Management

The Bank manages its various banking risks via several means according to a comprehensive and objective strategy that defines these risks and eliminates their impact through a department and committees concerned with risk management.

The Bank's Board of Directors is deemed the highest body in charge with carrying out the operations of the Bank. Accordingly, the Board ultimately is responsible for managing the risks faced by the Bank through its committees.

Risk Management and Regulatory Compliance Department reports and is subject to the Bank's Control Line as well as internal control through the Internal Audit Division, the CEO, Shari'a Advisory Committee, and the Board of Directors. This Division designs policies concerned with managing, analyzing and measuring all sorts of risks; and developing advanced techniques to hedge against all risks affecting the Bank's profitability and capital adequacy. It also reports on a regular manner to the Board of Directors describing the latest developments regarding work programs of all departments of Risk Management Division in the Bank for assessment and recommendation purposes.

The Bank seeks, in coordination with the Central Bank of Jordan, to attain a proper level of capital to cover risks included in Basel II Agreement. In this context, the Bank developed its technologies at all levels to promote the Bank's services, closely control risks and develop necessary programs to measure these risks in accordance with the nature and size of the Bank's activity. The Bank as well pays deep attention to human resources by enhancing employees' skills and enrolling them in training programs related to the application of Basel II properly, in addition to focusing on technology and risks management according to Basel II.

The Risk Management and Regulatory Compliance Department includes the following divisions:

#### 1. Credit Risks

Credit risks can be generally defined as risks arising from the borrower or any third party's failure or unwillingness to fulfill his liabilities, according to the agreed conditions, which in turn causes financial losses to the Bank.

Credit Risk Department is concerned with enhancing the Bank's credit policy and meeting requirements of systems and regulations set by the Central Bank of Jordan and Basel II Committee.

Credit risks in the Bank arise from financing and investment operations, including:

- Credit and financing operations risks.
- Risks of the borrower himself and his activities.

- Risks of financing one-module operations.
- Risks of Islamic financing instruments.

In this respect, the Bank is concerned with controlling and regulating credit risks throughout:

- Managing and regulating credit portfolio risks through a number of committees, namely the Risk Management Committee of the Board of Directors.
- Monitoring credit, defining authorities of providing facilities, and adopting clear and specific conditions in financing operations.
- Monitoring permitted credit and facility limits, issuing reports necessary for ensuring non occurrence of any violations of these limits and controlling quality.
- Having various financing and investment activities to avoid credit concentration risks for individuals, groups, or customers in certain geographical areas, a certain economic activity, or in financing instruments or products.
- Managing non-performing debts, to achieve less credit losses by the Bank.
- Segregating marketing divisions from credit and risk management divisions.

Risk Management and Regulatory Compliance Department presents risk reports to the Board of Directors to make the necessary recommendations. These reports shall include a summary of the most significant risks faced by the Bank along with techniques of measurement, control and regulation.

#### **Credit Risk Measurement:**

The Bank controls its capital's degree of adequacy through adopting the proper methods to measure credit risks so it is possible to measure capital's degree of adequacy compared with assets, contracts and commitments enrolled in the balance sheet according to their extent of riskiness.

#### **Credit Risk Classification System:**

The Bank prepares a system for the classification of credit risks so as to define the credit quality for each facility at provision and monitor this quality along the life of such a facility on a regular basis, in order to define any deterioration potentially occurring and assess the quality of the facilities of credit portfolio as a whole on a regular basis to enhance credit portfolio management, reflecting in turn prices and profits of financing.

This system classifies: country risks, customer risks, and facility risks depending upon specific risk elements such as (industry, competitive position, management, cash flow, financial position, and operational performance).

# **Credit Risk Mitigation:**

The Bank uses different techniques to prevent and reduce credit risks through defining the volume and value of required guarantees and the value of mortgage receipts based upon credit provision standards followed by the Bank and upon the credit study of facilities and degree of riskiness expected along with completion of all aspects of control on facilities and sources of payment. The Bank performs several procedures to reduce credit risks. Among which, for instance, are reduction of the credit period and value, increase of guarantees, and control of conduct of facilities at provision and renewal. It also sets certain covenants for using facilities.

#### 2. Market Risks:

Market risks can be defined as those risks faced by the Bank as a result of changes in profit rates and in rates of exchange, financial securities and commodities prices. The Bank adopts a conservative

policy, having riskiness reduced or set within minimal limits. It also follows the Central Bank of Jordan's instructions in regard to market risks measurement.

#### 3. Operational Risks

The Operational Risks Unit works according to a certain framework of operational risks management. This framework includes policies and procedures explaining the mechanism through which risks are defined, assessed, processed in priority, and then reduced or brought under control through available reduction mechanisms and control activities, which can in turn work on reducing the possibility of occurrence of risks and control of any negative effects arising from any event classified as an operational risk.

This Unit also has started, in cooperation with all other work lines and career areas within the Bank, to establish workshops for purposes of self-based assessment of risks and regulations in order to define and measure all factors of riskiness surrounding the Bank's operations, activities, products and services, along with assessment of control effectiveness; preparation of practical plans to process any problems and faults potentially appearing within this process; development of risk profile at the Bank's level; designation and identification of key risk indicators to assure continuity of control on risk factors, and reporting recommendations regarding them.

This Unit, in cooperation with certain bodies, will develop a program concerned with collecting and reporting operational losses potentially faced, and training those in charge in all work units and career areas on using this program.

Operational risks are measured, as stated in the Central Bank of Jordan's instructions as per Basel II, by basic indicator approach or standardized approach. The Bank seeks actually to carry out the standardized approach to measure its operational risks.

Operational risks are as well known as:

"risks of loss arising from inadequacy or failure in internal operations, personnel or systems, from external events, or even from events caused by incompliance with the Islamic rules and regulations. This definition of operational risks includes legal risks".

Operational Risks Management Unit includes as well the following departments:

# A. Business Continuity Management Department

Business Continuity Management Department is concerned with managing risks and monitoring compliance with preparation and management of a number of schemes and plans. This helps assure continuous work in the Bank in case of any failure or breakdown arising from different accidents, disasters or crises caused by different threats whether internal or external. The breakdown of the bank's operations is measured by minutes and hours. This Department designs preset plans across the Bank's divisions and branches. This actually assures continuous work in all operations having failure or breakdown as a result of any accident during work in a substitute location built for this purpose.

#### **B. Information Security Department**

This department is concerned with examining risks threatening information security elements through assessing these risks on a regular basis and making use of the international standards and best practices followed in this field at the banking level.

The Duties of this Department are as follows:

Developing policies and procedures aimed at reducing risks related to information to minimum limits, in line with the Bank's plans' for enhancing work efficiency, implementing information security strategy, and setting regulations to activate policies on the Bank's systems and devices.

Establishing control standards necessary for protecting information across the Bank's divisions and branches, as well as addressing any recommendations in this respect.

Perceiving the needs and requirements of modern banking activity related to information security in cooperation with the other concerned departments in order to eliminate risks in light of the changing internal environment.

# 4. Compliance Control

The Bank's compliance with control bodies' requirements is deemed as one of the most important factors of success and development of the Bank's operations and quality of services offered to customers. The Bank established the Compliance Control Department that is concerned with revising all requirements of control bodies and ensuring their reflection on internal procedures and policies. This protects the Bank from any risks arising from incompliance with these requirements, such as legal, reputation and concentration risks.

This Department also plays an effective role in protecting the utilization of the Bank's services and products in money laundering and terror financing operations. All banking operations are monitored and verified. In addition, the Compliance Control Department has an important role in supervising the Bank's identification of customers and the validity of their activities and cash resources which ensures that the Bank deals with customers of good reputation and position.

# 5. Legal Risks

Legal risks are these which may arise directly or indirectly from one or more of events stated in the Operations Risks Definition (individuals, internal operations, systems and external events), or from the Bank's incompliance with the laws and regulations in effect which may incur fines or financial liabilities. Legal risks may arise also from judicial procedures charged by third parties against the Bank, where insufficiency of documents, absence of legal capacity, and invalidity or unenforceability of contracts resulting from improper documentation are deemed as causes of legal risks.

The Legal Division assumes the responsibility for these risks. It verifies all contracts and documents related to the Bank's transactions in addition to the legal follow-up of the debited parties to the Bank in coordination with the Risk Management and Regulatory Compliance Division, and the close follow-up of lawsuits to which the Bank is a party.

# 6. Reputation Risks

We consider reputation risks as being the negative effects on the Bank's reputation arising from its incompliance with the Islamic rules and regulations and/or failure to fulfill its credit duties toward all cash providers, and/or manage its affairs in an efficient and effective manner, and/or manage all other sorts of risks faced by the Bank. This will lead to several negative impacts; including loss of trust and accordingly decrease of the customers' base, increase in expenses, decrease in profits, and most negatively the collapse of the Bank may Allah forbid.

The Bank's Reputation Division is based upon three basic rules:

- 1. The Bank's base of reputation is the quality of its personnel, customers and shareholders.
- 2. The Bank's reputation depends upon the quality of banking services and products offered to customers in addition to its good relationships with others.
- 3. The Bank must maintain its strong standing before customers in particular and before the entire local community in general.

The principles and values the Bank must preserve are:

- 1. Preserving its credibility and capability for protecting stakeholders' equities.
- 2. Looking for the best banking services and products and fulfilling promises.
- 3. Working in an efficient and effective manner.
- 4. Respecting others' opinions.

# 46-a. Credit Risks

1. Expositions to Credit Risks (After Impairment Provision, and Before Guarantees and Other Risk Mitigations):

	Joint		Self-Owned	
Item	2010	2009	2010	2009
Balance sheet Items				
Balances with Central Bank	50,783,340	39.887.629	-	-
Balances with Banks and Financial Institutions	46,105,196	67.085.126	-	-
Deferred Sale Receivables and Other Receivables				
Retail	135,076,252	86,663,550	479,409	610.223
Real-estate Financings	39,149,436	37.775.727	1,193,549	2.127.232
Corporate:				
Large Companies	373,994,766	375,496.305	424,308,795	381,761.788
SME's	20,245,862	6.497.262	-	7,899.379
Financings:				
Musharaka:				
Retail				
Real-estate Financings	31,999	42,238	-	-
Mudaraba:				
Corporate:				
Large Companies	7,416.717	3,511.178	-	-
Sukuk:				
Financial Assets available for sale	-	-	855,538	-
Financial Assets Held to Maturity	-	-	3,567,156	5,605.531
Off-Balance sheet Items				
Guarantees	-	-	14,355,267	11,637.213
L/C's	-	-	17,064,092	23,200.012
Acceptances	-	-	6,437,707	4,618.422
Un-utilized loans	-	-	52,679,399	64,064.536
Total	672,803.568	616,959.015	520,940.912	501,524.336

# 2. Classification of Sale Receivables and Financings According to Degree of Riskiness and As Per Central Bank's Instructions: Credit Risks are distributed according to the risk level as per the below table:

				Joint					Sel	Self-Owned		
2010		Real Estate	Large	Medium	Banks and Financial		Real Estate	Large	Medium	Retail	Total	Total
Low Risk	793 147	83.081			96 888 536	97 764 764				_		97 764 764
Acceptable Risk	133,295,788	37,205,304	344,423,775	12,674,195		527,599,062	1,000,000	374,560,052		151,128	375,711,180	903,310,242
Past Due												
Past Due up to 30 days	3,469	866	13,618,841	1,556,529		15,179,705	,	,	,			15,179,705
Past due 31-60 days	83,764	6,261	8,895,696	1,258,513	-	10,244,234	1	2,114,947	1	269,148	2,384,095	12,628,329
Watch list:	716,171	3,396	9,550,501	2,155,206		12,425,274		3,147,376	•	60,313	3,207,689	15,632,963
Non-performing:												
Sub-standard debts	144,610	8,239	187,526	464,694	-	805,069	-	10,162	•	•	10,162	815,231
Doubtful debts	97,128	54,378	1,479,490	693,167	-	2,324,163	-	11,074	-		11,074	2,335,237
Bad Debts	392,005	3,303,429	7,608,087	2,906,710	-	14,210,231	235,032	46,534,157		54,837	46,824,026	61,034,257
Total	135,526,082	40,664,954	385,763,916	21,709,014	96,888,536	680,552,502	1,235,032	426,377,768		535,426	428,148,226	1,108,700,728
Deduct: outstanding revenues	53,817	168,494	249,508	247,309	-	719,128	18,307	17,240	-	-	35,547	754,675
Impairment provision	417,831	1,515,515	4,352,433	1,463,152		7,748,931	41,483	2,068,973		56,017	2,166,473	9,915,404
Net	135,054,434	38,980,945	381,161,975	19,998,553	96,888,536	672,084,443	1,175,242	424,291,555		479,409	425,946,206	1,098,030,649
2009												
Low Risk	2,776,795	164,700	-	-	106,972,755	109,914,250	-	-	-	-		109,914,250
Acceptable Risk	79,148,863	23,748,099	352,480,391		1	455,377,353		338,355,357	1,518,079	516,259	340,389,695	795,767,048
Past Due												
Past Due up to 30 days	2,868,584	2,996,950	8,899,178	1,270,041	1	16,034,753		ı	3,098,259		3,098,259	19,133,012
Past due 31-60 days	1,238,255	5,231,309	2,099,407	1,337,512		9,906,483	2,127,232	10,080			2,137,312	12,043,795
Watch list:	270,346	195,827	11,621,100	1,674,989	1	13,762,262			3,101,311	49,830	3,151,141	16,913,403
Non-performing:												
Sub-standard debts	268,444	3,350	494,182	597,217	1	1,363,193		43,421,780		312,980	43,734,760	45,097,953
Doubtful debts	212,146	550	268,991	429,917	-	911,604		ı	494,100	15,869	509,969	1,421,573
Bad Debts	465,924	7,030,125	5,049,764	2,449,546	-	14,995,359			909,416	9,560	918,976	15,914,335
Total	87,249,357	39,370,910	380,913,013	7,759,222	106,972,755	622,265,257	2,127,232	381,787,217	9,121,165	904,498	393,940,112	1,016,205,369
Deduct: outstanding revenues	87,347	97,460	212,095	162,240		559,142			17,140		17,140	576,282
Impairment provision	543,569	1,595,183	1,905,530	1,261,960		5,306,242		,	1,221,786	319,704	1,541,490	6,847,732
Net	86,618,441	37,678,267	378,795,388	6,335,022	106,972,755	616,399,873	2,127,232	381,787,217	7,882,239	584,794	392,381,482	1,008,781,355

The distribution of fair value of guarantees offered against deferred sale receivables and other receivables and financings is detailed, as follows:

			Joint				Self-C	Self-Owned		
2010	Retail	Real Estate	Large Companies	SME's	Total	Real Estate	Large Companies	SME's	Total	Total
Guarantees Against:										
Low Risk	4	1	1	1	1		1	ı	ı	ı
Acceptable Risk	28,654,222	23,214,545	302,908,780	14,351,871	369,129,418		366,379,072	635,758	367,014,830	736,144,248
Watch list	364,536	2,625,520	4,956,080	1,851,791	726,797,9		1,021,370	ı	1,021,370	10,819,297
Non performing:										
Sub-standard	44,407	16,749	ı	402,929	464,085	,	1	ı	ı	464,085
Doubtful debts	57,552	513,236	1,476,759	246,156	2,293,703	,	1	ı	ı	2,293,703
Bad debts	389,675	1,386,296	7,827,681	2,753,407	12,357,059	235,031	2,047,206	ı	2,282,237	14,639,296
Total	29,510,392	27,756,346	317,169,300	19,606,154	394,042,192	235,031	369,447,648	635,758	370,318,437	764,360,629
Among Which:										
Cash Collaterals	1,087,120	1,084,819	1,801,921	1,720,516	5,694,376		5,472,268	ı	5,472,268	11,166,644
Real-estate	2,052,574	26,427,899	63,247,734	12,597,030	104,325,237	235,031	12,375,796	505,784	13,116,611	117,441,848
Traded Shares	ı	1	1,055,260	ı	1,055,260	ı	ı	ı	ı	1,055,260
Cars and Vehicles	26,370,698	243,628	3,126,705	5,288,608	35,029,639	ı	519,598	129,974	649,572	35,679,211
Accepted Bank's Guarantees		1	247,937,680	1	247,937,680	,	351,079,986		351,079,986	599,017,666

			Joint				Self-Owned	wned		
2009	Retail	Real Estate	Large Companies	SME's	Total	Real Estate	Large Companies	SME's	Total	lotal
Guarantees Against:						ı				
Low Risk	2,776,795	164,700	ı	1	2,941,495	ı	1	-		2,941,495
Acceptable Risk	19,921,475	4,732,056	289,572,058	14,382,584	328,608,173	ı	330,439,620	315,699	330,755,319	659,363,492
Watch list	275,629	22,672	9,187,472	1,601,405	11,087,178	ı	1,315,206	194,962	1,510,168	12,597,346
Non performing:						1				
Sub-standard	83,583	13,459	5,920,478	459,037	6,476,557	ı	-	1	-//	6,476,557
Doubtful debts	92,005	10	1,879,538	652,377	2,623,930	1	-	-	-	2,623,930
Bad debts	440,123	33,108	3,451,050	1,487,143	5,411,424	ı	536,175	1	536,175	5,947,599
Total	23,589,610	4,966,005	310,010,596	18,582,546	357,148,757		332,291,001	510,661	332,801,662	689,950,419
Among Which:						1				
Cash Collaterals	2,776,795	164,700	12,428,755	1,390,588	16,760,838	ı	5,864,975	152,720	6,017,695	22,778,533
Real-estate	812,317	4,772,978	32,363,835	12,802,897	50,752,027	1	12,895,624	194,962	13,090,586	63,842,613
Traded Shares	,	'	7,559,000	,	7,559,000	1	,	ı	,	7,559,000
Cars and Vehicles	20,000,498	28,327	1,747,023	4,389,061	26,164,909	1	757,965	162,979	920,944	27,085,853
Accepted Bank's Guarantees	,	,	255,911,983	,	255,911,983	1	312,772,437	ı	312,772,437	568,684,420

# 3. Sukuk: Sukuk classifications are detailed as follows according to external rating agencies:

Rating	Agency	Within Financial Assets available for sale	Within Financial Assets held to maturity	Total
AA	S & P	855.538	-	855.538
Unrated	Unrated	-	3.567.156	3.567.156
Total		855.538	3.567.156	4.422.694

# **4. Concentration of Credit Expositions According to Geographical Distribution:**

ltem	Inside Jordan	Other Middle East Countries	Europe	USA	Australia	Total
Balances with Central Bank	50,783,340	-	-	-	-	50,783,340
Balances with Banks and Financial Institutions	42,451,369	1,368,994	1,782,508	498,865	3,460	46,105,196
Deferred Sale Receivables and Other Receivables and financing						
Retail	135,587,660	-	-	-	-	135,587,660
Real-estate Financings	40,342,988	-	-	-	-	40,342,988
Corporate						
Large Companies	163,280,833	627,679,640	14,759,805	-	-	805,720,278
SME's	20,245,862	-	-	-	-	20,245,862
Sukuk						
Within Financial Assets available for Sale	-	855,538		_	-	855,538
Within Financial Assets held to maturity	-	3,567,156		-	-	3,567,156
Total 2010	452,692,052	633,471,328	16,542,313	498,865	3,460	1,103,208,018
Total 2009	394,209,927	619,033,777	1,680,963	9,822	28,679	1,014,963,168

5. Concentration of Credit Exposure According to Economic Concentration:

Item	Financial	Industrial	Industrial Commercial		Real Estate Agricultural	Share	Retail	Total
Balances with Central Bank	50,783,340	ı	ı	1	ı	ı	-	50,783,340
Balances with Banks and Financial Institutions	46,105,196	ı	ı	ı	ı	ı	1	46,105,196
Deferred Sale Receivables and Other Receivables and financing		59,841,497	747,708,112	40,156,187	11,199,527	7,403,805	135,587,660	1,001,896,788
Sukuk								
Within Financial Assets available for Sale	1	1	855,538	1	ı	ı	-	855,538
Within Financial Assets held to maturity	-	ı	1	3,567,156	I	ı	-	3,567,156
Total 2010	96,888,536	59,841,497	748,563,650	43,723,343	11,199,527	7,403,805	135,587,660	1,103,208,018
Total 2009	145,682,404	28,530,713	690,830,769	44,090,440	801,127	17,392,000	87,635,715	1,014,963,168

### **Deferred Sales Receivables, Other Receivables, and Scheduled Financings:**

These are the receivables that have been classified as non-operating receivables/financings and were removed from non-operating receivables and financing under due scheduling. These receivables were classified as watch list receivables/financings and amounted to JD 12.556 million as at 31 December 2010 (against 16.327 million in the previous year).

### **Deferred Sales Receivables, Other Receivables, and Rescheduled Financings:**

Rescheduling means reorganizing the status of receivables/financing in terms of amending the installments, prolonging the maturity of receivables/financing, deferring certain installments, or extending the grace period. This item was classified as watch list receivables/financings which amounted to JD 10.328 million as at 31 December 2010 (against 17.695 million in the previous year).

### 46-b. Market Risks

The Bank follows certain financial policies concerned with managing different risks within a specific strategy. There is also a committee concerned with managing assets and liabilities in the Bank and is charged with monitoring and regulating risks, and conducting the best strategic distribution for all assets and liabilities whether inside or outside the balance sheet. Its responsibilities include:

- Updating the investment policy followed by the Bank, submitting it to the Board of Directors to be approved on a regular basis, and revising the investment policy implemented and assessing its results against the banking market and competitive indicators.
- Composing investment decision-making committees and distributing authorities, going with the Bank's investment policy.
- Preparing an annual investment plan, in line with its expectations of revenues and changes in market rates, including risk-reduced investment instruments available in the market.
- Preparing reports for the Board of Directors, in which any unexpected changes in rates of financial investments are monitored to mitigate risks of change in market rates.

### 1. Rate of Return Risks

- Risks of return rate arise from the increase of long-term fixed rates in the market, since they do not immediately match with the changes in high returns index. Necessary procedures must be taken to ensure the existence of administrative procedures related to reviewing, measuring and monitoring of return rate risks in addition to reporting, controlling them and ensuring the soundness of their structure.
- The Bank is exposed to return rate risks as a result of a gap between assets and liabilities according to their various terms and re-pricing return rate and subsequent transactions in a certain period. The Bank manages these risks by determining the rates of future profits according to the expectations of market conditions and developing new instruments that comply with the Islamic rules and regulations through the Bank's risk management strategy.
  - 1. Attaining the best returns available in the market based on the (Libor) indicator as a standard and a (Benchmarks) for both the investments and the portfolios managed by the Bank.
  - 2. Risks resulting from these investments are taken into account, depending on the option of diversity based on countries, institutions and regions in a manner that ensures the elimination of risks' impacts resulting from those investments.
  - 3. The Bank is committed to managing investments based on matching between the Bank's liabilities, represented by deposits and assets in foreign currencies represented in turn by investments in foreign currencies, where specified term deposits are invested in short term investments and the long term deposits are invested in medium or long term investments.

### 2. Foreign Currency Risks

Foreign currency risks are managed on spot basis transactions rather than (forward) transactions, where foreign currency positions are monitored daily in addition to the position limits of each currency, as the general policy adopted by the Bank in managing foreign currency is based on the immediate liquidation of positions and covering the required positions according to customers' needs. The regulations of the Central Bank of Jordan shall be adopted with relation to open positions in foreign currency against each other, which stipulate that the licensed banks must possess open (long and short) positions in foreign currencies not exceeding 5% of shareholders' equity for each currency. The US Dollar shall be excluded since it can be regarded as a base currency for this purpose, provided that the gross position of all currencies would not exceed 15% of the total shareholders' equity.

2010	Change in Currency Exchange Rate	Impact on Profits and Losses	Impact on Ownership Equity
Currency	(%)	JD	JD
USD	5	238.950	-

2009	Change in Currency Exchange Rate	Impact on Profits and Losses	Impact on Ownership Equity
Currency	(%)	JD	JD
USD	5	149.693	-

### 3. Stock Price Risks

The policy followed by Treasury Department as related to shares and securities management is based on analyzing financial indicators of these prices and fairly assessing them depending on shares' assessment forms, taking into consideration the change in fair value of investments managed by the Bank through diversifying investments and economic sectors.

2010	Index Change	Impact on Profits and Losses	Impact on Ownership Equity
Index	(%)	JD	JD
Amman Stock Exchange	5%	<del>-</del>	319.468

2009	Index Change	Impact on Profits and Losses	Impact on Ownership Equity
Index	(%)	JD	JD
Amman Stock Exchange	5%	-	642.878

### 4. Commodities Risks

Commodities risks are caused by any fluctuations in prices of tradable or leasable assets, and related to the current and future fluctuations in market values of specific assets. The Bank is exposed to fluctuations in prices of fully-paid commodities after concluding the sale contracts and during the year of possession, in addition to being exposed to the fluctuation in the residual value of leased asset as in the end of lease term.

### **Concentration in Foreign Currency Risks:**

					JD (	(nousana)
31 Dec. 2010	USD	Euro	STG	J.Yen	Other	Total
Assets:						
Balances with Central Bank	6.258	33	6	-	-	6.297
Balances with Banks and Financial Institutions	2.239	1.355	785	138	2.338	6.855
Deferred Sale Receivables and other Receivables, Financings and Leases	157.950	5.450	715	-	523	164.638
Financial Assets available for sale	5.882	-	_	-	-	5.882
Financial Assets Held to Maturity	3.567	-	-	-	-	3.567
Other Assets	31	3	-	-	-	34
Total Assets	175.927	6.841	1.506	138	2.861	187.273
Liabilities:						
Banks and Financial Institutions' Balances	121.202	-	_	-	-	121.202
Customers' Deposits (Current, Saving, term)	48.272	4.955	1.810	138	2.332	57.507
Cash Margin	1.379	2.054	-	-	-	3.433
Other Liabilities	339	7	6	-	-	352
Total Liabilities	171.192	7.016	1.816	138	2.332	182.494
Net Concentration on Current Year's Balance Sheet	4.735	(175)	(310)	-	529	4.779
Contingent Liabilities outside Current Year's Balance Sheet	19.019	4.043	51	184	572	23.869
31 Dec. 2009						
Total Assets	184.229	3.702	1.427	42	3.027	192.427
Total Liabilities	181.576	3.879	1.236	40	2.703	189.434
Net Concentration on Balance Sheet	2.653	(177)	191	2	324	2.993
Contingent Liabilities Off- Balance Sheet	22.369	3.615	265		2.066	28.315
					_	

# 46-c. Liquidity Risks

ability to meet short- and long-term cash obligations. The Bank's cash liquidity is reviewed and managed in periods. The cash obligations and treasury department at the Bank's level. Moreover, review and analysis of cash liquidity and the Bank's assets and liabilities are done on a Within the framework of the Bank's general strategy to generate optimal return on its investments, the Liquidity Division ensures the Bank's monthly basis, in addition to analyzing maturity terms of assets and liabilities to ensure balance. This also includes the analysis of sources of and available funds are assessed daily at the branch level by the branch's management and treasury department, and by the financial control funds in accordance with the nature of sources and uses.

First: the blow table details the distribution of liabilities (un-discounted) based on the remaining period for the contractual maturity on the date of the financial statements:

							Iſ	JD (Thousand)
2010	Less than one month	1-3 months	3-6 months	6 months – 1 year	For 3 years	Above 3 years	No maturity	Total
Liabilities								
Banks and financial institutions Accounts	173,134	ı	ı	ı	ı	ı	ı	173,134
Current accounts (customers)	220,501	I	-	ı	ı	ı	-	220,501
Cash Margins	16,188	552	1,218	891	2,582	ı	ı	21,431
Other Provisions	ı	ı	ı	ı	ı	1,234	ı	1,234
Income tax provision	1	2,279	-	1	ı	ı	ı	2,279
Other liabilities	9,047	ı	1,966	ı	ı	16	-	11,029
Investment Risk Fund	1	ı	1	ı	ı	ı	1,765	1,765
Unrestricted investment accounts	52,618	173,807	275,929	75,038	ı	ı	ı	577,392
Total	471,488	176,638	279,113	75,929	2,582	1,250	1,765	1,008,765
Total Assets (As Expected Maturities)	743,740	66,410	63,676	44,903	38,729	75,326	100,327	1,133,111

2009	Less than one month	1-3 months	3-6 months	6 months – 1 year	For 3 years	Above 3 years	No maturity	Total
Liabilities						7		
Banks and financial institutions Accounts	209,690	1	ı	1	ı	-		209,690
Current accounts (customers)	168,608	1	1	1	ı	1	-	168,608
Cash Margins	61	9,088	7,926	687	1	1	-	17,762
Other Provisions	1	-	-	-	1	ı	1,106	1,106
Income tax provision	3,050	-	-	-	-	-	1	3,050
Other liabilities	12,547	-	-	-	-	1	ı	12,547
Investment Risk Fund	546	-	-	-	-	ı	2,185	2,731
Unrestricted investment accounts	1	289,789	161,832	56,063	-	1	ı	507,684
Total	394,502	298,877	169,758	56,750	ı	1	3,291	923,178
Total Assets (As Expected Maturities)	120,295	665,296	69,609	40,043	121,485	5,002	19,048	1,040,778

### **Second: Off-Balance Sheet Items**

	For on	e year
	2010	2009
Letters of credit and Acceptances	23.501.799	27.818.434
Unutilized Financing Limits	52.679.399	64.064.536
Guarantees	14.355.267	11.637.213
Total	90.536.465	103.520.183

### 47. Information on the Bank's Business Sectors

### a. Information on the Bank's Activities

The Bank is structured for administrative purposes, where the sectors are measured according to the reports used by the CEO and chief decision maker in the Bank through four major business sectors.

### **Retail Accounts:**

This sector includes follow-up of unrestricted investment accounts, deferred sale receivables, financings, credit cards and other services.

### **Corporate Accounts:**

This sector includes follow-up of unrestricted investment accounts, deferred sales receivables, financings, and other banking services related to corporate customers.

### **Treasury:**

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

Information on the Bank's segments according to activities (amounts in JD one thousand) is shown as followed:

ltem	Retail	Corporate	Treasury	Others	Total 2010	al 2009
Total Revenues (Joint and Self)	2,651	10,899	11,549	502	25,601	17,238
Investment Risks Fund Share of Joint Investment Accounts' Revenues	(555)	(1,491)	-	- //	(2,046)	(1,641)
Results of Sector's Operations	2,096	9,408	11,549	502	23,555	15,597
Undistributed Expenses	(1,121)	(5,222)	(7,198)	-	(13,541)	(11,195)
Profit before Tax	975	4,186	4,351	502	10,014	4,402
Income Tax	(293)	(1,256)	(1,304)	(151)	(3,004)	(1,806)
Years' Profit	682	2,930	3,047	351	7,010	2,596
Sectors' Assets	126,050	229,301	757,758	'	1,113,109	1,022,519
Undistributed Assets on Sectors	ı	ı		20,002	20,002	18,259
Total Assets	126,050	229,301	757,758	20,002	1,133,111	1,040,778
Sectors' Liabilities	614,909	206,180	173,134	,	994,223	903,744
Undistributed Liabilities on Sectors	ı	1	•	14,542	14,542	19,434
Total Liabilities	614,909	206,180	173,134	14,542	1,008,765	923,178
Capital Expenses	1	1		2,492	2,492	3,802
Depreciations and Amortizations	133	618	853	•	1,604	1,168

### b. Information on Geographical Distribution

This note represents the geographical distribution for the Bank's businesses. The Bank performs its operations mainly in Jordan that represent the local businesses.

Distribution of the Bank's revenues, assets and capital expenses according to geographical sector based on the methodology by which they are measured as per the reports used by the CEO and the key decision maker of the Bank, is detailed as follows:

JD (Thousand)

	Inside J	ordan	Outside	Jordan	Tot	tal
	2010	2009	2010	2009	2010	2009
Total revenues	16.263	10.600	9.338	6.638	25.601	17.238
Total Assets	487.104	419.209	646.007	621.569	1.133.111	1.040.778
Capital Expenses	2.492	3.802	-	-	2.492	3.802

### 48. Capital Management

The Bank takes into account the Central Bank's instructions requiring adequate capitals to cover a specific ratio of risk weighted assets in line with the nature of the financing provided and direct investment. Capital is composed for this purpose of the Central Bank requirements related to corporate capital (which is the basic capital and additional capital).

Capital Division aims at investing funds in financial instruments of different risks (between high and low risks) for attaining a good return and achieving the capital adequacy ratio required by the Central Bank of Jordan estimated at 12%.

The main reasons for the change in the corporate capital during the year is the non-distribution of the profit realized in the year which was capitalized in the shareholders' equity through statutory, voluntary, and special provisions

The amount deemed by the Bank as capital along with capital adequacy ratio are detailed as follows:31 Dec.

		(
Item	2010	2009*
Basic Capital's Items	119.904	111.798
Paid up Capital	100.000	100.000
Statutory Reserve	8.091	7.077
Voluntary Reserve	5.537	3.509
Retained Earnings	7.905	2.992
Deduct : Intangible Assets	(1.629)	(1.780)
Additional Capital		-
Accumulated Change in Fair Value for Financial Assets Available for Sale	81	200
General Banking Risks Reserve	882	3.067
Total Regulatory Capital	120.867	115.065
Total risk weighted Assets	385.642	530.299
Capital Adequacy Ratio (%)	%31.34	21.70%
Basic Capital Ratio (%)	31.09%	%21.08

<sup>\*</sup> Capital Adequacy Ratio as of 31/12/2010 was calculated on the basis of capital adequacy of the Islamic Financial Institutions. However, it was calculated as of 31/12/2009 as per Basel II

# **49. Assets and Liabilities Maturity Analysis:**

Analysis of both assets and liabilities, expected to be recovered or settled, is detailed per period as follows:

31/12/2010	For 1 year	More than 1 year	Total
Assets			
Cash and balances with Central Bank	58.257	-	58.257
Balances with Banks and Financial Institutions	46.105	-	46.105
Deferred Sale Receivables and Other Receivables – Net	798.747	55.475	854.222
Financings – Net	-	7.449	7.449
Financial Assets Available for Sale	5.533	856	6.389
Financial Assets Held to Maturity (Net)	-	3.567	3.567
Ijara Assets – Net	9.608	110.498	120.106
Real Estate Investments	-	16.534	16.534
Qurd Hasan	479	-	479
Fixed Assets – Net	-	12.507	12.507
Intangible Assets	-	1.629	1.629
Deferred Tax Assets	-	1.751	1.751
Other Assets	-	4.116	4.116
Total Assets	918.729	214.382	1.133.111
Liabilities and Unrestricted Investment Accounts' Equity:			
Banks and Financial Institutions' Deposits	173.134	-	173.134
Customers' Current and Demand Accounts	220.501	-	220.501
Cash Margins	18.849	2.582	21.431
Other Provisions	-	1.234	1.234
Income Tax Provision	2.279	-	2.279
Other Liabilities	11.013	16	11.029
Unrestricted Investment Accounts			
Investment Risks Fund	-	1.765	1.765
Provision for Income tax of Investment Risk Fund	577.392	-	577.392
Total Liabilities and Unrestricted Investment Accounts' and Shareholders' Equity	1.003.168	5.597	1.008.765
Net	(84.439)	208.785	124.346

13/12/2009	For 1 year	More than 1 year	Total
Cash and balances with Central Bank	46.324	-	46.324
Balances with Banks and Financial Institutions	67.085	-	67.085
Deferred Sale Receivables and Other Receivables – Net	762.891	41.189	804.080
Financings – Net	-	3.553	3.553
Financial Assets Available for Sale	12.043	815	12.858
Financial Assets Held to Maturity (Net)	-	5.606	5.606
Ijara Assets – Net	6.315	72.627	78.942
Real Estate Investments	-	3.485	3.485
Qurd Hasan	585	-	585
Fixed Assets – Net	-	11.873	11.873
Intangible Assets	-	1.779	1.779
Deferred Tax Assets	-	2.697	2.697
Other Assets	-	1.911	1.911
Total Assets	895.243	145.535	1.040.778
Liabilities and Unrestricted Investment Accounts' Equity:			
Banks and Financial Institutions' Deposits	209.690	-	209.690
Customers' Current and Demand Accounts	168.608	-	168.608
Cash Margins	17.762	-	17.762
Other Provisions	-	1.106	1.106
Income Tax Provision	3.050	-	3.050
Other Liabilities	12.547	-	12.547
Unrestricted Investment Accounts	507.684	-	507.684
Investment Risks Fund	-	2.185	2.185
Provision for Income tax of Investment Risk Fund	546	-	546
Total Liabilities and Unrestricted Investment Accounts' and Shareholders' Equity	919.887	3.291	923.178
Net	(24.644)	142.244	117.600

### 50. Fair Value levels

The following table includes the financial instruments recorded in fair value based on the method of evaluation, which is defined at different tiers as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Information other than quoted price in level 1 that are observable for the asset or liability, either directly (such as prices) or indirectly (i.e. derived from the prices);
- Level 3: Information on the asset or liability is not based on those observed from the market (non observable information).

31/12/2010	Level 1	Level 2	Level 3	Total
Financial Instruments Assets:				
Financial Assets Available for Sale	6.389.356	-	-	6.389.356
Financial Assets held to maturity	-	3.567.156	-	3.567.156
Total	6.389.356	3.567.156	-	9.956.512

### **51. Contingent Commitments (Off Balance Sheet)**

- Credit commitments

31 Dec.

Item	2010	2009
L/C's	17.064.092	23.200.012
Acceptances	6.437.707	4.618.422
Guarantees;		
Payment	7.464.188	5.227.932
Performance	2.557.520	2.674.974
Others	4.333.559	3.734.307
Unutilized Financing Limits	52.679.399	64.064.536
Total	90.536.465	103.520.183

### 52. Lawsuits against the Bank

There are lawsuits filed against the Bank in the amount of JD 170,290 as at December 31, 2010. According to the Legal Advisor, no amounts will be incurred on the Bank against these lawsuits (compared to JD 81,135 as at 31 December 2009).

### 14<sup>th</sup> Annual Ordinary General Assembly Meeting Agenda Islamic International Arab Bank plc

### Rabi' Al-Thani 18 1432 AH March 23, 2011 AD

- 1. Presentation of minutes of the previous session for the 9th General Assembly.
- 2. Discussing and approving of Board of Directors' Report for the year 2010, and Business Work Plan for the coming year.
- 3. Presentation of Auditors' report on financial statements for the year 2010
- 4. Presentation and approval of the Bank's accounts and balance sheet for the year 2010
- 5. Approval of General Assembly on allocation of profits realized for the year 2010
- 6. Discharge of members of Board for the year 2010
- 7. Appointing the External Auditors for the year 2011 and setting their fees.
- 8. Other issues proposed by General Assembly to be listed in an ordinary meeting agenda, provided that this proposal shall be approved by a number of shareholders owning not less than (10%) of shares represented in the meeting.